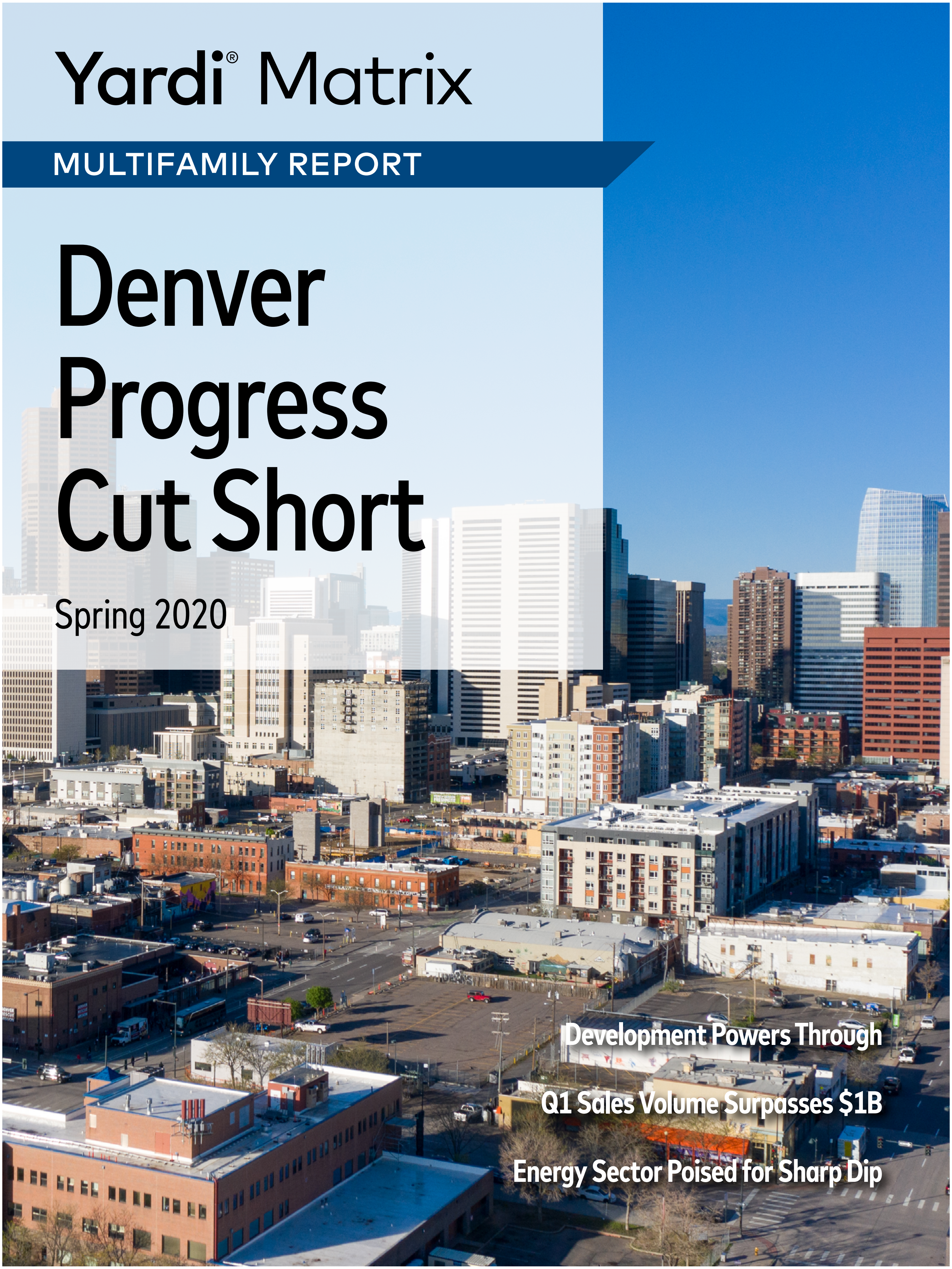
Yardi® Matrix

MULTIFAMILY REPORT

Denver Progress Cut Short

Spring 2020



Development Powers Through

Q1 Sales Volume Surpasses $1B

Energy Sector Poised for Sharp Dip

DENVER MULTIFAMILY

Yardi® Matrix

Employment Expansion Hits a Wall

Denver multifamily showed strong fundamentals in the first quarter, sustained by a long-running demographic and economic expansion. As of March, rents were up by 0.3%, on a trailing three-month basis, to $1,568—above the $1,474 U.S. average. Yet, figures are just beginning to reflect COVID-19's impact on the metro, as rental demand will likely record a dip, and rent growth is poised to flatten.

