

November 17, 2008

A Denver Based Commercial Real Estate Investment and Management Company
Contact Ken Gillis at 303-407-8715

Study: CRE Investments Are "Go"

According to a new study by J.E. Robert Cos., a majority of institutional investors are poised to grow their future investments in commercial properties, particularly in the United States. Most of the respondents, which included decision-makers at pension funds, financial institutions, endowments and foundations, rated private equity as their preferred investment vehicle, followed by real estate investment trusts and direct investments. Respondents also favored investments in America (44%) over Asia (30%), Europe (18%), Latin America (7%) and the Middle East (1%). The study was conducted by Siegel+Gale in September. **(National Real Estate Investor)**

...

Mild Recession Seen for Denver in 2009

The Denver-area economy will slip into a "mild recession" next year, Scott Anderson, a senior economist at Wells Fargo & Co., said Friday. Anderson, a keynote speaker at the 2008 Expo Fall Forecast, sponsored by the Franklin L. Burns School of Real Estate and Construction Management at the University of Denver, predicted that jobs in the Denver area will contract by 0.4 percent next year. By comparison, job growth was 0.9 percent in the Denver area in the 12 months that ended in September, he said. In addition, the Denver area has not been replacing the high-paying jobs it lost during the tech crash of 2001 and 2002, he said. Instead, education/health services and government were the two biggest sectors that showed job gains, he said. And there likely will be fewer government jobs going forward, so even lower-paying jobs will be created in 2009. Meanwhile, Anderson doesn't expect the Denver-area housing market to recover until 2010, with another 10 percent drop in prices to come. Denver's housing market, however, is faring far better than the national housing scene, he said. And the silver lining to dropping prices in the Denver area is that housing affordability is at its highest level since the late 1990s. Nationally, there is a great deal of uncertainty, he said. Some of the national economists who had been very bullish, are now extremely pessimistic, he said. "It's going to be a tough year" in 2009, Anderson said. **(Rocky Mountain News)**

...

Inertia of Buyers and Sellers to End in 2009, Predicts Grubb & Ellis

An end is in sight for the depressed investment sales market, a healthy sign in an otherwise increasingly unhealthy commercial real estate industry, according to brokerage firm Grubb & Ellis. As more commercial real estate loans expire in 2009 and property fundamentals deteriorate, the volume of asset sales is expected to accelerate, particularly during the second half of the year. The expected upturn in property sales will lead to greater clarity on pricing, forecasts Grubb & Ellis. Speaking at a media briefing in New York on Tuesday, Glen Esnard, president of the brokerage's capital markets division, emphasized that sales activity will inevitably climb as a rising tide of balloon payments on loans comes due. Transaction volume for office, industrial, retail and multifamily properties is down 67% to about \$112 billion for the first three quarters of 2008 compared with the same period a year ago, according to Real Capital Analytics. In 2009, borrowers will need to refinance about

\$36 billion of loans that were originated and packaged as commercial mortgage-backed securities. If property owners can't obtain refinancing on favorable terms, the assets will likely have to be sold. Currently, transaction volume is insufficient to obtain a clear picture on market pricing, according to Esnard. Most completed transactions this year have been on behalf of sellers who have raised cash through the sale of Class-A caliber assets, rather than from forced sales of lower-quality assets. Macklowe Properties' sale of the trophy General Motors building in New York for about \$2.4 billion represents one such transaction. The current level of activity doesn't reflect the "overall market valuation across a spectrum of assets in various markets," according to Esnard. He expects transaction activity to increase as much as 15% in 2009. Toward the third and fourth quarter of 2009, there will be as much as a 30% increase in transaction activity over current levels. Meanwhile, there is a growing consensus that commercial real estate prices will further decline from their current levels. Goldman Sachs and JPMorgan Chase & Co. estimate that the average capitalization rate — or initial return based on the purchase price — will ultimately rise to the historical average of 9.5%, up from the current level of approximately 6%. Bob Bach, chief economist with Grubb & Ellis, forecasts that U.S. gross domestic product will be on the rebound during the second half of 2009, resulting in an annualized GDP growth rate of 1%. Even after the economy rebounds, leasing market fundamentals aren't expected to improve significantly until 2010 because commercial real estate leasing activity lags the economy. Leasing activity will also lag improvement in the investment sales market, which is expected to be more active in 2009 as distressed properties come on the market next year and fuel transaction volume. The New York office market, which is at the epicenter of the financial services meltdown, is projected to experience a 7% to 8% annual decline in asking rents in 2009 and 2010 projects David Arena, president of Grubb & Ellis New York, In addition, net effective rents will dip 10% to 15% over this period as landlords offer more generous incentives to lure tenants. The vacancy rate in the New York office market will reach 9% over the next two years, up from current levels of about 6.3%, according to Grubb & Ellis. And the market's availability rate, which takes into account space coming on to the market in the next 12 months, will spike to as much as 13%, rising from the current levels of 10%. To put those property performance figures into perspective, asking rents fell as much as 8% annually in previous downturns. And in the 1990 recession, the New York office market's vacancy rate hit a historical high of 16.8%. New office supply in the development pipeline is at modest levels, which ultimately could help blunt the blow to landlords. According to Grubb & Ellis, new office supply of about 2 million sq. ft. will be added to the New York market in 2008. And by 2010, an additional 3 million sq. ft. of new office space is projected to be added. **(National Real Estate Investor/Poonkulali Thangavelu)**

...

