**August 8, 2016**



**URG, Stars Buy 2301 Blake & Parking Lots with Possibilities**

A historic building located where Lower Downtown Denver meets River North sold for $21.2 million, according to Denver County records. Urban Renaissance Group and Stars Investments bought 2301 Blake St., a 52,859-square foot office/retail building, along with two parking lots with potential for development. "We're thrilled to add this beautiful historic building to our growing local portfolio," URG founder and Chief Executive Officer Patrick Callahan said in an announcement. "RiNo has experienced an incredible recent transformation, and we look forward to continuing work in this thriving city as an owner and developer." The popular Blake Street Tavern occupies 17,902 sf in the 3-story building, which has 34,957 sf of office space that recently was leased to Spaces. Spaces, Regus' co-working brand, will move into the building in October. URG and Stars are exploring options for the parking lots, which could accommodate commercial and/or residential uses, Callahan said. The acquisition is the second in the Denver market for URG and Stars Investments. They bought the 121,000-sf Market Center in LoDo for $29 million last September. "We are delighted to complete our second investment in Denver, in a location we believe has room to further consolidate in the future," said Oscar Boettiger, head of real estate investments at Stars. "Denver is a relevant market in our investment strategy as its real estate market continues to strengthen into a vibrant and amenity rich city." With "two strong tenants and the potential for some development down the road," 2301 Blake drew interest from in- and out-of-state investors, private and institutional, according to R.C. Myles of Cushman & Wakefield, who represented seller Oakwood Real Estate Partners with Cushman & Wakefield's James Brady. "It was a very broad range of interest. I think that's an indicator of the location, by Coors Field and proximate to RiNo. It's just in the middle of everything," Myles said. Listed on the National Register of Historic Places, 2301 Blake originally was a an office/warehouse for McPhee & McGinnity Co., one of the West's leading building materials suppliers, according to History Colorado's website. The brick-faced building was built in 1913; the existing office and retail improvements date to 1943 and 1972, respectively. The building sold for $10.05 million in March 2015. Urban Renaissance Group acquires, develops and manages properties in Seattle; Bellevue, Washington; Denver; and Portland, Oregon. The company owns and/or operates a 10 million-sf office investment and management portfolio. Stars Investments is an asset management company that manages the financial, private equity and real estate investments of Chilean entrepreneur Felipe Ibañez Scott. **(Colorado Real Estate Journal)**

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**Denver-Area Tech Companies Growing Up, Growing Out of Startup Office Spaces**

Denver's technology startups are growing up and the real estate industry has noticed. CBRE, a commercial real estate broker, found that tech was the most active industry to expand in metro Denver office spaces last year, outdoing the perennial leader of financial services. According to CBRE's Colorado Tech Book 2016, tech firms leased 1.1 million square feet, or 16.5 percent of the commercial office leases in metro Denver, compared to about 10.7 percent in 2014. Tech, which includes software and hardware businesses, was followed by healthcare leases at 15.6 percent, and energy firms at 13.29 percent. The telecom industry was separated from tech and ranked seventh, at 7.38 percent. But the rise isn't due just to the entrepreneurial spirit and growth in coworking spaces, although there is a lot of that. It's that startups are growing up and entering a new mid-level stage of business. They're not sticking with hipster converted industrial spaces or an urban atmosphere, said Jessica Ostermick, director of research and analysis for CBRE. "Denver is great because of that startup dynamic. But in order to mature into that gazelle, they're signing leases. And they're adding meaningful numbers in employment," Ostermick said. "Downtown is garnering much more attention from tech companies and it's not just LoDo and brick and timber (construction). There are tech companies who are very happy in traditional high rises. They can get a ping-pong table on the 34th floor just as they can in RiNo." While the average technology tenant is small — just 5,400 square feet in the River North Arts District, compared to the typical office lease of 40,000 square feet — there have been sizable chunks of real estate snapped up by expanding tech firms since January. Those include mobile-app developer Ibotta, which tripled its space in the spring to 38,000 square feet, and SendGrid, an e-mail transaction firm that committed to 52,000 square feet in the central business district. Other tech companies that are building out Denver's mid-size firms have also expanded. Ping Identity, a 14-year-old digital identification firm with 450 employees, added another floor at its 17th Street headquarters and now occupies about 50,000 square feet. Golden's HomeAdvisor is moving its headquarters to RiNo and taking 58,000-square feet. But companies like Google are expanding outside of the city's center, with Google waiting to move into the first phase of its 330,000-square-foot office complex in Boulder. Seeing startups grow larger and more stable is a goal of Blackstone Entrepreneur's Network. The nonprofit organization identifies startups with such potential and provides a network of mentors and resources. It's worked with Ping, which was acquired for a reported $600 million by private equity last month; SolidFire, acquired by NetApp for $870 million this year; and Justin's, a food maker acquired by Hormel in May. All remain in Colorado. "Colorado in general is starting to get a lot more national attention because of the growth, which brings more people and more companies. It creates this virtuous cycle to bring more companies to scale," said Kate Waller, BEN's director of business development. "This report hits the nail on the head. As companies grow from startups, they require more space and scaling up with 30, 50 or 100 people, which is more than a typical co-working space can provide." She pointed to other "gazelles," a term for fast-growing companies that aren't as rare as unicorns. Galvanize, which opened its first co-working space in the Golden Triangle in 2012, has expanded into tech education and expanded to nine locations nationwide. A startup called Blinker, with an app tackling the used-car market, recently moved to a larger space "probably big enough for more than 50 people," she said. The Colorado Office of Economic Development and International Trade bragged Monday that since 2013, the state has attracted or retained 111 companies and 27,076 jobs. The agency also unveiled a redesigned website, at ChooseColorado.com, to show available commercial properties, potential financial incentives and the lifestyle, which is often credited for convincing a company to move. "What we're starting to see more of are companies headquartered in Silicon Valley and New York or the East Coast who are going from startup to scale up. And Denver is being considered for their first expansion outside of their home state," said Sam Bailey, the state agency's senior manager of global business development. He cited OnDeck Capital, Gusto (formerly Zen Payroll) and Partners Group, which started on the coasts but have opened Denver offices this year. Combined, the three companies will bring 2,300 jobs to Denver. However, Bailey acknowledged there are factors the state can't control, like the distance from California shipping ports that caused Cortez-based Osprey Packs to pick Ogden, Utah to open new distribution plants. The

