February 29, 2016

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Denver Rent Hikes Expected to be among 10 Highest in U.S. in 2016

Denver rent hikes won't be as high as they've risen in previous years, according to a new report. Denver rents are expected to go up only 4 percent in 2016, according to a new report from Seattle online real estate company Zillow. That compares with an 8.7 percent hike in rental costs in 2015, according to Zillow. The Bureau of Labor Statistics yesterday pegged the Denver area's rent 2015 rental cost rise at 7.2 percent. With a 4 percent rise, Denver's rent increase in 2016 will be the fifth-highest of 35 U.S. markets tracked by Zillow. Larger 2016 hikes are expected in San Jose, California (7.8 percent), Buffalo, N.Y. (7.4 percent), San Francisco (5.9 percent), and Seattle (4.5 percent). Nationally, rents are expected to rise by 1.1 percent. In Denver, the median monthly rental cost is expected to rise to $2,031 at the end of the year from a median rental price of $1,952 at the end of last year. "Hot markets are still going to be hot in 2016, but rents won't rise as quickly as they have been," said Svenja Gudell, Zillow chief economist, in a statement. **(Denver Business Journal)**

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Denver Apartment Rents Drop $2 a Month in January

Average apartment rents continued to soften in January, marking the fifth consecutive month that metro Denver has seen rents decrease, according to a survey from Axiometrics, a Dallas-based firm that monitors trends in apartments and student housing. The average effective apartment rent was $1,321 per month per unit in the Denver-Aurora-Lakewood area in January. That was down $2 from December's average and $43 below the peak reached in August. Measured across the year though, apartment rents in metro Denver were still $56 higher a month on average than in January 2015. Rents back then were rising at an 11.8 percent clip, but they were only rising at a 4.4 percent annual rate this past January, which was close to the U.S. average of 4.3 percent. Axiometrics estimates that the occupancy rate for apartments in metro Denver was 94.3 percent in January, down from 94.5 percent in December and 95.5 percent in January 2015. The company attributes the softening rental market to the new supply that is hitting the market. Axiometrics forecasts supply will outstrip demand at least through the first half of 2017. **(Denver Post)**

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Colorado's Third-Quarter Employment Numbers Revised Upward

Colorado's jobs gains during the third quarter of last year were stronger than previously projected, but the battered energy industry has put some negative pressure on sectors such as construction, the state's Department of Labor and Employment said Wednesday. A quarterly revision of payroll numbers shows that Colorado added 68,200 jobs from September 2014 to last September, representing a growth rate of 2.7 percent. That's also 30,300 more jobs added than previously thought. The Quarterly Census of Employment and Wages, one of the measures used by to track changes in employment, is based on payroll that businesses report to the U.S. Department of Labor. It's considered more comprehensive than the monthly Current Population Surveys, which are derived from monthly household surveys. When applying the revised quarterly data through December, Colorado could finish the year with a 2.4 percent growth rate, up 0.5 percentage points from projections in the monthly series. The sectors reporting upward revisions include professional and business services; trade, transportation and utilities; government; information; financial activities; and other services. However, estimates in the beleaguered energy sector — as well as construction, and leisure and hospitality — are expected to be revised downward. The mining and logging cluster — which includes mining, quarrying oil and gas, and support activities — is expected to have 5,500 fewer jobs than originally expected through September, a decline of 15.9 percent. Over the year, the sector shed 6,000 jobs. "These are very challenging times for (the) industry, and Colorado is being impacted," Colorado Oil & Gas Association CEO Dan Haley said in an e-mail. "Yes, the job market continues to tighten, but fortunately, the oil and gas industry has become more efficient and innovative, and many companies have hedged smartly. This has cushioned the blow in many respects." The count of rigs drilling new wells in Colorado is down by two-thirds from last year, COGA said. This week, 19 rigs were operational in Colorado, down from 47 in the same week of 2015 and 60 in 2014. "The big concern is that the rest of the economy would start faltering as a result of the low oil prices and the loss in jobs," said Alexandra Hall, chief economist and director of the Division of Labor Standards and Statistics. "It is really limited to the areas we expected to see." Those areas include construction, she said, which is experiencing a slowing of the pace of job growth. The revised payroll data show that at the end of September, the sector gained 3,200 jobs instead of 5,500. Denver metro's payroll estimates were revised upward by 19,100 jobs. The employment estimates in Colorado Springs, Fort Collins, and, likely, Boulder, are expected to be revised up as well. The revised data show energy-heavy Greeley anticipating a downward revision of 4,800 jobs. Lower figures also are expected in Grand Junction and Pueblo. **(Denver Post)**

