A Colorado Real Estate Journal Publication

September 2017

OFFICE PROPERTIES Quarterly

Andrew Bordwin Photography

Shared amenity spaces as well as hotel perks are two reasons why new Class AA office properties are pairing with boutique hotels. The Maven Hotel lobby at the Dairy Block is connected to the office lobby and is designed to encourage office tenants as well as hotel visitors to use the space.

The rise of dual uses: Hotel complements office

by Michelle Z. Askeland

The Denver skyline is witnessing the addition of several projects that pair office properties with boutique hotels. We spoke with developers and owners of three of these projects – Dairy Block/Maven Hotel, Union Tower West/Hotel Indigo Denver Downtown, and A Block/Hotel Born – to discover the intrinsic benefits as well as the complications these pairings add to a project.

While mixed-use projects are nothing new and the convenience of a hotel near an office property is implicit, these projects offer a fresh perspective. They are projects that host the hotel and the office on the same site and all benefit from owners/developers who view their respective properties holistically and with a long-term mindset.

In order to maximize the added value each use brings to the other, it wasn't enough to have the projects in the same vicinity. No, instead, the energy is created by building one property that houses the two uses, which these developers are finding is difficult to replicate in a standalone of either type.

"We knew that both uses would do well on their own, but as we got further along in the planning process, we looked at the synergies between having the two buildings really interact together," said Michael Everett, chief investment officer with Sage

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There's more complexity to the southeast suburban market than seen at first glance.

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Keep vintage viable

Make the most out of your 1980s office properties in order to stay relevant.

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Project spotlight

The new Catalyst aims to create a luxury residential feel for office tenants.

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Letter from the Editor

Amazon's big announcement

As we prepared to go into production on this issue, news of Amazon's plan to search for a location for its second headquarters, Amazon HQ2, was just emerging as the company opened the request for proposals. The impact this new development will have on its selected city is hard to dispute. The company said it plans to invest over $5 billion in construction and aims to employ as many as 50,000 high-paying positions at the new headquarters. In addition, the project is expected to create "tens of thousands of additional jobs and tens of billions of dollars in additional investment in the surrounding community," according to the company's press release.

The plan is for the new facility to be a "full equal" to the company's current headquarters in Seattle. This idea would get just about any city's economic development team salivating. From 2010 to 2016, Amazon estimates its investment in Seattle resulted in an additional $38 billion to the city's economy as "Every dollar invested by Amazon is Seattle generated an additional 1.4 dollars to the city's economy overall," the company stated. The Seattle Amazon campus encompasses 33 building for a total of 8.1 million square feet and employs over 40,000 people.

It's hard to read the HQ2 real estate requirements and not feel confident about Denver's prospects. According to the release, the company prefers to locate in a metropolitan area with more than 1 million people (check), in a stable and business-friendly environment (check), in either an urban or suburban locations with the potential to attract and retain strong technical talent (check), and in a community that thinks big and creatively when considering locations and real estate options (check).

Almost monthly I receive reports in my inbox highlighting the technology industry's impact on Colorado. Our booming tech industry helped us navigate the market's recent oil and gas challenges. Further, I would wager that every issue of Office Properties Quarterly has made mention of the importance of the tech industry as well as how Colorado's work-life balance continues to attract highly educated, young professionals. In this issue alone, Andrew Blaustein and Matt Davidson with Newmark Knight Frank outline how the River North district is readying to take the helm as the city's technological hub and the world's capital for AgTech.

To put the impact of a project creating 50,000 jobs in perspective, employment in all of metro Denver is forecasted to increase by 2.3 percent in 2017, representing the addition of about 37,000 jobs, according to an article written by Patricia Silverstein on Page 4. Granted, all of these new Amazon jobs wouldn't come in overnight, but the possibilities are staggering.

We're a long way out and the competition undoubtedly will be fierce as cities across the country try to court the online behemoth, but it seems a safe bet that Denver will be right there in the mix.

Michelle Z. Askeland
maskeland@crej.com
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Market Update

Employment stats help paint picture of our economy

As the current economic expansion continues, people start to question where we are in the business cycle. The "official" declaration of U.S. expansions and contractions comes from the National Bureau of Economic Research. As of August, the current economic expansion has been underway for 98 months, which currently ranks as the third-longest expansion since tracking began in 1854. Where we are in the business cycle is an important consideration for most companies as they plan and budget for changing sales and staffing expectations.

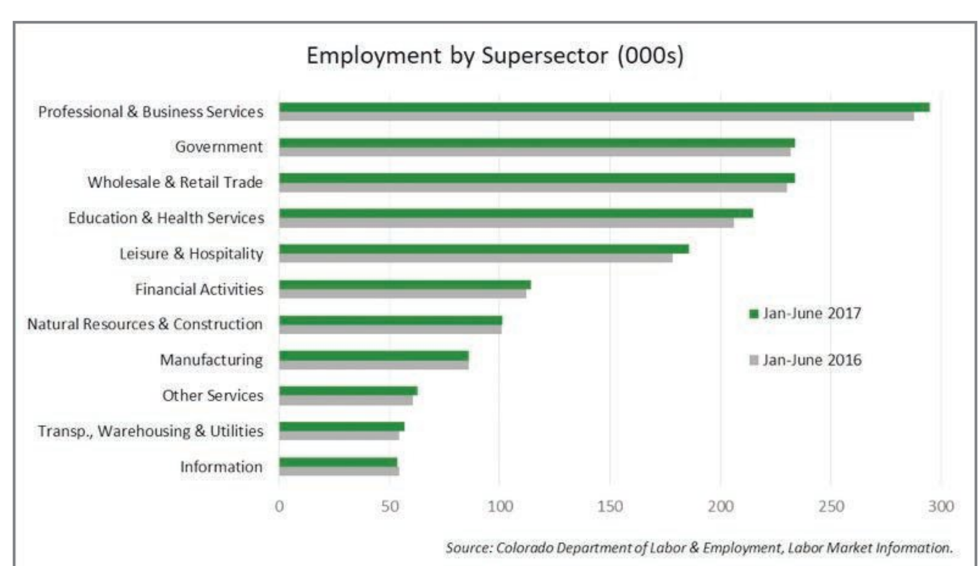
While national business cycles are tracked using measures such as gross domestic product, personal income, industrial production and employment, these measures may not be available at the state level or are released with such a lag as to not be useful. Therefore, employment statistics, which are released on a monthly basis, are closely watched at the state and local levels as the key indicator of an area's economic health.

After ranking fifth for employment growth in 2015 and 13th in 2016, Colorado ranked 11th for employment growth as of mid-2017. Nevada and Utah currently hold the top spots in the country with a 3.3 percent increase in employment. Colorado employment growth is expected to average 2.1 percent in 2017, representing the addition of about 55,000 jobs.

Six of the seven metropolitan statistical areas in Colorado posted increased employment from the first half of 2016 to the first half of 2017. The lone exception was the Grand Junction MSA, where employment declined 0.4 percent. The Fort Collins MSA grew the fastest in 2015 and 2016, and that trend continued into the first half of 2017 as the region's employment base increased 4.3 percent. The biggest shift in position was in the Greeley MSA. After employment decreased by 1.3 percent in 2016, primarily due to the decline in oil and gas, employment expanded by 2.6 percent in the first half of 2017, ranking the Greeley MSA as the second-fastest growing MSA in Colorado.

Patricia Silverstein
President and chief economist, Development Research Partners, Littleton

Nearly 1.7 million jobs are located in metro Denver, defined as the Denver MSA plus the Boulder MSA. Dividing the employment base into 11 supersectors reveals that nine of the categories in metro Denver increased through the first half of the year, with the exceptions of the information and manufacturing supersectors. The education and health services supersector reported the largest percentage increase in employment and added the most new jobs, averaging a 4.1 percent increase in employment in the first six months of the year, or the addition of 8,500 jobs. The professional and business services supersector is the largest of the 11 supersectors and added 7,200 jobs over the period. The natural resources supersector recorded the smallest increase in employment over the year, rising 0.5 percent with the addition of 500 jobs.



Looking ahead, the Manpower Employment Outlook Survey expects that the percentage of companies hiring in the Denver MSA will increase 3 percentage points between the second and third quarters, with 30 percent of companies planning to expand their employment levels. By comparison, only about 24 percent of U.S. companies expect to add workers in the third quarter.

According to the survey, job prospects are positive in most sectors of the economy, including transportation and utilities, wholesale and retail trade, information, financial activities, professional and business services, education and health services, leisure and hospitality, other services, and government. Hiring in construction and manufacturing is expected to remain unchanged.

Employment in metro Denver is forecasted to increase by 2.3 percent in 2017, representing the addition of about 37,000 jobs. The employment growth rate in metro Denver in 2018 is likely to fall slightly as companies continue to struggle to find the workers needed as the region posts an average annual unemployment rate in the 2.5 to 3 percent range.

• **What does this mean for commercial real estate?** A simplistic analysis of employment by supersector highlights expected changes in office, industrial and retail uses.

Supersectors dominated by office users include professional and busi-

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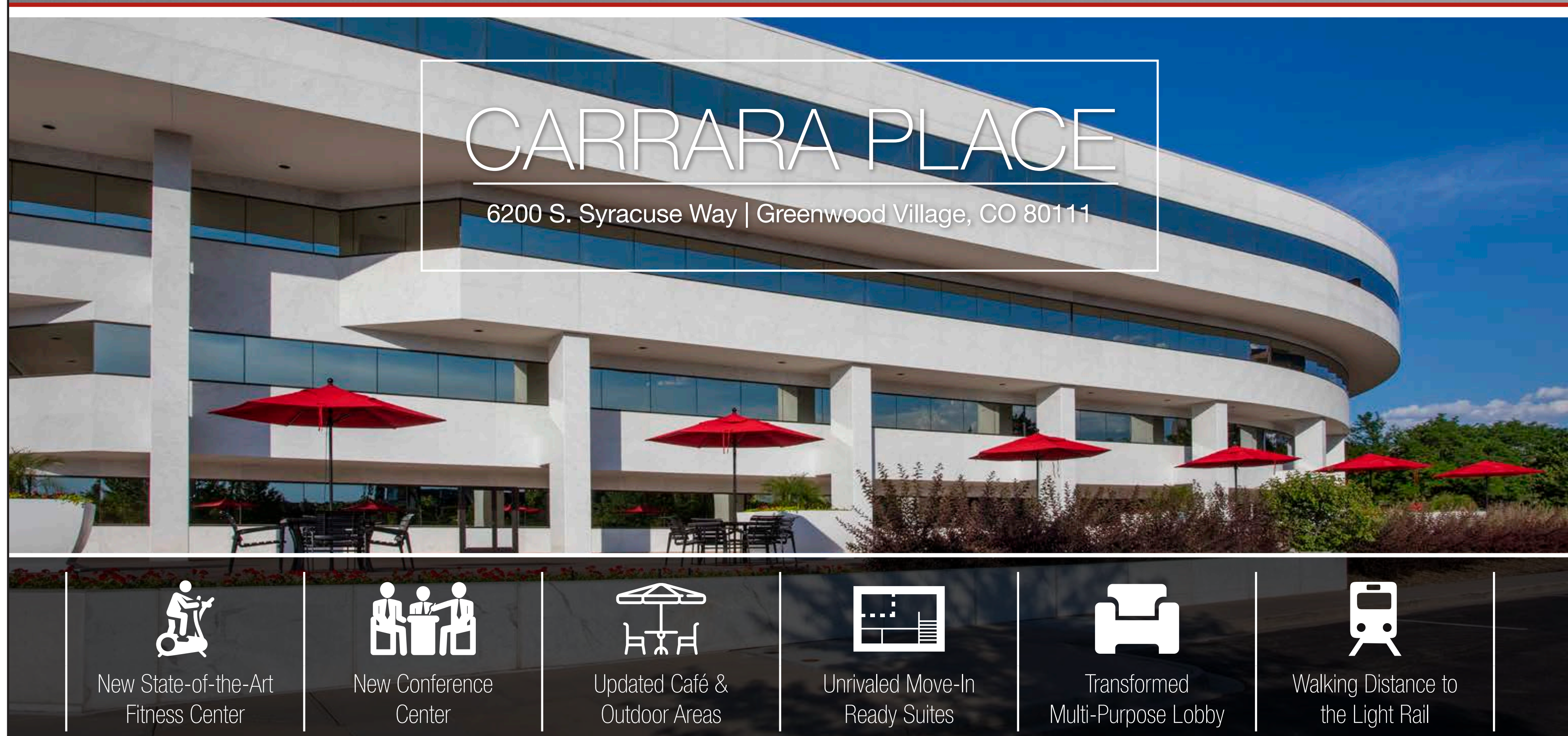

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Randy Churchill Dowis - Principal/Senior Broker, NAI Highland LLC
Jay P. Carlson - Managing Broker/Principal, Front Range Commercial, LLC
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Moderator: Kent Mau - Executive Managing Director, Newmark Knight Frank

1:15 – 1:30 p.m.
Castle Rock
Matt Call - Principal, NavPoint Real Estate Group

1:30 – 1:45 p.m.
Lone Tree/RidgeGate
Jon Weisiger - Senior Vice President, CBRE
Steven C. Mulhern - Senior Vice President, Coventry Development Corporation

1:45 – 2:00 p.m.
Cherry Creek
Peter Staab - Senior Managing Director, Newmark Knight Frank

2:00 – 2:45 p.m.
Networking Break (Food and Beverages in Expo Hall)

2:45 – 3 :00 p.m.
River North (RiNo)
Trent Rice - Broker, NAI Shames Makovsky
Dorit Makovsky Fischer - Broker, NAI Shames Makovsky
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3:00 – 3:15 p.m.
DIA Area
Mike Kboudi - Managing Director, Cushman & Wakefield, Inc.

