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

Sublease Spike Dampens Office Outlook

As job losses mount and Corporate America downsizes its real estate needs, the amount of office sublease space is growing, a harbinger of rising vacancy and lower rents ahead. From June 2007 through September of this year, tenants added 18.22 million sq. ft. of office space to the inventory available for sublease nationwide, a 25% increase, according to Grubb & Ellis. The increase in sublease inventory that began last year has been followed this year by an increase in space available for direct lease. Vacancy rates stood at 14.3% in the third quarter, up from 13% a year ago. "It's definitely a predictive indicator of softening in the general leasing environment," says Matthew Wright, client services manager in the Philadelphia office of Grubb & Ellis. "The confluence of increases in sublease space on the market and decreased tenant demand will certainly have an impact on softening of rental rates." For the U.S. office market, the second quarter of 2007 ended five years of positive absorption, the change in occupied space from one quarter to the next. Absorption was particularly robust from the second quarter of 2004 onward and ranged from 15 million sq. ft. to 25 million sq. ft. each quarter. That trend reversed course when negative absorption totaled 3 million sq. ft. in the second quarter of this year, followed by a negative 2.1 million sq. ft. in the third quarter, according to Wright, who co-authored a national sublease report that Grubb & Ellis published in September. "We saw subleasing begin to tick up in the third quarter of 2007 and negative absorption picked up in the second quarter of 2008," he says. U.S. job losses year-to-date through September totaled about 760,000, according to the Labor Department. The slowing economy is driving companies to downsize, whether by subleasing their unwanted space or simply letting leases expire, says Alan Pontious, senior vice president and managing director of office and industrial properties at Marcus & Millichap. "There's no disputing that sublease space is growing as a result of the environment we're in," he says. **(National Real Estate Investor/Matt Hudgins)**

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Economist: Colorado to Perform Better Than U.S.

Colorado likely will continue to outperform the national average, as the U.S. economy slogs through what is probably already a recession, a leading economist told a Denver audience at Keybank's 2009 economic forecast presentation on Thursday morning. "You're going to see some of the recession behaviors here — reductions in employment, weak housing sales and capital spending — but my presumption is that you're going to continue to outperform the national averages," Ken Mayland, president of Ohio-based ClearView Economics, said at the event in the Magnolia Hotel Ballroom in downtown Denver. Colorado has two major advantages, he said: relatively stable home prices and an attractive environment for business. "Colorado for the most part, as well as the other Mountain states, has largely avoided the extreme levels of foreclosures that we have seen in other areas," Mayland said. "Home prices are holding up better here." Colorado also ranks high on many scales that measure states' competitiveness on issues that matter to business, he said. For instance, Colorado ranked fourth on a recent competitiveness survey by the American Legislative Executive Council. The survey considered a broad array of issues, including sales and property taxes, corporate income tax rates, state minimum wage, quality of the legal system and worker compensation costs. Utah

ranked first on the same survey. Idaho ranked ninth, and Ohio ranked 47th, Mayland said. "Let me tell you, this makes a difference," Mayland said. "Business figures this out. Business wants to be involved in friendly environments for doing business, as opposed to hostile environments." As for the U.S. economy, Mayland forecast zero or negative gross domestic product growth for several quarters. Weekly initial claims for unemployment insurance, which are reported every Thursday by the Bureau of Labor Statistics (BLS), provide one barometer of economic growth, he said. If weekly claims remain below 350,000, the economy is doing well, Mayland said. But weekly claims of 400,000 or more signal an economic slowdown. On Thursday, the BLS reported weekly claims of 542,000, the highest level in 16 years. "That implies with almost virtual certainty that the economy has fallen into another recession," Mayland said. The U.S. unemployment rate likely will rise to at least 7.5 percent in reaction to the economic slowdown; in October, it was 6.5 percent, according to the BLS. But many indicators suggest that the U.S. economy may already be near a bottom, he said. For one thing, housing starts have declined by about two-thirds to around 1 million units, which has historically been the level at which the economy begins to recover. "They tend to bottom around current levels," Mayland said. "Housing starts don't go to zero, even during tough times ... the implication of that is that most of the necessary housing adjustment is already behind us. It's not in front of us. If we were facing such a decline, then yes, that would make an argument for a severe recession. But it's already behind us." Housing affordability also has improved, another positive factor, Mayland said. The Federal Reserve continues to lower interest rates, corporate balance sheets are strong, and inventories remain relatively lean, he said. Moreover, banks continue to lend and actually sharply increased their lending in October, Mayland said. On the other hand, nonresidential construction may be the economy's next major casualty, he said. Government spending likely will weaken as budget deficits grow. This may cause businesses to take a defensive posture and reduce capital spending. Recent federal government initiatives, including the \$700 billion bailout package Congress approved in October, don't represent a formal plan so much as a trial-and-error attempt to sort out the mess, he said. "You'd like to think there's a game plan here — if A doesn't work, we'll do B, and if B doesn't work we'll go to C," he said. "I'm sorry to say there is no game plan. If there were a game plan, we'd probably be at about X by now. This is ... trial and error, throwing stuff against the wall to see what sticks." But there are signs that some of the initiatives are beginning to work, he said. "My inclination is to think that they ultimately will work," he said. **(Denver Business Journal)**

