

Greater Denver Multifamily

Q4 Activity Confirms Investment Demand

Highlights

- > The Denver multifamily market recorded mixed performance in the fourth quarter. Vacancies rose and rents contracted, but absorption was much stronger than in previous fourth quarters, and the investment market gained momentum. After a volatile 2020, greater stability is likely in 2021.
- > The local vacancy rate ticked higher at the end of the year, following a sharp vacancy decline in the third quarter. Vacancy rose 30 basis points to 6.1 percent in the fourth quarter; for the full year, vacancy rose 20 basis points.
- > Quarterly rent trends in 2020 were uneven, but asking rents ended 2020 at essentially the same level as they were at the beginning of the year. Rents fell in the fourth quarter, dipping to \$1,510 per month. Most suburban submarkets recorded rent increases in 2020.
- > The local investment market strengthened at the end of 2020. Property sales in the fourth quarter outpaced levels from the first nine months of the year combined, prices rose, and cap rates compressed.

Denver Multifamily Market Overview

Following a very strong rebound during the third quarter, conditions in the Denver multifamily market cooled slightly in the fourth quarter. The local vacancy rate inched higher in the final three months of the year and average market rents softened, which is a common occurrence in the Denver area in the fourth quarter. Rents did not perform uniformly throughout the market; annual rent declines were concentrated in close-in areas while suburban submarkets generally recorded modest upticks. Despite the vacancy increase, net absorption was healthy during the fourth quarter, totaling nearly 1,700 units. This outpaced the long-term average for fourth-quarter absorption, and the total for the second half was more robust than in recent years.

Q4 Snapshot

Denver Market



Market Fundamentals

Vacancy	6.1%
- Year Over Year Change	+20
Asking Rent	\$1,510
- Year Over Year Change	-0.2%



Transaction Activity

Median Sales Price Per Unit (YTD)	\$245,800
Cap Rates (Avg YTD)	4.5%



Construction Activity

Units Under Construction	22,304
Units Delivered YTD	7,947

Investment activity spiked in the final few months of 2020, with transaction volume in the fourth quarter outpacing the combined total for the first three quarters of the year. Investors who had retreated to the sidelines earlier in the year moved back into acquisition mode, a trend that is expected to continue as conditions stabilize, the economy opens more broadly, and employers ramp up hiring activity. Cap rates had been on a gradual decline for the past several years, but the pace of compression accelerated beginning in August. The average cap rate in the area since August averaged under 4.4 percent, with a number of properties trading between 3.5 percent and 3.75 percent.

Employment

- > Total employment in Denver contracted by approximately 3.3 percent in 2020, with net job losses for the year totaling approximately 52,000 positions. The pace of losses in Denver was approximately half the national rate.
- > After an active pace of recovery from May through September, the rate of job growth cooled at the end of 2020. Employers added approximately 16,000 jobs during the fourth quarter.
- > While most sectors in the local economy recorded modest losses in 2020, employment in the Denver area's large professional and business services sector expanded. Professional employment in Denver grew by 1.4 percent with the addition of approximately 4,000 jobs.
- > **Forecast:** Employers are forecast to add approximately 45,000 jobs in 2021, an increase of 3 percent. This would mark the greatest number of new jobs added to the Denver market in a single year since 2014.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Employers are forecast to add approximately 45,000 jobs in 2021

Vacancy

- > After dipping during the third quarter, vacancy rose at the end of the year. The local vacancy rate ticked up 30 basis points in the fourth quarter, ending the year at 6.1 percent.
- > Multifamily vacancy rose 20 basis points in 2020, after holding steady in 2019. While there has been some quarter-to-quarter fluctuation, annual vacancy trends have been mostly steady. Year-end vacancy figures have ranged from 5.9 percent to 6.1 percent since 2018.
- > The vacancy rate in Class B properties has recorded modest quarterly changes since late 2018. Vacancy among Class B units ended 2020 at 6 percent, matching the rate from one year earlier and only 10 basis points higher than the year-end 2018 figure.
- > **Forecast:** The local vacancy rate is forecast to rise 20 basis points in 2021, ending the year at 6.3 percent. New construction is expected to slightly outpace absorption in the year ahead.

