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Awareness in office condo projects translates into increased purchases

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A new office condo project at Lowry with strong pre-sales could be the latest indication that ownership of office space is catching on in metro Denver.

Brokers say interest is particularly strong in new construction, including the Office Condominiums at Powerhouse Plaza project in Lowry, where more than 40 percent of the condos were under contract before ground was broken.

"It's amazed me, the level of activity we've had out there," said Scott Peterson, a broker with Ringsby Realty who's marketing the Lowry project for Denver-based Stanisz Development.

Peterson and other brokers said that while office condos have been around for decades, there's a growing awareness of them. In fact, CoStar Group, which tracks and markets available office space nationally, recently announced it will start including office condos as part of its services.

Office condos typically range from about 700 to 4,000 square feet. At Powerhouse Plaza, the smallest condo is 694 square feet and the largest is 3,733. Prices there are from \$195 to \$225 per square foot not including any interior finishes, which add to the cost. The two-story building at 495 Uinta Way is 19,000 square feet.

"They work well for professional partnerships, accounting firms, law firms, brokerages and insurance companies," Peterson said. "[Average buyers are] small partnership groups typically and it's another asset for the partnership."

Property ownership generally has tax advantages and property often appreciates in value. But office condos might not be the best choice for companies that plan to grow or shrink in the near future, Peterson said.

"The biggest issue is being able to fix your growth," he said. "If you can, there's no comparison. It makes sense to own."

Activity at a new office condo development in Aurora, called Fraser Business Park, also has picked up in the past few months, said developer Craig Lathram.

"We've had more activity in the past two months than we have in the past two years," Lathram said.

Lathram is a partner with development company Harrison Hanover LLC and his construction company, Lathram Construction Corp., is building the project.

Ground was broken on the project, near Iliff Avenue and Chambers Road, in late

2001, shortly after the 9/11 terrorist attacks. After the attacks, Lathram and his partner simplified the project design and decided to stagger the construction rather than building it all at once.

"We're a mom-and-pop company. We like to sleep at night," he said of the decision to be a little more conservative with the project post-9/11.

Lathram Construction also owns and occupies a condo at Fraser Business Park. Like Lathram Construction, which is made up of Craig and his wife, Debbie, most of the other buyers there are what he calls "mom-and-pop" companies.

A travel agency, dentist office and two CPAs are among the businesses that own condos at the development.

The condos now under construction at Fraser Business Park range in size from 1,005 square feet to 1,720 square feet.

There will be six buildings and 31 total units when complete. Twenty condos in four buildings already are done.

Perry McGill, a residential broker who started marketing the condos in August, said 11 are sold, two are under contract and there are five "strong potential buyers" in the pipeline.

The prices range from \$179,900 to \$299,999.

Before he became listing agent for Fraser Business Park, McGill, owner of ERA McGill Realty, worked only in the residential real estate market.

In 2002, he bought and combined two condos at Fraser Business Park and moved his 22-agent firm there. When Lathram asked him to consider marketing the condos, McGill decided it made sense.

"I totally believe in the concept and I think it's a great opportunity for small-business owners," McGill said.

His purchase at Fraser Business Park met all his business needs, said McGill, who had been leasing since he founded the company 10 years earlier.

"As a small-business owner, there are two ways of building equity." McGill said. "One is through your business. Most owners make a conscious effort to grow the business as a form of equity. So then they can retire and sell it. The only place I was building equity was with the business. Every year I'd look at where I was renting and how much I was spending."

When his firm moved out of its first office into a temporary sublease, McGill calculated he'd spent \$300,000 on his lease over six years.

At the second location, he was charged for the heat and air conditioning his company used on the weekends. Because it's a brokerage firm, it was open on weekends.

McGill purchased his condos with an SBA loan and now pays \$1,000 less monthly

than he did when he was leasing an office.

That's not always the case. Some tenants are drawn by the deals available in metro Denver's soft office market.

Eric Gold, president of Sheldon-Gold Realty, specializes in the office condo market. Gold consults with developers looking to build new condo projects or convert existing office buildings into condos.

Gold said he thinks the soft office market has hurt the condo market in the past three years, in part because companies concerned about their monthly cash flow can save through low office rent.

Gold said he's seeing strong office condo sales for new construction in markets where the rents have remained high.

For example, he's listing a project, Tre Torre at Southpark in Littleton, where almost one-third of the project is sold and it's still under construction.

"Denver is continuing to follow the path of Salt Lake City and Phoenix," Gold said. "Everything's a condo down there and also on the East Coast. I feel it's the wave of the future."