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MULTIFAMILY PROPERTIES Quarterly

Colorado's consciousness toward energy efficiency

Photo courtesy: D4 Urban

Denizen is a multifamily development pursuing LEED Platinum certification.

by Ryan Gager

The connection residents feel to Colorado and the desire to take care of the state are merging with new development, and the results speak for themselves. The U.S. Green Building Council recently released its 2014 list of the Top 10 States for LEED, the world's most widely used and recognized green building system. Colorado came in at No. 2. Since 2008, 160 LEED buildings were built or are under construction, according to the Colorado Energy Office.

"It's a testament to the collective consciousness in Colorado," said Dan Cohen, development manager of D4 Urban. "I think we generally live in a more progressive state, and from a developer perspective, we are trying to build a product to cater to the people living here."

D4 Urban is currently under construction on Denizen, a multifamily project that is pursuing LEED Platinum certification, which would make it the first market-rate multifamily project in the state to achieve the certification. The 275-unit Denizen, located at the Alameda light-rail station, is the first phase of a broader densification of the Denver Design District. The light-rail station is situated next to a rail yard and behind big-box store loading docks, giving it an industrial feel.

"The idea is to transform a hidden station into a vibrant and dynamic place," said Cohen. Because of its open location, which does not border a main street, the site required multiple sides of activation, which, along with pursuing LEED certification, added to the cost.

Cost is one of the challenges facing developers pursuing LEED certification for their buildings, but it doesn't stop there. "Denver's growth spurt provides both challenges and opportunities," said Sonrisa Lucero, sustainability strategist, Denver Office of Sustainability. "The city is sprawling out and building up, becoming more dense, so there are some challenges with land costs while preserving neighborhoods at the same time. But this is an exciting time, a time to push innovation and creativity."

LEED certification costs differ depending on if the building is new construction or if upgrades are made to an existing property. Mainly, the

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Letter from the Editor

The multifamily market continues its hot streak

The Colorado multifamily market is off and running once again, picking up where it left off last year.

Development and construction continue throughout the state, while vacancy rates stay low and rents remain high. It may sound like a broken record, but for many it is sweet music to their ears.

Colorado Real Estate Journal is proud to present our second issue of Multifamily Properties Quarterly. This quarterly aims to provide an in-depth look at the apartment and condominium community with trends, market features and profiles from the best in the industry.

The buzz around the industry is not letting up and many experts predict 2015 to be another good year. Learn about the effect the multifamily industry has on Denver's economy in an article by Kim Duty from the National Multifamily Housing Council on Page 4.

The state is also a national leader in green building per capita. Many developers are realizing the benefits of producing LEED-certified projects, and savvy renters are asking for these buildings when considering where to live. Denizen, a multifamily project pursuing LEED Platinum certification, is highlighted in this issue.

Architect Bobby Long from Kephart also weighs in on apartment amenities and how developments are taking location into consideration when placing amenities throughout a complex.

Thank you to everyone who contributed articles, sat down for interviews and helped to provide the great content found throughout this publication. Without the assistance 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
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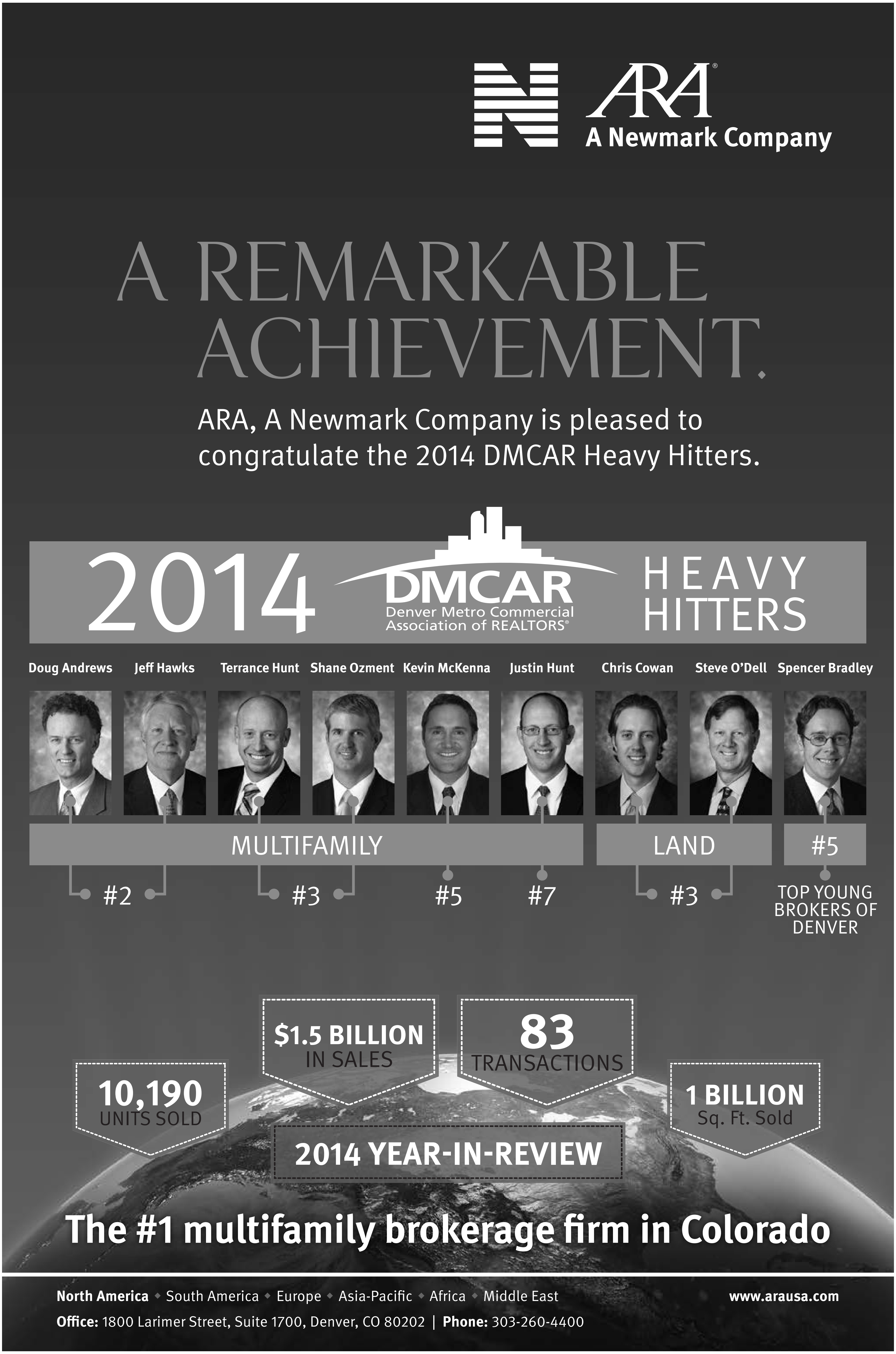
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Rental boom is boon to Denver economy

A quick scan of the Denver skyline confirms what we all know: The Denver apartment market is booming. Demographic changes, the growing millennial population and a general rediscovery of urban cores are driving historic demand for apartments. And developers are responding.

Kim Duty
Senior vice president, public affairs, National Multifamily Housing Council, Denver

Multifamily construction is at historic highs in Denver and across the country. Of the 15,837 residential construction permits issued last year in the metro area, more than 7,400 were multifamily. In 2013, there were 8,188 multifamily permits.

All of that construction means a lot of jobs, and not just from construction, but also from the leasing and operations side. Research commissioned by the National Multifamily Housing Council and the National Apartment Association found that in the Denver metro area – in 2013, which is the latest data available – apartment construction, operations and resident spending contributed $10.4 billion to the economy and supported more than 97,400 jobs.

What comprises that $10.4 billion? Local apartment construction contributed $1.6 billion and helped support 12,890 jobs. Operations added another $1.6 billion and provided support for 11,631 jobs. And finally, there is the often-overlooked component of economic contribution – the spending power of the apartment residents themselves. After all, without these apartments, residents might be living somewhere else and spending money in a different community. Denver's 439,900 renters contributed $7.1 billion to the local economy and helped support nearly 73,000 jobs.

On a statewide level, apartments and Colorado's apartment renters contributed $15.6 billion to the state economy and supported 154,000 jobs in 2013. Nationally, apartment homes and their 36 million residents contributed $1.3 trillion to the economy and supported 12.3 million jobs in construction, operations, leasing, management and skilled trades.

Economist Stephen S. Fuller, Ph.D., George Mason University Center for Regional Analysis, conducted research that was published by NMHC and NAA as part of the biggest public relations campaign in the history of the multifamily industry. The award-winning "Apartments. We Live Here." campaign tells the story of how apartments help people live in a home that is right for them, while making communities stronger and creating millions of jobs.

The campaign site, www.weareapartments.org, features an interactive map that showcases the footprint of the apartment industry in all 50 states and 40 metro areas, including Denver. The site also includes tools that real estate practitioners can use with planning boards, citizen groups, investors or anyone else who wants to know about the economic impact apartments bring to communities in Colorado. In my opinion, the most useful tool is NMHC/NAA's Apartment Community Estimator, or ACE.

ACE calculates the economic contribution of a given number of apartment units to Denver or any city and state. By entering how many apartments are in a community, indicating whether it is an existing property or new construction and choosing a city or state, the tool will calculate the total economic impact and number of jobs supported. For example, a new project in Denver consisting of 165 apartment homes would support 322 local jobs annually and generate a $38 million economic impact to the state when the spending of its residents is included. Those are strong numbers by any measure.

As construction cranes become the norm in Denver, the question of how and where Denver should develop is a hot, and often heated, topic, at least in my neighborhood of West Highlands. These tools are designed to help address those "not in my back yard" battles.

Following are arguments to be made for the continued construction of apartments in Denver and Colorado:

Managing budgets. Apartments help manage city and state budgets by concentrating water, sewer, electrical, highway, police and fire protection. According to the U.S. Department of Housing and Urban Development, the total cost for a jurisdiction to support a large-lot detached house (including libraries, parks, fire, police, schools, roads, drainage, water and wastewater) is $13,470. The cost drops to $8,640 for a more compact detached house, and for an apartment or condominium, the cost drops further to $6,405.

