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First Quarter 2010

Apartment Perspective

News and Analysis about the Denver Metropolitan Area Apartment Market

Overview

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Denver's apartment vacancy decreased slightly to 7.7% for the 4th quarter 2009 from 7.9% for the same period in 2008. Vacancy at year-end 2007 was 6.1%. Vacancies were not expected to increase given the limited new supply added during the past two years, continued concerns about the local and national economy and issues in the single family arena but they increased 0.3% from 3rd quarter 2009 to 4th quarter 2009. Vacancies in new construction (built since 2005) decreased to 17.2% for the 4th quarter from 20.0% in the 3rd quarter and 19.0% at year-end 2008. All other age related apartment groups report vacancy rates less than 10.0%. Rental rates have decreased steadily over the last year slightly more than 1.5% from \$889 in 4th quarter 2008 to \$875 in 4th quarter 2009.

Metro Denver Economy

The national economy remains sluggish in spite of intervening measures by the Obama Administration. National unemployment levels remain unchanged at 10.0% through December 2009 as companies continue to downsize, close and furlough employees. Banks are reporting improvement however financing remains difficult to obtain particularly for commercial real estate and the Administration desires to institute additional banking regulations that might continue to hamper lending. Much of the stimulus package and incentives passed by Congress and implemented by the Administration have yet to prove successful. It was believed that positive growth signs would be immediate but so far these measures have yet to prove successful. Health care reform also appears to be stalled in Congress.

Statewide unemployment levels have increased significantly during 2009 to 7.5% from 5.8% one year ago. December is typically a month of rising unemployment across the state and the severe cold snap during December further increased higher unemployment. The annual average unemployment rate for Colorado in 2009 was 7.3% a 2.4% increase from 4.9% in 2008.

In spite of tax credits passed by the current Administration foreclosures have remained strong with Boulder and Broomfield experiencing big increases in the number of filings. Sale activity is reportedly increasing as the average home price increases slightly. The Denver metropolitan area is still expected to recover from the recession faster than other cities.

Metro Denver Apartment Market

According to Pierce Eislen, the metropolitan Denver apartment market contains a total of 173,359 existing units in buildings or communities of at least 50 units as of January 1, 2010. The United States Census Bureau defines the metropolitan Denver area as Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas and Jefferson counties. This inventory excludes public housing, on-campus student housing and apartments limited solely to senior residents. Changes in the total number of units occur with construction of new apartments and removal of units from the rental inventory by condominium conversion or demolition.

Charts and Graphs:

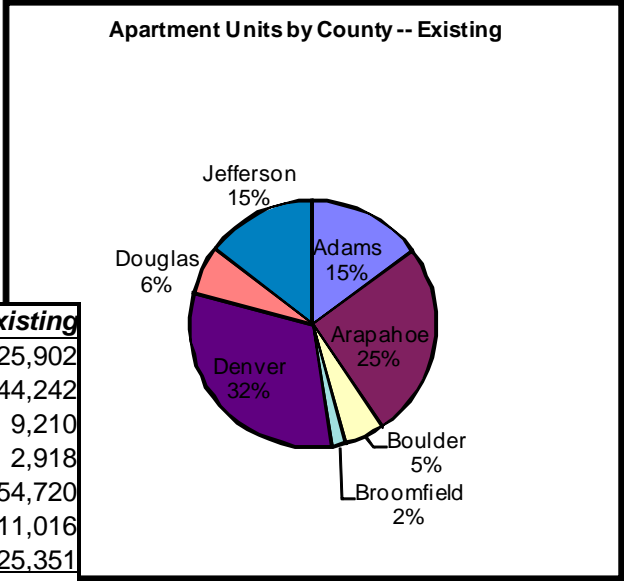
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Metro Denver Apartment Market (continued)

In addition to the existing inventory, 20 apartment projects with 4,794 units were under construction in metro Denver on January 1, 2010. Pierce Eislen reports another 17,892 units are anticipated for construction by year-end 2010. Many of those are likely not to actually start construction or be developed as apartments. Four communities were started in the second half of 2009 – Prospect Village with 328 units, Prana with 254 units, Renaissance Uptown with 98 units and Alameda & Yates with 50 units.

