Denver Highlight

Denver remains a leader for market strength

Two years ago, the Denver apartment market was one of the nation's strongest. The market was fuller than it had been in 15 years, and rents were growing at a dizzying pace. A lot of that momentum traced back to phenomenal growth in the metro's young, talent-rich labor force. Today, educated millennials will move toward the metro for well-paid employment opportunities and a quality of life rivaled by few other places in the country. While Denver is still a hot spot for relocations, the apartment market has cooled off significantly.

If the market's fundamentals remain strong, then why isn't the Denver apartment market performing at the same level as in 2015? Simply put, developers are bringing new apartments to the market faster than renters can fill them.

Developers delivered 5,835 new apartment units to the metro during the first three quarters of 2017, according to our pipeline figures. Some 4,990 more are identified for completion in the fourth quarter, bringing the year-end total to 10,825 new units – the most this cycle. Some 9,720 units have been identified for delivery for all of 2018. That's a total of 20,545 new units in two years.

At the same time, annual job growth levels in Denver have declined from 3.5 percent in September 2015 to 1.4 percent in September 2017. That's an average pace in the national picture, but a slowdown is expected in a market where unemployment is very low. Even

Jay Denton
Senior vice president, Axiometrics, a RealPage Co., Richardson, Texas

with the slowdown, apartment demand remains high because of a variety of factors, including:

- Denver is a growing tech hub with a vibrant arts culture that is attracting highly educated millennials to the area.
- Population of the prime renter group (ages 20-34) has increased by 13.3 percent from 2010-2015, according to Census Bureau statistics. This rise has been buoyed by the relocation of several companies, particularly in the financial services sector, from higher-cost California locations to Denver.
- Single-family inventory is tight, especially in the $100,000-$300,000 price range, which keeps more people in apartments.

No matter how strong the apartment demand is, it still is not enough to keep up with supply, which is why rent growth has remained comparatively low compared to earlier in this cycle. The Denver average effective rent has increased $91 since the beginning of this year to $1,451 in September, according to our data. Annual effective rent growth was 3.1 percent, compared to the cycle low of 1.5 percent last September. Still, that's down more than 7 percentage points since mid-2015.

A large percentage of these new

units are amenity-rich, Class A spaces that are marketed to higher-end renters. And although luxury apartment rent growth spiked in September, it remained the lowest of the three primary classes in September.

Meanwhile, as rents are rising from the cyclical low, concessions fell at existing properties, but increased in new properties, which are not included in the rent-growth calculation. Existing properties that cut an average of 0.7 percent off asking rent for concessions in January were only taking off 0.3 percent in September, signifying property owners' confidence in filling their properties.

Concessions offered in lease-up properties, however, have increased this year, from 5.1 percent off asking rent in January to 5.9 percent off in September. This increase shows how owners of new properties are realizing the competition they face for residents, especially when effective rent growth for these newer properties was -0.7 percent in September.

Digging down into Denver submarkets, the urban core, in this instance the downtown submarket, is taking the lion's share of new supply. Some 3,141 new units have been identified for delivery in the next two quarters, 34.8 percent of the metro total, on top of the 2,128 units completed in the first three quarters of 2017. Given those supply figures, it's no surprise that downtown Denver has the lowest annual effective rent growth in the metro, -2.7 percent in September.