Fueling the local economy. Appealing multifamily housing attracts the "best of the best" to a city or state. Colorado's lifestyle made the state and Denver a premier destination for the workers firms want. In fact, some firms have relocated their headquarters to Denver in recent years. All of that economic development is fueling the tax base, supporting the economy and helping support state-of-the-art transportation and other infrastructure changes city leaders are undertaking to make Denver a world-class city. We can't have all that without creating housing for these new residents.

Boosting prosperity. Harvard professor Ed Glaeser has an extensive body of work documenting the benefits of density, including the fact that wages and productivity rise with density.

Reducing traffic. Creating walkable neighborhoods and providing the critical mass needed for public transportation lessen traffic. Dense neighborhoods help reduce vehicle miles traveled (which reduces traffic), because most car trips aren't just commutes to work. Trips also include traveling to buy groceries, going out to eat and picking up children from school, which adds up to millions of miles. When we create dense live-work-play neighborhoods, we reduce traffic.

Preserving park space. Having parks and outdoor recreation areas is essential in dense and urban areas. When buildings are built up instead of out it allows space for parks and outdoor areas to be possible.

I believe leaders and policymakers in Denver and Washington, D.C., need to understand the importance of the multifamily industry to Colorado and the country.▲

APARTMENTS. WE LIVE HERE.

DENVER METRO AREA

Learn how apartments and their residents strengthen the metro economy.

439.9k	234.9k	$10.4b	97.4k
Apartment residents	Occupied Apartment homes	Economic contribution	Total jobs supported

LIVING IN APARTMENTS

Apartment Residents	439,860
Spending Power	$3,566,002,450
Direct Jobs Supported	27,963
Total Economic Contribution	$7,149,478,312
Total Jobs Supported	72,922

MANAGING APARTMENTS

Total Occupied Apartment Homes	234,900
Operation Dollars Spent	$786,389,509
Direct On-site Jobs	4,614
Total Economic Contribution	$1,594,676,819
Total Jobs Supported	11,631

BUILDING APARTMENTS

Construction Dollars Spent	$733,176,055
Direct Jobs	3,831
Total Economic Contribution	$1,607,928,407
Total Jobs Supported	12,890

The impact of apartments on the Denver metro economy

APARTMENTS. WE LIVE HERE.

Denver Metro Area

Economic Impact of 165 Apartment Homes.

TOTAL ECONOMIC IMPACT **$38,814,659**

The combined direct and indirect contribution of apartment construction, operations and resident spending to the state economy.

TOTAL JOBS SUPPORTED **322**

The total number of direct and indirect jobs supported by apartment construction, operations and resident spending within the state economy.

Apartment Residents

Spending Power	$2,643,631
Direct Jobs Supported	21
Total Economic Contribution	$5,300,217
Total Jobs Supported	54

Apartment Operations

Operations Dollars Spent	$548,546
Direct On-site Jobs	3
Total Economic Contribution	$1,112,368
Total Jobs Supported	8

Apartment Construction

Construction Dollars Spent	$14,774,554
Direct Jobs	77
Total Economic Contribution	$32,402,075
Total Jobs Supported	260

Note: Apartment construction is a one-time impact. Resident and operations spending recurs annually.

The economic impact a 165-unit project would have on the Denver metro area

Denver Metro Update

Median home prices surpass $830,000 in 2034

It seems a little hard to imagine that we could be reading a headline like this in the future about home prices in Denver. However, if we look back 20 years, we can see that median home prices went up 2.65 times from 1994 to 2014. If you apply this same rate of appreciation to year-end 2014 median home price, you could forecast home prices to exceed $830,000 in 20 years.

As is said, "Past performance is not an indicator of future outcomes," and obviously this methodology is a bit oversimplified, but it provides an entertaining way to take a guess at what the future could hold.

Apartments – A Look Back

When looking at historic average apartment sales for properties with 100 units or more in those same time periods, the rate of appreciation is even more striking with the average price per unit increasing 4.35 times from 1994 to 2014.

The average price per unit does not account for the age of the property, amenities, property upgrades and so forth. These factors have a bearing on values, especially if you consider the record-level pricing achieved by newer properties with incredible amenities in core locations. For example, if we look at record-setting sales in terms of the highest price per unit each year for apartments sold with 100 units or more, we can see the difference – the record sale price per unit increased by 4.86 times from 1994 to 2014.

If this rate of appreciation were to occur again over the next 20 years we could see a record-breaking price per unit of over $1.9 million! That seems really hard to envision, but I recall a conversation with a client back in the early 2000s. He purchased apartments in Capitol Hill 10 years prior for $15,000 per unit, and he didn't think that in his life they would be worth over $50,000 per unit. This client is still very much alive today and we have seen properties similar to his sell for over $125,000 per unit.

Historic Returns

Capitalization rates represent the rate of return an investor is expecting based on the purchase price. The percent is derived by dividing net operating income by the purchase price. A higher cap rate indicates a higher rate of return. Further, the greater the difference between the cap rates and mortgage rates indicates better investment returns after debt service. By looking at the difference between average cap rates and mortgage interest rates it would appear that leveraged

Craig Stack
Vice president, Colliers International Multifamily Advisory Group, Denver

buyers have a more positive spread of 1.9 percent in 2014, compared with 0.9 percent in 1994.

Recession Proof?

This macro view of historical values might belie the fact that the market weathered two major recessions in the last 20 years – first around 2001 with the dot-com bust, and again in 2008 with the financial markets meltdown. It might also be somewhat misleading to think that everyone who bought real estate over the last 20 years made money (because real estate always goes up in value, right?). After the fallout from the recession in 2008 we witnessed several apartment buildings become lender-owned from owners who purchased the properties between 2005-2007.

Interestingly, we recently valued a property for a lender who foreclosed during the end of the recession and has been managing the asset since that time. At one point the lender was facing a significant loss. Now, based on the current restabilized operations, the property is worth significantly more than what the previous owner paid for it in 2007. We tend not to think of real estate gaining or losing value quickly but, as recent history shows, it can happen.

Predictions

We remain very bullish on the near-term apartment market due the positive make up of a growing generation of millennial and empty-nester renters, lack of for-sale housing options, strong in-migration to Colorado and a steadily growing employment market. However, forecasting what the real estate market will do in the near term is always difficult. Will a European debt crisis stymie the market? Will interest rates increase rapidly? When will the next "black swan" event occur? These game-changing events that tend to send demand from renters and apartment investors to the sidelines usually occur suddenly and without much warning. Those who can avoid selling into these markets likely will enjoy the long-term upside similar to what we have seen over the last 20 years.

We know that in the current market with record-high rents, low borrowing costs and strong investor demand, it is an excellent time to be a seller and an owner. Looking into the past over the long term paints a pretty good picture of steady overall apartment appreciation. With our biased love of Denver and all that Colorado has to offer, we remain very positive on this market for the long term. Here's to seeing a record price-per-unit sale in 2034 of $1.9 million!

In the meantime, enjoy these record rent increases and record profits. And to those waiting to buy in the next cycle, please let me know when it will be coming.▲

METRO DENVER MEDIAN HOME PRICES

1994	$119,000
2004	$205,500
2014	$314,800

National Association of Realtors

AVERAGE PRICE PER UNIT
APARTMENT BUILDINGS WITH 100+ UNITS

1994	$36,171
2004	$72,582
2014	$157,453

Cary Bruteig, Apartment Appraisers & Consultants

RECORD PRICE PER UNIT
APARTMENT BUILDINGS WITH 100+ UNITS

1994	$80,769
2004	$116,935
2014	$392,857

Cary Bruteig, Apartment Appraisers & Consultants

BORROWING RATES VS. RATES OF RETURN

YEAR	1994	2004	2014
HOME INTEREST RATES*	9.2%	5.8%	3.9%
AVERAGE CAP RATES**	10.1%	6.2%	5.8%
DIFFERENCE	0.9%	0.4%	1.9%

* Freddie Mac – Average Yearly Interest Rates
** Cary Bruteig – Apartment Appraisers & Consultants - Avg Cap Rates

Boulder Update

Exciting times for multifamily investment in Boulder

Year-to-date multifamily investments have been an exciting asset class to watch. They are steady and reliable income and expense operations that provide a high value-added opportunity with limited risk. If you are interested in exploring a multifamily investment, here is a look at the current market on a national and local level.

Miles King, CCIM
Broker associate, Colorado Group, Boulder

Todd Walsh, CCIM
Broker associate, Colorado Group, Boulder

In an article summarizing the national 2014 multifamily market in the January issue of Commercial Investment Real Estate magazine, Kenneth P. Riggs Jr., CCIM, CRE, MAI, FRICS, quoted several statistics from various real estate data research companies that are worth noting. The nation's apartment vacancy rate ended fourth-quarter 2014 at 4.3 percent, and the annual effective rent increased 3.9 percent to an average monthly apartment rental rate of $1,117, according to Reis. Reports from Real Capital Analytics indicate the price per apartment increased 21.5 percent to $128,259. And ERCC reported the initial cap rate required by investors across the nation declined to 5 percent. The same group also predicted that the effective rent growth rate would be 3.1 percent in 2015 and 2.6 percent in 2016.

The Denver metro market reportedly is one of the top multifamily markets in the country outside of the coastal cities. There was a record $3.25 billion in apartment sales in the Denver area in 2014, according to Cary Bruteig, principal of Apartment Appraisers & Consultants. Bruteig's statistics indicate the sales volume of apartment buildings of 50-plus units was up 78 percent from 2013. The overall apartment vacancy rate increased slightly from 3.7 percent to 4.1 percent, but remained the lowest fourth-quarter vacancy rate in 11 years, he said.

There are nearly 100 apartment projects with over 19,000 units under construction in Denver, said Bill James, MAI, CCIM. Approximately 10,000 units were completed in 2014. There is much debate and some concern about overbuilding. New Class A apartments are now receiving as much as $2.20 per square foot, per month, in rent, and sales prices of over $400 per sf.

