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

### Office Buildings Lead Denver Area Sales

Office buildings had the highest dollar volume of all metro Denver commercial real estate sales during the fourth quarter of 2008, according to a report released Monday by LoopNet Inc. Roughly \$1.07 billion in office properties sold in the quarter, down from \$4.42 billion for the prior-year period. Fourth-quarter 2008 office sales averaged \$166 per square foot, down from \$195 a foot year over year. While most sales for the period — \$580 million worth — involved suburban buildings, the highest price per square foot — \$209 — was paid for buildings in Denver's central business district. Most sellers and buyers of local office buildings at the end of last year were institutions or foreign investors, the report said. Other highlights of fourth-quarter 2008 commercial real estate transactions in metro Denver, according to LoopNet (NASDAQ: LOOP), include:

- Apartment property sales — \$749 million, or \$80,612 per unit, down from \$1.89 billion for the prior-year period, or \$96,292 per unit.
- Industrial property sales (warehouses, distribution centers, flex space) — \$568 million, or \$67 per square foot, down from \$693 million, or \$71 per square foot.
- Retail property sales (malls, strip shopping centers, etc.) — \$481 million, or \$151 per square foot, down from \$1.36 billion, or \$185 per square foot. (**Denver Business Journal**)

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### Opportunity Funds Won't Strike Until Second Half of 2009

A new report from London-based research firm Prequin shows private equity real estate funds plan to allocate approximately \$93 billion for investment in distressed commercial real estate and debt opportunities in the near future. But with little evidence of transaction activity so far, the big question is: When will funds begin to deploy that money? That might not happen until the latter part of 2009, because of widespread expectation that commercial real estate prices will continue to fall throughout the year, says Sam Chandan, president and chief economist with New York-based Real Estate Economics LLC. "Investors have every incentive to wait, that's why we haven't seen a lot of activity," says Chandan. The Prequin report found that funds currently in the market plan to allocate up to 36%, or \$92.5 billion, of the \$253 billion in capital they seek to distressed real estate opportunities. Of the 425 funds, 93 intend to make investments in distressed assets. The figure shows an increase from last year, when distressed opportunities accounted for 26%, or approximately \$30 billion of the total capital raised by private equity real estate funds. "The debt and distressed real estate market has traditionally been a relatively small part of the closed-end real estate market. However, the credit crunch has resulted in the growth of opportunities focused on this sector as the real estate market faces an increasingly challenging period of time," said Ignatius Fogarty, a Prequin spokesman. Real Capital Analytics, a New York-based research firm, estimates there are approximately \$117 billion in commercial real estate properties in the U.S. that might be in or approaching distress, including those that are in foreclosure, have defaulted on loans or have financially troubled owners. So far, funds targeting these assets haven't had an opportunity to strike because the level

of distress has remained relatively low, says Jon Southard, director of forecasting with Boston-based CBRE Torto Wheaton Research. In the CMBS sector, for example, the November delinquency rate stood at 0.8%, or roughly \$7 billion, according to Horsham, Pa.-based Realpoint LLC, a credit rating agency. At this level of distress, potential sellers and their lenders haven't yet felt the pressure to offer deep discounts. That has forced opportunity funds to remain on the sidelines as they need discounts of at least 40% to deliver target yields in the 20% to 40% range, says Ken Spears, senior vice president with Savills LLC. But the level of distress is starting to rise — in January, the commercial mortgage-backed security delinquency rate stood at 1.2%, or almost \$11 billion. By the end of first quarter, the delinquency rate is projected to rise to 1.5%, or close to \$15 billion, Realpoint estimates.

"Where I think things might change in the not-too-distant future is some of these funds may dive into what is currently maturing in the CMBS environment and look for a diamond in the rough," says Frank Innaurato, managing director for CMBS analytical services with the firm. Still, the commercial real estate industry is unlikely to see robust activity on the part of distressed opportunity funds until 2010 or 2011, according to industry experts. By then, a large amount of short-term commercial real estate loans will be reaching maturity, commercial property prices might be nearing bottom and investors will have a better idea about how government intervention might affect the stability of the market. "We are still fairly early in the process," says Chandan. "Investors are waiting for two things to happen: distress in terms of owners being unable to make their mortgage payments and there is still a lot of uncertainty in how the [government] will handle the banking sector." **(National Real Estate Investor/Elaine Misonzhnik)**

