Brexit Could Fortify US Real Estate

Last week's Brexit vote sent tremors through the world economy, and people around the globe have been struggling to understand its implications. But even though some worry Britain will plunge into a recession, and perhaps pull other countries down as well, the long-term effect on commercial real estate, especially in the US, remains unclear. However, UK voters did at least bring clarity to some issues. "It's going to extend the era of low-interest rates even longer," David Scherer, a founder and principal of Chicago-based Origin Investments, tells GlobeSt.com. And that's not just a personal opinion. "The market now estimates that LIBOR will stay low for an extended period." And traders now believe with a high degree of certainty that the Federal Reserve won't raise interest rates before December, and even then there is only a roughly 15% chance of a rate hike. The expected low interest rates will create higher valuations in all asset classes, Scherer adds. "What we don't know is how Brexit will affect growth," and if it does, whether that will hurt US real estate in general. Hotels would take a hit if the US economy slowed, but other sectors such as office and multifamily typically show more resilience. In Houston and many other cities, for example, multifamily properties rise and fall on the strength of the healthcare market, which can grow even during downturns. That resilience should also keep foreign capital flowing into US real estate. "Foreign investment has been waning a bit in the last few years," says Scherer, as buyers from Russia, China, the Middle East and South America struggled with low oil prices, slowdowns and outright recessions. "But there is now going to be more pressure on people to enter the US. We're just not as risky as these other economies." But whatever turmoil set off by Brexit, Scherer does not believe that overseas investors will go looking for opportunities in secondary markets. "It's not a trend that I'm noticing." Many will, however, avoid the highest-cost markets such as San Francisco and New York, and concentrate efforts in institutional, non-gateway cities such as Chicago, Dallas, Austin and Denver. "They will be getting a very similar rate of growth but with higher cap rates." "Uncertainty is the enemy of growth," Scherer says, and that means Britain and the European Union could be in for a rough time, especially since British leaders do not yet have a plan to handle the crisis. But for the US, with that uncertainty strengthening capital flow into the US, "I think we're in for another two years of what we've seen in the last five years," namely, slow but steady economic growth and increasing values. "I like the situation we're in." **(GlobeSt.com)**

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Cherry Creek Office Tower to get $25M Facelift

1980s nostalgia doesn't quite extend to Cherry Creek office architecture. Denver-based ANB Bank is putting $20 million to $25 million into its 1982 Cherry Creek headquarters with a new skin, new retail space and a renovated parking deck. Bob Mattucci of Realty Management Group said it's an investment to keep up with new buildings opening nearby. "We feel we have an 'A' location," Mattucci said. "But with these new, modern office buildings we need to do something to keep our presence in the marketplace." ANB paid $24

million for 3033 E. First Ave. in 1990, according to Denver city records. The building's new look will emphasize its eight-figure upgrade. Mattucci said he plans to replace the brown brick exterior with metal panels. "We're going to clad the entire building in all silver metal and titanium metal panels," he said. "It will really make it a much more distinctive and modern-looking building." Mattucci said they'll also rework the parking garage – moving parking spaces along Milwaukee and St. Paul streets to make way for more retail space. The building owners will knock out a split-level retail section along Second Avenue, replacing it with one street-level row of storefront. Part of the renovation plan includes relocating retail and parking spaces along Milwaukee and St. Paul streets. They'll replace that retail space with new storefronts along Milwaukee and St. Paul streets, Mattucci said, exposing street-level retail space on four sides. It's similar to a renovation Mattucci handled for ANB one block over along Fillmore Street. "Right now we don't get the kind of lease revenues that we should," he said. "And when we redid our Fillmore block we saw an increase in revenue, lease rates and pedestrian traffic." Plans call for 28,500 square feet of retail space – slightly more than the 27,000 square feet the First Avenue building currently houses. Mattucci said he expects lease rates to increase on the office and retail space when renovations are finished. The office space is more than 90 percent occupied, he said. The building's tenants include Land Title Guarantee Co., Morgan Stanley and RK Capital Management. The retail space is emptying out because the building isn't renewing leases in preparation for renovations. The parking, retail and exterior renovations come as building owners touch up the property's interior. Mattucci said they redid the restrooms and common area corridors in past years, and just finished changing all of the interior lights to LEDs. "We've been working to improve our energy profile for the building," he said. "And everything that we've done with the LED lighting and adding low-flow fixtures for the restrooms were part of improving our efficiency." ANB is improving its own property in the midst of a Cherry Creek building boom. The Pauls Corp.'s new 149,000-square-foot building at 100 Saint Paul St. is just a block from the ANB building. Western Development Group also built 89,000 square feet of office space at 200 Columbine St. last year.
(BusinessDen)

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C&W: Denver Commercial Real Estate has a Few Innings Left

