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Evans Station Lofts is one of many developments to take advantage of the Denver TOD Fund.

Photo courtesy: Medici Communities

Denver's TOD Fund gets regional expansion

by Ryan Gager

Transit-oriented development is a topic that's been covered, and maybe in some cases over covered, but as long as Denver continues to expand public transit, the TOD buzz remains relevant to real estate professionals.

According to Brad Weinig, TOD program director at Enterprise Community Partners, in most urban areas, including Denver, transportation is the second highest household expense after housing. This realization helped lead to the creation of Denver's TOD Fund in 2010, with the purpose of creating and preserving affordable housing along current and future transit corridors in Denver. Four years later, the fund is still attempting to resolve Denver's lack of affordable housing in urban areas. "Housing and transportation are the two biggest expenses for individuals as well as families," said Weinig. "So you really can't address one without the other."

To create the fund, Enterprise Community Partners collaborated with the Urban Land Conservancy, Denver's Office of Strategic Partnerships and Office of Economic Development, as well as many local and national foundations, banks and community development financial institutions. ULC also was an equity investor and designated sole borrower of the fund. ULC has proved the fund model with eight successful acquisitions along five rail corridors in Denver.

Not only will these investments result in the development of more than 600 units of affordable housing, but also the developments include well over 100,000 square feet of commercial space and affordable nonprofit facilities as well as a new public library.

With each development, ULC works not only to build new neighborhood assets, but also to create a sense of community with new economic development and job opportunities. "We work closely with the communities we invest in to determine the needs of the neighborhood and its residents," said Debra Bustos, vice president of real estate with ULC. "Once we understand what these needs are, we focus on identifying development partners that prioritize these needs to construct something that the community is really excited about."

The Evans Station Lofts, Avondale Apartments at Mile High Vista and Park Hill Station are a few of the successful projects that exist because of the TOD Fund.

The Evans Station Lofts is a five-story building located at Evans Avenue and Santa Fe Drive. The development

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Letter from the Editor

Colorado's multifamily market, a thriving industry

With charts and graphs containing all kinds of facts and figures spread out on our office conference table, I quickly realized what a large and complex business multifamily housing is, especially in Denver.

Colorado Real Estate Journal is excited about the launch of our four new quarterly publications – Office Properties, Multifamily Properties, Property Management and Shopping Centers. CREJ has long been known for providing the information our readers need to make the right decisions for their commercial real estate clients and growing their businesses.

Multifamily Properties Quarterly provides an in-depth look at the apartment and condominium community with trends, market features and profiles from the best in the industry.

New construction is creating a lot of excitement and a general buzz around the multifamily market in Denver. Throughout this issue, you'll hear from many experts as they discuss the reasons for this, what they think will happen in 2015 and how they view the overall multifamily market.

The Colorado multifamily market is seeing its highest level of growth in a decade, so the timing of our first issue of Multifamily Properties couldn't be better. Not only is the supply side increasing, with thousands of new units scheduled for completion in 2015, but apartment rent growth levels also are increasing. With so many new products and so much new construction in great locations, it's an exciting time in the multifamily market.

Thank you to everyone who contributed articles, sat down for interviews (with me) and helped me understand the multifamily realm of real estate. Without the help of these industry experts, this special section would not be possible.

As you read this publication, please don't hesitate to contact me with thoughts or ideas for articles that you would like to see in upcoming issues of Multifamily Properties Quarterly.

Thanks for reading,

Ryan Gager
rgager@crej.com

Multifamily Overview

2015 multifamily outlook: how it affects Denver

Strong job and population growth helped Denver achieve a record year in the multifamily sector in 2014. Records were broken in average rent, occupancy, absorption and rent growth. Which, of course, led to record construction (over 19,000 units currently). Can 2015 be as strong as last year? Only time will tell, but our guess is it will be one of solid performance, strong investor activity and continued positive fundamentals. Supply is high, but so is demand. Most of the construction is centered on three areas: downtown Denver, the southeast business corridor and the northwest corridor. All three areas are major employment centers and have connectivity through current or future light rail. Denver is growing up from the inside out.

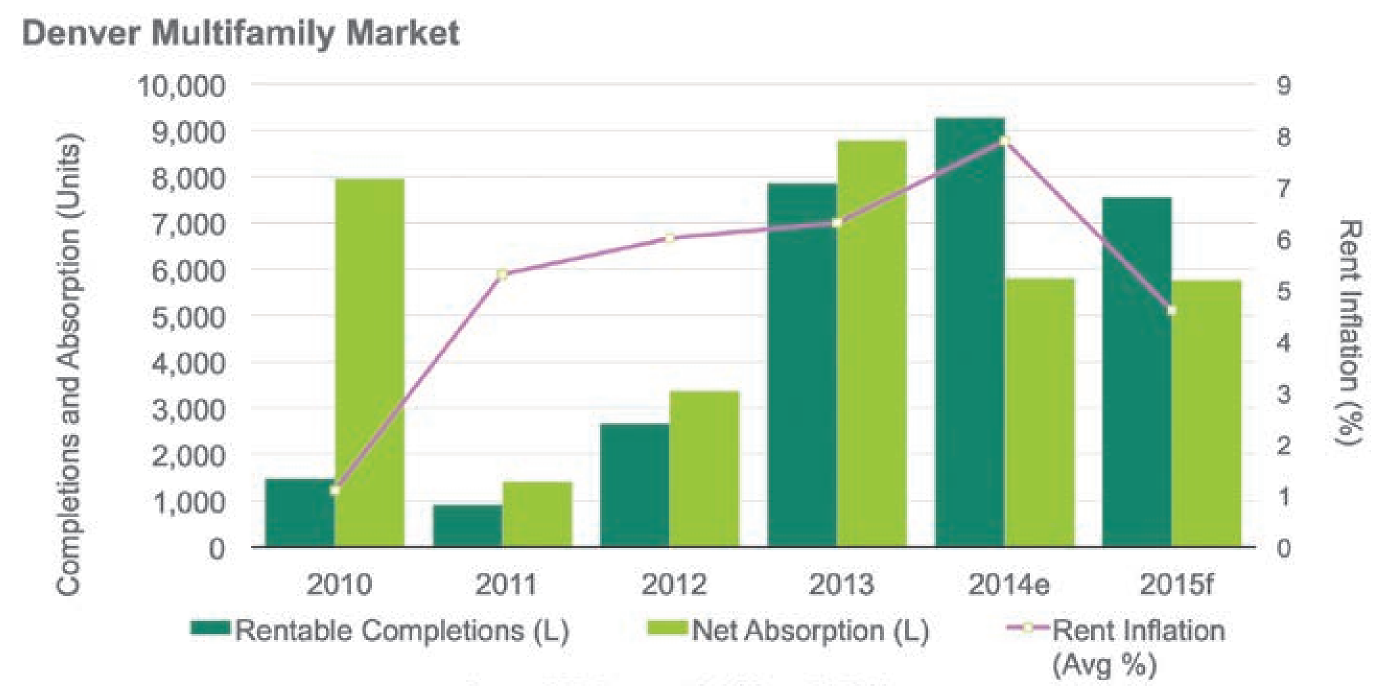
David Potarf
Senior vice president, Investment Properties, CBRE, Denver

Jessica Ostermick, LEED AP
Director, Research & Analysis, CBRE, Greenwood Village

Denver, the 14th-largest multifamily market in the U.S. by existing units, absorbed more than 8,100 units over the past three quarters, placing it among the top 10 markets for net absorption, according to CBRE Econometric Advisors. As strong demand outpaced new supply, the metro vacancy rate registered a low 3.4 percent in third-quarter 2014, down 30 basis points from a year earlier, and well below the most recent peak of 7.9 percent vacancy in 2009.

This year, Denver will post its strongest annual rent growth in 20 years of nearly 8 percent, beating the previous record year of 2000, when rent inflation reached 6.8 percent. Local rent growth also outpaced most U.S. markets. Denver ranks third in the U.S. for rent growth over the past 12 months, behind only Oakland and San Jose, California.

The average apartment rent in Denver as of third-quarter 2014 was $1,169 per month, according to CBRE Econometric Advisors, and rents in central Denver are 1.3 times the market average. Rent growth is expected to moderate in 2015 as demand works to keep pace with new deliveries, but will remain above the historical average of 2.7 percent (1994-2014).



Source: CBRE Econometric Advisors, Q3 2014.

Source: CBRE Econometric Advisors, Q3 2014.

Apartment completions in 2014 will be second only to 2002, when more than 10,000 units were delivered. Since 2010, central business district apartment unit deliveries have accounted for 20 percent of all Denver completions, compared with 12 percent in the 2000s and 5 percent in the 1990s. Apartment Insights reports 19,900 units under construction in Denver as of third-quarter 2014 and another 20,100 planned or proposed. Further, 26 percent of the planned units are located in Denver's CBD.

The "millennial factor" has boosted demand in Denver and contributed to upward rental rate pressure. Denver ranks second in the U.S. for growth in millennial population between 2009 and 2012, according to the Brookings Institute. Millennials moved to Denver because of the job availability and for the high quality of life, and they bolstered occupancy primarily in urban locations. The shift of demand to the urban core will help alleviate short-term softness in 2015.

A high volume of sales in the third and fourth quarters most likely will lead to a record year in 2014 once all the sales are confirmed, surpassing each of the past two years, which have been very strong. Since 2011, more than $9.1 billion in multifamily assets have transacted in Denver, according to Real Capital Analytics. 2015 is expected to be another strong year of sales in Denver's multifamily sector, but likely more reflective of 2011 or 2013 activity levels. Investor interest spread to secondary markets in 2014 and will continue to seek yield in markets like Boulder, Fort Collins and Colorado Springs.

Pricing metrics have steadily increased in Denver throughout the current real estate cycle, but significant increases were achieved in 2014. The average sales prices per unit increased 31.8 percent year over year in third-quarter 2014 to $149,000. Third-quarter 2014 also marked the fourth consecutive quarter Denver's average sales price per unit exceeded the U.S., which is the longest running overage on record. Cap rates compressed a bit in 2014, ranging from the low-6 percents to the high-4 percents (for trophy assets in prime locations). As of third-quarter 2014, the cap rate for all multifamily product registered 6.1 percent, according to Real Capital Analytics.

Looking ahead, potential headwinds that will impact the market in the near term include a revision to Colorado's construction defect laws in 2015. This may pave the way for more condominium construction, thereby providing multifamily dwellers more options to own instead of rent. However, it will be a while before this takes effect. Resurgence in single-family construction is also expected in 2015-2016, providing additional options for Denver's growing number of households.

Lastly, are interest rates finally going up this year? If they do, it will, at the very least, cause a temporary pause in activity, but most likely will not greatly impact fundamentals as long as the increases are slow.

The big question is where are we in this cycle? Only one thing is certain: Cycles rarely repeat exactly as those before. Are we in the seventh inning? Most likely, but it may be an extra-inning game. Whatever your analogy, we are in a good place right now and as long as job growth and population growth continue, Denver should continue to perform well and see prolonged interest from the investor world. Investors are particularly attracted to Denver's strong employment and demographic growth, as well as the mass transit infrastructure improvements and diverse industry base. Denver is truly one of the top non-coastal markets in terms of both attractiveness to job seekers and investors.▲

> The 'millennial factor' has boosted demand in Denver and contributed to upward rental rate pressure.

Denver Metro Update

Denver investors, developers remain aggressive

As people flock to Colorado for job opportunities and an improved quality of life, the apartment market has tightened up to the point where rents are rising steadily and investors continue to aggressively pursue any available multifamily properties.

Jeff Johnson
Principal, Pinnacle Real Estate Advisors, Denver

It's no wonder people are converging on Denver. Last year, Forbes.com ranked the city No. 4 on its list of the 10 best cities for job seekers. The state's unemployment rate stood at 4.3 percent in October, with Denver slightly better at 4.2 percent.

Denver also landed on top of Business Insider's ranking of how each state's economy is faring, largely because of the 1.2 percent growth in the city's working-age population and the addition of 66,300 jobs between June 2013 and June 2014. Business Insider ranked Denver as the fifth-best city for entrepreneurs based on access to funds, networking and mentorship opportunities, the local economy and affordability.

Investors in the multifamily sector are taking note. In 2013, investors set a metro Denver record with apartment sales of nearly $2.9 billion. They may come close to that volume for 2014, depending on how the fourth-quarter numbers shake out, which come out at the end of this month. But the market could soften in 2015 or 2016 as many of the projects that are under construction are delivered, though many in the industry believe Denver's market is not overbuilt yet.

More than 19,000 apartment units started construction in 2012 and 2013, with most of them delivered by the end of 2014. That's the most apartments added to the market in such a short time period in more than 40 years.

The boom in construction projects in Denver follows a period that saw little development of apartments and now is filling a need that will help the housing market catch up with the demand created by population growth. Downtown Denver is particularly hot, with about 4,000 units under construction, the majority of which surround the Denver Union Station transit and hotel development. Many of the other multifamily projects under construction or recently completed also are along the transit system throughout the metro region.

Even with all the inventory added to the market, the vacancy rate continues to drop. It decreased to 3.9 percent in the third quarter of 2014 from 4.7 percent in the second quarter. A vacancy rate of 5 percent is considered normal and healthy.

The dropping vacancy rate translates into rising rents. Average rents increased to $1,145 in the second quarter, compared with $1,049 during the same period last year and $986 a year ago. Denver tied San Diego for the highest rent growth in 2013 at 7 percent, according to an analysis of the top 10 markets for apartment investment by National Real Estate Investor.