Apartment construction has softened considerably. 32% fewer units were started in 2009 than in 2008 and 74% below 2007. 2001 experienced the largest amount construction starts in recent years with nearly 11,500 units.

To put the amount of new construction into perspective, metro Denver experiences net absorption of about 5,000 to 6,000 apartment units in a long-term “normal” year. According to the Denver Metro Apartment and Vacancy Survey, 2009 absorption levels were just shy of the norm while 2008 experienced the second largest negative absorption over the last decade. The slowed construction practiced



County	Existing
Adams	25,902
Arapahoe	44,242
Boulder	9,210
Broomfield	2,918
Denver	54,720
Douglas	11,016
Jefferson	25,351
Total	173,359

Year	Vacancy Rate	Average Rent	Construction Starts	Absorption
2009	7.70%	\$875	1,438	4,069
2008	7.90%	889	2,099	(2,421)
2007	6.10%	860	5,521	4,644
2006	7.00%	850	1,632	2,709
2005	7.90%	848	494	8,126
2004	10.00%	822	504	607
2003	10.90%	815	2,685	4,329
2002	11.70%	814	4,926	197
2001	8.70%	822	11,427	(2,904)

by developers will eventually impact the apartment market as supply will not meet demand once the economy begins recovery.

The vacancy rate was expected to decrease in 2009 as limited new construction was added to the market, strong absorption was achieved and the average rental rate decreased. But it appears that the overall economic slowdown has influenced the apartment market more severely than originally anticipated.

From the early 1990s until early 2001, the vacancy rate in metropolitan Denver trended in the 4% to 5% range,

allowing rental rates to increase and encouraging developers, investors, and lenders to start new apartment properties. As the economy slowed in 2001 and finally fell into recession, demand declined and the vacancy rate rose as new units came on line with a negative net absorption. This trend continued through 2009 as well – the economy has slipped into a recession, with vacancy rising and rental rates falling.

Much of the poor net absorption for apartments in Denver in the past was attributed to residents buying houses, townhouses and condominiums. However, with the increasing unemployment rate the desire to economize has forced would-be renters to favor more affordable options such as sharing accommodations with roommates or parents, thereby increasing the vacancy rate for apartments in 2009.

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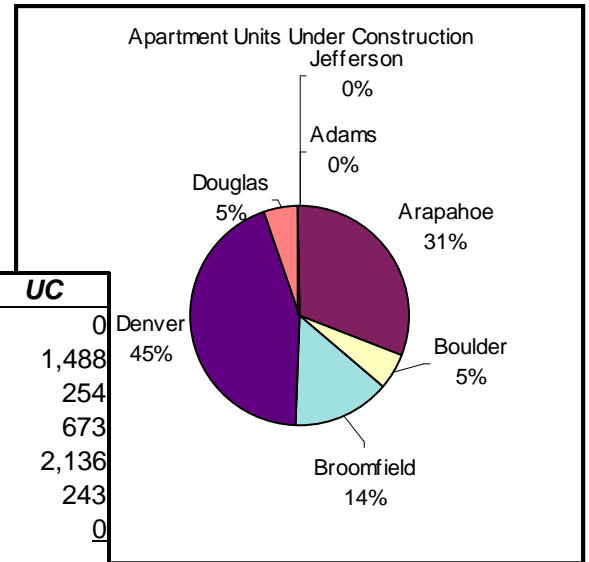
Metro Denver Apartment Market (continued)

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The apartment market will likely continue to experience deterioration in rental rates and vacancy rates given the current economic climate. Local economic news continues to report employee layoffs and companywide furloughs especially in state and local governments as they try to balance their budgets.

