Multifamily Metro Outlook:

Denver – Q2 2023

Overview:

- After demonstrating outsized performance through the majority of the pandemic, Denver's economy is fully entrenched in a slowdown, though the region still has a slight edge over the rest of the nation. Job growth was essentially flat over the last year, thus the unemployment rate jumped 65 bps over the last quarter to 3.31%. However, this is still below the national average of 3.6% and in line with unemployment levels seen in the metro last year.
- High-skill industries and high educational continue to be the lynchpins of high-wage job creation, and both are in abundance throughout the metro; thus, it should hardly come as a surprise that, even with a decline in employment, payroll wages increased by just under 1.1% from last year's levels. Further evidence of the metro's strength can be seen among median household incomes, which advanced 5.9% over the past year to just under $99,000 – significantly above the national average of $72,200.
- While inflation has cooled the pace of rent growth in Denver, demand for apartments in the metro remains as strong as ever, in part due to the high cost of home ownership. Single-family housing costs have always commanded a significant premium over rents, but even with the continued decline in home prices, the estimated P&I in the metro is still close to 2.3 times the price of asking rents.

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. Such balance should ensure that the metro does not experience a significant downturn with concerns of a recession looming.

Market Weaknesses:

- Surging housing costs over the last decade have eroded much of the cost advantage Denver offered over its heaviest in-migration areas: Boulder, Los Angeles, and New York – increasing the appeal of nearby areas such as Colorado Springs and Greeley. If the metro cannot adequately expand its affordable housing stock, it faces the risk of population loss to nearby metros.

New Development:

- Second quarter ending 2023 saw the development pipeline decline by more than 3,000 units as new supply continues to flood the market. Yet, even with new units popping up all over the metro, development in Denver continues to accelerate. More than 26,000 units are expected to come online in the metro by 2026, about a tenth of the metro's entire apartment inventory with much of the activity still concentrated in the metro's downtown and central business districts. While the shadow market can hardly be considered a threat, considering the level of multifamily development underway, Denver is still one of the most active in the country, with current construction levels rivaling places like New York City.
- Although the number of single-family permits issued during second quarter ending 2023 totaled just above 8,000 – this remains well below the historical average of 11,100. Further, the number of new single-family home completions continues to dip, falling by more than 5,000 units to just under 8,500 units – the lowest level seen in the past two years. What's more is that even with inventory levels comparable to those seen a year ago, sales volume continues to fall. Only 3,800 home sales were transacted during Q2 2023, which is about three quarters of the volume seen just a year ago.

Multifamily Outlook:

- Vacancies in Denver continue to diverge from the rest of the nation, rising 25 bps over the last quarter to 6.50%. Compared to last quarter, asking rents advanced just 1.0% to an average price of $1,800, but this growth was in line with the rest of the nation. Rampant price growth enabled developers in the metro to aggressively chase yields, but having since faltered, the strong returns the metro once offered have all but eroded. For example, though property prices have increased more than 6% in the metro over the past year, the cap rate has actually increased by 100 bps over the same time frame, implying a heightened risk among apartments as an investment. Denver is grappling with affordability; thus, it would not be surprising to see fundamentals continue to slip, but with single-family housing costs prohibitive to all but the highest-income households in the metro, a period of full out easing is unlikely.

