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### Panel Dishes on Subprime Meltdown, Recession

A record number of registrants for the fall meeting of the Urban Land Institute packed a large hall at the Venetian Hotel & Casino on Wednesday to hear top executives from Rreef, Developers Diversified Realty, Banc of America Securities and Cole Companies talk capital markets and investment trends. The discussion ranged from the subprime meltdown to whether or not a recession looms and who's bullish on what property types. You didn't need to be a rocket scientist to see the subprime meltdown coming, said Daniel Hurwitz, president/CEO of Developers Diversified Realty, from his seat on a panel discussing capital markets at the Urban Land Institute's fall meeting in Las Vegas on Wednesday. "We had a fee-driven lending industry that didn't care about credit," he said. Their way around it was to package and sell the debt to somebody else would then repackage it and sell it again. "It was the financial institutions' hot potato," he said. "Whoever got stuck with it last...." The recoil by lenders, whose debt drives deals, has slowed deal flow, said Ron Sturzenegger, head of real estate and lodging for Banc of America Securities LLC. "We still have more capital and more liquidity than we've ever had in most of our careers," Sturzenegger said. "What we have now is a debt problem; the grease that spins the wheels is on hold." On the equity side, lenders, looking to lower their risk profile, are requiring the borrower to put more cash into deals, said Christopher Cole, CEO of the multifamily-focused Cole Cos. They are doing so in part to lower the risk profile because they aren't able to unload the debt in the same way they had in the past, said Sturzenegger. "The lenders found themselves with loans they couldn't sell at (the price) they thought they could sell them at," Sturzenegger said. "Now they are holding (those loans) until the CMBS market comes back to a price they are willing to sell into." As lenders begin to see the pricing they want, Sturzenegger says some \$50 billion of real estate loans will be sold between now and the end of the first quarter of 2008. "It's a pricing problem, not a credit problem," he says. "I don't think we're headed for a recession," said Christopher Cole of Cole Cos. "Right now we are the most affluent society and economy and will stay that way for two decades until all the baby boomer wealth and inheritance makes its way through the economy; it will be a real stabilizing force." Ron Sturzenegger, head of real estate and lodging for Banc of America Securities LLC, says that financial institutions may be taking substantial write-downs but are so well capitalized right now they can absorb and still remain strong. "The biggest concern is the consumer, and what happens to them when they can no longer use their houses as an ATM, when their ARM ratchets up and they have to struggle to make the payment. "It's not a financial problem but what the consumers ultimately do," he said. "If a recession starts it will be at that end." Daniel Hurwitz of Developers Diversified Realty, which as a retail focused company relies on the consumer, said there is real wage growth, job growth and retail sales growth, so any retailer hollering recession to explain their poor performance should instead focus on their business model. "There are a lot of excuses for really bad merchandising on behalf of retailers getting beat in their own sector," he said. "If you really had an impact from oil prices and the subprime market, it would be equal across a sector, and it isn't. We'll see two companies in the same sector and one will be doing 8% comp(arable) store sales growth and the other negative 3%. The losers are always going to look for an excuse; it's all overblown. There is no recession." Concludes Brian McAuliffe, chief investment officer for Rreef Alternative Investments, "We're not quite as bullish as Dan, but we're not planning for a recession," he said.

"But we are making adjustments in the form of growth rates." Brian McAuliffe, chief investment officer for Rreef Alternative Investments in North America, is very bullish on apartments. Speaking on a panel discussing capital markets and investment trends, he said existing tenants are staying in their units longer because of the subprime meltdown while new renters continue to enter the market. "Obviously (given those factors), we're confident renewal rates will be increasing," he said. "The shadow effect of excess (single-family housing and condominiums competing with the rental market) will occur only in select markets." Looking further out, he says there will be more garden apartment construction because the lack of for-sale housing will bring down the price of drywall and lumber prices. The office sector will remain steady due to the inherent value of their leases, he says, and while the heretofore strong warehouse-distribution market may slow down a bit, it still presents a solid opportunity for the smart investor. As for the retail sector, McAuliffe says "it's a market we feel has peaked early and one here you have a lot of supply threats existing today." Daniel Hurwitz, president/COO of Developers Diversified Realty, sees the retail sector completely differently. "The supply pressure in retail doesn't mean it's overbuilt, it means it's under demolished," he said. "If you look at vacancy rates they move a little but not very much; that's because most retail projects have 10% or less of spec space, it's all done on a build-to-suit basis. "When we have a situation where we are taking tenants from other projects, (it's because) that other center is obsolete and needs to go away, which isn't the case for the apartment, industrial and office markets. So do we need to get more aggressive in how we reposition (retail centers) or take them offline, that's something all good companies do on a regular basis. But overall, if you look at demand, it far outstrips supply." **(Globest.com)**