Please see Denton, Page 34

Denton

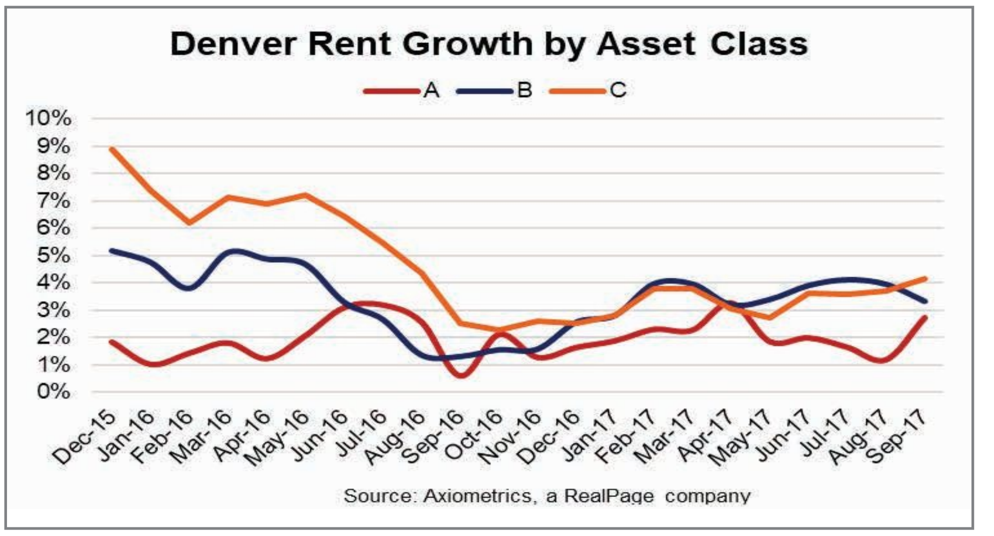
Continued from Page 16

Two other Aurora submarkets recorded the highest rent growth in the area. The 7.3 percent in the Aurora-central-southeast submarket and the 6.6 percent in Aurora-north make the suburb the strongest for apartments in the Denver area. Those two submarkets have just 100 new apartments opening in 2017 – all this quarter in Aurora north.

The total influx of new supply in the Denver metro would mean that in order for rent growth to remain steady in the near future, job growth must step up. We forecast that job growth will increase over the next year, just not to the level of 2015.

In the meantime, annual effective rent growth is expected to average 3.6 percent in 2018, a slight increase from the current 3.1 percent, while occupancy should continue to hover around 95 percent.

Denver has been one of the nation's leading apartment markets since the end of the Great Recession. It just happens to be in somewhat of a lull now. But the attractiveness of the metro to potential residents and growing business opportunities should return Denver to full strength in the next few years.▲



Lodmill

Continued from Page 18

cost and sales data on several projects in the Denver market to report the level of profit actually achieved. The chart shows where the average sale price on a newly developed asset goes. The average sale price reflects 8 percent paid for the land, 48 percent of hard costs, 14 percent of soft costs and a healthy 30 percent slice of the sale price headed to the developer as profit. When viewed as a return on the lower "all-in" developer costs figure, this indicates a 43 percent rate of profit to the developer, well above the 15 to 25 percent return seen as typical in the market.

This substantial profit slice of the pie is reflective of a short-term market imbalance and not a "normal profit." This atypical profit level has been the carrot to lead developers to our planning departments to discuss their project, with their eyes focused on the pot of gold at the end of the rainbow. However, additional cash flow pressures will further impact pricing due to increased rental concessions, higher vacancy, additional competition on rental rates, greater expense loads, higher tax assessments, etc. As more projects are brought to market under higher cost burdens, this pot of gold will shrink.

The moral to the overall story is that our developer friend has been quite well compensated for past work. The question as to the return to current projects will be answered with time.▲

Lamondin

Continued from Page 26

were using about 51 gallons per person, per day; after the renovations, each person is using around 33 gallons per day. Beyond the environmental impact of lowering water usage, the multifamily community will continue to save on its mortgage, achieve a rapid return on investment, and increase property profitability and property value through the resulting increase in net operating income.

As utilities and lenders continue to expand green-financing benefits, there is no better time to take advantage of green property investments for your own financial benefit and the environmental benefit of the Colorado community.▲

Terjesen

Continued from Page 28

accents and dark-stained wood now is moving to a much more natural state. Raw woods used for flooring and trim bring a touch of nature to these bright living spaces, and mixing mediums such as wood and steel creates a modern approach to classic finishes. This balance of dichotomy between materials is a trend we are seeing across properties and styles – playing off the balance of light and dark mentioned earlier. If a mix of wood and steel doesn't do it for you, consider mixing differing metals and tones. One of our favorite finishing details is antique brass, which is a fantastic complementary look for unfinished wood. Pair these together for a crisp finish.

The trends of multifamily housing will continue to change and we will continue to adapt to current residents and their demands. However, answering the call of creating beautiful living spaces for families to call home will always stay fresh and at the forefront of development. Having that "wow" factor for a multifamily housing property ultimately will distinguish it from competitors and set the property apart. We love the direction these trends are moving in and cannot wait to continue working with inspired, fresh ideas.▲