

3 cities vulnerable for lease terminations

Feds seek way out of rentals in Denver, Fort Collins, Lakewood and other areas

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The Department of Government Efficiency, or DOGE, isn't looking to only dismiss workers in its drive to reduce federal spending. At the start of the month, regional managers for the General Services Administration, which manages the federal government's real estate portfolio, received orders to terminate real estate leases as quickly as possible. *

Federal leases are in place in 27 of the Colorado's 64 counties, so terminations could reach far and wide. But the greatest impacts are likely to be felt in three cities — Denver, Fort Collins and Lakewood.

"While the federal government carries large leases in office buildings, the impact of such decisions won't be uniform and will depend upon which cities have a higher exposure to them. With the current environment of the office market, this is another wrinkle for office landlords who will have to reevaluate their future rents and leasing strategy," said Vivek Sah, director of the Franklin L. Burns School of Real Estate and Construction Management at the University of Denver's Daniels College of Business. Building owners with the most wrinkles to work out will be those in markets with a lot of surplus capacity, like downtown Denver, where more than a third of the office space is sitting vacant, or Lakewood, where a disproportionate share of leasing activity comes from federal agencies.

The federal government rents a net 4.1 million square feet of commercial real estate in Colorado, largely office space, with some warehouse space and specialty facilities like laboratories, and it directly owns 6.8 million square feet in 87 buildings, according to the GSA. The portfolio is so large that 274 workers help manage and maintain it.

About 90% of the federal leases are in six counties — Denver, Larimer, Jefferson, Arapahoe, El Paso, Boulder and Adams.

Total square footage of existing government leases shows about 4.4 million square feet. Denver has the most federal leases at 913,988 square feet or just more than a fifth of the state's total. Fort Collins has 853,69 square feet or 19% of the total. Lakewood has 663,248 square feet or nearly 15% of the state total.

Other cities with sizable federal leases include Colorado Springs, Aurora, Centennial and Golden.

What makes Lakewood especially vulnerable is that it is also home to nearly two-thirds of the space that the federal government owns in Colorado — the 4 million square feet of buildings on 623 acres at the Denver Federal Center, the largest collection of federal agencies outside the Washington, D.C., area.

DOGE, in addition to terminating leases, is also looking to sell government real estate with two goals: generate money for federal coffers and put parcels, which are often in prime locations, to a higher economic use. The Denver Federal Center, in whole or part, could find itself on the market.

One scenario to justify holding the Federal Center would be to bring more workers onto the campus, which in turn could spell trouble for surrounding office buildings. A high share of Lakewood's office space is under federal leases. But until this year, that concentration wasn't viewed as a form of putting all your eggs in one basket.

"Federal and state governments are considered high-quality tenants. They were considered to be very low risk and very attractive," Sah said.

Given the choice between renting to a tech startup with a great idea but an uncertain future or a stable agency with the full backing of the federal government, most landlords would sign on the dotted line with the agency, he said. Now all bets are off.

Some landlords, however, may have been underpricing their rents in exchange for stability and could potentially benefit from freeing up space that has been locked down for years, if not decades, said Ben Jacobson, a partner at Forman Capital in Delray Beach, Fla.

But the outcome all depends on how much available supply a given market has. A Dallas landlord would likely stand to benefit more than one in Manhattan.

If building owners start losing important and once-stable tenants, long-suffering lenders may say enough, causing more office space to come onto an oversupplied market.

The three biggest federal tenants in downtown Denver are the Environmental Protection Agency's Region 8 office, with 176,000 square feet at 1595 Wynkoop; the Internal Revenue Service with 125,000 square feet of space at 1999 Broadway, and the U.S. Department of Housing and Urban Development Region 8, with 86,809 square feet at 1670 Broadway.

None of the three can claim to be favorites of the new administration, and on Thursday, the Denver office of the IRS experienced layoffs, part of a larger elimination of 7,000 probationary workers.

The largest federal lease in Denver not downtown is an FBI field office with 175,155 square feet at 8000 E. 36th Ave.

Unlike federal contracts, which allow for cancellation at the government's convenience, federal real estate leases typically carry a "firm term" or a date until which rent must be paid, the Miami-based law firm Holland & Knight said in a note sent to clients. That doesn't mean the GSA won't seek an out, a practice that became more common after the pandemic reduced the need for space.

"The lack of a legal right to terminate the lease doesn't mean that the government won't attempt to do so anyway. There have been a number of situations recently in which the government seeks to terminate for its convenience, seeking lessor (landlord) consent to an early termination," Holland & Knight warned.

Of the 180 leases that the federal government has in Colorado, more than a third, or 65, have a termination date that has already passed, and another 17 have a termination date stretching from the end of February to the end of 2026, according to an analysis of GSA leases using a spreadsheet provided by the real estate firm CBRE.

Adding to the confusion of how many leases will be terminated, DOGE objectives of selling off the federal real estate portfolio and bringing remote workers back to the office five days a week would suggest more, not less, leased space is needed.

The wild card will be how many workers DOGE will eliminate from the federal payroll. The state has 57,000 federal civilian workers, including U.S. Postal Service employees, with 29,500 of that total located in metro Denver, according to the Colorado Department of Labor and Employment.

Even with all the uncertainty, Ethan Edmiston, an agent specializing in government-leased assets at Matthews Real Estate Investment Services in El Segundo, Calif., said he remains more bullish about leasing to the public sector than the traditional market.

“Considering the number of federal workers and the need to lease space as a reduction in costs for these government organizations, I predict that we will see a change in the government lease landscape, not the disappearance of this market,” Edmiston said.

