

# Market Insights

Denver Multifamily 2Q 2022



## Construction Activity



**40,222**

Units under construction

**5,235**

Units delivered (YTD)

## Market Fundamentals



**4.8%**

Vacancy

**-10 bps**

Year over year change

**\$1,872**

Asking Rent

**+15.5%**

Year over year change

## Transaction Activity



**\$354,545**

Median sales price per unit (YTD)

# Construction Picking Up in Response to Strong Job Growth

## Highlights

- The Denver multifamily market posted increased activity in the second quarter. Construction has picked up, rents are on the rise, and sales transactions gained momentum. Strength in the local labor market is fueling multifamily operating conditions.
- Vacancy has remained in a very tight range for the past five quarters. The rate ticked higher in the second quarter, rising 10 basis points to 4.8 percent. Year over year, the rate improved by 10 basis points.
- Denver recorded robust rent growth in the second quarter. Average rents rose 4.7 percent in the past three months, reaching \$1,872 per month. Year over year, average rents increased by 15.5 percent.
- Transaction activity gained momentum in the second quarter with more properties changing hands than in the first three months of the year. The median sales price thus far in 2022 is \$354,545 per unit, up slightly from the 2021 median price. Cap rates averaged around 3.5 percent, down from 3.8 percent in 2021.

## Denver Multifamily Market Overview

The Denver multifamily market recorded mixed gains during the second quarter. Rent growth was elevated but vacancy inched higher. The local labor market continues to add workers, particularly in high-wage sectors, which is fueling renter demand for apartment units. To meet this demand, apartment development activity is surging in the Denver area as projects totaling more than 40,000 units are currently under construction. Although developers are active throughout the metro area, nearly one-third of all multifamily construction is occurring near the city center in the neighboring Central Business District and Denver Northeast submarkets.

Local multifamily investment activity gained momentum in recent months with the pace of sales accelerating during the second quarter. While the number of property sales has remained elevated, pricing has been essentially flat in 2022, following a 23 percent spike last year. The median sales price through the second quarter was approximately \$354,500 per unit. Assets traded across a variety of submarkets with a handful of deals occurring in Downtown Denver and Aurora, but older, Class C properties have accounted for 40 percent of the total transactions year to date. Cap rates have remained consistently low, averaging about 3.5 percent.

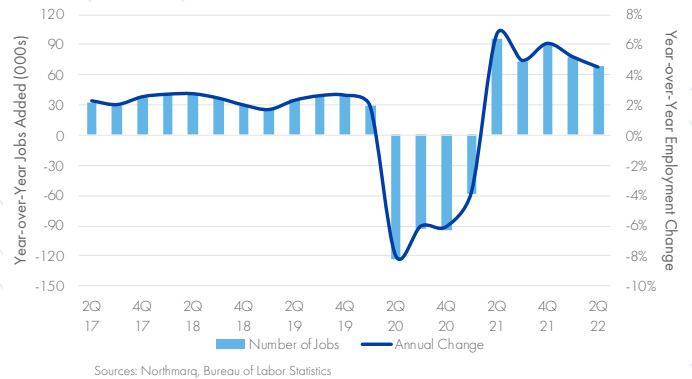
## Employment

- Approximately 10,500 positions were added in Denver during the second quarter, after a gain of more than 20,000 new jobs in the first three months of the year. During the past 12 months, employment growth totaled 68,800 new jobs, an expansion of 4.5 percent.
- The local professional and business services sector has consistently outperformed most other industries in recent periods. In the past year, professional employment in Denver grew by 8.8 percent with the addition of more than 25,500 positions.
- Defense contractor Northrop Grumman recently expanded its campus in Boulder. The expansion will bring nearly 100 high-paying jobs to the area in the coming months.
- **Forecast:** Area employers are forecast to continue to add workers to payrolls in the remainder of the year, but the pace is not expected to match levels recorded in recent quarters. Total employment in Denver is expected to grow by 48,000 jobs in 2022, a gain of 3.1 percent.



