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A Denver Based Commercial Real Estate Investment and Management Company  
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### **LaSalle Pays \$91M for Northglenn Marketplace**

LaSalle Investment Management Co. recently paid \$91 million for the Northglenn Marketplace in this Denver suburb. LaSalle bought 439,273 sf of the 664,258-sf center, which is located 12 miles north of Denver at Interstate 25 and 104th Avenue. The seller was its developer, long-time Denver developer Jordon Perlmutter. Garrette Matlock of Marcus & Millichap represented Perlmutter & Co. in the transaction. Matlock tells GlobeSt.com that he thinks the sale represents the largest retail deal in the Denver metro area during the past 12 months. The center, 99% leased, attracted a lot of interest. "We had quite a few offers," Matlock tells GlobeSt.com. "Then, Jordon selected the one he wanted to go with." LaSalle bought the center on behalf of one of its funds, he says. Ten of the 12 anchors in the 51-tenant center were part of the sale, Matlock tells GlobeSt.com. Lowe's Home Improvement Center and Mervyns own their own buildings so were not purchased by LaSalle, he notes. Tenants in the center include Bed, Bath & Beyond, Borders Books, Gart Sports, JoAnn Fabrics, Marshalls, Office Depot, Old Navy, PetsMart, Ross Dress for Less and Ulta Cosmetics. The center was built in 1999 and 2001 on the 71.6-acre site. It originally was the Northglenn Mall, also developed by Perlmutter. He tore it down to replace it with the power center in a public-private partnership with the city of Northglenn, which kicked in \$12 million in subsidies for the redevelopment. Matlock tells GlobeSt.com it was a good time for Perlmutter to sell, considering the interest in income-producing real estate from investors. "He was getting a good value," Matlock says. Noting his reluctance to quote cap rates because different groups calculate it differently, Matlock says it sold in the low 6% range. Matlock says that LaSalle also received a good deal. "It is a premiere center in a great location," Matlock tells GlobeSt.com. "It's in an area that is experiencing a lot of growth. Long-term, it's going to be a homerun for them." **(Globest.com)**

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### **Trump Hopes To Change Skyline**

New York City-based Donald Trump is targeting the El Jebel site for his first Denver project. The building would be built on a parking lot next to the El Jebel building that was constructed in 1906 at Sherman and Grant streets. The city council three years ago approved a development for the site that changed the view plane, allowing a 650-foot building with a 65-foot spire to make it a total of 715 feet. That would top Denver's current tallest building, the nearby 56-story Republic Plaza, which stands at 714 feet. John Huggins, Denver's economic development director, agrees. "Realistically, a bigger building will never be built in that area," Huggins tells GlobeSt.com. "And it sits up on the shelf, so you will always have these dynamite views." David Owen Tryba, the Denver architect who is designing the building for the Trump/Bayrock team, tells GlobeSt.com that the location is a hidden gem and much better than many skeptics may think. "It is less than two blocks from the Brown Palace," Tryba tells GlobeSt.com. "And from a business standpoint, the location is terrific because the greatest concentration of office space is at that end of Downtown. Right now, you basically only have the Brown Palace and the Adam's

Mark hotel serving that part of Downtown." It contrasts the planned Four Seasons, which like the proposed Trump tower, would have a mixture of upscale condos and hotel rooms. The Four Seasons is planned at the other side of Denver, on 14th and Arapahoe streets. "The Four Seasons is more oriented toward the entertainment part of town, with all of the sports venues, the performing arts center and its proximity to lower Downtown," Tryba says. "This is closer to the financial district and it also has a growing cultural arts center with what is going on with the nearby Denver Art Museum," which is undergoing a massive expansion. John Montgomery, president of Horwath Horizon Hospitality Consulting/Montgomery & Associates, also thinks that the site is a winner. "I really think it could be a homerun," Montgomery tells GlobeSt.com. "Two years ago, if you asked me about that location I would have said that it is at the edge of the CBD. Now, with so much interest in new residential developments in that area, I would just tell you it's Downtown." However, the partnership that owns El Jebel still needs to work out an internal problem before it can sell the property to the Trump group. According to document obtained by GlobeSt.com, the partnership needs 75% of the owners to agree to a sale. However, the largest single owner, Trent Cole, who owns 33.3%, so far refuses to sell. Martin Wohnlich, a co-owner of El Jebel, says the Trump deal will not only be good for the ownership group, but is the best deal for the city, especially since the development agreement calls for the renovation of El Jebel, which would be incorporated into the hotel. Satter tells GlobeSt.com that is the ownership group is unable to deliver the site, the Trump group will continue to search for a triple-A site in Denver. Sources tell GlobeSt.com that Trump's development will reach 60 stories, but the exact number of hotel rooms and condos has yet to be decided. **(Globest.com)**

