

An aerial photograph of the Denver skyline at sunset. The sky is a deep blue, and the city buildings are illuminated with warm, golden light. A prominent skyscraper with a spire is visible in the center. The foreground shows a multi-lane highway with several cars driving. The overall scene is a vibrant and modern urban landscape.

Yardi® Matrix

# Denver's Growing Inventory

Multifamily Report Fall 2018

**Rental Pipeline Remains Robust**

**Transaction Volume Softens**

**Employment Stays Strong**

## Market Analysis

Fall 2018

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## Challenging the Limits of Demand?

Denver's multifamily market continues to thrive, bolstered by a strong economy and positive demographic trends. With single-family prices reaching a new peak of \$383,864, well above the national level, apartment demand is expected to increase as residents turn to renting—which is not much more affordable, but eliminates the pressure of a down payment.

Denver tourism set new highs in 2017, when more than 31 million people visited the metro, the 12th consecutive year of growth for the city's booming hospitality industry. The leisure and hospitality sector added the most jobs (11,800) in the 12 months ending in June as a direct result. Development in both the multifamily and office sectors has stayed strong, with 26,000 apartments and more than 2.4 million square feet of office space underway as of August.

Multifamily transaction activity has softened compared to last year, with a total investment level of roughly \$1.9 billion. The decrease in volume and per-unit prices was largely due to investors focusing on value-add opportunities, as they target higher yields. With deliveries expected to cross the 16,000 mark by year-end, we expect rents to continue their rise at a moderate pace, as we reach the year's final quarter.

## Recent Denver Transactions

Steele Creek



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

1600 Glenarm Place



City: Denver  
Buyer: Northland Investment Corp.  
Purchase Price: \$131 MM  
Price per Unit: \$393,393

Westend



City: Denver  
Buyer: Investors Real Estate Trust  
Purchase Price: \$129 MM  
Price per Unit: \$330,000

Haven 124 at Eastlake Station

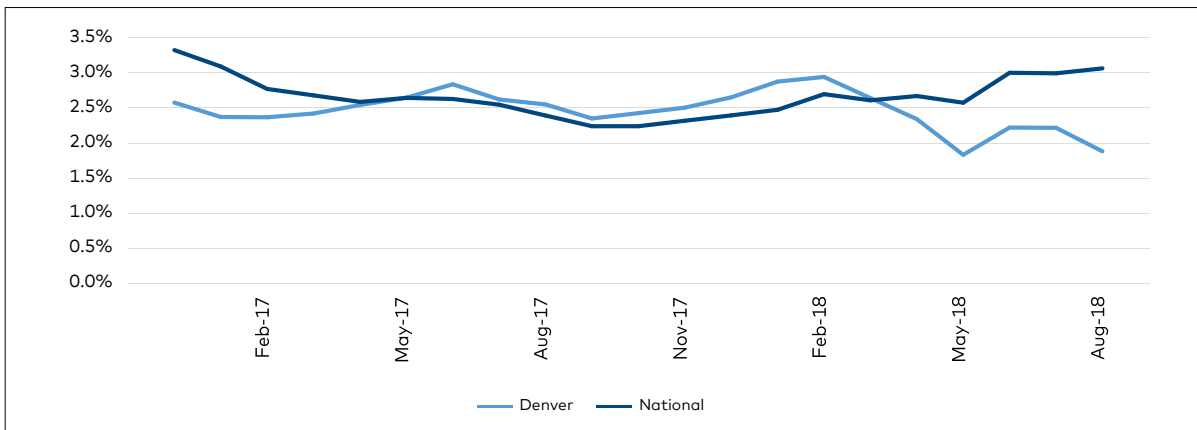


City: Northglenn, Colo.  
Buyer: Magnolia Capital  
Purchase Price: \$124 MM  
Price per Unit: \$220,641

