

Commercial Real Estate in Northern Colorado – 2022 areas to watch  
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Circa 2020, during the early months of the pandemic, it was anybody's guess what impact COVID-19 and the policies surrounding it would have on the economy, not to mention what future recovery would look like. Considering the fairly recent Great Recession of 2008-2009, many hesitatingly predicted a long road to recovery. Nearly two years after the pandemic began, we evaluate the recovery thus far and look forward to 2022. When we narrow our evaluation to the scope of commercial real estate in Northern Colorado, we are optimistic.

Despite lingering COVID-19 policies, the Northern Colorado commercial real estate market continues to recover. On the heels of a strong 2021, we anticipate a continued recovery trend in 2022. In the current year, there is one particular positive trend to pay attention to, the improvement in the office asset class. Along with the positive trend, be sure to keep a cautionary eye on the inflationary environment and how interest rate increases will affect prices and deal volume.

1. Office Space (Larimer County) – Without a doubt office is the slowest asset class to recover due primarily to the COVID-19 related governmental policies—Larimer County is still under a county wide mask mandate. However, there is improvement in this asset class moving into 2022. This is great news for property owners with vacant office space. Work-from-home policies are unlikely to disappear altogether, yet many employers will choose to return to an office setting. Currently at 6.31%, vacancy in office space is projected to slightly decline. The limited construction of new office buildings makes existing office space an improved asset class. According to CoStar, there are currently four office construction projects in Larimer County—three of which are less than 15,000 square feet. While activity around office space leasing was slow in 2021, sales of office space remained relatively strong. The strong sales activity was likely attributable to low interest rates, particularly for owner occupants. In our market, the current average sale price for office is \$185/sf, which is a relative bargain when compared to the Denver metro area or other parts of the country.
2. Inflation & Interest Rates – Inflation looms strong. The question is, how long will it persist in 2022 and how will the Federal Reserve's tinkering impact local markets? While low long-term interest rates (available to businesses and investors) aided in economic recovery, the federal government policy of printing more money to spend in aide has many unintended consequences—chief among them is an inflationary environment not seen in decades. The increase in printing money, along with the continued supply chain disruptions, spur inflation which was pegged at 6.8% in November 2021 (The Balance). Inflation typically creates demand for commercial real estate, as investors and owner users look to hedge against rising inflation. Commercial real estate is an asset class that performs well during periods of high inflation, compared to other investment types.

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In an attempt to curb runaway inflation, the Federal Reserve plans to increase interest rates by .25% three times in 2022, with more possible increases in 2023, according to the Wall Street Journal. Although rates will likely remain historically low, investors and users will be eager to buy property this year.

We're towing the line between optimism and realism. Commercial real estate in 2022 will not be without its challenges, but we have reason to believe it will be a great year for the industry throughout our growing market.

Data for this editorial was supplied by CoStar.