REAL ESTATE

Springs Spree

Out-of-state companies buy in city

By RICH LADEN THE GAZETTE

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Whether they're buying office buildings, shopping centers or apartment complexes, out-of-state investors have been on a shopping spree in Colorado Springs that would rival a 10-year-old at Toys "R" Us. In 2006, a record $1.1 billion worth of commercial real estate was purchased in the Colorado Springs area, according to Paul Turner, president of Turner Commercial Research, whose firm tracks the local market. Of that figure, buyers from California, New York, Massachusetts and elsewhere gobbled up almost $775 million worth of land and buildings. That's more than five times the amount they purchased in 2001, and nearly 20 times what they bought the next year, when the Pikes Peak region struggled with the fallout of a national recession. Consumers typically care only about finding a parking space, not who owns a retail center, while office tenants often deal with property-management firms, not building owners, when they pay their rent or have a leaky roof. So, does it matter that buyers from outside Colorado are hot on the Springs? Yes, because an influx of out-of-staters investing in Springs commercial real estate signals they have a growing confidence in the city and its economy, local real estate experts say. The Springs area — with nearly 600,000 people and an expanding defense and aerospace industry — has arrived as a place for savvy investors to do business, the experts say. Having more out-of-state buyers puts the city on the map as a place for other businesses to relocate, expand and bring jobs. The spotlight on the Springs also could make it a candidate for new construction projects. "Colorado Springs has opened up to the investment world in general," said Kent Mau, an office specialist with Springs brokerage Sierra Commercial Real Estate. "We're seeing money coming in from all over." The Cirrus Group, a Dallas real estate company, wasn't looking to buy property in Colorado Springs when a three-building medical complex came on the market last year in the heart of town.

But Cirrus, an office and medicalfacility provider for doctors, covets fast-growing markets, said Greg Francis, an acquisitions manager.

When Cirrus officials researched the Springs, they saw steady population gains and solid household incomes.

More people means a big demand for doctors, who need offices, surgery centers and the like. Memorial Hospital and Penrose-St. Francis Health Services, meanwhile, were expanding their Springs campuses and building hospitals, more signs the city's health care industry was on the move.

The result? Cirrus anted up $21.7 million for the Union Medical Campus, northwest of Union Boulevard and Fillmore Street in central Colorado Springs.

The purchase was one of the larger prices paid in recent years for medical facilities in the Springs.

“We know the physicians will be coming to the market,” Francis said. “We want to be there when they get here, offering them firstclass office space.”

Cirrus is continuing to look for properties in the Springs, Francis said.

“While Colorado Springs may not have been on our radar screen prior to that purchase,” he said, “knowing what we know now, it will be on our radar screen in the future.”

In the late 1980s, the Springs was a place where many out-ofstate investors lost money after the collapse of the nation’s savings and loan industry and the tumbling local real estate market, Mau said.

DEFENSE CONTRACTOR’S DREAM

Now, the Springs is generally regarded as a community with a welleducated work force, low unemployment and solid job growth, Mau said.

Even with its steady population growth, the Springs remains a smaller, secondary market, which works in its favor when it comes to commercial real estate investment.

Prices are more affordable than in Denver and other large cities, yet investors still can find Class “A” — or top-of-the-line — properties and realize solid returns, said Mary Frances Cowan, a broker for Grubb & Ellis/Quantum Commercial Group in the Springs.

According to Turner’s research, buyers from California, New York, Arkansas, Illinois, Washington and Maryland — in that order — lead the way when it comes to commercial real estate purchases in the Springs from 2001 to 2006.

Arkansas jumped into the mix when an investment group recently paid $150 million for The Citadel mall, one of the Springs’ two regional malls, as part of a trio of shopping centers it was buying.

Maryland’s ranking results largely from purchases made by Corporate Office Properties Trust, a real estate company that has become one of the Springs’ largest out-ofstate commercial investors in just two years. Between its land and building purchases, Corporate Office Properties has snapped up $114.7 million worth of property.

The company’s interest in the Springs, however, differs from other out-of-state investors.

COPT leases space to several defense contractors on the East Coast, and some of those same firms have operations in the Springs.

To serve them locally, COPT is buying and developing a critical mass of office projects near Peterson Air Force Base, which is a magnet for defense contractors, said George Swintz, COPT’s vice president of asset management.

Many defense contractors prefer to deal with a large, national landlord that understands their needs, Swintz said. By having several office properties near Peterson, COPT gives those companies options to move into larger space or even downsize, he said.

“Pete Field is the real driver,” Swintz said of why his company set up shop in the Springs instead of other cities. “Peterson Air Force Base is not in Denver.”

PROPERTY PRICES MAY RISE

Last week’s announcement by Intel Corp. that it will sell its Colorado Springs chip-making plant, and close it if a buyer isn’t found, will cause a stir among out-of-state investors looking at the Springs — but it isn’t likely to scare them away, experts say. If Intel can’t find a buyer, its 1,000 employees could face layoffs.

“Any prudent investor is going to have their antenna on, and pay attention to that news,” Swintz said.

“But I don’t think it negatively affects the decision-making process. I think it just makes us (the investment community) look a little more carefully.”

The Springs’ economy remains diverse, and out-of-state investors will look to the big picture, not just at news about a single employer, Mau said.

Downsides to the influx of out-ofstate purchases include buyers who might look to raise rents to ensure a return on their investment.

But local commercial real estate owners are doing the same thing; because the commercial real estate market has improved over the past few years and buildings are filling up, many owners will look to increase lease rates.

Cowan, of Grubb & Ellis/Quantum Commercial, said some building owners will see the investments being made by out-of-state buyers and will look to sell their properties for top dollar.

But not every commercial property is top-of-the-line, and some owners will mistakenly overprice their property.

“People see this in the paper and some of the owners will say, ‘Wow, let me see if I can get $150 per square foot,’” she said.

“But sometimes, the numbers (asking prices) don’t make any sense. The numbers have been driven up, but some of the numbers won’t warrant those types of prices.”

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COME ON DOWN

In 2006, out-of-state investors paid nearly $775 million to snap up office buildings, shopping centers and other commercial real estate in the Colorado Springs area. Why?

- **They like us, they really like us:** When the local real estate market slumped in the late 1980s, the national media labeled the Springs as America’s foreclosure capital. Last year, Money Magazine tapped Colorado Springs as the best big city in America — a No. 1 ranking worth a million dollars in publicity and an eye-opener for investors considering the Springs. The Wall Street Journal also wrote what many local experts considered a favorable story about a rebound in the local commercial real estate market.

- **Strong fundamentals, as the economists like to say:** Low unemployment, solid job growth and an increasing population have put the Springs on the radar screen of many out-of-state investors.

- **The price is right, and so is the size:** The Springs is a so-called secondary market — not as big as a Denver or other larger cities. As a result, commercial real estate prices are more reasonable. And because the city is smaller, competition is not nearly as fierce among investors.

- **Follow the money:** When one out-of-state investor makes a purchase in the Springs, others take notice and tend to follow.

- **Construction is costly:** Prices of concrete, lumber, copper and other building materials have soared in recent years, discouraging new construction. Without a lot of new buildings, tenants look to existing properties, and increased demand means higher lease rates — an incentive for investors to buy.

- **Our time zone is good:** Often ignored by the national media, owning property in the middle of the country means landlords can lease to companies that serve both coasts.

SOURCES: Corporate Office Properties Trust; Grubb & Ellis/Quantum Commercial Group; Sierra Commercial Real Estate; Turner Commercial Research.