

February 26, 2007

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

## New Supply Ramping Up

With real estate fundamentals improving, acquisition costs soaring and debt still cheap, the next few years will see a steep increase in fresh income-producing properties, according to a new report from Manhattan-based Reed Construction Data. The report indicates that the value of all commercial projects in the planning, bidding and start phases of the construction pipeline increased by 38% in 2006. Given that the value of these projects only jumped by 7.8% in 2005, last year's increase is particularly significant. Analysts agree that the increased movement of capital into development is worth noting since excess supply can hamper fundamentals growth. And two sectors likely to see the most new supply are the office and industrial markets. So what's driving more investors to place capital in new office and industrial projects? According to Boston-based Property & Portfolio Research, steep acquisition costs are forcing them to take on development risk. Plus, construction costs appear to have leveled off over the past few months. These factors, coupled with tightening vacancy across most markets and property types, have swayed lenders into financing projects. Perhaps even more alarming than the quantitative shift towards added supply is the quality of this space. Construction of Class-A office space has been rising slowly over the past two years and that trend will continue, but with a more significant slant towards speculative product, according to the latest PPR Real Estate Portfolio Strategist report. In fact, Class-A office vacancy in the nation's largest central business districts (CBDs) was just 7% at year-end, down from 8.5% one year earlier. Tight markets only compress cap rates, which explains why many office buyers are paying above replacement cost to acquire these properties. That's why PPR expects that there will be a speculative office building underway in every major market by the end of this year. "It certainly makes sense that more money would flow into new projects this year versus last," says Bob Bach, national director of market research at Grubb & Ellis. "The timing may not be so great either as we project demand to subside a bit this year across most property classes." The industrial sector, in particular, is ripe for overbuilding. Bach believes that industrial markets are by nature more vulnerable to overbuilding given the ease with which developers can build them. Landlocked markets such as Chicago have also expanded outward so far that sites are easy to come by. PPR also sees industrial market exposure to new supply to increase as slower global economic growth in 2007 causes import and export growth to slow down. PPR projects that national industrial vacancy will actually increase from 8.9% to 9.4% during 2007. Chicago's 10.2% vacant industrial market, which PPR calls "the current poster child for speculative warehouse construction," should post one of the steepest vacancy increases. Even so, Bach of Grubb & Ellis isn't ready to compare 2007 with the heady days leading up to 1990 when commercial construction went through the roof, leaving vast pockets of vacant space across the market. But he's cognizant of the need to keep a weather eye on new supply even if it's early in the cycle. Says Bach, who lived and worked through the late 1980s building boom that precluded the bust: "I'll reserve judgment on the extent of this new supply. It still seems too early to call it chronic overbuilding." **(National Real Estate Investor/Parke Chapman)**

### **Work Starts on Lincoln Station**

Westfield Development and Bradbury Woods have broken ground on the first-phase of Lincoln Station, a transit-oriented development on 35 acres next to the Lincoln Avenue Light Rail station, along Interstate 25 between Lincoln Avenue and C-470. The mixed-use development will be anchored by a 151,000-square-foot, six-story, energy efficient office building called One Lincoln Station. Phase one also will include the Clock Tower and Station Street South buildings, which will include 34,500 square feet of boutique office space on two floors above 18,800 square feet of retail. The commercial space will cost \$45 million — \$30 million in equity and \$15 million in a commercial loan. The first phase also will include Station Street Lofts, a 73-unit "loft" building with 8,000 square feet of retail. Eventually, the entire development will have more than two million square feet of additional office space, 2,000 residential units, and 50,000 square feet of retail space. The first phase will be completed in the spring of 2008. **(Rocky Mountain News)**

...

### **Developer Primed for \$90 Million in Area Projects**

Prime West Development is ramping up its activities along the Front Range with more than a half-million square feet of projects under way or in the planning stages. The bulk of the Denver-based real estate development and property management group's projects are in Colorado Springs, including its largest project, The Medical Pavilion at Briargate. Healthcare Realty Trust, a real estate investment trust that integrates owning, managing and development health care-related properties in the United States, signed a long-term ground lease for 12.3 acres of land in Briargate for its first Colorado project. Prime West, which owns the site, will develop the site and core and shell of the medical office project. **(Colorado Real Estate Journal)**

...

### **Commercial Lending Volume Up**

Driven by a 20% increase in lending against hotel properties, overall commercial and multifamily mortgage originations were up 3% in Q4 compared to Q4 2005. According to the MBA's quarterly survey, conduit lenders saw a 32% increase in their volume, making them the only lender-type surveyed with an increase in volume. By property type, hotels saw the largest percentage increase in originations. Office properties saw an 8% increase, apartment properties a 2% hike and industrial properties up 3%. Properties classified as other saw a 17% increase in volume. But retail and healthcare properties both saw declines of 5% and 7%, respectively. **(LoopNews)**

### Greenwood Village Buildings Sold

Crown West Realty LLC has purchased its third set of Denver-area office buildings since entering the market in 2005. The Spokane, Wash., company said Friday it has purchased Orchard Plaza I, II, III and IV in Greenwood Village for \$20.5 million. The seller was Tyler Pacific IV LLC. The four single-story buildings total 157,540 square feet on 12 acres east of Interstate 25. Crown West Realty said it intends to renovate and upgrade Orchard Plaza, which was 78 percent occupied at closing. Crown West Realty said it will open a Denver office in March and begin looking for other properties to buy in Colorado. The company in 2005 paid \$12 million for Corporate 25, three inter-connected buildings in Centennial with a combined 132,800 square feet. Last year Crown West Realty bought Golden Ridge I and II, two single-story office buildings in Golden, for \$11.35 million. The buildings have a combined 100,800 square feet of space. **(Denver Business Journal)**

...

### Insurance Firm Commits to New Building

A Denver insurance company is the second business in recent weeks to announce it will relocate to one of the new buildings under construction in Lower Downtown. Van Gilder Insurance has signed a lease for 57,000 square feet of office space in 1515 Wynkoop St., a 295,000-square-foot building Hines is developing at the southwest corner of 15th and Wynkoop. Construction of the project will start March 14 and be completed in October 2008. Last month, Chipotle Mexican Grill said it would relocate its headquarters to 43,000 square feet of office space under construction at 1401 Wynkoop St. The mixed-use project by Opus Northwest will include 300,000 square feet of office space when it's completed in the fall of 2008. Other projects announced for LoDo include a 335,000-square-foot, 18-story office tower being developed by Trammell Crow Co. at 1900 16th St. and a 200,000-square-foot office condominium building being developed by Resolute Investments at 18th and Wewatta streets. **(Denver Post)**

...

	<b>CURRENT</b>	<b>1 MONTH PRIOR</b>	<b>1 YEAR PRIOR</b>
<b>FED FUNDS RATE</b>	5.25	5.25	4.50
<b>3 MONTH LIBOR</b>	5.36	5.36	4.80
<b>PRIME RATE</b>	8.25	8.25	7.50
<b>10 YEAR TREASURY</b>	4.68	4.76	4.57
<b>30 YEAR TREASURY</b>	4.79	4.84	4.55