

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 2012	6
Forecast 2012—2013	6
Methodology	6
Addenda	7

Through the second quarter of 2012, Denver's apartment vacancy rate remains virtually unchanged at 4.8%, down 0.6% from year end 2011, according to the second quarter 2012 Denver Metro Apartment Vacancy and Rent Survey conducted by Jennifer L. Von Stroh and Ron L. Throupe, Ph.D. for the Apartment Association of Metro Denver (AAMD). Overall vacancy rates have steadily decreased over the past two years. Reported vacancy for this same period in 2010 was 6.1% and one year ago it was 4.8%. Vacancy rates have not been this low since pre 9/11 when vacancy posted a level of 4.7%. Gradually, vacancy increased to a high of 8.1% in 2008.

Vacancies in new construction (built since 2005) decreased more than half since 2010 to 5.0%, the lowest rate ever posted for this segment of the market. All other age related apartment segments report vacancy rates less than 5.6%. Pre and post WWII buildings report vacancy rates below 3.6% while buildings constructed between 2000 and 2004 report vacancy at 4.1%. 1970s vintage buildings are reporting the highest vacancies of 5.6%.

The average rental rate increased 5.2% from \$932 at year-end 2011 to \$980 for the second quarter 2012. Overall, the average rental rate has increased 10.2% from year end 2008 when it was reported at \$889. The median rental rate is reported at \$916, an increase of 10.5% from 2008 when it was reported at \$829.

Charts and Graphs:

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

Metro Denver Economy

According to Colorado Department of Labor and Employment, full economic recovery is anticipated to be reached by mid-2013. The state has surpassed the national average for job growth in the first quarter of 2012 and 45,800 jobs were gained between March 2011 and March 2012. IHS Inc., of Douglas County reports the employment rate in Colorado is on its way to pre-recession levels. Only 11 other states have reached this benchmark.

Statewide tourism increased in 2011. According to a study by Longwoods International, 57.9 million travelers visited Colorado and 13.2 million visited Denver in 2011. Spending by overnight visitors was reported at \$10.76 billion for the state and \$3.3 billion for Denver.

The Home Builders Association of Metro Denver reports building permits increasing 71% from May 2011 to May 2012 for a total of 503 permits issued. Zillow.com reports Denver metro area posted the 3rd largest gain in home prices among U.S. metro areas surpassed only by Phoenix and Miami-Fort Lauderdale. Metrolist reports nearly 20% increase in closings from April 2012 to May 2012.

Statewide unemployment increased slightly from year-end 2011 at 7.9% to 8.1% through May of 2012. National unemployment remains steady at 8.2% through the same period.

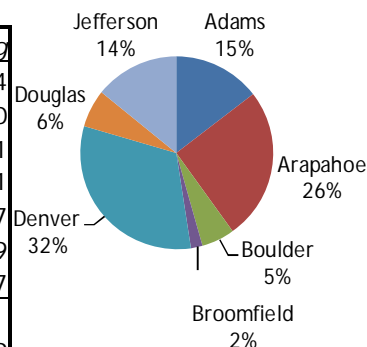
Metro Denver Apartment Market

According to Pierce Eislen, the metropolitan Denver apartment market contains a total of 179,779 existing units in buildings or communities of at least 50 units as of June 30, 2012. 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, 11 communities with 2,264 units were started during the second quarter of 2012. An additional 26 apartment projects with 4,907 units were under construction in metro Denver on June 30, 2012. Pierce Eislen reports another 8,238 units are anticipated for construction by year-end 2012. Many of those are likely not to actually start construction or be developed as apartments. According to Pierce Eislen, construction of 852 units was completed during the second quarter of 2012.

County	Existing
Adams	26,274
Arapahoe	46,130
Boulder	9,761
Broomfield	3,591
Denver	57,317
Douglas	11,259
Jefferson	25,447
Total	179,779

Apartment Units by County -- Existing



Year	Vacancy Rate	Average Rent	Construction Starts	Absorption
2012*	4.8%	\$980	3,565	2,699
2011	5.4%	932	3,029	1,556
2010	5.5%	909	1,406	6,827
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
Totals			19,688	27,983

* Second Quarter 2012

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, 2,699 units were absorbed during the first half of 2012 above the net absorption of 1,556 reported for all of 2011. 2010 absorption levels were above the norm while 2009 was below. 2008 experienced the second largest negative absorption over the last decade.

