February 8, 2016

NCREIF Property Index Ends 2015 at Highest Return Total Since 2011

The National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index (NPI) posted an annual (unleveraged) return total of 13.33 percent for 2015—the highest return total since the Index posted 14.26 percent in 2011. Property appreciation return was also quite high last year, at 8.03 percent—representing the highest appreciation level since 2007, when it was 9.88 percent. However, the index might be slowly coming off its high, as in the fourth quarter it posted a total return of 2.91 percent—below the 3.09 percent reported for the third quarter. The figure was also below the 3.04 percent return posted for the fourth quarter of 2014. By property type, retail delivered the highest quarterly and annual returns, at 3.46 percent for the fourth quarter and 15.28 percent for the full-year 2015. The industrial sector followed closely, with a total return of 3.19 percent for the fourth quarter and 14.87 percent for the year. Apartment properties, on the other hand, delivered total return of only 2.73 percent for the fourth quarter and office properties were at the bottom of the pyramid, with total return of 2.58 percent. The sectors' performance in the quarter mirrored a year-long trend. Office properties delivered annual total return of 12.5 percent in 2015, while apartment properties delivered total return of 12.0 percent. Hotels were in the middle of the pack, posting total return of 3.03 percent for the fourth quarter and 13.2 percent for full-year 2015. **(National Real Estate Investor/Elaine Misonzhnik)**

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Banks Eased Loan Standards for U.S. Households in Fourth Quarter: Fed Survey

Banks lowered lending standards for U.S. households in the fourth quarter but tightened them for commercial and industrial loans, according to a survey of loan officers released on Monday by the Federal Reserve. The U.S. central bank said banks moderately eased standards for mortgages and auto loans while leaving them unchanged for credit cards. Some banks noted that the tightening of standards for commercial and industrial lending owed to concerns over the oil and gas industries, the Fed said. Banks also tightened standards for commercial real estate lending. The Fed survey covered the fourth quarter of 2015, and included the responses of 73 domestic banks and 24 U.S. branches and agencies of foreign banks. **(Reuters)**

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Denver Tech Center Building Sold, Buyer to Crowdfund Investment

An 11-story office building in the Denver Tech Center has been sold for $23 million, the latest in a flurry of transactions in Denver's booming office market. One thing sets this sale apart: The new owner, Origin Capital Partners, plans to crowdfund a portion of the investment. The Chicago-based real estate investment firm teamed up with Hamilton-Titan to acquire Denver Corporate Center I, 4700 S. Syracuse St., part of a three-building complex originally built for IBM. Accredited investors who meet federal income or net worth

requirements will be eligible to invest in the office building, in amounts beginning at $10,000. "For the average investor to get access to institutional-quality real estate deals, it's very difficult," Origin senior associate Jared Friedman said in an interview. "We're trying to bridge that gap." Denver Corporate Center I is the first metro-Denver purchase for Origin, which has more than $500 million of real estate under management. Hamilton-Titan, a joint venture between Chicago-based Hamilton Partners and Titan Investments of Denver, has had an ownership interest in the building since 2006. Origin bought out a previous investor. Improvements to the building are expected to begin immediately, including a new fitness center, locker and shower facilities, Wi-Fi cafe and bike storage. Built in 1981, the building is currently 83 percent leased, with IBM remaining as a tenant. Origin closed on the property last week. Rather than serve as a middle man for crowdfunders, the firm will own the building for the same period as investors do, Friedman said. "(Denver) is a market we've been tracking for awhile now," he said. "The growth in Denver has been phenomenal from a population-growth perspective and a job-growth perspective." Real estate crowdfunding has taken off nationwide since a 2012 federal law loosened restrictions on fundraising by startups — including lifting a ban on the advertisement of certain securities offerings online or in newspapers. New Securities and Exchange Commission rules approved in October also permit less-affluent, nonaccredited investors to get in on the crowdfunding game, although at the discretion of those offering the opportunity. Origin crowdfunders receive equity in the property they invest in, not unlike if they were to buy stock in a company, Friedman said. Investments are managed through an online portal. "Real estate crowdfunding is growing fast — it's expected to raise more than $3 billion in 2016," Origin co-founder Michael Episcope said in a statement. **(Denver Post)**

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Goodwin Procter: Has the Ninth Inning Arrived?

