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### **Deloitte: Sovereign Wealth Remains a Force**

While there haven't been many high-profile transactions lately, the lack of activity shouldn't be seen as a sign that sovereign wealth funds have lost interest in commercial real estate, according to a Deloitte LLP report released Monday. SWFs figured in some of the largest investment sales of 2008, including the Abu Dhabi Investment Authority's \$800-million stake in the Chrysler Building and the Kuwait Investment Authority's \$3.95-billion joint venture with Boston Properties to buy the General Motors Building and three other office towers, and could be back for more. "Notwithstanding current US and global macro economic conditions, which will likely impact SWF and other global investors' short-term investment strategies, SWFs may present a significant source of new capital flows into US commercial real estate and the overall US economy," Dorothy Alpert, Deloitte's US real estate leader, says in a release. "Real estate firms that strive to understand and build relationships with SWFs may benefit from this access to capital and expanded opportunities for growth." From the viewpoint of SWFs, US commercial real estate is "perceived to be a quality investment in a mature and sophisticated market," according to the Deloitte report. With regard to SWFs' recent absence from the domestic acquisition scene, Guy Langford, who heads up Deloitte's real estate M&A practice, tells [GlobeSt.com](#), "SWFs are somewhat inwardly focused right now in the short term, which supports the evidence of lack of external SWF investment in US commercial real estate for the past six months. In addition, given the continuing distress in US commercial real estate with declining values, many investors, including SWFs, are adopting a 'wait and see' approach." In a break with what Deloitte calls the "traditionally conservative, passive investment practices" of SWFs, some funds are pursuing interests in partnerships and joint ventures with US real estate firms and investors. "This shift to broader and more active investment relationships may require that SWFs pay greater attention to increased political, media and public scrutiny, as well as their need for greater operational transparency," the report states. To that end, representatives from 26 nations with SWFs released a set of voluntary guidelines last fall. Known familiarly as the Santiago Principles, after the city in which they were drafted, the guidelines are intended to promote transparency and allay fears that SWFs might use their investment clout--which some sources say could reach \$9 trillion in assets under management by 2012--for political ends. If the guidelines are widely adopted by member nations of the international working group that created them, it could help lower the remaining barriers to SWF investment in the US, according to the Deloitte report. However, Omar Fahoum, chairman and CEO of Deloitte Middle East, said in a Deloitte podcast last month that it's "too early to tell" whether signatories to the Santiago Principles would have a competitive edge compared to member nations that don't comply with the guidelines. According to a chart in Monday's report, funds associated with Western-style democracies--including the Government Pension Fund of Norway and the Alaska Permanent Fund--tend to rank higher in terms of transparency. The April 15 podcast also explored whether "the current volatility of the global financial system" could result in the impact of SWFs being diminished, especially since much of their wealth comes from trade surpluses, which are shrinking, and commodities, whose prices have plummeted. Frank Dubas, a partner in Deloitte & Touche, said he didn't think this would be the case. As trade surpluses and commodity prices shrink, Dubas said, it will be more important for SWFs to focus on the third source of their wealth, which is investment. ([Globest.com](#))

### **Class A Industrial Inventory Running Out**

Large users have eaten away at Denver's inventory of Class A industrial space, yet economic conditions make new construction unlikely in the immediate future. "We've had running inventory for the last 10 years. When the cycle closed over the last eight months, we had plenty of inventory. But now we've burned through it and there's no development projected on the horizon," said Colliers Bennett & Kahnweiler broker Tim D'Angelo. "Normally we would have a million square feet coming out of the ground right now," said Cushman & Wakefield of Colorado broker Mitch Zatz. "This is virtually unheard of in the market." Only four Class A warehouse-distribution spaces over 100,000 sf are available in the metro area. The largest is a 161,524-sf building at Airways Business Center in Aurora. **(Colorado Real Estate Journal)**

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### **Maturing Loans Head for a Troubled Market**

