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## Focus

# Southeast Suburban Denver

## There's a new sheriff in town, and you can call him 'Tenant'

What a glorious time to be searching for office space!

How things have changed in the last three years. The constant rental rate increases and declining vacancies are now long gone. The tide has shifted and what used to be a landlord market has now gone full circle and tenants can once again call the shots, or at least have a say in how the transaction is structured.

From a corporate services/tenant representation perspective, this all seems so strange. We had become so accustomed to indifferent landlords, spaces we were targeting being yanked out from underneath us by ever expanding neighboring tenants, landlords unwilling to offer concessions or make any substantive changes to their lease documents, and onerous security issues just to obtain office space.

Landlords have quickly learned a new set of new rules. They once again must *compete* for tenants, must *negotiate* and *make concessions* in every facet of the transaction, (free rent, rental rates, moving allowances, tenant finish money, personal guaranties, commencement dates, free furniture, lease comments, etc.). The list goes on and on.

Credit tenants with the right size requirement will attract serious attention. For those tenants that fit this mold, it's time to "feel the love." For those tenants that don't fit this mold, it's also time to "feel the love." This phenomena is not restricted to just Denver and will not end any time soon. We have seen it and continue to see it in varying degrees in most



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markets. The markets concentrated with high-tech companies (Boulder; Silicon Valley; the Dulles Airport Corridor of Northern Virginia; Austin, Texas; and the Golden Triangle in North Carolina)

were the hardest hit. Other markets, including Denver's southeast suburban market, weren't much better off.

The difference between the two extremes is best illustrated by the market participants themselves. Below are *actual quotes* we heard from landlords or their brokers in various markets around the country.

At the market's peak, we experienced landlords and their brokers saying such things as:

"We don't quote prices here. The auction for this space ends at midnight on Friday."

"If you don't take the space now, I'll lease it later today."

"That's our rate and it's non-negotiable. If you propose something less, the negotiation will be over."

"We won't waste our time making a lot of lease changes. If you don't like our lease, lease space elsewhere."

"Unless you are publicly traded and profitable, we will need

an irrevocable letter of credit equal to all transaction costs plus two years of rent. In your case, that should be about \$600,000."

"In addition to the rent you will be paying, what types of stock options do you propose granting us?"

"Why don't you come back and talk to us when your company has grown up?"

"Tenant finish allowances are not really a part of our vocabulary."

In today's depressed market, we have experienced landlords and their brokers saying such things as:

"Tell us what we have to do to make this deal."

"We won't let economics get in the way of this transaction."

"What's the rent? You tell me. What does it need to be?"

"Tenant finish allowance? We will build out anything you need — within reason."

"No, really. I am begging. I need this transaction."

"The owner wants to fly into town to meet you and take you to dinner."

"I think you will be pleased with our response to your lease comments. We agreed to every comment."

"We used to charge for covered parking. Not anymore."

"You want the exclusive right to be a mortgage company in the building? That seems reasonable to me."

"These are our *quoted* rates. Make us an offer."

"Don't forget to ask for signage rights in your request for proposal."

"Please don't share your rental

rate with any of the existing tenants. We are renewing them at \$3 per square foot higher than your rent."

In some markets, the landlord's leasing agents have nothing better to do than call tenant rep brokers and pester them to bring their clients by their buildings. In a recent 10,000-square-foot transaction I worked on in Houston (the Westchase submarket), I received 35 responses to a broadcast e-mail I sent to that relatively small submarket. The 35 responses were received by 9:30 a.m. Houston time on the Monday following a Sunday broadcast e-mail. By the end of the day on Monday, we had 53 options to choose from in a single submarket. In Denver's southeast suburban submarket, if you were looking for between 8,000 sf and 12,000 sf of contiguous office space today, you would have the luxury (or the dilemma) of choosing between 340 different spaces in 167 buildings!

According to CoStar Group's midyear office market report, Denver's southeast submarket contains 39.1 million sf of space and it's 21.4 percent vacancy rate is the highest of all metro Denver submarkets. Although it means little, I always find it humorous to project trends based on current performance, such as this: At the current rate of year-to-date absorption (267,000 sf) it will take 16 years to fill the 8.4 million sf of space currently vacant in the southeast submarket!

All in all, not a bad time to be a tenant looking for space. Indeed!▲