

Apartment Perspective

News and Analysis about the Denver Metropolitan Apartment Market

Overview

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1 Denver's apartment market continues to move upward. Vacancy decreased to 6.1% for the 2nd quarter down nearly 0.5% from 1st quarter 2010 and 1.6% from 7.7% at year-end 2009. Vacancy rates are equal to year-end 2007 levels while the 2008 vacancy rate was the highest in recent years at 7.9%. Vacancies in new construction (built since 2005) decreased to 11.0% in the 2nd quarter down from 13.5% in the 1st quarter and 17.2% at year-end 2009. All other age related apartment groups report vacancy rates less than 8.0% with three segments, 1980 construction or newer, at 5.1% or lower. Rental rates continue to rebound as well. For the 2nd quarter average rental rate is reported at \$900 up from \$877 in 1st quarter 2010 and in 4th quarter 2009.

Metro Denver Economy

7 The national economy remains sluggish in spite of continued intervening measures by the Obama Administration. National unemployment levels decreased slightly to 9.5% through June 2010 down from 10.0% in December 2009 although many companies are reporting better performance than previously expected. On a positive note, Congress extended unemployment benefits but the Administration's Home Loan Modification Program has not been as effective as hoped. Conventional financing remains difficult to obtain particularly for commercial real estate while the Administration desire to institute additional banking regulations might continue to hamper lending. Multifamily investors and developers have turned to Department of Housing and Urban Development (HUD) as conventional financing is still difficult to obtain. The high demand for HUD financing has slowed approvals for new developments, acquisitions and refinances.

Statewide unemployment levels have decreased slightly to 8.0% down from 8.3% one year ago. This rate is still high considering statewide unemployment was 5.8% at year-end 2008. Total employment has declined 44,200 since June of 2009 and there are 214,100 residents unsuccessfully looking for employment statewide.

Homebuyer traffic nationwide dropped as first-time homebuyer traffic stalled, according to a survey from Campbell/Inside Mortgage Finance. Homebuyer activity stalled due to the expiration of the federal tax credit incentive in April 2010.

Metro Denver Apartment Market

According to Pierce Eislen, the metropolitan Denver apartment market contains a total of 174,644 existing units in buildings or communities of at least 50 units as of July 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.

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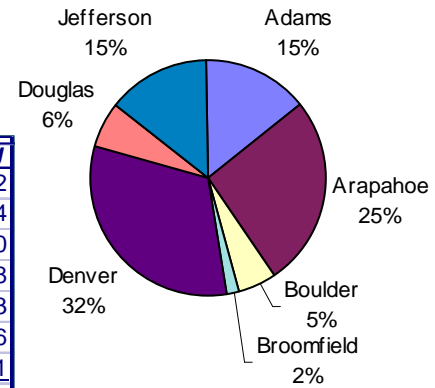
Metro Denver Apartment Market (continued)

In addition to the existing inventory, 15 apartment projects with 3,435 units were under construction in metro Denver on July 1, 2010. Pierce Eislen reports another 3,618 units are anticipated for construction by year-end 2010. Many of those are likely not to actually start construction or be developed as apartments. Three communities were started in the first half of 2010 – Chaffee Park Senior Residences with 62 units, Residences at Twenty-Ninth Lofts with 238 units and Red Oak Park with 59 units.

Apartment construction has softened considerably with 75% fewer units started in the first half of 2010 than 2009 and 83% below 2008. With 3,168 units proposed to begin construction by year-end 2010 construction starts would be in line with historical data. It is unlikely that all of the proposed units would be started by year-end. 2001 experienced the largest amount construction starts in recent years with nearly 11,500 units.

County	Existing
Adams	25,902
Arapahoe	44,444
Boulder	9,210
Broomfield	2,918
Denver	55,803
Douglas	11,016
Jefferson	25,351
Total	174,644

Apartment Units by County -- Existing



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. For the first half of 2010, absorption has nearly surpassed a “normal” year. The slowed construction practiced by developers will eventually

impact the apartment market as supply will not meet demand as the economy continues to recover.

