

BUSINESS

Foreign investment in Denver commercial real estate totaled more than \$980.5 million in 2015

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The record-setting **sale of the CoBank Center office building** in Greenwood Village to a South Korean investor in December capped a big year for foreign investment into metro Denver's commercial real estate market.

Offshore investors pumped more than \$980.5 million into the Denver market in 2015, buying office buildings, multifamily apartment complexes, industrial warehouses and retail storefronts throughout the metro area, according to data from Real Capital Analytics, a New York-based research firm.

That's roughly 9 percent of all 2015 commercial real estate investment in Denver. The statistic considers only transactions of \$2.5 million or greater.

The total goes even higher — \$1.6 billion — if you factor in deals that include foreign buyers as part of joint ventures, the structure of which are not always a matter of public record.

All told, the amount of foreign-based investment capital coming into Denver more than doubled between 2014 and 2015, mirroring a similar trend on the national level.

"Foreign investment in San Francisco and New York and Boston and markets like that, coastal prime markets, is nothing new," said Geoff Baukol, executive vice president with CBRE Capital Markets in Denver. "What's new is the proliferation of interest from foreign capital into noncoastal, nonprimary markets. Denver is one of the first ones on that list after the coastal markets."

CBRE featured Real Capital Analytics' investment data in its 2016 Denver Real Estate Market Outlook, released this month.

"Three years ago, I would have struggled to tell you any examples of buildings that had foreign capital," said Baukol, who worked on the CoBank Center deal. "Now, I can probably tell you 15."

Among Denver's biggest spenders in 2015 were entities from Singapore, Canada, Switzerland, Chile, China and Germany, according to Real Capital Analytics.

Money came from sovereign wealth funds; real estate investment trusts; institutional investors, including insurance companies and pension funds; and private developers.

Nationwide, foreign investors are being drawn to the relative strength and stability of the U.S. market compared with the rest of the world, Real Capital Analytics senior vice president Jim Costello said.

"The U.S. acts as a safe harbor in troubled times," he said. "One of the other issues is if you look at the yield curve, it's so flat and so low. For people with requirements for fixed-income alternatives, real estate is throwing off a higher yield."

Over the past year, the appetite for U.S. real estate has grown beyond the property types that foreign investors typically gravitate toward, Costello said.

"If you look at classic foreign investment in U.S. real estate, they're typically in the past buying flashy central business district office buildings in the major gateway markets where they've been on vacation — a Manhattan office tower, a hotel property in Miami, something in San Francisco, the kinds of buildings you take a nice picture of and put on the glossy cover of the annual report to your investors," Costello said.

In 2015, offshore investors discovered the industrial segment and spread their money beyond the gateway markets, he said.

In Denver, where **the industrial market finished 2015 with record-breaking lease rates** and its 23rd consecutive quarter of positive leasing activity, cross-border investors represented the largest category of buyers of industrial property in 2015, according to Real Capital Analytics.

"Clearly, some of the industrial buildings are not as pretty, but what they've discovered is the yield they throw off is really sexy," Costello said. "In terms of the income you receive compared to the price you pay, it's one of the most stable property types in the U.S."

Whether it's office or industrial, Denver offers foreign and domestic buyers the positive demographics and strong fundamentals they're looking for, but with "comparatively less aggressive pricing" than the coastal markets, Baukol said.

"If you go to San Francisco and want to buy a core asset or go to Manhattan and want to buy a core asset, there's very limited availability or you're getting priced out," he said.

"The pricing in those markets is going to be substantially higher and the yields lower than a market like Denver."

Denver's suburban markets also have been attractive to foreign investors, a trend that should continue into this year, said David Tilton, executive managing director for NGKF Capital Markets in Denver.

"We're not a single submarket city. We don't have one area of the city where people want to invest. They want to invest in as many as four," he said. "Denver is one of the few cities that has a substantial suburban market that's bigger than our downtown."

Two of the biggest foreign transactions of the past six months occurred in the southeast suburbs.

In Greenwood Village, the CoBank Center, an 11-story LEED silver-certified office tower that's home to the agricultural cooperative bank's headquarters, sold to a Korean institutional investor for \$414 per square foot — a high-water mark for suburban office pricing, according to CBRE. It also was the first Asian-based capital investment into Colorado's office market.

A few miles down Interstate 25, the **six-building Panorama Corporate Center was sold in January**, snapped up by Denver-based EverWest Real Estate Partners and a Chilean investor, Independencia Asset Management.

Home to United Launch Alliance and Comcast, the office park sold for a reported \$189.1 million, or roughly \$243 per square foot.

Denver as a whole ranked No. 21 out of the top 30 global markets in total 2015 commercial real estate sales volume, according to Real Capital Analytics.

Often, foreign money will come into the market quietly, with the investors working through advisers such as Invesco, Tilton said.

"In the 1980s, foreign investment in the Denver area was limited to the Canadians and the English. That was pretty much it," Tilton said. "As our market has matured, as our city has matured, as we've grown both in population and square footage, number of buildings, we've really knocked it out of the park."

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