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### **Economy Shrinks at Fastest Pace in 26 Years**

The economy contracted at a staggering 6.2 percent pace at the end of 2008, the worst showing in a quarter-century, as consumers and businesses ratcheted back spending, plunging the country deeper into recession. The Commerce Department report released Friday showed the economy sinking much faster than the 3.8 percent annualized drop for the October-December quarter first estimated last month. It also was considerably weaker than the 5.4 percent annualized decline economists expected. A much sharper cutback in consumer spending - which accounts for about two-thirds of economic activity - along with a bigger drop in U.S. exports sales, and reductions in business spending and inventories all contributed to the large downgrade. Looking ahead, economists predict consumers and businesses will keep cutting back spending, making the first six months of this year especially rocky. "Right now we're in the period of maximum recession stress, where the big cuts are being made," said economist Ken Mayland, president of ClearView Economics. On Wall Street, stocks slid as investors second-guessed Citigroup Inc.'s plans to turn over a bigger piece of itself to the government in a move designed to keep the banking giant alive and bolster its capital in the face of growing losses amid the global recession. The Dow Jones industrials lost about 50 points in morning trading. The new report offered grim proof that the economy's economic tailspin accelerated in the fourth quarter under a slew of negative forces feeding on each other. The economy started off 2008 on feeble footing, picked up a bit of speed in the spring and then contracted at an annualized rate of 0.5 percent in the third quarter. The faster downhill slide in the final quarter of last year came as the financial crisis - the worst since the 1930s - intensified. Consumers at the end of the year slashed

spending by the most in 28 years. They chopped spending on cars, furniture, appliances, clothes and other things. Businesses retrenched sharply, too, dropping the ax on equipment and software, home building and commercial construction. Before Friday's report was released, many economists were projecting an annualized drop of 5 percent in the current January-March quarter. However, given the fourth quarter's showing and the dismal state of the jobs market, Mayland believes a decline of closer to 6 percent in the current quarter is possible. The nation's unemployment rate is now at 7.6 percent, the highest in more than 16 years. The Federal Reserve expects the jobless rate to rise to close to 9 percent this year, and probably remain above normal levels of around 5 percent into 2011. A smaller decline in the economy is expected for the second quarter of this year. But the new GDP figure - like the old one - marked the weakest quarterly showing since an annualized drop of 6.4 percent in the first quarter of 1982, when the country was suffering through an intense recession. "It's going to be a challenging 2009," Scott Davis, chief executive officer of global shipping giant UPS, said Thursday while speaking at the U.S. Chamber of Commerce in Washington. American consumers - spooked by vanishing jobs, sinking home values and shrinking investment portfolios have cut back. In turn, companies are slashing production and payrolls. Rising foreclosures are aggravating the already stricken housing market, hard-to-get credit has stymied business investment and is crimping the ability of some consumers to make big-ticket purchases. It's creating a self-perpetuating vicious cycle that Washington policymakers are finding hard to break. To jolt life back into the economy, President Barack Obama recently signed a \$787 billion recovery package of increased government spending and tax cuts. The president also unveiled a \$75 billion plan to stem home foreclosures and Treasury Secretary Timothy Geithner said as much as \$2 trillion could be plowed into the financial system to jump-start lending. For all of 2008, the economy grew by just 1.1 percent, weaker than the government initially estimated. That was down from a 2 percent gain in 2007 and marked the slowest growth since the last recession in 2001. With Friday's figures, Mayland lowered his forecast for this year to show a deeper contraction of just over 2 percent. In the fourth quarter, consumers cut spending at a 4.3 percent pace. That was deeper than the initial 3.5 percent annualized drop and marked the biggest decline since the second quarter of 1980. Businesses slashed spending on equipment and software at an annualized pace of 28.8 percent in the final quarter of last year. That also was deeper than first reported and was the worst showing since the first quarter of 1958. Fallout from the housing collapse spread to other areas. Builders cut spending on commercial construction projects by 21.1 percent, the most since the first quarter of 1975. Home builders slashed spending at a 22.2 percent pace, the most since the start of 2008. A sharper drop in U.S. exports also factored into the weaker fourth-quarter performance. Economic troubles overseas are sapping demand for domestic goods and services. Businesses also cut investments in inventories - as they scrambled to reduce stocks in the face of dwindling customer demand - another factor contributing to the weaker fourth-quarter reading. The government last month thought businesses had boosted inventories, which added to gross domestic product, or GDP. GDP is the value of all goods and services produced in the United States and is the best barometer of the country's economic health. Fed Chairman Ben Bernanke earlier this week told Congress that the economy is suffering a "severe contraction" and is likely to keep shrinking in the first six months of this year. But he planted a seed of hope that the recession might end his year if the government managed to prop up the shaky banking system. Even in the best-case scenario that the recession ends this year and an economic recovery happens

