



# COLORADO REAL ESTATE JOURNAL

THE COMMUNICATION CHANNEL OF THE COMMERCIAL REAL ESTATE COMMUNITY

JUNE 7-JUNE 20, 2006

## National trends in industrial real estate hit the Colorado market

After several years of generally soft conditions, Denver's industrial real estate market is now showing real signs of sustained strength and vitality.

At the end of 2005, the vacancy rate for industrial properties dropped to 7 percent in Denver, compared with 8 percent in the middle of the year and 9.4 percent at the end of 2004. On the development front, Denver saw almost 1.07 million square feet of new inventory added over the course of the calendar year, with about half of the completed facilities being built on a speculative basis.

This improvement mirrored trends seen at the national level, where strong economic growth and the continued acceleration of world trade are driving demand for high-quality industrial distribution facilities. The aggregate vacancy rate in the Top 30 U.S. markets declined to 8.3 percent at the end of 2005, almost 1½ points lower than the level a year earlier. Meanwhile, new deliveries in those markets totaled 93.5 million sf during the year – just under 2 percent of existing inventory.

One question many are asking is whether these stronger market conditions will lead to overbuilding – something that has occurred during sustained economic recoveries in the past. At ProLogis, we're generally optimistic in this regard,



**Wayne Barrett**  
Vice president and  
Denver market  
officer, ProLogis

because the commercial real estate industry is far more disciplined today than it was even a generation ago. Far from having a free rein, commercial property developers are now constrained by numerous internal and external checks and balances – enough to maintain a tight leash on new construction. Those checks include greater market transparency, more stringent regulations governing commercial lending, and increased concentration of real estate ownership in the hands of publicly traded companies.

That said, as the supply-demand balance continues to tighten, vacancy rates in Denver and throughout the United States are likely to drop even further. Rents will rise as a result, further strengthening the warehouse/distribution leasing environment.

**■ Warehouse design trends.** On the design front, warehouse customers in Denver and elsewhere continue to seek to maximize the efficiency, safety and environmental performance of

their buildings.

One of the most frequent requests we receive is for more energy-efficient lighting systems. Both "T5" and "T8" fluorescent lights operate at higher frequencies and efficiency than typical high-intensity discharge lighting technology. Suppliers estimate they can cut electricity use by as much as 75 percent. In addition, the lights last longer, are rust-free, easy to clean, dust- and moisture-proof, and their linear shape allows for better rack lighting. Customers also like these lights because some utilities (including Xcel Energy) offer cash rebates for business customers that purchase and install energy-efficient lighting equipment both as part of an existing building or for new construction.

Trailer storage is another key concern for warehouse customers. They need extensive trailer parking space at their facilities to accommodate seasonal product overflows. They also can use it as a staging area for imported product that otherwise would sit in containers at the docks, racking up expensive demurrage fees.

Another popular upgrade is the so-called "early suppression, fast response" sprinkler system. ESFR systems are designed to detect fires sooner and actually put them out, whereas standard systems are

designed to simply keep a fire under control until firefighters arrive. ESFR systems can be mounted to the ceiling instead of in-rack sprinkler systems. This means they can easily be reconfigured as distribution needs change – and that they are far less prone to damage by trucks.

**■ Denver as a distribution hub.** I'm often asked if Denver ever will become a national distribution hub. The answer is: probably not. About 5.5 percent of the United States population lives within 500 miles of Denver, which is considerable, but not when compared with the larger coastal markets. In addition, the Rocky Mountains pose an immutable challenge from distribution standpoint, standing in the way of truckers who need to deliver goods to the West Coast.

However, Denver's weakness is also its strength. The fact is, it's very difficult to serve the Rocky Mountain region from anywhere except Denver. Serving an eight-state region, Denver has grown in size as a market, becoming No. 8 in the country for warehousing. While Denver may never be an Inland Empire, its critical location as a regional hub will sustain long-term market growth.▲