Yardi Matrix

MULTIFAMILY REPORT

Denver Faces Challenges

January 2024

Rent Growth Flat YoY

Pipeline Adds Pressure

Investment Declines, PPU Still High

DENVER MULTIFAMILY

Yardi Matrix

Supply Endures, Slowing Economy Impacts Deals

Although Denver's economy slowed in 2023, some multifamily fundamentals maintained a solid performance. Year-over-year, rents recorded a mild 0.1% rate of growth, with the average at $1,903. The metro trailed the U.S. figure, which rose 0.4% year-over-year, to $1,713, as of November 2023. Meanwhile, occupancy declined just 30 basis points in the 12 months ending in October, to a still healthy 95.1%.

Employment expanded just 0.6%, or 15,400 jobs, in the 12 months ending in September, well behind the 2.4% U.S. average, according to the Bureau of Labor Statistics. Additionally, five sectors lost 13,000 jobs combined during the interval. The financial activities sector lost the most positions (-5,700 jobs), heavily impacted by the recent evolution of interest rates. Next in line were trade, transportation and utilities (-3,200) and information (-3,000). The sectors that recorded the highest gains were government (14,900 jobs) and leisure and hospitality (7,300 jobs).

Denver's stock expanded by 8,259 rental units in the first 11 months of 2023. While the number of new projects waned, the metro still had a consistent 42,334 units under construction, placing Denver fourth in the country for the largest pipeline as of November. Meanwhile, investors traded $2.2 billion in multifamily assets, for a price per unit that declined 4.4% year-over-year, to $322,036 in November.

Market Analysis | January 2024

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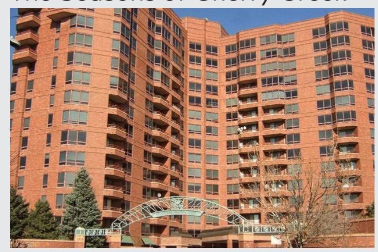
Recent Denver Transactions

The Seasons of Cherry Creek



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

Zia Sunnyside

City: Denver
Buyer: Kairoi Residential
Purchase Price: $161 MM
Price per Unit: $370,968

Vue West Apartment Homes

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

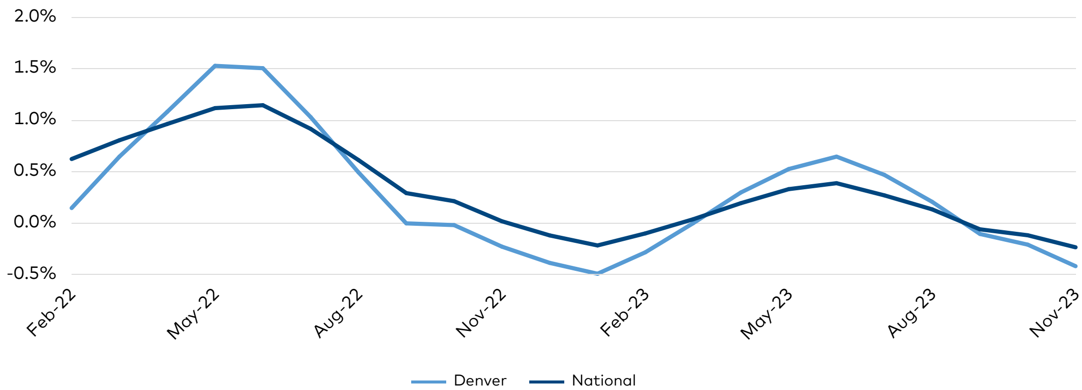
The Flats at Inverness

City: Englewood, Colo.
Buyer: Mesirow Financial
Purchase Price: $111 MM
Price per Unit: $359,547

