Yardi® Matrix

Denver Climbs Higher

Multifamily Report Summer 2019

Rent Growth Decelerates

Deliveries Hit Cycle Peak

Property Values Spike

Market Analysis
Summer 2019

Contacts
Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author
Adriana Pop
Senior Associate Editor

All Eyes on Thriving Downtown

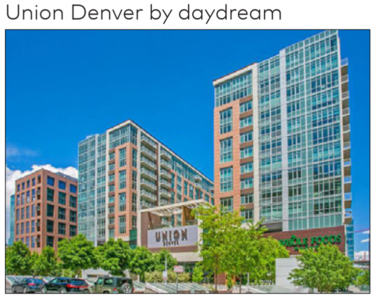
Denver's multifamily market remained hot going into 2019, boosted by a decade-long economic and population boom that has transformed the metro, particularly its urban core. Drawn by the market's strong fundamentals, multifamily developers ramped up deliveries in 2018, when a massive supply wave of 15,984 units came online for a new cycle high. As a result, the occupancy rate in stabilized properties dropped 40 basis points over 12 months, to 94.7% as of April.

The metro's highly educated workforce and business-friendly environment continue to attract a wide range of employers, from Fortune 500 company VF Corp. to a wave of California tech firms including Accelo, Apple, Facebook, Amazon, Quizlet and Strava. In the 12 months ending in March, employment growth was led by professional and business services, which gained 15,300 jobs, followed by education and health services (7,000 jobs) and trade, transportation and utilities (5,600 jobs).

On the investment sales front, more than $1.6 billion in multifamily assets traded in 2019 through May, following the $4.6 billion of 2018. Considering a more moderate level of deliveries this year, along with a positive outlook for the metro's ongoing demographic and economic boom, we expect the average Denver rent to rise 2.6% in 2019.

Recent Denver Transactions

Union Denver by daydream

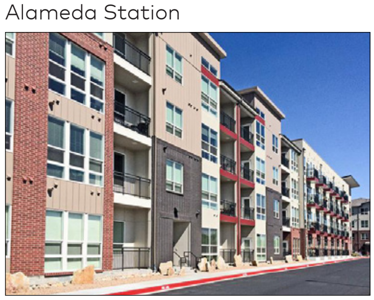


City: Denver
Buyer: Daydream Apartments
Purchase Price: $304 MM
Price per Unit: $525,043

Ivy Crossing

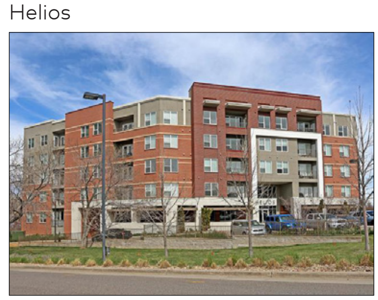
City: Denver
Buyer: Oak Coast Properties
Purchase Price: $125 MM
Price per Unit: $172,483

Alameda Station



City: Denver
Buyer: NewTower Trust Co.
Purchase Price: $110 MM
Price per Unit: $324,260

