

YARDI[®] Matrix

Denver's Mile-High Moderation

Multifamily Report Spring 2017

**New Supply Tempers
Rent Growth**

**Construction Activity
Bolsters Employment**

**Investment Volume
Hits New High**

Market Analysis

Spring 2017

Contacts

Paul Fiorilla

Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern

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

Author

Alex Girda

Senior Editor

Rampant Development Shows Effects

Denver is a hotbed for new commercial and residential construction, largely due to a high population growth and a strong demand for housing. However, an overstuffed development pipeline and the addition of 28,000 units over the last three years have had an impact on rent growth. The downshift that began last fall continued over the past three months, when rent growth dropped by 30 basis points. Despite this moderation, investors remained high on Denver assets, bringing the total sales volume to a cyclical high of \$6.7 billion in 2016.

Strong employment gains are creating demand, especially for Renter-by-Necessity assets, while increasing home prices also sustain the robust demand for rental units. Construction is a leader in job gains, with projects such as the \$1.2 billion widening and covering of the I-70 in Northeast Denver contributing to the growth. Infrastructure projects and the boost that trade received from the legalization of cannabis have transformed the sector into an anchor of the metro's economy.

The current multifamily expansion has been characterized by fast-paced development and growing investment activity. With more than 24,000 units underway and property sales topping \$400 million in the year's first two months alone, those trends are poised to continue in the foreseeable future. We expect moderate rent growth of 3.5% in 2017.

Recent Denver Transactions

Alara Union Station



City: Denver
Buyer: American Realty Advisors
Purchase Price: \$154 MM
Price per Unit: \$491,401

Griffis 3100 Pearl



City: Boulder, Colo.
Buyer: Rockwood Capital
Purchase Price: \$136 MM
Price per Unit: \$426,332

Pembroke on the Green



City: Aurora, Colo.
Buyer: Oak Coast Properties
Purchase Price: \$128 MM
Price per Unit: \$133,884

