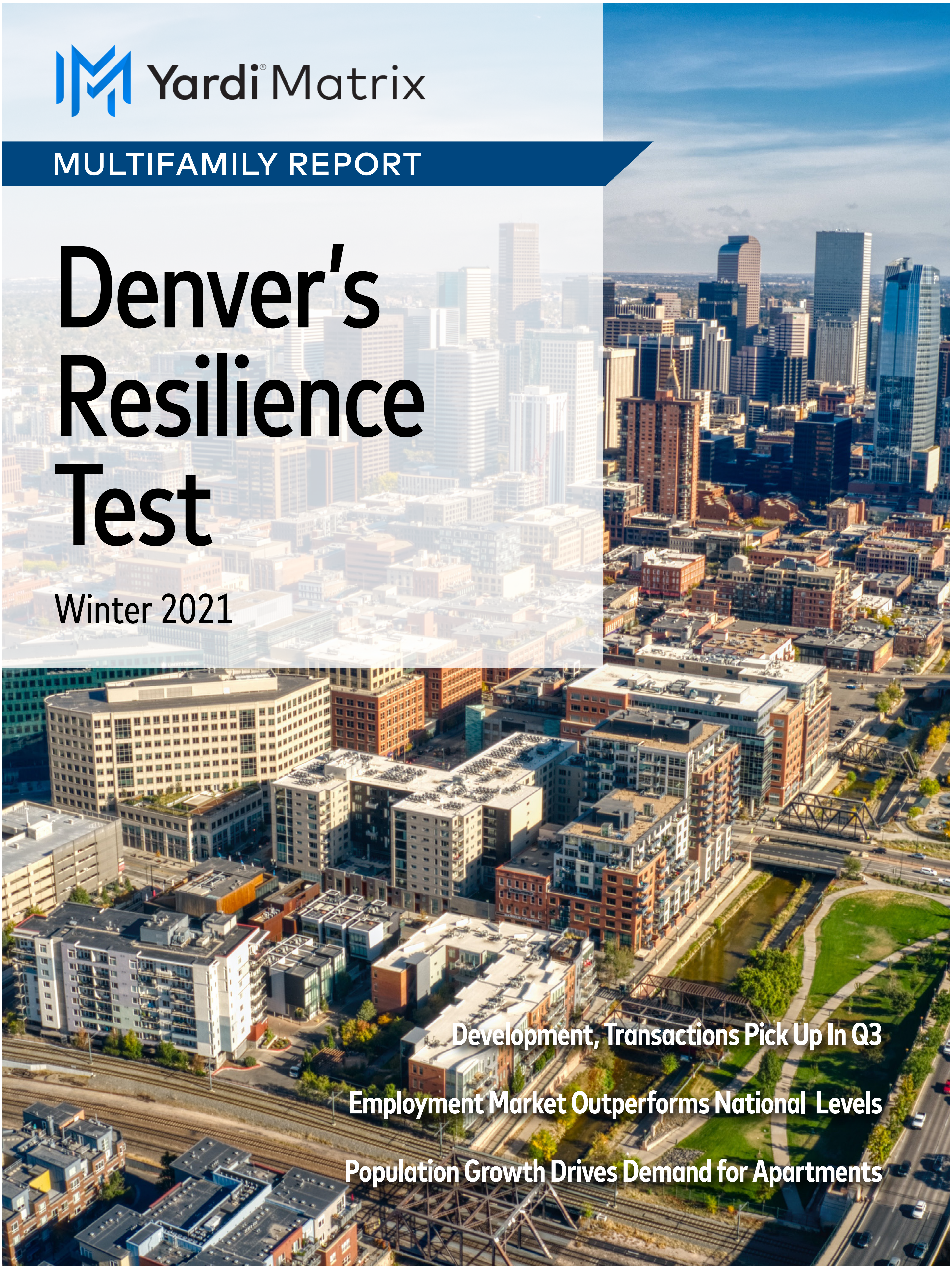
Yardi Matrix

MULTIFAMILY REPORT

Denver's Resilience Test

Winter 2021



Development, Transactions Pick Up In Q3

Employment Market Outperforms National Levels

Population Growth Drives Demand for Apartments

DENVER MULTIFAMILY

Yardi Matrix

Positive Signs Emerge During Third Quarter

Denver's multifamily market is looking to restore some stability after a rough 2020. Rent gains were spotty across the map, but the average remained flat on a trailing three-month basis for the second consecutive month in November at $1,544—above the $1,465 national figure.

