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June 2018

OFFICE PROPERTIES Quarterly

Alyssa Teboda, Transwestern

Wells Fargo Center and 1660 Lincoln are two office buildings successfully courting tech tenants that have made the move from Lower Downtown to upper downtown Denver.

Tech migration drives upper downtown resurgence

SendGrid is well known as a unicorn in the world of tech IPOs: the email delivery company is profitable, steadily growing its customer base and headquartered in Colorado. Back in 2016, SendGrid also was seen as a unicorn to landlords in upper downtown Denver.

The tech company left its historic, brick-and-timber digs in Larimer Square for the lower floors of 1801 California, owned solely by Brookfield Properties at the time.

Whitney Hake
Senior vice president, Transwestern

SendGrid employees traded in free lunches at The Market for steak frites at Guard and Grace. Ibotta, the cash-back coupon company, also backfilled some of CenturyLink's vacancy at 1801 California in 2015 and again in 2017, but the phenomena of tech tenants flocking to upper downtown Denver did not extend any farther than 1801 California – until today.

Jamie Gomez
Associate, Transwestern

What specifically changed in Lower Downtown Denver to influence OpenTable to lease office space at Wells Fargo Center in the fourth quarter of 2017? Perhaps OpenTable was attracted to the five, 86-foot floor-to-ceiling LED columns installed by Beacon Capital Partners in the lobby and Lyft discounts offered to tenants. Maybe a workplace strategist quantified for OpenTable the efficiencies gained by working across a large floor plate, instead of being fragmented among several small floor plates. Or the Gold Wired Score at Wells Fargo

Please see Page 24

INSIDE

Contents

Letter from the Editor

All-time employment high

In mid-May, the Downtown Denver Partnership shared its annual State of Downtown Denver report. While this report focuses on the core downtown market, with some references to the entire metro market, the trends, numbers and insights can be helpful to understanding our office market as a whole.

• **Workforce.** Downtown Denver's employment is at an all-time high – 133,478 employees – which is a 2.5 percent year-over-year increase. Metrowide, Denver saw an employment year-over-year increase of 1.9 percent to just under 1.82 million employees, while the nation only saw a 1.2 percent increase. Denver metro's unemployment rate clocked in at 2.7 percent at the time the report was published.

• **Company activity.** While it's yet to be seen how a few recent closures will affect our employment numbers, an article from Cushman & Wakefield on Page 8 points out that during 2017, eight company headquarters relocated to the metro area. Further, another seven companies announced relocations or expansions to downtown Denver, according to the DDP report. The largest employment sectors in the downtown office market are professional/business services, 31 percent of total employment; government, 19 percent; leisure and hospitality, 16 percent; financial activities, 12 percent; and natural resources and construction with 7 percent.

One more highlight from the report is about the technology sector. Employment is up 74 percent since 2010, with more than 10,000 employees working for tech companies. The core is now home to 626 tech business, 265 of them startups that formed in the past three years.

• **Real estate needs.** Downtown Denver has a total of 38 million square feet of office space, with 3.8 million sf of that from projects completed, under construction or planned in 2017-2018. The new square footage has the capacity to support 13,400 new downtown employees, the report estimates. Hines' 1144 Fifteenth Street, a 40-story, 670,000-sf office tower was the largest office project completed this past year. Overall, vacancy has increased slightly to 11.4 percent, yet average lease rates remain steady at $33 per square foot, the report states.

Within this issue, you'll find more information on all of these market indicators. You'll also notice several articles aimed at tenant rep. brokers. As physical spaces become an increasingly important part of the recruitment strategy, helping clients determine the right location, price point and build-out to cater to employee needs becomes a key differentiator for successful brokers.

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Market Update

Office demand in Denver metro remains strong

Denver's reputation as a global city has dramatically improved over the past several years. Strengthening demographic trends and a favorable business climate have enticed many companies to migrate to the Mile High City and capitalize on the area's advantages.

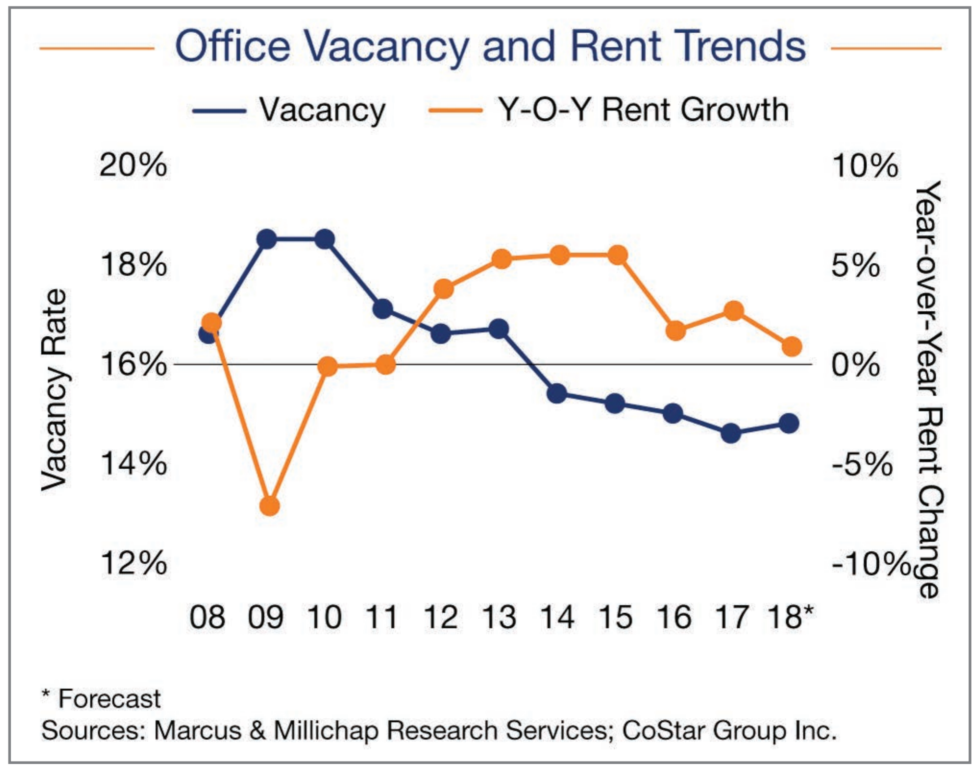
• **Rapidly expanding economy strengthens Denver office market.** In the past 15 years, the metro has welcomed roughly 640,000 new residents, a 28 percent increase of the overall population. The millennial population advanced at a similar clip during the same period. Robust in-migration stemming from all areas of the country has led to an especially talented labor pool, as 40 percent of those 25 and older obtain a bachelor's degree or higher, well above the national average of 29 percent. As a result, the job market has turned very competitive. Denver's sub-3 percent unemployment rate has placed pressure on employers to offer better compensation packages to attract top talent. This, along with an influx of high-wage jobs, propelled the median income 40 percent since 2003 to a figure now exceeding $75,000 per household.

Tech continues to be a growing source of employment in Denver, as companies migrate from a variety of coastal cities, seeking to elude the elevated costs of doing business in their local markets. This contributes to bolstered office-using job creation, which, in turn, has strengthened the overall office market. Metro vacancy has fallen 390 basis points to 15.2 percent since the recessional peak in early 2010. Even the city center,

Brian C. Smith, CCIM, SIOR
Vice president investments, Real Estate Investment Services, Marcus & Millichap

an area receiving heightened developer interest in recent years, posted a 470-basis-point decrease to 16.5 percent over the same time frame. Although vacancy in most submarkets is falling, rates are rising in neighborhoods around the urban core. These vacancy increases can be largely attributed to ongoing rejuvenation efforts, pricing tenants out of the area. However, vacancy should soon begin to stabilize as the transitioning stage phases out.

As overall demand for office space remains strong, rent growth has acted in accordance by advancing at an average rate of 4.1 percent over the past five years, pushing Denver's average asking rent to $25.97 per square foot. This number outpaces the national average of 3.5 percent during the same period. Submarkets adjacent to downtown Denver have experienced the most substantial rent gains in recent months, due to landlords' efforts to make their properties more competitive with the nearby Class A space. Although newly constructed office properties with typically higher asking rents played a part in boosting average rates, space upgrades remain the key driver of rent growth in these areas. Strong gains in nearby Boulder are broadly driven by Google's entrance to the office market. Expect rent growth to



* Forecast
Sources: Marcus & Millichap Research Services; CoStar Group Inc.

percolate down Highway 36 and into Denver's northwest corridor in the near future.

The encouraging office market trends witnessed in Denver have lured developers in recent years, particularly during the past 12 months when over 3 million sf of space was delivered. This total contributes to the 10.3 million sf added to the metro's inventory since early 2011. Downtown Denver and the Denver Tech Center remain focal points for builders, as companies' desire to set up shop in the metro's primary business districts serves as a basis for development. Here, new office construction helped create live-work-play communities, an appealing aspect for many residents and one that should continue to stimulate office development.

As for medical office construction, Denver logged its cyclical high in 2017 when 610,000 sf were delivered, contributing to the 2.2 million sf received since the recession. Last year's heightened completion sum supported the strong space demand of this property type, as vacancy is around 9 percent, following the 120-basis-point decline in 2017. With relatively tight market conditions, rent gains have been steady, providing stable revenue streams for landlords, a trait similarly

Please see Smith, Page 25

Market Update

Cost of debt: Defining difference from past cycles

Exactly 10 years ago, the global capital markets were teetering on the edge of disaster when all of a sudden, the subprime bubble finally burst. In September 2008, the bottom fell out, claiming Lehman Brothers as its first of many victims. In the period of expansion leading up to this event, the local economy grew and diversified, leaving behind the days when Denver was known exclusively as an energy-dependent city. As coastal capital chased yield to the Front Range, prices increased across all product types to levels never seen. Office cap rates for Class A product dipped down into the low 6 percent range – a record at the time for Denver, but a perceived discount to the coastal markets. Record-high prices and low cap rates also are being seen in Denver today. The biggest fundamental difference between the prior cycle and today's market is the cost of debt.