3:15 – 3:30 p.m.
Metro I-25 North
Frank Kelley - Senior Vice President, CBRE

3:30 - 4:00 p.m.
Boulder / U.S. 36 Corridor / Longmont
Don Misner - Senior Vice President, JLL
Peter Merrion - Senior Director, HFF, Inc. (invited/unconfirmed)

4:00 – 4:45 p.m.
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Moderator: Peter Kast, CCIM, SIOR - Senior Vice President, CBRE

For more information, including exhibitor and sponsorships opportunities, please call Jon Stern at 303-623-1148 ext. 101 or e-mail jstern@crej.com

Market Update

Throughout metro Denver, strong fundamentals reign

Recent trends signal a demand shift to suburban office properties from urban locations as net absorption continues to outpace supply. Nationally, vacancy in the central business district office space has begun to rise, slowing rent growth. On the other hand, an increasing pace of net absorption of space in the suburbs is tightening vacancy and maintaining healthy rent improvements.

These suburban office properties benefit from forward-looking demographics. In 2015, the majority of U.S. households, 64 percent, resided in the suburbs and that number should rise as urban millennials form families and move to larger living spaces in suburban locations. Many office tenants are tapping into this larger workforce already located within the suburbs, enticing employees with revamped offices.

Brian C. Smith, CCIM
Vice president investments, Marcus & Millichap, Denver

In an effort to recruit and retain employees, suburban tenants have been scouring the market for quality available space in locations near retail and transportation options. As a result of this robust tenant demand, suburban vacancy has fallen roughly 300 basis points during the course of the recovery to 14.7 percent in the second quarter. Subsequently, suburban office construction has heightened during the last two years but remains far below the deliveries recorded during the previous cyclical peak. Minimal completions and steady absorption signal the potential for further suburban vacancy improvement.

This year, nearly a third of all completions will be located within a half-mile of the E, F and R lines in southeast Denver, highlighting demand moving into the suburbs.

The healthy demand also has spurred rent growth; the average asking rent is up 9 percent from the 2008 peak. Asking rent is roughly half of the average rent in urban office space, motivating tenants who may have been priced out of the urban core to move to the suburbs.

The lower costs and availability of more land in the suburbs have resulted in the creation of large campuses catered to professionals. Many of these campuses offer on-site amenities like gyms or daycare centers, helping create a work-life balance many professionals desire.

In Denver, a steady pace of hiring underpins office space demand. During the previous 12-month period ending in June, metro employers created 28,700 jobs, up 2 percent year over year and outpacing the U.S. rate of growth. Office-using employment moderated during this time but is expected to rise 1.9 percent at year end. Job growth and strong net absorption

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Market Update

The law of urb-suburban office location attraction

Whitney Hake
Director, Cushman & Wakefield, Denver

Boisterous headlines do not capture the full story of office availability rates throughout metro Denver. To the untrained eye, every crane in the skyline may appear to be another office building and not one of the many residential structures actually being built. If we are not overbuilding office space and 1,000 people per month are moving to Denver, how can pockets of office availability be as high as 23 percent?

There are undeniable highs and lows in every submarket across the city, especially in southeast suburban Denver. Whenever office investors stumble upon such unfavorable market data, they immediately look for trends to explain away high availability rates. Negative submarket trends in SES point in every direction from lead tenant mergers, acquisitions and consolidations, to urban migration to light-rail proximity. There is not one evident culprit for 19 percent availability in SES, but there is a compelling dumbbell curve theory to consider.

The flat part of the dumbbell curve is at Village Center Station (Arapahoe Road and Interstate 25). This area is an "urb-suburban setting," which National Real Estate Investor identifies as "one way to describe the mash-up of suburban office locations in walkable settings with easy access to urban-style amenities like transit, housing, restaurants and retail."

The office availability rate in Village Center Station is 14 percent, thanks to companies such as CoBank, Charter Communications, CSG and Fidelity, which have been attracted to its urb-suburban vibe. Suffice it to say, Village Center Station office buildings also have fetched the highest historic investment sales prices in SES. For example, Shea Properties will sell Charter Plaza to KBS for approximately $395 per square foot when construction is completed in first-quarter 2018. Furthermore, there are limited sites for future office development in Village Center Station, so rents will continue to rise beyond $30 gross per sf there, while the rest of the SES submarket remains stagnant.

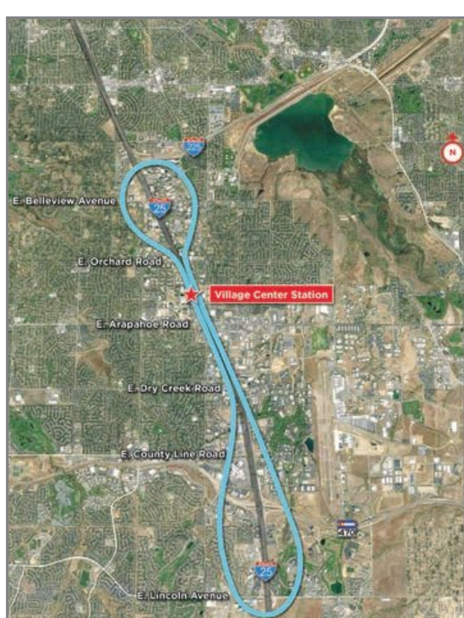
North and south of Village Center Station – the lobes of the dumbbell curve – are not urb-suburban destinations. Instead of embracing rising rents, these owners are conceding to abated rent, expensive work letters, rent credits and bonus commissions. What a difference an intersection or two can make!

In the North Denver Tech Center (Belleview Avenue and I-25), where the average rent is $25 gross per sf, owners have engaged in an amenities war to address the preferences of today's tenants. Time will tell if it is enough to add a fitness center, conferencing facilities, food-truck spaces, outdoor seating and a concierge to attract new tenants.

Further south in Meridian (Lincoln Avenue and I-25), corporate campuses of the 1990s – like those of Teletech, Western Union and Starz – are coming to market in droves at a time when pastoral settings must compete with rousing live-work-play options.

Few owners have beaten the odds at a "lobe" location. For instance, Denver Corporate Centers II and III have experienced record leasing activity this year in the North Denver Tech Center. DPC Development Co. with Bridge Investment Group Partners bought these two buildings for a low basis of $109 per sf in March 2016. After much collaboration between the ownership partners, property management, JLL brokers and Gensler architects, a $3.5 million renovation was executed with no detail spared. Instead of just meeting the amenities war, the joint decisions/design went above and beyond to include a group fitness room and a tenant game lounge. Most importantly, another $4.5 million was invested in an aggressive spec suite program, focused on delivering 4,000- to 6,000-sf turnkey spaces. Ownership met the market demand by inking deals at $25 gross per sf, scooping up virtually every tenant within a 4-mile radius. To enhance urb-suburban appeal, some retail development is being added to the site in 2018.

Delivering a good value proposition in a submarket with high availability creates a magnet effect – every tenant wants to be in the building. If the same matrix is



Cushman & Wakefield
An aerial of the southeast suburban dumbbell curve, with the flat part centered around Village Center Station.

applied in a tight submarket, such as Village Center Station, owners will achieve higher rents. Case in point: Keep an eye out for the coming transformation of Tuscany at Village Center in 2018 by Crescent Real Estate Partners and OZ Architecture.

On a final note, traffic congestion is beginning to push some tenants into "lobe" locations in SES. The inverse of urban migration is leading to satellite offices in SES. The next time you are stuck in traffic on I-25, consider commuting via the light rail to an urb-suburban location or settling for an economic office deal closer to home. ▲

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Investment Market

Don't count office out of opportunities just yet

Earlier this year, I was speaking with a client who owns extensive commercial real estate holdings in Colorado, including two large office buildings, and he said he would be nervous to buy another office property today. He was voicing a concern about the office investment sector that I have been hearing often lately: The evolution of technology has allowed machines to fill the roles of people (requiring businesses to lease less office space) and prompted many employees to work remotely by phone, video and internet (which, again, requires less office space).

The result is that office properties, similar to big-box retail, as a long-term investment have become stigmatized as lacking in relevancy. Consequently, many former office investors have shifted their attention to multifamily properties (everyone still needs a place to live) and industrial properties (goods come from shipping distribution hubs instead of retail locations in the age of online shopping). Don't get me wrong, the logic behind investing in multifamily and industrial makes sense. But, as we have seen that retail is still important (exemplified by, for example, Amazon's acquisition of Whole Foods), I argue that the office sector is here to stay and presents, perhaps, the best value for investor capital in Colorado today. Following are three reasons why.

First, the office remains a crucial component to successfully running most businesses. While we have all witnessed the rise in the remote workforce, companies large and

Alexander F. Becker
Vice president, Real Estate Consultants of Colorado LLC, Greenwood Village

small are reversing work-from-home policies because there is no substitute for the benefits of in-person collaboration. Furthermore, the increasingly competitive job market is prompting decision makers to further define their company image through its office space. This is beneficial not only for clients who visit but also for recruiting and retaining the best talent.

Nearly 100 percent of my office lease tours start with a client-led conversation about the image the company wishes to achieve in its new office, because the client wants his employees and recruits to be excited about coming to work. And offices are cool again! Collaborative office concepts are popping up everywhere – even in "regular" office buildings – and existing operations like WeWork are expanding into more office space at greater velocity than ever. Although individual offices in these co-working facilities are efficient, consider the massive common areas that tips the scale back toward more old-fashioned square-foot-per-employee figures.

Next, consider office properties' relatively high return on investment. Margins are thinning for commercial real estate investments across the board in Colorado, but my perception is the nonoffice asset classes are doing so more rapidly. These days it

Margins are thinning for commercial real estate investments across the board in Colorado, but my perception is the nonoffice asset classes are doing so more rapidly.

is nearly a guarantee that on-market multifamily investments are offered at sub-6 percent or even sub-5 percent cap rates. Industrial and retail investment properties often are offered at sub-7 percent rates. Compare these figures to the 28 Denver County office buildings over 10,000 sf listed for sale on Costar in late August, of which 78 percent had a cap rate advertised at 7 percent or higher.

Whereas five years ago, when full-service office leases without expense reconciliation provisions were prevalent, office landlords more frequently are switching to a triple-net platform or requiring a hardline expense reconciliation policy for full-service leases. The result is the landlord's lack of responsibility to eat rising tax and common area maintenance expenses – and a clearer path to profitability.

And lastly, consider Denver office leasing trends in recent years. Office rates exceeding $50 per sf in Union Station and Cherry Creek have pushed tenant demand to the east side of downtown, Glendale and the Denver Technological Center, where you would be hard pressed to find a full-service Class B offering for less than the high $20s (downtown) and mid $20s (in Glendale and Cherry Creek) – representing a double-digit increase in just the last few years. In the first two quarters, leasing absorption is positive despite nearly 1 million sf of deliveries per quarter, while the vacancy rate has decreased by over 5 percent since 2009. Average rental rates and cap rates each have increased by 1 percent in the second quarter over first quarter. Factor in Colorado's expected population growth and the increasing strength of the entrepreneurial and tech scenes, and it would appear the Denver investment office market is on solid ground.

In summary, while the office market is evolving, it is not dying. The office place will maintain its importance in American commerce; higher returns are readily available for office investors; and the office market remains healthy in Denver. A quality I admire most in my clients is their motivation to go where the profits are, regardless of their asset type comfort, and what I have noticed is those willing to keep an open mind or, better yet, buck the current trend often enjoy the most success.▲

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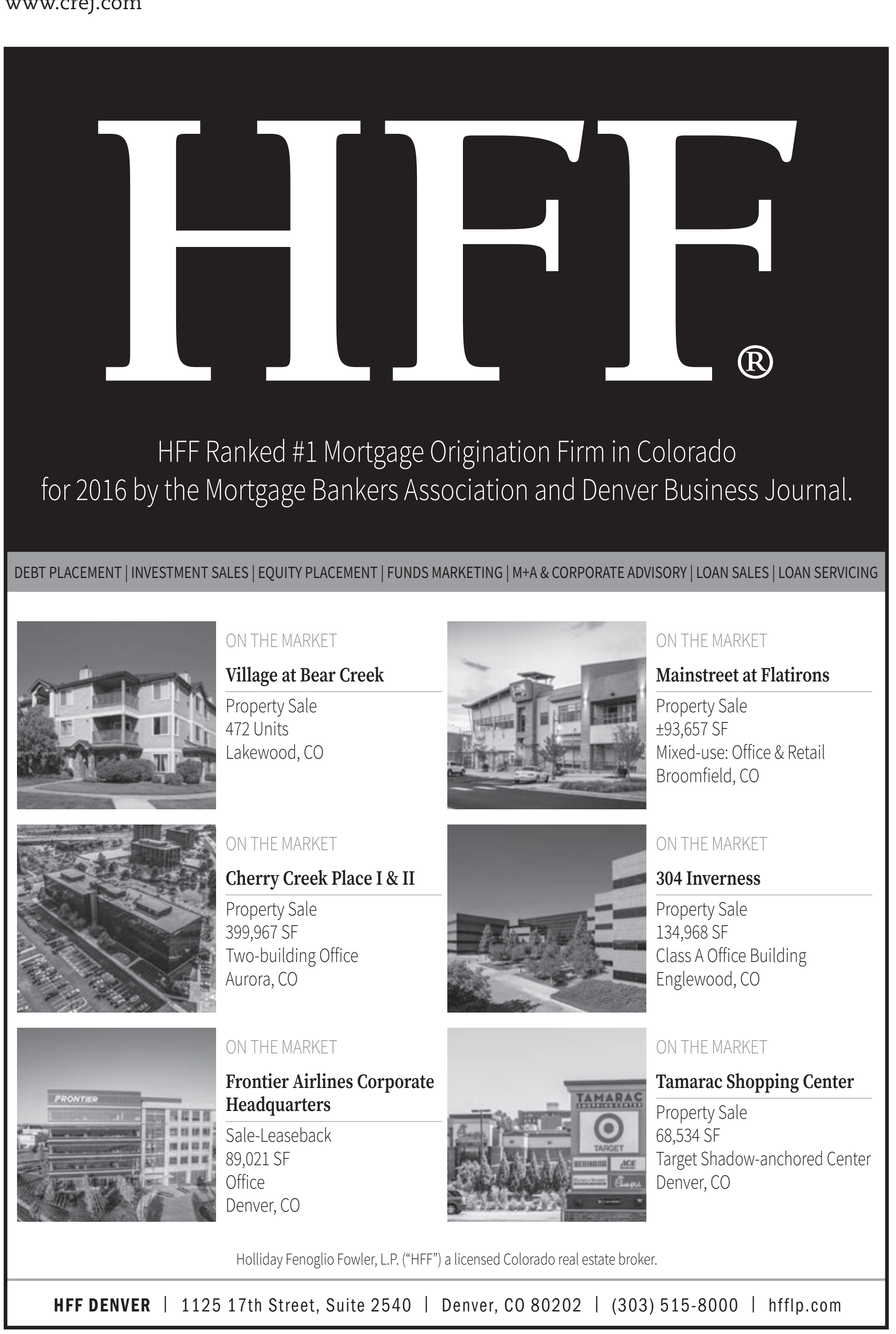

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Investment Market

Where is under $20M private capital coming from?

