

# Greater Denver Multifamily




## A Return of Large Transactions During the Third Quarter

### Highlights

- > The Denver multifamily market posted robust net absorption during the third quarter, particularly in suburban areas. The vacancy rate dipped below 6 percent, and rents ticked higher after dropping in the preceding three months.
- > After rising in each of the first two quarters of the year, vacancy fell 60 basis points during the third quarter, dipping to 5.8 percent. Despite the recent improvement, the current rate is 60 basis points higher than one year ago.
- > Asking rents at \$1,528 per month are nearly identical to the figure from one year ago. Rents topped \$1,500 per month during the second quarter of last year and have remained in a fairly tight range in recent quarters.
- > The investment market regained momentum during the third quarter with activity picking up in transactions larger than \$100 million. With properties at the higher end of the market trading, prices rose. The median price year to date is up to \$239,200 per unit.

### Denver Multifamily Market Overview

The Denver multifamily market defied expectations during the third quarter with net absorption significantly outpacing forecasts, even during a period when the labor market has not fully recovered from layoffs earlier in the year. Enhanced unemployment benefits, in-migration from other markets, and pent-up demand from the typically strong second quarter explain much of the absorption total, although it is likely that this is a one-time occurrence. Absorption was strongest in suburban submarkets with areas such as Interlocken and Longmont leading the way.

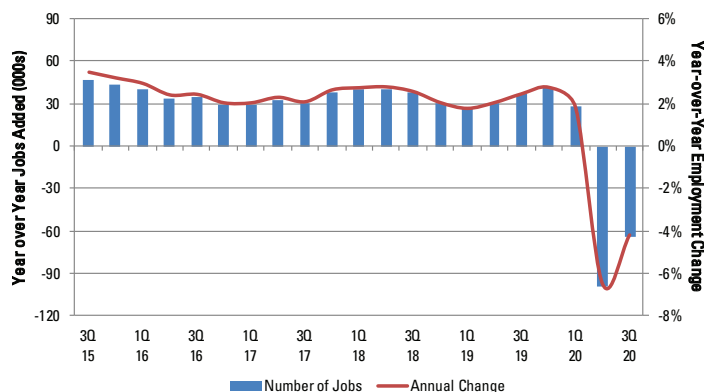
Q3 Snapshot	Denver Market
	<b>Market Fundamentals</b>
	Vacancy ..... <b>5.8%</b>
	- Year Over Year Change ..... <b>+60</b>
	Asking Rent ..... <b>\$1,528</b>
	- Year Over Year Change ..... <b>+0.1%</b>
	<b>Transaction Activity</b>
	Median Sales Price Per Unit (YTD) ..... <b>\$239,200</b>
	Cap Rates (Avg YTD) ..... <b>4.9%</b>
	<b>Construction Activity</b>
	Units Under Construction ..... <b>21,752</b>
	Units Delivered YTD ..... <b>5,786</b>

Investment activity accelerated during the third quarter after slowing to just a handful of transactions in the second quarter. Activity picked up in the larger transactions; more properties sold for more than \$100 million in September alone than during the first eight months of the year. With a rise in the sale of higher-end assets, prices rose and cap rates compressed during the third quarter. Year to date, the average cap rate is approximately 4.9 percent, but several properties changed hands with cap rates in the low- to mid-4-percent range during the past three months.

## Employment

- > Total employment in Denver has contracted by 4.2 percent year over year through the third quarter, with the net loss of approximately 65,000 jobs. The market has recovered more than 100,000 of the jobs that were initially cut during the economic shutdown.
- > Denver has been a top choice for advanced manufacturing employment growth in recent years, a trend that has been maintained even during a period of economic volatility. During the past 12 months, employment in the manufacturing sector has grown by more than 3,500 net new jobs, an annual increase of 5.2 percent.
- > Employment in the professional and business services sector has stabilized in recent months. Year over year through the third quarter, total professional employment is flat, after strong gains in recent years. The professional sector is the largest industry in Denver, and gains are expected in the coming quarters.
- > **Forecast:** All major markets are forecast to record job losses in 2020, but losses in Denver are expected to be more modest than most other parts of the country. Losses are expected to total approximately 50,000 positions, a decline of 3.5 percent.

