

Class A assets leading the way in the investment market

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **42,910**

UNITS DELIVERED **13,487**

MARKET FUNDAMENTALS



VACANCY RATE **5.8%**

YEAR-OVER-YEAR CHANGE **+20bps**

ASKING RENTS **\$1,894**

YEAR-OVER-YEAR CHANGE **+1.6%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$318,600**

HIGHLIGHTS

- After holding steady for much of the year, operating conditions in the Denver multifamily market softened during the fourth quarter. The vacancy rate rose, and rents declined in the final three months of the year. New projects continued to come online; annual completions totaled roughly 13,500 units.
- The vacancy rate trended higher in recent months after remaining relatively stable during the first nine months of the year. Vacancy rose 40 basis points during the fourth quarter to 5.8 percent. The local vacancy rate rose just 20 basis points for the full year.
- Rents dipped in the closing months of 2023 after posting healthy growth in the first three quarters of the year. Apartment rents declined by 1.8 percent during the fourth quarter to \$1,894 per month. Even after a drop at the end of the year, area rents increased by 1.6 percent in 2023.
- Transaction volume picked up during the second half of the year, but annual sales in 2023 still lagged levels recorded in 2022 by 47 percent. The median price in 2023 was \$318,600 per unit, up 6 percent from the previous year.

DENVER MULTIFAMILY MARKET OVERVIEW

Property fundamentals in the Denver multifamily market closed 2023 in a solid spot, despite softening in the closing months of the year. Developers continued to bring new projects through the pipeline, delivering roughly 13,500 units in 2023, nearly 30 percent higher than the area's long-term annual average. Despite the steady supply of new units, vacancy remained in a fairly tight range throughout much of the year, although the rate did push higher in the fourth quarter. Rents gained a bit of ground for the year, despite a decline during the fourth quarter. Some of the recent rent dip can be attributed to seasonal factors. The fourth quarter is historically the weakest period for apartment rents in Denver; rents have declined in the final three months of the year four times in the past five years.

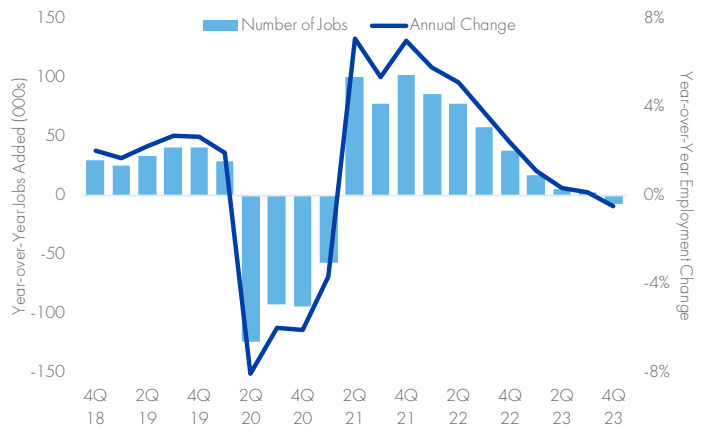
The multifamily investment market posted mixed performance in 2023, with momentum picking up in the second half after a sluggish first six months of the year. Transactions in the fourth quarter were concentrated in newer assets; more than half of the properties that sold during the final three months of the year had been delivered since 2020. This sales volume in newer assets offset some of the steep decline in older product. Sales of Class C assets came to a near standstill in 2023, declining by more than 70 percent from one year earlier and accounting for less than 20 percent of the total transaction count. With investors favoring newer, top-tier properties, per-unit prices remained elevated and average cap rates were in the low-5 percent range.

EMPLOYMENT

- Softening conditions across white-collar employment sectors resulted in net job losses during the past 12 months in Denver. In 2023, total employment decreased by 0.5 percent with the loss of 7,400 positions. This followed a year where the local labor market added 31,700 jobs in 2022, a 2 percent rate of growth.
- While the overall market recorded modest losses, the public sector continued to add new positions through the end of the year. The government sector posted rapid employment growth in 2023, expanding 3.9 percent with the addition of 8,200 jobs. Roughly 7,000 of these positions were in state and local government.
- Denver’s leisure and hospitality sector was another industry to record positive employment growth in 2023, as the industry continues to staff back up after deep cuts in 2020. Employers in the sector added back 3,000 positions during the past 12 months, a 1.8 percent expansion.
- **Forecast:** Employment growth is projected to rebound in 2024 after the local labor market posted soft conditions in 2023. Total employment is expected to expand by 0.5 percent in 2024, with the addition of 8,000 workers.

The government sector posted rapid employment growth in 2023.

