Greenwood Village Office Fetches $45M; Plans Upgrade

A Greenwood Village office complex traded hands last week in a $45 million sale. Texas-based Crescent Real Estate bought the Tuscany Plaza office complex at 6312 S. Fiddlers Green Circle last week for $46.6 million, Arapahoe County records show. Company Vice President Steve Eaton said he liked the building for its location near the light rail, retail and hotel amenities and the aesthetics of the office complex's nearly 9-acre campus. "It has a beautiful travertine exterior skin imported from Italy when the building was developed in 1984, and it's an institutional quality, trophy asset with phenomenal grounds," Eaton said. The two-building property totals 259,000 square feet of office space, just shy of $180 per square foot. CBRE's Tim Richey and Mike Winn handled the sale for the seller, and Cushman & Wakefield broker Doug Wulf will handle leasing moving forward. Tuscany Plaza is about 90 percent occupied. Its largest tenants are restaurant chain Red Robin, tech firm Ciber Inc., and Xanterra Parks & Resorts – each keeps its corporate headquarters at Tuscany Plaza. The complex's east building has one full floor available, and there is one other 2,000-square-foot vacancy. Crescent was familiar with Tuscany Plaza before swooping in to purchase it earlier this month. Company CEO Conrad Suszynski said his firm was a tenant in the building six years ago. The firm also previously owned the Peakview Tower office building a block away at 6465 Greenwood Plaza Blvd. Suszynski said Crescent is planning about $5 million in upgrades at Tuscany Plaza, focusing on the property's main lobby. "We are going to make a significant investment," he said. "What we're looking at is creating a sense of arrival and community in the lobby area and the existing atrium." The six-story office complex sits just north of Fiddler's Green Amphitheater in Greenwood Village. It was developed in the 1980s by prominent Greenwood Village developer John Madden Co. The seller in last week's deal was California-based Cornerstone Real Estate Advisers. They bought the property in 2011 for $47.09 million, according to Arapahoe County real estate records. Winn and Richey sold the building that time as well. Crescent Real Estate is headed by Dallas-based real estate investor John Goff. Formerly developing under the name Goff Capital Partners, Crescent is also working on Platte Fifteen, a 150,000-square-foot office project that will replace the Natural Grocers at 15th and Platte streets.
(BusinessDen)

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Construction Loans Fall Victim to Concentration Risk Concerns

Capital is still free flowing for most borrowers. Yet some banks are taking their foot off the gas pedal for apartment construction loans in select markets where there are growing concerns of concentration risk. Banks are cautious about over-exposure in the wake of a prolonged apartment building boom. Some lenders are concerned about their bank's exposure in that asset class and potential overbuilding risk. "We have found it more difficult to get construction loans done over the last 12 months," says Gerard Sansosti, executive managing director at HFF, a capital markets services firm. Basel III requirements related to high volatility commercial real estate loans (HVCRE) have also played a role in some

tightening on construction loans due to increased capital reserve requirements. However, in most cases, the regulatory requirements are having a bigger impact on loan-to-cost amounts that banks are willing to extend and loan pricing, notes Mark Strauss, a partner and managing director of capital markets/equity practice at Cohen Financial. The pullback on apartment construction loans is most noticeable in those markets around the country that have seen a spike in construction over the past three to four years. Austin is one market where it is harder to get construction loans done these days, says Strauss. Since 2011, Austin developers have added more than 32,000 new apartment units, with another 11,400 units that were proposed or underway as of the second quarter, according to brokerage firm Marcus & Millichap. Population and job growth have resulted in a notable surge of development activity in about a dozen metros across the south, as well as on both coasts. "There are some lenders that are restricting new construction loans in those markets until they see their existing loans pay off and until they see the absorption and rent levels that have been projected for those complexes achieve their [pro formas,]" says Strauss. HFF has arranged financing for a number of multifamily projects in Pittsburgh. "For the most part, those banks are saying, 'Let's see how these loans do before we jump into another one'," adds Gerard. It is no surprise that banks are hyper-sensitive to concentration risk in the wake of the Great Recession. Regulators are also paying close attention to bank concentration risk. "What we have heard is that the regulators have been keeping an eye out for banks that have been growing their commercial real estate books particularly quickly and/or have large concentrations," says Jamie Woodwell, vice president, commercial real estate research, for the Mortgage Bankers Association (MBA). Federal regulators put banks on notice last December that they were going to be taking a closer look at commercial real estate loan concentrations in a joint statement on "Prudent Risk Management for Commercial Real Estate Lending" issued by The Federal Reserve along with other federal bank regulators. Regulators expressed concern about the "rapid growth and increased competitive pressures" in commercial real estate lending. The statement did not communicate any new regulatory expectations, but rather was intended to remind the industry of the existing regulatory expectations and guidance for commercial real estate risk management practices. The Fed, FDIC and the OCC have said they will take an extra close look at institutions where total commercial real estate/multifamily loans, excluding owner-occupied properties, represent 300 percent or more of the bank's total risk-based capital. Regulators are not saying that banks should not exceed that level. They are signaling that if banks get to that level, then they want to make sure those banks really understand their commercial real estate book of business, says Woodwell. It is under that larger regulatory shadow that individual banks are implementing their own internal practices and policies to manage concentration risk for multifamily and commercial real estate loans. "I would say that institutions are always looking at their portfolios and looking where those different property types and geographies might be in terms of the cycle," says Woodwell. Yet MBA data shows that lending is strong, and commercial and multifamily originations for the first half of 2016 were right on pace with the same period last year. "As far as permanent financing is concerned, we haven't really seen anybody take their foot off the gas relative to concentration issues," notes Gerard. Those lenders that have slowed lending a bit on the permanent lending side are doing so because they are getting close to allocations for the year. "Although no one is really out of the market, some people have become a little more selective on the transactions that they are going to do that will close before year-end," he says. "They want to make sure that they have money available for their very best clients."
(National Real Estate Investor/Beth Mattson-Teig)

