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March 2017

OFFICE PROPERTIES *Quarterly*

Colorado Springs fosters the cybersecurity industry

Colorado Springs is looking to the cybersecurity industry to boost office activity.

by Michelle Z. Askeland

A couple years ago, the Colorado Springs Chamber & EDC began examining the cybersecurity industry and quickly identified it as a major emphasis area for the future. A city vision was formed for Colorado Springs to become a cybersecurity capital within the United States.

This vision rapidly accelerated in 2016 with the announcement of three major projects. The National Cybersecurity Center, a nonprofit organization with a mission to provide collaborative cybersecurity response services through education, training and research, inspired by Gov. John Hickenlooper, selected Colorado Springs for its home. Plans for the U.S. Northern Command/NORAD Joint Cyber Center were announced; it will be an Air Force asset that will focus on cybersecurity challenges. And the Catalyst Campus, a local, private, industry-focused technology campus announced plans to build a cyberlab to help small and midsize technology companies.

"Between these three pieces, you have one that's receiving state funding and support, one that's receiving federal dollars through the Air Force and one that's privately funded," said Andy Merritt, the chamber's chief defense industry officer. "So you've got very different and distinct, but also very complementary, activities that all really started coming into place last year."

While those outside of the industry are still grappling with what cybersecurity entails, those in the industry already have put Colorado Springs on the map. The chamber hosted several U.S. and international cybersecurity companies interested in relocating last year and Merritt expects interest to continue to grow. He's also seeing the established and startup companies already located in the city growing and adding significant numbers of new employees.

In some ways, cybersecurity is a natural outgrowth of the strong information technology industry already present in Colorado Springs. "There's been a lot of talent and companies here that have made those kinds of shifts into that cybersecurity realm," said Merritt. Going hand in hand with that IT strength is Colorado Springs' reputation for strong communications connectivity.

The city's prevalent military and Department of Defense presence helps as well. For example, the Air

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In order to meet future demand, downtown needs more available large-sized spaces.

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Energy efficiencies and connectivity play crucial roles at Panasonic's new office.

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Office well-being

Occupant-first design takes center stage in many ways at several new office projects.

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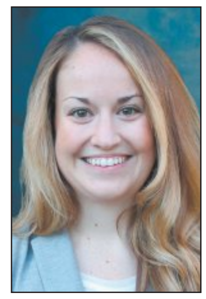
Upcoming trends for 2017

As we wrap up the first quarter, the headlines seem favorable across the state. While there are always areas to watch, many seem optimistic and confident that the demand for office will keep up with, or possibly surpass, supply. As 2017 finds its rhythm, I'm excited to watch a few things play out.

I'm hearing more frequently murmurings of an open-office backlash.



While any knowledgeable designer will stress the importance of a balanced office – one that appreciates quiet areas as well as collaborative spaces – I've read about companies that converted to an open plan only to realize their atmosphere wasn't enhanced. I'll be interested to see how this feedback is digested. Will we see new hybrid approaches or will we see more caution before companies jump on the open-office bandwagon?

While I agree that the level of noise and distractions can affect productivity, there are some elements of this design mind-set that I hope stick around. Specifically, I appreciate the focus on the workers' well-being.

On Page 20, readers will learn about how occupant-first design is manifesting itself in office projects across the state and, on Page 22, read about how FirstBank used similar ideas to embrace its employees' needs when designing its new headquarters. Both share the common theme of embracing the workers' well-being – a trend many are getting onboard with.

One more interesting trend I think we'll see more of this year is the concept of smart-city developments. Page 19 highlights the Panasonic Enterprise Solutions Company (PESCO) facility, which is the first construction project built at Peña Station NEXT. The benefits of smart cities will impact all parts of life, but the impacts on office and multifamily most excite me.

However, as technology becomes an even more prevalent influencer in our lives, attention must be paid to protecting that information. While working on the cover story, I focused on Colorado Springs. However, growth in the cybersecurity industry will reach across the whole state.

As a leader in technology, I anticipate Denver will see many of its companies expand to cyber. In general, growth in the IT software cluster was Denver's fastest-growing industry, nearly doubling last year, according to a Jan. 26 report from Metro Denver EDC. This employment growth was largely from company relocations, expansions and significant venture capital activity. Today, the Denver metro region employs 54,580 workers at 5,180 companies and has the eighth-highest employment concentration out of the 50 largest metropolitan areas, the report said.

Please let me know what topics you'll be watching within the office industry this year. And, as always, thanks for reading.

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Market Update

2017 projected to reach cyclical high for deliveries

Brian Smith
Vice president investments, Marcus & Millichap, Denver

Over the last few years, Denver's office property marketplace has been bolstered by strong hiring in the metro's primary office-using sectors, which enabled vacancy to hover near a decade low by midyear 2016. By year's end, local employers added 47,900 workers to payrolls, 10,000 of which were office-using positions.

The office market will continue to improve in 2017 as firms expand into larger spaces and hiring in primary office-using sectors remains stable. This year, area employers will increase the Denver workforce by 2.8 percent, or 41,500 employees. This includes 10,000 office-using positions, which will help offset a robust development pipeline.

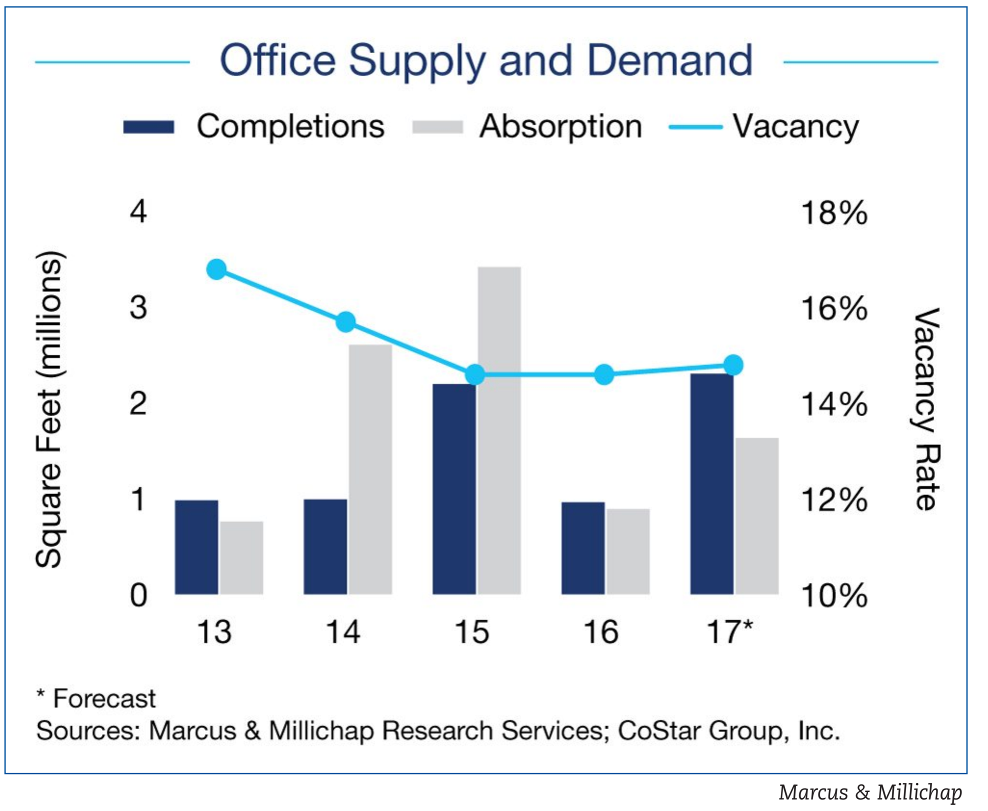
In 2016, new supply encountered high demand throughout the Denver metropolis with companies including Comcast and Agrium signing leases at speculative office projects. Comcast announced that it would move 1,000 workers into a 212,000-square-foot building in Centennial this year, while Agrium moved forward with plans to consolidate its U.S. headquarters into a 120,000-sf space in Loveland. One of the largest projects completed in 2016 was the 127,000-sf FirstBank headquarters in Lakewood. Overall, by year's end, builders had delivered 960,000 sf of office space to the Denver metro area.

Developers, encouraged by several years of relatively stable vacancy levels and a healthy job market, will move forward with a number of speculative office projects this year to address persisting demand for new space. Construction will be largely focused in the downtown area and along Interstate 25 through the Denver Tech Center, Greenwood Village and Centennial. Denver's commitment to providing an expansive network of commuter rail lines and alternative forms of transportation has attracted residents and companies to these areas.

By the end of 2017, deliveries are projected to reach a cyclical high of 2.3 million sf of office space, a significant increase from the previous year.

In 2016, vacancy remained at a historical low, ending the year at 14.6 percent. Heightened demand for Class B/C office space dropped the rate 40 basis points among this asset class, while an influx of Class A stock kept the overall vacancy flat. The vacancy rate was lowest in the midtown and northeast Denver submarkets and highest in the downtown submarket.

This year, healthy net absorption will keep Denver's office vacancy low as completions reach their cyclical peak; however, demand will not outweigh the new supply.



Marcus & Millichap

For this reason, vacancy rates are anticipated to rise 20 basis points in 2017 to 14.8 percent, remaining well below the previous 10-year average.

Low vacancy last year supported office property rent gains and boosted the average asking rent to $25.14 per sf, a 1.6 percent year-over-year increase. The average asking rent growth for Class A office space atrophied while average asking rents for Class B/C office space surged.

In 2017, with vacancy hovering near historical lows, the average asking rent is forecast to rise 1.7 percent to $25.57 per sf.

Denver's strengthening market conditions in 2016 spurred buyer interest in office assets, although limited for-sale inventory hindered transaction velocity. That said, buyers targeted office properties in southeast and southwest Denver, along with assets in downtown and west Denver.

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Chase Commercial Mortgage Lending
Retail | Mixed Use | Office | Industrial
Growing your long-term portfolio, one deal at a time.
RETAIL
Denver, CO
$4,100,000
10-year Hybrid
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7-year Hybrid
Refinance
RETAIL
Englewood, CO
$1,200,000
7-year Hybrid
Purchase
INDUSTRIAL
Aurora, CO
$2,400,000
10-year Hybrid
Purchase
RETAIL
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Market Update

Market is strong, but must address problems

Over the last several years, Denver has transformed from a burgeoning market into one of the premier cities in the country. It has received numerous accolades including being named the best place for business and careers by Forbes. The city has recovered extraordinarily well from the recession, experiencing substantial job growth.

In the 12 months trailing November, Denver employment grew by over 3.9 percent, one of the highest job growth rates in the nation. This statistic might seem counterintuitive due to the perception that much of the city's economy and employment is tied to the oil and gas industry. Despite this perception, Denver actually has the most diverse industry make-up among nine major metropolitan statistical areas and is 21 percent more diverse than in 2005.

This increased industry diversity is directly correlated with two intertwined factors – population growth and corporate migration to Denver. Denver's 9.9 percent population growth between 2010 and 2015 is third in the nation among the 20 largest MSAs, with a significant portion of these astonishing gains attributed to millennials. Millennials account for 60 percent of metro Denver's population growth and over 21.4 percent of the total population. Denver had a net annual migration of 12,682 people between the ages of 25 to 34 from 2009 to 2014, the highest in the country. Colorado, as a whole, is experiencing a similar influx of millennials, with the net migration from that age bracket far outpacing all others.

Peter Merrion
Director, HFF, Denver

This educated group is enticed by attributes beyond the lifestyle, 300 days of sunshine and outdoor activities the city offers. Denver's cost of living index is low compared to other major metros and compares favorably to the top 10 cities for millennials.

As Denver has drawn a major influx of young, educated and skilled labor, major corporations have followed suit. During 2016 alone, companies such as Comcast, Zillow, Charter Communications, Uber, Transamerica and BP announced plans to relocate operations to or expand their current offices in the Denver area. Additionally, Amazon and Facebook have shown noteworthy interest in the area and see Denver as a significant growth market.

Another major factor in corporate movement to Denver involves the city's relative discount to other major economic and tech hubs. The corporate tax rate in Colorado is a flat 4.63 percent, nearly 48 percent lower than in New York and San Francisco. Additionally, average office rents in Denver are $26.99, over 63 percent lower than New York and San Francisco, 17 percent lower than Austin, Texas, and 12 percent lower than Seattle. The access to an educated workforce and the lower overhead makes Denver the ideal location for a corporation to open a major office.

