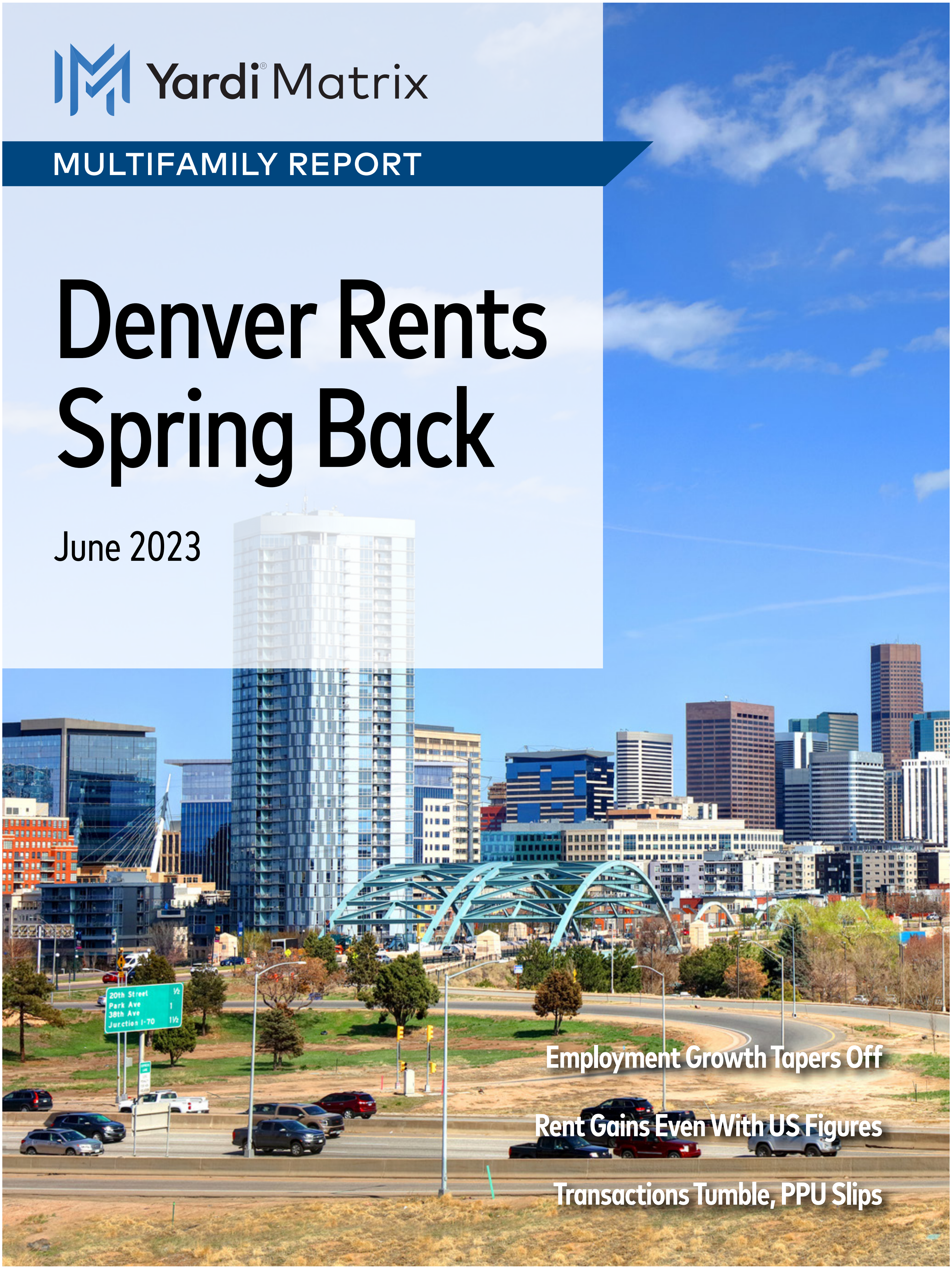
Yardi Matrix

MULTIFAMILY REPORT

Denver Rents Spring Back

June 2023



Employment Growth Tapers Off

Rent Gains Even With US Figures

Transactions Tumble, PPU Slips

DENVER MULTIFAMILY

Yardi Matrix

Seasonal Patterns Benefit Rate Movement

The Denver multifamily market regained its footing as it entered the second quarter of 2023, with rents finally inching up after five months of declines. Up 0.2% on a trailing three-month basis through April, growth was on par with the U.S. figure. Meanwhile, the average rate was $190 above the $1,709 national figure. Occupancy declined to 94.8%, impacted by a steep decrease in the Renter-by-Necessity segment.

