Outlook 2010

INVESTMENT

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CURRENT TRENDS IN THE EQUITY CAPITAL MARKETS

- Trophy or Train-wreck is still primary theme.
  - Widely divergent pricing based on asset quality, location, occupancy or distressed.
- Few “distressed” deals of quality.
- Activity began to increase in Summer 2009 & has doubled in the past 5 months, but still not a “flood”.
  - Only 2 significant office deals done in 2009.
- Lack of sale transactions has made asset pricing immensely challenging.
- Public markets continue to drive capital to our market, although recent volatility has caused concern.
- Pricing has increased by 10%-15% from the bottom with cap rates tightening 100-150 bps for yield profile deals – but still down 20%-35% from the peak values.
- Sellers drawn back to the market as liquidity has increased.
- Lack of return in other asset classes is a primary driver right now.

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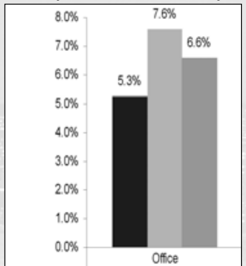
PRICING DYNAMICS

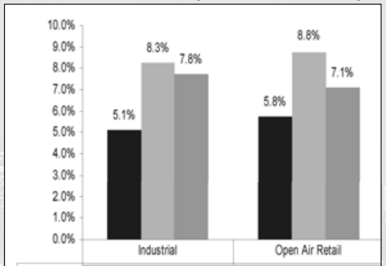
- Many public REITs solved their short term balance sheet issues, raised significant new capital and are bidding aggressively.
- Private REITs and Private Equity Funds likewise raised, and many are still raising, substantial amounts of capital and must place it.
- Many domestic pension funds are now underweighted in real estate and are vigorously re-engaged, primarily for multi-housing, Class A retail, and true core office.
- Offshore equity have become active bidders, finally touching Denver as well.
  - Germans
- Many institutional investors are beginning to offer equity joint venture structures to be competitive in this tight supply market.
- Many owners sense bottoming of the market, cap rates compressing to below historic mean, opportunity to take advantage of the tight supply conditions and raise equity for future business operations.

PRIMARY MARKET PRICING (INITIAL YIELD)



	Office
May 2007	5.0 - 5.5%
March 2009	7.3 - 7.9%
June 2010	5.9 - 7.3%

PRIMARY MARKET PRICING (INITIAL YIELD)



	Industrial	Open Air Retail
May 2007	4.8 – 5.5%	5.5 – 6.0%
March 2009	8.0 - 8.5%	8.5 – 9.0%
June 2010	7.5 - 8.0%	6.8 – 7.5%

DENVER IS A VALUE

- Active institutional buyers remains primarily focused on costal markets.
- Stabilized cap rates for top properties have been driven down to the 5.5% to 6.5% range, with a few sub 5.0% cap rate deals as well.
- On a relative basis, a 7.5% cap rate for a quality, stabilized, well located Denver office asset is now more attractive.
- True Class A multi-family or retail could push below 7.0%.

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2010 YTD MAJOR SALES - DENVER






Date	Address / Property Type	Price (MM)	SF/ Units	Price PSF/ Unit	% Occ. at Sale	Cap Rate	Seller / Buyer
April 10	RE/MAX International HQ 5075 S Syracuse St Denver, CO **Office – Sale Leaseback**	$75.0	233,998 SF	$320.52	74%	7.8%	RE/MAX International/ HRPT Properties Trust
May 10	Union Tower 165 S Union Blvd Lakewood, CO **Office**	$20.3	198,916	$101.80	87%	8.6%	KBS Realty Advisors/ TA Associates Realty
May 10	Crescent VIII 8350 E Crescent Pkwy Greenwood Village, CO **Office**	$12.5	82,265	$151.95	98%	8.6% Est.	RREEF America/ KBS REIT II
May 10	181 Inverness 181 Inverness Dr W Englewood, CO **Office - Foreclosure**	$3.0	94,139	NA	0%	N/A	Public Trustee of Arapahoe County/ San Miguel Valley Corp
May 10	Crossroads II 8350 E Crescent Pkwy Greenwood Village, CO **NOTE SALE**	N/A	118,206	N/A	N/A	N/A	PNC Bank
January 10	Terrace Tower 5619 DTC Pkwy Greenwood Village, CO **Office**	$18.4	241,211	$76.28	82%	9.4%	Allianz Bank / Alliance Commercial Properties

