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## Denver Area's Apartment Market Continues Improvement in Q2

Metro Denver's apartment market continued to improve in the second quarter, as the vacancy rate dropped and average rental rate increased, according to a Grubb & Ellis Co. report released Monday. "Good news for the apartment sector keeps coming, despite a lack of significant job growth in the Denver region," said the "Multi-Housing Trends Report," produced by Grubb & Ellis' Denver office. Apartments also are called multifamily housing and multi-housing. In the second quarter, the metro area's apartment vacancy rate dropped for the fourth quarter in a row — to 6 percent from 8.5 percent for the same quarter of 2009. "[That's] the most prolonged positive growth for any Denver real estate sector," the report said. More than two-thirds of the area's submarkets experienced a drop in vacancy. As more vacant apartment units filled up, average rent rose to \$862 per month from about \$850 in last year's second quarter. "The average rental rate of \$862 per unit is now only 1.5 percent below the peak high set in mid-2008," the report said. Positive absorption of apartment units also was driven by a lack of significant new apartment construction, according to the report. Grubb & Ellis expects construction volume to "remain anemic," which will spur positive absorption of units for the next 24 months. Real estate investors continued to buy apartment properties in the period, as well. Major deals included:

- Alexan Belmar, Lakewood — Behringer Harvard Holdings LLC purchased this apartment complex from Trammell Crow Residential Co. for \$41 million.
- Retreat at City Center, Aurora — Transwestern (formerly Transwestern Property Co.) acquired property from Amstar Group LLC for \$21.95 million.
- Silver Cliff, Englewood — Asher Investments sold property for \$20.5 million to Weidner Investment Services Inc. **(Denver Business Journal)**

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## CoStar Reports Office Markets Have Bottomed

Fundamentals in U.S. office markets appear to have stabilized and are headed toward an expected recovery, according to CoStar Group in its The State of the U.S. Office Market: Mid-Year 2010 Review & Forecast. In its detailed quarterly analysis of the U.S. office market, CoStar Group confirmed positive net absorption for the quarter and office vacancy rates that appear to have peaked and are no longer rising. "As we anticipated two quarters ago, it now appears we have hit the bottom of the market in terms of vacancy and that is critical here in this business," said Andrew Florance, CEO of CoStar. "The fact that we are clearly showing some sort of bottom and we don't have a significant increase in vacancy this quarter is very positive news." In presenting the latest findings based on CoStar's research, Florance sought to dispel confusion over the office market's performance that may have resulted from conflicting media reports. "I think there may be some conflicting news [about vacancy rates] here and there," Florance continued. "I saw something the other day saying that vacancy rates were still going up and were expected to continue to do so for another year or more. I think that is just wrong. I think this is big news and it's important." Of the 20 largest office markets, eight posted positive net absorption so far this year, three had little or no change and nine posted negative net absorption. Washington DC led the country with 2 million square feet of net absorption followed by Denver with 1.6 million and Minneapolis with 1.3 million. New York City was the biggest loser at 2.8 million square feet of negative net

