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MULTIFAMILY PROPERTIES Quarterly

New wood-frame codes allow for more flexibility

Photography © Brad Nicol

The 2015 International Building Code offers wood-frame construction the ability to design a podium building based on the overall building height. Podium buildings will no longer be restricted to only one level of podium structure below the podium deck.

From the construction of tenements in the 1800s to the high-rise steel and concrete luxury residential towers built today, for-rent housing has come a long way. But one constant is the use of wood to build rental housing. Over the years, architects and engineers have pushed the limits of what wood can do, and the adoption of the 2015 International Building Code allows this to continue.

Not everyone is happy though. There has been some recent backlash about the number of four- and five-story wood-frame apartments impacting Denver's downtown. With

Nathan Sciarra, AIA
Studio director, KTGY Architecture + Planning, Denver

continued demand for housing, escalating construction prices and the ability to achieve even higher densities under the recent IBC, we don't anticipate the number of new wood-frame buildings added to the Denver landscape will diminish.

The most significant benefit the new IBC offers wood-frame construction is the ability to design a podium building based on the overall building height. Podium buildings will no longer be restricted to only one level of podium structure below the podium deck.

This gives designers the ability to design a seven-story, midrise building with five levels of wood-frame construction over two levels of concrete podium – all above grade. With this additional above-grade level of concrete, the flexibility and opportunities to increase density, reduce cost or both become possible.

Options include pulling the traditional below-grade level parking out of the ground to save the cost of building subterranean, which is typical in traditional podium designs. Another option would be to leave the subterranean parking, which allows an additional level of residential units within the concrete portion of the structure, thus increasing density. Both options will change how the design world and residential developers look at the potential of a site.

When evaluating an apartment site, a developer typically considers four wood-frame apartment designs:

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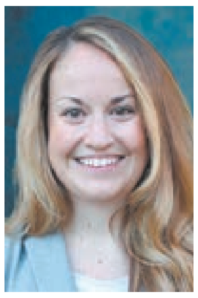
Letter from the Editor

Market vitals strong as demand presses on

This September I attended the 2015 Apartment Bus Tour presented by Apartment Appraisers & Consultants and CREJ. It was a great opportunity to learn what owners and developers are pursuing in the Denver metro. We toured eight properties, all boasting amenities on top of amenities, stunning views, quick lease-up periods and skyrocketing rental rates.



The demand that's driving these apartments' success also is driving the construction industry's feverish pace. "Builder confidence and the construction pipeline expanded, and developers are anticipated to deliver a record 12,000 or more units this year, or over 32 percent growth in apartment deliveries since 2014," says Greg Price in his market overview on Page 4.

For Colorado apartment inventory, the 2010s have already delivered more product to the market than everything that was delivered in the 2000s and 1990s, according to Apartment Insights. The 2010s are on pace to outbuild the 1980s as well.

One unavoidable issue is the increasing cost of living within the city. With homeownership decreasing, an increasing in-migration of millennials and a cultural shift toward urban environments, multifamily rent gains are outpacing income gains at an alarming pace. According to a JLL contributed article on Page 20, rents have increased nearly 65 percent in five years, while median household incomes only have risen 14 percent.

One major contributor to the affordability crunch is a lack of new condominiums coming on line due to concerns over the construction defects law. As we went to press, there were reports that Denver Mayor Michael Hancock was going to introduce his own reform ordinance for the city. Other Colorado cities have passed similar reforms. We'll be following this issue closely in upcoming Colorado Real Estate Journal articles.

The market boon is not restricted to Class A properties. In fact, older property types, especially those from the 1970s and 1980s, are seeing average rental rates almost double from 2004 to present day.

I want to visit older properties to see how buildings are staying current and fresh in this amenity-driven market. There was a lot of discussions about value-add properties on the tour, and I'm eager to hear about your projects.

We've put together a comprehensive issue that highlights many of the market drivers as well as explains what the statistics mean to the multifamily world. As we look ahead to 2016, please let me know if you'd like to see something covered or are interested in participating in an upcoming issue. I appreciate your feedback.

Thanks for reading.

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Market Update

Pre-1990 construction cap rates closing the gap

The vitality and distinctiveness of the Denver economy are driving new businesses and households to relocate to the metro, propelling apartment demand at a rate greater than supply growth. Drawn by the strong job market and high quality of life, new residents boosted population growth in the last year to more than double the national average.

Greg Price
Vice president investments, Marcus & Millichap, Denver

In 2014, employers filled 52,000 positions. The strongest jobs gain was in the construction sector, which was bolstered by a wave of residential and commercial development. The education and health services sectors followed, creating 9,300 workers. This year employers are on track to add another 45,000 jobs, representing a 3.3 percent hiring increase. This positive trend in employment is expected to continue, which will keep developer optimism high, drive multifamily demand, and lead to increases in rents and multifamily asset valuations.

Also contributing to the demand for apartments is insufficient single-family home and condominium construction, and the high price of existing homes. Home construction still is far below its prerecession levels, propelling the increase of home prices and apartment rents as new residents seek out living space.

Builder confidence and the construction pipeline expanded under these conditions, and developers are anticipated to deliver a record 12,000 or more units this year, or over 32 percent growth in apartment deliveries since 2014, and a 4.8 percent increase in the total rental stock. Nearly half of all completions this year are concentrated near Denver's urban core. In 2016, the majority of new construction will remain focused in central Denver.

Though there have been a large number of completions in the Denver metro, high demand marketwide for apartments continues to suppress vacancy levels. At the market level, average vacancy continues to defy expectations as the rates remain on a slow downward trajectory. That said, vacancy is rising in areas where development is heavily concentrated in the urban core and the tech center, where average vacancy rose above 5 percent in the second quarter. Vacancy remains tightest in the older suburban submarkets, where average vacancy is below 3 percent. Looking forward, strong housing demand should prompt a 10-basis-point drop in vacancy by the end of 2015, with net absorption close to 12,400 units.

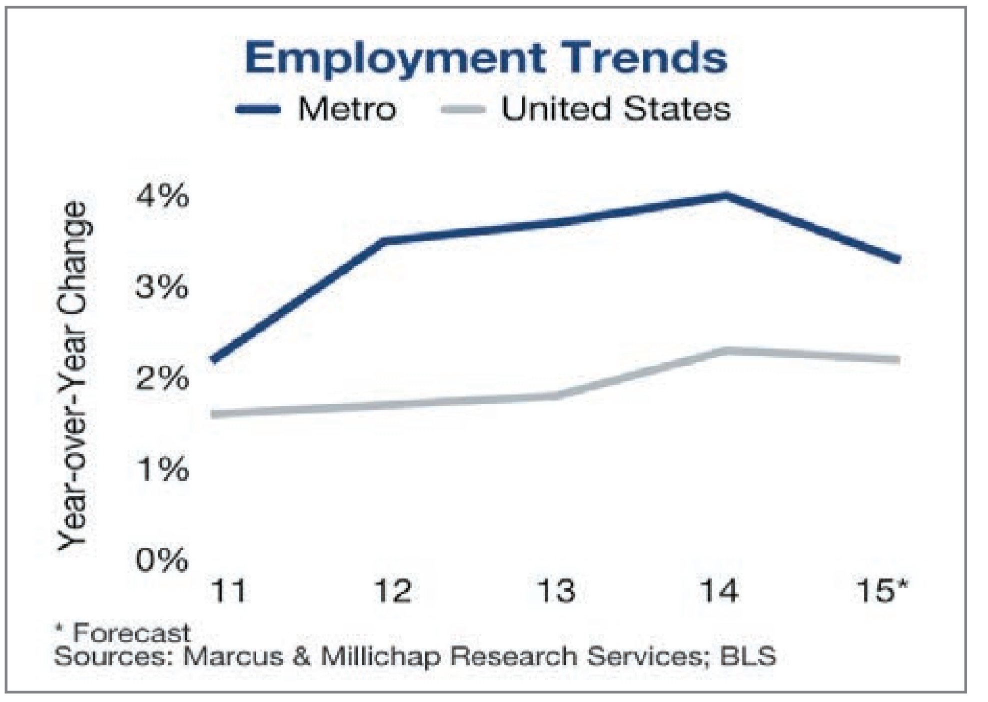
Since 2010, Denver has ranked among the top major metros for rent growth, posting annual gains well above 5 percent. Given strong apartment demand, many new complexes hitting the market are recording short lease-up periods, enabling the monthly average rental rate to grow at one the fastest paces nationwide in 2015.

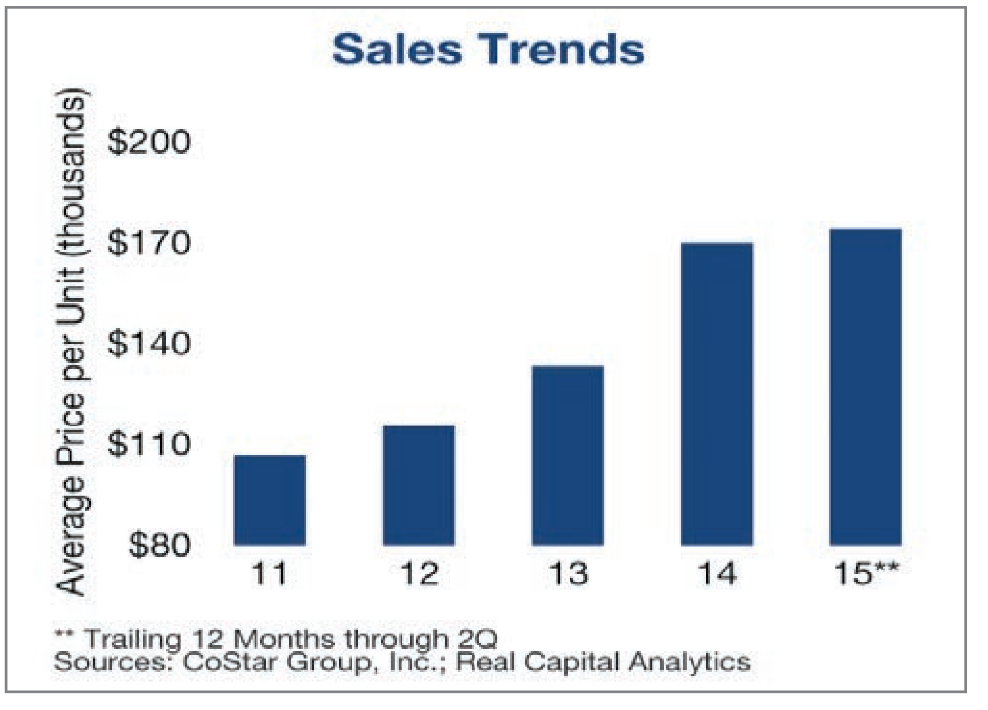
This, in turn, has curbed concessions with less than 1 percent of professionally managed apartment complexes offering concessions. Tight vacancy contributed to rising average rents, which are projected to increase to $1,335 per month in 2015. Rapid population growth and residential demand will sustain rising home prices and expedite rent growth, as single-family home and condominium construction activity remains below their previous peaks.

Recognizing these trends, investors are flocking to the Denver metro in search of higher first-year yields than are available for properties in the primary coastal markets. Consequently, suitably priced assets are generating numerous offers, which escalates prices. The dominant force in the market continues to be private investors, driving up deal flow in the $1 million to $15 million range. Going-in capitalization rates for this asset bracket average in the high-5 to high-6 percent range, depending on quality, renovation potential and location.

That said, low vacancy and rising income streams will drive up net operating incomes in the B and C asset classes, continuing to attract a wide variety of investors from across the country. This is demonstrated in a 35 percent spike in deal flow and 40 percent surge in total dollar volume in the metro over the four-quarter period ending midyear.

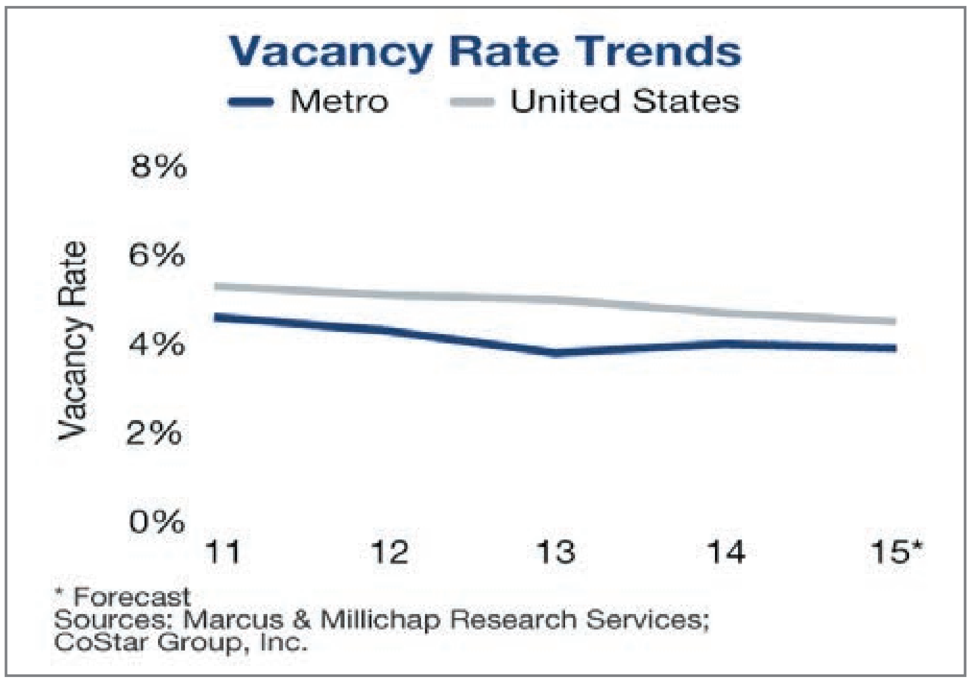
Another factor demonstrating competition within the non-A Class product is the narrowing gap between going-in yields among product classes. Many Class A and B assets across the metro and Class C assets in the more desirable locations are all experiencing going-in capitalization rates in the sub-6 percent range, with Class B and C assets attracting investors that are looking to renovate and increase net operating incomes, projecting approximately 20 percent leveraged 10-year internal rates of return.