Year	Vacancy Rate	Average Rent	Construction Starts	Absorption
2010	6.1%	\$900	359	4,875
2009	7.7%	875	1,438	4,069
2008	7.9%	889	2,099	(3,254)
2007	6.1%	860	5,521	4,644
2006	7.0%	850	1,632	2,709
2005	7.9%	848	494	8,126
2004	10.0%	822	504	607
2003	10.9%	815	2,685	4,329
2002	11.7%	814	4,926	197
2001	8.7%	822	11,427	(2,904)

Vacancy continues to decrease in spite of continued high statewide unemployment and under employment practices. Vacancy was expected to decrease especially in light of the limited new construction and strong absorption. In 2009 the apartment market was expected to perform better than it had particularly since there was limited new supply added and absorption was strong. It appears based upon the 6.1% vacancy rate and large amount of absorption the apartment market is performing better than anticipated in 2009.

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. Apartment market recovery appears to be underway as vacancy is below pre-recession levels, absorption is strong and average rent level has reached \$900/month.

The apartment market may relapse over the foreseeable future until unemployment levels decrease and the overall economy begins recovery. Furloughs and layoffs are expected to remain in place especially in the government sector as state and local governments continue to struggle to balance budgets. Balancing the budgets will remain difficult due to a decrease in real estate tax revenue from declining property values.

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Metro Denver Apartment Market (continued)

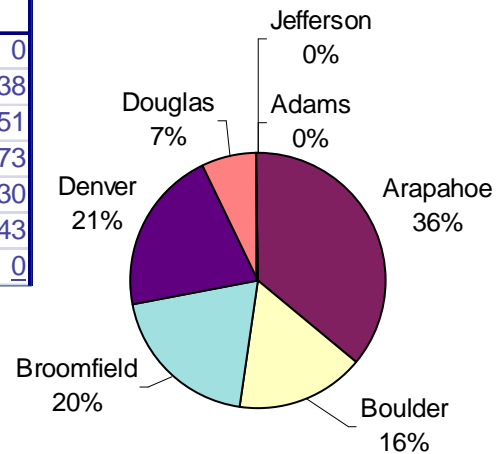
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As financing remains difficult to obtain, many developers have pushed their planned developments back further than six months thus eliminating a large amount of proposed supply. Based upon the current rate of absorption, with 3,435 units currently under construction and another 3,168 units proposed over the next six months, the excess supply may be eliminated by mid-year 2011. Adams and Jefferson counties are the only two counties without any current apartment construction underway and Broomfield and Jefferson counties have no units proposed for development over the next six months.

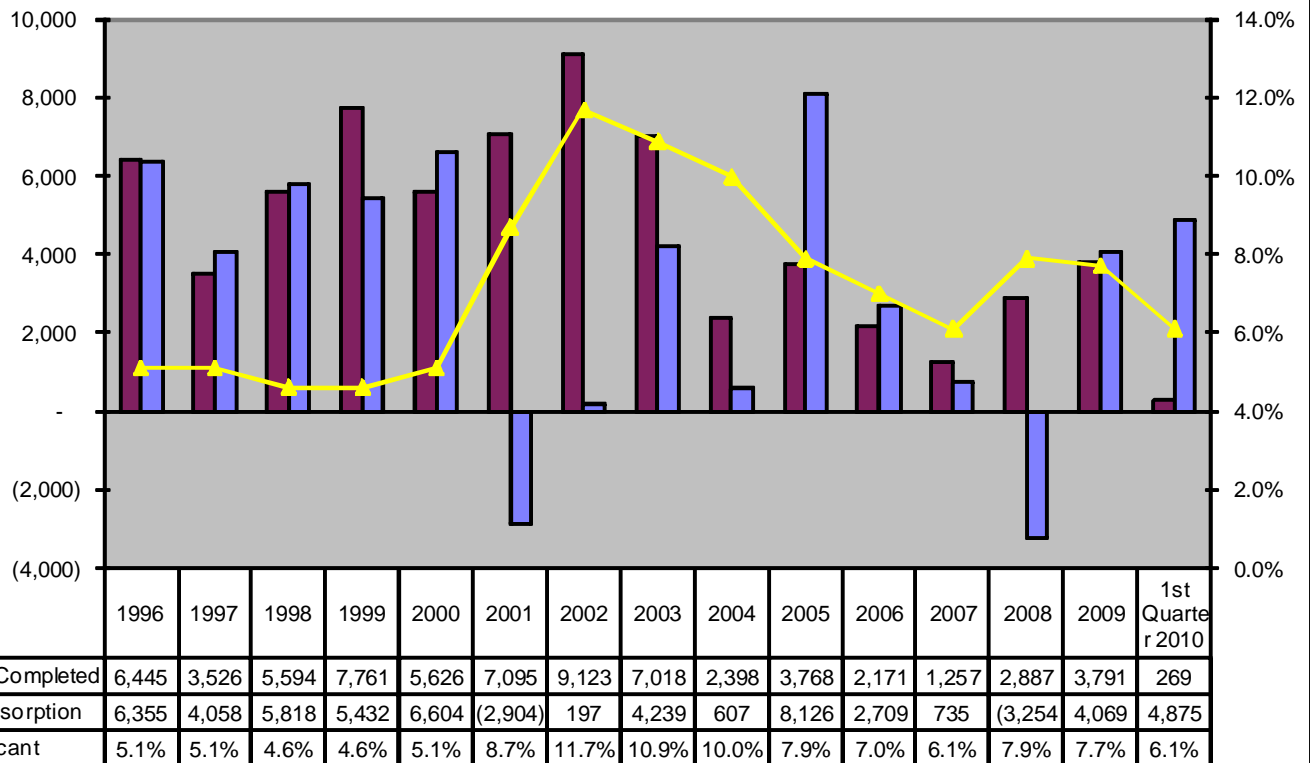
According to data provided by Pierce Eislen, developers completed 5 projects with a total of 1,157 units in the first half of 2010. Pierce Eislen includes apartment rental projects when they are 100% complete including all phases.