A potential recipe for disaster is brewing in the commercial real estate market, according to a new report from research firm Foresight Analytics. An extremely tight credit market coupled with \$814 billion in maturing loans over the next three years could prove to be a toxic mix that delays recovery and puts downward pressure on valuations. "We broadly see two scenarios," says Matt Anderson, a partner with Oakland, Calif.-based Foresight Analytics LLC. "The one that we're currently most biased toward is to envision that there will be quite a bit of distress out there." One impact of the distress would be the growth of defaults and foreclosures. The rising defaults, ironically, would remove some of the future pressure on maturities. The second scenario is that lending capacity would be enough to avoid high levels of distress, says Anderson. "If there is enough capacity out there to keep the existing inventory afloat for a while, the dollar amount of loans maturing will really soak up so much of the capacity of the market that there will be very little net new growth for the next decade." If this distress does not materialize or is more moderate, Foresight Analytics anticipates that the commercial real estate debt market will show minimal growth for the next decade. A wave of refinancing activity already has begun to crowd out new loans. An estimated 80% of originations in 2008 were refinanced mortgages compared with roughly 35% from 2000 to 2007. "We expect that proportion to be very high, approximately 80%, for several years to come where the market most likely will be treading water," he says. This year, an estimated \$250 billion in commercial loans is expected to mature. With liquidity already scarce, many portfolio lenders have been kicking the can down the road with temporary one-year extensions on 2009 maturities. While these short-term loan extensions are relieving some of the strain on the current debt market, they will add to the maturities that come back for refinancing in 2010. Anderson estimates that these one-year extensions represent more than a third — if not more — of the refinancing activity this year. The pivotal year will be 2011. A total of \$296.2 billion in loans originated by banks, commercial mortgage-backed securities (CMBS) lenders and life companies is projected to come due in 2011. The amount of loans made in the boom years of 2006 and 2007 that will mature at that point shoots up to \$85 billion. "It's concerning because it was the most aggressive lending [period], and there's no CMBS lender to step in and replace those loans," says Anderson. CMBS loans also will be adding to the total maturities. "In the near term, the [CMBS] dollar amounts that we estimate maturing range from \$45 billion to \$55 billion per year from 2009 to 2011." Just how big the lending shortfall will be is tough to quantify. "In today's

environment, if the banks stop lending or stop growing, then we know we're in some trouble in terms of the shortfall," says Anderson. **(National Real Estate Investor/Sibley Fleming)**

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**U.S. Unemployment Rises to 8.9%, but Pace of Job Loss Slows**

U.S. unemployment rose to 8.9 percent in April from 8.5 percent in March, a 25-year high, the U.S. Department of Labor reported Friday. Since the recession began in December 2007, 5.7 million jobs have been lost, the department's Bureau of Labor Statistics said. In April, job losses were large and widespread across nearly all major private-sector industries. Overall, private-sector employment fell by 611,000 jobs. The number of unemployed persons increased by 563,000 to 13.7 million in April, BLS said. Over the past 12 months, the number of unemployed persons has risen by 6 million. The nation's unemployment rate was 5 percent in April 2008. If there was any good news in the new numbers, it was that the number of lost jobs nationwide in April -- 539,000 -- was smaller than the 699,000 jobs removed from payrolls in March and was the smallest lost-jobs number since October, when the recession was picking up steam. In Colorado, unemployment in March -- the latest month for which numbers have been released -- rose to 7.5 percent, up three-tenths of a point above February's level, again reaching heights not seen in more than two decades, the state's Department of Labor and Employment reported April 17. April numbers for the state will be released later this month. Unemployment in the Denver area grew again in March, to 8.2 percent from 7.9 percent in February, according to a report April 29 by the BLS. Unemployment in the Denver-Aurora-Broomfield area was reported at 7.4 percent in January and 6.3 percent in December 2008. It was 4.8 percent in March 2008. **(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	2.00
<b>3 MONTH LIBOR</b>	.94	1.14	2.72
<b>PRIME RATE</b>	3.25	3.25	5.00
<b>10 YEAR TREASURY</b>	3.29	2.85	3.75
<b>30 YEAR TREASURY</b>	4.28	3.66	4.53