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MULTIFAMILY PROPERTIES Quarterly

Renovate the right way: Tips for asset upgrades in this market

Taurus Builders

The Elaine, a 23-unit boutique apartment community in Capitol Hill, is undergoing upgrades to its kitchens and bathrooms as well as having the original hardwood floors refinished.

One of the many great things about Denver's neighborhoods is the diversity of historic housing. Acting as a living museum showcasing the architecture of the city's early decades, some areas have properties dating back a 100 years or more.

Areas like Park Hill, Cheesman Park and Capitol Hill are home to smaller multifamily complexes endowed with stately, unique architecture that sets these buildings apart from modern construction. With many of today's renters seeking a living experience that offers more character, these historic properties can provide a competitive edge, but only if they also offer updated interiors with modernized appliances, fixtures and amenities.

Dave Ellena
Principal, Taurus Builders

As general contractors, we're seeing a significant uptick in the number of owners of these smaller historic multifamily complexes seeking to upgrade their dated properties to appeal to new residents – and investors – who continue to flock to the Denver area.

The prospect of updating an older property can be daunting – especially given the recent fluctuations in materials availability and labor shortages – but with a few key considerations, a successful, cost-effective renovation is well within reach, promising improved returns and higher occupancy.

■ **Right-size your renovation.** It can be tempting to swing for the fences with improvements, especially if you want to keep up with the masses of brand-new apartment complexes with state-of-the-art amenities popping up all over Denver.

Instead of risking over-improvement, we recommend looking for ways to update your property within its own context, capitalizing on its strengths and making upgrades that align with current market norms.

The easiest route is to determine the average rental rate where your property is located and decide which improvements will allow you to rent the unit for slightly above that market rate.

In metro Denver, the median monthly rental rate for a one-bedroom apartment is approximately $1,387, according to Apartment List's July rent report, but submarkets can vary, particularly between urban and suburban locations.

Strat Ventures, owner of a 23-unit boutique apartment community in Capital Hill, is in the process of making much-needed updates to bring the property in line with modern resident expectations while still honoring its vintage character. Taurus

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Letter from the Editor

Following investor dollars

While the quarterly always highlights market trends, I found this issue's focus on investment trends very illuminating.

One topic I expect we'll be covering with greater frequency moving forward is the shift in investor appetite for build-to-rent and single-family rental properties. On Page 24, Kim Duty shares information about the uptick of investor demand for this property type and highlights renter demographics. One bit I found interesting was more U.S. households (married and unmarried) with children rent single-family homes than rent apartments or own single-family homes.

A report from RentCafé found that of the more than 100 suburbs that transitioned to a renter-majority population in the past 10 years, not a single one was in the Denver area. Wheat Ridge is the only suburb expected to transition to more renters than owners in the next five years, but there still is impressive growth in renter populations is several areas, the report states. Another report calculated it is now cheaper to rent than own in the Denver metro area, according to Realtor.com.

If the monthly rental rate is cheaper than the average mortgage for a starter home (not to mention the down payment) and there's room in the suburbs to build with cheaper land and more family friendly amenities, it makes sense that investors would see the appeal of amassing portfolios of these properties at a pace not seen before.

Speaking of rents, there's a lot of ink devoted to the topic in this issue. The Denver metro area saw the largest increase in quarterly rents ever in the third quarter, according to Apartment Insights. But as a couple articles in this publication explain, rent growth and rent trends are trickier to dissect. Ron Throupe breaks down a handful of reasons why on Page 8. Then, on Page 22, Glen Weinberg looks at what rapid rent increases have signaled in past cycles and suggests that rather than predicting a continued upward trajectory, it may be an indication of a slowdown or leveling off of real estate prices.

However, we've heard this before – the shattering of records can't go on forever. Erik Toll reminds readers on Page 23 that there were warnings of an imminent decline years ago, and yet, here we are. Instead of looking into a crystal ball, Toll examines past market cycles to address the investor strategy of only buying low and selling high. Spoiler alert: A fictional investor with the worst market timing doesn't make out so poorly going against conventional wisdom.

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Market Update

Post-pandemic market & affordable rents changes

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For the first few months after the pandemic began, participants in the apartment market had virtually no clue what to expect. Previous recessions had caused significant market downturns and with the unprecedented nature of government-mandated shutdowns, the fear of the unknown was worse than reality. It was under these circumstances that many owners and managers began taking steps simply to keep "heads on beds." The initial reaction was to push pause on rent increases and do anything necessary to ensure that occupancy didn't suffer.

In suburban submarkets, that meant holding rents steady, while in central/core markets, that meant offering concessions, thereby reducing effective rents. Prior to the pandemic, there was a significant gap between average market rents and affordable rents. However, during previous downturns, market rents, especially at older vintage properties, fell to levels near or below the maximum allowable affordable rents, causing some affordable residents to move out of their rent-restricted units and into market rent units, which are usually better amenitized. In the past, this not only caused affordable properties to lower their rents below maximum allowable rents, but also it caused an increase in vacancy. During the first months of the pandemic, market participants were left wondering if the same thing would happen again.

Some owners and managers were convinced that any downturn as a result of the pandemic would be short-lived and the recovery would be strong and relatively quick because the factors negatively affecting the market were atypical. Never before had the economy been "voluntarily" shut down and started back up again.

After the initial shock and the resulting softness in the rental market over the next 12 months, the major apartment markets along the Front Range came charging back in the second quarter. In fact, the second quarter saw quarter-over-quarter and year-over-year records in many categories, including both gross and effective rent growth, as well as vacancy reductions and absorption gains. Surprisingly, suburban rents had continued to grow during the pandemic, and then surged higher during the second and third quarters. And while rents in the central/core submarkets did soften, they largely returned to prepandemic levels during the second quarter and moved higher during the third quarter.

In addition, one metro area fared better than others during this time. While both the Denver metro area and Northern Colorado markets were similarly negatively affected by COVID-19, reviewing charts of the performance of the Colorado Springs market would cause an analyst to ask, "What pandemic?"

The third-quarter results brought more of the same. While the second quarter was the best performing quarter in the 17 years of the Apartment Insights survey for the Denver metro area, the third quarter came in at a close second, even exceeding the previous quarter's record rental increase by $20. The third quarter also posted the highest annual absorption ever in the Denver metro area and the second-highest quarterly absorption ever – all while vacancy declined to just below 4.5%. In Northern Colorado, the strong momentum from the second quarter also continued, posting solid gains in absorption and rent growth while pushing vacancy down below 4%. Records during the third quarter included the highest annual absorption and largest quarterly increase in gross rent. Finally, in Colorado Springs, rents continued to surge upward. Excluding the previous quarter's record rental increase in excess of $100, the third-quarter's increase was just shy of doubling any previous quarterly gain. Adding the last two quarters together, rents in Colorado Springs exploded upward by more than $180, or by 15% in six months. Despite these recent gains, rents in Colorado Springs remain below those found in Denver and Northern Colorado.

So how do market rents compare to affordable rents in each of these areas? The average effective market rent in the Denver metro area in the third quater is $1,728 per month, while the maximum affordable rent at 60% of the area median income is $1,179 for a one-bedroom (a $549 difference) and $1,416 for a two-bedroom (a $329 difference).

In Northern Colorado, the average effective market rent is $1,500, while the maximum affordable rent at 60% AMI is $1,080 for a one-bedroom (a $420 difference) and $1,296 for a two-bedroom (a $204 difference). Maximum affordable rent in Weld County at 60% is even lower – $996 and $1,195, respectively. Finally, the average effective market rent in Colorado Springs is $1,417, while the maximum affordable rent at 60% AMI is $927 for a one-bedroom (a $490 difference) and $1,113 for a two-bedroom (a $304 difference).

It should be noted that these differences don't take into consideration the fact that the average market rents generally assume tenants pay for all utilities, while the maximum affordable rents shown assume all utilities are included in rent. Adjusting for this, the difference between market rents and affordable rents becomes even larger.

Based on this large difference between current market rents and maximum allowable affordable rents, it is difficult to fathom a scenario in which market rents would fall to a level that would compete with affordable rents, even at older, less expensive vintages. As such, we predict that affordable rents will continue to remain well below market rents in the major apartment markets throughout Colorado. ▲


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Market Update

Biannual survey results reflect market acceleration

Jake Hallauer, CCIM
President, NAI Affinity

The Northern Colorado market for Class A, institutional size and quality, apartments continues to get stronger as unit deliveries have dropped off significantly over the last 12-18 months and as demand for apartment units continues to be very high – and appears to be accelerating. The strength and resiliency the market has shown following the global COVID-19 pandemic shock is nearly beyond belief, and that has resulted in rapid rental rate increases that the market hasn't experienced for about a decade and occupancies that are nearly as high as they were during the recovery from the Great Recession in 2010, when this apartment development cycle began in the region.

The strength of the market is reflected in NAI Affinity's biannual survey, which was just completed. Stabilized communities in Larimer County experienced a year-over-year increase in average asking rents per square foot per month of approximately 12.59%, with that rate climbing to $1.81 from $1.61. Occupancy also improved dramatically, increasing to 96.21% from 93.56% year over year. In the northern Weld County (Greeley, Evans and east Windsor) area, occupancies also improved significantly, increasing from 94.59% to 96.32% year over year, and average asking rents per square foot per month were up even more dramatically than Larimer County, increasing from $1.41 to $1.67 year over year for a growth rate of 18.6%.

Concessions remain extremely low (one month's free rent maximum and only in select instances) or nonexistent in the market. Delinquencies have normalized to more of a long-term average after the initial economic shutdown due to COVID-19 and the following several months when delinquencies increased. In several instances, landlords have even begun charging rent premiums for 12-month leases on certain units within their communities, as they are seeking 15-month lease terms, or longer, to attempt to smooth the seasonality in the market created by student renters. This strength in the market and the in-migration into Northern Colorado from other states, regions and even from the Denver metro area have led to significant ongoing demand for quality institutional apartment community development sites, and rightly so, as there are less than 1,000 units within Class A, institutional communities currently under construction in the entire region. In comparison, nearly 3,000 units were under construction and in lease-up in the time period between 12 and 36 months ago.

I don't anticipate unit deliveries to grow significantly from what is under construction currently over the next 12 months given that the timeline to entitle, construct and deliver units continues to lengthen. According to CoStar, approximately 1,800 units have been absorbed in large-scale apartment communities in the region over the past 12 months, as compared with the 1,400-1,500 units we were seeing absorbed on an annual basis for two to three years prior. Demand appears to be accelerating while unit deliveries in the next 12 months will be as low as they've been for at least five or six years, which should result in additional rapid rental growth in the foreseeable future, and likely until a significant number of additional units are delivered and/or demand drops off significantly, neither of which appears likely in the near future. In 18-36 months out, I expect to see unit deliveries increase fairly significantly, but that will be necessary to meet the demand in the market unless that demand declines significantly, which seems unlikely at this point.

The strong market fundamentals, coupled with cap rate compression and strong investment demand for Class A institutional assets in the region, has created an excellent opportunity for apartment owners to consider selling. Cap rates have compressed by approximately 100 basis points on the best assets over the last five years, with market cap rates in the low 4% range for the best Class A institutional assets. Each subsequent sale of a Class A institutional asset sets a new record on a per unit sale price basis given the growing rents and compressed cap rates, with the current high-water mark being in the low $300,000s per unit range on a suburban community.

