



New Opportunities in Denver Multifamily Housing

Presentation Materials

Denver, CO
August 14, 2014

Denver Apartment Market



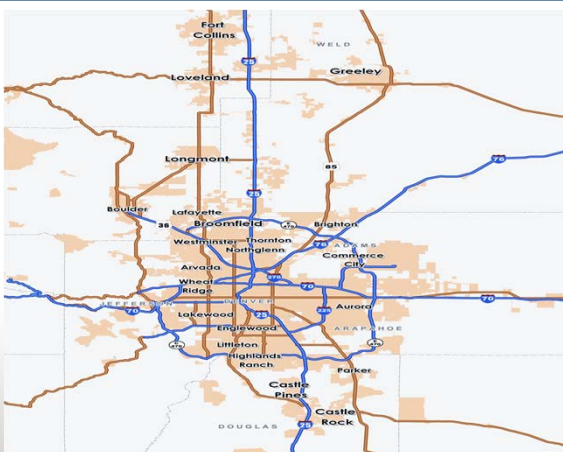
Jeff Hawks



RELATIONSHIPS THAT DELIVER RESULTS.

© ARA. All rights reserved.

Front Range



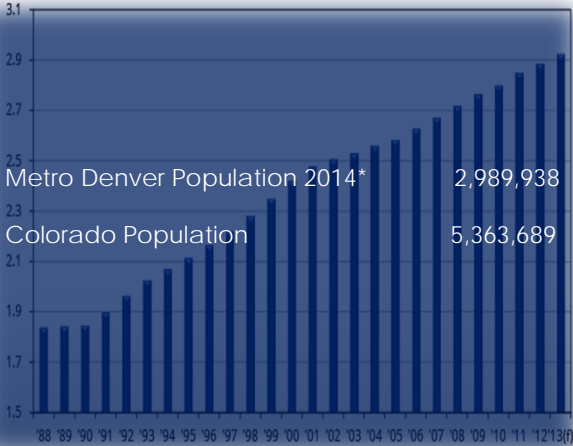
2



RELATIONSHIPS THAT DELIVER RESULTS.

© ARA. All rights reserved.

Metro Denver Population



* Forecasted



RELATIONSHIPS
THAT DELIVER RESULTS.

© ARA. All rights reserved.

Fastest Growing States 2013

- 1. North Dakota 3.14 %
- 2. Utah 1.61%
- 3. Colorado 1.52%**
- 4. South Dakota 1.30%
- 5. Nevada 1.30%
- 6. Florida 1.20%
- 7. Wyoming 1.05%
- 8. Idaho 1.04%
- 9. Hawaii 1.00%

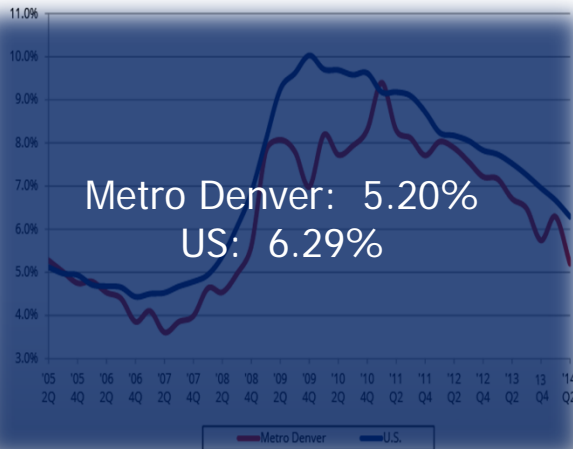
Source: US Census Bureau



RELATIONSHIPS
THAT DELIVER RESULTS.

© ARA. All rights reserved.

Unemployment Rates



5



Source: U.S. Bureau of Labor Statistics
Updated through May 2014

RELATIONSHIPS
THAT DELIVER RESULTS.

© ARA. All rights reserved.

Metro Denver Employment Growth



6



Source: Denver Regional Council of Governments
Colorado Bureau of Labor & Employment

RELATIONSHIPS
THAT DELIVER RESULTS.

© ARA. All rights reserved.

Economic Highlights

- "Denver Ranks No. 1 in Nation in Employment Opportunities"
- *WalleyHub.com*, 2014
- "Denver Ranked #9 Best Big City for Jobs"
- *Forbes*, 2013
- "Ranks 6th Best City for College Graduates Seeking a Job"
- *CareerBuilder*, 2013
- "Denver MSA ranked 15th on Best Performing Cities Index"
- *Milken Institute*, 2013
- "Metro Denver Ranked 8th for Best Big Cities for Renters"
- *Forbes*, 2013
- "Denver named the 3rd Best City in the World for Oil & Gas"
- *RigZone*, 2013
- "Top 15 Cities with Emerging Downtowns"
- *Forbes*, 2013

7



RELATIONSHIPS
THAT DELIVER RESULTS.

