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MULTIFAMILY PROPERTIES Quarterly

Apartment renters head to the suburbs

Costar Group

Many renters can no longer justify paying high rents to live in luxury apartments downtown when work-from-home policies continue and community amenities remain restricted. Instead, renter preferences have shifted to favor larger, more affordable apartment units in less densely populated areas. Pictured above is Camelback Pointe Apartment Homes.

For renters it's all about location, location, location – or is it? New data shows a record number of Denver renters are searching for a new place to live, and it's not necessarily in the hot-spot locations across Denver that first come to mind.

The first U.S. COVID-19 case was reported in January of last year, but it wasn't until March that the virus really took hold of the country and began causing widespread disruption. The spring leasing season, which typically is the most important for landlords, was put on hold as Americans were ordered to stay at home. By early summer, restrictions began to ease, and consumers once again felt confident enough to make the leasing decisions that had been delayed.

Jeannie Tobin
Director of market analytics, Denver, CoStar Group, jtobin@costar.com

When renters did return to the market, it was clear that preferences had changed dramatically. Prospective renters were enthusiastic about the market, searching for cheaper rents, taking advantage of increased concessions and looking for properties with more space. These were all great signs that Denver's apartment market was headed toward a recovery, although trends began to vary widely by location and asset class.

Before the pandemic, renters were willing to pay a premium to live in some of Denver's most in-demand neighborhoods, including the central business district, Lower Downtown and Union Station. According to data provided by Apartments.com, rents averaged $1,800 per unit in downtown Denver in early 2020, which was roughly 20% higher than the metro average. Proximity to Denver's restaurant scene, a quick walk to the office or the ability to hop on a train to the airport were all perks that kept apartment hunters interested in the urban core.

The pulse of the market can be tracked by analyzing the movement of daily asking rents in one-bedroom units in Denver. Initially, daily asking rent trends in urban verses suburban properties were nearly identical – rents steadily increased as they would have in a normal

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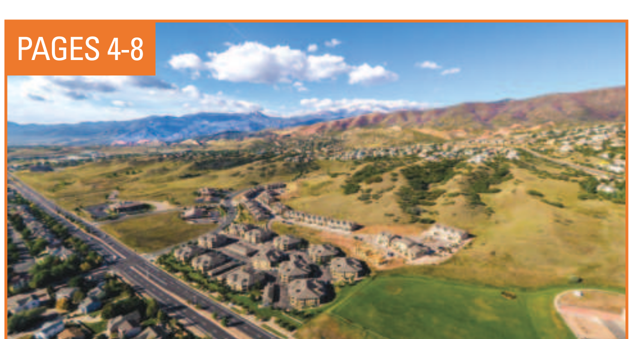

Market updates

Denver and Colorado Springs start the new year with decisively different ends to 2020

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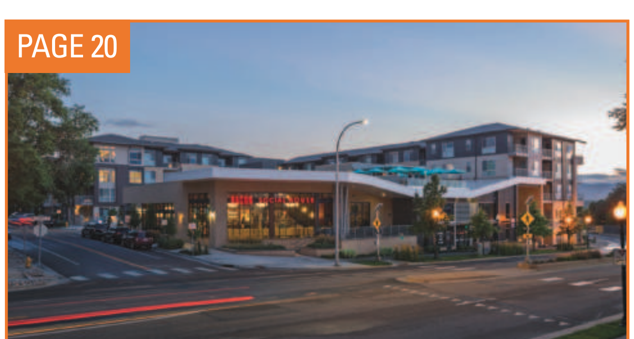

Community trends

Age-qualified rentals are promising a lot of upside as baby boomers embrace retirement

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Affordable housing

Private-sector developers working in the affordable housing segment share insights

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Letter from the Editor

Multifamily complexities

Colorado's multifamily market appears to be relatively stable. In spite of the pandemic, the Denver metro area reported the third-strongest annual absorption numbers to date, according to information from Apartment Insights. "I did not see that coming," said Cary Bruteig, principal at Apartment Appraisers & Consultants.

One factor for strong absorption also aided in continued rent collection. Federal and state unemployment aid, in addition to eviction moratoriums, helped keep many people who were struggling financially in their homes this past year. Rent collections for December was around 94%, according to the Colorado Apartment Association, which wasn't too far off from the almost 97% paid in December 2019.

In general, Colorado Springs had a "phenomenal performance" in 2020, the best along the Front Range, according to Bruteig. Within the last three quarters, vacancy went from above 6% to the mid-4% range. Additionally, unlike the rest of Colorado's flat or declining rent growth, rents continue to grow rapidly, in excess of 5% annually, in the Springs, Apartment Insights reports. Several of the market updates, beginning on Page 4, examine this market more closely.

Meanwhile, the Northern Colorado multifamily market continues to hum along. The fourth quarter saw vacancies increase to 4.6% while rents remained relatively flat and absorption was strong over the course of the year. As the Apartment Insights summary puts it, while the fourth quarter was a mixed quarter, "given the negative economic effects of the pandemic, the rental market has held up remarkably well."

However, the devil is in the details. Within this issue, authors take a deep dive into the Colorado markets as well as exploring each area's submarkets. Because, while location always has been a key ingredient for any thriving community, vacancy numbers reveal that even a few miles can make a profound difference today as renter demands shift in response to many finding themselves homebound.

This is especially true in Denver. Apartment communities in Capitol Hill, located in the unfortunate heart of civil unrest throughout 2020, in addition to the pandemic challenges, saw vacancy numbers soar. It finished 2020 as the only submarket with a vacancy rate above 10%, per Apartment Insights. Further, of the 19 Denver submarkets that saw vacancies increase in the fourth quarter, the highest vacancies typically were the ones in central, urban neighborhoods. Meanwhile, seven suburban areas posted vacancy below 5% for the quarter, per Apartment Insights.

The cover story highlights these collective shifts in renter preferences in greater detail. Renters, desiring larger floor plans in more spacious locations, are having a profound impact on market demand and pricing shifts. Time will tell if renter demands shift back once COVID-19 fears begin to subside.

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Market Update

Taking stock of a rocky 2020 across the Front Range

Last year was unprecedented in many ways and brought a slew of new challenges to the multifamily industry. The economy, and life in general, faced profound disruption. The impact of that disruption played itself out significantly across the multifamily industry. In this space, we'll examine what that impact entailed for the greater Denver and Colorado Springs regions.

These markets cover the area from Pueblo in the south up through Fort Collins in the north with Boulder, Denver and Colorado Springs in between. All numbers below refer to conventional properties with at least 50 units.

■ **New supply and apartment demand.** A little more than 9,800 new units were delivered in these markets during 2020. This represented a 7% increase in new supply volume compared to 2019. The new

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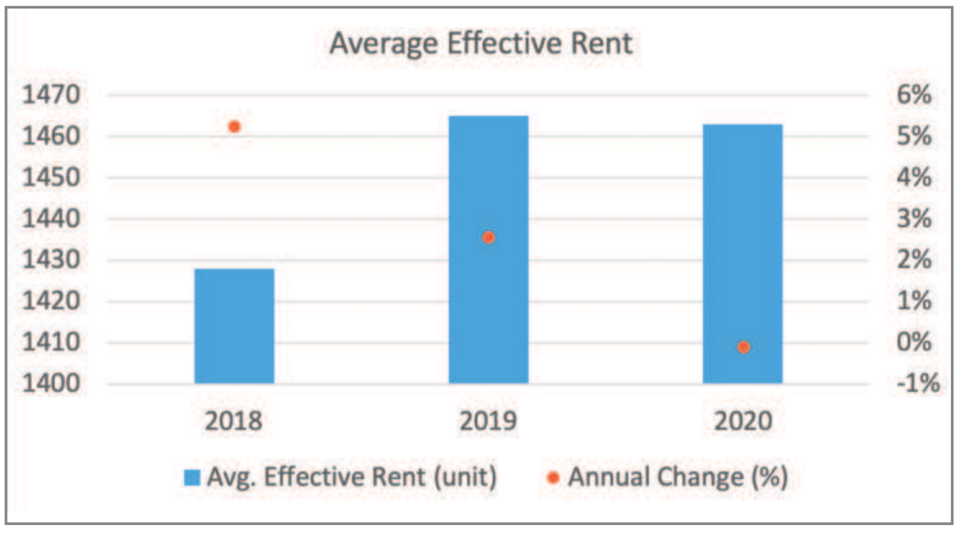
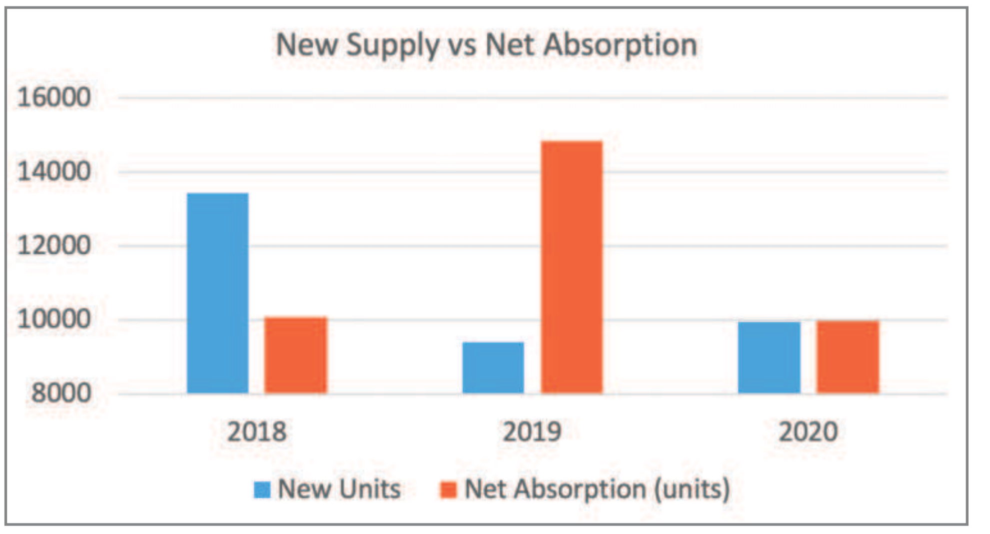
units were reasonably well dispersed with approximately three-quarters of the 25 submarkets for the area that we track seeing some level of new supply during the year. With more than 1,700 new units, the Five Points/central business district/Capitol Hill submarket led the way. The Washington Park-University submarket was the only other area to add 1,000 units or more with exactly 1,000 new units. Regions such as Colorado Springs North and Loveland came close: Each added more than 850 new units in 2020.

New supply acted as a headwind to multifamily performance in



Rent growth saw a dramatic shift for the Denver and Colorado Springs regions.



New supply vs. net absorption for the greater Denver and Colorado Springs regions.

many markets around the country last year in an environment in which apartment demand was lower. This made the 7% uptick in new supply somewhat ill-timed. At the national level, demand was down 14% in 2020 compared to 2019, and the Denver and Colorado Springs markets matched that exactly. The good news is that this region entered the year in a strong position as a high-growth area in recent years. As a result, even though net absorption was down 14% from 2019, around 9,900 net absorbed units was enough to offset the new supply and maintain average occupancy. In fact, a 0.4% average occupancy gain brought the market average up to 91.6%.

The real pain point from an occupancy perspective was in the Class A properties, which have to deal most directly with the flow of new units. Within Class A properties, average occupancy fell by about 4% last year to bring the average down to below 81%. No other price class closed 2020 with an average occupancy below 90%.

■ **Average effective rent and lease concessions.** The more dramatic shift in multifamily performance for the region was in rent growth. Average effective rent growth already had begun to soften somewhat prior to the COVID-19 pandemic, but that trend was greatly exacerbated by the events of last year. After a 2.6% average effective rent gain in 2019, average rent in the area essentially remained flat in 2020 with a loss of 0.1%. The average unit ended the year leasing for $1,463 per month. Each of the four price classes lost ground in average rent with the exception of Class C properties. The Class A tier led the

Please see Brooks, Page 30

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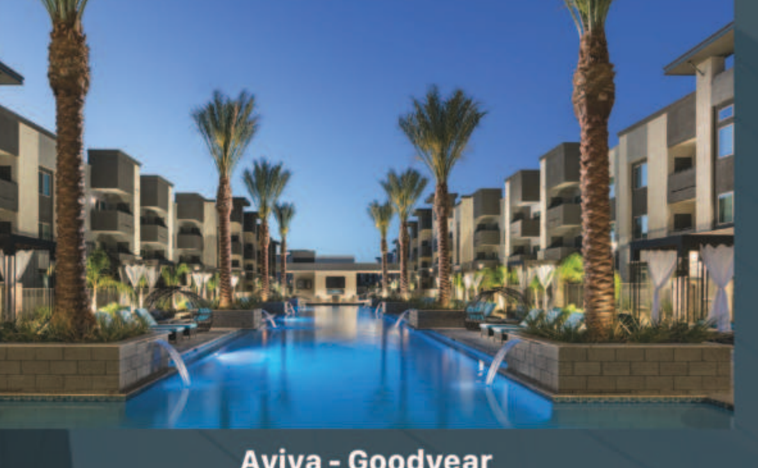

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Market Update

Colorado Springs enjoys a strengthening market

All things considered, the Colorado multifamily market generally performed well throughout the year in which almost everything else seemed to go wrong. It was the performance of one market an hour south of Denver that provided some insightful optimism leading into 2021 and beyond.

Kenny Clarke
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In a time in which many markets across the country were mitigating large-scale collections issues, in Colorado Springs, rents went up, according to CoStar. Not only did the rents rise during these hard times, but also the sales price per unit in Colorado Springs went up 9% as well, while vacancy dropped just over a point, according to CoStar. What else is interesting is while absorption of units in 2020 rose by almost 200%, units under construction dropped by 13.7%, per CoStar, flooding the market with demand for existing assets heading into first-quarter 2021. This construction number obviously is due to the rippling effects of COVID-19 on our economy. Colorado Springs provides ample opportunity for new development and sprawl. Expectations should be that new construction will be boosted throughout the summer, providing more optimism for investors. In fact, Mayor John Suthers celebrated this optimism at a recent topping out of the new Hyatt downtown. “Statistically it looks like we’re going to be the most resilient large city in America,” Suthers said, referring to new residential construction and planned projects slated to open in 2021.

This success should not be a surprise to many local investors, though undoubtedly some may feel like an opportunity has been missed. Hindsight is 2020 after all.

Over the last five years, the Springs market has experienced the same trajectory as the Denver metro when it comes to rent increase, sales price per unit and declining cap rates, according to CoStar. The difference is in the new wave of demand sending more attention to Colorado Springs.

Employment and growth of industries within the private sector have led to increased demand for housing, higher wages and, in turn, the highest cost of living in a quarter of a century, according to the Colorado Springs Gazette. The growth of the private sector is a key driver in the booming Springs market. What was once a city dependent on its military bases now has blossomed into a balanced economy. The overall aerospace industry has attracted Hewlett-Packard and 17 other electronics companies that employ about 10,000 people, according to City-Data. Retail titan Amazon has made its presence known throughout the state, but in Colorado Springs in particular. The planned 3.7-million-square-foot Amazon facility near the airport is on track to open in 2021. Aside from the industry giants, education and health care opportunities have grown. The mining industry remains a top employer. And, of course, tourism has provided a bed of stable income for the city, employing nearly 20,000 people and drawing almost $500 million in earnings. Visitors spend over $2 billion in the greater region annually, all according to the Colorado Springs website.

It is interesting to consider that remote work and learning have significantly reduced the burden of commuting for Colorado residents, meaning many Denverites now may have the luxury to capitalize on suburbanization and find themselves house hunting down south in the Springs or up north toward Fort Collins. This, in turn with the growing private sector, influx of renters, investors moving equity from other asset types, out-of-state equity and the Fed’s rates hovering close to zero provides a very tight playing field. To paint a picture, Colorado Springs still boasted a sales volume of just short of $700 million in 2020, despite a depressing $12.4 million in the second quarter. That’s still $172 million more than 2019, and almost $60 million more than 2018. This was helped by a strong fourth quarter, which saw $283 million in sales, all according to CoStar. Sales volume in the first quarter will be a strong indication of what is to come in Colorado Springs.

While on one side the growth of the multifamily market in Colorado Springs is a massive benefit to investors, it’s also obvious that returns are diminishing on entry throughout each hub within the state. Out-of-state investors are looking at Colorado to be a saving grace, but plus-6% cap rates have become rare. The overload of demand has driven cap rates down closer to 5% in Colorado Springs, where returns actually remain one of the highest in Colorado on average, according to CoStar. So while it may seem like a true seller’s market, which it is, there also exists a unique opportunity to capitalize on the declining economics as a buyer before returns on entry diminish further.

Colorado Springs was a market that was overlooked for years. In the recent past, it has become increasingly attractive to investors, specifically value-add investors, looking to take advantage of the market’s financial trajectory. Many have bet on appreciation and have enjoyed the results. We’ll see where we go from here in 2021 but all things considered, we’re doing just fine. ▲

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Market Update

Pandemic hits Denver, Colorado Springs differently

Madeline Harper
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The COVID-19 pandemic put an end to years of strong rent growth for the Denver metro, with rents falling by 1.4% on a year-over-year basis in November. Colorado Springs, on the other hand, has been one of the best-performing markets throughout the pandemic, with 4.7% year-over-year rent growth in November. This contrast in rent growth between a densely populated urban center and its lower-cost neighbor is a common theme playing out across the United States – especially in the gateway markets. Gateway markets like New York, Los Angeles and San Francisco have struggled immensely this year, losing residents to neighboring lower-cost cities or those in entirely different states. The entire Front Range stands to benefit greatly from this migration. Many prior residents have fully adjusted to their new environments and will need major incentives to return to a downtown area.

The same is true on a smaller scale in many cities, where suburban counterparts are outperforming urban city centers. In the Denver market, the two submarkets with the largest rent declines on a year-over-year basis through November are City Park/City Park West (down 9.8% to $1,738) and the central business district/Five Points/North Capitol Hill (down 6.4% to $1,861) – both considered to be parts of "downtown." The best-performing regions are Weld South (up 5.9% to $1,544) and Berkeley/North Washington (up 5.7% to $1,168).

While rents have declined in the Denver metro this year, those declines are not anywhere near the severe drops seen in the gateway markets. Denver has benefited from strong migration from states like California, Texas and Florida. The movement from California was not just limited to individuals; many companies made the move as well. HealthPeak Properties announced plans to relocate its headquarters from Irvine, California, to Denver, creating 166 jobs in the metro. Other big announcements include Palantir Technologies Inc.'s relocation from Palo Alto, California; Fidelity Investments' plan to hire 300 additional employees in Colorado over the next six months; and Amazon's intention to add 100 jobs in its Denver office.

