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Office market uptick predicted

Downtown space harder to find as vacancy rate declines

By **John Rebchook, Rocky Mountain News**

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Today's office market is poised to rebound, said Dave Morrison, a broker at CB Richard Ellis, despite a slight setback in the first quarter.

A first-quarter report released by CBRE showed that the overall downtown office market's vacancy rate is 12 percent compared with 15.5 percent for the overall Denver-area office market.

When sublease and other available space is included, the downtown office vacancy rate is 15 percent, compared with 19.2 percent for the Denver-area market.

A year earlier, the direct vacancy rate downtown was 13.6 percent, and the availability rate, including subleased space, was 18.6 percent.

"All markets are cyclical, although we're less cyclical than in the past because our economy is better diversified," said Morrison, who was in charge of Brookfield's operation in Denver before becoming a broker last year.

Brookfield owns the 56-story Republic Plaza office building downtown and last year sold its interest in the Colorado State Bank building.

"Downtown is about in the same place, as far as vacancies, as it was in 1996," Morrison said. "And from 1997 to 2000, we had this spike in lease rates and a drop in vacancies."

The average lease rate is \$19.47 per square foot downtown, about 14 percent higher than the overall lease rate of \$17.07 per square foot.

The only downside in the first quarter was that downtown showed "negative absorption" of 30,153 square feet, while the overall market absorbed, or gained, 259,078 square feet.

The downtown office market in the first quarter 2005 showed stronger absorption, with a total of 135,240 square feet of net absorption.

Absorption measures the change in leasing over a period of time. If a company was leasing 100 square feet and it moved into 75 square feet, it would show negative absorption of 25 square feet.

"There was a minor setback in net absorption because of Wells Fargo leaving part of its space" and taking less than before, Morrison said.

Sam DePizzol, a broker at CB Richard Ellis who represents tenants, said the market downtown is improving at a faster clip than the numbers show.

Earlier in the year, he represented Exclusive Resorts, which took about 80,000 square feet in the Park Central building at 1515 Arapahoe St.

Exclusive Resorts had an option to lease another 60,000 square feet in a tower at Park Central, but it didn't need the space, so it let it expire.

Beacon Properties, owner of the building, "called in those options today," DePizzol said last week, because it had several tenants who wanted the space. And they are paying higher rates than what Exclusive Resorts had locked in nine months ago.

Chuck Zeman, a CB Richard Ellis broker, said he is looking for 25,000 square feet for a financial institution and fewer choices are available than a year ago.

Morrison said the market is so strong that at least four new office buildings are on the drawing boards, which would add about 500,000 square feet of office space to the market over the next five years.

He said the metro area created about 26,000 jobs last year and is projected to create another 28,000 this year.

Based on those numbers, he estimates that downtown will absorb at least 500,000 square feet this year.

Most of the downtown absorption will come from existing companies growing rather than big companies entering the market, he said.

"That's what we want," Morrison said. "We want organic growth. That is the best indicator of the health of the economy and the health of the market."

Vacancy, lease rates

- 12 percent: Downtown's overall office market vacancy rate.
- 15.5 percent: Overall Denver-area office market vacancy rate.
- \$19.47 per square foot: Average lease rate downtown.
- \$17.07 per square foot: Overall average lease rate.

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