Northmarq

## CONSTRUCTION ACTIVITY

| | |
|---|---|
| UNDER CONSTRUCTION | 40,863 |
| UNITS DELIVERED (YTD) | 12,507 |

## MARKET FUNDAMENTALS

| | |
|---|---|
| VACANCY RATE | 5.6% |
| YEAR-OVER-YEAR CHANGE | +20bps |
| ASKING RENTS | $1,928 |
| YEAR-OVER-YEAR CHANGE | +1.2% |

## TRANSACTION ACTIVITY (YTD)

| | |
|---|---|
| MEDIAN PRICE PER UNIT | $233,600 |

DENVER MULTIFAMILY
**2Q 2024**

MARKET INSIGHTS

# Strong absorption supporting rent growth and stable vacancy

## HIGHLIGHTS

- The Denver multifamily market was buoyed by elevated absorption levels during the second quarter. Absorption totaled more than 3,500 units, the strongest quarterly total in nearly three years. Even as the pace of deliveries accelerated, rents trended higher and the vacancy rate improved.
- The vacancy rate dropped in recent months after holding steady at the start of 2024. Area vacancy in stabilized properties declined by 20 basis points during the second quarter, reaching 5.6 percent. Year over year, vacancy has ticked higher by 20 basis points.
- Apartment rents rose 1.6 percent during the second quarter, reaching a metrowide average of $1,928 per month. During the past 12 months, local rents have trended higher by 1.2 percent.
- Despite sales velocity slowing from the first quarter to the second quarter, overall transaction volume through the first half of the year is closely tracking levels recorded in the same period of 2023. The median price during the first half of 2024 was $233,600 per unit.

## DENVER MULTIFAMILY MARKET OVERVIEW

Renter demand remained elevated in the Denver multifamily market during the second quarter, leading to vacancy improvement and rent increases despite strong levels of supply growth in the past six months. Net absorption in the region topped 3,500 units in the second quarter, the highest quarterly total since renter demand peaked in 2021. Through the first half of the year, absorption is up more than 50 percent when compared to the total from the same period in 2023. Projects totaling more than 7,500 units came online in the second quarter, a faster pace of deliveries than has been recorded in recent periods. Still, vacancy levels have remained mostly steady since the end of 2022, with the rate in stabilized properties hovering between roughly 5.4 percent and 6 percent during that time.

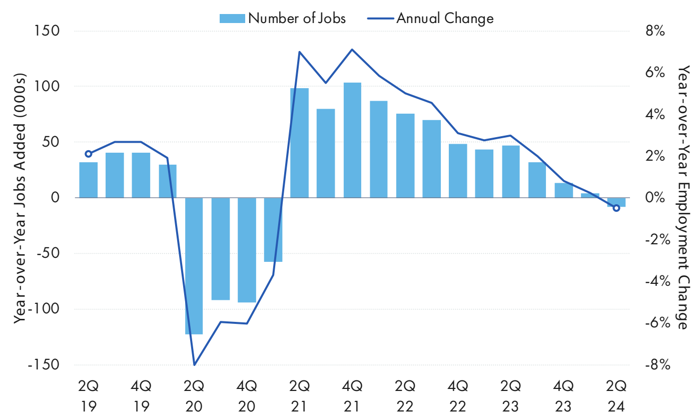
Sales activity in the Denver multifamily market dipped in recent months; however, the total number of property sales during the first half of this year is nearly identical to the transaction counts from one year earlier. While much of the activity in 2023 was concentrated in Class A and Class B assets, properties across the quality spectrum have changed hands thus far in 2024, with Class B properties trading most frequently. Reflecting this change in sales mix, prices have trended lower. That said, softening prices were recorded in Class B properties, where the median price through the first half was $256,700 per unit, 23 percent lower than in 2023.

