

Multifamily Metro Outlook:

Denver - Q1 2022

Overview:

- Overall, Denver's recovery has outpaced all but one of its peers in Colorado. The metro area's labor force has also experienced an unusually strong rebound, which is supporting rapid job growth. Unemployment remains above its prerecession rate at 3.5%, but is edging down even with higher labor force participation.
- After topping more than 3,000 units in the last quarter, apartment deliveries continued their breakneck pace unabated with an additional 2,500 units to begin the year; in the past year more than 11,100 units have popped up in the metro.
- Supply may be coming online too quick for the market to absorb; vacancy rates continued their ascent in the first quarter of the year rising to 5.50% and rising above the national average for the first time since Q2 2021. However, this may not necessarily point to any deterioration of market fundamentals, vacancy rates in the metro has not been below 5.0% since the third quarter of 2016.
- Rent growth has begun to stagnate, and in turn the average asking rent remained flat relative to last quarter at an average of \$1,670. However, relative to last year, rents are up across all three property classes. Consistent with the rest of the country, the highest increase of 16.5% was seen among Class B properties.

Market Strengths:

- Intense demand and limited inventory over the past few years has created fierce competition in the single-family housing market, leading to price appreciation, and an accelerated market pace, which may continue to keep prospective home-owners in apartments.
- Colorado remains a top destination for venture capital funding, which will spur job growth in the near term. A tightening supply of tech workers and increased competition from other tech hubs will mean that growth slows slightly in 2022 from its torrid pace last year, but Denver will remain a key player in tech.

Market Weaknesses:

- Denver's energy industry is experiencing significant price volatility; oil prices have already plunged to levels not seen in more than 18 years. Energy companies in the metro are facing a dual threat from excess supply concentrated overseas, and lacking demand.

Development:

- Denver will continue to deliver a plethora of apartments for quite some time. Even though the construction pipeline remains essentially unchanged since the prior quarter, there are currently more than 18,000 units underway.

Outlook:

- Denver ranks among the 50 most competitive rental markets in the United States, and due to limited inventory and healthy demand for housing, the multifamily market should continue to outperform its peers. Until the pace of construction can catch up enough to moderate house prices, apartments will remain an attractive and necessary alternative. However, with rising interest rates quickly pricing people out of the market, participation in the single-family market is likely to dwindle, presenting an emerging opportunity for the apartment market fundamentals to tighten even further. The available inventory – which is primarily concentrated downtown – will need to be closely managed to ensure disproportionate development of Class A properties does not present challenges in sub-markets, where prospective high-wage renters already have a greater variety of supply to choose from.
- It is expected that Denver's economy will fully recover by the end of the year, faster than the regional and national averages. Denver remains on a short-list of overperformers compared to its western peers and the rest of the nation, thanks to the metro's dynamic high-skill industries which should continue to drive job and income gains over the foreseeable future as tourism continues to return to prominence.

