Yardi® Matrix

Mile High City's High Rise

Multifamily Report Spring 2018

Western Submarkets Attract Investors

Leisure, Hospitality Lead Job Growth

Affordability Issues Linger

Market Analysis
Spring 2018

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New Supply Tempers Rent Growth

In the past few years, Denver saw a favorable demographic trend, shaped by steady job additions and population gains. This has rapidly pushed up housing demand. Construction has been strong, with nearly 32,000 units coming online since 2015. Heavy apartment development has put a damper on rent growth, up 2.2% year-over-year through March, below the 2.5% national rate.

Employment gains were led by the leisure and hospitality sector, with 10,400 jobs added in 2017, a 5.0% growth, as a strong tourism industry is leading to an increase in hotel demand. Denver attracted 17.3 million overnight visitors in 2016, adding as much as $5.3 billion in revenue. More than 4,100 hotel guestrooms were underway as of March, with 4,100 set to start construction later this year. Denver's technology sector remains strong, sustaining demand for the 3.2 million square feet of office space underway.

The pipeline is growing fast, with 3,900 units coming online in the first quarter. Development is expected to remain robust as roughly 28,000 units were under construction as of March, of which Yardi Matrix forecasts 11,700 to be delivered by year-end. As overall growth is set to continue fostering housing demand, especially in the case of workforce apartments, we expect a rent increase of 3.0% in 2018.

Recent Denver Transactions

Steele Creek

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

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

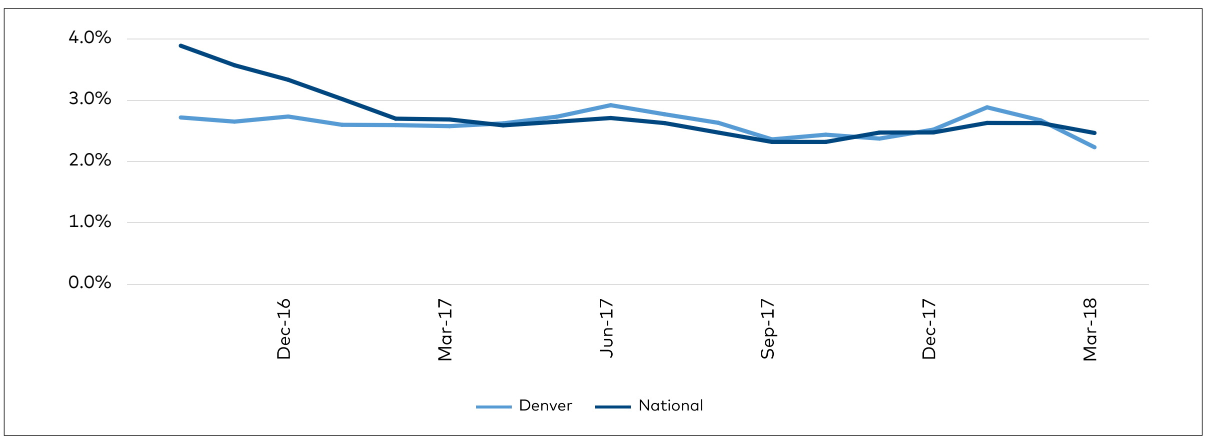
Haven 124

City: Northglenn, Colo.
Buyer: Magnolia Capital
Purchase Price: $124 MM
Price per Unit: $220,640

