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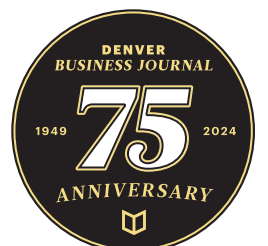
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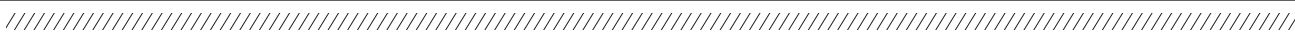


CONVERSION POTENTIAL

What will it take for adaptive reuse to be a saving grace for downtown Denver?

BY KATE TRACY | ktracy@bizjournals.com

Denver business leaders are soon making a pilgrimage to Canada, where they plan to witness a real estate resurrection in the Alberta province. ¶ The city of Calgary is taking 14 of its derelict office buildings and giving them new life as residential communities, with eight of those projects currently under construction. ¶ Since the pandemic, the city has had the most office-to-residential conversions in various stages of completion in North America, according to Sheryl McMullen, manager of investment and marketing for the City of Calgary's Downtown Strategy team. ¶ The catalyst for these conversions was not the pandemic, but instead the hit that Calgary's oil and gas industry took in 2013 and 2014. Calgary's downtown was overreliant on the presence of those companies. When they went through major consolidations and closures, so did the accounting, law and engineering firms that supported them. ¶





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The result: Calgary's office buildings lost billions in assessed property values and the city lost millions in property tax dollars as companies left Calgary's downtown empty and struggling.

Sound familiar? That's because a similar situation is playing out in Denver and many other American cities, as companies opt for less office space in favor of the pandemic-born shift to remote or hybrid work, resulting in high vacancies and lackluster downtowns.

Initial itinerary

Through the Downtown Denver Partnership's City Scout Pro-

gram, Denver leaders are trekking to Calgary from April 29 to May 1 to learn about how the Canadian city was able to rebound and bring office-to-residential conversions to reality, and what, if anything, could be repeated here in Denver.

Andrew Iltis, vice president of planning and community impact at the Downtown Denver Partnership, said there are 55 people signed up to attend the Calgary trip. While DDP gets sponsors for some scholarships and operational costs, most attendees pay their own way.

Iltis hopes to learn how Calgary has been able to successful-

ly show its residents that reinvesting in its downtown – and specifically its public funding of adaptive reuse projects – benefits the whole city. And speed will be paramount, as DDP is starting work on a new Downtown Area Plan later this year.

"The big thing from Calgary is how fast they were able to move into this other gear ... and I think we want to be in that same gear following the trip," Iltis said.

There's at least one big elephant in the room, however. Calgary developers and building owners receive \$75 per square foot in public incentives to help finance their adaptive reuse construction projects, according to McMullen. And thus far in Denver, developers and property owners have no clear path toward public funds.

So what will it take to make these projects make financial sense? And who is willing to write checks to incentivize developers or landlords in Denver to take the leap into reuse?

Denver leaders say the situation is far more dire and urgent than people realize, given the fact that office space is such a key component in Denver's downtown, and the sector is in serious pain right now. If Denver does not solve its downtown issues, the entire region could suffer.

As Rodney Milton with the Urban Land Institute Colorado put it, there is a "sense of urgency that the heart of our city – of our region – isn't beating the way it should."

Office-to-residential conversions offer just one solution to Denver's downtown problem. After all, the more people who live downtown, the more vibrant the city will be. But, there's more to it than just converting office space to residential units.

"The goal is to create a downtown neighborhood district, not a downtown business district. That is the conversion," Milton said. "The ultimate conversion is a mixed-use community that incorporates a multitude of uses."



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Rodney Milton, above, poses for a portrait at Urban Land Institute Colorado. Top left, 110 16th St., also known as the Petroleum Building, is being assessed for reuse.

Project hurdles

Tim Borst is the co-owner of the Petroleum Building, which is currently 30% occupied. He called his building located at 110 16th St. the poster child for an office-to-residential conversion.

"It's the right size. It's the right shape. It's got the right floor plate and depths. We don't have to reskin it. We have operable windows," he said, adding that there are new elevators and new heating and cooling systems. The building is prime for a residential conversion in most meaningful ways.

"At least, that's what we thought," Borst said.

As Borst delved further into planning with his architecture team at San Francisco-based Gensler, the costs started piling up, mostly relating to energy requirements, high construction costs and high interest rates.

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Borst is short about \$40 to \$50 per square foot. That equates to between \$8 million to \$10 million in funding that he needs from outside sources in order to make the project happen for the 200,000-square-foot building.

“But for that, we could be building tomorrow,” he said.

Borst put the plans for the new 178 residential units on hold a month ago when it became clear that Denver was not going to offer an incentive package to help bridge that gap in financing.

He thinks the City and County of Denver is on the right track; his project is currently one of three in the city’s adaptive reuse pilot program focused on studying the feasibility of projects in Denver’s Upper Downtown. But he believes Denver needs to treat these opportunities with more urgency and more seriousness.

“If you wait for two years, do

you risk downtown just becoming a wasteland?” Borst asked.

