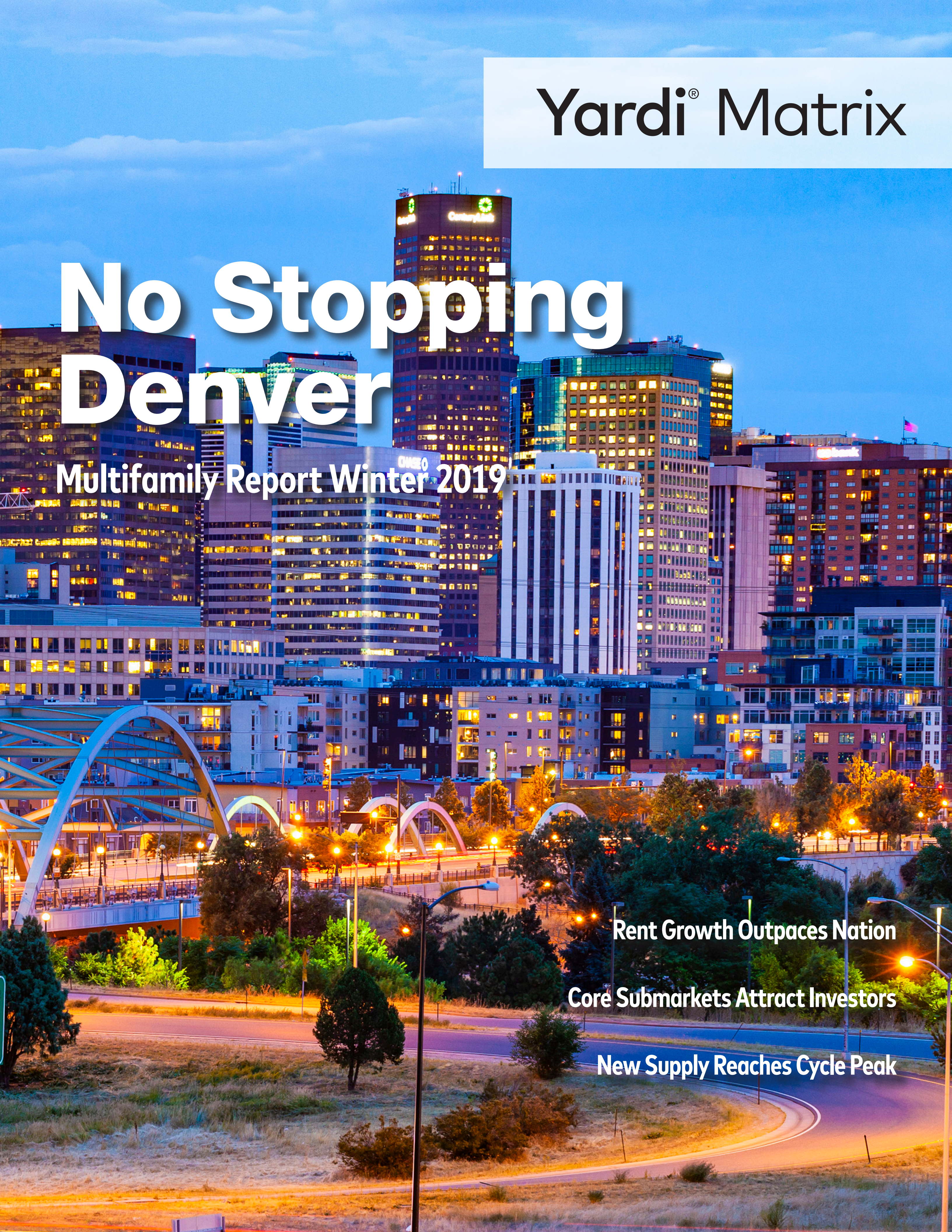
Yardi® Matrix

No Stopping Denver

Multifamily Report Winter 2019



Rent Growth Outpaces Nation

Core Submarkets Attract Investors

New Supply Reaches Cycle Peak

Market Analysis

Winter 2019

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Demand Remains High Amid Supply Surge

Denver's rapidly expanding economy and steady demographic expansion continue to boost a sturdy multifamily market. Although deliveries hit a cycle peak last year, occupancy in stabilized properties stood at 94.9% as of December—flat over 12 months—a sign that absorption remained healthy and rental demand is at least on par with supply.

