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

Flush REITs Have Loads of Cash, Little to Spend It On

For public real-estate companies, spending money has turned out to be harder than raising it—even as some signs point to a pickup in big property deals. Real-estate investment trusts sold \$24 billion in new stock last year, raising hopes the companies would be able to profit from commercial-property distress by picking up high-quality real estate at bargain prices. But publicly traded REITs bought only \$4.6 billion of property in 2009, a 67% decline from the previous year, according to research firm Real Capital Analytics. With few deals happening and REIT shares now trading at twice their March lows, some executives regret last year's money-raising binge. "Today I'm sitting with \$125 million in cash that I can't find investment for," Stephen Richter, chief financial officer of Weingarten Realty Investors, said in an interview. "If I would have known the markets are where they are today, I certainly wouldn't have sold a third of the company." Weingarten, which owns shopping centers and warehouses in 23 states, sold about \$380 million in stock last April, a time its shares were trading at less than half their value of a year before. REITs are having difficulty doing deals partly because there is a dearth of product on the market. With commercial-property prices some 35% off their peak, most building owners are keeping their best assets off the market. Those properties that do go on the block are attracting a herd of buyers looking to snap up cheap real estate. Many REIT executives and investors expected the volume of distressed buildings on the market to surge as owners defaulted and lenders foreclosed on property. But while the number of problem loans has been growing, so far this hasn't translated into many fire sales. Banks have been willing to extend loans rather than foreclosing, and the firms that oversee commercial mortgages bundled into securities have also been slow to sell off distressed assets, market participants say. "The volume of the properties that are truly distressed and will be sold in a distressed fashion will be significantly less than had initially been thought," said Bob Steers, the co-chief executive of REIT investor Cohen & Steers Inc. The scarcity of "for sale" signs has particularly roiled the market for "blind pool" REITs, which raise money from investors in order to build a new portfolio of real estate. Last week, Terreno Realty Corp., which sought \$200 million from investors to snap up warehouses on the cheap, postponed its initial public offering. Research firm Green Street Advisors recommended clients not participate in the offering because the ability "to acquire properties at discounts to underlying fair current-market value is likely to be limited" for industrial real estate. Through a spokeswoman, Terreno Chief Executive Blake Baird declined to comment. Another prospective blind pool sputtered in December when shareholders in a blank-check company balked at turning their cash over to a management team that would use it to buy strip malls. "People, I think, fundamentally were concerned that we wouldn't be able to generate the volume of acquisitions or investment opportunities to justify the investment in a blind pool," said Bill Gerrity, who would have headed up the REIT. Instead, the \$288 million blank-check company, Global Brands Acquisition Corp., said it would return its investors' money. The best opportunities for REITs may lie in sales of large portfolios by private investors who can't access capital as readily as public companies. The bigger the portfolio and higher the price tag, the less the competition from other buyers. In the biggest deal by a REIT since the downturn, mall landlord Simon Property Group Inc. in December said it would buy Prime Outlets, another shopping center owner, for \$700 million. The sale gave Prime's closely held parent, Lightstone Group LLC, cash to address the capital needs of its

Extended Stay Hotels chain, which is now in bankruptcy protection. In another big deal with a private owner, apartment giant Equity Residential on Monday announced a \$475 million deal for three Manhattan buildings owned by debt-burdened New York City developer Harry Macklowe. One analyst said Equity Residential may have acquired the apartment buildings for half of what they would have gone for a few years ago. "The advantage of access to capital will stay around for a while," said Ross Smotrich, a REIT analyst at Barclays Capital. But Equity Residential's other recent deals show bargain-basement prices for high-quality real estate are rare even today, amid the worst commercial-property downturn in a generation. Chief Executive David Neithercut said the company would soon announce the acquisitions of two apartment buildings in the Washington, D.C., area and one in California. He declined to reveal the price paid but said the deals came in at less-eye-popping discounts than the Macklowe buildings. The reason: Many others—from foreign buyers to private investors with cash to spend—also want to get in on the action. In October, Equity Residential paid \$100 million for a 326-unit apartment complex in Arlington, Va.. The property drew 160 interested parties and 40 offers, a level of interest that Alan Davis, a broker who represented the seller in the deal, said he couldn't recall in several years of shopping multifamily properties in the Washington area. **(Wall Street Journal)**

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University of Phoenix Building in Lone Tree Sold for \$11M