Is the cycle over for the capital markets? That was the popular opinion at Goodwin Procter's Real Estate Capital Markets Conference last week. Experts on investment and advisory services pointed to ever-increasing pricing and an outlook for a consequent reduced return on investment, along with a decreasing influx of foreign capital and potential for a slowdown in CMBS volume this year. The words "recession" and "deflation" even came up. The good news is, the market is starting from a high point, according to statistics outlined by opening speaker Seth Weintrob, managing director & global head of the real estate investment banking group for Morgan Stanley. He pointed to a very healthy $460 billion in transaction activity last year, an amount topped only by the last pre-recession peak in 2007. And last year every major asset class traded at a higher valuation than in 2007, he noted, with returns "quite good" at 3.1 percent, up from the 2.2 percent average during 2000-2015. CMBS has also been solid, with issuance in the range of $100 billion in each of the past three years (although some reports have last year's total falling short of predictions). Furthermore, while Jim Sullivan, managing director of advisory and consulting for Green Street Advisors, rated the real estate capital markets as being in the ninth inning, even this well-known naysayer pointed out that real estate fundamentals are still only in the sixth, with room to improve. That's creating something of a "tug of war" between the bottom line and cap rates and valuations, noted Richard Saltzman, president, CEO & director of Colony Capital Inc. and a panel moderator. But for owners, healthy fundamentals with room for further improvement represents good news. After all, with much of the volatility influencing

the real estate market coming from outside the industry—including interest rates, global financial and credit market performance, China's economic difficulties and the softening oil sector—owners can do little other than to focus on the performance of their properties, and representatives of companies ranging from New York City-based Empire State Realty Trust to Prudential Real Estate Investors and Clarion Partners said they are doing just that. In Sullivan's words: "Manage your assets and let the market do what it's going to do." Of course, a broad-brush stroke never really defines the commercial real estate market. "We're starting to see some cracks," Sullivan affirmed. In addition to hotels and malls, he listed an impact on existing student and senior housing as a large quantity of new supply comes online. Meanwhile, Weintrob noted, self storage REITs are trading at a 30 percent premium, a reflection of that sector's performance. Foreign capital continues to look to the U.S. as a prime target, and the new exemptions to the Foreign Investments in U.S. Real Property Tax Act of 1980, or FIRPTA, are only a small reason. Goodwin Procter partner H. Neal Sandford noted that the changes, made late last year, provided relatively limited additional foreign access to U.S. real estate. Yet investors, affirmed Sonny Kalsi, founder & partner with GreenOak Real Estate, are not parking their money in the U.S because of cheap capital (which is becoming less cheap as the dollar strengthens) but in search of stability and separation from homefront risks. And some foreign capital is pulling back, most notably funds from the Middle East and China, as they refocus spending domestically. Susan Swanezy, CFO & partner with Hodes Weill & Associates, noted that those with an established program will continue to allocate capital to U.S. real estate, but she does not expect to see new allocations. U.S. funds, too, are beginning to limit their real estate exposure as the "denominator effect" reasserts itself. With funds now well represented in real estate and returns better in other asset areas, "capital … will go to the place it can get the best risk-adjusted return, and it doesn't have to be in real estate," Sullivan affirmed, while Lee Menifee, managing director & head of Americas investment research for Prudential Real Estate Investors, declared, "The disconnect between what the bond and real estate markets are doing can't persist." REITs continue to attract foreign capital, helped by the changes to FIRPTA, as well as capital from other sources, and Weintrob noted that issuance is "much, much higher" than it had been. IPOs are at a record low, but he expects the M&A "mega-deals" of last year to continue due to increased investor activism (to correct poor performance, weak governance), efforts at transformation (economies of scale, lower cost of capital, succession planning, etc.) and a return of the "take privates." While deal size has grown exponentially, he observed that last year saw fewer than half the number that took place in 2007. On the debt side, CMBS issuance is expected to decrease this year, even as the huge volume of loans from the 2005-7 period continue to mature. "We're going to need to find some sources of capital to fill in the hole there," Weintrob warned. "It's important to watch that wall of maturities." He sees a need for more non-bank lending to fill the gap. How much the real estate market will shift remains to be seen. Green Street Advisors has predicted a 3 to 5 percent drop in property valuation by the end of the year, with Sullivan giving that a 70 percent chance of happening. Kalsi believes the decrease could be as much as 10 or even 20 percent. And keynote speaker Dr. Carmen Reinhart, Minos A. Zombanakis Professor of the International Financial System at Harvard Kennedy School, noting that the U.S. market is close to deflation, predicted "a very sluggish normalization" as the lower oil and commodity prices and strength in the dollar act as restraints on the Federal Reserve's efforts. "Proceed with caution, and look for strategies with durable cash flows," Swanezy advised. The annual conference is co-produced by Goodwin Procter and the Columbia Business School. **(Commercial Property Executive)**

