

A high-angle photograph of a city skyline under a blue sky with scattered white clouds. In the foreground, a large, historic stone church with a prominent steeple is visible. Behind it, several modern high-rise office buildings of varying heights and architectural styles dominate the mid-ground. The buildings feature glass facades and grid-like window patterns. The overall scene depicts a vibrant urban environment.

Yardi® Matrix

Denver's Development Boom Rages On

Multifamily Report Winter 2018

Tertiary Sector Leads Job Gains

Property Values Hit New High

Affordability Issues Linger

Market Analysis

Winter 2018

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Job Diversity Sustains Economy

Denver's strong employment growth continues to push up the metro's population, maintaining housing demand at high levels, especially for low- and medium-income residents. Lack of affordable housing options continues to be an issue, although the city council plans to add roughly 26,000 affordable units in the coming years. Development has been robust, with more than 17,500 units completed since the start of 2016. As a result, rent growth has now slipped 20 basis points below the 2.5% U.S. growth rate.

The professional and business services sector led job gains, having added 8,400 positions, while education and health services expanded by 7,300 jobs, on the back of the rapidly expanding UCHealth system. The health-care provider is in the middle of adding a number of new community hospitals across the metro, culminating with the \$310 million UCHealth Highlands Ranch Hospital. The office market continued to be strong in 2017, with more than 4 million square feet of space underway, 90% of it Class A.

Multifamily investment has tempered compared to the 2016 cycle high, having reached \$4 billion in 2017 through October. Per-unit prices hit a new cycle high of \$211,671 for the same time span. Although roughly 26,000 rental units were underway as of November, demand is likely to remain elevated, underpinned by growth in employment and solid population gains.

Recent Denver Transactions

Steele Creek



City: Denver
Buyer: UDR
Purchase Price: \$142 MM
Price per Unit: \$649,082

Pembroke on the Green



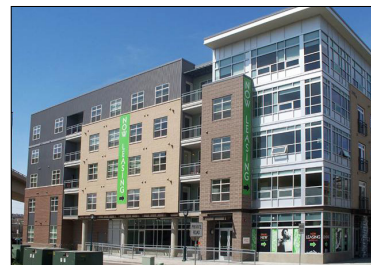
City: Aurora, Colo.
Buyer: Oak Coast Properties
Purchase Price: \$128 MM
Price per Unit: \$133,884

Kent Place Residences



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

Griffis Union Station



City: Denver
Buyer: Griffis Residential
Purchase Price: \$126 MM
Price per Unit: \$315,000

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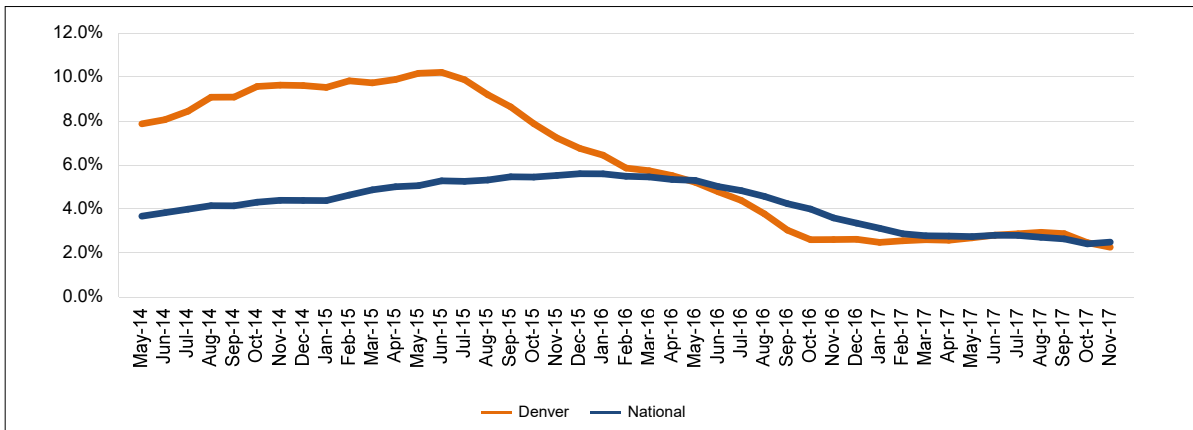
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Rent Trends