Even if the city won’t write him a check, there are other ways to incentivize adaptive reuse projects, such as waiving permit fees, waiving street closure fees or offering property tax abatements, according to Borst.

But in the meantime, he’s looking at other funding options. He and his team are also exploring what it would take to become a historically designated building in order to qualify for historic tax credits.

“We’re gonna pursue that a little more seriously to see if we can get this across the line. We’re definitely not giving up,” Borst said.

At 475 17th St., Revesco Properties and Davis Partnership Architects have made the most recent proposal for a downtown Denver office conversion.

Plans proposed in February indicate the building ownership is exploring how to turn the



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The office building at 475 17th St. is Denver’s most recent conversion proposal.



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16-story office building into 210 affordable and market-rate units.

Nick Allen, Revesco development manager, said in an email that the budget is still being finalized, and the building's owners will need tens of millions of dollars in public incentives to make the project feasible. The project team is still working through energy use, electrification requirements and mechanical codes and determining the mix of affordable units.

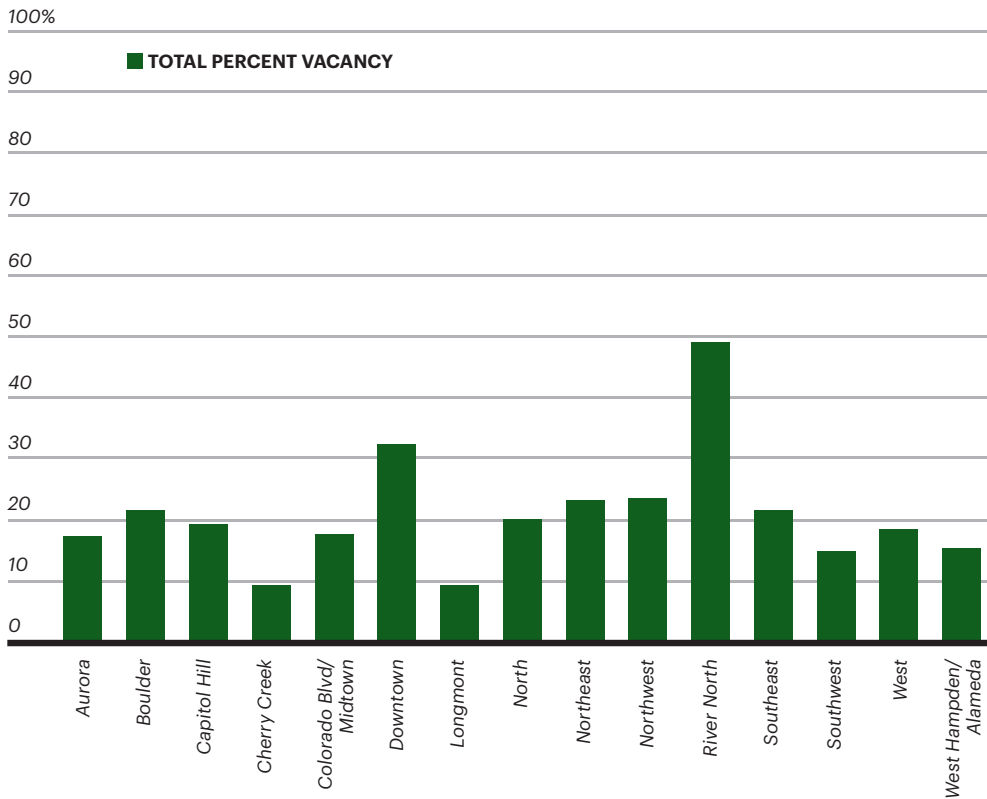
"The building possesses many attributes that make it suitable for a residential project, including its excellent location, size, structure, and a building footprint that allows for successful unit planning," Allen said.

Design challenges and opportunities

At The George, located at 820 16th St., Venture Architecture co-founder Martin Goldstein is knee-deep in the challenges that come along with converting an

Q1 SNAPSHOT: DENVER-AREA OFFICE VACANCY

Total vacancy rates saw a moderate increase in the first quarter of 2024, reaching 23.5% quarter over quarter, according to a CBRE analysis. Below are rates by submarket.



SOURCE: CBRE Q1 REPORT

almost 120-year-old building into 116 residential units. The project is also a part of Denver's adaptive reuse pilot program, and while difficult, the issues he's facing with the building are far from insurmountable.

"Architects and engineers and contractors are really good at teasing out how to make these projects work. The bigger issue is how to reconcile the cost, because as high as the cost of living is in Denver, it's not high enough to support many of these projects that are otherwise viable from a physical standpoint," Goldstein said.

Harbor Associates is Venture Architecture's client on the residential conversion project at The George. In addition to The George, Harbor Associates has also proposed another conversion of the Capitol Center, located at 225 E. 16th Ave. (Through

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Goldstein, Harbor Associates declined to comment.)

At the onset of the pandemic four years ago, Goldstein never heard from office building owners or developers inquiring about converting their buildings to residential units. But in the past 18 months, the interest has ramped up to the point where he's received at least a dozen serious inquiries.