The metro added 45,300 jobs in the 12 months ending in November for a 2.8% expansion, 70 basis points above the U.S. figure. Trade, transportation and utilities led gains, adding 11,200 positions. The sector could further benefit from the $1.2 billion infrastructure project set to widen Interstate 70 in northeast Denver. Professional and business services gained 11,000 jobs and office-using employment remained strong; just last year, the metro added 3.3 million square feet of office space to its inventory. The local tech scene is rapidly evolving, and information added 2,100 positions for a 3.5% hike, the largest year-over-year expansion of any sector.

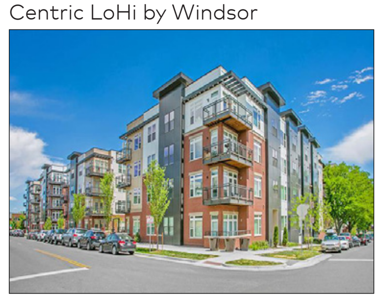
Core areas remain vital, with CBD/Five Points/North Capitol Hill topping the list for both deliveries and transaction volume last year. And despite the 14,457 units that came online in 2018, demand remains strong across the metro and rents continue to advance. Considering Denver's relatively healthy fundamentals, we expect the average rent to rise 3.4% in 2019.

Recent Denver Transactions

Ashford Belmar

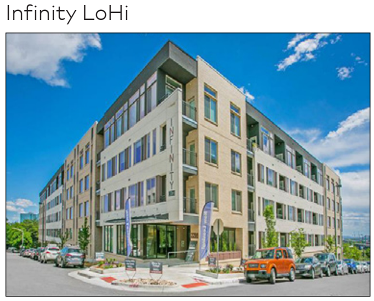
City: Lakewood, Colo.
Buyer: Bluerock Real Estate
Purchase Price: $144 MM
Price per Unit: $280,273

Centric LoHi by Windsor



City: Denver
Buyer: GID
Purchase Price: $131 MM
Price per Unit: $432,947

Infinity LoHi



City: Denver
Buyer: BlackRock
Purchase Price: $112 MM
Price per Unit: $409,341

AMLI Cherry Creek

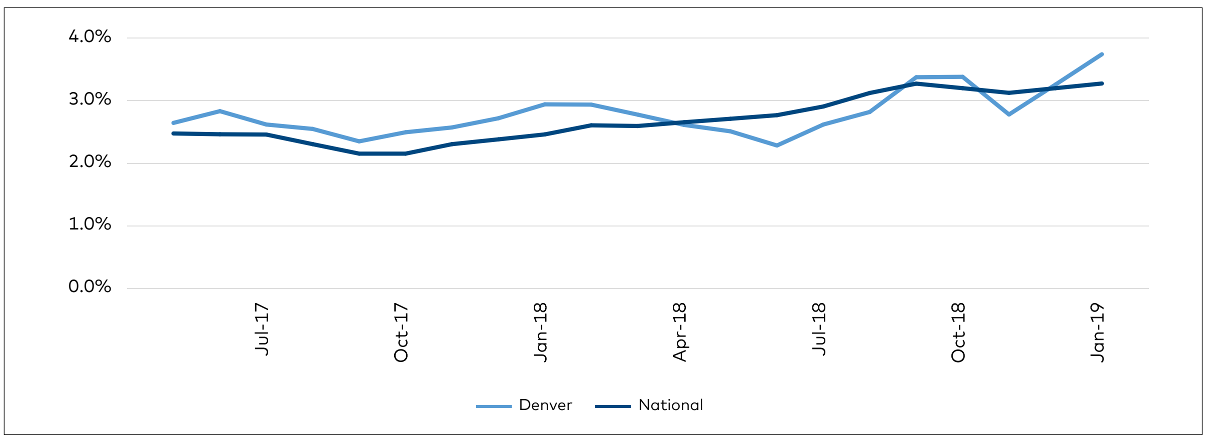
City: Glendale, Colo.
Buyer: AMLI Residential
Purchase Price: $108 MM
Price per Unit: $316,191