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### **Colorado Payrolls Down by 800**

Colorado employers pared a total of 800 nonfarm wage and salary jobs from their payrolls in September, a typical decline for the month, according to the Colorado Department of Labor and Employment. The seasonally adjusted unemployment rate was essentially unchanged in September, inching up one-tenth of a percentage point from the previous month to 3.9 percent. Last September the unemployment rate was 4.3 percent. The national unemployment rate was 4.7 percent in September. "Overall labor market conditions in Colorado have remained quite stable this year despite signs of softness in the national economy," Donald Mares, executive director of the Colorado Department of Labor and Employment, said in a statement. Eight of the state's 11 major industry groups pared jobs. Seasonal industries cut the most, with leisure and hospitality topping the list, down 11,000 positions. Professional and business services and construction cut 2,700 and 2,400 jobs respectively. Government offset most of the private sector losses by adding 17,800 jobs over the month. Hiring within the education subsector of state and local government, up 10,500 and 7,900, respectively, accounted for gains. Education and health services added 1,200 jobs. Over the past 12 months, Colorado nonfarm wage and salary jobs have increased 45,000 or 2 percent. **(Denver Business Journal)**

### Metro Apt. Vacancies Lowest Since '01

Broadstone's new construction at 2101 Market gets underway in the Ballpark neighborhood will add a half block of apartments next to the ballpark. (Post / Brian Brainerd)The apartment-vacancy rate for metropolitan Denver dropped to its lowest level in nearly seven years, according to data released Thursday by the Apartment Association of Metro Denver. During the third quarter, the vacancy rate dropped to 5.3 percent, the lowest it has been since the first quarter of 2001, when it hit 4.5 percent. For the third quarter last year, the apartment-vacancy rate in metro Denver was 6.7 percent. It was 7.7 percent during the same quarter of 2005. All six metro-area counties surveyed showed a decrease in their vacancy rates. "It's what we would expect," said Steve Rahe, first vice president of brokerage firm CB Richard Ellis Inc. "Leasing activity has been strong based on new job creation. The numbers are representative of a growing economy." Metro Denver added 1,300 jobs from July to August, according to a recent report by the Metro Denver Economic Development Corp. Despite slower job growth throughout the summer, metro-area employment through the first eight months of 2007 was up 1.8 percent over the same period last year. "Even with high foreclosures, the economic growth is fairly steady in Colorado, and the unemployment rate is still relatively low," said Kathi Williams, director of the state's Division of Housing. "We haven't had a lot of new construction in multifamily units. It's helped stabilize the market." About 586 new apartments were added to the inventory during the third quarter. The high foreclosure rate doesn't appear to be a factor in the declining vacancy rate, primarily because owners who lose their homes to foreclosure tend to move into single-family rental homes. The survey includes only multifamily apartment buildings. "Bankers are more inclined now to keep people in their properties than they were before," Williams said. "Folks who are being foreclosed on, if they've been in a single-family home, they tend to gravitate toward that single-family home-rental market rather than the apartment market. But some have dug a hole so deep, we're having an issue with homelessness. We're seeing a little bit of a rise in bankruptcy." The average rental rate decreased to \$858 per month for the third quarter, down from \$865 for the same period last year. "The average rent went down because some of the higher-end product owners lowered prices," said Gordon Von Stroh, professor of management at the University of Denver, who compiled the report. **(Denver Post)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	4.75	4.75	5.25
3 MONTH LIBOR	4.98	5.20	5.38
PRIME RATE	7.75	7.75	8.25
10 YEAR TREASURY	4.41	4.63	4.83
30 YEAR TREASURY	4.68	4.88	4.95