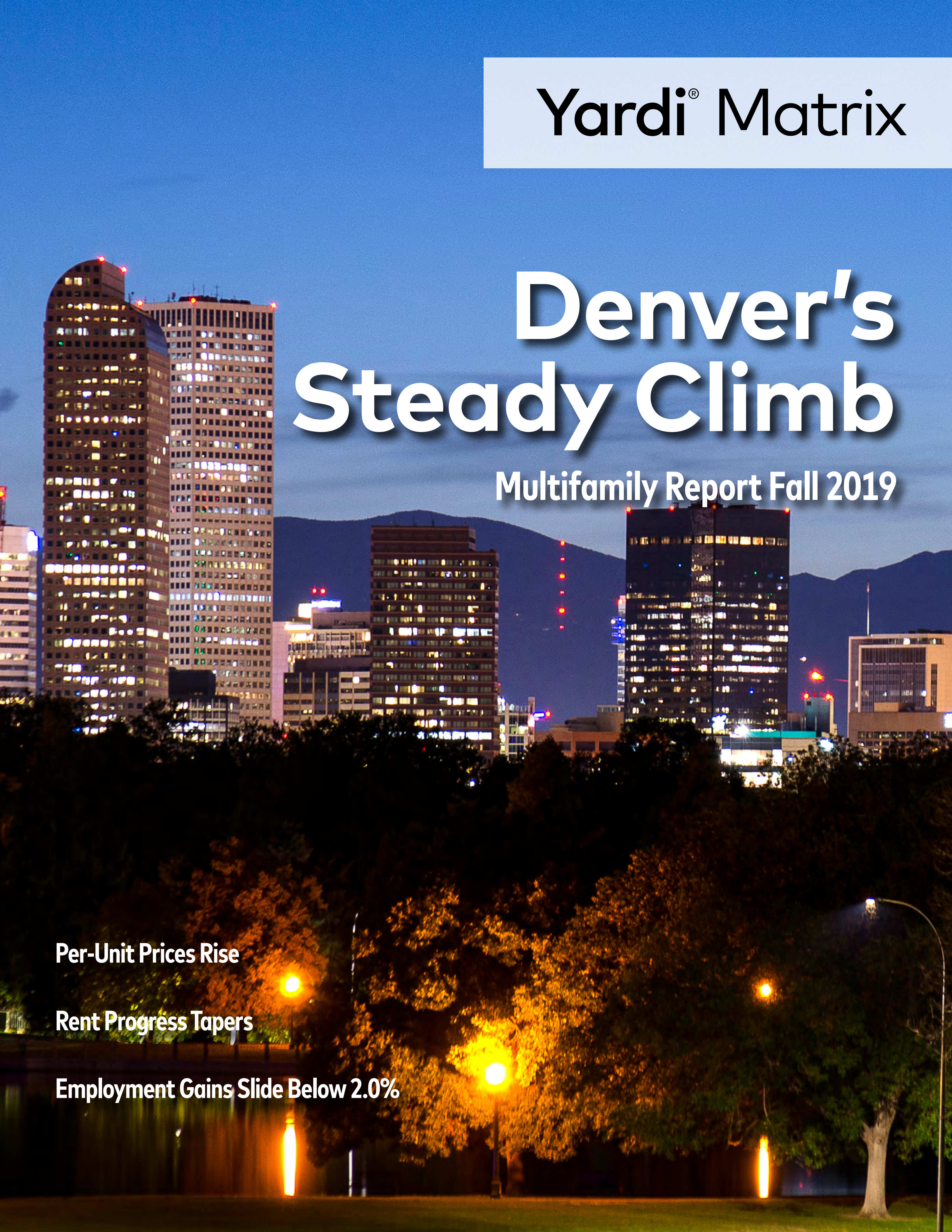
Yardi® Matrix



Denver's Steady Climb

Multifamily Report Fall 2019

Per-Unit Prices Rise

Rent Progress Tapers

Employment Gains Slide Below 2.0%

Market Analysis

Fall 2019

Contacts

Paul Fiorilla

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

Anca Gagiuc

Associate Editor

Supply and Demand Find a Balance

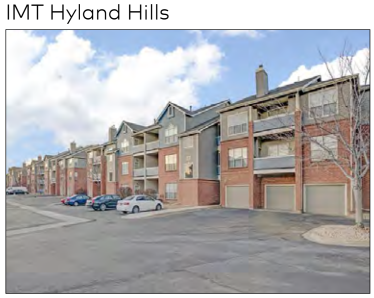
Denver's solid demographic growth and steady economic expansion have kept demand strong. As a result, occupancy has remained high, despite a large number of apartments delivered in the metro. Some 7,100 units were added to the Mile High City in 2019 through September, following an even more active 2018, with 16,151 new units completed. Even so, the occupancy rate in stabilized properties slid slightly to 95.2% as of August.