I have heard the expression that in order to determine a city's economic condition and vitality, count the number of construction cranes in the area. Boulder's landscape is littered with cranes, and experienced more construction activity in 2014 than in years past. Downtown Boulder, the University of Colorado's main and east campus locations, North and South 28th Street, northwest Boulder and south Boulder all have had visible cranes over the past year. The Daily Camera's Oct. 12 informative review of Boulder's growth and development focused on 12 major construction projects in process. In that article, 12 major developments were highlighted, and many of these are new apartment projects.

A GROSS RENT MULTIPLIER OF 17.4
Est. Cap Rate of 4.5%
Price per Sq. Ft. of $319
Price per Unit of $335,632
Price per Bedroom of $167,666
Rent per Bedroom of $826 per Month

Boulder multifamily sales and rental numbers in 2014.

From the multifamily real estate perspective, the landscape has changed considerably in the last few years. Up until the development of Two Nine North at 1955 30th St., new market-rate apartments of any size had been conspicuously absent for decades. With the exception of an occasional new dorm for CU students, most new multifamily housing units were sold as individual condos or townhomes. In addition, Colorado's growth in jobs and population, and the trend toward an urban lifestyle have created a strong demand for apartment living.

Throughout 2014, the multifamily resale market was exceptionally strong. Due to continued low interest rates, high occupancy rates, strong rates of annual rent growth and in-migration of millennials, Boulder multifamily investments are in great demand. The supply of residential income properties for sale cannot keep pace with demand. At one point during fourth-quarter 2014, there were only three multifamily properties for sale in Boulder. This imbalance of supply and demand creates an exceptionally strong sellers' market, which increases prices and compresses cap rates. An example of this is the last three sales of the 161-unit apartment complex at 2850-2890 Kalmia Ave. in north Boulder. In February 2009, the property, previously known as The Boulders, sold for $20.9 million. In May 2011, it sold for $33.5 million. Last October it sold again, this time for a price of $44.2 million. Previous owners made some improvements, but this is a 111 percent price increase in 5½ years.

From Jan. 1, 2014, through Dec. 31, 2014, there were 36 multifamily sales in Boulder. Several of these were "off-market sales" or placed under contract before they became public knowledge. Prices ranged from $452,500 for a duplex to $93.5 million for the 238 apartments at Two Nine North. The unweighted average metrics for these 36 sales are shown in the chart.▲

Northern Colorado Update

Slowing acceleration despite continued strength

The multifamily market in Northern Colorado continued its strong performance through the end of 2014 and into 2015, experiencing economic growth and development.

Brian Mannlein
Vice president, DTZ, Fort Collins

Employment was a driver for this growth and the region expanded its workforce by nearly 5,000 workers in 2014. With regard to population, both Larimer and Weld counties were among the top 12 fastest-growing metropolitan areas in the nation from 2013 to 2014, according to figures released by the U.S. Census Bureau. Greeley's metropolitan statistical area (Weld County) came in eighth on the list with a growth rate of 2.6 percent. Fort Collins metropolitan statistical area (Larimer County, including Loveland) came in 12th with a growth rate of 2.2 percent. As the economy and market flourish, the influx of people is compressing vacancies to staggeringly low average rates of 1.4 percent across the whole Northern Colorado market.

The Northern Colorado multifamily market recorded an incredibly strong 2014, with nearly $320 million in trades taking place throughout the year. This number is more than four times the amount of sales completed in 2013 of $78 million. Two of the three largest transactions occurred in Loveland, with the largest being the 303-unit sale of Lake Vista Apartments at 2235 Rocky Mountain Ave. for nearly $61 million, and the third largest was the 252-unit sale of the Greens at Van de Water at 2900 Mountain Lion Drive for almost $45 million. The second-largest transaction occurred in Fort Collins. The 460-unit Ram's Crossing portfolio (three properties located around Colorado State University) sold for $58 million. The drastic upward trend of property values continued through 2014, as average sales price per unit was up to nearly $160,000 from $110,000 at year-end 2013. As seen in 2013, demand for property is extremely high, exemplified by historically low vacancy rates and rising rental rates.

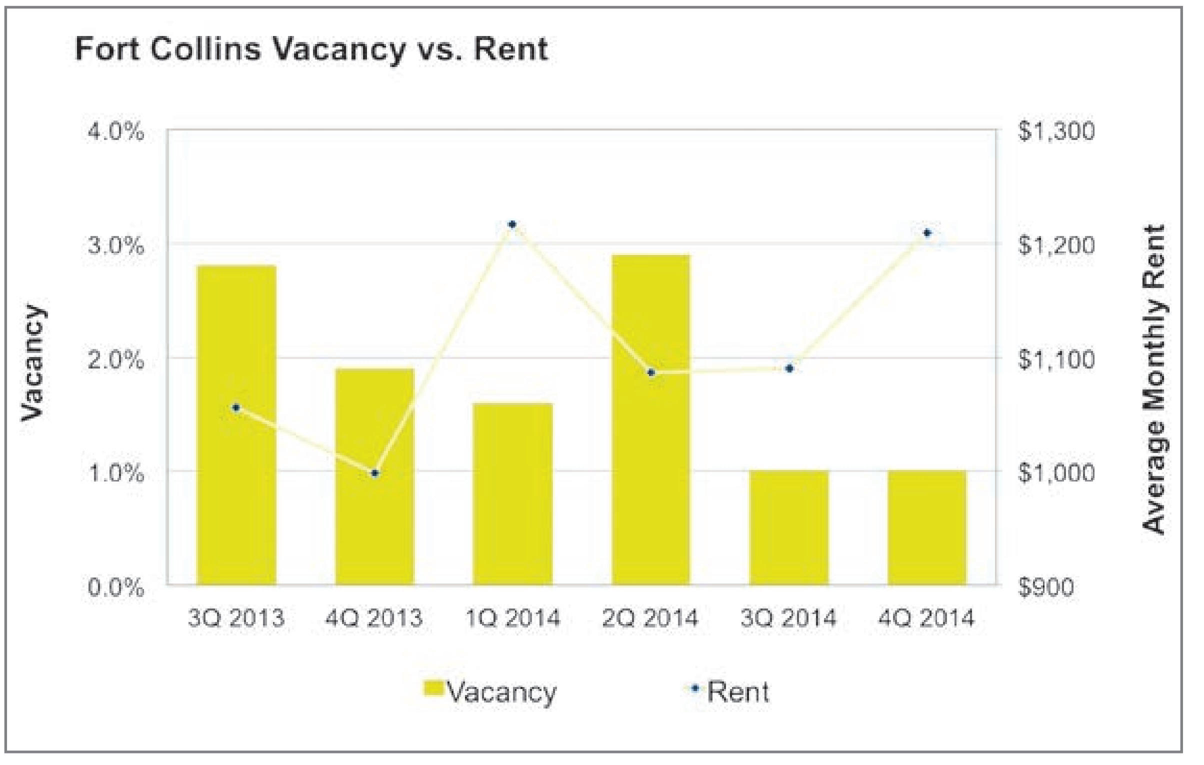
Concurrently, cap rates continue to compress, down below 7 percent on average with many transactions closing below 6 percent. The year began with a similar number of sales transactions, but a dramatically different sales volume and unit number total. This is due in part to the sale of the 66-unit Max Flats Apartments in Fort Collins at $14.2 million and the sale of the 24-unit Central Town Apartments in Fort Collins for $3.3 million. So far in 2015, the average unit price of nearly $162,000 has exceeded 2014's record of nearly $160,000.

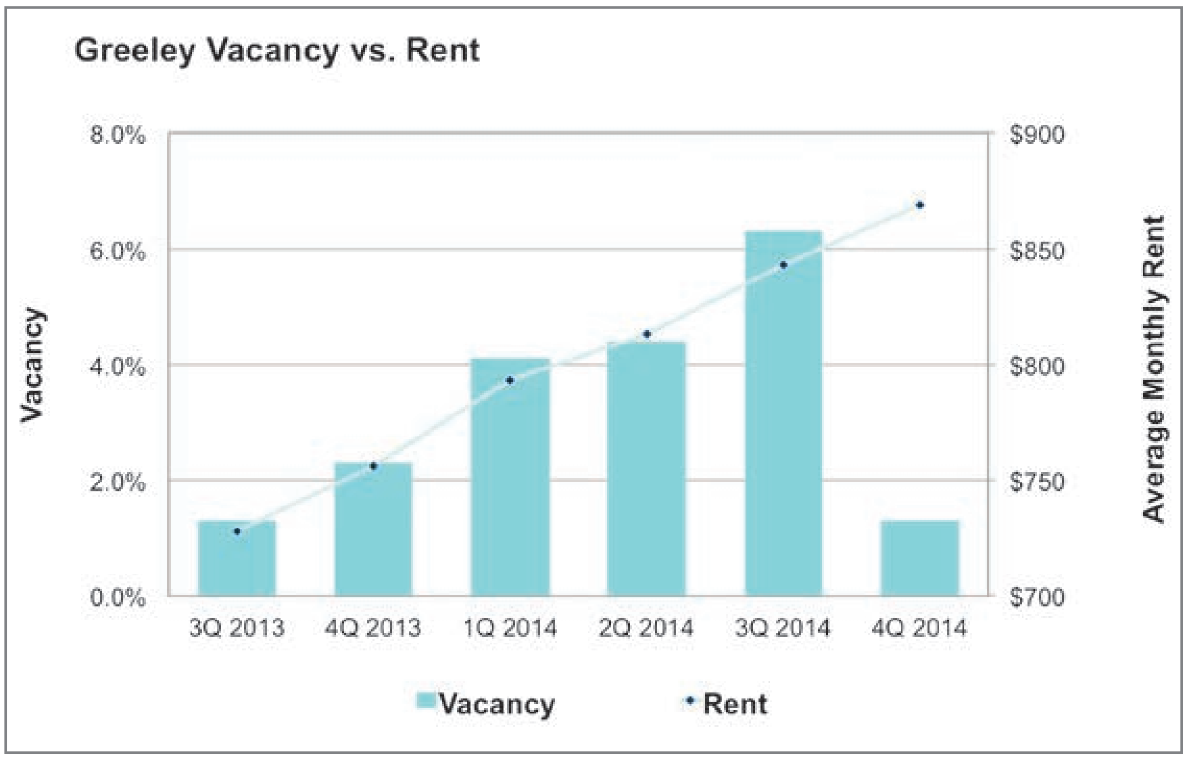
Sales climbed as a result of the dramatic improvement in market conditions. Leading the way, rents experienced double-digit year-over-year percentage hikes. In Larimer County, rents rose to an average of nearly $1,200 per month per unit. In Weld County, rental rates climbed to nearly $870 per month per unit. Asking rents in Northern Colorado for multifamily units have been on an upward trend for the last five years and, while that trend continues, we are now experiencing a leveling off in rent hikes. Although recently there was steady rental rate increases across all markets, these increases are slowing down due to the substantial amount of development currently underway and the concern about the future of the energy industry and its effect on the overall economic marketplace.

