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Fed Indicates It Will Soon Stop Raising Rates

The Federal Reserve set the stage today for ending its 18-month campaign of raising interest rates, closing out a major chapter in its monetary policy just a few weeks before Alan Greenspan retires as the Fed's chairman. According to minutes released today from the Fed's policy meeting in December, officials agreed that they would have to push short-term rates only a little bit higher before stopping. Policymakers agreed that monetary policy was no longer "accommodative," given that they had raised the benchmark federal funds rate on overnight bank loans to 4.25 percent today from 1 percent in June 2004. And while officials were careful to say they were not quite finished, they explicitly indicated that they were close. "Given the information now in hand, the number of additional firming steps required probably would not be large," the Fed's minutes said, ascribing that view to "most members" of the policy-setting Federal Open Market Committee. The summary of last month's deliberations provides a wealth of new insights into the central bank's thinking as it prepares for its transition from Mr. Greenspan to Ben S. Bernanke, President Bush's nominee as the next Fed chairman. The meeting minutes confirmed that Fed officials became slightly less worried about inflationary pressures, even though they expected high energy prices to push overall inflation somewhat higher for awhile. "Participants indicated that their concerns about near-term inflation pressures had eased somewhat," the minutes said. Policymakers said prices were being held in check by competition from foreign producers. They also noted that wages and other labor costs climbed only moderately, despite strong economic growth. And they drew comfort from the fact that last year's spike in oil prices had only a "muted" impact on overall consumer prices. But Fed officials also hinted that they might be entering a new period of uncertainty and perhaps disagreement. The uncertainties are both about the potential course of the economy as well as about the best way for the Fed to communicate its intentions now that interest rates are more in line with historical patterns. "Views differed on how much further tightening would be required," according to the minutes. "Members thought the policy outlook was becoming considerably less certain and that policy decisions going forward would depend to an increased extent on the implications of incoming economic data." Mr. Greenspan, who is set to retire on Jan. 31 after 18 years as chairman of the Federal Reserve, has long warned that the Fed would not always tip its hand on future policy as it has in the past two years. But Mr. Bernanke, a former Fed governor who is expected to win easy approval in the Senate as the next Fed chairman, has argued for years that the central bank needs to be more open and "transparent" in communicating policy to the public. Both Mr. Bernanke and Mr. Greenspan have been careful to couch any advance guidance from the Fed with the caution that policy decisions would always depend on patterns of new economic data. But most analysts agree that the last two years have been unusually predictable. One major reason was that inflation has remained low, allowing the Fed to adjust policy gradually. The other reason was that the Fed slashed interest rates to historic lows from 2001 through 2004 in order to support a stalling economy, and virtually all policymakers agreed that they had to push rates back up to more normal levels in order to prevent a new outbreak of inflation. But with the federal funds rate now up to 4.25 percent, four times its level of just 18 months ago, the distinction between an "easy" and "tight" monetary policy is no longer clear. **(New York Times)**

Retail Portion of Clayton Lane Up for Grabs

Early this year, local developer Randy Nichols should pick a winner for the retail portion of the Clayton Lane development in Cherry Creek North. Nichols chose the CB Richard Ellis team of Mary Sullivan, Tim Swan and Ron Urgitus to sell the 190,000-sf retail development. Tenants include Whole Foods, Crate & Barrel, Orvis and the North restaurant, Peets Coffee 7 Tea, Bose, Bob's Steak & Chop House, Cold Stone Creamery, John Atencio, Wells Fargo, Arhaus' Furniture and others. The only portion of the retail center not being sold is the existing Sears building. The CBRE team put out packages without an asking price in late 2004. For tax purposes, Nichols didn't want the deal to close until 2006. Even before the packages hit the market, there was much interest in the class A property, Sullivan tells GlobeSt.com. "Cherry Creek is truly the place to be, and there is no place better in Cherry Creek than Clayton Lane," Sullivan tells GlobeSt.com. She expects it to sell for a record price per sf for a retail development, at a time when cap rates have never been lower. Nichols also thinks that's likely. "I would hope so," Nichols tells GlobeSt.com. Nichols says he likely will use proceeds from the sale for a \$110-million, 41-story condominium tower he plans to build along 14th Street in Downtown Denver, near the Colorado Convention Center and the new Hyatt hotel. "That's the plan," Nichols tells GlobeSt.com. In 2004, the CBRE team sold the Janus building for about \$360 per sf, or \$56.4 million. That's about \$100 per sf more than any other building sale in the metro area. **(Globest.com)**

