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Continuing Job Losses Could Batter Fundamentals

The U.S. economy shed 159,000 nonfarm payroll jobs in September, while the unemployment rate remained unchanged at 6.1%, the U.S. Department of Labor reports. The loss of jobs is a troubling sign for absorption of office space and indicates a weaker economy that will reduce demand for all types of commercial real estate going forward. However, the government's prompt action to pass a bailout program to buy mortgage-related assets from financial institutions could help mitigate the situation. Job losses in September are at the highest level since the labor market peaked in December 2007, according to Grubb & Ellis economist Robert Bach, who was surprised by the size of the losses. "It's a significant increase above recent trends even before the credit markets freezing in the last two to three weeks," according to Bach. The government's employment study was conducted in early September and does not include the impact from the recent turmoil in the financial services sector. Hessam Nadji, Marcus & Millichap's managing director for research services, agrees with Bach and says that the September job losses are larger than expected. The latest job losses are also larger than the trends so far in this downturn, which will impact commercial real estate occupancies negatively. "The recent turmoil in inter-banking lending and commercial paper market have exacerbated the downturn that was in progress before the latest phase of the financial crisis. Many companies are cutting more people than expected in reaction to the increased uncertainties and inability to get financing, particularly short-term debt," according to Nadji. Grubb & Ellis has been forecasting negative office absorption of about 25 million sq. ft. over the next five to six quarters. Bach anticipates that the unemployment rate will peak above 7% toward the end of next year. The economist expects that financial sector job losses will impact banking centers such as New York and Charlotte, N.C. As well, the recent banking sector mergers involving Wachovia, Washington Mutual and Merrill Lynch will impact other markets where there is overlap between the merged banks and their acquirers. Rajeev Dhawan, director of the economic forecasting center at Georgia State University's J. Mack Robinson College of Business in Atlanta, expects that the loss of financial services jobs in the New York metro area will lead to a negative multiplier in the area. For instance, a Wall Street employee losing a job will cut back on consumption and the resulting decline in demand for goods and services will negatively impact the wider economy and lead to more job losses. Dhawan sees the latest loss of jobs as a clear indication that the U.S. economy is in recession, which is bad news for the commercial real estate sector. The September job loss figures reveal that retailers cut 40,000 jobs, while construction companies shed 35,000 jobs. Business services lost 27,000 jobs, while the financial services sector shed 17,000 jobs. "Every sector seems to be losing jobs," Dhawan notes. "Most corporations going forward would just like to hunker down and not expand, which is bad news for properties that are just finishing and coming on the market." **(National Real Estate Investor/Poonkulali Thangavelu)**

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Cornerstone Buys Denver Tower for \$55.5M

Cornerstone Real Estate Advisors, the Connecticut-based real estate investment advisor, purchased the Regency Plaza One building in Denver, CO, from Crescent Real Estate Equities for \$55.5 million, or roughly \$180 per square foot. The 15-story

office tower delivered in 1985 in the Denver Tech Center. It totals about 310,000 square feet and was 91 percent occupied at the time of sale. Michael Winn and Timothy Richey of Cushman & Wakefield of Colorado represented the seller.
(CoStar)

Apartment Sales Expected to Slow

Sales of Denver-area apartment properties are expected to continue the rest of 2008 because of the market's diverse economic base, but to slack off because the debt crisis has "thinned the pool of qualified buyers," according to a Marcus & Millichap Real Estate Investment Services Inc. report released Tuesday. "Transaction velocity has maintained a steady pace during the last year, fueled by Denver's healthy long-term prospects," Adam Christofferson, Marcus & Millichap's regional manager for Denver, said in a statement. High foreclosures of for-sale housing also have helped the local apartment market, keeping would-be homeowners in rental housing, the report said. The local apartment vacancy rate is expected to end the year at 6.5 percent, an increase of 20 basis points over 2007, because completions of new apartment properties outpace renter demand. A basis point is one-hundredth of a percentage point. But investors are buoyed by the higher apartment rents expected for the year, despite higher vacancies. Asking rents are expected to rise — 3.5 percent to \$918 a month on average. Effective rent — the actual rent paid by the tenant after discounts — is expected to end the year up 3.7 percent to \$804 a month on average. "Solid rent growth prospects continue to drive [apartment property] valuations higher in the Denver metro area, as median sales price has appreciated 12 percent to \$76,200 per unit over the past year," the report said. Through the end of the year, Marcus & Millichap expects sales activity to continue to ease up, because tighter underwriting criteria have cut down on the number of active buyers. But institutional investors with cash will continue to look at purchasing the highest-quality apartment assets, and local investors will look for problem properties selling at bargain prices. Investors looking for stable properties may seek assets in downtown Denver, where the Lower Downtown area especially continues to attract increasing renter demand and some of the market's highest rents. Other Denver-area apartment market data in the Marcus & Millichap report include:

- Through the third quarter, apartment inventory increased .7 percent — 1,200 units — from the same period of 2007.
- Developers are scheduled to complete 2,600 new apartment units in 2008, which is well above the metro area's five-year average and a 1.6 percent increase this year over '07.
- Construction activity is projected to increase in coming years, with nearly 4,500 units under construction and another 9,000 new units planned.
- Capitalization rates for apartment transactions averaged in the high 6-percent range in the last 12 months, up roughly 30 basis points from the previous 12-month period.

Marcus & Millichap, based in Encino, Calif., specializes in commercial real estate investment, closing more than \$20.7 billion in deals in 2007. **(Denver Business Journal)**

G-7 Commit to 'All Necessary Steps' to Stem Crisis

Finance ministers and central bankers from the Group of Seven nations said they're prepared to take "all necessary steps" to unfreeze credit markets and prevent financial companies from failing. "We commit to continue working together to stabilize financial markets and restore the flow of credit, to support global economic growth," G-7 policy makers said in a joint statement after talks in Washington. "The current situation calls for urgent and exceptional action." Officials pledged to ensure that major banks have access to cash and be able to tap public funds for capital to reestablish confidence and keep them lending. They stopped short of embracing specific policies such as a U.K.-style commitment to guarantee lending between banks. Ministers and central bankers from the U.S., Japan, Germany, U.K., France, Canada and Italy convened after stock indexes this month plunged more than 20 percent from Japan to Europe to North America. "This G-7 meeting is a defining event and they have to do something really radical," Harvard University Professor Kenneth Rogoff said in an interview before the statement was released. The G-7 was under pressure to roll out new policies to quell the panic in markets after its previous steps failed to do so. Instead they outlined principles for all nations to follow, promising to "strengthen further our cooperation and work with others to accomplish this plan." In the past two weeks alone, global central banks executed emergency interest-rate cuts and pumped more cash into markets, the Federal Reserve said it would buy U.S. commercial paper, European governments bailed out banks and the U.K. and U.S. said they would start taking equity stakes in financial companies. Money markets remain gridlocked even after those efforts, as banks shun lending to each other for fear they will lose the money or because they need it themselves. The resulting jump in borrowing costs is now strangling consumers and companies, prompting Merrill Lynch & Co. to predict the G-7 economies will be the weakest next year since 1982. U.S. stocks fell for an eighth straight day, with the Dow capping its worst week since 1914. The MSCI World Index of equities in 23 developed countries slid 20 percent this week, the most since records began in 1970. Highlighting the stakes, further talks to be held this weekend include a meeting of the G-7 officials with President George W. Bush, a gathering of policy makers from the Group of 20 and a summit of European leaders in Paris. Bush said today that the U.S. "will continue to act to resolve this crisis and restore stability to our markets." Rifts within the G-7 were exposed by an unprecedented public split in which Italian Finance Minister Giulio Tremonti rejected a draft statement for being "too weak." Earlier, Italian President Silvio Berlusconi sowed confusion by saying governments may close financial markets, only to reverse himself an hour later. **(Bloomberg)**

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	1.50	2.00	4.75
3 MONTH LIBOR	4.82	2.82	5.25
PRIME RATE	4.50	5.00	7.75
10 YEAR TREASURY	3.89	3.63	4.65
30 YEAR TREASURY	4.15	4.22	4.87

