Market Insights

Denver Multifamily 1Q 2022

Northmarq

Construction Activity

40,936

Units under construction

2,872

Units delivered (YTD)

Market Fundamentals

4.7%

Vacancy

-130bps | Year over year change

$1,788

Asking Rent

+17.0% | Year over year change

Transaction Activity

$348,000

Median sales price per unit (YTD)

Rents Continue on Upward Climb, Prices Surge

Highlights

- The Denver multifamily market started the year with a low and stable vacancy rate and with rents on the rise. Renter demand for units is being supported by an expanding labor market, and developers are moving new projects through the pipeline to meet demand.
- The vacancy rate remained unchanged in the first quarter, ending the period at 4.7 percent. Year over year, the rate declined by 130 basis points.
- Rents have spiked in the last 12 months, jumping 17 percent to $1,788 per month. Rents rose 1.9 percent in the first quarter, the strongest start to a year since 2015.
- Investors remained active at the start of the year. Prices rose with the median reaching approximately $348,000 per unit, up 15 percent from 2021 levels. Cap rates averaged approximately 3.5 percent.

Denver Multifamily Market Overview

The Denver multifamily market started 2022 in a healthy position. The vacancy rate remained tight, even as the delivery of new units outpaced levels from previous years. Robust renter demand is largely due to a thriving labor market, as local employers continue to add high-paying jobs in Denver across a wide range of industries. Rents continued to climb with some of the strongest first-quarter increases in recent years; the pace of rent growth also accelerated slightly from the prior quarter. Although absorption levels remain high, multifamily developers are on track to meet the elevated demand in the Denver market.

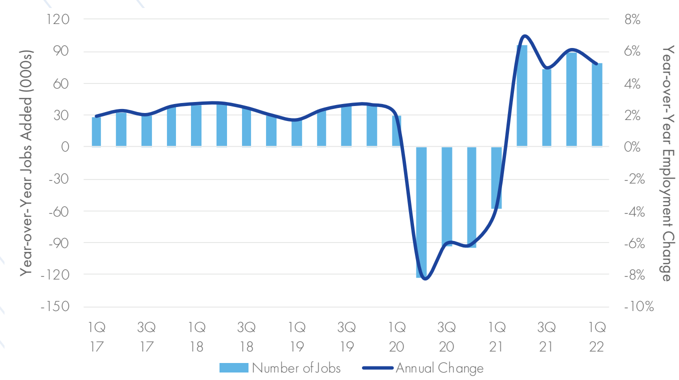
The local multifamily investment market remained active in the first quarter. Sales velocity at the start of this year was ahead of the 2021 pace, setting the stage for an active remainder of the year. During the first quarter, there was a mix of properties changing hands with a handful of newer assets in and around the city core selling, as well as some older properties located in suburban areas near Aurora. This led to a wide range in per-unit pricing, although the overwhelming trend highlighted rising per-unit values. The median price totaled approximately $348,000 per unit in the first quarter with a few properties topping $450,000 per unit.

Employment

- The Denver labor market reached a full recovery in recent months as total employment surpassed its pre-COVID peak. Area employers added more than 20,000 jobs in the first quarter, and year over year, the market expanded by 5.2 percent with the growth of 78,200 positions.
- Denver's white-collar employment base continues to help fuel the local labor market. In the past 12 months, the professional and business services sector added more than 21,400 positions, a growth rate of 7.7 percent.
- SnapDNA, a developer of food-safety testing technology, is another tech company to bring jobs from California to the Denver area. SnapDNA will be adding more than 140 high-paying jobs to its new headquarters in Broomfield in the coming years.
- **Forecast:** The Denver labor market is slated for further growth in the year ahead. Area employers are forecast to add nearly 55,000 workers to payrolls in 2022, a 3.5 percent gain.

> Employers added more than 20,000 jobs in the first quarter.

Employment Overview



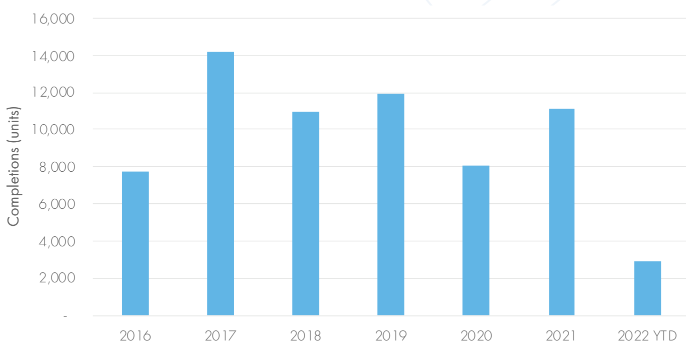
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

> More than 40,900 units are currently under construction.

