

Spatial Resonance

With construction well under way, Kilroy Realty's Columbia Square project shows that creative office officially has a new face

Creative office was once simply renovated warehouse spaces with polished concrete floors and high, open ceilings, meant to target technology and creative companies. Most popular in San Francisco and New York City, technology mainstays came in and gave creative office a boost of flash and sparkle with gaming rooms and onsite amenities like

By Kelsi Maree Borland

fitness centers and restaurants. The open floor plans and unique, comfortable environments encouraged productivity and employee collaboration while helping to attract top-tier talent, making the extra investment in these types of spaces well worth it.

In Los Angeles, the commercial real estate industry has watched the phenomenon evolve over the past two decades, picking up speed as technology companies started to migrate into the market and as media and entertainment companies, for which Los Angeles as always been known, started to usurp the spatial style. Now, creative office in Los Angeles is marking a new milestone with Kilroy Realty's Columbia Square development project, a roughly \$400-million mixed-use complex in Hollywood that will once again redefine the standards in creative office.



Columbia Square broke ground in February of this year, exhibiting Kilroy Realty's continued interest in bringing creative office to the Hollywood submarket. Prior to launching the Columbia Square project, Kilroy bought and renovated the Sunset Media Center at 6255 Sunset Blvd. and the CNN building into creative office-type spaces. Then, earlier this year, the developer purchased the Academy site with plans to renovate it into a premier creative office space as well.

"I have been working in Hollywood for a

couple of decades, and it really dawned on me two cycles ago that there is something special about this market. This location, with the entertainment and media industries, and just the brand of Hollywood throughout the world, told me that this was a ripe area for gentrification that is not too different from the Time Squares of the world," David Simon, EVP at Kilroy Realty, explains, adding that this was a unique market for a long time because landlords have not understood the needs of the market's users for decades.

"You had transitional landlords and mom-and-pops, but you didn't have landlords that were well capitalized and really understood the potential of the market and what users here needed," he says. "That is what kind of got me going on Hollywood, and I really started to understand the market. Fast forward several years, and a lot of infrastructure has been put in, which is the foundation for a great urban environment. This has really been several decades in the making."

But, Kilroy didn't just see that Hollywood needed a strong, well-capitalized landlord. The company saw that media companies were looking for the benefits that creative office has to offer in this specific market. Kilroy purchased the Columbia Square site, which was the historic CBS Broadcast Facility, in October 2012 for \$65 million.

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The 680,000-square-foot mixed-use property will feature 350,000 square feet of creative office space, 20,000 square feet of retail and 200 long- and short-term luxury apartment units.

"People want to be where they can live, work and play, and if you look around L.A., there are very few places that offered that," says Simon. "L.A. is so fragmented, and to really have that sort of experience, like a

San Francisco or New York City, Hollywood felt like the right place to invest time, energy and money."

Hollywood, however, doesn't have the major influx of technology companies and start-ups, like the South Bay market of Los Angeles, which has been fervently dubbed Silicon Beach. Kilroy tested Hollywood's demand for a similar product type when it bought and renovated the Sunset Media

Center. "We created a similar environment to SOMA in San Francisco, with great lobbies, indoor/outdoor engagement—a vertical campus, and that would really tell us what kind of demand there would be for new office, because there hadn't been any new product built in Hollywood for years, with the exception of the Technicolor building, which was a build-to-suit," Simon explains. "Sure enough, the demand came, and rents went up 30% to 40% in some cases. That really validated our ideas about the market. With the feedback and demand we have been seeing already for Columbia Square, we think the Sunset and Vine corridor is really going to grab the users."

Perhaps the reason the creative office trend has grown so much is that its benefits, like increased employee productivity, are applicable to such a diverse group of office users. "I think the early adopters of these types of office development have been the

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JIM JACOBSEN
Industry Partners

technology companies, but some of the benefits of this design have become more apparent. You are seeing non-technology companies jump in as well," says Rick Sharga, EVP of Auction.com. "It allows companies to do more with less space and to operate with more efficiency. There is a benefit to a lot of different types of companies to adopt an open floor plan because you get the opportunity for cross-pollination within the same company and workplace."

Simon agrees that creative office is no

longer an office environment exclusive to the more creative-type companies, which he believes helps to augment the demand to these environments in the Hollywood market, where Kilroy is developing, but also in other emerging markets throughout Los Angeles. "I think even traditional companies understand that you need to create a great sense of place, especially with the younger talent that you have," he says. "You

want to retain talent; you want to interview people on the rooftop of your office building; you want to create a place for people to be inspired and continue to create and live and work and play. Content and technology are all kind of intertwined. Technology companies are leading the trend, but entertainment and media companies are understanding that it is less about ego and more about these open workspace environments

because that is how creative ideas are born, and they are understanding that this is the kind of space they want."

