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Condos meant to inspire

Lost financing, poor economy can't keep condos down

By Margaret Jackson

The Denver Post

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Posted: 03/08/2009 12:30:00 AM MST

Developer Randy Nichols got a text message during a housing conference that his German lender was pulling the financing from his \$175 million Spire condominium project.

"It's kind of like when Kennedy was shot," Nichols recalled. "You know exactly where you were at that very moment in time. I had a sinking feeling in my stomach."

Just five months after he'd broken ground on his 41-story tower at 14th and Champa streets, work abruptly stopped. It was Sept. 13, 2007.

Projects that stop midstream generally don't start back up. But Nichols and a handful of investors had about \$10 million in equity riding on their tower — and failure was not an option.

"It was a lot of money at a very bad time," he said. "The markets were evaporating out from under us. All the lenders were pulling out from making loans, and condos were particularly difficult."

For five months, Nichols and his team feverishly worked their sources, calling more than 150 potential lenders and investors. On Jan. 23, 2008, they nailed a \$118 million financing deal from Corus Bank in



Randy Nichols says he'll never forget the sinking feeling of losing funding. (Andy Cross | The Denver Post)

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Chicago. Construction restarted the next day.

This week, Nichols will open a Spire sales center in the Colorado Convention Center, which is across the street from the project. He'll start sales to friends and family on March 18 and open sales to the public April 4.

Nichols didn't sell any condos before he started building, unlike most residential developers. That makes the project riskier.

But he didn't want speculators buying in and then driving up the price of units as they flipped them when they were completed.

He also believed his target audience of young urban professionals wouldn't buy two years in advance.

"We would have ended up with a lot of investors, and we wanted occupants," he said.

The seeds of the project were sown in 2005, when Nichols and his development team traveled to Atlanta to tour similar projects.

Nichols' executive vice president, Chris Crosby, had worked in Atlanta and suggested the Novare Group's Spire Atlanta concept could work in Denver. Like Denver, Atlanta has a concentration of young professionals in its business center.

"We were touring, and lightbulbs started going off — we knew this would work so well in Denver," Nichols said. "Baby boomers ruled the Earth for the last 40 years. Now it's the echo boomers. . . . But they have nowhere to live because everybody was catering to the baby boom generation."

In Denver, luxury projects such as the Ritz-Carlton Hotel condos, and the now-canceled 1401 Lawrence, all are aimed at well-heeled buyers.

"The younger generation can't afford that," Nichols said. "They need small units to keep the gross price down, but with all the features they've grown accustomed to. They want a place to live that you're not embarrassed to take a date to."

In July 2005, Nichols purchased the Davis & Shaw Furniture Co. and an adjacent parcel on Champa Street between 14th and 15th streets. An earlier purchase of a neighboring parking lot gave him 37,000 square feet to construct the tower.

Nichols spent the next year working with Denver architecture firms RNL and CommArts to design the project and create the development plan. At the same time, he was talking with lenders and equity partners.

The biggest challenge was designing a high-quality product at the right price, said Rich von Lührte, president of RNL.

"Prior to finding JE Dunn, we were having serious problems with getting the building into budget," he said.

By May 2007, Nichols had negotiated a \$160 million financing deal with German lender Hypo Real Estate Capital Corp.

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- [Condos meant to inspire](#)  13
- [Ft Collins Coloradoan to move printing, lay off 48](#)  5
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After his financing tanked in September, Nichols rebuilt his capital with loans from Corus Bank and equity stakes from the the JE Dunn family and other investors whom he wouldn't name. The equity investment jumped to \$33 million. An additional \$20 million was provided by Colonnade Properties and Madison Capital Co. and Fisher Capital.

During the summer of 2007, JE Dunn Construction worked to keep its subcontractors committed to the project, said Dustin Liljehorn, senior project manager.

"The hard part was you didn't know. You had to work like you were going to restart, but you really didn't know," Liljehorn said.

Despite the turbulent economy, Nichols remains optimistic about condo sales at the Spire.

"Certainly you would prefer we weren't in this economic downturn, but Denver is pretty resilient," he said.

In December, he settled a lawsuit against Hypo over pulling its financing. Nichols wouldn't disclose settlement terms, citing a confidentiality agreement. Hypo wouldn't comment either.

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- Travis Henry says he's broke 51
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- Drama of McJaygate sounds familiar 43

Your prophesy of doom notwithstanding, do not damn GlassHouse by lumping it into a group of less-desirable and/or failing projects.

GlassHouse sold out 100% well prior to construction. Resales have sold extremely well. The building may or may not be 50% "occupied", (proof?) but who cares? That just makes more room in the exceptional common areas. They are overwhelmingly owned - that's the point.

Riverfront Park, which GlassHouse beautifully anchors, is both an exceptional urban park and the finest residential neighborhood in the area. Walk out the front door of the other properties you trash, then compare them with GlassHouse.

Simply put, Riverfront Park remains a huge success for Denver and GlassHouse remains in demand.

You can buy a small 1 bdrm for \$350k+ (maybe better). Just because that's too expensive for you, doesn't mean you should lump it in with a group on shakier ground, both financially and occupancy-wise.