Cost of Living Index

San Francisco, CA	159.9	Las Vegas, NV	102.7
San Jose, CA	148.8	Houston, TX	99.0
Washington, DC	141.6	Colorado Springs, CO	98.5
Boston, MA	140.1	Phoenix, AZ	97.3
Los Angeles, CA	131.0	Dallas, TX	95.7
San Diego, CA	129.2	Raleigh-Cary, NC	94.6
Portland, OR	119.1	St. Louis, MO-IL	94.4
Seattle, WA	117.5	Albuquerque, NM	94.3
Chicago, IL	107.2	Atlanta, GA	93.5
Miami-Dade County, FL	107.2	Austin, TX	92.5
Denver, CO	104.0	Salt Lake City, UT	9

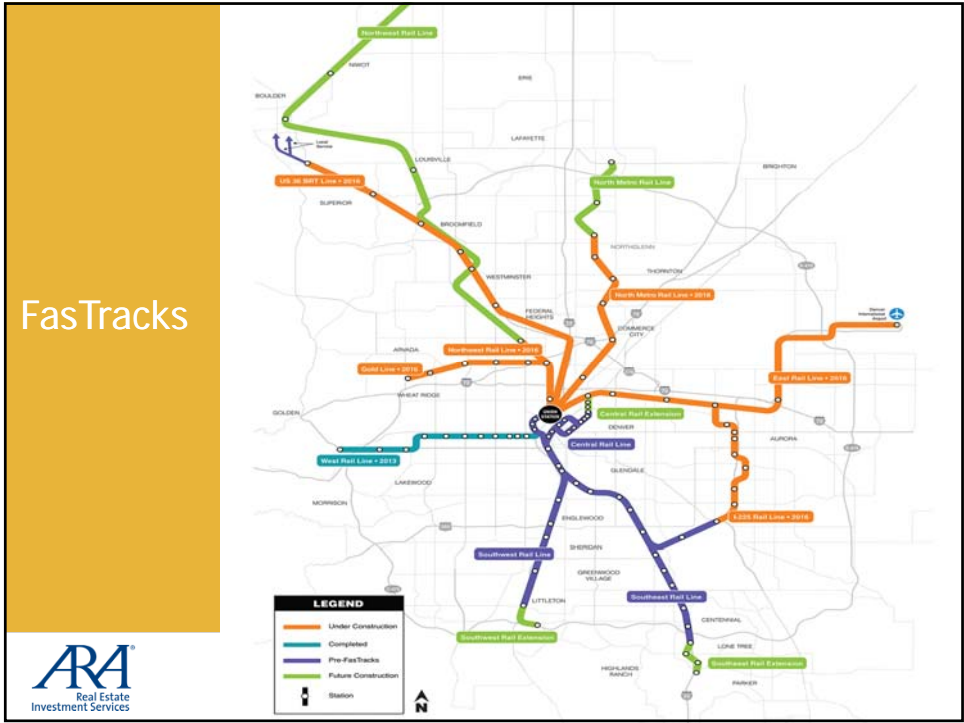
8



Source: Metro Denver EDC, November 2013

RELATIONSHIPS
THAT DELIVER RESULTS.

© ARA. All rights reserved.



MileHighlights Apartment Market

Aerial night view of a city skyline, likely Denver, showing several tall, illuminated skyscrapers and surrounding urban development. The lights from the buildings and streets create a vibrant scene against the dark sky.

