Yardi Matrix

MULTIFAMILY REPORT

Demand Persists In Denver

September 2024

Rent Growth Outperforms US

Construction Pipeline Still Robust

Investment Reaches $1.4B

DENVER MULTIFAMILY

Yardi Matrix

Demand Outpaces Supply, Leads US

Steady population and employment expansion helped Denver's rent growth rebound toward the end of the first quarter, and the positive momentum continued amid a strong development pipeline. Average advertised asking rents rose 0.5% on a trailing three-month basis through July, to $1,960, while the occupancy rate for stabilized properties declined 30 basis points year-over year, to 94.8%, in June. The average U.S. advertised asking rent was up 0.3%, on a T3 basis through July, to $1,743, while occupancy declined 40 basis points, to 94.6%.

Denver's jobless rate rose to 4.0% in June. The rate was the highest it's been since early 2022 and 10 basis points ahead of the U.S. figure, according to preliminary data from the Bureau of Labor Statistics. Employment slowed to 0.9% over the 12-month period ending in May, below the 1.3% national average. The metro gained 6,400 jobs. The government and education and health services sectors added a combined 24,100 positions. Meanwhile, the largest losses were recorded in trade, transportation and utilities (-8,700 jobs) and mining, logging and construction (-5,100 jobs).

Development was strong, with a robust pipeline and steady deliveries, but new construction decelerated significantly. In 2024 through July, developers delivered 6,871 units and had another 39,088 underway. Investment activity remained limited, totaling just $1.4 billion, with the average per-unit price down 14.3% since December.

Market Analysis | September 2024

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Recent Denver Transactions

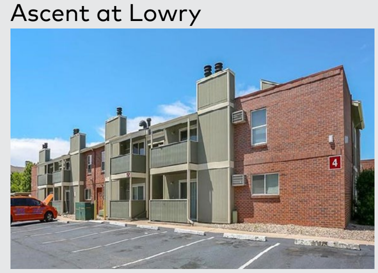
Viridian

City: Greenwood Village, Colo.
Buyer: Pacific Urban Investors
Purchase Price: $117 MM
Price per Unit: $278,571

Columbine Towers

City: Denver
Buyer: Ulysses Development Group
Purchase Price: $34 MM
Price per Unit: $200,000

Ascent at Lowry



City: Denver
Buyer: Jackson Square Properties
Purchase Price: $23 MM
Price per Unit: $164,319

Eastglenn

City: Longmont, Colo.
Buyer: Two Arrows Group
Purchase Price: $19 MM
Price per Unit: $182,108

RENT TRENDS

- Denver's average advertised asking rent rose 0.5% on a trailing three-month (T3) basis through July, to $1,960, while the U.S. rate increased 0.3% to $1,743. Growth followed seasonal trends, surpassing the national rate during the typical leasing season and trailing it during the cold months. Denver rents were also up 1.1% year-over-year, outperforming the 0.8% U.S. figure.

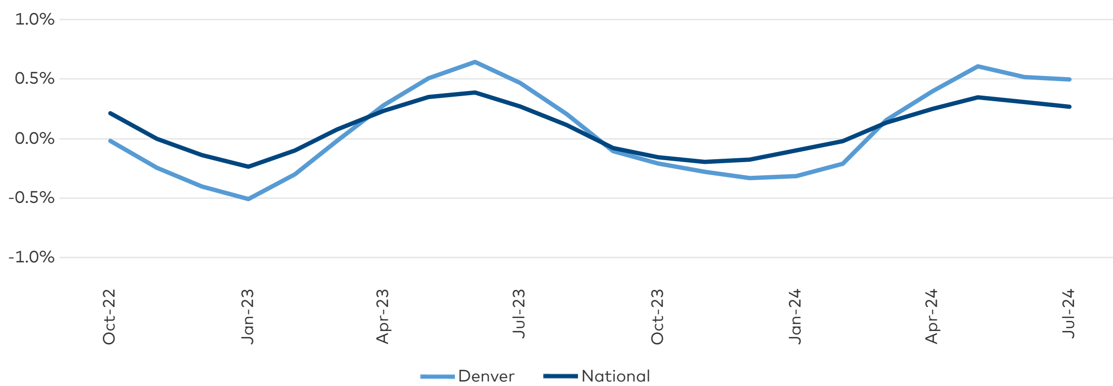
- Rent growth was positive overall. Lifestyle advertised rents increased 0.5%, on a T3 basis through July, to $2,147, trending down since the last peak in May. Meanwhile, rates for the working-class Renter-by-Necessity segment were up 0.4%, to $1,655.

