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West's Growth Far from Done

The Intermountain West — the fastest-growing region in the country over the last 20 years — is set to continue the trend by adding 12.7 million residents and 8 million jobs to its metropolitan areas by 2040, according to a Brookings Institution analysis. That would double the population and workforce and require an estimated \$3 trillion in housing and nonresidential development in the region comprising Colorado, Utah, New Mexico, Arizona and Nevada. "The West isn't about wildfires, endangered species and mining anymore," said Mark Muro, Brookings' urban-policy director. "The region is growing up, flexing its muscle and distancing itself from California, which historically has had an outsized impact on the West's development," the analysis said. The study identified several challenges for the region, including increasing labor productivity, improving education and innovation, and developing better transportation links to the rest of the nation. The Brookings analysis identified five "megapolitan" areas in the Intermountain West:

- Colorado's Front Range.
- Utah's Wasatch Front linking Ogden, Salt Lake City and Provo.
- Arizona's Sun Corridor linking Tucson, Phoenix and Prescott.
- Greater Las Vegas.
- Northern New Mexico linking Albuquerque, Santa Fe and Los Alamos and Rio Arriba counties.

"What is hard to realize is that these megapolitans are now equal to the size of a Cleveland or St. Louis," said Robert Lang, a Brookings analyst. The growth will be powered by continued migration to the region and a young population — the Western states' average age of 34 is about two years younger than the national average — having families, the analysts said. Nevertheless, the region continues to lag in some key areas, the report said. For example, labor productivity in all but the Front Range trailed the national average. And while productivity nationally rose 2.3 percent a year between 2001 and 2005, in the West it averaged 1.8 percent. Per-capita income also lagged the national average in all the regions except the Front Range. "Denver's growth has been tied to new technologies and new industries, and that's what the numbers reflect," said Jeff Romine, an economist with the Denver Office of Economic Development. He was not an author of the Brookings study. The lag in income and productivity points to problems in education and workforce training in the West, Muro said. "There is a young workforce in places like the Wasatch area and a real need for training," Muro said. The West, Romine said, has long depended on educated and well-trained workers moving into the region. "Now, we are getting to the point where we have to train and educate our own population," he said. The growth of the urban West will continue to put pressure on water supplies — particularly in agriculture, which in 2000 used twice as much water as urban areas, the report said. The Brookings study said "creative conservation and water planning" are a hallmark of the region and that they will be critical for the region's growth. **(Denver Post)**

Bankers Worry: Is Commercial Real Estate Next?

Small and regional banks will begin reporting their second-quarter earnings in coming weeks, and the industry is bracing for problems in a sector that has been relatively strong up to now: commercial real estate loans. "With everything that's going on in the market, certainly there is concern related to commercial real estate," said Richard Fulkerson, commissioner for the Colorado Division of Banking, which regulates state-chartered banks. "Do we expect failures in Colorado? No. We're not seeing the types of problems in Colorado, at least at this point, that a lot of the rest of the country has experienced." On July 11, federal regulators seized IndyMac Bank, a Pasadena, Calif.-based bank that did a lot of consumer mortgage lending. It was the fifth bank to fail this year, according to the Federal Deposit Insurance Corp (FDIC). Colorado's community banks keep few, if any, consumer mortgage loans on their books, and so weren't directly affected by the subprime mortgage meltdown. But commercial real estate (CRE) loans — a category that includes construction and land development loans to homebuilders — are a major source of revenue for most Colorado banks. If builders can't sell the homes because of the housing market downturn, they may default on the loans. Other types of loans also are lumped under commercial real estate, including loans to buy office towers or shopping centers, or loans to construct owner-occupied office buildings. These aren't considered as risky right now. "In Colorado, most banks do have a concentration of real estate loans," said Fred Eller, vice chairman of Colorado Capital Bank. "Real estate has driven Colorado, and Colorado is still a very good marketplace compared with other states." Bad real estate loans were almost entirely responsible for a 24 percent rise nationwide in nonperforming loans during the first quarter, the latest data available from the FDIC. Nationwide, banks' past-due and nonaccrual loans equaled a median 1.7 percent of their total loans. In Colorado, that figure was 2.1 percent. Two years ago, federal regulators began advising closer scrutiny of banks that have lent more than 300 percent of their risk-based capital on CRE deals, or 100 percent for construction projects. Many Colorado banks were well above those guidelines in the first quarter, according to Bank Strategies LLC, a Denver-based banking consultancy. Colorado Capital Bank, for instance, was holding construction and land development loans equal to 578 percent of its capital, and total commercial real estate loans equal to 681 percent. That's a lot, Eller acknowledged, but it doesn't necessarily mean the bank is in any danger. "We are primarily a business bank ... so we're likely to have a little higher ratio of corporate, industrial and real estate loans to our capital than some other banks, which are also making a lot of consumer loans," Eller said. And Colorado Capital Bank's level of nonperforming loans is below the state average, at 1.7 percent of all loans, he pointed out. "I think you'll find that the majority of banks across Colorado had a ratio that was quite a bit above that," Eller said. A concentration in CRE lending isn't necessarily a problem, said Larry Martin, president of Bank Strategies. "If they are well-structured, well-underwritten and well-conceived projects, we shouldn't have to care," Martin said. "I think the concern that the regulators have is that many banks may have been caught up in the exuberance of real estate lending and compromised some underwriting standards." Many of the banks with the highest ratio of bad loans to total loans in the first quarter — including Premier Bank, Fowler State Bank and Pueblo Bank & Trust Co. — didn't have heavy CRE exposure. Premier's CRE loans amounted to only 154 percent of capital, well under the 300 percent guideline; Fowler's is a mere 10 percent, and

