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MULTIFAMILY PROPERTIES Quarterly

Western Slope feels the pinch from remote-work boom

The increase in small-town migration has many smaller towns across Colorado trying to figure out how to accommodate everybody. It is a carrying capacity issue. Pictured is Cottonwood View Apartment Homes in Parachute, one of many small towns impacted by people moving away from cities now that they can work remotely.

There has been an explosion of migration into Colorado, especially into secondary and tertiary markets, with many people looking for that "Colorado lifestyle," consisting of outdoor activities, work-hard/play-hard mentality, access to state and national parks, and some of the most spectacular mountains in the United States. This is especially true after the COVID-19 restrictions were lifted and everyone was seeking some freedom to explore. Those on the Front Range who were looking for that life were sometimes not finding it as access to the mountains and recreation became more crowded.

Kent Guerin

Associate, National Multihousing Group, and partner, Price Apartment Group, Marcus & Millichap

The Western Slope and Grand Junction historically have been quieter communities with slower growth compared with many of the Front Range communities. These communities, from Gunnison to Durango to Montrose and up into Grand Junction and Steamboat Springs, felt like very distant places to live and work with not as many jobs to support much growth. These more rural areas were more reliant on boom or bust petroleum and gas, or recreation, and saw lots of ups and downs in the history of their economies.

This all has changed due to pandemic restrictions, as many employees found themselves able to work remotely. Grand Junction is the largest city between Denver and Salt Lake City and has seen a heightened demand for individuals looking for that "Colorado lifestyle." While the recreation attractions draw in many, the cost of living has remained, by Colorado standards, reasonable. In this post-pandemic environment, living costs are climbing very quickly with an influx of new startup companies and remote workers migrating into these towns. A 9% to 17% increase in Grand Junction rents began fourth-quarter 2020 and continues today as demand for rental units is increasing exponentially from years past. Other mountain and Western Slope towns have seen similar increases in rents and housing prices.

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Letter from the Editor

The shattering of records

While it's no secret that apartment communities have continued to outperform many commercial real estate property types in the past 18 months, the successes reported in the second quarter shocked even the most seasoned veterans.

The second quarter recorded the most "extraordinary performance in the 68 quarters" that Cary Bruteig's Apartment Appraisers & Consultants has been putting together its Apartment Insights report, Bruteig writes.

Across Colorado, multifamily properties shattered records.

In Denver, new records were set for quarterly vacancy decrease, quarterly and annual absorption, quarterly rent increase and quarterly net rent increase. All of these new records didn't just narrowly surpass old records – they crushed them, improving 21% to 83% from the previous records.

"Vacancy in stabilized properties in the Denver metro area decreased a record 117 basis points from last quarter's 6.03% to 4.87%," which is the lowest it has been since the end of 2015, the report states. The areas with the most vacancy still are mainly downtown after taking major hits during the pandemic. But perhaps in a sign of what's to come, many of those areas posted strong absorption, with the central business district reporting the biggest increase. According to several renter trend articles within this issue, beginning on Page 20, the tide is shifting and renters want to be back near the action downtown.

A similar record-setting story was seen in Colorado Springs for the second quarter, per Apartment Insights. New records were set for quarterly and annual absorption, quarterly rent increase, annual rent growth rate, quarterly net rent increase, annual net rent growth rate and the lowest level of concessions. Again, records were shattered. For example, the previous record for quarterly rent increase was $41; it's now $109, a 166% improvement. An article on Page 8 explores what's keeping the momentum going in Colorado Springs.

Not to be outdone, Northern Colorado also set new records across the board. Vacancy and overall vacancy (including stabilized assets and properties in lease-up) saw the largest decreases in its history. The area also set new records for quarterly absorption, quarterly rent increase and quarterly net rent increase.

All this positive news comes in spite of continued unsettling employment news. Colorado's June unemployment rate remained unchanged at 6.2%, per the Colorado Department of Labor and Employment. An article on Page 6 tries to make sense of how such strange bedfellows are shaping our market, while an article on Page 14 shines a light on a challenge managers and property owners will see more of in the future – how to vet future residents when a prospective tenant comes with bad credit or too much debt.

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Market Update

Leasing, economics provide strong foundation

As the nation emerges from the effects of COVID-19, debt liquidity is abundant, with both lender and borrower appetites for commercial and multihousing mortgages exceedingly strong. Amid record levels of unallocated capital targeting multihousing, improving rent collections and stability of the sector, institutional investors have become increasingly competitive in securing transactions so far this year. According to JLL research, U.S. multihousing transaction volume totaled $130 billion in 2020 and $32 billion in the first quarter of 2021, representing a widening proportion of liquidity as investors continue to increase their allocations to multihousing, a strengthening trend since the onset of the pandemic.

Between January and March of this year, agency lending for multihousing financing totaled $51.8 billion, a marginal decline of just 5% year over year. Since the onset of COVID-19, agency lending has driven liquidity, capturing 62% of originations. Activity at the start of the year, however, was notably slower as lending sources sought to diversify their investments. While banks, debt funds and insurance companies have more than filled the gap, agency lenders have taken a more competitive approach to winning business since April and, as such, a strong second half of 2021 is projected.

Investors continue to target secondary markets that typically offer business-friendly regulatory and tax advantages, such as Denver and Sun Belt locations like Dallas-Fort Worth,

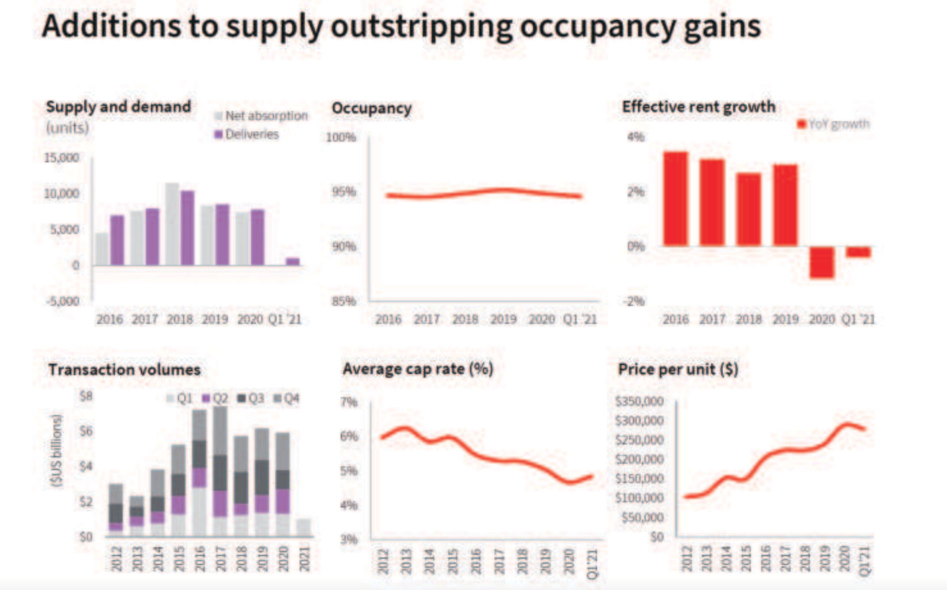
Pamela Koster
Managing director, capital markets, JLL

Atlanta and Phoenix. As they have done throughout COVID-19, investors are demonstrating a large preference for suburban product over urban deals. However, that is expected to change as venues and entertainment options start to operate at full capacity again.

In terms of leasing activity, the suburbs took the spotlight. The single-family rental sector especially boomed, with investments pouring into this alternative asset class. In addition, suburban markets as a whole continued to post rent gains, particularly in the Sun Belt. As of April, asking rents grew nationally on average 3% year over year.

In recent months, however, pent-up demand for urban living and a heightened interest in returning to city centers has boosted activity in the downtown areas. In addition, apartment owners in the big cities are offering concessions, such as rent breaks, to retain and attract new tenants. Concessions, however, are not expected to be long term and already are beginning to wane as lease signings stabilize. Also, as of April, Class A apartment tours in urban areas grew 121% year over year and new lease signings increased by 70%, signifying a revival for cities.

New deliveries continue to challenge occupancy and rent growth in selected urban markets. However,



Multifamily activity in the Denver market, per JLL's Multi-housing Outlook Summer 2021 report.

construction labor and material shortages are slowing the development pipeline, which will allow markets to absorb at a manageable pace.

According to JLL research, Nasdaq and the CME Group, lumber costs surged 300% year over year and steel increased by more than 160%. This will result in a rare period of favorable supply side dynamics and further direct investor interest to existing assets from a replacement cost perspective.

■ **Positive outlook for remainder of 2021.** Rebounding employment figures since the height of the lockdowns and persisting favorable demographic trends continue to underscore the resiliency of the multihousing market.

Thirst for yield among defensive asset classes is spurring interest in alternative living concepts, including the booming single-family rental sector. Demographic shifts including aging millennials and downsizing baby boomers will further investor interest in the multihousing sector.

The favorable demand drivers for single-family rentals, built-to-rent properties and manufactured housing are expected to remain very strong throughout the remainder of the year with an increasing proportion of new investors entering the market.

■ **The Denver market.** The Denver multihousing market is proving largely resilient to the impacts of the pandemic. According to Apartment Insights, third-quarter 2020 saw multifamily absorption of 3,950 units, the

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Market Update

A strong recovery in spite of labor challenges

Andrew Monette
Senior adviser, Pinnacle Real Estate Advisors

Sixteen months ago, the world was turned upside down. In what seemed to be an overnight change, suddenly transactions on a smooth path to closing terminated, lenders retracted loan commitments, landlords hunkered down, waiting for any sign of light, and millions of people lost their jobs. There are many aspects of life currently out of "norm," but what really is the new "norm"?

With so many Coloradans currently out of work, it is contradictory in nature to also see records being broken (in a positive way) – and we are experiencing this in the Denver metro multifamily market. According to Cary Bruteig's Apartment Insights second-quarter report, this past quarter saw new records simultaneously set in terms of vacancy rate, absorption, rental rates and sales pricing (per unit) for 50-plus-unit apartment communities.

Using 2020 as the barometer for 2021 stats would not be an appropriate gauge of the market. With nearly every metric of market health fluctuating so much last year, one would obviously expect 2021 stats to be an improvement. However, what we currently are a party to is shattering records from some of the best years of multifamily (2014 and 2015) in the Denver metro following the Great Recession. For example, the vacancy rate for stabilized properties throughout the metro dropped to 4.87% last quarter, which beat the record previously set in 2015. In 2014, the record for greatest increase in rental rate was set at $57, but this was shattered in the second quarter when there was a $93 increase in average rental rate. The effective rental rate in the second quarter sat at $1,606, which surpasses the previous record of $1,513 set during 2019.

