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MULTIFAMILY PROPERTIES Quarterly

The Breakers Resort looks ahead while honoring its past

ARA, a Newmark Co.
The commanding Catamaran Club, a 26,000-square-foot clubhouse, was designed and built to distinguish the community from other apartments in Denver in the 1990s.

by Michelle Z. Askeland

At the heart of conversations about the Breakers Resort with the original developer as well as the new majority owner, the discussions always end up acknowledging an emotional connection to the project. The property, which began with a tumultuous, undefined start, gradually grew into a labor of love and a vision for other multifamily communities to follow. But as the development world caught up, the Breakers Resort must begin its next stage.

This October, the Breakers sold to Pensam Residential and its partners for $350 million. With the original developer, Koelbel & Co., staying on as an owner, a partnership was formed over an appreciation for the site's history and an eagerness for what awaits it as they embrace the latest iteration of a lifestyle community.

"In addition to it being a tremendous investment, there was definitely some emotional connection to the beginnings and the history of the property and wanting to play a part in the future of it," said Mike Stein, Pensam Residential principal.

The Makings of the Breakers

Koelbel & Co. began acquiring the high-density-zoned ground in the late 1970s, during the condominium craze. But as momentum built and plans progressed to develop condos on the land, the market was rocked by the oil crash of the 1980s, said Walter "Buz" Koelbel, company president. To make matters worse, thousands of foreclosed HUD condo units began flooding the market.

The Koelbel company found itself sitting with 190 acres of land, which included a 60-acre lake in a somewhat no-man's land location with no concrete plans. However, a new vision came to Koelbel on a tour of a 1,700 unit apartment property in Atlanta. He realized they could do something similarly unique in Colorado.

Immediately upon returning the Denver, Koelbel set out to find a partner. Most developers didn't want to wade into a joint venture, and with the weak state of the market and a pull of intrigue into what the property could become, Koelbel

Please see Page 26

INSIDE

PAGE 6

Market updates

Construction activity drives a favorable multifamily environment in Northern Colorado.

PAGE 18

Rail of opportunity

Communities along light-rail lines must be designed to encourage a sense of "place."

PAGE 22

Sustainable housing

How to overcome barriers to achieve sustainable and affordable housing.

CONTENTS

Busting myths about the multifamily pipeline — Ray White — 4

Construction activity still booming in Northern CO — Jake Hallauer — 6

Colorado Springs: Investors' market of choice — Tatiana Bailey, Cary Bruteig, Doug Carter — 8

Millennial-driven demand is still growing — Andy Hellman — 10

Multifamily offers reliable investments opportunities — Jake Young — 12

Navigating Section 1031 exchange options — Mindy Koehnen — 14

Prep building ahead of sale to maximize value — Jeff Johnson — 16

Transformative districts planned for new stations — Nathan Sciarra — 18

Longmont continues revitalization with new project — Karen Peterson — 20

How to achieve sustainability in affordable housing — Ravi Malhotra — 22

Managers should take a page from hospitality — Tiffany Sweeney — 24

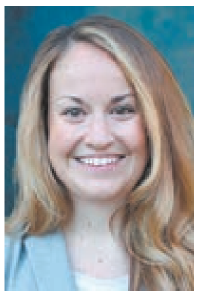
Marketing tactics help differentiate from the pack — Doug Backman — 25

Letter from the Editor

Attainable housing quest

"Anyone who can't get millennials into your community is in big trouble," Tom Clark with Metro Denver EDC told the audience at the CREJ multifamily conference in October.

Millennials make up 24 percent of metro Denver's population, 32.5 percent of the 2 million jobs in the city, and represented nearly 52 percent of the in-migration to the metro area in 2014, according to a report from Metro Denver EDC.



With this influx of skilled workers, you'd imagine the job market is thriving. However, Clark shared one concerning statistic from the past year. In 2015, Colorado was the fifth fastest-growing state for nonfarm job growth. We've fallen to No. 11 through the first half of 2016.

Clark took time during his keynote presentation to link job growth to affordable and attainable housing. He told the audience that opportunities for business recruitment will struggle until we get a handle on home prices, and used Boulder as an example, which saw its median home prices exceed $500,000.

When compared with our competitors, Denver has the highest median home price and has seen the fastest price increases, followed by Portland, Oregon, Austin, Texas, and Salt Lake City. Phoenix, Dallas and Atlanta – other competitive cities to Denver – all fall below the U.S. median home price.

Escalating costs make is challenging for first-time homebuyers to enter the market. I believe it is a common misconception that, as a whole, the millennial population is uninterested in buying homes. Far more would, could they afford it.

However, it also is true that this generation is doing things later in life – getting married, buying a home, starting a family – which is good news for the rental market. And with birth years ranging from 1981 to 1997, there's a whole wave of this generation just entering early adulthood and the rental market, promising a relatively long run of demand.

For all these reason, the multifamily business is booming. In 2016, multifamily projects represents 54 percent of new construction. The 30-year average for multifamily construction is 28 percent, according to Clark. Inside this issue, experts dive further into the debate surrounding the multifamily construction pipeline in the face of all these changing demographics.

Many in the industry already know these generalizations and know that the lack of condominium development is only exacerbating the issue. In a healthy market, 22 percent of the market should be for-sale condos. In 2015, 187 condos were built. Not only is this number extremely low, but also all of these new condos were over $400,000. In a healthy market, condo development can be used as a stepping stone to homeownership. At this price point, it's out of many people's reach.

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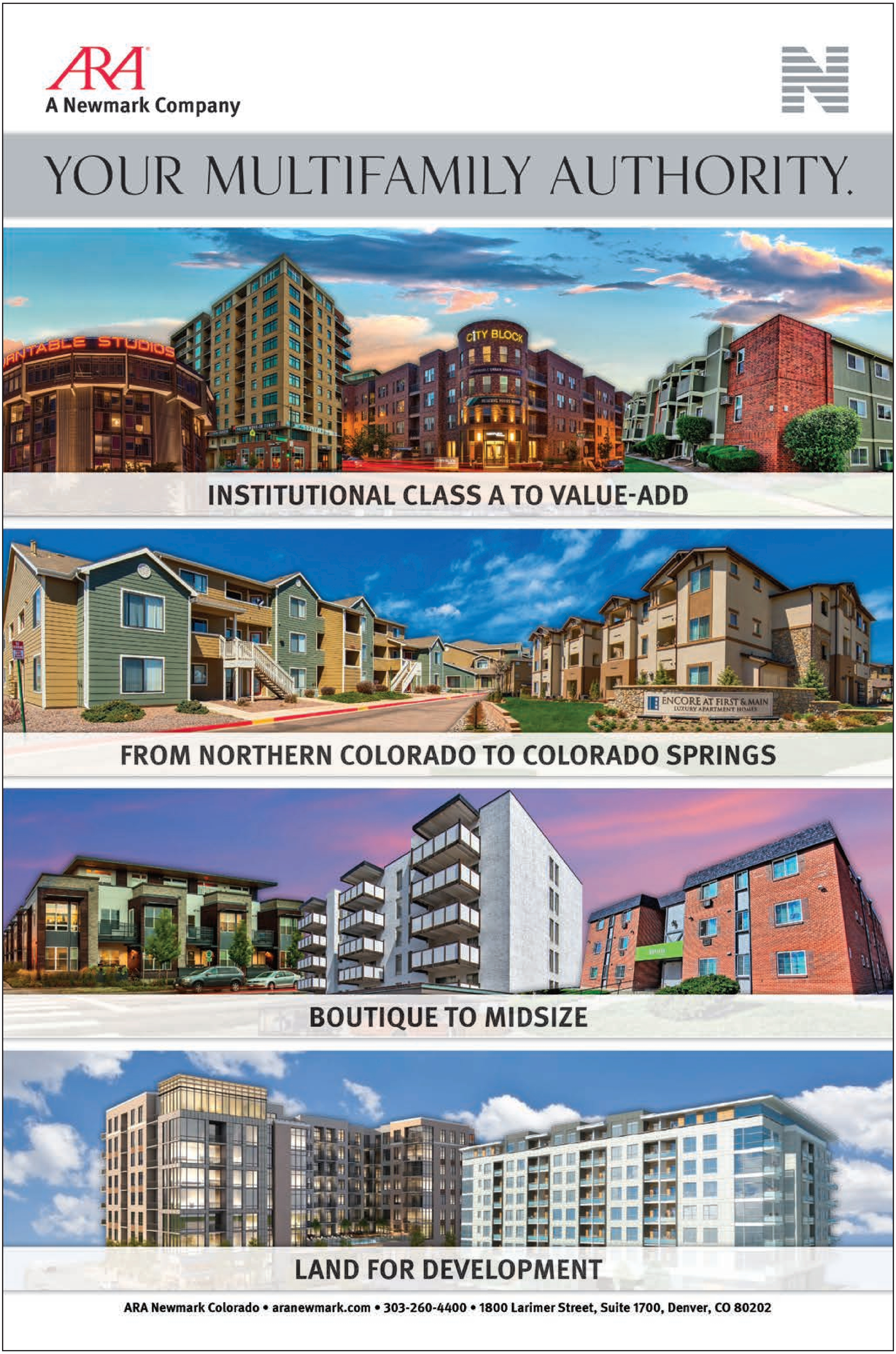
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Market Update

Busting myths about the multifamily pipeline

You've probably seen the cranes dotting the skyline, and you may have even heard that apartment developers are overbuilding for the current population.

As of the third quarter, there were 24,831 multifamily units under construction in Denver and 25,717 in the pipeline. However, in looking at our population forecasts, market dynamics and the current pipeline, I can tell you what JLL's research indicates: Don't believe all of the overbuilding hype.

• **Rising population.** Let's start with our population. It's no secret that we are experiencing a population boom. According to updated estimates from the U.S. Census Bureau, Colorado's population grew by nearly 102,000 people in 2015.

Ray White
Vice president of multifamily sales, JLL, Denver

Denver was ranked No. 1 in U.S. News and World Report's 2016 Best Places to Live and No. 1 on Forbes' list of Best Places for Business and Careers in 2016, no doubt due in large part to our growing pool of highly educated labor. The city ranks as the fourth most-highly educated workforce in the nation.

With all that educated talent flooding into the Denver area, businesses are understandably following suit. Denver is expected to add 130,000 net new jobs by 2020.

• **The millennial factor.** We know the population is growing, but from a multifamily development perspective, it's important to look at the demographics of our new neighbors.

We saw an average net annual gain of 12,682 millennials every year between 2009 and 2014. All signs indicate that Denver will remain popular among millennials in the near term. Earlier this year, Denver ranked third among U.S. cities as the place Americans under 35 are moving to, according to the Mayflower Co.'s annual survey.

This demographic needs housing but, generally speaking, millennials are less able to buy into the city's increasingly expensive single-family market. Between student loans and less-established credit histories, it is simply harder for them to qualify for a mortgage.

