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Is entry-level housing a thing of the past?

ARA Newmark/Newmark Knight Frank

Andy Hellman
Senior managing director, ARA Newmark, Denver

Accessibility to entry-level housing in metro Denver is limited as product is scarce and construction costs soar. Prices for labor and materials are on the rise – contributing to the increasing price tag of new construction projects. Additionally, because of Colorado's litigious environment surrounding condominiums, developers are focused on products designed for rent. The combination of increased development costs and lack of supply creates a housing market with high financial barriers to entry. The needs, wants and desires of young people also are changing. Most potential first-time buyers are millennials whose spontaneous and dynamic lifestyles are more aligned with the renting model. The coupling of financial hurdles with changing consumer tastes has many industry experts wondering: Is entry-level housing a thing of the past?

It's very difficult to build entry-level housing in today's market, limiting the supply of available product for first-time buyers. Developers are facing higher construction costs, which equates to more expensive housing, including condominiums. The estimated price tag to build entry-level product is $225,000-$250,000 per unit. The bill for new construction projects will not be decreasing any time soon. Second-quarter construction costs in Denver were recorded up 3.6 percent compared to 2016, tracking ahead of the national index. It is estimated that these costs will rise 3 to 3.5 percent throughout the rest of 2017, according to Mortenson Construction Cost Index.

The production of entry-level housing is not only limited by high construction costs, but also by regulatory barriers facing Denver area condominium developers. Historically, entry-level product has been largely composed of condominiums or attached housing. Colorado's controversial condominium environment has greatly impacted developers' and investors' interest in attached-housing product, providing a notable deficit in available condominiums. In fact, new construction permits for condominium units only totaled roughly 2 to 3 percent of all permits in 2016, with apartment housing making up the majority (at approximately 60 percent). Today, the limited supply of new condos and the resale of former apartments turned condos make up the affordable housing market. Colorado has not seen significant condo construction since the late 1990s. While recent forward strides in condominium legislation look positive, the immediate

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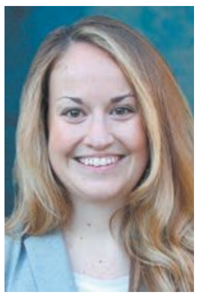
Letter from the Editor

Defining 'affordable'

It's hard to discuss the Denver housing market and not end up on the topic of affordability, which quickly devolves into generalities as each person shares his thoughts on "affordability." However, in this issue, the topic is examined through multiple lenses and offers readers perspectives that are rooted in math and based around current statistics.

The first set of statistics that may come in handy next time you find yourself in this inevitable conversation is Craig Stack's article on Page 12. In it, he looks at average Denver wages and compares them to average Denver apartment rents. Based on the industry-accepted baseline of spending no more than a third of your income on housing, Stack uncovers that the Denver apartment market looks pretty fair. The accompanying graphic drives home this point and compares our income-to-rent ratio with other thriving cities.



However, while rental rates seem to be keeping pace with incomes, the cover story makes an argument that entry-level housing may be a thing of the past. The author, Andy Hellman, makes some compelling points as he breaks down the costs of buying and living in today's typical condo. When the monthly costs are considered – basing everything on averages defined within the article – the condo homeowner in the example ends up spending about $200 more a month than the average renter.

However, the larger frustration for many in this demographic is the down-payment cost that comes with a purchase this large. For a $320,000 condo, with a 20 percent down payment, they'd be looking at paying $64,000 up front. Saddled with student loan debt and life expenses, squirreling away savings for this type of down payment is challenging, to say the least.

In fact, for millennials in Colorado, many are looking at a 10- to 15-year period of savings before they can afford an average down payment, based on income data from the U.S. Census Bureau, according to a June report from Abobo Apartments.

Now some may point out that this equation focuses on condos, and our legislative environment has not been friendly to condo development over the past decade, making the supply extremely limited and driving costs up. However, as of late July, Denver's median home prices for one- and two-bedroom houses were $260,000 and $375,000, respectively, according to Trulia.

The takeaway seems to be that Denver still is affordable for many renters who want to live comfortably in a vibrant community, but purchasing homes will take time and successful saving habits. All this bodes well for the for-rent market.

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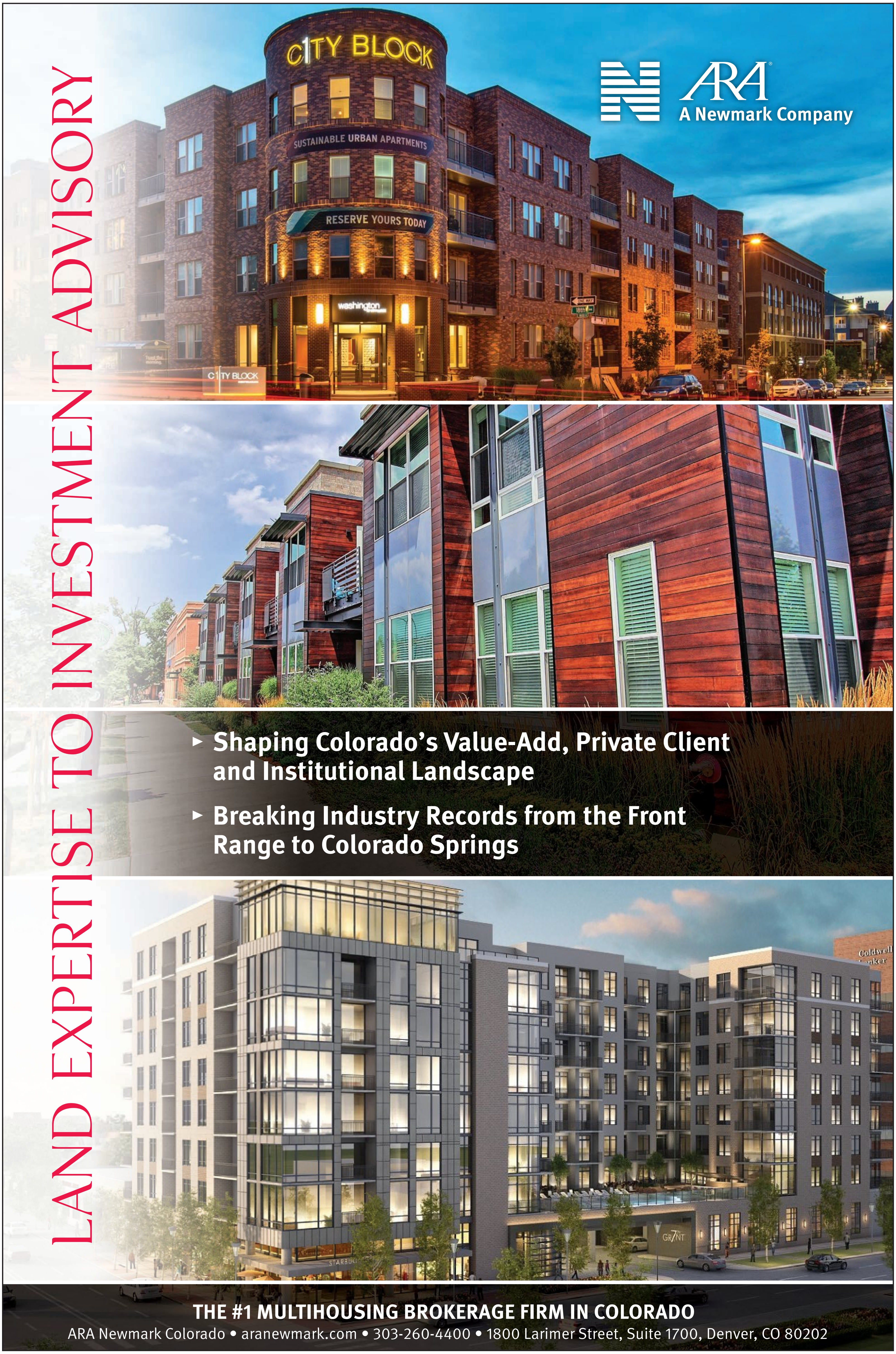
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Market Update

After slow start, financing finds solid 2017 pace

Halfway through 2017 and it is business as usual in Denver's multifamily market. On the heels of a record 2016 with sales volume eclipsing $6.6 billion, the multifamily investment sales market is chugging along at a steady pace. Since the beginning of 2015, quarterly multifamily sales volume in the metro Denver region averaged approximately $1.15 billion, while the first two quarters of 2017 averaged $935 million (50 units and greater). The slow start to the year was not limited to multifamily, as the capital markets slowly settled into a new normal after the presidential election in late 2016. The spike in treasuries sent quoted interest rates on long-term debt skyrocketing as lenders held spreads, uncertain how the dust would settle in the new year.

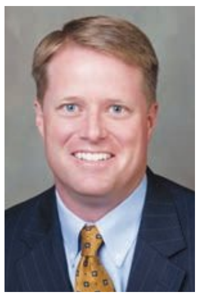
By mid-February, at the annual Mortgage Bankers Association conference, the dust had settled as buyers and lenders alike accepted the new environment and got back to business. Spreads adjusted downward as the treasuries stabilized, and the market geared up for another year of healthy activity. For perspective, the post-election 10-year Treasury has fluctuated between 2.14 to 2.62 percent compared to 2016 (pre-election) when the index bounced between 1.4 and 2.25 percent.

Fast forward to August and although the Denver market is on a slower (but probably more realistic) pace than 2016, there is still plenty of liquidity in the market for multifamily debt. Freddie Mac's new business volume trend showed that, despite the slow start to the year, loan origination was only off 1 percent through the second quarter when compared to the same period in 2016.

Jeff Halsey
Vice president, capital markets, CBRE, Denver

Denver metro multifamily remains a preferred asset class for lenders and investors as the economy booms and people continue to move here in search of opportunities in employment and in lifestyle. Though the state legislature has taken steps toward reforming construction defect laws, new condominium activity has been almost nonexistent. The single-family home sector is increasingly competitive and a scarcity of new product has benefitted the apartment market.

Lenders from all food groups have deployed billions of dollars for new construction, rehabilitation projects and long-term, fixed-rate debt for stabilized properties over the last few years. Construction financing faces the strongest headwind at this point in the cycle, primarily due to tightening regulations in the banking space coupled with lender exposure limits tied to the dramatic amount of new supply. The seven-county metro area has welcomed over 31,000 units since the beginning of 2014 with an additional 21,700 units under construction and an additional 18,700 units on the drawing board. While the increased supply seems to be absorbing steadily, lenders have expressed concerns about increasing concessions and flattening rent growth, particularly in the urban core. Obtaining construction financing is as challenging as developers have experienced during this cycle with lenders ratcheting down on leverage, introducing higher levels of recourse beyond traditional completion guarantees, and some pulling out of new construction altogether.



Brady O'Donnell
Vice chairman, capital markets, CBRE, Denver

Those developers successfully obtaining construction financing have experienced higher costs of capital with Libor, the universal index for floating-rate debt, creeping higher and higher each time the Federal Reserve has raised interest rates. At the time this article was written, the UK Financial Conduct Authority announced that Libor will be eliminated by the end of 2021. That, however, is a topic deserving of its own article.

The government-sponsored entities, Freddie Mac and Fannie Mae, remain bullish on the Denver multifamily market and continue to remain the most popular options for multifamily debt. In 2016, Freddie Mac, with $56.8 billion in loan originations, narrowly outpaced Fannie Mae at $55.3 billion, both of which were new records for each entity. The GSEs or "agencies" are attractive for borrowers, offering high-leverage, fixed- and floating-rate options, typically with an interest-only component. Although prepayment penalties typically include yield maintenance or defeasance, the ability to add supplemental loans enhances the assumption process by giving buyers the ability to push leverage.

Jill Haug
Vice president, capital markets, CBRE, Denver

Life insurance companies have adjusted spreads to solve to pre-election interest rates with 10-year money as low as 3.5 percent for low-leverage multifamily. The ability of life companies to provide long-term money, up to 40 years in some cases, makes them an attractive option for long-term legacy assets.

The commercial mortgage-backed securities space has seen demand come and go for multifamily. These lenders capitalized in 2015 when the agencies hit the brakes around second quarter after outpacing their allocation targets early in the year. Multifamily loans now are few and far between in the CMBS space with the agencies competing fiercely for new business. The number of bridge

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Market Update

Diving into asset class analysis from 2015-2017

Overall, the Colorado market has been strong through the first half of 2017. The state has absorbed over 5,500 units and average effective rent has increased about 5.1 percent. The number of units absorbed this year is higher than in the first half of 2016 and 2015, by about 2,000 units and 1,200 units, respectively. Overall occupancy, as of the end of June, was at 93 percent, a slight increase from the 92 percent average in the previous six months.