Helios

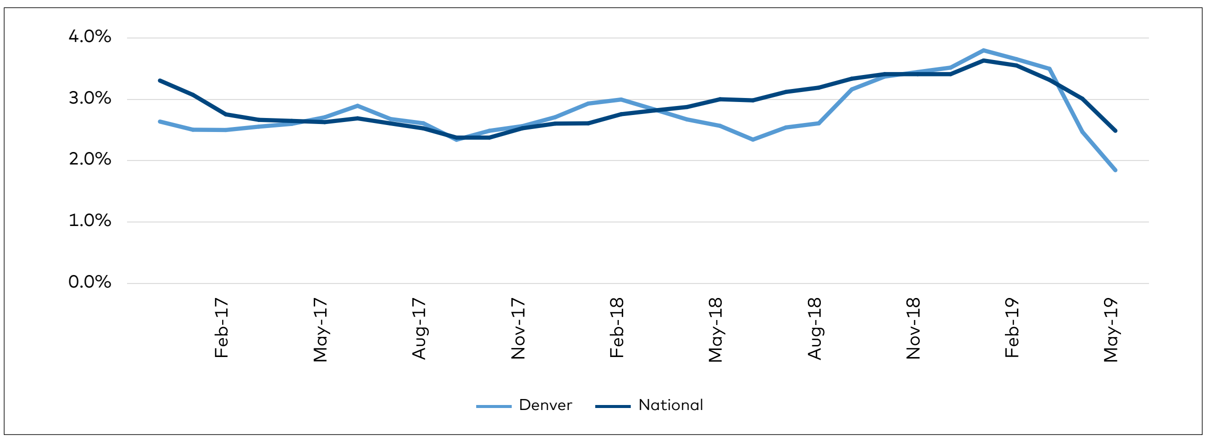


City: Englewood, Colo.
Buyer: LivCor
Purchase Price: $74 MM
Price per Unit: $288,077

Rent Trends

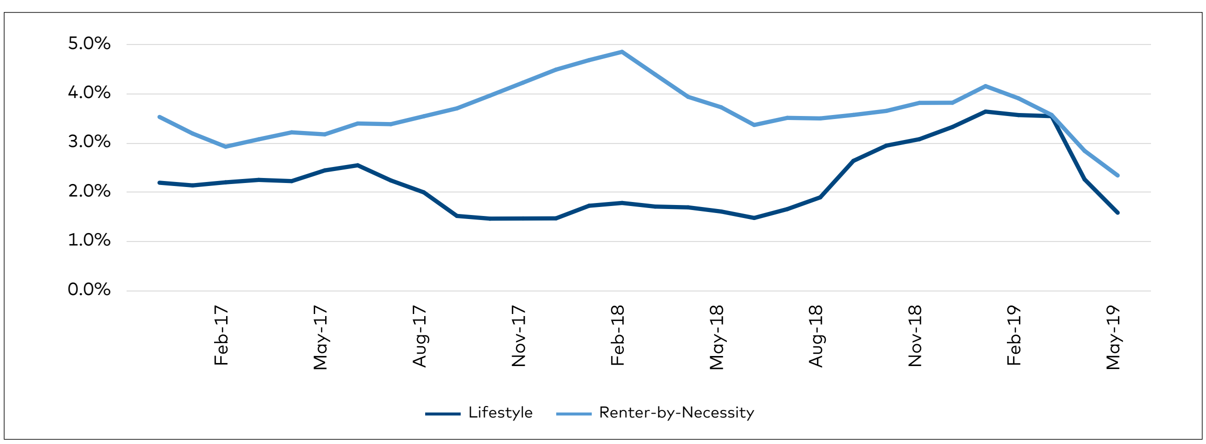
- Rents in Denver rose 1.8% year-over-year through May, trailing the 2.5% national rate. The metro's average rent stood at $1,545, above the $1,442 U.S. figure. Following the delivery of 15,984 units last year, occupancy in stabilized properties dropped 40 basis points over 12 months, to 94.7% as of April, slightly below the 94.9% national average.
- Rents in the working-class Renter-by-Necessity segment rose 2.3% to $1,309, while Lifestyle rates were up 1.6%, to $1,727. Demand across asset classes remained strong in Denver, bolstered by above-average population growth, robust household formation and consistent employment gains, especially in high-paying professional services. Considering an estimated supply of more than 10,000 new apartments this year, as well as the positive outlook for the metro's long-running demographic and economic boom, Yardi Matrix expects the average Denver rent to advance 2.6% this year.
- Rents rose fastest in Brighton (6.2% to $1,526), Windsor/Greeley West (5.4% to $1,358) and Boulder (5.1% to $2,002). The CBD/Five Points/North Capitol Hill submarket, which boasts the largest pipeline and highest transaction volume, saw rents rise 2.1% to $1,970. Rents declined in Champion (-1.0% to $1,517), Fort Collins–South (-0.9% to $1,366), Longmont (-0.6% to $1,420), Fort Collins–Central (-0.1% to $1,444) and East Colfax/Lowry Field/Stapleton (-0.1% to $1,535).