That means we're looking at a large – and growing – population of people who need housing options. With the median home price in Denver approaching $400,000, renting often is the only option.

• **Lack of affordable housing.** Yes, Denver has been on a bit of a building spree the last several years, but here's the rub: We've just been playing catch up – and probably not fast enough.

When construction ground to a near standstill early in the recession, we stopped adding the necessary housing units to keep up with our growing population. In fact, since 2012, Colorado is about 55,000 units short (not counting vacant units that were absorbed).

Now consider that we added just 25,143 new residences in 2015.

It's perhaps not surprising then that Denver, Boulder and Fort Collins were just ranked No. 1, 2 and 3, respectively, in HousingWire.com's ranking of housing appreciation by city.

This is great news if you're an owner, but it's a concern if you're a member of the city's growing population of renters we mentioned earlier. It all means there is a serious lack of attainable housing options available to meet continued demand.

The city of Denver is

Please see 'White,' Page 28

Market Update

Construction activity still booming in Northern CO

Northern Colorado continues to benefit from a favorable environment for apartment development. Rents continue to increase, although not at the same pace that the market experienced from 2013 to 2015, when rents for Class A, institutional-quality/size communities increased nearly 30 percent, or 10 percent annually. The rental rate increase has slowed to closer to 5 percent annually, from 2015 to 2016, which still is a strong rental rate growth. Demand appears to remain strong for Class A communities, with an occupancy rate of nearly 95 percent for stabilized properties in Fort Collins and Loveland.

Jake Hallauer, CCIM
Vice president, Chrisland Real Estate Cos., Fort Collins

The occupancy rate remains strong and rental rates continue to grow, despite three market-rate, institutional communities in the lease-up phase or recently reaching stabilization. Those communities include:

- **Gateway Apartments.** The apartments includes 254 luxury apartments located within the town of Johnstown. The community was constructed on a 10.5-acre site within Twenty-Five Thirty-Four, a 542-acre mixed-use, master-planned community at the southeast corner of Interstate 25 and U.S. 34.

As of October, Gateway is approximately 92.5 percent occupied. The amenity package includes a pool, clubhouse, bocce ball courtyard, hammock garden and barbeque area. Additionally, the community will benefit from the close proximity to Johnstown Plaza, a major retail center where Scheels is under construction on a 250,000-plus-square-foot store, which is projected to open in September. Chrisland brokered the land transaction for this community.

- **Crowne at Timberline Apartments.** Construction continues on this community, located on a 16.9-acre site, just over 1 mile south of Harmony Road, with frontage on Timberline Road in Fort Collins. The complex includes a total of 285 standard apartment units within six buildings, and 25 townhome-style apartments in seven buildings. The community is unique in that it is the first market-rate community in Northern Colorado, outside of a downtown area, to have elevator-served apartment buildings. Leasing started in May, with move-ins starting in June. As of October, the community is approximately 16 percent occupied. Chrisland brokered the land sale for this community.

- **Bristol Pointe Apartments.** Situated on a 12-acre site at the southwest corner of South Taft Avenue and 16th Street in Loveland, the community includes 220 units, within 11 buildings, with square footages ranging from 515 to 1,300 sf per unit. As of October, the apartment is approximately 95.5 percent occupied. The amenity package includes a clubhouse, child wading and lap lane pool, fitness center, media room and conference center.

In addition to the communities that are in or completing the lease-up phase, there are multiple new communities under construction. A summary of several of those communities follows.

Chrisland Real Estate Cos.
The new Gateway Apartments in Johnstown is 92.5 percent occupied.

- **Cycle Apartments.** Loveland-based McWhinney is developing a 405-unit apartment community, located adjacent to the newly redeveloped Foothills Mall in midtown Fort Collins. Construction commenced in July. Cycle will consist of 18 three- and four-story buildings. The amenities serving the community will include a clubhouse, fitness center, game room, demonstration kitchen, social lounge, golf simulator, bike and ski repair area, swimming pool and collaborative office.

The unit mix will consist of approximately 20 percent studio units, 60 percent one-bedroom units and 20 percent two-bedroom units. The first units are projected to be delivered mid-2017. Projected rents range from $1,200 to $1,600 per month. McWhinney is targeting the urban professional and baby boomer demographics, according to reports.

- **Uncommon.** Located at the southeast corner of College Avenue and Olive Street, Uncommon is a mixed-use community consisting of 120 apartment units with ground-floor retail in a six-story building with subterranean and surface-level parking. The project broke ground in April and is projected to be delivered mid-2017. The developer is CA Ventures of Chicago. The subterranean parking structure is a unique feature in Northern Colorado, as other urban apartment communities have been podium or surface parked to date.

While there are a significant number of additional projects in the pipeline in Northern Colorado, there are only a few that I expect to break ground in 2016 or early 2017. Lengthy entitlement processes, continually rising construction costs and development impact fees, and slower construction timelines due to lack of labor availability likely will contribute to a more steady pipeline of new construction, rather than the glut of new units that many are concerned about. With that said, I expect a steady supply of new units to the market, sustained high occupancy rates and reasonably strong rental rate growth in the next 12 to 18 months.▲

Market Update

Colorado Springs: Investors' market of choice

Multifamily investment in Colorado Springs will continue to lure new investment and acquisition from large market investors. Denver apartment investors, in particular, see Colorado Springs apartments as a "safe haven" from the risk in their potentially overbuilt market. Colorado Springs has been experiencing strong job growth across various sectors and will continue to have strong population growth, both of which bode well for multifamily investment.

Apartments will respond with historically high occupancy and rent growth. At present, Colorado Springs apartment rent growth is accelerating, currently about 9 percent. Vacancy rates have fallen below 4 percent.

Conversely, apartment vacancy is increasing in Denver and Fort Collins, Loveland and Greeley. Rent growth has slowed in those markets. Still, Colorado Springs rents remain considerably below Denver, which is part of the reason forecasts are positive.

Additionally, average rent compared to median income still is reasonable in Colorado Springs compared to Denver. This has, in fact, lured many people to reside particularly in northern Colorado Springs while working in Denver, where salaries are significantly higher. Colorado Springs rents by comparison are still affordable and have room to move higher, which is much of the reason that multifamily construction is robust and forecasted to continue on its current expansionary path.

• **Population and job growth.** El Paso County, which holds the vast majority of the population for the Colorado Springs metropolitan statistical area, has had population growth of 1.9 percent since the early 2000s. This is roughly double the population growth rate of the U.S. as a whole. The past growth will be eclipsed by future growth – El Paso County is one of four counties in the state projected to have a population increase of at least 300,000 people between 2010 and 2040, according to the State Demography Office.

Tatiana Bailey, PhD
Director, UCCS Economic Forum, Colorado Springs

At the current pace of growth and with the given age composition, El Paso County needs approximately 5,400 new jobs to be created per year. The region was woefully behind this target number throughout all of the 2000s except for 2006. Throughout the recession and during the early years of the anemic recovery, there were significant job losses.

However, in 2013 and 2014, the region met that target and exceeded it in 2015, which brought 8,004 new jobs to the region, according to the Bureau of Labor Statistics. The positive trend continues with 8,283 new jobs from first-quarter 2015 to first-quarter 2016.

The new jobs primarily are concentrated in relatively higher-paying sectors: health and education services, professional and technical services, and construction. This trend should continue. The Colorado Department of Labor projects the highest rates of employment growth to be in these sectors from 2015 to 2025.

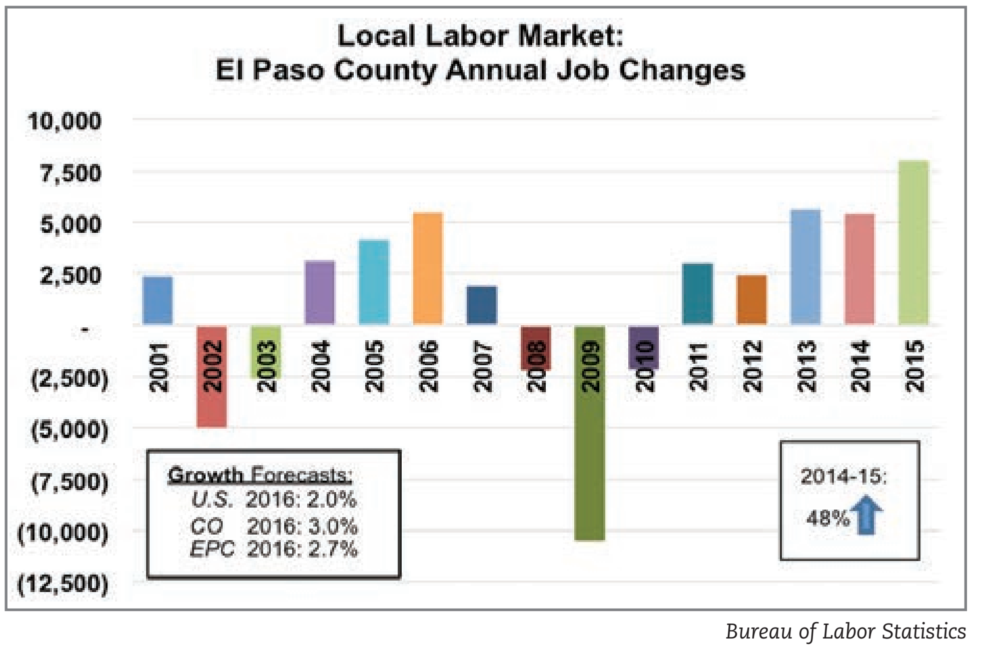
Cary Bruteig, MAI
Principal, Apartment Appraisers & Consultants | Apartment Insights, Denver

Furthermore, the September median salary in Colorado Springs for current job postings is now higher, at $66,425, than the Colorado median, at $60,025. The current regional median is a whopping 20 percent higher than it was in April 2015, so the higher regional salary is a relatively recent phenomena. The healthy job growth and concomitant salary increases have large implications for all residential real estate, including multifamily.

Doug Carter
Managing director, Sperry Van Ness | Apartment Insights, Colorado Springs

• **Fort Carson.** The common perception is that the Achilles' heel of Colorado Springs is that it is susceptible to military

Please see 'Springs,' Page 31



Bureau of Labor Statistics

Market Update

Millennial-driven demand is still growing

Andy Hellman
Senior managing director, ARA Newmark, Denver

Demand for rental housing is not slowing and, for the next several years, the industry will continue to thrive, especially in Denver. I maintain that there is more demand forthcoming than the Mile High City has previously experienced. The prosperity of Denver's apartment market can be narrowed down to the main indicators of population and population growth. Denver experienced a substantial amount of growth as of late, yet the rental market has not realized much of this growth.

