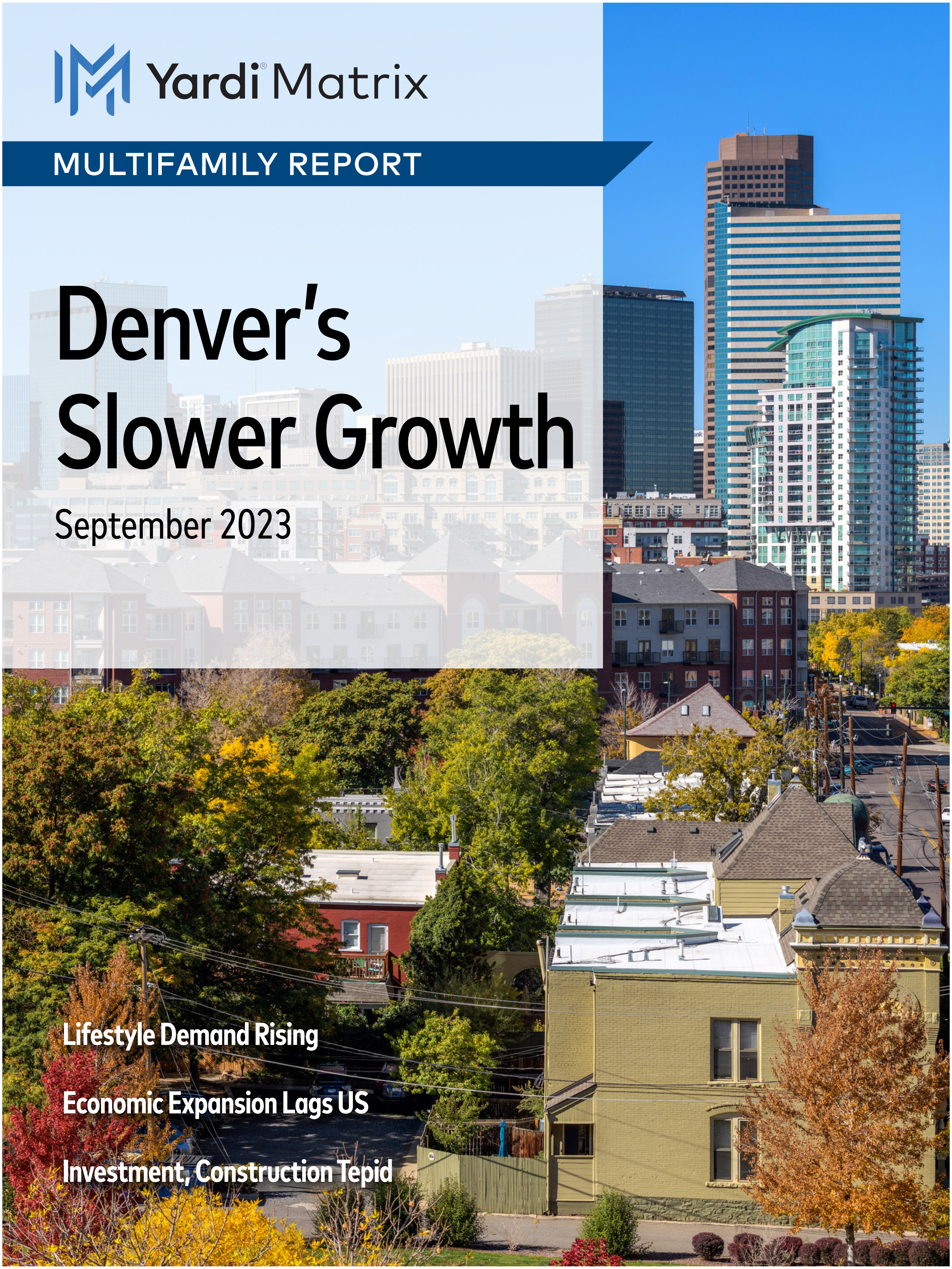
Yardi Matrix

MULTIFAMILY REPORT

Denver's Slower Growth

September 2023



Lifestyle Demand Rising

Economic Expansion Lags US

Investment, Construction Tepid

DENVER MULTIFAMILY

Yardi Matrix

Lifestyle Segment Drives Demand

Denver's fundamentals remained stable as the second half of the year began, despite mounting economic headwinds. Rates rose 0.6% on a trailing three-month basis through July, to $1,942, doubling the 0.3% U.S. figure, while the national average reached $1,729. On a year-over-year basis, Denver's rent growth trailed the nation by 50 basis points. Occupancy in stabilized properties remained flat, thanks to an uptick in the Lifestyle segment.