The are many persistent challenges in the Northern Colorado region that limit the delivery of new units, including: sourcing quality development sites in municipalities/districts with cost-feasible impact fees and favorable raw water situations; continually rising development impact fees and raw water dedication costs; longer entitlement and construction timelines due to lack of staffing in planning departments; and supply chain/material procurement challenges and concerns from developers about overall cost feasibility of projects in certain municipalities and/or water districts. Some municipalities also have raised their cash-in-lieu of raw water fees and/or other impact fees, which exacerbates the challenges related to delivering new attainable or affordable housing to the market and, in some cases, also hampers delivery of new market-rate units, which also negatively impacts overall affordability of housing in those areas.

Given the lack of near-term unit deliveries on the horizon, the accelerating demand for apartments in the region and the very tight market in terms of unit availability, I expect the area will continue to be a very attractive region for apartment developers for several years to come. Their main challenge will be finding suitable, reasonably developable sites in areas where the municipal fee structure and raw water dedication requirements allow for profitable new development of apartment communities, but the growing rents should serve to make some projects viable, which likely would not have otherwise been viable with rents where they were 12 months ago. ▲

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Market Update

Understand the data behind rent tracking statistics

The recently released Apartment Association of Metro Denver's third-quarter vacancy and rent report, which I co-authored with Colorado Economic Associates, shows continued rent growth with a low overall vacancy rate. The average rent for the Denver metro area is now $1,726.36, with a vacancy rate of 3.8%. The third quarter showed a rent increase of $74.92 from $1,652.44 last quarter after a second-quarter rent change of $107.85. The average rent change year over year from 2020 is now at $204.70. This rent change represents a 13.45% increase for the year as of Sept. 10. The vacancy rate remains close to historic lows, and units continue to be absorbed as they come available. The overall net absorption of units for the year, 14,365 unit, is the highest on record.

Meanwhile the Case-Shiller housing index for Denver is up 21% year over year (July to July), illustrating that housing prices have gone up faster than apartment prices, making it difficult for renters to become owners.

Recently, many people have asked why we see such inflation in goods and services but not in the Consumer Price Index provided by the U.S. Bureau of Labor Statistics. More specifically, how do we see only a 4.5% increase in the CPI if we have this type of inflation in local rents?

Well, that takes some explaining. On Oct. 13, the CPI for the Denver-Aurora-Lakewood area was released for the period ending in September. Area prices rose 0.3% in August and September, up 4.5% over the year.

Ron Throupe, Ph.D.
Associate professor, Burns School of Real Estate & Construction Management, Daniels College of Business, University of Denver, and state chairman, Counselors of Real Estate

Even higher prices within the index were seen for owners' equivalent rent of residences (plus 0.8%), while the overall "shelter" component also was up 4.5% for the year.

This category of shelter within the CPI is not what one may initially think of when experiencing rental or housing price increases. The price changes in housing are considered investment or capital and not "consumption." Shelter is the cost to provide the service of housing, whether that is the rental cost of an apartment or what the rent equivalent of an owner-occupied home would be if rented. So, shelter is the measure of housing consumption in the CPI, what is called the service flow of housing, not the price change of housing.

The shelter component represents approximately one-third of the CPI index and is comprised of subcategories. The two main subcategories of the shelter index are the owners' equivalent rent of primary residence (23.8% of CPI) and rent of primary residence (5.9% of CPI). The owners' equivalent rent measures homeowners' estimated expected rent if renting their homes in the current market, while renting of primary is a direct measure of rent paid. The remainder of the shelter index is made up primarily of lodging away from home expenditures, such as hotels and housing at school. This portion of the shelter component comprises approximately 6% of the CPI. Apartments are not a focus of the CPI index.

Apartment rents appear to be the most direct measure of the consumption of housing but not a focus of the CPI. Further criticisms of the shelter component include: homeowners' tendency to mis-estimate rent equivalents because they are not actively renting; mismeasurement of long-term rentals not reflecting current rents; and the data within the CPI is lagged, not representing current conditions, and the shelter sampling is not monthly as other components, contributing to a lag and potential corrections to the shelter component. The BLS argues that rent changes are rather infrequent. For the CPI program, rent data from each sampled unit is collected every six months. The logic is that collecting rent data less frequently allows a much larger sample.

Knowing what is now experienced in the apartment and housing market in general, we can expect CPI-related price increases for the shelter component to remain and increase going forward, which means the current rent effects will not be completely "in the numbers" until late spring-early summer 2022. This calls into question the claims of "transient" inflation because inflation measurements can be lagged and thus show up later.

Many analysts prefer to have more granular rent data collection methods that are frequent and have larger local sample sizes – such as those used by multifamily data collectors and in particular surveys that have high response rates, coupled with sampling down to the smaller unit counts (two- to four-unit communities). This allows for better analysis of rental effects for various classes of buildings (A, B, C) as well as issues facing smaller landlords and owners. They believe apartment rent data is a direct measure of shelter consumption.

AAMD's Denver Apartment Vacancy and Rent Survey has approximately a 40-year history of local, broad-based, granular data. Apartment rents measured in 1981 were at an average rent of $336 vs. today's average rent of $1,726.36. This represents a long-term increase of $1,390, or approximately 10% per annum, while the Denver CPI index annual rate over this same period is approximately 5%. Apartment rent changes historically have revealed themselves as nontransitory and persistent. Apartment surveys do not reveal rent crashes or spikes with a return to a mean rent per unit but rather show short-term rent changes or concessions during economic events. A percent rent change rather than some other price change such as CPI over a period is the best measure available. But one thing is for sure: The average Denver consumer has experienced an increased cost of living as Denver has emerged as a major city, coupled with the current inflationary environment. ▲

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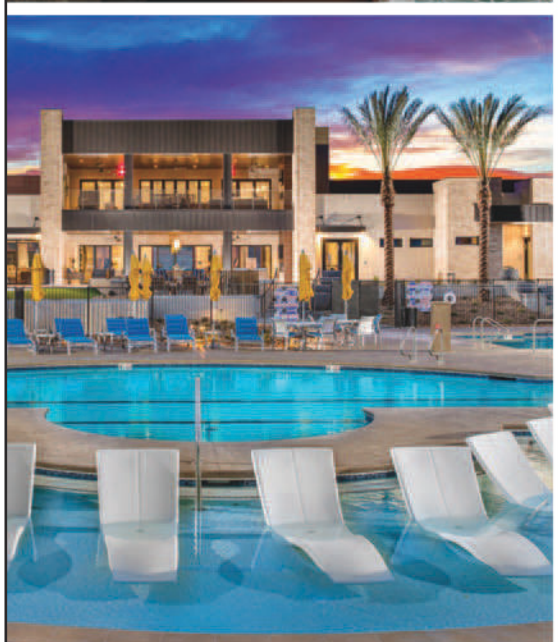


Market Update

Northern I-25 corridor submarkets come into focus

It's no secret that the Denver multifamily market is one of the strongest in the country. Investment firms and real estate investment trusts have been battling it out to gobble up assets, leading to an incredible $7.3 billion sales volume in the last 12 months. And Boulder's multifamily market is equally popular.

These metro markets are saturated with capital and feature the highest asking rent (Boulder at $1,823) and 12-month asking rent growth (Denver at 13.1%) in the state. This undoubtedly is music to investors' ears, but it's most certainly not to most renters.

Affordable housing is a big problem in Colorado metro areas. As rents continue to skyrocket, a large part of the population is being priced out, forcing renters to seek new, more economical rental markets. And it seems their answer has been smaller cities in Northern Colorado submarkets along Interstate 25 where they can have the accessibility to larger metro areas without breaking the bank.

■ **Proximity without the price tag.** Affordability has become a major draw for renters seeking out Northern I-25 corridor submarkets. Here the average asking rent is a 25% to 30% discount from rents in the Denver and Boulder metro areas and a nearly 15% discount relative to the national average.

Boulder is particularly expensive, almost 8% higher than Denver and about 18.5% above the national average. Over the past decade, rental rates in the market have increased over 35%.

Mike Elliott
CEO and managing broker, ERES Cos.

■ **Developments shift to submarkets.** Even before developers started following cost-savvy renters, the Northern I-25 corridor has a long-held reputation of being red-hot. Just hop in your car and make the drive from Denver to Fort Collins – it's hard to miss the amount of development and activity happening across all commercial real estate sectors.

Why the corridor is the fastest-growing area in the state is easy to understand. Cheaper land and less competition have spurred a broader development shift to smaller submarkets outside of Denver and Boulder. Developments in these submarkets are far cheaper than most new developments in the metro areas and have slowly been capturing increasing spillover demand. In recent years, due to heavy regulations on building in the city of Boulder, developers have been targeting the growing Longmont submarket, which is easily within commuting distance to central Boulder.

> Why the corridor is the fastest-growing area in the state is easy to understand. Cheaper land and less competition have spurred a broader development shift to smaller submarkets outside of Denver and Boulder.

Just southeast, roughly 30 minutes by car from Boulder and downtown Denver, is south Weld County, which features two of the fastest-growing cities in the state: Erie and Firestone. Over the past six years, these cities saw a cumulative population growth of over 22%. This submarket also perfectly illustrates the corridor's dramatic growth, with south Weld County's apartment inventory growing from less than 150 units in first-quarter 2016 to over 1,500 units in this year's second quarter. To do the math, that's a whopping 900% increase.

■ **Delivering a strong performance.** Proving south Weld County can pass a supply test, apartment communities have been leasing up at a high-speed pace. In 2019, 240-unit Sandstone Vistas Apartments reached 90% occupancy within seven months of construction completion. That's about 25 units per month, which is almost never seen in smaller markets outside of Denver.

In early 2021, the 221-unit Apartment at Maddie reached over 75% occupancy within 11 months of delivery. That's roughly 20 units per month – in the middle of a worldwide pandemic. Keep in mind the statewide stay-at-home order was issue in March 2020, and the building was only 10% occupied. Also worth noting is that this strong leasing activity was realized without the aid of hefty concessions.

■ **Less risk, more reward.** Unlike other smaller Colorado multifamily markets, Northern I-25 corridor submarkets are mostly shielded from the negative impacts of oil and gas boom-and-bust cycles. Benefiting from proximity to Boulder and Denver, corridor submarkets have reduced exposure to energy market volatility since economies in these two metros are far less dependent on oil and gas activity.

More and more investors are paying attention to the speedy absorption and high occupancy upsides of Northern I-25 corridor submarkets. Thus far, the success of submarket developments and positive demographic trends indicate the prospect of higher-level returns.▲

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Market Update

Mile High City apartment metrics reach new heights

Adam Riddle
Partner, Capstone

There is no doubt about it, multifamily in Denver is red-hot right now. Demand is up, supply is down and cap rates continue their compression trends as prices rise.

The question investors and the market are asking now is, "How long will it last?"

To answer that, let's look at what is pushing up demand, impacting supply and contributing to the overall mile-high multifamily rush.

■ **Denver demand drivers.** Colorado's population is booming. Almost 800,000 new residents made Colorado their home between 2010 and 2020. The 14.8% increase is among the highest rates in the country, with only Idaho, Nevada, Texas and Utah coming ahead.

