Denver Continues to Be a Hot Apartment Market Even as Yields Shrink

Strong demographics and local economic growth continue to make Denver an attractive multifamily investment market.

By **Kelsi Maree Borland** | June 05, 2019 at 04:00 AM

Denver has landed at the top of investors' buy lists for years, and even as competition has increased in the market and yields have waned, it hasn't budged. **Heslin Holdings**—an investment firm that is planning to place $400 million in capital across commercial asset classes over the next 12 months—has been an active player in the Denver market for six or seven years, and this year, it still considers Denver its top target market for multifamily investment.

“Denver has been our number one focus geographically for the last six or seven years,” **Matt Heslin**, CEO of Heslin Holdings, tells GlobeSt.com. “Demographically speaking, the market is the most exciting that we have seen, and we have studied all of them. Denver has 50,000 millennial moving in and a highly educated and diversified workforce in everything from bioscience to technology. The GDP of the local economy, and the unemployment is below the national average. From a demographic point-of-view, it made sense to start in the market, and we did. We were one of the early adopters in the multifamily value-add space.”

The firm has acquired 6,000 units in the market, including the recent $177 million of a 1,000-unit complex in Denver. However, increased competition, particularly in the middle-market niche, has made finding new opportunities a challenge. “When we started, we had a strong opportunity to have our pick of the litter, so to speak,” says Heslin. “We have seen more aggressive posturing by the institutions to play at a more medium-priced level. Now, we are seeing institutions step into the $25 million to $75 million sphere and have started absorbing those properties in the middle markets. That is where we were one of the few players in the early days. We have also seen smaller players entering the market and teaming up with funds and institutions. Those factors have pushed pricing up and yields down in the market.”

The difficulty finding deals isn’t for a lack of trying. “We are scrubbing $400 to $500 million deals, but we haven’t found another opportunity that we are excited about at this moment,” says Heslin. However, it is starting to look at other markets for opportunities. “This year, we are at $200 million in acquisitions. We would like to get to $300 million or $350 million in acquisitions, but we are going to have to look to other markets to do that," he adds. Nashville, Charlotte, Atlanta and Houston are among the firms other target markets.

Overall, Heslin is bullish on multifamily investment, but at this point in the cycle is focusing on a long-term hold strategy. The company is also starting to divest from assets that have reached peak value. "That is not something that you will see us talking about in Denver to a fair degree," says Heslin. "We are bullish on the rent growth going forward, but we aren't going to see the same rent growth that we have seen the last six of seven years. We are still going to see rent growth at 2.5% to 3%. We are bullish on the asset class, and there is a lot of money chasing deals and debt that is still excited about placing capital in these deals. So, we still see opportunity, but it is a function of finding the right deal in the right market. There isn't a plethora of what I would call excitingly priced deals."