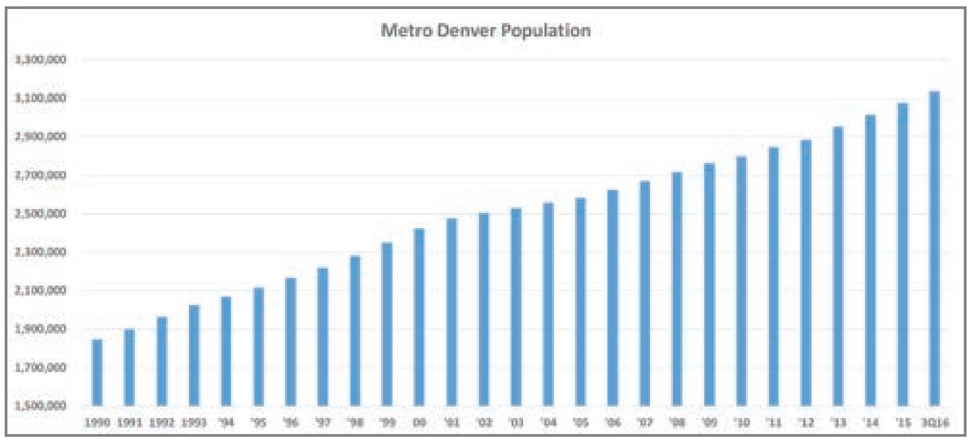
Denver has been in the top-five cities in the country for population growth for a handful of years, helping make Denver a top apartment market. However, there is a portion of Denver's population that still remains untapped. This yet-to-be unleashed demand factor is living with its parents currently.

The overall impact of the millennial generation has been well documented. Many of these individuals between the ages of 18 and 34 are still – or back – living at home, and there are a great deal of them. The U.S. Census Bureau's American Community Survey recently noted that in Colorado, 24.6 percent of millennials are living at home. With the number of millennials in Colorado approaching 1.3 million, this equates to roughly 320,000 potential renters in Colorado who have yet to enter the market and most live in metro Denver. To put this number into perspective, metro Denver's apartment inventory currently totals 320,000 units.

The millennial generation has transformed traditional ideas of how and where to live and has overtaken baby boomers in total population in metro Denver. Millennials are not looking to settle down like previous generations; the average age of marriage is 28, where it was 21 in 1960, and the average student debt of a 2015 graduate is $37,172. Apartments offer the freedom for the desired lifestyle, including travel, no home maintenance and no long-term commitments to a specific location. This is not another typical cycle. Instead, this is the beginning of the reshaping of how young Americans live.

Today, the average cost of a home in metro Denver is $425,921, making home purchase inaccessible for many. The American dream no longer consists of the suburbs, two-plus children, a golden retriever and a white picket fence. For many, priorities of how and where they live centers on convenience, socialization and overall lifestyle. Generations coming of age today are defining the new American dream, and it is constantly evolving. No other genre of real estate is better prepared for these adaptations than apartments.

The largest and, potentially, most-influential generation, Gen Z, has just begun to make its mark on society. This group of after-millennials (ranging in age from roughly 4 to 17) is beginning to graduate from high school and is more in touch with technology than any group before it. This generation will be more mobile, more adaptive, more conscience of lifestyle and will continue the evolution of the housing world that millennials started. In addition to new requirements for future homes (net-zero emission development, excellent locations, built-in tech, etc.), we will see an even more drastic manipulation of the historical trends that developers have used to help determine what and when to build.



ARA Newmark

Population in metro Denver has steadily increased in Denver since the early 1990s.

Historically, absorption in Denver has been plus-or-minus 4,500 units per year in relation to roughly the same number of units built per annum, or a 1:1 ratio. This, however, is changing. We are now seeing higher demand, more in line with 1.25 units absorbed for every one unit built. This means that demand is exceeding supply on a historical basis by nearly 1,000 units per year. I argue that this trend is both very real and is working its way north of that number with every year that passes.

The vacancy rate in metro Denver was expected to increase to more than 6 percent for two years now, but this has yet to happen. Today, we remain at a 5 percent average vacancy rate. There are a number of influences that contribute to this, but what will remain at the core of demand is population and population growth. Denver is an amazing place to live, it is an internationally recognized destination and we are experiencing unprecedented growth.

Our city is adapting to the shifts in culture and influences injected from new and maturing generations. Organically, Denver has what many cities are struggling to create – quality of life. The amount of construction in Denver today is a necessity. From a historical perspective, the total number of units under construction can appear startling; however, in reality, housing is being created for that silent populous waiting to rent.▲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Investment Market

Multifamily offers reliable investment opportunities

Jake Young
Vice president, investment properties, multifamily, CBRE | Capital Markets, Denver

Denver's robust multifamily market continues to defy expectations as construction and rent growth remain on the rise headed into 2017. After four years of double-digit rent growth, developers have responded with expansive projects across the Denver metropolitan statistical area that are adding over 20,000 units to the existing stock. Rent growth in core areas of development has come off its peak as new supply is delivered, yet absorption and rent growth remain extremely positive. The result has been a record-setting year for prices and transactions with over $6 billion expected to trade in 2016 across the Front Range.

This trend is not limited to Class A and Class AA properties. It's already common for older, value-add multifamily properties in the area to sell well above $100,000 a unit, according to CBRE Research. Likewise, new product in core locations can be seen approaching sale prices of $400,000 a unit with a recent outlier north of $500,000 a unit.

Furthermore, market forces behind this phenomenon are not only spurring development across the Denver metro area. These trends are representative of a larger shift that is impacting neighboring markets like Fort Collins and Colorado Springs.

Major population growth is just one of the many factors solidifying Denver's status as a premier location for multifamily development. Denver and its neighboring markets attracted 78,000 new residents in 2015, pushing the region's population to 4.5 million. Moreover, the region saw the addition of 70,000 jobs over the same time period.

CBRE

> The result has been a record-setting year for prices and transactions with over $6 billion expected to trade in 2016 across the Front Range.

Equally notable are the region's unemployment rates, which reliably fall below the national average in Denver (3.1 percent), Colorado Springs (3.8 percent) and Fort Collins (2.9 percent). As a result of this population and job growth, Denver boasts the seventh-fastest-growing economy of the 100 largest multifamily markets in the U.S.

Future population growth in Colorado will play a significant role in multifamily trends. In fact, Colorado already is the second-fastest-growing state in the country. Over 270 consumers relocate to Colorado daily and an overwhelming majority of these new residents are drawn to Denver. Over the next 25 years, Denver's population is projected to increase by more than 50 percent, according to American City Business Journals.

Please see 'Young,' Page 28

Lending

Navigating Section 1031 exchange options

Mindy Koehnen
Vice president, BankFinancial, Denver

Most market participants are familiar with the concept of a like-kind exchange pursuant to IRC Section 1031. In a Section 1031 exchange, an investor may defer income taxation of the realized gain on the sale of a property by investing in a replacement property. There are numerous eligibility, identification and timing restrictions with which exchanges must comply – but careful planning and coordination can result in a smooth process and effective results. This article examines an example of how an investor can achieve a significant portfolio transformation using a lesser-known capability within the Section 1031 exchange regulations.

The investor owned an apartment building project in an adjacent state for many years. Based on its strong cash flow, the apartment building project has a current valuation of $8 million, with net debt of $3 million. The investor's goal is to reduce the geographic portfolio footprint in order to make its operations more efficient; the plan is to execute a Section 1031 delayed exchange.

In a Section 1031 delayed exchange, the property intended for sale is the relinquished property. The property to be purchased is the replacement property. The investor engages a qualified intermediary (in this case, 1031 Corp in Pennsylvania, a highly experienced 1031 exchange specialty firm) to conduct the exchange. (See illustration.)

In a Section 1031 exchange, it is critical that the investor receives no cash or property other than a like-kind replacement property. Therefore, in a Section 1031 delayed exchange, the proceeds of the sale of the relinquished property go directly to the qualified intermediary. The qualified intermediary then uses the proceeds as part of the funding to acquire the replacement property within the 180-day period.

Now let's assume the investor locates a purchaser for the apartment building project for $10 million. As part of its §1031 express loan program, we (the bank) provide a loan commitment to the proposed purchaser with a 180-day closing window, thus assuring the seller both the proceeds of the sale and the timing of the sale for Section 1031 exchange purposes.

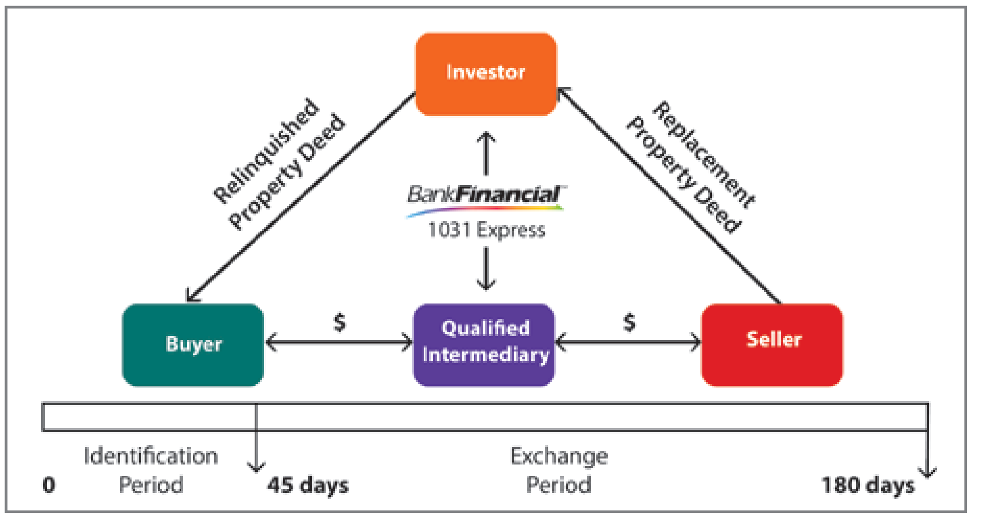
Even before the investor begins negotiating the sale of the existing apartment building, the investor scours the local market for reinvestment opportunities. The process of identification is crucial to Section 1031 exchanges because of the 45-day rule, wherein an investor must identify all of the potential replacement properties in the exchange within 45 days of the transfer of the existing property. Failure to meet all of the requirements of the 45-day rule can void the exchange.

The investor determines that owners of a large apartment project in town may have an interest in selling for $18 million. During the initial research, the investor determines that the project is actually 11 separate buildings (both by property address and tax identification number) in two different planned unit development tracts, all with common ownership. The potential sellers indicate that, for management reasons, they want to sell the entire project at once.

A common method to satisfy the 45-day rule is to identify up to three properties as the replacement properties ("three-property limit") by written notification to the qualified intermediary. If the investor actually closes on any of the three identified properties within the 180-day closing window, the 45-day rule is satisfied. Clearly, the target project exceeds the three-property limit.

A lesser-known method to comply with the 45-day rule is the "200 percent limit" for replacement property identification. An investor can identify an unlimited number of replacement properties, so long as the total market value of the identified properties does not exceed 200 percent of the sales price of the existing property. The "200 percent limit" provides the additional flexibility necessary to properly identify replacement property for an effective Section 1031 exchange.