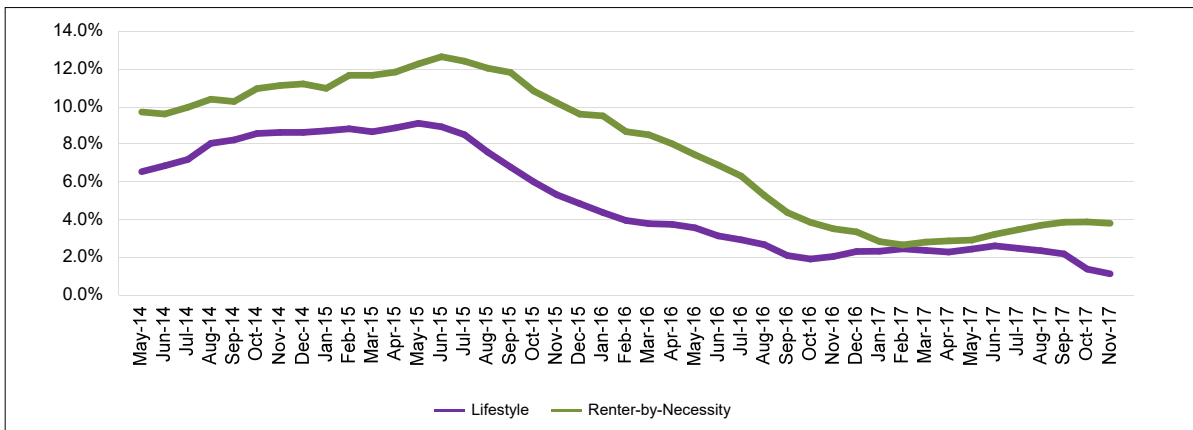
- Rents in the metro were up 2.3% year-over-year through November 2017, 20 basis points below the U.S. rate, according to the latest Yardi Matrix survey. The average rent stood at \$1,447, \$85 above the national average. Quick population growth and a strengthening job market continue to drive demand in the metro across asset classes.
- The working-class Renter-by-Necessity segment led growth with a 3.8% increase year-over year, to \$1,254. The Lifestyle segment rose 1.1%, to an average of \$1,614. An expanding job market in medium- and low-paying sectors has pushed up demand for RBN units, bolstering rent growth in the segment.
- The submarkets with the highest rent gains are mostly located in fringe areas: Brighton (6.9%), Applewood/West Pleasant View (6.8%), the southern area of Douglas County (6.5%) and Golden (6.4%). Rents in City Park/City Park West, which were the highest in the metro (\$1,919), recorded a 1.3% year-over-year contraction.
- A large amount of new deliveries is likely to continue moderating rent growth in the upcoming months, as occupancy has also plummeted 90 basis points year-over-year, to 95.2% as of October.

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)