On the cover: Photo by traveler1116/iStockphoto.com

Rent Trends

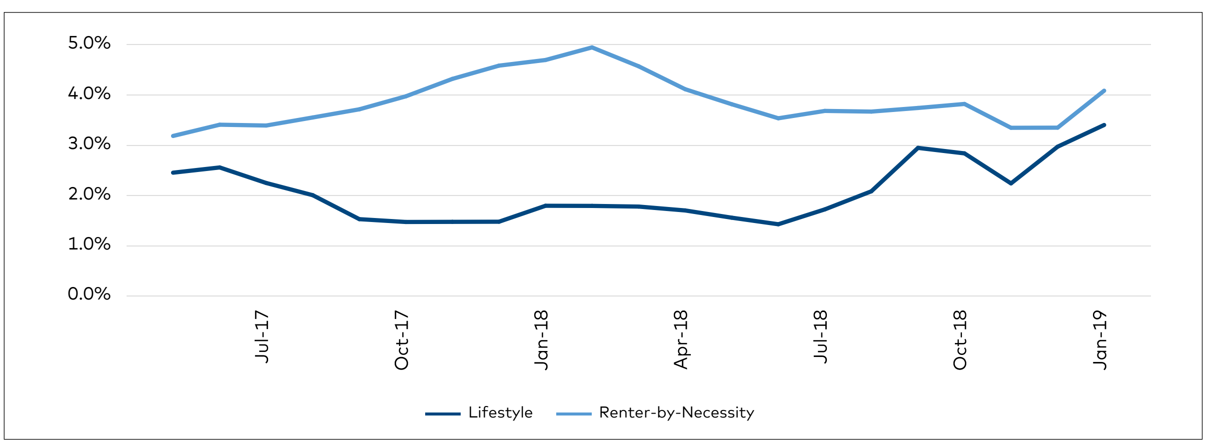
- Denver rent growth accelerated to 3.7% year-over-year through January, 40 basis points above the national rate. The metro's average rent reached $1,525, more than $100 over the U.S. figure.
- Due to ongoing limited supply, working-class Renter-by-Necessity properties led gains, with the average rent up 4.1% to $1,299. As developers continue to focus on upscale projects, demand for workforce units is expected to remain especially robust. Meanwhile, Lifestyle rents rose 3.4%, to an average of $1,701, boosted by the rapid addition of high-paying jobs.
- Rents grew at the fastest rates in non-core submarkets such as Greeley East (8.7%), Douglas County–South (7.9%) and Windsor/Greeley West, as well as in Boulder (6.4%), which also registered the metro's highest average rate as of January ($1,889). Rates were up only 0.8% in CBD/Five Points/North Capitol Hill, the metro's undisputed growth core, where almost 4,000 apartments came online last year and an additional 5,662 units were underway as of January.
- Benefiting from fast-paced population and job growth, as well as a deep talent pool and relative affordability, Denver's economy is bound to boost rental demand over the longer term. Considering the 10,620 apartments slated to come online this year, we expect Denver rents to advance 3.4% in 2019.

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)

