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First Quarter 2011

Apartment Perspective

News and Analysis about the Denver Metropolitan Area Apartment Market

Overview

Inside this issue:

Overview	1
The Metro Denver Economy	1
The Metro Denver Apartment Market	1
Apartment Sales During 2010	6
Forecast 2011	6
Addenda	7

Denver's apartment market continues to improve as vacancy decreased to 5.5% to close out 2010. This is one of the lowest vacancy rates posted in a decade. 2000 posted a vacancy rate of 4.7% but following 9/11 vacancy rates increased to 8.7% and more than 10.0% through 2004. 2009 vacancy rates were 2.2% higher than current levels at 7.7%. Vacancies in new construction (built since 2005) decreased less than a ½ percent to 12.7% at year-end from 13.1% in the 3rd quarter but nearly 5.0% from 17.2% at year-end 2009. All other age related apartment groups report vacancy rates less than 6.0% with four segments, 1960s and 1980 construction or newer, at 4.9% or lower. Average rental rates tapered off slightly from \$913 in the 3rd quarter 2010 to \$909 at year-end 2010. This is an increase of almost 4% from \$875 in 2009 and 2.2% increase from \$889 in 2008. Median rental rates increased 4.3% from \$811 in 2009 to \$846 in 2010.

Metro Denver Economy

Optimism remains cautious for continuation of the national economic recovery. However, the Fed remains concerned about recovery demonstrated by their purchase of \$600 billion in bonds over the next eight months. The Fed will purchase the bonds in order to support the recovery by keeping long term borrowing costs low. Other skeptics point out several issues including continued high rate of foreclosures nationally, national unemployment virtually unchanged at 9.8% in November of 2010 compared to 10.0% in December of 2009 and limited availability of commercial financing. Realty Trac reports that more than 1 million homes were foreclosed upon in 2010, not to mention the residential "shadow" market and the high number of "underwater" commercial real estate properties. It has been reported that by the end of 2010 half of the commercial real estate mortgages will be underwater. Ms. Elizabeth Warren, chair of the TARP Congressional Oversight Panel stated, "We have 2,988 banks – mostly mid-sized, that have these dangerous concentrations in commercial real estate lending." Ms. Warren went on to say that the economy will face another serious problem that will have to be resolved over the next three years. It is unknown what effect the distressed commercial real estate market will have on the economy.

More locally, the state's unemployment level remains high at 8.6% through November 2010. Donald Mares, Executive Director of the Colorado Department of Labor and Employment stated "While the unemployment rate is increasing at the same time we're adding jobs, this seeming contradiction is easily explained by the number of people returning to the labor force." For the first time in three years, Colorado experienced three months of wage and salary job growth. The unemployment rate is still high considering statewide unemployment was 5.8% at year-end 2008.

Many economists believe the housing market may take four or five years to recover. According to 24/7 Wall Street, Colorado nearly made the list of states running out of homebuyers, which includes Michigan, Nevada, Arizona, California, Illinois, Georgia and Oregon. Colorado was among the 10 worst states for declines in building permits and had one of the worst foreclosure rates. However, the population has rebounded enough to make a strong case that the housing market may recover moderately over time.

Charts and Graphs:

- Distribution of apartment units by county page 2
- Vacancy, net absorption and development trends page 3
- Monthly Average rent page 5
- Apartment Units Under Construction page 2
- Apartment Units Proposed page 4
- Addenda Tables page 7

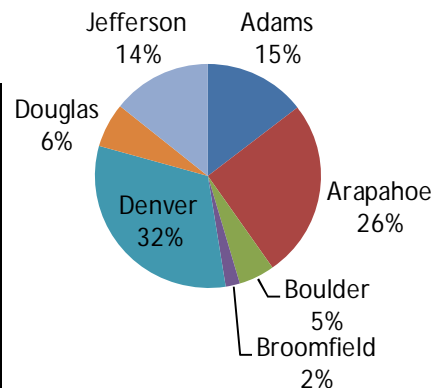
Metro Denver Apartment Market (continued)

According to Pierce Eislen, the metropolitan Denver apartment market contains a total of 176,990 existing units in buildings or communities of at least 50 units as of January 1, 2011. 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.

In addition to the existing inventory, 9 communities with 1,047 units were started during the second half of 2010. An additional 7 apartments projects with 1,089 units were under construction in metro Denver on January 1, 2011. Pierce Eislen reports another 2,967 units are anticipated for construction by year-end 2011. Many of those are likely not to actually start construction or be developed as apartments.