Prior to the pandemic, Denver's economic environment had been attracting residents and businesses alike, which helped create a diverse economy. This helped it better withstand the health crisis, making it one of the metros with the fewest job losses in in the country during the recovery stage. Unemployment fell to 6.5% in September and preliminary data for October pointed to stagnation, but a recent spike in coronavirus cases could affect the local economy as new restrictions were enforced in November. Employment growth was down 6.5% in the 12 months ending in September, outperforming the -9.3% national average. Three sectors added jobs during the period, including the metro's economic driver, professional and business services, which climbed 0.6%.

Despite safety measures, development activity remained high—developers brought online 11,728 units in 2020 through November and had another 19,406 underway. Meanwhile, transactions picked up in the third quarter and totaled nearly $3.4 billion, for an average price per unit that slid 4.4% to $231,244.

Market Analysis | Winter 2021

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Author

Anca Gagiuc
Senior Associate Editor

On the cover: Photo by Jacob Boomsma/iStockphoto.com

Recent Denver Transactions

Pembrooke on the Green

City: Aurora, Colo.
Buyer: Bridge Investment Group
Purchase Price: $163 MM
Price per Unit: $169,969

Parkhouse Apartment Homes

City: Thornton, Colo.
Buyer: Investors Real Estate Trust
Purchase Price: $145 MM
Price per Unit: $311,290

The Lincoln at Speer

City: Denver
Buyer: Urban American Property Management
Purchase Price: $140 MM
Price per Unit: $304,348

ArtWalk CityCenter

City: Englewood, Colo.
Buyer: Oak Coast Properties
Purchase Price: $124 MM
Price per Unit: $281,963

RENT TRENDS

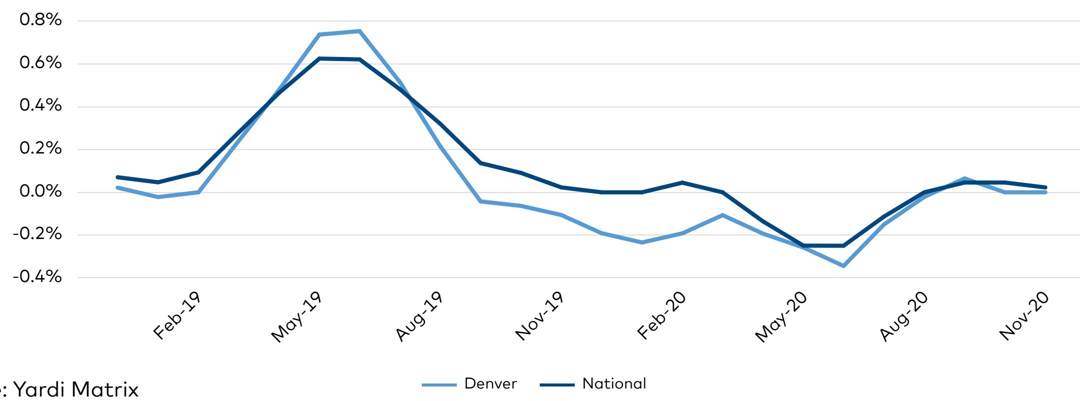
- Denver rents remained flat on a trailing three-month (T3) basis through November, at $1,544 for the second consecutive month. On a national level, the average price remained unchanged for the fourth consecutive month at $1,465.

- Some 41,400 units have come online in Denver since 2018 and robust supply had already begun moderating rent growth. However, rapid population expansion sustained demand for apartments even amid the health crisis. In the third quarter, prices rebounded on a T3 basis, with the uptick led by the working-class Renter-by-Necessity segment. For the past two months, the average rent for both RBN and Lifestyle units remained idle at $1,329 and $1,707, respectively.