- The occupancy rate in stabilized properties slid 30 basis points year-over-year, to 94.8%, as of June. RBN occupancy decreased 60 basis points to 94.7% and Lifestyle occupancy inched down just 10 basis points, to 94.9%.

- Year-over-year through July, advertised asking rent growth was positive in 38 of the 49 submarkets tracked by Yardi Matrix. Denver—Downtown, the metro's most expensive submarket, was among the 11 submarkets with rent declines, down 1.1% to $2,503. Another submarket with advertised asking rents above the $2,500 mark was Denver—City Park—Cherry Creek, up 1.1% to $2,502.

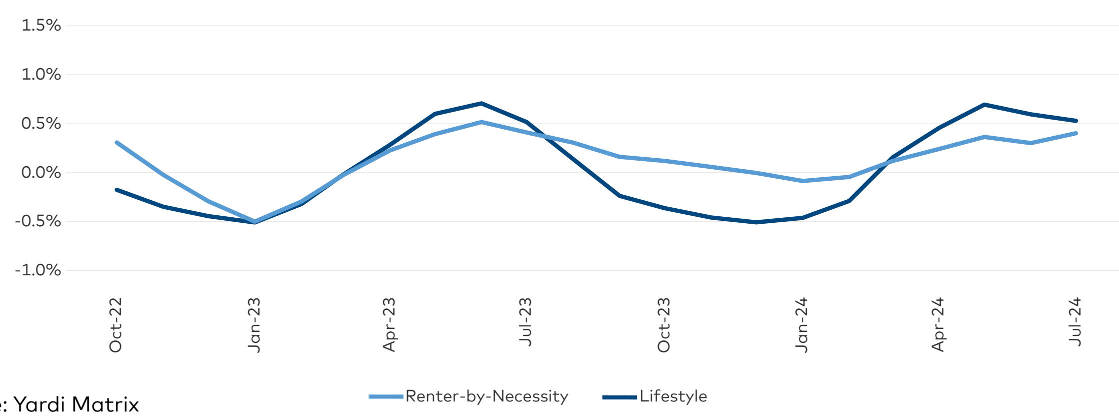
- Rates for single-family rentals rose 3.1% year-over-year through July, above the 1.0% U.S. figure. Meanwhile, SFR occupancy declined 0.9% year-over-year in June, to 94.2%.

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 4.0% in June, according to preliminary data from the BLS. This was a 20-basis-point improvement from February, but a 50-basis-point increase year-over-year. The metro was just 10 basis points ahead of the U.S. and lagged the 3.8% Colorado rate.
- Job growth decelerated to a 0.9% expansion, or 6,400 jobs, over the 12-month period ending in May, 40 basis points behind the national figure. Employment gains were sustained by government (17,100 jobs) and education and health services (7,000 jobs). Meanwhile, five sectors contracted, for 20,800 jobs combined, with the steepest declines in trade, transportation and utilities (-8,700 jobs), mining, logging and construction (-5,100 jobs) and information (-4,000 jobs).
- Denver has several high-profile projects underway, which will strengthen the local economy. Among them is Denargo Market, a $1.5 billion riverfront investment on a 17-acre site north of downtown. It will include rental apartments and condos, up to 1.5 million square feet of office space, retail and entertainment venues, as well as 4 acres of open space. Southwest of downtown Denver, 265 acres of a once-marginalized neighborhood are undergoing a revitalization process that includes projects such as The River Mile, Ball Arena, Stadium District and Sun Valley.