CBRE is a wonderful example of a traditional office user in a creative-type space. Late last year, CBRE implemented its Workplace 360 model in its new Downtown Los Angeles office. Although not described as creative office by CBRE, Workplace 360 is a professional open-floor plan environment that incorporates high technology throughout, including a paperless system, mobile workstations and onsite amenities, like a fitness room. Earlier this year, 10 months after adopting Workplace 360, CBRE won a 2014 Digie Award for Best Automation.

Lew Horne, CBRE's Los Angeles and Orange County president, recently told GlobeSt.com, REAL ESTATE FORUM's sister publication, "It's unquestionable that the office has been well received by our people. We're more mobile and flexible in the way we're working and thinking; even after 10 months there's a real enthusiasm in our people. The space has exceeded all expectations—it's become a talking point for all of our occupier clients as well as owners and landlords. It's been such a success that we've adopted the concept and many of the specifics at a global level. Since the opening of the L.A. office, we have converted 15 offices, including three others in Southern California: Ontario, Carlsbad and Downtown San Diego. Globally there are 18 more offices under construction."

CBRE's unique adaptation of a creative-like office environment illustrates that creative office is not just a trend but a permanent addition to the office sector. According to Jim Jacobsen, founding partner of Industry Partners, a brokerage firm that specializes in creative office, both new-economy and traditional companies are moving toward creative-type spaces not only because of the benefits mentioned earlier, but also because this type of space creates community and culture. "Everyone wants to be part of the city and it permeates inside the building," Jacobsen says. "That is why every major city has been revitalized. I think the creative space speaks to that. To be the CEO, you don't have to be in a three-piece suit. You can be in jeans and a t-shirt and be the CEO. And, I think that de-formalization is part of that cultural shift."

However, this also begs the question: what defines creative office space? Clearly, there is a pretty significant range in design aesthetic



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between the more formal CBRE environments and the converted warehouse creative offices that helped launch the trend.

Opinions about creative office design also vary between experts. For Jacobsen, creative office is about infusing amenities into the space and creating a community environment. "It has always been building by building, and it has always been about good design," he explains. "People wanted to bottle it up and say that it was concrete floors and open ceilings, but I don't really think that is what it's about. It was about making the space the best it can be and making people feel good in the space. People want to be in great space. If you are going to be in tight densities, you need some relief, you need a recreational room or an outdoor space."

Simon has a similar viewpoint, explaining, "We look at it as the totality of the environment, especially in these mixed-use



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spaces. So yes, it is open ceilings and concrete floors, but you need to have infrastructure in the buildings. You need to have the right elevators, the right HVHC, rooftop decks and an indoor/outdoor experience. It is the whole environment. It is the neighborhood of the project and the community feel. It is all of these components being pulled together that create a great creative environment."

Jacobsen has been transacting creative office deals in the Los Angeles market since the early '90s, and he recently opened his third office to focus on creative office demand in the San Fernando Valley.

Auction.com's Sharga explains that while creative office space is a trend that we have seen for a long time, it's one that is just starting to gain in popularity. In his opinion, that is because a lot of companies were afraid that this type of office space—in other words one lacking "the corner office" to which so many aspire—would actually detour potential employees and talent. "Employers thought employees

would want a more formal, structured environment where they could close their office door and have privacy," says Sharga. "I think what we are finding is just the opposite. Once people have an opportunity to work in a creative environment, more people like it than don't like it."

That was true also for CBRE, which was also afraid that some employees, especially seasoned ones who have worked with the

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company for years, would be uncomfortable with the change. However, it is finding that employees really like the flexibility of the environment.

According to Jacobsen, creative office activity is only growing, especially in expanding markets like Hollywood, Downtown Los Angeles and El Segundo. Santa Monica, which has long been a hub for the creative office sector, showed decreased vacancy rates, dropping to 4.8% in Q1 2014 from 5.5% in the fourth quarter of 2013, while rents inched up from \$4 per square foot to \$4.02 per square foot, according to an Industry Partners Q1 2014 report. West Los Angeles, including Culver City, and the South Bay submarkets have rents hovering around \$3 per square foot, according to the same report.

In Hollywood, Simon says that rents are averaging \$4 per square foot for creative office environments, which is up from \$2 per square foot in 2012 when Kilroy was renovating the Sunset Media Center. "Companies like ours are looking for a return on their investment," Simon

explains. "When we build new construction, our returns are based on comparable rents. We are on the mid-7% returns on all of these projects and that is based on where rents are and where we think we will go."