The 10-year Treasury, a common benchmark for interest rate coupons in the commercial real estate world, reached a peak of 5.23 percent in June 2006. With interest rate coupons on long-term debt from life insurance companies and conduit (commercial mortgage-backed securities) lenders in the 5 to 7 percent range, the gap between buyers and sellers started to grow as levered returns began to diminish with a higher cost of debt capital.

Only recently in the current cycle has the idea of a steadily rising interest rate environment become a reality. The Federal Reserve lowered the federal funds rate to near zero at the end of 2008 and kept it there for

Jeff Halsey
Vice president, Capital Markets' Debt & Structured Finance, CBRE

seven years to help restart the economy. The London Inter-Bank Offering Rate, or Libor as it is commonly known, was less than 0.3 percent from 2010 until the first post-recession Fed rate hike in December 2015. By comparison, Libor peaked at 5.8 percent in September 2007 and currently is just under 2 percent. Coupled with aggressive bank spreads on floating-rate bridge loans, investors were regularly dealing with interest rate coupons in the 2.2 to 2.5 percent range, often on an interest-only basis. With such a wide gap between interest rates and cap rates coupled with a steady rise in rental rates, the Denver office market witnessed significant appreciation over this period.

There currently is a barbell effect with investor demand for office buildings in Denver. There is heavy demand for either new and shiny core office product with stable, creditworthy cashflow streams or for value-add, opportunistic deals that promise ample short-term returns through a change in management and/or physical rehabilitation. Everything in between – what we consider "core-plus" – has seen thinner bid lists and investors who are requiring higher yield since these "commodity" properties lack significant upside and are fundamentally lacking when compared to core offerings.

The competition for core office

Brady O'Donnell
Vice chairman, Capital Markets' Debt & Structured Finance, CBRE

deals has attracted deep buyer pools including several foreign capital sources looking to place money in Denver. While cap rates for these deals, which have dipped below 5 percent in certain cases, seem incredibly tight, they still are relatively high when compared to domestic yields in many countries in Asia and Europe. The increase in interest rates likely will impact this buyer profile the least since they are less dependent on debt and typically seek conservative leverage if at all.

In fact, some foreign capital sources, specifically from countries like South Korea and Japan, are deploying debt in the United States commercial real estate market with higher returns than traditional equity investments. Life insurance companies and pension funds from the Pacific Rim are finding more abundant opportunities by offering attractive senior bridge, preferred equity and mezzanine loan options to the U.S. commercial real estate market.

Armed with cheaper capital than was previously available, debt funds have emerged as a formidable competitor to domestic banks with the ability to compress pricing and offer flexibility where the banks cannot due to regulations.

Opportunistic investors in today's office market must get creative to find returns. With tightening vacancy rates metrowide and soaring pricing expectations, it is hard to buy purely on basis or price per square foot. Real estate operators have created value in complete repositioning/rebranding efforts including extensive lobby and amenity upgrades and, in some cases, even re-skinning the exterior of the building. Debt funds, as mentioned before, have become a strong alternative to banks and allow value-add buyers to load their capital expenditures into their loan structure where, in some cases, 100 percent of the capital costs are funded out of debt as opposed to equity. In this constantly evolving space, debt funds are competing against each other by offering flexibility in prepayment penalty periods (sometimes as little as six months) and in step-down pricing whereby the spread may start higher for a risky deal and will adjust upon meeting specific coverage or debt yield requirements. While there is significant demand for new product, returns on ground-up construction have diminished due to a combination of rising construction costs and the upward movement in Libor.

Each year that goes by, we get deeper into this current cycle of economic expansion, and the crystal ball becomes less and less clear. Yet, the case for an optimistic outlook can be made since current interest rate benchmarks still are significantly below the levels seen in the last cycle and regulations in the banking and CMBS arenas have kept lending standards in check as a precautionary measure.▲

Market Update

Investors shift focus to renovated infill assets

Nine years into the second-longest economic expansion in U.S. history, metro Denver has experienced momentous growth and still is seeing further development. Over 30 cranes currently protrude the Denver skyline; our city is tied for the second-most cranes among major U.S. cities, according to Rider Levett Bucknall. The city's construction boom has continued to bring Denver to the forefront, fueled by the migration of a young, educated workforce and companies relocating and/or expanding their footprint to capture them. During 2017, there were eight headquarter relocations to the Denver metro area. Despite net migration being down from previous years, Colorado still ranks in the top 10 for net migration and population growth. Multifamily construction has been the majority of the new development that has occurred through 2017: 60 projects completed, totaling approximately 11,000 units.

However, construction of new, speculative office buildings continues to grab headlines as 13 projects, totaling roughly 1.8 million square feet, were delivered throughout 2017. During the first half of 2018, approximately 2.3 million sf of speculative office product was delivered, and Block 162, a 600,000-sf speculative office building, broke ground. With this construction boom, and record high costs of construction, has come a ripple effect in Denver's commercial real estate industry.

Aaron D. Johnson
Managing director, Cushman & Wakefield

Not only in Denver, but around the nation, the construction industry has seen prices steadily increase during this development cycle, up 5.1 percent year over year, according to Turner Construction's first-quarter 2018 report. This increase is largely due to the shortage of skilled labor and rising material costs that continue to riddle the real estate market. Denver's booming economy, which touts a sub-3 percent unemployment rate, has greatly hindered developers and isn't slated to change in the foreseeable future due to large projects breaking ground, such as Block 162, Denver International Airport's $1.8 billion Great Hall renovation and the $1.2 billion Interstate 70 expansion. With replacement costs at an all-time high and no slowdown in sight, this has directly affected the office investment sales market.

Investors continue to search for ways to deploy capital throughout the Denver metro area, but with such a limited supply, they struggle to find product that meets their investment criteria. With much of the value-add product trading during the first half of this cycle, investors have seen a flight to quality shift throughout the market. New Class A construction has continuously stolen the headlines, shattering previously set records with almost every trade, apparent by

Jon D. Hendrickson
Managing director, Cushman & Wakefield

1401 Lawrence trading for roughly $725 per sf in the central business district and One Belleview Station trading for approximately $478 per sf in the southeast suburban submarket. Investor demand remains strong for recently constructed, stabilized assets largely due to the strong rent rolls and down-side risk that they provide. However, investors are shifting their thinking on existing product and historical price per sf metrics for well-located buildings with access to transit and amenities in a concentrated basis play compared to record sales for new construction and the steep discount to replacement cost.

With new office construction continuing to command the highest prices in the market, prices on existing renovated product have followed. Gone are the days when assets would trade with marginal change on price per sf, but instead they have started to escalate, as existing renovated assets provide comparable amenity-rich environments and quality workspaces. These renovated assets continue to trade at their highest historical price per sf. With current replacement cost estimates, investors are willing to pay a higher price per sf than they may have previously considered in Denver for existing product, largely due to the attractive fundamentals they can

Michael Coppola
Senior research analyst, Cushman & Wakefield

provide, similar to new construction but at a significantly reduced basis.

Fundamentals have always played a large role in the valuation of office properties and have gained momentum as occupiers continue to adapt how they evaluate real estate decisions. With the millennial population representing the largest percentage of the workforce, companies have felt an impactful shift in the importance of quality office space during the ongoing war for talent. Coupled with investors being more risk-averse, properties with strong fundamentals at a reasonable basis are becoming the most sought-out buildings around Denver. The properties that offer prime locations, strong demographics, walkable amenities, visibility and accessibility continue to be drive valuations. As occupiers have continued to search for real estate that offers the live-work-play model, investors have followed the trend by investing in office assets that offer these fundamentals. Building amenities are not the only consideration that come into play, but the accessibility to walkable amenities has continued to have a large impact, making infill sites with direct access to entertainment, food and drink prime targets for future invest-

Please see Johnson, Page 25

Market Highlight

More linkage fees are not the solution for Boulder

Once again Boulder's City Council has found itself in the spotlight with the dubious decision to increase the affordable housing linkage fee. While the conceptual idea of trying to stimulate affordable housing is understandable, it still is unclear if raising the linkage fee is the solution to a problem that has been facing Boulder for decades. In addition, while most likely not fulfilling the need for affordable housing, the negative ramifications of the fee are real and, potentially, could create additional problems for the city, especially when talking about affordable office space or office development in general.

First, to understand linkage fees, we need to back up with some history to set the table and demonstrate why linkage fees will impact office space in Boulder. Linkage fees have been imposed in Boulder for over 20 years. The original purpose was for residential development to either build affordable units as a part of the project, build affordable units on another site, or simply opt out and pay a fee to the city's affordable housing fund. Over time, the City Council decided the jobs/housing imbalance was too significant and imposed a linkage fee on commercial development. What was once a fee below $10 per square foot that commercial developers had to absorb (and obviously pass on to tenants) is now heading toward $30 per sf on a sliding scale over the next three years. A $30-per-sf fee – highest in the country behind Palo Alto, California

Becky Callan Gamble
President, Dean Callan & Co. Inc.

– most certainly will put a halt on new construction.

On the surface, it is easy to agree with City Council and commend them for trying to address the needs of many people who work in Boulder but can't afford to live here. However, the cascade effect of what really could transpire with the $30-per-sf fee looks something like this:

A. Developer of new office project passes on to tenants the $30-per-sf linkage fee and very few tenants will be able for afford the high lease rates required from the developer.

B. Higher lease rates push the market, so all lease rates eventually will increase, making it very difficult for the fabric of our community, startups and nonprofits, to keep an office in Boulder.

C. The linkage fee makes building new projects nearly cost prohibitive. In turn, there is no development, which means no linkage fees, which equals no funds to assist in building affordable housing.

There seems to be better ways to accomplish our housing dilemma then simply putting it on the businesses, which already contribute to the community in myriad ways. Linkage fees are not the solution.

Despite this latest move by the City Council, Boulder's office market is very solid now with numerous Fortune 500 companies mixed with homegrown startups expanding or entering the marketing place. New companies to Boulder include Major League Baseball, Industrious and Amazon. Expanding local companies include Carbon Black, Gloo, Pop Sockets and Nvidia.

