

January 30, 2006

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Springs Office Market Recovering

With an overall office vacancy rate just below 8%, the Colorado Springs office market ended 2005 at the lowest rate since 2000, according to a recent report by Grubb & Ellis Co. The market appears to be firing on all cylinders, with the vacancy rate down, absorption increasing and lease rates rising. "For all practical purposes, the Colorado Springs metropolitan areas economy has recovered," Grubb & Ellis notes in its report. "The return to economic prosperity for the Pikes Peak region is driven by defense, research and development, light manufacturing and service-related industries. Defense contractors are leading the way with multibillion-dollar, long-term contract in hand." Indeed, a number of build-to-suit office campuses and long-term lease agreements are moving forward thanks to the defense industry, the report notes. Companies that are committing to the area include Scitor Corp., Science Applications International, SI International, Real Time Logic, Lockheed Martin, Northrop Grumman and Boeing. In addition, companies involved with services, research and development and light manufacturing are "running neck-and-neck with defense contractors," Grubb & Ellis notes. But the downside of all the activity is that Colorado Springs no longer will be the bargain it has been during the past few years for investors and tenants. "Market demand will force price upward-- lease rates will escalate and the cost of buying suitable investment property will increase," Grubb & Ellis warns. **(Globest.com)**

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Denver Developer Plans \$750M Mixed-Use TOD

Denver-based Westfield Development, the development arm of the Frederick Ross Co., plans to start construction in October on the first phase of Lincoln Station, a mixed-use development at the most southern stop of the T-Rex light-rail line. Lincoln Station is a joint venture of Westfield and the long-time landowner, the Bradbury family, which includes former prominent real estate attorney Gary Woods. "If you just want office space, you can go to 40 of them and they are all the same," Rich McClintock, president of Westfield tells GlobeSt.com. "But this stands apart." Westfield describes it as a "Goburb," which McClintock says combines the energy of an urban setting in the laid-back suburban environment. And because of the proximity of light rail, many residents and employees at Lincoln Station won't even need a car. "Right now, if you want to buy a sandwich or get a beer, you have to get into your car," McClintock says. "That is all changing. And I think CEOs in the future will be more socially responsible. They'll see that it benefits them to not have all of their employees driving to work." McClintock thinks tenants will pay a premium for a new office building that is served by light rail. Since Katrina, he notes, construction costs have skyrocketed, making it harder to justify construction. However, he tells GlobeSt.com that their pro forma for the first building in the Lincoln Station at \$14 to \$16 per sf, net, which is slightly below market. The first building will be a "signature" class A office building with 150,000 sf. "We're talking to possible

institutional partners right now," McClintock tells GlobeSt.com "In exchange for a little more risk upfront, they have the opportunity for greater upside as an equity partner. We've already talked to several who are interested." The first phase also will include a retail village of 30,000 sf; a smaller office building of 30,000 sf; and 80 residential units, priced from about \$200 per sf to \$450 per sf. Frederick Ross will market the development. Eventually the entire development could have three million sf of commercial space and 1,500 residential units. But McClintock says they will react to market demands. If the market wants more residential, they will overweight it to residential, and if it wants more office, it will overweight the office portion, he says. Currently, he estimates it ultimately will have 800,000 sf to one million sf of commercial space and perhaps 800 for-sale and rental residential units. **(Globest.com)**

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2005 Set New Record: \$268 Billion in Deals

