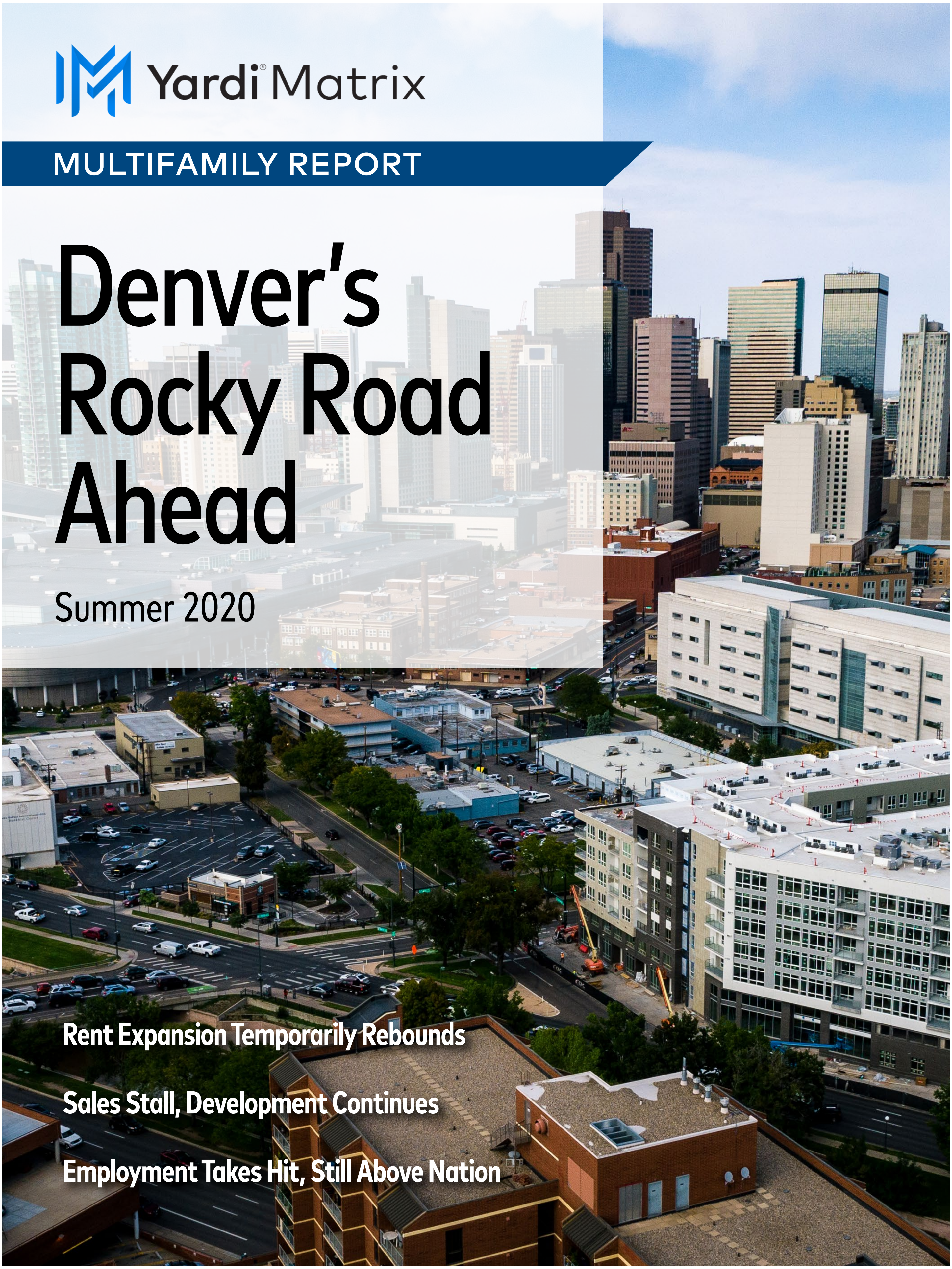
Yardi Matrix

MULTIFAMILY REPORT

Denver's Rocky Road Ahead

Summer 2020



Rent Expansion Temporarily Rebounds

Sales Stall, Development Continues

Employment Takes Hit, Still Above Nation

DENVER MULTIFAMILY

Yardi Matrix

Rents Recover, But Will They Hold?

