Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	34,332
UNITS DELIVERED (YTD)	17,424

MARKET FUNDAMENTALS

VACANCY RATE	5.3%
YEAR-OVER-YEAR CHANGE	-10bps
ASKING RENTS	$1,935
YEAR-OVER-YEAR CHANGE	+0.4%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$252,100

DENVER MULTIFAMILY
3Q 2024

MARKET INSIGHTS

Vacancy inches lower as net absorption spikes

HIGHLIGHTS

- Property fundamentals in the Denver multifamily market performed well during the third quarter, fueled by strong renter demand. Local apartments recorded net absorption of nearly 5,300 units in the last three months, a quarterly peak for the region.
- The local vacancy rate ticked lower for the second consecutive quarter, declining by 30 basis points to 5.3 percent. The recent improvement has resulted in an annual decline in vacancy; year over year, the rate has tightened by 10 basis points.
- Rents ticked higher in recent months building upon stronger gains in the prior period. Local rents rose by 0.4 percent during the third quarter to $1,935 per month. Rents are also 0.4 percent higher than they were one year ago.
- While transaction volume is closely tracking levels recorded last year, overall sales activity is lagging historical norms thus far in 2024. The median price to this point in the year is $252,100 per unit, while cap rates have ranged between 4.5 percent and 5.5 percent in the last three months.

DENVER MULTIFAMILY MARKET OVERVIEW

Operating conditions in the Denver multifamily market continued to perform well during the third quarter. Net absorption has been robust, as apartments in Denver recorded net move-ins for approximately 5,300 units during the third quarter, a peak in the past decade. Elevated levels of renter demand have led to some modest vacancy tightening in recent months. For the first time in roughly two years, area vacancy trended lower in a 12-month period. The recent increase in demand is coinciding with elevated levels of supply growth, as projects totaling approximately 17,400 units have been delivered thus far in 2024, already reaching a cyclical high for the region. While multifamily deliveries have been rapid, construction starts have slowed in recent periods. For the first time since the end of 2021, the development pipeline is below 35,000 units.

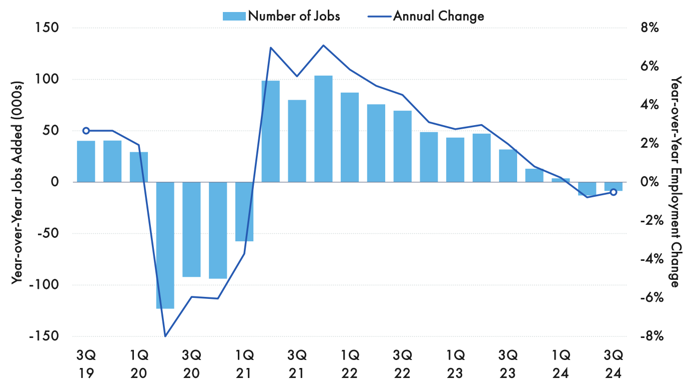
Sales volume in the Denver area to this point in 2024 is closely tracking 2023 levels and lagging the region's historical totals from the prior decade. Activity to this point in the year has been concentrated south of Interstate 70 in areas such as Aurora and Lakewood. Sales in the Aurora submarket have totaled nearly 25 percent of total transactions for the region this year, while the Lakewood/West Corridor area has accounted for another 20 percent of the transaction mix. These areas have been leading sources of investment volumes since 2018. Cap rates appeared to compress somewhat in the third quarter, but this was largely a result of a mix of high-quality performing assets changing hands. The low-end of the cap rate range remained fairly steady, but there were far fewer properties selling with cap rates higher than 5.5 percent.