These relocations are driving a need for new housing; and with many of these new high-paying jobs, new residents who opt for apartment living more than likely will be looking for higher-level lifestyle options rather than renter-by-necessity options. Despite shutdowns and new social distancing restrictions, 12,589 units, or about 4.4% of existing stock, were delivered in the Denver metro in 2020 through December – well above the 2% national rate. The bulk of the new stock is concentrated in the lifestyle segment. There still is a significant pipeline of development, with 19,350 units under construction and 16,490 units planned, or 6.7% and 5.7% of stock, respectively.

Denver's diverse economic environment also has helped the city outperform other metros during the pandemic. It was among metros nationally with the fewest job losses during the latter half of 2020, and its unemployment rate currently sits at 6.5% – falling from a peak of 12.3% in April and outperforming the national rate of 6.7%. Denver's biggest employment gains have been in the manufacturing sector (3.5% year-over-year growth) and the professional and business services sector (0.8% year-over-year growth) as of October. Unsurprisingly, the largest employment decline was in the leisure and hospitality sector, down 14.3% year over year. Colorado Springs' unemployment rate is outperforming the national average as well – currently at 6%, down from a high of 12.6% in April. And with the influx of companies and people into the Denver and Colorado Springs metros not seeming likely to slow down anytime soon, there is a good case for a strong recovery in Colorado in 2021.

Having proven its resiliency during the pandemic, the Colorado Springs market is likely to see another year of strong rent growth in 2021, ending the year with some 2.8% growth. This growth would return the market to around the same growth it saw in 2018. Colorado Springs ended 2019 with around 6% rent growth and has yet to slow down, despite the pandemic. But given the new supply completed last year (around 1,245 units, or 3.1% of existing stock) and a significant amount of new supply in the pipeline (2,540 units under construction and 2,897 planned), we are projecting rent growth to soften slightly.

In Denver, we are forecasting around 2.2% rent growth in 2021. This will return the metro to a more normalized rent growth number as was the case prior to the pandemic. Even though it will be slightly below the growth we saw in 2018 and 2019, of 3.7% and 2.3% on a year-over-year basis, respectively, the flip back to positive rent growth is promising.

With vaccines beginning to roll out, many are optimistic that a sense of normalcy may return in the second half of 2021. The Colorado metros are poised to outperform, as they are not faced with the uphill battle of winning back residents that most gateway markets are addressing. In fact, the metros have benefited from an influx of residents that, in turn, has led to more construction. As a result, Denver and Colorado Springs will be faced with the challenge of remaining affordable alternatives to expensive coastal markets as rents and new supply swell. ▲

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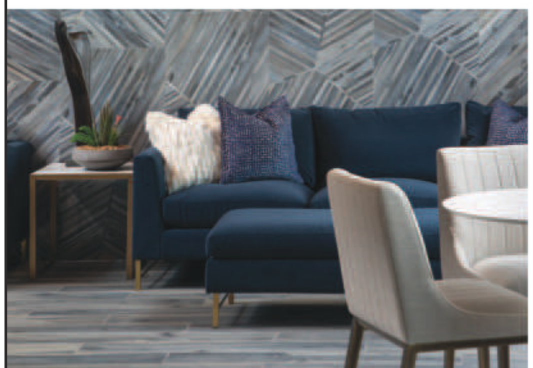

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Lending

Capital markets take a turn to fill lending gap

In late November, the multifamily capital markets took a turn due to the 2021 agency loan purchase caps that the Federal Housing Finance Agency released. The FHFA releases an annual allocation that each agency (Fannie Mae and Freddie Mac) is allowed to lend. It also defines what portion of those funds are required to be deployed into affordable/mission-driven housing. For example, last year each of the agencies were capped at $80 billion with 37.5% of the multifamily business allocated toward affordable housing/mission-driven housing, which was defined as residents at or below 60% of the area median income. The most recent FHFA guidance has shifted for 2021 with caps now at $70 billion per agency, down $10 billion ($20 billion total), or 12.5%. The allocation of these funds toward affordable housing increased to 50% compared to 37.5% last year. The definition of affordable housing/mission-driven also has changed from 60% AMI to 80% AMI in an attempt to address the affordable housing crisis that we are currently facing.

Fisher Wells
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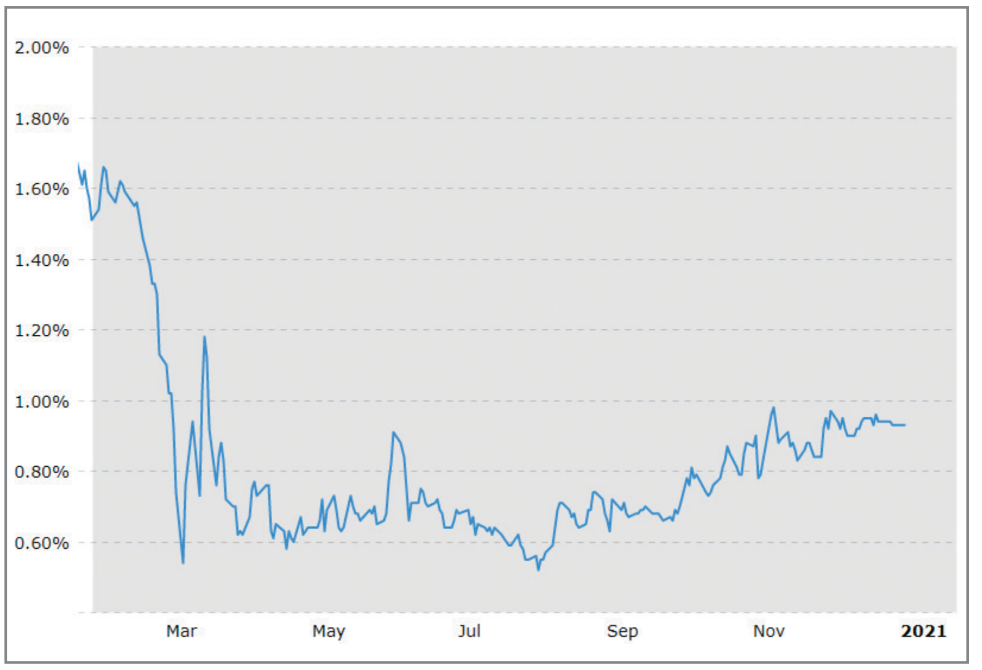
What does this mean for multifamily agency financing in 2021? With the total agency volume shrinking by 12.5%, or $20 billion, this puts Fannie Mae and Freddie Mac in a position where there will be more demand with the uptick in deal velocity but substantially less loan dollars to facilitate the demand. This dichotomy forces the agencies to be more selective in the quality of the deals they entertain. The key metrics they will be looking for are strong, repeat sponsors with stable and steady historical property performance in strong markets. Where the deal dynamics don't meet these requirements, the agencies are beginning to pull back on leverage, rate and the interest-only period.

Who is going to fill in the lending gap that the agencies are leaving behind? Since the release of the FHFA news, we have helped our clients begin to forge new lending relationships outside of the agencies. We anticipate the loan terms for 2021 acquisitions and refinances will be less competitive compared to those of alternative lenders. In fact, alternative lenders already are undercutting the agencies on both pricing and overall structure. Life insurance companies, U.S. Department of Housing and Urban Development, commercial mortgage-backed securities, regional banks and CMBS/life company hybrids are all competing to fill the agency gap and provide the most accretive terms.

Since the release of the FHFA news, we have helped our clients begin to forge new lending relationships outside of the agencies.



The 10-year U.S. Treasury yield shows the large drop in yield in recent months, which dramatically increased prepayment penalties associated with yield maintenance and defeasance, reinforcing the demand for prepayment flexibility.

How do these alternative lenders differentiate themselves from the agencies with their structure?

- **Interest rates.** As agency pricing widens for non-naturally occurring affordable housing and market-rate deals, these alternative lenders are stepping in to the capture that business with tighter spread and coupons.
- **Prepayment structure.** Historically clients have been keenly focused on the interest rate but we are beginning to see prepayment structures at the forefront of key deal points. Some alternative lenders are able to tailor the prepayment penalties toward client business plans, ultimately providing them with higher overall intrinsic value. ▲

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Lending

Markets adjust as small-balance lenders retreat

Steve Felt
Managing director, Creative Business Finance, steve@creativebusinessfinance.com

Multifamily rent collections have continued to do well in general with 92.2% of apartment households making a full or partial payment by Sept. 27, according to the National Multifamily Housing Council. Within Colorado, Denver has seen a year-over-year drop in rents by 1.7% and job losses by 4.9% while Colorado Springs has experienced a 5.1% rent growth and 5.2% job growth by year-end 2020, according to Yardi Matrix.

Interest rates are at all-time lows for Fannie Mae and Freddie Mac while small-balance commercial and multifamily lenders, those that focus on loans under $5 million, have experienced less than optimal market rates. It has been a very difficult year for the small-balance lenders because so many depend on the secondary markets to securitize (purchase) their loans in pools and many of these secondary markets have lost their taste for small-balance loans due to the high number of renters being unemployed and unable to make rental payments.

The government lockdowns have forced millions of people into unemployment, and even with the unemployment checks, it has not been enough to cover expenses. Thankfully some state governments started an eviction and foreclosure moratorium followed by the federal government eviction relief, which has extended past the end of the moratorium by the state of Colorado. The COVID-19 lockdowns have changed many things that keep these lenders in operation, including the fact that they are unable to foreclose on properties that are unable to make their mortgage payments.

Several small-balance lenders have yet to come back into the market and those that have returned have made sharp adjustments to their lending guidelines. Some changes include the end of no-documentation, stated income and bank statement programs that many of these lenders utilized to separate themselves from the banks and large institutional lenders like Fannie and Freddie. Their rates have gone in the opposite direction of the large institutional lenders. The one- to four-unit nonqualifying mortgage residential industry is witnessing rates over 6.5% for 30-year fixed programs, which were 4.75% prior to the lockdowns. As a result, I have seen a surge from private/hard-money lenders into the market to pick up where the portfolio lenders have dropped off. Many of the private lenders with their family office and private equity funds are offering a variation of the no-doc loan, where they are not requiring personal income statements from borrowers as long as the two- to four-unit and five-plus multifamily properties provide cash flow on their own. I have seen rates from the small private lenders start at 5.49%, but realistically not many folks are able to qualify for such a low rate and preapprovals are coming back at 5.75% or higher, along with 1-2 origination points with a buydown, or 6.25% with no buydowns and the same origination fees.

The good part of all these newer private lenders coming into the small-balance multifamily market is the competition has forced rates to fall and turnaround times for closing loans have sped up to 30 days or less. Borrowers with lower FICO scores also have been given more access to capital assuming the property cash flow is more than 1.20x debt-service coverage ratio. I have seen borrowers with as low as 620 FICO scores get approved for multifamily purchases and refinances without being forced into double-digit rates and with longer terms. Loan to value has taken a hit for most small-balance lenders with many dropping down to 70% with up to 75% on a case-by-case basis. Rates and terms are dependent on many factors, such as LTV, debt yield, DSCR, borrower experience, property type, borrowers' FICO scores, borrowers' net worth/liquidity, loan purpose and market size. Most small-balance multifamily lenders will not approve properties in rural areas no matter what the DSCR.

Now let's talk about some market insights on the multifamily industry, which is vast, encompassing apartments like two- to four-unit residential investment properties as well as five-plus-unit buildings and complexes, assisted living facilities, condominiums, mobile/manufactured-home parks, student housing, mixed-use and affordable housing. When talking about multifamily, most people only think of apartments (which makes up 74% of the searches for loans in the market) and forget about the lucrative manufactured-home communities.

Manufactured-home communities, aka mobile home parks, have stable occupancy rates and loan performance, although complete statistics are not yet available for 2020; rent collections seem to have held strong during the first quarter of the pandemic. The strongest market is the 55-plus communities since most residents are collecting Social Security payments as their main income source, although the industry as a whole has been experiencing similar results. A survey conducted by MH Insider of more than 200 manufactured-home community owners and operators in the U.S. found that more than 90% of rents were paid on time in May. In the short term, lower interest rates from the agencies funding loans to buyers of manufactured-home communities do not appear to be demanding higher cap rates. And in the long term these communities should benefit from the affordable housing aspect and need for more affordable housing options. ▲

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Market Outlook

Finding the bright spots from the past year's tests

Elephants in the room first. By most standards, 2020 deserves the negative reviews it got. There's no point in going back over all the reasons why here. We all lived through it. We're still living through it.

But when we turn our focus to the day-to-day commercial real estate world we live in here on the Front Range, we see numbers that are, quite frankly, surprising. Whether they're the result of doing whatever we can to restore some sense of normalcy to our lives, focusing on the things we can control or seeing the momentum that's been building here for the past few years continue, the multifamily category is alive and well in Denver. Very much so.

Martin Gibeau
Vice president, commercial services, Stewart Title Guaranty Co., mgibeau@stewart.com

■ **The upside**. The number of proposed apartments in the Denver metro area continues to increase as developers put more sites under contract to build.

Colorado's population has continued to grow and likely will continue to grow. According to BRD, Colorado is the second-fastest growing state in terms of population, with over 5.5 million people and an increase of about 100,000 per year. The Front Range was the destination for 95% of new Colorado residents, and 65% of those moved to the Denver metro area.

According to the Downtown Denver Partnership, the residential population of downtown Denver has tripled since 2000; while the entire Denver metro's population as of mid-2019 was over 727,000. The brochures about 300 days of sunshine and no humidity have clearly landed in the right hands.

Apartment absorption has been positive and steady as well. Rent growth has continued for all ages of properties in the Denver metro over the past couple of years, with vacancy rates hovering around 5% to 6%.

Colorado has fared better than the national average and has not seen a significant increase in the number of individuals who are unable to pay rent.

■ **Reality check.** Denver extended the moratorium on evictions, but as more time goes by there certainly could be more renters who are unable to pay rent. With future vacancy rates predicted around 8%, rent growth will be close to zero.

The number of building permits has fallen 31% from 2017. This decrease results from an elongated planning approval process, and construction costs being too high. This affects all commercial sectors, not only multifamily.

There are about 60,000 multifamily units in the pipeline, proposed and under construction. But, as a result of fewer starts, the number of multifamily units under construction has fallen 27% since the peak in 2017 and will continue to decrease looking forward.

But, as a result of fewer starts, the number of multifamily units under construction has fallen 27% since the peak in 2017 and will continue to decrease looking forward.

According to Real Capital Analytics, developers with 80% or more of starts in apartment buildings pulled back on development site acquisitions over the last 12 months. In the previous two years, these developers were responsible for nearly a third of all development site acquisitions. In the 12 months leading into the third quarter of 2020, they were behind only 22%.

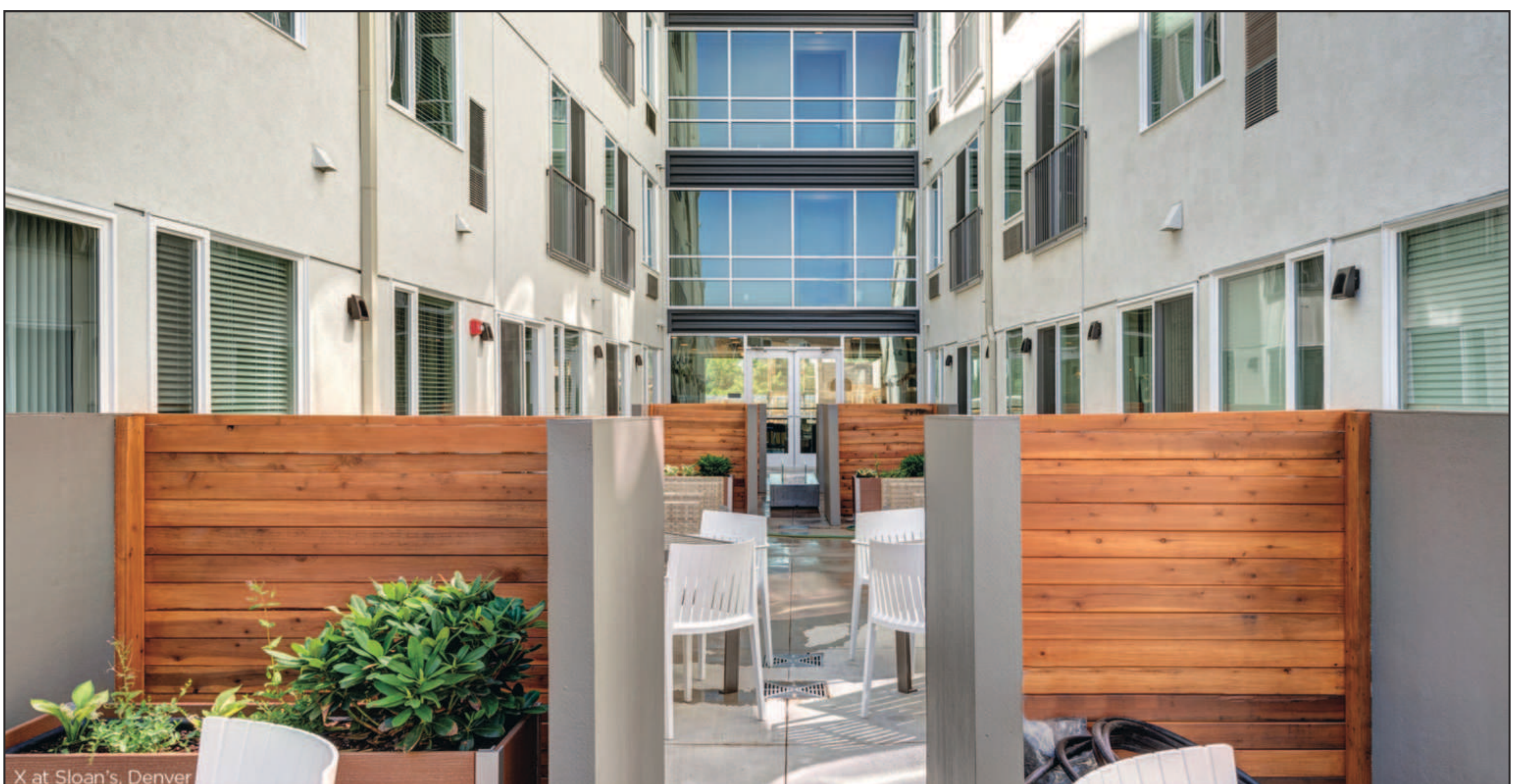
■ **Predictions for 2021.** It's impossible to determine exactly how much the pandemic affected what we accomplished in 2020 and what the year would have looked like without it. We got some predictions right, but we missed on others. That's no different from any year.