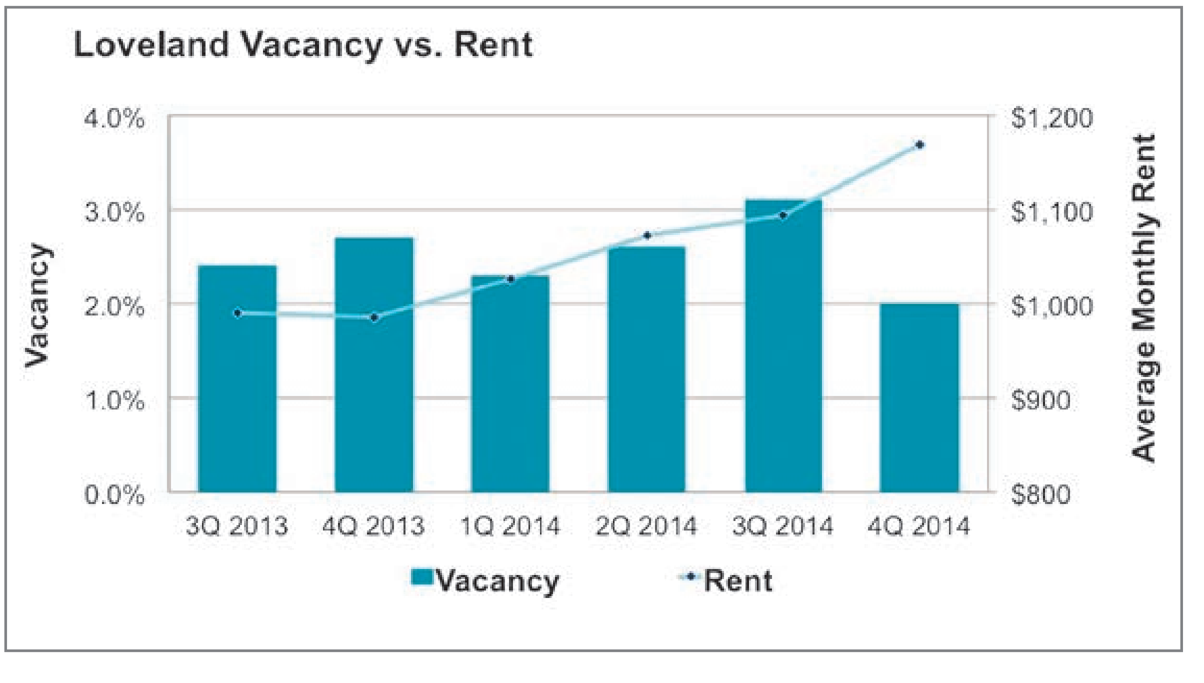
Another driver responsible for record sales (and development) is the extremely low vacancy rates, which were among the lowest in the state and country in 2014. These rates remain incredibly low across all property ages – Fort Collins at 1 percent, Loveland at 2 percent and Greeley at 0.6 percent. In Larimer County, properties built between 1970 and 1979 have the lowest vacancy rate of 0.7 percent. In Weld County, the lowest vacancy occurs in properties built between 1980 and 1989 at 0.4 percent. The demand for these older properties remains high, as they provide an alternative to the newer, more highly priced units currently being constructed or recently delivered. Lessees can occupy properties in desirable areas without having to pay new product prices.

An expanding and diversified economy, along with favorable market conditions continue to harbor an environment of robust investment activity and a high level of new development in Northern Colorado. According to recent data from Apartment Insights, a database that tracks multifamily buildings, there are currently 1,851 units under construction, with another 3,102 planned, which are staggering numbers for this market. The number of new and planned units will drastically add to the supply of inventory available to potential renters, which may alleviate some stress on vacancy and rental rates. However, given the economic expansion in the Northern Colorado market, demand likely will remain very high. The largest project (currently) under construction is the 310-unit Crowne at Timberline-Fort Collins Apartments. Crowne Partners is the developer, and the building is expected to deliver in early 2016. Multiple 200-plus unit projects are also under construction across the region.

Given the influx of people to the region, it is anticipated that rents will continue to increase but at a slower rate compared with 2014. Vacancies will loosen a little bit with all of the current and planned construction, but still will remain tight and difficult for low-income renters. As discussed when recapping year-end 2014, the market has yet to see how, and if, the energy industry will drag on the multifamily metrics.▲





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Colorado Springs Update

Boost in employment impacts thriving market

In March, the U.S. Bureau of Labor Statistics released revised job growth numbers indicating that nearly 4,900 jobs were created in Colorado Springs in 2014. This translates to a 1.9 percent employment growth rate, which is much closer to the state average and the Denver job growth. These revised results coincide with Colorado Springs' current business regulations that are among the most favorable in the country. In fact, Colorado Springs ranked No. 1 in several national rankings of small-business-friendly cities. It is encouraging to see these favorable policy decisions attract quality employers and produce the volume of job growth that many have been anticipating.

Saul Levy
Associate, ARA, A Newmark Company, Colorado Springs

Kevin McKenna
Vice president, ARA, A Newmark Company, Colorado Springs

These revised job growth statistics also intuitively correspond with Colorado Springs' production in terms of apartment fundamentals. During third-quarter 2014, vacancy reached its lowest level since 2001 at 4.71 percent. The market also saw remarkable year-over-year rent growth, with average rents increasing 7.1 percent during fourth-quarter 2014. In order for the city to maintain these optimal conditions for apartment owners, continued job growth will be a critical component. During first-quarter 2015, Colorado Springs experienced several exciting developments that may be the final boost to stabilize these apartment fundamentals into the foreseeable future.

In February, Colorado Springs received invigorating news that many are considering the most significant development for the local economy in the past 25 years. A subsidiary of Sierra Nevada Corp. recently selected the city for an $88 million facility that it anticipates will contribute billions of dollars to the local economy. The company plans to employ more than 2,100 people over the next five years with an average annual salary of more than $80,000. Maybe the most exciting news of all is what this new facility will be producing. The facility will be transforming the interiors of wide-body aircrafts into flying offices for high-end corporate customers. Sierra Nevada Corp. chose Colorado Springs over cities in South Carolina because of favorable tax regulations that are estimated to save the company $357 million. Colorado Springs Mayor Steve Bach compared the announcement to the impact that Apple and MCI had on their locations in the early 1990s, and believes Sierra Nevada's new facility will have a similar economic impact.

While this may be some of the best news for Colorado Springs in a quarter century, Sierra Nevada's announcement may be just the beginning. This news has the potential to spark additional developments and attract other businesses that would launch aviation into the city's top industries. Sierra Nevada's news may increase the probability of Colorado Springs landing an additional contract that would bring a $300 million space-training facility to the Colorado Springs airport business park. The airport itself has long been the second busiest in the state, serving over 2 million passengers annually. It also offers nonstop service to 16 cities and handles approximately 110 arrivals and departures daily.

Many defense contractors already have realized the value of centering their operations near the airport and Peterson Air Force Base. Currently there are 3,500 workers in the defense industry near the airport. Some of the most significant employers include Northrop Grumman, Vectrus, ITT Industries, Integral Systems Inc. and Delta Solutions. Delta Solutions, through a joint venture with Apogee Engineering, recently secured an $800 million defense contract that should add more jobs to the Colorado Springs economy. Currently, ARA is marketing two properties that look to directly benefit from this boost in job growth near the airport. Western Hills and Landings at Aero Flats are two apartment communities that are within minutes of the Sierra Nevada Corp. development and additional businesses that are expanding near Colorado Springs Municipal Airport. Several investment groups expressed interest in these assets primarily because of the recent developments and the potential for continued job growth.

The opportunity in the aviation industry also sparked development opportunities in downtown Colorado Springs. The O'Neil Group plans to open the Catalyst Campus this summer on the southeast side of downtown. A key component of the campus will be focused on luring existing aerospace companies and defense contractors to relocate to Colorado Springs and its small-business-friendly climate. In addition, the facility is designed to act as a breeding ground for some of the industry's top talent by providing on-the-job education and training that younger professionals will not find at colleges and universities. One of the campus visionaries, Frank Backes, CEO, Braxton Technologies (part of the O'Neil Group) describes the community as an avenue that could redefine the city's identity. "We want Colorado Springs to be branded as the place to do command and control, satellite operations, and satellite design and manufacturing," said Backes in a recent newspaper article.

This map shows the locations of some of the largest employers in Colorado Springs.

Western Hills apartment complex will benefit from new companies moving to Colorado Springs.

While the aerospace industry has significant long-term potential, additional blue-chip companies have already reinforced their confidence in the Colorado Springs economy. Progressive Insurance recently added over 100 workers to the Colorado Springs workforce. In January, FedEx broke ground on a $20 million distribution center that will be triple the size of its current facility. In February, Home Depot announced the hiring of an additional 350 workers in its five Colorado Springs stores. After adding 250 workers in 2014, T-Mobile plans to hire an additional 100 employees this year. These announcements, along with the developments in the aerospace industry in the first quarter of the year, bode well for an even stronger year for Colorado Springs employment growth in 2015. If the city continues to capitalize on this recent job growth momentum, apartment owners are poised to benefit with an expanding pool of qualified renters for years to come.▲

Landings at Aero Flats is an apartment community within minutes of Sierra Navada's development.

Financial Market

Financing green rehab for multifamily properties

Rehabilitation of multifamily properties always has been a difficult decision for owners, and to make green upgrades is an even tougher call because of the reputation that green upgrades are costly. The up-front cost, hassle of managing the rehab and the issue of split incentive (i.e., the owner pays for the upgrades while the tenants receive the benefits) often lead owners not to consider a rehab, let alone green upgrades.