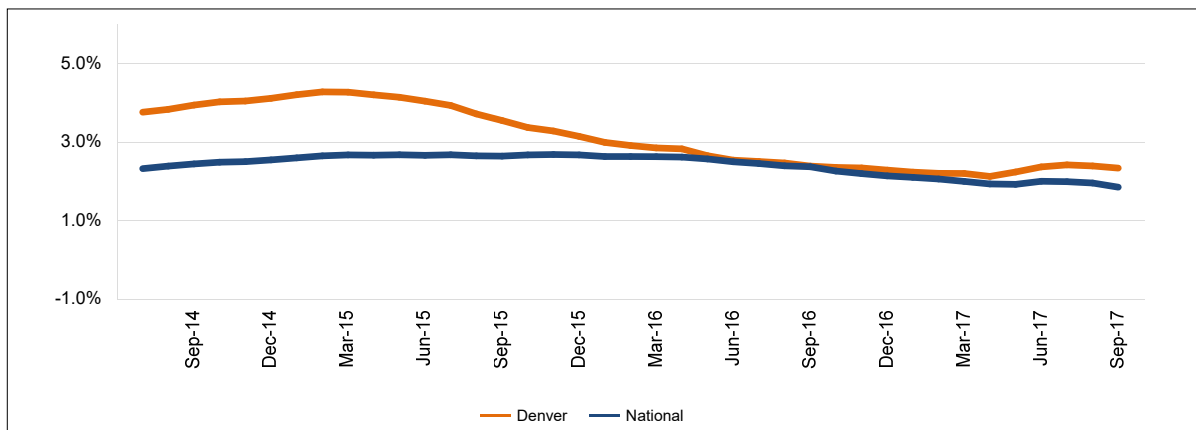


Source: YardiMatrix

Economic Snapshot

- The metro added 36,700 jobs in the 12 months ending in September. Employment growth had reached 4.0% during parts of 2014 and 2015, but a nationwide cooling trend has also affected Denver, where the rate was 2.3% year-over-year as of September. Denver has one of the lowest unemployment rates among major metros, at 2.2% as of October, nearly half the 4.1% national average.
- Adding 8,400 positions, professional and business services led job gains and recorded a 2.6% year-over-year increase. The education and health services sector grew by 7,300 jobs, as many university graduates are drawn to the metro's strong job market in the two fields. UCHealth is in the middle of a massive expansion, already opening new medical facilities in Colorado Springs, Broomfield and Longmont. The health system is also building a \$310 million hospital in Highlands Ranch by 2019. The health-care provider is focusing on expanding by using community hospitals that provide a more cost-effective care model.
- Denver's office market remains robust, with more than 4 million square feet under construction. Development of Class A space is still the norm throughout the metro, accounting for more than 90% of office projects under way, according to Colliers International. This, combined with a growing apartment pipeline, is generating ongoing growth for the construction sector, which added 2,300 jobs.

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	%
60	Professional and Business Services	333	17.3%	8,400	2.6%
65	Education and Health Services	243	12.6%	7,300	3.1%
40	Trade, Transportation and Utilities	338	17.5%	7,200	2.2%
70	Leisure and Hospitality	223	11.6%	6,300	2.9%
90	Government	292	15.1%	3,900	1.4%
15	Mining, Logging and Construction	133	6.9%	2,300	1.8%
80	Other Services	73	3.8%	1,400	2.0%
55	Financial Activities	126	6.5%	1,000	0.8%
30	Manufacturing	113	5.9%	-200	-0.2%
50	Information	57	3.0%	-900	-1.6%

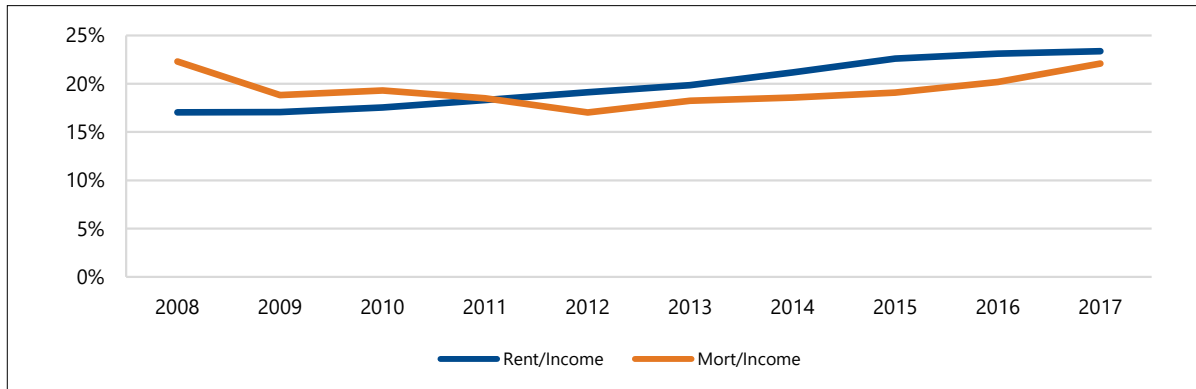
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