For a closer look at the market conditions, it's helpful to look at the movement in key indicators such as average effective rent growth, occupancy and absorption in each asset class.

Class A properties have performed well when compared to the previous two years, but there are signs that the level of new construction is starting to drag down effective rent growth. In the first half of 2017, we've seen almost 1,700 Class A units absorbed, an increase from the 1,500 in the first half of 2016 and the 1,470 in the first half of 2015.

However, there is some softness in effective rent growth. While still positive, average effective rent grew by only 3.8 percent in the first two quarters, a noticeable drop from the 6.3 percent increase in 2016 and the 6.6 percent increase in 2015. This is signaling that the top of the market is feeling the influx of new construction units entering the market at an accelerated pace.

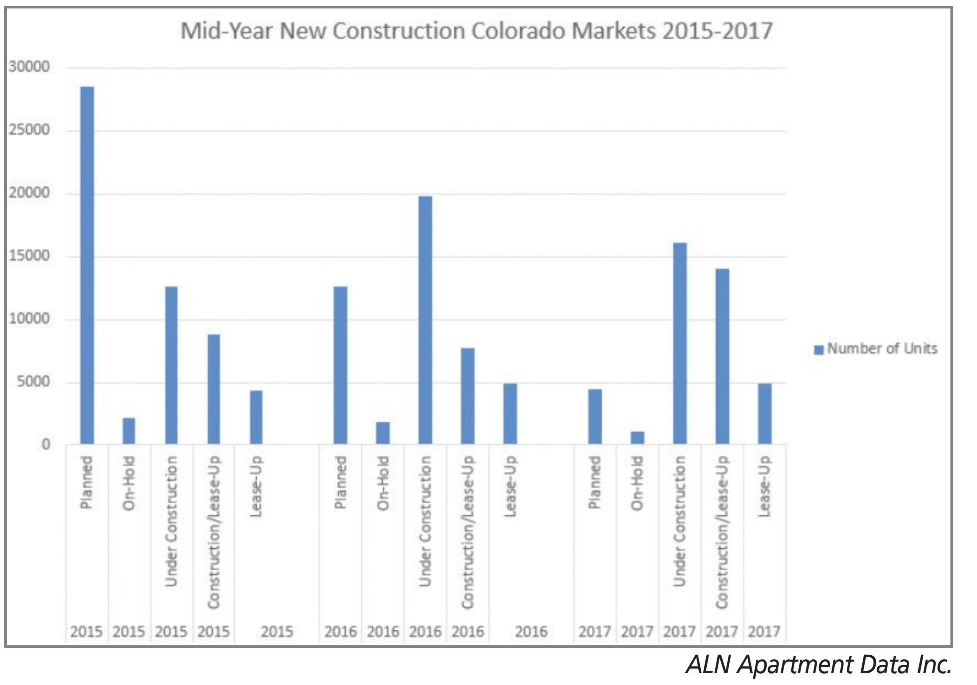
The silver lining is that despite the slowdown in rent growth, occupancy is trending in the right direction. As of the end of June, average occupancy was 82.8 percent. This is not an ideal number, to be sure, but it does mark an

Jordan Brooks
Account manager, ALN Apartment Data Inc., Carrollton, Texas

improvement from the 79.6 percent rate of the previous period. Overall for the top tier, average effective rents are up, average occupancy is up and absorption is up.

Class B properties have seen a similar dynamic play out regarding these three indicators. Absorption is up compared to the first half of 2016 and 2015. A little over 900 units have been absorbed in this asset class in 2017, whereas 2016 saw about 700 units absorbed and 2015 had a negative value of nearly 375 units.

The positive trajectory also is present for occupancy. With an average occupancy this year of 92.6 percent, the previous six month's average of 92.2 percent was ever so slightly edged out. However, just as with Class A, there has been some erosion in effective rent growth. The new supply at the top if the market means that some of the properties near the threshold of Class A and Class B have been bumped into the latter. This has resulted in increased competition in this price tier, although the conditions are hardly bleak. In the first half of 2017, the average effective rent growth was a robust 5.7 percent. The previous two years showed immense price growth, however, and 2017 did not keep pace. In 2016, the average effective rent growth was 6.2 percent, and in 2015 the figure was 8 percent. Despite the decline in rent gains, there



ALN Apartment Data Inc.

certainly isn't reason for concern in the near term.

Class C also is on solid ground. After absorbing 1,200 units on the first half of 2015 and about 700 in 2016, 2017 saw a huge increase to slightly over 2,700 units. This represents over half of the total number of units absorbed in the state through June. Additionally, average effective rent growth improved from the 3.7 percent rate of 2016 by a full 2 percent despite falling short of the 2015 6.5 percent growth. Occupancy also rose 1.5 percent from 92.8 to 94.3 percent, a substantial improvement from 2015 and 2016, which were both under 1 percent through the first six months of the year.

Class D has not kept pace with the great start to the year in the other classes, but even here, the numbers aren't terrible. Absorption decreased by 50 percent from 2016 – but, at a little over 300 units, it is still better than the 2015 number of about 240 units. Additionally, average effective rent has increased 2.7 percent, which is higher than 2016 and 2015, when both were under 2 percent. Occupancy has increased by 0.5 percent to 95.5 percent. Absorption in this class can be shakier than the rest of the market due to units lost to closure or demolition. The lack of occupancy loss and the improvement in effective rent growth show that the Class D tier is in good shape.

The driver for much of the movement in these indicators is new construction,

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Market Update

Aurora and Colorado Springs still offer opportunities

Investor demand is at an all-time high in the multifamily markets of Colorado Springs and Aurora, due to the strong growth over the past 18 months and predicted growth in the next 12 months. Buyers are riding a market wave, as continued aggressive rent growth is projected into 2018. Local, regional and numerous national buyers new to both markets continue to compete for assets, raising the bar to levels never seen before. Strong economic drivers in both markets continue to push rents, sales and construction; additionally, investors are capitalizing on value-add opportunities, renovating older properties and subsequently increasing rents.

Aurora has an approximate population of 362,000, compared to an estimated 465,000 in Colorado Springs. There are about 32,000 existing units in Aurora with an additional 1,000 under construction. In contrast, Colorado Springs has 48,000 existing units and another 2,000 under construction.

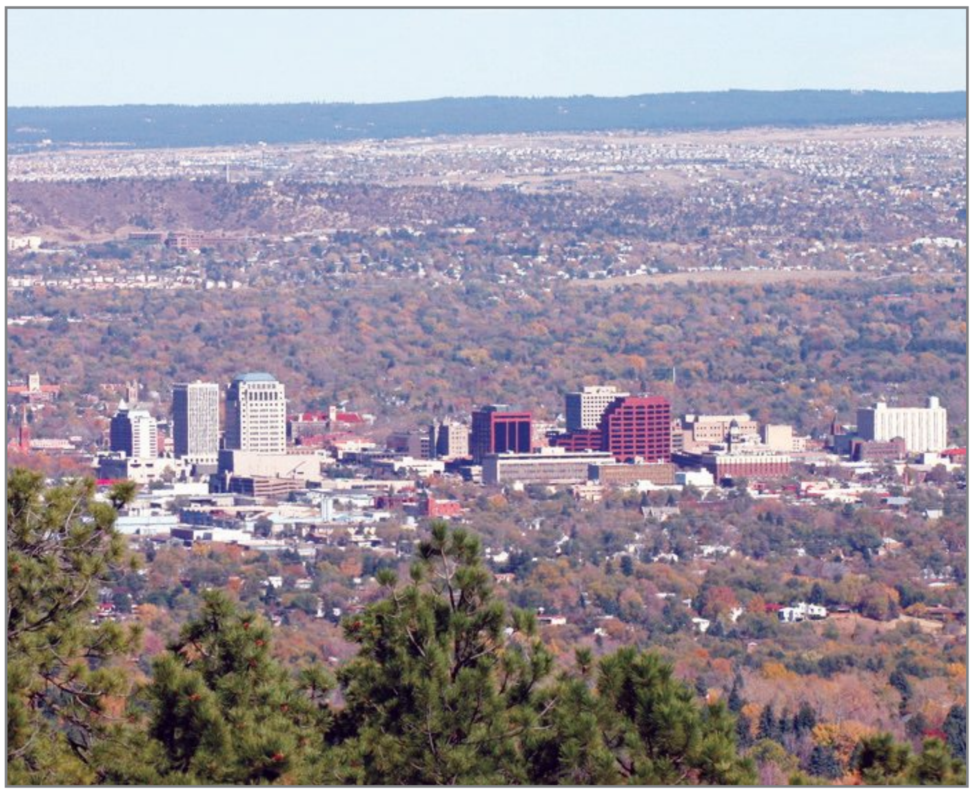
Colorado Springs had its best year for multifamily investment sales in 2016. Annual sales volume increased 14 percent over 2015, growing from $447.7 million to $510.4 million, and the average price per unit grew 12.3 percent. Economic growth in Colorado Springs is attributed to the vast number of aerospace, cybersecurity, IT and medical innovation companies that call the region home, as well as more than 30 Fortune 500 firms and five military installations.

Greg Price
Senior director, national multihousing group, Marcus & Millichap, Denver

Meanwhile, with the developments of the Fitzsimons Innovation Campus, the $1.8 billion Denver International Airport build-out plan underway, and light-rail expansion spurring strong rental growth along Interstate 225, Aurora now has solid economic and transportation drivers that should bode well for years to come. While both markets are experiencing strong economic growth, Aurora is seeing higher 'per pound' pricing and slightly higher average rent levels. Aurora averaged $441 million in sales volume between 2015 and 2016.

In direct correlation to robust sales numbers, both markets have experienced robust rent increases through the first quarter. Aurora saw a 12-month increase of 11.4 percent, while rent in Colorado Springs grew 10.3 percent for the same period. The year-over-year rent growth of 10.3 percent in Colorado Springs is ranked second-highest nationally behind Reno, Nevada, for secondary markets.

Both markets should continue to see paced new construction – in comparison to central Denver and the 36 Corridor, for example – as rising costs versus current market rents are keeping deliveries moderated. Only select sections in both markets are viable for new construction.



Unlike stock in many other Front Range markets, value-add opportunities still are abundant throughout Aurora and Colorado Springs, shown above.

In addition, both markets continue to see single-family home prices climb, pushing upward pressure on rents. The median home price in metro Denver has risen 88 percent since 2011, creating high barriers to homeownership, particularly among millennials. This, coupled with high in-migration, has kept general vacancy low and demand for rentals high in submarkets like Aurora, where rental units are priced below a mortgage payment for an entry-level home. Further both markets are experiencing some of the lowest vacancy rates in the state, hovering in the 3 percent range.

Value-add investment strategies have been the norm in both areas. There are countless examples of buyers purchasing older buildings

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Market Update

Optimism remains for Northern Colo. market

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

The Class A market-rate apartment market in Northern Colorado remains quite strong, despite a number of projects in lease-up and a higher number of units under construction and in the pipeline than over the past several years. While there are a significant number of additional projects in the pipeline, it is important to note that I don't believe all of the proposed projects will be built, and I expect the timing of many of the deliveries to be pushed further into the future than some developers may be anticipating.

There are a variety of reasons for this, including, but not limited to:

- •Entitlement and permitting timelines taking longer than in the past,
- •Development impact fees and raw water costs increasing in some municipalities,
- •Geographical and political barriers to entry,
- •Equity requirements from many lenders being approximately twice what they have been in this cycle,
- •Some lenders pulling back on apartment construction lending due to high portfolio concentrations,
- •Potential for interest rate increases,
- •Construction costs (particularly labor) continuing to escalate quickly, and
- •Construction delays due to labor shortages.

With a watchful eye on apartment trends, interest rates, construction costs and feasibility of projects in the region, we estimate that of the nearly 4,000 units proposed (within institutional quality and scale communities, not including communities under construction), only approximately one-third or less of those units will break ground in the coming year.

Presently, there are approximately 1,300 units under construction (again, within institutional quality and scale communities). I still view Northern Colorado as a favorable environment for apartment development, and I continue to see positive unit absorption, strong occupancies and rents, as well as a lack of significant rent concessions in the market, although nominal concessions are being offered at some communities.

• **Apartment demand.** I believe demand for apartments will remain strong for the foreseeable future given that Northern Colorado continues to see solid population and employment growth, as well as rapidly rising home values, which keeps many would-be homebuyers in the rental market. Fort Collins/Wellington/Timnath's median home price is projected to reach $395,000, while Loveland/Berthoud's median home price is projected to reach $338,000, and Greeley/Evan's median home price is projected to reach $265,000 in 2017, according to The Group Inc.