Why Metro Denver's Diverse Industries are Projected to Grow in 2016

Beer, financial services and healthcare are among the fastest growing industries in the metro Denver area and will help keep the economy growing in 2016. The metro Denver area ranks third in the nation for employment concentration in beverage production. Investment firms have grown 7 percent in the past year, and healthcare appears to be an industry sector that withstood the Great Recession and posted 22.6 percent growth in the past five years. When economist Patty Silverstein put the final touches on her annual industry cluster report for the Metro Denver Economic Development Corporation, she was struck by how the nine industries intersected."You see one industry cluster, for example IT software – that permeates just about everything. The collaboration between software and healthcare is pretty amazing," she said. Silverstein, president and chief economist of Development Research Partners, and DRP senior economist Lisa Strunk, authored the industry cluster report which looked at seven counties in metro Denver and two counties in Northern Colorado. Metro Denver's economy is projected to slow down in 2016. But Silverstein says slowing down in the Denver area still means projected job growth of 2.9 percent – a faster growth rate than in the years leading to the Great Recession."It's still a very solid job growth rate for our area," she said. "Our historic average was anywhere from 2 to 2.2 percent job growth." After a close look at nine industry sectors and their posted growth over the past five years and last year, Silverstein is confident that metro Denver's diverse economy will shield the region from the oil and gas slowdown — an industry that posted a loss of about 5,000 jobs in 2015. The report is used to craft an economic development strategy by looking at growth industries in a nine-county area and targeting those for expansion and retention. Overall, 10 clusters and sub-clusters added employment in 2015, while three posted negative growth, Silverstein said."The diversity of the industry base is what clearly differentiates our region," she said. "A common theme across all nine clusters is the entrepreneurism, innovation and overall magnetism that they have in expanding the economic capacity of metro Denver. These industries shape the 'culture' of our business community that attracts the future workforce — particularly millennials — as well as vital investment in our economy." New data highlights that metro Denver's leading industries are among the best performing in the nation, with seven clusters/sub-clusters ranking in the top 10 for employment concentration in 2015, Silverstein said. Aerospace in the nine-county region ranks second out of the 50 largest metropolitan areas for private-aerospace employment concentration, with 19,520 workers. Nearly 6 percent of the nation's aerospace workforce is located in the region. In aviation, Denver International Airport employs 16,880 people. Major expansion at the airport — including the upcoming opening of the commuter rail line to downtown Denver in April 2016 and the start of a new, nonstop flight to Munich in May 2016 — creates further momentum in the industry, the report says."2016 – there is going to be a lot of excitement because of the FasTrack opening. That is huge for our area. This issue of how FasTracks is providing opportunity — in our forecast our theme is intersections, as we have employment growing, the question is how does employment growth intersect with population and housing growth?" Silverstein said. Beverage production is the newest cluster added to the study. With a significant history in brewing dating back to the 1873 location of the Coors Brewery in Golden, the region is also home to more than 10 percent of the nation's craft breweries, the report says. The beverage production industry saw a 5.2 percent increase in 2015 and added 1,600 jobs since 2010. In bioscience, the region's medical devices and diagnostics sub-cluster is strong nationally, ranking 11th in employment concentration. Research universities and numerous innovation assets support the industry. Medical devices sub-cluster grew 2.8

percent in 2015 and 10 percent since 2010. Broadcasting and telecommunications is one of the clusters that did not grow, down 0.8 percent in 2015 and down 1.1 percent since 2010. Still, Silverstein said, the region offers substantial assets for this industry due to its Mountain Time zone location and one-bounce satellite capability, ranking sixth nationally for employment concentration. In energy, the region ranks fourth in the U.S. in fossil fuels and fifth for clean tech employment concentration. Both sub-clusters posted significant, double-digit growth from 2010-2015; cleantech was the region's fastest growing industry in 2015 with an 8.5 percent growth. Financial services includes a base of nearly 13,800 companies and about 97,000 employees in three sub-clusters, including banking and finance investments and insurance. The investments sub-cluster was the second-highest growing in the region, at 7 percent in 2015."The companies have been expanding here because of the workforce talent," Silverstein said. "Our central location helps them serve the entire country." Healthcare and wellness posted its 12th-consecutive year of employment growth in 2015, with a 5.5 percent increase and a 22.6 percent increase since 2010."One of the things to note, one of the largest industries, healthcare and wellness, dare I say has been recession-proof," Silverstein said. "This has been an industry that has grown over the last dozen years." And growth in information and technology software puts the region among the top-10 nationally in total employment concentration, with 2.5 percent of the region's total employment base. The region has 48,610 workers in this sector."Our connections are really driving our economic activity right now," Silverstein said. "That is what we need to pay attention to now." **(Denver Business Journal)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED TARGET RATE	.50	.50	.25
3 MONTH LIBOR	.62	.62	.25
PRIME RATE	3.50	3.50	3.25
10 YEAR TREASURY	1.86	2.16	1.81
30 YEAR TREASURY	2.68	2.92	2.43