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### **One Tall Order: Banks As Developers**

A Wall Street Journal report last week brought news that federal regulators have cleared two national banks to develop office and hotel properties near their respective headquarters. As a result, both Charlotte, N.C.-based Bank of America and Pittsburgh, Pa.-based PNC Financial are moving forward on \$230 million in combined commercial projects. While the Treasury Department has historically barred banks from developing commercial properties, both Bank of America and PNC are exploiting a loophole that allows them to develop properties they plan to occupy. Bank of America claims that its employees will generate 50% of annual revenues at the \$60 million Ritz-Carlton Hotel it will build near its corporate headquarters in Charlotte. PNC, in a similar fashion, plans to occupy roughly one-quarter of the office and hotel space that it is building in Pittsburgh. The question is whether these two projects suggest that federal regulators will make it easier for banks to compete directly with developers. Regulators have traditionally limited banks from owning and developing commercial properties since a sudden decline in the real estate market could put bank capital at risk, especially if the bank acts as both the owner and developer of a project. "If the bank plans to occupy much of the space on their own, that makes finding tenants that much less of a problem," says Lawrence Fiedler, a real estate professor at New York University's Real Estate Institute. Indeed, lining up tenants can be the most daunting part of the development business. Fiedler says that regulators obviously see it that way, or else they wouldn't give owner-occupied bank projects their blessing. But he doubts that these two projects represent any dramatic shift in how the Office of the Comptroller of the Currency (a branch of the Treasury Department) views the intersection of banking and development. "The OCC is very cognizant of risk-based capital. And beyond that, I can't really see why banks would want to go into the development business in the first place unless they meant to occupy much of the space," he says. Real estate attorney Russell Bershad is also puzzled at why any bank would want to enter the development fray, and he sees some important differences between bankers and developers. "Developers are so nimble and non-bureaucratic, not to mention willing to take risks," says Bershad, chairman of the real estate department at Newark, N.J.-based Gibbons DelDeo. Bershad questions why a bank would forego the lucrative fees that can be generated from mezzanine and land loans in favor of a pure development play. Not only is there elevated risk, he says, but marginal returns do not necessarily justify that risk. "At the end of the day, being a developer requires more expertise than simply having access to cheap capital," says Edward Indvik, president of Los Angeles-based real estate services firm Lee & Associates. "The bigger risk in my view is to the banks' balance sheet. Most banks have a significant LTV [loan to value] cushion when they finance a project, so taking on the development and ownership risk could become a problem if things go wrong." **(National Real Estate Investor/Parke Chapman)**

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### **Eastdil Completes Buy of Secured Capital**

Eastdil Realty has completed its purchase of Secured Capital Corp. and has been renamed Eastdil Secured. The merger of Eastdil, a unit of Wells Fargo & Co., and

Secured, which is headquartered in Los Angeles, creates a company that handled \$60 billion of real estate mortgage and sales transactions last year. The combined company is headquartered in New York. The company's chairman is Ben Lambert, who had headed Eastdil, while D. Michael Van Konynenburg, who headed Secured, is president. Roy H. March, from Eastdil, is the firm's chief executive. **(LoopNews)**

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### **Economists Predict Stability for State**