1000 Speer

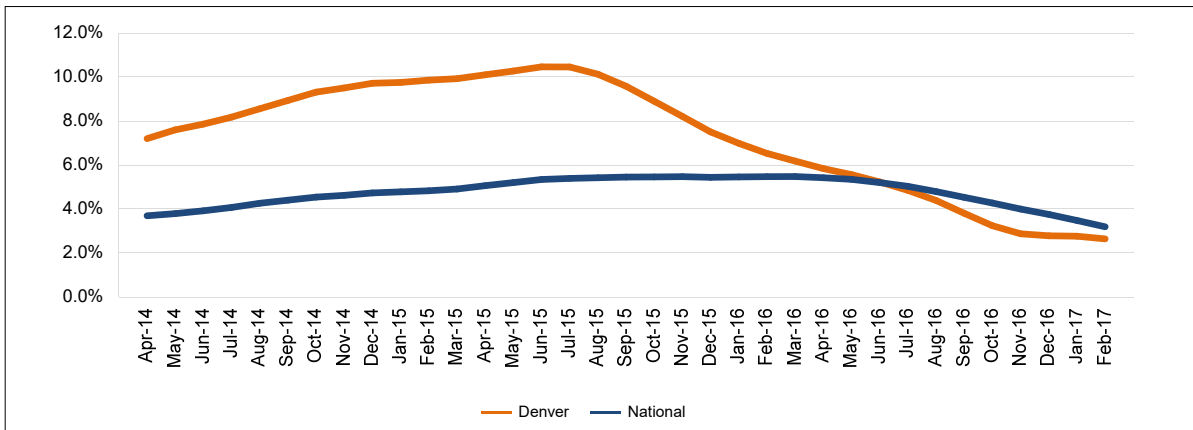


City: Denver
Buyer: GID
Purchase Price: \$120 MM
Price per Unit: \$535,714

Rent Trends

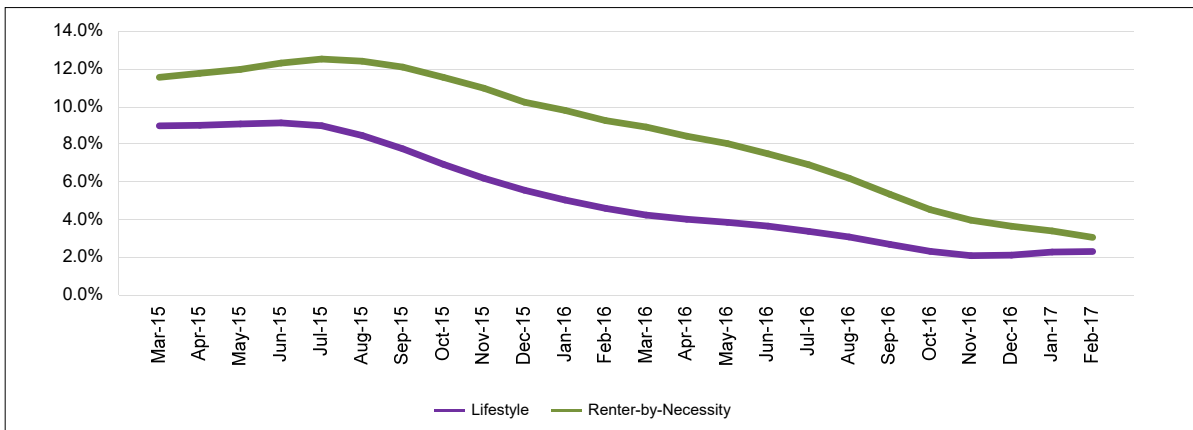
- Denver rents were up 2.6% year-over-year in February, 20 basis points below the national rate. The average rent was \$1,381, \$75 above the national average, according to Yardi Matrix. Like the nation as a whole, rents rapidly appreciated in 2015 and early 2016 before cooling down in the latter part of the year.
- Growth was led by the working-class Renter-by-Necessity category, which rose 3.1% year-over-year to an average of \$1,187. The sector was galvanized by demand from the significant employment gains in low- and medium-paying jobs such as construction, leisure and hospitality, and trade, transportation and utilities. A spate of new supply in the upscale segment has tempered increases in the Lifestyle category, which rose 2.3% year-over-year. As of January, the occupancy rate for Renter-by-Necessity assets was 94.8%, roughly 70 basis points ahead of those in the Lifestyle category.
- Berkley/North Washington (6.5%), Golden (6.5%), Wheat Ridge (6.3%) and Arapahoe-East (6.3%) led rent growth, showcasing the appeal of more affordable submarkets. Although the CBD/Five Points/North Capitol Hill led all submarkets for development and investment activity in 2016, rents in this area were down 0.1% year-over-year. Another 8,000 units are underway in the submarket, meaning further moderation is expected. The CBD's average rent of \$1,776 as of February trailed only City Park, which commanded the highest rents.

Denver vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Denver Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