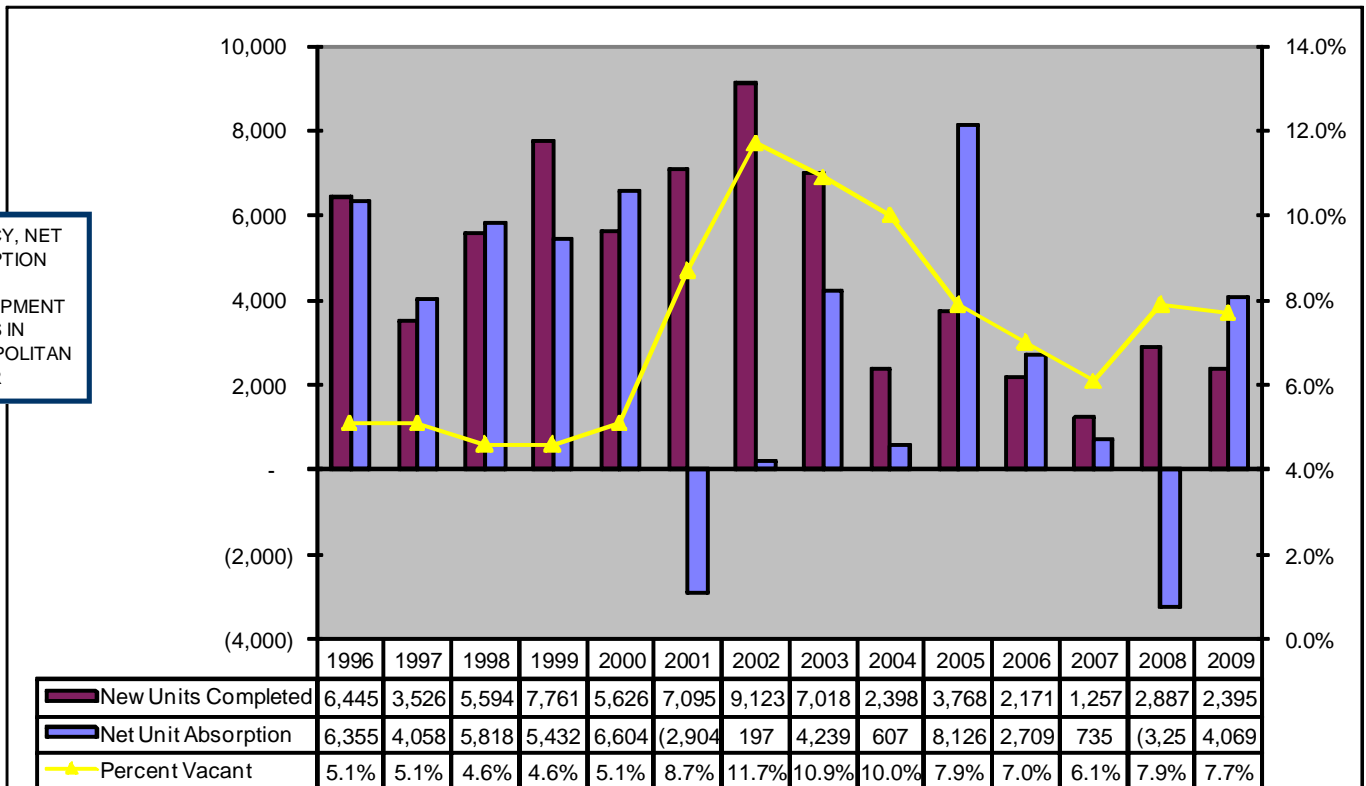
The excess of construction will likely not be eliminated until at least 2011. If developers move some of the nearly 20,000 units considered into construction the excess may not be eliminated until 2012 or later. Adams and Jefferson counties are the only two counties without any current apartment construction underway. But all of the counties have some units proposed for development in the first part of 2010.

According to data provided by Pierce Eislen, developers completed 11 projects with a total of 2,106 units in 2009. Pierce Eislen includes apartment rental projects when they are 100% complete including all phases. The Denver Metro Apartment Va-



County	UC
Adams	0
Arapahoe	1,488
Boulder	254
Broomfield	673
Denver	2,136
Douglas	243
Jefferson	0
Total	4,794

VACANCY, NET ABSORPTION AND DEVELOPMENT TRENDS IN METROPOLITAN DENVER



Note: Vacancy rates are as of the 4th quarter of each year.

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Metro Denver Apartment Market (continued)

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cancy and Rent Survey conducted by Dr. Gordon Von Stroh for the Apartment Association of Metro Denver (AAMD) reports a total of 2,395 units completed in the same period. Methodology used by Dr. Von Stroh accounts for all units ready for lease regardless of management decision to lease the units.

