

# Market Insights

Denver Multifamily 3Q 2021



## Construction Activity



**32,098**

Units under construction

**7,468**

Units delivered (YTD)

## Market Fundamentals



**4.5%**

Vacancy

**-130 bps**

Year over year change

**\$1,734**

Asking Rent

**+13.5%**

Year over year change

## Transaction Activity



**\$300,500**

Median sales price per unit (YTD)

**3.9%**

Cap rates (YTD)

# Rents Spike as Vacancy Dips to Lowest Point Since 2015

## Highlights

- The Denver multifamily market posted strong results in the third quarter, building on gains recorded during the second quarter. Absorption has been particularly strong, driving the vacancy rate to a six-year low and fueling steep rent increases.
- Vacancy dropped 40 basis points to 4.5 percent during the third quarter. The rate is down 130 basis points year over year.
- Rents rose nearly 7 percent during the third quarter, following an increase of more than 6 percent in the preceding quarter. At \$1,734 per month, current rents are up 13.5 percent from one year ago.
- Investment in multifamily properties in Denver continued to trend higher in the third quarter. Activity to this point in 2021 has doubled levels from the same period one year ago. The increased investor demand has caused prices to spike and cap rates to compress below 4 percent.

## Denver Multifamily Market Overview

The Denver multifamily market is benefitting from a rapid rebound in the local economy with vacancies tightening, rent growth spiking, and absorption levels remaining high. Unprecedented renter demand in Denver in recent quarters has fueled significant rent growth in the last six months. Absorption levels to this point in 2021 have totaled more than 11,400 units, outpacing deliveries by 50 percent. This supply-demand imbalance has pushed vacancy to its lowest point since 2015, and the rate is expected to remain around this range for the next few quarters.

Multifamily investment activity in the Denver area accelerated during the third quarter as the number of transactions increased more than 20 percent from the previous quarter. Sales prices thus far in 2021 have pushed higher as the majority of properties that changed hands this year have consisted of newer, Class A properties as well as a number of Class B assets in suburban areas including Aurora, Arvada, and Thornton. Cap rates have trended lower in 2021, averaging 3.9 percent, reflecting positive investor sentiment.

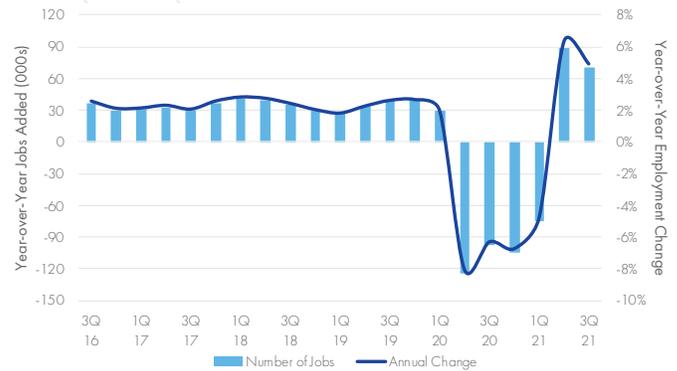
## Employment

- Employers in the Denver area added more than 15,000 jobs during the third quarter, continuing a trend of a rapid recovery in the local labor market. Year over year, total employment has expanded by nearly 5 percent with the addition of more than 70,000 jobs.
- The professional and business services sector has been one of the leading sources of growth in recent periods. During the past 12 months, professional employment has expanded by nearly 8 percent with the addition of 21,000 positions. During the third quarter, employment in the sector surpassed its pre-COVID peak.
- Technology companies looking to expand or relocate outside of more expensive coastal markets continue to bring operations to the Denver area. New York-based Datadog Inc., which provides monitoring and security services for cloud-based platforms, recently announced plans to create a Western hub in Denver, a move that will add more than 400 jobs to the region in the coming years.
- Forecast:** Local employment in Denver is expected to continue to expand through the remainder of this year and into 2022. The Denver area is forecast to add 81,000 jobs this year, an annual growth rate of more than 5.5 percent.



