



MULTIFAMILY REPORT

Denver: Back On Track

January 2022

Investment Activity Elevated, PPU Rises

YoY Rent Growth Still in the Double Digits

Construction Remains High, Deliveries Soften

DENVER MULTIFAMILY



In-Migration Powers Rental Demand

Although uncertainty remains as likely as any economic predictor, Denver's recovery is well underway and should maintain momentum this year, despite pandemic woes. Rent gains moderated to 0.7% on a trailing three-month basis through November, to \$1,786, widening the gap from the \$1,590 U.S. average. Occupancy in stabilized properties rose 1.2% in the 12 months ending in September, to 95.7%, led by the Lifestyle segment, where the rate rose to 95.8%, following a 1.5% annual rise.

Denver unemployment improved to 4.6% in October, on par with the U.S. rate. Employment posted a 6.3% expansion in the 12 months ending in September, trailing the U.S. rate by 10 basis points. Professional and business services added the most jobs (23,200 positions), followed closely by leisure and hospitality (23,100 jobs). Although business travel is lagging, leisure travel is rebounding, with 24.7 million passengers going through Denver International Airport in the first half of 2021.

Deliveries softened, with just 7,400 units coming online in 2021 through November, half of 2020's volume. Another 20,390 apartments were under construction. Meanwhile, transaction volume surpassed \$6.8 billion—the second-highest figure of the past decade—for a price per unit that marked a substantial 27.3% increase, to \$302,134.

Market Analysis | January 2022

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Recent Denver Transactions

Arista Flats



City: Broomfield, Colo.
Buyer: Millburn & Co.
Purchase Price: \$191 MM
Price per Unit: \$363,118

IMT Lowry



City: Denver
Buyer: IMT Capital
Purchase Price: \$164 MM
Price per Unit: \$396,498

Griffis LoDo



City: Denver
Buyer: Griffis Residential
Purchase Price: \$138 MM
Price per Unit: \$484,211

Griffis Marston Lake

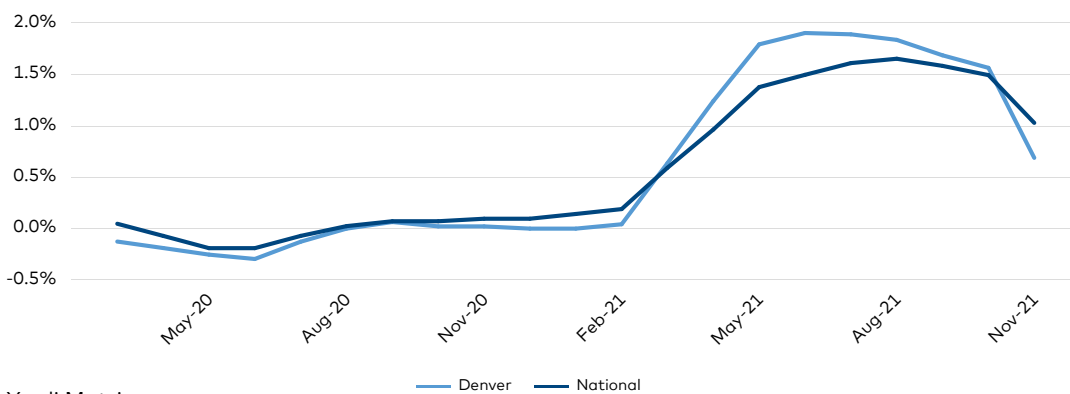


City: Littleton, Colo.
Buyer: Kennedy Wilson
Purchase Price: \$134 MM
Price per Unit: \$403,614

