

2008 Mid-Year Review

Mary Sullivan, Ron Urgitus & Tim Swan

1. Seattle
2. New York
3. Washington, DC
4. Los Angeles
5. San Francisco
6. Boston
7. San Diego
8. **Denver**
9. Phoenix
10. Houston

Top U.S. Office Property Buy Recommendations

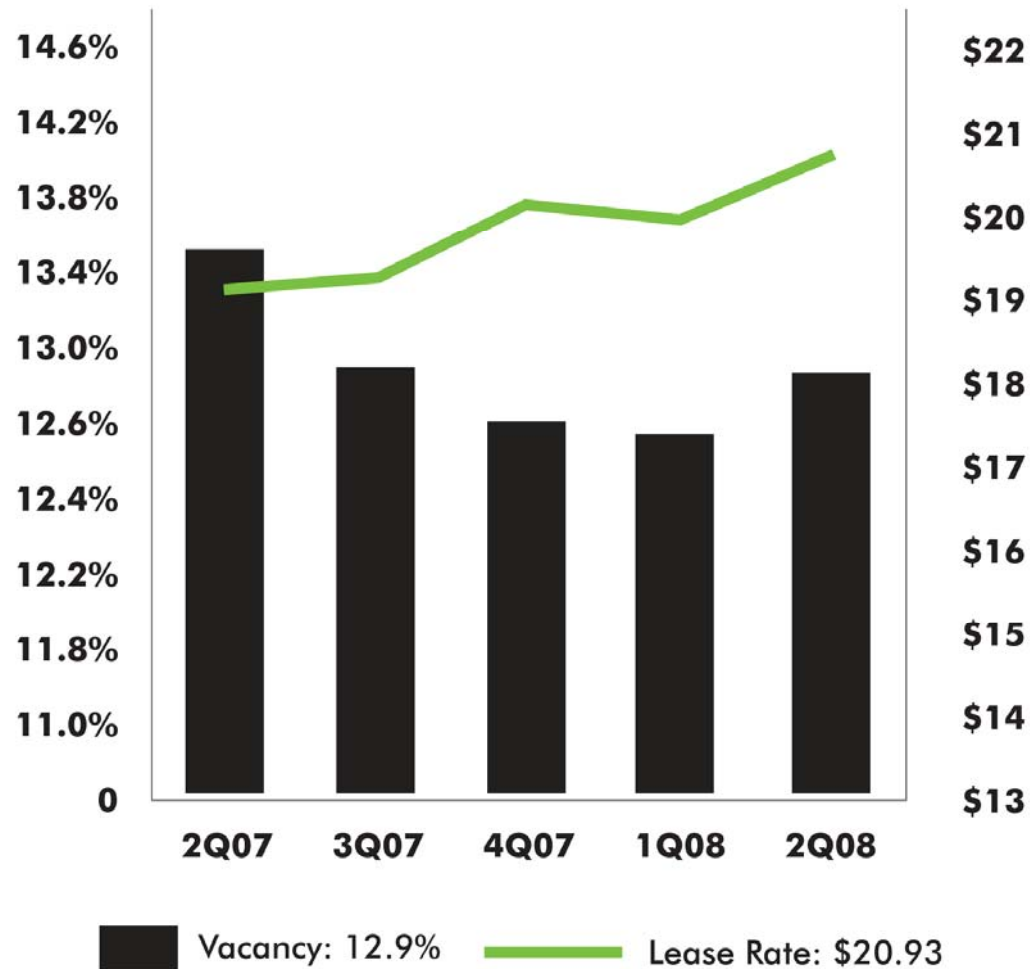
- Seattle
- Los Angeles
- **Denver**
- San Francisco
- Boston

Emerging Trends in Real Estate® 2008.

ULI—the Urban Land Institute and PricewaterhouseCoopers LLP.

Denver Office Vacancy vs. Lease Rate

DENVER OFFICE MARKET
Vacancy vs. Lease Rate



Changes In The Market

\$100,000,000 Deal	
2006	2008
<ul style="list-style-type: none"> • 10% Equity 	<ul style="list-style-type: none"> • 40% Equity
<ul style="list-style-type: none"> • 90% loan at 5% IO, 10 yrs. 	<ul style="list-style-type: none"> • 60% loan at 6.5% IO, 2 yrs.
<ul style="list-style-type: none"> • \$5,000,000 NOI • <u>\$4,500,000</u> DS • \$ 500,000 Net Cash 	<ul style="list-style-type: none"> • \$5,000,000 NOI • <u>\$3,315,000</u> DS • \$1,685,000 Net Cash
<ul style="list-style-type: none"> • 5% Return on Equity – Year 1 	<ul style="list-style-type: none"> • 5% Return on Equity
	<ul style="list-style-type: none"> • \$85,000,000
<p>Cap Rate Increase: 88 bps Change in Value: 15%</p>	

