Yardi® Matrix

Developing Denver

Multifamily Report Summer 2017

Construction Activity Remains High

Rent Growth Continues Unfazed

Sales Moderate After Cycle Peak

Market Analysis

Summer 2017

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Rents Rise Despite Surging Deliveries

Not too long ago, Denver was among the nation's leaders in rent growth, but it has since experienced a cooldown in appreciation. The moderating trend was due in large part to the metro's robust multifamily pipeline, which added 21,000 units from 2015-2016. Activity was very high in multifamily investment sales as well, as about $9.2 billion in properties traded during the past 18 months. However, at a point when overbuilding is widely discussed as a potential problem, rent growth continues, albeit at a more sustainable rate, reaching 2.8% year-over-year in June.

Denver's expanding employment market has attracted people in segments, including professionals in the finance and technology sectors. The metro's wider availability of well-paying jobs and significant affordability relative to major coastal markets is driving population growth at rates more than twice the national average. The city's growth has driven improvements in infrastructure, as the Regional Transportation District recently completed expansions into Aurora and Wheat Ridge through its FasTracks program.

Developers will continue to add inventory at a pace that is almost double the national average, with more than 25,000 units underway as of June. Demand has kept up with the high rate of deliveries through the second half of the cycle. As a result, we expect a growth rate of 2.0% in 2017.

Recent Denver Transactions

TAVA Waters

City: Denver
Buyer: Pensam Capital
Purchase Price: $350 MM
Price per Unit: $229,809

Griffis 3100 Pearl

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

Pembrooke on the Green

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

Kent Place Residences

City: Englewood, Colo.
Buyer: JP Morgan Asset Management
Purchase Price: $127 MM
Price per Unit: $424,666

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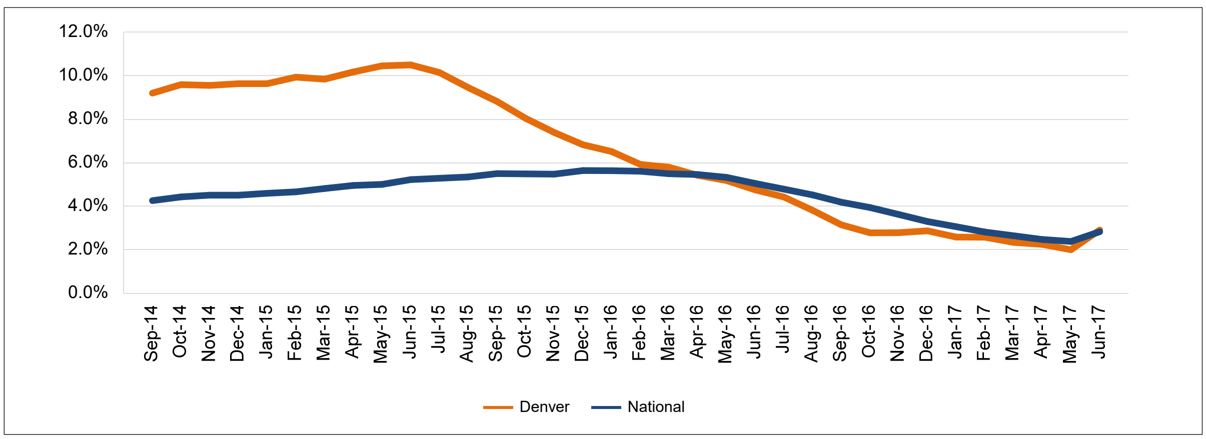
On the cover: Photo by oneillbro/iStockphoto.com