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### **A Synthetic Strategy to Hedge on Real Property**

Welcome to the brave new world of U.S. commercial real estate derivatives. On Friday, Credit Suisse executed the first licensed property derivatives transactions tied to the NCREIF (National Council of Real Investment Fiduciaries) Index. This marks the first time that the NCREIF index—a benchmark of 4,718 U.S. commercial properties worth roughly \$189 billion—has been used to structure licensed derivatives contracts for real estate investors. Derivatives contracts allow investors to acquire stakes in the real estate market without actually buying any real assets. In this case, they will enable investors to hedge their exposure to commercial real estate. Derivatives are contracts whose values are based on the performance of an underlying financial asset, in this case the NCREIF Index. The 24-year old index publishes performance data on its member properties every quarter. In 2005, the NCREIF Index posted total returns of 20.06%. A full 6.75% of that total was income-based, with the balance coming from appreciation. "Up until now, the only way to hedge on real estate was to sell it," says Jeffrey Altabef, a managing director in real estate finance and securitization at Credit Suisse. "But that's not acceptable to many long-term investors. What we've created here is a synthetic way to hedge your risk by shorting the value component." The new instruments are aimed at managers of mushrooming institutional real estate portfolios, which Credit Suisse sees as a significant untapped opportunity for sophisticated risk-management products. There's every reason to believe Credit Suisse is right, too. Institutional investors poured \$51 billion into commercial properties last year versus \$44 billion in 2004,

reports Kingsley & Associates. The consulting firm projects that institutional capital flows into real estate will hit \$59 billion in 2006. Altabef declines to name the investors involved in the first transactions, but says that each has extensive real estate holdings. One of the recent transactions involved a real estate fund attempting to hedge its exposure to the apartment sector, while adding exposure to the office sector. Using four property-type sub-indices, the NCREIF Index can be played in several ways to provide short and long bets. In the January deal, the real estate fund entered into a swap agreement to receive the total return on the NCREIF Office Index while paying the total return swap on the NCREIF Apartment Index. The \$10 million transaction was structured as a two-year trade. "We believe derivatives will add liquidity and transparency to the institutional investment market for commercial real estate," says Blake Eagle, chief executive officer of NCREIF. Why has it taken this long for a U.S. property-based derivatives market to emerge? Doug Poutasse, chief investment strategist at real estate advisory firm AEW Capital Management, says it's because most real estate investors crave real property and simple capital appreciation. In recent years, he notes, there has been no reason to think outside that box. But, as the boom cycle stretches into a fifth year, hedging looks like an attractive precaution. "Someone will make lots of money if the property markets tank," says Poutasse, who helped devise the NCREIF index back in the early 1980's. "People have wondered for years how the property markets can keep strengthening every year, and nobody thinks it will last forever." Poutasse agrees with Eagle of NCREIF that the emergence of a derivatives market bodes well for the market in general. First, it allows investors to buy stakes in the real estate market without buying individual assets or funds—and that boosts liquidity. And, he says, it will add transparency by drawing more attention to the NCREIF Index and likely pressuring NCREIF to include more member properties on the index. One possible hitch in this scenario is the difference between NCREIF, which is based on actual properties, versus indices that are based on corporate assets. "The NCREIF Index is to real estate what the NYSE composite index is to stocks," says Poutasse. "So one issue that NCREIF may run into is that derivatives investors will probably want to be swapping something that is fixed." **(National Real Estate Investor/Parke Chapman)**

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### **Office Market Shows Signs of Recovering**

Most of metro Denver's office market continues its robust recovery two months into 2006, with landlords ratcheting up rents as available space tightens downtown, in Cherry Creek and in other areas of the city. Some sectors, however, are lagging behind, with vacancy rates edging upward. Others have negative absorption rates, prompting landlords to offer more concessions or drop lease rates. For tenants eyeing expansion or relocation into portions of Aurora and Denver, such market stagnation can mean opportunities for better lease deals. In the southeast suburbs, which includes the Denver Tech Center and Inverness Business Park, 1.2 million square feet of space was absorbed last year, more than four times the absorption rate of the next-closest sector, said Phillip Ruschmeyer, senior managing director of Frederick Ross Co.'s commercial real estate services division in Denver. "In the southeast suburbs where you may have had 40 buildings that had 40,000 square feet a year-and-a-half ago, you probably only have 20 buildings right now,"