Year over year, total employment has expanded by nearly 5 percent.

### Employment Overview

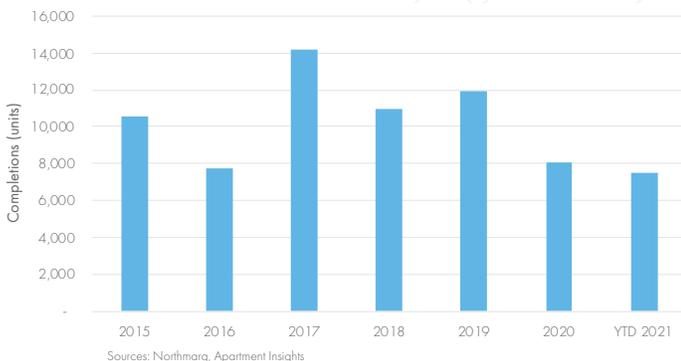


Sources: Northmarq, Bureau of Labor Statistics



Projects totaling approximately 32,000 units are currently under construction.

### Development Trends



Sources: Northmarq, Apartment Insights

## Development and Permitting

- Multifamily developers in Denver have been active to this point in 2021, as more than 7,400 units have been delivered through the third quarter. Apartment deliveries thus far in 2021 are up roughly 30 percent from the same period last year.
- Deliveries will likely remain active as approximately 32,100 units are currently under construction, up nearly 50 percent from one year ago.
- After trending lower in recent years, multifamily permitting has accelerated to this point in 2021. Developers pulled permits for approximately 10,000 units through the third quarter, doubling levels from the same period in 2020. Permitting activity spiked in the third quarter, with permits for more than 4,000 multifamily units issued.
- Forecast:** Following a decline in apartment deliveries during 2020, construction activity is expected to remain active through the rest of the year. Projects totaling approximately 11,300 units are forecast to come online this year, similar to annual totals in 2018 and 2019.

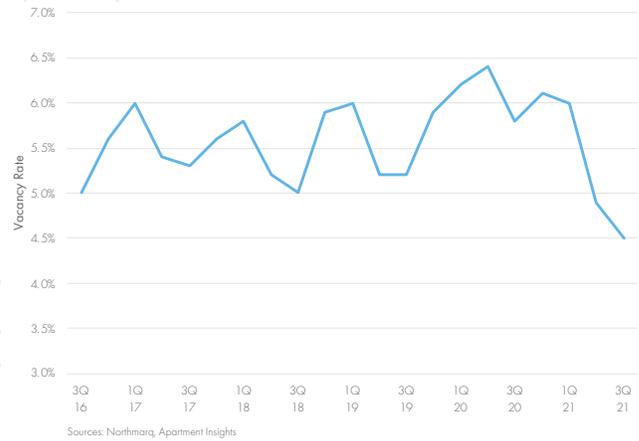
## Vacancy

- Vacancy in Denver continued to decline during the third quarter, dropping 40 basis points to 4.5 percent. The current rate is the lowest vacancy rate in the market since the end of 2015.
- Year over year, the local vacancy rate has dropped 130 basis points. The rate averaged 5.7 percent in recent years and topped 6 percent throughout much of 2020 and in the beginning of this year.
- Absorption has topped 4,500 units in each of the past two quarters, bringing the total absorption to this point to nearly 11,500 units. From 2014 to 2020, net absorption averaged approximately 2,000 units per quarter.
- **Forecast:** Vacancy in Denver is expected to level off by year end, finishing 2021 at 4.4 percent, 170 basis points lower than the rate recorded at the end of 2020.