A Lone Tree office building fully occupied by the University of Phoenix has sold for \$11 million. The 60,144-square-foot, three-story building is located at 10004 Park Meadows Dr. Previous owner Farmers Insurance Group Pension Fund of Los Angeles sold the building to a 1031 exchange buyer that's also in California, according to CB Richard Ellis Inc. brokers in metro Denver who were involved in the deal. A big reason the building was attractive to the buyer was long-term tenant University of Phoenix, and the fact that in a bad economy, many people go back to school to make themselves more marketable when the economy rebounds. "University of Phoenix is one reason we got a lot of interest in the building," said Chris Bodnar, one of the CBRE brokers representing Farmers. "The education sector is counter-cyclical." CBRE investment broker Geoff Baukol in Denver also represented the seller. The recently sold building sits on five acres and was completed in 1999, according to Douglas County real estate records. The property is located just southwest of the intersection of Interstate 25 and E-470. It's also near Park Meadows shopping mall and the new Lincoln Light Rail Station. **(Denver Business Journal)**

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Rangeview Two at Centerra Sells for \$10.75 Million

McWhinney, developer of the Centerra master-planned community in Loveland, announced an investment group recently purchased Rangeview Two for \$10.75 million. MJB RV2 LLC, a Colorado-based LLC with investors in California, purchased the 39,000-square-foot, three-story lakefront office building after exploring other properties in Arizona, Idaho, Utah and elsewhere along the Front Range. Rangeview Two, built in 2006, is part of the Rangeview office campus on Rocky Mountain Avenue in Centerra. Rangeview Two is 100 percent occupied with tenants that include EMC2, Abound Solar, Wells Fargo Home Mortgage, FirstTier Bank, Women's Clinic of Northern Colorado and the Youth Clinic of Northern Colorado. "Rangeview

Two in Centerra is definitely head and shoulders above other properties we researched," said Michael Browning with MJB RV2. "It's an investment we didn't want to pass up." Ron Kuehl, McWhinney's vice president of real estate, said the building wasn't on the market but was still able to attract a buyer. "This is a testament to how attractive Centerra is throughout the country because of its location, aesthetics and amenities," he said. MJB RV2 has contracted with McWhinney to oversee day-to-day management and leasing of the facility. Peter Kast of Realtec Commercial Real Estate in Fort Collins and Mark Norem of Mark Norem Real Estate in Big Timber, Mont. assisted in the sale. **(Northern Colorado Business Report)**

National Park Service Bldg. Trades for \$28.3 Million

Government Lakewood Properties Trust acquired the National Park Service Building at 12795 W. Alameda Parkway in Lakewood, CO, from Alameda Natpark LLC for \$28.28 million, or about \$173 per square foot. The 166,745-square-foot, four-story office building is on 7.05 acres in the West Denver submarket. It houses the U.S. National Park Service. Steve Suechting of Jones Lang LaSalle represented the seller. The buyer had no outside representation. **(CoStar)**

Equity Raising by N. American-Focused Realty Funds Down 71.5% in 2009

Capital raising by private equity investment funds targeting real estate primarily in North America dropped 71.5 percent to \$21.4 billion last year. The number and size of the North American-focused funds were both down precipitously according to Preqin, an investment-markets research firm. In total, 50 North American-focused funds closed their marketing last year, down from 130 funds that raised \$75 billion in 2008 - the high water mark for real estate funds. In 2007, 138 real estate funds raised \$48 billion for investments primarily in North America. The average size of the North American funds dropped to \$428 million last year from \$577 million in 2008. The decline in North American funds activity parallels a downturn in real estate investment fund-raising worldwide. The 96 private-equity real estate funds across the world that had their final closings last year raised \$40.6 billion of commitments, down from 225 that raised \$133.5 billion in 2008, and 275 that raised \$122.9 billion in 2007, Preqin found. The company attributed the downturn in equity raising to fund managers that delayed closings, reduced target sizes or abandoned fundraising altogether in the face of many investors' diminished appetites for real estate. Eighty-one percent of real estate funds worldwide that closed last year failed to meet their fundraising targets, while 25 percent raised less than half of their targeted amounts and just 10 percent exceeded their targets, Preqin said. By comparison, 79 percent of the funds that closed in 2007 met or exceeded their fundraising targets. Goldman Sachs's Real Estate Mezzanine Partners was by far the largest North American-focused fund to close last year, according to Preqin. The vehicle, which is targeting debt investments in the United States, raised \$2.65 billion, about \$150 million above its initial target. Cerberus Capital Management's Cerberus Institutional Real Estate Partners 2 closed after raising \$1.25 billion for debt investments in the United States, and Credit Suisse's DLJ Real Estate Capital Partners IV closed after raising \$1.1 billion for opportunistic deals mainly throughout North America. Both

