

August 6, 2007

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

Principal Buys Three DTC Buildings

Miller Global Properties LLC has sold three office buildings to institutional investor Principal Real Estate Investors. The properties -- One DTC, Crescent VI and Crescent V -- are located in the Denver Tech Center office park in metro Denver's southeastern suburbs. Terms of the deal were not disclosed. Based in Denver, Miller Global is a partnership between Miller Properties Group and Global Holdings Inc. Miller Properties is headed by veteran Denver developer Mickey Miller and his son, Jim. Particulars about the recently sold Miller Global buildings include: One DTC, 5251 DTC Parkway, Englewood -- Built in 1985, this 15-story building includes 232,946 square feet of space plus a four-level, 600-space parking structure. Crescent IV, 8400 E. Crescent Parkway, Greenwood Village -- This six-story, 134,114-square-foot building was built in 1998. Crescent V, 8450 E. Crescent Parkway, Greenwood Village -- This building includes 89,895 square feet of space and four stories. Miller Global's remaining Colorado property is the 659,356-square-foot 1001 17th Street at that address in downtown Denver. The building was completed in 1977. The partnership also still has holdings in Arizona, New York, Florida and Virginia. Principal Real Estate is part of The Principal Financial Group Inc. (NYSE: PFG) financial services giant of Des Moines, Iowa, which has \$270 billion in assets worldwide. Principal Real Estate calls itself the fourth-largest institutional real estate manager in the country with \$40 billion in assets under management. **(Denver Business Journal)**

...

Damn the Torpedoes

After analyzing office market conditions, most observers remain in agreement that virtually every major U.S. market is poised to see continued rent increases and occupancy hikes over a three-to five-year horizon -- nagging concerns about the housing slump, credit crunch, rising business costs and the national economy notwithstanding. According to CoStar statistics, the average nationwide rental rate for Class A office space stands at \$28.38 per square foot, well up from \$26.63 in third-quarter 2002 but still short of the 10-year high of \$29.52 in first-quarter 2001. National vacancy rates have fallen sharply from a decade high of 16.4% in second-quarter 2003 to 11.6% currently. Although the usual caveats apply for varying local market conditions, along with the assumption -- perhaps not all that safe -- that the national economy will keep going strong, landlords appear to be sitting in the catbird's seat and likely to stay there for some time. "There's going to be a spike in rent growth for at least the next two to three years," predicts Anthony M. Graziano, associate managing director of Integra Realty Resources Inc., a New York-based commercial real estate and valuation/appraisal firm. "You cannot build a new office building for what you can rent office space for in most of the U.S. We're seeing a rent spike because of the lack of feasibility of new construction at current rents, coupled with sharply escalating construction costs over the last 24 to 36 months." About half of the 543 buildings that EOP held in February at the time of the market-roiling \$39 billion buyout by The Blackstone Group have now been sold -- in many cases, flipped two or three times and at record prices -- in response to private equity's perception that the portfolios of EOP and other REITs were greatly undervalued compared to their share prices. Blackstone has recouped nearly three-quarters of its purchase price and counting, and real estate players like Tishman

