December 12, 2016

Maturity Wall Looms Anew for CMBS

The question of how, or if, borrowers will be able to refinance the nearly $120 billion in CMBS loans maturing through 2018 is on the minds of market participants, including the ratings agencies. S&P Global Ratings said Friday that some $12 billion of the $92 billion of loans maturing during 2017 alone could default and end up in special servicing. Projections of lower deal volume next year and the new risk-retention rule, which takes effect on Dec. 24, could pose further challenges. "Our CMBS surveillance group has reported that $119 billion of CMBS conduit/fusion loans will mature between the fourth quarter of 2016 and '18," says S&P credit analyst Steven Altman. "With an anticipated 13% default rate on the $92 billion of 2007 maturities alone, an additional $12 billion of 2007 loan maturities may end up transferring to special servicing. Applying the same 13% default rate to the entire $119 billion would lead to more than $15 billion of aggregate loan transfers to special servicers." Altman notes that active special servicing dollar volumes have decreased substantially from their 2011 zenith, but rose again during the course of this year, "largely because of the substantial maturities associated with loans originated during 2006 and 2007 that have been unable to refinance. This phenomenon is expected to accelerate through '18 as a greater portion of these pre-crisis vintages mature." While full payoffs were the most prevalent CMBS special servicing loan resolution type in 2015—and remained prominent during the first half of this year—S&P says this is subject to change. In addition, while average special servicer resolution times have been declining since 2014, additional improvement in resolution times are unlikely to occur if full payoffs become less frequent, according to S&P. In a report issued last week, Morningstar Credit Ratings noted that CMBS loans maturing this month may suffer from a decrease in liquidity as issuers wrestle with the implications of the risk-retention rule. The rule, which was mandated under the Dodd-Frank Wall Street Reform and Consumer Protection Act, may hamper the refinancing of loans as the crest of the CMBS maturity wave looms next year, with $88.92 billion of non-defeased CMBS loans scheduled to mature in '17. Furthermore, Morningstar says, "The potential liquidity contraction will add to the refinancing challenge of '07-vintage loans, many of which are of lower credit quality, underwritten with overly optimistic cash flow assumptions during the market's peak of 2006-07." And while Kroll Bond Rating Agency says it remains "cautious, but constructive on CMBS issuance, property fundamentals and collateral performance," the ratings agency also notes that '17 could bring another year of volume declines in new issues. "After six consecutive years of issuance growth, the CMBS market expansion came to an abrupt halt in 2016," according to KBRA's outlook report for securitized commercial mortgages. KBRA says that private label CMBS is expected to end this year "within a range of about $65 billion to $70 billion, approximately 30% lower than last year's $95.8 billion"—a figure that itself represented a disappointment after '15 began with projections of $125 billion in volume. "Despite what could be a slow start to the year, we believe that new CMBS private label issuance in '17 could end the year within a range of $55 billion to $65 billion, slightly below '16 levels." Moreover, KBRA expects CMBS to capture "a fair amount of volume" from next year's maturities, especially with banks pulling back on their commercial real estate lending. **(GlobeSt.com)**

Amazon Browsing for Downtown Office

The world's highest-grossing Internet company is looking at adding an office in downtown Denver. An Amazon employee based here confirmed that the tech giant is laying the groundwork for a local office, but declined to talk on the record. The source said that Amazon is in negotiations for real estate. Several real estate sources (who spoke only on background) said Amazon's search centers on downtown. And Amazon is also already keeping an eye out for employees. In an email sent to a local university's engineering school and obtained by BusinessDen, an Amazon representative said there's a hiring spree in the works. "We anticipate hiring a very large number of computer science and engineering professionals here in the coming years," the email reads. Amazon has set up several tech development offices outside its home base in Seattle over the last half-decade. It now keeps locations in Boston, Detroit, Austin, California, Minneapolis, Fairfax, Va. and Charleston, S.C., among others. The company has already had its eye on the Denver area, if not yet the heart of downtown. The Denver Business Journal reported earlier this year that Amazon opened and was staffing up a new tech outfit in Broomfield. Amazon currently has almost 20 job active job postings on its website for Denver. Many of those specifically say the job positing is not for a virtual position, and applicants will need to be in the Denver area. Amazon would be the latest, and biggest, tech name to set up a major office in Denver. Big tech leases around town over the last year or so include SendGrid's expansion to 52,000 square feet at 1801 California; Ibotta's new 38,000-square-foot lease in the same building; and Autodesk's 24,000-square-foot lease at the Triangle building in LoDo. Amazon did not return several calls Monday seeking comment. The company also opened a 450,000-square-foot sorting center in Aurora in June 2016. **(BusinessDen)**

