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KeyBank's Commercial Mortgage Symposium

**Metro Denver
Apartment Market Overview**

February 26, 2009

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Agenda

- Why Investment Real Estate?
- Why Apartments?
- Why Metro Denver?
- National Trends
- Submarket Trends



Why Investment Real Estate?

- Leverage
- Appreciation
- Cash Flow
- Tax Deferred Exchange
- Tax Benefits



Leverage

- Increase your return using *other people's money* – get a loan from KeyBank!
- Acquire assets 3-4 times larger than your available equity.
- Typical Apartment Loan
 - 60 - 75% LTV
 - 6 - 7% Interest Rate (Fixed for 3 – 10 Years)
 - 25 – 30 Year Amortization



Appreciation

- Historically real estate has increased in value over time.
- In 1995 apartments sold in Denver averaged \$26,000/unit, in 2007 they averaged \$67,000/unit – a 258% increase in value.
- Due to leverage, this increase in value is applied to the total asset and not just the initial equity invested.



Cash Flow

- “Sort of like stock dividends”
- Since 1960 the average S&P 500 dividend yield has been 3.2%.
- Typical apartment investments yield 6% to 12% “cash-on-cash return”.
- Reduction of the loan’s principal balance further increases an investor’s return - the “total return”.



Tax Deferred Exchange

- What happens when you sell a stock at a profit?
- Internal Revenue Code, Section 1031
 - Defer capital gains taxes indefinitely
 - Re-invest all equity into a qualified exchange property
 - 45 day “Identification Period”
 - 180 day “Exchange Period”



Tax Benefits

- Depreciation
 - 27.5 year straight line depreciation for residential investment properties.
 - Example: a \$1 million asset generates a depreciation expense of approximately \$29,000/year (assuming the land value is 20% of the purchase price).
 - Normally “recaptured” upon sale.
- Mortgage Interest Expense Deduction



Why Apartments?

- Relative Stability
- Value Add Potential
- Multiple Exit Strategies



Stability

- “Everybody has to live somewhere.”
- Highest average metro-wide vacancy rate in last decade only 13%.
- Minimal turnover costs compared to office / retail / industrial.



Value Add

- Short term leases allow for rapid repositioning of apartments.
- Relatively inexpensive cosmetic upgrades can lead to significant increases in rent rates.
- Example: a \$50/month average increase in rents at a 30 unit property results in an increase in value of \$257,000 at a 7% cap rate.

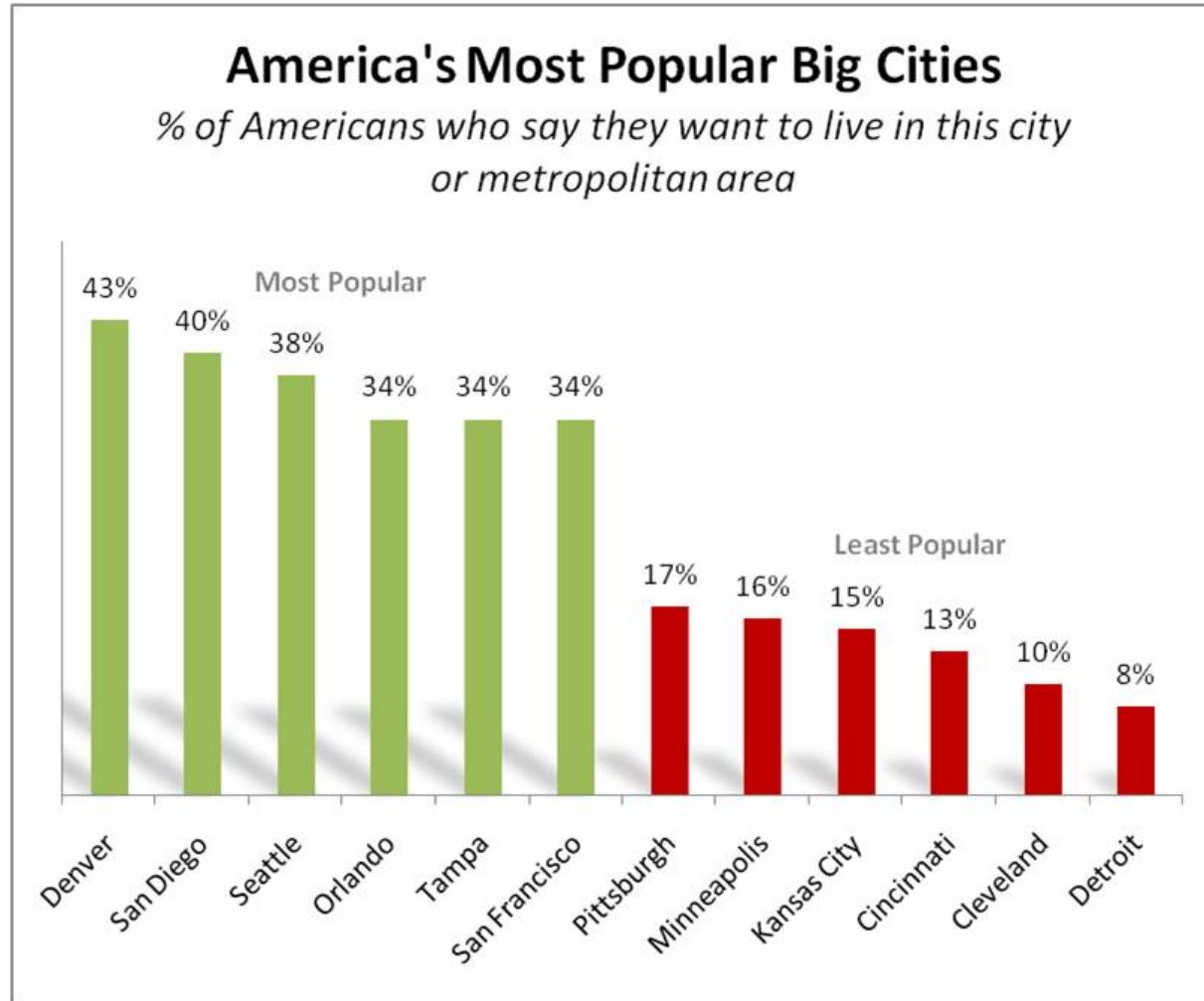


Exit Strategies

- Long Term Hold
- Fix and Flip
- Subdivide
- Condo Conversion
- Scrape and Build