Halfway through 2021, we are seeing a tremendous recovery in many real estate sectors, with arguably the most important being housing, yet there are still "help wanted" signs plastered all over Colorado from the retailers in the central business district to the restaurants hosting guests in mountain towns. We appear to be in some juxtaposed world of record-high rental rates paired with a labor shortage. The Colorado Department of Labor and Employment currently reports over 100,000 jobs listed on ConnectingColorado.com, an employment database aimed at helping Coloradans find new employment opportunities. What does not seem to add up is how the labor shortage can be so severe it handcuffs restaurants from opening at full capacity, but there are significant state and federal-level unemployment incentives still available. On the CDLE website there is information on the Colorado Jumpstart program, which pays eligible Coloradans who return to work between May 30 and June 26 a $1,200 incentive bonus if they register for the program. According to the Small Business Administration, the small-business filing rate in Colorado increased in 2020. Improving 3.73% over 2019, there were a total of 653,639 small businesses registered in the state of Colorado in 2020. How is it possible to have such a high rate of unemployment that it justifies stimulus payments be made to incentivize people to jump back into the workforce while also having small-business filings at record numbers?

> We are experiencing record-breaking rent levels, incredibly low vacancy, higher-than-usual unemployment and stimulus money being thrown out left and right. These phrases generally would not go together in a cohesive sentence, but this is the market we are in.

In addition to the available unemployment stimulus programs, there also are programs in place to assist landlords who may be having rental income shortages related to tenants experiencing hardship. The two most well-known programs in Colorado are the Emergency Rental Assistance Program and the Property Owner Preservation program. According to the U.S. Treasury, the ERAP is a federal program established by the Consolidated Appropriations Act of 2021. At this time, tenants are responsible for registering for the program while the POP program (created at the state level and born from funds earmarked in House Bill 20-1410) places the responsibility on the landlord to register and maintain records. Both programs have been popular and unbelievably valuable to many apartment investors throughout the Denver metro area.

There is a lot of speculation as to what the long-term effects of the trillions of stimulus dollars pumped into the system will have on our economy. We are experiencing record-breaking rent levels, incredibly low vacancy, higher-than-usual unemployment and stimulus money being thrown out left and right. These phrases generally would not go together in a cohesive sentence, but this is the market we are in. Historically low interest rates and ample, but stringent, lending have helped fuel the multifamily market to a level many of us thought was a full market cycle away. Local investors always have been bullish on Colorado, but more coastal investors have eyed our state and are chomping at the bit to acquire something along the Front Range. They ask, "How is the market in Colorado?" and the typical reply is, "The market is hotter than a goat's butt in a pepper patch!" ▲

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Market Update

What is keeping Colorado Springs' market hot?

We didn't think cities like Colorado Springs would see such tremendous market growth coming out of the pandemic, especially after the exceptionally strong year it had in 2020. As COVID-19 restrictions have lifted in Colorado Springs, the market has rapidly seen a tremendous influx of more renters entering the city, which in turn has prompted investors to purchase multifamily assets and enjoy the steady stream of income. Not only do our local investors seem eager to buy and sell, but also we are seeing an abundance of out-of-state capital come to the table. It is no secret in our industry that when it comes to both on- and off-market properties, there are more buyers than sellers and those buyers are continuing to get more aggressive.

Pat Knowlton
Senior adviser, Capstone

Some of those considerable transactions include the sale of The Gardens at Hidden Creek, at 1111-1123 Verde Drive, which is a unique 125-unit multifamily asset located in southern Colorado Springs that sold for a record price of $17.5 million. This property was one of the many that received several off-market offers, all with aggressive terms. Another example would be the Lookout at Broadmoor, which after trading for about $16 million in October 2019 traded for just over $25 million not even two years later. These transactions are prime examples of the positive trajectory that the Colorado Springs market has taken and still is projecting to go, especially with the increased price per door we have seen occur over the past six months. The price per unit on these transactions range from $140,000 to $299,00 per unit. Similar assets sold in 2020 ranged from $89,960 to $186,250 per unit, per CoStar Group.

Due to the high demand from out-of-state capital, markets with higher rent control also have seen compressed cap rates and that is forcing this pool of investors to shift focus to different submarkets. Cap rate compression generally indicates that prices are rising in the market and it is exactly the outcome we are seeing in value-add multifamily. Location desirability is another key factor that helps drive cap rate compression; especially with our market seeing near-zero interest rates, it helps to peak interest and competition from investors. Additionally, Colorado Springs is ranked as the second most populous city in all of Colorado and, given the nature of the Colorado Springs rental affordability alternative to nearby Denver, new investors to the market are finding confidence in investing in the Springs market.

A significant amount of new development also has occurred across the southern region of Colorado. In 2020, over 1,500 new building permits were issued for new apartment complexes to be developed, per the Pikes Peak Regional Building Department. From January to May, it already has issued 1,013 permits for new apartment units, which is 67% of what was issued the previous full year. Per CoStar, nearly 1,300 units were delivered in 2020, and another 2,100 units are currently underway. Most of the new development we are seeing is concentrated in northern Colorado Springs, but developers are slowly starting to see the demand of urban housing and transitioning their efforts closer to the downtown area. A great example of that shift is the new construction on Elan Pikes Peak Apartment complex, a 321-unit complex that, once completed, will be the largest apartment community in downtown Colorado Springs.

We have seen this growth not only in the multifamily development side, but also in the abundance of new infrastructure and the reinvestment in existing neighborhoods. Colorado Springs has welcomed a variety of new growth, including the Weidner Field, the new home to the Switchbacks soccer team and now a great downtown venue for events, concerts and nightlife to blossom. The Robson Arena located on Colorado College's campus is a 3,400-seat ice hockey arena scheduled to open in October. The Mae on Cascade is a brand-new, upscale 177-unit apartment complex that is at the forefront of reenergizing the south end of downtown Colorado Springs. Additionally, the Ivywild redevelopment, part of the urban renewal project, is converting the historic school site to a multiuse facility offering the public more retail and eclectic dining options. These are just some of the strong economic drivers that are helping fuel this market and attracting more owners, organizations and investors to dive into these dynamic changes.

Colorado Springs offers the accessibility to these new attractions, but also proximity to the breathtaking mountains and recreational opportunities. We have watched as diverse career opportunities have presented themselves, allowing employment growth to see its record best and outperform the national average (per CoStar). We continue to see growth in all facets of Colorado Springs. Per a CoStar market report, 2020 set a record best with a total sales volume of $685 million. This momentum has proven to continue into 2021 with $344 million already sold in the first five months.

These numbers emphasize a great deal of the current market strength, and with the immense growth we have seen over these past two quarters, we are eager to see what lies ahead. ▲

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Investment Market

Assessing Denver's competitive climate for capital

The Denver multifamily market continually has been cited as one of the strongest markets in terms of its stability and the speed at which the market is expected to recover throughout the COVID-19 era. As we head into a pseudo post-pandemic environment, many forecasts indicate that Denver and the surrounding submarkets will see unprecedented near-term rent growth in spite of the narrative around potential continued supply side risks. A report published by CBRE Econometric Advisors in late 2020 projects rents to grow by 8% to 10% from 2021 to 2023 – a snap back from the flat to negative growth seen throughout the Denver multifamily market through late 2019 and 2020.

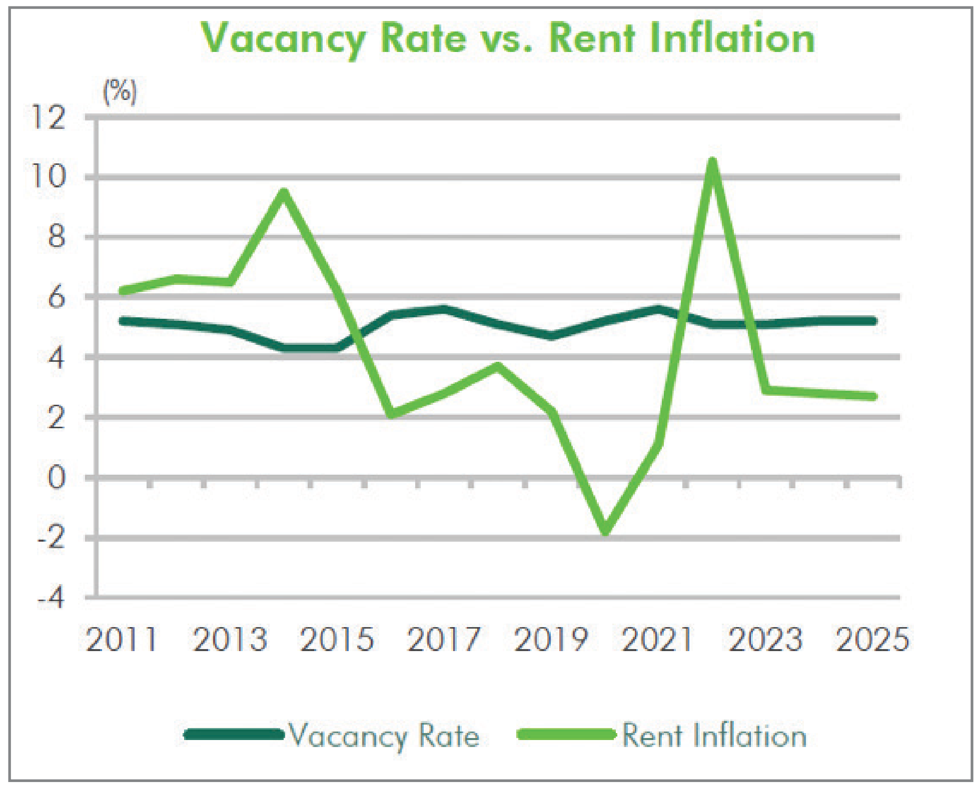
As is the case in many of the nation's top popular secondary growth markets, the rent growth story is being supported by myriad different factors all working together: Spike in construction costs and supply chain issues have delayed deliveries and muted further development plans; increased cost of single-family homes has pushed more would-be buyers to rent; resurgence of strong employment and even wage growth in some categories; impressive net-migration statistics; government stimulus; the list can go on and on. Now, how does this lengthy discussion around rent growth relate to the overall subject at hand of how competitive capital has gotten in Denver? The expectation for massive rent

Brennen Degner
CEO and co-founder, DB Capital Management

growth, more than any other variable, is what we see as the driving force behind the continued rapid decline in cap rates across the market; based on our pipeline and activity in the market, we estimate that cap rates dropped another +/-50 basis points on average for Denver multifamily product in the second quarter.

