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### Northwest Office Market Flat in Third Quarter

The northwest corridor office submarket was flat in the third quarter and is expected to remain so over the next several months. The largest lease done during the quarter was for approximately 15,000 square feet that was on the market for sublease in El Dorado Ridge I in Broomfield. It wasn't a traditional office lease in that it went to an office suites provider, Office Evolution. That compares with the second quarter, in which there were three leases in the 20,000-sf range. "The bottom line is the office market goes with employment. We need jobs," said CB Richard Ellis broker Frank Kelley, who foresees a flat market for the next 12 months. CBRE's third-quarter MarketView on the Denver office market put the northwest corridor's vacancy rate for direct office space at 16.3 percent, compared with 16.1 percent in the second quarter and 15.7 percent for the Denver market as a whole. The rate for Class A space was only 8.3 percent, with tenants "stepping up" to get nicer buildings at rates that are lower than they were along the U.S. Highway 36 corridor in 2003-2004, Kelley said. **(Colorado Real Estate Journal)**

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### Colorado Unemployment Drops to 7%

Unemployment in Colorado fell for a second month in September, to 7.0 percent, the state's Department of Labor and Employment reported Wednesday. "The worst is behind us here in Colorado," said Donald Mares, the department's executive director. Mares added in a statement that "the trend of fewer job losses should continue in coming months." The 7.0 percent jobless rate, seasonally adjusted, is the lowest reported by the state since January, and is 2.8 points below the national rate for September of 9.8 percent. Colorado's unemployment rate was 7.3 percent in August and 7.8 percent in July. It was 7.6 percent in June and in May, 7.4 percent in April, 7.5 percent in March, 7.2 percent in February and 6.6 percent in January. Still, the September jobless rate is two percentage points higher than the 5.0 percent rate in September 2008. The number of unemployed people unable to find jobs in Colorado was 187,400 in September, down 9,800 from August, the labor department said. Total employment in the state fell by 2,300 in September from the previous month, to 2,484,000 million, but the unemployment rate came down because the total civilian work force -- those available to work in the state -- declined by 12,100 people, to 2,671,000 million, seasonally adjusted. It was not immediately clear how much of the work-force decline was due in part to frustrated jobless workers giving up their search for employment. In September 2008, total employment statewide was 2,596,900, the civilian labor force was 2,732,800 and the number of unemployed was 135,900, the state reported. In the Denver-Aurora-Boulder area, the seasonally adjusted unemployment rate was 7.3 percent in September, down from 7.6 percent in August. It was 5.2 percent in September 2008. Unemployment declined in 51 of Colorado's 64 counties in September. **(Denver Business Journal)**

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### FDIC Frets Over CRE Loan Losses

The nation's banking system continues to plod along on a knife-edge between survival and failure, and commercial real estate (CRE) loans could become the heaviest anchor weighing down an economic recovery. In testimony Oct. 14 before

the U.S. Senate Subcommittee on Financial Institutions, Committee on Banking, Housing and Urban Affairs, Federal Deposit Insurance Corp. Chairman Sheila Bair made a special point to call out CRE loans as a major trouble area: "The most prominent area of risk for rising credit losses at FDIC-insured institutions during the next several quarters is in CRE lending. While financing vehicles such as commercial mortgage-backed securities (CMBS) have emerged as significant CRE funding sources in recent years, FDIC-insured institutions still hold the largest share of commercial mortgage debt outstanding, and their exposure to CRE loans stands at an historic high. As of June, CRE loans backed by nonfarm, nonresidential properties totaled almost \$1.1 trillion, or 14.2% of total loans and leases. The deep recession, in combination with ongoing credit market disruptions for market-based CRE financing, has made this a particularly challenging environment for commercial real estate. The loss of more than 7 million jobs since the onset of the recession has reduced demand for office space and other CRE property types, leading to deterioration in fundamental factors such as rental rates and vacancy rates. Amid weak fundamentals, investors have been re-evaluating their required rate of return on commercial properties, leading to a sharp rise in "cap rates" and lower market valuations for commercial properties. Finally, the virtual shutdown of CMBS issuance in the wake of last year's financial crisis has made financing harder to obtain. Large volumes of CRE loans are scheduled to roll over in coming quarters, and falling property prices will make it more difficult for some borrowers to renew their financing. Outside of construction portfolios, losses on loans backed by CRE properties have been modest to this point. Net charge-offs on loans backed by nonfarm, nonresidential properties have been just \$6.2 billion over the past two years. Over this period, however, the noncurrent loan ratio in this category has quadrupled, and we expect it to rise further as more CRE loans come due over the next few years. The ultimate scale of losses in the CRE loan portfolio will very much depend on the pace of recovery in the U.S. economy and financial markets during that time." CRE loans held by the nation's nearly 7,500 community banks – those with less than \$1 billion in total assets – also are worrisome to Bair. Those banks hold about 11% of total industry assets. "...the greatest exposures faced by community banks may relate to construction loans and other CRE loans," said Bair. "These loans made up over 43% of community bank portfolios, and the average ratio of CRE loans to total capital was above 280%." So far in 2009, 98 banks have failed, compared to 25 in all of 2008 and only 10 failures from 2003-2007. These failures have put a strain on the FDIC's own finances. Its deposit insurance fund had dwindled to a balance of only \$10 billion on June 30, and dipped negative in the third quarter. "The FDIC estimates that as of September 30, 2009, both the fund balance and the reserve ratio were negative after reserving for projected losses over the next 12 months, though our cash position remained positive," said Bair. "This is not the first time that a fund balance has been negative. The FDIC reported a negative fund balance during the last banking crisis in the late 1980s and early 1990s. Because the FDIC has many potential sources of cash, a negative fund balance does not affect the FDIC's ability to protect insured depositors or promptly resolve failed institutions." Bair noted that the FDIC has a \$100 billion line of credit with the U.S. Treasury and can tap into an additional \$500 billion if approved by the Federal Reserve. It plans to replenish some of its funding by increasing the assessment it charges member banks by 3 basis points and also having banks prepay up to three years of their risk-based assessments, which would bring in \$45 billion to cover short-term liquidity needs. FDIC-insured institutions reported an aggregate net loss of \$3.7 billion in second quarter 2009, due to increased expenses for bad loans, higher noninterest expenses

and a one-time loss related to revaluation of assets that were previously reported off balance sheet. In looking ahead to further losses, commercial banks and savings institutions added \$67 billion to their reserves against loan losses during the quarter. **(National Real Estate Investor/Ben Johnson)**

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### **Leading Economic Indicators Up 1%**

The Conference Board said its index of leading economic indicators was up 1 percent to 103.5 – the highest level in two years. That follows a 0.4 percent gain in August and a 1 percent rise in July. The index, which is used to gauge the U.S. economy's prospects, was up for the sixth straight month in September. "These numbers strongly suggest that a recovery is developing," said Ken Goldstein, an economist at The Conference Board. "However, the intensity of that recovery will depend on how much, and how soon, demand picks up." **(Denver Business Journal)**

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	<b>CURRENT</b>	<b>1 MONTH PRIOR</b>	<b>1 YEAR PRIOR</b>
<b>FED FUNDS RATE</b>	.25	.25	1.50
<b>3 MONTH LIBOR</b>	.28	.28	3.54
<b>PRIME RATE</b>	3.25	3.25	4.50
<b>10 YEAR TREASURY</b>	3.51	3.41	3.62
<b>30 YEAR TREASURY</b>	4.29	4.20	4.05