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Q1 CRE Sales: Change in Attitude

What a difference a year makes. You hear that a lot around the commercial real estate industry today, especially when it comes to the overall investment sales market. According to new data from New York-based researcher Real Capital Analytics (RCA), sales volume reached \$15.4 billion, which is a 50% increase from the first quarter of 2009. More good news: Every property type registered higher volume. Surprisingly, despite the huge overhang of distressed properties, it was core rather than distressed sales behind the volume gains. Sharp declines in cap rates were recorded for certain assets due to competition among buyers and the rapidly improving debt markets that are allowing buyers access to low interest rates. RCA is quick to point out that "While the improving conditions reflected in the Q1 data are positive, there are still headwinds, transaction activity is still low and the Q1 results do not necessarily signal a widespread, sustained rebound." Still, good news is good news. As the sales increase and the light of recovery shines brighter, greater differentiation in trends among the property types is returning. Clearly the office sector led the rebound in Q1 with a 100 bps drop in cap rates that further analysis reveals was broad-based across markets and property characteristics. Sales of significant office properties reached almost \$5.1 billion in the first quarter, marking not only a 37% year-over-year gain from Q1 2009, but also the first quarterly year-over-year gain achieved since Q3 2007. Though the dollar volume growth was more impressive than the growth in the number of assets traded, both were positive. Suburban asset sales totaled \$3.2 billion compared to \$1.8 billion in CBD transactions. Apartments saw the greatest spike in transaction volume in the first quarter, and although the drop in apartment cap rates was more modest than in the office sector, it was the second quarter in a row in which yields declined. Average cap rates for industrial and retail assets were relatively unchanged in Q1 overall, but even in these sectors compression in cap rates is evident for certain subsets of properties and markets. In one of the more interesting findings, the percentage of sales out of distress slowed markedly for office, industrial and retail in the first quarter, as lenders continue to extend loan maturities and distressed situations and delay sales until the sales market sees continued improvement. Distress sales are meaningful only in the apartment and hotel sectors at present. All of the recent good news has a caveat, of course, considering that Q1 2009 marked the bottom of the recent downturn. Also, this year's first-quarter volume was the fourth lowest of the past decade. RCA also notes that increases are only for dollar volume and the number of properties that traded was flat or even down for some property types. However, the resulting increase in deal size also represents another significant change in the market from a year ago and can be interpreted as a healthy sign.
(National Real Estate Investor/Ben Johnson)

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Consumer Rebound Gives Economy Solid Boost in Q1

The economy grew at a solid 3.2 percent pace during the first quarter of this year as consumers boosted their spending by the most in three years. The Commerce Department's initial estimate of the economy's performance in the January-to-March quarter, released Friday, provided more evidence that the economy is strengthening. It marked the third straight quarterly gain as the United States heals from the longest and deepest recession since the 1930s. Still, growth was weaker than in the

fourth quarter of last year, when the economy grew at 5.6 percent. Consumers rebounded and powered the first-quarter's growth. They increased their spending at a 3.6 percent pace, the strongest showing since early 2007 - before the economy tipped into a recession. That marked a big improvement from the fourth quarter when consumer spending grew at a lackluster 1.6 percent pace. In the first quarter, consumers spent more on things like home furnishings and household appliances, recreational goods and vehicles, clothing, and going out to bars and restaurants. Even though consumers aren't spending as freely as they normally do early in strong economic recoveries, they are spending sufficiently to keep the economy expanding. Looking ahead, analysts believe consumers will be wary of stepping up spending much further. The unemployment rate is high at 9.7 percent and is expected to stay elevated in the months ahead. Sluggish income growth and problems getting loans could restrain shoppers' appetite to spend, they say. "The economy is moving ahead at a decent pace. That's good. But there are headwinds out there for consumers that probably will restrain growth going forward. Are those headwinds going to disappear any time soon? My guess is no," said Joel Naroff, president of Naroff Economic Advisors. He predicts consumer spending will slow in the current April-to-June quarter to about a 2 percent pace. Just 21 percent of Americans consider the economy in good condition, according to an Associated Press-GfK Poll conducted April 7-12. Growth would have to equal 5 percent for all of 2010 just to lower the average jobless rate for the year by 1 percentage point. The outlook for moderate growth this year means unemployment will stay high - in the 9 percent range - by the November congressional elections. The prospects for high joblessness are a political liability for incumbent Democrats and Republicans. The first quarter's reading on gross domestic product was a tad shy of the 3.4 percent growth rate economists were forecasting. GDP measures the value of all goods and services - from machinery to manicures - produced within the United States. It is the best barometer of the nation's economic health. Businesses did their part to help the economy grow in the first quarter. Spending by the federal government helped, too. Spending by businesses on equipment and software rose at a brisk 13.4 percent pace, following an even bigger 19 percent growth rate in the fourth quarter. The federal government increased spending at a 1.4 percent pace, after being flat in the prior quarter. Companies started to restock inventories shrunken during the recession, helping boost factory production and GDP. Exports grew at a slower pace in the first quarter, while imports rose much faster - reflecting stronger demand by U.S. consumers. That meant the nation's trade deficit acted as a small drag to GDP in the first quarter. Slower export growth probably reflects less demand coming from major trading partners in Europe because of the debt crisis there, analysts say. Problems in the real estate market slowed economic activity. Builders once again trimmed spending on housing projects, following two quarterly gains. Spending on commercial real estate ventures plunged at a 14 percent pace, the seventh straight quarterly decline. And state and local governments continued to trim spending, a move some analysts expect to continue for years. Despite pockets of weakness, multiple signals suggest the U.S. economy has turned a corner. Employers are creating jobs again - a net total of 162,000 jobs in March, the most in three years. Manufacturers are boosting production. Consumer confidence is higher. And a rising number of companies - from Ford, Caterpillar and Whirlpool to UPS, Estee Lauder and Royal Caribbean Cruises - are seeing profits grow. General Electric says the "clouds are breaking" after having suffered one of its worst years in 2009. By his best bet, Federal Reserve Chairman Ben Bernanke says the economy will log moderate growth. Economists in a recent AP Economy Survey predict the economy