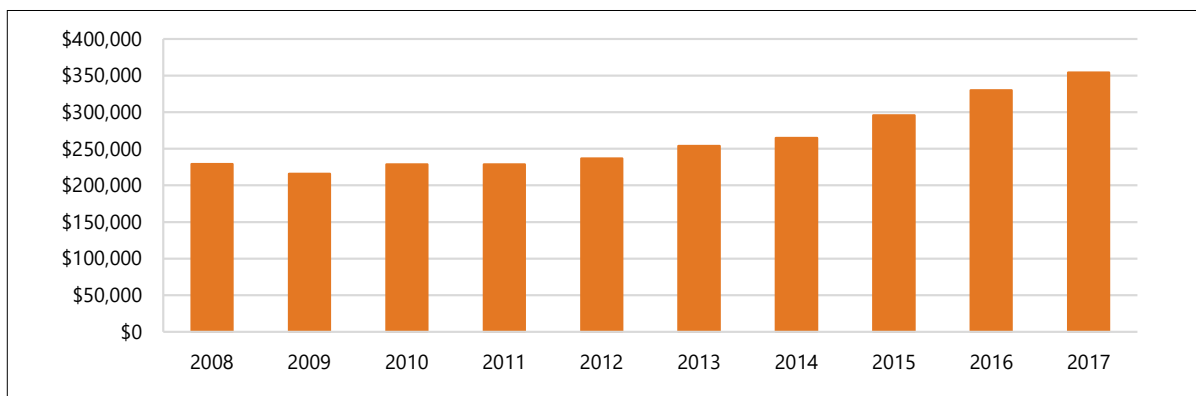
- The median home price rose steadily during the past five years, reaching a new cycle high of \$354,088, with the average mortgage payment equating to 22% of the median income. Although prices are up, owning remains slightly more affordable than renting: At an average of \$1,447, rents accounted for 23% of the median income.
- Denver remains one of the least affordable metros in the U.S. To cope with this issue, the city council continues to pursue its \$150 million investment plan to create 6,000 affordable housing units over the next 10 years. Skyrocketing housing costs have put most rental units out of reach for low- and middle-income residents, with a shortage of approximately 26,000 housing units for the lowest earners.

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 44,000 residents in 2016 for a 1.6% expansion, 90 basis points above the U.S. average.
- The metro has steadily increased in recent years, adding nearly 300,000 people since 2010.

Denver vs. National Population

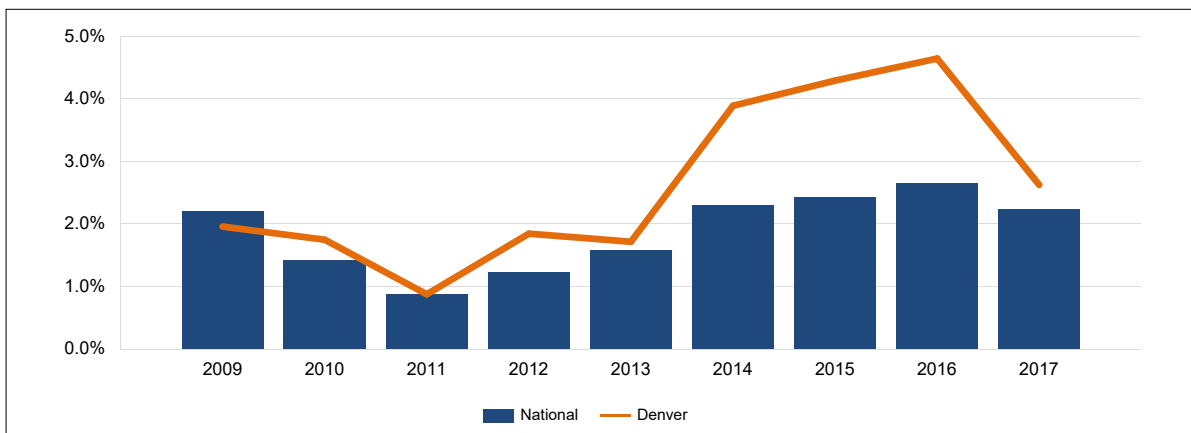
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Denver Metro	2,647,830	2,698,125	2,752,433	2,808,816	2,853,077

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

Supply

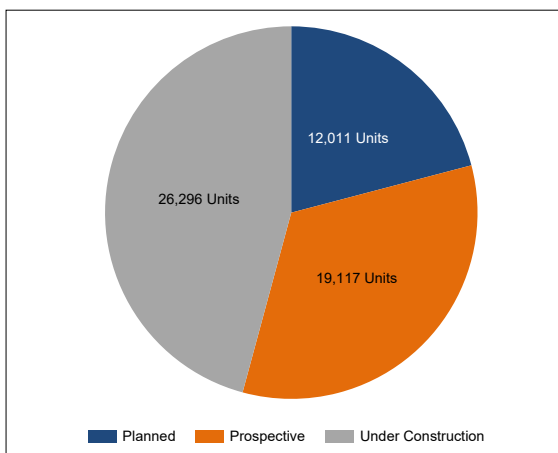
- Developers added about 6,500 units in the first 10 months of 2017, following the 2016 surge, when deliveries crossed the 11,000-unit mark. Completions have also slowed down nationally, due to delays and a widespread construction labor shortage.
- Construction activity is likely to stay elevated in 2018, as more than 26,000 units were under way toward the end of 2017, 7,500 of which are taking shape in the CBD/Five Points/North Capitol Hill submarket. About 31,000 units were in the planning and permitting stages, pointing to further growth. Strong job gains coupled with a population uptick will likely push up housing demand, especially for RBN assets.
- The occupancy rate for stabilized properties was 95.2% as of October 2017, a year-over-year tumble of 90 basis points. Approximately 36,000 units came online in metro Denver over the past four years, diluting the housing stock and pushing renters away from established properties into new assets, still in their initial lease-up stages.
- Holland Partners' Union Denver ranked as the largest community under way in the metro. The 579-unit property was already 38% leased as of November and is slated for completion in April 2018.

