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Grubb & Ellis Foresees Tough 2009 for CRE

The commercial real estate industry can expect reduced demand, negative absorption and higher vacancy in 2009, but sales of investment properties should break loose from their near-standstill as distressed properties are brought to market. Those are some of the highlights of the newly issued 2009 Global Real Estate Forecast from locally based Grubb & Ellis Co., which sees a tough year for both the economy and the real estate markets. "The economy will struggle in 2009, which will dampen demand for all product types, resulting in negative absorption and increased vacancy," says Robert Bach, senior vice president and chief economist at Grubb & Ellis. Bach expects that continued job losses and shrinking GDP will contribute to "a challenging year for commercial real estate with the economy starting the year 13 months into what may become the longest recession since the 1930s." The Grubb & Ellis economist estimates that investment property sales volume will increase by 15% this year as distressed properties, particularly those acquired in the past couple of years with floating rate debt, are brought to market by borrowers who will have difficulty refinancing. Loan delinquencies and foreclosures will increase, with more properties returning to lenders, who will be anxious to sell them, he adds. Debt will be the hot investment type in 2009, according to Bach, who cites CMBS, collateralized debt obligations and direct investments in property debt as some of the likely categories to be favored by investors. Investors are holding an estimated $300 billion to $400 billion in institutional, private and offshore equity that they will begin to deploy in 2009, the report says. Among the other highlights of the forecast: Office tenants generally will have the upper hand over landlords, the industrial market will begin to recover before the office market, retailers will remain even more careful about expansions than they were in 2008 and vacancies will rise in the apartment sector. In the office market, some 90 million square feet of new space was under construction at year-end 2008, the lion's share of which will be delivered in 2009. "This, combined with a projected 45 million square feet of negative absorption, including a big jump in sublease space, will push vacancy up by two percentage points to end 2009 at 16.5%," the forecast states. In the industrial market, Bach expects that the ongoing quest by users to operate more efficiently should sustain demand for space despite the weak economy. But with supply is expected to outpace demand, the vacancy rate will rise by 60 basis points to end the year at 9.4%. "The industrial market will recover more quickly than the office market because the construction pipeline is set to thin out sooner," Bach says. In the retail sector, more stores will close and fewer will open, with higher vacancies and softer rental rates by year-end. "Even the luxury retailers, which are usually immune to downturns, are feeling the pain," Bach says. In the apartment arena, "The negative forces are expected to have a slight edge in 2009, resulting in slowly rising vacancies for the multihousing market this year," the Grubb & Ellis report states. Despite new renters coming into the market who have lost their homes to foreclosure, new graduates who can't find jobs are doubling up with a roommate or moving in with a relative to conserve cash. At the same time, the apartment market faces competition from an increasing supply of unsold condos and foreclosed homes returning to the market as rentals. Some previous forecasts have suggested that emerging markets would largely escape the financial crises now look like they were overly optimistic, according to the forecast. "This will not be an ordinary downturn, but rather a structural correction in global capital markets that will impact every

sector of the economy and real estate market," the forecast concludes.
(Globest.com)

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Investment-Sales Volume Dropped 68% in 2008

Property-investment sales for all of 2008 fell 68% from the previous year's volume. The decline was particularly steep in Q4, and signs are mixed at best about when activity will increase. The $54.5 billion of commercial property-transactions that closed or went under contract last year were down from $170.4 billion in 2007, while the number of transactions dropped 54% to 846, according to the Commercial Real Estate Direct Property Sales Database, which tracks individual property sales of at least $10 million. The $7.28 billion worth of deals in the fourth quarter was down 70% from the $29.42 billion of deals during the same period in 2008. This year's fourth-quarter volume also was down 46% from the previous quarter, which was down just 16% from the $16.3 billion in the second quarter. Full-year sales volumes were down from 2007 in every property type, with sector declines ranging from a high of 83% for hotels - $3.8 billion - to a low of 60% for multifamily - $8.38 billion - which was helped largely by the availability of debt financing from Fannie Mae and Freddie Mac. Sales activity has been throttled by a lack of debt financing and by many investors' preference to wait for prices to fall further or for the emergence of distressed sellers who are unable to refinance maturing mortgages. Prices were still falling through early last quarter as measured by the Moody's/Real Commercial Property Price Indices, whose pricing dropped an additional 2.4% in October and was down 11.5% from the same time a year earlier. Meanwhile, there are indications that distressed sellers may finally emerge en masse in 2009. According to Realpoint's Lead Generator, 1,295 securitized loans with a balance of $12.7 billion were in special servicing as of December. That includes 213 loans totaling $1.4 billion that had passed their maturity dates and 32 loans with a balance of $668.8 million that are set to mature by June. Brokerage Grubb & Ellis has predicted that this year's sales volume will increase 15% due largely to offerings from distressed sellers, particularly those who used floating-rate debt for acquisitions in early 2007 and 2006. The emergence of distressed sellers anxious to make deals could also help narrow bid-ask gaps with prospective buyers. Those gaps, which had been most prevalent in the first three quarters, began narrowing noticeably in October as capitalization rates rose across all sectors, according to Real Capital Analytics. But investor demand could be thwarted by a continued stalled economy that is expected to cut tenant demand across all property types. Robert Bach, Grubb's chief economist, has predicted that the U.S. economy will lose another 2 million jobs in 2009, about the same amount lost in 2008, and will "dampen demand for all product types, resulting in negative absorption and increased vacancy." **(CRE News)**