In reality, there are hassle-free and cost-effective ways to green rehab multifamily properties with ample benefits flowing to the owner, including an increase in property value, lower operating and maintenance costs, improved occupancy and lower turnover.

When looking at financing, there are options other than the obvious sources of cash reserves and cash from operations. Other financing options include:

Property Assessed Clean Energy. PACE is a means of financing green upgrades through municipal governments that invest bond funds into green rehab. The investment is repaid for up to 20 years with an assessment added to the property's tax bill. PACE financing stays with the property on sale and is easy to share with tenants. PACE financing is off-balance sheet. A Colorado PACE program is in development and is expected this spring.

Energy performance contracting. EPC uses the savings of the green upgrades to pay for the cost of the upgrades. For example, the utility cost savings are guaranteed by an energy service company or general contractor in order to generate cost savings

Ravi Malhotra
President, TBL Fund, Denver

sufficient enough to pay for the project over the term of the contract. After the contract ends, all cost savings accrue to the owner. EPCs are difficult to execute on individually metered multifamily properties. EPC is also off-balance-sheet financing.

Power purchase agreement. A PPA is essentially an EPC contract, except it is for energy generation (i.e., solar). The multifamily owner guarantees to buy the energy generated by the seller by entering into a PPA. Buyers typically pay no up-front cost (capital is provided by the seller) and purchase the power generated for an agreed-upon price for the duration of the contract. The seller installs, operates and maintains the system, which typically is on site at the buyer's property. A key advantage is that the price of energy will not fluctuate under the contract, which can help with financial planning.

Utility financing. There are two primary methods in utility financing. The utility pays for the green upgrades and collects the repayment in the utility bill, or the utility merely collects for other financiers. Either way, this option is also off-balance sheet, but unfortunately utility financing is not available yet in Colorado.

The above options have one drawback – the only part of the rehab that is financed is the green portion, such as energy efficiency, renewable energy, water conservation and perhaps indoor air quality improvements. The following option typically funds the entire rehab.

Debt financing. Loans from banks, credit unions, community development financial institutions or agencies, including U.S. Department of Housing and Urban Development, Federal Housing Administration, U.S. Department of Agriculture – Rural Development and state housing finance agencies, can fund an entire rehab.

Banks and credit unions typically require first-lien position and are good for refinancing and large rehab projects. Community development financial institution or agency green rehab loans often are available at below-market interest rates, but typically are for multifamily properties serving low- to moderate-income residents.

There are also several incentives available to owners of multifamily properties that can reduce the cost of the green rehab.

Low-income housing tax credit. LIHTCs are available to qualified affordable housing properties and allocated by state housing finance agencies. A property with a major rehab is eligible for both 9 percent and 4 percent tax credits.

Investment tax credit. ITC is a federal tax incentive that provides a 30 percent credit for certain renewable energy installations such as solar photovoltaic systems.

Production tax credit. PTC is another federal tax incentive that provides a specific tax credit for certain renewable energy installations such as wind. The credit amount depends on the technology.

179D. 179D is a federal tax credit for energy-efficient buildings. The credit amount is dependent on the efficiency improvement achieved and is maximized at $1.80 per square foot.

Utility rebates. These are cash incentives offered by local utilities and can vary by utility and the solution installed. The incentives can range from negligible to 100 percent of the cost of the installed conservation solution.

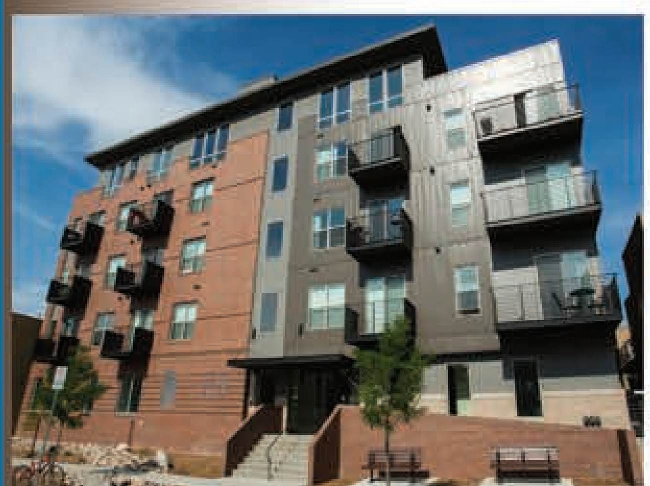
Grants. Federal, state and local government, and private foundations can fund green retrofits in multifamily properties to subsidize housing costs for tenants, or achieve carbon savings. The U.S. Department of Energy Weatherization Assistance Program provided billions of dollars in grants over the past 30 years for green upgrades in affordable housing properties, which improved the lives of more than 7 million families by reducing their energy bills.

Accelerated depreciation. The modified accelerated recovery system allows owners to depreciate certain green upgrades, such as solar photovoltaic, quicker (six years), instead of the 20-plus year life of the green system.

State tax credits. These are currently being discussed in the Colorado Legislature for commercial properties including multifamily and, if passed, could offer as much as $75,000 in state tax credits to an owner.

These incentives often cover the additional cost of the green piece or subsidize the project enough to bring the payback down to a few years, making it a no-brainer in favor of a green rehab.▲

Exclusively Listed For Sale
by Kyle Malnati & Greg Johnson



1756 Clarkson St.
$18,300,000

Unit Mix: 51 - 1Bd/1Ba
9 - 2Bd/2Ba

- Sophisticated Modern Design Constructed in 2013
- Complete Amenity Package
- Ideal Location Adjacent to Central Business District
- Attractive Floor Plans with Private Balconies and In-Unit Laundry
- Additional Income Potential
- LEED Silver Certification
- New Financing Available

1320 Garfield St.
$2,850,000

Unit Mix: 7 - 1Bd/1Ba
5 - 2Bd/1Ba

- Completely Renovated in 2013
- New Roof and High-Efficiency Boilers
- Stellar Congress Park Neighborhood
- Stainless Steel Appliances and Quartz Counters
- Designer Features and Finishes
- Consistent Cashflow Producer
- Convenient to Downtown and Cherry Creek

Central Denver Multifamily Experts

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Continued from Page 1

costs required when upgrading an existing building are much higher. To help offset the upfront costs associated with efficiency upgrades for current buildings, property owners can get financing through Property Assessed Clean Energy. Colorado enacted PACE-enabling legislation and there is a program in development. The program in Colorado could be unique because there is a consideration that financing will be offered for new construction as well, according to the Denver Office of Sustainability.

In terms of the cost of LEED for new construction, according to Cohen, LEED certification has to be a priority going into design. "During design you have to establish what the goals are, and it starts with the architects," said Cohen. Every aspect of a project must be well thought out, which means more time planning ahead. The next piece is finding a quality contractor who understands LEED construction. For Cohen and D4 Urban, that contractor is PCL Construction.

Just like in the design phase, there are several factors that need to be considered in the construction phase. "The contractor has to be able to implement an efficient recycling program on site and determine where to source the correct types of materials," said Cohen. Energy Star appliances, high-efficiency water heaters, proximity to alternative transportation, bike storage and parking space allotment may seem like small details, but all translate toward a building becoming LEED certified.

"We have recycled 86 percent of waste material at Denizen," said Stephen Kovach, senior project manager, PCL Construction. "All lumber we receive is precut to minimize waste, and as an added bonus it increases our efficiency in build time. When it takes 30 seconds to cut a piece of lumber, and there are 5,000 pieces, it saves a lot of man-hours that would otherwise go toward just cutting lumber."

The Denizen project also incorporates several initiatives that are not included in LEED criteria, but do fall under the umbrella of sustainability. Windows and artwork in the stair columns encourage residents to use the stairs instead of elevators. Integration of the open space immediately adjacent to the building with a pocket park and Regional Transportation District transit plaza provide a place for residents to walk dogs and enjoy the outdoors.

"People may not realize that these things are contributing to their health on a day-to-day basis," said Cohen. "But when they feel happy and healthy all the time, it will encourage them to stay in that space. This is about retention of residents, and we feel that a healthy building will help us do that."

Resident retention is great for any multifamily complex, especially when considering the return on investment when a property is sold. Cohen said sustainable and LEED-certified buildings give renters a more competitive offering because they can save money on utility bills and transportation, which can lead to charging higher rents or having less vacancy. "On sale of assets, institutional investors are definitely paying a premium for LEED Gold or Platinum certified buildings on an exit sale," said Cohen. "We are seeing that return."

Colorado's sustainability efforts continue to progress toward the ultimate goal of net zero – creating buildings with zero net energy consumption. This means the total amount of energy used by the building on an annual basis is roughly equal to the amount of renewable energy created on site. Industry professionals have indicated that they are falling in line with the 2030 challenge – becoming carbon-neutral and using no fossil fuel greenhouse-gas-emitting energy to operate by the year 2030. The nonprofit organization Architecture 2030 started the challenge.

The USGBC has a prominent presence in Colorado, gathering industry professionals to educate, network and continue the conversation about progression toward sustainability. "We are not a governmental agency, so we cannot mandate anything, and we do not want to do that," said Sharon Alton, executive director, USGBC Colorado. "We do want people to convene and discuss green building, and that is what we are seeing in Colorado."

Because the real estate industry and especially multifamily are booming in Colorado, it is easy to see why conversations and actions are taking place surrounding sustainability. If the current landscape is any indication, this state will be at the forefront of green building for many years.

"It's about values and trying to create something that has implications for the way people live their lives," said Cohen. "The Colorado lifestyle is a big part of the motivation for this trend and as a development community, we need to lead the charge."▲

Rank	State	Projects certified in 2014	Square feet LEED certified in 2014	Per-capita square footage
1	Illinois	174	42,457,254	3.31
2	Colorado	102	15,816,498	3.15
3	Maryland	132	15,583,423	2.70
4	Virginia	150	18,617,712	2.33
5	Massachusetts	99	14,662,950	2.20
6	Hawaii	30	2,657,808	1.95
7	California	517	69,762,936	1.87
8	Georgia	87	17,748,781	1.83
9	Minnesota	39	9,511,684	1.79
T-10	Arizona	82	11,152,201	1.74
T-10	New York	250	33,691,209	1.74

U.S. Green Building Council calculates the top 10 states for LEED using per capita figures as the measure of green building.