Denver Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
90	Government	338.5	15.8%
65	Education and Health Services	270.4	12.6%
30	Manufacturing	121.1	5.7%
55	Financial Activities	130.9	6.1%
60	Professional and Business Services	398.8	18.6%
80	Other Services	87.2	4.1%
70	Leisure and Hospitality	228.3	10.7%
50	Information	60.6	2.8%
15	Mining, Logging and Construction	145.2	6.8%
40	Trade, Transportation and Utilities	361.8	16.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Denver gained 67,320 residents between 2019 and 2022, which was a 2.3% expansion and 30 basis points above the U.S. rate.
- Population growth in 2022 increased to 0.8%, up from 0.3% in 2021.

Denver vs. National Population

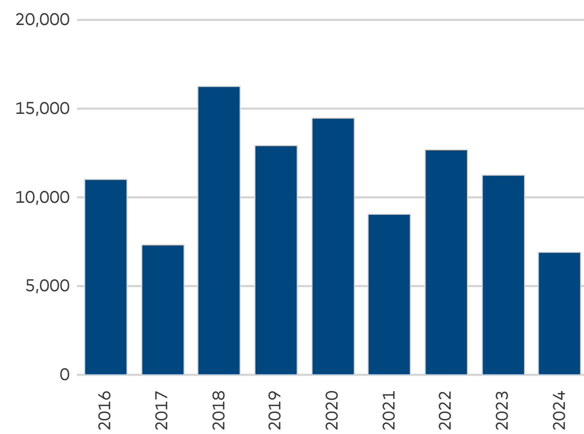
	2019	2020	2021	2022
National	324,697,795	326,569,308	329,725,481	331,097,593
Denver	2,892,066	2,928,437	2,936,665	2,959,386

Source: U.S. Census

SUPPLY

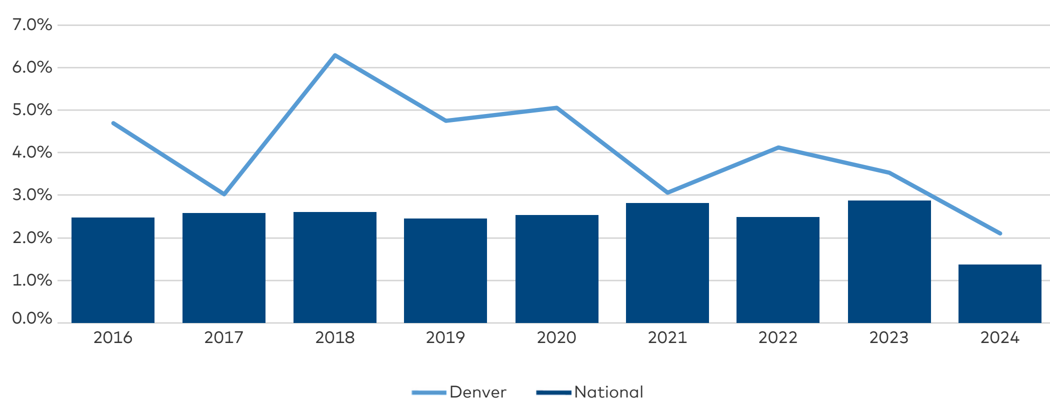
- Developers brought 6,871 units online in Denver year-to-date through July, a 2.1% expansion of the metro's existing stock, well above the 1.4% national figure. The majority of these were Lifestyle apartments. The metro's annual delivery volume has surpassed the U.S. every year over the past decade.
- In July, the metro had 39,088 units under construction and another 120,000 in the planning and permitting phases. About 10% of units underway were part of fully affordable communities, less than 5.0% were in RBN developments and nearly 85% were units in Lifestyle projects.
- Mirroring the national trend, development slowed in Denver, with construction starts down to 2,280 units across 12 properties during the first seven months of 2024. A total of 10,989 units across 48 projects broke ground during the same period last year. In 2023, developers started construction on 17,429 units in the metro.
- Construction activity was highest in Denver—Central, with 3,982 units underway in July. Next in line were Aurora—Central (2,855 units) and Denver—Northeast (2,680 units). Thirteen submarkets had more than 1,000 units underway.
- A major project underway is Grand Peaks' Skyline at Highlands, in the Denver—West submarket. At 533 units, it is not only the largest in the metro but also the largest multifamily development in the state of Colorado in 22 years. The developer broke ground in 2022, after securing a $158 million loan from Bank OZK. Developers recently topped off construction, with full completion expected in December this year.