Once the investor identifies the replacement properties under the 200 percent limit, we conduct due diligence and are ready to issue loan commitments to purchase the replacement properties. At this point, the investor is prepared to execute contracts to sell the existing project and purchase the replacement project. Using §1031 Express, we coordinate the closings with the qualified intermediary to meet the Section 1031 time limits.▲



BankFinancial

A flow chart of a Section 1031 exchange, with BankFinancial representing the bank.

Broker Insights

Prep building ahead of sale to maximize value

Construction of new apartment buildings is leading metro Denver's building boom, but many industry experts believe the multifamily market has reached its peak and it may be time for apartment owners to consider selling.

Despite the delivery of 2,971 new units during the third quarter, the vacancy rate declined to 5.1 percent from 5.4 percent in the second quarter. Average rents declined in the third quarter for the first time since 2013, dropping $3 to $1,368 a month.

Today's market conditions make multifamily properties an attractive purchase for investors, who set a metro Denver record with apartment sales of $4.1 billion sold during 2015 and nearly $5.1 billion during the first nine months of 2016.

If you're considering selling your apartment building, there are a few things you should do to maximize its value before listing the property. Because most apartment buildings that are sold are not new, these comments are directed to owners of older properties, mainly pre-1980s.

First, try to get a sense of who your likely buyer will be – institutional, private capital, 1031 exchange, etc. This will help you select your team of advisers and prepare accordingly.

Thoroughly reviewing your profit and loss statements and noting any nonrecurring expenses is important and can help a buyer (and lender) understand the property's operations. Failure to share these details up front with a buyer usually will

Jeff Johnson
Principal, Pinnacle Real Estate Advisors, Denver

end up causing issues down the line with the buyer as well as the appraiser and lender.

Next, check your rent roll to ensure it matches what the leases actually say. Often, the rent roll will have lease expiration dates, rent rates and security deposit amounts that don't match the actual leases. When a buyer finds these errors during the due diligence period, it may raise questions about what else is incorrect in the information you provided. New leases should support the pro forma lease rates shown in the marketing materials.

Even though investment real estate is "all about the numbers," there is also an emotional component to the process. Properties that look nice sell for lower cap rates (higher prices).

Before unveiling your property to potential buyers, make sure it has curb appeal. For every person who calls me about a listing, there are probably 10 who will simply drive by the property. If the property doesn't look good from the street, a potential buyer may not call and the opportunity to showcase the hidden potential of the building is lost. Simple things like paint and landscaping aren't that expensive but can make all the difference.

It's also important to be aware of any deferred maintenance. You don't want to find out about significant issues during the buyer's inspection. A little money spent on common area carpet and paint can completely change the feel of a property.

When it comes to the roof, be proactive. Buyers' roof inspectors usually seem to conclude that the roof needs to be replaced. Find a reputable roof inspector to provide you with a true assessment of the roof before listing the property. You may want to consider obtaining a roof certification, roof warranty or roof maintenance contract, which can help streamline the inspection process and minimize price negotiations.

The same proactive approach should be taken for the heating, ventilation and air-conditioning systems. Having these inspected and repaired in advance can result in more dollars to your bottom line.

Sewer lines sometimes are "out of sight and out of mind" for sellers, but buyers often will have cameras run through them to look for breaks. If the line has not been cleaned out recently, the camera may not be able to push through to the main line, resulting in a frustrated buyer and a second inspection after the lines are cleaned – often at the seller's expense. Getting sewer lines cleaned in advance is a low-cost way to provide the buyer with another example of how well maintained the property is.

Your electrical system may be working fine, but it is important to determine in advance whether any inspection issues are likely to arise. For example, insurance companies frown on some of the older electrical panels, such as Federal Pacific or Zinsco. These panels almost certainly will be called out by the buyer's building inspector and may make it difficult for the buyer to obtain insurance on the property. The same is true if ground fault circuit interrupters are not installed to code. The cost to get your electrical service up to par can be significant and should be taken into consideration when negotiating a selling price.

It's important to show potential buyers everything about the property up front, not just its positive attributes. If you show a buyer only the nicest units prior to going under contract, you can be assured he will push back on pricing after he had completed the unit-by-unit inspection.

Any environmental, survey, title or structural issues should be dealt with, or at least fully understood, before taking a property to market. It can take time to address these types of issues, which can easily be deal killers. Taking these issues into consideration will help set both the buyer's and seller's expectations correctly and avoid big problems during the inspection period.

Spending a little time and money up front to make sure your apartment building shows well, has accurate books and records, and no surprise issues will ensure a smooth process and a much higher selling price.▲

Multifamily Properties Quarterly - Financing Sources Matrix

TYPE OF CAPITAL	SOURCE OF CAPITAL	EXPLANATION	RATES/SPREADS	LTV/COVERAGE	TERM	AMORTIZATION	FOCUS	TRENDS
LIFE INSURANCE COMPANY	• Insurance premiums • Annuity and GIC sales	• Non-Recourse • Longer-term fixed rate loan	175-210 bps over the comparable US Treasuries	• Up to 70% LTV • 1.25x Minimum DCR	5-30 Years	25-30 Years	• Market rate properties in major metro areas • B quality properties and above	• Many life insurance companies are ahead of plan for multifamily allocations and look to become more selective in 2nd half of 2016 • Most competitive at lower to moderate leverage with strong sponsor • Flexible prepayment penalties available for small pricing premium • At right leverage (~60%) lenders can do Interest Only • Best source for terms over 10 years
AGENCY	• Sales of mortgage-backed securities with implied government guaranty	• Non-Recourse • Longer-term fixed rate loan	225-250 bps over the comparable US Treasuries	• Up to 80% LTV • 1.20x Minimum DCR	5-30 Years	30 Years	• Market Rate • Age-Restricted • Affordable/Workforce • Major metro areas • Secondary/Tertiary Markets • C quality properties and above	• Operating through specially designated underwriters • Comparable pricing for affordable/workforce housing • Minimum investment is typically 1MM with no maximum loan size • Agencies have increased rates and slowed production in the face of government mandated caps
CONDUIT (CMBS)	• Sales of mortgage-backed securities through public markets	• Non-Recourse • Longer-term fixed rate loan	225-275 bps over the greater of Treasuries or Swaps	• Up to 75% LTV • 1.25x Minimum DCR • 8.0% Minimum Debt Yield	5, 7 & 10 Years	30 Years	• Market Rate • Second tier properties • Secondary/Tertiary Markets • C quality properties and above	• Spreads have narrowed 25-75 bps since 4Q 2015 • Most competitive at higher leverage in secondary and tertiary markets • 10 years interest-only under 65% LTV • 5 years interest-only under 70% LTV
BANK	• Corporate Debt • Deposits	• Recourse (some non-recourse available) • Shorter-term fixed and floating rate loans	200-300 bps over bank cost of funds	• Up to 75% LTV for permanent loans • Up to 60% of cost for construction loans	Up to 7 Years Fixed	Interest Only to 25 Years	• Market Rate • Age-Restricted • Affordable/Workforce • Major metro areas • Secondary/Tertiary Markets • B quality properties and above	• Standards are tightening for Sponsors with no deposit relationship, and establishing a deposit relationship is becoming a requirement • Maximum LTC for construction loans has dropped to 55%-60% in last six months • Most competitive for Sponsors with established banking relationships and strong borrower history that are willing to accept recourse • Primarily recourse loans, with non-recourse available to strong sponsors at low leverage • More flexible (open) prepayment terms
DEBT FUND / BRIDGE LOAN	• Private Capital • Institutional Capital	• Non-Recourse • Shorter term bridge loans for acquisition and/or repositioning	LIBOR + 300-550 bps (some w/ floors)	• Up to 85% LTC • Going-in 1.0x DCR	1 - 5 (3+1+1)	Interest Only	• Market Rate • Secondary/Tertiary Markets • C quality properties and above	• Pricing depends on leverage level, property quality, and Sponsor strength

Essex Financial Group - Recent Multifamily Transactions

Highland Place Aparments
Denver, CO
$15,000,000 Permanent Loan
CMBS

Keenan Apartment Portfolio
Nashville, TN
$63,581,000 Permanent Loan
Debt Fund

Belcaro
Colorado Springs, CO
$10,500,000 Permanent Loan
Agency

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Design

Transformative districts planned for new stations

Colorado's billion-dollar investment in multimodal transportation is not only reshaping the Denver transportation grid, but also unlocking new housing, entertainment and live-work-play opportunities across the greater metro area.

Many new multifamily developments are starting to emerge adjacent to these stations, reshaping neighborhoods into transformative urban districts. Each new transit-based district is a critical framework for residents, commuters and businesses to develop into a continually reshaping sense of place. As each new station center develops, architects and planners need to define these urban spaces as an inclusive and dynamic place for people to be and to interact.

Many of the newly built or planned elements at these transit locations are multifamily for-rent communities offering an affordable alternative to downtown. These communities are the first piece of the master-planned vision of various cities. Each station will have its own unique character with its own community connections and development drivers. It is the responsibility of these developments to play a vital role at full build out, in addition to its role as a standalone property helping to define and connect the area.

For example, we designed the Iliff Station Apartments, which is being developed by SteelWave and recently broke ground at the station. The apartments tie the surrounding lower-density, primarily single-family neighbors to the higher-density station core. The city originally envisioned the site with a slightly higher density but the neighbors were concerned about traffic. We designed a project that met the density goals of the city and addressed traffic concerns. Through this project, we connected the existing communities to the station with great open space so that the residents have a sense of place today before the station's full build out.

Nathan Sciarra, AIA
Associate principal, KTGY Architecture + Planning, Denver

Paying attention to the public realm within a transit-oriented development is critical to promoting and defining the district's sense of place. Key components include friendly ways to enhance the pedestrian experience with distinct gathering zones, wider, well-lit sidewalks, pathways and bike paths that seamlessly link people to the station. The development needs to include public spaces to allow for activities that promote both resident and neighborhood interaction. The program needs to promote users in street-adjacent spaces that are lively, active and provide sense of pedestrian scale such as restaurants, coffee shops and shopping. Residential buildings should extend to the street with stoops and active zones that align with the public realm. People want to be part of the action.

KTGY Architecture + Planning

SteelWave broke ground last month on Iliff Street Apartments, a multifamily development adjacent to the planned Iliff light-rail station in Aurora.

We currently are collaborating with Forest City on the master plan and potential first phase of the Central Park Station in Stapleton. Though still in discussions, the first phase will start with a six- or seven-story for-rent residential community. To create the sense of place, the overall station area has been planned with a large central plaza at the core surrounded by a mix of uses.

The first residential building will encompass one corner of this future plaza only and efforts are being made to create "place" for today as well as tomorrow. Emphasis will be on the amenity deck that overlooks the main street into the station core and will include scaled-down, two-story massing that addresses the pedestrian scale and presents to the sidewalk with steps up to each front door. Important gateways from all directions are addressed with critical changes in mass or lack thereof to recognize distinct points within the station area. The overall station plan will take years to come to fruition, but the plan is designed such that the flexibility will allow for the organic development based on market demands and consumer tastes while maintaining the important qualities of place.

