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### **Sovereign Funds Show Reignited Interest in Shopping for U.S. Property**

Sovereign wealth funds (SWFs) have grown at a remarkable pace over the last decade, quadrupling from an estimated \$1 trillion in assets under management in 2000 to \$4 trillion today, and expected to hit \$6 trillion within two years. So it shouldn't come as a surprise that U.S. property owners are abuzz about the new interest American real estate is generating among foreign investors representing such diverse governments as China, Singapore, Qatar and Norway. Evidence that SWFs are emerging from their two-year recessionary slumber is more than anecdotal. While the number and value of sovereign fund deals fell to its lowest ebb in five years during the first half of 2009, the investment pace picked up vigorously in the third and fourth quarters and into 2010, according to a new report by Cambridge, MA-based consulting firm Monitor Group and Fondazione Eni Enrico Mattei (FEEM), a Milan, Italy-based international research center. Funds monitored by the groups for the report executed 113 publicly reported deals worth \$68.8 billion last year -- about 40% below 2008 totals. However, in what the authors view as a vote of renewed confidence in global markets, SWFs reported a dramatic uptick in activity during the second half of 2009, accounting for 85% of the year's transactions, according to the Sovereign Wealth Fund (SWF) report titled "Back on Course: Sovereign Wealth Fund Activity in 2009." Funds made almost double the number of investments in the final six months of the year as in the first and spent nearly six times as much, \$58.1 billion versus \$10.6 billion. They also showed renewed interest in real estate as a preferred asset to park their investments late in the year, logging \$4 billion during the fourth quarter. Sovereign funds, pension funds and REITs expect to be very active in U.S. real estate investment going forward as the economy recovers, CoStar analysts said. Only about half a dozen of these wealth funds presently have an existing real estate portfolio. But the attractiveness of the U.S. market relative to Europe is quite high at present. At an average 5% allocation to real estate, wealth funds could inject a couple of hundred billion dollars of equity into global real estate markets, with much of it finding its way into the U.S. "SWFs have been active globally and they're coming to the U.S. because London has been bought up and people perceive a recovery in the U.S.," said CoStar Group Director of Advisory Services Hans Nordby. Recovery is still a work in progress for the office market because vacancy rates haven't quite topped out yet and more rent losses are coming. But the SWFs believe the economy is turning and capitalization rates for U.S. property are relatively attractive compared to other world markets, Nordby said. As for markets being considered for investment, Nordby said SWFs "don't take connecting flights," and prefer a half-dozen major U.S. metropolitan areas. "They like tall shiny buildings that will impress their brother in law. This trend doesn't benefit El Paso," Nordby said. "The foreign investors that have come to the U.S. over the last year have been very well rewarded on two fronts," he said. "One, values are up for long-leased assets in the SWFs' select set of major metros. Two, they placed their money into dollars, and dollars went up. Investors like it when that happens." The Greek financial crisis has made investors think twice about investing in the euro zone. But the overriding factor for the SWFs is the growing strength of the U.S. economy, Nordby said. "The leading reason SWFs are looking at the U.S. is not that Europe looks more dangerous than it did six months ago, which is true," he said. "But more importantly, the U.S. is showing economic growth -- investors love growth -- and it looks like some of the risk is rung out. A lot of these people are investing for yield and the U.S. looks like a

good place to be." According to the Monitor/FEEM report, the sovereign fund expending the most capital was the Qatar Investment Authority, which made 14 reported investments valued at over \$32 billion. The China Investment Corp. (CIC) and the Government of Singapore Investment Corp. led in the number of transactions with 17 and 18, respectively. Several funds that had been quite active during 2007 and 2008 -- notably Dubai's Istithmar, but also Singapore's Temasek -- largely withdrew from the market to reassess their strategies in the aftermath of the global financial crisis. SWFs are trying to spread their risk by co-investing as part of a consortium or with other funds, noted William Miracky, senior partner at Monitor Group. "We're seeing an evolution in the behavior of SWFs," Miracky said. "For example, for the first time, we saw funds invest jointly to share risk while maintaining market exposure to a diverse range of asset classes and sectors, a trend we expect to continue." GIC and Temasek Holdings of Singapore paired up to invest in the IPO of Chongqing-based property developer Longfor Properties Co., while China's CIC and the Qatar Investment Authority partnered last year to buy 40% of Songbird Estates, which owns much of the Canary Wharf financial district of London, for \$885 million in a combination of preferred and common stock. SWFs invested in three main markets in the world's democratic countries last year, the United Kingdom (8 deals, \$2.85 billion); the U.S. (6 deals, \$3.25 billion) and Canada (5 deals, \$3.31 billion). "This suggests that North American markets, having been largely shunned by SWFs for much of 2008 and 2009, are beginning to become more attractive," according to the Monitor/FEEM study. **(CoStar)**