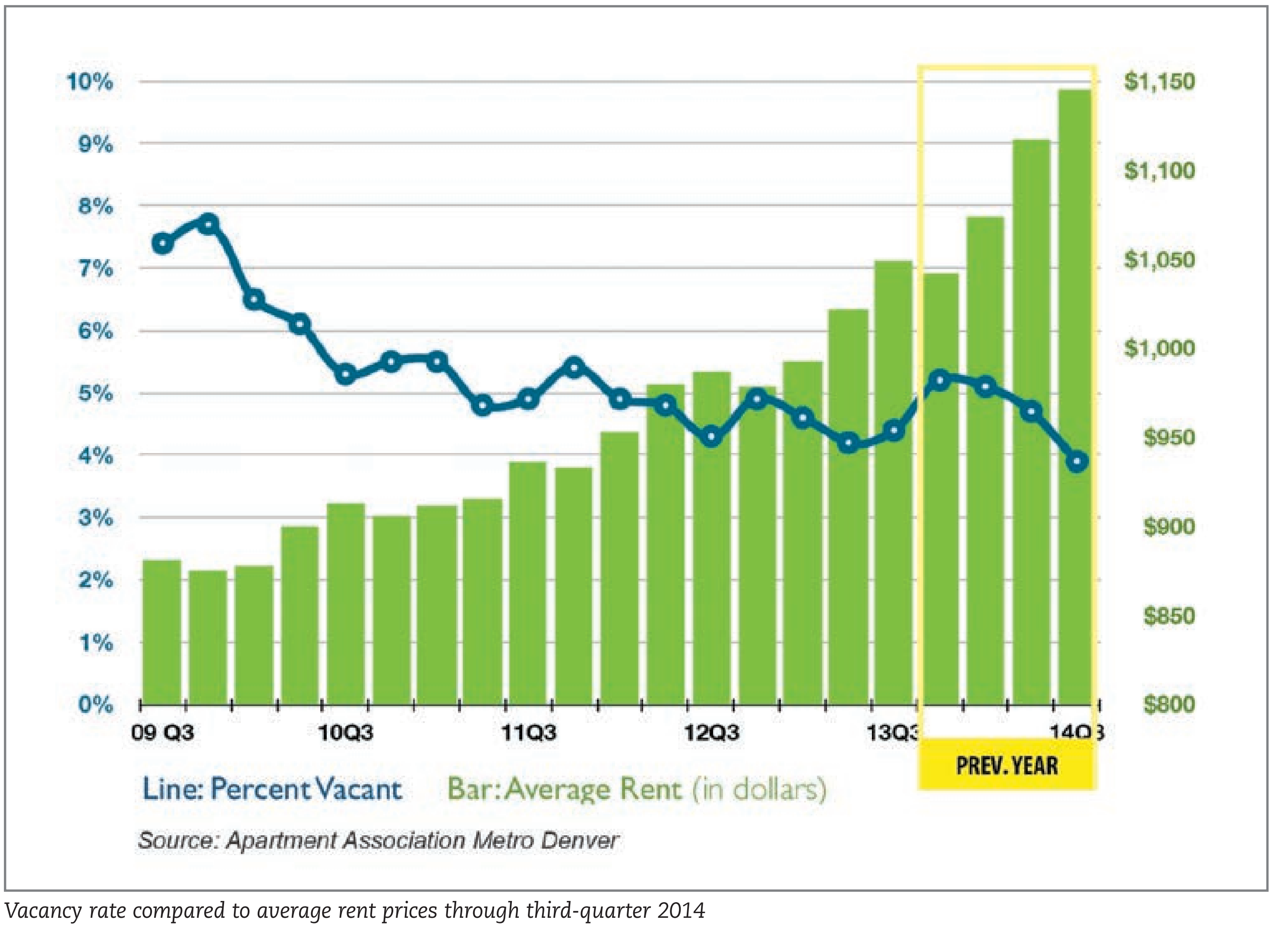
Developers and investors were quick to enter the multifamily arena, because it's the sector that has the most access to financing for construction and acquisition. It's also an alternative to developing condominiums – a risky prospect because of the state's onerous construction defect law that make it easy for homeowners to sue over property defects.

Dropping vacancies, rising rents and increased investor demand are pushing the value of multifamily properties up, meaning the assessments due out in May are likely to rise again. Assessments, conducted every two years, were up as much as 40 percent in some areas in May 2013.

New valuations will be based on properties sold between July 1, 2012, and June 30, 2014. By some estimates, prices paid for properties sold during that time frame have increased as much as 89 percent.

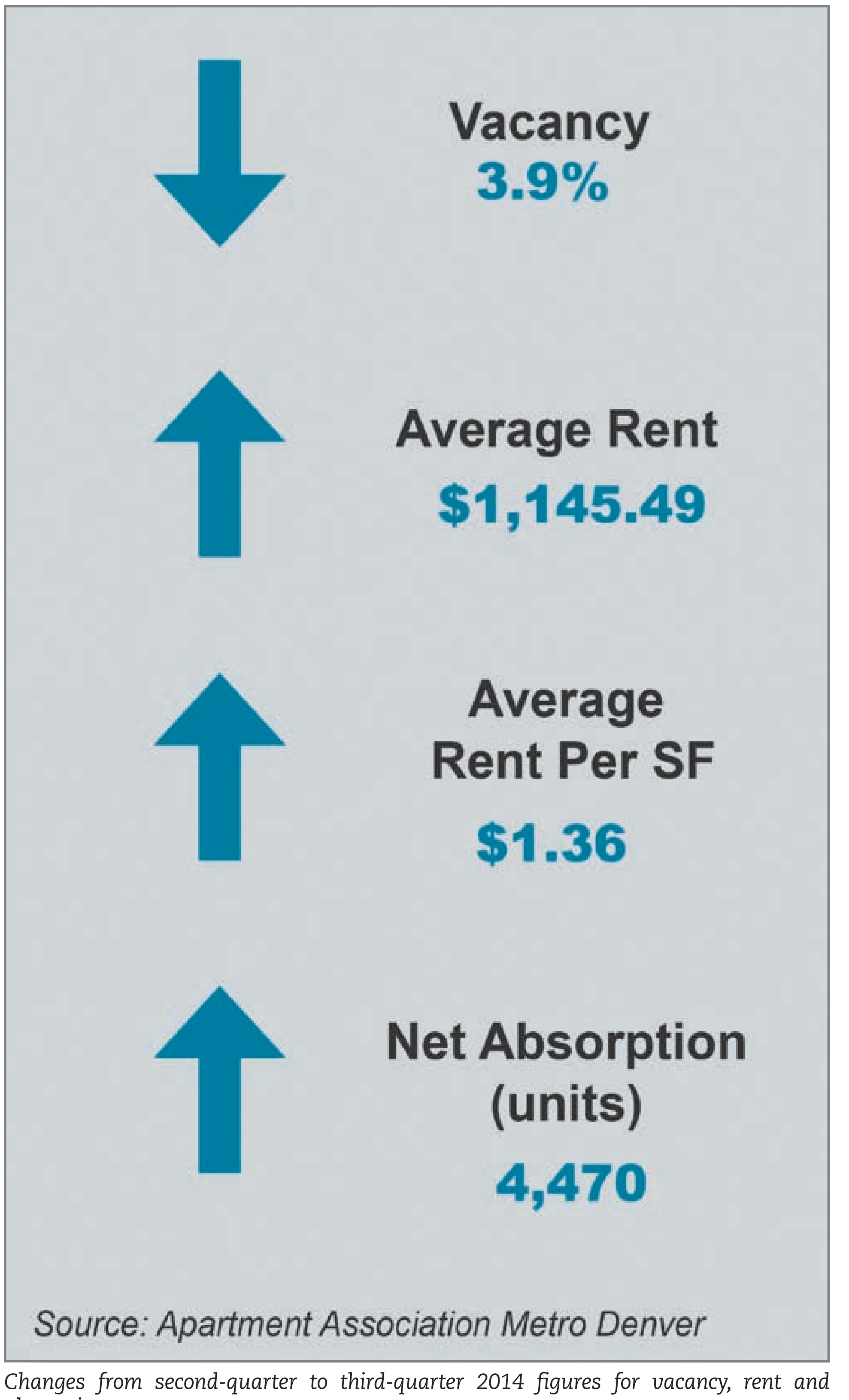
Though owners will be able to raise rents to cover the increase in property taxes caused by higher assessments, some may choose to sell instead.

A steep ramp-up in construction usually weakens a market's overall fundamentals, but the Denver metro area's strong economy seems able to absorb the new supply, and it should fuel enough demand for apartments to prevent severe declines in fundamentals in the near term.▲



Vacancy rate compared to average rent prices through third-quarter 2014

> Dropping vacancies, rising rents and increased investor demand are pushing the value of multifamily properties up.



Changes from second-quarter to third-quarter 2014 figures for vacancy, rent and absorption

Boulder Update

Multifamily trends and outlook for Boulder County

Residential multifamily properties have become a favorite among investors, making the real estate category one of the most popular in the region. In 2014, Boulder County continued to see unprecedented activity through new construction as well as existing sales in the multifamily market. So what will the market look like this year? I expect to see construction slow down, vacancy rates increase and rents level off. Let's discuss what factors are driving the market locally.

Todd Walsh, CCIM
Commercial broker associate, The Colorado Group, Boulder

Demographics. A variety of factors contributed to the multifamily Boulder boom. One of them hinges on investors banking on widespread news about shifting views around home ownership. The MacArthur Foundation, for example, found that 57 percent of all Americans believe that renting a home is more appealing than owning. While the generational attitudes toward home ownership may very well be feeding the demand for apartments in Boulder, there are a few more local economic factors to consider.

Boulder County has continually been named one of the top 10 desirable regions in the country to build a business, according to Businessweek. Couple that with the strong local economy and a high barrier to entry for purchasing a home in the county, and the output has been a strong demand for apartments, making them a safe investment. Increasingly, housing inventories are tightening and we are seeing a dramatic increase of families migrating to Colorado. For example, between 2000 and 2013, Colorado's population increased by more than 22 percent, a pace that beat the nation's rate of growth by 12 percent.

Economics. Real Estate Investment Services reported that the Denver metro multifamily market reached a low vacancy rate of 3.6 percent in 2014, and the Apartment Association of Metro Denver reports that Broomfield and Boulder are at 3.3 percent vacancy. Look at both measurements compared with other investment classes, such as office or industrial property vacancies, which are currently two to three times higher, ranging from 6 percent to 9 percent. Even as the vacancy rate remains low, rents have continued to rise. According to the Apartment Association of Metro Denver, the average rent rose 7.4 percent during 2014. The rental price for third-quarter 2014 in Boulder and Broomfield was approximately $1.50 per square foot, with many new projects marketing rents exceeding $2 per sf. Nationally, we see a similar trend. Axiometrics reports that the national annual effective rent growth in November 2014 reached 4.7 percent, the strongest result of the year, as well as since the crippling recession of 2008.

So what does this mean for your Boulder County multiunit property in 2015? There continues to be strong interest from investors seeking multiunit income properties. This is due in part to an environment providing a low risk (with unprecedented low vacancy and increasing rents) and also due to speculation that the demographic change in attitudes away from home ownership will continue to increase demand for rentals.

Currently, there is a gap between supply and demand with demand for housing outpacing supply. With the number of new units coming on line in the next few years, as well as the rents for some of these new projects passing $2 per sf, one has to wonder if demand for rentals will taper as the cost to own a home becomes as affordable or, in some instances, more affordable than renting. Consider this: A one bedroom 600-sf apartment in Boulder can cost as much as $1,200 per month, whereas that same monthly payment is enough for someone to be able to afford to purchase a $250,000 to $275,000 home or condo.

This year, I believe we will see an increase in multifamily sale transactions as the conditions are prime to consider selling and the demand from investors continues. Vacancies likely will increase as new projects providing amenities like clubhouses, workout facilities and pools compete with older properties absent of such amenities. Rents will level off, as renters will have more options to consider. All in all, 2015 will be another exciting year for the multifamily market.▲

A look at multifamily properties sold compared to the gross rent multiplier

Top 5 Largest Apartment Sales in Boulder County

Rank	Complex	Address	Sale Price
1	Two Nine North	1925 30th St., Boulder	$93.5 million
2	Wyndham Apartments	2540 Sunset Drive, Longmont	$51 million
3	The Boulders	2850 Kalmia Avenue, Boulder	$44.2 million
4	Balfour	1331 Hecla Drive, Louisville	$40.25 million
5	Strathmore Park Apartments	440 Strathmore Lane, Lafayette	$39.9 million

New Multifamily Projects in Boulder County

Location	Units
Complex at Violet and Broadway	98 Apartments
Boulder View Apartments	68 Apartments
Gunbarrel Center	251 Apartments
Apex 5510	231 Apartments

Northern Colorado Update

A historic year for Northern Colorado apts.

Record breaking. That's how 2014 will be remembered in the Northern Colorado multifamily industry. All three cities, Fort Collins, Greeley and Loveland, posted record rents, vacancies and sales numbers. As a tertiary market, the numbers for Northern Colorado don't have the overall impact or attention that Denver or other major metropolitan markets attract. However, on a scaled-down view, comparisons of data show Northern Colorado as one of the strongest markets, operationally, in the state, if not nation.

