

Greater Denver Multifamily




Apartment Sales Pick Up in Third Quarter

Highlights

- > The third quarter was a period of continued strength in the Denver multifamily market. The pace of supply growth slowed, allowing vacancy to remain flat and rents to rise.
- > The vacancy rate was unchanged from the second quarter to the third quarter, holding steady at 5.2 percent. The rate has risen 20 basis points year over year.
- > After leveling off late last year, rents have trended higher thus far in 2019. Asking rents reached \$1,527 per month in the third quarter, up 4 percent from one year ago.
- > Sales activity accelerated in the third quarter, and prices rose. Cap rates have been very consistent, averaging approximately 5 percent for the past several quarters.

Denver Multifamily Market Overview

The Denver multifamily market posted another strong period of performance during the third quarter, with the vacancy rate holding steady and rents continuing on an upward trajectory. Following a surge in deliveries in the second quarter, fewer units came online in the third quarter, allowing for supply and demand to approach equilibrium. While there has been some quarter-to-quarter volatility, the vacancy rate in Denver has averaged slightly more than 5 percent since the beginning of 2015, and the long-term consistency in the vacancy rate is supporting a steady pace of rental increases.

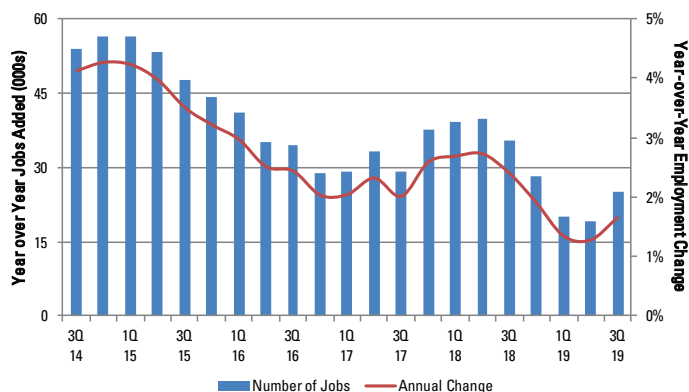
Q3 Snapshot	Denver Market
	Market Fundamentals
	Vacancy 5.2%
	- Year Over Year Change..... +20
	Asking Rent..... \$1,527
	- Year Over Year Change..... +4.0%
	Transaction Activity
	Median Sales Price Per Unit (YTD)..... \$216,000
	Cap Rates (Avg YTD)..... 5.0%
	Construction Activity
	Units Under Construction..... 25,768
	Units Delivered YTD..... 9,263

The investment market gained momentum during the past three months, with more properties changing hands and sales prices trending higher. The spike in activity brings the year-to-date total for property sales essentially even with levels recorded during the first nine months of 2018, following a sluggish first half of the year. Per-unit prices also rose in the third quarter, while cap rates have remained essentially flat at approximately 5 percent on average. With market conditions strong and interest rates low, there is almost no upward pressure on cap rates.

Employment

- > Total employment in the Denver area is up 1.7 percent year over year, as businesses have added nearly 25,000 employees. The pace of growth has slowed from earlier periods; one year ago at this time employers had expanded payrolls by more than 35,000 jobs.
- > Denver’s ongoing population growth is creating a surge in hiring for education and health services employment. The sector has expanded 3.8 percent in the past year, with the addition of 7,200 net new jobs.
- > The Denver area has been attracting business relocations and expansions in recent years. During the third quarter, financial technology company Robinhood expanded into temporary space in the Highland neighborhood of Denver, a move that is expected to result in 800 new jobs.
- > **Forecast:** Employers are forecast to boost local payrolls by 1.8 percent in 2019, adding approximately 27,000 new jobs in 2019, after 28,200 positions were added in 2018.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Denver’s ongoing population growth is creating a surge in hiring for education and health services employment

Vacancy

- > After a sharp decline in the second quarter, apartment vacancy in metro Denver held steady at 5.2 percent during the third quarter.
- > The current vacancy rate is up 20 basis points year over year. After peaking in late 2018 and early 2019, vacancy has generally inched lower; the rate is down 70 basis points from the end of 2018.
- > Since the beginning of 2016, quarterly vacancy figures have remained in a fairly tight range, not ticking above 6 percent or dipping below 5 percent in that time. The quarterly vacancy rate has averaged 5.4 percent since 2016.
- > **Forecast:** Vacancy in Denver is forecast to end 2019 at 5.4 percent, 50 basis points lower than at the close of 2018. This would mark the lowest year-end vacancy rate in Denver since 2015.

