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IN DEPTH: REAL ESTATE

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Take a look inside

It's a tenant's market, and many are making the most of it

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Denver's landlords are learning to roll with the punches -- at least according to several city design and construction professionals.

Fighting back against high vacancy rates and a stifled real estate economy, landlords are offering significant incentives like competitive pricing, parking improvements and security measures in order to attract new tenants and keep existing ones.

"It's a great market for tenants," said Don Fitzmartin, senior vice president of design and construction consulting services for The Staubach Company, a real estate advisory firm with offices in Denver. "From a project management standpoint, landlords are very accommodating. Tenants are continuing to capitalize on low lease rates. And they're able to stretch [tenant improvement] dollars a long way in this market."

"Rightsizing," or making existing space more efficient, is the trend, according to Fitzmartin, who said law firms and energy companies are the biggest movers and shakers at the moment.

As part of this trend, many companies are renegotiating leases and signing on for longer terms, while others are relocating to different, more efficient space, said Dave Morrison, vice president of leasing for the Denver office of Brookfield Properties.

"In the late '90s, companies leased more space than they needed, anticipating growth," Morrison said.

But now, most companies are aiming to get more for less, opting to maximize existing space while still offering refined amenities and comfortable surroundings to their employees.

"Clients are getting more savvy," said Andy Boian, director of business strategy for BurkettDesign Inc., a Denver architecture and interior design firm. "They know what they're talking about, they've learned to compare prices and they're more educated about making decisions."

Today's tenants are very concerned with client and employee areas, Fitzmartin said, despite their desire to "stretch their dollar further."

"We're seeing a lot of artistic ideas ... that make the [business] look nice while still being sensitive about economics," he said.

Most of the buildouts Staubach is seeing are in the $20-per-square-foot range, although Fitzmartin noted he has three or four clients who are opting for more expensive, high-end designs.

Although the law firm of Patton Boggs, one of Staubach's clients, decided to negotiate its lease to stay at the current 1660 Lincoln St. location, the company decided it was time for an image change. Currently in the process of upgrading its two-and-a-half floors to a Class A build-out, the new office space will have a totally different look and feel, according to Billy Cooper, managing partner for the firm.

"We brought our practice to Denver and with it we brought our vision of how we want to be seen in Denver," Cooper said. "It [the new office] will likely be a very different atmosphere than that of the other law offices in Denver."

Modeled after the firm's Washington, D.C., office, architects at the D.C.-based firm of Lehman-Smith & McLeish designed the new office with clean, crisp, modern lines and a bright, airy, user-friendly layout.

The decision to remodel the firm's three floors came out of a realization that the office was growing and needed to update its space to be attractive to current employees and clients, as well as the kind of professionals the firm wants to attract as it grows, Cooper said.

The new office space deviates from traditional warm-toned, wood-based furniture to trendier metal and chrome that will give it a sharper, brighter look. The main reception area will feature all tile flooring and a large plasma screen TV. The renovated floors will have lots of glass and granite.

The law firm of Moye Giles chose not to renew the lease for its 14-year home on the 28th and 29th floors of the 17th Street Plaza. Instead the firm will occupy the fifth and sixth floors of a new building in the 16 Market Square development.

"The market for tenants is terrific," said John Moye said, founding partner of the firm. "We were offered a wonderful fixed lease rate for another 14-year period."

The company's new home, designed by BurkettDesign, will upsize the firm's space from 32,000 square feet to around 40,000 square feet and will be much more elegant than the previous office with simple and well-articulated detailing, strategic use of color and daylight, and the inventive use of traditional materials.

"It will have a very different feeling," Moye said. "The offices are in a perfect configuration for us."

Unlike most offices, which are designed in a race-track style, the new offices of Moye Giles "will have lots of interesting nooks and crannies," Moye said.

A highlight of the design will be an elegant staircase descending from the sixth floor into an upscale lounge and catering area on the fifth floor.

"I've heard a rumor that we're going to have a grand piano at the base of the staircase, but I haven't been able to confirm that yet," Moye said.

The renovation's unique architecture will also showcase the firm's extensive art collections, and the firm plans to acquire new art as well, Moye said.

"It will be a very warm and inviting and comfortable place to go see your lawyer," he said.

Other interior trends BurkettDesign and Staubach are seeing include more natural light into offices, stone flooring, accent walls, glass conference walls and stained concrete. Many companies are also opting for more "green" spaces, hoping for improved energy efficiency and environmentally friendly operations, Boian said.

But regardless of what trends a company is considering, the key to renegotiating or moving is to act sooner rather than later.

Boian predicts that as the economy rebounds in the coming year and unemployment shrinks, vacancy rates will shrink as well, helping the commercial real estate industry rebound from the current slump more quickly than previous ones.

The key to the rebounding commercial real estate economy is the large amount of capital currently in the market, Boian said.

"Buildings are being sold at premium prices," he said. "They're getting more expensive and people are paying it."

And this type of market rebound will mean less negotiating power, less available space and fewer good deals for tenants.

"It's been a good market [for tenants] over the last 18 months, but that's starting to change," Boian said. "As more and more companies look at Denver, the economy of scale will improve and it will be difficult for tenants to find good space."

Morrison of Brookfield Properties predicts an upturn in the market will probably not occur until 2005.

He expects the amount of leased space added to the market to continue to nearly equal the amount of leased space taken off the market for the next couple of months, creating a situation known as no net absorption.

Absorption is the difference between the amount of space added to and taken off the market over a certain time period, generally through leases. No net absorption means that no more space was added on the market than was removed.

"The current trend in the CBD office market is no net absorption, which will probably keep the vacancy rate at around 20 percent, including sublet space, through the year's end," Morrison said. "This will improve next year as hiring increases and job growth occurs in the Denver economy."

But with activity picking up among health care organizations and biotech companies, and with the high price of oil as a driving force for energy companies, Boian said, real estate business in the metro area should begin to boom once again.

"We've had steady growth now for several years, and Denver will continue to attract good business," Boian said. "We'll cross our fingers."