Employment growth softened to a 1.7% rate year-over-year through July, on par with the national figure, but falling below the 2.0% mark for the first time since 2011. The metro's economy is diversifying, and the highly educated workforce has helped attract businesses. Employment growth over the past 12 months was led by the professional and business sector, which added 13,700 jobs, followed by the education and health services sector (6,500 jobs) and leisure and hospitality (5,400 jobs).

Investors spent nearly $3 billion on multifamily assets year-to-date through September, with a per-unit price that rose 2.6% year-over-year to $246,672. The most sought-after submarket remained the CBD/Five Points/North Capitol Hill area, leading in transaction volume, deliveries and units under construction.

Recent Denver Transactions

IMT Hyland Hills



City: Westminster, Colo.
Buyer: IMT Capital
Purchase Price: $120 MM
Price per Unit: $254,449

Liberty Creek

City: Aurora, Colo.
Buyer: Bridge Investment Group
Purchase Price: $106 MM
Price per Unit: $180,736

Venue at the Promenade

City: Castle Rock, Colo.
Buyer: Equity Residential
Purchase Price: $92 MM
Price per Unit: $294,872

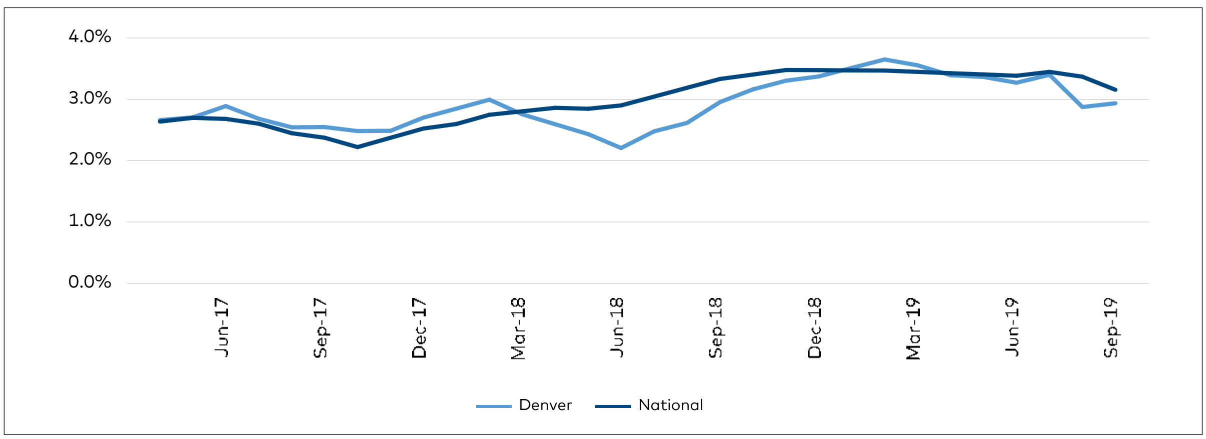
The Brodie

City: Westminster, Colo.
Buyer: Equity Residential
Purchase Price: $88 MM
Price per Unit: $281,250