I'd recommend GlassHouse over any over residential high-rise in downtown/lodo, "going up", "finished" or "on the books" in Denver.
Why roll the dice? Buy blue chip, if you're in the market. 8)

Good luck to Mr. Nichols (I guess they had 10 million reasons to push on), but the cobbled together financing (not his fault, btw) no base of resales and an increasingly desperate One Lincoln competitor leads me straight across Millineum Bridge (new bridge coming @ 18th St.- more vitality!) to Riverfront Park. GlassHouse, like its adjacent 20 acre park is a tranquil refuge from risky bets.

..and as a 1980s Texan, your analogy is a non-starter. :roll:



PermanentDE E | 12:28 PM on Friday Mar 13

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Nice try, turbo:

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PermanentUnder_the_Bus Capital_Investments | 1:46 AM on Friday Mar 13

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Spire is going to be very successful, watch.

The lack of confidence in Denver is just endemic. I've never lived in a city that hates itself the way this one does.

1LP has closed on 50% of its units, despite the fact that they are around 30% more expensive than

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those in Spire. Spire sits in the best possible location in Downtown Denver. 1LP sits on the far edge of Downtown surrounded by a virtual sea of parking lots. Spire is providing absolutely amazing value in the cultural and spiritual heart of Denver.

I am a local entrepreneur and my wife is a college professor at Auraria. We have relatively little debt and are over the age of 30. We love Downtown Denver and have a lot of faith in the future of this city. The fact that we can buy a relatively large unit in an outstanding dog friendly building in a nice neighborhood is thrilling and a real credit to Denver.



PermanentRon B | 1:10 AM on Thursday Mar 12

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Best o'luck to you.



PermanentHAKJ K | 6:55 AM on Wednesday Mar 11

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Wow. Have any of you actually been to the sales center? Do you know what the price of the units are? I'm sure Randy Nichols has kept in mind the overpricing/inventory of other highrises when pricing the Spire units. He hasn't been as successful as he has by ignoring the market. At least he is out there pushing forward, doing the best for Denver, in an economy where other business leaders should be doing the same. I would bet that it is Mr. Nichols who will be laughing all the way to the bank.



Permanentadventurenut P | 1:20 PM on Monday Mar 9

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"But he didn't want speculators buying in and then driving up the price of units as they flipped them when they were completed."

LOL Yeah, Right!



Permanentroscoe r | 10:06 PM on Sunday Mar 8

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Denver Overbuilt

underthebus wrote:

The whole funny thing is, he will be competing with One Lincoln Park that has only sold 30% of its units. Someone is drinking fermented cool-aid.

Remember, if you keep telling yourself the same thing over and over again, it eventually happens. Except, when you are hit by the bus!

<http://www.ireport.com/docs/DOC-33467>

Prediction: Corus Bank will have a growth in toxic assets.

I thought about living downtown to avoid the traffic on I-25 and looked at a number of condos/apartments downtown.

The **Glasshouse** is only about 50% occupied and is WAY overpriced.

One Lincoln Park has lost even the people who put down earnest money and will have a hard time selling the units over the next several years.

Bellagio, Promenade, ClockTower, Portofino... all junky for the price. They are by no means "luxury" and tiny.

My Point: There is going to be a real estate crash in downtown Denver. The office space will also crash in prices. Same thing happend in Houston in the 1980s when oil crashed. Speculators are getting burned.



PermanentSHMAEL 1 | 8:38 PM on Sunday Mar 8

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<http://www.ireport.com/docs/DOC-33467>

Prediction: Corus Bank will have a growth in toxic assets.



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The spire is an architectural masterpiece and does nothing but add to the beauty of the downtown Denver skyline. The economy is poor right now but with this prime real estate location these condos will have absolutely no problem selling. Sure maybe the building will not be occupied entirely by his target market but they will sell and I am confident that this project will be a great success. Keep up the good work Mr. Nichols



Permanent Rob N | 2:32 PM on Sunday Mar 8

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Um, looking at the spire website, the design definitely does not look like anything I saw in the eastern bloc countries in the 80s. It looks like a great place to live. Not for everyone, but for people who want elegance and convenience in the city - and a dog friendly building - it's not such a bad idea.

But he is taking a risk to not pre sell - and the success of the sales will depend now on a lot of things he cannot control. Will be interesting to see what the price point finally is for this.



Permanent Janet M | 1:14 PM on Sunday Mar 8

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I can't see all these high-priced high rises being bought or even leased. There aren't that many high-paid people left in the area. All these developers are vying for first-come, first serve position. He who builds first gets the buyers. Not so in this age of new economies. I don't think the "luxury living" marketing tag is going to carry so much weight when markets fail and incomes drop. Bare necessities may have a nice ring to it especially when these pricey buildings look an awful lot like Soviet, Eastern Block architectural monstrosities.

:)



Permanent Scott Schrat | 10:39 AM on Sunday Mar 8

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He is building a verticle slum...the kids he is catering too..have no credit..are maxed out with credit cards..have no savings for a downpayment...and they are the biggest trouble in my building downtown..... sorry....a "nice" thing to do....maybe..but a terrible decision for a business plan....



Permanent Thomas Y | 9:13 AM on Sunday Mar 8

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