The recent explosion in valuations, especially in the second quarter, has been fueled by the expectation that rent growth forecasts will be reality and interest rates will remain low for the foreseeable future. In the eyes of many investors, the risk hedged scenario is that if interest rates do rise, then it will be on the back of tremendous economic growth, driving further rent growth, and that the additional growth in rents will outweigh the deterioration in value that will occur through cap rate expansion. We will come back to why rent growth is the foundation of the asset value house of cards. For now, let's break down the capital stack for the assets seeing the valuation growth and why Denver is so competitive.

Let's start with the debt side of the capital stack equation. Near-term valuation exuberance has been fueled by the return of the



CBRE

A report published by CBRE Econometric Advisors in late 2020 projected rents to grow by 8% to 10% from 2021 to 2023 – a snap back from the flat to negative growth seen throughout the Denver multifamily market through late 2019 and 2020.

ability to get higher leverage at historically low all-in rates from the debt fund market. There is so much pent-up capital and competition in the debt fund world that we are now seeing all-in rates for higher leverage debt fund executions than rates on traditional agency products. The heightened competitiveness of the debt fund market obviously means investors can manufacture better returns through higher leverage at lower rates, driving asset values up and up. Through population size, net-migration characteristics, quality of living and continued diversification of the employment market, Denver has established itself as a market where a majority of lenders are comfortable with significant exposure. As primary markets like Los

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Understand privacy obligations for smart homes

Elizabeth Harding
Shareholder, Tech Transactions & Data Privacy Practice Group, Polsinelli

The rapid development of Internet of Things technologies combined with emerging privacy laws in the U.S. is leading to increased compliance obligations for property managers and landlords considering various smart building solutions. Smart buildings and homes use IoT technologies like sensors, analytics software and online connectivity to monitor operations, analyze data and generate insights around usage patterns that can be used to optimize the building's infrastructure. This level of data collection naturally gives rise to privacy and security concerns.

■ **What are the main privacy and security concerns around smart buildings and homes?** Smart devices have the ability to collect vast amounts of personal data, including entry information collected via smart access systems, television viewing preferences, doorbell videos, thermostat settings that can indicate waking and sleeping patterns, and smart bulbs that can indicate times of day when a home is occupied or unoccupied. These devices provide their manufacturers and, in some cases, property managers and landlords, with a gold mine of information about how they are used and who is using them. Not only do property managers and landlords need to understand the security risks associated with these types of devices, but also they need to understand their obligations under various U.S. privacy laws.

■ **What privacy laws are applicable to IoT devices and smart homes?** At present, the U.S. does not have a general federal privacy law. However, three states, California, Colorado and Virginia, have all implemented comprehensive privacy laws to protect the personal information of their residents. While all three state laws are slightly different, they each include several consistent requirements and consumer rights, namely:

• Duty of transparency – businesses must provide consumers with clear and transparent notice of the data they collect, what they use it for and who they share it with.

• Right of access, deletion, correction and portability. In addition, consumers have the right to opt out of the sale of their personal information.

• Requirement to enter into contracts with third-party service providers who may process personal information on the businesses' behalf.

• Requirement to implement reasonable security measures to protect against unauthorized use or disclosure of personal information.

Various state biometric privacy laws also could apply to the use of smart home devices, to the extent the device in question collects biometric information. Biometric data types include facial recognition, iris recognition, fingerprint scans and voice recognition. Under certain U.S. state laws, including the California Privacy Rights Act, Virginia Consumer Data Protection Act and recently enacted Colorado Privacy Act, the processing of biometric information for the purpose of uniquely identifying a consumer constitutes sensitive personal information that is subject to an express opt-in consent (CDPA and CPA) or an opt out (CPRA).

In addition, certain states such as Illinois and cities such as New York have implemented specific biometric privacy laws which require placement of clear and conspicuous notices informing individuals that biometric information is being collected and processed and, in the case of Illinois' Biometric Information Privacy Act, require a written release from all persons providing biometric information.

■ **Does Colorado have specific laws relating to privacy and smart homes?** As of now, Colorado does not have a smart home specific privacy law. As discussed above, protections for personal information of Colorado residents are provided through the CPA. However, it isn't outside the realm of possibility for more specific laws to be enacted. Colorado (or individual cities within Colorado)

Not only do property managers and landlords need to understand the security risks associated with smart devices, but also they need to understand their obligations under Colorado privacy laws.

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Management

Beware: Debt concerns pose trouble for landlords

Jacob Channel
Senior economic analyst, LendingTree

Over the course of this past year, the nation's real estate market has seen a robust uptick in activity. This has been driven largely by low interest rates, as well as reduced inventory in the housing market.

In total, we saw an 8.2% growth of multifamily mortgage debt throughout 2020, according to recent data from the Mortgage Bankers Association. But what does this new increase in debt mean for the Colorado landlords who now have new vacancies to fill? And what sort of pressure does it put on potential tenants?

■ **Debt in Colorado increases pressure on landlords and tenants.** Rental properties have long been an excellent investment vehicle for building wealth and boosting net worth, especially if said rental property can be financed at a lower-than-average interest rate. However, these properties also bring with them added risk for the landlords paying on the mortgage loan.

A rental property's success can be gauged largely by its bottom line. If stuck with empty units in multifamily properties, for example, or worrying about tenants who cannot/will not pay rent (on time or at all), property owners can feel significant pressure from that looming mortgage payment. As a result, many of these landlords are unable to offer much in the way of rent assistance if and when tenants find themselves in a rough spot.

This has been especially true for multifamily property owners who maintained or purchased units during the COVID-19 pandemic. Though the state offered rent assistance to qualifying tenants and landlords through the Colorado Emergency Rental Assistance Program, the promised $385 million in funds have been slow to arrive for many approved applicants. In fact, Colorado recently hired a well-known disaster firm to help sift through the state's backlog, which already is thousands of applicants deep.

This leaves many landlords in limbo, waiting on promised funds to cover both current and past rent payments for tenants who lost income last year and were unable to keep up with monthly rent obligations. But with these assistance payments falling months behind – and with no immediate delivery date in sight – landlords are left with occupied units and slim bank accounts.

Landlords aren't the only ones feeling the pinch, though: Tenants have been directly affected by the increased debt burden in Colorado.

Not only are many households still struggling financially, but many Coloradans have relied on new debt in order to make ends meet during the pandemic, ranking second in the country in admitting to using debt to meet weekly spending needs.

Over time, a number of these newly debt-saddled tenants will find themselves searching for a new rental home. However, there's a chance they won't have much luck due to their increased debt burden and/or decreased credit score. If their rental history also has been affected by missed or partial payments, or even a recent eviction, this can make it nearly impossible to get approved for a new property.

■ **Don't let your debt lead to rash business decisions.** It goes without saying that landlords with financed rental properties will want to avoid vacancies at all costs. The longer a unit remains empty, the more money that is lost.

However, it's important to keep a level head when it comes to losses, rather than jumping into an unwise deal. In many cases, a short vacancy while you wait for the right tenant is better than renting to a bad tenant just to fill the unit.

Of course, even with a comprehensive application, background check and credit check, it still can be difficult to know for certain whether a tenant will turn out to be a nightmare or a daydream. And while debt burden is something to note – and can even be a red flag – it's not always the biggest indicator of a tenant's likelihood to pay.

Some people, for example, prioritize their rent payments while others may focus on other obligations. It's possible that an applicant who always has paid rent even while having high levels of debt may be better than someone with a low debt burden but poor payment history.

Don't let your debt push you into making rash decisions about your investment property, even if a vacancy results in a financial pinch. Instead, consider applicants on a case-by-case basis and look at all factors, including:

- Their overall debt burden;
- The type of debt they carry;
- Payment history and credit score; and
- Their past rental history.

This enables you to gain a more complete picture of a tenant's debt management and rental payment practices. From that, you can determine how much of a risk a tenant likely poses, and whether or not that tenant is likely to make payments on time for your rental.

Debt can be a limiting factor for landlords and tenants alike. For multifamily property investors, especially those who have increased their debt burden in the past year, vacancies and nonpayment can be financially devastating, especially if an eviction moratorium is in place.

As a landlord, it's imperative that you mitigate your risk as much as possible during the screening process. This will help reduce (though not eliminate) your chances of taking on nonpaying tenants for your units. ▲

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Market Trends

Inclusionary housing requires multiple approaches

Inclusionary zoning is happening in most major cities across the country as housing prices continue to increase at high rates, with Denver being no exception. IZ is defined as the zoning regulations to include affordable housing within market-rate apartments or condominium projects. Each city has a different approach for requirements and incentives, but the intent is to gain affordable housing units to meet the demand of the market. As developers and city officials come to terms on how to provide inclusionary housing with offset incentives for height increases, parking reductions or speedy reviews, one thing is certain: All sides want to create inclusionary communities starting with one new project at a time. While most IZ requirements focus on percentages, between 10% and 15% of units for people who earn 60% area median income, there are many other paths and combinations to achieve a similar outcome. Some jurisdictional programs recognize that it's not feasible for all projects to meet that option based on square footage available on small sites or in specific areas. They offer cash-in-lieu incentives or other alternatives of providing affordable housing on other sites and in other buildings.

Denver has seen an increase in demand for affordable housing and has long had a program to provide 10% of the total units as affordable with renters at a level of 60% AMI. Denver has offered linkage fees to developers to provide cash in lieu to a city fund to provide funds for affordable housing in other locations. The city is meeting with local developers to find new ways to provide housing units and offer incentives to increase affordable housing stock.

Erik Okland, AIA
Principal, director of strategy, Cuningham

While the discussions have centered around height bonuses in areas such as the 38th Street light-rail station, height options create additional costs for developers. Additional height on a building dictates a higher cost construction type and additional features for life safety that are not a factor with a lower story wood frame buildings. Adding to rising land costs in the metro area, developers are looking into options for rezoning properties to get land at a lower cost but will need to negotiate with the city to provide affordable housing units to gain approvals.

While city leaders are coming up with innovative solutions for additional affordable housing, their approach differs regarding incentives. The differences can be somewhat attributed to the demand in each region, access to public transportation and the rising costs of housing at different rates. The more successful jurisdictions have many options, including a sliding scale of affordability with graduating density bonuses. If the developer provides affordable units at a lower AMI, then the density bonus increases over units based on 60% or 80% AMI. Cities also will allow additional zoning height, parking reductions and increases in floor area ratios based on ratios of mixed incomes within a proposed project. Access and proximity to public bus and light-rail transit also factor into the incentives offered. Other incentives are waivers based on uses, setbacks and reductions in open space, which might allow for more density. Accelerated review periods also are proposed as speed to market is critical for developers to open projects to generate revenue as soon as possible.