RENT TRENDS

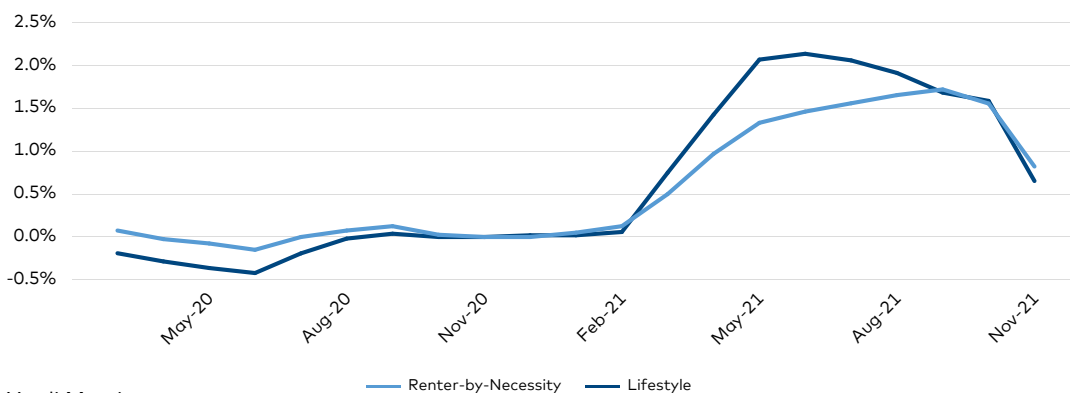
- ▶ Denver rents rose 0.7% on a trailing three-month (T3) basis through November, to \$1,786, with the rate falling after six consecutive months above the 1.5% threshold. On a year-over-year basis, rent growth was 13.8% and 30 basis points above the U.S. rate, which reached a new high of \$1,590.
- ▶ Growth has nearly evened out between quality segments as of November, with Lifestyle rents up 0.7% on a T3 basis, to \$1,990, 10 basis points below the Renter-by-Necessity rate, which rose to \$1,492.
- ▶ Rents in the Lifestyle segment posted higher gains in 2021, especially during the second and third quarters. The dynamic was mirrored by the occupancy rate in stabilized properties. For Lifestyle units, occupancy was up 1.5% in the 12 months ending in September, to 95.8%. Meanwhile, RBN occupancy increased 1.0% to 95.7%, equal to the metro's overall occupancy rate following a 1.2% rise.
- ▶ Of the 43 submarkets tracked by Yardi Matrix, 39 posted double-digit increases year-over-year through November, pushing the average rent above the \$2,000 mark in six submarkets. No submarket reached that rate a year ago. The most expensive rents were in Boulder (up 10.9% to \$2,196) and CBD/Five Points/North Capitol Hill (15.8% to \$2,157). The latter also leads in supply expansion and transaction activity. Greater Boulder marked the largest gains, with the average up 22.6% to \$2,066.

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 unemployment rate in Denver fluctuated in 2021, improving to 4.6% in October, on par with the U.S. average, according to the Bureau of Labor Statistics. The employment market posted a 6.3% expansion in the 12 months ending in September, 10 basis points below the U.S. rate.
- ▶ The leisure and hospitality sector is steadily rebounding, having added 23,100 jobs (13.1%) in the 12 months ending in September. Moreover, trade, transportation and utilities added 14,500 positions (4.2%). Denver International Airport ranked as the third busiest in the world during the first half of 2021, with 24.7 million passengers passing through between January and June. Before the pandemic, DIA ranked as the 16th-busiest in the world and fifth-busiest in the U.S. Although business travel is still lagging, corporate-travel firm Hotel Engine announced the addition of 400 jobs in 2022.
- ▶ Denver's diverse talent pool benefits various sectors. Professional and business services registered a robust performance, adding 23,200 jobs (6.8%) in the 12 months ending in September, while education and health services added 8,200 positions (3.5%). In recent announcements, life science company GenapSys plans to open a second location in Westminster this year, adding some 240 jobs.

Denver Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	362	18.1%
70	Leisure and Hospitality	200	10.0%
40	Trade, Transportation and Utilities	359	18.0%
65	Education and Health Services	246	12.3%
80	Other Services	78	3.9%
15	Mining, Logging and Construction	146	7.3%
55	Financial Activities	132	6.6%
30	Manufacturing	119	6.0%
90	Government	293	14.7%
50	Information	63	3.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Denver gained 23,992 residents in 2020, a 0.8% increase and double the 0.4% U.S. figure. The rate reflects a deceleration: In 2019, the metro recorded a 1.2% increase.
- ▶ Between 2010 and 2020, Denver's population expanded by 17.1%.