I believe the commercial real estate industry in Denver will continue to thrive here – and this is something I was saying well before what we had to deal with last year – because we are a place where people want to be. The only tool we have against pandemics and unexpected economic turns and any other natural or manmade obstacles is our resiliency, our ability to continue to put our heads down and work at what we can control and do the jobs we know how to do – and those all come down to how we treat other people. It sounds elementary, I know, but it's our best strategy even when we have more options than we had last year. If nothing else, the pandemic brought that into clear focus.

■ **About those people.** I'm a generally positive person and, as I've said in previous articles and to just about everyone I talk to, there's no place I'd rather live and work than Denver. I try not to read too much into any one episode, but this year I saw something I don't see very often, something I can look back on when I want to remember why we do what we do. When I start feeling down about some of what 2020 has put us through and what some of the fallout will mean to the future of this city and our industry, I think about this:

In November, a large client acquired a suburban apartment complex from three sisters who had owned it for most of their adult lives. A couple had managed the complex for the sisters for 28 years. In the sales contract, in writing, the three sisters included a commitment to paying the couple's rent for the rest of their lives.

Try staying in a bad mood after knowing things like that happen, even in the middle of the insanity of 2020. ▲



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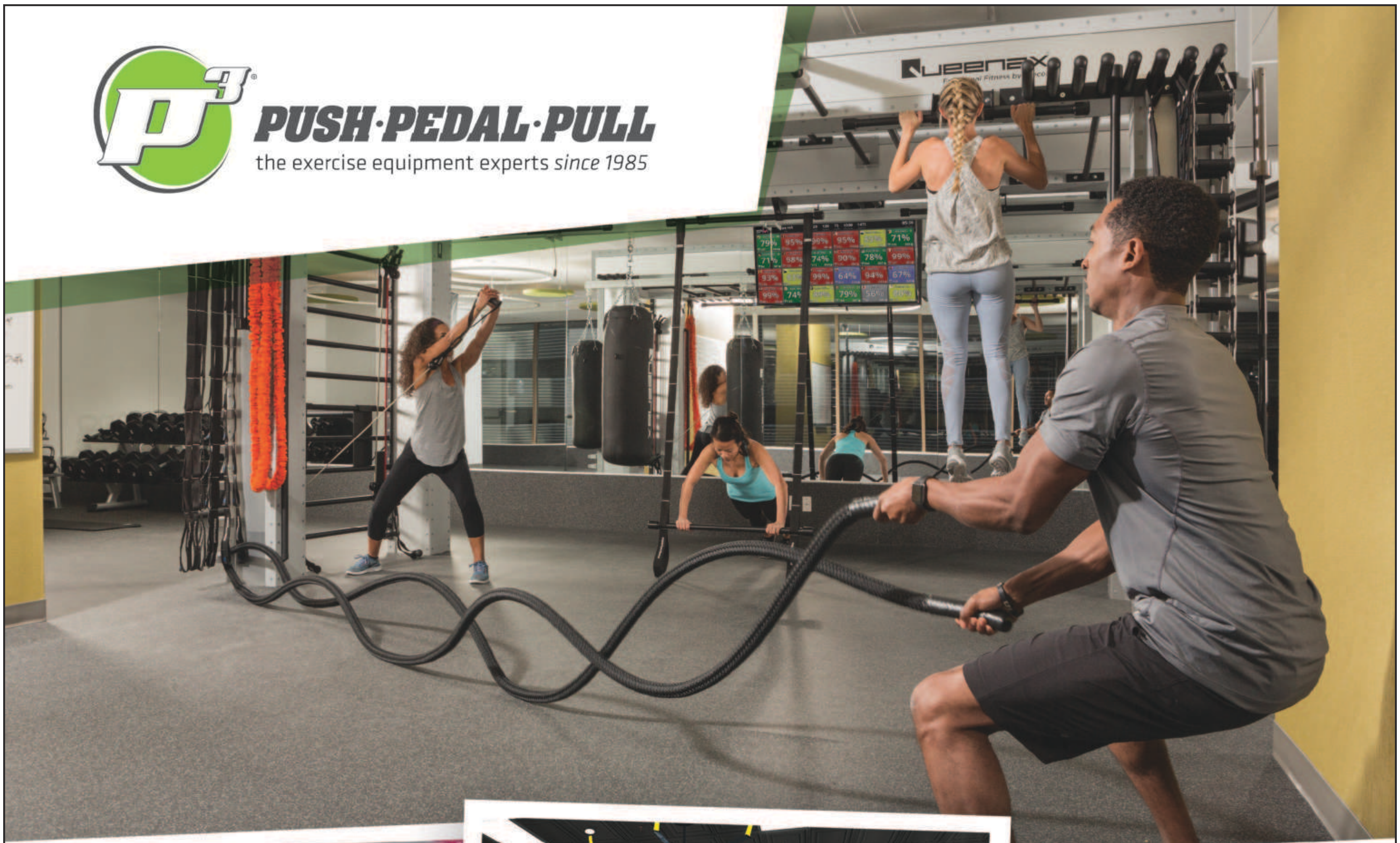

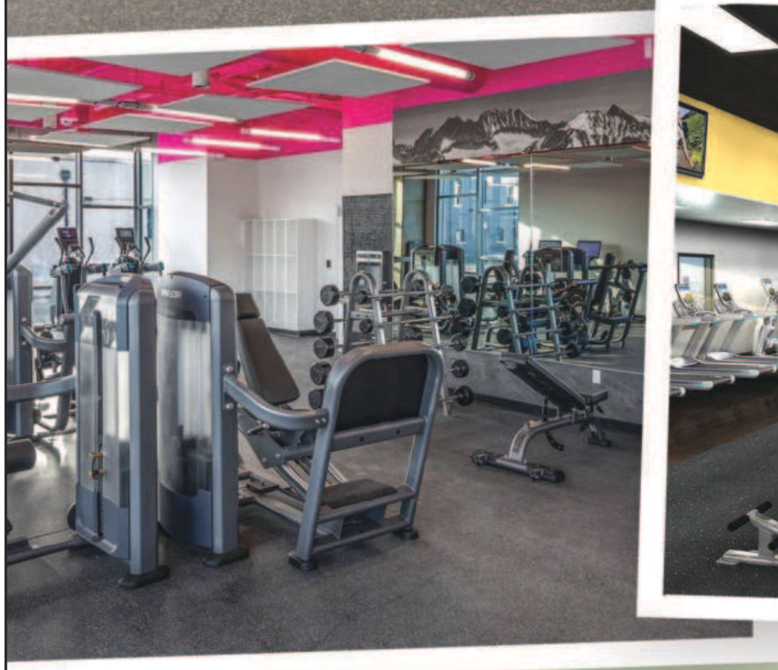

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Gloria has served the fitness industry—as well as commercial fitness customers in Colorado—for over 20 years. Gloria has been with P3 for almost 9 years and is one of our Senior Market Specialists. She enjoys discussing with clients about their business, objectives and understanding their needs to find the right solution or design for their facility.

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Market Outlook

New high-wage jobs lower post-pandemic hurdles

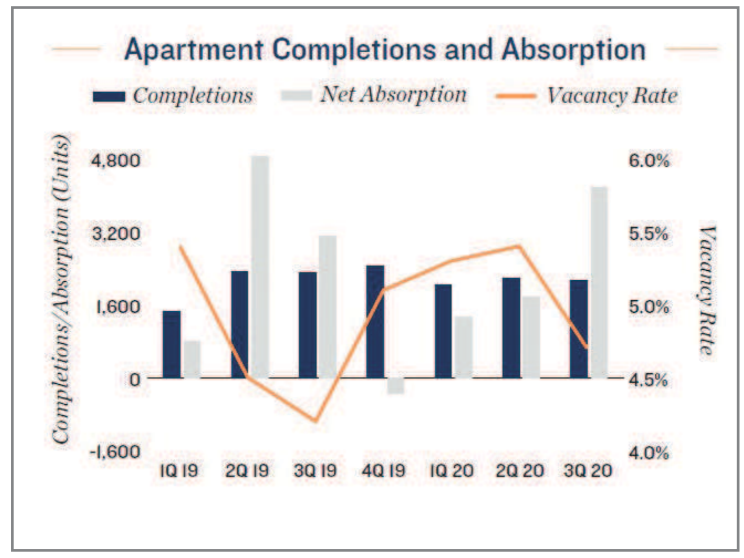
Greg Price
Senior director, National Multi Housing Group, The Price Apartment Group, Marcus & Millichap, greg.price@marcusmillichap.com

The catalysts for future growth are in place. Prior to the health crisis, Denver recorded strong rates of employment growth and net migration that fueled tenant and buyer demand for commercial properties and residential units. While the metro has recorded a spike in daily COVID-19 cases since October, the number of reported cases during the second and third quarters trailed primary coastal markets, allowing businesses to remain open since June with capacity restrictions in place. During this span, professional services firms were able to avoid large-scale layoffs. Tech-related companies, in particular, exhibited resilience, adding 7,000 positions from July to September. Since then, Denver has slipped into a more restrictive reopening tier that limits office capacity. This mandate may slow short-term hiring activity; however, growing tech firms still are likely to bolster payrolls via remote working arrangements. These jobs could eventually translate to office-using positions that fuel future in-migration.

Many of the hard-hit sectors are seeing their hiring rebound potentially slowed by new restrictions. The retail trade, transportation and utilities, and leisure and hospitality industries combined to replenish more than 24,000 positions during the third quarter. These sectors' ability to recapture positions lowered Denver's unemployment rate to 6.4% in September, 150 basis points below the national rate. While encouraging, these sectors are unlikely to rehire at a comparable pace in the near term, as public health orders and capacity restrictions hinder job recovery.

Supply additions also are testing demand in core submarkets. Apartment and office developments in downtown Denver and adjacent neighborhoods are positioned to place upward pressure on vacancy in the coming quarters. Of the 3,000-plus rentals slated for delivery through March, half are in the downtown/Highland/Lincoln Park or Five Points/Capitol Hill/Cherry Creek submarkets, each of which registered triple-digit basis-point increases in vacancy from April to September. The central business district also is home to half of the office space on pace for fourth-quarter completion. Vacancy in the urban core already has jumped by more than 600 basis points so far this year, suggesting projects slated for delivery could struggle to secure tenants. Companies with provisional lease agreements also may pull out, similar to WeWork's passing on more than 200,000 square feet.

However, deal flow shows signs of improvement in several sectors. Well-capitalized buyers are viewing apartment and industrial assets with credit tenants as attractive investments. Demand for lower-cost housing and a shift in consumer behavior during the health crisis have bolstered the longer-term prospects of these property types. Since April, Class C vacancy has declined, sustaining demand for sub-30-unit rental complexes in both the core and suburbs. Warehouses near Denver International Airport continue to record strong valuations as demand from logistics firms supports leasing activity at these facilities. Meanwhile, office and retail sales activity remains subdued, with suburban office properties and smaller neighborhood centers accounting for a high percentage of transactions.



■ **Market outlook.** An inflow of rentals are gauging demand for luxury units in Denver's urban core as investors focus on the Class C sector.

Developers finalized 2,100 apartments during the third quarter, contributing to the 8,800 units delivered over the past year ending in September. Of the rentals completed during the 12-month period, more than 40% were in Five Points/Capitol Hill/Cherry Creek, Northeast Denver or downtown/Highland/Lincoln Park areas.

Additionally, unit availability compressed across all apartment tiers during the July to September stretch, slashing metrowide vacancy 70 basis points to 4.7%. The Class A sector recorded a reduction of 80 basis points, while Class B and C rates fell 70 basis points and 50 basis points, respectively.

The average effective rent rose by less than 1% to $1,525 per month during the third quarter despite strong leasing activity. The Class A sector registered a decline of 3.4%, signaling an increase in concessions at higher-end properties. Meanwhile, per-unit pricing climbed 5% to a record average of $204,000 over the past year ending in September. The metro's average first-year yield fell to 5.3%, 20 basis points above the national cap rate.

Sales in downtown Denver and neighboring Englewood/Littleton and Lakewood/West corridor have steered transaction activity since the start of April. Sub-30-unit Class C assets

Please see Price, Page 30

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 • No structure	150-275 bps over the comparable US Treasuries Rates 2.50%-3.75%	• Up to 65% LTV, majority of lenders quoting in the 55%-60% LTV range	5-30 Years	25-30 Years	• Market rate properties in major metro areas • B quality properties and above	• Life companies are cognizant of collections and occupancy during COVID-19 • Lowest pricing available for loans with 5-7 year terms • Ability to incorporate flexible prepayment structures for a slight premium to the rate • Additional loan structure tactics such as holdbacks, debt service escrows funded at closing, and partial personal guarantees are more frequently requested on loans with higher leverage or cash-out • Several life companies have loan allocations for properties in lease-up
AGENCY	• Sales of mortgage-backed securities with implied government guaranty	• Non-Recourse • Longer-term fixed rate loan	150-270 bps over the comparable US Treasuries Interest rates are 2.45%-3.65%	• Up to 75% LTV, but more appetite for 65%-70% • 1.25x Minimum DCR	5-10 Years	30 Years	• Market Rate • Age-Restricted • Affordable/Workforce • Major metro areas • Secondary/Tertiary Markets • C quality properties and above	• Agencies are requiring up to 6 months of debt service, taxes, and insurance to be escrowed at closing • Lower end of interest rate range commonly achievable for Borrowers utilizing the Green or Mission Rich agency programs • Partial to full-term I/O is available, depending on leverage • Lowest pricing available for properties with "Mission Rich" programs
CONDUIT (CMBS)	• Sales of mortgage-backed securities through public markets	• Non-Recourse • Longer-term fixed rate loan	Rates 3.00% - 3.75% (spreads 200-300)	• Up to 70% LTV • 1.25x Minimum DCR • 8.0% Minimum Debt Yield	5, 7 & 10 Years	Interestly Only to 30 Years	• Market Rate • Second tier properties • Secondary/Tertiary Markets • C quality properties and above	• Most competitive at higher leverage in secondary and tertiary markets • Focused on debt yield as an important metric • May incorporate 6 month debt service reserve at closing
BANK	• Corporate Debt • Deposits	• Recourse (some non-recourse available) • Shorter-term fixed and floating rate loans	Interest rates range between 3.50% - 4.25%	• Up to 70% for term loans • Up to 60-65% 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 • Small amount of non-recourse available at <55% LTV for existing bank clients • More flexible prepayment penalty options • Some banks reserving capital for existing relationships only
DEBT FUND / BRIDGE LOAN	• Private Capital • Institutional Capital	• Non-Recourse • Shorter term bridge loans for acquisition and/or repositioning	LIBOR + 400-550 bps (0.25%-1.00% LIBOR floors)	• 65-75% 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, property quality, existing cash flow, sponsor strength, and capital source • Several debt funds are currently underwriting more conservatively, given uncertainty, internal structures with existing bank lines, increased workload with loan modification requests, and current interest rates on senior permanent debt. • Lender fees are typically 0.75-1.00% upfront, 0.50% at exit

DCR - Debt Coverage Ratio | **LTV - Loan to Value Ratio** | **LIBOR - London Interbank Offered Rate**
DUS - Delegated Underwriter Servicer | **LTC - Loan to Cost Ratio** | **REIT - Real Estate Investment Trust**

This information is intended to illustrate some of the lending options currently available. Other options may exist. While Essex Financial Group strives to present this information as accurately as possible, no guarantee is made as to the accuracy of the data presented, or the availability of the terms at time of application. Rates and terms are subject to change. Please contact one of our mortgage bankers for up to date rate and term information.

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Market Outlook

What vaccines mean for apartment revenue streams

As I write this, I continue to be whipsawed by the mix of bad and good news with respect to COVID-19. As the virus rages essentially out of control, increasing constraints being reimposed by state and county governments are reducing the pace of recovery and even risk putting us back into negative growth territory. Unemployment claims are again rising, and the more virulent "UK strain" has been detected in the U.S., right here in Colorado.

Despite these concerns, there continues to be highly encouraging news about vaccines:

- Pfizer and Moderna vaccines are being distributed and both have announced ~95% effectiveness. Early distribution is much slower than promised, but I believe the new administration's focus will pick up the pace.
- The U.K. approved the AstraZeneca vaccine, presenting a potential third vaccine for the U.S.
- Multiple other vaccines are in third-stage trials and could be available by late winter, thus promising the potential of a vastly increased pace of vaccination by the second quarter.

Let's start with the math.

With roughly 330 million Americans, let's say that 80% of us will need to be vaccinated to consider distribution to be widespread. That means 264 million people and 528 million doses (sticking with the Pfizer and Moderna vaccines only and each requiring two doses).

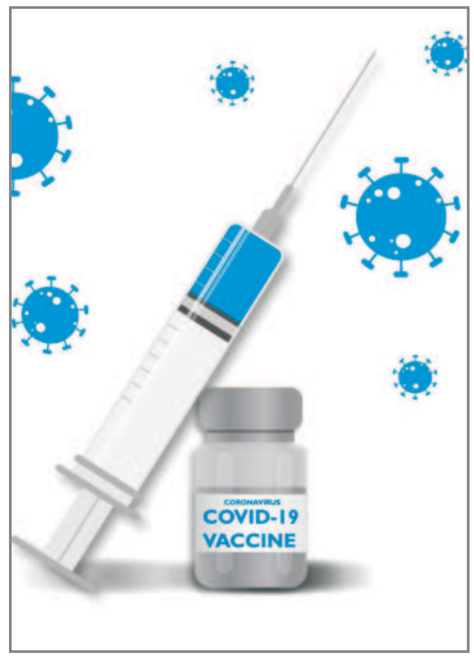
Donald Davidoff
President and founder, D2 Demand Solutions Inc., donald@d2demand.com

According to Bloomberg, 17 million people have been vaccinated as of Jan. 21, well short of the 20 million promised by end of December. That leaves us needing 511 million doses. Reports suggest that Pfizer intends to manufacture 1 billion doses in 2021, and Moderna plans 500 million. That's a combined ability to inoculate 62.5 million people (125 million doses) a month. That would get us done in just about four months!

Given the early disappointing pace and the fact that manufacturing will have to ramp up, it will take some time to hit those kinds of numbers. A better estimate might be averaging half of that level for the first half of the ramp-up. That gets us to something more like eight months, meaning August is looking most likely.

This is an intentionally simplified analysis, so several caveats:

- Given the anti-vax sentiments of many, we may not be able to reach 80% penetration.
- There is uncertainty around how long vaccines will confer immunity and thus what the pace of further booster shots will need to be.
- There may be a lag between vaccine penetration and economic pickup. However, since penetration will grow over time, the economy likely will show signs of improvement ahead of full distribution.
- Any U.S. distribution of the AstraZeneca or yet-to-be-announced vaccines will speed up the timeline, so maybe we'll get to where we need to be as early as June.
- We may see benefits more quickly if younger children turn out not to need vaccines as urgently as adults.