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)

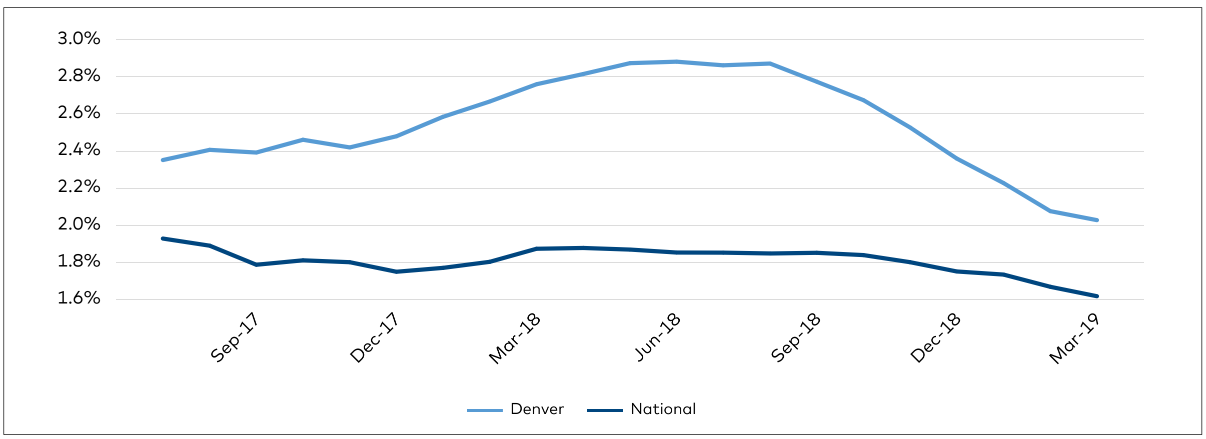


Source: YardiMatrix

Economic Snapshot

- Denver gained 37,500 jobs in the 12 months ending in March, a 2.0% year-over-year increase, outpacing the 1.6% U.S. rate. The metro's unemployment rate stood at 2.9% in March, below the state's 3.5% and the nation's 3.8%, as fewer people join the workforce while employers continue hiring.
- Professional and business services led growth (15,300 jobs). The local talent pool and job growth incentive tax credit program are drawing employers, including a wave of California tech firms such as cloud software maker Accelo, which plans 800 jobs in Denver over the next few years, or Apple, which announced hundreds of positions in Boulder, where it plans to double its footprint by 2022. Recent growth also came from Facebook, Amazon, Quizlet, Marketo, ChannelAdvisor, Mindflash, Xactly, Strava and Checkr. Between 2010 and 2017, tech jobs were up 74% in the downtown area alone, which exceeds 10,000 high-tech employees, according to a Downtown Denver Partnership report.
- Education and health services, which gained 7,000 jobs, is set to continue growing, as new projects come online, including a 100,000-square-foot medical pavilion on the campus of Saint Joseph Hospital in Uptown Denver, as well as National Healthcare Realty's 80,000-square-foot medical office in the master-planned community of RidgeGate in Lone Tree. Trade, transportation and utilities added 5,600 jobs, partially boosted by a flurry of new retail projects that were completed last year.

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	%
60	Professional and Business Services	345	17.4%	15,300	4.6%
65	Education and Health Services	249	12.6%	7,000	2.9%
40	Trade, Transportation and Utilities	345	17.4%	5,600	1.6%
80	Other Services	70	3.5%	3,400	5.1%
90	Government	304	15.4%	3,200	1.1%
15	Mining, Logging and Construction	145	7.3%	2,900	2.0%
30	Manufacturing	117	5.9%	1,200	1.0%
50	Information	62	3.1%	700	1.1%
70	Leisure and Hospitality	215	10.9%	300	0.1%
55	Financial Activities	126	6.4%	-2,100	-1.6%