Based upon absorption levels experienced during the first half of the year, 2012 is on

pace to have a normal level of absorption of nearly 5,400 units. However, the summer months (June through September) generally have higher absorption levels than the winter months and absorption could outperform the "norm". Nearly 1,300 units have been completed during the first half of the year. Analysts anticipate completion of a total 2,600 to 3,300 units during 2012 increasing to 6,000 units in 2016. Speculation exists among some market participants that the market will become overbuilt in the next five years; however the estimated number of completed units over the next several years remains below the long term average absorption levels. The slowed construction practiced by developers in 2009 and 2010 will eventually impact the apartment market because supply will not meet demand as the economy continues to recover. It appears based upon the number of current and planned starts for 2012, developers are anticipating continued improvement in the apartment market.

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Metro Denver Apartment Market (continued)

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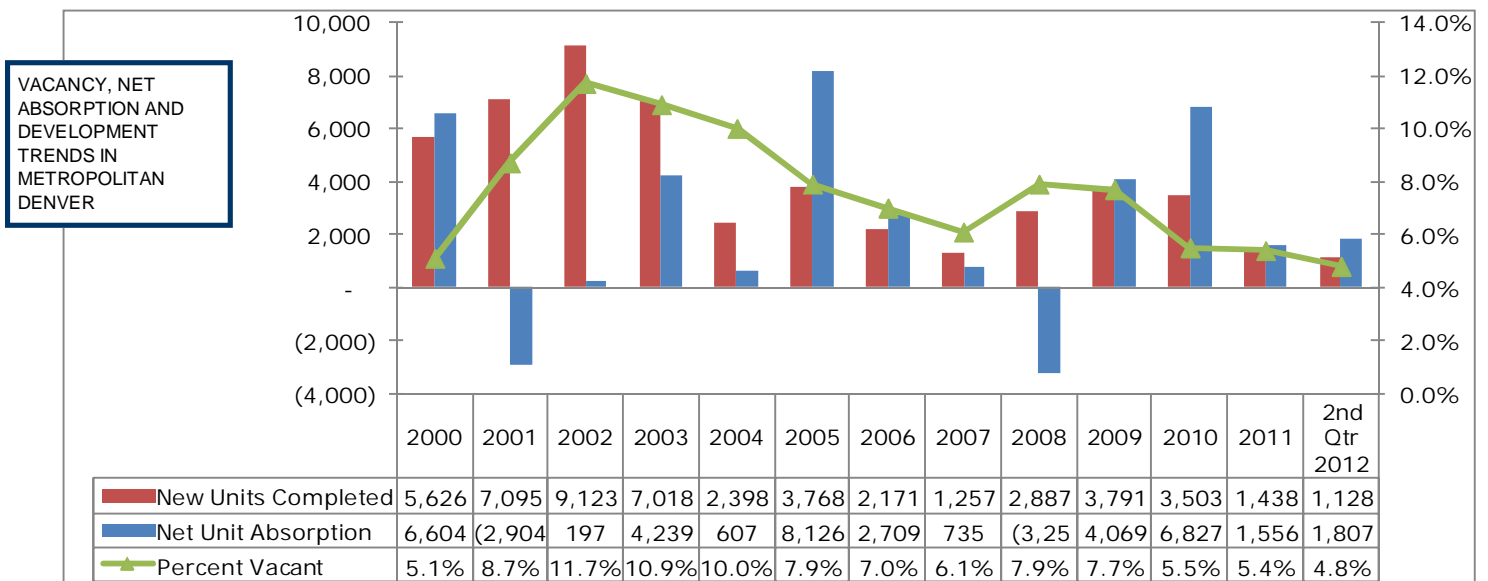
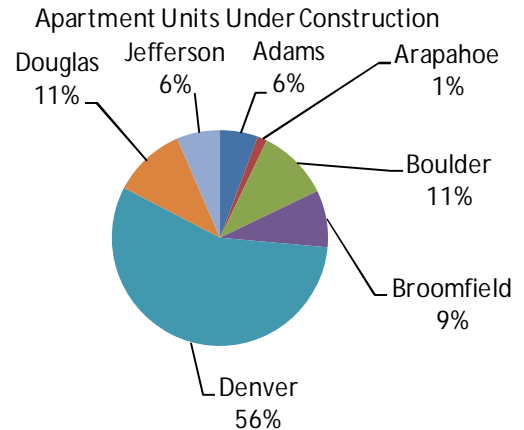
Vacancy continues to decrease and is reported at 4.8% for the first half of the year, down 2.8% from 2009. The limited supply of new units has been cited as one of the biggest factors in the strength of the apartment market.