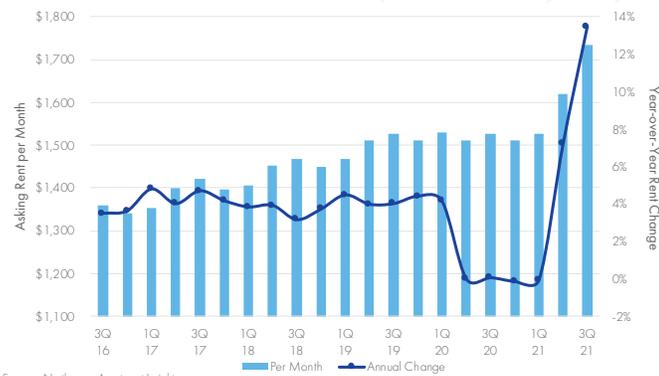
Year over year, the local vacancy rate has dropped 130 basis points.

### Vacancy Trends



Asking rents in Denver rose 7 percent during the third quarter to \$1,734 per month.

### Rent Trends



## Rents

- Rents in Denver continued to post sharp increases in the third quarter, rising nearly 7 percent to \$1,734 per month, building on a 6.1 percent gain in the preceding three-month period. The largest rent spike occurred in the Central Business District, where rents rose 8.6 percent in the quarter, increasing by more than \$160 per month.
- Year over year, local rents for the Denver market are up 13.5 percent, the largest annual growth in the region since the start of 2015.
- While all classes are recording gains, the Class B segment posted the strongest gains. Average Class B rents rose 8.3 percent during the third quarter to \$1,773 per month.
- **Forecast:** Asking rents are expected to push higher during the remainder of the year, ending 2021 at approximately \$1,745 per month. For the full year, rents are on pace to advance by 15.6 percent.

## Multifamily Sales

- Sales of multifamily properties accelerated during the third quarter, increasing more than 20 percent from the previous quarter. Sales velocity to this point in 2021 has more than doubled the number of transactions from the same period last year.
- The median sales price through the third quarter was approximately \$300,500 per unit, up 22 percent from the median price recorded in 2020. While prices are rising across all property classes, nearly half of the transactions that have occurred thus far in 2021 have been Class A properties. The median price among these newer, Class A assets has topped \$365,000 per unit to this point in 2021, up from \$300,000 per unit in 2020.
- After averaging approximately 4.3 percent in the first half, cap rates compressed further during the third quarter. The average cap rate year to date is down to 3.9 percent, and nearly all the transactions that have closed in the last few months have been at 3.5 percent or lower.



The median sales price through the third quarter was approximately \$300,500 per unit.

### Investment Trends



## Recent Transactions

### Multifamily Sales Activity

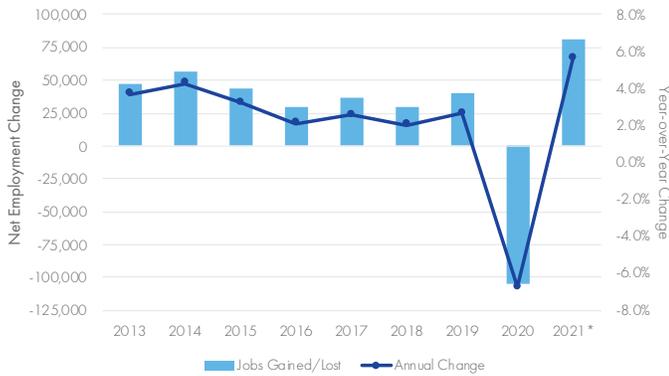
| Property Name         | Street Address                          | Units | Sales Price   | Price/Unit |
|-----------------------|---|-------|---------------|------------|
| Griffis Marston Lake  | 4601 S Balsam Way., Littleton           | 332   | \$134,000,000 | \$403,614  |
| Marq Iliff Station    | 2337 S Blackhawk St., Aurora            | 316   | \$109,000,000 | \$344,937  |
| Griffis Cheesman Park | 2190 E 11th Ave., Denver                | 156   | \$90,530,000  | \$580,321  |
| Park 17               | 1210-1290 E 17th Ave., Denver           | 190   | \$88,700,000  | \$466,842  |
| Prentice Place Lofts  | 8300 E Prentice Ave., Greenwood Village | 104   | \$11,672,500  | \$112,236  |

# Looking Ahead

The momentum that was generated in the Denver multifamily market during the most recent two quarters is forecast to be sustained in the final few months of this year and should set the stage for a very strong period of property performance in 2022. The surge in renter demand for units has resulted in consecutive periods of strong rent growth, and while rents are forecast to continue to advance, the recent pace of increases is unlikely to repeat. The market will post rent gains of about 15 percent by the end of this year, but increases will likely be closer to recent, long-term averages of around 6.5 percent beginning in 2022.

