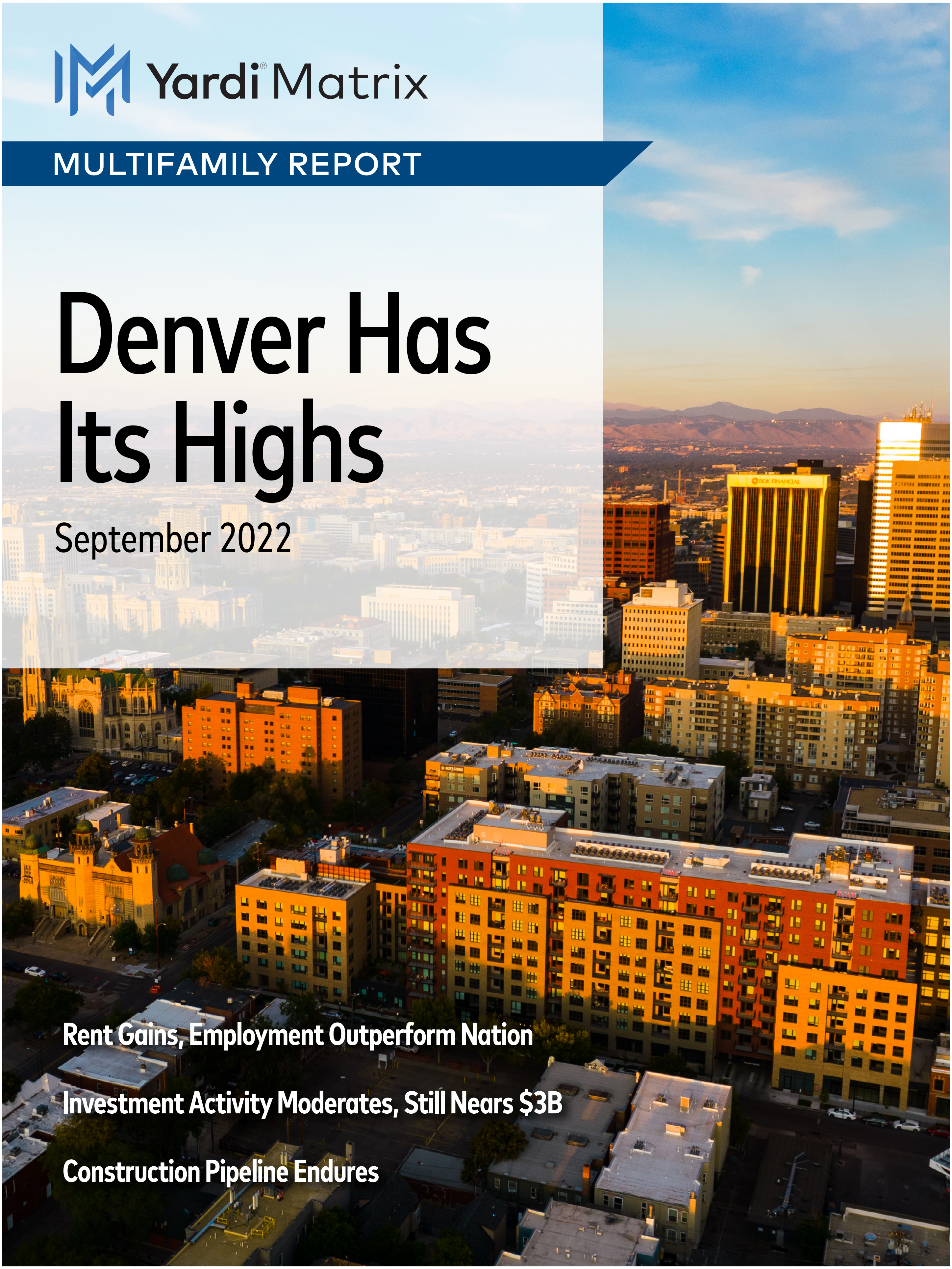
Yardi Matrix

MULTIFAMILY REPORT

Denver Has Its Highs

September 2022



Rent Gains, Employment Outperform Nation

Investment Activity Moderates, Still Nears $3B

Construction Pipeline Endures

DENVER MULTIFAMILY

Yardi Matrix

Softening Fundamentals As Fall Comes In

Powered by a recovering economy, Denver's multifamily market saw a steady performance in 2022, with sustained rent growth, substantial investment activity and consistently solid construction across the metro. Demand kept up with supply additions, with rents rising 1.2% on a trailing three-month basis through July, to $1,941, but the occupancy rate in stabilized properties was slightly impacted, declining 30 basis points in the 12 months ending in June, to 95.4%.