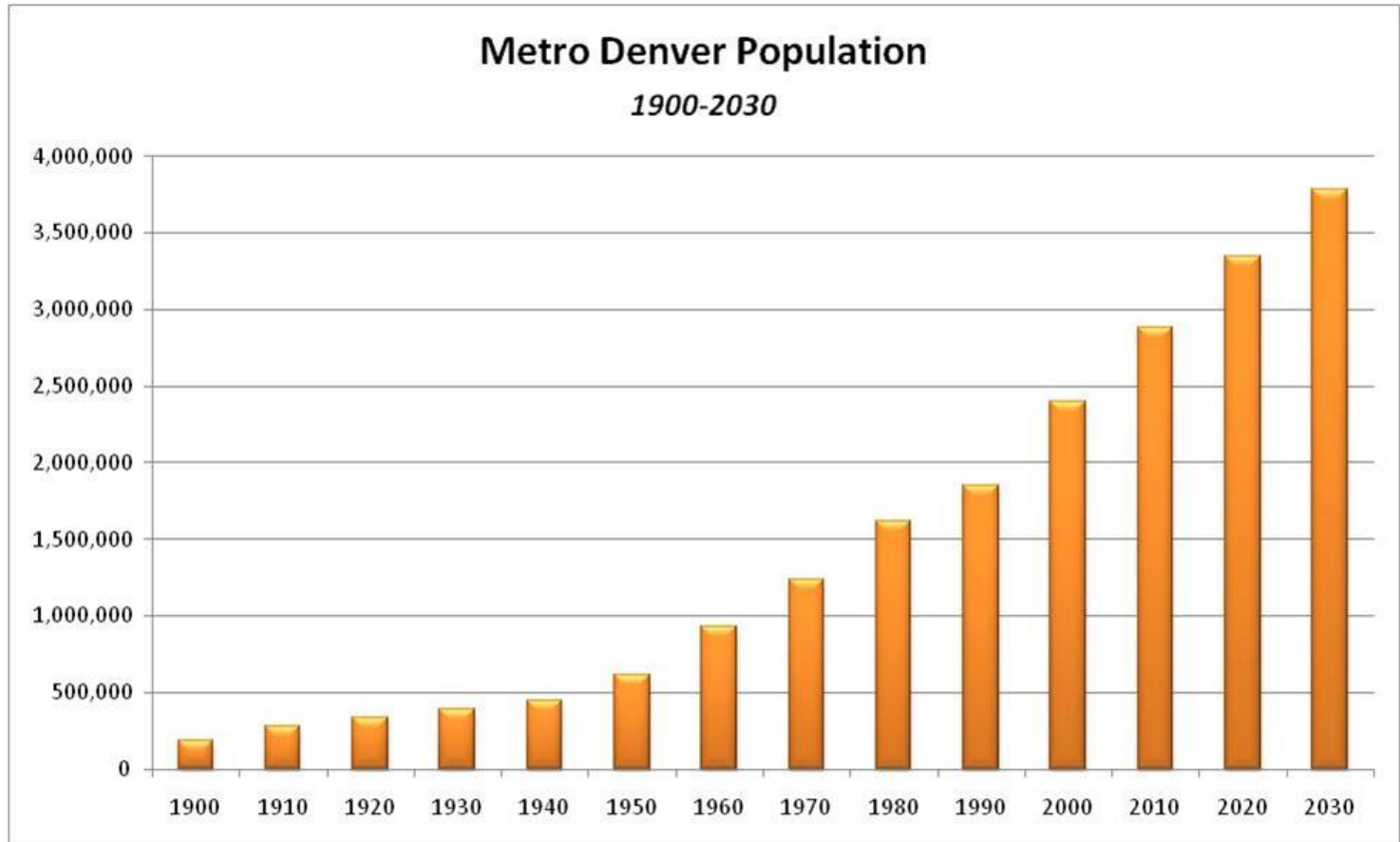


Why Metro Denver?



Source: Pew Research Center

Why Metro Denver?



Sources: U.S. Department of Commerce, Bureau of the Census; Colorado Division of Local Government, Demography Section.