Denver unemployment stood at 2.7% in March, 60 basis points below the March 2022 rate, slightly below the state (2.8%) and tighter than the U.S. figure (3.5%). Job growth continued to taper off, at 2.1%, or 26,100 jobs, in the 12 months ending in February, mainly supported by professional and business services and leisure and hospitality, which added 21,300 jobs combined. In 2022, passenger volume at Denver International Airport surpassed 2019. As part of the final phase of an expansion, 22 gates opened in late 2022. The extension should help the airport keep its status as the third busiest in the world. Three sectors lost jobs—trade, transportation and utilities, information and financial activities—for 10,500 positions combined.

Developers delivered 1,473 units through April and had another 34,751 units under construction, with both recent stock and the current pipeline heavily favoring upscale development. Meanwhile, investment dwindled, with $421 million in multifamily assets trading through April, for a per-unit price that plummeted 31.0%.

Market Analysis | June 2023

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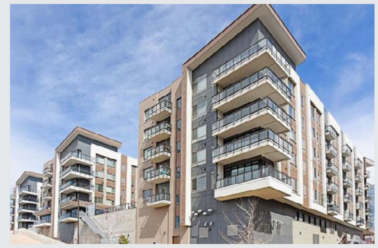
Recent Denver Transactions

Vue West



City: Denver
Buyer: Sequoia Equities
Purchase Price: $124 MM
Price per Unit: $398,387

Lilia

City: Lakewood, Colo.
Buyer: Bascom Group
Purchase Price: $77 MM
Price per Unit: $334,783

Ridge at Castle Rock

City: Castle Rock, Colo.
Buyer: MG Properties
Purchase Price: $67 MM
Price per Unit: $329,167

Fox Meadows

City: Fort Collins, Colo.
Buyer: Olive Bark
Purchase Price: $37 MM
Price per Unit: $266,674

RENT TRENDS

- Rents nudged up ever so slightly in April, up 0.2% on a trailing three-month (T3) basis, after five months of contractions. Meanwhile, the U.S. rate stabilized, on par with Denver. On an annual basis, rents in the metro appreciated 2.2%, 100 basis points below the national figure. Yet at $1,899, Denver's average asking rent remained above the $1,709 U.S. rate.

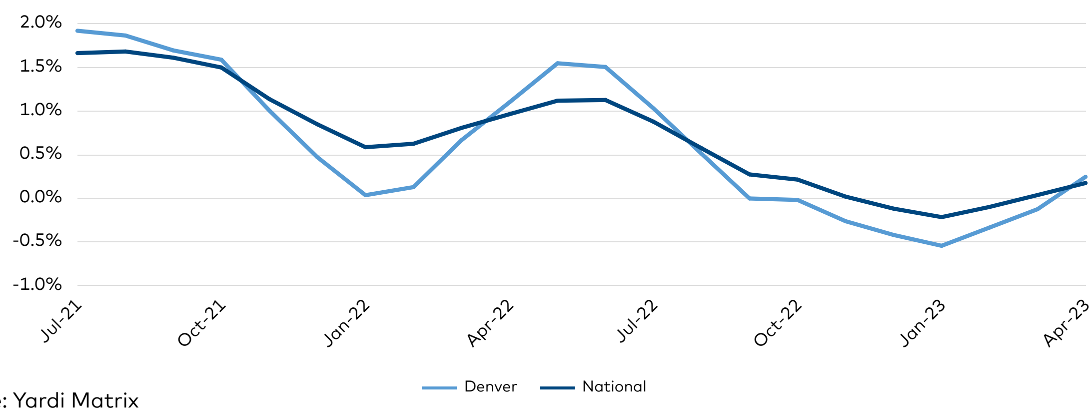
- Working-class Renter-by-Necessity rents rose 0.3% on a T3 basis through April, to $1,602, after four months of depreciation. Meanwhile, Lifestyle rates increased 0.2% to $2,096, after seven months of declines.

- While the national occupancy rate dropped 100 basis points annually to 95.0%, Denver's rate in stabilized properties slid 50 basis points in the 12 months ending in March, to 94.8%. Bucking the national trend, RBN occupancy dropped further, down by 90 basis points, while Lifestyle lost 40 basis points during the period.