County	UC
Adams	0
Arapahoe	1,238
Boulder	551
Broomfield	673
Denver	730
Douglas	243
Jefferson	0

Apartment Units Under Construction



VACANCY, NET ABSORPTION AND DEVELOPMENT TRENDS IN METROPOLITAN DENVER



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

(Continued on page 4)

Metro Denver Apartment Market (continued)

(Continued from page 3)

The Denver Metro Apartment Vacancy and Rent Survey conducted by Dr. Gordon Von Stroh for the Apartment Association of Metro Denver (AAMD) reports a total of 269 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.

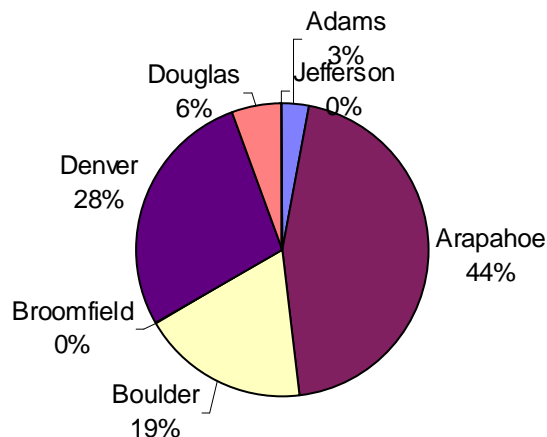
With an overall vacancy rate of 6.1% 15 of the 37 submarkets scattered throughout the metro area are reporting higher vacancy rates however, 5 of them are 0.5% or less than the average. Only three markets have double digit vacancy including Aurora North at 10.3%, Denver West Central at 10.2% and Wheat Ridge at 10.9%. The better performing markets include Commerce City-Brighton at 4.0%, Arapahoe County South at 3.0%, Douglas County-North at 3.8%, and Boulder County Other at 3.8%. 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, Douglas and Jefferson Counties the vacancy rates remain lower than the metro average at 5.2%, 4.9%, 3.9% and 5.4% respectively. In counties with large amounts of new development the vacancy rates are near or above the metro average with Arapahoe County at 6.4% and Denver County at 7.4%.

While vacancy rates are highest in apartment communities with higher rents, demand is steady for "affordable" apartments, especially those using HUD financing. Tax credit financing market suffered dramatically in October of 2008 along with the financial crisis and has yet to recover. 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.

County	Proposed
Adams	100
Arapahoe	1,420
Boulder	596
Broomfield	0
Denver	872
Douglas	180
Jefferson	0
Total	3,168

