

July 2, 2007

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### **Buildings Selling Like Hot Cakes in Denver**

Investors are snapping up retail and industrial buildings in the Denver area at a record pace. In the first six months of the year, investors paid \$2.5 billion for commercial properties, which will likely break last year's record of \$5 billion by year's end. It's possible that sales volume could hit \$6 billion this year, said Brad Neiman of Northstar Commercial Partners, who released the report with Dan Grooters of Grubb & Ellis. "The question is, 'How high is up?' " Neiman said. "We have just shattered all of the previous records and boundaries." This year's tally is 23.6 percent higher than the previous record of \$2.04 billion in sales in the first half of 2006. The biggest deal in Denver's history occurred earlier this year, when Chicago-based Callahan Capital Partners paid \$770 million to the Blackstone Group for the former Equity Office Properties' downtown portfolio. "That was basically three times the size of the next biggest deal," Neiman said. That transaction was handled by the CB Richard Ellis Real Estate team of Mary Sullivan, Tim Swan and Ron Urgitus. The team also sold the Janus building in Cherry Creek for \$65 million, which set a record price per square foot of almost \$400, Neiman pointed out. The second largest deal took place this month when LBA Realty paid about \$200 million for the two-building Denver Place office center. Mike Winn, who handled that transaction with fellow Cushman & Wakefield broker Tim Richey, said there were a number of serious bidders competing against LBA. LBA liked Denver Place for its location, quality and energy efficiency, Winn said. They also liked the fact that the city's first Ritz-Carlton is being built across the street. "They saw that as a very positive factor, with the way office lease rates and demand for space are rising downtown," Winn said. Investors are "willing to pay today for future rent growth," Neiman said. "It has led to prices that are just stunning." Neiman said investment interest is occurring not only in Denver, but also across the country. "The real estate market used to be countercyclical to the stock market because it was considered an alternative investment," Neiman said. "Now, the stock market is reaching virtual highs, and so is real estate. "What has happened is that real estate prices have been driven up so much in first-tier cities on either coast that investors are increasingly looking to Denver as a less expensive alternative." **(Rocky Mountain News)**

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### **Denver Place Towers Sold to California Firm for \$200 Million**

A California-based investment group has paid \$200 million for Denver Place, one of the most energy-efficient office complexes in downtown. LBA Realty paid about \$240 a square foot for Denver Place, which includes 34-story and 23-story office towers on a full city block at 18th and Champa streets. The two towers have a total 829,625 square feet of office space. The replacement cost is estimated at higher than \$350 a square foot. Amerimar Realty Management sold the property. Earlier in the year, Amerimar sold the 31-story, 555,000-square-foot Plaza Tower, across Curtis Street, for \$161.25 million. The Embassy Suites hotel in that building is being turned into the first Ritz-Carlton in Denver. Denver Place was built in 1981. In 2004, Amerimar completed a \$1.3 million energy-efficiency overhaul, for which Public Service Co. of Colorado contributed \$550,000. It was the first building complex in

the state to receive a "Gold Leadership in Energy and Environmental Design - Existing Building" rating from the nonprofit U.S. Green Building Council. Denver Place is saving enough power to cool and heat 3,000 homes annually. It is also saving 4 million gallons of water each year. And five tons of electronics from tenants were recycled last year, according to the Building Owners and Managers Association, which earlier this year named it one of six buildings nationally that demonstrate "what's good for the environment can also be good for business." The building was sold by Mike Winn and Tim Richey of Cushman & Wakefield. LBA owns a number of other buildings in the Denver area, including the former Oracle campus in the Denver Tech Center. **(Rocky Mountain News)**

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### **Fed Holds Line on Rate**

The Federal Reserve held interest rates steady Thursday, extending a yearlong breather for borrowers. Although policymakers observed improvements on inflation, they made clear they were not ready to declare victory on that front. Wrapping up a two-day meeting, Fed Chairman Ben Bernanke and his central bank colleagues left an important interest rate at 5.25 percent, the same as it was last June. The Fed's decision means that commercial banks' prime interest rates - for certain credit cards, home-equity lines of credit and other loans - should stay at 8.25 percent. Before the Fed's interest-rate pause, borrowers had endured two years of rate increases. The current period of level rates can help them regain their footing by paying down or consolidating debt. Looking at economic conditions, Fed officials said readings on "core" inflation, which excludes energy and food prices, have gotten "modestly" better in recent months. In noting this improvement, they abandoned language in previous statements that described underlying inflation as "somewhat elevated." Even so, Fed policymakers continued to identify the "predominate" risk to the economy as inflation's failure to moderate as they now anticipate. "The Federal Reserve remains on inflation watch," said Lynn Reaser, chief economist at Bank of America's Investment Strategies Group. **(Rocky Mountain News)**

