

Industrial real estate out in front

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by [Jan Buchholz](#)

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The commercial real estate market is strong throughout the Denver metro area and industrial real estate activity is leading the charge, according to a quarterly market report from commercial real estate broker **CB Richard Ellis**.

"The [industrial] market is definitely on the upswing," said Mike Camp, an industrial broker for CB Richard Ellis. "We're seeing increased activity across the board."

That means more transactions involving smaller facilities as well as large ones in a variety of Denver-area locations. Both individual investors and big institutional players are getting into the game. With interest rates still at acceptable levels, companies continue to buy facilities rather than lease them, Camp said.

"We've seen good activity from users buying buildings and taking advantage of historically low interest rates," Camp said. "It will be interesting to see how interest rates [in the long run] will impact the buying activity."

Though buying activity is especially strong, so is the leasing market. Lease rates increased to an average of \$5.66 per square foot compared with \$5.48 last quarter and \$4.97 a year ago. Both local and national companies are absorbing large portions of space that have been vacant or underutilized since the economy tanked in 2001 and 2002.

About 1.4 million square feet was absorbed last quarter, which exceeded CB Richard Ellis' predictions, according to its report. That's the largest quarterly absorption rate since 2000. Vacancies have dropped to 7.3 percent with very little space available in portions of central Denver and throughout Commerce City, ranging between 1.4 percent and 3.5 percent.

The absorption rate -- the change in occupied square feet from one time frame to the next -- however, is the strongest indicator of market demand, according to Ethan Reed, CB Richard Ellis marketing and research manager.

"We've had over 1 million square feet in absorption for four quarters now -- and that shows serious, constant demand," Reed said.

So, what's behind the increased leasing and buying activity?

"We're seeing expansion from both local companies and companies on the East and West coasts," Camp said. "The national economy is driving business to Denver. Companies need service and distribution centers here."

The demand is especially strong for conventional warehouse and distribution space that includes loading docks and truck traffic access.

"The majority of that market is along the I-70 corridor from Colorado Boulevard east to E-470. Bigger users tend to go there because that's the backbone of Denver's industrial market," Camp said.

About one-quarter of Denver's 225 million square feet of industrial space is concentrated in that area, he said.

Denver-based **ProLogis**, one of the largest warehouse developers in the world, is building a 182-acre industrial park near I-70 and E-470. A 400,000-square-foot building was purchased there by **General Motors** in 2004 as a parts distribution center. A 280,000-square-foot building was leased by Mastercraft Cabinets and **Schneider Logistics**. Though the deal closed in 2005, both companies just recently moved in.

A third 350,000-square-foot building is planned for the industrial park, according to Arthur Hodges, senior director of corporate communications for ProLogis. He's optimistic that any new construction will be quickly occupied.

"The market overall is showing signs of sustained strength," Hodges said.

An interesting trend in industrial development, Camp said, is infill redevelopment of obsolete properties. A local example is the former Keebler plant near I-70 and Pecos Street. Los Angeles-based **Lowe Enterprises** demolished the plant and rebuilt Centerpark, a 540,000-square-foot distribution center. **Henry Wurst Inc.**, a national printing company, has a large facility there.

"There's four new buildings there and it's just a great location," he said.

Meanwhile, the R&D/flex market, which refers mostly to lighter industrial uses with fewer docks, more parking space and lower ceilings, is also registering fewer vacancies across the board.

Particularly strong sub-markets include the Arapahoe Road corridor east of I-25, the U.S. 36 market between Denver and Boulder, and in the Golden area around I-70 and West Sixth Avenue, Camp said.