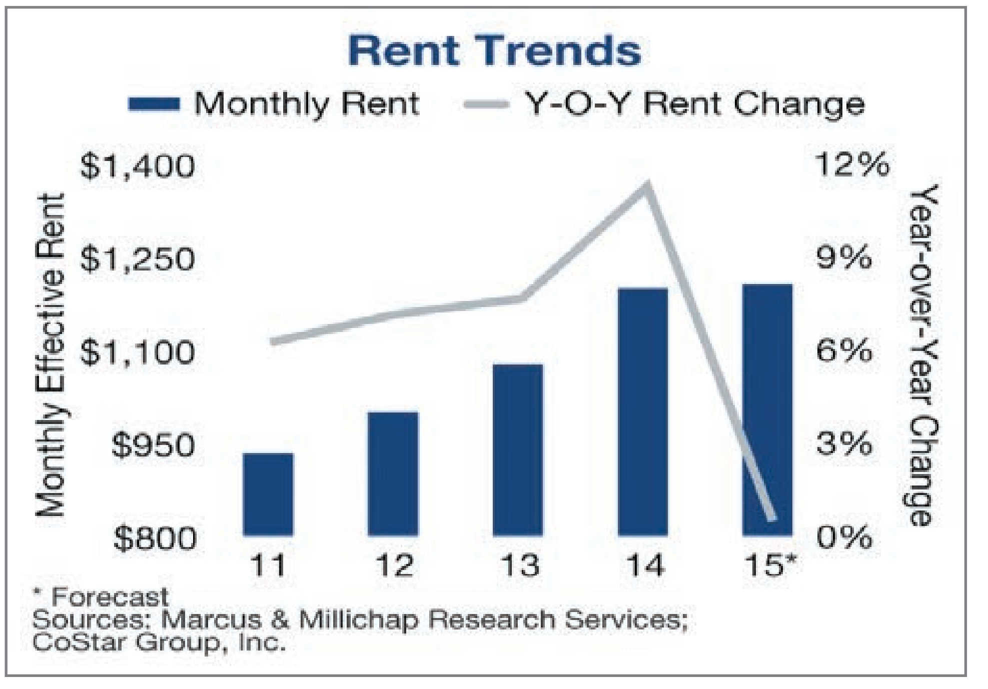




In the first half of the year, overall transaction velocity was significantly higher than the same span last year, as valuations along with the pending rise in interest rates helped motivate sellers to expedite their transaction timelines. However, the short supply of for-sale inventory versus buyer demand continues to intensify competition to secure assets among private investors, especially in well-established submarkets with less new construction opportunities.

Additionally, the wealth of newly built complexes will create opportunities for institutional buyers. Both well-funded private equity and institutional buyers seeking additional yield likely will focus on listings in the southeastern portion of the metro, especially in Centennial and Aurora. Continued aggressive pursuit of assets in these areas is expected to continue through the end of the year and into next, largely due to the expansion of the metro's light-rail line that will be complete in 2016.▲





Market Update

Sales volume on pace to reach $4 billion

It was predicted that after the record sales volume experienced in 2014, the metro Denver apartment market would not encounter another year with that magnitude of sales for years to come. In 2014, apartment sales volume reached $3.6 billion, which exceeded the previous annual record set in 2012 by 30 percent. As impressive as the increase was, it becomes even more impressive when you consider that the sales volume for metro Denver from 2008 to 2011 averaged $888 million per year.

Well, the projections for 2015 were wrong. All indications lead to yet another year of record-setting volume. The metro Denver apartment market is on fire with rent increases topping the nation and vacancy at historically low levels. These trends have attracted extensive national interest from institutional and private buyers, deepening the pool of investors interested in metro Denver multifamily properties. With these market fundamentals, low interest rates and buyer demand, cap rates have remained level and, in some cases, have even lowered.

Another reason for record sales volume is the increase in price per unit for Colorado apartments. During 2014, the average price per unit for communities with 200 or more units was $169,519, which is 102 percent greater than the average price per unit in 2010. This increase is due to three factors.

First, the metro Denver apartment market averaged over 8 percent rent increases every year for the last four years, and rents are still climbing. For the second quarter of 2015, rents in Denver increased 13.6 percent year over year.

Jeff Hawks
Vice chairman, ARA, A Newmark Co., Denver

Second, the value-add strategy is popular with over 85 percent of potential buyers in metro Denver wanting to purchase, upgrade and sell buildings to meet their investment goals. These newly remodeled properties continuously achieve record sale prices for their vintage.

Last, developers are building considerably more expensive apartment communities. The location – Lower Downtown, Highland or Cherry Creek; the type of construction – high-rise vs. garden style; and the world-class amenities – zero-entry pools, bowling alleys, rooftop gardens and concierge services – cost more, and Denver renters are willing to pay for the lifestyle that these properties provide. Oddly enough, through midyear, there have been very few Class AAA luxury apartments sold. One of the few was 2828 Zuni. This recently constructed, beautiful property may be one of the only sales this year over $300,000 per unit.

Despite the lack of new core properties on the market, year-to-date sales volume is approaching $3 billion, which is on pace to exceed 2014 levels and could reach the $4 billion mark. ARA Newmark ended 2014 with over $1.45 billion in total sales volume, and, with one quarter still left in 2015, already has reached $1.36 billion. With the current pipeline, ARA Newmark most likely will exceed $2 billion in Colorado apartment sales this year.

Chart courtesy ARA

The average price per unit for communities with 200 or more units in Denver

Many are wondering, when does this all stop? It may not stop for a while. The acclaimed Denver multifamily market shows no signs of slowing. During the next few years there will be an increase in recently completed apartment properties. These new properties will trade at per-unit levels in the high $300,000s, and Denver may see its first apartment sale above $500,000 per unit.

The only slowdown in activity would be caused by increased interest rates, but even that should be temporary because the Denver market is poised to be driven by demand from the millennial generation for the next decade.

Notable 2015 Denver transactions contributing to the record-setting pace include:

- Horizons at Rock Creek, a 1,206-unit, resort-style community in the town of Superior that sold for approximately $255 million, which is the largest multihousing transaction in Colorado history.
- The Denver/Cherry Creek Value-Add Portfolio that included The Blake and The Allison, Brittania

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Market Update

Strong markets visible in Denver's peer cities

It should come as no surprise to those who follow local real estate news: Metro Denver's apartment owners and developers are enjoying a healthy run of strong performance. This trend continued in the third quarter, with quarterly effective rent growth of 3.3 percent and an average stabilized occupancy just below 96 percent.

Jeff Haag
Associate director, HFF, Denver

Given the recent coverage of this trend, it is a good time to examine the factors driving demand for apartments. The robust rent growth recently experienced in metro Denver is not a unique phenomenon. Many markets across the country are experiencing similar escalations. By looking at trends of primary apartment demand drivers – falling homeownership rates, employment growth and a rapidly increasing population – the tremendous demand for apartment units in many major markets can be quantified.

Demand Drivers

Metro Denver is among the nation's leading cities in population growth. With an average annual population increase of 1.41 percent from 2010 to 2013, metro Denver added 143,000 residents. This increase in population, coupled with Denver's average homeownership rate of 62 percent and an average household size of 2.6 people, created demand for nearly 21,000 apartment units between 2010 and 2013. Yet, deliveries totaled less than 15,000. This pent-up demand carried forward and likely drove the strong local multifamily sector growth seen in 2014 and 2015. Similarly, peer cities such as Seattle, Portland, Oregon, and Austin, Texas, experienced similar population growth and rent growth over the same time period.

Looking to the future, population growth forecasts across Denver estimate more than 1 million new Front Range residents by 2040. By the same metrics presented above, there is implied demand for more than 6,100 additional apartment units for each of the next 25 years – well above the average deliveries of 4,600 per year seen over the last two decades.

Equally as important for quantifying apartment demand is employment growth, and it should come as no surprise that Denver enjoyed tremendous growth in total employment over the last decade. When compared with the aforementioned peer cities, Austin is the bellwether with nearly 40 percent growth in total employment since 2005. Denver ranked a respectable second among the group with a gain of 21.45 percent over the last decade. Interestingly, Portland demonstrated a relatively lackluster employment growth rate of 16.34 percent but still enjoyed robust rent growth of 5.54 percent annually.

Employment growth forecasts for metro Denver and Boulder are optimistic with an expected average gain of 2.3 percent and 2 percent, respectively, through 2019. This projected growth rate is a slight increase over the growth rate seen throughout the previous decade and will result in the addition of approximately 36,000 jobs annually.

New Supply

With approximately 18,000 market-rate units under construction, the perception of an overheated market is widely held by those not active in the multifamily space. However, investors in new development projects

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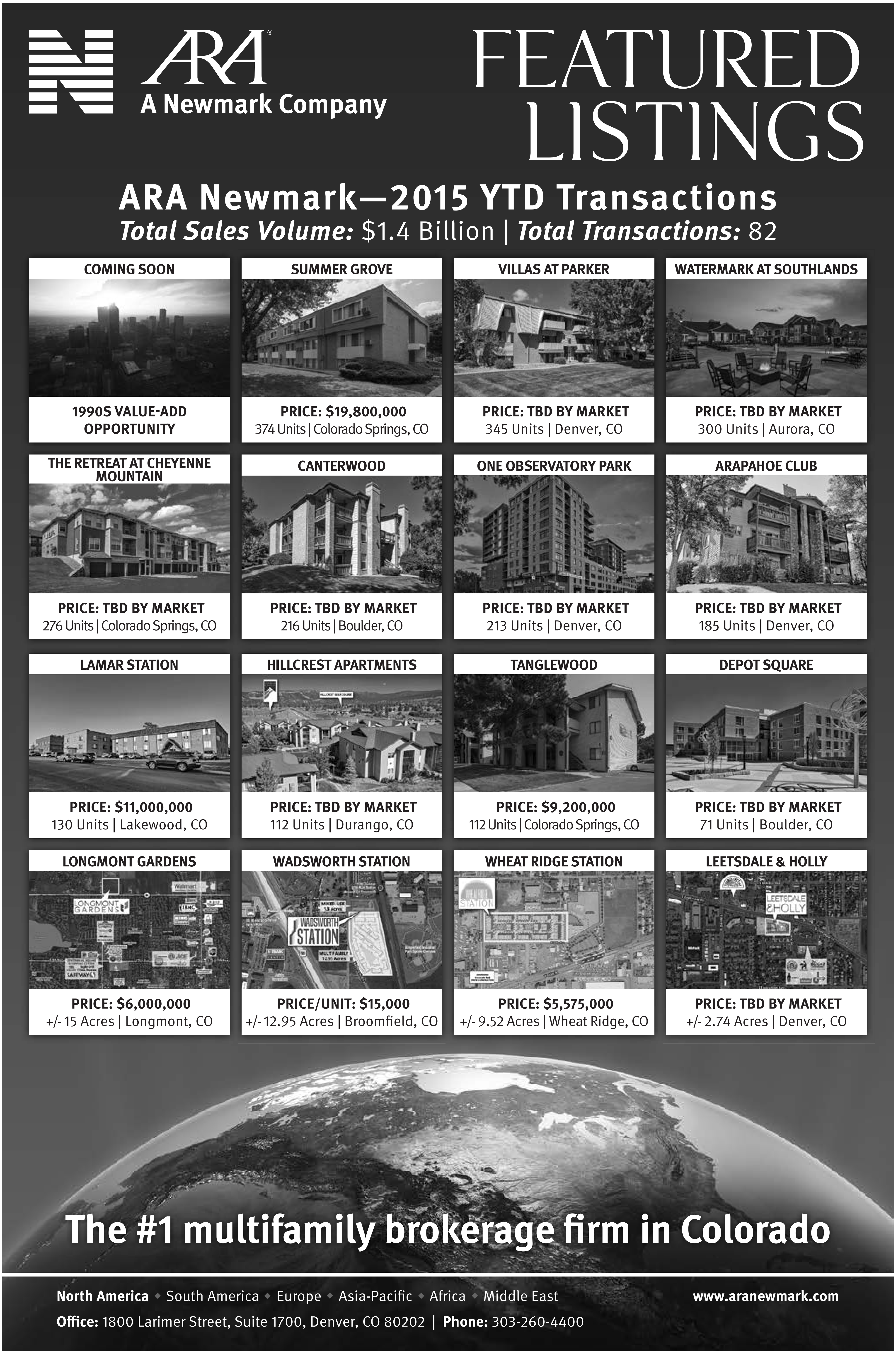
ARA
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FEATURED LISTINGS
ARA Newmark—2015 YTD Transactions
Total Sales Volume: $1.4 Billion | Total Transactions: 82
COMING SOON
1990S VALUE-ADD OPPORTUNITY
SUMMER GROVE
PRICE: $19,800,000
374 Units | Colorado Springs, CO
VILLAS AT PARKER
PRICE: TBD BY MARKET
345 Units | Denver, CO
WATERMARK AT SOUTHLANDS
PRICE: TBD BY MARKET
300 Units | Aurora, CO
THE RETREAT AT CHEYENNE MOUNTAIN
PRICE: TBD BY MARKET
276 Units | Colorado Springs, CO
CANTERWOOD
PRICE: TBD BY MARKET
216 Units | Boulder, CO
ONE OBSERVATORY PARK
PRICE: TBD BY MARKET
213 Units | Denver, CO
ARAPAHOE CLUB
PRICE: TBD BY MARKET
185 Units | Denver, CO
LAMAR STATION
PRICE: $11,000,000
130 Units | Lakewood, CO
HILLCREST APARTMENTS
PRICE: TBD BY MARKET
112 Units | Durango, CO
TANGLEWOOD
PRICE: $9,200,000
112 Units | Colorado Springs, CO
DEPOT SQUARE
PRICE: TBD BY MARKET
71 Units | Boulder, CO
LONGMONT GARDENS
PRICE: $6,000,000
+/- 15 Acres | Longmont, CO
WADSWORTH STATION
PRICE/UNIT: $15,000
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Market Update

The best of times: How long will it continue?

