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Institutions Favor Real Estate Over Stocks, Survey Finds

Institutional investors are quickly recovering from the recent meltdown in the U.S. property markets, pushing aside investments such as stocks and recommitting to commercial real estate and other alternative investments such as infrastructure. According to a new study on institutions by J.P. Morgan Asset Management — titled “Market Pulse: Alternative Assets Survey” — investors believe commercial real estate could rebound significantly over the next 12 months and are resuming their steady march from so-called “traditional” investments to the “alternative.” Broadly speaking, alternative investments include real estate, hedge funds, private equity, infrastructure, commodities and other real assets. The online survey was conducted in March and April, and included 349 North American investors from 325 institutions, including corporate pension plans, public pension funds, endowments, foundations and others. “Our results suggest that on balance, given recent experiences and lessons learned, investors have maintained their faith in alternatives and, overall, are expanding allocations to these strategies, seeking greater diversification and a more optimal mix,” says Annette Whittemore, head of market research and development at J.P. Morgan Asset Management. Investors are expected to funnel more capital into real estate, hedge funds and even private equity over the next two to three years, says Whittemore. Surprisingly, pension funds are leading the charge to boost their allocation in alternative investments, jumping from an average of 14% of total assets to an expected 21% over the next two to three years. Much of that money will be shifted away from traditional stocks. Some funds are climbing into the real estate market for the first time. The Oklahoma Teachers’ Retirement System is in the process of hiring its first real estate manager, and plans to invest 5% to 10% of its \$8.7 billion in well-stabilized assets, or so-called core and core-plus real estate. This move comes even after the fund racked up a 24.5% return in calendar 2009 with 70% of its investments in stocks. That’s not to say pension fund managers and their institutional peers are wearing rose-colored glasses, however. The survey reflects some uncertainty about the timing of a commercial real estate rebound. For example, 25% of respondents indicate that the outlook for real estate will get worse over the coming 12 months. More than half of respondents (55%) say 2011 will be the turnaround year for real estate, while 10% anticipate a rebound in 2010, 18% in 2012 and 13% in 2013. Still, investors are bullish on real estate in the long term. Survey respondents indicate that real estate will provide one of the greatest investment opportunities three to five years from now compared with other asset classes. Another rising star among investors appears to be infrastructure, which includes public transportation and utility projects such as bridges, airports and power plants. Public pension funds have been a leading advocate of infrastructure, with 18% currently investing in this niche and 20% in the planning stages. “Perhaps this is a result of infrastructure’s real estate-like diversification, inflation-protection and income-producing characteristics, and the social and economic benefits that states and municipalities derive from investing in infrastructure,” says Whittemore. The California Public Employees’ Retirement System (CalPERS) made a major foray into infrastructure investment when it recently purchased a 12.7% stake in London’s Gatwick Airport for \$155 million. The acquisition by CalPERS in June was the fund’s first direct investment as part of its infrastructure program, which was launched in 2007 with a goal of allocating 1.5% of its \$200 billion in total assets under management. “We are looking for opportunities to invest directly in high-quality infrastructure assets,” said George Diehr, the investment committee chair at

CalPERS, in a statement. Plowing money into U.S. infrastructure investments will continue to be a challenge, however. "Unfortunately, political will appears in especially short supply to tackle mounting problems as cash-strapped households and businesses could buckle under higher taxes," noted a recent report from the Urban Land Institute. Survey respondents named the Asia-Pacific region as the most attractive location for future infrastructure investments, given its economic growth potential and the need for infrastructure improvements. **(National Real Estate Investor/Ben Johnson)**