Jacob P. Bock
Analyst, HFF, Denver

With the influx of young individuals to the area and a diverse set of major corporate players, domestic and foreign investors alike have taken a long position on Denver commercial real estate. Last year saw the entry of, among others, Korean and Chilean capital to the market, and many domestic players began making Denver a primary target market. Capital is beginning to compare the market to Pacific coastal areas such as San Francisco and Seattle rather than Austin or Salt Lake City.

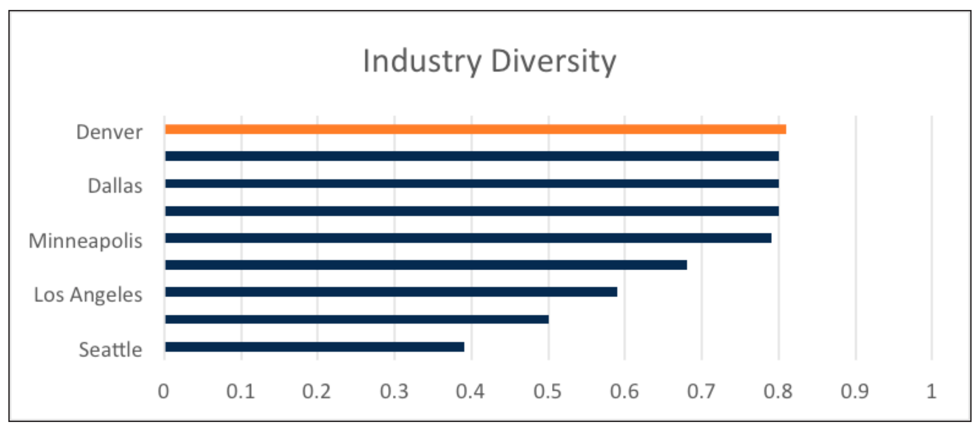
Even more alluring is the cost discount on a cap rate basis Denver provides compared to the coastal markets. With in-place cap rates 75 to 100 basis points higher in Denver, investors see opportunity to acquire

Mark B. Katz
Senior managing director, co-head, HFF, Denver

quality real estate in a significant, yet still expanding, market.

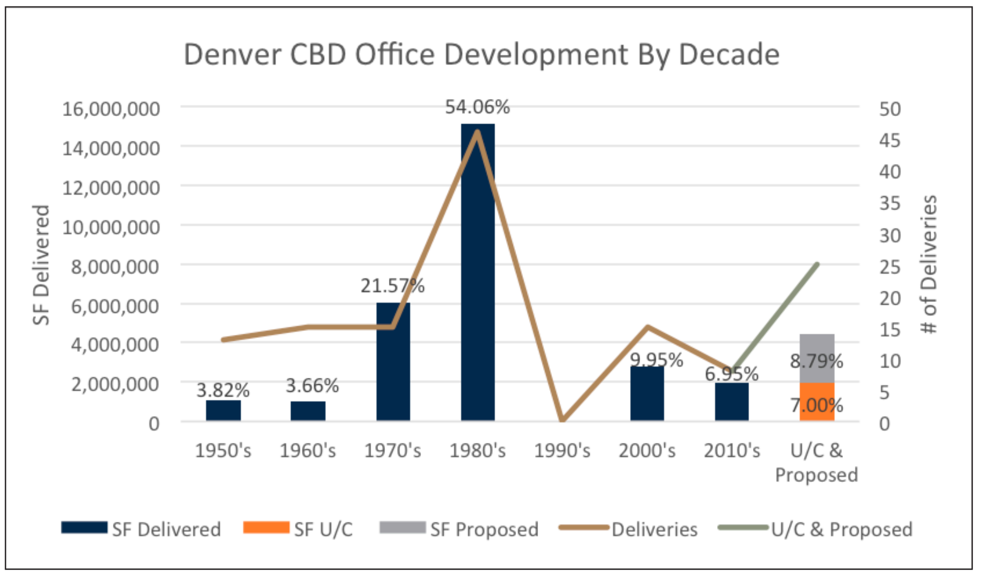
For the aforementioned reasons, development activity has increased significantly, especially downtown. Capital is excited by Denver's population expansion and corporate presence in the area. Over 54 percent of the buildings in the central business district were delivered in the '80s, with little development over the last 25 years. Developers see the lack of new product and extensive corporate user interest as significant demand drivers for new developments.

In addition, unlike major cities such as San Francisco and Los Angeles, there are still major growth opportunities in Denver from a geographic perspective. River North is the



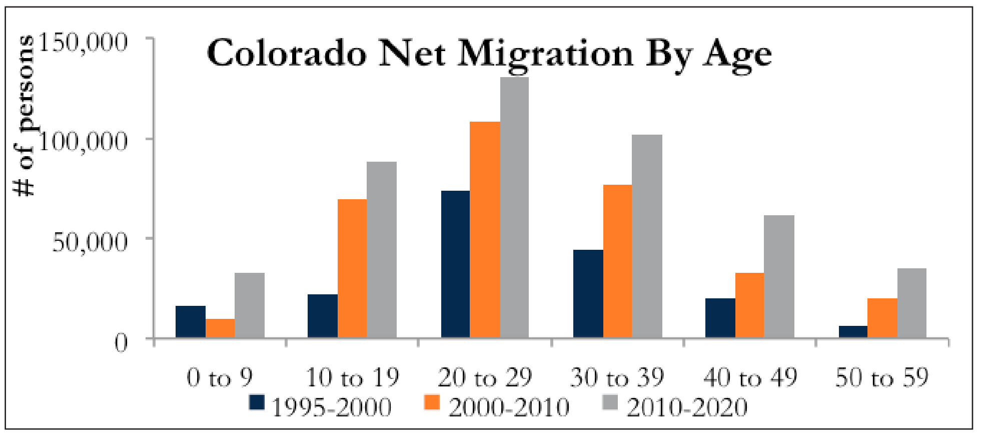
HFF Research, Moody's Analytics

Market Update

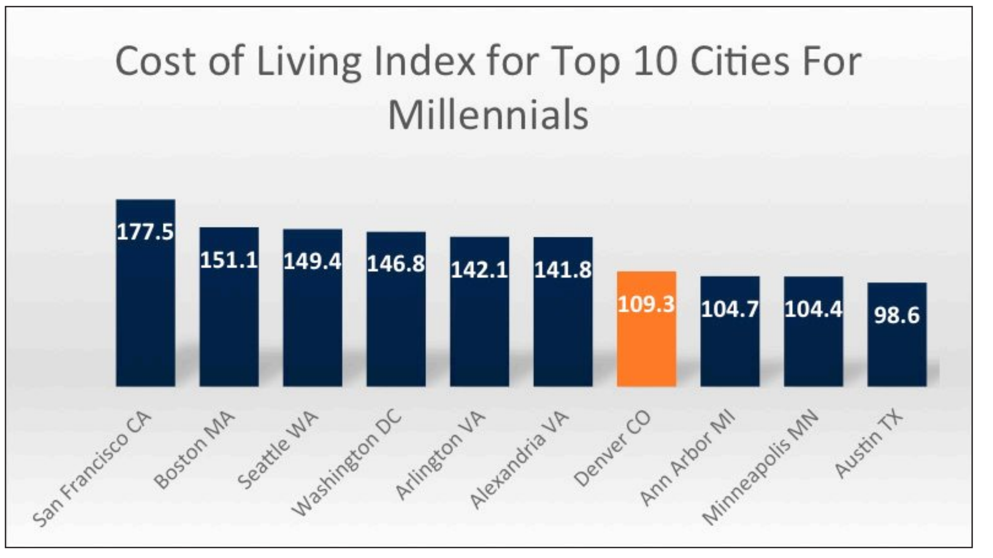


HFF Research, CoStar

All percentages are of current stock.



Colorado State Demography Office



HFF Research, C2ER, Forbes

next major micro-market in the urban core, facilitated and backed by the city through infrastructure spending and cityscape plans. Other areas of current and future growth include the Golden Triangle, which has experienced significant multifamily and creative workspace developments. These have attracted major capital sources to the area, displaying investors' desires to find the next up-and-coming Denver neighborhood.

Despite the positive attention Denver is generating, there are some issues it faces compared with more established markets. For one, there is a limited presence of Fortune 500 headquarters. Ten Fortune 500 companies are headquartered in Colorado, compared to the 37 in Illinois and 25 in Ohio.

A key factor that could help lure a Fortune 500 headquarters to the market is Denver's state-of-the-art airport. Denver International Airport is the fifth busiest airport in the country and 15th in the world. Despite heavy use, the experience is favorable compared to an airport like O'Hare. Beyond the experience, it is one of the few airports in the nation that allows travelers to reach both Europe and Asia in one day and is continually expanding international routes.

Also, the homeless situation in Denver is significant. As a very complex and delicate issue, there does not seem to be a pragmatic solution to the large number of homeless individuals present in downtown who reside around commercial and residential properties. There is no easy answer to this issue, but it is one that needs to be addressed.

The final issue involves the challenges with the suburban market. As some companies move to the CBD from the suburbs, investors see it as a significant weakening in the submarket. However, there have been recent large expansions completed by corporate users in the submarket including Comcast, Charter Communications and Arrow Electronics.

While locals complain about traffic and transportation issues, those from other major markets see the ease and speed at which one can travel from downtown to the suburbs. The Regional Transportation District expansion has made it more convenient than ever to travel between the two areas and, compared to markets such as L.A., New York and Chicago, the 15- to 45-minute commute is insignificant.

Although certain issues exist, significant progress has been made in mitigating them, and there is nothing to indicate that the Denver market will diverge from its current path of growth, expansion and economic success. ▲

Market Update

Springs sees continuing reductions in vacancies

Last year concluded with positive absorption of 311,429 square feet to yield an overall vacancy rate of 17.8 percent in Colorado Springs for Class A and B office product. In comparison, 2015 year-end numbers reflected 245,365 sf of absorption and an overall vacancy rate of 19 percent. For the first time in four years, the market realized a healthy reduction in overall vacancy, which had hovered in the 19 to 20 percent range for the prior three years. The momentum carrying over into 2017 suggests we will see strong lease activity and positive absorption for at least the first half of the year, and lease rates are reflecting the demand.

A missing component not accurately reflected in the absorption numbers is "lease activity." For the first time in many years, 2016 experienced lease activity on space before it was vacated. A few noteworthy situations in which leases were consummated on space before the prior tenant's leases were up included Booz Allen Hamilton's lease at 565 Space Center Drive for 52,000 sf and Western Digital leasing 35,000 sf in Interquest. Total lease activity of new transactions, not renewals, exceeded absorption by approximately 135,000 sf. This is further evidence of the overall health of the market, as well as the diminishing supply of high-quality available space.

A great deal of the available or vacant space in today's market is weighted toward older generation buildings and those properties with big blocks of vacant space, which means more limited quality options for tenant's seeking space in the market. Lease rates continue to increase and at a more rapid pace, with a 2016 year-end average rate of $13.63 per sf per year (triple net) – up from $13.35 per sf in 2015.

Greg Phaneuf
Principal, Cushman & Wakefield/ Colorado Springs Commercial, Colorado Springs

For tenants seeking space in traditional multistory Class A office buildings, they can expect rates to be much higher, with suburban product demanding as high as $17 per sf per year (triple net) and central business district product exceeding $20 per sf per year (triple net). Additionally and equally as important are the costs of constructing tenant improvements, which have escalated significantly. No longer can a tenant expect a landlord to "turnkey" work, and many tenants will need to subsidize the costs to improve their new space.

One segment of the market that remains soft is buildings with large blocks, greater than 50,000 sf, of vacancy. These buildings skew the overall statistics, driving up overall vacancy rates and keeping average lease rates low. These campus settings do, however, appeal to high-count employers and are important in keeping Colorado Springs an attractive site for new employers.

Overall, the city is in a positive place with existing hospital campuses expanding and new campuses being added – including the recently completed 86,000-sf Colorado General Hospital and Children's Hospital 300,000-sf campus in Briargate.

Peter Scoville
Principal, Cushman & Wakefield/ Colorado Springs Commercial, Colorado Springs

Land sales have been extremely strong, and multifamily housing developments are popping up throughout the city. Sales of single-family homes posted its best year ever in 2016, up over 16 percent from 2015, which was a record year. Downtown Colorado Springs is seeing significant activity with apartment development and is adding over 350 units that will be delivered later this year; this will fuel retail growth and bolster an already healthy office market, where vacancy rates are at 11.12 percent.