Denver unemployment stood at 3.2%, faring better than both the U.S. (3.6%) and the state (3.4%), but the market is still nowhere near pre-pandemic levels. Even so, the metro recovered nearly all jobs lost during the health crisis, with the employment market expanding 5.3% in the 12 months ending in May, adding 92,500 jobs. Professional and business services—Denver's largest sector—led growth with 29,700 positions. Leisure and hospitality continued its rebound with 26,600 new jobs. Moreover, Denver International Airport's passenger volume in the first half of 2022 was just 1.6% below that of the same period in 2019.

Development activity moderated slightly, but still posted consistent numbers: 4,424 units delivered through July and 29,000 units were underway. Meanwhile, sales volume reached nearly $2.9 billion, trailing the figure registered during the same period last year. The price per unit increased by 9.4% on an annual basis.

Market Analysis | September 2022

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Recent Denver Transactions

Terra Village

City: Denver
Buyer: Trion Properties
Purchase Price: $110 MM
Price per Unit: $273,632

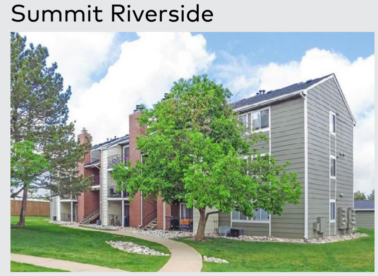
Greenwood Plaza

City: Centennial, Colo.
Buyer: Pacific Urban Investors
Purchase Price: $107 MM
Price per Unit: $401,128

The Links at Legacy Ridge

City: Westminster, Colo.
Buyer: MIG Real Estate
Purchase Price: $94 MM
Price per Unit: $405,172

Summit Riverside

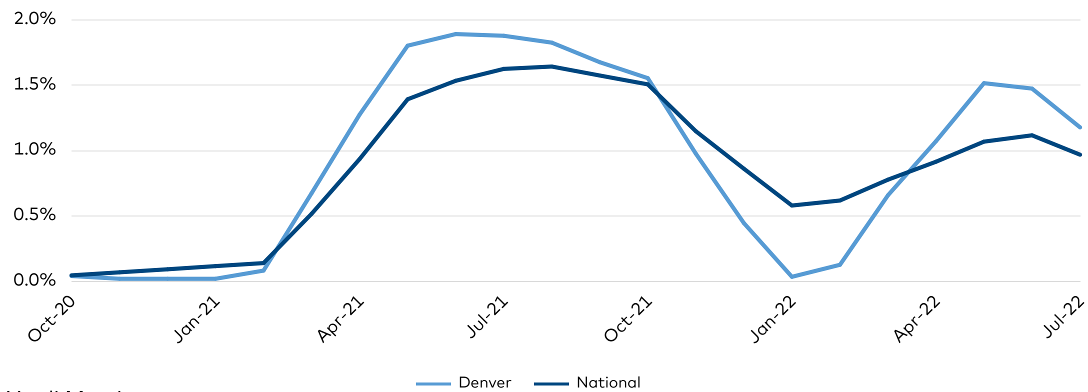


City: Littleton, Colo.
Buyer: Security Properties
Purchase Price: $79 MM
Price per Unit: $316,532