Denver alone added over 115,000 new residents, growing approximately 20%, making it one of just 14 cities in the U.S. that added more than 100,000 new residents during the same period. This growth has made Denver the state's largest city in Colorado and the 19th largest in the U.S.

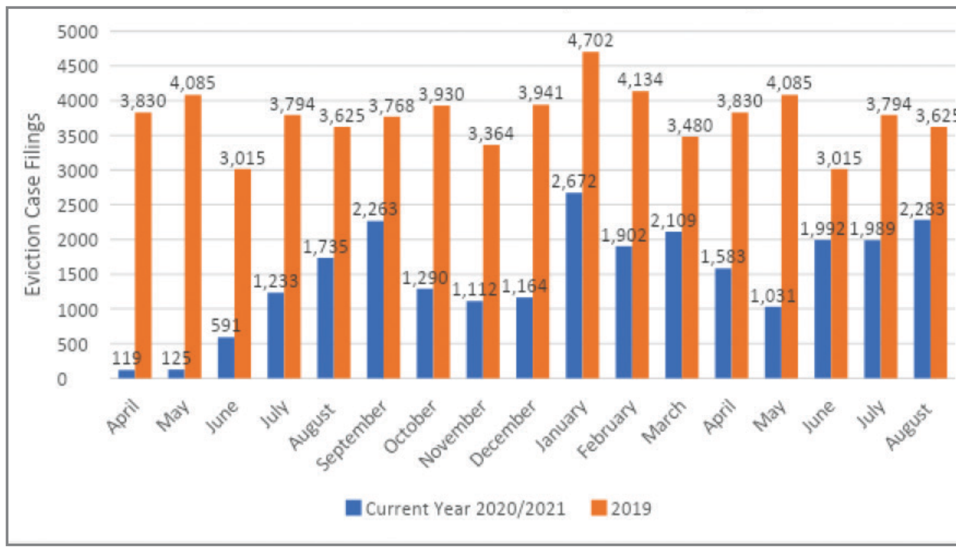
More people living here means a greater need for housing. When combined with the pandemic's massive relocation trend, things get even more interesting. For every one person who left Denver, approximately 1.34 people made the city their new home.

According to LinkedIn, Denver ranked No. 8 in the nation as the most moved-to city in the U.S. between April 2020 and October 2020. During the 12 months after the start of the pandemic, the high number of people moving to Colorado saw single-family home listings drop by about 75%, pushing sales prices up by approximately 24%, according to a local news report. This increase in prices for single-family residences made homes less affordable, pushing many residents to rent instead of own.

As a result, Denver experienced an increase of 11% more rental applications in 2020 than it did in 2019. According to a report from RentCafé, only three other cities had higher year-over-year gains in rental applications: Detroit, up 23%; New York, up 15%; and Charlotte, North Carolina, up 13%. Columbus, Ohio, and Fort Worth, Texas, tied Denver for fourth place. During June, July and August, Denver saw occupancy rates over 95.5%. Occupancy in December 2019 was at a 12-month low at 94.3%, bottoming out in April 2020 with 94.2%, just after the World Health Organization declared COVID-19 a pandemic.

The market has been in a steady recovery since as demand has continued to rise.

■ **Supply side constraints.** On the supply side, Denver completions were up year over year in comparison with 2019. The Denver-Aurora area was only one of three of the top 2020 metropolitan statistical areas to experience an increase in construction starts. However, there were other factors constraining supply.



Eviction cases in Colorado before and since COVID-19 hit, per the second-quarter Capstone Colorado market report

The population growth over the last year coupled with the fewer than expected evictions and foreclosures kept supply tight. On top of that, work on construction sites across the entire country was put on hold for almost a month at the onset of the pandemic.

This was followed by severe supply chain bottlenecks exacerbated by skyrocketing demand as well as lack of supply, labor and logistical support. Borders were closed, sites were shut down and builders waited for weeks for raw materials. As a result, project deadlines were pushed and timelines were extended.

Despite the delays, developments were completed. According to the Yardi Denver Multifamily Summer 2021 report, completions were up year over year in 2020. However, they still were down from the peak of 16,850 units delivered in 2018.

Denver had 21,185 units under construction as of April of this year. About 68% of those are expected to be delivered this year. The rest are projected to hit the market over the next 24 months. In addition, as of April, the Mile High City had 89,900 new units in the planning and permitting stages.

Meanwhile, per the Colorado Apartment Association, eviction filings did not flood the market as was expected. Surprisingly, Colorado's monthly evictions after COVID-19 hit were below those reported for

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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 2.75%-3.50%	• Up to 70% LTV, majority of lenders quoting in the 55%-65% LTV range	5-30 Years	25-35 Years Standard is 30 years Partial to full-term interest only available at lower leverage points	• Market rate properties in major metro areas • B quality properties and above	• Life companies looking for more yield within the multifamily space, so many are willing to go higher in the leverage stack or do pre-stabilized loans • Life companies will go inside 1.25x DSCR to win business from the agencies • With allocations resetting in 2022, life companies want to get ahead on multifamily production and will price aggressively for deals slated to fund in 2022 • Ability to incorporate flexible prepayment structures for a slight premium to the rate
AGENCY	• Sales of mortgage-backed securities with implied government guaranty	• Non-Recourse • Longer-term fixed rate loan	140-215 bps over the comparable US Treasuries Interest rates are 3.05%-3.80%	• 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	• Allocations increasing next year by $16B, 50% of production has to be "mission-driven affordable housing," which typically is Class B and C properties • Harder for agencies to compete in tight cap rate markets due to the 1.25X DSCR stipulation • Partial to full-term I/O is available, depending on leverage • Lowest pricing available for properties with "Mission Rich" programs
CONDUIT (CMBS)	• Sales of mortgage-backed securities through public markets	• Non-Recourse • Longer-term fixed rate loan	Rates 3.25% - 3.75% (spreads 160-210)	• Up to 70% LTV • 1.25x Minimum DCR • 7.5% Minimum Debt Yield	5, 7 & 10 Years	Interest 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
BANK	• Corporate Debt • Deposits	• Recourse (some non-recourse available) • Shorter-term fixed and floating rate loans	Interest rates range between 3.25% - 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 • Occasional 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 + 250-400 bps (0.10%-0.25% LIBOR floors)	• 65-80% LTC • Going-in 5.0% Debt Yield • Non-cash flowing properties financeable non-recourse as well	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 • Interest carry reserves or operating reserves able to be incorporated into the overall cost and financed • Lender fees are typically 0.50%-1.00% upfront, 0.50% at exit

DCR - Debt Coverage Ratio
DUS - Delegated Underwriter Servicer
LTV - Loan to Value Ratio
LTC - Loan to Cost Ratio
LIBOR - London Interbank Offered Rate
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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Essex Financial Group - Recent Multifamily Transactions

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Market Outlook

A 2021 recap of lending & what to expect in 2022

Multifamily, to no one's surprise, continues to be one of the most desired product types in the Denver market and across the country. At roughly $5.9 billion, according to Real Capital Analytics, 2021 multifamily transaction volume year to date already has surpassed the past three years and potentially will set an all-time record. Fundamentals have come back in a tremendous way since the stagnation of the market caused by COVID-19, leading to all-time low cap rates and even more competitive transaction processes.

As it continues to be a darling for investors, it is also a darling for insurance company lenders. Insurance companies always have been a strong lending source for multifamily properties, but there was an even stronger push for this product type in 2021. We saw this source of capital come out strong in the first half of the year, aggressively chasing multifamily deals and, in some cases, beating out both Fannie Mae and Freddie Mac, which historically have been the go-to sources for multifamily borrowers. All-in rates were getting down to the low- to mid-2% range for stabilized multifamily loans, sometimes even going to 20-year loan terms.

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While multifamily continues to be the darling for investors, it's also a darling for insurance company lenders.

In this current environment insurance companies are remaining cautious about less predictable office and retail properties, which have flooded the market with hundreds of millions of dollars of extremely low-yielding investments. This ultimately would lead to changed lending dynamics for the second half of the year.

In the third quarter, we started to see some insurance companies shift their focus to higher-yielding opportunities in the bridge space, prestabilized construction takeout loans or higher-leverage options on conventional deals to balance out their portfolios. While they retooled their focus, the aggressive nature of the capital did not change.

For bridge lending, we saw quotes at 65%-70% of cost at plus/minus 3% all-in rates. Although still attractive pricing, this represents 50 to 75 basis points of higher yield to insurance companies. Similarly, insurance companies have been more willing to push leverage beyond historical thresholds and dip below their typical debt yield metrics to capture some interest rate premium as well. Most recently, we finalized quotes for a multifamily acquisition where the life insurance companies offered $500,000 more in proceeds than the agencies, or roughly 3% leverage. The loan represented a sub-6.5% debt yield, but the quoted pricing was 3.75% to 4%. This is a prime example of insurance companies taking on more risk to chase yield. So, while they retooled their focus during the second half of 2021, by no means did the capital become less aggressive or attractive for the right business plan.

Now that we find ourselves in the fourth quarter, insurance companies are coming back to the market for conventional product as they look to fill their pipelines for 2022. The same aggressive nature is back and we believe is here to stay for at least the first half of next year. They also are a very attractive source for assets that are not deemed "mission-critical" by the agencies. Borrowers should be vetting both the insurance companies and agencies as allocations are reset. In an incredibly competitive transaction market where cap rates in the 3% range have become the norm, the most aggressive debt financing terms are more important than ever. ▲

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Market Outlook

Goldilocks and the 3 fundamentals of real estate

Kevin Brinkman
Co-founder & CEO, Brinkman Real Estate

In the first quarter of this year, JPMorgan CEO Chase Jamie Dimon coined the term "Goldilocks moment" to describe the current market environment. Why Goldilocks, you ask? Remember the porridge, chair and bed that were just right? Similarly, Dimon's outlook coming out of the pandemic recession was that we would see fast and sustained growth with inflation and interest rates rising only gently, just the right amount to maintain a healthy economy.

The drivers behind the Goldilocks moment included a broad range of factors. In the first quarter, the vaccine was just beginning to become readily available. The expected successful rollout pointed to optimism that our world would start to open and we'd begin to see operations across business sectors approach normalcy. We also saw household and corporate savings reach an all-time high due to several factors, but primarily due to the influx of government spending into the economy. Historically low interest rates supported by continued quantitative easing also helped to stabilize the economy at a much faster rate than we'd normally see coming out of a recession.

As we close out the year, these predictions have largely materialized and provide a continued positive outlook for the economy, especially real estate. The gross domestic product surpassed prepandemic levels back in fourth-quarter 2020 and continued to increase at an annual rate indicative of economic recovery and reopening of businesses (6.3% in the first quarter, 6.7% in the second quarter, according to the U.S. Bureau of Economic Analysis). While the delta variant of the novel coronavirus sent a surge in the infected numbers this summer, it didn't curtail consumer spending the same way the first waves of the virus did in 2020. Savings have remained high with an excess of nearly $1 trillion going into the fourth quarter, as well as personal income approaching prepandemic levels. Spending appears to have normalized to traditional long-term trends, growing at a normal rate over the course of the year. With the $1 trillion infrastructure bill expected to pass by the end of the year and an additional $2 trillion to $3.5 trillion from the Build Back Better Act, these trends are expected to continue in the right direction.

