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Fed Cuts Interest Rates

The Federal Reserve unexpectedly slashed a key interest rate by a bold three-fourths of a percentage point on Tuesday, responding to a global plunge in stock markets that heightened concerns about a recession. The Fed signaled that further rate cuts were likely. The reduction in the federal funds rate from 4.25 percent down to 3.5 percent marked the biggest reduction in this target rate for overnight loans on records going back to 1990. It marked the first time that the Fed has changed rates between meetings since 2001, when the central bank was battling the combined impacts of a recession and the terrorist attacks. Federal Reserve Chairman Ben Bernanke and his colleagues approved the large rate cut after an emergency video conference on Monday night, a day when global markets had been pounded by rising concerns that weakness in the world's largest economy was spreading worldwide. Despite the Fed's bold move, Wall Street plunged at the opening with the Dow Jones industrial average down 465 points before stocks began to rebound. The Dow was down 120 points in afternoon trading, an indication that the Fed's effort to calm markets was having an impact. In a brief statement explaining its move, the Fed said that "appreciable downside risks to growth remain" and officials pledged to "act in a timely manner" to deal with the risks facing the economy. The action was approved on an 8-1 vote. Analysts said the fact that the Fed did not wait until its meeting next week to cut rates underscored the seriousness of the situation. "The world's stock markets are in meltdown so the Fed came in with an inter-meeting move to try to stop the panic," Christopher Rupkey, senior economist at Bank of Tokyo-Mitsubishi. The Bush administration, which had announced on Friday that President Bush supported a \$150 billion economic stimulus package, said Tuesday that it was not ruling out doing more than the \$150 billion proposal if necessary. Bush and Treasury Secretary Henry Paulson were conferring with congressional leaders at the White House on Tuesday, with all sides saying they want to reach agreement quickly. The Fed was expected to cut rates further, possibly as soon as their next meeting on Jan. 29-30, if there are continued signs that the economy is weakening. "This move by the Fed was essential," said Lyle Gramley, a former Fed governor who is now a senior analyst with the Stanford Financial Group in Washington. "Bernanke promised in a speech earlier this month to take substantive action in a timely and decisive manner." Gramley said that Bernanke was now exercising the kind of forceful leadership the markets had been hoping to see since the credit crisis hit in August. David Jones, chief economist at DMJ Advisors, said Fed officials have a range of options available at next week's meeting from a quarter-point move to a half-point move to holding rates steady but indicating the Fed is prepared to move again between meetings should conditions deteriorate further. Jones predicted the Fed would lower the funds rate to 3 percent by the end of March. In addition to cutting the funds rate, the Fed said it was reducing its discount rate, the interest it charges to make direct loans to banks, by a similar three-quarters of a percentage point, pushing this rate down to 4 percent. Commercial banks responded to the Fed's action on the funds rate by announcing similar cuts of three-quarter of a percent on its prime lending rate, the benchmark for millions of business and consumer loans. The action will mean the prime lending rate will drop from 7.25 percent down to 6.50 percent. Global financial markets had plunged Monday as investors grew more concerned about the possibility that the United States, the world's largest economy, could be headed into a recession. Many markets suffered their biggest declines since the September 2001 terrorist attacks.

In its statement, the Fed said it had decided to cut the federal funds rate "in view of a weakening of the economic outlook and increasing downside risks to growth." The central bank said that the strains in short-term credit markets have eased a bit, but "broader financial market conditions have continued to deteriorate and credit has tightened further for some businesses and households. Moreover, incoming information indicates a deepening of the housing contraction as well as some softening in labor markets." Before Tuesday's move, the Fed had cut interest rates three times, beginning in September, the month after a severe credit crunch had roiled Wall Street and global financial markets. The Fed cut the funds rate by a half-point in September and then by smaller quarter-point moves in October and December. "The committee will continue to assess the effects of financial and other developments on economic prospects and will act in a timely manner as needed to address those risks," the Fed statement said. The Fed's action was approved on an 8-1 vote with William Poole, president the Fed's regional bank, dissenting. The statement said that Poole objected because he did not believe current conditions justified a rate move before the Fed's meeting next week. **(AP)**

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Two Economists Forecast Slower Denver Growth in 2008

Two prominent area economists forecast slower economic growth for metro Denver in 2008, but stopped short of predicting a recession. Patricia Silverstein, chief economist for the Metro Denver Economic Development Corp., said on Wednesday that recent events -- presumably including U.S. stock market volatility and the Federal Reserve's decision to slash short-term interest rates on Tuesday -- had tested her normally optimistic outlook. "The last few days have made it challenging for even my optimism to come through," Silverstein said at Vectra Bank's 15th Annual Economic Forecast Breakfast in the Sewell Ballroom at the Denver Center for the Performing Arts. Jeff Thredgold, corporate economist for Vectra Bank Colorado, and Tom Clark, executive vice president of the Economic Development Corp., also spoke on the panel. The metro Denver economy should continue to grow in 2008, Silverstein said. She forecast job growth of 1.6 percent in 2008, or a net gain of 22,000 jobs, slightly below the 1.8 percent job growth seen in 2007. Retail sales likely will be slower in 2008, amid worries about the credit crunch and lighter tourism, Silverstein said. Denver-area retail sales growth likely will average 3.4 percent in 2008, down from 4 percent in 2007, she said. The weak U.S. dollar will provide some silver lining, by encouraging foreign tourists to visit and shop here, she said. Silverstein forecast a bounceback in Denver-area home sales, predicting that about 50,000 houses would change hands, up from 49,789 in 2007. Foreclosures also should drop, to about 25,000 in 2008 from an estimated 27,400 in 2007, she said. Median home prices should edge up, helped in part by low housing starts that will keep inventory in check. "We're hardly building anything," she said. The threat of a national recession remains a risk for Colorado, "and I think we've almost talked ourselves into one," Silverstein said. Thredgold said he saw a 50 percent chance of recession, up from about 30 percent to 35 percent two months ago. "The issue is not liquidity, it's confidence," he said, blaming in part negative national media stories about the economy. Thredgold said he expected the national unemployment rate to move up to about 5 percent or 5.25 percent -- it was 5 percent in December 2007 -- in 2008 before coming back down. Oil prices likely will fall, which will ease inflation pressure. Thredgold also said he expected the Federal Reserve to cut rates further, bringing the federal funds target rate to 2.5 percent or 2.25 percent by late March,