While the design and costs are crucial factors to the success of these projects, he sees his clients getting the most nervous over the unknowns and the case-by-case nature of each building, as there's no one blueprint to follow when it comes to adaptive reuse.

"I think that freaks everybody out, and I don't think [it] should, because most of these projects are either pretty clear that they're not going to work, or have solutions to make them



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Martin Goldstein poses for a portrait at Venture Architecture on April 15 in Denver.

work," Goldstein said. "Again, I don't think it's as mystical as it's being received."

As one example, Goldstein remembers looking at a mid-1980s building south of downtown for a client, and for the first 10 minutes, the prospect of converting it to residential made him quite excited. But it only took him a few more minutes to realize that the layout and size were all wrong, to the point where he was quickly able to tell his client, "I think you're barking up a tree you're not going to like."

Last summer, Denver commissioned the architecture firm Gensler to release a study of downtown Denver buildings that are the most compatible for a residential conversion.

"I think a lot of the owners and developers were really just more curious of the next steps," Gensler senior project manager Josie Hyde said. "As of right now, there are not truly identified next steps. However, everybody's sort

of in this waiting pattern since the study has been done."

Hyde and Gensler designed the residential conversion for the Petroleum Building, which Hyde said had "good bones" for a residential conversion and scored in the 80th percentile on the compatibility study.

In addition to the Petroleum Building, Gensler is currently on pause with a handful of clients who are interested in converting downtown office buildings, but are waiting on additional public funding before moving forward.

What these projects need

The Downtown Denver Partnership estimates that an office-to-residential conversion project in Denver needs between \$15 million and \$40 million in public incentives.

In addition to federal adaptive reuse tax credit proposals, Colorado lawmakers introduced House Bill 24-1125 this session, which would create a new tax

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credit for commercial-to-residential projects to the tune of \$5 million annually and a maximum of \$3 million for one project.

Jennifer Ramsey is heading up the adaptive reuse pilot program for the City and County of Denver. She said conversations are happening at the city level around what kind of financial incentives could be offered for adaptive reuse projects as part of a broader effort to revitalize downtown, although nothing has been decided yet. In addition, she's not ruling out waiving certain permitting fees or other fees that could make the costs go down.

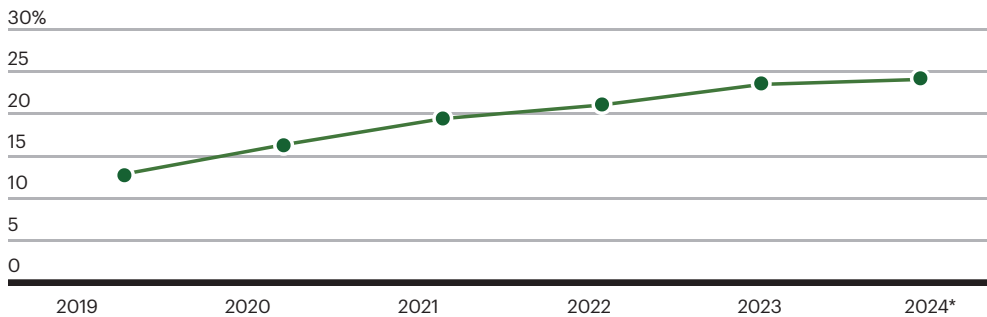
"I don't think anything's off the table," she said.

Like others, Ramsey reiterated the importance of office-to-residential conversions happening within the wider context of creating a new neighborhood district.

"Are there opportunities for co-living? Are there opportunities for creative use of some of these vacant first-floor spaces

DENVER OFFICE BUILDING VACANCY RATES

Commercial office vacancies in Denver have been steadily climbing since 2019.



SOURCE: JLL Q1 REPORT

*2024 ONLY INCLUDES Q1 DATA

that could lead to maybe more entertainment or education or just a more vibrant street life? And all of that is truly part of creating a really interesting neighborhood," Ramsey said.

Iltis pointed to Nichols Partnership Art Studios as a recent adaptive reuse project, where the former Art Institute of Colorado has now become a collection of nearly 200 apartment units. The \$45 million project started leas-

\$15M

The bottom of the range the Downtown Denver Partnership estimates conversion projects in Denver may need in incentives

ing in the fall with an average rent of \$1,550.

"By creating smaller unit sizes, they're actually able to hit some of those affordable housing targets without really having to go through the strict affordable housing process, which I think is fantastic," Iltis said.

In the quest for creating complete neighborhoods, uses beyond just residential are on the table.

"We've seen everything from data centers to even microagriculture. People are really looking at the full scope of what these buildings could be used for," Iltis said.

For his part, Borst, the co-owner of Denver's Petroleum Building, concedes that in the case of office real estate, there's an argument to be made that perhaps the government should not intervene.

Perhaps the market should play itself out: Let the banks take the buildings back and let the buildings go into foreclosure and be sold for dirt cheap, he said.

Then, once interest rates and construction costs come down, that's when downtown revitalization could really start, he theorized. But that could take a decade, Borst said, and by then, downtown Denver could have reached a point of no return.

"The question is, 'Can the city afford to wait for the market to right itself?'" Borst asked. //



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