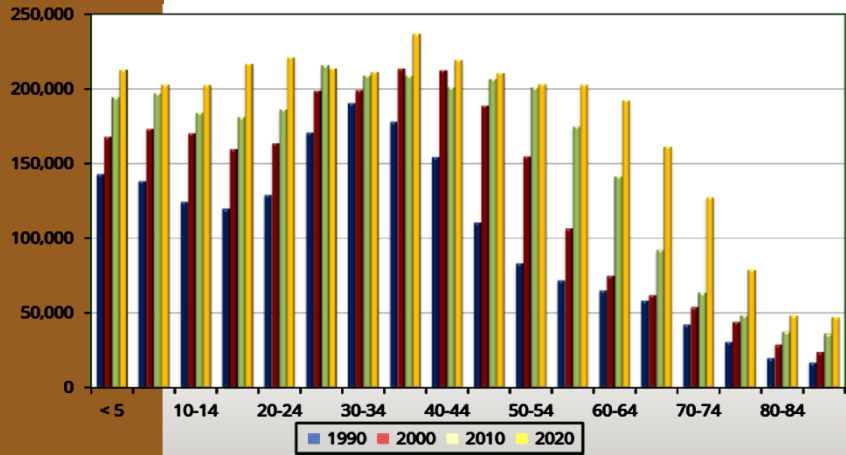
10

ARA
Real Estate
Investment Services

**RELATIONSHIPS
THAT DELIVER RESULTS.**
© ARA. All rights reserved.

Metro Denver

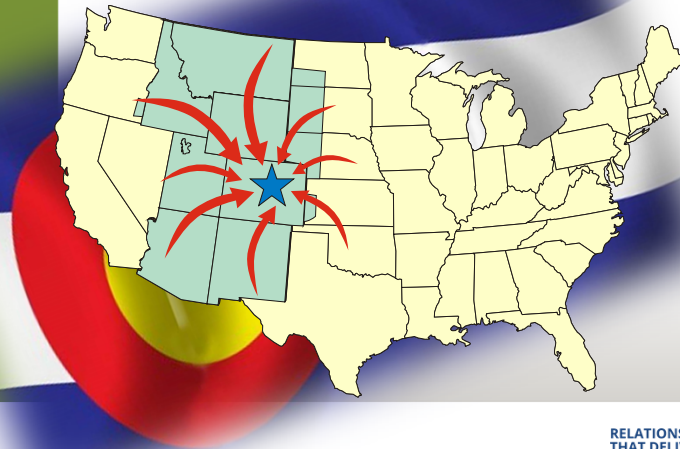
Age Distribution 1990 & 2020



Source: US Census Bureau

RELATIONSHIPS THAT DELIVER RESULTS.

Denver Colorado



RELATIONSHIPS THAT DELIVER RESULTS.

© ARA. All rights reserved.

Denver rental market hot for drawing in new millennials

Source: Caitlin Hendee

Denver officials have been touting development plans that they hope will lure millennials to the city — and subsequently a potential workforce of young people — for quite some time now.

For example, Tami Door, CEO of the Downtown Denver partnership, in May told the Denver Business Journal that the city is focusing on place-based economic development—development that involves building a desirable city that will attract young people first, which will in turn attract companies and jobs.

And communities around Denver, such as Stapleton, have also been working on catering to the millennials, generally defined as people ages 18 to 34. Stapleton's efforts have focused on creating walkable, urban-centric communities that appeal to younger generations, even though some say the city has a ways to go.

A report released Thursday may provide some insight into how the Denver area is doing with those development plans.

Denver ranks No. 2 for renting to millennials with the biggest percentage of change in that generation from 2007 to 2013, according to RealtyTrac's Q2 2014 Residential Property Report.

In other words, not only are the number of millennials living in Denver increasing, but they're jumping on all those rentals being built, too.

Denver's percentage of change was bested only by Orleans Parish, Louisiana, in the New Orleans area, which had a 71.2 percent increase, according to the report.

"Investors leveraging demographic trends will often be able to amplify rental returns ... particularly when it comes to trends in the baby boomer and millennial generations, which combined account for approximately 147 million people — more than 60 percent of the U.S. adult population," said Daren Blomquist, vice president at RealtyTrac.

The report also analyzed data from more than 370 counties across the United States to determine the top 50 markets for renting to millennials.

The top 50 markets were determined based on the highest rental yields for investors looking at counties with at least 100,000 residents, 40 or more residential sales, a 10 percent increase in the number of millennials that moved there, and millennials accounting for at least 24 percent of the population.

In Colorado: Adams County came in at No. 30 with an 8.48 percent yield; Arapahoe County took the No. 36 spot at 7.69 percent; and Denver was at No. 45 at 6.26 percent.

Nationally, the top county was Baltimore, which had a 21.32 percent annual gross rental yield.

"Many individuals ... are in the midst of major life changes that will often involve changes in housing, something that smart real estate investors

Metro Denver Apartment Market High School Graduates



Vacancy Metro Denver



Source: Q2 2014, AAMD Vacancy & Rent Survey



RELATIONSHIPS
THAT DELIVER RESULTS.

© ARA. All rights reserved.

15

Metro Denver Apartment Market Multifamily Permits



Source: SOCDS, updated May 2014

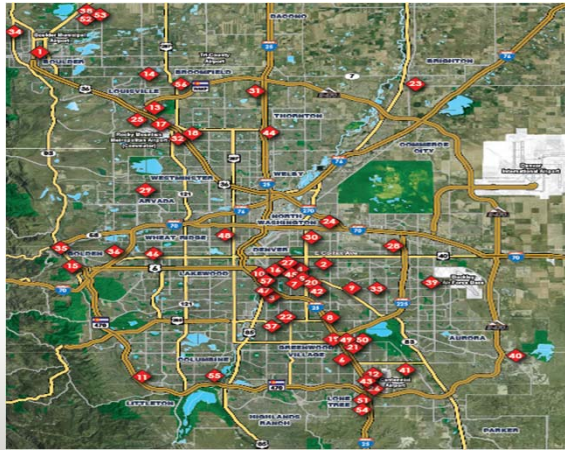


RELATIONSHIPS
THAT DELIVER RESULTS.

© ARA. All rights reserved.