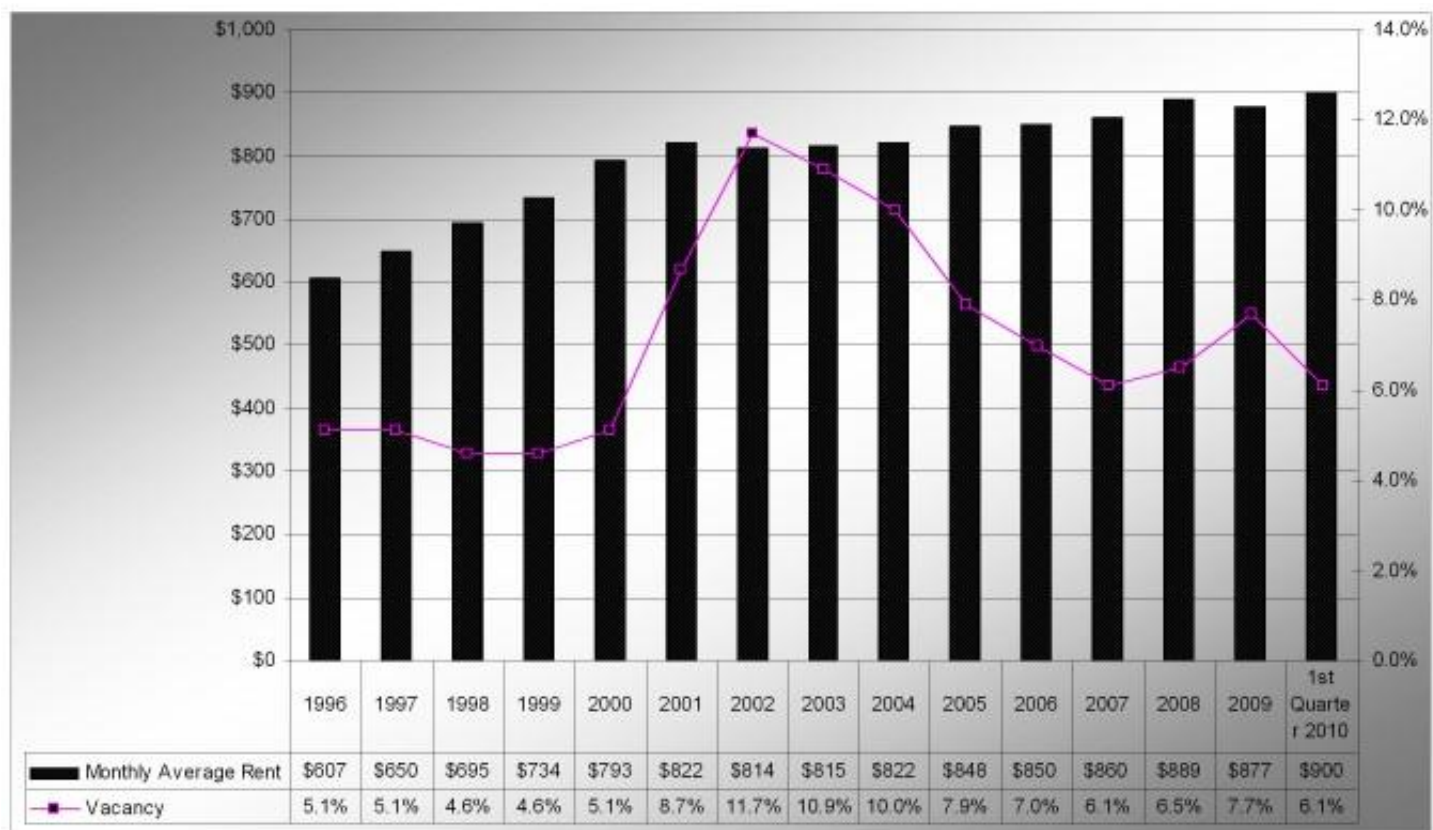
Apartment Units Proposed



Following a slight decrease in 2009, average rental rates have increased to \$900/month on average. 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 the second quarter 2010 is reported at \$900 up from \$811 in 2009, \$829 in 2008 and \$818 in 2007.

Metro Denver Apartment Market (continued)

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. Uncounted 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 2010

Sale activity of large apartment communities remains flat. In the first half of 2010, 10 communities with 50 units or more sold totaling \$164.6 million with an average unit price of \$69,083. In 2009 only 20 communities totaling \$282.9 million with an average unit price of \$70,267 sold. 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. Buyers of the apartment communities are a mix of “big money” or investment grade buyers such as REITS and small local investors seeking good investment opportunities.

Forecast 2010—2011

Overall, the apartment market is expected to remain stable. Absorption is strong however until the job market begins recovery it is unknown how long absorption will remain high. Limited supply of new product will allow the vacancy rate to remain low. However, until the job market begins to recover and statewide unemployment levels decrease the apartment market is at risk for increasing vacancy rates and decreasing rental rates.