Rent Trends

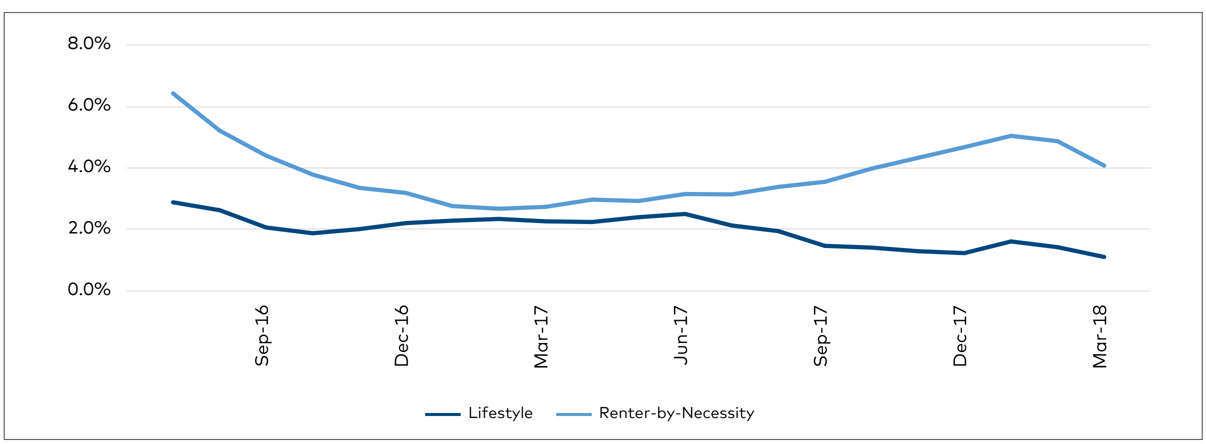
- Denver rents rose 2.2% year-over-year through March, reaching an overall average of $1,465, nearly $100 above the national rate. Rent growth has tempered following last year's injection of new apartments, when almost 6,900 units were delivered. Denver's occupancy rate in stabilized properties dropped by 60 basis points year-over-year to 94.6% as of February, in line with the nationwide trend.
- Because of a limited supply in the working-class Renter-by-Necessity segment, rents have grown at a stronger rate, up 4.1% as of March to $1,250, while rents in the Lifestyle segment rose 1.1%, to $1,642.
- CBD/Five Points/North Capitol Hill ($1,894 average rent), Boulder ($1,879) and City Park/City Park West ($1,877) remain the metro's most expensive submarkets. Meanwhile, more affordable submarkets such as Commerce City/Derby (where rents rose 9.1% to $1,214), Greeley East (8.3% to $1,048) and Windsor/Greeley West (7.7% to $1,233) registered some of the strongest rent hikes.
- The metro's strong economy, led by the hospitality industry and an inflow of young renters drawn by the heathy job market, is expected to continue boosting housing demand. Yardi Matrix forecasts a 3.0% rent increase for the whole of 2018.

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)