## Rent Trends

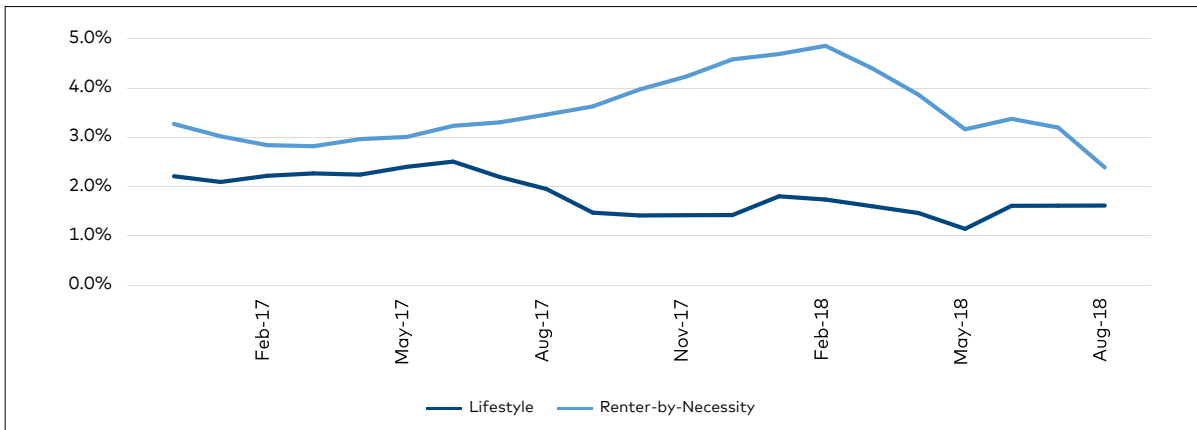
- Denver rents rose 1.9% year-over-year through August, below the 3.1% national average. At \$1,516, rents were above the national average by nearly \$100. Despite a high rate of deliveries in the current cycle, occupancy in stabilized assets across the metro has actually risen since the beginning of the year, to an average of 95.3%.
- Working-class Renter-by-Necessity assets led rent appreciation in recent months, rising 2.4% to an average of \$1,284. RBN assets continue to outperform growth in the Lifestyle segment, as demand for workforce housing remains high. Lifestyle rents only rose 1.6%, to an average of \$1,698.
- Sheerelwood/Welby (5.8%), Wheat Ridge (5.1%) and Windsor/Greeley West (5.0%) saw the largest year-over-year increase, while the CBD/Five Points/North Capitol Hill submarket continues to have the most expensive rents (\$1,938). As a result, most residents are being priced out of the city core, while developers in search of strong yields are focusing on delivering even more upscale assets.
- Despite Denver's affordability problems, residents are drawn to the metro's strong economy and job diversity. As a result of this population influx, demand for housing is expected to remain robust, resulting in continued, albeit moderate, rent increases.