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.

However, improvement was noted in 2010 and continues well into 2012. The recovery is expected to continue well into the foreseeable future. All but three of the 37 individual sectors report vacancy rates below 6.0% or below with 12 of them at or below 4.0%. 14 of the individual sectors range between 4.0% and 4.9% while 8 individual sectors range between 5.0% and 6.0%.

Continued stability in the workforce may keep vacancy rates from nudging upward over the foreseeable future as new units are added to the market. According to the Metro Denver Economic Development Corporation (EDC), 18% of employers surveyed planned to add jobs in the third quarter while more than two thirds the employers surveyed plan to hold employment steady. The EDC also reports employers added a higher number of jobs in May, the largest month-to-month increase since April 2011. Some government sectors, transportation, warehousing and utilities are still trimming jobs while the remaining eight "supersectors" are growing at a viable pace.

County	UC
Adams	408
Arapahoe	105
Boulder	766
Broomfield	615
Denver	4,034
Douglas	777
Jefferson	466
Total	7,171



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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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Government backed financing served as the primary vehicle for apartment construction following the financial crisis in 2008. The lack of financing options limited development to smaller affordable apartment communities with less than 100 units rather than larger market rate communities with 250 or more units. Overwhelming demand from developers slowed the Government’s approval process which in turn slowed development considerably. However, the banking industry has adjusted to the new federal regulatory requirements, improved their lending position by removing troubled loans and increasing capital and placed themselves in a position to loan once again. Banks have become aggressive and competition for new loans is tremendous. Because of the strong apartment market, conventional financing for new communities is becoming more readily available.

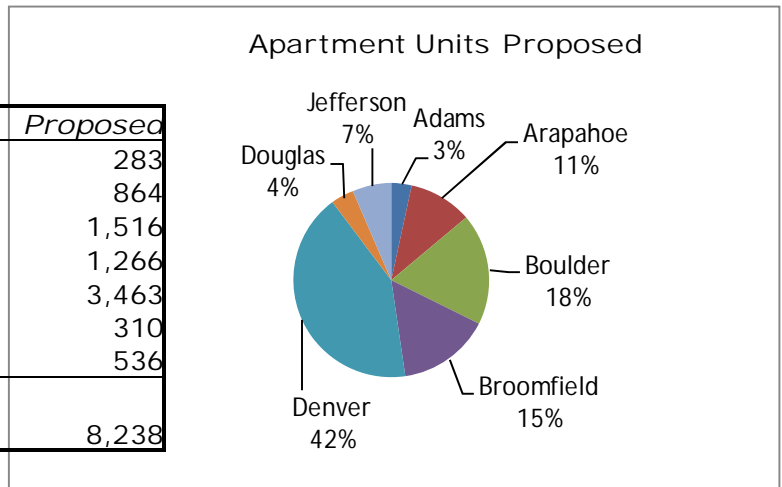
County	Under Construction	Proposed
Adams	408	283
Arapahoe	105	864
Boulder	766	1,516
Broomfield	615	1,266
Denver	4,034	3,463
Douglas	777	310
Jefferson	466	536

As the apartment market continues to improve with increasing rents and stabilizing vacancy rates, and financing becomes more readily available developers are moving forward with plans once put on hold. Over the past year, developers have sought and obtained development approval and begun construction in all of the metro area counties. Perhaps most noticed has been the 2,040 units which are currently under construction in the Downtown area of which 1,116 units were started in the second quarter. Based upon the 7,171 units currently under construction, the 8,238 units proposed and typical absorption of 5,000 to 6,000 units annually, the market may be in equilibrium. Not all of the proposed projects will begin construction over the next year.