Denver vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Denver Metro	2,892,979	2,932,415	2,967,239	2,991,231

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

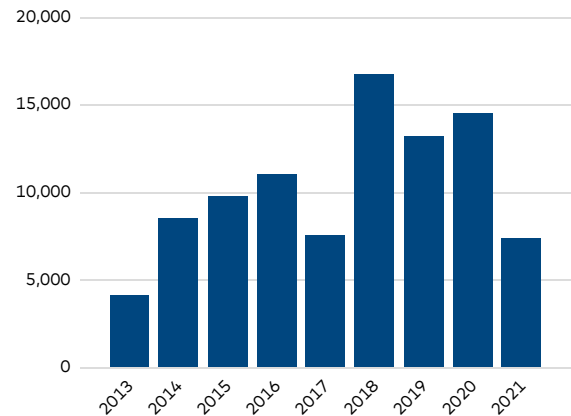
SUPPLY

- ▶ Denver's multifamily inventory expanded by 7,400 units in 2021 through November, 2.5% of total stock. Even though the rate was 40 basis points above the U.S. average, new units reached only half the volume of 2020. Since 2016, the metro's supply has expanded by an average of 12,600 units per year.
- ▶ CBD/Five Points/North Capital led in stock expansion, with developers bringing 2,690 units online in 2021 through November. Recent deliveries in Denver target high-income renters, with more than 6,000 units in the Lifestyle segment. The Renter-by-Necessity component expanded by 1,453 units, 941 of which were in seven fully affordable communities.
- ▶ The construction pipeline had 20,390 units underway and some 104,000 in the planning and permitting stages. The bulk of projects under construction also tilt heavily toward the up-scale segment: 17,206 units were in Lifestyle projects and 3,614 units in RBN properties. The RBN segment included 3,277 units in 25 fully affordable communities.
- ▶ The top five submarkets for development accounted for half of the pipeline as of November.

The CBD/Five Points/North Capital submarket topped the list by far, with 4,288 units under construction. City Park/City Park West (1,284 units) and Douglas County-North (1,230) completed the top three.

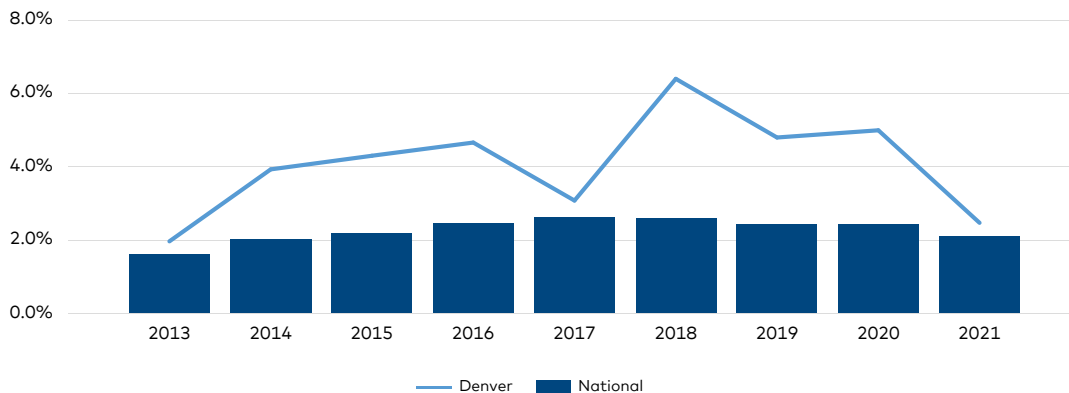
- ▶ The CBD submarket also houses the largest project delivered in the first 11 months of 2021, X Denver, a 443-unit Lifestyle asset built by The X Co. and PMG with aid from an \$84 million loan originated by JPMorgan Chase.

Denver Completions (as of November 2021)



Source: Yardi Matrix

Denver vs. National Completions as a Percentage of Total Stock (as of November 2021)