While some inclusionary zoning incentives increase the size of projects, designers need to be mindful about creating open space not only for the project and tenants but also for the surrounding communities.

While IZ focuses on the supply and demand of affordable housing units, it is important to raise other aspects in creating livable mixed-income communities. Other items of interest are connections to open space, community-based retail and connections to the local heritage. While some IZ incentives increase the size of projects, we need to be mindful about creating open space not only for the project and tenants but also for the surrounding com-

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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	125-200 bps over the comparable US Treasuries Rates 2.25%-3.25%	• Up to 65% LTV, majority of lenders quoting in the 55%-60% LTV range	5-30 Years	25-35 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	Interest Only to 30 Years	• Market Rate • Age-Restricted • Affordable/Workforce • Major metro areas • Secondary/Tertiary Markets • C quality properties and above	• 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 • Agencies have been behind on production; we expect pricing to tighten up in the second half to catch up.
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 3.00% - 4.00%	• 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 + 275-400 bps (0.10%-1.00% LIBOR floors)	• 65-80% LTC • Going-in 5.0% Debt Yield	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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Agency

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Life Insurance Company

1025 Julian
Denver, CO
$2,570,000 Permanent Loan
Agency

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Market Trends

Amenity deck landscape design considerations

Gary Worthley, PLA, ASLA
Senior principal, Confluence

The amenities race in the multifamily space has been going on for so long, at this point, it's practically a marathon. Developers, taking cues from the shifting social preferences of residents, have been shrinking unit sizes in favor of larger communal spaces ranging from community kitchens, cinemas and game rooms to pools, play structures and rooftop amenity decks.

Spurred by the pandemic, the amenities competition continues, but now the priority for multifamily developers has shifted to designs that provide residents with ample safe outdoor space. That's putting a big focus on the amenity deck.

Creating a compelling, well-designed amenity deck with various spaces and activities should be approached thoughtfully to minimize challenges down the road. Here are seven considerations for multifamily developers to review with their landscape architect at the beginning of a project.

■ **Target demographic.** The target demographic should drive the design of an outdoor amenity deck. In the competition for tenants, it's not necessarily about packing amenities in so much as creating the right mix for that specific tenant audience.

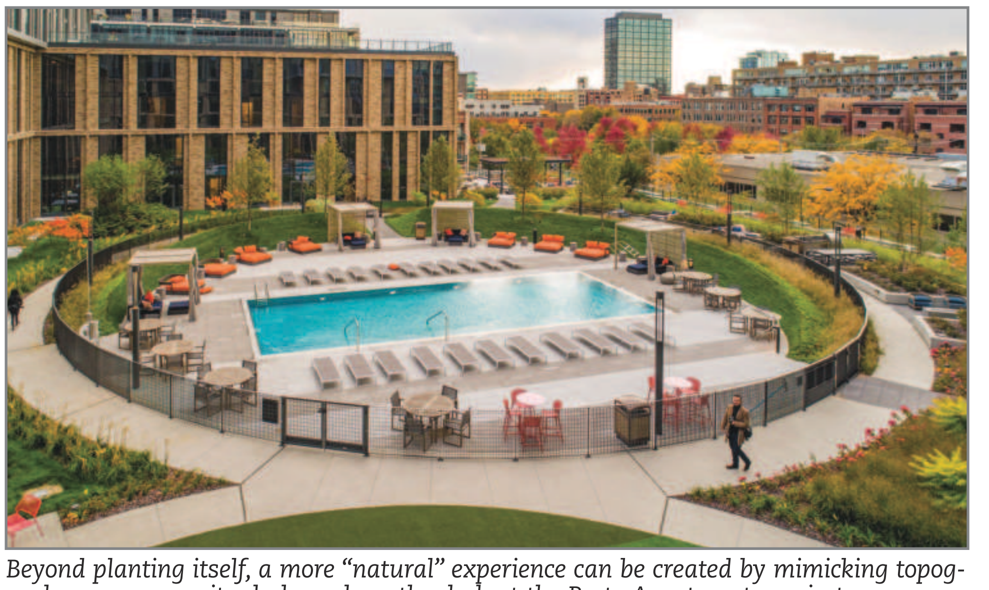
Communities with larger unit sizes often appeal to families, so in the landscape architecture and design, we often will incorporate elements geared toward children. According to Multifamily Design + Construction's 2019 Amenities report, children's play areas were among the top four most popular amenities before the global pandemic. We don't see that shifting, given the renewed priority on outdoor spaces and a desire to be outside.

Communities targeting primarily younger residents might prioritize more social programming, with elements like grill walls and fire pits for groups of varying size, dining and lounge areas, and other areas for individual contemplation.

Creating a range of experiences targeting specific audiences helps keep residents and guests returning, always discovering new places to enjoy depending on group size and time of day.

■ **Size and location.** Considerations around the climate and microclimate on the amenity deck are essential. Sun, shade, moisture – all of it can change significantly based on the location.

For a community in a dense urban environment in Chicago, where we had a third-floor 45,000-square-foot podium connecting two residential towers to work with, ownership was concerned with the cost and maintenance associated with detailed garden planting and extensive hardscape on such a vast space. To mitigate those concerns, we utilized



Beyond planting itself, a more "natural" experience can be created by mimicking topography on an amenity deck, such as the deck at the Porte Apartments project

no-mow fescue throughout most of the deck punctuated by sculptural tree islands.

In Colorado, on Snowmass Base Village, we had over 220,000 sf of snowmelt and just over 76,000 sf of landscape over three levels of parking. We provided a flexible plaza space for summer and winter entertainment opportunities. In the heart of Snowmass Village, the Limelight Snowmass Hotel included a 5,400-sf ice rink, water feature, children's play area, fire pits and a pool amenity.

■ **Materiality.** Anticipating the materials is critical to understanding the look and feel of various spaces and the structural requirements to support these materials.

Many amenity decks have extensive pedestal pavement systems with pavers that often vary slightly in size and finish depending on the selected manufacturer. Understanding these dimensions is critical for laying out proposed spaces. We strive to design planters, walls, stairs, ramps and other site elements based on the size of individual pedestal pavers. Late changes to the pedestal paver specifications can result in significant shifts in the layout of site elements on a large amenity deck.

■ **Pool or spa features.** If the goal is to incorporate a pool amenity, it is essential to identify the proposed location early in the design process. The proposed garage space below

Please see Worthley, Page 32

Renter Trends

New lifestyles put health & wellness center stage

Dominic Rechichi
Principal, Pensam Capital

In the days before high-rise buildings, apartments and boarding houses were built with just a few floors, and neighborhoods in large cities built up around these low-rise multifamily units. COVID-19 inspired many developers to return to the basics and take a second look at pre-high-rise days as well as the amenities that motivate a healthy lifestyle. In many ways, COVID-19 forced developers to reimagine what "home" looks like for residents.

Before the pandemic, we used to spend just as much time at work as we did at home. During the pandemic, Coloradans started to look at their homes in a new light, partially because we spent so much time in our homes. Our homes became our restaurants, our theaters, our offices, our gyms and more. The same is true of rental living – residents are demanding more from their homes.

Concurrently, untethered from location-dependent jobs, Colorado, once again, received an influx of new residents from Illinois, Texas, California and Florida. Those moving here weren't looking for the cookie-cutter high-rise that can be found in any major metropolitan area. New residents are seeking the Colorado way of life – a connection to nature, opportunities to spend time outdoors in new ways, concierge-level service, recreational activities, a community and, simply put, a richer quality of life.

Our company had to pivot quickly to adapt to a new demand and employ some out-of-the-box thinking. According to our research and development for the Airie community in Denver, we found that people in the metro area in our target audience are most attracted to unique gathering spaces and amenities while also seeking quick access to nature, a primary reason people move to Colorado. Thus, we developed this community to meet the market demands along with the property's natural connection to the outdoor environment.

The opportunity that this new paradigm has delivered is a new way of living, focused on health, a COVID-19 aftershock. The focus on health goes beyond a fitness center to include an indoor bike repair room; a pet spa; a yoga, fitness and wellness studio; as well as a Zen garden.

At our Denver property, we offer lakeside living that allows residents to relate to nature in a new way that enriches their health. For some, that means enjoying relaxing vistas over the lake, but for others, this means that they can exercise on the lake through paddleboarding or kayaking, right outside their door. Whereas before we might have highlighted a state-of-the-art fitness facility, new residents are looking for opportunities to bike or walk their dogs along the High Line Canal Trail or around the lake.

This renewed emphasis on the outdoors doesn't mean that residents moving from Chicago, New York or Los Angeles are throwing culture aside, however. These elements still feed the soul, and residents are looking for residential rental properties to offer entertainment on site as well as be near top city attractions, such as Cherry Creek North and downtown Denver.

OZ Architecture

Before the pandemic, companies might have highlighted a state-of-the-art fitness facility, but today residents are looking for opportunities to bike or walk their dogs along the High Line Canal Trail or around the lake. The Airie features lakeside living that allows residents to relate to nature in a new way that enriches their health.

Being connected with nature is good for our health, and studies continue to prove that getting outside helps with our mental state. The low-density/open-air concept, the connection with nature, as well as the unique amenities bring the desired lifestyle of living near the city, yet escaping to a peaceful home that many current and new Coloradans desire.

Additionally, we know that apartment communities make the most of the resources we have with improved energy efficiency by using less water, gas and other natural resources. According to the U.S. Energy Information Administration, "Households living in apartment buildings with five or more units use about half as much energy as other types of homes. Lower energy use in apartments can be partially explained by their smaller living space. Additionally, apartment units are bordered by other units or common areas on one or more sides and typically have fewer windows, limiting exposure to exterior temperatures."

Not only do these new concept apartments provide a way to connect with nature while still in the city, but also they are energy efficient to make the most of the resources available.

Last year was a tumultuous year for the rental housing industry, but as the industry pivots and life begins to return to normal, many people are reconsidering living arrangements to meet their new lifestyle. ▲

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Renter Trends

Residents are ready to move back to the city

Dee Chirafisi
Founder/broker, Kentwood City Properties

We are seeing a trend toward people moving back to the city now that it looks like COVID-19 is coming to an end. People are looking for full-service, amenity-rich projects and locations. We see clients from out of state as well as in Colorado, being drawn to all that Denver has to offer: the convenience of the train to Denver International Airport, all of the restaurants opening back up, amazing park spaces, multiple sports, shopping and beautiful theater venues.

This has resulted in steady prices downtown and some new price-per-foot thresholds that we have not seen before. For example, it is not unusual to see both new projects and some resales selling for over $1,000 a square foot in Denver now.