Steady and strong. That was the message delivered at the Northern Colorado Business Report's 2014 Economic Forecast at the beginning of last year. Through the first three quarters of 2014, you might say this was an understatement. Leading the way, Weld County's foothold in the energy realm exploded and attracted job seekers to major oil and gas companies, while opportunistic entrepreneurs started up companies looking to support the major energy activities in the region. Not far behind energy, Weld County's agriculture industry had facets that enjoyed a prosperous 2014.

With a foundation in a more diversified economic base, Larimer County enjoyed growth in 2014 through innovation fostered by incubators like Innosphere (formerly Rocky Mountain Innosphere). The county also saw growth in health care, professional services and manufacturing.

Brian Mannlein
Vice president, DTZ, Fort Collins

All areas in Northern Colorado experienced a spike in the construction industry, with multifamily being a large contributor. Apartment construction in the region over the past few years is unlike anything seen since the 1990s and early 2000s. Construction did not miss any of the local municipalities: Fort Collins, Greeley and Loveland. Developers made the leap to develop in areas considered more speculative, trying to capitalize on lower land values and aggressive growth in the region.

The unemployment rate in Weld County was at 3.9 percent in November while Larimer County came in at 3.2 percent. Compare this with the state's unemployment rate, which decreased two-tenths of a percent to 4.1 percent.

With oil prices plummeting in fourth-quarter 2014, many are cautiously watching and waiting to see if prices stay low and what effect that may have on the overall economy, not only in Weld County, but also across the state of Colorado.

Apartment rents appreciated more than most anticipated in 2014, with upward pressure as a result of increasing home prices and lack of affordable choices, driven, seemingly, from the scarcity of condominiums and townhomes due to concerns around the construction defect law, combined with increased land and construction costs.

Top Apartment Sales in the Northern Colorado Region

Complex	City	Units	Sale Price
Lake Vista	Loveland	303 Apartments	$60.75 million
Greens at Van De Water	Loveland	252 Apartments	$44.5 million
Terra Vida	Fort Collins	240 Apartments	$39 million

In 2014, Larimer County saw average rents increase nearly 10 percent compared with 2013, while Weld County saw increases around 12 percent. Average rents in Fort Collins hovered around $1,150 per month in the fourth quarter and Weld County rents hovered around $830 per month.

Vacancy rates in Larimer and Weld counties have remained below 5 percent since 2011. Some areas of the region spent most of this time below 3 percent. Fort Collins averaged an annual vacancy rate of 3.5 percent for stabilized properties in 2014, with most of the vacancy due to a few larger remodel efforts. Loveland is experiencing the lowest vacancies in the region at 2.5 percent, while Greeley has hovered around an average of 3 percent for the past year.

Vacancies and rents like these are sure to attract developers who wait for all of the market indicators to align. In the last couple of years, the indicators were all positive – climbing rents, extremely low vacancies and difficult barriers to competitive entry. This attracted not only regional developers, but also national players in the market-rate and student-housing development worlds. Major projects from developers like Spanos Corp., McWhinney, Crowne Partners, Scott Ehrlich and Milestone have added units, or are planning to add units, to all markets in Northern Colorado.

The sales volume for 2014 will be the high-water mark for Northern Colorado going forward. At the time this article was written, sales volume for 2014 was set to crest over $260 million. The previous high, set in 2008 when AIMCO sold five Northern Colorado properties as part of a portfolio sale, was less than half of 2014's total. The per-unit average also increased a staggering 167 percent from $54,670 in 2008 to $145,882 in 2014. All of this happened on a smaller number of units transferring ownership – 1,777 units in 2014 compared with 2,003 units in 2008. Midway through 2014, the sales volume was sitting at $47.7 million, mainly due to a lack

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2014: Colorado Springs' record-setting year

In the past four years, Colorado has gained national attention as one of the most attractive apartment markets in the country. Denver established itself as a premier market with favorable apartment fundamentals, consistent employment with a stable economy and a vibrant downtown with social attractions. We've projected that Colorado Springs would soon follow suit and establish itself as suitable alternative for both investors and renters. These projections are now a reality, as we've seen Colorado Springs begin to realize its potential. Looking back at 2014, Colorado Springs benefited from record-setting apartment fundamentals, vastly improved employment and economic condition, and received national recognition with city attractions. These recent developments led to a truly remarkable year, with 2014 producing the most apartment sales, by total sales volume, in Colorado Springs' 128-year history.

Stable Apartment Fundamentals

At the end of third-quarter 2014, market vacancy reached a level not seen in Colorado Springs in 13 years at 4.79 percent. Market rents also grew at the fastest rate in the past eight years at 5.9 percent year over year. Much like Denver, Colorado Springs' vacancy tightened and renters have few options as units turn over. Owners quickly capitalized on the competitive vacancy and pushed rents aggressively. New investors are seeing this rent growth and have bought in at a

Kevin McKenna
Vice president, ARA Real Estate Investments Services, Colorado Springs

Saul Levy
Associate, ARA Real Estate Investment Services, Colorado Springs

price point that is well below what is available in Denver. Equally important, Colorado Springs still remains an affordable option for renters in comparison with Denver. Historically, we've seen about a 10 cent to 15 cent gap in average market rents per square foot between metro Denver and Colorado Springs. In third-quarter 2014, the spread has more than doubled to 35 cents per sf. As cost of living continues to increase in Denver, many renters will consider moving to Colorado's second-largest metropolitan city. All of these factors contributed to the ideal market conditions that we've known Colorado Springs is capable of producing.

Improved Employment and Stable Economy

Colorado has remained one of the nation's leaders in decreasing unemployment rates. Colorado Springs followed the state's lead with current unemployment rates hitting a five-year low in February 2014 at 7.5 percent. Despite these favorable developments, some still fear that Colorado Springs will remain unstable with future military cuts, and base realignment and closure. Fort Carson remains a national focus because the single base has doubled in size over the past 10 years. In previous base realignments, Fort Carson benefited with a net gain and received additional troops from other bases around the country.

The Villages at Woodman is listed with ARA.

The strongest example of the country's continued confidence in Fort Carson is the $242 million approval for military construction for new facilities that was announced in January 2014. These facilities will be instrumental in supporting the now fully operational Fourth Infantry Division, Combat Aviation Brigade. This budget represents more construction funding than any other base in the nation. In addition, according to the military's most recent BRAC report, Fort Carson was ranked sixth out of 88 bases in the country in terms of strategic importance. Clearly, the Army views Fort Carson as a staple instillation. As a result, Colorado Springs' economy should remain stable even as the military reduces its international footprint.

Significant City Attractions

In 2014, Colorado Springs received

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Financial Market

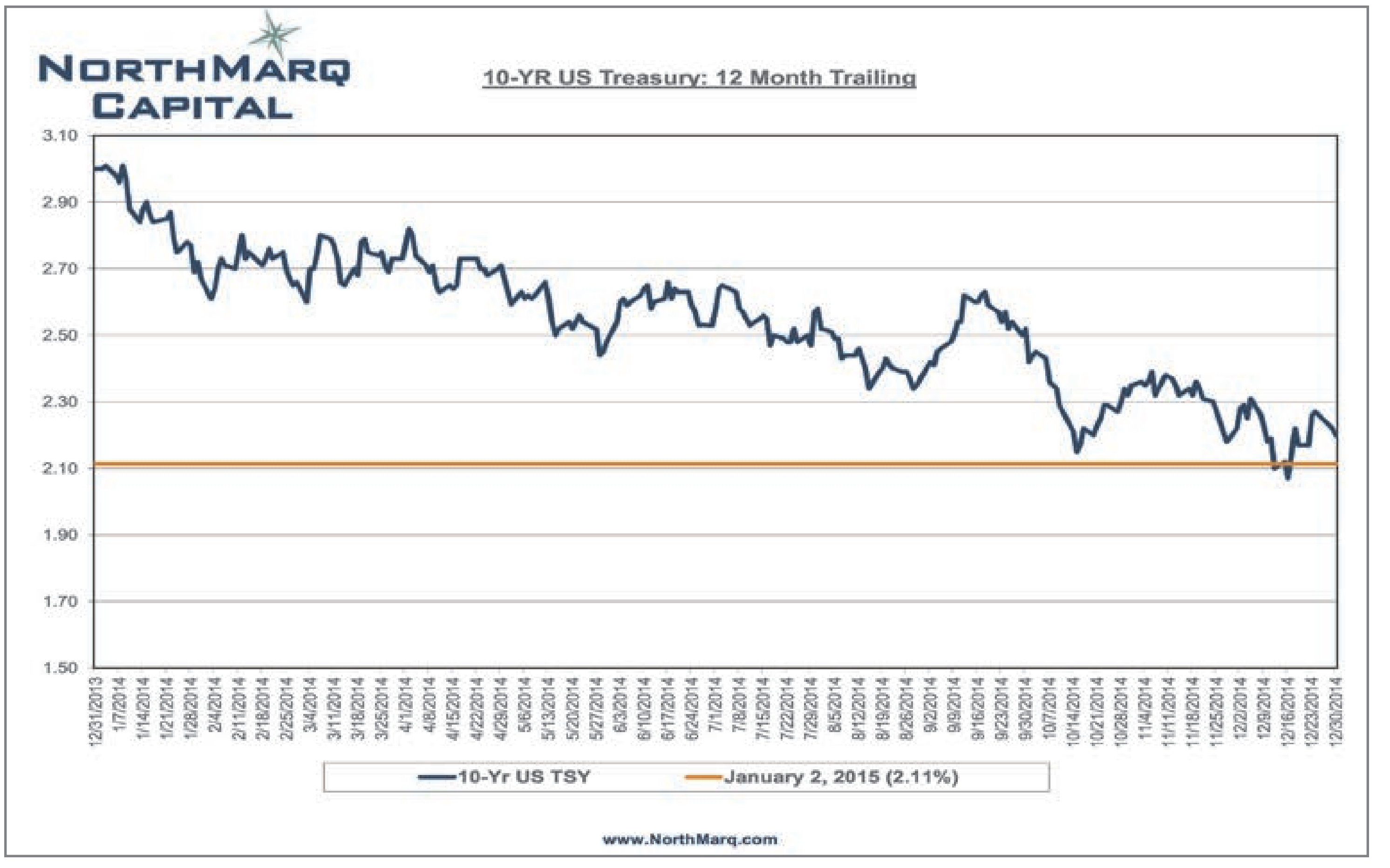
Apartment financing question and answer

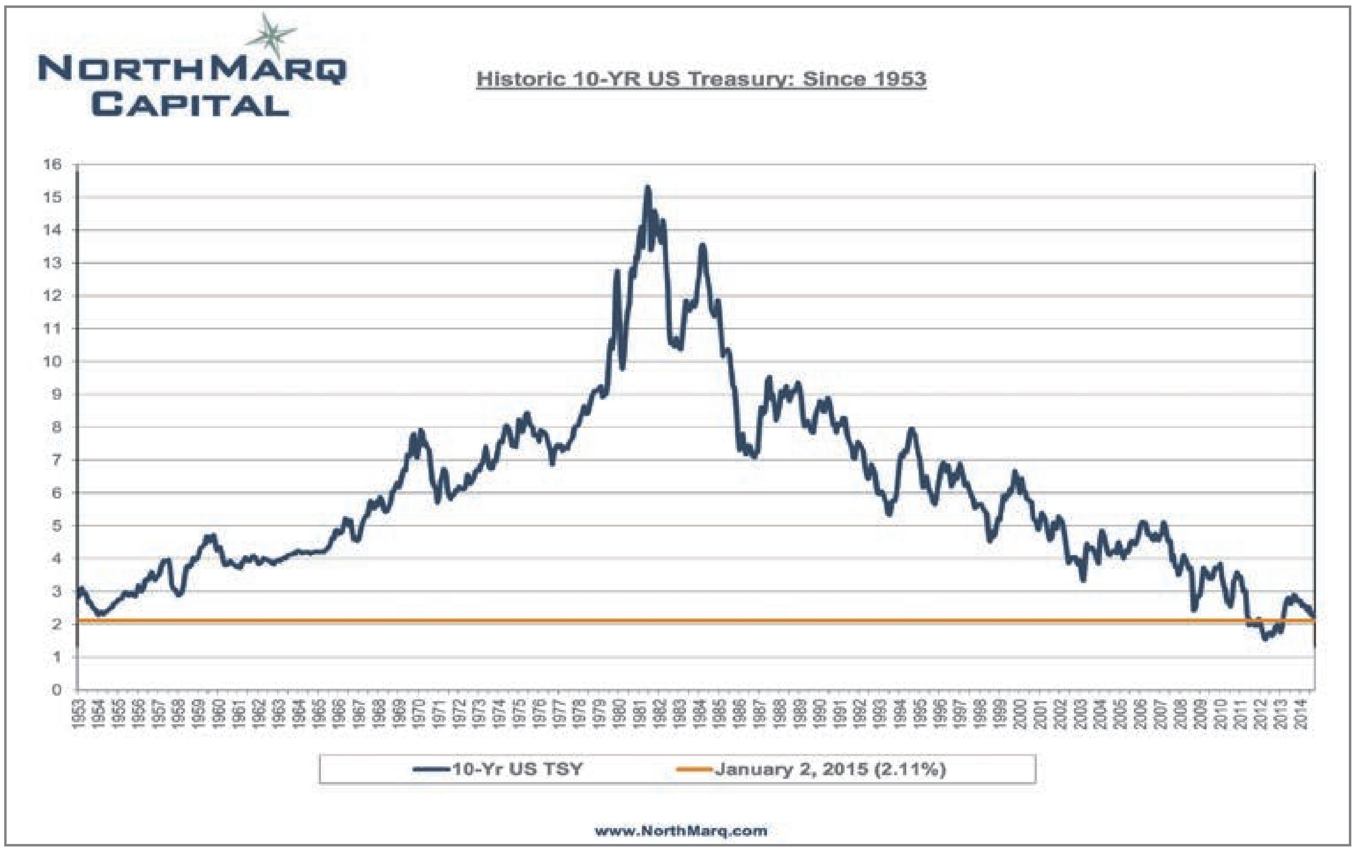
The Colorado Real Estate Journal sat down with real estate capital veteran Steve Bye of NorthMarq Capital and asked him to comment on the trends in the multifamily lending arena and his thoughts about 2015.