area's rising housing cost and incomes also mean the state isn't for everyone. However, housing costs and skilled workforce are key attractions for companies relocating from the Bay Area or East Coast. "The state of Colorado does boast a highly skilled workforce, which is one of the challenges we see for (companies searching for) entry-level work," he said. As for housing, he added, "We are still looked at as affordable (by companies) outside of the state." The CBRE report does offer that same reminder. Average rent here is $25.10 per square foot, compared to $32.65 in Austin, Tex. and $72.38 in San Francisco. The average corporate tax rate is 4.63 percent, compared to Salt Lake City's 5 percent or San Francisco's 8.84 percent. "What we're not seeing is an overexposure to one industry for a contraction or downturn," Ostermick said. "We're not growing in leaps and bounds. We're not doubling our footprint every year. It's a more reasonable pace than San Francisco or Austin."
**(Denver Post)**

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**Rent Is Up in Denver — But Not as Much as in Colorado Springs**

Metro Denver rents continued to rise in July, climbing 0.2 percent from the month before and increasing 3.2 percent from July of 2015. But the increase seems tiny compared to the run up in Colorado Springs, where rents are up 10.4 percent from last year, according to Apartment List. Colorado Springs rents jumped the most in the nation, with Seattle, up 8.4 percent, Reno, Nev., rising 8.3, and Vancouver, Wash., at 8.2 percent, not too far behind. Nationwide, median rent was up 2.1 percent. The national median is $1,300 for a two-bedroom apartment and $1,120 for a one-bedroom apartment."It's nice that the rent in Denver is still rising faster than the national average but it's nice that it slowed down a little bit," said Andrew Woo, director of data science and growth at Apartment List. "We're still seeing some of those crazy numbers in other cities like Seattle, even cities like Dallas are going really, really fast." Apartment List reports rent prices monthly, using data collected from listings on its website for one- and two-bedroom units during specific time periods. Some listings include apartment developers offering rent concessions. Although rents continue to grow in Denver, the rate of growth is slightly slower than earlier in the year. Median rent prices grew 0.2 percent between June and July, whereas it grew 0.3 percent between May and June. Denver ties Boulder for the most expensive rent in the metro area where two-bedroom apartments in both cities have a median price of $1,800. The median cost for a one-bedroom apartment in Denver is $1,330, which is lower than Boulder's $1,450. Rents in the northern city grew by 0.3 percent between June and July and 2.5 percent over the year. LoDo is the most expensive Denver neighborhood, where a two-bedroom apartment runs $3,300 or about 83 percent more than the metro median. The median LoDo one-bedroom is $1,450. Highland is the second most expensive neighborhood, where renters can expect to pay $2,390 for a two-bedroom and $1,740 for a one-bedroom. Despite Colorado Springs massive growth in rent — up 1.5 percent between June and July — the median cost for a two-bedroom apartment is $1,300. The median cost of a one-bedroom in Colorado Springs is $1,120. Woo said many millennials are moving to Denver, in part because there is a high quality of living and because they've been priced out of coastal cities such as San Francisco and New York. There is also an attractive job market, which he said can fuel the rent increases as better-paying jobs mean more people can afford expensive apartments. If rent growth stays within 2 percent to 4 percent, Woo said it is manageable for renters given that inflation is about 2 percent a year. Problems really arise when rent starts increasing by 6 percent to 8 percent. “I don’t think rising rents are really ever a welcome phenomenon if you are a renter,” Woo said, adding that it can be particularly difficult for long-time residents who don’t have well-paying jobs. “In general, though, I think rent prices are usually good news for renters.” **(Denver Post)**

