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A Denver Based Commercial Real Estate Investment and Management Company
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Westcore Buys Colorado Portfolio for \$194M

Westcore Properties LLC of San Diego has closed on the first of two major portfolios it has had under contract, paying New Jersey-based Mack-Cali Realty Corp. \$194.3 million for a 19-building, 1.4-million-sf portfolio of class A and B office buildings in Colorado, mostly in the Denver area. The acquisition was made in partnership with Dubai Investment Group. As part of the deal, Westcore hired the seven-person Mack-Cali team that managed the properties and assumed Westcore's Denver office lease. The portfolio of office and office-flex buildings is 94% occupied and comes with 7.1 acres of vacant, developable land and another 1.6 acres dedicated to a parking facility. Westcore expects to benefit from increasing rental rates in the recovering market, according to company CEO Donald Ankeny, who spoke with GlobeSt.com late last week, when the company closed on its \$352-million sale of its 44-building Silicon Valley portfolio. Five weeks from now, Westcore is scheduled to close on the acquisition of another Mack-Cali portfolio. Earlier this year, Westcore agreed to acquire for \$126 million two mid-rise office buildings in Downtown San Francisco totaling 455,000 sf. The buildings, 760 Market St. and 795 Folsom St., are about 85% occupied. The sale is scheduled to close on Dec. 22. The combined cost of the two acquisitions is about \$320 million. Over the next 12 months, Ankeny projects that Westcore will acquire at least another \$430 million in assets in Southern and Northern California, Phoenix, Las Vegas, the Pacific Northwest and the Greater Denver region. The acquisitions will include large, institutional-grade portfolios as well as single core-plus and value-add assets, he says. The Colorado portfolio acquisition marks Westcore's largest acquisition to date and its entry into the Colorado office market "Denver is interesting in that rents for flex-office space are very close to more conventional office product," Ankeny told GlobeSt.com. The Colorado portfolio consists of 16 Denver-area buildings, three buildings in Colorado Springs and the aforementioned developable land, which is located in Littleton. Developed between 1981 and 2001, the portfolio is leased to 135 tenants and is currently 95% leased. Mack-Cali president and CEO Mitchell Hersh says the sale of the portfolio to Westcore is "a significant step" in the REIT's plan to exiting its non-core Western markets and focus on its 301-building, 34-million-sf portfolio in the Northeast. "With the sale of our remaining San Francisco properties expected to close later this quarter, our exit of the Western markets will be complete," he says. **(Globest.com)**

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Buyer Puts \$30.55m into CoBank

A Greenwood Village office building that is leased to a single tenant recently sold for \$30.55 million. US Advisors purchased CoBank Center from Alliance Commercial Partners. The price equates to \$149 per square foot. CoBank, an agricultural bank, occupies the building, 72 percent of it on a 10-year lease. The bank's lease on the remaining square footage extends through 2008. **(Colorado Real Estate Journal)**

New Industrial Park Planned for Interchange of I-70, I-225

A high-visibility, 301,000-square-foot industrial park is being planned for 27 acres at Interstates 70 and 225 in Denver. Mountain West Business Center, on I-70 directly north of the I-225 interchange, will consist of 10 for-sale, small-user buildings and two buildings for lease to tenants from 7,000 to 89,000 sf. "It's a visible site from I-70, and that was part of the reason we picked the site," said Ryan Tidemann, acquisitions director for developer Mountain West Industrial Properties. The property, which will offer signage, also stood out from other sites the company looked at because of its proximity to the largest industrial parks in the Denver metro area, as well as access to I-70 via Peoria Street, he said. **(Colorado Real Estate Journal)**

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Continuum Gets Union Station Project