**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)

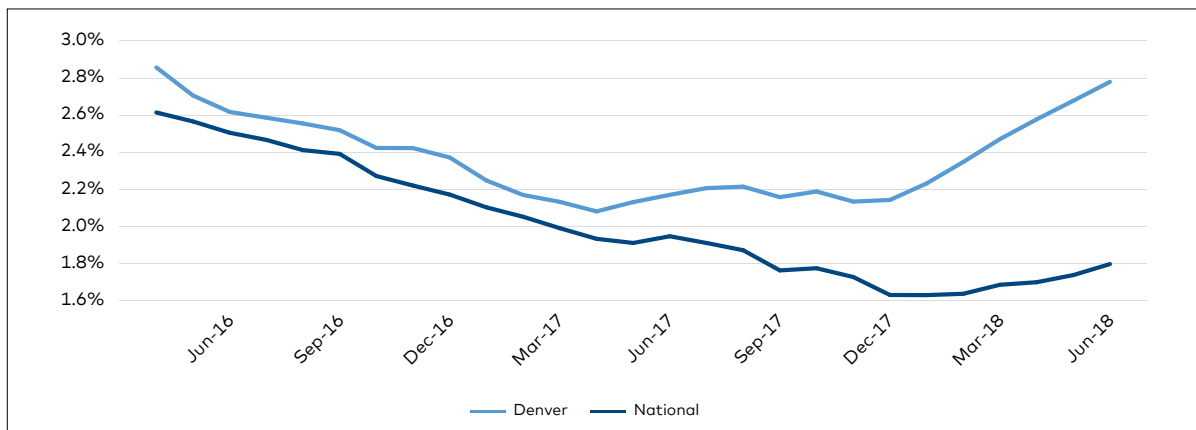


Source: YardiMatrix

## Economic Snapshot

- Denver added 57,000 jobs in the 12 months ending in June, up 2.8% year-over-year. That's 100 basis points higher than the national average for that interval. Meanwhile, the metro maintains one of the lowest unemployment rates in the nation, at 2.9% as of June, well below the 4.3% national average.
- The leisure and hospitality sector continued to lead growth in the metro, with the addition of 11,800 jobs through the 12-month interval. Denver had a peak year for tourism in 2017, as 31.7 million people visited the city, marking the 12th consecutive year of growth for its booming tourism industry. Overnight visitors—accounting for more than half of all tourists—spent 6% more than they did in 2016, a Longwoods International report shows. The demand for hotel guestrooms across the metro is driven by the strong economy, as well as tourism-related travel. The report noted that visitors spent more than \$1.7 billion at hotels and roughly \$1 billion on food and beverages while in metro Denver.
- Construction grew at a faster rate, however, adding 8,800 jobs, a 6.4% rate of employment growth year-over-year, as a result of substantial development pipelines in both the commercial and residential sectors.

### 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	%
70	Leisure and Hospitality	239	12.0%	11,800	5.2%
40	Trade, Transportation and Utilities	347	17.4%	10,000	3.0%
60	Professional and Business Services	341	17.1%	9,900	3.0%
15	Mining, Logging and Construction	147	7.4%	8,800	6.4%
65	Education and Health Services	243	12.2%	6,300	2.7%
50	Information	62	3.1%	3,200	5.4%
30	Manufacturing	118	5.9%	3,100	2.7%
90	Government	288	14.5%	2,300	0.8%
55	Financial Activities	130	6.5%	2,100	1.6%
80	Other Services	73	3.7%	-500	-0.7%

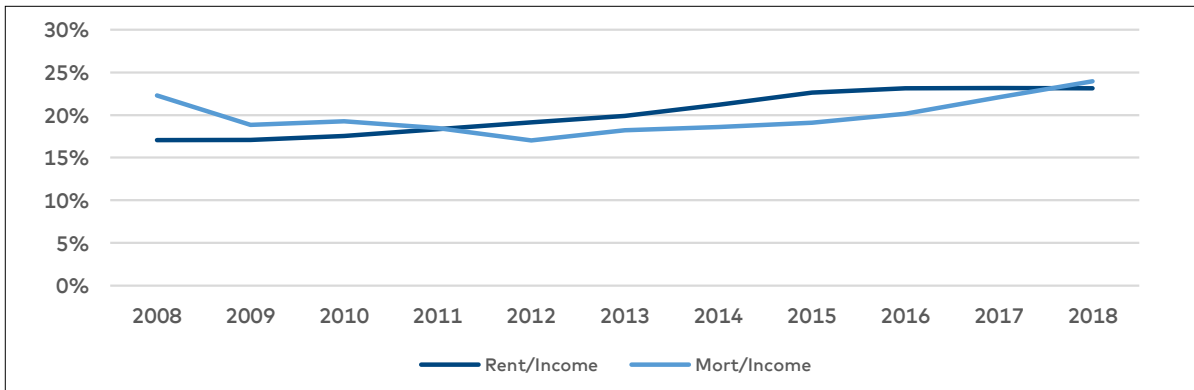
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