Steve Bye
Executive vice president, senior managing director, NorthMarq Capital, Centennial

CREJ: How would you assess the current environment for apartment financing?

Bye: To quickly summarize, borrowers are in the best of all worlds. There are no practical limits on the availability of capital from multiple lending sources. U.S. Treasury or London Interbank Offered Rate index rates are near all-time low points and, on top of that, risk spreads have continued to compress.





CREJ: Discuss the type of lenders who are most active.

Bye: Most of the apartment loans that we are arranging are through the apartment agencies Freddie Mac and the Fannie Mae Delegated Underwriting and Servicing platform through our affiliate, Amerisphere. However, we have also closed a number of permanent loans with life insurance companies. Our Denver office originated a few commercial mortgage-backed security apartment loans in 2014, although these were the exceptions. We were less active in 2014 with Federal Housing Administration originations compared to 2013 and 2012.

CREJ: Why are the agency lenders so attractive to borrowers?

Bye: Many of the agency loans are focused on financing property acquisitions. Although the agencies have strict underwriting guidelines, they are receptive to the lower cap rates and are comfortable lending up to 80 percent of the purchase price. In addition, they are more likely to offer interest-only payments. They can also provide 30-year amortization schedules for older properties. Another significant attraction is the ability of the agencies to provide supplemental loans, executed in a very streamlined manner. Agency loans are typically subject to defeasance prepayment requirements, which makes it a cumbersome process, although it could result in a discounted payoff in the event of a high interest rate environment in the future.

CREJ: You mentioned insurance company lenders. How does that sector approach apartment lending?

Bye: First of all, there are at least three dozen insurance company lenders, so there is a wide array of underwriting and risked-based variables that will distinguish one lender from the next. From my perspective, life companies are nimble and can provide a menu of special features that a borrower may covet, as well as the ability to close a loan in as little as 30 days.

However, regardless of the purchase price or an appraisal, many life companies use internal underwriting standards based on minimum cap rates or debt yield thresholds, resulting in lower leverage levels. For example, these disciplines may result in a loan amount that is 65 percent of an actual purchase price, even though it may be 75 percent of their internal value. Life companies are less likely to offer interest-only payments or 30-year amortization, unless the property is newer construction.

CREJ: Then why would a borrower pursue a life company lender?

Bye: They may be able to offer spreads of 25 to 35 basis points lower than the agencies, especially when the loan term is shorter than 10 years. Alternatively, they can provide fixed-rate terms of up to 25 to 30 years, while the agencies are limited to a maximum of a 10-year duration. Life companies can offer flexible prepayment options, such as fixed penalties or even par prepayment over the last few years of the term. Life companies normally hold their loans to maturity, and therefore, are more accessible in order to deal with issues over the life of the loan. However, companies offering internal supplemental loan increases are very rare, although secondary financing is often permitted. Funded reserves for replacements are seldom required, as opposed to the agencies and CMBS standards.

CREJ: You also mentioned commercial mortgage-backed securities and FHA. What are those options?

Bye: CMBS loans would best align with older properties or those located in a tertiary location, where higher leverage and a nonrecourse repayment are important to a borrower. For example, we recently arranged a loan on a new apartment project in Casper, Wyoming, where the agencies and life companies were too restrictive on their underwriting parameters. We closed CMBS loans on properties located in cities in Ohio and Michigan, where the local economies are less vibrant, as well as in smaller communities like the oil field areas, where the economy is less diversified. There are exceptions to this general rule, as evidenced with several agency loans that our office closed in Midland-Odessa, Texas, and in Breckenridge, Colorado.

FHA was a more active refinance option in 2009-2012, when capital was less abundant. The lengthy timeframe required to process a Housing and Urban Development loan creates challenges for most owners, and certainly for those operating under an acquisition deadline. Nonetheless, the 223(f) program offers a compelling loan-to-value ratio of up to 83 percent and amortization period and fixed-rate term of 35 years. The prepayment structure is somewhat flexible, because the step-down penalty phases out after nine years. Although I have not addressed construction lending, FHA's 221(d)(4) construction/permanent 40-year program remains an attractive vehicle, notwithstanding the long process.

Financial Market

CREJ: Can you talk about interest rates for these various loan options?

Bye: Let's start with the agencies and use an example of maximum leverage of 75 to 80 percent with a minimum 1.25 debt coverage for a 10-year term. The spread will be about 175 basis points on top of a current U.S. Treasury yield of 2 percent, resulting in an all-end rate of 3.75 percent. Applying a 30-year amortization schedule reflects an annual debt constant of 0.0556. A 65 percent loan to value would price out at a 3.6 percent rate.

A life company lender is likely to be more competitive under a 65 to 70 percent leverage situation. The spread would be 125 basis points with a rate of 3.25 percent. For a five-year term at 65 percent LTV, the life company rate would be about 3 percent compared to agency pricing of approximately 3.25 percent. As I mentioned earlier, these examples illustrate a 25 to 30 basis point differential between agency and life companies.

CMBS lenders price over the swap rate, currently around 2.1 percent for a 10-year term, the most efficient duration. Spreads for the highest leverage loans are in a range of 190 to 200 basis points, establishing the all-end rate spectrum of 4 percent with an annual debt service constant of 0.0575 with a 30-year amortization schedule.

The FHA 233(f) program would reflect a rate of about 3.75 percent, including the mortgage insurance premium. With the longer 35-year amortization, the annual constant is 5.14 percent.

CREJ: Other than fixed rates, what else is available?

Bye: A few life companies offer London Inter-Bank Offered Rates-based lending programs and most banks also use the 30-day or 90-day LIBOR index. Freddie Mac offers a unique convertible float-to-fix program. Again, spreads are based on a risk-adjusted formula, so all-end pricing could be anywhere between 2 to 3.5 percent, as LIBOR rates hover near a quarter of a percent. There are myriad unregulated, nonrecourse bridge lenders, such as real estate investment trusts and private funds, offering LIBOR-based floating rates between 4.5 and 5.5 percent for value-add opportunities.

CREJ: If you were a borrower, how would you approach the financing puzzle?

Bye: It obviously depends on whether you are a long-term holder or an opportunistic shorter-term owner, which I'll define as a trader. A long-term owner might consider a term longer than 10 years, given the unique point in time we are in relative to the capital markets. A trader will certainly want an attractive rate, but will require flexible prepayment options in a stable or falling interest-rate environment. Given a threat of a much higher interest-rate environment, a trader might consider a long-term fixed-rate loan that a buyer could assume. In any case, an astute owner should explore all lending options, especially the agencies, as well as a long list of insurance companies, or CMBS if applicable. There are many variables to consider and the market should be cleared to evaluate the optimum loan to best match the borrower's priorities. This list may also include banks.

CREJ: You only briefly mentioned banks earlier. What trade-offs can they offer?

Bye: A few banks can offer a fixed-rate term as long as 10 years, and some can offer ultimate prepayment flexibility without a swap contract. Banks can also offer a lower cost of execution and require less property documentation, compared to the other lenders.

CREJ: That seems like an excellent option. Why would someone look elsewhere?

Bye: First, banks typically require personal loan guarantees, unless the loan is 65 percent loan to value or less. Some borrowers don't mind guarantees, although the agencies, life companies, CMBS and FHA do not require repayment guarantees. Second, banks normally underwrite the sponsor's financial picture more than the real estate. They have ongoing debt service, loan to value and sponsor financial covenants, a violation of which may trigger a repayment or a re-margining of the loan. Borrowers from the other conventional apartment lenders do not have this risk after the loan has closed. Third, interest-rate levels for banks are normally higher than the other lending groups, especially for terms longer than five years. Lastly, the banking industry is more regulated than any other type of lender sector and new governmental legislation could result in the implementation of new standards at any time.

CREJ: My last question pertains to interest rates. What do you see happening in 2015?

Bye: As Yogi Berra once said, predictions are hard to make, especially when you're talking about the future. Nonetheless, I'll take a shot, but please understand that this is my opinion only and does represent an official position from NorthMarq.

It's hard to imagine the Federal Reserve raising short-term rates when the economy is still recovering, because they don't want to make the same mistake that occurred in 1935, when rate hikes sent the economy into a deeper depression after a short-term recovery. The elimination of quantitative easing has not resulted in a jump in rates, despite what was predicted in early 2014. The longer-dated bonds are being absorbed by a flight to safety in the U.S., where positive interest rates are still available. With a tilt toward a deflation in some economic sectors, or at least a disinflationary trend, this suggests that the U.S. Treasury rates should remain in the same range that has existed over the past six months and possibly fall even further in late 2015. Volatility will be continuing, however, as just recently, we saw an increase of 25 basis points in the 10-year Treasury yield.

The counter balance to lower Treasury yields is the behavior of credit risk spreads, which are currently reflecting a stable environment. I certainly do not want to convey any "doomsday" scenario, although "black swan" events are always in play. For example, the probability of sovereign debt defaults and currency devaluations seem higher now and a domino effect on capital markets, magnified by the derivative industry, could cause spreads to gap out quickly, as was the case in 1998. There are many other concerns, but let's keep our fingers crossed that they do not materialize.▲

The outlook for absorption rates and what it means

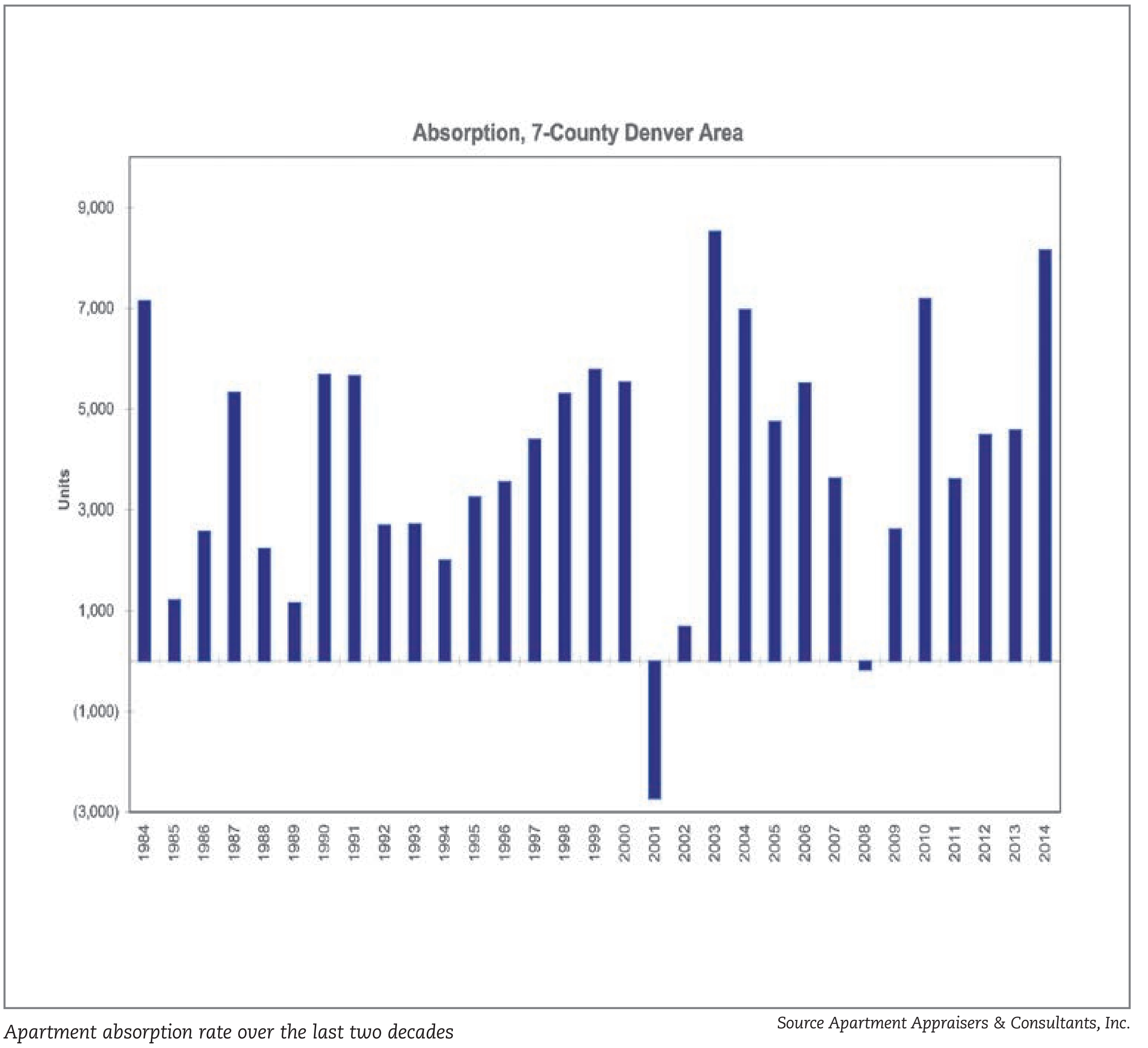
A prominent question facing the apartment industry is, "Can we absorb all of the new apartments being built?" Followed by, "If not, then what will happen?" Looking back, we can see that absorption varies tremendously from year to year, so any forecast is likely to be slightly to highly inaccurate. The accompanying chart shows just how variable apartment absorption has been in the Denver metro area over the past 30 years, from negative 2,700 units in 2001 to positive 8,500 units only two years later, an 11,200-unit swing.