RENT TRENDS

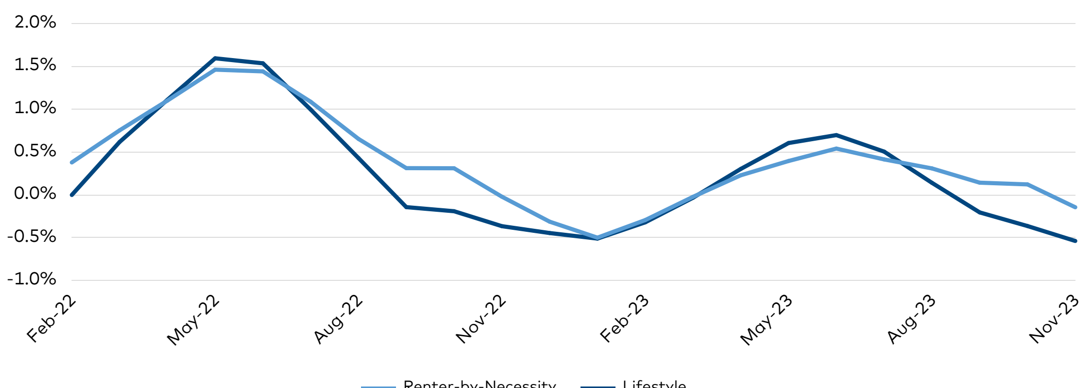
- Denver rents declined for the third consecutive month, down 0.4% on a trailing three-month (T3) basis through November, while the U.S. rate decreased 0.2%. The metro's growth trailed the national average on a year-over-year basis as well, with Denver rents inching up 0.1%, to $1,903. Meanwhile, the U.S. average rose 0.4%, to $1,713, as of November 2023.
- In line with national trends, rent contractions were steeper in the upscale segment, with Lifestyle rents sliding 0.5% on a T3 basis through November, to $2,090. Working-class Renter-by-Necessity figures dropped 0.1%, to $1,616, the first instance of contractions for this segment since February.
- Despite robust deliveries, strong demand kept the occupancy rate in stabilized properties relatively healthy, down 30 basis points in the 12 months ending in October, to 95.1%. Both RBN and Lifestyle occupancy dropped 30 basis points, to 95.3% and 95.0%, respectively.
- Rents slid year-over-year in 14 of the 49 submarkets tracked by Yardi Matrix, including City Park–Cherry Creek, which still boasts the second highest average rent in the metro (-1.5% to $2,428). Downtown (0.4% to $2,514) was the most expensive area, retaining the position it held 12 months earlier.
- Denver's single-family rental segment had a good run, with rents up 0.3% year-over-year through November, to $2,611. Occupancy decreased 110 basis points in the 12 months ending in October 2023, to a still healthy 95.1%.

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 labor market was tight as the year drew to a close. Metro unemployment was at 3.2% in October, well below the 3.9% U.S. rate and 10 basis points below Colorado, according to preliminary data from the BLS. Throughout 2023, Denver's jobless rate remained in the 2.4% to 3.6% range.

- In the 12 months ending in September, employment expanded by just 0.6%, or 15,400 net jobs, a considerable slowdown and lagging the 2.4% national average. Additionally, five sectors lost 13,000 jobs combined during the interval. The financial activities sector bore the brunt of the prolonged high-interest-rate environment, shedding 5,700 jobs. Trade, transportation and utilities and information lost similar volumes of jobs (3,200 and 3,000 positions, respectively). Professional and business services (-700 jobs) and construction (-400 jobs) also contracted.

- The sectors offsetting losses and pushing gains were government (14,900 jobs) and leisure and hospitality (7,300 jobs). While the former is known for recording growth in less favorable seasons, this doesn't impact consumer spending. The latter was boosted by the skiing industry's exceptional performance in the 2022-23 season. The state set a record for the second consecutive time, as about 23% of such U.S. leisure visits were in Colorado.

Denver Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
90	Government	324	15.4%
70	Leisure and Hospitality	230	10.9%
80	Other Services	87	4.1%
30	Manufacturing	124	5.9%
65	Education and Health Services	251	11.9%
15	Mining, Logging and Construction	149	7.1%
60	Professional and Business Services	390	18.6%
50	Information	62	3.0%
40	Trade, Transportation and Utilities	358	17.0%
55	Financial Activities	128	6.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- One of the fastest-growing metros in the nation, Denver gained 417,978 residents between the 2010 Census and 2021.

- The rate marked a 16.4% demographic increase, which was more than double the 7.3% U.S. rate.