The Continuum/East West team was chosen today to redevelop the \$1 billion Denver Union Station project. The team created a new company, Union Station Neighborhood Co. LLC, to handle the massive public-private partnership that at the historic station and on 19.5 surrounding acres. "We are honored and humbled to be selected to move forward in the process that will ultimately lead to carrying out this important project for the Denver metropolitan areas and the entire region," said Mark Smith, president of East West Partners, which is developing the adjoining Riverfront Park neighborhood in the Central Platte Valley. Mark Falcone, CEO of Continuum, whose projects include Belmar in Lakewood, said their team understands the "deep affection that so many hold for the historic Union Station and the surrounding area? We know it will take the combined efforts of many to renew Union Station, fulfill the multi-modal transportation vision and build the appropriate neighborhood around the transit district." Cal Marsella, general manager of the Regional Transportation District, said Denver Union Station will be the "crown jewel" of the entire \$4.7 billion FasTracks transportation plan. John Huggins, economic development director for the city of Denver, said the entire project will involve about a \$600 million private investment and \$420 million public investment for infrastructure costs. The project will be developed over the next nine years and is expected to transform lower downtown. **(Rocky Mountain News)**

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Mixed-use Development Hailed at Conference

Mixed-use centers could profoundly alter the American landscape as the U.S. population continues to rise rapidly in the coming decades, panelists said at ICSC's first ever conference devoted to this format. The U.S. population, which this fall passed the 300 million mark, is destined to reach 400 million by 2045. Some 20 million acres of development will be needed to provide space for those additional people to live, work and shop if America's post-World War II pattern of suburban expansion continues, said Ronald A. Ratner, president and CEO of Forest City Residential Group. In contrast, using the mixed-use approach to development would

only consume five million acres, he said. Ratner was addressing ICSC's Conference on Mixed-Use Development, which has drawn nearly 1,100 developers, architects, finance executives and others to Hollywood, Fla. "There is an incredible pent-up demand for this," said Yaromir Steiner, CEO of Steiner + Associates, which has built multi-block mixed-use developments in Columbus, Ohio, Kansas City, Mo., and elsewhere in the U.S. Mixed-use development is as old as the history of urban settlement, Steiner noted. But urban development came to a halt in America during the Depression. The country's subsequent 70-year pursuit of single-use, zoned development that is responsible for sprawl should be viewed as an aberration from a model that is thousands of years old, he said. But for all of mankind's experience with mixed-use development, the format remains anything but easy to plan and execute. The "critical challenge" is to achieve cooperation between public officials and developers, Steiner said, without which the multi-block "town centers" for which he has become known are impossible. There are scores of other complications, too, panelists noted, ranging from parking to liability issues. Once condominiums built above retail are sold to their occupants, how can the operators of the retail component guarantee that they will be maintained in a manner that will ensure the development remains attractive to shoppers? Who pays if a condominium pipe bursts floods a retailer at the height of the holiday shopping season? Design is also complicated. Office workers arrive at 8 a.m. and want the best parking spots. Retailers need those spots for shoppers who start arriving at 10 a.m. Residents, for their part, want their parking areas closed off and secured altogether. Consequently, these very different parking requirements must all be catered to. And residents might like the convenience of restaurants on the ground floor, but they certainly don't like the cooking smells that come with them, noted Dougal M. Cases, managing director of ING Clarion, Washington, D.C., which has mixed-use centers in its portfolio. A solution to the friction arising from the conflicting interests of homeowners and merchants is not to sell off the housing above at all, but to rent it instead, said Charles Berman, managing principal of MacFarlane Partners, a New Canaan, Conn.-based real estate investment management firm. "It's always the condos that cause the problems," he said. If developers must sell off the housing and other, non-retail components of a development, it is essential they maintain control, said Jeffrey H. Newman, a lawyer from the Newark, N.J. firm of Sills Cummis Epstein & Gross. Ideally they should also maintain overall control of a project over their partners, too, he noted. Bankers attending the conference also warned that the financial viability of each component of a mixed-use center must be analyzed separately and stand on its own. One should not subsidize the other, they said. Timing the construction of the different components is another important issue, panelists said, noting that market conditions affecting each real estate sector, retail tenant opening deadlines and the conflicting priorities of the various partners can add to an already complicated process. "It all comes down to timing and control," Newman said. But for all the challenges, there is no shortage of capital for such projects, many observed. "You have capital queued up," Casey said. **(ICSC)**

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First Century to Build Low-rise Offices in LoDo

