NAIOP Annual Mid Year Forecast
CBRE Denver Land Market Outlook 2010

LAND

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DENVER METRO LAND MARKET CONDITIONS | 2nd Quarter 2010

- 2005-2007 = 21% decrease in volume
- 2007-2009 = 74% decrease in volume
- 2007-2008 = 43.9% decrease in volume
- 2008-2009 = 64.4% decrease in volume
Hot Topics

**SINGLE FAMILY LAND**
- A revival of activity has been seen in the last 12 months
- Public single family home builders are the main source of interest and transactions
  - Significant cash on the balance sheet earning 0%, thus they are putting cash to work
  - Securing lot positions for 2011 & 2012 pipelines
- Primary target is finished single family lots, but very few blocks remain at distressed pricing in desirable locations

**ATTACHED (TOWNHOME/CONDO) LAND**
- Still a challenge
  - Costs associated with builder liability issues
  - Homeowners ability to afford single family at today’s price points – attached is no longer a value proposition
  - High risk reward ratio to sell one, need to build many

**DENVER METRO LAND QUICK STATS – 2Q**
- Gross Sales Volume: $192M
- Transactions: 107
- Annual Average Price (PSF): $7.41
- Annual Average Trans Size (Per acre): 27.35
DENVER METRO LAND MARKET CONDITIONS | 2nd Quarter 2010

**Hot Topics**

**APARTMENT LAND**
- Will remain depressed throughout the year
- Exceptions for projects that acquired HUD financing or CHFA assistance
- Users pursuing existing product at below replacement cost
- Construction financing remains difficult to acquire

**COMMERCIAL LAND (Office, retail, industrial and hospitality)**
- Some user retail pad sales occurring
- Large unfinished tracts remain depressed and under pressure until users return to the market in mass
- Upfront risk is high to finish and install infrastructure for individual users
- Acquisition and development financing remains scarce

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**WHERE IS THE DENVER LAND MARKET IN THE CYCLE?**

**Early Recovery**
- Some user activity in select sectors and locations
- Lenders consider land loans
- Decreasing defaults in land loans

**Peak Recovery**
- Users projecting forward growth rates to justify underwriting
- Significant user activity

**Recession**
- Investor activity dominates
- Few users
- High defaults on land loans

**Current Location**
- Users pull back
- Capital markets pull back and credit refracts
- Borrowers/landowners cannot roll over debt
Denver land market is bouncing along the bottom, expect a minor increase in activity through 2010 and 2011

- Increased foreclosure activity and note sales expected
- Lenders to dispose of REO assets and collateral to salvage remaining equity and remove tax liabilities that can add up
- “All cash” buyers remain in the driver’s seat as financing for land is scarce

Mean recovery rate for development loans on defaulted mortgages is 52% (according to Real Capital Analytics)…do not expect much improvement.

- Does not include borrowers lost equity & soft costs
- Lowest recovery rate of all asset classes
- Attributed to lack of revenue generated by land as compared to other property types
DENVER METRO LAND MARKET FORECAST

Exit strategy & hold period on land can present significantly higher risks vs. other asset classes.

Expect the biggest discount for raw land assets that require significant development costs.

These properties likely will be last to garner interest and linger on the market unless priced accordingly.

Single family land
- Builders are starting to consider platted lots and parcels that require development work (focus will still be primarily inside the 470 loop)

Multifamily Land
- Expect institutional apartment developers to start controlling sites in early 2011, which should lead to mid-2013 unit deliveries
- Limited “for sale” attached product construction for infill and urban areas

Retail Land
- Limited development for pad users
- Most retailers have landed in suburbs and are focusing on infill locations (i.e., Target @ Belmar)

Industrial land
- Limited development for infill users
- Well located industrial sites are still scarce

Hospitality Land
- Very limited development
- Must have a great story (i.e., adjacent to Fitzsimons)

Office Land
- Very limited development
- Tied to stable employment, thus last to come back
BIGGEST CONCERNS FOR LAND MARKET

- Double dip recession
  - Further declines in housing values and equity markets causes existing buyers to seek steeper discounts, thus increasing the separation between bid/ask

- Amendments 60 & 61
  - Sterilization of metro district financing
  - Will put Colorado at a competitive disadvantage to other states in the southwest

- Additional supply of distressed land assets competing for the same capital

- Expiring entitlements