

NAIOP

Annual Economic Forecast



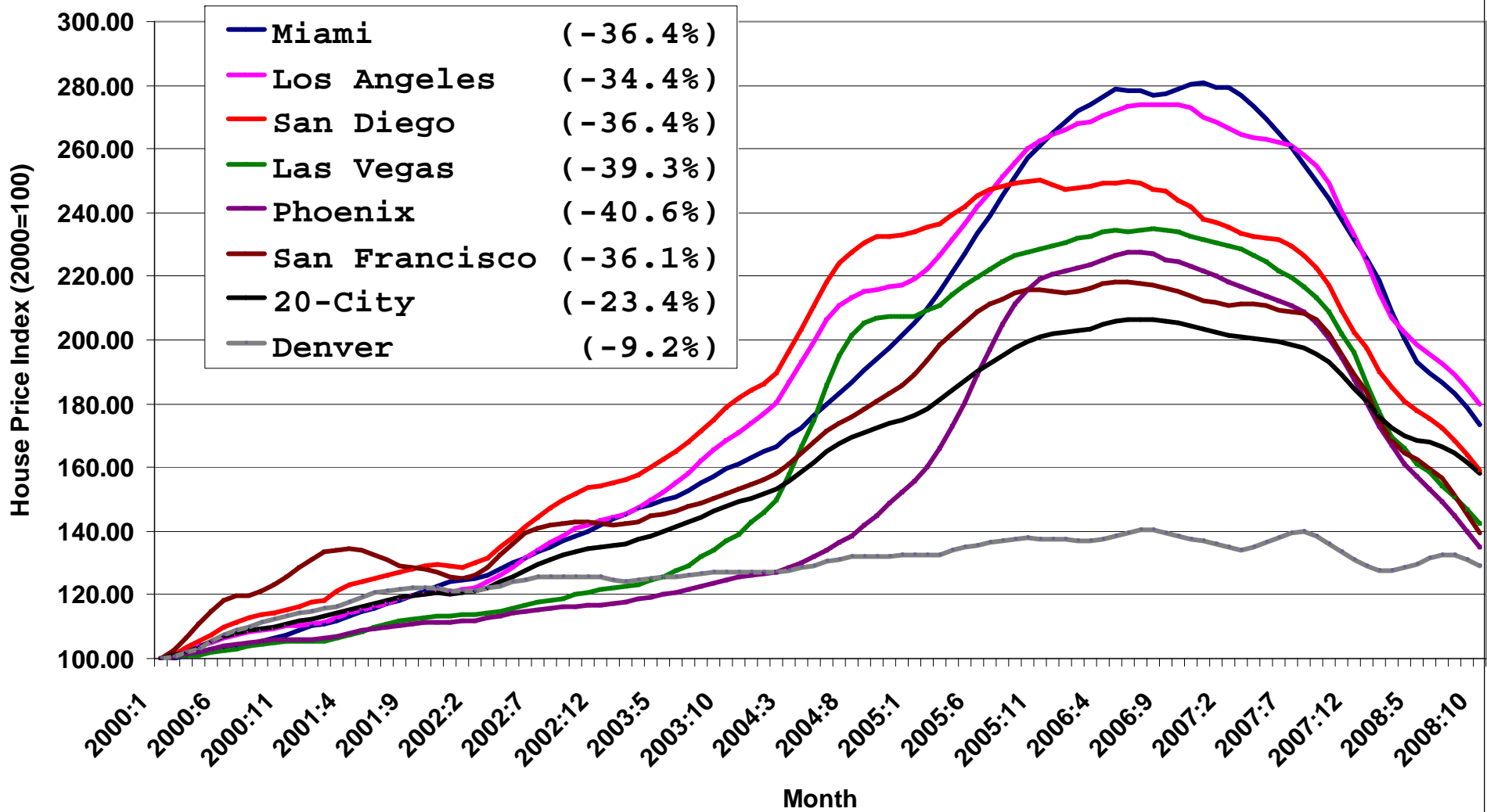
Tom Thibodeau

January 13, 2009

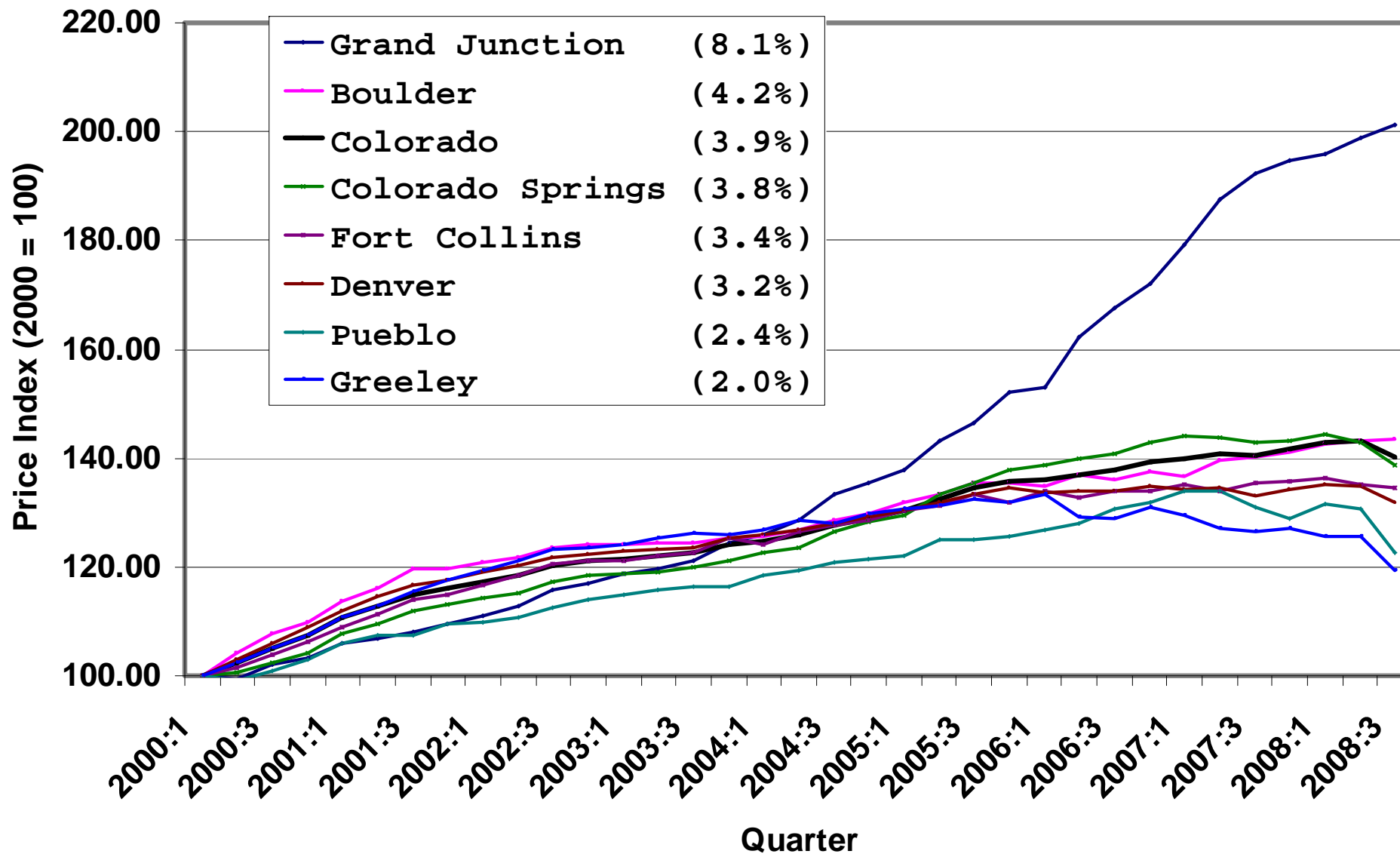
Colorado Real Estate Markets in 2009

- The Housing Market
 - Prices
 - Foreclosures
 - Interest Rates
- The Commercial Property Market
 - Prices
 - Transaction Volume
 - Commercial Loan Delinquency Rates
 - Cap Rates
 - Refinancing

