

# After a healthy start, demand cools to close 2022

## CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **43,727**

UNITS DELIVERED **11,010**

## MARKET FUNDAMENTALS



VACANCY RATE **5.6%**

YEAR-OVER-YEAR CHANGE **+90bps**

ASKING RENTS **\$1,864**

YEAR-OVER-YEAR CHANGE **+6.2%**

## TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$300,200**

## HIGHLIGHTS

- After posting mostly positive conditions throughout the first three quarters of 2022, the Denver multifamily market slowed at the end of the year. Rents inched lower, and the vacancy rate pushed higher.
- Area vacancy rose 80 basis points during the fourth quarter, reaching 5.6 percent. The rate was steady throughout much of 2022, prior to the increase at the end of the year; for the full year, the rate rose 90 basis points.
- Average rents trended lower in recent months, dropping 1.7 percent during the fourth quarter to \$1,864 per month. Rent growth was particularly strong in the first half, and for the full year, rents rose 6.2 percent.
- Multifamily sales activity continued to taper off in the fourth quarter, and the number of deals in 2022 declined 30 percent from last year's levels. The median sales price for the full year was \$300,200 per unit, down 12 percent from the median price in 2021.

## DENVER MULTIFAMILY MARKET OVERVIEW

Operating conditions in the Denver multifamily market softened during the fourth quarter, as asking rents declined, and the vacancy rate approached a two-year high. The cooler conditions were a function of the Denver market's first quarter of negative net absorption in more than a decade. Area properties recorded negative net absorption of approximately 250 units in the fourth quarter; during the past five years, absorption during the final three months of the year has averaged nearly 1,400 units. For the full year, absorption totaled approximately 6,500 units, about half of the total when renter demand surged in 2021. At the same time, the pace of supply growth accelerated in recent months, resulting in a rise in the vacancy rate.

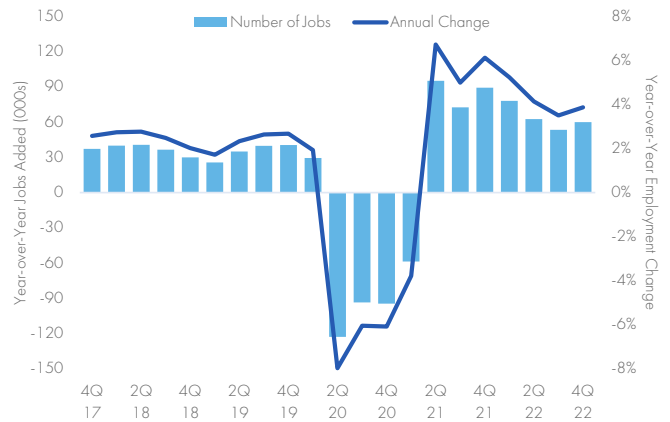
The multifamily investment market in Denver continued to adjust to changing capital conditions. The clearest indication of the evolving conditions was in transaction activity, which fell to its lowest level in more than two years. Most of the properties that did change hands during the fourth quarter were located in the southeast quadrant of the metro area, around Aurora. Sales prices continued to trend lower during the final months of the year. The median sales price through the end of 2022 was \$300,200 per unit, down 12 percent from the median price last year. The decline in prices was the combined result of rising cap rates and the mix of assets changing hands; during the second half of the year, several Class C and older, Class B properties traded.

## EMPLOYMENT

- Area employers added jobs at a healthy pace throughout the year, with continued additions during the fourth quarter. In 2022, total employment expanded by roughly 60,000 jobs at a rate of 3.9 percent.
- Denver’s professional and business services sector was the strongest-performing industry in the region during the past 12 months. This sector added 27,400 jobs in 2022, a gain of 9.2 percent.
- HNA Live, a data and artificial intelligence company, recently selected Denver as its new headquarters. The tech startup expects to create nearly 40 high-paying jobs in sales, engineering, executive, and administrative positions in the coming year.
- **FORECAST:** After significant growth during the past two years, total employment is projected to expand at a more modest pace in 2023. Local employers are forecast to add roughly 15,000 jobs in the next year, an annual increase of 0.9 percent.

In 2022, total employment expanded by roughly 60,000 jobs.