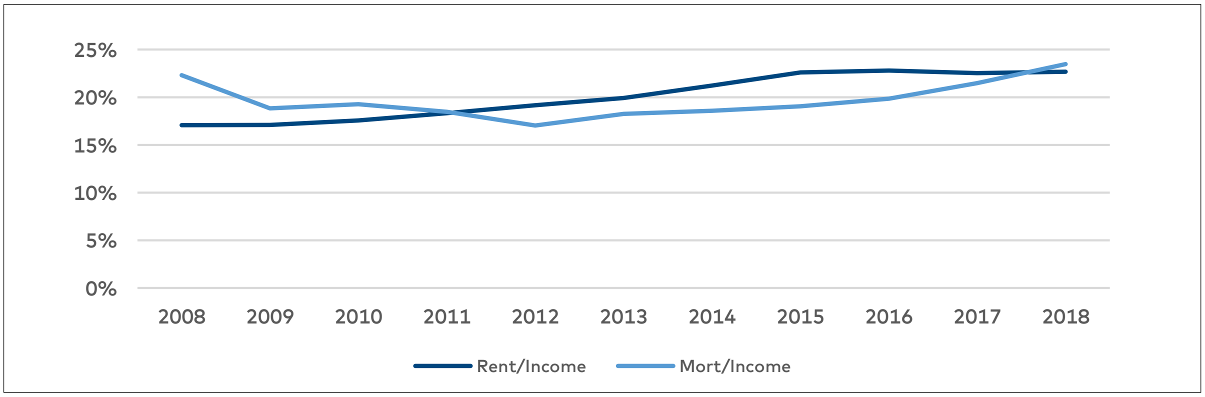
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

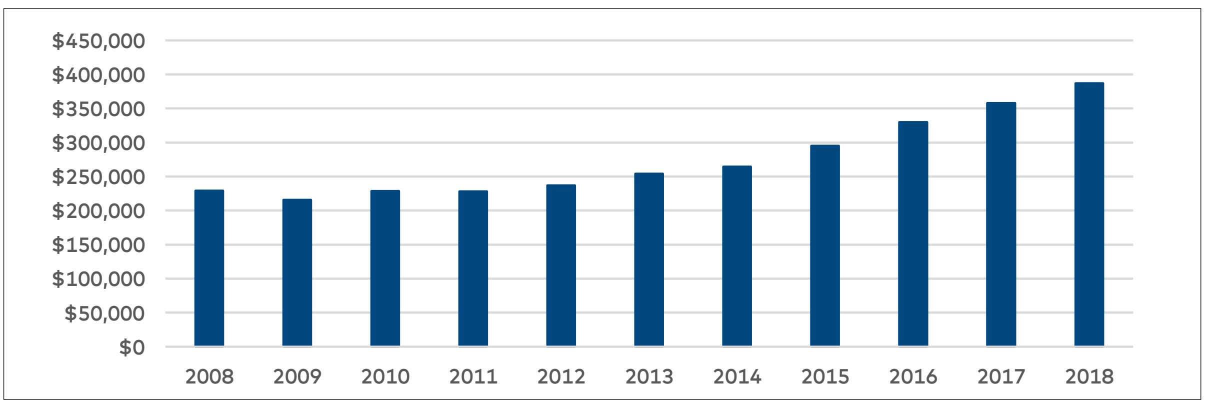
- The median home price in Denver rose to a cycle peak of $387,232 in 2018, up 8.1% since 2017 and 79.5% above the 2009 level. Last year, both the average rent and the average mortgage payment accounted for 23% of the area median income.
- In 2018, among major metropolitan areas, Denver recorded the fifth-steepest decline in housing affordability—for home price appreciation outpacing income growth—according to Nationwide Insurance's Health of Housing Markets report. San Jose and San Francisco came first, followed by Seattle and Oakland, Calif.

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 by 36,379 residents in 2017, up 1.3% and nearly double the 0.7% U.S. growth rate.
- The metro gained 191,919 residents between 2013 and 2017, a 7.1% uptick, well above the 3.0% national rate.