## EMPLOYMENT

- Total employment in Denver contracted during the past year, after elevated growth in 2021 and 2022. Year over year, the local labor market has dipped by 0.5 percent, with a net loss of 8,200 positions.
- While a few major industries in the economy contracted during the past year, the education and health services sector proved to be an exception. The sector added nearly 5,000 workers during the past 12 months, an increase of 2.4 percent.
- Developers broke ground on a new mixed-use office building in Cherry Creek during the second quarter. The Second & Adams project will be anchored by Bow River Capital, which is relocating the company's headquarters to the new building when it opens in 2025.
- **FORECAST:** Area employers are expected to add jobs at a modest pace through the end of the year, as the local labor market recovers the positions lost in recent periods. Employment in Denver is forecast to expand by 7,000 workers in 2024, a slight 0.4 percent annual increase.

*Employment in Denver is forecast to expand by 7,000 workers in 2024*

EMPLOYMENT OVERVIEW



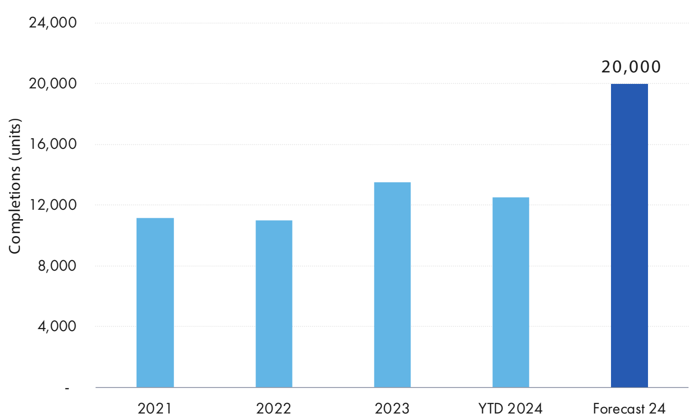

Sources: Northmarq, Bureau of Labor Statistics

## DEVELOPMENT & PERMITTING

- The pace of multifamily deliveries accelerated in recent months, as projects totaling more than 7,500 units came online during the second quarter, up 50 percent from the previous quarter. Additionally, total deliveries during the first half nearly doubled levels recorded in the same period of last year.
- Since peaking in the second half of 2023, the construction pipeline has thinned at a steady pace. Projects totaling nearly 40,900 units were under construction at the midpoint of 2024, down 8 percent from peaks recorded in the third quarter of last year.
- Permitting activity continued to slow in recent months after elevated issuance in the preceding three years. Developers pulled permits for roughly 1,250 multifamily units during the second quarter, down 31 percent from levels recorded in the first three months of 2024.
- **FORECAST:** Multifamily completions should continue at an elevated rate through the end of the year. Projects totaling 20,000 units are expected to come online in 2024, up from about 13,500 units delivered in 2023.

