

Fundamentals improve, but sales activity remains limited

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **43,709**

UNITS DELIVERED **3,462**

MARKET FUNDAMENTALS



VACANCY RATE **5.5%**

YEAR-OVER-YEAR CHANGE **+80bps**

ASKING RENTS **\$1,872**

YEAR-OVER-YEAR CHANGE **+4.7%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$323,100**

HIGHLIGHTS

- Multifamily property performance metrics strengthened during the first quarter. The year ahead will be an active one for new development with more than 43,700 units currently under construction.
- Asking rents inched higher to start the year, rising 0.4 percent in the first quarter to \$1,872 per month. Despite some quarterly volatility, rents have advanced 4.7 percent during the past 12 months.
- Multifamily transaction activity continued to taper off, as sales volume in the first quarter dropped more than 25 percent from the previous period. The median sales price through the first three months of 2023 was \$323,100 per unit, up 8 percent from the median price last year.

DENVER MULTIFAMILY MARKET OVERVIEW

The Denver multifamily market improved at the start of the year, as the local vacancy rate inched lower, and area rents ticked higher. Absorption began 2023 ahead of the pace established in prior years, and this renter demand will be a welcome sign as the pace of supply growth accelerates. Developers remain active throughout the region with more than 43,700 units currently underway. Construction activity is concentrated in the city center, as roughly 17 percent of the development pipeline is located in the Central Business District submarket. New construction has also picked up in other areas in recent quarters including in the Denver Northeast and Denver Airport submarkets.

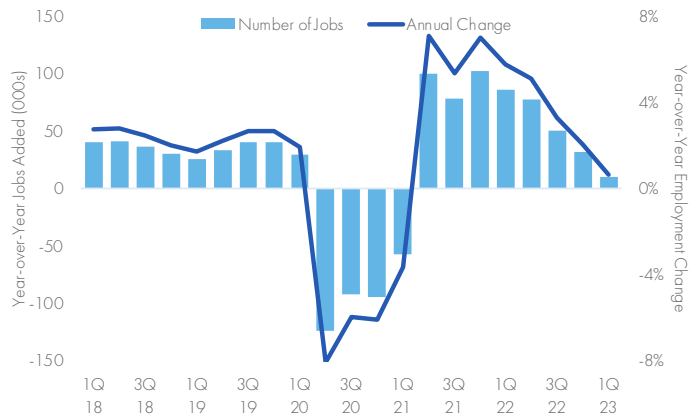
After the multifamily investment market cooled in the final months of 2022, sales activity in Denver recorded additional slowing at the start of this year. The number of deals in the first three months of 2023 fell 60 percent from levels at the start of last year. Despite limited sales volume, transaction pricing remains strong. The median sales price to this point in 2023 is \$323,100 per unit, nearly an 8 percent increase from the median price in 2022. One reason for the elevated pricing levels has been the number of newer assets that have changed hands to this point in 2023. Approximately half of the transactions that closed in the first quarter involved properties that were delivered in 2020 or later.

EMPLOYMENT

- The local labor market got off to a sluggish start in 2023, following an active year of hiring in 2022. During the past 12 months, total employment in Denver has expanded by just 0.6 percent with the addition of 10,000 jobs.
- While the pace of growth in the total labor market has slowed, the professional and business services sector continues to expand at a rapid clip. Year over year, 9,900 professional jobs have been added in the region, a gain of 3.3 percent.
- Amprius Technologies announced plans to create the largest lithium-ion battery factory in Colorado. The first phase of construction includes a 775,000-square-foot manufacturing facility, which will be located in Brighton. The initial phase is expected to create more than 330 new jobs and be operational in 2025.
- **FORECAST:** Employers are forecast to add approximately 12,000 jobs in the Denver region in 2023, a growth rate of 0.8 percent. In 2022, payroll growth reached 2 percent.

Year over year, 9,900 professional jobs have been added in the region.