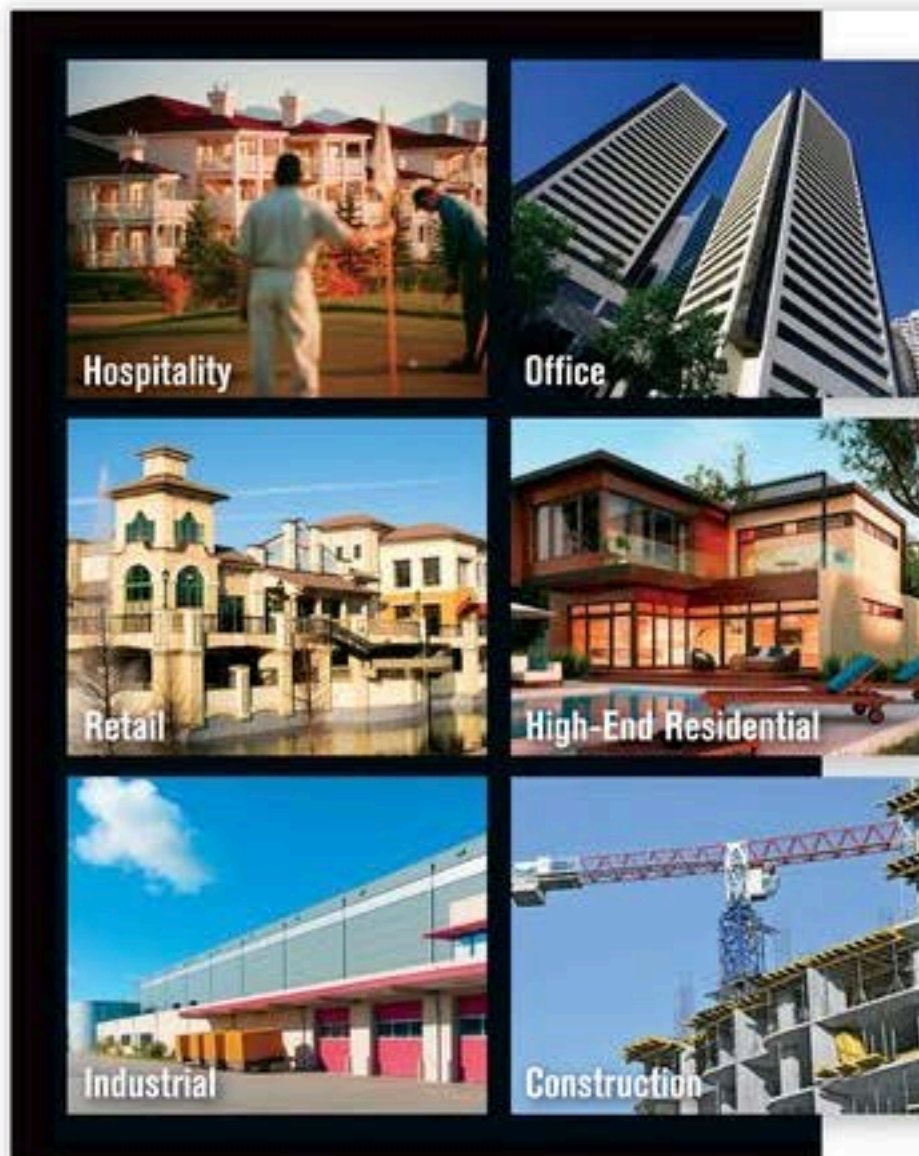
Although rents for these spaces are increasing because of the added amenities, employers are fitting the same number of employees into the same size space because of the open-floor plan designs, and the buildings themselves are more efficient in terms of utilities. So while savings varies from company to company, "users who are moving from an inefficient space into an efficient space will still pay less," says Simon.

Although more users are finding the benefits in creative office space, that isn't to say that traditional space will disappear altogether. All of these experts agree that there will always be traditional users who need the privacy and structure of traditional office buildings. Sharga even imagines that as the creative office trend grows, there will be a counter-cultural design movement in the opposite direction.

"There is always a contrarian movement in the marketplace, so you could end up with a segment of the market that goes to the opposite extreme, like big luxury offices with big, plush executive suites," he approximates.

Kilroy has already signed and announced the first tenant at Columbia Square: the first West Coast location of the New York-based NeueHouse, a private creative office membership supplier. The creative office and retail portion of the Columbia Square development will open in late 2015, with the residential suites following shortly after, and Simon expects that the office buildings will either be fully occupied or close to fully occupied when the doors open. Although this is clearly an office design that will continue to evolve and change the office industry, we are certain that it is not simply a trend, but a permanent addition to the office sector, because, as Simon says, "The better your environment, the more productive you are going to be." ♦

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