Denver vs. National Population

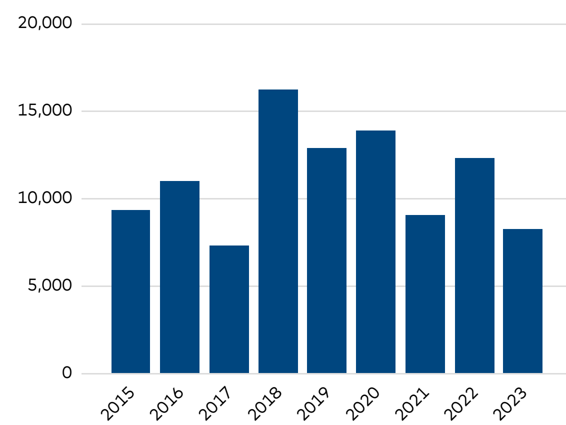
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Denver	2,933,991	2,964,811	2,969,289	2,972,566

Source: U.S. Census

SUPPLY

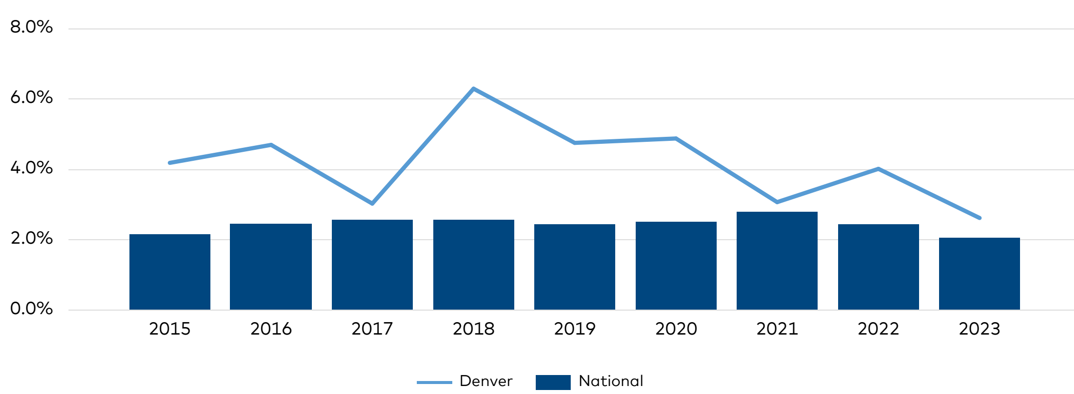
- The construction pipeline comprised 42,334 units under construction in November 2023, representing the country's fourth-busiest pipeline. In addition, the metro also had nearly 120,000 units in the planning and permitting stages.
- Developers delivered 8,259 units in 2023 through November, or 2.6% of Denver's existing stock, some 50 basis points above the national rate. The bulk of deliveries (more than 80%) were Lifestyle units, while fully affordable assets accounted for some 15% of new supply. The percentage of units in fully affordable communities dropped to 9.4%, while the Lifestyle share increased to 86.4%.
- While still very robust, the volume of new projects declined. A total of 12,780 units across 62 properties broke ground in 2023 through November, compared to 20,970 units across 83 properties during the same time frame of 2022.
- Construction activity was spread across the map, with 15 submarkets having more than 1,000 units underway. What's more, three submarkets had more than 3,000 units under construction as of November: Central (3,536 units), Five Points–Uptown (3,165 units) and Airport (3,144 units).
- The largest project delivered through November was Mica RiNo, a 397-unit property owned by Hines Interests in a joint venture with Cresset Partners and located in an Opportunity Zone. The urban asset includes 17 affordable units and 15,000 square feet of retail space. It was built with aid from a $91 million loan funded by Northwestern Mutual.

Denver Completions (as of November 2023)