National Trends

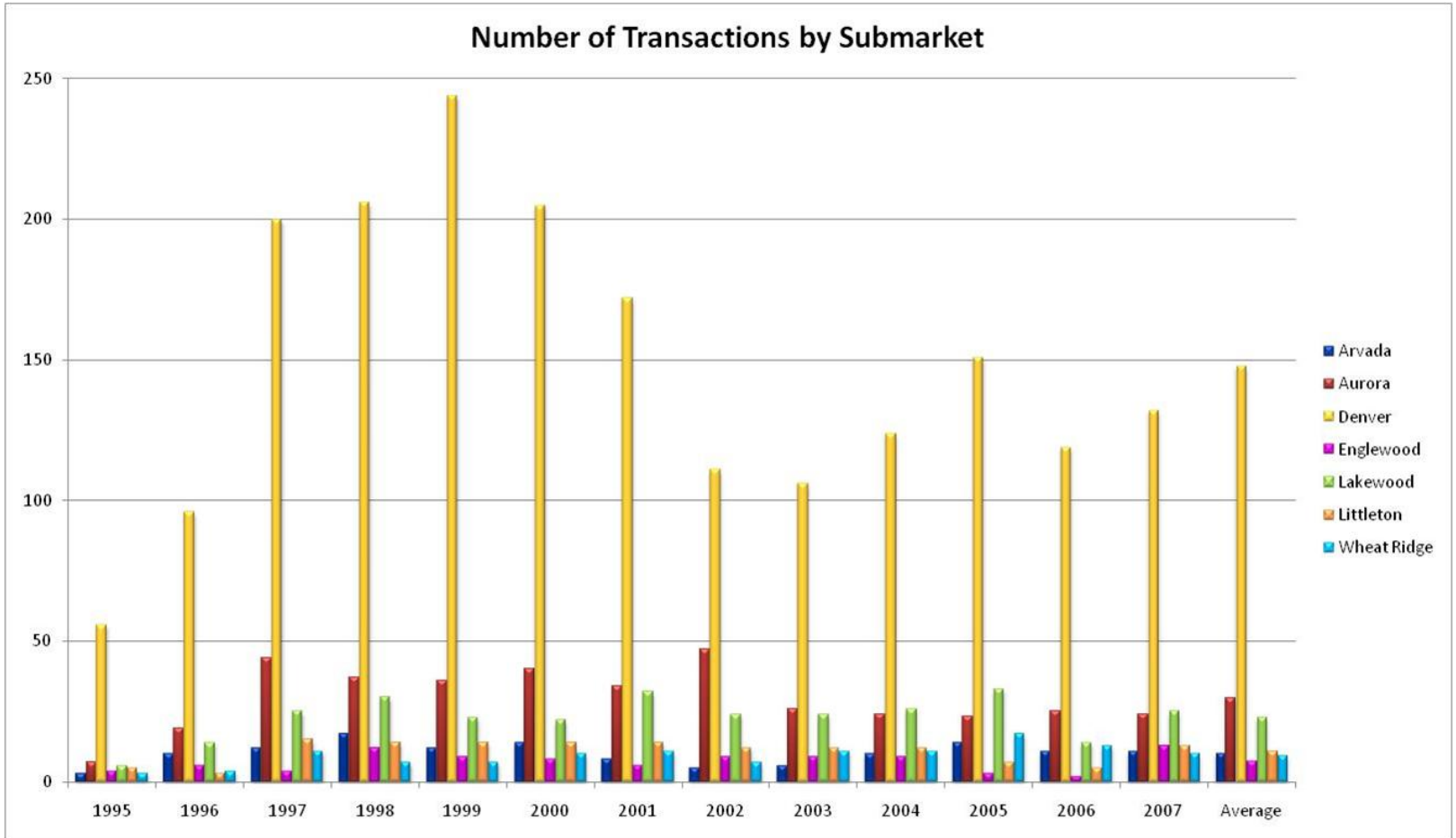
(Multifamily - Class A Properties)



Source: NCREIF (National Council of Real Estate Investment Fiduciaries). Capitalization (cap) rates for each quarter are based on the appraised value of all properties that are in the NCREIF Property Index (NPI) that were revalued during the quarter.



