**June 28, 2010**



**REITs Keep Going Back for Seconds**

There seems no end to the number of real estate investment trusts (REITs) making secondary stock offerings these days. Why? Because apparently investors can't get enough of a good thing. Total returns from REIT stocks have been on the up and up in 2010, mostly. While the FTSE NAREIT U.S. real estate return index fell 4.68% in January, it rose 5.06% in February, 9.42% in March and 6.58% in April, before falling again, by 5.32%, in May. Those performance metrics were enough to spur a series of secondary offerings as REITs tap investors for more capital. On Friday, HCP Inc. (NYSE: HCP) priced a public offering of 13.5 million shares at $33 per share, which the REIT expects will raise more than $445 million. The company increased the offering from 12 million shares due to investor demand. Long Beach, Calif.-based HCP specializes in senior housing, medical office buildings, hospitals and other healthcare facilities. It owns or has interests in 677 properties, and said proceeds would repay borrowings under its revolving credit facility, part of which had been used to acquire four senior housing facilities. The underwriters – BofA Merrill Lynch, UBS Investment Bank and Wells Fargo Securities – also have an option to purchase up to 2.025 million shares of common stock exercisable within 30 days. HCP's shares closed down $1.63, or 4.75%, to $32.72 on Friday June 18. Also last week, Indianapolis-based Duke Realty Corp. (NYSE: DRE) priced a public offering of 23 million shares of its common stock at $11.75 per share. Duke also granted the underwriters a 30-day option to purchase up to 3.45 million additional shares of common stock to cover over allotments, if any. The REIT owns about 135 million sq. ft. of industrial, office and medical office properties nationwide. It intends to use the net proceeds from the offering to fund the recently announced acquisition by Duke Realty Limited Partnership of its joint venture partner's 50% interest in the Dugan Realty, L.L.C. joint venture, to repay debt and for general corporate purposes. The offering is being made pursuant to an effective shelf registration statement and prospectus filed by Duke with the Securities and Exchange Commission on July 31, 2009 and is expected to close on June 22, 2010. Earlier in the week, Dallas-based FelCor Lodging Trust Inc. (NYSE: FCH) announced plans for its own public offering of 25 million shares of common stock. It expected to grant the underwriters an option to purchase up to 3.75 million additional shares of common stock to cover over-allotments, if any. Felcor owns or operates 84 hotels in 23 states. Capital raising isn't limited just to public REITs traded on exchanges, either. A new report from Atlanta-based researcher Blue Vault Partners finds that nontraded public REITs, whose shares are sold through financial advisors at a fixed price, are on track to raise $7 billion in 2010, a 19% increase over 2009. **(National Real Estate Investor/Ben Johnson)**

▪▪▪

**Apartments Stage a Comeback as Renters Return in Surprising Numbers**

After two years of rising vacancies and slumping rents, apartment owners have reason to be cheerier these days. According to the latest survey of 169 markets across the U.S. by researcher Reis, the national apartment vacancy rate peaked at a record 8% in the fourth quarter of 2009 and remained unchanged in the first quarter of 2010. Asking rents increased by a scant 0.1% in the first quarter, but that was the first gain since the third quarter of 2008. Some 20,000 apartment units were absorbed in the first quarter of 2010, which is the strongest first-quarter showing in the past 10 years, according to Victor Calanog, director of research at Reis. "The multifamily market appears to be on the cusp of recovery. If so, pricing and transaction activity will rise and the window of opportunity for landing good deals may close soon," says Calanog. Rental demand drove the occupancy rate for downtown Chicago apartments higher in the first quarter, to 93.6% from 91.4% in the fourth quarter of 2009, according to consulting firm Appraisal Research Counselors. The latest results surprised long-time industry watchers, including Robert Bach, senior vice president and chief economist at Grubb & Ellis. However, Bach is concerned about the abundant supply of empty condos and single-family homes that are entering the rental market in hard-hit areas like South Florida and Phoenix. He believes they are casting a shadow over traditional apartment communities, and siphoning off potential renters. "I'm surprised the apartment fundamentals have bottomed out this quickly, but as long as there are these shadow units out there, then it's going to be interesting to see if the apartment market can recover independent of that," says Bach. The rest of 2010 will be a telling barometer, notes Calanog. "The next two quarters will offer critical perspective as to whether positive rent growth is sustainable." Calanog does expect the vacancy rate to improve over the next five years, dropping to 6.6% in 2014. Certainly one of the most closely watched keys to the short-term apartment market turnaround is the jobs picture. According to the U.S. Bureau of Labor Statistics, the U.S. economy added 290,000 jobs in April, the largest gain since March 2006. That followed a revised 230,000 increase in March. Still, the overall unemployment rate rose from 9.7% in March to 9.9% in April, a sign that more Americans are starting to look for jobs. According to some observers, danger lurks at the deep end of the renter pool. The primary renter market base, people aged 20-30, comprises 70% of the total U.S. apartment market, and that segment is recovering more slowly than others. As an example, the unemployment rate among Americans aged 20-24 was 15.8% in March, but jumped to 17.2% in April. "The unemployment rate for young people has climbed faster than it has for the labor market in general," says Sam Chandan, global chief economist and executive vice present at researcher Real Capital Analytics. According to Chandan, the rental pool is not being supported by new entrants of young people graduating with jobs. "We need job growth among the younger age groups to drive apartment demand. There's got to be some replacement there." Compounding the situation, one of the biggest challenges to recovery in this market is older, more skilled workers who are willing to take lower paying jobs just to find work. Typically this segment is more inclined to own rather than rent. "This is an issue that's going to weigh on the performance of the apartment market," says Chandan. **(National Real Estate Investor/Ben Johnson)**

...