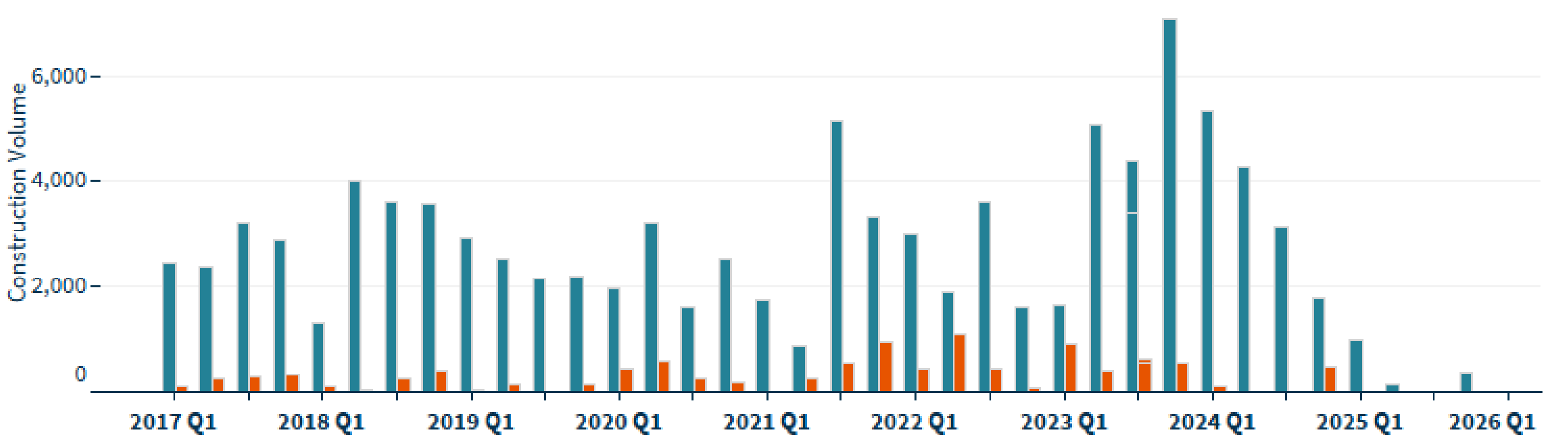
Economy:

- Considering all the factors moving in Denver's favor, it is expected that the economy will continue to outperform the rest of the nation, though things are expected to slow through the rest of 2023. While high-skilled industries such as tech and finance are expected to struggle in the near-term, strong demand from leisure travel combined with expected growth in healthcare should mitigate the impact to overall employment trends. Longer term, in-migration and a high educational attainment should keep Denver as one of the nation's strongest economies.

Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | *Condos*



Source: Dodge Data & Analytics SupplyTrack Pipeline

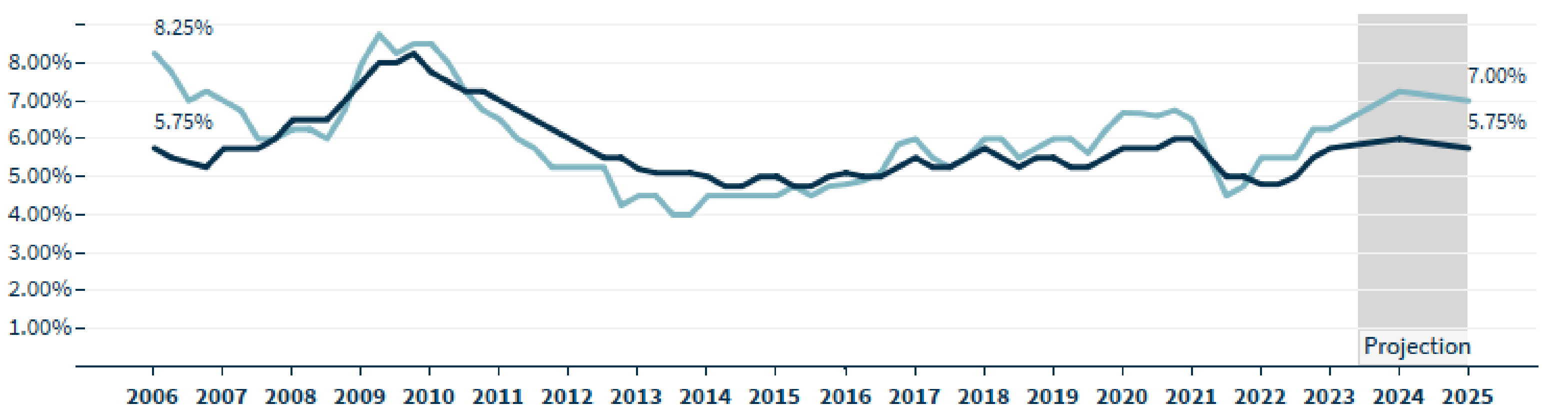
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Denver | *National*