Source: Yardi Matrix

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

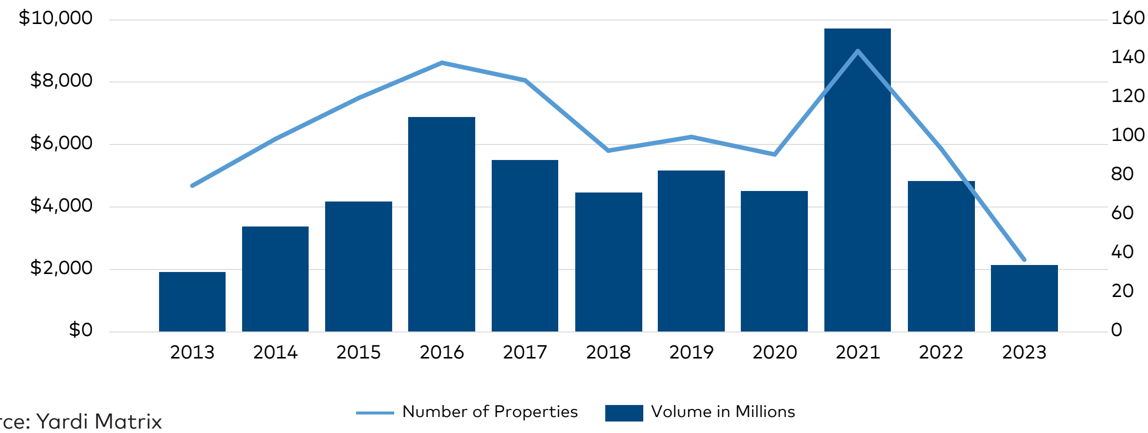


Source: Yardi Matrix

TRANSACTIONS

- Investors traded $2.2 billion in Denver multifamily assets in 2023 through November, less than half the volume recorded during the same period of 2022. The Fed's decision to hold interest rates at their current levels will likely make some investors sharpen their pencils while waiting for eventual cuts of the benchmark federal funds rate.
- The slowdown in transactions has also impacted the price per unit, despite the volume of deals comprising upscale properties (60%) surpassing that of value-add plays. The average per-unit price in Denver dropped 4.4% year-over-year through November, to $322,036, well ahead of the $186,300 national figure.
- The asset that sold for the highest per-unit price in 2023 through November was The Kendrick, in the City Park–Cherry Creek submarket. The 254-unit property was acquired by Jackson Square Properties from Alliance Residential Co. for $111 million, or $437,008 per unit.

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



Source: Yardi Matrix

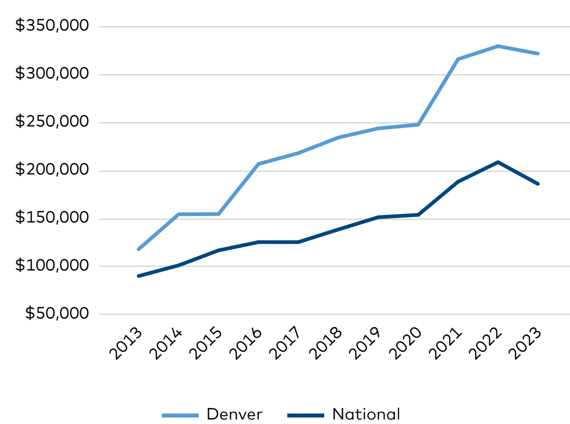
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Denver — Southeast	358
Denver — City Park — Cherry Creek	336
Centennial — East	190
Loveland	170
Denver — North	161
Lakewood — West	113
Brighton	111

