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CU's Wobbekind: Recession for Colorado in 2009

Colorado will fall into recession along with the rest of the United States in 2009, losing jobs for the third time this decade and the seventh time since recordkeeping began in 1939, according to Rich Wobbekind, an economist with the University of Colorado's Leeds School of Business. Wobbekind forecast a 0.2 percent decline in nonfarm wage and salary employment in Colorado in 2009, reflecting a net loss of 4,300 jobs. The state's unemployment rate likely will rise to 6.4 percent, approaching a 20-year high. But it will remain approximately 1 percentage point to 1.5 percentage point below the national jobless rate, Wobbekind said. "We're expecting Colorado to lose about 4,000 jobs overall in 2009, which is not a large number, but it is negative, and this is in the context of having very few years where we've lost jobs in this state," Wobbekind said in a statement released Monday. Wobbekind will deliver his annual forecast later today at the 44th annual Business Economic Outlook Forum, hosted by CU-Boulder's Leeds School of Business and BBVA Compass bank. Wobbekind is executive director of the school's Business Research Division and associate dean for graduate programs. Colorado job growth has slowed throughout 2008, but it remains positive. Employment rose 0.5 percent on a year-over-year basis for the 12 months through October, reflecting a net gain of 11,700 jobs, according to state labor department officials. That compares with job growth of 2.2 percent in 2007. Colorado's unemployment rate was 5.7 percent in October, compared with a national rate of 6.5 percent. Colorado payroll data for November is due out Dec. 19. In 2009, low consumer confidence, credit and housing crises, and stock market instability will combine to darken the economic picture for Colorado, Wobbekind said. This is the worst national recession he's seen since he began preparing annual forecasts for the Leeds school in the late 1980s, Wobbekind said. So far, Colorado recessions in 1987-88 and 2002-03 have been harder than the current situation, Wobbekind said. The most important question for the Colorado economy is how long the national economic downturn lasts. "We're just starting to go into negative territory in Colorado, so the question is when does it end?" Wobbekind said. The best-case scenario relies on national forecasts that predict a mild recovery in the third quarter of 2009, he said. In that case, Colorado would experience a similar recovery, experiencing job losses in the first half of 2009 but growth in the second half, leading to near-zero job growth for the full year. The worst-case scenario would occur if federal efforts to bolster the economy and loosen credit don't work, Wobbekind said. A long-term bailout process could lead to job losses in Colorado throughout 2009 and into 2010, he said. The natural resources and mining, education, health services and government sectors are probably best-positioned to weather the recession, Wobbekind said. "While slowing somewhat due to the uncertainty of energy prices, the natural resources and mining sector continues to have some growth in certain areas of the state, particularly on the Western Slope," Wobbekind said. The education and health services sector has been short of workers for the past several years, suggesting it will continue to grow despite the downturn. Growth in the government sector is directly related to population growth, and Wobbekind expects Colorado's population to grow by 2 percent in 2009, reflecting an addition of 98,100 people. That will bring Colorado's population to 5.1 million, up from 4.2 million in 1999. **(Denver Business Journal)**

