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Mid-Year 2011

Apartment Perspective

News and Analysis about the Denver Metropolitan Area Apartment Market

Inside this issue:

Overview

Denver's apartment market continues to improve with vacancy decreasing to 4.8% as of mid-year 2011. Vacancy rates have not been this low since 2000 when the rate was reported at 4.7%. Vacancy rates soared upward by 4.0% following 9/11 with continued gradual increase to 10.0% through 2004. From 2005, vacancy rates began decreasing steadily to 6.1% through 2007, but rebounded upward nearly 2.0% in 2008 following the financial crisis remaining stable through 2009. Since the beginning of 2010, vacancy rates have decreased each quarter to the reported 4.8%.

Vacancies in new construction (built since 2005) decreased nearly 4% to 8.9%, the lowest rate since 7.2% in 2007. All other age related apartment segments report vacancy rates less than 5.0%. Pre and post WWII buildings report vacancy rates of 2.5% while buildings constructed between 2000 and 2004 report vacancy at 3.9% and 1980s and 1990s buildings are reporting vacancies of 4.4% and 4.5% respectively.

Average rental rates increased slightly from $909 at year-end 2010 to $915 through mid-year 2011. This is an increase of 4.6% from $875 in 2009 and a 2.9% increase from $889 in 2008. Median rental rates increased 2.0% from $846 in 2010 to $863 at mid-year 2011. This is up 6.4% from $811 in 2009.

Charts and Graphs:

Metro Denver Economy

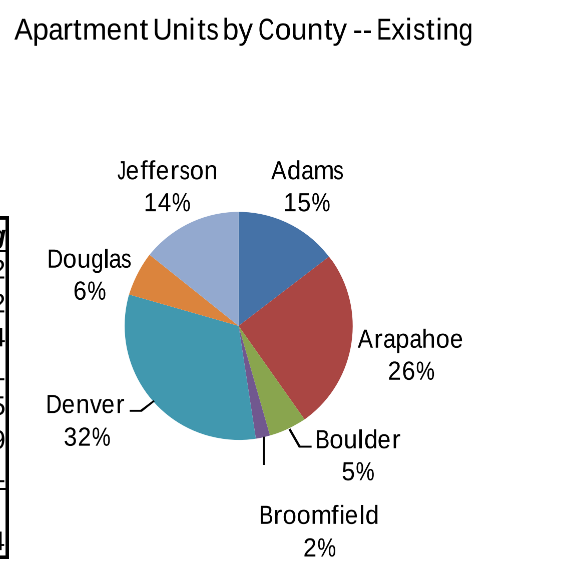
The performance of the Denver economy has been ranked among the top 20 metropolitan areas for economic recovery. In a report issued by Brookings Mountain West, Denver exceeded pre-recessionary levels for output following the recession. Denver also placed 30th among the largest 100 metropolitan areas for job growth for the 12 month period ending February 2011. Denver appears to be well poised for continued recovery. Statewide unemployment is reported at 8.7% as of May 2011, just below the national unemployment level of 9.2% as of June 2011. Projections for the metro Denver area are for an increase in employment base of 0.8% per year over the next ten years.

The national economy on the other hand continues to falter. Federal Reserve Chairman Ben Bernanke stated that the US economy will pick up in quarters. Most economists are particularly interested in the jobless rate as this is a key indicator of economic recovery. The national unemployment rate has remained above 9.0% since May of 2009 when it reached 9.4%. Unemployment peaked in the last quarter of 2009 at 10.0%. Bernanke stated in his appearance before the House Financial Services Committee, that the high unemployment rate will decline only slowly because of slow growth in consumer spending, the depressed condition of the housing market and cuts in government spending on all levels. Bernanke went on to say " The possibility remains that the recent economic weakness may prove more persistent than expected. The Federal Reserve remains prepared to respond should economic developments indicate that an adjustment of monetary policy would be appropriate." US economic growth in the first half of 2011 was modest. Expectations are that the national unemployment levels will not return to the range of 7.8% to 8.2% until the end of 2012.