Denver vs. National Population

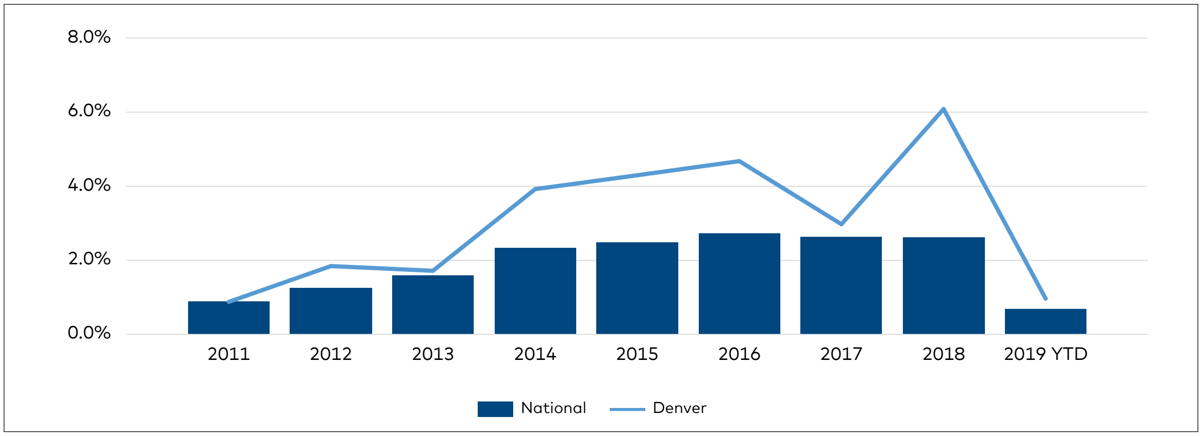
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Denver Metro	2,696,308	2,749,827	2,807,211	2,851,848	2,888,227

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

Supply

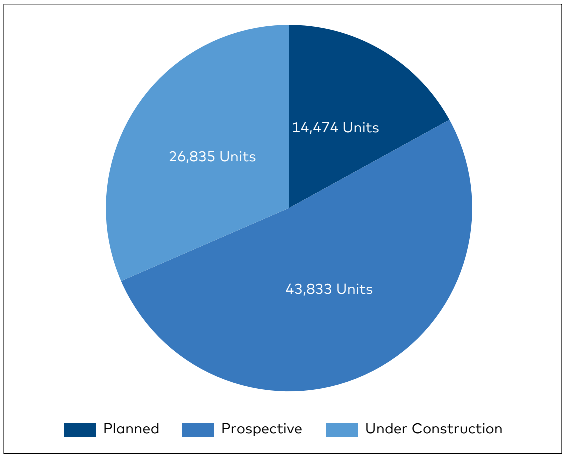
- A total of 26,835 units were under construction in Denver as of May, most of them in Lifestyle developments. In 2019 through May, 1,857 units were completed, or 1.0% of the metro's total stock. This follows last year's 15,984-unit cycle peak, representing 6.1% of total stock, well above the 2.6% national average. The wave of new deliveries has put downward pressure on occupancy, which stood at 94.7% as of April, down 40 basis points year-over-year and below the 94.9% national average.
- The metro's multifamily pipeline also included 58,307 units in the planning and permitting stages as of May. As Denver's population is estimated to continue growing at twice the national rate through 2019, demand is expected to keep up with supply this year, supporting further rent gains.
- Developers are heavily targeting the CBD/Five Points/North Capitol Hill submarket, which had 6,137 units underway as of May. The vibrant city center added 5,490 jobs in 2018, a 4.1% increase, according to the latest State of Downtown Denver report, while its population rose 13%, to more than 25,000 people. More growth is expected for the area, which is estimated to host 33,000 residents by 2023. East Colfax/Lowry Field/Stapleton had 2,489 units underway, followed by Champion (1,935 units).

