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Fed Takes a Pause and Leaves Rates Unchanged

For the first time in two years, the Federal Reserve left its benchmark interest rates untouched at a policy-setting meeting today, noting that the economy is slowing down. The decision, though widely expected, briefly caused stock and bond to gyrate, with major indexes like the Dow Jones industrial average shooting up, then down, then up and down again in a matter of minutes. At the close, stocks were moderately lower. Bond prices ended the day with little change. Saying that its run of 17 straight rate increases since June 2004 was having the desired effect, the Fed left its closely watched federal funds target rate unchanged at 5.25 percent. That rate directly determines the cost of overnight loans within the banking system and indirectly influences other loan rates. The Fed also appeared less concerned about inflation than it has been in recent months. In a statement explaining the decision to pause, the Fed described the potential threat from rising prices in muted terms. "Inflation pressures seem likely to moderate over time," the Fed said, "reflecting contained inflation expectations and the cumulative effects of monetary policy actions and other factors restraining aggregate demand." The rate decision was the first in almost a year that was not unanimous. One member of the Fed's policy committee voted against leaving rates unchanged. While the Fed made no move today, it is far from certain whether it is entirely done raising interest rates. "We are in the middle of a strong series of inflation numbers," Ethan Harris, chief United States economist with Lehman Brothers. "You don't want to hike forever. But we've had four strong readings on core inflation in a row. In a world of low inflation numbers, these are unusual numbers. They stand out." The Fed is trying to engineer a "soft landing" from the rapid pace of economic growth in the first part of the year. Its aim is to set short-term interest rates that slow inflation without provoking a recession. Speculation about whether the Fed can achieve its aim has created a volatile atmosphere on Wall Street. Ben S. Bernanke, who became chairman of the Federal Reserve in February, has said that monetary policy decisions would be driven by economic data like the inflation rate and employment statistics. But those figures have been sending conflicting signals lately about the state of the economy, leaving investors and economists guessing about the central bank's next move. Over the past two months, the numbers have clearly shown a downshifting of economic growth, but inflation has shown few signs of slowing. So the markets have been jumping or sliding with each new report, depending on whether the numbers seemed to add to the case for another rate increase or for a pause. Investors and economists have come to view the Fed's interest rate decisions as so crucial to the economy's course that they have parsed every word from Fed officials for hints about what it will do. In late April, Mr. Bernanke rattled stock and bond markets with statements that were widely interpreted as being soft on inflation. Then, last month, when the Fed hinted it might be nearing the end of two years of steady rate increases, stocks rallied for their biggest one-day gain in three years. In today's statement, the Fed's policy-setting Open Market Committee appeared more assured than in the past that inflation was being contained. Still, it acknowledged that "some inflation risks remain" and left the door open for a resumption of rate increases if inflation picks up. It also noted "a gradual cooling of the housing market and the lagged effects of increases in interest rates and energy prices" as factors in a slowing of growth. Few economists would dispute that the economy is decelerating; the question is how much. In the first three months of the year, gross domestic product

grew at a rapid 5.6 percent clip, but in the second quarter, the reading was 2.5 percent. At the same time, the job market is showing signs of weakness. Last week, Labor Department figures showed that more Americans were looking for work in July than in June, while the number of jobs added by American employers outside the farming sector slipped to 113,000 on a seasonally adjusted basis — not enough to keep pace with the natural growth of the population. John Lonski, chief economist with Moody's Investor Service, is one of a growing number of economists who say that many factors are converging to increase the risk of a recession. "The precarious condition of housing, the fact that recent Fed rate hikes have not been fully felt by the economy, and the possibility of even higher energy prices — this could add up to a situation which slows U.S. growth beyond what is currently anticipated," he said. The Fed appears less concerned about a recession. In its statement today, it described economic growth as moderating, not stalling or slumping. **(New York Times)**

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Higher Office Lease Rates Predicted

The best office buildings in downtown Denver could command record lease rates of \$40 a square foot as early as the first quarter of next year, a top commercial real estate broker is predicting. The downtown market is being driven by expanding energy companies, internal growth of existing tenants, minimal construction and new owners of buildings who need to drive rates up to justify their recent purchase prices, said broker David Morrison, a first vice president at CB Richard Ellis. Hitting \$40 represents about a 31 percent increase from the current average lease rate of \$30.57 per square foot for the best, or AA buildings, according to CBRE research. The high-end office market peaked in early 2001 at about \$33 per square foot, according to CBRE. Sam DePizzol, a managing broker at CBRE, is the most bullish on rising rates. DePizzol only represents tenants, so this trend is not good news for his clients. But after years of tenants receiving low rates, generous improvement packages and even free rent, it is now landlords who are in the catbird seat, DePizzol said. This could mean sticker shock for tenants accustomed to some of the lowest office lease rates in the nation. "Lease rates have just been rocketing downtown," DePizzol said. "Rates are already up 15 percent to 20 percent since the first of the year. And I think they could be up another 20 percent from now until the end of the year." Blue-chip buildings such as Republic Plaza, Tabor Center, 1225 17th St. and Wells Fargo Center will benefit the most and are the ones poised to hit \$40 per square foot in the first quarter of 2007, he said. But even landlords in other buildings are telling prospective tenants "to take it or leave it," DePizzol said. He said landlords are willing to let office space sit vacant for several months, betting they will get a higher rate down the road, rather than lock in a lower price today. Morrison, who was a longtime executive at Brookfield Properties, which owns the 56-story Republic Plaza, isn't convinced that rates will touch \$40 early next year, although he said they are clearly on their way up. "We predict a spike in rent for downtown for the next three years," said Morrison, who expects AA buildings to hit \$40 rents in 2010. Morrison, who represents both tenants and landlords, said that growing energy firms and "organic growth" from existing companies are responsible for the improving downtown market. "And we have about a half-dozen new owners of buildings downtown" who are under pressure to raise rates to justify the record

