

March 19, 2007

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Centerra Unveils 1M SF of Mixed Uses

McWhinney Enterprises has unveiled plans for one million sf of shopping, dining, entertainment, hospitality, office and medical space in a LEED-certified project called Grand Station at Centerra. The development is scheduled to open in the fall of 2009 on a 60-acre site at Interstate 25 and US Route 34, just east of the Promenade Shops. Loveland-based McWhinney lists the project as 480,000 sf of shopping, dining, and entertainment space, 145,000 sf of class A office space, 100,000 sf of medical space, 160 housing units and more than 400 hotel rooms, including meeting space. Chad McWhinney, chief executive officer and co-founder of the development firm, says that the hospitality portion of the development will include a 180-room boutique luxury property called the Hotel Valencia, a 110-room Courtyard by Marriott and a 110-room Hilton Garden Inn. The meeting space, approximately 20,000 sf, is planned at Hotel Valencia. The development will also include a Club Colorado Fitness by Club One, which is set to open its initial location at 3755 Precision Dr. in Centerra this spring and will expand into Grand Station at Centerra with a 60,000-sf Club One. The loft-style housing at Grand Station is planned as units of one to three bedrooms, with underground parking and rooftop gardens. Some 16 of the units will be atop Hotel Valencia, providing residents with concierge-style hotel services. A double-decker streetcar, inspired by historical trolleys in Loveland in the early 1900s, will run a half-mile route surrounding a portion of the center called Grand Square. Other features will include a 60-foot historical clock tower and a Jumbotron screen. Baltimore-based Development Design Group Inc. is designing the project, with Greeley, CO-based Hensel Phelps Construction Co. as contractor. **(Globest.com)**

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IBC Holdings Plans 500,000-SF Spec Site

After acquiring a 40-acre parcel from Trammel Crow Co., IBC Holdings LLC has plans to begin development of the site by the end of the year. While the project's final plans remain flexible, the early blueprint calls for a three-phase, 500,000-sf industrial spec development. IBC Holdings recently acquired the land from Trammel Crow for \$3.9 million. The site resides in Southeast Denver at the junction of Peoria and Compark boulevards. IBC was familiar with the land, as the firm had completed a spec development across the street, according to IBC managing director Brian C. Mott. "The nature of the project," Mott tells GlobeSt.com, "is still a little uncertain." The company intends to submit plans for review within eight to 10 weeks and "hopes to be in the ground before the first freeze hits in November-December." The initial plan calls for six multi-tenant industrial buildings, developed in three phases and built on spec. The buildings would be marketed on a for-lease basis. IBC had success with its similar spec project across the street, which totaled nearly 100,000 sf and was completed in October. As that project took shape, those plans changed as well. Mott says the initial idea was for four to six tenants in each building, with tenants taking 10,000 sf to 15,000 sf each. But Shane Co. wound up taking 90% of the space in both buildings. Mott says the new project will take a similar course, of multi-tenants, but will be open to large users moving in as well. Another possibility

is marketing the space to data center users and telecom organizations. According to Mott, the site is equipped with “redundant heavy power and multiple-feed fiber infrastructure,” making it attractive for those tech-heavy users. One other possibility that could take place is the idea of marketing the space on a for-sale basis. For-sale industrial units have been a hot commodity in Southern and Northern California, as well as Phoenix, but have not yet caught on in the Denver market. Mott adds that the area could be ripe for the product. **(Globest.com)**

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Carving Up Equity Office Properties