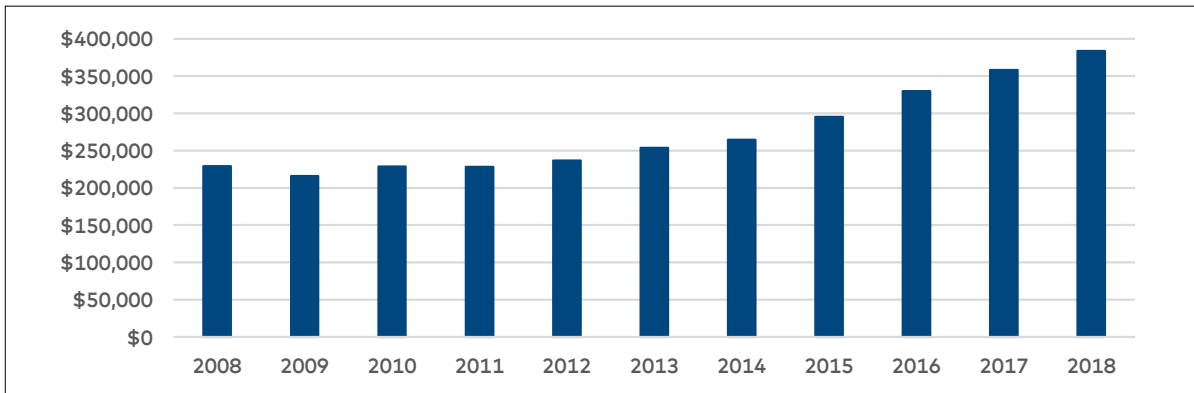
- Denver's median home price continued to rise, hitting a new cycle peak of \$383,864 during the year's first half. Constantly increasing property values, coupled with low single-family inventory, are pushing residents into the rental market, further increasing demand for apartments.
- At \$1,516 per month, rents account for roughly the same percentage of the median income as mortgages do—24% and 23%, respectively. Denver is slated to double its affordable housing fund, with the city council recently approving a measure to that effect. The plan calls for the addition of 6,000 affordable housing units over the next 10 years.

#### 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 more than 36,000 residents in 2017, a population growth rate of 1.3%, 60 basis points ahead of the national average.
- Since 2012, the metro has added roughly 242,000 residents.

#### Denver vs. National Population

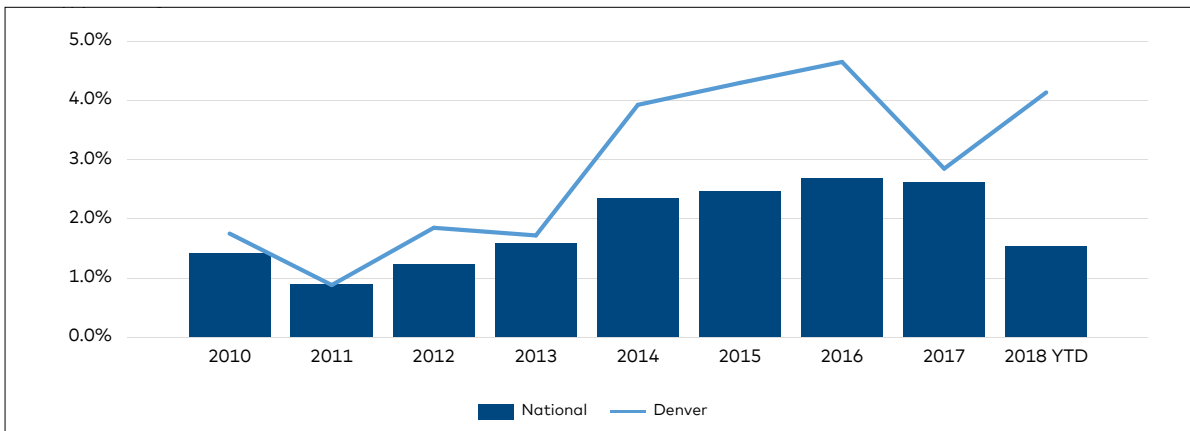
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Denver Metro	2,696,308	2,749,827	2,807,211	2,851,848	2,888,227