RENT TRENDS

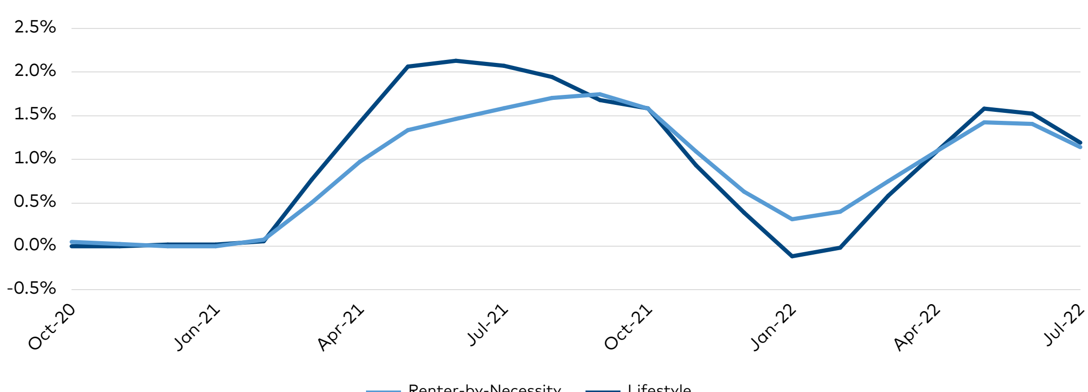
- Denver rents rose 1.2% on a trailing three-month (T3) basis through July, outperforming the U.S. average by 20 basis points and marking the fourth consecutive month of above-average growth. At $1,941, the rent in Denver continued to lead the $1,717 national rate. On an annual basis, the positions reversed, with Denver's 12.1% growth rate trailing the 12.6% U.S. rate.
- Demand was fairly balanced across asset classes, with Lifestyle units leading in rent growth by 10 basis points, up 1.2% on a T3 basis through July to $2,155, while Renter-by-Necessity units rose 1.1% to $1,620. The occupancy rate in stabilized properties decreased by 30 basis points in the 12 months ending in June, to 95.4%. The decline was likely caused by the substantial Lifestyle stock additions, as occupancy in the segment dropped by 50 basis points to 95.2%, while for RBN units it remained flat at 95.7%.
- Of the 44 submarkets tracked by Yardi Matrix, just seven posted annual rent gains below the 10% mark. Consequently, the average rent rose above the $2,000 threshold in 14 submarkets, from just three the year prior. The most sought-after area remained CBD/Five Points/North Capitol Hill (9.7% to $2,351). The submarket also leads in transaction activity and in volume of projects under construction.
- Rents in the single-family rental sector are on a slight upward trend, up 9.9% year-over-year through July, but occupancy declined 1.0% in the 12 months ending in June.

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 improved to 3.2% in June, outperforming the U.S. (3.6%) and the state (3.4%). Despite solid progress, the metro has yet to reach pre-pandemic values and is trailing Boulder (2.8%).

- Denver recovered almost all jobs lost during the health crisis. The employment market expanded 5.3% in the 12 months ending in May, the equivalent of 92,500 positions, with all sectors gaining jobs. Although the leisure and hospitality sector is still rebounding—up 26,600 positions—it was the professional and business services sector that led gains, adding 29,700 jobs. Despite fluctuating economic markers, the sector has expanded by nearly 100 basis points since the summer of 2019 and is poised to continue due to tech companies that choose the metro thanks to its talent pool and lower cost of living and doing business. Denver International Airport recorded 32.2 million passengers in the first half of 2022, which is down just 1.6% from the same period in 2019.

- Inflation and tightening monetary policy at the federal level will likely affect Colorado's economy in the coming months, but the state has built a strong work pool that can help it withstand a recession. In fact, the state's economy fared above expectations in the first half of 2022, and most Coloradans who lived in the state throughout 2021 are eligible for a $750 ($1,500 for joint filers) rebate under the Taxpayer's Bill of Rights.

Denver Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
60	Professional and Business Services	387	18.7%
70	Leisure and Hospitality	220	10.6%
40	Trade, Transportation and Utilities	362	17.5%
80	Other Services	80	3.9%
15	Mining, Logging and Construction	147	7.1%
30	Manufacturing	123	5.9%
65	Education and Health Services	252	12.2%
90	Government	301	14.5%
55	Financial Activities	136	6.6%
50	Information	65	3.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Denver's population expansion softened in 2021, gaining just 3,277 residents, a 0.1% year-over-year increase, behind 2020's 0.2% growth rate and on par with the slow U.S. rate.

- Since 2019, the metro's population posted a 0.3% growth rate.

Denver vs. National Population

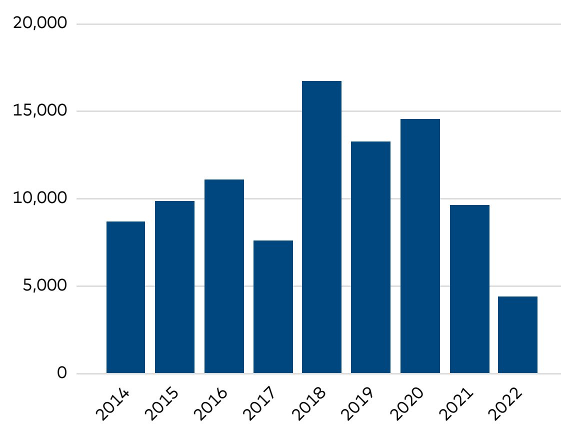
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Denver Metro	2,933,991	2,964,811	2,969,289	2,972,566