The metro's highly skilled workforce and business-friendly environment have prompted company relocations and expansions. In 2019, Denver posted a 2.1% year-over-year job increase, outpacing the 1.8% U.S. average. Yet, the shock of falling oil prices and the novel coronavirus pandemic have put intense pressure on Denver, especially on its energy industry. Although tech firms brought an influx of high-paying jobs in 2019, this year, Whiting Petroleum filed for bankruptcy and several top oil companies have also announced pay cuts, furloughs and layoffs. Some one-third of Denver's employment opportunities are in at-risk sectors.

More than $1.1 billion in assets traded in the first quarter, but appetite will likely soften. The pipeline remained consistent, with some 23,000 units underway, as of April. With delays expected, due to supply chain disruptions and social distancing measures, development is still slated to continue, as construction is deemed an essential business in Colorado.

Market Analysis | Spring 2020

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Recent Denver Transactions

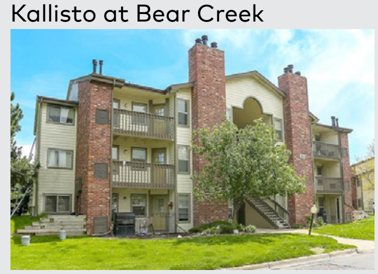
The Courtyards at Buckley

City: Aurora, Colo.
Buyer: Oak Coast Properties
Purchase Price: $143 MM
Price per Unit: $207,849

Waterfield Court

City: Aurora, Colo.
Buyer: Harbor Group International
Purchase Price: $103 MM
Price per Unit: $213,232

Kallisto at Bear Creek



City: Denver
Buyer: Gelt
Purchase Price: $100 MM
Price per Unit: $211,864

Cortland Flatirons

City: Broomfield, Colo.
Buyer: Cortland
Purchase Price: $89 MM
Price per Unit: $300,000

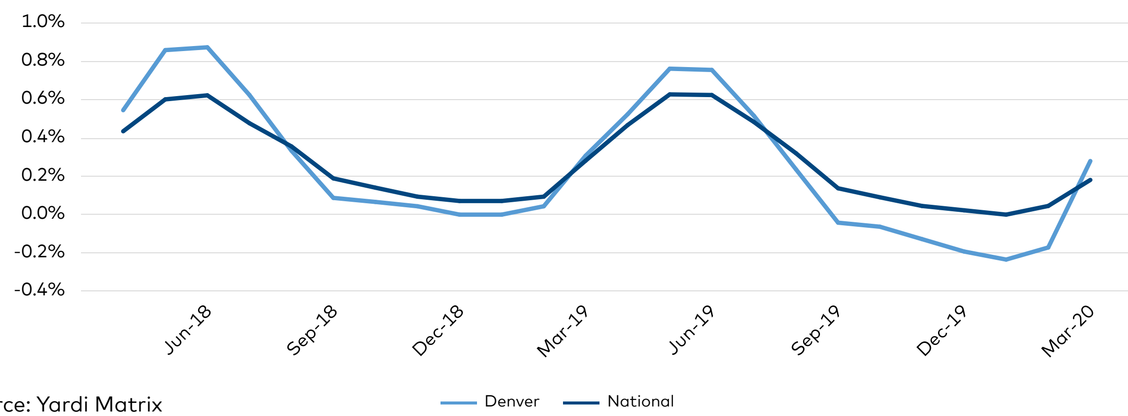
RENT TRENDS

- Denver rents were up by 0.3% on a trailing three-month basis—above the 0.2% U.S. rate. The increase was in sync with the start of the traditional rental season, and followed a paltry deceleration during the winter months. The slowdown, a common seasonal trend, was also amplified by a substantial expansion of multifamily inventory. The average overall rent stood at $1,568 in March, above the $1,474 U.S. amount.

- Rates in the Renter-by-Necessity segment rose by 0.4%, on a trailing three-month basis, to $1,347, while Lifestyle rates advanced by 0.2% to $1,744. Although sustained by the metro's young, well-educated and affluent population—which has been highly attractive to technology firms seeking to expand in the area—multifamily demand is slated to temporarily weaken, following job losses brought by the COVID-19 pandemic. This, in turn, is expected to heavily dampen rent growth. To protect all renter segments, the city has issued a temporary eviction ban and halted utility shutoffs. Two of Denver's major utility companies—Xcel Energy and Denver Water—have since suspended disconnections.

