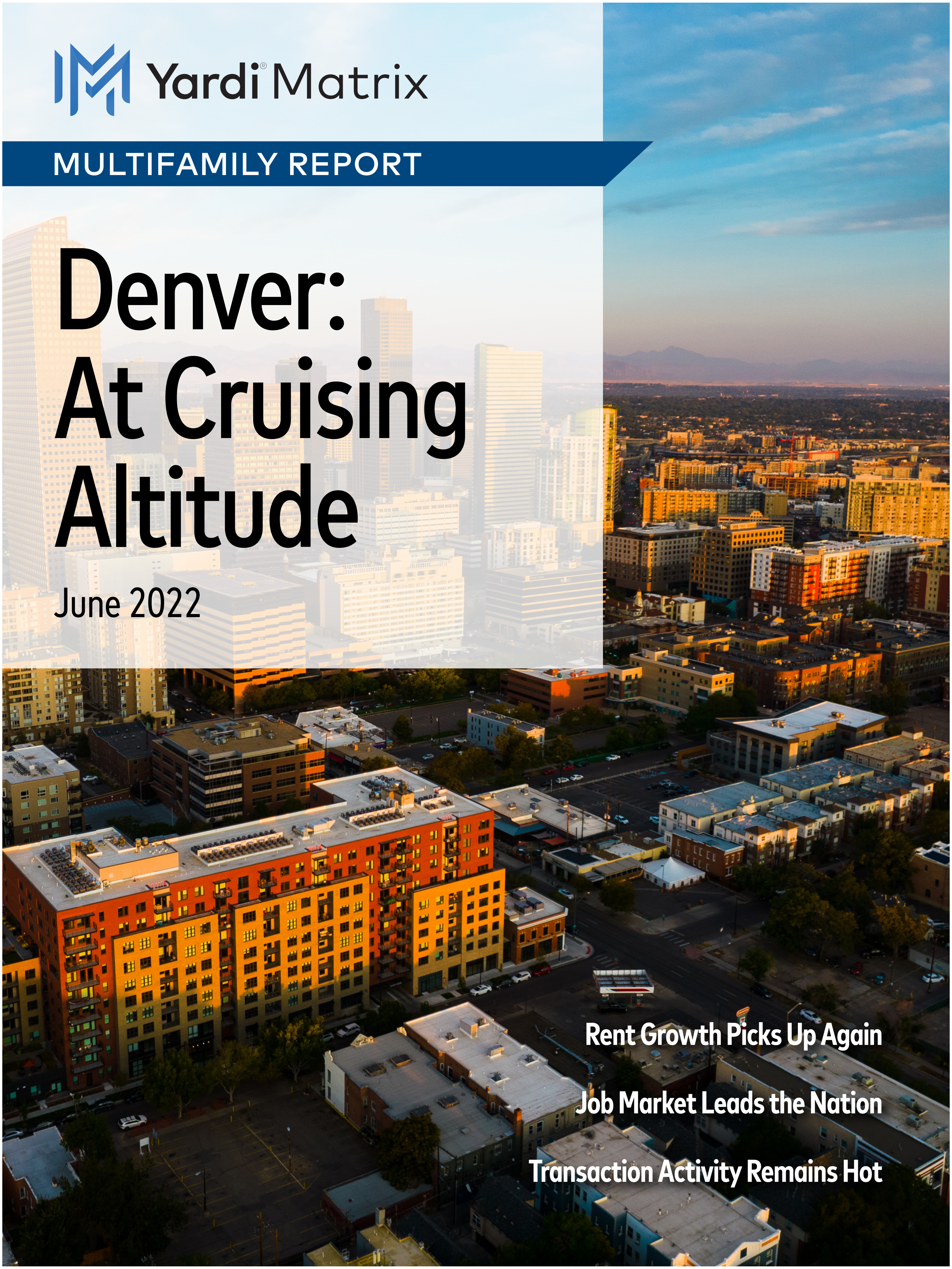
Yardi Matrix

MULTIFAMILY REPORT

Denver: At Cruising Altitude

June 2022



Rent Growth Picks Up Again

Job Market Leads the Nation

Transaction Activity Remains Hot

DENVER MULTIFAMILY

Yardi Matrix

Denver Rental Market Maintains Altitude

One of the strongest metros for tech development over the past decade, Denver has benefited from a strong multifamily market that improved in leaps and bounds, even weathering the pandemic better than larger markets. Coming on the heels of 2021—when average asking rates increased by 1.2% on a monthly basis—rent expansion softened in the winter. However, through spring, rates rose again to 0.7% on a trailing three-month basis as of April, to an overall average of $1,847. Occupancy rose 50 basis points in the 12 months ending in March, to 95.4%.

Denver unemployment improved 40 basis point since the start of the year, clocking in at 3.6% in March, on par with the U.S. rate and 10 basis points ahead of the state, according to data from the Bureau of Labor Statistics. The employment market expanded by 5.1% in the 12 months ending in