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### Financial Fallout Affecting Local Real Estate Financing

The collapse of Lehman Brothers Holdings Inc., the bailout of mortgage guarantors such as Fannie Mae, and further erosion of capital markets already reeling from subprime fallout could hurt Denver-area real estate development and investment into 2010, local real estate experts predict. Buildings already on the market for sale, including downtown Denver trophy skyscraper 1801 California, are expected to take longer to sell. But institutional deals, such as 1801 California and a Prudential Insurance Co. of America fund's recent sale of downtown Denver's 189-room Hotel Monaco to a Mass Mutual Financial Group branch for \$61.83 million, or \$327,131 a room, are more likely to happen, experts said. "Institutions can buy with cash, if they have to," said Bruce Alexander, president and CEO of VectraBank Colorado, and a real estate lender for 30 years. "They have been accumulating cash because they don't have anything to buy." Planned new developments such as Chicago-based Callahan Capital Partners LLC's 750,000-square-foot, 38-story Two Tabor Center office building also will take longer because of the even greater difficulty of getting construction loans. Callahan has been working since 2007 to get construction debt for the building, and still hadn't gotten it as of late August. Banks already are asking for more equity and preleasing or presale commitments on construction loans for developments such as office buildings and condominiums, according to Denver-area lenders. Banks want borrowers with good credit, and strong, long-term relationships with them. Many banks also require a borrower to have a permanent loan commitment in place before they will make a construction loan, and permanent debt sources such as commercial mortgage-backed securities (CMBS) have dried up for the time being. "Lots of projects are just not happening," Alexander said. "It's not just from lack of debt, but because that debt is more expensive by 100, 150 or even 250 basis points." A basis point is one-hundredth of a percentage point. The higher cost of construction materials also has shelved projects, Alexander said. Some projects will get completed, but others may find opportunistic buyers or banks that will sell them at a discount, according to James Markus, partner at Denver law firm Block Markus & Williams LLC. "It's really a function of where [a project] is," Markus said, referring to geographic location. Downtown's \$350 million Four Seasons Denver high-rise project, including 230 hotel rooms and 102 condominiums, broke ground in September 2007 and is scheduled for completion in spring 2010, according to developer 1111 Tower LLC of Denver. The condo component — with units listed at \$895,000 to \$7.5 million — currently is 50 percent presold, said 1111 Tower partner Michael Brenneman. The project obtained roughly \$200 million in debt from Cairn Financial Products, part of London-based asset manager Cairn Capital Ltd., before it started construction. The development had to meet condo presale criteria to get the loan, and has had no more presale thresholds, according to 1111 Tower. "We feel very fortunate, in this environment, to be on track," Brenneman said. Despite the deepening credit crunch, banks such as VectraBank Colorado and FirstBank in Lakewood say they're lending on real estate. "We're seeing [loan] volumes remain pretty good for this year," said John Ikard, FirstBank president and CEO. "What we're not seeing is the really big deals, the big apartment construction deals, or the commercial deals or the residential deals." Ikard also is getting calls from national developers, including apartment builders, looking for local participation in national bank loans. FirstBank, however, isn't doing many of those deals, Ikard said, because it wants not only to make a loan, but also to form a relationship with the borrower. "That's tough to do with a national-type company," he said. A Denver-

based private lender thinks commercial real estate lending will return to the old days of "real underwriting and higher requirements" by lenders. More equity will be required, and there will be stronger guarantees a loan will be repaid, according to Jay Rollins, president of JCR Capital. "We have seen a cosmic change ... The securitization business as we know it is gone," Rollins said. "The whole idea of Wall Street creating products for cheaper credit is gone." With banks and institutions such as life insurance companies cracking down on lending criteria, sources for riskier loans will include private lenders such as JCR. "But the price tag will feel high, because our money comes from investors seeking 12 to 18 percent return," Rollins said. Caution is the operative word with all capital sources these days, according to Doug Jones, president and owner of The Jones Realty Group real estate investment and development services firm of Denver. "It's difficult to find credit that makes sense, or is even available. ... There's still a lot of equity out there, but it's also a lot more cautious today," he said. Jones, and other commercial real estate experts, think credit probably will loosen up at the end of 2009 or in 2010. In the meantime, commercial real estate professionals haven't seen the likes of what's happening in capital markets in a long time, if ever. "I've been doing this for 30 years, and have been through several cycles, but I've never seen anything like this," Alexander said. "The most recent comparison is to the [savings and loan/Resolution Trust Corp.] debacle, which was painful." In 1992, the film crew making "Lethal Weapon 3" blew up an abandoned housing development taken over by the RTC in Lancaster, Calif., that nobody else would buy. "The highest and best use for some of [those S&L properties] was to sell them to Hollywood to blow up," said Richard Jenkins, managing director of the Denver office of New York-based turnaround specialist Alvarez & Marsal Holdings LLC. **(Denver Business Journal)**