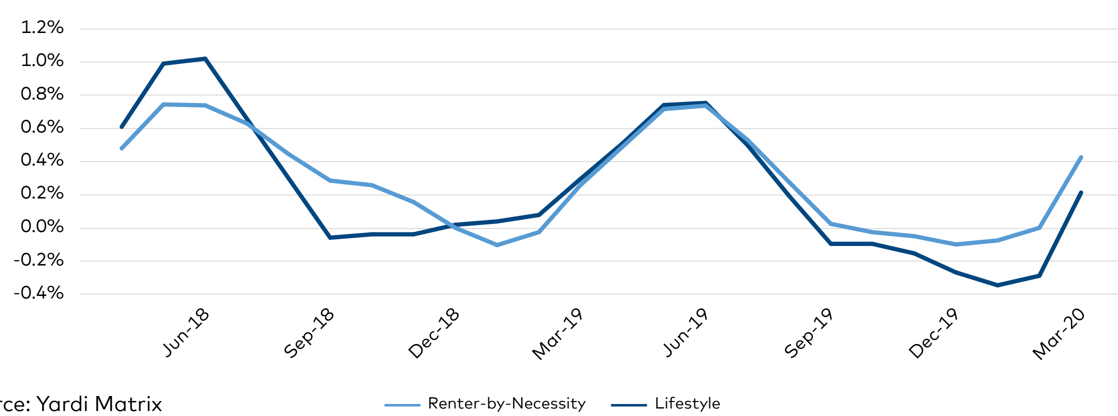
- Rent growth was uneven across the map in the 12 months ending in March, with several submarkets registering contractions. CBD/Five Points/North Capitol Hill (5.8% to $2,006) and Boulder (-1.9% to $1,967) remained the most expensive submarkets, while the most affordable were Berkley/North Washington (1.8% to $1,111) and Greely East (4.9% to $1,148).

Denver vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Denver Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- Denver gained 47,900 jobs in 2019, up by 2.1% year-over-year and 30 basis points above the U.S. average. These data points marked the finale of a prosperous period. The Colorado unemployment rate nearly doubled from February to March, up by 200 basis points to 4.5%—the highest figure in more than five years. In the five weeks ending on April 18, the state registered more than 300,000 new unemployment claims, a direct effect of social distancing measures.

- Denver's concentration of jobs in the energy industry makes it particularly vulnerable to global oil turbulence. The metro's mining, logging and construction sector amounts to 7.4% of total employment, making it the third highest among major U.S. metros. Although the oil price wars were recently stifled, the crisis continues, and low prices and weak demand are likely to linger. Furthermore, Denver-based Whiting Petroleum has filed for bankruptcy, and several other top oil companies including Noble Energy, Occidental Petroleum Corp. and Liberty Oil Services have announced pay cuts, furloughs and layoffs.

- Denver's $22 billion tourism industry has also taken a direct hit from social distancing measures. This is putting additional indirect pressure on most other sectors, including trade, transportation and utilities.

Denver Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
15	Mining, Logging, and Construction	151	7.4%
30	Manufacturing	120	5.9%
40	Trade, Transportation, and Utilities	360	17.7%
50	Information	64	3.1%
55	Financial Activities	132	6.5%
60	Professional and Business Services	355	17.4%
65	Education and Health Services	258	12.7%
70	Leisure and Hospitality	222	10.9%
80	Other Services	69	3.4%
90	Government	310	15.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Denver gained 39,436 residents in 2018, a 1.4% population expansion and more than double the 0.6% national rate.

- Between 2015 and 2018 the metro's population rose by 118,901 residents, marking a 4.2% increase.

Denver vs. National Population

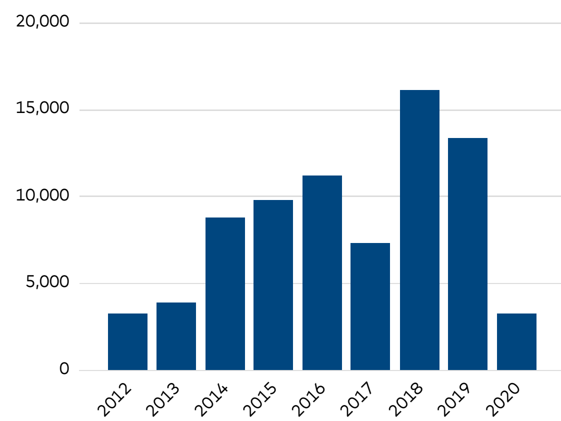
	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Denver Metro	2,813,514	2,857,549	2,892,979	2,932,415