*More than 7,500 units came online during the second quarter.*

DEVELOPMENT TRENDS

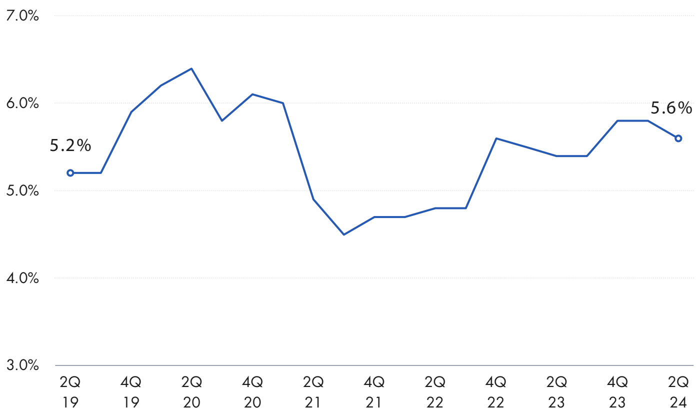



Sources: Northmarq, Apartment Insights

## VACANCY

*Year over year, area vacancy is up 20 basis points.*

VACANCY TRENDS




Sources: Northmarq, Apartment Insights

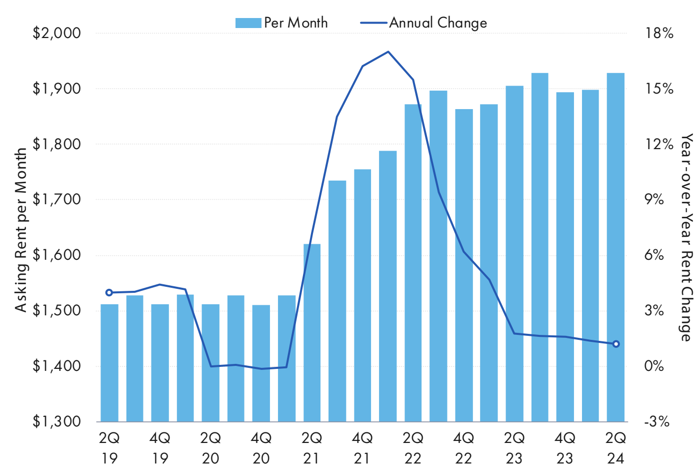
- Vacancy conditions in Denver improved during the second quarter after holding steady in the preceding two quarters. The vacancy rate in stabilized properties declined by 20 basis points to 5.6 percent. Year over year, vacancy is up 20 basis points.
- Area vacancy trends were mixed across submarkets during the past year, with the Brighton submarket recording the greatest improvement. Vacancies in this submarket dipped by 130 basis points in the past 12 months to 5.7 percent.
- Vacancy conditions for Class A properties have tightened significantly during the past year. The vacancy rate for top-tier assets improved by 110 basis points during the past 12 months to 5.7 percent. Over the past two years, Class A vacancies have averaged 6.2 percent, about 80 basis points lower than levels from 2018-2022.
- **FORECAST** Area vacancy is forecast to push higher during the second half of the year, as supply growth is set to be elevated in 2024. The vacancy rate is projected to finish 2024 at 6.3 percent, following a 20-basis point increase in 2023.

## RENTS

- Rents in Denver have increased by 1.8 percent in the first half of this year, following a contraction in the fourth quarter of 2023. Rents pushed up 1.6 percent in the second quarter, reaching $1,928 per month. During the past year, metrowide rents are up 1.2 percent.
- Tightening vacancy in the Brighton submarket is supporting rent increases. Year over year, rents in this submarket rose 6.9 percent to $1,923 per month.
- Rents trended higher across all asset classes during the past 12 months, with Class A rents closing the second quarter at $3,046 per month, up 1.3 percent from levels recorded one year ago.
- **FORECAST:** Rents will likely continue to trend higher through the end of 2024, with the annual growth rate forecast to closely track levels recorded from 2016 to 2020. Apartment rents are expected to close 2024 at $1,950 per month, up 3 percent for the full year.

