

C 3 Q U A R T E R L Y

NOVEMBER-JANUARY 2005

COLORADO COMMERCIAL COMPANIES' MARKET SNAPSHOT: OFFICE, RETAIL, INDUSTRIAL & HOUSING SECTORS

CONCLUSIONS:

- Colorado's office market will not see rate increases until 2006
- Retail product is in high demand, although development is shifting to smaller projects (< 50K SF)
- Denver's industrial segment is close to equilibrium
- Single family demand gained ground at the expense of multi-family rentals

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OFFICE



**Leasing:** Denver's office leasing market continues its sluggish recovery. The general consensus among leasing professionals is that market vacancies have bottomed out and that job growth is expected to continue to improve, albeit slowly. The year-end average vacancy rate for metro-wide office properties was 20.6%. Class B and C properties continued to experience the effects of a flight to quality, as many tenants took advantage of minimal rent spreads between class A, B and C properties, choosing to upgrade their locations. While asking rental rates showed continued decreases in 2004, it is expected that, as vacancy rates continue to improve throughout 2005, rental rates will begin to strengthen heading into 2006.

**Sales:** An excess of investment capital combined with the effects of historically low interest rates and poor alternative investment vehicle performance, produced a record year for Colorado office sales. In 2004, 58 office properties traded at an average per square foot price of \$133.63. The average cap rate for the properties purchased was +/- 9.1%. 2005 should continue to post strong numbers as more private investors become sellers and institutions increase allocations for real estate acquisitions, thus becoming more active as buyers within the market.

RETAIL



**Leasing:** Denver's retail market is thriving with a low 6.5% vacancy rate and stable lease rates. An emphasis on transit oriented development, combined with public support for live-work projects has created opportunities for pockets of new retail development throughout Colorado. Current levels of high demand have resulted in over 2.59M SF of new retail development planned for 2005.

**Sales:** 2004 Retail property sales outpaced each of the previous four years with 145 total transactions valued at approximately \$684 million. Average per square foot pricing was calculated to be \$145.93 and average cap rates posted a five year low of 8.57%.

## C3 MARKET SNAPSHOT (CONTINUED FROM PAGE 1)

### INDUSTRIAL



**Leasing:** Colorado's industrial sector has experienced slight increases in vacancy with a corresponding decrease in rental rates during calendar year 2004. Although the segment is lagging, a vacancy rate of 10.2% indicates that the sector is close to equilibrium. Average rental rates of \$5.91/SF NNN combined with the introduction of several new speculative developments indicate continuing demand for this sector.

Flex product within the industrial segment has weathered the brunt of the storm, as it competes most directly with excess available office inventories. Current Flex vacancy is 18.5% and average rental rates are \$8.30/SF NNN. Pure warehouse product has remained stable with a healthy 8.6% vacancy rate and \$4.79/SF NNN average rents.

**Sales:** In 2004, an estimated 150 industrial sales were recorded for \$490M; with an average per square foot price of approximately \$50.96. Cap rates hovered around 9.5%.

"C3 tracks all segments of the commercial real estate market.

Changes in demand for housing or services can indicate positive or negative future trends for our building owners and investors."

### HOUSING



Colorado's residential construction industry has continued to perform well, due to attractive mortgage rates that have provided thousands with the ability to purchase their first home, while allowing others the ability to "trade up" their residences. Lower financing costs have contributed to higher multi-family vacancy rates as renters opt for ownership positions. It is anticipated that home prices will appreciate strongly over the next five years and that multi-family vacancies will decrease as the Federal Reserve continues to increase interest rates over 2005 and 2006.

## FEATURED LISTING: QUEBEC CENTRE 7340, 7400, 7430 EAST CALEY AVENUE—CENTENNIAL, CO



Quebec Centre provides tenants with a centralized Greenwood Village/Centennial location within a professionally owned and operated office campus. The three building, 106,865 RSF project caters to tenants within the 1,000-12,000 SF size range. The complex has achieved leasing success by providing a "spec suite" program that offers move-in ready suites to prospects. Current availabilities include three of these suites (sized 1,272-3,464 RSF), which were finished in February. A second spec development phase will provide three more suites (sized 2,516-3,119 RSF) at the end of second quarter 2005. Ownership has recently updated the common areas within each building. Occupancy for the complex is currently 89%.

CarrAmerica Realty owns and manages the Quebec Centre complex. Other CarrAmerica properties include: Quebec Court I & II, Panorama Corporate Center, Dry Creek Corporate Center and Harlequin Plaza. The firm's Colorado portfolio is comprised of approximately 1.5 million square feet. To access brochures and floor plans for this property, please access C3's website at [www.colocomm.com](http://www.colocomm.com).