

June 14, 2010

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

Deteriorating Debt Service Coverage Ratios Trouble Trepp

An analysis of nearly 34,000 fixed-rate loans in U.S. commercial mortgage-backed securities shows that 13.7% have a debt service coverage ratio of less than 1.0 — a strong sign of financial weakness. Based on its findings, New York-based research firm Trepp LLC expects the percentage of CMBS loans in special servicing to continue rising from 11.7% through May to as high as 20%. If realized, that could result in \$75 to \$80 billion in troubled loans headed for special servicing on top of the \$82.8 billion already occupying that spot. Trepp officials don't expect the default rate on CMBS loans to peak until mid-2011. On a year-over-year basis, 56% of the CMBS loans in the Trepp study experienced deterioration in debt service coverage ratios compared with 44% that showed improvement. Trepp's findings raise a red flag for borrowers and CMBS bondholders already feeling the pinch of a sharp downturn in commercial real estate and slow economic recovery. The debt service coverage ratio is an important tool for researchers because a figure less than 1.0 means that there is insufficient cash flow for a property owner to service the debt. The ratio is calculated by dividing the annual net operating income a property generates by the annual mortgage payment. Trepp sampled about two-thirds of all loans in the U.S. CMBS fixed-rate universe with a combined balance of nearly \$392 billion. Only properties with a 12-month set of financials for calendar year 2009 were included in the analysis. The analysis reveals that 4,663 CMBS loans with a combined loan balance of \$53.8 billion have a debt-service coverage of less than 1.0. Surprisingly, \$44.6 billion of that \$53.8 billion loan balance has not yet been transferred to special servicing and is considered current on mortgage obligations, says Paul Mancuso, a vice president with Trepp. "This leads to two main conclusions. First, there appears to be plenty of room for the percentage of loans in special servicing to grow," emphasizes Mancuso. "Second, since most loans are current, property owners have been willing to reach into their own pockets during this economic downturn to keep a property afloat, while others may be burning through debt service reserves to cover interest shortfalls," adds Mancuso. It's unclear how long that strategy will be viable for borrowers. Of the \$44.6 billion in loans that are considered current but have a debt service coverage ratio below 1.0, approximately \$35.7 billion, or 80%, were generated from 2005 through 2007, a period marked by lax underwriting standards. "During this time, pro-forma underwriting painted a rosy picture of future property fundamentals and valuations," according to Mancuso. "This is in direct contrast to the current economic environment," concludes Mancuso, "which is characterized by occupancy concessions and declining rents and room rates, especially in troubled markets and aging properties." **(National Real Estate Investor/Matt Valley)**

...

KBS Pays \$12.5M for Crescent VIII

KBS Real Estate Investment Trust acquired Crescent VIII, an office building at 8350 E. Crescent Parkway in Greenwood Village, CO, from 8350 ECP Corp. for \$12.5 million, or nearly \$152 per square foot. Constructed in 1997, the property is a four-story, 82,265-square-foot, Class A building on 4.19 acres in Denver Tech Center. It features card key access and signage. The property sold with a cap rate of 8.86 percent or an NOI of nearly \$1.11 million. Mike Winn and Tim Richey of Cushman & Wakefield represented the seller. **(CoStar)**

Denver's SouthGlenn Gets \$300M Recap

Alberta Development Partners LLC and Walton Street Capital LLC have closed on the \$300 million recapitalization of the Streets at SouthGlenn. Located at Arapahoe Road and University Boulevard, the Streets at SouthGlenn is an open-air town square-style retail, entertainment, commercial and residential property located in Centennial, CO. A redevelopment of the former SouthGlenn Mall, the Streets at SouthGlenn consists of approximately 580,542 square feet of retail use, 137,010 square feet of office and 202 apartment units. According to a prepared statement, the recapitalization provides the new venture with significant working capital "to build upon the success already achieved at the property." Phil Russick, principal at PCCP, tells GlobeSt.com that "our business plan is to completely lease up the Streets at SouthGlenn and have a highly successful mixed-use retail, apartment, office center in the south Denver region." Currently, the retail portion is 72% leased. He continues that right after it closed on the recapitalization, it executed on five new leases with retail tenants "that had been anxious to locate to this property," adding that "we've moved forward on leasing and tenant improvement programs and are talking to a number of new tenants who are very interested in locating to the property. We can now ensure continuity with our team on behalf of new and existing tenants and create great momentum for the property." The venture also recently signed an 11-year lease with Pearson. Pearson's eCollege business will occupy three floors totaling 96,927 square feet of space of the Silver LEED certified five-story class A office space. The group will occupy in November 2010 bringing 680 employees to the Streets at SouthGlenn. No further lease terms were given by deadline. According to Russick, "Over the past six months, we have spent countless hours securing the cooperation of multiple lenders in a bank group to acquire the indebtedness and reinforce the capital structure of this investment. We are now looking forward to stabilizing this core irreplaceable property with continuity in strategy and ownership ..." According to Don Provost, founding principal of Alberta Development Partners LLC, the recapitalization "will further differentiate the Streets at SouthGlenn as a leading shopping, dining and entertainment destination." He adds that "The Streets at SouthGlenn provides a great center for the community and our hard work over the past few months achieving this recapitalization will only enhance that experience as we continue to add tenants to the campus." Retail leasing at the property remains strong, according to the prepared statement, including 41,500 square feet of new leased space opening this summer and early fall. The Streets at SouthGlenn will soon welcome University of Phoenix, Snooze – an AM eatery, Shine Boutique, Just Pets, Edible Arrangements, Dairy Queen, Smooch the Pooch – a pet boutique, Pearl Vision and Cheers. In addition, two restaurants will open their doors with early summer openings including Hodson T's and Cantina Laredo – a gourmet Mexican food eatery. The Streets at SouthGlenn features restaurants, Whole Foods Market, 24 Hour Fitness - Super Sport Club, Hollywood Theaters and local and national women's and men's apparel retailers. The retail center also is home to the Commons, a one-city-block-long park, which features a grand fountain and fireplace, mature landscaping and lush gardens. (Globest.com)