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### **Apartment Vacancies, Rents Fall in Colorado**

The statewide apartment-vacancy rate dropped to 6.6 percent during the first quarter, compared with 8.5 percent in the same period a year earlier, according to a survey released Thursday. Meanwhile, average rent statewide fell to \$840 during the first quarter from \$844 in 2009, according to the report by the Colorado Division of Housing. One of the reasons for the decline in vacancy is that students who graduated from high school over the past several years have left home, said Gordon Von Stroh, professor of business at the University of Denver and author of the report. "Eventually, they've got to leave home," Von Stroh said. "It looks like that's what's putting pressure on the system." Vacancies also are dropping as rental housing becomes more attractive than owning a home, said Ryan McMaken, spokesman for the Division of Housing. "It's difficult to get financing, and there's uncertainty about the future," he said. "Many people on the cusp are going to look toward renting because wages have declined or they've become unemployed." Terrence Hunt of Apartment Realty Advisors said he expects the vacancy rate to continue to drop now that the first-time-homebuyer tax credit has expired. "The tax credit didn't hurt the multifamily market, but it did take people out of the market," he said. "This (downward) trend should continue." The metro Denver vacancy rate, measured in a different survey, was 6.5 percent for the first quarter. **(Denver Post)**

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### **Consumer Spending Driving Metro Denver's Economic Comeback**

After numerous months of reserved spending, consumers are increasingly opening up their pocket books, according to data compiled by the Metro Denver Economic

Development Corporation (Metro Denver EDC) in its Monthly Economic Summary for May 2010. According to the U.S. Bureau of Economic Analysis, household spending drove roughly 80 percent of the estimated first quarter growth in gross domestic product. Consumer confidence measures – while still below levels seen in a healthy economy – have improved, and a March gain in U.S. retail sales exceeded expectations. Some of the robust year-over-year gains recently reported for retail metrics reflect the weakness of retail last spring, but many economists agree that the gains also show consumers' desire to start spending again. "This mentality, however, could prove fickle unless hiring accelerates enough to reduce unemployment and boost incomes," stated Patricia Silverstein, chief economist for the Metro Denver EDC and president of Development Research Partners. Metro Denver employers added 6,700 jobs between February and March. Like gains from prior months, though, the March gain was smaller than expected for this time of year. Revised unemployment figures show Metro Denver's unemployment rate measured 8.2 percent in March and in the prior two months. However, the average weekly number of unemployment insurance claims filed in Metro Denver declined between February and March. The March average was the lowest reported for any month since October 2008, and the average number of Metro Denver claims for the first quarter fell 21.7 percent below the average for the first quarter of 2009. "In addition to retail sales and decreased unemployment claims, other fundamentals point to the fact that the economy is progressing. Consumers are increasingly buying houses as well as traveling," said Silverstein. The number of homes sold in Metro Denver nearly doubled between February and March as local buyers rushed to take advantage of tax credits. The March sales total was 12.4 percent higher than last year's sales level, and the month's vigorous activity helped home sales rise 2.8 percent in the first quarter above sales from the first quarter of 2009. Additionally, February passenger traffic at Denver International Airport rose 5.1 percent over-the-year. The higher February figure drove a four percent year-to-date increase in total passengers. In another sign the economic rebound is imminent, Colorado was ranked as the nation's second-best state in economic outlook by the 2010 ALEC-Laffer State Economic Competitiveness Index. The index – released by the American Legislative Exchange Council (ALEC) – examines each state's tax structure and spending to demonstrate how public policy shapes economic growth. Fourteen of 18 indicators moved in a positive annual direction this month, compared to 12 positive annual indicators in the previous report. Twelve indicators moved in a positive monthly direction, compared to thirteen indicators in the previous report. The Monthly Economic Summary provides a snapshot of metro area economic activity, as well as its relationship to national and regional economic trends. Key highlights include:

