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Panel: Retail Still Faces Ripple Effect

Though the current downturn in commercial real estate might last anywhere from eight months to 24 months, retailer bankruptcies and the ripple effects could remain a concern for even longer, said speakers at ICSC's RECon conference, which concludes here on Wednesday. Even experts are having problems determining just where the industry is in terms of the economic cycle, particularly with some regions stronger than others, noted panelists at a session discussing "Open Air Centers in a Challenging Environment." "The next two years will be problems for some, opportunities for others," said session co-chairman Martin Mayer, president and CEO of Stirling Properties, based in Covington, LA. The industry is still fairly early into the retail shakeout, as consumers are just beginning to change their shopping habits, said Kenneth Bernstein, president of Acadia Realty Trust, based in White Plains, NY. More retailer bankruptcies will follow, with a consequent rise in store closings. Mayer noted that ICSC has predicted 6,000 stores will go dark in 2008, the highest number since 2001. But that isn't the real problem. "[The challenge] is being able to fill vacant spaces," said Richard Tucker, president and CEO of Tucker Development Corp., based in Highland Park, IL. "Fewer tenants are expanding." Those closures will affect various property types differently. Trophy malls are expected to weather the current situation well, but open-air projects vary. "I, of course, think the grocery-anchored centers will do wonderfully," said Shelly Sponholz, SVP with Giant Eagle, based in Pittsburgh. "They will still be a mainstay of American retail." Poorly conceived lifestyle and town centers, however, will have problems, as empty stores prove to be difficult to retrofit, Bernstein said. "C-quality malls and C-quality power centers will run into co-tenancy issues," said Jeff Olson, CEO of Miami-based Equity One. Some, however, remain optimistic. Session co-chairman Daniel B. Hurwitz, president and COO of Developers Diversified Realty, Cleveland, predicted that the downturn will reverse in just eight months. "One day, we'll wake up and find out we've been in a recession for four or five months," he said. "And we're almost out of it." (Globest.com)

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NAR Sees Slim Ray of Light for Commercial Sectors

The U.S. economy will likely avoid a recession and pick up in the second half of this year, according to the National Association of Realtors, which expects the commercial property market to turn in a mixed performance. "Commercial fundamentals are good, but investment has been hurt by the credit crunch. Investment in the commercial sectors decelerated in the first quarter after setting a record in 2007," says Lawrence Yun, chief economist at NAR. Investment in commercial real estate plummeted to between \$35 billion and \$38 billion in the first three months of 2008, down from more than \$100 billion in the first quarter of 2007. In fact, each of the first three quarters of 2007 saw commercial investment of over \$100 billion, according to NAR. The Washington-based trade group notes that commercial property performance varies by market. "We project generally softer rent growth in commercial real estate, and modestly lower business opportunities in most market areas for commercial practitioners," says Yun. "As in the residential sector, areas with strong job growth are doing fairly well." States with the strongest job growth include Colorado, Louisiana, Texas, Washington, Wyoming and Utah. States that have fared the worst with job losses include Arizona, California, Florida,

