January 18, 2016

CoBank Building Bought by Korean Company for $113 Million

An 11-story building that houses CoBank in Greenwood Village has been sold to a Korean investor for $113 million, according to public records. Construction on the 274,287-square-foot building, located at 6340 S. Fiddler's Green Circle, was completed by Shea Properties in late 2015, with CoBank taking occupancy in December. The building is LEED Silver-certified and is part of the Village Center Station development. "Village Center Station is the nucleus of the southeast Denver office scene, with 1.5 million square feet of Class A office space, the highest concentration in the submarket," said Geoff Baukol, senior vice president with CBRE Group Inc. capital markets and investment properties, which represented Shea Properties in the transaction. "CoBank Center is the newest and highest-quality asset in suburban Denver and saw incredible buyer demand." CoBank Center was constructed to serve as the headquarters for CoBank, a rural cooperative bank founded in 1989. The bank has grown quickly in recent years, with $110 million in assets as of Sept. 30. CoBank moved into the CoBank center after vacating its previous space at 5500 S. Quebec St. That building has since been purchased by Northstar Commercial Partners. The buyer has been identified only as a Korean institutional investor, which was advised by GLL Real Estate Partners, a German real estate fund management group. The acquisition marks the first Asian-based capital commercial investment in the Colorado office market, according to CBRE. "The core attributes of the building combined with CoBank's tenancy and the area's strong fundamentals helped to capture the interest of the Korean investor," said Jeff Shell, executive vice president with CBRE Corporate Capital Markets in Michigan. **(Denver Business Journal)**

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Report: Denver Commercial Real Estate Finishes 2015 Strong

Denver's industrial real estate market posted its 23rd consecutive quarter of positive leasing activity to close out 2015, as the cost of renting space surpassed highs set before the recession, according to data released Tuesday by CBRE. Squeezed by high demand and low supply across the Denver area, the average industrial asking lease rate jumped to $7.23 per square foot triple net in the fourth quarter, up 4.2 percent year over year and 2.6 percent from the third quarter. That's a penny higher than the previous market record of $7.22 per square foot set in second quarter 2004, the commercial real estate firm said. "Really, the headline for 2015 was continued improvement in the market from a base that was near or at record levels already," said Jeremy Ballenger, a vice president with CBRE Industrial Investment Properties. "It was a pretty incredible year." The positive trend ought to continue throughout 2016 for all three sectors of the commercial real estate market, said Jessica Ostermick, director of research and analysis for CBRE in Denver. Industrial, office and retail all saw lease rates increase in 2015. "By all accounts, 2015 was a strong year for Denver real estate," she said. On the industrial side, a total of 151,841 square feet was absorbed in the fourth quarter, despite a 1.1 million-square-foot distribution center in the north metro area becoming vacant. Annual absorption topped 2 million square feet. Big demand drivers include food companies and the residential construction sector, Ballenger said. E-commerce is also active in the market. About 2.7 million square feet of industrial space is under construction — 90 percent of which is being built without preleasing. Most of the new construction is large bay buildings intended for large-scale users, not the smaller users who require less than 100,000 square feet and make up 93 percent of the local market, Ballenger said. "We need new space," he said. "Demand is at least keeping up with, if not outpacing, what has delivered so far." Overall, industrial vacancy rates ended the year at 5 percent, up from 4.6 percent in 2014. "It continues to be a landlord market," Ostermick said. Denver's office market posted its 17th consecutive quarter of rising lease rates. The average asking rate for office space was $24.92 per square foot full service in the fourth quarter, up 7.6 percent year over year, according to CBRE. Vacancy was 12.6 percent across the metro area, a slight decrease over the third quarter, with a total of 574,572 square feet of office space absorbed. In 2016, 1.1 million square feet of new Class A office space is expected to come online. The attractiveness of Denver's labor market continues to drive demand for office space, said Alex Hammerstein, senior vice president with CBRE's Occupier Services Group. "We're seeing more out-of-state interest, particularly from the tech industry, than we've seen in 20 years," Hammerstein said. "I really expect the same sort of indicators (in 2016)," he said. "We'll see more positive absorption. We'll see rental rate increases. In some markets, we may see less increase as new product delivers, but I really see the same fundamentals continuing." Retail, the segment slowest to recover from the recession, saw the total amount of space being occupied fall 56,540 square feet in the fourth quarter, according to CBRE. The culprit wasn't decreased demand so much as Safeway officially vacating two big spaces in the area, said Jim Lee, vice president with CBRE's Retail Brokerage Services. For the year, net absorption was positive, with 578,805 more square feet occupied at the end of the year than the beginning, Lee said, with specialty grocers and restaurants leading the charge. Average lease rates ended the year at $17.19 per square foot triple net, a 8.8 percent increase year over year. "It was another strong year. We're seeing rates go up, we're seeing new construction, we're seeing activity from grocers, restaurants, a variety of different retail users expanding, we're seeing the new housing construction," Lee said. "Retailers love to see new houses coming in. That will help spur more development." **(Denver Post)**