*Rents in Denver have increased by 1.8 percent in the first half.*

RENTS TRENDS



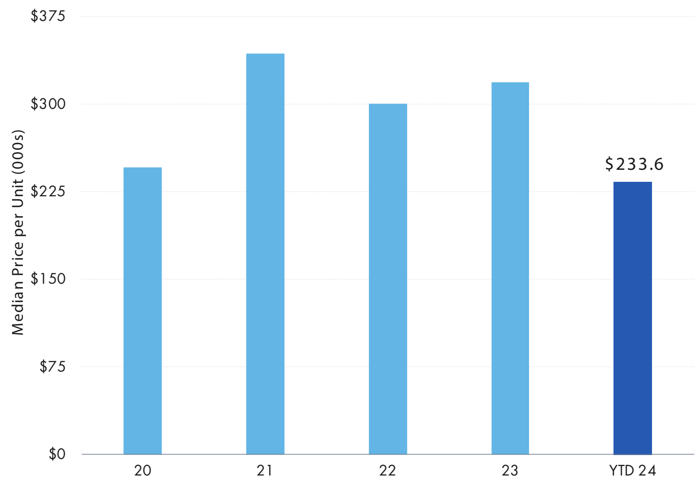

Sources: Northmarq, Apartment Insights

## MULTIFAMILY SALES

- Transaction volume trended lower in recent months after sales picked up at the start of the year. Sales velocity slowed by 64 percent from the first quarter to the second quarter; however, total transactions to this point in 2024 are closely tracking levels recorded in the same period of last year.
- While properties across the quality spectrum continue to change hands, pricing has declined to this point in 2024. The median price through the first six months of the year is $233,600 per unit.
- Pricing for top-tier assets has generally maintained 2023 levels, but there has been a more significant decline in the per-unit pricing for Class B properties. The median price for Class A buildings year to date is $331,500 per unit. Class B properties have traded at a median price of $256,700 per unit thus far in 2024, down 23 percent from levels recorded in 2023.
- Cap rates generally ranged between 5.25 percent and 6 percent during the first half of the year.

*The median price through the first half is $233,600 per unit.*

INVESTMENT TRENDS




Sources: Northmarq, CoStar

## **RECENT TRANSACTIONS** MULTIFAMILY SALES ACTIVITY

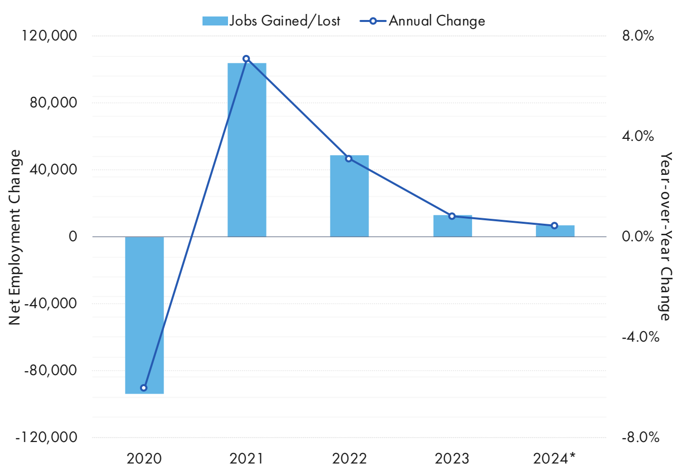
| PROPERTY NAME | STREET ADDRESS | YEAR BUILT | UNITS | SALES PRICE | PRICE/UNIT |
|---|---|---|---|---|---|
| Viridian | 5335 S Valentia Wy., Greenwood Village | 2002 | 420 | $117,000,000 | $278,571 |
| Eagle Villas | 405 Nogal Rd., Eagle | 1994/1997 | 120 | $39,000,000 | $325,000 |
| Ascent at Lowry | 425 S Galena Wy., Denver | 1979 | 142 | $23,300,000 | $164,085 |
| Cherry Creek Abbey Apartments | 911 S Dahlia St., Denver | 1981 | 72 | $11,600,000 | $161,111 |

## LOOKING AHEAD

The pace of deliveries in the Denver multifamily market is expected to remain elevated through the end of the year, and these supply-side pressures will likely impact market fundamentals. Projects totaling roughly 20,000 units are forecast to come online in 2024, nearly doubling the region's annual average over the past decade. Elevated supply growth could create competitive pressures on operators, despite persistent renter demand for units. The local labor market should provide some support in the second half, after somewhat sluggish hiring conditions have dragged on the local economy in recent months, particularly sectors including warehousing and logistics and construction. While demand is not expected to fully keep pace with supply growth, there should be enough leasing momentum to allow for modest rent growth through the remainder of this year.