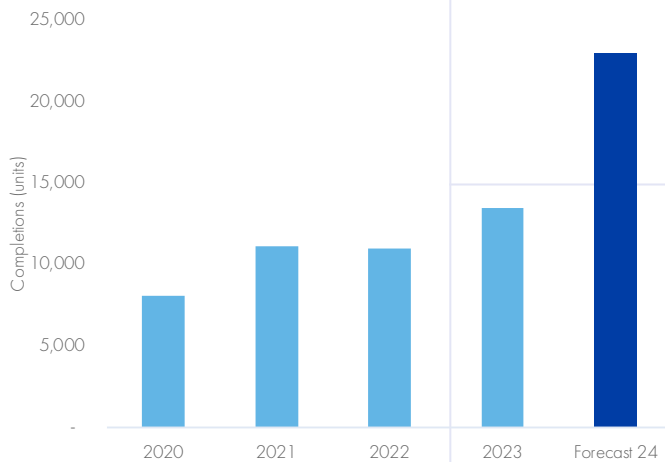
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Developers completed projects totaling nearly 13,500 units in 2023.

DEVELOPMENT TRENDS



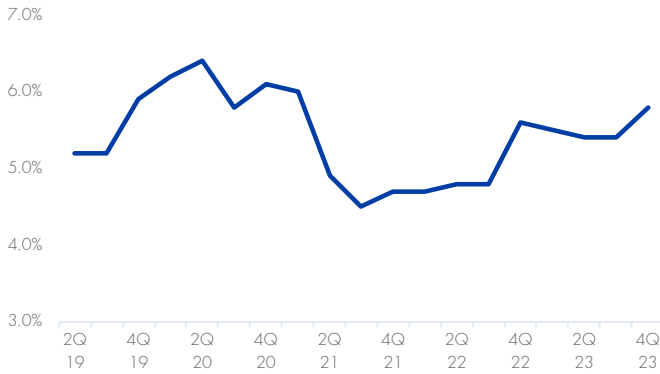
Sources: Northmarq, Apartment Insights

DEVELOPMENT & PERMITTING

- The pace of multifamily deliveries remained steady in the final months of the year, as more than 3,600 units came online during the fourth quarter. Developers completed projects totaling nearly 13,500 units in 2023, up 22 percent from 2022.
- Projects totaling roughly 42,900 units were under construction at the end of 2023, down slightly from one year ago. Development activity is concentrated in the center of Denver, with the Denver CBD, Denver Northwest, and Denver Northeast submarkets accounting for one-third of the construction pipeline.
- Permitting levels softened in the last two quarters, slowing by 37 percent from the first half to the second half. Developers issued permits for roughly 10,000 multifamily units in 2023, down 22 percent from the prior year.
- **Forecast:** Multifamily deliveries are forecast to accelerate in 2024 after completions have been fairly steady in recent years. Projects totaling 16,000 units are scheduled to come online in 2024; during the past decade, developers delivered an average of 10,500 units per year.

Vacancy ticked up just 20 basis points in 2023.

VACANCY TRENDS



Sources: Northmarq, Apartment Insights

VACANCY

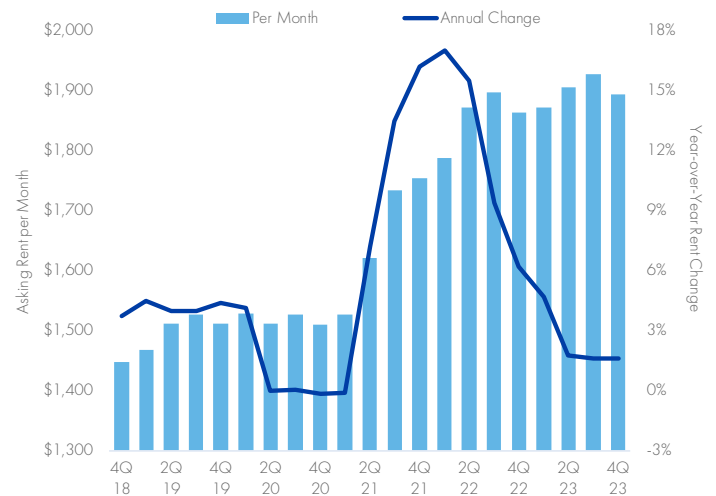
- Vacancy conditions softened in recent months after holding in the mid-5 percent range during the first three quarters of 2023. The vacancy rate rose 40 basis points during the fourth quarter to 5.8 percent. Despite the increase at the end of the year, vacancy ticked up just 20 basis points in 2023.
- Vacancy trends were mixed throughout Denver in recent periods, with the development-heavy Denver Northwest submarket posting solid vacancy improvements. The vacancy rate in this submarket declined by 50 basis points in 2023 to 6.1 percent.
- Class A properties were the only asset class to record vacancy improvements during 2023. Despite an elevated pace of deliveries, vacancy in the top tier dipped by 30 basis points year over year to 5.9 percent.
- **Forecast:** Future supply growth will likely push the local vacancy rate higher in the coming year. Area vacancy is forecast to finish the year at 6.3 percent, after averaging 5.6 percent from 2019 to 2023.