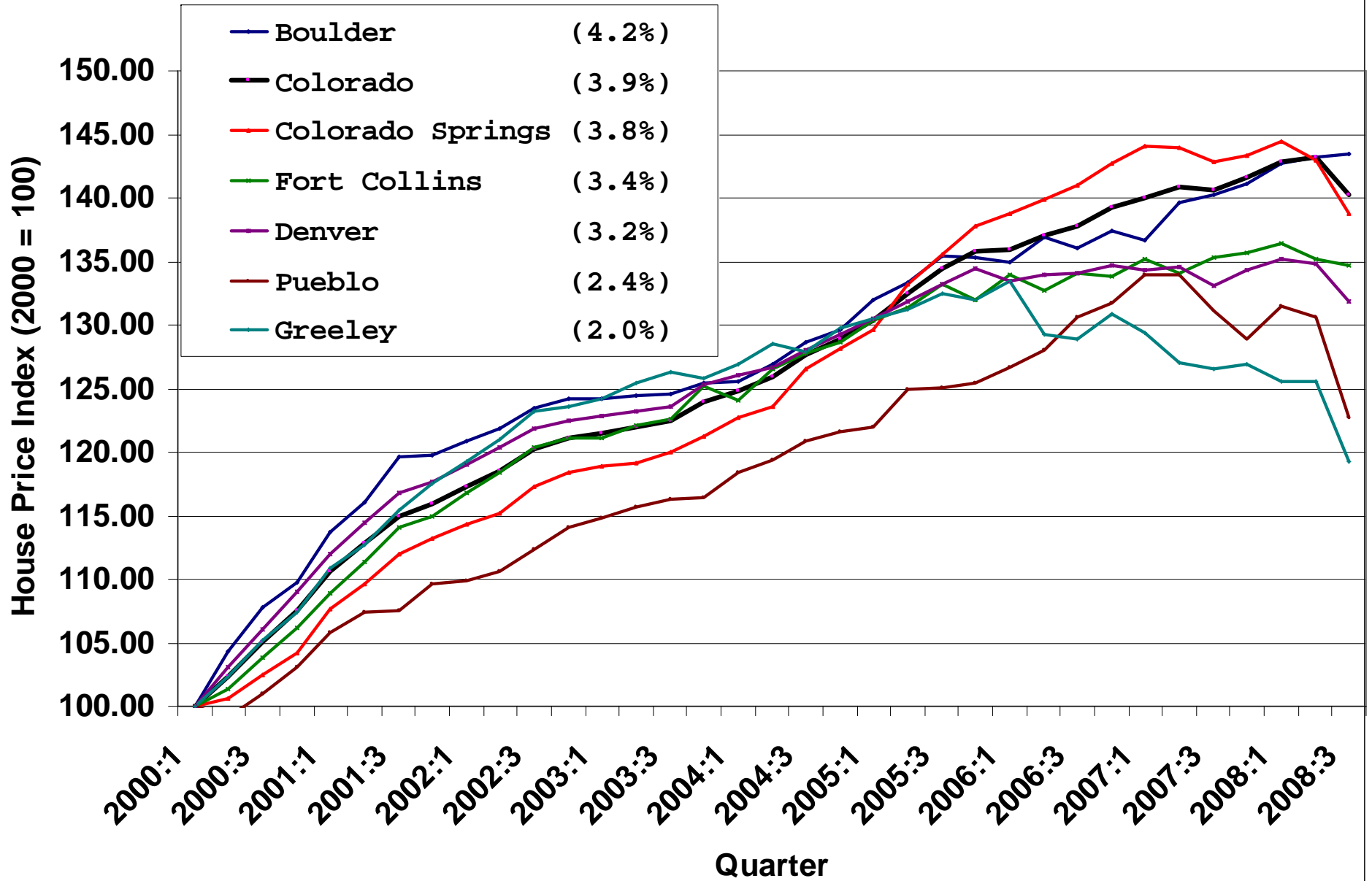
Case Shiller House Price Indices for Selected Cities Through October 2008 (Published 30DEC2008)



OFHEO House Price Indices for Colorado



OFHEO HPI for CO wo Grand Junction



CME House Price Futures

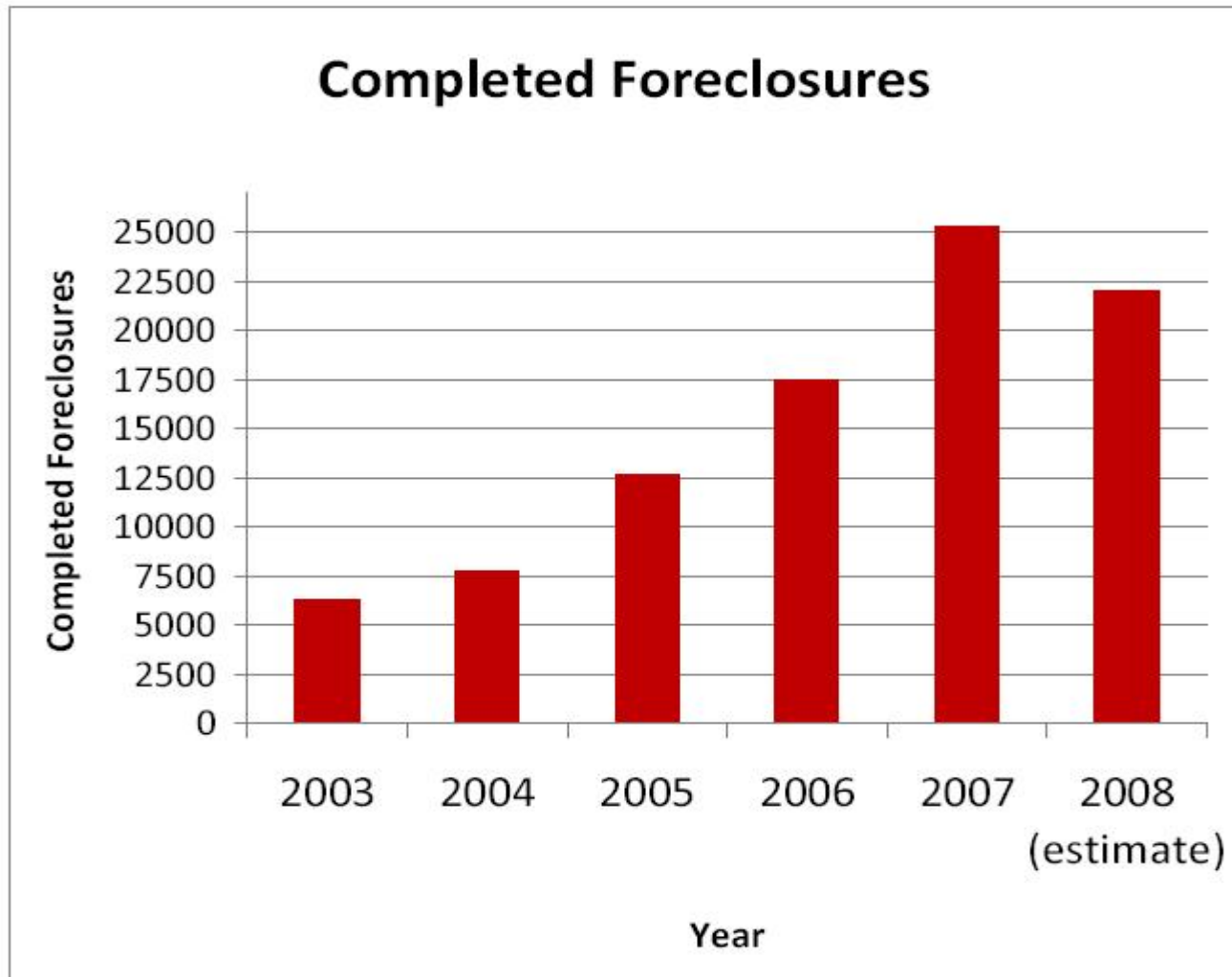
(As of January 8, 2009)

Month	10-City Composite	Denver
Oct '08	169.78	129.05
Feb '09	162.20	127.00
May '09	159.00	126.60
Aug '09	153.00	126.60
Nov '09	149.00	
Feb '10	150.00	
10-Cities: Boston, Chicago, Denver, Las Vegas, Los Angeles, Miami, New York, San Diego, San Francisco, WDC		

