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A "Mostly Rosy" Forecast for Holiday Retail Sales

For the past three months, retail business analysts and retailers (not to mention the owners of the shopping centers and malls where they lease space) have been alarmed over preliminary forecasts for the all-important, year-end holiday shopping season. The initial forecasts from August and September were downright bleak as analysts fretted that the sharp spike in gasoline prices, deteriorating conditions in the Middle East, and declining housing values would conspire to curtail year-end consumer spending. But, almost as if on cue, all that changed this month. Gas prices have dropped to their lowest levels all year, and third quarter reports confirmed that consumer spending never flagged, prompting retailers and analysts to breath a collective sigh of relief. Most analysts now seem convinced that consumers are once again ready to gas up their minivans and head to the mall. According to the National Retail Federation's (NRF) 2006 Holiday Consumer Intentions and Actions Survey, the average consumer plans to spend \$791.10 this holiday season, up from \$738.11 last year, with retailers primed to ring up \$457.4 billion in holiday sales, an increase of 5 percent over last year. Discount stores continue to be the most popular holiday shopping location for consumers, according to the survey conducted for the NRF by BIGresearch LLC, a market research firm based in Worthington, OH. Fully 70.3% reported that they plan to hit Wal-Mart, Target and other discounters for their gifts. Nearly half (49.3%) also indicated they will be shopping at grocery stores and 48.4% plan to shop specialty stores, with drug stores attracting 21.0% and crafts or fabrics stores garnering 20.5%. The NRF forecast also projects good news for department stores. A total of 61.6 percent of shoppers in its survey plan to shop there for holiday items, up from 53.1 percent in 2003. Much of the department store traffic is projected to include the coveted "young adult" demographic with 79.1 percent of 18-24 year-olds surveyed planning to shop department stores for holiday merchandise, up from 72.9 percent last year and 65.9 percent in 2004. Sales or price discounts continue to trump convenient store locations in terms of attracting holiday shoppers. 36.5 percent of respondents said that sales or price discounts bring them into stores, while only 6.5 percent of shoppers said they choose stores with the most convenient location. Charmaine Tang, an analyst with Citigroup's Retail team, also pointed to the favorable holiday schedule as a big plus for retailers this year. "In terms of the calendar, this holiday season is as good as it gets," Tang said in a conference call presenting its holiday sales forecast. "The peak holiday sales period runs from 'Black Friday,' the day after Thanksgiving, through Sunday Dec 24, giving shoppers 31 days, one more than the same period last year," Tang pointed out. "Plus, the fact that Christmas falls on a Monday gives retailers a full weekend to attract last-minute shoppers in the critical two days before Christmas." Citigroup also made note of receding energy prices and the improved outlook for consumer spending as the two other primary factors in its robust sales forecast. One possible area of weakness may be the furniture and home appliance sector, both of which stand to be most affected by the drop in home values and decelerating homebuilding activity, according to the Citigroup analysts. However, at least one retail prognosticator wasn't buying into the rosy sales forecast. Stevan Buxbaum, executive vice president of the California-based investment and consulting firm Buxbaum Group, said retailers should expect only a "middling" increase in holiday sales, not a real strong performance, because consumers remain in a cautious mood. "It will be a season without much steam," Buxbaum noted. "Same-store sales may rise a little, but you won't see anybody knock the cover off the ball because the

overall mood of the consumer is cautious and that will translate into very disciplined spending, with people being very choosy and buying quality rather than quantity." Unlike past years, Buxbaum said it's not clear what this holiday season's best sellers will be. "Electronics have been selling well, especially flat-screen televisions because prices are down. That strength will continue during the holiday season, but it won't be overwhelming because large numbers of people have already bought them and consumers with less disposable income are waiting for prices to drop even more." Buxbaum also said that retailers will be less inclined to engage in price wars following major consolidations that have taken place among department stores and the fact that more retailers, such as Toys 'R' Us, are now privately held. "That means there will probably be fewer sales and more price stability, and you won't see the battles we saw before," Buxbaum believes. And while he expects luxury items to be the strongest sales segment, Buxbaum notes that growing consumer concern over the economy and international affairs makes any projection for this year dicey. "Between the impact of the weakened housing market and significantly higher interest rates from a year ago, many consumers who use their home equity lines to finance major purchases are having second thoughts," Buxbaum notes. "Added to that, of course, are the impending huge cuts in payrolls at automotive manufacturers and companies that serve them. While some of these factors will be tempered by the sharp drop in gasoline prices seen over the past few weeks, in general, people are not going to be as loose with their money as they were in the past." "All things considered, it's hard to predict what this season will be like. This is a time of great contrasts. The stock market is at an all-time record, yet there is bad news from the Mideast, North Korea and Washington," he noted. "The contrasting signals makes the mood of consumers harder to judge with certainty." **(CoStar)**

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Denver Hotel Market Hits Record Room Prices

The hotel market in downtown Denver set a record for rates, as prices topped \$150/night for the first time, according to a report by Robert S. Benton & Associates' Rocky Mountain Lodging Report. In September, the average hotel occupancy rate in downtown Denver was 76.7%, a slight increase from the overall metro-area average of 73.5%. For the entire metro area, the average price of a room was \$100.83/night, also a record high. **(LoopNews)**

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Denver's Commercial Market Starts to Make a Recovery

