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Commercial Market Picks Up in Q2

Metro Denver's commercial real estate market in the second quarter benefited from a stable local economy that continues to fare better than the national economy, according to a new report by CB Richard Ellis Inc. Continuing job growth in the Denver area helped fill office space during the period, and homebuilding suppliers who left warehouse and distribution space because of the soft housing market were replaced by other types of tenants. The metro area's retail real estate market -- including shopping centers, malls, etc. -- continued to deal with declining sales at their stores and negative absorption of space, but "appears to be on the path towards recovery," the report said. Retail space was hit harder in the period than other types of commercial property, nationwide as well as in metro Denver, as consumers cut back on shopping because of the housing slump, tight credit and high gas prices -- all leading to less disposable income. But the metro-area housing market has been more stable than the rest of the country's, which has allowed the local retail market to be less turbulent, the report said. "We had negative absorption on the retail side, but it was not as bad as the first quarter," said Ethan Reed, marketing and research manager for CB Richard Ellis (CBRE) in Denver. "Retail lease rates are up, in spite of negative absorption, because of new product." Absorption is the change in occupied space from one period to another. The metro-area retail real estate market had negative absorption of 239,461 square feet of space, compared to negative first-quarter absorption of 257,135 square feet. The second-quarter retail vacancy rate was 7.5 percent, up from a little more than 6 percent in last year's second period. Despite negative absorption, average asking retail rents for the second quarter increased to \$17.65 per square foot per year from about \$16 a square foot for the same quarter last year. Metro Denver's industrial market, which includes warehouse and distribution space, fared especially well in the second quarter, according to CBRE. "The industrial market had really strong absorption, which was a bit of a surprise," Reed said. "Several brokers expected flat absorption." Expansion by companies such as the Coca-Cola Bottling Co. helped the industrial market absorb 1 million square feet of space in the second quarter, and achieve a 5.8 percent vacancy rate. Coca-Cola took another 24,480 square feet at 4350 Kearney St. in Denver to bring its total space there to roughly 92,000 square feet. For the same period of 2007, the industrial market absorbed about 900,000 square feet and had a vacancy rate of roughly 6.2 percent. Nearly 2 million square feet of industrial space was under construction metrowide in the second period. The local industrial market has fared well recently because development of new space here has been disciplined, and hasn't succumbed to the extremes of construction and contraction like in the East and West Coast markets, according to Mike Camp, CBRE industrial broker and senior vice president. The market isn't overbuilt. "The local industrial market is solid, but not great," Camp said. "There's still good user activity." Local entrepreneurial companies continue to perform well and grow, and are leasing or buying industrial space. Promotional event supplier EPS Doublet, for example, recently bought a 51,000-square foot building in Denver's Montbello Industrial Park, after leasing space for 20 years, because of low interest rates, Camp said. For the rest of 2008, demand for industrial space may not be as strong as in the second quarter, but it "is not expected to turn drastically negative," the report said. As new space is completed, owners of older space particularly will have a harder time competing for tenants. "The industrial market should stay positive, but at a more measured pace," Camp said. Denver-area unemployment stood at 5.5

percent in May, helping the local office market absorb 120,762 square feet of space in the second quarter, for a 12.9 percent vacancy rate. Downtown Denver helped lead the way, absorbing 63,071 square feet and posting an 11.2 percent vacancy rate. The metro area absorbed roughly 400,000 square feet of space in 2007's second quarter. Asking office rents also increased in the second period, to an average of \$20.93 per square foot per year from roughly \$19 a foot for the same period last year. The northwestern office submarket along U.S. Highway 36 had an especially strong second quarter, according to the report. Former Sun Microsystems Inc. sublease space at Westmoor Technology Park in Broomfield was absorbed, and the 89,000-square-foot Arista Place development, also in Broomfield, was finished fully leased in June. "I sincerely believe we're on the front end of a new model corporate America is forming ... [because it] has to compete for [top-level] employees like I have never seen before," said Chris Phenicie, CBRE senior vice president and office broker specializing in metro Denver's northwestern and central business district markets. Phenicie said increasing numbers of employers are demanding the most up-to-date, sustainable office space as well as attractive, transit-oriented living environments similar to what already exists in downtown Denver. For the rest of 2008, the Denver-area office market should continue to benefit from solid economic fundamentals, including a robust energy economy. "As soon as the national economy decides what it wants to do, Denver should pick up steam again," Phenicie said. **(Denver Business Journal)**

