

THE NATION'S OLDEST WEEKLY BUSINESS JOURNAL

DENVER
**BUSINESS
JOURNAL**

VOL. 55, NO. 26

JANUARY 16-22, 2004

64 PAGES \$1.50



KATHLEEN LAVINE | BUSINESS JOURNAL

Principals of The Broe Companies Inc. (from left): Robert Jacobs, Carl Luppens, Chris Matthews and Hank Brumley.

Real estate investors at the ready

BY ERIN JOHANSEN
DENVER BUSINESS JOURNAL

Some seasoned Denver investors intend to spend millions of dollars on real estate in Colorado in the next two years because they believe the soft economy makes the time right for deal-making and they have faith in area real estate as a long-term investment.

Marcel Arsenault, CEO of Colorado & Santa Fe Real Estate, plans to spend at least \$180 million on

property in the next 24 months, with the bulk of it in Colorado.

Arsenault, who invested heavily in distressed properties during the late 1980s, said the market now is reminiscent of that downturn and that should result in bargains.

He said he's looking to buy mainly office, light industrial and apartments. And he thinks he will find ample opportunity in these sectors because the

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INVEST: Experienced real estate teams scouting for office purchases throughout Denver area

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market will get worse before it gets better.

"The job loss in Colorado, along with the bubble in building over the last seven years, has created large potential distress [in the marketplace]," he said. "If you study previous cycles — which I have — you realize there's a long lag in distress in office.

"The first reason is cash flows don't deteriorate for a while. You have to recycle old leases first. The whole building needs to be recycled and it takes a while to get to the midpoint. It's like the Titanic — you hit the iceberg and everyone's still dancing for awhile.

"The second reason for the lag has to do with intense competition. Buyers like us end up buying real estate two or three years into the cycle as the buildings start to be sold for a much lower price than they were before. So you have a second cut at lease rates as distressed property is brought to the market," Arsenault said.

In December, Colorado & Santa Fe purchased the vacant Tri-Pointe Business Center in Greeley for \$2.85 million from the UNC Foundation. The purchase of the 230,000-square-foot building marked the beginning of the company's latest round of acquisitions.

The company plans to market it aggressively with lease rates for large users as low as \$2.95 per square foot — and they can, given the purchase price. According to a statement released about the acquisition, Colorado & Santa Fe will invest about \$5 million in leasing costs, and tenant and building improvements.

During the recession of the late '80s, Colorado & Santa Fe bought almost 100 commercial properties — many of them empty — from lenders and agencies that foreclosed on them or took them from failed savings and loans.

"At this point we are not buying from lenders because they don't yet own real estate," Arsenault said. "Banks don't own a lot of property yet, but most of the bankers I talk to admit that low interest rates are propping up the economy. I think it will happen, but I don't think it will be as bad. Banks won't go back to the government."

Arsenault admits his view of the market is probably gloomier than many others in the industry.

"We have a cold but not pneumonia, but I think pneumonia is coming," he said. "I think most people disagree for a couple of reasons."

These reasons include the fact that owners are better capitalized now than during the last downturn and that the economy is getting better.

Arsenault said he agrees owners are better capitalized, but he also thinks this capital is "skittish" and if the market softens further, institutional owners may pull their money out. And regarding the economy, he said even if it's improving, the office market will get worse before it gets better.

Cushman & Wakefield of Colorado Inc. investment broker Tim Richey said he thinks this recovery might be faster than the last one because the demand for investment real estate is so strong.

"In the prior cycle and recovery, property values were tracking fundamental improvement in the leasing cycle, which should be the case going forward," Richey said. "In my opinion, values are driven by more than leasing fundamentals; they're also driven by the flow of capital. In this cycle, there's a lot more capital flowing in than there was in the late '80s and early '90s. If in fact the capital flows are strong, it will recover faster than it did in the early '90s."

The Broe Companies Inc., another local company that was active in buying dis-

tressed properties in the late '80s and early '90s, also launched a major acquisition program in 2003.

Broe wants to spend up to \$500 million in the next 18 to 24 months for office, industrial, retail and multifamily properties in Colorado and a few other states.

"With respect to Denver, we'd like to place a couple hundred million here if we can find the right property," said Robert Jacobs, COO.

Broe owns properties in Denver; San Francisco; San Diego; Chicago; Dallas; Houston; Cleveland; Cincinnati; Fort Lauderdale and Jacksonville, Fla.; Richmond, Va.; the Omaha/Lincoln area in Nebraska; and three Canadian provinces.

In addition to owning and managing real estate, Broe also owns one of the country's largest private railroads, OmniTRAX Inc.,

and a medical device company.

Jacobs said he thinks the economy is starting to improve, so now is a good time to look for acquisitions. "Real estate in general can follow the economy down and will follow back up," he said. "We think rail shipments are a leading indicator and they're picking up. We're seeing a turnaround, and we think the real estate market is going to recover and we think it will pick up over time."

Broe specializes in acquiring distressed assets and repositioning properties. Broe's most recent local acquisition was The Cascades, a Greenwood Plaza office building it bought in September for \$24 million. The building was its first Denver office building acquisition in several years and was about 60 percent occupied at the time.

Since then, the company has added at

least 12 new tenants who are leasing a total of 60,000 square feet.

"We want to buy and reposition with aggressive leasing and aggressive management," Jacobs said. "There can be opportunities where you can create value. We're looking to buy quality commercial real estate across the country, but we'd like to buy here — be it 100 percent or 0 percent leased."

A local economist said she thinks it's a good time to invest in real estate. "Many investors are seeing that these are some of the lowest interest rates we've seen in years and it's a good time to leverage money," said Patty Silverstein, president of Development Research Partners Inc. "In some cases, I think the investment money is burning a hole in their pocket because they want to get it placed."