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Savvy Fund Managers Seize Opportunity

Real estate investment funds have been on a capital-raising binge for the past two quarters, drumming up in excess of $20 billion in the first quarter of 2008 alone. Private equity giant Blackstone Group led the charge by pulling in a handsome $10.9 billion for its Blackstone Real Estate Partners VI fund, setting a new industry record. With this much capital committed to the sector, why is there talk of a liquidity crisis in commercial real estate? The short answer is that much of the new capital is sitting on the sidelines waiting for select, value-add opportunities — code language for higher risk. And lenders are being cautious. Fund managers are waiting for clarity of buying opportunities before deploying their debt and equity investment war chests. They are focusing on higher risk and distress plays, because investment opportunities for high-profile trophy deals are yielding inadequate returns for their yield-starved investors. Consider that millionaire investor Mort Zuckerman recently agreed to pay $2.9 billion for the GM building in New York. In order to quell investors' concerns at Boston Properties Group, Zuckerman is buying the building outside of the entity and will hand over its management to the firm on a fee basis. Boston Properties' investors balked at the rich price, since it translates into a current net negative cap rate. This means that outside of any projected appreciation in value or leasing income, the trophy asset yields a negative current net return. So the liquidity crisis may be in the eye of the beholder, because institutional investors recently approached BlackRock Inc., another private equity house, to put money to work in distressed investments, a high-risk move. Despite overall poor performance from the mortgage and credit markets in the previous two quarters, the investors want distressed and value-add real estate at the top of the BlackRock fund's shopping list. The fund recently closed, raising $3.3 billion, with another $23 billion in its pipeline. The recent rescue of a construction deal by New York-based Hudson Realty Capital, a yield-seeking real estate and mortgage investment fund, offers further evidence of the interest in distressed and high-risk opportunities. The firm provided a $6 million mezzanine loan to rescue the completion of a residential condo complex in Mt. Vernon, N.Y., acting as a white knight for the 11-story building project. The project had been on the verge of collapse, and Hudson Realty Capital calls the investment program it used to rescue the deal exactly that, its "white knight mezzanine program," according to managing director Karim Demirdache. Lipper HedgeWorld recently reported a number of hedge fund managers shorting the 10-year U.S. Treasury bond. This is significant news because it suggests that hedge funds believe investors can no longer be content with meager returns such as the 3.7% that U.S. treasuries were yielding by mid April. Factor in rising inflation — which spiked in both February and March — and these are unsustainable yields even for the most conservative of investors. And the Lipper report correctly deduced that this might be a sign that some semblance of measured risk-taking is returning to both the corporate and real estate bond markets. Furthermore, commercial mortgage-backed securities, particularly lower grade tranches, recently have been trading up. After a dismal performance for the previous year, investors have begun to nibble at the beaten-down sector, pushing prices up for two straight months. According to numbers compiled by Lehman Brothers and Commercial Mortgage Alert, April's total returns to CMBS investors showed a remarkable turnaround. The lowest grade tranches increased more than 6% in just one month. This, too, may be further evidence that fund managers are feeling pressure to put investors' money to work and may not be able to remain on the sidelines much longer. Ultimately, higher risk takers will lead the return of the corporate and real estate bond markets. So, while there is some perception that capital has fled the mortgage finance arena, the reality is that funds have simply shifted from the open securities trading arena to the private money side, seeking better yield in a tumultuous but opportunistic marketplace. **(National Real Estate Investor/Joseph Caton)**

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Economy's Growth Picks up Slightly in First Quarter

