

October 2, 2006

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

Commercial Real Estate Lenders Riled Up

A proposal by federal regulators to more closely scrutinize banks with large concentrations of commercial real estate (CRE) loans and raise capital requirements threatens to choke a lucrative lending sector, industry leaders say. "By using blanket industry-wide guidance to address concentrations that the regulators are seeing at some banks, the regulators risk choking off the flow of credit from banks that are engaging in CRE lending in a safe, sound, and profitable manner," banker Harris Simmons told members of the House Subcommittee on Financial Institutions and Consumer Credit on Sept. 14. Simmons is CEO of Zions Bancorporation in Salt Lake City and chairman of the American Bankers Association. As proposed, new regulations would set thresholds calling for enhanced risk management programs and greater capital requirements when a bank's concentration of construction lending grows larger than 100% of a bank's total assets, or when all CRE loans exceed 300% of capital. While the proposed thresholds are intended to alert banks to the need for rigorous risk management programs to monitor high loan concentrations, lenders and real estate industry representatives say that analysts and bank examiners could interpret the 100% and 300% thresholds as lending caps. Several agencies, including the Office of the Comptroller of the Currency (OCC), proffered the rule change in January in response to a rapid increase in real estate lending. Commercial loans made in 2005 totaled \$1.3 trillion, up 16% from the previous year, according to the OCC. Federal regulators fear a repeat of the widespread commercial real estate failures that contributed to bank and savings-and-loan failures two decades ago. Approximately 35% of U.S. banks today have CRE loans equal to more than 300% of their capital. That's nearly double the 169% CRE loan concentration for community banks in 1989, according to the comptroller's office. "One bank has commercial real estate loans that represent 750%, or 7.5 times, its capital," Rep. Maxine Waters, D-Calif., told the subcommittee. "Is this prudent banking practice, or is it inherently risky?" Waters' example was intended to show the potential for overexposure to real estate, yet it lends equal weight to the lending industry's main complaint about the proposed regulations — that banks with risk management programs inadequate for their CRE loan concentrations are best dealt with on a case-by-case basis, rather than through industry-wide regulations. "The regulators have an ample supply of supervisory and enforcement tools at their disposal to address any bank that is failing to manage adequately the risks presented by a CRE concentration," Simmons of the American Bankers Association testified. "If, in fact, the regulators are seeing concentrations at only some banks, then the supervisory response should be tailored to fit the particular facts of a given bank." Opponents of the new regulations say the broad-brush approach is too simplistic for a market sector that employs a spectrum of diversification strategies by geography, product type and other factors. Today's commercial real estate market benefits from greater transparency, increased scrutiny and more timely information than in years past due to the influence of public real estate investment trusts and the creation of the commercial mortgage-backed securities market, according to Bob White, president of Real Capital Analytics. "The information feedback loop that is now in place should help prevent large boom-bust cycles in the future," White told subcommittee members. Lawmakers at the hearing seemed hesitant about the proposed guidelines, White says. If the rules are adopted, real estate and banking leaders

worry that even those lenders that do meet enhanced risk-management guidelines will see their share prices suffer, if they exceed the new thresholds for CRE loan concentrations. "The pace of construction right now is about \$1.2 billion [annually], which doesn't include land or other things that need to be financed," White says. "There's a real potential that even that 100% threshold could effectively cap construction levels below what we need." **(National Real Estate Investor/Matt Hudgins)**

...

Office Condo Developer Kicks Off its First Denver-Area Development

The country's largest office condominium developer is breaking ground in Denver. Scottsdale, Ariz.-based Shea Commercial is starting construction of Park Ridge Office Suites, a \$12 million development at Park Ridge Corporate Center in Littleton. The company expects to break ground on Crown Point Office Suites in Parker in November while planning two other Class A condo developments and continuing to acquire land for new construction. Park Ridge Office Suites, a 92,943-square-foot, six-building project, is 35 percent presold to users that include medical and professional services companies. Presales are right in line with Shea Commercial's expectations, according to President Jim Riggs. **(Colorado Real Estate Journal)**

...