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Economic Growth in U.S. Cracking Under Strain of Global Slowdown

The U.S. may not be immune from the global slowdown after all. Figures on retail sales and manufacturing Friday showed the world's largest economy ended the year on a weak note, and the start of 2016 wasn't any better. The one saving grace was a pickup in consumer confidence, but that was mainly because households believed inflation will be low, making subdued wage gains look good by comparison. "The data this morning has been pretty much one way," said Gennadiy Goldberg, a U.S. strategist at TD Securities USA LLC in New York. "It's fanning some of these fears that the economy is being dragged down into the mud by the rest of the world." Weakness in retail sales compounds concerns that momentum in consumer spending, which has been the backstop of U.S. growth prospects, is starting to fade. Meanwhile, a slowdown in China and other emerging markets has sent commodity prices lower and roiled stock markets around the world, exacerbating the plight of manufacturers who are being hit by an appreciating dollar. The turbulence complicates the task of Federal Reserve policy makers, who started raising interest rates last month on the expectation that U.S. growth would continue to strengthen and inflation will pick up.

Stocks extended declines after the reports, with the Standard & Poor's 500 Index falling 2.9 percent to 1,866.89 at 12:52 p.m. in New York, as all 10 industries retreated. The Dow Jones Industrial Average slid 473 points to 15,906. Six of 13 major categories in the retail sales report showed declines in December from the prior month. More importantly, the figures used to calculate gross domestic product, which exclude categories such as food services, auto dealers, home-improvement stores and service stations, unexpectedly dropped 0.3 percent, the most since February. The slowdown, including electronics stores, clothing merchants and grocers, indicates Americans probably preferred to sock away the savings from cheaper fuel instead of splurging during the holiday season. While hiring has been robust in recent months, faster wage gains remain elusive, one reason household purchases may take time to accelerate. The disappointing spending data, along with reports on inventories and factory production, caused some analysts to cut their already-low forecasts for fourth-quarter GDP. Economists at Macroeconomic Advisers reduced their tracking estimate for year-end growth to a 0.4 percent annualized rate from a 0.5 percent pace. Barclays Plc lowered its forecast to 0.3 percent from 0.7 percent, while Credit Suisse cut to 0.8 percent from 1 percent. In the third quarter, the economy expanded 2 percent. Manufacturing continued to weaken last month, as demand for automobiles, which provided one of the few bright spots for the industry, comes off the boil. Output at factories dropped 0.1 percent for a second month, Fed figures showed. Meanwhile, data from the Federal Reserve Bank of New York showed manufacturing's struggles extended into 2016. The bank's gauge of business activity in the region contracted in January at the fastest pace since March 2009. The one bit of positive data also came with a caveat. Consumer confidence rose to the highest level in seven months, according to the University of Michigan's preliminary sentiment index for January, though that came mainly on the back of lower inflation expectations. Americans projected the inflation rate in the next year will be 2.4 percent, the lowest in the survey since September 2010. The report also showed households projected wages would climb just 1 percent over the next year, the weakest reading since January 2015. Combined, that meant Americans had the most upbeat assessment of inflation-adjusted wages since January 2007, according to the Michigan survey. St. Louis Fed President James Bullard, one of the most vocal policy makers in recent months arguing to raise interest rates, said in a speech Thursday that the renewed decline in oil prices and the decrease in market-based inflation expectations measures "is becoming worrisome." Fed policy makers' latest median projections issued in December implied the central bank would raise the benchmark interest rate by one percentage point this year. The volatility could cause officials to pass on a March hike, however. Futures markets Friday assigned a 67 percent chance of no change at that time, up from 57 percent on Jan. 11. Another report Friday showed wholesale prices weakened in December, which may add to concerns that inflation will take longer to drift back toward the central bank's 2 percent goal. A 0.2 percent decrease in the producer-price index followed a 0.3 percent gain in November, according to figures from the Labor Department. Energy costs slumped 3.4 percent, led by a 23.4 percent plunge in diesel fuel that was the biggest since 1990. Some economists cautioned against extrapolating the year-end weakness too far, pointing to the still-strong labor market as a sign that growth remains anchored. Payrolls climbed by 2.65 million last year, capping the best two years for employment growth since 1998-1999. "Labor market dynamics have remained extremely strong," Harm Bandholz, chief U.S. economist at UniCredit Bank AG in New York, wrote in a note to clients, adding that the drop in oil prices, which continues to sink markets, "is unequivocally good for the consumer." "Admittedly, private households have thus far saved most of the windfall," Bandholz said. “But these savings are an important buffer and fuel for ongoing strength in consumer spending going forward.” **(Bloomberg)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED TARGET RATE	.50	.50	.25
3 MONTH LIBOR	.62	.53	.25
PRIME RATE	3.50	3.50	3.25
10 YEAR TREASURY	2.03	2.26	1.72
30 YEAR TREASURY	2.81	2.91	2.37