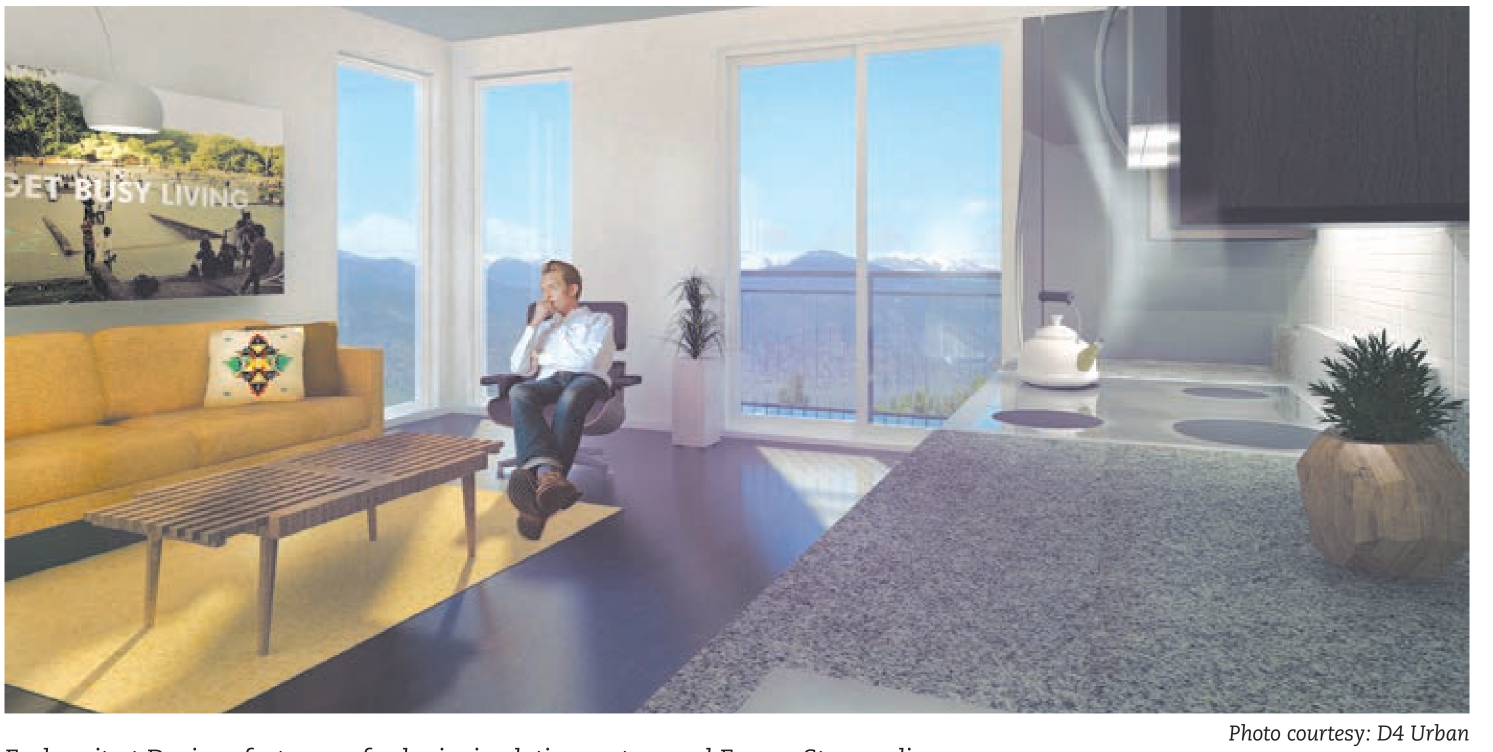
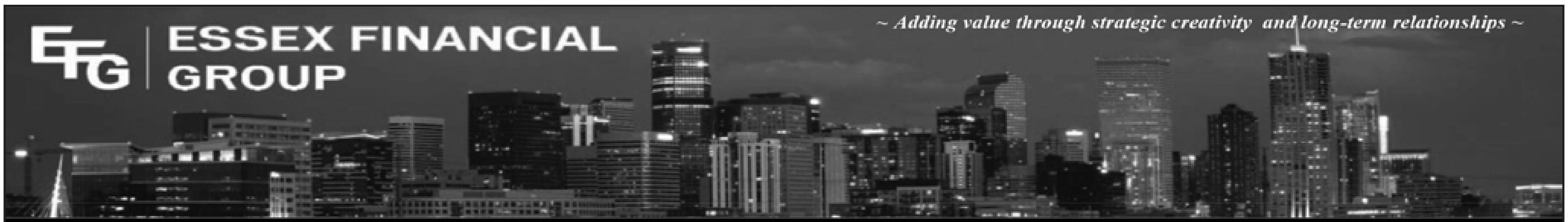


Photo courtesy: D4 Urban

Each unit at Denizen features a fresh air circulation system and Energy Star appliances.

Photo courtesy: D4 Urban

Residents are able to enjoy the outdoors with a pocket park and RTD transit plaza.



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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Perspective

A look at single-family versus apartment living

Patricia Parish, AICP
Land planning director, Rocky Mountain Group, Denver

More than 43 million households in the nation rely on rental housing, according to Best in American Living's winter 2015 issue. That population is renting for a number of reasons. And it is important not to overlook the need and, in many cases, the desire to simply rent an apartment. It gives a person freedom to enjoy life without the burden of taking care of a property. The old thought pattern, "When the stove breaks down, I don't have to fix it," comes into play. The mobility of a society that doesn't have the same values as the prior generation is a real impact on our near-future population, economy and lifestyle.

Being the owner of a single-family residence, I find myself cursing at the yard, exterior paint, garden, trees (and even the dog!), which bogs down my so-called "time off" to enjoy my home. With our busy lives, I believe generation X and the millennials have it correct when they value the extra time they have with their family and friends, along with the opportunity to pursue their interests beyond work. This is a great opportunity to learn a lesson from our children and younger generations.

So, now that we have established the value of renting an apartment in a multifamily unit, let's peer inside. What will make the experience a positive one when your neighbors are across the hall or on the other side of the wall?

Construction. Green construction, low-flow fixtures, energy-efficient boilers, high-performance windows, solid-core doors, and insulated walls and floors should be standard. Unique architecture with interesting features, colors and materials can dress up a complex. Some newer units use interior finishes that rival luxury homes. One of my pet peeves in the International Building Code is keeping all the accessible units on the ground floor, and they usually end up being garden level. For apartments under four floors, how about putting in an elevator even when the building code does not require the amenity? I know many impaired citizens, parents with kids in tow and seniors with bad joints who would be very grateful.

Floorplan. A nifty layout that has adjustable closet shelving (even walls) and an office nook would be accomodating. Even one-bedroom apartments should have a small bathroom for guests, in order to preserve the privacy of the master suite. A comfortable kitchen, with lots of storage (again adjustable shelving) can house gadgets without the clutter often associated with living in less than 1,000 square feet. Smaller, Energy Star appliances that fit the lifestyle of the renter will be a space saver. For example, a stackable washer and dryer, tiny refrigerator, and small stove or oven often will satisfy most active people. I have stayed in a one-bedroom, one-bathroom condominium in the mountains where the entire kitchen disappeared when it was not in use. None of the quality was sacrificed, but the look was flush with the walls and blended in with beautiful wood accents and amazing symmetry. Many European apartments follow this model and use space effieciently. There is a lot we can learn from this approach to small spaces.

Multifamily housing by Sangre de Cristo Design Group in Walsenburg

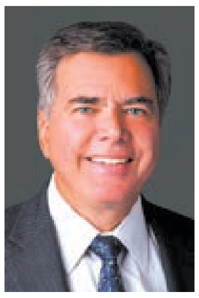
Amenities. A characteristic of a healthy society is community. Having a gathering place to keep in touch with neighbors and friends is ideal. One of my favorite memories as a young adult while living in Florida was when the residents would bring their cocktails around the pool every afternoon. Cleverly landscaped grounds with a place to share your day, work out, hold events and start clubs with people having common interests adds to apartment living. Amenities can include a small community garden with raised beds, dog parks, benches, picnic tables, barbecue grills and small shelters. A walking and biking trail extending several miles that connects with other trails would round out the list in my perfect world.

Location. As our transportation

Please see 'Perspective,' Page 22

Market Drivers

Closing the gap in affordable housing development



Peter Wessel
Senior director, Love Funding, Denver

Over the past several years, market-based rental rates have crept up with construction costs. Not so for affordable rental units though, because they are capped based on low and moderate incomes that have not risen commensurately. This mismatch resulted in an increasing gap between the cost of developing a new affordable apartment project and the ability to finance its development.

Fortunately, there are a couple of new tools available to affordable housing developers to close the funding gap. They are not perfect but they can be viable solutions to help develop or preserve affordable properties – so long as you know how to navigate their complexities.

The first tool is a new state tax credit put into practice Jan. 1 by the Colorado Legislature. It authorized the Colorado Housing and Finance Authority to administer a $60 million, two-year demonstration of a state tax credit for the development of new affordable housing. There are two components to the program: a one-time allocation for post-disaster relief and the other for ongoing general affordable housing development. The second component is a competitive program that CHFA hopes to leverage the limited resources available to develop as much new affordable housing as possible.

If this demonstration is successful, the hope is that the Colorado Legislature will extend the program on a more permanent basis. Early returns suggest that it is already popular with developers. In the first round of competitive applications, the program was oversubscribed two to one, meaning that half of the applied-for demand will be met. Developers sell the tax credits at a discount in order to raise funds for development. State tax credits are expected to sell for approximately 60 cents on the dollar, so the actual amount of money available for affordable housing development is $36 million, or $18 million each in award years 2015 and 2016.

One has to wonder how many other developers with proposed projects held back because they knew they would have about a 50 percent chance of receiving an award. Assuming six applicants receive an award of state tax credits in 2015 and another six in 2016, each applicant would receive an average of $5 million in credits, which could be sold to a tax credit investor at a discount for approximately $3 million to fund project costs.