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Economists Darken Colo. Forecast

Colorado's job growth may be slower than originally forecast because of soaring energy prices and broader economic malaise, economists warned Monday. Although jobs had been projected to grow by 1.9 percent this year, the final tally may be closer to 1.5 percent, according to analysts at the University of Colorado's Leeds School of Business. Even so, the state economy is expected to continue performing better than the nation as a whole. "With the national economic picture still incredibly unstable, there is a lot of uncertainty going into the second half of the year," said Richard Wobbekind, director of the Leeds business-research division. "However, our economy hasn't been drastically shaken yet by national events," he said, "and we still feel the impacts on Colorado's economy will be more incremental if there is a national downturn." Sectors showing job losses this year are construction, manufacturing and information. Top gainers include government, education and health, professional and business services, and leisure and hospitality. The health-care service sector typically adds jobs regardless of economic conditions, said Donna Marshall, executive director of the Colorado Business Group on Health. "But the concerns I have are for the outlook in housing, construction, energy costs and the overall credit situation," said Marshall, a member of the CU business school's economic-outlook steering committee. Employment in Colorado's energy and mining sectors is booming, yet residents are being hit hard by fast-rising fuel prices. "It seems as if the state economy is slowing down," Wobbekind said. "Not dramatically slower, but slower than we thought at the beginning of the year." **(Denver Post)**

Economic News Mixed in Metro Denver EDC Report

The Metro Denver Economic Development Corp.'s monthly report contained a mix of good and bad news about the economy. The council's data for May, compiled by Development Research Partners Inc. of Littleton, show that employment has continued to grow, and that impact of increasing fuel costs on employees is a "growing concern" for employers. "While metro Denver companies are adding jobs, the impact of weak national trends is increasingly evident [here]," Tom Clark, Metro Denver EDC's executive director, said in a statement issued Tuesday. Home foreclosure filings were down in all the metro area's seven counties, except for Douglas County, from April to May. Filings decreased 13 percent, according to Metro Denver EDC. "While overall improvement in metro Denver foreclosure activity could indicate a turning point, several more months of positive trends will determine if local foreclosure counts are truly easing," Patty Silverstein, president of Development Research Partners and Metro Denver EDC's chief economist, said in a statement.

Other key data included in the report include:

- Nonfarm employment increased 1.3 percent in May, compared in growth of 1.6 percent in April and 1.7 percent in March.
- Metro Denver's unemployment rate ticked up to 4.7 percent in May from 4.3 percent in April. Through May, unemployment was highest in Adams (5.2 percent) and Denver (5.1 percent) counties.
- Denver-area employers planning to add workers in the third quarter of this year increased to 32 percent from 22 percent who planned to add jobs in the second quarter, according to a recent Manpower Employment Outlook Survey.
- Growth in passenger traffic at Denver International Airport slowed to 1 percent in April from 5.3 percent in March. Airport officials expect passenger traffic to weaken the rest of the year, because of the troubled airline industry.
- Consumer confidence in the Rocky Mountain region improved in April and May, with the Mountain Region Consumer Confidence Index increasing to 76.8 in May.
- Metro Denver's hotel occupancy rate was basically flat from April to May at roughly 67 percent. **(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	2.79	2.79	5.36
PRIME RATE	5.00	5.00	8.25
10 YEAR TREASURY	3.96	4.07	5.13
30 YEAR TREASURY	4.52	4.69	5.23