Colorado Foreclosures Down 14%

December 4, 2008

Source: http://dola.colorado.gov/newsletter/main?newsletter_item_id=800



Colorado Foreclosures Down 14%

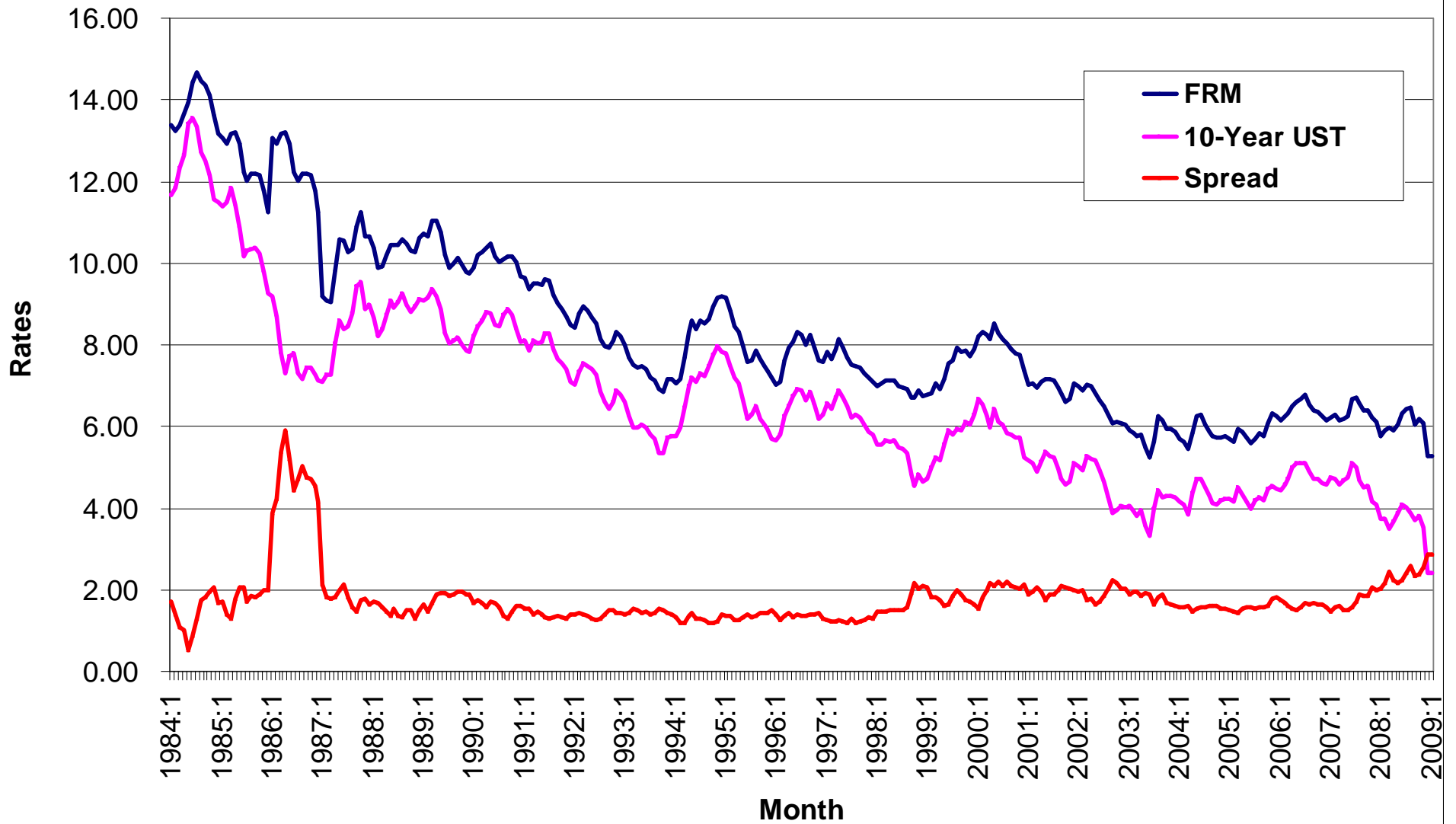
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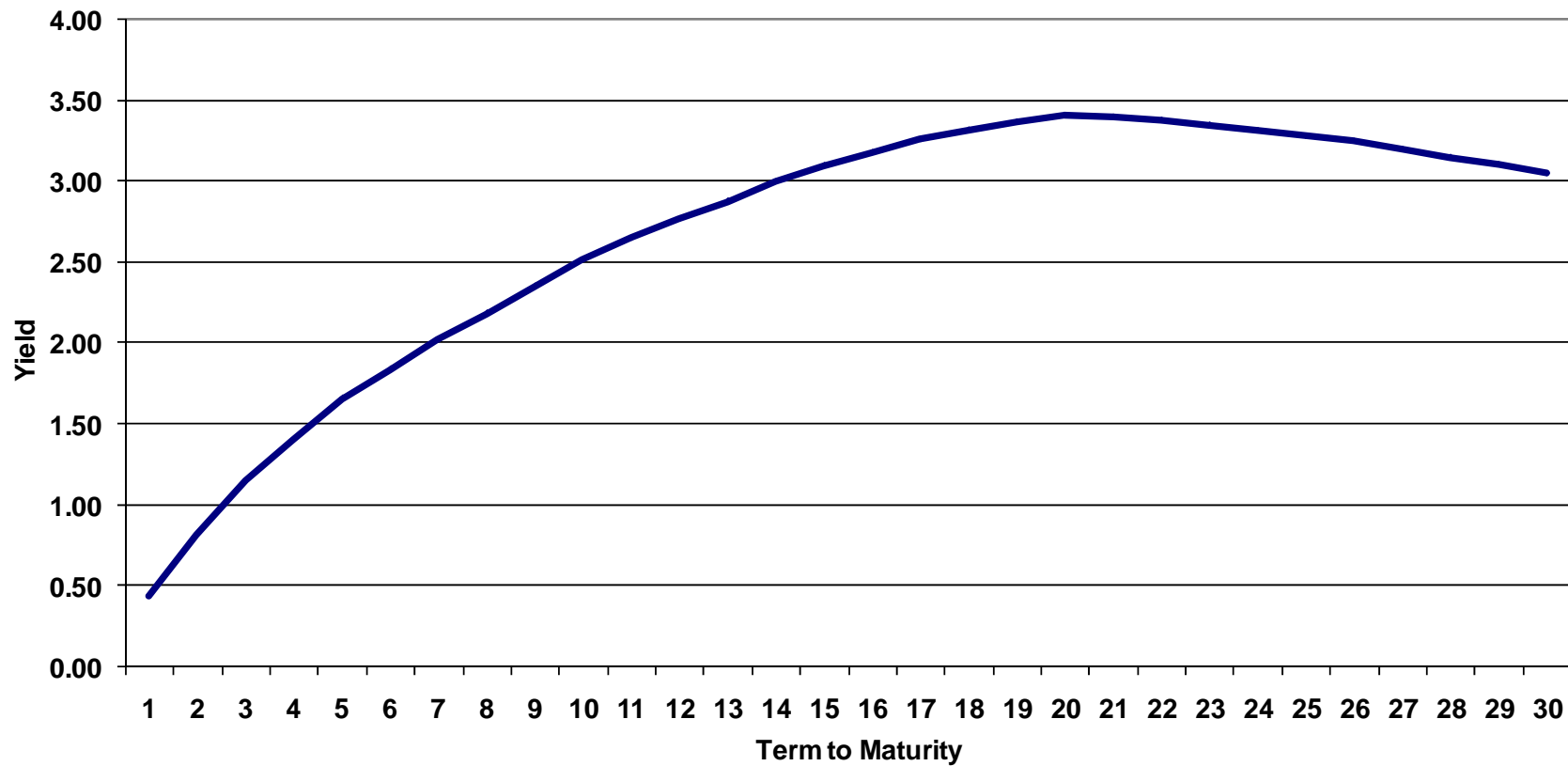
MSA	Metro County	Foreclosure Sales			Foreclosure Filings		
		Jan-Sept 2007	Jan-Sept 2008	% Change	Jan-Sept 2007	Jan-Sept 2008	% Change
Boulder							
	Boulder	394	357	-9.4%	696	781	12.2%
Colorado Springs							
	El Paso	1,496	1,556	4.0%	2,573	3,400	32.1%
Denver-Aurora							
	Adams	3,435	2,593	-24.5%	4,540	4,386	-3.4%
	Arapahoe	3,154	2,633	-16.5%	4,529	4,492	-0.8%
	Broomfield	111	90	-18.9%	177	210	18.6%
	Denver	3,727	3,534	-5.2%	5,879	4,826	-17.9%
	Douglas	1,031	814	-21.0%	1,267	1,575	24.3%
	Jefferson	1,601	1,334	-16.7%	2,554	2,768	8.4%
Fort Collins-Loveland							
	Larimer	763	615	-19.4%	1,106	1,266	14.5%
Grand Junction							
	Mesa	74	74	0.0%	286	343	19.9%
Greeley							
	Weld	1,423	1,151	-19.1%	2,043	2,154	5.4%
Pueblo							
	Pueblo	777	584	-24.8%	1,080	973	-9.9%
TOTAL		17,986	15,335	-14.7%	26,730	27,174	1.7%