Denver's unemployment rate was at a tight 2.8% in May, on par with the state and ahead of the 3.7% U.S. figure, according to data from the Bureau of Labor Statistics. However, the labor market posted one of the weakest performances in the nation, up just 1.3%, or 3,500 jobs, in the 12 months ending in May. Meanwhile, the U.S. job market marked a 2.8% expansion. Half of Denver's sectors contracted during the period, with financial activities, trade, transportation and utilities, and information losing a combined 21,300 positions. Government and leisure and hospitality led gains, with 21,200 jobs.

Developers brought 4,260 units online in 2023 through July and had 39,745 units underway. The volume of new projects decreased from 2022 but remained above 2021's figures. Meanwhile, investment activity totaled $1.1 billion, but due to ongoing interest rate increases, the price per unit held on well compared to other similar metros, declining 5.5% year-over-year, to $312,470.

Market Analysis | September 2023

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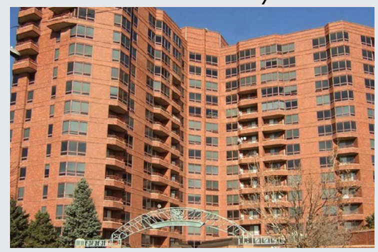
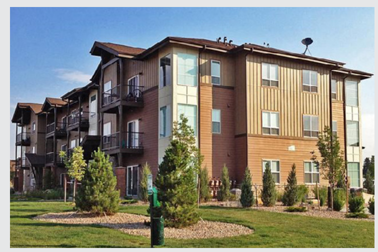
Recent Denver Transactions

The Seasons of Cherry Creek



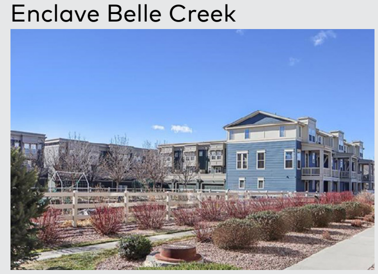
City: Denver
Buyer: Broe Real Estate Group
Purchase Price: $225 MM
Price per Unit: $384,615

The Greens at Van de Water



City: Loveland, Colo.
Buyer: Hamilton Zanze & Co.
Purchase Price: $75 MM
Price per Unit: $298,214

Enclave Belle Creek



City: Henderson, Colo.
Buyer: Hudson Grove Property Management
Purchase Price: $46 MM
Price per Unit: $275,839

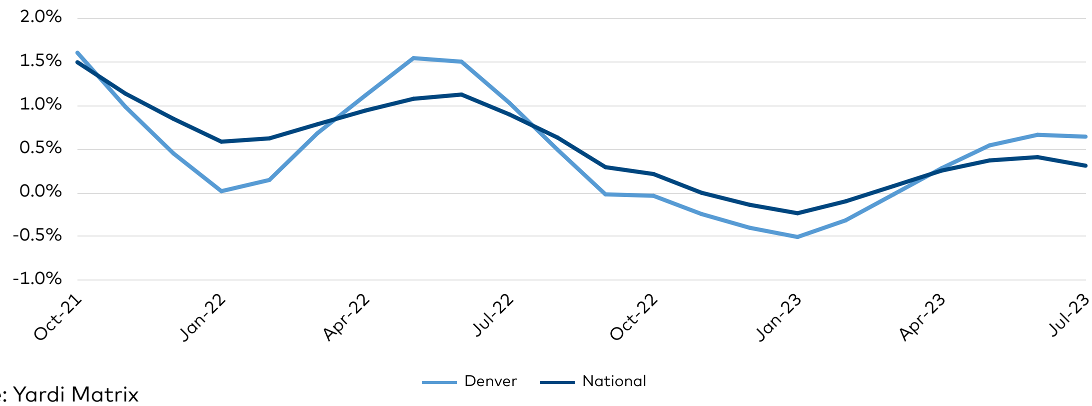
Trailpoint on Highline

City: Aurora, Colo.
Buyer: Trion Properties
Purchase Price: $41 MM
Price per Unit: $209,091