Many of us have heard about the foreign capital buying up Class A projects in downtown Denver and the southeast market. Foreign capital originating from Germany, Mexico, Korea and Bahrain seems to be most active in investing in Denver through their domestic advisors. Features that have attracted this foreign capital include infrastructure improvements, such as the "train to the plane," strong population growth of 1.6 percent every year from 2010 to 2015, and the appealing climate and lifestyle of the Mile High City.

But what about the office investments in the private capital arena ranging from $2 million to $20 million? Where is that money coming from? CBRE Research in Denver looked at office properties that have traded in the past 24 months in the Denver metro at this price point and found that 49 percent of office investors in this category are native to Colorado. After that, California makes up 23 percent. Other major out-of-state investors include Tennessee (5 percent), Texas (5 percent) and New York (3 percent), while our great northern neighbor, Canada, accounts for investing in 2 percent of properties in this category in the past two years.

It has been a remarkable trend to watch. As brokers, we receive inquiries from various investors throughout the country and across the globe. Specializing in representing private capital desirous of acquiring office assets both nationally and internationally, I mostly see real estate investment trusts, family trusts, private equity firms and wealthy individuals who want to own property in Denver. Business owners

Monica Wiley
Senior associate, investment properties, CBRE, Denver

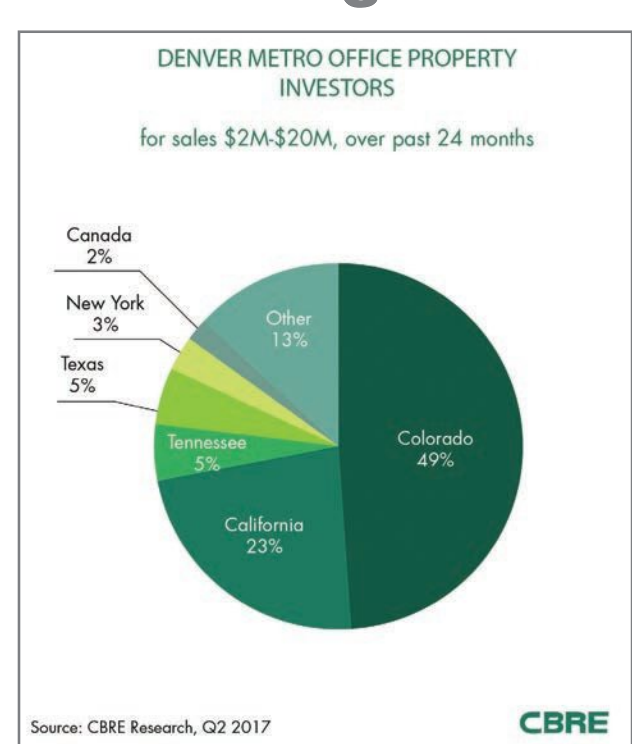
also are expressing an interest in owning their property, with some investing in vacant or partially vacant properties to house their business and allow them to grow into the building as their company grows.

The diversification of private capital in the sale and purchase of properties is not limited to the office market. Tyler Carner and Jeremy Ballenger focus on the industrial sector, selling to institutional and private buyers. They too have noticed this influx of private capital to these assets.

"The industrial buyer pool in Denver is different than it was 10 or so years ago," said Carner. "Strong market fundamentals and the impressive e-commerce-driven growth story have drawn more foreign and institutional capital to our market than ever before. The number of REITs and private buyers have also expanded. Buyers in the $2 million to $20 million range overlap to some degree with private buyers consistently represented throughout. Private buyers are increasingly based out of state – buyers from Alaska, Hawaii and California are well represented – and are among the most active and aggressive as of late. We see more REITs, institutional and foreign capital at the higher end of the range."

For example, in the last 12 months, the team sold 250,000 square feet among three different deals for just under $25 million total to a Western U.S. private investor who understood Denver's growth trajectory and the healthy industrial market fundamentals, said Ballenger. "For real-time insights, though, we have a few listings on the market currently that will trade below $25 million and have all received record-level interest from buyers across the board," he said.

Out-of-state investors also ring true in Denver's retail market. "We have successfully transacted with 86 unique buyers since 2011, 65 percent of which are based outside of Colorado," said Matt Henrichs with CBRE capital markets, national retail partners.



The office sector investments that I have been involved with recently have been local buyers or 1031 exchanges needing replacement properties. An example is a property that recently was purchased by a family trust from Connecticut. That asset had several medical tenants, therefore each tenant had invested more construction dollars in each suite, so the thought may have been that those tenants would stay longer at the property and would likely renew their lease when it was up for expiration. I represented the seller in this transaction, which exceeded the seller's expectations. The competition for quality assets has been strong, so it is beneficial to have a broker representative watching the market for those investors seeking to place private capital in our market. Some of these office assets barely make it on the open market.

The ramifications for property owners are that if you own property in Denver and are considering selling, it's important to know that the likely buyer may not be a Coloradan investor. The buyer may be someone from another state who has a 1031 timeline ticking away, and your property may be exactly what she wants in her next investment. It's important to engage professionals who can help property owners source and vet out-of-state opportunities in addition to local investors. Ultimately, a little competition from out-of-state investors hopefully will help our Denver properties achieve their maximum value. ▲

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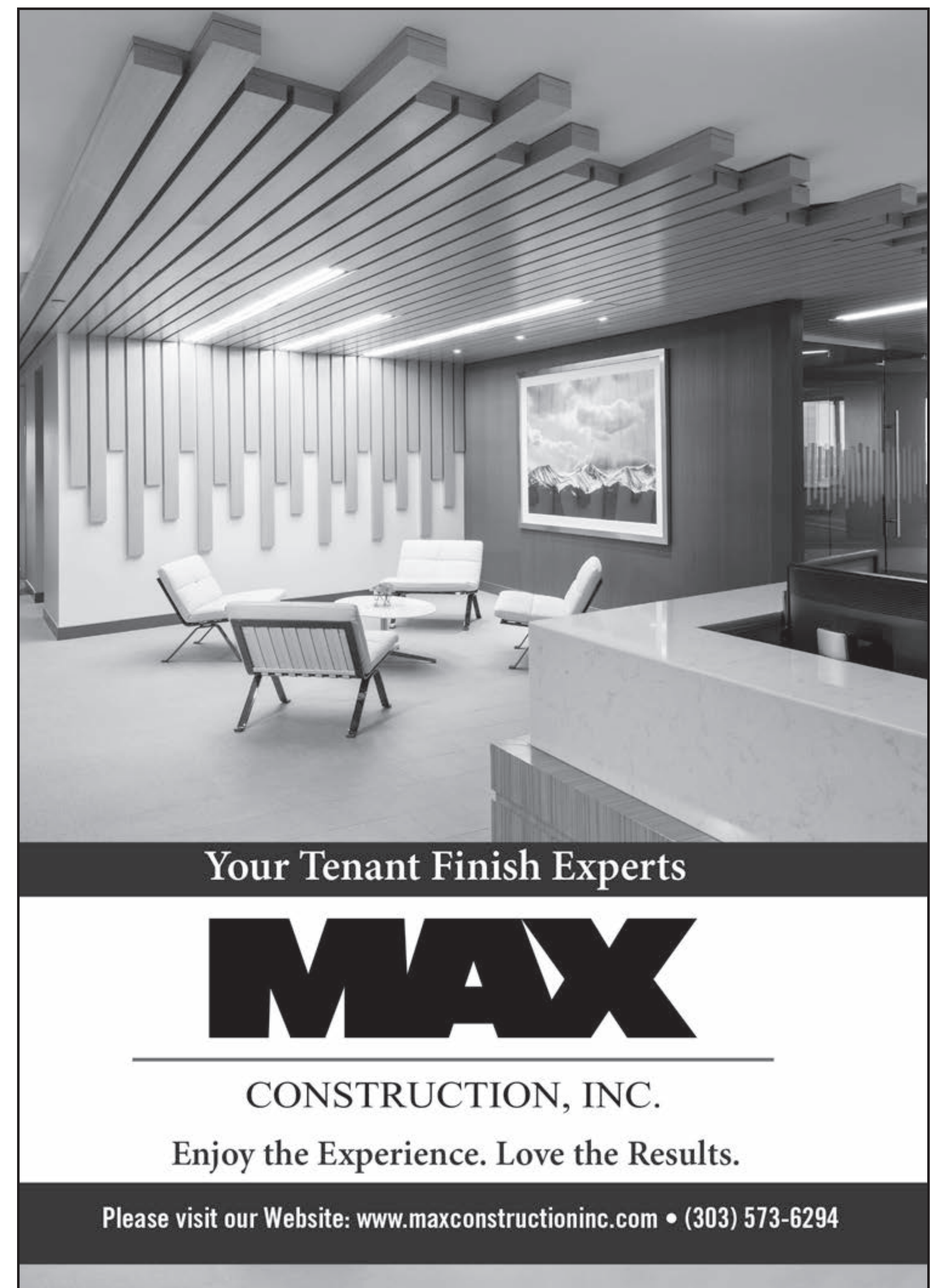

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Investment Market

The user-investor office strategy rises in popularity

John Becker
Senior vice president, Fuller Real Estate, Greenwood Village

User-investor office acquisitions are an increasingly attractive option for a user who is willing to become a landlord and is looking to enjoy the benefits of owning the building he occupies as well as the enjoyment of low-subsidized occupancy cost from other tenant's cashflow. As we witness a general increase in the sophistication of investments – and in real estate investment world, in particular – and a new entrepreneurial momentum in the economy, it only makes sense for business owners to buy user buildings and, by extension, user buildings with additional cash flow. There are negative trade-offs for this strategy and it's not for everyone, but we're seeing unprecedented interest in entrepreneurial business owners diversifying into real estate investing via the user-investor office purchase.

Businesses big and small customarily lease their real estate and focus their capital on the business. The general thought is to let the landlord handle the real estate tasks, while the entrepreneur can focus on her area of business expertise: growing the company.

It also is relatively customary for a business to deploy its capital in the ownership of the building it solely occupies and handle real estate tasks like maintenance and bills themselves. These businesspeople now have two foci: their business as well as managing and maintaining their building.

What's changing is that increasingly business users are deploying their capital in their business as well as their building, but offsetting the building expense with income from other tenants. This dynamic of additional building tenants requires the owner to become landlord in addition to all the tasks associated with investment ownership. As businesspeople become more sophisticated in investing in real estate (owning the buildings they occupy), it only makes sense that, by extension, these business folks would evolve into the user-investor role – a businessperson who owns the building she occupies, with cash flow from other tenants in a multitenant building. This isn't a brand new phenomenon but, I submit, it now is a more popular investment vehicle as entrepreneurs get more sophisticated and more comfortable with real estate as a cashflowing investment.

As I alluded to above, this user-investor role isn't for everyone.

The user-investor must wear three hats. An entrepreneur running her core business, a property manager maintaining the building, and an asset manager/landlord in charge of collecting rents, keeping books and holding tenants' hands. This presents an opportunity for said user-investor to become a jack of all trades and master of none.

Still, many companies are deploying this strategy as a diversification tool, a way to offset occupancy cost and as a strategy to acquire distressed real estate at well-below replacement cost with the utility only the user-investor can enjoy.

One user-investor strategy is for a company to build a new building that is oversized and lease out the excess space to offset occupancy cost. New office construction costs are high, so the excess space would necessitate strong rental rates to maintain the replacement value of the building. For anything but the most high-end (e.g., medical) occupancies, it's difficult for this strategy to succeed for the user-investor.

Another more common and more successful strategy is for a buyer to buy an unstabilized building with some vacancy for well-below replacement cost and occupy the vacant suite.

Our team has sold eight user-investor office buildings in the last couple years, and we've seen some trends and benefits for sellers and user-investors.

For example, a seller may have a destabilized investment property that's 75 percent full and a 4.5 percent cap on current net-operating income, and the seller would like to sell it at a pro-forma 8 percent cap. The pure investment buyer sees this opportunity and thinks the seller is keeping upside to himself, and so it sits.

Would a user-investor pay above what the property is worth to a pure investor? I submit that it's of value for the user-investor to do so, because he would benefit from the utility of having space to occupy as well as the benefit from additional income from the other tenants to offset the occupancy costs.

