

Quarterly Market Report Denver, Colorado

Q4 2005

From Our Perspective...

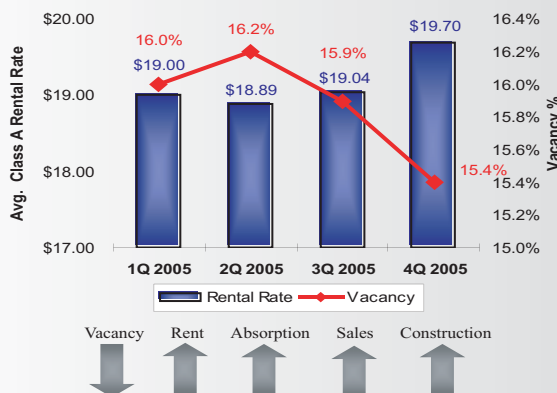
Office Market

The year ended on a positive note for the metro Denver office market. The recovery has been steady as vacancy declines, absorption increases and lease rates rise slightly. The Metro Denver office market ended the year with a vacancy rate of 14.7%, down from 15.5% in the previous quarter. Average rental rates inched up to \$17.25 per square foot at year end, from its previous average of \$17.05 per square foot. Net absorption for the overall Denver office market was a strong 1,275,325 feet absorbed compared to 1,067,480 square feet absorbed in the third quarter. The Central Business District saw an increase in average rental rates from \$18.00 to \$18.47. Likewise, the Southeast market rose from \$16.37 per square on average to \$16.61. The Northwest market saw a slight decrease in average rental rate from \$16.96 to \$16.85. Cherry Creek class A office buildings are at an average of \$25.53 per square foot compared to the Central Business District's and Southeast's Class A average of \$20.43 and \$18.57 respectively in the fourth quarter. Sales in Denver are remarkable as well. We experienced a record setting year in terms of the amount of money that flowed into Denver office properties from investors, both local and national. Investors acquired nearly \$3 billion in commercial real estate which is double the amount in 2004. It is predicted this number will grow to \$4 billion in 2006. With an increase in institutional money and a decrease in available properties, prices will continue to escalate. In addition, cap rates have been lower in 2005 averaging, 7.77% compared to the 8.82% number in 2004. Construction activity also escalated in the fourth quarter with 264,851 SF of office space currently being built in the Denver metro area. If forecasts prove to be correct, Denver will continue to see improved job growth leading to a decrease in office vacancy, an increase in rental rates and an increase in absorption.

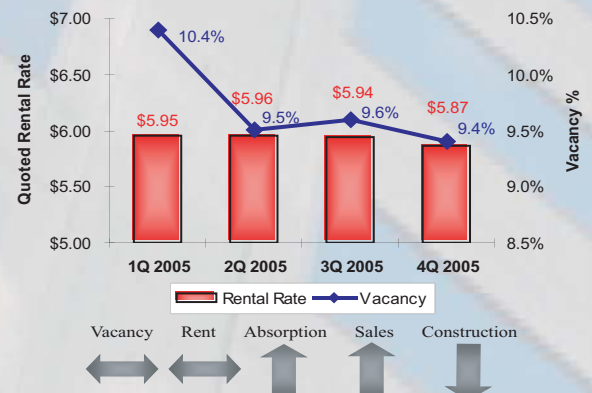
Industrial Market

The Denver Metro Industrial market remained flat in terms of rental rates and vacancy for the fourth quarter of 2005. Vacancy continued to stay around 9.5%. Rental Rates on average decreased from \$5.95 per square foot to about \$5.87 per square foot at the years end. Broken down further, the office/flex sector ended the year with rates near \$8.66 on average, while warehouse rates stood at around \$4.86 on average. Net absorption however, was a positive 1,068,481. This was a significant increase from the beginning of the year which had a negative (76,591) feet absorbed. In fact, the absorption during the fourth quarter reached the highest level in over eight quarters. The year to date industrial building sales activity in 2005 is up compared to the prior year. In addition, cap rates have been lower in 2005 with an average cap rate of 8.25% compared to the first nine months of last year when the average was 8.92%. Overall, the East I-70/Montbello submarket had the lowest average rental rate of \$3.93 per square foot. Representing nearly a quarter of the market, the I-70 corridor has a little over 53 million square feet of rentable space. Industrial construction has remained historically low with 781,600 square feet currently under construction in the Denver metro area. We predict sales to shrink as interest rates continue to rise, leading to stronger leasing activity as well as higher lease rates. If construction activity remains minimal, demand is predicted to keep vacancies down through 2006. In general, activity is expected to remain strong as local and out of state users expand and relocate into Denver. Overall, the growth seen in both the national and local economies has greatly improved the Denver industrial market.

Denver Class A Office Market



Overall Denver Industrial Market



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Street News

LEASE	SALE	DEVELOPMENT
Corporate Express leased 83,003 square feet of office space at 777 South Sable in Aurora.	The Guaranty Bank Building located at 1331 17th Street sold for \$49.5M, or \$225 per square foot. The office building was acquired by Westfield Office Partners.	Alberta Development has begun construction on Southlands Office Buildings C, D, E, J, and K/L in Aurora. The buildings will be completed 3Q 2006 and total approximately 165,000 square feet.
Fidelity Exploration and Production leased 47,666 square feet of office space at the Wells Fargo Center located at 1700 Lincoln Street in the Central Business District.	Westfield Industrial Partners sold a building in the Denver Business Center for \$35.9M, or \$47.11 per square foot. IPC Denver, LLC purchased the property.	Opus Northwest broke ground on the Opus Business Center Building B this quarter. The 64,800 square foot warehouse building will be delivered 4Q 2006.
MasterCraft Cabinets leased 200,000 square feet of industrial distribution space in Prologis Park 70, Phase I, Building 2 in Aurora.	Concord Distribution Center I located at 8534 Concord Center Drive in Englewood sold for \$16.4M, or \$200 per square foot. Digital Concord Center LLC purchased the flex building.	The first building of the industrial development Taxi is under construction. Zeppelin Development is building the 60,000 square foot showroom & warehouse.
GE Appliances leased 172,400 square feet of warehouse space at 11777 East 55th Ave. in Denver.		

Source: CoStar & CPN

Economic Outlook

The US economy grew at a significant level in 2005 even in the shadows of the war in Iraq, rising energy prices, fears of inflation and a horrific hurricane season. The national economy is in the midst of a business-cycle expansion with solid gains expected in output, employment and income. Energy prices are likely to fall, inflation will be lower and interest rates are expected to move upward, as the economy continues to grow. The economy will continue to grow at a healthy pace in 2006 as businesses respond to stronger demand with increased spending on their capital assets and hiring more workers.

As usual, Colorado follows in the path of the national economy. As the national economy recovered and is currently in a state of stabilization, the Colorado economy is concluding its recovery stage. There's a lot to be excited about these days; the \$4.7 billion dollar Fast Tracks, the passing of referendum C, the Denver art museum expansion, the new convention center and hotel and Colorado's resurgence as a regional hub for energy companies. Local employment will continue to see gains in every sector with the exception of the information sector. Construction, health care, education and business services will continue to be the leading sectors in employment growth. Population growth should start to pick up, with net migration recovering after a low of only 3,100 net new migrants in 2004. As housing construction declines ever so slightly, sales activity remains robust, median prices continue to increase and apartment vacancies have decreased. The Metro Denver area remains attractive for business expansion with relatively affordable housing and a greatly improved infrastructure.