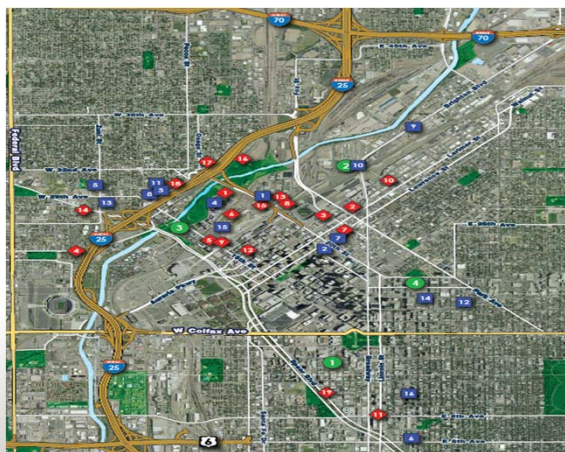
16

Apartment Construction Pipeline Under Construction – 2nd Qtr. 2014



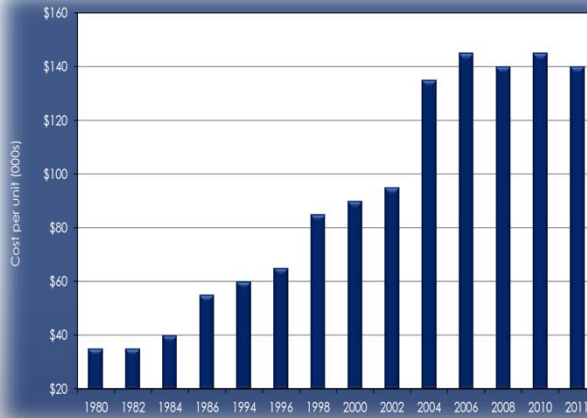
17

Apartment Construction Pipeline Downtown U/C + Proposed- 2nd Qtr. 2014



18

Average Construction Cost Metro Denver



Source: Apartment Realty Advisors

19

2011 "All-In" Construction Cost Metro Denver

- Garden Product \$165,000 per unit
- Mid Density \$180,000 per unit
- Downtown \$300,000 per unit

20

Units Completed Metro Denver



21



Source: Apartment Association of Metro Denver, Vacancy & Rent Survey
Updated: 2nd Qtr. 2014

RELATIONSHIPS
THAT DELIVER RESULTS.

© ARA. All rights reserved.

Apartment Absorption Metro Denver



22

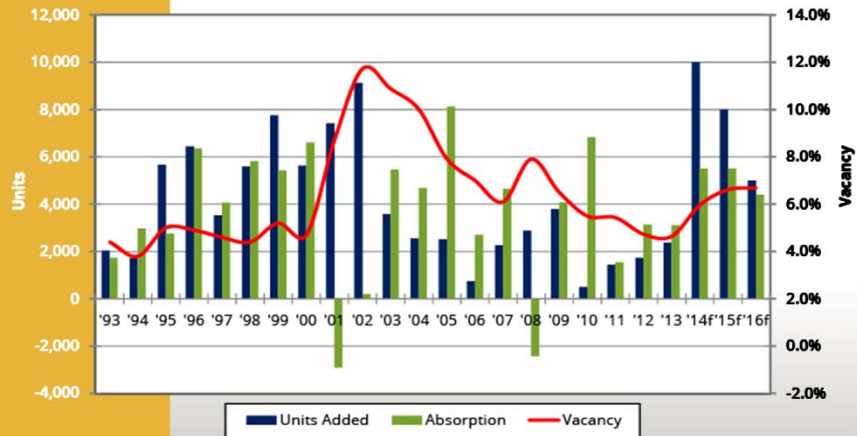


Source: Q2 2014, AAMD Vacancy & Rent Survey

RELATIONSHIPS
THAT DELIVER RESULTS.

© ARA. All rights reserved.

Construction Pipeline Metro Denver Apartment Market



23



RELATIONSHIPS
THAT DELIVER RESULTS.

© ARA. All rights reserved.

Average Rent per Sq. Ft. Metro Denver



24

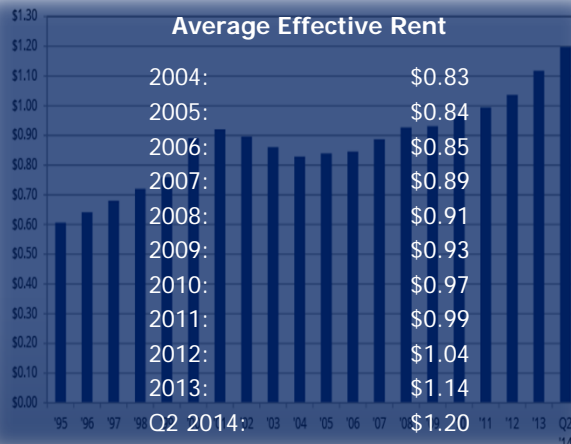


Source: Q2 2014, AAMD Vacancy & Rent Survey

RELATIONSHIPS
THAT DELIVER RESULTS.

© ARA. All rights reserved.

Effective Rent Metro Denver



Source: Apartment Association of Metro Denver, Vacancy & Rent Survey
Updated: 2nd Qtr. 2014



**RELATIONSHIPS
THAT DELIVER RESULTS.**

© ARA. All rights reserved.