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



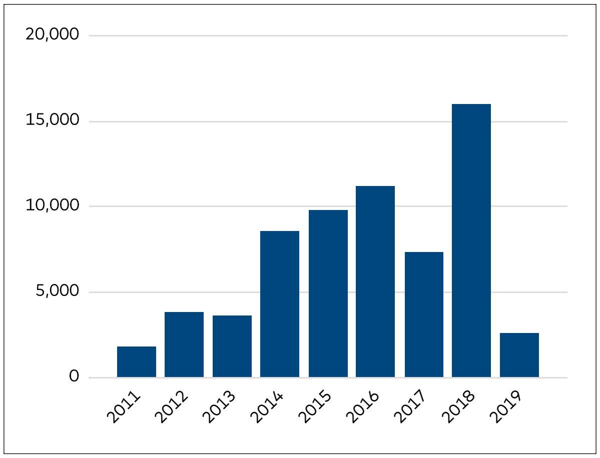
Source: YardiMatrix

Development Pipeline (as of May 2019)



Source: YardiMatrix

Denver Completions (as of May 2019)

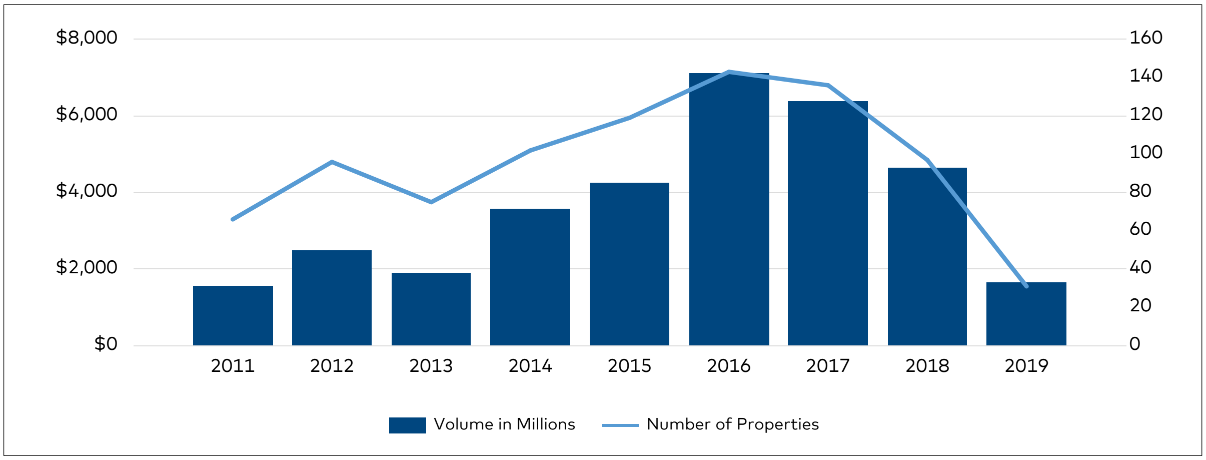


Source: YardiMatrix

Transactions

- More than $1.6 billion in multifamily assets traded in Denver this year through May, at an average per-unit price of $258,882, well above the $156,206 U.S. average. In 2018, the total sales volume surpassed $4.6 billion, while the average price per unit stood at $240,396.
- Drawn by the metro's expanding stock and prospects for higher rents, investors were drawn by both RBN and Lifestyle properties. Acquisition yields ranged from 4.25% to 5.00% for stabilized, core Class A assets and went up to 7.0% for suburban value-add plays.
- Upscale assets in the city core continued to attract the most capital by far. In the 12 months ending in May, 11 properties in the CBD/Five Points/North Capitol Hill submarket traded for a total of almost $1.2 billion, or roughly $380,000 per unit.

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



Source: YardiMatrix

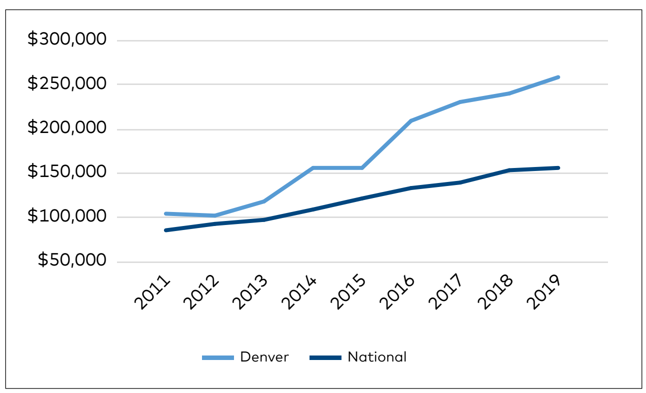
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
CBD/Five Points/North Capitol Hill	1,185
Arapahoe–Southwest	346
Lakewood–North	334
Hampden/Virginia Village/ Washington Virginia Vale	320
Glendale	284
Douglas County–North	272
Northglenn/Thornton	259