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Colorado Feeling Pain of Business Layoffs

The number of unemployed Coloradans surged in October as businesses in the financial, manufacturing, construction and other sectors trimmed payrolls. Although Colorado continues to fare better than the rest of the country, the state is feeling the pain as consumers and businesses cut back sharply. "Colorado is not an island," said Alex Hall, chief economist with the state Department of Labor and Employment. "We cannot keep bucking the trend." A worsening economy snapped Colorado's string of 25 consecutive months of job increases. Even the broad employment category that includes lawyers, engineers and accountants, which had been one of the economy's strengths, sustained a decline last month. Among the Colorado companies to announce layoffs recently are ProLogis, MDC Holdings, Janus Capital and Western

Union. Sun Microsystems, which operates a large Broomfield campus, plans up to 6,000 job cuts. Colorado's jobless rate increased to 5.7 percent in October, the highest level in more than four years. That compared with an unemployment rate of 5.2 percent in the prior month and 3.9 percent in October 2007. Denver Mayor John Hickenlooper, giving a speech at an investment conference on Friday, said "we're seeing a lack of trust right now," as people stuff money under mattresses and banks show an unwillingness to lend. Hickenlooper went on to deliver an upbeat message, although he acknowledged Coloradans who have lost their jobs may not want to hear it and that "sometimes it seems impossible" to have confidence in the economy. "The truth is our optimism will be the road through this," he said at the Rockies Venture Club's Angel Capital Summit. "Whether you're getting your kitchen redone or beginning a new business, there hasn't been a better time in the last eight years than right now." Hickenlooper, who turned an empty warehouse into the Wynkoop Brewery after being laid off as a geologist earlier in his career, noted that tough times can lead to "tremendous opportunity." Still, as the mayor noted, it may be hard for many Coloradans to embrace a positive outlook. The number of people unsuccessfully looking for work climbed to nearly 156,000 in October from 107,000 a year ago as state businesses scaled back. After a streak of job gains going back more than two years, Colorado in September and October experienced a drop in the number of jobs from the previous months. The state declared Thursday "Keep Colorado Working Day" and set up regional job fairs. It could be a lot worse. Michigan and Rhode Island, for example, reported jobless rates of 9.3 percent last month, significantly higher than the national rate of 6.5 percent. In one positive sign, Colorado managed to create a modest number of new jobs compared with October 2007 levels. Colorado added 11,700 positions over the period, a 0.5 percent gain. The energy, educational and health services and government sectors recorded increases, offsetting job losses in other areas. The financial sector lost 2,600 positions in October compared with a year ago, and construction shed another 6,200 jobs. Professional and business services had its first decline in five years, slicing payrolls by 2,100. Job growth has slowed considerably from more than 2 percent at the start of the year. A strong energy sector, a resilient aerospace industry and a housing market that has held up better than most have contributed to Colorado's outperformance. The fact that Colorado's economy has continued to expand by that measure at a time when experts believe most of the country is in a recession has been heartening, but some economists fear the state may not be able to stay in positive territory for much longer. A recession and year-over-year employment declines in Colorado are "distinct possibilities" between now and the end of the year, said the economist Hall. **(Rocky Mountain News)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	1.00	1.50	4.50
3 MONTH LIBOR	2.16	3.83	5.02
PRIME RATE	4.00	4.50	7.50
10 YEAR TREASURY	3.20	3.60	4.01
30 YEAR TREASURY	3.70	4.06	4.45