The decade-long economic expansion that helped fuel the development boom in Denver has abruptly ended, due to the COVID-19 pandemic. The multifamily market showed resilience to the robust inventory expansion and the health crisis' impacts, and, after 10 consecutive months of declines, rent rates bounced back 0.1% on a trailing three-month basis through July, to an overall average of $1,549. The occupancy rate in stabilized properties decreased to 94.0% as of June.

Denver continued to outperform the national trend, but although it showed signs of recovery, uncertainty remained high over concerns about a new surge in infections. The unemployment rate rose to a high of 12.3% in April and slid to 10.5% in May, but June preliminary data pointed to a new increase to 11.0%. Leisure and hospitality shrunk by 37.5%, while professional and business services and trade, transportation and utilities—the metro's largest sectors—contracted by 1.2% and 7.6%, respectively. Unemployment claims filed across the state since the outbreak crossed the 694,000 mark in August.

Development was high, with 20,915 units underway as of July and 8,697 units delivered so far in 2020. Meanwhile, transaction activity virtually stopped in the second quarter—of the $1.6 billion in multifamily assets that traded, nearly $1.2 billion of transactions were in the first quarter. We expect rents to contract 0.9% by year-end.

Market Analysis | Summer 2020

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Recent Denver Transactions

Avana Thornton Station

City: Thornton, Colo.
Buyer: Greystar
Purchase Price: $119 MM
Price per Unit: $247,917

Heritage at Stone Mountain

City: Northglenn, Colo.
Buyer: Priderock Capital Partners
Purchase Price: $83 MM
Price per Unit: $259,375

Turnberry at Heather Ridge

City: Aurora, Colo.
Buyer: Evergreen Development
Purchase Price: $46 MM
Price per Unit: $171,642

Patina Flats at the Foundry

City: Loveland, Colo.
Buyer: Steadfast Cos.
Purchase Price: $28 MM
Price per Unit: $183,563

RENT TRENDS

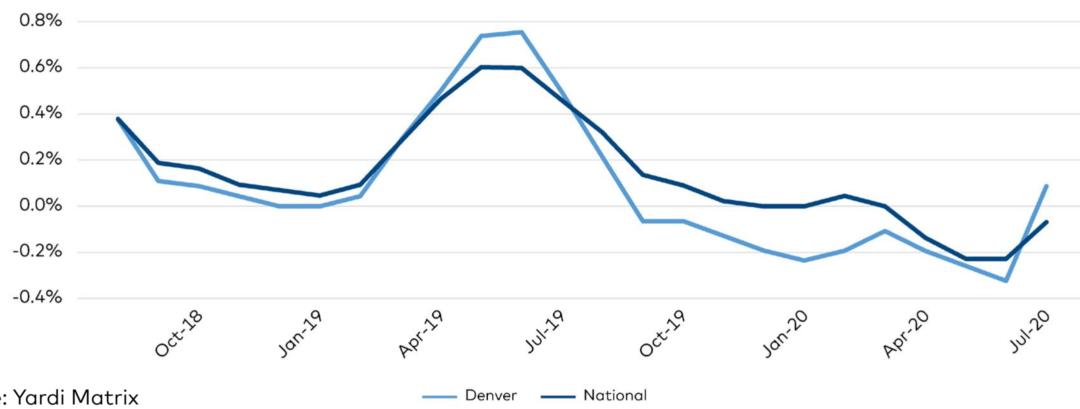
- Denver's average rent rose 0.1% on a trailing three-month basis through July to $1,549. The metro outperformed the $1,460 national rate, which marked a 0.1% decline during the same period. Rents in the metro saw gains after 10 consecutive months of slight contractions. Exacerbated by the pandemic, the occupancy rate in stabilized properties dropped 120 basis points to 94.0% in June.

- Lifestyle rents led growth, following months of contractions, and inched up 0.1% on a trailing three-month basis through July, to $1,720. In higher demand, working-class Renter-by-Necessity rents stayed flat at a $1,330 average, after two months of contractions.

- As the COVID-19 pandemic continues and government relief programs expire and are revised, future rent volatility will likely appear.