Source: YardiMatrix

[1] From June 2018 to May 2019

Denver vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

Brought to you by:

MHN MULTI-HOUSING NEWS

Get the latest in local real estate news on Multi-HousingNews.com

Colorado Portfolio Sells for $207M

Inland Private Capital Corp. sold the three properties totaling 855 units on behalf of an IRS Section 1031 investment program, bringing liquidity to more than 240 investors.

Bentall Kennedy Buys $110M Denver Community

The company acquired the LEED Gold-certified, 338-unit asset on behalf of its U.S. core fund, as the city's economic growth drives a robust multifamily market.

Denver Rental Commands $62M

Gelt Inc. has acquired the 384-unit Cedar Run Apartments from Maxx Properties. The new owner plans to upgrade the apartment interiors and common spaces.

CO Senior Housing Properties Receive $52M Refi

Walker & Dunlop secured the financing through Fannie Mae on behalf of the owner, a partnership between MorningStar Senior Living and a Middle East-based alternative investment fund manager.

$79M Mixed-Use Project Coming To Suburban Denver

Northstar Commercial Partners, Milender White and Canyon Partners Real Estate are building a 216-unit community in Aurora. The development will also include 36,000 square feet of retail space.

JV Lands $75M Financing for Denver Luxury Tower

HFF secured the loan for The Confluence on behalf of National Real Estate Advisors and PMRG. Proceeds will be used to retire existing construction debt on the property.

Executive Insight

Brought to you by:

TruAmerica on Investing in West Coast Markets

By Adina Marcut

TruAmerica Multifamily's $8.7 billion portfolio consists of approximately 40,000 units in prime locations throughout Northern and Southern California, Washington, Oregon, Colorado, Arizona, Nevada, Utah, Maryland, Georgia and Florida.

In the interview below, Co-Chief Investment Officer Matthew Ferrari reveals how close the company is to hitting $1 billion worth of acquisitions for this year, while Director of Acquisitions Zach Rivas shares the ways in which investors can best maximize their returns in markets like Denver.

What challenges are most prevalent in Denver's multifamily market compared to other metros?

Rivas: The biggest challenges in a market like Denver are identifying assets insulated from the robust development pipeline, as well as pursuing assets with a measurable discount to replacement cost.

TruAmerica owns 2,000 units in Denver. What role does this market play in the company's overall investment strategy?

Ferrari: Denver is a market that we're very focused on and have been bullish on for several years and we consider it one of our top target markets for acquiring Class B suburban apartments. Denver continues to attract residents from all over the country due to its diverse employment and lifestyle.

How can investors best maximize their returns in markets like Denver?

Matthew Ferrari *(left)* and Zach Rivas *(right)*

Rivas: Investors can best maximize their returns in value by not overspending on interior renovations and maintaining a healthy gap between newly constructed product and fully renovated older vintage assets. There is some ground that cannot be made up, and it becomes detrimental at times overspending to try to close too much of the gap.

TruAmerica aims to hit $1 billion worth of acquisitions this year. How close is the company to hitting this goal, and what markets are you focusing on?