Ruschmeyer said. "So we're doing a lot of leasing. There's a tenant looking at taking the entire IGC building." The sprawling southeast suburban office sector boasts 29 million square feet of space, about 22 percent of which is vacant. While that vacancy rate is only down about 2.5 percentage points from a year earlier, the figure is a little misleading, Ruschmeyer said. The sector added almost 2.5 million square feet of new space last year as single-tenant buildings were converted to multitenant space. In contrast, an area just to the north of the southeast suburbs -- from Hampden Avenue north to about Sixth Avenue, and from Broadway east to I-225 -- has lagged behind in its recovery. Of 8.6 million square feet of office space in that sector, 2.4 million square feet remain vacant -- a 27.6 percent vacancy rate, according to Frederick Ross Co.'s year-end report. Class B buildings in that sector posted a negative absorption rate of more than 180,000 square feet, bringing the vacancy rate to 33.3 percent, up from 29 percent last year. The vacancy rate in the central business district, encompassing 23 million square feet in the heart of downtown, has dipped to 16 percent, with a median leasing rate of \$18 per square foot. Brokerage CB Richard Ellis reported that the central business district experienced the highest absorption of all sub-markets in Denver, with a year-end total of 863,317 square feet. It's a trend that helped spur a dozen building acquisitions last year in the area, the company reported. "The central business district appears to be tightening up," said Jim McGrath, senior vice president and branch manager of commercial real estate services firm Studley in Denver. "Clearly, that's the case with Class A space, especially any kind of space that has decent western views. We were recently out in the market with a 50,000-square-foot tenant, and I think we only found five quality options for them." Todd Wheeler, executive director with Cushman & Wakefield Inc., said the real activity and focus is in areas with high demand and where vacancy rates are plummeting. In more stagnant office markets such as areas of Aurora, it's a different story. Some properties in Aurora are offering "phenomenal rent opportunities and value," Wheeler said, although many big-block properties have been absorbed, scarfed up by larger tenants such as Northrup Grumman and Corporate Express. "It's really tough not to find a good opportunity in Aurora," Wheeler said. "It's an interesting mixed bag." Lower Downtown has a vacancy rate of about 8 percent and high-rise product is commanding \$6-to-\$8-per-foot pricing differences, and the entire central business district is at about 16 percent, according to year-end reports. "As a result, LoDo has at least four new projects that are not just on the drawing board but are going through approvals," Wheeler said. "There's clearly a lot of pent-up demand for new product in the central business district, in LoDo or the Cherry Creek market," Wheeler said. "However, Cherry Creek's ability to absorb larger blocks of space is very suspect." At least part of the reason for all the activity downtown is because it's populated with growing oil, finance, insurance, real estate and service companies, Ruschmeyer said. "Those industries are doing well in the economy and, in turn, are doing well here," he said. "If you look for a block of space in a Class A building in the central business district, there's nothing over a couple of floors," he said. Frederick Ross Co. said the midtown area had overall absorption of 116,171 square feet, and vacancy rates declined more than 2 percentage points to 12.9 percent. The vacancy rate in the Glendale subsector, on the other hand, with 2.3 million total square feet, climbed to 23.5 percent from 21.5 percent, and had negative absorption of 44,877 square feet. "The culprit was the Class B market and, within it, the Galleria North and South buildings," Ruschmeyer said. The northwest sector has improved, achieving the second-highest absorption rate at just under 350,000 square feet last year, with vacancy rates at 24.7 percent, commercial