Rent Trends

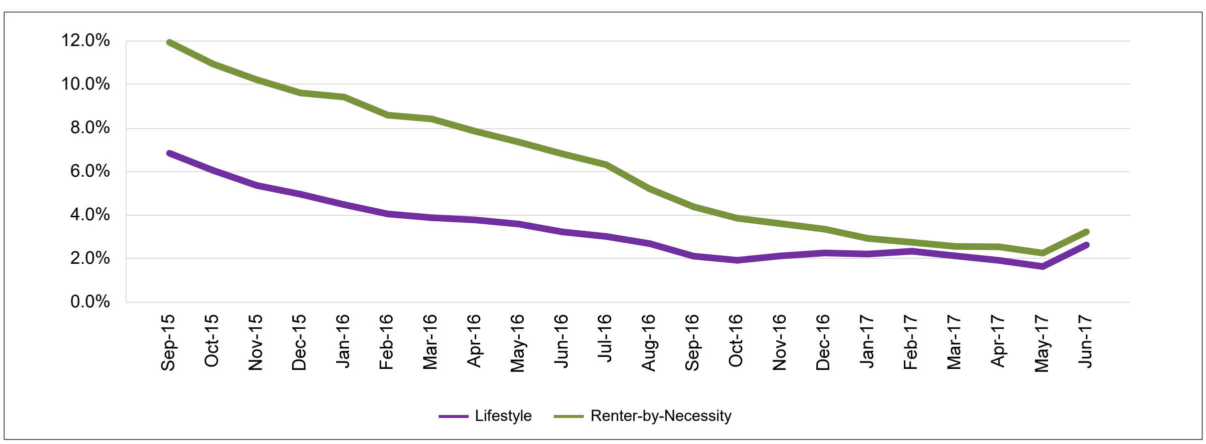
- Denver rents rose 2.9% year-over-year through June, 10 basis points above the U.S. growth rate. At $1,453, rents were above the $1,349 national average, but still well below the levels met by major coastal markets. Accelerated household creation is also supporting the positive trend.
- A high rate of completions in multifamily properties has done little to soften demand, leading to an occupancy rate of 95.5% in June, marking a modest year-over-year decrease of 10 basis points.
- Two-thirds of units underway in Denver are in the Lifestyle segment, where rents have continued to steadily improve, at $1,641 as of June, up 2.6% year-over-year. Meanwhile, rents in the working-class Renter-by-Necessity segment, which is more supply constrained, have grown at a stronger rate, up 3.2% to $1,246.
- Rents are growing at the highest rates in submarkets from the outer ring such as Golden (10.0%), Douglas County South (9.9%) and Greeley East (8.3%). Rent growth has stalled in submarkets with the highest rents, including City Park/City Park West ($1,937), CBD/Five Points/North Capital Hill ($1,842) and Boulder ($1,774), where improvement was below the 1.0% mark. With significant completions scheduled this year, we expect rent growth to top out at 2.0% in 2017.

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)

