

## **Commercial sales zoom in Denver area**

The Denver Business Journal - July 14, 2006 by [Paula Moore](#)

Denver Business Journal

Investors continued to gobble up commercial real estate in metro Denver during the year's first half, according to a new Cushman & Wakefield of Colorado Inc. market overview.

For 2006's first six months, \$2.3 billion worth of metro-area commercial properties sold, compared to \$3.2 billion in sales for all of 2005. Some \$450 million of the sales were portfolio deals.

"We're seeing record capital inflow and record sales," said Sherman Miller, Cushman & Wakefield's executive managing director in Denver.

Commercial properties in Cushman & Wakefield's overview include office buildings, shopping centers and industrial buildings such as warehouses and distribution centers.

Both private and institutional investors from the United States and abroad snapped up local properties, with five office buildings alone selling for more than \$100 million each. The largest of those deals was the acquisition of downtown Denver's trophy Wells Fargo Center for \$355 million in January by Macquarie Office Trust of Australia.

"Office investors are especially aggressive," said Patrick Devereaux, investment broker and senior director at Cushman & Wakefield. "With nine straight quarters of positive office absorption and spiking lease rates, buyers are aggressively looking for upside."

Investors continue to like commercial real estate because its returns still outpace those of other investments, such as stocks and bonds, Devereaux said. As some investors suffer from "buying fatigue," the number of bidders on properties has dropped off this year, but purchase prices haven't.

The merging and privatization of publicly traded real estate investment trusts (REITs) also account for several recent transactions.

Denver-based ProLogis' \$4.9 billion purchase of Catellus Development Corp. last fall, for example, added eight metro-area buildings owned by Catellus to ProLogis' holdings. ProLogis owns distribution centers worldwide.

Sales of retail properties have slowed, largely because grocery store chains have stopped building grocery-anchored shopping centers here. That type of property has driven retail sales in recent years.

"We can't sell, if they're not building," Devereaux said.

The investment market should continue to be strong in the near future, but it should slow temporarily this summer, when investors aren't as active. Sales also could be affected by a lack of supply, since so many commercial properties already have sold recently, and by increasing interest rates.

Metro Denver's office market continues to flex the muscle it started developing 18 months ago, according to Jim Wonhof, Cushman & Wakefield office broker and associate director. This area's top, Class A office buildings and core office markets -- downtown Denver, the southeastern suburbs and the northwestern corridor -- especially have benefited from that strength.

Absorption of vacant office space increased 4 percent in the first half, and asking rental rates rose to nearly \$21 a square foot for Class A space. The office vacancy rate decreased 2 percentage points to a little less than 15 percent.

Major lease deals in the southeastern suburbs helped fill a lot of that vacancy. Those transactions included DirecTV's leasing of 260,000 square feet at the Inverness office park.

A Boeing/Lockheed partnership continues to hunt for 150,000 to 250,000 square feet of local office space. Mining company Rio Tinto Plc is seeking 100,000 square feet.

The metro area's industrial market, with its warehouses and distribution centers, continued to recover in the first half, according to Cushman & Wakefield. Developers even are starting to build again, particularly buildings that will be used by their owners.

"The industrial market was overbuilt, but demand is catching up with supply," said Mitch Zatz, industrial broker and company director.

The industrial vacancy rate dropped to 7.3 percent at midyear from 8 percent at the end of 2005.

Major recent leases include casual-shoe manufacturer Crocs Inc. leasing 265,000 square feet of space at Airways Business Center, and Home Depot USA Inc.'s taking 130,000 square feet at Mile High Business Center.

Rents for warehouse/distribution space have risen to \$4.49 per square foot on average, their highest point since 2002. Rental rates for "flex" space, a combination of industrial and office space, have inched up to \$7.60 a square foot.

Even with higher construction costs, several new industrial buildings are planned.

Those projects include a 250,000-square-foot structure at Gateway Park, scheduled to start construction before year-end. Majestic Commercenter, which has leased 400,000 square feet of space this year, plans 250,000- and 200,000-square-foot buildings.