County	Existing
Adams	25,902
Arapahoe	45,354
Boulder	9,210
Broomfield	3,591
Denver	56,435
Douglas	11,259
Jefferson	25,351
Total	177,102

Apartment Units by County -- Existing



Year	Vacancy Rate	Average Rent	Construction Completions	Absorption
2010	5.5%	\$909	3,503	6,827
2009	7.7%	875	2,009	4,069
2008	7.9%	889	1,019	(3,254)
2007	6.1%	860	1,257	4,644
2006	7.0%	850	3,495	2,709
2005	7.9%	848	3,552	8,126
2004	10.0%	822	1,685	607
Totals			16,520	23,728

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 and 2010 absorption levels were just shy of the norm while 2008 experienced the second largest negative absorption over the last decade. Although 4th quarter 2010 reported a negative net absorption, total absorption during the year was in line with average or typical rates. The slowed construction practiced by developers will eventually impact the apartment market because supply will not meet demand as the economy continues to recover. As new supply continues to trail absorption the market will continue to constrict which will be evident by the very low vacancy rate.

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. Based upon the current 5.5% vacancy rate and large amount of absorption the apartment market is performing better than 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 re-

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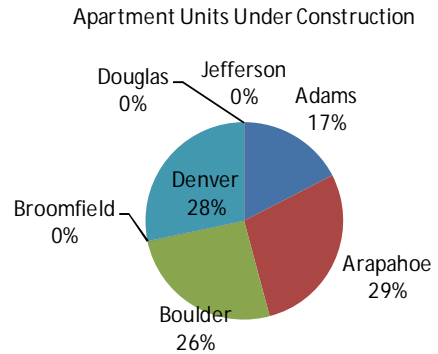
Metro Denver Apartment Market (continued)

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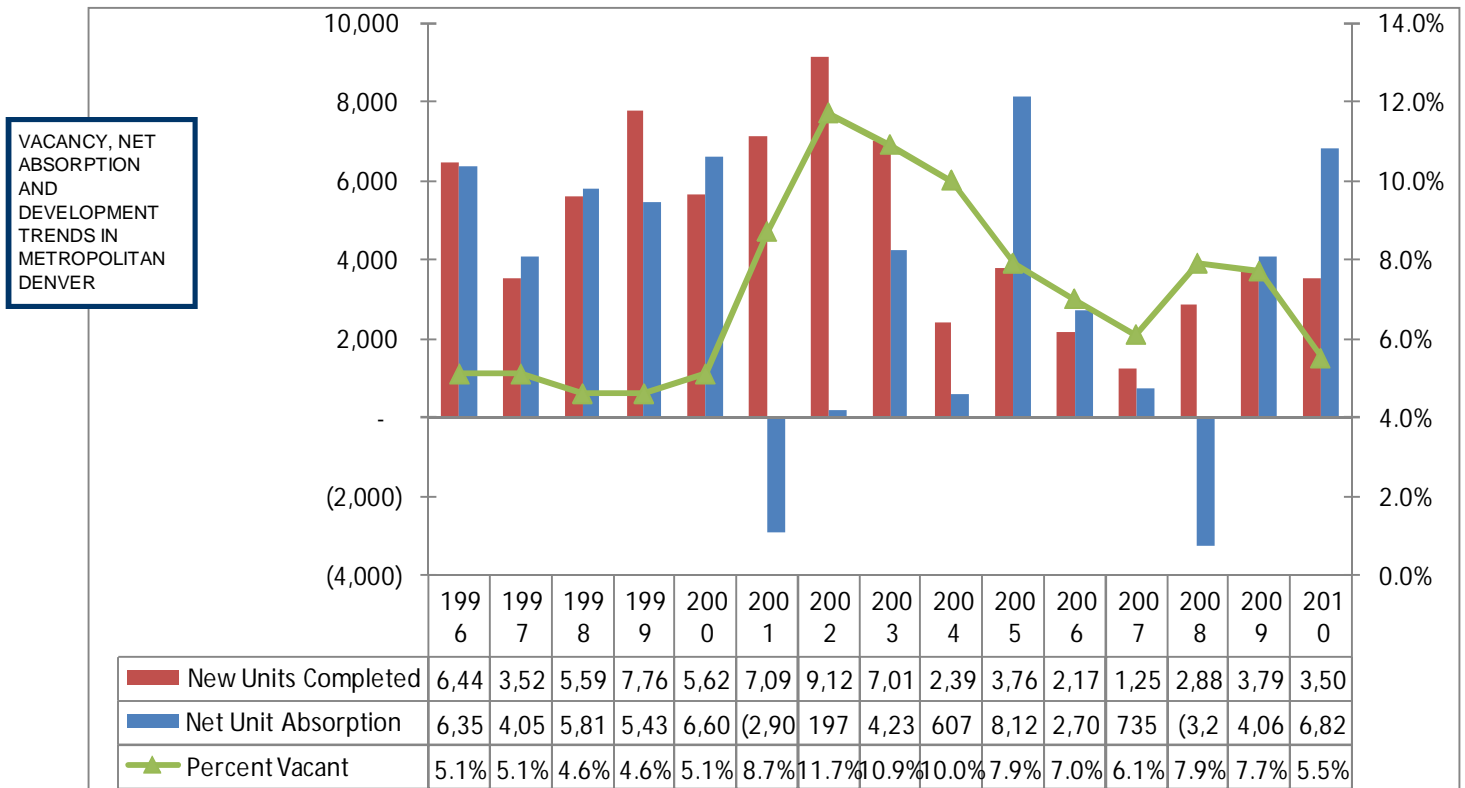
cession, with vacancy rising and rental rates falling. However, 2010 proved to fare better. Vacancy rates decreased to near historic low levels at 5.5% metro wide with 18 of the individual sectors reporting vacancy rates below 5% and the highest average rental rate ever reported in metro Denver at \$909.

