

July 6, 2010

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

FDIC Turns to Loss-Sharing Agreements as Bank Failures Mount

As the number of bank failures continues to climb, with troubled commercial real estate loans increasingly contributing to the failures, the Federal Deposit Insurance Corp. (FDIC) is taking steps to mitigate the costs and the workload associated with the collapse of financial institutions. In particular, the FDIC is using loss-sharing agreements. "The FDIC's use of loss-sharing agreements allows us to sell failed bank assets when an institution fails and potentially recover prior asset losses when market conditions improve," says Sandra Thompson, director of the division of supervision and consumer protection. "These agreements affect not only the resolution of failing banks, but also the examination process for acquiring banks." Through June 25, 86 banks have failed this year. The number of failures in 2010 is expected to exceed the 140 bank failures recorded in 2009, according to the FDIC, which frequently is appointed receiver for failed banks. Not only is the number of bank failures growing, the number of insured lenders on FDIC's problem bank list is also rising, the agency reports. Loss-sharing agreements allow the FDIC to sell bank assets when an institution fails, and they also help to recover earlier losses when market conditions improve. Over approximately the past year and a half, the FDIC used loss-sharing agreements for about 75% of 212 bank failures. The agreements also make failed institutions more attractive to potential buyers of the bank's assets, according to FDIC. The amount of cash required can be lowered through the agreements, and assets also can be more easily transferred to the private sector. Also, for the buyer of a failed bank, the loss-sharing agreements provide better protection against losses on covered assets, FDIC notes. The program operates like a federal loan guarantee, and the covered assets are far less likely to be subject to negative classification if the purchaser complies with the loss-sharing agreement. **(National Real Estate Investor/Denise Kalette)**

...

Forecast for Colorado Job Losses Revised Sharply Higher

Colorado is expected to lose significantly more jobs in 2010 than originally predicted because employment losses early in the year caught analysts by surprise. University of Colorado economist Richard Wobbekind on Wednesday said he has revised his 2010 job-loss expectations to 20,250 from the original 3,200 predicted in December. The sharp midyear revision in the forecast of nonfarm job losses shows how unsure private employers remain about their ability to expand. "I think we had hoped or believed that the stimulus would generate more jobs and that the private sector would get more engaged," Wobbekind, an economist in the Business Research Division at CU-Boulder's Leeds School of Business, said in a telephone interview. He said construction, energy and manufacturing businesses are weighing particularly heavily on the state economy. The 2010 drop is still far lower than the more than 100,000 jobs lost during the worst of the recession last year, but economists had hoped losses would slow in early 2010 before jobs rebounded around the middle of the year. Instead, Wobbekind said job losses have remained stubbornly high. Speaking earlier in the day to a shareholders meeting of the Tax-Free Fund of Colorado at the Denver Country Club, Wobbekind said hiring will pick up in the last half of 2010 but not enough to make up for the early losses. At the same time, Colorado's population has increased, putting more pressure on the overall unemployment rate. The state jobless rate held steady at 8 percent in May even as

37 states and the District of Columbia cut their unemployment rates. The national unemployment rate declined to 9.7 percent in May from 9.9 percent in April, according to the U.S. Bureau of Labor Statistics. Even if its job market lags behind other states, Wobbekind said that's unlikely to deter Colorado newcomers. "You have to argue in this environment, people are making quality-of-life decisions," he said, noting that despite poor employment for the past decade, the 1980s was the last time more people were leaving Colorado than entering the state. "We're known as a great quality-of-life state, and come heck or high water, they'll come here." Colorado tends to lag behind the rest of the country in emerging from recessions, but much of the recent rise in national hires grew from federally funded stimulus projects and temporary stimulus jobs. Fear over the end of those programs and uncertainty ahead of this November's elections have probably not helped, said Bill Kendall, president of the Center for Business and Economic Forecasting in Denver. "Based on what has happened through May and what looks to be happening now, that may be a little optimistic," Kendall said of the business school's estimate. "We really would be lucky to only lose 20,000 jobs for the year." Kendall tentatively forecasts a net loss of about 30,000 Colorado jobs, though he also expects employment to rise toward the end of the year. "We expected to see at least some baby steps toward improvement during the first half of the year, and that has just not happened," said Patricia Silverstein, an economist at Littleton-based Development Research Partners. "Even if we had hugely stellar numbers in the second half of 2010, it would not be enough to make up for the first half." Silverstein said economists were initially encouraged by a nationwide decrease in ongoing unemployment claims but overestimated private businesses' willingness to hire. The transportation sector, usually among the industries that lead the general economy out of the recession, has not started hiring, the Leed School's midyear report said. Neither have employers in the high-tech and information technology sectors. Wobbekind pointed to leveling state housing prices and higher consumer spending nationwide as encouraging signs, but more retail and construction jobs have yet to follow those indicators. "Colorado doesn't seem to be growing at any sort of a rapid clip and might actually be trailing the rest of the country at some point," Wobbekind said. Small businesses power most of the Colorado economy and typically hire more people than larger corporations, Wobbekind said. But they continue to complain of tight credit, consistently rating loans as "harder" to get than in the previous quarter, according to a survey by the National Federation of Independent Businesses. Lenders have their own reason to stay cautious, he said, with 31 percent of those small firms also reporting lower earnings over the previous quarter. "You don't really expand credit to people who had that kind of a drop-off in their business," Wobbekind said. **(Denver Post)**

