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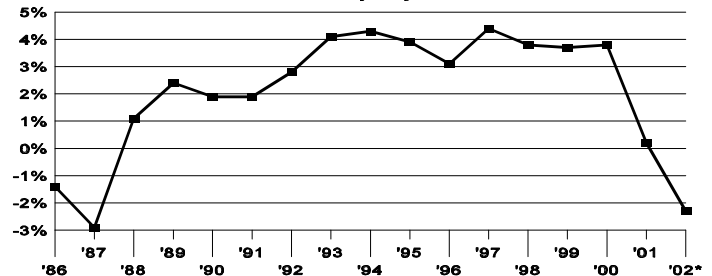
## Denver

**Economy:** The economy has plummeted with large job losses led by contraction in the high-tech and telecom sectors, a striking contrast to the robust performance of recent years. Diversification and formidable population growth are long-term assets, but near-term recovery may be gradual.

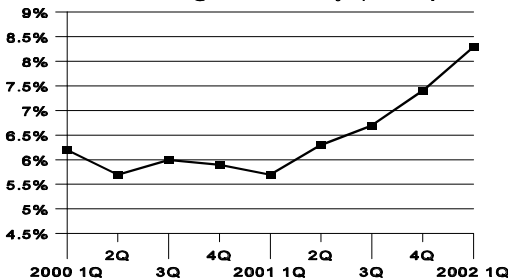
**Unemployment Rate, 6-02:** 5.5%

**Relevant Factors:** The E-470 corridor, an arc running through the metro from I-25 south of Denver to the new airport in the far NE, is a locale for major current, planned, and future development.

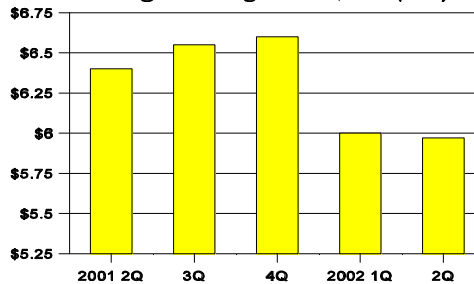
Nonfarm Employment Growth



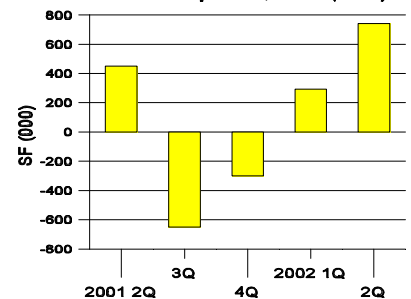
Average Vacancy (G&E)



Average Asking Rents, 2Q (CB)



Net Absorption, 2Q (CB)



**Overview:** Demand is slack. Some now report vacancy at a 10-year high as weak absorption and newly delivered construction take their toll. Still, the overall condition of the market is far from dire. Vacancy is up, but is not high.

Ross, G&E, and C&W put the MY rate at just above 8%. CB puts it at 6.9%. The R&D/flex sector bears the greatest strain, particularly in the suburban SE and NW. Ross cites flex vacancy at 19.9%; the warehouse sector is 7.2% vacant. "If [the market] hasn't bottomed out, it is very close to the bottom," it was reported in *RMN*. The robust construction pace has slowed. CB reports 600,000 sf underway at MY, down sharply from 2 msf a year earlier. Some sources are reporting the return of positive

absorption in first half 2002; others see persistence of negative activity. G&E cites "abundant" demand from 20,000-40,000 sf users alongside minimal demand for 100,000 sf and larger space. Rents have deteriorated. "The notion of free rent is becoming more mainstream in lease negotiations," says G&E. Effective rents have been declining. CB reports consecutive q'ly rental losses since YE 2001. The firm reports an average warehouse rent of \$5.97 psf. For multi-tenant non-manufacturing space Reis's cited a YE 2001 average of \$3.66 psf, up 0.3% from a year earlier. The weak rental performance is

(continued)

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expected to persist through 2002 and beyond.