Denver's office and apartment sectors are pulling out of a slump that kept many building owners from enjoying the region's Rocky Mountain highs after the tech bust and the terrorist attacks of 2001. The recovery has been driven in part by relatively steady job gains since 2004 and the strengthening energy, financial and professional-services sectors. Employment in the region rose 1.4% in September from the year-earlier month, though the total number of those employed still was below the region's previous high for the month, touched in 2000, according to the Bureau of Labor Statistics. The improvements have come as the Denver area, home to about 2.4 million residents, is embarking on a \$4.7 billion project called

FasTracks, which will enlarge the region's mass-transit system by adding about 119 miles of rail lines, expanding bus service and revamping the historic Denver Union Station as the region's central transportation hub. The commercial real-estate recovery is broad-based, but the improvements in the office and apartment sectors have been most evident. Formerly vacant office spaces have begun to fill up throughout the region, with the central business district one of the tightest submarkets in the second quarter and the northwest suburban submarket among the weakest due to the predominance of the struggling tech sector, according to Property & Portfolio Research Inc., a Boston real-estate research firm. A three-year slide in apartment rents reversed midway through last year, and concessions such as free rent are beginning to shrink, PPR said. The retail sector, a relative bright spot in the Denver market, has seen vacancies tick down since the third quarter of 2004, even as construction has ramped up. The turnaround story in the Mile High City, as Denver is known, has caught the attention of a number of investors, many of whom had shied away from the market's perceived volatility during the downturn. "There's a shared sense among everyone that Denver office is a rising market," says Sam DePizzol, managing director in Denver for real-estate services firm CB Richard Ellis, "so it makes sense to put investment dollars there." The apartment market in Denver is gaining favor, despite higher prices. The average price paid per unit in the area, based on transactions valued at \$5 million or above, rose to \$100,289 for the first nine months of this year -- above the national average of \$93,055 -- from \$81,353 in 2004, which was just below the national level, according to Real Capital Analytics Inc., a New York research firm. In addition, about \$1.4 billion in apartment complexes were snapped up in the Denver area last year, more than twice the \$590 million in transactions tracked in 2004. In the first nine months of this year, acquisitions already have bested the 2005 full-year level, with an estimated \$1.6 billion of apartments sold. Unlike some markets in Florida, where conversions of apartments to condominiums have helped push down vacancy rates, strong demand and relatively low levels of new supply are behind the Denver market's improvement, PPR said, and the region's historic appeal to young adults in their prime apartment-renting years of 20 to 34 also bodes well going forward. The sector also will benefit from Denver's softening housing market, as some former owners forced from homes by foreclosure opt to rent, said Jeff Hawks, principal of Apartment Realty Advisors in Denver. Some sellers have taken advantage of the improving market to exit Denver. In 2000, Mack-Cali Realty Corp., of Cranford, N.J., decided it would gain efficiencies by focusing its energies and portfolio in the Northeastern U.S., but the company has only recently found a buyer willing to pay an acceptable price for its Denver-area portfolio, says Mitchell Hersh, the company's chief executive. Mr. Hersh said Mack-Cali expects to close next month on the sale of 19 office buildings and some additional land for about \$195.3 million in the Denver and Colorado Springs areas. **(Wall Street Journal)**

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Denver-Area Retail Sales on the Rise

Lower gas prices and a strong job market have kept Denverites shopping, and should continue to, according to a new survey by the Trammell Crow Co. The metro area added 27,300 jobs through August, and is on pace to increase jobs by 30,000 to 35,000 for all of 2006, the report said. Retail sales are up 9 percent for the first eight

months. Founded in 1948 by Texas developer Trammell Crow, the Crow company is a commercial real estate services firm based in Dallas. Its local operation is based in Greenwood Village. Metro-area shoppers have plenty of places to buy and are getting even more, with the openings of new retail projects, such as 750,000-square-foot first phase of Twenty Ninth Street in Boulder (Oct. 12) and the rest of Denver's Northfield Stapleton (Oct. 26). The 300,000-square-foot initial phase of the Orchard Town Center in Westminster (Oct. 6) and the rest of Southlands retail center in Aurora (Oct. 20) also recently opened. Southlands' developer, local company Albert Development Partners LLC, also has started redeveloping the old Southglenn Mall in Littleton as The Streets of Southglenn outdoor retail complex. The project will include 1 million square feet of retail space as well as office space and residential units. The Denver area's largest mall, 1.6 million-square-foot Park Meadows in Douglas County, is redeveloping its vacant Lord & Taylor space. The Lord & Taylor chain of upscale department stores closed in Colorado last year. Even with all this Denver-area retail construction, Trammell Crow experts don't believe too much new retail space will come on the market. "Overbuilding is not an imminent concern, since the projects are generally being constructed in areas of rapid population growth, and each has features that differentiate it from the rest of the market," the report said. For the third quarter of the year, the metro area absorbed 112,665 square feet of retail space. The South Central and Northwest submarkets led the way with 123,721 square feet and 76,043 square feet of absorption, respectively. Boulder lost the most ground with 85,492 square feet of negative absorption. Absorption is the filling of vacant space. Overall retail vacancy stayed basically level at 7.3 percent compared to the previous two quarters. The Crow company thinks the vacancy rate may drop below 7 percent in the fourth quarter because "the slew of new projects entering the market will be largely pre-leased." Average asking retail rents also remained about the same at \$14.77 a square foot in the third period, but were down 1.3 percent from the same quarter last year. Rents will remain relatively soft in the near term, according to Crow, as this area's retail sector matures.

(Denver Business Journal)

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	5.25	5.25	3.75
3 MONTH LIBOR	5.38	5.37	4.24
PRIME RATE	8.25	8.25	6.75
10 YEAR TREASURY	4.73	4.59	4.59
30 YEAR TREASURY	4.84	4.71	4.80