...

Job Market Not Growing Fast Enough for Big Rebound

A second straight month of lackluster hiring by American businesses is sapping strength from the economic rebound. The jobless rate fell to 9.5 percent in June, still far too high to signal a healthy economy. It came in slightly lower than the month before only because more than a half-million people gave up looking for work and were no longer counted as unemployed. The private sector added just 83,000 jobs for the month. Looked at from that angle or almost any other, from a teetering housing market to falling factory orders, the recovery is limping along as it enters the year's second half. And that is when the benefits of most of the government's

stimulus spending will begin to wear off. The fate of the economy will hinge on whether it can stand on its own. President Barack Obama acknowledged the slow pace of the recovery and used the new jobs figures to argue for more stimulus spending and extended unemployment benefits. "We're not headed there fast enough for a lot of Americans," the president said. "We're not headed there fast enough for me, either." Overall, the nation's total payroll actually shrank last month by 125,000, the first decline in six months, the Labor Department said Friday. The loss reflected the end of 225,000 temporary jobs helping the U.S. Census Bureau complete its 10-year head count. The 83,000 jobs added by the private sector was a better performance than in May, when private job creation nearly stalled. But it fell far short of what the economy needs—at least 200,000 jobs a month—to bring down the unemployment rate. Nobody, from Obama to Federal Reserve Chairman Ben Bernanke to private economists, expects that anytime soon. And the government has mostly exhausted its realistic options for nudging the economy along faster. Benchmark interest rates, which at low levels can encourage borrowing to spur economic growth, are already near zero. Republicans in Congress object to additional stimulus spending. Unemployment is expected to stay above 9 percent through the midterm elections in November. And the Fed predicts joblessness could still be as high as 7.5 percent two years from now. Normal is considered closer to 6 percent, and economists say it will probably take until the middle of this decade to achieve that. The jobless rate did come down in June from 9.7 percent the month before. But that was mainly because 652,000 people abandoned their job searches. Even among Americans with secure jobs, confidence is fading. One gauge of consumer confidence fell in June to about 53, down nearly 10 points in a single month. And it's well below the reading of 90 typically seen in a healthy economy. Add to that jitters over Europe's debts, an edgy stock market and cautious consumer spending, and the result is an economy essentially moving sideways. It's no surprise that businesses are reviewing their orders and seeing no reason to add to payrolls. Few big companies say they plan to step up hiring in the second half of the year. Most auto, airline and railroad companies, for example, say they expect little or no job growth, blaming weak demand. One that does plan to hire, Chrysler Group LLC, expects to add engineers and other workers as it updates its aging line of cars and trucks. The company has announced 1,000 factory jobs in Detroit to meet demand for the new Jeep Grand Cherokee SUV. But airlines, including Delta and American, plan no staff increases this year. And major railroads, which have furloughed thousands since the recession, say they have no plans to add employees in the coming months. In June, manufacturers, the leisure and hospitality industries, temporary staffing agencies, and education and health services providers all added jobs. Retailers, construction firms and financial service providers cut payrolls. So did state and local governments, which are wrestling with budget shortfalls. On Wall Street, stocks sagged yet again on the news. The Dow Jones industrial average finished down 46 points, its seventh consecutive losing session. The Dow lost more than 10 percent of its value in the second quarter. Trying to put a positive outlook on the report, Obama said it showed that "we are headed in the right direction." At the same time, he acknowledged there is a "great deal of work to do to repair the economy and get the American people back to work." His options are limited. Senate Republicans concerned about record budget deficits this week blocked his efforts to extend unemployment benefits for millions of out-of-work Americans. "The two things that are growing fastest in this Democrat economy are the size of the federal government and the crushing burden of the national debt," said Senate Republican leader Mitch McConnell of Kentucky, who led opposition to the extension. All told, 14.6 million