The liquidity offered by the user-investor benefits the seller as well by making a market for unstabilized buildings that can't be filled by value-add investors alone. This new liquidity also is beneficial for the commercial real estate market as a whole. These buildings generally sell for below replacement cost and provide an opportunity for business owners to diversify their holdings. Further, the new owner can monetize her position by selling and leasing back, which is a whole other topic.

There are distinct advantages for the user-investor from a management perspective as well. The owner is on site so he can respond quickly to real estate issues. It's interesting to note that of the eight recent user-investor transactions we've been involved with, none of the buyers hired a third-party property manager. Some of these buyers are new to real estate management. I submit that the proximity of the owner to the building helps with management challenges, which is another advantage in lowering costs for the user-investor.

User-investor office acquisitions are a great opportunity for a user to become a landlord by owning the building he occupies, enjoying low subsidized occupancy cost from other tenants' cashflow and deploying the benefits of investment real estate ownership. It makes sense for business owners to buy user buildings with additional cash flow at below replacement costs, and it benefits sellers and the commercial real estate market. We welcome this nascent form of real estate ownership and the new energy these nontypical real estate buyers bring to the table. ▲

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Denver Highlight

What we can learn from the CBD's trophy assets

Our Denver outpost covers the office market day in and day out. We study properties that run north from Longmont and south to Lone Tree, spanning nearly 1,200 individual buildings and encompassing 110 million square feet. In fact, the Mile High City is the nation's 10th largest office market – one of only 10 to surpass the 100 million sf threshold. In other words, and in simpler terms, there's a lot of office space all around us and the supply stock only grows. Through mid-2017, how many markets boast more office inventory under construction than Denver? The answer: Only seven.

Regardless the size of any metro's office market, there exists that niche of core, urban-area crème-de-la-crème product – an exclusive set of buildings that can brand its city. Herein lies the collection that often first represents the cross-section of an office market, signaling a general sense of strength or lethargy. Typically speaking, from cycle to cycle, this collection of prized properties leads recoveries and downturns apropos to investment and leasing fundamentals. We call this our "skyline" – the urbanized micromarket comprised of trophy and Class A assets that serve as true drivers for developers, owners and occupiers alike.

Here at home, what makes up the aforementioned market? The Denver skyline market is trophy and Class A product spanning the entirety of the central business district, from Wells Fargo Center across town to the Union Station wings, from a high-rise tower being built (i.e., 1144 15th St.) to the newly built, low-rise office component of the transformative Dairy Block project. In all, our skyline claims 35 existing or under construction buildings totaling 16 million sf.

TJ Jaroszewski
Vice president, director of research, JLL – Rocky Mountains, Denver

In our seventh annual examination of the Denver skyline, some statistical highlights included:

- Skyline direct vacancy, at 14.9 percent, remains above the national average and is statistically the highest it's been since 2009.
- Tenant demand has rebounded, driving annual net absorption back into the black after a one-year hiatus and posting in positive territory for the fourth time in the last five years.
- Asking rents, measured nominally, are at a record high ($39.78 per sf).
- After adding more than 1.1 million sf from 2014 to 2016, development continues to hum along; two projects under construction will add another 1.1 million sf of trophy space upon completion.

During the last six to nine months, our skyline occupancy rate fell to its lowest level in some eight years – a cyclical low at just around 82 percent. It's not necessarily surprising when you consider the general dynamics taking shape within the overall Denver office set: Market momentum continues to shift more toward tenants' favor, thanks, in no small part, to the introduction of new inventory. Nearly every square foot presently under construction or delivered so far this year is skyline-quality product and, for the third consecutive year, we're north of 1 million sf being built right now. Three straight years of more than 1 million sf being built – that's unprecedented since we started tracking skyline. In other words, tenants who still want that skyline caché (and who, of course, are willing to pay) have more options in Denver's best office buildings than ever before.

We believe our skyline to be at an inflection point. Given the significant increase in new supply, landlords are making concessions, even if they're not lowering face asking rates. Work allowances and free rent offerings remain elevated while vacancy has ticked up. Our figures suggest that on a 10-year new lease transaction, occupiers can negotiate, on average, for a $50 to $55 per sf tenant improvement allowance and 10 months of free rent. It's why we're calling 2017 "neutral" in terms of market leverage, but that pendulum swings more toward tenants with each passing quarter.

Still, we're not projecting a skyline oversupply risk. Despite the lofty-seeming number, direct asking rents within skyline-quality product haven't moved much. A note to occupiers: Believe it or not, adjust for inflation, and today's average asking rent is only about 5 percent more than a full decade ago. Across 50 skyline markets nationwide, Denver's $39.78 per sf asking price ranks as the 20th most expensive.

Investors are increasingly looking to secondary markets, Denver included, for skyline acquisitions. Furthermore, owners and investors already know that occupiers continue to gravitate to buildings with the latest and greatest amenities. It's why we've seen a slew of capital improvements made to properties throughout the entire CBD during the past several years.

Capital's focus will firmly remain on skyline properties; their ability to provide stable value places them atop the list of "most attractive assets." Business' desire to attract and retain the best possible talent has a high correlation with best-in-class and top-tier office space. For years, that's benefited skyline-quality product with consistent leasing activity. Outperforming its suburban counterparts, new construction is attracting foreign capital at aggressive yields and record prices per sf.

Finally, what about our house view looking forward? Our analysis suggests that construction will continue at a more muted pace in 2018. Skyline-quality leasing volume, along with investment trades, will remain subdued during the next 12 to 18 months as the market enters the latter innings of the real estate cycle. And though tenants will pay more for the prestige of a skyline address, rents should plateau as vacancy bumps up thanks to new deliveries.▲

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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	150-200 bps over the comparable US Treasuries (depends on LTV)	• Up to 65% LTV • 1.35x Minimum DCR	5-30 Years	25-30 Years	• Downtown, urban locations or popular suburban office parks • Multi-tenant, traditional floor plates • Top tier tenants (local, regional & national) • Major metro areas	• Many of the life insurance companies are becoming more selective on office properties, given the rise in rents and the new high watermarks in Denver • Most competitive at lower to moderate leverage with strong sponsors • Flexible prepayment penalties available for small pricing premium (5-10 bps) • At right leverage (~55%) lenders can do 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	200-250 bps over the greater of US Treasuries or SWAPS	• Up to 75% LTV • 1.25x Minimum DCR • 8.25% Minimum Debt Yield	5, 7 & 10 Years	30 Years	• Downtown office • Class B suburban office • Single-tenant with structure • Secondary/Tertiary Markets	• Spreads have compressed by ~50 bps since Q1 2017 • 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	175-250 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

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Mike Jeffries
Principal
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Denver Highlight

RiNo readies to take helm as technological hub

The new Rocky Mountain Technology Boulevard is being forged in the foundations of the former iron works, smelters and other industrial uses that once dominated Denver's River North neighborhood. In just a few short years, RiNo has transformed from its owner-occupied industrial origins into a vibrant community featuring a cadre of highly creative companies, cooperative workspaces, brew pubs and eateries, and an eclectic arts scene.

If this seems like a stretch, let's look at particulars. Pioneering projects like Mickey Zeppelin's Taxi project transformed a vacant dispatch center and corporate headquarters into flexible workspace 10 years ago, initiating RiNo's revolution. Investors took note of the transforming neighborhood and infused the area with capital. Today, new and under construction projects like Industry, Catalyst and Zeppelin Station feature flexible work and creative spaces and evolving ecosystems that attract the mushrooming nimble technology startups integral to the area's evolution into a technology corridor.

Colorado-based Home Advisor reaffirmed its intention to move its headquarters from Golden to RiNo, recently committing to 58,000 square feet at The Hub, which broke ground in August. Boston-based Beacon Capital Partners recently purchased the 2-acre site, allowing the stalled project to proceed.

Also breaking ground this year is Phase I of Formativ's new World Trade Center campus, featuring a 200,000-sf international business and trade ecosystem to house best-in-breed large and small international businesses, representing industries and innovative technologies from around the globe. The National Renewable Energy Lab and the University Corporation for Atmospheric Research recently announced their intention to partner to launch "The Colorado Innovation Corridor" on the campus to better connect the national research facilities with public and private sectors.

Andrew Blaustein
Managing director, Newmark Knight Frank, Denver

Numerous other projects are under way or in the planning stages in RiNo. Westfield's Midtown Industrial 14-acre site could develop up to 1 million sf of mixed-use product. Given the proximity to the 38th Street A Line station and immediate access to Interstate 70, this project is expected to attract large corporate users wanting a campus environment, as well as smaller creative and startup companies.

It is not hyperbole to say Colorado is poised to become the AgTech capital of the world. Consider the state's agricultural roots combined with our innovative tech culture, pool of highly educated and motivated workers, capital influx and ongoing infrastructure investments – these factors combine to position the area as the "Silicon Valley of agriculture," as noted by the University of Colorado back in 2014.

RiNo – and the Brighton Boulevard corridor/National Western Complex redevelopment project, in particular – offers an interesting union of Denver's agricultural history and its innovative tech scene, combining to elevate the community into the Rocky Mountain Technology Boulevard. Colorado State University, the state's land grant university, is a founding partner in the National Western Complex project, with state funding of $200 million to construct the CSU Water Resources Center, a facility for equine medicine and the multimodal CSU Center on site.

Matt Davidson
Managing director, Newmark Knight Frank, Denver

RiNo's access to fiber is another drawing point. The Fortrust Denver data center, located in RiNo, is the largest data center in the region with over 300,000 sf and 34 megawatts of data center capacity. This capacity provides an optimal power infrastructure and connectivity to safeguard mission-critical business services, which is critical to today's technology-focused tenants.

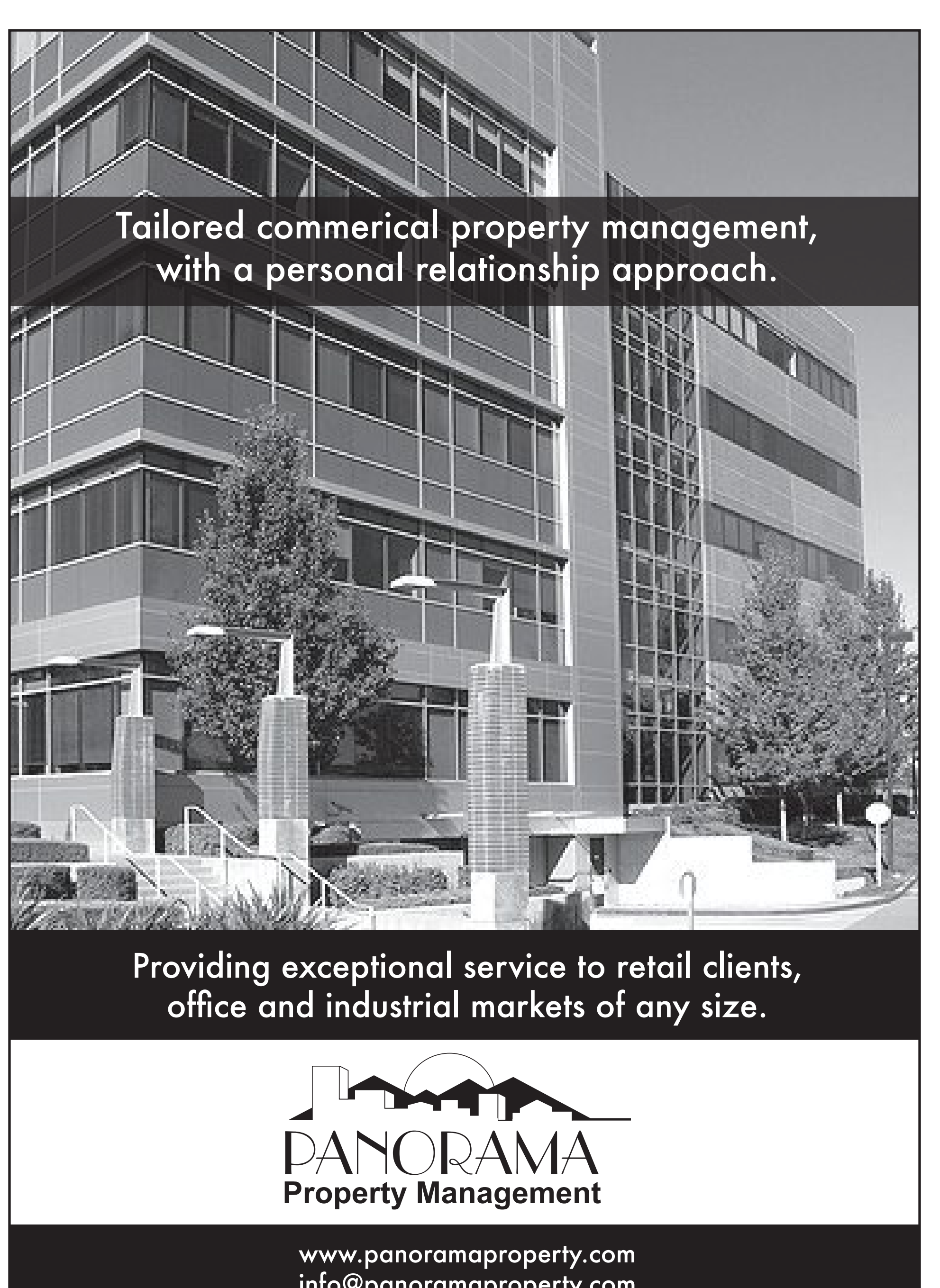
This development boom in RiNo, and also in the Platte Street neighborhood, is literally changing Denver's central business district. As a result, our research redrew its office submarket boundaries to move these neighborhoods from the Midtown submarket to the Lower Downtown/Central Platte Valley micromarket.

