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### **Dismal U.S. Employment Outlook Dampens Mood of Mortgage Bankers**

Despite the likely passage of a federal stimulus package currently valued at about \$789.5 billion and signs that the credit markets are starting to thaw in Corporate America, commercial and multifamily mortgage bankers gathered here for a national convention are in a "show-me" state of mind when it comes to talk of a U.S. economic recovery. The economy has lost 3.6 million jobs since the recession began in December 2007, and 598,000 jobs in January alone, according to the Department of Labor. "Until that job-loss picture reaches bottom and starts to come back, it's going to be tough on the real estate fundamentals — the rents, the occupancies, the fundamental metrics that drive real estate," says David Twardock, president of Prudential Mortgage Capital based in Newark, N.J. The jobs outlook is expected to worsen before it improves. The national unemployment rate will peak at about 9.6% in mid-2010 at the earliest, forecasts Jay Brinkmann, chief economist for the Mortgage Bankers Association. The current unemployment rate is 7.6% nationally. Among college-educated workers, the unemployment rate has risen from 2% in 2008 to nearly 4% today. "That affects demand for office space," emphasizes Brinkmann. The high job losses overshadow the buzz surrounding the stimulus plan and the federal government's consideration of forming a so-called aggregator bank, which would be funded in part by private capital and designed to buy up toxic bank assets. "The stimulus, to the extent that it really does change the jobs picture, will help. But it's sort of a show-me environment, and I think everyone in real estate knows that we lag the broader economy," says Twardock. "We're going to be one of the last sectors to pull out of this once job losses bottom and the economy starts to grow. It's going to take that for real estate optimism to return." But Prudential isn't remaining idle. The lender announced Monday its goal to originate \$7 billion in commercial and multifamily loans in 2009. Some \$4 billion of that total will be available for mortgages through its general account. The remaining \$3 billion in financing will be available through Fannie Mae, Freddie Mac and FHA, subject to market conditions. The company originated more than \$2 billion in Fannie Mae loans in 2008, a 21% increase over the prior year. "A few years ago, people were saying Fannie Mae and Freddie Mac weren't relevant because borrowers could do everything through securitization. Nobody is saying that today," says Twardock, referring to the meltdown in the commercial mortgage-backed securities market. "Nobody is saying the private market can handle the broad housing problem. It's fairly clear there is a need for Fannie Mae and Freddie Mac through this cycle." **(National Real Estate Investor/Matt Valley)**

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### **ProLogis Selling 33M Feet of Industrial Space**

In what promises to be one of the nation's largest industrial portfolio sales by square footage, real estate titan ProLogis Inc. is selling 33.23 million square feet nationwide. The portfolio spans 14 states and the District of Columbia, including 1.73 million square feet in Florida, according to the investment summary package. It carries an estimated value \$1.43 billion, real estate experts say. Considering the rocky economy and collapsed debt markets, the assets are likely to trade for less than they would have two years ago, and even finding buyers could be challenging, real estate experts say. The sell-off is a squall in a broader storm brewing for commercial real estate firms, experts say, and it shows how quickly conditions are eroding for even

strong operators. "You can't sell 33 million square feet of industrial space right now," said real estate analyst Dan Fasulo, managing director of New York-based Real Capital Analytics. "It is a signal of distress." Denver-based ProLogis (NYSE: PLD), once the darling of the industrial real estate industry, is facing billions of dollars of debt. ProLogis, the world's largest owner, manager and developer of distribution facilities, announced in November wholesale measures to deal with its debt. The real estate investment trust's debt load stood at \$11.6 billion at the end of its third quarter. ProLogis terminated CEO Jeffrey Schwartz and embarked on a program of cost cutting, stopping new development, selling properties, laying off employees and restructuring debt. In December, it announced a deal to sell assets in China and Japan to the real estate investment arm of the Singapore government for \$1.3 billion – a 4 percent to 6 percent loss on book value. ProLogis spokeswoman Mo Sheahan declined to confirm or comment on the massive portfolio sell-off, saying it is company policy not to comment on deals that have not closed. "We are looking at different [properties] on different tracks," she said. "We are considering everything." The assets cover many of the nation's top industrial markets. The largest slice of assets is in Texas, where 3.49 million square feet are being offered for sale in San Antonio, El Paso and Austin; 2.96 million square feet in Dallas; and 2.69 million in Houston. Atlanta follows, with 3.46 million square feet up for grabs. Other metropolitan areas and regions where ProLogis' vast industrial properties are for sale include:

- Chicago, 3.31 million square feet.
- The Northeast, 3 million square feet among Baltimore, northern New Jersey and Pennsylvania.
- Washington, D.C., 695,058 square feet.
- San Francisco Bay area and central California, 2.43 million square feet.
- Denver and Salt Lake City, 2.29 million square feet.
- The Northwest, including Seattle and Portland, Ore., 2.16 million square feet.
- Reno, Nev., 1.88 million square feet.
- Las Vegas, 1.59 million square feet.
- Phoenix, 1 million square feet.