Denver Commercial Real Estate Faces Big Changes as 2017 Approaches

After years of strong activity and fast growth, metro Denver's commercial real estate markets are shifting, according to a presentation Thursday at Jones Lang LaSalle's third annual Horizons event. Low energy prices resulting in consolidation and bankruptcy at energy companies with office space in Denver have resulted in vacant office space, particularly in the central business district. That vacant space has led to a flattening of rents after 13 straight quarters of rent growth of at least 1 percent, according to the presentation. In addition, 3.5 million square feet of office space is currently under construction, with about 22 percent of that space pre-leased. Historically, Denver office space hasn't been pre-leased as much as some other cities, said Peter Merrion, vice president at JLL and a presenter at Thursday's event. Larger markets like Silicon Valley, for example, have been known to reach levels of 50 percent pre-leased, he said. In order to balance supply and demand, Merrion said, the metro area will have to maintain high levels of absorption over the next two years. Absorption refers to the net amount of space either leased or vacated in a given time period. Over the last 10 years, Merrion said, metro Denver has maintained positive absorption of about 320,000 square feet, but in the last four to five years, that number increased to 450,000 square feet, Merrion said. The high level of absorption needed to balance supply and demand is closer to the more recent average. This year, Merrion expects absorption to be lower than that, but an anticipated rebound in oil and gas will help boost the office market in the years ahead. Aside from oil and gas market difficulties, changing tenant behaviors are creating new dynamics in the office market, Merrion said. Companies are using less space than they used to, either because more employees telecommute or because companies simply are leasing less space per employee. But the office market isn't the only part of the commercial real estate market facing changes. In industrial, persistently low vacancy rates around 3 percent metro-wide have driven rental rates up to record highs above $7 per square foot while spurring new development. Metro Denver is now the seventh-tightest industrial market in the country, according to JLL, with a vacancy rate half that of the national average, which is 6 percent. Leasing of industrial space is moving at a breakneck pace, with properties on the market in the third quarter of 2016 spending 25 percent less time on the market than the same period two years ago, according to JLL research. Retail is seeing a shift as well, as hundreds of thousands of square feet of big-box space from Sports Authority's bankruptcy hit the market. Those stores with good locations should be absorbed quickly, according to JLL's presentation. Vacancy rates in retail peaked in the midst of the recession in 2009, but those highs have been nearly cut in half to 5 percent, pushing average rents up by about 6 percent from 2013 to 2015. However, the rate of increase is expected to slow, Merrion said, coming closer to 3 percent growth. Aside from the U.S. election in November, changes in interest rates, the energy market, the development pipeline for multifamily and office and in-migration to Denver are trends to watch heading into 2017, Merrion said. But the big takeaway on Denver commercial real estate? "The recurring theme is that there are concerns but there are still plenty of things to feel good about in Denver," Merrion said. **(Denver Business Journal)**

How do Denver, Boulder Tech Office Markets Rank Nationally?

How do Denver's and Boulder's tech office markets rank nationally when it comes to being able to weather future economic slowing? So-so, says a new report by JLL, which released its 2016 High Tech Outlook this week, with both Denver and Boulder located in the middle of U.S. cities. JLL said its High Tech Outlook used 16 variables in four major categories (economic momentum, talent pool, innovation and cost) to rank markets that would better weather periods of economic slowing. Forty-five cities were ranked, and Denver finished No. 23 and Boulder was No. 25 in the rankings. Silicon Valley was No. 1 and San Francisco was No. 2. Of Denver, the report opines that "Denver’s highly-educated workforce is a magnet that serves the seemingly insatiable appetite for skilled tech workers," but warns "though still lower than many top-tier markets, a rising cost of living proves burdensome for both new and long-established residents alike." Of Boulder, the report opines that "more than 100,000 square feet of furnished tech space is available for sublease, providing opportunity for startups and small companies to settle near similar businesses at a discounted price," but warns "as more tenants move into Boulder, many flex and industrial users are being forced out of the area due to an increase in office conversions." **(Denver Business Journal)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED TARGET RATE	.50	.50	.25
3 MONTH LIBOR	.85	.80	.34
PRIME RATE	3.50	3.50	3.25
10 YEAR TREASURY	1.70	1.55	2.19
30 YEAR TREASURY	2.44	2.26	3.00