Source: U.S. Census

SUPPLY

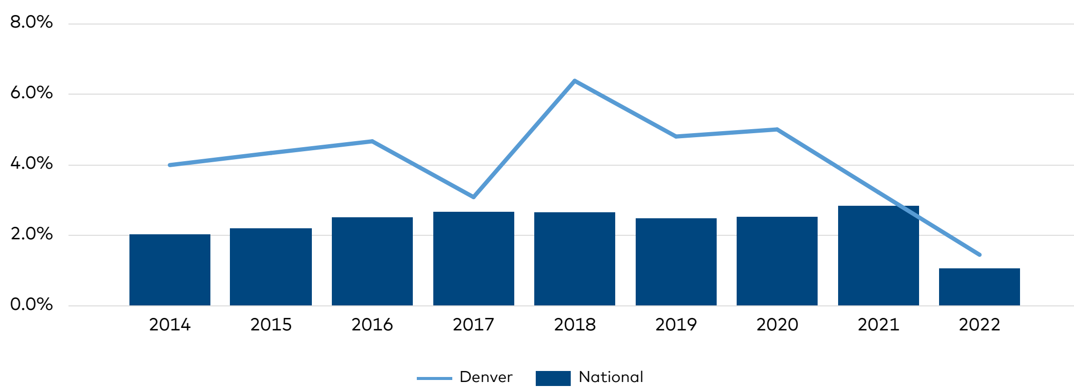
- Developers added 4,424 units to Denver's housing stock in 2022 through July, accounting for 1.5% of existing inventory and 40 basis points above the national rate. Completions weakened from a year ago, when 5,249 units were delivered by this point, and even further from the 9,923 units added in 2020.
- The construction pipeline had 29,213 units underway and another 115,000 units in the planning and permitting stages. Construction starts also moderated, down to 6,612 units in 2022 through July from 8,163 units during the same interval last year, but still well above the 2,066 units that broke ground during the same period in 2020.
- Developer focus remained on the upscale segment. Nearly 87% of deliveries were Lifestyle projects and the remaining were all units in fully affordable communities, with no additions to the market-rate segment. Moreover, more than 90% of the projects under construction were in the Lifestyle segment. Another 8% were in fully affordable communities with extremely limited completions in the RBN segment.
- Development was spotty across the map, and although nine submarkets had more than 1,000 units under construction, CBD/Five Points/North Capitol Hill led by far with 6,282 underway as of July. The submarket houses both the largest projects under construction—the 530-unit 26th Avenue & Alcott Street owned by Grand Peaks Properties and slated for completion in the final quarter of 2024—and the largest project delivered through July—the 393-unit Citizen, a Quarterra Multifamily property built with aid from a $90.7 million construction loan issued by JPMorgan Chase.

Denver Completions (as of July 2022)