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Office Recovery: One Uneven Race

2005 was a year of recovery for the office sector, and most industry sources expect more of the same as the New Year unfolds. Analysts caution, however, that the resurgence will not be uniform as market gains will be sharply divided between coastal cities and nearly everything in between. Widely divergent capitalization and vacancy rates are the most palpable sign of this bifurcated market, especially between markets such as Manhattan and Detroit. "The pricing gap between coastal markets and everything else is huge and growing," says Ross Moore, senior vice president and director of market research at Boston-based Colliers International. Many inland markets are still reeling from the decline of the manufacturing economy. Vacancy rates in Detroit, for example, increased from 13.8% at midyear to 15.9% at the end of October. The prospect of raising rents — and returns — in such markets is challenging. The reason, says Moore, is that most inland office markets cope with price-sensitive tenants and investors. That's not to say that rising rents aren't pinching many Manhattan and Los Angeles tenants, but Moore says there's a difference. In places like Manhattan — where midtown vacancy rates hit 6.9% in December, the lowest since early 2000 — landlords have no qualms about raising rents now. Indeed, the media and financial-services companies that dominate those markets have little choice. "Look, if you work in the entertainment business you really have to be in Los Angeles. The same goes for global finance firms that have space in Manhattan," Moore says. "These tenants need to be there, and investors and landlords are pricing that into their deals." Demand has pushed purchase prices

for Class A office space as high as \$59.64 per sq. ft. in Manhattan. Overall, according to Real Capital Analytics, the average capitalization rate on all Northeastern office sales above \$5 million was 7% during the first 11 months of last year. Yet average caps in the Midwest increased to 8% during that period. As climbing cap rates suggest, the Midwest market appears to be softening as the Northeast continues to strengthen. Since November, the average cap rate on office properties offered in the Midwest climbed to 8.1% and fell to 6.5% — or 50 basis points — in less than one month in the Northeast. Another factor in the coastal boom is rampant condo conversion activity. Condo converters were the largest net buyers of commercial property in 2005, and they didn't just gobble up apartment buildings: Real Capital Analytics reports that converters gobbled up more than 12 million sq. ft. of office, industrial and retail properties — and the bulk of that total was office space. While there may be more opportunity for "value-added" investing inland, few investors are willing to make that bet. And, in many respects, they are taking their cues from tenants. "The coastal markets, by and large, are deemed the place to be right now for investors and tenants," says Richard Brown, senior real estate partner at Manhattan-based law firm Herrick, Feinstein. The firm leases office space in Manhattan and New Jersey and has signed three new leases in the past year at each location. "These are all expansions because we've had to hire so many new attorneys to keep up with demand," he says. "It's really a function of the economics in these cities," he says. "You may not have many options as a tenant, but it's simply not an option to move somewhere else to find cheaper vacant space." What's more, few sources expect office rents to stall in these key markets. Moore of Colliers sees a handful of markets such as Manhattan, Washington, D.C., South Florida and Southern California acting as the catalyst to push rents "significantly higher" in 2006. He even sees a strong possibility for rent spikes in these markets, not to mention intense bidding for office space. "We are well aware of the challenges that the U.S. economy faces as we enter 2006," says Moore. "But we also believe that because so many businesses are well-capitalized and financially secure, they are primed for expansion. There will be pockets of pronounced tightening in the market, and we expect most of that to be on the coast." **(National Real Estate Investor/Parke Chapman)**

