Market Insights

Denver Multifamily 4Q 2021

Northmarq

Construction Activity

38,480

Units under construction

11,140

Units delivered (YTD)

Market Fundamentals

4.7%

Vacancy

-140bps | Year over year change

$1,755

Asking Rent

+16.2% | Year over year change

Transaction Activity

$303,600

Median sales price per unit (YTD)

Investment Demand Spikes on Record Rent Growth

Highlights

- Despite a minimal vacancy increase at the end of the year, the Denver multifamily market recorded strong performance in 2021. Rents continued to rise throughout the region fueled by robust renter demand and an improving local labor market. Permitting activity spiked during the final months of the year, as developers moved new projects into the pipeline to meet renter demand.
- Vacancy rose 20 basis points during the fourth quarter to 4.7 percent, although several submarkets reported vacancies below 3 percent. For the full year, the rate declined 140 basis points.
- Asking rents increased at a rapid pace during 2021, advancing 16.2 percent to end the year at $1,755 per month. The pace of growth eased in the fourth quarter when rents rose 1.2 percent, similar to longer-term averages.
- Investment activity in Denver gained momentum in the fourth quarter, outpacing levels recorded in recent periods. The increased investor demand resulted in sales prices trending higher during the year, with the median ending 2021 at $303,600 per unit. Cap rates averaged about 3.5 percent in the fourth quarter.

Denver Multifamily Market Overview

The Denver multifamily market posted a strong performance throughout 2021 with additional gains recorded during the fourth quarter. Rents pushed higher, and the vacancy rate remained below the market's long-term average. Although vacancy inched higher during the final months of the year, the rate declined 140 basis points during 2021, largely driven by a rebounding labor market and elevated absorption levels. Multifamily developers brought a substantial number of projects online during 2021, though total absorption levels for the year still outpaced new supply by nearly 20 percent. The outlook for the year ahead calls for continued gains in the local labor market, which should continue to fuel demand.

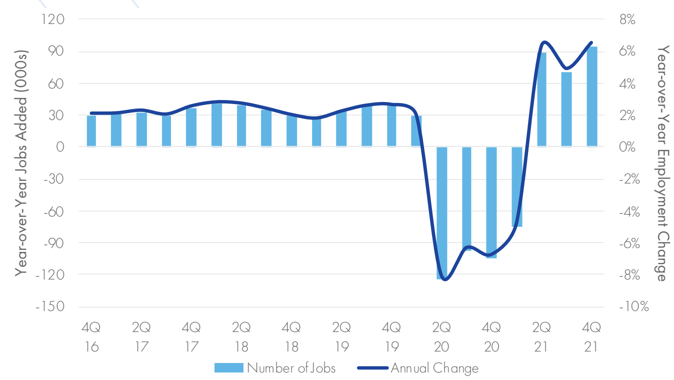
Multifamily investment activity in the Denver market accelerated during the final quarter of 2021, as the number of transactions increased more than 65 percent from the third quarter. As transaction volume increased, sales prices advanced during the year as a result of operating conditions remaining tight, rents increasing, and activity picking up in the sale of Class A assets. While properties sold across the entire Denver metro, some of the most active submarkets during the fourth quarter included outlying suburban areas like Aurora, as well as close-in areas such as Downtown Denver. Cap rates trended lower during the final months of the year, averaging approximately 3.5 percent during the fourth quarter.

Employment

- The local labor market in Denver continues to recover at a rapid pace. Area employers added more than 21,000 jobs during the fourth quarter, and for the full year, growth totaled nearly 95,000 jobs. The local labor market has grown by more than 6.5 percent in the past year.
- The Denver area's large white-collar employment base was a source of growth in 2021. The professional and business services sector expanded by more than 15,000 jobs in the past year, an expansion of 5.5 percent.
- Life sciences company Genapsys plans to open a second location in Westminster, which would bring 240 high-paying jobs to the Denver region in the coming quarters. These positions will primarily include chemists, biologists, engineers, and administrative workers with an average salary of approximately $111,350 per year.
- **Forecast:** The Denver employment market is expected to make a full recovery in the year ahead and surpass its pre-COVID peak during 2022. Total employment is expected to expand by nearly 31,000 jobs in the next 12 months, a gain of approximately 2 percent.

> For the full year, growth totaled nearly 95,000 jobs.