That said, the entrepreneurial market still remains the heart and soul of Boulder, averaging just over 900 startups per year. This large number of startups is good news for the co-working spaces, which are becoming increasingly popular in the Boulder market, with more on the way.

First-quarter overall vacancy is hovering around 11 percent with the largest vacancy of 20 percent in the East Boulder submarket. This is attributable to a few larger blocks, but activity is healthy and expected vacancy for the eastern submarket should rebound closer to 10 percent by year end. Downtown still yields the highest lease rates, with Class A product averaging close to $33 per sf triple net. However, central Boulder's lease rates are climbing with new projects, such as Boulder Commons and Spark. Both projects, when fully completed, could add as much as 350,000 sf to the central market with average asking lease rates at $30 triple net per sf.

The impact of the new linkage fees won't be felt this year, other than sending the wrong message to the business community. However, it will be important to carefully watch our local economy over the next 12 to 18 months to get a sense of the public's response to the increase. Meanwhile, today the office market is still very strong with no indication of slowing down as many existing companies are looking to expand and new companies searching for options.▲

What was once a fee below $10 per square foot that commercial developers had to absorb (and obviously pass on to tenants) is now heading toward $30 per sf on a sliding scale over the next three years.

Office Properties Quarterly - Financing Sources Matrix

TYPE OF CAPITAL	SOURCE OF CAPITAL	EXPLANATION	RATES/SPREADS	LTV/COVERAGE	TERM	AMORTIZATION	FOCUS	TRENDS
LIFE INSURANCE COMPANY	• Insurance premiums • Annuity and GIC sales	• Non-Recourse • Longer-term fixed rate loan	110 (< 50% LTV) -200 (65% LTV) bps over the comparable US Treasuries	• Up to 65% LTV • 1.35x Minimum DCR	5-30 Years	25-30 Years	• Downtown, urban locations or popular suburban office parks • Multi-tenant, traditional floor plates • Top tier tenants (local, regional & national) • Major metro areas & secondary markets	• Many of the life insurance companies are becoming more selective on office properties, given the rise in rents and the new high watermarks in Denver • Most competitive at lower to moderate leverage with strong sponsors • Flexible prepayment penalties available for small pricing premium (5-10 bps) • At right leverage (~55%) lenders can do Full-Term Interest Only • Staying away from single-tenant exposure
CONDUIT (CMBS)	• Sales of mortgage-backed securities through public markets	• Non-Recourse • Longer-term fixed rate loan	140-220 bps over the greater of US Treasuries or SWAPS	• Up to 75% LTV • 1.25x Minimum DCR • 8.25% Minimum Debt Yield	5, 7, & 10 Years	30 Years	• Downtown office • Class B suburban office • Single-tenant with structure • Secondary/Tertiary Markets	• Spreads have compressed by ~70 bps since Q1 2017 • Most competitive at higher leverage in secondary and tertiary markets • Have recently become more competitive with life companies in primary markets • 10 years interest-only under 63% LTV, 10% debt yield
BANK	• Corporate Debt • Deposits	• Recourse (some non-recourse available at 60% LTC) • Shorter-term fixed and floating rate loans	300-400 bps over bank cost of funds	• Up to 75% LTV	Up to 10 Years Fixed, Typical Max Term is 5 Years	Interest Only to 25 Years	• All office assets • Value-add with repayment guaranty • Secondary/Tertiary Markets	• Standards are tightening for Sponsors with no deposit relationship or out of state borrowers • Most competitive for Sponsors with established banking relationships and strong borrower history that are willing to accept recourse • Establishing a deposit relationship is becoming a requirement • Primarily recourse loans, with non-recourse available to strong sponsors at low leverage • More flexible (open) prepayment terms • Increased regulation has made banks less competitive on construction loans • Losing construction loan market share to debt funds
DEBT FUND / BRIDGE LOAN	• Private Capital • Institutional Capital	• Non-Recourse • Shorter term bridge loans for acquisition and/or repositioning	LIBOR + 350-600 bps (some w/ floors)	• Up to 90% LTC • Going-in 1.0x DCR	1 - 5 (3+1+1)	Interest Only	• Value-Add Transactions • Recapitalizations	• Pricing depends on leverage level, property quality, and Sponsor strength • Up to 95% LTC construction take-out loans • Ground-up construction loans available
MEZZANINE/ PREFERRED EQUITY	• Private Capital • Institutional Capital	• Junior financing secured by a pledge of, or participation in ownership interest	Mezzanine 8%-12%	• Up to 85% LTC • 1.10x DCR	2 - 10	Interest Only (in most cases)	• All office assets • Value-Add Transactions • Recapitalizations	• Preferred equity offers higher funding than mezzanine, but at a higher cost • Minimum investment is typically $5MM but can start as low as $1MM when paired with senior position

Essex Financial Group - Recent Office Transactions

Quebec Corporate Plaza
Greenwood Village, CO
$12,060,000 Permanent Loan
Life Insurance Company

ReMax Plaza
Denver, CO
$65,550,000 Permanent Loan
CMBS

Sherman Plaza
Denver, CO
$7,500,000 Permanent Loan
Life Insurance Company

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Market Highlight

River North roundup: 2M sf of new office space

Matt Weist
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As one of the most popular (and fastest-growing) neighborhoods in Denver, the River North Art District is gaining substantial local, regional and national attention. With its internationally renowned art culture and dynamic craft food and beverage scene, RiNo is a destination for companies looking to attract and retain top talent in an increasingly competitive business landscape.

Enhanced connections through public infrastructure projects like the Brighton Boulevard improvements and multimodal transit accessibility including the 38th and Blake commuter rail station, RiNo is an entry point into downtown Denver that gives both business and leisure travelers their first taste of Denver culture.

In addition to a rapidly growing number of retail spaces, restaurants and bars, RiNo also is stepping up its office game, offering a combination of adaptive reuse and new construction projects that can meet the needs of many companies. The area offers a creative and entrepreneurial environment with competitive lease rates that are generally less than Lower Downtown.

With approximately 2 million square feet of office space under construction (and nearly 750,000 sf proposed), there are numerous new office developments. Following are some of the most anticipated.

• **The Hub.** With direct access to the 38th and Blake commuter rail station, The Hub is a Class A 275,000-sf mixed-use, transit-oriented development. With 250,000 sf of creative office, the project already has attracted large tenants, including HomeAdvisor, which will lease 70,000 sf for its new headquarters.

• **Denver Rock Drill.** This adaptive reuse development located two blocks from the 38th and Blake commuter rail station pays homage to the industrial heritage of the site, while creating a new destination for work and play. In addition to a hotel, retail and residential uses, Denver Rock Drill also includes 318,000 sf of office space with flexible, open and collaborative floor plates. Phase 1 is under construction.

• **World Trade Center Denver Campus.** Located across the street from the 38th and Blake Street commuter rail station, the World Trade Center Denver Campus is under construction with expected delivery in 2020. Centered around global activity, this campus is attracting both local and multinational companies looking for uniquely global collaborative workspace.

• **Revolution 360.** Celebrating the spirit and culture of Denver's RiNo neighborhood, the five-story Revolution 360 offers 150,000 sf of Class A office and 20,000 sf of ground-level retail. Located at 36th and Brighton Boulevard, the development is scheduled to break ground this summer.

• **Catalyst.** With Phase 1 scheduled for completion in the second quarter, Catalyst is a first-of-its-kind facility located at 35th Street and Brighton Boulevard. The development brings together private enterprise, government, academic and nonprofit organizations with health care providers and payers to accelerate innovation and drive real, lasting change. Phase 2 construction is scheduled to start in 2019.

• **3060 Brighton Blvd.** This adaptive reuse development is located at 30th Street and Brighton Boulevard, featuring up to 70,000 sf of continuous space for lease. Proposed delivery is spring 2019.

With many dynamic options for office space in RiNo, how can a firm know if it's the right location for its company? While there is a concentrated influx of emerging tech (those that have grown beyond the startup phase), health tech and even financial services companies looking to develop vibrant workforces in the area, RiNo is suitable for a variety of businesses.

Here are six questions to begin to assess if RiNo is the right fit:

1. Is the company looking for nontraditional office space?
2. What type of employees is the company looking for, and how does the office space and location factor into attracting and retaining them?
3. How important is parking to the employee base? Are they comfortable using public transit?
4. How does the building's location impact the image of the company? Can that translate into business growth?
5. Does moving to a distinctly creative neighborhood support the

Please see Weist, Page 25

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Broker Insights

Controlling operating costs in an inflationary market

The typical office lease expires every five to 10 years. If that benchmark happens to land in an inflationary market, like the one we are seeing today, office tenants can expect to be hit with a rent increase of anywhere from 20 to 100 percent.

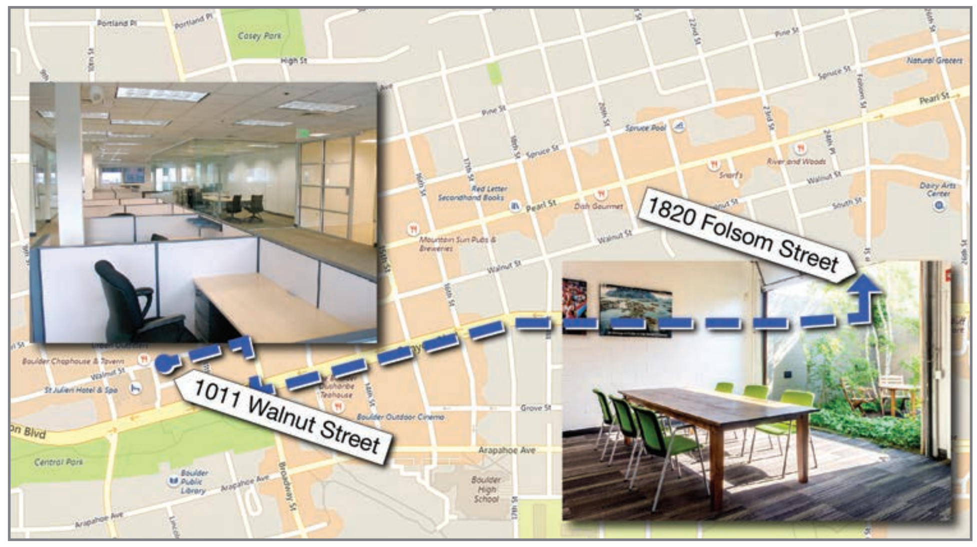
While Denver's economy is outpacing the national average, most businesses we talk to have not seen bottom-line growth proportionate to the increase in leasing rates. Those who have seen exemplary growth, have also added more office dwelling staff, which comes with the need for additional square footage. As tenants recast their lease midterm to capture additional space in their building (many times, not available in desirable locations) they typically do this in exchange for a much higher rental rate and longer lease term. This compounding effect continues to eat up a larger percentage of their profits.

