Multifamily Metro Outlook: Denver – Q3 2021

Overview:
• After quickening the pace of recovery during the last quarter, Denver’s economy continues to keep pace with the regional and national averages. The unemployment rate remains above pre-pandemic levels at 5.8%, but it should be noted that Denver’s labor force, which just recently climbed above levels seen in 2020, has continually expanded during the year.
• The benefits of employment gains continue to spill over into the apartment market. This quarter, deliveries surged, topping slightly over 3,000 units, more than triple last quarter’s deliveries. Even still, vacancy rates managed to fall under pre-pandemic levels, declining by more than a full percentage point quarter-over-quarter to 4.50%, below the national average of 5.0%.
• The surge in demand also provided some breathing room for rents to increase, especially for more expensive Class A properties, which exceeded 4.0% this quarter, which in turn brought concessions in this property class down to 5.0%. The severity of market tightening led to rents levels across all property classes in the metro shooting up to $1,680, an increase of more than 5.75% relative to last quarter. Using Q3 2019 as a barometer, asking rents in the metro have increased by more than 11.0%.

Market Strengths:
• Increased investment in tech-oriented industries will spur job growth, which should continue to support the metro’s recovery and wage growth. Although business costs have climbed in recent years, Denver – which is among the top 10% of high-tech employment metros across the nation – retains a cost advantage over traditional coastal tech hubs, and its attractive quality of life makes it a magnet for skilled workers.
• Leisure/hospitality will advance further in coming months; arrivals at Denver International Airport were nearly two-thirds higher in July than their year-ago level and were on par with July 2019.

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’s multifamily market is developing at an explosive pace. In turn, more projects continue to flow into the construction pipeline at a blinding pace. After reaching levels that more than doubled the average pipeline volume in the last quarter, an additional 1,100 units were added to the pipeline in Q3 2021, for a total of 19,600 units underway – pushing the metro into the top 10 most active apartment markets.
• The frenzy of construction hasn’t been limited to just apartments. More than 3,000 condo units are underway in the metro.

Outlook:
• Multifamily Outlook: Lagging. Limited inventory and healthy demand for housing should continue to prop up the performance of the multifamily market. The rapid pace of population growth has placed a strain on the available inventory, which in turn has driven up single-family house prices. Even so, the pace of sales continues to accelerate, creating opportunity for both multifamily and single-family developers alike thanks to the resilience of demand. Until the pace of construction can catch up enough to moderate house prices, apartments will remain an attractive and necessary alternative. However, inventory will need to be closely managed to ensure disproportionate development of Class A properties does not present challenges in submarkets, where prospective high-wage renters already have a greater variety of supply to choose from.
• Economic Environment: Stable. It is expected that Denver’s economy will fully recover by early 2022, faster than the regional and national averages. The metro’s dynamic high-skilled industries should continue to drive job and income gains over the foreseeable future, while a favorable mix of demographics should ensure a large prime-age workforce for years to come. As a result, Denver remains on a short-list of overperformers when compared with both its western peers and the rest of the nation.

Five Year Metro Area Growth Forecast

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2025</th>
<th>Denver (5-Year Annual Average Change)</th>
<th>National (5-Year Annual Average Change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (000s)</td>
<td>3,018</td>
<td>3,181</td>
<td>1.06%</td>
<td>0.52%</td>
</tr>
<tr>
<td>Households (000s)</td>
<td>1,152</td>
<td>1,282</td>
<td>2.17%</td>
<td>1.41%</td>
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<tr>
<td>Renting Cohort (Ages 20-34) (000s)</td>
<td>685</td>
<td>723</td>
<td>1.08%</td>
<td>-0.26%</td>
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<tr>
<td>Total Employment (000s)</td>
<td>1,495</td>
<td>1,688</td>
<td>2.45%</td>
<td>1.71%</td>
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<tr>
<td>Median Household Income</td>
<td>$85,525</td>
<td>$98,949</td>
<td>2.96%</td>
<td>2.83%</td>
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<tr>
<td>Median SF Home Price</td>
<td>$522,546</td>
<td>$524,923</td>
<td>0.09%</td>
<td>4.30%</td>
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<td>Net Migration</td>
<td>14,279</td>
<td>18,759</td>
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</table>
SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Vacancy & Rent Composite Estimates

Vacancy Rates

Q3 2021 Vacancy Rate:
4.50%

Asking Rent Growth

Q3 2021 Asking Rent:
$1,680

Source: Multifamily Economics and Research
We welcome your feedback! Please give us a call or send an email with any comments, suggestions, or insight you may have or information you’d like covered in future editions.

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**Multifamily Economics and Market Research Team**

Stephen Gardner, Economic and Strategic Research - Economics – Senior Associate

**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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