High Job Losses to Sink Demand for Commercial Space

Landlords across property types are in for a nasty decline in tenant demand for space, thanks to an accelerating employment drop, researchers say. U.S. non-farm payrolls shrank by 533,000 jobs in November, the Labor Department reported on Dec. 5. "No sector is exempt, and virtually every metropolitan statistical area in the country will feel the effects," says Hugh Kelly, principal of Brooklyn-based consulting firm Hugh Kelly Real Estate Economics. "I expect leasing velocity to stall completely in the next few months, with absorption for all commercial property sectors running negative." Job losses in the last three months alone have totaled more than 1.25 million, the Labor Department reported. In light of November's unexpectedly heavy losses and upward revisions to 403,000 job losses in September and 320,000 in October, researchers say projections of commercial real estate demand will certainly be revised downward. "U.S. companies are shedding jobs at the fastest rate since the early 1970s," says Victor Calanog, director of research at commercial real estate researcher Reis. Indeed, November's employment decline is the largest for a single month since the loss of 602,000 jobs in December 1974, according to James Smith, chief economist at Asheville, N.C.-based Parsec Financial Management. That loss occurred only four months before the end of that recession in March 1975, Smith says, pointing to a potential light at the end of the recessionary tunnel next spring. "The same is likely to be true this time unless a burst of Christmas shopping — which seems to be developing, thank goodness — means this month is the trough," Smith says, "which is definitely possible." Employment losses spread across industry sectors pushed the unemployment rate to 6.7% from 6.5% the previous month. In September, October and November, monthly job losses averaged 419,000, much steeper than the average loss of 82,000 per month from January through August, Bureau of Labor Statistics Commissioner Keith Hall told a joint economic committee on Dec. 5 in Washington, D.C. The November labor report portends hard times ahead for commercial landlords. In the first eight months of this year, job losses were concentrated in construction and manufacturing, according to Hall's testimony. Since the end of August, however, about two-thirds of job declines have occurred in the service-providing sector of the economy, which is a key driver of demand for office space. The nation has eliminated approximately 748,000 office-using jobs so far this year, with 187,000 job cuts in November alone, according to Hessam Nadji, managing director of research services at Marcus & Millichap. "The virtual shutting down of the commercial paper market in October was most likely a significant factor," Nadji says. "Many small to mid-sized companies rely heavily on short-term financing to run their operations and were badly stressed." Researchers say the office and retail sectors are being lambasted by job cuts that will reduce demand for commercial space over time. "Last month's job losses confirmed the fears that more retail and office-using jobs are being eliminated in reaction to the broadening of the recession," Nadji says. Absorption of neighborhood and community shopping center space has been negative for the past three quarters, according to Calanog at Reis. This is the first year that Reis has recorded negative quarterly absorption in that sector. In its third-quarter forecast, Reis projected that the national office vacancy rate would increase to 14.5% by the end of 2008 compared with 13.7% in the third quarter. Furthermore, the researcher predicts another 100 basis points of deterioration to 15.5% by the end of 2009. While Reis hasn't yet updated its numbers, the recent surge in unemployment will require an adjustment to vacancy rate expectations, Calanog says. "Downside risks — because of these employment numbers — will push that number upwards," he says. "We expect continued

weakness through 2010." The national office vacancy rate could reach 18% before it begins to ebb in 2010, predicts Ben Breslau, director of research at full-service real estate firm Jones Lang LaSalle. It is more difficult for companies to adjust their real estate footprint than their headcount, he says, so recent job cuts will show up gradually in real estate absorption. Breslau expects office sublease offerings to accelerate in many markets as overall vacancy rates increase. When will the nation stem the flow of hemorrhaging in the labor market? Not for at least a few more months, economists say. Michael Niemira, research director at the International Council of Shopping Centers, had projected a 2.5% contraction in gross domestic product for the fourth quarter but now plans to adjust that prediction for an even greater economic contraction. That means substantial job losses still ahead, Niemira says. "I have believed, and continue to believe, that only about a third of the employment correction is at hand. There are more adjustments to come, and weak consumer demand will linger." **(National Real Estate Investor/Matt Hudgins)**