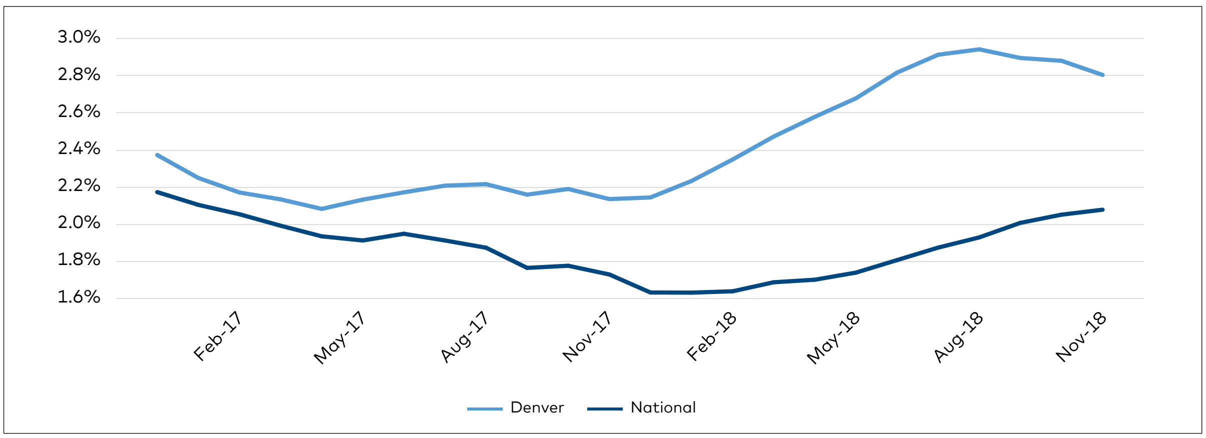


Source: YardiMatrix

Economic Snapshot

- Denver continues to grow at a fast clip, adding 45,300 jobs in the 12 months ending in November, for a 2.8% expansion, 70 basis points above the national rate. Doubled by strong demographic growth, the metro's economy is pushing housing demand further, especially in the case of more affordable options near big companies expanding or relocating to the area.
- The metro is adding jobs nearly across the board. Trade, transportation and utilities led gains (11,200 positions), followed closely by professional and business services (11,000). The two sectors, which are also the metro's largest, accounted for half of Denver's job additions in the 12 months ending in November. At the same time, large initiatives such as the $1.2 billion infrastructure project widening Interstate 70 in northeast Denver are expected to benefit the city's economy in the long run.
- Although it remains Denver's smallest employment sector, information continues to rapidly expand: With the addition of 2,100 positions, the highly influential sector saw the strongest hike, at 3.5%. Broad-based office-using employment is generally thriving, a fact that is mirrored by the city's commercial pipeline. The metro added 3.3 million square feet of office space across 20 developments in 2018. Almost half of these projects are situated in the central business district. As of February, Denver had an additional 3 million square feet of office space underway, according to Yardi Matrix.

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)

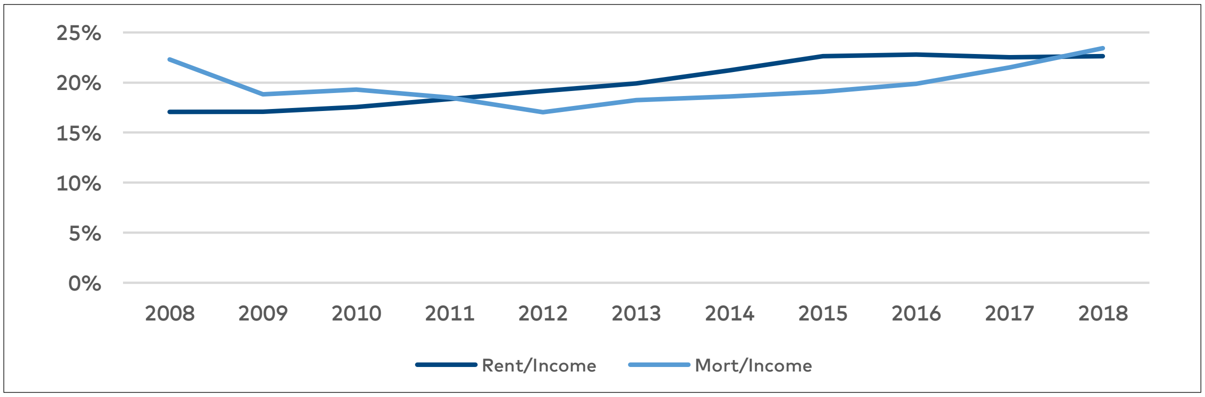
		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
40	Trade, Transportation and Utilities	356	17.9%	11,200	3.3%
60	Professional and Business Services	346	17.4%	11,000	3.3%
65	Education and Health Services	246	12.4%	5,000	2.1%
90	Government	302	15.2%	4,900	1.6%
15	Mining, Logging and Construction	145	7.3%	4,300	3.0%
70	Leisure and Hospitality	221	11.1%	3,400	1.6%
30	Manufacturing	118	5.9%	2,900	2.5%
50	Information	62	3.1%	2,100	3.5%
80	Other Services	67	3.4%	800	1.2%
55	Financial Activities	126	6.3%	-300	-0.2%

Sources: YardiMatrix, Bureau of Labor Statistics

Demographics
Affordability

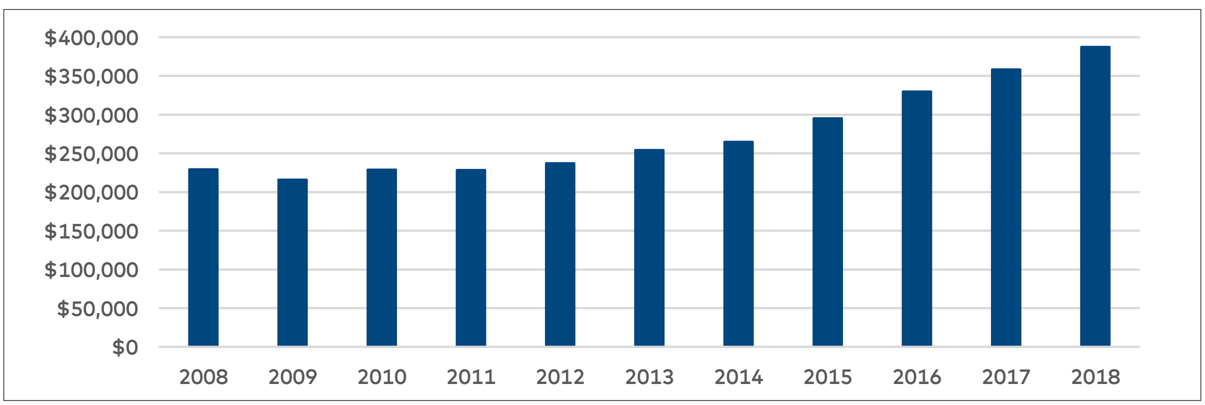
- The Denver median home price continues to rise, reaching a cycle peak of $387,403 last year. That marks an 8% increase over the previous year and an 80% rise since 2009, when the local market bottomed out.
- There was little difference in affordability between owning and renting last year, with both the average mortgage payment and the average rental rate accounting for 23% of the area's median income. Although 2018 was a banner year for development in Denver, growing demand continues to push up the cost of living, adding pressure on workforce households.