Colorado's economy should hold steady in 2006 despite headwinds from rising interest rates and higher energy costs, economist Jeff Thredgold told 500 people Thursday at Vectra Bank's 13th Annual Economic Forecast Breakfast. "Colorado's economy is clearly doing better," said Thredgold, a corporate economist with the bank. Colorado ranks 14th in the nation for job growth, respectable until compared with Nevada, Arizona, Utah and Idaho. Those states led the nation, in that order. Even wind-blown Wyoming, in eighth place, outpaced Colorado. Colorado employers will create between 40,000 and 50,000 jobs this year, Thredgold predicted, on par with last year's performance. But with a 5 percent unemployment rate, Colorado has more slack in its labor markets than faster-growing neighbors such as Nevada and Utah, which have rates below 4 percent. Colorado also has skirted the big run-up in home prices seen nationally over the past five years, making it more competitive for companies considering relocation, added Patricia Silverstein, an economist with Development Research Partners in Littleton. Existing-home prices in Colorado have risen 29.3 percent during the past five years, far below the 112 percent gain seen in California and the 99 percent average gains homeowners in Florida and Nevada have experienced, Thredgold said. "On a relative basis, Colorado real-estate prices are cheap," he said. A real-estate bubble exists on the coasts and in the Southwest, said Thredgold, but he predicted it will deflate slowly. Long-term mortgage rates the past three years have averaged around 5.8 percent and only recently moved above 6 percent. Silverstein expects the housing market for Denver to remain soft, with the number of homes sold falling to 51,400 this year, down from 53,000 in 2005. She expects metro foreclosures to continue to rise slightly to 15,000, up from 14,500 last year. A softening real-estate market should work in favor of stock markets, said Thredgold, who predicted that the Dow Jones industrial average, which closed at 10,880.71 on Thursday, will reach 12,000 by year-end. "Money will go back from real estate to stocks," Thredgold said. **(Denver Post)**

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### **Money Pouring into Commercial Realty**

A record amount of money flowed into commercial real estate investments last year in Denver and across the country. Whether the amount goes up or down slightly this year, said Peter Savoie, of Miller Global Properties in Denver, is like asking someone in New Orleans "how deep the water is. . . . If it drops by 10 percent or goes up by 10 percent, who cares? It's a flood." Savoie was one of more than 15 speakers at the half-day Emerging Trends conference Thursday in Denver. The event drew

about 400 people to the Grand Hyatt Hotel in downtown Denver. In addition to the speakers, Trammell Crow released a report showing that the Denver office market last year turned in its strongest performance since 2000 by almost every measure. The report notes that the office market "absorbed" 2.13 million square feet last year, which is 667 percent more than the 277,593 square feet absorbed in 2004. Absorption, which measures the change in leasing activity, is one of the most important measures of a market's health. If a company is leasing 10,000 square feet and it moves into 15,000 square feet, it absorbed 5,000 square feet. In the fourth quarter of 2005, the market absorbed 861,657 square feet, which is 210 percent more than the entire amount absorbed in 2004. Last year, investors snapped up a record \$3 billion in commercial -real estate, twice the amount in 2004, and in 2006 that number could rise to \$4 billion, said Steve Suechting, senior vice president of Trammell Crow. So much money is chasing so few properties that it is driving up prices, several of the speakers said. Richard Rollnick, principal of Phoenix-based Crown West Realty, said he bid on \$1 billion in properties last year in several states, including Colorado, but was outbid on all but \$50 million. Mark Degner, executive director of Morgan Stanley Real Estate, said that while he bought \$5 billion in real estate in the U.S., Asia and Europe in 2005, he wasn't the top bidder for any properties in the Denver area last year. Peter Culshaw, president of the Denver Tech Center and Meridian International Business Park, noted that he created a "vulture" fund to buy properties but hasn't had much luck in coming up with the winning bid. Culshaw said some buyers are paying more for empty buildings than for buildings that have tenants paying rent. But William Kearns, principal of LBA Realty, which paid \$53 million last month for two of the mostly empty Oracle office buildings and surrounding land in the Tech Center, said he didn't want the buildings to be filled with tenants. He is convinced that lease rates in the two buildings will rise dramatically by the end of the year. Kearns said they will look for several tenants to lease one of the buildings. But he said they are "gorilla hunting" for a major tenant to occupy the space, which was the headquarters of J.D. Edwards before it was purchased by PeopleSoft. PeopleSoft, in turn, was acquired by Oracle last year.