Metro Denver Apartment Market

According to Pierce Eislen, the metropolitan Denver apartment market contains a total of 177,894 existing units in buildings or communities of at least 50 units as of July 1, 2011. The United States Census Bureau defines the metropolitan Denver area as Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas and Jefferson counties. This inventory excludes public housing, on-campus student housing and apartments limited solely to senior residents. Changes in the total number of units occur with construction of new apartments and removal of units from the rental inventory by condominium conversion or demolition.

County	Existing
Adams	25,902
Arapahoe	45,682
Boulder	9,464
Broomfield	3,591
Denver	56,645
Douglas	11,259
Jefferson	25,351
Total	177,894



In addition to the existing inventory, 9 communities with 1,286 units were started during the first half of 2011. An additional 10 apartments projects with 1,294 units were under construction in metro Denver on July 1, 2011. Pierce Eislen reports another 2,873 units are anticipated for construction by year-end 2011. Many of those are likely not to actually start construction or be developed as apartments.

Year	Vacancy Rate	Average Rent	Construction Starts	Absorption
2011	4.8%	$915	1,286	2,578
2010	5.5%	909	1,406	6,827
2009	7.7%	875	1,438	4,069
2008	7.9%	889	2,099	(3,254)
2007	6.1%	860	5,521	4,644
2006	7.0%	850	1,632	2,709
2005	7.9%	848	494	8,126
2004	10.0%	822	504	607
Totals			14,380	26,306

To put the amount of new construction into perspective, metro Denver experiences net absorption of about 5,000 to 6,000 apartment units in a long-term "normal" year. According to the Denver Metro Apartment and Vacancy Survey, 2009 and 2010 absorption levels were just shy of the norm while 2008 experienced the second largest negative absorption over the last decade. Through mid-year 2011, absorption is reported at 2,578 units, more than half of the starts for the same period. The slowed construction practiced by developers will eventually impact the apartment market because supply will not meet demand as the economy continues to recover. As new supply continues to trail absorption the market will continue to tighten which is evident by the very low vacancy rate.

Vacancy continues to decrease in spite of continued high statewide unemployment and under employment practices. Vacancy at 4.8% has not been this low since pre-9/11 and is expected to continue to decrease especially in light of the limited new construction and strong absorption. A study published by MPF Research, reports that metro Denver had the fifth best top performing apartment market in the nation during 2010. Denver was one of the first markets to begin pushing rents upward in early 2010. The strong performance is attributed to solid demand and "lack of significant new supply" said Greg Willett, MPF's vice president of research. Both factors are expected to "trigger continued escalation in both occupancy and rents," stated Willett. This trend is expected to continue well into 2011.

From the early 1990s until early 2001, the vacancy rate in metropolitan Denver trended in the 4% to 5% range, allowing rental rates to increase and encouraging developers, investors, and lenders to start new

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Metro Denver Apartment Market (continued)