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Commercial Real Estate at New High

For the first time, investors paid more than \$3 billion for office buildings, retail and industrial properties in the Denver area in 2005, according to a report released Tuesday. The record sales were the equivalent of all of the large commercial real-estate transactions in the Denver area from 1990 to 1995. The \$3.1 billion in sales topped 2004's \$2 billion tally by 55 percent. And last year, sales of properties that sold for at least \$1 million exceeded the previous top year, 1998, when \$2.36 billion in properties traded hands, by 31.4 percent. "In terms of dollars, 2005 was so far above any previous year, it is in a class of its own," said Brad Neiman, a senior vice president at Northstar Commercial Partners who prepared the report. "And this is true across the country," Neiman said. "This is not a Denver phenomenon. Denver got its proportional share." Neiman said investors' appetites for commercial real estate were fueled by a number of factors, including low interest rates, less risk than stocks and an alternative to bonds. "Commercial real estate has become a

legitimate asset class," Neiman said. That is, so much real estate is controlled by publicly traded entities, such as real estate investment trusts, that they are subject to the same documentation and Securities and Exchange disclosures as any other stock. That makes real estate more attractive as an investment for institutions such as insurance companies and pension funds. And 2006 is poised to be another good year that could meet or exceed last year's total. For example, Brookfield Properties reportedly took Republic Plaza off the market late last year after it failed to sell it to San Francisco-based Shorenstein Co. The CB Richard Ellis investment team of Mary Sullivan, Tim Swan and Ron Urgitus is listing such high-profile properties as the 908,000-square-foot CarrAmerica portfolio in the Denver area, the retail portion of Clayton Lane in Cherry Creek North, the AIM Investments (formerly Invesco) office campus in Denver Tech Center West and the 1.2 million-square-foot Westmoor development along U.S. 36 for TIAA-CREF. "Last year our team sold \$534.547 million in properties, and we have \$780 million in properties currently listed," Sullivan said. And there is huge interest for just about everything they have listed. "We've had 160 requests for offering memorandums for Clayton Lane," which includes a Whole Foods store, Sullivan said. "It's just incredible." Neiman said that he wouldn't be surprised if \$1 billion in properties are sold in the first quarter. **(Rocky Mountain News)**

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Office Market Improving

The Denver office market posted positive absorption, declining vacancy and climbing lease rates in the fourth quarter of 2005, according to a year-end report by CB Richard Ellis. For the seventh straight quarter, net absorption surged to more than 750,000 square feet, the commercial real estate services firm noted. That brings the annual total to 1.4 million square feet. Marketwide, office vacancy stands at 15.8 percent, down from 17.5 percent a year ago and the lowest level since 2002. In addition, sublease space continued to decrease in the fourth quarter, declining 13 percent year-over-year, the report stated. Lease rates ticked up to \$17.08 per square foot in the fourth quarter. CB Richard Ellis reported that the highest rates were \$19.53 per square foot in the downtown area, and \$19.74 per square foot in the Cherry Creek submarket. More than 3 million square feet of office space availability was removed from the market in 2005 through direct leases, subleases, conversions of buildings into alternative uses and space occupied by owner-users. Office construction picked up in the fourth quarter, with 264,851 square feet of space currently being built in the metro Denver area, compared to 199,114 square feet under construction in the previous quarter, the report stated. CB Richard Ellis expects market conditions to continue to improve, as landlords have become more aggressive in healthier submarkets by reducing concessions and increasing asking lease rates. **(Denver Business Journal)**

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	4.25	4.00	2.25
3 MONTH LIBOR	4.55	4.46	2.61
PRIME RATE	7.25	7.00	5.25
10 YEAR TREASURY	4.38	4.52	4.26
30 YEAR TREASURY	4.57	4.72	4.85