The apartment market may relapse over the foreseeable future until unemployment levels decrease and the overall economy continues strong 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 government budgets will remain difficult due to a decrease in sales tax and real estate tax revenue from declining property values.

County	UC
Adams	372
Arapahoe	608
Boulder	551
Broomfield	0
Denver	605
Douglas	0
Jefferson	0
Total	2,136



As financing remains difficult to obtain, many developers have pushed their planned developments back eliminating a large amount of proposed supply. Based upon the current rate of absorption, with 2,136 units currently under construction and another 3,080 units proposed over the next 12 months, the excess supply may be eliminated by mid-



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

Metro Denver Apartment Market (continued)

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year 2012. Broomfield, Douglas and Jefferson counties have no apartment construction currently underway and Broomfield and Jefferson counties also have no units proposed for development over the next six months.

According to data provided by Pierce Eislen, developers completed 8 projects with a total of 2,346 units in the second half of 2010. Pierce Eislen includes apartment rental projects when they are 100% complete including all phases. 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 229 units completed in the same period. Methodology used by Dr. Von Stroh accounts for units that become ready for lease regardless of management decision to actually lease the units.

County	Under Construction	Proposed
Adams	372	100
Arapahoe	1,238	1,138
Boulder	551	369
Broomfield	0	0
Denver	605	1,266
Douglas	0	180
Jefferson	0	0

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 Broomfield/Boulder, Douglas and Jefferson Counties the vacancy rates remain lower than the metro average at 3.6%, 5.2% and 4.5% respectively. In counties with large amounts of new development the vacancy rates are near or above the metro average with Adams County at 5.7%, Arapahoe County at 6.6% and Denver County at 5.2%.

While vacancy rates are highest in apartment communities with higher rents, demand is steady for “affordable” apartments, especially those using HUD financing. The market for

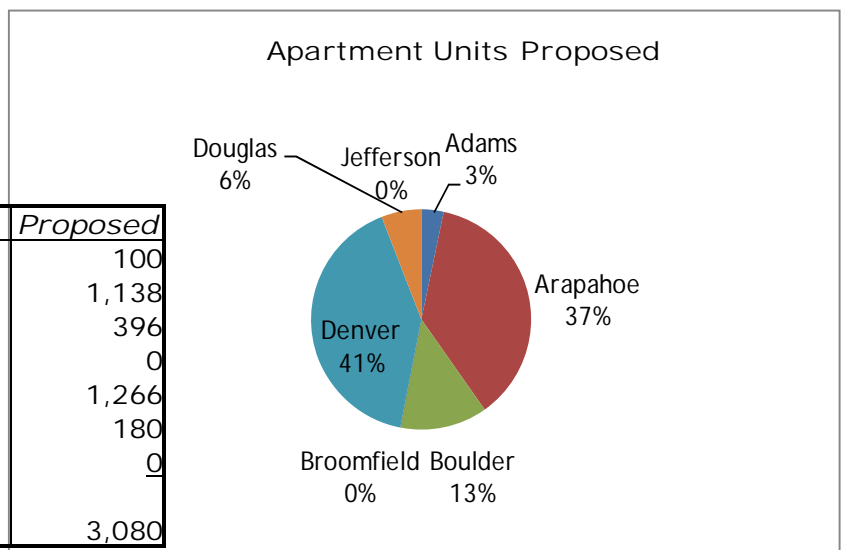
HUD tax credits suffered dramatically in October of 2008 along with the financial crisis. Although the tax credit market has yet to recover, demand for tax credit financing as well as other government programs continues to increase as conventional financing remains difficult to obtain. However, due to 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.

