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A Denver Based Commercial Real Estate Investment and Management Company  
Contact Ken Gillis at 303-407-8715

## Retail, Economy to Face Challenges Through 2010

Forget about growth – just hang on to cash to get through 2009, said speakers at the National Retail Federation's 99th Annual Convention, which concludes here today at the Javits Center. The financial collapse has led to a major consumer attitude shift, that will result in a difficult 2009 and 2010 and a slow recovery in 2011, just in time for a major bout of inflation, speakers said in a wide-ranging discussion. Getting through this year will require conservative expenditures. "You've got to survive," said Peter J. Solomon, founder and chairman of the Peter J. Solomon Co., a New York City-based investment banking advisory firm. "For the next year, I'd just worry about cash." Retail has gone through major change before, said Myron "Mike" Ullman, chairman and CEO of JCPenney, noting that 45 years ago, the industry had some 65 department store companies. Consolidation has left just a handful. But today's industry is facing a number of challenges: overexpansion, a pressured consumer, globalization, and economic stimuli that could result in a serious inflation problem in three to five years. The first challenge is perhaps the most basic: inexpensive financing that led to overbuilding "There's way too much space in our industry and way too much merchandise," Ullman said. Meanwhile, the U.S. consumer is facing a number of pressures: the largest single age group today are 49-year-olds, who are facing rising health care costs and educational expenses, possibly for the next largest age group, the 19-year-olds. And the current collapse will leave its scars, resulting in a permanent change in consumer attitudes. Globalization is also becoming a factor. The US is one-quarter of the world's economy, with the rest of the developed world another quarter. The rest is in emerging markets, including China, South America and Eastern Europe. "We used to be a domestic environment," Ullman said. "Today, much of the innovation is coming from overseas." Retailers aren't helping themselves, Ullman acknowledged. Though retail employs 25 million people around the US, and lost 579,000 jobs last year (twice the total employment of the auto industry), the industry has not articulated its plight well to political leaders. Future growth likely will be found outside the country. Affordable financing encouraged both retailers and consumers to overexpand in the United States: retail as a share of the nation's economy rose from about 63% in 1980 to 71% today, said Mark Zandi, Chief Economist and co-founder of Moody's Economy.com. That is now reversing as strapped consumers cut back on spending. Meanwhile, emerging nations such as China are becoming consumers. Today, the Chinese save 50% of their GDP, but that is changing. "If 10 or 15 years from now, [the savings rate] is 25%, they're still saving a lot," Zandi said. "Growth in retail will be overseas." Meanwhile, the US industry must wait and watch while both the outgoing and incoming administrations struggle to fix the economic mess. The government thus far has not acted consistently, exacerbating the problem, Zandi said. TARP funds must be used more wisely, with a large amount given over to foreclosure mitigation. "The [incoming] administration has a challenge to get a stimulus big enough and fast enough to get us out of this," Ullman said. "This could drag on way longer than could be healthy for our role in the world. And the world crisis will last longer than the U.S. crisis." The fundamental issue is confidence, Solomon said. "Leadership equals confidence equals credit. There is only so much [Obama] can do," Solomon added. "His program is reasonable, but may not be radical enough." "The Federal Reserve is acting aggressively, literally printing money to get us back on our feet," Zandi said. "They'd buy a Picasso painting if they thought that would make a difference." But all that money will have to be pulled

back at some point to avoid a massive inflation, which Solomon predicted in three to five years. "We're in an era right now of retail Darwinism," said Christopher Donnelly, an executive partner at Accenture. "There will be some companies that won't survive, [though] most will. But some will take this opportunity to reinvent themselves and the retail industry." (**Globest.com**)

### **SVN Sells 3 South-Denver Office Properties**

SVN Equities LLC of California has sold three south Denver-area office properties for \$66.5 million to Hines Real Estate Investment Trust Inc. The buildings are Hines Real Estate's first Denver-area holdings, according to the company's website. The SVN portfolio includes a total of 484,734 square feet of space and is 96 percent occupied, according to SVN. The buildings include:

- Arapahoe Peoria Business Center II, 12450 E. Arapahoe Road, Centennial — 180,297-square-foot, multiple-building office park, acquired by SVN in September 2005 for \$15.5 million.
- Arapahoe Peoria Business Center I, 12250 Arapahoe Road, Centennial — 129,150-square-foot office park, acquired in June 2005 for \$13.63 million.
- 345 Inverness, 345 Inverness Drive South, Englewood — 177,136-square-foot office building, purchased in September 2004 for \$11.2 million.