"These buildings – whether redevelopments or new – compete with the CBD for tech, creative tenants and corporate tenants," said Lauren Douglas, NKF's Colorado director of research. "The resulting expanded submarket, renamed the downtown submarket, will provide a clearer and more precise snapshot of the Denver office market, both now and in the future."

As of second quarter, the downtown submarket led the overall Denver office market with year-to-date absorption of 370,393 sf (total market absorption was 385,414 sf). The LoDo/Central Platte Valley micromarket, home to the vast majority of the submarket's coveted new construction, continued to outperform the Skyline and Uptown micromarkets; LoDo/CPV posted year-to-date absorption of 286,331 sf, while Skyline and Uptown logged absorption of 30,977 sf and 53,085 sf, respectively.

The RiNo and Platte Street neighborhoods currently offer a relatively small amount of office space – just over 775,000 sf – and more than half of this inventory was delivered during the current development cycle. A snowballing construction boom will deliver almost 600,000 sf of office space in five projects in RiNo alone by 2018, representing 31 percent of the current downtown pipeline totaling 1.9 million sf, with another 2.5 million sf planned in RiNo. In fact, there is more development in terms of the amount of buildings either under construction or well into the planning stages than any other neighborhood in Denver – positioning the area to double or triple in size.

With Industry, Zeppelin Station and Catalyst boasting some of the biggest names in tech, both locally and globally, and the National Western Complex with its potential to be the AgTech capital of the world, the RiNo neighborhood is not so quietly emerging as a technological hub.▲



Market Trends

3 challenges facing the financial services industry

We see it happening more and more these days – Denver nabs a headline in a national business publication. It happened in July when the Wall Street Journal ran a piece calling out Denver's success in recruiting financial services firms. In the article, "Passive Migration: Denver Wins Big as Financial Firms Relocate to Cut Costs," the affordability of real estate – both commercial and residential – is a prime factor in what is drawing top-quality financial firms away from coastal markets and to our region.

As commercial real estate professionals who specialize in working with financial services firms, we have noticed that as Denver's financial services industry grows, it is being presented with new challenges. From new technology and global workplace trends to changes in the national immigration policy, outside pressure is forcing financial services firms to adapt not only their business strategy but also their real estate strategy.

In this article, we will examine three challenges currently facing the financial services industry and discuss how they impact a company's approach to real estate.

• **The emergence of digital currency.** Although it was created nearly 10 years ago, if you mentioned the term "bitcoin" to someone on the street as recently as 2014, you were likely to elicit a blank stare. Today, however, that's far from true.

Bitcoin is perhaps the most well-known form of blockchain technology, which is the technology that allows for online trading of digital currency. Venmo, which is owned by Paypal, is another popular digital currency payment application. And as companies like Apple introduce their own payment vehicles, it can be assumed the proliferation of digital currency will only rise.

Hank Cox
Executive vice president, CBRE Advisory and Transaction Services, Denver

Mark Floersh
Senior associate, CBRE Advisory and Transaction Services, Denver

This presents several challenges for traditional financial services firms. Foremost, it's competition for where and how people manage their money. As use of digital currency increases, demand may weaken for traditional banking services.

It also is a challenge in terms of real estate planning. As people become more comfortable managing their money online, the need for traditional brick-and-mortar bank locations may lessen. Nearly 40 percent of Americans have not walked through the doors of a bank or credit union in at least the past six months, according to a December 2016 report by Centric Digital.

This could either increase corporate financial services staffing needs, as roles that used to be based at a branch are now centralized in a corporate or regional headquarters, or it could reduce corporate headcounts as the overall process of managing money becomes more streamlined. In either scenario, financial services firms need to regularly re-evaluate their space requirements in the face of technological innovations like digital currency.

• **The pendulum of working remotely.** As a multigenerational team, it's fun to look back on how the corporate workplace has changed. For one of us, we grew up in a society where the corner office was the dream, complete with an ornate desk and overstuffed leather chairs. Beginning in commercial real estate, we reported to work at the same time each day, and when we left the office for the day, our desktop computers were left behind.

For the other half of this team, our entire professional career has included being able to carry a computer around in our pocket, meaning we can work from anywhere, at any time. Our dream office doesn't include a door and mahogany desk but rather an open floor plan, the latest technology and plentiful on-site amenities.

One out of every four American workers telecommutes with some regularity, according to a March article in Business Insider. That's a dramatic change from the world before smartphones.

Although the ability to work remotely may be one of the starkest comparisons between today and generations past, we are already starting to see the pendulum swing.

This past spring, IBM made national news when the company announced it was pulling back on its work-from-home policy to foster more in-person collaboration and improve company culture. Other major companies have made similar announcements in the past year. Research also shows that millennials feel their chances of being promoted are reduced when they are working remote (out of sight, out of mind).

The trend of allowing employees to work remotely certainly impacted the real estate strategy for financial services firms. Firms could allot fewer square feet per person if they knew a percentage of their workforce would be absent from the office on any given day.

If the pendulum continues to swing, however, those same firms may identify the need to acquire more space to ensure all of their employees have the option of coming into the office on any given day.

• **The war for talent in a post-election America.** The war for talent in Denver is no secret. With one of the lowest employment rates in the nation, recruiting and retaining the best employees is a constant struggle for all industries, not just financial services firms.

The post-election climate also is influencing the job market. There is renewed emphasis on bringing jobs back to the U.S. from other coun-

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Market Insights

Ensure your 1980s office properties stay viable

Jaime Brunner
Senior project manager, Kieding, Denver

Metro Denver should copyright the term "crane watch." After all, the city and its suburbs are still knee-deep in the big money office building boom. Indeed, there is over 10 million square feet of office building construction underway or planned for this year alone, which would likely be a record breaker in most other markets. Here, not so much.

In fact, the period during which most office buildings were delivered across the metro area's submarkets was 1980 to 1985, a mark that industry experts admit will be difficult to eclipse. Most of those buildings are still around, still functioning and still quite vital to the area's overall office market health. But how can those aging properties compete with the sparkling new, state-of-the art product coming out of the ground?

"In many cases, they won't be able to compete," said Darrin Revious, broker with Denver's NAI Shames Makovsky. "HVAC and other systems improvements, aesthetic changes and common area amenities can approach what a new building can offer, but new buildings already have all those things and more. Of course, tenants have to pay premium rents for new product, and many won't or can't do that."

Clearly, landlords of the aging inventory have their work cut out for them. And the competition for tenants is just as fierce among other owners of the same building types. In Denver's central business district alone, owners of most of the 1980s era skyscrapers have ponied up a combined $82 million for capital improvement projects as of April, according to research compiled by Denver's JLL office. That's an average project cost of $4.6 million. Again, an astounding number, but clearly indicative of the requirement for those buildings to stay relevant in this vigorous market.

"Landlords have to look at the return on cost," said Linda Kaboth, vice president at Englewood's Rise Commercial Property Services. Kaboth notes that one of four factors must drive the justification for significant improvements to an aging building. "It should be able to increase rental rates, increase occupancy, lower operating expenses or demand a higher sale price of the asset," she said, and adds that combinations of those factors are always in play.

"New, more efficient lighting might decrease operating costs and improve the building's aesthetics, for example, but the scope and type of renovations to the '80s product requires much more thoughtful analysis than just improving a lobby," she said.

That said, lobbies that do bring some of the "wow" factor and offer a range of multipurpose areas can be the cornerstone of an aging building's public area resurgence, if space will allow and if embedded amenities match or exceed those of other properties with similar rental rates.

David M. Budd Photography

A string of new "breakout rooms" and a café in this 1980s building lobby renovation offers tenants a mix of private and social settings that did not previously exist.

Those amenities can include fitness areas, locker rooms, bike storage, cafés, Wi-Fi everywhere, or some kind of outdoor space for both work and leisure activities. In reality, those features, or at least a majority of them, serve only as a baseline from which most landlords must build just to stay in the conversation. For those properties, it's a perpetual game of catch-up that never quite seems to end.

Even when those owners do dedicate significant funds to wide-ranging improvements, unforeseen challenges can and frequently do complicate retrofit projects.

Building code issues continually bedevil owners and property managers, the compliance of which is non-negotiable. The new energy codes, for example, require Denver building owners to scrap existing fluorescent lights and replace them with more efficient LED lamps and fixtures. This is but a single component of the 2017 International Energy Conservation Code, which mandates an upgrade to more sustainable lighting and

Please see 'Brunner' Page 30

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Market Insights

How to take advantage of our strong market

As a commercial real estate broker for the past 19 years specializing in office leasing and sales and a Denver native, I have seen several boom times as well as busts, but I have not seen such a sustained period of prosperous times as we are currently in right now. Colorado has one of the most educated populations in the country. Combining high education with great weather and a plethora of outdoor activities makes the state an attractive place to live and work.

New employers are entering the Denver metro market to capitalize on the highly educated and savvy workforce. At the same time, existing employers are expanding operations and growing their office space. The office market is benefiting from job growth from a diverse industry base, resulting in low unemployment.

The question I am often asked is, "How long will this market continue?" My response is that now is the time to position your assets and businesses for long-term growth and stability.

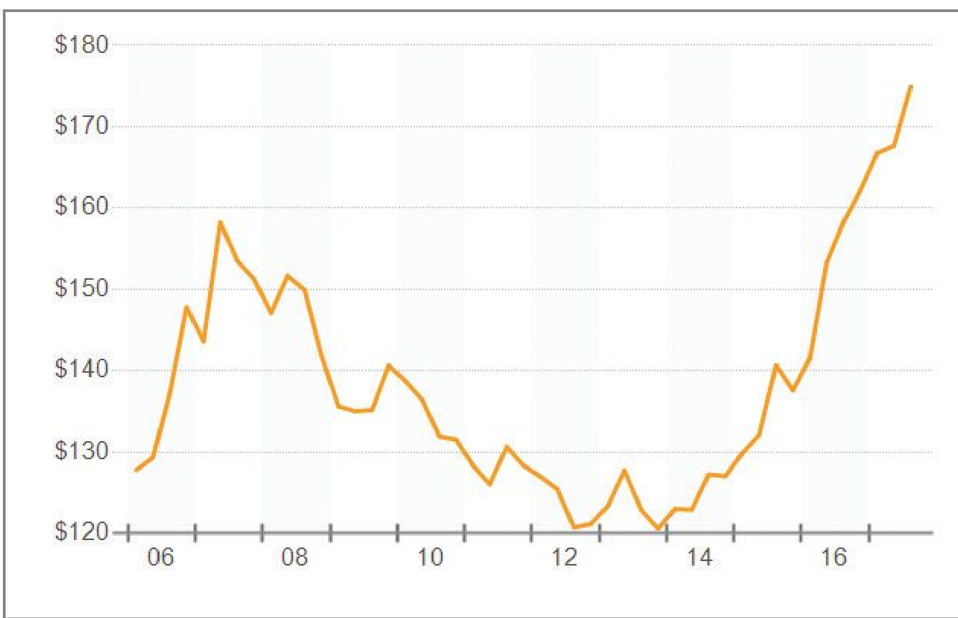
Increased professional and industrial diversification has allowed the office market to withstand some of the issues that were devastating in decades past. When oil and gas prices recently dropped, the office market was able to offset these losses and remain strong because of the influx of technology, financial, health care, bioscience and aerospace companies entering the market. This diversified industry base along with a thriving economy has led to speculative office development that is in full swing, with most projects concentrated in the lower central business district with projects like the

Eric Shaw
Senior adviser, Pinnacle Real Estate Advisors, Denver

671,101-square-foot, 40-story, Class AA office tower currently under construction at 1144 Fifteenth St. by Hines and the 290,000-sf, 22-story office tower at 1401 Lawrence St., developed by First Gulf. Other development in the downtown market and the suburban markets close to light-rail stations are in high demand. Secondary markets like Cherry Creek and emerging markets such as River North have seen a significant amount of new office construction relative to their size.

One of the drivers for the spec office development is a "flight to quality" from tenants. Employers are competing for educated employees and the office space they occupy often is a huge selling point to attract talent. The professional workforce, which consists of the millennial generation as well as older generations, wants more of an experiential work life. They want to live, work and play in the same areas. That is why so many new projects have a mixed-use component or are within close proximity to amenities to enhance the work-life balance.

Suburban office developments such as Village Center Station I and II and One Belleview Station are prime examples of transit-oriented developments that offer excellent amenities, including close proximity to mass transit as well as being walkable to lots of restaurants and entertainment.



The asking price per square foot for owner-occupied real estate in the Denver metro market over the past decade, as defined by CoStar.

On the flip side of the flight-to-quality trend are tenants who are tired of continual rent increases year after year, who are deciding to purchase their office space rather than lease it. Purchasing is a great option for businesses that remain relatively steady year over year and don't fluctuate in size dramatically. Lending institutions like to make loans on owner-occupied real estate and offer very competitive programs for this type of buyer.

Certain segments of the office market – such as the office mansions in Capitol Hill and the smaller office buildings in areas like Littleton, Lakewood, Arvada and Highlands Ranch – have greatly benefited from office users looking to mitigate rising lease rates and take advantage of the benefit of ownership. These types of buyers tend to be professional companies such as insurance agents, attorneys and medical practitioners. Purchasing is not only beneficial because of the equity created through principal reduction and appreciation, but also because it offers benefits from depreciating the asset as well as the tax deduction of the mortgage interest. Furthermore, these properties can serve as profitable passive investment properties upon retirement. Many of my clients sell their business after structuring long-term leases, while holding onto the real estate as an income-producing property during retirement.

Although the office market is thriv-

Please see 'Shaw' Page 30

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Project Spotlight

Catalyst brings lux residential feel to office

With the increase of co-working and telecommuting vastly changing the way people work, business owners are seeking innovative work environments that incorporate the comforts of home and an improved lifestyle into their design. Several new office concepts are taking shape in the Denver area that are considering how to improve health and wellness and make the workplace a home away from home. This new trend is called "resi-mercial," a term coined to describe this blending of residential and commercial spaces in the workplace.

