MARKET REPORT | 2Q/2021

Greater Denver Multifamily

NORTHMARQ

Investment Activity Spikes as Fundamentals Post Unprecedented Gains

Highlights

- Strong renter demand for apartments in the Denver multifamily market drove down vacancy rates and fueled an accelerating pace of rent growth in the second quarter. Improving operations carried over to the investment market, where transaction activity gained momentum, prices rose, and cap rates compressed.
- Vacancy tightened considerably during the second quarter, falling 110 basis points to 4.9 percent. The rate has improved by 150 basis points year over year.
- Net absorption totaled nearly 5,000 units in the second quarter. In the past year, absorption has topped 12,000 units, a record for a 12-month period.
- After holding steady in recent periods, the pace of rent growth has spiked in recent months. Rents ended the second quarter at $1,621 per month, 7.2 percent higher than one year ago.
- Investment activity surged during the second quarter, with sales of newer, Class A properties leading the way. The median price thus far in 2021 is up more than 20 percent to approximately $303,600 per unit, while cap rates have compressed to 4.3 percent.

Q2 Snapshot	Denver Market
Market Fundamentals	
Vacancy	**4.9%**
- Year Over Year Change	**-150**
Asking Rent	**$1,621**
- Year Over Year Change	**+7.2%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$303,600**
Cap Rates (Avg YTD)	**4.3%**
Construction Activity	
Units Under Construction	**28,587**
Units Delivered YTD	**5,392**

Denver Multifamily Market Overview

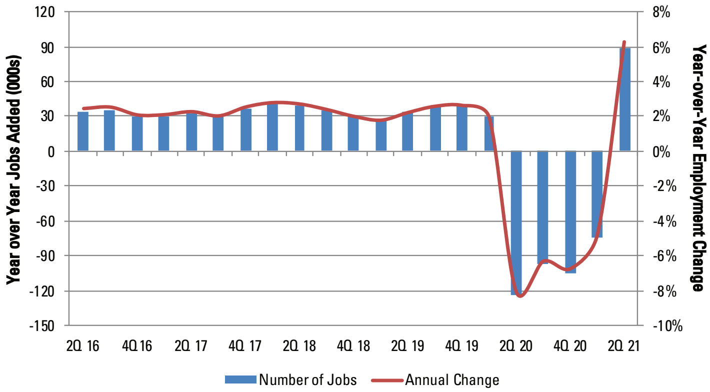
The Denver multifamily market strengthened during the second quarter, with vacancies tightening and rent growth accelerating at rapid paces. Following a handful of quarters where rents failed to gain much traction, rents spiked in the past few months. Renter demand is sparking recent rent growth; net absorption totaled nearly 7,000 units in the first half of this year, spiking nearly 75 percent from average levels recorded in the same periods of recent years. Some of this is likely a release of pent-up demand from the economic volatility recorded in 2020.

Multifamily investment activity in the Denver area gained momentum in recent months. The number of properties that changed hands during the second quarter was almost double the number of transactions during the first quarter. With activity gaining momentum, prices rose, and cap rates compressed. This trend was most apparent in the Class A segment of the market, where transaction activity has surged in recent months. Cap rates in Class A sales averaged approximately 3.75 percent, while properties have sold for a median price of nearly $385,000 per unit.

Employment

- Employment in Denver posted healthy gains during the second quarter, as the local labor market continues to recover. Total employment expanded by roughly 19,000 jobs during the second quarter. During the past 12 months, employers have added 89,000 jobs, a growth rate of 6.3 percent.
- The financial activities sector in Denver has been one of the most stable industries over the past several quarters. Year over year, this sector has grown 3.9 percent and returned to its pre-COVID level of employment.
- In recent years, tech employment in Denver has been on the rise. During the second quarter, software provider Nextworld announced it will add more than 300 jobs at the company's headquarters in Greenwood Village in the coming months.
- **Forecast:** Local employers are expected to continue to add workers back at a strong pace. The Denver area is forecast to add 85,000 jobs this year, an annual growth of nearly 6 percent.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

The Denver area is forecast to add 85,000 jobs this year

Vacancy

- Vacancy in Denver dropped significantly during the second quarter, falling 110 basis points to 4.9 percent. The current rate is the lowest vacancy figure since the end of 2015.
- Year over year, the local vacancy rate has dropped 150 basis points. The rate reached a five-year high during the second quarter of last year before starting to tick lower in the second half of 2020.
- The vacancy rate in Class A properties dropped 140 basis points during the second quarter, falling to 5.7 percent. This is the lowest figure since the end of 2014.
- **Forecast:** Absorption and deliveries of new units should continue to accelerate at a similar pace in the second half. Vacancy in Denver is forecast to end the year at 5.3 percent, 80 basis points below 2020's year-end.

