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Road to Nowhere

A small piece of 18th Street between downtown Denver's Wynkoop and Wewatta streets is turning into a big development catalyst in the \$1 billion redevelopment of Union Station. Together with the northwestern extension of 16th Street to the Millennium Bridge, completing the small section of 18th Street will form a vital link between Lower Downtown (LoDo) and the Central Platte Valley. Those areas have been separated for more than a century by railyards. Filling the 18th Street gap, planners and developers say, is key to sparking new commercial and residential building in downtown's formerly industrial, and still largely undeveloped, Central Platte Valley. "Access to the Central Platte Valley is a problem," said Gary Rohr, president and CEO of Englewood-based Resolute Investments Inc. "Right now, the only way to get to there is to go 16th to Wewatta or around on 20th." Resolute is developing the 180,000-square-foot Wewatta Plaza office building, which will be located at the corner of 18th and Wewatta. The developer expects to break ground on the building in March 2008 and finish it in the summer of 2009. Historic Union Station will be converted in the next several years to the main transportation hub for the entire metro area. Expanding the station is the "crown jewel" of metro Denver's \$4.7 billion, 12-year FasTracks transit-expansion program. FasTracks involves adding new commuter rail and light rail, extending existing rail service, adding parking and expanding bus service. The project is scheduled to be completed by 2017. "With existing and future pedestrian connections to the Central Platte Valley, all the way to Highlands, 18th Street really does become an important lifeline. ... It's an important connector," said Mike Reiniger, managing partner of Union Station Neighborhood Co. Union Station Neighborhood, the partnership between East West Partners Inc. of Vail and Denver-based Continuum Partners LLC that's redeveloping Union Station, is refining the project's design. Reiniger added that while connecting 18th Street is key, 16th and 17th streets in the valley are important, too. Sixteenth Street, with its pedestrian mall and shuttle, will be even more of a major transit connection with its extension. Seventeenth Street, with its 17th Street Promenade public space to be built above rail lines, will be a hub for retail shops, cafes and transportation services such as ticketing. "With the redevelopment of Union Station, 18th Street becomes a major transportation corridor for the bus system especially," said John Shaw, senior vice president of Opus Northwest LLC in Denver. "It's vital that it connect all the way." Opus is building the nearby 1400 Wewatta project, which includes three buildings with 300,000 square feet of office space and 21 condominiums. The property sits on two acres in LoDo -- between 14th, 15th, Wewatta and Wynkoop streets -- and is scheduled to be completed in summer 2008. Other new construction planned in the valley includes East West Partners' proposed two-tower City House residential and retail project at 18th, 19th and Chestnut streets. A grocery store, long wanted by downtown residents, and high-end hotel also could get built, according to developers. The Union Station plan envisions a total of roughly 1 million square feet of new office space and nearly 300,000 square feet of housing, possibly including lofts, condominiums and apartments. Some 102,000 square feet of shopping and restaurant space could be built. In the Central Platte Valley, 18th Street currently stops at Wynkoop and picks up again at Wewatta, because of railroad tracks behind Union Station that run the length of the valley. Union Station's redevelopment plan calls for passenger-rail tracks in the valley, where they would cross an 18th Street extension, to be moved to an underground tunnel. "With passenger rail placed underground, 18th Street can connect Wewatta and Wynkoop

streets to become a through-street," the plan said. Other changes in store for 18th Street in the valley include connecting it with the rest of downtown via a circulator similar to the existing 16th Street Mall shuttle. The circulator will run on 18th through the valley and complement the shuttle. The street also is expected to get a pedestrian bridge near Commons Park, linking East West Partners' Riverfront Park development to LoDo and the station. A new commercial bus terminal -- to be built north of 18th and serve Greyhound, tour and charter buses -- would have a parking garage on top of it with as many as 1,700 spaces. The developers of downtown Denver's new Ritz-Carlton hotel are interesting in buying the existing Greyhound station, at 19th and Curtis streets across from the hotel, and redeveloping it as high-end residential units. Efforts to convert the Central Platte Valley from an industrial rail corridor to new commercial and residential neighborhood have been going on since the mid-1980s. One of the area's major private landholders, Trillium Corp. of Bellingham, Wash., did a lot of pre-development work, including environmental remediation, demolishing old buildings and building roads. Trillium bought its original 185 acres in the valley in 1992 as part of a \$111 million acquisition of Burlington Northern Railroad property. Through the years, Trillium has sold much of its valley land, including the 72,000-square-foot Union Station building to the Regional Transportation District. **(Denver Business Journal)**

