

Multifamily Metro Outlook:

Denver - Q4 2022

Overview:

- After maintaining a frenetic pace for much of the year, with 1,275 units added to the inventory during fourth quarter ending 2022, activity in Denver has finally started to calm. Over the past year, close to 9,900 units have been added to the metro. Although, this is a drop-off of close to 18.0% from the amount of supply delivered over the same period in 2021, Denver remains squarely in the top 10 most active markets in the country.
- However, even with the pullback in deliveries the flood of supply that has hit the metro over the past quarters has proven too much for demand. Thus, after remaining unchanged for the previous three quarters, the vacancy rate shot up by 75 bps to 6.25%, well above the national average of 5.5%. Considering vacancies have stayed in the 5.0% - 6.0% range since 2016, the metro could finally be showing some signs of easing.
- Further signs of easing can be seen within rent growth, which declined by -0.5% over the previous quarter to an average of \$1,770.
- Yet, Denver's economy remains as strong as ever; the labor force has grown by close to 3.6% over the past year, while wages – which advanced 6.3% over the past year – have grown at double the national average. This has resulted in the unemployment rate falling to 2.8%, a decline of 93 bps over the past year, and one of the largest improvements across the nation.

Market Strengths:

- Denver's diversified economy is one of its greatest strengths. Major industry sectors include aerospace, broadcast and telecommunications, healthcare and wellness, financial services, bioscience, energy, and IT-software.
- Denver has the sixth fastest growing city in the country, with the metro becoming a magnet for professionals working from home, fueling growth. But what's more is the metro's ability to retain its young population; more than 70% of millennials who lived in Denver at age 16, were still in the metro a decade later.

Market Weaknesses:

- Should the U.S. economy experience a significant slowdown next year tech, tourism, and manufacturing – some of Denver's key industry sectors – could be hit especially hard.

Development:

- Denver will continue to deliver a plethora of apartments for quite some time. In fourth quarter alone, more than 2,250 units were added to the development pipeline, bringing the total to more than 28,400 units. Even with the rise in the cost of construction it hardly comes as a surprise that developers are placing so much emphasis on Denver; at 4.5%, cap rates continue to trend below the national average as result of prices commanding premiums of more than 50% per unit.
- While the shadow market can hardly be considered a threat considering the level of multifamily development underway, with the prices of single-family residences soaring, it should hardly come as a surprise the condo market in Denver is still one of the most active in the country, with current construction levels rivaling places like New York City.

Outlook:

- Denver ranks among the 25 most competitive rental markets in the United States, and due to a strong demand for housing that makes home ownership cost prohibitive, the multifamily market should continue to outperform its peers. With the rising cost of construction, investors and developers are chasing yield, and with prices rising faster in Denver than many other parts of the country, the metro offers returns found in few other places that are just too attractive to turn down.
- Considering all the factors moving in Denver's favor, it is expected that the economy will continue to outperform the rest of the nation. Strong demand from leisure travel, combined with expected growth in healthcare should mitigate the adverse tolls rising interest rates are expected to have on tech and finance. Longer term, in-migration and a high educational attainment will keep Denver as one of the nation's strongest economies.