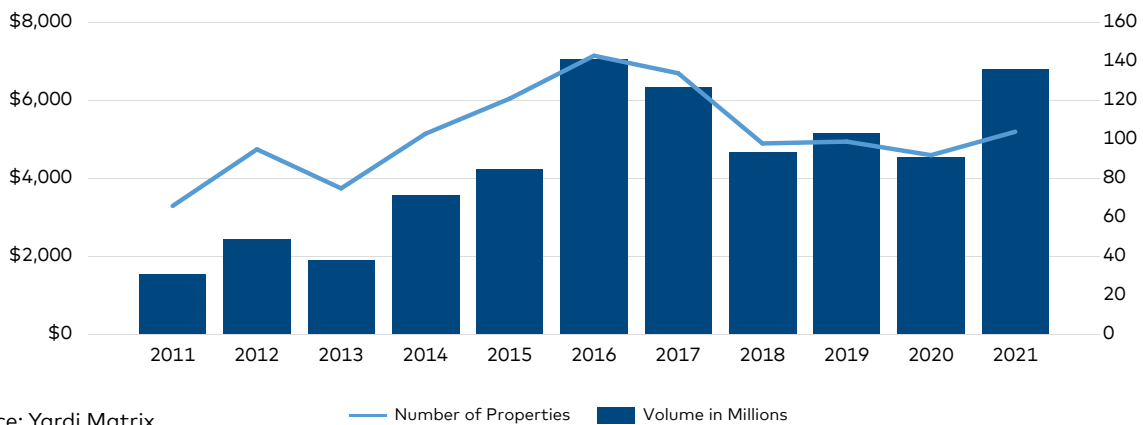


Source: Yardi Matrix

TRANSACTIONS

- Transaction activity remained high in Denver in 2021, with multifamily sales through November surpassing \$6.8 billion, well above the \$4.5 billion recorded in 2020. Pending December figures, 2021 could mark a decade high for multifamily investment.
- Investors had a slight preference for upscale assets, with Lifestyle properties comprising almost 60% of sales. The price per unit increased by a solid 26.7% year-over-year through November, to \$302,134, well above the U.S. average, which rose to \$185,466.
- CBD/Five Points/North Capitol Hill led in investment activity in the 12 months ending in November, surpassing \$1.2 billion. The submarket also marked the sale involving the largest per-unit price—\$596,491—paid by Kodiak Real Estate Group to Central Street Investors for the acquisition of the 57-unit Prospect on Central, a property completed in 2012.

Denver Sales Volume and Number of Properties Sold (as of November 2021)



Source: Yardi Matrix

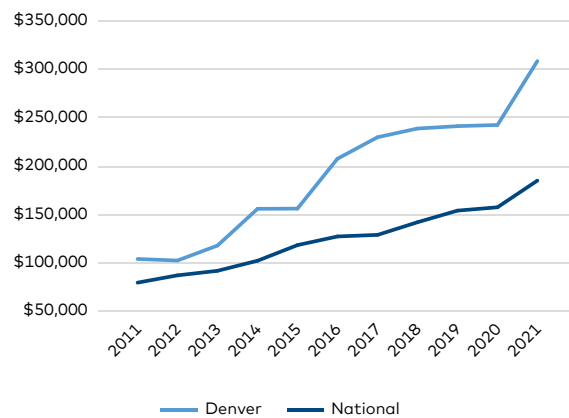
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
CBD/Five Points/N. Capitol Hill	1,249
E. Colfax/Lowry Field/Stapleton	647
Douglas County-North	646
Arapahoe-Southwest	534
Westminster	451
Aurora-West Central	424
Hampden/Virginia Village/ Washington Virginia Vale	411

