

November 2, 2009

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

## Global Markets Begin to Recover as U.S. Lags Behind

Governments have taken extraordinary measures to jolt the global economy back to life and their efforts are working, according to a new report by Chicago-based brokerage Jones Lang LaSalle. The worst of the worldwide commercial property meltdown is over, the report concludes, and momentum is on the side of recovery. Through September, global corporate debt and equity issuance reached \$4.2 trillion, an increase of 35% over the same period in 2008, a pace that could set an all-time annual issuance record, according to the market study. In another promising sign, across Europe 30% of major markets reported an increase in leasing levels and improved stability of office rents for the third quarter of 2009, compared with the second quarter. Transactions also rose in Europe, with direct investment reaching 18 billion euros (\$26.9 billion) in the third quarter, a 40% increase over the second quarter. The unprecedented level of global government support aimed at restoring liquidity in the credit markets and invigorating demand has effectively halted an economic free-fall, the authors conclude. Steps have varied from stimulus packages to spur consumer spending to bolstering banks and insuring financial institutions against defaults. "The recovery is being led by emerging markets particularly in Asia-Pacific [regions] and most notably China," says Josh Gelormini, vice president with Jones Lang LaSalle's capital markets group. However, the U.S. in some respects has not kept pace in the recovery. Meanwhile, China is rising in importance with regard to its commercial real estate markets. Transaction volume has surged over the past two quarters and prices are rebounding sharply. "China is also becoming an important source of capital for real estate investment globally," says Gelormini. One example of that is China Investment Corp's recent decision to invest \$2 billion in three U.S. funds focused on distressed assets. Looking ahead, analysts expect China to continue to gain in importance on the global real estate map as its own market becomes more developed, and as the country grows as a source for real estate investment capital. In some cases, the encouraging signs are not so much positive gains in commercial real estate activity but rather less steep declines than in previous months. For instance, in Tokyo, rents declined 14% in the second quarter compared with the first quarter. But the rate of decline slowed to 9.7% in the third quarter. The slowing decline in rental rates was even more dramatic in Hong Kong, where rents dropped 13.4% in the second quarter and just 1.5% during the third quarter of 2009. In the United States, declines in office rents and net absorption were also less severe in the third quarter than in the second quarter. Gross asking rents declined 8.6% during the second quarter and dropped just 1.9% during the third quarter. But the fundamentals also showed signs of the distress that has plagued the U.S. office market during the recession and capital markets crisis. Total net absorption was negative 14.7 million sq. ft. in the second quarter, and improved to negative 9 million sq. ft. in the third quarter. Vacancy rates continued to rise as new inventory was delivered in several markets where net absorption already was negative. Overall vacancy reached 17.7% in the third quarter, according to Jones Lang LaSalle's report. In transactions as well as in commercial real estate fundamentals, the U.S. ranks behind Asian countries and Europe in its recovery. "In terms of capital markets transaction activity, the U.S. is lagging the global economy," says Gelormini. When it comes to major institutional investment destinations, the capital markets are recovering only very gradually in the U.S. Among the reasons for the lag, debt capital for large purchases is hard to get and is generally expensive with very tight underwriting. Although property price levels have

dropped enough to become quite attractive, most institutional investors are proceeding with caution in their return to the market. Concerns about still-deteriorating fundamentals and the prospects of a generally weak recovery with respect to employment and consumer spending are prompting caution among U.S. investors. Have we hit bottom? Beginning in this current fourth quarter, new markets will be added to those that have bottomed out in terms of occupancy and rental rates, says Gelormini. By the second half of 2010 or the first half of 2011, the majority of countries will likely have bottomed out and begun their recovery, as demonstrated in their real estate fundamentals. Employment levels, consumer spending and international trade trends over the next couple of quarters will determine the pace of improvement in office market fundamentals in 2010. For investors, continued healing of financial markets, quicker recognition of losses on the part of lenders and recapitalizations likely led by activity among publicly-traded REITs along with an increase in new lending among banks and increased confidence among institutional investors will determine the pace of improvement in sales transactions. By the end of 2009, it's likely that the worst will be over, according to the new study, and 2010 will bring improvement in the form of even less severe market declines and outright recovery at varying paces in countries around the world. **(National Real Estate Investor/Denise Kalette)**