First Century Development, headed by Jim McGibney, plans a 125,000-square-foot office building at 1775 Blake St. in the heart of lower downtown. The architect for

the building is RNL Design, and the general contractor is Haselden Construction. "The building is of its time but is deeply respectful of the era" of older buildings in the area, McGibney said. "It's a really cool-looking building." It is the smallest of about a half-dozen new office buildings planned in LoDo. Dave Morrison, who is leasing the building with fellow Grubb & Ellis broker Chuck Zeman, said the building will serve a special niche and he isn't worried about overbuilding. He and Zeman said this building will be aimed at energy companies, law firms, financial institutions and engineering firms that want space in a low-rise, brand-new building in LoDo. Zeman noted that most of the other buildings planned in LoDo are clustered around the other end of the neighborhood. McGibney said 1755 Blake will help breathe life into the 18th Street portion of the area. The building will be energy-efficient but will not be LEED, or Leadership in Energy and Environmental Design, certified, McGibney said. The LEED process, which requires hiring specialists to document details, adds another layer of expenses, he said. **(Rocky Mountain News)**

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Structure to Tower Over LoDo

Westfield Development Co. plans a \$150 million, 22-story, 500,000-square-foot office tower at the edge of lower downtown. The 1800 Larimer building, the first new high-rise office building downtown since 1999 Broadway opened in the mid-1980s, will be the most energy-efficient high-rise in downtown Denver, said Rich McClintock, president of Denver-based Westfield. The building is expected to receive a silver LEED, or Leadership in Energy and Environmental Design, rating from the U.S. Green Building Council. The council today is ending its three-day Greenbuild 2006 conference at the Colorado Convention Center, which attracted more than 12,000 people. "If it is not a sustainable building, it is outdated," McClintock said. Increasingly, companies are demanding that their office space be in a LEED-rated building, which not only lowers utility bills for them but increases worker productivity, he said. The building will include numerous energy saving features, including a subfloor air distribution system; 9-foot, 6-inch floor-to-ceiling windows; a state-of-the-art health club for tenants; and almost a half-acre parklike environment on a terrace 20 feet off the ground. "It just made sense to us to only 'condition' the air around people, rather than the entire volume of space, especially as tenants demand higher ceilings," said Don Slack, executive vice president of Westfield. "Basically, we're cooling two-thirds of the space we would with a conventional system. And an added benefit of the system is that the tenants can manually control the temperature immediately around them." The architect is Denver-based RNL Design. In addition to the blue and grey glass facade, a design feature will be a 30-foot high "wall of water" inside the lobby. The lobby will have trees inside and immediately outside a large glass wall. Tom Clark, executive vice president of the Metro Denver Economic Development Corp., said he is courting a Fortune 500 company, which is considering moving its headquarters to either Denver or two East Coast cities. "If they choose Denver, they want a building in the LoDo area," Clark said. "And it is important for them to be in an energy-efficient building." McClintock said that the overall office vacancy rate in LoDo is about 5 percent but in Class A buildings it is 2 percent. There are about a half-dozen office buildings planned for LoDo, but McClintock isn't worried about competition. He notes the site is a block from the Ritz-Carlton hotel under construction, two blocks from the Tabor Center

and Coors Field, and four blocks from Denver Union Station. It also is on the route of a future circular bus system that will serve downtown and Denver Union Station. Construction will start in the spring with an opening in 2009. He already is close to inking deals with some tenants that will take at least 20 percent of the building. They're speaking with law firms, energy companies, financial institutions and others.
(Rocky Mountain News)

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Blackstone Acquiring Trust in Richest Buyout

