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Opportunity Fund, Meet Unlisted REIT

The unlisted REIT market is getting crowded. As new players tap into the unlisted REIT sphere, the Big Four's stranglehold on the market may be loosening. The Big Four refers to a quartet of dominant unlisted REITs consisting of Inland, CNL, Wells Real Estate Funds and W.P. Carey. Some of these sponsors, like Wells, have been around since the early 1980's when real estate limited partnerships (RELPs) were in vogue. The largest new entrant by dollar size is Hines' \$2.2 billion offering, which came to market last year. But over the past 18 months, a total of five new unlisted REITs - including Hines - have registered with the U.S. Securities and Exchange Commission. More are on the horizon, and the motivation is simple: Unlisted REITs, like their counterparts on the listed side of the aisle, continue to raise hordes of cash. Data from Robert Stanger & Co. pegged unlisted REIT fundraising at a staggering \$6 billion in 2003. Their 2004 take was even better at \$8.5 billion. New faces, of course, mean added competition for investor dollars. That point is not lost on Behringer Harvard Funds, a Texas-based sponsor of the nation's youngest unlisted REIT. On Sept. 28, the real estate investment firm formally launched its \$400 million Behringer Opportunistic REIT I. The REIT plans to invest in value-add properties across the spectrum, primarily in the Sun Belt region, and to hold these properties for three to six years. "We think this is a unique approach," says Jason Mattox, senior vice president at Behringer Harvard Funds. "Most of the unlisted REITs focus on core properties in major markets, and we're looking at a much more opportunistic approach." That means buying office, hotel, retail, apartment and industrial properties that may have vacancy issues. Mattox says that buying stabilized assets in major markets is still a good strategy, but lately it's been difficult to win deals that way. "The idea is to look for opportunities all over, across all five property classes," he says. If that sounds unique, guess again. Mattox says that many existing unlisted REITs-including Inland - are spinning off new REITs that invest across multiple property classes. The only difference, he says, is that these vehicles are chasing after stabilized rather than value-add assets. For Mattox, however, the pitch is all about differentiation. "Nobody else is doing this right now," he says. "There's plenty of capital out there, but it's going into the stabilized assets. This will be a popular fund." **(National Real Estate Investor/Parke Chapman)**

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Cherry Creek Retail Site for Sale

Developer Randy Nichols is selling his Clayton Lane retail portfolio in Cherry Creek. Nichols is listing the 190,000- square-foot package, which includes everything but the Sears building, with Mary Sullivan of CB Richard Ellis. Sears has a 45 percent stake in the development. Tenants in the Clayton Lane buildings include Whole Foods, Crate & Barrel, Orvis and the North restaurant. "Grocery-anchored retail is one of the most sought-after product types," Nichols said. "CB has a group of usual suspects that are buying real estate. They think there will be a lot of interest." There is no asking price for the retail portfolio, which cost up to \$130 million to build and included an office building and residential condominiums. Several brokers declined to

speculate on how much the portfolio would sell for. "Cherry Creek is a great place to be, and it's going to get nothing but better over the next 20 years," said Nichols, who received an award from the Massachusetts Institute of Technology Center for Real Estate for the development. Nichols said some of the proceeds from the sale will go into other developments he's working on, such as his proposed 41-story condominium tower near the newly expanded Colorado Convention Center. "That's a building that will require some cash," he said. **(Denver Post)**

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Southwest Commons Sells for \$55.82 Million

GDA Real Estate Services LLC continues to grow its Denver-area retail portfolio, most recently with its \$55.82 million purchase of Southwest Commons. GDA Real Estate purchased the 307,173-square-foot retail center from GMS Realty LLC out of Carlsbad, Calif. "There is over 4 1/2 million sf of retail along the Wadsworth corridor and this is right at the heart of it," Cushman & Wakefield of Colorado Inc.'s Mike Winn said of the center, at 8501-8601 W. Cross Drive in Denver, which fronts Wadsworth Boulevard and is adjacent to and along the ring road of Southwest Plaza. **(Colorado Real Estate Journal)**

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Report: Colorado Faces Challenges in Education, Home Pricing

The Metro Denver Economic Development Corp. released a massive report of economic data, "Toward a More Competitive Colorado." It's an attempt to take myriad rankings and ratings and find out where Colorado stands versus all other states and, particularly, some of its top competitors for new companies — Arizona, New Mexico, Texas, and Georgia. The report confirms most beliefs about Colorado — its strengths are that it's entrepreneurial, innovative and healthy. The weaknesses — education and home prices. The full report can be found at http://www.metrodenver.org/MDEDCcenter/Competitiveness_IndustryCluster.icm Here are the "competitive highlights" for Colorado, according to the report:

- 4th most highly educated state in percentage of college graduates
- 10th most productive workforce
- 9th highest concentration of doctorates in science and engineering
- 4th highest in venture capital investments
- 9th highest in patents per million population
- Lowest obesity rate in the nation
- 3rd lowest in heart disease deaths and diabetes deaths, 4th lowest in cancer deaths