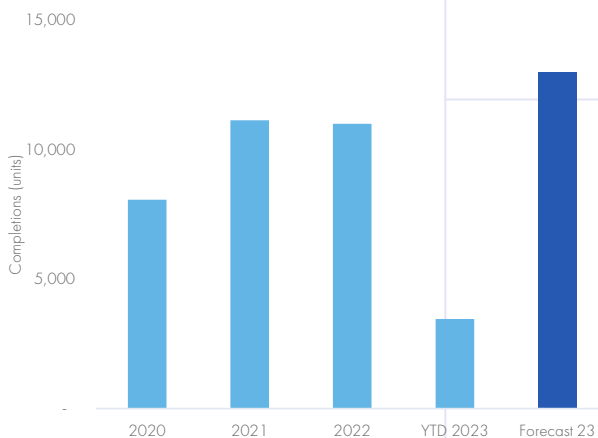
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling approximately 3,460 units came online in the first quarter.

DEVELOPMENT TRENDS



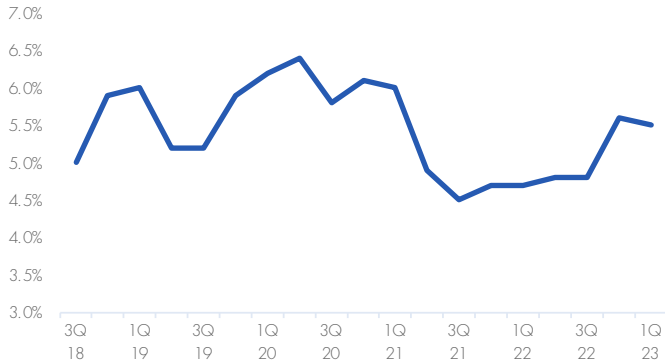
Sources: Northmarq, Apartment Insights

DEVELOPMENT & PERMITTING

- Multifamily developers remained active in the early months of 2023. Projects totaling approximately 3,460 units came online in the first quarter, up 20 percent from the same period last year.
- The development pipeline has been growing in recent years. The number of projects that are underway is on the rise, despite a healthy pace of apartment deliveries in the first quarter. Projects totaling more than 43,700 units are currently under construction in Denver, up nearly 7 percent from one year ago.
- Multifamily permitting picked up at the start of the year, as developers pulled permits for roughly 3,700 units in the first quarter, up 5 percent from the same period one year earlier. Permitting activity is expected to cool throughout the remainder of the year.
- **FORECAST:** Multifamily construction activity is expected to gain momentum in the coming quarters. Developers are projected to complete roughly 13,000 units this year; since 2015, deliveries have averaged approximately 10,750 units per year.

The vacancy rate is up 80 basis points year over year.

VACANCY TRENDS



Sources: Northmarq, Apartment Insights

VACANCY

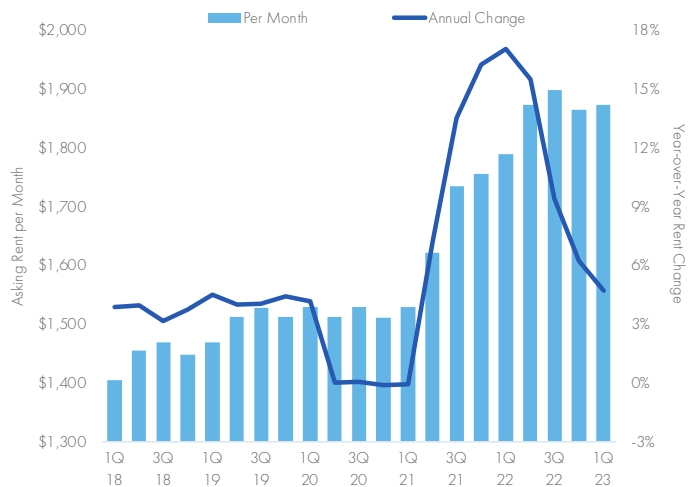
- The multifamily vacancy rate in Denver improved slightly in the first quarter, falling 10 basis points to 5.5 percent. Despite the modest tightening to start 2023, the rate is up 80 basis points year over year.
- While the rate has trended higher across the region, there are submarkets where conditions are improving. Vacancy in the Central Business District dropped 60 basis points year over year to 5.9 percent. More than 1,160 units were absorbed in the submarket during the past 12 months.
- Vacancy trends among property classes have been mixed. The vacancy rate pushed higher in Class B and Class C properties in recent quarters, while the rate in Class A units improved. Vacancy in upper-tier assets dropped 220 basis points during the past four quarters to 6.1 percent.
- **FORECAST:** Local vacancy is projected to record modest upticks this year as the pace of construction accelerates. The vacancy rate is forecast to finish 2023 at 5.8 percent, up 20 basis points for the year.