Rent Trends

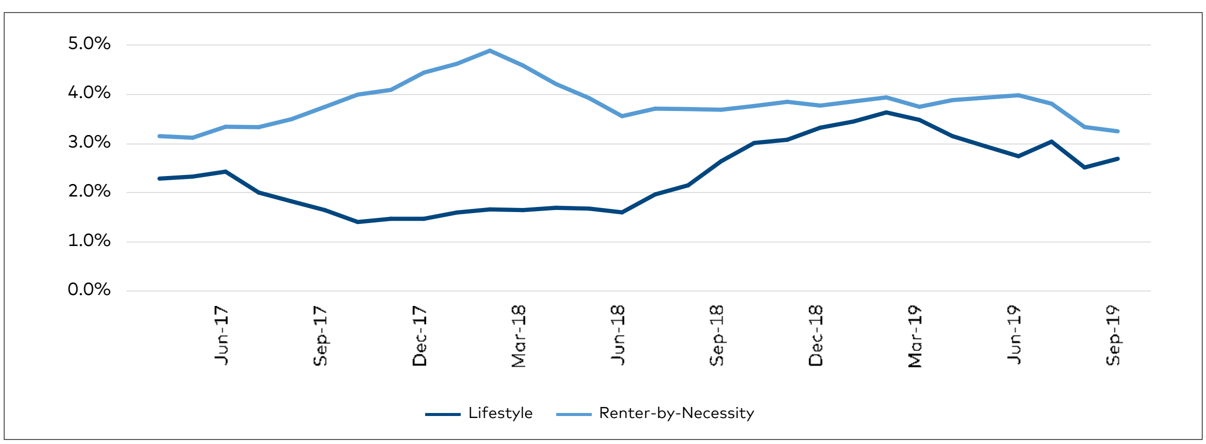
- Rents in Denver rose 2.9% year-over-year through September, trailing the national rate by 30 basis points. The metro's average rent stood at $1,577, above the $1,471 figure. Demand for multifamily apartments in the metro remained healthy, although last year saw a cycle high of new deliveries. The occupancy rate in stabilized properties slid by only 10 basis points, to 95.2% as of August.
- Limited in supply, but high in demand, the working-class Renter-by-Necessity segment saw rents increase 3.3% year-over-year as of September, to an average of $1,336. Assets in the Lifestyle segment saw rents up 2.7%, to $1,757.
- All but one submarket experienced rent growth: Sherrelwood/Welby inched down 0.6% year-over-year, to $1,210. The steepest hikes occurred in Wheat Ridge (up 6.7% to $1,315) and neighboring Applewood/West Pleasant View (up 6.4% to $1,783). Two submarkets posted rents above the $2,000 threshold: the CBD/Five Points/North Capitol Hill, which also had the highest number of units under construction as of September, (up 3.5% to $2,021) and Boulder (up 4.6% to $2,020).

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)

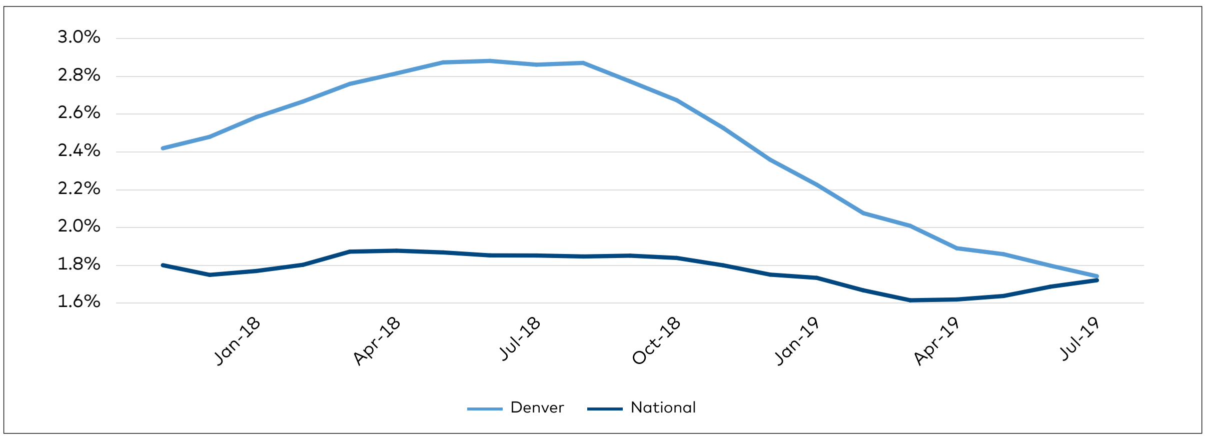


Source: YardiMatrix

Economic Snapshot

- Denver gained 34,300 jobs in the 12 months ending in July, up 1.7% year-over-year, on par with the national rate. The pace of growth fell below the 2.0% mark for the first time since 2011 as of spring 2019, in part due to the shrinking availability of skilled workers. Denver's GDP growth remains stronger than the national average, although concerns about trade and policy uncertainty have led to a deceleration. Unemployment stood at 2.7% in July, 100 basis points below the U.S. average.
- Professional and business services maintained the leading position in employment growth, adding 13,700 jobs. The metro's friendly business environment, the local talent pool and big-city amenities have lured businesses and residents from coastal markets.
- Education and health services, and leisure and hospitality rounded out the top three, gaining a combined 11,900 jobs. Both sectors are poised for continued growth, at least in the short term: The new 100,000-square-foot Saint Joseph Medical Office Pavilion will include three floors of Class A medical office space upon completion in 2020, while leisure and hospitality is sustained by the influx of companies that continue to expand in the metro. The Mile High City's tourism continued to be one of the key economic drivers in 2018, with the addition of 4,650 new hotel rooms, more than 250 new restaurants and a record 64.5 million travelers through Denver International Airport.