The airport submarket, with its proximity to Peterson Air Force Base, traditionally has been a hub of Department of Defense users, and this market has seen a steady decline in vacancy to 23.28 percent after hovering in the low 30 percent range for many years. The new administration likely will have a positive impact in this area, and we expect lease activity to be strong in the second half of 2017.

All indicators point to a steady improvement in the local market and this will fuel construction of new Class A office product, which we expect to see come on line in 2018, approximately 10 years from our last construction cycle.

- **Vacancy.** Vacancy rates continued to decrease in the second half of the year. Given the market size, one or two 100,000-plus users entering the market, which is anticipated in the next 12 to 18 months, will drive vacancy to single-digit numbers. The majority of multitenant buildings have seen either no change or a reduced vacancy rate and current activity suggests the vacancy rate will drop in 2017. The market will continue to see decreasing vacancy, but until we have new companies relocating or starting up in Colorado Springs, our vacancy will continue to decrease at a more modest pace.
- **Lease rates.** With the overall improving market, we have started to see most properties begin to push lease rates up and hold the line in negotiations. Older, mid-1980s generation buildings continue to pull the average down, but a number of them are starting to increase with the improving market. We anticipate the overall average to increase through 2017, and with the lack of newly constructed product on the market the ceiling for second-generation space is not yet set.
- **Absorption.** Absorption has been positive year to date, and we ended 2016 with a strong fourth quarter. As was previously mentioned, the leasing activity (not reflected in absorption numbers) was very strong in the second half of the year and all indicators are toward increased absorption and leasing activity. ▲

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	160-200 bps over the comparable US Treasuries	• Up to 65% LTV • 1.35x Minimum DCR	5-30 Years	25-30 Years	• Downtown, urban locations • Multi-tenant, traditional floor plates • Top tier tenants (local, regional & national) • Major metro areas	• Many of the life insurance companies will be more selective on office properties in 2017 • 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 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	250-300 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 widened ~50 bps since 2Q 2016 • Most competitive at higher leverage in secondary and tertiary markets • 10 years interest-only under 60% LTV • 5 years interest-only under 65% LTV
BANK	• Corporate Debt • Deposits	• Recourse (some non-recourse available) • Shorter-term fixed and floating rate loans	200-300 bps over bank cost of funds	• Up to 75% LTV	Up to 7 Years Fixed	Interest Only to 25 Years	• All office assets • Value-add with repayment gauranty • Secondary/Tertiary Markets	• Standards are tightening for Sponsors with no deposit relationship • 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
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 85% 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
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

100 St. Paul
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$52,000,000 Permanent Loan
Life Insurance Company

Lyric Centre
Houston, TX
$48,000,000 Permanent Loan
CMBS

200 Fillmore
Denver, CO
$10,700,000 Permanent Loan
Life Insurance Company

Jeff Riggs	Peter Keepper	Cooper Williams	Mike Jeffries	Ed Boxer	Michael Salzman	Michael Lapporte	Alex Riggs
President / Principal	Managing Principal	Principal	Principal	Principal	VP of Loan Production	VP of Loan Production	VP of Loan Production
(303) 843-0440	(303) 843-6002	(303) 843-4581	(303) 843-9220	(303) 843-9256	(303) 843-6015	(303) 843-4025	(303) 843-4027
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Market Update

Northern Colorado enjoys tight office market

There is no uncertainty about the health of the Northern Colorado economy; it is on solid ground and 2017 promises to be another year of growth. The Northern Colorado market is comprised of Larimer and Weld counties with the prominent commercial real estate markets being Fort Collins, Loveland and Greeley, with Johnstown and Windsor rapidly becoming economic drivers. Although the national economy has been on a long, slow recovery since 2010 and is possibly near the end of its current business cycle, the current metrics on the Northern Colorado economy continue to give business owners confidence.

The region continued to generate jobs at a healthy pace pushing the unemployment in Northern Colorado to a historic low of 2.3 percent. Over the next five years, it is anticipated that 28,000 new jobs will be created. Our population of approximately 620,000 residents is expected to grow to 700,000 residents by 2020, which will continue to drive all market sectors. Colorado ranked No. 4 nationally in home price appreciation and the Fort Collins-Loveland area increase of greater than 10 percent in 2016 was slightly better than the Colorado average home appreciation.

With relatively little new construction of commercial space over the last 24 months, vacancy rates continue to trend lower. The Northern Colorado office market ended fourth-quarter 2016 with a vacancy rate of 5 percent after positive absorption of 225,759 square feet. The vacancy rate for retail space after four years of steady absorption is at a historic low of 4.2

Ron Kuehl
Broker, Realtec Commercial, Loveland

percent with average quoted rates up 20 percent over this same period. Industrial space saw a 5.36 percent vacancy rate at the end of 2016 boosted by fourth-quarter absorption of 226,308 sf.

• **Office: It's a landlord's market.** Demand for office space increased in Northern Colorado in 2016 with most leasing activity occurring primarily in the first six months. Notable lease transactions include Agrium (120,000 sf), which will take occupancy of its new headquarters building in June, Comcast (82,104 sf), Madwire (66,667 sf), Pinnacle Agriculture (24,500 sf) and Meyer Natural Foods (18,000 sf).

With vacancy rates of 5 percent remaining level over the last 24 months, new demand will be met by build-to-suit and speculative construction. The average lease rates on recent Class A transactions have been in the range of $28 to $32 gross per rentable square foot, which makes speculative construction difficult. With only 600,000 sf of Class A and B office space available and average absorption in excess of 225,000 sf annually over the last three years, rental rates for quality space will be increasing and businesses needing larger blocks of space will be looking to build to suit or speculative construction to satisfy their requirements.

There also are many developments that are changing the face of Northern Colorado.

Realtec Commercial

Centerra's Rocky Mountain North at 1996 Rocky Mountain Ave. in Loveland is one of the newest Class A projects completed in Northern Colorado.

• **Fort Collins**. Colorado State University is well underway with the completion of a new on-campus football stadium designed as a multipurpose venue, which will have a capacity of 41,000. This $220 million project is scheduled for completion for the 2017 season. In Old Town Fort Collins, the Elizabeth hotel, a 164-room upscale hotel plans to open in the fall.

• **Loveland**. The Foundry, a public-private partnership between the city of Loveland and Brinkman, is planning its groundbreaking in the spring after being on the drawing board for six long years. The anticipated project cost is $76 million and will include apartments, retail space, a theater, community plaza and multistory parking garage.

Within the Centerra master-planned community at Interstate 25 and U.S. 34, the developer McWhinney plans to add two hotels, 420 apartments and an undetermined amount of new retail and restaurant space on both the west and east side of the interstate. McWhinney's projects are in various stages of development with its hotels breaking ground in the summer.

Another mixed-use project announced for Loveland, The Brands at The Ranch, is a $572 million project by developer Martin Lind that includes a high-end shopping center, two hotels, office space, apartments and an IMAX theater, which would be built on both sides of I-25 at Crossroads Boulevard.

Please see 'Kuehl,' Page 28

Denver Highlight

Downtown: Large-block office space needed

Doug Wulf
Executive managing director, Cushman & Wakefield, Denver

Denver continues to capitalize on its strengths as a growing market with exceptional talent. We have diverse companies choosing to locate downtown and millennials taking advantage of an accelerating startup culture, heightening the focus on our city.

Over the next five years, downtown Denver's forecasted population growth rate is 12.6 percent compared to the U.S. average of 3.7 percent. While this growth will undoubtedly make downtown Denver even livelier, it raises the issue of ensuring we have adequate supply of competitive and sizable blocks of office space to meet this new charge.

Those developers who can proactively plan for the construction of new, larger-size buildings or have the wherewithal for viable adaptive reuse of large properties will be well rewarded during the upcoming four to six years with steady tech tenant demand continuing to solidify in downtown Denver.

Our concentration of talent has attracted diverse companies seeking to start operations, relocate or expand. Tech startups have contributed heavily to new commercial lease activity. The total number of tech startups in downtown Denver increased by 13 percent over the past two years. In the past year, five of the largest funding rounds expanded to Denver such as Welltok, Galvanize, Ibotta, ProtectWise and GoSpotCheck, and nearly 8 percent of center city businesses are startups employing more than 4,500 people collectively.

Denver's competitive office rents also have generated interest. Our overall average office rental asking price is $25.69 per square foot – still significantly cheaper when compared to the epicenter of tech startups, San Francisco ($69.77 per sf), and submarkets such as Seattle ($34.30 per sf) and Austin, Texas, ($34.19 per sf). We are roughly on par with emerging tech cities such as Salt Lake City ($24.24 per sf) and Phoenix ($24.26).

Much of the current tenant demand is for 5,000 to 20,000 sf of office space, and those seeking such space have numerous options, whether move-in ready or built out, to meet their requirements. Conversely though, new tenants seeking 100,000 sf of downtown space have limited options, typically in second-generation buildings that cannot accommodate their requirements.

Titans such as Amazon, which is seeking 100,000 sf to 150,000 sf, and AIG, seeking 300,000 sf, have very few appealing options for large blocks of modern space downtown.

Two new buildings will help. Hines' 40-story 1144 15th Street is on track for completion in January. And Patrinely Group's 32-story Block 162 is due to break ground at the end of this year, for delivery of an additional 606,500 rentable sf in early 2020.

These two significant projects will offer large-block, high-rise space, the first in downtown Denver in more than three decades. Most other demand will be relegated to our older buildings with smaller floor plates, shorter ceiling heights, challenged glass lines and fewer amenities. Although this older building stock will continue to fill an important need, additional high-rise buildings with large blocks of space will be required to accommodate large companies seeking downtown space.

While downtown Denver can meet current tenant demand for up to 20,000 square feet easily, tenants seeking larger blocks of space have very limited options.

The success of new construction and tenants willing to pay for it has been underscored by the significant lease-up success enjoyed by the most recently completed new buildings in downtown Denver. Clearly, both small and sizable tenants alike are showing an appetite and willingness to pay top-end rates for new, efficient space.

With a firming oil and gas sector complemented by an ever-increasing demand by tech companies for additional space, the lack of attractive large blocks of available space likely will be a hindrance on long-term space absorption in the downtown market and may yield some relocations out of the submarket to suburban locations along light rail as these buildings will be less expensive and will be the only options for large blocks of space to be quickly delivered.

The lack of large blocks of space has been a challenge in our market before, notably when Boeing was considering Denver for its headquarters relocation from Seattle in 2001. Too often, Denver will lose to competing cities such as Dallas, Phoenix and Salt Lake City, which generally have large blocks of space available in new buildings.

Continuing the improvement of our older office buildings and focusing on long-term investment in new construction will allow office building owners to capitalize on Denver's renaissance. ▲

Financial Update

Colorado's economy is 'running on all cylinders'

Colorado, Denver and the north metro area will enjoy a strong 2017 with a booming economy and more growth than originally expected, experts speaking at two Vectra Bank annual economic forecast events predicted.

At the Denver/Colorado event, economic experts discussed growth, doing business in a changing political and economic climate, interest rates and gross domestic product growth. At a metro North-focused economic event, experts provided an overview of the economy and shared thoughts on how a changing workforce may affect personal and business plans.

Kirk Monroe
Executive vice president, director of lending services, Vectra Bank, Denver

• **Business expectations.** The state's growth is anticipated to be "running on all cylinders this year," said economist Patricia Silverstein with Development Research Partner. With net migration at an all-time high of 45,000 last year, Silverstein said 2017 migration will be slightly lower, at about 40,000.

Generation Y has not yet reached its income potential, so Generation X is spending the most dollars and driving the economic activity today. As millennials come into their income potential years, age 35 to 55, they will play a larger role in strengthening the economy. Retail trade activity will increase, but expect inflation to take a bigger bite out of our income this year, reaching 3 percent, she said.

Colorado will be in the top 10 states for employment in 2017, and while growth has been slow for some areas in Colorado, like Grand Junction, all areas saw expansion in 2016.

"This was the fourth year that we've seen growth in the state's super sectors," said Silverstein. "In fact, all sectors have enjoyed growth at historic rates."

Super sectors include health care and wellness, information technology, aerospace, telecom, fossil fuels, and banking and finance.

