



TRIUMPH NEWS

Volume III Issue I

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WHAT'S WRONG WITH THIS PICTURE?

By Paul J. Ruff, President

Time for a quick review: Since mid-year 2001, the stock market crashed, we have had an unprecedented terrorist attack on our homeland, then Enron, Worldcom, Tyco, Qwest, Adelphia, etc. shook the foundations of our corporate confidence, all of which led to or deepened the recession. Then the economy endured massive job losses, terrible holiday retail sales, spikes in office building vacancy (with pockets like the northwest corridor of Denver suffering from nearly 50% vacant space), a halt to new construction, factories operating at 74% of capacity- a virtual stand-still- and consumer confidence in the basement. We would certainly think it reasonable to expect an onslaught of distressed property sales, right? (continued on page 2)

- DEVELOPMENT
- INVESTMENT
- BROKERAGE
- MANAGEMENT
- CONSTRUCTION

THERE'S A NEW SHERIFF IN TOWN

By Stephen B. Epling, Principal

What a glorious time to be searching for office space! My, how things have changed in the last two years. The constant rental rate increases and declining vacancies are now long gone. The tide has shifted and what used to be a landlord market has now gone full circle and tenants can once again call the shots, or at least have a say in how the transaction is structured.

From a corporate services/tenant representation perspective this all seems so strange. We had become so accustomed to indifferent landlords, spaces we were targeting being yanked out from underneath us by ever expanding neighboring tenants, landlords unwilling to offer concessions or make any substantive changes to their lease documents, and onerous security issues just to obtain office space.

Landlords have quickly learned a new set of new rules. They once again must compete for tenants, must negotiate and make concessions in every facet of the transaction, (free rent, rental rates, moving allowances, tenant finish money, personal guaranties, commencement dates, free furniture, lease comments, etc.). The list goes on and on.

CHANGES AT TRIUMPH

Triumph welcomes Stephen B. Epling, who has joined the firm as a Principal and Director of Corporate Services. Steve is a 12-year veteran of the commercial real estate business and specializes in personally representing companies around the country with their facilities requirements.

Credit tenants with the right size requirement will attract serious attention. For those tenants that fit this mold, it's time to "Feel the Love." For those tenants that don't fit this mold, it's also time to "Feel the Love." This phenomena is not restricted to just Denver and will not end any time soon. We have seen it and continue to see it in varying degrees in most markets. The markets concentrated with high tech companies (Boulder, Colorado, Silicon Valley, the Dulles Airport Corridor of Northern Virginia, Austin, Texas, and the Golden Triangle in North Carolina) were the hardest hit. Other markets aren't that much better off.

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Not so fast. May I present these quotes from the commercial real estate industry:

"It's a great time to be selling and a selective time to be buying... If you look at decent properties, the prices being paid are quite serious"

John Fraser, Investcorp International, Commercial Property News (CPN), October 16, 2002

"It's very difficult for an all-cash buyer to compete for core assets. The institutions are having trouble getting money out."

Stephen Smith, Managing Director, LaSalle Investment Management, CPN, 10/16/02

"The bid-ask gap has been narrowed because buyers are closing in on the sellers number"
(emphasis added)

James Hime, Senior VP, Hines Capital Markets, CPN, 10/16/02

This does not sound like an industry in peril. This sounds like the real estate market is in stellar shape—the best investment around. A market at its peak. No problem. Bring it on. So, WHAT GIVES?

Interest rates, to be sure, are propping up the property markets, allowing investors to hold significant vacancy without putting their mortgage payment at risk, and to maintain a healthy spread against leverage as capitalization rates fall in new acquisitions. Also important is the relative "discipline" of the industry during the last 10 or so years. As Sam Zell points out in the November, 2002 CPN: "not only are markets not overbuilt but deals have equity on them and loans have been in the 50-60 percent range with mezzanine financing still only taking them up to 80 percent."

Another important factor is the three-year bear market on Wall Street. Consider the following: Pension funds, foreign buyers and individuals tired of stock market losses are pouring money into commercial real estate. In fact, according to Neil Weilheimer in a separate article in the November, 2002 CPN, "pension funds are increasing the percentage of cash they allocate to real estate, which is now seen as one of the most stable investments available." Due to a major pension fund underfunding problem thanks to the equity markets though, I suspect this might be as much about getting out of stocks as in to real estate.

Either way, because of the depth and longevity of the stock market swoon and the need for alternative investments, real estate may actually escape the kind of sell-offs we've become accustomed to every time there's been a recession since WWII. However, aside from war and terrorism, there does remain one major threat to real estate: What happens if inflation leads to higher interest rates while rents are still falling? According to Mark Patterson, managing director of Solomon Smith Barney, "it will be a very difficult period when those two intersect, and we will see capital flee". Further, in markets lagging behind the nation in economic recovery (like Denver), this outcome is quite likely.

Keeping tabs on the absorption of space and rental rate trends, along with the direction of the Fed as the economy recovers will speak volumes about the near-term future of the real estate investment market. There will be no meaningful adjustments to prices as long as the big money stays engaged in the property markets. But if (when) they leave, commercial real estate prices may finally be driven down, at least to the point where many think they already ought to be on a risk-adjusted basis.

