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## Multifamily Metro Outlook: Denver Winter 2018

Fundamentals appear to have tightened again in Q3 2017, with vacancies falling to 5.25 percent and rents growing by a whopping 2.0 percent. The improvement is unlikely to last in the near term as residents are historically less likely to move during the winter.

Denver is in the midst of a massive supply wave of nearly 37,000 units delivered since 2012 alone. So far, strong job and population growth have resulted in good household formation rates to help absorb this supply. However, while Denver's job growth projection remains positive, it has slowed significantly. At best it could produce demand for about 9,100 new multifamily units through 2019. With 16,800 units underway, this will likely produce a short-lived supply/demand imbalance over the next 12-18 months, with net absorption likely to take a hit.

Denver has favorable demographics, in part because it is a "lifestyle" city with nearby outdoor amenities. Denver's estimated population of 2.9 million is expected to expand by 1.4 percent on average annually through 2019, almost twice the national rate. In addition, approximately 22.2 percent of the population is aged 21 to 34 (the prime renter cohort), above the 20.7 percent national rate. This group is likely to grow 1.4 percent on average annually through 2020, nearly three times the national rate.

Although it remains dependent on the energy sector, Denver has diversified its economy to include healthcare, finance, and high tech. The concentration of high tech jobs is 6.7 percent, almost 2.0 percent higher than the national average. There has been strong growth in computer system design, engineering, and accounting, all of which have helped produce demand for apartments.

The cost of business is only 96 percent of the national average, which allows Denver to better compete with California for both jobs and residents. While job growth has slowed, Moody's Analytics estimates that, at 1.7 percent annually, it should remain above the national average through 2018, with many of the new jobs in high-skill professional services sectors. In fact, about 18 percent of Denver's jobs are in the well-paying professional services sector, compared with just 13.9 percent nationally.

However, Denver's market has a few weaknesses. The cost of living is high, having crept up to 9 percent above the national average. This may deter some potentially new residents from relocating, especially when coupled with swiftly rising home prices. In addition, nearly 7 percent of jobs in the high-tech field include some manufacturing. While well-paying, this sector is often volatile.

### Development

Over the past couple of years, the majority of deliveries were in the Downtown and Tech Center submarkets. However, nearly 17,000 units of mostly new class A supply is now being delivered in virtually every submarket. The North Denver market has almost 4,000 units underway and is currently the leading submarket for development.

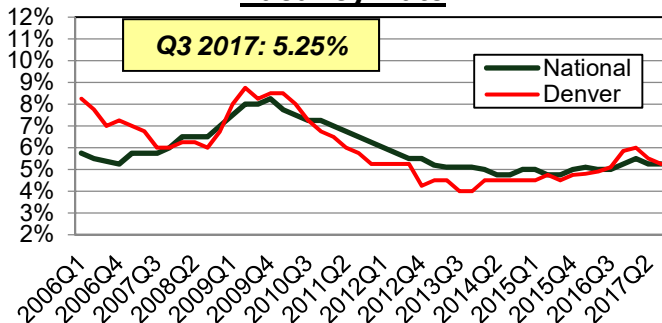
### Outlook

With job growth slowing, multifamily demand is likely to ease over the next 12 to 18 months as the large volume of new supply continues to be delivered. However, should the recently passed Tax Cuts and Jobs Act begin to bear fruit, the market may be able to absorb the elevated levels of new supply.

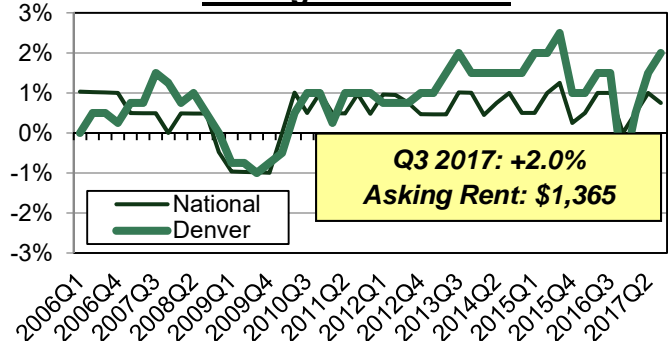
Longer term, Denver's strong demographic trends bode well for absorption of any oversupply and the continued growth of the multifamily market. However, only moderate amounts of new supply will be needed given the recent aggressive expansion in new apartments.