What is the solution? How can office tenants control occupancy expense in an inflated market? Options vary based on a company's culture and recruiting strategies, growth rate and financial structure. The most common ways to control costs are to re-envision the workspace, downgrade in building class or move to a different market.

Chad Kollar
Managing principal, Cresa

• **Densify.** The buzzword in office space for the last several years has been densification, and for good reason. The Building Owners and Managers Association's 2017 Office Standard recently changed how building rentable square footages can be calculated. This modification now allows office building owners to allocate "building amenities" such as common area, workout rooms, showers and lockers, meeting rooms and lounges, and outdoor deck space across the entire rentable square footage. Often companies are forced to decrease their physical footprint just to maintain the same rentable square footages. We have had clients threatened with up to an 11 percent increase in rentable square footage, while trying to renew in the exact same premises they occupied for the past seven years. Tenants with traditional private offices may consider an open space layout. Those currently in an open space office might consider a benching concept. This also could mean companies consider changing their workstyles by adopting a hoteling concept, allowing employees more flexible work hours or even encouraging the option to work from home.

• **Downgrade.** If changing workstyle and culture isn't a viable option, another consideration is to downgrade in building class. Tenants in a Class A building may be able to get more square footage near the desired location in a Class B or C building. The impact that this can have on company culture and ability to attract and retain employees in this tight labor market can deplete a company's most precious resource. However, aligning with a creative real estate advisory team, to include not just brokerage, but architect/designers, furniture consultants and project management can reinvent a workspace in a lesser building within a constrained budget. This could lower occupancy costs but keep the company within its desired geographical location to not interrupt delicate employee commute times.



Cresa

Greenhouse Partners/Scholars, in Boulder, found that by moving 1 mile east from its downtown location to 1820 Folsom St., the company could keep its rent virtually the same, in a new space that allowed room for growth, while continuing to provide the walkable amenities.

• **Move.** Location is everything, but companies that are willing to make a change can save exponentially. The change in location doesn't have to be significant, just enough to change submarkets, however slightly.

Greenhouse Partners/Scholars is an example of a growing company that didn't want to pay more. With the addition of a third high-growth company utilizing shared resources, its space in downtown Boulder couldn't accommodate adjacent growth and saw an increase in rental rate of 35 percent in a three-year period. The lack of any quality relocation alternatives in downtown Boulder and exorbitant spikes in rate, allowed a forward-thinking company to relocate to a converted/refurbished former motorcycle garage turned office building. This slight compromise, moving just 1 mile east to 1820 Folsom St., allowed the company to keep its rent virtually the same, in a new space that allowed room for growth, while continuing to provide the walkable amenities. To top it off, the company also receive free parking for its employees. Something unheard of just a few blocks away.

An inflated market doesn't mean that office tenants coming to the end of lease terms must accept the price hike. There are plenty of creative solutions out there, it's just a matter of finding the solution that fits the individual business model and utilizing the expertise of a professional tenant representation adviser to orchestrate the process.▲

Broker Insights

All-women deal shows representation growth

Recently, I sold a property where all parties were women, including the buyer, the seller, the buyer's broker and myself, the listing broker. Lowry Speech and Occupational Therapy (now Abound Children's Therapy) owner Debra Fenton recently approached CBRE to sell her office condo in Glendale for her children's speech and occupational therapy business, which she established in 2006. While marketing the property, Gail Hamilton, a commercial real estate firm owner, requested to show the property. Gail's client, Samera Habib of S.H. Law Solutions, ultimately purchased the property for her law practice.

Looking back on my commercial real estate career, I realized that this all-women transaction was an anomaly. On its heels, I wanted to highlight several women in commercial real estate, including the women of this transaction who are making great strides in Denver.

Monica Wiley
Senior associate, Investment Properties, CBRE

Fenton, the founder of Lowry Speech Therapy, leads a team of therapists who all specialize in working with children for speech and occupational therapy services. Hamilton is a licensed broker in the Denver area for over 20 years. Habib, a skilled divorce attorney, is recognized and respected in the Denver court system for her attention to detail and her command as a litigator. Hillary Ellis is a commercial real estate attorney with Kutak Rock LLP in Denver where she focuses on all aspects of complex commercial real estate matters, including development, acquisition and disposition of commercial properties, related corporate structuring and financing as well as leasing of retail, office and industrial properties. Tori-Ann Ammaturo is the director with Graham Street Realty, where she is responsible for deal origination and asset management in both the San Francisco Bay Area and Denver markets.

• **Wiley: How did you first get interested in commercial real estate?**

• **Fenton:** It seemed like a great investment opportunity given the market a few years back. Why would I want to pay a landlord when I could pay myself? I also liked the idea of cost control and not having to worry about being locked into a lease.

• **Hamilton:** I grew up in a family of residential and commercial developers/builders and was always drawn to commercial property transactions and the economics and efficiencies needed when analyzing the best property match for clients.

• **Habib:** To earn income in my practice is time; to earn money in real estate is a risk but typically a good one. I would rather build equity for myself than pay a landlord and, by doing so, build the owner's equity in real estate.

• **Ellis:** My time as an account executive for Herman Miller Workplace Resource prior to law school introduced me to the Denver real estate community. Through my participation in the various real estate trade organizations I met so many people who were really passionate about Denver and its future as a growing city. It was exciting to be a part of the conversation as to where our city was going, and it led me back to school to pursue a career in real estate law.

• **Ammaturo:** I have always been interested in real estate – the allure for me is an investment you can physically touch. I was never aware of all the different career possibilities and didn't come from a family with a background in real estate, which is all too common. I was fortunate to go to a university that offered a real estate program, which confirmed my interest. I still was originally interested in residential real estate and was lucky to be given an opportunity to work on office buildings with my accounting background and never looked back.

• **Wiley: What obstacles have you experienced in commercial real estate or owning your own business?**

• **Habib:** I've obtained two Small Business Administration government loans and, although the terms are great, they are very tedious to get through and the closings with the lenders were both challenging.

• **Ellis:** The real estate industry can be tough, but there are great organizations like Commercial Real Estate for Women that really helped me build confidence as a young account executive and project manager and, later, when I started practicing law, allowed me to foster the relationships I had developed with other women in those organizations.

• **Fenton:** I have bought and sold two office condos and both were great investments. However, with owning property, there is a little more of a time commitment for maintenance, homeowners' association meetings, etc. Overall, it has been a very positive experience.

• **Wiley: Did you always intend to work for yourself and/or run your own firm? If not, what prompted the decision to "run the show?"**

• **Fenton:** I'm independent by nature, and I have a hard time sitting still for very long. I started as a sole proprietor in 2006, and the business really took off quite quickly, leading me to lease my first space and hire more therapists. Over the years, I kept altering my business model to meet the growing need for therapy services. I had never planned on hiring any employees or growing the practice to the size it is now, but the business had a mind of its own, and I just kept adjusting my business model.

• **Hamilton:** After being managing broker and partner with a local commercial real estate firm from 1986-1991, I decided to align myself with two other (women) Certified Commercial Investment Member designees in 1992 and formed Commercial Advisors LLC. We all agreed that we wanted to be "generalists" in sales and leasing, and not forced to choose one property type, or

Please see Wiley, Page 26

Project Insights

Tips to help clients build out successful offices

Ask anyone involved in managing an office renovation and they'll likely tell you the project was frustrating, at best. They may have encountered surprises or made costly mistakes. Maybe the schedule was blown, employees were irritated and management was unhappy. It likely took a long time for things to get back to normal.

Knowing there is a lot at stake for these types of projects, here are some mistakes you can help your client avoid when building out an office space.

• **Mistake 1: Bidding out the project.** Design-bid-build is when the clients work with their architect to develop drawings, which are sent out to several contractors for bids. The idea behind this project is to get the best pricing available.

However, you should rethink this approach because time is not on your side. Seeking competitive bids can add four to six weeks to a project. This timeline makes sense when you consider what's required: preparing a request for proposal, ensuring that your drawings are clear and complete, walking contractors through your site, contractors getting the pricing from subcontractors and then comparing the bids.

On top of all of that, this process often results in lots of change orders. Contractors will price only what's on the drawings, which means that including additional work once the project begins will make the bid higher than the competitors. If anything is vague on the drawings, your client faces the risk of future change orders.

Adam Felson
Founder, officemorph

The easiest solution is to form an early partnership. Onboarding a contractor before the design is complete usually will lead to smarter, more cost-effective designs with fewer surprises for the budget and schedule.

• **Mistake 2: Letting the landlord manage the project.** Most landlords want to get tenant improvements done as fast as possible, so they can start collecting rent. Landlords will complete the bare minimum of their lease obligations. Contractors will value their long-term relationships with the landlord over a one-time project.

The solution is to advise your clients to choose tenant improvement allowances over turn-key. When possible, opt for a TIA. By agreeing to a TIA, the client takes control of the design and budget.

• **Mistake 3: Signing the lease too soon.** Before rushing into a lease, your client should partner with design and construction professionals to understand the workspace needs. The design must be developed enough to give an estimate of costs for the build-out. Beyond construction costs, develop a budget for consulting fees, audiovisual, cabling, furniture, security and other expenses.