will pick up some speed, growing at a rate of 3.7 percent in the April-to-June quarter. For 2010 as a whole, economists in the AP survey predict the economy will grow 3.1 percent. That's an improvement from the 2.4 percent decline in 2009, the worst since 1946. But much stronger growth in the 5 percent range is needed for a full year just to drive down the unemployment rate by just 1 percentage point. **(AP)**

Apartment Vacancies, Rent Down in Q1

Apartment vacancies and average rents in metro Denver dropped again in the first quarter, year over year, according to a report released Friday by the Colorado Division of Housing. The lower vacancy rate was helped along by landlords offering discounted rents to fill vacant units, according to Gordon Von Stroh, business professor at the University of Denver and author of the report. "The lower vacancy rate is good for apartment owners, but owners had to basically buy that lower vacancy rate by increasing rent discounts," Von Stroh said. The average apartment vacancy rate decreased to 6.5 percent in the first quarter, from 8.4 percent in the first quarter of 2009 and from 7.7 percent in last year's fourth quarter. Vacancy rates fell in all the six metro-area counties tracked by the housing division; the division combines Boulder and Broomfield counties. Average metro apartment rent fell to \$877.16 per month in the first quarter, from \$881.92 in 2009's initial quarter, but was up from \$875.39 in last year's fourth period. Without job growth, and because of renters' desire to cut costs, it's been hard for landlords to raise rents, according to Ryan McMaken, the Colorado Division of Housing's spokesman. But once the metro area starts to see more job growth, that should spark higher demand for apartments and significant rent increases. "Our unemployment isn't bad here, compared to other metro areas, and that's what's keeping apartment vacancies down. Another factor is there isn't a lot of new apartment construction," McMaken said. From 2003 through 2009, metro Denver added fewer than 3,000 new apartment units each year, compared to 8,000 units in 2001 and more than 9,000 in 2002, according to Terrance Hunt, principal and broker at Apartment Realty Advisors Inc. in Denver. Because of that lack of new construction, Hunt believes the Denver area may be looking at a "pretty tight" apartment market in the near future. Lauren Brockman, principal at apartment management company Orion Real Estate Services Inc. in Denver, pointed out that even in the current economic downturn, there's strong demand for housing in metro Denver because many people are staying here, rather than moving to other markets for jobs. Even with limited job growth, "people want to be here" and need apartments, according to Brockman. Other first-quarter apartment data from the housing division study includes:

- Arapahoe County had the highest average apartment vacancy rate, at 7.2 percent, down from 9.7 percent year over year.
- Douglas County had the lowest vacancy rate, at 4.4 percent, down from 7.1 percent.
- In between, were Adams (6.8 percent), Boulder/Broomfield (5 percent), Denver (6.9 percent) and Jefferson (5.8 percent) counties.
- Douglas County also had the highest average rent in the first quarter, at \$1,055.12 a month.
- Arapahoe County reported the lowest average rent, at \$833.94.
- Other rents, by county, included: Adams (\$874.45), Boulder/Broomfield (\$946.60), Denver (\$883.87) and Jefferson (\$833.94). **(Denver Business Journal)**

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	.25	.25	.25
3 MONTH LIBOR	.35	.29	1.02
PRIME RATE	3.25	3.25	3.25
10 YEAR TREASURY	3.69	3.83	3.11
30 YEAR TREASURY	4.53	4.72	4.03