30-Year Fixed Rate Mortgages

1984-2008



US Treasury Yield Curve (As of 7JAN2009)

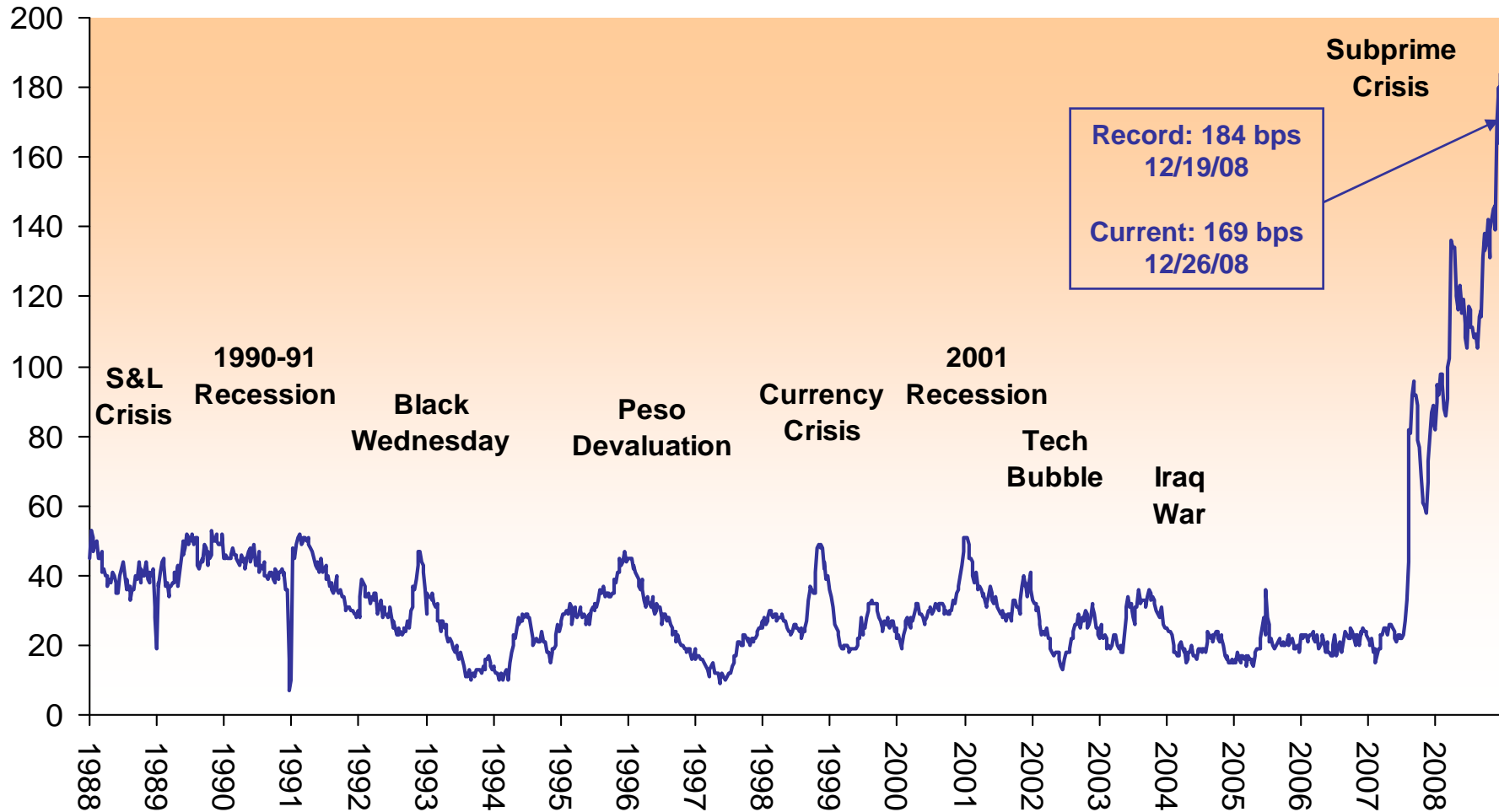


Year	Expected Yields on 10-Year UST	Conforming Rate
2009	2.87%	4.67%
2010	3.16%	4.96%
2011	3.40%	5.20%
2012	3.65%	5.45%
2013	3.83%	5.63%
2014	3.99%	5.79%
2015	4.14%	5.94%
2016	4.24%	6.04%
2017	4.29%	6.09%
2018	4.31%	6.11%

Month	(Expected) Yields on 10- Year UST	Spread	Conforming Rate
DEC 08	2.42%	2.90%	5.32%
JAN 09	2.46%	2.70%	5.16%
FEB 09	2.50%	2.50%	5.00%
MAR 09	2.54%	2.30%	4.84%
APR 09	2.58%	2.10%	4.68%
MAY 09	2.62%	1.90%	4.52%
JUN 09	2.67%	1.80%	4.47%
JUL 09	2.71%	1.80%	4.51%
AUG 09	2.75%	1.80%	4.55%
SEP 09	2.79%	1.80%	4.59%
OCT 09	2.83%	1.80%	4.63%
NOV 09	2.87%	1.80%	4.67%

Jumbo Spreads Have Spiked to Record Levels

Effective Interest Rate Spread Between Jumbo and Conforming 30-Year Fixed-Rate Mortgages (Basis Points)



Source: Freddie Mac and HSH Associates (last data: week ending 26DEC2008)

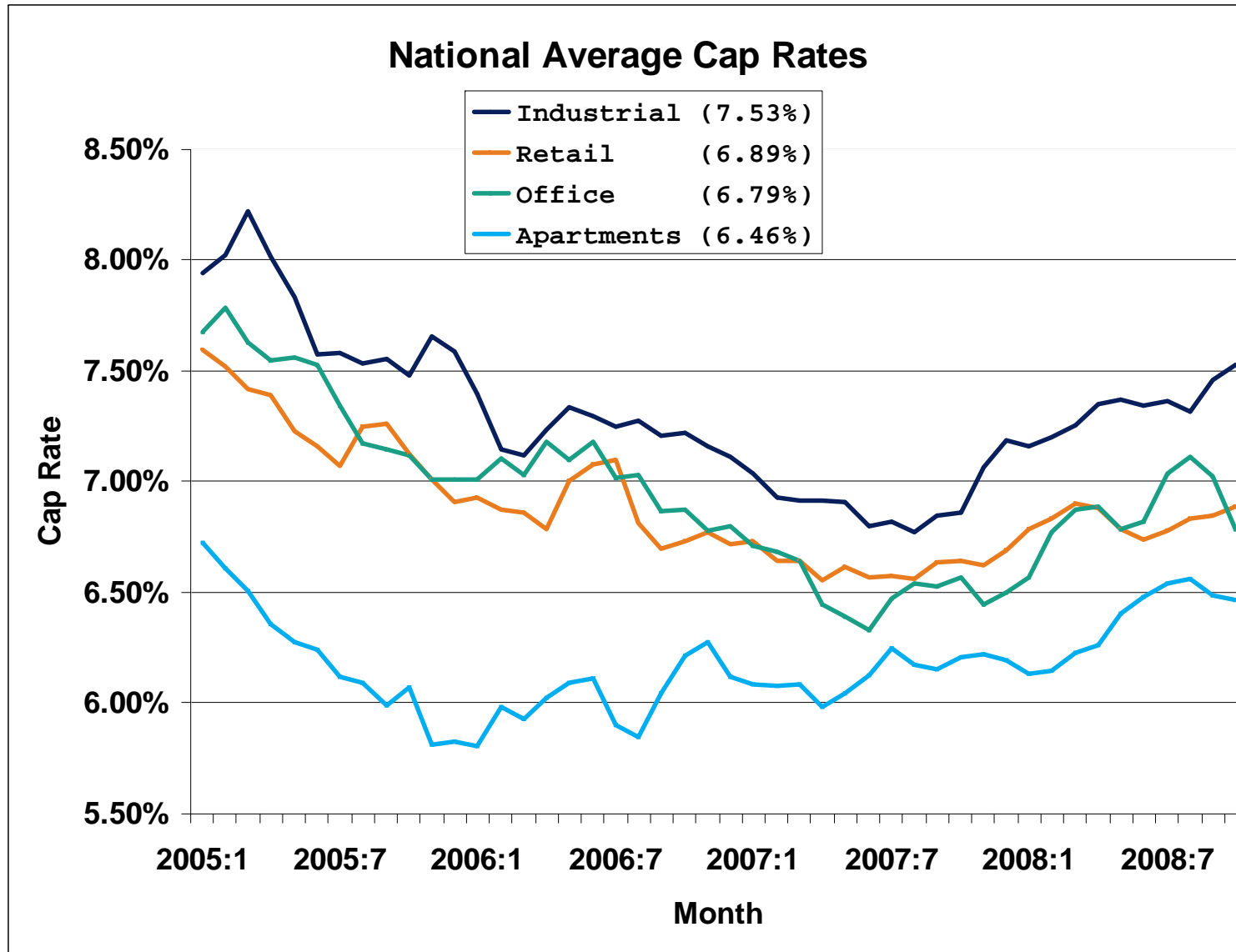
Note: Effective spread adds fees and points to the interest rate.