Cary Bruteig, MAI
Principal, Apartment Appraisers & Consultants, Denver

There is often a correlation between increasing absorption and increasing new supply. This makes sense from a couple of perspectives. First, apartments typically are constructed when the local economy is doing well, jobs are being created and population growth is accelerating from in-migration. So, absorption should be higher when apartments are being built, if they are built at the right time. Absorption is also higher when a large supply of new apartments is added, because new apartment buildings, unlike office buildings, for instance, do not sit empty in the absence of adequate new demand. Rents get reduced, initially in the form of increasing concessions, until the desired absorption rate and final occupancy level are achieved. If there is inadequate demand, residents look for new properties and are pulled away from older properties, resulting in overall vacancy increases across the market.

Older properties then react by offering concessions or reducing rents to achieve their desired occupancy. The resulting lower rent levels make apartments affordable to more people, expanding demand. This expansion occurs because roommates can now afford their own apartment, and more adult children living at home can afford to rent an apartment. In this respect, supply can create its own demand. But if new supply is excessive, vacancy also will increase and rent growth will decline, eventually turning negative if vacancy gets high enough.

Note in the chart that there was very strong absorption during 2003 and 2004, a period of high vacancy, but very low levels of new construction. Similarly, 2010 achieved strong absorption with no obvious reason (the economy was weak at the time), other than possibly the fear from the financial meltdown in 2008 had subsided, the only other year with negative absorption. Renters seemed to emerge from their parents' basements and ventured out to rent a place of their own, often with their parents' financial support.



Apartment absorption rate over the last two decades

Source Apartment Appraisers & Consultants, Inc.

Looking back, absorption has averaged slightly more than 4,000 units per year over the last 30-plus years, and just over 5,000 units per year going back 50 years. But it has almost always been either higher or lower in any given year – rarely at the average level. Current conditions support higher rates of absorption, supported by above-average job growth, strong population growth – particularly in the typical renter age group – a limited supply of new affordable housing (think condos and townhouses) for sale and limited financial means for large segments of the population (flat incomes, high student debt, lack of a down payment, a need to be mobile for the job market). Given these positive factors, my original absorption forecast for 2014 was 6,000 units, 50 percent above the 30-year average. This turned out to be low, as slightly more than 7,000 units were absorbed in conventional rental communities with 50-plus units (from an inventory of 177,000 rentals), and just over 8,000 units were absorbed, including both conventional and affordable properties

If new supply is excessive, vacancy also will increase and rent growth will decline, eventually turning negative if vacancy gets high enough.

(taken from the Apartment Insights survey of over 200,000 units each quarter).

While 2014 was an extraordinarily strong year for absorption, it seems likely that a similar number could be achieved again in 2015, as little on the demand side has changed. It appears that even more apartments are likely to be built this year than last. Rents now are at even higher levels, and the volume of new for-sale housing is steadily increasing, which could arguably slow absorption in the coming year. Either way, 2015 absorption is likely to be below the 9,200 new apartments added to the rental pool during 2014, and the 11,000 units expected to be completed during 2015. This assumes there is enough available labor to complete them. This gap between supply and demand should push vacancy rates higher, particularly in submarkets with heavy concentrations of new construction. The expected result is slowing rent growth. Since metrowide rents grew by an astounding 12 percent last year, there is plenty of room for rent growth to decline and yet still be positive.▲

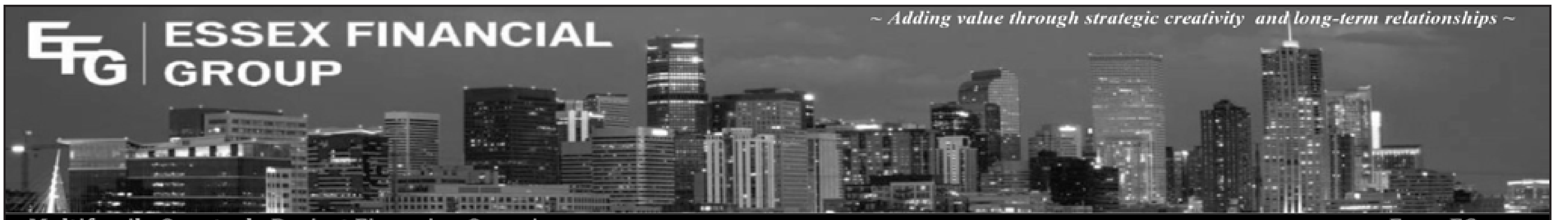
Northern

Continued from Page 7

of opportunities in the marketplace. The majority of the $200 million trading hands in the second half of the year came through two portfolio sales. One comprised McWhinney's sale of three properties (two in Loveland and one in Westminster) and the other was made up of three student-housing properties sold in Fort Collins by Walnut & Main.

Overall, 2014 was a fantastic year for the multifamily market in Northern Colorado. Owners and managers were able to fill their properties with eager tenants. Rents continued their climb while vacancies continued to be minimal. Sellers were able to maximize the values in their properties through extremely low cap rates and never before seen demand.

With rental rate increases far exceeding inflation, 2015's activity will be watched cautiously with the anticipation of pricing and vacancy leveling off. With inflation meekly increasing somewhere between 1.6 percent and 2 percent, combined with very high housing prices, I expect to see continued excellent performance on the operational side of the multifamily market along with stabilized rents and moderate vacancy.▲



Multifamily Quarterly Project Financing Overview — www.EssexFG.com

OPTION	TYPE	EXPLANATION	REQUIREMENTS	USUAL SOURCES	AVAILABILITY	RATES/SPREADS	LTV/COVERAGE	POINTS	TERM (YRS)	AMORT (YRS)	COMMENTS
INSURANCE COMPANY LOAN	Debt	Long term fixed rate loan	Creditworthy borrower and well-maintained property of "B" quality or better	Life Insurance Companies, Pension Funds	Excellent	120-200 bps over the comparable US Treasury	Up to 70% LTV; minimum 1.25x DCR	Typically limited to a processing fee	5 - 30	25-30	• Seek top tier properties on low leverage • Typically better rates than Fannie and Freddie on A+ properties • Best source for terms over 10 years
CMBS LOAN	Debt	Longer-term fixed rate loan	"A" to "C" quality property, Experienced multifamily Owner	Investment Banks and/or specialty lenders	Excellent	160-250 bps over SWAPS	Up to 80% LTV (75% with cash out); minimum 1.25x DCR	0%	5 - 10	30	• Full proceeds in secondary/tertiary markets • 3 or more years interest only
BANK LOAN	Debt	Fixed/floating: Construction/permanent	Creditworthy borrower and acceptable collateral	Banks: National, regional, and local banks; credit unions	Excellent	Construction: LIBOR + 150 - 350; Permanent: SWAP + 150 - 225	Up to 80% LTV 1.20 - 1.25	0 - 1	2 - 15	25 - 30	• Personal recourse on stabilized properties often over 70% LTV. • Many banks fix rates only out to 5 years and few fix longer than 10 years
BRIDGE LOAN	Debt	Shorter term for acquisition and/or repositioning	Sound business plan/exit strategy	Specialized finance companies, banks, some insurance companies and opportunity funds	Adequate	LIBOR + 175-450 bps (some w/ floors)	At stabilization: 70% 75% 1.25 - 1.30	1/2 to 2	1 -3	Interest Only	• Pricing depends on leverage level, property quality, and strength of guarantees (if required)
AGENCY LOAN	Debt	Longer term fixed rate loan	Experienced multi-family owner, "A" to "C" quality properties	Fannie Mae DUS and Freddie Mac Program Plus lenders	Excellent	150-230 bps over the comparable US Treasury	Up to 80% LTV (75% with cash out); minimum 1.25x DCR	0%	5 - 30	30	• Float-to-fix available • Fannie uses rate floors for underwriting, to calculate DCR • Float-to-fix available
FHA 223 (f)	Debt	Fixed rate fully amortizing loan	Well maintained property with Borrower with clean credit	MAP Lenders	Excellent	120 over the 10-year treasury +60 bps mortgage insurance premium for 35 year term	80% - 87% 1.20	0.5% - 1.5% + 1% MIP + 0.3% application fee	35	35	• Highest proceeds option • Low rates for 35 year term • Normally prepay at par after 10 years, sometimes earlier •87% w/ affordability component
FHA 221 (d) 4	Debt	Fixed rate construction + fully amortizing permanent loan	Economically feasible project. Borrower with experience and clean credit	MAP Lenders	Good	170 over 10-year treasury + 65 bps MIP for 40 year term	83.3% of cost 1.20	1%-2% + 0.9% MIP+0.3% application fee	40	40	• Non-recourse fixed-rate construction perm combination w/ maximum proceeds • No affordability requirements • Davis Bacon Wages required
MEZZANINE/ PREFERRED EQUITY	Debt / Equity	Junior financing secured by a pledge of, or participation in ownership interest	Experienced sponsor and good quality property / development	Specialized finance companies, opportunity funds, and some insurance companies	Good	Mezzanine 6%-12%	Up to 85% - 90% of cost, 85% of stabilized value	1.00% to 2.00%	2 - 10	In most cases, Interest Only	• Preferred equity offers higher funding than mezzanine, but at a higher cost
JOINT VENTURE	Debt/Equity	Equity source provides 95%+ of the capital stack, including third party debt	Experienced sponsor with a high-quality property ("A" to "B+") or development	Investment funds, life insurance companies, private capital and REITs	Good	Return and yield requirements vary by property	N/A	0.00% to 1.00%	3 - 10	N/A	• J/V financing is restricted to multifamily developers with strong track record • Overall return is a composite of "debt portion" (60% - 70% of cost) and the "equity portion" (all funds above the debt). Higher returns for new construction and lower returns for properties with cash flow
PRIVATE EQUITY	Equity	Private capital seeking ownership positions in leveraged projects	Experienced sponsor and project with attractive cash flow & upside	Individual investors pooled through a fund manager or syndicator	Good	Vary Widely	N/A	N/A	N/A	N/A	• Becoming more and more available with the lack of high yields on alternative investments

DCR - Debt Coverage Ratio
DUS - Delegated Underwriter Servicer
IRR - Internal Rate of Return
LTV - Loan to Value Ratio
LIBOR - London Interbank Offered Rate
SWAP - LIBOR Interest Rate Swap

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Regulatory

Key tax regulations and impacts for 2015

Politicians have been continually citing the need for comprehensive tax reform. While there has been little progress for comprehensive tax reform, there were significant rules issued relating to property that taxpayers should be aware of for 2014.

In late December, Congress passed the Tax Increase Prevention Act, which retroactively extended many tax incentives that are very beneficial for business owners.

Section 179 and Bonus Depreciation

Among the many extenders are provisions for bonus depreciation and Internal Revenue Code Section 179 expensing, both of which allow taxpayers to accelerate deductions for qualified property made before Jan. 1, 2015. Bonus depreciation allows taxpayers to deduct 50 percent of the cost of qualified property in 2014, provided the property is placed in service during the 2014 tax year. The remaining 50 percent that is not deducted using bonus depreciation is depreciated in accordance with normal depreciable lives and recovery rates.

The term "qualified property" includes:

- Tangible property that has a recovery period not exceeding 20 years;
- Certain computer software;
- Water utility property; and
- Qualified leasehold improvement property.

In addition, the property must be original use. Congress defined the term "original use" as the first use to which the property is put, whether

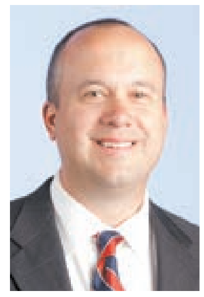
Justin Dodge
Partner, EKS&H, Boulder

or not such use corresponds to the use of such property by the taxpayer.

IRC Section 179 allows taxpayers to expense $500,000 worth of qualified fixed-asset purchases made during 2014. In contrast to the bonus depreciation rules, the availability of this enhanced deduction is not limited to new property; however, a taxpayer's ability to use the full $500,000 election begins to phase out as total qualified investments meet and exceed $2 million.

Taxpayers may use the IRC Section 179 deduction only to the extent they have positive taxable income. No such limitation exists for bonus depreciation, which can be used to create a tax loss. In addition to the taxable income limitation, IRC Section 179 can be used only to the extent there is income from the active conduct of a trade or business. Consequently, rental real estate, which the code defines as a passive activity, is unlikely to be eligible for IRC Section 179. Fortunately, this limitation does not apply to bonus depreciation.

Unless there is additional Congressional action in 2015, both bonus depreciation and the $500,000 IRC Section 179 expense threshold discussed above expired Jan. 1, 2015. Taxpayers contemplating a cost-segregation study should consider this when making a decision, as the availability of bonus depreciation



Jeremy Wilson
Senior manager, EKS&H, Boulder

may dramatically impact the present value calculation that is inherent in any cost-segregation analysis.