Employment Overview



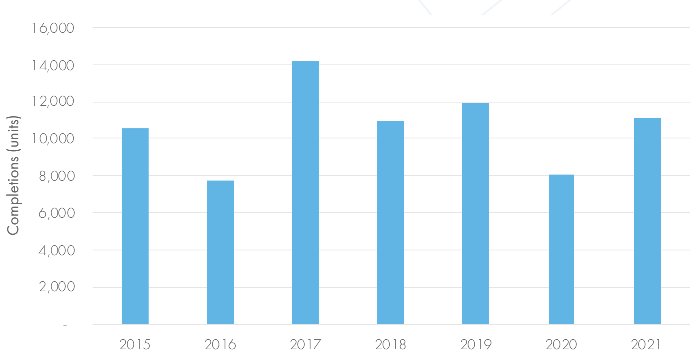
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

> Nearly 38,500 units are currently under construction.

- Multifamily development activity in Denver accelerated during 2021, as 11,140 units were delivered during the course of the year. Apartment deliveries in 2021 were up nearly 40 percent from 2020 levels, but were similar to the average annual total from 2015 to 2019.
- Multifamily development will remain elevated in the year ahead, as nearly 38,500 units are currently under construction. The development pipeline has swelled in recent quarters; the number of units that were under construction has advanced more than 70 percent in the past 12 months.
- Multifamily permitting in Denver surged during 2021, as developers pulled permits for approximately 15,000 units during the year. This marks the largest level of annual permitting totals on record. Permitting in 2021 nearly matched the combined total from the preceding two years.
- **Forecast:** Apartment construction in Denver is forecast to remain active in the coming quarters. Following a spike in permitting activity and an elevated number of units under construction, projects totaling approximately 12,500 units are scheduled to come online during 2022, the largest annual delivery total since 2017.

Development Trends



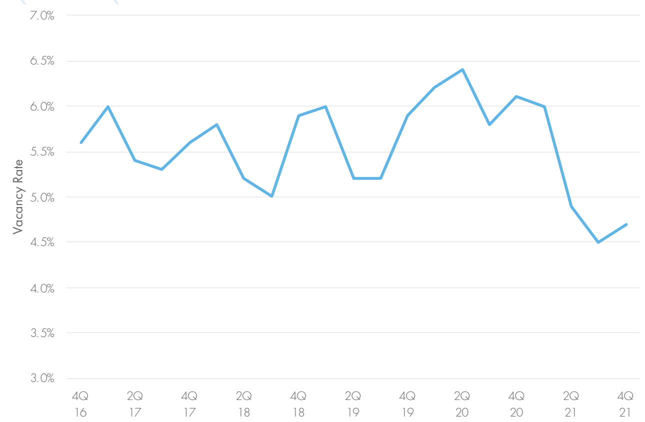
Sources: Northmarq, Apartment Insights

Vacancy

- Vacancy in Denver crept higher in the final quarter of 2021, rising 20 basis points to 4.7 percent. Despite the recent uptick, the current rate is still well below the region's historical five-year average of 5.6 percent.
- Even after inching higher at the end of the year, the local vacancy rate dropped 140 basis points in 2021. There are several submarkets with rates of around 2.5 percent, highlighted by Boulder South and Denver Southwest. Each of these submarkets borders areas with some of the highest rental rates in the Denver metro. Additionally, neither submarket has had a significant amount of competition from new development in recent years.
- Total absorption for 2021 reached a record high of nearly 13,200 units. Some of the submarkets with the highest level of absorption activity in the last 12 months include the Central Business District, Denver Northwest, and Capitol Hill.
- **Forecast:** An accelerating pace of new construction is expected to result in a modest rise in vacancy in 2022. The rate is forecast to increase 30 basis points to 5 percent in the coming year.

> Total absorption for 2021 reached a record high of nearly 13,200 units.

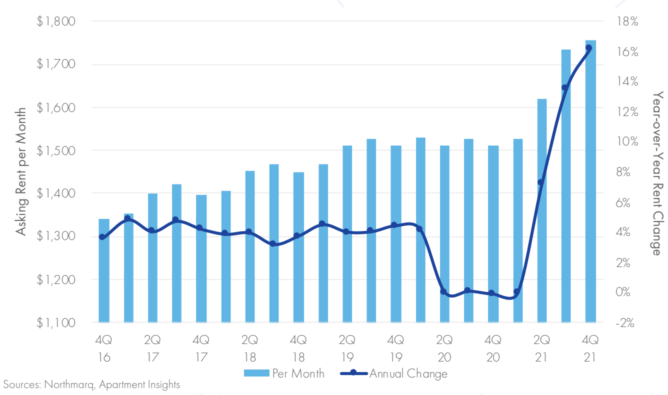
Vacancy Trends



Sources: Northmarq, Apartment Insights

> Asking rents in Denver rose 16.2 percent in 2021.