RENTS

- Rents in Denver inched higher at the beginning of 2023, after trending lower at the end of last year. Local apartment rents rose 0.4 percent in the first quarter to \$1,872 per month. Average rents increased 4.7 percent in the past year.
- Some of the most expensive rents are located in the neighboring Central Business District and Washington Park submarkets, where average rents are more than \$2,200 per month. Both submarkets have posted rent increases of around 1 percent during the past year, lagging the regional average.
- While asking rents pushed higher across the quality spectrum in the past year, the largest increases occurred in lower-tier assets. Asking rents in Class C units rose 7.3 percent in the last 12 months to \$1,354 per month.
- **FORECAST:** Local apartment rents are forecast for moderate gains in 2023. Average rents in Denver are projected to rise 2 percent this year to roughly \$1,900 per month. Since 2016, growth has generally averaged between 4 percent and 6 percent per year.

Average rents increased 4.7 percent in the past year.

RENT TRENDS



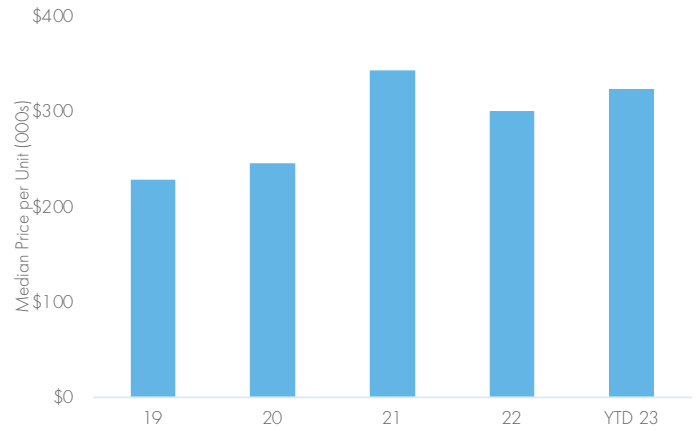
Sources: Northmarq, Apartment Insights

MULTIFAMILY SALES

- Multifamily transaction activity fell to a cyclical low during the first quarter, as the number of deals declined more than 25 percent from levels at the end of last year. Sales volume in the first three months of 2023 was down 60 percent from the same period last year.
- While fewer properties are changing hands, pricing crept higher from last year. The median sales price thus far in 2023 is \$323,100 per unit, up 8 percent from the median price in 2022.
- Cap rates continued to trend higher in recent months. Cap rates averaged approximately 4.6 percent in the first quarter, up 20 basis points from the end of 2022.

The median sales price thus far in 2023 is \$323,100 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

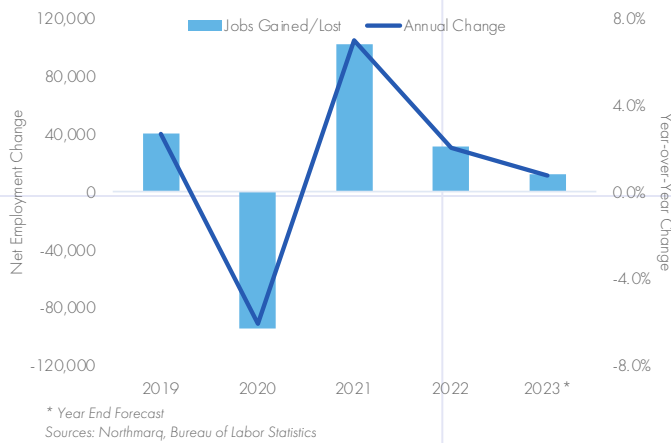
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Vue West	4811 S Niagara St., Denver	310	\$123,500,000	\$398,387
Village at Thorncreek	12929 Washington St., Thornton	283	\$88,140,900	\$311,452
Avenida Lakewood	11001 W 15th Pl., Lakewood	230	\$77,000,000	\$334,783
The Range at Reunion	15068 E 103rd Pl., Commerce City	180	\$65,350,000	\$363,056
Sunset Peak Apartments	475 E Russell Blvd., Thornton	184	\$45,000,000	\$244,565