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



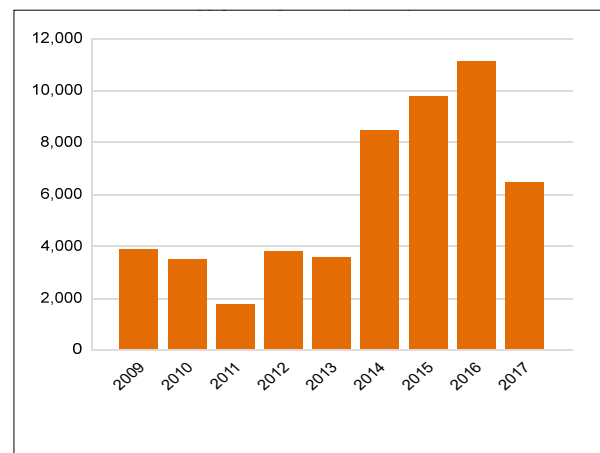
Source: YardiMatrix

Development Pipeline (as of November 2017)



Source: YardiMatrix

Denver Completions (as of November 2017)

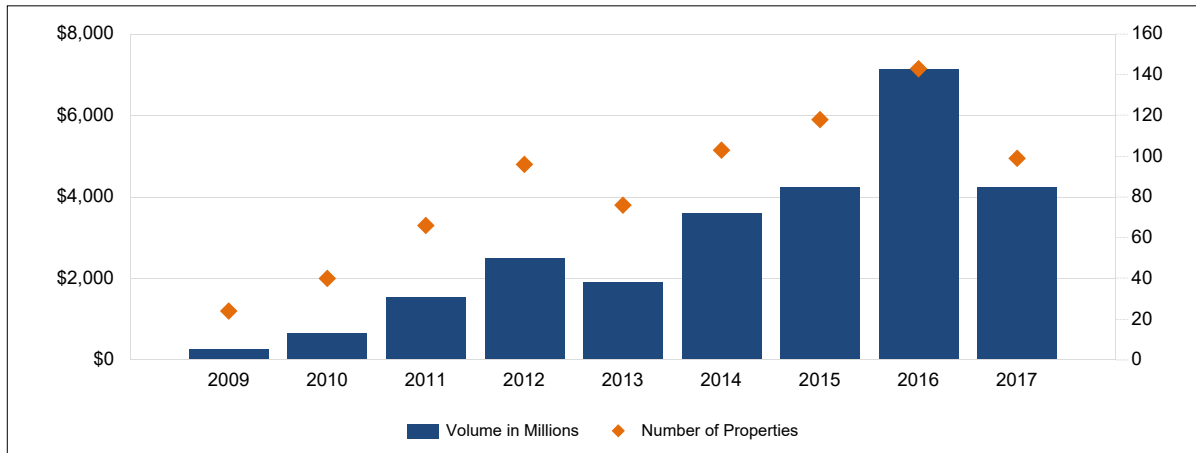


Source: YardiMatrix

Transactions

- Investors remain relatively active in Denver, with more than \$4 billion in transactions in 2017 through October. That's 44% less than 2016's peak of \$7.1 billion, but still above any other yearly total this cycle.
- Property values increased in 2017 to \$211,671 per unit—a new cycle high—55% higher than the national average of \$136,099. Acquisition yields for stabilized Class A properties have settled in the 4.3 to 5.0% range.
- Core areas remain a hotbed for investment activity. In the 12 months ending in October, nearly \$650 million in assets traded in the CBD/Five Points/North Capitol Hill submarket, followed closely by Arapahoe–Southwest (\$643 million). The largest transaction in 2017 was UDR's purchase of the 218-unit Steele Creek from BMC Investments for \$142 million, or \$649,082 per unit. The Class A asset completed in 2015 was 95.4% occupied as of October.