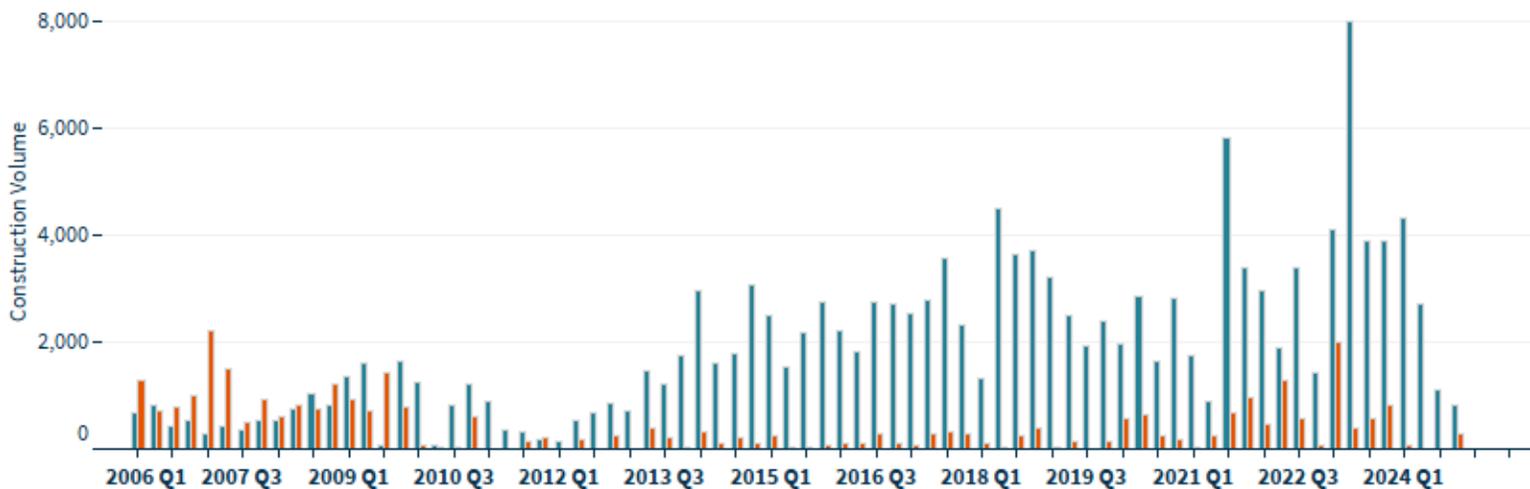
Five Year Metro Area Growth Forecast

	Q4 2022	Q4 2027	Denver (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	3,044	3,198	0.99%	0.41%
Households (000s)	1,201	1,294	1.50%	0.75%
Renting Cohort (Ages 20-34) (000s)	692	726	0.95%	-0.40%
Total Employment (000s)	1,596	1,678	1.00%	0.52%
Median Household Income	\$94,019	\$111,163	3.41%	3.45%
Median SF Home Price	\$655,511	\$566,715	-2.87%	-0.04%
Net Migration	15,590	18,462		

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



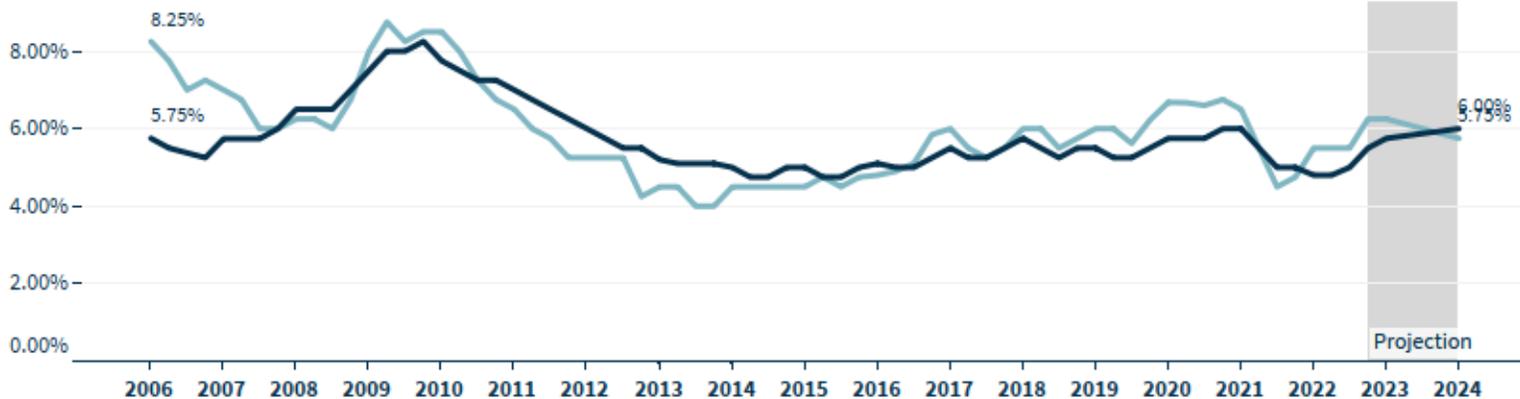
Vacancy & Rent Composite Estimates

Vacancy Rates

Denver | National

Q4 2022 Vacancy Rate:

6.25%

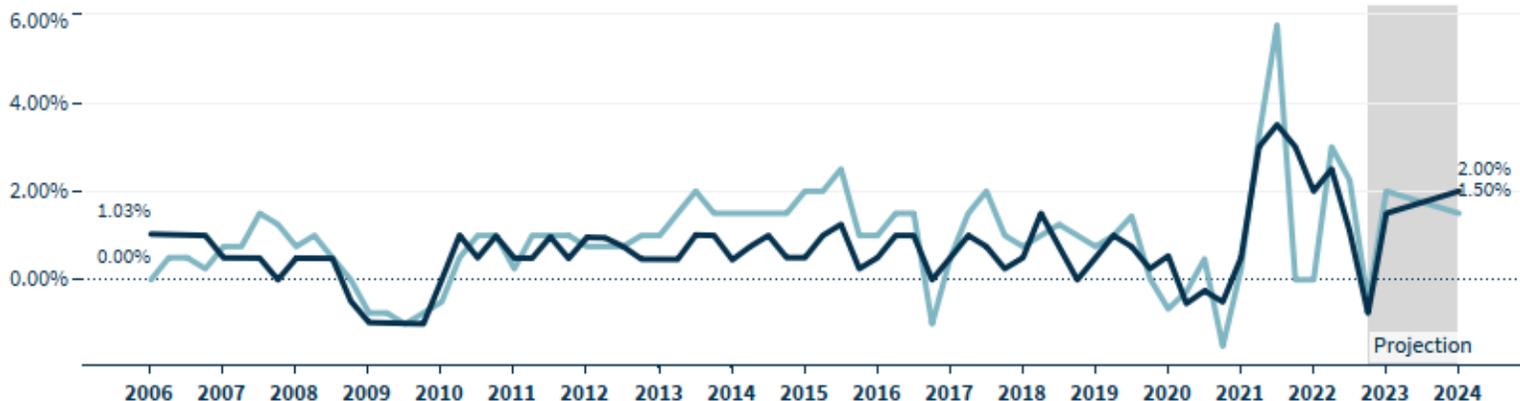


Asking Rent Growth

Denver | National

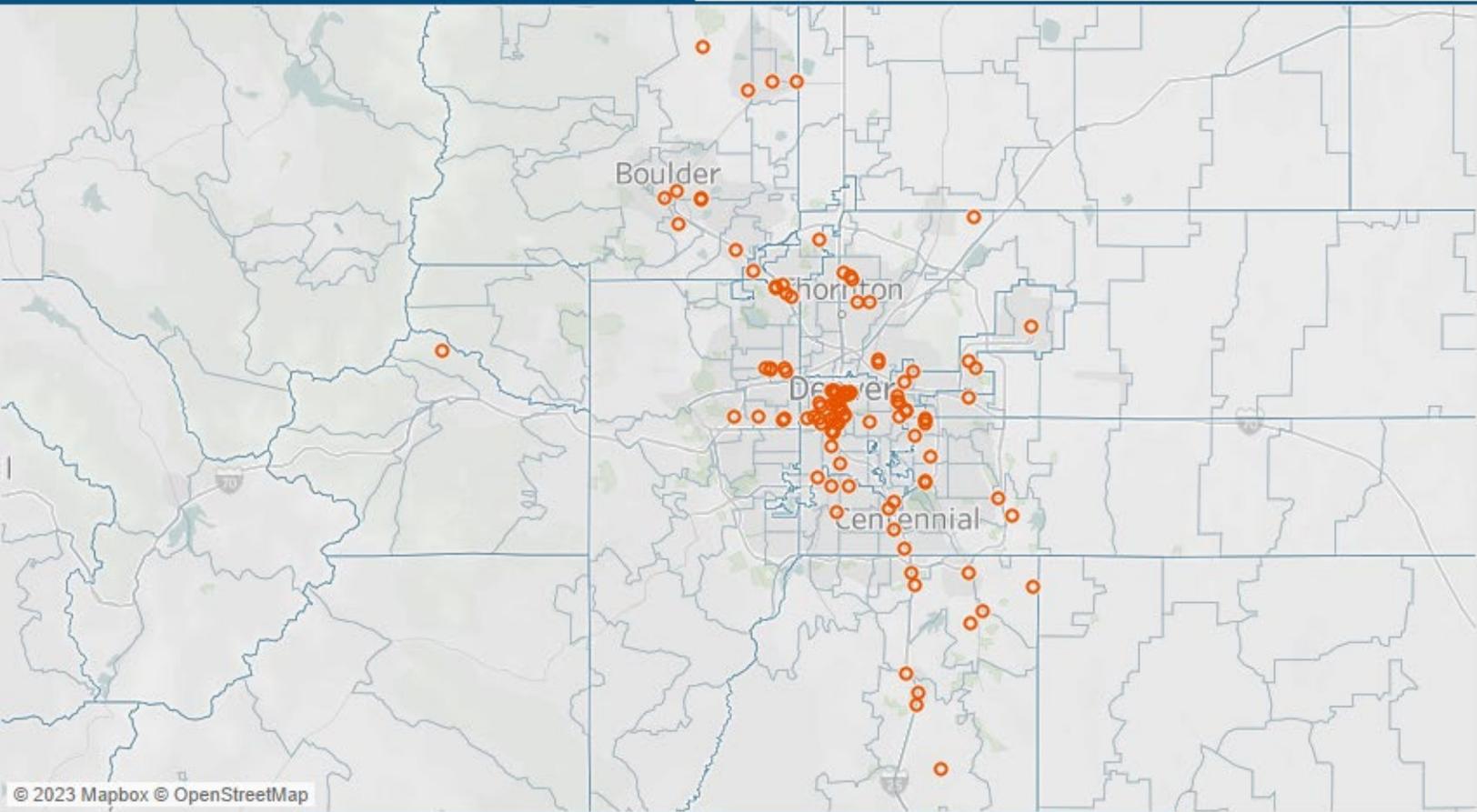
Q4 2022 Asking Rent:

\$1,770



Source: Multifamily Economics and Research

Construction: Bidding & Underway



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<i>TWR Submarket Name</i>	<i>Apartments</i>	<i>Building Units</i>
Arvada/Golden	7	1,211
Boulder	6	974
Broomfield	11	2,871
Downtown/Highlands/Lincoln Park	17	4,311
Five Points/Capitol Hill/Cherry Creek	9	2,633
Highlands Ranch	1	553
Longmont	8	2,018
North Aurora	6	1,952
North Lakewood/Wheat Ridge	3	552
Northeast Denver	22	4,824
Parker/Castle Rock	9	1,725
South Denver/Englewood	8	1,411
Southeast Aurora/East Arapahoe County	2	322
Southeast Denver	1	182
Southwest Aurora	3	880
Tech Center	4	1,120
Thornton/Northglenn	5	862
Grand Total	122	28,401

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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