## Vacancy and Rent Composite Estimates

### Vacancy Rate

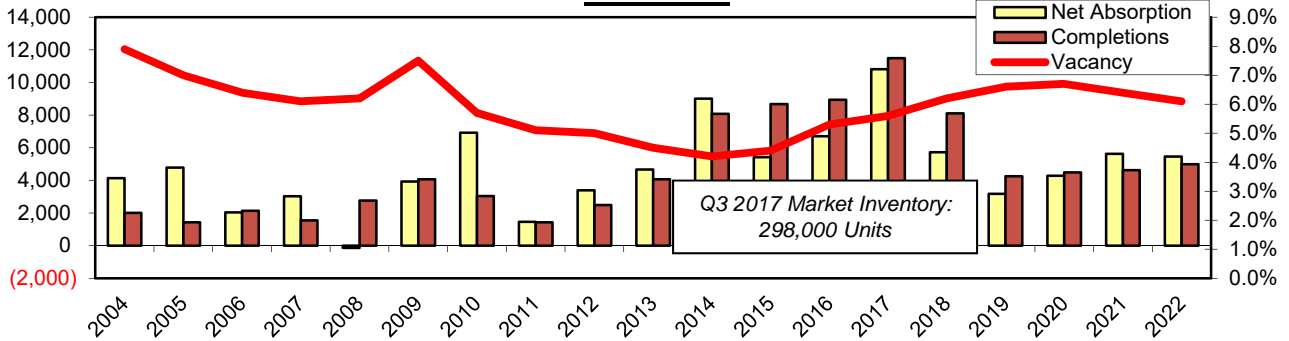


### Asking Rent Growth

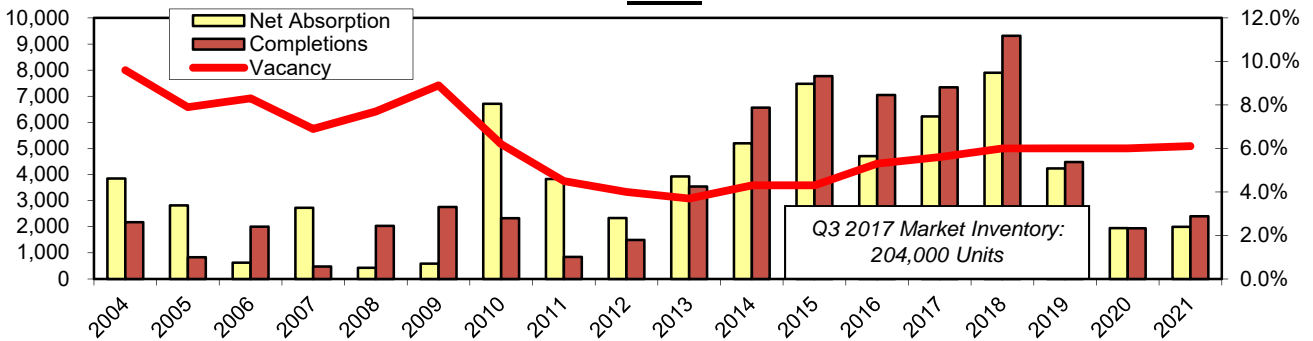


Source: Fannie Mae Multifamily and Economics Research

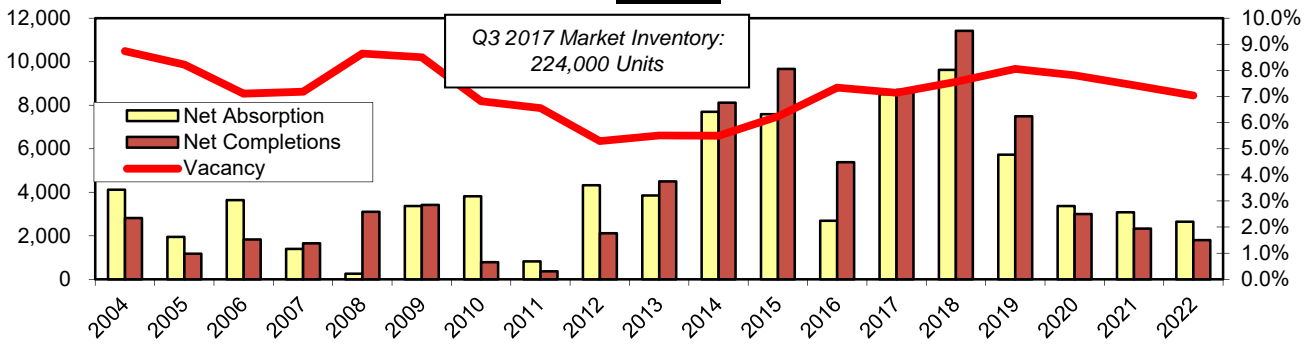
### CBRE-EA



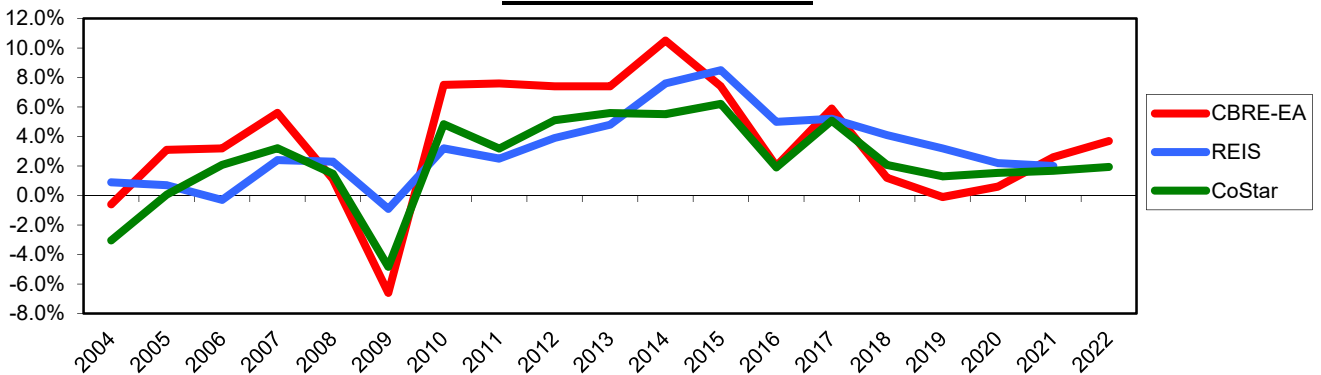
### REIS



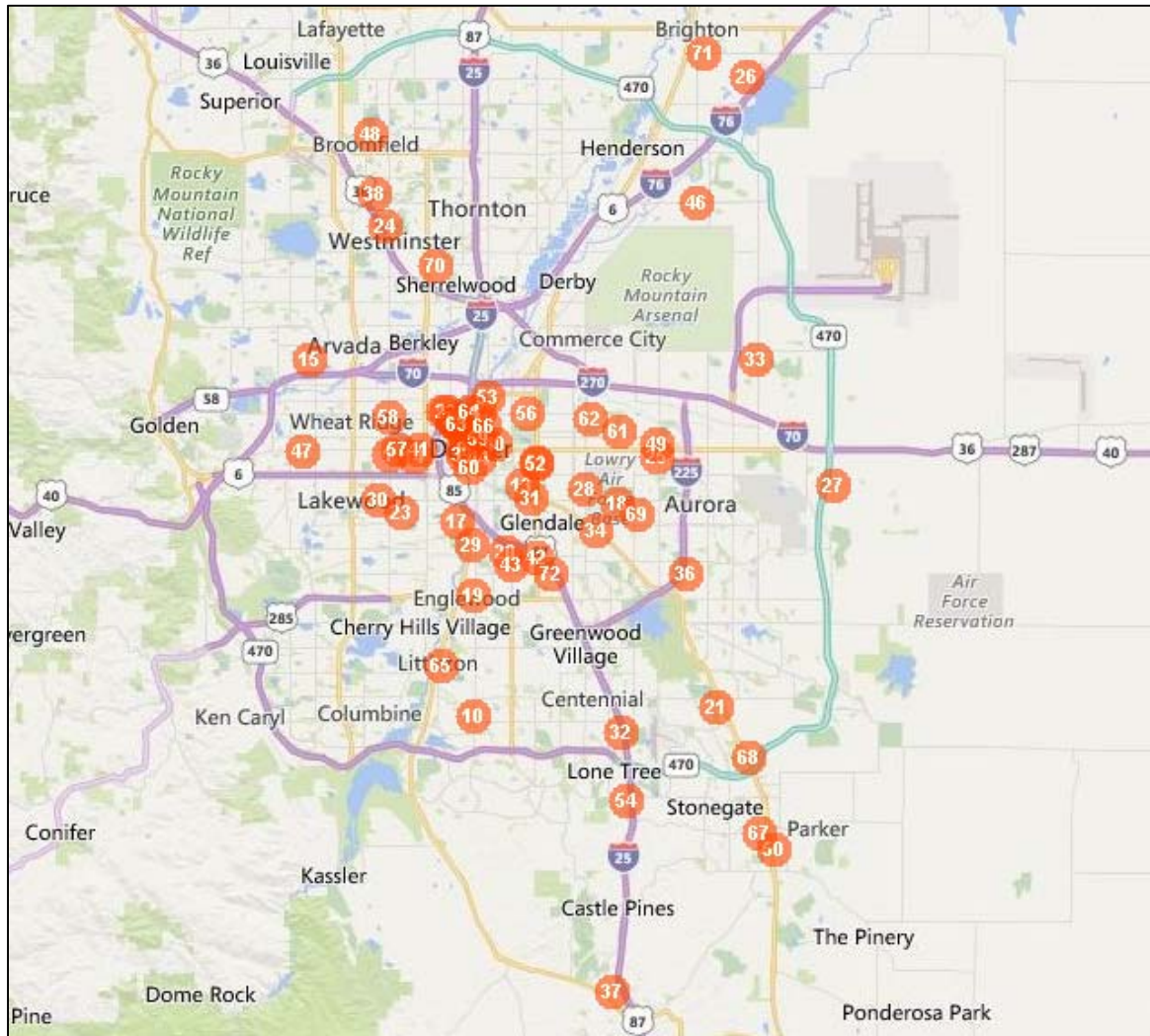
### CoStar



### Annual Rent Growth



**Construction Bidding/Underway  
(72 projects/16,900 Units/20.0 M Sq. Feet)**



| CBRE-EA Submarket     | Number of Projects | Total Sq Ft (000's) | Total Units |
|-----------------------|--------------------|---------------------|-------------|
| Denver-North          | 18                 | 5110                | 3933        |
| Denver-Downtown       | 7                  | 2177                | 2144        |
| Denver-Central        | 7                  | 2503                | 1809        |
| Denver-South/Glendale | 7                  | 1990                | 1538        |
| Douglas County        | 5                  | 1789                | 1480        |