EMPLOYMENT

- Total employment in Denver has declined during the past 12 months, following a strong pace of new hires in 2021 and 2022. The local labor market has decreased by 8,500 workers during the past year, a decline of 0.5 percent. Prior to this year, employment growth had averaged about 2 percent per year.
- While many industries are posting modest declines, the financial activities sector has added workers at a healthy pace. Year over year, employers in this sector hired 4,000 net new workers, an increase of 3.4 percent.
- Agilent Technologies recently acquired biotech company, Biovectra, a move that is expected to result in increased production at Agilent's plants in Frederick and Boulder. By 2027, the Fredrick plant will have an additional 198,000 square feet of manufacturing space and another 160 employees.
- **FORECAST:** Job growth should pick up to close the year helping to recover some of the positions lost in recent periods. Year over year, total employment is forecast to rise by 7,000 positions, an increase of 0.4 percent.

The financial activities sector has added workers at a healthy pace.

EMPLOYMENT OVERVIEW

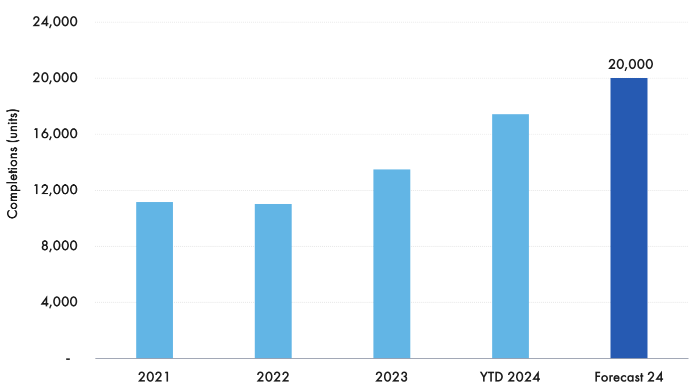


Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

More than 34,300 rental units are currently under construction.

DEVELOPMENT TRENDS



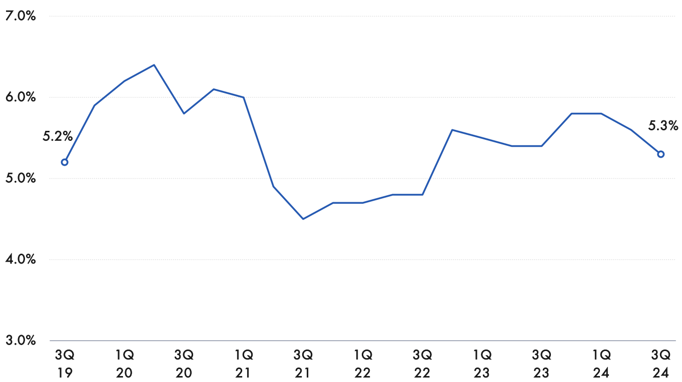
Sources: Northmarq, Apartment Insights

- Developers delivered roughly 4,900 multifamily units during the third quarter, following a spike in the prior three-month period. Still, projects totaling more than 17,000 units have come online year to date, essentially doubling levels recorded in the same period in 2023.
- Projects totaling more than 34,300 rental units are currently under construction in Denver, down 23 percent from peak levels recorded one year ago. This marked the first time the construction pipeline totaled fewer than 35,000 units since the third quarter of 2021.
- Multifamily permitting activity has been limited in each quarter throughout 2024. During the last three months, developers pulled permits for about 1,250 multifamily units, similar to the second quarter total. Year to date, permits for fewer than 4,500 units have been issued, down 46 percent from levels recorded in the same period in 2023.
- **FORECAST:** The pace of multifamily deliveries is forecast to slow to close the year, after completions peaked in the second quarter. Still, completions are expected to reach a cyclical high in 2024, with projects totaling 20,000 units forecast to come online for the full year.

VACANCY

Vacancy declined by 30 basis points during the third quarter.