One hitch with the program is its inefficient financing structure. A state tax credit is essentially the same as an expenditure. Unfortunately, since state income taxes are deductible by corporations against federal income, the value of the state tax credit to a corporate investor is diluted by the loss of federal deduction. This results in a pricing of approximately 60 cents for every dollar of state tax credits, versus the pricing of approximately $1 for every dollar of federal tax credit under the Low Income Housing Tax Credit program. Therefore, the state of Colorado is spending $60 million in forfeited tax revenue for the benefit of $36 million that is actually applied toward affordable housing development.

This begs the question whether there might be a more efficient way of funding the same amount of affordable housing development with state resources for less cost, or more development for the same cost. Advocates for affordable housing development might want to keep this in mind during future efforts to extend the initial two-year demonstration.

A second tool available to affordable housing developers is the use of short-term, cash-collateralized, tax-exempt bonds to qualify an affordable housing development for federal tax credits under the 4 percent LIHTC program. It is easy to see why such bonds have grown in favor over the past few years. It is because noncompetitive federal tax credits are almost automatically available to affordable housing developers, provided they use tax-exempt financing for development. Historically, developers obtained long-term tax-exempt bond financing as the source of debt for affordable housing development. But after the credit meltdown in 2008, long-term tax-exempt interest rates shot up to higher levels than taxable rates. Applying traditional debt service coverage underwriting resulted in a lower maximum loan amount and a larger funding gap.

The current solution combines short-term tax-exempt bond financing with long-term debt, such as the FHA 221(d)(4) unitary construction and permanent loan. Due to the lower interest rate and longer amortization, the FHA-insured loan underwrites to a higher level of debt, thereby narrowing the affordable housing funding gap. Even as the disparity between long-term taxable and tax-exempt rates narrows, this strategy still will make sense due to lower transaction costs and negative arbitrage cost when compared to the traditional long-term bond structure.

In a perfect world where politicians actively seek constructive solutions and cooperate with each other, the federal LIHTC program would be amended to not require tax-exempt bond financing as a condition to receive 4 percent federal tax credits. The tax-exempt bond-financing requirement only increases unnecessary cost, adding hundreds of thousands of dollars to an affordable housing development, thereby diluting the tax credit benefit. In addition to adding to the cost of developing affordable housing, this outdated requirement of requiring tax-exempt financing also deprives the U.S. Treasury of tax revenue on interest earnings.

Lenders committed to affordable housing development have to work

Please see 'Market Driver,' Page 22

Apartment Amenities

Amenity wars: Bigger isn't better, better is better

What? … You don't have a lazy river? There have been numerous talks about the "amenity wars" currently underway in Denver's apartment world. Striking the right balance of amenities at a community should always begin with business basics. Striving to top the most recent property to come on line may leave your deal open to great financial risk. However, beginning the project with thorough due diligence will ensure long-term project success. These days, certain resident amenities are perceived as must haves, and many owners can feel compelled to check the box as their laundry list of amenities is generated. This approach often bypasses the need to take a hard look at the operating side of the multifamily development coin.

Bobby Long, AIA
Associate principal, senior designer, Kephart, Denver

Much of Denver's recent apartment production has been in the A to A+ category, which has driven a bigger-is-better attitude toward development of resident amenities. For designers, this can feel a lot like the kid being left alone at the candy store, where the notion of ever-increasing rents drives over-the-top solutions. While heavy amenities can serve to create buzz, drive quick absorption and put properties on the map, they are only valuable if they can be maintained with operational costs that work in the big picture. Additionally, it is imperative to have the ability to be flexible and to evolve as technology and lifestyles evolve. (Remember the days of re-tasking racquetball courts? Need I say more?)

Whether or not your project has a sky-high budget for resident amenities, it may be helpful to look at how a few recent projects sought to strike that balance of being competitive in the marketplace while not falling into the mindset of bigger is better.

At The Logan, Forum Real Estate Group kept its resident amenities on par with the small size of the project. Due west of the project, where the view should be, is instead a 12-story office building that blocks any mountain vistas. A second-level outdoor gathering place was created as a tranquil oasis with views toward downtown. There is also a great view of the state Capitol rising above the heavily tree-lined streets leading north from the property. On the hard corner of Sixth Avenue and Logan Street, a small community room that opens to streetscaping along Logan Street gets a lot of resident use – two different spaces for different people. A unique combination of a dog wash and bike wash area rounds out the inside amenities. Outside, the Governor's Park location is the true amenity that keeps the property at full occupancy.

When Spanos was rethinking its apartment community at Element 47, on the former site of Baby Doe's overlooking Elitch Gardens and downtown, it became clear that leaving some density on the table was going to yield greater results. The views of downtown are so dramatic that all amenities are oriented in that direction, allowing the programming of the amenity spaces to be scaled back compared to competing properties with lesser views. The fitness room is nice, but appropriately sized. The gaming area is beautifully furnished and provides large, expansive views of the dramatic downtown vista but also is not oversized. The rooftop terrace is again modestly sized, but the views are spectacular. The point here is having the smarts to recognize that bigger isn't always (and rarely is) better.

Photo courtesy: Steve Hinds

The Logan features an outdoor gathering place with a view of the state Capitol.

At Prasanna in Lafayette, Milestone concentrates on fitness and finishes. With a suburban-style community of 240 units, the clubhouse of 5,000 square feet is not over the top in size. What stands out is the 25-yard lap pool with a full-length baja shelf, a well-equipped fitness room and a freestanding yoga studio. Additionally, Milestone elected to invest in high-end finishes in the community building in lieu of a long list of resident amenities. The finishes budget for the community building was well over $500,000 and includes Architectural Woodwork Institute premium casework, recycled glass countertops, and designer light fixtures imported from Italy. The combination of solid floor plans in modest buildings along with above-average finishes in the clubhouse has been a formula for Milestone's success.

With 200 units on 1.1 acres, The Pauls Corp.'s Via Project, currently under construction at Eighth Avenue and Broadway, qualifies as high density. There was an early decision not to develop a rooftop amenity. Instead, the focus was on the resident amenities on a second-floor linear outdoor space defined by the building's massing. The exterior deck area features a series of pools, including a plunge pool, sunning pool and spa, a grassy play area for dogs, and numerous outdoor rooms that generate interest and take full advantage of the limited space available while providing for construction economies. Indoor amenities, such as the clubroom, yoga and spinning room, and exercise space, all appropriately sized, connect with and spill out to the exterior spaces. The result is a resident experience that ultimately lives large.

Photo courtesy: Steve Hinds

All amenities at Element 47 are oriented toward the dramatic view of downtown.

Photo courtesy: Steve Lane

Prasanna in Lafayette features a 25-yard lap pool with a full-length baja shelf.

There is one common thread in all of these examples – the notion of scaling the resident amenities appropriately and not falling into the trap that bigger is better. Thoughtful research about the target demographic may yield solutions that are less scattered and more focused than providing all things to all people. As the industry learns more about what millennials and empty nesters truly value, don't be surprised if you see future apartment communities with a short, well-defined list of appropriate amenities and less opulent, flexible spaces easily repurposed. Remember the mantra – bigger isn't better, better is better.▲

Technology

A free EV charging station? No thanks!

More properties around the country are receiving calls from prospective tenants looking for the ability to plug in their electric cars. For these renters, there is no middle ground. Either they can move in or they have to look elsewhere, and many property owners are quickly realizing that offering electric vehicle charging is a powerful recruitment and retention tool. EV drivers also generally have higher incomes and more education, so this group makes attractive tenants.

While the EV market is still young, it is developing fast. Plug-in cars already make up almost 1 percent of all new cars sold nationwide (3 percent in California), and this number is predicted to increase to 20 percent by 2020, according to dmv.com. And EV drivers love their cars. A recent PlugInsights study found that over 96 percent of EV owners said they never want go back to a gas car. As a result, EV charging is quickly becoming the next must-have amenity for rental properties, and offers a return on investment that can be more powerful than a swimming pool or exercise room. In fact, a recent study from Multifamily Executive Magazine found that 17 percent of all renters want to buy or lease an electric car in the next five years.

So now you decide that your property needs to stay competitive and add EV charging, and you get a call with an offer from a service provider that sounds too good to be true. "Just lease us the space and we will put a charging station in for free," he says. Why wouldn't you want to let

Jim Burness
CEO and general manager, National Car Charging, Denver

someone else pay for and manage a charging station on your property? The offer is compelling – no upfront investment in hardware, no maintenance fees and no day-to-day management of a new technology. The thought of being completely hands-off sounds pretty good.

But, as we all know, nothing in life truly is free. In this case, the group who ends up paying is the drivers, and the cost is higher than it needs to be because there is a need to provide a profit to a third party.

While the EV charging industry is only four years old, there is enough data to know a station must be free or low cost in order for it to be used regularly, and this is exactly where the logic breakdown occurs with third-party-owned stations. As a property manager, your motivation is to provide an attractive amenity, but third-party stations have a different motivation. They cannot benefit from tenant recruitment or retention. Their business is to make money on the resale of electricity.

The largest third-party network today charges as much as four to five times the cost of electricity (in some markets), and can be as high as the equivalent of $6.50 per gallon of gas. EV drivers are engaged consumers, usually understanding the cost-benefit analysis of electricity versus gasoline, and they refuse to pay such rates. One of the primary reasons EV buyers choose to drive electric is for economic reasons and a high fee wipes out that motivation. In fact, the same company recently raised their rates and drivers are setting social media ablaze, saying they are done patronizing those stations and the establishments that host them. The result? The company lost $24 million last year.

For apartment communities, having an overpriced charging station would be the same as letting a third party own and operate an exercise facility in the building, charging tenants $50 a month to use the treadmill. All of a sudden the amenity has lost its appeal and you might as well not have it at all.

Even worse, overpriced charging fees paint the site host as greedy and unreasonable, and the driver is not likely to realize it is really a third-party station owner setting the price. In addition

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Car charging stations are become more common at multifamily properties.

Multifamily Maintenance

Myths about apartment spring cleaning

Ah, the ritual of spring cleaning. That desire to sweep away the dirt on the floor of your garage leftover from several snowstorms of ice melting off your car. It is time to open all of the windows and let the warm spring breeze freshen the stale air in all the corners of our homes. It also can be a dreaded procedure with all that scrubbing and cleaning, but the results are favorable.