## Employment Overview



*Employment in the manufacturing sector has grown by more than 3,500 net new jobs*

## Vacancy

- > After rising in each of the first two quarters of the year, vacancy in Denver tightened during the third quarter. Fueled by the absorption of nearly 4,000 units, the rate fell 60 basis points in the quarter, reaching 5.8 percent.
- > Despite the recent improvement, the local vacancy rate is up 60 basis points year over year. The rate has ranged between 5 percent and 6.5 percent since 2016, averaging 5.6 percent during that time period.
- > The segment of the market that posted the strongest vacancy improvement during the third quarter was the Class A group. Vacancy in Class A properties reached nearly 10 percent in the second quarter but tightened to 7.4 percent as of the third quarter. More modest quarterly vacancy declines were recorded in Class B and Class C properties.
- > **Forecast:** With construction active and the labor market in flux, the apartment vacancy rate is likely to tick higher this year, reaching 6.5 percent. Higher vacancy is expected to last only a few quarters, and the rate should improve as hiring gains momentum in 2021.

## Vacancy Trends

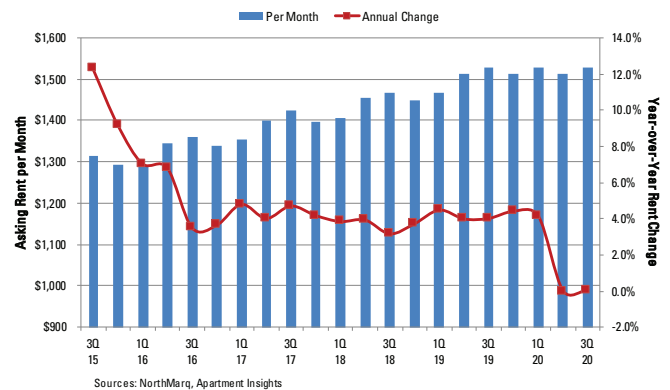


*The vacancy rate fell 60 basis points in the third quarter, reaching 5.8 percent*

## Rents

- > Asking rents in Denver ended the third quarter at \$1,528 per month. Rents rose in the third quarter after recording a decline in the preceding period. Rents topped \$1,500 per month during the second quarter of last year and have posted some modest rises and dips in the subsequent quarters.
- > Current rents are nearly identical to rates from one year ago. Asking rents have ticked up just 0.1 percent year over year. This follows a period of extended rent growth; from 2013-2019 rents rose 6.4 percent per year.
- > While the metro average has been essentially flat over the past year, rent trends have varied by submarket. A few close-in areas such as Capitol Hill and the Central Business District have recorded annual rent declines, while other nearby submarkets including Washington Park and Cherry Creek have posted some of the strongest increases.
- > **Forecast:** Following several years of strong growth, rents in 2020 are expected to be essentially unchanged from 2019 levels. The robust absorption recorded in the third quarter could support current rental rates.

