

July 13, 2009

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

JP Morgan Sells 17th St. Plaza to HRPT for \$135M

In one of the largest office deals in the nation this year HRPT Properties Trust has acquired the 17th Street Plaza office building here for \$135 million, or \$202 per square foot, according to local industry sources. Built in the early 1980's and sporting a Gold rating from the US Green Building Council, the 32-story, 666,653-square-foot building is 93% occupied, with an 110,000-square-foot tenant set to move out in 2010. HRPT was not the highest bidder but it offered the best, quickest deal, paying all cash after completing its due diligence in little more than a month, concurrent with contract negotiations, according to sources familiar with the deal. Some other bidders offered significantly more but required significant third-party financing. The cap rate on the transaction reportedly mirrored other institutional deals nationally, coming in at between 8.5% and 9%. The listing brokers, CB Richard Ellis executive vice presidents and institutional investment specialists Mary Sullivan and Tim Swan, confirmed the transaction generally but declined to confirm or discuss any detail. HRPT, which owns approximately 67 million square feet in 500 properties, did not respond to a request for comment. The Skidmore, Owings and Merrill-designed property includes an attached parking garage and occupies a full city block bounded by 17th and 18th Streets, and Larimer and Lawrence Streets. The office tower has a granite-clad exterior and a two-story atrium lobby. The property performed "phenomenally" well for JP Morgan during its eight-year hold, making the lack of appreciation less painful. Tenants in the building include Molson Coors, Marsh & McLennan and Xcel Energy. Xcel is the tenant that will be leaving in 2010, in favor of 1800 Larimer St. Xcel's lease rate and the early knowledge of its departure are such that the upcoming vacancy is seen as an opportunity for the new owner, not a predicament, according to local industry sources. Average class A asking rates are currently in the mid \$20s per square foot, fully serviced. While the sale of 17th Street Plaza went smoothly things did not work out as well for Wells Fargo Center, which at 52-stories and 1.2 million square feet is one of Denver's largest office buildings. Macquarie Office Trust of Australia bought the building in 2006 for \$284 million and had it on the market for sale earlier this year before recently pulling it back. The problem, according to local sources, was the loan on the property, which carries a 5.25% interest rate and doesn't mature until 2015 but is equivalent to \$230 per square foot. The best offers that came in were reportedly only \$10 per square-foot over the loan amount, which reportedly created concern that, given significant declines in valuation, the lender might lean on its "insecurity clause," a provision in some notes that gives the lender the right to demand payment in full at any time the lender deems itself insecure. Those types of issues help explain why, according to LoopNet, the volume of commercial deals nationally slumped 70 percent to \$110.4 billion in the first quarter on a year-over-year basis. **(Globest.com)**

...

Casualties of the Credit Crisis Mount

Scores of smaller banks are projected to collapse as troubled loans take a toll. More than 150 small and medium-sized U.S. banks are currently failing and expected to close this year as bad commercial real estate loans weigh heavily on their balance sheets. In all, the nation's 8,390 banks have \$13.9 trillion in assets, and \$1.9 trillion in commercial real estate loans. However, 90% of the banks are relatively small, with assets of less than \$1 billion. More than a third of these smaller banks, 2,562,

have disproportionately high concentrations of commercial real estate loans, amounting to at least three times their core capital, a warning sign for regulators. "Our current outlook is that this downturn for commercial real estate will be worse than in the early 1990s," says Matt Anderson, partner at Oakland, Calif.-based research firm Foresight Analytics. Rising delinquency rates, lack of credit for refinancing, and over-concentration in commercial loans aggravate the problems. In addition to the one-third of banks with less than \$1 billion in assets that have high concentrations of commercial real estate loans, well over half of the 560 larger banks with \$1 billion to \$10 billion in assets also have a high share of commercial property loans. In the first quarter, banks with assets up to \$10 billion collectively held \$280 billion in commercial real estate loans, says Anderson. "A lot of banks loaded up on construction lending, which in good times was a great source of income but now is a risky place to be." Commercial construction loan delinquencies rose from 6.6% in the fourth quarter to 8.9% in the first quarter of 2009, according to Foresight Analytics. Although the delinquency rate for commercial construction loans was far lower than the 22% delinquency rate for single-family construction loans in the first quarter, the amount of a commercial loan typically is many times greater than a residential loan. That means a delinquency, defined as nonpayment for 30 days, can have a more damaging impact on an institution. Meanwhile, commercial loan originations fell 70% in the first quarter from the same period last year, the Mortgage Bankers Association reports. Although all banks are feeling the pressure, small banks are bearing the brunt of the burden. Non-performing residential loans are a major contributor to the insolvencies afflicting banks, but the rise in commercial loan delinquencies has a significant impact, says Anderson. "We're expecting that commercial real estate will play a larger role in bank distress moving forward." The rate of projected bank closures this year is running six times higher than the 25 failures that occurred in 2008, Anderson says. In stark contrast, only three banks failed in 2007. Foresight Analytics' watch list of troubled institutions includes some 375 banks in the first quarter, up from 276 in the fourth quarter. "Georgia is number one on our list," with 54 troubled banks, says Anderson. A projected \$264 billion in loan maturities coming due this year poses a big problem for small banks, since refinancing will be difficult, says Sam Chandan, economist and president of New York-based research firm Real Estate Economics LLC. He expects default rates to soar through 2010. Unlike big banks, the government is not propping up small banks, adds Chandan. "They would be allowed to fail en masse." **(National Real Estate Investor/Denise Kalette)**

...