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	359	17.8%	13,700	4.0%
65	Education and Health Services	249	12.3%	6,500	2.7%
70	Leisure and Hospitality	238	11.8%	5,400	2.3%
80	Other Services	77	3.8%	2,600	3.5%
40	Trade, Transportation and Utilities	348	17.2%	1,900	0.5%
90	Government	287	14.2%	1,800	0.6%
30	Manufacturing	119	5.9%	1,500	1.3%
15	Mining, Logging and Construction	150	7.4%	1,100	0.7%
55	Financial Activities	132	6.5%	600	0.5%
50	Information	62	3.1%	-800	-1.3%

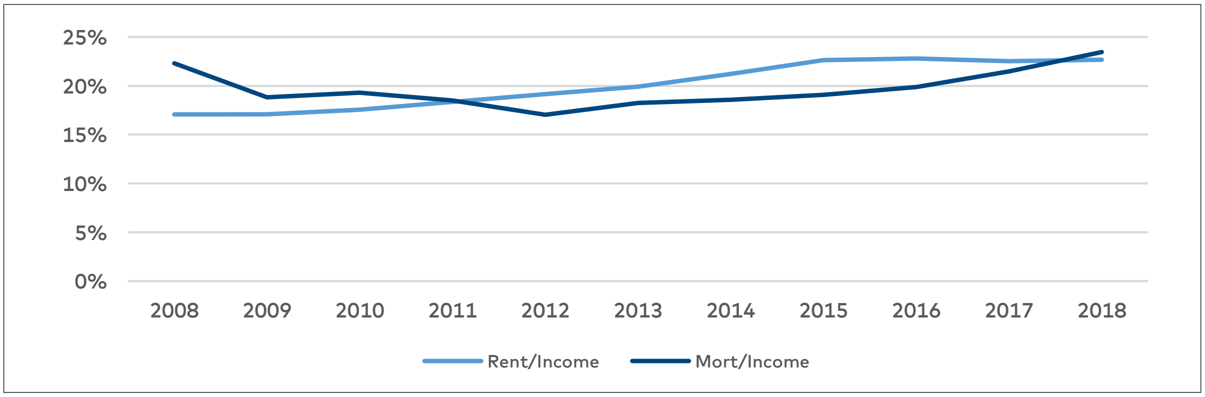
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

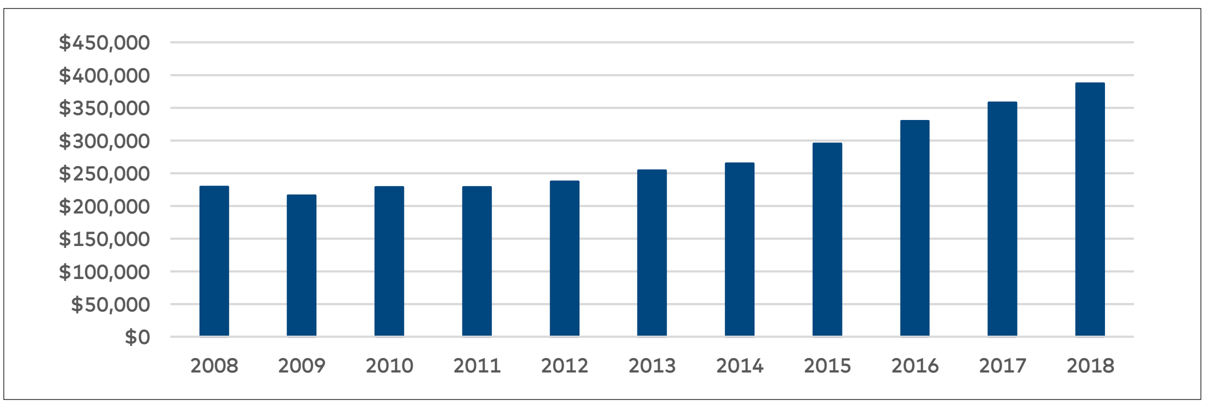
- The median home price in Denver rose 8.1% in 2018 to $387,195. Renting and owning were on par, each accounting for 23% of the area median income. The last time such parity occurred was in 2011, when the median home price was $228,384, 70% below last year's figures.
- Denver's continuous expansion has deepened economic imbalances; more than one-third of the metro's households are now dedicating an additional 30% of income toward housing costs. The outlook is promising, however, with some 1,211 units in fully affordable communities added to the metro in the first nine months of the year and another 3,159 units in 28 communities underway as of September.