February, or 106,200 jobs, leading the 4.7% U.S. rate. Good strides were recorded in the metro's largest sectors—professional and business services (27,000 jobs) and trade, transportation and utilities (12,700 jobs), both poised for sustained expansion.

Developers delivered 1,624 units in 2022 through April, below the volume of previous years during the same period, but there were another 26,000 units underway. Investors traded more than $1.5 billion in multifamily assets, on par with 2021.

Market Analysis | June 2022

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Recent Denver Transactions

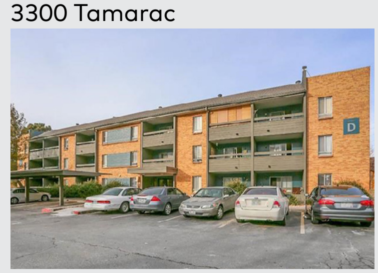
AMLI Art District

City: Denver
Buyer: AMLI Residential
Purchase Price: $155 MM
Price per Unit: $459,941

Stone Cliff

City: Aurora, Colo.
Buyer: MG Properties Group
Purchase Price: $143 MM
Price per Unit: $362,944

3300 Tamarac



City: Denver
Buyer: MG Properties Group
Purchase Price: $141 MM
Price per Unit: $250,000

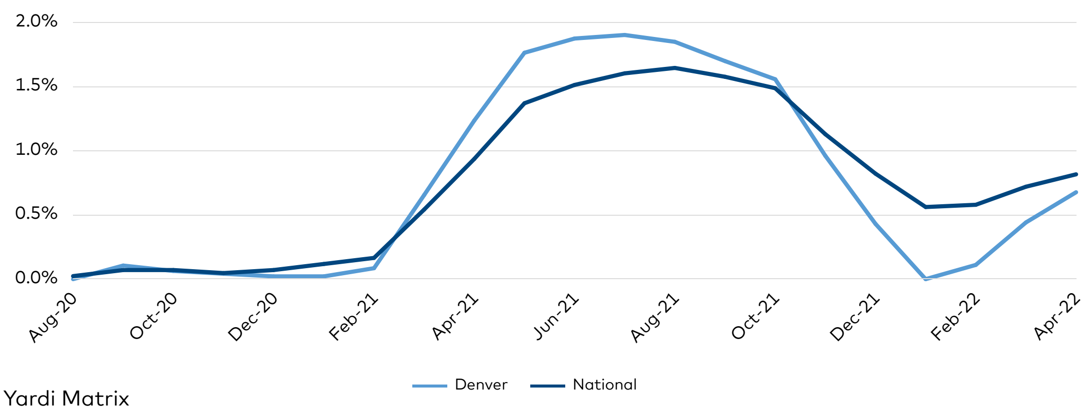
Peakline at Copperleaf

City: Aurora, Colo.
Buyer: 29th Street Capital
Purchase Price: $104 MM
Price per Unit: $390,977

