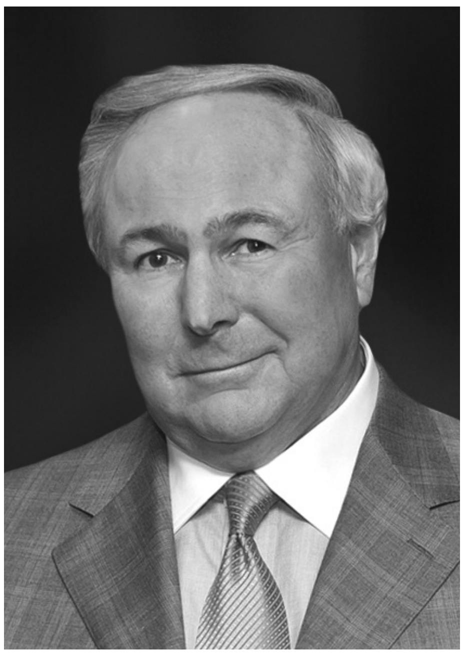
571 LOGAN STREET, DENVER, COLORADO 80203 | 303–292–1212 | www.LAWWEEKONLINE.com VOL. 10 | NO. 47 | $6 | NOVEMBER 19, 2012

LAW WEEK COLORADO

Colorado Among Leaders In Real-Estate Market

By Thomas Ragonetti
and J. Thomas Macdonald
OTTEN JOHNSON
ROBINSON NEFF + RAGONETTI



THOMAS RAGONETTI

J. THOMAS MACDONALD

THE COLORADO real-estate market reflects the same short-term hopes and fears that make it so difficult to predict the broader economy. But despite short-term uncertainty, long-term demographic trends help explain aspects of the local real-estate market.

Many political pundits are citing demographic factors to explain the recent election results. Whatever value such factors may have as determinants of elector choices, they certainly help shed light on the market.

We continue to see an active market for development of multifamily projects in Colorado. In 2011, approximately 1,400 apartment units were completed in Denver. The final number for 2012 may be almost double that number of units.

There are two root causes for the strength of the multifamily market. One is that more people are inclined to rent than buy and are willing to spend money for a nice rental unit. This is a change from 20 or even 10 years ago when purchasing a home was usually the first investment made when one began working on a full-time basis.

No doubt the crash of 2008 and the painful recovery changed perceptions as to the relative safety of investing in a home. The fact that workers tend to change jobs more frequently also makes buying a less attractive option. And despite recent reports of stronger consumer confidence, continued uncertainty in Europe, Washington's "fiscal cliff" and a slowdown in some of the developing economies make a long-term investment such as a home more risky than it use to be.

The second root cause, however, is a demographic one. According to Dr. Arthur Nelson, professor and director of Metropolitan Research at the University of Utah, the percentage of households without children will be 73 percent by 2030. It was 55 percent in 1970 and 67 percent in 2000.

By 2030, 34 percent of all households will not consist of a couple, but will either consist of one individual or a noncouple.

Much of this change is driven by an aging population. As seniors move, they tend to move to attached housing and to rent. In fact, some predict that many baby boomers will have difficulty selling their existing homes.

The single-family market is not entirely dormant, however. The downturn created an excess inventory of single-family homes. That inventory has gradually been reduced, and there has been a re-emergence of some single-family development.

Earlier this month, the Denver Post reported that the median sale price for a single-family home in the Denver area has returned to the 2006 peak level. Unless the economy takes another negative turn, this market should continue to improve because the Front Range continues to be attractive to businesses.

The office market continues to remain somewhat troubled, but growth in the oil and gas industry appears to be spurring leasing activity in the metropolitan office market. For example, in its Q3 Office Insight report, Jones Lang LaSalle states that oil and gas development has been an economic driver that has allowed landlords in the central business district to gain leverage, offering less free rent and fewer tenant concessions.

The retail market continues to struggle, although there is some big-box development. Retail has suffered not only from the economic struggles of the last four years, but also from the growth of online shopping. A question facing both developers and local governments is what to do with shopping centers and big-box developments that have ceased to be economically viable.

> "The office market continues to remain somewhat troubled, but growth in the oil and gas industry appears to be spurring leasing activity."

The future of a number of malls in the metropolitan area remains an open question. Finally, in many instances, the retail portion of mixed-use developments remains underutilized.

All in all, while questions remain, there are signs of optimism for both commercial and residential real estate in Colorado going into 2013. The hope is that the rest of the country will follow our lead. •

— Thomas Ragonetti and J. Thomas Macdonald are both shareholders with Otten Johnson Robinson Neff + Ragonetti. They can be reached at 303.825.6525.