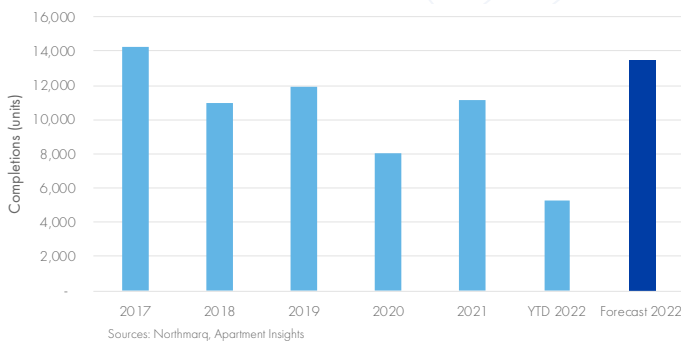
During the past 12 months, employment growth totaled 68,800 jobs.

### Employment Overview



More than 40,000 units are currently under construction.

### Development Trends



## Development and Permitting

- Multifamily developers have brought 5,235 units online in the first half of the year with roughly 2,400 units delivered in the second quarter. The pace of deliveries to this point in 2022 is closely tracking levels posted since 2017.
- Apartment development activity should accelerate in the remainder of the year. Projects totaling more than 40,000 units are under construction throughout the Denver area, up 40 percent from one year ago. The projects that are currently underway will be delivered over the next several years.
- Multifamily permitting has slowed from peak levels. Developers pulled permits for roughly 2,400 units in the second quarter, down 32 percent from the start of the year.
- **Forecast:** Multifamily developers will remain active in the coming quarters. Projects totaling approximately 13,500 units are scheduled to be delivered in 2022, a 20 percent increase from the number of units that came online last year.

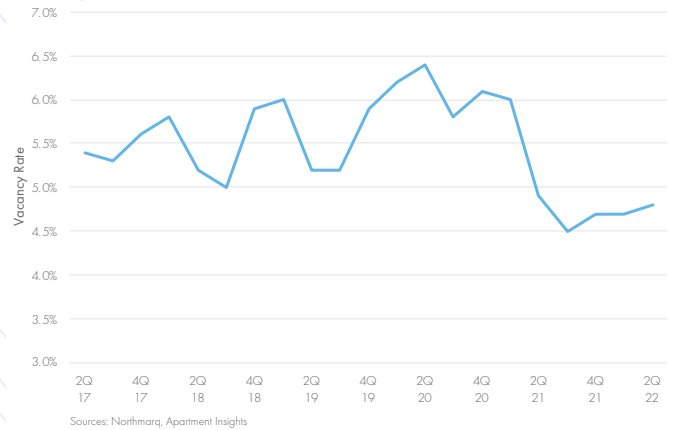
## Vacancy

- Following a significant decline in vacancy in 2021, the rate inched higher in recent months. The vacancy rate rose 10 basis points in the second quarter to 4.8 percent. During the first quarter, vacancy was flat.
- The local vacancy rate has been consistently low since the middle of last year. During the past 12 months, vacancy in Denver improved by 10 basis points. The rate has averaged 5.5 percent from 2017 through 2021.
- Net absorption has been positive thus far in 2022 but is lagging levels from recent years. During the second quarter, absorption levels totaled more than 1,600 units, after nearly 2,000 units were absorbed in the first quarter. In the first half of last year, absorption totaled more than 6,800 units.
- **Forecast:** With construction activity ramping up, vacancy is expected to continue to inch higher. The rate is forecast to finish the year at 5 percent, up 30 basis points from the end of 2021.



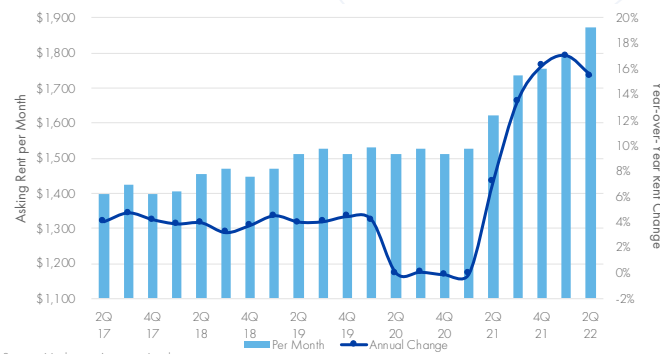
The vacancy rate rose 10 basis points to 4.8 percent.

