MARKET REPORT

Multifamily

Denver Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

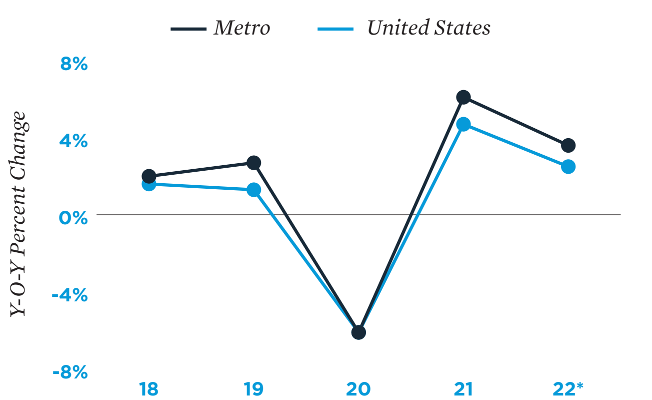
2Q/22

High Incomes Allow for Metrowide Gains Amid Demand Shift Back into Urban Core

Growing tech scene a boon for Class A demand. Denver's tech sector is swelling, propelling the market's median household income above any metros outside of the Bay Area and the nation's capital. Additionally, the metro's median age lands 1.6 years below the national average, a positive for rental demand as the 20-34 age cohort is more likely to rent. A young populace with high incomes is translating to low availability of luxury apartments, allowing for strong rent growth. Meanwhile, rates for units toward the lower end of the class spectrum are also on an upward trajectory. The typical gap between Class A and Class C effective rents in Denver is just under $600 per month, and will likely hold in that range. As such, exceptional Class A rent growth will continue to pull up other segments' rates alongside.

Trendy, urban locales the epicenter of recent demand surge. The metro's central districts have recorded the strongest drops in vacancy of late — a reversal of the early pandemic trends. Downtown and adjacent submarkets, such as Five Points-Capitol Hill-Cherry Creek, recorded vacancy retreats of at least 270 basis points last year, as renters value the vibrant lifestyles of these locations. Improving fundamentals in the CBD have not affected performance in the suburbs. Areas like Broomfield, Littleton and Glendale continue to note vacancy compression. Only one submarket, Southeast Aurora-East Arapahoe County, has a vacancy rate above 3.9 percent, with availability in the area at 4.0 percent.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

55,000 JOBS
will be created

EMPLOYMENT:

A combination of new job growth and the final stage of recovering positions lost early in the pandemic culminate in a 3.6 percent increase in employment. By year-end, Denver's worker tally will eclipse the pre-COVID-19 measure by roughly 50,000 roles.

10,200 UNITS
will be completed

CONSTRUCTION:

Building activity is sizable in 2022; however, completions will fall just shy of the record of more than 10,500 units set in 2018. Most construction will arrive downtown, as areas near RiNo and Five Points will become more desirable to renters in recent years.

30 BASIS POINT
decrease in vacancy

VACANCY:

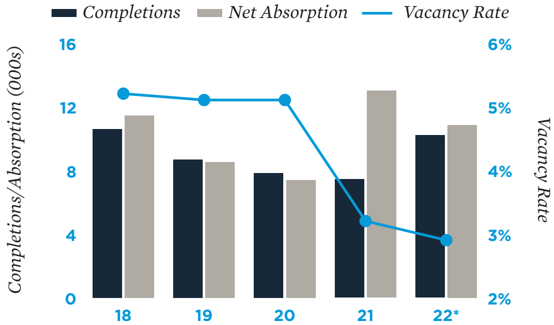
Demand will outpace new supply by roughly 650 units in 2022, leaving the metro with fewer than 9,500 vacant units for the first time since 2000. Vacancy is set to recede to 2.9 percent, the lowest year-end rate in two decades for the metro.

6.6% INCREASE
in effective rent

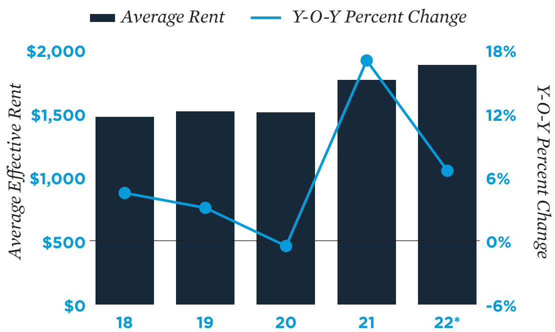
RENT:

After posting roughly a 17 percent rise in 2021, the mean effective rent continues to swell in Denver, reaching $1,881 per month. Tight vacancy and a shortage of single-family housing are enabling the expected 24 percent two-year growth rate.

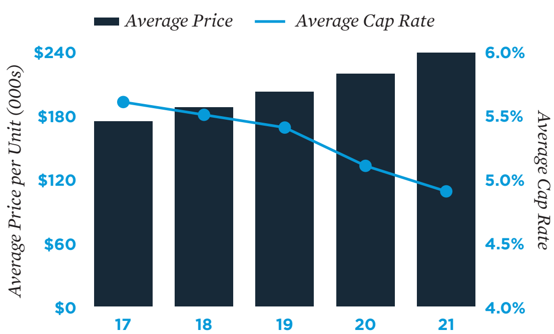
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

IPA Multifamily
John Sebree
Senior Vice President
Tel: (312) 327-5400 | jsebree@ipausa.com

For information on national multifamily trends, contact:
John Chang
Senior Vice President, National Director | Research Services
Tel: (602) 707-9700 | jchang@ipausa.com

Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

8,472 units completed

- Development has been consistent in Denver, with between 7,000 and 11,000 units topping out in each of the last six years.
- Downtown Denver has added the most units during the 12-month period ended in March. Many of the new apartments in the submarket offer luxury amenities, such as high-end gyms and pools.

VACANCY

240 basis point decrease in vacancy Y-O-Y

- The formation of 21,500 new households in the metro during the 12-month period ended in the first quarter aided a sizable contraction in vacancy to 3 percent, as more than 15,000 units were absorbed.
- Downtown, the nearby Five Points-Capitol Hill-Cherry Creek and North-east Denver areas recorded the strongest net absorption.

RENT

17.7% increase in the average effective rent Y-O-Y

- Limited availability helped lift the average effective rent to $1,784 per month in the first quarter of 2022. Rents are growing the fastest in the Class A tranche, but all three segments had gains surpassing 14 percent.
- Effective rents in the CBD surpassed 2019 levels by almost 10 percent, driven by robust demand as renters returned to central locales.

Investment Highlights

- Denver's multifamily investment market is one of the strongest in the country, with many foreign and institutional investors expanding in the metro. The fourth quarter of 2021 reported the highest quarterly dollar volume on record, with nearly $4.5 billion transacting. All apartment tiers posted upticks in trading.
- Investors have ramped up acquisitions in Downtown Denver; however, a notable increase has also been reported in the metro's Eastern and South-eastern suburbs. Growing areas like East Denver and Aurora have enticed investors, particularly near light rail stations. Additionally, the southeast, from Glendale to Lone Tree, has reported elevated trading. These areas stand to benefit from a return to offices, as demand for housing near DTC should improve upon workers returning.
- Per-unit sale prices have steadily grown in the metro since 2010, with each year showing at least a 7.5 percent increase annually over that stretch. Institutions have become very active in the city, which has raised the metro's visibility among capital sources and compressed the average cap rate to just under 5 percent. First-year yields as low as 3 percent are not uncommon for top-tier assets in and near the core.