- Of the 45 submarkets tracked by Yardi Matrix, all but five posted rate hikes year-over-year. Rents depreciated the most in the Denver International Airport area, down 3.5% to $1,939. CBD/Five Points/North Capitol Hill was the most sought-after submarket, both by absolute rent and development. Rents were up 1.5% to $2,266, and the submarket also boasted the largest pipeline across metro Denver, with 6,733 units underway.

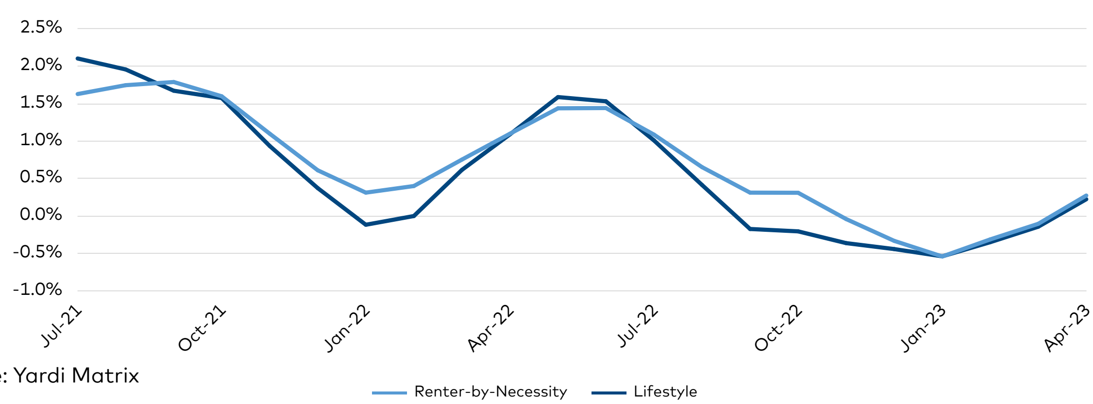
- Single-family rental performance was steady, with annual rent growth at 0.3% in April, while occupancy decreased by 0.4% year-over-year as of March.

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 unemployment dropped to 2.7% in March, after a two-month stint at the 3.0%-mark. That was 60 basis points below the rate recorded 12 months prior. Denver outranked both the state (2.8%) and the U.S. (3.5%), according to data from the Bureau of Labor Statistics. For most of 2022, metro Denver's labor market remained tight, with unemployment in the 2.5% to 3.0% range.

- Job growth continued to moderate, at 2.1% for the 12 months ending in February, decelerating more than the 3.4% U.S. rate. Professional and business services (10,700 jobs) and leisure and hospitality (10,600 jobs) accounted for most of the gains, which totaled 26,100 positions. Meanwhile, three sectors lost 10,500 jobs combined—trade, transportation and utilities, information and financial activities.

- Despite the slowdown, Denver has several projects underway that will fortify its market. One such example is Denver International Airport, which in 2022 retained its rank as the third busiest in the world, with a volume of 69 million passengers. This volume was 17.8% above the 2021 figure and also 0.4% higher than the 2019 total. To further support this growth, during last year's fourth quarter, the airport opened 22 new gates, completing a 39-gate expansion program. Another large-sclae project is Colorado Convention Center's expansion, which is slated to wrap up in late 2023.

Denver Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
60	Professional and Business Services	386	18.7%
70	Leisure and Hospitality	216	10.4%
90	Government	306	14.8%
80	Other Services	86	4.2%
15	Mining, Logging and Construction	144	7.0%
65	Education and Health Services	251	12.1%
30	Manufacturing	123	5.9%
40	Trade, Transportation and Utilities	364	17.6%
50	Information	63	3.0%
55	Financial Activities	131	6.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Denver gained 3,277 residents in 2021, for a 0.1% population increase, on par with the U.S. rate.

- Between the 2010 Census and 2021, the metro's population posted a solid 16.4% increase that was more than twice the 7.3% national figure.

Denver vs. National Population

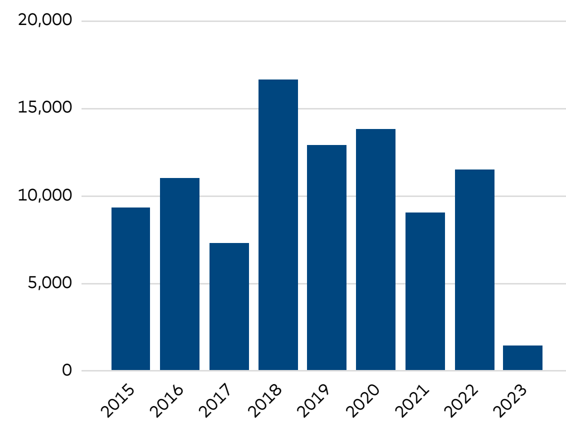
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Denver	2,933,991	2,964,811	2,969,289	2,972,566