Patrick Henry
Senior vice president, Cushman & Wakefield, Denver

Over the last six months, almost on a daily basis, I am asked, "How much longer is this apartment development craze going to go on?" The questions are coming from not only buyers and sellers of property but also from many everyday friends and acquaintances who are businesspeople and young renters alike.

This apartment boom is something most of us aren't accustomed to experiencing, and it doesn't look like it is losing steam. I reached out to some of my "old school" real estate mentors who saw a big boom in multifamily development in the late '60s and early '70s to get their thoughts. Many of them do not have concerns of overbuilding. "Where else are these kids going to go?" seems to be the common comeback. In the '60s and '70s there was equilibrium of apartments and condos built. Today, most renters don't have a choice.

It is quite unbelievable that our state's lawmakers cannot come to a suitable comprise on the builder's defects laws that protects both the consumer from real (nonlawyer-driven) defects and the developer from (lawyer-driven) frivolous lawsuits. The current Colorado laws force the developer to be personally and professionally liable for all construction defects, which created a frenzy of litigation. Lawyers, developers and banks will tell you that almost 100 percent of all condominiums built in the last 15 years have or will encountered litigation. This frenzy almost stopped for-sale condominium development in Colorado. With few options, many consumers are forced to remain in the renting mode for the foreseeable future.

The demand to purchase is in the marketplace. The city of Lakewood and some other municipalities passed measures to promote condominium development. However enticing that may be, many developers don't want to be the first test case. There are a few developers out there who are gearing up to capitalize on the demand but not many.

There are currently 20,000 apartment units under construction and an additional 25,000 units in various stages of planning in the metropolitan area. The good news is the units are being absorbed. A strong, booming Colorado economy and the outstanding lifestyle are the driving forces for this demand. But there are constant concerns that wages aren't rising as fast as rental rates. There has been a slight increase in recent reports that wages are rising, but leasing agents will tell you that many of the renters are paying housing costs that are reaching 40 percent of their total annual income. Reports also state that there are more roommate situations than in the past because of the high cost of rent.

Construction costs continue to rise. Concrete, steel and wood pricing is continuing to rise, which, along with the labor shortage, is causing concerns for many developers who are trying to underwrite development deals to a financeable yield on cost. Developers, rightly so, are concerned that there may be risk in continuing to increase projected rents in an attempt to justify construction and land costs. The continued increase in costs may cause some slowing in apartment construction. Also, infill projects on smaller land parcels are struggling to pencil due to costs associated with parking.

Although the city planners have offered limited parking counts in the zoning code, the market still wants to see plenty of parking. Smaller zone lots are more difficult to develop because the projects needs parking, yet in order to justify the cost of the land, the developer must maximize the zoning, which requires structured parking that is costly. Developers and contractors say the price of concrete has skyrocketed in the past three months by about 30 percent, which effects underwriting on many projects, small and large alike. However, this price increase is easier to swallow for larger projects because the cost is spread over more units. But small infill sites struggle.

Developers and contractors alike are experiencing frustrations with most municipalities over the timing of entitlements and building permits. Most cities are under such tremendous pressure with the amount of projects in their municipalities that getting a response in a timely fashion becomes a factor in the underwriting process. Rising costs and the window of opportunity will have an impact on some of these future planned developments.

Capital sources, although becoming a bit more conservative, still seem to be abundant for new projects. Denver remains in the top-ranked apartment markets in the country. Interestingly, central Denver core developments aren't the only projects attracting attention, as was the norm a few years ago. Suburban projects are catching fire. A year ago, suburban projects had to have a light-rail component to it to entice equity. However, that doesn't appear to be the case today with capital sources chasing more suburban projects.

Land prices continue to rise. While zoning constraints and the number of units that can be built on the site will have an impact on pricing, we continue to see land transactions that trade on a price per square foot that, even as a broker, make us wonder, "What are they thinking?"

When land in central Denver reached $50 per sf, buyers were baffled; then, for a time, $100 per sf seemed to be the norm. Now we are seeing $150 per sf becoming the standard on properties not located in Union Station. Good locations and favorable zonings continue to attract developers, but the lack of availability, especially for larger sites, will continue to drive demand.

"These are the best of times" is what a client of mine tells me all the time. However, many of us still have 2007 in the forefront of our memories and continue to ask, how long will this continue? One of those old-school mentors of mine told me he changed his paradigm often throughout his 70-year career, saying nothing stays the same.

There is a paradigm shift in Colorado multifamily real estate that has happened, whether we believe it or not. We still need to be cautious and stick with the fundamentals of real estate because it can sometimes look too rosy when we are living in the best of times. ▲


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IN ACTION

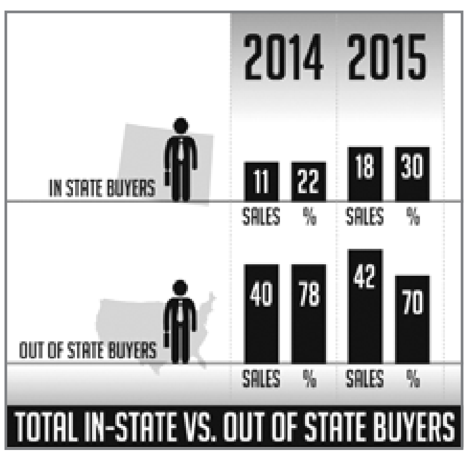
Out-of-state buyers show affinity for Colorado

Purchasing an apartment building in Colorado has proven to be challenging due to the growing number of buyers lining up to acquire a limited number of available properties. For certain assets, it is not uncommon to receive upward of 20 offers.

It's not just local investors clamoring to purchase apartments; investors from outside Colorado represented 70 percent of purchases through August and 78 percent of purchases over the same period of 2014.

Using data from CoStar, we reviewed apartment sales through the end of August for 2014 and 2015. We looked at transactions of $10 million and larger in Denver, Colorado Springs and Fort Collins, and the analysis revealed where buyers are coming from. This article explains the ripple effect created by the increase in buyers from across the country for Colorado properties.

■ **California investors lead the way.** For the last two years, the award for the state with the most aggressive buyers goes to California, putting local investors in second place. Cap rates (rates of return on a buyer's investment) tend to be lower in coastal markets and major Californian cities.



Craig Stack
Colliers Multifamily Group, Colliers International, Denver

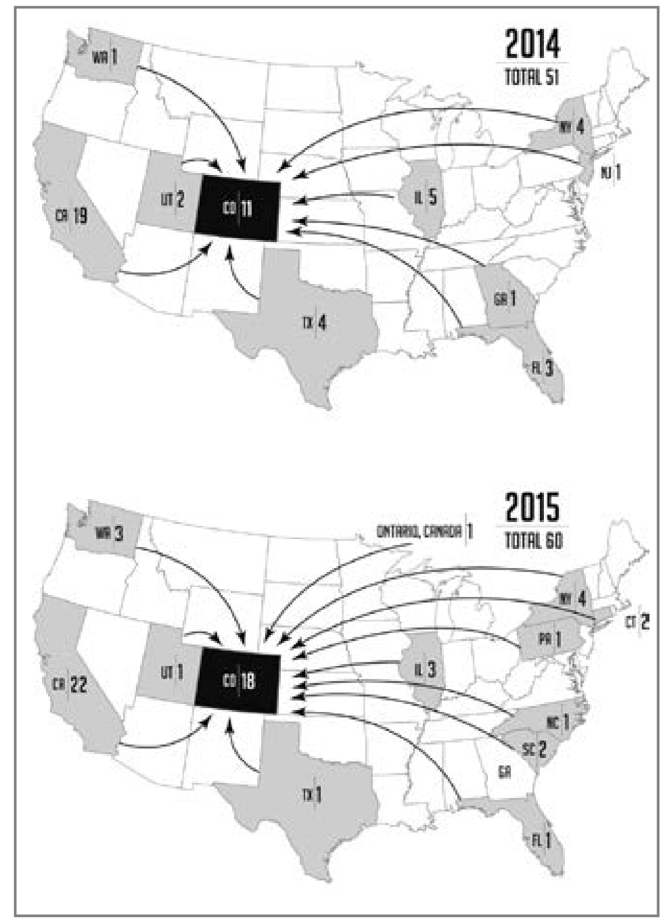
Bill Morkes
Colliers Multifamily Group, Colliers International, Denver

Colorado is one of the preferred markets for California investors to deploy capital at slightly higher rates of return in, what many view, as a safe and growing market. The result of the increased competition from out-of-state buyers accustomed to buying and owning in lower cap rate environments leads to further competition and compressed cap rates (higher prices) in our local markets.

■ **First-tier market status.** Demand from out-of-state buyers for property in Colorado likely will continue to remain strong and increase. Denver, once considered a secondary market to gateway cities like San Francisco or New York, has upgraded to a primary market for many institutional investors and advisers. The term "institutional investors" often refers to pension funds, real estate investment trusts, insurance companies and large wealth advisers.

Primary markets are considered the safest and most attractive locations to invest in real estate across the country. As Denver's population and economy continue to grow, this viewpoint of a tier-one market will become more widespread, paving the way for additional investment demand for our market. While Denver is experiencing historic low cap rates due to the limited opportunities and increasing demand, private and institutional investors have expanded their investment horizon outside of Denver to suburban and secondary markets, which increases prices across the state.

■ **Secondary and tertiary markets gain momentum.** Historically, smaller cities, often defined as secondary or tertiary markets, were the preferred opportunity for local investors or a small handful of opportunistic regional buyers who crafted a niche of investing in secondary markets to achieve better returns. In recent years, this trend of investing in secondary markets has exploded with buyers ranging from private capital to institutional buyers, all of whom are uncovering opportunities in these smaller markets. Recently several Class A communities sold to institutional investors in secondary markets such as Loveland and Fort Collins. In our recent experience, marketing a Class C building in



Images courtesy Colliers International Multifamily Group

Out-of-state buyers' locations for purchases of $10 million or larger

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Investment Market

3 ways investors can add value to apartments

Ryan Floyd
Senior vice president of sales, Unique Properties, Denver

Across the Denver metro area, apartment rental rates and occupancy levels are hitting record highs, which creates an attractive environment for landlords. By adding value to properties now, landlords have the opportunity to lock in the value of their asset for future stability. What are the best ways to add value in this market? Following are three different methods investors can use to accomplish just this.

1. Stabilize rent roll. Effectively stabilizing rent rolls can be the easiest way to add value to your apartment asset. However, it also may present the risk of capitalization rate compression. Some investors have been purchasing properties and flipping properties six to 12 months later. Those decisions are based on the market going up in value and the capitalization rates decreasing. The strategy is to turn over a rent roll that may be 10 percent or more under market averages and to bring all of the rents to current market rates.

By simply stabilizing the rent roll, value is added. Interest rates remain extremely low, thus allowing cap rates to continue to drop. Cap rate compression only can happen as long as the delta between cap rate and interest rate is high enough for a yield. This strategy works great in a market like Boulder where rents never seem to decrease and occupancy levels rarely dip.

When vacancies increase, rent levels drop. When interest rates rise, the scenario of relying on cap rate compression quickly can go from an easy way to increase value to an asset that potentially could be upside-down.

2. Perform moderate asset rehab. In this method investors purchase properties and displace all of the residents to rehab the entire building. Investors are drastically changing the curb appeal with new landscaping, painting, windows and replacing all of the appliances, cabinets, countertops, bathrooms, flooring, lighting, and heating and cooling systems. These investments sometimes are upward of $25,000 to $35,000 per unit.

Most of the time investors can obtain 75 percent of the loan for improvements, including the building's purchase price. Some loans allow for the debt service to be paid out of the construction loan or defer payments until completion. By doing this property owners avoid carrying a large mortgage payment during the vacancy time period. This process can take at least four to six months, depending on construction schedules and the time it takes to vacate the building.

Many investors choose this path because they like the finished product and the acquired tenant base is seemingly more desirable. Lending institutions that prefer this type of transaction are lending aggressively in favor of the investor. This strategy is desirable if the investor has the resources and time to complete the renovations. In some cases we have seen this scenario achieve rent increases of 50 to 100 percent compared with the previous rents.