In the lease, it is important to identify who pays for what. The tenant broker and a construction professional can help make sure the lease covers everything that may come up during a build-out.

It's also important to commit to a realistic schedule. Consult a contractor to make sure a preliminary schedule has been developed. Set dates in the lease for when either the property manager or tenant will reach each milestone.

• **Mistake 4: Not getting input from employees.** Employees happy with their workspace are more engaged, have higher job satisfaction, make better co-workers and show more support for corporate goals. Good office design also makes it easier to recruit new hires.

These three steps make for an effective approach:

• Survey employees: Send a simple survey to employees who will work in the new space. Ask questions to get an understanding of what they hope to see, and any issues with the current office that should be avoided with the new space.

• Interview department heads: Ask about their current and projected headcount and any special space requirements.

• Hold a design charrette: This meeting should be held with key stakeholders and the design team, to set goals and develop initial concepts for the new workspace.

• **Mistake 5: One open workspace.** Over half a century ago, companies began converting private offices into open spaces. It seemed like a good way to use space efficiently and save money. Later, laptops and smartphones enabled employees to connect from anywhere. This led to the inevitable question, "Why even come to the office?"

Open offices lead to more distractions, higher stress and more sick days. While employees working in open offices may feel like part of a laid-back, innovative enterprise, they suffer more interruptions, get less done and have worse motivation.

The solution is to offer mobile employees choices that match their tasks. There are many innovative ways to craft an office that everyone will be excited about. For example, building out a "living room," which uses comfortable furniture like a home or café, gives employees a space where they can bring their laptops for an hour or two. This area lets employees have a conversation without tying up a formal conference room. Another popular feature are phone booths, which are private rooms that are big enough for one or two people to make a phone call. "The library" is an enclosed, quiet room with multiple desks where people can read, write or think. Enforce one important rule here: No talking. And finally, offering a "home base" is becoming popular. Every employee needs a workstation to call her own and store her belongings. Progressive firms have made work surfaces as small as 2 by 4 feet to allow for more collaborative spaces like phone booths and living rooms.▲

Workplace Trends

Workplace structural shifts experienced firsthand

However, we are seeing that direct connection is necessary at times and are thinking about how best to facilitate that while continuing to build on our unique culture.

Steve Rogers
President, 8020 Builders

The nature of office space is changing. Typically, I would say I know this because I read it seemingly everywhere. The factors are many and variable: Generation X taking over the C-suite, millennials demanding more amenities, the disappearance of the private office, the pushback over the lack of privacy in the open-office layout, co-working and the creative office. The list goes on and the contradictions seem to build. As a builder, I pay attention to these trends and the feedback so that we can better respond to our clients with options. At the same time, as a former developer, I wonder how these changes are affecting exit strategies. I know most of you reading this are in one of these same situations.

Recently, I have found myself with a new perspective. It came about so grassroots that it surprised me. We started our company almost four years ago and immediately placed a focus on developing a culture different than that of the other companies I've worked for in the past. Among other things, we decided to rent space at a co-working facility and move our workspace "into the cloud." It has worked very well for a young company trying to prioritize expenses. It encouraged our efforts to take all of our paperwork and correspondence virtual as well, a trend we've been seeing for years. We can now be productive from just about anywhere. It's a blessing and, sometimes, a curse.

So, what's the new perspective? We now are considering leasing office space. Perhaps it was inevitable, but we're working to keep the focus on a unique culture and not fall back into the usual office routine. I enjoy the flexibility the virtual workspace has afforded us and we sell it, successfully, to prospective employees as a perk. But I do miss the opportunities that happen when two or more employees are together around a table in person. We have proven that we don't all have to be at our desks every day in order to do great work; we have grown nicely over the years and continue to build relationships, internally and externally. However, we are seeing that direct connection is necessary at times and are thinking about how best to facilitate that while continuing to build on our unique culture.

I think what this means is a combination of the flexibility of a co-working space with the pride that comes from working in, and welcoming others to, our own space. I envision a space that's heavy on open office and collaboration areas, light on private work spaces, professional yet inviting. One thing that's clear to me, in contradiction to everything I've experienced, is that we are deliberately sizing our office not to accommodate everyone at a private desk space. We will have the ability to host everyone for company meetings and the space will be sized to encourage our folks to be out of the office some portion of the time. Additionally, we are looking for the usual access to amenities both for retail and outdoor experience. The nuance is that we're looking for those types of amenities that serve our employees while also contributing to the pride we want to feel in our space. This means a brand of some sort, on the building, the neighborhood, the nearby tenants, something that brings a unique factor that folks will remember.

We're a construction company, which means we have multiple projects underway around the metro area at any given time. By definition, we always will have "branch offices," so to speak, which means undersizing our office may work better for us than for other companies. That said, I don't expect that folks will either work at the office or at a project site. In fact, we have proven that we can work from home, a coffee shop, even a beach (at times). I believe this realization we're having can't be unique.

If that is the case, it means that there's another trend happening. Incidentally, this same trend may be related to the "structural shift" in the office space market that NAIOP's Office Space Demand Forecast Q2 surmises. In a nutshell, this forecast highlighted a contradiction between positive economic performance of corporate America and a well-below expected amount of absorption of office space in the first quarter of 1.3 million square feet. Economic models had predicted an average in excess of 10 million.

What's important in all this is that it's making the office-space equation more understandable and that is helping us relate to tenants and developers alike. As we continue to focus a portion of our capacity in building interior spaces, I find myself energized by the experience we're having at the same time. To the extent we are wondering what is happening in the market, we might be served to look at what is happening within our own organizations as we grow and change.▲

Workplace Trends

Co-working spaces translate to new parameters

Megan Walsh, LEED AP BD + C
Principal, Catalyst Planning Group

Just when corporate real estate norms had steadied into a comfortable set of metrics, the balanced notion of co-working has come on line and are continuing full steam ahead. Co-working facilities are opening with increased regularity in all sectors of the market – from central business district locales to suburban markets and beyond. These new centers of workspace innovation are shifting office norms and bringing a culture realignment with them.

Previously a haven for startups and entrepreneurs looking for a sense of place, co-working facilities now offer larger companies, even Fortune 500 companies, increased camaraderie and idea sharing, innovative collaboration spaces, and a less "corporate" look and feel for traditional office users. The co-working environment can offer a fresh perspective and the ability for companies to synergize and integrate like never before. With cross-generational interest, co-working is being embraced as a continuing phenomenon locally, nationally and globally.

Rather than having a heavy-loaded real estate portfolio, companies are looking at co-working facilities for the ability to lighten their load, minimize risk associated with longer-term leases and focus on their core competencies. The nimbleness and flexibility to ebb and flow a business plan by adding or subtracting seats with ease is becoming more attractive to businesses in expansion or contraction mode.

Without the ability to accurately predict headcount growth or reduction, a co-working facility can offer an attractive model for companies looking to minimize risk.

While some agree that co-working is here to stay, others predict that a traditional lease and build-out model also will maintain its stature. Landlords now are offering flexible lease terms to entice traditional tenants away from the co-working mentality. In addition, landlords are outfitting their buildings with amenities to compete with those of trendy new co-working facilities. For many companies, a traditional lease-and-occupy work environment will never cease – thereby enabling both traditional office spaces and co-working facilities to share success in the corporate real estate economy.

All of that said, what does co-working mean for a traditional project profile overall? A successful corporate real estate project is about the team … and a team is still needed.

During the negotiations of a co-working facility agreement, the value of having a corporate real estate broker on the tenant's side is still incredibly valuable. A licensed commercial real estate broker skilled in negotiating traditional office leases will identify and support needs for tenants outside of a traditional co-working boilerplate agreement. The broker also can identify pros and cons for clients in the evaluation of going to a co-working facility versus traditional office space and vice versa. In addition, the financial analysis of the deal terms for both options is paramount in supporting a tenant in its decision.

The ability to integrate national standards for a tenant going into a co-working environment creates the opportunity for a tenant's own architect/design team to bring workplace standards forward and integrate the tenant's design ideology into the overall co-working design. Perfecting a real estate portfolio such that both traditional office space and co-working space feel agnostic from geography to geography can be accomplished with an over-arching design perspective from a tenant's architect/design team, creating a seamless effect across the portfolio.

While the typical role of a project manager is modified in a co-working scenario, the measurable impact is apparent in a project manager's ability to assess the viability of the proposed co-working facility's schedule for occupancy and align that with their client's needed occupancy requirements. Attending the co-working facility's team of skilled professionals' meetings and walking the job site, but with a tenant advocacy in mind, can bring issues to the forefront before they become impactful to the overall project's success. In addition to the construction workstream, there are numerous nonconstruction workstreams that require oversight and management to ensure successful integration into the overall project – such as tenant's low-voltage cabling, audiovisual, branding/signage, server room equipment and the physical implementation of the move into the co-working facility – as well as potential restoration at the tenant's site being vacated.

From a workplace solutions standpoint, one size does not fit all, and many co-working facilities are understanding that a traditional kit-of-parts furniture solution doesn't always support all businesses migrating into a shared environment. This allows the opportunity for a tenant's furniture partner to customize the baseline furniture package being provided, in wholesale or part, to better support the tenant in its workplace needs in a co-working facility. Ergonomic tools, specialty seating and/or custom logo integration into a standard furniture package to better represent a brand may all come into play for the tenant's own furniture partner.

In addition, technology integration is key for a tenant in a co-working environment, and the ability to capitalize on a co-working facility's technology platform, and customize to a business operation's need, is key. A tenant's technology partner can provide valuable input to enhance the co-working environment specific to the tenant's

Please see Walsh, Page 26

Design

Companies use workplaces as business strategy

It's no secret that Colorado has become one of the top destinations for people to relocate. Colorado Springs was recently named the No. 1 city for highest growth in millennial population, and Denver was lists as No. 3, according to the Brookins Report, "The Millennial Generation: A demographic bridge to America's diverse future." Paralleled with low unemployment, this surge in demographics has created a unique climate in Colorado's job market.

Top-performing companies are gaining a greater awareness of the impact their workplace design has on recruiting. The design of a workplace has the power to trigger new behaviors and cultural shifts while attracting and retaining the best and brightest.

