

Multifamily Metro Outlook:

Denver - Q3 2024

Overview:

- Denver's normally strong economy remained soft this quarter due to continued high costs of borrowing, weakness in freight demand, and a rising unemployment rate reaching around 4.4%. Impacts were muted, however, as Denver's income demographics prove resilient to macroeconomic issues, averaging over \$106,000 in Q4 2023, according to Moody's. This has allowed the metro to better resist regional issues and the effects of inflationary pressures.
- While supply continues to write the story of this metro, demand has been able to gain a major foothold, with RealPage estimating that absorption metrics in the third quarter of 2024 totaled 6,700 units, the largest amount since 1997. On the other side of the coin, deliveries continue to break records, reaching just over 6,400 units, per RealPage. This is also the highest total since 1997, meaning the combined trends are largely canceling each other out.
- As a result of these supply and demand trends, vacancy rates have remained steady around 6.4%. Rent growth has been muted, estimated to be around 0.4%. The supply-demand quandary will likely continue to suppress rent growth in the coming year, particularly in areas of the metro where scheduled net deliveries as a percentage of inventory runs high.

Market Strengths:

- Young adults, a critical component of the apartment market, make up 22.7% of the total population, which is larger than the national norm of 20.3%. Over the next five years, Moody's expects this cohort in Denver to dip just 0.1%, compared with a five-year forecast of a 0.8% decline nationally.
- RealPage found in 2022 that 47.2% of Denver's working-age population has a bachelor's degree or higher compared to 34.3% nationally, heavily supporting Denver's professional and business services sector, which requires a highly educated workforce. This industry makes up around 18.5% of total employment in the metro, according to Yardi Matrix, and tops all employment sectors with over 400,000 jobs.
- Denver International Airport plays a vital role as a domestic hub and ranks among the top 10 busiest airports in the world. Passenger traffic at the airport has rebounded substantially due to strong domestic travel demand.

Market Weaknesses:

- Ongoing higher interest rates will likely slow the pace of high-tech expansion in the near term. Near-zero interest rates prior to 2023 and the scorching hot economy led to record-high venture capital funding and rapid industry hiring, but quick and consistent rate hikes have reversed this course considerably. Because Denver's business and tech sectors have an outsized impact on total employment, local startups, financial services firms, and large tech firms alike have felt the squeeze of relatively high interest rates in comparison with the past two decades.
- Denver experienced layoffs in the first half of 2024 with major players including Dish Network Corp, Amazon, and Google. This development, coupled with a fairly weak local economy, has led to a decreased employment base and a higher unemployment rate than last year.

Development:

- According to Dodge Data & Analytics, Denver has around 17,400 units underway, with construction mostly concentrated in the Northeast Denver and Downtown/Highlands/Lincoln Park submarkets.

Multifamily Outlook:

- Denver has faced continued supply coming online in recent years, and this quarter is no different. Nonetheless, the 17,400 units underway are significantly below levels in the third quarter of 2023 when 24,000 were in the pipeline. While demand is still not reaching supply, this is expected to gradually change over the medium term as deliveries decrease.
- Builders have noted recently that it is challenging to break ground due to Denver's passing of the Expanding Housing Affordability policy, which requires new developments with 10 or more units to allocate 8-15% as affordable. This issue is compounded by nationwide labor and construction cost increases.

Economic Environment:

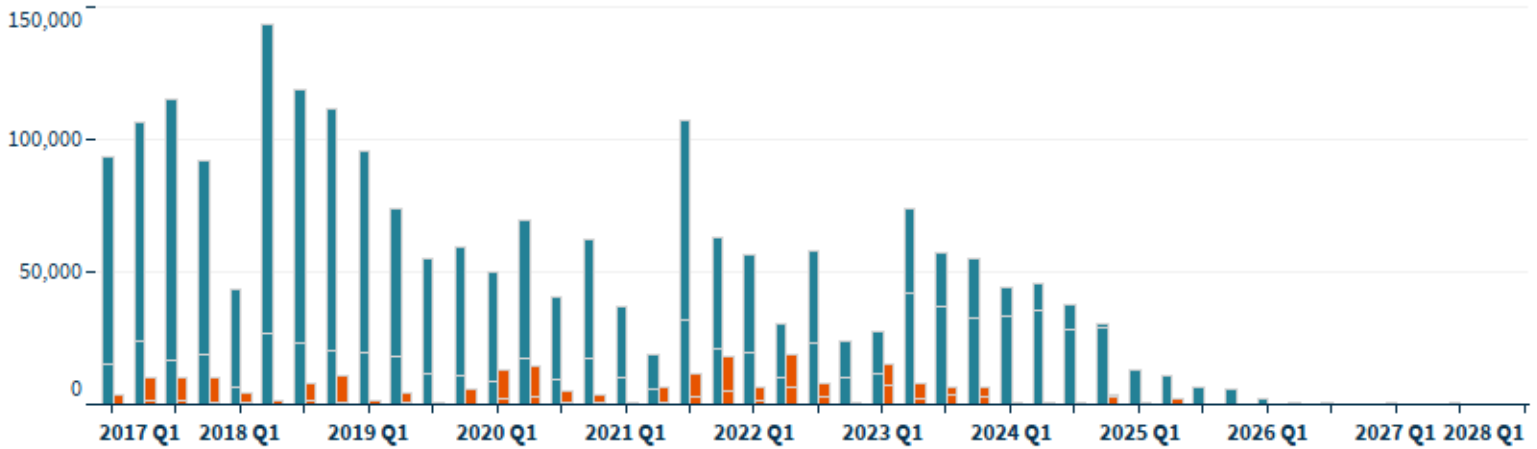
- Year-over-year employment growth has steadily declined over the past two quarters and remained around 0% in the third quarter of 2024, which is unsurprising given recent unemployment trends. Despite this, strong demand from leisure travel, combined with the outsized presence of tech (which is expected to bounce back in the medium term), should continue to support the metro's performance going forward. Denver will likely retain its strong demographics for the foreseeable future due to its attractive natural environment and its establishment as a major employment hub.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