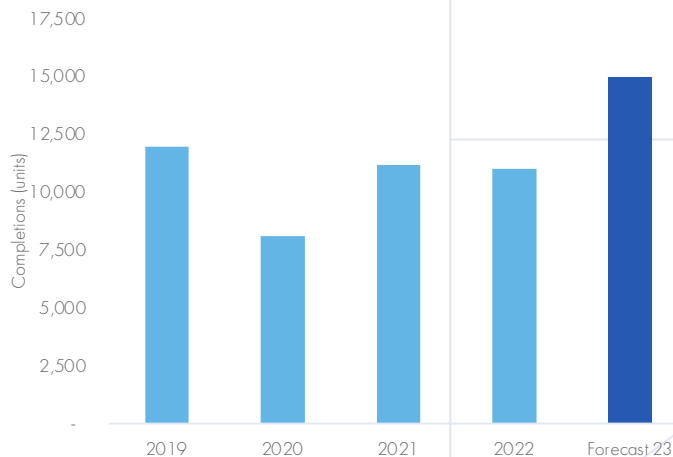
### EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling more than 43,700 units are under construction.

### DEVELOPMENT TRENDS



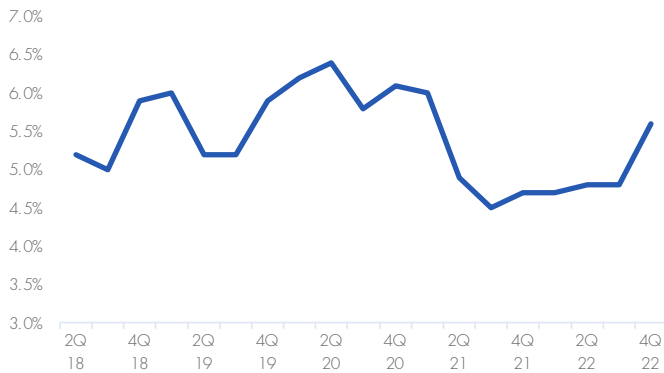
Sources: Northmarq, Apartment Insights

## DEVELOPMENT & PERMITTING

- Multifamily developers finished the year with deliveries on an upswing with more than 3,500 units completed during the fourth quarter. Approximately 11,000 apartment units came online in 2022, nearly identical to the prior year total.
- Projects totaling more than 43,700 units are currently under construction throughout the Denver metro area, up 13 percent from one year ago. The Denver region is forecast to record an elevated number of completed projects during the next two years.
- Multifamily permitting slowed in recent months as developers pulled permits for 2,300 units in the fourth quarter, down nearly 40 percent from the previous period. For the full year, roughly 12,900 permits were issued, a 20 percent decline from elevated levels in 2021.
- **FORECAST:** The pace of multifamily deliveries will gain momentum in the new year. Projects totaling roughly 15,000 units are slated to come online in 2023, up 40 percent from the average annual completions since 2017.

In 2022, vacancy rose 90 basis points.

VACANCY TRENDS



Sources: Northmarq, Apartment Insights

VACANCY

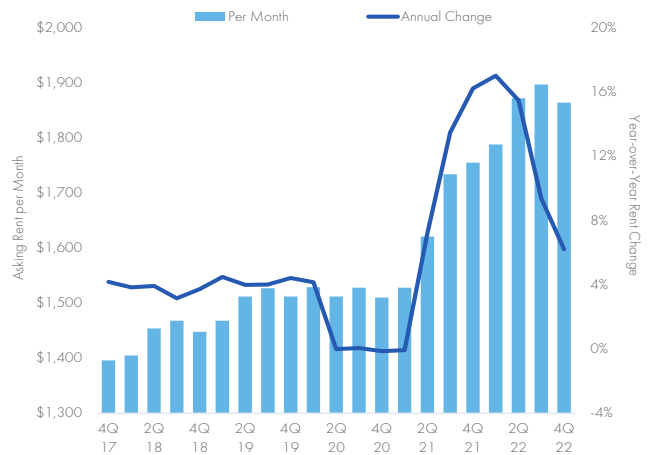
- Local vacancy spiked during the fourth quarter, as the pace of new supply accelerated, and absorption turned slightly negative. The vacancy rate in Denver rose 80 basis points in the last three months to 5.6 percent. In 2022, vacancy rose 90 basis points.
- The lowest vacancy is being recorded in the Boulder South submarket, where the rate ended the year at just 2.9 percent. In contrast, vacancy in the Central Business District is elevated, having jumped 100 basis points in the last 12 months to 7 percent.
- While vacancy has pushed higher in Class B and Class C properties in recent quarters, the rate in Class A units held steady from one year ago. Vacancy in upper-tier assets finished 2022 at 6.2 percent, unchanged from one year earlier.
- **FORECAST:** Local vacancy is projected to tick higher in the coming quarters. The rate is expected to rise 40 basis points in 2023, ending the year at 6 percent.