RENT TRENDS

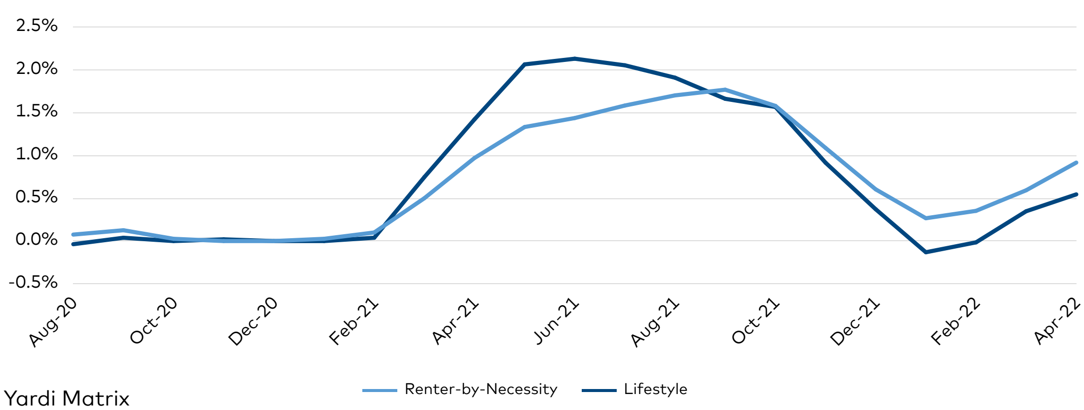
- Denver rents rose 0.7% on a trailing three-month (T3) basis through April, to $1,847, 10 basis points below the U.S. rate. On a year-over-year basis, rates rose 13.1%, trailing the 14.3% national figure. Rent performance in the metro moderated during winter but has reverted to a steadily improving trend.
- Mirroring the national pattern, rent development was led by the working-class Renter-by-Necessity segment, up 0.9% on a T3 basis, to $1,556. Meanwhile, Lifestyle rates rose 0.5% to $2,043.
- The reversed dynamic between asset classes is reflected in the occupancy rate in stabilized properties, up 70 basis points year-over-year as of March, at 95.6% for RBN apartments and just 20 basis points for Lifestyle units, to 95.2%. Overall, occupancy climbed 50 basis points to 95.4%.
- Of the 44 submarkets tracked by Yardi Matrix, 42 posted double-digit increases in their asking rents; in April, seven submarkets had average rates above the $2,000 mark, from just one a year ago. The most expensive areas in Denver remained Boulder (up 12.0% year-over-year to $2,282), CBD/Five Points/North Capitol Hill (13.6% to $2,221) and City Park/City Park West (16.4% $2,168).
- Rent development in the single-family-rental sector occupied only a bottom third ranking among the top 30 markets, up by a mild 8.2% year-over-year through April.

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

- Since January, the unemployment rate in Denver has improved by 40 basis points, to 3.6% as of March, on par with the national rate and leading the state by 10 basis points. The job market expanded 5.1% in the 12 months ending in February, topping the 4.7% U.S. rate.
- The growth rate is the equivalent of 106,200 positions, of which more than a third were in the leisure and hospitality sector (38,900 jobs). Next in line were Denver's largest employment sectors—professional and business services (27,000 jobs, or 7.8%) and trade, transportation and utilities (12,700 jobs, or 3.6%). The former's substantial growth can be attributed to the metro's reputation as a friendly landing spot for technology businesses, which in the past decade have expanded beyond the traditional hubs in search of new talent and lower-cost areas. The metro is benefiting from company expansions, such as Amazon, which recently announced plans to hire another 2,700 employees for its delivery and processing stations in Denver, and United Airlines, which plans to add 3,000 jobs by 2026.
- Denver's economic growth faces many of the same headwinds that the nation is dealing with: supply chain issues, rising inflation, workforce shortages, insufficient affordable housing and the virus. These challenges maintain a high level of uncertainty that is dragging the recovery.

Denver Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	205	10.1%
60	Professional and Business Services	372	18.3%
40	Trade, Transportation and Utilities	368	18.1%
90	Government	296	14.6%
15	Mining, Logging and Construction	142	7.0%
30	Manufacturing	122	6.0%
80	Other Services	77	3.8%
55	Financial Activities	135	6.6%
50	Information	66	3.2%
65	Education and Health Services	249	12.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Denver added just 3,277 residents in 2021, up 0.1% year-over-year, on par with the U.S. rate, and well below the 0.8% increase recorded in 2020.
- The metro's population expanded by 14.2% in the decade ending in 2021, nearly three times the 5.4% national rate.