According to data provided by Pierce Eislen, developers completed 6 projects with a total of 852 units in the second quarter of 2012. Pierce Eislen includes apartment rental projects when they are 100% complete including all phases. The Von Stroh and Throupe data reports a total of 563 units completed in the second quarter of 2012. Methodology used by Ms. Von Stroh and Dr. Throupe accounts for units that become ready for lease regardless of management decision to actually lease the units.

According to Pierce Eislen 94% of the new construction is market rate while the remaining 6% is partially or fully affordable housing. Of the 8,238 units proposed, nearly 90% are market rate, 4% are mixed market rate and affordable and nearly 7% are fully (100%) affordable communities.

Vacancy rates from county to county also vary widely depending mostly on supply added to the market. Boulder/Broomfield reports vacancy at 3.6% while Douglas and Jefferson Counties also with limited new supply added, report a vacancy rate of 3.9%. Counties with more new development report vacancy rates near or above the metro average. Denver County with the largest amount of new construction reports a vacancy rate of 4.8%. Adams and Arapahoe counties report vacancy rates of 4.9% and 5.6% respectively.



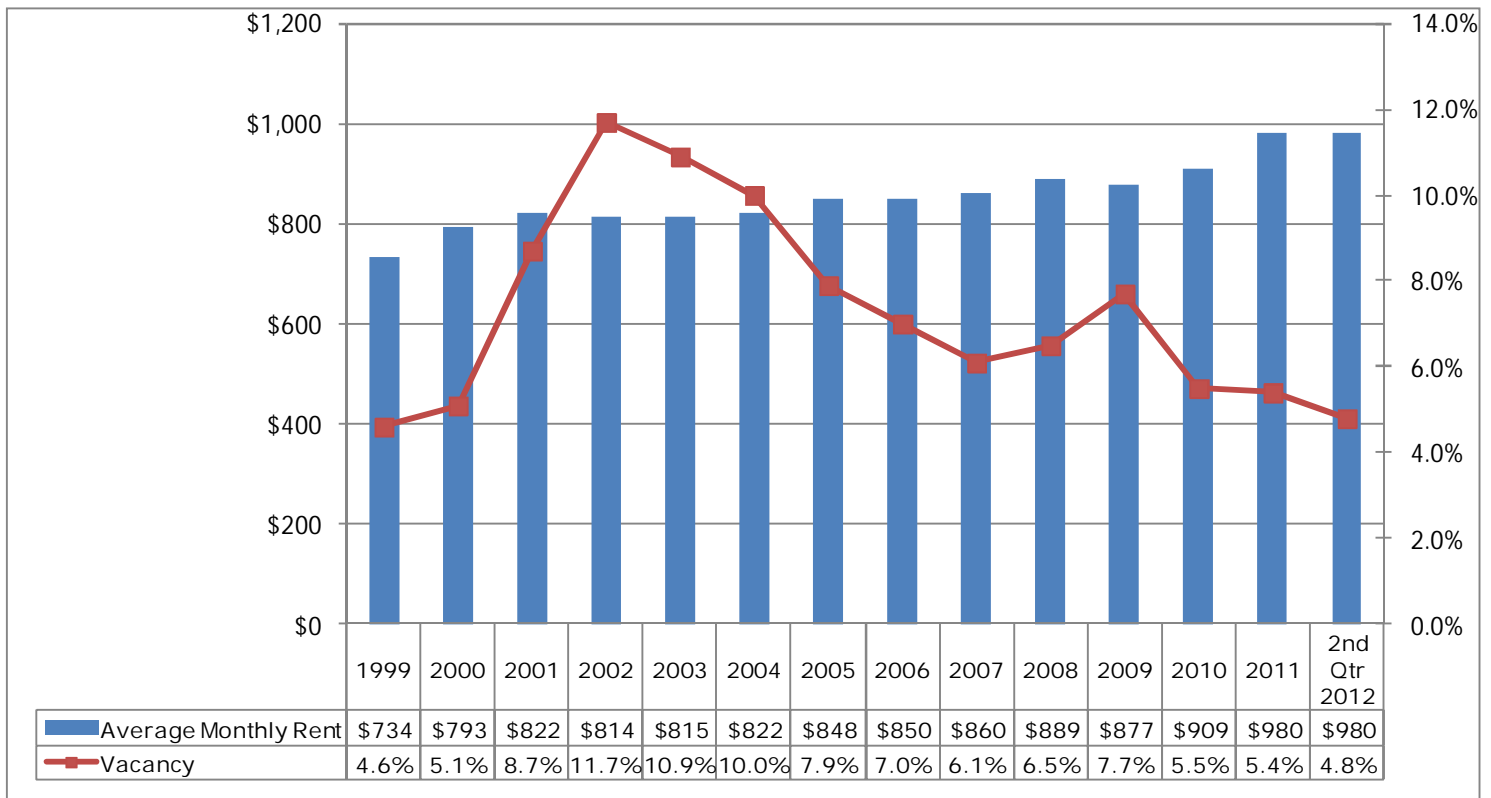
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Metro Denver Apartment Market (continued)