3. Renovate vacant units. A third approach to add value to an apartment property is to renovate as leases turn over. For this method, investors are purchasing properties where some of the leases run month to month. Tenants are given a notice that their rent will be increased to the market rate. We have seen a surprising number of tenants agree to pay the rent increase as a result of the slim inventory of affordable alternatives.

Alternatively, the units that are vacated are modestly upgraded with a slight increase of finish quality like faux hardwood floors, new cabinet faces, new appliances, fresh paint and carpet, or new vanities and updated lighting fixtures. Most investors who pursue this method try to achieve a 20 to 30 percent rent increase as opposed to top-of-the-market rental rates. They do this in order to avoid competing with new product or properties that have been completely renovated.

As a landlord, your profitability relies on tenant quality; however, turning tenant quality over is a significant hurdle to overcome. A new tenant paying a higher rent expects quality amenities and cultural niceties more than the previous lower-paying tenant. This type of renovation typically is a great strategy to achieve improved tenant quality. The downside is that it could take

This strategy works great in a market like Boulder where rents never seem to decrease and occupancy levels rarely dip.

10 months to a year to achieve the anticipated value. This approach may not be as cost-effective as the overall savings an investor would obtain with a full renovation, but the investor appeal is that the property can service debt and maintain cash flow while increasing the property value.

Aside from these three approaches, there are other ways to add value that investors may pursue, such as decreasing expenses or correcting management inefficiencies. However, if you are a new or seasoned investor who is planning for a change in the business cycle, the past tells us that in a market downturn, the properties that escaped the negative effects of the market.▲

Investment Market

Tips for achieving the financing you need

Real estate investment and development depends on readily accessible financing. In today's active market, the ability to immediately access funding can make the difference in acquiring your project. Timely, accurate and complete business and personal financial statements enable lenders to make fast credit decisions. Equally important are high-quality financial statements that can withstand the scrutiny of bank examiners and independent loan reviewers after the bank makes the loan.

Consistency is critical. Leases, rent rolls and operating statements are the core financial statements for investment real estate loans. This information determines the sustainability of the project cash flows, which is essential for determining debt service adequacy and is used by appraisers for project valuation. If the information is inconsistent, then the loan analysis must be adjusted to reconcile the differences – and often results in a longer loan process and, potentially, a reduced loan amount. In addition, if the reported information is materially inconsistent with the appraiser's market data, the appraiser's valuation can be affected by the uncertainty in information.

Supporting information such as income tax returns and personal financial statements also are sources of possible inconsistency. If the operating statement shows a consistent cash flow and the tax returns show a loss (even after adjusting for non-cash items such as depreciation), documenting a credible explanation for the differences can be time-consuming and result in more conservative underwriting. In addition, independent loan reviewers and bank examiners can require the lender to consider a loan with inconsistent, unsupportable differences in data as effectively nonperforming – even if you've made every single payment on time.

Mindy Koehnen
Vice president, Bank Financial, Greenwood Village

The guiding principle is if your financial statements are consistent, with any material differences well documented, you'll enjoy a fast loan approval process and be one of your lender's favored borrowers.

Use realistic projections. Most investors approach an investment by developing projected financial results justifying their expected return on investment. In some cases, the projections assume a change to the underlying project resulting in improved cash flows – capital improvements and changes in tenants or leasing practices are the most common sources of value addition.

If your projections generally are consistent with current market conditions, it is easy for a lender to support the projections and the resulting cash flows. If your projections are ahead of the market, then the lender (and the appraiser) may need to use more conservative assumptions and, thus, potentially alter the credit analysis in a fundamental manner.

Neatness counts. If rent rolls, operating statements and other financial statements are clear and easy to understand, credit analysis is a snap. Handwritten or incomplete entries sometimes require follow-up inquiries for clarification, which extends the credit analysis timeframe. Whenever possible, use any forms provided by your lender because the information will flow perfectly into their underwriting systems and tools.

Use professionals. Let's face it, borrowers are focused on the core business of acquisition and management. Hiring a support team of financial professionals enables you to rely on accurate financial reporting for your business decisions. Migrating from self-managed financials to professionals can be challenging for some borrowers. That's why I maintain a list of qualified property managers and accounting professionals available to help borrowers organize and streamline their financial reporting.

Plan for the future. Ongoing maintenance is important when it comes to your financial statements. That's because most lenders require that updated financial documents be submitted on an annual basis per loan covenants, even if you make every loan payment on time. Failure to meet your loan covenant requirements may have a negative impact on your loan.

The guiding principle is if your financial statements are consistent, with any material differences well documented, you'll enjoy a fast loan approval process and be one of your lender's favored borrowers.

On a final note, you shouldn't underestimate your choice of lenders when it comes to helping you navigate through the loan process. A strong lender/borrower relationship starts with strong and well-organized financial information.▲


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106 unit, 194 bed, Class A student housing portfolio, adjacent to to CSU in Fort Collins
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OAK STREET
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2ND STREET
1ST STREET
PARK DRIVE
WINDSOR LAND
128 unit Multifamily development site
UNDER CONTRACT
100 units, Colorado Springs
DOWNTOWN LITTLETON REDEVELOPMENT
+/- 38,724 SF of Land
+/- 19,544 SF of Buildings
115 units, Denver
RECENTLY SOLD*
$3,675,000
Alvarado Place
719-591-1907
ALVARADO PLACE | 100 UNITS
CONFIDENTIAL
DENVER PORTFOLIO | CONFIDENTIAL
$9,250,000
MOUNTAIN COUNTRY ESTATES | 150 UNITS
$4,500,000
CEDAR CREST | 78 UNITS

Editorial

Denver's next step to affordable housing

On July 20, during his inaugural address, Denver Mayor Michael Hancock announced the next step in Denver's commitment to affordable housing – dedicating at least $15 million a year in new funding to preserve and build at least 6,000 additional affordable homes over the next 10 years, as well as a package of aggressive policies. Councilpersons Robin Kniech and Albus Brooks are working alongside Hancock to develop this approach.

We are proud of our standard of living, and it is incumbent upon all of us to safeguard Denver's high quality of life. While attainable housing is foundational to every person's life, the reality is that skyrocketing rents and home prices threaten to squeeze out low- and moderate-income families and seniors. There is no corner of this city untouched by increasing housing costs.

We cannot afford to lose housing for our teachers, firefighters and nurses any more than we can afford to lose businesses because their workers cannot find decent housing. We hear your concerns. Denver can do more and we are taking action.

Access to affordable housing is key to economic stability. It keeps Denver diverse and inclusive, enhancing our vitality. Affordability also is essential to maintaining a strong workforce and recruiting new businesses. Investing more in affordable housing will pay dividends for families, seniors and the workforce, as well as for Denver's overall economy and quality of life.

Michael Hancock
Mayor, Denver

Robin Kniech
Councilwoman, City Council, Denver

Albus Brooks
Councilman, City Council, Denver

Denver already spurred the creation of almost 2,000 new affordable units, helped hundreds of families with down-payment and mortgage assistance, and created a $10 million revolving loan to build housing for our workforce. Also, we've launched innovative financing to help homeless individuals into housing instead of paying for emergency rooms and jail nights, and we updated the Inclusionary Housing Ordinance. To catch up and keep up with the need in our city, the next step is to dedicate Denver's first-ever annual source of funding to build and preserve a full range of affordable housing.

We're proposing the exploration of two sources that could be dedicated for this purpose. First, we need to explore a broad-based and reliable source of revenue that brings our entire community together to be a part of this solution, in the same way we fund other city priorities such as parks and libraries.

In 2012, voters authorized the city to retain property tax "mills" that were assessed and credited back, in order to catch city services back up to where they were before the recession. The city still is crediting several of those mills and will credit more back to taxpayers next year to reduce the tax burden as property values grow. We propose exploring the dedication of up to one of the previously credited mills for affordable housing. Dedicating an existing property tax mill could generate up to $13 million a year, would be stable over time and would cost the typical homeowner only $25 to $50 a year.

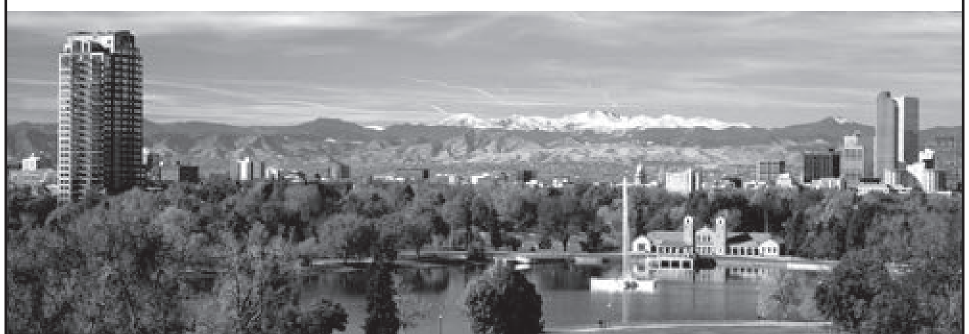
Second, we should explore charging a modest fee on new development to help mitigate the housing demand those projects stimulate. Called a "housing linkage" or "impact fee," this approach is a best practice in other cities across the country to help balance growth with housing demand. Development cycles go up and down with the economy, so while an important tool, we believe it's necessary to pair this fee with the more stable property tax source to ensure the city can maintain a steady commitment to affordable housing.

From life-saving housing with supportive services for the homeless, to much needed workforce rental housing, and wealth-building homeownership opportunities, $15 million of dedicated revenue would provide five times more homes over 10 years than we could build with the city's existing resources.

Recognizing that even more is needed, however, we also propose a package of policies ranging from stronger notice and rights for the city to preserve existing affordable housing, approaches that help keep families in their existing homes, and tax or fee relief for developers of affordable housing.

A conversation with stakeholders, civic leaders and the rest of the Council to flesh out the details of this proposal began in September, with updates to and opportunities for input from the broader public in the coming months. But the good news is that increased resources could start right away – pending Council approval, the 2016 budget proposes $8 million for preservation and construction of affordable homes, more than doubling previous investments.

Housing is a key foundation of any community, and this is our call to action. It will take all of us working together to grow our impact on housing affordability in Denver and keep our city a place of opportunity for everyone.▲

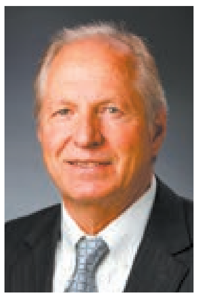



NOW LEASING

Market Drivers

How the affordability crunch impacts your building

Coming out of the recession, the Denver multifamily market began an incredible run of rent gains – a streak so unprecedented that the only thing Denverites have to compare it with is the Colorado Rockies improbable push to the 2007 World Series. In January 2010, average effective rent for the Denver metropolitan statistical area was $828, according to Axiometrics. Today, that number is $1,364 – an increase of nearly 65 percent over five years.



Pat Stucker
Managing director, JLL, Denver

Ray White
Vice president, JLL, Denver

Travis Hodge
Associate, JLL, Denver

Median household income, however, has been on a different trajectory. In 2014, MHI for Denver was $66,870, according to U.S. Census. Compare this with a MHI of $58,732 in 2010, which presents an increase of just under 14 percent. The difference between 65 percent and 14 percent is monumental.

The gap between rent growth and income growth resulted in a flight to affordability in metro Denver, with Class C apartments being the beneficiary. Annual effective rent growth for Class C properties is 13.1 percent, which is higher than Class B, 11.1 percent, and Class A, 7.6 percent.

Occupancy tells a similar story, with Class C at 96.8 percent, which is higher than Class B at 96 percent and Class A at 95.3 percent. The difference in performance between urban and the less expensive suburban properties adds further evidence, with 11.7 percent annual rent gains for suburban properties, which is more than double the 5.4 percent for urban properties.

It's clear that the issue of affordability is having an impact on the rental market, which raises the question: How will today's pricing affect tomorrow's supply? It's an important question for property owners and developers.

Looking at historical unit mix trends, we can see that developers are responding by building smaller units. From the 1990s to the current decade, developers have increased the percentage of studios built six-fold. Over each of the last three decades, we've seen the percentage of two-bedroom units decline while studios and one-bedroom units increased.

Digging a little deeper, we can pinpoint some notable examples of this shift. Denver's central business district, the submarket with the highest average rent per unit, has responded accordingly – 73 percent of units delivered since 2013 have been studios and one-bedroom units, according to Apartment Insights.

The Denver Tech Center followed suit; in 2014 and 2015, the DTC saw six projects deliver 60 percent studios and one-bedroom units. Of those six, two projects stood at 70 percent studios and one bedrooms, with another topping out at 80 percent.

Perhaps the most notable example of this shift is Turntable Studios, which is a redevelopment of the old Hotel VQ and Denver's first project with market-rate units smaller than 350 square feet.

Micro units (typically ranging from 275 to 400 sf) first started popping up in high-density, expensive metro markets like San Francisco, Seattle, Boston, Washington, D.C., and New York, but today are found in less-likely metros, such as Des Moines, Iowa, Columbus, Ohio, and Omaha, Nebraska.

These units typically rent on a dollars-per-month basis for 20 to 30 percent below conventional units, even though the rents per sf are much higher. From large to small markets, there is a demand for smaller units. It's a price-point play for many renters, and it's clear that the issue of affordability reaches well beyond Denver.

While Turntable Studios is the first of its kind in Denver, it certainly won't be the last. This is a new trend, so naturally there are skeptics questioning the exit for micro-unit investments 10 years down the road. However, even if rent-to-income ratios in Denver regress to 2010 levels, the migration is clear; the demand for affordable units will drive occupancy for micro units from a price-point perspective.

