

June 25, 2007

A Denver Based Commercial Real Estate Investment and Management Company
Contact Ken Gillis at 303-407-8715

Downtown Gets Boost

Developers on Tuesday made two announcements that are expected to give downtown Denver a big boost in its revitalization efforts. Toronto-based Great Gulf Group said it's collaborating with renowned glass sculptor Dale Chihuly on its previously announced \$165 million residential tower at 14th and Lawrence streets. Separately, Denver developer Evan Makovsky said he has assembled about 75,000 square feet of property between the Hyatt and the 16th Street Mall. Makovsky plans to spend about \$350 million developing 1 million square feet of shops, offices, residences and hotel rooms on the site, which is viewed as a crucial bridge between two major tourist draws. Makovsky did not unveil a specific plan for the site, saying he intends to spend up to eight months exploring alternatives to what his team already has designed. Demolition already has started on the Bank of Denver and soon will be followed by razing of the old Colonial Hotel. The property will remain open space through the Democratic National Convention in August 2008. "We will try to improve its looks," said Makovsky, who spent three years assembling the property. Makovsky did not acquire the Fontius or the Washington McClintock buildings fronting the 16th Street Mall. "Those two buildings have limitations because they are historic buildings and can't be torn down," Makovsky said. Over the past three years, the Downtown Denver Partnership and the mayor's office encouraged the assemblage of the block, long considered one of Denver's biggest eyesores. "We all dug deep in terms of civic leadership," said Don Hunt, co-chairman of the Downtown Denver Partnership's Revitalizing the Core Task Force. "Evan dug deep in a different way." The Great Gulf project is the first residential project Chihuly has been involved with, said Gary Switzer, Great Gulf executive vice president. The building will feature 145 residences ranging from 1,200 square feet to 7,400 square feet. Chihuly artwork will be featured in the public spaces, including the lobby, lounges and private dining room, as well as rooftop gardens, elevators and hallways. Twenty-five-foot blue towers will flank the project's pool and be visible from the street. **(Denver Post)**

...

The Danger of Large U.S. Trade Deficits

For the past decade, U.S. real estate markets have been dominated by a flood of financial capital from foreign and domestic sources. Market prices of housing and commercial properties have soared while cap rates compressed. This flood of capital has largely been generated by a huge long-term global financial trading imbalance among nations, plus the stock market crash of 2000-2002. The United States has been running enormous trade deficits by importing far more than it was exporting. To pay for that imbalance, Americans issue debt to foreign firms and governments, mainly as U.S. Treasury securities. Offsetting America's excess consumption is plenty of savings by citizens and firms in other nations. The savers are in China, India, Japan and Europe. Chinese households save heavily because their government does not offer them any social safety net programs like retirement and health benefits. Japanese households save heavily because the country's aging population relieves many households from raising children, and because Japan has traditionally relied on export surpluses to keep its workers employed. Meanwhile, China buys more U.S. Treasury securities because it needs to keep expanding its industrial exports to provide more jobs for the millions of farm workers migrating into its cities.

These capital sources were augmented by surplus savings from oil exports and by investors fleeing from falling stock prices. In its 2007 volume of "The World Economic Outlook," The International Monetary Fund described two basic scenarios. The first scenario involves a gradual rise in domestic consumption and investment by many nations now running export surpluses with the U.S. This would reduce their savings. It would occur because Japan and Europe's economies are growing faster than they were, and because Chinese households would raise their spending as their incomes increased. A gradual depreciation in the international value of the U.S. dollar would accompany this shift. Since 2002, the dollar has declined in value by 39% against the euro, 31% against the British pound, and 11% against the Japanese yen. Lower U.S. federal deficits would also decrease our net borrowing. That would reduce America's trade deficits by raising our exports because of a depreciated dollar, without causing a panic from rapid disinvestment in U.S. Treasury securities by overseas nations. If these gradual trends persisted for two decades or so, a more balanced relationship between the U.S. economy and the rest of the world would slowly emerge without any upsetting economic catastrophes. This scenario would also gradually reduce the size of the capital flows seeking investment in U.S. real estate markets. The second scenario assumes the adjustments described above do not occur and the U.S. continues to run large trade deficits and save little, while other nations continue to achieve high-level savings. Hence, the value of the U.S. dollar plunges so rapidly that many foreign holders of Treasury debt try to dump those holdings to avoid further capital losses. This produces an even more precipitous fall in the dollar and an international trading crisis. In response, the Federal Reserve raises U.S. interest rates rapidly to slow the sell-off of U.S. dollar holdings by foreigners. The resulting high-level interest rates choke off economic activity in the U.S. — especially in real estate — and cause a serious U.S. recession. Falling consumption and investment in the U.S. spread this recession until it is worldwide. It is in the best interests of the U.S. real estate industry, the U.S. economy and the world to adopt policies to maximize chances for the gradual scenario. Those policies in America include much smaller federal deficits, a gradual depreciation in the value of the dollar, and continued emphasis upon open international trade so that the U.S. can increase exports and reduce imports. Even so, it's still possible the U.S. economy might experience one or more slowdowns or mild recessions. Yet that outcome would be greatly preferable to a sudden drastic plunge in the value of the dollar followed by a worldwide recession. **(National Real Estate Investor/Anthony Downs)**

...

San Diego Buyer Picks Cherry Creek Place I Office Building

A San Diego real estate firm recently seized an opportunity to buy into the Denver market in hopes of capturing Class A office tenants at attractive lease rates. Janez Group purchased Cherry Creek Place I, a 196,097-square-foot office building at 3131 S. Vaughn Way in Aurora in an off-market deal for \$17.25 million. It will spend another \$500,000 upgrading the building, which, due to the relocation of a major tenant, was 70 percent occupied at the time of sale. "We like the city in general, in terms of a place that we think, going forward, people would like to live," said Janez Vice President of Acquisitions Ryan Gilbert. Gilbert said Denver looks to be heading toward a peak in job and employment growth over the next few years. "We think it's a good time to purchase there on the upswing," he said. **(Colorado Real Estate Journal)**

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	5.25	5.25	5.00
3 MONTH LIBOR	5.36	5.36	5.46
PRIME RATE	8.25	8.25	8.00
10 YEAR TREASURY	5.14	4.79	5.15
30 YEAR TREASURY	5.25	4.94	5.19

