

DMCAR PRESENTS
2023 **HEAVY** *In Commercial Real Estate*
HITTERS



TOP YOUNG BROKER

Will McCauley

UNIQUE PROPERTIES

2022 PRODUCTION: \$51,405,375

Please share a summary highlighting your biggest, most memorable deals that you were involved in/completed in 2022.

We facilitated the sale of the Terra Village Apartments, a 402-unit multifamily property in Edgewater, CO. The seller invested approximately \$12 million in renovations and upgrades during ownership. The property presented an opportunity to acquire a premier asset in a growing market with continued upside. We set out with a targeted buyer list and Trion Properties came forward with an attractive offer. Trion Properties, a California-based investment group with a strong presence in the Colorado market, planned to continue renovations with upgrades to kitchen cabinets, stainless steel appliances, tile backsplashes, updated bathrooms, and furnishing each unit with washer/dryer. Having closed in June 2022, the deal came with its own set of financing challenges. Interest rates were starting to tick upwards, but thankfully the buyers were able to lock in an attractive financing solution. The sale represented a highwater mark of 2022 and traded at a record price per unit in Wheat Ridge.

Another memorable deal we completed in 2022, was the sale of the Stone Gate Apartments, a 48-unit multifamily property in Windsor, CO. The previous owner had spent significant capital to improve the roofs, windows, exterior walk ups and parking lots. We represented the buyer, EPM Properties, who successfully closed the deal for the up leg of their 1031 exchange. EPM Properties, a local owner and operator, will continue to renovate the interiors of the units with new cabinets, bathrooms and add in unit washer/dryers. Additionally, the buyer is making improvements to the courtyard and adding additional amenities. This deal represented the opportunity to expand into a supply constrained market with a strong value add story.

Describe the overall performance/state of your submarket for 2022.

Market dynamics were rapidly shifting over the course of 2022. After a record breaking 2021, with rent growth at 13% and values at an all-time apex, investor sentiment quickly transitioned with the aggressive interest rate hikes of 2022. Since Q1, rent growth has decelerated to a current year over year figure of 2.5%. Previously, competition for multifamily assets has led to substantial price appreciation in the market. Investors' voracious appetite for deals slowly subsided due to the less attractive financing options. In Q4, sales volume slowed as the gap between bid and ask grew. One of our greatest challenges was pricing properties with the rapidly changing capital markets. It was of the utmost importance to pick the right buyer the first time to avoid future market effects on values in the event of a termination. With construction pipelines and delivery of new units reaching record highs in 2022, vacancy started off the year at a 7-year low and has slowly seen a gradual uptick.

We found success though making relationships with new lenders who have implemented themselves as a staple in the 2022 Colorado market. Additionally, we were able to enact creative financing solutions to offer attractive financing to potential investors. 2022 was a year of extraordinary change that led to tremendous growth and experience of my knowledge as a broker.

What are your predictions for your submarket for 2023?

2023 is a year of both opportunity and uncertainty. With the federal reserve generating record breaking interest rates, many buyers and sellers are questioning what is next. The unprecedented rent growth of 13% in 2021 has now slowed.

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more from Will McCauley, Unique Properties

This is partially due to inflation eating into renters' pockets as well as fears of an imminent recession. There has also been a slowdown in absorption which coincides with 28,000 units under construction in Denver metro. I foresee there will likely be further cooling for the next eighteen months until investors' confidence has been restored and interests' rates level out.

I believe there will be opportunity for well capitalized investors to acquire properties at discount to historical highs. Owners who purchased CMBS loans in 2017-2020 will most likely have some difficult decisions to make in the near future. Many investors max leveraged financing at 80% LTV and financed 100% of capital expenditure cost over the last few years. Those investors took on short-term bridge loans that will be expiring in the next 24 months. Having acquired debt from 2-4%, those same investors will be forced to either refinance at a much higher rate or sell. This will ultimately lead to increased sales of these assets with maturing debt. Well capitalized investors can advantageously acquire these investments at new market pricing.

What is going to be the biggest commercial real estate story for the Denver area in 2023?

New legislation passed by Denver City Council has impeded new multifamily development in Denver County for the foreseeable future by "Expanding Housing Affordability." These requirements state that new housing developments with 10 or more units will be required to set aside 8-15% of the units as affordable. With new low-income housing requirements, many developers are pushing hard to get projects through Denver planning prior to the June 16 deadline. Proposed developments have reached record levels with estimates of 120,000 units in the pipeline. Due to the bottleneck of the approval process compounded with changing financing and construction costs, it is likely only a fraction of these proposed complexes will ever

break ground. After the cut off, many developers will likely be forced to go pencils down. Denver developers will shift focus to other markets with fewer restrictions. I believe, within the 5-10-year forecast, there will ultimately be a housing shortage in Denver County. History is bound to repeat itself. As seen in other commonwealths that have implemented low-income requirements, the ultimate outcome is a lack of new development and therefore affordability; in Denver County this will likely hold true as well.

Denver has historically experienced steady growth from immigration of new residents in the last decade. Rising median home values in Denver have caused many potential home buyers to become long-term renters. The lack of affordability of single-family homes combined with the slow of new development will inflame rent growth and consequently inflate multifamily values.

What is a goal you have yet to achieve?

Reach \$1 billion in multifamily sales and continue to grow the Unique Apartment Group.

Who is the one person you're most interested in meeting?

Joe Rogan

What is your favorite quote?

"Never Surrender"

What would you select as your 2022 theme song/walk up song?

"Trophies" by Drake