Source: Yardi Matrix

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

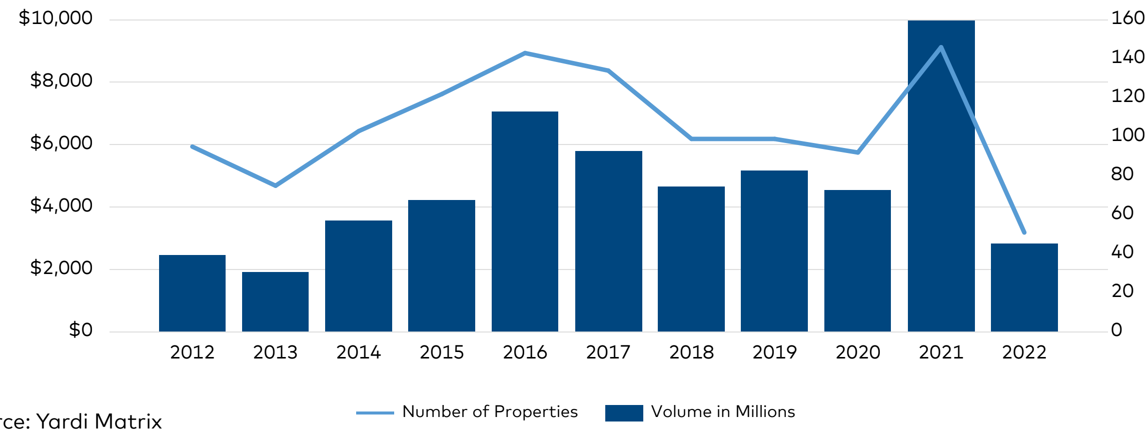


Source: Yardi Matrix

TRANSACTIONS

- Investors traded nearly $2.9 billion in multifamily assets in 2022 through July. During the same time last year—which was the best year ever for sales—the total surpassed $4.3 billion. Although the current economic landscape signals a cooldown across the nation, the volume is still significant and slightly above the $2.6 billion figure recorded in 2019 through July.
- Investor interest tilted toward value-add plays, with nearly two-thirds of the properties that traded being part of the RBN segment. Even so, the average price per unit rose 9.4% year-over-year through July, to $327,772, well ahead of the $216,893 U.S. figure.
- The CBD/Five Points/North Capitol Hill submarket also led in transaction activity with more than $1.1 billion through July, followed closely by East Colfax/Lowry Field/Stapleton ($955 million).

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



Source: Yardi Matrix

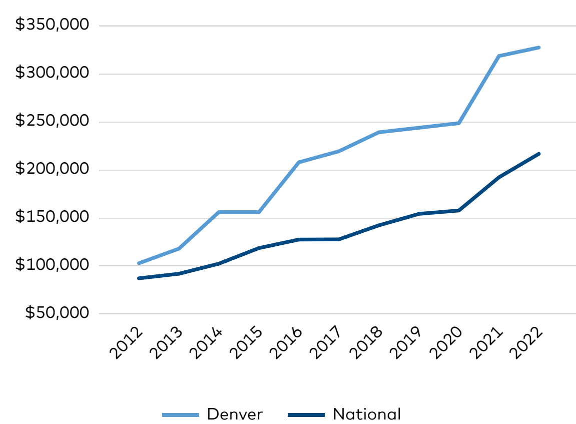
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
CBD/Five Points/North Capitol Hill	1,102
East Colfax/Lowry Field/Stapleton	955
Arapahoe–Southwest	768
Northglenn/Thornton	528
Capitol Hill/Chessman Park/Hale	448
Hampden/Virginia Village/ Washington Virginia Vale	442
Douglas County–North	417

Source: Yardi Matrix

[1] From August 2021 to July 2022

Denver vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

data by

Top 10 Multifamily Markets by Sales Volume in 2022 H1

By Anca Gagiuc

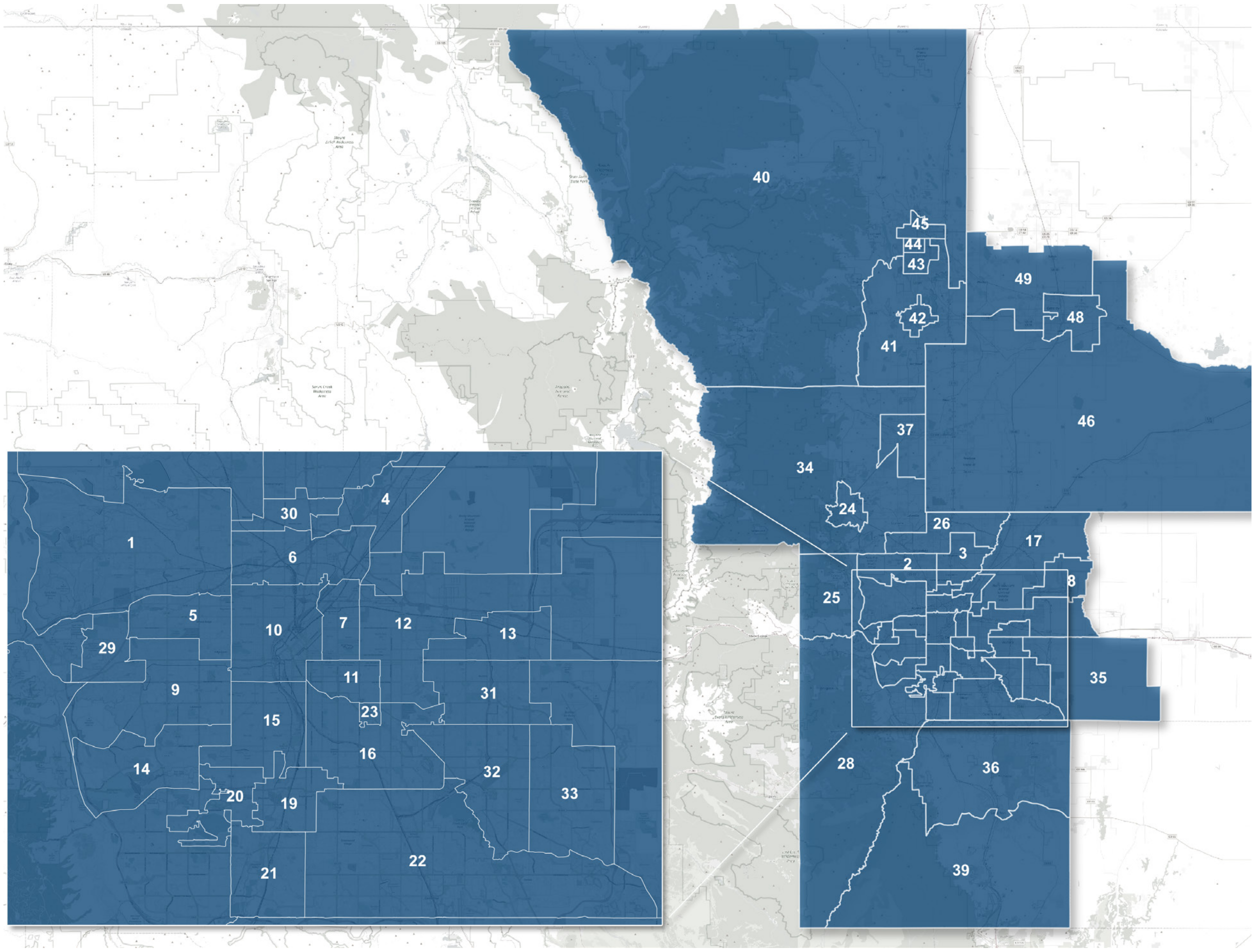
The U.S. multifamily market had an exceptional performance from an investment standpoint during the first half of the year, according to Yardi Matrix data. Overall national multifamily sales volume surpassed $101 billion in the first six months of 2022, outperforming the $67 billion volume registered in 2021 during the same interval, while the average price per unit rose 28.4 percent year-over-year, to a new high of $218,377.

