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Homebuilders Shy From Buying Land

Homebuilders aren't buying as much land as they have in the past few years because of a soft market for new homes and a record supply of existing homes.

"Homebuilders have too much standing inventory," said Mike Kboudi, a senior vice president of Fuller Real Estate who specializes in land sales. Kboudi said building permits for projects will be up slightly from 2005, but more than a third will be for multifamily projects. Builders are focused on sites surrounding light-rail stations and on infill projects in central business districts and established neighborhoods. "Most people who want to buy a house are already in a house," Kboudi said. He was among the experts who spoke to about 275 real estate professionals gathered Tuesday in Lakewood for the National Association of Industrial and Office Properties midyear real estate forecast:

Retail

Retailers either have to compete on price or provide a unique shopping experience, said Jon Weisiger, vice president of Trammell Crow Co. Lifestyle centers are replacing regional malls, and even big-box retailers are starting to provide the lifestyle concept. "Belmar paved the way for mixed-use projects," Weisiger said of the Lakewood center.

Those that are following include Landmark in Greenwood Village, the Orchards in Westminster, Bellevue Station and the redevelopment of the former Gates Rubber site.

Office

Decreasing vacancy and solid rental-rate increases are creating an environment that favors speculative development, said Nick Pavlakovich, an office broker with Cushman Wakefield of Colorado. There are just three available 100,000-square-foot blocks of office space, but all are in buildings constructed before 1964. "As construction costs continue to rise, it allows existing landlords to increase rental rates," Pavlakovich said.

Industrial

With 11 million square feet of space leased or sold during the first half of the year, Denver's industrial market is as strong as it has ever been, said Jim Bolt, an industrial broker with CB Richard Ellis' Denver office. Tenants are searching for a total of about 3.5 million square feet of space. Eighteen tenants are looking for about 80,000 square feet each.

Investment

With an average price of about \$141 a square foot, Denver's investment properties continue to attract a variety of investors from around the world, said Tim Richey and Mike Winn of Cushman & Wakefield. "They like the price per pound," Richey said.

(Denver Post)

Commercial Real Estate Maintains Its Strength

With America's housing market clearly cooling, will commercial real estate start to swoon? Hardly. The national office market, which cratered after the tech bust in 2000, has recovered and is the strongest it has been in five years. The shopping-mall market has stayed strong because consumer spending held up better than expected. And hotels had their most profitable year ever in 2005, partly because of strong business travel. In fact, the commercial markets benefited from the former froth in the residential-property market because the boom in residential construction limited the amount of land that could be used for other purposes. In some markets, the conversion of apartments, hotels and, to a lesser extent, office buildings, into condominiums reduced the risk of oversupply -- one of the biggest hazards in commercial real estate and one that contributed to the sector's crash in the late 1980s. Despite the widely varying types of commercial properties -- and the fact they are partly driven by different factors -- it isn't uncommon for people to assume if houses aren't selling, commercial markets must be at risk, too. So common that the faulty assumption itself could be self-fulfilling, says Robert White Jr., president of Real Capital Analytics, a New York-based real-estate information firm. "I so worry...that if they get burned on their condo in Miami, they are going to stay away from any other commercial real-estate investments for the next decade. Those markets are completely different." Home-ownership trends are tied directly to income and interest rates, says Glenn Mueller, an investment strategist for Dividend Capital Group, a Denver-based real-estate investment-management firm. And home buying was made unusually affordable in the past few years by low interest rates and the popularity of mortgage-financing options such as interest-only loans. This led to high demand, much speculation and lots of new building. But as interest rates began to rise, it became more difficult for people to afford or even to qualify for loans. That has produced a glut of homes and condos in some markets. Of course, interest rates affect commercial mortgages as well. Cheap debt has been one reason why there have been so many bidders on the commercial buildings sold over the past few years, pushing prices to record levels and yields to unprecedented lows. Unlike the residential market, in which investors are most often private individuals, commercial investors are more diverse and not nearly as tied to mortgage rates. Dr. Mueller also points out that some of these investors include institutional buyers such as pension funds that pay cash instead of borrowing money. There's also still strong demand for commercial real estate, particularly among foreign investors. "We just don't see any slowing of investor interest, particularly in retail and hotels," says Deborah Jackson, executive managing director of New York-based Weiser Realty Advisors LLC. In addition to condo conversions helping to reduce the supply of office space outright, residential construction has contributed to the high cost of land and materials in many U.S. markets. In many cases, because of high construction costs, it was cheaper to buy an office building -- even at high prices -- than to build a new one. Without much new speculative development, vacancy rates have dropped in almost every major market and landlords have been able to get more for rents. In Miami, for example, residential units in the central business district increased 55% since 2000, while the office increase was 9.5%, according to Jones Lang LaSalle, a real-estate services firm. Even if developers contemplated a new office building, the construction companies were likely tied up with residential jobs until recently, says Jubeen Vaghefi, a Miami-based managing director for Jones Lang LaSalle. All the while, the South Florida economy has been steadily improving. Those forces combined to boost the office market there. To be sure, the office recovery is uneven. Longtime struggling office markets such as Dallas, while improving, still