Additional factors driving apartment demand include living preferences of the millennial and baby-boomer generations and the relative nonexistence of condo development, although there are a handful of condo projects under development now.

Many people within the millennial and baby-boomer generations are drawn to renting downtown, urban or suburban apartments, which offer close proximity to dining, entertainment, culture and night life, while also featuring the community and shared spaces within the apartment buildings. Even if millennials can afford to move to a house in a more suburban neighborhood, many will choose to live in apartments instead, according to Forbes Magazine. This is likely due to their preference for flexibility, mobility, and little or no home maintenance.

Fifty percent of millennials are renters. Almost half of all adults and 73 percent of millennials, report they are "very" or "somewhat likely" to move in the next five years, according to the Urban Land Institute. Apartment living allows individuals to move with more ease, rather than being tied to one place. The number of millennials choosing to rent rather than own results in a decline in homeownership, leaving a record-low percentage of American homeowners under the age of 35 since 1982, according to U.S. News & World Report.

When comparing year-over-year statistics for institutional quality and scale communities, which we survey biannually, the occupancy rate for the properties declined slightly from 97.67 to 96.69 percent. The average monthly rental rate, per unit, decreased to approximately $1,405 from a previous rate of $1,425. This equates to an average monthly rental rate decrease of 1.4 percent year over year. On a per-square-foot-per-month basis, the average asking rental rate decreased from $1.53 to $1.50, a decrease of 2.03 percent over this same time period.

Of most importance, the average gross rent per unit per month, at the current occupancy and asking rental rates, decreased from $1,389 to $1,357; a decrease of 2.31 percent year over year. These figures do not include concessions, which are minimal in the present environment, nor do they include items that would produce other income, such as garage rent (averaging $88 per one-car-detached garage, per month); pet fees, deposits and rent; amenity fees; administration fees; application fees; and vending and laundry income.

It is important to note that I attribute the slight decline in occupancy and effective rents, year over year, to 474 units being in lease-up at the same time in the Loveland area. I have seen this have a similar impact in the past and the softness appears to have some seasonality, as the lease up impacts the market more

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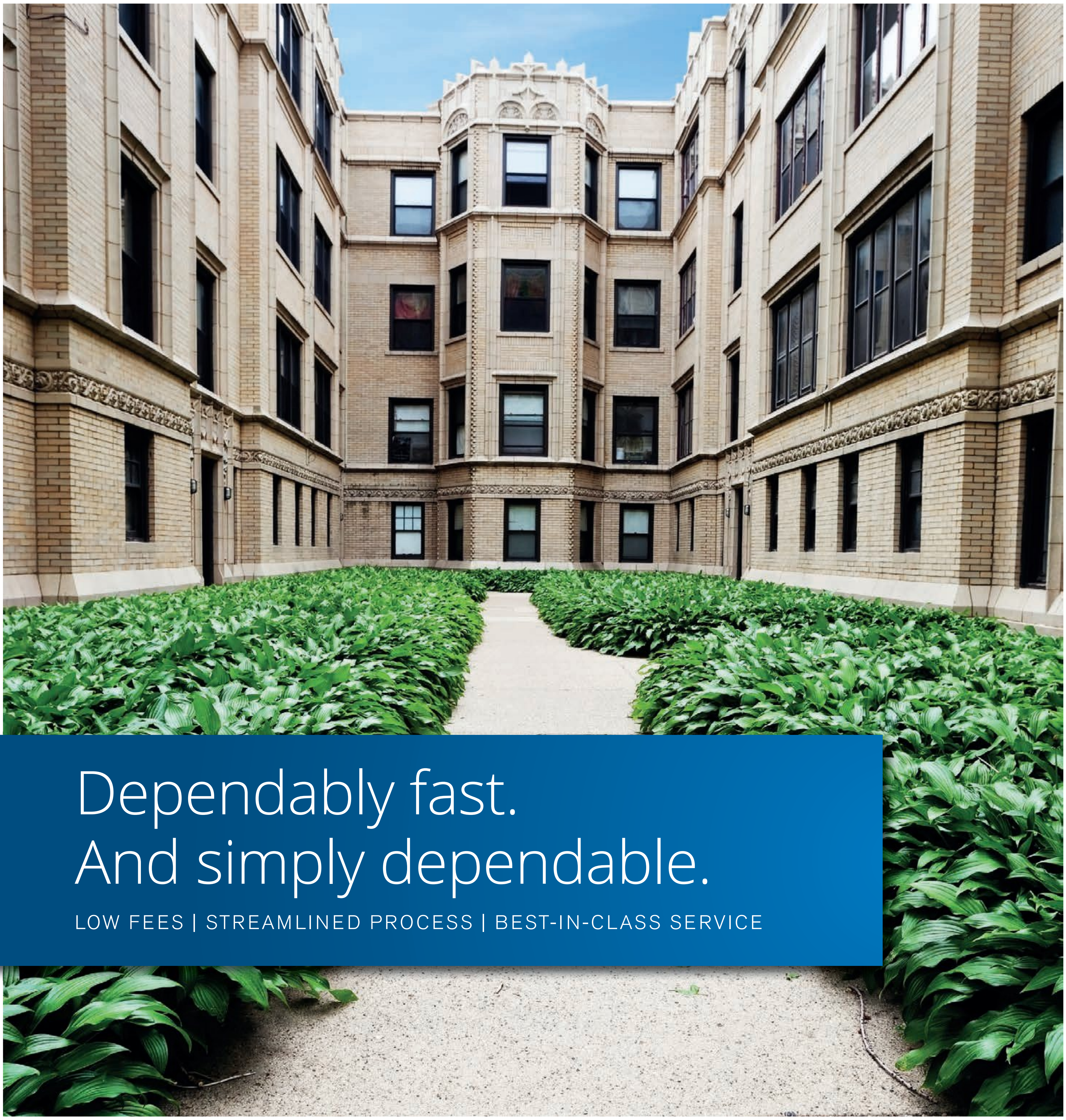
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Denver Highlight

How do Denver wages compare to Denver rents?

As a Denver native, I know firsthand how much our city has changed. I used to live southeast of Parker and Arapahoe roads, which was pretty much in the middle of nowhere. The only retail at that intersection was the Barn Store and a gas and convenience store, which was where I used to ride my bike to play Donkey Kong and get an Icee on a hot day. Today, that intersection is home to several major retail centers and luxury apartments.

The population of Colorado has more than doubled since my childhood, and with the influx of new residents and businesses, the cost of renting has gone up. Some of our clients have been asking whether Denver has become too expensive relative to Colorado/Denver wages. We did some research to find out just how expensive it is to live in Denver and how we compare to other markets.

Craig Stack
Senior vice president, multifamily investments, Colliers International, Denver

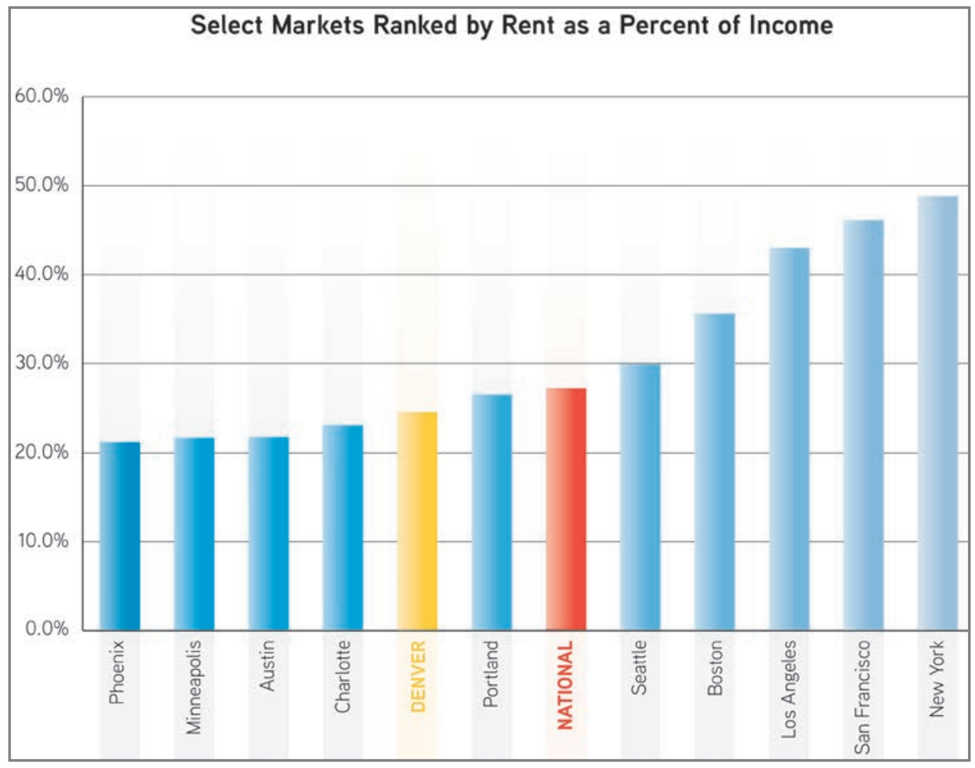
Rent vs. Income

• **How much rent can you afford?** Apartment management companies often qualify residents on a ratio of their gross monthly income before taxes to their rent. A common ratio we hear from management companies is three times the rent to qualify. For example, a person making $36,000 a year, or $3,000 per month, would qualify for $1,000 per month at three times his rent. The equation would be $3,000 (monthly income) ÷ 3 (qualifying ratio) = $1,000 maximum monthly rent.

• **Percentage of income spent on rent.** Another way of looking at affordability is the percentage of a household's gross income (annually or monthly) that is spent on rent. In the example above, a person paying $1,000 per month in rent would be paying 33.3 percent of her income toward rent. The equation would be $1,000 (monthly rent) ÷ $3,000 (monthly income) = 33 percent (income spent on rent).

According to the Bureau of Economic Analysis, Denver has a median household income of just over $70,000. According to Apartment Insights, the average metro rent at the end of the second quarter was $1,399 per month. If we annualize the monthly rent to $16,788 and divide by the annual income, on average, households in the metro area are paying about 24 percent of their income on rent: $16,788 (annual rent) ÷ $70,000 (median household income) = 24 percent of income spent on rent.

In an effort to take a narrower view of the data, we looked at one of Denver's least expensive submarkets, northeast Aurora, which had an average rent of $1,039 per month at the end of the second quarter, according to Apartment Insights. We picked roughly the center of this statistical submarket and pulled a 3-mile radius demographic report, resulting in a $41,000 median household income. Again, if we take the annual rent divided by the median household income, residents in this submarket pay, on average, 30 percent of their income on rent: $12,468 (annual rent) ÷ $41,000 (median household income) = 30 percent of income spent on rent.



Colliers International

Using household median income data from the Bureau of Economic Analysis and average metro rents provided by Axiometrics, the chart compares the percentage of income spent on rent across several major markets.

In contrast to household median incomes, a single person earning minimum wage of $9.30 per hour, or $19,344 a year (assuming 40-hour workweeks and 52 weeks of full-time employment), would be hard pressed to find an option to live alone. Using a three times rent qualifying ratio, a full-time, minimum-wage earner could only afford a monthly rent of $537: $1,612 (monthly income) ÷ 3 (qualifying ratio) = $537 (maximum monthly rent).

How Does Denver Compare?

Using household median income data from the Bureau of Economic Analysis and average metro rents

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Investor Insights

Smaller assets may be key to value-add success

Driven by strong in-migration and job growth, the Denver area apartment market continues to attract multifamily investors. But, as pricing continues to rise, many would-be investors are finding it harder to beat out the competition. As a result, shrewd investors are expanding their investment criteria and taking a closer look at product that is older, smaller or further from the downtown core.

With over 27,000 apartment units under construction in metro Denver, Denver is expected to break the record for most deliveries in a calendar year, per Apartment Insights. A large portion of the development pipeline consists of Class A luxury units, and as rents in metro Denver have risen over 60 percent in the past five years, these units are becoming harder for Denverites to afford.

Despite the large supply growth, the Denver market is, by many accounts, still experiencing a shortage of housing. Attaining housing that is relatively affordable is especially difficult – at the end of June, there were only 475 active listings of single-family homes priced below $300,000 in the entire metro Denver area, which is home to over 3 million people. The same demand-and-supply imbalance for attainable housing is taking place in the apartment sector as well, as vacancy for Class C properties has dipped to just 3.3 percent, per Axiometrics June 2017 report.