Colorado Apartment Vacancy Rate Soars

A slowing economy in much of the state drove the apartment third-quarter vacancy rate in Colorado to 6.6 percent, almost a 16 percent increase from the 5.7 percent vacancy rate a year earlier. Rising vacancies were most pronounced in Pueblo, Colorado Springs and the Denver area, according to the report by the Colorado Division of Housing. However, northern Colorado was a bright spot because of stronger economic conditions, according to Gordon Von Stroh, the author of the report, and a business professor at the University of Denver. "I'd really call it the whole U.S. 36 corridor and everything to the north," Von Stroh said. "They have Colorado State University and they are still creating high- tech jobs and jobs in renewable energy and solar." Fort Collins saw its vacancy rate fall to 4.1 percent from 5 percent a year earlier; Loveland to 3.5 percent from 5.9 percent; and Greeley to 5.5 percent from 8.1 percent. By contrast, Colorado Springs had the highest vacancy rate, rising to 9.2 percent from 8.6 percent, a 6 percent increase in the percentage rate. Pueblo's rate rose by almost 31 percent to 6.8 percent from 5.2 percent and Denver's vacancy rate rose 22.6 percent to 6.5 percent from 5.3 percent. A softer economy means more renters will likely double up with roommates, live with their parents, or rent a less-expensive apartment, said Kathi Williams, director of the state's housing division. Despite the big surge in percentage rate increases, the market is not that far off from the equilibrium rate of 5 percent, said Steve Wessler, of Red Stone Agency Lending. And because of the increased cost of financing and the difficulty in getting construction loans, there will be little construction going forward. That ultimately will lead to lower vacancies and higher rents, he said. In Pueblo and Colorado Springs, average rents have changed little since the third quarter of 2007, but in Fort Collins and Grand Junction, rents have increased significantly. The largest increase was reported in the Fort Collins/Loveland area, where rents increased to \$854.38 in the third quarter of 2008 from \$757.17 in the third quarter of 2007. Since the third quarter of 2007, Grand Junction's average rents increased more than \$60 to an all-time high of \$670.24. Average rents in metro Denver increased to \$892.22 from \$858.36 during the same period. **(Rocky Mountain News)**

Adams: Recession May Last Through 2009

The country, and Colorado along with it, is in the fourth quarter of a recession that likely will last between five and eight quarters, according to Colorado Springs economist Tucker Hart Adams. "I think there is a high probability that it will last through 2009. I think people who say 'one or two more quarters and we're out of it' are extremely optimistic," Adams said to a gathering of members of the Independent Petroleum Association of Mountain States at the Westin Tabor Center in downtown Denver on Tuesday morning. Adams is the president of the Adams Group Inc., a regional economics consulting firm. For years, she was U.S. Bank's Rocky Mountain region chief economist, and published a widely watched annual economic forecast that earned her the nickname "Duchess of Doom." But Adams rightly predicted two years ago that the country would be in recession by the end of 2007. Last week, the National Bureau of Economic Research, the official arbiter of the nation's economic cycles, said the United States was in a recession that began in December 2007. Although Adams gave her final official forecast last year, she said on Tuesday morning that she couldn't help but look ahead. "Once a forecaster, always a forecaster," she said, to laughter from the audience. Last week, federal government officials reported that the United States had lost more than a half-million jobs in November, the biggest one-month drop since 1974. The fact that October and September job losses were revised upward was also bad news, Adams said. "Any time data are being revised and any revision makes the previous quarter worse than originally announced, that's a very good indicator that the downturn is accelerating," she said. Colorado's economy is unlikely to perform differently from the national economy, Adams said. "The one place where Colorado is perhaps a bit better off than the rest of the country is that we didn't have the bubble upward in home prices, so we're not having as sharp a decline," she said. "But [prices] are down around 5 percent in the metro Denver area." Some improvement has been seen in the lower end of the housing market, as people see some bargains and begin to buy, Adams said. But she forecast limited residential and non-residential construction in 2009. "You don't need new office buildings if jobs are falling, and you don't need retail space if consumers aren't spending," Adams said. Inflation, which is expected to be around 3 percent for 2008, likely will fall to 1 percent to 2 percent in 2009, Adams said. "I don't think we're going to have deflation, actually, overall ... that's very unusual," she said. "It's hard to believe that gasoline prices or natural gas prices are going to continue to drop at the rate that they have for the past year ... I'm guessing that in the second half of this next year, and into 2010, we're going to be comparing rising energy prices to the very, very low prices that we're seeing right now, and inflation will begin to pick up." **(Denver Business Journal)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	1.00	1.00	4.25
3 MONTH LIBOR	1.92	2.13	5.06
PRIME RATE	4.00	4.00	7.25
10 YEAR TREASURY	2.60	3.73	4.21
30 YEAR TREASURY	3.07	4.17	4.63