from its current 3.5 percent. If the economy appears to be moving into recession, the Fed probably will cut the fed funds rate even more, to 2 percent or below, he said. Long-term interest rates also have been falling, with 30-year fixed mortgage rates currently at a 2.5-year low, which should help some borrowers, he said. Over the next 15 years, Thredgold said he expected the intermountain West -- including Colorado, Utah and Arizona -- to continue to lead the nation in income growth and job growth. **(Denver Business Journal)**

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Downtown Denver Office Rents up 26%

Denver's downtown office buildings saw the seventh-highest increase in rents in the country last year, according to a new Colliers International study of the U.S. office market. Those rents increased 26.3 percent in 2007 from the previous year, the report said. Houston had last year's biggest jump in downtown office rents, at 52.4 percent, followed by Boston, with a 40.5 percent increase. The Colliers study didn't include downtown Denver rental rates, but a recent study by CB Richard Ellis Inc. of Denver showed the average asking office rent in the Central Business District was \$26.22 per square foot, as of last year's fourth quarter. The average metrowide office rent for the same period was \$20.08 per square foot. Downtown Denver office space constitutes 22.5 percent of the entire metro-area office market, according to CBRE. Colliers International of Boston is an affiliation of independently owned commercial real estate firms located around the world. Colliers companies manage more than 672 million square feet of real estate. Looking at this country as a whole, the office market ended 2007 on "a lackluster note," and the first half of 2008 promises to be "turbulent," according to Colliers. "The economy is showing many signs of slowing, and the December jobs report was well below expectations," Ross Moore, senior vice president and research director for Colliers, said in a statement. CBRE's fourth-quarter local office market report contends metro Denver "continues to post steady economic fundamentals and encouraging results in the office sector." The report also said positives such as confidence demonstrated by investors, public and private spending and the metro area's diverse economy all bode well for the local office market in the next few years. **(Denver Business Journal)**

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2007 Retail Real Estate Results Paint Bleak Picture for 2008

Already rattled from a poor showing this holiday season, retailers may have to get used to that "Bah Humbug" feeling in 2008. Expectations for retail real estate in 2008: Rising vacancy; higher asking rents but lower effective rents; persistent construction activity and fair absorption; lower retail property sales transaction volume accompanying decreasing pricing and increasing cap rates; declining customer traffic and lower sales for retailers at shopping centers. Unfortunately, little relief is in sight. That was the general consensus gathered from a review of reports on the national retail industry from CoStar, Grubb & Ellis, Marcus & Millichap, the International Council of Shopping Centers, and more. **(CoStar)**

Aurora Corporate Plaza Sells for \$27.5M

Colorado & Santa Fe Real Estate Co. of Broomfield has sold the five-building Aurora Corporate Plaza office park for \$27.5 million. The buyer is the Trammell Crow Co. of Dallas, according to Arapahoe County real estate records. Aurora Corporate Plaza, located at 12200 E. Iliff Ave. in Aurora, includes 332,000 square feet of space. The office park was built in the 1980s. Other significant recent real estate deals include:

- Weingarten Realty Investors (NYSE: WRI), a publicly traded real estate investment trust based in Houston, has sold its 40 percent stake in the 88,400-square-foot Highlands Ranch University Park shopping center for \$28 million to Cornerstone Real Estate Advisers LLC of Hartford, Conn. Weingarten acquired the retail center in 2003 with AEW Capital Management LP.
- Paul Ruff and his Triumph Real Estate Corp. have purchased an interest in downtown Denver's historic Masonic Building on the 16th Street Mall for \$7.7 million.
- Bush Development Inc. of Denver, as Fitzsimons Promenade LLC, has purchased property in Arapahoe County for \$6 million from Furniture Row Colorado LLC. Bush is developing a 51,600-square-foot, mixed-use project called Fitzsimons Promenade, at the corner of Peoria Street and Colfax Avenue, near the University of Colorado Health Sciences Center at the old Fitzsimons army post. **(Denver Business Journal)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	3.50	4.25	5.25
3 MONTH LIBOR	3.31	4.84	5.36
PRIME RATE	6.50	7.25	8.25
10 YEAR TREASURY	3.61	4.26	4.87
30 YEAR TREASURY	4.28	4.68	4.96