Submarket Trends

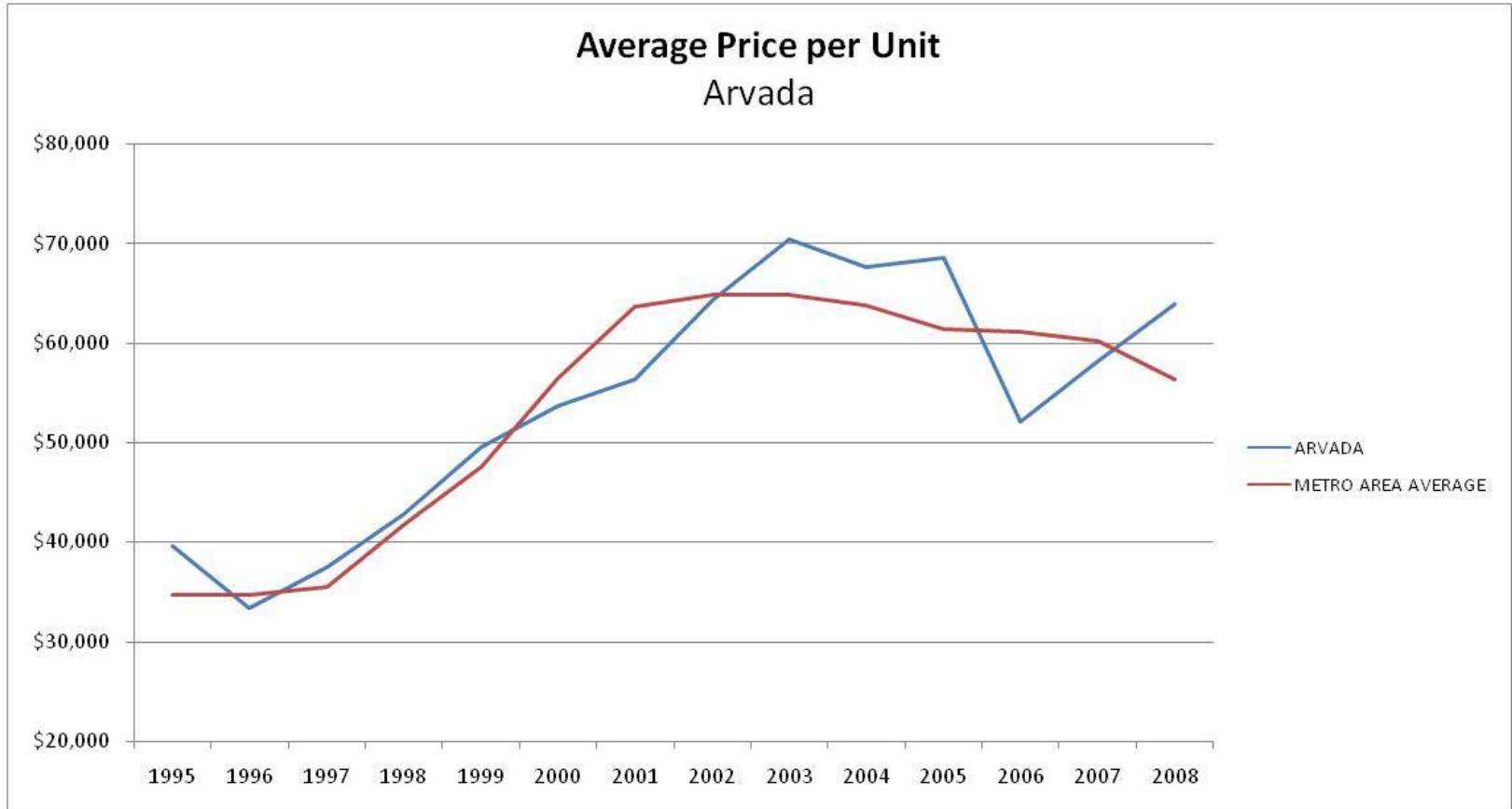


Source: Costar, includes apartments ranging in size from 5-200 units, 1995 to 2008.