Orchard Town Center Ready to Open

The first phase of the massive Orchard Town Center retail project is scheduled to open early next month. The 1 million-square-foot center in Westminster officially opens with JCPenney opening its doors Oct. 6. That will be followed by the Oct. 8 opening of a SuperTarget store. Orchard Town Center sits on 215 acres on the northwest corner of Interstate 25 and 144th Avenue. Developer Forest City Enterprises Inc. broke ground on the project in September 2005. Even before that, the city of Westminster was getting ready to handle the expected increase flow of traffic to the area. The city began construction in April 2005 on a new interchange at I-25 and 144th. The city of Westminster has estimated that over the next 10 years, The Orchard Town Center will bring in \$85 million in revenue and create more than 3,000 jobs. In addition to the JCPenney and SuperTarget stores, The Orchard Town Center also has a 12-screen AMC Theatre and a Macy's as its anchors. Nearly 100 retailers are expected to occupy space there as well. The second phase of the project is scheduled to open in October 2007. **(Denver Business Journal)**

...

Portland Firm Buys Greenwood Place for \$8.5M

A Portland, Ore.-based investment management firm acquired its first property in the Denver area, it was announced Tuesday. NBS Real Estate Capital LLC said it purchased Greenwood Place, 5340 S. Quebec St., in Greenwood Village. NBS Real Estate Capital paid \$8.5 million for the three-story, 72,043-square-foot office

building, according to a news release. The company represented itself in the transaction. The seller, KRG Capital Partners LLC of Atlanta, was represented by Patrick Devereaux and Gene Pride of Cushman & Wakefield. The building was constructed in 1982 and is 92.7 percent leased to about 20 tenants. NBS Real Estate Capital was started in 2002 and has approximately \$200 million in assets across the Western United States, including office buildings, multifamily residences, retail and industrial spaces. "Our goal is to invest more in Colorado," NBS spokeswoman Victoria Hyun said. **(Denver Business Journal)**

...

Cherry Creek Marriott Sells for \$72 Million

The JW Marriott hotel in the heart of Cherry Creek North is being sold for about \$72 million, shattering the previous record on a price-per-room basis. Denver-based Sage Hospitality, manager of the 196-room hotel, is in a joint venture with Wall Street giant JP Morgan, which is providing the lion's share of the equity. The groups are paying about \$365,000 per room for the JW Marriott Denver at Cherry Creek at 150 Clayton Lane, across from the Cherry Creek Shopping Center. That's about \$135,000 per room more than the record set last year when Prisa Hotel LLC paid \$43.5 million, or \$230,159 per room, for the 189-room Hotel Monaco in downtown Denver. The Marriott deal is expected to close as early as next week. "I cannot imagine the JW being in any better hands than with Sage," said Charlie Biederman, a principal of CDS Hotel Investors LLC, the seller. "I am proud to have been associated with them as our managers and as owner. I am sure they will continue in the tradition of excellence that we've tried to establish." CDS stands for the first initial of the first names of the owners - Charlie Biederman, Doug Jones and Steve Roitman. Walter Isenberg, president and CEO of Sage - who on Sept. 5 had confirmed it had placed the hotel under contract - said in a statement Monday the hotel has the best location in Denver, the highest revenue per available room in metro Denver, and it ranked No. 2 in guest satisfaction for all Marriotts in the U.S. since Sage began managing it in June 2005. The hotel includes 5,500 square feet of meeting space and the 9,000- square-foot Spa at Cherry Creek. Sage owns and operates 47 hotels in 21 states. The company has completed more than \$1.1 billion in hotel acquisitions and developments in the past five years. Sage is spending about \$30 million to renovate the former Executive Tower Inn at 1405 Curtis St. into a new contemporary hotel called the Curtis. **(Rocky Mountain News)**

...