Sources: U.S. Census, Moody's Analytics

SUPPLY

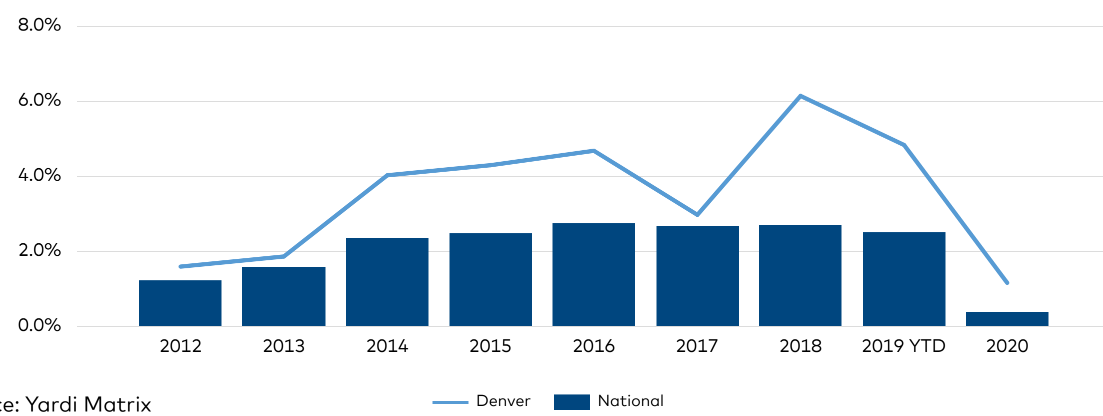
- Developers had some 22,996 units underway in the metro as of March, with the bulk of units catering to Lifestyle renters. This follows two of the strongest years for deliveries this cycle, with nearly 30,000 units coming online. The surge in completions continued in the first quarter of 2020. By March, developers had already added 2,554 units across 12 assets, 10 of which were Lifestyle properties.
- Local officials have deemed construction an essential industry, allowing development projects in Denver to continue, while taking precautions to protect workers' health. However, delays are expected, due to supply chain disruptions and social distancing guidelines.
- Nearly half of the units under construction are in properties located across just four submarkets, with developers particularly active in the CBD/Five Points/North Capitol Hill submarket (6,094 units underway), followed by the East Colfax/Lowry Field/Stapleton (1,519 units), Arapahoe-Southwest (1,410 units) and Hampden/Virginia Village/Washington Virginia Vale (1,193 units).
- The largest community delivered in the first quarter of this year was the Class A, 316-unit Spur at Iliff Station, a Grand Peaks Properties project in the Aurora-Southwest submarket.

Denver Completions (as of March 2020)



Source: Yardi Matrix

Denver vs. National Completions as a Percentage of Total Stock (as of March 2020)

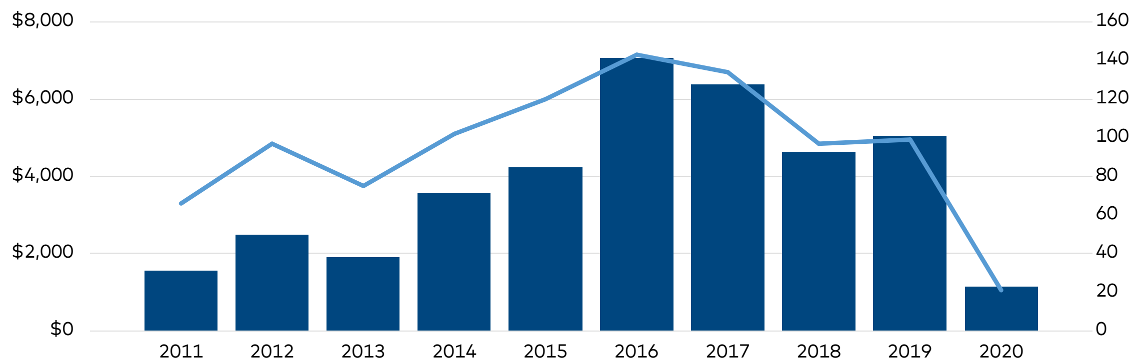


Source: Yardi Matrix

TRANSACTIONS

- More than $1.1 billion in assets traded in Denver in the first quarter, at an average price per unit of $194,005. The value was 19.1% below last year's average, but above the $162,838 U.S. figure. The dip resulted from an 11.7% contraction in the average Lifestyle per-unit price, which clocked in at $251,624 for the first quarter.
- Although we're in the middle of selling season, the uncharted territory the economy is heading into is expected to slow transaction activity going forward. While multifamily will be far less impacted by economic headwinds than hospitality or retail, pricing deals will prove tricky in the second quarter, with investors playing a waiting game.
- Harbor Group International spent $506 million on eight Denver assets in January. The deal was part of a $1.9 billion portfolio transaction.