Repairs and Maintenance Rules

In addition to the accelerated depreciation opportunities, taxpayers need to be cognizant of the new rules related to repairs and maintenance. As a result of recently implemented Treasury regulations, taxpayers likely will need to file one or more changes in accounting method forms when filing their 2014 tax returns. Failure to do so could result in missed opportunities or unwanted consequences.

The new regulations are extremely voluminous. The following are some examples of when a change in accounting form may need to be filed:

- Change to deducting repair costs or capitalizing improvement costs, including a change to adopt the new unit of property and building system definitions;
- Change to deducting non-incidental materials and supplies when used or consumed;
- Change to deducting incidental materials and supplies when paid or incurred;
- Dispositions of a building or structural component;
- Dispositions of tangible assets (non buildings); and
- Removal costs.

The following examples illustrate a couple of opportunities that taxpayers may miss if the appropriate change in accounting method forms are not filed:

Example 1: If a taxpayer disposes of a depreciable asset, including a partial disposition, and has taken into account the adjusted basis of the asset or component of the asset in realizing gain or loss, then the costs of removing the asset or component will not be required to be capitalized.

Example 2: B owns and leases out space in a building consisting of 20 retail spaces. The space was designed to be reconfigured; that is, adjoining spaces could be combined into one space. One of the tenants expands its occupancy by leasing two adjoining retail spaces. To facilitate the new lease, B pays an amount to remove the walls between the three retail spaces. Assume that the walls between the spaces are part of the building and its structural components. The amount paid to convert three retail spaces into one larger space for an existing tenant does not adapt B's building structure to a new or different use because the combination of retail spaces is consistent with B's intended, ordinary use of the building structure. Therefore, the amount paid by B to remove the walls does not improve the building and is not required to be capitalized.

These examples are just the tip of the iceberg in terms of the new repair regulations. The potential impact to taxpayers is far-reaching. 2015 is a critical year for taxpayers to discuss the opportunities and/or undesired impact related to changing tax code and regulations.▲

Regulatory

Revisiting Real Estate Commission compliance

Colorado Real Estate Commission compliance is a hot topic again, partly because of the flood of new owners and property management companies coming to Colorado and partly driven by the commission's increased enforcement efforts. Due to budget cuts and political considerations, the commission had stopped random audits for a number of years. Since property management is one of the leading sources of complaints received, it recently reinstated random audits as part of its proactive and stepped up enforcement efforts. Commission compliance is a complex area; the purpose of this article is to address only the higher-level general issues. The article should not be relied on in determining if your company needs a license or is in compliance with current law.

Mark N. Tschetter
Senior managing partner, Tschetter Hamrick Sulzer, Denver

How do you know if you need a Colorado real estate broker's license? If you're a third-party fee manager, you need a license. The question is not complicated for fee managers. Fee managers must be licensed.

If you own the property you manage, you do not need a broker's license, under an owners' exemption. The key to the owners' exemption is whether the management and ownership have common control. Whether an ownership and management relationship meets the owners' exemption can be extremely complicated. Apartment communities are owned by legal entities. In some cases, the ownership entity of an apartment community is owned and controlled by a complex web of other legal entities. Given the complexity of ownership entities, management company structures and the relationships between the two, determining whether a specific owner and management relationship meets the owners' exemption is problematic. Unlicensed individuals are not subject to commission enforcement actions (audits). Accordingly, the commission has not ruled on the issue of whether owners and management companies in these complex relationships are in fact exempt. However, either through public complaint or litigation, the issue eventually will be brought before the commission.

Does the management company's broker need to be an employing broker? Yes. Assuming a property management company needs to be licensed, the company must employ a Colorado licensed real estate broker. Colorado has two types of real estate broker's licenses: an employing broker's license and an employed broker's license. Only an employing broker can be the licensed broker for a property management company. The key differences between an employing broker and an employed broker are education and experience. An employing broker must take additional education classes, pass additional testing and be licensed for at least two years under the supervision of another employing broker.

A management company's failure to understand company licensing requirements, and the distinction between employing and employed brokers can cause significant problems. Specifically, many management companies only have one broker who is both an employing broker and the broker for the company. If the company's employing broker leaves, it likely will be difficult to find a replacement in a timely manner.

Having someone quickly get licensed and become the new company-designated broker isn't plausible, because of the two-year supervision requirement. Additionally, while there are many employing brokers, there are few who are willing to forgo income from sales activities to become an employing broker for a property management company. They can only be employed by one company. To avoid this problem, a management company should always have at least two brokers.

Our company is not in compliance with the commission's rules: Where do we start? If you are a third-party fee manager, the first thing you need to do is hire an employing broker as the company's broker. Here are some issues that will result in problems with the commission if you're not in compliance:

• Failure to make proper brokerage relationship disclosures to both owners and tenants. Brokerage relationship disclosures to owners are made through use of the Real Estate Commission BDA-55 Form. Brokerage relationship disclosures to tenants are made through use of the Real Estate Commission Form BDT-20.
• Failure to have brokerage office policies for your company.
• Failure to comply with Real Estate Commission banking requirements.
• Failure to follow commission rules regarding security deposits.

Does our company need more than one licensed broker? Management companies, no matter how big or how small, need more than one broker. As previously discussed, if a management company only has a single employing broker and that broker leaves the company, it will be difficult replacing that broker.

A property management company also should have multiple brokers to meet the key legal requirement of supervision. Both Colorado statutes and Real Estate Commission requirements impose significant supervisory burdens on employing and employed brokers. If managing several thousand units, your company is going to have a difficult time convincing the commission that a single person is properly supervising dozens or hundreds of employees. Finally, every deal with an owner requires a management company to designate the brokers involved with the deal (BDA-55). If the BDA-55 designates a single individual and he or she leaves the company, you now have no designated broker.

Do we have to use commission-approved forms? Yes, if the commission has a form for a specific purpose, you must use it.

Currently, the commission is proposing Rule F-8 (Standard Forms). If this rule is adopted, it will have a significant impact on the multifamily industry. The proposed rule would require virtually every single form that a management company uses (leases, addenda, contracts and other forms, including three-day demands for rent or possession) to be drafted by attorneys.

Compliance can be determined only by specific legal advice based on particular factual circumstances.▲

Market Driver

Why apartments will continue to flourish in Denver

Of late, one of the main questions that seems to always come up in conversations regarding the state of Denver's apartment market is, "How long can the market continue to thrive before hitting the inevitable wall?" It's an interesting question that deserves to be addressed. When looked at through the prism of the current context, the relevance of the observation becomes a discussion of what the city of Denver is evolving into, in contrast to what Denver has always seemed to be. Denver historically has been considered a relatively traditional town, and a place where things, for the most part, stayed the same. That old school, "cow town" mindset is now truly a thing of the past. Denver is evolving from the baby boomer capital of the U.S. into one of the youngest cities in the country, bringing with it a rejuvenated and reinvented outlook on what today's residents consider important when it comes to how and where they live as well as why.

Andy Hellman
Associate, ARA Real Estate Investment Services, Denver

Yes, there is a historic amount of new product being delivered, at rents that would have been considered unrealistic to those living in Denver 10 years ago. But look at how and where Denver has grown in those 10 years. For those of us who have called Denver home for the past decade, I ask: Would you have picked the Highland neighborhood as an area you would have lived in 10 years ago? What about the Baker neighborhood? Five Points? River North Industrial District? I argue the answer is probably no. Now, fast forward to today. The Highlands, especially if you were newly graduated from college and single? RiNo, which now houses some of the top socials venues in the city? Umm, yes please. And you would pay an accepted premium to live in those areas today because the price is well worth the location.

Denver is now one of the younger cities in the country, and it continues to get younger, and these younger residents rent. According to the U.S. Census Bureau, the median resident age in Denver has fallen to 33.7, a stark contrast to the median age of the U.S. at 37.6.

Let's also not forget that Denver has become the beer capital of the U.S., and enjoys all four seasons, while still being able to boast 300 days of sunshine per year. Denver and the surrounding markets always have been some of the best places to live; it just so happens that now, the rest of the county knows this and people are flocking to the Mile High City.

In an October 2014 article in the New York Times titled, "Where Young College Graduates are Choosing to Live," Denver was listed as third in the country, nearly doubling that of the national average. This continually increasing influx of college grads has had a twofold effect on Denver: One, it has made Denver a much younger city, and two, Denver now can boast that it is one of the most highly educated cities in the country. During the depths of the Great Recession, Denver continued to see its population increase even as employers were downsizing. The most common response to why someone would move to Denver without a job was, "If I'm going to be unemployed, I might as well be unemployed in a place where I want to live."

This widespread mentality did not fall on deaf ears. With a young, highly educated workforce comes employers and job growth. Employers took note of the trends in population and identified the metro as a core area to establish a presence and consider expansion of existing operations, as well as looking to establish their presence. Denver's current growth cycle is experiencing both. This is attracting younger, educated residents, who then look to rent. Denver is a city that offers both a high quality of life and one of the top metropolitan areas in the country to find a job and start a career. This combination will keep perpetuating the success that Denver's apartment market has experienced over the past three years.

The mentality of today's resident is vastly different than 10 years ago. Aside from the high barriers to entry for homeownership in the metro area, which is simply not an option for many, how people view lifestyle is vastly different as well. The average person is now getting married later in life, therefore staying single longer. The average couple is choosing to start a family later in life. Both of these factors denote a trend away from ownership and toward renting. According to the Metro Denver Economic Development Corp., residents ranging from 18 to 35 years old in 2014 made up nearly 22 percent of the total population for the metro area, equating to roughly 800,000 residents. In comparison, the total base of apartment units today is approaching 300,000. I argue that Denver will not be looking at a softening apartment market after new product hits lease-up. Instead, I see a market that continues to prosper for a number of years. Will we see year-over-year rent growth maintain 10 percent to12 percent, as it has for the last 36 months? Probably not, but I argue that vacancies will remain compressed even with the high volume of construction and new deliveries.▲

Market Driver

A look at locations, value-add opportunities

"One doesn't discover new lands without consenting to lose sight of the shore," said Andre' Gide, Nobel Prize winner in 1947. As we roll into 2015 in the Denver multifamily market, both long-term investment veterans and rookies alike are amazed by our astounding apartment landscape. Many investors are using the new year as a trigger to take a deep breath to contemplate their internal risk/return models. Clearly it's not a one-dimensional challenge to determine an appropriate investment strategy when recent growth and success have been so dramatic in the multifamily arena. Consider the following summary from 2014 pertaining to our multifamily market:

- On pace to close over $2 billion in transactions;
- An average price per unit of $179,546 for third-quarter 2014;
- A trailing 12-month rent growth of over 10 percent;
- Almost 20,000 units currently under construction, with an additional 20,000 units planned;
- Double the number of apartment permits from previous year to date;
- Extremely high absorption of more than 2,500 units for the last two quarters;
- Return of high loan-to-value and interest-only purchase money debt;
- Consistent ranking from experts of Denver metro being in the top five best markets to invest; and
- Solid job creation, quality of life and quality of weather patterns (especially compared with the East and West coastlines).

So this begs the question, are there a few trends that are notable as we turn the corner of a new year? Let's explore two interesting topics.

Tom Wanberg
Senior vice president, Multi Housing Investment Group, Transwestern

Have there been any shifts in where buyers, developers and equity sources desire to buy? In the first few years after the Global Financial Crisis of 2008, investors, developers and equity alike flocked toward the core markets of Denver, namely downtown and Cherry Creek. In unstable markets, the smart money tends to seek the best locations and most stable rent environments. Frequently repeated buzz words included "urban core," "mass transit hubs," "upscale shopping" and "pedestrian-friendly urban experience." The upscale renter pool was displaced and discouraged with the traditional own-your-own-home model and flocked to the best rentals in the coolest locations.

This resulting pool of new renters propelled savvy apartment owners to enjoy a breakthrough into the holy grail of rents: the magical and elusive $2-plus-per-foot rent barrier. The resulting jump in rents also allowed lenders to justify backing seasoned developers to start a plethora of new construction. Another factor that helped spur Denver's apartment development was the city's severe lack of condo/townhome development. Fear of lawsuits due to Colorado's construction defect law severely curtailed developers from building any housing that would include a homeowner's association. This lack of entry-level housing to purchase, primarily condo development, did constrain the choices available for the typical renter.

Apartment developers and investors started to shift toward the less exotic and exciting suburban markets in late 2013 into 2014. Partially caused by construction starts swamping the core markets, some developers feared a bubble of overbuilding. Additionally, rents started to escalate in the fringe markets and the dated properties started to look interesting for "value-add" investments. This trickle-down effect of rent growth in the suburban markets is very real: The new "A" property gets so expensive for the average renter that they move to the less popular markets. Yet, if an owner can make improvements to a dated property, he or she frequently can drive rents up. New construction lags in these less frothy submarkets, so rents go up faster than expected.

Gallup House Apartments, sold by Transwestern, is a value-add property in Littleton.

An example of this is the recent survey of over 100 cities across the U.S., conducted by Apartment List, which concluded that Aurora was No. 1 nationwide in rent growth as a percentage, from October 2013 to October 2014.