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

## Supply

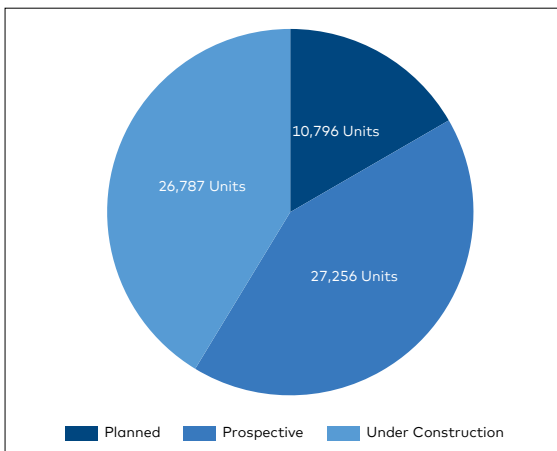
- Developers added more than 10,000 units to Denver's housing inventory this year through August, about 4.1% of total stock. That's already 3,300 units more than last year's total number of deliveries. As the metro's population continues to grow at some of the fastest rates in the U.S., Denver is gearing up for a banner year for completions, with a new cycle peak well in the cards.
- Denver has been among the metros where occupancy in stabilized properties has actually risen in 2018—at 95.3% as of July, 40 basis points higher than it was in January. A stress test is incoming for the metro's occupancy rate, as more than 26,000 units were underway as of August, while another 38,000 were in the planning and permitting stages.
- Construction activity was focused on the market's urban core: CBD/Five Points/North Capitol Hill (6,148 units underway) is the market's hotbed for both investment and development. The largest project underway was Shorenstein's The Grand Denver, a 508-unit mixed-use property located in the submarket. The community was 38% occupied as of August.