Each of these new transit stations creates opportunities for increasing

Please see 'Sciarra,' Page 29

Project Highlight

Longmont continues revitalization with new project

Revitalization plans for Longmont's historic downtown began more than 20 years ago. The 1995 Downtown Longmont Master Plan Development put forth a process of ongoing commitments to improve the quality of life in Longmont.

Even with economic turbulence, this area has progressed with new restaurants and businesses adding to downtown's revitalization. The growth was planned to retain Longmont's historic fabric while also providing a walkable, modern community. Just last year, Longmont popped up on Livability's 2016 list of 100 Best Places to Live, ranking No. 23. The ranking criteria factors in housing, amenities, demographics, economy, education, health care, social and civic capital, and transportation and infrastructure.

The city of Longmont had the distinction of being the first planned community in Boulder County. It began when a group of businessmen in Chicago put together the Chicago-Colorado Colony, a city planned from scratch and laid out in a grid before being settled. Longmont's location was key because the railroad already came through this area. With the growth of the railroad, the population and popularity of the area increased. If you stroll down Main Street in historic downtown Longmont today, you can still see many classic buildings with original facades and interior features dating back to the original Chicago-Colorado Colony's establishment in 1870.

Karen Peterson
Project development manager, Krische Construction, Longmont

A recent unique development downtown straddles the history of Longmont as well as contributes to downtown's evolution. The Terry Street Brownstones, on the cusp between commercial and residential uses in this historic area, gives a nod to the Chicago-Colorado Colony's roots while providing an elegant, workable solution to the L-shaped, tight infill site.

"This development strikes a balance between the commercial and residential transition of this area and adds to the century-old character of this neighborhood," said Jeff Van Sambeek of Lodestone Design Group, the project architect. "The choice of brownstone-style homes worked perfectly on this challenging lot, putting each home's stoop right at the street and creating an alley toward the center of the block."

An existing historic structure, a house and garage, were moved to a lot downtown, where they were preserved before construction of the Terry Street Brownstones began.

"It was a good process with the city of Longmont and the Longmont Downtown Development Authority," said Craig Jones, the developer in the project. "I've had tremendous feedback about how the brownstones are impacting the neighborhood."

Dave Zader Photography

The Terry Street Brownstones in Longmont gives a nod to the Chicago-Colorado Colony's roots while providing a workable solution to the L-shaped, tight infill site.

The lot had long been vacant, so neighbors were glad to see it being developed and many became proponents for the project, Jones said.

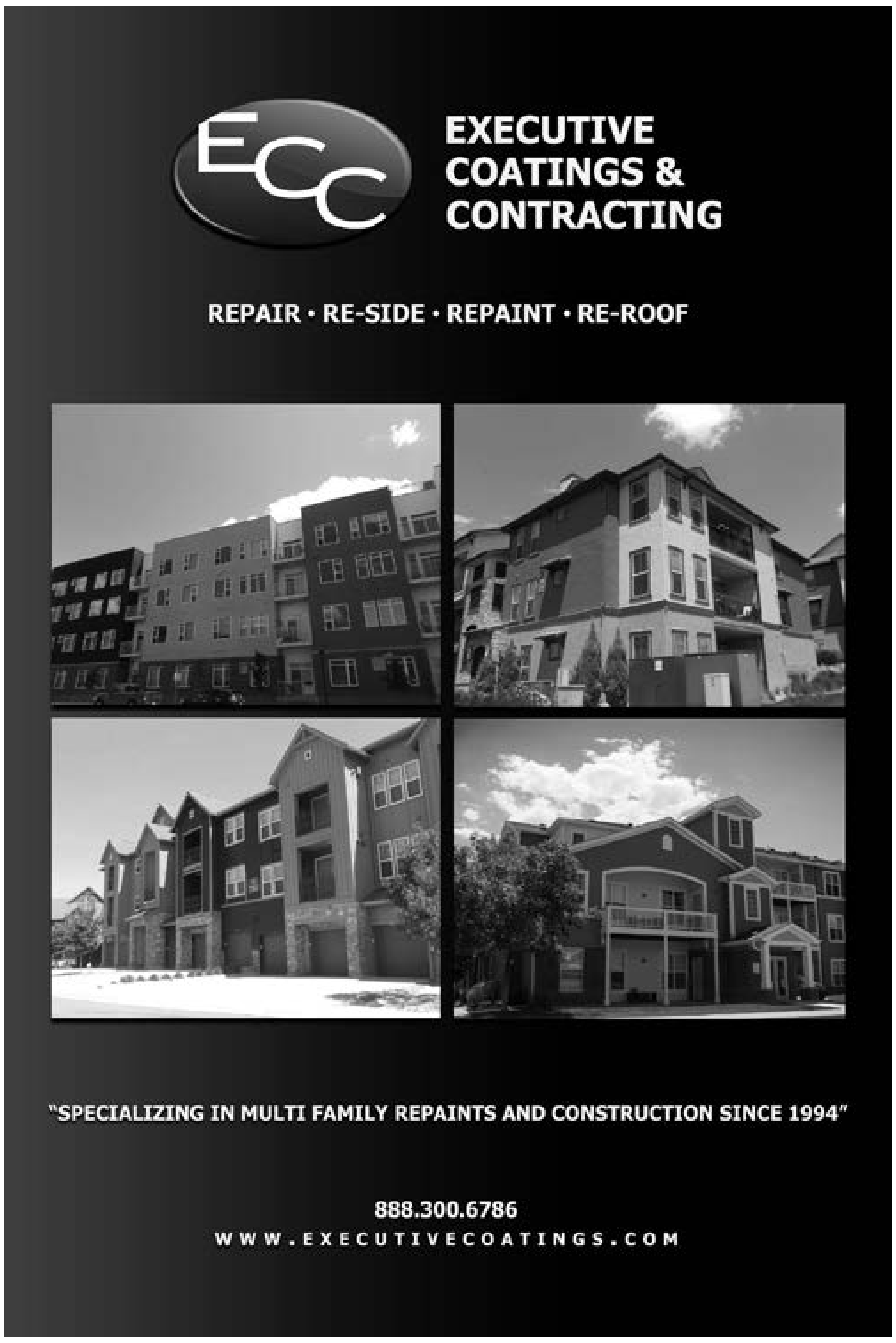
When the project broke ground last year, city officials, architects, neighbors and investors attended the ceremony.

"People were excited to have a new addition in this area downtown," said Joe Black, project manager for Krische Construction, the general contractor on the project. "The choice of design was a good one to fit in with the surrounding neighborhood. People told me they love to walk downtown to have coffee in the morning, and these homes, just two blocks from Main Street, will allow people to walk downtown to shop or eat out, but are far enough away from Main Street's traffic that it's a quiet neighborhood. Having the parks and schools nearby is a benefit too."

Longmont boasts an impressive "urban forest," a catalog of mature trees integral to the charm and character of the historic district. Several trees along Terry Street, which tower over the new development, were carefully preserved during construction.

Downtown also is served by RTD with a hub located off Main Street

Please see 'Peterson,' Page 29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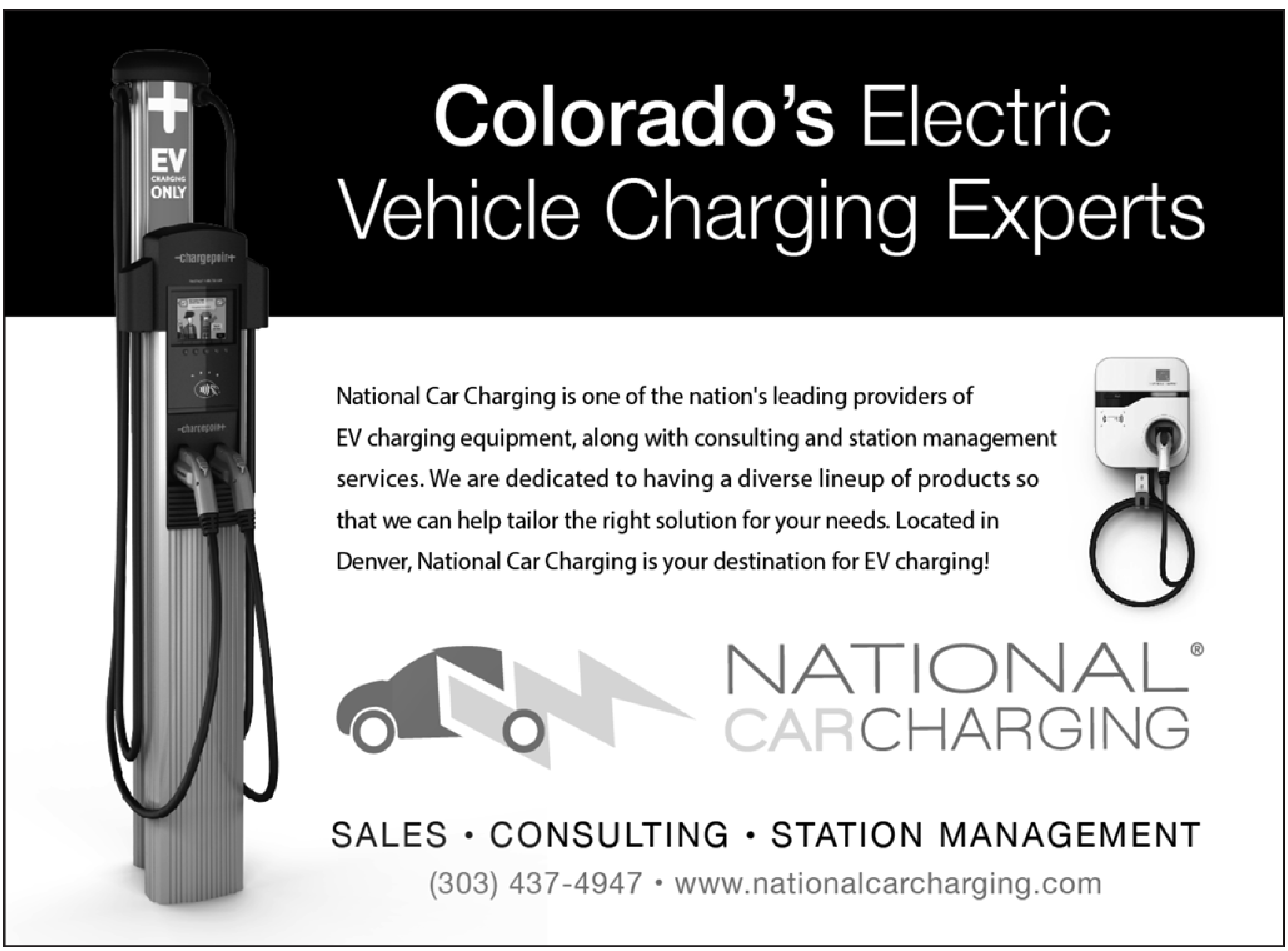
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Sustainability

How to achieve sustainability in affordable housing

Achieving higher-efficiency standards for multifamily housing in the U.S. could be a game changer that provides billions of dollars in economic benefit and significantly improves the standard of living for millions of people. In a 2014 study, the McKinsey Global Institute argues that the housing industry would need to cut costs by about 30 percent to deliver a standard unit in a multifamily building that would meet affordability requirements. This degree of cost cutting is achievable through energy and water conservation measures, but often is left unrealized due to several factors.