Denver Sales Volume and Number of Properties Sold (as of March 2020)



Source: Yardi Matrix

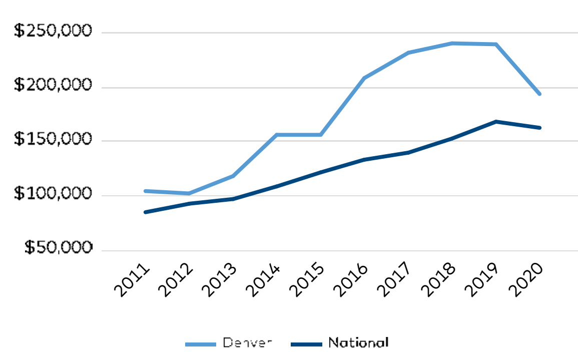
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Hampden/Virginia Village/ Washington Virginia Vale	831
Broomfield/Todd Creek	490
CBD/Five Points/North Capitol Hill	470
Northglenn/Thornton	370
Aurora-Southeast	347
Arapahoe- Southwest	334
Westminster	295

Source: Yardi Matrix

[1] From April 2019 to March 2020

Denver vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

Denver's Affordable Housing Issue: An Insider's Perspective

By Evelyn Jozsa

According to a National Apartment Association study, a 7 percent rent cap would have devastating long-term effects on four major cities: Chicago, Denver, Seattle and Portland. *Multi-Housing News* talked with Andrew Hamrick, senior vice president of government affairs at the Apartment Association of Metro Denver, about the potential impact of rent control in Denver and the possible solutions government officials should focus on.

How can Denver compensate for the losses produced by the rent cap?

Flexibility is one of the primary reasons a person rents a property rather than buys it, in the first place. Since the valuation of a rental property is a function of rent receipts, arbitrarily capping rents lowers the property's value and the real estate taxes collected on that property. Those real estate taxes fund a wide variety of government spending. Every jurisdiction that has enacted rent control has seen decreased housing investment, which has caused those jurisdictions to be the most expensive places to live in the country. There is no plan, nor can there be, to fund these economic losses, which extend far beyond the housing markets.

Colorado has had a statewide ban on rent control policies since 1981. Do Denver's rent laws need to be updated?

The statewide prohibition on rent control imposed by local governments is good public policy. Because housing is a regional market not typically encumbered by city and county boundaries, the current policy prevents one local government from impacting its neighbors by using localized price fixing. These policies drive one city's need for new housing into neighboring jurisdictions.

