

Fall Preview

Boulder: A national commercial real estate hotbed

by Andy Hellman

Boulder is one of the hottest commercial real estate markets in the nation, with record-setting multifamily prices being the norm. In early 2018, The Lofts on College, a mixed-use, student-housing property, traded for over \$1.4 million per unit, higher than any per-unit price in the state of Colorado.* Conventional multifamily properties in Boulder have also been setting record highs – 17*Walnut sold in 2017 for \$600,000 per unit, which was a state record at the time of sale.* Boulder's hot market is also underscored by the average sale price of a single-family home – over \$1.2 million in 2018, according to a Daily Camera article – which is nearly four times the national average. This pricing phenomenon begs two major questions: What is so unique about the Boulder market? And is this kind of pricing sustainable?

Colorado's flagship university – the University of Colorado Boulder – sets Boulder apart from other cities on the Front Range in terms of its unique real estate appetite. CU Boulder is home to 33,246 students and over 3,000 faculty and research staff. The housing demand driven by the university's student population pushes surrounding real estate prices upward, specifically, on "The Hill," Boulder's

iconic neighborhood just west of campus. The estimated all-in cost for one year of nonresident undergraduate tuition and room and board at CU Boulder is over \$50,000, according to the CU Bursars Office. With over 40 percent of students coming from out of state, this influx pushes student rental rates on "The Hill" to well over \$1,000 per bed. The university is also a magnet for private technology and aerospace companies looking to tap into both the university's research infrastructure as well as the steady stream of highly educated graduates.

Demand for real estate is furthered by the large number of high-paying jobs coming to Boulder. The city has 12.9 times the national average of aerospace firms per capita and 2.7 times the national average of IT/software firms per capita. Notable companies that have established a presence in Boulder County are Google, Facebook, Amazon, Twitter, Lockheed Martin and Sierra Nevada Corp. Google, in particular, has invested a great deal in Boulder with the development of a \$130 million campus. Phase I of the campus is already complete and employs 800. Phase II is expected to deliver at the end of 2019 and, upon full completion, the facility will employ 1,500 workers. Growing tech and aerospace companies choose Boulder for its supply of edu-

cated workers. In 2017, Forbes ranked Boulder No. 1 in education as it relates to business and careers. Private firms also find value in working with the university. For example, Lockheed Martin has invested millions of dollars into a partnership with CU, focusing on radio frequency space systems research. With the addition of over 17,000 jobs in the last five years (a 10 percent total increase), Boulder's job-driven population growth has been a major factor in the real estate market, according to the Bureau of Labor Statistics.

High-quality employment and education opportunities aren't the only factors putting upward pressure on the Boulder real estate market. Boulder's quality of life is unparalleled, both attracting new residents and retaining current residents. Nestled at the base of the Rocky Mountains, Boulder has garnered a reputation for a laid-back culture with access to some of the best outdoor recreation opportunities in the country. National Geographic ranked Boulder the No. 1 happiest city in America in its 2017 survey. Though intangible, the quality-of-life factor is perhaps the biggest demand driver for real estate in Boulder.

The aforementioned factors explain the heightened demand for real estate in Boulder. The other half of the record-pricing

story is the supply. Over the last five years in Boulder County, there have been 2.3 new jobs added for every one new residential housing unit construction permit issued. There is little developable land remaining in the city of Boulder and the cost of development is skyrocketing. Rising construction costs are making development opportunities challenging across the state and the approval process and development fees in Boulder make new construction especially challenging. Boulder's lengthy and litigious development approval process prevents many projects from making it past the planning stages. Even if a project is approved, massive development fees make execution difficult. A multifamily development in the city of Boulder could require impact and development fees of \$50,000 per unit while the same project in the city of Denver would require only \$8,000 in fees per unit. Affordable housing linkage fees, facility investment fees and public land dedication cash-in-lieu payments are the main drivers of Boulder's higher development fees. The imbalance of supply and demand in Boulder's real estate market has resulted in record-breaking pricing and investment and there are no indications that these factors

are changing any time soon.

ARA Newmark Research Department also contributed to this article.

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