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Office condos the hottest trend in commercial real estate

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Across the Valley, one of the hottest real estate investments these days -- besides new homes -- is owner-occupied office space.

They're called office condos, and developers say the properties are growing in popularity because buying the office space can be cheaper than leasing; allows the office condo owners to accumulate equity; allows owners to customize the interiors; and offers locations in the suburbs that are closer to the homes of owners, as well as their clients.

The list of developers or builders adding them to their expertise is growing. One of the first to introduce the product to the Valley was UTAZ Development. Other major players include Shea Commercial and Cavan Commercial. A newcomer to the industry in metro Phoenix is Voit Development, already a major developer of office, industrial and retail properties in Arizona.

UTAZ started developing office condos in the Valley in 1997. Shea has been specializing in office condos since it opened its doors in 2000, and Cavan Commercial has been at it since the company opened its doors about 16 months ago.

Since 1997, UTAZ has sold its office condos to about 125 buyers, and the number increases each week as business owners recognize the advantages of buying their office space, instead of renting, said Craig Willett, president and chief executive.

Joining the office condo industry in 2000 was Shea Commercial, where president Jim Riggs said his company's growth is directly related to the popularity of the office condo market.

Shea Commercial, which operates as a developer as well as a brokerage of office condo properties, has 35 listings for condo projects and a financial interest in about a third of them. He said about six of the company's listings are in the West Valley, where interest is growing, and 14 others are in the Southeast Valley. The rest generally are within five miles of the Airpark submarket.

Riggs said word is spreading quickly about the advantages of owning office space, compared with renting. Some buyers like the ownership advantages, which include the option of customizing interiors.

"We're seeing people buying second and third buildings from us, and their friends are coming in," Riggs said.

Cavan Commercial is a partnership of Dale Cavan and Brad Logan. Both said there are several major reasons for the popularity of office condos. One is easier access to customers. Another is low interest rates for business loans, now at about 6 percent. Others are the ability to sell the property at any time, compared to getting out of a lease; lease part or all of the property to a tenant; renovate the offices at any time; or refinance the property.

"Plus, there's a big asset on your balance sheet that allows you to borrow against it, if you need to," Cavan said.

Cavan worked for his father, Dave Cavan, owner of Cavan Real Estate Investments, for 10 years before launching his partnership with Logan in 2002 to specialize in office condos.

Willett said he's never seen the loan interest rates so reasonable.

"This is a 50-year low for interest rates," Riggs said. "When I was selling these in New Jersey back in 1989, interest rates were at 13 percent."

Willett said office condos can be likened to an automatic retirement account for the owners. For example, business owners paying rent for 20 years will have little to show for that time when they move or retire. But if they had bought the office space, they will retrieve their loan payments when they sell the offices.

"It's a built-in retirement for a lot of people," Willett said. "It comes right back to them, plus appreciation."

Willett knows his numbers. For many years, he worked as an accountant in Utah before moving to Arizona. That was in the mid-1990s when UTAZ, then based in Utah, specialized in residential development. Willett spent so much time traveling that he says he lived and worked out of his car and motel rooms. Unable to find East Valley office space that fit his needs, he found an office property at Val Vista Drive and Baseline Road in Mesa and built the company's first office condos.

UTAZ moved into one of the condos, where it remains today. The development has a total of 11 condo office buildings. Demand for the office condos began growing so quickly, UTAZ shifted out of residential construction and into office condo development.

Many of the office condo developers' projects have been in the eastern half of the metro region, from Gilbert, Mesa and Tempe to North Scottsdale. But in recent months, the Valley's westward growth is luring them into the West Valley.

The developers said most buyers of office condos are in a handful of categories -- dentists or orthodontists, insurance, lawyers, financial services, medical practices of all types, and physical therapists and chiropractors.

One newcomer to the Valley's office condo business is Voit Development, known for its expertise in other types of commercial development. Vice President Thomas Kimsey said the company recently bought 4 acres at the northeast corner of Hayden and Gelding in the Scottsdale Airpark. Construction of office condos totaling 48,000 square feet is expected to start in December. Completion is projected for mid-2004.

Voit decided to enter the office condo market in Scottsdale because of the company's recent experiences in Southern California. Despite the soft office market there, where the owners of existing office properties were bleeding financially because of high vacancy rates, Voit found buyers hungry for new office products they could own, not rent.

"We couldn't build them fast enough," Kimsey said. "We were absolutely going gangbusters. It began to tell us that, 'Why ignore that market that is looking to take advantage of interest rates?'"