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### **Fed Raises Rates Again but Clouds Next Move**

The Federal Reserve raised short-term interest rates again on Wednesday, its 16th increase in two years, and gave itself room to raise them again in June. As expected, the central bank nudged up the federal funds rate on overnight loans between banks another quarter-point, to 5 percent. But the Fed also damped hopes of some investors that it might stop or at least pause before raising rates again. In its statement, the Fed asserted that "some further policy firming may yet be needed," a signal that policy makers are leaning toward at least one more increase. But it also took care to keep its options open. While investors expected the rate increase, the Fed statement seemed to worry them. The Dow Jones industrial average had moved higher in afternoon trading but fell after the announcement and ended about where it began. [Page C11.] Wednesday's statement illustrated the uncertainty that confronts the Fed and its chairman, Ben S. Bernanke, as policy makers prepare to shift gears to a more neutral stance after two years of raising rates. In many ways, the statement did little to clarify the muddy picture that policy makers have conveyed in the last month. The central bank's priority on Wednesday seemed to be to make sure that it did not limit its options. It asserted that future decisions would be shaped more than ever by economic data rather than by a preordained strategy. "The extent and timing of any such firming will depend importantly on the evolution of the economic outlook as implied by incoming information," the central bank said. Two weeks ago, Mr. Bernanke told House lawmakers that the Fed might take a pause while it took time to assess the economy's direction. But on Wednesday, the Fed made no reference to pauses and gave a clear reference to the likelihood of another rate increase. At the same time, the central bank suggested that it was not overly alarmed about the prospects of higher inflation and that it still expected the economy to cool to a "more sustainable pace" from the torrid growth rates of earlier this year. Some analysts said Mr. Bernanke was sending a tougher message about the need to head off potential inflation. The Fed's statement, which is supposed to convey the views of the entire Federal Open Market Committee, did not repeat Mr. Bernanke's suggestion last month to lawmakers that the Fed might pause in its rate increases. "They're effectively saying that their bias is to raise rates at the next meeting," said Anton Pil, head of fixed income investments at J. P. Morgan Asset and Wealth Management. Other analysts noted that policy makers expressed little concern about recent data that signaled higher inflation. Consumer prices increased 3.4 percent in the 12 months ended in March. The Fed's preferred measure of "core" inflation, which excludes the volatile prices of food and energy, has risen 2 percent in the last year — at the top of Mr. Bernanke's comfort zone for price increases. Ian Shepherdson, an economist at High Frequency Economics, a research firm, said the Fed might still refrain from raising rates at its next meeting, set for June 28 and 29, because it would probably have more data by then that show a sharp slowing in the economy. "I am very sure that the incoming data, particularly consumer confidence numbers, are going to tank," Mr. Shepherdson said. In their statement on Wednesday, Fed policy makers noted that economic growth has been very strong so far this year. But they repeated their view that growth, which rose to an annual rate of 4.8 percent in the first three months of this year, would moderate as a result of a cooler housing market and the lagging effects of higher interest rates and energy prices. "As yet, the run-up in the prices of energy and other commodities appears to have had only a

modest effect on core inflation," the Federal Reserve said. Continued growth in productivity has helped restrain costs, it continued. Inflation expectations "remain contained." Mr. Bernanke helped set off a sell-off in the bond markets last month after his remarks to lawmakers about a pause. But last week, a financial reporter for CNBC, Maria Bartiromo, said Mr. Bernanke had told her at a banquet in Washington that the markets had misunderstood his intentions. Fed officials never confirmed Mr. Bernanke's comments, but many analysts concluded that he wanted to reassert his toughness against inflation. Bond investors showed greater anxiety about inflation after Mr. Bernanke suggested a pause. Prices of inflation-protected Treasury bonds jumped, often an indicator of increased worry about inflation. Andrew Tilton, an economist at Goldman Sachs, wrote Wednesday in a research note that the Fed was still likely to take a breather at its next meeting but wanted to convey its vigilance. "This was a relatively subtle way of reminding the markets that the Fed is on the case," Mr. Tilton wrote, "without unduly alarmist language about the inflation outlook." **(New York Times)**

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### **Highlands Ranch Town Center Sold**

Local investor TCHR has purchased the 6-year-old Town Center at Highlands Ranch property for \$10.8 million. At \$498.66 per square foot for the 21,658-square-foot center at 3506 Town Center Drive, it's the third highest sale price for a Highlands Ranch property in the past five years, according to Grubb & Ellis Co., which handled the sale. TCHR is a retail investor in metro Denver that bought the property from investment partnership and developer Town Center Investors. TCHR entered into the deal through a 1031 exchange. Grubb & Ellis brokers Larry Thiel, Dan Grooters and Riki Hashimoto handled the transaction. **(Denver Business Journal)**

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### **Stronger Market May Lead to Higher Office Lease Rates**