I am seeing many sales and eager buyers. One new project is Lakehouse Denver, Sloan's Lake Residences, just minutes from downtown Denver and right on the lake. We are seeing strong activity there, averaging over seven sales a month for the past few months.

I'm also seeing a desire from clients to be near – even within walking distance – to many conveniences. A great example is the new McGregor Square in Lower Downtown. The 103 WELL-certified residences range from 450-square-foot studios to 6,000-sf penthouses. McGregor Square is a wonderful addition to historic LoDo, taking up the entire square block just south of Coors Field. McGregor Square includes three towers housing The Rally Hotel by Sage Hospitality, condominiums, office and retail space, dining and a food hall; and Mile PostZero, which features seven restaurants and a central bar, all surrounding a 28,000-sf content plaza that will have year-round events like concerts, festivals and an ice-skating rink in the winter.

This mixed-use project, with retail and restaurants all downtown, is exactly the type of project I see clients flocking to now. They are ready to be back among people, dining, shopping, etc. I see this mixed-use concept being the ultimate trend going forward, and I expect to see more projects like this.

> I see this mixed-use concept being the ultimate trend going forward, and I expect to see more projects like this.

Andrew Forino, AT Media
Renters are flocking to downtown mixed-use projects, like McGregor Square, with retail and restaurants. They are ready to be back among people, dining and shopping.

I also see clients being drawn to amenity-rich properties – projects, like McGregor Square, with valet, concierge, a pool, hot tub, full gym, even a dog relief area. Many of my clients have dogs, so dog-friendly properties are a must. I'm also noticing people's lean to green – they are aware of the importance of a WELL-certified building. Our health has become so important over the past year and a half that the wellness aspect of a project is on everyone's radar. I see clients also want to be close to restaurants that offer takeout food, have ample outdoor seating and offer delivery. Proximity to food halls is a big draw.

Another trend I have seen since COVID-19 is that people want outdoor space – private patios and common pubic outdoor gathering spaces. Projects that offer amazing outdoor living experiences are well received. It's time to move back to the city, and we are so lucky to be living in beautiful Denver, one of the best cities in the world, with the mountains just minutes away. ▲

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Renter Trends

Self-guided tours score big with future renters

We live in a self-service world. We check in for flights from our phones, get food delivered to our doors with one tap and access any movie we want, anytime, from our couches.

The pandemic accelerated the need for self-service options across virtually every industry and multifamily housing is no exception. Companies hustled to come up with new and innovative ways to meet consumer demands. Traditional ways of doing things became outdated, seemingly overnight.

Although COVID-19 may have led to rapid adoption of self-service and personalized options out of necessity, the industry quickly learned these options are here to stay.

As we begin the recovery, old technologies will fall by the wayside as operators look for ways to manage their assets more efficiently and meet evolving renter preferences. Everyone will be looking for smarter and quicker ways to rent apartments.

Today's renters are digitally motivated and want to use their mobile devices to research and experience things in real time and on their terms. They expect a self-service solution and, the fact is, they want to interact with as few people as possible to find their next home.

■ **How do we know?** A survey by Tour24 found that 87% of renters said they would rather take a self-guided tour than tour with a live agent. This aligns with data from a recent RentCafé survey of 3,500 people that found that 83% of respondents said they would use self-guided tours if available.

Georgianna W. Oliver
Founder and CEO, Tour24

Prospects consistently share feedback that they "loved that there was no pressure"; "didn't feel rushed"; "could go at my own pace"; and that it is "so easy."

Our data shows that in Colorado, self-guided tours have rapidly expanded over the past 12 months, particularly in the Denver area. We are seeing this across product types, including high-rise, mid-rise and garden-style buildings located in urban and suburban settings.

■ **Tour how and when you want.** These technology enhancements are here to stay, and the next generation of renters not only expects tech amenities, it is demanding them.

Today's renters want to do everything on their own term and don't like being pressured. Renters expect to have flexible options and tour times. They want to tour when they want, and not be limited to dates and times made available by properties.

The RentCafé survey also found that 43% of renters would rather tour after hours.

If you are not offering personal and engaging technology solutions for renters, with flexible timing and touring options, you are missing out on valuable prospects and losing leases.

■ **Increase in demand in Denver.** Self-guided tours are rapidly becoming a driver of opportunity for communities in Denver, as renters are choosing to tour communities where their preference for self-service and convenience is available.

"We are seeing an increase in the volume of tours being taken when the leasing offices are closed," said Joanna Hackney, executive vice president of client success at Tour24. "People are returning to their offices and have less flexibility to visit a community during their working hours. Forty percent of tours are now happening outside of leasing hours in the Denver area."

Further, "The demand for self-guided tours has risen from one year ago, with our communities in this market realizing 152% tour growth year over year," she said.

More renters than ever are choosing to guide themselves, even when most leasing offices have fully reopened for agent-led tours.

■ **A piece of the puzzle.** Self-guided tours have become an integral part of the multifamily leasing ecosystem. They are not being looked at in isolation, but rather as an essential piece of the puzzle that fits into the total customer experience. Industry leaders are looking holistically at what today's renters wants, and empowering them to connect with communities in new ways that fit their needs.

With 2022 business planning in the industry underway, leading Denver owners and operators are planning for greater automation in the leasing process, enabled by innovative technology solutions and services. Self-guided tours are a critical component of their strategy.

■ **The bottom line.** By improving the customer experience, these offerings deliver a decrease in operating expenses and increase in revenue.

Our data shows that 31% of self-guided tour prospects commit to leasing immediately post-tour. These prospects credit their decision to having an opportunity to tour how they want. Not all renters share the same priorities. Allowing them to focus on what matters to them while on tour has proven to drive leasing outcomes that often exceed guided tour experience.

Enabling prospects to tour when and how it's convenient for them is a win-win. Finding their home, on their own time, in a way they prefer has become a necessity for communities going forward. ▲

If you are not offering personal and engaging technology solutions for renters, with flexible timing and touring options, you are missing out on valuable prospects and losing leases.


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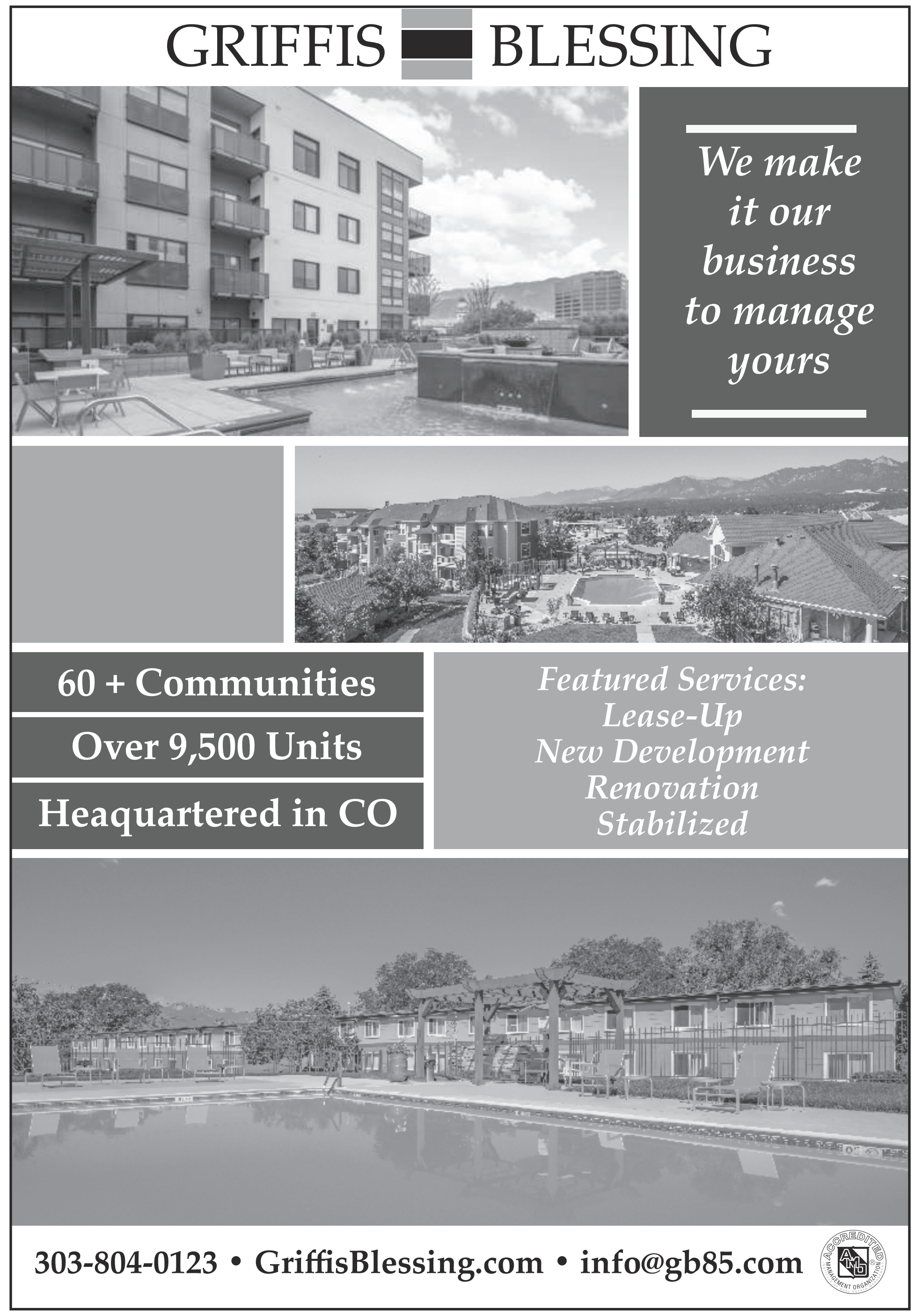
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Vendor Trends

How to minimize the cost of an apartment turn

Turning an apartment to prepare for new renters can be quite overwhelming for property management, and as the busy summer moving season continues, it will feel this strain even more. The cost of getting an apartment move-in ready is dependent on the trend of renewals, and the nationwide rate of residents who renew their leases is currently at more than half.

The time it takes to get homes ready varies depending on how old the community is, how long the prior resident lived in the apartment home and what condition it was at the time of move-out. Many companies in the industry use seven working days as a guideline to turn a home, but management groups expect five. That being said, research shows that few on-site teams can meet these deadlines consistently. In reality, it's taking 15 to 25 days on average, and the lost rental days and invoice processing cost savings ($6-$8 per invoice) are costing communities time and money. Turning quickly provides additional revenue and helps on-site teams leverage their bonuses and increase resident satisfaction scores because resident service requests are handled timelier.