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Going Strong in '17

Colorado's economy will rev up slightly next year, led by hiring in construction, tourism and health care, according to the 2017 Colorado Business Economic Outlook from the University of Colorado Boulder. The Outlook calls for Colorado to gain 63,400 jobs next year, which represents a 2.4 percent rate of growth. That's ahead of the 2.2 percent rate estimated for 2016, but below the 3 percent-plus rates seen in recent years coming out of the recession. Colorado should rank among the top 10 states for job growth for the sixth year in a row, making it a draw to workers in search of opportunities. Colorado is expected to have the second-fastest rate of population growth in the country this year, adding another 95,000 people to bring the total to 5.5 million. "The growth will be across every sector except natural resources and mining and again will support the strongest period of employment growth that we've had since the 1990s," said Richard Wobbekind, an economist with Leeds School of Business on CU's Boulder campus. Wobbekind oversaw the forecast, which is in its 52nd year and this time involved more than 100 business, government, and academic experts. He and Denver Metro Chamber of Commerce CEO Kelly Brough presented the findings during a public forum Monday. Depressed oil, natural gas and coal prices that contributed to big layoffs in the mining sector the past two years knocked Colorado off its 3 percent-plus pace of job growth. But many of those workers were able to find other jobs and the great contraction in mining employment could finally reverse in the second half of next year, Wobbekind said. With the state unemployment rate hovering around a low 3.5

percent, the labor market is its tightest since the dot-com boom, and that is slowing hiring. “Labor-force issues are a big deal,” he said. “The market is very constrained.” The forecast calls for 9,000 jobs in construction, a 5.7 percent increase that will be the strongest of any sector. As apartment construction slows slightly, single-family homebuilding is expected to pick up more. That construction hiring forecast was lifted after voters across the state last month passed a larger than expected number of bond issues to fund multiple projects. However, Wobbekind said he isn’t sure where all those skilled trades workers will come from given the difficulty contractors already have filling open jobs. Much of the work on the forecast was done before the election. President-elect Donald Trump has pledged to spend large sums on infrastructure, but he needs to convince Congress that larger federal deficits are in the country’s interest. Any benefits from that increased spending would likely show up in 2018 and beyond. Ditto for lower tax rates and regulatory reforms. Conversely, manufacturers and food producers who had hoped exports would be boosted by pending trade agreements that are unlikely to see the light of day now will have to make other plans. “The only thing I am betting on are tax reforms,” Wobbekind said. Leisure and hospitality employment is expected to grow by 3.7 percent or 12,100 jobs next year, while education and health services, always a steady performer, will increase employment by 10,600 positions or 3.3 percent. Colorado’s farmers and ranchers are expected to face another tough year in 2017 due to low commodity prices, drought and other fluctuations in the weather. Farm income, which ran at $850 million in 2014, dropped to $444 million this year and is expected to only reach $392 million in 2017, adding to the pressures on rural areas of the state. **(Denver Post)**

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Blackstone Pays $92.6M for 3 Downtown Boulder Buildings

The real estate arm of New York private-equity firm Blackstone Group closed recently on the purchase of three downtown Boulder office buildings for a total of $92.6 million. Blackstone entities purchased 1900 15th St., 1881 Ninth St. and 1050 Walnut St. from Swedish pension manager Alecta, according to Boulder County property records. Officials for neither Blackstone nor Alecta could be reached for comment Monday. Alecta officials announced last spring that they planned to sell their portfolio of 48 properties in the United States and the United Kingdom. Bloomberg reported in August that Blackstone had struck a deal to buy the 22 U.S. properties — including multiple shopping centers in California and a prominent office building in Washington — for $1.8 billion. The three Boulder buildings total roughly 221,000 square feet of office space, plus a pair of parking garages. Becky Callan Gamble of commercial real estate brokerage Dean Callan & Co. Inc., which handled the leasing for the three buildings under the old ownership, said 1881 Ninth is about 95 percent leased, while 1050 Walnut is 92 percent leased, with deals pending on the vacant space in the latter. The 33,000-square-foot building at 1900 15th St., meanwhile, has been vacant since early this year. Microsoft had leased the building for the past few years, but sold its Bing Maps-related operations there to Uber last year. Uber subsequently moved those operations to Louisville earlier this year, Gamble said. Blackstone paid $13.27 million for the 1900 15th St. building. The 1881 Ninth St. building went for $32.9 million. And 1050 Walnut sold for $46.4 million. The 1050 Walnut property includes about 112,000 square feet of office space, in addition to a parking garage. Its tenants include the likes of Foundry Group, Techstars, Siemens Energy and the Southwest Research Institute. It last sold in 1997 for $16.6 million.