The numbers have been tallied and 2005 will officially enter the record books for breaking previous records for deal volume in commercial real estate. According to data collected by Real Capital Analytics and released today, total sales for all property types exceeded \$268.2 billion, smashing (by 44%) the previous record of \$185.9 billion set in 2004. It is also more than double the \$119 billion in transactions recorded in 2003, according to New York-based Real Capital, which tracks commercial real estate sales of \$5 million and up. "I call 2005 the year of large transactions and portfolio sales," says Hessam Nadji, managing director of research services at Marcus & Millichap Real Estate Investment Brokerage Co. Nadji's company tracks deals of \$1 million or more in 37 metropolitan areas, and found a sale volume increase of 43% from 2004 to 2005. The number of large transactions, or those valued at \$20 million or more, increased 52% in 2005, with a 54% increase in dollar volume, according to Marcus & Millichap. "That's the primary reason overall volume went up," Nadji says. Driving the volume of large deals are private investors and institutions. "Private investors are basically selling their smaller assets and consolidating to fewer, larger assets through 1031 exchanges," Nadji says. "On the flip side, a lot of institutional investors are reshaping their portfolios. They are disposing of whatever doesn't fit their long-term plans, leveraging the current record buyer demand and record pricing." The field of buyers in 2005 ranged from the traditional - institutions and public real estate investment trusts - to private corporations, tenant-in-common groups, private REITs, foreign investors and hedge funds "It gives the market a feeling of a cushion," says Dan Fasulo, director of market analysis at Real Capital. "What amazes me about this year's total is the diversity of capital sources that have contributed to acquisitions," says Fasulo. "In the past, you might have had two or three dominant sources of capital to purchase real estate, but there are so many now. Even if one of these sources of capital fades away, there's another behind it, ready to step up." In 2006, Fasulo expects to see yet another volume increase as even more capital sources expand their portfolios to include real estate. At the same time, several nations including Germany and Japan are in the process of adopting REIT legislation, which will open new avenues for foreign capital to acquire U.S. assets. "The biggest wild card in 2006 will be whether more 401(k) plans allow for a REIT allocation," says Fasulo. "That will mean direct

inflows to REIT stocks, which will be good for REITs and in turn allow them to purchase more real estate". **(National Real Estate investor/Matt Hudgins)**

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55-Story Condo Tower Joins Skyline-Transforming Rush

A Toronto company on Thursday announced plans to build a 55-story, 200-condominium residential tower in downtown Denver, adding to a frenzy of development proposals that could dramatically alter the city's skyline. Great Gulf Group said it plans to spend about \$165 million on the building east of Larimer Square at 14th and Lawrence streets, near Lower Downtown. It would be among the city's tallest buildings. The company on Wednesday purchased the 25,000-square-foot site from Denver-based Westfield Development Co. The sale price was not disclosed. "I think it's the best location in Denver," said Gary Switzer, Great Gulf's executive vice president. "We're on the border of the central business district where the zoning changes in LoDo. It's the last opportunity to do a tall building and a very dense building without being restricted by the height limits of LoDo." Some real estate skeptics doubt whether all of the proposed buildings will be built. But one competing developer praised the recent moves. "I think it's good that we're finally starting to pull the residential base into the downtown core," said Michael Geller, who hopes to build a 31-story condo tower near 14th and Speer Boulevard. "The lack of a residential base is something that's been holding this downtown back. The more people we have downtown, the better chance we have of bringing better-quality retail. I strongly applaud any of those kinds of project that will start to bring people into downtown." John Huggins, Denver's director of economic development, said he thought there's demand for at least the 1,000 or so downtown residential units now on the drawing board. "Perhaps some of those proposed projects may change as they move to fruition, but I believe they all will be built in one form or another," he said. Founded in 1975, Great Gulf developed a 36-story tower in Toronto, as well as a number of single-family subdivisions in Texas and Florida. Its Ashton Woods Homes subsidiary developed The Pinery, a 771-home development in Parker. The company's proposed Denver tower is a few blocks from the Denver Center for the Performing Arts, across the street from a proposed Four Seasons hotel and condominium complex, and adjacent to the Larimer Square Historic District. However, the site is not part of the historic district. Its zoning is consistent with the rest of downtown, so the project's height should not be an issue, said Julius Zsako, communications director of community and planning development for Denver. The Four Seasons, proposed by Hotel Teatro developers Michael Brenneman and Jeff Selby, is expected to be about 50 stories tall and include 140 condominiums atop 20 floors of hotel rooms. Asked about the plans for a competing residential tower across Arapahoe Street, Brenneman cautioned that Great Gulf needs to be sensitive "when you're backing up to Larimer Square. That's truly one of our gems. It's a very old brick block, and it needs delicate handling." **(Denver Post)**