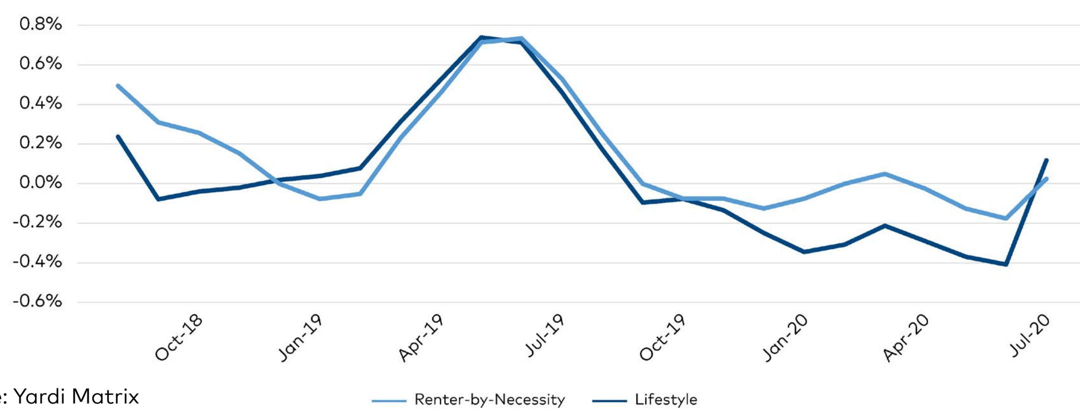
- Submarkets with inventories packed with Lifestyle properties posted the highest rents, but also saw rate decreases: Boulder (down 0.7% year-over-year to $2,012), CBD/Five Points/North Capitol Hill (down 1.6% to $1,940) and City Park/City Park West (down 9.5% to $1,817). The latter also marked the largest slide. The highest-performing submarket was College View/Ruby Hill, where rents rose 3.2% year-over-year through July to $1,432.

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

- The metro started 2020 with a tight labor market. The unemployment rate jumped from 2.7% in January to 12.3% in April, following the COVID-19 outbreak. Some signs of recovery were visible after Denver's reopening, and were reflected in the unemployment data for May, which posted a rate decline to 10.5%. However, the rising number of coronavirus cases points to a new increase in the unemployment numbers, with June preliminary data predicting a 50-basis point rise from the previous month.

- Employment growth year-over-year took a negative turn in May, contracting by 1.4%, but faring better than the -3.3% U.S. rate. While Denver's leisure and hospitality sector lost 37.5% of its workforce, its main economic drivers–professional and business services (accounting for 18.5% of total workforce) and trade, transportation and utilities (17.3%) showed resilience and shrunk by 1.2% and 7.6%, respectively. Next in line was the government sector (16.5%), down 3.0% year-over-year.

- Following the expiration of unemployment benefits though the coronavirus relief package, the federal government has approved funding for Colorado to offer a $300 supplement to jobless benefits from the Federal Emergency Management Agency Disaster Relief Fund.

Denver Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
50	Information	63	3.4%
30	Manufacturing	116	6.3%
60	Professional and Business Services	344	18.5%
55	Financial Activities	125	6.7%
90	Government	306	16.5%
15	Mining, Logging and Construction	140	7.5%
80	Other Services	63	3.4%
65	Education and Health Services	235	12.7%
40	Trade, Transportation and Utilities	321	17.3%
70	Leisure and Hospitality	142	7.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Denver gained 34,824 residents in 2019. Although population expansion is slowing, this figure represented a 1.2% increase, and was four times the national rate.

- Between 2016 and 2019, the metro's population increased by 109,690 residents, for a 3.8% uptick.