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



Source: YardiMatrix

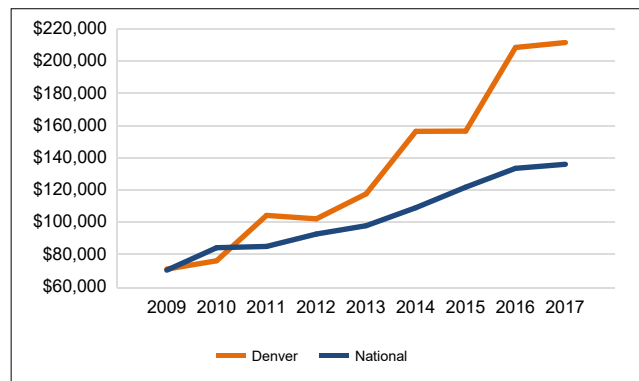
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
CBD/Five Points/North Capital Hill	649
Arapahoe–Southwest	643
Northglenn/Thornton	570
Westminster	397
Englewood/Sheridan	363
Capital Hill/Cheesman Park/Hale	332
Aurora–Southwest	294
Lakewood–North	218

Source: YardiMatrix

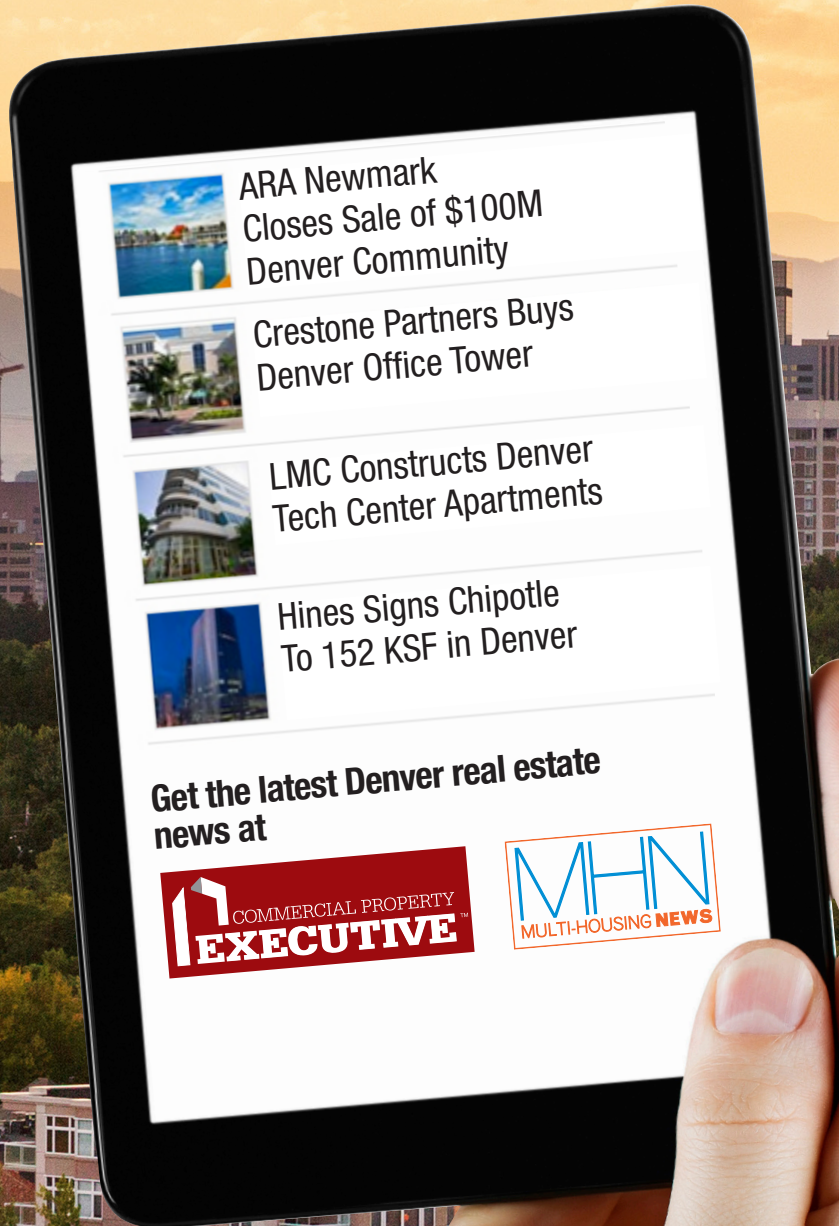
¹ From November 2016 to October 2017

Denver vs. National Sales Price per Unit



Source: YardiMatrix

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Closes Sale of \$100M
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**Crestone Partners Buys
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**LMC Constructs Denver
Tech Center Apartments**