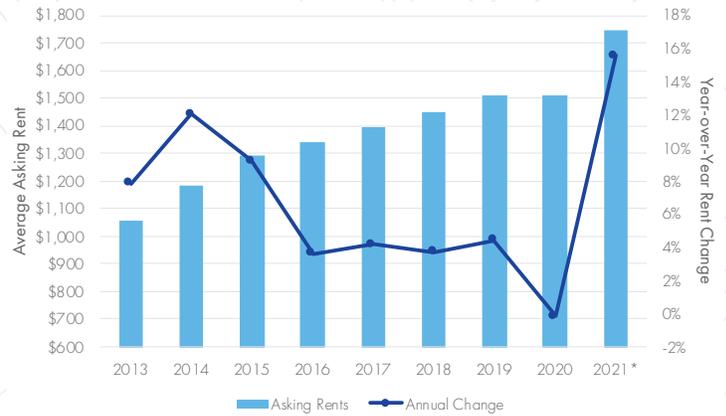
Transaction activity has strengthened in the Denver market throughout this year and should remain strong as investors move capital into the region. Investors are ramping up acquisitions of newly constructed and leased-up properties, with several transactions closing in excess of \$100 million. Similar opportunities should emerge in the next 24 months to 36 months, as dozens of projects are in the development pipeline and should deliver over the next few years. Cap rates have crept lower during the past several years with rapid compression occurring in recent months. Investors may continue to accept lower initial cap rates with the expectation that future rent increases will boost returns.

## Employment Forecast



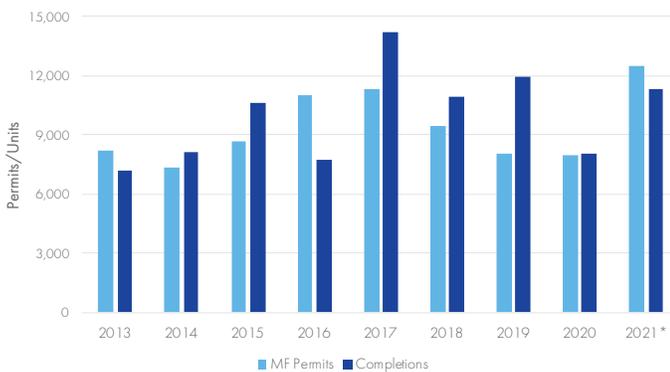
\* Year End Forecast  
Sources: Northmarq, Bureau of Labor Statistics

## Rent Forecast



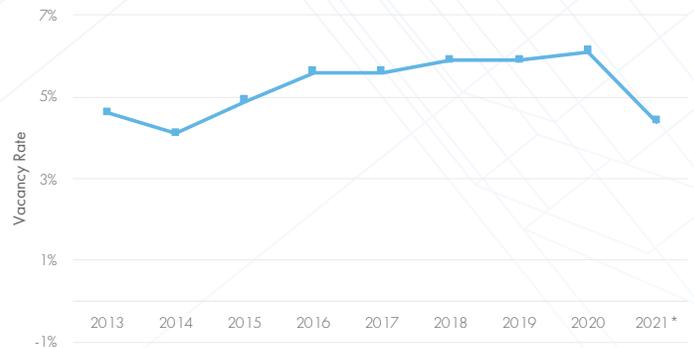
\* Year End Forecast  
Sources: Northmarq, Apartment Insights

## Construction & Permitting Forecast



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

## Vacancy Forecast



\* Year End Forecast  
Sources: Northmarq, Apartment Insights



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## 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.