Steve Davis
Executive vice president, acquisitions, Valet Living

The No. 1 challenge for a property manager in multifamily living is resident retention. Many residents get frustrated when maintenance requests are not completed promptly. But the residents don't recognize that on-site teams log hundreds of hours working on getting new homes move-in ready, often unintentionally neglecting their current residents' needs. In order to really succeed at resident retention, a community must set itself apart from others. Whether that's offering top-of-the-line amenities such as fitness classes, pet walks, home cleans, valet trash and recycling cleanup, or simply having an attentive staff, the "extras" make or break a resident's experience. With many communities around the country experiencing hiring issues, it's more important now than ever that communities correctly allocate their staff to keep their attention on what's important: setting themselves apart from others.

Michael Peralli
Division vice president of quick turns, Valet Living

We find that investing in an apartment turn service is like adding on five or 10 days of additional rental income on every turn. That's 2%-3% in revenue growth over a year. This takes away the burden of maintenance teams chasing down "no-show" vendors or walking every apartment after each turn operation. Instead, high-salaried maintenance technicians could be clearing resident service requests to boost current resident satisfaction and online reviews.

Having a well-trained apartment turn team that possesses the skills and knowledge to perform at a consistently high level and speed is the key to decreasing those vacant days, increasing net rental income, never missing monthly turns budgets and improving resident satisfaction.

To truly understand the cost involved in turning over an apartment home, the community team needs to break down the number of services needed in every vacant home. Then multiply that by the number of homes needed to be ready for the next resident to move in comfortably.

To demonstrate the actual cost of an apartment turn, here is a look at the labor savings a 300-home multifamily community can realize:

- 15 hours per week spent on contractor management (emails, text messages, phone calls, meetings, access to homes, etc.) at $27 per hour during peak leasing season (16 weeks), which equates to annual savings of $6,480.
- 10 hours per week at $27 per hour during the regular season (36 weeks), which equates to annual savings of $9,720.
- Total annual labor cost savings: $16,200.

For that same 300-home community, there's quite a bit of opportunity to increase the annual rental income. For example, if the average monthly rent is $1,500, it equates to $50 a day. This means if the apartment turn service decreases the turn time by five days, that's a potential increase of $250 per unit. If that community typically turns 180 units a year, there's a potential total annual rental income increase of $45,000.

This means that in one 300-unit community, the total annual fiscal impact could be $61,200. Communities can use these savings in various ways, like providing bonuses to their hardworking staff, investing in new programs and amenities for their residents, or performing seemingly endless renovations to the property. While the financial savings are staggering, the benefits of quick apartment turns go beyond financial. Handling apartment turns in-house can be a logistical nightmare and requires using resources that should be devoted to keeping current residents happy. Deploying an apartment turns partner allows community professionals to focus their attention on other essential resident needs. ▲

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Many companies in the industry use seven working days as a guideline to turn a home, but management groups expect five. That being said, research shows that few on-site teams can meet these deadlines consistently.

Market Update

Continued from Page 1

The increase in small-town migration has some towns in the Western Slope trying to figure out how to accommodate everybody. It is simply a carrying capacity issue we are seeing in these popular mountain towns. The pandemic pushed people to outdoor tourism, which is why people ended up exploring these Colorado mountain towns. The town of Crested Butte has taken a step back from advertising local businesses because workers simply cannot accommodate the crowds they are getting post-lockdown. The overwhelming amount of tourism has a Telluride councilwoman wanting to push the town's tourism funding toward housing, which also led the community of Telluride to reject a 20,000-person annual musical festival, which brings in tourists from all around Colorado. Other towns like Durango, Gunnison, Montrose and Ridgway are trying to figure out how to raise money and allocate to the housing needs of the local workers. Unfortunately, things are not moving fast enough to help this lack of workforce housing in these communities.

Many mountain and Western Slope towns are experiencing similar issues. The vacancy is now below 3% in Grand Junction and similarly in smaller Colorado markets due to lack of new construction in the past 15 years. With this historically low inventory, these housing markets have experienced demand that exceeds the supply, sparking a jump in housing prices.

The problems of no rental units and not much housing inventory do not seem like they are going away anytime soon. Builders are starting to apply for more apartment and home-building permits in all the mountain and Western Slope towns. Some of these towns are trying to figure out their notoriously restrictive new-build cultures to allow for the needs of their new and old residents. New construction will take a while to catch up with the demand in these smaller markets. There are building projects starting from Glenwood to Grand Junction as well as smaller locations like Parachute-Battlement Mesa, and southwest towns like Buena Vista, Salida, Montrose, Gunnison and Durango.

The question seems to be how these notoriously affordable areas can, for locals, sustain the rent increases that have hiked the cost of rental living 8%-20% and home prices as much as 10%-30% in the last two years. The answer could be that more remote workers with higher-paying jobs can afford the new normal with the changes in our work and life culture. The apartments being built in these areas are majority luxury buildings that may have a small amount of units with an affordable component, but many do not, and the rents they are achieving are starting to push toward the larger markets on the Front Range. All of Colorado is experiencing a shortage of workforce housing, but the locals in the mountains and Western Slope are really feeling the pinch with wages being a lot slower to increase than the prices of rent and housing in this high-demand market. ▲

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Harding

Continued from Page 12

could, for example, follow New York City's example and introduce more targeted regulations in this field.

In May, New York City signed its Tenant Data Privacy Act to address privacy concerns around the use of smart access systems in certain multiple dwellings. The TDPA applies to building entry points, along with other restricted access spaces that use the smart access system, such as gyms, laundry rooms, mailrooms and lounges. Along with restrictions as to the type of information that can be collected about a tenant, the TDPA also requires owners to:

- Provide tenants with a privacy notice.
- Obtain consent for the use of smart access systems.
- Establish data retention periods for collected data.
- Ensure that collected data is not sold or shared.
- Create parameters surrounding the tracking of tenants.
- Protect the data they collect.

■ **What should landlords and property managers be doing now?** Landlords and property managers with responsibility for residences in Colorado, California, Virginia and New York City have direct obligations under the privacy laws discussed above. Violation of state privacy laws could lead to regulatory investigations and fines. Regardless of where the property is located, however, landlords and managers should consider implementing the following:

- Provide tenants with a clear and transparent privacy notice, explaining what information is collected about them (whether via smart device or otherwise), what it is used for, to whom it is disclosed and for how long it is retained.
- Consider whether consent is required for the collection of information for purposes of allowing entry into a building.
- Consider whether consent is required before collecting biometric information.
- Confirm that agreements with smart home system vendors include adequate privacy and security obligations, and other relevant protections.
- Review security and access controls to information collected via smart home technologies.

Property developers, managers and landlords should be aware of the legal issues and compliance obligations and the risks associated with noncompliance that they might face when implementing smart building solutions. ▲

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Koster

Continued from Page 4

highest quarterly absorption in metro Denver in 16 years. As of the end of first-quarter 2021, effective rents posted a small gain marketwide and are essentially at the same level they were pre-pandemic. However, the second quarter saw another absorption record set, as well as net effective rents increasing 6.1% for the second quarter and 9.6% over the previous year. Thus, 2021 is seeing some of the strongest occupancy rates, absorption and rental rate growth in 17 years.

Denver is experiencing population and employment growth, year over year, of more than 37,000 and 15,000, respectively. Declining affordability, however, is making homeownership considerably less feasible, especially for the metro's large concentration of millennials. As such, multihousing demand throughout Denver is expected to strengthen and developers are stepping up to fill the need. ▲

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Degner

Continued from Page 10

Angeles and New York have lost their appeal, more and more lenders have shifted allocations into markets like Denver to suit their borrowers' needs, which ends up being a good segue to the equity side of the capital stack.

We generally see a breakdown of three different segments of the multifamily market based on size of deals. The size of the deals tends to determine who it is you are competing with on a given transaction. For sake of simplicity, we can break down the three tranches into the institutional space; the family office and middle-market private equity space; and the private money and high-net-worth space. Historically, we see the deal sizes of approximately $50 million and above for institutional, $20 million to $50 million for the family office and middle-market private equity, and under $20 million for the private money and high-net-worth space. With the migration of capital out of the primary coastal markets into secondary growth markets, we have seen a surplus of capital that has caused a heightened level of demand for real estate in Denver. Layer in the fact that you have groups that have shifted massive shares of their overall allocation from office, hospitality and retail into multifamily, and you have a recipe that has had and will continue to have a significant impact on the competition for Denver multifamily in the near term.

An initial change we have seen is a trend shaking up the traditional asset size norms discussed above. So much institutional capital is competing in the $50 million and above space that we have seen institutional groups dip well below their historical size targets. This obviously has a ripple effect when an 800-pound gorilla with a lower cost of capital enters the family office/middle-market private equity space, driving those asset values up, and the same trickle down occurs to the private/high-net-worth space. As an organization we still see the most opportunity in the $15 million to $30 million space. This section of the market seems to still have assets that are large enough to give an operator economy of scale but small enough to insulate the investor from competition with groups that have a cost of capital that is impossible to compete with.

We have now established that there is a huge amount of capital on both the debt and equity side being drawn to the Denver submarket; now why do we think rent growth expectations are the single most important catalyst? At the end of the day, although return expectations have come down in the last 12-24 months, a real estate investor still needs to present returns that support the general risk nature of real estate compared with other alternative assets and liquid bonds/securities. In other words, core/core-plus/value-add/opportunistic deals still need to produce certain returns that make them investable. When you start getting into an environment where going-in cap rates have a 3 in front of them, and a realistic exit cap rate is applied, the only way a deal works in any underwriting is if there is buy-in to the rent growth expectations. ▲

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Okland

Continued from Page 16

munities, providing places to sit and rest while on a dog walk, etc. Most often open space is allocated at side yard rock areas that are not accessible to the users and the community. Along with housing units, it also is critical to offer a lower cost alternative for small community-based retail spaces. A local coffee shop with an affordable rent could provide a service to the community and offer locally based employment. Heritage connections include community centers within projects, youth services for after-school functions and artist connections with sculpture, murals and artwork within the project.

IZ has proven effective in adding affordable housing for communities across the nation. This approach provides socially and economically diverse neighborhoods where people can live in the areas they serve with a sense of pride. While providing incentives for developers is a financial offset to encourage more housing options, the incentives need to make sense for both public and private realms. It is encouraging that both public and private will work together to find the solutions that work for all. The benefit is thriving communities that in turn create social and economic prosperity. ▲

Worthley

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the podium may allow the pool amenity to drop into a vault below the lid without impacting circulation or head height in the garage below. These locations often dictate the proposed size and shape of the pool.