According to the 2014 Urban Land Institute report, "The Macro View on Micro Units," a survey of micro-unit renters showed 86 percent of respondents indicated price as a priority in the initial leasing decision. Additionally, 24 percent of respondents from a survey of conventional unit renters indicated they would be interested or very interested in renting a micro unit with 73 percent of respondents ranking price as the No. 1 or No. 2 reason they would choose a micro unit over conventional.

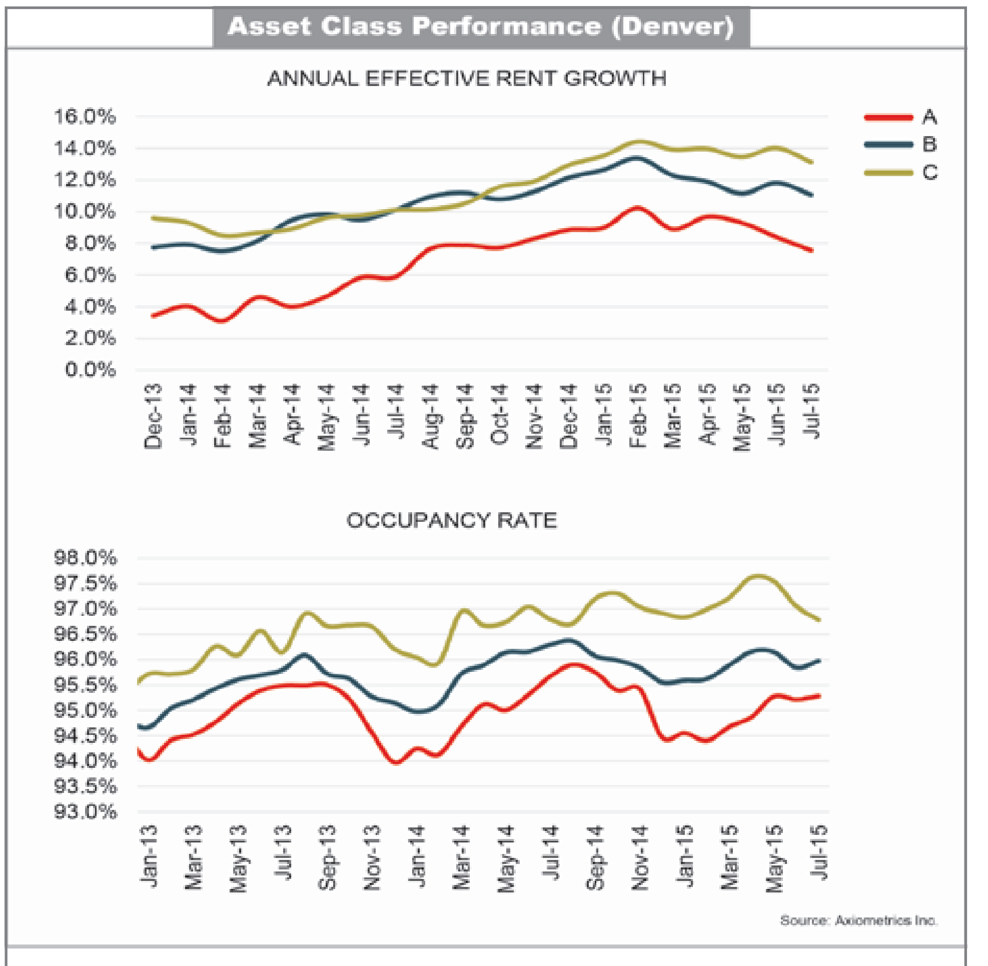
It's clear that many renters see an economic benefit to micro units, but also developers are economic beneficiaries. Because of the relatively fixed cost linked to kitchens and bathrooms, micro-unit projects cost 5 to 10 percent more per sf to develop than conventional projects; however, the 25 percent price per sf rent premium micro units typically achieve more than offsets the added cost.

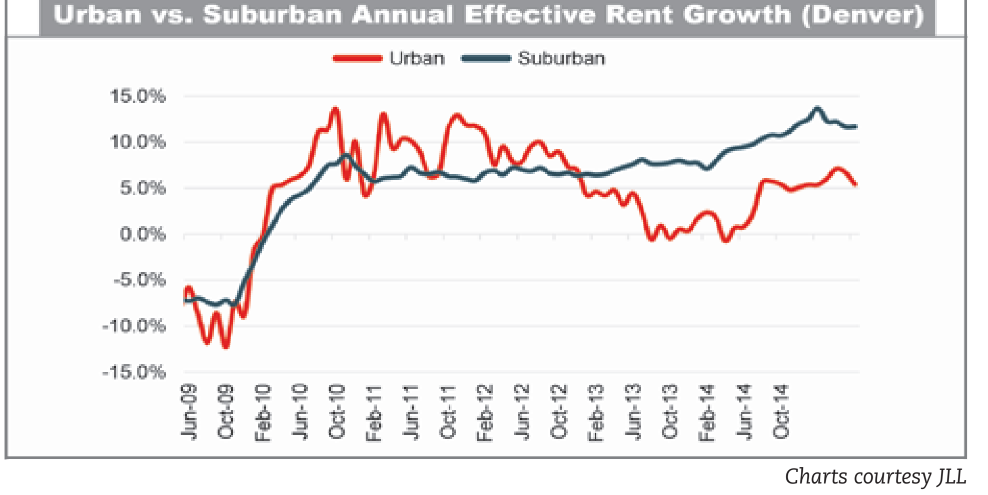
As the number of micro-unit projects grows, developers are creating a new market and value network – two key components of disruptive innovation – for lower-income renters. That's not to suggest that one day new construction will consist of only micro units; rather, we should expect a greater diversity in housing options moving forward as projects with smaller units help combat market affordability concerns. "Affordability" is a relative term, however, and can be applied to high-income households as well.

According to the U.S. Census 2014 American Community Survey, 30.8 percent of households in the metro Denver area have incomes of $100,000 or greater, ranking Denver 25th out of 381 MSAs for the highest percentage. Falling below Denver's 25th spot are MSAs such as Los Angeles, Miami, Philadelphia and Chicago – markets where the portion of households earning $100,000 or more is smaller than in Denver, yet, according to Axiometrics, effective rents are anywhere from $115 to $795 per month higher than in Denver.

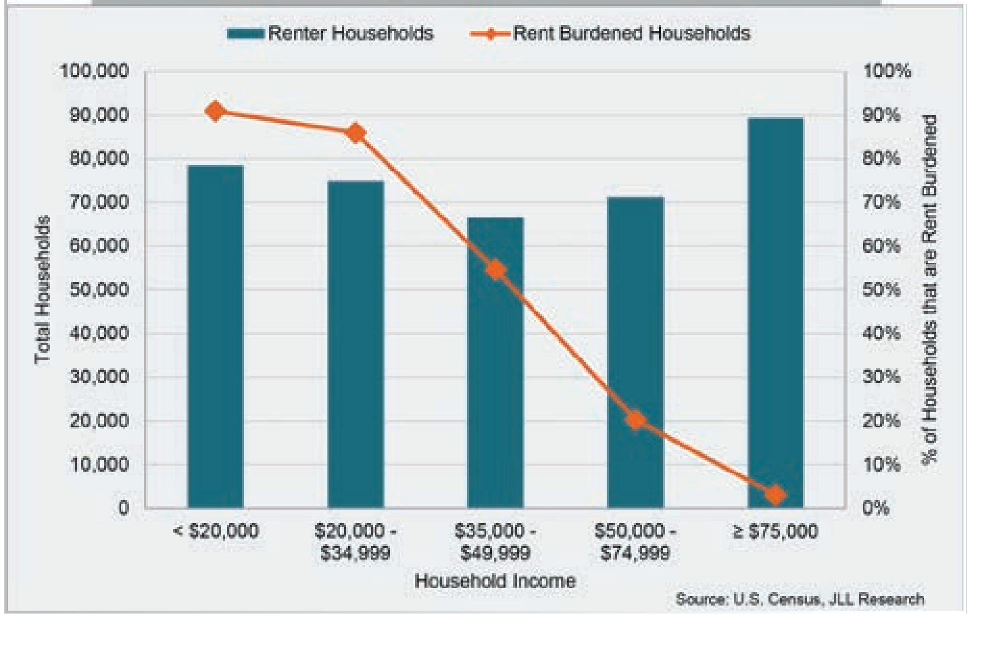
Additionally, the 2014 ACS breaks down Denver's renter households into segments based on household income, with the highest income segment being households earning $75,000 or more. Households in this segment outnumber lower-income segments, making up 22.5 percent of all renter households. Of the renter households earning $75,000 or more, only 3 percent are described as rent burdened (households contributing 30 percent or more of income toward rent), the lowest percentage of any household income segment.

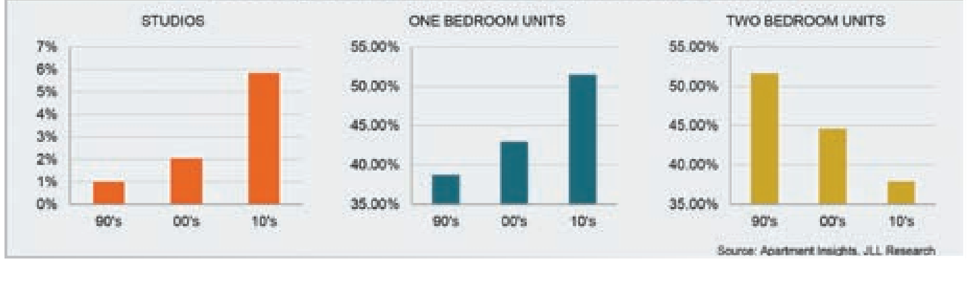
With all the talk over rents getting too high, there's still a sizable portion of the rental market readily equipped to absorb higher rents. This, of course, is good news for developers and investors, as there's a wide range of investment options, from the lower end of the market micro units to the upper-end Class A core.▲





Charts courtesy JLL





Market Drivers

Micro-housing offers millennials new opportunities

Robert C. Smith

Marketing adviser, RMG Architects & Engineering, and CEO of Microtopia Ventures Inc.

There are countless articles and blogs written about the millennial housing crisis. Many offer interesting solutions, such as building tiny homes, subdividing existing high-rises from 500 units into 1,500 smaller units or dividing up larger homes into smaller apartments.

Each of these solutions only offers part of a resolution to a larger problem that has yet to be addressed in a significant way. The larger problem is providing millennials with homes that meet their needs, as well as providing housing that matches the future vision of the millennials themselves and supports their own generational and cultural values.

The result of my research and experience meeting with these amazing young people, who range from 18 to 30 years old, is this: The millennials are one of the most prolific generations to ever hit our planet. This generation is 92 million strong and they are extraordinary. They are collaborative and hard-wired differently, which makes them experts in multitasking, as well as being fast, quick and extremely adept in the art of uber flexibility in mind and spirit.

Baby boomers, move over, as you are now on notice. The millennials – the largest generation in U.S. history – soon will enter their peak spending years, according to a 2015 report from Goldman Sachs.

This generation is rapidly becoming one of the most optimistic generations in our new economy. They initially went into debt to get a college degree with the promise of achieving their dreams. A disappointing economy emerged coupled with student debt now looming at $1.2 trillion, which is mind numbing to most of us to comprehend the impact this scenario has had on homeownership possibilities. Regardless, their unique approach to life is turning the tides of prosperity and they will achieve success.

Millennials have invented things that impacted the world, like social media, and are the clear global market drivers of technology, such as smartphones, tablets, applications and other breakthroughs. They also are on the leading edge of the sustainable energy movements and have started amazing local projects.

Their current struggle? Finding affordable housing in the Denver area, which supports their values of homeownership, living collaborative lifestyles, sustainability and managing financial debt previously mentioned. Some of the factors that are keeping millennials from achieving this dream are:

- The millennial of today will not buy a $300,000 home (which is the average price for a home in Colorado) for two reasons: First, high debt scenarios from college; and second, for the major sector of this demographic, core values are not large homes.
- On average, 33 percent of median income in Denver households is paid toward rent, according to Realty Trac. This is not sustainable. Millennials are therefore seeking out affordable alternatives.
- The population of millennials in Denver has increased 58 percent between 2007 and 2013, according to a local news report.
- Most of the existing inventory within the price ranges millennials can afford are not attractive, are energy inefficient, are too large and appear to be only available in undesirable or dated neighborhoods.
- Collaboration is valued highly among millennials, and separate single-family developments are not desirable housing options.
- Sustainability in regard to energy, a smaller carbon footprint, and supporting a unique ecosystem is a value shared by this group. There are few housing developments that are specifically designed to fit their wants, or even less, to fit their needs.

In an attempt to answer their call for smaller footprints, affordable homes and desire for collaboration, we have derived a solution called Microtopia Village. This vision is to provide the millennial generation with an innovative and sustainable community to support homeownership, collaboration, entrepreneurship, and educational and global connection. Incorporating a rent-to-buy financing structure will help them attain homeownership.

A joint venture was created earlier this year with Microtopia Ventures Inc. and Rocky Mountain Group, who will design and engineer the village of over 500 micro-homes. The anticipated $55 million project is envisioned along the U.S. 36 corridor between Denver and Boulder, where a new light-rail is being built.