Following a slight decrease in 2009, average rental rates have increased to \$909/month on average. The quoted rental rates used by Pierce Eislen and Von Stroh/AAMD do not take into consideration the value of specials and concessions being offered by many apartment communities. The median rental rate for the year 2010 is reported at \$846 up from \$811 in 2009, \$829 in 2008 and \$818 in 2007.

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

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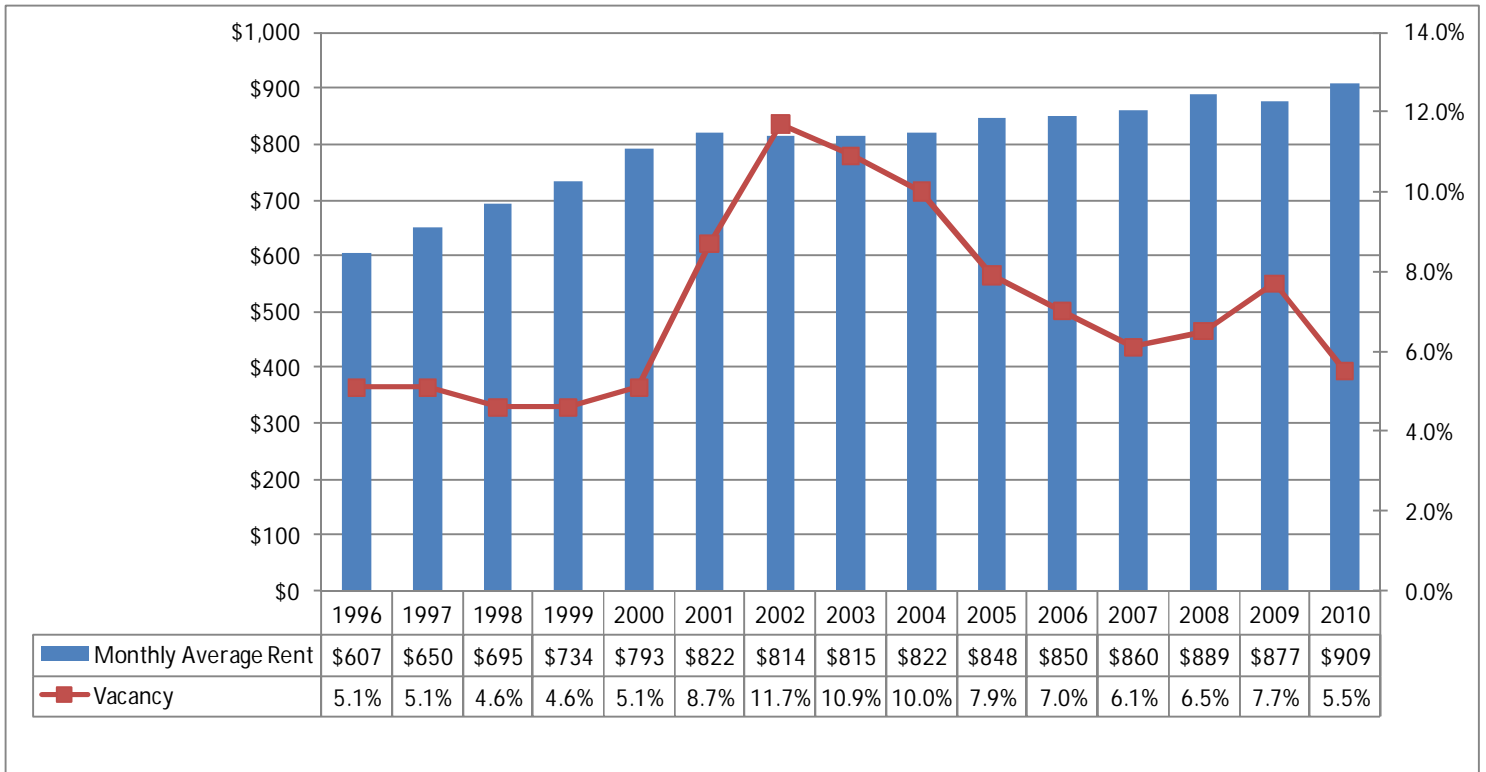
County	Proposed
Adams	100
Arapahoe	1,138
Boulder	396
Broomfield	0
Denver	1,266
Douglas	180
Jefferson	0
Total	3,080