Source: U.S. Census

SUPPLY

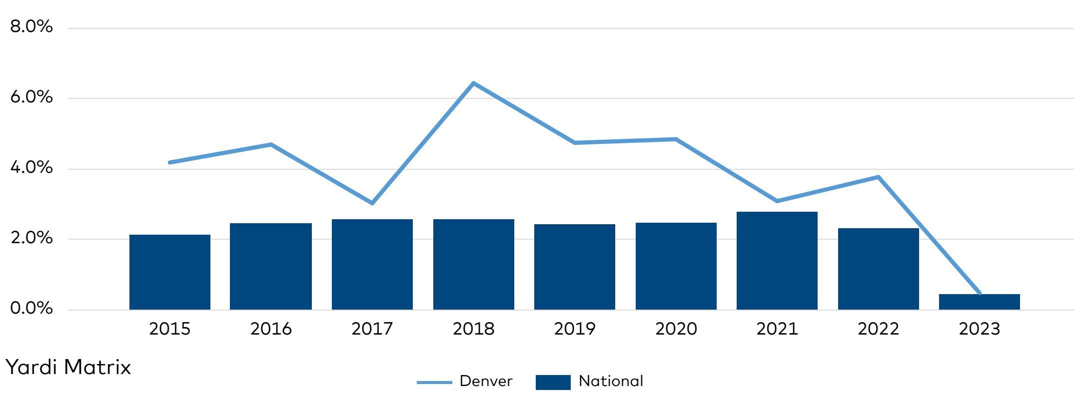
- Deliveries moderated, with 1,473 units coming online year-to-date through April. The unit mix was heavily unbalanced, with 90% of the new stock consisting of Lifestyle properties and 162 units in two fully affordable communities. Half of the new units were within a 10-mile radius of the CBD.
- As of April, developers had 34,751 units underway and another 139,000 in the planning and permitting stages. The construction pipeline remained dominated by Lifestyle projects, which accounted for an 89% share in April. The RBN segment had 4,312 units underway, two-thirds of which were in fully affordable communities. New construction continued, albeit at a slower pace, with 2,729 units in 13 properties breaking ground this year through April, lagging the 4,047 units recorded during same period last year.
- Projects initially slated for completion in 2023 would have added 20,000 new units, but this volume of deliveries is highly unlikely given the current trend. Yardi Matrix anticipates Denver's stock will grow by 12,478 units for 2023, the equivalent of 4.1% of total stock and below the 4.6% five-year average.
- Construction activity was spread across the map, in 32 of the 45 submarkets tracked by Yardi Matrix. Three submarkets accounted for more than one-third of the pipeline, led by CBD/Five Points/North Capitol Hill (6,733 units).
- The CBD held the largest delivery through April, the 390-unit AMLI RiNo. The submarket also houses the largest development underway, Grand Peaks Properties' 530-unit 26th Avenue & Alcott Street project, built with aid from a $158 million construction loan originated by Bank OZK, slated for completion in 2024.

Denver Completions (as of April 2023)



Source: Yardi Matrix

Denver vs. National Completions as a Percentage of Total Stock (as of April 2023)