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Following a slight decrease in 2009, average rental rates have increased steadily since 2010 to \$980/month on average through 2nd quarter 2012. 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. Economic vacancy is reported by Von Stroh/AAMD at 14.5%. The highest economic vacancy posted was near 25% between 2003 and 2005 with decreases beginning in 2006. Economic vacancy has remained near the 16% level since last quarter of 2007. The median rental rate is reported at \$916 up from \$846 in 2010.

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 2012

Sale activity of large of apartment communities continues to improve. During the first half of 2012, investors purchased 35 apartment communities with 50 or more units in the seven county Denver metro area. According to Costar, sales volume totaled \$720.12 million for 7,742 units or \$93,015/unit average.

Year	Total Sales (Million)	No of Communities	Average \$/Unit
2012*	\$720.12	35	\$93,015
2011	\$1,500.00	64	\$104,541
2010	\$560.60	32	\$70,263
2009	\$282.90	20	\$70,267
2008	\$650.90	44	\$87,235
2007	\$1,400.00	59	\$86,104
2006	\$1,565.30	69	\$84,890
2005	\$1,250.60	52	\$80,183

Following the financial crisis and resulting economic slowdown in 2008, average unit prices decreased dramatically with the sales volume. 2011 experienced the highest average unit sale price, reflecting investor confidence in the Denver apartment market.

Buyers remain a mix of "big money" or investment grade buyers such as REITS and small local investors seeking good investment opportunities.

Forecast 2012/2013

Overall, the apartment market is expected to continue to improve. With all but one of the submarkets at or below 6.2% vacancy, 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 reported by the majority of area employers 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. Speculation abounds regarding a second "wave" of foreclosures as litigation surrounding "robo signing" has concluded. Sales activity has increased as financing becomes more readily available particularly for first time home buyers improving absorption of the oversupply of single family homes for sale which may 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. As conventional financing continues to be more readily available 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.

Methodology

Information provided in this report is obtained from published sources such as Pierce Eislen, the Colorado Department of Labor and Employment, CoStar.com and the Apartment Vacancy and Rental Survey. James Real Estate Services, Inc. also conducts independent research.

James Real Estate Services, Inc. makes every attempt to ensure accuracy but information cannot be guaranteed. Comments, suggestions and any corrections should be directed to Bill James, editor of the Apartment Perspective, at 303/316-6768 or bjames@jres.com.

Addenda

The following lists include:

Apartment communities:

- Started during the 2nd Quarter of 2012.
- Completed during the 2nd Quarter of 2012.
- Under construction as of June 30, 2012.
- Proposed for development

Apartment Communities Started—2nd Quarter 2012

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
1050 South Broadway	1050 South Broadway	Denver Central	Denver	261	Fore Property Company
2300 Walnut	2300 Walnut	Denver Central	Denver	230	Mill Creek Residential Trust
20th & Little Raven	2135 19th Street	Denver Central	Denver	242	AMLI Residential
Alta Alameda Station	275 South Cherokee	Denver West	Denver	338	Wood Partners
Avondale	1401 Irving Street	Denver West	Denver	70	Del Norte Neighborhood
Broadstone Blake	2120 Blake Street	Denver Central	Denver	164	Alliance Residential Company
Cadance at Union Station	17th St/Chestnut Place	Denver Central	Denver	219	Zocalo Community
Element 47	2150 Bryant Street	Denver West	Denver	265	AG Spanos Companies
Grandview Meadows Phase IV	950 Grandview Meadows Dr	Boulder	Boulder	96	M. Timm Development
Vue at Ridgeway	E. Lincoln Ave/I-25	Lone Tree	Douglas	281	Martin Fein Interests
Violet Crossing	4474 Broadway Street	Boulder	Boulder	98	Palmos Development Co.
			Total	2,264	

