

Owners, brokers bear office slump Commercial properties seen as risky

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Caption: PHOTO: The Denver Post/John Prieto Christopher King of **DPC Development** Co. likes deals involving retail centers with food stores. GRAPHIC: The Denver Post/Ryan Powell Dwindling deals

Deal making is dead.

Commercial property sales in metro Denver have fallen to their lowest level since the mid-1990s, forcing some brokers to cancel vacation plans, and some property owners look upon the market as a deadly game of chance.

"If you're forced to play Russian roulette, you might be scared, but you hope for the best," said Marcel Arsenault, chief executive officer of Colorado & Santa Fe Land Co. "If you're not forced to play Russian roulette, you don't play."

At the current pace, the total value of commercial real estate deals will fall below \$1 billion this year for the first time since 1996.

The total value of transactions is on pace to hit about \$600 million by the end of the year, said Patrick Devereaux, investment broker with Cushman & Wakefield. Last year, officials recorded about \$1.1 billion worth of commercial real estate deals.

Devereaux is coping with the dwindling deal flow by scaling back vacation plans. This year, he's going horseback riding for a few days in rural Colorado. In previous years, he only skipped town on holiday weekends.

The real estate glory days are now a distant memory. In the late 1990s, high-tech companies such as Sun Microsystems, Rhythms NetConnections and 360 Networks rented more space than they needed, pushing real estate values higher.

Denver deal makers reached a peak of \$2.2 billion worth of transactions in 1998, up substantially over 1995, when \$569 million worth of deals were recorded.

The bustling scene of the late 1990s has withered into a wallflower market: Buyers avoid commitment, sellers play hard to get and the matchmakers have lost their rhythm.

"The sellers think it's too soon to sell, and the buyers think it's too soon to buy," said Steve Clarke, president and chief executive of PrimeWest Real Estate Services Inc., a developer of office properties in the Interlocken business park in Broomfield.

Today, Denver is filled with high-profile deals that might have been were it not for rising vacancies and falling rents.

Last February, a Beverly Hills, Calif., investor indefinitely postponed plans to buy the Manville Plaza tower, 717 17th St., after a law-firm tenant announced that it was moving into another downtown high-rise.

Mack-Cali Realty Corp., based in New Jersey, yanked its portfolio of 17 Denver-area suburban office buildings off the market until rents start rising again. The company, which had hoped to sell the buildings for \$175 million, had a contract with an unnamed buyer that it canceled when it took the buildings off the auction block.

The owner of Alamo Plaza, 1401 17th St., tested the water this spring by listing the downtown office building for sale. Brokers said the owner has since pulled it off the market.

In late 2001, Denver-based Amstar Group put Independence Plaza briefly on the market before deciding not to sell it.

Level 3 Communications Inc. hooked a potential buyer for its unused Broomfield buildings, but the deal fell apart about a month ago when the buyer reviewed the numbers and withdrew the offer.

"There's a lot of frustration, but not a lot of grinding numbers," Clarke said.

Office building owners are cornered between dismal returns in stocks and other investments and lower-than-usual returns in real estate.

"Say you've got an owner with a \$50 million building and they sell it," said Richard Morean, vice president of acquisitions for Kennedy Real Estate Associates Counsel Inc. "Where in the world are they going to put \$50 million to work for 8.5 percent?"

Though 8.5 percent is a poor return in the real estate business, it beats other investments, Morean said.

"They can't get it overseas," Morean said. "They can't get it in Nasdaq. They can't get it in the Dow. They can't even get it in other real estate deals. And because the velocity of deals is so anemic, they'd be hard-pressed to put the money back to work in real estate in six to eight months."

Through the first quarter of 2002, brokers reported just 17 deals worth more than \$1 million. During the same period a year ago, brokers completed 39 sales worth more than \$1 million, according to Cushman

& Wakefield of Colorado Inc.

Only three office buildings sold for more than \$10 million during that time and none sold in the \$5 million to \$10 million range, Devereaux said. During the same period in 2001, six office deals were each worth more than \$5 million.

The best-sellers in commercial real estate right now are retail centers with grocery stores and warehouses with high ceilings.

The University Center shopping strip in central Fort Collins commanded top dollar in a recent sale.

A Greenwood Village investment company controlled by Gary Dragul paid \$14.7 million for the 162,000-square-foot center, a full price offer that was matched by a dozen other potential buyers. Dragul's firm won because his firm completed its financial review faster than the other bidders.

Christopher King, executive vice president of Greenwood Village-based **DPC Development Co.**, which redeveloped and sold the University Center, said retail centers anchored by grocery stores are a safer bet because people are always going to buy food.

"Grocery-anchored centers are stronger because you can count on a certain number of trips," King said.

The University Center blended the stable rent of a strip mall