On many projects, the space below the proposed pool amenity does not have the adequate head height for a pool vault. In these instances, we will look for opportunities to elevate a portion of the amenity deck to accommodate the pool, resulting in added stairs and ramps to provide Americans with Disabilities Act-compliant egress. One of the design challenges in this scenario is integrating stairs and ramps into the overall design while providing required pool fencing and associated gates.

Often a portion of the amenity deck must be elevated to accommodate the pool, resulting in added stairs and ramps to provide Americans with Disabilities Act-compliant egress. One of the design challenges in this scenario is integrating stairs and ramps into the overall design while providing required pool fencing and associated gates.

■ **Planting plan.** A thoughtful planting plan adds value to both the property and to the resident experience, creating a stronger connection to the natural environment, mitigating the urban heat island effect and, in some cases, helping a property meet Denver's Green Building Ordinance requirements.

While not as complicated as designing for a pool, there are many considerations for planting at a project's outset, particularly around the desired soil depth for trees, shrubs and grasses. Establishing the planting plan generally requires close collaboration with the architect and structural engineer. Proposed planters may be allowed to connect to the face of the building, and on others, we separate the planter wall from the building. In either case, the planters become waterproofed bathtubs that require adequate drainage.

Beyond planting itself, we can create a more "natural" experience by mimicking topography on an amenity deck, such as on the deck at the Porte Apartments project. Built up using large amounts of geofoam, these twin crescent berms that outline the pool deck and striped artificial turf fitness lawn act as a threshold to walk through, a slope to lay on and an armature to sit within, providing a variety of options for residents.

The planting plan also is directly related to the next two considerations, which help us understand and achieve the right balance on each project.

■ **Occupiable space goals.** Occupiable space refers to the space people can occupy on an amenity deck. It is essential to define the target square feet of occupiable space at the onset of a project. In addition to understanding the area of occupiable space, it also is important to define the anticipated paths of egress from an amenity deck. On past projects in Denver, the Building Department has allowed egress paths to be subtracted from occupiable space as long as this path is clearly defined and not programmable space.

■ **Green roof strategy.** Denver's Green Building Ordinance requires new developments here to incorporate certain components into their roofs, so the question of adding green features to an amenity deck is becoming increasingly common. There are big challenges to green roofs in an arid climate like Colorado, but also opportunities.

With our sunny climate, solar panels are often the first consideration for making a roof green, but the idea also can be more literal, adding landscape to roofs in the form of native grasses and wildflowers that are hardy enough to withstand both cold winters and summer sun at a mile high. In addition to carefully selecting plant material, these areas will need to be irrigated to have proper soil depth and adequate drainage to survive.

Considering all these factors before the onset of your project will go a long way in expediting the process and helping your landscape architect create a meaningful and memorable design for your amenity deck. ▲

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From the desk of Rodger Hara:

How the pandemic impacts affordable housing

Rodger Hara
Principal, Community Builder Realty Services

Weather touches everyone, and everyone must deal with it as best they can. Snow in Colorado requires snow tires, snowplows and shovels. Accumulations in the high country require blasting and can lead to road closures. Watching the Tour de France, I saw snowsheds over the high roads in the Pyrenees that protect the roads from avalanches.

The pandemic caused a similar reaction, requiring everyone to do the best with what they had. In this issue, you'll hear from four architectural firms that describe how the pandemic impacted their operations, how it has influenced changes in the way they approach design and their musings about the future.

The need and demand for housing affordable to the lower-income members of society has not gone down and, more than likely, will not in the foreseeable future. Even as incomes rise through a higher minimum wage and employers having to pay more to fill vacant positions, the inability of many to qualify for homeownership for the various reasons discussed elsewhere in the Colorado Real Estate Journal will continue to apply pressure to the rental market, fueling that demand.

The competition for the scarce resources necessary and available to help fill the economic gap between costs and loans to create affordable rents increases at a rate greater than the ability of governments to provide more.

The physical changes necessitated by the pandemic have led to some fiscal changes that will provide more resources in the short run – if the agencies responsible for administration and distribution of those resources can create the systems and find and hire the qualified staff to get those resources out.

As the nature of office work changes and the demand for office space declines, more interest is being paid to conversion of offices to housing. In a similar vein, as business travel gives way to virtual meetings, hotels suffering from declining occupancy are being considered for conversion to senior housing. And many older hotels that cannot afford to retrofit rooms to satisfy the new health and safety expectations of travelers are shutting down or being sold to city governments and nonprofits to provide shelter for the unhoused.

Safe, warm shelter from all the storms of life is a basic human need that began with early man living in caves and has not changed a bit today. We have refined and expanded what the cave looks like over time, but it still is basically four walls, a roof and a floor with heat and light. The pandemic has raised our consciousness about how to tweak the designs to make them safer and how to work together in spaces to do that work. What follows are four perspectives from those doing that work. ▲

Contents

Pandemic adds pressure to economic feasibility

Amy Vance, CPSM
Director of business development, Rosemann & Associates PC

As the second quarter closed and Colorado surpassed the 55% fully vaccinated threshold, many in the real estate and architecture/engineering/construction industries started to feel enough distance from the height of the pandemic to consider what has changed. How have we changed? And what is next?

The disproportionate impact of the COVID-19 virus on low-income and minority populations has only exacerbated the supply and demand incongruence for affordable housing across the nation, especially in high-growth and economically advancing regions like Colorado. According to the National Low Income Housing Coalition, "Our supply leaves an absolute shortage of 3.4 million affordable rental homes in the U.S."

Colorado has fewer than 30 affordable and available rental homes per 100 extremely low-income rental households, a shortage of 113,110 homes.

What has changed is the construction landscape and how project teams partner to counterbalance escalating costs. "The lasting impacts aren't going to be the air purifiers or the design of the building; the lasting impacts will be supply chain disruptions and what COVID touched," according to Michael Gaillard, Rosemann & Associates affordable housing project manager.

The most widely discussed impact of the pandemic on the architecture, engineering and construction industry is the extreme rise in material costs and lead times. JES Holdings LLC, national affordable housing developer, manager and investor, noted an increase of 10% to 13% in total development costs per project since the start of the pandemic. U.S. GAO Report-18-627 found that costs per square foot of affordable housing had increased only 55% from 2008 to 2019.

"Trucking and transportation are certainly a component of the increases," according to Jeff Lindsay, estimating manager for Mortenson Construction. "Recent articles are stating that trucking costs per load have increased from 50% to 100%. Driver shortages, shipping container shortages and the price of fuel are all contributing factors."

The compounded impact of higher costs and delayed materials is directing a new level of communication and project estimation. One developer commented, "People are taking into consideration the delay in the logistics of getting supplies out to the property. General contractors are incorporating the delays in their forecasts for construction – if a typical project is 12 months, contractors now project 15 months."

That added three-month delay in project timelines contributes to the normal affordable housing development challenges and capital stacks created to meet pre-pandemic project values – such as the need for submittal of a project budget months to years before formal credit approval. Developers build in some contingency funds to address unforeseen project costs, but recent applications could not anticipate that rate of escalation. This means that many developers are maximizing deferred developer fees and extending the time for payment of those fees.

Economic feasibility has become the greatest barrier to new projects and affordable development nationwide. The most effective source of relief for projects already approved lies in going back to state agencies to request supplemental housing credits to "right-size" deals penciled a year or two prior.

The other obvious avenue for cost savings comes via value engineering. "Budgets are so razor thin, to have labor and material escalation is another barrier to getting people into homes. Now more than ever, we need to creatively delve into any other viable solutions to make the deals work," said Gaillard.

The most widely discussed impact of the pandemic on the architecture, engineering and construction industry is the extreme rise in material costs and lead times, which only exacerbate project challenges for affordable housing.

Everyone in the design world is reacting in one way or another. Trade by trade, design consultants are sharpening pencils and designing new solutions; plumbers draw multiple bathrooms into an optimized plumbing stack to minimize size and volume of PVC piping. Architects are looking at structural panels for exterior sheathing or steel framing to help with the wood costs, others are considering panelized products, while still others are exploring modular or manufactures homes.

In terms of design and structure, a strong need emerging during the pandemic is internet and wireless connectivity. Studies conducted by Stanford University found that by June 2020, 42% of the United States labor force was working from home full time, 33% was not working due to the lockdown recession and only 26% – mostly essential service workers – was working on business premises. To support the remote work of residents, affordable housing developers are focusing on the provision of whole-building Wi-Fi, in-unit internet ports or, at minimum, Wi-Fi connectivity in the community clubhouses with business centers and other common spaces. This is a direction many developments were progressing toward anyway, but as of the pandemic the need for internet is a must.

With the lag between credit allocation and design/construction, any formal design changes are not likely to be reflected in low-income housing tax credit qualified allocation plans until 2022, so architects, contractors and developers are left to work with what they can.

In many cases, what has served communities well will remain; optimized unit staking, prototype kitchens, efficient utilization of grading and topography, façade materials and colors to add visual diversity. Affordable design always has required striking the right balance between cost, quality, form and function. Good affordable housing will continue to be driven by the residents and their needs for a quality, comfortable, accessible home.

In the words of JES Holdings, "The development community is getting back to more grassroots, nuts and bolts ideas of what it takes to build and what we want to own as a property owner. We are focused on removing fluff that adds cost without building in significant value for the residents." ▲

Affordable Housing Development

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Affordable Housing

Takeaways for affordable housing post-pandemic

Erik Hall, AIA
Partner, Van Tilburg, Banvard and Soderbergh, AIA

Our firm has been providing architectural design services in the Denver metropolitan and Front Range areas for over 23 years and longer in the West Coast market. Our work in affordable housing resonates deeply with our firm's commitment to service and the fostering of strong communities. As residents of the Denver area, we recognize the need for varied and robust affordable housing solutions, and we value our opportunity to be a part of those efforts. Our approaches to fulfilling this commitment are being tested as we, along with the rest of the world, make our way through the COVID-19 pandemic. The pandemic has sowed confusion and uncertainty into all of our lives. There are new fears, new anxieties, new and confusing practices. While it hasn't been easy, I believe we have been able to weather those uncertainties well.