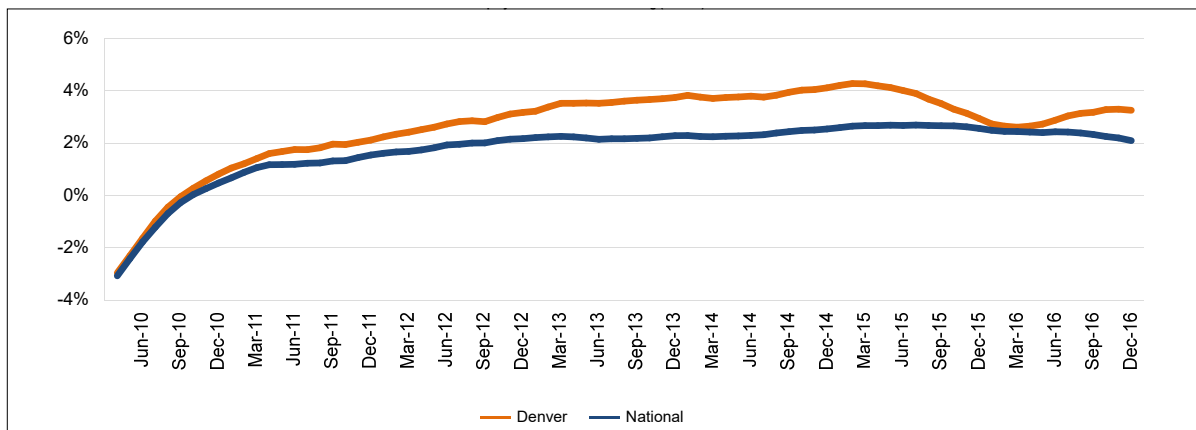


Source: YardiMatrix

Economic Snapshot

- The metro added 56,700 jobs in 2016, an employment growth rate of 3.2% year-over-year, which is 80 basis points over the national rate. Robust development pipelines in both the office and multifamily sectors have underpinned significant improvement in the construction sector, which added 12,400 jobs last year, up 9.7%. Leisure and hospitality added 11,800 jobs.
- Trade, transportation and utilities grew by 8,300 jobs in 2016, in part due to the boost given to the industrial sector by relaxed marijuana usage laws, which has resulted in a small but burgeoning segment of the economy. Transportation is likely to continue improving, following the approval of the \$1.2 billion infrastructure project that will widen the I-70 in northeast Denver. Although faced with a series of legal challenges over its environmental impact, the project received the green light this past January. Construction at the site will likely go on for the next four to five years.
- Although net absorption was high in 2016, the large amount of construction activity in the office sector will likely put a dent in the market's average occupancy rate going forward. Meanwhile, asking rents were up in the suburbs, while those in the central business district (CBD) continued to slide at the end of 2016, as jobs in key office-using sectors such as information and financial activities are slipping.

Denver vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Denver Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
15	Mining, Logging and Construction	141	7.4%	12,400	9.7%
70	Leisure and Hospitality	214	11.2%	11,800	5.8%
65	Education and Health Services	238	12.4%	10,700	4.7%
60	Professional and Business Services	328	17.1%	10,500	3.3%
40	Trade, Transportation and Utilities	341	17.8%	8,300	2.5%
90	Government	291	15.2%	4,600	1.6%
80	Other Services	70	3.7%	1,100	1.6%
30	Manufacturing	113	5.9%	0	0.0%
55	Financial Activities	123	6.4%	-800	-0.6%
50	Information	56	2.9%	-1,900	-3.3%

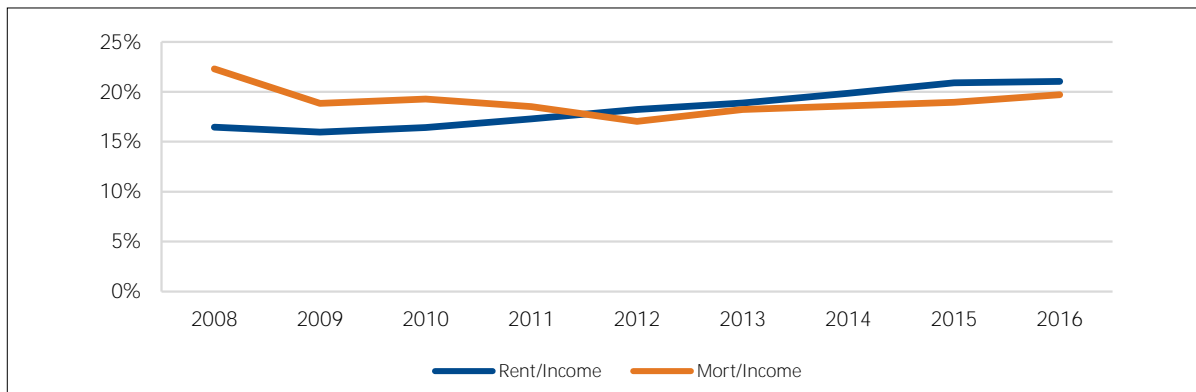
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

