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Consumer Outlook Up, Housing Bottom May Be Near

Americans felt better about the economy in August, as a barometer of sentiment posted the biggest boost in two years amid falling gas prices. Two reports suggested that a bottom could be nearing for the housing market, but economists caution it's too early to proclaim that the worst is over. The Conference Board, a private research group, said Tuesday that its consumer confidence index rose to 56.9, up from a revised 51.9 in July. That's the largest gain since August 2006, and is ahead of the 53 expected by economists surveyed by Thomson/IFR. It's also the second month in a row that sentiment improved, after a six-month slide since January—but it remains about half what it was a year ago, and worries about the job market persisted. "It's still too early to call a bottom" on both confidence and housing, said Gary Thayer, senior economist at Wachovia Securities. The Standard & Poor's/Case-Shiller U.S. National Home Price Index released Tuesday showed home prices dropped a record 15.4 percent during the second quarter. However, the rate of single-family home price declines slowed from May to June, a possible silver lining. Sales of new homes rose in July, but still fell short of economists' expectations, and home prices continued to sink. Still, the July increase followed a sharp downward revision to June's sales. "Consumer confidence readings suggest that the economy remains stuck in neutral, but may be showing signs of improvement by early next year," Lynn Franco, director of The Conference Board Consumer Research Center, said in a statement. However, "overall readings are still quite low by historical standards, and it is still too early to tell if the worst is behind us." Economists and investors closely monitor consumer sentiment as consumer spending represents about two-thirds of all economic activity. Falling gas prices in recent weeks helped boost consumers' mood, Franco said. Gas prices have dropped 15 cents a gallon in the last two weeks, according to the Lundberg Survey of 7,000 gas stations nationwide, released Sunday. The average price of a gallon of regular gasoline at self-serve stations was \$3.70 on Friday. Despite that, gas nationally was almost 95 cents a gallon higher than a year ago, and the volatility in oil prices are a big concern for investors. But Tuesday's reports helped offset a spike in oil prices that rose out of concerns Hurricane Gustav might hit installations in the Gulf of Mexico in coming days. In early afternoon trading, the Dow Jones industrial average rose 5.86, or 0.05 percent, to 11,392.11. The Conference Board's index that measures shoppers' current assessment of the economy declined to 63.2 from 65.8 in July. But the one that gauges their outlook over the next six months jumped to 52.8 from 42.7 in July. The 10-point increase marked the biggest gain since November 2005, when the economic fallout of hurricane Katrina was subsiding. Franco said that declines in the Present Situation Index, both in term of business conditions and the labor market, appear to be moderating. While economists say they can't underestimate the relief among consumers to see gas prices come down, Americans are still faced with a number of challenges as they head into the crucial fall and holiday selling seasons, from a weak job market to tight credit conditions and the housing slump. "It's encouraging to see the benefit of lower gas prices helping consumers a bit," Thayer said. But he noted that there's still a lot of worry out there. As for the housing market, he cautioned that mortgage rates have not come down and tighter lending standards could stall any housing recovery. The Standard & Poor's/Case-Shiller report showed that 14 cities in the monthly index showed improvement from May to June, but nine recorded positive returns. Meanwhile, the Commerce Department reported that new home sales rose 2.4 percent in July to a seasonally adjusted

annual rate of 515,000 units, the most since April. But sales in June had dropped to a pace of just 503,000—down from previous estimates of 530,000—to mark the worst performance since September 1991. Economists projected sales to drop in July, but expected the pace to be around 525,000. Given June's sharp downward revision, the level of home sales in July wound up to be less than analysts were anticipating. The Consumer Confidence report—derived from responses received through Aug. 19 of a representative sample of 5,000 U.S. households—showed people's current assessment of the labor market turned bleaker. Those saying jobs are "hard to get" rose to 32.0 percent from 30.2 percent in July, while those who found them "plentiful" declined to 13.1 percent from 13.6 percent. Their outlook for what's ahead in the labor market was less gloomy. The percent anticipating fewer jobs in the months ahead decreased to 30.6 percent from 37.3 percent, while those expecting more jobs increased to 10.5 percent from 8.0 percent. **(Denver Post)**