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's population rose 1.3% in 2017, 60 basis points above the national rate.
- The metro added 333,828 residents between 2010 and 2017 for a 13% expansion, more than double the 5.3% U.S. figure.

Denver vs. National Population

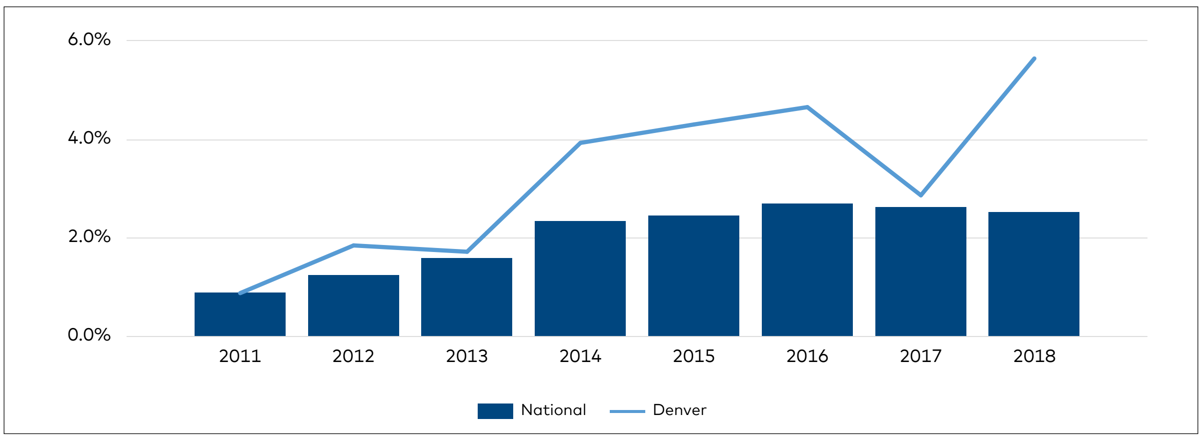
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Denver Metro	2,696,308	2,749,827	2,807,211	2,851,848	2,888,227

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

Supply

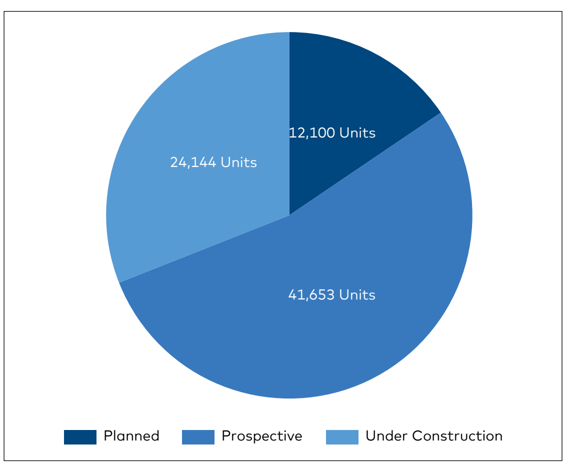
- Developers added 14,457 units in Denver last year, a new cycle high and more than double the 2017 figure. New supply represented 5.6% of total stock in 2018, way above the 2.5% U.S. average. Nonetheless, absorption was healthy and is bound to remain stable, taking into account demand and the 10,620 units slated to come online in 2019. At 94.9% as of December, the occupancy rate in stabilized properties remained flat over 12 months.
- More than 51,000 units were delivered in the metro since the beginning of 2014, an additional 24,000 units were underway as of January and more than 53,000 apartments were in the planning and permitting stages.
- Although development is spread out across the map, the city core leads the construction surge: The CBD/Five Points/North Capitol Hill submarket added more than 6,000 new apartments since the beginning of 2017 and led the pipeline by far as of January, with 5,662 units under construction. Champion (1,780 units underway) and East Colfax/Lowry Field/Stapleton (1,780 units) rounded out the metro's development podium.