Jobless Claims, Exports Fall in Sluggish Recovery

The picture of a steady but still sluggish recovery emerged from reports Thursday that showed fewer people are claiming unemployment aid while U.S. exports are slowing. The reports echo Federal Reserve Chairman Ben Bernanke's suggestion this week that the rebound will remain intact despite high unemployment, a fragile housing market and Europe's debt crisis. But it will take time to create enough jobs to bring down the 9.7 percent unemployment rate. Initial unemployment claims fell by 3,000 to a seasonally adjusted 456,000, the Labor Department said Thursday. That's the third straight drop. However, claims haven't moved below where they stood in January. At the same time, the tally of laid-off workers continuing to claim jobless benefits fell by 255,000 to 4.5 million. That's the largest decline in almost a year. It could be because more people are finding work. But it may simply mean that they have exhausted their initial state benefits. A Labor Department analyst said state agencies didn't provide any explanation for the drop. A weakening in U.S. sales overseas could hurt the job market. The Commerce Department said the U.S. trade deficit rose to the highest level in 16 months as exports fell for the second time in three months. Exports have been a source of strength for U.S. manufacturers. A bright spot for the recovery are near-record low mortgage rates that fell again this week. Rates on 30-year fixed mortgages dropped to 4.72 percent—the lowest level of the year and barely shy of the record low of 4.71 percent. Yet the housing market hasn't benefited the declining rates. Mortgage applications for home purchases fell to the lowest level in 13 years last week and was down 35 percent from a month ago, according to the Mortgage Bankers Association. That's a sign the market is struggling now that government tax credits have expired. Still, stocks surged Thursday as investors appeared pleased with the U.S. economic reports and with news that Chinese exports rose in May. The Dow Jones industrial average shot up about 178 points in midday trading. First-time jobless claims have hovered near 450,000 since the beginning of the year after falling steadily in the second half of 2009. That has raised concerns among economists that hiring remains weak and could slow the recovery. Claims peaked at 651,000 in March 2009. Most economists will feel more optimistic that the economy is creating jobs once they fall below 425,000. "The downward trend in layoffs which began in the spring of last year is clearly over, at least for now," said Ian Shepherdson, chief U.S. economist for High Frequency Economics. "With claims stranded at this level, big private sector payroll gains are just not on the agenda." Last week, the Labor Department said the economy generated only 41,000 private-sector jobs in May, down from 218,000 in April. Temporary census hiring added another 411,000 jobs. Economists also closely watch the total number of people claiming benefits. They monitor those who are initially receiving 26 weeks of state benefits, on average. But they are also concerned about the number of people who have transitioned to extended federal unemployment benefits, which can last up to 73 additional weeks. Nearly 5.4 million Americans are receiving extended benefits. All told, about 9.8 million people drew unemployment in the week ending May 22, the latest data available. That total is likely to drop in the coming weeks. The extended benefit program expired in early June, and Congress is debating whether to continue it through the end of November. About 325,000 people will lose unemployment aid by the end of this week due to the cutoff, the department estimates. That total could grow to 1.25 million by the end of the month if the extension isn't passed. The economy is expanding, but at a weaker

pace than in many previous recoveries. The Commerce Department said earlier this month that the nation's gross domestic product—the broadest measure of economic output—grew at a 3 percent annual rate in the January-to-March quarter. That was down from the 5.6 percent pace in the fourth quarter of 2009. After the last deep recession in the early 1980s, the economy grew at a pace of 7 percent to 9 percent for five straight quarters. **(Denver Post)**

...

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	.25	.25	.25
3 MONTH LIBOR	.54	.42	.63
PRIME RATE	3.25	3.25	3.25
10 YEAR TREASURY	3.24	3.57	3.85
30 YEAR TREASURY	4.15	4.48	4.69