Rental Vacancies Fall

The Denver-area apartment vacancy rate fell to a five-year low in 2005, according to a report released Wednesday by University of Denver business professor Gordon Von Stroh. The report, sponsored by the Apartment Association of Metro Denver and others, showed that the overall vacancy rate was 7.9 percent at the end of 2005, a slight increase from 7.7 percent in the third quarter of last year. The fourth-quarter rate typically is higher for seasonal reasons. The last year the overall vacancy rate was lower was 2000, at 4.7 percent. Another good sign for the market is that it "absorbed" about 8,000 apartment units in 2005, the most since 1987, said Von Stroh, a professor at the Daniels College of Business at DU. Absorption is the net change in the number of units rented in comparable time periods. "I think the real key is absorption," Von Stroh said. He said if strong absorption continues this year, as he expects, it could push the vacancy rate to below 7 percent by the end of 2006. But it probably won't fall to 5 percent, when the market is considered in equilibrium (when supply and demand are balanced), he said. "I think there is a lot of pent-up demand, a lot of people thinking of buying houses are doubling up, and the economy is getting better," Von Stroh said about the improving numbers. Many of the jobs being created in the Denver area are held by renters, he said. Rich Wobbekind, a University of Colorado economics professor, was one of the speakers at an economic conference sponsored by the apartment association on Wednesday, which drew some 450 industry leaders to Invesco Field at Mile High. Wobbekind noted that a lot of the high-paying telecom jobs lost since 2000 have yet to return. Also, the "economic" vacancy rate remained high in 2005, at 24.6 percent at the end of 2005, compared with 25.1 percent in the fourth quarter of 2004 and 24.9 percent in the third quarter of last year. The economic vacancy rate is the vacancy rate plus concessions and other write-offs as a percent of gross potential rent. The market is getting better," although some apartment owners in some areas are still offering big incentives, said Tom Luinstra, head of Apartment Finders International, one of the survey's sponsors. "If interest rates would rise another (percentage point), the apartment vacancy rate would drop by two points," he said, noting the main reason renters leave apartments is to buy homes. Luinstra said since Jan. 1 his office has received 30 to 50 calls a day from people looking for apartments, double what it received previously. And he said people looking for apartments have better financial histories than in the past, which is good because landlords are screening tenants more thoroughly, he said.

(Rocky Mountain News)

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Office Space Market Outlook Bullish

A continuing resurgence in metro Denver's office market helped spur 51 office building sales transactions of \$5 million or more in 2005, as investors poured more than \$1.6 billion into 11.4 million square feet of office space, according to several year-end reports. Solid fourth-quarter results -- including a drop in overall office vacancies, steadily increasing lease rates and positive net absorption -- have commercial real estate brokers bullish about metro Denver's office market in 2006. Offices in metro Denver took in nearly 1.85 million square feet of additional tenants, said Phillip Ruschmeyer, senior managing director of Frederick Ross Co.'s commercial real estate service. Increased occupancy in the past three years has offset nearly 65