While the rate of growth in the country and state has slowed overall – down 0.2 percent from last year to 1.7 percent in Colorado – the state continues to grow twice as fast as the rest of the country, state demographer Elizabeth Garner told the metro North conference attendees.

For business, the challenge will be attracting and retaining talent. While Colorado is experiencing a boom, many other states are as well. Colorado's high housing costs – the 16th highest in the country – and competition to attract top talent within the growing millennial workforce population will require businesses to closely watch staffing needs and may need to increase compensation and benefits to attract new workers, Silverstein said.

In-migration is on the younger side, which means businesses will be challenged to find older, experienced workers – especially considering that the 65-plus population will grow by 77 percent in the same 30 to 40 years it takes a person in an entry-level position to reach full potential.

In addition to a "growing and slowing" economy over time, businesses must ensure they provide goods and services to attract top employees. By 2040, Hispanics and other nonwhites are expected to make up 45 percent of the state's population. "Those new nonwhite workers are the new spender," said Garner. "To prepare, businesses should think about diversity in both worker and client."

• **Interest rates.** At the 2016 conference, Burt White, managing director of research and chief investment officer for LPL Financial, predicted a 70 percent chance of a recession and potential negative interest rates. One year later, his forecast is for strong growth with no chance of recession.

While it is a positive that the country avoided a recession, the low 2 percent growth in gross domestic product has slowed our post-recession recovery and dubbed it "the worst recovery ever," White said.

While low interest rates may be positive for borrowing, it also hampers consumer's ability to increase savings, going as far as to call it a "disservice to the economy and growth," he said. The average number of interest rate hikes following a recession is 16 and the lowest number of increases was 10. However, interest rate increases following this recession equals only 2 percent. With the average three increases per year, the interest rate will take nearly five years to get back to a healthy GDP following this past recession, White said.

"We receive two times more interest in savings as when we pay interest," said White. This lack of interest on savings hurts the people who need it the most. White predicts 2.5 to 3 percent growth in 2017 and earnings in the mid-single-digit or high-single-digit earnings and return.

Contrary to what economists thought would happen, when interest rates were at the bottom, spending went down and people saved more. In 1980, a person needed $763,395 to have $100,000 in interest income for retirement. By 2000, a person needed $2 million. Today, one needs $14 million to make $100,000 from interest income on savings. However, White assured attendees that the country does not need much growth to get back to a healthy 3 percent GDP within a year and a half.

• **Economic growth.** While the pro-growth promise of the new administration has potential for the country, White cautioned that, historically, it's excesses that cause recessions.

"It ain't over until 'overs' are everywhere … over borrow, over hire, over spend, over leverage," said White. "We were over extended and over in 2009. Today, we don't

Please see 'Monroe,' Page 27

Market Drivers

January jobs report far exceeds expectations

Job growth in January blew past expectations, with some analysts attributing the increase to "animal spirits" – a term coined by John Maynard Keynes to describe the willingness of households and businesses to spend and invest.

Employers added 227,000 net new payroll jobs in January, well above the 2016 average of 187,000 and beating Bloomberg's survey of economists, which forecasted 180,000. Revisions to November and December data subtracted 39,000 jobs.

Sectors that added jobs last month included retail trade, adding 45,900; professional and business services, adding 39,000; construction, adding 36,000; finance, adding 32,000; and restaurants, adding 29,900. The surge in retail hiring, which seems at odds with post-holiday layoffs in department and clothing stores, may be related to seasonal adjustment factors. Health care added 18,300 jobs, trailing its six-month average. Manufacturing as well as the mining and logging sector added 5,000 and 4,000 jobs, respectively; manufacturers continued to struggle with exports, while employment in the mining and logging sector is stirring thanks to firming oil prices. The only two big sectors to shed jobs were government, losing 10,000 jobs, with most of the loss in education; and transportation and warehousing, losing 4,000.

Wages increased by 0.1 percent last month and by 2.5 percent over the past 12 months, below recent trends.

Bob Bach
Director of research-Americas, Newmark Grubb Knight Frank, Chicago

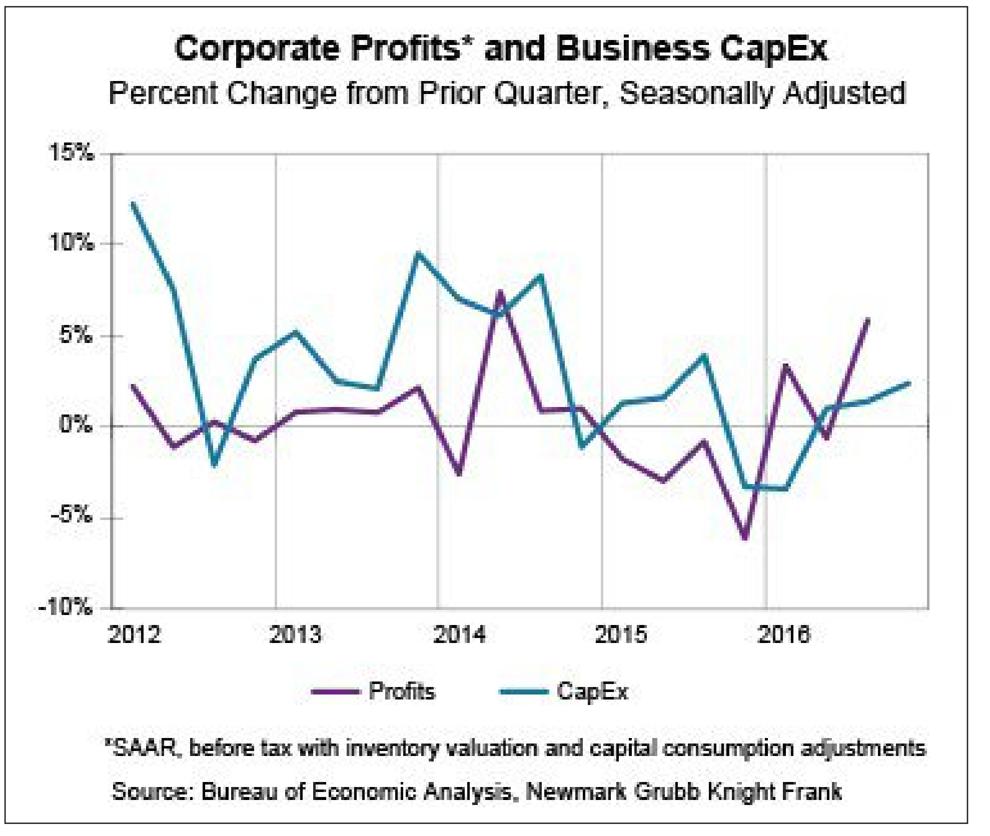
The unemployment rate ticked up a notch to 4.8 percent, pushed higher by a surge in the labor force of 584,000. This, in turn, pushed up the labor force participation rate by 0.2 percentage points to 62.9 percent. The U-6 rate, which includes labor market slack not picked up in the unemployment rate, increased from 9.2 percent to 9.4 percent.

There were three key takeaways from the January employment report.

First, the labor market may already be reacting to the business-friendly policies proposed by the Trump administration – corporate tax cuts, infrastructure spending and regulatory relief – even though these policies are still in the formative stages and may not kick in until late this year or 2018. Small businesses, in particular, may be encouraged by the prospect of less red tape.

Second, wages grew last month but at a slower pace than in previous months, suggesting that stronger inflation is not necessarily right around the corner. This provides some cover for the Federal Reserve to push interest rates higher at a measured pace.

And third, analysts disagree about how much faster employment can grow given that unemployment is low and the labor market is near full employment. Nevertheless, there is room for "animal spirits" to have some impact on hiring and spending, which will support leasing activity in commercial properties and postpone the onset of the next recession.



Supply and Demand

Which comes first, demand or supply? Economic supply-siders contend that a healthy business sector is the foundation for a healthy economy, making it easier for businesses to offer goods and services at low prices, and demand for their products will follow. Yet as important as businesses are in any capitalist economy, business capital spending accounted for 12.4 percent of the gross domestic product last year, whereas consumer spending accounted for 68.7 percent, based on data from the Bureau of Economic Analysis. Therefore, a robust consumer sector will create

Please see 'Bach,' Page 28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Broker Perspective

Is the office pipeline outpacing demand?

Zach Smith
Broker associate, Unique Properties, Denver

If you've driven past downtown Denver in the last year, you've probably noticed a crane or two in the sky – or 30. It isn't news either that Denver is seeing one of the biggest population spikes in the country. According to the Colorado Office of Economic Development, Denver's current population of 2.7 million is expected to increase nearly 50 percent to a staggering 3.9 million by the year 2030.

With Denver's active-friendly cityscape and beautiful surrounding landscapes, Denver's workforce enjoys a happier and healthier quality of life and, for that reason alone, it's obvious why so many businesses have been flocking to the area as well – not to mention our international airport and business-friendly government. Even with all the new people and businesses coming to town, there is one question investors and office building owners are asking themselves: Is the office pipeline outpacing the demand? The answer: Not necessarily.

Denver's highly skilled workforce has enticed several larger tech firms to move or consider moving to Denver and, compared with the Bay Area or the East Coast, the cost of living and rental rates for office space in Denver are significantly lower and are attractive qualities to now-cost-conscious tech executives.

Let's think about why the Denver workforce is so talented. One reason could be that many of the graduates who are coming here for education are staying after and getting jobs. It also is likely that many of these graduates are becoming entrepreneurs and starting businesses. In 2015, Denver topped the list of venture capital funding at $800 million. That was more than California, Texas, New York and Massachusetts. With regard to migration studies, it is known that in a given period the lion's share of a migrant population from state to state are in their 20s and 30s. Denver's recent and continuing population boom is rich with young, educated individuals looking for jobs or eager to start businesses.

In the 1980s, Denver's industry buzz was all oil and gas. That sector's biggest firms commanded nearly 50 percent of central business district's leased office space, leaving Denver exposed to the boom-and-bust nature of the industry. With the decline of this industry in the recent past, we've seen a lot of sublease space come to market, though it should be noted that Encana did recently renew its 335,000-square-foot lease in Republic Plaza at 370 17th St. As mergers and consolidations in the oil and gas industry took place, however, many of the giants vacated the Denver marketplace, leaving behind a staggering amount of sublease space. Marketwide, Denver has roughly 1.3 million sf of sublease space available and, out of that, the energy sector accounts for nearly 900,000 sf of it.

Job growth continues to be a big driver for the development of new product. According to the U.S. Bureau of Labor and Statistics, Denver came in seventh out of the 51 largest metro areas in terms of job growth. With the addition of

Marketwide, Denver has roughly 1.3 million sf of sublease space available and, out of that, the energy sector accounts for nearly 900,000 sf of it.

45,000 jobs, Denver's job growth rate came in at 3.2 percent. With over 52,000 units of multifamily in the pipeline and new home construction, Denver's residential markets are postured to receive the massive population influx.

As for office inventory, the pipeline is the largest Denver has seen since 2000.

"Twenty-two projects totaling 4.5 million square feet are currently under construction or renovation," according to Newmark Grubb Knight Frank's fourth-quarter 2016 market research. "1401 Lawrence (301,130 square feet in the CBD), Industry Phase III (a 72,000-square-foot addition to the co-working facility in Midtown submarket) and 8181 Arista Place (65,971 square feet in the Northwest submarket) delivered (fourth) quarter."

While this information may seem daunting, the strength in our workforce's education, the unprecedented in-migration of 20- and 30-somethings, and the job growth rate should offer investors a sense of comfort.

Denver continues to consistently outperform the nation in nearly every aspect of growth. Forbes lists Denver as the best place for businesses and careers. While the pipeline currently may be outpacing demand, the population and job growth we are experiencing here in Denver should make up for any disparity in the long run. It is a wild card and time will tell. One thing is for sure, it has been an interesting and exciting few years here in Denver with many more on the horizon. I think it's safe to say that we are no longer that little cowtown in the West. ▲

Market Trends

Panasonic office targets smart-city efficiencies

The term "smart city" is getting a lot of attention as we hurtle through the age of information. What makes a city smart? Smart cities are developments that take information related to assets, energy and infrastructure and combine it in a secure manner through communications technology, providing an effective infrastructure management system that can adapt as the city evolves. The end goal is to improve the quality of life and reliability of infrastructure for those who live and work there, and provide flexibility for future yet-to-be-invented technology.

This big picture thinking is exciting for those of us in the architecture, engineering and construction industry. The benefit of leveraging technology on a broader smart-city development is an exciting opportunity to maximize our resources and expertise beyond a single project.