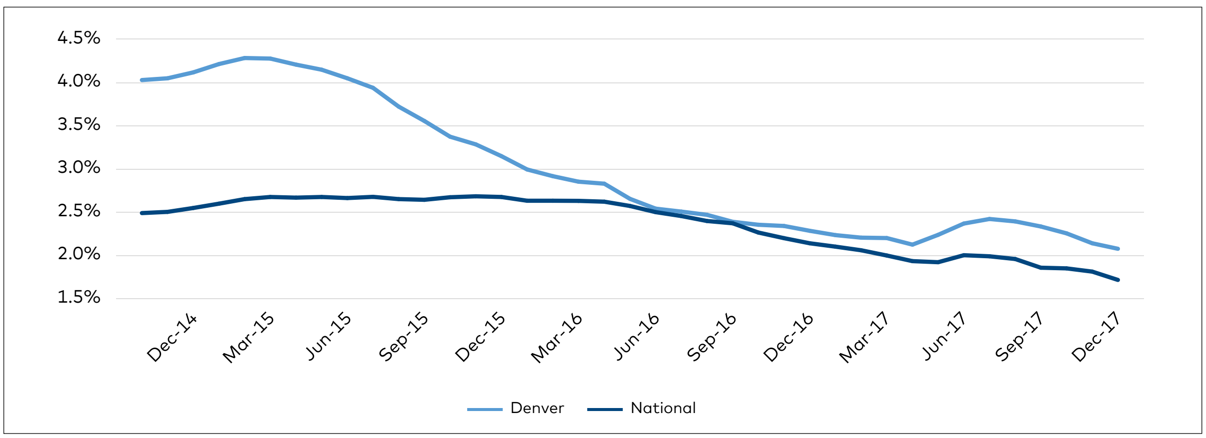


Source: YardiMatrix

Economic Snapshot

- The metro added 43,200 jobs in 2017, up 2.1% year-over-year and 40 basis points above the national average.
- Leisure and hospitality added 10,400 jobs last year for a 5.0% expansion. A healthy economy and tourism-related travel spurred demand for hotel guestrooms across the metro. Some 4,100 keys were underway as of the first quarter and construction is expected to begin this year on an additional 4,100 guestrooms. In 2016, Colorado attracted 37.7 million overnight visitors, up 5% from one year prior and generating $14.7 billion in total revenue, according to a Longwoods International study. Out of the total revenue, 36% came through the Denver metro area.
- Professional and business services (7,900) and construction (7,100) are likely to continue to add jobs in the coming years. This is in part due to technology companies expanding in the metro—Google had a $130 million two-phase campus underway as of March. Overall, Denver had more than 3.2 million square feet of office space under construction, 1.4 million square feet of which is in the central business district, according to Cushman & Wakefield. Continued economic growth is pushing office development, attracting out-of-state buyers seeking a stable investment environment, especially in parts of Lakewood and core neighborhoods, where acquisition yields are now around the 8.0% mark.

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	220	11.3%	10,400	5.0%
60	Professional and Business Services	332	17.1%	7,900	2.4%
15	Mining, Logging and Construction	135	6.9%	7,100	5.5%
40	Trade, Transportation and Utilities	350	18.0%	6,300	1.8%
65	Education and Health Services	246	12.6%	5,700	2.4%
80	Other Services	73	3.8%	1,700	2.4%
90	Government	291	15.0%	1,300	0.4%
50	Information	58	3.0%	1,100	1.9%
55	Financial Activities	126	6.5%	1,000	0.8%
30	Manufacturing	114	5.9%	700	0.6%

Sources: YardiMatrix, Bureau of Labor Statistics

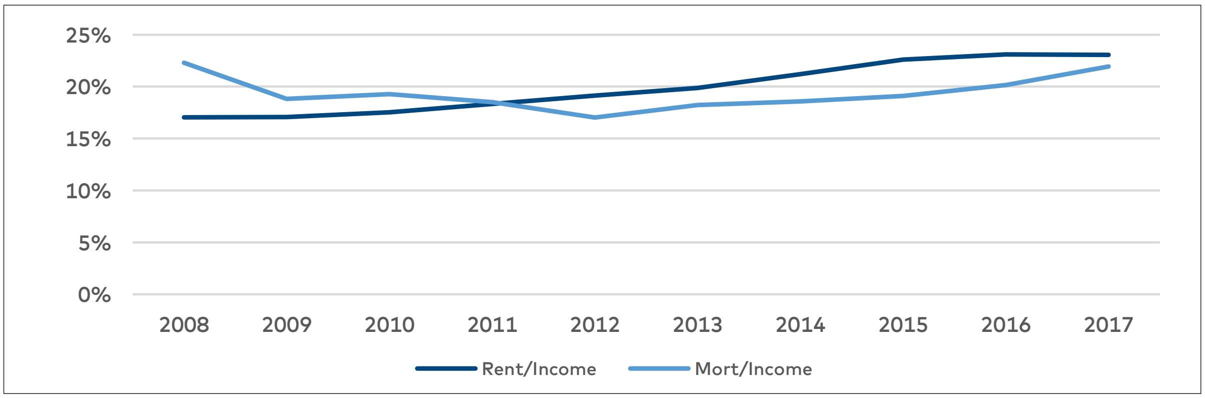
Demographics

Affordability

- Denver's median home price rose considerably throughout the second half of the cycle, reaching a new high of $356,989, up 50.7% since 2012, when the housing market bottomed out. Despite the increase in home values, owning remains more affordable than renting, with the average mortgage payment accounting for 22% of the median income, while rent—at $1,465 as of March—equates to 23%.

