March 27, 2006

Colo. Boosts its Aerospace Rank to No. 3

Long touted as the nation's No. 4 aerospace state, Colorado now has the third-largest aerospace economy, Lt. Gov. Jane Norton said Tuesday. Colorado jumped ahead of Florida after gaining 15,000 aerospace-related jobs since 2004. The state, which has an estimated 157,000 positions connected to the industry, trails California and Texas. Norton made the announcement after the state Senate and House of Representatives passed a resolution to declare Tuesday "Colorado Space Day." She spoke at a ceremony at the state Capitol that was attended by several leading aerospace and military officials, including Gen. Lance Lord, who is retiring as commander of Air Force Space Command in Colorado Springs at the end of the month. Top executives from several aerospace companies with significant operations in the state spoke during the ceremony, including Raytheon's top Colorado executive, Raymond Kolibaba. Kolibaba touched briefly on the company's recent failure to win a $2.1 billion contract that could have created 300 jobs in Aurora, saying, "Somebody's got to win, and somebody's got to lose." **(Denver Post)**

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Room, Occupancy Rates on Rise in Colo.

Average room rates and occupancy rates at hotels in Denver and across Colorado continued to rise in February, compared with the same month last year, according to the latest Rocky Mountain Lodging Report released Tuesday. Statewide, occupancy rates rose by 2.5 percentage points, to 61.2 percent. Room rates increased $7.31, to $130. In the metro area, occupancy rates rose by 2.2 percentage points last month, to 60.4 percent. Average room rates jumped $4.98, to $95.54. **(Denver Post)**

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Business Building Hopes Rise

Commercial construction, one of the last industries to recover from the most recent recession, is poised for the best year since 2001, contributing more to economic growth just as homebuilding starts to ebb. Nationally, job growth and falling vacancy rates may push investment in nonresidential construction up 9 percent this year to $531 billion, the most since at least 2001, according to the Associated General Contractors of America in Arlington, Va. "We're in the growth mode at this point," says Edward Fritsch, chief executive officer of Raleigh, N.C.-based Highwoods Properties Inc., which builds and manages office buildings across the southeastern U.S. "If you look at the amount of development that's underway in just about any sector, it's robust." It's likely to take at least a year for Denver to catch up. "Denver is not ready for it, other than a couple of small isolated areas, Lower Downtown being one of them," said John Shaw, vice president of Opus Northwest's Denver office. "We still have 16 to 18 percent vacancy in most of the submarkets." Opus plans to develop a 10-story, 440,000-square-foot project in three buildings in the 1400 block of Wewatta Street. The state's construction industry has been buoyed by health care and education projects, said Dick O'Brecht, president of the Associated General Contractors of Colorado. The national rebound comes after commercial-construction spending dropped more than 25 percent from its peak in 2000 as the economy stalled and the Internet bubble burst, leaving more than a quarter of the office space vacant in some markets. "After six years of recessionlike conditions in the industry, 2006 is shaping up as the year that will launch a nonresidential expansion, picking up some of the slack from a cooling residential market," says Kermit Baker, chief economist with the American Institute of Architects in Washington. Rising rents and falling vacancies have pushed up property values for existing buildings, benefiting real estate investment trusts such as Denver-based ProLogis, the biggest U.S. owner of warehouses. Industrial vacancies will fall to 8 percent this year, spurring a 20 percent jump in construction this year, the National Association of Realtors forecast Wednesday. Office vacancy rates will drop to 11 percent this year, pushing rents up 5 percent, it said. **(Denver Post)**

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Ports Fiasco May Curb Arab Investment Dollars

The world's investors may be clamoring for U.S. real estate, but the political backlash over the purchase of six U.S. seaport operations by a Dubai company may reduce the flow of cash from the United Arab Emirates into U.S. investments. "That inevitably has an effect on their desire to pursue further investments (in the United States)," says Bill Kistler, president of the Urban Land Institute-Europe in London. Dubai Ports World (DPW), which is owned by the government of Dubai, on March 9 announced it would offload the U.S. port operations acquired in its February takeover of Britain's Peninsular & Oriental Steam Navigation Co. (P&O), although it hasn't specified how a transfer will take place. Dubai's Jebel-Ali is one of the busiest and most advanced ports in the world, and America has missed an opportunity to tap the expertise of a world leader in port operations, says Kistler, who was visiting Dubai on a ULI study tour as the debacle unfolded. "Certainly from that part of the world, my gut sense is that [investors] have plenty of other opportunities elsewhere, where the investment will be welcomed and it won't be as politicized," he says. Recent events lend credence to Kistler's view. Shortly after DPW announced plans to divest itself of the U.S. port operations, Sultan bin Nasser al-Suwaidi, governor of the UAE's central bank, chided Congress' opposition to the deal and said its actions would hurt international investment and free trade. In a gesture that may have been retaliatory, Suwaidi said the central bank was considering converting up to 10% of its currency reserves, or about $4 billion, into euros from the present 2% ratio. With so many investors clamoring to invest in the United States, however, any loss of capital from the UAE will likely

be offset by investments flowing in from other sources — including domestic sources. Privately owned Broe Cos. may make an offer to buy the former P&O port business in the United States, according to the Rocky Mountain News, which attributed its information to an unnamed executive at the Denver-based company. Broe is an international investment, acquisition, and operational enterprise with more than $1 billion in assets; its short-line railroad subsidiary, OmniTRAX, owns the port in Churchill, Manitoba, on the Hudson Bay.
(National Real Estate Investor/Matt Hudgins)

