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Apartment Vacancies Hit 6.5 Percent

Apartment vacancies in metro Denver increased in the third quarter because of the soft national economy, but remained relatively low by recent standards, according to a report issued Tuesday by the Colorado Division of Housing. Average apartment rent metrowide increased to a new high, in the report's 27-year history, of \$892.22 per month in the third period. But there also were rental losses from discounts and concessions landlords have put in place to attract tenants. The Denver area's apartment vacancy rate increased to 6.5 percent in the third period, from 5.3 percent for the same quarter of 2007, making it the highest rate in the last six quarters. The third-quarter vacancy rate also ticked up from 6.2 percent in the second quarter. The metro-area apartment market experienced softness in the third quarter, given increases in concessions such as free rent and vacancies, according to Gordon Von Stroh, business professor at the University of Denver and report author, in a statement. How much the national economy will affect the local apartment market remains to be seen. "We usually see lower apartment vacancy rates in the second and third quarter, based on seasonal patterns," Von Stroh said. "That vacancies were up in this third quarter has to do with overall weakness in the economy." Landlords continue to offer free rent to keep tenants they already have, and to attract new ones. "The rental market is being affected by the financial markets," said Ryan McMaken, community relations director for the Colorado Division of Housing. Adams County had the highest third-quarter vacancy rate at 7.5 percent, while Boulder and Broomfield counties reported the lowest rate, 4.7 percent. Other vacancy rates by county include Arapahoe, 6.9 percent; Denver, 6 percent; Douglas, 5.9 percent; and Jefferson, 6.5 percent. But even with higher apartment vacancy last period, real estate experts don't anticipate substantial declines in occupancies, the report said. "It's much more difficult to buy a home today than it was a couple of years ago, so people are looking to rental housing," Kathi Williams, the housing division's director, said in a statement. "That's good news for apartment owners." Absorption of vacant apartment units in the third quarter also remained positive, at 3,083 units. Metro Denver's average Q3 apartment rent increased \$33 a month from last year's third quarter to the \$892.22 a month. The highest metro-area average rent for the period was \$1,051.05 a month in Douglas County, and the lowest average rent was \$847.43 in Jefferson County. Other average monthly rents by county included Adams, \$882.52; Arapahoe, \$850.72; Boulder/Broomfield, \$974.68; and Denver, \$906.12. Von Stroh expects to see roughly 3,000 new apartment units added to metro Denver's inventory this year. So far in 2008, some 2,100 units already have been built. While some of those new units are affordable, most are high-end, and Von Stroh is concerned there'll be a serious lack of affordable, work force-type housing in the next several years.
(Denver Business Journal)

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34-Story Tower Plan Back in Play

A decade ago, the owner of 56-story Republic Plaza unveiled plans to build an office tower behind the Denver Pavilions in downtown Denver. The tower, on a parking lot off 15th Street between Tremont and Glenarm places, never got off the ground. But now, Brookfield Properties is dusting off - and updating the design and size - of what would be a 34-story tower with 730,000 square feet of space. Experts estimate that

such a building would cost between \$235 million and \$275 million to build. Plans include a two-story lobby, 26 stories of offices, two levels of underground parking, and seven stories of structured parking. But the project isn't on the fast track. "We would need to have an anchor tenant and substantial pre-leasing first," said Bill Lucas, of the local Brookfield office. "We do have some very strong tenants in Republic Plaza, who might be interested in expanding. Whether we would need 50 percent or not, I couldn't tell you. But let's say that if we started building it in 2009, it would be completed near the end of 2012." Next year might be a bit too soon, Lucas admitted. Lucas said that while financing the project would be challenging, it is possible the tower could be built - even in this tough market - if large, creditworthy tenants could be landed. "Brookfield's New York office has had some good results arranging financing for some pretty major buildings in different parts of the country this year," Lucas said. He said he moved forward on a preliminary design because the site had been the subject of the latest NAIOP (National Association of Industrial and Office Properties) challenge between real estate students at the University of Colorado and University of Denver. The latest design and details of the building were unveiled Friday in the Denverinfill.com blog by urban planner Ken Schroepfel. "I think everyone has been waiting for this to happen for a long time," Schroepfel said. "Now that this is an active project, it is very exciting. I think it will certainly bring a lot of energy and activity to that part of 15th Street. And if that goes forward, it could set the stage for other parcels along 15th Street to finally be transformed." Bill Mosher, of Trammell Crow development, which would develop the second Tabor Center office tower, said he doesn't think the Brookfield project and Two Tabor would move forward at the same time. "And I think Tabor is farther along than Brookfield," he said. **(Rocky Mountain News)**

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Office Market Shift Depends on Economy