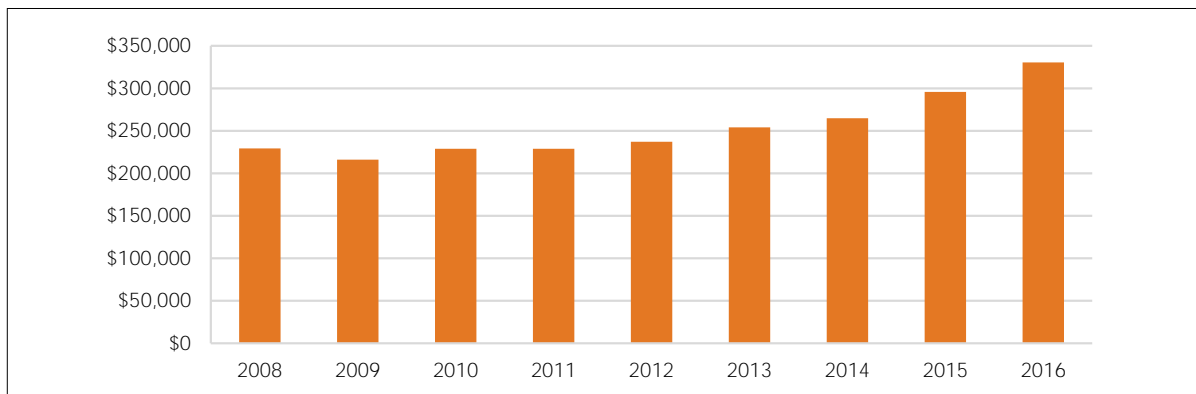
- Denver's median home price has consistently increased since 2009, reaching \$330,333 in 2016. Rapidly growing home prices have also put pressure on affordability, with the average mortgage accounting for nearly as much as the average rent, when considered as a share of the median income in 2016.
- Affordable housing received a boost in the fall of 2016, when the city government approved the creation of a new affordable housing fund. The initiative is expected to raise more than \$150 million from property taxes over the next decade.

Denver Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Denver Median Home Price



Source: Moody's Analytics

Population

- Denver added new residents at a rate of 2.1% in 2015, nearly triple the national rate.
- Denver gained more than 210,000 residents between 2011 and 2015.

Denver vs. National Population

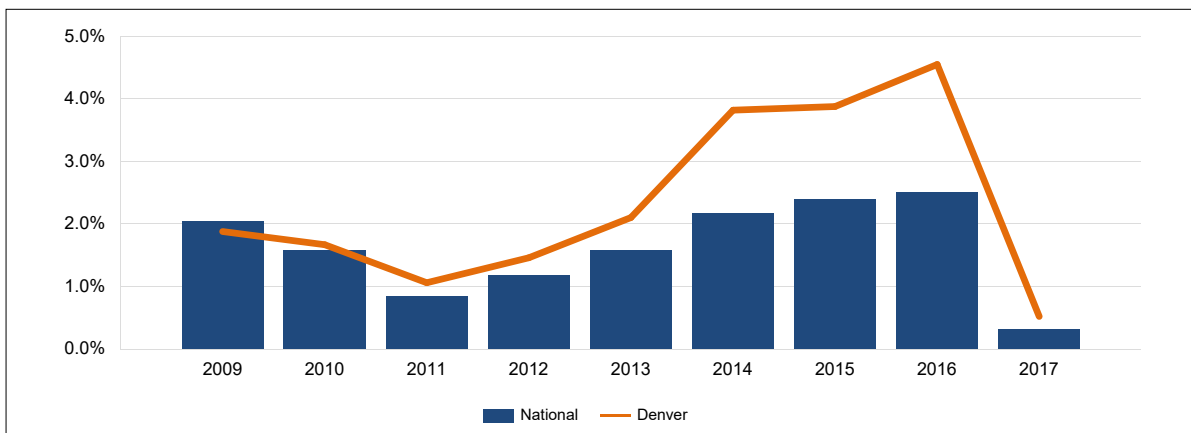
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Denver-Aurora-Lakewood, Colo., Metropolitan Statistical Area	2,601,104	2,648,482	2,700,086	2,755,856	2,814,330