Denver vs. National Completions as a Percentage of Total Stock (as of January 2019)



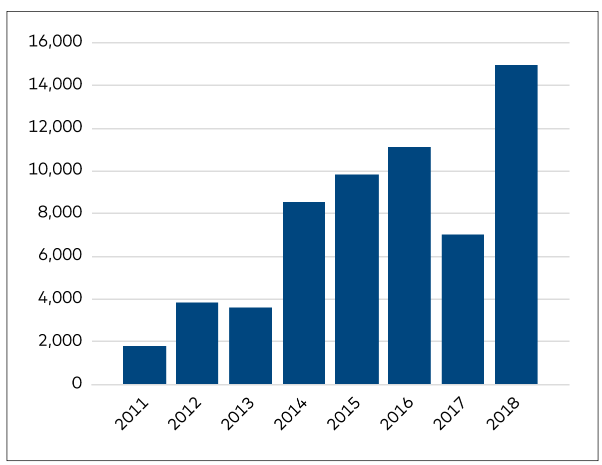
Source: YardiMatrix

Development Pipeline (as of January 2019)



Source: YardiMatrix

Denver Completions (as of January 2019)

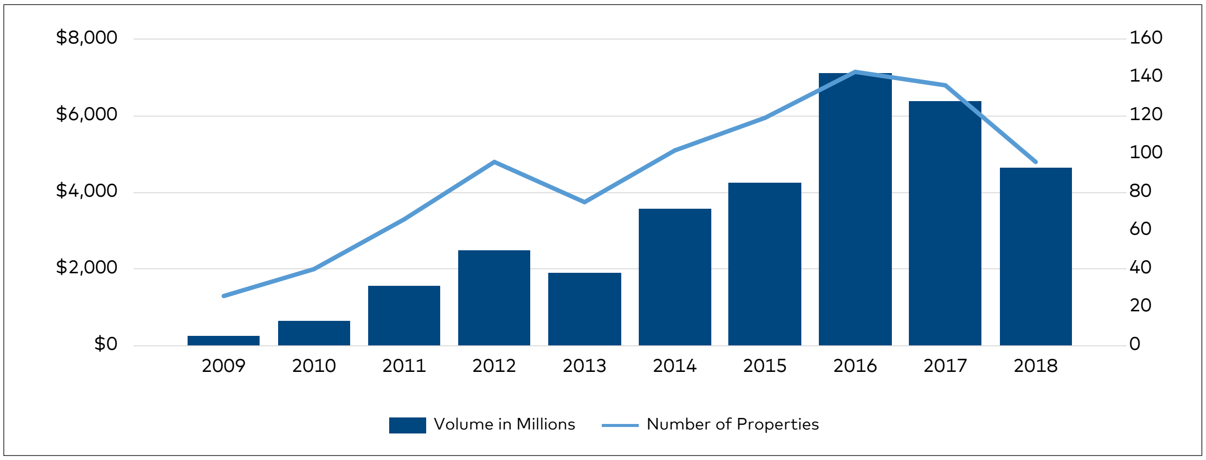


Source: YardiMatrix

Transactions

- More than $4.6 billion in Denver multifamily assets traded in 2018, a significant slowdown from the $7.1 billion cycle peak of 2016. Even so, investor appetite remains strong amid solid fundamentals and property values reached a cycle high of $241,039 per unit last year—56% higher than the $154,634 national average.
- CBD/Five Points/North Capitol Hill led the transaction volume list in 2018, with $954 million in traded assets. Ten properties totaling 2,685 units traded in the submarket at an average of $355,135 per unit.
- With the acquisition of two recently built core assets totaling 726 units, Equity Residential was one of last year's most active buyers. The company paid $274.7 million, or $378,403 per unit, for the upscale SkyHouse Denver and Radius Uptown.