**(Rocky Mountain News)**

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### **Two Parcels in Central Platte Valley are Set for Change in Ownership**

Two key parcels of land in the Central Platte Valley behind the Denver Union Station are getting new owners. Both parcels, in a development known as the Commons, have been mired in a bankruptcy involving Bellingham, Wash.-based Trillium Corp. The sites are part of what eventually will be an office, retail, hotel and parking development estimated to have a completed value of \$360 million in today's dollars. In the largest deal, Legacy Partners on Thursday is scheduled to pay \$13.75 million for almost two acres at Wewatta and 15th streets from a group known as WoDo. WoDo is owned by Trillium, which bought the former railyards that are now home to Six Flags Elitch Gardens and the Riverfront Park neighborhood. The site is across the street from the Gates Co. world headquarters that Legacy developed on behalf of Seattle-based Kennedy & Associates. "Knowing Legacy, I believe they will build a very high-class development on that block," said Gayle Bush, a partner with Bush Strout & Kornfield in Seattle and the attorney for WoDo. The site includes 1.75 acres

for office buildings, plus additional land for a public parking garage, which likely will be incorporated into any development, Bush said. The site can handle two office buildings with a total of 683,000 square feet. One lot is zoned for a 17-story, 250-foot-tall building with a maximum of 423,000 square feet. Another lot is zoned for a nine-story, 260,000-square-foot building. "It looks like Legacy got a really good deal on that land," said Tim Roth, who is leading a CB Richard Ellis team that is listing several other parcels for WoDo in the Commons. Roth pitched the WoDo parcels to the Bayrock group, which is associated with New York developer Donald Trump. But Trump wants to develop a hotel with condominiums in Denver, and this land is zoned for nonresidential use, said Roth, who is listing the property with his brother Martin and Tim Swan. Bush also said that on Monday, East West Partners was scheduled to pay \$3.9 million for a site zoned for parking. That site is at Wewatta and 18th streets. Chris Frampton of East West Partners, which is developing the surrounding Riverfront Park area, said East West has no immediate plans for the parcel. "We own all of the land around it," Frampton said. "We just want to make sure we have control of the entire parcel when it comes (time) to develop the site." **(Rocky Mountain News)**

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### **Denver Hotel Rates Hit Record High in '05**

Guests at Denver-area hotels last year paid an average of \$94 per night, a record high, according to a report released Monday by longtime hotel consultant John Montgomery. The rates rose 7.7 percent from the \$87.25 average in 2004, according to the report, which predicts the market will "explode" in the coming years as demand picks up. "We can see some recovery," said Montgomery, principal of Horwath Horizon Hospitality Advisors LLC/Montgomery & Associates. He notes that not only did room rates rise, but the overall occupancy rate climbed to 64.8 percent from 63.1 percent in 2004. That's the highest occupancy rate since 2000, when it was 68.2 percent. When adjusted for inflation, however, hotel rooms cost more in previous years than in 2005. In inflation-adjusted numbers, guests paid more than an average of \$94 for a room from 1996 through 2002. The inflation-adjusted rates peaked in 1998 at more than \$105 per night - although the actual average at the time was \$90.50. That means the Denver-area hotel market remains a bargain, Montgomery said. "If you go up to the front desk and the clerk tells you, 'That will be \$100,' you might go, 'Wow!'" Montgomery said. "But when you look at Denver in comparison to other places, we're a good deal. "Our (noninflation-adjusted) rates are just above 2000 levels." Richard Scharf, president and CEO of the Denver Metro Convention & Visitor's Bureau, agrees. "We're the 54th least expensive city out of the top 100 cities in the country," Scharf said. "Denver is an incredible value." The report notes that the highest average daily room rates are found in downtown Denver at \$122 per night, compared with \$114 in 2004. The lowest rates are found in the Stapleton area at \$55 per night. However, hotels near Stapleton boast the highest occupancy rate at 70 percent. **(Rocky Mountain News)**

	<b>CURRENT</b>	<b>1 MONTH PRIOR</b>	<b>1 YEAR PRIOR</b>
<b>FED FUNDS RATE</b>	4.25	4.25	2.25
<b>3 MONTH LIBOR</b>	4.62	4.50	2.69
<b>PRIME RATE</b>	7.25	7.25	5.25
<b>10 YEAR TREASURY</b>	4.35	4.49	4.16
<b>30 YEAR TREASURY</b>	4.52	4.67	4.65