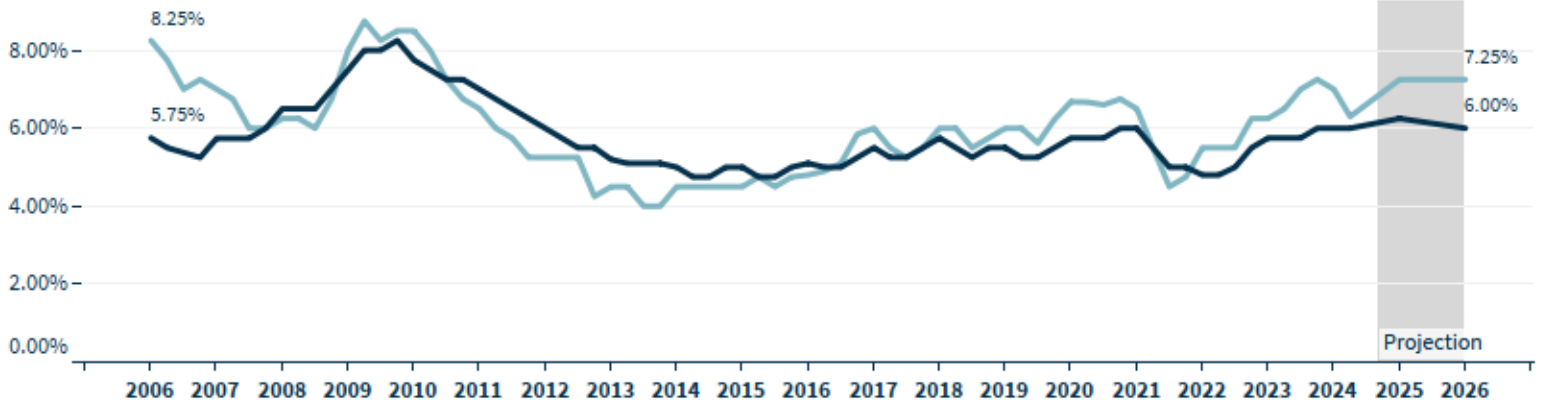
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Denver | National

Q3 2024 Vacancy Rate:

6.40%



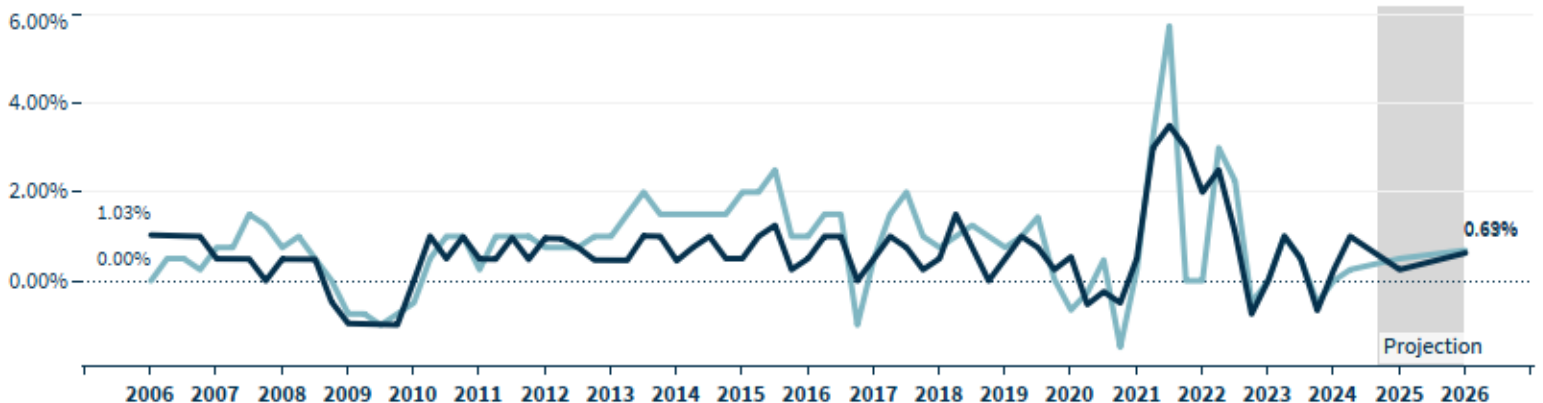
Projection

Asking Rent Growth

Denver | National

Q3 2024 Asking Rent:

\$1,810

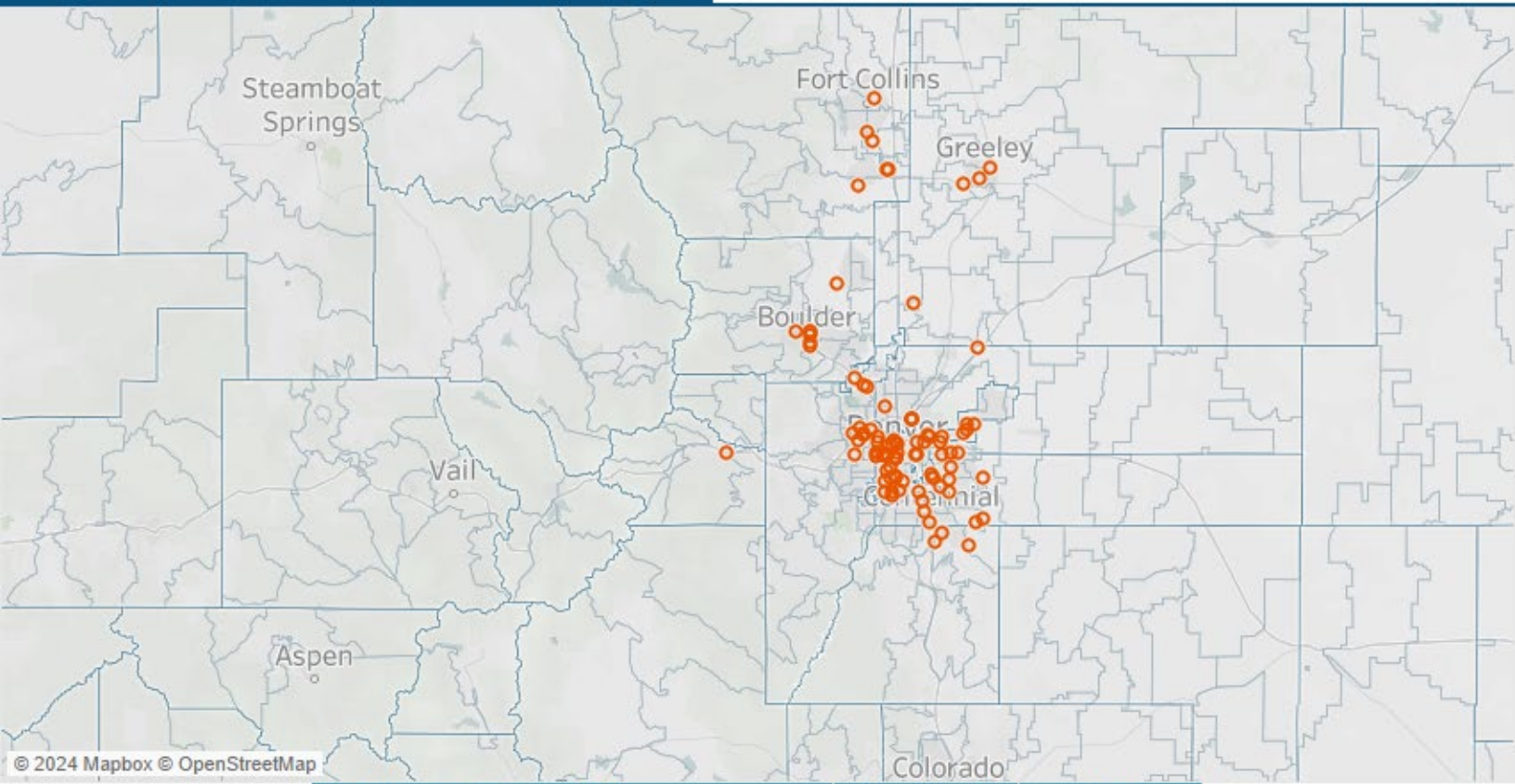


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Arvada/Golden	6	497
Boulder	6	724
Broomfield	3	847
Downtown/Highlands/Lincoln Park	14	2,193
Five Points/Capitol Hill/Cherry Creek	1	281
Longmont	1	132
NA	10	1,665
North Aurora	3	563
North Lakewood/Wheat Ridge	4	744
Northeast Denver	18	2,912
Parker/Castle Rock	2	534
South Denver/Englewood	11	1,736
Southeast Aurora/East Arapahoe County	5	1,479
Southeast Denver	3	507
Southwest Aurora	4	1,190
Tech Center	5	1,123
Westminster	1	247
Grand Total	97	17,374

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- Moody's CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Greenstreet
- Dodge Data and Analytics Real Estate Analyzer
- CBRE-Econometric Advisors
- Yardi

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