amounts paid for them, he said. But rates are rising fast enough that about a half-dozen new office buildings are on the drawing board, which would add about 700,000 square feet of new AA space to the market, he said. He said rates aren't quite high enough to justify new construction, but they are getting close. Barry Dorfman, who heads Staubach Co. in Denver, a firm that only represents tenants, said that in the past, it seemed as if downtown rates were going through the roof, but something always happened to derail the growth. "Rates are probably going to continue to go up, and maybe they will hit \$40," Dorfman said. "But what if Qwest gets sold? What if oil and gas prices drop because of supply and demand? Or what if energy prices keep going up, and the trickle-down effect is that it costs so much more to operate a building and ship goods that companies take less space and stop expanding? Nothing goes up forever. The real estate market is very cyclical." Real estate veteran Doug Jones said low office rates are one of Denver's selling points, so if they spike too much, too fast, it could make it more difficult to attract companies downtown. **(Rocky Mountain News)**

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Jones Lang, Fuller to Market Sun Campus

Jones Lang LaSalle and Fuller Real Estate have been retained by Sun Microsystems to market its 1.7 million-square-foot, 430-acre Louisville campus, which formerly served as the headquarters of StorageTek. Sun acquired the property in 2005 when it purchased StorageTek. Michel Seifer of Jones Lang LaSalle will team with Steward Mosko of Fuller Real Estate in marketing the property. **(Rocky Mountain News)**

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Denver Releases Zoning Report; Public Meetings Next

The city of Denver has taken a major step toward simplifying its convoluted zoning code. The Zoning Code Update Diagnostic Report released Thursday outlines the problems and contradictions in the current 771-page zoning code. It's the result of nearly a year of study by city staff, the Zoning Code Task Force, a citizen's advisory board and Duncan Associates, a Texas-based consulting firm. Public meetings to discuss the findings of the report are scheduled next week. Following those meetings, the task force will determine priorities and a plan of action for rewriting the zoning code, most likely in a more visual format with less text. "Every city's complex, but our consultants, for example, have national experience and they say we're one of the more complex places," said Peter Park, manager of Community Planning and Development. Boom-and-bust economic cycles, along with rapid growth in recent decades, are in part to blame for the tangled web of regulations. "When you're in a boom everyone wants to be a part of it," Park said. The "solutions" created to deal with the rapid growth have led to bottlenecks in the development process, often hindering individual homeowners more severely than commercial developers. "More complexity doesn't mean higher quality," he said. The Diagnostic Report, 107 pages long and divided into three areas of inquiry, is the first tangible product of the evaluation process. "We're taking our show on the road," said Diane Barrett, co-chair of the Zoning Code Task Force. The public meetings will be held from 6:30-8:30 p.m. Tuesday, Aug. 15, at Johnson & Wales University, 7150

Montview Blvd.; 6:30-8:30 p.m. Wednesday, Aug. 16, at the Centura Senior Life Center, 1601 Lowell Blvd.; and 6:30-8:30 p.m. Thursday, Aug. 17, at the Police District 3 Substation, 1625 S. University Blvd. Although zoning reforms are already in process, Park expects the zoning code will be thoroughly revised within the next couple of years. He's no stranger to the process. Before coming to Denver in January 2004, Park led a three-year process to revise the zoning code for Milwaukee. Park said that ultimately, Denver's new zoning code will achieve several different ends, including enhanced design and integrity of mature neighborhoods, controlled growth along transit corridors and an easier permitting process for everyone regardless of project size. "[The Diagnostic Report] did exactly what we wanted it to do. It gives us a real look at where we're at," Park said. **(Denver Business Journal)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED FUNDS RATE	5.25	5.25	4.50
3 MONTH LIBOR	5.40	5.50	4.74
PRIME RATE	8.25	8.25	7.50
10 YEAR TREASURY	4.92	5.18	4.39
30 YEAR TREASURY	5.05	5.22	4.57