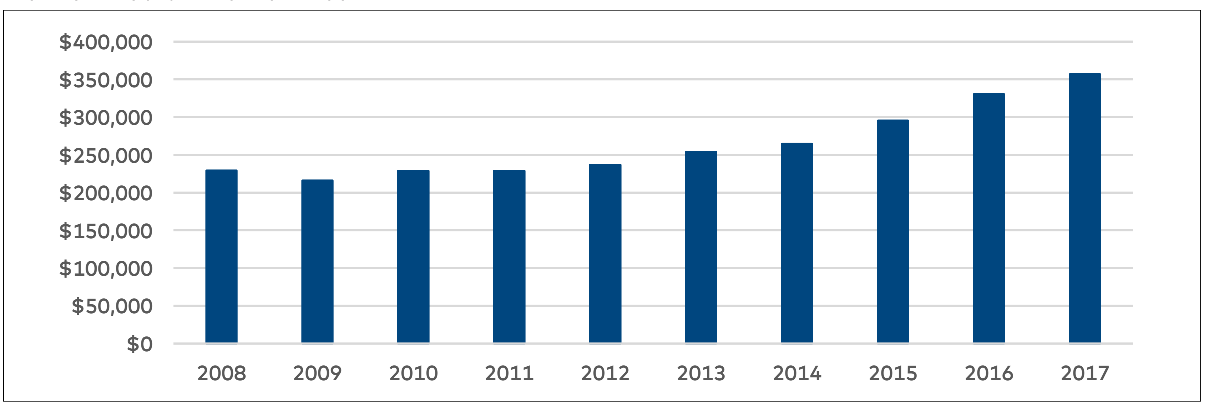
- Trump's new steel tariffs are expected to make housing even more unaffordable, as higher prices for steel will inflate building costs. Reduced construction of new housing would lead to inflated prices and future projects might have to charge higher rents for developers to be able to recoup building costs.

Denver Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Denver Median Home Price



Source: Moody's Analytics

Population

- In 2017, the metro added more than 36,000 residents, a 1.3% expansion, 60 basis points above the U.S. average.
- Denver's population has steadily increased over the cycle, having added nearly 192,000 people since 2013.

Denver vs. National Population

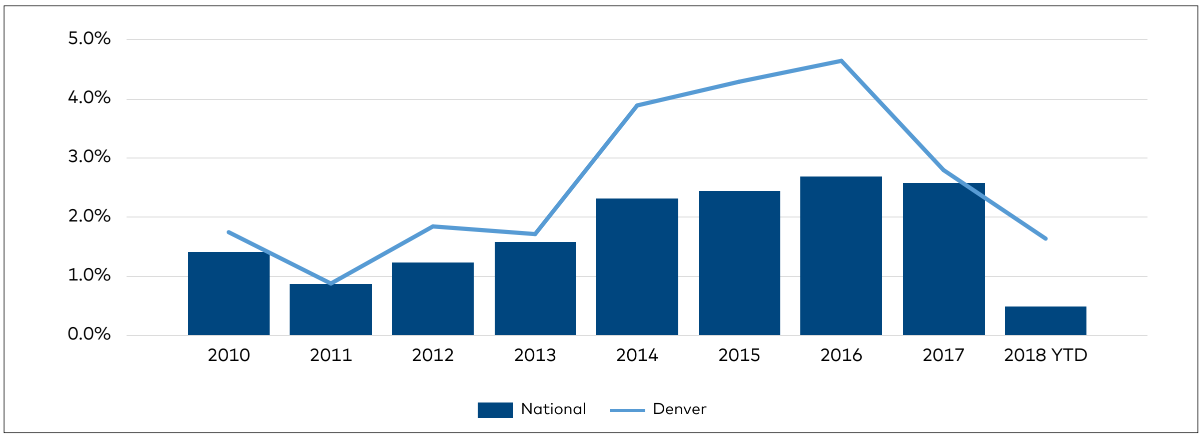
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Denver Metro	2,696,308	2,749,827	2,807,211	2,851,848	2,888,227