have high vacancy rates from previous overbuilding, as do areas such as Cleveland and Detroit, where job growth has been limited. Real estate also remains a cyclical industry, and it is early in the office sector's recovery. Investors who paid sky-high prices for commercial buildings, especially those who financed using floating-rate debt or interest-only loans in the early years, are dependent on their optimistic growth projections to deliver. Yet, with generally improving fundamentals such as reduced vacancy and higher rents and few worries about overbuilding in most markets, the office sector should continue to improve in the near term, if job growth doesn't take a dive. "We're still in that race between increasing interest rates and increasing fundamentals," Stephen Blank, senior resident fellow of finance with the Urban Land Institute, says of the commercial market. "It appears to me that we are going to skate through this." **(Wall Street Journal)**

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State's Moderate Growth Viewed as 'Sustainable'

Inflation, energy costs and labor shortages are slowing the economies of Colorado, Utah and Wyoming, but Colorado's is growing at a moderate level, a business survey said. The Business Condition Index for the three-state region, released Monday, declined slightly to 65.4 in June. It was 65.8 in May and 67.6 in April. Colorado's index rose to 64.1, from 63.5 in May, but it was below April's 68. "The slow growth is good because it helps reduce the rate of inflation," said Fred Crowley, senior economist with the Southern Colorado Economic Forum. "Earlier in the year, the numbers were high, in the 70s and 80s, which is not sustainable," Crowley said. "One thing the Federal Reserve is trying to do is get more sustainable growth." Although growth has slowed compared with earlier this year, the numbers are still above 50, which indicates positive expectations for the next three to six months." Ernie Goss, the report's author and an economics professor at Creighton University in Omaha, said rising energy prices and 17 Federal Reserve rate increases are part of the reason for the slowdown. "While I do expect the region to continue to expand for 2006, it is clear that second-half growth will be somewhat less than was experienced the first six months," Goss said. An index greater than 50 indicates the economy is likely to expand the next three to six months. **(Rocky Mountain News)**

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Denver Market for Commercial Real Estate Hot

Last year, when investors paid \$3.2 billion for commercial real estate in the Denver area, investment broker Patrick Devereaux and other experts thought that record would stand for many years. "We were wrong," said Devereaux, a senior director at Cushman & Wakefield. "We are absolutely certain to set a record in total dollar volume this year." Devereaux already has tracked \$2.3 billion in sales of office, retail and industrial properties in the first half of the year. Brad Neiman, senior vice president of North Star Commercial Partners, released a similar report last month. "There are a lot of big transactions expected to happen in the second half of the year in Denver. It is not unlikely that we will hit \$4 billion in transactions this year," said Devereaux, who was joined Thursday at a midyear update and forecast by C&W