What's changing in the value-add arena? Prices continue to increase for value-add transactions. Investor equity abounds and rents continue to go up, especially in corridors that are lagging in new construction. The industry definition of value-add offerings is also expanding to include units constructed prior to 2000 (compared with a few years ago, when it was typically pre-1985 year of completion). Properties built prior to 2000 that have produced a history of sustained cash flow with few capital improvements (i.e., limited renovations to clubhouse, kitchens, outside façade, etc.) are hot candidates to be called value-add. Many of these existing owners have held the investment for several years and they don't desire either to do the work or furnish the capital to implement a new vision for the property. A new buyer can invest the funds to modify the look to the exterior and interior of the units, improve the resident base, raise rents, improve management and recast expenses, and the resulting higher cash flow supplies the new owner with a solid return.

One fact is clear as we sail into the new landscape of 2015, new and old investors are excited to be in Denver. With terrific job growth and in-migration of renters to the metro area, absorption of vacant units continues to astound even the tried-and-true pessimists in our industry. Steady growth in values of all ages and locations of apartment properties in the entire Denver metro apartment market will continue as long as rent growth is sustained. An analogy that speaks to this is "as the water rises all ships go up."▲

Springs

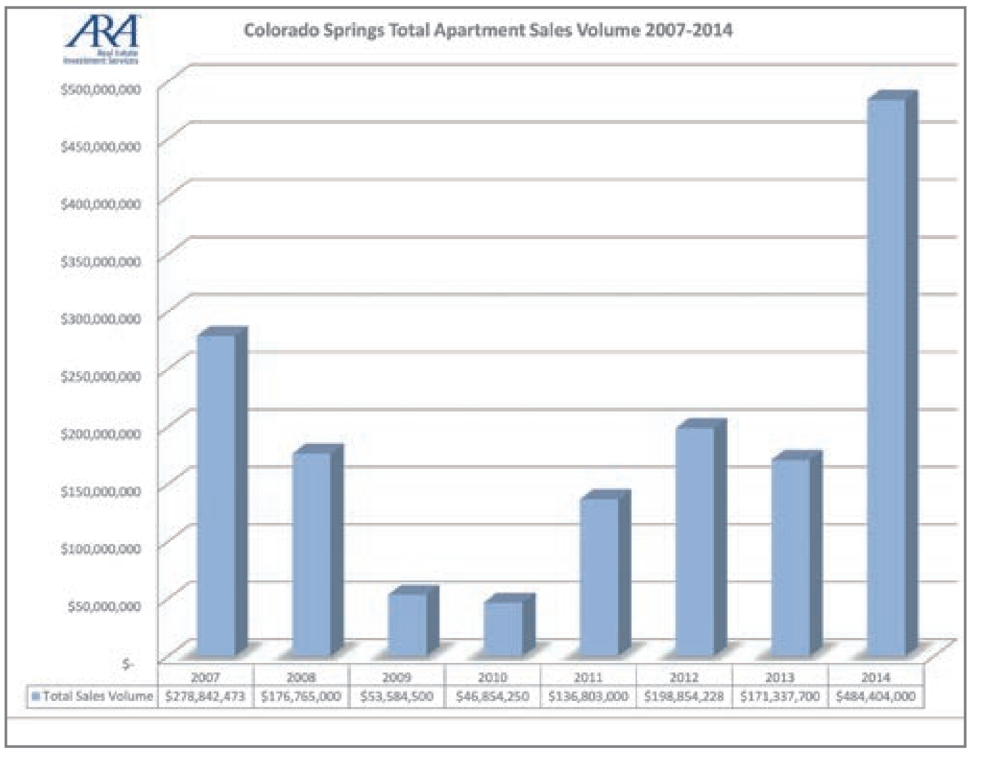
Continued from Page 8

national attention for its city attractions. In February, Golf Magazine named The Broadmoor resort and hotel the top golf resort in North America. The website Trip Advisor recently ranked Garden of the Gods the top park in the country, ahead of Central Park, New York, and Millennial Park, Chicago. Trip Advisor also ranked Cheyenne Mountain Zoo as the fifth-best zoo in the country. Tourism remains a critical driver of the Colorado Springs economy and the state of Colorado has recognized the Springs' potential and provided support for continued development.

The state recently backed Colorado Springs' City for Champions by awarding $120.5 million in state funds for a downtown sports stadium, U.S. Olympic Museum, a new sports medicine and performance center, and U.S. Air Force Academy visitor's center. The Olympic Museum has international implications – increasing tourism from around the world. These four projects have the potential to reinforce an already strong Colorado Springs tourism industry, similar to the impact that Coors Field had in revitalizing downtown Denver.

All of these factors have led to an ideal environment for a record-setting year in terms of apartment sales. At the end of 2014, total sales volume for Colorado Springs exploded to $484.4 million. To put this number in perspective, 2013 saw a total sales volume of $171.337 million – making 2014 nearly $315 million above the previous eight-year average. This is all the more impressive when considering 2013 saw the largest apartment transaction in Colorado Springs history in both total price and price per unit in the sale of the Alexan at Briargate.

Since December 2013, ARA has seen three record-setting transactions in addition to the Alexan at Briargate. At the time of sale, Spring Canyon sold for the highest price per unit for any 1990s construction in the Springs' history. Copper Chase achieved the second-highest price per unit for any 1960s construction. With these new standards recently set, the Colorado Springs apartment market looks to have truly arrived and projects very well for an equally promising year in 2015.▲



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includes 50 affordable units with 10-foot ceilings, glass-tile accents, a community room with laptop computers, free Wi-Fi, an exercise room, a rooftop barbecue area and a shared car for hourly rental. The building also has 10,000 sf of commercial space.

The Avondale Apartments at Mile High Vista is a seven-story building containing 80 units, including one-, two- and three-bedroom apartments. Avondale is located near West Colfax Avenue and Federal Boulevard. The complex is a quarter-mile from two light-rail stations, Knox and Decatur-Federal.

Park Hill Station Apartments is currently under construction. There are 156 affordable apartments being constructed at the future Colorado Boulevard station on the East Rail commuter line. The East Rail line will connect Union Station to Denver International Airport and is scheduled to open in early 2016.

TOD Fund goes regional

The Denver region continues to undertake one of the nation's largest public transit expansions, adding new light rail, commuter rail and bus rapid transit lines to complement the existing pubic transit system. This expansion brings opportunities for equitable TOD throughout the region, well beyond Denver city limits. At a recent press conference, Weinig, along with Denver Mayor Michael Hancock and many other partners, announced the expansion of the TOD fund beyond city limits. The Denver Regional TOD Fund is a $24 million resource that will be used throughout the seven-county metro area, and is now available to be used by any qualified borrower with plans for affordable housing preservation or development near transit.

The fund ties directly into one of the seven-county metro area's growing concerns – lack of affordable rental apartment housing. According to ULC, Colorado needs to produce 100,000 units to reach the demand for affordable housing. The regional fund should help to alleviate some of that, but according to Bustos, there is a need at the state level for a permanent affordable housing resource that can truly support this gap. The current goal of the regional fund is to create and preserve 2,000 affordable homes throughout a 10-year window in the seven-county region.

Christi Craine, operations and communications director at ULC, understands the impact that this can have on the state and the urgency with which it must work to accomplish its goals. "The build out of RTD's FasTracks is creating a huge opportunity right now," said Craine. "It's important for ULC to pave the way in order for these projects to be possible."▲

Photo courtesy: Del Norte Neighborhood Development

Avondale Apartments is in a centralized location near light rail and schools.

Photo courtesy: Del Norte Neighborhood Development

Park Hill Station will be the site of a future stop along Denver's East Rail Line.

Developer Spotlight

Don't let the good times get the best of you

by Ryan Gager

A quick glance at any market report will tell you all you need to know about the Denver multifamily industry this past year. Key phrases such as construction boom, strong sales activity, busiest year on record, low vacancy, high absorption and rent growth littered the pages of quarterly market reports. The Downtown Denver Partnership offered a simple statement that could help explain this trend: "The Economic Update paints a clear picture: People want to be in Downtown Denver." The strong multifamily market doesn't start and end with downtown either; the entire metro area is experiencing high levels of activity. Projections indicate that the industry will continue to stay hot through 2015.

"The multifamily industry is in good shape right now," said Jeff Wikstrom, vice president of multifamily development at Evergreen Development. "There's a demand in the Denver metro area for apartment units and when those units are coming onto the market, they're being absorbed."

The positive business climate benefits everyone in the production chain, from title, legal and design consultants to contractors, bankers, property managers and brokers. Apartment communities provide safe, comfortable housing options to our growing work force, create jobs in the construction and management segments, and add increased property and sales tax revenue to our municipalities.

There are many factors contributing to the high absorption rates, leading to the belief this current cycle can be sustained for a longer period of time.

"Many factors are helping the apartment market right now, exemplified by the shrinking homeownership rate, like high student debt, flat incomes, a mobile workforce and minimal condo development," said Cary Bruteig, principal of Apartment Appraisers & Consultants. "The state recently released updated population projections, which are higher than last year," he said. The Denver metro area has been one of the fastest-growing areas in the nation according to the U.S. Census Bureau.

People having transient jobs, waiting longer to start families, paying back student loans or simply enjoying the appealing amenities offered at apartments are other reasons individuals are opting for apartment life rather than buying homes. How long this current cycle of apartment growth can last is still anyone's guess.

At the moment, there's nothing to suggest that the multifamily market won't continue on its upward trend into 2015 and beyond. Currently, almost 50 percent of building permits are allocated toward apartment buildings. "This is double the historical ratio of apartment permits," said Bruteig. While the ratio of permits being allocated to apartment buildings could decrease, a reverse back to building more single-family or detached homes is unlikely, he said.

As many know, multifamily development is cyclical. Having been through ups and downs, Wikstrom remains cautiously optimistic.

"Everyone is busy, stretched and doesn't have a lot of extra time because business is so strong," he said. "Looking forward, we always need to remember the past and prepare for the times when the cycle slows. The key to surviving the slow times is what you do while things are good."

A look back to the down cycle five or six years ago tells the story – development slowed and companies either went out of business or downsized offices. "I think it is really important to remember those times, especially when we're experiencing what's currently happening," said Wikstrom.

Inexperience, greed and complacency are all factors that can lead to reckless behavior and are what separate good business people from savvy veterans who understand what it takes to survive the real estate roller coaster ride. Wikstrom said that how you conduct yourself and interact with others when business is good sets you up to "be able to keep the office open" when experiencing a downturn.

Relationships are important in any business, but especially in the real estate industry where so many people and companies have a hand in making a development successful. Now that you have your peace of mind, let the good times roll.▲

Advice for Conducting Business

Jeff Wikstrom is the vice president of multifamily development at Evergreen Development and offers this advice when it comes to conducting business:

Build relationships. It's understandable to get one project done and move on to the next, but find that little bit of extra time to make connections with everyone working on a project.

Don't always charge top dollar. It may make the bottom line a little bigger, but it's probably not worth the expense of having someone not want to work with you because of cost.

Follow the golden rule. Just because you could get away with something behind someone else's back, doesn't mean you should.

Don't burn bridges. It's more expensive to get new customers than it is to retain current ones.

"Not only are these good business practices, but establishing and nurturing your business relationships and friendships will lead to something that you are able to fall back on in times of need," said Wikstom.

Design

Downtown Denver's residential development: Are the current designs the best we can do?

Jeff Sheppard, AIA
Cofounder and design principal, Roth Sheppard Architects, Denver

The rapid growth of Denver's residential urban core is on most everyone's radar today, yet as our city's unprecedented development boom continues unabated, a troubling shift has begun to reveal itself to all but the most casual observer.

As downtown Denver becomes increasingly dense with block after block of repetitive five-story, stick-framed rental apartments stacked on top of (or connected to) massive concrete parking structures, banality has begun to quietly replace the well-designed historic buildings that once populated our urban core. Meaningless, uninspiring structures that feature mere surface variation rather than genuine innovation seem to be the zeitgeist of the day.

We're talking about a huge volume of housing here. In April 2014, the Downtown Denver Partnership stated in its "Downtown Denver Economic Update" for 2014 that, "Residential development in downtown Denver and the city center neighborhoods continues to thrive with 7,170 rental units and 1,173 for-sale units under construction or planned." Of further note, 99 percent of the above units are or will be rentals.

To put this in perspective, Ken Schroeppel said on DenverInfill.com that there were approximately 10,500 residential units built within Denver's center city from 2000-2009, while about 5,000 units were added to the downtown core from mid-2012 to mid-2014. He notes that's roughly half the total from the entire 2000s decade – not including any recently completed units or projects planned for 2015 and beyond.

Schroeppel concludes, "Assuming all of the developments under construction will be completed, then a total of 7,388 new residential units will be added to downtown Denver from January 2012 through mid-2015, (without including proposed projects). That translates into roughly 11,000 new residents and approximately $1.5 billion of residential investment in downtown Denver."

In other words, the 1.5-mile radius that includes Denver's urban core is transforming before our eyes on multiple levels – the size of the investment pouring into our city to turn it into a major residential market is beyond comprehension for

Photo courtesy: Henrik Boserup

The cascading design of The Mountain in Copenhagen, Denmark, provides all apartments with sun-drenched roof gardens and "amazing" views.

Design

Photo courtesy: Brian Rose courtesy of David Baker Architects

The vibrant exterior of the Armstrong Senior Housing project in San Francisco, reflects the neighborhood's culture.

Photo courtesy: SsD Architecture

Songpa micro-housing in Seoul, Korea, features 14 standard units stacked to create unique private and semi-public spaces around them.

most of us. Yet, critical conversations about how this dramatic shift is fundamentally changing the design aesthetic of downtown Denver, or how such a massive number and/or percentage of renters condensed into such a small area will impact residents' ownership of and engagement in our city, are not taking place anywhere.