The Residential Property Bailout

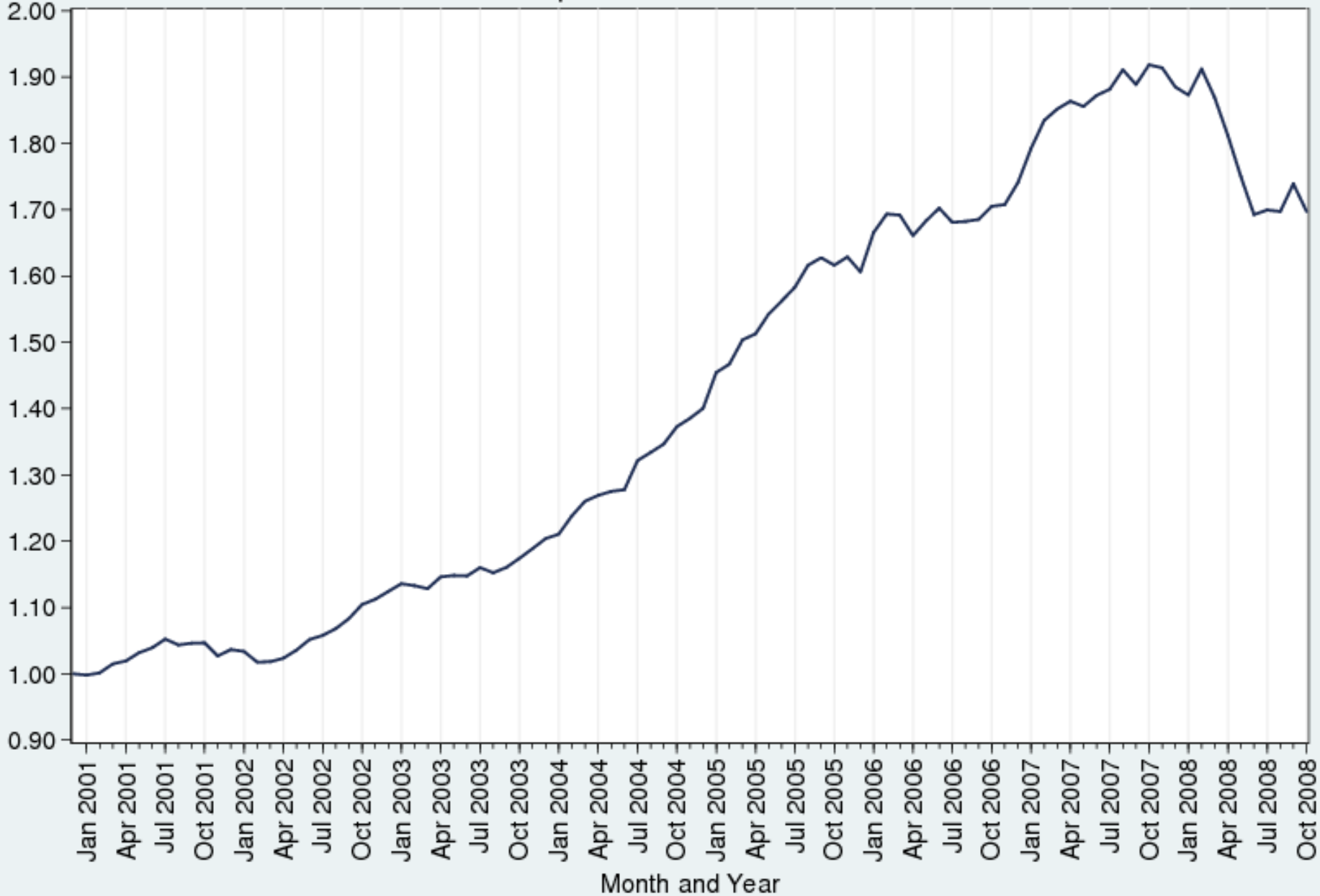
- The Federal Housing Finance Agency (FHFA, formerly OFHEO)
 - Streamlined modification program that helps homeowners avoid foreclosure
 - Targets borrowers who missed 3 mortgage payments
 - Reduce monthly mortgage payment to 38% of household income
 - Regardless of outstanding mortgage balance
 - Regardless of house price
 - Loan servicers paid \$800 per completed modification
- FHA announces new loan limits
 - \$625,500 in some high cost areas
 - \$406,250 in Denver, Colorado
 - <https://entp.hud.gov/idapp/html/hicost1.cfm>
 - FHA Originations More than Doubled in First Half of 2008
- 30-Year Fixed Rates fell to 5.01% in latest weekly Freddie Survey (1/08); the lowest FRM in Freddie Mac history.
- US Treasury reportedly considering a proposal to drop long term mortgage rates to 4.5% (http://www.mercurynews.com/ci_11133357)