\*\*\*

### **Economy Grows in 3Q, Signals End of Recession**

The economy grew at a 3.5 percent pace in the third quarter, the best showing in two years, fueled by government-supported spending on cars and homes. The Commerce Department's report Thursday delivered the strongest signal yet that the economy entered a new, though fragile, phase of recovery and that the worst recession since the 1930s has ended. Many analysts expect the pace of the budding recovery to be plodding due to rising unemployment and continuing difficulties by both consumers and businesses to secure loans. "We're beginning to crawl out a very deep hole," said economist Ken Mayland, president of ClearView Economics. "It will take time to get back to normal again and there are questions about how consumers will hold up in the months ahead. But I think the recovery will be sustained." The much-awaited turnaround ended the streak of four straight quarters of contracting economic activity, the first time that's happened on records dating to 1947. It also marked the first increase since the spring of 2008, when the economy experienced a short-lived uptick in growth. The third-quarter's performance - the strongest since right before the country fell into recession in December 2007 - was slightly better than the 3.3 percent growth rate economists expected. Armed with cash from government support programs, consumers led the rebound in the third quarter, snapping up cars and homes. Consumer spending on big-ticket manufactured goods soared at an annualized rate of 22.3 percent in the third quarter, the most since the end of 2001. The jump largely reflected car purchases spurred by the government's Cash for Clunkers program that offered a rebate of up to \$4,500 to buy new cars and trade in old gas guzzlers. The housing market also turned a corner in the summer. Spending on housing projects jumped at an annualized pace of 23.4 percent, the largest jump since 1986. It was the first time since the end of 2005 that spending on housing was positive. The government's \$8,000 tax credit for first-time home buyers supported the housing rebound. Congress is considering extending the credit, which expires on Nov. 30. The collapse of the housing market led the country into the recession. Rotten mortgage securities

spiraled into a banking crisis. Home foreclosures surged. The sector's return to good health is a crucial ingredient to a sustained economic recovery. A top concern is whether the recovery can continue after government supports are gone. Many economists predict economic activity won't grow as much in the months ahead as the bracing impact of President Barack Obama's \$787 billion package of increased government spending and tax cuts fades. The National Association for Business Economics thinks growth will slow to a 2.4 percent pace in the current October-December quarter. It expects a 2.5 percent growth rate in the first three months of next year, although other economists believe the pace will be closer to 1 percent. Christina Romer, Obama's top economist, in remarks last week said the government's stimulus spending already had its biggest impact and probably won't contribute to significant growth next year. Brisk spending by the federal government played into the third-quarter turnaround. Federal government spending rose at a rate of 7.9 percent in the third quarter, on top of a 11.4 percent growth rate in the second quarter. In other encouraging developments, businesses boosted spending on equipment and software at a 1.1 percent pace in the third quarter, the first increase in nearly two years. Third-quarter activity also was helped by increased sales of U.S.-made goods to customers overseas, as economies in Asia, Europe and elsewhere improved. The cheaper dollar is aiding U.S. exporters, making their goods less expensive to foreign buyers. Exports of U.S. goods soared at an annualized rate of 21.4 percent in the third quarter, the most since the final quarter of 1996. Businesses, meanwhile, reduced their stockpiles of goods less in the third quarter, after slashing them at a record pace in the second quarter. With inventories at rock-bottom levels, even the smallest increase in demand probably will prompt factories to boost production. This restocking of depleted inventories is expected to help sustain the recovery in the coming months, economists said. Even with the third-quarter improvement, the economy isn't out of the woods yet. Federal Reserve Chairman Ben Bernanke and members of Obama's economics team have warned that the nascent recovery won't be robust enough to prevent the unemployment rate - now at a 26-year high of 9.8 percent - from rising into next year. Economists say the jobless rate probably nudged up to 9.9 percent in October and will go as high as 10.5 percent around the middle of next year before declining gradually. The government is scheduled to release the October jobless rate report next week. The Labor Department said Thursday that newly laid-off workers seeking unemployment insurance fell by 1,000 to a seasonally-adjusted 530,000. Analysts expected a drop to 521,000. The number of people continuing to claim benefits, fell by 148,000 to 5.8 million, steeper than analysts expected. Those figures lag initial claims by a week. With joblessness growing and wages dipping slightly in the third quarter, consumers are expected to turn more restrained in the months ahead. That would put a much heavier burden on America's businesses to keep the recovery going. To foster the recovery, the Fed is expected to keep a key bank lending rate at record low near zero when it meets next week and probably will hold it there into next year. With the economy on the mend, the Fed has slowed down some key emergency support programs but doesn't want to pull the plug until the recovery is on firm footing. Even if the economy climbs back into positive territory in the third quarter, it will be up to another group to declare the recession over. The National Bureau of Economic Research, a panel of academics, is in charge of dating the beginning and ends of recessions. It usually makes its determinations well after the fact. **(AP)**