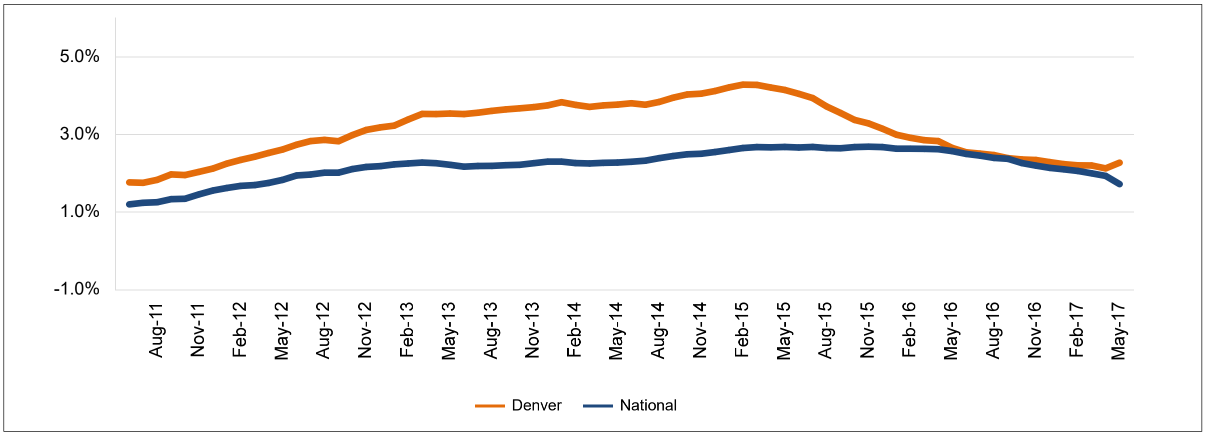


Source: YardiMatrix

Economic Snapshot

- Denver added 53,500 jobs in the 12 months ending in May, representing an employment growth rate of 2.3% year-over-year, 40 basis points above the national figure.
- Leisure and hospitality led gains with 10,500 new jobs, a direct result of Denver adding hotel rooms in 2016 at nearly double the U.S. average rate. This has translated into a 5.0% year-over-year sector expansion, despite occupancy being the only key industry metric to decrease during the first half of 2017.
- Education and health services added 10,100 jobs as significant population growth continues to create the need for services in health care and training. University of Denver is rolling out a $140 million project aimed at significantly improving the student experience throughout its facilities. Known as The Denver Advantage, the program calls for the development of new student housing and improvement of its career development and community-building programs.
- Denver's office market has grown in recent years, with the development pipeline considerably expanding during the second half of the cycle. The growing number of deliveries has resulted in a slight uptick in vacancy, pushing the rate to12% during 2017's first half. The rise in vacancy and the availability of more space is moderating asking rents and property values.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
70	Leisure and Hospitality	223	11.6%	10,500	5.0%
65	Education and Health Services	244	12.7%	10,100	4.3%
40	Trade, Transportation and Utilities	339	17.6%	9,600	2.9%
90	Government	296	15.4%	8,700	3.0%
60	Professional and Business Services	327	17.0%	7,400	2.3%
15	Mining, Logging and Construction	131	6.8%	4,000	3.1%
55	Financial Activities	126	6.5%	2,700	2.2%
80	Other Services	72	3.7%	2,300	3.3%
30	Manufacturing	112	5.8%	-800	-0.7%
50	Information	57	3.0%	-1,000	-1.7%

Sources: YardiMatrix, Bureau of Labor Statistics

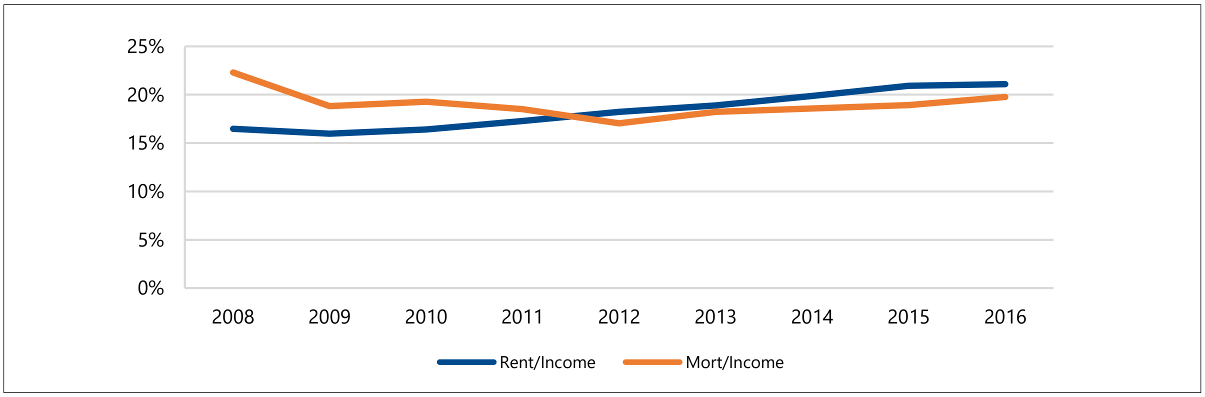
Demographics

Affordability

- The median home price in Denver reached $330,463 in 2016, a 53% increase since 2009, when the market bottomed out. However, although single-family home prices have surged, renting has become the more costly option, as the average rent takes up roughly 21% of the median income. Meanwhile, the addition of high-paying jobs has kept mortgage affordability above pre-recession levels, at 20% of income.

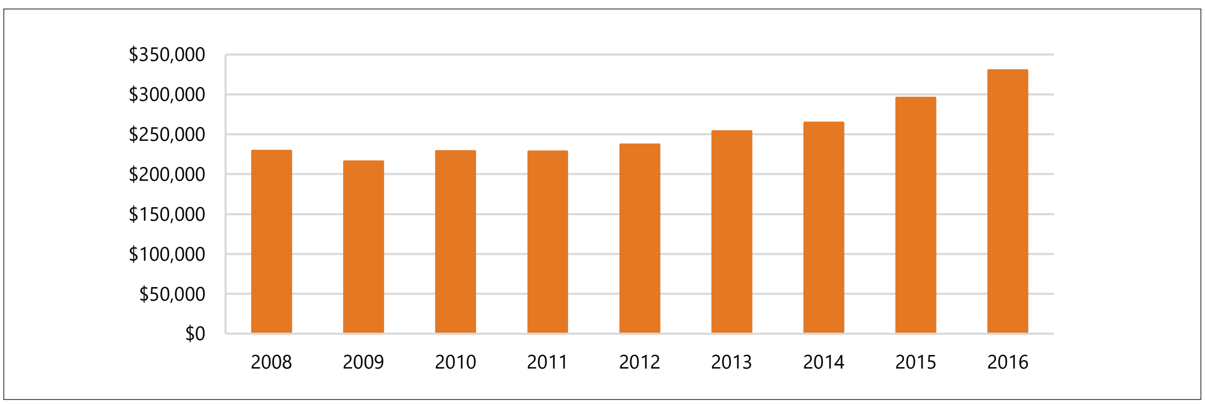
- Limited supply of single-family homes, condos and townhomes is pushing exponential growth in rental household creation. Above-average employment growth has led to widespread population expansion, putting pressure on developers to maintain a high level construction activity.