\$2B Bioscience Park Gets Go-Ahead

Forest City Enterprises and directors of the Fitzsimons Redevelopment Authority has signed a 200-page agreement detailing the development of a 3.5-million-sf bioscience park on a piece of the former Fitzsimons Army Medical Center here. FRA executive director Jill Farnham tells GlobeSt.com that the estimated \$2-billion development calls for the first structures to be built by the end of 2008 and for the project to be completed over the next 30 years. The park will rise immediately adjacent to the University of Colorado's new Health Sciences Center, which covers

some 230 acres of the former medical center site and includes two university hospitals, offices and research facilities. The Fitzsimons Redevelopment Authority controls the remaining 300 acres of the medical center, 160 acres of which will be used for the bioscience park. A portion of the park will be used to provide facilities for companies conducting private research associated with that of the University, including its Webb-Waring Institute for Cancer, Aging, and Antioxidant Research. As per the agreement, Forest City will lease the ground from the FRA on a long-term basis (75 years). Instead of standard lease payments, Forest City will give the FRA a percentage of the property's net cash flow. In addition, Forest City will make annual option payments in order to secure its exclusive right to develop the land. Farnham tells GlobeSt.com that the FRA's net cash flow take starts at 10% and that the option payments start at \$250,000 and jump to \$450,000 in four years. It isn't yet clear how much 10% of the development's cash flow might mean in dollars, Farnham says. The bioscience park will expand on 85,000 sf of life science space in two buildings already developed by the FRA. One of those buildings is an incubator and the other is for more mature companies. The buildings have combined vacancy of about 15%, Farnham says. Forest City was chosen to develop the bioscience park in November 2005. In March, the FRA and Forest City signed a Memorandum of Understanding. The last six months have been spent hammering out the development agreement. Forest City is also the master developer of the former Stapleton Airport in Denver. A mixed-use development covering 7.5 square miles, the project is considered one of the nation's largest urban infill projects. One month after signing the MOU for the Fitzsimons project, Forest City dropped out of the running for the \$1-billion redevelopment of Denver Union Station. "Forest City did not say anything in writing, but clearly they have got a lot of other big projects going on," Liz Orr, head of the selection team for the development, told GlobeSt.com at the time. **(Globest.com)**

...

Wells Fargo Executive Upbeat About Economy

Jim Paulsen, the chief investment officer of Wells Capital Management, looks at the economy and sees a lot of good, a lot of OK and not very much to be worried about. That other people are concerned - well, that's a good thing. "What you have to worry about is when everyone gets cocky and so overly optimistic that they start to over-invest," Paulsen said Thursday to an audience of Wells Fargo clients. "If you look outside of housing and auto, it's hard to see a lot bad with the economy. Actually, you see a lot of good." It didn't take long for an audience member to mutter, "Tucker should be here for this," a reference to Tucker Hart Adams, the generally pessimistic Colorado economist who has once again said there's a good chance of a recession in the near term. The key difference: Adams is keenly focused on household debt, the housing market and the implications of increasing interest rates on consumers. Paulsen is more sanguine about interest rates, preferring to look at them as being part of a 45-year low rather than a five-year high. And he practically dismisses the housing situation, saying that the residential market has already "rolled" negative, and the gross domestic product is still growing. "It's already happened, and the economy's OK," he said. "Let housing roll, baby - we're doing just fine!" Oil prices? Not a big concern. Again, Paulsen takes a long-term view. Just a few years ago, energy consumption as a percentage of gross domestic

product hit a 40-year low. It's risen to about 6 percent, but that's well below the 8 percent mark of the late 1970s. "Remember when Jimmy Carter told us to wear sweaters and we all bought Ford Fiestas? We don't have to do that, because we aren't more energy dependent." Oil was \$70 just before Hurricane Katrina, Paulsen notes, and even with the subsequent hurricanes and nuclear terror threats from North Korea and Iran, it hasn't gone up. "That's testament to the fact crude was already overvalued before Katrina," he said. "I would argue it was overvalued by 25 bucks. It should be \$45 to \$50 a barrel." **(Rocky Mountain News)**

...

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	5.25	5.25	3.75
3 MONTH LIBOR	5.37	5.40	4.05
PRIME RATE	8.25	8.25	6.75
10 YEAR TREASURY	4.60	4.80	4.29
30 YEAR TREASURY	4.73	4.94	4.55