### Vacancy Trends



Year over year, apartment rents rose 15.5 percent.

### Rent Trends



## Rents

- Asking rents jumped in the second quarter, rising 4.7 percent to \$1,872 per month. The Central Business District is the submarket with the largest inventory and also recorded the highest rents in the metro area at \$2,271 per month.
- Year over year, apartment rents rose 15.5 percent. Average rents in the market have spiked by \$250 per month in the past 12 months. The pace of recent gains is considerably stronger than historical growth patterns; annual rent increases in Denver averaged 4.2 percent from 2015 to 2020 before spiking in 2021.
- While asking rents trended higher across all asset classes in recent months, the largest gains were recorded in mid-tier properties. Average rents in Class B units rose 5.4 percent in the second quarter to \$1,902 per month. Class B rents have advanced 16.3 percent in the past year.
- **Forecast:** Rents are expected to record healthy growth in 2022. Apartment rents in Denver are forecast to rise approximately 9 percent this year to \$1,915 per month.

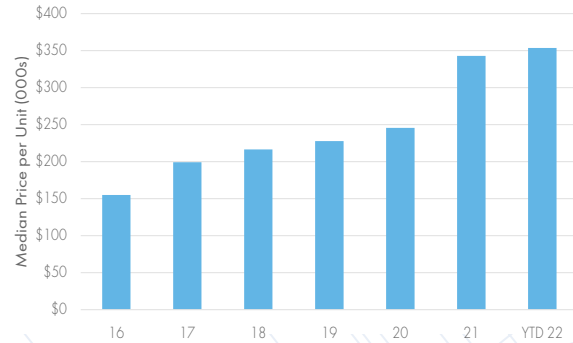
## Multifamily Sales

- The pace of multifamily sales accelerated during the second quarter as transaction activity increased 25 percent compared to the first few months of the year. Sales velocity peaked at the end of 2021 and has since returned to more typical levels.
- Prices have dipped lower through the first half of 2022. The median sales price to this point in the year is roughly \$354,500 per unit, up 3 percent from the median price in 2021. Although a variety of assets have changed hands so far this year, approximately 40 percent of the transaction mix consisted of older, Class C properties.
- Cap rates have been fairly stable since the start of the year, averaging around 3.5 percent during the second quarter. Cap rates have averaged about 3.5 percent since the second half of last year but may trend higher as interest rates rise.



The median sales price is roughly \$354,500 per unit.

### Investment Trends



Sources: NorthMarq, CoStar

## Recent Transactions

### Multifamily Sales Activity

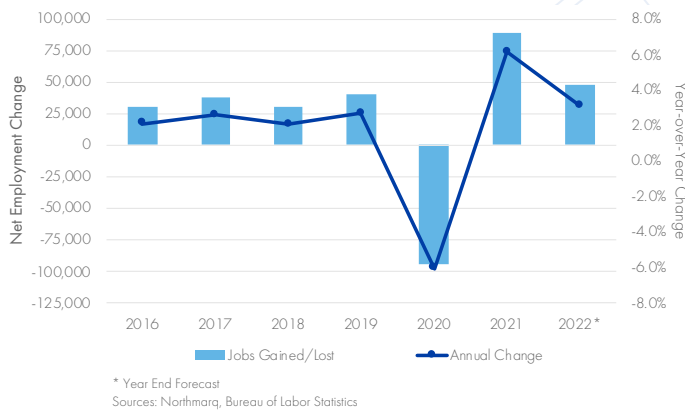
Property Name	Street Address	Units	Sales Price	Price/Unit
Edge 26	6201 W 26th Ave., Wheat Ridge	402	\$110,000,000	\$273,632
Links at Legacy Ridge	2710 Bruchez Pky., Westminister	232	\$94,000,000	\$405,172
The Village on Cypress	8960 Cypress Dr., Thornton	220	\$65,750,000	\$298,864
Ascent at Fitzsimons	1678 Paris St., Aurora	149	\$24,550,000	\$164,765