Public transportation is a major value of the millennials. The vision for the village is more than a housing development. As a new category of community design, by and for millennials, it will consist of micro-homes, ranging from 500 to 1,200 square feet, centered around a 50,000-sf community and event center called The Hub. Each of the micro-homes will use solar power and smart technology, be fiber enabled and will have an interior designed by Ikea.

The inspiration behind the Hub is to provide a plethora of community events and activities, while housing permanent entities such as an entrepreneur incubator, event center, university extensions, health food store, bike shop, restaurants, hangouts and microbrews. Its purpose is to be a living community laboratory supported to expand innovation, markets and the future vision for the millennial generation.

Lastly, incorporated into the design are six 20,000-sf fully operational community greenhouses growing organic foods. The growers who lease the greenhouses will market the produce to the village residents, as well as to the residents and restaurants of the city hosting the village. In addition there are sections reserved for personal gardening.▲

Sustainability

How LEED certification pays off for developers

Sustainability is now a buzzword in the world of multifamily development. In Colorado, more than 4,800 residential units are registered to receive LEED certification, according to the U.S. Green Building Council, which developed the certification program. The council estimates that Colorado is among the top 15 states for green residential building.

Pursuing LEED certification might be a popular practice now, but there was a time when it wasn't so easy being green. When we embarked on our first LEED-certified multifamily project in 2007, sustainable apartments and condominiums were few and far between. The development, River Clay Condominiums, was the first LEED-certified multifamily project in the Rocky Mountain Region. Even nationally, residential green building was in its infancy, with only 36 multiunit projects achieving LEED certification by January 2008, and that number included college dormitories and group homes.

As early local adapters in this emerging realm of LEED multifamily development, often we were asked why we spent the time and money to seek such a high standard of sustainability. What was the "value" in chasing LEED certification?

Though we couldn't quantify the potential return on our investment, LEED appealed to us because it required so much rigor and would set a standard to separate us from developers who weren't as committed to true sustainable business practices.

Nearly a decade later, we're proud to report that our decision to build to LEED specifications has served as an important differentiator in attracting residents and investors. RiverClay, which received LEED Silver certification, sold out months after it was completed – in the worst economic downturn in recent history – and delivered a 29 percent internal rate of return for our investors.

David Zucker, LEED AP
Co-founder and principal, Zolaco Community Development, Denver

Solera, an 11-story apartment community in Denver's Ballpark neighborhood completed in 2010, was the only apartment project our equity partner, Principal Real Estate Investors, supported that year (in the midst of the recession), using its Green Property Fund to finance the project. The building sold in October 2011 for $37 million, which was a record price per unit at the time.

Investors also flocked to Cadence, the first high-rise, LEED-certified apartment project built in the Union Station neighborhood. Zocalo sold Cadence to Invesco Advisers Inc. last year for $70 million, again setting a Colorado sales record in terms of price per unit and per square foot at the time it was purchased. There's no question that the LEED certifications were factors for receiving substantial prices for those properties.

Even for a rental market in which developers are struggling to keep pace with demand, we're finding that LEED certification is a key attribute in helping lure the upscale renters we target. After location, residents indicate sustainability as one of the most important reasons for leasing in our properties. A 2013 study conducted by CoStar's Property and Portfolio Research unit found that renters are willing to pay a 24 percent premium to lease in a LEED-certified property.

Cadence, in the Union Station neighborhood, credits its LEED certification as a major factor in its sale to Invesco Advisers Inc. last year for $70 million.

Of course, marketing LEED effectively involves more than placing a reference to LEED on a property's brochure or website. We train on-site employees about how the building they're marketing achieved LEED status and what features demonstrate how the property garnered Gold status. That way they are well versed to show those features to potential tenants and explain how they relate to the LEED process.

Also, we take a practical approach to implementing LEED. There is an approximate 2 percent incremental cost increase involved in building LEED versus non-LEED, so those figures factor into our budgeting process. The costs have declined as we've gotten more experienced with LEED and more efficient at meeting the requirements. LEED has a different management process, so we're careful about educating our subcontractors about the right procedures and monitoring those efforts throughout the entire construction process.

While being a pioneer provided a competitive advantage in the market, at the end of the day, it's simply one tactic toward building a larger community of sustainability. The goal with any development is to create a positive impact within the community in which we are developing. Providing healthier communities through energy-efficient buildings and creating communities that are connected, by bike and foot, to their neighborhoods is not only the right thing to do, but also creates stickier residents who have an investment in their neighborhoods.

LEED can and should be so much more than seeing a plaque as you walk into a building; it should make us feel as if belonging to this particular community means something.▲

Design

Continued from Page 1

a three-story walk-up; a four-story surface parked building; a wrap – or some call it a "Texas doughnut" – with four or five stories; and a podium with either four stories over one or five stories over one level of podium above grade. When looking at land value and desired density, often it is obvious which of the four design types are economically appropriate for any given site.

Through advancements in wood construction and new codes, we now have additional ways to evaluate a site. For instance, a seven-story, wood-frame, above-grade podium building is now a possibility. This new option could take a site that was not previously feasible and, through either reduced construction cost or increased density, the project becomes viable. This could create opportunities for sites that previously may have required a seven- or eight-story steel or concrete building in order to justify land value. With new codes, that same site can be feasible using a wood-frame building with equal density and a less expensive structural system option than steel or concrete.

KTGY recently received approval to move forward on its first seven-story wood-frame apartment community in Denver. The project, which is located on Speer Boulevard, between 13th and 14th streets, will consist of 322 units in five stories of wood-frame construction over two levels of concrete.

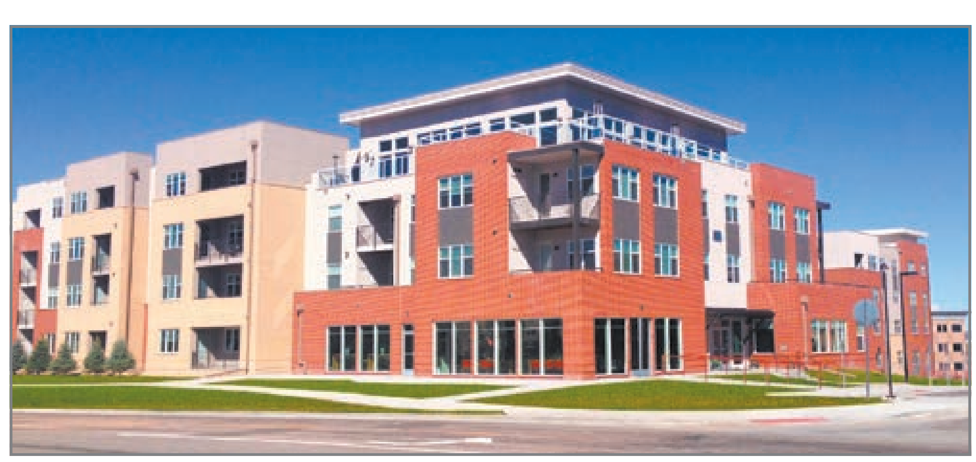
Local zoning will continue to be one of the biggest challenges for wood-frame construction. For example, if zoning still limits the building height to five stories, the four-over-one podium will continue to be the building of choice. In addition, as some of the new zoning requirements are adopted, the need for steps in the exterior façade, which are easily achieved in a concrete building, become more challenging to achieve in wood construction.

Also there will be the unavoidable learning curve for building and fire departments as they review designs of this nature and start inspections in the field. Pushing the limits and doing things a little differently will not be without bumps in the road, but the wood-frame apartment industry will be much better for it.

As apartment designers, engineers, general contractors and developers, it is important to stay at the forefront of what is new, while continuing to push the limits of design, building systems and processes, striving for better and not just more. The changes that are taking place will not only allow for greater density and lower costs, but also open the door for greater flexibility to enhance the quality of the design and improve the negative image that wood-frame apartment building construction recently received in the Denver metro area.▲

Photography © John Bare

Birkhill on Main is an example of a wrap or Texas Doughnut design. This project is five levels of Type III wood construction surrounding a four-story Type II concrete parking garage.



Photography © Grand Peaks

Elevation at County Line Station represents a four-story Type V wood-frame building, surface parked.

Sustainability

Denver celebrates benchmarking anniversary

Patti Mason
Executive director, USGBC Colorado, Denver

In the midst of a housing boom in Denver, we are seeing an encouraging trend of multifamily buildings investing in energy efficiency.

With property costs rising, it should not come as a surprise. If Denver's multifamily buildings invested $109 million in improving energy efficiency, it would result in an estimated $415 million in energy savings over 10 years, said Katrina Managan, senior adviser at the Denver City Energy Project. Many leading multifamily projects are jumping on the green bandwagon by voluntarily submitting their energy usage statistics to the benchmarking program within the Denver City Energy Project.

The DCEP is part of a national initiative to create healthier and more prosperous American cities by improving the energy efficiency of buildings. Other cities participating in the City Energy Project include Atlanta, Boston, Chicago, Houston, Kansas City, Missouri, Los Angeles, Orlando, Philadelphia and Salt Lake City.

The pioneering actions of the 10 cities involved in the project will be models for communities nationwide and around the world. The DCEP is celebrating its one-year anniversary this month.

The City Energy Project's goals are to slash energy use, save money for residents and create healthier cities. In Denver that means cutting greenhouse gas emissions from large commercial and multifamily buildings by 18 percent through initiatives such as DCEP's benchmarking program. When building owners enroll in the benchmarking program, they measure and submit their energy use to the DCEP and receive formal recognition and training on how to improve building efficiency and educate their occupants about energy-saving behaviors.

The benchmarking program, which recently registered its 100th building, counts several of Denver's most recognizable multifamily projects among its participants. These buildings are trailblazers in improving energy efficiency of apartments and condominiums in Denver.

Nationwide, multifamily rentals have on average 34 percent fewer energy-efficiency features than the number found in other types of housing, resulting in higher energy costs for renters, said Managan. Moreover, in households that earn less than the national median, 9 percent of a homeowner's total income can go toward energy costs.

Cornerstone Apartment Services is one of those multifamily projects leading the pack in terms of energy benchmarking. Cornerstone recently enrolled six of the buildings it manages in DCEP's benchmarking program.

"The energy performance scores have helped us evaluate and show our clients how their building's energy performance compares to similar vintage properties," said Cornerstone's Chief Operating Officer Charlie Hogan. "This has resulted in making educated decisions around energy-efficient upgrades and capital projects."

The Prado Condominium, an 18-story condominium tower with 109 luxury residences, recently enrolled in the program because the condominium's energy bills were far too high, said Nickie Greco, association business manager with Hammersmith Management. After using the Energy Star Portfolio Manager to get a score on the energy performance of buildings, Greco discovered that the Prado scored low compared with its peers.

"We're now on a path to cut the Prado energy bill significantly with smart energy-efficiency improvements that will pay back quickly for owners in energy savings," said Greco. "We've already upgraded some lighting, and we have a recommissioning project and upgrades to the cooling tower underway. More projects are in the works."

Metro West Housing Solutions enrolled five of its buildings in the benchmarking program. One of the reasons MWHS, a nonprofit property developer and manager of apartments in Lakewood and Denver, prioritizes energy efficiency is cost savings.

"Energy efficiency helps us cut operating costs so we can limit rent for tenants while improving on-site resident services, such as health services, child care and economic self-sufficiency training," said Ryan McCaw, sustainability and grant programs manager at MWHS. "Energy savings also free up funds to undertake critical capital improvements, enabling us to continue to operate buildings at a high-quality level for low- and moderate-income households for the long term."

If a building owner wants to improve energy performance, the first step is to understand how much is currently used. Enrolling in DCEP's benchmarking program is simple. First, gather data for your building, including the gross floor area of the building, gross square footage of parking areas and energy usage data. (DCEP has a guide explaining how to gather and upload energy usage data). Then, start benchmarking the energy performance of your building using Energy Star Portfolio Manager. Finally, enroll in the benchmarking program by filling out a short enrollment form and follow instructions on how to share your Energy Star score with the DCEP benchmarking program.

Enrolled buildings are recognized on the DCEP website and their data will inform the design of additional building efficiency programs. The next step, of course, is taking action to improve the building's energy efficiency and Energy Star score. Nevertheless, by beginning with the benchmarking program, multifamily building owners are taking important steps to make the city of Denver more efficient and prosperous.

Energy benchmarking is one of USGBC Colorado's 2015-2016 advocacy priorities. Through education and outreach, we support the 2030 District and the DCEP, and recently joined the Coalition for Energy Efficient Denver. In addition, USGBC Colorado aims to advocate for energy benchmarking by directly engaging with local utilities to facilitate greater data accessibility and with building owners and managers to use data in decision-making about capital improvement projects.

You cannot manage what you do not measure, and benchmarking is the first step in good energy management. More information on the DCEP, including how to enroll a building in Denver's benchmarking program, can be found at Denvergov.org.▲

EPA's Energy Star offers alternative certification

Ravi Malhotra
Founder and president, International Center for Appropriate and Sustainable Technology, Denver

There are three major benefits to making a multifamily property green. The first is reduced operating costs from lower utility bills as well as operations and maintenance costs. The second is an increased net operating income and profitability because happier tenants result in reduced turnover and increased occupancy. And third is increased property value from the green upgrades and increased NOI.

The influx of new multifamily properties, most of them built to higher green standards, soon will cause a drop in the occupancy rates from the current highs, and the older properties will need to do something different to attract tenants. One smart solution is to obtain an Energy Star certification because it not only provides the benefits listed above but also because Energy Star is an influential consumer symbol with over 85 percent of Americans recognizing the label.