Here are the "competitive challenges" for Colorado, according to the report:

- 48th in state and local support for higher education
- 32nd in high school graduates entering college within one year of graduation
- 46th in higher education spending per capita

- 37th in job growth in 2004
- 26th in per capita spending on K-12 education
- 49th in K-12 spending as a percent of personal income
- 29th in high school graduation rates—down from 26th in 1995

(Rocky Mountain News)

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Office Vacancies Fall to 31/2-Year Low

Vacancies in the nation's office market fell to their lowest level in 3 1/2 years in the third quarter while rents rose, a new survey said. Recent weakness in the jobs market could cut the recovery short, real estate executives said. The U.S. vacancy rate dropped to 15.1 percent in the third quarter from 15.4 percent in the second, according to the survey of the top 70 U.S. office markets by **Reis Inc.**, a commercial real estate research firm based in New York. Effective rents - the amount of money a landlord takes in after factoring in concessions to tenants - rose for the third straight quarter, heading up 0.8 percent to \$20.41 a square foot from \$20.24 in the second quarter. That is doubly good for office owners because asking rents went up just 0.6 percent in the quarter. That means landlords are dropping the concessions, such as free months of rent, that they have used to lure tenants for the past four years. While the office market is clearly in recovery after three harsh years, Hurricane Katrina has clouded an economic outlook already weighed down by high energy prices. U.S. payrolls shrank in September for the first time in more than two years because of disruptions from the hurricane, and the unemployment rate hit 5.1 percent last month, compared with 4.9 percent in August. The health of the office market is directly related to employment. **(Rocky Mountain News)**

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Improvements Seen in Denver Retail

Denver's retail market improved during the third quarter, CB Richard Ellis Inc. reports, both in terms of lease rates and net absorption. The commercial real estate company released its third-quarter report that showed an 11-cent increase in the average asking lease rate, to \$14.72 per square foot. Overall net absorption rose, increasing from 349,622 square feet taken off the market in the second quarter to 462,339 square feet in the third. CB Richard Ellis also reports 4.8 million square feet of new retail space is under construction. The largest chunk of that is 1.6 million square feet in southeast Denver and another 1 million square feet in the northwest submarket. The vacancy rate for retail space fell only slightly, to 6.2 percent in the third quarter from 6.4 percent in the second. The highest vacancy rate was in the western part of the metro area, at 10.6 percent. The lowest was in the Colorado Boulevard/Cherry Creek submarket, at 2.2 percent. That area is also the smallest submarket in the Denver area, containing only 4 percent of the retail market, but had the highest average asking lease rate of \$22.02 a square foot in

the third quarter, which was down 83 cents from the previous quarter. **(Denver Business Journal)**

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Developer Plans DIA Office Trio

The company that's building the Environmental Protection Agency's new headquarters downtown as well as high-rise condos near City Park said Tuesday it will build three office buildings close to Denver International Airport. Opus Northwest is buying land at High Point, an 1,800-acre mixed-use residential, retail and office development east of Tower Road and south of Peña Boulevard. The development is the brainchild of Denver developer Ray Pittman, who left a top job at warehouse developer Catellus Development Corp. to tackle the project. Opus plans a \$23 million project, including three buildings totaling 174,000 square feet. It's talking with a number of potential tenants and will start construction when half the space is leased, said John Shaw, vice president and general manager of the company's Denver office. Shaw declined to name prospective tenants. "It's a very interesting mix of users, and proximity to the airport is important to them," he said. "We have a few support and service groups because of all the housing that's going on in that area." Opus and Pittman also are teaming to pursue projects in the northeast metro market for specific tenants, Shaw said. Pittman, president of Landmark Properties Group, also has selected Woodcrest Homes and D.R. Horton to build nearly 650 single-family homes in the development. Prices will range from \$250,000 to \$350,000. The builders are expected to break ground next spring. When completed, High Point will have 1,600 single-family and 1,200 multi-family homes priced from \$150,000 to \$750,000. Pittman also is moving ahead with plans for 100,000 square feet of retail space, with groundbreaking scheduled for next year. Tenants will include basic service providers such as a dry cleaner and a coffee shop. Pittman also is talking with upscale restaurants. "There is a lot of demand up in that area and not a lot of newer, high-end restaurants," he said. Pittman also is working on three hotel deals: a high-end, full-service hotel; an extended-stay hotel; and a conference-center hotel that would host meetings of 50 to 200 people. The first project to start likely will be the full-service hotel, Pittman said. Pittman started work on High Point while he was with Catellus, a San Francisco-based real-estate development company that was acquired by Aurora-based ProLogis last month. The sale shifted Catellus' focus from mixed-use to industrial projects. **(Denver Post)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	3.75	3.50	1.75
3 MONTH LIBOR	4.16	3.87	2.07
PRIME RATE	6.75	6.50	4.75
10 YEAR TREASURY	4.46	4.16	4.02
30 YEAR TREASURY	4.68	4.45	4.82