RENT TRENDS

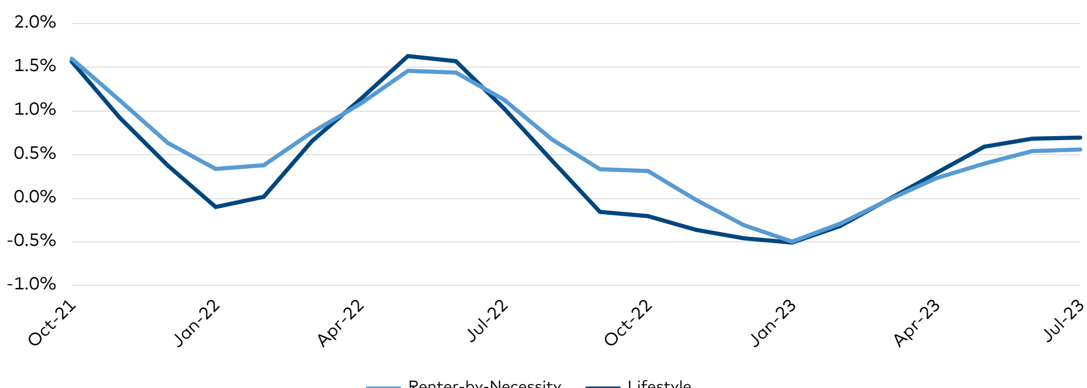
- Denver's average rent rose 0.6% on a trailing three-month (T3) basis through July, to $1,942, widening the gap to the U.S. figure, which rose 0.3%, to $1,729. On a year-over-year basis, rent gains in the metro posted a 1.1% increase, 50 basis points behind the 1.6% national rate.
- Rent growth was nearly on par across property segments, with Lifestyle figures just edging out the Renter-by-Necessity segment for the fourth straight month. Specifically, Lifestyle rates were up 0.7% on a T3 basis through July, to $2,142, while RBN figures climbed 0.6%, to an average of $1,633.
- The Lifestyle segment's rent performance was mirrored by its average occupancy rate in stabilized assets, which posted a 30-basis-point year-over-year increase, to 95.2% in June. The RBN segment saw occupancy decline 40 basis points, to an average of 95.0%. Overall, Denver's occupancy remained flat, at 95.1%. Meanwhile, the U.S. rate decreased by 70 basis points, to 95.0%.
- Annual rents decreased in 11 of the 46 submarkets tracked by Yardi Matrix, including Downtown Denver (-0.2% to $2,524), the metro's most expensive area. Across the metro, 19 submarkets had average asking rents above the $2,000 mark, up from 17 a year ago.
- The SFR segment was stable, with annual rents staying flat in July and occupancy down 0.6% year-over-year as of 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 stood at 2.8% in May, down 20 basis points since January, and marking a 40-basis-point regression month-over-month, according to Bureau of Labor Statistics data. Meanwhile, Colorado's rate stayed flat, at 2.8%, for all months in 2023 except February, when it rose just 10 basis points. Despite economic hardship, both Denver and the state outperformed the 3.7% U.S. figure.

- While unemployment levels paint the picture of a tight labor market, job growth remained on a moderating trend, up 1.3%, or 3,900 jobs, year-over-year as of May. Meanwhile, the U.S. rate of growth was 2.8%.

- Half of the metro's employment sectors recorded job losses during the interval, with financial activities contracting the most, down 10,800 jobs. Trade, transportation and utilities and information lost almost the same number of positions combined (10,500). Education and health services (-2,000 jobs) and professional and business services (-300 jobs) also declined.

- The main drivers of the job market were the government sector, up 14,100 positions, and leisure and hospitality, up 7,100 jobs. While the former is typically insulated from economic trends, as it doesn't depend on consumer spending, the latter benefited from a surge in visitors, totaling 36.3 million in 2022, up 15% over 2021 and surpassing all historic levels.