- Rent performance was uneven: nearly half of the submarkets marked declines in the average rate. The most expensive areas remained Boulder (-1.7% year-over-year through November to $1,991) and CBD/Five Points/North Capitol Hill (-6.4% to $1,861). The latter is also one of the areas with the most significant declines in Denver, surpassed only by City Park/City Park West, which registered a 9.8% drop to $1,738.

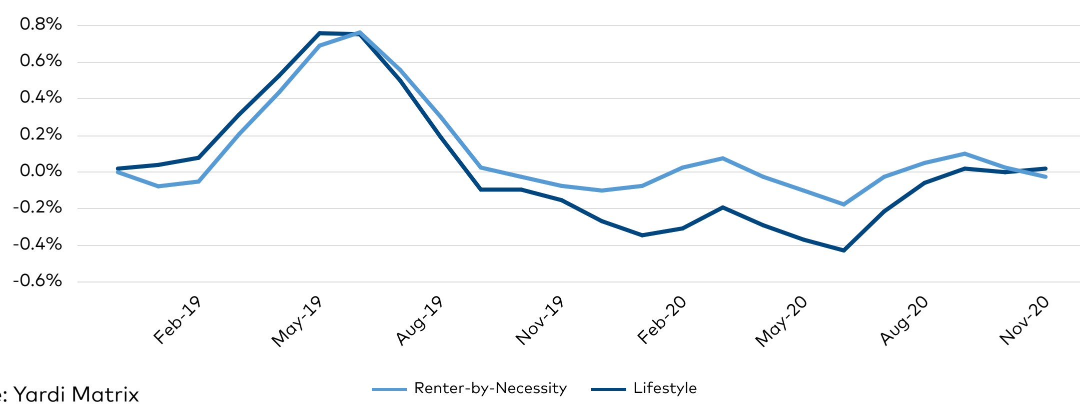
- The most affordable submarket was Greeley East, where rents rose 1.3% to $1,133 and Sherrelwood/Welby (down 0.6% to $1,212). The best-performing regions were the northern Weld South (up 5.9% to $1,544), and core areas Berkley/North Washington (up 5.7% to $1,168) and Brighton (up 3.7% to $1,527).

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's unemployment rate dropped from the all-time high of 12.3% in April to 6.5% in September. Preliminary data for October showed little movement. While its diverse economy helped the metro withstand the impacts of the health crisis, the local economy could suffer again due to a spike in new cases, which prompted officials to apply tighter restrictions to avoid a complete shutdown.

- Employment marked a 6.5% drop year-over-year as of September, outperforming the -9.3% U.S. rate. Three sectors added jobs during the period—manufacturing, education and health services and professional and business services. The latter is also the metro's largest sector and is poised for additional growth as it allows for remote work. Aerospace and defense company Raytheon Technologies began hiring for 200 jobs in the intelligence division, while AmeriSave Mortgage Corp. was looking to fill to 300 new positions.

- The trade, transportation and utilities sector shrank by 3.4% during the period, with the Regional Transportation District providing about 40% of its pre-COVID-19 services. Denver International Airport scaled down its work on the Great Hall renovation to stay within the project's budget.

Denver Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
30	Manufacturing	123	6.3%
65	Education and Health Services	250	12.8%
60	Professional and Business Services	357	18.3%
50	Information	62	3.2%
55	Financial Activities	127	6.5%
80	Other Services	68	3.5%
15	Mining, Logging and Construction	142	7.3%
40	Trade, Transportation and Utilities	339	17.4%
90	Government	283	14.5%
70	Leisure and Hospitality	195	10.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Denver gained 34,824 residents in 2019, up 1.2% and four times the national rate.

- Between 2010 and 2019, the metro expanded by 412,423 residents for a 16.1% uptick. The demographic expansion has been primarily sustained by domestic migration.