With an overall vacancy rate increased to 7.9% 7 of the 37 submarkets scattered throughout the metro area are reporting much higher vacancy rates. The markets with double digit vacancy include Aurora Central-Northeast at 15.1%, Castle Rock at 11.0%, Denver Far Southeast at 15.5%, Denver South Central at 11.0%, Littleton at 10.9%, Longmont at 12.8% and Wheat Ridge at 11.7%. The better performing markets include Arapahoe County South at 3.9%, Douglas County-North at 4.9%, Boulder University at 2.0% and Boulder County Other at 4.9%. All of these submarkets have had limited new construction added to the market aiding in lower vacancy rates.

Vacancy rates from county to county also vary widely depending mostly on supply added to the market. In markets with limited new development such as Adams, Broomfield/Boulder, and Douglas Counties the vacancy rates remain lower than the metro average at 6.3%, 5.8% and 5.5% respectively. In counties with large amounts of new development the vacancy rates are near or above the metro average. Arapahoe County is at 8.6%, Denver County is at 8.8% while Jefferson County is at the metro average of 7.7%.

While vacancy rates are highest in apartment communities with higher rents, demand is steady for “affordable” apartments, especially those using HUD financing or tax credit or bond financing. Developers are delving more deeply into this segment, especially in middle-income areas like Brighton, Commerce City and Longmont. Due to the lack of available conventional financing many apartment developers are seeking alternative financing particularly from HUD as funds are available. However, due to the overall softness of the market HUD still has metro Denver on its “market watch” list, limiting the opportunities for funding from that source to only projects oriented to residents with the lowest incomes. Boulder County primarily Boulder and Longmont have been removed from the market watch status as rental market conditions have sufficiently improved.

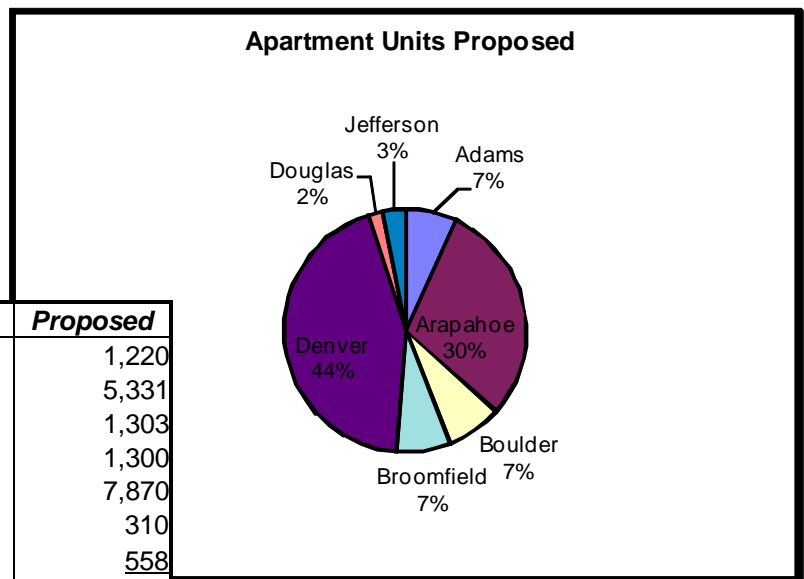
Average rental rates peaked in 2008 at \$875 and are beginning to drop. The quoted rental rates do not take into consideration the value of specials and concessions being offered by many apartment communities. The median rental rate for 2009 is reported at \$811, down from \$829 in 2008 and \$818 in 2007.

The decreasing average and median rental rates indicate pressure from outside influences in addition to response to poor housing and employment conditions. As the economy remains sluggish there is a perceived surplus of apartment units in the market.

