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A Denver Based Commercial Real Estate Investment and Management Company
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Hines REIT's \$66.5m Buy Viewed as 'Vote of Confidence'

The acquisition of three properties in Centennial and Englewood made Hines Real Estate Investment Trust the largest owner of flex product in the southeast Denver submarket. "It was a unique opportunity for them to enter the market. They became the biggest player in the market overnight," said Frederick Ross Co. broker David Lee. Hines bought Arapahoe Peoria Business Center I and II, along with 345 Inverness, for \$66.5 million in the largest single transaction to occur in the southeast industrial submarket. Leased to a number of strong credit tenants, the 10 Class A buildings total 484,734 square feet. **(Colorado Real Estate Journal)**

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Banks, Builders Work it Out

Developer Chad McWhinney is renegotiating the terms of a loan for construction of one of the two office buildings he has under construction at his Centerra development in Loveland. With the building just 40 percent preleased, the lender wants McWhinney to put a little more capital into the project. "Generally, there's a lot of deleveraging going on, and as such the underwriting standards are being changed by lenders," McWhinney said. "We're very well-capitalized and are able to renegotiate terms with our lenders, but you definitely need to be well-capitalized." As loans are coming due, banks are under pressure to collect. In the past, borrowers have been able to refinance their loans. Still, it's to the lender's benefit to work out deals to avoid taking over the property, said Jay Kamlet, a partner at Kamlet Shepherd & Reichert. "They're almost forced to do a workout or be content with owning the property afterwards," he said. A national developer of office and industrial properties recently sent form letters to 20 of its lenders asking for a three-year extension on its loans. One of the lenders, Kirk Monroe of VectraBank Colorado, said the company told him they'd had "moderate success" with that strategy. VectraBank gave the developer, whom Monroe declined to identify, three 12-month extensions on its loan of more than \$50 million. "That way, you can look at the project more often," he said. Recognizing the potential disaster facing commercial real estate developers, several large banks in Colorado, including VectraBank, are considering a loan fund to rescue those unable to secure long-term financing because of the economic downturn. The commercial real estate market isn't nearly as bad as it was back in the 1980s, said George Thorn, whose Mile High Properties handled about 100 receivership and workout deals. But it could get worse, and Thorn is gearing up to help with those deals. "The thing driving it will be what the regulators force the banks to do, and I don't think anyone knows that yet," Thorn said. "If the banks have money but they can't use it to free up credit and renegotiate and restructure loans, then that's where the problem is." **(Denver Post)**

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BLS: Denver Unemployment at 6.3% in December

About 6.3 percent of the Denver-Aurora area's workforce was unemployed in December, up from 4.4 percent a year earlier, the U.S. Department of Labor's Bureau of Labor Statistics reported Wednesday. About 87,700 workers in the Denver-Aurora area were unemployed in December 2008, versus 61,000 in December 2007, BLS said in its monthly "Metropolitan Area Employment and

Unemployment" report. The agency estimated the Denver-Aurora area's civilian workforce at 1,397,400. BLS said the December 2008 numbers are preliminary and are not seasonally adjusted, meaning they do not account for workers normally idle during December because of seasonal work schedules. Unemployment in the Denver area also was up over November's figure of 82,700, BLS said. About 5.9 percent of the area's workforce was jobless that month. In the Boulder area, which BLS tallies separately, the percentage of the workforce unemployed was 4.8 percent in December, up from 3.7 percent the previous year. The jobless rate for December was unchanged from November. In Fort Collins-Loveland, BLS said that joblessness stood at 4.9 percent in December, up from 3.7 percent the previous December. The highest unemployment rate reported in a Colorado city was in Pueblo: 7.4 percent in December. Grand Junction was lowest, at 4.6 percent. Nationally, BLS said unemployment rates were higher in December than a year earlier in 363 of the 369 U.S. metro areas. It said the national average unemployment rate was 7.1 percent in December, up from 4.8 percent a year earlier. BLS' report is based on surveys of a sampling of households. **(Denver Business Journal)**

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Commercial Real Estate Construction Spending Takes a Dive