### **Work on 16th Street Mall Center Nearly Complete**

By the end of next week, the redevelopment of the Denver Pavilions downtown will be substantially complete, the bevy of construction workers gone and orange fencing removed to reveal a more open and inviting shopping center. Gart Properties, which purchased the property last year, has planned a grand "reintroduction" ceremony for the property Nov. 10. November and December typically are slow months for retailers in the Pavilions, said Matt Trasen, project manager for Gart. Gart had to revise some of its plans because of the economy and made concessions to tenants who stayed through the redevelopment of the shopping center. But when the Denver Urban Renewal Authority stepped up in August with \$2.1 million, the company was able to restore some of the improvements it had cut. The added money allowed Gart to renovate the public rest rooms, improve lighting and public spaces and install a large LED media panel and original artwork in glass tile around the elevator entries. The funding also will pay for a glass-enclosed valet elevator beneath the Glenarm Place bridge. DURA invested about \$30 million in the Pavilions when it was built 11 years ago. Gart and ING Clarion paid \$94.5 million last year for the 347,000-square-foot center. The new owner is spending an additional \$25 million on renovations and tenant incentives. Gart buys underperforming real estate at a discount, renovates it and leases it to stronger tenants. The company refinances the property, pays off its investors and enjoys the cash flow that the real estate generates. Only five of the Pavilions' tenants have a visible presence along the 16th Street Mall, so Gart is installing two double-sided LED screens that will flash advertisements for the less-visible businesses. "The idea is to give all 40 tenants a presence," Trasen said. The shopping center spans both sides of Glenarm Place, a two-way street with no crosswalk. Gart is painting a crosswalk between two large planters in the center of the street aimed at protecting pedestrians from traffic. It's also installing curb cuts and embedding LED lighting in the pavers. Gart also has upgraded the elevators so they'll reach all five floors. Escalators extending onto the 16th Street Mall draw people to the upper floors of the shopping center. New heated and lighted stairways have been built next to the escalators. Gart is continuing discussions with Brookfield Properties about plans for an adjacent hotel and office building, though the plans are on hold. "While the economy is bad, you continue to study, communicate and look to see whether these things make sense," said Bill Lucas, vice president of leasing for Brookfield. **(Denver Post)**

...

### **DDP Picks Zimmer Team for Mall Upgrade**

The Downtown Denver Partnership Inc., which manages the 16th Street Mall, has picked a team headed by Zimmer Gunsul Frasca Architects LLP (ZGF) of Portland, Ore., to design its long-anticipated upgrade of the downtown pedestrian mall. The partnership released the team's name on Friday. The 16th Street Mall Plan, which has been in the works since 2007 and gotten help from the Urban Land Institute, aims to update the mall and make it "vibrant and successful" for the next 25 years, according to the partnership. The plan was finalized in 2008. "This project will be more than a makeover of the mall," Cassie Milestone, urban planning manager for the partnership, said in a statement. "Ultimately, it will integrate place making, economic development, universal access, historic preservation and other components to create a space that will be sustainable economically and environmentally for the next 25 years." Seven teams including more than 60 companies submitted

proposals to design the mall upgrade in September. A selection committee including representatives of the partnership, City and County of Denver, Regional Transportation District (RTD) and Downtown Denver Business Improvement District narrowed the list to three teams by October. The general plan for the mall upgrade includes improving its paving system, and updating below-ground infrastructure such as electrical, water and sewer systems. Above-ground amenities such as lighting and signage also will be improved. The 16th Street Mall was created by the city and RTD — with a design by Pei Cobb Freed & Partners of New York — and opened in 1982. Businesses along the mall now include Denver hotel owner/operator Sage Hospitality Resources LLC’s headquarters; nationally known independent book seller The Tattered Cover Book Store; companies located in the metro area’s tallest skyscraper, the 52-story Republic Plaza; and the two-block Denver Pavilions shopping center. Residential properties include the 1600 Glenarm condo tower. ZGF team members based in Denver, or with metro-area offices, include:

- StudioInsite LLC, Denver — A master-planning specialist that has worked on civic, health care, educational and other types of projects. The company’s civic projects include the Wings Over the Rockies Air & Space Museum and the 14th Street Initiative in Denver, and the Cape Girardeau U.S. Federal Courthouse in Missouri.
- CRL Associates Inc., Denver — This public policy and media support company, headed by CEO Maria Garcia Berry, helps business clients deal with government decision-makers.
- Clanton & Associates Inc., Boulder — This company designs sustainable lighting, and has worked on projects as disparate as the visitor’s center at the Kansas City Zoo and a Walmart store in the City of Industry, Calif.
- Rider Leavett Bucknall, Phoenix — This global property and construction advisory firm has a branch in Denver. RLB specializes in hotels, skyscrapers, retail properties and sports venues, and has worked on U.S. projects such as the \$65 million Frank H. Ricketson Jr. Law Building at the University of Denver, Phoenix Convention Center and the Inn of the Mountain Gods Resort & Casino in Mescalero, NM.

Other Colorado team members include Meeting the Challenge Inc., a small business and Americans with Disabilities Act (ADA) consulting firm, and Rocky Mountain ADA Center of Colorado Springs. Waterline Studios Inc. in Fort Collins will design water features for the mall. Out-of-state team members include ELS Architects of Portland and The Olin Studio landscape architecture and urban design firm of Philadelphia. **(Denver Business Journal)**

...

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	.25	.25	1.00
3 MONTH LIBOR	.28	.29	3.19
PRIME RATE	3.25	3.25	4.00
10 YEAR TREASURY	3.41	3.30	3.94
30 YEAR TREASURY	4.23	4.05	4.30