Denver Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
90	Government	320	15.2%
70	Leisure and Hospitality	229	10.9%
80	Other Services	90	4.3%
15	Mining, Logging and Construction	148	7.1%
30	Manufacturing	123	5.9%
60	Professional and Business Services	390	18.6%
65	Education and Health Services	251	12.0%
50	Information	63	3.0%
40	Trade, Transportation and Utilities	359	17.1%
55	Financial Activities	128	6.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Denver's population has been growing every year since the 2010 Census, marking a 16.4% expansion and more than double the 7.3% U.S. rate.

- In 2021, growth slowed, with Denver adding 3,277 residents, or 0.2%, just five basis points above the U.S. rate.

Denver vs. National Population

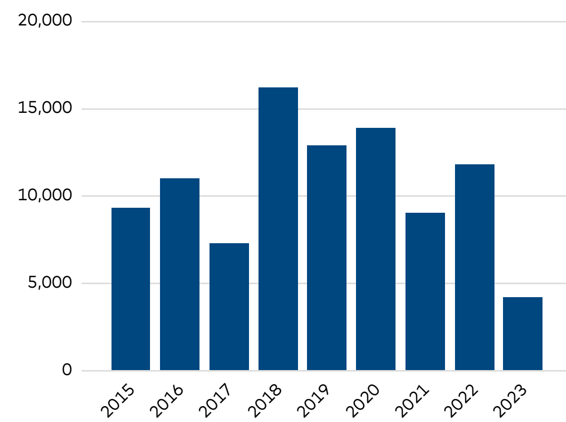
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Denver	2,933,991	2,964,811	2,969,289	2,972,566

Source: U.S. Census

SUPPLY

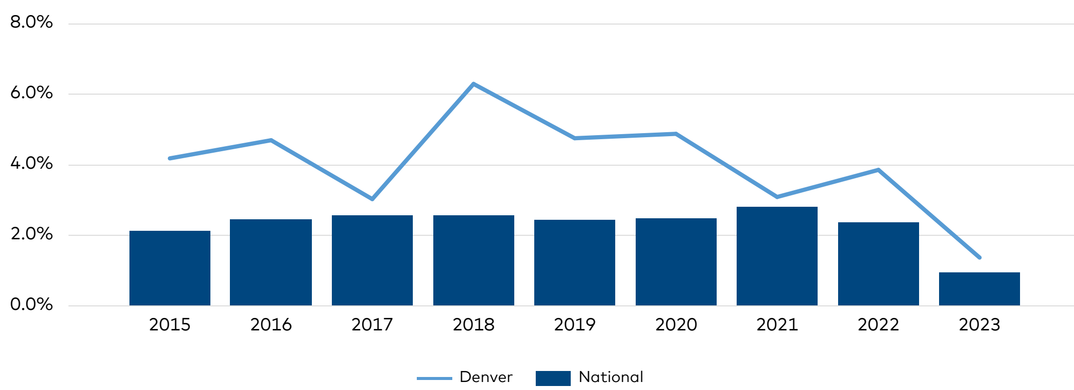
- Developers added 4,260 units in the first seven months of the year, accounting for 1.4% of Denver's existing multifamily stock. The figure is 50 basis points above the U.S average. In line with previous years, 88% of deliveries were Lifestyle projects. All other completions were in fully affordable communities.
- Construction activity remained robust in Denver, with 39,745 units under construction and another 124,000 units in the planning and permitting stages. Developers remained focused on the upscale segment, with the composition similar to the delivery pipeline, with 88% of Lifestyle projects and 9% accounting for fully affordable properties.
- Despite the troubled economic landscape, the volume of construction starts remained high, with 6,246 units across 31 properties breaking ground in 2023. Even though it was slightly more than half the volume recorded during the same period last year (11,291 units across 48 properties), it surpassed 2021 figures, when work was started on 4,406 units across 20 projects.
- Construction activity was present in 40 of the 46 submarkets tracked by Yardi Matrix, and the top 15—which had more than 1,000 units underway—accounted for 71% of the entire pipeline. Denver-Central (3,588 units under construction) and Denver/Five Points/Uptown (3,433 units) were most attractive to developers. The latter houses the largest delivery of 2023 through July—the 390-unit AMLI RiNo, a Lifestyle asset owned by AMLI Residential.

