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A Denver Based Commercial Real Estate Investment and Management Company
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Washington Group Expands Class A Regional Office

Washington Group International Inc., an engineering and construction firm based in Boise, ID, recently took another 22,822 sf of office space in Denver Corporate Center III to take its total in the overall development to 238,724 sf. The firm now fills 57,016 sf in the Denver Corporate Center III and 181,712 sf in Denver Corporate Center II, where it's the largest tenant. The buildings house Washington Group's Denver regional offices. Both class A buildings are owned by Chicago-based Equity Office Properties Trust. As a result of these expansions and its ongoing relationship with the building owner, Washington Group is now a member of EOP's strategic customer program, which caters to businesses with multiple locations within the national portfolio. Scott Perry, EOP's leasing director, brokered the deal. The Denver Corporate Center buildings are 11-story, twin towers with more than 358,000 sf of office space in the North Denver Tech Center, near the confluence of Interstates 25 and 225. Typical floor plates are 17,000 sf. **(Globest.com)**

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As Costs Climb, Builders Put Off Office Projects

The rising cost of everything from land to diesel fuel to gypsum products is causing U.S. real-estate developers to delay or cancel construction of some office buildings, according to industry insiders. Fewer new buildings mean less space available to rent. That could be good news for landlords, who could raise prices and bad news for businesses that lease office space. Higher costs are showing up at all levels -- in labor, in land and in the price of supplies and raw materials, such as concrete and drywall. When developers total these costs, they are shying away from building -- at least in some markets, these real-estate insiders say. In one case, Prudential Real Estate Investors postponed the 250,000-square-foot second phase of its Quiet Waters Business Park in Deerfield Beach, Fla., because of rising construction costs, said Theresa Miller, a Prudential spokeswoman. Landbank Investments, a commercial-investment and development company in Menlo Park, Calif., said it has put off projects in Silicon Valley and instead has been buying existing properties, which are selling for less than it would cost to build them. "Current rents don't justify the cost of new development," said Scott Jacobs, Landbank's executive vice president. When a developer is deciding whether to construct a building, the calculation is pretty simple. Will the rent be high enough pay off the loans needed to finance the building and the costs of running it, while still turning a profit? One rule of thumb: For every \$10 increase in construction costs -- land, labor and materials -- the developer needs to get an additional \$1 per square foot in rent. William Hankowsky, president and chief executive officer of Liberty Property Trust, a real-estate investment trust in Malvern, Pa., that owns and develops industrial and office space, said higher fuel prices are showing up in prices of petroleum-based materials such as plastic piping, and also in delivery charges from suppliers. Along with the rise in land costs, Mr. Hankowsky estimated Liberty's construction costs are up as much as 25% from last year. Last year, the big concern was steel, where the price rose 48% from the prior year in part by strong demand from China. This year, contractors are complaining about the high costs of concrete and gypsum products,

up 10% and 13%, respectively, last year, according to a study by Ken Simonson, chief economist of the Associated General Contractors of America. High costs aren't deterring developers from building office towers in some cities with strong real-estate markets, including New York and Washington. And rising costs aren't slowing the nationwide boom in residential construction because prices for condos have soared, making it far easier to pay the cost of building. The country's residential boom has benefited developers as well, because office buildings are being converted into condos, taking supply off the market. But office rents are still lower in many markets, averaging \$24.41 a square foot in the third quarter for the 69 largest markets, compared with \$26.85 a square foot in 2001, according to real-estate analysis firm Reis Inc. "In markets where rental rates are not rising much at all, construction costs are kind of the final straw in terms of developers' starting new projects," said Robert Bach, national director of market analysis for Grubb & Ellis Co. Office-vacancy rates in the largest markets still average 15% -- high compared with the 8% seen in 2000 -- but have been dropping in the past three quarters, according to Reis. If healthy job growth leads vacancy rates to fall into the single digits with little additional office space coming online, rents could rise. "That tends to be the sweet spot in the curve," said Robert Steers, co-chairman and co-CEO of Cohen & Steers, an investment firm that specializes in REIT mutual funds. "Rents can move quite rapidly, whereas supply coming out of the ground cannot." In suburban St. Louis, Kelley Real Estate Inc.'s 425,000-square-foot Manchester/270 Office Center is 99% occupied and commands rent of about \$26 per square foot. Because of increased construction costs, two planned buildings at nearby Page/270 Office Center would need to be rented at about \$30 per square foot, said Joseph Kelley Jr., the firm's president. "There's so much supply out there, we just aren't able to build the new buildings," he said. In the soft market -- the local vacancy rate is 18% -- prospective tenants can negotiate better deals in existing properties. Not everyone is convinced that high costs are deterring construction. Jim Costello, a senior economist with Torto Wheaton Research, a real-estate-analysis company in Boston, argues that since there hasn't been much speculative office development, you can't say that the high cost of construction has been a factor. "If construction costs go up in a market where you don't have a lot of construction activity to begin with, it's not going to restrain too much," he said. Instead, he said, some investors use construction costs as an easy way to rationalize overpaying for an existing building. They argue, "if I'm going to buy an asset today, maybe that justifies the high price I'm paying, because if I didn't have any new competitors coming in, I'll get rent increases," Mr. Costello said. But Bret Wilkerson, chief executive of Property & Portfolio Research, a rival analysis concern based in Boston, says that is just the point -- higher costs are preventing construction. The proof, he said, is in the data: The number of planned projects keeps climbing, but actual office starts remain fairly low. "If construction costs hadn't risen, we would be seeing more construction today," Mr. Wilkerson said. **(Wall Street Journal)**