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### **Louisville Building Sells for \$16.8 Million**

A New York City-based property investment group has purchased a 107,468-square-foot engineering and research building at the Centennial Valley Business Park for \$16.8 million. Lexington Realty Trust (NYSE:LXP) purchased the building at 1315 W. Century Drive, which is occupied by Global Healthcare Exchange LLC. Lexington Realty Trust owns about 50 million square feet of buildings in 44 states. It owns other properties in Colorado, but this is its first foray into the Boulder Valley. "There are good things happening in the Boulder/Louisville market, and we think its an attractive and growing market," said Sam Salant, senior vice president with Lexington Realty Trust. He cited the influx of renewable energy companies in the area, along with ConocoPhillips' plans for a Colorado campus in Louisville as positive signs of growth. "The building also fits our typical investment profile with a single tenant," he said. Global Healthcare Exchange, a Louisville-based sales software and service provider to the health-care industry, is leasing a majority of the building through 2017. Niwot-based Sentinel Properties LLC, headed by Kevin Mulshine, sold the building to Lexington Realty Trust. Mulshine had purchased the building in January 2007 - when it was vacant - for \$8,325,000. In February 2007, the building was renovated for Global Healthcare Exchange, which moved its headquarters from Westminster to Louisville. **(Boulder County Business Report)**

### **DPC Trades Parkway Center for \$12.4 Million**

DPC Development Co. acquired the Parkway Center Office Building at 1391 N. Speer Blvd. in Denver from Archon Group LP for \$12.42 million, or approximately \$94 per square foot. The 132,313-square-foot office building is at the corner of West 14th Avenue and North Speer Boulevard. It was completed in 1982 and close to a fifth of the property was vacant at time of sale. Brad Cohen, David Shapiro, Kevin McKinnon and Jonathan Jones of Transwestern represented the seller, while the buyer represented itself. **(CoStar)**

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### **Chicago Firm Nears Deal for World Trade Center**

Chicago-based LaSalle Investment Management is close to buying the two-building World Trade Center office complex in downtown Denver. Reportedly, LaSalle, which has \$54.1 billion in assets under management, would pay the owner, Transwestern Investment Co., \$164.6 million, or \$208 per square foot. That is 74 percent more than the biggest commercial real estate sale in Denver so far this year, the \$94.5 million purchase of the Pavilions retail and entertainment center in downtown by the Gart family. It also is one of the few sales of this magnitude in the country during this unprecedented credit crisis. "There are some deals in the \$45 million to \$75 million range, but when you hit that magic \$100 million, sales have stopped" across the country, John C. Santora, the CEO of the Americas for Cushman & Wakefield told the Rocky earlier this week. The World Trade Center sale is being handled by Mike Winn and Tim Richey of Cushman & Wakefield. Winn was out of the office and Richey did not return a call on Thursday. Sandi Schroeder, the general manager of the World Trade Center buildings - a 28-story building at 1675 Broadway and a 29-story tower at 1625 Broadway - sent an e-mail to tenants saying that LaSalle Investments was purchasing the towers and they will be managed by its "sister" company, Jones Lang LaSalle. The sale should close within two weeks. A spokeswoman for Jones Lang LaSalle confirmed a deal is in the works, but declined to give details. The center, with a total of 791,431 square feet, was under contract last year for a reported \$184 million, but the deal fell apart when the buyer, New York-based Broadway Partners, couldn't get debt financing. Transwestern paid \$116 million for the two towers in 2006. The current sale involves LaSalle assuming a loan from Transwestern, according to one broker. Last month, a different division, Jones Lang LaSalle Hotels, brokered the sale of the 189-room Hotel Monaco to Cornerstone Real Estate Advisers of Hartford, Conn. Although the company did not release the sales price, Hotel Monaco sold for \$61.83 million, according to public records. That equates to more than \$325,000 per room, one of the highest amounts ever paid for a hotel in Denver. **(Rocky Mountain News)**

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### **Credit Markets Still Tight After Bailout Approval**