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

Supply

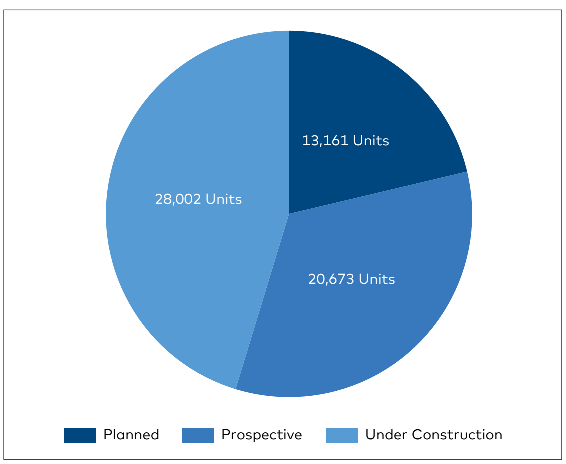
- Denver added 3,900 units this year through March, as multifamily development continues at a rampant rate. Strong rental demand has resulted in an influx of new supply in recent years, especially in the city's core submarkets. The ongoing construction boom has resulted in a slide in occupancy, which is roughly in line with the national trend, to 94.6% as of February, 60 basis points lower year-over-year.
- The level of new supply is expected to remain elevated, as 28,000 units were underway as of March, while an additional 34,000 were in the planning and permitting stages. The market is poised to lead the nation in completions in 2018, with a projected 16,000 deliveries. Developers continue to focus on the CBD/Five Points/North Capitol Hill submarket, where more than 7,100 units were underway.
- The largest project under construction was Shorenstein's The Grand Denver, a 508-unit community located next to LoDo in Denver's Union Station neighborhood. The property began preleasing in December 2017 and as of March was 9% preleased. Denver has experienced healthy absorption over the past several years and is likely to continue that trend in the coming months. With substantial inventory expansion due this year, rents will likely continue to improve at a moderate rate.

Denver vs. National Completions as a Percentage of Total Stock (as of March 2018)



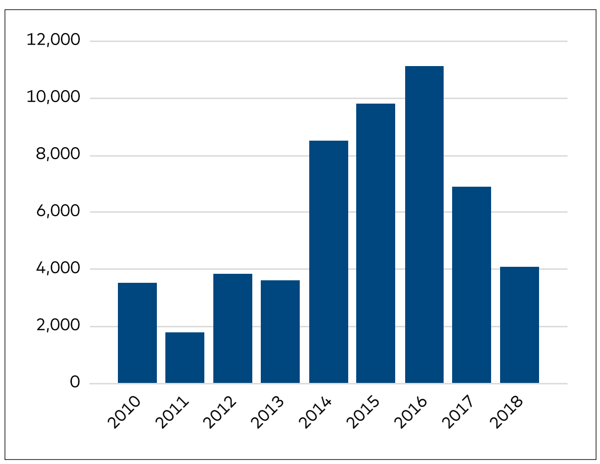
Source: YardiMatrix

Development Pipeline (as of March 2018)



Source: YardiMatrix

Denver Completions (as of March 2018)