As we end 2021 and look toward 2022 armed with this data, the outlook for real estate investors is strong. However, like the Goldilocks story, we must choose just right and consider the fundamentals of real estate: selecting the right asset class, in the right market, at the right time.

Construction and housing costs continue to point to multifamily as an appreciating asset class for investors. The supply chain difficulties for key construction materials look to continue through 2022, thus making new construction less attainable. Coupled with construction costs, home values continue to increase at an unattainable rate. On average, United States home values have increased more than 17% since last year and are expected to rise nearly 12% in the next year. Those numbers become even more apparent in smaller communities as the de-urbanization trend continues and people migrate out of larger cities into quality-of-life focused places, specifically the Intermountain West region. Together, these factors lead to a lack of affordability for prospective homeowners and the need for rental supply.

Location continues to be the guiding light of real estate investment. The U.S. Census Bureau map highlights the country's population growth while further justifying the price increases we are seeing across the Mountain West.

This 2020 census data showcases the highest population increases happening in states within the Intermountain West region, and the pandemic just further accelerated that trend. After being confined to their homes for nearly a year, people are moving to locations with easily accessible outdoor amenities and opportunities for increased living space.

Over the last year, you can see that nearly all the fastest-growing markets are the smaller, suburban cities. The smaller suburbs of Arizona, Colorado, Utah, Idaho and Washington have seen upward of 20% increases in population, while the larger cities, such as Seattle, San Francisco and Los Angeles all experienced 3% to 10% decreases in population in the last year, according to an article from Bloomberg.

We see a similar trend with the Intermountain West region experiencing the highest percent increases in employment over the last year, according to World Population Review.

To conclude with timing, the timing for investment is now. We currently are living in an opportunistic moment of time. The Federal Reserve's quantitative easing measures soon will begin tapering, which will cause interest rates to rise. Federal Reserve Chairman Jerome Powell stated in his speech at the economic policy symposium late this summer that "a gradual tapering process that concludes around the middle of next year is likely to be appropriate."

While we expect the increase in interest rates to happen gradually, it could be the cold porridge that concludes our Goldilocks moment.▲

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Market Outlook

Looking ahead: Things investors should monitor

It is an exciting time to be a multifamily investor in Colorado. Our state is one of the top markets for investment for those seeking to deploy capital within the space. As we look ahead to the end of the year and into 2022, there are several trends that investors and stakeholders in apartments are keeping an eye on. This article will outline some of the major points of discussion from the weekly conversations between our team and hundreds of investors out in the marketplace:

- Rental rate growth
- Inflation
- Interest rates
- Asset values
- Tax and political changes

The No. 1 thing everyone has been talking about is the phenomenal rental rate growth that apartments in the Front Range have seen within the past 12 months. According to Apartment Insights, Colorado Springs, the Denver metro area and Northern Colorado have seen 18.3%, 13.4% and 12.9% annual rental rate growth, respectively. Our team and many owners expect rental rates to continue to climb into and through 2022 as Front Range vacancy remains historically low.

The reason for this strong belief is that Colorado is a top migration destination for highly educated workers who can pay top rents. According to the September LinkedIn Workforce Report, the top five cities with workers relocating to Denver were San Francisco, New York, Chicago, Washington, D.C., and Los Angeles. Because these metro areas all have higher costs of living, Denver is seen as a more affordable lifestyle city. Denver rents are now \$2 per square foot on average; if that grows another 10% in the next year, it still will be seen as more affordable for many of these workers.

John Blackshire
Vice president, Transwestern

Although rental rate growth in the double digits seems implausible, we already have seen rent growth on that pace this year, and with inflation above 5%, it is much more realistic. This inflation is causing expenses such as supplies, payroll and insurance to rise for owners, which in turn affects their net operating income. Owners are frequently talking about how these rising costs are eating into the rental rate growth gains they are seeing.

With all the talk of inflation, the conversation often turns to the potential for rising interest rates. Many believe that the Federal Reserve will not start raising interest rates until late 2022. Colorado investors are benefiting from net operating income growth that outpaces other multifamily markets. Rising interest rates and inflation also shift asset allocations among investors away from fixed income over to multifamily, where prices can be reset with annual lease renewals.

This shift in asset allocations has and will continue to drive competitiveness within the multifamily capital markets. There is more money looking to be deployed in the capital marketplace than ever before. This has caused multifamily asset prices to surge to all-time highs, and they continue to climb. This year and 2022 will be great years to sell multifamily assets in Colorado as investors continue to scramble to place their capital. Many syndicators are taking this moment to take some chips off the table and ring the victory bell with their investors.

Other investors are selling for different reasons – the most talked about being future tax and political changes. Although major tax change proposals have stalled so far within Congress, some owners still believe they may manifest. 2022 is the midterm election year, and Democrats will want to be able to point to some wins before heading to the ballot boxes. Concerns about changes to 1031 and capital gains taxes rising have caused a flurry of activity at year's end.

In terms of political risk, many owners are throwing in the towel and saying that multifamily is no longer for them because of the undue regulations and bureaucracy. However, politics can be beneficial for owners long term as the government institutes heavy-handed affordable housing policies. Denver just announced new affordable housing mandates for development of both for-sale and for-rent projects. A study done by economists led by a professor at the University of San Jose has shown that these policies lead to 10% fewer homes developed and 20% higher housing prices. As such, many existing owners are thanking the city council for their misguided policies that will add to the value of their holdings.

The beginning of 2022 could start off with another flurry of activity as investors rush to buy and take advantage of the low interest rates and competitiveness among lenders. With all new price points being seen on Colorado apartments, others will want to sell and take advantage of the strong seller's market. COVID-19 has led many Americans to rethink their priorities and to emphasize an outdoor lifestyle. With large amounts of money saved during the pandemic, this past summer has seen a migration surge of millennials taking advantage of their savings accounts and the strong job market. We believe this trend will continue through summer 2022. Colorado is an attractive lifestyle market with great jobs, and the outdoor and urban recreation opportunities that transplants seek. We have a strong economy that is growing faster than many other locations, and we are not quite as expensive as other major markets, yet – "yet" being the key word. ▲

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Market Outlook

Large rent increases could signify cooling market

Glen Weinberg
Chief operating officer and vice president, Fairview Commercial Lending

Apartment rents are rising rapidly across the Northern Front Range, at a rate of about triple what was seen before the pandemic, with annual gains topping 20% in places like Parker and Colorado Springs. What is causing the large increases in rents? What did the Federal Reserve study find regarding rents?

■ **What was in the data?** As of October, midpoint or median rents were $1,501 for a one-bedroom apartment in metro Denver and $1,839 for a two-bedroom unit, per the Apartment List October report.

After Colorado Springs, Castle Rock had the biggest gain in apartment rents since the start of the pandemic at 21.6%, followed by Parker at 20.5%, Thornton at 19.9%, Lone Tree at 19.1%, Littleton at 17.7% and Broomfield at 16.6%.

Furthermore, a second-quarter report, sponsored by the Colorado Division of Housing, surveyed local apartment owners and landlords whose properties totaled nearly 23,000 units in the Colorado Springs area. It showed the average monthly rent jumped to $1,429.58 in the second quarter in the Colorado Springs area, up $95.89 over the first quarter, when rents averaged $1,333.69. Since the start of the year, rents have climbed by $163.66 and are $183.11 higher than in the second quarter of 2020.

To put those rent hikes into perspective, the average weekly wage for workers in metro Denver rose 4.3% annually in the first quarter of the year, according to the U.S. Bureau of Labor Statistics.

Long- and short-term rents are rising considerably faster than wages, which cannot happen forever. There are five major factors causing the huge jumps in rental rates:

1. Demand: COVID-19 led to huge increases in demand from coastal markets for more space.

2. Supply: At the same time demand has spiked, supply has not come even close to keeping up, which has led to huge imbalances in the market.

3. Cost to build: Build costs have skyrocketed for both labor and materials, resulting in more new builds being high-end properties to command higher rents, which essentially has "pulled" up rents on lower-priced properties.

4. Cost to maintain: Along with build costs, the daily maintenance costs also have increased. This includes maintenance costs associated with roofing, flooring, appliances, maintenance staff, etc. All these increases get passed on to the renters.

5. Taxes: Property taxes in Denver are predicted to increase about 36%; these costs are passed on to renters.

■ **Will the large jumps in rental rates continue?** I think we are only at the beginning of rent increases as rents still have a ways to go to catch up to the huge increase in prices. Furthermore, I don't see much changing with the five variables above to substantially change the dynamic of rent growth. The one item that eventually will slow rent growth is that wages will not be able to keep up with the huge increase in rental payments. The rent prices at some point will slow unto themselves for this reason. Unfortunately, it is hard to predict when this will occur exactly, but I would assume sometime in the next year or so.

■ **What does this mean for real estate values?** Rent rates are a lagging indicator of values. As values increase, rents rise to "catch up" with the values. What does this mean for future value?

The Federal Reserve did a great study on this in 2004 to see what impacts rent growth had on future appreciation: "My main findings are that periods in which house prices are high relative to rents appear to be followed by periods in which real rent growth is faster than usual, and real house-price growth is slower than usual, and that the response of prices dominates that of rents. The third analysis provided the most conclusive evidence that house prices correct back to rents."

Essentially the study found that in rapidly appreciating markets, like we are seeing throughout Colorado, it takes some time for rents to catch up to values. Why do rents take time to increase? Many leases are signed for at least a year, which insulates the existing tenant from large increases. As the leases renew, the increases begin to occur. This whole process could take years to filter through the rental market depending on the lease renewals and turnover of tenants.

By that logic, we are just beginning this trend as prices of real estate really started to take off about 18 months ago. The Federal Reserve study confirms that there is an intrinsic relationship between rent growth and price growth of real estate. As rents make large jumps, prices will "correct." This means that prices will stay constant in the best-case scenario and will fall in the worst-case scenario. Furthermore, the study found that prices were unlikely to continue the rapid appreciation because at some point rents cannot rise enough to justify the value. Long and short, the two scenarios predict that prices will either stabilize or fall.

■ **Summary.** The Federal Reserve study shows that there is a historical correlation between rents and prices. The huge jump in rents is a warning sign for the real estate market. As rents jump, prices will flatten in the best-case scenario. Wage growth is not coming even close to keeping up with the increases in rents. The median wage in Denver rose only 4.3% while at the same time rents jumped almost 20%. This is clearly not sustainable.

Unfortunately, the huge rise in rents signifies that the real estate party is almost over. The one question remaining is if there will be a crash or merely a stabilization in prices. If appreciation continues unabated, rents will not be able to keep up and a crash will be in the offing. ▲

Investment Trends

Re-evaluating the 'timing the market' strategy

Financial history is brimming with tales of cunning investors reaping fortunes by predicting the future. John Paulson and Michael Burry famously shorting the subprime mortgage market in 2007 – entertainingly documented in book-turned-film "The Big Short" – reigns chief among recent examples. As students of history, we are inclined to think that being in the right place at the right time is the surest path to profitability.

Erik Toll
Vice president, capital markets, CBRE

Buy low, sell high ... right?

We are at the top. In early 2016, the consensus was that multifamily assets in Denver were topping out. With average rents growing steadily since 2012, cap rates had compressed to 5.64%, and lenders and investors alike were pulling back the reins, some opting to leave the marketplace altogether. A well-respected market statistician was convinced it was a matter of when, not if, we went into recession or economic downturn. The smart money said sell, take gains off the table and wait for the inevitable crash to start buying again – and many did, helping Denver tally a $6.7 billion multifamily sales volume on the year.