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 gained 39,436 residents in 2018, up 1.4%, more than double the national average of 0.6%.
- The metro added 177,774 residents between 2014 and 2018, a 6.5% uptick, well above the 2.8% U.S. rate.

Denver vs. National Population

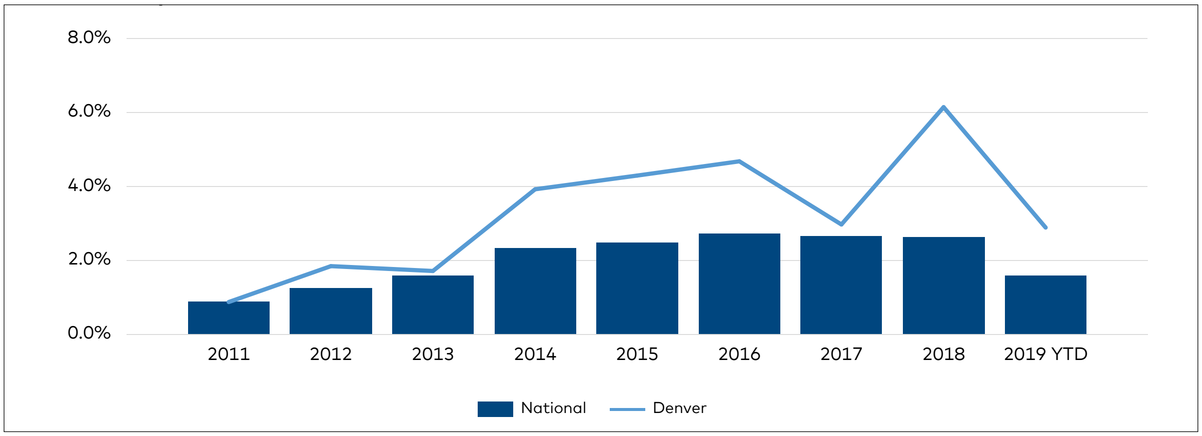
	2014	2015	2016	2017	2018
National	318,386,421	320,742,673	323,071,342	325,147,121	327,167,434
Denver Metro	2,754,641	2,813,514	2,857,549	2,892,979	2,932,415

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

Supply

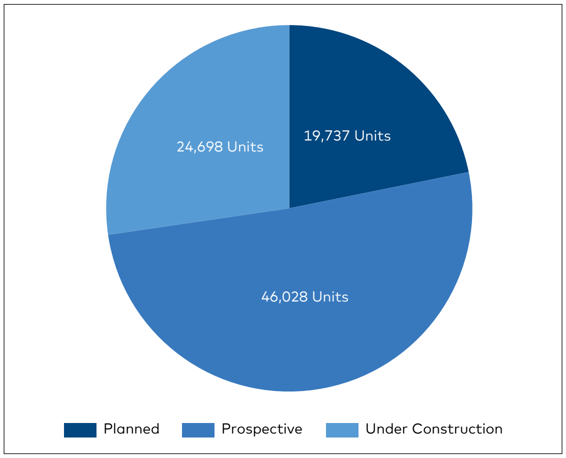
- Developers added some 7,100 units this year through September, 2.9% of total stock and nearly triple the 1.6% national rate. The pace of construction moderated slightly after last year's record-high deliveries, when more than 16,100 units came online in Denver. By the end of 2019, 10,100 units are slated to be delivered in the metro.
- Denver's multifamily pipeline had more than 24,600 units under construction as of September, with the bulk in the upscale Lifestyle class. The metro also included 65,765 units in the planning and permitting stages. Accounting for the metro's consistent population growth, demand will likely keep up with supply and will maintain rent growth on an upward trend.
- The CBD/Five Points/North Capitol Hill submarket remained the most appealing area to developers: There were 6,327 units underway as of September, and some 1,000 units delivered year-to-date. Developers with the most units underway include Embrey Partners (1,370 units in four properties) and Greystar (1,067 units in five properties). The largest delivery of the year through September was The Henry, Carmel Partners' 403-unit community in Hampden/Virginia Village/Washington Virginia Vale.

