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Strong Outlook For Commercial Market

Commercial real estate occupancies and capital flows will continue gaining momentum through the end of 2006, according to a recent report commissioned by the National Association of Realtors (NAR). Fueling this broad-based recovery: steady job growth, strong international trade and investors' ongoing efforts to diversify into commercial property. The analysis crunched data from Real Capital Analytics and Torto-Wheaton Research covering all five core property classes in the top 56 largest metropolitan areas. "Vacancy rates are declining in all of the major commercial sectors, and rents are rising at healthy rates," says David Lereah, chief economist at trade group NAR, which represents more than 1.2 million chiefly residential brokers. One of the report's chief findings is that investors poured \$268 billion into commercial real estate in 2005, up 44% from the 2004 total on deals above \$5 million. Lereah believes that investors will buy commercial properties as a diversification play. Roughly 13% of all NAR members hold an ownership stake in at least one commercial property. Office vacancy rates, which closed 2005 at 13.6%, will hit 11% by the end of 2006. This tightening should help office landlords raise rents up by 5% this year. In 2005, by comparison, average rents climbed just 2% to reach \$16 per sq. ft. at the end of the year. Occupancy gains will continue to lead rental growth. The net absorption of office space (defined as the leasing of both new and existing space) this year is projected to register 93.4 million sq. ft., which would exceed the 89.1 million sq. ft. in net absorption posted in 2005. The NAR report did not forecast total investment sales volume, but 2005 saw nearly \$100 billion in investment grade office buildings change hands. Foreign investors aren't likely to pull back from their acquisition campaigns, either. According to Jones Lang LaSalle, foreign investors spent \$21.8 billion on U.S. real estate in 2005. Most of that total was poured into domestic office assets such as Manhattan's One Park Avenue. Last year, for example, German fund manager SEB Immobilien-Investment GMBH paid \$323 million for that property. For the industrial market, trade with China should continue to bolster traffic and occupancy demand at key ports. Congestion is such an issue at many West Coast ports that some traffic is being re-routed through the Panama Canal. As a result of this activity, industrial vacancy should drop to 8% by the end of 2006 (down from 9.6% at the end of 2005). Offsetting that vacancy decline, however, new industrial construction will grow 20% this year as new distribution space is built to replace obsolete properties. Rental growth for industrial properties will increase by 3.8% for full-year 2006, which would make for flat rental growth between 2005 and 2006. Investment sales volume, however, increased a full 65% to \$34.5 billion between 2004 and 2005. The hottest markets for industrial space were Chicago, Los Angeles, Atlanta, Dallas and Seattle—and these markets will continue to lure capital and occupancy demand through the end of this year. Despite the addition of new space without sufficient leasing demand, retail vacancy rates should fall slightly through the end of 2006. Retail vacancy closed out 2005 at 8%, but vacancy will dip to 7.8% by the end of December. Net absorption is likely to hit 31.4 million sq. ft. this year, or down from 43.8 million sq. ft. last year. The retail markets that will post the lowest vacancy rates this year include San Francisco, Las Vegas, San Diego, Seattle and West Palm Beach, which will end this year with vacancies of 3.4% or less. **(National Real Estate Investor)**