Fast-forward to 2021. What if you had listened to the experts and cashed out? What if you had sold at record highs in 2016, waiting for the inevitable dip so you could buy back in later?

You likely would be sore from kicking yourself.

You would have seen values compound over 8% annually, rents surge, cap rates compress more than 100 basis points and the apartment building you sold increase in value by 48%, according to data from Real Capital Analytics. Without even considering the effects of leverage, you surely would have forfeited enough return on capital to make any investor weep.

Buying at the top. A multitude of studies have examined the profitability of holding investments over time. Most seem to dispel the widely held notion that "buying at the top" yields negative or inferior returns. In fact, one analysis profiled earlier this year in Forbes showed that investing on days where the S&P 500 closed at a new high actually can yield better results than investing on other days.

While it is certainly not an apples-to-apples comparison, it is worth testing this same hypothesis through the lens of Denver multifamily. What would happen if an investor – say, the Mile High City's worst market timer, Doug – invested in apartment buildings strictly at market peaks over the last 30 years? For consistency's sake, Doug only invests in 25-unit properties.

- 1995: Encouraged by recent rent growth and the completion of Coors Field, Doug buys an apartment building in nearby Capitol Hill for about $1.6 million, or $71 per square foot.
- 1996-1997: Doug's first building loses 25%, then 22% of its market value. Now it is worth $930,000.
- 1998: On the back of Elway's 14-2 Broncos, the multifamily market surges back 80%. Doug buys another building for $1.67 million.
- 1999-2001: Despite a mild 2000, Doug's second building loses 9% of its value. Both properties are worth $1.49 million.
- 2002: The dot-com market is on fire, so Doug buys a $2.1 million building, 40% more than it would have been last year.
- 2003-2004: Down 4%, then 5%.
- 2005-2006: Doug buys two $2.53 million buildings, marking the first time multifamily price per unit values exceed $100,000 per unit.
- 2007-2010: The world is ending. Values fall by over $20,000 per unit on all of Doug's five apartment buildings.
- 2011-today: For over a decade, Doug has purchased one property annually, the most recent in 2020, already having increased 19% in value.

An oversimplified view of Doug's investing career paints a clear picture: Despite buying at strictly record-high prices, Denver's "worst" investor managed to not only avoid losing money over the period but also amass a 15-property portfolio, the sum of his initial investments having nearly doubled in market value.

Time in the market vs. timing the market. Doug's example undoubtedly neglects several critical and real-life components of real estate investing: the effects of leverage, interest rates, cost of equity, necessary capital expenditures, investment style (stabilized vs. value-add), local regulation, internal return requirements, holding period and so forth. Still, it highlights several critical points.

Time minimizes the risk of loss on an investment. While this holds true for many asset types, multifamily sales data tracked by CBRE in Denver suggests that an apartment building will not decrease in per-unit value over a six-year hold period. Time, not timing, is the robust track to success. While Michael Lewis will not write a book about your long-term investment strategy, your retirement fund might thank you for it.

Investing is a human endeavor. While buying at the bottom is a romantic concept, in practice it is emotionally and mentally taxing. No one has a crystal ball, and predicting investment strategies on wildly unpredictable market movements is an exercise in futility. Instead – as Doug aptly demonstrated – stick to what you know and focus only on what you can control.

It is paramount to remember that no investment outcome is certain. While we sing the praises of legendary investors who bought gold at just the right time or invested in oil in the 1900s, history forgets those who wagered it all and lost. With a bit of patience, discipline and risk management, we can mitigate the abundance of unknowns when we put our capital to work. "Expensive" is a relative term, after all. ▲

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Investment Trends

Capital eyes single-family build-to-rent assets

The rental market has added two new acronyms to the sector as the country emerges from the pandemic – SFR (single-family rentals) and BTR (build to rent). To be sure, both of these existed before COVID-19, but the work-from-home world significantly increased the desire for larger living spaces, and the hot for-sale market priced many Americans out of homeownership and into single-family rentals.

Institutional investors noticed and have been plowing funds into SFR and BTR. In January, Pretium and Ares Management Corp. acquired Front Yard Residential Corp. for $2.5 billion. In March, Transcendent Investment Management and Electra America formed a joint venture to develop 15,000 new single-family units over the next five years, and PCCP formed a $1 billion joint venture to invest in built-for-rent communities in primary and secondary markets.

In April, Crescent Communities launched a single-family built-for-rent brand for its new development across several Sun Belt markets, and Atlas Real Estate and DivcoWest formed a $1 billion joint venture to acquire and renovate single-family rentals. Blackstone acquired the SFR company Home Partners of America for $6 billion in June, and JLL Income Property Trust invested $560 million to acquire a stake in an SFR portfolio in August.

To be clear, single-family renters are not new. In 2019, at 14 million strong, they comprised one-third of the rental market. Renters in

Kim Duty
Senior vice president, Public Affairs and Industry Initiatives, National Multifamily Housing Council

apartments (more than five-unit properties), in comparison, made up 45% of U.S. renter households.

It's the flow of institutional capital into the sector that is new. As of 2018, individual investors owned approximately 73% of SFRs, compared with 23% of apartment homes in smaller properties (five to 49 units) and just 7% of apartment homes in properties with 50 or more units. In that same vein, a recent Altus Group study estimated that institutional investors (firms with portfolios of over 2,000 properties), despite controlling over half (50% to 55%) of all U.S. apartment units, owned between just 2.1% and 2.5% of all single-family rentals. The deals noted above suggest that is quickly changing.

Given the new interest in SFRs, it's worth looking at who these renters are and how they differ from traditional apartment renters and single-family owners. To begin with, they are bigger households than apartment renters. They average 2.9 people per household compared with 1.9 people for apartments.

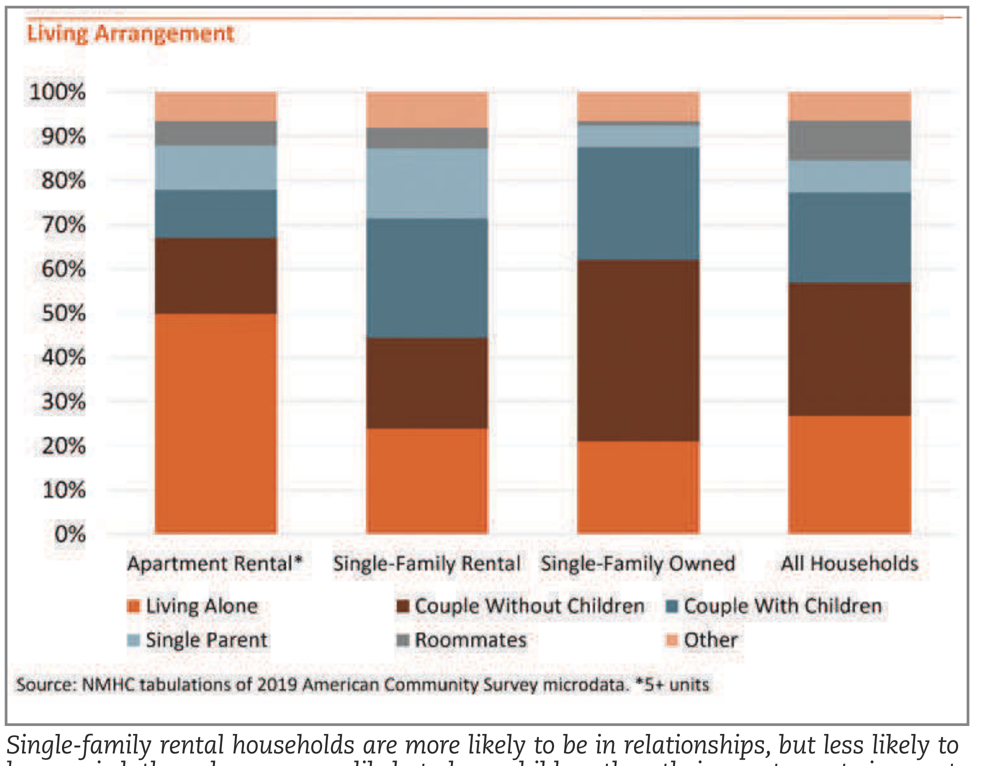
■ **SFR households.** SFR households are more likely to be in relationships, but less likely to be married. Couples (married or unmarried) made up approximately 20% of SFR households in 2019, compared with 17% of apartment households and 41% of single-family owner households.

However, 23% of single-family renter couples and 29% of couples in apartment households were unmarried, compared with just 7% of single-family owner couples. These stats suggest a strong association between relationship status, and especially more serious relationships (marriage), and single-family homeownership.

Households in single-family rentals differ rather significantly from their counterparts in apartments in their share of households with children. Forty-three percent of single-family renter households had children present in 2019, compared with 30% of single-family owner households and just 21% of apartment households.

Another notable difference between households with children living in single-family homes, rented or owned, is that they tended

Please see Duty, Page 32



Single-family rental households are more likely to be in relationships, but less likely to be married; they also are more likely to have children than their counterparts in apartments and those living single-family owned homes.

Core plus assets offer solid investment opportunity

Christian Garner
President and CEO, Avanti Residential

Apartments remain in high demand for investors regionally and nationwide. Positive demand generators and evolving resident preferences are playing out alongside long-term, low-risk fundamentals that support continued strong performance for apartments in the year ahead and beyond.

Abundant equity capital continues to drive record pricing and record-low yields, especially in the value-add segment for renovation properties in potentially overheated markets. From our vantage point as Denver-based apartment investors for 15-plus years, however, we see better investment opportunity in higher-quality core plus assets.

■ **Supply-demand imbalance.** Migratory patterns have significantly impacted supply-demand imbalances in relocation destination markets. Almost overnight, the pandemic mobilized the nation's workforce at a surprisingly rapid pace. A sudden work-from-anywhere paradigm shift spurred widespread relocations from urban to suburban markets, and large metropolitan statistical areas to mid-sized cities, even resort communities. Why not remote in from a beachfront location or a ski town if you can?

Housing affordability, job displacement, career changes and a flight from states with more restrictive pandemic mandates have all spurred relocations. Florida, Arizona and Texas have seen the largest influx of new residents.

The ongoing shortfall in the nation's rental housing stock over the past decade and changing attitudes toward homeownership further support apartment demand fundamentals. It will take the construction of 350,000 units annually between now and 2030 just to meet existing apartment demand nationwide.

This is buffeted by growing lifestyle tenant demand from those who choose the convenience of renting over homeownership or have cashed out of their home amid soaring single-family residential prices. We see increasing lifestyle tenant demand in communities throughout our portfolio and with it higher creditworthiness among tenants who were former owners. In some cases, we're seeing residents qualify by a four-times factor.

■ **Value-add vs. core plus.** Increasing tenant demand has forced rental rates up across all categories of apartments at a pace not seen since before the Great Recession. Yield-driven investors continue to bid up value-add rehab properties in the hottest markets, notably Phoenix; Denver; Austin, Texas; and most of southeast Florida, to the point where these investments are difficult to pencil. Not surprisingly, these markets also are the recipients of strong migratory trends.