**Webroot Will Move its Base to Broomfield**

A Boulder-based software company is moving its headquarters and 200 jobs to Broomfield. Webroot has signed a lease for 100,000 square feet of space at Central Park Tower, an 11-story building at 385 Interlocken Crescent, according to people familiar with the deal. The company is joining Cloud Peak Energy, which is relocating from Wyoming, and Sybase, a technology company moving from Boulder. The deal brings occupancy in the 300,000-square-foot speculative building, developed by Boston-based Franklin Street Partners, to 52 percent. Webroot officials declined to comment. Chris Silvestri, a principal with CresaPartners who represented Webroot in the deal, also declined to comment. David Hart of CB Richard Ellis, who represented

Franklin Street, declined to discuss the deal. However, he said Broomfield has become an increasingly attractive location for companies growing out of Boulder. "Companies that want to grow and attract employees are coming here," Hart said. Franklin Street is the largest landlord in the northwest office market, Hart said. It owns two more buildings at Interlocken totaling about 484,000 square feet. It also has another site it can build on. "It's very refreshing to deal with a company that's taking a long-term view of things and not looking to get it completed and flip the building," Hart said. The Broomfield City Council approved a deal that cuts Webroot's tax bill over the next 10 years by $95,000 if it employs at least 220 people in Broomfield by the end of this year. "Clearly, in the council's mind, the benefit far exceeds any relief it gave them on property taxes," Broomfield Mayor Pat Quinn said. It's the second such deal the city has made in recent months to bring jobs to Broomfield. In March, the council approved a deal that will give TransFirst Holdings a tax rebate of up to $48,244 over 10 years if the company moves its software-development unit to the Mountain View Corporate Center. TransFirst is a payment-processing company based in New York. It has about 770 employees and a large office in Louisville, according to its website. **(Denver Post)**

...

**New City Zoning Code Approved, 13-0**

The Denver City Council late Monday unanimously adopted the city's first new zoning code in more than 50 years. The council bill that will place the new zoning code into law, passed 13-0, next goes to Denver Mayor John Hickenlooper for action. If Hickenlooper signs the bill, as expected, it will be published by the city clerk and take effect. During a lengthy public hearing before the 9 p.m. vote, several speakers as well as council members expressed mixed feelings about the new code, saying it's not perfect and will need tweaking over time. Inconsistencies in code policies and practices will be addressed, said David Roberts, the city's chief services officer. "It will always be changing," District 4 Councilwoman Peggy Lehman said of the new code. But speakers and council members also said the new form- and context-based code is a needed improvement over the outdated, 54-year-old existing code, and will sustain Denver's future growth. "Calling the new code form-based doesn't do it justice," Denver developer Mickey Zeppelin of Zeppelin Development Co., said at the hearing. "It's really a value-based code, reflecting the values of the community." Council President Jeanne Robb, District 10, called the new code an affirmation of Denver neighborhoods and, while it may not necessarily be simpler than the existing code, it is more organized and an example of the public process, which is "what makes our city great." Councilwoman Jeanne Faatz, District 2, said she still has problems with how downzoning is handled in the new code, and the loss of property value it could cause, but allowed many of her concerns that the updated code would hinder development were resolved over the last six months. Other worries expressed about the revamped code at the council hearing ranged from concerns about upzoning, how the South Platte River will be protected and accessory dwelling units to making sure property owners get the sunlight and building heights they want. City planning department staffers, including planning chief Peter Park as well as planners Tina Axelrad and Tyler Gibbs, answered questions from council members and private-sector speakers. Park said his department will present a report to the council, evaluating the new code's performance, after its first six months of use. Monday's meeting was held at City Council Chambers at the Denver City & County Building, 1437 Bannock St. The council, city planning and development department, and a public/private group called the Zoning Code Task Force have spearheaded the creation the new zoning code for more than five years. Updating the code is part of city growth plans, including the Comprehensive Plan of 2002 and Blueprint Denver in 2002. The main idea behind the new code is to better manage Denver's future growth, through form- and context-based zoning. Creators of the new code also have worked to make it more user friendly than the old one, and hope it will help stimulate economic recovery by encouraging development. Over the years, the current code has become a patchwork of incongruous zoning regulations and it's outdated, according to real estate experts and the city. Authors of the new code initially hoped council members would vote on the new code by the end of 2009, and then in February of this year, and then in April. Votes have been delayed to provide more time for public comment about the code and changes to it based on some of that comment. **(Denver Business Journal)**

...

| | CURRENT | 1 MONTH PRIOR | 1 YEAR PRIOR |
|---|---|---|---|
| **FED FUNDS RATE** | .25 | .25 | .25 |
| **3 MONTH LIBOR** | .53 | .54 | .60 |
| **PRIME RATE** | 3.25 | 3.25 | 3.25 |
| **10 YEAR TREASURY** | 3.12 | 3.19 | 3.57 |
| **30 YEAR TREASURY** | 4.07 | 4.10 | 4.34 |