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**What Real Estate Investors Are Bracing for Through Year-End**

Global capital markets volatility, a continued low interest rate environment and increased financial regulation are just some of the pressures real estate investors are facing at this point in the cycle, prompting strategy tweaks with a renewed focus on capital preservation. “Financing was harder to get this year and will continue to be tricky in certain sectors. High Volatility Commercial Real Estate (HVCRE) rules, for instance, have made it harder to get financing for new developments. Risk retention rules set to go into effect later this year [are] already affecting CMBS. Obtaining financing for properties in tertiary markets has also grown more difficult,” says Greg MacKinnon, director of research for Pension Real Estate Association (PREA), a non-profit trade association. Pricing on assets has stabilized since the end of the second quarter, according to MacKinnon, but lower returns are expected for 2017 and 2018. PREA’s consensus survey indicates return expectations of 8.4 percent on commercial real estate investments for full-year 2016, 6.8 percent for 2017 and 5.7 percent in 2018. “But we are living in a low return world. We are not at a peak, but at a plateau,” MacKinnon says. So what are investors targeting this year? “Value-added, core and opportunistic funds continue to be the most favoured strategies by those investors that plan to be active in the real estate asset class, and appetite for these strategies remains relatively unchanged from the previous year. This suggests that investors are still targeting a diverse range of real estate exposure, with no significant move to either higher risk /return strategies or a flight to quality,” says Andrew Moylan, head of real estate products at London-based research firm Preqin. In the face of volatile capital markets trends, the Federal Reserve remains in wait-and-see mode, for now. During its July meeting, the agency indicated it may be inching closer to a hike later this year, though for now the rate remains the same. A small increase in interest rates would be welcome to some investors. Low interest rates can buoy certain property types, but as capital seeks to preserve itself, interest rates that are kept too low also pose a concern. "Our investors worry more about negative interest rates. There is fear that we could go into negative interest rates,” says Jay Rollins, CEO of JCR Capital, a Denver-based alternative investment management firm. "There is a higher degree of uncertainty among investors, and uncertainty is the enemy of both economic growth and capital market fluidity. At this point I would not be surprised to see more contraction in deal volume and easing off of transactions,” says Peter Muoio, head of research for Ten-X, an online real estate transaction marketplace. The knee-jerk reaction to Brexit and resulting short-term fallout, which included the freezing of U.K. property market funds, has leveled off. "The severe concern we saw immediately following Brexit has faded very quickly. Outside of London, nobody is really panicking. Generally speaking, investors in the U.S. are taking a wait-and-see approach. It could take months to years to see the full implications of Brexit,” MacKinnon says. Still, analysts and capital market experts say investors are proceeding with caution. “The investor base is very nervous and waiting for a shoe to drop. Interest rates will be lower for longer. We have been in a sub-2.0 [percent] treasury environment for quite some time. Bonds are not paying as well and there is no earnings growth. We have seen pullback from investors, who remain cautious. What does that mean for commercial real estate? Investing will fall into two buckets: trophy properties in gateway cities and middle market properties. Trophy properties are sure to attract more international capital for safety reasons," Rollins says. "There is a little bit of confusion among investors about what to expect, and changes about where they are targeting capital. There has been less interest in development and more interest in core properties. Investors are scrutinizing risks more closely," adds MacKinnon. Muoio contends that trophy properties in markets such as New York, San Francisco, Washington, D.C. and Miami should continue to "provide a store of value." **(National Real Estate Investor/Diana Bell)**

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| | CURRENT | 1 MONTH PRIOR | 1 YEAR PRIOR |
|---|---|---|---|
| **FED TARGET RATE** | .50 | .50 | .25 |
| **3 MONTH LIBOR** | .77 | .66 | .30 |
| **PRIME RATE** | 3.50 | 3.50 | 3.25 |
| **10 YEAR TREASURY** | 1.59 | 1.36 | 2.16 |
| **30 YEAR TREASURY** | 2.32 | 2.10 | 2.82 |