Vacancy Trends

Sources: NorthMarq, Apartment Insights

Year over year, the local vacancy rate has dropped 150 basis points

Rents

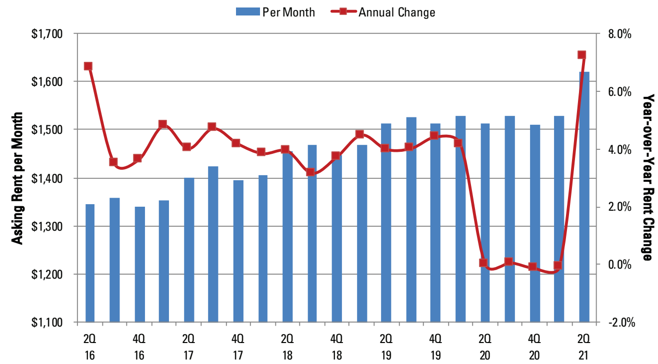
> After remaining mostly flat for the past few quarters, rents spiked in recent months. Asking rents in Denver rose 6.1 percent during the second quarter, reaching $1,621 per month. In the first half of this year, average rents advanced more than $100 per month.

> Local asking rents are up 7.2 percent from the same period in 2020, the largest year-over-year growth since 2015-2016.

> Rents in the more expensive close-in submarkets are generally rising at slower paces than the Denver market average. Rents in the Cherry Creek and Washington Park submarkets average 10 percent to 20 percent higher than the metro average but have posted annual increases of under 4 percent. It may take a few more quarters of continued economic growth for rents in these areas to gain momentum.

> **Forecast:** Apartment rents in Denver are forecast to end the year posting double-digit gains. Asking rents are expected to end 2021 at approximately $1,670 per month with an annual growth of 10.5 percent.

Rent Trends



Sources: NorthMarq, Apartment Insights

Asking rents in Denver rose 6.1 percent during the second quarter

Development and Permitting

> Multifamily developers in Denver have delivered nearly 5,400 units during the first half of the year, including more than 3,400 units coming online in the second quarter. Apartment deliveries during the first half of 2021 were up roughly 20 percent from the same period last year.

> Project deliveries will likely remain active as more than 28,500 units are currently under construction, up almost 30 percent from one year ago.

> After trending lower in recent years, multifamily permitting has accelerated in 2021. Developers pulled permits for more than 6,800 units in the first half, more than doubling levels from the same period last year. Activity gained momentum in the second quarter, when permits for more than 4,500 multifamily units were issued.

> **Forecast:** New apartment construction is expected to remain active through the rest of the year, as roughly 12,000 units are forecast to come online by the end of 2021.

Development Trends

Sources: NorthMarq, Apartment Insights

After trending lower in recent years, multifamily permitting has accelerated in 2021

Multifamily Sales

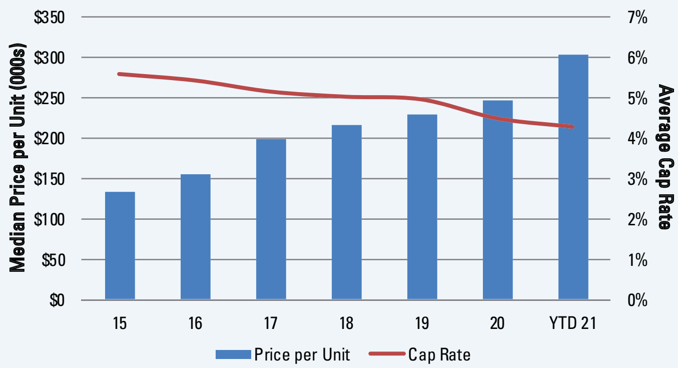
> Sales of multifamily properties accelerated during the second quarter. Activity levels were up more than 70 percent when compared to the first quarter. The market recorded its strongest first half of sales velocity since activity levels peaked from 2015 to 2017.

> Sales prices rose during the second quarter, as Class A properties made up more than half of the total transactions that occurred during this period. During the second quarter, the median price was nearly $320,000 per unit, up 30 percent from the median price in the first quarter. The median price in Class A property sales is nearly $385,000 per unit.

> Year to date, the median sales price is approximately $303,600 per unit, more than 20 percent higher than the median price in 2020. Rising rents and an increasing number of newer, Class A sales have driven prices higher.

> Cap rates in Denver have compressed to this point in 2021, tightened by an accelerating pace of investor demand. Cap rates averaged 4.3 percent through the second quarter. The average rate in 2020 was nearly 4.7 percent.