Commercial Property Cap Rates

Source: Real Capital Analytics



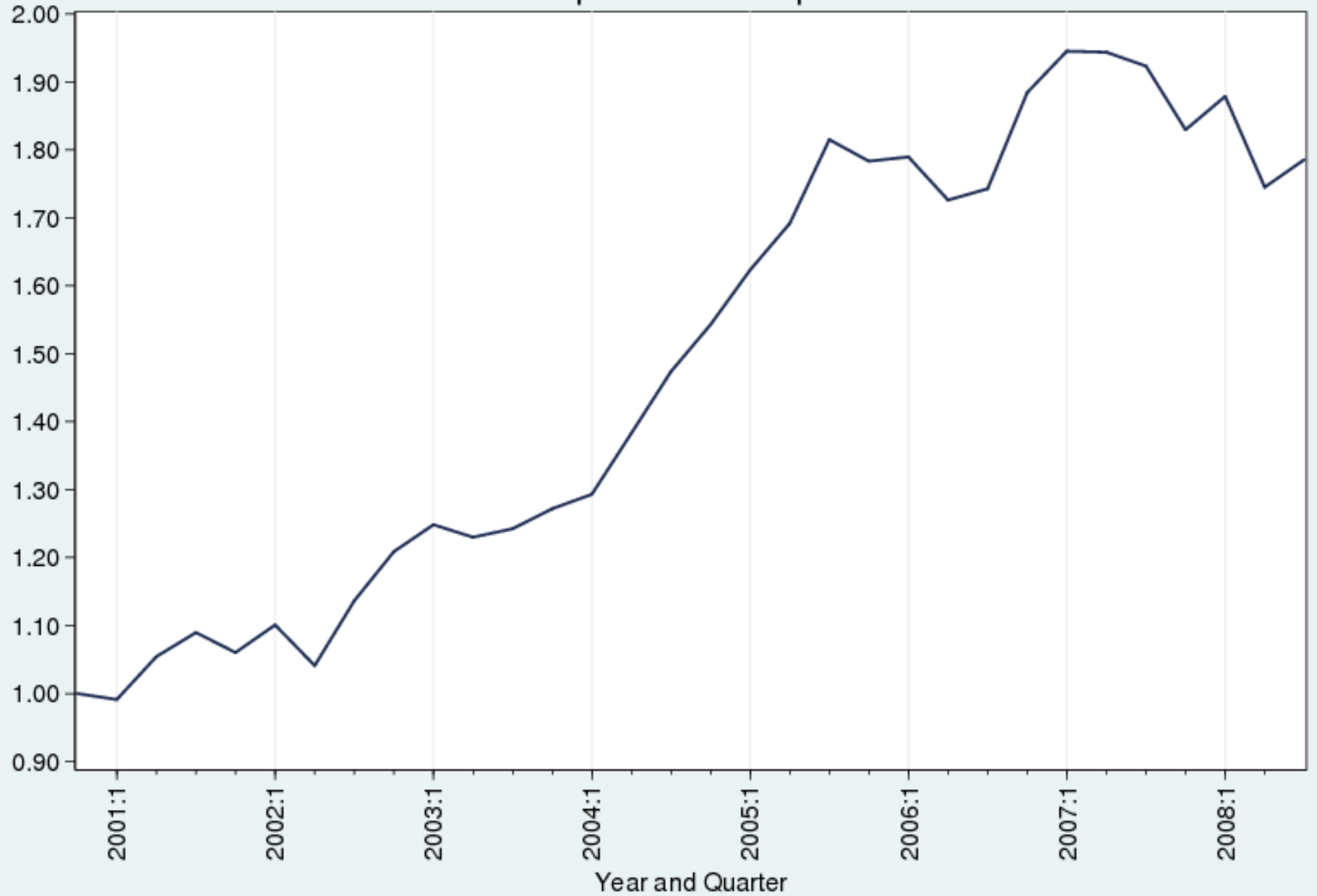
All Properties – National Index



MIT Center for Real Estate – <http://mit.edu/cre>

Real Capital Analytics (RCA) – <http://www.rcanalytics.com>

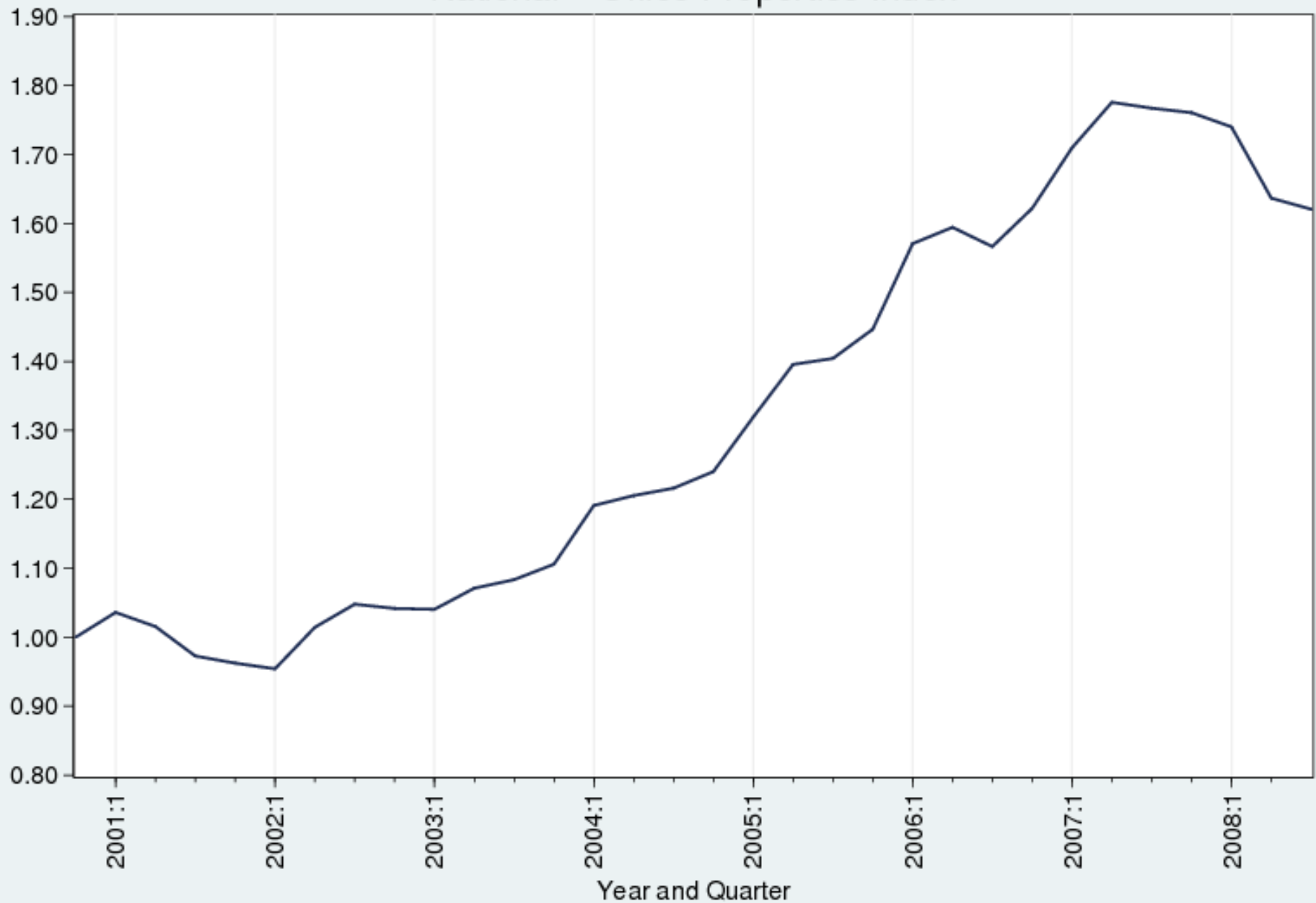
National – Apartments Properties Index



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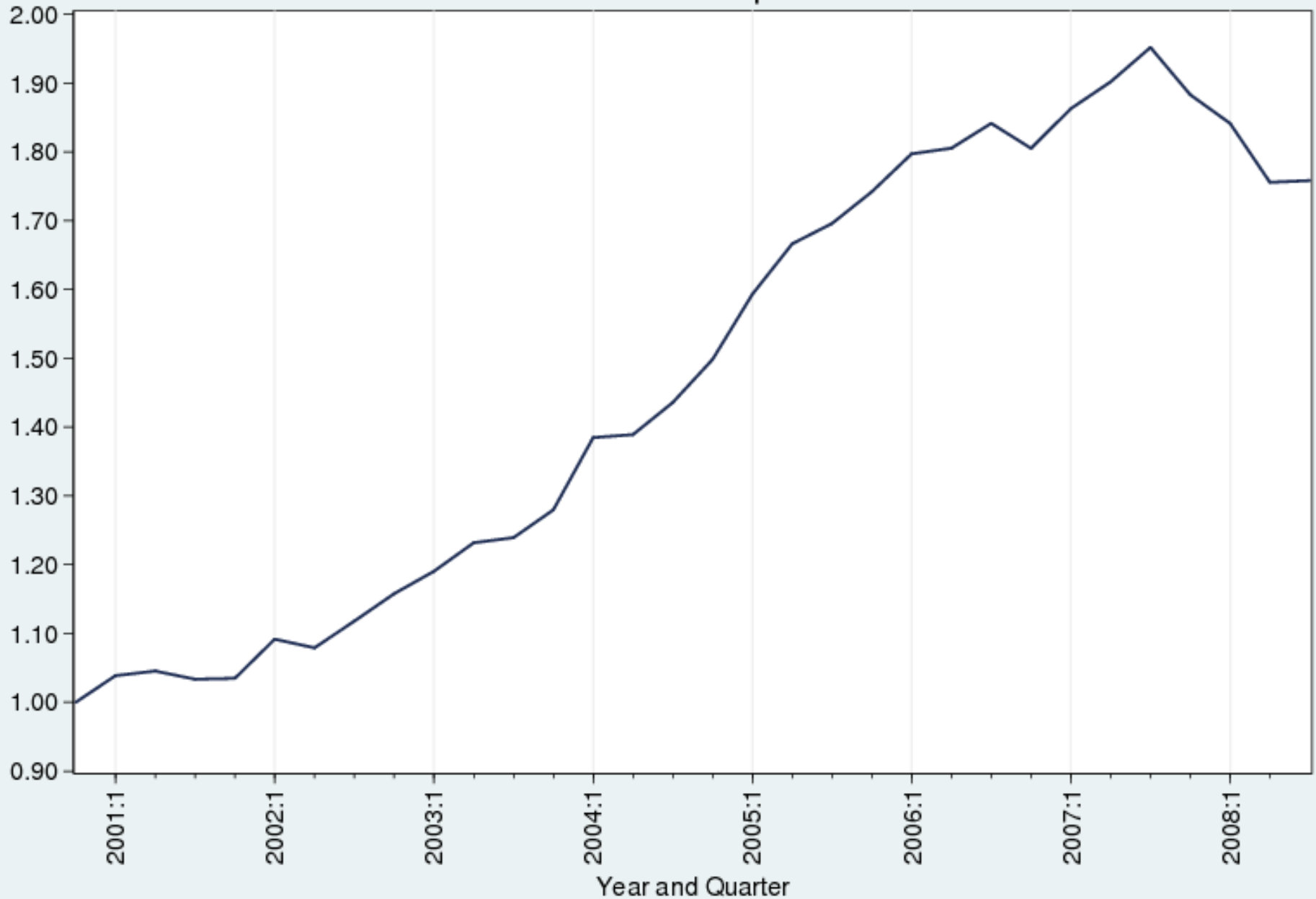
National – Office Properties Index