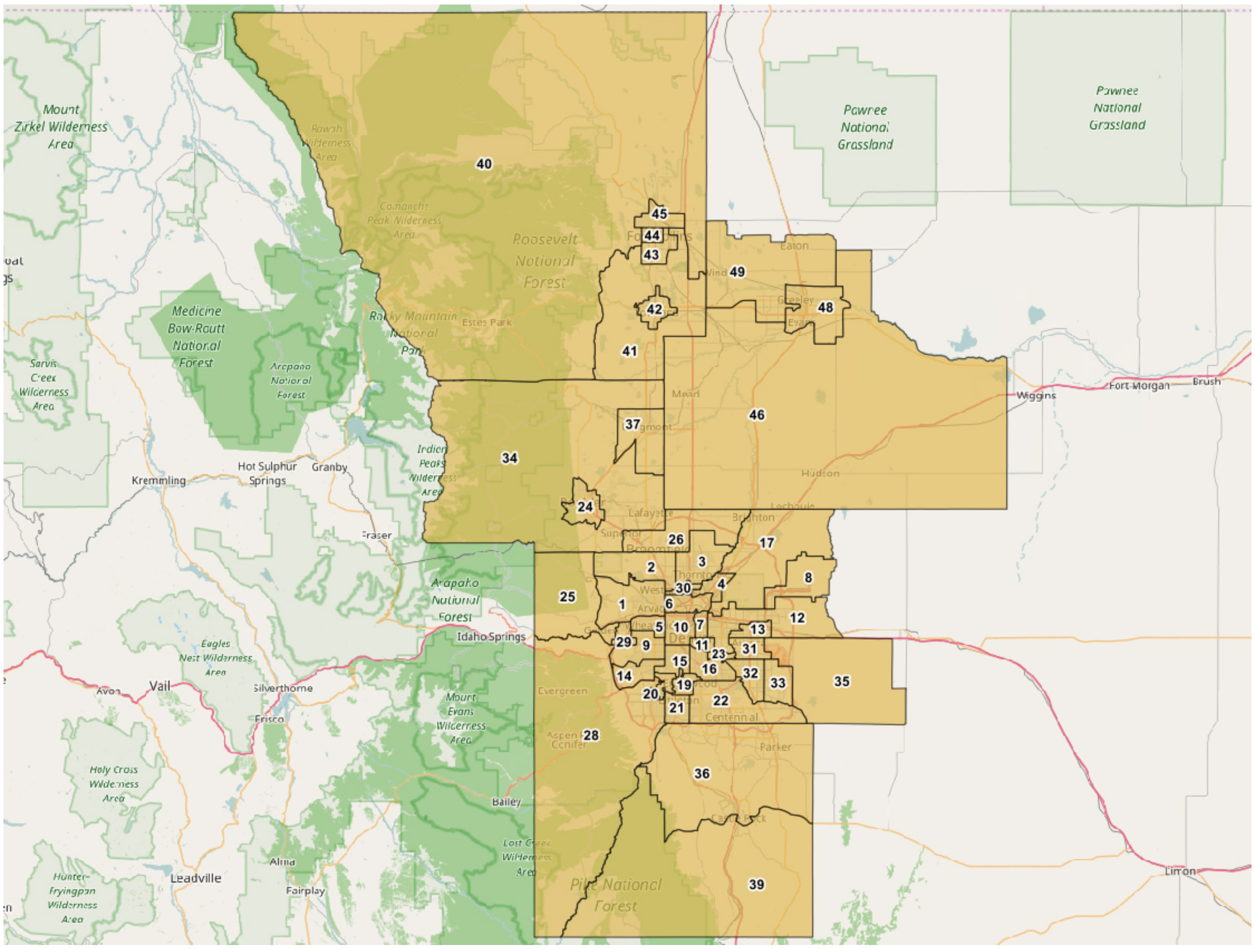
Denver is among the metros with the most high-income renters in the country. How does this influence the market overall?

Population growth and people with more money bid up the price of housing when there is not enough to go around. The fact that the Denver metro area has added more than 500,000 people in the last 10 years and many of those people have relocated because of high-paying job growth is the driving force for increased demand and the high price of housing. The limitation on supply is due to the cost and delay of building new units. During these 10 years of unprecedented population growth, the Denver metro area has built 37 new housing units for every 100 persons that have moved here.

What would be the simplest and most effective way to drive down rent costs?

Increase the supply of housing units. Local governments should be looking at ways to increase housing density, encourage more units overall, get those new units as close to the resident's desired destination as possible and cut the cost of building those units. For example, Denver is an extremely expensive place to build a new unit. That is the piece that local government officials can influence and where they should focus their efforts.

DENVER SUBMARKETS



Area No.	Submarket
1	Arvada
2	Westminster
3	Northglenn/Thornton
4	Commerce City/Derby
5	Wheat Ridge
6	Berkley/North Washington
7	City Park/City Park West
8	Denver International Airport
9	Lakewood–North
10	CBD/Five Points/North Chapel Hill
11	Capitol Hill/Cheesman Park/Hale
12	East Colfax/Lowry Field/Stapleton
13	Aurora–Northwest
14	Lakewood–South
15	College View/Ruby Hill

Area No.	Submarket
16	Hampden/Virginia Village/Washington
17	Brighton
19	Englewood/Sheridan
20	Bear Valley/Fort Logan
21	Columbine Valley/Littleton
22	Arapahoe–Southwest
23	Glendale
24	Boulder
25	Golden
26	Broomfield/Todd Creek
28	Jefferson
29	Applewood/West Pleasant View
30	Sherrelwood/Welby
31	Aurora–West Central
32	Aurora–Southwest

Area No.	Submarket
33	Aurora–Southeast
34	Greater Boulder
35	Arapahoe–East
36	Douglas County–North
37	Longmont
39	Douglas County–East
40	Estes Park/Laporte
41	Champion
42	Loveland
43	Fort Collins–South
44	Fort Collins–Central
45	Fort Collins–North
46	Weld South
48	Greeley East
49	Windsor/Greeley West

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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