Houston Firm Makes Big Buy in Interlocken

Hines, the real estate giant from Houston, on Friday confirmed it had bought the 461,000- square-foot Mountain View Corporate Center in the Interlocken Business Park in Broomfield. Although neither Hines nor the brokers on the deal, Mike Winn and Tim Richey of Cushman & Wakefield, would reveal the price, experts estimate it sold for about \$71.5 million, or \$155 per square foot. Officials estimate the replacement value at about \$235 per square foot, or more than \$100 million. The seller was Legacy Partners, which developed the three, three-story buildings and one four-story building during the height of the tech boom from 1999 to 2001. Legacy's partner in the sale was one of Goldman -Sachs' Whitehall Street Real Estate funds. Hines bought it through its U.S. Value Added Fund. The sale is the latest indication of the comeback of the U.S. 36 corridor, which saw its vacancy rate rise from 2 percent to more than 50 percent in one year, following the tech bust. The vacancy rate now is hovering at around 20 percent. "When a company of Hines' stature makes a substantial investment along the corridor, I think that is a real testimony to how well-received the recovery has become," said Winn, who represented Legacy and the Goldman Sachs' fund in the transaction. "It was an extremely highly sought-after asset. Hines beat out numerous other well-capitalized, big real estate players." Hines will manage the property, which is 83 percent leased, but the rate will drop to 72 percent as leases expire. Tenants include Whitewave Foods, Zoll Data Systems and Acxiom Corp. "Mountain View Corporate Center represents a great opportunity to own a Class A campus in a location that will benefit from the continued economic growth in the Denver and Boulder metro areas," Dave Congdon, a Hines' senior vice president and fund manager said in a statement. **(Rocky Mountain News)**

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U.S. Economic Growth Rises Sharply

The American economy grew at its fastest pace in more than two years in the first quarter of 2006, the Commerce Department reported today, as consumers and businesses spent briskly. The gross domestic product, the widest measure of the nation's output, grew at an annual rate of 4.8 percent in the first quarter, as Americans bought more computers, furniture and cars. Businesses invested more in office buildings, industrial equipment and transportation equipment, and the government spent more on national defense. Growth was widespread and appeared to be unhindered, at least thus far, by higher energy prices and rising interest rates. A critical measure of inflation for personal consumption, closely followed by the Federal Reserve, rose at an annual rate of 2 percent in the first quarter, down from 2.4 percent in the fourth quarter of 2005, according to the Commerce Department report. A broader GDP price index was up 3.3 percent, down from 3.5 percent in the fourth quarter. "Clearly the economy still has plenty of momentum with a little hint of inflation risk in the background," said Ethan Harris, chief United States economist at Lehman Brothers. Stocks were mixed and bonds fell slightly after the report came out. The Nasdaq composite index and the Dow Jones industrial average were led down by Microsoft, which fell almost 11 percent after warning that it may not meet Wall Street's profits expectations in the coming months. President Bush said the report showed that the country was "on the fast track" and called on Congress to

make his tax cuts permanent. "The surest way to put the brakes on the economy is to raise taxes or spend too much of the taxpayers' money here in Washington," he said at the White House. Earlier, Senator Jack Reed, Democrat of Rhode Island, said the economic growth, while welcome, was uneven and most workers' wages were not keeping up with inflation. "We can't be satisfied until economic growth provides widespread benefits to American families," Mr. Reed, the ranking member on the Joint Economic Committee, said in a statement. Economic growth fell slightly short of analysts' forecast of 4.9 percent growth, according to a survey by Bloomberg News, but it was much faster than the 1.7 percent increase registered in the fourth quarter. This is the government's first estimate of growth and the data is typically revised up as more information is collected. Some economists say at least some of the growth in the first quarter probably reflects a catch-up from the end of last year, when the economy was suffering from the aftershocks of Hurricanes Katrina and Rita. But the growth is expected to slow as that bounce wears off and as higher gasoline prices, which are hovering around \$3 a gallon in much of the country, take their toll on consumers and businesses. Most of the growth came from consumer spending, which jumped 5.5 percent after a muted 0.9 percent increase in the fourth quarter. Investments in construction, equipment and software, which increased by 6.5 percent, added much of the rest. Analysts say businesses' willingness to spend their rising corporate profits to increase capacity and hire workers marks an important turning point, because the expansion thus far has largely been fueled by consumer spending. "You have a very healthy corporate sector and it is gradually emerging from its hibernation," Mr. Harris of Lehman said. The investment is showing up in projects for new factories, offices and hospitals, said Kenneth Simonson, chief economist of the Associated General Contractors of America. "Everywhere people seem to be upbeat and extremely busy," he said. Spending on nonresidential structures jumped 8.6 percent in the first quarter, from 3.1 percent in the fourth quarter, even as residential construction slowed down slightly to 2.6 percent from 2.8 percent. The biggest uncertainty for the American economy remains the financial health of consumers. Rising interest rates, which remain near historic lows, could dampen spending. Already, mortgage applications have fallen by more than 20 percent in the last 12 months and home equity loans have flattened out. Higher energy prices could also limit spending on other goods and services. The University of Michigan reported that its consumer confidence index fell to 87.4 in April from 88.9 in March, reflecting concerns about higher gasoline prices. Analysts say the impact of higher energy costs and interest rates could be offset by an improving job market and rising wages, but it remains unclear how the two competing forces will play out in the coming months. Separately, the Labor Department reported today that businesses' employment costs increased by 0.6 percent in the first quarter, down from 0.8 percent in the fourth quarter, as the cost of benefits increased more slowly. Wage expenses rose by 0.7 percent, the same as in the fourth quarter. **(New York Times)**