In the August issue, we covered the barriers to enhancing the sustainability and affordability of existing multifamily housing through green upgrades. Below we provide some solutions and best practices for overcoming those barriers.

- **Split incentives.** By providing information on utility rebates, low-cost financing options, savings projections from reduced utilities and operations and maintenance expenses, increases in property value and revenue gains due to potential green upgrades, property owners can be given the information they need to make smart decisions based on cost-benefit analysis.
- **Lack of knowledge and resources at ownership level.** A comprehensive energy audit that includes an itemized assessment of all energy-efficiency, water conservation and renewable energy options can be an effective way to help multifamily owners overcome their lack of knowledge and help them select the optimal solution from the wide variety and fast-changing green options they are confronted with. For

Ravi Malhotra
President and founder, ICAST, Denver

each suggested green upgrade, the audit report can provide the costs, savings, rebates, incentives and payback, so that the owner can select solutions that best meet his needs.

Issues regarding a lack of resources can be overcome by working with one of the many "one-stop-shop" service providers who can manage the entire green rehabilitation process for the owner, including providing access to financing and the technical assistance to make the smart decisions at the lowest possible cost.

- **Small project size: High transaction costs and lack of volume efficiency.**

For owners of small multifamily properties, high transaction costs and inefficiencies can be overcome by bundling multiple services from a single service provider. Instead of hiring separate energy auditing, engineering, construction management, financing and other service providers, owners might consider hiring one turnkey provider. Owners also might consider offering additional work such as nongreen rehab, project capital needs assessment report and apartment turnover services to the one-stop-shop service provider to help increase the project size and eliminate the disadvantage of high-transaction costs.

- **Financing challenges.** Gaining access to available incentives and rebates can be instrumental in financing green upgrades. Incentives include local, state and federal grants, tax credits and deductions, accelerated depreciation, weatherization assistance program funds and utility rebates. In many cases a multifamily property will qualify for one or several of these incentives, which can be used as owner contributions to leverage other financing.

In addition, off-balance-sheet financing programs such as Property Assessed Clean Energy, Energy Performance Contracts and Pay-for-Success are potential methods for overcoming financing hurdles. Access to low-cost financing from state housing finance agencies, other government agencies or community-development financial institutions provides further support for primarily affordable multifamily properties.

ICAST

Tallmadge & Boyer Block is a multifamily affordable housing property in Denver listed on the National Register of Historic Places that was retrofitted in 2016.

- **Lack of control over tenant behavior.** Resident engagement programs can educate tenants on the best ways to use the existing energy and water resources in their apartments and can teach them additional ways to become more efficient in their consumption behavior. These educational programs can be on site or online. Studies show that if the multifamily property staff also participate, then tenant engagement programs can produce significant results that help reduce multifamily owner fears regarding the impact of resident behavior on energy savings.
- **Best practices for installing green**

Please see 'Malhotra,' Page 29

Management

Managers should take a page from hospitality

In today's ultracompetitive apartment market, where increasing rental rates are causing consumers to expect – make that demand – the very best for what they pay in monthly rent, it's imperative for property management firms to provide the highest level of service possible. To do so, professional property managers are borrowing a page from the hospitality industry and going the extra mile to make sure that their residents are being taken care of and are happy in the place they call "home." By doing so, the team is showing residents that they care and creating a culture of longtime residents who will be more willing to renew their leases when their leases comes due.

While amenities are obviously an important component of any successful apartment property, the staff is what sets the tone for an enjoyable living situation. I've included a list of some of the inherent ways a property management team can make an apartment community feel more like a high-end hotel.

Tiffany Sweeney
Director of property management, Confluence Communities LLC, Golden

• **Find the right people.** When hiring a staff for an apartment community, it's imperative to find the right kind of people: people who are willing to go the extra mile and don't view their job simply as a 9-to-5 workday. These professionals are driven to succeed and are willing to grow with the company. They base their success on how happy their residents are and, in turn, how successful the property management company becomes. The right personality type can be taught the skills and nuances of becoming a valuable contributor to a property management team.

• **Training 101.** Finding the right people is the first step toward managing an apartment community with the feel of a high-end hotel. The next step is making sure that the management staff is well-trained and ready to provide the very best level of service to residents. This might involve a weeklong course (but, in reality, the training is ongoing), which includes case studies of the hospitality industry, interaction with residents, on-site introductions, review of expectations, outline goals and shadowing with existing staff.

• **Personable interaction.** An apartment community's staff should make it a priority to interact with residents. This means getting to know people's names, learning what their hobbies and passions are, engaging them in conversation if they like to talk, or giving them their space and privacy if they are introverted. This personal interaction shows care and concern, and lets residents know that the staff is there for them on multiple levels.

• **Host events.** One of the ways a property management firm can make an apartment community feel like a home is by hosting weekly events and making sure that the staff is actively involved. Events might include a Thursday night happy hour with beer and wine, a pumpkin carving contest, a potluck holiday dinner, live music poolside, a pool tournament, Broncos game parties or even hiring a video-game truck for residents with children. The list is endless. Again, a key component for a successful event is to make sure the staff attends and takes an active role in everyone's fun and enjoyment.

Confluence Communities

At Union West, the management team takes a page from the hospitality industry, making customer service a focal point.

• **Ensure a service-rich environment.** Many apartment communities provide on-site services, but it's up to a professional staff to make sure that the services provided run smoothly. For example, cleaning services, valet, dry cleaning, concierge, package delivery and more all can be implemented, but execution is key. The saying "actions speak louder than words" is ultimately true when it comes to an apartment community delivering on its promise to provide residents with a service-rich environment. If the staff falters, the provided services won't matter to the residents and might even alienate them.

• **Survey residents.** Don't hesitate to gather your residents' opinions and hear their ideas. Find out what they'd like to see in their community. For example, if a community is providing fitness classes, you can dig a little deeper and ask residents what kind of classes they want (i.e., yoga, Pilates, etc.) and what hours of the day are best. A property manage-

Please see 'Sweeney,' Page 29

Management

Marketing tactics help differentiate from the pack

The national vacancy rate has risen the last four consecutive quarters. Most everyone who follows the apartment construction boom realized there would be oversupply at some point and that even hot markets like Denver would soften. One common solution owners use to address this issue is to offer concessions, price breaks or other promotional benefits, but this creates a downward spiral. Owners and operators should look to new marketing techniques that can attract more attention and better convert potential renters.

The first question owners must ask is, how do we attract more people? In short, by using local searches, digital outreach and signage.

Use local search engine optimization and digital marketing tactics to enable more people to find you online. SEO is not just typing in an address, adding some buzzwords and, badda-bing, your No. 1 on the rankings. It's about understanding the property, the area where it's located and what people are searching for. This is where national leasing platforms fall short because they don't know or take the time to understand these key elements.

Max Flats apartments in Fort Collins opened with a number of competitors in the area. Instead of using that national platform that types in "Apartments in Fort Collins," they targeted nearby locations, large shopping areas and other regional search terms that people commonly used.

"We really focused on the local search terms that people were actually looking for near Max Flats," said Kate Baker, director of marketing and

Doug Backman
Principal, DB Marketing, Denver

communications. "This wider tactical effort created better results and shot us up to No. 1 above our competition in many key Google rankings."

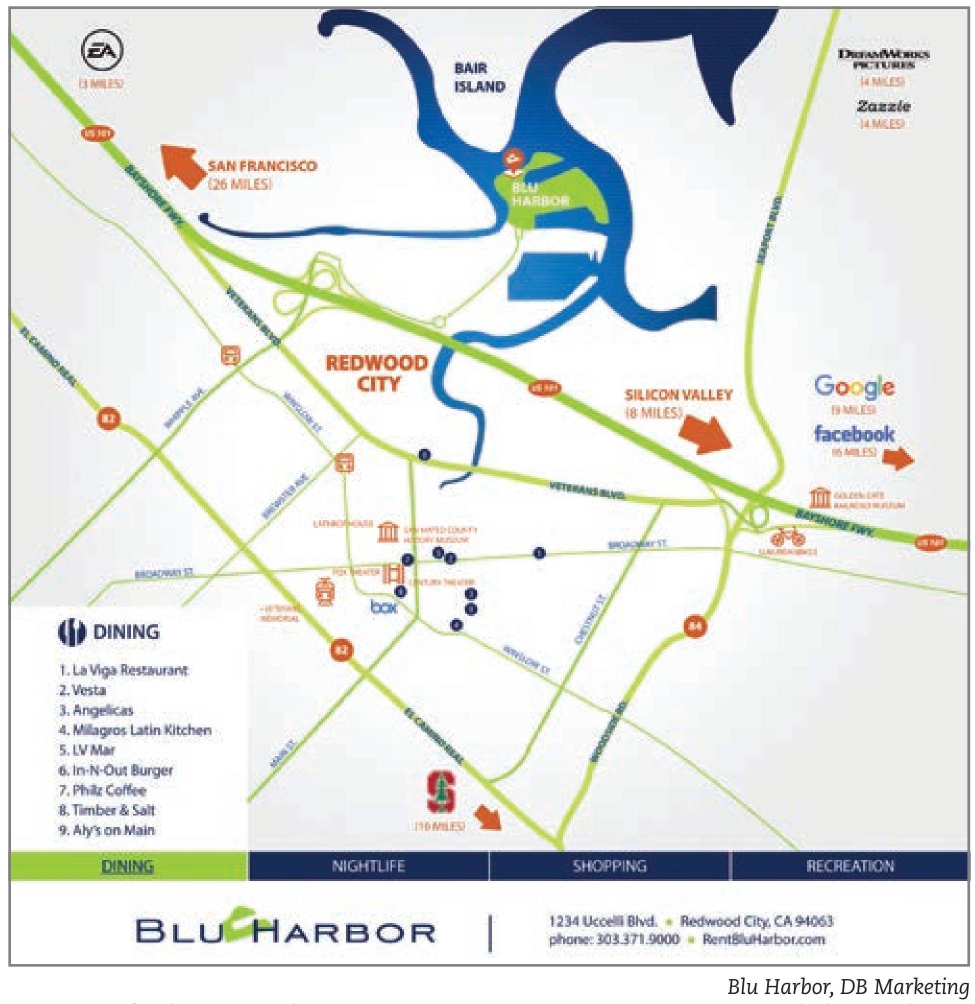
Additionally, digital display advertising is in a much better place than it was 10 years ago when too many companies were selling "1 million clicks" for a nickel. The best advertising plans are looking at the end goals to achieve specific objectives, such as rental contracts. Once these objectives are established, the advertising can better target the audience from geo-targeting, content, native advertising and geo-fencing to find people who have visited a specific location.