The average rental rates quoted in the Apartment Association report may be somewhat inflated due to the periodic addition of new communities upon their completion, most of which have rental rates above the metro average. Un-counted in these averages is the increasing effect of special deals, reduced or eliminated security de-

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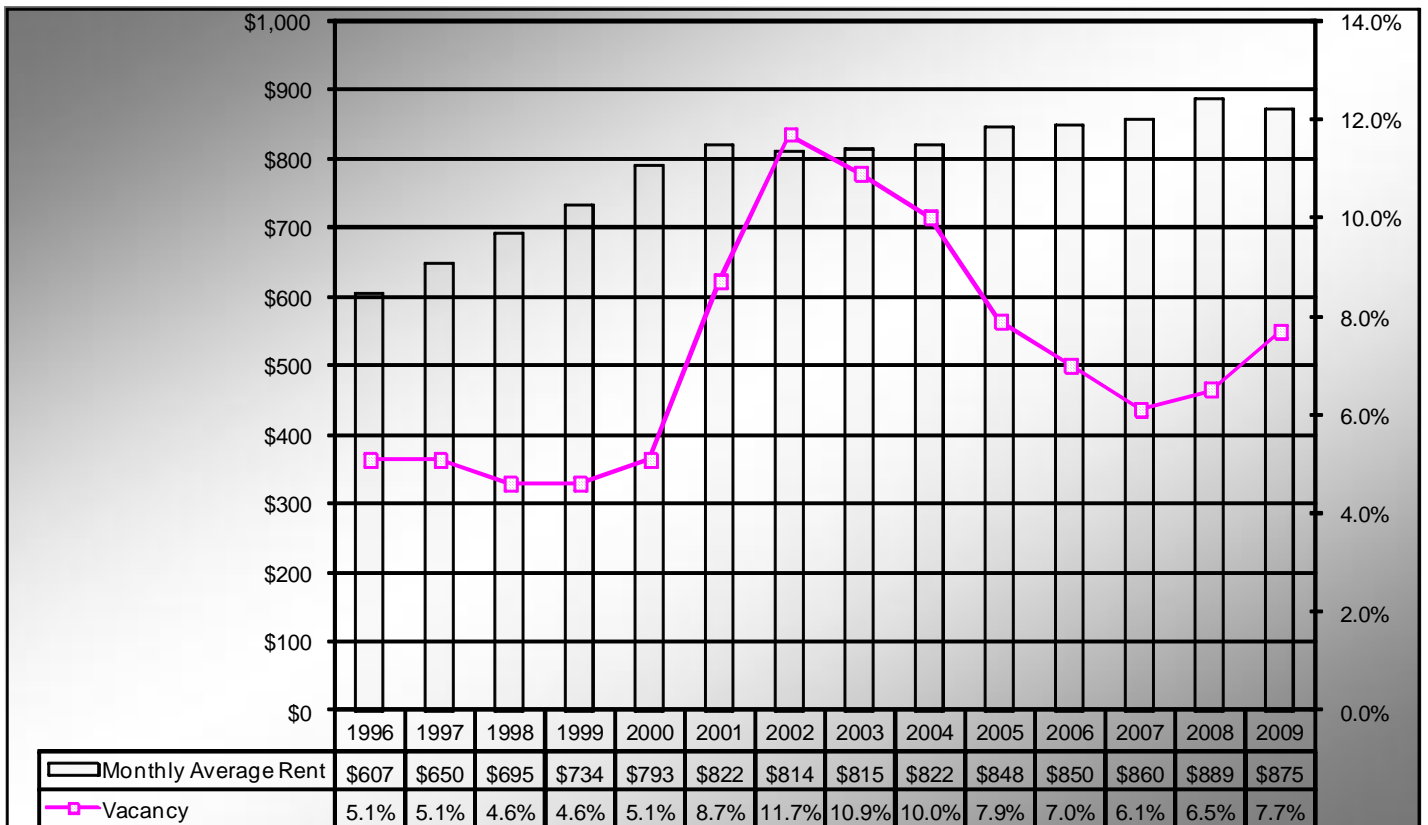
County	Proposed
Adams	1,220
Arapahoe	5,331
Boulder	1,303
Broomfield	1,300
Denver	7,870
Douglas	310
Jefferson	558
Total	17,892



Metro Denver Apartment Market (continued)

(Continued from page 4)

posits and other concessions meant to retain or attract residents. Rental rates are usually quoted with water and sewer costs included but with the tenant paying for electricity and natural gas. Effective rental rates are lower due to incentives.