Market shifts are a natural component of any healthy commercial real estate market, and they're predictable most of the time. Office vacancy and lease rates rise and fall according to the basic laws of supply and demand. When space begins to tighten, construction ramps up and the market corrects itself. At least that's the theory. But twice in the last 10 years, a series of unprecedented events has set conventional wisdom on its ear and sent even the most trusted experts scrambling for answers about how a market in near-panic can correct itself. The events of Sept. 11, 2001, precipitated a shock to the nation's financial machinery that few of us could imagine happening. And yet, here we are, seven years later, in the midst of another Wall Street calamity that appears to be just beginning to take its toll. The recent financial meltdown and subsequent \$700 billion bailout may be from a different origin, but the fear and uncertainty is at least as pervasive as that following 9/11. That's because nobody in the market really knows what's going to happen next. Most logical short-term predictions and economic models have become all but moot. Again, nobody really knows how bad things might get before they get better. It's too early to tell. That's the bad news, and for most Americans, that's bad enough. The good news is that it's business as usual in metro Denver, regardless of what's happening in Washington, D.C., or on Wall Street. And ironically, business is pretty good, at least in the office sector of the metro area's commercial real estate market. Granted, metro Denver's housing market crashed hard, with record foreclosures only now

beginning to flatten out. But the commercial sector has remained relatively unscathed compared to other major markets. Third-quarter statistics have confounded January's bleak forecast of volatile capital markets, constricting lending standards and the general uncertainty of an election year. All of those factors are at work here, of course, and it's evident that the economy was getting messy well before the subprime crisis peaked last year. But this particular economic downturn hasn't appeared to dampen activity here in office leasing. At least not yet. This is especially true if you're a tenant, because the market is shifting in your direction. The fundamentals might not indicate that yet, but the entire story isn't always in the numbers. Third-quarter data showed a healthy office sector across almost all of metro Denver's submarkets, according to CoStar research services. Metrowide, absorption was positive. The average vacancy rate topped out at 14.6 percent, while average gross lease rates settled in at just over \$22 per square foot. There's certainly nothing alarming for landlords or tenants in those numbers. But again, quarterly statistics tell only a portion of the story. Sales velocity finally has cooled significantly, especially in the Central Business District. Those consecutive years of record sales and record prices are over. Noncash investors who artificially engineered financing packages now are faced with a sobering dose of reality as those loans are coming due in a shaky market. Scores of investors paid premium prices at ridiculously low interest rates in hopes of scoring record returns in what they perceived as an undervalued market. Many of those speculators now find themselves on the short end of the balance sheet. Refinancing was difficult at best before the Wall Street fiasco, thanks to fallout from the subprime crisis. Who gets financed in the current climate is anybody's guess. Many owners of class A buildings would have to bump gross lease rates to somewhere past \$35 per square foot to satisfy investors and realize a return of anything close to 10 percent. How many tenants, even in prime downtown class A properties, would be willing or able to pay that kind of rate when average gross rents in that submarket are holding fast at about \$27 a foot? The answer is almost none. That's just one illustration, but it's clear that tenants and their brokers are gaining leverage. So owners are grudgingly offering up incentives, which is how many analysts mark the transition to a tenant's market even when raw data can indicate otherwise. Incentives for tenants can include free or reduced rent, early lease terminations, liberal improvement allowances and other goodies, all designed to stimulate more competition and faster leasing. Landlords handcuffed by static lease rates will be left behind if they're unwilling to offer competitive incentives. Another problem for landlords already feeling the pinch is the more than 3 million square feet of office space under construction metrowide. Granted, much of that space is already pre-leased, but most of it is speculative, which means more choices — and leverage — for tenants. The wild card here, of course, is the economy. The credit freeze will slow some of the new construction. And tenants who thought they were creditworthy suddenly may find themselves unable to get financing and unable to move. Economic conditions, for at least the near future, will be unstable at best, so the conventional rules of supply and demand may not apply. That won't be good news for tenants or landlords. **(Denver Business Journal/John Fairbairn)**