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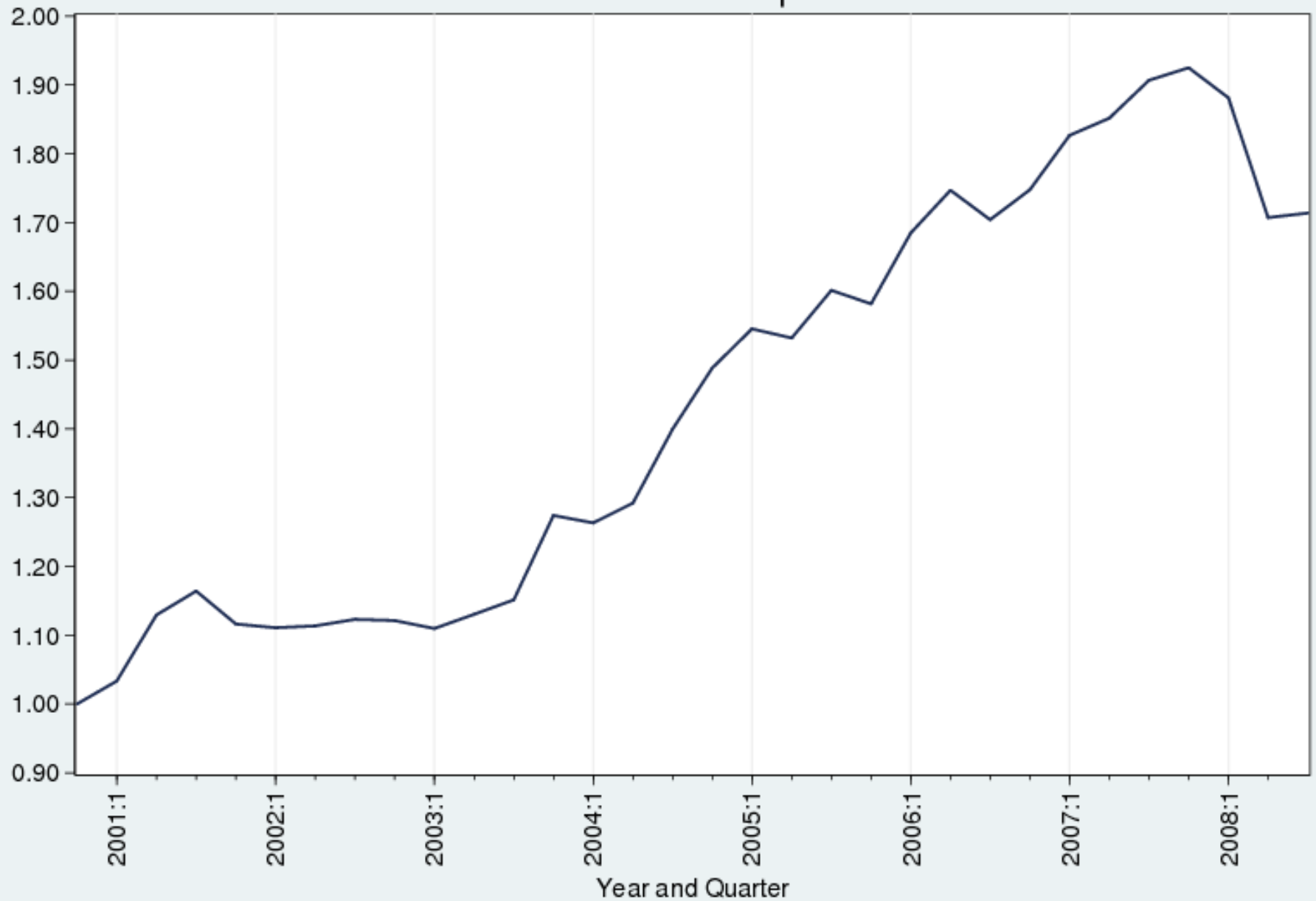
National – Retail Properties Index



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National – Industrial Properties Index



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Denver Apartment Properties

Source: Real Capital Analytics

Denver Properties		Apartments		
YTD Through November:		2008	2007	Change
Dollar Volume (Millions)		\$668.0	\$1,650.0	-59.5%
Number of Properties Sold		32	71	-54.9%
Average Cap Rate		7.30%	5.70%	+ 160 bps
Average Per Unit Price		\$86,138	\$97,525	-11.7%
Buyers (November Report)				
Institutional		20.0%	28.0%	
Foreign				
REIT/Public			8.0%	
Fund		9.0%	5.0%	
Private		68.0%	57.0%	
User/Syndicator/Other		3.0%	2.0%	
Source: Real Captial Analytics (November, December)				

Denver Office Properties

Source: Real Capital Analytics

Denver Properties		Office		
	YTD Through November:	2008	2007	Change
Dollar Volume (Millions)		\$966.0	\$3,340.0	-71.1%
Number of Properties Sold		41	85	-51.8%
Average Cap Rate		7.00%	7.00%	-
Average PSF Price		\$174	\$185	-5.9%
Buyers (November Reports)				
	Institutional	41.0%	28.0%	
	Foreign	4.0%	8.0%	
	REIT/Public	2.0%	1.0%	
	Fund	7.0%	47.0%	
	Private	39.0%	9.0%	
	User/Syndicator/Other	7.0%	7.0%	
Source: Real Captial Analytics (November, December)				

Denver Industrial Properties

Source: Real Capital Analytics

Denver Properties		Industrial	
YTD Through November:	2008	2007	Change
Dollar Volume (Millions)	\$367.0	\$359.0	2.2%
Number of Properties Sold	26	35	-25.7%
Average Cap Rate	7.10%	6.80%	+ 30bps
Average PSF Price	\$60	\$76	-21.1%
Buyers (November)			
Institutional	25.0%	9.0%	
Foreign			
REIT/Public			
Fund	4.0%	6.0%	
Private	32.0%	73.0%	
User/Syndicator/Other	39.0%	12.0%	
Source: Real Captial Analytics (November, December)			