Rank	Metro	Sales Volume $ H1 2022	Price Per Unit H1 2022	PPU Evolution YoY	Units Sold H1 2022
1	Phoenix	$7,351,109,167	$339,622	58.3%	24,787
2	Atlanta	$7,012,412,048	$204,312	27.0%	39,113
3	Dallas	$6,568,096,859	$186,049	22.7%	64,213
4	Houston	$6,401,791,606	$155,780	25.6%	56,895
5	New York	$3,997,523,782	$642,482	-7.8%	7,524
6	Orlando	$3,827,154,801	$253,975	32.6%	16,222
7	Los Angeles	$3,714,402,840	$444,200	17.9%	8,812
8	Miami	$3,581,485,100	$350,816	43.6%	14,701
9	Washington, D.C.	$2,647,298,705	$276,249	6.5%	11,944
10	Denver	$2,621,243,333	$340,687	14.2%	10,635

Denver

Down four positions from the 2021 ranking, Denver's multifamily sales volume closes the ranking with a total of $2.6 billion during the first six months of 2022, behind the $3 billion volume registered during the same period last year. Although the metro recovered almost all jobs lost during the health crisis, its investment landscape is more susceptible to inflation and the tightening monetary policy on the federal level. Through June, 48 assets (10,635 units) changed hands, while last year 51 properties traded, which combined had 12,745 units.

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 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.

Yardi Matrix

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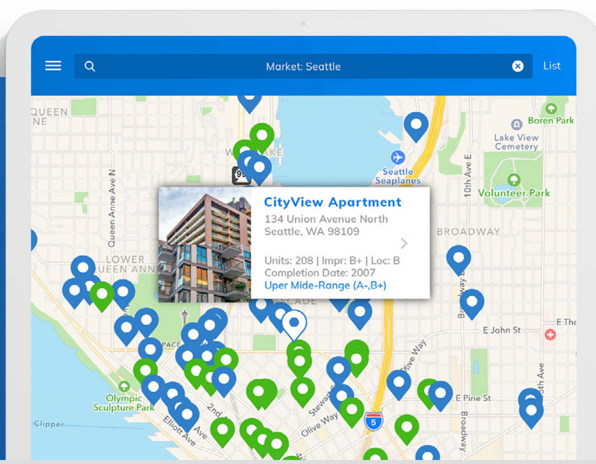
MULTIFAMILY KEY FEATURES

- 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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