The Energy Star certification became available to multifamily properties in late 2014 and, perhaps, is the most cost-effective way to show potential tenants that you have a green property (as compared to LEED or other labels). An Energy Star certification could cost as little as $1,000. And because it is a rating system, it expressly states that a property is more efficient than its neighbors.

On average, Energy Star-certified buildings use 35 percent less energy than similar buildings, which, by the way, makes a property more affordable to you and your tenants.

The first step to achieving an Energy Star label is benchmarking, which compares your property against your peers. A recent study by the Environmental Protection Agency found that benchmarking a building consistently reduced its energy use by 7 percent over three years, at no-cost, because it allows managers to pay attention to the energy and water consumption and react to negative trends.

Financial Value

Fannie Mae rewards multifamily properties that earn the Energy Star certification by providing a lower interest rate of 10 basis points. This means that if the market rate is 5 percent, then the Energy Star-certified multifamily property will receive its loan at 4.9 percent. In addition, Fannie Mae will increase the size of the loan, typically by 5 percent, because it factors in the energy and water utility cost savings as lower operating costs.

EPA created Portfolio Manager, an online tool to measure and track energy and water consumption. The manager provides a secure online environment to log multifamily property data and obtain a rating for your property – all for free. The manager can benchmark the performance of one building or a whole portfolio of buildings. Also, it quantifies the benefits from the green upgrades made to a multifamily property.

The most energy-efficient, i.e., top 25 percent of U.S. buildings, earn the Energy Star certification. This means your property has to be in top quartile to be certified as Energy Star. In other words, your building must have an Energy Star rating greater than 75.

Base Certification Requirements

1. Multifamily building must have more than 20 units and at least 75 percent occupancy.

2. Building attribute data such as square feet, utility consumption, etc., must be for the whole building. You cannot get an Energy Star certification for a portion of the building.

3. The primary function of the building must meet the definition of multifamily. Mixed-use properties typically are not eligible.

4. Building attribute data must be correct and complete. As the old adage goes, garbage in, garbage out. Inaccurate or incomplete data will not get a building any rating or certification when an independent third party completes the required verification.

5. Must be a single structure as defined by EPA; a structure in which the exterior walls are not substantially and indivisibly connected to any other structure. For example, a multifamily property with an atrium connected to a retail center, all on the same heating, ventilating and air-conditioning system, will not qualify.

6. Each building is independently rated and certified. This means a property with eight buildings will receive eight individual Energy Star certifications.

7. Include all of a property's floor area in its Energy Star application including the outside walls.

EPA allows exclusion of actual energy consumption of structures that are exterior to and not related to the operation of the building, such as parking structures or retail outlets.

Steps for Certification

There are five steps to achieve certification. First, set up a portfolio manager account, which requires basic property information, including name, address, square feet, etc.; selection of the correct property type and use details; and the last 12 months of utility data. After this, the building will receive an Energy Score.

If the Energy Score is above 75, the building can move forward with the certification requirements by completing and submitting the online application to have a professional engineer or architect conduct a site visit and audit. After doing so, you must respond to any clarifications from the EPA, and then help the engineer or architect complete his site visit and audit, and answer his questions.▲

Q&A about multifamily construction challenges

The challenges facing the construction industry may seem daunting in a climate of growth and exciting innovation. As we continue to have conversations around these challenges, we see a few constant themes such as meeting quality challenges, seeking skilled personnel, lacking affordable for-sale units, and being able to expand across regional and global markets.

Keo Frazier
Director of marketing, Shaw Construction, Denver

In the following interview, David Thorpe, vice president of Shaw Construction, addresses the current challenges in multifamily construction and offers solutions to those challenges for general contractors, subcontractors, vendors and the real estate community.

Q: What is the greatest challenge of multifamily construction right now?

A: It's a supply and demand challenge. There's a lack of available, trained construction personnel; high and unpredictable pricing due to the reduction in competition; and schedules are delayed and quality is scrutinized. The growth in the demand side is outstripping the growth in the supply side.

Q: When do you see the gap closing between rental and for-sale units?

A: That will depend on when the legal environment will allow our clients to feel comfortable building for-sale condominiums. There are people who would love to develop for-sale product, but the legal environment is creating an array of barriers to make that a realistic possibility for developers who are ready to create high-quality products.

Q: How is Shaw responding to the civic agenda for more affordable housing?

A: We have been an active participant and leader in affordable housing for many years. We continue to work with developers, architects and engineers who know the market, products and the best delivery methods that work for the affordable housing industry.

We prefer to work with clients who are on the leading edge of adaptation and innovation. Thus, we aspire to and are eager to engage more work in the affordable arena. Some of our best projects are those that push us to adapt with the changing needs of the market.

Our latest project with the Denver Housing Authority is a multifamily affordable housing community called Mariposa in Denver's La Alma/Lincoln Park neighborhood, part of the DHA's plan to reinvent the area. The community received LEED Platinum certification, which is hard to achieve for a residential building. We are proud of the work we did to make sure the building fit within the guidelines of LEED certification, and that we could work on a project that will make such a positive impact in Denver's affordable housing market.

Q: What key learnings can the industry garner from this current construction climate?

A: First, adapt as quickly as possible. We understand the dynamics of the market demand change. We best serve our project teams when we quickly come to terms with changing environments and work collaboratively to adapt with our developer clients and our design team partners.

Second, give our best assessment of true cost changes – as everyone knows they have been escalating and, at times, rapidly – even if it is not what our developer clients or our design team partners want to hear. Projects that seek to deliver on last year's costs are the projects that find their way to a troubled budget and pro forma.

Third, maintain strong subcontractor and vendor relationships. Bring in additional expertise to assist subcontractors and vendors on how to deal with the challenges of the shortage of skilled labor.

Q: What do subcontractors need to bring to the table to compete in this market?

A: Our best subcontractors understand everything mentioned above, and they work hard to train skilled labor, retain their best skilled labor, plan their work carefully, and keep a good balance between their available resources and the amount of work they want to take on. They are good planners and strategic project task masters.

Q: What do vendors need to offer to compete in this market?

A: Strong customer service skills. Our best vendors understand they are vital to the success of our subcontractors and, by extension, the project. They carefully plan, focus on quality control, provide good product information and proactively provide insight to the project team relative to the best means and methods of delivery, storage, installation and maintenance through the life cycle of the project.

David Thorpe

Both subcontractors and vendors must garner expertise at global procurement and have access to projects produced globally to be competitive.

Q: Is Shaw Construction seeing similar trends across the Rocky Mountain region and, if so, what are they?

A: We are seeing similar trends across the country. Denver, and Colorado as a whole, is one of the fastest-growing markets, but these dynamics largely are true to varying degrees across the nation. Regionally the challenges may be bigger or smaller relative to supply and demand balance.

In conclusion, it is important for us to listen, learn, adapt, communicate and masterfully execute as a collective community from inception to completion for the multifamily residential construction environment to flourish in both for-sale and for-rent affordable product types.▲

Developers see benefits to sustainability

As the housing market revitalizes in Denver and around the country, green initiatives are more readily recognized and celebrated. The U.S. Green Building Council suggests that in the next three years, residential green construction spending will nearly double.

Although some would assume this growth is isolated to single-family residential projects because of the increased initial investment and longer return schedule for multifamily properties, a SmartMarket Report by McGraw Hill Construction projects 79 percent of multifamily properties will be built using green initiatives by the year 2018. That's a 25 percent increase from the 54 percent reported in 2014.

We've seen this significant growth in green-building initiatives for multifamily properties firsthand. We were honored with the opportunity to work with some of Denver's most forward-thinking developers to bring sustainable design to multifamily properties across the Denver metropolitan area.

For example, AMLI Residential has built a brand on using sustainable design practices in its multifamily properties and consistently pursuing LEED certification.

"Pursuing LEED certification at all new AMLI projects is a central tenet of our company culture and development thesis," said Andrew Mutz, senior vice president of development. "We believe it provides for a healthier living environment for our employees and residents and, quite simply, is the right thing to do."

Jared Carlon, PLA
Principal, Norris Design, Denver

Brad Haigh, PLA
Principal, Norris Design, Denver

AMLI's most recent LEED certification came in partnership with Norris Design at AMLI Riverfront Park, which achieved LEED Gold. This continued distinguished effort is a great success and "has helped the communities we develop outperform expectations while reducing the carbon footprint of both AMLI and all the residents living at our properties," said Mutz.

The largest barrier to more green initiatives in multifamily communities is the initial, higher development cost due to specialized materials. This hasn't stopped all local developers, however.

"Even though the first costs are significantly higher, the benefits obtained in tenant retention and overall occupancy affordability help to offset those costs," said David Pretzler, president at C&A Cos.

"Building sustainable communities helps us maintain a healthy bottom line through higher occupancy and rent levels in declining markets because a large part of our affordability in comparison to our competitors is obtained through lower heating, cooling and water bills for our residents," said Pretzler.

Photo courtesy Norris Design

The Grove-Stapleton features a rain garden that filters water from building runoff before it's deposited into the storm water system.

The trade-off Pretzler suggests between higher initial costs and increased tenant retention due to competitive utility costs is a major motivator for conscientious developers to uphold sustainable design practices in their builds.

C&A Cos. and Norris Design completed the Solaire development in Brighton, which is the largest geothermal installation at a multifamily community in the nation. After the development's success in reducing its carbon footprint and the utility obligation of its residents, C&A Cos. is continuing this effort in more of its upcoming properties.

Aside from the potential, long-term financial benefit, many developers, architects, engineers and construction professionals are recognizing and finding the use of sustainable design practices offers a sincere fulfillment of innate moral obligations to protect precious resources.

The Grove-Stapleton is one of those realizations. This property, developed by Zocalo Community Development, features a rain garden that filters water from building runoff before it's deposited into the storm water system. Small steps such as this can

Please see 'Sustainability,' Page 31

Developer Spotlight

Renters seek amenity right outside their window

A concierge, pet spas, bowling alleys, rooftop pools, barre studios and drop-in workstations: Although these may sound like the features of a luxury resort, this is actually the new reality for many recently built multifamily communities. Gone are the days when having a washer and dryer in your unit is considered a viable differentiator to market to potential tenants. However, in the increasingly competitive apartment market, one of the most desirable amenities is more efficient to deliver than developers may think.

With the rise of rental demand over the last five years, the school of thought in many markets is centered on delivering a mega-product that creates a community within the complex laden with extravagant amenities. Although fun in theory, this requires larger infill sites and increased developer investment, and it swells already record-high rental rates.

However, as we've experienced, there's a second school of thought in which developers can be competitive in this landscape without joining the so-called amenities war. There is a sweet spot for the development of smaller apartment buildings that add to the surrounding neighborhood rather than create it.

In the past five years, we've delivered six projects centered on this philosophy. Each building was developed on a smaller urban infill site, close to mass transit and under 100 units. The most important amenity for these tenants? Living in the heart of a flourishing downtown area.

Jay Hardy
Senior vice president of development, Brinkman Partners, Fort Collins

With the ongoing investment municipalities are making in creating thriving urban areas rich with eat, shop and play options, there is a lessening need for multifamily communities to deliver on all of these fronts. When you root a living experience in the midst of an established and vibrant community, you decrease the necessity to create that community. Rather than tying tenants to the offerings of their specific building, the tenants are given the opportunity to enjoy the surrounding amenities and culture of their city.

In following this approach, developers can make better use of urban land supplies and existing infrastructure. This allows for strong infill redevelopment with less potential barriers on site size and parcel configuration and more focus on functional form. This philosophy supports the development of land that would otherwise be restrictive and, even more so, supports the businesses and culture of these urban areas. When we provide the "live" element, businesses then get the advantage of residents stimulating the eat, shop and play options they are providing.

From 2011 to 2014, we worked closely with the city of Loveland and the Loveland Urban Renewal Authority to deliver The Gallery Flats, a 66,000-square-foot, 66-unit, 100-bed apartment in the center of downtown Loveland. This project was the first catalyst of a larger plan to enhance the vitality of the downtown culture while creating an urban living option for residents. With its completion, more citizens can live the downtown lifestyle and businesses received an automatic boost from the newfound customer base living at their doorstep.

The Gallery Flats is a 66,000-square-foot, 66-unit, 100-bed apartment in the center of downtown Loveland that was the first catalyst of a larger plan to enhance the vitality of the downtown culture while creating an urban living option for residents.

"The city of Loveland had a vision to revitalize our downtown through the creation of a project that supported a walkable and vibrant lifestyle," said Cecil Gutierrez, the mayor of Loveland. "To achieve this, we were committed to finding a high-quality developer to serve as a partner to bring this vision to life. Through the efforts of the city, Urban Renewal Authority and Brinkman Partners, the end product did just that. The Gallery Flats has created a high-density redevelopment that enhances the downtown culture through an active urbanism that stimulates the existing dining, shopping and art economies."

In today's rental market, there is room for both schools of thought; it's up to developers to decide in which arena they can be most successful. There's still a healthy market of residents seeking larger, amenity-driven complexes. On the flipside, there also is a strong pool of renters who want to take advantage of the amenities that they can see right outside their window.▲

Amenities

Have your apartments gone to the dogs?

With the U.S. Census reporting homeownership at an historical low of 63 percent, more people are living in apartments than ever before. Colorado is no exception. Which begs the question, exactly who is living in these apartments?

According to the APPA National Pet Owners Survey, 54 percent of households with pets own dogs, and Colorado is ranked 13th for states with pet ownership, according to the American Veterinary Medical Association. With many renters considering their pet a true member of their family, the apartment industry must embrace the need to cater to dog owners.