Denver Sales Volume and Number of Properties Sold (as of January 2019)



Source: YardiMatrix

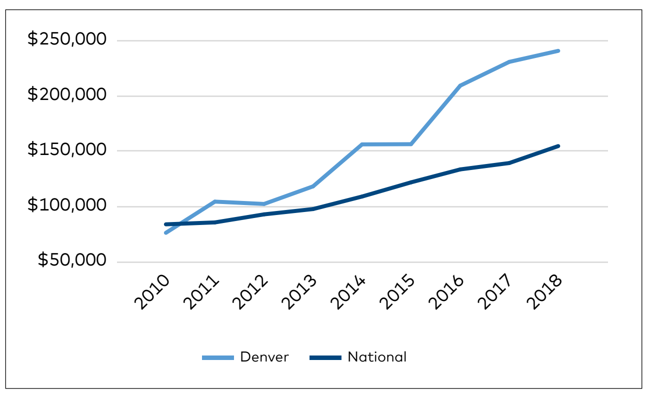
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
CBD/Five Points/North Capitol Hill	954
Northglenn/Thornton	382
Arapahoe–Southwest	332
Lakewood–North	318
Douglas County–North	296
Westminster	281
Glendale	280
Hampden/Virginia Village/ Washington Virginia Vale	210

Source: YardiMatrix

[1] From January 2018 to December 2018

Denver vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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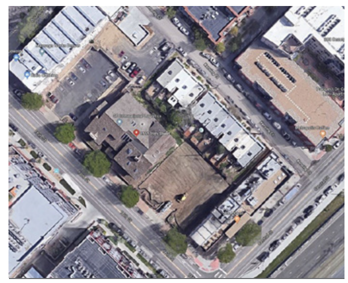
Equity Residential Acquires $111M Asset

The 18-story community is situated in Denver's Golden Triangle neighborhood, offering convenient access to various dining, shopping and entertainment venues.



Denver Luxury Community Breaks Ground

Once completed, the 132-unit community will offer convenient access to downtown Denver. Modera LoHi will feature a mix of studio, one- and two-bedroom units.

JV Secures $47M Loan for Denver-Area Asset

Riverpoint Partners and Iron River Management LLC are developing the four-story, 293-unit community in Lakewood, Colo. An HFF team arranged the financing.

Starlight Acquires Suburban Property

In the last few months, the Toronto-based investor has added some $270 million in Class A multifamily properties in the U.S., including Broadstone Montane in the Denver suburb of Parker, Colo.

Richman Group Sells Denver Apartments For $112M

The purchase of Infinity LoHi marks the highest price per unit in metro Denver this year, at $409,340. The property offers a pool, a fitness center and a pet spa, among other luxury amenities.

CBRE Team To Represent Seller In 2 CO Transactions

Creekside at Palmer Park and Woodland Hills are both located in Colorado Springs. Griffis/Blessing received $99.5 million for the two assets totaling 488 units.

Top 10 Apartment Owners in Denver

By Corina Stef

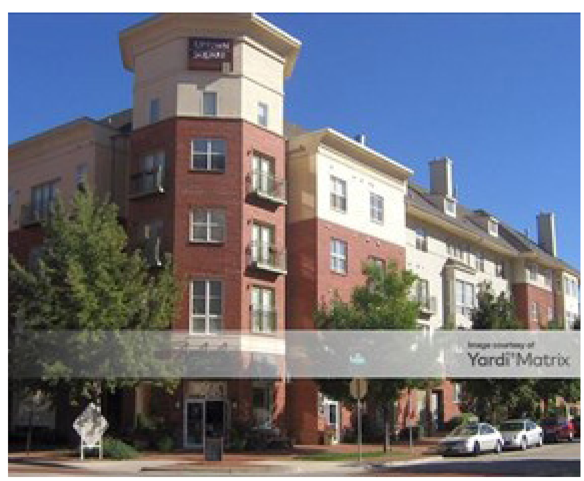
data by Yardi® Matrix

Denver's strong fundamentals, diverse economy, favorable business climate and population growth are feeding demand for the multifamily sector. As a result, the metro continued to experience rising rents and positive absorption throughout 2018. Demand continues to be high, despite the delivery of 32,600 units since the start of 2016 alone. Denver's multifamily pipeline consisted of 24,000 units underway as of January, pointing to a high delivery rate in the short term.