IMF Raises World Growth Forecast but Risks Rising

The global economy is recovering faster than expected but Europe's debt crisis might stall the rebound and governments need to shore up shaky public confidence, the International Monetary Fund said Thursday. The IMF raised its 2010 world growth forecast to 4.6 percent from 4.2 percent in April and boosted estimates for the United States and China. But its quarterly World Economic Outlook warned that "risks have risen sharply" and Europe has to quickly resolve debt problems and restore confidence in its banks. Europe's problems "could spill over to other regions and stall the global recovery," said Jose Vinals, director of the fund's monetary and capital markets department, at a news conference in Hong Kong. "Further credible and decisive policy action is needed to resume progress on financial stability and keep the economic recovery on track," Vinals said. Risks so far are limited to financial markets and activity in other fields stabilized at a high level in May, the Washington-based fund said. It said industrial output and trade grew by double digits and there was a modest but steady recovery in developed economies and strong growth in emerging nations. "The numbers for economic activity have come in strong—in fact, stronger than we have forecast," said Olivier Blanchard, director of the IMF's research department. The fund raised this year's U.S. growth forecast from 2.7 percent to 3.3 percent. The outlook for Germany and other European nations that use the euro common currency was unchanged at 1 percent. A global "double dip," or relapse into recession, is "very unlikely," Blanchard said. Asian economies recovered strongly this year, driven by buoyant exports and stronger domestic demand, the IMF said. The fund raised its 2010 growth forecast for China to 10.5 percent from 10 percent in April, for Japan to 2.4 percent from 1.9 percent and for India to 9.4 percent from 8.8 percent. The estimate of the region's growth rose to 7.5 percent from 7 percent. However, it warned that weakness in Europe "would affect Asia through both trade and financial channels." Weak data from major economies in recent weeks have diminished confidence in a strong rebound from last year's recession. The fund's forecast for 2011 growth was unchanged at 4.3 percent, a decline from this year's rate. In a move that might fuel concern the recovery is fading, the fund lowered its 2011 growth forecast for China from 9.9 percent to 9.6 percent, for Japan from 2 percent to 1.8 percent and for Britain from 2.5 percent to 2.1 percent. In Europe, the IMF said governments must resolve uncertainty about banks' exposure to sovereign debt and other risks and make sure lenders have enough capital and markets have adequate liquidity. It said many advanced economies urgently need to push ahead financial reforms including recapitalizing banks, restructuring and consolidating banking industries and overhauling regulation. "In the absence of complete banking sector recapitalization and restructuring, the flow of credit to the economy will continue to be impaired," the IMF said. **(Denver Post)**

Metro Denver Commercial Real Estate Market Shows Signs of Improvement

Metro Denver's commercial real estate market - while far from recovered - is showing signs of improvement, according to data compiled by the Metro Denver Economic Development Corporation (Metro Denver EDC) in its Monthly Economic Summary for July 2010. Vacancy rate increases have tapered significantly, and in some cases, declined. The industrial market, for example, continues to outperform other property types as the strong rebound in manufacturing drives demand for warehouse and distribution space. Leasing activity is also steadying in the retail market, where low lease rates and vacant big box space have created opportunities for large-format grocers and other retailers who are ready to repurpose and reoccupy. "Full recovery in Metro Denver's office market is still several quarters away, but new and expanding companies are continuing to express interest in property around the region, and investors are regaining their interest in Metro Denver as they exit other more distressed metro markets," stated Tom Clark, executive vice president of the Metro Denver EDC. A second quarter report by Grubb & Ellis suggests Metro Denver's office market is slowly improving. The report notes that office market vacancy tends to increase for four post-recession quarters before gradually improving, and vacancy rates have risen recently as many office market businesses take a less-than-aggressive stance on growth and hiring. Despite these challenges, Metro Denver's office market is showing signs of improvement. According to CoStar Realty Information, Inc., the total square footage of Metro Denver office property under construction during the second quarter of 2010 was less than half of the total under construction one year prior. Other office market fundamentals were generally flat in the second quarter, with direct vacancy declining slightly to 13.5 percent from 13.6 percent in the first quarter and the direct average lease rate rising one cent to \$20.07 per square foot. Grubb & Ellis notes that a strong rebound in manufacturing activity has boosted demand for warehouse, distribution, and other industrial space throughout Metro Denver. As a result, the industrial market continues to show more strength than other property types. Market fundamentals have also strengthened as several renewable energy companies occupy newly completed space. For the office market in particular, the recovery pace will ultimately reflect recovery in the labor market. Recent labor market data has been mixed, but improvement in employers' third quarter hiring expectations suggests the framework for job recovery is taking shape. Results from the Manpower Employment Outlook Survey show that 19 percent of employers in the Denver-Aurora-Broomfield MSA plan to add jobs in the third quarter. The third quarter hiring percentage is the largest reported for the Denver area since the fourth quarter of 2008 and is slightly higher than the percentage planning to hire nationwide (18 percent). While better hiring expectations should give Metro Denver labor markets a much-needed boost, a majority (68 percent) of local employers are planning no staffing changes over the next three months. Metro Denver employers added a higher number of jobs in May (12,800) than is typical for the month. While a positive development in general, the gain does not necessarily reflect a healthier private sector. Federal government jobs - many of which are temporary 2010 Census positions - accounted for almost one-third of the new positions added in May. Employers in leisure and hospitality added slightly fewer jobs in May than is typical for this time of year, and employers in information and manufacturing continued to cut jobs. Twelve economic indicators for Metro Denver moved in a positive monthly