This is the time for those who care about the long-term viability and vibrancy of our great city to pause and consider whether there might be more appealing, innovative approaches to building a timeless, dynamic residential urban core before it's too late.

Somehow, while we were weathering the recent recession, it appears that valuing innovation, offering people viable choices, improving the lives of occupants, enhancing the environment and reaching beyond the notion of duplicating what others have already done has been forgotten in Denver.

In other cities, architects and developers – both in the U.S. and abroad – have been actively questioning this formulaic approach to housing for some time. They already have begun reimagining local housing solutions and reaching beyond the simple quest of maximizing net leasable square footage, or catering exclusively to millennials and young professionals.

Because great ideas relative to high-density housing seem to come from other countries before making their way to one of our coasts and eventually showing up in Denver, three very different multifamily housing projects come to mind as recent examples. One is located in Copenhagen, Denmark, (multifamily housing), another is in San Francisco (affordable senior housing) and the third is in Seoul, South Korea (micro-housing). What is most compelling about these projects, however, is the special care the architects took to respect context, integrate social spaces throughout the buildings (not merely at street level) and maximize useable exterior space. Unlike some of the most recent five-story apartment boxes built in downtown Denver, these projects embrace the concepts of outdoor living and social interaction while responding thoughtfully to context. Through innovative approaches to unit stacking and shape, redefining the ground plane, integration of the car and the exploration of vertical neighborhoods, they have successfully begun to reimagine what 21st century housing can be.

For example, The Mountain multifamily project located in Copenhagen and designed by the Bjarke Ingels Group (BIG) and JDS Architects incorporates L-shaped units with outdoor protected courtyards terraced vertically to allow each unit to have full sun exposure and privacy. Each unit opens to its own private courtyard, which creates more useable outdoor space than the miniscule projecting balconies found in most Denver apartment buildings. The triangular profile of this building's base also hides parking in a clever way and makes the procession from car to unit both exciting and dramatic. A similar project by BIG on West 57th Street – within the dense urban context of Manhattan – uses a unique, warped pyramid form to preserve existing views, maximize natural light and create a diversity of unit types within a hybrid courtyard/skyscraper building.

David Baker Architects, a respected California firm doing amazing work in the affordable housing sector, designed the next example. The recently completed Armstrong Senior Housing, an affordable senior housing project in San Francisco, was designed to avoid the aesthetic stigma or traditional planning themes that often lead to the downfall of projects of this type. The exterior is vibrant, fresh and dynamic, reflecting the neighborhood's African-American population through the tradition of African textiles. The residences – predominantly studios and one-bedroom units – wrap around a private courtyard and sit on top of commercial space that houses shops, senior services, a library and a community center, which contribute to residents' sense of connection to their community.

The final example, the Songpa Micro-Housing project in Seoul, South Korea, designed by Jinhee Park and John Hong of SsD, integrates vertical circulation as social space, which also functions as a linear micro café and ramp/amphitheatre that lead to a lower-level exhibition area. Each unit includes semipublic circulation and balconies while visual extensions and hallways are designed to function as collaborative spaces that seamlessly transform from private to semiprivate to open space. This dynamic, flexible mixed-use housing consists of 14 "unit blocks," which allow residents to either claim a single unit, or in the case where a couple or friends require more space, recombine the blocks for larger configurations on a temporary or permanent basis.

The above projects represent a few of the newest and best examples of innovative, contextual design within the multifamily sector. While each originally began with a standard program with specific goals relative to unit mix and size, the architects chose to venture far beyond what was expected, ultimately exploring opportunities that broaden both their clients' expectations and the traditional concepts of housing, individual units and one's connection to community.

In conclusion, developers, investors, builders and architects must begin asking whether the economic success of repetitive, five-story wood apartment boxes is enough. Housing solutions that enhance our environment, strengthen our urban condition, and bring a sense of permanence and longevity to our collective future must be seriously pursued before it's too late.

Downtown Denver could be a leader in generating multigenerational, diversified, innovative multifamily housing. We could easily compete with a Portland, Oregon, or a Vancouver, British Columbia, or some of the more innovative cities around the world. Yet, in parallel to the recent surge in rental apartment construction, we have experienced a simultaneous decline in unit types, variety and quality – not to mention a serious lack of design innovation.

Is the building of repetitive, banal housing solutions the best we can do? Perhaps we can come together to initiate a long overdue revolutionary conversation in our city.▲

Maintenance

Trees in my landscape: What is my approach?

We live in a changing world, but true principles never change in the midst of time. "It is unwise to pay too much, but it's worse to pay too little," said John Ruskin, English author, architect and economist, who lived from 1819 to 1900. "When you pay too much, you lose a little money. When you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing it was bought to do."

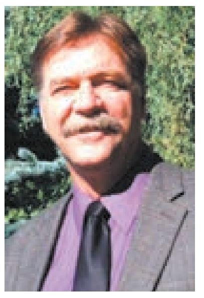
By now budgets are set. Many of you have a line item for your landscape. However, in most cases, your landscape budgets are a lump sum and often it is spent with little remaining when there is the greatest need. The result typically is sending out a request for proposal and being placed in a position in which the bids come in over budget. Now what? Based on the quote referenced at the beginning of this article, you are faced with a decision: Do you select the lowest bidder or study your options?

The first thing that is necessary is an evaluation. It should be broken down by risk, need, responsibility and, finally, cost.

Risk. Evaluating risk and the safety of your tenants and property should be your highest priority. Lawsuits due to negligence will cost you the most, not only financially but also in bad publicity. Once on your property, a qualified arborist has a duty and responsibility to alert clients of any potential risk that he or she notices. This is often a difficult task since it is impossible to make a complete assessment from the ground. However, any obvious visible risks should be included in his or her proposal.

Need. The evaluation should be based on need. Not every tree on the property needs to be pruned at the same time. Pruning trees that pose a risk first and then prioritizing the remaining trees in the landscape can save money.

Responsibility. Responsibility ultimately is on the owners of the property. As an on-site manager, it is difficult to convey the message to the owners concerning the risks on the property and the need to spend money. The difficulty often is increased with out-of-town owners. However, the responsibility is not mitigated in either case of risk or need. With that said, it is a good and valuable practice to inspect your trees several times each year. During the winter months while the leaves are off of the deciduous trees is a great



Matt Schovel, ISA Certified Arborist
Commercial sales and development, Swingle Lawn, Tree & Landscape Care

time to inspect your trees. The spring is also an effective time for an inspection after the last snowfall. (Yes, I realize we live in Colorado and that can be well into the month of May.) The manager of the property has responsibilities that work in both directions; a responsibility to keep owners informed and tenants safe.

Cost. Finally, we come to the evaluation of cost. I understand for many, costs are considered the first and primary responsibility. However, it is a true axiom that there is a marked difference between cost and price. This brings us full circle to John Ruskin's point. Price is what you pay at the time of the service. Cost is what you pay over time. If you choose the lowest bidder, you may falsely believe that you are getting the best deal. We all know and understand that "you get what you pay for." It is easy to justify selecting the lowest price. Similarly, at first it can look good to owners that a manager saved X amount of dollars with his or her decision. However, invariably when the same trees need to be pruned the following year or two due to a lack of quality, the cost over time has increased. Now the manager is put in a position of explaining why more money is needed to perform the same task.

As a second-generation arborist and operating in the green industry my entire life, I have worked with both the tenured and new manager. I have seen this process implemented and tens of thousands of dollars saved by following these principles. In fact, this same approach can be applied to the decisions you make each day, regardless of what aspect of the property it affects.▲

Performing regular tree inspections is critical for multifamily complexes.

Objectives, Methods and Cuts for Tree Pruning

Pruning Objectives	Pruning Methods	Pruning Cuts
Reduce risk of failure	Structural	Removal cut
Improve structure	Cleaning	Reduction cut
Maintain health	Thinning	Heading cut
Improve aesthetics	Raising	
Provide clearance	Reducing	
Improve view	Restoring	
Reduce shade	Pollarding	
Influence flowering and fruiting		

Technology

Reconfiguring interiors using new technology

When commercial real estate properties are first built, developers aren't thinking about how a new owner, 10 years down the road, needs that property to function in order to maximize profit. For example, it is not a current concern if multifamily properties will need to be changed to assisted-living properties, as the baby boomer generation needs more care in the next 20 years. Tenants of multifamily properties have different needs and space requirements than a retirement home or assisted-living facility. Maybe this should be a consideration from the start in order to secure the long-term success of the building.

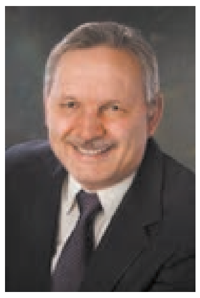
Typically, with multifamily, the type of unit that is popular at the time determines what the space requirements will be. With that in mind, there are several scenarios that owners may face with current buildings requiring updates. First is demand. It makes sense that if two- or three-bedroom units are in demand, those would be the easiest to rent and therefore most desirable for the owner. Depending on income levels and other factors, different size units are popular at different times. Also, in time,

> 'It's encouraging to see new technology and practices that promote both building deconstruction and landfill construction waste diversion.'
>
> – Brian Dunbar, Institute of the Built Environment

apartments may no longer be as in demand, because condos might become more profitable. If the Colorado construction defect law is changed in few years, it could be enticing for owners to convert an apartment building to more profitable condos. Another common consideration is to convert lower levels of a building into boutique retail stores.

Often the large costs associated with rehabbing existing buildings for a new or future need is detrimental.

It would be valuable if an owner were able to reconfigure the interior of a building to match needs, as the neighborhood experiences change. A new technology makes interior reconfiguration a reality. A former Gensler architect and professor at



Les Simpson
President, Deferred Tax Benefits, Denver

Texas A&M University has developed a demountable drywall joint tape called Green-Zip. This tape is important because it creates interior versatility.

If you think about the way the interiors of buildings are constructed, walls are set into place using studs and head rails. Then the doors, windows, plumbing and electrical are added. Drywall sections are put onto the frame to connect and cover up all of these items that make up the wall.

Conventional drywall joint tape is installed and seals access to the entire wall, both inside and out. It seals so well that when someone wants to remodel or even do a plumbing repair, the only choice has been demolition (hammers and saws) and starting over with new materials. This is very expensive for the building owners. It also accounts for 23 percent of garbage in construction landfills, according to the U.S. Environmental Protection Agency. With a removable drywall joint tape, materials can be reused, including the drywall. Once the drywall is removed, studs can then be moved, allowing for the space to be reconfigured. The same drywall can be put back up to create that a new space using the same materials. Reconfiguring the interior saves $110 per lineal foot, or $1,100 savings for every 10 feet compared with demolition costs, according to a Turner Construction case study. Time and labor costs are also significantly less.

Also, according to a Leadership in Energy & Environmental Design case study, demountable drywall tape diverts 70 percent to 90 percent of the building from landfills. If a building is working toward Gold LEED status, demountable tape can contribute up to five LEED points. "It's encouraging to see new technology and practices that promote both building deconstruction and landfill construction waste diversion," said Brian Dunbar, LEED fellow, executive director at Institute of the Built Environment.

The Internal Revenue Service offers tax benefits because the demountable dry wall tape makes everything associated with a non load-bearing wall pass the test and become personal property. This changes the materials from a 39-year to a five-year depreciation.

For the investor, this means an additional 8.1 percent return on equity, according to Real Estate Review. For companies using their own building, McGladrey accounting says that the tax benefits for a profitable company is equivalent to saving between $3 and $10 per square foot of floor space.

The self-adhesive tape can save time and labor because no auto-taping tools are needed for the first mud coat and there is no four-hour to two-day drying time. All of these benefits have an upfront cost of $1 to $1.70 per sf of floor space. A Barry Lynch, IFMA Fellow, case study shows return on investment to be 7:1. The new industry of changeable buildings is born with a simple idea of demountable dry wall tape.▲

Green-Zip drywall tape adheres to drywall in the same fashion as regular tape but without the long drying time.

The removable drywall tape is used to be able to reconfigure spaces using the same materials.

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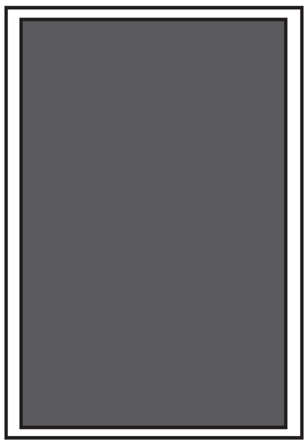

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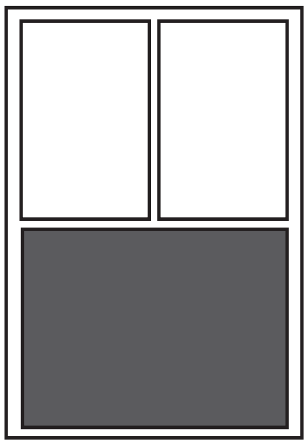

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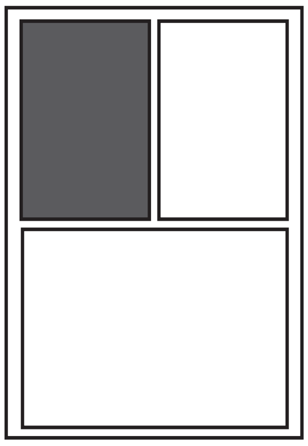

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