Denver vs. National Population

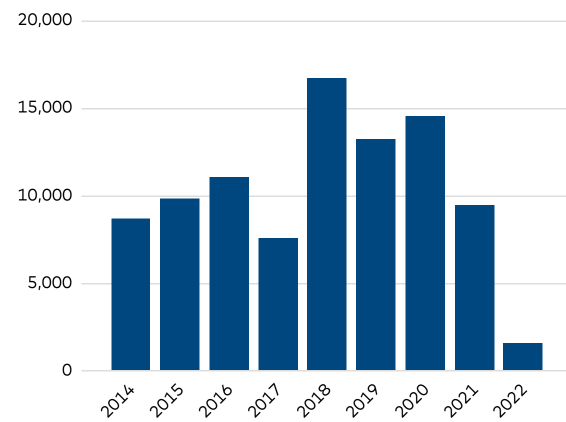
	2017	2018	2019	2020
National	326,838,199	328,329,953	331,501,080	331,893,745
Denver Metro	2,933,991	2,964,811	2,969,289	2,972,566

Source: U.S. Census

SUPPLY

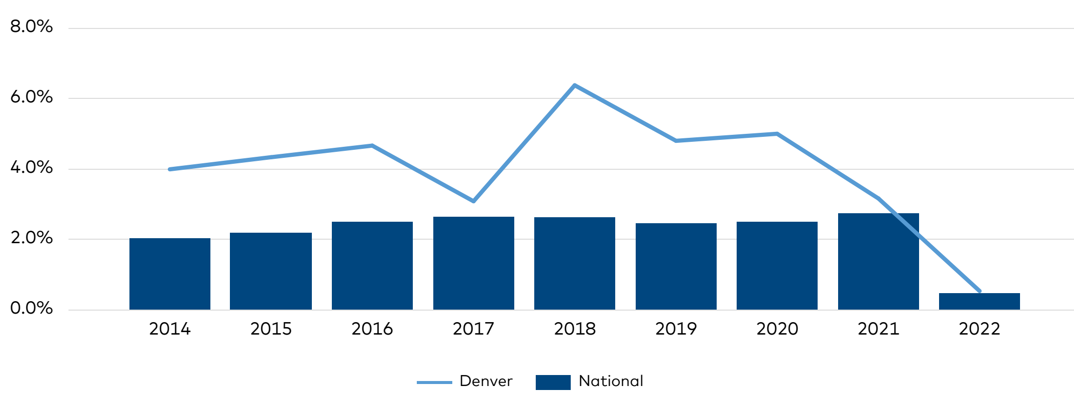
- Developers added 1,625 units in 2022 through April. That accounted for 0.5% of total stock, 10 basis points above the U.S. rate. Stock expansion softened considerably compared to previous years—during the same period in 2021 developers brought online 2,545 units and in 2020, 5,738 units.
- The construction pipeline comprised 26,128 units under construction and another 110,000 units in the planning and permitting stages. By the end of the year, more than 16,000 units are slated for completion, but that number will likely be lower, as construction is facing several headwinds, including the rise of construction costs, rising inflation and interest rates and labor shortages.
- Developers continue to favor the Lifestyle segment, which accounts for more than 80 percent of the current pipeline. The Renter-by-Necessity segment had 3,041 units underway: 240 market-rate units and 2,801 units in fully affordable communities.
- Construction activity was uneven across the map with CBD/Five Points/North Capitol Hill leading with 4,912 units underway. The submarket is one of the most sought after by investors, developers and renters alike. Overall, the top five submarkets accounted for nearly half of the construction pipeline.
- The largest project delivered in 2022 through April was Legacy at Fitz, a 363-unit property located in an Opportunity Zone in Aurora. Legacy Partners built it with help from a $58.7 million construction loan funded by Regions Bank.