25

Average Home Price Metro Denver



Source: Metrolist
Updated: 1st Qtr. 2014



**RELATIONSHIPS
THAT DELIVER RESULTS.**

© ARA. All rights reserved.

26

Average Condo Price Metro Denver



27



Source: Metrolist
Updated: 1st Qtr. 2014

RELATIONSHIPS
THAT DELIVER RESULTS.

© ARA. All rights reserved.

Denver Apartment Market



Jeff Hawks



RELATIONSHIPS
THAT DELIVER RESULTS.

© ARA. All rights reserved.

Conventional Financing Opportunities

All of **us** serving you®

U.S. Bank

usbank

August 14th, 2014

Deposit products offered by U.S. Bank National Association. Member FDIC.

Agenda

- US Bank Introduction
- What is Bank Financing?
- Recourse
- Market Update
- Recent Multifamily Finance Examples
- Hot Buttons
- Future Lending Environment

2

U.S. Bank Profile

2Q14 Dimensions	
Asset Size	\$389 billion
Deposits	\$276 billion
Loans	\$244 billion
Customers	17.9 million
NYSE Traded	USB
Market Capitalization*	\$76 billion
Founded	1863
Bank Branches	3,174

Q2 2014 Performance Metrics			
	Peer		
	USB	Median	USB Rank
Return on Average Common Equity	15.1%	9.3%	1
Return on Average Assets	1.60%	1.01%	1
Efficiency Ratio	53.1%	63.1%	1

Source: company reports
Peer Banks: BAC, BBT, FITB, JPM, KEY, PNC, RF, STI, USB and WFC

Strong Credit Ratings			
U.S. Rank	Company	Moody's	S&P
1	U.S. Bancorp	A1	A+
2	Wells Fargo	A2	A+ (on)
3	BB&T	A2	A-
4	J.P. Morgan Chase	A3	A (on)
5	PNC	A3	A-
6	Fifth Third	Baa1	BBB+
7	Keycorp	Baa1	BBB+
8	Bank of America	Baa2	A- (on)
9	Citigroup	Baa2	A- (on)
10	SunTrust	Baa1	BBB (op)
11	Regions	Ba1	BBB- (op)

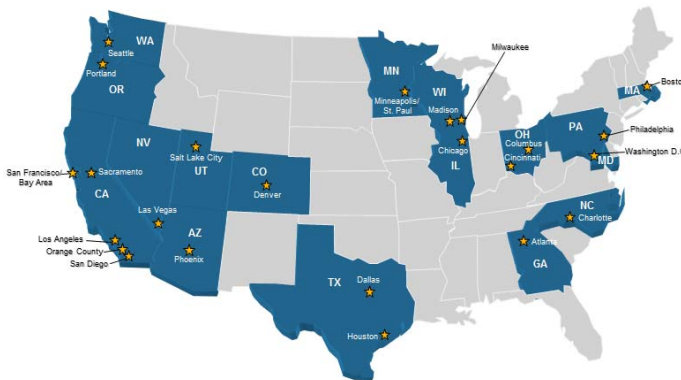
As of July 22, 2014

U.S. Bank Capital Position	
Basel III transitional standardized approach	2Q14 USB
Common equity tier 1 capital ratio	9.6%
Tier 1 capital ratio	11.3%
Total risk-based capital ratio	13.2%
Basel III fully implemented standardized approach	
Common equity tier 1 capital ratio	8.9%



US Bank Commercial Real Estate

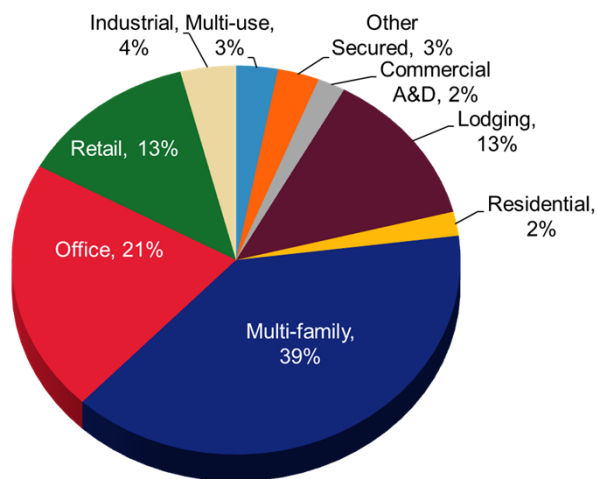
- 399 Employees - Located in 24 Cities
- \$35 Billion in Commitments
- \$8 Billion in Deposits
- Delivers loan, deposit, payment processing solutions, and other financial service products to middle market and large commercial real estate developers and investors



Deposit products offered by U.S. Bank National Association. Member FDIC.

Commercial Mortgage Portfolio Commitment Distribution

By Loan Type



 As of December 31, 2013

5

What is Bank Financing?