How are companies crafting their workspaces to attract talent?

1. Foster innovation. Great workplace design drives creativity and innovation. Our proprietary Workplace Performance Index identifies three key actions to optimize an organization's workplace for innovation:

- **Invest in the individual.** Employees at top-performing companies have better designed and more functional workspaces, no matter how open. With the consideration of the workspace's layout, noise management and access to people and resources, an open office can be as effective as a private one.
- **Diversify group work spaces.** The most innovative companies provide access to a greater variety of workspaces in and out of the office, particularly spaces for collaborating and socializing. Organizations investing in amenities not only benefit from creating a recruiting tool, but also amplify the company's culture and values.

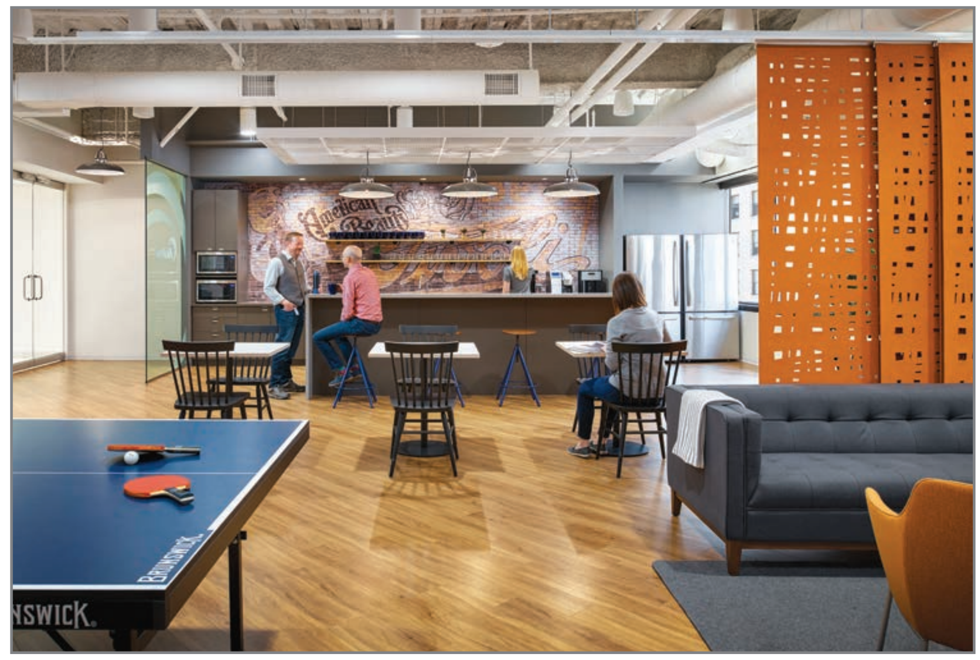
Lauren Pogue
Workplace strategist and designer, Gensler

- **Empower the whole community.** At a broader level, organizations should provide choice, equality and reflect the common purpose. When attracting potential employees, organizations need to show how employees connect to the company beyond their day-to-day agendas.

Akamai Technologies, a cloud-delivery platform company, recently competed a new Denver office, specifically designed to create workspace diversity. The design allows employees a choice of flexible, collaborative workspaces as well as quiet environments for focus. Providing a variety of multimodal spaces was critical to support employees using the space as they see fit.

2. Embed adaptability. The only constant in business is change. In today's climate, technology is one of the leading factors that drives how organizations communicate and enables employees to work when and where they want in the workplace. Top-performing organizations implement strategies to foresee and evolve with technology, forcing the workplace to deliberately improvise.

Continuous change defines the need for creating flexible, adaptable planning. Organizations reflect the way top talent is working by using their workplaces as a tool to foster creativity and innovation. Workspaces must easily adapt to their function, purpose or even existence.



Gensler/Ryan Gobuty

Akamai Technologies' Denver office provides amenity spaces that are flexible and active. The space reflects the local sense of place and culture, pulling inspiration from historic mining maps, imagery and typography.

3. Craft experience. With the nature of work constantly evolving through technology and workstyles, people's expectations of their workplace experience are adjusting too. Creating an authentic, branded experience is key for organizations to embody their company values. Too many times we see a generic application of a logo and colors signaling the "brand," when employees and prospective talent are craving something more.

A well-designed workplace environment is a tool to inspire employees and communicate a common mission. Employers must reimagine themselves not as enforcers for productivity, but enablers of meaning. Today's workplace should reflect choice, purpose and making a difference. By embodying the brand in a new way, space is being used as a catalyst to attract, retain and motivate employees.

Prologis, a global leader in industrial real estate development and logistics, recently moved from a very traditional corporate office

Please see Pogue, Page 26

Design

Focus, privacy must be considered for open offices

Open and collaborative workspaces have been the hot topic of client meetings for over a decade. With millennials entering the workforce, many companies felt the need to create a less formal, engaging environment by knocking down walls and flattening out hierarchy. When competing for talent, a vibrant, exciting workspace is key, after all. And, with the rise in Denver's cost per square footage and the freedom of mobile technology, you can see why this layout has flourished.

Christopher K. M. Leach
President and owner, Contract Furnishings

The open floor plan, however, is not ideal for every business model, team or employee. We now are seeing the pendulum swing back toward center, where it feels just right for a lot of companies. As a commercial real estate professional, how do you find and help create spaces that balance the needs of workers who crave privacy while still appealing to those who want collaborative and informal places to connect with coworkers? You listen.

• **Active listening.** Seeking input from all levels of staff – from the C-suite to the administrative assistants – is essential to building a solid foundation for your project. While choosing and creating a client workspace may put you in the role of "therapist," the most successful projects are the ones in which each team member feels they have had the chance to discuss their needs. Once you have collected feedback, ensure that your plan is meaningful and holistically supports the goals of the client. Recommending the trendiest building or style, for example, is not helpful to anyone if it doesn't fit the company's overall culture.

Generational differences often affect that culture, and a familiarity with these distinctions is critical for guiding a company toward one space or another. The baby boomer generation, in their experience, growth and development, see getting the bigger office as a badge of honor. Putting them in an open, flat-structured environment could feel like regression or punishment to them. In contrast, millennials, members of Generation Z and even Generation X, don't see shared, open space as failure to rise.

Coming to an agreement on how to balance open and private spaces can be challenging to navigate. Help your clients acknowledge the role each position plays and the optimal environment needed for each team to thrive. An open floorplan is not an all-or-nothing proposition. If the finance, legal or human resources team requires privacy or the business' structure calls for a separation of the C-suite, then separate, private offices or work areas may make sense. Handling all of these touch points delicately is a challenging, but necessary balancing act for most companies.

• **Thoughtful space planning.** Encourage clients to be thoughtful about space selection and planning up front. Putting a team of professionals in place before a space is selected could make a difference in which property a company ultimately chooses. Working simultaneously with architects, furnishing companies and designers will help clients strategically select the space that is right for them.

> Not only can neighborhoods balance the generational or work-style divide, but also they can provide a framework for each department to create its own culture within the company.

For example, a furniture company could help reduce its footprint by efficiently programming the space while incorporating sound-absorbing furniture to create privacy rather than walls. Or, an architect could conceive of creative structures like "huddles rooms" or "phone booths" that maximize space and privacy, while reducing the number of true offices needed. A designer could recommend design elements that could cut down on distractions and allow easily disrupted employees to focus on heads-down work.

With the rising prevalence of mobile technology, the type of space employees need is always evolving. Now, instead of wanting designated offices or desks, many employees prefer to have shared touchdown spaces: a place to charge their computer and phone. A recent trend has employees storing what they need to perform their duties in a locker or a mobile pedestal that they move to their new workspace each day.

• **Creating neighborhoods.** One trend that has taken off is creating separate "neighborhoods" within an office. Not only can neighborhoods balance the generational or work-style divide, but also they can provide a framework for each department to create its own culture within the company. An accounting team may choose a more individualized work environment for heads-down work with a large central meeting table at which their employees can easily share ideas, while the marketing department may want a more open team environment with tools such as mobile glass boards and interactive multimedia tools for brainstorming. Either way, most neighborhoods include collaborative spaces so they can "cross-pollinate" with other disciplines.

It is safe to say that the open and collaborative workspace is here to stay, but it has evolved over time to be more inclusive of everyone's needs. As commercial real estate professionals, clients look to you to find the perfect space. Armed with the right information about the people you are trying to accommodate, their workstyles and their preferences, you can all but guarantee you will do just that.▲

Technology

Design-construction process should include IT

Smart buildings and campuses and the Internet of Things are the logical next phase of network convergence, which we have focused on for the last 20 years. As intelligence is added to everything from lighting to trash bins, the network is becoming the central nervous system for the physical environment. Concurrently, user and employee expectations are for network connectivity everywhere, self-service everywhere, and connectivity to every device and service. The two trends fuel each other and the rate of change continues to increase.

Not only are these technologies revolutionizing facility efficiencies and situational awareness, but also tenant services, guest services, customer services and employee services. One physical network may now support:

- Operations,
- Traditional LAN functions,
- Security, cameras and access control,
- Building automation and control,
- Power management,
- Smart lighting,
- Environmental monitoring,
- IoT,
- Big data analysis collection and applications,
- Digital signage and wayfinding,
- Service delivery,
- Telecom/unified communications,
- Life safety,
- Paging,
- Audio and video,
- Internet access,

Howard Feingold
President, Technology Plus

- Ubiquitous Wi-Fi,
- Distributed access systems and cellular microcells,
- TV, and
- Mobile apps.

Smart buildings and IoT are bringing another level of complexity to the construction and developer industry. Smart campuses require smart infrastructure. A tall building can be seen as a vertical campus, and developers of high-rises face many of the same challenges for efficiency, security and services.

Traditionally, work was performed in silos only concerned with a specific discipline. Increasingly, these disciplines will need to integrate their systems with a single, converged network. While the disciplines will be converged to a single network, the network needs to be designed so that each system is isolated. This will require coordination and planning between the various disciplines and the IT implementation.

