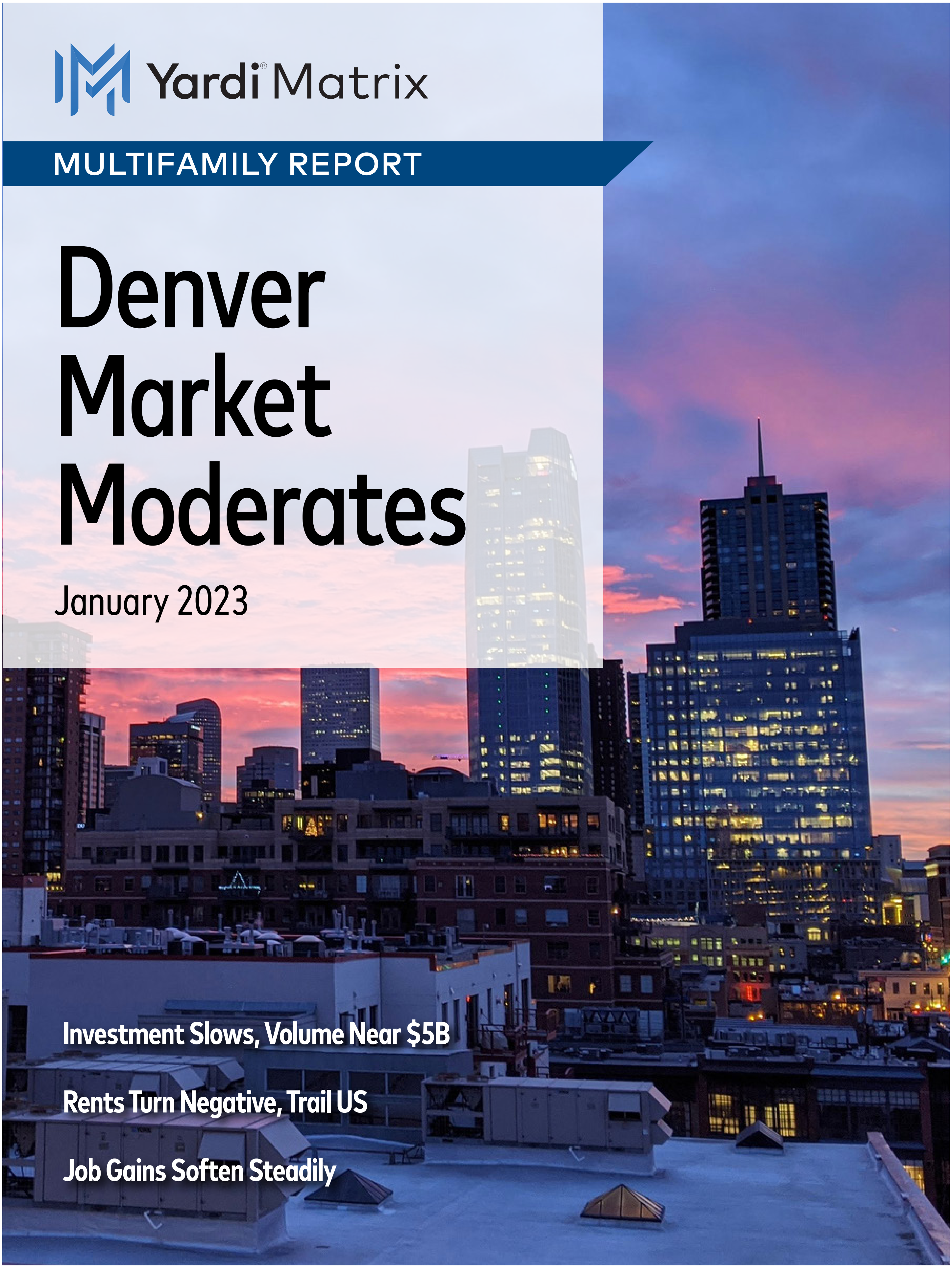
Yardi Matrix

MULTIFAMILY REPORT

Denver Market Moderates

January 2023



Investment Slows, Volume Near $5B

Rents Turn Negative, Trail US

Job Gains Soften Steadily

DENVER MULTIFAMILY

Yardi Matrix

Moderating Fundamentals

Denver's multifamily market is facing the effects of inflation and rising interest rates as some of its fundamentals softened toward the end of 2022. Demand slowed somewhat, pushing the occupancy rate in stabilized properties down by 60 basis year-over-year as of October, to 95.0%. Investors also began taking a little more caution, leading to shrinking investment, while rents ended a spell of solid performance, down 0.3% on a trailing three-month basis through November, to $1,910.