RENTS

- Following steady rent growth during the first nine months of 2023, rents declined during the fourth quarter. Apartment rents trended lower by 1.8 percent in the last three months to \$1,894 per month. Year over year, local rents advanced 1.6 percent.
- Most of Denver’s submarkets posted rent gains during the past 12 months, with the Denver Northeast submarket posting rapid growth. Average rents in this submarket rose 7 percent in 2023, reaching \$1,799 per month. Rents have been able to increase due to strong demand; vacancy in the submarket has remained in a fairly tight range despite consistent inventory growth during the past decade.
- While rents ticked up across all asset classes in 2023, Class A properties reported the fastest gains. Rent growth in the top tier totaled 3.2 percent in 2023, finishing the year at \$3,012 per month.
- **Forecast:** Apartment rents are forecast to rise at a steady rate in 2024, with annual growth expected to closely track levels recorded in the prior year. Area rents are projected to increase by 1.9 percent in 2024, reaching \$1,930 per month.

Year over year, local rents advanced 1.6 percent.

RENT TRENDS



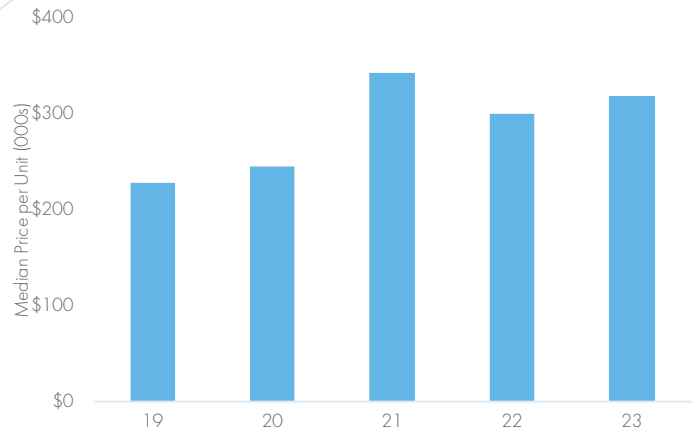
Sources: Northmarq, Apartment Insights

MULTIFAMILY SALES

- Sales velocity slowed during the final three months of 2023; however, transaction volume in the second half outpaced levels recorded in the first half of the year by more than 50 percent. While activity picked up in the last six months, annual sales volume in 2023 was down 47 percent from levels recorded in 2022.
- The median price in 2023 was \$318,600 per unit, 6 percent higher than the median price in 2022. Class A assets accounted for 38 percent of the transaction mix in 2023, selling at a median price of \$345,200 per unit.
- Sales for lower-tier properties were light throughout 2023, dragging on overall activity levels. The number of Class C transactions fell 72 percent from 2022 to 2023.
- Cap rates averaged between 5 percent and 5.25 during the fourth quarter, similar to levels from the third quarter and approximately 50 basis points higher than one year ago.

The median price in 2023 was **\$318,600 per unit**

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

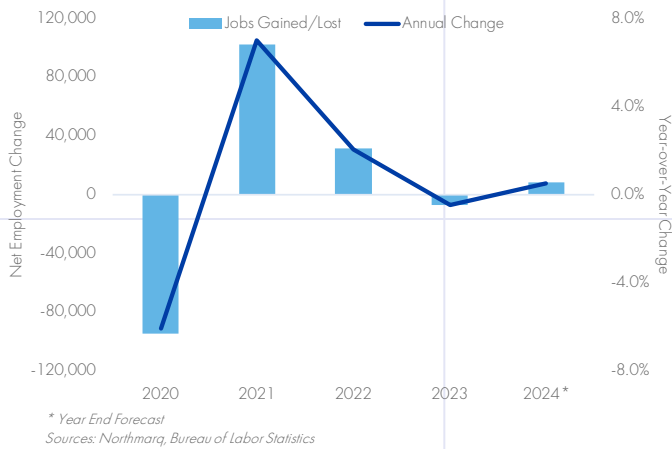
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Zia Sunnyside	4055 Inca St., Denver	434	\$161,000,000	\$370,968
Griifis Platform Union Station	1650 Wewatta St., Denver	287	\$125,500,000	\$437,282
The Kendrick	1780 Marion St., Denver	254	\$111,000,000	\$437,008
Broadstone Olivine	8012 W Long Dr., Littleton	326	\$100,000,000	\$306,748
4400 Syracuse	4400 S Syracuse St., Denver	316	\$95,250,000	\$301,424
Avere on the High Line Townhomes	1850 S Quebec Wy., Denver	56	\$32,000,000	\$571,429

