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Work Begins on \$35M Hilton Garden Inn

Today, ground will be officially broken on a 12-story, 221-room Hilton Garden Inn at 14th and Welton streets across from the Colorado Convention Center and the new Hyatt hotel. It marks the first Hilton in Downtown in about 20 years. Mayor John Hickenlooper and other dignitaries are expected to commemorate the groundbreaking with the developer, locally owned Stonebridge Cos. "We do a lot of business with Hilton," Navin Dimond, CEO of the privately held Stonebridge, tells GlobeSt.com. "We have 20-plus hotels with Hilton flags. We have a very good relationship with them and really like the brand." He tells GlobeSt.com that a certain number of people will choose Hilton because they are loyal to the brand. "It's been many, many years," since a Hilton has been Downtown, he says. The \$35-million hotel will open in the second quarter of 2007. Dimond estimates average room rates will range from \$139 to \$199. There are a number of other hotels on the drawing board in Downtown Denver. When asked if the Downtown market could be in danger of overbuilding, Dimond tells GlobeSt.com he didn't think so. "I think there is sufficient demand being created," Dimond says. "If a lot of hotels of the size of the 1,000-room Hyatt were being built, I would be worried. But the hotels are not near that size." Also, most hotels aren't serving the mid-range client targeted by the Hilton Garden Inn. He notes that locally based Sage Hospitality Resources is opening a Residence Inn by Marriott, as well as refurbishing the nearby Executive Tower Inn (ETI). But the Residence Inn is targeting the extended-stay customer, and the ETI is an existing hotel with rooms that will be off the market for most of the year during the renovation. And the planned Four Seasons and Ritz Carlton hotels Downtown are at different price points, he notes. "Adding new rooms and a better product, I think that is always a good thing," Dimond tells GlobeSt.com. He says he anticipates a third of his customers will be commercial business travelers, a third will be leisure travelers and a third will be travelers attending conventions. **(Globest.com)**

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Industrial Absorption and Vacancies Improving

The area industrial market continues to strengthen, with absorption reaching more than a million sf, according to the latest report from CB Richard Ellis. The report says the increase in demand pushed down the overall vacancy rate to 8.5% in the fourth quarter of 2005 from 8.9% in the third quarter. The market is moving closer to stabilization, where supply and demand are in equilibrium, according to CBRE. The brokerage firm attributes this to developers maintaining a disciplined approach and keeping construction to historically low levels. "However, the best news for landlords is that lease rates are finally trending upward again," the report notes. "As a lagging indicator, lease rates usually follow the trends in absorption and vacancy. After declining two quarters in a row, lease rate ticked in the fourth quarter to [an average] of \$5.09 per sf." Rates had dipped to about \$5 per sf in the third quarter. The industrial market is benefiting from continued growth in national and local economies. "In addition, as interest rates continue upward, activity among buyers should lessen, shifting additional activity to the leasing market," the report notes.

The CBRE report shows that the southwest market, with 24.9 million sf, has the lowest vacancy rate at 3.4%. Not far behind it is Commerce City, with 15.9 million sf, with a 3.9% vacancy rate. Central Denver, with 15.7 million sf, also has little open space, with a 4% vacancy rate. The highest vacancy rate is the Longmont market in Northern Colorado, where the vacancy rate stands at 28.9%. In the more immediate Denver area, the highest vacancies are found along the 16-million-sf southeast corridor, where 14% of the space is vacant, according to CBRE. The DIA/Montbello market, the largest market, with 53.16 million sf, shows a 10.9% vacancy rate. As far as lease rates, Boulder has the highest, with an average of \$7.23 per sf. It is followed by the southeast corridor at \$6.71. **(Globest.com)**

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Future of Terrorism Reinsurance Remains Uncertain

It came close to the wire, but the president signed a two-year extension of the federal backstop for terrorism insurance on Dec. 22—a week before it was due to expire. After a brief sigh of relief, industry leaders quickly turned their attention to creating a permanent fix: The administration and Congress would prefer to get the federal government out of the business of guaranteeing insurance coverage for terrorist attacks on commercial real estate, but insurers, property owners, investors and lenders are looking for a permanent federal role. The basic situation has not changed much since 2002, when the Terrorism Risk Insurance Act of 2002 (TRIA) was passed. In the wake of 9/11, many insurers had dropped terrorism coverage, which raised the specter of possible default on scores of high-profile properties where lenders—and underwriters of CMBS products—insist on coverage. The Mortgage Bankers Association, lenders and property owners warned of a crisis in the real estate markets and Congress temporarily approved federal reinsurance against losses to terrorism of up to \$100 billion. Now, the clock is ticking against another deadline and the Commercial Mortgage Securities Association and other TRIA advocates are pushing to have a permanent reinsurance program in place by the end of 2007. “When you have all these commercial loans conditioned on the availability and purchase of terrorism coverage, (borrowers) need the certainty that they’re going to be able to buy it,” says Scott Sinder, general counsel for the Commercial Mortgage Securities Association in Washington, D.C. Whether affordable terrorism insurance will be available beyond 2007 depends on the efforts of lawmakers and various stakeholders attempting to forge a permanent reinsurance plan. What would a permanent plan look like? Various national models for terrorism insurance already exist in the United Kingdom, Germany and other nations, where insurers rely on a government-administered pool of insurance capital to help cover losses due to terrorist acts. Even if the United States establishes a pool to reimburse providers for terrorism losses, however, the insurance industry will still need government backing while the pool grows to a size large enough to replace the federal backstop, according to one insurance industry source. “Pooling is good for aggregating capital and allocating it, but pooling doesn’t create capital of the magnitude that would be required to replace the government’s backstop,” says Julie Rochman, a senior vice president at the American Insurance Association. Other questions involve the specific coverage insurers would be required to offer—a national program has to