Based in Irvine, Calif., SVN was started in 1998 and acquires, manages and leases commercial real estate nationwide. The company currently owns roughly 6.5 million square feet of properties worth more than \$500 million. SVN "remains heavily invested" in metro Denver, company president Burton Young said in a statement. Even after its Hines deal, SVN has roughly 1 million square feet of holdings in the metro area. "We are active buyers looking for value-added opportunities," Young said. Brokers at the Denver-based Frederick Ross Co. represented both the seller and the buyer in the deal. (**Denver Business Journal**)

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### **Springs Market to Experience Deja Vu**

The challenges of the commercial real estate market in 2008 will remain in effect in 2009, according to a recent market forecast by Sierra Commercial Real Estate Inc. Colorado Springs' office market was impacted by national economic conditions as the overall vacancy rate will be approximately 14 percent compared with 11.5 percent at year-end 2007, noted Sierra office market specialist Kent Mau. Within the Class A submarket, vacancy rate rose to 24 percent at year-end in the North Interstate 25 market, up from 14.7 percent at the end of 2007. The submarket has experienced four consecutive quarters of negative absorption, however, it is expected the fourth quarter will post a positive 30,000-plus-square-feet of absorption. (**Colorado Real Estate Journal**)

## Metro Housing Holding its Value

Home prices in the Denver-Aurora metropolitan area have less than a 1 percent chance of declining in value during the next two years, according to a national report released Wednesday. The report by PMI Mortgage Insurance Co. could help accelerate an expected surge of real estate investments by savvy buyers looking for bargains, said one local expert. "In the last couple of weeks, I have been hearing that some very large and fully capitalized hedge funds and opportunity funds are aggressively wanting to make deals in Denver," said Mike Rinner of the Genesis Group, which tracks Front Range housing. "The kind of national press from the PMI report about Denver being a low-risk area, as far as declining values, is going to make these investors want to make their moves sooner rather than later," Rinner added. The U.S. Market Risk Index released by PMI ranked Denver as the 10th least risky of the 50 largest metro areas in the country. Dallas-Plano-Irving in Texas had the least risk of losing value, while the Fort Lauderdale-Pompano Beach-Deerfield Beach, Fla., market ranked as the riskiest of 50 metro areas, according to the third-quarter report. The spread between the 10 least-risky markets is so small that it is almost statistically insignificant, said LaVaughn Henry, director of U.S. Economic Analysis for the PMI Group. Overall, year-over-year home values in the Denver area are down 3 percent, while the average drop for the top 50 metropolitan areas is about 11 percent, Henry said. "That's in line where Denver was a year earlier," Henry said. "In the third-quarter 2007, prices were down 2.21 percent." In addition, homes were 15 percent more affordable in the Denver area in the third quarter than they were in 1995, when PMI began to measure affordability, Henry said. PMI uses a formula based on income, housing prices and mortgage rates to calculate affordability. "As far as things go, Denver is better off than . . . coastal (states)" such as California and Florida, Henry said. "Nationwide, Denver is by far not the worst place to be." In addition to metro areas in California and Florida, risky markets include Phoenix and Las Vegas, according to the report. "I feel pretty good about it," Rinner said. "It means there is less chance to see a decline. But it does not mean we will see appreciation, so in that respect, it is a modest accolade." Today's market increasingly is feeling like the late 1980s, when the market was beginning to recover from a hammering that resulted from years of massive overbuilding, a huge drop of high-paying jobs when energy prices crashed, and a change in tax laws that dramatically reduced the favorable treatment of real estate investments, Rinner said. "I've been around long enough to begin to sense when the tide is about to shift," he said. "In the late 1980s, the smart investors began to wait for the bottom of the market, or as close to the bottom as they could, and begin buying real estate in a big way. "We've been expecting this to happen during the past year, but there have been very few actual transactions." That, however, appears to be changing, Rinner said. **(Rocky Mountain News)**