LOOKING AHEAD

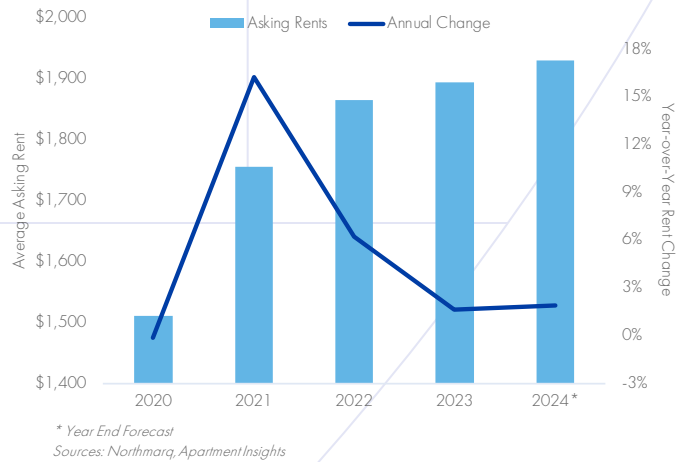
After ramping up activity in 2023, multifamily developers are expected to remain active in Denver in the coming quarters. Projects totaling nearly 43,000 units were under construction at the end of 2023, with approximately 16,000 units likely to deliver in the year ahead. Area operators have become accustomed to the competitive impact from new supply during the past several years, and immigration from other markets and strong employment growth has historically provided enough renter demand to support steady operating fundamentals. This year, the factors that drive absorption are forecast to expand more slowly, and vacancy will trend higher. With vacancy inching up, rent growth will likely be similar to the below-trend levels recorded in 2023.

The Denver multifamily investment market could continue to build momentum in the coming quarters, as new developments should create further investment opportunities in 2024 and the years to follow. Investors favored newer properties throughout much of 2023, and transactions involving Class B and Class C were limited. It may take a few more quarters for investor sentiment to rebound for older properties, and for expectations between buyers and sellers to align. The interest rate environment—which restricted transaction activity in 2023—could support additional volume in the coming year. Interest rates should retreat, particularly in the second half, and a spread between cap rates and lending terms should allow for more transactions to close.

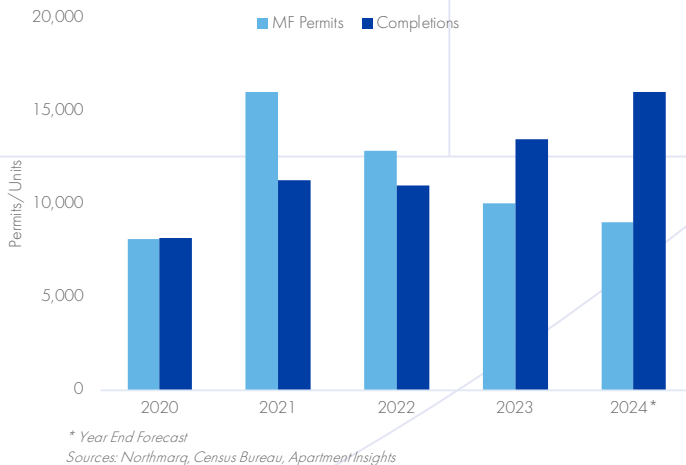
EMPLOYMENT FORECAST



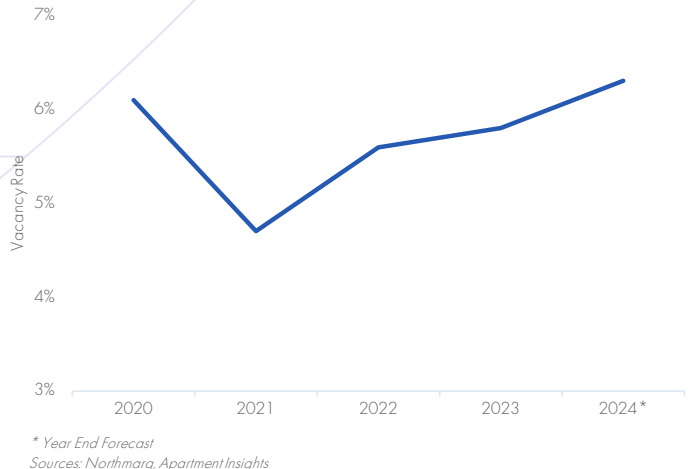
RENT FORECAST



CONSTRUCTION & PERMITTING FORECAST



VACANCY FORECAST





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