**Submarkets:** The main area of standard space industrial activity is the E/NE, including the long E-470 corridor. High-tech/flex space development is led by the SE (including Denver Tech Center--DTC) and the NW (including Interlocken business park). "Warehouse builders are pushing farther into the eastern frontier of metro Denver," reports *RMN*. Thus, ProLogis has 182 acres under contract at I-70 and E-470. Lauth Property Group is negotiating for 160 acres at E. 26th Street and Picadilly Rd in Aurora. At I-70 and Tower Rd. (Aurora), Majestic Realty is developing the 1,000-acre Majestic Commercenter. The park will account for 564,300 sf of new space this year, about half the year's sum of spec development, as projected by Fuller. At E-470 and Peoria (Aurora), the 630-acre Compark Business Campus is under development. Gateway Park, a 1,200-acre mixed-use project at I-70 and Pena Blvd, is under development by Glenborough Realty Trust and The Pauls Corporation.

The old Stapleton Airport area, a few miles east-northeast of downtown Denver, is undergoing massive redevelopment including significant industrial activity. Cleveland-based Forest City Enterprises is the master developer of the 4,700-acre mixed-use endeavor described as the largest infill redevelopment project nationwide.. Upon completion in 15 years, the site will support approximately 10 msf of office, R&D, and industrial space along with other elements. Catellus is developing the 295-acre Stapleton Business Center, for which the developer cites approval "for up to 3.6 million square feet of mixed-use development, including office, industrial, distribution, retail and hotel facilities." To-date, 52 acres have been sold to industrial developers

who in turn have constructed 650,000 sf space. C&W reports a 314,500 sf lease by Ford Motor Co. during 2Q. Conditions in the high-tech SE market have deteriorated. "Lease rates continue to plummet in the southeast R&D/flex market as landlords not only compete with other R&D/flex buildings but also are beginning to face competition from the over saturated office market." reports G&E. At 14.1% industrial vacancy in the Southeast is the highest metro-wide per mid-2002, reports C.

**Major Players:** A host of major developers and REITs, including ProLogis, Forest City, Catellus, Opus Northwest, Majestic Realty, Gateway Development, Panattoni-Catlin Ventures, Birtcher, Lowe Enterprises, Koll, PrimeWest Real Estate and Prudential.

**Outlook:** The attitude with respect to recovery of the Denver industrial market seems to be more or patience than of pessimism. Clearly, demand (particularly for high-tech/flex space) must improve; some sources already see improvement under way while others anticipate it. Naturally, the economy will do the heavy lifting—and the local economy may remain sluggish for a while yet. Comments Grubb & Ellis, "While a significant drop in the vacancy rate is not anticipated throughout the remainder of the year, all things considered the market [remains] healthy and will begin to posture itself for the next run over the next few quarters."

Reis expects the year-end 2002 vacancy peak of 8.7% in multi-tenant non-manufacturing space to be followed by 8.5% a year later, which additional incremental annual declines expected to follow. Rental growth, as noted, should recover slowly.

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*Sources:* CB Richard Ellis; Cushman & Wakefield Inc. (C&W); Frederick Ross Co.; Fuller & Company; Grubb & Ellis Co. (G&E); Reis Inc.; *Denver Business Journal (BJ) Rocky Mountain News (RMN)*.

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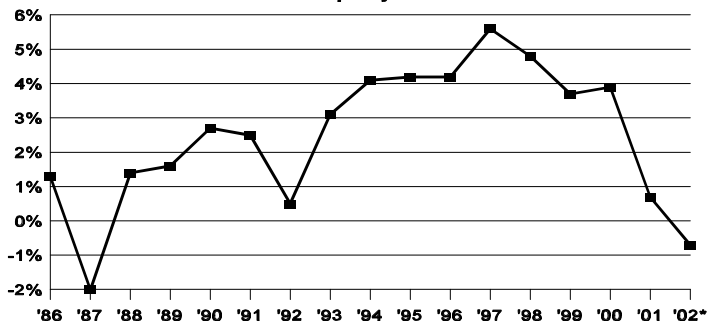
# Dallas

**Economy:** There have been some recent recession-and-high-tech-related job losses, but the economy retains its basic strength. Too, recent data from BLS show month-to-month increases. Economic diversification and strong population growth help. Additional layoffs at American Airlines will be forthcoming, *BJ* reported in mid-August.