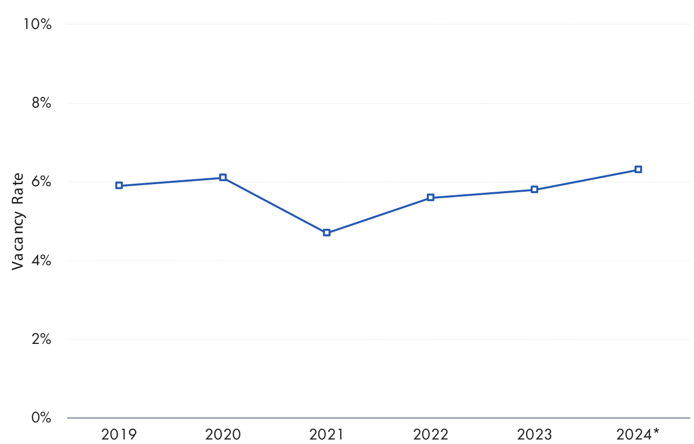
The multifamily investment market may begin to regain some momentum in the coming months after a slow second quarter. Assuming interest rates decline, sales velocity is poised to tick higher through the end of the year, tracking trends recorded last year, and transaction volume in 2024 is expected to be similar to levels posted in 2023. While recent transactions have influenced price and cap rate data points, the wider mix of properties changing hands is leading to some greater price discovery in the market. Potential buyers and sellers should have greater clarity on the pricing and cap rates necessary for deals to close. With cap rates between 5.25 percent and 6 percent – higher than in recent years – more deals may pencil, moving some buyers off of the sidelines.

### EMPLOYMENT FORECAST



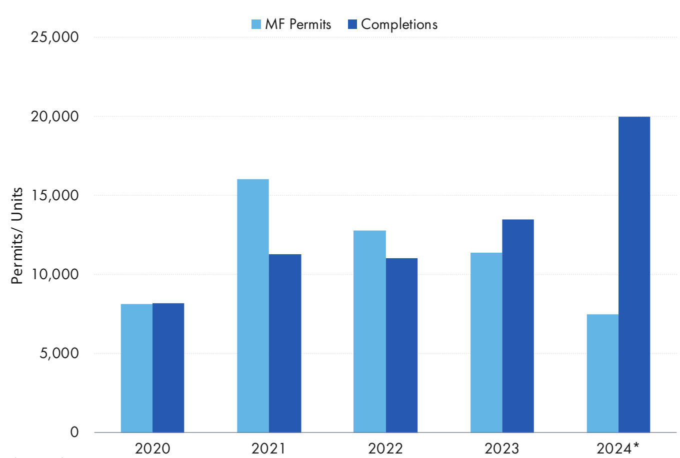

* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

### VACANCY FORECAST



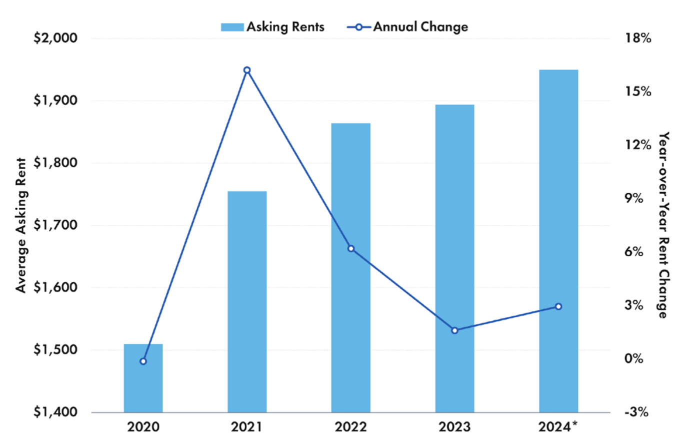

* Year End Forecast
Sources: Northmarq, Apartment Insights

### CONSTRUCTION & PERMITTING FORECAST




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

### RENTS FORECAST




* Year End Forecast
Sources: Northmarq, Apartment Insights

## FOR MORE INFORMATION, **PLEASE CONTACT**


DAVE MARTIN
*Regional Managing Director, Investment Sales*
303.255.2130
dmartin@northmarq.com

BRIAN MOONEY
*Vice President, Investment Sales*
303.225.2131
bmooney@northmarq.com

DAVID LINK
*Regional Managing Director, Debt + Equity*
303.225.2109
dlink@northmarq.com

LINDSEY FAHEY
*Vice President, Investment Sales*
303.255.2139
lfahey@northmarq.com

PETE O'NEIL, *Director of Research* | 602.508.2212 | poneil@northmarq.com


## 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 1,000 employees, loan servicing volume approaching $80 billion, and $39+ billion in transaction volume.