The average rental rates quoted in the Apartment Association report may be somewhat inflated due to the periodic addition of new communities upon their completion, most of which have rental rates above the metro average. Un-counted in these averages is the increasing effect of special deals, reduced or eliminated security deposits and other concessions meant to retain or attract residents. Rental rates are usually quoted with water and sewer costs included but with the tenant paying for electricity and natural gas. Effective rental rates are lower due to incentives.

Apartment Sales During 2009

Sale activity of large apartment communities was down substantially in 2009 compared with previous years. Investors purchased 20 communities totaling \$282.9 million with an average unit price of \$70,267. This is less than half of the sales volume experienced in 2008 with 44 transactions totaling \$650.9 million.

In 2007, 59 apartment communities were purchased with a total dollar volume over \$1.4 billion and an average sale price of \$86,104/unit. 2006 was a record setting year as the apartment sale volume reached \$1.9 billion up 26.0% from \$1.5 billion in 2005. The type of investor has changed also. Previously, the buyers consisted of "big money" or investment grade buyers such as REITS. But sale transactions in 2009 are primarily small local investors seeking good investment opportunities.

Forecast 2010

Overall, the apartment market is expected to continue to slide with increasing vacancy rates and decreasing rental rates in response to current economic conditions. Until the job market begins to recover it is unlikely that the apartment market will show signs of recovery.

Renters will likely begin to see more concessions in all types of apartment communities as managers and owners try to retain tenants and fill vacant units. Currently concessions are not offered in well-established communities but are still offered in newly constructed and newly renovated properties. However this trend may change as higher vacancy rates are observed.

National home builders have begun to acquire distressed and foreclosed finished subdivisions. Once builders perceive recovery is underway home building will begin albeit at a much slower rate. The high number of foreclosures yet to be absorbed and the continued illiquidity of the mortgage market will continue to suppress the single family home market and may increase relative demand for apartment units but continued high unemployment will offset this.

Apartment sales will remain slow due in part to lack of available financing, higher financing costs and higher equity requirements. With increased vacancy rates, decreased rental rates and higher capitalization rates it will be difficult to market properties. Sellers may find that they are not able to sell the asset for the purchase price. Overall economic conditions are expected to continue to slow in the Denver apartment market from both an investor and developer perspective.

Addenda

The following lists include:

Apartment communities:

- Started during the 2nd half of 2009.
- Completed during the 2nd half of 2009.
- Under construction as of January 1, 2010.

Apartment Communities Started—2nd Half 2009

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
Alameda & Yates	5100 W. Alameda Avenue	Denver South	Denver	50	St. Charles Town Center
Prana	US-287/S. Public Road	Boulder	Boulder	254	Milestone Development Group
Prospect Village	NWC Iliff/Parker Road	Aurora	Arapahoe	328	GenCap
Renaissance Uptown	1509 Pearl Street	Denver Central	Denver	98	Colorado Coalition for the Hmlss
			Total	730	

Apartment Communities Completed — 2nd Half 2009

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
Asbury Green	2400 East Asbury Avenue	Denver South	Denver	171	Donald MacKenzie
Alexan Downtown Littleton	5101 South Rio Grande Street	Littleton	Arapahoe	350	Trammell Crow Residential
Broadston Vesta	3310 South Kenton Street	Aurora	Arapahoe	212	Alliance Residential Property
Casa De Rosa	735 Vrain Street	Denver West	Denver	54	Medici Communities
Clay Street Residences	2718 West 28th Avenue	Denver West	Denver	55	Mary Dean Marshall
Lodge at Hover Crossing	2127 18th Avenue	Longmont	Boulder	50	Longmont Housing Development
Park Avenue Lofts	755 East 19th Avenue	Denver Central	Denver	194	Martin Fein Interests
Riverton on the Platte	3400 South Platte River Drive	Englewood	Arapahoe	229	Embrey Partners
			Total	1,315	