Denver Completions (as of July 2024)



Source: Yardi Matrix

Denver vs. National Completions as a Percentage of Total Stock (as of July 2024)

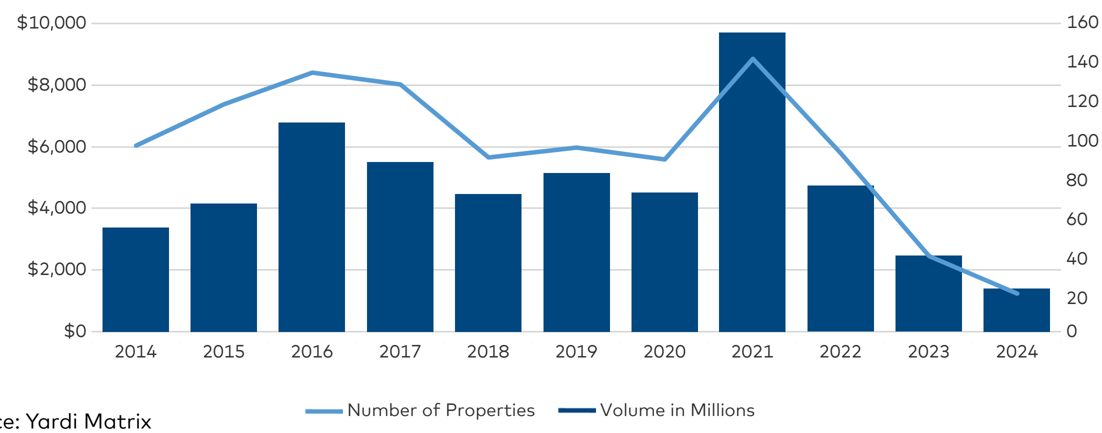


Source: Yardi Matrix

TRANSACTIONS

- Denver transaction volume was low, totaling $1.4 billion year-to-date through July, significantly behind the $5.1 billion annual average registered over the past decade. This year's first quarter was stronger, at $1 billion, while activity fell off in the second quarter, to $390 million.
- Denver's steady demand for housing kept investors interested across asset classes with the sales composition equally divided between Lifestyle and RBN assets. The per-unit average price dropped 14.3% since December, to $274,537, remaining above the $240,000 figure for the last decade and well above the $182,423 national price.
- Notable transactions in the second quarter included J.P. Morgan Asset Management's sale of Viridian, a 420-unit asset in Centennial–East. The 2003-completed property was purchased by Pacific Urban Investors for $117 million and holds a $57 million Freddie Mac loan.

