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A Denver Based Commercial Real Estate Investment and Management Company
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Good Times, Redefined

"There are more things in heaven and earth, Horatio, than are dreamt of in your philosophy." Hamlet could have been speaking to us. We live in strange times, good times for all aspects of commercial real estate. But the up cycle we're enjoying is unlike any we've ever experienced. There are forces at play that are unique to the times, and challenge each of us to respond in different ways. Indeed, these are good times, redefined, brought into high-definition, so to speak, in three areas directly impacting our business: the nature of opportunity, the oddity of our economy and the growing threat of terrorism. From the property management front, I can report that the industry is better, stronger than it ever was. The market continues to grow, both on the multifamily and commercial side. Rents are still going up, demand is increasing and supply is coming down, and all bode well for the market. And here is the first point of departure from previous up cycles. Demand is coming for new product and from a new demographic, forcing us as business people to redefine how we look at opportunity and where new strategic growth will come from. There's a different product emerging in many cities, especially older MSAs, where adaptive re-use is leading to the conversion of older (largely) industrial facilities into hip new residences. There's a reengineering of that space and those locations. As our Central Business Districts (CBDs) redefine themselves, so too do our suburbs, where we see transit-oriented developments springing up to create town centers—virtually self-contained environments. The CBD and suburban trends support a growing movement toward live-work-play lifestyles. And this means redefining our clientele. Much of this new activity is being fueled by the Millennial generation, many just starting out in their careers and for whom home ownership is still an eventual goal, if it is a goal at all. As a class of renters, they think differently and have different needs than previous generations, forcing property managers to recognize and respond to a new set of expectations. Boston is a perfect example of the trend, where we're still redeveloping our waterfront, traditionally occupied by manufacturing and industrial properties, to attract tourists, businesses and residents. So, both in the core and on the outskirts of our nation's cities, there are still new, great opportunities for growth. New development and redevelopment could not take place without a strong economy. But even here, it is an economy unlike we've seen before. Slow to show itself, the first two years of the up cycle produced few jobs, seemingly taking years to rev up to full recovery, and now that we are here, economists are starting to speak of downturns. They say the economy takes some kind of turn every seven or eight years, and we are definitely due for that. Still, you can look for more growth in 2016. Rents will still go up, the job market will become stronger and the good times will continue. At Simon, we've budgeted a 3 percent to 5 percent rental increase across our diversified portfolio, not a bad increase from a landlord's perspective. My forecast for 2017 is a bit more cautious. Our first, long-awaited interest rate hike is now officially behind us, and at a quarter of a point, it hardly moves the needle. But as rates continue to rise through 2016, consumer confidence is sure to react, again redefining the good times. We will have to watch 2017 carefully. But while the signs of our cyclical economy are trackable, the timing of another terrorist attack is not, and this threat also redefines our good times. The bare fact is that we are all living under the cloud of that threat, and, 15 years in, it has become a sort of background to our lives, with the potential to undo both the opportunity I spoke of and the economy itself. There's always the reality that something might happen at one of our properties. As a result, we must continually re-orient the way we look at safety and security and spend capital accordingly. There are a lot of sophisticated upgrades being done to our properties to make them as secure as we can. From a bottom line perspective, it certainly has impacted our operating costs. While rents are increasing by single digits, our security costs have increased by double digits. And yet, unfortunately, we know it can never be totally safe and secure. And despite this inability to achieve total safety, I would offer that any manager who has not addressed the issue of ramped-up security is already behind the eight ball. These are the issues that form the backdrop against which we will be doing business in 2016. And, despite the threats and barring any unforeseen surprises, it will be a good period from a real estate management standpoint. We can all look forward to a year of good times, redefined. **(National Real Estate Investor/Chris Mellen, VP Simon Companies)**

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Metro Denver Apartment Vacancies are Up; how About Rents?