Denver vs. National Population

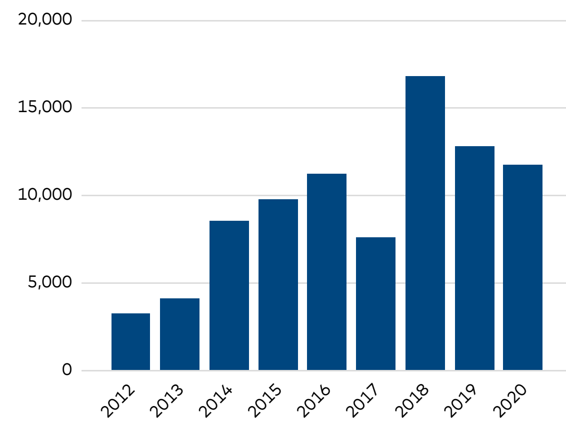
	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Denver Metro	2,857,549	2,892,979	2,932,415	2,967,239

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

SUPPLY

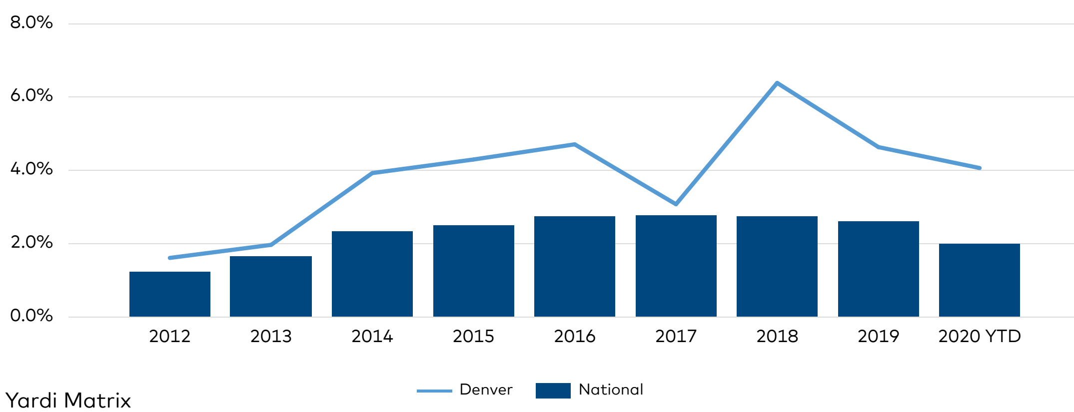
- Developers brought 11,728 units online in 2020 through November, accounting for 4.1% of the total housing stock and well above the 2.0% national rate. The development pipeline included 19,406 units under construction and another 84,000 in the planning and permitting stages.
- Of the 57 projects completed this year through November, the bulk targeted the Lifestyle segment, while 13 properties—totaling 1,144 units—were fully affordable communities. In November, developers were working on 93 projects. Interest was geared toward the upscale segment, and 23 properties totaling 2,933 units were fully affordable projects.
- CBD/Five Points/North Capital continued to garner the most interest from developers, with 6,018 units in 27 projects under construction in November. Next in line was East Colfax/Lowry Field/Stapleton with 1,082 units in five communities underway.
- The Top 4 largest developments underway were also located in the CBD/Five Points/North Capital submarket. Of these, the largest is DriveTrain, a 417-unit Lifestyle community owned by Carmel Partners. The project is being built with aid from a $97 million construction loan originated by Massachusetts Mutual Life Insurance Co. and is slated for completion in May 2022.

Denver Completions (as of November 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