- **Short Term:** 3 to 5 Years
- **Flexible:** Customizable, Floating Interest Rates, No Prepayment Penalties
- **Front End Financing:** Acquisition, Rehab, Construction
- **Higher Risk Tolerance:** Reliance on proforma cash flows and values
- **Performance Heavy Structures:** Leasing requirements, DSCR covenants, LTV covenants
- **Recourse:** Sponsorship is #1 and needed for the higher risk tolerance
- **Relationship Based:** Not a "One Off" lender, want multiple loans, and "Wallet Share"

Deposit products offered by U.S. Bank National Association. Member FDIC.

6

Recourse – Support for Loan Above & Beyond Collateral

- **Types:** Most Desired to Least Desired
 - **Personal:** Warm body, motivation, tied to relationship model
 - **Corporate:** Typically for larger relationships
 - **Entity:** Holds cash and generates stable cash flow
 - **Securities:** Amount set up front, limited to 100%
 - **Fund:** Typically closed-end, limited ability to call additional capital, fiduciary duty of managers
 - **None:** None Recourse

- **Standard for Construction/Rehab:** Full completion guaranty through final certificate of occupancy

- **Repayment:** Limited or Full – Burn down with performance
 - Percentage depends on risk and relationship

Market Update – Do Banks Still Lend on Apartments?

YES!!!

- **Submarket Specific**
- **Need to Sell the Story:** Why here? Why now? Why not across the street?
- **What are the rents:** Comps, \$/sf vs. \$/unit, cushion to current market rents
- **Sponsorship (#1):** Can solve many issues

Typical Loan Structures:

- **Leverage:** 65% to 75% LTC (possibly 80%)
- **Pricing:** Average LIBOR + 234 bps
 - Driven by DSCR, Absorption Schedule, "At Risk" Equity, Relationship)
- **Fees:** Typically 25 bps per year (initial term)
- **Term:** Capped at 5 years, Initial 2 to 4 years interest only
- **Covenants:** Leasing hurdles, DSCR requirements, LTV requirement
- **Recourse:** Both completion and repayment

Recent CO Multifamily Finance Examples

#	# of Units	Project Type	Loan Commitment	LIBOR Spread	Initial Term (Months)	Fee (BPS)	LTV	LTC	Bank Stabilized DSCR	Covenant Int. Rate	% Recourse
1	267	Construction	\$41,000,000	2.85	36	75	70%	80%	1.11	6.00%	35%
2	228	Construction	\$27,515,000	3.00	36	75	61%	76%	1.06	6.50%	35%
3	200	Construction	\$22,450,000	2.50	36	50	69%	72%	1.14	6.00%	25%
4	153	Construction	\$20,500,000	2.75	36	75	58%	70%	1.21	6.00%	75%
5	165	Construction	\$19,400,000	1.75	48	75	48%	55%	1.52	6.50%	25%
6	N/A	Rehab	\$16,695,443	2.95	36	75	63%	N/A	1.35	6.50%	25%
7	99	Construction	\$14,180,000	3.00	30	75	62%	75%	1.26	6.00%	35%
8	125	Rehab	\$5,225,000	2.25	36	50	70%	75%	1.25	6.00%	25%

Deposit products offered by U.S. Bank National Association. Member FDIC.

9

Hot Buttons

- **Millennial Rent vs. Income:** Average millennial salary is approximately \$45,000

Annual Salary	30% Housing Cost	Rent \$/Month	Rent \$/SF (650 sf)
\$78,000	\$23,400	\$1,950	\$3.00
\$65,000	\$19,500	\$1,625	\$2.50
\$52,000	\$15,600	\$1,300	\$2.00
\$45,000	\$13,500	\$1,125	\$1.73

- **Institutional Equity:** Migrating from coastal markets chasing yield
 - No longer a passive investor
 - Involved in all aspects of deal including financing
 - Demanding "Transfer Rights" – Ability to step into GP/Borrower shoes when issues arise
- **Construction Costs:** Ever Rising
 - Term sheets typically not based on an executed GMP
 - More frequent cost overruns due to shortage of skilled subs
 - Who is the GC and why are they the best fit

Deposit products offered by U.S. Bank National Association. Member FDIC.

10

Future Lending Environment

- Rent growth will slow
- Interest rates will increase (driven by market and regulation)
- Macro global events (Russia, Middle East, China, etc.) could hurt
- Well located multifamily with strong stories will continue to find financing
- Sponsorship will become even more important

Questions?

All of **us** serving you®

usbank



*financing the places where
people live and work*

1981 Blake Street
Denver, Colorado 80202

colorado housing and finance authority

303.297.chfa (2432)

800.877.chfa (2432)
toll free

303.297.7305
tdd

www.chfainfo.com

Colorado State Housing Credit Program Highlights

1. Signed into law May 2014
2. Two-Year Program
3. Available for allocation starting 2015
4. Eligible projects must comply with CHFA's Qualified Allocation Plan
5. May be used with or without federal credit
6. May be used with 9% competitive or 4% non-competitive credit
7. Maximum available to allocate:
 - a. \$5 MM per year for two years
 - b. Exception for counties impacted by natural disasters – as defined by CHFA
8. Maximum Credit Per Project:
 - i. 30% of a project's "qualified basis"
 - ii. No more than needed for financial feasibility

The legislative process, followed by the Colorado success story (Historic Credits)

Peter T. Noonan
SVP, Commerce Bank
August 14, 2014



We ask, listen and solve.