Denver vs. National Population

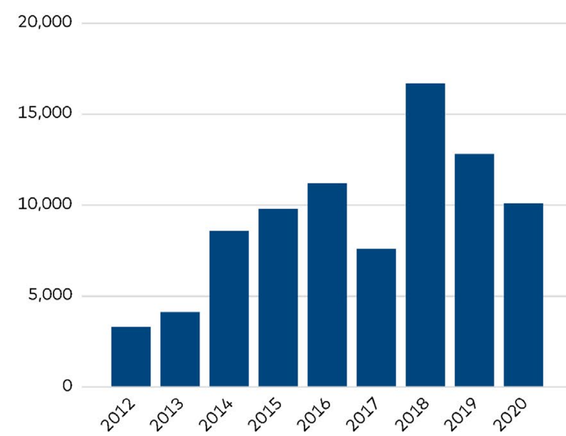
	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Denver Metro	2,857,549	2,892,979	2,932,415	2,967,239

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

SUPPLY

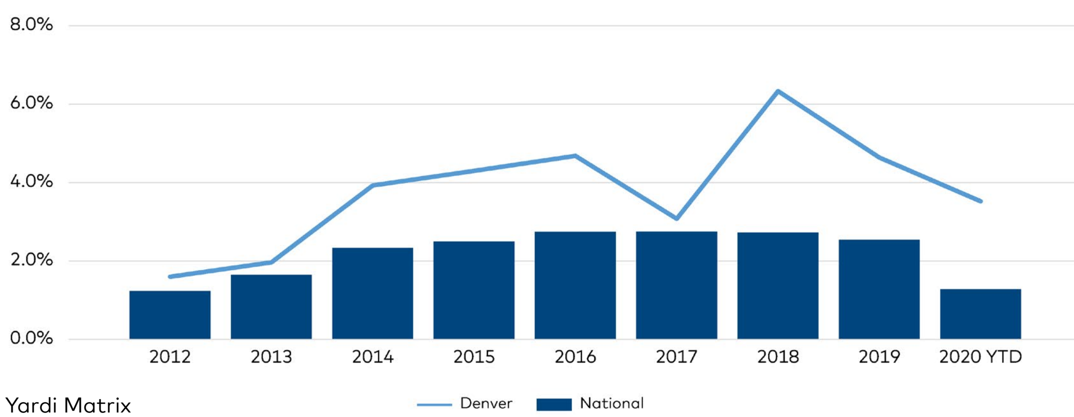
- Developers had 20,915 units under construction as of July. Deliveries, totaling 8,697 units by midyear, represented 3.5% of total stock, well above the 1.3% national rate. Since 2016, more than 57,000 units have come online across Denver. The area is among the metros with the most robust pipelines and expected deliveries by number of units.
- The bulk of both deliveries and under-construction multifamily projects has been geared to the Lifestyle segment. Under the health crisis threat, Denver's high quality of life and more affordable status compared to coastal markets is likely to sustain demand for upscale assets, too. Nearly 10,000 units were slated for completion by year-end, but the pandemic will likely cause delays and cancellations. More than 76,000 units were in the planning and permitting stages.
- The CBD/Five Points/North Capitol Hill submarket significantly leads all others when it comes to units under construction. Developers are working on 5,994 units in 26 projects and have already delivered 1,256 units in six properties in 2020. East Colfax/Lowry Field/Stapleton follows with 1,242 units under construction.
- The largest community delivered by midyear was Luxe at Mile High, a 382-unit asset acquired in late 2019 by Global Asset Capital from Embrey Partners for $145 million.

Denver Completions (as of July 2020)



