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The Krieger Report

Return Service Requested

Essential Information for Colorado NNN Retail Investors

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The Pinnacle Retail Group

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Volume 4, Issue 1

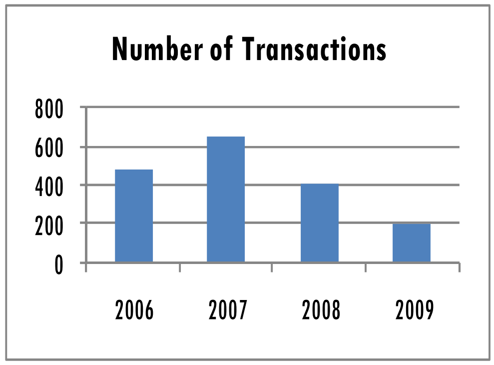
First Quarter 2010

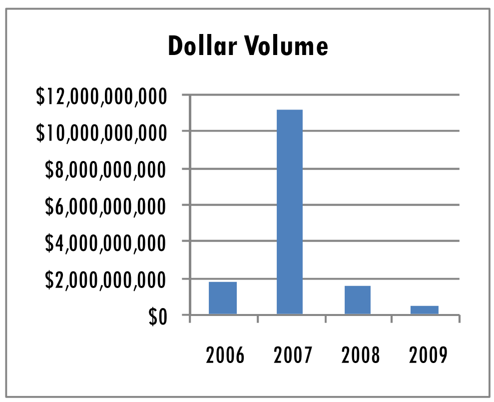
2010 Outlook

For most retail investors, 2009 was a year to forget. Many investors look upon 2010 optimistically because they think that things just *have* to improve. Despite that sentiment, there is currently little evidence to support a rapid turnaround in 2010. Investors who maintain a positive attitude but come prepared to deal with more adversity will be the ones who fare best in 2010.

The 2009 market was slow and largely marked by smaller single tenant transactions. Buyers who hoped for a wave of distress were largely disappointed, although some distressed deals did trade towards the end of the year. For example, the Colorado National Bank Building at 17th and Champa in downtown Denver sold in December for $4.5 million. The building was originally marketed for $15 million in February 2007, just after losing its sole tenant and before going back to its lender. While not all owners are in the difficult situation of losing the single tenant in a 100,000 SF building, there are still a lot of owners who are in uncomfortable situations, mainly due to vacancy and/or an imminent balloon payment. If the sale of the Colorado National Bank Building is a bellwether for distress sales going forward, then buyers should completely disregard 2005-2007 prices when determining today's value.

(cont'd p. 2)





Source: CoStar (Colorado retail investment property transactions)

Inside this

Featured Listings

Moneytree
Westminster, CO

$1,080,000

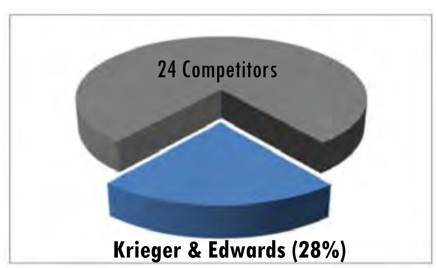
Woodridge Medical Complex
Lakewood, CO

$2,600,000

Macaroni Grill
Colorado Springs, CO

$2,585,000

Krieger & Edwards: #1 in 2009 Retail Market Share!



Source: CoStar (2009 Denver metro retail investment property cap rate transactions)

2010 Outlook (cont'd from p. 1)

In my conversations with lenders, there seems to be a greater sense of pessimism regarding existing loan portfolios than in previous months. As maturities for loans originated during the peak loom closer, there is a greater sense of urgency to do *something*, whether that means working with the borrower, extending the loan (extend and pretend), selling the note, or preparing to foreclose.

Despite the fact that retailers exceeded modest holiday projections, consumers are still weak and job growth is anemic. Without true organic growth, it is unlikely that consumers will return to spending more than they earn, which fueled the market at its peak and justified high rents and aggressive pro forma assumptions a few years ago. With that being said, it is quite possible that the American consumer will return to overspending, but it will take time.

