



*Real value in a changing world*

## Denver office market: Overview and forecast

A black silhouette of a city skyline with various building shapes of different heights and widths, positioned at the bottom of the slide.

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## Discussion points

General office statistics

Landlord profiles and capital trends

Forecast

## General office statistics

	Q3 2008	Q2 2009	Trend
Vacancy	13%	16.1%	↑
Average Rental Rate	\$23.78 / s.f.	\$21.02 / s.f.	↓
270-Day Absorption	(8,315 s.f.)	(1.1M s.f.)	↓
Unemployment	4.7%	7.6%	↑

## Landlord returns

	Q3 2008	Q2 2009	Difference
Gross Rent	\$25.00 / s.f.	\$20.00 / s.f.	- 20%
<i>Less deductions</i>			
Tax & Operating Expenses	(\$9.00 / s.f.)	(\$10.00 / s.f.)	+ 11%
Transaction Costs	(\$6.00 / s.f. / yr)	(\$7.00 / s.f. / yr)	+ 17%
NOI	\$10.00 / s.f.	\$3.00 / s.f.	- 70%

# Landlord Profiles

## Conventional

- Purchased asset prior to 2005
- Have occupancy and income that supports existing debt
- Ownership is in good financial standing
- Strategic Position: Able to compete effectively in the market by completing transactions at lower returns.

## Distressed

- Purchased asset since 2005 or assets that have been vacant 12+ months
- Have basis in property well above “market”
- Upside down on debt
- Ownership that has abandoned property or in overall struggling condition
- Strategic Position: Must find tenant / buyer willing to take control of the property with little or no financial contribution from the lessor / seller.

## Transitional Landlord Profile

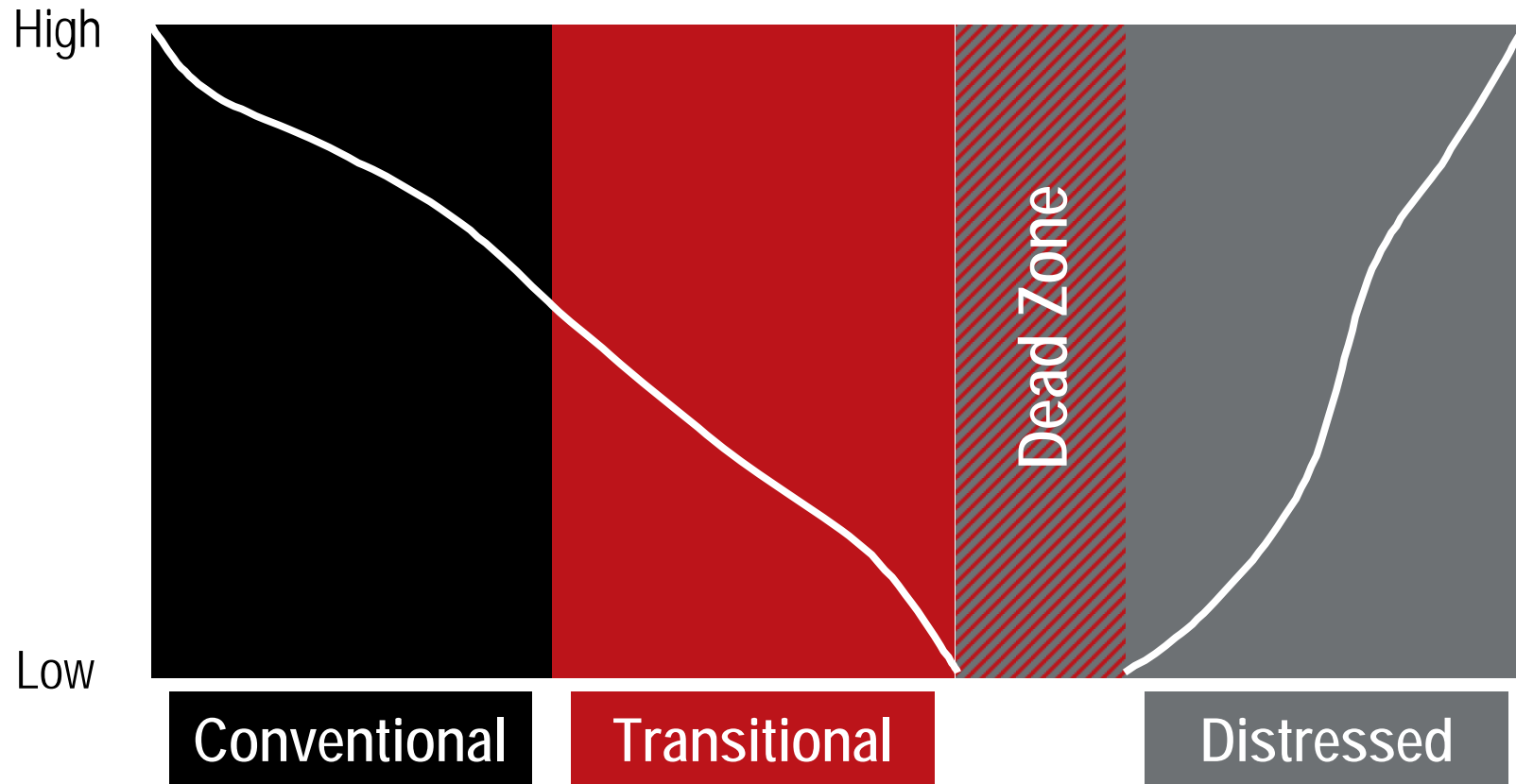
### General Description:

- Purchased asset between 2005 - 2008
- Used short-term financing (3-7 years)
- Have basis in property above current "market"
- Upside down but current on debt
- Ownership will need to make decisions about additional equity contribution and hold strategies

	<u>2006</u>	<u>Current</u>
NOI	\$10.00 / s.f.	\$10.00 / s.f.
Capitalization rate	7.0%	9.0%
Building value	\$143.00 / s.f.	\$111.00 / s.f.
Available debt	\$114.40 / s.f. @ 80% LTV	\$66.50 / s.f. @ 60% LTV

Strategic Position: Transactions will require lender involvement.

## Probability of Completing a Transaction



## Forecast

- Additional negative absorption through 2009 and flattening in 2010
  - Lease rates will continue to decline 5-20%
  - Vacancy rates will continue to increase 3-5%
- Prolonged recovery in the office market tied to overall economy and job growth
- There are more than \$1 trillion in loans coming due by 2017
  - Significant revaluation of assets
  - Increase in investment sale activity by the end of 2010
- Higher percentage of tenants will restructure / renew their current leases
- Lenders will have more active involvement
- Federal Stimulus funds + a rebound of oil & gas / new energy economy could have a significant positive impact
- Colorado is in a better position to “weather the storm” and recover





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Thank you