- Deliveries were elevated at the start of the year with developers completing projects totaling 2,872 units in the first quarter. This topped the level of completions from the same period in 2021 by nearly 45 percent.
- Developers will remain active in the coming quarters, as more than 40,900 apartment units are currently under construction in Denver, up 53 percent from one year ago. The busiest region for new development is the Denver CBD with more than 8,400 units under way in this submarket.
- Multifamily permitting activity remained strong in the first few months of the year with permits for more than 2,600 units pulled during the first quarter. The number of permits pulled at the start of the year is ahead of levels recorded in the first quarters in each of the past three years.
- **Forecast:** Apartment development activity is expected to remain elevated through the remainder of the year. Projects totaling more than 13,000 units are on track to come online in 2022, the largest annual delivery total since 2017.

Development Trends



Sources: Northmarq, Apartment Insights

Vacancy

- After dropping during much of last year, the vacancy rate held steady in the first few months of 2022. Vacancy finished the first quarter at 4.7 percent, matching the rate posted at the end of 2021.
- Year over year, the local vacancy rate is down 130 basis points. The largest vacancy declines in the past year were recorded in submarkets surrounding the city center including Capitol Hill, Washington Park, and Denver Northeast.
- Absorption levels accelerated slightly in the first quarter, totaling 1,980 units, a 7 percent increase from one year ago.
- **Forecast:** With multifamily development activity accelerating, the vacancy rate is expected to creep higher. The rate is forecast to end 2022 at 4.9 percent, 20 basis points higher from the end of 2021.

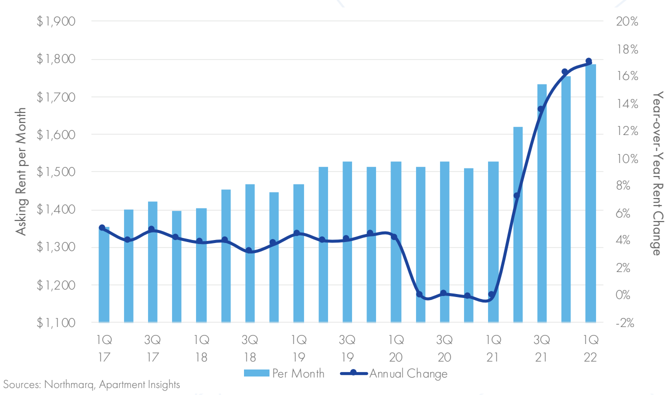
> Year over year, the vacancy rate dropped 130 basis points.

Vacancy Trends

Sources: Northmarq, Apartment Insights

> Year over year, rents rose 17 percent.

Rent Trends



Sources: Northmarq, Apartment Insights

Rents

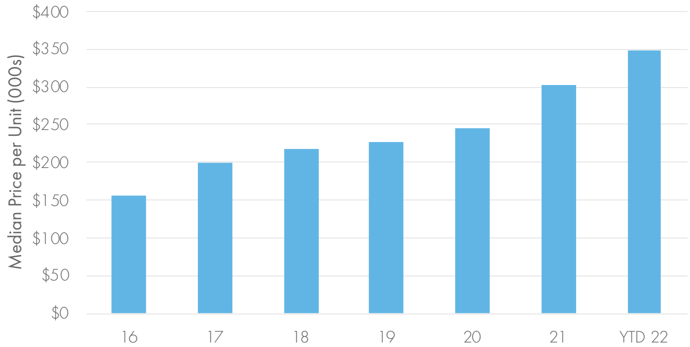
- Rents in Denver continued to climb in the first quarter, rising 1.9 percent to $1,788 per month. This marked the strongest first quarter rent growth in the area since 2015.
- Year over year through the first quarter, rents in Denver rose 17 percent. Rent gains are being fueled by a surging local economy and tight vacancy conditions throughout much of the market.
- Although average rents have spiked across all asset classes in the last year, the largest gains were recorded in Class A properties. Rents in Class A properties rose 21.7 percent year over year, reaching $2,817 per month.
- **Forecast:** Rent growth in 2022 is forecast to top 7 percent, with the average rent forecast to reach nearly $1,900 per month by the end of the year.

Multifamily Sales

- Multifamily transaction activity in the first quarter was up 35 percent from the same period in 2021. Sales velocity accelerated throughout 2021 and reached a five-year peak during the fourth quarter.
- Prices have continued to trend higher to start 2022. The median price in the first quarter reached approximately $348,000 per unit, up 15 percent from the median price throughout last year. Per-unit prices have more than doubled since 2016.
- Cap rates held steady in the first quarter, averaging about 3.5 percent, similar to levels recorded at the end of 2021. Cap rates have compressed in each of the past few years but appear to have leveled off in recent months.