Brokers and leasing managers alike will tell you curb appeal is one of the most important assets for a property. This starts with the property branding and signage, so owners need to make sure these elements fit with the 21st century and provide a positive reflection on what's inside.

The second question owners should ask is, how do we better connect with people?

Each year video increases in popularity, and it's more widely used than ever thanks to faster download speed and more viewing devices. The best thing about video is that it provides the perfect medium to tell your story.

"I cannot talk to all my potential customers," said Clem Rinehart of TreeHouse Development. "So video



Blu Harbor, DB Marketing

Create professionally designed maps that show where your property is in relation to regional highlights and roads, like this Northern California community did.

provides me the next best thing to showcase our property and have people hear what makes our development so special."

TreeHouse's S*Park development debuted with an immediate 20 percent conversion rate and thousands on the "interested list."

"Video was a big part of the conversation with so many people looking

Please see 'Backman,' Page 29

Project Profile

Continued from Page 1

wanted to stay in. He found his partner in Al Feld, founder and president of The Feld Co., who was bored with the present day's "average apartments" and was eager to focus his design-oriented skills on something new and different. Together they set out to push the envelope in terms of what people expected to see in an apartment in Denver.

While the process was far from over, a vision began to take form. "Because it had a 60-acre lake, which is obviously one of the big, unique amenities and catalysts to the whole property, we thought we could do something much higher end and different than the normal apartment projects," said Koelbel.

The location, at the time, was rather marginal, Koelbel said. So to further set the community apart, they built a 26,000-square-foot clubhouse on the lake. "It became quite a novelty, to the point that we literally had to go to appointment-only for rentals because people wanted to come out and see what these two young guys were doing out here in this hybrid location," he said. "It got a lot of exposure, and we started seeing some pretty good success, which validated that we really could create something unique and special if we did the right kind of apartment units."

In total, they built six different communities between 1989 and 1997 on the land, totaling 1,523 units featuring 42 different floor plans, from townhome rentals with double-car attached garages to standard three-story walk-ups. At the time, the Breakers Resort's presence pushed other Denver multifamily developers and accelerated the philosophy of

ARA, a Newmark Co.

An aerial of the Breakers Resort, which features 1,523 units on 190 acres of land and includes a 60-acre lake.

providing a better overall package to the renter community, Koelbel said.

"It's kind of interesting that philosophy, vision and strategy worked because we were so different," he said. "But over time, the market started catching up with us. All of a sudden, we weren't quite as competitive as we were at the initial stages."

Standard upgrades to the community were performed over the years, including in 2006 when the Bascom Group bought out Feld's interest to became the majority owner. Over the last eight or nine years, the Breakers has seen another $15 million or $17 million worth of improvements, Koelbel said. This past year, Bascom decided to sell its majority ownership.

However, the project had become a legacy piece to Koelbel, and one that held "great emotional attachment" to him and his company, having been a project he'd worked on for almost his entire career. Koelbel also believed there was still upside opportunity for the Breakers Resort, largely due to its location.

The property went from a C+ location, without any major facilities or services nearby, to an ideal infill location over the past 27 years, he said. This is thanks in large part to being located near Lowry and Stapleton, both enjoying successful redevelopments as well as the Fitzsimons Anschutz Center, which will employ over 30,000 people, and Cherry Creek, which has been enjoying a major growth spurt in the past 10 years.

The Next Step

In early October, the Breakers Resort sold for a record price of about $350

Project Profile

million to Pensam Residential, a Miami-based asset management firm that was founded in 2009. The firm was initially drawn to the property's uniqueness, citing the physical layout and the size of the site, as well as the opportunities for value-add.

"It really is like a blank canvas today," said Stein. "There's a real opportunity for us to create a true lifestyle community." It has great layouts that can be updated; a large clubhouse that hasn't been retrofitted, updated or modernized; and amenity space this isn't activated, he said.

Stein said the real estate is irreplaceable, which compelled the group to buy for the record-setting price tag. Finding such a sizable asset in what he considered to be an infill location was something the firm had never found anywhere in the country.

In addition, having Koelbel, the original developer, stay on was important, said Stein. "We wanted to be the ones that took that original vision for The Breakers and bring it into the future," he said.

With Pensam now the majority owner, Koelbel expects the two companies to put somewhere between $25 million and $35 million into substantial upgrades.

The value-add plans will come in three main forms – interior upgrades, amenity upgrades and rebranding, said Stein.

The heart and soul of the new Breakers Resort will lie in its amenities. The most central being a complete face-lift to the large clubhouse, the Catamaran Club.

"We arguably have more square footage there than one would even need," said Stein. "You wouldn't build 26,000 feet today. It was really a visionary concept."

Within the space, the fitness facility will be reconfigured and will offer a full range of classes, nutrition programming and other high-end gym perks. They are adding a 3,000-square-foot bistro to tie in a food and beverage concept. Creating a food element in a value-add space in a suburban property is unique and a first for Pensam, Stein said.

The plans to activate the lake area will include waterfront activities, such as stand-up paddle boarding and nonmotorized boats, and activation of the 1½-mile path around the lake with proper lighting, calisthenics stations and pet stations. Bark parks will be relocated and enhanced to encourage residential use.

"These are things that we're going to do to speak to that active, outdoor lifestyle that we're trying to convey at the property," he said. "We're really transforming a city within a city – so we're approaching this property as the repositioning of a village."

There also are tentative plans to repurpose some of the individual community clubhouses. Nothing is finalized yet, but a variety of ideas are being considered, such as a daycare center, cyber café or bike/ski repair, to transform the underused assets for the next generation of residents.

"We're looking at taking assets that are already in place, repurposing them and adding additional amenities to everything that we have to offer," to make them attractive to the younger generation and continue to set the community apart, Koelbel said.

Pensam likes to distinguish itself among competitors for going above and beyond what is typical of today's value-add interior renovations – the stainless appliances, granite countertops and faux wood floors. With the firm's in-house interior design and architecture department, they set out to add upgrades that will be timeless in 20 years time, Stein said. Examples include adding Nest thermostats, creating keyless entry and using high-end residential backsplashes and rain showerheads, all to accomplish a high-end luxury condominiums or hotel feel.

ARA, a Newmark Co.

In total, the six communities that make up Breakers Resort offer 42 different floor plans.

The third part of the value-add plan is the focus of Pensam's short-term goals for the property – to rebrand it. The firm is in talks with local PR firms to begin the process that will include a new name, logo and image, targeting the active lifestyle community.

Koelbel said he knew Pensam was the right partner because the firm was interested in having the original developer stay in and because the two companies are philosophically aligned in the view that the Breakers Resort is a long-term legacy ownership project, Koelbel said. When he looks back over the history of the project, he's most proud that his company has been a part of it for its entire 27-year history and that the strategic vision he and Feld created, which was so new and different at the time, can still be applied today, he said.

"It took a great deal of entrepreneurship, vision and foresight to develop the property," said Stein. "I view ourselves similarly. We're in a point and time in the market that it takes some vision and foresight and entrepreneurship to look at what the next 20 years of the Breakers are going to be."▲

White

Continued from Page 4

aware of the issue and is attempting to address it, at least in part, with a recent linkage fee. While money from the fee will go toward affordable housing initiatives, it also will increase the cost of apartment construction by $1.50 per square foot. City officials say this revenue stream will subsidize the building of about 6,000 housing units over the next 10 years.

• **Tightening lending industry and rising costs.** Which brings us to the pipeline. A tightening in the lending industry and the lack of available construction debt for the multifamily industry indicates that of the 25,717 units currently in planning phases, we will see significantly less come to fruition.

After several years where multifamily loans were cheaper and easier to come by, the lending industry now is more closely monitoring its exposure to the multifamily market.

Developers have to put more equity down at higher rates with less favorable terms, so deals are becoming less financially viable. Combine that with the increased cost to build right now, and it becomes difficult to see all of those 25,717 units getting built.

The multifamily industry is doing its part, but the coming slowdown in the apartment pipeline, the lack of attainable options coming on line and the growing population has the potential to create a housing shortage in the city.

• **Putting everything in perspective.** All that said, Denver still is technically affordable. Stay with me here.

The generally accepted federal measurement of housing affordability looks at the ratio of rent to income. No more than a third of median family income should go to housing.

Right now in the seven county Denver metro area, the average apartment rent to median family income ratio is 20.5 percent, according to Apartment Insights. So while rents have certainly gone up in recent years, Denver is still affordable compared to other major cities.

And that's something else we've become – a major city. Denver used to be considered a secondary or tertiary market, but we've moved up. We're now compared to some of the bigger markets and, when compared to those, we're still relatively affordable.

Over the next year or two, we may deliver more units than we can immediately absorb, but the underlying fundamentals in Denver – lots of young in-migration and great job growth – point toward a need for more and a greater diversity of housing options if we're going to keep pace with our growth in the not-too-distant future.▲

Young

Continued from Page 12

In response to recent and projected growth, the region already is investing billions into infrastructure improvements designed to make public transportation more widely available. The recently completed FasTracks light and commuter rail has streamlined travel between Denver and adjacent submarkets. Likewise, ongoing highway improvement initiatives and upgrades to Denver International Airport are expected to enhance accessibility across the region as local populations continue to skyrocket.

Investors looking forward to 2017 have reason to remain optimistic. While fluctuations in interest rates and development costs may influence construction in the short term, a bevy of positive factors like strong population growth, high quality of life and a young, highly educated workforce suggest that opportunities for multifamily development in the Denver metro area will remain plentiful. Despite surface impressions, multifamily experts are not concerned about overbuilding. As the short-term construction pipeline becomes exhausted and construction lending tightens, development will slow to a steady – rather than breakneck – pace that will match the demands from current and future renter pools.

Keep an eye out for investors, domestic and foreign, looking to transition away from well-established, coastal markets and reinvest capital in more cost-effective markets like Denver. A large workforce comprised of highly desirable talent and a location central to both the East and West coasts has turned the Denver metro area and surrounding markets into hotspots for investors in search of strategic, high-yield assets.▲

	UNEMPLOYMENT RATE
DENVER	3.1%
COLORADO SPRINGS	3.8%
FORT COLLINS	2.9%

CBRE

Sciarra

Continued from Page 18

the amount of affordable housing that is still in, or connected to, places people want to live. Traditionally, renters are attracted to the activity and energy of an urban core, but often are priced out of living there. The addition of these new station centers with high-quality live-work-play opportunities makes this living attainable. Residents can walk down to the local microbrew or catch the train downtown and be in the middle of it all with a short walk from their front door to the train. The greater sense of attainability will create pride in the neighborhood and a sense of home for people who may otherwise be more transient in nature.