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



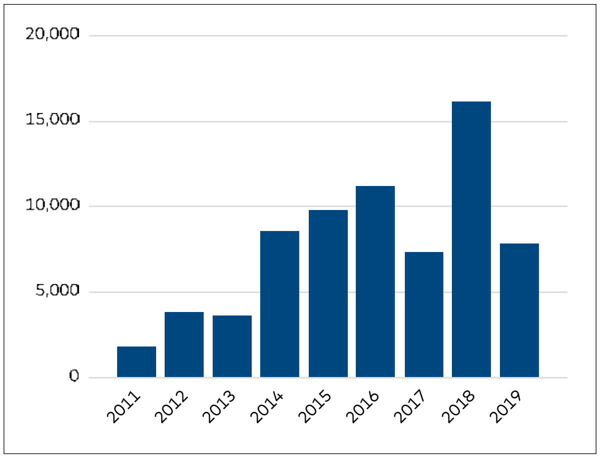
Source: YardiMatrix

Development Pipeline (as of September 2019)



Source: YardiMatrix

Denver Completions (as of September 2019)

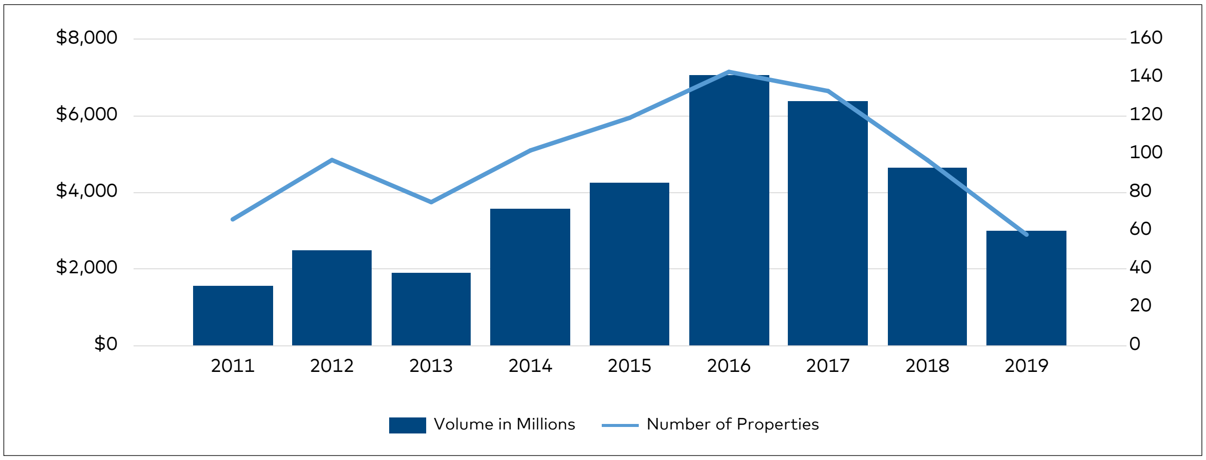


Source: YardiMatrix

Transactions

- Some $3 billion in multifamily assets traded in Denver in the first nine months of 2019, split evenly between Lifestyle and Renter-by-Necessity. Through the last four quarters, the total volume of apartment sales reached $4.7 billion.
- Denver's attraction to investors is still strong; the average price per unit has increased by more than 50% since 2015. Year-to-date through September, it was $246,672, well above the $158,667 U.S. average.
- LivCor was the most active investor in Denver in 2019, having acquired six communities for a combined price of $414 million. The largest deal of 2019 was Daydream Apartments' acquisition of the 579-unit community Union Denver. The LEED Gold-certified asset is located in the CBD/Five Points/North Capitol Hill submarket and sold for $304 million, or $525,043 per unit.