The U.S. Department of Transportation took notice, announcing a national Smart City Challenge Competition for up to $40 million to support smart-city implementation in December 2015. The response was impressive: 78 cities entered the competition. And Denver ended up among the seven semifinalists. Though the eventual winner city was Columbus, Ohio, the competition helped spur some compelling lessons learned that the DOT is sharing.

We can take a look at a few current and local "smart city" projects to get a better understanding of

Gene Hodge
Vice president, project development, Mortenson, Denver

what makes a city smart. At Peña Station NEXT, located adjacent to the 61st Avenue and Peña Boulevard rail stop on the Regional Transportation District's new University of Colorado A-Line, Mortenson recently completed multiple projects including solar, battery storage and the first building on the site: The Panasonic Enterprise Solutions Co., known as PESCO, Operations and Technology Center for Westfield Co.

This highly visible building in Fulenwider's transit-oriented development houses more than 100 PESCO engineers, scientists and management personnel of the Energy Solutions Group and Sensory Solutions Group of PESCO, as well as Panasonic CityNOW, which is Panasonic's North American smart-city initiative. The facility is a showcase for Panasonic products, as evidenced by the LED lights incorporated into the design and includes a 24/7 network operations center that monitors a nationwide network of large-scale solar photovoltaic installations.

PESCO will be pursuing LEED Gold certification for the building, and energy use is an important consideration for the design of any vertical component of a smart city.

One of the many important pieces of the overall smart-city concept at Peña Station NEXT is a microgrid, which is the first of its kind in Colorado and the first that Xcel Energy will own.

Adjacent to the PESCO Operations and Technology Center is the site of Mortenson's first battery storage scope supporting this grid, which is being delivered as part of the Panasonic, Xcel Energy and Younicos team. This 1 megawatt/2.22 megawatt-hour battery energy storage system helps provide backup energy for peak demand times.

Power to the Panasonic building also will be supported by a 1.3 MW solar energy collection project in the form of a carport, owned by Denver International Airport. Our company is part of SunPower's team, which was contracted by Panasonic to build the carport.

The PESCO Operations and Technology center minimizes waste and environmental impacts and was constructed in less than 10 months by utilizing investment-grade, tilt-up concrete panels, structural steel and extensive glazing in the office areas. Specialty electrical systems were constructed to service the testing and development needs of the audiovisual and ECO labs inside the warehouse and the roof-mounted solar panels. The result is a flexible and energy-efficient office and warehouse space that supports productivity and allows for future flexibility for PESCO.

Part of the plan for Peña Station NEXT that is generating a lot of excitement includes the implementation of a driverless shuttle system that will take people from the rail stop to the building and future locations within the development.

Another project provides many of the same benefits of smart cities in other parts of the metro area. At the 3,400-acre Sterling Ranch project in northwest Douglas County, we are providing all nonresidential infrastructure construction and design and construction of a new water and wastewater system as well developing the first commercial project.

Sterling Ranch is the last large-scale urban development in all of Douglas County. At full build out, the development will include 12,000 single- and multifamily homes and over 2 million square feet of commercial development, with 37 percent of the land being dedicated to open space. We will break ground on one of the first vertical components at Sterling Ranch this spring – the 30,000-square-foot Civic Center, which will include office space among other amenities. Additional commercial office development will follow in the future as part of the Sterling Ranch master plan.

Siemens is a key member of the team, helping deliver an infrastructure that includes an immense fiber network connected to every home and business to provide a minimum of 1 gigabyte service, up to 10 gigagbytes.

For a building to adapt to future needs, it needs to have an expandable fiber-optic network. This is important as the Denver metro area

Please see 'Hodge,' Page 28

Workplace Trends

Create a successful workplace for employees

It's no secret that mixed-use developments are on the rise. Americans prefer walkable communities more than ever, a recent survey by the National Association of Realtors found. Walkable, mixed-use communities promote a more health-and-wellness-focused lifestyle, and today's office facility owners are taking notice. The movement toward more inclusive, diverse and walkable developments also mixes into the office environment itself.

Modern office designs are a far cry from yesterday's cubicle farms. To better focus on their employees and attract the best talent, office designs are incorporating a number of elements that cater specifically to the physical and mental wellness of their tenants. From rooftop access, increased natural lighting, fitness facilities and even on-site health care screening space, the workplace is becoming more than just a place of work.

With the health-and-wellness industry reaching $3.4 trillion worldwide in 2013, according to the Global Wellness Summit, and the increased frequency and severity of illnesses and allergies on the rise, it's no wonder that wellness-infused buildings have become the next big thing.

Occupant-First Design

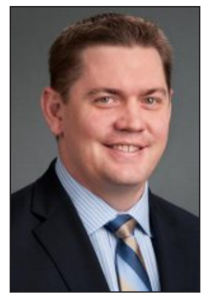
Located between downtown Denver and the Denver Tech Center, Colorado Center is a transit-oriented development. The community promotes its mixed-use profile, sporting office space as well as retail, residential, fitness and culture. Its proximity to public transportation further adds to its appeal as a "live, work, play" destination.

Charlie Slattery
Project manager, JE Dunn Construction, Denver

The latest addition to this community, known as Tower III, is in the final stages of construction and will be a Class A office building featuring a 15-story tower topped with a rooftop terrace. The terrace was designed with half of its space on the interior of the building and the other half as an outdoor patio, with connecting full-height glass accordion curtainwall doors that open to enjoy the beautiful Denver weather. The space is available for use by all tenants and available to be rented out on occasion for events and functions. Also featured within Tower III is an on-site fitness center, shared conference rooms and meeting spaces.

Recently completed projects like the Rocky Mountain Institute Innovation Center in Basalt and the NREL Energy Systems Integration Facility in Golden both tout LEED Platinum features that double as occupant-centric features. Both buildings contain office space designed around the maximization of natural light, reducing the energy needs for artificial lighting while simultaneously keeping occupants more connected with the landscape around them.

In downtown Denver, the recently constructed Polsinelli office put its employees first when it came time to build out its new space. The LEED Silver facility features a large outdoor terrace on the 23rd floor spanning the entire west elevation, providing a breath of fresh air and relaxed gathering space. Allowing employees quick and easy access to important services, an on-site nurse's office and wellness suite was incorporated into the design. Additionally, an employee café delivers a more casual meeting setting and access to a variety of light dining and beverage choices, all under one roof.



Joel Pennick
Senior project manager, JE Dunn Construction, Denver

• **Transit-oriented development.** A side effect of this trend is the changing concept of the commute. Commuters increasingly are looking for alternative methods of transportation when it comes to getting to and from the office. Developers are taking note and incorporating this trend in new, transit-oriented developments.

As the name suggests, TODs are planned and designed around the concept of providing efficient access to a variety of transportation methods. Whether that's fast access to rail transit, multiple locations for bike sharing, better storage and upkeep

Please see 'Slattery,' Page 27

Michael Robinson Photography

The Polsinelli office features an outdoor terrace on the 23rd floor spanning the entire west elevation, providing a breath of fresh air and relaxed gathering space.

Design

Workplaces need more than trendy amenities

Cindy Harvey, AIA, NCARB
Associate principal, RNL Design, Denver

Millennials make up the majority of the U.S. workforce, surpassing Gen Xers in 2015, according to Pew Research. As a result, workplaces are adapting to the needs of a new generation. Without throwing out the rule book, companies are looking at new ideas for workplace design in order to appeal to and support the wide range of working styles and preferences that make up today's modern corporate environment.

Apart from paying more attention to what appeals to this new generation generally (e.g., flexible schedules and meaningful work), many companies – some of which have existed for decades – are taking a fresh look at how the design of their office spaces may be affecting the productivity, intergenerational collaboration and growth of their workforce.

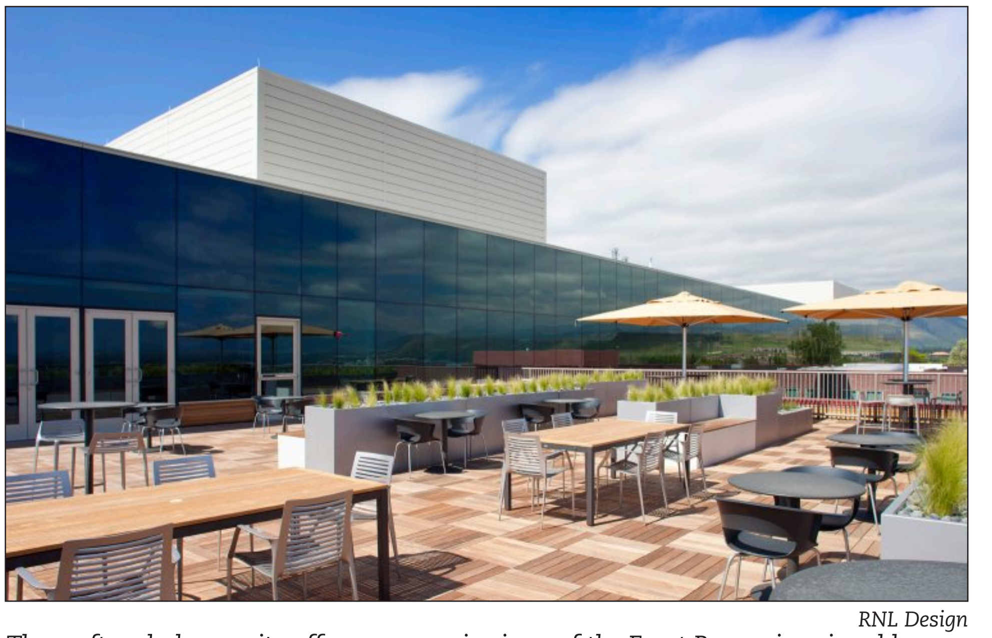
By viewing the work environment in a more strategic way, both employees and the bottom line can benefit.

• **Listen to employees' needs.** Established corporations often stand the test of time by taking care of their employees. A couple of generations ago, it was a common understanding that a company would take care of you, if you took care of the company. That same sentiment is true today, but with a slightly different approach. What was once tackled through pensions and 401K matches is now communicated through a commitment to sustainability, flexibility and work-life balance and by creating a sense of purpose and camaraderie among employees.

Today's employees are looking for work environments that offer community, collaboration and agility – they want a workplace that can keep up with the speed of technology. Take FirstBank, for example. When its corporate headquarters in Lakewood underwent a massive expansion, the company engaged its employees to create an environment that could attract and retain top talent. As the architect of record for the project, we devised a holistic design process to include employee feedback on how the space would look, feel and function.

As the Denver market continues to become more and more competitive for top talent, FirstBank knew that a traditional bank office design was no longer a good fit. With changes in how people use banks, the company now views itself less like a traditional bank and more like an IT company that specializes in banking. Its space needed to reflect that tech feel, while still facilitating traditional bank functions.

Employees were shown rendering and finish boards in addition to mock workstations with sit/stand capability, task chairs and options for lighting. Since individual workstation space was being consolidated, it was important to help staff understand they were actually gaining more high-quality workspaces and collaborative zones. Engaging employees throughout the entire process helped with the change management of the project and allowed the people who would be using the space every day to establish a sense of ownership.