Denver Completions (as of April 2022)



Source: Yardi Matrix

Denver vs. National Completions as a Percentage of Total Stock (as of April 2022)

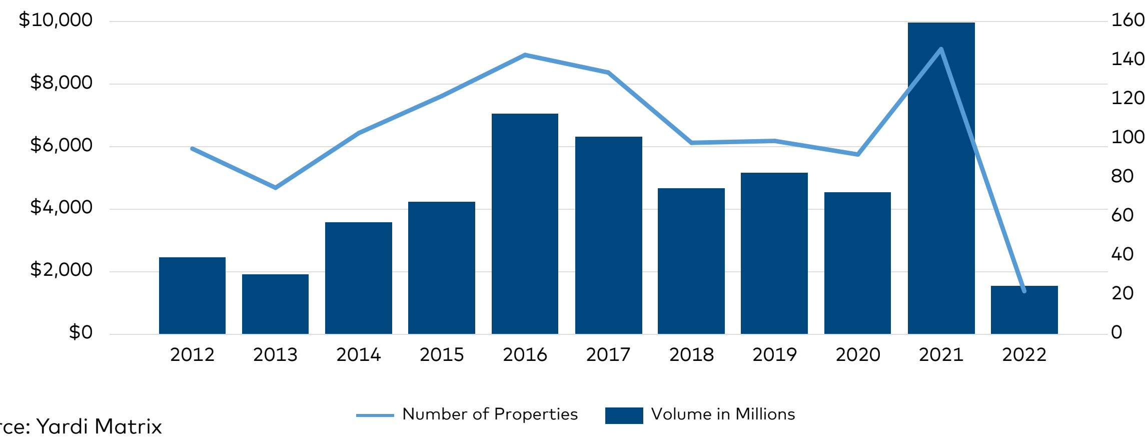


Source: Yardi Matrix

TRANSACTIONS

- Transaction activity in Denver reached $1.5 billion this year through April, just slightly below the $1.6 recorded in the same interval of 2021. In 2021, a record $10 billion in multifamily assets changed hands.
- Investor interest has been balanced between quality segments, of the 22 sales recorded through April, 11 involved Lifestyle properties. This highlights the increased competition in the metro, as does the price per unit, which increased 13.7% this year through April, to $352,241, well above the $209,274 national average.
- CBD/Five Points/North Capitol Hill and East Colfax/Lowry Field/Stapleton each surpassed the $1 billion mark in multifamily sales in the 12 months ending in April, but current headwinds including rising inflation and rising interest rates will likely soften transactions and price increases going forward.

Denver Sales Volume and Number of Properties Sold (as of April 2022)



Source: Yardi Matrix

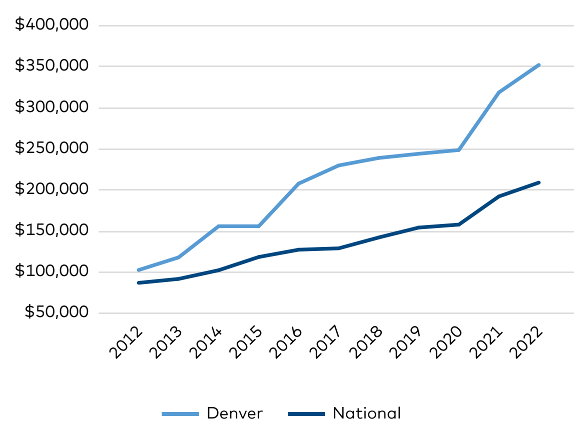
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
CBD/Five Points/North Capitol Hill	1,500
East Colfax/Lowry Field/ Stapleton	1,240
Douglas County-North	852
Arapahoe-Southwest	760
Hampden/Virginia Village/ Washington Virginia Vale	677
Aurora-Southwest	508
Aurora-West Central	432