Denver has one of the hottest commercial real estate markets in the country, and there's still running room across product types. Those were takeaways from the State of Real Estate 2016, Cushman & Wakefield's May 25 market outlook at the Ritz-Carlton, Denver. "Denver is absolutely a dynamic market. It's certainly one of the best places to be in the United States today," said Robert Sammons, C&W northwest regional research leader. Unemployment is at a historic low 2.7 percent, and construction jobs have made up for the loss of jobs in the oil and gas sector, he said. Office rental rates increased 22.6 percent – and vacancy dropped 540 basis points – over the last five years and continued to climb, by 7 percent, over the last 12 months. "There's more than enough demand to fill the buildings we have in the pipeline," Todd Wheeler, vice chairman at Cushman & Wakefield in Denver, said of the 2.6 million square feet of office space under construction. Wheeler said he thinks Denver is in the fifth year of a nine-year office market expansion. What the city hasn't seen is "game-changing" corporate relocations, said Doug Wulf, who moderated a question-and-answer session with C&W Denver brokers. Denver-Boulder today is a major technology hub and, like other technology markets, is likely to run into labor shortages, according to Sammons. He also believes retail and multifamily will be bright spots in the market due to an estimated 50,000 increase in population in each of the next three years. The drum tight industrial market will remain so, he said. Asked in which "inning" they think the various property types are, brokers generally chose the sixth to seventh. An exception was R.C. Myles of the Denver-based Capital Markets group: "I would say eighth, but we're going to go into extra innings," he said. Responding to moderator questions about their various product types, Denver brokers made the following observations:

• With regard to housing, "There is no affordability here," said land broker Mike Kboudi, noting the average price of a new home in the Denver area in April was $535,000. The multifamily market is not overbuilt, he said, noting units will continue to be absorbed due to scarcity of condominium product and people's inability, because of high rents, to save for down payments on homes.

• Restaurants continue to pop up in Denver, with "great" locations and infill locations attracting new and chef-driven concepts, according to retail specialist David Fried. Fried said Denver Tech Center West is a great opportunity for new concepts because it's generally underserved, yet over served by chains.

• "That gold rush has definitely come and gone," C&W industrial broker Kirk Vanino said of the impact on the industrial market from legalized marijuana. With Denver putting a cap on growth of that industry and Commerce City and Aurora outlining "very, very specified" green zones, "It's not going to drive prices like it did in 2014-2015, which was dramatic," he said.

Cushman & Wakefield Principal Economist Ken McCarthy provided an overview of the global and U.S. economies, noting that, "Millennials are going to continue to dominate what goes on in the U.S. economy for the next several years." With most in their 20s, "They want to be in an environment where they can have fun," McCarthy said, adding, "The companies that want to hire them are coming right along with them. That's why we're seeing job growth more in urban than in suburban environments, and obviously that has huge implications for real estate," he said. **(Colorado Real Estate Journal)**

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Downtown Denver Development Tallied at $4.4 Billion Since 2011

About $4.4 billion in development investment has been completed or is under construction since 2011, according to the Downtown Denver Partnership, which held its annual development forum on Thursday. The total investment included in the DDP's 2016 Downtown Denver Development Map is spread over 73 projects totaling 3.1 million square feet of office space, 6,447 residential units and 2,457 hotel rooms. "Developers are responding to increased demand for residential housing, office space and hotel rooms propelled by strong population and job growth, as well as key public sector investments," said Tami Door, president and CEO of the DDP. "We produce this report as a tool to help developers, realtors, brokers and others tell the powerful story behind Downtown Denver and to encourage continued investment." The overall development investment number in the five-year period for downtown Denver has decreased slightly from last year, when the

DDP reported a total of $4.8 billion in investment from 2010 to 2015. Officials from the DDP, the Downtown Denver Business Improvement District and the city of Denver earlier this week announced an increase in the police presence on the 16th Street Mall, including the hiring of a private security team, in response to ongoing concerns about safety on the mall. **(Denver Business Journal)**

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Premium Denver Office Space Rent Hits Record Levels

Rent for Denver's premier office space — its skyline office space — has hit record levels, according to a new report. Rents in buildings that make up Denver's skyline rose to an average of $40.06 per square foot, which is nearly 10 percent higher than the first quarter of 2015, according to JLL's 2016 Skyline report, which added that rents for ultra-premium office towers within the skyline are going for even more: $42.83 per square foot. And rent for buildings that aren't even built yet could go even higher: Rents in the 40-story, $300 million 1144 Fifteenth building could command $50 per square foot, JLL said. But don't expect to see rents marching ever upward."New construction and sublease space are providing relief for tenants in a once tight market. Rents in the skyline have begun to moderate. We expect annualized skyline rent growth this year to remain flat," said Mandy Seyfried, JLL senior research analyst, in a statement. And with the plunge in the Denver energy economy, there was negative absorption of office space in the first quarter of 2016. **(Denver Business Journal)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED TARGET RATE	.50	.50	.25
3 MONTH LIBOR	.63	.67	.28
PRIME RATE	3.50	3.50	3.25
10 YEAR TREASURY	1.46	1.82	2.38
30 YEAR TREASURY	2.24	2.60	3.19