Office Aftershocks Forecast for Second Half

With the national office vacancy rate threatening to breach 17% by year's end and a wave of maturing loans coming due, landlords are working feverishly to clean up their balance sheets and retain tenants. At this juncture a year ago, owners believed that they would be able to weather the downturn by granting higher tenant improvement allowances and free rent, rather than lowering rents. That scenario never played out. In the first quarter, the U.S. office vacancy rate climbed to 15.3%, up from a low of 12.5% in the third quarter of 2007. Over the same period, effective rents fell by 3.6%. And by year's end, Reis projects effective rents will shrink by 8.1%. "I think when most of us look back on '08, people were feeling like we were headed into a recession in the first part of the year. But I think everybody felt like it was going to be relatively manageable," says Charlie Baughn, CEO of the

capital markets group at Hines. The optimism appeared well founded. In June 2008, the unemployment rate was 5.6%, and the office market was showing only modest signs of weakness with negative net absorption of 3.8 million sq. ft. in the second quarter. By June 2009, the jobless rate had climbed to 9.5%. Meanwhile, negative net absorption had ballooned to 20 million sq. ft. in the second quarter. "No one really anticipated the depth and magnitude of how this downturn would affect specific firms," says Victor Calanog, chief economist for research firm Reis. "It wasn't like tenants were just downsizing in space, it was like they were going out of business altogether." Today's office owners and developers must also navigate an extremely illiquid marketplace. Maturing debt and a severe drop in property valuations will further compound the problem. According to Real Capital Analytics, the price per square foot for office buildings in the U.S. fell 62% from November 2007 through May of this year. Many owners now have mortgages that are underwater because of rising loan-to-values. "The one thing that has saved everybody is the fact that LIBOR (London Interbank Offering Rate) is so low," says Baughn. "Everybody has these floating-rate loans that are priced off LIBOR, so a lot of property owners today are paying 1%, 2% or 3% on their mortgages." As long as owners are able to cover their debt-service payments, even if they're upside down on their mortgages, lenders are granting short-term loan extensions, says Baughn. Though a temporary relief, the practice is concerning. "There's a mountain of debt maturing in 2011 and 2012, and all we're doing is making the mountain bigger by pushing more loan maturities out to that same period," says Baughn. Commercial real estate mortgage maturities for 2011 and 2012 combined total \$602.4 billion. With little capital available, transaction volume for office deals \$2 million and above slowed to a crawl, down 63% year-over-year at the end of the first quarter, reports Reis. And while distress opportunities in the office sector have been hyped in the news, like the sale of the Hancock Tower in March at a 50% discount, few Cinderella deals have actually materialized, notes Baughn. In addition the lack of demand has resulted in a shrinking development pipeline. "We did have several projects around the country that were pretty far down the road that we've mothballed in one fashion or another," says Baughn. The volume of new office completions has tapered off from 61.8 million sq. ft. in 2008 to a projected 53 million sq. ft. this year. In 2010, completions are expected to drop by 44% to 29.7 million sq. ft. Despite so much disheartening news, the office sector is not without its bright spots. For instance, energy markets such as Houston and Fort Worth are still experiencing positive rent growth, while the growth of government has helped to keep rents stable in the nation's capital. "But I don't think 2009 is a year that's going to have a lot of bright spots," warns Baughn. "I think maybe we'll start to see some positive news next year." **(National Real Estate Investor/Sibley Fleming)**

...

Colo. Job-loss Forecast Soars

In this June 30, 2009 photo, a job seeker enters a job fair in San Jose, Calif., Tuesday, June 30, 2009. The government says the number of newly laid-off workers filing initial claims for jobless benefits fell sharply last week, largely due to changes in the timing of auto industry layoffs. (AP | Paul Sakuma) Colorado is expected to shed up to 65,000 jobs in 2009, with losses tapering off at the end of the year, according to a University of Colorado economist. CU-Boulder Leeds School of Business economist Richard Wobbekind's forecast Thursday was a far cry from his prediction in December that the state would lose about 4,300 jobs this year.

Wobbekind attributed the drastic difference primarily to the collapse in the financial markets, which has made it difficult for companies to borrow money, particularly small businesses. "This has led to significant layoffs on the part of small business during the first four months of this year and has led to much worse job loss than anticipated," Wobbekind said. He said job losses are expected to slow, or even turn positive, by the end of the year. Colorado's unemployment rate was 7.6 percent in May, up from 7.4 percent in April, according to the Colorado Department of Labor and Employment. The rate had dropped from March to April. "We're certainly seeing job losses taper off and hope to see that trend continue through the end of the year," said Alexandra Hall, the department's chief labor economist. Creighton University economist Ernie Goss, who releases a monthly report on Colorado's business conditions, said last week he expects the state's jobless rate to reach 8.2 percent by year-end. The professional and business-services sector, which includes lawyers, engineers and scientific research- and-development groups, has suffered the highest number of job losses, Wobbekind said. The leisure and hospitality sector, particularly in mountain resort towns, has also been hit hard in 2009. The sector had "very weak" retail sales during the first four months, though it is expected to improve for the rest of the year, Wobbekind said. One of the few sectors to show growth has been the educational and health care services sector, largely a result of high demand for nurses. **(Denver Post)**

...

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	.25	.25	2.00
3 MONTH LIBOR	.50	.64	2.29
PRIME RATE	3.25	3.25	5.00
10 YEAR TREASURY	3.32	3.93	3.80
30 YEAR TREASURY	4.20	4.76	4.41