# Looking Ahead

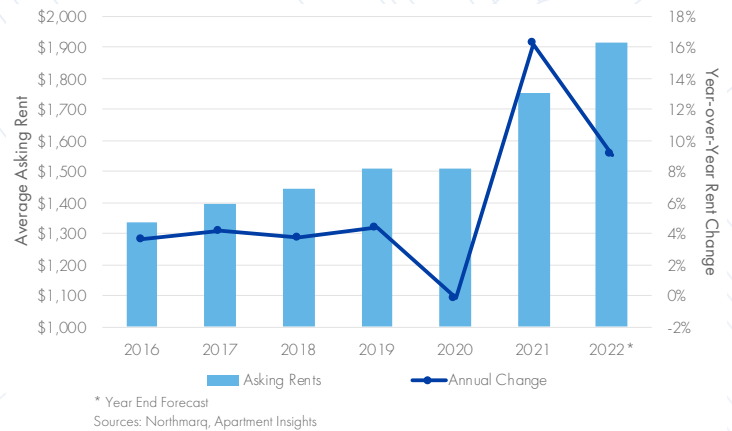
The Denver multifamily market posted a healthy first half of the year, setting the stage for continued growth in the coming quarters. Apartment rents should continue to advance at an above-average pace in 2022 but will likely not repeat the unprecedented rate of growth in the previous year. With development activity heightened in 2022, the Denver market is forecast to reach its highest total annual apartment completions in five years, and deliveries should remain elevated for the next few years. As a result, the vacancy rate is expected to inch higher but will likely settle below the market's recent averages. Submarkets where construction is concentrated include the Central Business District and Denver Northeast.

Investment demand in Denver is expected to remain healthy in the coming quarters, fueled by the market's strong growth profile and persistent absorption of units. Traditionally, transaction activity accelerates late in the year, but the rise in interest rates could result in a steadier pace of sales velocity in 2022. There will likely be an increase in the volume of newer properties changing hands at higher per-unit prices as projects are delivered and successfully leased-up. This could lead to a spike in marketwide pricing. The last time the Denver market had a sustained pace of similar levels of new development was 2017 to 2019, and per-unit prices rose more than 50 percent by the end of that construction cycle.

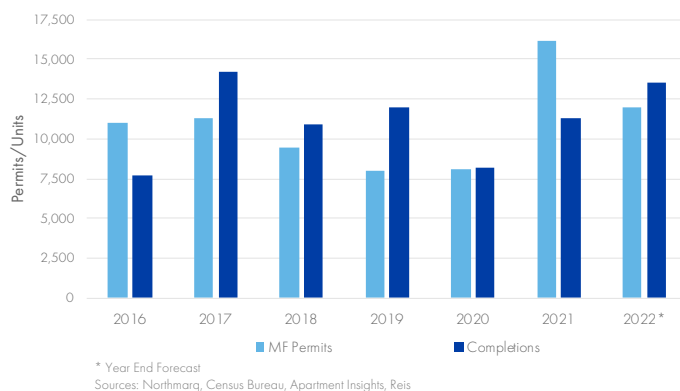
## Employment Forecast



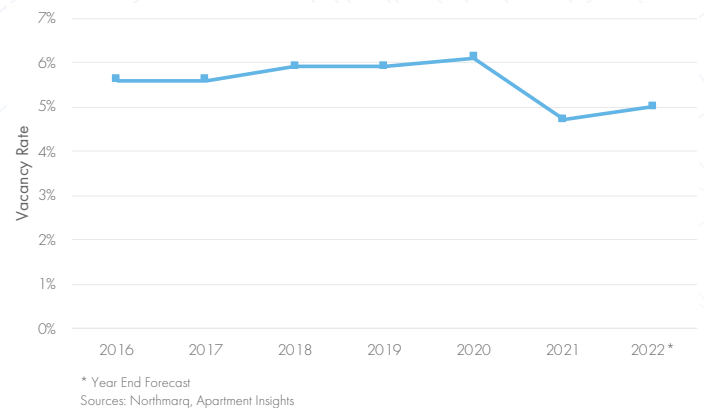
## Rent Forecast



## Construction & Permitting Forecast



## Vacancy Forecast





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## About Northmarq

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 700 employees, loan servicing volume approaching \$70 billion, and \$30+ billion in transaction volume.