LOOKING AHEAD

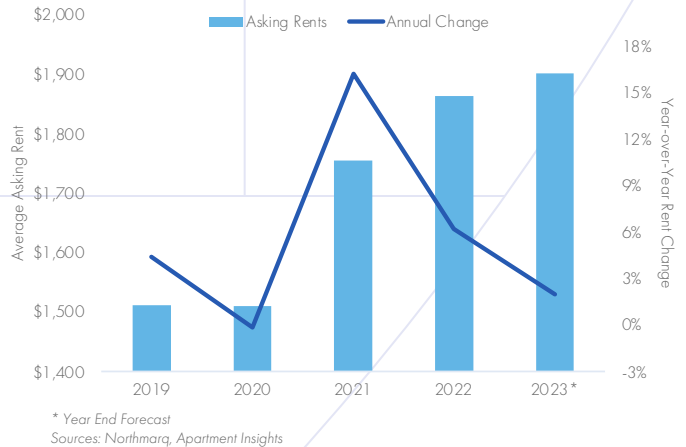
After a healthy start to the year, operating conditions in Denver are projected to remain fairly steady in the coming quarters. Developers are scheduled to deliver approximately 13,000 apartment units in 2023, a total that is about 20 percent higher than recent annual averages. Looking ahead, the pace at which the market absorbs elevated levels of new supply will be critical. During the first quarter, absorption got off to a stronger start than in any year from 2019 to 2022, brightening the outlook. Still, local vacancy is projected to inch higher in the next few periods, although the upticks will be much more modest compared to recent quarters. The vacancy rate is expected to closely track the long-term range that was recorded before falling to a cyclical low in 2021.

Multifamily sales activity in Denver has declined substantially in recent quarters, as many investors are struggling to complete deals in the new capital markets environment. Still, some transactions are occurring. Cap rates have trended higher during the past year and will likely continue to rise in the remainder of 2023. Cap rates finished the first quarter with an average of around 4.6 percent, up 100 basis points from one year ago. By the end of the year, most properties should sell with cap rates between 4.5 percent and 5.25 percent, assuming current interest rates are near their peak. Half of the properties that sold during the first quarter were built during the past two years, a trend that will likely continue in the coming periods as new development continues to surge throughout the region.

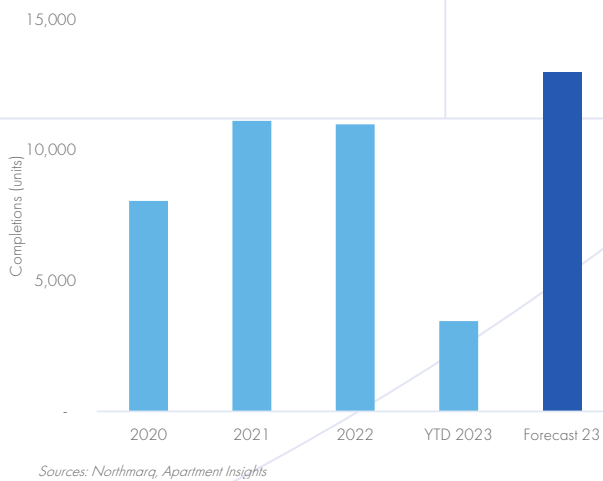
EMPLOYMENT FORECAST



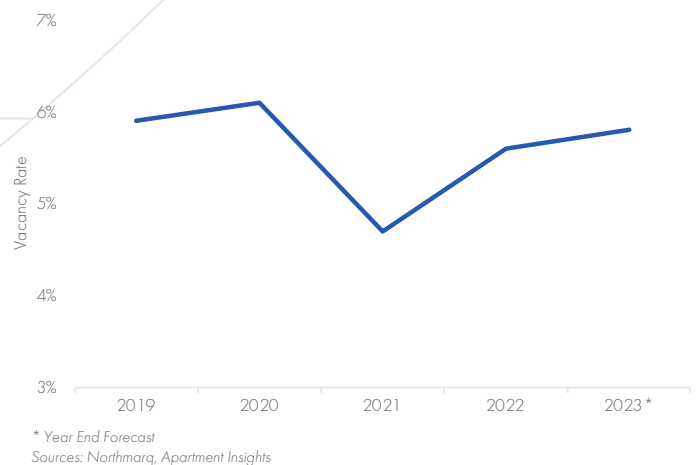
RENT FORECAST



CONSTRUCTION & PERMITTING FORECAST



VACANCY FORECAST





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