"The median price in the first quarter reached approximately $348,000 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

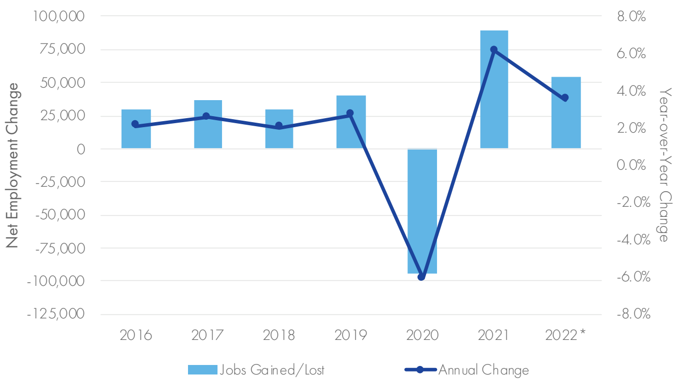
Property Name	Street Address	Units	Sales Price	Price/Unit
Stone Cliff Apartments	17886 E Greenwood Dr., Aurora	394	$143,000,000	$362,944
3300 Tamarac Apartments	3300 S Tamarac Dr., Denver	564	$141,000,000	$250,000
Gateway at Arvada Ridge Apartments	5458 Lee St., Arvada	293	$100,000,000	$341,297
Highline Lofts	456 S Ironton St., Aurora	112	$29,075,000	$259,598

Looking Ahead

The Denver multifamily market's healthy start to 2022 is a continuation of rapid gains recorded in recent quarters and sets the stage for additional gains for the remainder of the year. Demand is expected to remain elevated, and area vacancy rates will likely remain below 5 percent, supporting above-average rent increases. As developers rush to meet demand, new supply growth could surge by the end of 2022, but supply-chain constraints may push some projects originally slated to deliver this year into the first half of 2023. Nearly every submarket in the region has at least one project that is under construction, although the Denver CBD will be most impacted by new development in the coming years.

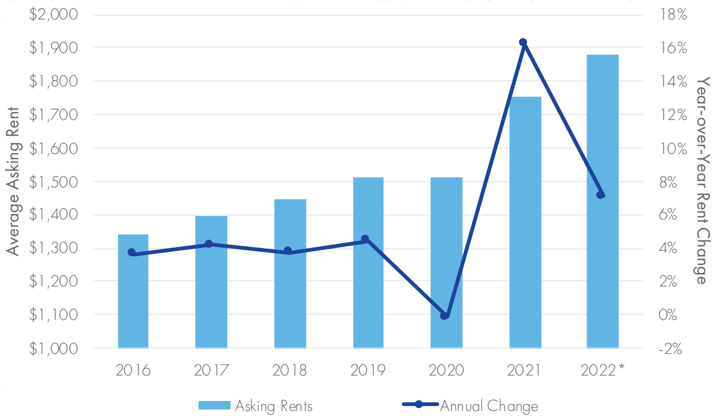
Multifamily sales activity will likely accelerate in the second half of this year, repeating some of the patterns that took shape in 2021. The market's operating fundamentals have remained quite strong, and the outlook for continued growth in the local economy should attract investment capital. The number of projects that are currently under construction will attract headlines but will also create investment opportunities in the next few years. Since the beginning of 2020, more than 50 newer properties have sold in the Denver market with volumes totaling nearly $5 billion. Similar volumes of transactions involving newer assets are likely, and these sales should push prices higher and keep cap rates near current ranges.

Employment Forecast



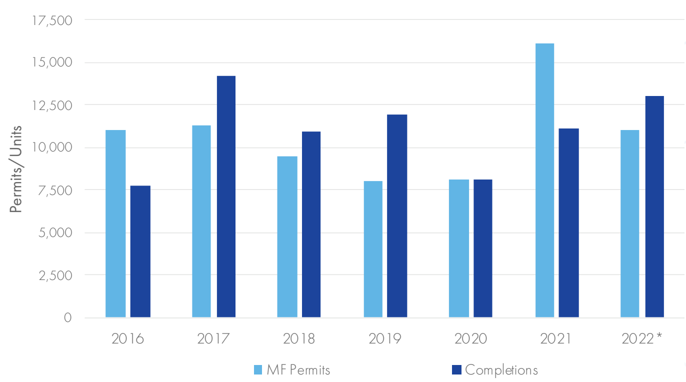
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



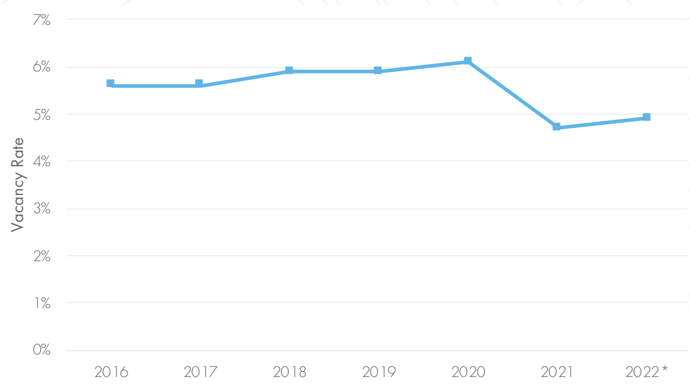
* Year End Forecast
Sources: Northmarq, Apartment Insights

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Apartment Insights

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