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A Denver Based Commercial Real Estate Investment and Management Company
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September Retail Sales 'Dismal'

Economic woes are hitting the local mall, as retail comparable-store sales rose a "dismal" 1% in September over the previous year, according to the International Council of Shopping Centers monthly sales index.

The number is the worst September increase since 2001, when the 9/11 attacks and 2001 recession resulted in just a 0.9% rise. In this case, however, the weather was a factor: Wal-Mart, which reported a 2.8% increase, said that 342 of its namesake stores experienced business interruption due to hurricanes, though its Sam's Club division saw extra sales in those areas from shoppers stocking up on emergency supplies. "Not surprisingly, the primary story retailers cited for the September sales weakness was the financial crisis and the economy," wrote Michael Niemira, ICSC chief economist and director of research. "The best performing segments were the value and staples, which is a continuation of the underlying story." Wholesale clubs rose 7.4% (5.2% excluding fuel) over the previous year, followed by drug stores, with a 3.8% increase. BJ's Wholesale reported a 10.4% comp increase, with Costco seeing a 7% increase. Walgreens reported a 4.7% increase, Rite Aid a 1.7% rise. Target posted a 3% drop, while TJX reported a comp decrease of 1.0%. Luxury stores, on the other hand, posted a 10.9% decrease, with department stores reporting a 9.8% drop. Apparel-oriented chains were the big losers: Chico's reported a 15.6% drop, while Gap posted an 11% decline. Even the teen segment overall reported a 6.8% decline, as Abercrombie & Fitch had a 14% drop. For the industry as a whole, ICSC expects October same-store sales will post an increase of between 1.5% and 2.5% year over year. "The industry continues to face an 'easy' year-over-year comparison with October 2007 (when sales growth was 1.6%)," Niemira wrote, "But also faces a strong headwind from the ripple effects of the financial crisis and economic deterioration." (**Globest.com**)

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Despite Rescue Bailout, Institutions Wait on the Sidelines

Thanks to a continued disconnect between sellers' asking prices and how much buyers are willing to spend, institutional investors remain largely out of the commercial property market when it comes to doing new deals. For more than a year, transaction volume, particularly in the office sector, has been stuck in a bid/ask logjam. Closed sales of downtown and suburban office properties year-to-date through August fell by 70% from a year ago, according to New York-based research firm Real Capital Analytics. "For institutional investors, even if you're an all-cash buyer you're probably going to want to remain on the sidelines because the conventional wisdom is that we still have a ways to go before we bottom out on the pricing in the industry," says Steve Pumper, executive managing director of Transwestern's investment services group in Dallas. "There is still a bid/ask spread and people are going to hold off." One glimmer of hope is the latest Congressional action, which has institutional investors learning a whole new set of acronyms when it comes to commercial real estate investing. Thanks to the new Emergency Economic Stabilization Act of 2008 (EESA) signed into law on Friday, Oct. 3, the Troubled Asset Relief Program (TARP) is quickly gearing up to buy billions of dollars in toxic assets from financial institutions to help unfreeze the credit markets. While the legislation is designed to prop up strained balance sheets of Wall Street investment banks and Main Street commercial banks alike, many industry observers