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 grew by 44,000 residents between 2015 and 2016, a 1.6% rate, or roughly double the national average.

- Strong employment and affordable housing continue to drive population growth.

Denver vs. National Population

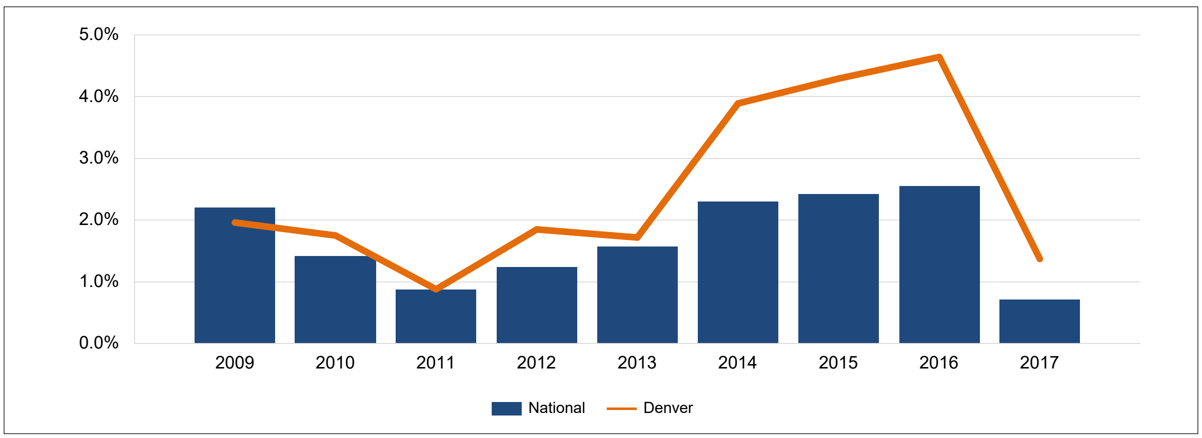
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Denver Metro	2,647,830	2,698,125	2,752,433	2,808,816	2,853,077

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

Supply

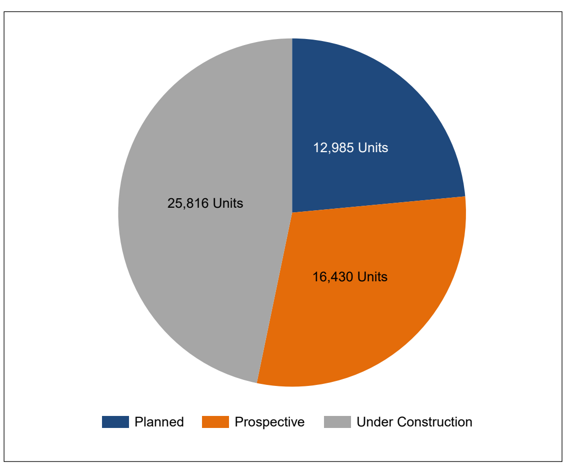
- In the first half of 2017, 3,324 units were added to inventory, representing 1.4% of existing stock. Development continues to be robust in Denver, as the rate of delivery was roughly three times the national average during the same time frame.
- We expect another strong year for multifamily development in 2017, as some 26,000 units are under development and roughly 15,000 units are projected to be delivered. The pipeline will stay robust for at least another year, with more than 55,000 units underway. Despite a spike in new supply, demand is high, and developers show no signs of slowing down.
- Construction is widespread. At the end of 2017's second quarter, communities were in development in 27 submarkets, led by CBD/Five Points/North Capital Hill (8,268 units), Arapahoe–Southwest (2,020 units), Douglas County–North (1,775 units) and Hampden/Virginia Village/Washington Virginia Vale (1,631 units).
- Holland Partners' Union Denver project at 1770 Chestnut Place is the largest property now underway. The project will add 579 units upon its completion in the spring of 2018.

