

April 20, 2009

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

### Dynamic Duo? Apartments, Industrial Gain Favored Status

"Bleak" may be one of the most common descriptors for the national commercial real estate market outlook in 2009. But according to new research, apartment and industrial properties are expected to rebound sooner than other sectors. When will that recovery occur? Not until later this year or the beginning of 2010 at the earliest. "In general, apartment and industrial markets should be less negatively impacted by market fundamentals in the near term, with strong fundamentals in the longer term making them less risky investments," says Alan Billingsley, head of research in the Americas for RREEF. RREEF is the alternative investment management division of Deutsche Asset Management, a member of the Deutsche Bank Group, which has more than \$67 billion in assets under management. While nearly every apartment market is expected to post declines in rents and occupancies over the next two years due to rising unemployment, RREEF's research indicates that properties located in supply constrained markets near employment centers will hold up the best of all property sectors. In the short term, apartments will compete with for-rent housing in many markets, with the national vacancy rate expected to peak at 7.4% in 2009, up from 6.6% in 2008, according to New York-based researcher Reis. But due to favorable demographic trends, coupled with recovery in most employment markets over the next three to five years, apartments should perform better than office, industrial and retail. In fact, RREEF Research projects a remarkably strong recovery for apartments between 2011 and 2015, owing much to a slowed new development pipeline. Deliveries of new apartment units are forecast to drop to 1993-94 levels of 40,000 annual units by mid-2010. Other investment managers are singing the same apartment tune. "Long term, pension funds will continue to like apartments," says Chris MacDonald, managing director and co-founder of Newport Beach, Calif.-based Buchanan Street Partners. The national real estate investment management firm has \$2.5 billion in assets under management for institutional investors. (Buchanan Street is affiliated with TCW, a large investment management company with \$100 billion in assets under management.) "Over time, apartments have provided the most stable income and appreciation for investors' portfolios," says MacDonald. "They have proven to increase returns and stability of an overall real estate portfolio, and the demographics speak well for apartments." Investors should also keep their eyes on industrial investments, particularly in core markets, according to RREEF. The downturn for industrial properties is expected to be less severe than other sectors due to a general lack of overbuilding and less severe cutbacks in tenant demand for space. Industrial should also bounce back to health more quickly than office and retail. When it comes to the short haul, however, the numbers aren't so positive. In particular, RREEF expects the U.S. industrial vacancy rate to rise from 11.3% in 2008 to 12.8% in 2009 and peak at 12.9% in 2010. Net absorption is expected to reach negative 143.6 million sq. ft. in 2009, which is about equal to the negative absorption recorded in 2001. By 2010, the industrial sector is expected to post modest growth in new demand, with about 16 million sq. ft. of positive net absorption. The development pipeline will shrink to record low levels over the next three years, averaging less than 50 million sq. ft. per year. At the other end of the spectrum, RREEF is warning investors to be more circumspect of office and retail properties. According to the Bureau of Labor Statistics, nearly 1.9 million jobs were lost nationwide in the first quarter of 2009, and with unemployment still on the rise companies continue to cut back on their office space requirements. At the same time, consumer spending has dried up and retail vacancies will likely increase to

10.5% in 2009, according to Reis, as retailers halt expansion and many look to bankruptcy as an exit strategy. Retail properties have already seen a significant decline in value over the past 12 months. RREEF estimates that values have fallen by 30% or more since their 2007 peak. The National Council of Real Estate Investment Fiduciaries' property index, which is typically slow to recognize market changes, provided a total return of negative 6.5% for all of 2008. For 2009, RREEF is forecasting a total return ranging between negative 9% and negative 11%.  
**(National Real Estate Investor/Ben Johnson)**

\*\*\*

### **Owner of 4 Local Malls Bankrupt**

General Growth Properties Inc., the nation's second-largest mall operator, filed for Chapter 11 bankruptcy protection early today after it failed to persuade a majority of its debt holders to give it more time to refinance billions of dollars in debt racked up during the housing boom. The news sent the real estate investment trust's stock down 60 cents, or 57 percent, to 45 cents in electronic premarket trading. Its stock traded last spring as high as \$44.23. General Growth owns Park Meadows in Lone Tree, Southwest Plaza in Littleton, Foothills Mall in Fort Collins and Chapel Hills Mall in Colorado Springs. The company said shoppers at its malls will not be affected by its decision to file for bankruptcy protection. "Our restructuring will be invisible to the customers who visit our properties every day," President and Chief Operating Officer Thomas H. Nolan Jr. said during a morning conference call. The move by the Chicago-based company had been widely anticipated since the fall, when the company warned it might have to seek bankruptcy protection if it didn't get lenders to rework its debt terms. Efforts to negotiate with its unsecured and secured creditors ultimately fell short late last month. "While we have worked tirelessly in the past several months to address our maturing debts, the collapse of the credit markets has made it impossible for us to refinance maturing debt outside of Chapter 11," Chief Executive Adam Metz said in a statement. Chapter 11 protection typically allows a company to hold off creditors and operate as normal while it develops a financial reorganization plan. The company had about \$29.6 billion in assets and more than \$27 billion in liabilities as of Dec. 31, according to documents filed with the U.S. Bankruptcy Court in the Southern District of New York. The company noted that some subsidiaries, including its third party management business and joint ventures, were not part of the bankruptcy petition. General Growth said it intends to reorganize with the aim of cutting its corporate debt and extending the terms of its mortgage maturities. It also said it will continue operating all of its shopping centers during the bankruptcy process. The company said it received a financing commitment from Pershing Square Capital Management LP of about \$375 million that General Growth expects to use to operate during the bankruptcy process. General Growth, which has a stake in more than 200 malls across 44 states, has seen its fortunes sour as the U.S. economy worsened and the credit markets froze, leaving it hard-pressed to refinance the billions in debt the company took on during an aggressive expansion effort that included the \$7 billion purchase of a competitor in 2004. Last month, General Growth said it got lenders to waive default on a \$2.58 billion credit agreement until the end of the year. But its Rouse Co. subsidiary failed to convince enough holders of unsecured notes worth \$2.25 billion as of Dec. 31 to accept a proposal that would let the unit avoid penalties for being behind on its debt payments and give it some time to refinance its debt load. In February, the company reported lower-than-expected fourth-quarter funds from operations and a