Once the ink dried on the second-largest leveraged buyout in U.S. history, it didn't take long for The Blackstone Group to chop up its newly acquired portfolio from Equity Office Properties (EOP). Within two weeks, it had sold off 107 properties for more than \$19 billion — recouping nearly half of the \$39 billion in cash and assumed debt Blackstone paid for EOP on Feb. 7. “This is really the heavy lifting,” says Barry Vinocur, editor of REIT Zone Publications. “They still have assets to sell, but a lot of the big stuff now is out of the way.” Blackstone beat out a group led by Vornado Realty Trust in a bidding war that ended Feb. 7 at \$55.50 cash per share, or \$23.2 billion, and roughly \$16 billion in debt. Blackstone initially offered \$48.50 per share, but raised that amount to top Vornado's bid of \$52 per share. According to Vinocur, when EOP was already under an acquisition agreement with Blackstone, the private equity firm provided a waiver that allowed EOP to investigate Vornado's offer. In exchange, EOP allowed Blackstone to negotiate tentative sales of some properties. With specific offers in hand, Blackstone was then able to raise its bid and in the process prepare to flip pieces of the portfolio after the acquisition. “It's like pre-selling your house,” Vinocur says. “If you've pre-sold your house, you know exactly how much money you're going to get for it. Then you could go out and say now I know exactly what I can afford, and that's what Blackstone did.” Blackstone purchased slightly less than 100 million sq. ft. of EOP space in 524 office buildings in 16 states and the District of Columbia. Blackstone declined to comment on its plans for the portfolio, but deals publicized since the acquisition include more than \$19 billion of sales in Manhattan, Seattle, Portland, San Diego, Denver, Los Angeles and Washington, D.C. Under its initial bid, Blackstone had planned to sell about one-third of the portfolio in terms of value, and keep two-thirds. Vinocur predicts that ratio will be reversed as the company uses sales to help cover the higher purchase price. Portions of the portfolio may have been undervalued prior to the acquisition, says Jay Hartzell, associate director of the Real Estate Finance & Investment Center at the University of Texas. “You would expect to see them sell off stuff they thought was especially mispriced, and hold onto ones they thought had long-term growth potential that the market might not yet appreciate,” he says. The question remains whether the former EOP will continue to own, develop and acquire office space as a freestanding firm, which CarrAmerica Realty Corp. has done since its merger with Blackstone affiliates last July. In September, CarrAmerica even kicked off a new 400,000 sq. ft. office development in Dallas. Alternatively, EOP could wind up much like Trizec Properties, which was acquired by Blackstone and Brookfield Properties in October last year. Brookfield absorbed some former Trizec assets and employees in

its markets, and many other properties were sold. Trizec offices that complemented Blackstone's platform in Los Angeles and San Diego were rolled into CarrAmerica. If Blackstone takes a similar approach to Equity, then EOP's management structure is unlikely to remain an independent operating unit. Employees associated with buildings that aren't sold will likely be absorbed into CarrAmerica or other Blackstone businesses. **(National Real Estate Investor/Matt Hudgins)**

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Anemic Job Growth Could Stall Commercial Real Estate's Momentum

The slowing job market chiefly reflects the housing downturn but will likely throw a damper on demand for commercial space as well, according to some of the nation's leading economists and real estate forecasters. U.S. non-farm payrolls rose by 97,000 in February. That's the lowest employment growth in more than two years. "The bad news is that slower job growth means slower absorption of space, particularly for office and apartments," says Hessam Nadji, managing director of research services at Marcus & Millichap. "The good news is that if indeed job growth slows but doesn't stop, that will be the soft landing the Fed has wanted and we've all hoped for all along." Market observers find plenty of positive indicators in the Labor Department's February numbers, because net job creation belies impressive employment gains in the services sector. Service providers added 168,000 jobs in February, including 29,000 in professional and business services, 39,000 government positions, 31,000 hospitality workers and another 31,000 in education and health care. That's important for commercial real estate because the services sector is a heavy user of office space. Dragging down the monthly job figures were huge losses in construction and manufacturing. The nation lost 62,000 construction jobs in February. Inclement weather halted a number of construction projects around the nation, compounding the problem. Meanwhile, the manufacturing sector shed 14,000 positions. "The truth of the matter is we have an uneven economy," says Craig Thomas, director of research at Boston-based Torto Wheaton Research. "Everything related to housing is now contracting, and everything related to services is doing fine. And the economy can't really handle faster growth, due to (low) unemployment." Thomas is referring to the February jobless rate of 4.5%, which is considered near full employment. Unfortunately, many of the workers displaced from the housing industry won't be able to fill many service provider jobs without additional training. "The folks unemployed aren't immediately available to the strong areas of the economy," he says. "That, coupled with low unemployment, means the economy can't grow rapidly." Some experts say the economy may do more than slow, and will in fact slip into recession soon, which will halt corporate expansion plans and strangle demand for commercial space of all types. "It will get much worse before it gets better," says James Smith, director of business forecasting at the University of North Carolina. "In a few months, it's going to be negative (job) numbers. It's obvious to me that we're heading for a recession." History shows that each time the yield curve was inverted for at least four months during the 20th century, a recession followed in nine to 19 months, Smith says. Applying that theory to the start of the current inverted curve — which began last July — the next recession could begin anytime from May this year through March 2008, according to Smith. Because real estate is a lagging economic indicator, Smith doesn't expect trouble for commercial real estate owners until late next year, when the economy