Unemployment clocked in at 3.5% in October, just slightly above the state (3.6%) and national (3.7%) rates and still far from pre-pandemic values, according to data from the Bureau of Labor Statistics. The employment market expanded 4.0% in the 12 months ending in September, on par with the U.S. rate. Only the financial services sector lost jobs (down 3.7%). Nearly half of the 65,300 positions added during the year were in the professional and business services sector (30,700 jobs), sustained by corporate relocations and expansions.

Developers delivered 9,487 units in 2022 through November, heavily targeting Lifestyle renters. The number of projects breaking ground this year surpassed 2021's volume—overall, 31,790 units were underway as of November. Meanwhile, investment volume totaled $5 billion, for a price per unit that rose 10.7% year-over-year, to $336,485.

Market Analysis | January 2023

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Recent Denver Transactions

Arbour Commons at the Orchard Town Center

City: Westminster, Colo.
Buyer: CORE Realty Holdings
Purchase Price: $150 MM
Price per Unit: $380,711

Heights at Interlocken

City: Broomfield, Colo.
Buyer: Ladera Capital Partners
Purchase Price: $143 MM
Price per Unit: $415,452

Griffis at Fiddler's Green

City: Centennial, Colo.
Buyer: Griffis Residential
Purchase Price: $115 MM
Price per Unit: $378,289

The Trails at Timberline

City: Fort Collins, Colo.
Buyer: Benedict Canyon Equities
Purchase Price: $110 MM
Price per Unit: $350,318

RENT TRENDS

- The average asking rent in Denver declined 0.3% on a trailing three-month (T3) basis through November, to $1,910, while the national rate slid 0.1% to $1,719. Denver lagged the U.S. on a year-over-year basis, too, posting rent growth of 5.5%, 150 basis points below the national average.

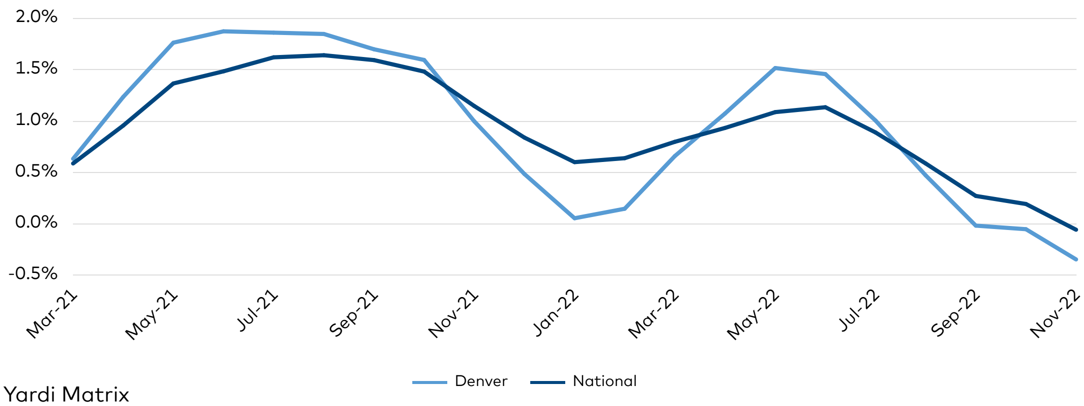
- Rent depreciation was driven by the softening demand for Lifestyle apartments, with rent growth in the segment posting a 0.5% decrease on a T3 basis through November, to $2,107. Still, demand for Renter-by-Necessity apartments is tempering as well, albeit at a slower pace, as rents inched down 0.1% to $1,614.

- The occupancy rate in stabilized properties points to evenly faltering demand across asset classes, down by 60 basis points in the 12 months ending in October in each segment, to 95.3% in the RBN segment and 94.8% in the Lifestyle division. Overall, occupancy stood at 95.0% in October.

- All 45 submarkets tracked by Yardi Matrix posted increases in annual rent growth. In November, 11 submarkets had an average asking rent above the $2,000 mark, from just six a year ago. Boulder (6.2% to $2,348) and CBD/Five Points/North Capitol Hill (4.3% to $2,269) were the most expensive submarkets. The latter also led in transaction volume and the number of units under construction.