GDP Report Shows Economy Shrank in 3Q

The government reported Thursday the economy shrank in the summer, the strongest signal yet that a recession may have already begun, a day after the Federal Reserve slashed a key interest rate to battle an economic downturn. The Commerce Department reported that the gross domestic product, the broadest measure of economic health, fell at an annual rate of 0.3 percent in the July-September period, a significant slowdown after growth of 2.8 percent in the prior quarter. The spring activity had been boosted by the \$168 billion economic stimulus program, but the economy ran into a wall in the summer as the mass mailings of stimulus checks ended and consumer confidence was shaken by the upheavals on global markets. Consumer spending, which accounts for two-thirds of the economy, dropped by the largest amount in 28 years in the third quarter. The classic definition of a recession is two consecutive quarters of negative GDP. Many analysts believe the GDP will decline in the current October-December period by an even larger amount and they are forecasting a negative GDP figure in the first three months of next year. The National Bureau of Economic Research, which is the official arbiter of recessions in this country, has not said when it will make its determination of whether the country has entered a recession. Meanwhile, the Labor Department reported Thursday that applications for unemployment benefits remained at an elevated level last week, another sign of the economy's struggles. The number of laid-off workers filing new claims totaled 479,000, the same as the previous week, disappointing analysts who had expected a small drop. On Wednesday, the Fed cut the federal funds rate - the interest banks charge each other on overnight loans - by half a percentage point, and the government finally began distributing funds from the billions in the financial rescue package. Those efforts were part of a concerted drive by officials, just days before a national election, to demonstrate they are moving as quickly as possible to deal with the most serious financial crisis to hit the country since the 1930s. "Policymakers have their foot to the accelerator and they are using every effort at their disposal to stop the slide in the economy and financial markets," said Mark Zandi, chief economist with Moody's Economy.com. "And it's not a moment too soon given the serious damage that has already been done." While Wall Street posted its second biggest point gain in history Tuesday in anticipation of the Fed rate cut, the bleak economic reality appeared to ensure that the euphoria was short-lived. The Dow Jones industrial average was up about 130 points in Thursday morning trading, after closing down 74 points on Wednesday, a drop analysts said partly reflected growing worries about whether the government's actions will be sufficient to avert a deep and prolonged recession. The Fed, as investors had hoped, announced the half-point cut in the federal funds rate, driving it down to 1 percent, a low last seen in 2003-2004. That rate has not been lower since 1958 when Dwight Eisenhower was president. Reducing the rate as low as zero cannot be ruled out, some analysts said, but they cautioned that reducing rates that far carried some risks, including that if the credit crisis suddenly worsened, the Fed would have used up its ammunition. Analysts also noted that just lowering rates cannot serve as a panacea to overcome a credit crisis. While the goal is to encourage banks to begin lending again, financial institutions are skittish about extending new loans given the huge losses they have racked up in bad mortgages. Meanwhile, the administration announced that the spigot had been opened on the \$700 billion fund created by Congress Oct. 3 to rescue the U.S. financial system. Treasury issued a report showing checks had been disbursed for \$125 billion in payments to nine major banks, including Bank of America, Citigroup, JPMorgan Chase, Goldman Sachs and

Morgan Stanley. The goal is to bolster their balance sheets so they will resume more normal lending. And the administration was nearing an agreement on a plan to help around 3 million homeowners avoid foreclosure, according to sources who had been briefed on the matter. The program would be the most aggressive effort yet to limit damages from the severe housing slump. Besides cutting interest rates, the Fed announced it was extending credit lines worth \$30 billion each to the central banks of Brazil, Mexico, South Korea and Singapore in an effort to bolster financial markets in those countries and relieve investors' anxieties. It brought to 14 the number of central banks that the Fed has entered into so-called swap arrangements for currency as a way to pump more liquidity into global credit markets, part of an effort that the Bank of England estimated has resulted in \$5 trillion in support being put forward by governments worldwide. The International Monetary Fund unveiled a new streamlined lending process to get support to countries caught up in the credit crisis, another effort by the 185-member institution to show it was prepared to perform its job as lender of last resort to countries facing difficulties. The IMF already has moved to help Iceland, Ukraine and Hungary with other nations quickly lining up for aid. The Fed's half-point interest rate cut marked the second rate reduction this month. The Fed slashed the rate by a half-point on Oct. 8 in a coordinated action with other foreign central banks. Economists predict foreign central banks will follow suit with another round of rate cuts over the next week. In a brief statement explaining Wednesday's action, the Fed said that "downside risks to growth remain" holding out the promise of further rate cuts if needed. The rate-cut decision was unanimous. Many analysts said they believe the Fed will not stop at 1 percent if officials see the need to cut rates further. Some are forecasting another half-point move at the Fed's last meeting of the year on Dec. 16. But other economists said with rates already so low, the Fed may decide to hold at 1 percent, leaving some room for a further reduction next year should the country's economic troubles intensify. The Fed's action was quickly followed by a reduction by commercial banks in their prime lending rate, the benchmark for millions of consumer and business loans, which was cut from 4.5 percent down to 4 percent, its lowest level in four years. The central bank also announced that it was lowering its discount rate, the interest it charges to make direct loans to banks, by a half-point to 1.25 percent. This rate has become increasingly important as the central bank has dramatically increased direct loans to banks in an effort to break the grip of the credit crisis. **(AP)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	1.00	2.00	4.50
3 MONTH LIBOR	2.86	4.33	4.68
PRIME RATE	4.00	5.00	7.50
10 YEAR TREASURY	4.01	3.61	4.32
30 YEAR TREASURY	4.35	4.09	4.62