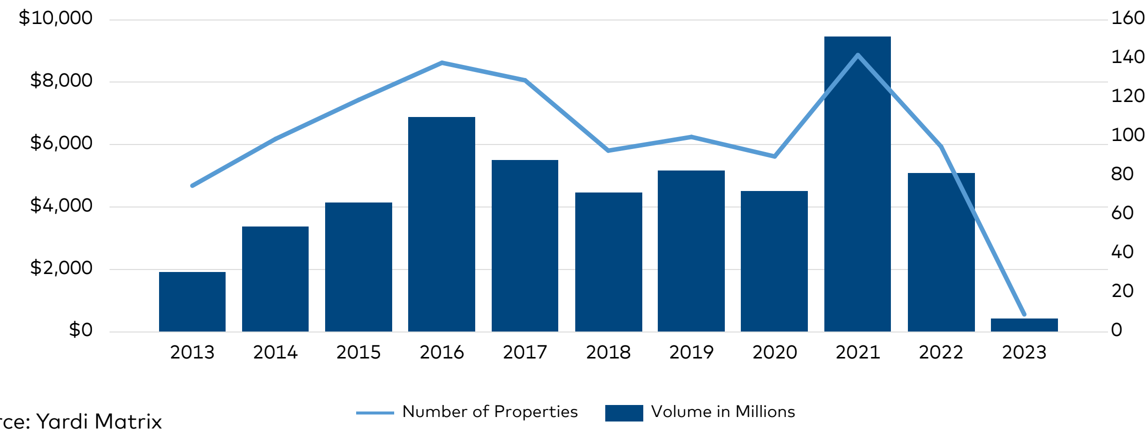


Source: Yardi Matrix

TRANSACTIONS

- The softening trend in transaction activity that started last year continued in 2023, with multifamily sales totaling $421 million through April. That marked an 80% drop from the $2.1 billion recorded during the same period of 2022.
- Lifestyle units accounted for two-thirds of sales, but persisting economic volatility impacted the price per unit, down by 31% year-over-year, to $244,063 as of April. This marked the first dip below $300,000 since 2020. Despite the decline, Denver's average per-unit price remained well above the $178,275 U.S. figure.
- Sequoia Equities' acquisition of the 310-unit Vue West from Crescent Real Estate posted the highest sale price, as well as the highest per-unit price this year through April. The property sold for $123.5 million, or $398,387 per unit, subject to a $71.1 million Fannie Mae CMBS loan. Located in the Arapahoe-Southwest submarket, the property came online in 2022 and is stabilized.

Denver Sales Volume and Number of Properties Sold (as of April 2023)



Source: Yardi Matrix

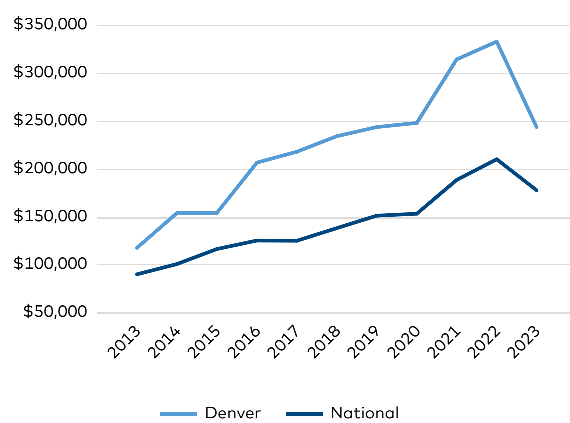
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Arapahoe-Southwest	540
Broomfield/Todd Creek	483
Hampden/Virginia Village/ Washington Virginia Vale	198
Capitol Hill/ Cheesman Park/Hale	190
Champion	183
Lakewood-North	164
CBD/Five Points/ North Capitol Hill	144