Denver Retail Properties

Source: Real Capital Analytics

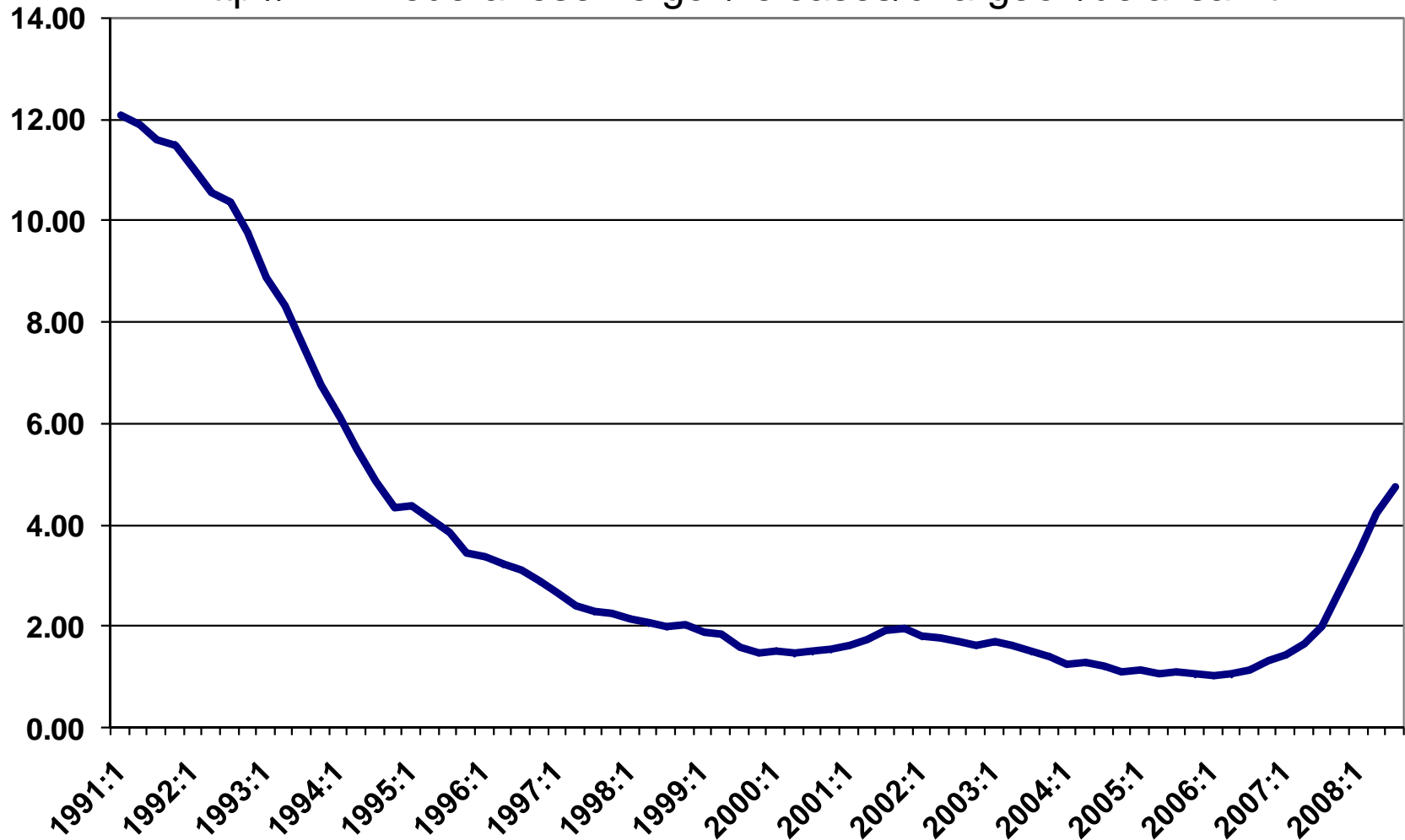
Denver Properties		Retail		
YTD Through November:		2008	2007	Change
Dollar Volume (Millions)		\$263.0	\$1,208.0	-78.2%
Number of Properties Sold		19	68	-72.1%
Average Cap Rate		7.20%	6.60%	+ 60 bps
Average PSF Price		\$213	\$195	9.2%
Buyers (November Reports)				
Institutional		43.0%	13.0%	
Foreign		8.0%	13.0%	
REIT/Public			27.0%	
Fund			7.0%	
Private		40.0%	34.0%	
User/Syndicator/Other		9.0%	6.0%	
Source: Real Captial Analytics (November, December)				

Cap Rates in 2009

- Cap rates depend on
 - Required return on equity
 - up several hundred basis points
 - Cost of debt
 - Leverage
 - Expected appreciation in property values
- Between 1980 and 2000, commercial property values appreciated about 2.8% annually.
- Between 2000 and 2007, property values increased over 6.5%/year.
- Cap rates will continue to increase to 7.5%-8.5% range.

Commercial Loan Delinquency Rates

<http://www.federalreserve.gov/releases/chargeoff/delallsa.htm>



Quarter	GDP Forecast	Commercial Loan Delinquency Forecast
2008:4	-4.5	5.19
2009:1	-2.7	5.58
2009:2	-1.7	5.88
2009:3	-0.2	6.09
2009:4	0.2	6.21
2010:1	0.6	6.27
2010:2	0.6	6.27
2010:3	0.6	6.23
2010:4	0.6	6.17
GDP Forecasts from Moody's Economy.com		
	and The Economist	

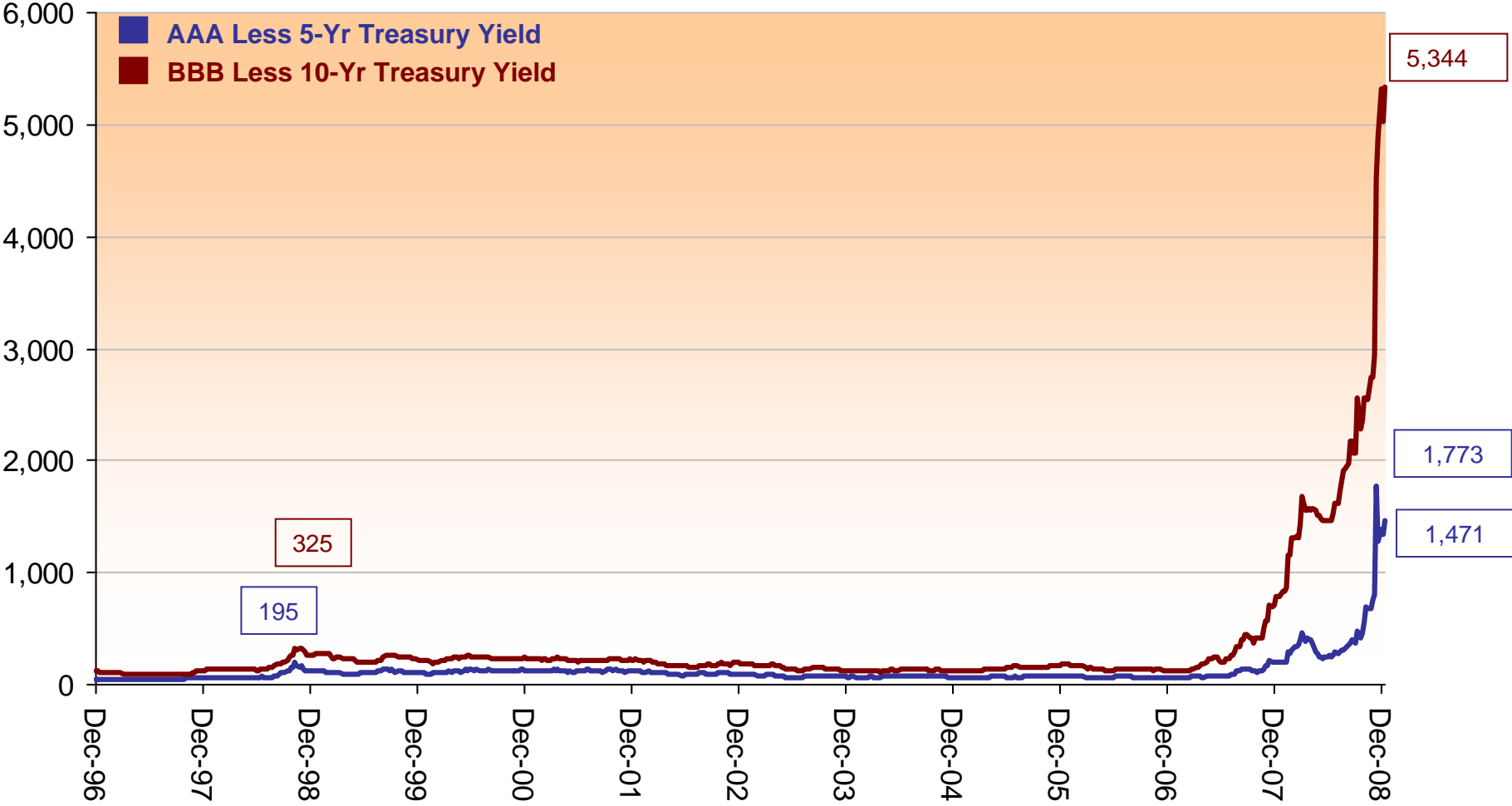
Commercial Loan Refinancing in 2009

- There are between \$140B and \$300B in commercial property loans up for refinancing in 2009
- Where will the money come from?
 - Spreads very high
 - Expand TALF to include CMBS???

	Commercial Mortgage Rate Spreads for 5-10 Year Fixed-Rate Mortgages	
Property Type	<65% LTV	>65% LTV
Multifamily	+300 – 350	+325 – 375
Regional Malls	+350 – 450	+450 – 500
Strip/Power Centers	+400 – 450	+450 – 550
Multi-Tenant Industrial	+350 – 400	+400 – 500
CBD Office	+350 – 400	+400 – 550
Suburban Office	+350 – 450	+400 – 600
Full-Service Hotel	+400 – 500	500
Limited-Service Hotel	+400 – 500	500
	5-Year Treasury – 1.63%;	
	10-Year Treasury – 2.66%	
Source: Cushman & Wakefield Sonnenblick-Goldman, LLC.		
Source: http://www.uli.org/ResearchAndPublications/CapitalMarketsUpdate.aspx		

CMBS Spreads Have Reached Record High Levels

CMBS Spreads to Treasury Securities (Basis Points)



Source: Freddie Mac and Morgan Stanley (last data: week ending December 19, 2008)



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