For this to be successful, an information technology role needs to be integrated into the design and construction process. This new role must address the design and implementation of the network with a focus on cyber security to allow the systems to run efficiently securely. A converged network in a building or campus presents many security issues that need to be addressed, which are unique to the design construction process. This should be addressed in the design phase and managed throughout the construction process.

Smart technologies can help create a converged network that can operate as the central nervous system for the physical environment.

While this shift is happening, changes in employee and user behaviors and business requirements are resulting in vanishing perimeters. Sophisticated, managed cybersecurity has never been more important. A well-planned, well-understood network is critical for security.

Some of the requirements of a converged network are:

- Secure, managed access to a wide (and evolving) array of devices;
- Appropriate segmentation;
- Well-defined processes for provisioning access, bandwidth, etc., to systems from various disciplines;
- An understanding of the unique requirements and service-level expectations of technologies as diverse as heating, ventilation and air-conditioning/mechanical, security cameras, video conferencing and IoT sensors;
- Well-defined and realistic processes for network maintenance;
- Robust, flexible and forward-looking network monitoring and management; and
- An increased focus on redundancy and reliability.

Fortunately, one of the most obvious benefits of the converged network is the elimination of the

Please see Feingold, Page 26

Project Spotlight

Unique amenities aid Dairy Block office leasing

When McWhinney began leasing office space in its newest Denver commercial development – the Dairy Block micro-district in Lower Downtown – it worked diligently to cultivate an eclectic mix of corporate tenants that would embrace the project's vision of celebrating the "maker."

Mark Witkiewicz
Senior vice president of commercial development, McWhinney

Developed by McWhinney, Sage Hospitality and Grand American Inc., Dairy Block – scheduled to be fully opened by this summer – is a vibrant downtown community of inspired retailers, chefs, creators and cocktail crafters – along with hundreds of office tenants to help support these outlets.

The heart of the project is the Alley, Denver's first pedestrian alleyway, which runs from 18th and 19th between Blake and Wazee streets and integrates the two new buildings with the historic Windsor Dairy buildings.

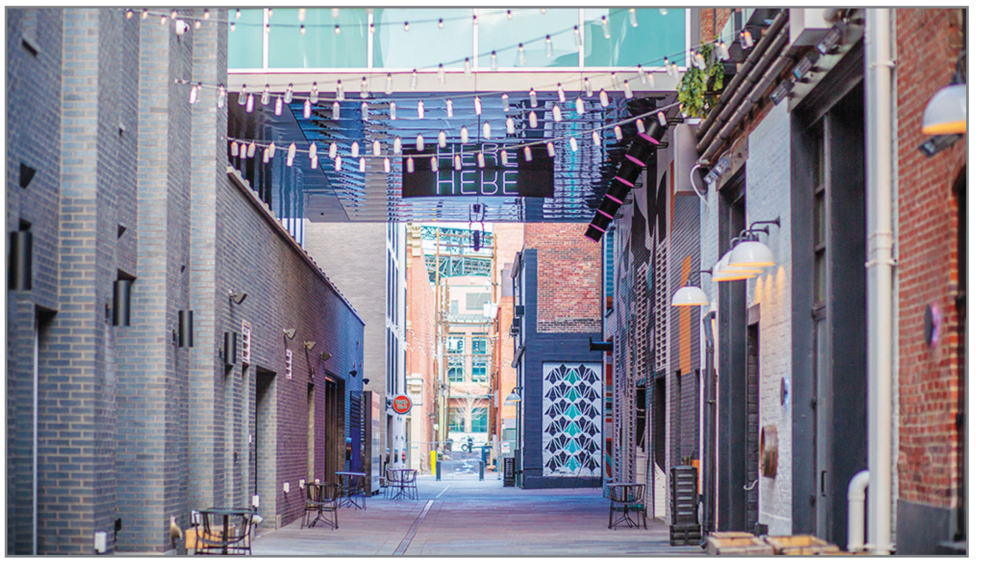
The six-story tower offers 220,000 square feet of office space, which is more than 97 percent leased, along with nearly 400 underground parking spaces. Opened spring 2017, the building was awarded LEED Gold certification from the U.S. Green Building Council. More than 20 percent of the new construction materials were manufactured within 500 miles of downtown Denver and more than 15 percent of materials contain recycled content.

• **Office tower.** Both local and international firms have embraced the uniqueness of the project's overall vision. Current office tenants include the Denver headquarters for McWhinney, industrial real estate firm ProLogis, the national headquarters for Italian fast-casual chain Romano's Macaroni Grill, the downtown Denver office of Equus Software, Uptown Mortgage, multidisciplinary design firm Otak Inc., architecture firm Hord Coplan Macht and Cuvee, an ultra-luxurious travel and lifestyle brand based here in Denver.

Coming to Denver from Los Angeles, this past spring CTRL Collective opened a shared workspace and creative campus. CTRL Collective Denver offers 43,000 sf of communal work spaces and private offices, a perfect fit with the booming co-working space trend. Open to entrepreneurs, makers, creatives and artists, amenities within the dog-friendly CTRL Collective space include a Creation Lab for photo and video shoots, seven conference rooms, a printing center and a game room.

"Dairy Block is a home for the local community," said CTRL Collective COO Taleia Mueller. "We embraced this city for the raw culture of nurturing one another, which culminated in our first CTRL Collective location in Denver. Our members at CTRL Collective are enveloped with how the Dairy Block has gone back to the heart of LoDo Denver, from the local vendors, to the historic buildings being honored and made to stay as originating foundations of the city."

Amenities for office tenants include



Dairy Block

Dairy Block's activated alley is a key amenity in attracting office tenants to the new project.

The Maven Hotel at Dairy Block, which offers 172 industrial-chic guest rooms, the 2,300-sf Windsor event space and a 4,500-sf fitness center. Additionally, Dairy Block, home to more than $1 million of Colorado art curated by Denver's NINE dot ARTS, offers extensive special programming for tenants, from yoga classes in the Alley to pop-up art events. Employees appreciate the property's central location, one block from the public transportation options at Denver Union Station and downtown bike paths. The building provides bike storage and showers for office tenants as well.

• **Retail and restaurants.** Dairy Block office tenants are encouraged to take advantage of the district's 73,000 sf of retail and restaurant space, which is more than 81 percent leased. Current tenants include Sage Restaurant Group's Kachina Cantina and Poka Lola Social Club by restaurateur Peter Karpinski, as well as a Huckleberry Roasters coffee shop and The Perfect Petal flower & retail store. Denver's newest fresh marketplace – Milk Market at Dairy Block – is a 17,000-sf food hall by Denver chef Frank Bonanno featuring 15 restaurants and bar concepts, including a salad bar, a poke bowl concept, a fresh seafood eatery and a wine bar. Bonanno is also launching Engine Room Pizza, which will serve pizza by the slice facing The Alley.

"Dairy Block was the ideal location for Frank Bonanno's Milk Market not only because it is in the heart of LoDo, but also because we have hundreds of office tenants in the same building who can start their day with a cof-

Please see Witkiewicz, Page 25

Market Update

Continued from Page 1

Center outpaced any connectivity imaginable along Wynkoop Street in Lower Downtown Denver.

All free perks aside, several notable tech companies, focused on talent attraction and retention, are trading in LoDo for "UpDo" office locations. These moves precede a formidable upswing in occupancy for office buildings southeast of Arapahoe Street, supported by data on limited office supply in LoDo, strong sublease absorption rates in the central business district, high commercial property taxes in LoDo and affordable apartments in upper downtown.

Over 1 million square feet of speculative office development was delivered in LoDo last year, and these office buildings were significantly preleased. When Gates Corp. announced its relocation to 1144 Fifteenth, several full-building tenants lined up to backfill Gates' space at 1551 Wewatta St.

Growing tech companies, like Marketo at 51,000 square feet and Vertafore at 75,000 sf, cannot compete for office space with established 285,000-sf tenants for two reasons: size and credit. In both cases, Marketo and Vertafore chose office locations southeast of Arapahoe Street in upper downtown at Shorenstein's City Center and LBA Realty's Denver Place, respectively. Shorenstein and LBA Realty proactively made improvements to the building common areas, including a hangout staircase and revamping outdoor spaces, and they enhanced vacancies with exposed ceilings and polished concrete floors to attract tech tenants – and the strategy worked.

Although there is less competition for office space in UpDo, so-called screaming deals are not easy to find because sublease availability is at its lowest rate since the fourth quarter of 2014. The amount of available sublet space in CBD is about 500,000 sf today, or 1.5 percent of the CBD submarket. As a point of comparison, the amount of co-working space in the CBD is about 2 million sf today, or 6 percent of the CBD submarket.

LoDo's historically high rents come with the added burden of high commercial property taxes due to mill levies from certain metropolitan districts. To quantify, commercial property taxes in LoDo, at $8 to $16 per sf annually, are roughly double the commercial property taxes in UpDo, at $4 to $8 per sf annually. Lower commercial property taxes in UpDo are a distinct advantage for office landlords because they have more wiggle room to get creative in making deals with tech tenants.

According to Zillow, a one-bedroom apartment at Platform at Union Station costs at least $2,000 per month, whereas the same floor plan at Sky-

> The amount of available sublet space in CBD is about 500,000 sf today, or 1.5 percent of the CBD submarket.

Transwestern

Some of the recently announced moves to upper downtown from Lower Downtown.

House Denver in UpDo costs $1,500 per month. With 300 days of sunshine a year, riding a cruiser bike 1 mile to and from Union Station retail seems like an easy compromise to save $500 per month in rent.

In fact, desirable boutique retailers also are taking root in upper downtown, like small-format Target, La Loma, Bubu Bowl and French 75. As the neighborhood continues to improve, office landlords want to know if tech demand will continue to grow. The short answer is yes. In 2017, tech companies leased 17 percent of CBD office space. Denver's startup unicorns have evolved into gazelles that need urban office spaces that can accommodate their growing number of employees and their need for robust tech infrastructure.