Proponents of the "resi-mercial" trend believe creating a warmer and more welcoming setting goes a long way toward attracting and retaining workers, as well as increasing productivity and innovation. Given Denver's tight labor market, this can make all the difference for employers.

According to experts, there are a few reasons why the comforts of home are infiltrating office spaces. First, with more people using laptops instead of desktop computers, they are no longer tethered to a desk. Second, this more comfortable work space appeals to younger employees, an important consideration for companies in competition to attract and retain skilled workers. And third, a mix of collaborative work spaces, desks and couches makes it easier to do different types of work, from collaborative brainstorming sessions to heads-down work to conference calls.

To this end, we are introducing Catalyst, a premier office and retail concept in Denver's River North district designed with the feel of a luxury apartment in mind. On pace to open its doors May 1, the project will be home to a vibrant mix of world-class companies of different sizes and from different sectors – from small startups to global powerhouses – who are all driven to grow, innovate and do great things. Throughout seven floors, tenants will enjoy an inviting, collaborative work space that feels more like a luxury apartment than an office building.

Dean Koelbel
Director of leasing operations and development, Koelbel and Co., Denver

Taking cues from other innovative offices throughout the country, the team created a vision that incorporated a variety of thoughtful features into the design to create a luxury apartment feel. The key is offering myriad flexible, collaborative work spaces combined with activated public spaces that are vibrant and relaxed. The project will feature a seventh-floor community room and deck amenity, which encourages community gathering. The goal is to influence productivity and sociability for all tenants.

Another new development in Denver that is keeping this in mind is 1144 Fifteenth Street, which has a spacious lounge that overlooks the lobby and provides an informal meeting place and relaxation area.

Another important feature of this trend is creating an activated lobby that invites people to network both during and after traditional business hours and creates a more casual vibe for tenants to connect with one another. Similar to an urban market, like Stanley Marketplace or The Source where people go to work, shop, eat and connect, Catalyst recently announced that Logan House Coffee will set up shop in the lobby. The café will be a central gathering place for the building – not only serving food and coffee throughout the day, but also beer and wine on tap as well as specialty cocktails starting in the late afternoon to ensure round-the-clock activity and constant networking opportunities.

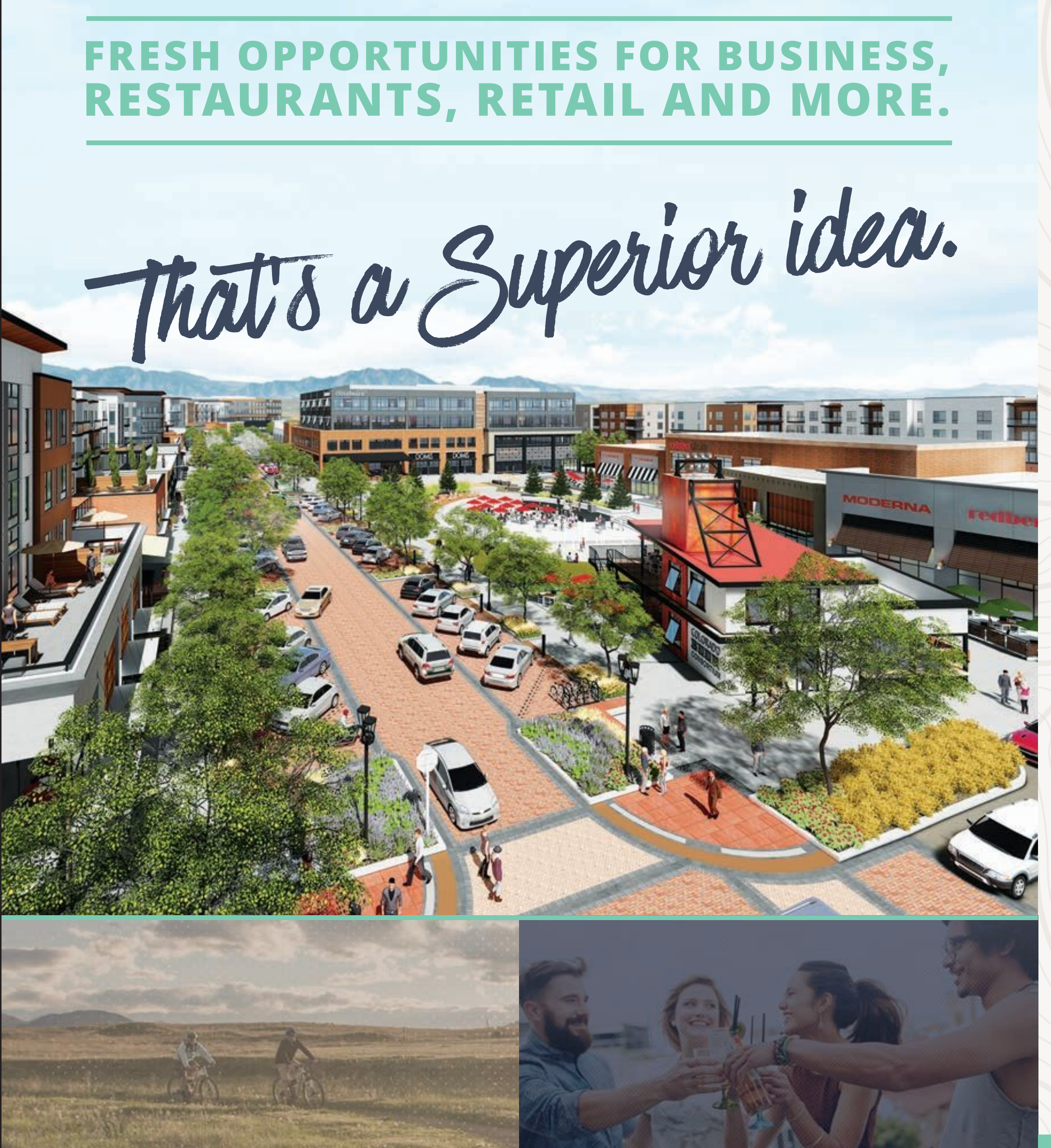
Dr. John Oro

In addition to providing luxury apartment-style features to the new office project, Catalyst is on track to receive core-and-shell WELL Building Standard certification.

Other flex spaces include a rooftop deck, executive board and living rooms, a 3,000-square-foot community kitchen and the Catalyst Event Center, designed to accommodate 250 persons. It also will offer apartment-like technology features throughout the building that mimic life in an apartment, including the Luxer One locker package delivery system and a high-tech parking garage.

Health and wellness is no longer just something people worry about after hours. New innovations in work spaces abound and an emphasis on WELL Building Standard practices is largely changing

Please see 'Koelbel' Page 31



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Workplace Trends

Factors for the co-work vs. private space debate

Ashley Elkin
Assistant director, Savills Studley, Denver

The co-working movement has arrived in Denver. WeWork, Industry and Galvanize, some of the more well-known names in the modern co-working industry, announced their arrival to Denver in 2015, 2013 and 2012, respectively. As international investor interest, commercial real estate development and office-using employment growth in Denver has prospered over the current business cycle, the co-working industry also has exploded. There are over 35 different shared office locations in Denver totaling approximately 1 million square feet as of July, according to a local news source. In addition, multiple new facilities are under development, including Industrious and The GRID, both of which are scheduled for opening before the new year. These totals more than triple reports on the footprint of co-working companies in Denver since the start of 2015.

But should tenants and commercial real estate professionals expect this prevalence of co-working options to sustain – if not grow in significance and inventory – through multiple cycles? Some of the traits most commonly associated with these workplaces existed long before the term "co-working" took shape in the business world.

Short-term serviced office providers first emerged in the U.S. in the 1960s, with companies like OmniOffices, Stratis Business Centers and the still-active Regus existing long before today's co-working giants. Open and bullpen-style office plans were pioneered by private media and tech companies before the year 2000.

The emphasis on collaboration, live-work-play and specialized business atmospheres offered at today's co-working facilities have undoubtedly brought new opportunities for entrepreneurs. In the last few years we've seen co-working spaces emerge in Denver specifically designed with female tenants in mind, a sustainability-focused space, and even a co-working space that moonlights as a night club and art gallery. Women in Kind, founded by Virginia Santy and Melanie Ulle, is a prime example of this burgeoning revolution of co-working founded, funded and designed by women for women.

Co-working spaces are tremendously useful for tenants between leases or required to have certain business groups in close proximity to a specific client. In addition to startups and freelance professionals, we've seen sizable companies assign teams to co-working space to work on specific projects that require separation from the larger workforce or benefit from the services and atmosphere offered by co-working providers.

The question remains: Is co-working the best option for tenants seeking a startup or collaborative work space? Not necessarily. There are benefits to business objectives and negotiating ability that growing businesses lose or see diminished when not taking up private space or utilizing the services of a tenant representation adviser.

> These challenges are important considerations businesses must review when evaluating workplace options.

For one, it's vital for any growing business to secure and retain propriety information and top talent. While the ability to frequently collaborate with outside parties within a co-working space can facilitate creativity and a rewarding work experience for employees, feedback from clients on the co-working experience often focuses on concerns that competitors can easily poach talent and intellectual property.

Furthermore, when striving to maintain a specific organizational culture and values – something that often is a top priority for a company in a real estate transaction – outside influences presented in a shared space can be a challenge. Is it impossible to achieve these business objectives regarding talent retention, intellectual security and corporate culture at a co-working space? No. Nevertheless, these challenges are important considerations businesses must review when evaluating workplace options.

There are costs when working with a tenant adviser to secure space that businesses avoid when going the co-working route. However, a tenant adviser provides a wide range of services to clients leading up to and after their client commits to a lease that co-working tenants are unable to take advantage of. These services include workforce strategy analysis to determine what location and real estate decisions are required to attract and retain top talent, reduce operating costs and foster innovation. They also serve as representation in lease negotiations to leverage the client's position in the market for economically favorable lease terms, concessions and tenant improvements agreed to be implemented by the landlord. When represented by a tenant adviser, the representative constantly evaluates the client's business, industry and office market to identify opportunities to scale for growth and improve efficiency by negotiating for lease restructure or expansion, or subleasing excess space to another business.

Looking forward, it's hard to bet against co-working facilities having some kind of sustained role in the Denver office market for years to come. It will be the job of commercial real estate professionals to help growing companies eliminate the gray area for when a business should utilize a co-working facility and when they should scale up to private space.▲

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Technology

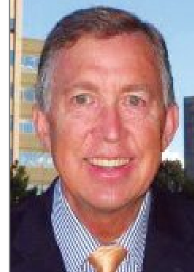
Dynamic tinting combats common office complaints

The top complaints from tenants of nearly every office building is that the space is too hot or too cold, and window glare is too intense, in which case shades are used that end up blocking high-rent views.

Trying to regulate the temperature and glare inside office buildings is a constant battle, especially in a semi-arid climate like Denver with wide variations in temperature and very intense sunshine. Even on cold days, the cooling system is working hard to counteract multiple heat sources, including lights, body heat and equipment. However, the largest-single source of heat gain inside a building with an abundance of windows typically is heat from the windows.

To combat these issues, often an insulated, double-pane window with a static tinted low-e coating (not a film) is used to reduce solar heat gain by about 60 to 70 percent and reduce glare by about 40 percent. This performance is fixed, regardless of the changes in outside heat and light levels.

A new window system, which uses a dynamic (auto-adjusted) tinted electrochromic glass coating (not a film) in a double-panel window unit, provides even greater reduction in solar heat gain and glare because the tint level is automatically adjusted electronically as the sun moves in order to provide up to 90 percent reduction in heat gain and up to 99 percent reduction in glare. Each window is connected to a small central computer in the building, which is custom programmed to change the tint level as the sun moves. A light



Marty Slaught
Colorado sales executive, View Dynamic Glass, Denver

sensor on the roof makes corrections so the tint level is not too dark on a cloudy day.

We conducted a building energy study to compare the energy reduction capabilities of windows with static tinted low-e glass versus dynamic tinted electrochromic glass with its control system. To demonstrate the potential energy reduction benefits for a typical office building, a study site was prepared with two identical south-facing perimeter offices. One was installed with the static tint while the other had the dynamic tint system.

Both offices were located on the second floor of an office building and were built with identical room dimensions, ceiling lights, furniture and HVAC systems. They were adjacent south-facing perimeter offices and received the same level of sun exposure. To maintain a controlled environment, both rooms were unoccupied during the duration of the monitoring period. Both rooms were tied to a building automation software platform used to control and calculate energy consumption. The lighting and HVAC occupancy schedule stayed active from 7 a.m. to 7 p.m. on weekdays.

The proprietary intelligence control package of the dynamic tinted electrochromic glass system was implemented into the demo room starting

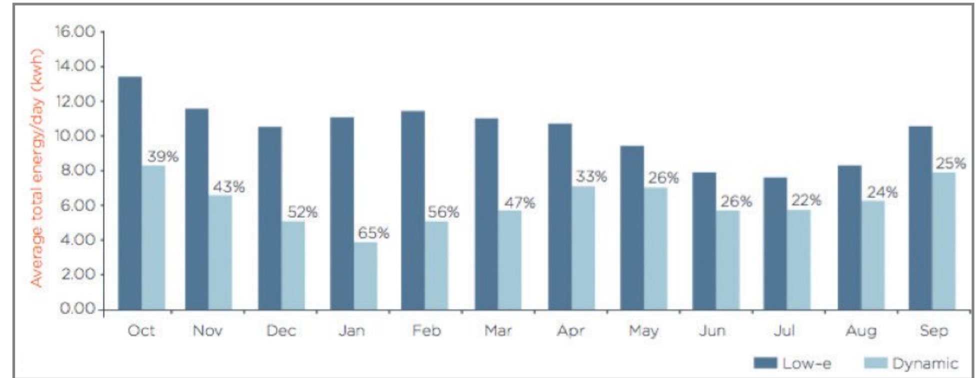


Figure 1: The average total energy used in the case study from October 2012 to September 2013.