Commerce Bank
Member FDIC

Brief description of Commerce Bank:

- \$23 billion bank, focus on MO, KS, IL, CO, OKL
- In business 150 years- all as "Commerce Bank"
- Run by the Kemper family for 100+ years
- Publicly traded under CBSH
- At AA3 credit rating, upper echelon Investment Grade, and no bank in the US is more highly rated
- **Offices in Tech Center, Aurora, Downtown Denver**
- *Tax Credit Services* department is the regional industry leader in legislative advocacy for preservation

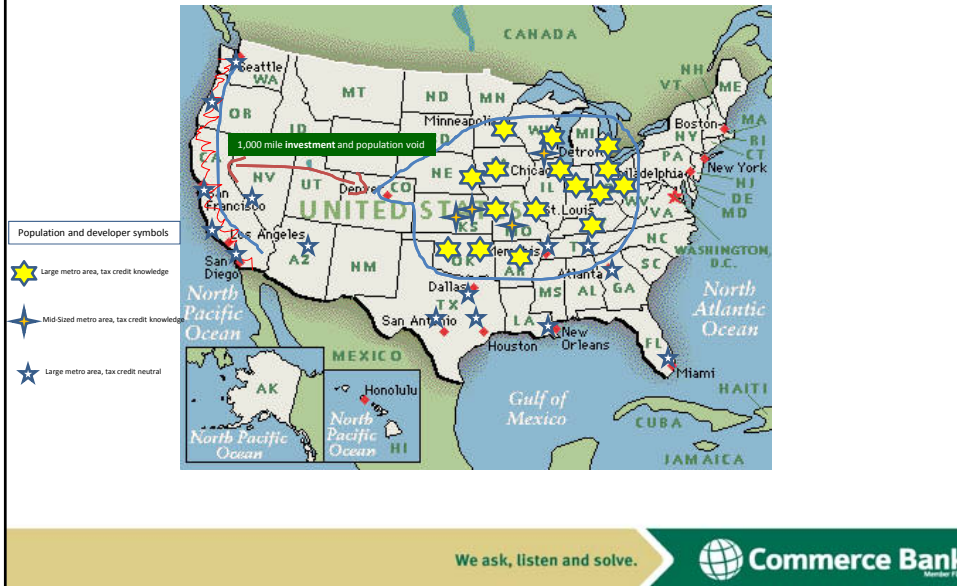


We ask, listen and solve.



Commerce Bank
Member FDIC

Competitive market (where the historic tax credit action is):



State by State: Reminder: it is a "super regional" competition for investment and job creation



Legend:

- Colorado
- 5 million
- Yes
- No Cap
- \$50K
- N/A
- Recapture, budget dependent

State Name:
Population
Program (Y/N)
Program cap (\$)
Project cap (%)
Percentage
Other

<ul style="list-style-type: none"> • Nebraska • 2 million • 2014 • \$15 million • \$1 million • 20% • Follows fed 	<ul style="list-style-type: none"> • Minnesota • 6 million • Yes • No Cap • No Cap • 20% • Follows fed 	<ul style="list-style-type: none"> • Wisconsin • 6 million • Yes • No cap • No Cap • 20% • No recapture 	<ul style="list-style-type: none"> • Ohio • 11 million • Yes • ~\$50 mill • No cap • 20% • Lottery/jury
<ul style="list-style-type: none"> • Kansas • 3 million • Yes • No Cap • No Cap • 25% (30%) • Indep. 	<ul style="list-style-type: none"> • Iowa • 3 million • Yes • \$45 million • No Cap • 25% • Lottery 	<ul style="list-style-type: none"> • Illinois • 13 million • Proposed • \$50 million • \$5 million • 20% • Follows fed 	
<ul style="list-style-type: none"> • Oklahoma • 4 million • Yes • No Cap • No Cap • 20% • Follows fed exactly 	<ul style="list-style-type: none"> • Missouri • 6 million • Yes • \$140 mill • None • 25% • Indep 	<ul style="list-style-type: none"> • Kentucky • 3 million • Yes • No Cap • \$1 million • 20% • Follows fed 	
	<ul style="list-style-type: none"> • Arkansas • 3 million • Yes • \$4 million • \$125K • 25% • Indep 		

Legislative Process (macro view):

- A) Evaluate current activity and legislation (if any)
- B) Gather stakeholders and begin planning
- C) Fundraising
- D) Legislative tactical plan



We ask, listen and solve.



