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Unlocking value for improved investments

In today's real estate market, many owners and investors are looking for cost-effective ways to create value from aging or dated properties. With more than 76 percent of Denver's office space built prior to 1985, along with the forecast for 45,000 jobs to be added this year, the outlook has never been stronger for better use of these buildings. Add soaring new construction costs to the equation and the opportunity looks even more compelling. With this abundance of older inventory in our market, these properties are attractively priced, but many investors are not aware of the options available to update older construction trends such as exposed aggregate, unattractive brick or metal-panel systems that are nearing the end of their life cycle.

In some cases, these properties do not support the expense of a complete façade replacement, and unless investors are aware that there are cost-effective renovation alternatives, opportunities often are missed to acquire or update a building that may be easily improved to attract higher lease rates or a better sales price. If you are considering these types of undervalued properties, look at a variety of renovation ideas early in the due diligence process and don't default to decades-old assumptions; it could mean the difference between profitable deals, overpaying or not participating at all.

With advances in product technology and the creativity of owners, architects and



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contractors, we have completed numerous projects that transform a variety of properties. The options available offer almost unlimited flexibility in terms of design, architectural enhancement, color and textural updates, which allows owners and investors to better compete with new construction trends.

These alternatives typically shorten renovation cycles and minimize disruptions, allowing owners and tenants to return to normal operations faster than traditional methods. Bringing a property from a Class D or C building to a Class B property or bringing an aged Class A building back to competitive form can be cost effective and flexible. With rents rising from 5 to 8 percent last year and capital remaining affordable, the market's aged inventory is attracting plenty of attention, as evidenced by recent transactions in Lakewood and in the Highlands from New York and California investors.

One option to improve the look of an older building is to paint or coat exposed aggregate and unattractive brick, which is a common look in our market and dates to the 1970s and 1980s. Painting or coating does not create maintenance issues. Further, it can

protect those surfaces from dirt, water damage and more costly repairs, while changing and updating the look of the property. While this may be contrary to what we used to think, there is no reason to live with dated or weathered properties that are not marketable and to miss out on acquisition opportunities.

We see an abundance of metal-clad buildings in our market, which often are recognized as the silver- or black-finished office properties. The properties present potential investors with sometimes deal-breaking cost assumptions when it comes to replacing the faded, weathered panels, standing seam-metal roofs and window mullions. However, there are solutions, including field-applied fluoropolymer coatings, such as PPG Corafalon. These solutions, while not cheap, can be a fraction of the cost of replacement and provides a 30-year durable finish to allow for design flexibility. Because of this long lifespan, these types of renovations may be treated as a capital expenditure versus maintenance costs, allowing owners to amortize the expense over time.

This is good news for owners and investors who hold, acquired or are considering buying these dated properties, assuming that there were limitations in terms of value potential. Whether the goal is to extend a building's life cycle, better position an asset for resale or to move into a more profitable leasing category, the possibilities are much greater than in previous cycles.▲

Before and After

Property: 555 Zang St., Lakewood

Project: The 130,000-square-foot office building, built in 1978, needed to enhance the asset's performance and make repairs.

Updates:

- Aggregate panels repaired and coated for a façade revitalization and envelope improvement.
- Stucco finishes added for design enhancement and repair.
- Gutter covers, metal detail and crown moldings added to complete the design update.

Property: The Petroleum Building

Project: The 197,000-sf Denver office building, built in 1956, needed an update and repairs. The challenging extant building envelope presented cost-prohibitive recladding of the aging-ceramic-panel skin.

Updates:

- Complete refinish of ceramic-panel cladding, providing a cost-effective alternative to replacement.
- Trim and sealants repaired and recoated for a clean, modernized appearance.
- Window mullions and design features refinished to complete the update and refresh storefronts.