We are seeing pro forma yields on older, 1970s- and 1980s-vintage apartments, assets requiring significant capital reinvestment, offered at close to the returns on new core plus apartment communities in markets with similar fundamental strengths. Some of these older assets are trading at price per unit figures equal to or in excess of current replacement costs, a difficult value proposition for a 40-plus-year-old property that needs major work.

The attributes of investing in newly completed or recently stabilized apartments are more compelling at this juncture. Core plus assets are devoid of redevelopment risk, unpredictable increases in construction and labor costs, supply chain interruptions and labor shortages. And when the difference between the price per unit and replacement costs narrows between these two investment types, newer, amenity-rich apartment complexes with superior design and construction quality are an easy choice.

■ **A Colorado case study.** Forum Fitzsimons in Aurora is a good example of this occurrence. Avanti purchased the 397-unit complex for $110 million this past April, making it the largest apartment investment in the Denver area to date in 2021. The property traded for $351,000 per unit after netting out the retail component of the sale; replacement costs for Type 1 construction in suburban Denver now exceed $400,000 per unit.

Granted, the project was 88% leased at closing and has since reached stabilization at 95% occupancy, due to growing tenant demand in the area and the hard work by the on-site leasing and management teams. Asking rental rates on new leases have climbed 10% since acquisition, and crime has dropped 35%. We especially liked this asset due to its location next to a major employment center, Fitzsimons medical campus, and the future development and job growth potential there.

But the back story involves our exchanging out of older value-add assets at per unit price points and yields comparable to the newer Forum Fitzsimons. When the delta between per unit values is negligible and the yields on the down-leg core plus asset are 50 basis points higher, this trade-off is, to say the least, attractive.

We are seeing this scenario play out in other markets in the U.S., particularly in Florida where this year we have either closed or are in contract on 813 units for $300 million in three properties. In each of these cases, the property is a newly built lifestyle-driven community in a desirable location, buoyed by strong market fundamentals and healthy tenant demand.

The year ahead will present some challenges as eviction moratoriums are lifted. Retention levels likely will return to their historic 45%-50% equilibrium. A moderate loss-to-lease vacancy is to be expected, and turnover costs will impact project-level profitability to varying degrees. Rent rolls also will get stronger. The apartment sector has recovered well from the early shock of the pandemic and is thriving in growth markets and popular relocation destinations. Unprecedented rent growth is occurring in markets all over the country. The preference for lifestyle tenants to occupy newer apartment communities with abundant amenities continues its upward climb. From our perspective, core plus investments with these key fundamentals will meet with success. ▲

Investment Trends

The golden ticket: Finding hidden yield in rentals

Emir Dukic
CEO, Rabbu

In the 1971 American musical "Willy Wonka & the Chocolate Factory," deserving and unassuming Charlie Bucket finds the prized golden ticket in his store-bought chocolate bar. Awarding him a tour of the famous Chocolate Factory, which is otherwise shutdown to ward off recipe theft, the golden ticket delivers Charlie to his journey through sugary abundance, where his integrity and generosity will result in his inheritance of the factory following Mr. Wonka's retirement.

The COVID-19-era real estate market has been a steady stream of golden tickets. Not only has the market as a whole seen increased strength, but also the reorientation of preferences and priorities among tenants has created new opportunities in secondary markets and niche asset classes. Real estate remains the best investment on the planet. Established investors know to take a dispassionate view in times of change, to watch the market for trends as the yield slowly shifts. In so doing, those prized, golden ticket opportunities have slowly admitted their trends. And luckily, there's more than enough to go around.

■ **Becoming Charlie Bucket.** Short-term rentals, used as live-in-ready apartment spaces to be rented for weeks or months at a time, have returned some of the best margins the market has ever seen. And the returns have come without dips in demand or increased portfolio risk.

Outperforming the traditional accommodation sector, short-term rentals quickly rose as the traveler's top choice. Offering unique, equipped and – most importantly – uncrowded accommodation options, the market share for short-term travel lodging grew as high as 41% in 2020.

Short stays simultaneously become the professional's preferred negotiation between two no-good options: compete in an inflated housing market or lock into an annual rental contract in a city where the COVID-19 recovery timeline remains a mystery.

Within a post-COVID-19 portfolio, the short-term rental strategy represents a new avenue for demand: a sought-after industry offering that requires no additional risk and offers tangibly improved margins. For investors with property portfolios, and for long-term rental owners, the pivot to a short-term rental strategy requires almost nothing. The short-term opportunity, created by an accelerated market shift, does offer that feeling of finding a glimmer of gold in the chocolate bar you've already bought from the store.

■ **The secret recipe: Over 40 doors.** Years ago, the National Multifamily Housing Council estimated that 65% of booked nights on Airbnb were coming from multifamily listings. Since the forces of the pandemic, that number is set to increase. Investors in the multifamily space are well-acquainted with the subsectors that arise in the market, through which the yield travels and shifts. Student housing, senior housing and co-living niches have all had their claim to increased return in the multifamily space.

Now, all signs point to short-term rentals taking the lead in the yield race. The strategy allows apartment landlords to differentiate their listings, realize higher and more frequent tenant payments and hedge the risk of long-term tenants losing ground on their payments. Owners are seeing the benefits of reduced vacancies and increased demand, allowing them to market higher prices at a sustained occupancy rate. Buildings with more than 40 doors have seen some of the strongest traveler and resident demand for short-term rentals, a trend that's positioned to grow in the next phase of vaccine rollout and post-pandemic recuperation.

■ **Sweet home Colorado.** Two kinds of short-term rental licenses are available to homeowners in Colorado. A Short Term Rental License allows homes in residential districts that are a primary residence to be rented for periods of less than 30 consecutive days. A Tourist Home Rental License does the same for properties that are in commercial zones and don't have a primary residence requirement. As it stands, there are 38,209 active listings in the state.

In the window of bookings offered for Sept. 24 to Oct. 24, Colorado bodes one of the higher average daily booking rates. Real-time data from a short-term rental calculator reports the 38,209 active Airbnb listings in the state are seeing a $299 average daily rate and achieving a strong average occupancy of 55%.

The performance of short-term rentals is seasonally dependent, and Colorado with all of its offerings is always in a winning season. The late year attractions – snowy slopes, picturesque hikes – are bringing out-of-state families in for travel. And the short-term rental will remain the traveler's best option, as these are homey spaces full of local culture and free from the ongoing dangers of crowded indoor space.

A compounding force is contributing to the success of Colorado's short-term rentals, and it's coming from the housing side of the real estate world. Recently, Denver set a record, logging a 21.3% home price index climb and becoming one of seven American cities to hit its highest-ever 12-month increase.

Residents approaching homeownership age are being priced out of the market. Families are choosing to rent for longer and enjoying the freedom of bringing work on the road, exploring new locales and being closer to extended family if needed. For these reasons, the demand for Colorado's short-term rentals is only expected to climb; investors and owners in the Colorado area have golden tickets all over their lawns. ▲

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Renter Trends

A perfect positive storm for the multifamily market

It has been an interesting last few years for our national multifamily real estate development market. A rare confluence of positive market influences and the lasting effects of COVID-19's impact on design strategy have come together to support a market that's now stronger than ever. From Seattle to Boston, Los Angeles to Miami, the health of the overall multifamily marketplace is far-reaching, and the greater Front Range and Denver market are both helping to drive the trend and going along for the ride.

New, institutional-quality multifamily communities as well as individual developments increasingly are being perceived as great investments due to the steady tenant demand, less capital required for upkeep and continued low-interest rates, all coupled with the changing ways of the global renter population, have greatly fueled our wonderful market fire. Additionally, shifts in the tenant mindset versus owning a home are driving down vacancy rates and fueling the marketplace nationwide. Here are a few stats to consider: According to the National Association of Home Builders, due to COVID-19, 8.7 million millennials have returned home and eventually will be back renting, most likely soon. As of Sept. 1, only 5.2 million of them had returned to the rental market. Furthermore, 32% of renters in the U.S. today don't think attaining the American dream includes homeownership anymore, 26% of all homeowners wish they were renting, and 20% of renters say they'll never buy a home. Clearly, the numbers are all pointed toward continued positive and healthy growth

Nathan Sciarra, AIA
Principal, Mountain West/ Denver HD Studio, KTGY

rates in the multifamily market sector.

While the financial aspects of the global economy have fueled the steady growth of the multifamily industry, the global pandemic that took hold of the world in March 2020 forced the design world to recalibrate its strategies to accommodate the new world condition. The byproduct produced innovations that have greatly improved what the consumer is now receiving. The most apparent result is a shift to a globally accepted work-from-home model. This, in turn, means that you don't have to live near where you work, which has fueled global mobility and, therefore, tenant demand. With the vast majority of the global workforce not being able to physically go to work, many fled to far-flung destinations, looking for a change of place near family or simply to live somewhere they weren't able to live pre-COVID-19.

We have all heard the stories of the architect who, prepandemic, worked in a Denver design studio but now holds down her job from her new hideaway in Sun Valley; or the Atlanta-based attorney who now works from his new great apartment in Chicago, allowing him to be closer to his aging parents; or the Seattle physician now able to work from New Mexico utilizing advanced telemedicine technology; you get the picture. Being able to work from anywhere has given rise to being able to

Kaltenbach Photography

Built to LEED standards, Circa Fitzsimons in Aurora delivers modern, stacked flats with integrated WeWork space and recreational amenities appealing to the young professional outdoor enthusiast.

live anywhere and has, in turn, fueled the demand for innovative multifamily properties.

To accommodate this new population of people who are free to roam the country or world, for that matter, the need for creative and flexible work-from-home space has increased dramatically and is evident in the new designs of multifamily. Increased use of natural light, close access to amenities, and living space and shared collaboration spaces are becoming more commonplace in the design of multifamily properties. Additionally, fewer virus-attracting surfaces, better HVAC-filtering systems and more touchless controls, to name a few, are ways to help minimize the transmission of illnesses, not only for the COVID-19 virus but also for flu and cold germs as well. And, let's not forget the money saved by leasing teams now able to take prospective tenants on tours via Zoom, utilizing digital fly-throughs of the properties or, better yet, the ability for the prospective tenant to be able to physically experience the multifamily property using virtual reality headsets and supporting software.

We clearly live in a new world as it relates to the multifamily business and the design thereof. Although the last 18 months have been difficult, we're happily and gratefully continuing down a healthier and prosperous path. ▲

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Renter trends: Small cities are best for living large

Alexandra Ciuntu
Writer and researcher, RentCafé

In a perfect world, a renter's dream apartment encompasses the big three needs: good monthly price, generous square footage and a coveted location. Usually, these types of listings are found under the umbrella of luxury or high end. But don't let the exclusive name fool you: Landing such a deal is possible – in certain parts of the country more than in others.

RentCafé conducted a study on more than 600 cities and towns to see where renters have more chances of securing a bargain that offers high-end amenities at great value in a coveted location. The apartment search website also took into account the share of high-end units in each city and how many of those are in what are considered to be top locations within a city. The findings follow those of a previous survey, which revealed that, in the wake of the pandemic, renters place more importance on having a wider range of amenities and more space than on finding something cheap.

Turns out, renting a reasonably priced apartment with ample space in a top location can become a reality – as long as you live in the right city.