Vacancy Trends



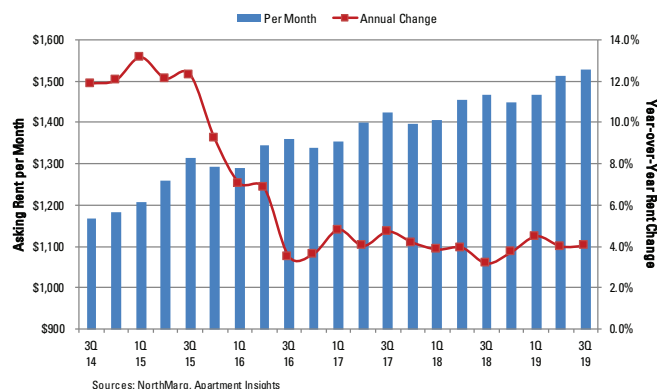
Sources: NorthMarq, Apartment Insights

The current vacancy rate is up 20 basis points year over year

Rents

- > Rent growth in Denver has been very steady in recent quarters. Asking rents ended the third quarter at \$1,527 per month, 4 percent higher than one year ago.
- > Asking rents in Class A buildings have increased 5 percent thus far in 2019, reaching \$2,300 per month in the third quarter.
- > The Central Business District has the highest rents of any submarket in the Denver area, but the pace of rent growth has been a bit slower than the market average in recent quarters. Year over year, rent growth in the CBD has totaled 3.3 percent, as rents have ticked over \$1,900 per month.
- > **Forecast:** Rents are forecast to end 2019 at approximately \$1,540 per month, a rise of more than 6 percent from the year-end 2018 figure. Some of the strongest rent increases are expected to be recorded in the Class A and Class B segments of the market.

Rent Trends

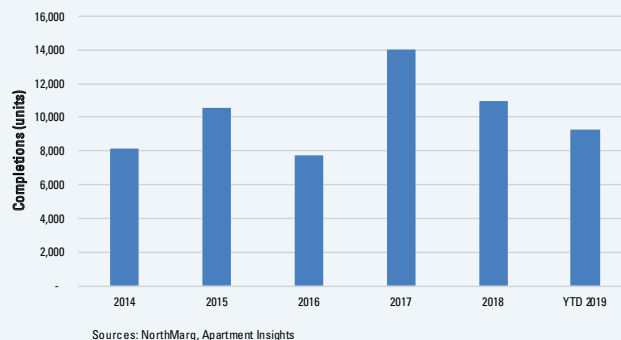


Asking rents in Class A buildings have increased 5 percent thus far in 2019

Development and Permitting

- > Deliveries spiked during the second quarter, allowing for a more measured pace of completions in the third quarter. Projects totaling nearly 1,600 units came online in the third quarter; year to date, developers have delivered more than 9,200 apartment units.
- > Denver remains one of the most active markets in the country for apartment development. Nearly 26,000 units are currently under construction in the area. The Denver CBD has active projects totaling approximately 4,400 units under construction.
- > While the number of units under construction remained elevated in the third quarter, the development pipeline could thin out somewhat in the coming quarters. Multifamily permitting has slowed throughout 2019; year to date through the third quarter, permits for approximately 4,700 multifamily units have been issued, down nearly 30 percent when compared to the same period one year ago.
- > **Forecast:** Developers will continue to bring new apartments to the Denver area. Approximately 13,000 rental units are forecast to come online this year, up approximately 20 percent from the 2018 total.

Development Trends

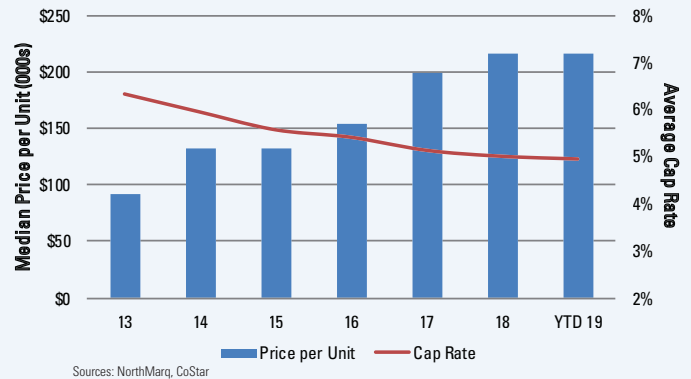


Year to date, developers have delivered more than 9,200 apartment units

Multifamily Sales

- > After a slower start to the year, sales velocity accelerated during the third quarter. The number of properties that sold in the third quarter was up more than 50 percent from the second quarter. Year to date, transaction activity is nearly identical to levels from the same period in 2018.
- > Sales prices rebounded following a dip in the second quarter. The median price in sales during the third quarter was approximately \$226,000 per unit, up from \$183,600 per unit in the second quarter. The median price in transactions closed year to date is approximately \$216,000 per unit.
- > Cap rates held steady during the third quarter, averaging 5 percent, matching the average from the first half of this year. Cap rates in Denver have remained in a tight band for the past three years.

