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CBD Posts High Office Absorption

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DENVER-The CBD's office market is continuing its recovery, according to the most recent analysis by the local office of CB Richard Ellis Inc. Last year, the CBD experienced the highest positive absorption of all submarkets in the metro, ending the year with 863,317 sf.

"This positive trend is one of the reasons why 12 buildings have sold, are in negotiations, or are rumored to be sold in the near future," CBRE researchers conclude. "Institutional investors are willing to pay prices approaching replacement values with cap rates in the 6% to 7% range." The largest building sale occurred at 633 17th St., which was acquired by Triple Net Properties for $90 million.

According to the report, Colorado continues to outpace the nation in economic growth with the largest employment gains in natural resources and construction. The Economic Policy Institute looked at five business-climate rankings in a recent summary and Colorado was the only state to place in the Top 10 in all categories. Metro Denver's employment rate has dropped to 4.9%, the lowest since September 2001.

Several existing energy tenants leased additional space in the last half of 2005. The expanding companies included Cimarex Energy and Fidelity Resources, each adding 23,000 sf to their Wells Fargo Center offices; and Bill Barrett Co., leasing another 20,000 sf at 1099 18th St.

Researchers say expansions of smaller tenants in numerous industries are becoming even more significant. "This is the result of both economic recovery and job growth in the CBD market," they point out.

CBRE's Downtown office team currently is tracking more than 1.8 million sf of active tenants representing more than 500,000 sf of potential absorption during the next 12 months. "This activity, fueled by the current positive absorption and the overall improvement in economic conditions, has caused owners of CBD office buildings to offer tighter lease terms and modest rent increases," according to the report.

The CBD's direct vacancy decreased to 11.9% at year-end, down 12.3% from the third quarter. In addition, sublease space has declined through absorption and conversion to owner's direct inventory as leases expire. "Another significant indicator of the improving market is that over 150,000 sf. was leased in class AA buildings at gross rates of $25 per sf or higher, which illustrates a focus on quality during 2005," the researchers conclude.