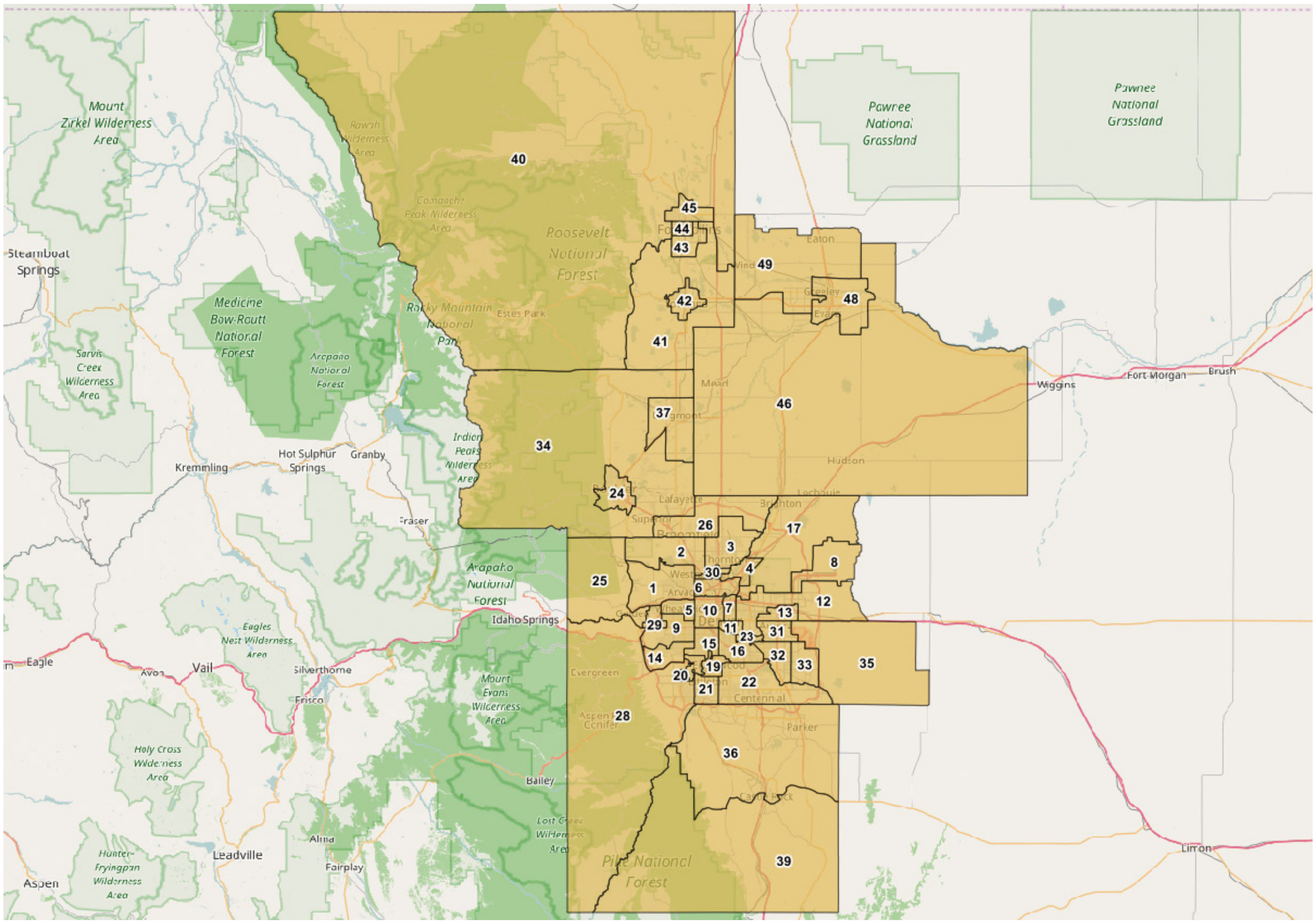
Ferrari: We're currently 70 percent of the way to our goal, having acquired communities in Orlando, Tampa, Atlanta, Las Vegas and Denver, with several potential transactions in the pipeline. We continue to focus on these markets, along with other markets that we've invested in, including California, Salt Lake City, Maryland, Northern Virginia and Seattle.

This year, the company deployed $500 million in secondary markets including Colorado. What other secondary markets does TruAmerica target?

Ferrari: We continue to look for suburban Class B assets in both primary and secondary markets. Secondary markets that we're focused on in 2019 are Las Vegas, Phoenix, Denver, Salt Lake City, Atlanta, Orlando, Tampa, Raleigh and Charlotte. We think all of these markets exhibit strong multifamily fundamentals in both the short and long term.

(Read the complete interview on multihousingnews.com.)

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.