**Consumer Sector**

- Metro Denver retail sales showed signs of improvement in early 2010. The region's total retail sales in January rose 0.5 percent above last year's sales total, and sales in five of the seven counties also increased over-the-year. Statewide retail sales were still declining as of January, with sales for the month down 1.7 percent from the year-ago total.
- The fundamentals in Metro Denver's hotel market continue to expand. The region's March average occupancy rate reached 58 percent, up from the year-ago level of 55.5 percent. The average occupancy rate for all of first quarter was 5.7 percent higher than the rate for the first quarter of 2009, although average room rates have yet to recover. The March average room rate (\$104.60) was 0.7 percent below the

year-ago average, and the average rate for the entire first quarter was 4.1 percent lower than the average for the first quarter of 2009.

- Stock markets ended an otherwise strong April on a weak note as first quarter estimates of GDP growth fell below some forecasts and financial market fraud investigations continued. Despite these challenges, the Bloomberg Colorado index showed a 19.8 percent gain year-to-date. Year-to-date gains for the major national indexes ranged from 5.6 percent for the Dow Jones Industrial average to 8.5 percent for the NASDAQ.

#### **Residential Real Estate**

- While many reports on home sales and prices have been positive, other data show foreclosures drifting higher. Metro Denver public trustees reported a 3.6 percent increase in foreclosure filings between the first quarters of 2009 and 2010.
- The number of Metro Denver permits for single-family detached homes in February was nearly three times the total from February 2009, and the count of permits for condominiums and townhomes nearly doubled over-the-year.
- Data from the Denver Metro Apartment Vacancy and Rent Survey show the region's average vacancy rate declined in the first quarter to 6.5 percent from 7.7 percent in the fourth quarter. The first quarter vacancy rate was also down nearly two percentage points from last year's level, and vacancy rates in the seven Metro Denver counties were down between one and three percentage points from vacancy rates for the first quarter of 2009.

#### **Commercial Real Estate**

- A first quarter Grubb & Ellis report suggests Metro Denver's office market is beginning to stabilize. Vacancy rates are still rising as corporate profits and the labor market continue to recover, but the pace of vacancy increases has slowed significantly. The decline in lease rates has also slowed and should be nearing bottom, particularly as property owners exhaust all available concessions. Overall, the report expects Metro Denver's office market will need 18 months to two years before vacancy and lease rates return to normal levels. In the meantime, Grubb & Ellis expects a diverse industry base – including aerospace, telecommunications, and other growing sectors – and continued interest from out-of-state companies will help the market rebound.
- According to a first quarter report by Grubb & Ellis, Metro Denver's industrial market vacancy rates have outpaced the office market following each of the prior three recessions. The report expects the current recession will follow the same pattern and notes that the region's industrial market is already showing signs of strength. Metro Denver's industrial market vacancy rate declined in the first quarter, and low property prices have prompted many tenants to purchase space. These purchases, in turn, have helped drive positive absorption. Overall, the report expects Metro Denver will be one of the nation's most rapidly recovered industrial markets, although complete recovery for rental rates is likely several quarters away.
- A first quarter report by Grubb & Ellis notes that better-than-expected holiday sales made for a smaller-than-expected number of store closures in early 2010. Empty big-box space has increased vacancy rates in some Metro Denver power centers, and early stability in retail sales will need to persist before retail markets can truly stabilize. In the meantime, very limited construction activity should help support the overall retail recovery. **(Metro Denver EDC)**

	<b>CURRENT</b>	<b>1 MONTH PRIOR</b>	<b>1 YEAR PRIOR</b>
<b>FED FUNDS RATE</b>	.25	.25	.25
<b>3 MONTH LIBOR</b>	.50	.31	.66
<b>PRIME RATE</b>	3.25	3.25	3.25
<b>10 YEAR TREASURY</b>	3.20	3.73	3.37
<b>30 YEAR TREASURY</b>	4.07	4.61	4.31