

dpd-report

Denver Planning and Development Report *Curating the topics driving Denver's growth*

Denver Industrial Market Reflects Strong Regional Economy

by Jeffrey B. Samet, Real Estate Advisory Services

Denver's enviable employment and population growth is reflected in its strong industrial market. Cushman & Wakefield reported a low 3.9% vacancy rate for the third quarter, bolstered by 164,000 square feet of absorption. To further emphasize market dynamism, Amazon entered the market by leasing 452,000 square feet in Majestic Commercenter for a package sorting center.

Amazon's customer-centric model of price, experience, convenience, and selection translates into being able to eventually provide one day service to the country's 50 largest cities. That, in turn, is forcing competitors to determine how to adjust their supply chains to provide comparable levels of service, customer experience, and choice.

Supply chain thought leader, Jim Tompkins, cites Amazon as the exemplar for the customer-centric model of e-commerce. He cites Walmart as the benchmark for the omni-channel model, which integrates the retail store and digital commerce models by transforming supply chain, merchandising, and customer centric service strategies. Distribution centers are being combined with fulfillment, return, and liquidated item functions, heretofore handled in separate facilities. Walmart's recent purchase of a 170 acre site south of DIA has fueled speculation that it has plans for a large distribution operation for unspecified functions.

As companies continue to refine their supply chains to mirror their merchandising strategy, different types, sizes, and locations of buildings are required. That may explain, in part, Majestic's decision to build 834,000 square feet of speculative warehouse distribution space in three buildings, ranging in size from 151,000 square feet to 523,000 square feet. At the same time, developers like The Opus Group have also started speculative projects like its 122,500 square foot Rangview Industrial Center to serve 40,000-80,000 square foot users requiring high bay space with additional trailer storage

space on-site. Opus, which provides development, construction, and design services in-house, has 8.2 million square feet of industrial projects in the pipeline around the country. Peter Coakley, Senior Vice President and General Manager of the Denver office, attributes Denver's demographics to driving tenant demand from sectors such as e-commerce, food and beverage, and building supply.

- *Census Building Permit data showed 14.6% year over year growth in Colorado residential construction as of May, compared to 9.7% nationally.*
- *Colorado added 62,000 jobs year over year as of May, 2016.*

This demand and short supply have driven lease rates up, which correspondingly have made heretofore more expensive sites feasible to develop. Whereas the Denver region lacks the contiguous population density to rival the industrial concentrations in the New York/New Jersey, Los Angeles, Chicago, Atlanta, and Dallas markets, its underlying dynamics will continue to make it attractive for institutional investors and developers.

Observations on Effective Entitlement Teams

by Steven Ferris, Real Estate Garage

While running the City of Denver's Development Services Department, I witnessed many large projects wind through a highly coordinated entitlement process that typically takes 6 to 8 months, from concept submittal to initial building permit issuance. But it's not unusual for some projects hit excessive delays. Examples include an affordable housing project that could not make sense of setbacks and fire lanes, a downtown high-rise that went sideways because of a failure to agree on the meaning of vague zoning regulations, and a convenience store that just had to have the largest parking lot possible.

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continued from page 1

Observations on Effective Entitlement Teams ...

It’s awkward when an architect insists on a preferred design that fails to meet a zoning standard, and no one wants to call out the elephant in the room. Regulators roll their eyes when an engineer decides to respond to only 5 of 10 requests for more information. Hand-wringing results when promises are made to fund construction of a quasi-public space, then retracted due to unforeseen cost constraints. Similarly, when a project manager fails to communicate status due to lack of resources, incompetence, or internal conflicts, the public agency certainly doesn’t reach out to ask why – they are on to the next project. Whatever the reasons for delay, the outcome is higher project costs, particularly when construction inflation is running at 1% per month.

An efficient real estate development process, from site acquisition and feasibility through construction, requires hands-on management and intensive fact sharing. In particular, larger projects or those with complexity require submittals to be timely and effectively integrated.

Working in this type of environment requires consistent face-to-face interactions and strong personal relationships. As much as governmental entities and developers try to work with technology and within standardized systems, any non-standard element of a project will require hand-holding and iterative meetings. In order to successfully complete the most timely and inexpensive process, here are the 6 key rules that the Real Estate Garage insists on following:

- Put aside large egos. The process must be collaborative with your regulatory partners.
- Set up one person to facilitate and lead. Make sure they have MORE than adequate capacity and display thoughtful, strategic, communication skills.
- Set up regular call-in meetings AND face-to-face contact.
- Constantly share the schedule internally and “Watch the clock and calendar.”
- Immediately recalibrate time and information as new data and circumstances surface.
- Don’t let the regulators or the designers only read off their checklists. Take the time to get to know their expectations. Look for opportunities to share expertise, explain constraints, persuade, and build relationships.

Within all of the above, keep someone like the Real Estate Garage at your fingertips to explain details, take on the regulators as needed, and put the process in context. Let them manage the process

In The Know: New Development Fee in 2017

The City of Denver has established a dedicated, affordable housing fund that will be supported by a linkage fee on new commercial and residential development, effective January 1, 2017. The fee is based on new gross square footage (exclud-

ing parking) and must be paid before receiving a building permit. Projects logged in for building review or SDP review on or before December 31, 2016 will not be charged the fee.

The fee schedule is presented below. More detail is found on the City of Denver web site: www.denvergov.org link to **Denver Development Services**.

Project Type	Fee, per sq. ft.
Single-family / duplex / townhomes built under the International Residential Code (IRC)	\$0.60
Multi-family, including townhomes built under the International Building Code (IBC)	\$1.50
Commercial development -- Hotel, office, retail, other, OR civic, public, or institutional	\$1.70
Commercial development -- Industrial, manufacturing, wholesale, or agricultural	\$0.40

In The Know: ...continued

DENVERIGHT

Denverright, the community driven planning process, should not be confused with Denverite, the website. Denverright seeks to integrate a new City of Denver plans for parks and recreation, transit, land use, and pedestrians and trails. At its core, it is an urban planning process that the City seeks your input on. While still in its early stages, many folks are working very hard on it, but it will take quite a bit of effort and time to integrate.

The average person may want to get involved IF they want to craft broadly worded statements intended to accentuate the positive and enable thoughtful approaches to the City's development. If you enjoy looking at things from 30,000 feet, you should seek out ways to participate now. If you're just curious, check out www.denverright.com

Denver by the Numbers

- Wells Fargo reported that:
Tech driven metro areas led 2015 US GDP growth. Denver was among the 10 fastest growing large metro economies. Growth in Colorado has outpaced that of the nation for each of the past four years.

- **Housing**

Denver is expected to be among the top markets for home appreciation in 2017 according to Vero Forecast, cited on the NAR website.

- University of Colorado Leeds Business School's Mid-Year Economic Update reported that Colorado's real 2015 GDP growth, 3.6% outpaced the US' 2.4% growth rate, as it also did in employment, home prices, and personal income growth.

***Denver Planning and
Development Report wishes
you and yours a
Joyous Holiday Season and
Happiest of New Years***

Denver Planning and Development Report is a quarterly publication highlighting noteworthy real estate development and regulatory trends in the Denver market. Market makers, economic development, and regulatory officials will be consulted to provide a more in-depth understanding of what is affecting this high growth market. Comments, criticism, and topical suggestions are welcome so that the publication can be relevant, accurate, and insightful.

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