MARKET REPORT

Multifamily

Denver Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

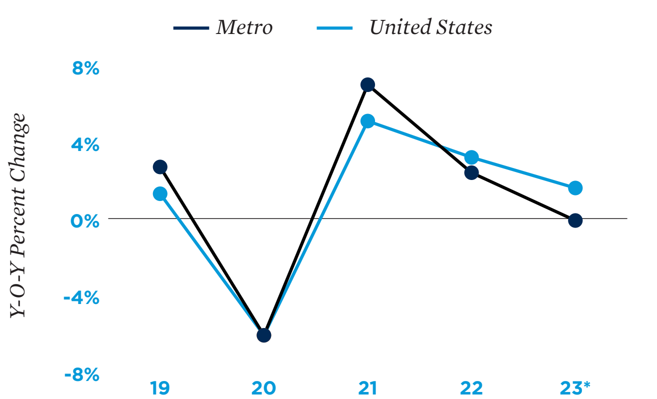
3Q/23

Supply Influx Accompanies Notable Population Growth Trends; South Denver Outperforms

Increased migration coincides with record deliveries. Totaling roughly 18,200 individuals this year, net in-migration to the Denver metro nearly triples 2022's count and will be the largest influx since 2016. Over the upcoming five years, local population growth is set to register as the third-fastest rate among major non-Sun Belt metros. These sizable population inflows will help local multifamily fundamentals stabilize amid a considerable construction pipeline. At year-end, annual deliveries will have exceeded the prior record by over 1,000 units. Although near-term supply pressure maintains upward vacancy adjustments, the 2023 increase will be one-third the magnitude of last year's 240-basis-point hike.

Southern suburbs proving to be more resilient. Entering July, all of the metro's 19 submarkets noted vacancy hikes of at least 100 basis points year-over-year. Areas to the south of downtown, such as South Lakewood and Parker-Castle Rock, recorded a notably muted rate of expansion compared to the market average. This helped vacancy in both areas stand at 5.0 percent in the second quarter, the lowest rates in the metro. South Lakewood's connectivity to downtown and Interstate 70 aid demand from commuting professionals that desire access to the Rocky Mountains, while few recent deliveries direct renters to existing units. Parker-Castle Rock's performance is bolstered by its proximity to the Denver Tech Center (DTC). Class A vacancy here was 100 basis points below the DTC itself in June amid the segment's average rent registering more than 4 percent under the market mean.

Employment Trends



** Forecast*

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

Multifamily 2023 Outlook

1,000 JOBS
will be lost

EMPLOYMENT:

A net loss of 6,000 jobs in traditionally office-using industries contributes to Denver's employment total dropping for the first time since 2020 this year. Still, the job count will stand 2.9 percent ahead of its 2019 total.

12,000 UNITS
will be completed

CONSTRUCTION:

Completions this year will be roughly 3,300 units higher than 2022's total, expanding metro inventory by 3.7 percent. More than one-fifth of these rentals will be completed in the Northeast Denver submarket.

80 BASIS POINT
increase in vacancy

VACANCY:

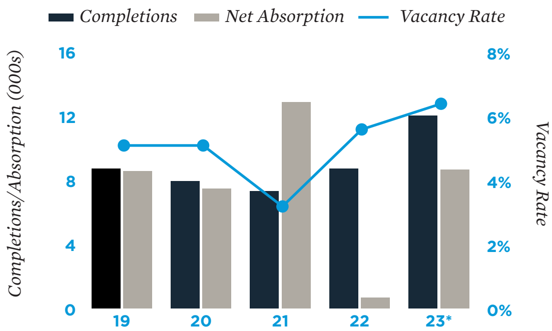
This year's record delivery slate contributes to sustained upward vacancy pressure in 2023. Lifting to 6.4 percent, this will be the metro's highest figure since 2009 and 50 basis points above its historical average.

2.8% INCREASE
in effective rent

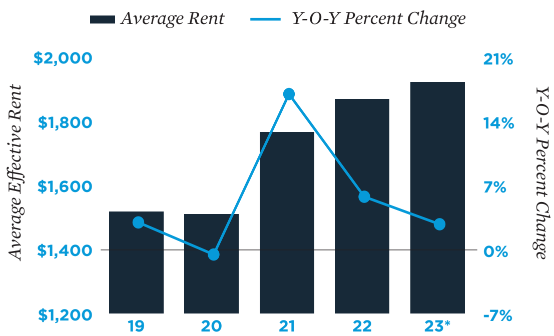
RENT:

Rising vacancy across the metro slows marketwide rent growth in 2023, falling below its 4.0 percent long-term average. Though at a slower pace, this year's average effective rent will increase to $1,920 per month.

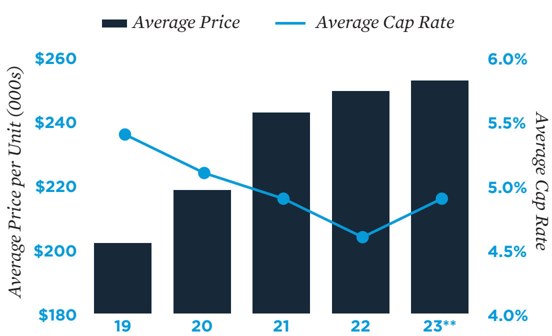
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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

IPA Multifamily Research
Greg Willett
First Vice President
Tel: (972) 755-5200 | gwillett@ipausa.com

Price: $250

2Q 2023 - 12-Month Period

CONSTRUCTION

8,834 units completed

- Builders completed 2,500 units in each of the first two quarters of 2023, helping increase metro inventory by 2.8 percent year-over-year in June.
- Tight conditions in Parker-Castle Rock warranted notable supply expansion, growing local stock 9.5 percent. Still, Northeast Denver accounted for the largest influx of any submarket, adding more than 2,000 units.

VACANCY

210 basis point increase in vacancy Y-O-Y

- Metro vacancy elevated to 5.9 percent during the first quarter and held steady over the proceeding three months. Despite a sizable annual increase, the rate is just 20 basis points above its long-term mean.
- The vacancy hike in the suburbs outpaced the CBD, elevating 220 and 180 basis points to 5.8 and 6.3 percent, respectively.

RENT

2.2% increase in the average effective rent Y-O-Y

- Gains to the metro's average effective rent continued to temper over the year ending in June, slowing to its lowest growth rate since early 2021. This reduced improvement ticked up the figure to $1,898 per month.
- A below-market average vacancy rate in the Arvada-Golden submarket contributed to a local rent growth rate that doubled the metro mean.

Investment Highlights

- Partially resumed trading activity in the $10 million-plus price tranche helped facilitate an uptick in overall velocity during the second quarter of the year, following a near decade-low during the initial three months. Investors deploying this level of capital frequently identified the northern portion of Adams County near Thornton and Henderson. A notable amount of deliveries here in recent years helped facilitate this uptick, while a substantial pipeline may sustain higher caliber trades moving forward.
- Institutional investors are bolstering deal flow in the Lakewood area. A number of properties traded here above the $20 million threshold, despite vintages in the early 1970s. These large-scale assets benefit from local vacancy rates below the market mean.
- Over the 12-month period ending in June, the metro's average cap rate elevated to 4.9 percent, up 30 basis points from its record low noted across the 2022 calendar year. Improved first-year yields are indicative of more buyers and sellers coming into agreement as long-term owners look to capitalize on sizable gains made over the previous decade. Substantial in-migration trends are also helping improve overall investor sentiment.