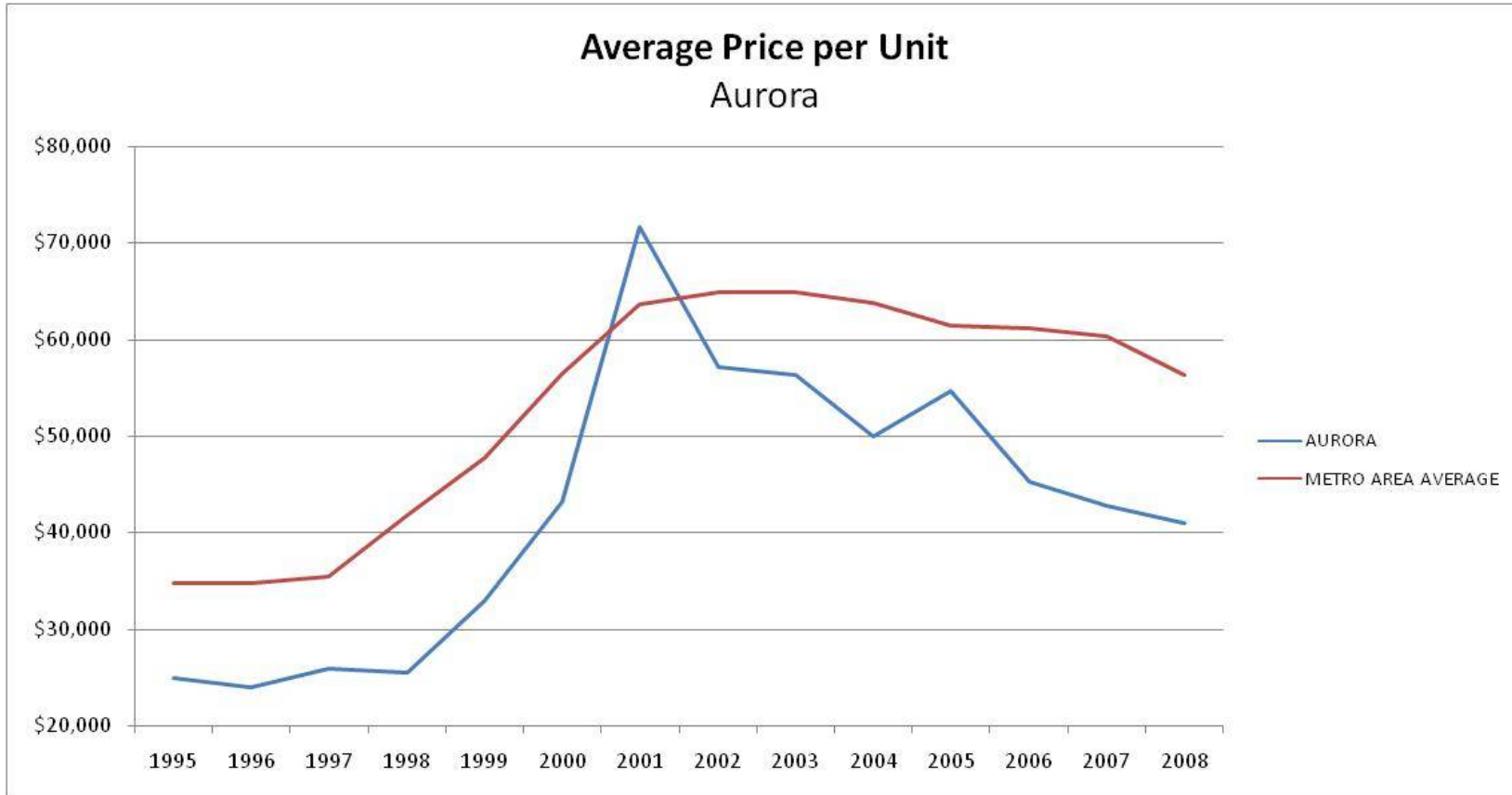


Average Price per Unit By Metro Area City

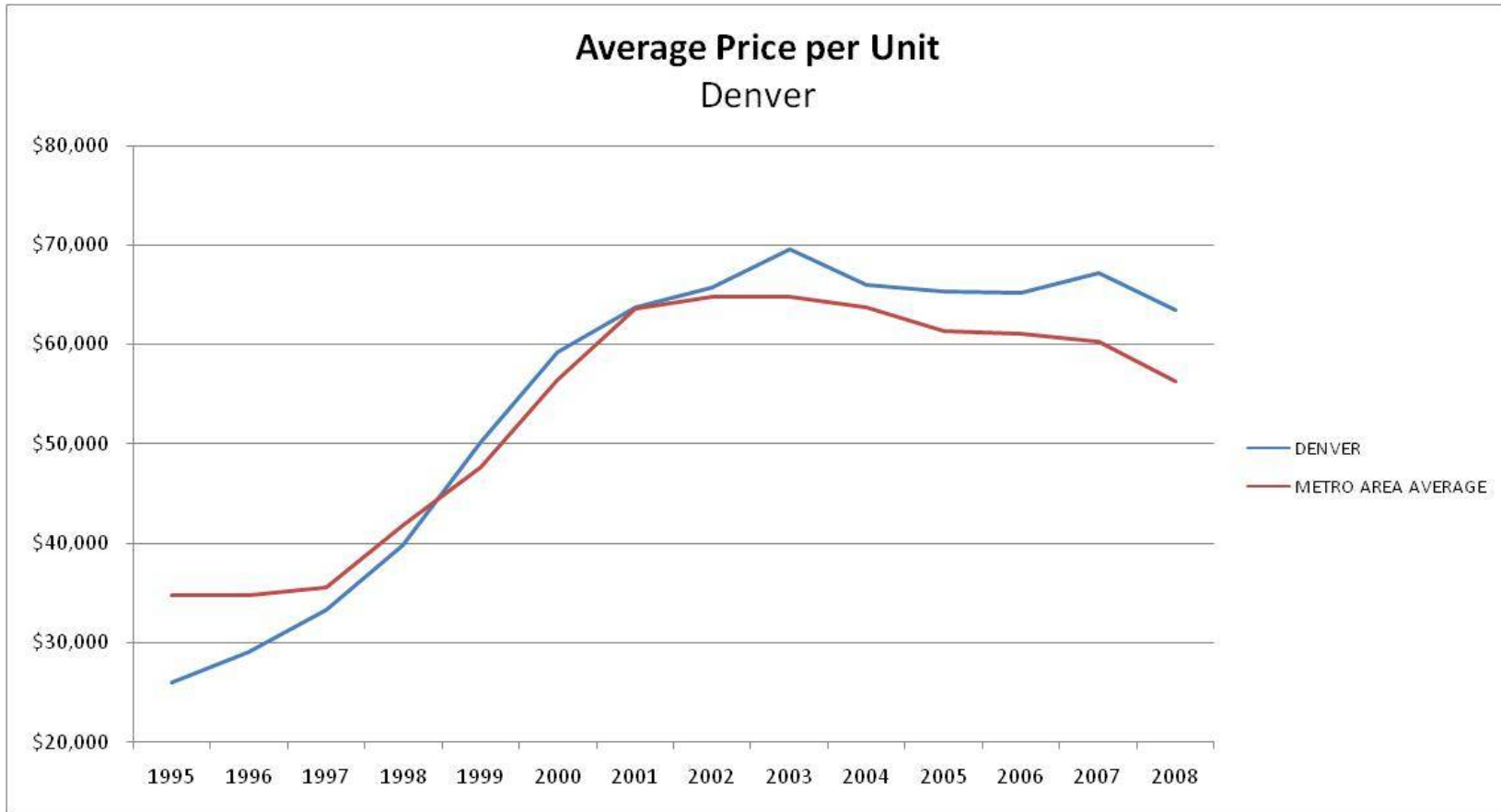
(5-200 units, January 1995 through September 2008)



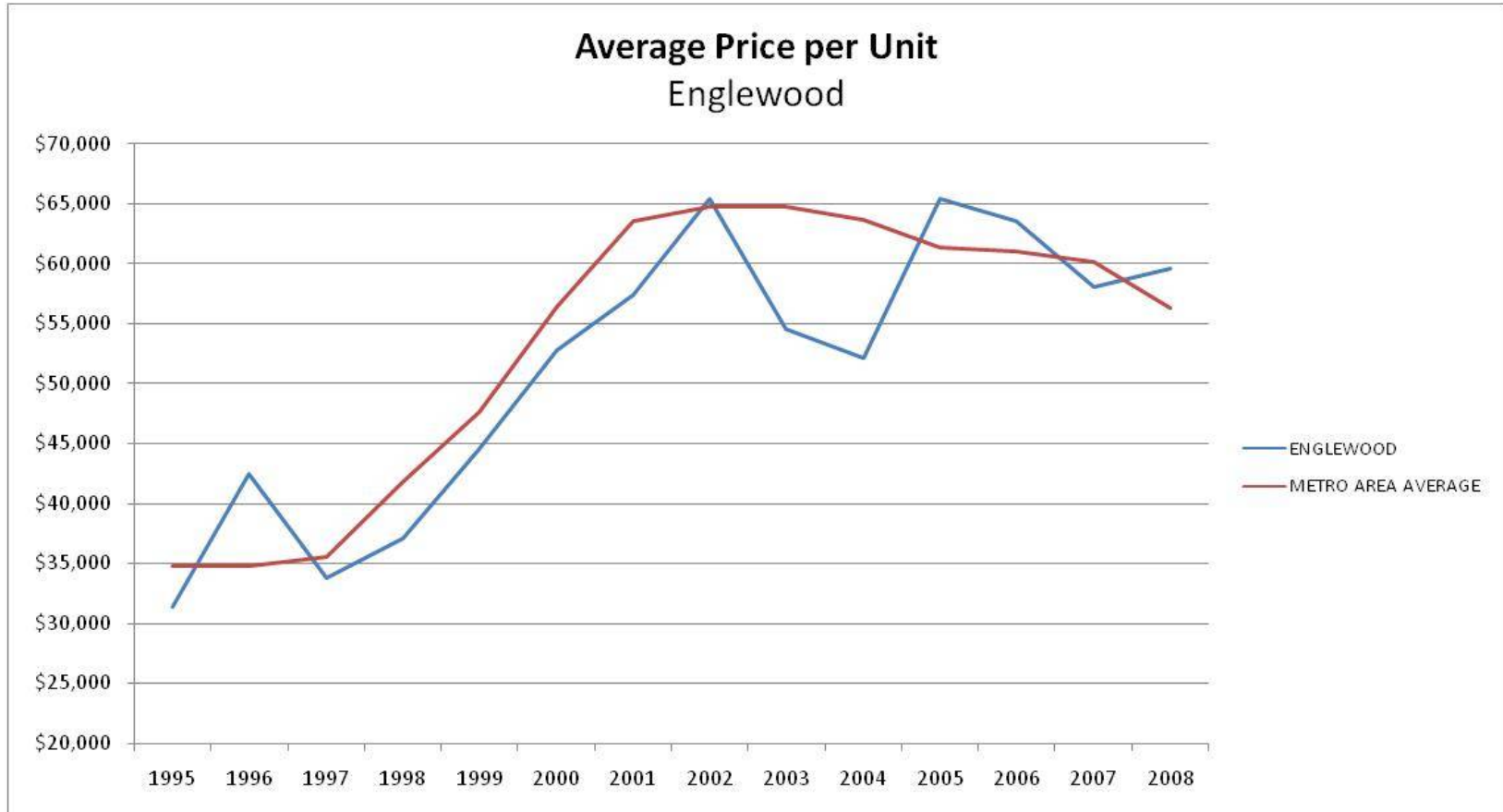
Source: Costar, includes apartments ranging in size from 5-200 units, 1995 to 3rd Quarter 2008. Metro Area Average includes the following cities: Arvada, Aurora, Denver, Englewood, Golden, Lakewood, Littleton, Longmont, and Wheat Ridge.