VACANCY TRENDS



Sources: Northmarq, Apartment Insights

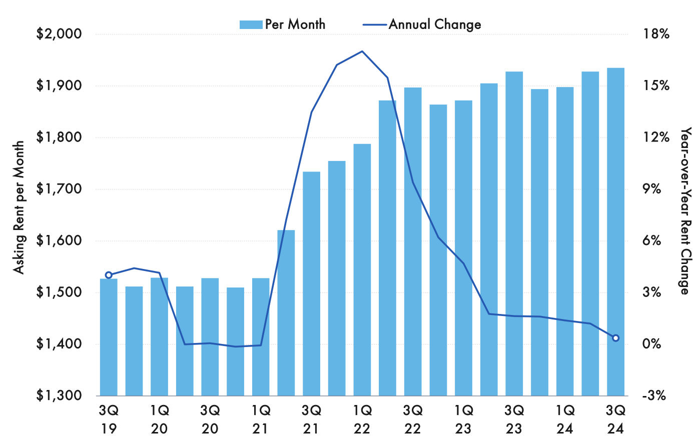
- Vacancy in Denver declined by 30 basis points during the third quarter to 5.3 percent, following a modest decline in the prior period. The current vacancy rate is 10 basis points lower than the level from one year ago. This marks the first time the market has posted a year-over-year vacancy decline since the second quarter of 2022.
- Vacancy in Aurora has performed well in recent quarters, with both the Aurora East and Auroa South submarkets posting vacancy declines in the past year. The vacancy rate in Aurora East declined by 120 basis points during the past 12 months to 5.1 percent, while vacancy conditions in Aurora South also improved by 120 basis points to 4.8 percent. Both submarkets have benefitted from healthy demand and limited supply growth since 2023.
- The vacancy rate for Class A properties continues to improve while middle-tier vacancy remains stable. Year over year, Class A vacancy declined by 120 basis points to 5.4 percent. The current rate for Class B assets is 5.4 percent, down 10 basis points from one year ago. Class A vacancy has averaged 6.8 percent since the beginning of 2022.
- **FORECAST** The vacancy rate is projected to tick up to 5.5 percent in the closing months of the year. The rate is forecast to end 2024 down 30 basis points from the end of last year. Despite some volatility, vacancy averaged 5.6 percent during the past five years.

RENTS

- Average rents continued to tick higher in recent months, building upon gains in the preceding quarter. Apartment rents in Denver rose 0.4 percent in the last three months reaching $1,935 percent. Rents in the Denver area have showed no clear direction since early 2023 and are up just 0.4 percent year over year.
- Rent trends were mixed across submarkets during the past year, with the Commerce City area posting the steepest increases. Year over year, rents in this submarket rose 6.9 percent to $1,735 per month.
- Rent growth in Class A properties has gained traction in the past two quarters after declining to begin the year. Top-tier rents have increased by $110 per month since the first quarter, and current Class A rents of $3,061 per month are up 2.3 percent during the past 12 months.
- **FORECAST:** Apartment rents are forecast to continue to tick higher in the coming quarter, supported by continued renter demand. Average rents are projected to finish the year at $1,940 per month, advancing 2.4 percent annually.

Rent trends were mixed across submarkets during the past year.