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



Source: YardiMatrix

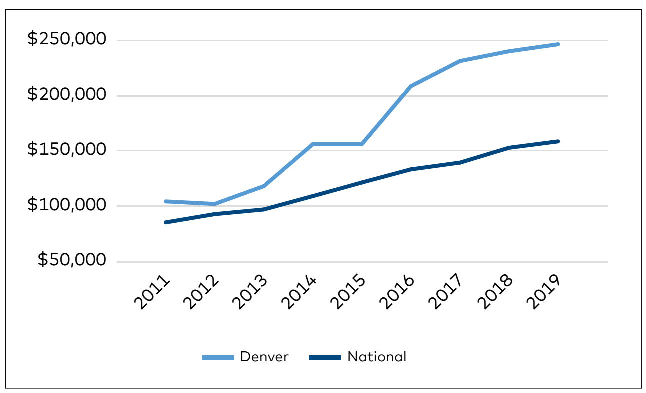
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
CBD/Five Points/North Capitol Hill	784
Hampden/Virginia Village/ Washington Virginia Vale	536
Broomfield/Todd Creek	355
Douglas County–North	302
Westminster	262
Arapahoe–Southwest	262
Greater Boulder	204
Glendale	191

Source: YardiMatrix

[1] From October 2018 to September 2019

Denver vs. National Sales Price per Unit



Source: YardiMatrix

Executive Insight

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MHN MULTI-HOUSING NEWS

An Insider's View on Denver's Multifamily Market

By Adina Marcut

Demand for multifamily housing in Denver continues to rise. Roughly 14,000 units came online last year and absorption remains strong. One of the latest trends in the metro for combating affordability issues is building properties with studios and micro-apartments. Properties either consist entirely of these layouts or feature a high percentage of these units.

David Jaudes, vice president of multifamily development for McWhinney, shares his views on Denver's multifamily market: overall trends, opportunities for growth, as well as his predictions for the future.

According to Yardi Matrix data, more than 14,400 units came online in Denver last year. What contributed to the supply increase?

The factors in play are primarily job growth, which brings in-migration and increases population growth, as well as the "Colorado lifestyle" that is attracting so many coastal residents. While it is true that the cost of living in Denver has grown significantly during the recent expansion when compared to coastal cities, it is still attainable to many. Still, we should be looking for more solutions for the 80 to 100 percent of the area median-income demographic and helping deliver more of those housing units.

What can you tell us about demand for multifamily units in the metro?

The demand side of the equation is stable. Concessions are pretty much there with every lease-up, but we are typically seeing those burn off or come down significantly once properties stabilize. It remains to be seen how long the economy can keep pro-

ducing the 2.5 percent-plus growth per year, but it's comforting to be in the long-term-holder position and not worrying about exiting our projects in the near future.

What does Denver have to offer for future investment and development opportunities?

(Finding opportunities will be) tougher, as the low-hanging fruit has all been activated. Any site that is zoned by right and in a decent location is priced as such, making returns harder to achieve. We've taken on more risk on the pursuit side, jointly working with cities where both parties are looking to rezone certain sections of their city for high-density residential. Just across the street from Oskar Blues Brewery, our Longmont project was an example of this approach. We aren't in the acquisition space, but I'm told the value-add B and C product is very crowded, with some sales approaching replacement cost for new Class A projects.

How does the late-cycle economy impact your business strategy?

Again, we like to focus on the long term, and in the long term we see Denver continuing to grow, although perhaps not at the rate it has over the past couple years. We will continue to search for opportunities where we see healthy population and job growth, and sites within cities where the neighbors and community want us there. Smart growth is happening, and you do have projects where the developer and neighbors are friends. Those developments just don't tend to grab the headlines.

News in the Metro

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MHN MULTI-HOUSING NEWS

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Fast-Growing Colorado Town Gets 1st Community

Rooney Properties developed the 176-unit luxury property in Timnath, on the outskirts of Fort Collins.

Starwood Sells Denver-Area Property

IMT Capital financed the acquisition with a $108.2 million Freddie Mac loan originated by CBRE Capital Markets.

Dominium Opens 2 Affordable Communities

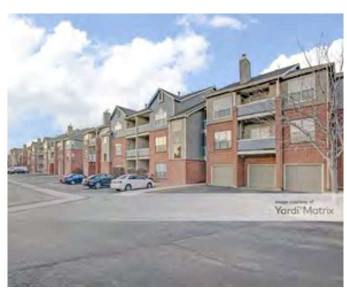
North Range Crossings and East Range Crossings include 468 units combined.

