MARKET REPORT

MULTIFAMILY

Denver Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

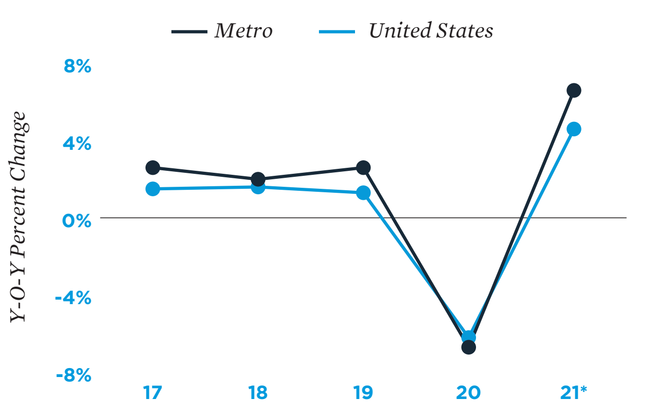
3Q/21

Mid-Tier Suburban Metrics Enhanced by Changing Renter Priorities, Garnering Investor Attention

Class B units in suburbs accommodate fresh preferences. Mid-tier rentals outside Denver's core performed exceptionally well during the past year as the segment carved out a niche in the local apartment landscape. The suburban Class B tier met the qualifications tenants were seeking as many desired lower-cost living and larger floor plans while working remotely. Additionally, less crowded areas were favored amid the health threat. Looking at the metro's 17 suburban submarkets, eight posted Class B vacancy declines of at least 100 basis points during the past year. Three of those — Broomfield, Highlands Ranch and the Tech Center — had reductions of 200-plus basis points. Lower vacancy provided a tailwind for rent as well. Six different suburban locales noted double-digit annual mid-tier rate hikes.

Slowdown in downtown development eases pressure. Deliveries in the central business district shrunk relative to prior years, which has helped the area find footing after a difficult stretch in 2020. In the first half of this year about 1,040 rentals finalized in the CBD, the lowest total during the January through June period since 2017. Fewer additions allowed demand to catch up, dropping the vacancy rate from a peak of 7.1 percent last year to 5.9 percent in the second quarter, a level about on par with the pre-pandemic recording. The pullback in new supply will be temporary, however, as nearly 6,000 units were underway downtown as of July, with the majority expected to reach completion by the end of 2022.

Employment Trends



** Forecast*

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

Multifamily 2021 Outlook

95,000 JOBS
will be created

EMPLOYMENT:

Denver's employment total will climb within 1 percent of the pre-health-crisis level in 2021 after the loss of 104,800 positions last year. This will be fastest annual gain in more than 30 years, with the metro job count expanding by a projected 6.6 percent.

7,400 UNITS
will be completed

CONSTRUCTION:

Completions in 2021 will amount to the lowest yearly addition since 2016. Still, inventory in the market will expand by 2.4 percent, which is just slightly below the 2.6 percent growth recorded in 2020.

20 BASIS POINT
decrease in vacancy

VACANCY:

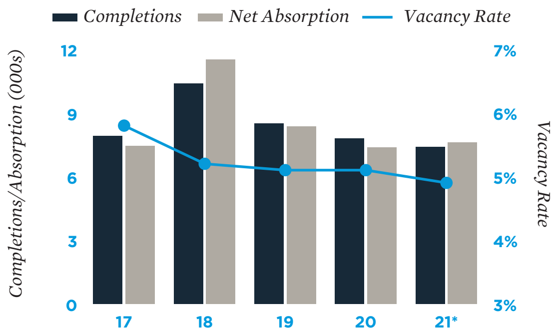
The vacancy rate will settle to 4.9 percent in 2021, the lowest year-end posting since 2014. Strengthening demand will underscore the decrease in unit availability, with net absorption expected to surpass 7,600 apartments this year in Denver.

6.0% INCREASE
in effective rent

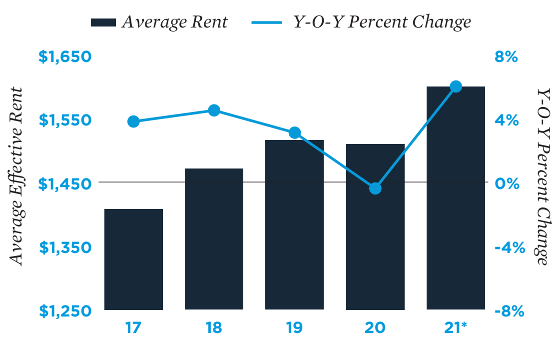
RENT:

Lower availability and greater demand will produce a notable rent advance following a 0.4 percent reduction in 2020. This year, the average effective monthly rent in Denver will reach $1,600, which is roughly 3.6 percent higher than the 2019 peak.

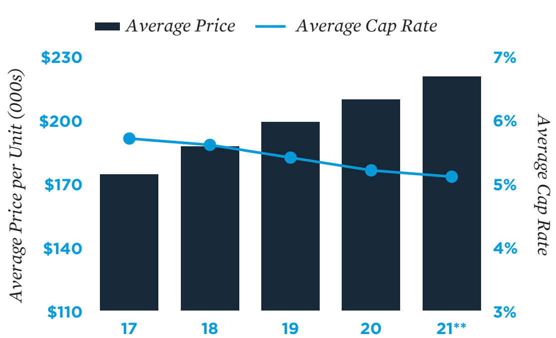
Supply and Demand



Rent Trends



Sales Trends



** Forecast; ** Through 2Q*

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

2Q21 — 12-Month Period

CONSTRUCTION

6,169 units completed

- Construction activity curtailed during the past four quarters, with delivery volume coming in 3,000 units below the previous year. As of July, an additional 19,000 rentals had broken ground in the metro.
- The Five Points-Capitol Hill-Cherry Creek submarket added 350 units in the first half, compared with 3,200 doors in the preceding two years.

VACANCY

100 basis point decrease in vacancy Y-O-Y

- Availability moderated to 4.4 percent in June, which was the lowest vacancy since September 2019. In the second quarter of 2021, the rate fell by 100 basis points on net absorption of 4,550 units.
- Class A and Class B vacancy fell to 5.0 percent and 4.3 percent, respectively, the tightest rate for each tier in nearly two years.

RENT

5.9% increase in the average effective rent Y-O-Y

- Dictated by a 6.6 percent year-over-year hike in the suburbs, the metro's average effective rent jumped to $1,605 per month. The mean rate in the CBD remained down 1.0 percent from a year ago, however.
- The average Class B rent rose by 8.2 percent annually, outpacing the other two tiers where rates climbed by less than 1.5 percent.

Investment Highlights

- Deal flow improved dramatically in the first half of this year, with activity during those six months jumping by 250 percent relative to the same period in 2020. Competition for assets facilitated an 8 percent annual boost in the average sale price to $220,000 per unit. Assets that traded for more than $1 million during the past year ended in June had an average cap rate of 5.1 percent, down slightly from the prior year.
- Trading of urban apartment buildings doubled on an annual basis during the 12-month period ending midyear. Out-of-state investors from both coasts have concentrated on Class A and B complexes in downtown Denver. Buyers accept yields in the low-3 percent range for luxury apartments, while mid-tier properties generally change hands with first-year returns 100 basis points higher.
- Private investors seeking Class C apartments with upside are focusing on the Lakewood-West Corridor and South Adams County submarkets. Particularly, the northwest portion of Aurora as well as neighborhoods between Lakewood and Wheat Ridge are appealing. Lower-tier apartments in these areas trade for an average of $175,000 per unit.

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Price: $250