■ **What does this mean for multifamily in Colorado**. Given that we'll be lucky to begin to feel the vaccine's benefits by late second quarter and probably more like mid-third quarter, that means we have at least six more challenging months, the first couple of which are still in the low season.

Multifamily should maintain an "occupancy defender" strategy for at least the next two months. Despite that approach, be on the lookout for opportunities to push rents. Suburban markets are outperforming urban core, so don't miss opportunities out of fear or lack of appropriate strategy.

Also, determine the criteria and standards you will use to identify when to change back to a more normal balanced growth strategy. The start of this crisis was quite crisp and clear; however, the exit will be much more gradual and likely to vary by market and property class. Humans are not particularly good at noticing the tipping point in a gradual change, so plan ahead and use data to determine that point.

It also is important to get a handle on your concession strategy. If this crisis has uncovered any weakness in risk management systems, it's the way they handle concessions. Specifically, systems either lack functionality for concession strategies or those that do (e.g., lease rent option) don't interface well with property management systems to consume the asking rent/concession combination.

If you haven't already done this, schedule regular sessions with both pricing and marketing. Both can solve demand challenges, so be sure not to "double-dip" by reducing pricing and increasing marketing spend just because the two functions are attempting to solve problems independently. ▲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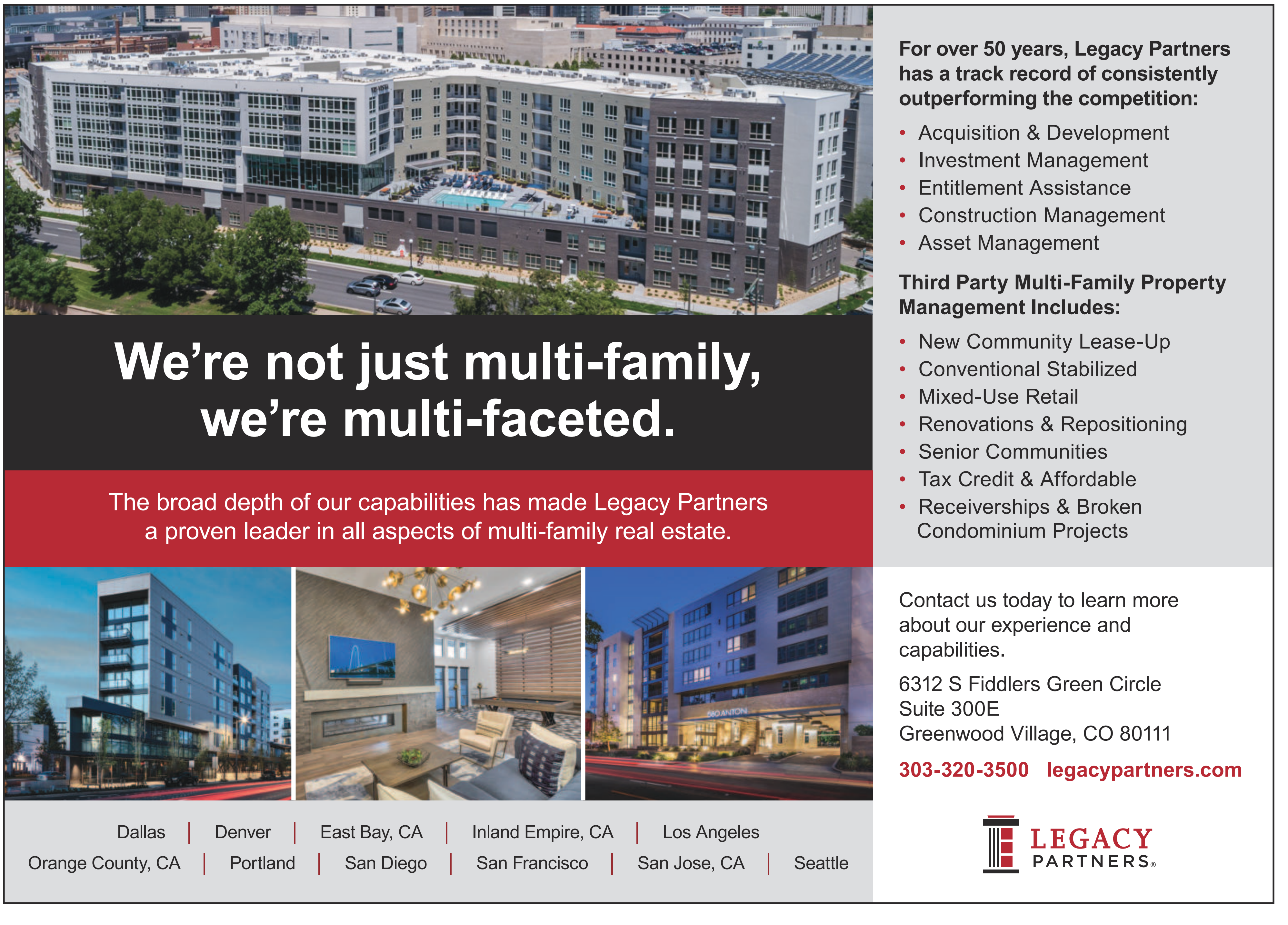
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Market Trends

Age-qualified rentals offer promising future options

As Tom Petty once said, "If you're not getting older, you're dead!" and Americans certainly are getting older. The median age in 2017 was 38.1, up from 36.7 a decade earlier, and because "the older population is no longer as enthusiastic about homeownership, many seniors are starting to downsize and move into rentals," according to RentCafé.

The recent boom in apartment development was thought to be fueled by millennials. After millennials were spoiled in some incredible student housing facilities, they created the "amenities arms race" that changed the face of apartments in the last decade. However, the face of apartments and their occupants were changed perhaps even more by the parents of millennials.

RentCafé reports that renter households aged 60 and over actually drove the past decade's surge in renters, with a 43% increase, from more than 6.5 million to almost 9.4 million in 2017, greatly outpacing younger age groups. While those aged 35 to 59 grew by 17% from 16.3 million to 19.1 million, renters under 35 years of age witnessed the slowest increase, a rate of 7%, growing from almost 14 million to 14.9 million in a decade. Likewise, in net numbers, the U.S. gained more new senior renter households in the past 10 years than in either of the two younger renter age groups.

As more baby boomers retire, it's likely the number of older renters will continue to swell. The study predicts that by 2035, renters over 60 will comprise 31% of the rental market compared with 18% in 2007. In contrast, the number of renters aged 35 to 59

Manny Gonzalez, FAIA, LEED AP
Principal, KTGY Architecture + Planning, mgonzalez@ktgy.com

is likely to remain stable through 2035, at about 43% of the rental market. Americans under 34 will drop to 27% of the rental market compared to 34% in 2017.

While the boomers and the millennials may be a generation apart, they still are looking for many of the same things in an apartment community. While renters over 55 likely are not looking for a rock-climbing wall or a lazy river, they are looking for fitness facilities with spaces dedicated to cardio, yoga and stretching, as well as connectivity and five bars of Wi-Fi on all of their devices. Margaret Wylde of ProMatura Group points out that just like millennials, boomers want proximity to shopping, especially groceries, as well as dining and entertainment. They may not go to all of the same restaurants or watch the same movies, but when this pandemic is over, both millennials and boomers will head back to the theaters and dining out.

Perhaps, the most important amenity today is "total wellness." Fitness is obviously a big part of that, but so is healthy eating, and today you are seeing more farm-to-table communities growing fruits and vegetables on the property as well as hosting cooking classes in their demonstration kitchen. But given what we are going through today with concerns over the spread of the coronavirus, healthy air as well as water quality are a critical part of total wellness that will probably be with us forever. Water comprises over half of our body weight and air pollution is the fifth leading cause of mortality. Air and water quality in the community will be a critical component of the amenity package.

Frank Ooms

Vita is a 159-unit LEED Gold 55-plus active adult community in downtown Littleton, that features a variety of community amenities.

This isn't just an American movement; the global wellness industry grew 12.8% from 2015 to 2017, according to the 2018 Global Wellness Economy Monitor. That's twice as fast as the overall global economy grew over the same period. Over $1 trillion was spent on personal care, beauty and anti-aging with healthy eating, nutrition and weight loss spending topping $700 billion.

While the demographics almost seem to say that if you build it (and include the right amenities), they will come, it's not quite that easy. Active adult renters typically will not move more than 10 or 15 miles from their existing home if they are downsizing. The major exception is if they are moving to be near grandchildren, in which case it may be their primary residence. However, quite often it is more of an extended-stay accommodation, so they don't have to sleep on a hide-a-bed in their daughter's house when they visit.

Given that for the most part, the move-down renters will be selling their home to move into the rental market, it's critical to understand the equity value of the homes these would-be renters are selling. A potential renter selling a home in Boulder can expect a median home price of over $800,000 while a potential renter in Colorado Springs will see a median home price of under $350,000. These are two very different markets, and while a highly amenitized apartment community in Boulder could command the rent to offset the development costs, the same doesn't hold true in Colorado Springs.

In his song "Running Down a Dream," Tom Petty's lyrics say, "There's something good waiting down this road. I'm picking up whatever's mine." If RentCafé is right, in the apartment development business, the age-qualified rentals are the something good that is waiting down the road and it's still not too late to pick up whatever's yours; just make sure to understand this renter. ▲


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SALES VOLUME: $167,159,800

CURRENT UNDER CONTRACT: $122,553,000

CURRENT UNDER CONTRACT: 42

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CURRENT LISTINGS

1) 19.34± ac. south of Harmony Road just west of Timberline Road, Fort Collins.
2) 10.0± ac. site near the SWC of College Avenue & Trilby Road, Fort Collins.
3) 52.65± ac. site near the SEC of College Avenue & Trilby Road, Fort Collins.
4) 11.80± ac. site SE of I-25 & US 34, within the 2534 mixed-use master planned community in Johnstown.
5) 7.63± ac. site at the SEC of 10th Street & 80th Avenue, Greeley.
6) 9.35± ac. site at the SEC of 71st Avenue & W. 4th Street, Greeley.
7) 30.65± ac. site between 10th Street & 13th Street, just west of 59th Avenue, Greeley.
8) 10.53± ac. site just NW of Highway 287 and Berthoud Parkway, adjacent to the Heron Lakes mixed-use master planned community in Berthoud.

SITES & INVESTMENT SALES BROKERED IN THE PAST

9) 16.1± ac. site at the NWC of Timberline Road & Drake Road, Fort Collins.
10) 220 Unit investment sale - The Preserve at the Meadows, along Horsetooth Road just west of College Ave in Fort Collins.
11) 2.61± ac. site just SE of Harmony Road & Lemay Ave in Fort Collins. (Mixed-use apartments & commercial).
12) 16.9± ac. site fronting Timberline Road, approx. 1.25 miles south of Harmony Road in Fort Collins.
13) 20± ac. site SE of College Avenue & Trilby Road, Fort Collins.
14) 17.6± ac. site west of U.S. 287 & adjacent to a Wal-Mart Supercenter in Loveland.
15) 9.64± ac. site west of U.S. 287 & the Wal-Mart Supercenter in Loveland.
16) 10.5± ac. site SE of I-25 & US 34, within the 2534 mixed-use master planned community in Johnstown.
17) 8.5± ac. site SE of I-25 & US 34, within the 2534 mixed-use master planned community in Johnstown.
18) 12.78± ac. site SE of I-25 & US 34, within the 2534 mixed-use master planned community in Johnstown.

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Construction

Trust & proactivity are key to lumber procurement

Every industry is feeling the upheaval caused by the relentless challenges of 2020. Whether it was pivoting to a fully remote workplace, changing the business model completely or taking on teaching a virtual kindergarten class, it was a roller coaster of a year. In construction, material pricing always has been a hot-button topic, but it reached new heights in the last 12 months. Specifically, the cost of lumber has taken a complete diversion from the typical patterns we've seen in the past. Decades of data have shown typical peak purchasing windows for lumber, but 2020 turned that data on its head.

Jason Vaughn
Director of preconstruction, Brinkman Construction

■ **Unique variables at work.** When we look at the volatility of lumber pricing last year, it's a perfect storm of many variables culminating at once: decreased supply, increased demand and mass economic uncertainty. We've seen one or two of these variables in the past, but never have we experienced such an unprecedented spike in prices due to the outsized demand. One of the earliest factors we experienced last year was foreign borders closing due to the pandemic, putting an abrupt halt on lumber importing. As the pandemic continued to spread, production mills began to temporarily close or operate at reduced capacity due to outbreaks, preventive measures or mandates from local governments.

With companies transitioning to remote environments, people began sprawling from urban areas in record numbers, increasing single-family home production, and at the same time, big-box stores increased purchasing due to the do-it-yourself craze eating up supply. The addition of a record-breaking number of wildfires last year was just the icing on the already dismal cake to the heightened question marks for the lumber industry.

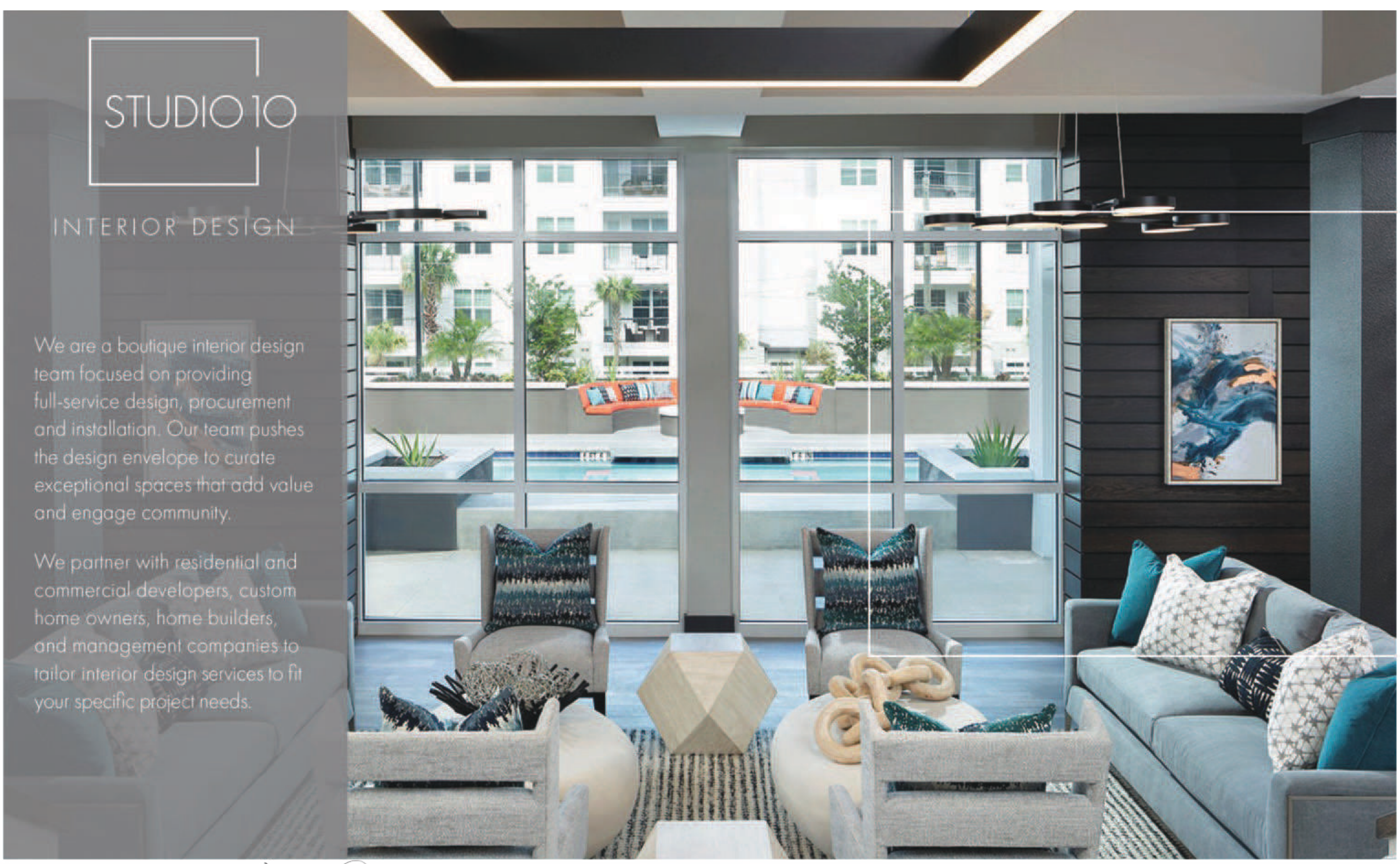
■ **Risk tolerance drives strategy.** As a contractor, we have to play an active and informed role in analyzing supply and demand. Our preconstruction department tracks commodities closely to enable us to make recommendations that support each client's unique goals based on where pricing is headed in the coming months and years. It takes this dedicated team to build estimates tailored for each project.

Determining the risk tolerance for all parties is a key part of our lumber procurement strategy. Understanding the contract structure, who assumes the risk, and what benefits there may be to each party are all considered and actively discussed, especially as we head into final pricing efforts. We have to know when it's preferable to turnkey material or purchase direct and, ultimately, our clients benefit from the strong partnerships we've built with suppliers and subcontractors that enable us to make more informed decisions. As project budgets get tighter due to stabilizing rents, early alignment on strategy is crucial to finding success for all parties.

Trading Economics

Lumber futures, as of Jan. 20: The demand for lumber rose sharply in recent months as many people sheltered at home, causing an increase in home improvement projects, while shutdowns at mills due to the pandemic hit supplies. Shortages are expected to last into the second quarter or longer, and will probably continue to support the lumber market, pushing up input costs and impacting profits and inflation, per Trading Economics.

Above all else, having key partners and a strategy is paramount. Building strong relationships with long-standing and trusted suppliers and subcontractors is what makes a project viable in today's volatile landscape. Owners and developers can mitigate their risk and continue building projects. In fact, those who can maximize on the current market will thrive even as this pandemic continues. ▲



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Sustainability

Water-efficiency rollbacks will impact multifamily

In December, Trump's administration finalized the rollback of water-efficiency standards on showerheads and other consumer appliances, many of which have been in place for almost three decades. The ruling impacts the multifamily industry, investors, the environment and housing/water affordability, all at a time when businesses are struggling to remain profitable, and one in four adults report having trouble paying their bills since the coronavirus outbreak started. Not to mention the water waste that will come from people taking showers with multiple showerheads with new, larger flow rates.

Richard Lamondin
CEO and co-founder, EcoSystems

■ **The rollback.** The U.S. Department of Energy's revised showerhead rule allows each showerhead to reach a limit set by Congress, instead of each showerhead in a fixture counting to the limit collectively. The limit was 2.5 gallons per minute as the maximum flow rate set in the 1990s. What does this mean? People now can have multiple showerheads on at once, all wasting much more water and unnecessarily increasing water bills.