2010 looks like it will be another interesting year for retail investors. While additional government intervention could throw a monkey wrench into the whole equation and artificially prop up the market to delay a seemingly inevitable correction, it is likely that 2010 will be a pivotal year where fortunes are made and lost. Those with the patience and stomach to ride this one out may be able to build fortunes in tough times by capitalizing on opportunities that present themselves.

Don't make crucial investment decisions without all of the facts!

Contact the market leaders for a complimentary investment analysis.

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Denver Retail Update: Fourth Quarter 2009

While retail property values appear to be headed towards a decline this year, operations on retail properties in metro Denver held up relatively well in the fourth quarter of 2009, particularly compared to national trends.

Vacancy & Sublease Space

Retail properties in metro Denver were 9.1% vacant at the end of the fourth quarter, which was a 20 bps increase from the first quarter of 2009. Vacant sublease space trended down during 2009 from 906,818 SF in the first quarter to 747,173 SF in the fourth quarter.

Net Absorption & Leases

Metro Denver absorbed positive 197,423 SF in the fourth quarter, which was the third straight quarter in 2009 with positive absorption. Tenants that took possession of large spaces in 2009 included Target at the River Point at Sheridan (175,000 SF) and King Soopers at the Shops at Quail Creek in Broomfield (99,844 SF). Major lease signings in 2009 were Lowe's signing a 70,000 SF deal at the Alameda Square Shopping Center in Denver and Nordstrom Rack at the former Circuit City building at 1505 S. Colorado Blvd. in Denver.

Rental Rates

Average quoted rental rates in metro Denver stood at $15.94/SF at the end of the fourth quarter, down 2.8% from the first quarter of 2009. Where leases are actually getting done at is harder to determine given varying landlord concessions and the scarcity of published information on executed leases, but it is likely that effective rents are down significantly, particularly in areas experiencing high vacancy.

Inventory & Construction

Nine retail buildings totaling 51,228 SF were completed in metro Denver in the fourth quarter of 2009, and a total of 1,945,907 SF of retail space was completed in 2009. There were 699,925 SF of retail space under construction at the end of the fourth quarter, bringing the total metro Denver retail inventory to 174,988,129 SF in 9,818 buildings and 1,359 centers.

Shopping Centers

Shopping centers in metro Denver, defined by CoStar as community, neighborhood, and strip centers, were 10.9% vacant at the end of the fourth quarter, a 10 bps improvement from the third quarter of 2009. (cont'd p. 3)

Source: The CoStar Retail Report: Denver Year End 2009

Denver Retail Update: Fourth Quarter 2009 (cont'd from p. 2)

Rental rates stood at $15.05/SF at the end of the fourth quarter, down 5.2% since the first quarter of 2009.

Power Centers

Power centers, defined as several freestanding anchors with a minimal amount of inline space, were 13.2% vacant at the end of the fourth quarter, a 50 bps increase from the third quarter of 2009. Rental rates stood at $22.77/SF at the end of the fourth quarter, down 2.5% since the first quarter of 2009.

General Retail

General retail properties, defined as freestanding buildings not contained within a center, were 7.2% vacant at the end of the fourth quarter of 2009 with rental rates at $14.06/SF.

Malls

Malls, defined as lifestyle centers, regional malls, and super regional malls, were 5.4% vacant at the end of the fourth quarter, a 30 bps improvement from the third quarter of 2009, and rental rates fell by 3.6% during that period to $23.88/SF.

Specialty Centers

There are seven specialty centers, defined as outlet centers, airport retail, and festival/theme centers, in metro Denver. They were 7.5% vacant at the end of the fourth quarter of 2009 with rental rates at $28.49/SF.

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The Colorado Beat: News and Notes from around the State

According to *Steve Ellington,* Denver's City Treasurer, 390 medical marijuana dispensaries (see The Krieger Report, Volume 3, Issue 3) have applied for sales tax licenses in Denver so far. As a source of comparison, there are only 208 *Starbucks* locations in the entire state.