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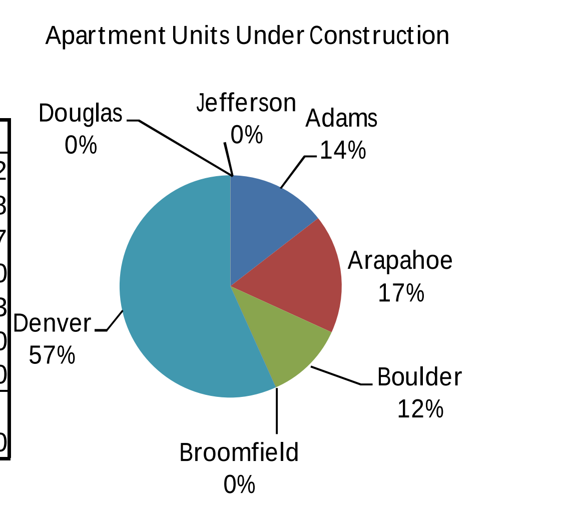
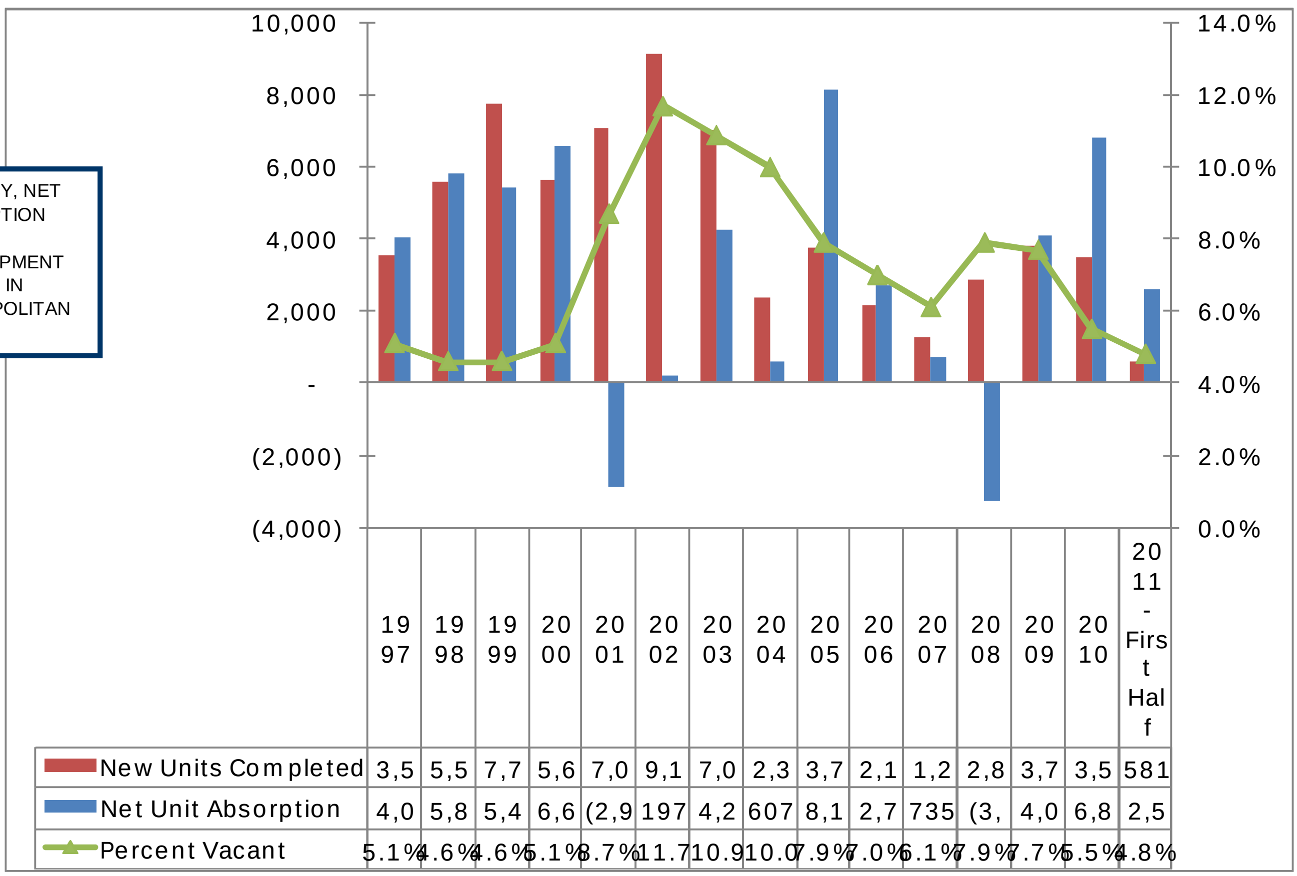
apartment properties. As the economy slowed in 2001 and finally fell into recession, demand declined and the vacancy rate rose as new units came on line with a negative net absorption. This trend continued through 2009 as well. However, improvement was noted in 2010 and the first half of 2011 and is expected to continue into the foreseeable future. All of the individual sectors report vacancy rates below 10% with six of them at 3.5% or lower and four of the individual sectors above 6.0%.