ProLogis is known for its sophisticated new product, including building some of the first environmentally friendly industrial buildings. Its tenants tended to be strong and creditworthy, and ProLogis did a good job retaining them. ProLogis was growing steadily, partly through mergers with companies such as Meridian Industrial Trust and acquisitions like Catellus Development Corp. But, the company took on several billion dollars in debt to expand, which it was managing well as of mid-2008, according to former CEO Schwartz. After Lehman Bros. Holdings collapsed in September and already-troubled U.S. capital markets got even worse, credit raters downgraded ProLogis' debt last year. Still, they applauded its diverse asset base, high-quality properties and ability to keep tenants. **(Denver Business Journal)**

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### **Treasury Expands Loan Facility to Include CMBS**

The Department of Treasury is expanding the government's Term Asset-Backed Securities Loan Facility to include CMBS. The move was outlined this morning by Treasury Secretary Timothy Geithner as part of a broad expansion of what had previously been called the Troubled Asset Relief Program and is aimed at jump-

starting credit markets. Equity markets scoffed at the massive plan, with the Dow Jones Industrial Average plummeting 382 points to less than 7,900. It's new effort, the Financial Stability Plan, is a multi-pronged attack that calls for increased transparency among financial institutions, more forward-looking risk evaluations by bank regulators and a capital-assistance program through which the Treasury would make investments in banks in need of added capital to weather the economic downturn. "To get credit flowing again, to restore confidence in our markets, and restore the faith of the American people, we are fundamentally reshaping the government's program to repair the financial system," Geithner said. The inclusion of CMBS in the lending facility, under which financing would be provided to investors in the highest-rated securities, was long sought by industry groups, including the Commercial Mortgage Securities Association and the Real Estate Roundtable. "Treasury is pursuing the right strategy now to help avoid a potential foreclosure disaster in the commercial real estate sector, which is a cornerstone of the economy ... Left unchecked, this could have extremely negative implications for local communities, jobs, and investors," said Jeffrey DeBoer, chief executive of the Real Estate Roundtable. But the plan still falls short. According to a briefing by Real Estate Economics, "Significant impediments to lending and securitization remain unaddressed." It cited as challenges limiting TALF's effectiveness the "misalignments of incentives" for originators, issuers and rating agencies and restrictions against the modification of securitized mortgages. "Any program that fails to address these and other structural impediments to the renewal of CMBS activity will fail to improve appreciably upon the current shortfall in securitization activity and overall commercial mortgage credit availability," it said. The plan was originally for the Treasury to make available \$20 billion of financing, which could be used to leverage up to \$200 billion of investments. That has grown to \$100 billion, which theoretically could be used to make \$1 trillion of investments. "CMSA is very hopeful with Secretary Geithner's comment today that 'no plan will be successful unless it restarts the securitization markets,'" said Kenneth Reed, the trade group's spokesman. "If it's implemented effectively, the TALF extension to CMBS should help restore liquidity and address the billions in commercial real estate loans coming due in the next several years." Besides expanding the lending facility, the Financial Stability Plan proposes forming a public-private investment fund with \$500 billion of capital that could be used to help private entities acquire "legacy assets", primarily real estate, from lenders. The idea is to "help start a market for the real estate related assets that are at the center of this crisis," Geithner said. The fund could grow to \$1 trillion. "This initiative will kick-start the secondary lending markets," Geithner said, "to bring down borrowing costs and to help get credit flowing again." Treasury also established a Web site, [www.financialstability.gov](http://www.financialstability.gov), through which it says people would be able to see whether restrictions tied to the plan are being met and whether they are impacting the volume and cost of borrowing. **(CRE News)**

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#### **Analysis: Colorado Could Gain \$2.8B from Stimulus Package**

Colorado stands to gain \$2.815 billion in direct spending assistance over the next two years from the federal stimulus package, according to the Colorado Fiscal Policy Institute. The funds would help close the \$631.9 million budget shortfall in Colorado's current 2009 fiscal year, the CFPI said Friday. "The final overall package has a price tag of roughly \$789 billion, of which nearly 65 percent goes directly to spending and 35 percent goes to individual and business tax benefits," CFPI officials

said in a statement. "Colorado is set to receive significant money for its safety net programs, such as food stamps and Medicaid, along with funding for school modernization and public education, housing assistance, and child care programs." The estimates are preliminary, and may change before final passage of the bill, officials said. The CFPI is a nonprofit, nonpartisan project of the Colorado Center on Law and Policy focused on economic security. Under the compromise version of the bill hammered out by congressional leaders, Colorado will receive roughly \$760 million over the next two fiscal years in order to prevent cuts to existing programs and services, notably education programs. This is less than the original House version of the bill, which would have provided Colorado with a little more than \$1 billion, CFPI officials said. Colorado will receive an estimated \$880 million for Medicaid assistance, paid out over nine quarters beginning in October 2008; part of the funds are retroactive. As a condition of these new dollars, Colorado will have to "hold harmless" its existing funding, which means that eligibility levels will have to be maintained as they were on July 1, 2008. Colorado stands to receive \$521.2 million over the next two years for infrastructure and transportation spending, CFPI officials said. Of this, \$399.1 million of this will go to highway and bridge repair and construction, some of which is specifically targeted to underserved rural areas. Another \$122.1 million will be given to the state in Transit Capital Grants, to begin new projects in public transportation, such as busing and rail programs. Colorado will receive \$146 million over the next four years for food stamp assistance. Colorado also will receive education funding for two specific programs: \$126.2 million for Title 1 assistance to disadvantaged students and \$157.9 million for special education programs through the Individuals with Disabilities Education Act, CFPI officials said. Finally, Colorado should see a disproportionate amount of the \$7 billion earmarked for broadband Internet. The expansion of broadband is designed to bring Internet to rural areas and others where Internet connectivity is difficult to maintain. If Colorado sees even 2 percent of this funding, it could provide \$140 million for Internet and digital infrastructure. **(Denver Business Journal)**

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	<b>CURRENT</b>	<b>1 MONTH PRIOR</b>	<b>1 YEAR PRIOR</b>
<b>FED FUNDS RATE</b>	.25	.25	3.00
<b>3 MONTH LIBOR</b>	1.24	1.09	3.06
<b>PRIME RATE</b>	3.25	3.25	6.00
<b>10 YEAR TREASURY</b>	2.89	2.18	3.80
<b>30 YEAR TREASURY</b>	3.68	2.86	4.62