Investment in commercial real estate construction fell off a cliff in the fourth quarter as U.S. gross domestic product (GDP) shrank by an estimated 3.8%. The Commerce Department reported today that fixed, non-residential investment decreased 19.1% in the fourth quarter, compared with a decrease of 1.7% in the third quarter. "It's really only in the fourth quarter that things derailed for a lot of industries, and at this point we know that it's also derailed for commercial real estate," says Victor Calanog, director of research for New York-based real estate research firm Reis. Unless credit conditions improve, Calanog forecasts that the default rate on commercial mortgage-backed securities (CMBS) will breach 5% by the end of 2009. That figure, if realized, would be double the 2.5% default rate initially projected, according to Reis. The GDP report offered few surprises to economists. "It corroborates what we know, which is that there are very few construction starts out there right now," says Bob Bach, chief economist with brokerage firm Grubb & Ellis based in Santa Ana, Calif. Commercial real estate construction starts rose a meager 2% in 2008, compared with an increase of 21% and 7% in 2006 and 2007 respectively, according to McGraw Hill Construction. The one bright spot in the report was that it was not as bad as expected. The consensus of economists, says Bach, was that U.S. GDP would shrink by more than 5%. (The figures are subject to possible further revision.) "Whether it's minus 5% or minus 3.9% doesn't really change the storyline. We're in the midst of a severe recession, and we're going to have some long-term effects on commercial real estate," says Bach. In addition to dismal commercial real estate investment in the fourth quarter, exports and imports also declined by double digits. Exports of goods and services decreased 19.7% in the fourth quarter compared with a contraction of 3% in the third quarter of 2008. Meanwhile, imports decreased 15.7% in the fourth quarter following a contraction of 3.5% in the third quarter. "A really severe contraction of global trade is occurring and I think that has direct relevance for industrial space, especially around ports," notes Bach. "I think we'll see industrial leasing market conditions deteriorate probably through 2009, but I think that's true for all commercial real estate categories," adds Bach. The lack of trade is another indication that U.S. consumers are keeping a tight rein on their

purchase strings. Consumer spending in the fourth quarter fell 3.5%, following a third-quarter contraction of 3.8%. The weakening GDP points to "continuing contraction in the consumer economy," concludes Bach. "When American consumers are being that conservative, it has an impact that is felt across the globe." The big question is whether the Obama Administration's nearly \$1 trillion proposed stimulus package will help grease the skids of the economy and get it moving again. "We don't know, that's the thing," says Bach. "We hope it will. We think it will." **(National Real Estate Investor/Sibley Fleming)**

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Rankings Highlight Metro Denver's Economic Viability

Several recent rankings in job market strength, residential real estate, and livability highlight Metro Denver's relative stability in a turbulent economy, according to data compiled by the Metro Denver Economic Development Corporation (Metro Denver EDC) in its Monthly Economic Summary for February 2009. The region's job market – while under strain – is expected to fare better than many markets in 2009 thanks to a diverse industry base with solid long-term growth prospects in many sectors. These positive factors continue to make Metro Denver an attractive place to live and work, as evidenced by several recent reports on why and where people move. Denver ranks first among the nation's most desirable places to live, according to a recent poll by the Pew Research Center. Nearly 2,300 adults were interviewed for the survey, which is part of a broader study on where and why people move. Respondents most frequently mentioned Denver as the city where they would like to live, and Denver consistently ranked among the top 10 when survey results were cross-tabulated by gender, income and education, and political preferences. Additionally, fifty-four percent of all residential moves in Colorado last year were inbound, according to the 2008 United Van Lines Migration Study. Researchers called Colorado's inbound-outbound trends "balanced." Nevada, North Carolina, and Washington, D.C. reported the highest inbound rates in 2008, and Michigan, North Dakota, and New Jersey reported the highest outbound rates. "We are thankful for the continual influx of people and businesses to the region to help buoy our labor market as well as our residential real estate market," stated Tom Clark, executive vice president of the Metro Denver EDC. The quarterly Market Risk Index released by PMI Mortgage Insurance Co. ranked Metro Denver among 10 regions with the least risk of home price declines over the next two years. Specifically, the Denver-Aurora MSA had the 10th-lowest risk of reporting a decline in prices between the third quarters of 2008 and 2010. The index showed a growing risk of home price declines in 369 of 381 metropolitan areas, so Metro Denver is among a small handful of regions with a relatively stable outlook. Metro Denver job losses between November and December totaled 9,500, nearly half of which were positions lost in the professional and business services supersector. Across all industries, the region's over-the-year rate of employment change turned negative in December (-0.6 percent), but remained essentially on par with the Colorado change rate (-0.7 percent) and ahead of the national rate (-2 percent). Because local labor markets were much stronger at the beginning of 2008, Metro Denver's annual average job growth rate reached one percent, compared to a 1.1 percent rate in Colorado and a -0.3 percent rate nationwide. However, future employment growth is encouraging. The results of the most recent Manpower Employment Outlook Survey suggest that

many Metro Denver employers will take a wait-and-see approach to hiring in the first quarter of 2009. In the Denver-Aurora MSA, 15 percent of business respondents claimed they would add jobs in the first quarter, while 12 percent announced plans for layoffs and the remaining majority (70 percent) said they would leave current staff levels unchanged. In the Boulder MSA, 18 percent of respondents indicated plans to hire while 13 percent expected layoffs and 65 percent anticipated no change from current headcount. Even with a better-than-average outlook, though, Metro Denver's economy is still absorbing impacts from the national recession. Three of 18 economic indicators in this report moved in a positive monthly direction, compared to five indicators in the previous report. Consistent with the prior three reports, four indicators moved in a positive annual direction. **(Metro Denver EDC)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	.25	.25	3.00
3 MONTH LIBOR	1.24	1.41	3.13
PRIME RATE	3.25	3.25	6.00
10 YEAR TREASURY	3.05	2.49	3.78
30 YEAR TREASURY	3.70	3.03	4.52