'Big Ideas' Sought for Neglected Downtown Area

A plan to transform a vastly underused 11-block area of the upper end of downtown Denver is quickly gaining momentum. Already, hundreds of millions of dollars of private investments are planned or on the drawing board for the area. Tentatively called the Tremont District, the area is bordered by 14th Street, California Street, the 16th Street Mall, Broadway and Colfax Avenue. Revitalization plans also would encompass a larger "area of interest" on adjacent blocks. The Tremont District is part of what was formerly known as the Silver Triangle, and both are considered

some of the most forlorn and neglected parts of downtown. The districts have been "two of the most underdeveloped areas of the Central Business District over the past three decades. It has been characterized by numerous surface parking lots, low-rise and often poorly maintained buildings, mixed with a few well-maintained low-rise historic structures, expansive blank walls on larger buildings, and sidewalks devoid of many amenities," according to a document prepared by the Downtown Denver Partnership. But some parts of the district already are hopping:

- The Denver Pavilions, purchased by the Gart family and ING Clarion this year for \$94.5 million, is poised for a \$25 million upgrade.
- Brookfield Properties is looking at developing a high-rise office tower on property it owns behind the Pavilions. The project could cost \$275 million. In addition, the company's New York office is considering a hotel on an adjacent parking lot that Brookfield bought from the estate of W. Scott Moore, said Bill Lucas, of the Denver office of Brookfield.
- The former Adam's Mark hotel is undergoing a \$70 million renovation, following its purchase by Chartres Lodging.
- Shames-Makovsky Realty bought and is renovating the former Fontius building, now the Sage building. The company also will develop surface parking lots near the historic building.
- Xcel Energy is building a new headquarters building at the other end of downtown and at some point will sell its old building, which will be redeveloped.
- RedPeak Properties, the owner of the 1600 Glenarm Place luxury apartment tower across the mall from the Pavilions, has land in the district it would like to develop.

As early as Monday, the nonprofit Downtown Denver Partnership may issue a "request for proposal" seeking "big ideas" from urban design or urban planning firms to come up with a strategy to make the area more enticing. The urban design and transportation study is expected to cost about \$200,000. "I think we need to determine how all of this comes together before massive developments begin," said John Desmond, vice president of urban planning and environment for the partnership. Ideas to bolster the identity of the area could include better and consistent signs and street lights; wider sidewalks to make it more pedestrian-friendly; adding bike lanes; planting more trees and landscaping; encouraging ground-floor retail, office or residential in new buildings; and turning some of the "named" streets into two-way from one-way streets, Desmond said. But there will be limitations. "We have to recognize that 15th Street will remain an important vehicular and bus transit street," Desmond said. "But there are ways to make it more pedestrian friendly." "This is pretty cool," said Tami Door, president and CEO of the partnership, which will be working with major property owners on the fledgling district, as well as the public works and planning departments at the city. "We've had a few meetings with the major stake holders in the area," Door said. "We've been getting together to create a shared vision, and create complimentary uses." Lucas, of Brookfield, said he could imagine the proposed office building, and the

hotel, if it is built, to physically connect to the Pavilions, for example. Makovsky, however, said the district is "in such an early stage of its evolution, it is hard to draw any conclusions yet." **(Rocky Mountain News)**

Jobless Claims Jump Unexpectedly to 7-Year High

The number of newly laid-off individuals seeking unemployment benefits has jumped to a level not seen since just after the Sept. 11, 2001, terrorist attacks, as companies cut more jobs in the face of a slowing economy. The Labor Department on Thursday reported that jobless claims last week increased by 32,000 to a seasonally adjusted 516,000. That nearly matched the 517,000 claims reported seven years ago, and is only the second time since 1992 that claims have topped 500,000. The total also was much higher than analysts expected. Wall Street economists surveyed by Thomson Reuters expected claims to increase only slightly to 484,000. Initial claims from two weeks ago were revised upward Thursday by 3,000 to 484,000. The increase puts jobless claims at levels similar to the recession of the early 1990s. The four-week average of claims, which smooths out fluctuations, increased to 491,000, the highest in more than 17 years. Jobless claims above 400,000 are considered a sign of recession. A year ago, claims stood at 338,000. The number of individuals continuing to seek unemployment benefits rose to 3.9 million, above analysts' estimates of 3.85 million. That's the highest total since January 1983, though the labor market has grown by about half since then. The continuing claims tally is for the week ending Nov. 1, one week behind the initial claims report. Recipients stop receiving benefits when they find another job or their benefits run out. The increase in continuing claims indicates that laid-off workers are taking longer to find a new job. Economists consider jobless claims a timely, if volatile, indication of how rapidly companies are laying off workers. Employees who quit or are fired for cause are not eligible for benefits. Thursday's report likely "reflects a genuine acceleration in the pace of layoffs," Ian Shepherdson, chief U.S. economist for consulting firm High Frequency Economics, wrote in a note to clients. The report could also affect the political debate in Congress over whether to enact another economic stimulus package and what it should include. Democrats want to add an extension of unemployment benefits, which last 26 weeks. Initial claims have been driven higher in the past several months by a slowing economy hit by the financial crisis, and cutbacks in consumer and business spending. Claims also rose in late September due to the impact of Hurricanes Ike and Gustav, but the department said last week that the impact of the hurricanes has passed. The rise in claims has been mirrored by an increase in the unemployment rate. Unemployment reached a 14-year high of 6.5 percent in October, the Labor Department said last week, as the ranks of the unemployed swelled to 10.1 million. Several companies recently have announced mass layoffs, including Morgan Stanley, General Motors Corp., Ford Motor Co., and Fidelity Investments. **(Denver Post)**

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	1.00	1.50	4.50
3 MONTH LIBOR	2.24	4.64	4.88
PRIME RATE	4.00	4.50	7.50
10 YEAR TREASURY	3.72	3.95	4.16
30 YEAR TREASURY	4.22	4.20	4.54