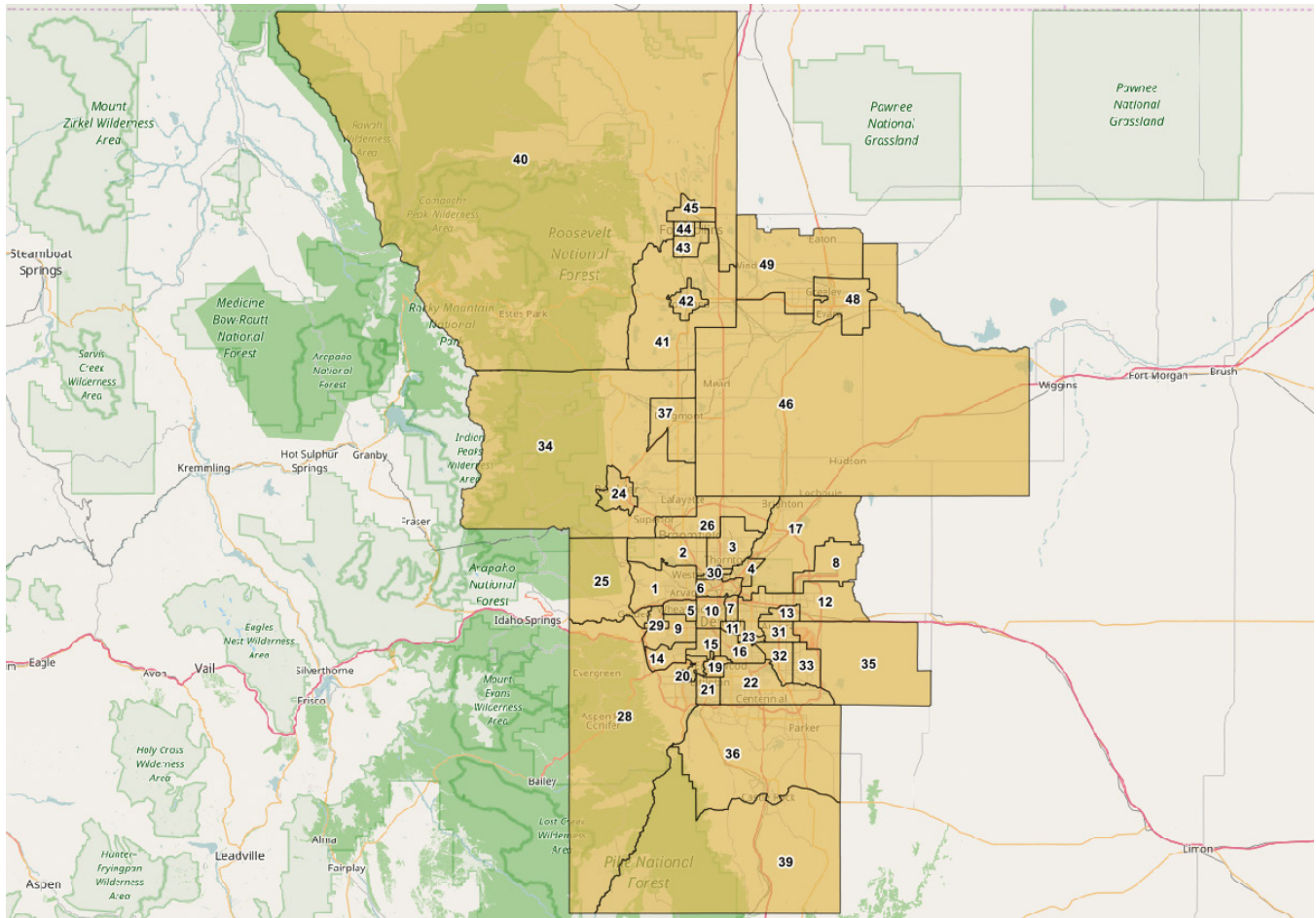


**Hines Signs Chipotle
To 152 KSF in Denver**

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Denver Submarkets



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.

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