The Blackstone Group, a private investment firm, said yesterday that it had agreed to acquire Equity Office Properties Trust, the nation's largest office-building owner and manager, for about \$36 billion. The deal marks the largest leveraged buyout in history, eclipsing the \$33 billion paid earlier this year for H.C.A., the hospital chain, and it illustrates how private equity firms continue to gobble up corporate America. Under the transaction, Equity Office will go from being a publicly held company to a private one. Blackstone will pay \$20 billion and assume \$16 billion in debt. Equity Office, with some 590 buildings and over 105 million square feet of office space in major metropolitan markets, was created in 1976 by Sam Zell, a real estate tycoon who built the business through dozens of acquisitions that were worth, in aggregate, more than \$17 billion. Last year, Equity Office acquired the Verizon Building on Sixth Avenue in Manhattan for \$515 million. Matthew L. Ostrower, an analyst at Morgan Stanley, called the proposed deal "a ground-breaking transaction for the real estate world in general and an earthquake for the REIT industry." Mr. Ostrower said that if a company the size of Equity Office chose not to remain public, "now every public company out there is going to have to some degree examine their capitalization, whether being public makes sense." The deal will make Blackstone, which was founded in 1985 by Peter G. Peterson and Stephen A. Schwarzman, one of the nation's largest owners of real estate. "We believe that the skills and strengths of Equity Office will greatly enhance our existing office platform," Jonathan D. Gray, senior managing director of Blackstone, said in a statement. For Mr. Zell, one of the richest men in America and the owner of more real estate than Donald J. Trump, the sale is an opportunity to cash out of part of the empire he built while working from his office in the old Daily News Building in Chicago. But the sale by Mr. Zell, who made his first millions in the 1970's buying distressed real estate, may also signal that he believes the market may have peaked. Just last month, Ross L. Smotrich, an analysts at Bear Stearns, wrote in a note to investors: "REIT's have outperformed the broader market in each of the past seven years, putting valuations at the high end of historical ranges." But in an upbeat report issued last week, Green Street Advisors, a research company, said that office rents, which have increased 8 percent over the past year, are likely to continue to rise next year. REIT's usually own and operate income-producing real estate. Private equity firms are vying to hold the crown of having led the biggest buyout in history, and, with this deal, Blackstone will be able to do so at least for now. Blackstone will move ahead of Kohlberg Kravis Roberts & Company, which led the H.C.A. sale. Kohlberg Kravis also held the prior record with its 1989 takeover of RJR Nabisco, a deal that came to define an era when it was chronicled in the book "Barbarians at the Gate." The transaction comes amid a private equity frenzy for the next big leveraged buyout. Last week, Clear Channel was acquired for about \$26 billion by a team of private equity firms. Other deals, like

the \$22 billion purchase of the gas pipeline company Kinder Morgan or the sale of Freescale Semiconductor for \$17.6 billion, have redefined the size and scope of leveraged buyouts. Harrah's, the big casino company, is currently in negotiations to be taken over by another group of private equity firms. For many years, it was Equity Office that bought up other companies, but the company's performance in recent years has cast doubt on Mr. Zell's longtime credo that "bigger is better." In 2000, as the dot-com industry was about to slide, Equity Office acquired a large portfolio of buildings in the Silicon Valley and was later forced to sell them at a loss. In recent years, Equity Office has reduced its holdings in weaker markets like Dallas, Houston and New Orleans and has tried to establish a bigger presence in stronger markets like New York and Washington. In 2005, the company sold \$2.7 billion in assets. Blackstone, meanwhile, has been the biggest acquirer of large buildings over the last five years. It has bought interests in \$32 billion worth of property, 50 percent more than next largest buyer, said Robert M. White Jr., president of Real Capital Analytics, a New York research company. This year alone, Blackstone has bought \$20 billion worth of real estate, or 7 percent of all acquisitions. It has been involved in more REIT buyouts and mergers than any other company. Blackstone began buying office REIT's only this year, first by paying \$5.6 billion for CarrAmerica Realty Corporation, which had interests in 285 buildings, mainly in California and Washington, D.C. In a deal that closed last month, Blackstone teamed with Brookfield Properties, a REIT, to buy Trizec Properties, the owner of 61 office buildings, including the W.R. Grace Building in Manhattan. Under the latest deal, Blackstone would pay \$48.50 a share for Equity Office, representing an 8.5 percent premium to its closing price on Friday of \$44.72. **(New York Times)**

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| | CURRENT | 1 MONTH PRIOR | 1 YEAR PRIOR |
|-------------------------|----------------|----------------------|---------------------|
| FED FUNDS RATE | 5.25 | 5.25 | 4.00 |
| 3 MONTH LIBOR | 5.38 | 5.37 | 4.37 |
| PRIME RATE | 8.25 | 8.25 | 7.00 |
| 10 YEAR TREASURY | 4.61 | 4.79 | 4.56 |
| 30 YEAR TREASURY | 4.69 | 4.92 | 4.75 |