In addition to showerheads, the department established separate product classes for residential washers and dryers that have cycle times of less than 30 minutes and are allowed to consume more energy than existing ones.

This rollback comes on the heels of Trump announcing regulatory changes to the National Environment Policy Act to speed up the process approval for getting environmental reviews for infrastructure projects. He also shared his disdain for poor water flow in sinks and toilets – claiming it's causing us to flush toilets too much and to experience difficulty when washing our hands. Not only is this untrue, but Trump's experiences lack public support. Michael Mann, professor of atmospheric science at Penn State, discussed this in his recent NBC News Opinion piece, "Where are these superflushers? ... In the year since Trump's brave defense of frequent flushers, none seem to have come forward with public comments or requests for stronger toilets."

■ **Impact on business.** The efficiency rollback is a slap in the face to companies that have been investing and innovating in the water-efficiency space – many for decades. A glimpse at the EPA's WaterSense-approved products shows hundreds of options for innovative brands and product lines for efficient showerheads, in addition to many other fixtures.

It's hard to believe this ruling is coming at a time when investors and companies are rallying around sustainability and responsible investing. The hope here is we'll see businesses and innovators continue to focus on sustainable solutions despite the shift in limits from the U.S. Department of Energy – similar to how municipal, state and local governments and the private sector rose to the occasion and focused on sustainable investments despite Trump's regulatory changes the last four years.

The U.S. Department of Energy's revised showerhead rule allows each showerhead to reach a limit set by Congress, instead of each showerhead in a fixture counting to the limit collectively.

■ **Impact on environmental services.** We have spent the last eight years educating multifamily property owners across the U.S. about the benefits of installing water- and energy-efficient fixtures and appliances. We partnered with Denver Water, a national leader among major municipalities, as its exclusive water conservation and retrofit partner to provide free water conservation audits and retrofit/repair program for low-income and nonprofit customers to support them in saving water and money.

We have enabled our partners to experience a boost to their bottom line, as well as made an exceptional impact on the environment, together saving more than 3 billion gallons of water and more than 120 million kilowatt-hours and 85,000 metric tons of carbon dioxide.

What does this anticompetitive ruling mean for the companies, like us, that have built our business model around proving that conservation is good for business?

■ **Impact on housing affordability.** America is experiencing a water poverty crisis with bills rising 80% over the last decade. Higher water flow from showerheads means higher water bills. Higher water bills result in more money out of pocket for renters, and potentially higher rent in order for landlords to cover increasing utility costs.

On top of affordability, U.S. homes already waste 1 trillion gallons of water a year as it is. What will happen to our climate crisis and long-term drought when the efficiencies stop?

At the end of the day, this ruling rewards those who are wasteful and allows for products that needlessly waste energy and water. Who needs five showerheads to clean themselves at the expense of the environment? And why should we trust companies to set their own efficiency standards when we have a well-functioning WaterSense program?

Our pledge is to continue to support water efficiency and conservation, and we will continue to fight for what is right for the environment. ▲

Management

How to effectively operate when short-staffed

Christin Daniels
Implementation account manager, BuyersAccess, cdaniels@buyersaccess.com

Staffing challenges have plagued the apartment industry, particularly in maintenance operations, due to increased competition for talent retention from industries such as construction and specialized trades. According to a manager in Ohio, the pandemic has exasperated the staffing challenges. Inevitably, communities have operated without a full team and have been forced to adapt and overcome this challenge with a heavy focus on retaining the remaining talent and stopping them from "handing in their keys" due to the stress. There are tools and resources out there to help, but how to operate in the interim is key.

The National Apartment Association's best practices guide in staffing covers the industry standard in staffing and one can draw a correlation between resident satisfaction and talent retention. Retaining talent such as maintenance technicians and supervisors is pertinent to successful operations, yet many are experiencing a level of burnout due to increased resident and Centers for Disease Control and Prevention imposed demands previously unknown.

■ **On-site operations.** Multifamily management on site is an exciting, yet challenging, job, even when a full staff is in place. Staffing adequacy can depend on many facets such as class, location, unit counts and other possible characteristics that may increase the need for a larger team. It's important to remember that housing, a basic human need, and the resident experience always should remain top of mind. The workloads are stressed even further with CDC regulations, eviction delays and job losses. Corporate strategies should be designed to create new programs in the hopes of making on-site operations more efficient.

■ **Appreciation.** Companies that are supporting teams from a corporate level have been dedicated to showing appreciation to the front-line team members, which is important with today's current struggles. Who doesn't want to show those working through the pandemic appreciation for their dedication and hard work? How appreciation was shown in the past and what is really effective differs when properties are struggling. So besides treating a team to lunch, what teams desperately need right now is different than typical multifamily operational climates.

■ **Select the right resources.** Many on-site team members have demonstrated they feel most appreciated when they are acknowledged and asked what tools can help make their jobs easier. Remembering the normal climate and comparing it to today is key in asking the right questions and choosing the right tools to support short-staffed teams. Asking the site team can be the most effective component to selecting vehicles to help day-to-day operations. Examples of what questions can be: What are the current challenges faced? Which issues are the most pressing? What solutions would most help daily operations, especially if a property is short-staffed? How can unification between on- and off-site team members be strengthened?

■ **Feedback.** Using feedback from all team members, particularly maintenance, can lead to application of tools most relevant to their daily operational experience. Maintenance teams interact with residents on a frequent basis and are the eyes and ears for feeling out the current level of resident satisfaction. Property managers also can discuss personnel concerns and provide feedback. This can prevent team members from leaving and address the key challenges simply by asking the right questions and applying feedback in decision-making processes on what resources to apply first. Besides, implementing the right tools can make up for short-staffed burdens if they make the on-site team members' positions easier by them working smarter, not harder.

You may not be able to hire the extra person, nor fill the vacant position, but there are many ways to put time back into the days of struggling teams. At the beginning of the pandemic, sites were expected to operate at limited capacity, making remote work a reality where it had never been considered before. Vendors like Courtesy Connection developed a way for newly remote teams to take and place calls with the property number showing up and keeping their phone numbers private. Even better, the service integrated with major software and tracked follow-ups so community managers had transparency in daily leasing and follow-up efforts. But more solutions exist as many multifamily specialized vendors quickly developed.

For example, electrostatic sprayers created efficiency in meeting the sanitizing guidelines suggested by the CDC without having to source hard-to-find cleaning, while also cutting back on time spent disinfecting and offering a wider variety of surface coverage such as fabric and electronics. Some maintenance suppliers have checklists for cleaning and personal protective equipment needed for the property to be compliant plus additional information as the pandemic climate continues to shift. Virtual tour platforms, smart locks and easy cleaning makes a self-serve leasing experience. Coupled with the off-site follow-up call solution, it's easy to see why teams desire these forms of appreciation. In fact, not doing them could result in a set of keys and another vacancy.

■ **Purchasing optimization services.** A purchasing organization with a member services department could help teams by taking six frequent, yet time-consuming, tasks off their plate by acting as an extension of the team. For example, the contracts can contact and place orders using an e-commerce platform and can help teams source PPE and other high-demand items. By delegating these time-consuming tasks to a third party, the on-site team can focus on taking care of the residents and other pressing issues. ▲

Management

Maintenance considerations for fireplace safety

The National Fire Protection Association reported that local fire departments responded to an estimated average of 52,050 fires involving heating equipment each year from 2012 to 2016, accounting for 15% of all reported home fires. These fires resulted in annual losses of 490 civilian deaths, 1,400 civilian injuries and $1 billion in direct property damage. Additionally, the U.S. Fire Administration reported that fires confined to chimneys, flues or fuel burners accounted for 75% of residential building heating fires between 2013 and 2015.

Rick Anewalt, IAAI-CFI, PI
Regional practice manager, J.S. Held, ranewalt@jsheld.com

Contributing to almost half of these fires are fireplaces and the associated chimneys. Fireplaces are a great way to add warmth to any home or rental property, but there always will be special considerations when using an open flame to create heat.

■ **Accidental fireplace and chimney fires**. Most fireplace fires occur in the chimney, not in the firebox, and are primarily attributable to three common causes. The first is creosote accumulation. Creosote is created by the unburnt fuel from the smoke as it passes through the chimney. The hot smoke condenses on the wall of the chimney due to a difference in temperature, creating a layer of unwanted fuel load. The creosote is a dark, tarlike substance susceptible to ignition.

A second possible cause is from a defect in the chimney wall itself. It doesn't matter if the chimney is constructed of brick, stone or metal; if there is a way for direct, or indirect, heat or flame impingement on combustibles, a fire may occur.

The third way is the release of embers or sparks from the chimney to surrounding combustibles, such as a roof. The release of embers or sparks from a fireplace also is a primary way fire can spread to an unwanted area.

■ **Who is liable?** Below are some of the parties who may be responsible for fireplace fires:

- Manufacturers: Both in the case of improper design and improper assembly of fireplaces and fireplace inserts.
- Architects: In the case of improper design of fireplaces and chimneys.
- General contractors, framers, masons, gas component installers, insulation installers or electricians: In the case of improper supervision, installation or repair of a fireplace or chimney.
- Chimney sweeps, fireplace inspectors and building inspectors: In the case of improper or inadequate cleaning or failure to detect/address an obvious hazard.
- Renters: In the case of altering a fireplace or grossly overloading a fireplace.
- Property management: In the case of failure to address an obvious hazard or ignoring an issue previously pointed out by a renter or employee.

■ **How are factory-built fireplaces regulated?** Factory-built fireplaces are tested and listed by organizations like Underwriters Laboratories and Canadian Standards Association, with UL 127 covering the requirements for factory-built fireplaces. The NFPA also regulates fireplaces via NFPA Standard for Chimneys, Fireplaces, Vents, and Solid-Fuel Burning Appliances in NFPA 211 as well as a section covering fixed blowers and other electrical accessories covered under the National Electric Code, NFPA 70.

The International Code Council also has regulations for building codes under several of the code books, including Building (Chapter 10), Residential (Chapter 10),Existing, Fire (Chapters 2 and 603.2), and Mechanical (Chapter 8).

■ **Common fireplace installation errors.** While bad design and lack of maintenance often are the causes of fires, an often-overlooked cause is improper installation, including common errors such as:

- Framing: Combustible materials can catch fire if they are placed too close to the fireplace, which violates both building codes and manufacturers' installation requirements.
- Mantel: If installed too low, the mantel can catch fire.
- Finish materials: Combustible materials often are used in areas that require noncombustibles. Drywall, for instance, can be a combustible material.
- Gas line entry: The gas line entry must be properly sealed with a high-temperature seal.
- Flues: The flue must be adequately sized; if offset, the flue's size is reduced.
- Gas log sets: If gas logs are too large or installed too far forward, this can pose both a fire and burn hazard.
- Chimney shrouds: When using metal shrouds, they cannot be constructed around the termination cap unless authorized by the manufacturer.

■ **Fireplace safety tips.** The following fundamentals should be shared with renters to help create a much safer environment when using a fireplace:

- Use well-seasoned wood, keep the fire burning hot and make sure the size of the fire is appropriate to the fireplace.
- Avoid lengthy, smoldering fires to decrease creosote accumulation.
- Keep combustibles away from the fireplace opening and keep a fire extinguisher nearby.

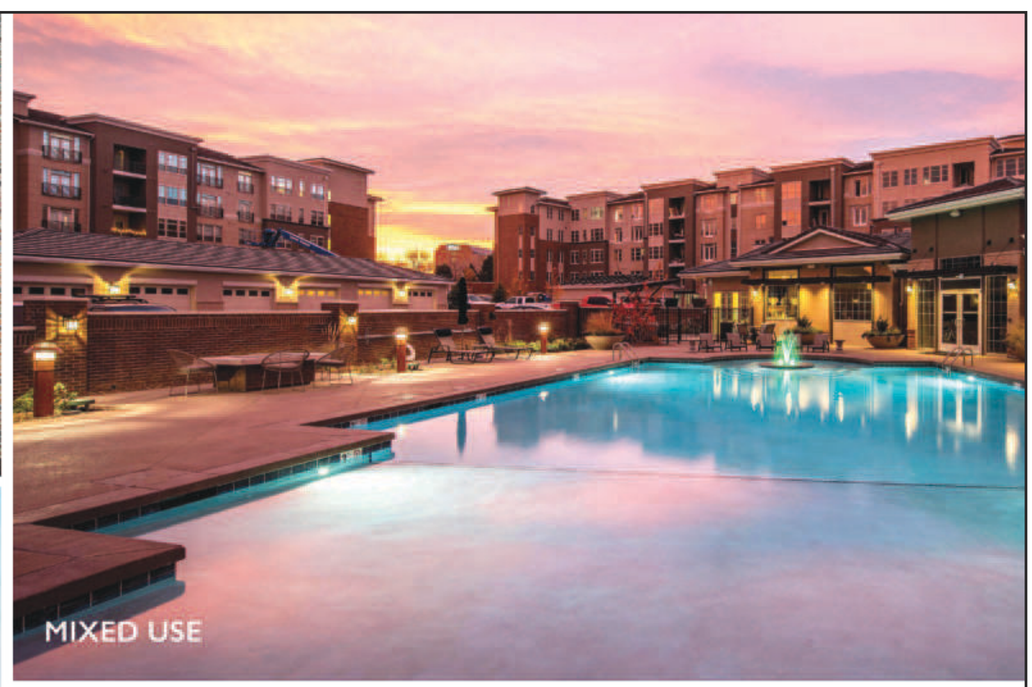
Additionally, maintenance staff should:

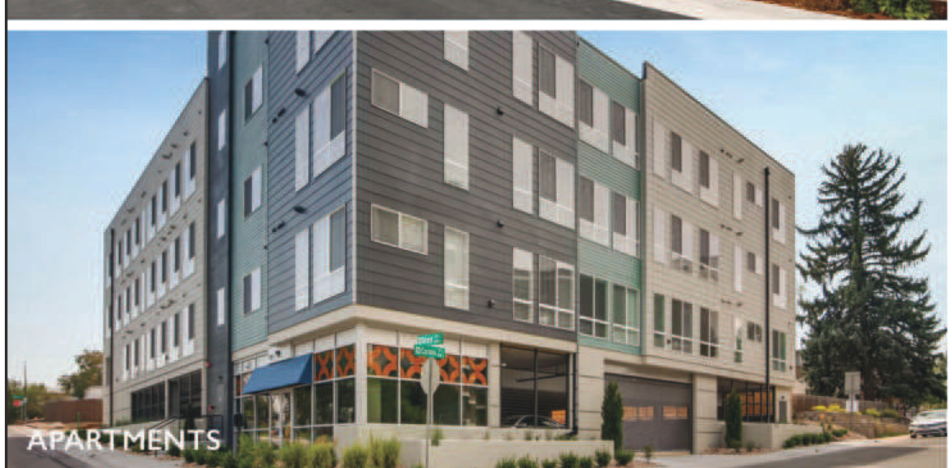
- Install glass fire doors or a tight metal screen at the fireplace opening to contain the embers and sparks.
- Have the chimney cleaned and inspected for defects annually by a certified technician.
- Ensure the proper chimney cap is installed and that it is serviceable to help prevent embers and sparks from escaping the chimney.

The easiest way for property managers to prevent fireplace and chimney fires is to adhere to basic safety practices. Still, these fires often stem from negligent installation or a faulty product. Fireplaces should be installed and maintained by professional experts. For wood-burning fireplaces, having the fireplace inspected and the chimney professionally cleaned are important preventative factors as well.

Any issues with fireplaces or chimneys reported to property managers by renters or their staff should be immediately responded to and addressed.

Hiring the right expert early in the claims process will help protect the fire site from potential spoliation and support your ability to make a successful subrogation claim. ▲





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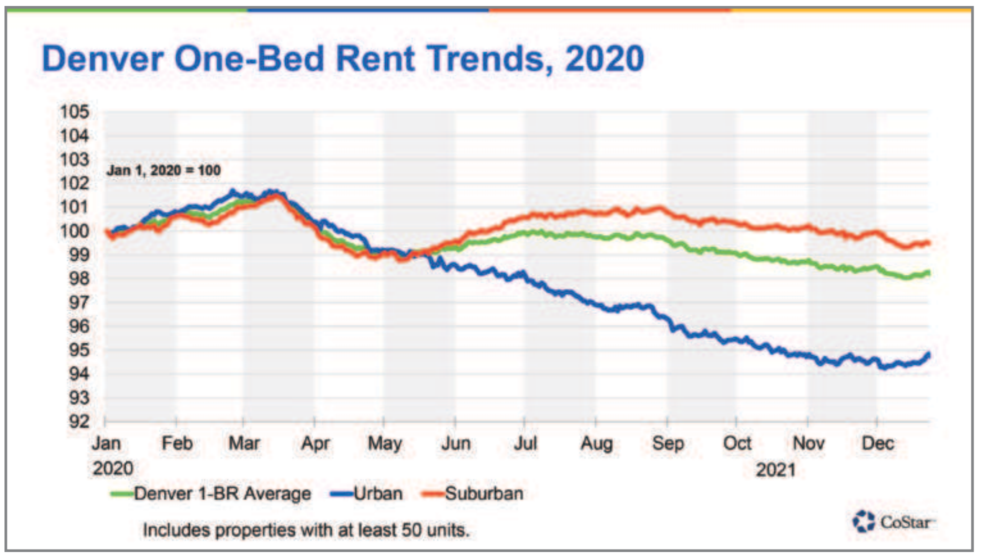
Trends

Continued from Page 1

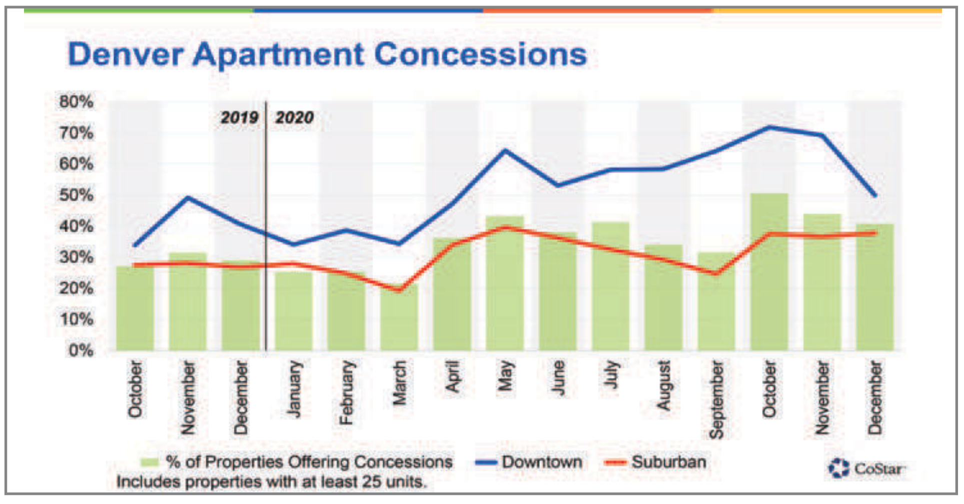
year, then fell precipitously (about 2.5%) when the pandemic began to take hold and the Denver economy was largely shut down. In mid-May, Denver's one-bedroom rent trends took an interesting turn. At this point, the two geographies diverged, and suburban rents began to recover while urban rents continued to fall.