Metro Denver's office and industrial markets chalked up strong Q1 numbers, even as retail absorbency sagged to its lowest level in five years, new industry reports show. Office tenants absorbed 558,719 square feet of space during Q1 2006, on top of nearly 2 million square feet last year, according to [Trammell Crow Co.'s](#) Q1 2006 office market report. The office market is rebounding so vigorously that Joe Serieno, Trammell Crow senior vice president, is projecting leasing rates for choice, Class A buildings downtown and in the Tech Center will climb to as high as \$35 per square foot by the end of 2007. That's up from about \$22.50 today. Serieno's projection is based, in part, on the fact that if a new, second Tabor Center tower were to be built downtown, as some developers are discussing, rents would have to hit roughly \$35 per square foot to support the project. Not surprisingly, much of metro Denver's office absorption took place downtown and in the southeast suburban corridor, Serieno said. "I think the highlight of the first quarter is that the [office market] momentum continues," Serieno said. "We're on track to meet or surpass last year's absorption total," said Mark Larocque, research director for Trammell Crow's Denver office. "We expect job creation to be even stronger this

year than last, with more than 30,000 new jobs in 2006 compared to 26,100 in 2005. So we're confident we'll exceed last year's 2 million-square-foot absorption figure." So-called "shadow space," which is leased but not being occupied or used by tenants, also is disappearing, Serieno said. "It's hard to track, but it's my sense from the buildings and tenants that I see that everybody is out of space and sort of bursting at the seams," Serieno said. With only a few, relatively small new speculative office projects on tap, there will be fewer options, particularly for larger tenants, Trammell Crow analysts said. "I don't think we're at the point where the market is in danger of being sidetracked by new construction," Larocque said. "Construction costs have skyrocketed, interest rates are rising and rents really aren't quite where they need to be to justify new buildings." The bottom line is that metro Denver is shifting to more of a landlord's market, Serieno said, and rising rental rates will reflect that. "The only thing that holds rental rates down is the ability for new buildings to come along to cool the increase," Serieno said. Rising interest rates, high household debt burdens, and cooling housing and refinancing activity are likely to slow consumer spending and affect retail sales, but the steadily improving statewide job picture should help offset the negative impact, Trammell Crow analysts said. In Q1, however, the area's retail market posted a negative 130,225 square feet of absorption, marking the first negative total since 2001, Trammell Crow's Q1 2006 retail report noted. Larocque believes the negative net retail absorption was an aberration, due largely to several Media Play, Mervyn's, Blockbuster and Albertson's store closings. Although overall retail vacancy rates in metro Denver climbed slightly to 7.2 percent, it's still a historically healthy number, Larocque said. Overall metro Denver office vacancies are at 15.4 percent, while industrial vacancy is at about 9.6 percent. "Retail sales are growing at a slower rate compared with the peak two or three years ago, when we were getting upwards of 10 percent growth a year," Larocque said. "Now we're in the 5 to 7 percent range, which is still very healthy. Ten percent is probably not sustainable for the long term." "I actually feel really bullish that the improving job growth scenario will definitely help our [retail] market recover," said Jon Weisiger, vice president with Trammell Crow in Denver. "Retail continues to re-invent itself," said Weisiger, noting there are several new shopping centers and free-standing box stores coming into the market this year, as well as in the next few years. Newer sporting goods retailers, such as Bass Pro Shops and Caballos, for example, are looking to penetrate the market deeper than before, he said. Meanwhile, Wal-Mart is scheduled to open five new supercenters between Q3 2005 and the end of 2006, while Target will add four supercenters, Weisiger said. "Those have been at the expense of very slow expansion by traditional grocery stores such as King Soopers and Safeway," said Weisiger, adding that any Albertson's expansion is on hold as it is under contract to be sold to a team of investors and retailers. Home Depot and Lowe's home improvement stores expect to add "a couple of stores each" this year as well, Weisiger said. Weisiger forecasts that about 2.5 million square feet of new retail will be added this year, including some big projects, such as the new Southlands mall at E-470 and Smoky Hill Road, and the 850,000-square-foot redevelopment of the former Crossroads Mall at 29th Street in Boulder. Trammell Crow sees the local industrial market finally starting to come alive, with overall Q1 vacancy rates falling to 9.6 percent, the lowest level in three years. Net absorption in the industrial industry was 1.2 million square feet, far surpassing the 577,789-square-foot figure for all of 2005, Larocque reported. Two industrial submarkets -- the Montbello/I-70 area and the northwest -- led the way with 711,873 and 240,887 square feet of absorption, respectively. The north

submarket showed negative 106,505 square feet of absorption. Industrial vacancy rates should continue to fall, Larocque said, and some landlords will begin to regain pricing leverage. Any industrial rent increases are expected to be modest, particularly if construction activity picks up. **(Denver Business Journal)**

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	<b>CURRENT</b>	<b>1 MONTH PRIOR</b>	<b>1 YEAR PRIOR</b>
<b>FED FUNDS RATE</b>	5.00	4.75	3.00
<b>3 MONTH LIBOR</b>	5.17	5.07	3.27
<b>PRIME RATE</b>	8.00	7.75	6.00
<b>10 YEAR TREASURY</b>	5.13	4.97	4.21
<b>30 YEAR TREASURY</b>	5.19	5.04	4.57