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

Supply

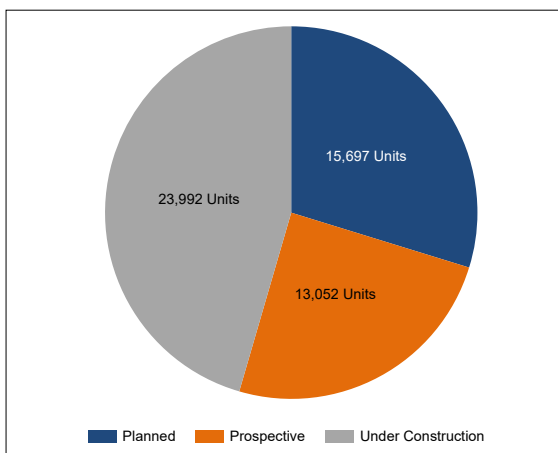
- Completions crossed the 10,000-unit mark in 2016, an inventory expansion of 4.6%, one of the highest in the U.S. and 210 basis points above the national average. Increasing demand has led to a surge in completions over the past three years, when about 28,000 new units were added. As a result, occupancy in stabilized properties dropped to 94.4% in January, down 140 basis points compared to March 2016.
- Roughly 57,000 units make up Denver’s multifamily development pipeline. Of those, nearly 24,000 units were underway as of February, while another 15,000 units had entitlements in place.
- A third of all units under construction are rising in the CBD/Five Points/North Capitol Hill submarket. The area also fared best for investment, leading all submarkets for transaction totals. The submarket is home to the largest project being built in the metro: Pivot Denver, a 580-unit upscale community developed by Holland Partners at the northeast corner of 17th and Wewatta streets.
- The restricted growth in single-family housing inventory has helped support demand for rentals. That could speed up the absorption of new rental units.

Denver vs. National Completions as a Percentage of Total Stock (as of February 2017)



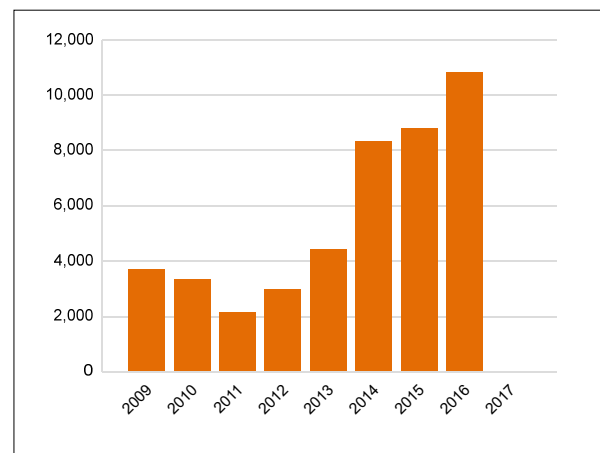
Source: YardiMatrix

Development Pipeline (as of February 2017)



Source: YardiMatrix

Denver Completions (as of February 2017)