Michael Brown, CPM
Division vice president, Camden Property Trust, Denver

We own and operate nearly 2,000 apartments in Colorado and average a whopping 63 percent of dog owners in the Denver metro area alone.

To best serve residents with dogs, many apartment communities have beefed up pet-friendly amenities by installing "Bark Parks" that range from simple to the extravagant. Amenities may include pet waste stations, benches, washing stations and playful workout equipment coined as "agility equipment."

Photo courtesy Camden Caley
Catering to pet owners is becoming an increasingly important part of apartment amenities.

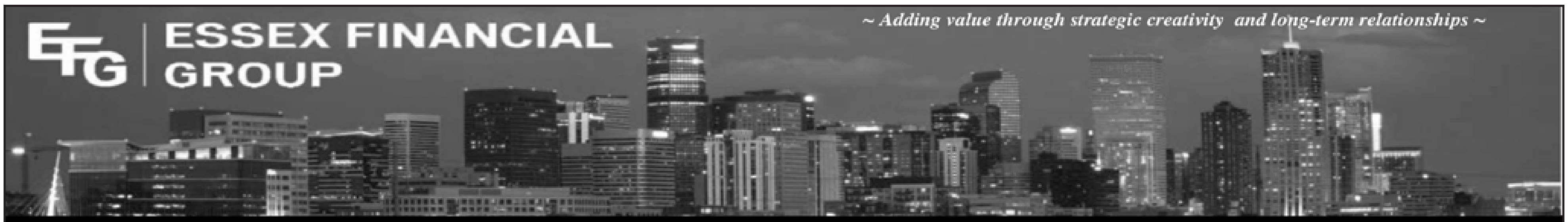
The pet-owner lifestyle must be embraced even for people living in an urban high-rise. Some Colorado high-rise apartments offer play areas with specialized waste management systems for owners to exercise their dogs. Other apartments offer walking, daycare and grooming services. Some properties offer a "Porch Potty" amenity that brings a patch of real grass to the patio, along with a fireplug and a miniature drainage system, which can be purchased online as well.

To further embrace the trend, BSB Design of West Des Moines, Iowa, is designing floor plans with "Pet-Pods," an area specifically set to kennel or wash your dog within an apartment unit. And some communities are hiring a service to pick up those little deposits that pets leave when owners are not responsible for picking up after their dog.

Other apartments are beginning to use services like Poo Prints, a DNA identifying service to track the dogs and their owners who are registered and forgot to pick up their deposits. Once identified, owners are notified and, if persistently in violation of policies, may be in default of their lease terms and, in some cases, evicted.

Of course, all these amenities have a price. Pet deposits range from $150 to $500 per pet. Monthly pet rent may range from $25 to $50 per pet per month, which makes sense because pets do cause more wear and tear on apartments interiors and throughout the community. Building owners and managers must appreciate dog owners, not just for the joy our furry friends bring to the communities, but also because pet owners tend to stay longer than those without pets, according to a report from the Foundation for Interdisciplinary Research and Education Promoting Animal Welfare.▲

Photo courtesy RockVue Apartments
Amenities may include pet waste stations, benches, washing stations and playful workout equipment coined as "agility equipment."



Quarterly Financing Overview Q3 — **www.EssexFG.com**

OPTION	TYPE	EXPLANATION	REQUIREMENTS	USUAL SOURCES	AVAILABILITY	RATES/SPREADS	LTV/COVERAGE	LENDER FEES (POINTS)	TERM (YRS)	AMORT (YRS)	COMMENTS
LIFE INSURANCE COMPANY	Debt	Non-Recourse, longer-term fixed rate loan	Creditworthy borrower and a stabilized, well-maintained property of "B" quality or better	Life Insurance Companies, Pension Funds	Excellent	125-200 bps over the comparable US Treasury	Up to 70% LTV; minimum 1.25x DCR	Typically limited to a processing fee	5-30 Years	25-30 Years	• Non-Recourse • Excellent source for long-term debt • Flexible prepayment penalties available • At right leverage (~60%) lenders can do Interest Only
CONDUIT	Debt	Longer-term fixed rate loan	"A" to "C" quality property, Experienced Owner	Investment Banks and/or specialty lenders	Excellent	190-250 bps over SWAPS	Up to 80% LTV (75% with cash out); minimum 1.25x DCR	0	5 - 10	I/O up to 10 years, then 30	• Full proceeds in secondary/tertiary markets • 3 or more years interest only
BANK	Debt	Shorter-term, fixed and floating rate loans	Strong borrower and personal guaranty	Banks	Excellent	225-250 bps over bank cost of funds	Up to 75% LTV	1/2 - 1	Up to 10 Years Fixed	Interest Only to 25 Years	• Recourse (non-recourse available at low leverage, 60% and less) • More flexibility with shorter term and second source of repayment • 10 year fixed rate loans becoming less available
CONSTRUCTION PERMANENT LOAN	Debt	Floating Rate construction loan can be converted to fixed rate permanent loan at borrower's option	Well located Property, significant pre-leasing and creditworthy borrower	Banks, some insurance companies depending on deal size and credit worthiness of pre-leasing	Good	LIBOR + 150-250 bps	70% - 75% 1.25 - 1.30x DCR	1/4 - 1	5 - 20	I/O up to 3 years, then 25 - 30	• Typically recourse during construction term • LTC generally may not exceed 85%
BRIDGE LOAN	Debt	Shorter term for acquisition and/or repositioning	1.00 - 1.10 DSC at closing	Specialized finance companies, banks, some insurance companies and opportunity funds	Excellent	LIBOR + 250-600 bps (some w/ floors)	Up to 85% 1.25 - 1.30	1/2 - 2	1 - 5	Interest Only	• Pricing depends on leverage level, property quality, and strength of guarantees (if 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	Investment funds, life insurance companies, private capital and REITs	Adequate	Mezzanine 7%-12%	Up to 85% - 90% of cost 1.10	1 -2	2 - 10	In most cases, Interest Only	• Preferred equity offers higher funding than mezzanine, but at a higher cost • Typically start at 5MM but can start as low as 1MM when paired with senior position
JOINT VENTURE	Equity	Equity source provides up to 95% of the total equity	Experienced sponsor with a high-quality property / development in good locations	Life insurance companies, pension funds, REITs and opportunity funds	Good	Return and yield requirements vary by property	N/A	0 - 1	Up to 10 Years	N/A	• Various structures available • Sponsor's equity pari passu with JV equity
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
CF - Cash Flow
LTV - Loan to Value Ratio
LTC - Loan to Cost Ratio
LIBOR - London Interbank Offered Rate
REIT - Real Estate Investment Trust

This information is intended to illustrate some of the lending options currently available. Other options may exist. While Essex Financial Group strives to present this information as accurately as possible, no guarantee is made as to the accuracy of the data presented, or the availability of the terms at time of application. Rates and terms are subject to change. Please contact one of our mortgage bankers for up to date rate and term information.

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Final Thoughts

What is your favorite apartment building vintage?

You might be surprised at the variety of answers you would receive if you asked a group of seasoned apartment owners what was their favorite vintage of apartment buildings to own. It would be similar to the range of answers you might receive if you asked wine connoisseurs what kind of wine they would choose if they could only drink one for the rest of their lives.

We set out to ask this very question: What is your favorite apartment building decade? Following, some of Denver's own multifamily investment gurus discuss their favorite type of vintage apartment community As expected, there is a plethora of compelling viewpoints.

Josh Mullins, director of acquisitions at the quickly growing Laramar Associates, prefers properties built in the 1960s. These buildings offer efficient floorplans because, while small, they feel larger and can command premium rents, Mullins said. One of the other advantages of pursuing 1960s properties is that owners don't encounter as much aluminum wiring, he said.

Bobby Hutchinson of Redpeak Properties, which has a large collection of vintage apartment buildings in central Denver, likes how residents perceive living in an older, smaller property and the intimate community these buildings provide. His favorite decade of vintage buildings is from the 1950s. These buildings have better electrical systems, bigger units and unique masonry construction, he said.

Tom Wanberg
Senior vice president, Transwestern, Denver

John Blackshire
Associate broker, Transwestern, Denver

Cornerstone Apartment Services manages more vintage apartment buildings in central Denver than any other company. The firm groups vintage properties into five classifications to make managing similar properties easier – steam heat buildings; 1940s and 1950s interior hallways; prestressed concrete buildings; 1960s and 1970s interior hallways; and outside walkups.

Jim Lorenzen, president and founder, enjoys the additional details that went into some of the older buildings found in Denver, such as the intricate window treatments, gargoyles, unique masonry work and additional windows. He named the Avon Apartments near East 13th Avenue and Detroit Street as his favorite vintage apartment building in Denver. He appreciates the classic architecture and quintessential two- and three-bedroom layouts that feature a formal dining room, he said.

There was one thing all these experts, and most renters, agree could be improved about the vintage apartment supply in Denver – parking. Nearly every vintage building could use more parking, they said. Other items to consider with vintage properties include lead paint, asbestos and antiquated electrical systems.

Vintage apartment buildings are an investment class all their own, and it takes a seasoned expert to know which are solid and which are lemons. Most brokerage teams have decades of experience working with the best and brightest minds in the apartment industry. Multifamily investment brokers are skilled problem-solvers with access to a wealth of resources and best practices. Teaming up with knowledgeable advisers can open an entirely new investment avenue – and maybe a bottle of wine or two.▲

The Avon Apartments were designed in the Tudor style by F.W. Ireland Jr. and E.W. Parr and built by the Gruber Brothers in 1931.

Hawks

Continued from Page 6

Heights and Asbury Plaza, which set the record for a 1970s price per unit with an average price per unit of $105,545.

• 2828 Zuni, in the desired Lower Highlands neighborhood, sold for over $300,000 per unit.

• The Stanley, a 43-unit renovated building in Capitol Hill, sold for $430.09 per square foot, which is the highest price per sf for a renovated property in the Denver metro area and only $14 less per sf than the record sales price for new construction.

• The Cherry Creek Value-Add Portfolio, a five-property portfolio including Four Mile Flats, Park Point, Vantage Point, Infinity Flats and The Birch, consists of 537 units and sold for $69.5 million.

• Hearthstone at City Center and Bella Terra at City Center sold for $37.6 million and $53.4 million, which is record pricing for 1980s product in Aurora.

• 1600 Ironhorse at Mill Village sold for $50 million as the first Class A+ multihousing sale in Longmont in 15 years.▲

Haag

Continued from Page 8

remain methodical as secondary and tertiary locations are more challenging to fund.

A primary distinction in today's market is that underwriting remains grounded and is focused on already-achieved rents in the market rather than pro forma rents at delivery. This disciplined look at rent levels, combined with rapidly rising land and construction costs, likely will serve to moderate the multifamily construction pipeline beyond the current wave of development scheduled for delivery over the next 24 to 36 months.

Overall, Denver is experiencing tremendous growth in nearly all facets of its apartment market but it is not an outlier. Major cities across the nation are experiencing similar circumstances. Forecasts are unilaterally positive for continued growth in population and employment in the coming years, and with significant changes to homeownership rates remaining unlikely, these projections will allow Denver to continue experiencing strong demand and absorption in the coming years.▲

Stack

Continued from Page 12

a secondary market, we received 15 offers and nearly all were from new private capital buyers to the market. There used to be less competition for assets in smaller markets, but now often we have auction-like bidding for properties, which results in a significant improvement in pricing for sellers.

■ **Optimistic outlook.** While Denver may not be a top 10 metropolitan statistical area in the country in terms of population, it consistently ranks in the top five in regard to other metrics including employment and rent growth. These rankings are important as institutional investors seeking tier-one markets will look at these growth factors as insulation against risk. As some of the largest domestic institutional investors have already paved the way to Denver and Colorado, others will follow. While foreign capital typically invests in large coastal markets, we anticipate the next wave of investment in our market will be from overseas.

There has never been a more robust apartment market for owners and sellers. Interest rates remain low, rents are growing at record levels and, at the same time, investor demand to buy apartments is at an all-time high. This is an interesting and exciting time to be in the Colorado apartment market. While we might bemoan the fact that our daily commute takes longer and skiing on the weekend means we must leave earlier to beat the traffic, one investor remarked that these pains are the price of prosperity.▲

Sustainability

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make a larger difference over time, even on a personal level for the residents of these communities.

"Based on Zocalo's surveys of residents, sustainability can, if done well, create a level of differentiation more powerful than location or even price," said David Zucker, principal at Zocalo.

"The broad concept of sustainability or, more basically, 'conservation,' means different things to different people based on powerful self-descriptors like politics and environmental interests," he said. "Therefore, if we properly convey it, sustainability becomes a means to empower self-actualization."

In this way, Zocalo views sustainable design practice and "LEED certification as tactics, not goals – these are ways to ensure that the foundation of this self-actualization is rooted in third-party review," he said.

Ultimately, the process of incorporating sustainability into multifamily properties isn't, nor will it ever be, concerned majorly with profit, but rather the building of communities that matter.

These communities directly benefit all stakeholders. Developers benefit from greater tenant retention and long-term, increased profit. Tenants benefit from a greater sense of self and preservation as well as lowered utility obligations. And, most importantly, our communities benefit because we leave a substantially smaller carbon footprint as we continue to discover how to build truly sustainable communities.

Using sustainable design practices "is only one of the tactics that support the goal of making belonging to a sustainable community matter," said Zucker.▲