Source: Yardi Matrix

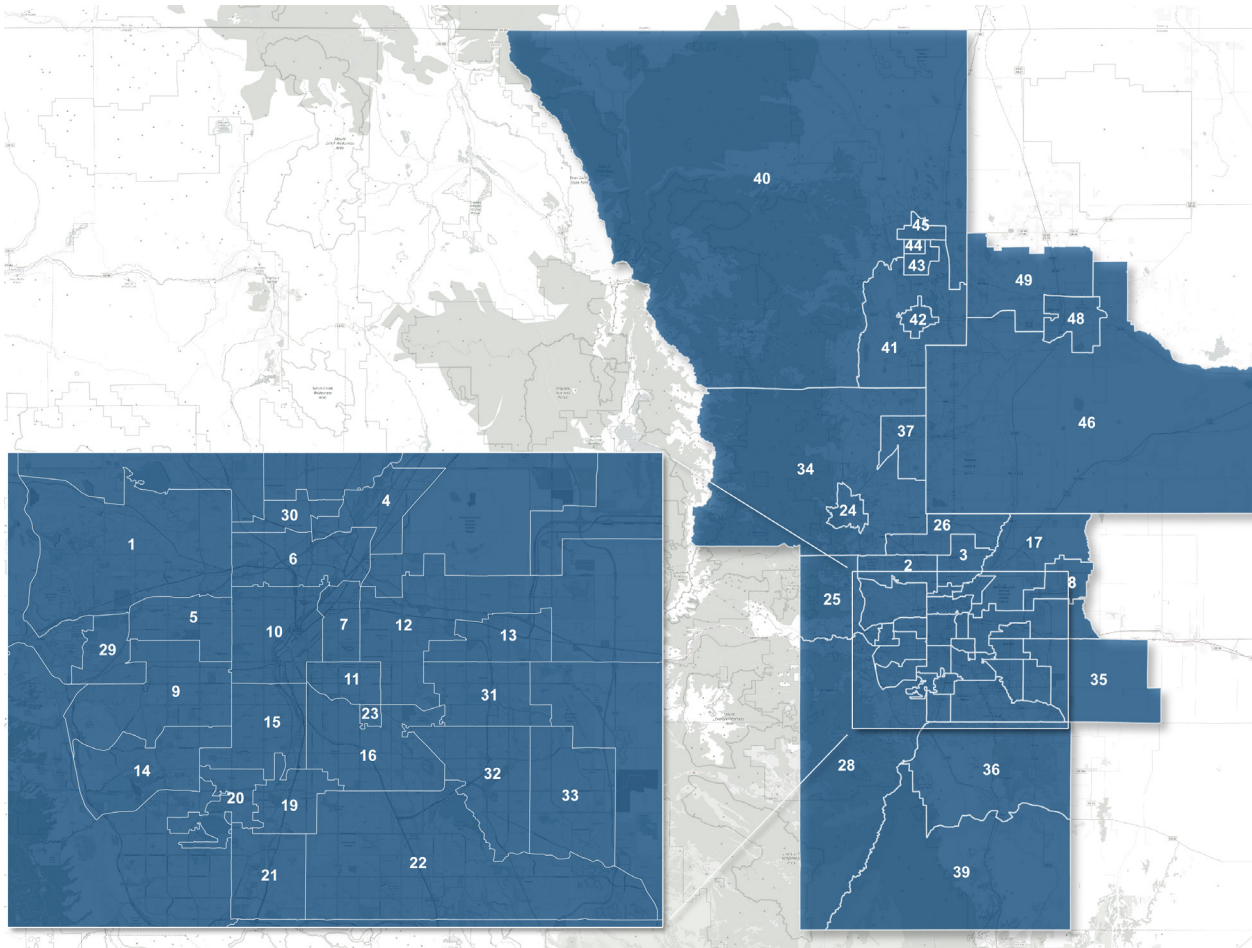
¹ From December 2020 to November 2021

Denver vs. National Sales Price per Unit



Source: Yardi Matrix

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 December 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 December 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, December 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.

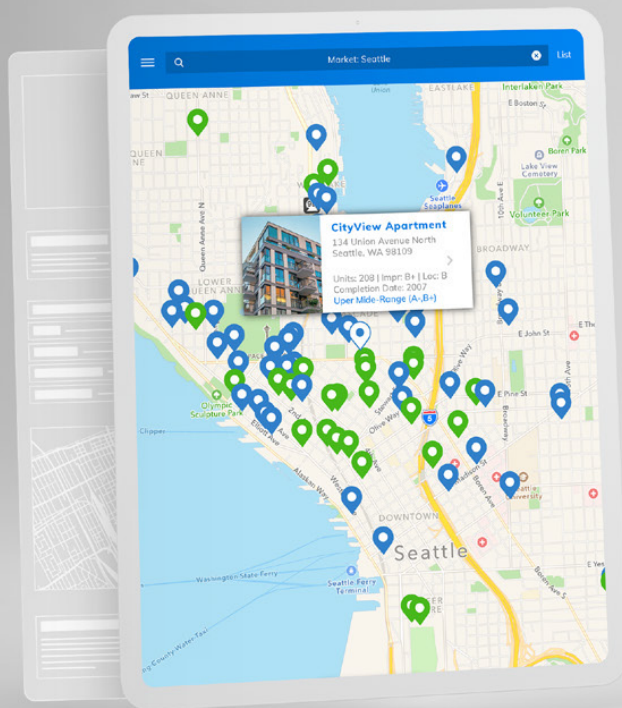
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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