■ **Best places for renting luxury apartments.** To define what luxury means, we turned to our sister company, Yardi Matrix, for a comprehensive description. Classified as A-plus, A, A-minus or B-plus properties, these rentals offer quality features, exquisite finishing details, resort-style amenities and a location that stirs the envy of most. When factoring in the lowest monthly price for these types of rentals nationwide, small southeastern cities take the cake.

Places like Hoover, Alabama, or Warner Robins, Georgia, boast some of the best deals on luxury units, even for renters who want to go as high as the low $1,000s. Those working with a budget will be glad to know that this low range can get you around 1,150-1,160 square feet in both locations.

For renters looking to relocate to a small town, Shawnee, Kansas, is an attractive option that offers some of the largest units on the list – around 1,230 sf on average for about $1,170 per month – and that's on top of being one of the best places to live in the country.

The study then zooms out on state level to see which parts of the United States offer more good deals on luxury rentals. Georgia, Alabama and South Carolina rise to the top when it comes to mixing luxury amenities with a good price, lots of space and a coveted location – particularly because of good high-end deals in smaller cities with populations less than 300,000.

Although outnumbered by small towns, there are several cities with populations over 300,000 that are great for renting high-end space at great value. Larger cities can be more attractive due to more job opportunities, shopping and entertainment options, and quicker access to most things of interest. Renters who value these types of perks should turn to Lexington, Kentucky (around 1,040 sf for about $1,190 per month); Louisville, Kentucky (1,030 sf for $1,270); Tulsa, Oklahoma (950 sf for $1,045); or Omaha, Nebraska (980 sf for $1,180) for the best luxury apartment bargains.

Top 5 Cities to Rent High End in Colorado

Rank	City/State	Average Rent	Average Sq. Ft	Share High-End	Share in Top Locations
1	Castle Rock, CO	$1,645	1,025	70%	100%
2	Parker, CO	$1,609	961	97%	100%
3	Greeley, CO	$1,364	875	33%	66%
4	Colorado Springs, CO	$1,514	945	43%	64%
5	Highlands Ranch, CO	$1,742	997	100%	91%

Data Source: Yardi Matrix

RentCafe

■ **Castle Rock is Colorado's finest option for high-end renting.** The town of Castle Rock is the most advantageous option for renters who want to live large in Colorado. It offers the roomiest rentals in the state at 1,025 sf, with rent prices around $1,645 a month. But there are other places in Colorado where renters have chances of securing a reasonably priced luxury apartment with ample space in a top-quality location.

Parker and Highlands Ranch both distinguish themselves through the wide inventory of luxury rentals in good locations. Although apartments for rent in Parker come cheaper, at around $1,600 a month, those in Highlands Ranch come with more space on average – 997 sf.

Greeley is the spot you want to rent in if you're looking for the most affordable options. Here, around $1,360 per month gets you an average of 875 sf. Rentals in Colorado Springs offer more space on average, 945 sf, but come at a slightly higher price – about $1,510.

The U.S., and Colorado implicitly, has its fair share of luxury rental deals. And, regardless of individual preferences or changing attitudes following the pandemic, a bargain is hard to resist in any city. ▲

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Preservation

A blueprint for transformational, affordable change

Jack Aronson
Vice president, acquisitions, CPP

With Colorado's population rapidly rising over the last two decades, housing affordability has quickly become a pressing issue in many parts of the state. Now the sixth-largest state in the country, according to the 2020 census, Colorado has earned its mark as an attractive place to live, work and play. To meet future population demands, industry forecasts estimate that Colorado needs to develop 54,190 new housing units annually over the next five years to fill the housing gap. Yet, despite housing being a fundamental human right, the cost burden of housing has threatened too many Coloradans' way of life, with the housing affordability crisis reaching a breaking point in many markets across the state. So, what's the way out of Colorado's housing crisis? The solution is rooted in creating and preserving as many housing units and types as possible. Increased supply, while maintaining the current supply, will drive down and stabilize rents.

■ **Affordable housing starts with preservation.** It's a well-established fact backed by research: Adequate and reliable housing can determine a person's employment, education and health outcomes. With a population of nearly 6 million people, Colorado is in dire need for more affordable housing – yet it's one of the hardest states for developers to get much-needed tax credit allocation for preservation projects.

With Colorado estimating just over $16 million in tax credit allocations in 2021 alone to finance the construction and rehabilitation of low-income affordable rental housing, it's time to double down on efforts to combat affordable housing challenges. It starts with streamlining the tax credit program to make funds more available and increase the state's stock of affordable housing and preservation.

■ **Working together to serve the greater good.** The fact of the matter is that the tax credit program and tax incentives that drive the private sector to address public good are the most effective tools we have to get the social results we want to see. Since the Low-Income Housing Tax Credit program was established in 1986, more than 3 million housing units have been subsidized through the program, enabling developers to help deepen affordability for millions of residents across the nation and ensure their basic human right to have safe and vibrant places to call home. For more than 30 years, the Low-Income Housing Tax Credit program has served as the largest source of affordable housing financing in the United States and has been instrumental in preserving housing in irreplaceable locations that serve existing communities, including those throughout Colorado.

One such example is Casa Del Sol in Pueblo, where 154 families were saved from losing their homes – just in the nick of time. Built in 1972, the multifamily apartment community entered into a "mod rehab" contract in 1982 to ensure annual improvements and continued affordability. Unfortunately, the property was never maintained, with most units outfitted with Nixon-era appliances. In 2019, the owner notified the U.S. Department of Housing and Urban Development that it was allowing the contract to expire. Consequently, the government subsidies would run out and there no longer would be financial assistance to offset rents for the low-income tenants.

With connections to capital and creative abilities to close quickly, preservation developer CPP stepped in to buy the complex and took swift action – within days – to ensure residents were not priced out of their homes. Working alongside the owner, we secured $22.6 million to convert the existing mod rehab contract into a 20-year project-based rental assistance contract, using both Housing Assistance Payments contract and additional tax credits to secure financing.

This enabled us to protect both the property and community from a complete economic collapse – one that would have displaced more than a hundred families as a result of the immediacy of rising rents. Extensive renovations were completed in July 2020, with improvements that modernized Casa Del Sol to the level of a market-rate community.

■ **A different way to home.** Affordable housing rehabilitations continue to play a vital role in the communities they serve. A missing layer to this important work is the sense of urgency, which is key to closing the housing deficit and creating transformational change. When we focus on the big picture, the opportunity lies in providing a stable and predictable housing subsidy program and streamlining the process in ways that create the right incentives and increase the amount of tax credits available. Harnessing the power of the private sector and allocating resources to make affordable housing developments pencil will drive investments for these much-needed projects. With a sense of urgency and purpose, real estate leaders and housing partners can unite to serve the greater good, create the pathways that preserve and protect affordable housing, and in turn strengthen communities and enhance lives. ▲

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Preservation

Collaboration needed for aging adult housing crisis

At this point, Colorado's growing housing crisis is no secret. The state's popularity on the national stage, combined with development challenges and materials scarcity, led to a stark imbalance between housing supply and demand even before COVID-19. The issue is only getting worse. As of this summer, Colorado ranked first in the nation for housing instability, per the U.S. Census Bureau's weekly household survey. Older adults in particular are feeling the pinch, with more than a third reporting they had slight or no confidence they could make their rent.

Headlines about the challenges we face to create and preserve affordable housing for our aging population are abundant. They all boil down to one simple fact: Metro Denver must prioritize attainable senior housing and work to protect and improve the existing stock of housing reserved for these populations. Examples of replicable solutions in the news are far less frequent. That doesn't mean they are not out there.

Our firm recently celebrated the renovation of Denver Metro Village in the Sloan's Lake neighborhood of Denver. One of the first affordable housing communities in Colorado serving vulnerable seniors 62 and older, the community also has the distinction of being located in one of Denver's hottest real estate markets.

We worked closely with Metronomy Inc., a nonprofit organization created to manage Denver Metro Village, to complete the renovation with the help of government programs aimed at assisting in the development of affordable housing and to minimize disruption to existing residents.

Greg Glade
Co-founder, MGL Partners

In addition to it being a rare story of affordable housing preservation in one of Denver's most popular neighborhoods, this project offers several lessons in the power of for-profit/nonprofit collaboration to address some of the bigger challenges we face in housing.

■ **Harnessing individual strengths.** Most professionals who serve the aging adult community are not, by nature, development experts, and it's unrealistic to expect them to know how to most effectively navigate the complicated process of building or renovating a community. Partnership between nonprofits and the development community is one of the most-effective approaches to meeting the challenges we face in housing – especially when it comes to areas outside of traditional market-rate work.

By harnessing Metronomy's strengths in senior care alongside our expertise in development and renovation of this particular housing type, for example, we were able to update Denver Metro Village in a way that left the nonprofit in a financial position to effectively preserve and maintain this essential asset in the community for years to come.

■ **Leveraging available resources.** Awareness of and experience with the various financing mechanisms available for building or renovating affordable senior housing is a huge part of the battle and a big area where the private development community can support nonprofits.

MGL Partners recently celebrated the renovation of Denver Metro Village in the Sloan's Lake neighborhood of Denver. One of the first affordable housing communities in Colorado serving vulnerable seniors 62 and older, the community also has the distinction of being located in one of Denver's hottest real estate markets.

The renovation of Denver Metro Village was primarily financed through the Colorado Housing and Finance Authority's noncompetitive federal 4% low-income housing tax credits. These credits are awarded to developers by the government and can then be sold to investors to obtain funding for the development and maintenance of incomed-restricted housing.

With Section 8 vouchers through the U.S. Department of Housing and Urban Development used on more than 50% of the units, the nonprofit was able to establish cash flow that helped it maintain the building over time and enabled it to take on the renovation. More than 120 of the units in this community are and will remain eligible for Section 8 assistance going forward, providing future predictability for the operators. The remaining units are available for seniors earning between 40% and 80% of area median income.

■ **Enhancing and preserving existing housing stock.** In addition to adding more units to our affordable age-restricted housing stock, ensuring the

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Construction

Precaster's role begins early for parking projects

Colorado's current real estate market conditions and increasing housing market needs are pushing the demand for multifamily housing to quickly meet the needs of the population influx.

Kevin O'Connell
Director of preconstruction, EnCon United

Uses of precast concrete products in multifamily projects are helping meet the stringent time, labor and cost goals through the use of podium and wrap-style parking structures. These cost-effective, low-maintenance and durable projects are proving to be easily integrated into neighboring architecture and offer great strength, resiliency and durability. Another important aspect for multifamily projects is the need for reduced long-term maintenance, which can be accomplished by engaging a precaster in the preplanning for drainage, snow storage/removal and traffic coatings. This preplanning offers long-term time, labor and cost savings for the owner. Creating the best parking structure for the site, users and budget that meets all project needs requires a careful balance of all construction elements and a logical design plan from start to finish.

Delegated design is a unique situation in the construction industry that requires the collaboration of a structural engineer of record and a precaster to provide the engineering and design of a structure with precast components. The engineer of record delegates the design of the primary precast concrete structural system to the precaster.

"Delegated design for precast concrete structures identifies the design responsibilities of the EOR and the precaster," said Jason Lien, executive vice president, EnCon United. He stressed that close collaboration among the entire design team is the most important component for successful projects.

