

## Institutional buyers like Denver REITs' big money forces entrepreneurs to focus on smaller projects

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**Caption:** PHOTO: The Denver Post/Lyn Alweis Bruce Berger is developing his holdings near Downtown. He lives in one of his spacious Metropolitan Lofts on Acoma Street.

Bruce Berger's first task when he came to Denver was to buy half-empty, money-draining buildings Downtown and in the Denver Technological Center. Berger saw opportunity in those devalued properties.

People told him he was nuts.

But Berger, a New York entrepreneur, knew he'd have to take some risk to eventually make something out of the depressed properties. At the time, he was one of the few investors willing to enter the market.

Now, Berger is capitalizing on that investment return by redeveloping his holdings near Downtown. And he's leaving the building purchases to a growing number of institutional buyers, particularly real estate investment trusts seeking long-term holdings for their shareholders. Strong dollars "Those dollars are stronger than I am," Berger said. "They're looking for safety, not looking to bring anything to the property per se."

REITs are growing nationwide and in the Denver metro market, say some commercial brokers in the area.

The REITs - typically publicly traded companies that sell shares mostly to mutual funds and institutions - are buying the pricier high-rises because they've been able to raise the capital, industry experts said. That leaves the lower end of the market to entrepreneurs.

"It's getting tougher for the little guy," said REIT analyst Paul Puryear at Raymond James, a securities firm in St. Petersburg, Fla. "The problem with the small real estate operator has always been access to capital. The dollars are large in the industry. There are very few private companies that have access to those kind of dollars." Niches emerge But other niches for the small-business person have emerged. Other than buying lower-priced properties, the entrepreneurs, like the REITs, are taking advantage of Denver's hot market and building more space to meet demand.

Berger, for example, just finished the Metropolitan Lofts, a 58-unit project on Acoma Street between Ninth and 10th avenues. The project is in an area owned almost entirely by Berger known as the Bannock Center, which stretches from Eighth to 10th avenues and from Speer Boulevard to Lincoln Street.

He hopes the \$11 million project will eventually help push the Golden Triangle neighborhood south of Downtown ahead of Lower Downtown when it comes to providing housing for downtown workers.

"Buying Bannock Center was buying inventory to develop when the market got good," said Berger.

Back in the late 1980s and the early 1990s, institutions weren't investing in Colorado's economy.

"They want to come into a strong, stable market and accept a relatively low yield for a solid market," said Carl Luppens, a senior director at Cushman & Wakefield of Colorado Inc. "The entrepreneurs bought when we were coming out of recovery." Lots of institutional buyers According to a Cushman & Wakefield analysis, of the 52 office deals of more than \$6 million in the past 2 1/2 years in Downtown Denver, roughly 85 percent - \$699 million of \$821 million worth of buildings - were sold to institutional buyers.

Forty-six percent of the office buildings were sold by entrepreneurs to institutional investors.

"We're saying the institutions are buying everything - they really are," Luppens said. "These are higher percentages than I thought there would be." On the industrial side, entrepreneurs are more active, but they're mostly buying smaller buildings, said Robert Lockhart, senior marketing associate at Cushman & Wakefield. Of the Downtown Denver deals since 1995, institutions have purchased roughly 2.4 million square feet of industrial space, compared with the 2.5 million purchased by entrepreneurs, according to Cushman & Wakefield analysis.

But institutions bought only nine buildings; small businesses bought 27.

The plunge taken by REITs and institutions into Denver's market has heated up in recent years. CarrAmerica sweeps in Last year, CarrAmerica - a REIT in Washington that buys and develops office buildings - swept into Denver, buying a little over 1 million square feet of office space in the southeast suburbs. The company owns 11 properties and has two under construction in the Panorama Corporate Center in Englewood.

Within the last year and a half, after the company announced its intention to expand out of Washington for the first time, CarrAmerica has acquired more than 220 buildings in 13 markets, including Denver. Research-driven "The strategy is research-driven and very customer-oriented," said Karen Widmayer, spokeswoman for the company. "We've taken an in-depth look at national trends, workforce,

demographics to target these 13 markets."

"In Denver in particular the diversity of the economic base is very important to us," she said. "CarrAmerica is committed to providing strong earnings growth to its shareholders and we're going to practice sound real estate to do that."

REITs are involved in all sectors of real estate whether it's offices, industrial warehouses or even prisons.

REITs based in Colorado include Apartment Investment and Management Co., one of the nation's largest apartment owners, and Chateau Communities Inc., a manufactured-housing owner and manager.

Chateau, the largest owner of manufactured-housing projects in the country, owns 128 manufactured housing communities comprising 43,000 home sites across the United States and manages another 34 communities with 7,000 homes. In Colorado, the company has about 3,000 home sites and is developing another 1,000 sites in such places as Longmont and Colorado Springs, said Rees Davis, executive vice president for Chateau. Colorado is a major market for the company, which is traded on the New York Stock Exchange.

Five years ago, that wasn't the case, Davis said. More access to capital "Really what's changed is Wall Street's position in the marketplace," he said. "Offering the securitization of debt and equity has allowed players access to capital."

"Yes, there are more REITs here," he said. "There are more REITs nationwide. I think that the equity market capitalization of REITs today is some \$130 billion, which is probably a tenfold increase over 10 years ago."

It's also tougher for the smaller investor to develop manufactured-housing projects without that kind of money, given such factors as demands banks make on loan paybacks, he said.

Chateau Communities has increased its development activities, he added, because "we think there's an opportunity to provide a better product at (similar) rents."

"A decade ago, there was no building. There were plenty of home sites available," Davis added. "The rent numbers didn't justify new development." Strong, stable economy It's a strong, stable economy involving reasonable housing and job growth that catches his eye.

"Generally the REITs are going to be looking in markets where they can get good, consistent rental rate growth," he said. And when Chateau buys property, "We generally look for a 10- to 20-year horizon."

At **DPC Development Co.**, a 30-employee real estate investment company based in Denver, owning a property several years may be too

long, said Chris King, vice president.

Institutions "may look at 10 years of ownership of a project, maybe (they) are not as worried about initial returns as total returns," he said. "We're interested in time frames half that period - five years to buy a property and turn it around."

The entrepreneur has the resources to take the risk and make that building a profit-maker, he said.

"I still think value-added opportunities are going to be there," King said. "I think there's going to be opportunities for smaller companies for transactions under \$10 million. I'd say in the \$2 million to \$5 million range, there's always going to be opportunity for us."

Back Downtown, Berger is so convinced of the opportunity that he's now living in one of his spacious Metropolitan Lofts.

"I'm bullish," Berger said. "I see Denver as a strong market well into the future."