Craig Kalman
Vice president, multifamily, JLL Capital Markets, Denver

The numerous apartment market tracking resources tend to vary in their performance statistics, but the thing they can all agree on is that Class C properties are outperforming Class A by a significant margin. Apartment Insights pegs vacancy for Class C properties at 4.46 percent, Class B at 5.47 percent, and Class A at 6.86 percent. As for rent growth, Apartment Insights again confirms the discrepancy between Class A and Class C performance, with Class C at 4.43 percent annual increase compared to Class A at 2.04 percent increase in gross rents year over year. Class B rent growth is close behind at 4.17 percent annual increase, but the overall message is clear – working-class housing still is in extremely high demand.

Travis Hodge
Vice president, multifamily, JLL Capital Markets, Denver

For assets with less than 200 units, only 27 percent of the inventory has changed hands over the last five years. Furthermore, 79 percent of buildings in this category are considered Class C product, representing a potential value-add opportunity.

Since the recession, the Denver apartment market has experienced activity and performance like never before. To be sure, Denver has cemented its place on the short list for the top markets for investors to place capital. Plenty of capital has found a home within the Denver market, but the amount of capital still out there searching for a home is staggering. The amount of dry powder held within closed-end private real estate funds stands at $246 billion, according to Prequin's second-quarter update. North American-focused funds account for 59 percent of global dry powder, or $145 billion.

With so much capital to deploy, it makes sense for many fund managers to only look at deals that are above a specific dollar amount or unit count threshold. The fear among those tasked with putting all that money to work is that if they can only take down bite-sized chunks at a time, then they'd just be sitting on piles of cash. It stands to reason that larger properties have been the primary focus here. The result: 48 percent of apartment properties in metro Denver with 200 units or more have changed hands at least once in the past five years. The majority of these properties were purchased either with the intent of making value-add improvements or on the heels of a major value-add renovation.

The result of all this recent activity is that the Denver market has been picked over, and large-scale, value-add opportunities are extremely difficult to find. This presents a problem for value-add investors who still want to be in Denver. The solution, however, may be right under their noses. Investors willing to look at smaller-sized assets will find a wealth of opportunity.

For assets with less than 200 units, only 27 percent of the inventory has changed hands over the last five years. Furthermore, 79 percent of buildings in this category are considered Class C product, representing a potential value-add opportunity. In fact, it's hard to find a Class A product with less than 200 units as only 3.5 percent of the inventory is considered Class A.

If you're a value-add investor and you're still not convinced that you should at least consider smaller assets, then consider the fact that properties with less than 200 units outweigh properties with 200 units or more by a factor of 8.5. The cherry on top is the fact that these smaller Class C properties are simply performing better due to the current market dynamics.

More properties, more transactions and better performance – there's simply more opportunity in this smaller space. For the investors constantly describing how hard it is for them to hit their returns at today's pricing, it's time to take notice.▲


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Legislative Update

Housing restrictions won't benefit community

Over the past few years, our state's multifamily rental housing industry has observed significant increased demand, especially in the Denver metro area. Colorado has the lowest unemployment in the country at 2.3 percent and people are moving here as a result. According to the Colorado State Demographer, the population is expected to increase at 1.7 percent each year, which is roughly 396,000 people from 2018 through 2022.

Today, the American Dream is evolving – no longer focused on buying the single-family home with the white picket fence. Increasing numbers of seniors seeking to downsize are placing walkability, security and maintenance-free living as priorities. College graduates, often strapped with student loans, avoid additional debt and look to rent, which offers the flexibility to move to another market in pursuit of the dream job.

Because of these new dynamics, demand for rental housing is high and the new "renter nation" is in full swing. Couple this with a low

Nancy Burke
Vice president, government and community affairs, Colorado Apartment Association, Apartment Association of Metro Denver, Greenwood Village

inventory of single-family homes and it is clear – our metro area communities are in dire need for more housing.

Nearly 40,000 multifamily units along with 37,000 single-family homes have been introduced to the Denver area market over the past four years, and the absorption rate for these newly added units is at an all-time high. It is estimated that another 60,000 multifamily units are needed before we reach equilibrium in the current market. Basic supply and demand dictates that as demand for housing continues to increase, housing costs will continue to escalate barring an increase in supply. Industry experts agree that Denver's strong economy continues to drive the rental market, and they emphasize the importance of adding new supply.

> Keep in mind, the median new home price in Denver exceeds $537,000. Average rents are just over $1,400 per month. If supply is artificially cut off, housing prices and rents will rise.

• **What is being proposed?** The recent growth, driven by a strong economy and demand for housing, has led to frustration among many. Traffic, high housing costs, gentrification, density and changing neighborhoods prompt constituents to call on their elected official to "do something." Along with other well-meaning but misguided legislative proposals, we are now seeing the introduction of several antigrowth ballot initiatives. These reactionary and ill-constructed proposals severely limit the development of additional much-needed housing units.

One such growth limitation proposal would restrict building permits to 1 percent of the current stock in each of the 10 counties (Broomfield, Denver, Adams, Arapahoe, Boulder, Douglas, El Paso, Jefferson, Larimer and Weld). It would apply to all types of residential housing including single-family, apartments, mobile homes, condominiums and townhomes. The potential Nov. 6, 2018, ballot measure would place an immediate moratorium on any new building permits from the day of the election to the end of the year. Additionally, counties would be limited to issuing permits for 1 percent of the existing housing stock per year until 2022, at the earliest, if overturned by the voters through county referendum.

Lakewood and other municipalities are looking at similar measures.

• **Is this the right approach?** Restricting housing production would not only exacerbate rising housing costs, it also would drastically diminish the ability to produce much-needed affordable housing. Keep in mind, the median new home price in Denver exceeds $537,000. Average rents are just over $1,400 per month. If supply is artificially cut off, housing prices and rents will rise. It will become more difficult for low- and moderate-income families to find housing. Unable to afford housing, more individuals will likely face homelessness. Employers keeping Colorado's economy strong will begin to leave for more affordable markets where they can find employees who can afford to live near their work.

Within the five-year timeframe contemplated by the proposed initiative, conservative calculations estimate an economic impact of $26 billion, equating to nearly $5 billion in lost fees and tax revenue for local governments. Another inevitable result includes the loss of over 50,000 permanent potential jobs for our communities and the reduction of 147,000 construction jobs and from those, induced jobs tallying over 117,000.

Although there is no silver-bullet approach to address affordable housing needs, newly crafted policies must be thoughtful, documented and studied to accomplish a positive, meaningful impact for our community as a whole. A limit on new housing is not the answer. Let's keep our community vibrant, economically sound, attainable and affordable. Growing pains can be difficult, but a studied approach is best.▲

Legal

Important considerations for condo conversions

Bryce Beecher
Counsel,
Brownstein Hyatt Farber Schreck, Denver

Jonathan Pray
Shareholder,
Brownstein Hyatt Farber Schreck, Denver

In light of the recently adopted House Bill 1279 and the Colorado Supreme Court's decision in Vallagio at Inverness Residential Condominium Association, Inc. v. Metropolitan Homes, Inc., et al. (217 CO 69), the time finally may have arrived when developers and owners of existing multifamily apartments can begin converting them into for-sale condominiums. Before committing to a conversion – a process that has not been greatly utilized in recent years due to factors including construction-defect risk – developers should consider several factors and legal requirements.

• **Feasibility considerations.** To avoid potential construction-defect liability exposure, many existing multifamily apartment projects have been restricted, through contractual provisions or recorded documents, from being converted to condominiums until expiration of the statute of repose – between six and eight years in Colorado. And even if the project is not restricted, while Colorado law provides significant protection for architects and contractors through the statute of repose, developers may not have the same protections if they owned or controlled the apartment project during the statute of repose. Additionally, regardless of any potential liability for defects in the original construction, developers undertaking a condominium conversion have potential liability for defects in any new work undertaken as part of the conversion.

Absent restrictions on conversion, developers should consider whether the project will work as a condominium. Are utilities submetered, is submetering necessary and what is the cost of retrofitting the existing structure to provide for submetering? Will additional actions be necessary to bring the condition of the units and other structural aspects to a saleable condition, potentially requiring compliance with current codes? What amenities will target unit purchasers expect (and be willing to support through homeowner association assessments), and how does this compare to the project's existing amenities?

• **Compliance with the Colorado Common Interest Ownership Act and approval by the Colorado Real Estate Commission.** Any new condominium created by a conversion must comply with the Colorado Common Interest Ownership Act. This means preparing a condominium declaration, a condominium map, and articles of incorporation, bylaws, rules and regulations, policies and a budget for the HOA. For developers not experienced with condominium projects, the majority of a declaration's framework is established by CCIOA, but CCIOA also provides latitude in many areas, such as assessment and voting methodologies. The time to develop a "close-to-final" set of condominium documents depends on the level of complexity involved, the developer's readiness to decide on a few important issues, and the speed and accuracy of the surveyor.

If the project will have 20 or more units, compliance with the Colorado Subdivision Developer's Act is required. The SDA requires registration and approval from the Colorado Real Estate Commission before the negotiation or execution of unit contracts, although reservations agreements with fully refundable deposits may be permitted by the CREC.

The CREC must approve or reject the registration application or request additional information within 60 days after receiving the application. The approval period often is shorter, but the CREC subdivision developer review staff is small, so the number of active applications under review at any time can impact the timing. Developers have a continuing obligation to renew their registration and disclose to the CREC certain changes to the project (for example, the filing of a lis pendens or lawsuit, or a new blanket encumbrance).

The application must disclose specific information about any person with a 24 percent or more financial interest in the developer – or, if no single person has at least a 24 percent interest, the person with the greatest financial interest. The developer must submit drafts of the proposed or recorded condominium documents, the sales contract and reservation forms, a disclosure statement to be given to each prospective purchaser, and evidence that units will be released from any blanket encumbrance upon sale. While the CREC may disapprove the forms, the substance of the condominium documents is reviewed primarily to ensure consistency with the disclosure statement, and the sales contract is reviewed to ensure that it includes specific mandatory provisions, including a purchaser's five-day right to rescind, the timing of delivery of deeds and title insurance policies and other matters.

The disclosure statement must include a description of all the availability of utilities, access and the amenities within the project, as well as the services, its dues and

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TRAVEL.
Why do we leave the comfort of home
for parts unknown?
In a word,
INSPIRATION.
Great design is informed
by great experiences –
the true luxury of our times.
Like travel, design is a journey.
It's a search for creative insight
leading to flashes of brilliance
and sparks of pure joy.
Is there any wonder
why we love design?
Angela Harris
Featured home:
Private residence, New York City
APARTMENTS | COMMERCIAL | MODEL HOMES | RESIDENCES
TrioEnvironments.com
TRIOENVIRONMENTS
BY ANGELA HARRIS

Affordable Housing

City must preserve existing afforable housing

Ravi Malhotra
President and founder, ICAST, Denver

Dozens of cranes in the Denver skyline are an encouraging sign for many residents that the city's economy is booming. New buildings populated with bright, modern apartments and ambitious businesses undoubtedly are important to Denver's urban development. But another type of building innovation is happening in the city and, in many ways, it's more important to the communities here. Retrofitting Denver housing to preserve its affordability and availability is crucial to many neighborhoods' vitality. Retrofits are more cost-effective than new construction, they build on previous public investment in a way that supports local economies, and they counteract the rapid loss of affordable options due to deterioration, abandonment or conversion to more expensive housing.

As more people move to cities nationwide, the rising urban population will increase investment, property taxes and competition for housing. In this article, Denver is used to illustrate developments in similar cities where new investment and the growing demand for housing are inflating property values. Where this shift happens, the number of available housing options that historically have been affordable to low- and moderate-income households can decline dramatically. Addressing this trend is especially pressing given that in the U.S., for every 100 households that earn 30 to 50 percent of their area median income, there are only 65 available and affordable units.

• **Denver's housing market.** As new construction raises property values and rent throughout neighborhoods, the Denver metro area has seen a significant increase in demand for affordable housing. Homes with base prices above $400,000 now represent 68 percent of the market, an all-time high for Denver, according to a Metrostudy research released in February.

Meanwhile, less affordable housing is being developed and fewer subsidized housing vouchers are being offered than ever before. As a result of this situation, the Colorado Independent reports that, "the affordable housing crisis has moved from the ranks of the impoverished and low-income earners into the ranks of the middle class."

To ensure that all households, regardless of income level, benefit from the development of urban neighborhoods, practitioners and advocates should work to preserve existing affordable housing, protect renters from rising costs or pressure to move, and ensure new development includes affordable options. We will place emphasis on the first solution, as it is less obvious to many (particularly ribbon-cutting politicians) why preserving affordable housing is more impactful than building it.