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



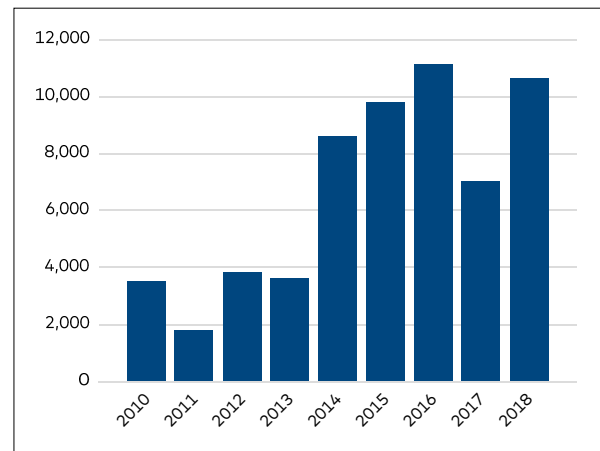
Source: YardiMatrix

**Development Pipeline** (as of August 2018)



Source: YardiMatrix

**Denver Completions** (as of August 2018)

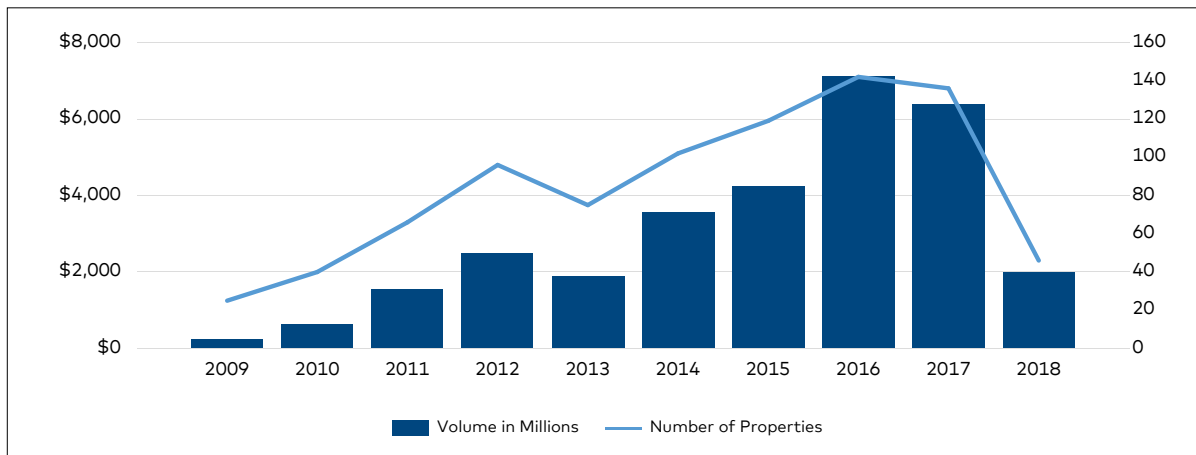


Source: YardiMatrix

## Transactions

- Roughly \$1.9 billion in multifamily assets traded in Denver in 2018 through July. Investment activity has softened significantly compared to 2017, when total sales tallied \$6.3 billion. Per-unit prices hit \$223,968 as of August, 3.1% lower than last year, albeit based on a higher proportion of Renter-by-Necessity deals. Despite the slide, prices stayed well above the \$147,630 national average.
- CBD/Five Points/North Capitol Hill (\$835 million) remains the most attractive submarket for investors, with acquisition yields typically sitting in the mid- to high-4% range. Given the region's reputation for attractive corporate campuses and solid employment, the submarket attracts residents in search of housing close to their workplaces. Denver's largest transaction was Northland Investment Corp.'s \$131 million acquisition of 1600 Glenarm Place, a 333-unit mixed-use asset in CBD/Five Points/North Capitol Hill. RedPeak Properties sold the asset for \$393,393 per unit.

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



Source: YardiMatrix

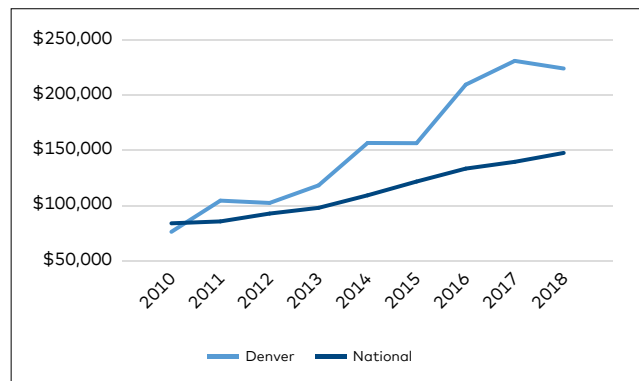
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
CBD/Five Points/North Capitol Hill	835
Arapahoe-Southwest	689
Northglenn/Thornton	641
Westminster	359
Douglas County-North	296
Hampden/Virginia Village/Washington Virginia Vale	263
Aurora-Southwest	220
Capitol Hill/Cheesman Park/Hale	197

Source: YardiMatrix

<sup>1</sup> From August 2017 to July 2018

**Denver vs. National Sales Price per Unit**



Source: YardiMatrix

## News in The Metro

Brought to you by:



### CBRE Facilitates Sale of Denver Communities

Dan Woodward, David Potarf, Matthew Barnett and Jake Young represented the seller and owner of both properties, The Croft and The Oslo.



### Equity Residential Buys Uptown Denver Asset for \$135M

HFF worked on behalf of the company to arrange financing and also represented Trammell Crow Residential, the seller of the 372-unit luxury community formerly known as Alexan Uptown.



### JLL Brokers \$62M Denver Community Sale

JLL's Mike Grippi, Pamela Koster and David Martin arranged the disposition of the Class A community on behalf of the seller, Holland Partner Group.