Investment Trends



The number of properties that sold in the third quarter was up more than 50 percent from the second quarter

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

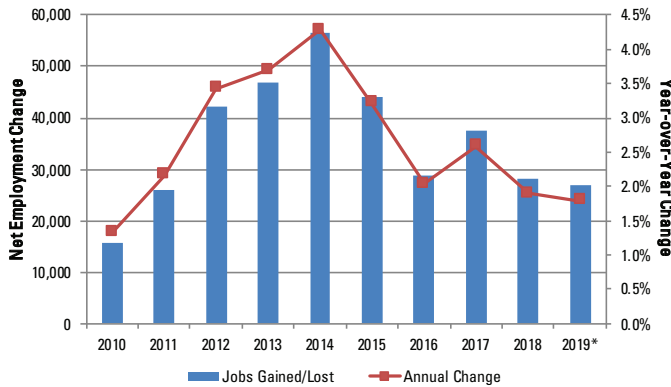
Property Name	Street Address	Units	Sales Price	Price/Unit
Dayton Station	3645 S Dallas St., Aurora	612	\$170,500,000	\$278,595
Haven 124 at Eastlake Station	12255 Claude Ct., Northglenn	562	\$146,000,000	\$259,786
Lugano at Cherry Creek	9601 E Iliff Ave., Denver	328	\$99,250,000	\$302,591
Lamar Station	1450 Lamar St., Lakewood	138	\$22,400,000	\$162,319

Looking Ahead

Renter demand for apartments in Denver is proving to be quite consistently strong, which is offsetting the high pace of supply growth. In 2019, multifamily developers are forecast to deliver approximately 13,000 apartment units, with a similar total anticipated in 2020 as well. These additions to inventory should keep the local vacancy rate near its current range, but the rate will likely rise in a few submarkets where development is particularly active.

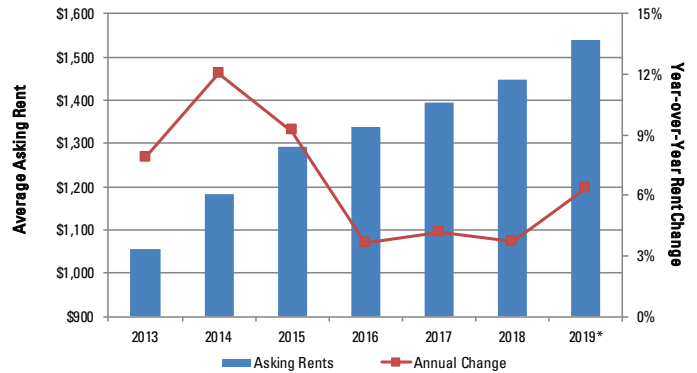
Investment activity in Denver started the second half of 2019 on an upswing, which may set the stage for a strong close to the year. Activity to this point in the year has closely tracked levels from 2018, and cap rates have been steady. Pricing trends, while somewhat volatile in a particular quarter or two, have not deviated significantly from 2018 levels. These trends are likely to persist as 2019 comes to a close.

Employment Forecast



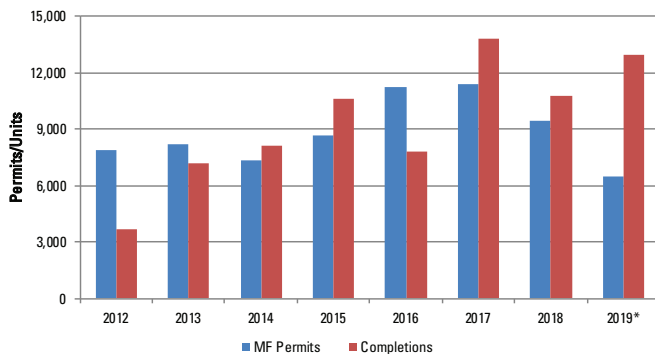
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



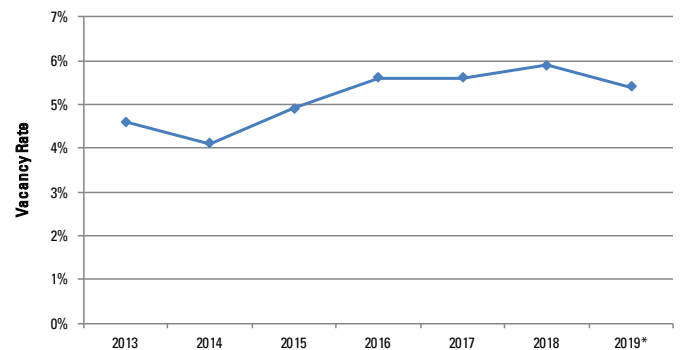
* Year End Forecast
Sources: NorthMarq, Apartment Insights

Construction & Permitting Forecast



* Year End Forecast
Sources: NorthMarq, Apartment Insights, Census Bureau

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Apartment Insights

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of \$13 billion, loan servicing portfolio to more than \$57 billion and the multi-year tenure of our more than 550 people.

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