make coverage available, but must be affordable, too, says Gail Davis, a senior vice president of the commercial/multifamily group at the Mortgage Bankers Association. "It needs to be comprehensive in nature, minimizing exclusions, and needs to result in terrorism insurance coverage that is available and affordable," she says. Much of the debate in the coming months will center on whether insurers will be compelled to offer terrorism coverage for nuclear, biological, chemical and radiological losses (NBCR). The insurance industry has long maintained that NBCR risks are uninsurable due to the nearly incalculable extent of potential losses. But Sinder of the CMSA says property owners would like to be able to insure against NBCR losses, calling that "one of the biggest gaps" in the current program. The Terrorism Risk Insurance Extension Act directs the President's Working Group on Financial Markets to report no later than Sept. 30 this year on the long-term availability and affordability of terrorism insurance with NBCR coverage, which is excluded from the current program. The group's conclusions will weigh heavily in the establishment of any permanent program for terrorism insurance in the United States, so stakeholders are anxious to start a dialogue with the Working Group in hopes of shaping policy in 2008 and beyond. So far, a majority of lawmakers have worked to reduce the tax payer's role in backing terrorism insurance. The recent TRIA extension, for example, increased insurers' exposure through higher deductibles and co-pays, and increased the dollar amount of insured losses required to trigger TRIA payouts from the previous level of \$5 million in a single year to \$50 million in 2006 and \$100 million in 2007. TRIA proponents fear that efforts to reduce the government's involvement in terrorism insurance coverage could lead to the federal backstop being allowed to expire at the end of 2007, without the creation of a replacement program. If that happens, insurers likely will either raise premiums to inaccessible levels or cease to offer terrorism policies entirely, leaving property owners without coverage and creating havoc for borrowers and loan servicers. "The challenge is to find a more broadly palatable solution that facilitates the development of more private marketplace capacity to cover risks, and moves away from the current federal backstop construction," Sinder says. "The time to start thinking about what happens next is now." **(National Real Estate Investor/Matt Hudgins)**

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U.S. Office Market Continued To Improve Last Year

The U.S. office market continued to improve in the fourth quarter and for all of 2005. The fourth quarter marked the seventh straight quarter of vacancy declines, with rental rates showing their strongest annual growth in five years, real-estate executives said. The U.S. vacancy rate dropped in the fourth quarter to 14.7%, down from 15% in the third quarter and 16.3% in the 2004 fourth quarter, according to a survey by Reis Inc., a New York-based commercial-real-estate research firm. Meanwhile, "absorption" -- the net change in occupied space -- increased to 16 million square feet in the fourth quarter, up from 13.6 million in the third quarter. For the full year, the U.S. market absorbed 61.3 million square feet, the best performance since 2000, the firm said. Effective rents -- the negotiated price after concessions to tenants -- gained 1% in the quarter and 3.2% for the year, to \$20.65 a square foot, the highest percentage increase in five years. "This is a continuation of the positive strides in the market, which we've seen over the last couple of years

as the markets have gained momentum in their recovery phase," said Dan Quan, senior office analyst and director of quality control at Reis. Yet the overall numbers mask some disparities. Certain markets have demonstrated strong gains, particularly those enjoying public-sector job growth. The office markets in New York and parts of California, for instance, have benefited from expanding jobs in international trade and the financial sector. Some other markets, though generally improving, have relatively high vacancy rates, and tenants still have strong negotiating power. Generally, the best numbers are seen on the two coasts, with Washington, D.C., leading all markets with a vacancy rate of 7.2%. Rounding out the top five, all with vacancies of less than 10%, were Orange County, Calif.; Palm Beach, Fla.; New York City's Manhattan; and San Bernardino, Calif. Cities where landlords saw the most improvement in negotiating their rents were San Francisco; Fort Lauderdale, Fla.; Orange County, Calif.; Miami and San Diego. By contrast, slower improvement was seen in office markets particularly hard-hit by industrial-job losses or overbuilding years ago. In some isolated cases, such as Detroit, the office market weakened in 2005. Of the 69 markets followed by Reis (which no longer includes New Orleans, because of the vacancies caused by Hurricane Katrina), Greenville, S.C., had the highest vacancy rate, with 24.1%, followed by Dallas; Rochester, N.Y.; Cleveland and Detroit. But even several longtime strugglers saw gains in 2005. Dallas, though still saddled with a vacancy rate of 23.6%, absorbed more than three million square feet for the year and showed its first positive effective rent growth since 2000. One factor benefiting existing office space is the high cost of new construction. As a result, 35.4 million square feet of new office space was completed in 2005, up from the 30.8 million the previous year but sharply lower than the 126.1 million completed in 2001, Reis reported. **(Wall Street Journal)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	4.25	4.25	2.25
3 MONTH LIBOR	4.60	4.49	2.66
PRIME RATE	7.25	7.25	5.25
10 YEAR TREASURY	4.38	4.45	4.17
30 YEAR TREASURY	4.56	4.66	4.69