It took great forethought and vision for the city of Denver to get out in front of public transportation. Creating opportunities for new housing near these transit hubs will have long-term impacts for each station and neighborhood. Walking distance to public transit hubs reduces regional traffic and helps alleviate congestion, pollution and lost efficiency. Daily walking has a measurable factor in public health as well, resulting in improved fitness and reduced health care costs. Walking commutes – even a few blocks – encourages critical social interactions with neighbors and vendors, which in turn builds a sense of community, cohesiveness and public spirit for years to come.▲

Victor Sanchez

As part of the Outlook Golden Ridge multifamily community, the architects incorporated a garden path that provides connectivity to the greater neighborhood and to the pedestrian/bike bridge that leads to the Golden light-rail station.

Peterson

Continued from Page 20

at the Eighth and Coffman Park-n-Ride. There is a new multimodal bus and rail transit station planned for First and Main streets, which will help reduce traffic. Just south of downtown, the Southeast Longmont Urban Renewal Plan, intended to improve traffic mobility and public improvements nearby, is seeing success with the development of the Cheese Importers and other renewal projects along lower Main Street.

With completion of the Terry Street Brownstones, as well as higher-density residential developments downtown such as the Roosevelt Park Apartments a few blocks to the north, the pulse of downtown Longmont has changed. In response to this revitalization, there has been a surge of new restaurants and businesses in downtown.▲

Malhotra

Continued from Page 22

upgrades at multifamily properties. Three primary programs have had success in engaging multifamily owners to go green: direct install, weatherization-assistance program and one-stop shops.

Both weatherization-assistance program and direct-install programs focus on low-hanging fruit measures (i.e., low-cost, high-saving measures) and offer them at no to little cost. Both weatherization-assistance program and direct install are popular with multifamily owners. The weatherization-assistance program is available for properties serving low-income populations only while direct-install programs from local utilities are accessible to all multifamily properties.

However, these programs come at a high-opportunity cost. Because they don't cover more extensive retrofits such as heating and cooling systems, appliances, windows and other shell improvements, property owners miss out on the larger-ticket items that typically provide greater energy savings and health improvements but have high payback periods.

One-stop shops bundle the direct-install/weatherization-assistance program solutions with other green upgrades to provide a reasonable payback on the bundled package. Bundling the green upgrades with other rehab needs allows multifamily owners to achieve a better end result that makes their multifamily property more affordable, sustainable and profitable, typically at little to no additional cost.▲

Sweeney

Continued from Page 24

ment team can come up with scores of ideas on their own, but by involving the residents, the list of great ideas will grow and the residents will feel good about being involved.

Research what works. There are many ways a property management team can learn how to step up their hospitality, and one of the best ways is by learning from the best. In some instances, a property management firm might send employees to a great hotel to study the nuances of a hospitality staff. By doing this research, a property management team can take the experiences learned and implement them in their own apartment community.

Successful property management firms are finding ways to up their game and make their apartment communities feel like a high-end resort. By doing so, their residents can find a place they love to call home, and the team will succeed as a whole.▲

Backman

Continued from Page 25

online and able to feel the unique culture of the area our project is in," said Rinehart.

If you're a new property on the market, you should have a web presence right away. This is key in starting that relationship with potential renters and gets you an early and growing interest list. Also, the sooner you have a website in place, the better for the organic search rankings.

Owners need to do a better job communicating, which can be done with advanced programming, branded floor plans, site plan design and custom designed maps.

Some developers and property managers forget that they are not the target audience. So when they see a rendering or an architectural floor plan of the project, they understand. The problem is customers may not. Those communication elements need to be directed toward the audience that will end up leasing.

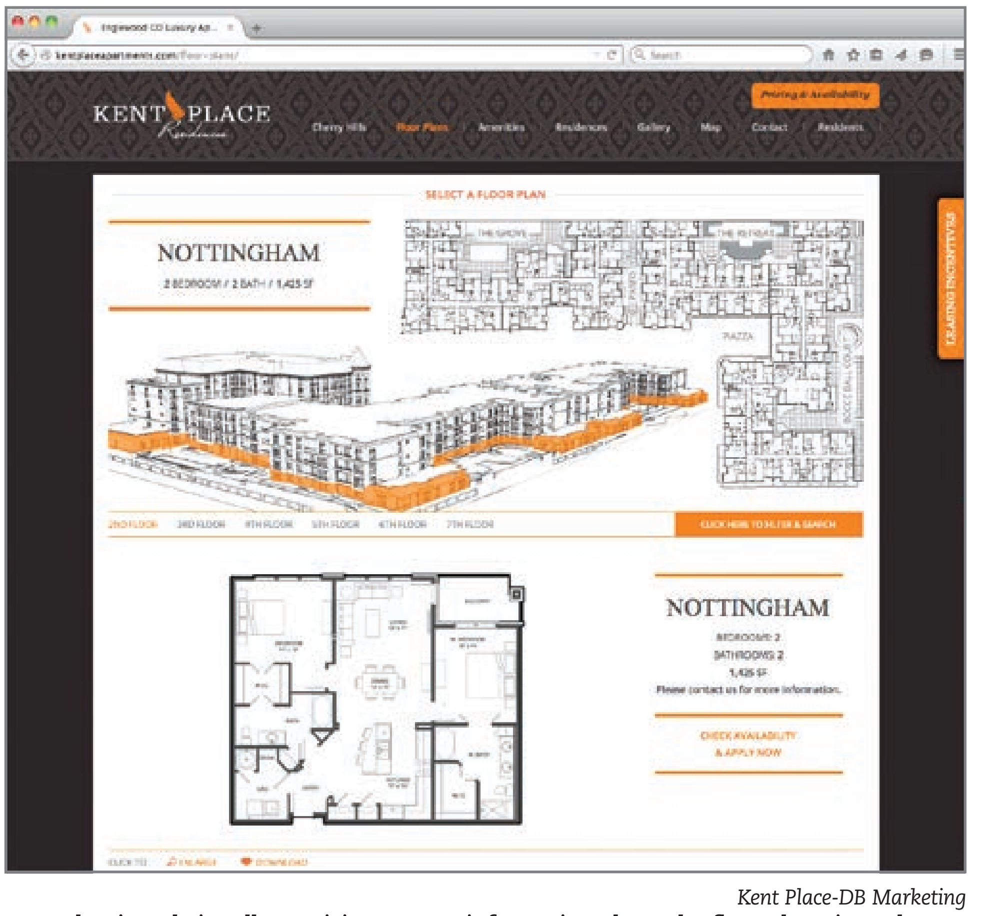
We recommend creating well-branded floor plans and site plans that offer a clear understanding of what each product delivers. You can create professionally designed maps that show where your property is in relation to regional highlights and roads.

Blu Harbor in Redwood City, California, visually showed its location between San Francisco and Silicon Valley as well as the growing Redwood City lifestyle. This is something it could not have accomplished with a cut-and-pasted search map.

Other properties are using advanced programming to show which unit is where and how the entire property lays out. Users can view everything with a simple rollover and click.

"Our Kent Place website is a huge sales tool for us," said Daiva Jarasius of Forum Real Estate. "People that haven't visited the property can see everything virtually, and those who have can get more specific with what floor plans are in each area of the building. All while being able to drill down to a specific unit and apply for that location online."

Better marketing materials do help. When people are comparing properties and view a well-branded website, are holding a nice print collateral piece or see attractive signage, it makes a difference. If you don't take the extra effort to communicate what makes your location special, then why should potential tenants care?▲



Kent Place-DB Marketing

Kent Place's website allows visitors to get information about the floor plans in each area of the building, as well as drill down to a specific unit and apply for that location online.

Multifamily Broker Directory

MULTIFAMILY BROKER DIRECTORY

For contact information, firm profiles and links, please visit **www.crej.com,** click on Industry Directory, then Brokers, then Multifamily subcategory

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Mike Hesse, CCIM

Springs

Continued from Page 8

cutbacks. Although it is true that the region has five military installations with a combined employment contribution in 2015 of approximately 55,000 workers, including active duty and contractual workers, this still only represents 17.7 percent of all workers in the region.

An often-cited and incorrect statistic is that the military represents 50 percent of the local economy. That is simply untrue. There is no question that base closures would cause negative ramifications for the tax base, the real estate market and, in fact, the entire local economy. However, the current, positive trajectory with new jobs in high-skill sectors alongside the statewide in-migration of highly educated people implies that the past reliance on the military is dwindling. This is a good thing – economic diversity is insurance against disproportionately harsh (local) downturns.

- **Apartment vacancy: 3.6 percent.** The demographic and economic growth has translated into a healthy multifamily market. The citywide average vacancy rate for Colorado Springs is at a historic low of 3.6 percent in September. This is a significant 38 basis points drop from the last quarter, and 115 bps below the year-ago average vacancy rate of 4.7 percent.

The trailing four-quarter average vacancy rate decreased by 29 bps to 4.1 percent, a new record low for the past 10 years. The overall vacancy rate, including properties in lease-up, moved up 85 bps to 5.4 percent. However, this is still well below the year-ago rate of 6 percent.

Vacancy for all major age groups was below 4 percent with one exception. Properties built during the 1990s posted an average rate of 4.2 percent. The other age groups fell within a narrow range of 3.4 to 3.9 percent. The greatest improvement occurred in the newest age group – those built since 2010. Vacancy fell a significant 233 bps during the quarter for these newer properties, down from 6.2 to 3.9 percent.

- **Apartment rents: $948 per month.** The citywide average rent for the metro area increased by a record $37 this quarter or by 4 percent. The largest previous gain was $24 during third-quarter 2014. The annual gain in rent increased by $79, for a 9 percent growth rate, also a record.

All age groups posted healthy rent increases during the quarter, resulting in annual growth rates from 5.7 percent for the newest properties to 10 percent for properties built between 2000 and 2009.

- **Apartment sales: $93,100 per unit.** Year-to-date there have been 10 sales with 1,954 units, compared to last year's total of 29 sales with 4,716 units. The average price per unit has increased from last year's $86,700 to $93,100, an appreciation rate of 7.4 percent, despite an average age of communities sold that is four years older than last year.
- **Apartments under construction: 1,300 units.** Colorado Springs has 1,300 apartment units under construction with 1,900 units planned. This compares to Denver's 25,000 apartment units under construction with 26,000 units planned.

Unfortunately, Colorado Springs was late to the party with economic recovery and rent growth but, thankfully, Colorado Springs was late to the party with rent growth and new construction. Like many other second-tier cities, Colorado Springs is now experiencing the post-recession economic expansion and corresponding real estate growth. Absorption has been strong, keeping up with the new construction. This scenario alongside the broader population growth is luring outside investment.

However, while these improving conditions are motivating developers to build new product, the reduced availability of construction financing will likely keep a lid on the supply of new apartments. This may not be a bad thing. It may insulate Colorado Springs from the over construction that some first-tier cities are experiencing that can result in the painful burst of a bubble. ▲