Concessions may become more limited as supply diminishes. Currently concessions are not offered in well-established communities but are still offered in newly constructed and newly renovated properties.

The single-family market has slowed following the expiration of the homebuyers tax credit stimulus in April of 2010. Ability of homebuyers to qualify and obtain financing remains limited placing additional pressure on the apartment market. 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. However, brokers report renewed interest for good quality well positioned apartment product from local and national investors. Overall vacancy rates and increasing rental rates will continue to spur interest. The apartment market is expected to remain stable and slowly improve over the foreseeable future.

Addenda

The following lists include:

Apartment communities:

- Started during the 1st half of 2010.
- Completed during the 1st half of 2010.
- Under construction as of July 1, 2010.
- Proposed and most likely to start construction during 2010.

Apartment Communities Started—1st Half 2010

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
Chaffee Park Senior Residence	4580 Tejon Street	Denver North	Denver	62	The Brugwyn Company
Red Oak Park	2637 Valmont Road	Boulder	Boulder	59	Boulder Housing Partners
Residences At Twenty-Ninth Street	NEC 29th Street	Boulder	Boulder	238	Lou DellaCava
Total				359	

Apartment Communities Completed — 1st Half 2010

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
1601 Colorado	1601 Colorado Blvd.	Denver	Denver	112	Dominium Management Services
Acoma	816 Acoma Street	Denver Central	Denver	223	The Hanover Company
Alexan @ Broadway Station	NWC Broadway & Mississippi Ave	Denver South	Denver	419	Trammell Crow Residential
Cielo	6515 East Union Avenue	Denver South	Denver	201	Fairfield Residential
Portola at SouthGlen	6851 South Gaylord Street	Littleton	Arapahoe	202	Alberta Development Partners
Total				1,157	

Apartment Communities Under Construction—3rd Quarter 2010

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
Broadstone Cornerstar	16045 East Easter Circle	Aurora	Arapahoe	400	Alliance Residential
Cantania at Broomfield	13585 Via Varra Road	Broomfield	Broomfield	297	AG Spanos Companies
Chafee Park Senior Residences	4580 North Tejon Street	Denver	Denver	62	Burgwyn Company
Colorado Commons	1601 Colorado Boulevard	Denver Central	Denver	112	Dominium Management Services
Lugana Cherry Creek	9601 E. Iliff Avenue	Denver South	Denver	328	GenCap
Miramont	10270 Commonwealth St.	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
Prana	550 Viridian Drive	Lafayette	Boulder	254	Milestone Development Group
Red Oak Park	2637 Valmont Road	Boulder	Boulder	59	Boulder Housing Authority
Renaissance Uptown Lofts	1509 Pearl Street	Denver Central	Denver	98	Colorado Coalition for the Homeless
Residences at Twenty-Ninth Lofts	1925 30th Street	Boulder	Boulder	238	Johnson Capital Group
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				4,010	

Apartment Communities Proposed

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
11th Avenue/Gaylord St Apts.	11th Avenue/Gaylord Street	Denver Central	Denver	115	MGL Partners
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
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
Fairweather Landing	10401 N. Motesenbocker Road	Parker	Douglas	110	Trademark Communities
Fitzsimons Village	13388 East Colfax Avenue	Aurora	Adams	700	BWAB
Flats at Lincoln Station	9365 Station Street	Lone Tree	Arapahoe	70	Community Housing Development
Grandview Meadows Ph. 3	620 Grandview Meadows Drive	Longmont	Boulder	200	M. Timm Development
Hampden Town Center	E. Manfield Avenue/S Dayton St	Aurora	Arapahoe	168	Equity Residential
Highland Park	2424 West Caithness Place	Denver	Denver	126	Heitler Development
Junction Place	3100 Pearl Parkway	Boulder	Boulder	300	Pederson Development
Lowry Hangar 2	7711 E. Academy Way/Rampart Wy	Denver South	Denver	230	International Risk Group
Pillar of Fire 254 Mixed Use	84th Ave/Federal Blvd	Westminster	Adams	50	Diversified Real Estate Grp
South Lincoln Senior Tower	10th Avenue/Osage Street	Denver Central	Denver	100	Denver Housing Authority
Villages at Westerly Creek	E Kentucky Ave. & South Ironton St.	Aurora	Arapahoe	120	Aurora Housing Authority
Violet Crossing	4474 Broadway Street	Boulder	Boulder	96	Palmos Development Co.
Total				<u>3,167</u>	