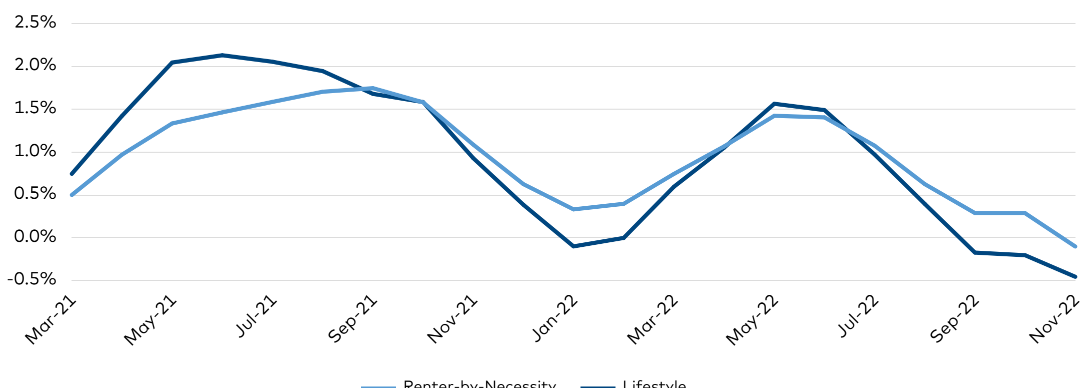
- The single-family rental market maintained positive annual rent performance—up 1.9% in November—but occupancy declined 2.2% in October.

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 ranged within the 3% to 4% band in 2022, clocking in at 3.5% in October, just slightly better than the state (3.6%) and U.S. (3.7%) rates, according to data from the BLS. The metro is roughly 100 basis points above pre-pandemic levels.
- Job market growth softened steadily in 2022, expanding just 4.0% in the 12 months ending in September, on par with the national rate. This is the equivalent of 65,300 new jobs, primarily sustained by the professional and business services sector, which added 30,700 jobs during the period. Highly sensitive to changes in interest rates, financial activities contracted by 3.7% (4,300 jobs), but the metro's economy is diverse enough to help it through the upcoming recession.
- Denver's attributes are attractive to various industries—from manufacturing to asteroid mining companies. PepsiCo. Beverages North America is planning a 1.2 million-square-foot manufacturing facility, which will open 2023 and hire 250 employees, and Netherlands-based Karman+ is relocating its headquarters in the metro, where it will bring 150 jobs.
- Long debated upon, the Cherry Creek neighborhood has a new $1 billion redevelopment plan proposed by East West Partners. If approved by municipal representatives, the project will break ground in 2024.

Denver Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
60	Professional and Business Services	398	19.2%
65	Education and Health Services	254	12.3%
70	Leisure and Hospitality	216	10.4%
40	Trade, Transportation and Utilities	359	17.3%
15	Mining, Logging and Construction	149	7.2%
80	Other Services	81	3.9%
30	Manufacturing	122	5.9%
90	Government	297	14.3%
50	Information	66	3.2%
55	Financial Activities	130	6.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Denver gained 3,277 residents in 2021, up 0.1% year-over-year, on par with the national rate and 10 basis points below 2020's growth rate.
- The metro's population expanded by a substantial 14.2% in the decade ending in 2021, well above the 5.7% U.S. figure.

Denver vs. National Population

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

Source: U.S. Census

SUPPLY

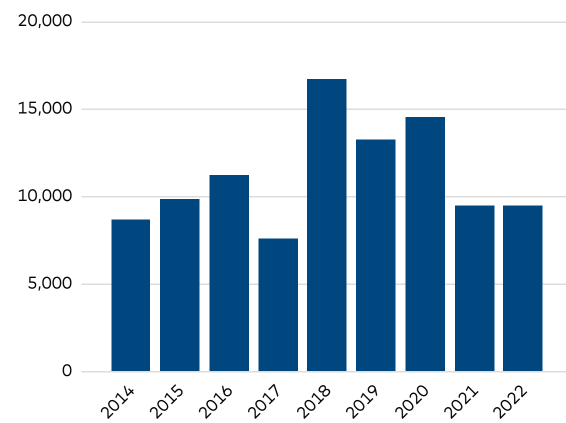
- Developers delivered 9,487 units in 2022 through November, accounting for 3.1% of existing stock, matching 2021's total volume. Nearly 87% of deliveries were upscale Lifestyle apartments while the remaining 13% were in fully affordable communities.