RENTS

- Asking rents in Denver decreased for the first time in two years, dropping 1.7 percent during the fourth quarter to \$1,864 per month. Prior to the fourth quarter, rents had advanced by more than 8 percent in the first nine months of 2022, following a 16.2 percent spike in 2021.
- Despite the recent declines, apartment rents continue to post year-over-year gains. During the past 12 months, average rents rose 6.2 percent. The Denver region’s long-term rent growth has averaged about 6.7 percent since 2013.
- The greatest rent increases in the past year occurred in upper-tier assets. During the past 12 months, asking rents in Class A units rose 8.7 percent to \$2,919 per month, or \$3.10 per square foot, per month.
- **FORECAST:** Local apartment rents are forecast for modest growth in 2023. Asking rents in Denver are projected to reach approximately \$1,900 per month by the end of the year, an annual gain of nearly 2 percent.

During the past 12 months, average rents rose 6.2 percent.

RENT TRENDS



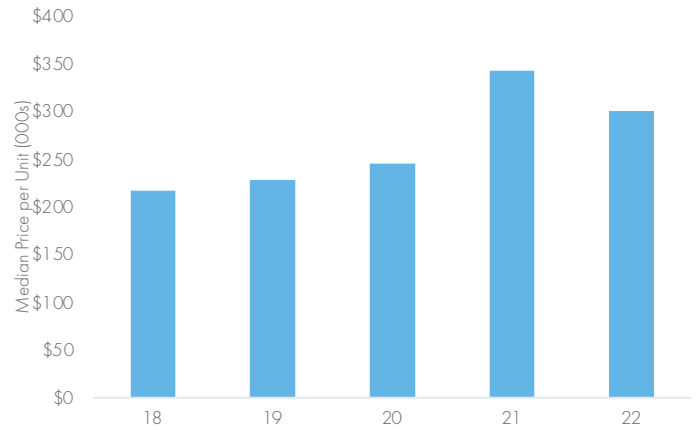
Sources: Northmarq, Apartment Insights

## MULTIFAMILY SALES

- The pace of multifamily sales continued to slow in the last few months with the number of deals during the fourth quarter declining by nearly 40 percent from the previous period. Additionally, sales volume for the full year was down approximately 30 percent from levels recorded in 2021.
- Sales prices in 2022 have come down from all-time highs. The median sales price through the end of the year was \$300,200 per unit, down 12 percent from the median price in 2021.
- Cap rates continued to tick higher in recent months, reflecting heightened borrowing costs. Cap rates averaged approximately 4.4 percent during the fourth quarter, up 90 basis points from the start of the year.

The median sales price was **\$300,200 per unit.**

### INVESTMENT TRENDS



Sources: Northmarq, CoStar

## RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

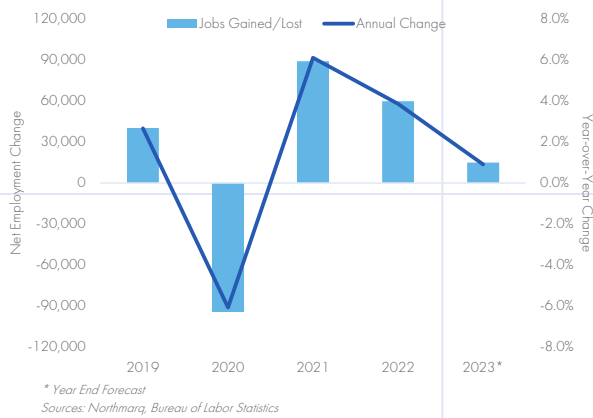
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Heights at Interlocken	401 Interlocken Blvd., Broomfield	343	\$142,500,000	\$415,452
Lyra	9641 E Geddes Ave., Centennial	304	\$115,000,000	\$378,289
The Link at Cherry Creek	10225 E Girard Ave., Denver	240	\$50,050,000	\$208,542
Sunchase Apartments	1045 S Zeno Way., Aurora	192	\$47,350,000	\$246,615
Windsor Court Apartments	1570 Joliet St., Aurora	143	\$29,300,000	\$204,895