Speyer and institutional investors like Morgan Stanley -- firms with a reputation for holding assets -- have sought to duplicate the success of the private equity titan. Graziano and others cite what's now known in industry circles as "EOP syndrome," in which landlords raise rents to cover the extraordinarily high prices (and in most cases, significant debt) incurred as assets have cycled and recycled through the investment food chain. According to Integra Realty, rents have increased by double digits over five years in 21 U.S. markets, topped by Southern California, New York City, South Florida and Phoenix. The steepest rise, 54%, was recorded in the burgeoning Inland Empire region east of tightening coastal office markets in Orange, Los Angeles and San Diego counties. In New York City and San Francisco, rents have risen by 40% and 38%, respectively, over the past three years. So far, tenants are willing to pay the rents to stay in gold-standard locations like Manhattan, Washington, D.C. and San Francisco's Financial District. Rents have dropped or shown modest growth in spillover markets like Oakland and the East San Francisco Bay Area, Baltimore, Westchester, South Connecticut and Northern New Jersey. Although Chicago's market has been slower to recover, vacancies are declining, rents are on the upswing and investors are receiving premium prices, as evidenced by Tishman Speyer and Morgan Stanley's recent \$2.6 billion takedown of Blackstone Chicago portfolio, and the quick flipping of some of those assets. Spiraling construction costs and tougher entitlement processes make a reprise of the 1980s office development boom unlikely. The worldwide boom of U.S. investment in real estate has also played a role. Overseas development is siphoning both materials and labor away from domestic projects, Graziano said. "On a conference call about New York City rents a week ago, one guy said they were recently negotiating a deal on a 60,000-square-foot tenant and the landlord was offered \$50 a foot. In two weeks, they were in their third round of negotiations and the price stood at \$74," Graziano said. "I asked what was driving that, and he said currently half the equipment and materials to build new office buildings in New York is either in Dubai or China. "You just cannot get it built fast enough, and landlords are capitalizing on that," he added. "Costs are very, very high and getting the qualified guys to build the stuff is difficult." Some real estate professionals foresee an even longer era of organic rent and valuation growth, perhaps up to 10 years, although further compression in cap rates -- which have reportedly fallen to as low as 2.5% in some recent transactions -- is unlikely. Zaya Younan of Los Angeles-based Younan Properties Inc., which has eagerly snapped up office assets in Houston, Dallas and Chicago, noted recently that economists 15 or 20 years ago predicted it would take 15 to 20 years to absorb the nearly 3 billion square feet of office space built in the 1980s, the largest office market in history. "If you adjust today's rents for inflation, they are lower than 15 years ago," Younan said. "We don't feel there will be a slowdown." REIT executives are expressing similar bullishness during the latest round of earnings conference calls with investors. Despite the headwinds of difficult capital markets, companies like SL Green Realty Corp. are still seeing a steady stream of aggressively priced debt and equity capital in select markets, especially Manhattan, where businesses continue to clamor for well-located space. "Demand from equity players for prime office buildings is voracious, and the supply of debt capital to get those transactions done remains plentiful," SL Green CEO Marc Holliday said. Since the market volatility began in February, more than \$8 billion in office assets has changed hands in Manhattan, with half of those properties pricing at more than \$1,000 a foot. Despite the market strife, "an enormous volume of deals" has priced as recently as July at average cap rates of about 3.6%, with many coming in at under 3.5% and one actually below 3%, Holliday said. "This paradox can only mean that there is, and

continues to be, a strong belief that rents in Manhattan will continue to evidence sustained growth for the next two to three years." **(CoStar)**

...

Broadreach Extends West with 143 Union

One of the top office buildings on the Union Boulevard corridor in Lakewood sold to a real estate investment company with a collection of Class A buildings in Denver. Broadreach Capital Partners paid approximately \$140 per square foot, or \$25.9 million, for the 10-story building at 143 Union. The 184,460-square-foot building is across the street from the Denver Federal Center and a five-minute walk from a planned light-rail station. The deal fit Broadreach Capital's strategy of acquiring well-located, high-quality real estate with an opportunity to create value, said Senior Director Gene Payne. **(Colorado Real Estate Journal)**

...

Fear of Risk Spurring Investors to Seek Safety

The widening fallout in the U.S. mortgage industry has reminded investors of a risk they had forgotten: the fear of risk itself. As unpaid mortgages and bankrupt lenders bring the weakest segments of the mortgage industry to their knees, investors have begun dumping debt and other investments that would seem to have nothing to do with home loans. Corporations are paying higher interest rates on their bonds, some private-equity firms are having trouble raising money to close big purchases, and the stock market has lost 7 percent of its value in less than two weeks - all mainly because of an exodus from risk. "I would characterize it as a loss of excessive risk appetite," said Ian Lyngen, an interest-rate strategist at RBS Greenwich Capital. "There is a lot more apprehension about layering on riskier assets." The flight to safety in the financial markets in the past few weeks can be traced to "subprime" mortgage lending. Subprime refers to people with spotty credit histories. Fueled by Wall Street's easy money, the subprime mortgage market exploded to \$1.3 trillion over the past few years. But as home prices sagged and more borrowers missed payments on these loans, the industry fell into turmoil this year. The meltdown of this comparatively small segment of the U.S. economy is contributing to a much bigger and broader issue: Lenders around the world are growing scared to lend. "It is making people pull in their tolerance for risk," said Doug Sandler, Wachovia's chief equity strategist. But Sandler thinks investors had been way too eager take on risk without enough compensation. Far from crashing, he said the market is returning to normal. **(Denver Post)**

...

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	5.25	5.25	5.25
3 MONTH LIBOR	5.36	5.36	5.48
PRIME RATE	8.25	8.25	8.25
10 YEAR TREASURY	4.71	5.00	4.99
30 YEAR TREASURY	4.87	5.09	5.07