- The construction pipeline comprised 31,900 units underway and another 128,000 units in the planning and permitting stages. Construction starts data points to low sensitivity to the current economic woes, as the number of projects breaking ground in Denver throughout 2022 increased from the previous year. Specifically, 13,638 units broke ground last year through November, 12% above the volume recorded during the same interval in 2021.

- Developer focus remained on the high-end Lifestyle segment, which accounted for 89% of the projects under construction. Roughly 10% were geared toward fully affordable communities.

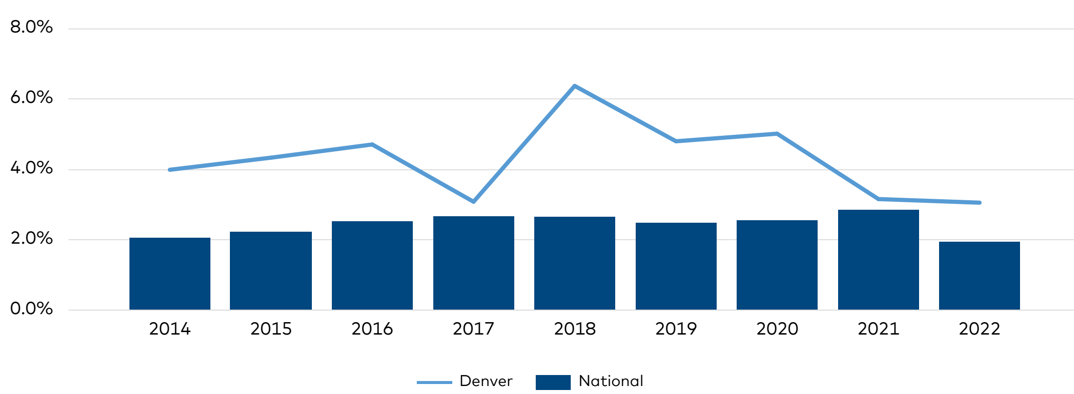
- Construction activity was highly uneven across the map. While nine submarkets had at least 1,000 units underway as of November, CBD/Five Points/North Capitol Hill led by far, with an astounding 7,217 units under construction, the equivalent of one-third of the construction pipeline. The submarket—which also posted the second-highest average asking rent in the metro—houses the largest project underway, the 530-unit 26th Avenue & Alcott Street. The Grand Peaks Properties asset is being built with aid from a $157.6 million construction loan originated by Bank OZK and is slated for completion at the end of 2024.

Denver Completions (as of November 2022)