In these projects, precast concrete will interface with other building systems, so it becomes necessary to clearly define designs and demands for these elements. Precast scope and design responsibility will differ on each multifamily project depending on materials used, suppliers and manufacturers, creating a dire need for clear design, schedules and project expectations. Early involvement with a precast specialty engineer allows for a collaborative delegated design role in the design and drawing process with the engineer who will be responsible for the precast components of the project. The specialty precast engineer should be brought on from the onset of the project to assist in developing drawings and load paths for the precast concrete system to the building plans and foundations. Using early panelization from the precast engineer, identification of lateral elements, sizes of panels and openings required will assist the engineer of record in understanding how to design the foundation system for the loads required and set head room expectations.

Each use of precast concrete will determine the amount of planning and the intensity of involvement with the precast engineer. It's important to note that the size of the project and the uses of precast concrete will determine the impact on the overall structure. The specialty engineer will communicate the needed support and limitations of the precast system to the team and will be able to design and explain how the components will impact the remaining building systems existing outside of precast scope. From the initial conception of design until the parking structure opens, a host of choices must be made that will affect the final design and cost of the project.

Precast concrete is a high-performance product and system that can be used to meet the needs of this growing multifamily market segment due to on-site manufacturing and speed of installation. Precast concrete consists of specialized concrete mixes that are cast into project-specific panels at an off-site plant. The concrete is placed into a mold or form and cured before being removed from the form. Precast components are then transported to the project site for installation. This prefabrication process allows all pieces to be cast in a controlled environment and erected on site, creating one of the quickest and most-efficient building systems available. Durability is the intrinsic value that allows precast, prestressed concrete parking structures to outlive competing materials. The difference is the level of quality in standard concrete mixes. With projects requiring 5,000 pounds per square inch concrete for the 28-day strength, precasters typically need 3,500 psi concrete in eight to 10 hours to be able to turn over the casting beds daily. This 3,500 psi release strength in eight to 10 hours results in mixes with a substantially higher 28-day strength than the 5,000 psi required. The combination of low water-to-cement ratio and heat-cured concrete equals a high-strength, low-permeability, durable parking structure.

All of this allows owners and builders the ability to effectively meet housing schedule demands while minimizing site and project delays, and reducing overall costs. Precast product advantages can include long-life span, continuous insulation, fire resistance, vibration control, corrosion resistance, acoustical control, speed of construction, greater quality control and finish consistency with in-plant production. Plant production reduces on-site labor and lowers the job-site safety risk. With construction material costs currently in an unpredictable state, precast costs remain less volatile within the market due to local outsourcing of standard material such as cement, rebar and aggregates. This also reduces the risk of supply chain problems that can result from lack of delivery capability from vendors across the country. ▲

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Market Trends

Continued from Page 1

Builders is upgrading the outdated kitchens with new cabinets, quartz countertops, tile backsplashes and new appliances, while also refinishing original hardwood floors and upgrading bathrooms. Units are flagged for renovation when vacated by the previous resident, ensuring a steady, but not overwhelming, approach to a full-building upgrade.

The first round of revitalized units were immediately leased at a rate consistent with the owner's goals.

■ **Bring in the experts early.** With unpredictable supply chains, labor shortages and cost increases in commodities and materials of all kinds, undertaking a renovation right now is rife with challenges. Uncertainty can make budgeting difficult, and if you add in potential complications that can come with working on older buildings, it can feel nearly impossible to get an accurate estimate on project costs.

That's why it's best to involve a trusted general contractor early in the process. Include the GC during the underwriting stage, so it can help estimate costs of materials and labor and give you a construction timeline that is informed by education and experience.

A good general contractor also has the know-how to help you determine what kind of budgeting and scheduling contingencies you should build in to accommodate possible complications with plumbing, wiring or other potentially problematic elements that can be found in an older building.

■ **Scale your efforts.** We find that owners of smaller multifamily properties regularly own or are interested in purchasing more than one asset. In this case, we recommend establishing a design standard and making choices that work for all the targeted properties. Coordinating these choices requires a little bit of planning to ensure that what you're getting will work across multiple properties, but the investment in the planning stages pays off in saved effort during the renovation process.

By applying the same design choices across multiple properties, you save time and money on your design budget and simplify the procurement process for your construction team. Additionally, using the same materials across more than one project increases opportunities for economies of scale in your product purchases.

Between the combined 34 units being renovated at both The Elaine and The Ernest, a multifamily community built in 1957, there's an estimated 14% volume savings on materials. The owner also captured savings with the design teams by avoiding selection of new finishes.

Down the road, keeping a consistent design scheme and appliance program for multiple properties can make overall management easier, from maintenance to marketing, and can help establish a recognizable brand for your properties.

■ **Keep the peace.** As you're in the process of upgrading your property to attract new residents, it is, of course, important to keep your existing residents comfortable. An experienced construction partner can help you smoothly navigate a staged construction schedule, keeping your current residents happy and getting work done as efficiently as possible. By completing the work in phases, you can minimize disruption to your cash flow as well.

Right now, we are in the process of upgrading all 11 units and common areas at The Ernest. Updates will include new kitchen cabinets, quartz countertops, tile backsplashes, new appliances and remodeled bathrooms with new tile and vanities. In order to minimize disruption to residents, work begins no earlier than 9 a.m., when most tenants have left the building. Higher noise level activities also are pushed to the middle of the day.

Adaptability is the name of the game in real estate today, and owners of Denver's iconic historic multifamily properties are smartly looking for ways to pivot to meet the demands of today's renter. With a knowledgeable construction team, you can chart the best course forward to maximize the value of an older property. ▲

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Riddle

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2019 for every month since April 2020.

However, the data we have is through August of this year. The original Centers for Disease Control and Prevention eviction moratorium ended Aug. 26, and the extension, which applied to areas of high transmission, expired Oct. 3. The unemployment payments established by the Coronavirus Aid, Relief and Economic Security Act expired Sept. 6. As of May of this year, the data show month-over-month increases in evictions.

The latest foreclosure statistics, as reported by the Denver Office of the Clerk and Recorder, show that as of August of this year, new foreclosure starts were trending up month over month and down over year-to-date 2020.

Releases of deeds of trust were trending down month over month and up year to date over year-to-date 2020. It remains to be seen if evictions and foreclosures will continue their upward trend.

■ **Price pressures.** In addition to increased demand and supply constraints, transaction volume, rent growth, labor and material shortages, and economic uncertainty have all helped keep prices up.

Denver's multifamily sales volume was $3.1 billion for the first half of this year. That's almost double the total for the same period last year, placing Denver in fourth place nationwide for transaction activity. The Mile High City bested Miami for the metric and followed Phoenix, Dallas and Atlanta. The price per unit, however, was the highest of the top five transaction volume markets in the country at $308,668.

Multiple factors are contributing to the city's high prices. Nationally, asking and effective rents for multifamily properties reached historic levels in the third quarter.

In Denver, rent growth registered at 8.11% year over year in June. This placed it in ninth place for the top Western markets for rent growth. This rent growth – coupled with historically low interest rates – has been a beacon for investors seeking a hedge against continued inflation.

On top of that, labor and materials shortages have been all over the news. The lack of available workers is being reported across the vocational and professional spectrum. The labor shortage has prompted many employers to increase wages and benefits – a cost that eventually gets passed down to consumers or, in this case, renters and homebuyers.

Meanwhile, raw materials prices have hit historic highs.

During the COVID-19 era, lumber, plywood, No. 2 diesel fuel, steel, and copper wire and cable all experienced price increases over 100%. Whether building from scratch or making renovations, these increases are being passed through to renters and homebuyers. A recent survey of homebuilders showed that 66% of respondents said that they were increasing their prices to cover the material increases.

The increase in prices have pushed Denver's market cap rates to historic lows and well below the national average. Not surprisingly, leading the cap rate compression trend are the city's four- and five-star properties.

Projections show that cap rates will increase slightly in 2022 and continue a stable upward trend over the next few years as the market normalizes, interest rates increase and supply chain constraints ease.

While we have no control over how long this market will last, investors do have control over their portfolios. Now is the time to analyze the shifts taking place in the market, consider evolving trends and take action to optimize their portfolios to thrive regardless of what comes down the multifamily pike. ▲

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Glade

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units we do have are equipped to meet modern needs is vital. Here again, collaboration with the right partners is essential to ensuring strategic, quality upgrades that will stand the test of time without breaking the budget.

Engaging with Santulan Architecture and Milender White Construction, Denver Metro Village was able to add a new 185-space parking structure, 8,123 square feet of commercial space and 19 additional residential units. The renovation also included significant upgrades to the 191 existing units and amenity spaces. And all work was completed without displacing the existing residents.

We have a similar partnership in place with Silver Key Senior Services, Golden West and Senior Housing Options to bring new affordable senior housing to Colorado, and overall these affiliations between for-profit and nonprofit organizations are increasingly common.

Issues as big and complex as Colorado's housing challenge won't be solved by one type of enterprise working alone. Providing accessible, quality housing to seniors and income-restricted people of all ages in metro Denver and across the state will require a joint effort with partners who are willing to lean on and learn from one another.▲

Duty

Continued from Page 24

to have more children and slightly older children, on average, than those apartment households that had children.

The notion that households with children typically want more space is not new, but the larger number of SFR households with children compared to house owners was unexpected. One possible explanation is that a disproportionate share of single-parent households live in single-family rentals and are priced out of the ownership market given their single income.

Not everyone who wants to live in a single-family home can afford to buy, which is one reason why homeowners tend to have higher incomes than renters. In 2019, the median single-family owner household had an income of $88,433, compared with $51,776 for the median single-family renter household and $41,420 for the median apartment household, adjusted to 2020 dollars.

The growing disparity between rapidly rising house prices and relatively stagnant incomes is likely to continue to cause more households – particularly those with children – to seek out single-family rentals as an alternative.

How big is the gap between income growth and house prices? For-sale single-family home prices rose an average of 3.6% over the past 20 years, 5.1% over the past 20 years and 6.4% over the past five years, according to the Federal Housing Finance Agency home price index. Meanwhile, the median household income increased an average of 0.5% annually over the past 20 years, 1.5% over the past 10 years and 3.4% over the past five years, according to the Current Population Survey.

■ **Single-family built-for-rent gains attention.** The shortage of single-family houses – whether to buy or to rent – has resulted in a growing subset of institutional investors creating build-to-rent communities that are operated like investment-grade apartment communities, with consistent branding, housing quality and vintage, only the units are single-family homes.

While single-family BTRs represent a small fraction of all single-family homes built, the market share is growing. From 1974 to 2007, BTR homes were approximately 2% of all single-family starts. From 2008 to 2020, however, this average share rose noticeably to 5% per year. When looking at the universe of all housing units built specifically for rent, an average of 7% of annual starts were single-family between 1974 and 2007; this share rose to 11% from 2008 to 2020.

■ **There is enough room for everyone.** The high costs of buying a single-family house are likely to increase the demand for single-family rentals going forward. However, there is little reason to believe that this growth will come at the expense of apartments. There is a high degree of diversity among American households – whether it be in terms of age, income, living arrangement or other unobserved preferences – which translates into demand for a wide variety of housing products.

The apartment market's post-COVID-19 rapid rent growth, for example, is testament to the strength of the underlying demand for apartments, as well as the market's limited supply. This tightness in the housing market illustrates that, after decades of underproduction, we need to build more housing of all types. ▲

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