RENTS TRENDS



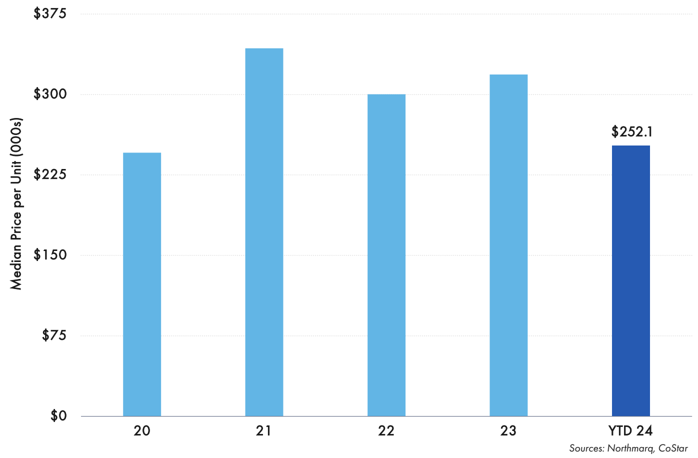
Sources: Northmarq, Apartment Insights

MULTIFAMILY SALES

- Transaction volume has remained limited across Denver since bottoming in late 2022. Total sales year to date are down 6 percent from levels recorded last year. Sales velocity to this point in the year is lagging the market's average from 2014 to 2022 by 50 percent.
- The median price to this point in the year is $252,100 per unit, down 21 percent from last year's figure. The current median price is similar to levels recorded in 2020 before prices spiked in 2021.
- Class B properties have made up more than 50 percent of sales to this point in the year, and while middle-tier assets being the most traded property class is common in Denver, no asset class has made up more than half of all sales in the past decade. Class A properties have accounted for about one quarter of the number of sales this year.
- Cap rates for most properties that traded during the third quarter ranged between 4.5 percent and 5.5 percent. This range reflects modest cap rate compression in deals that closed in recent months, a function of the mix of assets that changed hands and a slight decline in interest rates.

The median price to this point in the year is $252,100 per unit.

INVESTMENT TRENDS



RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

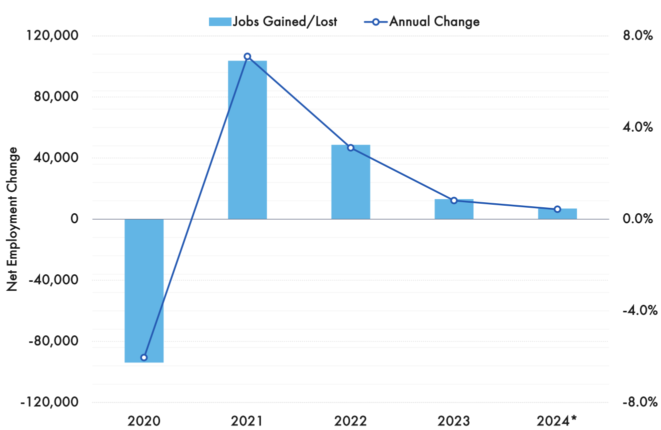
PROPERTY NAME	STREET ADDRESS	YEAR BUILT	UNITS	SALES PRICE	PRICE/UNIT
Kent Place Residences	3465 S Gaylord Ct., Englewood	2014	300	$135,000,000	$450,000
Parkfield Apartments	16199 Green Valley Ranch Blvd., Denver	1999	476	$120,000,000	$252,101
Cortland Belmar	7166 W Custer Ave., Lakewood	2007	308	$99,500,000	$323,052
Avalon Cherry Hills	3650 S Broadway, Englewood	2015	306	$95,000,000	$310,458
The Joliet at Lowry	151 S Joliet Cir., Aurora	1986	351	$70,500,000	$200,855

LOOKING AHEAD

This year will be a period of elevated supply growth and continued renter demand for units in the Denver multifamily market. It may also represent a slight change in direction in the market's supply-side pressures. While exact timelines are subject to changes, the highest quarterly total of new deliveries likely occurred in the second quarter of this year, and the pace of deliveries is expected to taper off in the coming quarters. The market has proven resilient enough to absorb a high volume of new units coming online while maintaining steady vacancy levels and posting modest rent increases. Vacancy is expected to inch higher in the fourth quarter but should remain close to the region's long-term average. Additionally, employment growth is expected to rebound in the coming quarters, as Denver's rapidly growing population is forecast to support new job growth and continued household formation.