Source: Yardi Matrix

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

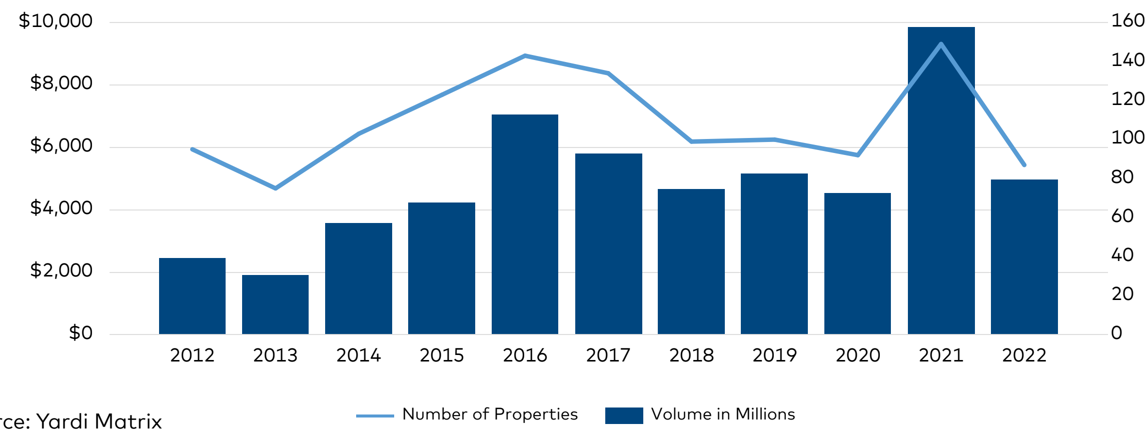


Source: Yardi Matrix

TRANSACTIONS

- Investors traded $5 billion in multifamily assets in 2022 through November, a considerable drop from 2021's total of $9.9 billion. The decline is likely due to the rising inflation and interest rates, with deals thinning substantially at year-end.
- By sales composition, investor interest was geared toward value-add plays, which accounted for nearly 60% of the transaction volume. Even so, the price per unit rose 10.7% year-over-year, to $336,485, well above the $215,443 U.S. average.
- CBD/Five Points/North Capitol Hill led in transaction volume, too, with a total of $719.7 million in the year ending in November. Notable sales included CORE Realty Holdings' $150 million acquisition of Arbour Commons at the Orchard Town Center, with aid from a $74.6 million loan funded by Arbor Realty Trust. The 394-unit property was sold by McWhinney for $380,711 per unit.

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



Source: Yardi Matrix

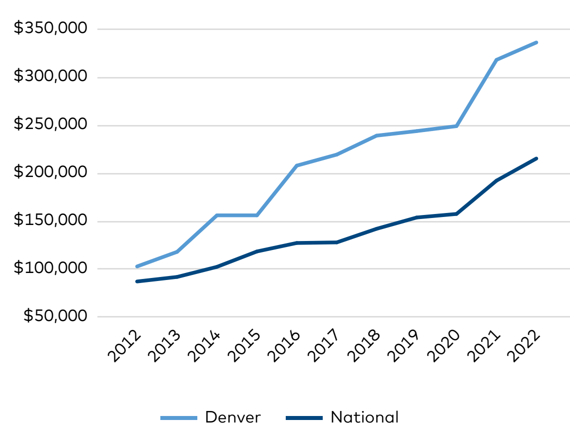
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
CBD/Five Points/North Capitol Hill	720
East Colfax/Lowry Field/ Stapleton	682
Arapahoe-Southwest	631
Broomfield/Todd Creek	483
Hampden/Virginia Village/ Washington Virginia Vale	452
Capitol Hill/Cheesman Park/ Hale	433
Northglenn/Thornton	370