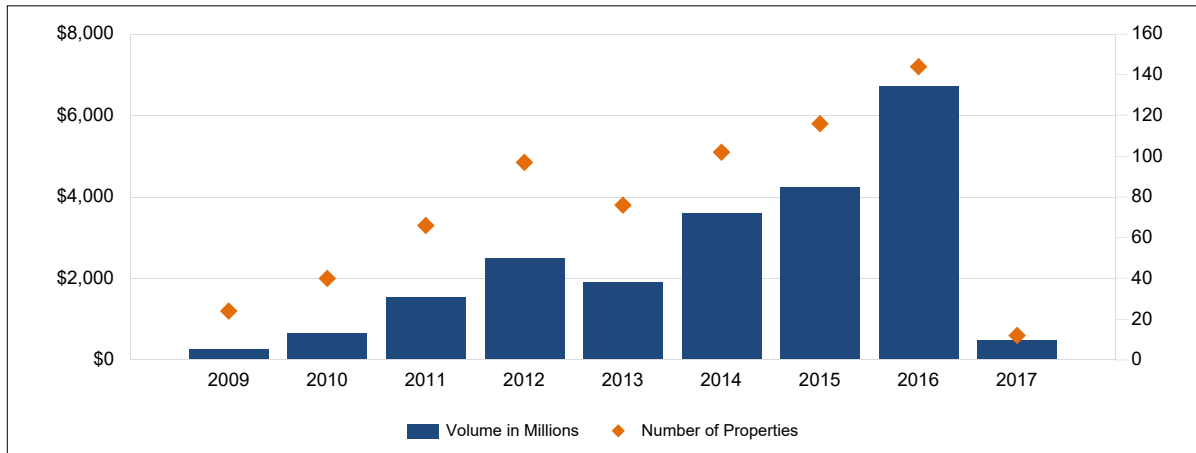


Source: YardiMatrix

Transactions

- Investment sales surged in Denver in 2016, when nearly 150 transactions were completed for roughly \$6.7 billion. The new cyclical high is a 58% increase over 2015.
- High investor activity pushed the average per-unit price to \$208,275 in 2016. High investor demand levels have also compressed acquisition yields for Denver multifamily communities, with stabilized Class A asset yields falling under the 5% mark in 2016, while Class B properties hovered just above that threshold.
- Assets in Denver's core continued to attract the bulk of investor interest over the past 12 months, with about \$700 million in multifamily assets trading in the CBD/Five Points/North Capitol Hill submarket alone. The largest transaction completed during that interval was American Realty Advisors' purchase of Alara Union Station at 1975 19th St. The company paid Greystar \$154 million for the newly built 314-unit community.

Denver Sales Volume and Number of Properties Sold (as of February 2017)



Source: YardiMatrix

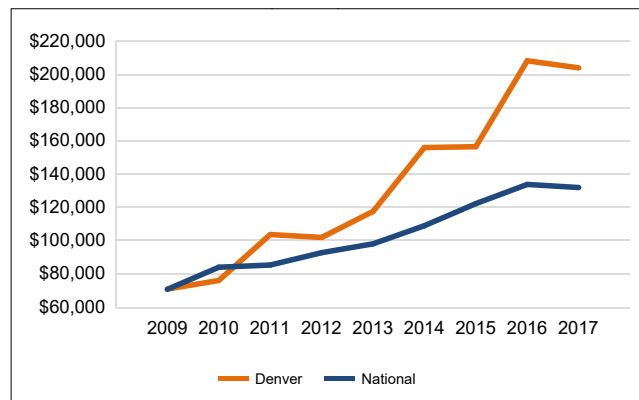
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
CBD/Five Points/North Capitol Hill	692
Northglenn/Thornton	374
Hampden/Virginia Village/Washington Virginia Vale	291
Arapahoe-Southwest	290
Lakewood-North	256
Douglas County-North	235
Broomfield/Todd Creek	233