Apartment Communities Completed — 2nd Quarter 2012

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
Arbour Square	14770 Orchard Parkway	Westminster	Adams	300	McWhinney
Bluff Lake	3100 Hanover Street	Denver East	Denver	92	Mercy Housing
The Manhattan, Phase II	1851 Bassett Street	Denver Central	Denver	134	General Investment & Development
Prospect on Central	1861 Central Street	Denver Central	Denver	57	Central Street Investors
Renaissance West End Flats	5050 West Colfax Ave	Denver West	Denver	101	Colorado Coalition for the Homeless
Savoy at Hampden Towne Cntr	3645 South Dallas St	Aurora	Arapahoe	168	Equity Residential
			Total	852	

Apartment Communities Under Construction—2nd Quarter 2012

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
21 Fitzsimons Phase II	2100 N. Ursula Street	Aurora	Adams	188	The Pauls Corporation
2020 Lawrence	2020 Lawrence Street	Denver Central	Denver	231	Zocalo Community Dvlpmnt
3100 Pearl	3100 Pearl Parkway	Boulder	Boulder	319	ReyLenn Properties
AMLI at Interlocken	25 International Court	Broomfield	Broomfield	343	AMLI Residential
Arista Uptown	11465 Uptown Avenue	Broomfield	Broomfield	272	Smith/Jones Partners
Arvada Station	10068 West 52nd Place	Arvada	Jefferson	378	Embrey Partners
The Aster Town Center	3131 Roslyn Street	Denver East	Denver	225	Forest City Enterprises
Botanica Eastbridge	2870 Geneva Street	Denver East	Denver	118	Forest City Enterprises
Broadstone Gdns @ Chrry Crk	250 South Jackson Street	Denver East	Denver	161	Alliance Residential Company
Denargo Market	3200 Denargo Street	Denver Central	Denver	301	Cypress Real Estate Advisors
Encore Highpointe Park	E. 98th Ave/Grant Street	Thornton	Adams	220	Encore Enterprises
High Mar	4990 Moorhead Avenue	Boulder	Boulder	59	Boulder Housing Partners
Highland, The	2785 N. Speer Boulevard	Denver West	Denver	326	Allied Realty Services
Highland Bridge Lofts	1582 Boulder Street	Denver Central	Denver	130	Holland Partners
Highland Park	2424 W. Caithness Place	Denver West	Denver	126	Heitler Development
Josephine Commons Senior	E. Baseline/ N. 119th St	Lafayette	Boulder	74	Boulder Co Housing Authority
Legends at Lowry	9611 E. 5th Avenue	Denver East	Denver	152	MDC Holdings
The Logan	NWC E. 6th Ave/Logan St	Denver Central	Denver	57	Forum Real Estate Group
Mount Nebo	11000 East 14th Avenue	Aurora	Arapahoe	50	MGL Partners
Regency @ RidgeGate	Halstead Ln/Ridgegate Cr	Lone Tree	Douglas	208	Regency Residential Partners
RiNo Center	3200 Brighton Boulevard	Denver Central	Denver	205	Scott McFadden
Shops/Apts @ Observatory Pk	2100 S. University Blvd.	Denver South	Denver	213	Urban West Group
Traditions at Lafayette	850 East Baseline Road	Lafayette	Boulder	120	Inland Group
Villages @ Westerly Creek	10745 E. Kentucky Ave.	Aurora	Arapahoe	55	Aurora Housing Authority
Wheat Ridge Town Center	4340 Vance Street	Wheat Ridge	Jefferson	88	Wazee Partners
Zenith Meridian	9850 Zenith Meridian Dr	Lone Tree	Douglas	288	Shea Properties
			Total	4,907	