Source: Yardi Matrix

[1] From May 2021 to April 2021

Denver vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

Top Western Markets by Investment Activity

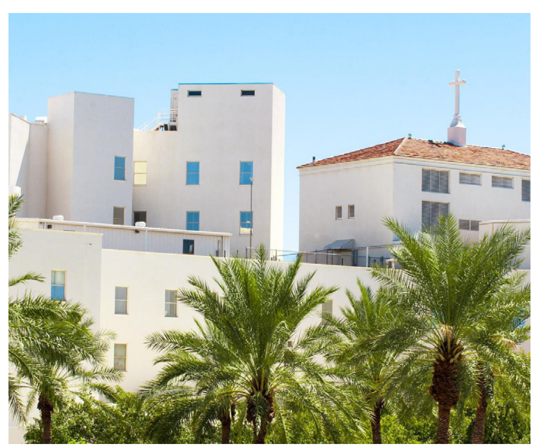
By Beata Lorincz

U.S. multifamily investment has been riding a wave of expansion and despite ongoing global issues, the sector's steam is still holding up. With the country's economy contracting 1.4 percent in the first quarter of 2022 due to multiple reasons, such as inflation, supply chain issues and the ongoing pandemic, Yardi Matrix is expecting the deceleration of this growth. The list below highlights the top Western markets which recorded the largest transaction volume in the first quarter of 2022, based on Yardi Matrix data.

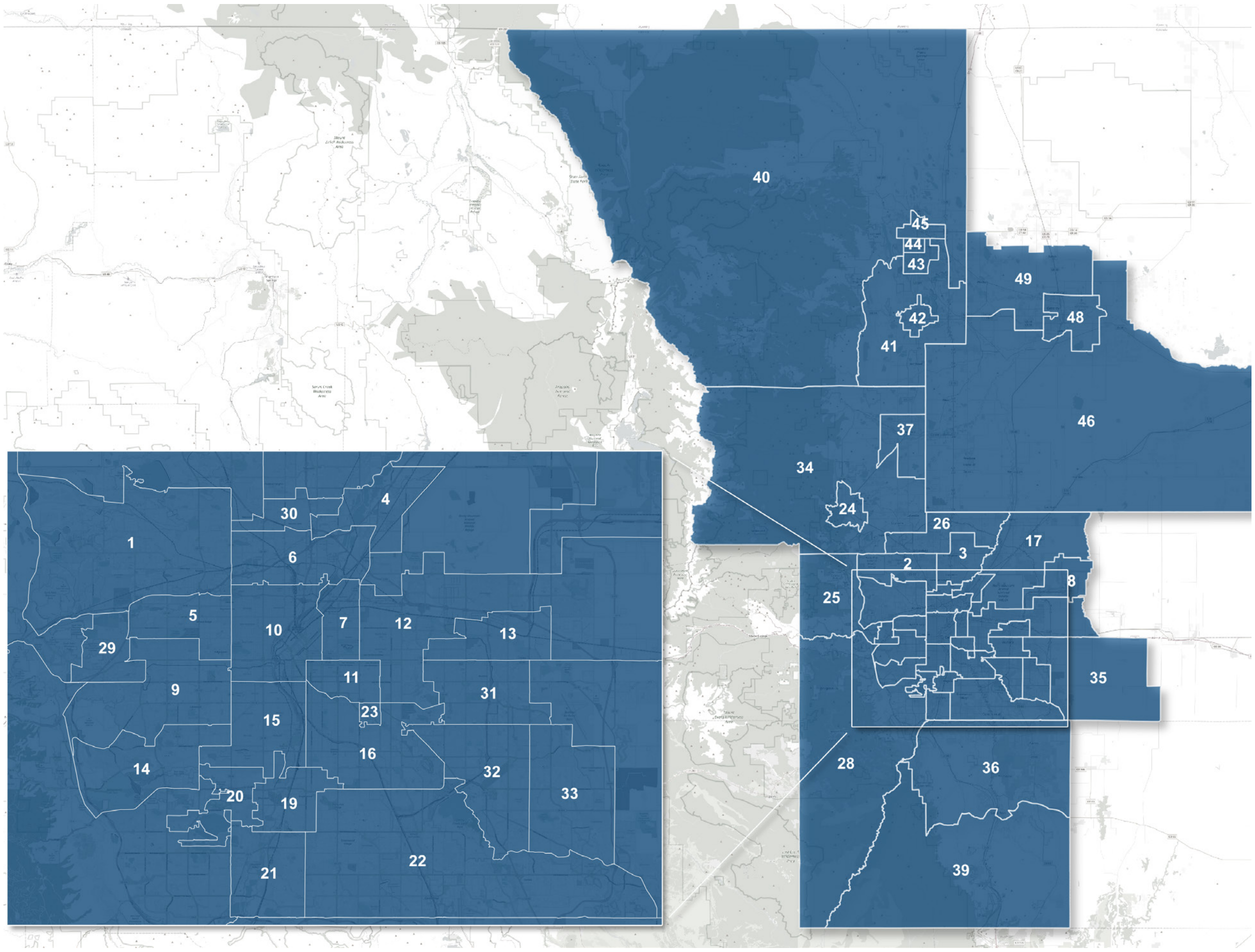
Rank	Market	Sales Volume Q1-2022	Price Per Unit Q1-2022	Sales Volume 2021	Price Per Unit 2021
1	Phoenix	$2.5 billion	$312,430	$14.7 billion	$261,054
2	Denver	$1.3 billion	$409,475	$9.9 billion	$322,151
3	Las Vegas	$979 million	$267,905	$4.6 billion	$217,022
4	Reno	$320 million	$308,687	$700 million	$246,510
5	Colorado Springs	$255 million	$301,241	$887 million	$220,278