brokers said. The area could get a boost from the high-tech sector this year, and 75 percent of leases in the sector will roll over in the next 27 months, according to a year-end report by Jones Lang LaSalle. The northeast sector suffered a modest setback with absorption negative at just over 35,000 square feet, Frederick Ross Co. reported. Its vacancy rates increased more than 2 points, to 17 percent from 14.6 percent. Often, a matter of seven or eight blocks can make a big difference in both perception and rental rates. "Look at a submarket like Cherry Creek, where demand for space north of the mall has been strong despite congestion and parking hassles," Wheeler said. "Those buildings are getting premiums of \$2 to \$8 over buildings of comparable quality east of the mall, only eight or nine blocks away. "There are big spreads in rental [rates] from one submarket to another, really depending on the demand that occurs in that given market," he said. Many rental increases have more to do with recent building acquisitions, commercial brokers said. "There's so much capital that's chasing real estate, that sale prices are increasing, capitalization rates are decreasing and the only way building owners can achieve a decent return is to increase rental rates, decrease concession packages or both," McGrath said. In a recent deal, for instance, Brookfield Properties sold the 28-story World Trade Center I and 29-story World Trade Center II buildings at 16th and Broadway to Chicago-based Transwestern Commercial Services and Palo Alto, Calif.-based Broadreach Capital. "I think rates have gone up in those buildings by a dollar or two a foot since the sale," McGrath said. For tenants shopping for Class B or B-minus properties, there are good deals if companies can take into account challenges such as insufficient parking and floor designs or inadequate HVAC and electrical systems. As tenants considering an expansion or move eye all the options, McGrath suggests they think strategically and give themselves enough time to consider myriad factors. "Ideally, a tenant should think through issues such as projected headcount, location, image, business unit adequacy and budget prior to looking at office space," McGrath said. "Too many tenants treat office space as a commodity. Unfortunately, ill-conceived space can have an adverse impact on your business that could cost much more money in the long run than the actual cost of the space itself." McGrath, Ruschmeyer, Wheeler and other commercial brokers said clients' internal expansion is driving much of the market growth, although there's increasing interest from prospective new tenants. Cushman & Wakefield is seeing companies from California and the East Coast, Wheeler said. "We've got a 100,000-square-foot national company taking a hard look at a building we've got in the 'burbs, and another 50,000-square-foot out-of-state-company looking, and that's not all that common," Ruschmeyer said. **(Denver Business Journal)**

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### **Blazing Saddles: Developers to Launch Historic LoDo Building into 21st Century**

The historic Colorado Saddlery Building in lower downtown is going to be redeveloped into offices, retail and three new rooftop penthouses. The penthouses atop the century-old building at 1631 15th St. will be priced from \$1.6 million to \$2.2 million each. "It really is kind of the end of an era," said Kathleen Brooker, president of Historic Denver Inc. "It's a heavy-timber building, and it is one of the last major buildings in LoDo not to have undergone any changes." Jim Donahue, a Denver-based custom home builder who formed American West LoDo LLC to

redevelop the building, agreed. The completed development, with an estimated value of \$18 million to \$22 million, will include a two-story, 20-foot-tall addition to the roof, where the penthouses will be built, bringing the building to seven stories. The penthouses will range from about 3,000 to 4,000 square feet. The penthouse addition will be clad in copper. Josh Comfort and the Lawrence Group are designing the building. Construction is expected to begin in September. In addition to the 10,500 square feet of penthouses, the building will include 47,000 square feet of offices on four floors and 8,500 square feet of rentable retail space on the ground floor. Donahue is looking to rent the office space from \$28 to \$32 per square foot, near the top of the downtown market. **(Rocky Mountain News)**

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### **Office, Retail, Apartment Project Planned for 16th Street Mall**

Two Denver developers plan a 10-story office, retail and luxury apartment building on a parking lot adjacent to the historic Sugar Building they own in lower downtown. Grant McCargo and Will Fleissig, principals of Urban Villages, think the new building could be the most energy-efficient built in the Denver area. It also will command the highest office lease rates in today's soft but improving market. The building will be constructed on one of the last major undeveloped sites along the 16th Street Mall. Fleissig, an architect by training, previously was a principal of Denver-based Continuum Partners and the planning director for Boulder. Fleissig, who lives in California, left Continuum, developer of numerous high-profile developments, including the \$750 million Belmar in Lakewood, to head the California operation for Urban Villages. "When you look at sustainable buildings, they tend to be more in the suburbs," Fleissig said. "We are looking at a building that is in the heart of downtown that is walking distance to everything." "The big thing about us is that we are long-term developers that plan to hold real estate for generations," McCargo said. "We are really going to be pushing the sustainability and energy-saving features." They include energy-efficient heating and cooling systems, using recycled construction materials when possible, and energy-saving windows. The architect for the contemporary-styled building is Kuwabara Payne McKenna of Toronto, an earlier finalist for the design of the Wellington E. Webb building. **(Rocky Mountain News)**

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	<b>CURRENT</b>	<b>1 MONTH PRIOR</b>	<b>1 YEAR PRIOR</b>
<b>FED FUNDS RATE</b>	4.50	4.50	2.50
<b>3 MONTH LIBOR</b>	4.85	4.71	2.95
<b>PRIME RATE</b>	7.50	7.50	5.50
<b>10 YEAR TREASURY</b>	4.64	4.52	4.38
<b>30 YEAR TREASURY</b>	4.62	4.68	4.74