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Developer Bets on New Interlocken Tower

The construction of speculative office buildings - those without any pre-leased clients - has come to a screeching halt in virtually every market, not only throughout the nation but worldwide, as developers grapple with the worst credit crunch in modern history. But a Boston-area commercial real estate investment company, Franklin Street Partners, is quietly bucking the trend, breaking ground this month on an 11-story, 285,000-square-foot building in the Interlocken Business Park in Broomfield.

It is the only "spec" building that Franklin is developing anywhere in the country. Chris Phenicie, who is listing the building with fellow CB Richard Ellis broker David Hart, said that Franklin's willingness to build a spec building when everyone else is forced to put construction plans on the back burner, is a huge vote of confidence in the Denver-area economy, especially its northwest corridor. "They're making a reasonable bet. The Class A office space in Interlocken has only a 6.5 percent vacancy rate," Phenicie said. Franklin is not releasing the value of the building, but experts estimate it at $75 million, given current construction prices for what will be the greenest multi-tenant office building at Interlocken. It has been pre-certified as a gold LEED (Leadership in Energy and Environmental Design) building and is about a two-minute drive from the ConocoPhillips renewable research campus planned across U.S. 36. "We're very excited about this project. We think it is a great opportunity," Will Friend, vice president and regional director of Franklin, said on Monday. Friend said they do not disclose their financing arrangements, but "we are in a position to go forward and others are not. So when it opens in 2010 we think we will be in a very strong position." The building, called 385 Interlocken Crescent, or the Central Park Tower, because it is next to a park by that name, is the third building in the Crescent series of buildings in Interlocken that Franklin owns. The new one and the other two are being developed by Stephen Clarke of Prime West Development. Clarke also is a small investor in the new building. "We've developed more office space in Interlocken than anyone else," Clarke said. "And on a personal level, I'm putting my money where my mouth is. I think that Franklin's timing is more than ideal." Broker Phenicie said the building will be able to handle tenants as small as 2,000 square feet, all the way up to a single-user that would take the entire building of 285,612 square feet. The Gold LEED certification will make it attractive to the growing renewable energy businesses between Boulder and Denver, as well as lawyers, architects, accountants and engineers that serve them, he added. "The labor market for renewable energy in this market is arguably one of the best in the entire country," Phenicie said. He noted the renewable energy collaborations between CU, CSU, the School of Mines, as well as the proximity to government entities such as the National Renewal Energy Laboratory, National Oceanic and Atmospheric Administration and the National Center for Atmospheric Research. **(Rocky Mountain News)**

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Economic Troubles Shelve Some Real Estate Decisions

As expected, heightened national and global economic turmoil in the fourth quarter of 2008 hurt the local commercial real estate market — decreasing absorption of vacant space and new construction in most property types, and increasing vacancies and rents. Users of commercial space such as office buildings, industrial properties and retail centers, whose business contracted during the period because of the financial crisis and low consumer confidence, are postponing major real estate decisions, according to a new MarketView report by CB Richard Ellis Inc. (CBRE) in metro Denver. Some landlords struggle to keep tenants, particularly in the face of job cuts. “The nation is in the midst of the longest recession seen since the Great Depression. … Few business sectors are unaffected by the current situation of economic upheaval, and commercial real estate has undeniably felt the impact,” said the report, compiled by CBRE Denver research manager Kate Waggoner. But there were some bright spots in the period for real estate — positive absorption of retail space compared to negative absorption in 2007's fourth quarter, and a fundamentally stable industrial real estate market. Office building owners were glad to see average asking rents for office space increase in the period, despite a higher vacancy rate. But an expected lowering of rents in 2009, as vacancies continue to creep up, will please tenants. What follows is a breakdown of how local commercial real estate property types performed in the fourth period:

RETAIL — Vacancies at Denver-area retail properties such as shopping centers increased to 8.2 percent in the quarter from 6.4 percent for the fourth period of 2007, the report said. But average asking rents still managed to increase — to $18.16 from $16.10 — largely because of space in new projects charging relatively high rents. Completion of space at a couple of large retail developments — including Miller Weingarten Realty LLC's River Point at Sheridan in Sheridan and Alberta Development Partners LLC's Cornerstar in Aurora — helped the retail market achieve 954,626 square feet of positive absorption in the quarter. Construction of new retail space overall, though, dropped off considerably during the period to 2.46 million square feet from 5.2 million year over year. "In the fourth quarter, there was a high level of caution in the retail industry, and activity was very, very slow," said Glenn Anderson, senior vice president of retail brokerage services at CBRE in metro Denver. "The number of retail space transactions was down. The market slowed, but it's not dead. For 2009, retailers hope consumer confidence picks up after President-elect Barack Obama takes office Jan. 20, causing an uptick in retail sales. But the first two quarters are expected to be challenging. "People are getting sick of this economy. … Hopefully things will loosen up after the first couple of quarters," Anderson said.

OFFICE — Metro Denver's office market is largely driven by employment growth, so higher unemployment and layoffs in the fourth quarter caused the office sector to begin "to suffer," the CBRE report said. Companies such as Citigroup Inc., Union Pacific Corp., Boeing Co. and Sun Microsystems Inc. have announced layoffs in the Denver area, and job cuts are expected to continue in '09, as companies try to contain costs. "Consequently, office activity has declined, as tenants are demonstrating hesitation in making significant real estate decisions," the report said. The local office market reported its first quarterly negative absorption — 284,675 square feet — in the fourth quarter since the first period of 2004. The lack of absorption caused total office vacancy to increase to 15.5 percent from 12.6 percent for the same quarter of '07. Average asking office rent managed to inch up to $21.16 in the fourth quarter from $20.08 in the year-ago quarter. But because vacancies are expected to increase in '09, rents likely will be driven down this year. Office construction dropped by almost half in the fourth quarter, to 1.3 million square feet from 2.2 million square feet in the final period of '07. Roughly 900,000 square feet of new office space was completed in the last three months of '08, including the One Lincoln Station, Palazzo Verdi and 1400 Wewatta buildings. While turmoil in financial markets curtailed acquisitions of local office buildings, there were some significant deals last quarter — including the two-building World Trade Center's sale to Jones Lang LaSalle Inc. of Chicago for $157 million. "Investment activity is expected to remain tempered in the first half of 2009 with only forced sales occurring," the CBRE report said.

INDUSTRIAL — Vacancies of industrial space such as warehouses and distribution centers increased to a total of 7.9 percent in the fourth quarter from 6.6 percent in the year-ago period. The industrial market had negative absorption for the quarter — 323,907 square feet — for the first time since 2005's second quarter. It reported positive absorption of 279,000 square feet in last year's fourth period. Average fourth-quarter asking rent, though, increased to $6.25 from $5.97 year over year. Despite the bad economy, metro Denver's industrial real estate market remains relatively stable "by maintaining a functional balance of supply and demand," the report said. It's poised to bounce back fast when the economy starts to recover. "The local industrial market is not seeing a lot of new construction, and we don't see a lot of sublease space," said Doug Viseur, first vice president of industrial brokerage services at CBRE. "That says the market can recover very quickly with an uptick in demand, but to get the uptick, companies need to feel OK about where the economy is." New construction of industrial space dropped to 634,191 square feet in the period from 1.5 million square feet in last year's fourth quarter, with projects such as Denver-based ProLogis Inc.'s Stapleton Business Center North put on hold. Despite the lower cost of construction materials, new construction slowed — and is expected to continue slowing in 2009 — because of less demand for space by users. Sublease space in the industrial market could grow to roughly 10 percent in the new year. **(Denver Business Journal)**

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Jobless Rate Jumps to 7.2 Percent in December