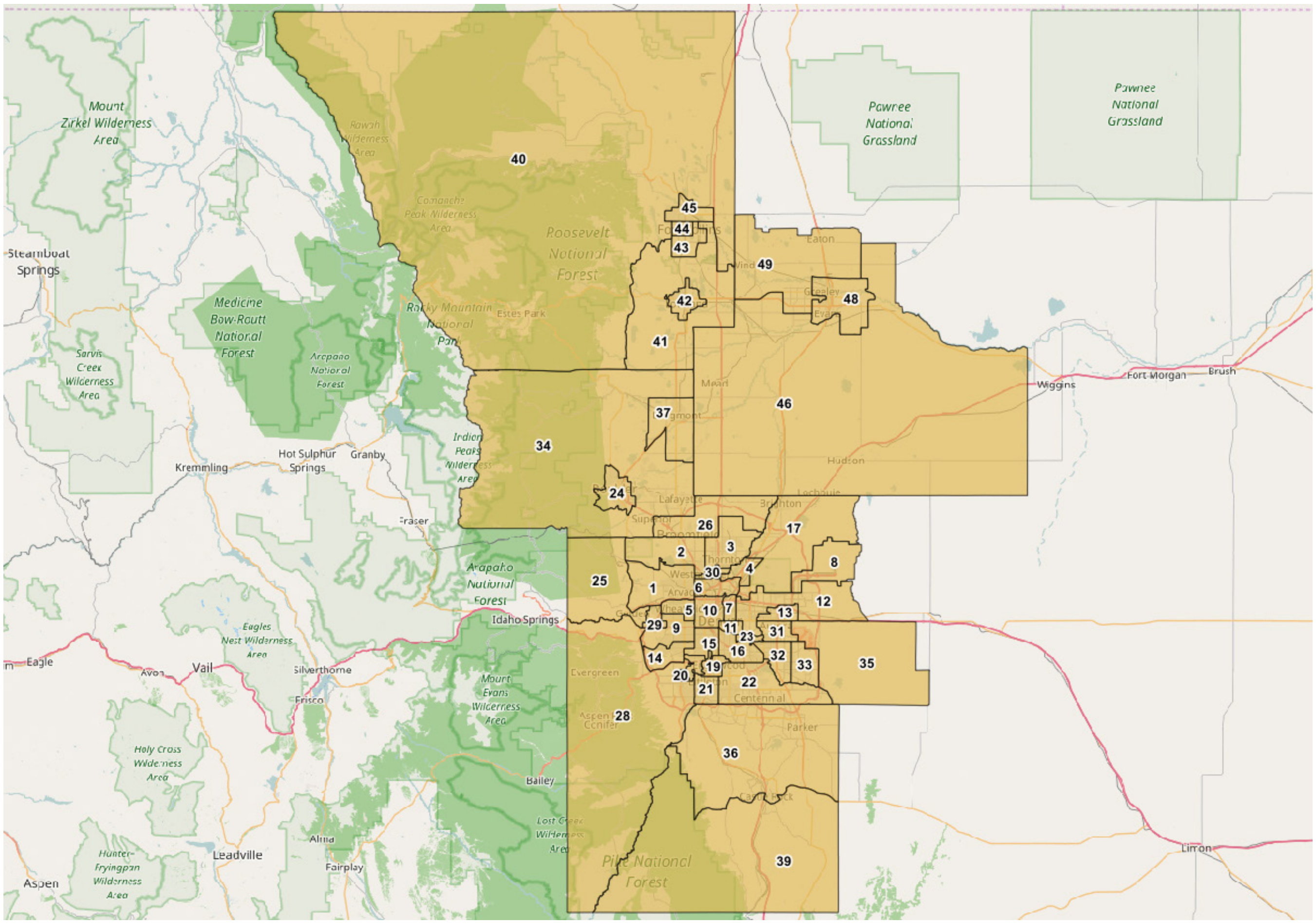
Owner	Region/Market Portfolio Property Count	Region/Market Portfolio Unit Count	National Portfolio Property Count	National Portfolio Unit Count
Starwood Capital Group	14	5,194	262	80,734
Inland Real Estate Group	20	5,167	65	15,715
ColRich Multifamily	14	4,489	51	13,757
Jackson Square Properties	15	4,166	49	13,662
GID	11	3,791	109	32,751
Oak Coast Properties	7	3,404	8	3,804
Maxx Properties	12	3,326	31	8,454
Advenir	10	3,064	40	12,526
Bell Partners	6	2,970	62	18,414
AMLI Residential	9	2,814	82	27,232

STARWOOD CAPITAL GROUP

With 5,194 completed units in Denver, the real estate investment trust emerged as the metro's biggest landlord. Largely made up of Class A communities, the company's portfolio is scattered around the metro. The 2011-built Uptown Square is the largest community in the company's portfolio, comprising 695 units in nine buildings. The property occupies five blocks at 1950 Pennsylvania St., in Denver's Central Business District, close to multiple restaurants, shopping and entertainment options. Building amenities include a heated pool, a rooftop terrace with panoramic views, a 24-hour fitness center and landscaped courtyards.



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.