Apartment Communities Proposed

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
11th Ave/Gaylord St Apts.	1065 Gaylord Street	Denver Central	Denver	110	MGL Partners
121st & Perry	W. 121st Place & Perry Street	Broomfield	Broomfield	209	Wasatch Premier Cmmties
1490 Delgany Street	1490 Delgany Street	Denver Central	Denver	285	The Opus Group
20th & Chestnut	1959 19th Street	Denver Central	Denver	314	Loftus Development
2101 15th Street	2101 15th Street	Denver Central	Denver	80	AEW Capital
250 Columbine	250 Columbine Street	Denver Central	Denver	80	Western Development Group
8th & Lincoln	801 Lincoln Street	Denver Central	Denver	265	The Pauls Corporation
999 17th	999 17th Street	Denver Central	Denver	250	Shea Properties
Alta Harvest Station	W. 118th Ave/Wadsworth Blvd	Broomfield	Broomfield	297	Wood Partners
AMLI Arista Phase II	8200 Arista Place	Broomfield	Broomfield	166	AMLI Residential
Alexan at Gunbarrel Flats	5460 Spine Road	Boulder	Boulder	232	Trammell Crow Residential
Bellevue Station	NWC E. Bellevue/S. Quebec	Denver South	Denver	352	Holland Partners
Blake Street Station	38th St/Walnut Street	Denver Central	Denver	60	Urban Land Conservancy
Broomfield Business Center	13700 Via Varra	Broomfield	Broomfield	374	Etkin Johnson Group
Colfax & Irving	3290 West Colfax Avenue	Denver West	Denver	60	Urban Land Conservancy
Denver Union Station	16th Street/Wewatta Street	Denver Central	Denver	300	Holland Partners
Evans Station Lofts	2140 South Delaware Street	Denver South	Denver	50	Urban Land Conservancy
Flatirons Village	900 28th Street	Boulder	Boulder	59	Education Realty Trust
Flats at Lincoln Station	9365 Station Street	Lone Tree	Douglas	102	Neibur Development
Grandview Meadows Ph V	950 Grandview Meadows Dr	Longmont	Boulder	104	M. Timm Development
Gunbarrel Town Center	6685 Gunpark Drive	Boulder	Boulder	251	O'Connor Group
Highland Square	3200 Lowell Boulevard	Denver West	Denver	150	RedPeak Properties
Joliet St/Arizona Place	S. Joliet/E. Arizona Place	Aurora	Arapahoe	227	Post Investment Group
Kettle Lake	4805 South Monaco Street	Denver South	Denver	300	Shea Properties
Kent Place	E. Hampden Ave/S. University	Englewood	Arapahoe	300	Forum Real Estate Group
Lamar Station	6150 West 13th Avenue	Lakewood	Jefferson	176	Lakewood Housing Authority
Mainstreet at Flatiron	250 Summit Boulevard	Broomfield	Broomfield	220	ATC Partners
Mariposa II	W. 10th Ave/Navajo Street	Denver West	Denver	93	Denver Housing Authority
Mill Village	E. Ken Pratt Blvd/East 3rd Ave	Longmont	Boulder	229	Frontier Companies
Prasana	Exempla Circle/Viridian Drive	Lafayette	Boulder	240	Milestone Development Group
Residences at 19th & Logan	19th Avenue/Logan Street	Denver Central	Denver	292	RedPeak Properties
Rooney Ridge	SWC C-470/W. Alameda Pkwy	Lakewood	Jefferson	360	Embry Partners
Roosevelt Park	705 Main Street	Longmont	Boulder	115	Burden
Shea Highlands Ranch	1800 Shea Center Drive	Highlands Rnch	Douglas	208	Regency Residential Partners
Steel Ranch South	Colorado 42/E. S Boulder Rd	Louisville	Boulder	286	David Waldner
University Station	1901 Buchtel Boulevard	Denver South	Denver	60	Mile High Development
V272	158 Inverness Drive	Englewood	Arapahoe	272	Metropolitan Homes
Veranda Highpointe	E. Hampden Ave/S. Locust St	Denver South	Denver	362	Forum Real Estate Group
Village at Thorncreek	E 128th Ave/Washington St	Thornton	Adams	283	Catalina Development Co.
Villages at Westerly Crk Ph II	10745 E. Kentucky Avenue	Aurora	Arapahoe	65	Aurora Housing Authority
			Total	8,238	