believe the legislation will do little in the short term to quell continued tight credit issues and stem falling property values. "When I made a prediction earlier this year that the values would fall by as much as 30%, people thought I was off-base," said Mike Kirby, director of research for Green Street Advisors. "The latest predictions are more than this." Kirby made his point during a panel discussion at last month's annual Pension Real Estate Association conference. Ray Torto, global chief economist with CB Richard Ellis, notes that the government rescue plan is no immediate cure. "We expect short-term pain for the commercial real estate market as well as the economy," says Torto. "While prices on the secondary market for CMBS are destined to rise from their current levels, a successful Treasury intervention will clearly not reverse the decline in commercial real estate equity prices." How severe is the current crisis? A recent survey of industry senior executives by law firm DLA Piper in Chicago indicates that it already has had a greater impact on the commercial real estate markets than the Savings & Loan crisis in the late 1980s and early 1990s. A majority of respondents (80%) noted that the bottom of the present cycle has not been reached, and 90% described themselves as "bearish." Recently the \$15.1 billion Alaska Retirement Management Board voted to stop allocating new capital to real estate in fiscal 2009, which started July 1. The pension fund has already exceeded its targeted allocation of 10% for the asset class by 2.5%. "The real estate investment market is going through some difficult times now," says state investment officer Steve Sikes. Speaking at the DLA Piper Global Real Estate Summit 2008 in Chicago late last month, Sam Zell, chairman of Equity Group Investments, said that bargains would be available for those with the money and the aptitude. He specifically cited London-based Barclays PLC's purchase of some of Lehman Brothers real estate assets, including its 1.1 million sq. ft. world headquarters in New York for an estimated \$1.75 billion. "I suggest somebody's going to make a lot of money buying Lehman's assets," said Zell. "Do I think it's going to have any impact on the real estate market? No. My guess is that yes it will be an auction, although less competitive than in the past because there is less appetite for real estate risk, which I think means the dissemination of the Lehman portfolio is likely to be a positive event for the buyers." As for institutional players, including pension funds, he does not expect them to lead a wave of investors into the next round of funding. "There are no heroes in the pension fund world. The definition of a hero is a guy who allocates 6% instead of 5% to real estate. And that's taking a risk, okay? Basically I think the concept of X% in real estate, X% in bonds, X% in alternative is not going to change one iota," said Zell. **(National Real Estate Investor/Ben Johnson)**

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\$250B Floods Banking System

In an extraordinary about-face, the government is injecting \$250 billion into the US banking system. The Treasury Department will partially nationalize nine US banks by purchasing minority stakes; in exchange these institutions, which haven't been named, will jointly receive \$125 billion. Treasury will also make another \$125 billion available to "a broad array" of banks and thrifts across the country, by purchasing their preferred shares. Treasury is also temporarily guaranteeing the senior debt of all FDIC-insured institutions and their holding companies. Also, this morning the Federal Reserve Bank revealed additional details about its Commercial Paper Funding Facility program, which provides a backstop for the commercial paper market. Beginning Oct. 27, the program will fund purchases of commercial paper of three-

month maturity from high-quality issuers. News accounts identify the nine banks as Citigroup, Goldman Sachs Wells Fargo, JPMorgan Chase, Bank of America, Merrill Lynch, Morgan Stanley, State Street and Bank of New York Mellon Corp. Nationalizing--or even partially nationalizing the banking system--is in direct conflict with the free market principals on which the US economy is based. Certainly it is anathema to the Bush Administration, which has traditionally preferred as little regulation as possible in the economy. Treasury Secretary Henry Paulson did not mince words about this unprecedented move. "Today's actions are not what we ever wanted to do--but...are what we must do to restore confidence to our financial system," he says in a prepared statement. Indeed, Pres. George W. Bush emphasized that these measures were for the short-term. "The government's role will be limited and temporary," he said Tuesday morning in a press conference at the White House. "These measures are not intended to take over the free market, but to preserve it." A big unknown is whether the banks will actually use the capital as the government intended--that is, will they begin to lend to businesses and consumers again, or will they take the capital to shore up their own balance sheets. It is safe to assume, however, that the government will put a lot of pressure on the institutions to loosen credit. "We must restore confidence in our financial system," Paulson said at a press conference Tuesday morning. "The needs of our economy require that our financial institutions not take this new capital to hoard it, but to deploy it." Unlike other measures that government has taken in the last several weeks--namely interest rate cuts and the roll out of a plan to purchase toxic debt--the markets are responding to this concept. Monday the Dow rose by 11% upon news that European banks would be taking stakes in their institutions. Perhaps more telling--at least for the credit markets--Libor has dropped 50 basis points to 4.08%, after reaching a record high of 4.76% earlier this month. **(Globest.com)**

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LawDo? Attorneys Eye LoDo Buildings