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### **Growth Spurs Push in Industrial Real Estate Market**

At 2007's midpoint, metro Denver's industrial real estate market continues to gain momentum, while the retail market faces some challenges. The Denver area's industrial market includes warehouses/distribution centers and flex space, which is a combination of warehouse and office space. Most of the new industrial construction is located along Interstate 70, particularly between Interstate 225 and the E-470 tollway. Metro-area job and population growth, as well as growing companies such as Boulder-area shoe manufacturer Crocs Inc. (NASDAQ: CROX) and Furniture Row Cos., are propelling the industrial real estate market, according to a commercial real estate market report by Cushman & Wakefield of Colorado Inc. The report was released on Thursday. The industrial market is seeing strong absorption of space, rising rents and construction of new space to meet increasing demand. Warehouse/distribution space had a 4.7 percent vacancy rate at midyear, and was getting average rent of \$4.96 per square foot. C&W industrial broker Kirk Vanino

expects vacancy rates, but also rents, to go up in the next few years, as new space becomes available. Vanino thinks such space will have a 5.6 percent vacancy rate in 2008, with average rent of \$5.48 per square foot, and a 5.9 percent vacancy rate in 2009, with average rent of \$5.69 a square foot. "We're also seeing warehouse/distribution buildings merging with manufacturing buildings to form a new product," Vanino said. "That gives owners more flexibility, and an exit strategy." Flex space, which commands higher rents because of its office component, had a 10 percent vacancy rate and average rent of \$8.32 at midyear, according to C&W. Vacancies should continue going down the next two years -- to 9.6 percent in '08 and 8.8 percent in '09. Rents should continue to climb -- to \$8.65 per square foot next year, and \$8.96 a foot in '09. Industrial developers such as ProLogis (NYSE: PLD), Etkin Johnson Group, Majestic Realty Co. and Panattoni Development Co. are busy, even building speculative structures with no previously secured occupants. Panattoni plans to start construction soon on a 100,000-square-foot flex building. While strong metro-area retail sales are driving new construction of shopping centers, that development is slowing, according to the C&W report. Higher construction costs have been a big contributor to the slowdown, and the metro area's residential slump also has had a dampening effect. Only retail projects that can command the highest rents -- \$32 to \$45 per square foot -- get built, according to Scott Crosbie, CEO and president of Denver's Crosbie Real Estate Group. Crosbie now is affiliated with Cushman & Wakefield of Colorado. Urban, infill developments also are relatively strong, as are retail centers anchored by hospitals such as St. Anthony's Hospitals. "Marginal sites are not going forward," Crosbie said. For the first quarter, retail rents averaged a little more than \$16 per square foot, down from roughly \$16.60 a foot at the end of 2006. But first-quarter rents improved from \$15.20 at the beginning of 2006. A ripple effect of more expensive retail space is that independent, often local, mom-and-pop stores continue to be pushed out of shopping centers by wealthier national tenants such as Starbucks. Higher property taxes also hurt smaller retailers. The stores that fare the best are those that can do a high volume of business, moving customers in and out quickly, according to Crosbie. "The national tenants go into new retail space," Crosbie said. "The mom-and-pops go to Broadway. Only the strong survive." **(Denver Business Journal)**

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### **C&W: Downtown Drives Thriving Commercial Market**