Denver Completions (as of July 2023)



Source: Yardi Matrix

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

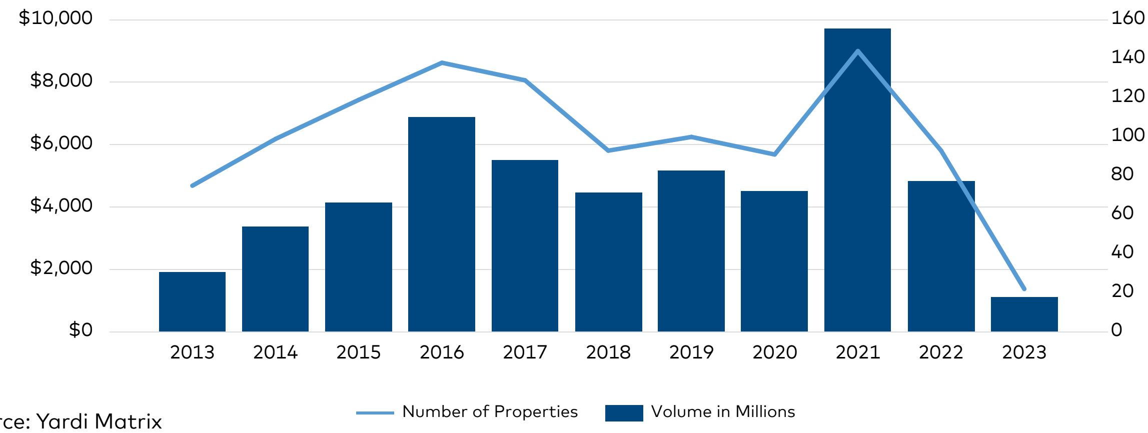


Source: Yardi Matrix

TRANSACTIONS

- During the first seven months of 2023, investors traded $1.1 billion in multifamily assets across 22 transactions, accounting for roughly 3,000 units. During the same period in 2022, sales volume had totaled $3.4 billion following the sale of 61 properties, totaling 12,000 units.
- The sales composition of the assets sold this year through July was almost even between asset classes—12 were Lifestyle properties and 10 were RBN. Combined with ongoing financing hurdles and a declining number of properties on the market, the price per unit marked a 5.5% decrease in 2023, to $312,470. That was still well above the $184,996 national figure.
- The property that traded for the highest price in 2023 was The Seasons of Cherry Creek, a 585-unit asset in the Cherry Creek submarket. Broe Real Estate Group acquired it from RedPeak Properties for $225 million, or $384,615 per unit. The buyer used a $121 million loan from New York Life Insurance Co. to finance.

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



Source: Yardi Matrix

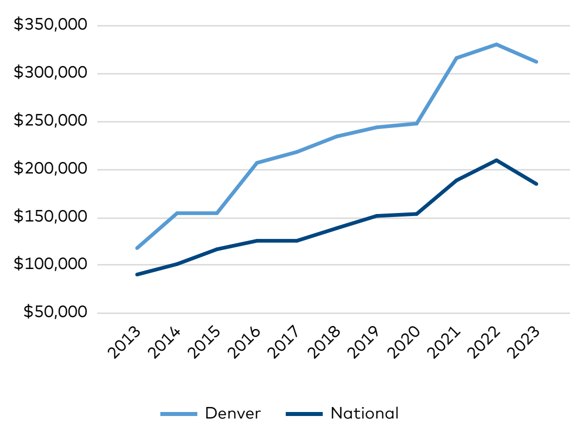
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Broomfield	410
Denver - City Park - Cherry Creek	279
Denver - Southeast	273
Lakewood - West	158
Loveland	148
Fort Collins - South	147
Denver - East	146