Geothermal-Powered Community Changes Hands for $72M

C&A Cos. and Commonwealth Group sold the 288-unit Elements at Prairie Center, located in Brighton, which taps into heat from the earth.

Watermark Residential Scores $179M Refi

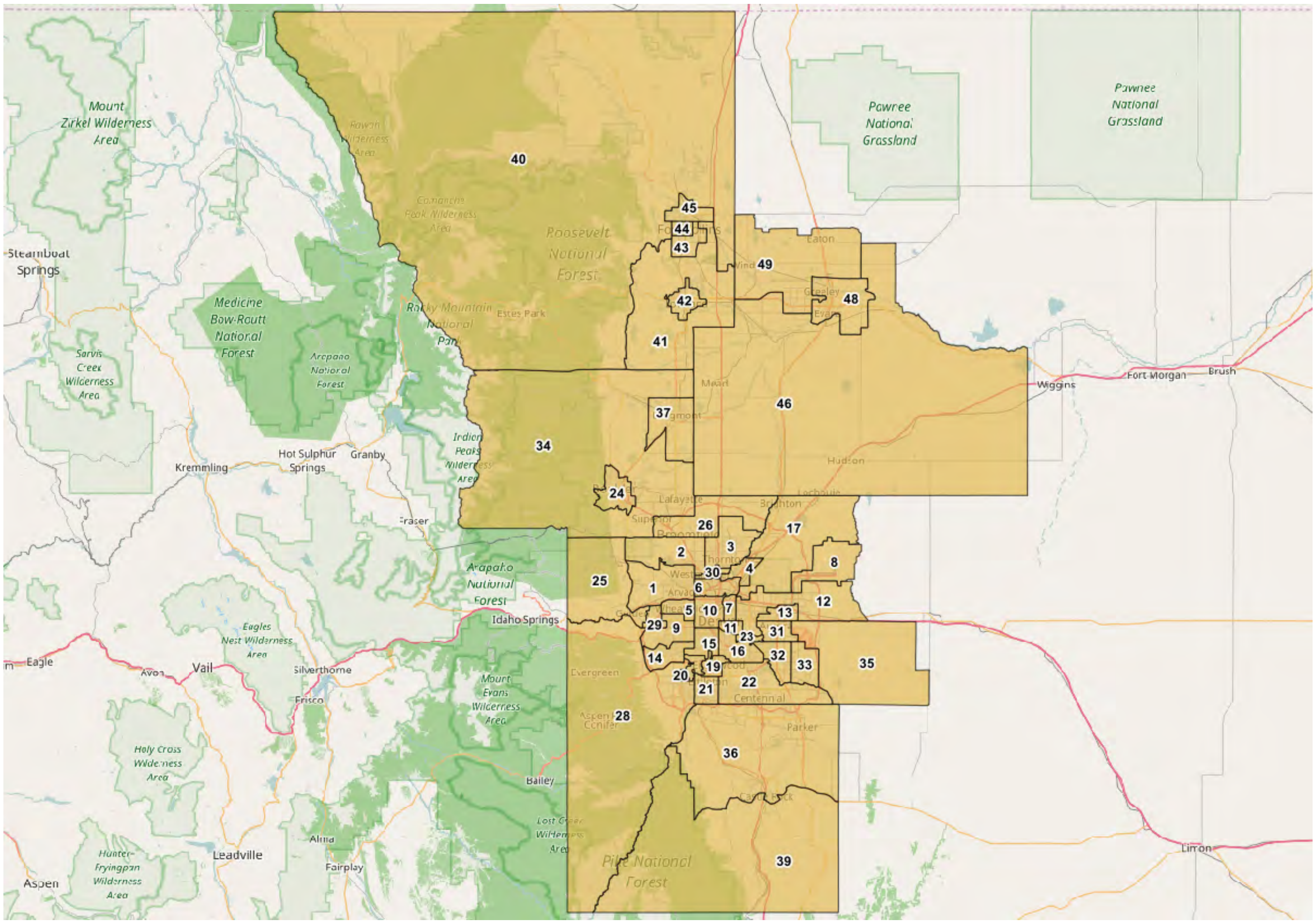
The Freddie Mac conventional loans will refinance a portfolio of four multifamily communities in Arkansas, Colorado and Texas.



IMT Capital Buys Denver Apartments For $120M

CBRE provided nearly $75 million in Freddie Mac financing for the 472-unit multifamily acquisition, the market's largest single-property deal this year.

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 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 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.