

Investment Air Grows Thick With Doubt

A cloud of uncertainty loomed over the opening sessions of the 20th anniversary membership meeting of the Association of Foreign Investors in Real Estate, being held here. Given Wall Street's free-fall and the uncertainty surrounding the Fed's \$700-billion bailout, the mood was understandable. But, while the good news was hard to uncover, it was there. It fell to LaSalle Investment Management global strategist Jacques Gordon to open the session and recount the dire news of the past few weeks. Recovery "could be a two-year process," he stated, and in that two years, we can expect corporate downsizing, a drop in household spending and falling rents and occupancy. Further, Gordon wondered in an interview after his presentation, whether the Fed bailout was the right way to go. Acknowledging that the Fed's move was still too new to comprehend fully, he noted that "it would have to be artfully done," and wondered if it would drag the recovery process out farther than the quick pain of Chapter 11. That said, he did note in his presentation that while the current crisis could be "terrible news for highly leveraged portfolios," it might be a "great time" for AFIRE members, given the weakness of the dollar. And while the markets tumble, Gordon also held out some hope for those investors looking for opportunities, opportunities that lie mostly in such niches as education and student housing, healthcare, legal and energy. "Office and retail are not happy places," he stated. "But these are the areas for optimism." Gordon even ventured further optimism in that "fundamentals are still essentially sound, and even if rents remain flat, increases in NOI" are possible where leases are "set to roll." The global clouds cleared when the talk turned to local markets, and in a panel discussion of West Coast CEOs, the ever-optimistic side of the real estate community emerged. Depending on the market, there could be some free rent, stated BRE Properties' Constance Moore, "but leasing continues to be very robust." "We've been through down cycles before," said Shorenstein Properties' Doug Shorenstein. Depending largely on the fundamentals to ride him through the crisis, he noted that his portfolio is 94% leased. Given that renewals are increasingly on a two-year basis "because tenants don't know where their markets are going," Shorenstein urged the crowd to "play defensively." If you do buy, he added, then buy from sellers who have to be sellers. He referenced his recent purchases from Macklowe in Manhattan and Maguire in Los Angeles as two examples of such opportunity. "But it all comes back to leasing," he said. "The key to the market now is to understand the fundamentals and play a defensive game." (Globest.com)

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Investors Avoiding Property in Region

Disarray in the capital markets has created opportunities for Denver-area companies that are investing in distressed commercial real estate. Though their roots are here, some companies — including the Broe Group and Madison Capital Management — are sinking their dollars into properties outside the metro area, largely because Denver's commercial market doesn't offer the bargains available elsewhere. Denver-based Broe plans to invest up to \$1 billion in distressed commercial real estate over the next 12 months. "We're very liquid; we have a lot of cash and a lot of capability to buy property," said Bob Jacobs, Broe's chief operating officer. "We're seeing a lot more opportunities." Madison Capital Management, with offices in the Denver Tech Center, has been working primarily in California, Las Vegas and parts of Florida.

Denver's strong market fundamentals have kept Madison from doing much business here, said Seth Wolkov, vice president and portfolio director at Madison. "Denver has held up well compared to the rest of the U.S.," Wolkov said. "If Lehman is selling paper for liquidity needs, Denver isn't the first place they're looking to sell." Class A vacancy for Denver's central business district rose slightly to 9 percent for the second quarter but remained below the national level of 9.5 percent, according to Cushman & Wakefield. The suburban vacancy rate increased slightly to 11.9 percent but is still well below the national average of 15.2 percent. "Denver is looked upon pretty favorably," said Susan Smith, editor in chief of PricewaterhouseCoopers' Korpacz Real Estate Investor Survey. "From an investment standpoint, a couple of years ago it wasn't looked upon as a major market. It's definitely come into its own." Such interest in the Denver market has reduced the opportunities for companies focusing primarily on in-state bargains. Gart Properties, which also buys distressed properties, hadn't done a deal in Denver in nearly three years until it bought the Denver Pavilions in July, said Mark Sidell, president of the company. "Intuitively, you would think (bargains in Denver) would be out there," he said. "The immediate horizon doesn't look to be populated with great opportunities." Nonetheless, Sidell believes such opportunities may present themselves soon. "I think it's just around the corner, and we can't see it yet. I think our deal flow will increase over the foreseeable future," he said. Jacobs, of Broe, agreed that Denver's commercial market won't remain immune to the slowing of the national economy. "We expect there will be some softness in Denver and there will be some opportunities," he said. **(Denver Post)**

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Writer Square Purchased for \$58.4M

Downtown Denver's Writer Square retail and office property has sold to a California real estate company for \$58.4 million — almost twice its previous selling price — according to Denver County real estate records. ACF Property Management Inc. of Studio City, Calif., purchased Writer Square in late August from TA Associates Realty of Boston, as manager of The Realty Associates Fund VI LP. ACF declined comment about the Writer Square deal and its plans for the property, saying it doesn't discuss acquisitions. The California company has a Denver office on East Florida Avenue. "The recent sale of Writer Square demonstrates the depth of the downtown Denver market, and the strength of the property's location," said retail real estate broker Mary Beth Jenkins, president of The Laramie Co. of Denver. "We have strong downtown office and retail markets." But the 170,000-square-foot Writer Square — located on the 16th Street Mall between the Larimer Square and Shops at Tabor Center retail centers — also has both old and new challenges. The retail component long has been considered a hodgepodge of space that lacks cohesion and a strong theme as well as true anchor tenants, and recently has become outdated, according to local retail experts. Both Writer Square's office and retail buildings recently have lost tenants because of higher rents, including JohnstonWells Public Relations, Sunglass City, Writer Travel, Lupo and Victoriana Antique Jewelry. TA Associates bought Writer Square from Alliance Commercial Partners LLC of Lakewood for \$30.3 million in fall 2004. Alliance's sale of Writer Square was quick, the investor having purchased the property in fall 2003 as part of a six-property, Denver-area portfolio that cost \$52 million. Writer Square, located at 1512 Larimer St., includes a 10-story, 119,000-square-foot office building and a 51,345-square-foot retail center. A 450-space parking garage serves that space. Writer Square also includes roughly 40