Source: Yardi Matrix

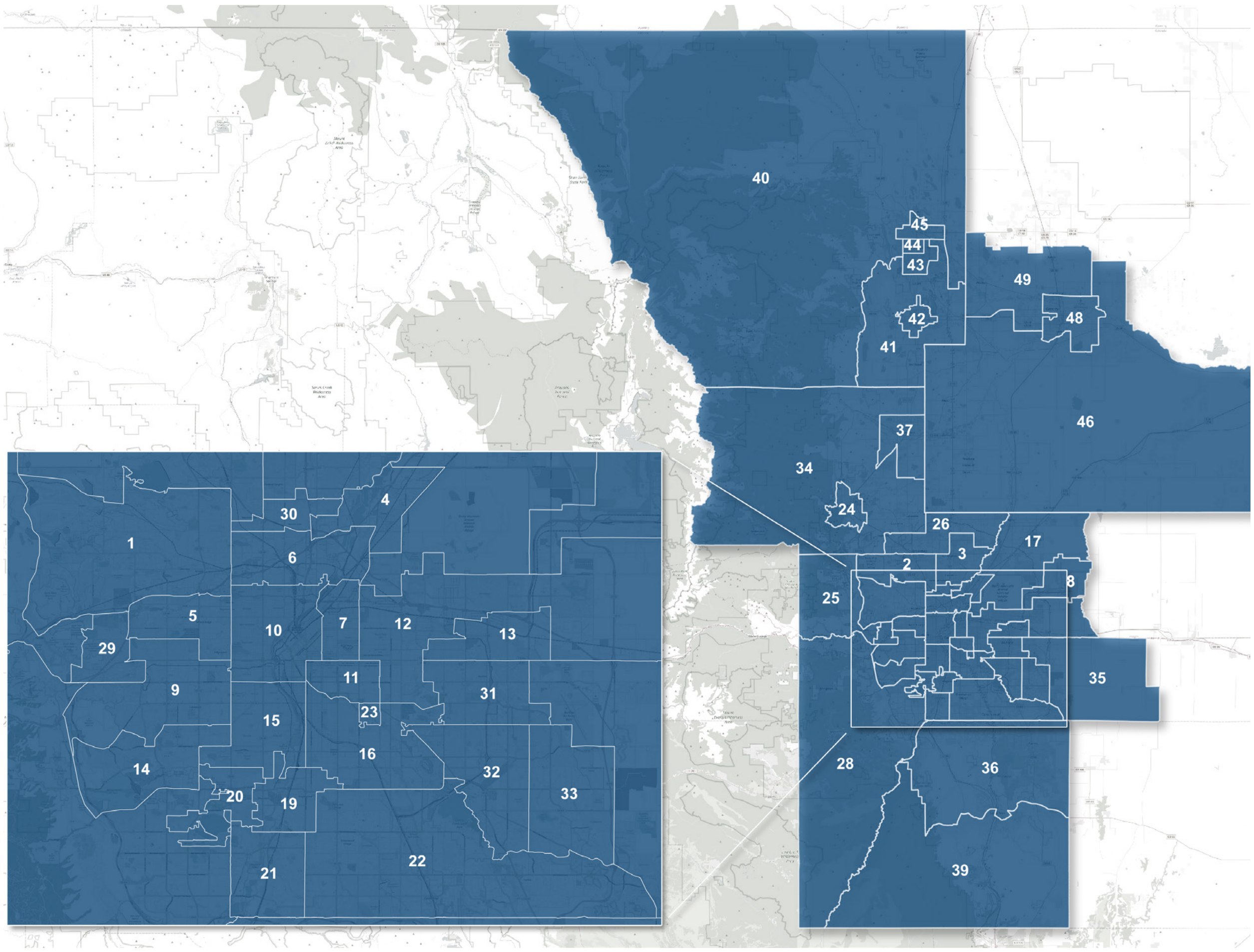
[1] From August 2022 to July 2023

Denver vs. National Sales Price per Unit



Source: Yardi Matrix

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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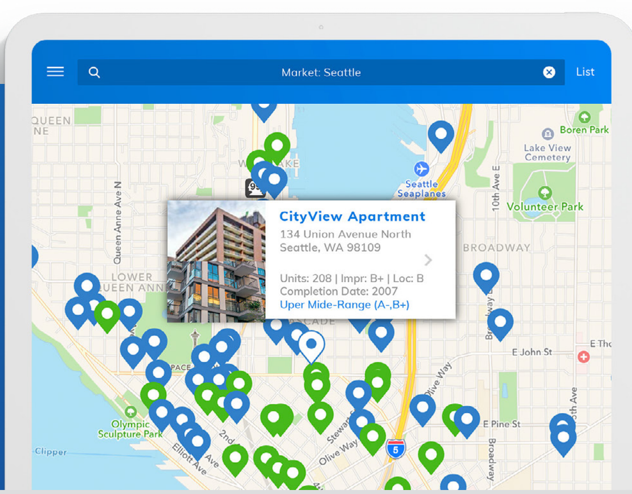
MULTIFAMILY KEY FEATURES

- 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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