

denverbusinessjournal.com

Real estate developers think small to weather downturn

BY PAULA MOORE
DENVER BUSINESS JOURNAL

Small Denver-area real estate developers hope their flexibility, focus on niche projects and multiple capital sources will help them weather the economic downturn.

Some even are capitalizing on the federal government's stimulus package, with some of those dollars expected to be used to fund new buildings and to redevelop space for government agencies.

Stimulus money also can benefit small businesses that require new or larger office space, or have other real estate needs, via U.S. Small Business Administration-backed loans.

Many local developers who specialize in small and medium-size projects are continuing to build, sell and lease office buildings, shopping centers and redevelopments started when funding was easier to get. They're also looking for new development projects — particularly those commissioned by companies that will occupy the space — knowing they may be more difficult to finance.

Veteran urban developer Charlie Woolley, president of the St. Charles Town Co., is able to continue redeveloping the 1800 Glenarm office building in downtown Denver as for-sale office condos partly because of enhanced SBA-backed financing available to prospective buyers through the stimulus package. In March, the federal government announced the allocation of stimulus funds to cut small-business loan fees and increase government guarantees on some SBA loans to 90 percent.

The 1800 Glenarm project caters to small businesses such as accounting firms, insurance agencies and financial advisers.

"We are strategically trying to take on less speculative real estate development," Woolley said. "We're doing the kinds of infill projects that are centered around users; we start with the user and build around them."

Tax credits boost affordable housing

Woolley also is working on more affordable-housing projects that qualify for low-income housing tax credits to help finance development. The developer built his first affordable project, the Brunetti Lofts at 26th and Larimer streets, in 2005 and hopes to unveil a new project in May.

"Affordable housing is in great demand," Woolley said.

Dave Johnson of Radius Commercial Real Estate LLC and David Wells of Well-Springs also specialize in user-oriented, urban infill development, and expect to do more of it in this economy.

The partners recently finished developing a new, 18,000-square-foot office building at 1127 Sherman St. in Denver that will house the Colorado State Land Board's main offices. The land board just bought the three-story building from the developer for \$4.7 million, and plans to move into the top two floors "pretty quickly," Johnson said.

"We're not looking to be developers of large office buildings, just niche developers. ... We're looking for other build-to-suit opportunities," Johnson said.

Radius helps defray its risk by also being in the brokerage business, representing tenants, as well as developing several types of commercial property — office, industrial and mixed use.

Other developers, including retail specialist Mordini Watters Capital Partners LLC of Greenwood Village, even are diver-



THOMAS COOPER | BUSINESS JOURNAL

1800 Glenarm is home to office condos.

sifying outside the real estate field to help generate capital for current and future projects.

In 2008, Mordini Watters launched an energy-related division called Summit Field Services LLC, which provides oil and natural gas companies with services such as trucking, construction and site restoration. The company also started Momentum Funding LLC last year to provide capital to investors buying foreclosed homes.

"Diversifying allows us to create the revenue we need to do other things. ... Organic growth in our other companies helps with our real estate," said Bob Mordini, principal of Mordini Watters.

"Diversity gives us the luxury of being patient and looking for the perfect deal," said Dan Watters, another principal.

In addition to using its own capital, the developer continues to draw from a pool of private investors and get loans from banks with which it has long-term relationships.

Mordini Watters currently is working on two Aurora shopping-center projects.

The developer expects to finish its \$2.5 million redevelopment of Country Square at Cliff Avenue and Chambers Road in June, and is building the \$12.2 million Arapahoe Commons on East Arapahoe Road.

Leasing space and selling pad sites have been a major focus at both properties. Mordini Watters has attracted tenants such as Jimmy John's Gourmet Sandwiches and Mega Wraps to Arapahoe Commons, and sold pads at Country Square to Chase Bank and a car wash.

The company plans to increase Country Square rents from \$12 a square foot to \$16 or \$17 after the project is finished.

Retail leasing is the principal aim of developer Dick Landon, president of Landon Enterprises Ltd., these days as well.

The developer's Grandview Plaza/Reno Place project in Old Town Arvada, completed last year, has leased all its office space, but the retail component is only 40 percent rented. Asking rents for retail space range from \$20 to \$30 per square foot per year.

Landon Enterprises, which also owns and manages its projects, has no new developments in the works, though it still has access to both debt and equity funding.

"We're trying to do the best job we can, and be sensitive to each tenant's needs. ... No one is going to go through this [economy] unscathed," Landon said. "We're all in it together."