The stranglehold on the credit markets remained tight Friday after the House approved a revised \$700 billion financial bailout, with investors nervous that the plan is at most a first step in repairing the faltering U.S. economy. Anxiety among investors kept Treasury bill demand high; the yield on the 3-month bill slipped below half a percent. Most market participants have been regarding the rescue plan approved by the Senate earlier this week as a medicine for what's ailing the financial

system, but not a cure-all. "At best, we can hope that it stems some of the more intense risk from the credit crisis. It prevents things from spiraling out of hand here," said JPMorgan Chase economist Michael Feroli. Some are worried the plan will not work at all. "Nobody knows how it's going to succeed," said Howard Simons, strategist with Bianco Research in Chicago. "It seems the American public had better sense than Wall Street and Washington—the American public said, don't throw good money after bad." The Treasury will buy banks' risky mortgage-backed assets in an effort to alleviate investors' worries about the institutions' solvency and free them up to do more lending. But even if those efforts succeed, the effects will be far from instantaneous. And borrowing could remain very expensive for some time. With the economy in such a weak state, lending to consumers and businesses will still appear risky until certain factors—particularly employment and the housing market—improve. The Labor Department said employers cut payrolls by 159,000 in September, the largest loss in more than five years, while unemployment remained at 6.1 percent. Layoffs are likely to keep piling up if it remains tough to find credit. Spectrum Yarns Inc., a North Carolina textile company, said it closed two plants and laid off 200 workers this week because it got turned down by a North Carolina bank, a New York finance company, and several private lenders. It's also going to get even harder for individuals to get home loans. Banks have gotten more stringent in their mortgage underwriting, and Wisconsin's affordable-housing agency recently suspended making loans for single-family homes because it was unable to sell tax-exempt mortgage revenue bonds and raise capital. On Friday, the London Interbank Offered Rate, or LIBOR, for 3-month dollar loans rose to 4.33 percent from 4.21 percent Thursday. That bank-to-bank lending rate has been rising all week, showing that banks are growing less and less willing to lend out their cash for longer than overnight. LIBOR is tied to many consumer rates like adjustable-rate mortgages. In one promising sign, overnight lending has gotten significantly cheaper—LIBOR for overnight dollar loans plunged to a hair below 2 percent on Friday, the lowest rate in nearly four years, from 2.67 percent Thursday. That overnight rate is now below the Fed's key bank-to-bank overnight lending rate, known as the target fed funds rate, of 2 percent. It appears that central banks' decision to ramp up their lending to financial institutions over the past couple weeks is having a positive effect. But that's little solace to borrowers who need a loan for longer than overnight. Over the past week, the amount of short-term corporate debt known as commercial paper on the market has plunged. And banks and investment firms have borrowed in record amounts from the Federal Reserve's emergency lending facility. Money market mutual funds, usually the biggest buyers of commercial paper, have run for safety after a money market fund "broke the buck" two weeks ago due to its exposure to Lehman. When a fund breaks the buck, it does not have enough assets to cover every dollar invested in it. Instead of commercial paper, they've been investing in Treasury bills. "There's really no theme except the theme of survival," said John Spinello, bond strategist at Jefferies & Co., referring to the constricted trading in the credit markets Friday. The impact of the credit market seize-up has been widespread, affecting individuals, small businesses, large companies and municipalities. Gov. Arnold Schwarzenegger said Friday California might to take out short-term loans from the federal government if the markets don't loosen up. Also Friday, YRC Worldwide Inc., one of the nation's largest trucking companies, said it drew down \$325 million on a credit line to repay some debt that matures this year and next. After the House's vote Friday afternoon, the yield on the 3-month Treasury bill slipped to 0.49 percent from 0.70 percent late Thursday. There has been no let-up in demand for T-bills, seen as the safest assets around, even though

they are offering extremely low returns. There was little change in the strained credit default swap market, either, according to data from Phoenix Partners Group. Credit default swaps are essentially insurance policies against bond defaults; when rates are high, it means the market is betting on a higher probability of a company failing to pay back its loan. The stock market pulled back from the day's highs after the House passed the plan, but remained higher, drawing some investors out of longer-term Treasuries. The 2-year note fell 5/32 to 100 19/32, with a yield of 1.70 percent, up from 1.62 percent late Thursday. The 10-year note fell 15/32 to 102 19/32, and yielded 3.68 percent, up from 3.64 percent. The 30-year bond fell 8/32 to 105 21/32, and yielded 4.17 percent, up from 4.16 percent. **(Denver Post)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
<b>FED FUNDS RATE</b>	2.00	2.00	4.75
<b>3 MONTH LIBOR</b>	4.33	2.81	5.24
<b>PRIME RATE</b>	5.00	5.00	7.75
<b>10 YEAR TREASURY</b>	3.63	3.71	4.52
<b>30 YEAR TREASURY</b>	4.11	4.32	4.76