Two speculative buildings under construction in Lower Downtown are vying to lure a handful of law firms whose leases will soon expire. The firms are looking at a 335,000-square-foot building under construction at 1900 16th St. being developed by Trammell Crow Co. and a 260,000-square-foot building at 1515 Wynkoop St. being developed by Hines Interests. "We really haven't had speculative, Class A office towers in 20-plus years," said Bill Mosher, area director and principal of Trammell Crow. Holmes, Roberts & Owens LLP is looking for about 100,000 square feet to house 140 attorneys. The firm currently occupies about 100,000 square feet at 1700 Lincoln St., and its lease expires in 2010. "We are considering moving because the dynamics of downtown are changing, and it is an interesting option to consider other areas of Denver that are growing," said Patty Fontneau, the firm's chief operating officer. "We have not made the decision, but with our size, we have to make a decision shortly." Other firms looking for space, according to sources in the real estate community, include Rothgerber, Johnson & Lyons LLP, which needs about 60,000 square feet; Dorsey & Whitney LLP, 35,000 square feet; and Shugart, Thompson & Kilroy PC, 35,000 square feet. Additionally, Isaacson Rosenbaum PC plans to relocate to 42,000 square feet at 1001 17th St., the sources said. The law firms did not return phone calls for comment. Townsend and Townsend and Crew LLP is moving to the Opus Northwest project at 1400 Wewatta and 1401 Wynkoop streets. Darin Gibby, the firm's managing partner, said it has run out of room at its Tabor Center office. Tom Lee, senior managing director of Frederick Ross Co., said

some of the firms are looking for more space because they're growing. "All these law firms are talking about acquiring other law firms," he said. The other reason they're searching for space in new buildings is because it helps to recruit and retain employees. "There's a window right now with new product coming online at the same time as some of the major law firm's leases expire," he said. **(Denver Post)**

Commercial Real Estate Goes on Hold

The U.S. financial crisis hit metro Denver's commercial real estate market hard in the third quarter, as companies held off on major real estate decisions and investors had a tougher time getting financing, according to a new CB Richard Ellis Inc. report. But Denver is holding steady compared to other markets in the country, where vacancies are higher and rents are decreasing, the report said. "More businesses are looking to Denver as a [cost-effective] alternative. ... Several companies have already made long-term commitments that will benefit us down the road, like ConocoPhillips, Charles Schwab and Vestas Wind Systems," Ethan Reed, CBRE's Denver marketing and research manager, said in the report. Reed added that "excellent economic fundamentals [including relatively low unemployment and a stabilizing housing market] are expected to help Denver weather the storm better than most markets." Office and industrial space metro-wide had positive absorption of vacant space in the third period, while retail space such as shopping centers and malls had negative absorption. Retail space is more consumer-oriented than other commercial property types and, therefore, more affected by consumer problems such as housing foreclosures. But Colorado's improving housing market will benefit retail real estate, according to the report. The state's foreclosure rate has shown significant improvement this year, and many analysts believe the Denver-area housing market is ahead of the national cycle for recovery. In September, resales of single-family homes and condos in metro Denver increased 14.13 percent to 4,265 from September 2007, according to Metrolist Inc., the Denver area's Multiple Listing Service. "This cycle is tough while we're going through it, but we'll pull out of it," said Glenn Anderson, CBRE's local senior vice president for retail brokerage service. Vacancy rates increased for all three product types, but despite that softening, average rental rates rose. Many investors don't know how to react to the latest in the U.S. financial debacle — the collapse of Lehman Brothers Holdings Inc. and the federal government's \$700 billion bailout of the financial industry — so they're not doing anything, according to investment experts. Some investors have the funding to buy now, but are waiting for property values to drop. Denver's central business district (CBD) especially remains attractive to investors, said Mary Sullivan, executive vice president and investment broker at CBRE's Denver branch. "Basically, the deals already under contract were the ones getting done in the third quarter. ... The CBD is still our very best market, one of the few to attract capital," Sullivan said. Downtown transactions for the period included the sale of the 170,000-square-foot Writer Square office/retail property for \$58.4 million. The 189-room Hotel Monaco sold for a premium \$61.8 million, or \$327,131 per room, to institutional buyer Massachusetts Mutual Life Insurance Co.'s real estate arm. The metro area had 2.2 million square feet of new office space under construction in the third period, more than half of it — 1.5 million square feet — located downtown. Developers with projects ready to go are having a harder time moving forward because of the greater difficulty obtaining debt, and are delaying those buildings, the report said. Callahan Capital Partners LLC of Chicago — which hoped to break ground on its 38-story,

750,000-square-foot Two Tabor Center office building in downtown Denver in early 2008 — still hadn't gotten its construction loan as of the third quarter. Higher construction-material costs also remain an impediment to development. Projects that proceed likely will require pre-leasing, and may obtain equity and debt partners.