The nation's unemployment rate bolted to 7.2 percent in December, the highest level in 16 years, as nervous employers slashed 524,000 jobs, capping one of the worst years in modern history for American workers.   The Labor Department's report, released Friday, underscored the grim toll the deepening recession is having on workers and companies. And it highlights the difficulty President-elect Barack Obama faces in resuscitating the flat-lined economy. This year has gotten off to a rough start with a flurry of big corporate layoffs, pointing to another year of hefty job reductions. "There is no end in sight in terms of layoffs," said economist Ken Mayland, president of ClearView Economics. "January could be worse because some companies put layoffs on hold because of holiday sensitivities." Not only are employers slashing jobs; they also are cutting workers' hours and forcing some into part-time work. The average work week in December fell to 33.3 hours, the lowest level on records dating to 1964—and a sign of more job reductions in the months ahead, economists said. Obama called the unemployment report "a stark reminder of how urgently action is needed" to revive the nation's staggering economy. And Hilda Solis, his pick for labor secretary, called the job losses "a crisis situation" and said one of her initiatives would promote "green jobs" that could reduce the nation's dependence on foreign oil. For all of 2008, the economy lost a net total of 2.6 million jobs. It was the first time payrolls had fallen for a full year since 2002 and was the most since 1945, when nearly 2.8 million jobs were lost. Though the U.S. labor force has more than tripled since then, losses of this magnitude are still being painfully felt. With employers throttling back hiring, the nation's jobless rate averaged 5.8 percent last year. That was up sharply from 4.6 percent in 2007 and was the highest since 2003. All told, 11.1 million people were unemployed in December. In addition, 8 million people were working part time—a category that includes those who would like to work full time but whose hours were cut back or those who were unable to find full-time work. That was up sharply from 7.3 million in November.   While economists were forecasting even more payroll reductions in

December—around 550,000—job losses in both October and November turned out to be deeper than previously estimated. Revised figures showed employers slashed 584,000 positions in November and 423,000 in October. The unemployment rate, meanwhile, rose from 6.8 percent in November, to 7.2 percent last month, the highest since January 1993. Economists were expecting the jobless rate to rise to 7 percent. During President George W. Bush's nearly eight years in office, 3 million jobs were created. In President Clinton's two terms, nearly 21 million jobs were generated. Meanwhile, the Commerce Department reported Friday that wholesale inventories dropped 0.6 percent in November, the third straight month of business cutbacks, while sales were down a record 7.1 percent. On Wall Street, stocks slid. The Dow Jones industrials lost about 80 points in afternoon trading. Job losses were widespread in December. Construction companies slashed 101,000, and manufacturers axed a a whopping 149,000 jobs. Professional and business services got rid of 113,000 jobs. Retailers eliminated nearly 67,000 jobs, and leisure and hospitality reduced employment by 22,000. That more than swamped gains in education and health care, and the government. Employers are chopping costs as they try to cope with dwindling appetite from customers in the U.S. as well as in other countries, which are struggling with their own economic problems. Workers with jobs saw modest wage gains. Average hourly earnings rose to $18.36 in December, up 0.3 percent from the previous month. Economists were expecting a 0.2 percent increase. Over the year, wages have risen 3.7 percent, though high prices for energy and food earlier this year made people feel that their paychecks weren't stretching that far. The U.S. recession, which just entered its second year, is already the longest in a quarter-century and is likely to stretch well into this year. The fact that the country is battling a housing collapse, a lockup in lending and the worst financial crisis since the 1930s make the current downturn especially dangerous. Corporate layoffs continue to pile up. Airplane maker Boeing Co. on Friday said it plans to cut about 4,500 jobs this year due to the global economic slowdown, and G&K Services Inc., which provides uniforms and facility services, said it is eliminating 460 jobs as it aims to trim costs amid weak demand. Late Thursday, Intermec Inc., which makes electronic devices for tracking inventory, said it plans to cut 150 jobs, or 7 percent of its work force. Earlier this week, drugstore operator Walgreen Co., managed care provider Cigna Corp., aluminum producer Alcoa Inc., data-storage company EMC Corp. and computer products maker Logitech International all announced major layoffs to cope with the recession. All the problems have forced consumers and companies alike to retrench, feeding into a vicious cycle that Washington policymakers are finding difficult to break. Obama says a bold approach is needed to bust through this cycle and revive economy. "I don't believe it's too late to change course, but it will be if we don't take dramatic action as soon as possible," he said Thursday. "If nothing is done, this recession could linger," Obama warned. "The unemployment rate could reach double digits." Obama, who takes over Jan. 20, is promoting a huge package of tax cuts and government spending that could total $775 billion over two years. With add-ons by lawmakers, the package could swell to $850 billion, his advisers say. Even with a new government stimulus and the Federal Reserve's decision to ratchet down a key interest rate to an all-time low, the unemployment rate is expected to keep rising. Some economists think it could hit 9 or 10 percent at the end of this year. **(AP)**

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	.25	1.00	4.25
3 MONTH LIBOR	1.26	2.16	4.44
PRIME RATE	3.25	4.00	7.25
10 YEAR TREASURY	2.43	2.69	3.87
30 YEAR TREASURY	3.04	3.09	4.46