Source: Yardi Matrix

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

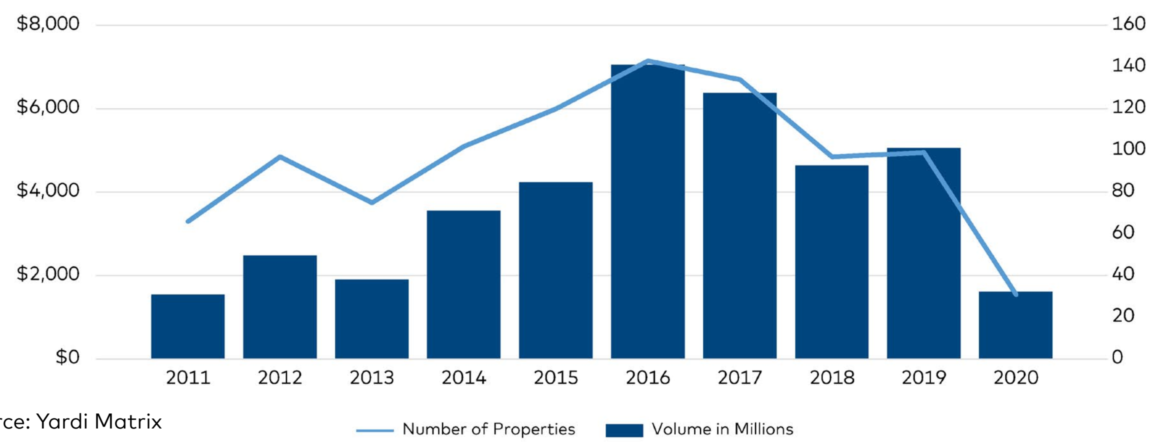


Source: Yardi Matrix

TRANSACTIONS

- Through July, more than $1.6 billion in multifamily assets traded in Denver, nearly $1.2 billion of which occurred in January and February. That's $1 billion less than the amount that traded during the same period in 2019. Transaction activity started the year strong, but the pandemic instilled caution on the transaction front, and, in the second quarter, investors took precautions and hit the brakes on investment.
- Of the 31 properties sold, 19 were Renter-by-Necessity assets and 12 were Lifestyle. This left a mark on the average price per unit, which decreased by 14.7% to $204,557, above the $164,991 national average.
- Harbor Group International has been one of the most active investors in the metro so far in 2020, having spent more than $505 million on eight properties. Following closely, Priderock Capital Partners paid $349 million for four assets in the 12 months ending in July.

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



Source: Yardi Matrix

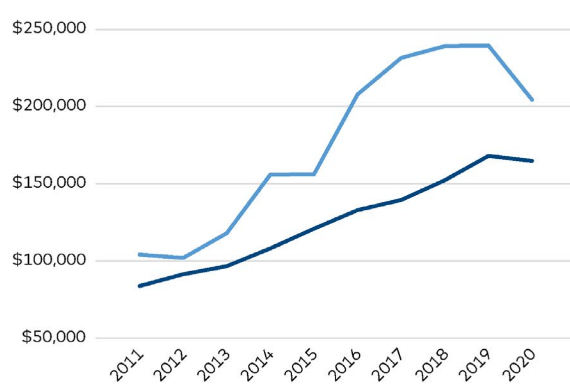
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Hampden/Virginia Village/ Washington Virginia Vale	599
Northglenn/Thornton	572
Broomfield/Todd Creek	360
Aurora-Southeast	347
Westminster	295
Arapahoe-Southwest	294
CBD/Five Points/North Capitol Hill	189

Source: Yardi Matrix

[1] From August 2019 to July 2020

Denver vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

A Developer's Forward-Thinking View on Wellness in Multifamily

By Laura Calugar

Although developers have long taken steps in the right direction, the pandemic has accelerated conversations about safety and well-being. NAVA Real Estate Development Co-Founder & President Brian Levitt talks about the future of wellness in the post-COVID-19 era of real estate and explains why his Lakehouse community on the south shore of Sloan's Lake in Denver can serve as a best-practice example.

What are the most cost-effective ways for property managers to make communities healthier?

Certification programs like LEED, Energy Star and the WELL Building Standard have transformed the way properties are designed and operated. The good news is that you can address community health and wellness in so many ways—many of them cost-effective.

You can do everything, from repurposing common areas into creative hobby spaces and developing specific programming that encourages regular socialization or physical activity, to installing upgraded air filtration to allow occupants to breathe easier or mounting blackout shades in residential units to enhance sleep quality.

What do developers need to know about the challenges they might encounter when building healthier communities?

Many developers assume that building a community that prioritizes health and wellness will have a major impact on construction costs. Lakehouse, our 196-unit condominium development in Denver, was recently recognized as Colorado's first WELL pre-certified multifamily project. In that community, comprehensive wellness infrastructure improvements increased the construction budget by less than 1 percent.

What are the main features of the Lakehouse community in Denver?