direction in this report. In last month's report, 15 indicators moved in a positive monthly direction. Fifteen indicators moved in a positive annual direction in the current report, compared to 14 indicators in the previous report. **(Metro Denver EDC)**

DaVita to Settle on Downtown Office Space

DaVita Inc., a kidney dialysis provider, appears to be close to picking a location for its permanent downtown Denver headquarters. Local commercial real estate brokers say DaVita (NYSE: DVA) basically has finalized a deal with MEPT/Kennedy Associates for 250,000 to 300,000 square feet at a second office building at 1900 16th St. in downtown Denver. That space could be all or part of the second building. "The market views it as a done deal," said one broker who asked not to be named. "While nothing has been executed, signed or closed, my guess is it's not very far off," DaVita spokesman Bill Myers told the Denver Business Journal, speaking of the headquarters deal. Myers, who is DaVita's vice president of communications, declined to reveal details about his company's new headquarters. The first 1900 16th building — a 400,000-square-foot, 18-story office tower developed by the Trammell Crow Co. — was completed in 2009 and is being marketed to prospective tenants. The property owned by MEPT/Kennedy Associates, and sometimes is referred to as "the Kennedy building." Brokers said the landlord hoped to attract Qwest Communications International Inc.'s (NYSE: Q) headquarters to the first 1900 16th building, but the deal fell through. Qwest — which is being purchased by CenturyTel Inc. (NYSE: CTL) of Monroe, La., for \$10.6 billion — has a lease for all of the 1.3 million-square-foot 1801 California building in downtown Denver through mid-2012. Brokers say the telecom company is expected to retain 450,000 to 500,000 square feet at that building. The asking lease rate at the first 1900 16th property is \$23.50 per square foot per year triple net, according to LoopNet.com, an online real estate listing service. Net rental rates don't include expenses such as property tax, utilities and insurance. DaVita announced in May 2008 that it planned to move its corporate headquarters to Denver from El Segundo, Calif. The Fortune 500 company already had a Denver-area operation in the Denver West office park at 1627 Cole Blvd. in Lakewood. Early this year, DaVita said it signed a short-term lease for interim headquarters space at the Gates Corp. headquarters building at 1551 Wewatta St. in downtown Denver. The Gates building is next to 1900 16th. The dialysis company currently splits its main offices between the downtown and Lakewood locations. MEPT stands for Multi-Employer Property Trust, a Washington, D.C.-based real estate fund whose investors are union and public-employee pension funds. Kennedy Associates Real Estate Counsel LP of Seattle is an adviser to MEPT. DaVita is a major provider of kidney disease care, offering dialysis services at outpatient facilities and hospitals in 43 states. The company employs about 34,000 people. **(Denver Business Journal)**

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED TARGET RATE	.25	.25	.25
3 MONTH LIBOR	.53	.54	.51
PRIME RATE	3.25	3.25	3.25
10 YEAR TREASURY	3.07	3.19	3.40
30 YEAR TREASURY	4.04	4.11	4.29