Rent Trends



Sources: Northmarq, Apartment Insights

Rents

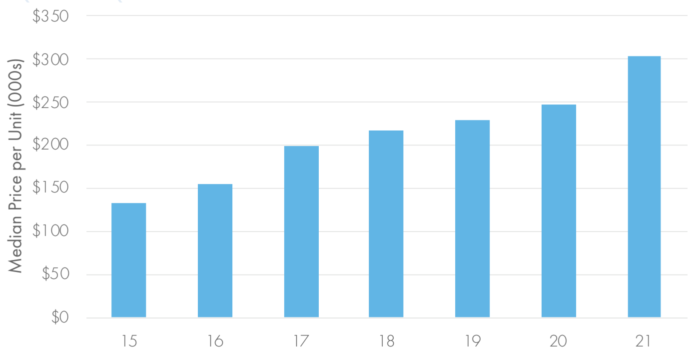
- Rents in Denver continued to push higher in the fourth quarter, rising 1.2 percent to $1,755 per month. The most expensive submarkets in the region include Boulder North, the Central Business District, and Washington Park, which all have average rents above $2,000 per month.
- Asking rents in Denver rose 16.2 percent in 2021. The current pace of growth is significantly greater than in recent years. Since 2016, rent growth has averaged 3.2 percent per year.
- Average rents trended higher in all property classes during the past year with the middle-tier assets posting the largest gains. Class B asking rents rose 17.3 percent during 2021 to $1,775 per month.
- **Forecast:** Rents in Denver are expected to trend higher in the year ahead, although the pace of expansion will likely more closely track gains recorded in recent years than repeat the performance from 2021. Asking rents are forecast to rise 5.7 percent in 2022 to $1,855 per month.

Multifamily Sales

- Sales velocity in Denver gained momentum during the fourth quarter with transaction activity increasing 65 percent from the previous quarter. For the year, the number of properties that sold rose nearly 80 percent from 2020.
- The combined forces of rising prices and an increased number of transactions resulted in a sharp upswing in investment dollar volume in 2021. The dollar volume of properties sold in 2021 approached $10 billion, nearly doubling 2020 levels and outpacing the previous annual high by approximately 50 percent.
- As transaction activity accelerated, prices trended higher. The median sales price in 2021 reached nearly $303,600 per unit, up 24 percent from the median price recorded in 2020. The rise in prices was due to the combined forces of rising rents and a mix of higher-quality properties changing hands.
- Cap rates in the final few months of the year averaged 3.5 percent, reflecting positive investor sentiment and the increasing competition in the investment market.

> The median sales price in 2021 reached nearly $303,600 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

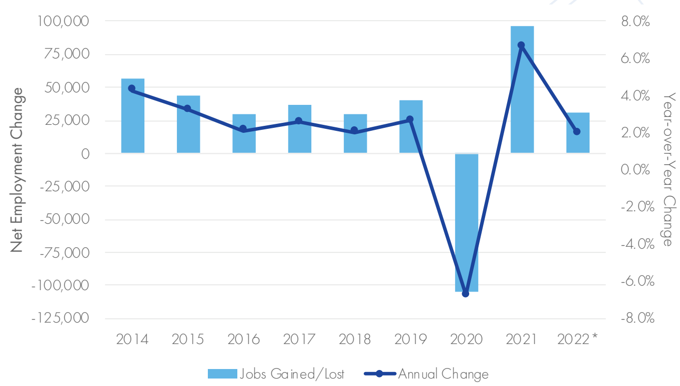
Property Name	Street Address	Units	Sales Price	Price/Unit
Clear Creek Crossing	4040 Clear Creek Dr., Wheat Ridge	310	$142,000,000	$458,065
Conifer Creek Apartment Homes	2205 S Racine Way, Aurora	480	$127,000,000	$264,583
Arista Uptown Apartments	8500 Arista Pl., Broomfield	272	$95,000,000	$349,265
Elevate at Pena Station	17607 E 61st Ave., Denver	218	$61,250,000	$280,963

Looking Ahead

Building upon consistent rent growth and rising absorption levels during 2021, the Denver multifamily market is set for continued strengthening in the year ahead. Apartment construction activity has spiked in recent quarters, and developers are forecast to step up the pace of deliveries in 2022. Although construction activity persists throughout the entire Denver metro area, more than a third of the expected deliveries during 2022 will come online in the Denver CBD and Interlocken submarkets. As the pace of supply growth accelerates, vacancy is expected to inch higher, especially in submarkets where deliveries are more concentrated. Despite a potential modest uptick in vacancy, renter demand will remain robust, fueling further rent increases during 2022.