Average apartment rental rates increased by 10 percent on average in the Denver metro area year-over-year in the fourth quarter, according to the latest data from the Apartment Association of Metro Denver. The increase came in spite of a jump in the average apartment vacancy rate from 4.6 percent to 6.8 percent in the same period. Average rent in metro Denver topped $1,291 per month in the fourth quarter, compared with $1,168 per month in the same quarter last year. While rents increased, the jump in vacancy rate could lead to a slower rate of growth in 2016."We expect the trend toward a desire to rent will continue for metro Denver, but apartment managers are anticipating much slower rent growth in the coming months with sustained higher vacancy rates. That will make it easier and provide more choice for people looking to move or enter the apartment market in the Denver area," said Mark Williams, executive vice president of the Apartment Association of Metro Denver. In the quarter, 1,678 new units were delivered to the market, but unit absorption was negative for the quarter with 4,247 units going back on the market, according to the apartment association."Denver continues to offer a robust job market, driving strong population growth," Jeff Hawks of ARA Newmark. "This report shows that apartment supply is catching up with demand, offering good news for renters who have seen extremely tight vacancy rates and rising rents over the past two or three years." Over the quarter, average rents stayed flat in the metro at $1,291."The end of 2015 marked an important shift for renters," William said. "Quite simply, the natural forces of supply and demand are at work, and there has been an enormous amount of new apartments added to the supply, so rents are flattening". Northwest Denver is the metro area's most expensive rental market, according to the apartment association's data, with an average rent of $1,750 per month in the fourth quarter. Wheat Ridge clocked the lowest average rent, at $907 per month. **(Denver Business Journal)**

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Big Jump in Colorado Jobs; Unemployment Dips to 3.5%

Colorado saw a hefty gain of 10,700 payroll jobs in December, and the state's unemployment rate dipped a tenth of a point, to 3.5 percent, the lowest rate since early 2007, the Colorado Department of Labor and Employment reported Tuesday. The monthly gain in payroll jobs was much larger than the 3,883 average increase over the last 12 months, according to government job data. It was the sixth straight monthly decline in Colorado's unemployment percentage since it stood at 4.4 percent in June, according to U.S. Bureau of Labor Statistics data. The official state jobless rate has declined seven-tenths of a percentage point over the last year. Unemployment in the state stood at 3.6 percent in November. During the Great Recession, Colorado's jobless rate peaked at 8.9 percent in September and October 2010, according to recently adjusted data; it stood above 8 percent from September 2009 through February 2012. The last time Colorado's jobless rate was as low as it was in December was April 2007. The national unemployment rate for December was 5 percent. CDLE's report was based on a pair of government surveys measuring jobs and employment in Colorado. One survey, of the state's employers, showed that businesses added 10,000 jobs to their payrolls in December and government added 700 positions. That brought the state to 2,539,400 payroll jobs last month, CDLE said. December's biggest job gains were in construction, leisure/hospitality, and manufacturing, while mining (including energy) and logging jobs slipped. Over the last year, Colorado has gained 46,600 payroll jobs, 41,300 of which were in the private sector, CDLE said. The biggest job gains over that 12-month period were in leisure/hospitality, construction, and education/health services. Professional and business services, information, and mining and logging declined over the year. Over the year ending in December, the average workweek for payroll employees dipped from 34.1 to 33.4 hours, but average hourly earnings increased from $26.44 to $27.15, CDLE said. The other survey, of Colorado households, showed that the state had 2,719,800 employed people in December, up 10,200 from the month before. The number of unemployed people actively seeking work stood at 99,300, down 2,600 from November. The state's labor force -- working people plus unemployed people seeking a job -- rose by 7,600 last month, to 2,819,100, the household survey indicated. The two surveys differ in methodology, sample size and other factors. The household survey includes self-employed people and farm workers, and counts people who hold multiple jobs only once. The employer survey excludes the self employed and farm labor, and counts jobs, not people. **(Denver Business Journal)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED TARGET RATE	.50	.50	.25
3 MONTH LIBOR	.62	.61	.26
PRIME RATE	3.50	3.50	3.25
10 YEAR TREASURY	1.94	2.29	1.75
30 YEAR TREASURY	2.75	3.03	2.31