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U.S. 36 Corridor Bouncing Back

The U.S. 36 corridor between Denver and Boulder was once heralded as the metro area's version of Silicon Valley, a it played the part in the late 1990s and early 2000s. But the tech wreck starting in 2000 left many of the shiny new office buildings along the corridor tarnished by never-seen before vacancies. The office market vacancy collapsed like the stocks of some of anchor office tenants, Level 3 Communications and Sun Microsystems. In 2000, the office vacancy rate was 2 percent and a year later it stood at 54 percent - a sea change not only unparalleled in the Denver area, but most likely in the U.S., said Trammell Crow broker Chris Phenicie, who has been doing deals with partner David Hart along the corridor since 1992. Now, the corridor is getting back on its feet. A current snapshot of the corridor shows:

• More than $1 billion in new projects are moving forward.

• The vacancy rate is expected to end the first quarter around 20 percent, with Class A office buildings boasting vacancy rates in the 10 percent to 11 percent range.

• Office lease rates are up about 30 percent from their lows, and are expected to continue to spike.

In addition, about $350 million in existing office buildings along the corridor likely will sell this year, by far the most sales activity the corridor has ever experienced, Phenicie and Hart calculate. Development along the corridor is being dominated by mixed-use projects that combine offices and higher-density residential than traditionally found in suburbs.
The furthest along is also the biggest - the $400 million Arista development at U.S. 36 and Wadsworth. The 6,000-seat Broomfield Events Center is 25 percent completed and will open in November, said Edward H. Barsocchi, of Lowe Enterprises, which is developing Arista for owner Tim Wiens. Most of the residential land already is spoken for and the development eventually will have its own town center, as well as office space, something that seemed almost incomprehensible even a year ago, he said. "We see Arista as sort of the

downtown for the corridor," Barsocchi said. In Interlocken, the premiere office park in Broomfield - whose full name is a mouthful, the Interlocken Advanced Technology Environment - real estate investor John James is in the early stages of a $350 million, mixed-use development called Interlocken East. James, based in Oregon, bought the remaining 125 undeveloped acres in the Interlocken Advanced Technology Park in 2000 for $43.5 million. "I've seen more potential in the last six months than in the last six years," James said. "Nothing in real transactions have closed, but there are a lot of interested parties circling." He said while details of Interlocken East are still "fluid," he said he hopes to make a formal presentation to Broomfield within 60 days. The development, he said, will help breathe life into the business park, making it more like the Denver Tech Center, with its offices, retail, housing and hotels. "Interlocken has all of these great office buildings and marvelous parks and trails, but it basically goes dead at 5 p.m. or 6 p.m. and on weekends," James said. James, who primarily invests along the West Coast, said that not only is the U.S. 36 corridor no longer Colorado's version of Silicon Valley, but neither is Silicon Valley synonymous with technology giants. "Silicon Valley has gone to India," James said. "I'm dead serious. A lot of the jobs and growth have gone off-shore." He said the days of companies like Level 3 or Sun Microsystems building huge office campuses along the U.S. 36 corridor are over. "In summary, I do think that the Northwest corridor is still going to be a vibrant marketplace, but it has shifted, with the growth being more from the small and medium-sized businesses, rather than the great big corporate companies that are making decisions for million-square-foot campuses," James said. Economist Tucker Hart Adams said she isn't surprised that the U.S. 36 corridor is recovering. "It has a lot of nice and brand new office and lots of flex space, and we haven't had much construction going on in the last few years," Adams said. "Commercial real estate goes through cycles. It's in that part of the cycle where prices came down and it became more attractive to tenants, so the space is filling up." And the mix of tenants is changing. While 66 percent of the tenants are still in communications or technology, 21 percent are in services, according to an analysis by Phenicie and Hart. For example, Dean Foods has a big presence along the corridor and Vail Resorts has said it plans to relocate its offices from Avon to along hte U.S. 36 corridor.

Byrone Koste, head of the CU Real Estate Center, said developers and municipalities seem to be making all of the right moves to re-invent the corridor with mixed-use projets. "They got all of these triples and homeruns with the big office campuses, but that didn't work out so well," Koste said. "The only way to revive it is start mixing offices, housing and retail to make it a more liveable corridor." Koste said he isn't worried about overbuilding. "The nice thing is that these are near significant jobs centers," Koste said. "The residential can come if there are jobs. Otherwise, they'd be killing each other." **(Rocky Mountain News)**

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	4.50	4.50	2.75
3 MONTH LIBOR	4.96	4.81	3.09
PRIME RATE	7.50	7.50	5.75
10 YEAR TREASURY	4.70	4.59	4.62
30 YEAR TREASURY	4.73	4.55	4.89