### Vitus Enters CO Market

In a collaboration with the Colorado Coalition of the Homeless, the affordable housing developer acquired Renaissance 88, a 180-unit property that the company plans to renovate.



### Luxury Denver-Area Community Lands \$119M

HFF arranged the five-year, floating-rate loan to replace the existing construction financing for The Forum Fitzsimons, a 397-unit mixed-use property in Aurora.



### Luxury Tower Trades for \$131M In Downtown Denver

Northland Investment Corp. purchased the 31-story building, as well as a 0.8-acre parcel for future development. The property was 93.4% occupied as of June.

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# Top 10 Largest Affordable Communities Completed in Denver



By Roxana Baiceanu

data by  
**Yardi Matrix**

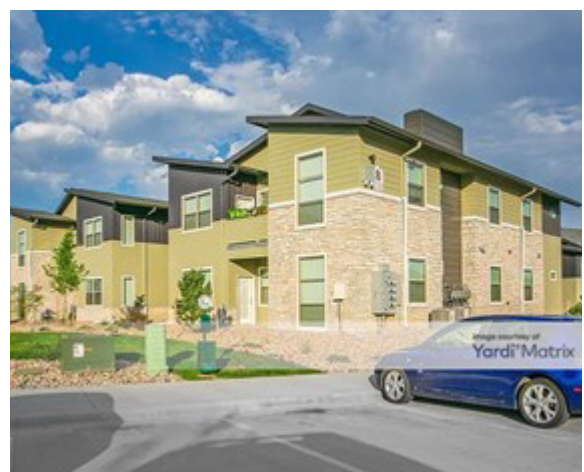
Denver’s rampant rate of deliveries has resulted in quick dilution of stock, moderating demand and dampening overall rent growth in the Mile High City of late—at 1.9% year-over-year as of August, per Yardi Matrix data.

With the bulk of incoming inventory focused on upscale properties that can net higher yields for developers, affordable options have generally lagged. Since 2016, when the city allocated \$150 million in funding for low-income housing—an amount that was recently doubled—officials have been working to attract investments in this segment. As a direct result, incoming affordable inventory is on the rise.