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STATE OF THE DEBT MARKETS

- Europe challenges are our friend (for now…), pushing 10 year Treasury yields to near historic lows.
- Liquidity and lack of yield have pushed spreads tighter in every asset class.
- CMBS has re-emerged and is positioned to grow, although recent volatility has slowed demand.
- Multiple lenders are aggressively quoting deals with 5 year quotes in “low 4’s” and 7 year quotes in “high 4’s” for quality 55-65% LTV deals.

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CURRENT FINANCING MARKET TAKEAWAYS

- Balance sheet lender activity is growing.
- The market for conduit style refinance and acquisition loans is growing.
- Rates are at levels we never expected to see again.
- The CMBS market is moving away from agented deals to principal deals.
- Volatility associated with Sovereign debt concerns is the biggest challenge.

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COMMERCIAL BANKS & LIFE COMPANIES

SELLERS:

Weaker Regional Banks

- Unlikely sellers due to capital constraints
- FDIC seizures likely to peak over next 12 months

Larger Banks

- Should be close to fully reserved by mid 2011
- Sales of REO, Loans, Mezzanine will increase in late 2010
- Becoming more aggressive with borrowers to force recaps or sales given market liquidity

SPECIAL SERVICERS – FIXED RATE

- Increased selling of loans and properties < $20mm
- Willingness to restructure and extend larger loans
- Likely to trigger a significant number of recapitalization opportunities
- May not trigger as much institutional sale opportunities as we expected

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COMMINGLED FUNDS

- Primarily driven by
  a. Fund Life
  b. Redemptions
  c. Leverage
  d. 2009 Write Downs

- Debt Funds selling Mezzanine & B Notes

- Certain funds are taking advantage of “scarcity of product” to sell while rates are low.

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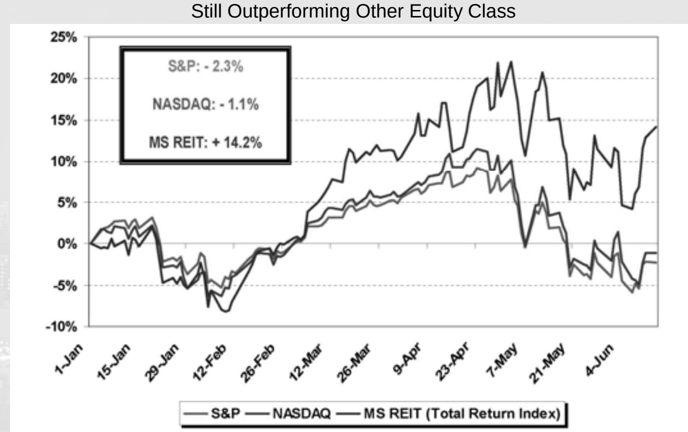
2010 PERFORMANCE