next year, unemployment is likely to keep rising. That's partly because many analysts don't think the early stages of any recovery will be vigorous, and because companies won't be inclined to ramp up hiring until they feel confident that any economic rebound will have staying power. More job losses were announced this week. JPMorgan Chase & Co. on Thursday said it would eliminate about 12,000 jobs as it absorbs the operations of failed savings and loan Washington Mutual Inc. That figure includes 9,200 cuts announced previously and 2,800 jobs expected to be lost through attrition. The NFL said Wednesday that the league dropped 169 jobs through buyouts, layoffs and other reductions. Textile maker Milliken & Co. said it would cut 650 jobs at facilities worldwide, while jeweler Zale Corp. said it will close 115 stores and eliminate 245 positions. **(AP)**

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### **Denver Housing Market Tops Nation at End of 2008**

The Denver-area housing market was the best-performing of 20 of the largest markets at the end of last year, losing only 4 percent in the fourth quarter in 2008 from the fourth quarter of 2007, according to the closely watched S&P/Case-Shiller Home Price Indices released this morning. The 20 major markets tracked showed a record 18.5 percent decline, while the 10-city composite in the index showed a 19.2 percent decline, also a record. "Denver, Dallas, Cleveland and Boston fared the best in terms of annual declines down 4 percent, 4.3 percent, 6.1 percent and 7 percent, respectively," according to the report. But nationwide, prices of existing single-family homes continue to set record declines, continuing the trend throughout all of 2007 and 2008, the report shows. "The broad downturn in the residential real estate market continues," said David M. Blitzer, chairman of the index committee at Standard & Poor's. "There are very few, if any, pockets of turnaround that one can see in the data. Most of the nation appears to remain on a downward path, with all of the 20 metro areas reporting annual declines, and eight of those MSAs (metropolitan statistical areas) now with negative returns exceeding 20 percent. If one looks in detail at the annual return data, it can be seen that 13 of the 20 MSAs and two composites have been reporting consecutive declines since December 2007. The monthly data follows a similar trend, with all of the metro areas reporting at least four consecutive months of negative returns." From November to December of last year, the Denver-area housing market lost 1.5 percent. Only Boston did better, losing 1.3 percent. **(Rocky Mountain News)**

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### **Downtown Real Estate Engine Sputtering**

Condominium units were flying off the shelf at the Glass House, buyers were lining up to own units at the partially built One Lincoln Park, the first new high-rise condo tower downtown in about a quarter of a century. If you could "fog a mirror," as one person put it, lenders were eager to give you a loan. In addition, construction began on three groundbreaking projects - the 41-story, 503-unit Spire condo project; the \$350 million, 45-story, 102-unit Four Seasons Hotel & Private Residences Denver; and the 25 units in the Ritz-Carlton Denver hotel, formerly the Embassy Suites. Together, they add 630 units to the market, a 45 percent increase in the supply of "for sale" properties in the central business district. And the residential market wasn't the only one buzzing. In 2007, office lease rates were enjoying double-digit gains, space was tight, and ground was broken on several speculative office