The economy plodded ahead at a 0.9 percent pace in the first quarter - slightly better than first estimated - but still underscoring caution on the part of consumers and businesses walloped by housing, credit and financial problems. The new reading on gross domestic product, released by the Commerce Department on Thursday, was an improvement from the government's initial growth estimate for the January-to-March quarter as well as the economy's performance in the final quarter of last year. Both periods were pegged at a 0.6 percent growth rate. Gross domestic product, or GDP, measures the value of all goods and services produced within the United States. The first-quarter performance matched analysts' forecasts and offered a somewhat encouraging sign because it showed the economy was still growing at that time. The figure didn't meet a definition of recession, which under a rough rule is two straight quarters of shrinking GDP, and might raise hopes the country can dodge a full-blown downturn. Fallout from the housing crisis continued to be a big drag on overall economic growth. Builders slashed spending on housing projects by 25.5 percent, on an annualized basis, in the first quarter. That was the most in 27 years. Consumers - whose spending is the economy's lifeblood - are feeling the pressure from the economy's problems. They increased spending at just a 1 percent pace in the first quarter. That was the slowest since the last recession in 2001. Consumers are pulling back as high energy and food prices leave them with less money to spend on other things. Falling home values are making many homeowners feel less wealthy and less inclined to spend. And, the credit crunch has made it harder to finance big-ticket purchases. "Consumers are hurting," said Ken Mayland, president of ClearView Economics. On Wall Street, the Dow Jones industrials were off around 15 points in morning trading. Businesses also showed some caution, cutting spending on equipment and software. However, investment in commercial construction wasn't as weak as the government first estimated, contributing to the upward revision to first-quarter GDP. One of the bright spots keeping the economy afloat in the first quarter was export growth. Exports grew at a 2.8 percent pace. Although that was not nearly as much as first estimated, exports still were a force for GDP growth. The falling value of the U.S. dollar has made U.S. exports less expensive to foreign buyers. In other economic news, more people signed up for jobless benefits last week, the latest sign of softness in the employment market. The Labor Department said new applications filed for unemployment insurance rose by 4,000 to 372,000 last week. The increase left claims slightly higher than the 370,000 level that economists were expecting. Looking ahead, top forecasters at the National Association for Business Economics predict the economy will eek along at a 0.4 percent growth rate during the April-to-June period, which is expected to be the weakest quarter of the year. Growth should pick up to a 2.2 percent pace in the third quarter, energized by the Fed's powerful series of rate reductions and billions of dollars worth of tax rebates flowing into the hands of Americans from Uncle Sam. The Bush administration and the Federal Reserve also are hoping for economic rebound in the second half of this year. That - along with inflation concerns - is why the Fed has signaled it isn't inclined to lower rates further. Even if economic activity strengthens later this year, the unemployment rate - now at 5 percent - is expected to climb to 6 percent or higher early next year. Businesses, which have trimmed their work forces to cope with the economic slowdown, will be reluctant to bulk back up until they feel certain the economy's recovery will be enduring. An inflation measure linked to the GDP report showed that prices grew at a rate of 3.5 percent in the first quarter. That was the same as initially estimated and down from a 3.9 percent pace in the fourth quarter. Excluding food and energy prices, "core" inflation increased at 2.1 percent pace in the first quarter. That was down slightly from the government's first estimate of a 2.2 percent increase for the period and also marked a moderation from the fourth quarter's 2.5 percent growth rate. The core inflation figure, however, is still outside the Fed's comfort zone. The upper level of the Fed's inflation tolerance is 2 percent. Looking forward, inflation pressures could get worse given surging food and energy prices. Oil prices, which have racked up a string of record highs, are hovering above $131 a barrel. Gasoline prices have marched higher, too, moving closer to $4 a gallon nationwide. Those high prices are a double-edged sword for the economy. They can put a damper on growth and also can spread inflation if they force companies to boost their prices. **(AP)**

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StorageTek Work to Begin in Months