The 1881 Ninth St. property includes 76,000 square feet, plus a parking garage. Tenants there include Solera National Bank, TIAA CREF and Finish Line. The property last sold in 1998 for $12 million. The 1900 15th St. property last sold in 2012 for $11.9 million. "I think it's certainly significant in the size of the sale and the quality, the fact that Alecta had owned two of the three buildings" for nearly two decades, Gamble said. "I think it just speaks again to the attractiveness of owning real estate in Boulder for institutions." Blackstone has purchased other property in the Boulder Valley in recent years. In 2015, the company bought the TownPlace Suites by Marriott in Broomfield for $16.5 million. In 2014, Blackstone affiliates paid $22.4 million for the Residence Inn at 3030 Center Green Drive in Boulder and $17.92 million for the Homewood Suites at 4950 Baseline Drive in Boulder. **(BizWest)**

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Denver on Track to Hit Record Sales Volume, CBRE Reports

It's shaping up to be a record year for Denver industrial sales, with a large number of investment deals trading and others set to close by year-end. More than $582 million in industrial assets over $2.5 million changed hands as of the third quarter, putting the market on track to surpass its 2015 record-high volume of $839 million, according to CBRE's Denver Industrial Capital Markets Group. Investment deals accounted for 72 percent of the volume heading into the fourth quarter, with investors buying 60 assets at prices in excess of $2.5 million vs. 23 acquisitions by users, which accounted for 28 percent of the volume. "This has been a very active year for investment sales and will be through the end of the year as there's a handful of additional transactions that are in the pipeline," said CBRE Executive Vice President Jim Bolt. The biggest deal to date was the $57.65 million sale of 17 Class B industrial buildings in Montbello Industrial Park. Stockbridge Capital Group, on behalf of the Los Angeles Employees' Retirement Association, bought the 856,013-sf portfolio from TA Realty for $68.41 per square foot, $27.72 per sf more than TA paid for the buildings less than two years ago. Pricing for industrial assets is higher than ever, with investment deals averaging $82.45 per sf, according to CBRE. A 106,424-sf warehouse leased to FedEx at Enterprise Business Center set a high-water mark at $178.53 per sf. Denver industrial market fundamentals continue to be strong. There's been positive absorption for 26 straight quarters, direct vacancy is 4.8 percent and 40 percent of the 3.5 million sf of industrial product under construction is preleased. In addition, investors are drawn to Denver because cap rates for like-kind properties are around 100 basis points higher than in coastal markets, according to Bolt. "Attractive industrial investment markets in the West Coast have seen cap rates, in some cases, sub-4 percent," he said. According to CBRE's Capital Markets Pulse report, cap rates for stabilized Class A properties in Denver have declined 175 basis points since 2011. Among peer markets, only Portland recorded more cap-rate compression. Denver also has seen a flurry of investment activity in Class A multitenant space, which doesn't frequently come to market. "Generally owners of multitenant, particularly Class A product, in the Denver area want more property, not less," said Bolt. "So it's very rare to see multitenant Class A. "We had a number of sellers that were very market savvy waiting for market conditions to be right," he said, explaining owners of multitenant properties that signed leases at below-market rates during the recession were waiting to renew leases at today's rates before selling or refinancing. "Now that's happened, and some have decided to sell." Whether the Denver market can keep pace with 2016 volume in 2017 is uncertain. "There's just a finite number of owners that are candidates to sell," said Bolt. "You look across the list of all the big developers here in this market, and really without exception none of them are sellers. So there's just a really small group of potential sellers, and the majority of those are going to sell now. "This year will turn out to be a pretty good year," he said. **(Colorado Real Estate Journal)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED TARGET RATE	.50	.50	.25
3 MONTH LIBOR	.95	.88	.49
PRIME RATE	3.50	3.50	3.25
10 YEAR TREASURY	2.47	2.03	2.23
30 YEAR TREASURY	3.16	2.84	2.96