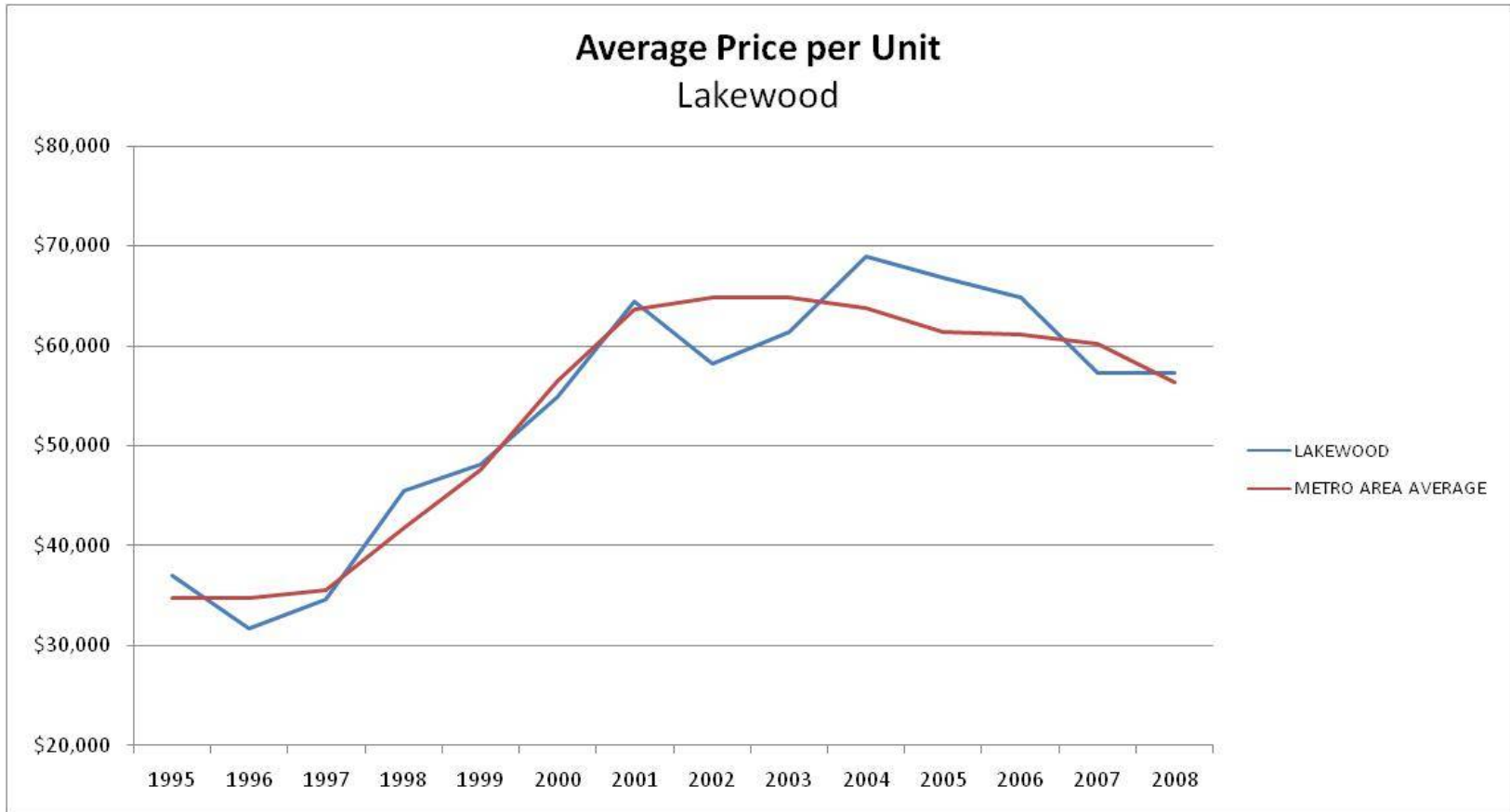
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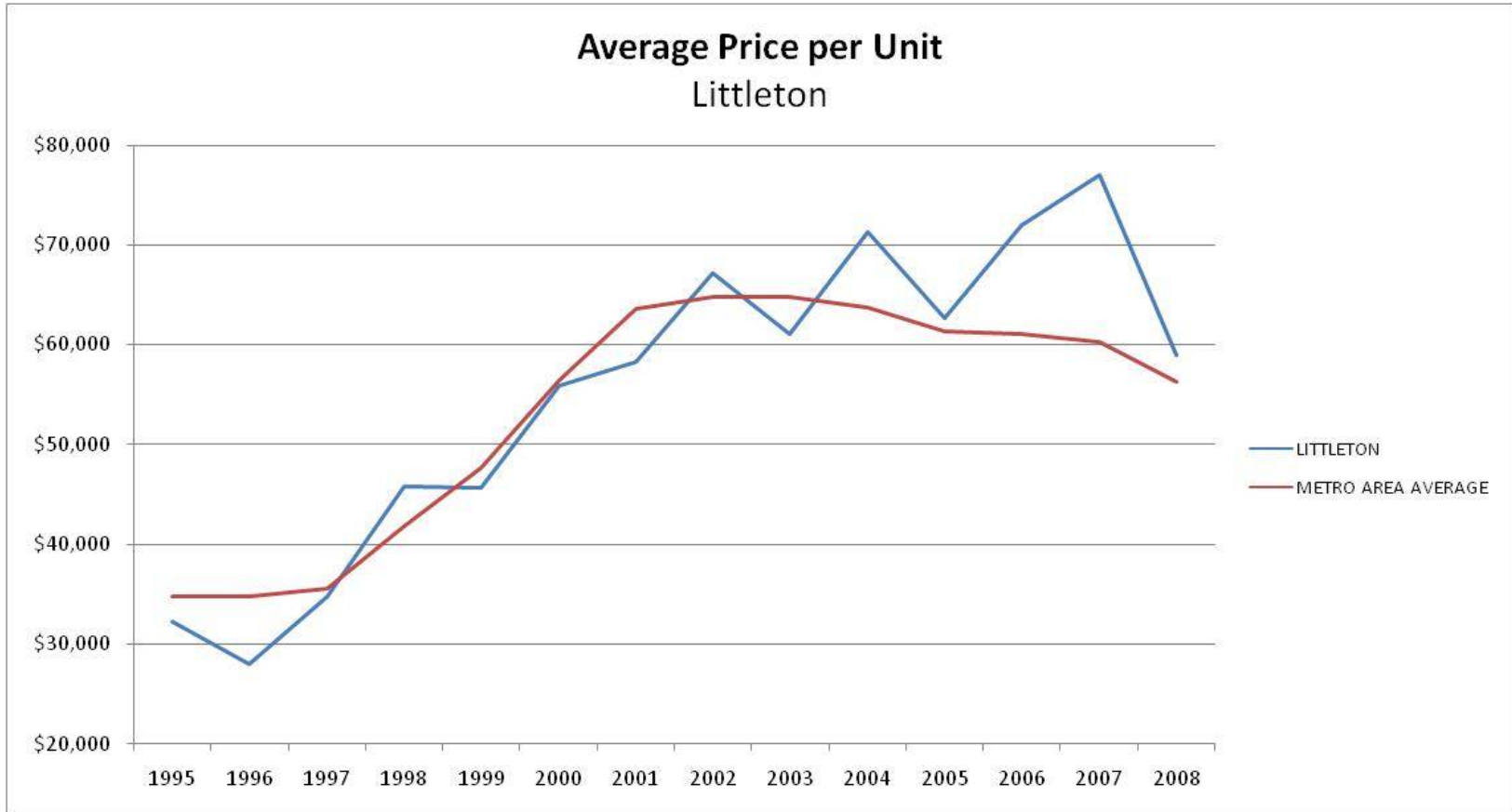
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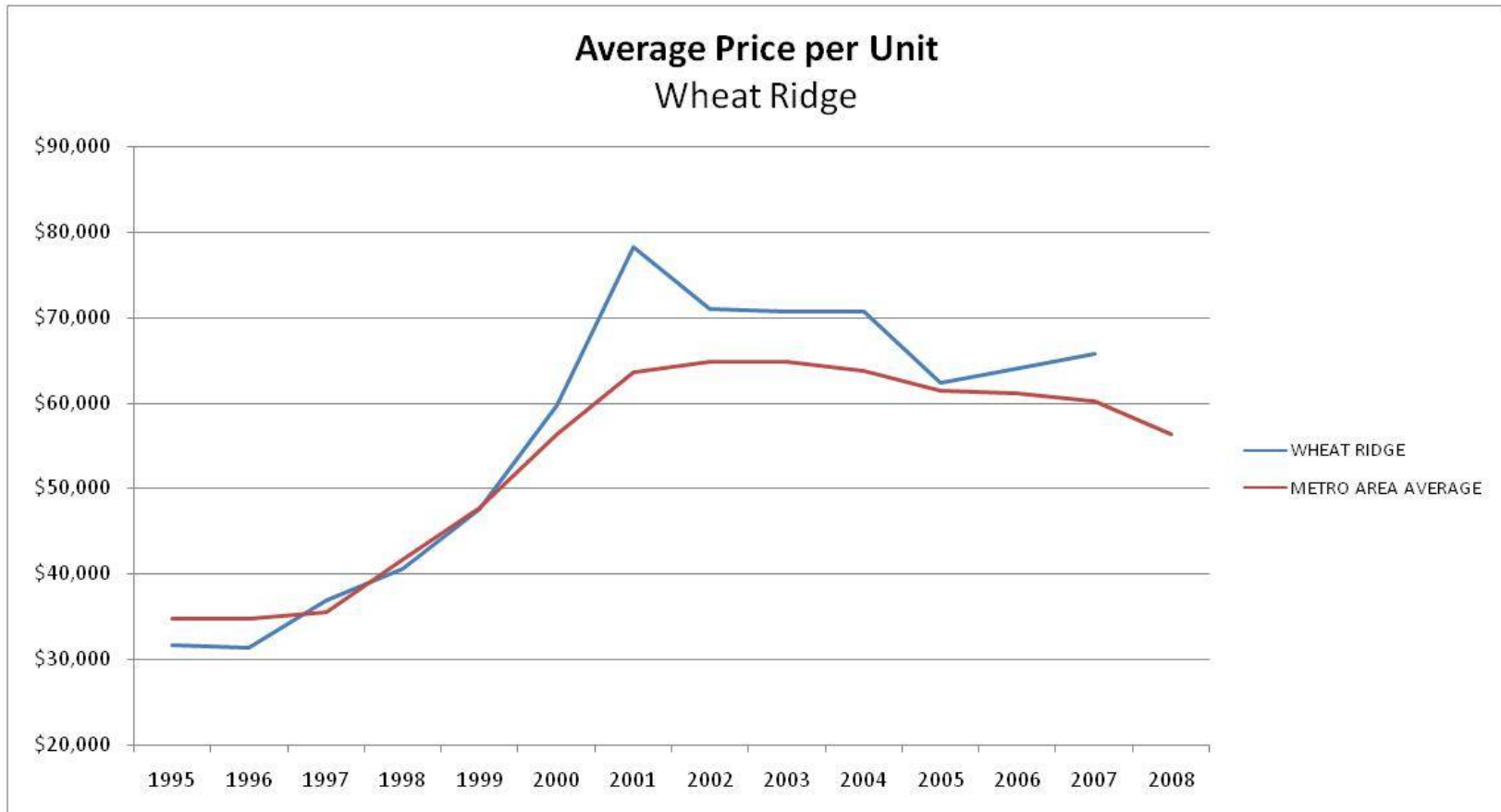
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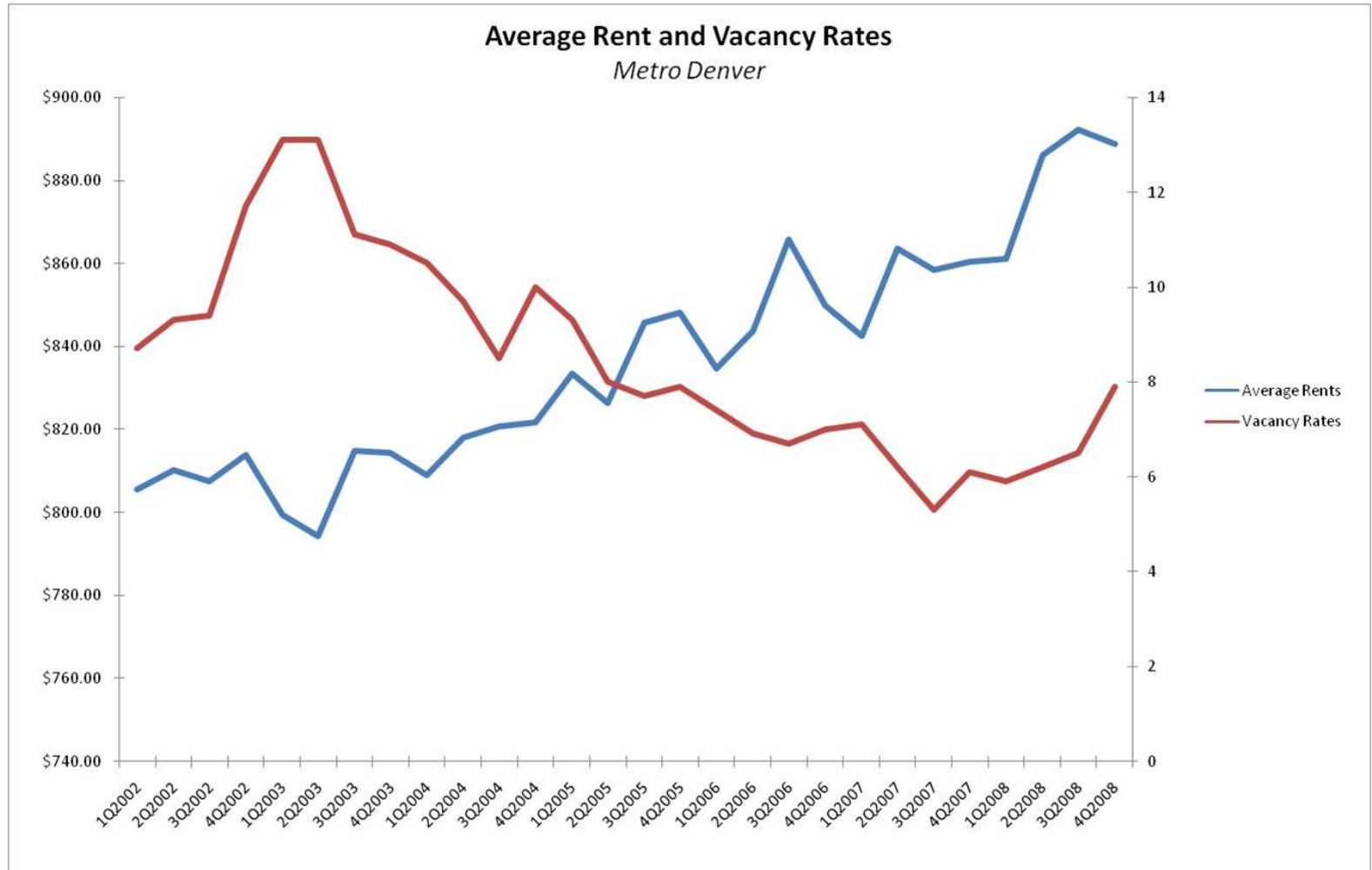
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Submarket Trends

Average Rent & Vacancy Rates

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Source: Fourth Quarter 2008 Denver Metro Apartment Vacancy & Rent Survey published by Gordon E. Von Stroh.



Conclusion

- Invest in Real Estate
 - Leverage
 - Tax Deferred Exchange
 - Appreciation
 - Tax Benefits
 - Cash Flow
- Invest in Apartments
 - Stability
 - Value Add
 - Exit Strategies
- Invest in the Metro Denver area
 - Popular Destination
 - High Population Growth



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