Pueblo's only a bit above guidelines at 352 percent. Fulkerson said that regulators do pay closer attention to banks with a heavy concentration in real estate loans. "When we come in to do the examination, we're going to make sure that they have X,Y,Z — pretty much what's spelled out in interagency guidance — in place," he said. But a simple concentration in real estate isn't necessarily bad, he said. "Banks in Colorado, particularly community banks, have done extremely well with commercial real estate lending," Fulkerson said. "It has become a bread-and-butter source of revenue for the majority of Colorado community banks. There's some slippage here and there, but overall performance still continues to be strong." **(Denver Business Journal)**

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Gates Project Goes Slower

Thanks to the sluggish economy, you won't be seeing any new buildings at the \$1 billion Gates Rubber redevelopment until 2011, a year later than planned. In February, the Rocky Mountain News reported that the developer, an entity created by Chicago-based Joseph Freed, had split from the 50-acre project, which is owned and being cleaned up for contaminants by Cherokee Denver. At that time, Cherokee President Ferd Belz said he was open to having the Joseph Freed group, called Santa Fe Denver 125 LLC, possibly play a smaller role at the Gates site, called Metropolitan Gardens. But no more. "We have pretty much agreed to go our separate ways," Belz said. Since the two groups have split, architects and general contractors are still owed \$2.2 million, according to court records examined Monday. According to mechanic lien filings in U.S. District Court, among the prominent groups that have not been paid are PCL Construction and 4240 Architecture, headed by Denver architect Peter Dominick. Mechanic liens are similar to involuntary mortgages slapped on property for unpaid bills. The liens may be foreclosed on to pay the amount owed. 4240 is owed \$529,343 and PCL \$299,650, according to documents. In addition, Design Workshop is owed \$174,015, according to court documents. Court documents say that Santa Fe Denver 125 contracted for more than \$6 million in work, and has paid more than \$4 million to subcontractors. It says Cherokee is responsible for half of the roughly \$6.2 million. Cherokee's attorneys responded that it has "no duty" to Santa Fe Denver and said its claims are "frivolous, groundless and lack substantial justification." The only announced retail tenant for the Gates project so far is Robert Redford's Sundance Cinema, and even that is in doubt. "Technically, that LOI (letter of intent) was with Freed, and Freed is no longer here, so technically we no longer have a contract with Sundance," said Belz on Monday. But he said he met recently with Sundance officials at the International Council of Shopping Centers in Las Vegas and he said Sundance is still open to coming to Metropolitan Gardens. "They said they still like the site and to contact them when we're ready," Belz said. Initially, Freed "was shooting" to have the first development open by the fall of 2010. Now it is likely to be the spring of 2011 before anything is built, Belz said. "We're looking at the next phase to be smaller, tighter and more office and less residential than Freed was planning." Several retailers he met at ICSC said that in today's economic environment, they would not be ready to move forward until 2011, Belz said. Former developer Freed planned a lot of residential, including condominiums, Belz said. Separately, Belz sold five acres to Trammell Crow Residential, which is building a luxury apartment complex on the south side of the property. "Some people say we no longer even have a condo market," Belz said. "Two years ago, people wanted big projects. But now, there is no capital available to fund big,

massive projects." Belz said that while the starts of the building has "slipped a little," the project is not at a standstill. Cherokee still needs to clean pollution on the east side and has yet to start what could be a long process with the city of Denver on demolition of buildings. "We don't even know yet if we're going to demolish all of the buildings," Belz said. "We would like to try to save the facades of some of them." And Belz noted that the redevelopment of Gates has always been envisioned as a 10-year-plus project. Delays and setbacks are to be expected during various real estate and economic cycles. "Because we're a little bit behind now doesn't mean that the whole thing won't be completed around the 10-year time frame," Belz said. **(Rocky Mountain News)**

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State Business Leaders More Optimistic

State business leaders are more optimistic about the economy than they have been for a year, according to the latest quarterly Colorado Business Leaders Confidence Index (BLCI), released this week. The BLCI ticked upward for the first time in four quarters, to 43.6 from 41.7. But 46 percent of panelists still expected declining profits in the third quarter of 2008. Expectations for the national economy moved from a record low of 30.3 to 35.8. The BLCI is an economic survey conducted by the business research division of the Leeds School of Business at the University of Colorado Boulder, with the support of Compass Bank. An index above 50 indicates expansion; below 50 indicates contraction. The most positive component of the most recent BLCI is the outlook for sales, which rose to 50.8 from 47.7. Almost one-third of BLCI respondents said they weren't significantly affected by rising energy prices, although 58 percent said they were trying to save as much money on energy as possible. The most common reaction to rising energy prices was to reduce business-related travel; 41 percent selected this option. **(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	2.81	5.36
PRIME RATE	5.00	5.00	8.25
10 YEAR TREASURY	4.13	4.11	4.78
30 YEAR TREASURY	4.69	4.64	4.95