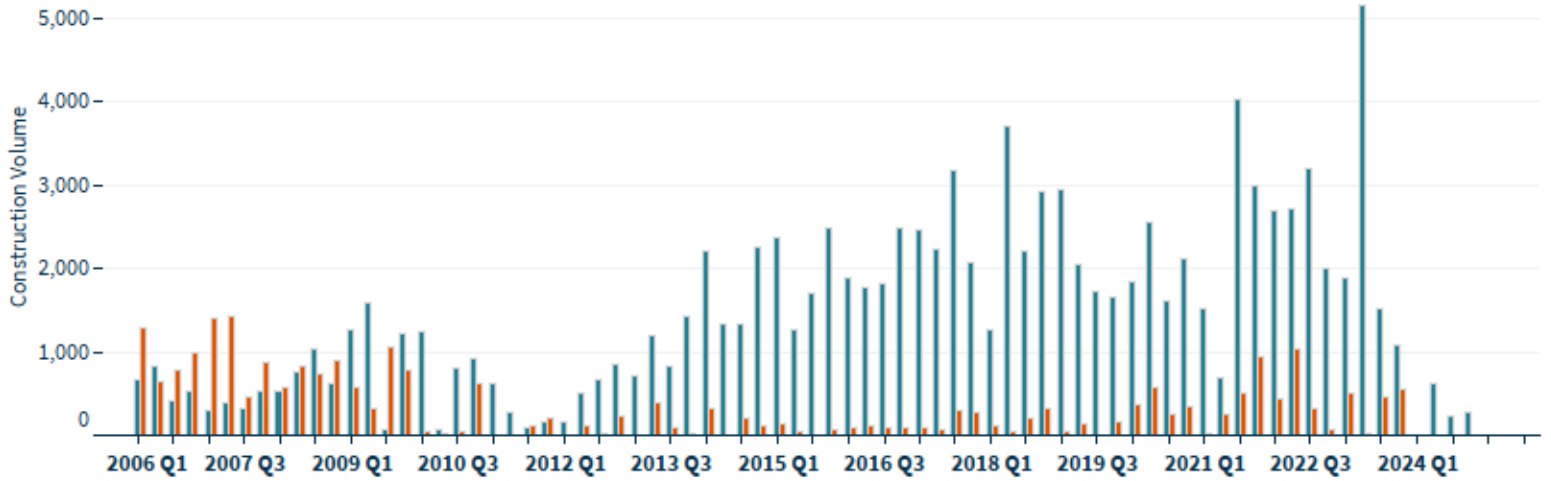
Five Year Metro Area Growth Forecast

| | Q4 2021 | Q4 2026 | Denver (5-Year Annual Average Change) | National (5-Year Annual Average Change) |
|---|-----------|-----------|---|---|
| Population (000s) | 3,039 | 3,195 | 1.00% | 0.47% |
| Households (000s) | 1,183 | 1,284 | 1.66% | 0.90% |
| Renting Cohort (Ages 20-34) (000s) | 691 | 725 | 0.98% | -0.30% |
| Total Employment (000s) | 1,536 | 1,660 | 1.57% | 1.08% |
| Median Household Income | \$106,499 | \$125,125 | 3.28% | 3.30% |
| Median SF Home Price | \$616,831 | \$591,925 | -0.82% | 1.93% |
| Net Migration | 18,349 | 18,198 | | |

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



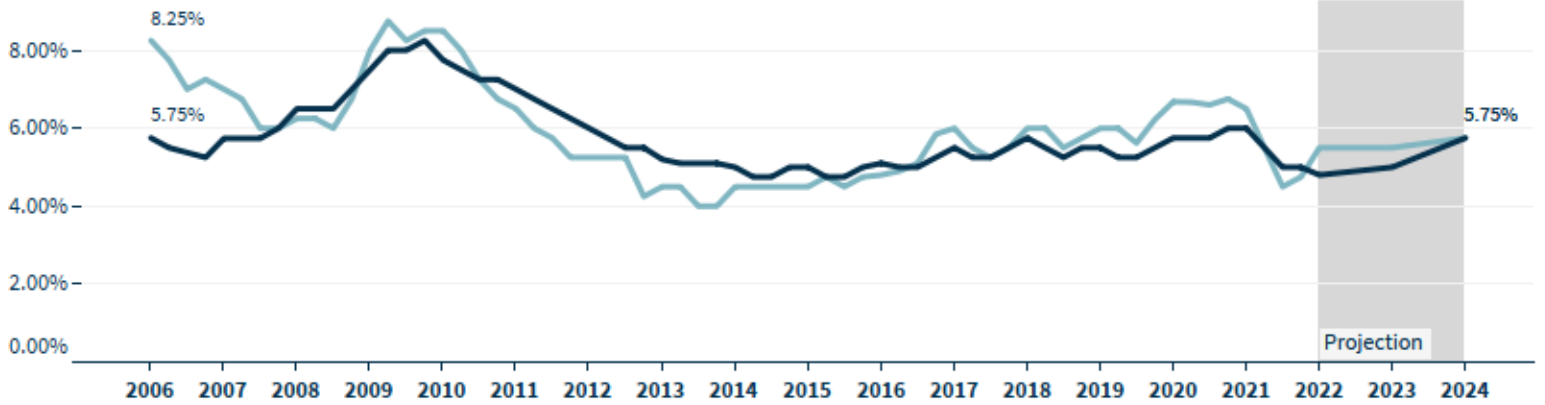
Vacancy & Rent Composite Estimates

Vacancy Rates

Denver | National

Q1 2022 Vacancy Rate:

5.50%

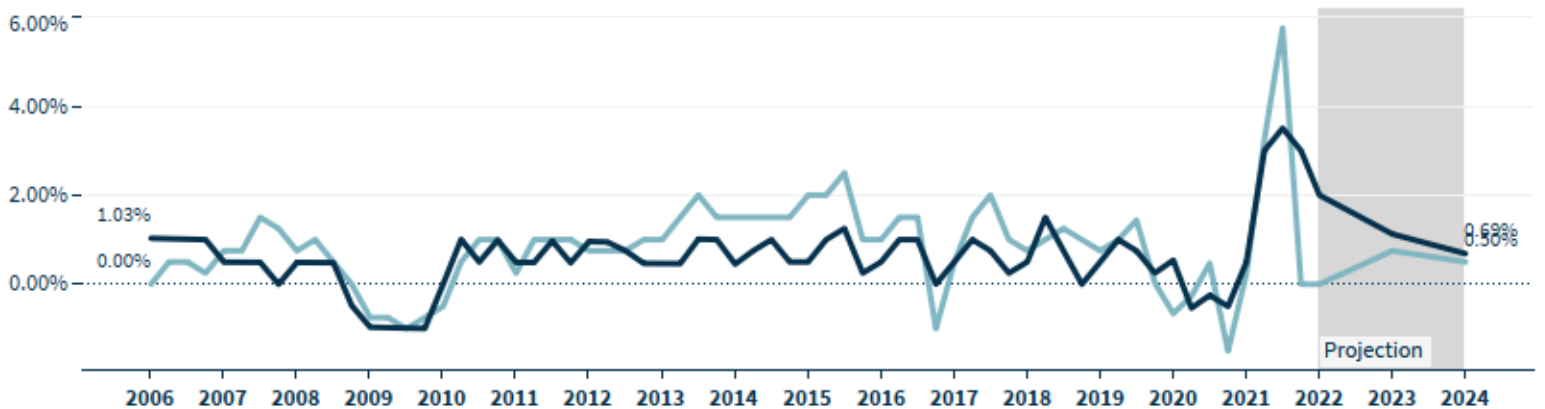


Asking Rent Growth

Denver | National

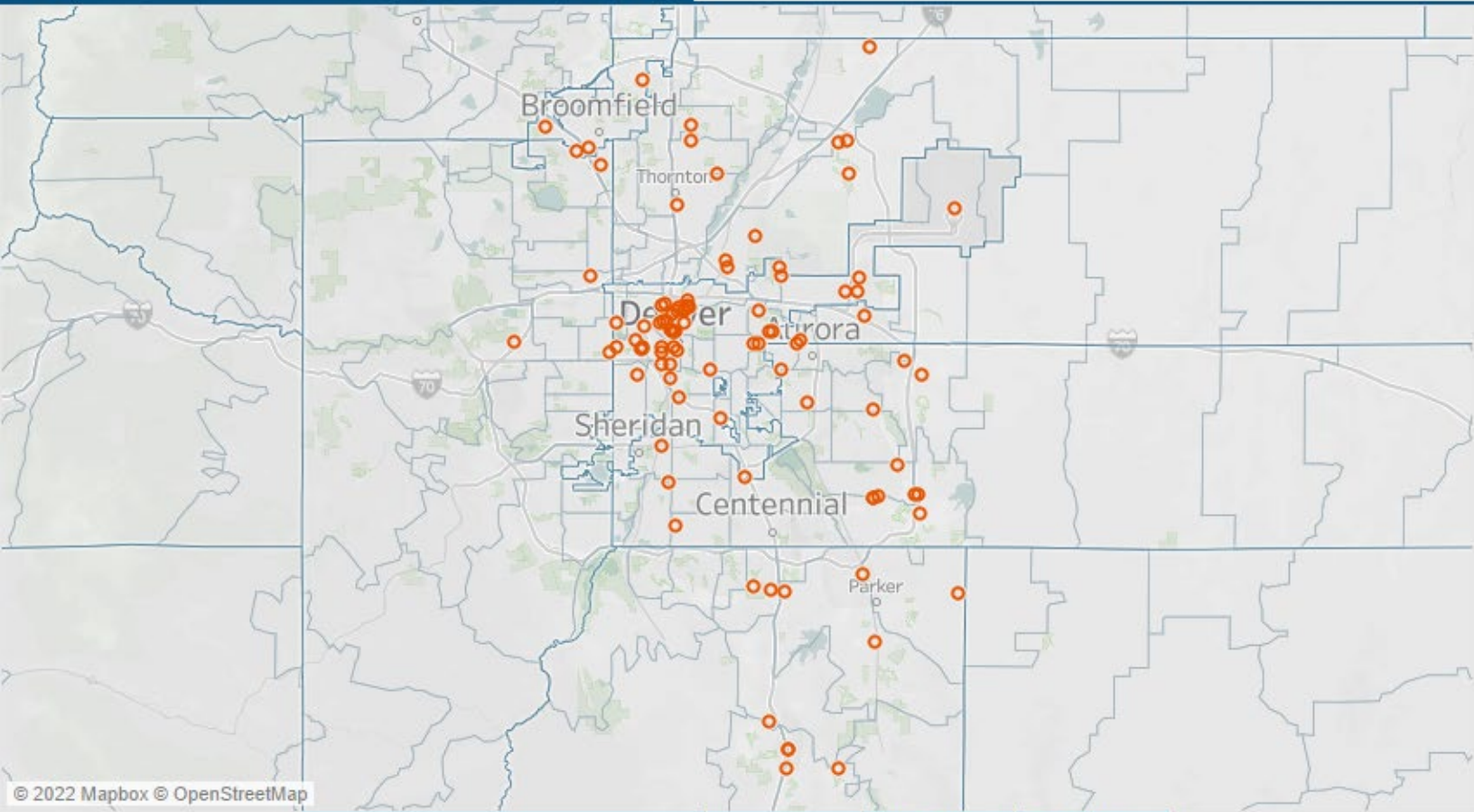
Q1 2022 Asking Rent:

\$1,670



Source: Multifamily Economics and Research

Construction: Bidding & Underway



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| <i>TWR Submarket Name</i> | <i>Apartments</i> | <i>Building Units</i> | <i>Building Area SF</i> |
|---------------------------------------|--------------------------|------------------------------|--------------------------------|
| Arvada/Golden | 2 | 482 | 0.58M |
| Broomfield | 5 | 1,217 | 1.42M |
| Downtown/Highlands/Lincoln Park | 12 | 2,422 | 2.34M |
| Five Points/Capitol Hill/Cherry Creek | 12 | 2,528 | 2.83M |
| Glendale | 1 | 361 | 0.41M |
| Highlands Ranch | 2 | 307 | 0.31M |
| Littleton | 1 | 29 | 0.05M |
| North Aurora | 7 | 1,456 | 1.69M |
| North Lakewood/Wheat Ridge | 2 | 324 | 0.26M |
| Northeast Denver | 23 | 4,166 | 5.16M |
| Parker/Castle Rock | 9 | 1,904 | 1.92M |
| South Denver/Englewood | 7 | 1,079 | 1.21M |
| Southeast Aurora/East Arapahoe County | 9 | 331 | 0.35M |
| Southeast Denver | 1 | 182 | 0.22M |
| Southwest Aurora | 1 | 370 | 0.39M |
| Tech Center | 1 | 250 | 0.34M |
| Thornton/Northglenn | 4 | 816 | 0.87M |
| Grand Total | 99 | 18,224 | 20.35M |

Multifamily: ESR Team

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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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