dip in revenue amid weaker retail rents. The company has suspended its dividend, halted or slowed nearly all development projects and cut its work force by more than 20 percent. It also has sold some of its non-mall assets. **(Denver Post)**

\*\*\*

### **Colorado Unemployment Rate Hits 7.5 Percent**

Colorado's unemployment rate jumped three-tenths of a percentage point to 7.5 percent in March. The state Department of Labor and Employment said Friday that's the highest rate in nearly 22 years. The previous high mark was 7.7 percent in May of 1987. The number of Coloradans with jobs fell 13,000 in March to just over 2.5 million. The unemployment rate in February was 7.2 percent. In March of last year, it was 4.6 percent. The national unemployment rate in March was 8.5 percent. **(Denver Post)**

\*\*\*

### **Beige Book: 'Tentative Signs of Stabilization' in Region's Economy**

Economic conditions "continued to decline in March, but showed some tentative signs of stabilization" in a seven-state region that includes Colorado, the Federal Reserve said Wednesday in its latest Beige Book survey of business executives. It said that fewer businesses in the region were expecting further declines in economic activity. "By contrast," it said, "the commercial real estate sector weakened further, energy activity dropped sharply, and bankers reported lower loan demand and expectations of weakening loan quality. Price pressures eased further, and wage pressures remained low due to weakness in the labor market." The report covers the Fed's Kansas City-based 10th District. It is based on interviews with a sample of businesses representing key industries in each district. The reports are anecdotal and do not contain statistics, but they are widely followed and help the Fed to set national economic policy. The Fed's 10th District includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming and western Missouri and northern New Mexico. Formally known as the "Summary of Commentary on Current Economic Conditions by Federal Reserve District," the Beige Book is published eight times a year, with each report covering roughly a six-week period. The latest report covers mostly January and early February. The Federal Reserve's 10th District is also known as the Kansas City district because the reserve's regional bank is based there. "Consumer spending eased slightly in March and expectations remained subdued, but some [business] contacts reported modest improvement," the survey said. "Excluding autos, retail sales were fairly level in March, though activity still remained well below a year ago and expectations were relatively flat." "Nearly all tourism contacts expected a further slowdown in travel activity," the Beige Book said. "Restaurant traffic edged up slightly from the previous survey, though activity continued to be relatively sluggish." "Manufacturing activity declined at a slower pace in March than in previous surveys," the report said. "Overall production fell less at both durable and non-durable-goods producing plants. Some plant managers reported a slight upturn in shipments, new orders, and order backlogs, but many firms continued to reduce inventories in response to sluggish demand." "Residential real estate activity steadied somewhat in March, while the downturn in commercial real estate activity continued," the Beige Book said. "Home sales rose slightly from the previous survey, and expectations for future sales also improved, though activity remained well below year-ago levels. The increases were attributed to lower mortgage rates and new tax

credits related to housing. Real estate agents reported solid demand for lower-priced homes and foreclosed properties." "Bankers reported a decline in loan demand, an increase in deposits, and a slightly more pessimistic outlook for loan quality since the last survey," the report said. "Energy activity weakened sharply in March," the Beige Book said. "Nearly all contacts reported a decrease in drilling activity and were pessimistic about the months ahead. While oil prices have rebounded somewhat, natural gas prices remained depressed, with no upturn expected in the near future." "Price pressures eased further, and wage pressures remained limited due to soft labor markets," the report said. "Manufacturers reported a continued decline in raw materials prices, though slightly more producers than in previous surveys planned to raise selling prices in the future. Overall retail prices edged down from the previous survey, and most contacts expected prices to fall further in coming months. Only a small number of firms reported labor shortages, resulting in minimal wage pressures." (Denver Business Journal)

...

|                  | CURRENT | 1 MONTH PRIOR | 1 YEAR PRIOR |
|------------------|---------|---------------|--------------|
| FED FUNDS RATE   | .25     | .25           | 2.25         |
| 3 MONTH LIBOR    | 1.10    | 1.30          | 2.82         |
| PRIME RATE       | 3.25    | 3.25          | 5.25         |
| 10 YEAR TREASURY | 2.98    | 2.50          | 3.73         |
| 30 YEAR TREASURY | 3.79    | 3.58          | 4.51         |