County	UC
Adams	372
Arapahoe	448
Boulder	297
Broomfield	0
Denver	1,463
Douglas	0
Jefferson	0
Total	2,580



Vacancy may nudge upward slightly over the foreseeable future until unemployment levels decrease and the local economy continues recovery. Furloughs and layoffs are expected to remain in place especially in the government sector as state and local governments continue to struggle to balance budgets. Balancing government budgets will remain difficult due to decreases in sales tax and real estate tax revenue.

VACANCY, NET ABSORPTION AND DEVELOPMENT TRENDS IN METROPOLITAN DENVER



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

Metro Denver Apartment Market (continued)

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As conventional financing remains difficult to obtain, many developers have pushed their planned developments back eliminating a large amount of proposed supply. Government backed financing, in particular U.S. Department of Housing and Urban Development (HUD) is in such great demand, that approval times have been lengthened greatly slowing development as well. Based upon the current rate of absorption, with 2,580 units currently under construction and another 2,873 units proposed over the next six months, the excess supply may be eliminated by mid-year 2012. Broomfield, Douglas and Jefferson counties have no apartment construction currently underway and Broomfield and Douglas counties also have no units proposed for development over the next six months.

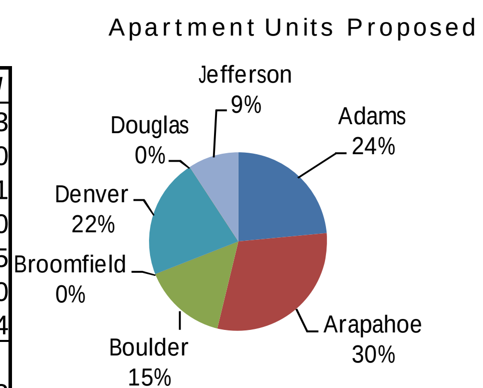
County	Under Construction	Proposed
Adams	372	673
Arapahoe	448	870
Boulder	297	441
Broomfield	0	0
Denver	1,463	625
Douglas	0	0
Jefferson	0	264

According to data provided by Pierce Eislen, developers completed 5 projects with a total of 792 units in the first half of 2011. Pierce Eislen includes apartment rental projects when they are 100% complete including all phases. The Denver Metro Apartment Vacancy and Rent Survey conducted by Dr. Gordon Von Stroh for the Apartment Association of Metro Denver (AAMD) reports a total of 581 units completed in the same period. Methodology used by Dr. Von Stroh accounts for units that become ready for lease regardless of management decision to actually lease the units.

Vacancy rates from county to county also vary widely depending mostly on supply added to the market. In markets with limited new development such as Broomfield/Boulder, Douglas and Jefferson Counties the vacancy rates remain lower than the metro average at 4.6%, 3.8% and 4.5% respectively. In counties with large amounts of new development the vacancy rates are near or above the metro average with Adams County at 5.2%, Arapahoe County at 5.5%. Denver posted a vacancy rate of 4.1%, slightly below the metro average.

While vacancy rates are highest in apartment communities with higher rents, demand is steady for "affordable" apartments, especially those using HUD financing. The market for HUD tax credits suffered dramatically in October of 2008 along with the financial crisis. Demand for tax credit financing as well as other government programs continues to increase as conventional financing remains difficult to obtain. Of the 2,580 units currently under construction 53% are market rate and 47% are fully affordable communities. Of the 2,873 units proposed, 67% are market rate, 17% are mixed market rate and affordable and 17% are fully (100%) affordable communities.