Michigan, Nevada and Ohio. On an optimistic note, the NAR's forecast calls for better performance in the retail and multifamily property sectors than in the office and industrial sectors. Yun expects to see slower absorption of space in the office and industrial sectors, considering that job gains are slowing overall. In the office sector, the Realtors group predicts net absorption of space in 57 markets it tracks will decline to 8.7 million sq. ft. in the second quarter of 2008, a drop of more than 50% from about 21 million sq. ft. of office space absorbed in the second quarter of 2007. The forecast calls for an average office property vacancy of more than 13% in the fourth quarter in these markets, up from 12.5% in the fourth quarter of 2007. This also means rents are likely to rise only 3.5% for 2008, after rising 8% last year. NAR sees space absorption for industrial properties dropping to 33 million sq. ft. for the second quarter in 58 markets that it follows, a modest decline compared with more than 35 million sq. ft. absorbed in the comparable period of 2007. Vacancy for industrial properties is likely to inch up to 9.6% in the fourth quarter of the year, compared with vacancy of 9.4% in the fourth quarter of 2007. This will contain rent growth to 3.3% by the end of the year, compared with rent growth of 3.6% by the fourth quarter of 2007. In the 53 retail markets the Realtors group tracks, NAR expects net absorption of space to see a major gain, rising to 6.4 million sq. ft. for the second quarter of 2008. This compares with negative absorption of 169,000 sq. ft. for the second quarter of 2007. Scott McIntosh, a senior economist with the NAR, attributes the gain in retail space absorption, which is not spread evenly across markets, to a rise in construction of grocery-anchored strip centers in some suburban areas. This has attracted other retail tenants and increased absorption. In 2007, the retail sector was still feeling the negative impact of some major Macy's store closings, McIntosh says. Retail sector vacancies will decline to more than 8% by the fourth quarter, from over 9% at the end of 2007, NAR projects. The trade association forecasts rents for retail properties to rise on average 1.4% in 2008, compared with an increase of more than 3% for last year. In the multifamily sector, the NAR expects net absorption to rise to 71,800 units in the second quarter, compared with 70,700 units in the second quarter of 2007. The Realtors group also forecasts multifamily vacancies will edge down to 4.8% in the fourth quarter compared with 5.1% in the fourth quarter of 2007. This is expected to help rents gain 3.8% for 2008 compared with a gain of 3.1% for 2007. **(National Real Estate Investor/Poonkulali Thangavelui)**

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Denver Office Market Stable, Report Shows

The buzz about new office building construction has some observers resurrecting the old joke about the crane once again being Colorado's state bird. The perceived construction craze also has led to fears of overbuilding and a crashing of lease rates, which have had a meteoric rise in recent years, especially in downtown. But an in-depth study by two agents at CB Richard Ellis, Sam DePizzol and Greg Holm, shows that this boom pales in comparison with several predecessors'. And adjusted for inflation, today's office lease rates are 49 percent of what they were in the early 1980s, the report notes. Given the tight capital markets, there seems little chance that speculative building, with little pre-leasing, will go forward, they and other experts say. A perfect example is the recent announcement that Westfield Development, the development arm of Frederick Ross, has started construction on its 22-story building at 1800 Larimer St. - the first major downtown office tower in

more than two decades. Xcel Energy is going to move its headquarters into the building, taking 330,000 square feet, almost 70 percent of the space. "Look, that's only going to bring four floors of new space to downtown, with the majority of the space going to Xcel," DePizzol said. "Another 100,000 square feet downtown in a building of that quality is no cause for concern." Holm wrote in the report: "There is currently speculation that the Denver office markets are on the verge of a significant change, based on turmoil in the capital markets, new office building construction and recession." The changes in market conditions will mean that investors will have to own buildings longer than anticipated to get their money back; sellers are finding fewer buyers; values of buildings have dropped from their historical highs; and tenants are more reluctant to sign leases because they think landlords will drop rates and offer more concessions. Neither Holm nor DePizzol expects a big drop in downtown lease rates, but the steep rise seen in recent years will stop, they said. Rather, they expect a stable office market the next two to three years. In 2006-2007, only 1.4 million square feet of office space was constructed in the Denver area, with an additional 3.8 million square feet expected through 2010. That 5.2 million square feet is an increase of only 1 percent annually, given the base of 103 million square feet. From 1978 to 1985, 51 million square feet of office space was constructed, starting from a base of 25 million square feet. Not only did that more than double the size of the market in seven years, but that equates to an average annual increase of 14.2 percent. From 1996 to 2001, 25 million square feet of office space was constructed from a base of about 78 million square feet, adding an average increase of 3.9 percent per year. The first building boom, fueled by favorable real estate tax laws and the energy boom, ended when the price of oil collapsed. The second ended when the Internet and telecom train derailed, costing the area more than 70,000 high-paying jobs and leaving in its wake low-priced subleased office space, now mostly occupied at much higher rates. **(Rocky Mountain News)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	2.00	2.25	5.25
3 MONTH LIBOR	2.65	2.92	5.36
PRIME RATE	5.00	5.25	8.25
10 YEAR TREASURY	3.85	3.72	4.84
30 YEAR TREASURY	4.57	4.49	4.98