## Rent Trends

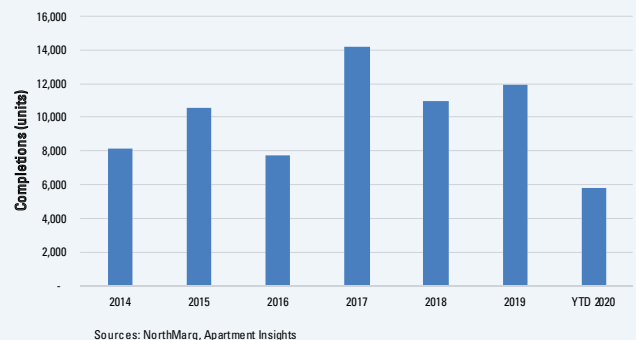


*Current rents are nearly identical to rates from one year ago*

## Development and Permitting

- > Apartment development has been active for the past several years, with annual completions exceeding 10,000 units in four of the past five years. Thus far in 2020, the pace of new development has slowed. Approximately 5,800 units were delivered in the first three quarters of 2020, down nearly 40 percent from the same period last year.
- > Projects totaling approximately 21,700 units are currently under construction, similar to figures from both the first quarter and the second quarter of this year. One year ago, the development pipeline totaled nearly 26,000 units.
- > Permitting for multifamily units is forecast to slow in 2020, similar to trends that occurred in each of the past two years. Through the first nine months of 2020, developers have pulled permits for approximately 4,500 multifamily units.
- > **Forecast:** While construction timelines have been disrupted by the coronavirus outbreak, apartment deliveries are forecast to total approximately 10,000 units in 2020. In 2019, developers delivered nearly 12,000 rental units.

## Development Trends

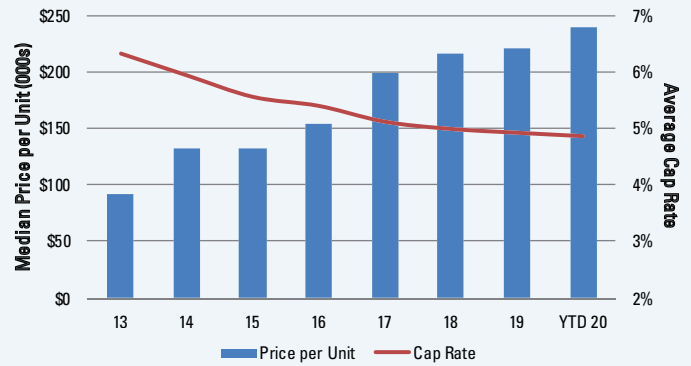


*Projects totaling approximately 21,700 units are currently under construction*

## Multifamily Sales

- > Sales activity in the third quarter bounced off lows recorded in the second quarter. Deal flow in the third quarter nearly doubled levels from the preceding three-month period. While activity gained a bit of momentum in recent months, total transactions through the first three quarters of 2020 are down approximately 50 percent from the corresponding period in 2019.
- > Activity at the high end of the market picked up during the third quarter, driving prices higher. The median price in sales during the third quarter was nearly \$281,000 per unit. The median price in sales closed year to date is \$239,200 per unit, up nearly 10 percent from the median price in 2019.
- > The combined forces of low interest rates and high-quality assets changing hands drove cap rates lower in the third quarter. The average cap rate in transactions during the third quarter was approximately 4.6 percent. In all transactions for 2020, the average cap rate is 4.9 percent, nearly identical to the average from 2019.

## Investment Trends



*The median price in sales during the third quarter was nearly \$281,000 per unit*

## Recent Transactions in the Market

### MULTIFAMILY SALES ACTIVITY

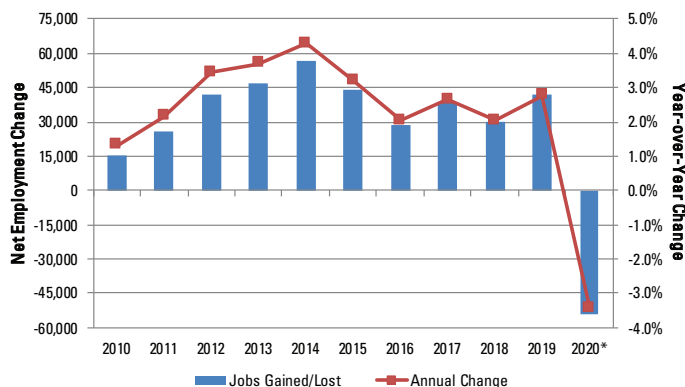
Property Name	Street Address	Units	Sales Price	Price/Unit
Pembroke on the Green	10700 E Dartmouth Ave., Denver	959	\$163,000,000	\$169,969
Parkhouse	14310 Grant St., Thornton	465	\$144,750,000	\$311,290
Alas Over Lowry	82 N Uinta Way, Denver	300	\$105,000,000	\$350,000
Marquis Castle Pines	520 Dale Ct., Castle Pines	356	\$104,000,000	\$292,135

## Looking Ahead

The strong conditions recorded in the Denver multifamily market during the third quarter highlighted the area's long-term demand drivers, but economic conditions will need to stabilize for renters to continue to absorb the new units that will be delivered to the market in the coming years. One significant project that should reach a resolution in the coming months is Medtronic's plan to build a Colorado campus that would be part of an expansion bringing an additional 1,000 high-wage jobs. The company is exploring a parcel in Lafayette, after a proposal in Louisville could not be finalized.