County	Proposed
Adams	673
Arapahoe	870
Boulder	441
Broomfield	0
Denver	625
Douglas	0
Jefferson	264
Total	2,873



Following a slight decrease in 2009, average rental rates have increased to $915/month on average through the first half of 2011. The quoted rental rates used by Pierce Eislen and Von Stroh/AAMD do not take into consideration the value of specials and concessions being offered by many apartment communities. Economic vacancy is reported by Von Stroh/AAMD at 16.2%, generally a historic level. The highest economic vacancy posted was near 25% between 2003 and 2005 with decreases beginning in 2006. Eco-

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Metro Denver Apartment Market (continued)

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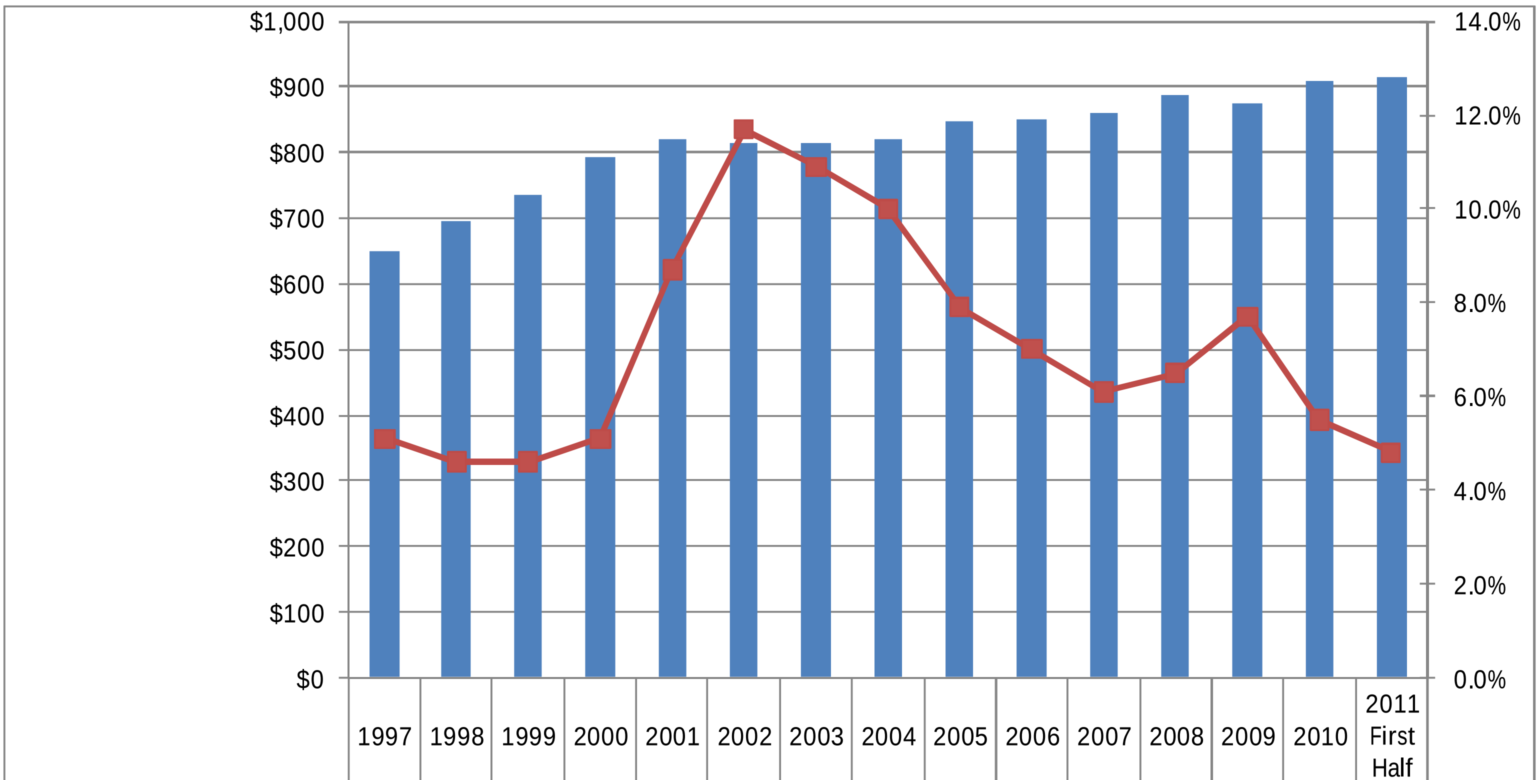
nomic vacancy has remained near the 16% level since last quarter of 2007. The median rental rate for mid year 2011 is reported at $863, up from $846 in 2010, $811 in 2009, $829 in 2008 and $818 in 2007.