percent of losses endured during Colorado's economic downturn in 2001 and 2002, Ruschmeyer said. "What it basically says is, 'we're back,'" he said. Overall office vacancy rates dropped to 15.8 percent, down from 16.5 percent in the third quarter, according to Q4 figures from CB Richard Ellis. And sublease space continued to decrease in the fourth quarter, declining 13 percent year-over-year. "You look at the velocity of tenants out there looking for space, and you can see it's gone up quite a bit," said David Shapiro, senior vice president for Transwestern Commercial's Denver office. "I think it's just a matter of time when the rates bump up." The overall office vacancy rate is expected to fall below 14 percent this year, according to Delta Associates, a research affiliate of Houston-based Transwestern Commercial Services. In 2004, the Denver-area office property market posted the second-highest vacancy rate in the nation, second only to Dallas, according to a Julien J. Studley report. Although commercial real estate firms' year-end reports vary based on how they track and report key indicators, the clear consensus is that metro Denver's office market is putting up the kind of numbers that renew optimism about long-term improvement. Metro Denver's continually improving office climate was no secret to office property buyers, either. Some of the biggest deals brought in \$344 million for the Wells Fargo Center, \$94.5 million for Denver Place Plaza Tower, \$88.5 million for First Interstate Tower North, \$77.6 million for 1999 Broadway, \$60 million for 16 Market Square and \$49.5 million for the Guaranty Bank Building. Office sales prices across metro Denver averaged \$149 per square foot in 2005, while Class A assets traded for \$197 per square foot, according to Transwestern Commercial. The sale of the 1.2 million-square-foot Wells Fargo Center for \$257 per square foot pushed the 2005 overall average office sale price substantially higher than in 2004. Key to the rosy outlook is the state's economy, which Transwestern Commercial expects to continue expansion to help boost absorption. In Q4, absorption rates of more than 750,000 square feet marked the highest level since 2002. Commercial real estate brokers who attended a 2006 economic briefing this month heard the same projection from economist Patricia Silverstein, who said 25,400 jobs were created in 2005. She doesn't expect 2006 to be the best year ever, but that metro Denver will continue to grow and recover. "Folks were waiting to see what happened with Referendums C and D before considering coming to Colorado," said Silverstein, president of Development Research Partners in Littleton. "After the election, people started calling and saying, 'We want to come to Denver.'" Metro Denver's office climate helped push overall lease rates up again in Q4 to \$17.08 per square foot, while vacancy and availability both declined to the lowest level in almost four years. That has prompted landlords in healthy submarkets to reduce concessions and increase rental rates. The most competitive lease rates were in the northeast metro Denver submarket, averaging \$11.45 per square foot, according to CB Richard Ellis. The highest rates were in the Cherry Creek submarket, averaging \$19.74 per square foot. The lease rates of Class A buildings -- high-end buildings with preferable locations -- increased by as much as \$2 per square foot last year. Class A also absorbed close to 1.7 million square feet, more than 90 percent of all increased occupancy marketwide. Transwestern Commercial reported that available sublease space in metro Denver dropped by 219,000 square feet in 2005. As a result, sublease space now represents about 1.8 percent of existing inventory. "Even though the sublease space is declining, I still think there is what we call 'shadow space' out in the market," said Jim McGrath, senior vice president of Studley in Denver. He said shadow space refers to the difficult-to-track and hard-to-quantify

space that isn't necessarily being marketed by tenants with excess space. Tenants looking for good value and opportunities will likely find it in Class B office space, McGrath said. Meanwhile, office construction activity picked up somewhat in Q4, but most of it was small-to-medium projects, reflecting a "disciplined approach" by developers, according to CB Richard Ellis. There were approximately 1.2 million square feet of office space under construction or renovation at the end of 2005, with two of the most significant projects being the 280,000-square-foot Denver Newspaper Agency building and 292,000-square-foot Environmental Protection Agency building -- both downtown. Ruschmeyer said tenants in Class B and Class C office space will continue to move to Class A buildings, and asking rates of \$16.25 per square feet seen in 2005 will continue to rise. The southeast metro Denver office market appeared to gain momentum toward the end of Q3 and sustained it through the holidays. Class A lease rates should increase by 10 percent in 2006, with Class B rates flat for the first half of 2006 and a 5 percent increase by year's end. **(Denver Business Journal)**

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| | CURRENT | 1 MONTH PRIOR | 1 YEAR PRIOR |
|-------------------------|----------------|----------------------|---------------------|
| FED FUNDS RATE | 4.25 | 4.25 | 2.25 |
| 3 MONTH LIBOR | 4.67 | 4.52 | 2.73 |
| PRIME RATE | 7.25 | 7.25 | 5.25 |
| 10 YEAR TREASURY | 4.51 | 4.37 | 4.20 |
| 30 YEAR TREASURY | 4.69 | 4.53 | 4.67 |