RNL Design

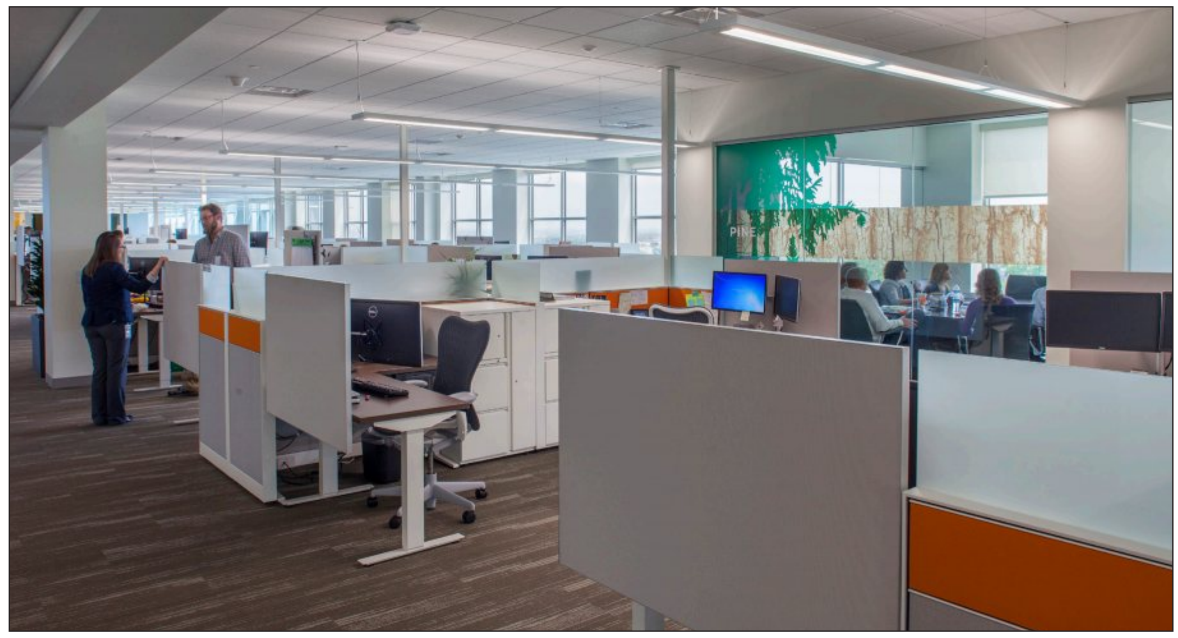
The rooftop deck amenity offers panoramic views of the Front Range, is enjoyed by employees and offers a great spot for FirstBank events.

• **Improve health and well-being through sustainability.** Sustainability is no longer a "nice to have" in office design. It's a standard. Not only does sustainable design demonstrate environmental responsibility, but also the right design and material choices can improve the health and well-being of employees, which can save employers time and money.

Take lighting, for example: Strategic use of natural light and daylight harvesting can make a world of difference in terms of energy consumption (and costs) as well as employee well-being. A growing body of research points to the role of natural light in supporting employee health and productivity by mirroring their natural circadian rhythms. In FirstBank's new headquarters, windows surround the majority of the new work areas. Combined with an open-concept design for workspaces, this means that most employees now have a view to the outside.

Daylight harvesting also reduces the need for electric light consumption. Designed to offset operational costs, RNL installed a sophisticated lighting system that can read the amount of natural light within a given space and adjust electric light as needed, providing a comfortable, safe and efficient work environment.

Other key sustainable features of



RNL Design

The open plan with limited perimeter offices allows employees daylight access and views outside.

the FirstBank headquarters include an advanced heating, ventilating and air-conditioning system that maximizes energy efficiency and ensures employee comfort with the use of natural ventilation. The design includes the addition of a first-floor café that opens to an inner courtyard with a bocce ball court and putting green, as well as a rooftop deck with ample seating and landscaping that frames views of the Front Range.

• **Design a space where people want to work.** Corporate culture often dictates how engaged employees are, and – when done well – an office's design can enhance and communicate that culture. With so much of the day spent at work, it follows that the more appealing you can make the space, the better.

The office floor plates at FirstBank's headquarters focus on open, flexible layouts designed to enhance collaboration between employees. Cubicles have low walls, and employees have the option of getting up and working in quiet focus rooms, taking a private call in a telephone room or gathering in a tech-enabled collaboration space in addition to working at their own desks. Conflicts in common space scheduling are a thing of the past with digital touch boards that provide a readout of all scheduled meetings in those spaces.

Given the site's suburban location and lack of nearby restaurants and amenities within walking distance, it was important to add conveniences and amenities to the campus environment. Workplace wellness was a driving factor in selecting amenities such as a fully equipped fitness center with exercise classes along with a game room filled with pool, pingpong, foosball and video game tables.

Ultimately, the design became a hybrid between the fully open-concept office and more traditional space plans to meet the demands of FirstBank, which employs and serves people of all ages from all walks of life. The final result creates a sense of community and equity in the office space, encouraging collaboration and improving productivity.

As companies build and remodel new office spaces to keep up with their continued growth, they need to think strategically about how the design of that space can not only improve their operations, but also reinvigorate corporate culture and encourage employees to become the company's biggest advocates.▲

Management

Simple spaces can promote healthy choices

Many trends in the corporate wellness environment are well known. Most understand that sitting at a desk, typing away, only to get up every hour or so to walk outside and take a couple of drags on a cigarette is not the best way to live a healthy life. From a dollars-and-cents standpoint, it is not the best way to get efficient, effective work from an employee. Of course, there are exceptions to these guidelines, but studies continually show that movement is a key factor in

The possibilities for such a space are endless and can be accomplished in a wide variety of ways

stimulating individual performance and productivity.

While top-flight fitness rooms are trending and are excellent in terms of employee health, camaraderie and retention, not every organiza-

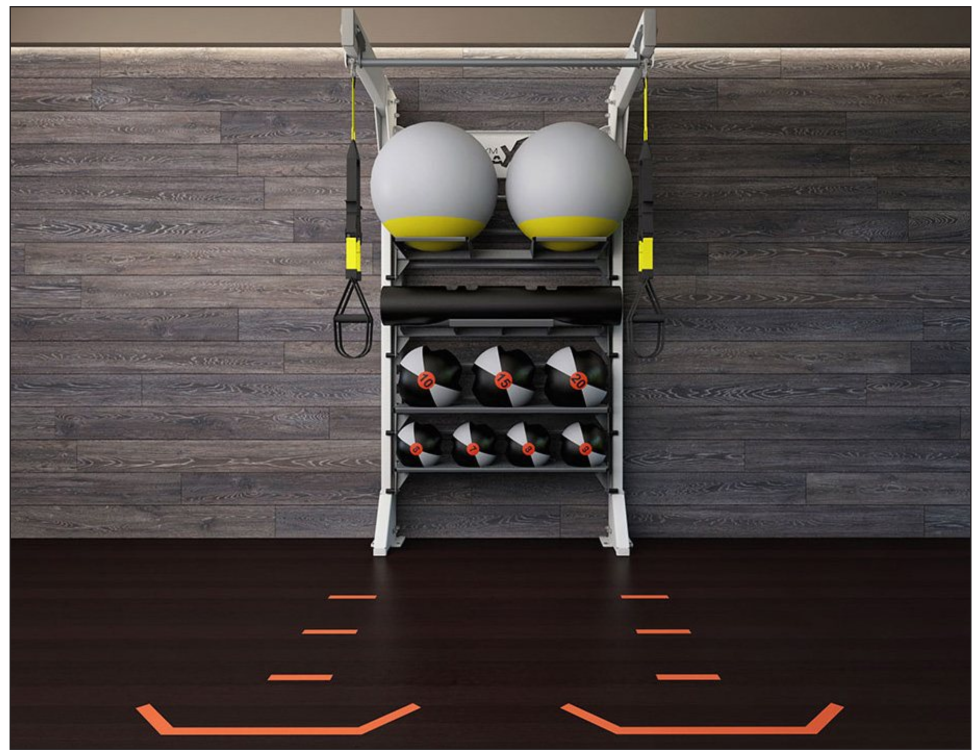
Jarrod Yost
Corporate accounts manager, Commercial Fitness Solutions, Littleton

tion has the space, numbers or budget for such an amenity. In these cases, new options have emerged.

For some time, it has been suggested that every so often a worker should stand and execute stretching exercises to achieve various positive results. There are some pieces of equipment out there that employees can even use at the desk, continuing to work, while moving the legs or standing. These pieces can be great options, but can be pricey, especially when extrapolated to accommodate a good deal of employees.

Performing stretches or exercises at a desk can make some employees uncomfortable. Also, if you've ever had a treadmill in your garage or basement, you know how easy it is to be distracted when attempting to exercise in certain environments. Stand up to stretch, hear that email "whoosh" noise, sit back down to immediately see who has pinged you.

OK then, how can these concerns be addressed? Building managers can set aside a small area, or two or three, depending upon the size and scope of the workplace, and put together a cost-effective, designated space for stretching/light exercise that can be done in between email binges.



Commercial Fitness Solutions

A stretching and activity area similar to this allows tenants to leave their workspace and get the blood flowing without having to leave their office building.

The possibilities for such a space are endless and can be accomplished in a wide variety of ways, including options with very little in the way of equipment. Put down a versatile linear vinyl tile or rolled/tile rubber floor, supply stability balls or a stretching cage and you have a fun stretching/health zone that your office tenants can use and enjoy without having to change into workout clothes.

The separate space lures workers away from their desks, promoting a healthy break from work, both physically and mentally. The result? Fewer days missed due to physical and mental exhaustion and sickness, more productivity, a fun work environment and much more.

In addition to the stretching space, promote more healthy choices by installing a bike rack and bike rescue station, encouraging your employees to ride to work or, perhaps, take a ride during lunchtime. ▲

Technology

Early tech integration helps satisfy user needs

Technology is an essential element in every commercial workplace today, and it should be a catalyst for enhancing innovation and communication. A successful workplace should include technologies that support collaboration and engagement in a variety of spaces ranging from an individual workstation to a large conference room and everything in between. Ideally, these systems should be so human-centered, easy to use and seamlessly integrated the clients don't even notice the details of the technology but, instead, simply focus on getting their work done. Unfortunately, workspaces fitting this description are generally the exception rather than the norm.

Most interior designers attempt to design workspaces as holistically as possible. However, because of the conventions of the modern design process, it's rare that they can extend their vision beyond the physical environment. The technology systems usually are not part of their scope. This can have the net effect of these systems being "bolted on" in the 11th hour, resulting in a disjointed user experience and, potentially, a significant lack of worker engagement and use.

Most audiovisual components used to create these systems are just that – components that are meant to be grouped together in a larger system to fulfill a specific function, such as presentation or collaboration. The manufacturers rely on AV system designers or system integrators to put them

Patrick O'Neal
Director of enterprise technology solutions, Workplace Resource, Denver

together. This often happens in a vacuum, late in the process, with little coordination between the architect and the end user. So details regarding the flow of the room, acoustics, lighting and integration into the supporting furniture often are missed or never addressed, resulting in a technology system that, while fulfilling a certain functionality requirement, misses the mark of the overall desired experience and vision of the end user.

In addition, the technology industry itself is changing rapidly. Nontraditional technology manufacturers, like contract furniture manufacturers, continue to invest in and integrate sensor technologies into their furniture and workplace frameworks that go beyond basic functions to provide actionable space-utilization data. This data is invaluable for facilities personnel, workplace strategists, architects and end users in terms of assessing how functional and successful a workspace truly is.

For instance, there are height adjustable tables that can now include a sensor to generate data showing how often the end user is standing versus sitting, how often they are at their desk versus away and other metrics designed around the individual.

Workplace Resource

Technology decisions should be integrated into the earliest stages of office design in order to ensure a seamless finished project.

There are several room scheduling display systems that go beyond just simple room booking functions to offer real-time, room-utilization data through integration with iBeacon Bluetooth networks. These systems can detect user presence and identity and generate real-time "snapshots" of how effectively a given space is being used and, optionally, who is using it. In a nod to an increasingly mobile workforce, it is now possible to manage booking of hoteling stations, in real-time, through the use of dedicated scheduling apps and mini-displays.

Workers want frictionless meeting spaces that support information sharing and presentation, where they can easily interact with local and remote participants, and where the surroundings, furnishings and technologies are all working in concert.

One easy solution to this situation is to start a conversation during the conceptual stage around what technology clients are using today, how they are using it and what they want to do tomorrow. The resulting information will dramatically alter the workspace design. If these conversations happen early in the design process, among qualified technology professionals and the architects and designers of the workspace, the odds of achieving a fully integrated, technology-enabled workplace that delivers an exceptional user experience are much higher.▲

Market Drivers

Continued from Page 1

Force Space and Command, headquartered in Colorado Springs, is the cyber executive agent for the Air Force. There also are many locally affiliated support companies within the defense industry in town, Merritt said.

• **Workforce.** As with all jobs, access to a vibrant workforce is king. For this young industry, it's even more challenging because there is a significant national shortage, Merritt said.

"A lot of the focus going forward is going to be around workforce development, because the community that can get workforce right in this arena is going to have a major leg up competing nationally."

In order to foster workforce growth, the city will need to leverage the local transitioning military – the some 500 to 600 people getting out of the military every month in the city. Many of these folks could be ideal for these positions due to their military training.

Another focus to shore up the workforce is to leverage the local academic institutes. Four local institutions are National Security Agency certified Centers of Academic Excellence for Information Assurance – the University of Colorado Colorado Springs, the Air Force Academy, Regis University and Colorado Technical University.