Finally, the recent sale of 1660 Lincoln, formerly known as Lincoln Center, embodied the resurgence of upper downtown. Unico Properties bought 1660 Lincoln for a low basis of $133 per sf in 2013 and deployed a $17 million renovation in 2017. Most notably, the renovation process included reskinning the exterior of the old urban building to improve its appearance. Unico also added a new lobby and entryway, installed a new central plant and heating, ventilation and air-conditioning systems, and added a gym and bike storage. Lincoln Center was renamed as 1660 Lincoln to help shift its perception among tech tenants and brokers in the market. Westport Capital Partners acquired 1660 Lincoln in March for $236 per sf.

There are now myriad economic and social drivers attracting unicorns and gazelles to UpDo. It is important for landlords to engage in placemaking to capitalize on the resurgence in demand for UpDo real estate.▲

Smith

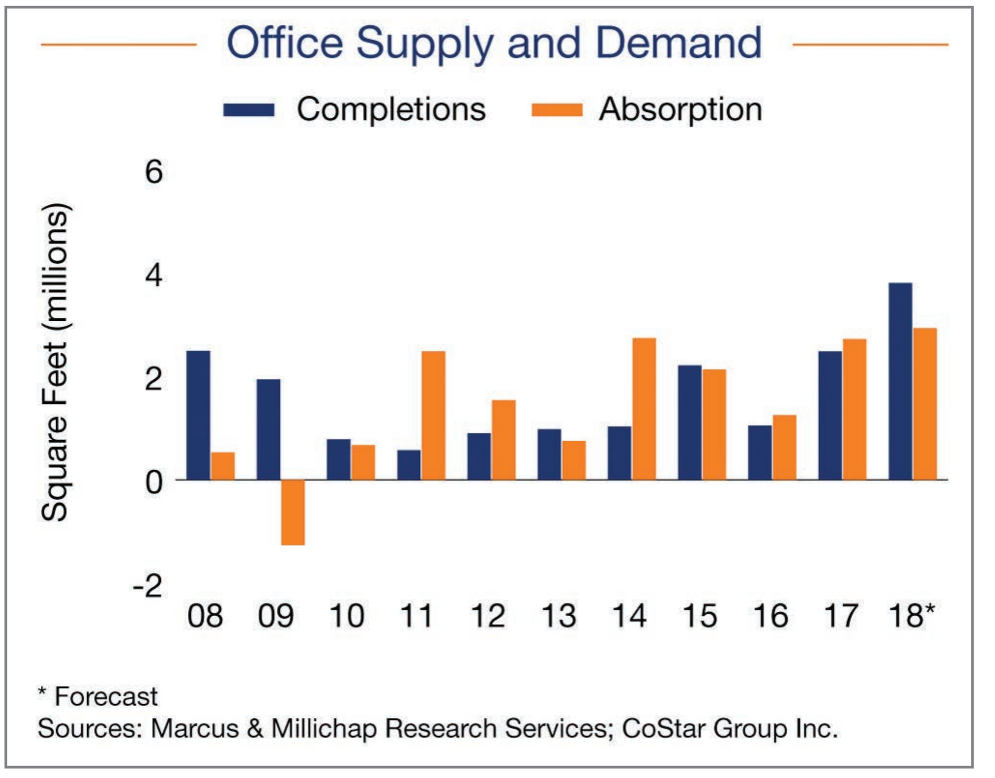
Continued from Page 4

found in flex properties. The average asking rent for Denver's flex space has averaged 1 percent growth each of the past five years, on an annual basis. Steady rent gains are a product of a considerably low vacancy rate around 6 percent. Robust demand prompted developers to focus on Denver over the past several years. Aside from this past year ending in March, when about 75,000 sf was completed, an average of 400,000 sf was delivered every four quarters since March 2013.

• **Competitive bidding prompted by limited listings.** Due to the strength of Denver's overall real estate market and the economic tailwinds aiding its robust performance, many property owners were hesitant to sell over the past 12 months, leading to eased deal flow among office assets. Local investors remain the staple behind the metro's transaction velocity, with many of them focusing on buildings in downtown Denver and the DTC. Properties in these areas draw a large number of suitors, creating an intense bidding environment. Here, cap rates typically sit in the low-6 percent band, up to 100 basis points below the metro average.

Medical office buildings followed the same story in terms of owners' willingness to sell and overall deal flow. For this property type, Cherry Creek and Glendale were areas of emphasis for investors. Average yields varied greatly depending on location, ranging from 5.5 to 7.5 percent. Flex space garnered considerably more interest than medical office buildings, largely due to favorable cap rates that extend into the low 8 percent realm.

Looking ahead, the Denver office market should strengthen in the coming years. With its demographic and economic trends outpacing many major metros, investors will continue to scour the market searching for investment opportunities.▲



Johnson

Continued from Page 8

ments. Combined with accessibility, which has been greatly expanded due to the expansion of light rail and mass transit, investors continue to show willingness to pay a premium for assets that meet this criteria.

The Denver office market remains healthy, with continued new development underway and property owners and investors willing to deploy significant capital to update and renovate existing sites with the aforementioned strong fundamentals. These developers, owners and investors remain confident that their capital contributions will yield attractive (their required) returns, regardless of where we are in the current cycle.▲

Weist

Continued from Page 12

overall objectives of the company?

6. What financial constraints could have an impact on the decision (and how much does price matter to the firm)?

These questions can open up an important dialogue about the company's growth goals. As one of the top three expenses for any company, securing the right real estate is a significant part of supporting the overall business strategy, especially when it comes to recruitment and retention. And as Denver's commercial real estate market continues to evolve and the demand for talent increases, that will become more important than ever. ▲

Witkiewicz

Continued from Page 23

fee and pastry at Morning Jones, grab a healthy salad for lunch from Green Huntsman and celebrate the close of a big deal at our Stranded Pilgrim tap room," said Paige Dungan of Bonanno Concepts.

By late summer, Dairy Block also will be home to a Seven Grand whiskey bar, Run for Roses, an intimate cocktail lair, a retail space by the founder of the Denver Flea marketplace, a new multibrand retail gallery concept called Free Market and several other new concepts to Colorado.▲

Wiley

Continued from Page 16

spend our time managing agents and employees rather than working on the "art of the deals."

• **Wiley: How has Denver's growth affected your business in the past five years?**

• **Ammaturo:** Historically, the company I work for only invested in Bay Area office buildings. About two years ago, we started looking in Denver and now over half our portfolio is there. The market is very interesting to our firm and going to college in Colorado gave me a leg up internally as we expanded in a new market.

• **Wiley: What changes do you anticipate for Denver and its growing population?**

• **Hamilton:** In every market sector, we keep getting surprised by the continued increases in rents and prices, and demand over supply, even in the face of lower cap rates. It's promising to see so much business optimism with lower tax rates and interest rates that are still reasonable. Hopefully, the new commercial construction in the metro area will allow businesses to expand while opening up more second-generation spaces and buildings.

• **Ellis:** I see Denver becoming younger and more diverse, and I am excited for Denver's evolution as a city. With the influx of millennials moving here and tech companies relocating or opening up second headquarters, I think (and hope) there will continue to be an influx of new and interesting mixed-use development projects and more opportunities for art and music. It's an exciting time to live here!

• **Ammaturo:** Given the millennial focus on quality of life and the cities/state focus on growth and commitment on enhancing its infrastructure with developments like the light rail, I think population will continue to grow. Even though Denver is getting to be more expensive, it's still affordable compared to core markets.

• **Wiley:** I began my career in commercial real estate when I joined CBRE in 2005. I realized that the field was under represented by women. I had one female friend who was a successful industrial broker, and she encouraged me to get into the commercial business. Looking back over the past 13 years, this industry has changed so much. It's incredibly refreshing to meet and do business with other women brokers, business owners, attorneys, asset managers, landlords, etc., and I anticipate female representation in commercial real estate will only get stronger in the years ahead. ▲

Walsh

Continued from Page 19

business and operational needs. This may translate to custom audiovisual packages supporting video conferencing, video walls to better reflect brand standards of the tenant or even custom room scheduling deviating from the co-working facility's norm.

While the co-working model sits side-by-side with traditional office space procurement, there is room and mentality for both. In fact, many corporate office developers, owners and landlords are creating co-working spaces within their buildings for maximum flexibility in how their asset stacks and blocks. That said, it's important for the tenant's project team to understand the nuances and needs of a tenant's migration into both co-working and traditional office space … and outsmart the differences.▲

Pogue

Continued from Page 20

building to a new building in the Lower Downtown neighborhood of Denver. This provided the opportunity to create a casual, flexible, high-energy workspace that still presented with the sophistication of a global company. We provided Prologis an authentic workplace design that reflects who they are and what they do: connecting spaces and cultures. Pulling in the essence of a warehouse, bold utilitarian materials create an immersive experience to the brand and reinvents the company's purpose.

• **Make it personal.** To build a binding team and attract and retain the best talent the workplace must engage on a human level. Organizations with workspaces that are innovative, adaptable and experiential are the most attractive to employees. These three macro trends are shaping the way top-performing companies are using their workplace as a business strategy and suggest that the future of work is truly focused on the people, their greatest asset.▲

Feingold

Continued from Page 22

duplication of infrastructure for each discipline. This allows for increased investment in the robustness, reach, redundancy and resiliency of the common network infrastructure. Increases to the capabilities of that common infrastructure are leveraged across all disciplines that rely on it.

Short- and long-term savings result from increased energy efficiency (HVAC, lighting, etc.), smart and proactive maintenance, centralized and remote building and campus management, and positioning to take advantage of future developments. Green initiatives such as reducing light pollution, improved waste management, and overall energy and heat efficiency are increasingly important to potential customers and the public. Services such as digital, responsive wayfinding and emergency or event management can leverage the smart infrastructure. And next-generation employees will have ever-increasing expectations for intelligence and connectivity in the workplace.

There are operational efficiencies to be gained in the management and maintenance of the infrastructure and the training of personnel. Connectivity and intelligence promise to revolutionize management of the campus or building. The end result is higher property value and a more attractive environment to tenants, employees and customers.▲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