Source: Yardi Matrix

[1] From May 2022 to April 2023

Denver vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

Top 10 Markets for Multifamily Construction

By Anca Gagiuc

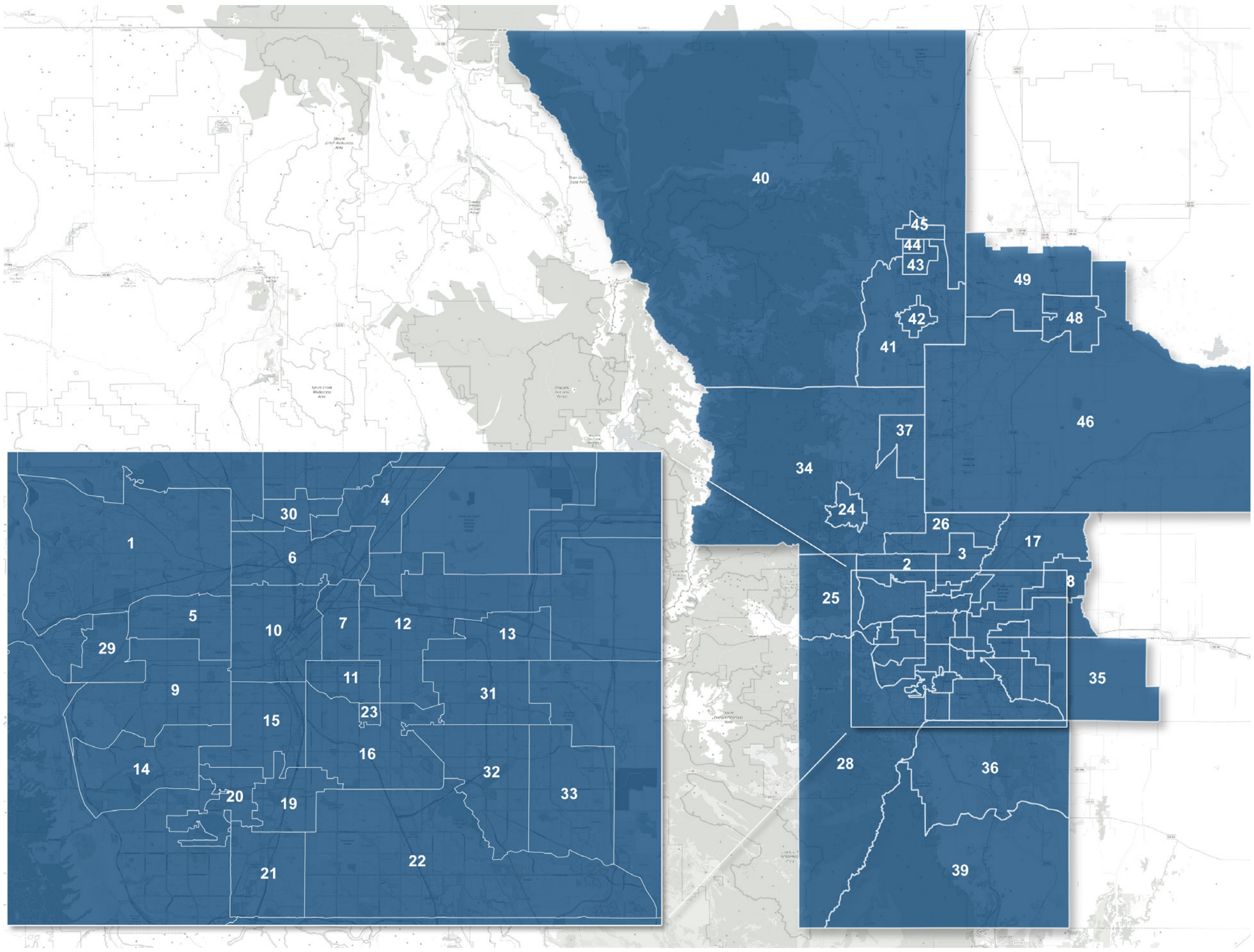
U.S. multifamily construction was robust at the start of a new leasing season, with the pipeline amounting to nearly 1.1 million units underway across 4,910 properties, according to Yardi Matrix. However, deliveries were slow, with just 73,506 units coming online this year through April. That's less than 7% of the national pipeline, and accounts for 20% of last year's 369,827-unit total.

Metro	Units Under Construction	Units Completed Year-to-Date	Construction Starts/Units January-March 2023
Austin	61,873	2,547	6,013
Dallas	60,532	2,016	5,864
Miami	44,533	2,732	3,612
Atlanta	41,204	2,679	4,120
Phoenix	39,875	3,811	1,985
New York City	38,859	137	3,304
Denver	35,893	1,696	1,580
Houston	34,709	1,686	1,660
Los Angeles	32,306	1,926	814
Charlotte	32,188	1,538	1,459

Denver

Denver was seventh on the list, with 35,893 units under construction in 162 properties, as of May 2023. In addition, it had nearly 143,000 units in the planning and permitting stages. Deliveries during the year's first four months amounted to 1,696 units, 2.4% of the metro's total stock. New construction starts dwindled in the first quarter of 2023 compared to the previous year, marking a 31.7% decline, to 1,580 units. Although significant, the rate is the third smallest among the values displayed by the metros in this ranking. The number of properties also decreased, from 11 to nine.

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
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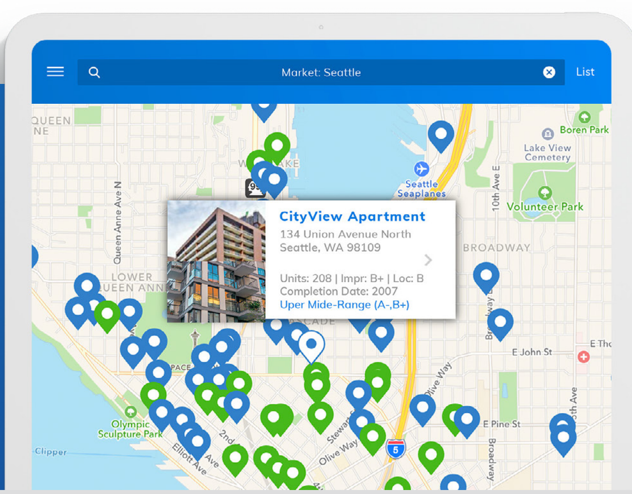
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



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