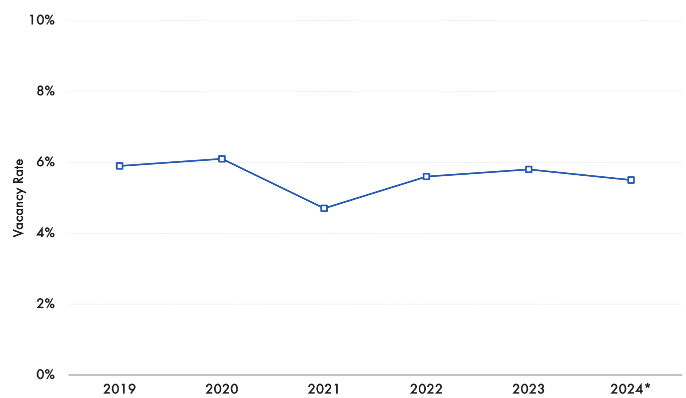
Sales activity in the Denver multifamily investment market may pick up through the end of the year, with total transactions in 2024 on pace to exceed levels recorded last year, while still coming in well below historical volumes. In recent transactions, investors have shown a preference for Class B properties. The transactions that have occurred involve low-vacancy Class B properties, as investors target buildings that will be less impacted as newer, more expensive units come online. This trend will likely continue as the development pipeline thins. With the transaction mix currently consisting of some of the market's top performing properties, the range of cap rates has tightened, with the top-end of the range ticking lower. As long as these types of assets continue to make up the bulk of the trades, cap rates are likely to remain near their current ranges. Historically, a more diverse mix of properties has sold, a trend that will likely repeat as market supply and demand conditions stabilize.

EMPLOYMENT FORECAST



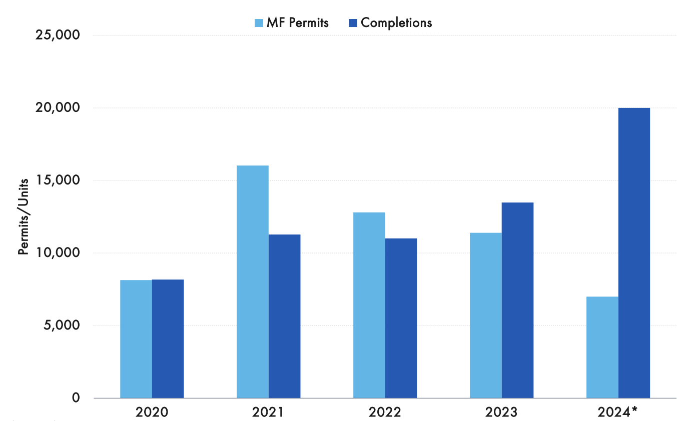
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



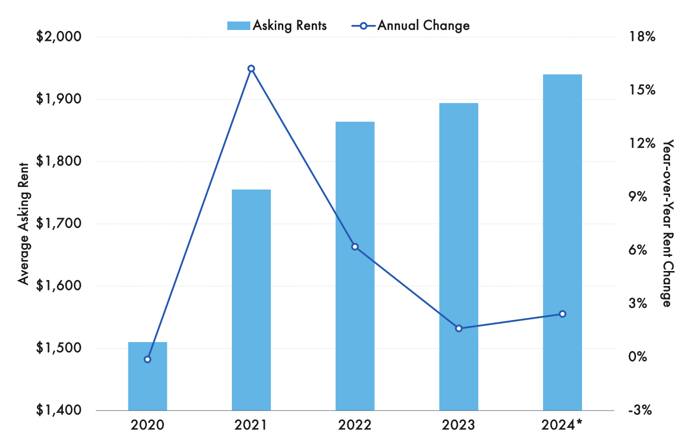
** Year End Forecast*
Sources: Northmarq, Apartment Insights

CONSTRUCTION & PERMITTING FORECAST



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

RENTS FORECAST



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

Northmarq

FOR MORE INFORMATION, **PLEASE CONTACT**

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

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

BRIAN MOONEY
Vice President, Investment Sales
303.225.2131
bmooney@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 is a full-service capital markets resource for commercial real estate investors, offering seamless collaboration with top experts in debt, equity, investment sales, loan servicing, and fund management. The company combines industry-leading capabilities with a flexible structure, enabling its national team of experienced professionals to create innovative solutions for clients. Northmarq's solid foundation and entrepreneurial approach have built a loan servicing portfolio of more than $76 billion and a two-year transaction volume of $52 billion. Through the 2022 acquisition of Stan Johnson Company, Northmarq established itself as a provider of opportunities across all major asset classes. For more information, visit www.northmarq.com.