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**SQUARE FEET**

## **Denver Aims to Ride Out the Recession**

**By DAN LUZADDER**

DENVER — Randy Nichols mounted the podium before a full house at the Rocky Mountain Commercial Real Estate Expo in November with a wry smile and the air of a defendant mounting the dock to plead insanity.

“I’m here,” said Mr. Nichols, the president of the Nichols Partnership, a commercial real estate developer, “to talk to you about why we would be stupid enough to build 500 housing units” during a national economic downturn.

He was talking about the Spire — a 42-story condominium and retail development going up across the street from the Colorado Convention Center, where the Expo was unfolding. His quip brought ripples of laughter and a wave of applause from hundreds of real estate professionals who had paid to hear the annual fall forecast for Denver’s commercial real estate market.

At a time of high anxiety about both short- and long-term prospects for real estate development nationwide, Mr. Nichols’s subsequent remarks — coupled with those of economists and real estate entrepreneurs — had a curiously calming effect. It isn’t that Denver expects to avoid rough economic seas, but there is a sense that leaders here have constructed an ark on which to weather just such a storm.

A number of elements are cited as keeping this region afloat as other areas founder: investments in public transportation, aggressive economic development and, most significant, a two-decade campaign to diversify the region’s economic base from oil and gas to alternative energy, aerospace, technology and telecommunications.

As a result, said Scott Anderson, a [Wells Fargo](#) economist who also spoke to the assembly, Denver and its region are “in for a more mild recession” than the rest of the country.

While local office vacancy rates are rising — 13.1 percent at the end of the third quarter, up from 12.4 percent in the second quarter, according to the most recent [CoStar Group](#) report on the Denver office market — they stand below the national average, which was 13.6 percent in the third quarter, according to [Reis Inc.](#), a real estate research firm, and well below some other cities.

Still, absorption rates were negative in both the second and third quarters, meaning that more space came onto the market than was leased or bought. The rate was a negative 39,000 square feet in the third quarter, compared with a positive absorption of 43,000 square feet in the first quarter. In addition, more than one million square feet of new commercial space is expected to become available next year.

But a challenging time for the office market is expected to be mitigated somewhat by residential projects. Mr. Nichols told his audience that the Spire was aimed at downtown office professionals inclined to eschew the

suburbs for convenient transit, recreation areas in the building where they lived, close-by shopping and cultural amenities and entertainment.

The Spire will begin sales in March with units starting at \$200,000 and ranging to more than \$500,000. Its 33,000 square feet of amenities, Mr. Nichols said, includes pools, barbecue grills and media rooms, and the building's own fleet of bicycles. Retailing on the ground floor is expected to include an upscale restaurant-nightclub, a coffeehouse, a Pilates or [yoga](#)-oriented business and a car rental agency.

The tower is being built at 14th Street near Curtis Street, in the heart of the city's new Theater District, a transformative project designed "in Times Square fashion" around the Convention Center and the city's new Center for the Performing Arts.

The Theater District's chairman, Walter L. Isenberg, a Denver-based hotel developer and president of the Sage Hospitality Group, envisions the new district as a bright-lights environment that will draw new retailing and restaurants and attract tourists.

"There is history for this," Mr. Isenberg said. "[Thomas Edison](#) once called Curtis the brightest street in America, and historic photos show it lit up with theater marquees up and down. The vision is to bring back that vitality."

With the Spire, three planned hotel projects and other developments, more than \$1 billion in public and private investment is expected in the area in the next two years, he said.

The Urban Land Institute and PricewaterhouseCoopers, in a report titled "Emerging Trends in Real Estate 2009," listed Denver among 15 American cities expected to outperform the rest of the country. The report cites a good balance in housing supply and demand, a strong federal and state government presence to support jobs, continued population growth and a widely diverse economy.

This has not always been the case here. "A lot has changed in the past 25 years," said Tom Clark, the executive vice president of the Metro Denver Economic Development Corporation, an affiliate of the Denver Metro Chamber of Commerce. Mr. Clark was an original player in the Greater Denver Corporation, which was formed to chart a course after the oil-shale boom fizzled in the early 1980s, leaving Colorado's oil and gas industry in a sinkhole.

A string of critical events took place, he said, after local leaders determined that the Rocky Mountain region had the potential to replace the industrial Midwest as the country's economic heartland.

By the early 1990s, Stapleton, Denver's "pocket" airport, hemmed in by urban development, had been dismantled, and the much larger Denver International had opened. The Stapleton site now consists of single- and multifamily housing, shopping areas, schools and office developments.

A similar transformation has occurred in Lower Downtown, a former warehouse district, where major league sports venues, restaurants, stores and hotels have sprung up.

These efforts have been augmented by the region's light-rail system, which has demonstrated that new commercial development will follow the building of transit stations, said Cal Marsella, the general manager of the Regional Transportation District.

After the 1980s recession, the region had a talent pool of unemployed oil and gas engineers. That helped to attract aerospace companies like Lockheed Martin and eventually the [Ball Corporation](#). Technology companies were later persuaded to relocate here during the dot-com boom, and when that ended, entrepreneurs pushed into biotechnology and finally alternative energy.

Colorado's governor, Bill Ritter Jr., has pushed for investments in renewable energy to build on the presence of the Department of Energy's National Renewable Energy Laboratory at Golden, Colo., about 12 miles west of downtown Denver. A broader research initiative through the newly created Colorado Renewable Energy Collaboratory, which combines statewide university researchers with those at the national laboratory, has helped create a reputation for Colorado as "a new world leader" in solar, wind and biofuel research, said the Collaboratory's executive director, David Hiller.

Such efforts have already attracted a Danish wind-turbine manufacturer, Vestas. It is building turbine blades at a plant in Windsor, Colo., 58 miles north of Denver, and has plans for two more plants that will employ hundreds.

While new capital for commercial real estate projects remains tight — no new office project is likely to find financing until it is 85 percent leased, Mr. Clark said — a number of major projects in the Denver area are already under way with full financing.

Eric L. Nesbitt, a commercial real estate broker and president of the Denver Metro Commercial Association of Realtors, said commercial real estate continued to sell, "though it takes a lot longer to do a deal, and it takes more attention to detail."

Like many others, Mr. Nesbitt said Denver would not be immune to economic challenges. "We're going to suffer like the rest of the country in the coming year, without a doubt," he said. "But hopefully we just won't suffer quite as long or quite as hard."

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