• **Preserving vs. building affordable housing.** Across the U.S., approximately 100,000 affordable housing units are built each year. But for every unit built, two are lost due to deterioration, abandonment or conversion to more expensive housing. Preserving housing, rather than building it, has proven to be the most financially sustainable method of reversing this trend of taking one step forward and two steps back.

Ben Criswell, ICAST

A historic apartment building in Denver's Highlands neighborhood recently was retrofitted to preserve its affordability for low- and moderate-income residents.

In cities like Denver, with high land costs and restrictive land use regulations, it can be difficult to build rental housing affordable for low- and moderate-income households. In fact, the cost of building new affordable housing can be as much as double the cost of preserving a city's existing stock.

Preservation also protects the billions of taxpayer dollars already invested in affordable housing by building on that investment for future public benefit. This makes retrofitting our existing housing stock the most cost-effective investment that the public sector can make to ensure that its citizens have decent and affordable places to live. These efforts create opportunities to work with communities to meet their housing needs. They build upon the character and history of a neighborhood in a way that values rather than erases the past.

• **Subsidized housing vouchers.** Subsidizing rent for low- and moderate-income households through housing vouchers offers another solution to affordable housing shortages. However, in Denver, the near-impossible acquisition of these vouchers makes afford-

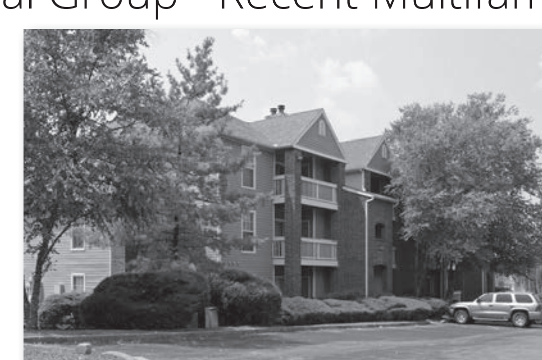
Please see 'Malhotra,' Page 36

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	140-200 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 2017 • 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	210-250 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 750k with no maximum loan size • Agencies have expressed a desire for increased loan volume in 2017
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

Decatur Point Apartments
Denver, CO
$39,000,000 Permanent Loan
Life Insurance Company



The Commons Apartments
Cincinnati, OH
$14,149,000 Permanent Loan
Agency

Gardens on Paris
Aurora, CO
$8,692,000 Permanent Loan
Agency

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Sustainability

Green MIP Reduction program is a useful tool

Keely Downs
Attorney, Moye White LLP, Denver

U.S. households residing in multifamily housing – one in four households – spend approximately $40 billion on energy every year. A 20 percent increase in energy efficiency for these homes would save $8 billion per year and cut greenhouse gas emissions by 430 million tons, according to the Department of Housing and Urban Development.

To address these issues, HUD now offers a reduced annual mortgage insurance premium for energy efficienct and green building standards: The Green MIP Reduction. The Green MIP Reduction cuts the MIP from current rates, which generally are between 45 and 70 basis points, to 25 basis points for properties that meet one of the listed industry-recognized energy efficiency and green building standards. Fiscally minded taxpayers will be pleased to know that even with the reduction in MIP for energy-efficient loans, HUD predicts that loans under this program will generate net revenue for the federal government.

To earn the Green MIP Reduction, the project owner must demonstrate that the project has achieved – or must certify that it will pursue, achieve and maintain – an industry-recognized standard for green building. Further, the owner must certify that it has achieved, or will achieve, a score of at least 75 on the 1-100 Energy Star score using Portfolio Manager and maintain that score for the life of the loan, with certifications done annually.

For existing buildings, the owner must benchmark the building, then process a statement of energy performance in the Portfolio Manager with a score of 75 or greater and apply for Energy Star certification. If the existing property has a score of less than 75, a qualified green building professional would need to audit the building and design a program to achieve the green building certification and meet the required energy score.

• **Developer's perspective.** Tyler Downs, principal of Wazee Partners LLC, is utilizing the Green MIP Reduction for the upcoming 165-unit multifamily, mixed-use development known as West End 38 Apartments in Wheat Ridge, which is being financed through HUD's 221(d)(4) program. Downs' advice to other developers using the Green MIP Reduction in the 221(d)(4) program is to select an experienced, HUD-compliant green building consultant and to continually involve the consultant in your engineering and architecture meetings as early in the process as possible.

The program will provide the West End 38 project around $90,000 a year in MIP savings, according to Downs. The cost to participate in the program also was in the neighborhood of $90,000 for the green program certification fees and the cost of Group14's consultant fees, which include commissioning and application – the ongoing monitoring will be separate. Most notably, Downs does not believe there will be a significant increase in actual construction cost (and perhaps no increase) to achieve green program compliance for this project. The program cost was not significantly burdensome, perhaps in part, because the construction industry has made progress in adopting some of the standards of the certification program Wazee Partners chose as baseline construction standards, he said. For this project, the payback for the cost to achieve green program compliance will be within one to two years.

• **Sustainable design consultant's perspective.** Building green doesn't cost more; you just have to "design smart to build green," said Josh Marceau, sustainable design consultant at Group14 Engineering, the consultant for the West End 38 project. Many studies show that there is no cost to build green, or that the cost is very low, he said.

"For example, think about the balance between the building envelope and its mechanical systems," said Marceau. "A green building that has better exterior insulation than a standard building will allow you to save money by downsizing the mechanical system, which is one of the biggest costs to a project."

There are many opportunities to save money as well. For example, water-efficient fixtures are more energy efficient and will save owners money.

One of the benefits of the Green MIP Reduction program is the exposure and education it provides. Any time we can expose builders or designers who would otherwise build a standard product to a third-party green building rating system, they will learn something and change their practices, he said. We are seeing an increase in developers whose decision-making is based on the triple bottom line of people, profits and the planet.

• **Lender's perspective.** Most of the borrowers Scott Graber, vice president of multifamily and senior housing at Gershman Mortgage, works with are using HUD's Green MIP Reduction program. One reason for this is that since most loans are on a balance between being either replacement-cost constrained or debt-service constrained, the impact of not using the Green MIP Reduction is too much of a risk, he said.

"In approximate terms, on a roughly $17 million debt-service constrained new construction loan, a 40-basis-point increase – if the developer did not pursue the Green MIP Reduction – would result in a reduction in mortgage proceeds and increase in equity requirement by $940,000," he said. "On the flip side, in that same example, utilizing HUD's Green MIP Reduction, there would be roughly $120,000 of upfront MIP reduction savings, plus 40 basis points of effective interest rate savings (approximately $67,000 per year), and $940,000 more in mortgage proceeds."

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Technology

How to stay on top of investment assumptions

For several years, it has been a great time to be a seller of multifamily assets, as new per-unit sales records are set on a semiannual basis. And, if your investment strategy allows for patient asset pruning without a pressing need to reinvest capital, all the better.

But most need to find new investments and, with rising values, risk continues to creep up. As usual, Warren Buffet perfectly captures the sentiment, "What the wise do in the beginning, fools do in the end."

With rising rents, increased household formation and a millennial tendency to rent versus buy, how much risk can there be? And even so, with the need to acquire and invest, what really can be done about it?

• Has Colorado reached "peak renter?" The days of certain rent increases and favorable capital terms may be coming to an end in Colorado, and we may have reached "peak renter." But there are ways to use your data and predictive analytics to look at the market differently to make more informed and timely decisions.

In 2015, Denver absorbed 7,900 new multifamily units – an impressive total. But halfway through 2016, 32,000 units were under construction, with 13,300 units to be delivered in 2017, according to the Denver Post. Simply stated, supply is starting to outpace demand.

Over the last several years, Denver's average rent increases have outpaced the national average rent increases threefold, driven by the

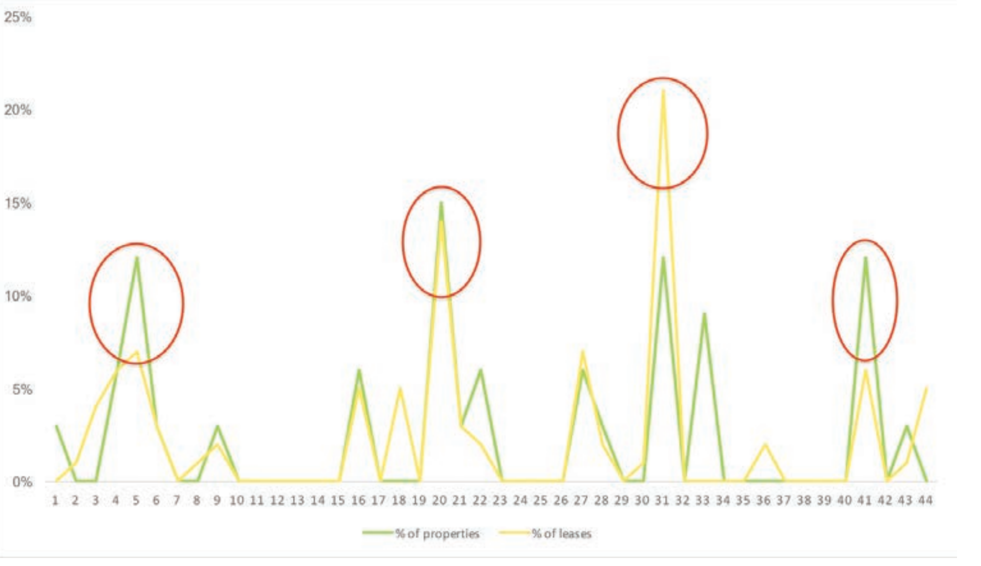
Mike Mauseth
Co-founder, MapVida, Denver

strength of the job market and a high concentration of luxury, Class A developments. Denver has become a destination. However, supply is starting to impact pricing and vacancy rates. June saw Denver area average rents for one-bedroom apartments drop 2.4 percent, according to Zumper.com analysis. This decrease, plus "free" rent concessions, is driving an adjustment.

Is this just a matter of supply and demand? If so, price concessions and time will work out the overcapacity. But what if, instead, we are reaching "peak renter" and a trend away from renting?

Much has been made of the homeownership reaching historic lows, and that renting is the "new normal." Yet there could be another explanation – the Great Recession – which led to tight lending standards, negative household creation and a delay in college graduates starting a career, getting married or buying a home. But that delay may be over. We now are seeing millennials buying homes, and homeownership likely will return to historic averages.

• The stage is set for naked swimming: How to prevent it. Recalling another famous Buffet quote, "[o]nly when the tide goes out do you discover who's been swimming naked."



MapVida

By charting neighborhood types, developers can compare a property location versus where leases originate, as modeled in this Washington, D.C., example.

Those 13,000 apartment units being delivered in 2017 were underwritten based on assumptions from 2014 and 2015 – and those assumptions likely did not include flat or negative rents, leasing incentives or higher vacancies. All of those are likely headed Denver's way.

That does not mean acquisitions and investments must come to a standstill, but it does mean an increased need for diligence to avoid the aforementioned awkward beach situation.

There are plenty of tools to evaluate assets, such as detailed diligence and service records or rent benchmarks for similar properties. But an asset does not reside in a vacuum. There's a whole neighborhood around it, and that has proven to be an essential decision-making factor.

When investors get the neighborhood right, results tend to follow. Detailed neighborhood analysis delivers portfolio visibility across different neighborhood types to better understand factors that impact growth and risk.

Think beyond just demographics across multiple dimensions and years, including business activity, consumer behavior, geographic characteristics, crime, etc.

For example, with new technologies, developers can compare lessee

Please see 'Mauseth,' Page 39

Technology

Ripe for disruption: Multifamily needs new tech

Brent Steiner
CEO, Engrain, Greenwood Village

Technology disruption occurs when a new software, hardware or method comes along that changes the status quo, making life better and more efficient. Amazon disrupted retailers, Netflix disrupted VHS, Airbnb disrupted hospitality, Uber disrupted the taxi industry and, of course, Apple disrupted the music, publishing and personal device market. Why? Because these industries were all broken in some way.