Many renters could no longer justify paying premium rents to live in luxury apartments in Denver's main employment hub when work-from-home policies were extended and community amenities were temporarily restricted. It became clear that normal life would continue to be disrupted for the foreseeable future, and apartment renters began to make longer-term plans to reflect the new reality of this change in lifestyle in a pandemic world. Renter preferences shifted to favor larger, more affordable apartment units in less densely populated areas.



Initially, daily asking rent trends in urban verses suburban properties were nearly identical – rents steadily increased as they would have in a normal year, then fell precipitously (about 2.5%) when the pandemic began. But in mid-May, the two geographies diverged, and suburban rents began to recover while urban rents continued to fall.

Apartment hunters in the Mile High City demonstrated an increased appetite for larger units with multiple bedrooms from mid-May through December. According to data from Apartments.com, 42% of users were searching for a two-bedroom apartment from March to December. That is up from about 39% from 2017 through 2019. Interest in three-bedroom apartments also jumped from 11% to 12.9%.



Concessions jumped sharply in October with 52% of apartment buildings in Denver offering a deal, up from 27% in October 2019. Concessions were especially prevalent downtown, where they peaked in October with 70% of apartment buildings offering some form of incentive.

This recent behavioral shift has come at the expense of studio and one-bedroom apartments. Studios made up around 9% of search activity from 2017 through 2019, but that figure dropped to roughly 6.7% during the pandemic. One-bedroom interest also fell, from about 40.2% to 38.2%.

For higher-income wage earners wanting more space, this could have been the need for a second bedroom that could serve as a home office. On the other hand, vulnerable renters took on a roommate to save on rent obligations. Larger units were easier to come by in the suburban markets, as Denver's suburban apartment stock features a higher concentration of multiple-bedroom units relative to urban neighborhoods.

In a city that consistently has recorded strong annual rent gains dating back to the Great Recession, landlords adapted to the changing leasing environment brought on by the pandemic by offering generous concessions. Denver apartment complexes are getting creative to entice renters with offers like living six weeks free with free parking for a year to 50% off rent for three months. Concessions jumped sharply to new heights nationally in October with 52% of apartment buildings in Denver offering a deal, up from 27% in October 2019. Concessions were especially prevalent in downtown, where they peaked in October with 70% of apartment buildings offering some form of incentive.

Looking ahead, there are many reasons to be optimistic about Denver's apartment market. COVID-19 vaccines are already in distribution, offering a line of sight to the end of the pandemic. The Denver multifamily market also continues to benefit from in-migration and the expansion and relocation of companies to the area. Renters who enjoy the urban lifestyle likely will return to the downtown area when amenities begin to open up and it's once again deemed safe to be in close proximity to others. On the other hand, suburban apartments could experience a lasting boost as renters decide that they enjoy having additional space.

Whether the recent behavioral shift becomes a long-term trend is uniquely debatable, but one thing is for certain: The answer won't reveal itself until the virus is under control. ▲

Brooks

Continued from Page 4

loss category with a 2.9% decline in average effective rent. There was substantial variance in results at the submarket level. Two submarkets stood out negatively in terms of rent growth. Five Points/CBD/Capitol Hill lost 7.1% during 2020 while Boulder lost 6.5% in average effective rent. Two submarkets in Colorado Springs, the north and west-downtown, managed gains of 7% each.

In addition to operators being much less aggressive with asking rents last year, increased reliance on lease concessions played a role in the lack of effective rent growth. Both the availability of discounts and the average discount value increased significantly during the year. Some 30% of conventional properties concluded 2020 offering a new lease discount, up 33% from the start of the year. The average concession value finished the year at just less than four weeks off a 12-month lease after a 20% annual increase.

■ **Takeaways.** Through all of the mayhem of last year, the bottom line is that average net rent per unit for the region gained 0.2%. In other words, unlike in some markets around the country, the area managed to hold its ground for the most part. That can be viewed as a win given the circumstances, especially considering an increase in new supply compared to 2019.

A clear flight to affordability was observable in the data, with relatively strong demand in Class B and C prices. Additionally, Class A demand decreased by almost 40% compared to 2019. The lack of rent growth, though heavily impacted by increased concession availability and value, also can be attributed to operators choosing not to materially raise asking rent at the average.

Looking ahead to the next 12 to 18 months, multifamily results will be driven largely by the level of success of the COVID-19 vaccine rollout and the extent to which economic activity can be resumed more fully. At the current pace, the new construction pipeline will be delivering more new units this year than were delivered in 2020, so a return to a more typical level of demand will be key. ▲

Price

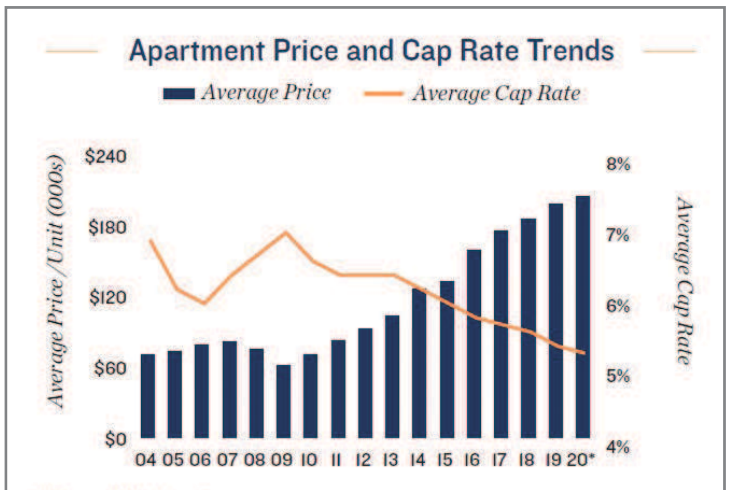
Continued from Page 16

have dominated deal flow in these locales, translating to $1 million to $4 million exchanges that provided buyers with low- to high-5% cap rates.

■ **Capital markets**. The capital markets are thawing. Most lenders have adapted to the health crisis, and more information on the economic damage of the pandemic is affording buyers, sellers and lenders price clarity for large swaths of commercial real estate. Both property performance and location can impact financing as some areas of the country outperform and the pace of recovery remains in doubt for others. Capital is available for assets that perform at precrisis levels, especially industrial assets, which buyers and lenders see as a safe part of their portfolios. Single-tenant retail with national credit tenants also are heavily favored by lenders, followed by grocery-anchored multitenant properties. Apartment rent collections are heavily examined, though financing remains available from the agencies. Loans are more readily accessible for suburban office, while core buildings require lower loan to values.

	Completions (Units)	Vacancy Rate	Average Effective Rent	Y-O-Y Percent Change
1Q 2018	2,987	5.7%	$1,409	3.5%
2Q 2018	2,686	5.1%	$1,456	2.6%
3Q 2018	2,575	4.5%	$1,481	2.8%
4Q 2018	2,148	5.2%	$1,471	4.5%
1Q 2019	1,438	5.4%	$1,482	5.2%
2Q 2019	2,331	4.5%	$1,523	4.6%
3Q 2019	2,308	4.2%	$1,544	4.3%
4Q 2019	2,443	5.1%	$1,516	3.1%
1Q 2020	2,025	5.3%	$1,524	2.8%
2Q 2020	2,343	5.4%	$1,515	-0.5%
3Q 2020	1,784	4.7%	$1,526	-1.2%
4Q 2020	1,846	5.1%	$1,509	-0.5%

The record-low interest rates are encouraging investment activity. Freddie Mac and Fannie Mae are originating loans in the high 2% to low 3% range for gateway and secondary markets, while interest rates in smaller markets can reach the mid-3% band for well-capitalized buyers. Life insurance companies are offering rates in the 3% to 4% range with LTVs of 60% to 70%, though some premier properties have been able to achieve rates in the mid- to high-2% band. Most banks, credit unions and commercial mortgage-backed security lenders are offering debt in the 3.25% to 4.25% range, and debt funds start slightly higher in the 3.5% to 4% territory. Stricter criteria for CMBS loans have limited options for many borrowers though. The Federal Reserve's commitment to keep the overnight rate near zero through 2023 should support historical low interest rates over the coming quarters, providing investors with compelling risk-adjusted returns in contrast with other asset classes. ▲



* Through third quarter

Sources: Real Page Inc.; CoStar Group, Inc.; Real Capital Analytics

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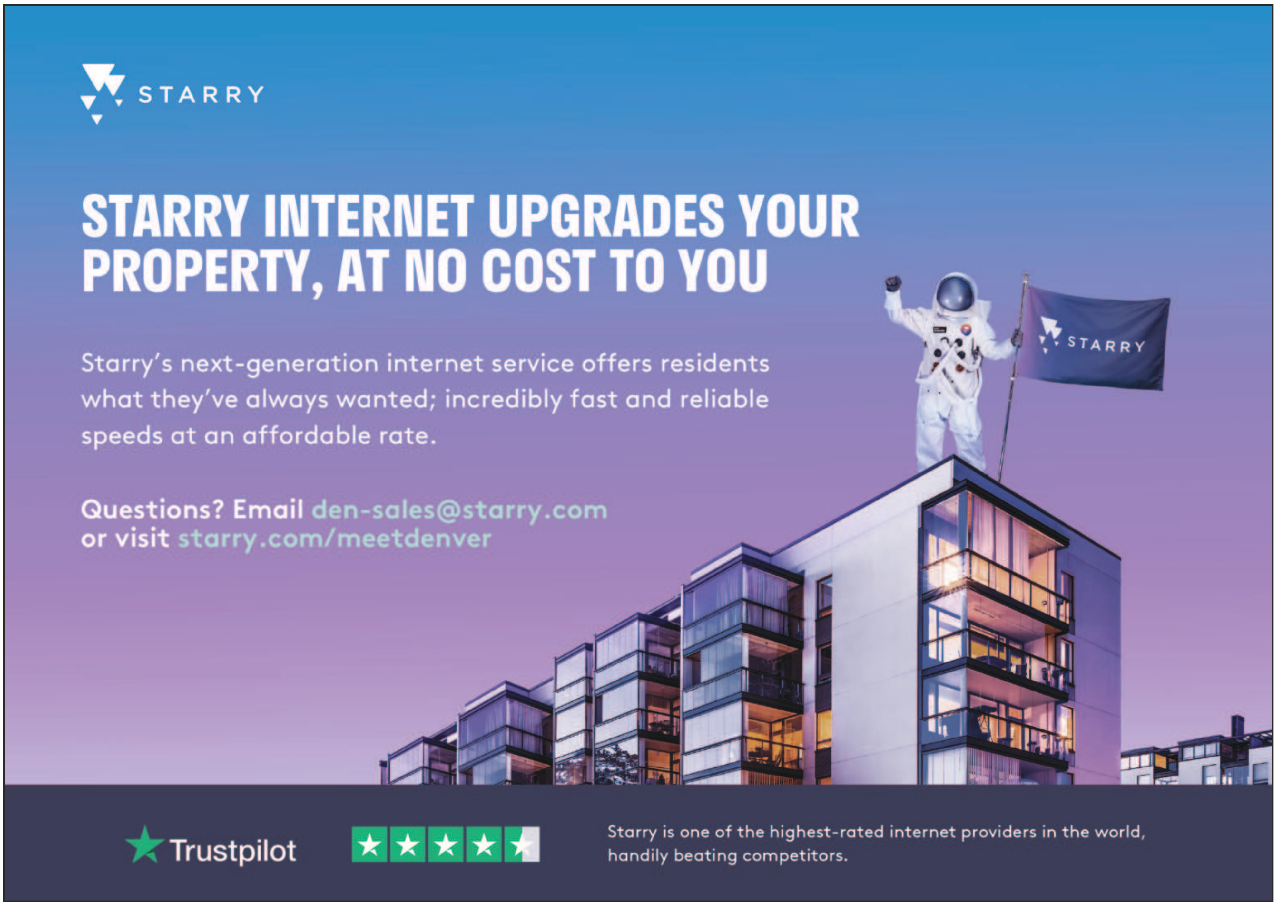

From the desk of Rodger Hara:

A review of private sector's impact on affordable housing

The Great Depression led to the passage of the National Housing Act in 1934. That act included the mortgage insurance programs of the Federal Housing Administration as a stimulus to construction and sale of new homes with long-term, fixed-rate financing that offered a low down payment to cash-strapped Americans.

The void that remained for renters without the capacity to buy a home resulted in the passage of the U.S. Housing Act of 1937, which created the United States Housing Authority (interestingly enough within the Department of the Interior) and the subsidy programs for local public housing authorities. The Denver Housing Authority was formed in 1938 and was one of the first to receive subsidy funds. Those funds were used to build the Lincoln Park Homes (designed by famed Denver architect Temple Hoyne Buell) at the foot of the Colfax viaduct.

Until the early 1970s, most affordable housing in America was developed by housing authorities, with often disastrous results (see Cabrini Green in Chicago and Pruitt-Igoe in St. Louis). At about the same time that the 33 buildings of the Pruitt-Igoe complex were imploded, Congress amended Section 8 of the Housing Act of 1937 to create a system for production of housing by the private sector with rental subsidies provided by the federal government.

The initial program featured 40-year subsidy contracts for units in rental projects financed with loans insured under the 40-year FHA mortgage programs with equity from investors taking advantage of the accelerated depreciation available at that time. It was a great program for a while – until the failure of faulty actuarial projections and the realities of the marketplace kicked in.

Rodger Hara
Principal, Community Builder Realty Services, rodger.hara@comcast.net

Operating expenses increased at a rate faster than anticipated, government funding of the rental subsidies lagged behind those increases, FHA-insured loans began going into default and the annual federal budget process couldn't predict what the impact of the subsidies would be. That imperfect storm forced the government to shorten the terms of the subsidy contracts and create new programs to prop up the old one.

Those problems, along with other market dynamics, led to the creation and passage of the Tax Reform Act of 1986 which ushered in the low-income housing tax credit and private activity bond programs. With legislatively mandated limits, structures and stricter controls, those housing programs are administered by the Treasury Department. Because of the built-in limits, they have a totally predictable budgetary impact and have created a system of true public-private partnerships that are the primary drivers of affordable housing production today.

Administered by the Colorado Housing and Finance Authority, the LIHTC and PAB programs in Colorado are among the most equitable and transparent in the country. That, the growth and stability of the economy, the quality of life and the political will that recognizes the need, have drawn profit-motivated developers from around the country here – also creating a highly competitive environment.

This issue's spotlight will shine light on the for-profit private-sector developers of affordable housing who are now playing a prominent role in the sector that was once the exclusive domain of public housing authorities (who are now becoming more entrepreneurial – but that's a story for a future issue.

In this issue, you will hear the stories of private-sector developers who have been successful in doing commercial development and have added affordable housing to their already considerable portfolios, as well as stories from some who began doing affordable development and have moved into market-rate properties and some who focus exclusively on creating affordable housing. They explain why they are involved in that space and answer the question of is it possible to do well while doing good. They share what they have taken from one area to another – real estate is real estate and numbers are numbers, right? As well as why they keep at it, and what they predict is next for affordable housing with a new administration. You will hear from local, national and regional developers and get their perspectives, which, while different and unique, share many commonalities.

Read on. It will be remarkably interesting. I promise. ▲

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Gershman Investment Corp. Denver
is pleased to welcome two new team members with affordable housing expertise: Adam Kopp + Amanda Musgrave

Adam has extensive experience in affordable housing and finance, he previously was the Lending Manager at the Mercy Housing Community Capital division of Mercy Housing (one of the nation's largest affordable housing organizations.) Mr. Kopp has his Master of Science in Real Estate and Construction Management from the Daniels College of Business, University of Denver. Mr. Kopp will be joining the team of Michael Thomas, a Managing Director in the Denver office, and (2018-2019) Co-Chair of the Housing Colorado Annual Conference.

Amanda has over twelve years of experience in affordable housing finance and contract and program compliance in affordable housing. Prior to joining GIC she worked at Signet Partners, a real estate and investment management firm, specializing in underwriting and closing that restructured 900 "Mark-to-Market" affordable properties for HUD including (223(a)7, 223(f) and 221(d)4's) and the Green Retrofit program (grants and loans) while managing the Signet's HUD Contract. She has joined the Closing team of the Denver Office.

"We are very much in a growth mode and pleased to have increased our in-market talent pool with the hire of Adam and Amanda. As one of the few direct HUD/FHA lenders with local originating and underwriting in Denver, their addition means we can help more clients achieve their goals." **- Managing Director, Michael Thomas**

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Affordable Housing

Master plan developers' crucial role in affordability

As developers we have an important role to play in creating new, innovative and equitable solutions to the housing crisis facing cities across the country. While "developer" has become a loaded term in today's vernacular, I take pride in my role as a community builder who develops the structures and streetscapes where we live, eat, work and play. That said, we can and must do better.

The pace of development in "destination cities" like Denver has meant that change feels quick and severe. The housing crisis, however, is not the result of over development, but rather a shortage of development – a simple supply and demand issue.

A complex set of factors resulted in nearly three jobs created for each housing unit built in Denver. The chart shows the trends in the city's housing units (rental and for sale), relative to population, job growth and median home values from 2010-2018. You can see that as population and job growth significantly outpaced the delivery of housing, home prices increased at a rapid rate. It would be too simplistic to simply say "we must build more homes." How and where we build them is equally important.

Traditionally, Denver has subsidized low-income housing through federal and state tax credits and city loans or grants. However, that model is tremendously expensive and has tended to concentrate affordable housing in already lower-income communities.