Source: Yardi Matrix

[1] From December 2021 to November 2022

Denver vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MULTI-HOUSING NEWS

data by Yardi Matrix

Top 5 Western Markets by Multifamily Investment Volume

By Anca Gagiuc

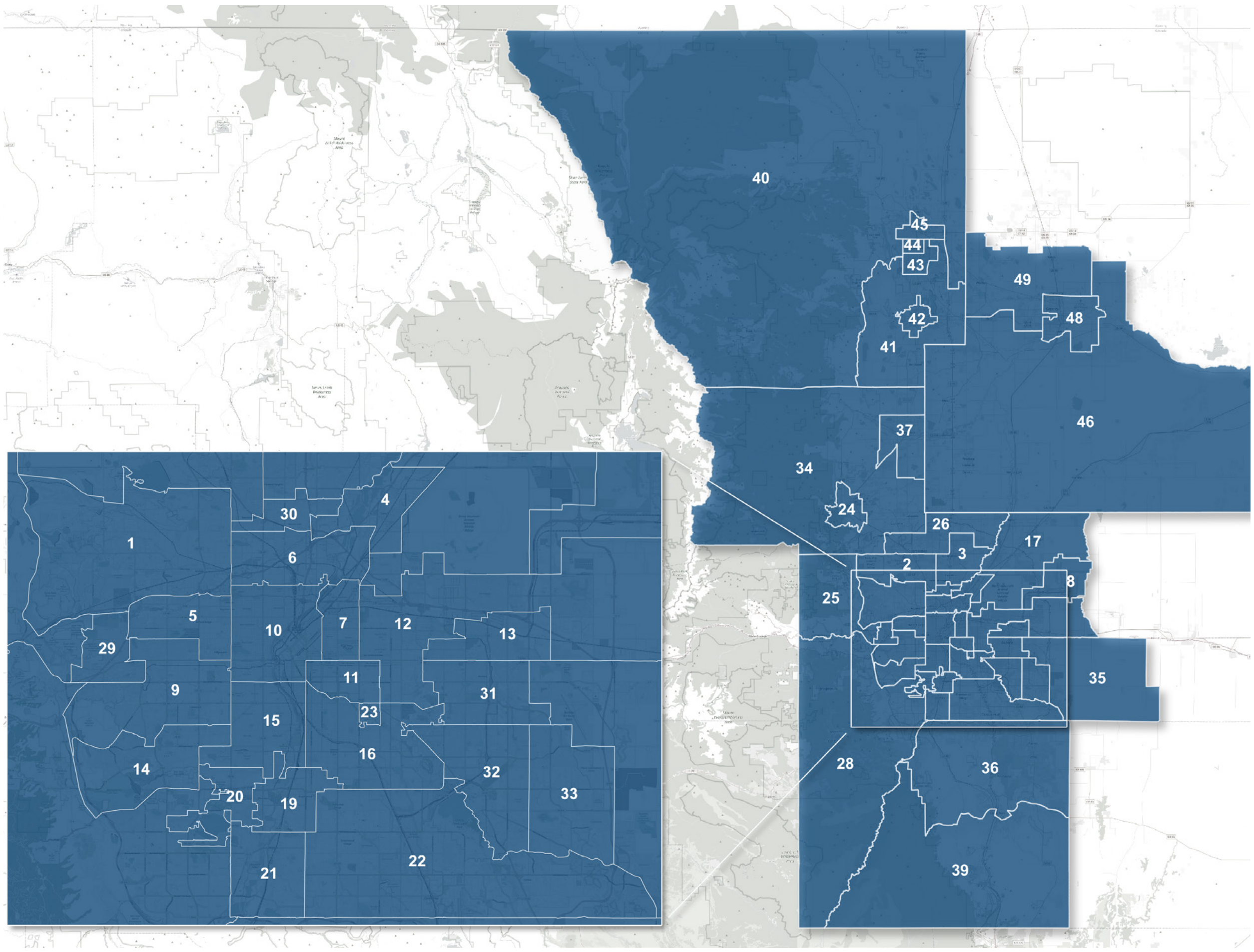
The national multifamily investment volume continued to break records, crossing $157 billion through the first three quarters of 2022. That's higher than the best year on record yet, 2021, when $132 billion in multifamily assets had changed hands across the U.S. through the same interval. However, this remarkable performance in investment is about to take a break, following the Federal Reserve's repeated actions to stop inflation.

Market	Sales Volume $ 2022	Price per Unit 2022	PPU Growth Rate	Assets Sold 2022	Units Sold 2022
Phoenix	$9,727,714,167	$331,914.87	35.8%	164	32,421
Denver	$4,099,448,000	$331,811.27	6.1%	70	14,418
Las Vegas	$2,748,240,000	$262,211.62	34.7%	50	11,025
Tucson	$1,123,113,142	$173,507.36	23.1%	33	6,473
Salt Lake City	$869,505,586	$253,605.89	16.2%	30	4,423

Denver

Denver is the only market in our ranking to post a lower multifamily sales volume in 2022 than in 2021. Specifically, this year through September, investors traded $4.1 million in multifamily assets, a 25.4% decrease from the $5.5 billion volume recorded in 2021. Not only did the number of sold assets drop from 84 properties (19,087 units) to 70 properties (14,418 units) in 2022, but the per-unit price marked the weakest performance among the markets on this list, rising just 6.1% year-over-year, to $331,811.

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.

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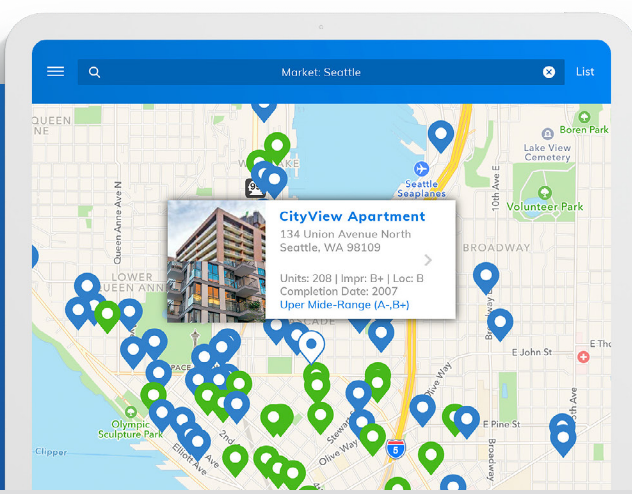
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



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

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