Office market

Metro Denver office space — traditionally the market's strongest commercial real estate product type — saw its total vacancy rate, including sublease space, increase to 15 percent in the third quarter from the same period of 2007. The CBRE report didn't include total vacancy rate, in any product type, for the same period of '07 for comparison sake. The average asking office rental rate inched up — to \$20.99 per square foot per year in the third quarter from roughly \$20.60 for the same period last year — but rent growth is slowing, the report said. "The national economy has finally caught up to Denver," said Chris Phenicie, senior vice president and office leasing broker at CBRE in Denver. "But have our fundamentals changed? No. Have office rental rates dropped? No. Have we seen tenants be cautious or frozen? Yes." Phenicie is optimistic, though, because companies still have real estate game plans for the future, and that "gives me confidence," he said. The metro area's dominant submarket — downtown Denver — had one of the office market's lowest total vacancy rates for the period, at 13.3 percent, and its highest average asking rent, at \$26.78 a foot. But downtown also had negative absorption of 110,079 square feet of existing space, largely because of the 65,000 square feet of temporary space the Democratic National Convention Committee vacated at 1560 Broadway after the Aug. 25-28 convention. The area's other major office submarket — the southeastern suburbs around the Denver Tech Center — reported a 15.3 percent total vacancy rate and average rent of \$20.76 a foot. As demand weakens, landlords will be more likely to give concessions such as free rent and tenant-improvement packages, rather than lower asking rents, the report said.

Industrial market

Metro Denver's industrial real estate market, with its warehouses and distribution centers, stayed stable in the third period because it's a regional distribution hub for the Rocky Mountain West, the CBRE report said. It also attracts strong international, national and local business. "The industrial market is doing just fine," said Jim Bolt, CBRE executive vice president and industrial broker. Industrial buildings' total third-quarter vacancy rate increased to 7.4 percent, which is still healthy. Average asking rental rate also increased, to \$6.41 per square foot to a little more than \$6 a foot for the same quarter last year. Net absorption of existing space remained positive for the period, but fell to 287,530 square feet from more than 1.5 million in last year's third quarter. Major lease deals included Alston Power Inc.'s 103,696-square-foot expansion at Denver's Mile High Business Center and Wagner Industries Inc.'s 99,750 square feet at 6795 E. Sandown Road in Denver. Roughly 1 million square feet of new industrial space was completed in the third quarter, with another 1.9 million square feet still under construction. But slower demand because of the national economy and higher costs of construction materials will make the pipeline for future new construction "much smaller," the report said.

Retail market

The total retail vacancy rate continued to increase in the third period, to 7.5 percent, but the average asking lease rate still rose to \$18.04 per square foot per year from nearly \$16 for the same period last year. The retail market had negative absorption of 113,000 square feet in the third quarter, compared to positive absorption of nearly 200,000 square feet in the same period of '07. Most retailers leaving space are small independents, but major chains — from Albertson's, Linens-N-Things and Circuit City to Village Inn and Bennigan's restaurants — have vacated space as well. "Retail, like the rest of the market, is very slow and very challenging," Anderson said. "Not as many tenants are doing deals, money is tough to come by and expensive, and loan-to-value requirements are way up." (**Denver Business Journal**)

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	1.50	2.00	4.75
3 MONTH LIBOR	4.42	3.06	5.20
PRIME RATE	4.50	5.00	7.75
10 YEAR TREASURY	3.98	3.43	4.50
30 YEAR TREASURY	4.32	4.05	4.77