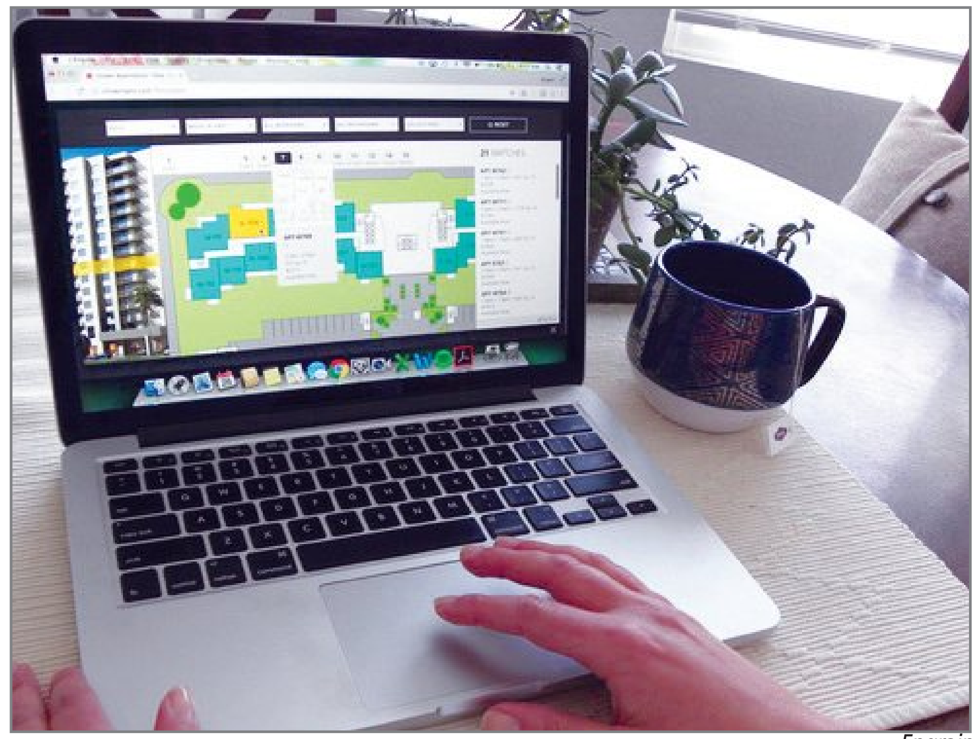
Having watched multifamily tech evolve and thrash for nearly 20 years, I've been surprised, disappointed and motivated by the fact that the number of meaningful disruptions remains alarmingly low. The most obvious change is in the design and construction of buildings themselves through software and construction efficiencies. Other disruptions include online rent payment, revenue management pricing, internet listing sites and, recently, some resident-centric tech, such as package lockers, which ultimately were a reaction to another industry's disruption, not one stemming from multifamily.

Recently the industry has seen innovation on the fringes of operations, resident services, and in the marketing and leasing of apartments, but we're not seeing anything that will truly disrupt day-to-day leasing and operations processes. Multifamily technology generally trails other industries by two to five years, locking operators into inefficient and frustrating user experiences. Examples of this are rampant.

I can book a hotel room using Siri and open my hotel door with my iPhone, but online rental applications are a gauntlet of redundancy and painfully frustrating. Thousands of apartment websites are designed around how we in the industry look for apartments, not how renters prefer to search for apartments. And let's be honest, the software our management and leasing teams use every day often requires browsers that aren't even supported by Microsoft anymore and that have ancient interfaces sitting on top of legacy software. There are leasing agents working with software that literally is older than they are. I often encourage partners and clients to watch a prospect try to find and lease an apartment online or to observe a leasing agent try to navigate her property management software while simultaneously talking to a prospect sitting in front of her. Then it quickly becomes clear where there are opportunities.

How did this happen? Following the same pattern as other industries prior to major disruption, the largest multifamily technology players have little incentive to make life better for their users. Revenue potential is directly tied to the number of units in the market, meaning incremental growth is capped, and adding value is easier by going after the per-unit cents your competitor has than by creating something new. Business requires that the established companies fight for market share, add erroneous features to their already overweight products and try to create moats around data they don't even have a claim to. These behaviors are eerily similar to the taxi industry's fights against car-sharing services and the music industry's efforts to hold onto the old way of doing things until the iPod was released and a shift became inevitable.

The resulting race to the bottom leaves users scrambling to understand their options as they're held hostage to old systems because the market hasn't presented another choice. The idea of focusing on core competency has been stretched and extended so far that provid-



Engrain

New technologies are available to enhance the apartment shopping experience, such as SightMap, which is an interactive app that can be added to any website to visually showcase unit locations within a property.

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Management

Owners do more to differentiate in growing market

Doug Backman
Managing director, DB Marketing, Denver

Differentiation is a key word when talking about apartment living. It is important to know what makes your community special and what it is about a property, an apartment home and the community that stands out to renters. While many developers follow the same economics, not all build the same type of buildings. The world is full of differentiating behaviors and demographics looking for different features in apartment living. Following are some projects covering a variety of needs to area renters.

• **Wide-open spaces**. Sure, millennials are flocking to the urban core for smaller apartments in the downtown setting. However, that's not for everyone, nor can everyone afford the Class A projects being built downtown.

Palisade Park near Interstate 25 and Highway 7 offers Colorado-style living near downtown, but focuses largely on quality of life. The community embraces wide-open living while still caring about amenities and design. Case in point, its 6,000-square-foot clubhouse features fire pits, a waterfall and beer on tap.

"People visiting Palisade Park love that we are located centrally to downtown Denver, Boulder, Fort Collins and the airport," said property manager Christina Alderson. "They can enjoy the city life while at work and the serene surrounding of the mountains and suburbs while they are at home." Tenants also enjoy access to shopping, bike paths and restaurants nearby without having to fight the hustle and bustle of traffic, she said.

• **Property repositioning.** We know that areas like Lower Downtown, Cherry Creek and Boulder are getting too expensive for many renters. Trying to scrape a property and construct a new build may only be able to reach a high-rent audience, which is getting more and more competitive. One community just off Pearl Street in Boulder went for the property remodel and brand reposition instead. A comprehensive renovation created 2121 Canyon, completely remodeled apartments with open-floor plans and modern amenities. What once was a dilapidated building now embraces modern living design and materials, such as quartz countertops, a breakfast bar, new lighting and private patio spaces. Even larger changes were made to the building façade, outdoor pool, lounge area and bike parking. The changes allowed the developer to rebrand the property while appealing to a moderate price point.

"With new construction costs as high as they are, 2121 Canyon was a great opportunity to leverage the embodied costs of an older building, create some great new amenities and deliver value to our residents," said Scott Holton, principal of Element Properties.

• **Unit plan layout.** Not everyone wants a smaller living space and not everyone wants 20 floors of neighbors living above them. Belle Creek Commons, just north of Stapleton offers two- and three-bedroom rental townhomes as well as one-, two- and three-bedroom apartment homes. Some renters cannot afford the more expensive for-sale townhomes and duplexes going up around the metro area. For that reason, they are happy to know these types of opportunities exist for rent.

"Belle Creek represents a unique opportunity in blending various configuration of single-family homes with townhomes and apartments, which is unlike what one would find in most multifamily communities that are just that – many multifamily buildings segregated from other types of residential and commercial development," said Ward Ritter, president of Chartered Homes. "In Belle Creek, you have a very walkable neighborhood with multiple parks and open space, neighborhood shops, a K-8 charter school and YMCA-run community center"

Finally, marketing can play an important role in communicating what makes all these projects different. This level of differentiation and brand positioning all relate to marketing. The reality is more people see your marketing than see the inside of the building. We can talk about these specific examples of successful differentiation, but if your brand and the marketing doesn't embrace that, then potential renters may never know. Marketing is the first impression, what differentiates your property and what defines the proprety to your audience.▲

DB Marketing

At 2121 Canyon, an old laundry room was revamped into a resident lounge.

Amenities

Embrace dog-friendly community amenities

Since 1988, the first year the American Pet Products Association conducted its national pet owners survey, pet ownership has grown from 56 percent of U.S. households to 68 percent, or about 85 million American families and nearly 90 million dogs. Dogs and their owners are recognized as a true user group with needs for recreating outdoors, hence the increasing popularity of dog parks.

Dog ownership and the addition of a dog park have many benefits to a community and its residents. A dog is a great companion, who in the most natural way can reduce depression, stress or aid in dealing with grief. Dogs help encourage their owners to get outdoors, which leads to more physical activity and socialization – a local dog park can provide such an opportunity. A fenced off-leash area helps centralize dog activity and promotes better cleanliness and waste pick-up throughout a community. With recognition of the great value provided to communities where they have been added, dog parks have seen tremendous growth in both the public and private sectors.

Is your community thinking about adding a dog park? A popular trend in established multifamily housing is to remove infrequently used facilities, like tennis courts or asphalt basketball courts, and replace them with fenced off-leash areas. Whether improving an older site or developing a new site, here are some tips that should be considered in your planning for an effective, popular and well-maintained dog park.

Josh Anzulewicz, CPSI
Park planner, designer and outfitter, Kids Play Ltd., Steamboat Springs

• **Accessibility.** In choosing a site for a dog park it is critical to create a space that can be enjoyed by users of all abilities. Consider how people will access the site, including surfacing, and plan for all seasons. Residents won't be happy having to trudge through a bunch of snow to play with their dogs. Dog parks should be planned as a vital component within the community. Don't pick a location where residents don't want to go.

• **Well-lit location.** Lighting is recommended if your dog park will be used in the hours before sunrise or after sunset – again, consider the change in seasons. It's great if a new dog park can make use of existing community lighting, but entry gates and the inside of the park should be lit. Dog owners should feel safe and be able to find their dog's waste. Solar lighting is a fantastic option.

• **Seating.** Permanently installed benches help get people off their feet and allow for continued and longer use of the park by pet owners. Consider the demographics and future needs of your community – seating is another means of creating greater socialization between your tenants, which builds a stronger and safer community.

• **Agility equipment.** Visualize a dog park as a playground for dogs. Providing a fenced area and calling it a park does not go far enough. There are great products that offer durability, portability, and attractive shapes and colors for dogs to run out some energy. When selecting dog park products, plan to include equipment dogs can use intuitively rather than always having to be led through by their owner.

Kids Play Ltd.

With the right landscape and agility features, off-leash areas can be a playground for your community's dogs as well as a socialization area for your residents.

• **Water.** Dogs dehydrate quickly without lots of fresh water to drink. Including a water fountain within your park will create an amenity where both humans and dogs can stay and play for longer amounts of time. There are fountain options that feature hoses for cleaning or spraying down dogs as well.

• **Double-gate entry/fencing.** Installing a double-gate entry provides a transition or unleash area for users entering the park. The second gate also helps ensure that dogs inside cannot easily escape the park. The Humane Society recommends a minimum fence height of 5 feet for small dogs and 7 feet for large dogs.

• **Covered waste containers with pet-waste bags.** Pet-waste stations are great products that include a pet-waste bag dispenser and receptacle on a single post. It is recommended that your community install more waste stations than you think you need if you want to increase compliance with picking up pet waste. Dog waste does not get picked up if waste bags are not available; make a conscious effort to keep bags stocked.

Other items that should be considered include adequate drainage, shade and park signage, including an emergency contact number.

Please see 'Anzulewicz,' Page 39

Amenities

Prepare your property for the electric car revolution

Electric vehicles and hybrids comprise only about 2 percent of auto sales in the U.S. today, but it is predicted that 54 percent of all cars worldwide will be electric by 2040, according to a new report from Bloomberg New Energy Finance. Such a dramatic shift in the global auto market will have enormous benefits for the climate, especially as renewable energy sources provide a greater percentage of the electricity required to recharge the vehicles' batteries. When a third of cars are electric, around 8 million barrels of transportation fuel per day would be displaced, the report said.

On July 5, Volvo became the first mainstream automaker to announce a phase out of traditional petroleum-powered vehicles in favor of EVs. Starting in 2019, all new Volvo models will be hybrids or pure electrics. Most carmakers expect the share of electric vehicles sold to grow rapidly as the technology improves, prices fall and public charging stations become more common. Rapid advances in self-driving technology will boost a transition to battery power, because it is easier to link the software to electric motors.

The cost for the lithium-ion batteries used to power EVs is falling much faster than expected thanks to improving technology and increased supply. Batteries are the most expensive component in an EV and the cost already has come down 73 percent on a per kilowatt basis since 2010. This means electric cars will not only be cleaner than petroleum-powered vehicles but also cheaper in most countries — as early as 2025.

Kathy Pitts
Regional manager, Verdek LLC, Denver

"Range anxiety" has limited electric vehicle adoption, but new cars like the Chevy Bolt and the Tesla Model 3 can travel over 200 miles on a single charge. EVs with shorter ranges can still be used for 95 percent of day trips in the U.S. Most people drive less than 30 miles in any given day.

• **More charging infrastructure is needed.** To accommodate the shift to electric transportation, charging infrastructure will need to be available at highway stops, on city streets and in garages.