condominiums that weren't part of the recent deal. Denver homebuilder George Writer of Englewood-based The Writer Corp. developed Writer Square, completing it in 1980. The property is an early example of a mixed-use project, with its retail, office and residential components, and was considered ahead of its time by local retail experts. "Its location really has sustained it," said one Denver retail broker. "The corners [at Writer Square] have done well — tenants like Cafe Colore, Zaidy's Deli and Starbucks. ... The property will only improve with some tweaking," Jenkins said. Upgrades could include renovating both office and retail space. Writer Square has had trouble keeping both office and retail tenants recently, after TA Associates raised rents. Office rents have gone from \$18 per square foot a year to a reported \$33 a foot for tenants such as JohnstonWells, which is moving to downtown's Rocky Mountain Seed Building at 15th and Larimer streets. Sage Hospitality Resources LLC, a Denver-based owner and manager of hotels, plans to leave the property's office building in 2009 for new headquarters space farther up the mall in the old Fontius building, now called the Sage Building. Retail rents have risen from the mid-\$50s a foot to the low \$60s for occupants such as Victoriana Antique Jewelry, which moved to neighboring Larimer Square. **(Denver Business Journal)**

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Fischer Medical Buys Interlocken Business Park Bldg.

Fischer Medical Technologies Inc. purchased the office building at 325 Interlocken Parkway in Broomfield, CO, from Equastone for \$2.58 million, or approximately \$130.50 per square foot. The buyer moved in when it went under contract to purchase the building. The 19,764-square-foot office building was built in 1985 and is in the Interlocken Business Park. It is known as Building C. Douglas Bakke and Frank Kelley of CB Richard Ellis represented the seller. Ken Gooden and Eric Brynstad of Jones Lang LaSalle represented the buyer. **(CoStar)**

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Denver Office Market 'Surprisingly Positive' in Q3

The metro Denver office market's performance was "surprisingly positive" in the third quarter, though still challenged by sublease space and the addition of space by newly completed buildings, according to a report by Jones Lang LaSalle Inc.'s Denver office that was released Friday. "In the past year, we have seen an overall increase in sublease space," the report said. "This, coupled with new supply, demonstrates a potential for Denver to see further increases in vacancy over the next two years." Sublease space is that which has been leased by a tenant, and which is re-leased by that tenant to another occupant. Direct net absorption of office space for the metro area, excluding sublease space, in the third quarter was 176,867 square feet of space, compared to 186,435 square feet for the same period last year. Downtown Denver, the metro area's traditionally strongest office submarket, had direct net absorption of space for the third quarter of 9,039 square feet, down from 87,313 square feet for the same period last year. The suburban office market's direct net absorption jumped to 167,878 square feet from 99,122 square feet. The northwestern office submarket — including the Interlocken office park along U.S. Highway 36 and what will be Conoco Phillips Co.'s (NYSE: COP) new renewable energy research and training facility in Louisville — had the most direct net absorption of suburban submarkets, at 109,376 square feet, and absorption including sublease space, at 114,936 square feet. "The northwest submarket

continues to be important, as large corporations move their operations to the area and create an increase in demand for new office supply," the report said. Adding sublease space to the mix, the metro area had 137,757 square feet of net absorption last quarter, down from 264,295 square feet for the same time one year earlier. The central business district had negative absorption, with sublease space, of 152,267, compared to positive absorption of 134,017 in last year's third quarter. Suburban office absorption in that category dropped to 290,247 square feet for the quarter from 130,278 square feet in last year's third period.

Jones Lang LaSalle (NYSE: JLL), based in Chicago, is one of metro Denver's largest commercial real estate brokerage firms. The company recently acquired Dallas tenant representation firm The Staubach Co. Other third-quarter office data, compared to the same period of 2007, from the JLL report includes:

- Asking Denver-metro gross rents for office space, on average, inched up to \$23.78 a square foot per year from \$21.92 one year ago.
- Despite lower absorption, the downtown office market's average asking gross rent improved to \$28.95 from \$26.16.
- Suburban rents rose to \$21.78 from 20.27.
- Office space under construction in the metro area increased to 2.58 million square feet last quarter, from 2.31 million square feet. Some 1.6 million square feet of office space currently in the pipeline is located in downtown Denver, and is 52 percent preleased, the report said.
- Metro Denver's office vacancy rate, including sublease space, hit 14.03 percent, up from 12.97 percent.
- CBD office vacancy rate rose to 13.52 percent from 10.77 percent.
- Suburban office vacancies increased to 14.23 percent from 13.82 percent.
- Direct vacancy, excluding sublease space, metrowide was 12.38 percent, compared to 11.85 percent.
- CBD direct vacancy was 11.73 percent, up from 10.21 percent. That uptick can be attributed largely to the completion of the 1001 17th Street building in the second quarter, according to the report.
- Suburban direct vacancy was basically flat at 12.63 percent and 12.48 percent. The completion of Maroon V in the southeast suburban Meridian office park caused a "slight increase" in direct vacancy — to 12.33 percent from 11.71 percent — in that submarket. **(Denver Business Journal)**

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	2.00	2.00	4.75
3 MONTH LIBOR	3.76	2.81	2.80
PRIME RATE	5.00	5.00	7.75
10 YEAR TREASURY	3.85	3.76	4.57
30 YEAR TREASURY	4.36	4.39	4.84