October 2012. The intelligence package used geometrical solar penetration, radiated energy and real-time environmental condition monitoring to automatically change the tint state of the glass for optimal solar control and comfort, without window blinds/shades.

Prior to installing the dynamic tinted electrochromic glass system in demo room B, it was necessary to ensure that both rooms were receiving identical solar radiation exposure and room performance (HVAC, insulation and lighting). Therefore, both rooms were initially fitted with the same static tinted low-e glass and monitored for two weeks. The sensors and controls were calibrated and tuned to identical parameters. The resulting data showed there was less than a 2 percent difference between the two rooms.

After 12 months of data collected, it was found that the dynamic tinted electrochromic glass system resulted in 39 percent total energy savings.

Figure 1 shows the average total energy use from October 2012 to September 2013. Under glare conditions, which typically relate to high radiation, the electrochromic glass system transitions to the fully tinted state, blocking 90 percent of the solar heat entering the space, resulting in significant cooling savings. In its fully tinted state, demo room B required slightly more artificial lighting to maintain desired light levels. However, the additional energy required for lighting was negligible compared to the total cooling energy saved.

On the weekends, the electrochromic system resulted in an 85 percent cooling savings, as shown in Figure 2 on Page 31, which shows the total energy used during one of the summer weeks in August. Results reveal significant savings during the weekend due to the weekend cooling setback set point. On weekdays, the cooling set point is 73 degrees Fahrenheit, meaning cool air will be supplied to the room once it detects a temperature of 73° F or higher. It is common to raise the setback tem-

Please see 'Slaught' Page 31

COMING SOON

Rachmaninoff's Piano Concerto No. 3 with Natasha Paremski

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Andrew Litton, conductor
Natasha Paremski, piano

LIADOV *The Enchanted Lake*, Op. 62
RACHMANINOFF Piano Concerto No. 3 in D minor, Op. 30
PROKOFIEV Symphony No. 5 in B-flat major, Op. 100

Natasha Paremski graces the stage once more to artfully present Rachmaninoff's Piano Concerto No. 3. This piece is as elegant as it is foreboding: it's considered one of the most technically challenging classical piano concertos, and is approached by even the most accomplished pianists with trepidation. Prokofiev's delightful Symphony No. 5 is a cheerful cap to a night of dazzling Russian virtuosity, interpreted and conducted by famed Colorado Symphony Principal Guest Conductor Andrew Litton.

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Management

Don't discount the importance of your website

Doug Backman
Managing director, DB Marketing, Denver

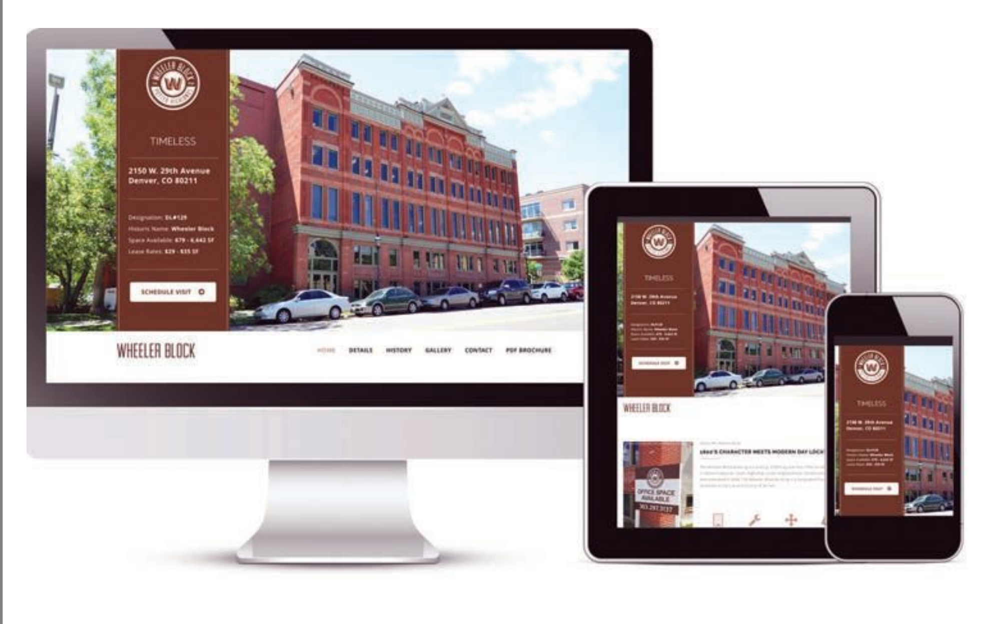
For years, most commercial buildings ran off the same old processes with similar methods. You plan a building, hire a broker, find a property manager and use similar systems. But today, things are changing. Creativity and innovation are at the forefront for many of the new successful projects.

These days disruptive behavior has entrenched itself in our culture. Cooperative office spaces, creative rehabs, digital wayfinding and property websites are all changing the game. The average person is closing in on 11 hours of screen time per day. Whether it's a desktop computer, a smartphone on the go or a tablet at home, users are looking at their screens in record numbers and for record amounts of time. Commercial real estate professionals need to understand these changing behaviors and use them to their advantage, whether it's the best way to showcase a building, get discovered by a potential user or provide a platform for an out-of-state decision maker who many never step foot in the building.

Cooperative office spaces are accounting for much of the new square footage built in Denver. Creative rehabs from Union Station to Industry and Central Market are all drawing attention. A building's digital wayfinding is common place for visitors to interact with in today's office building. Property websites act as an online lobby with potentially more people visiting the website than the property itself. The website allows the property more opportunity to be seen, allows people to discover the property on search engines, and provides a referral link through brokers and other marketing. Often the website serves as the property's curb appeal and is the first impression many people have with the space. It operates as a way to attract users and defines how you differentiate from your competition.

Years ago, we had the opportunity to create an online presence for The SugarCube Building by Urban Villages in downtown Denver. This was early on in building website adoption and at the forefront of mixed-use building marketing. We created a web campaign that showcased world-class architecture, provided interactive maps and floor plans, and told a story that connected with the past, present and future of downtown Denver.

Another example is View 57, which was an older building purchased by Element Properties located in Flatiron Business Park in Boulder. A new website helped rebrand this property and show off a new level of design, attracting many of today's user. The website also helped bring the office property into the forefront for more people to discover, even though it was located in the back of its business park.



DB Marketing
A building's website is the first impression many will have with the property.

One final example is the Wheeler Block, which is a beautiful large brick office building built in 1892 located in the Potter Highlands. With the growth of this neighborhood in recent years, many people drive or walk by the building every day. But few individuals recognized what a historically prized property this was architecturally and to the neighborhood. Then came a new rebrand with signage and web presence that was able to draw attention, tell the building's story and point out the highlights of the property.

We know that certain processes of the commercial real estate landscape will always be necessary to conduct business. But change is inevitable. Sitting idly by while other property owners use new ideas and better technology is similar to Blockbuster sticking with VHS tapes against Netflix or Yellow Cab using the same old systems to compete with Uber. Building owners should know we are in a rapidly changing environment where you can connect your building opportunity in more ways than ever. ▲

Mark your calendar:

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Thursday, September 28 || 5 - 7 pm || BrightView Design Group, 1645 Grant St., Denver, CO
Free food and drink provided with registration!

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Tuesday, October 3 || 4 - 7:30 pm || The Alliance Center, 1536 Wykooop St., Denver CO

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Thursday, December 14 || 3 - 8 pm || McNichols Building at Civic Center Park || 144 W Colfax Ave, Denver, CO

Register at colorado.uli.org/events/

Where: The Alliance Center, 1536 Wynkoop St., Denver
When: Wednesday, October 11, 3 - 7 pm

As Metro Denver's investment in regional transit has skyrocketed, where has that left local, intra-city transportation options? Join ULI for a conversation about large-scale initiatives from both the public and private sectors that aim to help people get around using multimodal methods.

We'll hear about Colfax BRT, the future of "Mobility Hubs," greenway-oriented development, and how cities can leverage mobility options. Then we'll dive into specific case studies from around Denver Metro, including the Giambrocco master plan, McWhinney's micro-unit project, Colfax BRT, Trail-Oriented Development around the city, and the Lone Tree Link. Let's see what's planned and make our own suggestions about what the city could do preserve mobility and to encourage smart land use and more car-free trips!

Featured speakers and projects include:

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Office Trends

Continued from Page 1

Hospitality, a co-owner/co-developer of The Dairy Block. "We saw an opportunity to create something that was much more integrated than just having a traditional office building next to a traditional hotel."

At the Dairy Block, the hotel and the office lobbies are connected and designed to give the office building a more upscale, lively feel, while also drawing visitors' eyes to the bar and restaurant located in the hotel, he said. Many of today's office tenants are attracted to the 24/7 environment created by hotel guests visiting every night of the year as well as customers visiting the multiple restaurants and the retail that round out the mixed-use development, he said.

This speaks to a broader trend of people's desire for reintegration. "People want to be around other people, and I think this integration of uses facilitates that," said Dan Cohen, McWhinney senior vice president of mixed-use development, and co-owner/co-developer of the Dairy Block.

The most straightforward appeal of these projects is the efficiencies the pairing brings to owners and tenants alike. For example, the single environment can easily support an office tenant's out-of-town clients and visitors.

"The two uses are synergistic, particularly when the hotel is a 4+ star property that has great meeting space and appeals to business travelers," said Frank Cannon, development director at Continuum Partners, lead developer of A Block/Hotel Born.

Office employees can use their time more efficiently as well thanks to many of the shared amenities. Be it having easy access to a café, gathering at a convenient happy hour spot after work, using the fitness facilities on site or conducting business meetings with catered-in lunches in one of the hotel's meeting spaces.

From an operational perspective, there are intrinsic benefits as well. Shared, often larger, amenities, such as fitness centers, lobbies and restaurants, allow the developer to build only one amenity to service both uses.

Mechanical, electrical and plumbing systems can be shared (but built in a way that allows the owner to meter the two separate uses differently at a later date, if so desired). At Union Tower West, the two sides even share an engineering team, which cuts down on overhead, said Charles A. Pinkham III, senior vice president of development at Portman Holdings.

During construction, since it's a single building, regardless of how many uses it will serve, there are many ways to capitalize on shared expenses. For example, the building only needs to connect to the city water supply one time. Only one crane is needed with only one hoisting expense, and the general contractor can mobilize to a site one time – instead of twice, Pinkham said.

Another benefit to this type of mixed-use project is the diversification it provides.

"From a pure financial standpoint, when you mix the use types, it really spreads the risk of the asset and the exposure of that supply to the market," Pinkham said. "Instead of delivering 200,000 square feet of office – which will require some sort of significant prelease or a pure speculative office play, which is a relatively risky play – you deliver 100,000 square feet of office. You literally cut your supply risk and your prelease risk in half, and then you deliver 100 hotel keys, which has some level of inherent occupancy that financing institutions will accept by virtue of the fact that occupancy will come based on the market. And granted, it has its own absorption risk, but it's much less risky from an occupancy standpoint than an office building."

Everett agrees. "You're not putting all of your eggs in hotel or office," he said. "Office tends to be a lower, but more consistent return, looking at it long term, and hotels tend to be higher, but a more volatile, type of cash flow stream, so it's useful to combine the two."

However, even if the risk may decrease with multiple uses, finding financing for these projects is one of the more challenging aspects, because most equity investors and lenders are single-product oriented. Often the development team must search out the right equity and lender partners who understand all the components for these projects.

"We have to find a lender who will look at a hotel for this type of value in this type of industry and will look at the office in a different way, yet blend it all together into one loan package for you," said Everett. "So that is a smaller universe of equity investors and lenders who understand that and are willing to play in that kind of situation."

Other complications stem from the physical layout of bringing these two different uses under the same roof. "The biggest single challenge is vertically stacking different uses," said Pinkham.

Developers must take into consideration the MEP systems. For example, consider the different plumbing and electrical needs from hotel floors to office floors. On a hotel floor, there might be 40 individual bathrooms, each with multiple fixtures, while the office might only require 10 bathroom fixtures for an entire floor, he said.

Additionally, they must determine how to facilitate different layouts within the same structural grid, because wherever a column is dropped in the office space, it's going to be in the same space for the hotel (and in the same spot in a garage, if that's included in the project).

They also must consider how to properly accommodate different floor plate needs. Office wants large floor plate, while hotel floor plates meet a maximum efficiency that is much smaller, said Cohen.

Once all these complications are handled and the property is open, one looming challenge remains: the fickle consumer market. "We don't have any specific predictions about how office is going to look in 20 years and how hotel is going to look, but we know it will be different," said Everett.

Because each of these projects enjoys an ownership group that maintains control over both uses, they can manage the properties holistically and make decisions based on what's best for the greatest good. This agility to be flexible with decisions affecting the long-term health of the property will become increasing important as the projects inevitably make tweaks and adapt to changing consumer needs.

However it may evolve, anticipate more projects pairing office and hotel in Colorado's future, especially as multifamily continues to flirt with oversupply, potentially diminishing its desirability as a mixed-use component, according to one source.