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



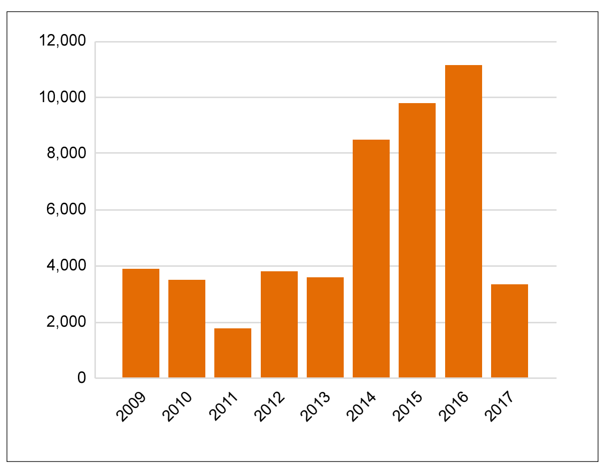
Source: YardiMatrix

Development Pipeline (as of June 2017)



Source: YardiMatrix

Denver Completions (as of June 2017)

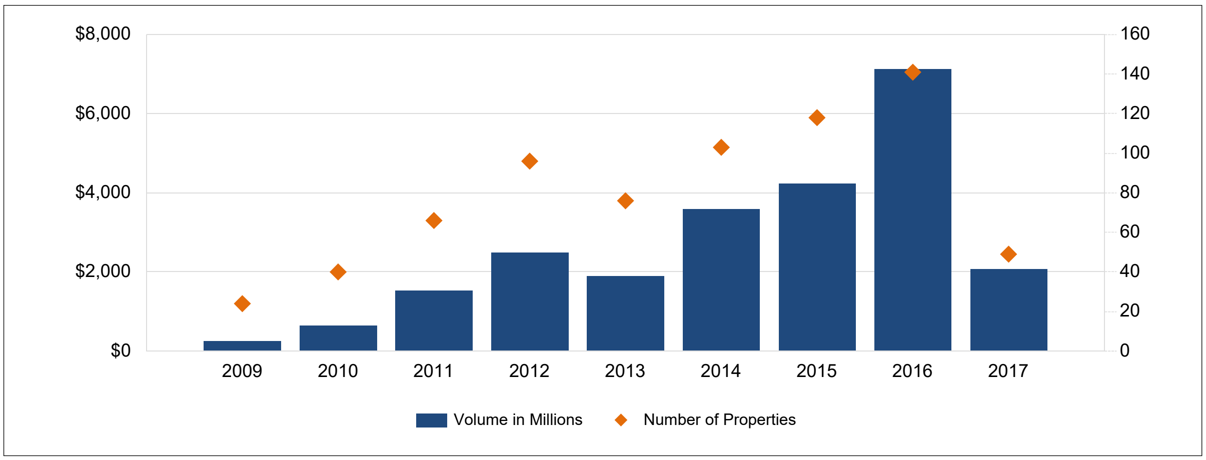


Source: YardiMatrix

Transactions

- Roughly $2.1 billion in multifamily assets had traded by the year's halfway point. That's a large amount, as compared to historical volume, but it represents a slowdown, following a cycle peak of $7.1 billion in sales in 2016. Investor appetite has slightly moderated, as property values have rapidly increased, leading to per-unit prices of more than $200,000 for the first time this cycle. Overall per-unit prices were $200,732 in 2017, slightly below the 2016 average of $208,612. Still, they were 51% higher than the national average, reducing acquisition yields to the 4.3-5.0% range for stabilized Class A properties in the inner ring.
- Transaction activity was highest in the southwest side of Denver, with all three leading submarkets being located in that quadrant—Hampden/Virginia Village/Washington Virginia Vale ($496 million), Arapahoe–Southwest ($418 million) and Aurora–Southwest ($389 million).

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



Source: YardiMatrix

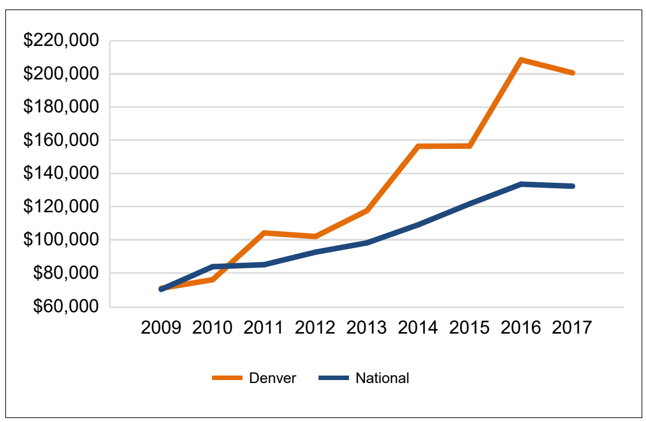
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Hampden/Virginia Village/ Washington Virginia Vale	496
Arapahoe–Southwest	418
Aurora–Southwest	389
CBD/Five Points/North Capitol Hill	359
Englewood/Sheridan	328
Northglenn/Thornton	325
Boulder	293
Broomfield/Todd Creek	269