## LOOKING AHEAD

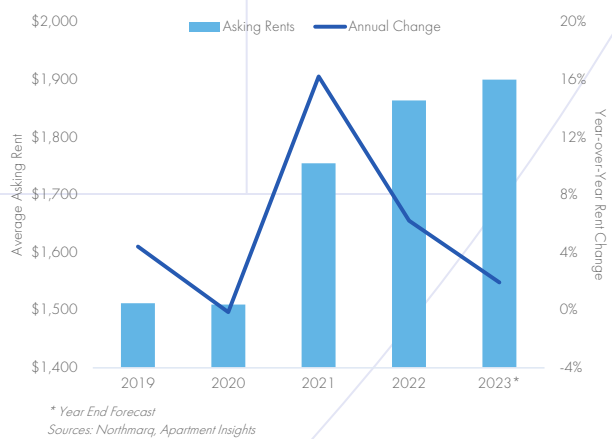
Multifamily property performance metrics are expected to continue to soften in the coming quarters before stabilizing by the end of next year. The decline in renter demand in the fourth quarter was minimal but occurred during a period where new development was elevated. Net absorption in 2022 dropped about 50 percent from the preceding year and was more in line with levels recorded in 2016 and 2017. Looking ahead, a slower pace of job growth will likely drag on demand levels in the coming months, resulting in slower lease-up times. As developers continue to bring new units online at an active pace, and absorption levels remain modest, the vacancy rate is forecast to push higher. These conditions will likely result in an increased use of concessions in some newer projects.

After a decline in the number of deals in recent months, investment sales activity in Denver should stabilize in the coming quarters. While sales volume will not repeat the spike in activity in 2021, the new year should offer a wide range of investment opportunities for investors. Projects totaling more than 43,700 units are currently under construction throughout the region, which will eventually bring more activity to the local investment market as these projects are leased up. In the interim, investor demand is expected to remain strongest for properties built between 2000 and 2015, which are new enough to command elevated rents, but do not generally compete with the newest properties in the development pipeline.

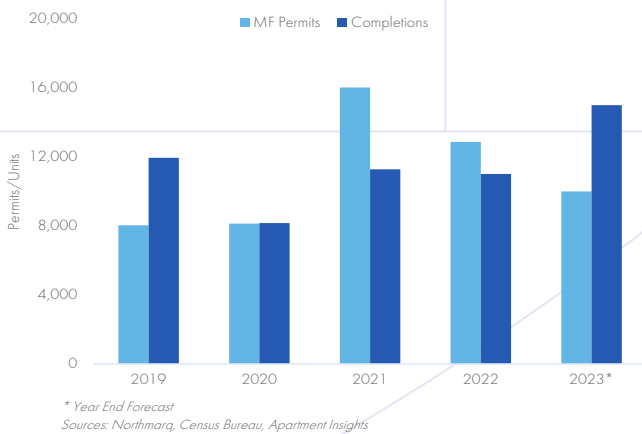
### EMPLOYMENT FORECAST



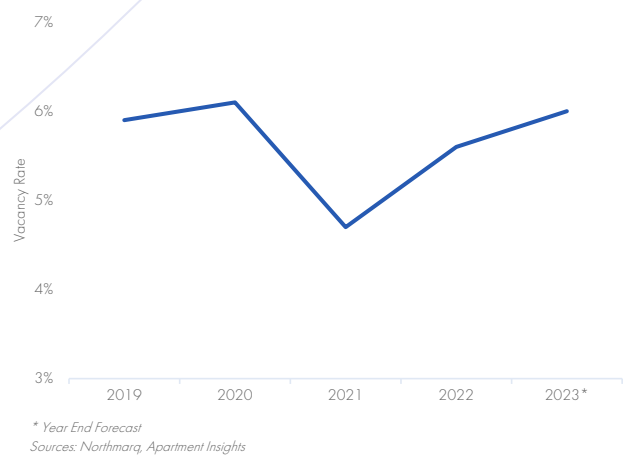
### RENT FORECAST



### CONSTRUCTION & PERMITTING FORECAST



### VACANCY FORECAST





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