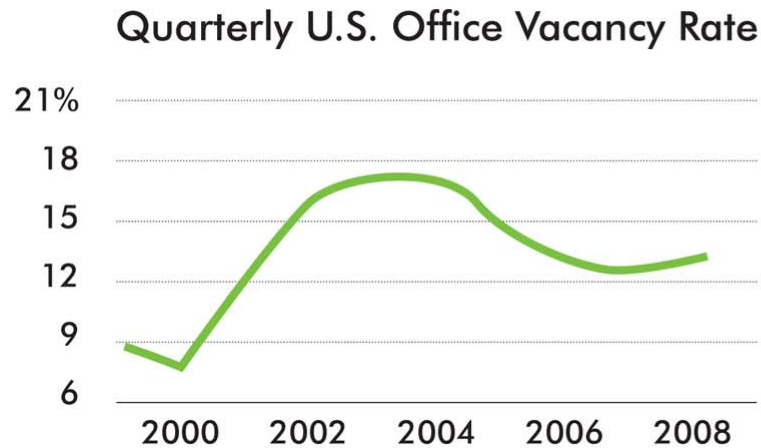
High Profile Sales



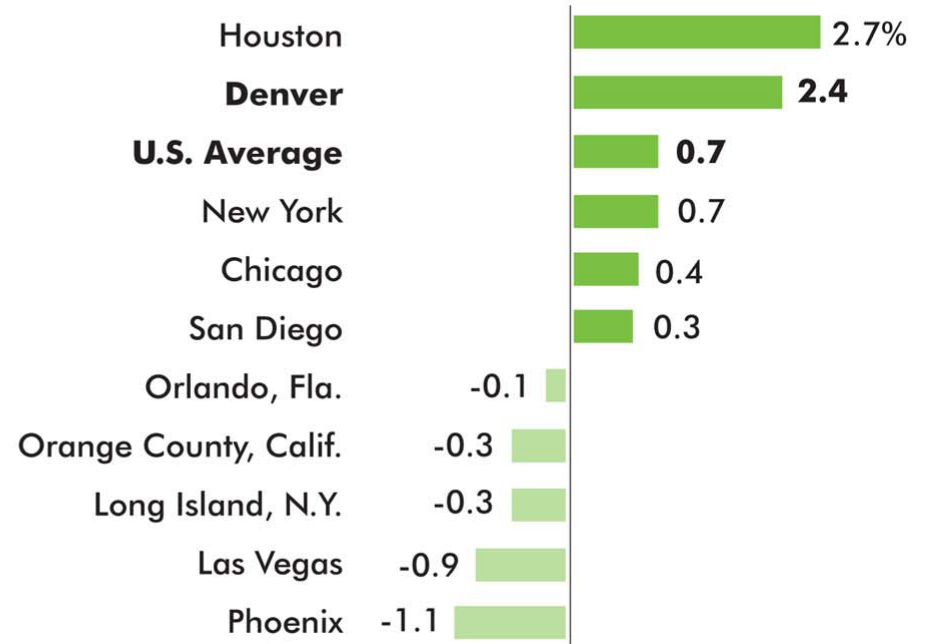
There is a flight to quality: “The only thing that's trading is the good assets,” says Dan Fasulo, managing director at Real Capital Analytics.

National Office Lease Rates

- Office Blues:** Companies rented less office space in the second quarter, causing rents to grow more slowly, or even drop, in some cities.



Effective Office Rents; Change from Previous Quarter



Source: Reis

Cap Rate Conversion



	Static Cap Rate	Price/SF
Signature Centre	5.64%	\$200.00
Tamarac Plaza	5.54%	\$115.00
44 Cook & 55 Madison	4.18%	\$215.00
The Citadel	4.24%	\$243.01
Northrop Grumman	7.65%	\$186.92
TIAA	6.28%	\$174.57



1801 California



The Landmark



Harvest Junction



Willow Run

2008 Return To Fundamentals

- Tremendous amount of equity remaining in the market—cautious
- Credit markets will settle down, but perhaps not until mid-2009
- Return to a more normalized conditions—certainty of pricing on actual underlying fundamentals
- Frenzy is gone but the market remains healthy—at least in Denver
- Markets going “back to basics”—creating value at the property level
- Focus on markets with rental growth
- Flight to Quality: Best-of-class assets will continue to achieve strong values and attract bidders
- Vultures waiting for repricing of distressed assets