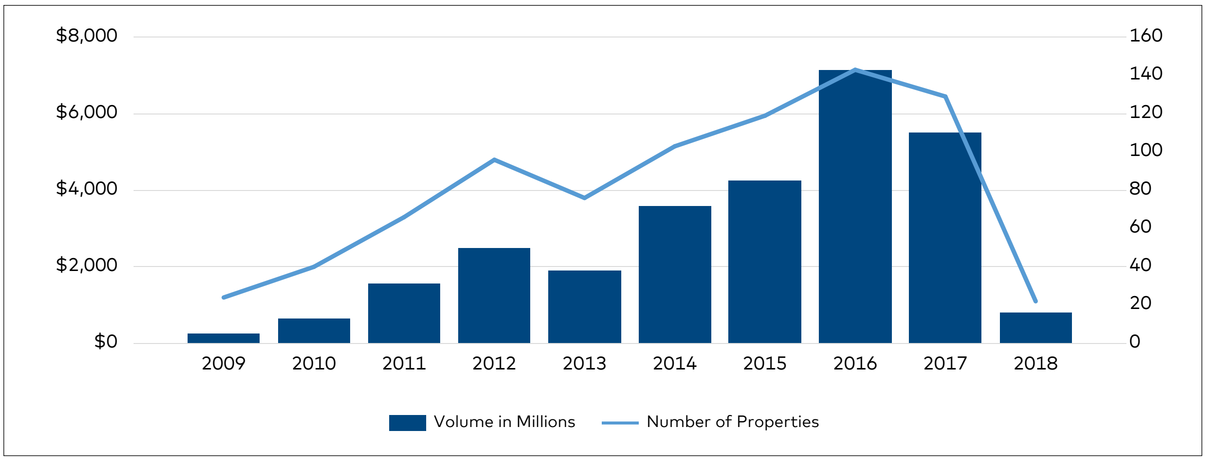


Source: YardiMatrix

Transactions

- Roughly $800 million in multifamily assets traded through February. The average price per unit was $24,000 smaller than the cycle peak of $217,442 reached in 2017, albeit on a significantly smaller sample size. The $193,253 rate was still well above the national average of $148,293.
- Private investors are expected to target class B/C assets in the western suburbs of Lakewood and Littleton, where acquisition yields are in the 6% range, while Class B units in the northern area of the metro, such as Broomfield and Westminster offer 5% first-year yields.
- Denver's largest transaction was UDR's $142 million acquisition of Steele Creek, a 218-unit luxury community in the Cherry Creek submarket that previously operated as a five-star hotel. BMC Investments netted a price of $649,082 per unit. The property was 95.4% occupied.

Denver Sales Volume and Number of Properties Sold (as of February 2018)



Source: YardiMatrix

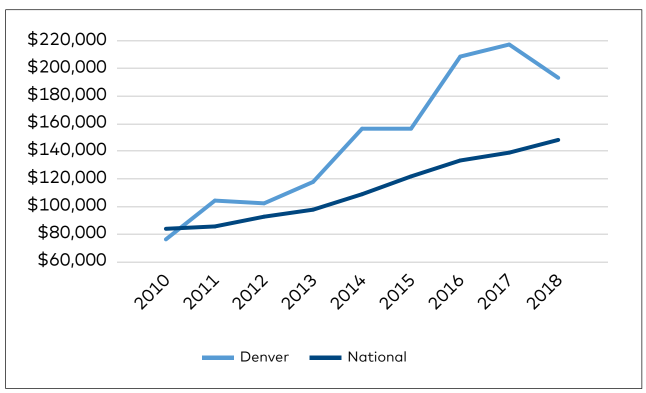
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
CBD/Five Points/ North Capitol Hill	771
Northglenn/Thornton	714
Douglas County–North	466
Arapahoe-Southwest	442
Englewood/Sheridan	413
Aurora-Southwest	346
Westminster	336
Capitol Hill/Cheesman Park/ Hale	327