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Commercial Market Remains Healthy Through Credit Crunch

Metro Denver's commercial real estate market has faced some of the same challenges as others nationwide in recent years because of the credit crunch, but a relatively healthy local economy has kept it steady. Corporate America finds the Denver area attractive for expansion, and more investors are buying properties here. New construction has been generally disciplined, and there's greater demand for energy-efficient, environmentally friendly green construction. Commercial real estate includes office space, shopping centers and industrial properties such as warehouses and distribution centers. The metro area had its largest commercial real estate sale ever in 2007, when Callahan Capital Partners LLC acquired five downtown Denver office buildings for \$770 million from The Blackstone Group LP. Acquisitions have slowed here this year from 2007 because of credit constraints, but many investors still believe they can get high-quality properties for good prices. In the fall of '07, metro Denver made PricewaterhouseCoopers LLC's ranking of the top 10 U.S. real estate investment markets for 2008 — the first time this market was included in the ranking in its 30-year history. "The markets that are expected to experience strong value growth [this year] are Manhattan, at 5.6 percent, and Denver at 4 percent," said Mary Sullivan, investment broker and executive vice president at CB Richard Ellis Inc. (CBRE) in Denver. "That's outstanding." Sullivan's team, also including Tim Swan and Ron Urgitus, represented Blackstone locally in last year's deal with Callahan Capital. Positive local job growth that outpaces the country's, robust local energy and technology industries, as well as recent highway and light-rail expansion, have kept demand for office space slow but steady recently, according to real estate brokers. At midyear, the office market had a vacancy rate of 12.9 percent and average rent of \$20.93 per square foot per year, according to CBRE. The Denver-area office market includes a total of 104.2 million square feet of space. This area's tallest buildings — all in downtown Denver, built in the 1980s and topping 50 stories — include Republic Plaza and the Philip Johnson-designed Wells Fargo Center, better known as the "Cash Register Building" because its roof resembles an old-time cash register. In the 1960s, late Denver developer George M. Wallace started building one of the country's first technology-oriented office parks, the Denver Technological Center — called the Tech Center, or DTC, for short — in the metro area's southeastern suburbs, and it now dominates that region. Other major office parks include Inverness and Meridian, south of the DTC, and Interlocken in the northwestern metro area. After being overbuilt early in the decade, the industrial

real estate market had a healthy vacancy rate of 5.8 percent at midyear. The industrial market is dominated by medium-size warehouse, distribution and flex (office/industrial) space. "What drives our industrial market is a strong industrial base," said Mike Camp, industrial broker and senior vice president at CBRE. "We have a lot of smaller, innovative companies that continue to grow. Denver is also the distribution center for the Rocky Mountain West." Metro Denver's principal industrial region is in the northeastern area along Interstate 70 and near Denver International Airport (DIA), with nearly 60 million square feet of the total industrial real estate market's roughly 221 million square feet. ProLogis Inc., one of the world's largest owners and developers of distribution centers with more than 540 million square feet of properties worldwide, has its headquarters near DIA. The Denver area's retail market has suffered from the recent credit crunch and housing slump, which have prompted consumers to cut spending. Retail has been the only commercial property type to have negative absorption of vacant space — nearly 500,000 square feet — so far this year. But retail rents here continue to rise, hitting \$17.65 per square foot on average at midyear, and investors keep buying retail properties because of metro Denver's continuing job growth and immigration. Local Gart Properties LLC, with ING Clarion Partners LLC, recently bought downtown Denver's two-block Denver Pavilions mall for \$94.5 million because the company thinks "this is an ideal time to be part of the tremendous momentum of downtown Denver retail," according to President Mark Sidell. The metro area's largest malls, at more than 1 million square feet each, include Cherry Creek Shopping Center in Denver, Park Meadows in Lone Tree, Southlands in Aurora and FlatIron Crossing in Broomfield. **(Denver Business Journal)**

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Economy Rebounds in 2Q, Mostly spurred By Exports