Q2 2023 Vacancy Rate:

6.50%

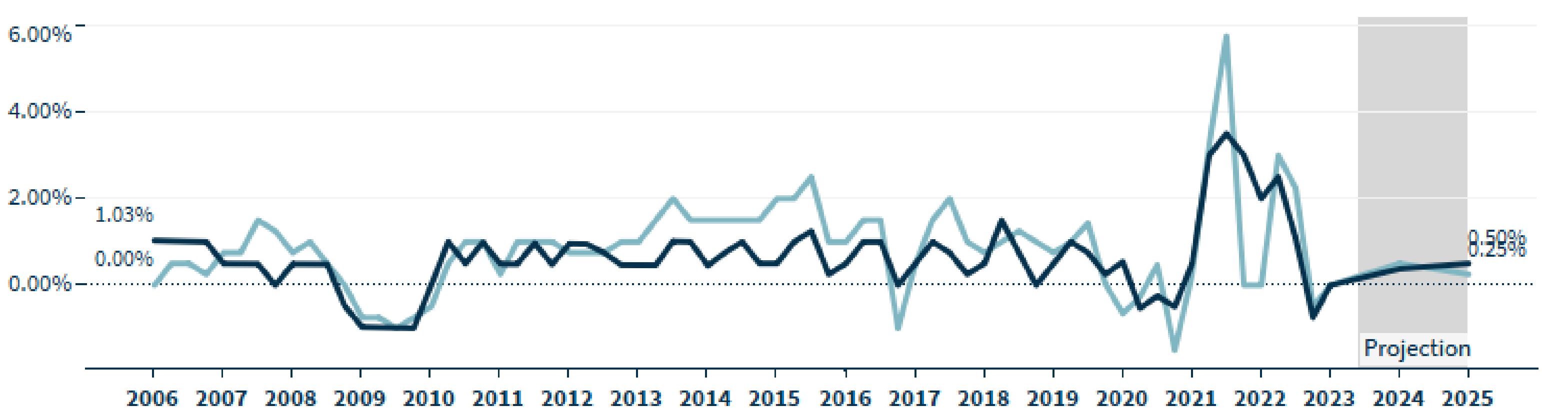


Asking Rent Growth

Denver | *National*

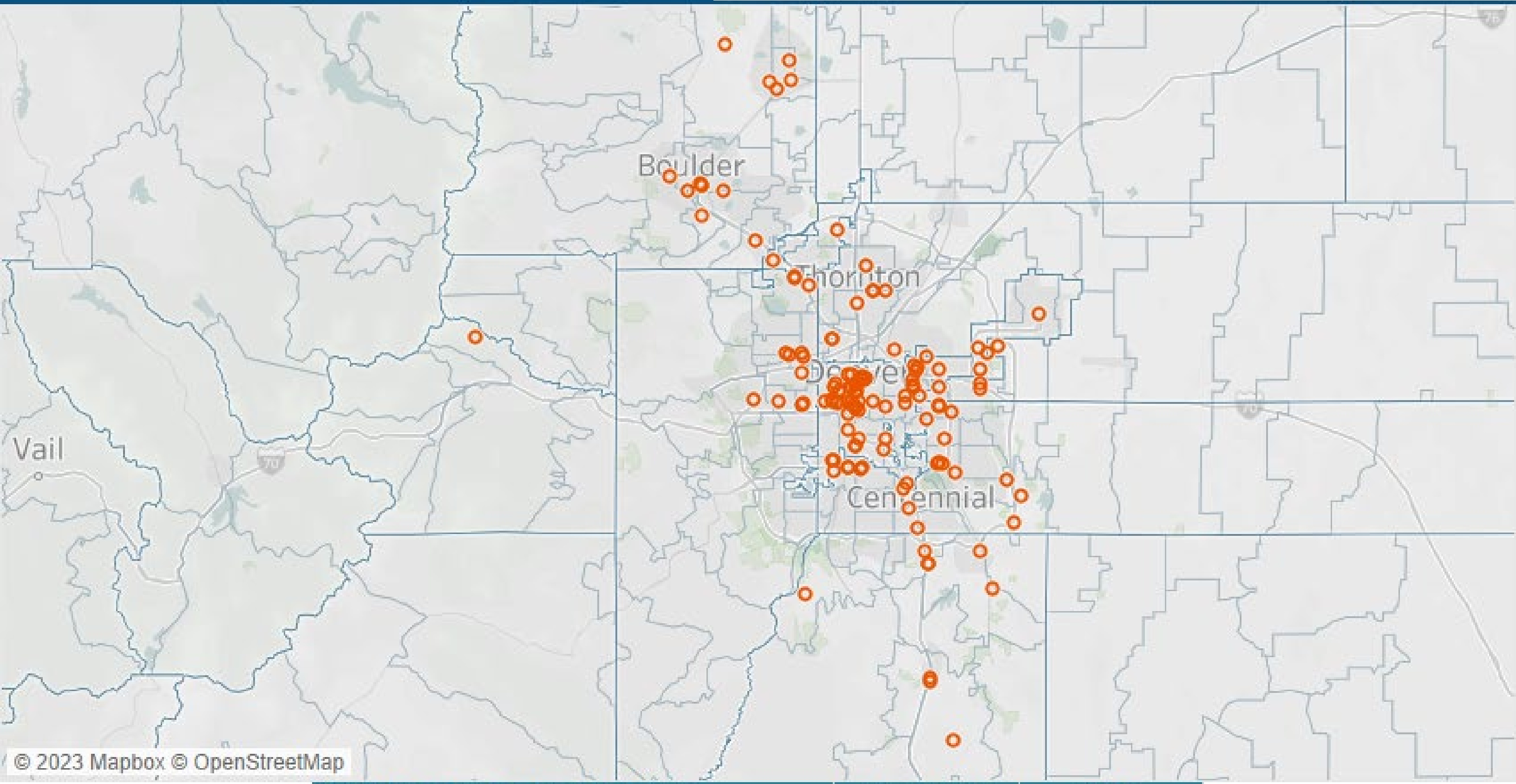
Q2 2023 Asking Rent:

$1,800



Source: Fannie Mae Multifamily Economics and Research

Multifamily Construction: Bidding & Und..



MultiHousingSubmarketName	Apartments	Units
Arvada/Golden	6	1,175
Boulder	8	1,137
Broomfield	5	1,100
Downtown/Highlands/Lincoln Park	18	4,197
Five Points/Capitol Hill/Cherry Creek	7	1,359
Glendale	2	171
Highlands Ranch	2	885
Longmont	5	810
North Aurora	6	1,459
North Lakewood/Wheat Ridge	4	602
Northeast Denver	24	5,144
Parker/Castle Rock	7	1,128
South Denver/Englewood	11	2,145
Southeast Aurora/East Arapahoe County	4	907
Southeast Denver	1	182
Southwest Aurora	5	1,591
Tech Center	4	1,120
Thornton/Northglenn	5	1,084
Westminster	2	323
Grand Total	**126**	**26,519**

Source: Dodge Data & Analytics SupplyTrack Pipeline

Multifamily: ESR Team

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.

Multifamily Metro Outlook: Denver Q2 2023

Multifamily Economics and Market Research Team

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Sources Used

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- Redfin
- REIS
- Yardi
- Zillow