To meet the expected future demand for charging stations in multifamily housing developments, it is less expensive to install conduit for the stations with each new development than to retrofit later. Green building codes in Boulder and Denver require that a certain amount of new parking spaces are prepared for charging stations.

• **Grants and tax credits are available.** To improve air quality and encourage EV sales, Colorado offers some of the most generous programs to encourage electric vehicle growth in the U.S. A $5,000 state tax credit may be combined with a federal tax credit of up to $7,500 per car. Local group-buy programs have further reduced the selling price for many models and Xcel Energy recently offered a $10,000 rebate on Nissan Leafs.

Kathy Pitts
Standard Level 2 charging stations deliver 240 volts of electricity to a battery and provide vehicles with 10 to 20 miles per hour of charge, which is the appropriate level for multifamily housing, office parks and other places where cars typically are parked for two to six hours at a time.

The Regional Air Quality Council and Colorado Energy Office operate a joint grant program to support the installation of charging stations throughout the state. Charge Ahead Colorado grants of up to $6,260 are available for the installation of a dual-port Level 2 station. The next two grant rounds are scheduled for Sept. 15-Oct. 15 and Jan. 15-Feb. 15, 2018.

And, there's more funding on the way from the Volkswagen Dieselgate settlement. VW agreed to settle allegations that it violated the federal Clean Air Act by selling diesel vehicles with software that allowed them to cheat on air pollution tests. To make amends, VW will spend $2 billion on public charging stations and hydrogen fueling equipment over the next 10 years. Denver was chosen as one of 11 cities that will receive extra funding.

The state of Colorado already received a separate stipend of $68 million from VW to spend on charging infrastructure and to replace fossil fuel vehicles with cleaner vehicles. The Colorado Department of Public Health and Environment will oversee spending of the state's settlement money. The department requested project proposals for the first round of funding, but has not yet announced awards.

CDPHE likely will spend 15 percent (over $10 million) of the settlement money on expanding the state's electric vehicle infrastructure. That's enough to build 60 DC-fast charging stations along Colorado's major highways. They also may use the money to electrify heavy-duty vehicles, such as buying up to 125 new electric buses. Some of the money could be funneled into existing programs, like the Charge Ahead Colorado grant program.

Please see 'Pitts,' Page 39

Market Update

Continued from Page 1

effects of the changes and subsequent condo development will not impact the area's booming apartment market in the near future.

Basing this discussion on an average condo sales price of approximately $320,000, according to the June Denver Metro Association of Realtor's market trends report, with the addition of property taxes, insurance and homeowner association dues, the final monthly mortgage payment is $1,771, on average (see chart for details). A close look at the financial breakdown indicates the delta between ownership of entry-level product and renting is approximately $200 per month in the Denver metro area, based on the Apartment Association of Metro Denver's second-quarter report.

This marginal price difference, however, is not the main financial hurdle for first-time buyers. The 20 percent down payment of $64,000, in this scenario, is nearly impossible for first-time condo buyers still in the early stages of their professional careers and often burdened with student debt and other financial obligations. Most prospective entry-level buyers simply do not have the earning power to save the amount of money it takes to pay that initial down payment.

Lack of entry-level inventory and financial hurdles aside, renting offers additional benefits that outweigh the potential upsides of condo ownership for many consumers. Mobility options are increased with renting, and the millennial generation is known for craving new experiences, whether in entertainment, employment or living arrangements. Owning requires a different mindset, one that is focused more on stability and continuity. If consumers decide to rent, the costs associated with condo ownership can be focused instead on travel and transportation or on payment of student loans. Renting allows millennials to live close to downtown while also taking advantage of the countless amenities offered by Denver's newest multifamily projects – something that is not feasible in the entry-level housing market.

What does all this mean for apartment owners in the Denver market? Vacancy rates are low, 5 percent in the Denver metro area, despite record-breaking multifamily construction. This is especially remarkable considering the historic levels of in-migration. With metro Denver's population expected to increase another 9.5 percent between 2015 and 2020, there will not be enough entry-level housing inventory to keep up with demand. Condo development will increase as legislation is revised, but this alone will not alleviate the pressure on the market. The metro Denver market will continue to blossom with new multifamily developments as all indicators point to a future where entry-level housing is a thing of the past.▲

METRO DENVER – MONTHLY MORTGAGE PAYMENT VS. RENT

MONTHLY CONDOMINIUM MORTGAGE PAYMENT	**$1,771**
AVERAGE CONDOMINIUM SALE PRICE[1]	**$320,000**
PROPERTY TAXES METRO DENVER AVERAGE EFFECTIVE RATE – .63%[2]	**$2,016**
HOME OWNERS INSURANCE AVERAGE YEARLY PREMIUM[3]	**$1,273**
HOA DUES AVERAGE BASED ON PROPERTY SOLD FOR LAST 180 DAYS[4]	**$4,163**
TOTAL PRICE PLUS FEES AND TAXES	**$327,452**
DOWN PAYMENT 30-YEAR CONVENTIONAL MORTGAGE AT 4.5% WITH 20% DOWN	**$64,000**
MONTHLY AVERAGE APARTMENT RENT BUILT AFTER 2011 – UTILITIES NOT INCLUDED	**$1,577**
PRICE DIFFERENCE PER MONTH	**$194**

[1]*DMAR Market Trends, June 2017*
[2]*Smartasset.com (Colorado Property Tax Calculator)*
[3]*Trusted Choice Insurance Agents*
[4]*RE Colorado*

ARA Newmark

For an average condo, with a sales price of $320,000 and the addition of property taxes, insurance and homeowner association dues, the final average monthly mortgage payment is $1,771. This would be in addition to the $64,000 (20 percent) down payment.

Halsey

Continued from Page 4

lenders has exploded over the last few years with several equity funds shifting their focus to providing senior debt to satisfy investor return requirements. Short-term bridge capital provides a compelling option for value-add investors with flexible terms, high leverage and generous interest-only periods.

There is reason for optimism in the Denver multifamily market. Despite the continued noise around overbuilding, slow absorption and flattening rent growth, the market fundamentals relative to population growth and the local economy are as strong as ever. Denver is a top performer in wage growth (3 percent per year since 2010), educational attainment rate (top 10 in the country) and statewide unemployment (2.3 percent, tied for the lowest in the nation). A recent CBRE white paper on the topic of multifamily affordability showed that Denver is still relatively affordable compared to coastal markets. The average rent-to-income ratio in Denver is approximately 23.2 percent, compared to markets like New York at 56.2 percent and the San Francisco at 40.9 percent. Even without wild rent-growth projections, investors in Denver's multifamily market will enjoy a long runway thanks to abundant debt capital available with interest rates still at an attractive spread to cap rates.▲

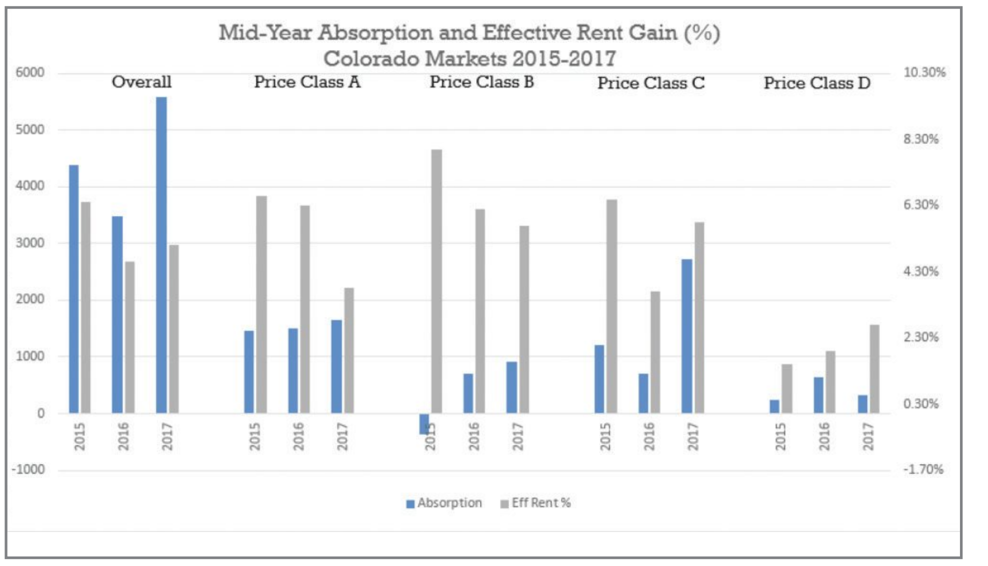
Brooks

Continued from Page 6

in addition to employment and population trends. There has been a clear shift in the new construction pipeline over the past few years, and its impact on effective rent growth is clear.

We were tracking about 28,500 new construction units in the planning phase in 2015. That number slid to just over 12,000 in 2016 and was at 4,500 through June. Projects under construction or entering the early phase of lease-up totaled about 21,000 units in 2015, about 28,000 units in 2016 and just over 30,000 units for 2017. The number of units in full lease-up with construction completed has held steady at about 4,900 for all three years. This all reflects a clear movement from planning in 2015, to construction and beginning of delivery in 2016 and 2017. Looking ahead into 2018, the last remaining units of the initial planning boom in 2015 will be entering the market and will put additional pressure on the top asset tier that already is showing some signs of rent growth slowdown.

Multifamily overall in Colorado had superior effective rent growth figures in 2015 compared to both 2016 and 2017. This held true across all four asset classes. However, the first half of 2017 saw the highest absorption overall and across all classes, except D, for this three-year timeframe. Colorado is a growing market, and short of a premature increase in planned new construction, the outlook for the rest of 2017 and the first half of 2018 is bright. ▲



ALN Apartment Data Inc.

Hallauer

Continued from Page 10

in the fall than in the spring. Following a dip in occupancy and rents in the past five years, I have seen a strong rebound in occupancy and rental rates immediately after.

While condo development may begin to ramp up given the recent construction defect reform legislation, which was passed in the state, and the favorable ruling by the Colorado Supreme Court in the Vallagio case, I don't expect this to have a significant impact on the apartment market for several years, if not much longer, due to ongoing high insurance costs and a lack of developers, insurers, contractors and architects/engineers willing to take the risk on condo developments as well as the high cost to develop this product.

Given the strong tenant demand for apartments, driven by ongoing population and employment growth and the supply constraints mentioned, I expect to see deliveries remain relatively staggered and the apartment market continue to expand for at least the next two to three years, barring any unforeseen black swan event.▲

Price

Continued from Page 8

and fully renovating them or adding significant upgrades. For example, in Colorado Springs, there have been dozens of Class C properties renovated over the past 36 months, resulting in dramatically increased rent levels and property values.

Unlike stock in many other Front Range markets, value-add opportunities still are abundant throughout Aurora and Colorado Springs. In Aurora, over the past 12 months, 1980s built properties have averaged around \$168,000 per unit, compared to 1960s era properties averaging just under \$90,000 per unit. Comparatively, Colorado Springs' older Class B and C categories have seen less fluctuation in price per unit and sales volume based on the decade of construction. In 2016, apartment buildings constructed in the 1960s and 1970s traded at around \$80,000 per unit, while 1980s built construction traded at \$108,000, on average. As of late, there have been several sales, and current for-sale product, at well above \$100,000 per unit for upgraded or well-located 1970s product in both markets, continuing to state the increasing strength of the markets.

Firm economic growth and market fundamentals should continue to propel investment activity throughout Colorado Springs and Aurora in 2017 and 2018, with value-add opportunities remaining more prevalent in these markets than most other Front Range submarkets. Barring substantial interest rate movement, both multifamily markets should remain competitive, with increasing tenant and investor demand, creating a further decline in going-in cap rates. Further, Colorado Springs and Aurora continue to attract new out-of-market buyer pools, boding well for continued seller confidence throughout the rest of the year and into 2018.▲

Stack

Continued from Page 12

provided by Axiometrics, we compared the percentage of income spent on rent across several major markets. (Note that Axiometrics' Denver metropolitan statistical area rents were $1,442 per month. This value is slightly higher than Apartment Insights reports, but in the following national analysis Axiometrics data was used to maintain consistency from city to city.)

The chart speaks for itself. Denver is a much more affordable market than many of the other major markets across the country.

• **Affordable demand and solutions.** The chart averages only take into account apartment rents and belie the growing demand for affordability in some areas. Single-family housing prices have skyrocketed and the path to homeownership is difficult, especially for low-wage earners. Acres of trailer home communities have been bulldozed to make way for new development. Older, less expensive houses have been torn down to make way for high-density, more expensive urban development. There is a growing need to address entry-level housing, and many developers are working to tackle the problem.