will already be rebounding. In 2009, he expects real estate to regain its footing and begin to benefit from the next economic expansion. The Federal Reserve will act to stave off recession by again lowering the fed funds rate, predicts Dr. Rajeev Dhawan, director of economic forecasting at Georgia State University. Dhawan is concerned about weak job creation, and says the economy needs to create about 150,000 jobs each month to be healthy. Fallout in the sub-prime mortgage market will also feed into the overall economic climate, resulting in excessive slowing that will stir the Fed to action. "What can the Fed do? They can at least cut rates, either in May or June," Dhawan predicts. "They will start with a quarter point and do it a minimum of three times." Diane Swonk, chief economist at Mesirow Financial in Chicago, has a more optimistic view about the near-term outlook. Once the economy adjusts to declines in housing and Detroit-based automotive manufacturing, the strength of the service industries will fuel continued economic growth. "We're in a soft landing," Swonk emphasizes. "We've got continued strength in commercial real estate, and some comeback in non-automotive manufacturing, so it's a slam dunk — you get a re-acceleration in growth." Based on previous real estate cycles, Swonk does expect new construction to exert downward pressure on rents at existing properties. Just as tenants in the 1990s favored offices pre-wired for elaborate communications, today's tenants will gravitate to modern, energy-efficient space. Hotels are also in a building boom that will lead to flattened room rates within a few years. A real estate researcher echoes Swonk's belief that commercial real estate will suffer some non-crippling effects from the slowed job market, but will benefit from continued moderate economic growth. "Certainly, the slowdown will impact the demand for commercial real estate, which is why we're calling for absorption to decline 20% to 40% this year among the major property types," says Josh Scoville, director of strategic research at Boston-based Property & Portfolio Research. "The good news is that unemployment remains quite low," Scoville adds, "and that is spurring renewed wage growth, which should prevent the economy from dipping into an outright recession." **(National Real Estate Investor/Matt Hudgins)**

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A New Hotel with an Old Facade

A 17-story hotel with about 200 rooms will be built at the back corner of the historic building that houses the Old Spaghetti Factory restaurant at the edge of lower downtown. The restaurant at 1215 18th St. opened its doors in May 1973 in the Denver City Cable Railway Co. building, making it one of the oldest ongoing restaurants in downtown Denver. The Cable building opened in 1889 to house the power plant and maintenance facilities for Denver's cable railway system. The building is a Denver Landmark and is listed on the National Register of Historic Places but came close to being razed in the name of urban renewal in the early 1970s. The hotel, at 18th and Lawrence streets, will incorporate restaurant and retail space in the historic building, said developer Jeremy Records, principal of Central Development. The hotel will go after the "upper middle" market but will not be competing directly against the Ritz Carlton under construction two blocks away, he said. Records said it is too early to say whether in the new development the Spaghetti Factory will remain its current size or become smaller. "We're in negotiations with them right now. Everything is on the table," Records said. "We're still in the design phase." The restaurant is a "low-cost alternative for families in

downtown," said restaurant consultant John Imbergamo. The new \$35 million project is being designed by the Buchanan Yonushewski Group. The deal was first reported on Friday by urban designer Ken Schroepel in his Denverinfill.com blog. "The new (hotel) tower will feature a modern glass facade and will include a unique configuration to wrap behind the historic Cable Railway building's soaring brick smokestack," Schroepel wrote. "The developers have designed the new tower to defer architecturally as much as possible to the historic building, which is intended to remain as the centerpiece to the development." Records is scheduled to buy the building from the Judd family next month. Jim Judd, 81, one of the founders of Historic Denver, saved the building by buying it with a partner in 1972 and a year later moving the Spaghetti Factory into it. "In the 1970s, urban renewal wanted to tear down all of the old and replace it with the new," Judd said. "The building has been a very successful venture. But the neighborhood changed and I'm getting up there in years." Judd said a sale had to be contingent on the historic building being saved. "I like Jeremy's plans very much," he said. Judd, in fact, may be an investor in the project. "That's still up in the air," he said. **(Rocky Mountain News)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	5.25	5.25	4.50
3 MONTH LIBOR	5.35	5.36	4.93
PRIME RATE	8.25	8.25	7.50
10 YEAR TREASURY	4.55	4.82	4.73
30 YEAR TREASURY	4.70	4.90	4.75

