

# Bloomberg

## Denver Real Estate Booms as Ski Slopes Trump NYC Bustle

By Nadja Brandt - Dec 31, 2013

Lyndsey and Sameer Lodha had their pick of cities to call home after Sameer, a former equities trader who's now a hand surgeon, got several job offers upon completing his residency.

The couple passed on [New York](#), where Sameer lived when he worked at Goldman Sachs Group Inc., and [San Francisco](#) because both were too expensive. They chose Denver, moving into an apartment with their 16-month-old daughter in August.

“We wanted green and outdoor space but we don't want to live in the suburbs,” said Lyndsey, 34, an anesthetist. “Denver has both. Lots of open spaces, great school options and a very vibrant city life. And it's affordable.”

An influx of young families in search of alternatives to the most-expensive U.S. coastal markets is fueling a real estate boom in Denver, where commercial-property spending and home prices have jumped to records. Apartment and [office](#) developers seeking to capitalize on employment growth are creating an urban center that has “started to compete very well against other higher-tier cities,” said [Steve Ferris](#), development services director for the city and county of Denver.

Spending on construction of new commercial buildings this year is estimated at about \$2.55 billion, up 26 percent from 2012 and the most in at least two decades, according to the city Community Planning & Development Department.

New York and San Francisco remain far bigger commercial real estate markets that are unlikely to lose their allure as major cities any time soon. For some investors and would-be residents, Denver is becoming attractive because of its cheaper costs and growing downtown, said [Christopher Frampton](#), a partner at Avon, Colorado-based developer East West Partners.

### ‘True Mix’

“What's working for Denver is that it's less expensive than San Francisco and New York, but that at the same time it has a growing and diverse industry -- mutual funds, natural gas, technology,”

Frampton said. “Denver now has a vibrant downtown. It never used to. So now you have a true mix of city and sky.”

East West, which has Starwood Capital Group LLC Founder [Barry Sternlicht](#) as an equity partner on its downtown projects, has 575,000 square feet (53,000 square meters) of office, residential and retail real estate under development in the Union Station and Riverfront Park neighborhoods. As many as 1.5 million square feet more of offices are planned.

## Young Population

The city’s expanding young population is a boon for apartment developers, according to Frampton, whose company has built at least 10 residential projects in downtown Denver. [Equity Residential \(EQR\)](#), America’s largest publicly traded multifamily landlord, called the Mile High City one of its top three growth markets for 2014.

Of the top 25 U.S. metropolitan areas, Denver was tied with [Seattle](#) for the third-biggest increase in 25- to 34-year-old residents from 2008 to 2012, data from the Census Bureau and Moody’s Analytics Inc. show. The 9.1 percent gain trailed only [Washington](#), with a 12 percent jump, and Baltimore, with a 9.6 percent gain. Los Angeles and New York were among areas with the smallest increases in that age group.

Colorado is home to some of the nation’s most popular skiing destinations, with Vail and six other resorts a two-hour drive or less from Denver’s center. The city’s restaurant scene is also a draw. Rioja’s executive chef, [Jennifer Jasinski](#), was a 2013 James Beard [award winner](#) and a finalist on the Bravo network’s “[Top Chef Masters](#)” cookoff show. Art galleries, bars and nightclubs dominate downtown’s LoDo neighborhood.

## DaVita Move

The city is attracting young companies seeking an educated workforce, according to Ferris. [DaVita HealthCare Partners Inc. \(DVA\)](#), the country’s second-biggest dialysis provider, relocated its base from Los Angeles in 2010, lured by Denver’s affordability, diverse talent pool and accessible mass transit, said David Maughan, senior vice president of operations.

“We have found it’s much easier to recruit to Denver with lower taxes, lower cost of living and so many sunny days,” he said. “We were surprised at the number of people that chose to leave places like L.A. and other cities to move to Denver.”

The company’s dialysis division last year moved the majority of its 1,300 employees in the area into a newly built headquarters downtown.

The Denver area's unemployment rate was 6 percent in October, according to the most recent [figures](#) from the [U.S. Bureau of Labor Statistics](#), which aren't seasonally adjusted. That was below 7.8 percent in the New York City metropolitan area and the 7 percent nationwide average.

## Office Demand

Office rents in Denver averaged \$20.08 a square foot in the third quarter, about even with their pre-recession peak, according to brokerage [CBRE Group Inc. \(CBG\)](#). By contrast, the national average is 11 percent less than the 2008 high of \$31.19.