Apartment Communities Under Construction—1st Quarter 2010

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
Cielo	6515 East Union Avenue	Denver South	Denver	201	Fairfield Residential
Acoma	816 Acoma Street	Denver Central	Denver	223	Hanover Company
Alexan @ Broadway Station	NWC Broadway & Mississippi Ave	Denver South	Denver	419	Trammell Crow Residential
Broadstone Cornerstar	16045 East Easter Circle	Aurora	Arapahoe	400	Alliance Residential
Cantania at Broomfield	13585 Via Varra Road	Broomfield	Broomfield	297	AG Spanos Companies
Colorado Commons	1601 Colorado Boulevard	Denver Central	Denver	112	Dominium Management Services
Miramont	10270 Commonwealth Street	Lone Tree	Douglas	243	Martin Fein Interests
Osage Courts	1275 Osage Street	Denver Central	Denver	185	Josh Comfort Development Services
Park Avenue Hope VI Phase II	240 Park Avenue	Denver Central	Denver	91	Denver Housing Authority
Park Avenue Hope VI Phase IV	240 Park Avenue	Denver Central	Denver	89	Denver Housing Authority
Portola at Southglenn	South Gaylord Street	Littleton	Arapahoe	202	Alberta Development
Sanctuary at Tallyn's Reach	East Easter Place	Aurora	Arapahoe	510	Simpson Housing
Seasons at Cherry Creek Phase II	East Ellsworth Avenue	Denver Central	Denver	148	RedPeak Properties
Skye 2905	2905 North Inca Street	Denver West	Denver	400	Trammell Crow Residential
Solera	1956 Lawrence Street	Denver Central	Denver	120	Zocalo Community Development
Terracina	13626 Via Varra Road	Broomfield	Broomfield	376	Catalina Development Company
				Total	4,016

Apartment Communities Proposed

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
9th and Colorado	East 9th Avenue and Colorado Boulevard	Denver East	Denver	230	Shea Properties
11th Avenue/Gaylord St Apts.	11th Avenue/Gaylord Street	Denver Central	Denver	100	MGL Partners
21 Fitzsimons Phase II	E. 22nd Avenue/Ursula Street	Aurora	Adams	340	The Pauls Corporation
Adams Crossing Mixed-Use	SWC I-76 and E-470	Aurora	Arapahoe	50	Woodbury Corporation
Alta Aspen Grove	8012 South Santa Fe Drive	Littleton	Arapahoe	282	Wood Partners
Arvada Ridge	SWC Ridge Road & Kipling Street	Arvada	Jefferson	378	Peregrine Group Devel.
AXIS	Westminster Blvd/Promenade Dr	Westminster	Adams	180	Urban Pacific Builders
Bellevue Station	NWC I-25 & Bellview Avenue	Denver South	Denver	247	Hanover Company
Bluff Lake	3100 Hanover Street	Denver North	Denver	92	Mercy Housing
Chaffee Park Senior Residence	4580 Tejon Street	Denver North	Denver	62	The Brugwyn Company
City House	2075 E. 18th Avenue Julian Street and West Colfax Avenue	Denver Central	Denver	393	East West Partners
Colfax Avenue Mixed Use	Avenue	Denver	Denver	50	Del Norte Neighborhood
Colorado Center	NWC Asbury Avenue/I-25	Denver South	Denver	185	Lincoln Property Co.
Confluence, The	2166 15th Street	Denver Central	Denver	50	Suppa Properties
Denver Union Station	SWC 18th St/Wewatta Street	Denver Central	Denver	400	Continuum Partners
Eastbridge @ Stapleton	2870 Geneva Street	Denver East	Denver	118	Forest City-Stapleton
Element 47	2150 Bryant Street	Denver West	Denver	340	AG Spanos
Elmendorf	NEC Tower Rd/Elmendorf	Denver East	Denver	350	Gage Davis Associates
Fairweather Landing	10401 N. Molsenbocker Road	Parker	Douglas	110	Trademark Communities
Fitzsimons Village	13388 East Colfax Avenue	Aurora	Adams	700	BWAB
Gates Rubber Factory Redevelop.	NEC Santa Fe Dr/Mississippi	Denver South	Denver	1300	Cherokee Investment
Grandview Meadows Ph. 3	620 Grandview Meadows Drive SWC Gunpark Drive and Lookout Road	Longmont	Boulder	200	M. Timm Development
Gunbarrel Town Center	Road	Boulder	Boulder	260	O'Connor Group
Hampden Town Center	E. Manfield Avenue/S Dayton St	Aurora	Arapahoe	168	Equity Residential
Highland Apartments	Speer & Alcott	Denver West	Denver	318	Allied Realty Services
Highpoint	Tower Road, East 64th Avenue	Denver East	Denver	300	LNR Property
I-25 @ Lincoln	I-25/Lincoln Avenue	Highlands Ranch	Douglas	80	Capital Real Estate
Interlocken East	Hwy 128 & Boulder Turnpike	Broomfield	Broomfield	600	Hines Interest
Interlocken East Phase II	US 36 NW Interlocken Blvd	Broomfield	Broomfield	650	Camden Property Trust
Kettle Lake	4801 S. Monaco Parkway	Denver South	Denver	300	DTC - Shea Properties
Legacy at Gateway	56th Avenue and Argonne Street	Denver East	Denver	360	Max Furer
Longmont Downtown	NWC 3rd Avenue/Kimbark Street 7711 E. Academy Way/Rampart Wy	Longmont	Boulder	50	Longmont Downtown Devel
Lowry Hangar 2	Wy	Denver South	Denver	230	International Risk Group
Lux @ DU	SEC Evans Avenue & University	Denver South	Denver	120	Alden Brown & Company
MacKenzie Place at RidgeGate Phase II	I-25 and Lincoln Avenue	Parker	Douglas	120	MacKenzie, Donald
McKenzie Junction	Diagonal Hwy/Foothills Pkwy	Boulder	Boulder	344	Trammell Crow Residential
Manhattan Phase II	1850 Bassett Street East Colfax Avenue and Sable Boulevard	Denver Central	Denver	133	Windsor Communities
Monterey Pointe	Boulevard	Aurora	Arapahoe	354	SKM Development
Orchard Town Center	NEC Huron St/144th Avenue	Westminster	Adams	500	Forest City Enterprises
Palisades @ Fitzsimons Village	NW & NECs 13th Place/Victor St	Aurora	Arapahoe	414	Hibernia Holdings
Park Hill	4000 Colorado Boulevard	Denver East	Denver	72	City & County of Denver
Pillar of Fire 254 Mixed Use	84th Ave/Federal Blvd	Westminster	Adams	50	Diversified Real Estate Grp
Red Oak Park	2637 Valmont Road	Boulder	Boulder	59	Boulder Housing Partners