The economy shifted to a higher gear in the spring, growing at its fastest pace in nearly a year as foreign buyers snapped up U.S. exports and tax rebates spurred shoppers at home. The Commerce Department reported Thursday that gross domestic product, or GDP, increased at a 3.3 percent annual rate in the April-June quarter. The revised reading was much better than the government's initial estimate of a 1.9 percent pace and exceeded economists' expectations for a 2.7 percent growth rate. The rebound comes after two dismal quarters. The economy actually shrank in the final three months of 2007 and limped into the first quarter at a feeble 0.9 percent pace. The 3.3 percent growth in the spring was the best performance since the third quarter of last year, when the economy was chugging along at a brisk 4.8 percent pace. Still, the growth pickup is not likely to be seen as a lasting sign that the fragile economy is back on solid ground. Federal Reserve Chairman Ben Bernanke recently warned the economy will be weak through the rest of this year. A growing number of analysts fear that the country will hit another economic pothole in the fourth quarter, as the bracing impact of the tax rebates disappears. And there are concerns exports could tail off as other countries' economies slow down. GDP measures the value of all goods and services produced within the U.S. and is the best barometer of the country's economic health. The economy is the top concern for Americans. Democratic presidential contender Barack Obama favors a second government stimulus package, while Republican rival John McCain supports free trade and other business measures to energize the economy. On Wall Street, the GDP report lifted stocks. The Dow Jones industrials were up about 150 points in morning trading. "Many people thought the sky was falling this spring ... but the

economy actually expanded quite solidly," said Joel Naroff, president of Naroff Economics Advisors in Holland, Pa. Still, housing, credit and financial troubles have pounded the economy. In turn, employers have clamped down on hiring, driving the nation's unemployment rate up to 5.7 percent in July, a four-year high. The Labor Department said Thursday that the number of people signing up for jobless benefits declined last week for the third straight period, but claims remained above 400,000, an indicator of a slowing economy. Employers have cut jobs every month this year and wage growth is trailing inflation. That combination raises concerns about the future of consumer spending, one of the pillars underpinning the economy. The biggest factor in the second-quarter's rebound was robust sales of U.S. exports to other countries. The weaker value of the U.S. dollar has bolstered those sales. Exports grew at a 13.2 percent pace in the spring. That was much stronger than the government's initial estimate of a 9.2 percent growth rate, and more than double the 5.1 percent growth rate logged in the first quarter. Imports, meanwhile, fell at a 7.6 percent annualized pace in the spring, as economic troubles in the U.S. crimped demand for foreign-made goods. The improved trade picture added 3.1 percentage points to second-quarter GDP, the most since 1980. U.S. consumers boosted their spending at a 1.7 percent pace in the second quarter. That was slightly better than the 1.5 percent growth rate initially report and marked the best showing in nearly a year. Government stimulus checks of up to \$600 a person helped energize shoppers who had hunkered down amid the economy's problems. One of the country's biggest problems - the housing collapse - was evident in the GDP report. Builders cut back at an annual rate of 15.7 percent in the second quarter_ although that was a better showing than early this year and late last year. Businesses trimmed spending on equipment and software in the spring. And, they reduced investment in inventories, but not as much as initially estimated by the government. That was another factor contributing to the improved GDP reading. One measure of corporate profits showed companies losing ground in the second quarter. After-tax profits fell 3.8 percent in the spring, compared with a 1.1 percent increase in the first quarter. An inflation gauge tied to the GDP report showed all prices rising at a rate of 4.2 percent in the second quarter, the same as initially estimated. Taking out energy and food, prices rose 2.1 percent. That also was unchanged from the government's previous estimate but remained outside the Federal Reserve's comfort zone. With the economy still coping with fallout from housing and credit problems, the Fed is expected to hold interest rates steady at its next meeting on Sept. 16, and probably through the rest of this year. **(AP)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	2.00	2.00	5.25
3 MONTH LIBOR	2.81	2.79	5.72
PRIME RATE	5.00	5.00	8.25
10 YEAR TREASURY	3.83	3.94	4.55
30 YEAR TREASURY	4.43	4.56	4.84