In a few months, the buildings at the former StorageTek campus are expected to start coming down. ConocoPhillips officials recently indicated to Louisville's city manager that the Houston- based energy company is moving forward on its plans for the 432-acre property off U.S. 36 and hopes to begin deconstructing the buildings by October or November. At a meeting last week, representatives of ConocoPhillips also told City Manager Malcolm Fleming that the company is interviewing design firms for the master-planning of a site that will house a corporate learning center and global technology center, Fleming said. The company did not provide a timeline for when it would submit plans to the city or how many people would be employed at the site, Fleming said. This year, ConocoPhillips revealed it was buying the campus that was once home to Storage Technology Corp., which Sun Microsystems acquired for $4.1 billion in 2005. Since ConocoPhillips bought the site, Sun Microsystems has been moving employees who were based in Louisville to its campus in Broomfield. ConocoPhillips has set a target date of 2012 for when it will begin to use the Louisville campus. Officials for ConocoPhillips could not be reached for comment. **(Rocky Mountain News)**

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Great Gulf Condo Project Canceled

The 51-story, $165 million 1401 Lawrence condo projected scheduled to be developed in downtown Denver has been called off. Canadian developer Great Gulf Group Ltd. of Toronto decided Thursday to discontinue the development because of poor preliminary sales, prompted by a soft real estate market. The development was Great Gulf's first U.S. high-rise residential effort, and was to be metro Denver's tallest condo tower. "Great Gulf has not achieved the requisite pre-sales to go forward with the 1401 Lawrence project and, regrettably, is cancelling the project," the company said in a statement. The 1401 Lawrence project was being developed by Great Gulf's local arm, Great Gulf Colorado LLC. The developer initially envisioned 145 units with asking prices of $600 to $650 per square foot. Units were expected to range from 1,200 to 7,400 square feet in size. Great Gulf said in 2007 that it wanted to sell 30 percent to 50 percent of 1401 Lawrence's units before it started construction. The developer opened the project's sales office, at 14th and Lawrence streets, last November, and hoped to break ground on the development this year. The condos were scheduled to be completed in 2010. Earlier this year, residential real estate brokers said they expected to see prices for 1401 Lawrence increase by as much as 5 percent. The project's units were being marketed by Kentwood City Properties LLC of Denver. The condo tower was to be located at 1401 Lawrence St., near the Colorado Convention Center. That site also is close to two other condo high-rises already under construction -- the 41-story Spire, with 503 units starting at $200,000, and the 45-story Four Seasons, with 230 hotel rooms and 102 condos priced at $800,000 to $10 million. Another downtown condo high rise -- the 32-story, 177-unit One Lincoln Park at Lincoln Street and 20th Avenue -- has completed exterior construction and expects buyers to start moving in late this summer. Asking prices for those units range from $500,000 to $2.7 million. **(Denver Business Journal)**

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Historic Wazee Building Set for Renovation

MAVDevelopment Company West plans to start its $1 million renovation of downtown Denver's historic Wazee Exchange building on Wednesday morning. The 75,000-square-foot, Class B office building is located at 1900 Wazee St. in Denver's Lower Downtown district. It was built in 1871, and previously renovated in 1998. The three-story building's upgrade will include a new color scheme for the facade that faces 19th Street, interior common area improvements and new windows throughout the building. The developer also plans to add as much as 9,000 square feet of retail space. Existing retailers in the building include the Family Affair salon. MAVDevelopment's Denver-based western arm is part of the MAVDevelopment Co. private real estate investment and development firm headquartered in Ann Arbor, Mich. The company focuses on owning and/or developing office buildings and land. MAVDevelopment was started in 1989 by Michael A. Vlasic, of the Vlasic Foods International family, as Vlasic Investments LLC. Vlasic Foods is best known as the maker of Vlasic pickles, and now is owned by Pinnacle Foods Group LLC. MAVDevelopment Company West purchased the Wazee Exchange building in 2007 for $8.1 million from the Colorado & Sante Fe Land Co. of Broomfield. In metro Denver, the company also owns the 2525 28th Street Building in Boulder and Blake Street Terrace in Denver. **(Denver Business Journal)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	2.00	2.00	5.25
3 MONTH LIBOR	2.68	2.85	5.32
PRIME RATE	5.00	5.00	8.25
10 YEAR TREASURY	4.06	3.82	4.87
30 YEAR TREASURY	4.72	4.55	5.00