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Institutions Dial Back

After a major buying binge in commercial real estate in recent years, pension funds and endowments plan to curb investment by 22% in 2007, according to a newly released survey. What's more, institutions increasingly are opting to buy properties in need of repositioning or renovation as part of a value-added investment approach to higher returns. The survey of 109 respondents, primarily senior investment officers for public and corporate pension funds, was conducted by Institutional Real Estate Inc., a publishing and consulting firm based in San Ramon, Calif., and Kingsley Associates, a San Francisco-based research company. Plan sponsors expect to invest a combined \$46 billion in commercial real estate this year, down from \$59 billion in 2006. Meanwhile, respondents' target allocation for real estate in proportion to their total asset holdings is 8.7%, up from 7.9% a year ago. Specifically, survey respondents plan to spend \$15.8 billion, or 34% of new capital, on value-added properties that require some improvements compared with \$11.5 billion, or 24.8% of new capital, dedicated to core properties. "While real estate is still very attractive, investors are reducing their capital commitment largely because their holdings are much closer to their target allocations," says Jim Woidat, a Kingsley principal in San Francisco. "Real estate continues to outperform expectations." Respondents upped their return expectations to 9.3% from 8.1% a year ago. Actual returns in 2006 were 11.9%. "Last year, we had a combination of better demand for space due to an improved economy, and more capital invested, which drove returns beyond initial expectations," says Russell Appel, president of The Praedium Group, a New York pension fund advisor specializing in value-added strategies. "This year will be another strong year." Since investing \$28 billion in real estate in 2002, plan sponsors had consistently raised the total dollar amount each year before topping out at \$59 billion last year. The growth of investment is slowing, acknowledges William Maher, director of North America Investment Strategy for LaSalle Investment Managers, a Chicago pension fund advisor. "This is the first time in a long time that they are close to their target allocations." New money is still flowing into the market. Pension plans, such as those in Arizona, New Jersey and Texas, have close to zero real estate

holdings and are investing billions to ramp up their programs, Maher says. Many retirement funds are jumping into the market as a result of new laws allowing such investments. LaSalle also is pointing its clients toward value-added strategies. "If you buy a core building without leverage, you would expect returns of 7% to 8%," Maher says. Core properties currently comprise 51.6% of institutional real estate portfolios. Plan sponsors plan to reduce their core target allocation to 46.8% this year, Kingsley's Woidat says. At the same time, value-added holdings are expected to rise from 17.6% to 19.6%. Another key finding in the study is the anticipated increase in competition for fund managers, says Woidat. "We are beginning to see greater reliance on existing relationships with investment partners. Investment professionals looking to raise capital are expected to have more competition. There will be a greater need for differentiation from their peers." **(National Real Estate Investor/Hue Ha)**

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Apartment Market Improves

If you're a renter, it might be a good time to lock-in a long-term lease at a Denver-area apartment, if you're landlord will let you. The average vacancy rate has fallen to a six-year low for a first-quarter, while average rents are down slightly, according to a report released today by Gordon E. Von Stroh, professor at the Daniels College of Business at the University of Denver. Typically, when occupancies rise, so do rental payments. Von Stroh's survey shows that the overall vacancy rate in the first-quarter stood at 7.1 percent. The last time it was lower during a first-quarter, it stood at 4.5 percent in 2001. The vacancy rate is slightly higher than the 7.0 percent in the fourth quarter, "but that is statistically insignificant," said Steve Rahe, an apartment broker with CB Richard Ellis. Meanwhile, the average monthly rent for all apartment was \$842.69, down slightly from the \$843.38 a year earlier and \$849.89 in the fourth quarter. The median, or middle rent was \$794.25 compared with \$792.97 in the first quarter 2005. Rahe said owners of "Class A and Class B" buildings are telling him that concessions are slowly starting to go away in many buildings. He said that there are still a lot of concessions available for Class C, or the oldest buildings, with fewer amenities. The Class A and Class B buildings are newer ones that often sport features such as swimming pools, health clubs, theaters, and covered parking. With limited new construction this year – primarily "niche" projects, such as those along light rails or part of "lifestyle" shopping centers such as Southlands in Aurora, Rahe said he expect vacancy rates will continue to drop. And that will mean a boost in rents, he said. It also will mean that landlords increasingly will be favoring six-month rent agreements, instead of one-year rents, he said. **(Rocky Mountain News)**

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Four Seasons Residences Aim High

Talk about sky-high condos. A pair of two-story \$8 million penthouses will top the planned Four Seasons Hotel in downtown Denver. Construction of the \$350 million, 45-story tower could begin as early as July, with an opening scheduled for winter 2009, developers Jeff Selby and Michael Brenneman said Tuesday.