Vacancy Trends



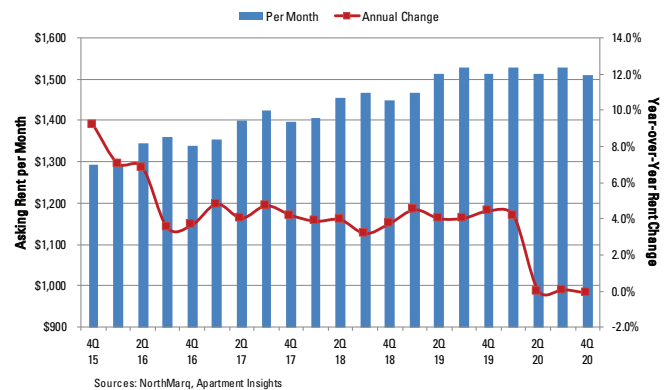
Sources: NorthMarq, Apartment Insights

Vacancy rose 20 basis points in 2020, after holding steady in 2019

Rents

- > Asking rents in Denver dipped during the fourth quarter, offsetting the gains that were recorded in the preceding period. Some of the dip can be attributed to seasonality; rents have retreated during the fourth quarter in each of the past six years.
- > Asking rents ended the year at \$1,510 per month, down just 0.2 percent from one year earlier. The pace of local rent growth peaked from 2013 to 2015 but has averaged 3.2 percent per year since 2016.
- > Rent trends have varied based on location. Outlying areas, particularly in the southern and eastern segments of the market, have generally posted the strongest performance, with rent increases ranging from 2.5 percent to 4.5 percent in some submarkets. Closer-in areas including Capitol Hill, the Central Business District, and Denver Northwest recorded annual declines of nearly 5 percent in 2020.
- > **Forecast:** After a flat year for rents in 2020, asking rents are forecast to rise approximately 2.5 percent in 2021. If the strong absorption patterns that emerged in the second half of 2020 continue into 2021, the pace of rent growth could accelerate.

Rent Trends

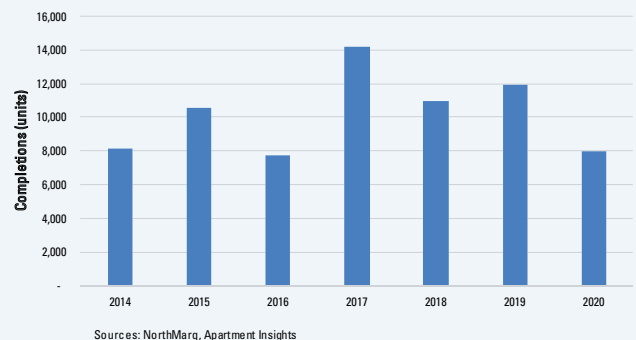


Asking rents are forecast to rise approximately 2.5 percent in 2021

Development and Permitting

- > During the fourth quarter, developers brought more than 2,100 units online. For the year, fewer than 8,000 units were delivered, down 32 percent from the total inventory growth in 2019.
- > Projects totaling approximately 22,300 units are currently under construction, the lowest total in several years. The development pipeline has thinned by nearly 20 percent in recent quarters; at the beginning of 2019, approximately 27,500 units were under construction.
- > Permitting for multifamily totaled approximately 6,700 units in 2020, down approximately 15 percent from the 2019 total. Activity picked up in the second half of 2020, with developers pulling permits for more than 4,000 units in the final six months of the year.
- > **Forecast:** After the pace of deliveries slowed in 2020, developers are expected to accelerate activity in the coming year. Approximately 11,000 apartment units are forecast to be delivered in 2021.

Development Trends

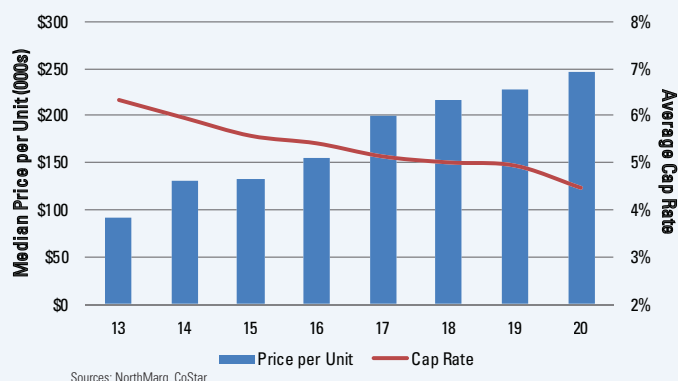


Projects totaling approximately 22,300 units are currently under construction

Multifamily Sales

- > Sales activity surged at the end of 2020. More than half of the year's total sales volume occurred in transactions during the fourth quarter. Despite the rise at the end of the year, total transaction activity in 2020 was down approximately 30 percent from 2019 levels.
- > With activity picking up, sales prices rose. The median price reached \$245,800 per unit in 2020, up 8 percent from the median price in 2019. The median price in sales during the fourth quarter was approximately \$267,700 per unit. Approximately one-third of all transactions in 2020 closed for \$350,000 per unit or higher.
- > Cap rates compressed in 2020, with the lowest cap rates recorded during the second half. For the full year, cap rates averaged 4.5 percent, 50 basis points lower than in 2019. Since August, cap rates have compressed by approximately 30 basis points, with several properties trading with cap rates below 4 percent.