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It's Finally Here: After More Than a Decade of Work, FASB Releases New Lease Accounting Standards

The Financial Accounting Standards Board (FASB) this morning released long-awaited changes to financial reporting standards that will require companies to capitalize their real estate and equipment leases -- a dramatic accounting shift that could potentially affect how commercial property leases are negotiated going forward. The changes, contained in a FASB Accounting Standards Update, affect all companies and other organizations that lease commercial property and the brokerage and other commercial real estate services professionals who represent them. The standard also covers any entity that leases large equipment and assets such as airplanes and manufacturing equipment. The FASB signaled that it would release the standards this month after its London-based international counterpart in the project, the International Accounting Standards Board (IASB), published its new rules in January. The two groups have worked jointly since 2006 to try to converge U.S. and international accounting standards in response to concerns from investors, analysts and financial regulators that current standards fails to clearly and transparently reflect lease obligations. "When the new FASB and IASB leases standards take effect, they'll provide investors across the globe with more transparent, comparable information about lease obligations held by companies and other organizations," FASB Chair Russell G. Golden said in a statement. The updated standards take effect for public companies for fiscal years and interim periods beginning after Dec. 15, 2018. For all other organizations, they take effect for fiscal years beginning after Dec. 15, 2019, and for interim periods within fiscal years beginning after Dec. 15, 2020. Organizations are permitted to voluntarily begin adhering to the new standards earlier. That might seem like a long time, however, annual reports published for 2019 will require the company to restate profits and losses on financial statements filled for 2017 and 2018 using the new accounting standards, said Jeff Beatty, senior managing director for CBRE's Financial Consulting Group. Thus, leases entered into going forward or in effective today will most likely have an impact on financial reporting once the standard goes into effect, Beatty added. "It will present itself more quickly than it seems. Leases aren't grandfathered into the standard, so any effective leases will have to be capitalized," Beatty said. Companies, lulled by the many false starts and stops of the accounting rule change process, will need to begin preparing immediately, he said. "Most companies are aware of the changes, but I don't think companies for the most part have been preparing," Beatty said. "The best example of their view is the boy who cried too many times, over five to 10 years. "It may be on the edge of their radar screen, but today, it moves front and center as companies understand it's real and going to happen," Beatty said. IASB and FASB officials said the new requirements will end the guesswork involved when calculating a company's often-substantial lease obligations by bringing much-needed transparency on lease assets and liabilities, bringing off-balance sheet lease financing out the shadows. The new guidance "ends what the U.S. Securities and Exchange Commission and other stakeholders have identified as one of the largest forms of off-balance-sheet accounting, while requiring more disclosures related to leasing transactions," Golden noted. "We've been speaking with many organizations that have been waiting for the standard to be released before they were going going to do anything. That time is here," said Jim Dooley, senior vice president of sales and marketing for CoStar Real Estate Manager, which provides software and services for corporate and retail real estate management. "The problem is that the flood gates have opened, but the limited resources to help address the issue remain the same, and the deadline is defined," Dooley said. "But don't be fooled by the deadline, since the new standard will require restatement of financial statements for several prior years." Further, organizations will be undergoing scrupulous audits involving the accounting change, requiring audit trails "to support what it was, what it is, and what it will be going forward," he said. Dooley's advice is simple: get started now. "There's a lot to this standard with significant impact to the financial statements that the top executives of each organization will have to sign off on," he said. "Waiting any longer is just not a viable option anymore. There is pent up demand and we are well positioned to meet it." **(CoStar)**

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Foreign Investment in Denver Commercial Real Estate Totaled More than $980.5 Million in 2015