Denver

Despite omicron- and economy-related woes, Denver's recovery is still underway and should continue through 2022. As of March, the metro's rent growth year-over-year reached 14.1 percent, while the forecast year-end rent growth was 6.4 percent, according to Yardi Matrix. The metro's sales volume in the first quarter of the year clocked in at $1.32 billion, the second highest figure on our list, while also reaching the highest price per unit in that period, $409,475.



DENVER SUBMARKETS



Area No.	Submarket	Area No.	Submarket	Area No.	Submarket
1	Arvada	16	Hampden/Virginia Village/Washington	33	Aurora–Southeast
2	Westminster	17	Brighton	34	Greater Boulder
3	Northglenn/Thornton	19	Englewood/Sheridan	35	Arapahoe–East
4	Commerce City/Derby	20	Bear Valley/Fort Logan	36	Douglas County–North
5	Wheat Ridge	21	Columbine Valley/Littleton	37	Longmont
6	Berkley/North Washington	22	Arapahoe–Southwest	39	Douglas County–East
7	City Park/City Park West	23	Glendale	40	Estes Park/Laporte
8	Denver International Airport	24	Boulder	41	Champion
9	Lakewood–North	25	Golden	42	Loveland
10	CBD/Five Points/North Chapel Hill	26	Broomfield/Todd Creek	43	Fort Collins–South
11	Capitol Hill/Cheesman Park/Hale	28	Jefferson	44	Fort Collins–Central
12	East Colfax/Lowry Field/Stapleton	29	Applewood/West Pleasant View	45	Fort Collins–North
13	Aurora–Northwest	30	Sherrelwood/Welby	46	Weld South
14	Lakewood–South	31	Aurora–West Central	48	Greeley East
15	College View/Ruby Hill	32	Aurora–Southwest	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 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 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, 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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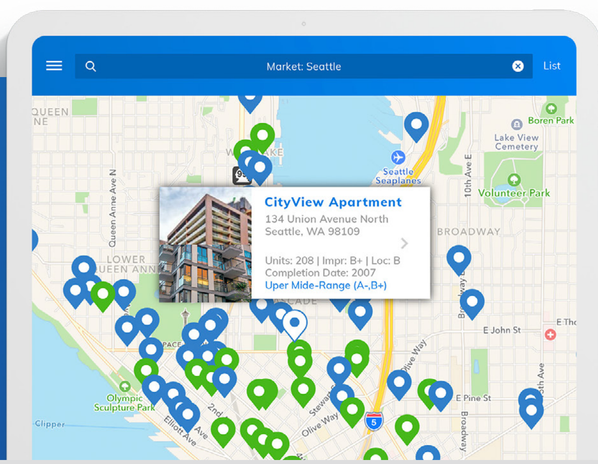
MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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