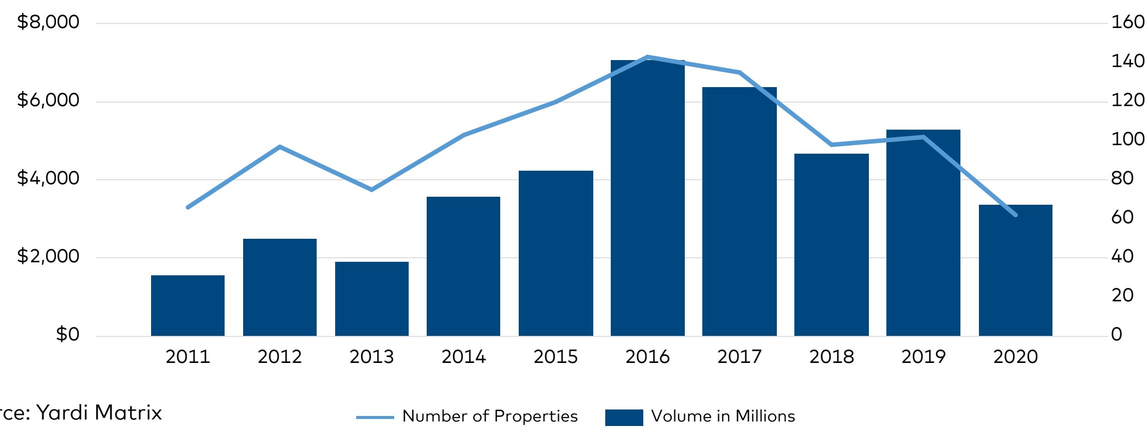
TRANSACTIONS

- Nearly $3.4 billion in multifamily deals changed hands in Denver in 2020 through November. After a slow second quarter with minimal activity on the investment front, sales picked up again in the third quarter. The slowdown during the second quarter explains the lower volume compared to the same period in 2019, when some $4.2 billion in rental assets traded in the metro.

- Of the 62 properties that changed ownership in 2020 through November, 35 were in the Renter-by-Necessity segment. Investor interest in working-class properties was reflected in the price per unit, down 4.4% from 2019, to $231,244, but still well above the $167,022 national figure.

- The largest deal in 2020 through November was Oak Coast Properties' sale of the 959-unit Pembrooke on the Green. Bridge Investment Group acquired the asset for $163 million, marking the second time the company has acquired the property in eight years.

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



Source: Yardi Matrix

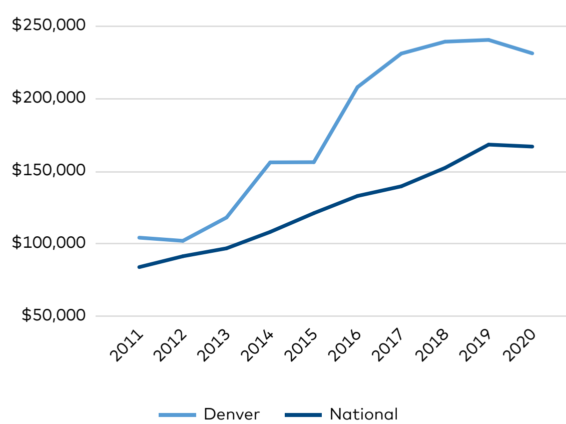
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Northglenn/Thornton	586
CBD/Five Points/North Capitol Hill	453
Broomfield/Todd Creek	423
Aurora-Southeast	384
Arapahoe-Southwest	312
Hampden/Virginia Village/ Washington Virginia Vale	281
Westminster	214