absorption, Los Angeles with a negative 2 million and Philadelphia at negative 1 million. But even the markets experiencing negative absorption were doing so at much reduced levels compared with last year. Importantly though for New York, all of the negative absorption occurred in the first quarter, while the market absorbed more than a half a million square feet in the second quarter and as a result saw its vacancy rate decline one-tenth of a percent. Similarly, across the country, the quarterly change in vacancy rate has been rising at a less rapid rate and appears to have stabilized, approaching zero percent change. New York, Long Island and Minneapolis are all now reporting single-digit vacancy rates, 9% or less in fact. Much of the highest office vacancies (17% or higher) are found in markets in the South and Southwest (Atlanta, Dallas/Fort Worth and Phoenix), while Detroit continues to suffer through the lackluster automotive demand. The good news, though, is that all of those markets saw office vacancy rates decline about one-tenth of a percent or more in the second quarter. In addition, more U.S. office markets posted positive absorption in the second quarter than in the first quarter. At the current pace, if the current absorption and delivery trends hold, CoStar projects the office vacancy rate will fall from 13.6% to less than 11% in 2013. Asking office rents, while continuing to dip in the second quarter, are declining much less sharply than they had for the previous four quarters. At the current pace, asking rents could fall another 4% or so before flattening out and turning positive in 2011. In fact some markets have begun to experience increases in asking rent, including in such markets as Boston, New York, San Francisco, Seattle and Washington DC. CoStar Group highlighted two economic trends that are helping to support office market fundamentals. The first is a historically low pipeline of new delivery of inventory. In fact, with building conversions and obsolescence factored in, the U.S. office market could see overall negative inventory growth in 2011 and 2012 - an unprecedented occurrence. That means that office markets are actually shrinking. Not only is there very little new office product being built, there likely won't be for some time as new office construction starts are also at historically low levels - less than 5 million square feet in each of the last three quarters. CoStar also pointed to other current economic factors constraining new office supply. "One of the things playing into all of this is the current lending standards (for funding new development)," said CoStar Senior Director of Research & Analytics Jay Spivey. "With the financial crisis, we've had tightening lending standards that are having an impact on construction financing and likely will continue to have an impact over the next few years and restrain construction in the near term." "The inventory of commercial real estate in the United States right now is contracting and if you have any job growth or positive absorption coming along with that, you have falling vacancy rates," Florance said. Also according to Florance, office employment growth has been one of the bright spots this year. While the overall the number of unemployment is high and may yet increase, there has been positive job growth in the office sector. Professional and business services added 360,000 jobs in the last three quarters; government workers increased by 290,000. Layoffs in the financial services and information sectors have only amounted to about 161,000 positions. "From a commercial real estate perspective, as long as you have any net job growth, it is eating away at the vacancies out there," Florance said. "The most important thing here is that this positive employment growth in the office sector will be reducing standing inventories of (available) space." Vice President of Analytics Norm Miller noted how the return among lenders to "1970's levels of loan-to-value ratios" has worked to the advantage of equity investors able to acquire high quality office property at a substantial discount to replacement cost. "Office rents will trend up following a few

quarters of positive absorption and we expect to see a return of NOI growth in office properties over next several years, which should attract larger numbers of investors," said Miller. **(CoStar)**

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### Lowry Office Building Sells for \$18M

A California company has purchased The Quad at Lowry IV office building for \$18 million, according to Denver County real estate records. The Quad Partners LLC, affiliated with HCA Management Co. LLC of Novato, Calif., acquired the building from Schomac Group Inc. of Tucson. Property records show Schomac, a private real estate investment company, acquired the building in 2006 for \$22.7 million. Built in 1999, the four-story, 135,500-square-foot building is at 7901 E. Lowry Blvd. at in Denver's Lowry neighborhood. Lowry formerly was a U.S. Air Force base that was redeveloped as a mixed-use project after the base closed in 1994. In another recent Lowry deal, homebuilder Weekley Homes LP of Houston has bought an unspecified amount of property there for nearly \$850,000, according to Denver County real estate records. The seller was the Lowry Redevelopment Authority, which oversees the former base's redevelopment. Other recent commercial real estate deals in metro Denver, according to public record and brokers, include:

- 2960 Center Green Court, Boulder 80301-5406 — 2960 Center Green LLC, a private Boulder investor, has sold this 6,800-square-foot, two-story office building for \$1.25 million. The buyer is 2960 Center Green Court LLC in Broomfield. The building was completed in 1999 at a cost of \$650,000, according to its designer, VaST Architecture of Boulder.
- Colorado Center Tower Two, 2000 S. Colorado Blvd., Denver 80222 — AMEC Earth & Environment Inc. has leased 22,161 square feet (Suite 1000) at this office complex at Colorado Boulevard and Interstate 25. The tenant expects to consolidate three metro-area locations there in August, according to its broker in the deal, Charles Rowan Co. of Denver. Colorado Center is owned by Lincoln Property Co. of Dallas. **(Denver Business Journal)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
<b>FED TARGET RATE</b>	.25	.25	.25
<b>3 MONTH LIBOR</b>	.52	.54	.51
<b>PRIME RATE</b>	3.25	3.25	3.25
<b>10 YEAR TREASURY</b>	2.96	3.25	3.57
<b>30 YEAR TREASURY</b>	3.95	4.18	4.43