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Apartment Vacancy Rate Declines in Denver Area

The Denver-area apartment vacancy rate in the first quarter fell to 7.4 percent from 7.9 percent in the fourth quarter and from 9.3 percent a year earlier, according to the Denver Metro Apartment Vacancy Rent Survey released on Thursday. Rising

foreclosures and interest rates, an improving economy, and scant apartment construction will continue to drive down vacancy rates, eventually causing rents to rise, said survey author Gordon Von Stroh, a professor at the Daniels College of Business at the University of Denver. The last quarter-to-quarter increase in the vacancy rate occurred in the fourth quarter 2004, when the vacancy rate rose from 8.5 percent in the third quarter to 10 percent. Downtown Denver had the lowest vacancy rate at 3.3 percent. **(Rocky Mountain News)**

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Fed Sees Possible Break in Rate Hikes

The Federal Reserve is turning off the autopilot when it comes to raising interest rates. An order for yet one more rate increase probably will come in May. But after that, the central bank may take a break - perhaps only temporarily - from a rate-raising campaign aimed at preventing inflation from taking off, the Federal Reserve chairman suggested Thursday. In his most extensive comments on the possible course of monetary policy, Ben Bernanke also said interest rate decisions could become less predictable as Fed policymakers rely more heavily on gauges of economic activity and inflation. Over the past two years, the Fed has raised rates 15 times - all but the last while Alan Greenspan was chairman. The central bank now "may decide to take no action at one or more meetings" in the future while waiting for economic information, Bernanke told Congress' Joint Economic Committee. "Of course, a decision to take no action at a particular meeting does not preclude actions at subsequent meetings," he added, keeping his options open. Sen. Robert Bennett, R-Utah, said Bernanke's comments were "very Greenspan-like . . . sufficiently tipped in both directions." Bennett said he viewed the remarks as a signal that "we're getting to the point where this almost automatic increase is not going to occur." Bernanke, who succeeded Greenspan on Feb. 1, said the Fed will pay close attention to whether rising energy costs feed into the prices of many other goods and services, and the extent to which a slowing housing market will crimp consumer spending - and overall economic activity. "We're much more data-driven," Bernanke said of the Fed. "We need to continually re-evaluate our forecasts and think about the prospects for the economy and make our decisions based on what the information is that's coming into our hands." Wall Street investors, cheered by Bernanke's words, sent stocks up. The Dow Jones industrials gained 28.02 points to close at 11,382.51. Many economists predict a quarter-point boost, to 5 percent, for the Fed's next meeting, on May 10. That was something Bernanke also signaled. Bernanke said growth probably will moderate in the coming quarters, but remain healthy. But there are risks to this outlook, including energy prices, he said. For now, Bernanke predicted a "slight slowing in growth" this year and next from high oil prices. **(Rocky Mountain News)**

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	4.75	4.75	2.75
3 MONTH LIBOR	5.13	4.96	3.21
PRIME RATE	7.75	7.75	5.75
10 YEAR TREASURY	5.09	4.79	4.23
30 YEAR TREASURY	5.18	4.80	4.55