Source: YardiMatrix

[1] From July 2016 to June 2017

Denver vs. National Sales Price per Unit



Source: YardiMatrix

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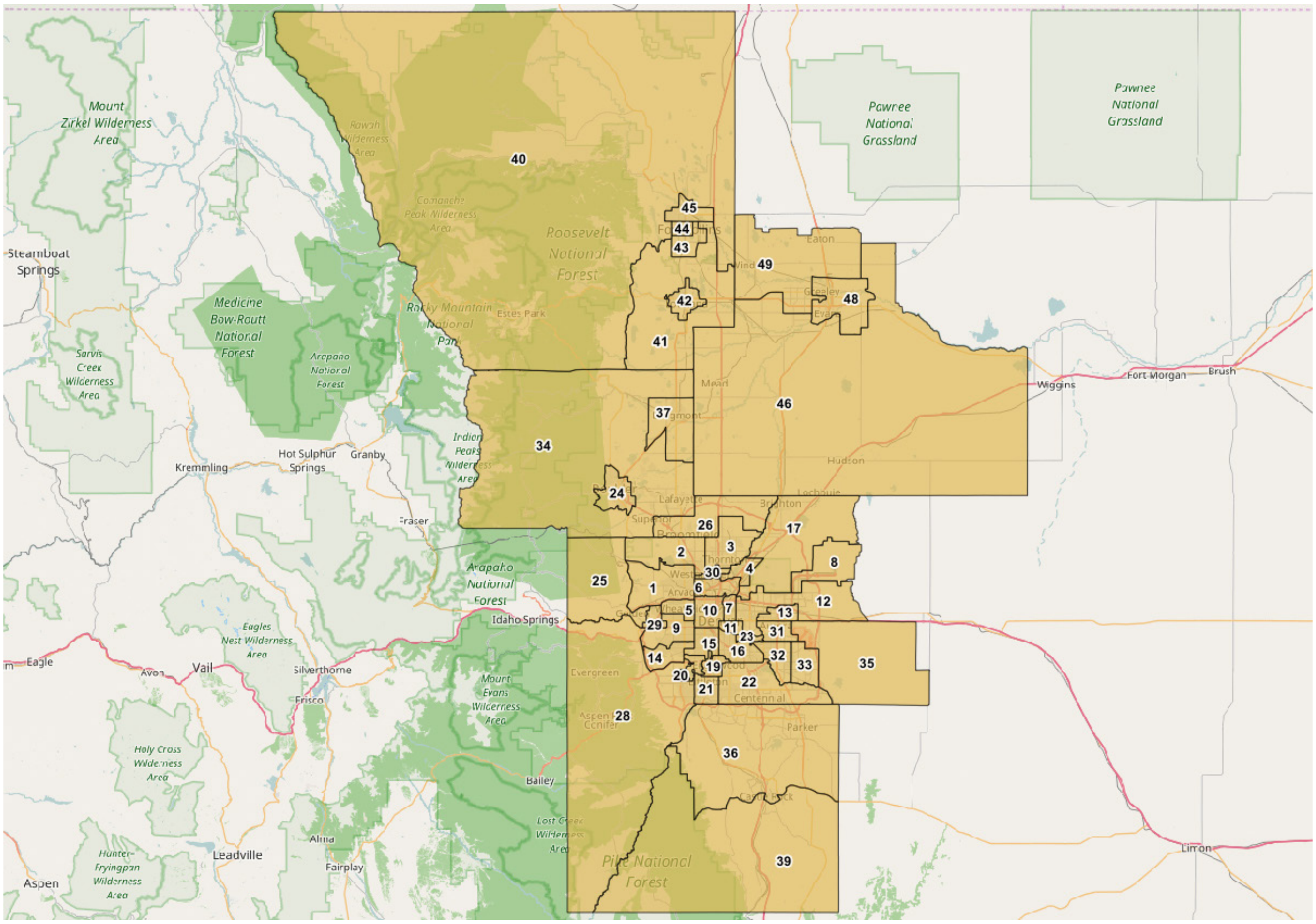
Denver Submarket



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	Sherrelwood/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.