Kenneth Ho
Principal, Westside Investment Partners, kho@westsideinv.com

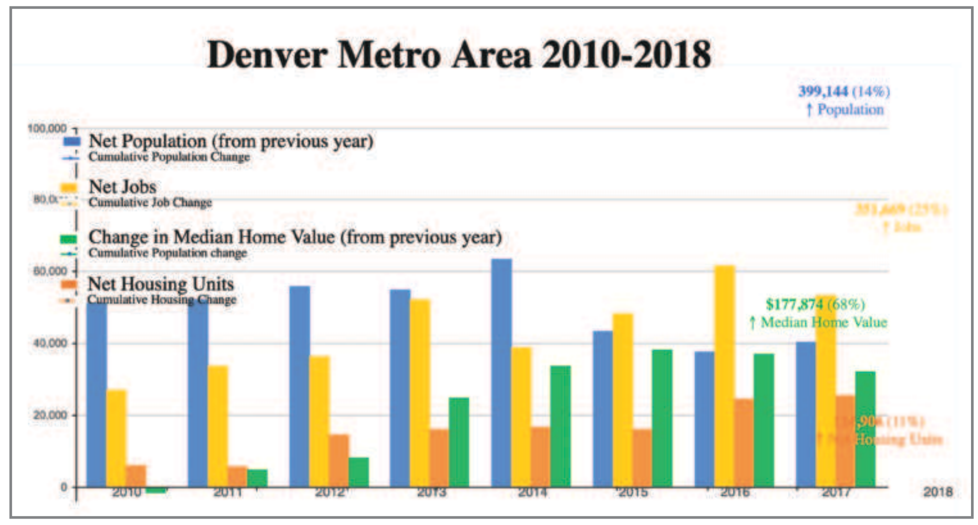
Using this model to address Denver's need for 30,000 affordable units would require billions in state, local and federal subsidies.

Recent research by the Equality of Opportunity Project questions whether those billions would be well spent. The project concludes that neighborhood factors like poverty rates, educational attainment and employment rates are important contributors to intergenerational economic mobility. The study shows that concentrated poverty creates a vicious cycle that negatively impacts the economic prospects of youths of color.

The study's policy implication is that for our communities to become more equitable and sustainable, they need to be more economically diverse. No longer can we continue to concentrate affordable housing in already poor areas. We do not just need more housing; we need to provide diverse housing options in more diverse locations by combining market-driven solutions with traditional affordable housing.

As a master plan developer, we are uniquely positioned to pioneer the more equitable development that is being demanded by progressive municipalities and consumers. With larger planned communities, we can build inclusive housing that can accommodate different family sizes, incomes and cultures while pooling resources to provide additional community benefits like grocery stores, public art, parks and services that contribute to public health.

Of course, there is no silver bullet. We need to use multiple strategies to address decades of underdevelopment of both people and places. We have explored numerous new policies that we hope to implement as part of a new model of inclusive development. These policies will focus on a community-led process that first develops people and then creates places and infrastructure that support community goals.



Denver Metro Census & Department of Labor data from 2010 to 2018 shows net population growth (blue) of 399,144 (14%), net job growth (yellow) of 352,669, cumulative home value increase (green) of $177,874 (68%), and net housing (for-sale and rental combined) unit increases (orange) of 124,906 over the same time period.

Public policies like a neighborhood preference policy can reverse some of the displacement caused by development. Already instituted in Portland, Oregon; San Francisco; and Austin, Texas, NPPs identify individuals and families who have been displaced from a neighborhood and places them at the front of line for affordable housing that would allow them to return to their community.

At our Blue Vista community in Longmont, we developed a master plan that combined market-rate homes with 25% (twice the city's requirements) affordable for-sale homes owned by Elevation Community Land Trust. Using a community

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Work worth the rewards: Affordable development

"I thought you said this would be easy." After our third rejection from the Colorado Housing and Finance Authority for our first low-income housing tax credit project, we began to question the viability of continuing to pursue affordable housing at the Yale Station light-rail stop. The site in question was a former gas station that we had owned for 40 years; the 2008 financial crash caused us to reconsider our plan to build for-sale condos. Fortuitously, our development partner George Thorn approached us with a consortium of affordable housing advocates and developers including Susan Powers and the Urban Land Conservancy, who overcame our skepticism about developing affordable housing and, in 2009, we had made our first application to CHFA.

Thankfully CHFA was holding three rounds for 9% LIHTC annually so we did not have to wait long to make our fourth (and finally successful) application. The prize for our first allocation of LIHTC was historically low tax-credit pricing and a capital stack nine entities deep to "fill the gap." This acronym soup of governmental entities included federal, state and local agencies in addition to the equity partner and lenders. Herding the cats to the closing table proved so difficult that we had to begin construction before all the documents were signed. Easy indeed.

Construction on The Apartments at Yale Station was completed in 2012 and by then we already had made an application on another LIHTC project; this one at the University Station light-rail stop.

Carl Koelbel
Chief operating officer, Koelbel and Co., ckoelbel@koelbelco.com

Development of affordable housing near transit would become a theme for us going forward. We had made enough "tuition payments" during our first project that simply letting that skill set atrophy made no sense. We also had become convinced of the merits of the program. The Apartments at Yale Station is directly across the street from our corporate office building and we got to see firsthand how positively impactful the housing was to the residents.

Our history of market-rate rental and for-sale developments caused us to carry a luxury sensibility to affordable projects. That mentality came with a learning curve (budget overruns being the obvious one), but the design architects we hired ensured that the affordable projects we built were indistinguishable from the market-rate projects down the street. In many cases, the modest (by our market-rate standards) accommodations we had built were the nicest homes our residents ever lived in. We found they took pride in their community and ensured it was well kept and maintained.

Our generational approach to real estate development also has paid dividends in affordable housing. We design and build all our property with the assumption that Koelbel and Co. will own the property decades hence. As a result, we make decisions to minimize operational expenses and maximize durability. We have learned many lessons the hard way: Do not skimp on washers and dryers; initial expenses on more efficient HVAC systems will pay dividends once operational; test all garbage disposals during punch walk; and spring for solid-surface counter tops if the budget allows.

Ash Street Apartments, located in Denver at 1170 Ash St., was financed with 4% low-income housing tax credits as well as state LIHTC. It is 100% affordable, with a mix of residents making 50% and 60% of the area median income.

As we came to understand the nuances of the financing structure, we ventured ever further down the rabbit hole of deal complexity. With Andy Alison, our partner on three deals in Boulder, we built affordable housing for market-rate developers looking to lessen their cash-in-lieu burden. Utilizing 4% LIHTC, we were able to meet their schedule and deliver the units before the market-rate projects leased up. At the 9th and Colorado redevelopment in Denver, we utilized 4% LIHTC

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Affordable Housing

Tackling considerable but worthwhile challenges

George Thorn
President, Mile High Development, gthorn@milehighdevelopment.com

Mile High Development is a Denver-based commercial and multifamily residential developer that has evolved since the 1980s as a mixed-use developer, with projects such as Colorado Center at Interstate 25 and Colorado Boulevard, consisting of office, retail, theater and entertainment tenants (600,000 square feet); Lakewood City Commons, in partnership with Opus, a mixed-use and public-private mix of big-box retail and a new City Hall for the city of Lakewood (500,000 sf); the Wellington Webb Municipal Office Building, another public-private project and home to Denver city government (700,000 sf); and the co-development project at the Denver Art Museum expansion, a mixed-use, condominium, retail and hotel (the Art Hotel).

In 2008, Mile High Development and Koelbel and Co. were preparing to develop a for-sale condominium project on a site at I-25 and Yale in central/southeast Denver when the historic collapse of Lehman Brothers led the country into the Great Recession.

The developers were approached by a group that included the Urban Land Conservancy, Urban Ventures and Enterprise Community Partners, a national nonprofit leader in the affordable housing industry, who suggested that we consider an affordable housing project on the site for the proposed condo project, and finance it with low-income housing tax credits, something neither Mile High nor Koelbel had done before.

This was a major departure for both firms, and the reorientation into this new world was daunting. However, Enterprise had developed a model for an "Introduction to Affordable Housing" charrette, which brought together many experts in LIHTC, and this group met for a full day with Mile High and Koelbel staff to educate them on the basics of LIHTC.

Long story short, over the ensuing months in 2008 and 2009 we decided to abandon the condo project in favor of a 50-unit, 9% LIHTC project that eventually morphed into a senior project and received a tax-credit allocation after four trips through the allocation process conducted by Colorado Housing and Finance Authority. We could not have picked a worse time from the standpoint of LIHTC metrics, as tax-credit pricing was in a free fall at the time, finally settling at a level approximately 30% below current tax-credit pricing. Fortunately, Congress provided funding to CHFA and the U.S. Department of Housing and Urban Development filled that gap for many affordable projects during that time frame.

Eaton Street Apartments in Westminster

With considerable assistance and encouragement from CHFA, the city and county of Denver, and many other institutions and individuals, we completed that first 50-unit project in 2011. The Apartments at Yale Station, the first LIHTC transit-oriented development project, has been fully leased since it opened and still is operating smoothly and is fully leased today. We have since developed or co-developed five more LIHTC projects, recently completing the 133-unit Sheridan Station Apartments project at 10th and Sheridan on the West Line adjacent to the Regional Transportation District parking garage. This $41 million project, developed in a joint venture with Brinshore Development, utilized tax-exempt bond financing and 4% LIHTC federal and state tax credits, as well as investments by CHFA, the city and county of Denver, state Division of Housing, private construction loan financing and tax credit investment by U.S. Bank, and permanent financing by Freddie Mac.

Mile High and Brinshore also recently broke ground on the Capitol Square Apartments in Denver's Capitol Hill neighborhood. This 103-unit,

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Navigating 4 issue private-sector developers face

Charlie Woolley
Founder and president, St. Charles Town Company LLC, charlie@stcharlestown.com

Our company history in affordable housing started with our first project in 1993 (not the 1858 platting of St. Charles at the confluence of Cherry Creek and the Platte). We purchased the vacant Bayly Underhill Manufacturing building at 20th and Arapahoe streets to provide affordable loft condos as an alternative for artists who were being displaced from the original Lower Downtown lofts with few amenities located in largely vacant historic warehouses. Our finished price list averaged $93 per square foot with the average loft being 1,400 sf.

What we learned was that even the most successful artists in need of more affordable housing could not qualify for a mortgage. The exception was an ex-military photographer who could get a Veterans Affairs loan. Instead, we found a market for policemen, firemen, nurses, teachers, restaurant workers, a few retirees and a few young professionals. It is not unlike the profile of the tenants for the workforce apartment buildings we are building today using federal and state low-income housing tax credits. The difference today is that there is not a market-rate, for-sale option for our tenant population downtown.

For the better part of the decade between 1993 and 2003, our company developed loft-style condominiums in historic buildings for entry-level buyers – many first-time homeowners. In 2004, our Benjamin Moore project at Broadway, Larimer and Walnut streets was required to set aside 10% of the 40 units in the building for sale to families whose incomes were at or below 80% of the Denver area median income. The lack of affordable housing downtown was beginning to reach crisis levels. We calculated the lost profits for the required four condos and convinced Denver to allow us to build a 23-unit project on land we donated as part of our master-planned project. Using federal low-income housing tax credits, our 23-unit, family oriented, affordable apartment building provided for families earning 30% to 50% of the area median income. Having had experience with projects using the Historic Preservation Investment Tax Credit, we were undaunted by the complexities of placing the low-income housing tax credits along with the added complexity of working with nonprofits to raise gifts and grants for the capital gaps that would allow the project to serve the neediest of families. We had nonprofit and business cheerleaders as well as community supporters who raised the money and volunteered to support and mentor the family residents and who helped us complete the building in 2006. It was such a fulfilling and rewarding way to use our real estate development experience for a great social outcome that we committed to making affordable housing one pillar of our future development program. We still are

Van Meter Williams Pollack

Del Corazon Apartments on Morrison Road in southwest Denver offers 14 units at 50% area median income, six at 40% AMI and 177 at 60% AMI.

"passionately urban," but we are equally passionate about providing transformative housing options for our resident communities. We are at work on developing our seventh affordable community since 2006.

Following are four major challenges to private-sector developers:

1. Land: We need cheap land. We must buy land for at least a 50% discount to market-rate buyers.

2. Entitlements: Most of our land buys require rezoning. If it is zoned for multifamily, we can't compete. There is government resistance to changing commercially zoned, higher-tax-paying land to residential lower-tax-paying land. We need density plus/minus 40 units to the acre. We often need economic development help or other subsidy from communities as our sites often lack the infrastructure for multifamily development. We need community support, which is difficult due to the misperception of affordable housing. Think: crime, traffic, parking, and burdens on schools and police lowering property values, etc. These are the misconceived issues with affordable housing and the industry is doing a much better job of documenting the fact that the opposite is true.

3. Limited and competitive tax credit allocation: In this most recent round of tax credit awards there were twice as many applicants as awards. Only three private-sector developers received awards while the balance went to housing authorities and nonprofits.

4. Complex financial structures and intense scrutiny: The financial structure of LIHTC is complex and accompanied by very high transac-

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Workforce & affordable projects offer many rewards

I believe that housing is at the core of community. By having a diversity of housing options, at different price points, we can meet the needs of our community. When people live in the communities where they work, community is stronger, more resilient and sustainable. When kids grow up in communities of choice, with adequate, safe and decent housing, they have a strong foundation in which to learn, grow and become the next stewards of our communities.

Our firm is a vertically integrated mission-aligned for-profit developer. We work closely with local governments and community groups to help communities meet their development, planning, economic and social goals. As a socially conscious developer, our firm works to build important community assets that focus on delivering a social impact. Our communities improve people's lives and help make communities stronger and more sustainable. We have had the incredible opportunity to work in urban neighborhoods and resort communities to provide housing that is needed to support those working in the community. While we could focus on market-rate developments, we find that delivering affordable and workforce housing is a unique and rewarding space for us to work.

For example, we recently started construction on a new development in Steamboat Springs. Our project simply could have delivered free-market rental housing. Instead, we saw a desperate need for local housing at affordable prices. As such, we partnered with the Yampa Valley Housing Authority to tailor our unit mix to respond to the need

Kimball Crangle
Colorado market president, Gorman & Company Inc., kcrangle@gormanusa.com

for housing. Our Sunlight Crossing project will ensure that local workers can afford to live in the community they serve (instead of commuting 30-45 minutes to distant towns that offer more affordable housing stock – and dealing with the dangers of snow-packed and icy roads in the winter), with high-quality housing that is affordable within their budgets. But for our commitment to serving the Steamboat community, Sunlight Crossing would not offer affordably priced housing, in unit configurations and with amenities that renters desire. By reducing commute times and supporting multimodal transportation options (access to the community bus, covered and secure bike storage and proximity to the Core River Pathway), the project will help reduce environmental impacts and bolster sustainable living options.

In another example, we recently completed the renovation of The Colburn Hotel in the Capitol Hill neighborhood of central Denver. The Colburn began its life as a hotel in 1925. It was once home to the Beat Generation poet Allen Ginsburg, Jack Kerouac used to drink in the bar of the legendary Charlie Brown's Bar and Grill, and Neal Cassidy, Kerouac's companion of "On the Road" fame, also lived there. Over time, The Colburn transitioned to a single-room occupancy affordable apartment community with Section 8

Sunlight Crossing is a new development in Steamboat Springs that will provide much-needed workforce housing to the community.

rental subsidies in the late 1980s. Its affordability covenants were set to expire two years ago, and the property was at risk of being converted to a market-rate complex and being lost from the inventory of affordable units with rental assistance. Seeing the threat of losing critical housing in central Denver, we acquired the property. We then layered in multiple funding sources to rehabilitate the property, modernize the units and retain the existing tenants. The resyndication consisted of a conversion of the SRO vouchers to project-based vouchers under U.S. Department of Housing and Urban Development's Mod Rehab Rental Assistance Demonstration, as well as the infusion of 4% federal low-income housing tax credits, state of Colorado affordable housing tax credits, federal and state historic tax credits, city of Denver funds and state of Colorado HOME funds. We also were able to formally list the project on the National Register of Historic Places to honor the historicity of the building.

Whether an affordable project is in the inner city or a resort community, people are people are people. Regardless of income, color of skin, employment – people want stable and safe housing. They want a community where they and their kids are safe to walk or bike. They want amenities nearby like parks and trees that grow in the tree lawn. They want to be near schools, shopping, employment opportunities and other services.

I am so lucky to have a job where I get to work with communities to help them reach their visions for housing. I get to piece together the gigantic puzzle of the how-to of entitlements and capital stacks and regulations to create a real, living place that people will soon call home. We get to create housing communities that are healthy and become a foundation for the everyday lives of so many households and families. It is unbelievable that I get to do this every day. ▲

Creating homes for people, regardless of income

The Michaels Organization has long believed that the world is a better place to live wherever we build and manage it. From its beginning in 1973 as a four-man operation developing subsidized housing to becoming the nation's largest privately held owner of affordable housing, our goals and aspirations always have remained consistent: To create communities that lift lives.

While we are a for-profit development company, we have established a business that is about the people who need a place to call home, regardless of income. This philosophy has enabled us to work in many of the nation's largest and fastest-growing cities and transform local neighborhoods – and as our founder Michael Levitt always says, "Isn't that a terrific way to make a living?"

The company is committed to long-term solutions that will support a community's lasting success. In fact, that is one of the greatest differences between developing affordable and market-rate housing. The community, and the impact a development has on meeting its needs, comes first. More importantly, these communities cannot just address the needs of today; they have to be designed and developed to stand the test of time and meet the needs of the community for decades. Even as communities evolve over time, one thing remains constant: the need for high-quality,

Ryan Zent
Vice president, The Michaels Organization, rzent@tmo.com

affordable units.

Throughout Colorado we have seen the cost of living, and especially housing costs, skyrocket over the last 10 years. The city of Boulder acknowledged that housing costs were becoming an issue for their residents 10 years ago. Their focus and support led to rehab of The Nest Communities. In 2017, our company recognized an opportunity there to implement a unique proposition. In partnership with local development partners, we were able to acquire three market-rate properties that were then operating as "naturally affordable housing" but were in danger of undergoing substantial rehabilitation that would have reduced the inventory of affordable housing. The acquisition and subsequent rehabilitation of these three market-rate properties resulted in long-term, affordable units for working families in Boulder. Known collectively as The Nest Communities, this project includes The Nest on Osage, The Nest on Thunderbird and The Nest on 30th, communities that are in desirable neighborhoods and near public transportation, shopping and employment opportunities. Work-

The Nest Communities in Boulder feature 57 units for residents making 50% area median income and 181 units for those making 60% AMI. The project was financed using 4% low-income housing tax credits and private activity bonds.

ing with Element Properties, Allison Management and local officials, we were able to help combat the city's housing challenges. Our involvement ensured that the properties are preserved for long-term affordability in an area where rents are growing rapidly. All apartments are available to families and individuals earning 60% or less of the area median income.

Revitalizing these properties included modernizing them from the inside and out. All 238 homes now are equipped with beautifully updated kitchens and bathrooms, new flooring and new energy-efficient building systems. Fresh upgrades to the exteriors also provide great outdoor space for residents to savor breathtaking views of the Flatirons. These sustainable updates will ensure future generations of Boulder residents are provided high-quality and affordable housing that will allow them to embrace the next chapter in their lives.