Apartment Communities Proposed—continued

Residences At Twenty-Ninth	NEC 29th Street	Boulder	Boulder	238	Lou DellaCava
Rockmont Residential	3500 Rockmont Drive	Denver Central	Denver	700	Alliance Residential
Sable Ridge	4203 Chambers Road	Denver North	Denver	57	Kenneth A. Walker
Sand Creek Ranch	NEC East Mississippi Avenue and	Aurora	Arapahoe	1500	Marathon Land Company
Skyline Apartments	2826 Zuni Street	Denver Central	Denver	84	Engineering Partners
South Lincoln Park Senior Tower	10th Avenue/Osage Street	Denver Central	Denver	100	Denver Housing Authority
Starfall	Alameda and Taft Avenue	Aurora	Arapahoe	1188	Marathon Land Company
Tamarac Village	3300 South Tamarac Drive	Denver South	Denver	600	AIMCO
University Station	2075 Buchtel Boulevard	Denver South	Denver	210	Mile High Development
Uptown Broadway Phase II	4580 Broadway Street	Boulder	Boulder	56	Coburn Development
Welby Station	E. 88th Ave/Welby Road	Thornton	Adams	280	New Town Builders
Wellington	1408 West Colfax Avenue	Denver Central	Denver	288	Carmel Partners
Wellington	1401 Osage Street	Denver Central	Denver	250	Carmel Partners
Windermere	5800 South Datura Street	Littleton	Arapahoe	128	Wilson Properties
Village Center Station	Arapahoe Rd/Dayton Station	Greenwood Vil-	Arapahoe	350	Shea Properties
Violet Crossing	4474 Broadway Street	Boulder	Boulder	96	Palmos Development Co.
Vista Highland	NEC Hwy-7 and Sheridan Park-	Broomfield	Broomfield	50	Marathon Land Company
Zuni Senior	3015 Zuni Street	Denver Central	Denver	78	Colo. Housing & Finance
			Total	17,892	