The biggest takeaway from our collective journey through COVID-19 for our practice of architecture has been the imperative to be intentional. When the status quo disintegrates, you have to reevaluate your practices, principles and procedures. Some are found to be lacking, while others are revealed to be part of a firm foundation. For instance, individual in-office working spaces at architectural firms tend to be larger due to the size of the paper drawings we produce, allowing for good social distance. Much of our production is computer based, and work from home was possible when needed. Our staff valued the flexibility to work from home, but perhaps even more valued our ability to be socially distant in the office, with the increased sense of normalcy that provided. Zoning and permitting processes were stressed as jurisdictions implemented new digital processes. Taking time to maintain and reinforce our personal connections with the staff at various jurisdictions helped us navigate through the uncertainties. Along with the rest of the world, our use of videoconferencing increased. While we have long made use of this technology, there were challenges in not meeting face-to-face at all. Getting a read of the room is harder. Being distracted is easier. The through-a-screen meetings are exhausting compared to face-to-face meetings. Confronted with these new stresses, we had to be intentional about maintaining well-being and encouraging others to do the same.

For our projects in design, we researched and deliberated new best practices for a post-pandemic world. A sampling of the technical options includes touchless fixtures, antimicrobial surfaces and enhanced air circulation with increased filtration. We began to design with more space and flexibility in lobby/vestibule areas and increased use of indoor-outdoor spaces. We discussed planning for staff and resident screening, particularly in the senior housing sector. There was strong client interest in incorporating home office space, even in smaller units. Daylight and fresh air, always highly valued elements of good design, became even more important. Design best practices take a particular program and budget into consideration, and so the appropriate application of the available options varies project to project.

Daylight and fresh air, always highly valued elements of good design, have become even more important. Design best practices take a particular program and budget into consideration, meaning the available options vary project to project.

Our ongoing affordable housing projects continued to press forward toward low-income housing tax credit funding only to be confronted, once funded, with the unprecedented and ongoing increases in overall construction and material costs. We have seen corresponding increased value engineering pressures, which can be particularly hard for affordable housing projects to bear. However, strong teamwork between the owner, architect and contractor can accomplish much – and did during these troubled times.

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Pandemic-stalled treatment center project restarts

The Abo Group is a well-established architectural practice that has been in business for over 40 years. The firm has withstood shifts in the industry and downturns in the economy – none more challenging than the COVID-19 pandemic. The firm does not specialize in multifamily housing or any specific type of architecture. Our focus is to serve our clients by providing design services that critically examine the context of the project and involve the client and user intimately in the design process.

Our firm was hit hard during the COVID-19 pandemic as many of our clients were institutional or public, like Savio, a nonprofit child wellness organization based in Denver. In addition to my work with the Abo Group, I am the president of the

Ron Abo
Principal architect, Abo Group

board of trustees of Savio House. Pre-pandemic, together with Joshua Pruyn, the development officer of Savio House, we spearheaded a new type of development for the nonprofit – an innovative multifamily housing project that will integrate substance use treatment and its existing services to support Colorado families facing addiction. I donated my time to develop the design and approached the city of Lakewood to determine the feasibility of the project.

The multifamily project will feature six units and have an attached

Joshua Pruyn
Development officer, Savio House

counseling center. Each living unit is an attached two-story townhome (one townhome is a one-story wheelchair-accessible unit) and designed to fit into an existing neighborhood with a mix of single-family and multifamily residences.

This program is unique when it comes to addiction treatment as it focuses on keeping families in authentic home environments, instead of feeling institutional. The main floor plan consists of an open living, dining and kitchen area to encourage family interaction and support the family's therapeutic goals. The three bedrooms upstairs include one master bedroom to give the adults privacy and allow for them to work on strengthening their relationships and two bedrooms intended for children.

The attached counseling center will be staffed 24/7 and have office space, counseling rooms, meeting and training areas, and sleeping quarters. There also will be extra bedrooms for children; this feature allows for the possibility that parents may be unable to care for their children momentarily due to the realities of addiction recovery.

The program is unique, as it will be the first in the country to allow all family members to remain together while one or more parents seeks addiction treatment. By January

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A rendering of the Savio Family Treatment Center

Moving forward together through the recovery

When the COVID-19 pandemic caused the shutdown of most businesses, Caddis Collaborative, a Boulder-based architecture firm for which affordable housing is about one-third of our work, was grateful to avoid much of the impact. All but one person in our small office of nine staff members began to work from home in early March 2020. We already were accustomed to working remotely from home and for clients around the country, so we were fairly well positioned for this transition. We have a mostly long-tenured group of employees, so those well-rooted connections supported working remotely. A couple of our prospects, which included some affordable housing, dried up because of shifts in municipal tax bases and funding shortages. But in large part, we were fortunate. We have a diverse cross-section of projects, and we're generally as busy as we choose to be. Much of our work comes from repeat clients, and those relationships held strong throughout the pandemic. Even with our continued client load, however, we felt the impact of the pandemic and learned new ways to work as a result.

Some of those learnings related to staffing: How many of us can work from home, and what's the right mix? Other learnings related to workflow: How much work do we really want to accomplish in a week, and what's the right work-life balance? Others were architectural: In what ways could our workspace evolve to better support our lives

Bryan Bowen, LEED AP, NCARB, AIA
Principal architect, Caddis Collaborative

and our work? We have shifted some of our employment practices, have rethought how we staff projects, and are now in the process of moving our office (about 50 feet away to a larger space here in the mixed-use, mixed-income Holiday Neighborhood of north Boulder) to bring in a few new employees and create more effective and pleasant spaces. One new project for us, which grew entirely out of the pandemic, is the significant remodel of a housing authority's office space, all with similar adaptive goals that track with our own lived experiences.

At a larger scale, the pandemic brought much uncertainty and volatility to the building industry. We know of other architecture firms that saw much more impact. Construction costs have been highly unpredictable, with changing prices in commodities markets, shipping and manufacturing. And the labor market is tighter than ever. These macro issues affect what we can design and how we can stick to a budget when some costs are unknowable. Demand for housing has spiked, and the housing crisis has intensified. The pandemic stimulated a "Zoom boom" – the move to desirable locations outside of coastal cities – which is impacting even the smallest towns of Colorado. With people no longer having to work in a particular place, the demand for new housing outside of urban areas has skyrocketed. Add to that more restrictive planning, zoning, building codes and approval processes, and you see construction prices being driven up in parallel with the residential real estate market. Not surprisingly, our affordable housing developer clients crave a certainty of outcomes, especially regarding budget, that is hard to provide.

Ponderosa Community in north Boulder

Our clients have seen big impacts as well. Our co-housing clients worry about escalating construction costs and are adapting to learn how to do more with passive affordability – sharing of spaces, smaller units, greater energy efficiency, simpler design, lower maintenance, as well as innovative tools like internal cross subsidies and partnerships with institutions or local government. Affordable housing developers and housing authorities are trying to complete their funded projects on budget and on schedule. Builders are scrambling to find help and keep subs. Those in the predevelopment phase are trying to figure out how to predict costs and the market and to think about how those factors impact traditional funding sources, especially as the demand for afford-

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Perhaps the most impactful piece of hindsight came from the observed and felt deterioration of general well-being with increased isolation and heightened anxiety. Affordable housing operators echoed this as well. The casual connections of our prior lives no longer happened incidentally. Many of the structures and institutions that provide connection and care were suspended. Even when out and about, we were blocked from even the most simple social connections by our masks. Both at home and in our office the imperative to be intentional about fostering connections and community rose to the forefront.

Built architecture is a passive yet strong and pervasive influence on our social connections and livelihood. But the design of architecture is an active extension of caring for people. If architecture is a machine for living, we were forced to ask ourselves how well that machine is serving us. COVID-19 sharpened our resolve with regard to what true sustainability of the built environment really requires. Architects are advocates and visionaries striving to put the appropriate building blocks in place for the thriving livelihood of the residents and occupants of our structures. In the ever-changing landscape of social pressures and technical possibilities, our practice of architectural design continually strives to thread the needle – providing cost-effective, holistically sustainable environments for human flourishing. But buildings are not the only – or even the best – tool to make a positive difference in the lives of the people around us. Each of us, in every sphere, does well to heed the imperative to be intentional. ▲

Abo

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2020, the project had progressed into schematic design, and a general contractor was selected.

Then COVID-19 hit.

The pandemic had a chilling effect on everyone. Although design and construction were considered essential businesses, we had to adapt to a remote working environment, like many other organizations. Recent technological upgrades allowed for the majority of staff to work from home right away, but there still were some bumps in the road. After struggling with a spotty internet connection, my wife, Lisa, the firm's proposal writer, and I opted to work from the now completely empty office in order to ensure that we were still able to meet clients' design needs. Our group survived by cutting staff and expenses, with two Paycheck Protection Program loans, an Economic Injury Disaster Loan and a personal loan to the business.

Meanwhile, Savio's only option was to throw all its resources to support the families it served in the face of rising unemployment, increased isolation and extreme stress. Funding sources for projects like Savio's housing project were paused as meeting the immediate needs stemming from the pandemic took center stage. Development projects had to be put on hold or canceled.

Savio was able to make it through the pandemic through perseverance and is now looking at how it can best support its clients, families served and community which are all working to move forward from the challenges of the past year. This means refocusing on the innovative multifamily collaborative development that will help families remain together while receiving addiction treatment – The Family Residential Program.

This project, conceptualized before the pandemic, is now more critical than ever. Substance use surged during the pandemic, demonstrated by a 59% increase in fatal drug overdoses in 2020. Savio will seek both public and private funding to cover the $5 million construction costs.

Funding opportunities have expanded, and the project is moving ahead with construction beginning as early as June 2022.

Our firm has seen a resurgence in project opportunities in 2021. Much like the Savio project, factors are returning that are allowing delayed projects to move forward. In addition, construction costs that spiked during the pandemic seem to be leveling off. The spigot seemingly has been turned on! ▲

Bowen

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able housing goes through the roof.

We also found improvements in the way we collaborate with our co-housing and affordable housing clients. A big part of our process, especially for co-housing communities, is to host a series of design workshops with key stakeholders. Typically, a project involves four in-person meetings. We fly to the location, pack as many meetings and workshops into as few days as we can, and then fly back to Colorado to execute the design. But the pandemic meant that we had to convert those in-person design sessions to virtual meetings. We discovered that not only could we do this but also that virtual sessions actually allowed us to meet a greater range of learning and participation styles – and of course, it wasn't lost on us that we lessened our carbon footprint significantly by not hopping on the plane so frequently. Even with the world reopening, we will probably not return to so many in-person, on-location workshops. We may do a site visit for the initial gathering and then follow up with virtual meetings after that. We also have deepened our already strong commitment to collaborating with architects who are local to the communities where we are designing projects, and we are actively looking for ways to bundle projects in one city or region.

Our team has returned full time to our new office. It's wonderful to be working together again face-to-face. We learned many lessons during the pandemic that we hope to carry forward. ▲