The average rental rates quoted in the Apartment Association report may be somewhat inflated due to the periodic addition of new communities upon their completion, most of which have rental rates above the metro average. Uncounted in these averages is the increasing effect of special deals, reduced or eliminated security deposits and other concessions meant to retain or attract residents. Rental rates are usually quoted with water and sewer costs included but with the tenant paying for electricity and natural gas. Effective rental rates are lower due to incentives.



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 First Half
Average Monthly Rent	$650	$695	$734	$793	$822	$814	$815	$822	$848	$850	$860	$889	$877	$909	$915
Vacancy	5.1%	4.6%	4.6%	5.1%	8.7%	11.7%	10.9%	10.0%	7.9%	7.0%	6.1%	6.5%	7.7%	5.5%	4.8%

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Apartment Sales During 2011

Sale activity of large of apartment communities continues to improve. During the first half of 2011, 31 apartment communities with 50 units or larger transpired with a total sales volume of more than $585.0 million. A total of 6,575 units sold with an average unit price of $93,058/unit.

The first half 2011 sales volume is nearly equal to 2010, when a total of 32 apartment communities sold. In 2010, sales volume totaled $533.6 million for 7,926 units equivalent to $67,323/unit. In 2009 only 20 communities totaling $282.9 million with an average unit price of $70,267 sold. This is less than half of the sales volume experienced in 2008 with 44 transactions totaling $650.9 million.

In 2007, 59 apartment communities were purchased with a total dollar volume over $1.4 billion and an average sale price of $86,104/unit. 2006 was a record setting year as the apartment sale volume reached $1.9 billion up 26.0% from $1.5 billion in 2005. Buyers remain a mix of "big money" or investment grade buyers such as REITS and small local investors seeking good investment opportunities.

Forecast 2011

Overall, the apartment market is expected to continue to improve. With all of the submarkets at or below 8.5% rental rates are expected to continue to climb. Rental concessions for existing product will be limited if offered at all with only new construction product likely offering incentives. Employment stability including eliminating the practice of furloughs will aid in pushing rental rates higher. Continued limited supply of new product will aid in absorption as well.

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

Apartment sales are expected to continue to increase as investors continue to see the Denver market as a well-positioned market. Reduced financing availability will continue to hamper acquisitions particularly with the high demand for HUD financing with slow loan processing, but reduced vacancy rates and increasing rental rates will continue to spur interest. The apartment market is expected to remain stable and slowly improve over the foreseeable future.

Addenda

The following lists include:

Apartment communities:

- Started during the 1st half of 2011.
- Completed during the 1st half of 2011.
- Under construction as of July 1, 2011.

Apartment Communities Started—1st Half 2011

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
2020 Lawrence	2020 Lawrence Street	Denver Central	Denver	231	Zoccalo Community Dlp
Bluff Lake	3100 Hanover Street	Denver East	Denver	92	Mercy Housing
Eastbridge	2870 Geneva Street	Denver East	Denver	118	Forest City Enterprises
Highland Park	2424 West Caithness Pl	Denver West	Denver	126	Heitler Development
The Manhattan, Phase II	1851 Bassett Street	Denver Central	Denver	134	General Invstmt & Dvl
Novella	3131 Roslyn Street	Denver East	Denver	225	Forest City Enterprises
Renaissance West End Flats	5050 West Colfax Ave	Denver West	Denver	101	CO Coalition for the Hmlss
Residences at Franklin Park	1535 Franklin Street	Denver Central	Denver	91	Central States Dvl
Savoy @ Hampden Towne Center	3645 South Dallas St	Aurora	Arapahoe	168	Equity Residential
			Total	1,286	