Source: YardiMatrix

[1] From March 2017 to February 2018

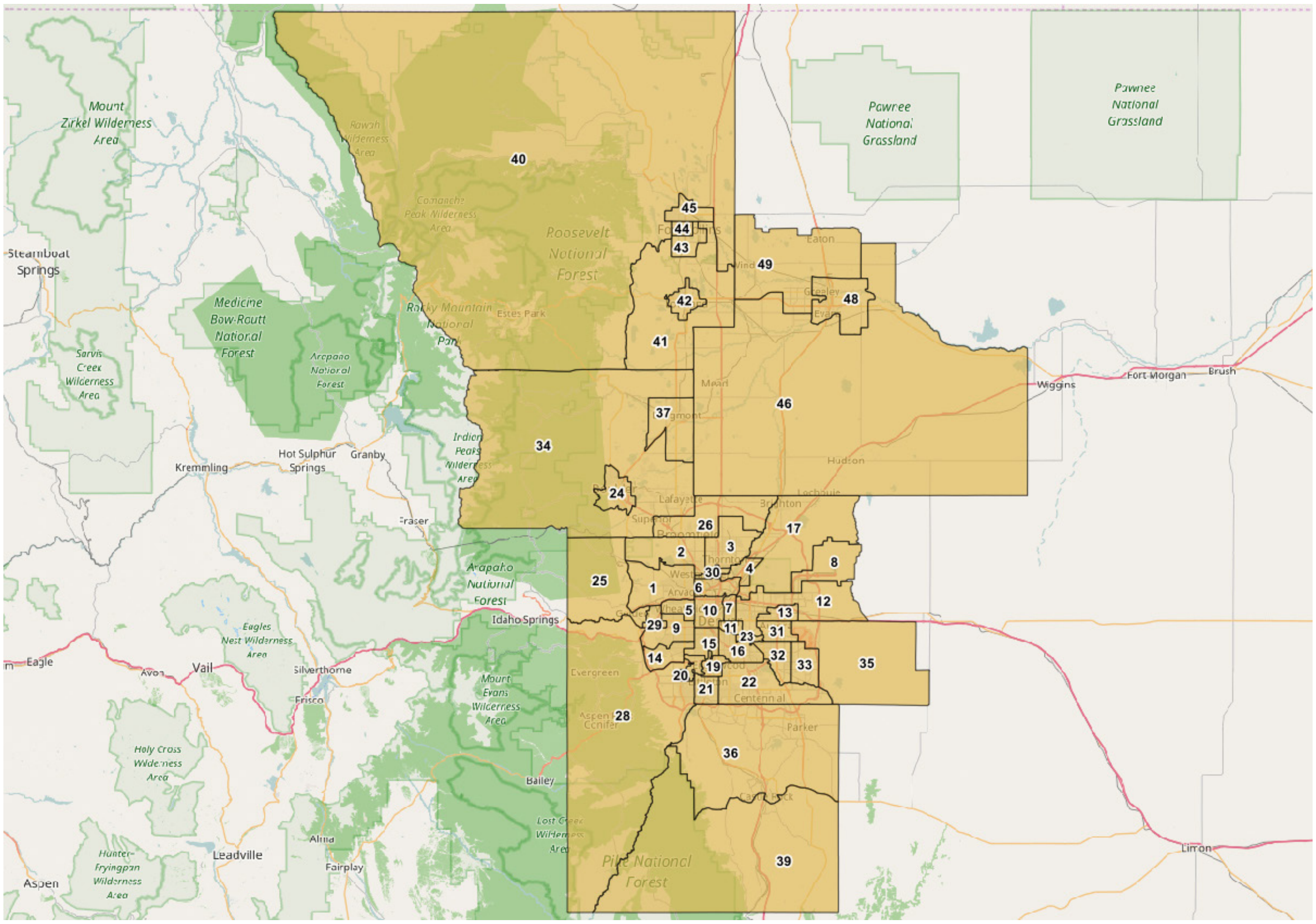
Denver vs. National Sales Price per Unit



Source: YardiMatrix

Photo by Neil Podoll/iStockphoto.com

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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.