"You can build a great hotel as a standalone, and you can build a great office as a standalone, but the opportunity to do this type of project more is something we're super excited about," said Everett. ▲

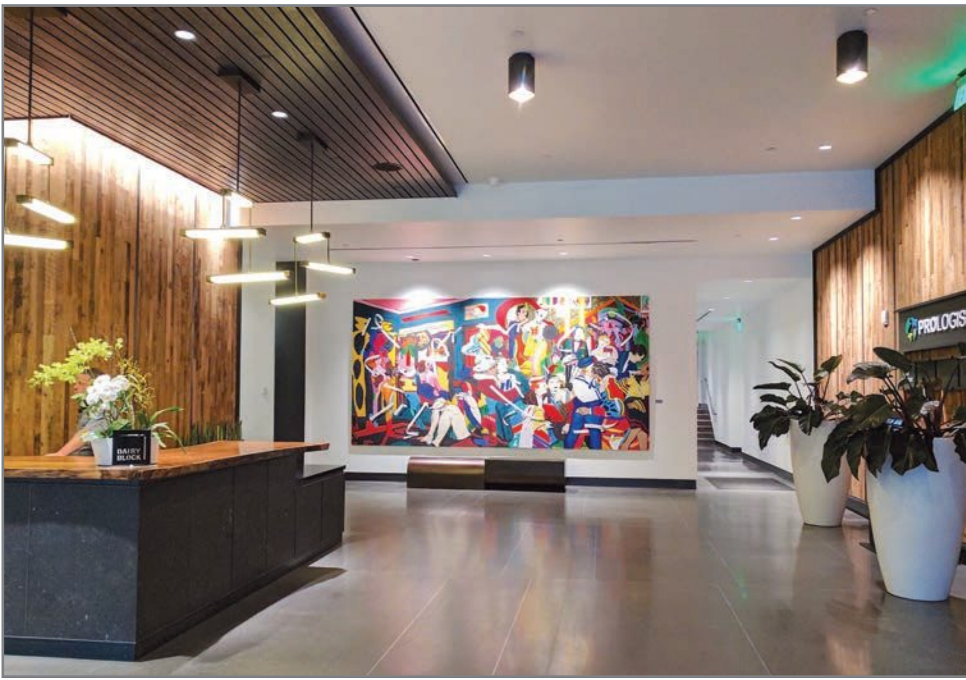
Cris Molina

A Block and Hotel Born

Address: 1881 16th St. (A Block); 1600 Wewatta St. (Hotel Born)

Specs: 300,000 square feet of mixed-use space, including a 12-story, 200-room, Kimpton-operated hotel, and a five-story, 51,000-sf office building, along with about 11,000 sf of retail

Project Partners: Continuum Partners, Semple Brown, Boka Powell, GE Johnson



The Dairy Block and Maven Hotel

Address: 1800 Wazee St. (office tower); 1850 Wazee St. (Maven Hotel)

Specs: 550,000 square feet of mixed-use development located on one city block, of which roughly 260,000 sf is office, 66,000 sf is retail and restaurants, and there is a seven-story, 172-room hotel. The project also features 392 underground parking spaces, 23 outdoor terraces and a pedestrian-only alley with retail opening up to it.

Developers: McWhinney, Sage Hospitality and Grand American Inc.

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Union Tower West and Hotel Indigo Denver Dowtown

Address: 1801 Wewatta St., Denver

Specs: 100,000 square feet of Class AA office, 180-room boutique hotel, parking garage and 10,000 sf of street-level dining and retail

Developers: Portman Holdings, Hensel Phelps Development

Silverstein

Continued from Page 4

ness services, government, financial activities and information. These four supersectors represent nearly 43 percent of metro Denver's employment and were responsible for the addition of about 10,600 workers during the first half of this year, or 31 percent of the employment growth. Even with continued employment growth, the office vacancy rate is expected to increase in 2017 as newly constructed office space comes on the market.

Industrial users are concentrated in transportation/warehousing/utilities, manufacturing, wholesale trade, and natural resources/construction, representing about 20 percent of total employment and 13 percent of new job growth. While the industrial vacancy rate also is expected to increase in 2017, continued demand for logistics space will keep the market healthy.

Retail users are found in retail trade, leisure and hospitality, and other services. These three supersectors represent 25 percent of the region's employment and were responsible for 32 percent of the employment growth, representing the addition of 11,200 jobs. Limited new retail construction is ensuring that the market remains stable as space is repurposed for uses other than traditional retail trade. ▲

Smith

Continued from Page 6

of office space has lowered office vacancy 50 basis points during the last four quarters to 14.7 percent, the lowest rate this cycle.

Unlike increases in national urban vacancy, downtown Denver recorded a 100-basis-point decrease in the rate since last June. Suburban demand also remains strong as several submarkets in the suburbs posted declines greater than 100 basis points. These submarkets include North Denver, Parker/Castle Rock and West Denver.

Tightening vacancy metrowide and demand for quality office space has sparked a rise in office construction, with completions more than doubling from the prior year. The majority of deliveries will be located within the suburbs along major transit routes as workers seek shorter commute times and walkable access to public transportation. To meet the public transport needs of residents, three FasTrack lines have opened since 2016, along with the Flatiron Flyer Rapid Bus Transit Service, connecting numerous neighborhoods and expanding commuting options. This year, nearly a third of all completions will be located within a half-mile of the E, F and R lines in southeast Denver, highlighting demand moving into the suburbs. Notable deliveries in the area include the 227,000-square-foot Panorama Corporate Center and the 212,000-sf Inova Dry Creek 1, which are both fully leased and were completed during the first half of the year.

The heightened pace of construction will not hamper vacancy improvement this year as demand keeps up with supply. Vacancy will tick down 10 basis points to 14.9 percent by year end, contributing to a modest increase in the average asking rent. ▲

Cox

Continued from Page 19

tries. Potential tax reforms to incentivize companies to hire locally in addition to policies limiting the ability for foreign workers to obtain visas could mean even more competition for the best domestic talent.

Many companies are factoring in real estate in their quest to differentiate from competitors and attract the best employees. Some companies are willing to take on higher lease rates in exchange for being downtown or in a similarly urban environment, something they can leverage with job candidates.

Other companies are taking a campus approach, like Charles Schwab, which recently opened a new Colorado office in Lone Tree that can accommodate up to 4,000 workers. The campus, which sits on 47 acres, offers access to impressive perks like rooftop gardens, a cafeteria and high-tech workspaces.

From a bird's eye view, the market is another important part of the real estate equation. As mentioned at the beginning of this article, part of the reason why financial services firms are targeting Denver is so that they can offer their employees a lower cost of living and improved quality of life versus coastal cities.

As Denver continues to claim a larger share of the financial services industry pie, the impact of these challenges will reverberate deeper in our city. Financial services companies would be wise to factor in the role their real estate can play in helping them achieve their business objectives in an ever-changing world. ▲

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Brunner

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controls. Improvements like this are never cheap and can put a significant dent in discretionary budgets, which might have otherwise been allocated for public area design and furniture, for example.

Again, new building owners don't have to contend with any compliance surprises. Every code requirement is already accounted for and every building amenity has already been designed, approved and constructed with state-of-the-art methods and materials.

The good news for those 1980s era building owners is that occupancy still boils down to what tenants want, and tenants still want value. Of course, it is the millennials who drive the market and ultimately define what value is.

"Those employees dictate not only tenant design, but building retrofits as well," Revious said. "Tenant spaces are going to continue to evolve, and owners of older product are responding by bringing the sizzle, the cool. That's the necessity of the market."

In fact, push back on the open-plan office is fueling some of that sizzle.

C-suite players have been increasingly vocal about the disruptive nature of the open office, but many employees who once may have lauded the wide-open egalitarian work style now are starving for privacy wherever they can find it.

In a piece about office design strategies published last month in Fast Company's Co. Design digital magazine, one quoted architect put it this way: "When [I] asked where a young client goes for privacy, the response was 'Starbucks,' which is not unique."

The "not unique" part of that statement is what speaks volumes. Companies that are slow to address these pervasive facility issues are paying a price in lost employee productivity and morale. On the other hand, 1980s building landlords and their savvy property managers are profiting from these tenant-based design deficiencies by upgrading and repurposing building common areas.

Both open and enclosed private breakout spaces in or near lobbies, for example, can offer building tenants a privacy amenity that may have been lacking or absent in their own offices. Even fussy millennials may opt out of Starbucks if given the option to stay in their own office building and complete the tasks that they previously may have deemed impossible.

Of course, no two buildings are alike, and property managers must sell the individual benefits of those renovations aggressively and consistently. And intangibles do matter.

"It's not always about the numbers," Kaboth maintains of the metro area's aging office inventory. "You can take these '80s buildings and create a similar environment to new product with the right renovations at the right time. The bones are there. And every building has its own personality."▲

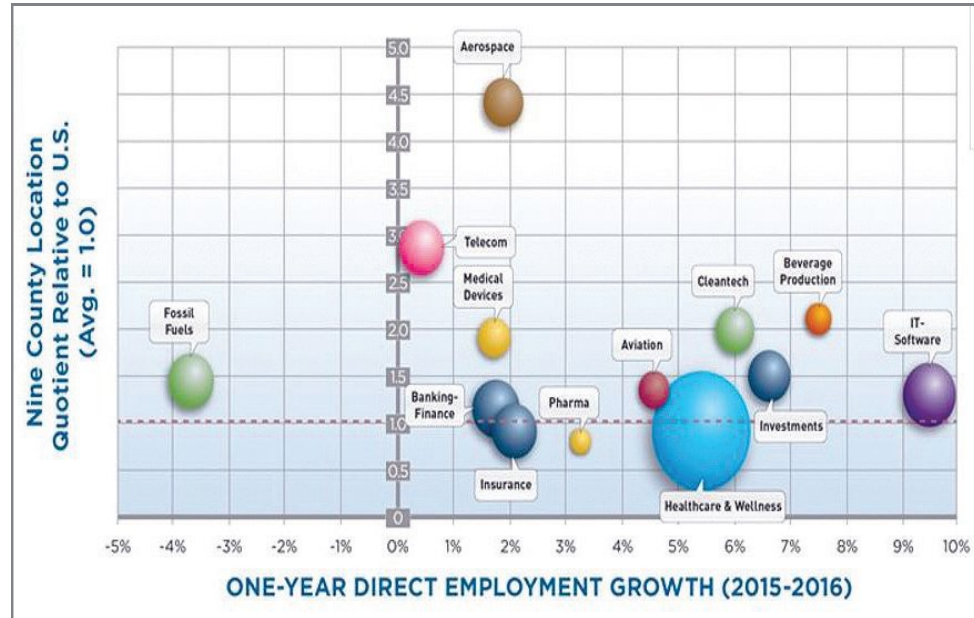
Shaw

Continued from Page 21

ing, there are challenges to a robust economy. For both landlords and tenants, construction costs for tenant improvements have raised dramatically. This is partially due to a shortage of construction labor, which has led to fewer and higher bids across the board. In a down market, landlords typically had to provide turnkey tenant improvement packages to compete for tenants. Landlords are more bullish and tenants, in turn, often contribute to their own improvements. Alternatively, tenants are signing longer-term leases with higher tenant improvement allowances or amortizing the cost of the improvements into the lease rates.

There are challenges on the sales side for office product as well. Valuing properties can be challenging, primarily with regard to properties sold to owner occupants. As demand for owner-occupied office properties has increased, property values have gone up. The gap between buyers and sellers seems to be widening, and I have experienced several instances where appraisals have come in low because the pricing continues to rise, in some cases faster than the market can keep up. It is important to work with an experienced real estate professional who can convey to the seller and buyer the true value of the property.

Is change on the horizon? The answer is yes, but probably not dramatic change thanks to our diverse economy. Rent growth has slowed down to approximately half of what it was last year. The supply is beginning to catch up with the demand. The office market will continue to be a vibrant market but perhaps at a slower pace than we have seen over the last few years. Now is the time to plan, prepare and execute to get the most out of a strong office market.▲



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Koelbel

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the way developers are approaching the design of their buildings. The philosophy behind WELL Building is to elevate human health and comfort to the forefront of building practices and reinvent buildings that are not only better for the planet, but also better for people. Many developers are focusing more on achieving WELL Building Standard certification than LEED certification, despite their numerous similarities.

This project has been designed to meet the WELL Building Standard and is on track to be the only core-and-shell WELL certified office building in Colorado. The seven areas of focus include air, water, nourishment, light, fitness, comfort and mind. To meet the rigorous requirements of WELL Building Standard, Catalyst considered each category in its design, and – similar to a luxury apartment – implemented a variety of community-focused amenities strategically positioned throughout its seven floors to help encourage wellness, exercise and overall mental clarity. For example, in addition to open, natural floors with significant light, the project will have a state-of-the-art fitness center, 75 bike storage spaces, and a monumental staircase for floors one to four to help promote the use of stairs instead of the elevator. This collective approach to design will elevate the daily work experience for the tenants and enable a highly productive and satisfying antidote to the daily grind.▲

Dr. John Oro

Catalyst in River North is slated to open May 1.

Slaught

Continued from Page 24

perature on weekends due to building vacancy and, therefore, there is no need to cool the area as attentively. Hence during the weekend, the setback temperature is set to 82° F. The electrochromic glass system's solar heat gain coefficient keeps the temperature inside the space so cool that it hardly goes above 82° F during the day, requiring minimal cooling, as opposed to low-e glass.

When examining the impact of this new technology on glare, it was discovered that low-e glass with static tinting reduces glare by about 40 percent, which proved insufficient during times of low sun angle and blinds/shades were required to block the glare. The glare problem occurs only during times of low sun angle, which occurs throughout the day in the morning on the east side, mid-day on the south side during the winter and the afternoon on the west side.

View Dynamic Glass

Figure 2: The average total energy used on a typical August week during the study.

The dynamic glass system automatically adjusts the tint level starting in the morning and throughout the day. In its highest tint level, the dynamic glass system reduced glare by 99 percent, which is the level required to eliminate the use of window blinds or shades.▲

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