Denver Sales Volume and Number of Properties Sold (as of July 2024)



Source: Yardi Matrix

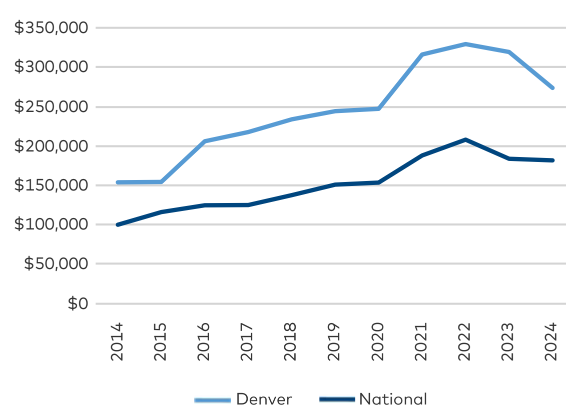
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Westminster	257
Centennial–East	196
Denver–Southeast	184
Denver–West	175
Denver–North	161
Loveland	139
Denver–Downtown	126

Source: Yardi Matrix

[1] From August 2023 to July 2024

Denver vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

Top Western Markets for Multifamily Development

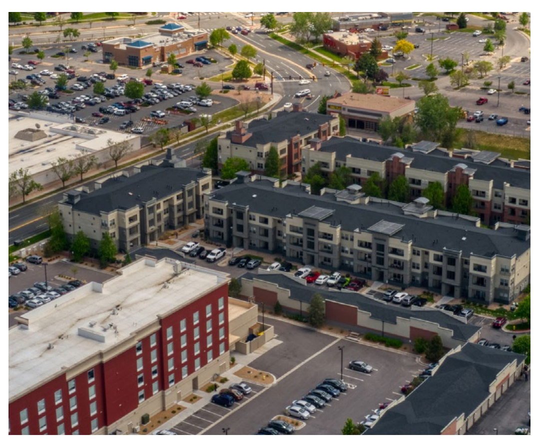
By Tudor Scolca

Multifamily development across the U.S. stalled at the beginning of the year, with major Western markets also recording a slowdown in terms of new construction starts. Economic headwinds and high interest rates have led to developers slowing or halting activity nationwide. Still, a few metros stood out with significant construction pipelines, according to the latest Yardi Matrix data.

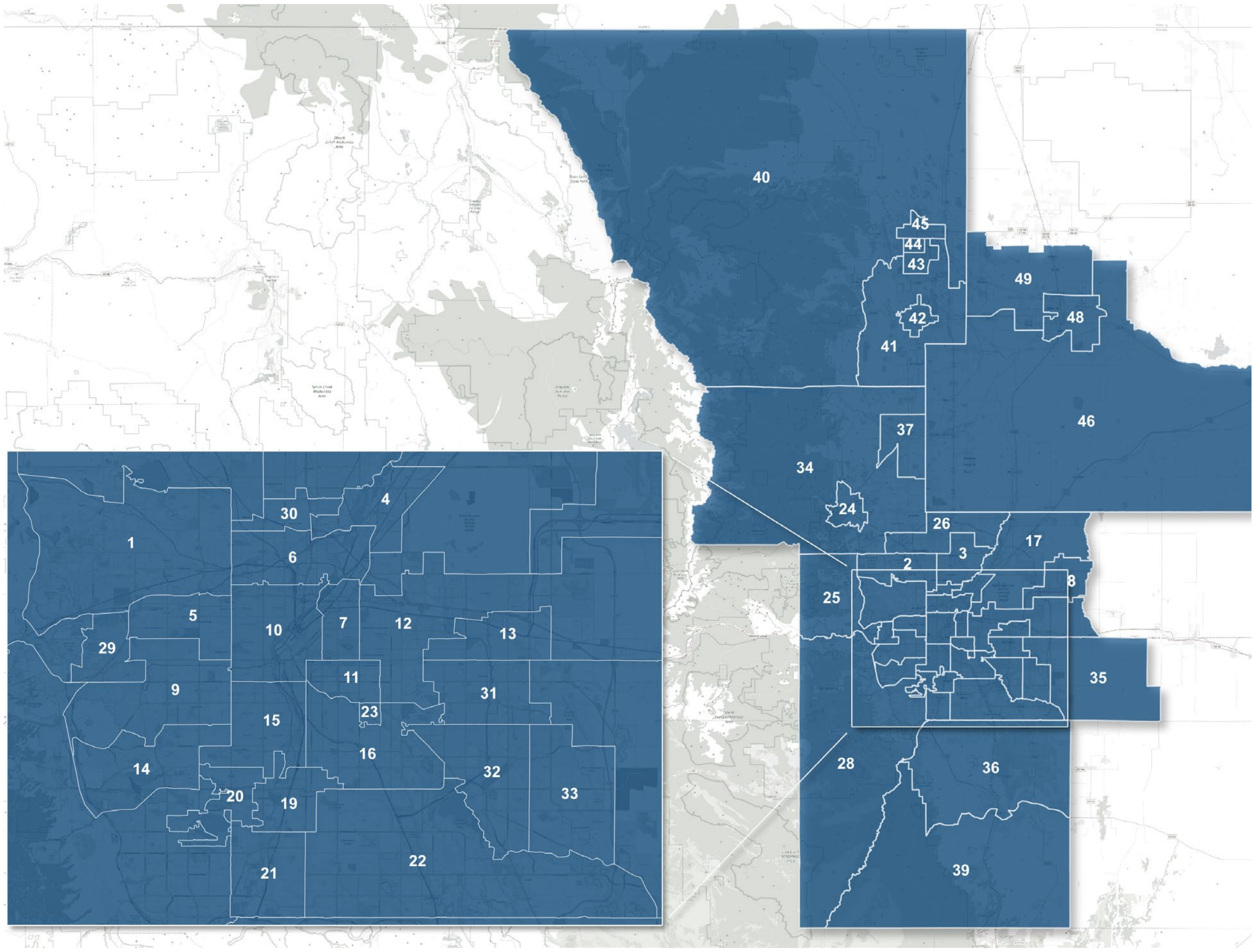
Rank	Metro	Region	Units Under Construction	Deliveries Year to Date
1	Phoenix	Western	43,384	6,807
2	Denver	Western	41,086	5,286
3	Los Angeles	Southern California	32,226	2,789
4	Salt Lake City	Western	18,057	3,949
5	San Francisco	Northern California	16,519	3,622