Source: Yardi Matrix

[1] From December 2022 to November 2023

Denver vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

Top 10 Markets for Multifamily Deliveries in H1 2023

By Anda Rosu

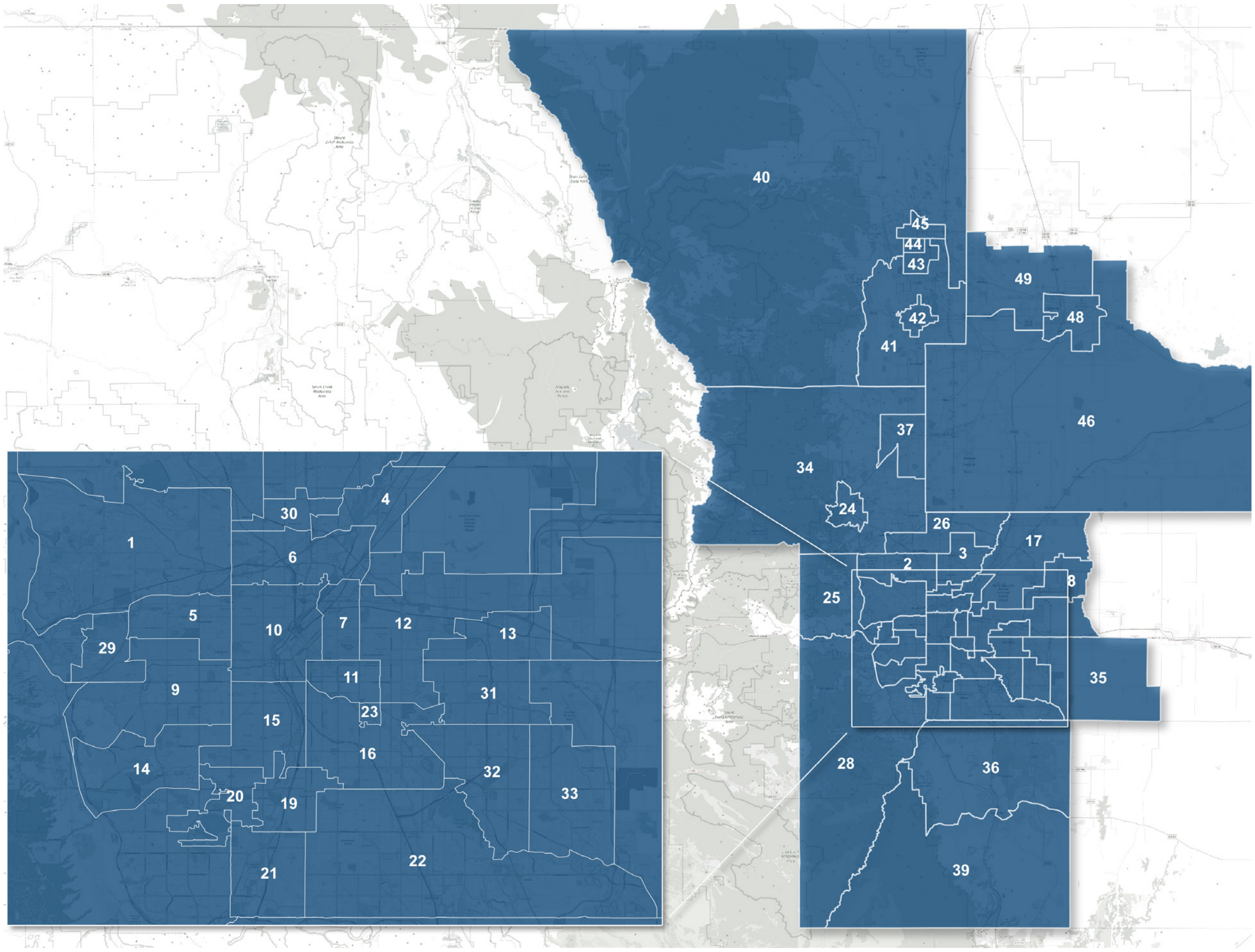
Multifamily demand remained elevated in 2023 despite major economic headwinds, although the sector underperformed compared to 2022 during the first six months of the year. According to Yardi Matrix data, 154,366 units came online nationwide between January and June 2023. The volume of multifamily deliveries accounts for a 60-basis-point increase from the 153,314 units that were delivered last year during the same period.

Rank	Metro	Projects Delivered 2023 H1	Number of Units Delivered 2023 H1	ConstructionStarts 2023 H1 Units
1	Phoenix	36	8,062	10,886
2	Washington, D.C.	25	6,333	5,288
3	Atlanta	29	6,178	10,380
4	Austin	23	5,473	11,220
5	Dallas	20	5,133	15,747
6	Miami Metro	22	5,109	9,969
7	Charlotte	21	4,595	6,441
8	Orlando	19	4,445	5,437
9	Denver	23	4,270	6,046
10	Houston	17	3,910	6,562

Denver

Denver made the list with a total of 4,270 units delivered in the first half of 2023. These units were spread across 23 properties. These completions represent 2.7% of the total stock. Yardi Matrix anticipates Denver's stock will grow by 12,478 units in 2023, the equivalent of 4.1% of total stock and below the 4.6% five-year average. Both recent stock and the current pipeline heavily favored the upscale development, with an overwhelming total of 4,052 recently delivered units adding to the Lifestyle segment, while the Renter-by-Necessity segment expanded by 218 units.

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

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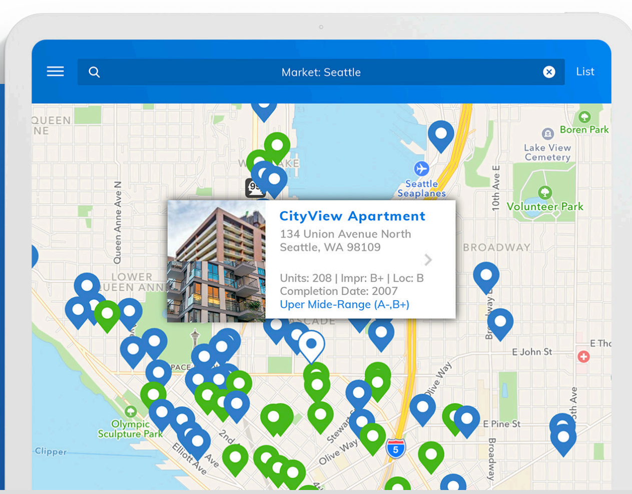
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



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

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