The 102 luxury condos - called Four Seasons Private Residences - will start at about \$800,000 and range in size from 965 square feet to 6,100 square feet for the penthouses. "There are only two, two-story penthouses," Selby said, walking around their 8,000-square-foot storefront presentation office at the Denver Performing Arts Complex. The 203 hotel rooms also will set the bar in town for hotel prices, Selby said. When Selby and Brenneman first unveiled the building in November 2005, the tower was going to have 50 stories. The new size means the million-square-foot building at 14th and Arapahoe streets - a parking lot that housed the historic Central Bank building until it was razed in 1990 - will be more rectangular, said Tim Walsh, principal of confluencebuilders, which is the owner's representative for the construction. The building will be 650 feet tall from the bottom to the tip of its spire, making it the fourth-tallest building downtown. The design, by Jackson Hole, Wyo.-based John Carney, has evolved, Selby said. "We didn't want it to be an imitation of the Chrysler Building or the Empire State Building," Selby said. "It has a classical yet modern and timeless design." The equity investor in the tower is Mexico City-based Grupo Denim, one of the world's largest manufacturers of blue jeans. Grupo Denim recently moved its U.S. headquarters to the historic Equitable Building in downtown Denver. The privately held company's clients include Lee, Wrangler, Donna Karan, Bass Pro Shops, Eddie Bauer, Polo Ralph Lauren, DKNY, Riders and others. Its marketing, trend direction, and real estate divisions are among those headquartered in Denver. While this marks the first Four Seasons it has invested in, it already owns investment condominiums in the Vail area and other "substantial" real estate holdings, said Scott Steuer, president of Grupo Denim. The majority of the prospective buyers so far have been empty-nesters from the Denver area. About 15 percent to 20 percent of them are people who own homes in the mountains, Selby said. **(Rocky Mountain News)**

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Fed's Banks See Slow Growth

The Federal Reserve said Wednesday that most district banks reported "only modest or moderate" economic growth while consumer prices were "generally stable." A "slow" pace in manufacturing in most areas was balanced by "generally positive" retail sales, while the housing market continued to restrain the expansion, according to the Fed's regional survey, known as the Beige Book. The Fed survey said in its previous report that several districts had noted "some slowing" in overall growth. "That modest to moderate expansion is exactly where the Fed wants the economy to be," said David M. Jones, president and chief executive of DMJ Advisors LLC in Denver. "I really saw no alarm in their discussion on the inflation side." Fed officials are counting on a moderate expansion to slow inflation by the end of 2008. The anecdotal data gathered by the 12 district banks over the past six weeks support that view. The Beige Book underscored the weakness in housing markets, "little or no growth in overall lending activity" and high levels of activity in mining and energy. "Recent Beige Books have shown deceleration," said Robert McTeer, former president at the Federal Reserve Bank of Dallas. "This one shows some flattening out, so this is encouraging." The New York and Minneapolis Fed bank districts stood out, reporting "steady and firm growth," and the Dallas Fed observed "moderately strong" growth. The nine remaining districts noted only "modest or moderate" expansions. "Consumer prices remained generally stable or increased modestly, but most

districts reported a rise in input prices, particularly for metals and raw materials," the survey said. "Most districts reported tight labor market conditions." Futures prices show traders expect the central bank to leave the benchmark U.S. interest rate unchanged at 5.25 percent when Fed officials next meet May 9. Nine districts reported "generally modest" wage increases in some industries, the Beige Book said, even though many of those same districts, such as New York, Richmond and Atlanta, reported worker shortages. The wage gains didn't appear to be feeding through to consumer prices. Retailers and service firms in five districts "indicated that prices remained stable or increased modestly." The Fed's preferred inflation benchmark has been at or above the comfort range of at least a half-dozen policymakers for almost three years. The personal consumption expenditures price index, minus food and energy, rose 2.4 percent in the 12 months to February. **(Denver Post)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	5.25	5.25	4.75
3 MONTH LIBOR	5.36	5.35	5.15
PRIME RATE	8.25	8.25	7.75
10 YEAR TREASURY	4.71	4.60	5.12
30 YEAR TREASURY	4.89	4.79	5.18