Still Outperforming Other Equity Class



Source: Bloomberg, as of June 15, 2010

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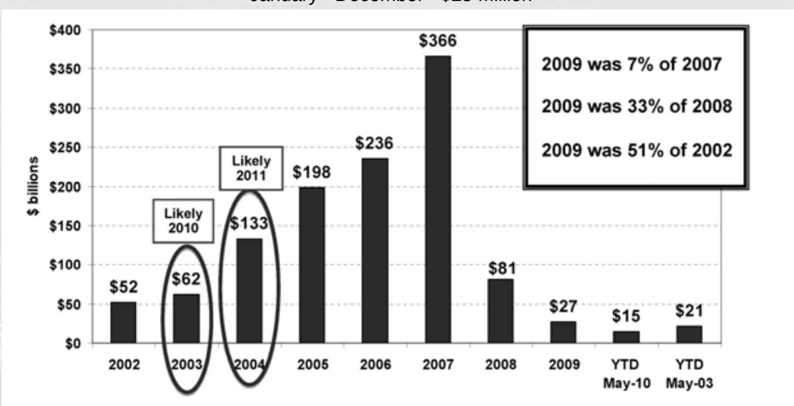
U.S. SALES VOLUME

January - December >$25 Million



Source: Real Capital Analytics

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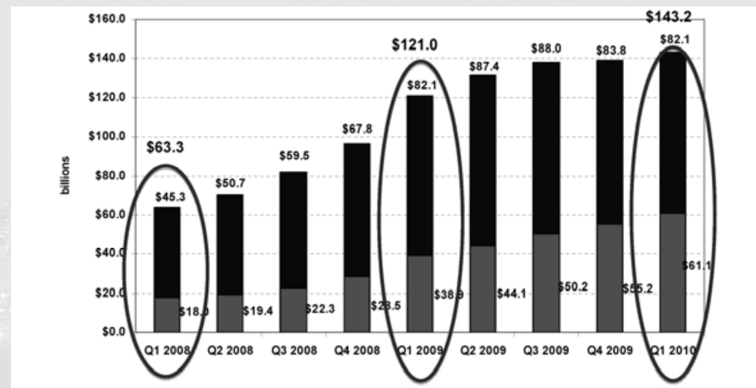
FUTURE SUPPLY

Commercial Banks & S&Ls 30+ Days Past Due & Nonaccrual
Commercial, Construction & Land Development Loans



Source: FDIC – Insured Institutions

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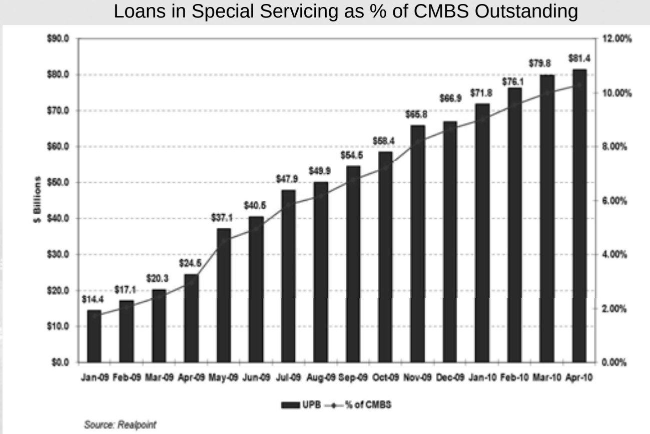
FUTURE SUPPLY

<u>Future Supply</u>

Loans in Special Servicing as % of CMBS Outstanding



UPB: Unpaid Principal Balance

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CONCLUSIONS

- 2010 & 2011 = peak defaults leading to increased sales activity.
- Tone in the debt market has been very positive in the last 5 months – tempered only by Europe challenges.
- Fundamentals are still flat to declining, but investors anticipate a recovery over the next 12-24 months and looking to buy now.
- Trophy investors focused on cash yield/ IRR .
- Trauma investors focused on basis and stabilized return on cost.
- Lack of quality assets on the market is leading to ongoing “scarcity premium” in many markets.
- Equity Sales transaction volume expected to reach 2003 levels, as activity accelerates during the second half of 2010 as more owners decide to test the market.
- Over the next year, we will discover at what level maturing loans will be able to reposition in a market where values are down some 30% to 40% from their peak and where underwriting standards have tightened significantly.
- Window of opportunity for sellers could narrow or close if supply dramatically increases, interest rates begin to creep up, and/or the U.S. economic recovery stagnates.

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