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Buyers Snap up Office Buildings

Two out-of-state buyers have purchased or are about to buy several high-profile office buildings in the Denver area. Together, the transactions represent nearly

\$225 million in deals in downtown Denver and the southeast and northwest corridors. In the largest deal, TIAA-CREF bought the 10-building, 1.25 million-square-foot portion of the Westmoor development in Westminster from Denver-based Westfield Development Co. Westfield developed the buildings seven years ago and retains more than 50 acres in the park. Although the price wasn't disclosed, records indicate the property sold for just under \$125 million, or about \$100 per square foot. "These were the first spec (unleased) buildings built up in that (northwest) corridor," said Randy Schwartz, executive vice president of Westfield. "Back then, we couldn't build them fast enough. Then, they started emptying out" during the tech collapse. Sun Microsystems leases two of the buildings, and GE Access, formerly of Boulder, is subleasing about 90,000 square feet in one building from Sun. Overall, the 10 buildings are 70 percent occupied. Separately, LBA Realty, a private Irvine, Calif.-based company, is expected to invest nearly \$100 million for the Colorado State Bank building in downtown Denver and two Oracle buildings in the Denver Tech Center that come with 15 prime acres. Brookfield Properties, the Canadian owner of Colorado State Bank, said in a recent Securities and Exchange Commission filing that its 50 percent interest in the downtown building is under contract for about \$22 million and that the deal is scheduled to close by Nov. 30. LBA also will pay \$22 million to the private owners of the other half of the 21-story, 411,976-square-foot Colorado State building at 1600 Broadway, according to sources. LBA did not return calls seeking comment. The company also is expected to close by the end of the month on the Oracle buildings at 7595 and 7601 Technology Way in the DTC. The buildings are being sold for about \$53 million, according to sources. The buildings were built in 1997 and 2000 by J.D. Edwards, which later was purchased by PeopleSoft, which, in turn, was acquired by Oracle. In 1999, J.D. Edwards planned to develop a 22-story building on part of the 15 acres that LBA is acquiring, but it dropped the plans when the economy soured. The buildings, being listed by Trammell Crow, together have about 531,000 square feet of space. Brokers said LBA is buying the buildings far below replacement cost. A subsidiary of MDC Holdings, parent of Richmond Homes, leases about 60,000 square feet in one building. **(Rocky Mountain News)**

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Film Society Drops out of Lowenstein Project

The Denver Film Society will no longer be one of three anchors in the Lowenstein Theater redevelopment on East Colfax Avenue. The Tattered Cover Book Store and the Twist & Shout record store remain as anchors in the development. The film society, which has been working on the deal for months, issued a statement Wednesday afternoon saying "negotiations have ceased" with the St. Charles Town Co., headed by Charlie Woolley. The film society gave no details but apparently was unable to raise the millions of dollars needed through donations to pull off the deal. Scott Rowitz, executive director of the film society's Starz International Film Festival, would not comment beyond the statement, which did not say how much had been raised or why talks with St. Charles Town Co. had ended. "It's a disappointment that we couldn't build the project that we had originally conceived of," with the film society, Woolley said. The film society was going to be the largest anchor, with 33,000 to 35,000 square feet. It would have included five cinemas with a total of 700 seats, education space and administrative offices, Woolley said. The film society likely will be replaced by small retail tenants, ranging from 2,000 to 7,000 square

feet. With the film society's departure, the size of the project will be reduced by about 20,000 square feet and the construction cost will drop to about \$15 million from \$22 million, he said. John Huggins, Denver's economic development director, said the city supports Woolley's plan to replace the film society with retail tenants. He said the society, which is housed at the Tivoli Student Union on the Auraria campus, also still needs a permanent home and that the city will work with society officials. Joyce Meskis, the owner of Tattered Cover, in a prepared statement, said: "We're disappointed that the film society will not be in the project. Their presence would have provided a dynamic energy. However, we at the Tattered Cover look forward to working with the developer and Twist & Shout to make this project a successful part of the redevelopment of East Colfax and the renovation of a wonderful historic property." Later in a phone interview, Meskis said the Lowenstein redevelopment is a "complicated project, and it has lots of moving parts. There are still some things the developer has to pull together, but we're confident and hopeful that he'll be able to do that." Paul Epstein, owner of Twist & Shout, said he hopes the project will continue to go forward. "We're not throwing in the towel," Epstein said. "We're hoping this can still work out, but obviously it's a blow." **(Rocky Mountain News)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	4.00	3.75	2.00
3 MONTH LIBOR	4.34	4.13	2.29
PRIME RATE	7.00	6.75	5.00
10 YEAR TREASURY	4.56	4.46	4.25
30 YEAR TREASURY	4.74	4.66	4.97