The record-setting sale of the CoBank Center office building in Greenwood Village to a South Korean investor in December capped a big year for foreign investment into metro Denver's commercial real estate market. Offshore investors pumped more than $980.5 million into the Denver market in 2015, buying office buildings, multifamily apartment complexes, industrial warehouses and retail storefronts throughout the metro area, according to data from Real Capital Analytics, a New York-based research firm. That's roughly 9 percent of all 2015 commercial real estate investment in Denver. The statistic considers only transactions of $2.5 million or greater. The total goes even higher — $1.6 billion — if you factor in deals that include foreign buyers as part of joint ventures, the structure of which are not always a matter of public record. All told, the amount of foreign-based investment capital coming into Denver more than doubled between 2014 and 2015, mirroring a similar trend on the national level. "Foreign investment in San Francisco and New York and Boston and markets like that, coastal prime markets, is nothing new," said Geoff Baukol, executive vice president with CBRE Capital Markets in Denver. "What's new is the proliferation of interest from foreign capital into noncoastal, nonprimary markets. Denver is one of the first ones on that list after the coastal markets." CBRE featured Real Capital Analytics' investment data in its 2016 Denver Real Estate Market Outlook, released this month. "Three years ago, I would have struggled to tell you any examples of buildings that had foreign capital," said Baukol, who worked on the CoBank Center deal. "Now, I can probably tell you 15." Among Denver's biggest spenders in 2015 were entities from Singapore, Canada, Switzerland, Chile, China and Germany, according to Real Capital Analytics. Money came from sovereign wealth funds; real estate investment trusts; institutional investors, including insurance companies and pension funds; and private developers. Nationwide, foreign investors are being drawn to the relative strength and stability of the U.S. market compared with the rest of the world, Real Capital Analytics senior vice president Jim Costello said. "The U.S. acts as a safe harbor in troubled times," he said. "One of the other issues is if you look at the yield curve, it's so flat and so low. For people with requirements for fixed-income alternatives, real estate is throwing off a higher yield." Over the past year, the appetite for U.S. real estate has grown beyond the property types that foreign investors typically gravitate toward, Costello said. "If you look at classic foreign investment in U.S. real estate, they're typically in the past buying flashy central business district office buildings in the major gateway markets where they've been on vacation — a Manhattan office tower, a hotel property in Miami, something in San Francisco, the kinds of buildings you take a nice picture of and put on the glossy cover of the annual report to your investors," Costello said. In 2015, offshore investors discovered the industrial segment and spread their money beyond the gateway markets, he said. In Denver, where the industrial market finished 2015 with record-breaking lease rates and its 23rd consecutive quarter of positive leasing activity, cross-border investors represented the largest category of buyers of industrial property in 2015, according to Real Capital Analytics. "Clearly, some of the industrial buildings are not as pretty, but what they've discovered is the yield they throw off is really sexy," Costello said. "In terms of the income you receive compared to the price you pay, it's one of the most stable property types in the U.S." Whether it's office or industrial, Denver offers foreign and domestic buyers the positive demographics and strong fundamentals they're looking for, but with "comparatively less aggressive pricing" than the coastal markets, Baukol said. "If you go to San Francisco and want to buy a core asset or go to Manhattan and want to buy a core asset, there's very limited availability or you're getting priced out," he said. "The pricing in those markets is going to be substantially higher and the yields lower than a market like Denver." Denver's suburban markets also have been attractive to foreign investors, a trend that should continue into this year, said David Tilton, executive managing director for NGKF Capital Markets in Denver. "We're not a single submarket city. We don't have one area of the city where people want to invest. They want to invest in as many as four," he said. "Denver is one of the few cities that has a substantial suburban market that's bigger than our downtown." Two of the biggest foreign transactions of the past six months occurred in the southeast suburbs. In Greenwood Village, the CoBank Center, an 11-story LEED silver-certified office tower that's home to the agricultural cooperative bank's headquarters, sold to a Korean institutional investor for $414 per square foot — a high-water mark for suburban office pricing, according to CBRE. It also was the first Asian-based capital investment into Colorado's office market. A few miles down Interstate 25, the six-building Panorama Corporate Center was sold in January, snapped up by Denver-based EverWest Real Estate Partners and a Chilean investor, Independencia Asset Management. Home to United Launch Alliance and Comcast, the office park sold for a reported $189.1 million, or roughly $243 per square foot. Denver as a whole ranked No. 21 out of the top 30 global markets in total 2015 commercial real estate sales volume, according to Real Capital Analytics. Often, foreign money will come into the market quietly, with the investors working through advisers such as Invesco, Tilton said. "In the 1980s, foreign investment in the Denver area was limited to the Canadians and the English. That was pretty much it," Tilton said. "As our market has matured, as our city has matured, as we've grown both in population and square footage, number of buildings, we've really knocked it out of the park." **(Denver Post)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED TARGET RATE	.50	.50	.25
3 MONTH LIBOR	.63	.62	.26
PRIME RATE	3.50	3.50	3.25
10 YEAR TREASURY	1.76	2.00	2.01
30 YEAR TREASURY	2.63	2.80	2.61