This was just one example of how the firm is helping to end the stigma around what people typically think about affordable housing. People have long feared that public housing will be built in their neighborhoods and, in return, lower the appeal of the area, but

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An accidental journey into affordable development

Arthur McDermott
President, McDermott Properties, arthur@mcdermottproperties.com

I got into affordable housing almost by accident. In 1998, I was developing a luxury apartment community in Parker. With 280 Class A apartments and a luxurious clubhouse, it was the first high-end, luxury apartment in Parker. We named it Trailside, due to its location adjacent to the Cherry Creek Trail.

While working on Trailside, a broker told me about a parcel of land in Commerce City where there had been no new apartments built for 30 years. It was clear that the kind of project I was developing in Parker would not be successful in Commerce City. There, the market cried out for new, affordable apartments for families and working people.

At that time, it was hard to raise investment capital for multifamily projects. It was even harder for a project in Commerce City, where the median income was relatively low. I quickly dropped the idea of building a smaller version of the Parker project in Commerce City.

But the question remained: What to develop in Commerce City? I researched various housing and financing programs and finally came upon Section 42 and the low-income housing tax credit program. As I learned more about the community, got to know many people and learned of their struggles to find quality affordable housing, I was determined to learn and master affordable housing development. That's how it all started and now, 22 years later, I can look proudly at 22 communities and over 3,000 units of affordable housing.

There are many reasons why, after all these years, I continue to be deeply involved in the development process that leads to a successful affordable community.

From finding and acquiring a site or a building for renovation, to working with the community to ascertain its need and desires, designing the building and getting it financed, built and occupied, the process brings me personal and professional satisfaction.

This community involvement can become remarkably interesting and intense, especially if there is neighborhood opposition to affordable housing. Known as NIMBY (not in my back yard), this opposition usually results from a lack of understanding of what affordable housing really is. Fear of change or a drop in property values often are concerns that can be overcome through education, in-depth explanations of what affordable housing looks like, who the residents will be and even visits to existing affordable communities.

Over the past decade, communities and their governing bodies have become more accepting of affordable housing, which is important because community support and political will are critical to affordable housing development.

Working with our architects and engineers also is exciting. Conceptualizing the proposed new building on the site takes imagination and incorporation of lessons learned from building and operating prior projects.

Moss Photography

Westwood Crossing in Denver is a 100% affordable development available for households with incomes no greater than 60% of the area median income.

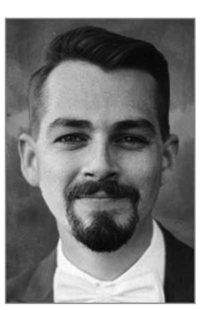
Meeting the multiple approval hurdles can be difficult and time-consuming but often results in better projects. Receiving Colorado Housing and Finance Authority approval for tax credits, working with lenders, tax-credit investors and attorneys, obtaining site plan and construction drawing approvals, issuance of building permits and the problem-solving and decision-making at each step are but a few of those hurdles; but overseeing the 12- to 18-month building period is engaging and provides daily, weekly and monthly rewards as buildings rise from the ground.

The reaction and excitement of our residents is incredibly satisfying and rewarding. Being told that a walk-in closet is almost as large as any apartment a resident has ever lived in, or that residents have never felt healthier since they moved in, has its own rewards. The total lease-up of a 100-unit new community in just three days, two months before the building was ready for occupancy, showed me that the need for affordable housing continues to be strong. Knowing that I am providing good-quality affordable housing for over 5,000 hardworking people is another reward.

There also is the fact that our companies provide jobs for 85 people, including property managers, leasing agents, maintenance personnel, compliance and administrative support staff. No one lost their job during the Great Recession or the current pandemic, demonstrating the robust nature of affordable housing. Our employees are valued and as committed as me to affordable housing.

I keep developing affordable housing because the need continues, the challenges persist and the excitement and fun are unending. In many ways, affordable housing is the Rubik's Cube of real estate development. The challenge never goes away, is full of different problems to solve on each new project and continues to make it a thrilling and terrific journey. ▲

Beauty of LIHTC is in its public-private synergy



Patrick Stoffregen
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Ryan Rodgers
Vice president of development, Pedcor Cos., rrodgers@pedcor.net

Pedcor Cos. is a vertically integrated suite of companies engaged in development, construction and management activities, based in Carmel, Indiana, and specializing in affordable housing. Our team has developed a portfolio of 26,379 apartment units in 151 communities across 20 states over the past 33 years, including six large apartment communities along the Front Range.

Across our entire portfolio, roughly 75% of our units were developed as affordable housing using low-income housing tax credits. Although the company has been involved in some other development activities, it is safe to say that the main focus of development activity is affordable housing through the LIHTC program.

The mission is to provide high-quality affordable housing solutions in areas of opportunity that cultivate thriving communities and a higher quality of life. We are family owned and operated with a passion for building vibrant, inclusive communities that provide essential housing for our nation's workforce. From the beginning, the principals of Pedcor recognized that the public-private partnerships made possible through the LIHTC program could indeed allow them to do well by doing good. Over the years, by doing deals in different communities around Indianapolis at first, and then branching out to neighboring states, the team developed an understanding of what is common to LIHTC development across different sites, municipalities and states, and what is always unique to a deal. Through this process, the company has been able to expand coast to coast (counting a diagonal step from Colorado to Arizona), and we estimate that we've provided homes to more than 100,000 households.

Ashley Estates in Loveland was financed with U.S. Housing and Urban Development 221(d)(4) financing with 4% credits and private activity bonds. The 100% affordable project rents to residents making 60% of the area median income and offers a mix of 224 one-, two- and three-bedroom units.

We have been doing our part to efficiently develop large-scale, 100% affordable apartment communities across the nation. There are three results from this activity – households in need get access to high-quality affordable housing; our nonprofit and governmental agencies partners advance their missions directly and receive compensation to help them do so indirectly; and we make a living. The beauty of the LIHTC program is in its public-private synergy. As is evident from the markedly greater success of LIHTC housing versus the public housing of the 20th century, the LIHTC model of incentivizing profit and nonprofit-motivated professionals is a winning one. Developing affordable apartments is a much more difficult process to complete as compared with market-rate development. One needs both passion and skill to be successful in this field. Many people wish that their money-making work had a greater humanitarian impact, and others wish their humanitarian work made more money. The LIHTC program allows its participants to make a living and make a positive impact at the same time. It really is the best of both worlds.

Our firm came to Colorado 11 years ago when we noted extreme rent growth was outpacing the development of additional affordable housing units, indicating extremely fast-growing demand for affordable housing. Being long-term owners of the apartments we develop and construct, and by selecting target markets where there is high demand today, we mitigate the risk of demand falling over time. Initially, we joined the crowd of developers competing for 9% tax credits and were discouraged two years in a row. Leveraging our vertical integration and decades of experience-driven expertise with invaluable advice and assistance from some of the greatest minds in affordable housing finance

Please see Stoffregen, Page 40

Ho

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land trust created permanent missing-middle homeownership options for families making less than 70% of the area median income. We plan to explore CLTs for more permanent, below-market residential and commercial buildings.

Additionally, financial education programs and social enterprises for community members also can play an important role in developing stronger communities. These capacity-building programs enhance access to capital, and wealth creation opportunities are critical for upward economic mobility and for building financially sustainable neighborhoods.

Lastly, we are focused on a mix of for-sale and for-rent housing. At the former Loretto Heights campus in southwest Denver, the master plan includes a diverse mix of affordable, missing-middle and market-rate housing. Initial phases include 72 affordable rental apartments built in historic Pancratia Hall for families making between 30% and 80% of AMI. The restoration is being led by Hartman Ely Investments and is possible because of the scale of the Loretto Heights project as well as significant public and private-sector support.

As developers we must be a part of the solution. I have mentioned just a few of the tools in our tool chest. Follow along as we work on our next big project, reimagining the Park Hill Golf Course, where we will work to meet the diverse needs of a historically Black neighborhood in which there is so much opportunity. ▲

Koelbel

Continued from Page 36

and state tax credits to ensure that the master developer, Continuum, met the number of affordable units required in its public financing plan. In downtown Westminster, with great public and financial support from the city, we wrapped the public parking garage with 118 affordable units, therefore ensuring that over 20% of the units at the redevelopment of the old mall are affordable. In Sloan's Lake, we partnered with Trailbreak Partners to convert the former St. Anthony Hospital administration building into affordable housing to meet the requirements of the affordable housing plan for the redevelopment of the former hospital site. That deal required a unique structure with the Denver Urban Renewal Authority to capitalize on a tax-increment finance income stream and invest it in the project without negatively impacting the eligible basis of the tax credits. The lawyers did not seem to mind the complexity and corresponding billable hours.

One other lesson learned is the necessity of great partners. Our developer, equity, lender, governmental partners and, of course, CHFA all have been willing to row in the same direction to get the deals across the finish line. Each one of these projects is truly a public-private partnership and no two are the same.

Unfortunately, while the industry remains robust, there are more than a few challenges now impacting the delivery of affordable units. The construction industry has not been disrupted by technology the way Uber/Lyft disrupted the taxicab industry. To frame our projects, we still get deliveries of piles of wood. Gone are the horses and buggies. But once the wood gets delivered to the site, the process is the same as it was in the early 20th century (and before). Construction price increases due to material and labor costs have not yet responded to market forces and pricing continues to rise. Changing tax laws have an effect. The 2016 presidential election resulted in a decrease in market tax-credit equity pricing almost overnight (well in advance of even any proposed tax law). Pricing has yet to rebound. Finally, some local housing authorities view their state-statute-bequeathed property tax abatement as a resource to be used to generate revenues for themselves rather than a tool grow the housing supply.

There are several well-intentioned policies being examined. Unfortunately, while some may help those who qualify for income-restricted housing, they do so at the expense of attainable market-rate housing by increasing the cost to build through fees and inclusionary housing ordinances. The true panacea to the affordable housing crisis would be increasing the inventory of affordable housing through market forces driving costs down (with an assist by governments and municipalities through efforts to allow "soft" density in exchange for affordable housing). While none of this is easy, it is rewarding. We will continue as an affordable housing developer for as long as we can. ▲

Thorn

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$34 million project will be completed in mid-2022 and utilized a very similar financial structure as Sheridan Station.

What are the "lessons learned" when a commercial developer of many years enters a new realm (i.e., the LIHTC business)? In a few words, there are many! The simplest part of both business types is building the project (although that has only become more complex and difficult in recent years, particularly during this COVID-19 period). Mile High still uses the tried-and-true real estate maxim "location, location, location" when selecting sites for consideration for a LIHTC project. Great real estate makes up for a lot of other problems, and that simple fact does not change when looking at affordable housing versus market-rate projects. The capital stack in most affordable deals is much more complex and varied than in a typical market-rate project. The tax-credit equity alone is usually not enough to fill the sources and uses gap, so it's not unusual to have as many as four or five different lending sources (the capital stack) to make the project viable. Also, the LIHTC rules are quite complex as to the management of different levels of area median income, what happens with vacant units, and how to deal with different types of vouchers available to supplement income levels, and many other requirements.

The good news is that LIHTC still is mostly an entrepreneurial business from the standpoint of acquiring the site, designing and constructing the building, and managing the completed project. The big difference lies in the process of obtaining tax credits and complying with myriad rules and regulations that allow the developer to move the project forward to completion and stabilization. The most significant difference, however, is the fact that market-rate projects are developed largely on a build-and-sell model, while LIHTC projects are not really "salable" for some years after completion, for a variety of structural and finance/tax considerations. ▲

Woolley

Continued from Page 37

tion costs, particularly tax, legal, government and accounting. Almost lost in the deal are the challenges for real estate development.

Why go through the brain damage? It is the product type with the least amount of lease-up risk and highest demand of any sector in real estate today. The demand is unlikely to change for decades due to the unmet demand and the constraints on producing significant numbers of units. The long-term cash flow economics are considerable when taken to scale. The social dividends are extraordinary, the benefits to local economies are mighty, and so is the personal satisfaction of having provided housing that is going to make a big difference in the lives of a lot of families for a long, long time – that will be around like the memory of St. Charles. ▲

Zent

Continued from Page 38

affordable living is so much different than in years past. Today affordable housing has the same opportunity as any market-rate property to be high-quality, green, sustainable and everything else seen in market-rate developments. Our goal is to develop, build and manage communities to the same high standards regardless of the target resident population. As a developer of not just affordable housing but also market-rate, on- and off-campus student housing, and military housing, we can leverage the expertise and lessons learned from all housing types to ensure that communities built in the future result in a high quality of life for our residents.

Our firm is aware of and committed to putting residents' expectations and needs first. An example of that commitment was made manifest when we were redeveloping Jordan Downs, an outdated 1950s-era low-rise public housing development in the Watts neighborhood of Los Angeles. The success of Jordan Downs was made possible by a commitment to transparency and engagement, which saw the inclusion of residents of Jordan Downs in the development process in order to ensure that their wants and needs were met in design, that the historical significance of the neighborhood was respected, and the values brought to the table by longtime residents and families were honored.

The economic woes that the pandemic has infused into everyday life have added an even greater burden to those already experiencing financial hardship, proving now more than ever that affordable housing needs to be focused and considered. Essential workers should be able to continue to live and work in their communities – and not have to keep moving further away from their jobs to find affordable living arrangements. In 2020, we were able to successfully close financing on 12 affordable projects around the country comprising 1,569 units. The price of the commodities needed to build has gone up in direct response to the pandemic, but despite this and a variety of other challenges, all affordable housing developers have pushed forward through unprecedented circumstances to deliver high-quality homes to those who need it most, while continuing to work with our residents to ensure that despite the economic challenges of the pandemic, they will continue to have a roof over their heads. ▲

Stoffregen

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from Colorado and elsewhere, we pivoted to a model that allowed us to develop 4% bond deals at a time when most others couldn't get these types of deals to pencil without substantial additional subsidies beyond the low-interest tax-exempt bonds and federal LIHTC. The great part was, at that time, there was plenty of private activity bond authority to go around, so we were able to develop without putting a strain on scarce resources. As a result, we have been able to develop 1,204 affordable units so far in Colorado, with plenty more planned for the future.

As of this writing, the 4% tax-credit rate recently was changed from a floating rate that hovered around 3.09% to one with a floor of 4%. The trend in the 4% tax credit and PAB space in Colorado has been that more developers have been able to get their deals to pencil, to the point of PAB cap becoming competitive. Now that each of these deals will suddenly earn 30% more tax credits than before, the climate will once again be extremely competitive. However, even though more affordable development is now feasible, that does not mean the demand for affordable housing will be met anytime soon. Though LIHTC development has never been easy, and the additional complication of added competition looms large, our team is equal to the task. We stand ready as ever to continue making a positive impact by developing, constructing and managing more affordable housing developments in Colorado in the decades to come. ▲

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To reserve space or for any questions, please contact Lori Golightly at 303-623-1148 ext. 102 or lgolightly@crej.com

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January 20
Health Care & Senior Housing Quarterly
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February 17
Retail Properties Quarterly
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March 3
BUILDING DIALOGUE
Ad Material Deadline: February 10

March 17
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April 7
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April 21
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For editorial content, please contact Michelle Askeland at 303-623-1148 ext. 104 or maskeland@crej.com.

MULTIFAMILY PROPERTIES QUARTERLY

Colorado's Only Multifamily Properties Publication

While the Colorado Real Estate Journal continues to run a multifamily news section in each issue of the newspaper, Multifamily Properties Quarterly features the most interesting projects and people, trends and analysis, and covers development, investment, leasing, finance, design, construction and management. The publication is mailed with the Colorado Real Estate Journal newspaper, a 3,500-plus distribution that includes developers, investors, brokers, lenders, contractors, architects and community managers.

2021 AD RATES

Full-page	$995
Half-page	$595
Quarter-page	$395

PREPAY DISCOUNT:
Receive a 10% discount for four-time insertion orders prepaid prior to the first issue.

COLOR: Color is available for $200 additional per ad. Color is FREE if you participate in four consecutive issues ($800 value).

AD SPECIFICATIONS

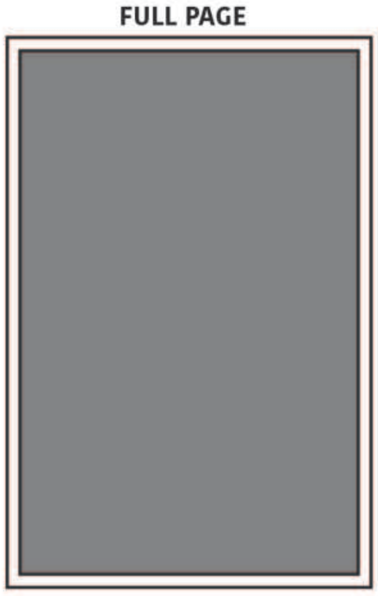
• E-mail a high-resolution, press ready PDF file to Heather Lewis at hlewis@crej.com

• All images within the ad should be 300dpi or greater at full size; All fonts should either be embedded inthe PDF document, or converted to outlines

• Full-color ads should be setup using CMYK process color; **NO SPOT COLORS.** Spot colors should be setup using CMYK build.

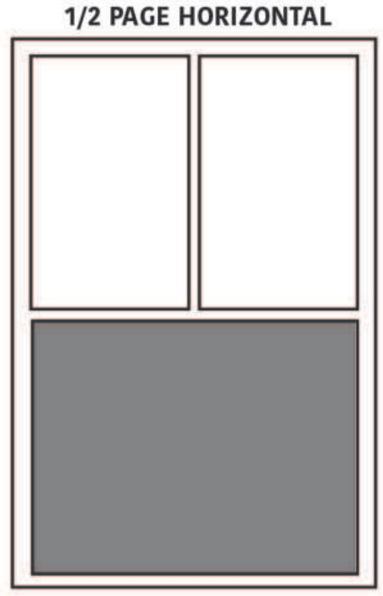
ISSUE DATE	SPACE RESERVATION DEADLINE	MATERIAL DEADLINE
February 3	January 13	January 20
May 5	April 14	April 21
August 4	July 14	July 21
November 3	October 13	October 20

FULL PAGE



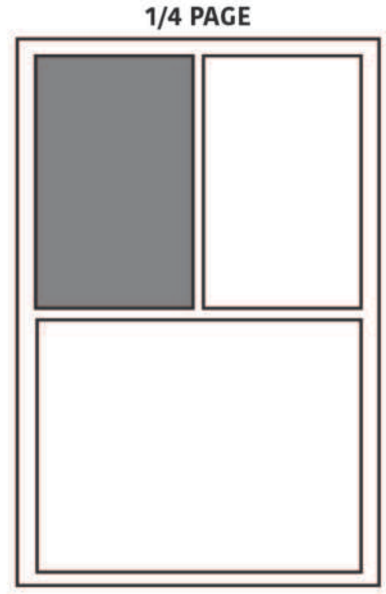
10.25"w x 15.5"h

1/2 PAGE HORIZONTAL



1/2: 10.25"w x 7.25" h

1/4 PAGE



1/4: 5"w x 7.25"h