There are new high-quality, low-income housing tax credit projects breaking ground in many communities around the Denver metro. Creative solutions are making headway, such as the redevelopment of an old hotel and ground-up development of more affordable micro units. The reform of construction defect litigation laws is helping pave the way for condo and townhome development, often the first stop for entry-level housing. Hopefully, these solutions can keep pace with the demand.

Overall, these statistics point to a healthy apartment market in terms of rent in relation to incomes. On average, metro Denver renters based on the household incomes are paying 24 percent of their income on rent, far less than the maximum qualifying rent and less than the national average. Given the steady influx of residents and the number of millennials still living at home with their parents, there is pent-up demand for apartments.▲

Beecher

Continued from Page 18

fees, and any developer/declarant control or financial interest in the HOA. Developers should refrain from describing amenities that are not assured of being constructed and should ensure that the association budget is accurate and realistic.

• **Other timing and legal considerations.** A conversion also must comply with the remaining provisions of Colorado's Condominium Ownership Act, requiring that tenants be notified in writing of the conversion after recording the condominium declaration. The notice acts as a 90-day notice to terminate but, unless otherwise agreed, the tenancy may not be terminated before the expiration of any existing lease, and those tenants with a shorter remaining lease term may hold over for the remainder of the 90-day period. As such, developers should consider, well in advance of a conversion, the timing of the conversion and desired sale of the condominium units, and adjust their leasing practices accordingly.

Condominium conversions also may trigger local jurisdictional requirements related to affordable housing or, less commonly, right of first refusal/purchase-option requirements. In addition, local subdivision requirements related to creation of condominiums must be considered, in terms of approval and timing.

Overall, while condominium conversions may now be an attractive proposition for developers, the process and documentation involved can be extensive. As such, developers should hire experienced counsel in condominium conversions – especially if the resulting condominium will have mixed uses.▲

Malhotra

Continued from Page 20

able housing further inaccessible to low- and moderate-income renters. The Denver Housing Authority is estimated to receive an annual budget of $60,000 for subsidized affordable housing vouchers, which will buy approximately 300 vouchers, according to the Colorado Independent.

The Denver Housing Authority opened its lottery for 2017 vouchers on Sept. 22, 2016, and by its close the following day, 21,500 applications had been submitted. What's worse, of the 300 vouchers awarded last year, only about half were used because many recipients were not able to find a landlord willing to accept their voucher or the rent landlords were charging was still too high.

• **Recognizing the affordable housing crisis.** To recap the situation in Denver, which parallels that of many other growing U.S. cities, greater competition in the housing market is leading to higher rent and an increased demand for affordable housing. Meanwhile there is not enough affordable housing under development to meet that rising demand, and what already exists is becoming less available as vouchers become a rarity. All of this points to a stark shortage in affordable housing and growing concerns over the associated risks to community vitality.

There are policies taking shape in the Colorado Legislature that aim to address this housing shortage. The most prominent bill recently attempting to incentivize affordable housing in Colorado is House Bill 17-1309, which would double an existing filing fee on real estate transactions. While this bill is somewhat controversial in that it imposes a fee on real estate agents and it expands the pool of renters qualifying for assistance to those earning up to 80 percent of the area median income, which some believe to be too high of a threshold, it has the potential to become a crucial asset to the preservation of affordable housing in Denver.

Regardless of how the current legislation fares, plans that emphasize preservation rather than new construction offer the most cost-effective solutions to housing shortages. Because retrofitting housing is much cheaper per unit, protects previous public investment and maintains historic communities, urban housing policies should be designed to encourage an emphasis on preservation. If affordable housing preservation efforts are successfully implemented, Denver will make significant strides toward providing safer, healthier and more equitable housing for citizens who need it most.▲

Downs

Continued from Page 22

There are other benefits to the program as well. For example, you have a marketability benefit compared with a nonenergy-efficient property with similar rents if your utility cost to the tenant will be less.

Graber's advice to owners is to keep in mind that they have to recertify annually and maintain the Energy Star score above 75 for the life of the loan. So, designing to meet a minimum score threshold is risky because the design score is just theoretical, born out of the Statement of Energy Design Intent test.

Once the building is constructed, owners need to collect and certify actual data. If the score is below 75, they will have to remedy it. We do not yet know what that will look like from HUD, as the program is still new. The bottom line is that the design should have plenty of cushion built in.

One challenge Graber has seen with the program with respect to refinancing existing properties is that certain utility companies are not willing to release information about tenant energy use, which will make it difficult for borrowers to participate. Whereas, on the new construction side, owners can place a requirement to share energy use information into the tenant's lease. However, "Rest assured that utility companies in Colorado play nice in the sandbox and gladly provide data to property owners in a timely manner, typically in a format that is easily uploaded to Energy Star's Portfolio Manager," said Graber.

• **Certification institute perspective.** At the cutting edge of building energy efficiency is the International Living Future Institute, whose Living Building Challenge is one of the certifications that will qualify for HUD's Green MIP Reduction. The Living Building Challenge is the world's most rigorous performance standard for buildings, creating ecologically restorative buildings that give more than they take. For a glimpse of the living buildings that are the realization of this concept, see www.living-future.org.

Although no one has yet completed the LBC in conjunction with HUD's Green MIP Reduction, there are seven affordable housing projects currently using the LBC Affordable Housing Pilot Program. According to Alicia Daniels Uhlig, policy director at the Institute, all property owners could benefit from the concepts created at the Institute. She cites its concept of transparency labels, which are like nutrition labels for the built environment, and provide information such as the construction material ingredients (declare), organizational social equity (just) and building energy performance (reveal). These tools are available to all projects – not just projects pursuing LBC. The idea is transparency leads to transformation in the built environment: If you know how something is performing, you can improve it as needed, or inspire others by your example.

• **Conclusion.** HUD's Green MIP Reduction is working well as a market incentive for developers to build green projects. More subsidies like this would help to move the market, including non-HUD projects, toward greater energy efficiency.

Developer Downs' suggestion is to create a deeper subsidy that has a payback period inside of a typical developer's average hold time of a property. For example, if a deeper subsidy accelerated the payback on a solar power system to inside three or four years, many owners would undertake the investment on a purely economically rational basis, putting aside that it is the environmentally responsible thing to do. As the Green MIP Reduction program proves, these incentives do influence development and can be fiscally sustainable.▲

Steiner

Continued from Page 26

ers overlap too much and competitive advantage has become scarce. In technology, it's impossible to be good at everything, and innovation can't grow when the ground is trampled over by the herd.

The rumblings of disruption are everywhere and it's an amazing time to be in the multifamily technology space. We know that virtual reality will have a major impact soon; we're just not sure where or how yet. It probably won't be in apartment tours. Smart-home tech is coming quickly and connected fixtures, locks and appliances are going to shift control to the resident. We just need to figure out how to operationalize these advancements. As technology creeps in from other verticals, renters will insist we follow suit. We're collaborating with many clients on creating smart leasing offices that not only serve the leasing team and residents, but also replace the need for the old interfaces they're stuck with now.

And like the travel, hospitality, online shopping and banking industries, we can certainly streamline and automate the sales and leasing process. We can adapt our software to allow for location-based wayfinding and data visualization, and we can allow renters to select their own apartments and take control of their experience. After move-in, we can support and integrate with the myriad personalized service and delivery apps coming to market.

To embrace this interconnected future, we must shift our focus to the end user's experience. Technology ultimately defines where value is. To create fertile ground for disruption in multifamily, we should obsess on the experience of the residents and the team of people serving them.

Walking the apartment associations' tradeshow floors, nestled between the large islands, is where the seeds of disruptions are budding. There you can find dozens of technology providers who are beginning to offer solutions to multifamily problems. To support innovation, we should insist on seamless integrations in our technology stacks. And we can move faster to adopt and test new technologies that find their way into our sector. In addition, we should provide quick feedback to tell these innovators how they can solve our needs.

It's time to shake things up. ▲

Mauseth

Continued from Page 24

activity to the proportion of properties in specific neighborhood types. In the chart on Page 24, more than 40 Washington, D.C., neighborhood types are compared, and we can see the distribution of a company's assets and lease activity (signed leases) in D.C. Neighborhood "Type 31" generates a disproportionate amount of lessee activity compared to the available properties. If the goal is to expand, a good place to look is in all D.C. neighborhoods that match the "Type 31" defined neighborhood.

By contrast, neighborhood Type 20 has a good balance of location and leases, while Types 5 and 41 are pulling in leases from outside this neighborhood type – meaning there is less in-area demand so the property requires applicants from other neighborhoods/areas. Comparative data like this is actionable sales and marketing intelligence to developers and investors.

And, when analysis includes long-term comparison data, it tends to be better insulated against short-term trends. Stated another way, you want to make sure your "hot" investment location is based on positively trending fundamentals (e.g., incomes, rents, business growth) and not on short-term trends.

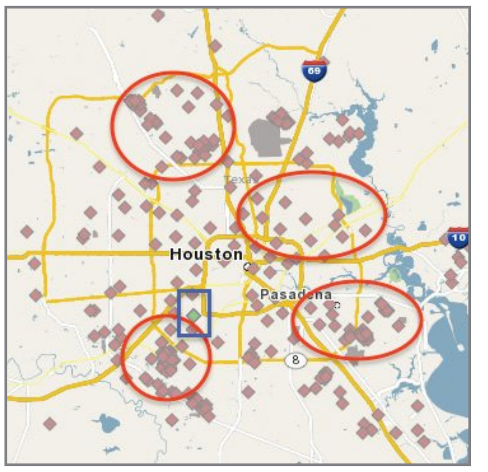
• **Using data to bottle success.** Most developers would jump at the chance to replicate past successes, and neighborhood data analysis puts a new lens on that investment approach.

First, taking a data-driven approach to the factors that created past opportunities lets investors more accurately identify and replicate the right elements in a new scenario. In the example on the right, areas in Houston that outperformed on marketing efforts (in red) delivered significantly better traffic for the target property (in green) than all others. Owners used these insights to redirect marketing resources exclusively to these areas and achieved lease-up faster than past trajectories, exceeding their own objectives.

Armed with this data, the same investor can replicate marketing strategies for the high-performing neighborhood types in other cities, make more informed decisions and deliver similar results.

While the Denver market should be dependable for the foreseeable future, changing macro trends and supply issues will require additional analysis.

Those who stick with standard diligence may experience standard outcomes. But looking at investments with enhanced intelligence, using neighborhood analysis and other data tools, will keep naked swimming at bay (pun intended).▲



MapVida

In this example, areas in Houston that outperformed on marketing efforts (in red) delivered significantly better traffic for the target property (in green) than all others. Owners used these insights to redirect marketing resources exclusively to these areas and achieved lease-up faster than past trajectories, exceeding their own objectives.

Anzulewicz

Continued from Page 30

Additionally, your community will receive value by contacting a landscape architect or experienced installer to help with the planning of the dog park. This professional will help walk you through site considerations and material options. For example, crushed granite and engineered wood fiber make great surfacing options where grass or artificial turf may be a challenge.

A well-planned dog park will give your community a leg up in attracting prospective tenants and holding on to your existing residents and their pet rents. Colorado is one of the most dog-friendly states and chances are strong that the prospective tenant you seek owns at least one dog. Including the right components in your planning will allow your community to create and provide a popular service. While labeled a dog park, these spaces are really about the people you can bring together and help connect through a shared interest.▲

Pitts

Continued from Page 32

• **Charging stations.** When considering adding charging stations to your multifamily community, it is important to know the options. The higher the level, the faster the charge.

• **Level 1 charging.** EVs can charge using a traditional wall socket, which will provide 2 to 5 miles per hour of charging. This is the slowest way to fully charge vehicles. If you would like to make outlets available for residents, it is recommended the outlets are put on their own circuits to avoid overloading the breakers. The charging spots should be located where charging cords do not cross a walkway and create a tripping hazard.

• **Level 2 charging.** Standard charging stations deliver 240 volts of electricity to a battery and provide vehicles with 10 to 20 miles per hour of charge. This is the appropriate level for multifamily housing, office parks and other places where cars typically are parked for two to six hours at a time.

• **DC fast charging.** This is the fastest way to charge a vehicle. Fast chargers provide 60-80 miles of range to an EV in about 20 minutes. Level 3 stations use a DC current of 480 volts. These chargers are being deployed along highways. Currently there are two differing standards and plug configurations for fast charging, depending on the vehicle manufacturer. So many of these stations provide both standards.▲

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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