Source: YardiMatrix

¹ From March 2016 to February 2017

Denver vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



 Pinnacle to Manage Luxury Property in Denver

 Hines Signs 2 New Leases In Denver

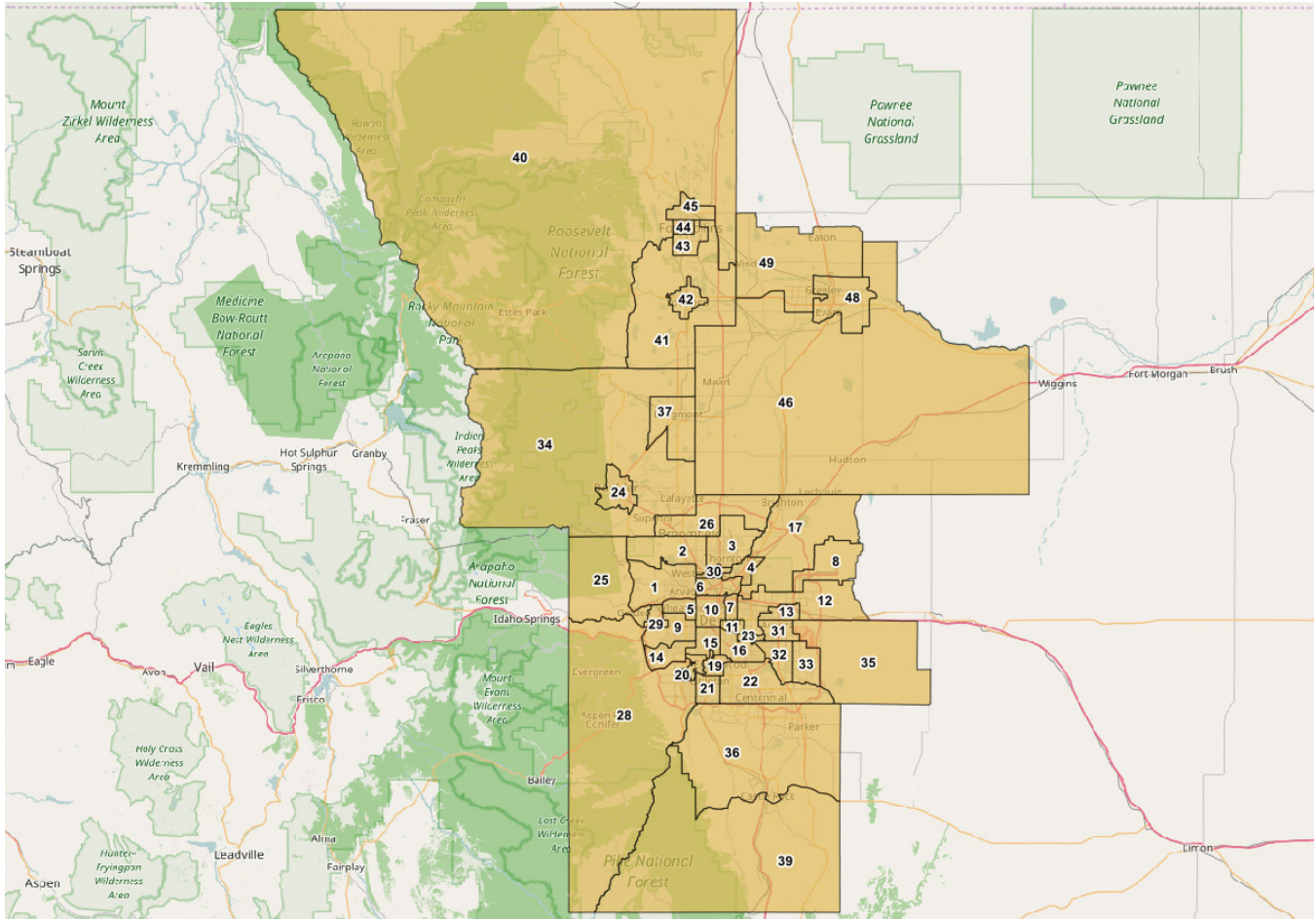
 Gensler-Designed MOTO Wins Wood Design Award

 Griffin Capital REIT Acquires Denver Office Complex

Get the latest Denver real estate news at



Denver Submarket Map



Area Number	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
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

Area Number	Submarket
25	Golden
26	Broomfield/Todd Creek
28	Jefferson-South
29	Applewood/West Pleasant View
30	Sherrilwood/Welby
31	Aurora-West Central
32	Aurora-Southwest
33	Aurora-Southeast
34	Greater Boulder
35	Arapahoe-East
36	Douglas-North
37	Longmont
39	Douglas-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.

What's the best choice for CRE news & views?



With so much information out there, selecting the best source can be daunting. Keep it simple. *Commercial Property Executive* and *Multi-Housing News* will keep you up-to-date on real estate news, data, trends and analysis—daily, weekly or monthly. Trust the leading integrated industry information resource to help you make informed decisions and achieve your business goals.



cpexecutive.com



multi-housingnews.com

Visit our websites and sign up for our free emailed newsletters at cpexecutive.com/subscribe and multi-housingnews.com/subscribe.

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.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2017 Yardi Systems, Inc. All Rights Reserved.