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Broker: Tenants Should Focus on Second-Tier Buildings

Tenants will find the best deal in the second tier office buildings in downtown Denver, as rental rates for the best buildings downtown have skyrocketed by more than 28 percent during the past year, according to a report released today. A 2007 first quarter report by Studley, a commercial real estate firm that represents tenants, said that Class A rental rates in the central business district have increased to \$25.68 per square foot from \$20.78 per square foot a year earlier. "More than 40 percent of buildings in the CBD have changed hands," said Rob Link, branch manager and executive vice president of Studley. "The influx of new investors is pushing rental rates upward to substantiate record high purchase prices. For example, last week the Chicago-based Callahan Capital Partners became downtown Denver's largest landlord when it bought five buildings, including the Tabor Center, for a record \$770 million. "While the investment market is focused on Class A buildings, resulting in sharp rent spikes, tenants have a prime opportunity to take advantage of lower lease rates, more generous concession packages and tenant improvement dollars affiliated with Class B buildings that haven't changed hands or been highlighted in the media," Link said. Link went on to say that unlike larger markets like Manhattan or Washington, D.C. (in which the cost of Class A and B properties can have a price differential of \$30 per square foot or more), Denver's Class A and B office space differential is much narrower (\$7 to \$10 per square foot). Thus, tenants with good credit can lock in a Class B building rate and still obtain the quality location and amenities of a Class A building if they renew, restructure or sign a new lease now before the rent surge trickles down to Class B buildings. While overall Class A rent in the Denver region increased \$3.63 to \$22.31 over the last 12 months, Class B rent increased \$1.53 to \$17.50. The overall availability rate stands at 16.1 percent, with nearly 8.5 million square feet of leased office space. Colorado is also expected to add 42,300 jobs in 2007, a 1.9 percent increase statewide compared to the national estimated increase of 1.4 percent. "We anticipate lease rates to swell by another 10 percent over the next 12 months," said Jim McGrath, branch manager and senior vice president for Studley. "This rise is part of a three year, lease-hike phenomenon Denver hasn't experienced in a decade. The higher rates are directly impacting the length of lease terms. Consequently, tenants are opting to sign five- to seven-year lease terms, as opposed to 10-year plus leases." Callahan expects to begin construction of the Tabor II office tower this year, with an estimated delivery of the 700,000-square-foot tower in 2009. Construction also started on the Opus Northwest and Hines projects in lower downtown and two or three other new projects are also expected to break ground LoDo as well. Studley predicts that demand will outpace supply until the new construction comes online. **(Rocky Mountain News)**

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The New 'Black'

Green will become the new black in 2007, predicts Ernst & Young. Green building - once dismissed by major developers as "too expensive" will become almost a necessity as tenants, lenders, residents, and even investors push for sustainability. Nor is green restricted to building. Look for green principles to become synonymous in the real estate industry with solid, cost-efficient operating principles. "If you aren't at least meeting LEED (Leadership in Energy and Environmental Design)

standards in new construction, there's an increasing risk - one likely to accelerate in the next five years - that your project may falter," say the authors Katherine Hammack and Rick Sinkuler. Most cutting edge developments in the years ahead will, like Vancouver's Jameson House, a 37-story luxury residential condo project under construction today, look to exceed LEED - not just meet it. Because, they argue, green is no longer a luxury. Look for energy and design solutions driven by sustainability to filter down quickly from high-cost projects such as biotech labs to more mundane office and retail projects as the green movement gains further traction. San Francisco, New York, and Chicago are fostering green building, fast-tracking developments that meet green standards; even smaller cities such as Buffalo, NY, are looking at ways to encourage this trend. The implications of the change are huge for real estate and lenders are only now coming to grips with green building's underwriting implications. **(CoStar)**

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Teeing it Up at I-25 and Belleview

With a \$25 million bond issue completed, the Continuum Partners firm is moving forward to develop land near the Belleview light-rail station. The Denver-based developer already has started site work on the project, which will transform a former golf course at the northwest corner of Interstate 25 and East Belleview Avenue into a \$1.5 billion mixed-use development. Continuum is teaming up with Trammell Crow Co. and the Hanover Co. on the first phase of the project. Trammell Crow will develop a 120,000-square-foot speculative office building, and Hanover will build 240 luxury apartments. Continuum will develop the 120,000-square-foot retail portion as well as a full-service hotel. "We want to get as much development going as we can," said Roger Pecsok, development director and principal of Continuum. "It's more effective to partner with people." Developers are moving to add new retail, office and residential buildings near many stops along the new southeast light-rail line, which runs along I-25. Trammell Crow is interested in doing more office buildings at Belleview, said Bill Mosher, area director for the firm's development and investment group. The project's location near the Belleview light-rail stop will be attractive to office tenants. "The mixed-use aspect is going to be unique in the market, so we're excited," he said. The first phase of vertical construction will start late this year and feature a pedestrian core with ground-level shops and restaurants. It's expected to be completed by the end of next year or early 2009, Pecsok said. The project sits on land that has been in the Bansbach family for more than 100 years. It was part of a 1,200-acre wheat farm the family operated. In the 1960s, the family leased about 30 acres to a group that built the former Paradise Valley Country Club. The private club eventually became the Mountain View Golf Course, a public course that closed last year in anticipation of the development. "This actually is the last piece of ground that we've had in the southeast part of the city," said Dutch Bansbach of Front Range Land & Development Co., the ownership group. "Every generation has tried to make sure they looked out for the best interest of the family going forward. "The time is right now for its development, and my forefathers would probably agree. We think the market is improving right now." **(Denver Post)**

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	5.25	5.25	4.75
3 MONTH LIBOR	5.35	5.33	5.01
PRIME RATE	8.25	8.25	7.75
10 YEAR TREASURY	4.76	4.53	4.84
30 YEAR TREASURY	4.92	4.66	4.90