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## HRO Renews Wells Fargo Center Lease

Holme Roberts & Owen LLP, one of metro Denver's largest law firms, has renewed its lease for nearly 109,000 square feet of space on five floors at Wells Fargo Center, the firm said Thursday. Wells Fargo Center is one of downtown's most distinctive trophy buildings. The property -- dubbed the "Cash Register Building" because its roof resembles an old-time cash register -- is one of metro Denver's largest office buildings, with 1.2 million square feet of space on 52 floors. It was designed by

famed U.S. architect Philip Johnson, and completed in 1983. Wells Fargo Center is located at 1700 Lincoln St., and owned by Macquarie Office Trust of Australia. The trust bought the building in 2006 for \$284 million. Wells Fargo Center recently lost another headquarters tenant -- Newmont Mining Corp. (NYSE: NEM) -- to the new Palazzo Verdi building in the southeastern suburbs, and HRO looked at space outside the building before renewing its lease. The law firm will occupy 108,600 square feet of space at the downtown building until 2022; its current lease expires in 2010. The firm did not reveal its lease rate, but asking office rents in downtown Denver averaged \$28.06 per square foot per year in the fourth quarter of 2008, according to CB Richard Ellis Inc. "The long-term lease renewal underscores HRO's and Wells Fargo Center's shared commitment as driving forces in the Denver, and Colorado, business community," HRO Chief Operating Officer Patty Fontneau said in a statement. "The new agreement will contribute to HRO's healthy and competitive advantage for many years to come." HRO was metro Denver's second-largest law firm in 2008, with 146 attorneys in two local offices. The firm plans to upgrade its space at Wells Fargo Center and build a new multipurpose communications center. New Lower Downtown (LoDo) office buildings such as 1515 Wynkoop St. and 1400 Wewatta St. have been wooing law firms interested in possibly relocating to that popular neighborhood. With its new, environmentally friendly office space, amenities such as restaurants, hotels and stores as well as good transportation access, LoDo has become increasingly attractive to businesses in recent years. The Denver office of San Francisco-based Townsend and Townsend and Crew LLP, for example, plans to move from One Tabor Center near LoDo to 1400 Wewatta in LoDo on Jan. 20, according to the firm. It will take 43,000 square feet of space there. "We are excited about the new building," Darin Gibby, the firm's partner in charge in Denver, said in a statement. "It's been designed exactly to our needs, and we are looking forward to inviting clients and new recruits to meet with us in the heart of LoDo." Other law firms looking for space that might go to LoDo, according to brokers, include Rothgerber, Johnson & Lyons LLP (now at One Tabor Center); Shugart, Thompson & Kilroy (Independence Plaza); and Dorsey & Whitney LLP (Republic Plaza). (**Denver Business Journal**)

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### **Report Sees Strong Apartment Market in Denver Area**

Metro Denver's apartment market is shaping up to stay strong in 2009, according to a report by Marcus & Millichap Real Estate Investment Services Inc. Apartment developers are scheduled to finish 2,450 new units this year, a 1.6 percent increase from 2,260 newly completed units in 2008. Continuing healthy demand, according to the report, will drive growth in apartment rents this year. Asking rents are expected to increase 2.5 percent to \$936 on average metrowide. Average effective rent — which is actual rent less concessions such as free rent for a certain period, rent discounts and waiving of fees including application fee — is expected to rise 2.3 percent to \$817 a month. Adam Christofferson, regional manager at Marcus & Millichap's Denver office, also expects the investment outlook for metro-area apartment properties to be good this year. The Louisville area, near where ConocoPhillips Co. (NYSE: COP) plans to build a renewable energy research and education campus, is especially attractive to investors. So is Boulder, home to the University of Colorado, because of the greater demand for apartments by college students. Based in Encino, Calif., Marcus & Millichap was started in 1971 and

specializes in commercial real estate investment. The company closed \$20.7 billion in transactions in 2007. **(Denver Business Journal)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	.25	.25	4.25
3 MONTH LIBOR	1.14	1.85	3.95
PRIME RATE	3.25	3.25	7.25
10 YEAR TREASURY	2.36	2.18	3.62
30 YEAR TREASURY	2.81	2.64	4.26