"We've got the universities developing that future workforce, which has made us attractive," said Merritt.

The strength of the region – defined by its higher education in cybersecurity programming, strong local government support, military and more than 100 private-sector cybersecurity and IT companies – were all factors contributing to the National Cybersecurity Center's selection of Colorado Springs, said Eric Hopfenbeck, NCC's chief of staff.

Office Real Estate Needs

Typically, cybersecurity companies like to be fly-below-the-radar users, so getting a firm handle on exactly what is going on can be difficult, said Andy Oyler, a Quantum Commercial Group office and investment broker.

"I've done leases with a number of the larger defense contractors in town, but we so rarely know exactly what they're doing at that particular location," Oyler said. "Sometimes they'll allude to what they do but, most of the time, they don't tell us a whole lot."

According to the Colorado Springs Chamber & EDC, there are more than 80 cybersecurity companies and 140 IT companies in the city along with five workforce training organizations in cybersecurity. The city is ranked fifth for cybersecurity jobs, according to Clearancejobs.com.

The size of the companies run the gamut, from small startups to major international companies, such as Lockheed Martin. With the smaller ones, there is a need for flexibility of expansion, as they're growing quickly, said Merritt. The bulk of the interest from relocation prospects are small to midsize companies, in the 50 to 200 person range, he said.

The Colorado Springs office market has been slow to recover, especially near the airport, due to a lack of new jobs, said Oyler. So the growth of the cybersecurity industry will have a positive impact on the office market. Many of these companies tend to be larger users and, in addition to taking larger spaces, they'll bring other economic opportunities.

"Cybersecurity companies are leasing up space and often will require a modification of their space, which will lead to opportunities for construction companies to do the build out," Oyler said. "Plus, your average cybersecurity employee is paid well – all of that is very positive."

The most important real estate must-have is communications capability. "They need real estate that has real high-speed internet capability and can handle significant traffic because that's the fundamental need," said Merritt.

The second important real estate criteria is location. "The workforce is the biggest item that's going to slow the growth of the industry," said Merritt. "The demand for cyber capabilities and services is going to keep growing exponentially. But it's the workforce that is the obstacle."

For this reason, locating near areas of talent – such as military bases and academics – helps foster employment growth, especially for companies working with defense and military organizations. Many of the commercial-focused cybersecurity companies are pinpointing where their desired workforce – mainly millennials – want to live and work, often in pockets downtown, Merritt said.

Most of the cybersecurity companies are moving into existing office product and retrofitting these spaces, rather than building new facilities. This is due to a large amount of available office space plus the cost of new construction is significant, said Oyler.

The National Cybersecurity Center selected its specific area within the city to spark economic development and because the organization could locate in an existing building, said Hopfenbeck. While currently in temporary offices, the future home of the NCC is a 135,000-square-foot facility operating as an expo center. The building was formerly a satellite manufacturing facility for TRW, though it has had many uses since. The facility was identified through a partnership with UCCS – the school owns the building, and NCC will rent its space, Hopfenbeck said.

One of the biggest variables is the tenant-improvement costs because many companies require some type of sensitive compartmented information facility build out. Even if the property has SCIF in place, most will have to recertify the area to the level they need.

"When building out SCIF space, the cost typically is very high," said Oyler. Within the lease, most landlords may take on some of the costs with a tenant-improvement package, and the tenant is responsible for the remainder of the build-out cost.

"Not all cybersecurity companies require SCIF, but I would assume most of them need some level," Oyler said. "It all depends on what they're doing at that location and how secure it has to be."

For these cost reasons, cybersecurity companies are likely to have longer-termed leases in order to amortize the build-out costs.

While cybersecurity, at its most basic meaning – protecting data – is defined, the industry still is changing rapidly as every other industry begins to grapple with the ramifications of cyber threats. Cyber threats touch all industries, making the market opportunities for cybersecurity broad and the potential for growth explosive.

It's logical to assume that all the private and public defense operations, as well as most of the IT companies, are involved in cybersecurity in one form or another and will only grow in these areas – making the potential impact on the office market extraordinary. ▲

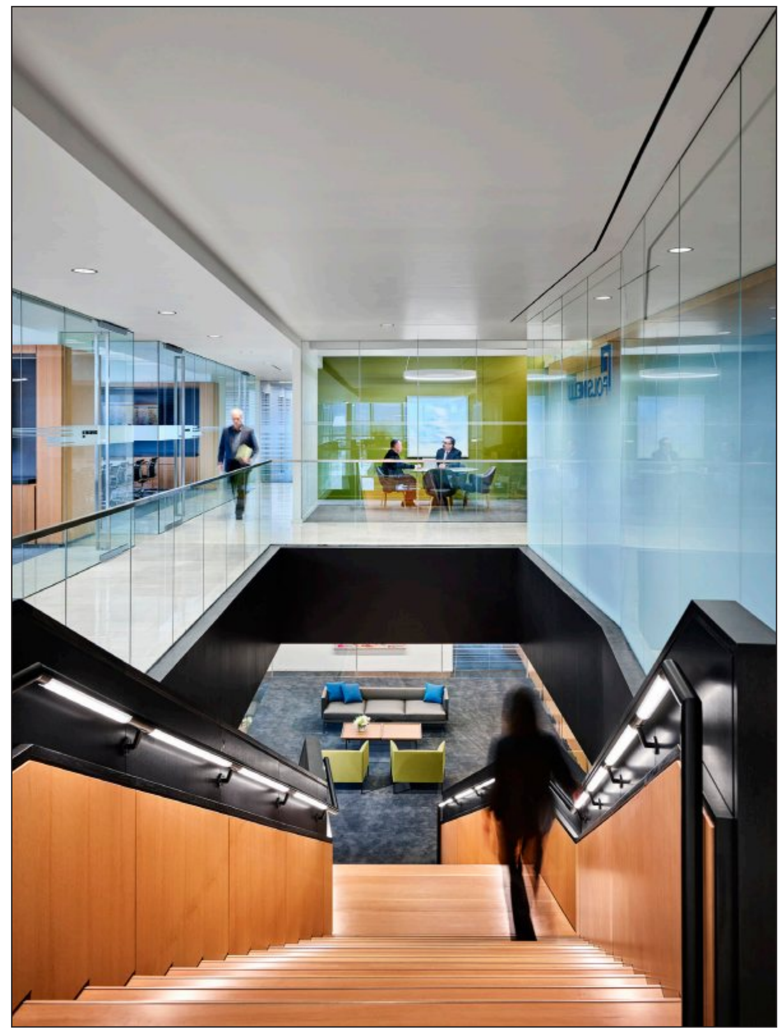
Slattery

Continued from Page 20

for personal cycling, upgraded bus systems and more, TODs complement mixed-use development by planning around people rather than cars.access to a variety of transportation methods. Whether that's fast access to rail transit, multiple locations for bike sharing, better storage and upkeep for personal cycling, upgraded bus systems and more, TODs complement mixed-use development by planning around people rather than cars.

• **WELL Building Standard.** A new design standard is rising to accompany LEED certification. Focused on occupant sustainability as opposed to building sustainability (although the two share similarities), the WELL Building Standard is a system of certifications designed to add structure to the concept of wellness-oriented facility planning. WELL buildings are graded based on their attention to occupant health and wellness.

Conceived by Paul Scialla, founder of the International WELL Building Institute and the wellness real estate company Delos, the building standard is the first of its kind that is solely devoted to the health and wellness of the occupants. The standard is administered by the International WELL Building Institute and is third-party certified through Green Business Certification Inc., the same organization that administers the LEED certification program.



Michael Robinson Photography

The LEED Silver Polsinelli facility offers an on-site nurse's office and wellness suite.

Where LEED measures how a building is designed, constructed, maintained and operated to certify its environmental sustainability, WELL measures how a building affects our health – both the negative and positive impact on our respiratory health, cardiovascular health, metabolism, comfort and state of mind. The WELL Building Standard represents a new building standard needed in the marketplace to address our own workplace sanity. With the average American spending 90 percent of his time indoors and chronic disease on the rise, perhaps the time has come that we judge our buildings on how they protect and support our health and wellbeing. ▲

Smith

Continued from Page 4

This year, rising deliveries and strong space demand trends will lure a number of institutional-grade buyers and large funds into the office market. Newly stabilized properties and those priced above $20 million will pique investors' attention.

Additionally, as newly built properties are delivered, trades in this price tranche could potentially rise. These assets typically will sell at cap rates starting near 6 percent. Private local and regional buyers will remain the primary players this year, chasing higher yields in the western and southern submarkets, where first-year returns are 25 to 50 basis points above the metro average.

Finally, given the diminishing number of value-add properties available for sale, investors in search of upside will seek opportunities in underutilized buildings near commuter rail lines.▲

Monroe

Continued from Page 14

see overs, but a pro-growth agenda could also create too many overs that could drive another recession."

A "Trump bump" in the first two years of the new administration's implementation of pro-growth policies allowed Phyllis Resnick with the Colorado Futures Center to predict gross domestic product growth to 3 percent this year. However, this new growth and continued low unemployment brings pressure of increases in prices, demand for higher wages, inflation and interest rate hikes.

"We can't grow at those outside rates forever," said Resnick. "Over time, the stimulative policies [President Trump] is proposing, such as tax cuts and infrastructure spending, will put a natural break on this growth."

While there is no recession in the forecast, the probability of one in the next two to three years is higher, said Resnick. Another pressure point for Colorado is housing, with 59 people needing new housing every day.

The state's 1992 TABOR amendment will play critical role in Colorado's ability to pay for services as the state ages. As the economy grows, it's expected to exceed population plus inflation, which will increase TABOR-related tax refunds to grow up to 18 percent, or $600 per capita by 2035. While attractive to tax payers, the general fund and its largest budget items such as K-12 school funding will suffer. Combined with the expectation that, under our constitutional measure that limits property tax, the state will see significant decrease in property taxes, from 7.96 to 6.5 percent in coming years – adding another drain on the general fund budget. This affects the state's ability to pay for programs at county, district and state levels.

The metro north also is experiencing unprecedented development, mainly spurred from the expansion of public transportation. "FasTracks is the biggest driver in a change of lifestyle and change in who wants to live here," said Barry Gore from Adams County Economic Development. "It's a very dynamic and exciting time in the metro North region with many opportunities and challenges on the horizon." ▲

Bach

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the demand necessary for a healthy business sector.

Nevertheless, business capital expenditure plays a big role in the economy, specifically its impact on productivity, as companies invest in products and services to make their employees more efficient. Higher productivity growth delivers a higher standard of living, as businesses can pay their employees higher wages without triggering a spike in inflation.

Labor productivity – the output of goods and services produced per hour of labor – has lagged in recent years, growing at an annualized rate of 1.1 percent in the current economic cycle, compared with 2.7 percent in the previous cycle from 2001 to 2007. Similarly, real (inflation-adjusted) business capital expenditure has grown by 1.6 percent in the current cycle, well below the 2.9 percent rate in the 2001-2007 period. Economists cite other causes of low productivity, including substandard schools and job training programs, and the inaccurate measurement of output in a technology-driven economy.