Metro Denver's office market, particularly the downtown submarket, continues to be the juggernaut of the local commercial real estate industry at 2007's midpoint. The central business district (CBD) is still the epicenter of office leasing, property sales and new construction, according to a midyear report released Thursday by Cushman & Wakefield of Colorado Inc. Cushman & Wakefield is one of metro Denver's largest commercial real estate brokerage firms. "Metro-area rents are at six-year highs. ... In the CBD, the \$30 threshold has been hit in Class A buildings," said Jeanine Murphy, C&W associate director and office broker specializing in tenant representation. Some building owners now are even asking \$40 a square foot. High points of the local office market from the C&W report include: Metrowide rents hit \$19.68 per square foot per year on average at midyear, up from \$18.70 at the end of 2006. Downtown Denver rents averaged \$25. Even with a higher vacancy rate than downtown, southeast suburban office buildings command \$20.14 rents on

average. Downtown Denver and the southeast suburbs are metro Denver's top office submarkets. Downtown includes the area's tallest and some of its largest office buildings, and the southern suburbs are home to some of the area's largest office parks -- the Denver Tech Center, Inverness and Meridian. Though rising rents bode well for the office market, those increases partly are based on a "falseness of demand," according to the C&W report. New owners are pushing up rents to make their acquisitions pay off. Metro Denver's overall office vacancy rate currently is 13.6 percent, according to C&W. The downtown Denver submarket's vacancy rate was 8.9 percent, while the southeastern suburbs' was 13.9 percent. Top, Class A downtown office boasts an even tighter 7 percent vacancy rate, and large blocks of space are getting scarcer. Seven of the 10 largest metro-area office lease deals so far this year were downtown, and four of the businesses taking that space were energy or professional services companies, according to C&W. Anadarko Petroleum, for example, leased 222,000 square feet of space at Granite Tower, and EnCana Oil & Gas took 71,000 square feet at Republic Plaza. The filling of A office space is prompting rents in Class B office buildings to rise, as tenants who can't find -- or afford -- A space turn to B space. "Class A tenants are having sticker shock," Murphy said. "Because of that we're seeing more activity in Class B space, a shift to value." When it comes to building new office space, transit-oriented development (TOD) is king these days. Much existing and planned downtown new construction is in Lower Downtown and the Central Platte Valley, near Union Station. The station itself is being developed in the next several years into the Denver area's multimodal transportation hub. In the southeastern suburbs, several commercial/residential TOD developments have been proposed, but only two actually are coming out of the ground. Those projects are the John Madden Co.'s Palazzo Verde, with 275,000 square feet of office space, near Plaza Tower One in Greenwood Village, and Westfield Development Co.'s 35-acre Lincoln Station project, with 2 million square feet of office space, just south of Park Meadows mall. The continued availability of capital and strong interest in Denver from investors on the East and West coasts, especially, should keep office investment strong this year, according to Patrick Devereaux, C&W senior director and investment broker. But the volume of office, and other types of commercial real estate sales, should drop a little this year before rebounding in 2008. "Transaction volume will be down slightly in 2007 because so many properties have already traded," Devereaux said. The broker expects a total of 246 commercial real estate deals valued at \$4.6 billion for all of '07, down from 283 deals worth \$5.2 billion last year. The number of office building sales alone should drop to roughly 98 for this year, from 140 in '06. The office market kicked off this year with a bang -- and metro Denver's biggest commercial real estate deal ever. In March, Callahan Capital Partners LLC's purchased a five-building portfolio of downtown buildings from The Blackstone Group LP for \$770 million. Though office investors will have less local product to choose from the rest of the year, Devereaux still expects them to continue shopping. "Denver is a first-tier market now when it comes to office investment," he said. "There's no guessing about upside potential." One reason metro Denver continues to be attractive to office investors is its office buildings sell for bargain prices. Local office buildings now sell for roughly \$180 per square foot on average -- compared to \$680 in Manhattan, \$488 in Washington, D.C., \$356 in San Francisco and \$299 in Boston. Investors also will continue to like local office buildings the next few years because the metro area office market is at the beginning of a major upswing. "It can only go up," Devereaux said. **(Denver Business Journal)**

	<b>CURRENT</b>	<b>1 MONTH PRIOR</b>	<b>1 YEAR PRIOR</b>
<b>FED FUNDS RATE</b>	5.25	5.25	5.25
<b>3 MONTH LIBOR</b>	5.36	5.36	5.51
<b>PRIME RATE</b>	8.25	8.25	8.25
<b>10 YEAR TREASURY</b>	5.03	4.84	5.21
<b>30 YEAR TREASURY</b>	5.12	4.99	5.24