John Blackshire
Associate broker, Transwestern, Denver

Through the years we have talked to thousands of apartment owners who are contemplating either buying or selling a property. We have watched countless sellers pour money into a spring cleaning of their apartment community with the thought that they are improving value, only to realize later that they actually might have stubbed their toe a bit in their desire to attract buyers. And yet other owners seem to select a small item or two, clean it up or improve it, and somehow their effort magically maximizes property value. So, here are a few benchmark concepts that might be worth contemplating in your spring cleaning if you are gearing up to sell your community.

The myth about rents. You actually don't need to raise all of your rents prior to selling. Most sellers think that since they are selling they need to push up their rents. While apartment value is definitely based on a multiplier of rents, sometimes implementing a new rent structure prior to selling can backfire on sellers. For example, let's say most of your leases are month-to-month tenancy. You seldom raised rents because you have owned the property for 10-plus years and you would like to keep it full and not be hassled with vacancies. Now you have made the decision to sell but your rents seem low, so you send out a moderate rent increase and sign new one-year leases with your residents. This seems reasonable from a seller's viewpoint, but you actually may diminish the excitement of the buyer by locking in one-year leases. Many buyers would rather have a clean slate by keeping their options open with low rents on month-to-month leases. Interestingly, many buyers would rather pay a lower capitalization rate and have more latitude to chart their own course relative to rents.

The myth about rehabs. The typical rehab of yesterday is not the same one that many buyers plan on completing today. Often the new buyer wants to do a much fancier facelift to the interior than the old owner ever contemplated. Many sellers perceive they are doing a great job when a vacant unit is improved with new carpet, paint and resurfaced countertops with epoxy paint. However, some buyers in today's market plan to spend even more. Frequently, buyers' budgets include full removal of kitchen cabinets, an upgrade to granite or quartz countertops, new light fixtures, and wood or vinyl floor coverings, along with several other improvements. Often a new owner will tell us that they would have preferred it if the previous owner didn't do anything to the units prior to a sale.

Tom Wanberg
Senior vice president, Transwestern, Denver

It gets harder to predict what to do about dated building systems like boilers, roofs, windows, hot water tanks, stair rails and parking lots. We have had buyers get mad when a seller replaced flat roofs and selected a contractor that did a marginal job, perhaps without doing a full tear off, and the buyer was left with a marginal roof and a limited warranty. Many times after a seller completes roof repairs or replacement they fully expect to be rewarded for their costly efforts. Yet from the buyer's perspective, they may be upset that the roof was not completed up to his higher standards, and the warranty is questionable. There are similar issues with boilers – the seller might want to do an 80 percent efficiency system when the buyer prefers a 90 percent efficiency system. Our general rule is if you are contemplating selling and desire to make an improvement to a system, make sure it is well thought out. We suggest you receive multiple opinions from third-party vendors, and make sure any work has a strong warranty that is transferable to a new buyer.

Our team sells a lot of vintage properties with long-term owners. In the current market, the bulk of investors and sources of purchase-money debt still seek a value-add story. With the current competitive bidding in the marketplace, we suggest considering a strategy of keeping your property as a value-add offering. With this storyline on your asset, buyers will be able to craft their own vision with your community. It somehow sounds counterintuitive for a seller to hear, but it might pay to consider leaving items on the table for the next owner to complete. There are not many times in life when you can be rewarded for your lack of effort, however, in today's extremely heated marketplace, that might just be the case. If you are thinking of making improvements to position your asset for a sale, talk to a seasoned apartment broker prior to investing your hard-earned funds. Your best investment might be to leave the spring cleaning to the next owner.▲

Change perspectives when identifying talent

As a recruiter, I want to share something – there has always been a shortage of great talent. This is especially true for multifamily properties. From development and construction to the operations and qualified vendors, all teams require great talent to make properties successful. The fact is, when business is slow, top performers will always compensate for the less-qualified contributors. This is not an effective business model, but it is one that everyone knows.

The first step is to have a conversation about the talent of your team. Often, actions need to take place quicker than many realize. When business is booming, issues created by average or poor performers on workforces can become detrimental. The boom portion of the business cycle can leave your top achievers feeling overwhelmed and unable to realize success, while mediocre performers continue to drain energy and negatively impact your bottom line. The mediocre performers will rarely leave a company voluntarily.

If you do not address these problems for top achievers, your competitors will appear with a solution, drawing them to their company. Recruiters are not the only ones who have their eyes on top talent. Eliminating the weakest players may leave you with the scary proposition of promoting from within or taking a chance on recruiting from outside. There is the fear that neither option works. But with weak players on the team, your plan is not working anyway, which is a waste of time and money.

Lynett Brockman
CEO, Career Options - Recruiting Solutions, Denver

To compound the challenge of promoting within or hiring new talent, the selection process used by many hiring managers is unrealistic, unimaginative and ineffective. There are many ways to identify the talented and the engaged. Superstar employees do exist. But you may have to change your thinking to recognize them.

Recruiting The Right Candidate

The safe and obvious choice is to bring someone in who has experience and tenure in his previous positions, along with the perfect degree or certification. The satisfaction that comes from checking boxes can be good in stressful situations.

The Great Recession presented us with some of the highest unemployment rates and business failures in this country. Traditional career paths were rerouted, disrupted and some ended early. It is important to see the world as it is and not how it was. How do you change your thinking? Begin by changing how you view the possibilities. The following are four examples of avenues to explore:

Preretirees. These people are strong contributors with impressive track records who are ready to change focus at the end of their career. Recognize them and their potential. You may benefit and learn something along the way.

Early career. Those who have graduated in the last 10 to 15 years are greatly overlooked. They do not have the amount of experience yet to be considered for certain positions, but the only way they can gain that experience is by working. Someone took a chance on all of us, and now is the time to share an opportunity.

Returning military. Many employers assume that the U.S. Department of Veterans Affairs takes care of our returning military. The resources available through the VA are not as streamlined as one would hope. Be sure that searches include veterans and invitations for interviews are extended.

Workforce diversity. Qualified candidates come from all backgrounds and circumstances. The diversity that comes from being an equal-opportunity employer can generate extensive contributions. Examine your preconceived notions because typically they are limiting.

A change in perception is like getting a new pair of glasses. When you can see clearly, you are amazed by what you were missing.

The important thing to remember when creating an action plan is that identifying great talent is your end game.

- When creating a job description, think in terms of attitude and sensibility first and look at qualifications second. People who are motivated and driven by success can learn most things quickly.
- Are there driving forces prohibiting members of your team from developing certain skills? Consider if it is time to invest in their careers. If you do not invest in them, it is likely that another company will.
- When you identify an amazing candidate internally or through outside sources, hire them. When you find the right person it means that your process worked. Don't delay in bringing someone on. Take action and get out of the hiring process.

Navigating Change

There is a fear and preconceived notion among many managers within companies who worry, "What if we train our people and they leave?" The argument is valid, although the counterpoint is, "What if we don't train our people and they stay?" Sometimes companies lose their top performers, people they trained. On the other hand, an employee's move could be the result of a company's inability to support continued growth. If the loss of an employee comes as a surprise, consider allowing open conversations in the workplace – conversations that can take place without penalty. Anytime an employee elects to go to a different company, make sure they feel valued and always welcome to return. The atmosphere created by these attitudes can do wonders for retaining other employees.

Bring your best effort every day and expect the same in return from each employee. It creates an environment of accountability and leads to a successful operation, so everyone benefits. These thoughts can start a discussion and provoke change.▲

Perspective

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costs skyrocket, not only is our wallet impacted, but also our perceived wasted time behind the wheel. Having easy access (ideally within half of a mile) to a bus or train stop allows multifamily residents to shed their vehicular costs and use the commuting time to either work or check in with friends.

Maintenance. Commonly, older apartments are in need of upgrades, which would price them out of the market in their area, and some may have issues, such as black mold and inefficient heating, ventilation and air-conditioning systems. Many older apartments can be somewhat drab, basic and unattractive. New apartment buildings are taking advantage of years of trendy design, construction experience and codes. Industrial chic construction is popping up in urban areas, and along bus and light-rail stops, where older housing or industrial buildings previously existed.

Cost. I probably deserve a bop on the head (reality check) at this point. Having all the items listed above would make the rental cost out of reach for most folks. The key is to expect it. Put rental unit developers to task and require upgrades by using the competitive market. One solution may be to bolster funding of the Community Development Block Grant program or other Housing and Urban Development programs at previous standards to assist low-income areas. This funding has all but disappeared in most communities.

Embrace the future of apartment living by addressing the needs and wants of its occupants. No longer is medium to high density a bad science experiment. Learning from the past and keeping the "institution" out of multifamily apartments will assist this viable, accessible choice in housing.▲

Market Driver

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within the constraints of existing laws using the tools available. Over the years, lenders have learned to weigh these inefficiencies when analyzing the benefits of pursuing one financing tool over another. But recognize that there is plenty of room for improvement. Programs designed to help fund affordable housing development actually result in a higher cost to develop a new affordable unit than a market rate unit as they are currently structured. If affordable housing is a priority for our state and federal legislators, then perhaps it is time for some new perspectives.▲

Tech

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to having no control over the pricing of the station, by turning over charging to another party, the site owner gives up control of:

- Access;
- Messaging on the station;
- How soon it is repaired if damaged; and
- If the station stays in place or gets ripped out.

Furthermore, these third-party contracts typically have multiyear exclusivity clauses that prohibit the site owner from taking action on his own if demand grows rapidly, becoming entirely dependent on the third-party provider to decide if or when to expand.

If day-to-day station management is the concern for considering third-party ownership, a better strategy is to partner with a charging-station reseller or manufacturer that offers station management and maintenance services for a reasonable annual fee. This allows the site owner to retain control of the hardware and the benefits of having a station, while outsourcing the daily oversight and keeping costs low for residents.

In summary, while third-party ownership of EV charging stations at a property may seem like a great deal at first, injecting a for-profit entity into the equation nullifies the attractiveness of this increasingly important amenity. In other words, what good is a free lunch if isn't really free at all?▲

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