Commerce Bank
Member FDIC

Language process

- [pro-bono] Commerce and outside counsel review existing language plus other incentive bills in the state to get language characteristics for the given state
- Commerce and counsel do a full search of tax types and tax code
- Review language “variables” with the team to get an initial roadmap for first draft
- Pete, Elizabeth, and Emily (Spencer Fane) write language, then run it by National Trust, Preservation Consultant, and SHPO
- Language constantly combed to reach “Max Q” or maximum efficiency (highest N.A.T. dollars to target)
- Adjust and create first draft to present to language subcommittee



We ask, listen and solve.



Commerce Bank
Member FDIC

Colorado Job Creation and Main Street Revitalization Act

Accomplishes two basis goals:

1) Folds the existing statute into a program just for **owner occupied non income producing property**, while making certain improvements to the existing language. This portion of the program is uncapped and is no longer dependent on certain state budgetary projections (we won't go into detail on the "houses" portion for this audience)

2) Creates a new program specific to **commercial property** (includes rental residential):

Allocation for the first year is for two \$2.5 million pools (\$5 million/yr), increasing to two \$5.0 million pools (\$10.0 million/yr) for the following three years.

- One pool is set aside for projects with projected QRE's of \$2 million or less
- And one pool is set aside for projects with projected QRE's in excess of \$2 million
- A Per project cap of \$1 million in credits allocated per project per year

We ask, listen and solve.



Commerce Bank
Member FDIC

To Qualify (Commercial):

Listing requirements:

Individually listed on State or National Historic Register
Contributing to a district on the State or National Historic Register
Designated as a Landmark by a certified local government
Designated as a contributing property within a designated district of a certified local government

Minimum expenditures:

Minimum expenditures to equal 25% of original purchase price, less land value (this is due to the high cost of land in some communities, and the prominence of tear downs for new construction)

Must have property ownership (or certain leasehold rights)

Rules are still being promulgated and applications being created, but it is generally believed that the project will need to be at the "design review" stage upon time of application

First applications to be accepted July 1, 2015, and will only cover expenses starting on same date

501 c3 corporations may apply for and receive a state tax credit

We ask, listen and solve.



Commerce Bank
Member FDIC

Program features

Tax credits are calculated using same qualified rehab expense basis as the federal program [Section 47 (c) (2) (A)]

The Colorado State tax credit is calculated at 25% of QRE's up to \$2 million in QRE's, then reducing to 20% on QRE's above \$2 million

For areas designated as State or Federal disaster areas the above percentages increase to 25% and 30%, respectively, for the 8 years following such disaster designation

Up to a \$500 application fee on the front end, and projects that receive an allocation to be charged a 3% "issuance fee" upon completion and certification of the project

Reservations are "first come first served", with a lottery for applications received on the same day. A program of this small size will typically fully subscribe on the opening day of each fiscal year.

Project must start renovation within one year of written notice of an allocation, with this measurable: evidence of spending 20%+ of projected QRE at the point of 18 months after the allocation letter

Cost certification required upon completion, and for tax credits in excess of \$250,000 the cost cert needs to be an audit in scope

After review of the Part III and the cost certification, there becomes issued a freely transferable tax credit certificate, up to the amount of the initial allocation

The certificate is transferable, multiple times, bifurcatable, not for profit can be in transfer chain, agency to certify ownership with each transfer, disproportionate allocation to partners allowed, any adjustment solely to applicant, 10 year carry-forward

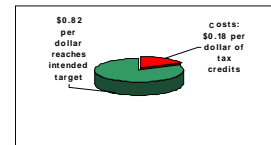
We ask, listen and solve.



N.A.T. Efficiency:

The incentive must be:

- In certificate form (if not refundable)
- Freely transferable
- In whole or in part
- Multiple times
- Apply to many tax types
- Carry forward to future tax years
- No recapture to the tax credit purchaser
- Allow for tax advantaged structures – or else 40% of the incentive (of State of Colorado taxpayer dollars) will go to pay federal Tax
- Must allow disproportionate allocation
- Must allow not for profit entities to at least be in the ownership or transfer chain



We ask, listen and solve.



Max Q (monetary efficiency)

- Developers and owners need certainty (of the State incentive) in order to make a purchaser decision
- Lenders need certainty in order to i) make the initial acquisition loan, and ii) make the rehabilitation loan
- Federal Historic Tax Credit investors need certainty in order to make their investment
- LIHTC investors need certainty in order to make their investment
- Tax credit purchasers need certainty and maximum flexibility in order to make hard pre-commitment contracts
- Tax Credit bridge lenders need certainty of delivery of the incentive, especially when they take an assignment agreement with the tax credit purchaser (above)
- Our team shall deliver the above, as well as deliver the most Net After Tax (NAT) dollars (\$) available to the target



We ask, listen and solve.



Commerce Bank
Member FDIC

Peter T. Noonan
SVP, Commerce Bank
314-746-3223
Peter.Noonan@CommerceBank.com
(not case sensitive)



We ask, listen and solve.



Commerce Bank
Member FDIC