"The market is able to support such rent growth because office-using employment is expanding beyond its peak level, helping to generate healthy demand for space," said Arthur Jones, senior managing economist at Los Angeles-based CBRE.

The third-quarter vacancy rate was 14.6 percent, below the market average since 1990 and close to the pre-recession low of 14.2 percent, CBRE data show.

[Government spending](#) on transit upgrades has helped spur the flurry of private investment in the area, according to Ferris, whose office oversees reviews of development proposals. As part of a goal to cut congestion and pollution while drawing more people to the city, Denver in 2004 started work on a plan to add 122 miles (196 kilometers) of commuter and light rail lines, with downtown's Union Station as the regional hub.

## Brookfield Buildings

[Brookfield Office Properties Inc. \(BPO\)](#), owner of Denver's two tallest office towers, is in the market for the long term, said David Sternberg, senior vice president overseeing investments in the Midwest and mountain regions.

The New York-based company is spending \$50 million to renovate the smaller of the two buildings, bought for \$215 million in December 2011. The property, [1801 California](#), was more than two-thirds empty at the time. Occupancy will reach 60 percent by the end of the year and is poised to increase further after the work is done in the first quarter, according to Sternberg.

"Everybody wants to be downtown," he said. "There is this great public and private collaboration, particularly in this part of town. That provides additional confidence."

Sales of Denver office properties probably will reach \$2.07 billion this year, up 18 percent from 2012 and the most since 2007, according to data from New York-based Real Capital Analytics Inc.

The research firm estimates apartment-building purchases of \$2.16 billion, down from last year's total of \$2.66 billion, which was the highest in at least a decade.

## Manhattan Sales

The city has a long way to go before ranking with a top investment market like [Manhattan](#), where \$19 billion of office properties and \$8.4 billion of apartment buildings changed hands this year through Dec. 19, Real Capital data show.

“Coastal cities like New York, San Francisco or [Boston](#) will never lose their appeal, both for workers and for investors,” said [William Frey](#), senior fellow at the [Brookings Institution](#)'s Metropolitan Policy Program. “The job market in these cities is immense and it attracts a large amount of people, domestically and from other places. That will never change.”

Rising interest in Denver has created more competition and priced out some investors. When [Carroll Organization](#) wanted to enter the market last year, it sought to buy new apartment buildings in hopes of returns of at least 16 percent, said Patrick Carroll, the Atlanta-based company's founder and chief executive officer. He has been outbid every time, with each of his last five attempts drawing about 20 other potential buyers.

## National Buyers

“We've been in the room with national institutions or outfits that are institutionally backed,” Carroll said. “It's pretty surprising, given that Denver was always thought of as a smaller secondary market.”

Carroll, whose company focuses on projects with 300 units or more, has shifted his sights to older properties that are selling at a discount because they need extensive renovations.

“Getting that return with a new building is now almost impossible,” he said.

The city's popularity also is making it harder for some families to buy a house. Denver and Dallas are the only two U.S. areas where single-family home prices have passed boom-era levels, the Case-Shiller index of values in 20 cities shows. Prices in Denver are 4.6 percent above their 2006 high, while the nationwide average is still about 20 percent below its peak.

## Home Prices

The median price of a single-family Denver home was \$285,000 in the third quarter, up 9.7 percent from a year earlier, [according](#) to the Colorado Association of Realtors. Properties spent 39 days on the market, down from 63 days in the third quarter of 2012.

In New York City, homes sold for a median of \$515,000, up 4 percent from the third quarter of 2012, data from the Real Estate Board of New York show. In the San Francisco Bay area, homebuyers paid a median of \$550,000, a 26 percent jump from a year earlier, according to DataQuick.

While prices are climbing in Denver, it's still far more affordable than New York or [California](#), according to the Lodhas, who plan to buy a house next year in the Lower Highlands section, less than 2 miles from downtown.

For now, they're renting while they settle into their new jobs -- Lyndsey at St. Anthony Hospital in Lakewood and Sameer at Panorama Orthopedics, with three offices in the area. They moved to Denver from [North Carolina](#), where Sameer, 36, did a yearlong fellowship at [Duke University](#) following his residency at Rush University Medical Center in [Chicago](#). Neither had lived in Denver before nor had any family connections there.

They fell in love with the city "by chance" while attending a work-related conference, Lyndsey Lodha said.

"We were impressed by the burgeoning food scene, young, professional population, as well as the diversity and growth," she said. "And the cost of living is lower than other major cities, which allows our dollar to stretch a little farther. Denver really does have everything we are looking for in a forever home."

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