funds were said to be originally seeking up to \$2 billion in equity commitments. Equity-raising efforts by funds so far this year is also down, according to Preqin. It counted 371 real estate funds in the market worldwide this month, targeting up to \$173.6 billion in equity commitments. That is down from the 376 funds that were targeting \$199.65 billion last July and 381 after \$227.8 billion in January 2009. **(Commercial Real Estate News)**

Behringer Buys 4550 Cherry for \$52 Million

One of Denver's "premiere" apartment properties sold to Behringer Harvard at a price per unit unlikely to be surpassed for the balance of the year. Behringer Harvard paid \$52 million, or \$180,555 per unit, to Sentinel Real Estate Corp. for 4550 Cherry Creek, according to public records. The sale price of the 24-story high-rise at 4550 Cherry Creek South Drive in Glendale is 33 percent less than when it sold in 2005 for \$78 million; however, its per-unit price is still significant and likely to be highest per-unit price paid for a Colorado apartment community in 2010, commented apartment expert Cary Bruteig of Apartment Appraisers & Consultants, who was not involved in the sale. **(Colorado Real Estate Journal)**

Alliance Commercial Partners Acquires DTC's Terrace Tower

A Class A office building in the Denver Tech Center recently sold to a local commercial real estate investment firm. Alliance Commercial Partners paid "approximately \$19 million" for Terrace Tower in a complex transaction involving the acquisition of debt and equity, said principal and Chief Executive Officer Rick Stone. The deal included a five-acre pad site for future development. The 241,211-square-foot building at DTC Parkway and East Orchard Road is home to tenants including National Farmers Union, Madison Capital Management and SunGard Insurance. Built as the headquarters for TCI in 1984, the building at 5619 DTC Parkway flanks Legacy Tower, a sister tower that Alliance owned and sold several years ago. **(Colorado Real Estate Journal)**

Scottrade Buys Westmoor Digs for \$24.45 Million

Online investing firm Scottrade paid \$24.25 million for a 204,000-square-foot office building at Westmoor Technology Park in Westminster with plans to create 285 new jobs over the next five years. The company initially will occupy 40,000 sf in the building at 10955 Westmoor Drive and expand as needed. The Westmoor building will serve as a secondary business operations center housing additional operations, information technology and National Service Center associates. "Westminster is a thriving community with a talented pool of workers, making it the ideal location for Scottrade's business expansion," Scottrade founder and Chief Executive Officer Rodger Riney said in a press release. "As we expand our national branch office network and the number of customers we serve continues to grow, it is necessary for Scottrade to grow outside of the St. Louis area. We are excited to be part of the greater Denver community," he said. **(Colorado Real Estate Journal)**

Union Station Project Gets \$304M in Loans

The U.S. Department of Transportation on Friday announced \$304 million in loans for Denver Union Station to help fund the transformation of the historic railway station into the hub of a modern transportation system. The DOT funds will come in the form of a \$151.6 million loan under the Transportation Infrastructure Finance and Innovation Act and a \$152.1 million loan under the Railroad Rehabilitation and Improvement Financing Program. The funds will cover 64 percent of the nearly \$500 million cost to transform Union Station into a key part of the Regional Transportation District’s plan to link light rail, commuter rail and buses. Denver Union Station already has received \$28.4 million in funds under the American Recovery and Reinvestment Act. Construction of the Union Station project is expected to take four years. Denver Union Station Project Authority is the organization that applied for the loans and is a nonprofit entity formed by the city of Denver in July 2008. The authority is a partnership between the city, RTD, the Colorado Department of Transportation and the DUS Metropolitan District. **(Denver Business Journal)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	.25	.25	.25
3 MONTH LIBOR	.25	.25	1.24
PRIME RATE	3.25	3.25	3.25
10 YEAR TREASURY	3.59	3.83	2.89
30 YEAR TREASURY	4.51	4.50	3.65