Metrolist reported that existing home sales in metro Denver plunged a record 12% in 2009 compared to 2008. The median home price, however, stood relatively steady at $219,000, only $900 off of 2008's median price. The drop could have been worse had it not been for the first time homebuyers' tax credit, and residential brokers largely expect 2010 to be challenging as financing tightens up.

BizBuySell announced that there were 25% fewer Colorado businesses sold in 2009 compared to 2008, and median prices fell 38% compared to the previous year. 41 Colorado retail businesses sold last year with a median price of $145,000.

The trend towards smaller grocers continues as Boulder, CO-based *Sunflower Farmers Market* recently announced its tenth Colorado location in a portion of the former *Albertson's* in the *Arapahoe Marketplace* in Greenwood Village. Similarly, Lakewood, CO-based *Vitamin Cottage* recently announced that it will occupy about half of the former *Safeway* at the *Cherry Knolls Shopping Center* in Centennial.

Vail Resorts recently announced that visits at its five Colorado ski resorts are down 2.7% through January 7th compared to last year. Vail CEO Rob Katz commented that "We are pleased with our early season metrics, particularly given the current state of the economy and since snowfall came late to our Colorado resorts this year."

Wal-Mart recently announced that it will close the *Sam's Club* at 550 S. McCaslin Blvd. in Louisville due to poor performance. The loss of reportedly $500,000 in tax revenue will be a blow to Louisville since that figure represents about 5% of the city's total general fund.

The *Aurora City Council* has agreed to declare the area around I-70 and E-470 blighted, paving the way for tax incentives for Sydney, Australia-based *Lend Lease Corporation's* $1.5 billion, 500 acre *Horizon Uptown* mixed use project. The project is estimated to take 25 years to fully build out and will include 4 million SF of office space, 1.3 million SF of retail space, and 3,800 residential units.

Weld County experienced a 9% reduction in wages during the 12 month period ending last June, the largest decrease in the nation, according to the *U.S. Bureau of Labor Statistics*. *Denver* experienced a 1% reduction in wages over the same period to an average of $1,011/week, the highest wages in the state.

The *Colorado Oil & Gas Conservation Commission* recently announced that there were 5,159 drilling permits issued in 2009, a 36% decrease from 2008. Despite the drop, Colorado issued more permits in 2009 than any of the surrounding states.

According to the *Colorado Department of Labor and Employment*, Colorado's unemployment rate rose by 60 bps to 7.5% in December 2009. The unemployment rate increased in 55 of Colorado's 64 counties.

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The Krieger Report is written quarterly by Justin Krieger, a Senior Advisor at Pinnacle Real Estate Advisors, a full service commercial real estate brokerage firm. Justin specializes in representing investors in the acquisition and disposition of retail properties throughout Colorado, such as shopping centers and single tenant net leased buildings.

Justin received his bachelor's degree from Cornell University in Ithaca, N.Y. and his juris doctor from the Sturm College of Law at the University of Denver and is a licensed attorney and practicing Colorado real estate broker.

Are you interested in a free property evaluation?

Please let us know your thoughts! Our goal is to provide you with the most relevant and comprehensive newsletter for Colorado investors.

Mail, fax, or email this form back to us. Our contact information is provided above.

What are your current investment plans? (check all that apply)

- ☐ Buying investment properties and/or notes.
- ☐ Selling investment properties and/or notes.
- ☐ Holding.

What is your short-term outlook on retail property values?

- ☐ Values will decline.
- ☐ Values will remain the same.
- ☐ Values will increase.

When will we return to the 2005-2007 market?

- ☐ Never.
- ☐ Not for a long time (5+ years).
- ☐ Within 5 years.

Are you interested in a complimentary analysis of your investment(s)?

- ☐ Yes. Please contact me at the phone number or email address provided.
- ☐ Not right now, but I might be interested in the future.
- ☐ No matter what, I do not sell!

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Is there anything you would like to see featured in future issues? Additional comments?:

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Address

Email

Phone