Denver

Denver ranked as the second Western market for construction activity, with a total of 41,086 units underway as of May. Colorado's capital had robust population growth and a growing tech economy, leading to steady demand for rental apartments. An additional 123,000 units were in the planning and permitting stages. Denver was one of three metros on this list where completions increased year-over-year. A total of 5,286 units came online year-to-date through May—up 14.9 percent since last year—earning Denver the second spot among the top five markets for deliveries.



DENVER SUBMARKETS



Area No.	Submarket	Area No.	Submarket	Area No.	Submarket
1	Arvada	16	Hampden/Virginia Village/Washington	33	Aurora–Southeast
2	Westminster	17	Brighton	34	Greater Boulder
3	Northglenn/Thornton	19	Englewood/Sheridan	35	Arapahoe–East
4	Commerce City/Derby	20	Bear Valley/Fort Logan	36	Douglas County–North
5	Wheat Ridge	21	Columbine Valley/Littleton	37	Longmont
6	Berkley/North Washington	22	Arapahoe–Southwest	39	Douglas County–East
7	City Park/City Park West	23	Glendale	40	Estes Park/Laporte
8	Denver International Airport	24	Boulder	41	Champion
9	Lakewood–North	25	Golden	42	Loveland
10	CBD/Five Points/North Chapel Hill	26	Broomfield/Todd Creek	43	Fort Collins–South
11	Capitol Hill/Cheesman Park/Hale	28	Jefferson	44	Fort Collins–Central
12	East Colfax/Lowry Field/Stapleton	29	Applewood/West Pleasant View	45	Fort Collins–North
13	Aurora–Northwest	30	Sherrelwood/Welby	46	Weld South
14	Lakewood–South	31	Aurora–West Central	48	Greeley East
15	College View/Ruby Hill	32	Aurora–Southwest	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 x14006.

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