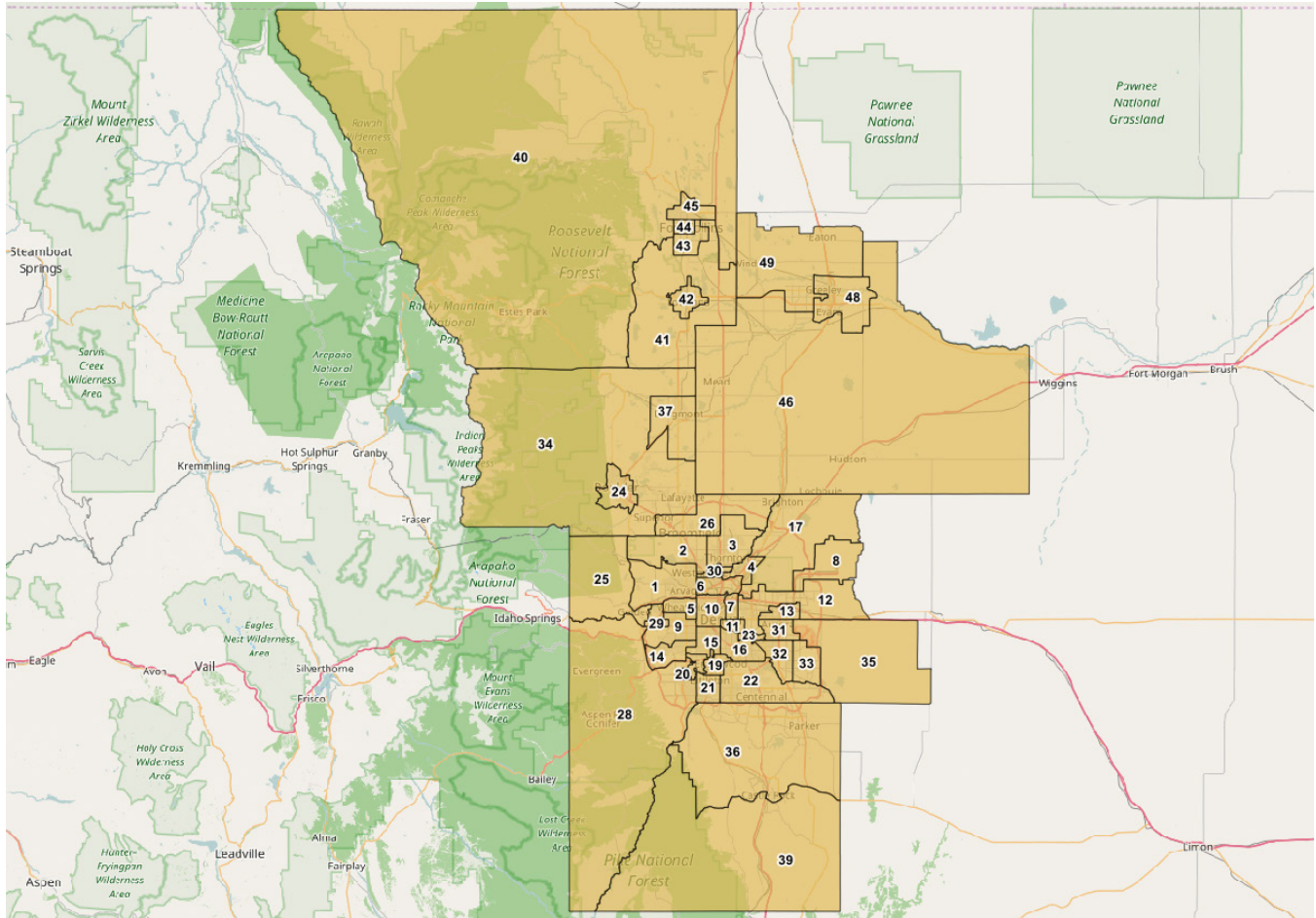
Property Name	Units	Submarkets	Completion Date	Owner
Copper Steppe	264	36 - Douglas County–North	Sept. 30, 2017	Inland Group
Copper Peak	240	34 - Greater Boulder	Nov. 22, 2017	Inland Group
Kestrel	200	34 - Greater Boulder	Jan. 31, 2018	Boulder County Housing Authority
Del Corazon	197	15 - College View/Ruby Hill	May 1, 2018	St. Charles Town Co.
Centennial Park	140	37 - Longmont	April 30, 2018	Summit Housing Group
Crisman	113	37 - Longmont	March 23, 2018	MGL Partners
Ash Street	112	11 - Capitol Hill/Cheesman Park/Hale	Sept. 15, 2017	Koelbel & Co.
Broadway Lofts	111	19 - Englewood/Sheridan	Jan. 31, 2018	Medici Communities
Oakridge Crossing	110	43 - Fort Collins–South	May 18, 2018	McDermott Properties
Renaissance Downtown Lofts	101	10 - CBD/Five Points/ North Capitol Hill	June 1, 2018	Colorado Coalition for the Homeless

## Centennial Park

Located at 1205 Pace St. in Longmont, Colo., the 140-unit community is situated between the city of Longmont Roosevelt Park and Union Reservoir Nature Area. Its construction was financed via public and private loans totaling \$40.5 million. Of that, \$15.5 million was issued by the Colorado Housing and Finance Authority, while the rest was secured by JPMorgan Chase. Summit Housing Group is the landlord of the property, and Highland Property Management is the manager. Centennial Park residents can choose among one-, two-, three- and four-bedroom apartments ranging from 900 to 1,350 square feet. Washers and dryers are available in all units.



## 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

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## 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](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.

Market Data & Analysis

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