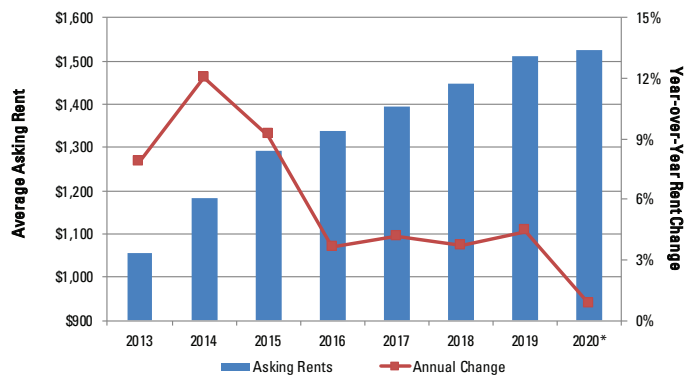
After stalling in the middle part of the year, the local investment market showed signs of returning to pre-COVID conditions late in the third quarter. This sets the stage for a rebound in activity to close this year and lead into 2021. Larger institutional sales activity regained momentum in the third quarter, and these buyers have played a significant role in determining the direction of the market in recent years. With activity regaining momentum and interest rates low, cap rates are expected to remain near their current levels, ranging from the mid- to high-4-percent range on average.

### Employment Forecast



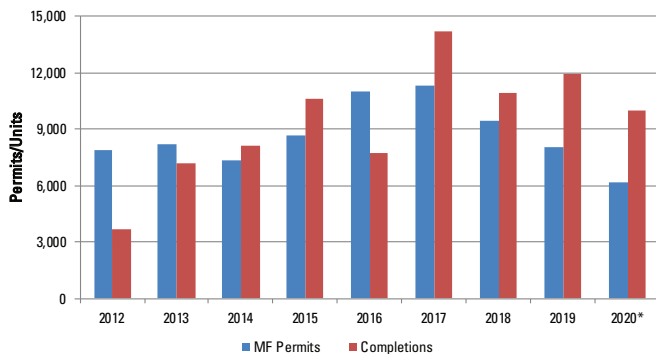
\* Year End Forecast  
Sources: NorthMarq, Bureau of Labor Statistics

### Rent Forecast



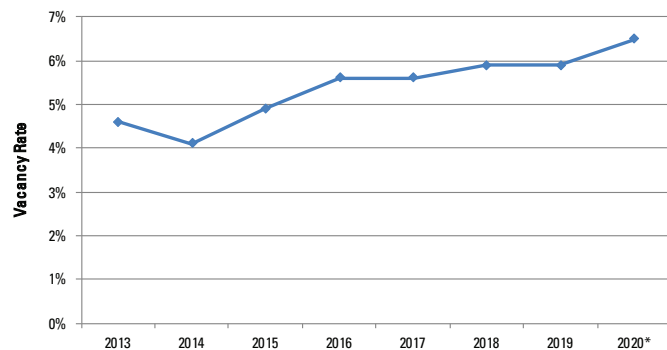
\* Year End Forecast  
Sources: NorthMarq, Apartment Insights

### Construction & Permitting Forecast



\* Year End Forecast  
Sources: NorthMarq, Apartment Insights, Census Bureau

### Vacancy Forecast



\* Year End Forecast  
Sources: NorthMarq, Apartment Insights

## About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than \$14 billion, loan servicing portfolio of more than \$61 billion and the multi-year tenure of our nearly 600 people.

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