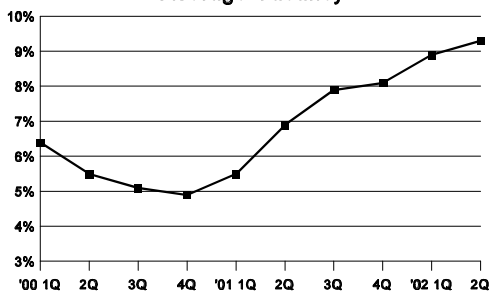
**Unemployment Rate, 6-02:** 7.5%

**Relevant Factors:** "The... investment market continued to be active with large portfolio purchases by ProLogis Trust and Teachers Insurance and Annuity Association," reports C&W.

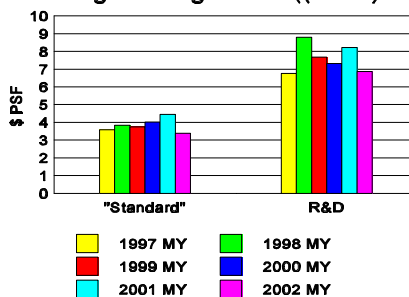
Rate of Employment Growth



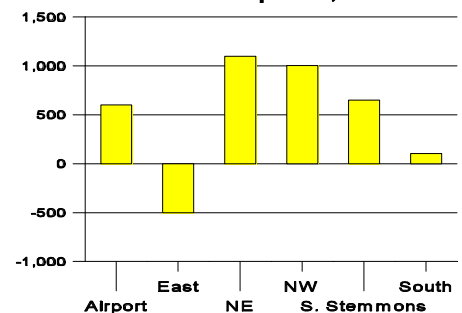
Average Vacancy



Avg. Asking Rents ((NNN)



Net Absorption, 2Q



**Overview:** Reports are positive—for the most part: recessionary impacts on demand have been mild. The market is “holding its own despite the drop in tenant demand,” reported *MN* in July. *G&E* describes the market as “a local bright spot.” And, *CB* describes it as a “solid performer” during 2Q. Still, the robust paces of development, leasing and absorption have eased. *CB* reports 4.0 msf under construction in D-FW per MY (led by 1.6 msf in the NW Dallas market), down from 12.5 msf a year earlier. 2.4 msf were delivered during 2Q. (*C&W* reports delivery of 14.4 msf in 2001, 86% of it warehouse-distribution.) W-D continues to dominate construction activity. Vacancy is increasing. *CB* reports a 2Q average of 9.3%, up from 6.9% a year earlier. The latest increase can be “directly attributed” to the 3.1 million square feet of newly constructed space delivered 68.6% preleased during 2Q. *C&W* puts MY vacancy at 12.3%. Reports on absorption are mixed. *CB* reports a high 3.8 msf net for 2Q (2.5 msf of it in the NE and NW areas of the Dallas side). But *C&W* describes 2Q absorption as “negligible.” *Reis* reports a bare minimum of positive absorption for the Dallas orbit during first half 2002. Rents have softened. *CB* reports respective MY averages of \$3.39 psf and \$6.86 psf for standard and flex space. Concessions have become increasingly common, reports *BJ*.

**Submarkets:** Expansion of Hwy. 121 is expected to

draw large volumes of development to NW Dallas. , “Land along the highway is still priced at a level at which developers can afford to build industrial projects,” it was told to *BJ*. In Lewisville, Billingsley Cos. has set aside 200 acres for industrial development at its 1,900-acre Austin Ranch” Sysco has contracted for a 575,000 BTS project here. In Flower Mound, Hillwood Investment Properties and Bradford Cos. are planning 2 msf of spec space for the 1,500-acre Lakeside Business District. In Coppell, Transwestern is developing the 2 msf AmberPoint Business Park. In the far east, active development has come to Garland and Mesquite. Myers & Crow, First Industrial, and ProLogis are active here, and Perot’s Hillwood has been developing the 300-acre Skyline Industrial Park in Mesquite, a portion of which it recently sold to RREEF Funds. In south Dallas, IDI and CIGNA are developing the \$100 Pinnacle Industrial Center, the first phase of the \$250 m, 900-acre Pinnacle Park Other major developers, including Panattoni, ProLogis, Argent, and First Industrial also are involved, collectively adding 8 msf here; only 60 industrial acres remain available, states *BJ*.

**Outlook:** The flex sector sees the greatest strain, but economic recovery should revive the industrial market generally. Integra Realty Resources recently rated Dallas third-best industrial market in the U.S. after Seattle and Phoenix, reports *BJ*