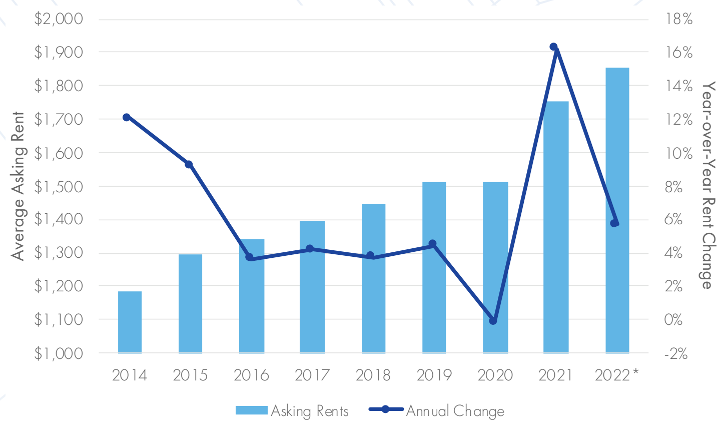
The momentum that was generated in the multifamily investment market in the second half of 2021 is expected to remain in place in the year ahead. As the local employment market reaches a full recovery in the coming quarters and operating conditions remain tight, the Denver investment market will continue to offer attractive opportunities for investors. If a surge in deliveries pushes vacancy higher than expected in a handful of submarkets, it may take a few quarters to fully assess the competitive impact of new development in a few pockets of the market. Cap rates are expected to remain compressed in 2022, as transactions are being underwritten with the expectation of further rent increases.

Employment Forecast



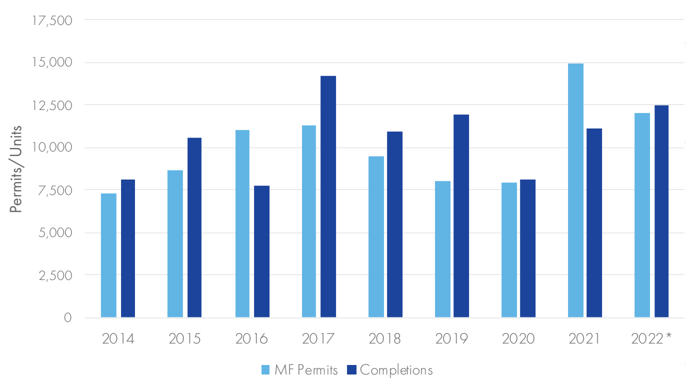
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



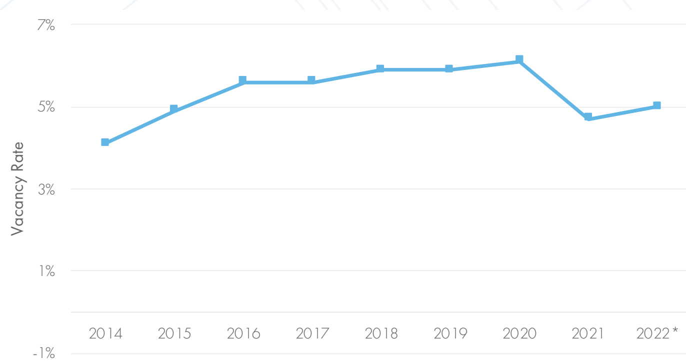
* Year End Forecast
Sources: Northmarq, Apartment Insights

Construction & Permitting Forecast



* Year End Forecast
Sources: Northmarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Apartment Insights

Northmarq

For more information, please contact:

David Link
Senior Vice President, Managing Director—Debt & Equity
303.225.2109
dlink@northmarq.com

Dave Martin
Managing Director—Investment Sales
303.225.2130
dmartin@northmarq.com

Brian Mooney
Vice President—Investment Sales
303.225.2131
bmooney@northmarq.com

Rich Ritter
Vice President—Investment Sales
303.832.1773
rritter@northmarq.com

Alex Possick
Vice President—Investment Sales
303.225.2139
apossick@northmarq.com

Trevor Koskovich
President—Investment Sales
602.952.4040
tkoskovich@northmarq.com

Pete O'Neil
Director of Research
602.508.2212
poneil@northmarq.com

About Northmarq

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 700 employees, loan servicing volume approaching $70 billion, and $30+ billion in transaction volume.

BUILT TO THRIVE®

northmarq.com