people were unemployed in June. An additional 11.2 million have given up their job searches or are working part-time but would prefer full-time work. That adds up to nearly 26 million Americans, and an "underemployment" rate of 16.5 percent. Eric Model, co-owner of Seal & Co., a shop in Summit, N.J., that sells accessories and toys, said he has not replaced the two back-office workers he let go two years ago. Not including a summer hire, Model has four employees, plus himself. "It would be nice to get some support," Model said. "But I don't want to go out on a limb and hire somebody, anticipating things will improve. I would rather run with low expenses." Those Americans who still have jobs drew smaller paychecks last month. Average hourly wages fell 2 cents to \$22.53. Workers' hours were cut, too. Those factors could dampen consumer spending in the months ahead and further weaken the recovery. It all threatens to perpetuate a vicious cycle for the economy. "It is a Catch-22 situation," said Sung Won Sohn, professor at California State University, Channel Islands. "Businesses are reluctant to hire for fear of a 'double-dip' recession. Without jobs, people are watchful of their spending, a danger to the recovery." (Denver Post)

Survey Shows Colo. Economy Ready to Grow

Colorado's economy is poised for improvement in the coming months as manufacturers and service companies ramp up their operations, according to a survey released Thursday. The Goss Business Conditions Index showed that June was the ninth consecutive month in which economic indicators pointed toward increased business activity. Colorado's index, based on a survey of supply managers in the state, rose to 68.4 from 56.8 in May. An index ranking of greater than 50 indicates economic expansion. The index anticipates economic activity three to six months ahead. "Manufacturers, both durable and nondurable, continue to expand the hourly workweek and add new workers," said Creighton University economist Ernie Goss, who conducts the survey. A regional index that includes Colorado, Wyoming and Utah also rose for the ninth straight month. "While there remains weakness in the consumer sector, our survey of manufacturers and value-added service companies over the past several months signals very positive growth for the regional economy into the fourth quarter of this year," Goss said. (Denver Post)

Spire Retail Space Committed; 175 Units Sold So Far at Denver Condo Tower

Downtown Denver's new 493-unit Spire condo tower has commitments for all its retail space and is seeing strong unit sales, developers say. The 42-story high rise's 9,000 square feet of ground-level retail space already includes Spire's sales office. Rental car giant Hertz Corp. last week started its "Connect by Hertz" service at the property, whereby condo residents can lease a Honda Prius or Ford Escort hybrid for \$8 an hour. The Hertz service is on the first level of the building's parking garage. Completed in late 2009, Spire is at the corner of 14th and Champa streets, across 14th from the Colorado Convention Center. It was developed, and is being managed, by The Nichols Partnership Inc. of Denver. The "green" project recently received LEED certification, and is one of the few residential condominium towers in this country to get that designation. LEED stands for Leadership in Energy and Environmental Design, and is the U.S. Green Building Council's rating for sustainable buildings. "When we started this project five years ago, our goal was attainability

regarding price point and sustainability," said Chris Crosby, Nichols Partnership executive vice president. Spire prices range from \$255,000 to \$1 million, with 60 percent of units running less than \$400,000. Some 175 units have been sold for \$60 million, according to the developer, which expects to close on 62 condo sales in June. Summer is metro Denver's prime home buying season. Revolution Cleaners, which already offers its environmentally friendly dry-cleaning service at Spire, has leased retail space there and expects to open that store in late summer or early fall. Restaurants going into Spire include Organic Pizza Co., which offers take-and-bake pizza and recently signed a letter of intent to lease space at the property, and a Snarf's sub sandwich shop. Boulder-based Snarf's already has a Denver location in Capitol Hill, at East 11th Avenue and Ogden Street, and one "opening soon" in the Highlands neighborhood, at West 38th Avenue and Sheridan Boulevard, according to the company. The Nichols Partnership soon plans to announce a coffee shop that will be opening its first Denver location at Spire, as well as a chef-driven, full-service restaurant. "The restaurant will be the first one anywhere," Crosby said of the full-service dining spot. The Nichols Partnership starting taking contracts from buyers of Spire units in July 2009, and began closing on unit sales in April of this year. Most buyers are owner-occupants; only 2 percent are investors, according to Crosby. Among Spire's buyer incentives is what amounts to a continuation of the federal government's \$8,000 first-time homebuyer tax credit, which expired April 30 for home sales that close by June 30. Buyers who put a Spire unit under contract by June 30 may qualify for \$8,000 in "Spire Credit," on a sale closing by Aug. 31. Condo owners also can buy parking at \$25,000 to \$50,000 total per space. Spire has 607 parking spaces in its garage. **(Denver Business Journal)**

...

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED TARGET RATE	.25	.25	.25
3 MONTH LIBOR	.53	.54	.58
PRIME RATE	3.25	3.25	3.25
10 YEAR TREASURY	3.00	3.32	3.49
30 YEAR TREASURY	3.94	4.24	4.32