brokers Jim Wonhof and Mitch Zatz, who discussed the improving office and industrial markets. Deveraux described the appetite by investors for first-class Denver -real estate, especially offices, as "very frothy." Investors, especially those from California, who recently have been accounting for 70 percent of the bidders, are willing to pay record prices for Denver office and retail buildings because they look cheap compared with buildings on the East and West coasts, he said. Other investors have come from Texas, New York, New Jersey, Australia and even one from Norway, who bought a downtown building and has two more under contract, Deveraux said. One reason Denver is attractive is because it is just beginning its economic recovery, while other parts of the country are in the later stage of their recoveries, he said. "Denver has definitely established itself as one of the most preferred markets within the nation," Devereaux said. "That's because the economic conditions here in Denver are outpacing the nation in terms of job growth, population growth, and it has lower unemployment." Asked if investors are concerned that real estate foreclosures in Colorado are leading the nation and heading toward record territory, Deveraux said: "We hear about that some, but not as much as you would think. It may sound crazy, but a lot of investors are dealing with OPM - other people's money." But people who are investing their own money are seeing foreclosures as an opportunity, he said. He said the question he increasingly is getting from "really smart guys who are investing for their own accounts is, 'Hey, are you buying houses?' It sounds like a good time to buy houses, sit on them for a while, let the job growth kick in, and make some money." **(Rocky Mountain News)**

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Available Class A Office Space Shrinking Downtown

Class A office space in downtown Denver is getting harder to find, according to two new reports analyzing the real estate market. Grubb & Ellis Co. said vacancy rates for Class A space fell to 12 percent in the second quarter, the seventh consecutive quarter of decline. The vacancy rate for all downtown office space stood at 13.8 percent at the close of the second quarter, according to Grubb & Ellis estimates. The central business district has 21 million square feet of office space, with the asking rent of \$21.08 a square foot. For Class A space, the asking rent is \$24.25 a square foot. Grubb & Ellis predicted that during the next six months, the vacancy rate will continue to fall and rents will continue to rise. The low vacancy rate is close to the 10 percent figure typically required for construction of new office space to begin. Grubb & Ellis said several speculative office buildings are in the planning stages, but rising construction costs would require lease rates of about \$30 a square foot. That likely would delay the start of any construction. Grubb & Ellis put the vacancy rate for all Denver-area office space at 15.8 percent, and the average asking rent at \$19.47 a square foot. Research by CB Richard Ellis Inc., meanwhile, put the vacancy rate at 14.8 percent and the average rent at \$17.33 a square foot. The vacancy for downtown office space was at 11.7 percent, while the average asking rent was \$20.31 a square foot. Office rents were the highest downtown, CB Richard Ellis found, with the second-highest in Cherry Creek, at \$20.25 a square foot. Downtown Denver is the second-largest office market in the area, with 22 percent of the space. Southeast Denver, home to the Denver Tech Center office park, is the largest at 31.9 million square feet, or 31 percent of the office market. **(Denver Business Journal)**

United Says No to Denver, Yes to Chicago

United Airlines won't be relocating its headquarters to Denver after all. The airline had been considering Denver or San Francisco as a possible headquarters city, but on Saturday decided to stay a little closer to home. The Elk Grove, Ill.-based airline (NASDAQ: UUA) announced it open a new HQ in downtown Chicago early next year. The company will move about 350 management employees. The city of Chicago is giving United \$5.25 million in tax increment financing and the state is pitching in another \$1.35 million. Both the city and state also are proposing legislation to cap the tax on jet fuel for the next five years. United is the largest airline serving Denver International Airport. "Today United strengthens our long relationship with our hometown, the city of Chicago, and with the state of Illinois," Glenn Tilton, United's president and CEO, said in a news release. "This move enables us to reduce our costs and drive efficiencies by consolidating facilities and bringing those who support the day-to-day operations together in one location, and it puts United's headquarters in the heart of the city's vibrant business district." The airline's new HQ will be at 77 W. Wacker Dr. **(Denver Business Journal)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	5.25	5.00	3.25
3 MONTH LIBOR	5.50	5.34	3.61
PRIME RATE	8.25	8.00	6.25
10 YEAR TREASURY	5.10	4.99	4.14
30 YEAR TREASURY	5.14	5.03	4.38