TRIUMPH NEWS

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READING THE TEA LEAVES

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With the economy on questionable terms, risk has increased in the real estate investment market, which will slow acquisition activity and new development this year.

Whether or not the local and/or national economies are currently in a recession or if it is just a slowdown is a matter of definition. What matters most is that generally, businesses are cutting costs, reducing output and often laying off workers. Earnings have been poor and stock traders have been slashing market value. Companies needing funds to continue operations or meet expansion plans will have a more difficult time attracting equity or debt capital, and be forced to re-trench. Although there is pent-up demand for labor, a general slowdown will prevent full re-absorption of workers and unemployment numbers will go up. Consumer confidence followed by consumer spending will decrease, as the slowdown feeds on itself. However, the depth of the downturn will be largely dependent on individual attitudes, and those appear good enough to keep the problem from becoming serious. Nevertheless, these factors will have an impact on the real estate market at least through this calendar year, as vacancy will rise and rental rate growth will slow. Although interest rates have and will probably continue to decrease, a business slowdown means lease-up and rollover risk has increased; ultimately, if not immediately, that will reduce prices for investment real estate and raise going-in returns.

Now is a good time to buy?
Because of slowing demand for business space and the resulting increases in vacancy and risk, sellers will not be able to command the premium prices they have during the market peak of the past two years. Some investors will exit the acquisition market entirely, thus shrinking the pool of buyers and reducing demand for properties, while other investors and their lenders will require higher returns in exchange for the increased risk. However, since current vacancy levels and overbuilding are not a problem, the long-term effect on investment performance will

AVAILABILITY AND VACANCY ANALYSIS — OFFICE

END OF YEAR 2000	EXISTING RBA	DIRECT VACANT SF	VACANCY RATE%	DIRECT W/SUBLET VACANT SF	VACANCY W/SUBLET %	TOTAL SF AVAILABLE	AVERAGE RATE
CBD	27,131,531	1,582,102	5.83%	2,087,052	7.69%	2,375,667	$20.49
MIDTOWN/CC	16,220,335	1,126,145	6.94%	1,323,480	8.16%	1,031,256	$17.46
NORTHWEST	14,143,029	796,997	5.64%	976,703	6.91%	900,669	$16.70
WEST	16,974,450	1,947,084	11.47%	2,203,064	12.98%	1,978,508	$15.48
NORTH/NORTHEAST	4,581,976	446,490	9.74%	469,093	10.24%	494,328	$14.20

AVAILABILITY AND VACANCY ANALYSIS — INDUSTRIAL

END OF YEAR 2000	EXISTING RBA	DIRECT VACANT SF	VACANCY RATE%	DIRECT W/SUBLET VACANT SF	VACANCY W/SUBLET %	TOTAL SF AVAILABLE	AVERAGE RATE
BOULDER/NW	20,500,328	1,238,155	6.04%	1,279,433	6.24%	1,192,531	$7.51
NORTH	29,126,001	1,711,100	5.87%	2,029,375	6.97%	1,981,726	$5.82
CENTRAL	13,446,516	277,157	2.06%	295,537	2.20%	301,862	$6.29
SOUTHEAST	4,584,848	403,404	8.80%	430,104	9.38%	432,054	$8.84
WEST/SOUTHWEST	24,129,298	928,295	3.85%	960,245	8.98%	933,964	$7.03
SOUTHCENTRAL	17,613,141	321,944	1.83%	389,720	2.21%	281,360	$6.31

QUARTERLY OCCUPANCY, VACANCY & RENT ANALYSIS

QUARTER	EXISTING RBA	DIRECT VACANT SF	VACANCY RATE%	DIRECT W/SUBLET VACANT SF	VACANCY W/SUBLET %	SF OCCUP	AVERAGE RENTAL RATE
ALL OFFICE							
End 4th qtr 2000	120,867,913	10,856,580	8.98%	12,449,674	10.30%	108,434,143	$17.10
End 4th qtr 1999	114,785,314	11,416,425	9.95%	12,326,899	10.74%	102,604,331	$16.81
SOUTHEAST OFFICE							
End 4th qtr 2000	33,705,487	3,732,129	11.07%	4,129,980	12.25%	29,591,411	$19.21
End 4th qtr 1999	30,924,610	3,428,019	11.09%	3,769,111	12.19%	27,184,750	$19.01
ALL INDUSTRIAL							
End 4th qtr 2000	177,245,584	10,742,716	6.06%	11,683,750	6.59%	165,561,834	$6.06
End 4th qtr 1999	174,626,220	13,935,435	7.98%	14,715,316	8.43%	163,090,161	$6.16
EAST/NORTHEAST INDUSTRIAL							
End 4th qtr 2000	53,021,883	4,256,443	8.03%	4,785,999	9.03%	48,235,884	$4.90
End 4th qtr 1999	51,559,754	7,849,941	15.22%	8,446,135	16.38%	46,263,621	$5.01

be minimal. That, coupled with the view that the economy will probably not near the crisis level, yet with the Fed poised to continue to lower interest rates, means the environment to acquire quality real estate assets is better than it has been in over two years.

The Thursday, January 18, 2001 edition of The Wall Street Journal reported, "In its first comprehensive assessment of the economy since it cut interest rates, the Fed found that the economy is definitely in a slowdown but far from the crisis recent recession warnings would indicate." Further, "The latest snapshot…gives Fed Chairman Alan Greenspan and his colleagues ample leeway to cut rates further to stimulate growth." In my own discussions with business people at large, this appears to be the mainstream thinking. And as we all know, the mainstream thinking is largely what determines the fate of the economy. Thus, if business people were making decisions based on this view, it would suggest that the economy may spiral down in the near term but the overall dip may indeed be shallow.

There is certainly a lag associated with the barometers of the economy and the real effect of a slowdown on business in terms of cutbacks or layoffs. However, if there is one thing the "New Economy" has taught us, it is that information and technology has accelerated the pace of change and shortened the lag. But because some lag still exists, it is difficult to predict how quickly the commercial real estate market will react to economic changes, and that variable will determine the extent of the drop in prices. If the economy "recovers" inside the first half of the year, the impact on real estate may be negligible. However if concern escalates and slow growth threatens to become contraction, the impact would be relatively profound.

For prediction, economics never offers us anything definitive, and we all end up trying to "read the tea leaves" anyway. There are certainly as many opinions as there are economists. But if the planets continue to line up, as they appear to be, 2001 may be an excellent time to acquire commercial real estate in Denver.

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