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

Office Investors – From Banner Year to Uncharted Territory

While today's commercial real estate markets often defy easy descriptions, one that might stick is the Dickens-esque, "It is the best of times, and the worst of times." "There are mixed signals in the market and good arguments that conditions could continue to deteriorate or alternatively improve by the end of the year," says Robert White, president of New York-based research firm Real Capital Analytics. "Ultimately, one's viewpoint depends largely on their outlook for a recession." One outlook is crystal clear – 2008 will see an end to the recent record levels of investment in commercial real estate. As usual, office was the favored sector by investors in 2007, with both downtown and suburban properties capturing the greatest share of investment dollars. It was a record year for office transactions, with \$211 billion in office properties changing hands, a 55% increase over 2006 volume, according to Real Capital Analytics. While 4,300 individual office properties changed hands last year, the total number of transactions dropped to 2,800, as portfolio players like The Blackstone Group were the most active buyers. But chinks are evident in the office armor. Sales fell by 42% in the fourth quarter of 2007, to \$26.5 billion. Heading into 2008, portfolio sales are on the wane, racking up just \$5 billion in the fourth quarter versus \$105 billion in the first three quarters of 2007. Prices have tumbled as well. While downtown buildings appreciated 9% in the first half of 2007, their prices dropped 10% by the fourth quarter, while suburban prices dropped 11%. Also tellingly, after five years of steady declines, cap rates on both downtown and suburban properties were on the rise again in the fourth quarter, by 25 basis points and 50 basis points, respectively. Buyers and sellers are retesting the bid/ask dynamic, according to White. "Fortunately sellers are generally not under pressure to sell quickly or accept too steep a discount and this has kept prices from falling further," says White. Foreign investment opportunities are also on the rise. According to White, 11 of the 20 top investment markets in 2007 were in the United States. Cross-border investments are rising, with U.S. investors leading the way overseas, and more international investors are taking advantage of the weak dollar to snap up U.S. deals. "Compared to prices in other global cities, even Manhattan prices look reasonable," says White. In 2007, Manhattan maintained its status as the top market for office deals, with \$40 billion in transactions, nearly four times the volume for the second-ranked market, San Francisco. **(National Real Estate Investor/Ben Johnson)**

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International Investors Eye U.S. in 2008

Turmoil in the credit market has failed to weaken foreign investors' appetite for commercial real estate in the United States. In a survey of the Association of Foreign Investors in Real Estate, the U.S. was ranked the most popular national market by a wide margin. New York City and Washington were rated the top two cities for property investments. AFIRE's members hold \$700 billion of real estate, with \$230 billion worth in the U.S. Investors surveyed expect to make slightly more than half of their 2008 investments in the U.S. Investors expect to increase their overall activity by 20% to \$1.7 billion. **(LoopNews)**

Sun Campus Buyer May be Microsoft

A week ago, when a company identified only as ST Acquisitions LLC paid \$55.6 million for the 432-acre Sun Microsystems campus in Louisville, the smart money was that ST was a front for Google. Now the smart money says that ST is Microsoft. But no one, other than the buyer and some top executives at Sun, knows the identity of the company that bought the Storage Technology site along U.S. 36. "It's the best-kept secret ever," said Brad Calbert, president of Colliers Bennett & Kahnweiler, a long-term commercial real estate company in Denver. "They've done a really good job of protecting the ownership," Calbert said. But just because nobody knows doesn't mean people aren't speculating. One person close to the deal said he was told it was Microsoft, not Google. Google spokesman Jon Murchinson released what he called a "bland and boring" statement Wednesday that said: "While I cannot comment on a specific property, the Denver area is significant to Google, as we have users, employees, advertisers and publishers there. We will always seek to acquire space as necessary to meet our needs." The Rocky Mountain News did a Google search of the Google statement. The same statement, word for word, was issued by the Mountain View, Calif., company in response to real-estate rumors from Palo Alto, Calif., to the Chelsea neighborhood in Manhattan. Only the name of the city was changed. One source, who spoke on the condition he not be identified, said he was also told that Microsoft was the buyer and planned to move a major division to the campus, creating thousands of high-paying jobs. Microsoft is in the midst of a \$1 billion expansion of its Redmond, Wash., campus. Some say that would not preclude it from expanding to the Denver area, since such a move would offer geographic diversification. "Was it a reliable source that told me that?" the source asked. "He certainly is someone who could know. But his information could be incorrect, too." Most local experts agree that the buyer is probably a company that can use the land for a giant office campus, rather than a developer. The buyer paid about \$3 per square foot for the property and bought it without getting new zoning. One investor who offered \$2 per square foot for the land said he couldn't imagine a speculative developer offering more than that. But for a user, he said, \$3 per square foot is an excellent price because they wouldn't need to take a risk of constructing buildings and finding tenants to fill them during the next 30 to 40 years. Tom Clark, executive vice president of the Metro Denver Chamber of Commerce, said he spoke to some lawyers Thursday who are convinced it is Microsoft. "It's pure speculation. Nobody knows anything," Clark added. Clark said he doesn't know, even though he has spoken to representatives of the new owner: "Everyone thinks it's a tech company, but I have had no indication from them what kind of company it is. The only thing they have told us is that we are going to be very pleased." In his own mind, Clark has eliminated some types of companies. "I'm convinced it definitely will not be a cattle slaughterhouse or a uranium-processing plant," he quipped. **(Rocky Mountain News)**

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Apartment Vacancies at 6.1 Percent

Landlords are making fewer concessions to lure tenants to their apartment buildings, and vacancies and rents still increased during the fourth quarter. Apartment vacancies rose to 6.1 percent, compared to 5.2 percent during the third quarter but is still the lowest fourth-quarter vacancy rate since 2001, according to the fourth-

quarter Denver Metro Apartment Vacancy & Rental Survey released Wednesday. Average rent was up to \$860.36, compared to \$858.36. It's still less than the peak of \$865.76 in 2005. "People in the apartment business are finally starting to make some money," said Mark Williams, executive vice president of the Apartment Association of Metro Denver. Demand for apartments last year was twice as strong as supply, with 4,644 units rented and just 2,262 new units built. The strong multi-family market continues to attract investors, said Steve Rahe, first vice president of the CB Richard Ellis. "Investors are coming from all over the country because they believe there's three to five years of good rental growth in front of us," Rahe said. (Denver Post)

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	3.00	4.25	5.25
3 MONTH LIBOR	3.10	4.70	5.36
PRIME RATE	6.00	7.25	8.25
10 YEAR TREASURY	3.62	4.03	4.84
30 YEAR TREASURY	4.32	4.45	4.93