buildings. Talk heated up about the possibility of developing the long-awaited Two Tabor tower. Fast forward to the present - and the downtown real estate engine is sputtering, burdened by the overbuilding of the past several years. While nowhere near the dire straits seen in Las Vegas or Detroit - with hulking empty buildings and neighborhoods - clearly downtown Denver isn't as healthy as it was several years ago. "It feels ugly," said Tom Lee, a longtime broker at Frederick Ross Co. "But the market hasn't fallen off the cliff," Lee quickly adds. "We don't have a 30 percent office vacancy rate like we did in the late '80s. It's not even as bad as it was in 2002," following the terrorist attacks in 2001 and the tech wreck. Still, the overall office vacancy rate downtown rose 40 percent to 14 percent at the end of 2008 from a year earlier. The amount of subleased space downtown has doubled and is expected to continue to grow, as downtown employers lay off workers. Lease rates likely will drop 10 percent this year from 2008, Lee said, and don't look for construction to start anytime soon on Two Tabor, or even the two 150,000-square-foot office buildings that were going to be constructed next to the Pepsi Center. They were announced with great fanfare two years ago by Kroenke Sports Enterprises. "Nothing is going to start that isn't already under way," Lee said. The tenant demand isn't there for new projects and given the shattered credit markets, financing isn't available without massive pre-leasing. Still, the commercial market is in better shape than residential, both for "for sale" and rental. The appeal of downtown living is as strong as ever, said Ken Schroepfel, urban planner and author of the blog [denverinfill.com](http://denverinfill.com). "The issue, quite simply, is that developers are trying to close on units during the worst economic crisis since the Great Depression, so naturally sales are going to be a bit slow," Schroepfel said. The downtown condo market has been hit by a triple whammy: new buildings opening during a sluggish overall market; lenders unwilling to make condo loans, especially for investors and second-home buyers; and the premiums paid for jumbo loans, which are more than \$417,000. Some lenders are requiring a 40 percent down payment on jumbo condo loans, said Al Sanchez, an owner of Capital Access Mortgage. And many lenders simply refuse to make loans to condo investors, he said. When One Lincoln Park was opening last fall, the owners were crowing that 144 of the 180 units had been sold, despite the tough market. But during the five months since the first units were completed, public records show only about a third of the units have closed, with total sales tallying about \$30.5 million. That equates to an average price of about \$610,000. "But that is misleading," said Deviree Vallejo, of Kentwood City Properties, one of the brokers listing the building at Lincoln Street and East 20th Avenue. Vallejo said about another 65 of the original buyers are in some stage of closing - it is just taking longer than expected. In addition, Kentwood City Properties has placed another five units under contract in the past few weeks, and interest is strong, as the market heads into the beginning of the selling season. "We have so much traffic on weekends that we're thinking about doubling up on our brokers here," she said. Lydia Lin, owner of One Realty, said she has also been experiencing a recent surge in downtown sales activity. She said it is being driven by sellers willing to deal, low interest rates and the stimulus package, which provides an \$8,000 tax credit for first-time home buyers. "There's so much action now, it's unreal," Lin said. "Everyone is slamming." But everyone is watching the 41-story, 503-unit Spire that is scheduled to open in December. Sales kick off next month. There are about 1,400 condo units in the central business district, so the Spire would increase the supply by 36 percent. "A lot of people are waiting to see what the Spire does," said Brian Phetteplace, manager of retail and residential development for the Downtown Denver Partnership. He noted that 60 percent of the units are expected

to be priced under \$400,000, which should help sales. "It's the highest density residential property downtown has ever seen," Phetteplace said. Whether Spire will shoot the lights out like Glass House did or stagger under the weight of so many units hitting the market at once "is a mystery," said Denver developer Paul Stann. "Everyone is trying to look into the crystal ball and figure the Spire out," Stann said. "I can't make any predictions. I hope it does well; that would be good for everybody. But I'm a pragmatist. The rental market downtown also is softening. The apartment vacancy rate more than doubled to 7.6 percent at the end of last year compared with 3.6 percent at the beginning of the year. There are 2,664 rental units in downtown, and several large projects are under way or recently opened at the edge of the central business district - such as the Golden Triangle and Ball Park - that will increase the supply by about a third. "The rental units are taking a pretty big swing, a pretty big increase," said Phetteplace, of the Downtown Denver Partnership. Downtown apartments had been leading the Denver area for most of the past five years, said Jeff Hawks, co-owner of Apartment Realty Advisors. "It had the largest rent increases and the highest occupancies," Hawks said. "Over the last six months, it has been hit the hardest as far as percentage changes." Hawks said that in an economic downturn such as this one, "one of the first casualties are the corporate units," which are geared toward business people from outside Denver living for extended stays in apartments. That market has just about evaporated, he said.  
**(Rocky Mountain News)**

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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>	1.26	1.18	3.08
<b>PRIME RATE</b>	3.25	3.25	6.00
<b>10 YEAR TREASURY</b>	3.02	2.64	3.67
<b>30 YEAR TREASURY</b>	3.71	3.40	4.52