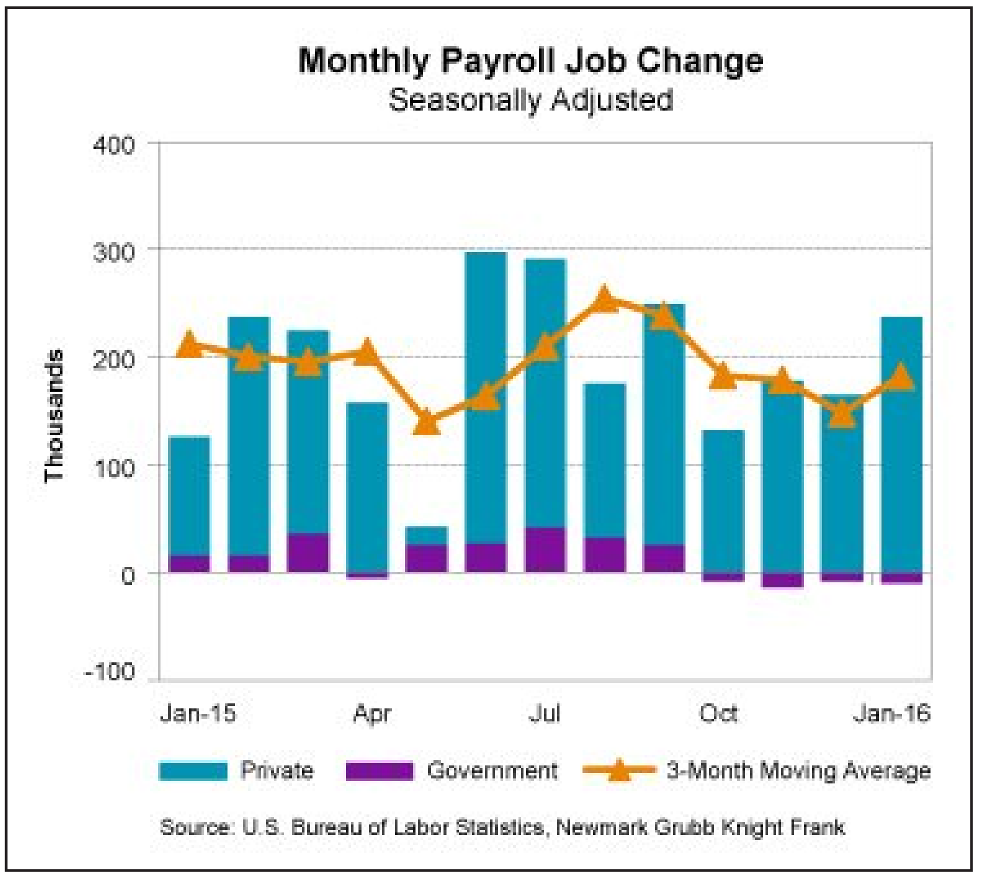
There are several reasons to expect business capital expenditure to accelerate in the next couple of years, which would provide a tailwind for the economy:

•Consumer spending, which includes spending on goods and services, remains solid eight years into the expansion, rising by 2.7 percent in 2016 and by 2.5 percent at an annualized rate in the fourth quarter, according to the Bureau of Economic Analysis. Retail sales, a subset of consumer spending that excludes services, is up a healthy 5.6 percent from a year ago and 0.4 percent in January, as reported by the Census Bureau.

•Corporate profits are showing signs of improvement. Profits fell in all four quarters of 2015 and again in the second-quarter 2016, according to Bureau of Economic Analysis data. Third-quarter profits increased by 5.8 percent, the strongest performance in more than two years. Although the Bureau of Economic Analysis has not yet reported fourth-quarter profits, FactSet, a private data provider that tracks the S&P 500, reported fourth-quarter earnings rose 5 percent.

•Several economic proposals of the Trump administration, if Congress goes along with them, would support business capital expenditure, including lower corporate taxes, provisions to encourage the repatriation of an estimated $2.6 trillion in offshore profits – an amount cited by Congress's Joint Committee on Taxation – and an easing of business regulations.

Political infighting in Washington



could derail this process if it creates enough uncertainty among businesses and consumers. A hopeful sign is that Brexit, the departure of Britain from the European Union, so far has had little impact on the British economy. It may be that businesses and consumers across the globe are willing to look beyond moderate levels of political dysfunction so long as economies continue to grow. ▲

Hodge

Continued from Page 19

is seeing variability in office vacancy rates as businesses look for options outside of the central business district. Reliable communications infrastructure is a key factor in site selection in today's competitive business climate. It also will allow for effective teleworking and open the door to improvements in telemedicine. With Business Insider Magazine projecting that there will be 34 billion devices connected to the internet in 2020, the fiber capacity is crucial, as it is the most reliable infrastructure available.

Energy-efficient measures such as fiber-enabled LED lighting on streetlights provide not only a "smart" lighting solution, but also security benefits by enabling the ability to brighten or dim lights as needed or help a family locate a child or family member, provided they opt in to the system. The residences, some of which are under construction, are all expected to have home-automation systems that will help residents manage and control their heating and cooling, lighting, internet and entertainment systems. Homes also will have separate metering for indoor and outdoor water.

Smart cities can attract businesses looking for new geographic locations to grow their operations and can be a selling tool for economic development corporations. These smart cities provide a smart infrastructure to help businesses improve operations, outreach and reputation through better connectivity to related community stakeholders, including health care facility operators, schools, retail and the services those living and working in these area demand.

These are some of the local examples of the advantages of integrating infrastructure, connectivity

McCory James

The Panasonic Enterprise Solutions Co. Operations and Technology Center is part of Peña Station NEXT, a smart-city development, located adjacent to the 61st Avenue and Peña Boulevard rail stop on the University of Colorado A-Line.

in transportation and information, water, energy and power as part of an overall building and development solution at present. The smart city concept is becoming reality in Colorado! ▲

Kuehl

Continued from Page 10

• **Johnstown**. Across the interstate from Loveland and within sight of the Centerra development, Scheels broke ground on its 260,000-sf, $55 million sporting goods store in Johnstown. The development, previously known as 2534, was rebranded as Johnstown Plaza. Steve Scheel promised his groundbreaking crowd that the Disneyland of sporting goods stores will be open in September. Approximately 200,000 sf of speculative retail space is under construction at Johnstone Plaza as well with more to follow as lease-up progresses.

• **Greeley.** A new $31 million Doubletree by Hilton is under construction in downtown Greeley. A public-private partnership came together to transform a city block near Lincoln Park into this 147-room hotel, with 14,000 sf of conference space and 12,000 sf of ballroom space.

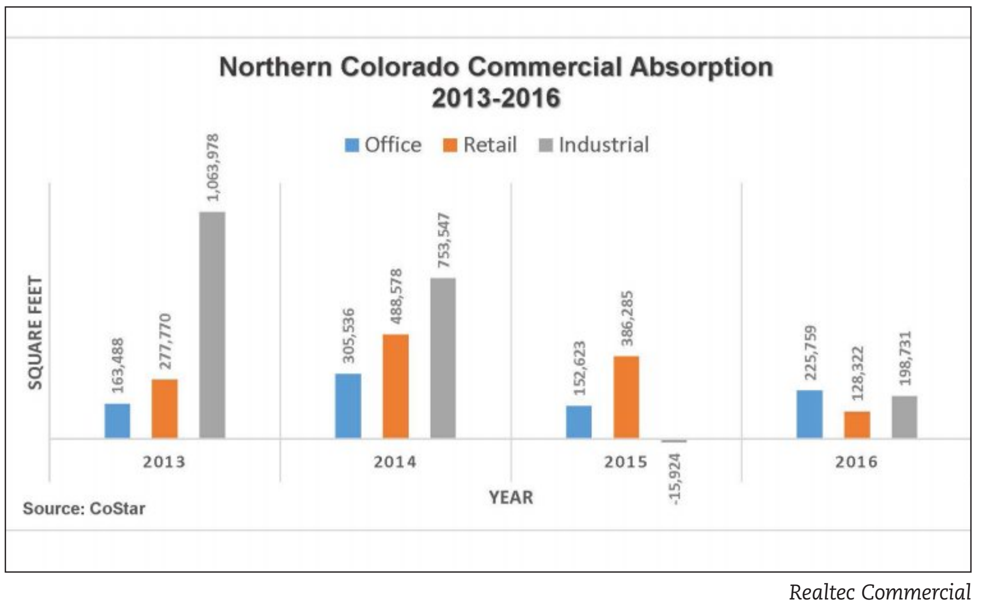
On the west side of Greeley, UCHealth purchased ground for the UCHealth Greeley Hospital, which will be a four-story, 153,000-sf, 53-bed facility. Adjacent to the hospital will be the UCHealth Greeley Health Center. This $135 million project will begin construction in 2017 with the anticipated opening in late 2018.

It is an exciting time in Northern Colorado with over $1 billion in new construction planned and much of it expected to be completed within the next 12 months. Time will tell whether all the announced new retail will come to fruition as the competition will be fierce in the I-25 and U.S. 34 corridor.

It is doubtful that there is a current market for all of the announced retail. The winners will be those who wake up every day focused on their project, offer experiential retail with new concepts and restaurants, and can navigate possible headwinds, including:

•J.C. Penny, Sears, Macy's, Foot Locker and CVS, combined, announced over 500 store closings, and Kohl's is planning to reduce the size of 300 stores, offering the excess space for lease.

•Interest rates will increase; in January, the Consumer Price Index was up

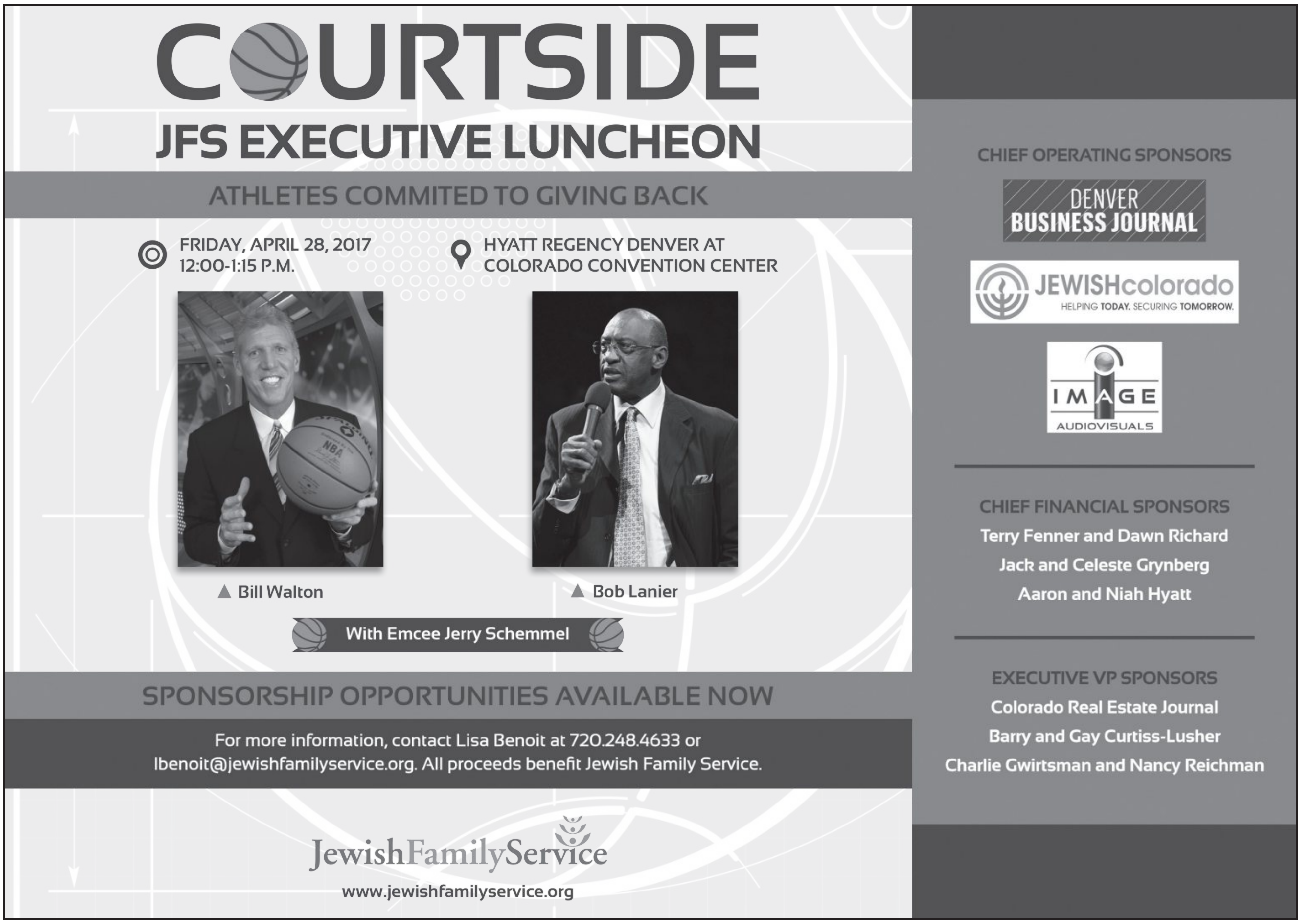


Realtec Commercial

0.6 percent, suggesting inflation may be ready to return to our vocabulary.

•The labor force is only adding 2,000 to 3,000 workers per year, which could lead to a shortage of workers in the region.

•Approximately 20 percent of the workforce is getting ready to retire and this population will dramatically change the housing market, looking for smaller homes and adding its larger home to the available inventory. ▲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