ACQUISITIONS

Triumph and its affiliates have acquired three outstanding properties, an office building in Denver, a retail building in Colorado Springs, and an industrial property in Richmond, Virginia, proving that if you look hard enough (and far enough), and get a little bit lucky, there are some good deals to be made. (see NEWS FLASH on page 4 for more details)

(NEW SHERIFF from page 1)

At the market's peak, we experienced landlords and their brokers saying such things as:

- "We don't quote prices here. The auction for this space ends at midnight on Friday."
- "If you don't take the space now, I'll lease it later today."
- "That's our rate and it's non-negotiable. If you propose something less, the negotiation will be over."
- "We won't waste our time making a lot of lease changes. If you don't like our lease, lease space elsewhere."
- "Unless you are publicly traded and profitable, we will need an irrevocable letter of credit equal to all transaction costs plus two years of rent. In your case that should be about \$600,000."
- "In addition to the rent you will be paying, what types of stock options do you propose granting us?"
- "Why don't you come back and talk to us when your company has grown up?"
- "Tenant finish allowances are not really a part of our vocabulary."

In today's depressed market we have experienced landlords and their brokers saying such things as:

- "Tell us what we have to do to make this deal?"
- "We won't let economics get in the way of this transaction."
- "What's the rent? You tell me. What does it need to be?"
- "Tenant finish allowance? We will build out anything you need ... within reason."
- "No, really. I am begging. I need this transaction."
- "The owner wants to fly into town to meet you and take you to dinner."
- "I think you will be pleased with our response to your lease comments. We agreed to every comment."
- "We used to charge for covered parking. Not any more."
- "You want the exclusive right to be a mortgage company in the building? That seems reasonable to me."
- "These are our quoted rates. Make us an offer."
- "Don't forget to ask for signage rights in your request for proposal."
- "Please don't share your rental rate with any of the existing tenants. We are renewing them at \$3 per square foot higher than your rent."

In some markets, the landlord's leasing agents have nothing better to do than call tenant rep brokers and pester them to bring their clients by their buildings. In a recent 10,000 square foot transaction I worked on in Houston (the Westchase submarket), I received 35 responses to a broadcast email I sent to that relatively small submarket. The 35 responses were received by 9:30 a.m. Houston time on the Monday following a Sunday broadcast email. By the end of the day on Monday, we had 53 options to choose from in a single submarket. In Oakland recently, we were able to complete a transaction at rents equal to one-half of what the landlord was quoting. In Denver's southeast suburban submarket, if you were looking for between 8,000 and 12,000 square feet of contiguous office space today, you would have the luxury (or the dilemma) of choosing between 264 different spaces in 120 buildings!

In downtown Denver, average rental rates today now approximate what they were at the end of the 2nd quarter of 1999. In downtown Denver, the top 60 office buildings experienced negative absorption of 770,000 square feet in 2002, 1,300,000 square feet in 2001, and 130,000 square feet in 2000.

All in all, not a bad time to be a tenant looking for space. Indeed!

We've Moved!

We've moved our offices to a building in the Meridian International Business Center, at I-25 and Lincoln (see NEWS FLASH). Our new address is:

Triumph Real Estate
9605 Kingston Court,
Suite 160
Englewood, CO 80112

Phone and fax stay the same- please update your records!

NEWS FLASH...NEWS FLASH...NEWS FLASH

THE GREENS AT MERIDIAN



The Greens at Meridian - 9605 Kingston Court

MRA Meridian Greens, LLC, a collaboration of Paul Ruff of Triumph Real Estate and Bill Evans, John Walsh and Kevin Coffey of Millennium Realty Advisors, purchased this vacant, 30,000 square foot office building situated on the 16th hole of the Meridian Golf Club. The group acquired the building from ICG Communications for \$1,250,000 or \$42 per square foot in November, 2002.

January 29, 2003, they sold the property to a pair of businesses who will occupy about 60% of the building. The sales price was \$2,150,000 or \$73 per square foot.

TRIUMPH ARRANGES TWO NEW ACQUISITIONS FOR CLIENT HSS RENTX, INC.

Triumph has recently arranged the acquisition and lease of two properties for its client, HSS RentX, Inc., the worldwide leader in tool rental. The facilities include 2219 Chamberlayne Avenue in Richmond Virginia, a 22,000 square foot industrial building situated on 1.8 acres, and 3020 East Platte Avenue in Colorado Springs, a 7,100 square foot retail building on 1.37 acres. Steve Epling of Triumph assisted HSS RentX in identifying the facilities, then Paul Ruff of Triumph formed two limited liability companies, Commonwealth Property Investments, LLC and TRE Investments I, LLC, to acquire and own the buildings. Steve and Paul worked with HSS RentX throughout the process to formulate mutually beneficial 15-year lease transactions to coincide with the acquisition of the properties. Triumph Real Estate will provide asset management services for the ownership groups.

Visit our
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website:

www.triumphrealestate.com

TRIUMPH REAL ESTATE

9605 Kingston Court,
Suite 160
Englewood, CO 80112

303.858.0922 **PH**
303.858.0921 **FAX**