Metro Denver Apartment Market (continued)

(Continued from page 4)

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 is slowly improving. In the second half of the year, 22 apartment community sales with 50 units or larger transpired with a total sales volume of slightly more than \$396.0 million. A total of 5,544 units sold with an average unit price of \$71,443/unit. 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. Buyers remain a mix of "big money" or investment grade buyers such as REITS and small local investors seeking good investment opportunities.

Forecast 2011

Overall, the apartment market is expected to continue to improve. With 18 of the submarkets reporting vacancy rates below 5.0% rental rates are expected to continue to climb. Rental concessions for existing product will be limited if offered at all with only new construction product likely offering incentives. Employment stability including eliminating the practice of furloughs will aid in pushing rental rates higher. Continued limited supply of new product will aid in absorption as well.

The single family housing market including the shadow market will continue to plague the apartment market. Investors continue to acquire single family residences for investment purposes. Much the available financing has been provided by government backed financing including FHA, VA and other programs. If conventional financing becomes more readily available and easy to obtain, absorption of the oversupply of single family homes for sale will impact the apartment rental market.

Apartment sales are expected to continue to increase as investors continue to see the Denver market as a well-positioned market. Reduced financing availability will continue to hamper acquisitions particularly with the high demand for HUD financing slowing loan processing, but reduced 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 2nd half of 2010.
- Completed during the 2nd half of 2010.
- Under construction as of January 1, 2011.

Apartment Communities Started—2nd Half 2010

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
17th & Central	1861 Central Street	Denver Central	Denver	57	Central Street Investors
Alta Aspen Grove	7317 S Platte River Parkway	Littleton	Arapahoe	280	Wood Partners
Arbour Square	148th Street/Orchard Parkway	Westminster	Adams	300	McWhinney
Aspen Meadows Phase II	70 21st Avenue	Longmont	Boulder	50	Hudson Companies
Dahlia Square Senior	3421 Elm Street	Denver East	Denver	88	Oakwood Homes
Phoenix on the FAX	7101 East Colfax Avenue	Denver East	Denver	50	Del Norte Neighborhood
Residences @ Panorama Pointe	W. 84th Ave/Zuni Street	Westminster	Adams	72	Hendricks Communities
South Lincoln Senior Tower	1099 Osage Street	Denver Central	Denver	100	Denver Housing Authority
Yale Station	5301 E. Yale Avenue	Denver South	Denver	50	Koelbel & Company
			Total	1047	

Apartment Communities Completed — 2nd Half 2010

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
Broadstone Cornerstar	16045 E. Easter Circle	Aurora	Arapahoe	400	Alliance Residential Company
Catania @ Broomfield	13585 Via Varra Road	Broomfield	Brmfld	297	AG Spanos Companies
Miramont @ RidgeGate	10270 Commonwealth St	Lone Tree	Douglas	243	Martin Fein Investments
Sanctuary @ Tallyn's Rch	23680 E. Easter Drive	Aurora	Arapahoe	510	Simpson Housing
Skye 2905	2905 Inca Street	Denver West	Denver	400	Trammell Crow Residential
Solera	1956 Lawrence Street	Denver Central	Denver	120	Zocalo Community Development
Terracina	13620 Via Varra Road	Broomfield	Broomfield	376	Catalina Development Company
			Total	2,346	

Apartment Communities Under Construction—4th Quarter 2010

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
Chafee Park Senior Residences	4580 North Tejon Street	Denver	Denver	62	Burgwyn Company
Los Altos Alameda	5100 West Alameda Avenue	Denver South	Denver	50	St. Charles
Lugana Cherry Creek	9601 E. Iliff Avenue	Denver South	Arapahoe	328	GenCap
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
				Total	1,089

Apartment Communities Proposed

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
2020 Lawrence	2020 Lawrence Street	Denver Central	Denver	231	Zocalo Community
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. Molsenbocker 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 Dvlomnt
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	East Kentucky Ave/S Ironton St.	Aurora	Arapahoe	120	Aurora Housing Authority
Violet Crossing	4474 Broadway Street	Boulder	Boulder	96	Palomos Development Co.
			Total	2,967	