Source: Yardi Matrix

[1] From December 2019 to November 2020

Denver vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

Top 5 Western Markets for Multifamily Deliveries

By Evelyn Jozsa

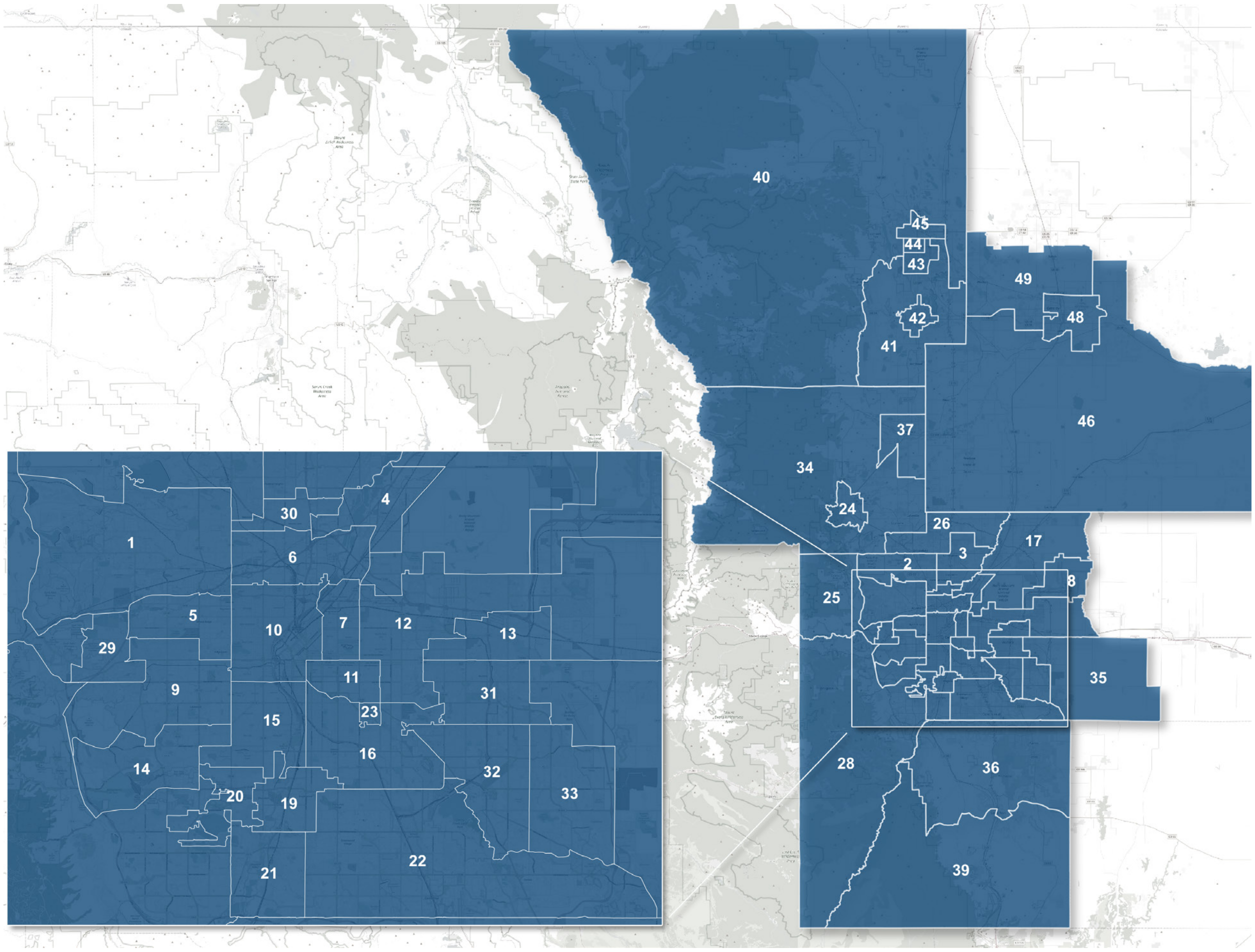
Multifamily has remained one of the most popular asset classes for developers and investors alike, despite lingering economic uncertainties. Due to the high demand for housing, construction was deemed essential amid the pandemic in most states across the country, and developers were able to forge ahead. According to Yardi Matrix data, 27,543 units were delivered year-to-date in the Western U.S.

Rank	Property Name	Units Completed	Projects Completed	Percentage of Stock
1	Denver	11,582	55	4.0%
2	Salt Lake City	3,800	18	3.6%
3	Reno	1,330	3	3.4%
4	Phoenix	7,517	31	2.4%
5	Colorado Springs	760	4	1.9%

Denver

Although the pandemic affected Denver's decade-long economic expansion, the metro's multifamily market continued to perform well despite uncertainties. When it comes to the share of completed projects as a percentage of existing inventory, Denver ranked No.1 with 55 projects encompassing 11,582 units. Year-to-date deliveries represented 4 percent of the metro's total stock. Despite substantial new supply coming online, the average occupancy rate in stabilized properties slid by only 20 basis points year-over-year through September, to 94.5 percent.

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 November 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 November 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, November 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.

DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.