Apartment Communities Completed — 1st Half 2011

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
Chaffee Park Senior Residences	4580 Tejon Street	Denver West	Denver	62	Burgwyn Company
Los Altos Alameda	5100 West Alameda Ave	Denver West	Denver	50	St. Charles Town Company
Lugano Cherry Creek	9601 East Iliff Avenue	Aurora	Arapahoe	328	GenCap
Prana	550 Viridian Drive	Lafayette	Boulder	254	Milestone Development Co.
Renaissance Uptown Lofts	571 East Colfax Avenue	Denver Central	Denver	98	CO Coalition for the Hmls
			Total	792	

Apartment Communities Under Construction—1st Half 2011

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
Alta Aspen Grove	7317 S. Platte River Prkwy	Littleton	Arapahoe	280	Wood Partners
Arbour Square	14770 Orchard Parkway	Westminster	Adams	300	McWhinney
Dahlia Square Senior	3421 Elm Street	Denver East	Denver	88	Oakwood Homes
Phoenix on the FAX	7101 East Colfax Avenue	Denver East	Denver	50	Sherman and Associates
Prospect on Central	1861 Central Street	Denver Central	Denver	57	Central Street Investors
Red Oak Park	2637 Valmont Road	Boulder	Boulder	59	Boulder Hsg Authority
Residences at Panorama Pointe	8310 Clay Street	Westminster	Adams	72	Hendricks Communities
South Lincoln Senior Tower	1099 Osage Street	Denver Central	Denver	100	Denver Hsg Authority
Two Nine North	1925 30th Street	Boulder	Boulder	238	Johnson Capital Group
Yale Station	5301 East Yale Avenue	Denver South	Denver	50	Koelbel & Company
			Total	1,294	

Apartment Communities Proposed

NAME	STREET	SUBMARKET	COUNTY	UNITS	DEVELOPER
11th Avenue/Gaylord St Apts.	11th Avenue/Gaylord Street	Denver Central	Denver	115	MGL Partners
21 Fitzsimons Phase II	2100 North Ursula Street	Aurora	Adams	340	Pauls Corporation
Adams Crossing Mixed-Use	SWC I-76 and E-470	Aurora	Adams	50	Woodbury Corporation
Avondale	1401 Irving Street	Denver West	Denver	114	Del Norte Neighborhood
Colfax & Irving	3290 West Colfax Avenue	Denver West	Denver	70	Urban Land Conservancy
Evans Station Lofts	2140 South Delaware Street	Denver South	Denver	50	Urban Land Conservancy
Fitzsimons Village	13388 East Colfax Avenue	Aurora	Arapahoe	700	Corporex
Grove Street	1570 Grove Street	Denver West	Denver	63	Monroe Group
Joesphine Commons Family	E. Baseline Rd/N 119th Street	Lafayette	Boulder	76	Boulder Co Hsg Authority
Joesphine Commons Senior	E. Baseline Rd/N 119th Street	Lafayette	Boulder	74	Boulder Co Hsg Authority
Lamar Station	6150 West 13th Avenue	Lakewood	Jefferson	176	Lakewood Hsg Authority
Mount Nebo	11000 East 14th Avenue	Aurora	Arapahoe	50	MGL Partners
Safeway Redevelopment	707 East South Boulder Road	Louisville	Boulder	195	Loftus Development
Shops & Apts at Observatory Park	2100 South University Blvd	Denver South	Denver	213	Urban West Group
Town Center Senior Residences	W. 44th Ave/Wadsworth Blvd.	Wheat Ridge	Jefferson	88	Wazee Partners
Village at Thorncreek	E 128th Avenue/Washington St	Thornton	Adams	283	Catalina Development Co.
Villages at Westerly Creek	E. Kentucky Ave./S. Ironton St.	Aurora	Arapahoe	120	Aurora Housing Authority
Violet Crossing	4474 Broadway Street	Boulder	Boulder	96	Palmos Development Co.
			Total	2,873	