Investment Trends



More than half of the year's total sales volume occurred in transactions during the fourth quarter

Recent Transactions in the Market

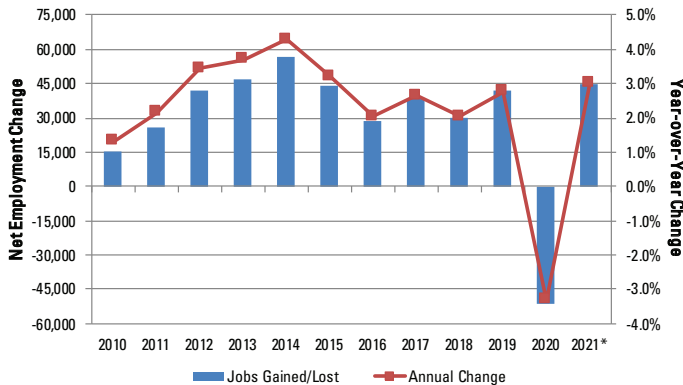
MULTIFAMILY SALES ACTIVITY				
Property Name	Street Address	Units	Sales Price	Price/Unit
Summit at Flatirons	210 Summit Blvd., Broomfield	500	\$154,060,000	\$308,120
ArtWalk at City Center	801-901 Englewood Pky., Englewood	438	\$123,500,000	\$281,963
Bluffs at Highlands Ranch	600 W Country Line Rd., Highlands Ranch	340	\$108,500,000	\$319,118
Alta Green Mountain	13055 W Mississippi Ct., Lakewood	260	\$91,000,000	\$350,000
Watermark at First Creek	18493 E Elmendorf Dr., Denver	264	\$74,650,000	\$282,765

Looking Ahead

The Denver multifamily market is forecast to record upticks in both demand and new supply in 2021. After a bit of a slow start to the year, absorption of apartment units accelerated in the second half of 2020, setting the stage for continued strengthening of demand in 2021 as the labor market bounces back. Absorption in the fourth quarter was up nearly 60 percent when compared to fourth quarters from the past five years, building on the release of pent-up demand recorded during the third quarter. The accelerating absorption trends will closely track new development totals. Annual apartment deliveries in 2020 dropped below 10,000 units for the first time since 2016, but are forecast to regain momentum in the year ahead.

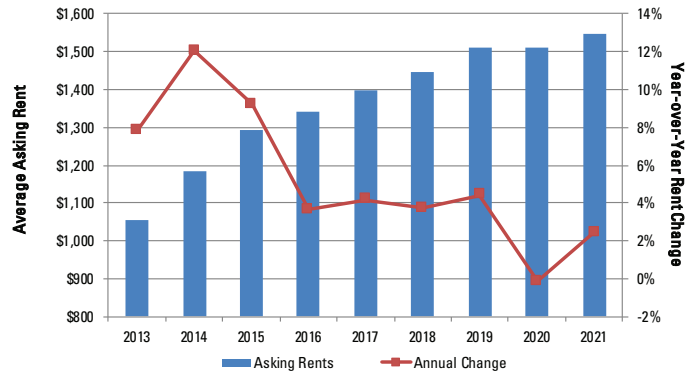
The momentum in the investment market that was established in the fourth quarter is forecast to carry over into 2021. Transaction activity during the fourth quarter was one of the strongest closes to a year in the past decade, reflecting the current investor sentiment for multifamily assets in Denver following a volatile 2020. Prices rose and cap rates compressed in 2020, particularly during the second half of the year. It remains to be seen if there is room for cap rates to go much lower than current levels, but anticipated rent increases could once again push prices higher.

Employment Forecast



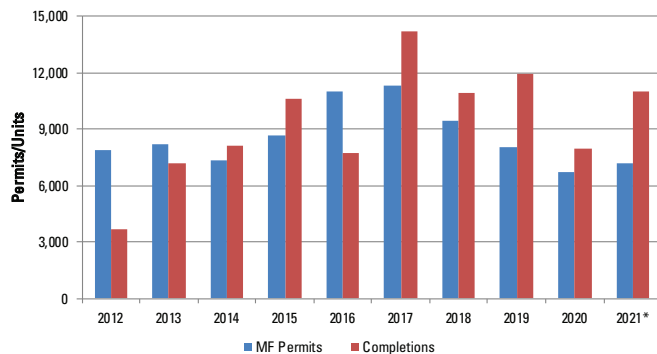
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



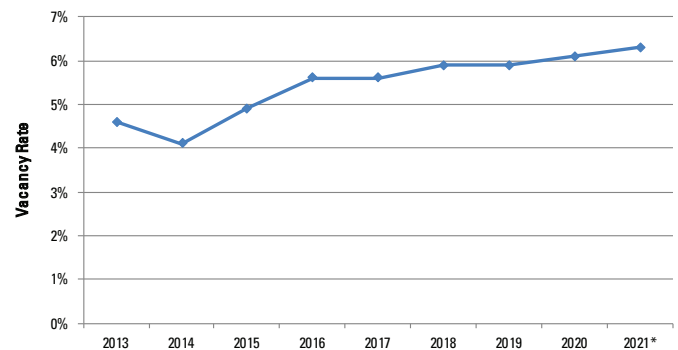
* Year End Forecast
Sources: NorthMarq, Apartment Insights

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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