| Denver-Northeast      | 3                  | 1225                | 1046        |
| Arvada/Broomfield     | 4                  | 1162                | 972         |
| Aurora-South          | 2                  | 643                 | 564         |
| Littleton             | 2                  | 546                 | 510         |
| Aurora-North          | 3                  | 372                 | 388         |
| Northglenn/Thornton   | 2                  | 396                 | 384         |

| CBRE-EA Submarket        | Number of Projects | Total Sq Ft (000's) | Total Units |
|--------------------------|--------------------|---------------------|-------------|
| Arapahoe County/Other    | 1                  | 347                 | 347         |
| Arapahoe County          | 1                  | 335                 | 306         |
| Lakewood-North           | 2                  | 338                 | 306         |
| Denver County            | 1                  | 273                 | 264         |
| n/a                      | 1                  | 197                 | 216         |
| Denver-Southeast         | 1                  | 162                 | 190         |
| Lakewood-South           | 1                  | 153                 | 153         |
| Denver-Far Southeast     | 1                  | 97                  | 112         |
| Englewood/Sheridan       | 1                  | 125                 | 110         |
| Aurora-Central-Southwest | 1                  | 87                  | 74          |
| Westminster              | 1                  | 48                  | 69          |



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## Multifamily Metro Outlook: Phoenix Winter 2018

### **Fannie Mae Multifamily Economics and Market Research**

Tanya Zahalak, Senior Multifamily Economist

#### **Sources Used**

- AxioMetrics
- CBRE-Econometric Advisors
- Bureau of Labor Statistics
- Census Bureau
- CoStar
- Dodge Data & Analytics
- Moody's Analytics
- Real Capital Analytics
- Reis, Inc.

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