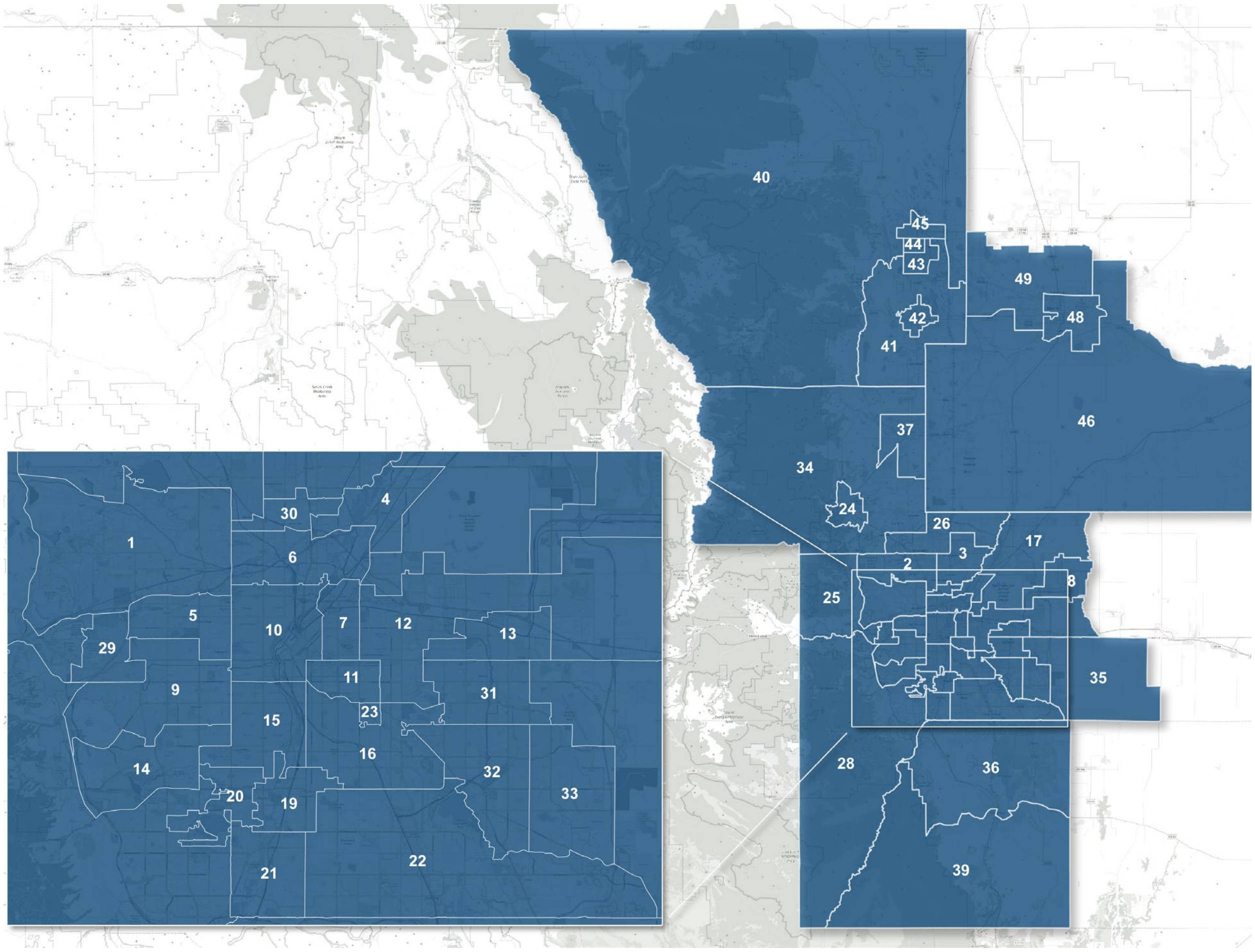
Research proves that the air we breathe and the materials in our homes can have a profound impact on our mental and physical health, so it was important to our team that Lakehouse's infrastructure, systems and operations would equip our residents to make healthy choices. An on-site, professionally managed urban farm produces fresh, organic produce, while our wellness concierge helps to connect residents with resources that will help them achieve their personal health goals. Residents also have access to a creative workshop, wellness center and a resident lounge with a collaborative cooking and dining program.

What's your take on the future of wellness in real estate?

Beyond the current crisis, we believe physical and mental health is something that should be prioritized in all aspects of life. Where and how we live can play a significant role in this, considering most of us spend more than 90 percent of our time indoors.

(Read the complete interview on multihousingnews.com.)

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 July 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 July 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, July 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.