Investment Trends



Sources: NorthMarq, CoStar

Cap rates averaged 4.3 percent through the second quarter

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

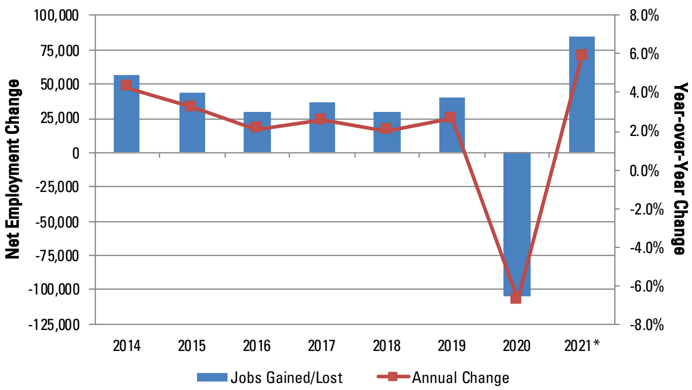
Property Name	Street Address	Units	Sales Price	Price/Unit
The Lex at Lowry	240 S Monaco Pky., Denver	710	$201,850,000	$284,296
20th Street Station Apartments	2080 California St., Denver	354	$130,000,000	$367,232
Fletcher Southlands	22959 E Smoky Hill Rd., Aurora	320	$103,300,000	$322,813
Stratus	8300 Sheridan Blvd., Westminister	280	$85,000,000	$303,571
Echo Ridge at North Hills	11450 Melody Dr., Northglenn	168	$44,050,000	$262,202

Looking Ahead

The Denver multifamily market strengthened during the first half of the year, setting the stage for a healthy second half of property performance. The rapid pace of rent growth that was recorded during the second quarter followed a period where rents remained within a rather tight range. In the second half, rents are forecast to rise but not at the elevated rate recorded in recent months. Absorption for apartments has spiked in 2021, and new development is under way to meet elevated demand levels. New multifamily deliveries should return to 2017-2019 levels this year following a drop in 2020.

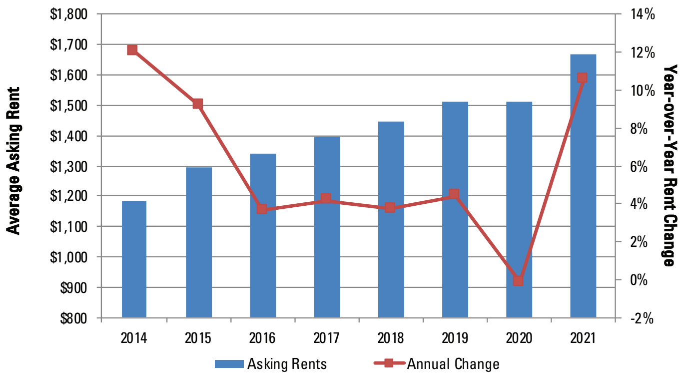
Investors are ramping up activity levels in Denver as property fundamentals strengthen, and transaction levels should remain elevated now that the market has stabilized and returned to growth mode. Prices are rising, and cap rates are compressing, with some of this activity a response to increased transaction activity in Class A units. As new units are delivered in a period where renter demand is elevated, projects should lease up quickly. Vacancies in the Central Business District and Capitol Hill submarkets have begun to tighten and should record additional improvement as the economy more fully reopens in the second half.

Employment Forecast



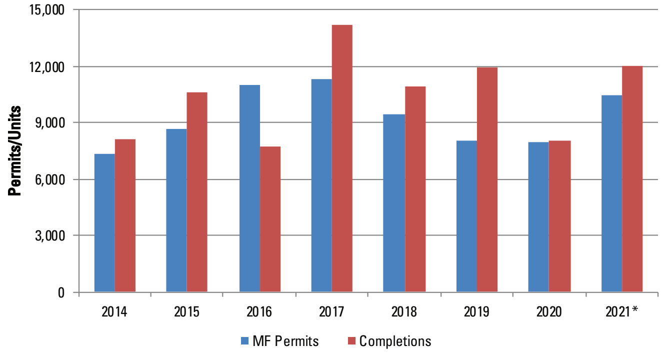
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



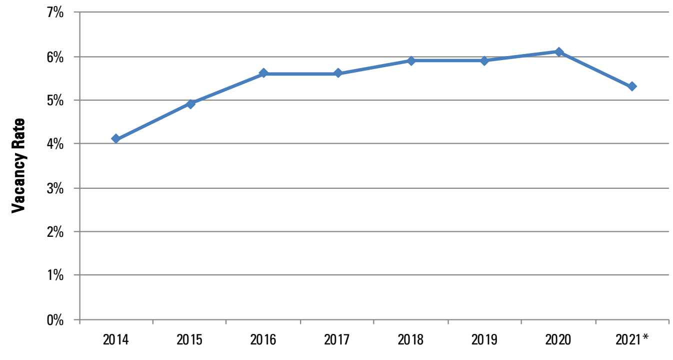
* Year End Forecast
Sources: NorthMarq, Apartment Insights

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 $16 billion, loan servicing portfolio of more than $65 billion and the multi-year tenure of our nearly 600 people.

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