


SquareFeet

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ABOUT THE COVER

Photo illustration by Robin Graves

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Workflow OKC, at Sixth Street and Classen Boulevard in downtown Oklahoma City. Courtesy photos

Coworking spaces adjust to changing business climate amid COVID-19

By Jennifer Sharpe
The Journal Record

While operations at several Oklahoma City metro coworking spaces were modified and some services ceased temporarily at each of the four locations mentioned below, they all have experienced increased interest in their services as restrictions have eased and local employees have sought out options that accommodate their needs while working remotely.

Workflow OKC

Workflow OKC, located in downtown Oklahoma City at Sixth Street and Classen Boulevard, opened on March 2 and almost immediately was affected by pandemic restrictions.

In addition to its coworking space, Workflow Commons, the site offers 15 private offices ranging from 120 to 360 square feet, a studio and three conference rooms. While the Commons space shut down, the private offices, which have private entries, remained available for tenants to use at their discretion. As restrictions eased, the Commons reopened with limited capacity and limited time availability to adjust for social distancing, and daily rentals of private offices were available.

"Health and wellness is a huge factor for Workflow in both our programming and the way we built the building," said co-founder Chelsea Banks.

Workflow was built with special considerations for water filtration, natural light and air circulation, which Banks said has postured it to be ahead of other businesses trying to manage COVID-19 protocols.

Since late April, demand for the offices has increased, though some tenants are only short-term, like Coop Ale Works. With its brewery closed, team members needed a location to meet and do business, and Workflow became its solution with month-to-month memberships and no contracts.

"We have had to tweak our coworking membership model to account for COVID, but with the changes, we are able to meet demand," said co-founder Ginger Casper.

Workflow's six-month incubator program just launched and offers reduced rates in the coworking space for startup businesses.

"We want to help create that community and support structure," Banks said. "With our wellness classes and our continuing human education programming, we are really trying to create an environment that supports every individual that is here."

The Executive Hub at Gaillardia Parkway

The Executive Hub was under construction in March with a planned opening in late April that got pushed back as a result of the pandemic shutdown.

"This gave us time to reevaluate our operation and put new health and safety measures in place," said Ashley McClain, director of communications at Reign Capital Holdings, the parent company of the

Executive Hub. "As we welcome new tenants and guests into our brand-new facility, there is a sense of comfort knowing each of our 35 individual offices have never been occupied."

Unlike other coworking spaces with communal work areas, the Executive Hub offers only private office suites. High-efficiency air filters, industrial-sized automatic hand sanitizer machines and routine disinfecting and cleaning practices are in effect to maximize safety. Plus, 24-hour accessibility allows tenants to choose their own hours for social distancing.

McClain said that they expected a slow start, but business is picking up now with most of the northeast window-facing suites rented. Special incentives are being offered to attract tenants and be receptive to the challenging economic times. A second Executive Hub is planned for 9400 Broadway near Broadway and Britton Road.

"The unfortunate reality with the current economic environment is that many companies are downsizing, both in terms of staff and office space," McClain said. "Office concepts like the Executive Hub allow professionals an opportunity to start up or rebuild without the added stress of operational expenses or concerns of a long-term lease they may not be in a position to commit to."

The Treasury

Located in downtown Oklahoma City on Film Row, The Treasury has been operating since 2018 under co-owners Hannah and Brian Schmitt as a coworking space for women that also hosts events.

"When we realized in March that the best way to keep Oklahomans safe would be to keep everyone at home, we completely halted all our on-site events and closed the space to nonmembers," Hannah Schmitt said.

While The Treasury members doing essential work were still allowed in the space, Schmitt said that they all chose to stay home. Venue rentals on evenings and weekends were canceled or postponed. The Treasury resumed having in-person events in June at a lower capacity to allow for social distancing, and desks have been repositioned to allow 6 feet between workspaces.

Community is The Treasury's focus, and so restrictions on face-to-face interactions challenged the Schmitts to establish their presence digitally.

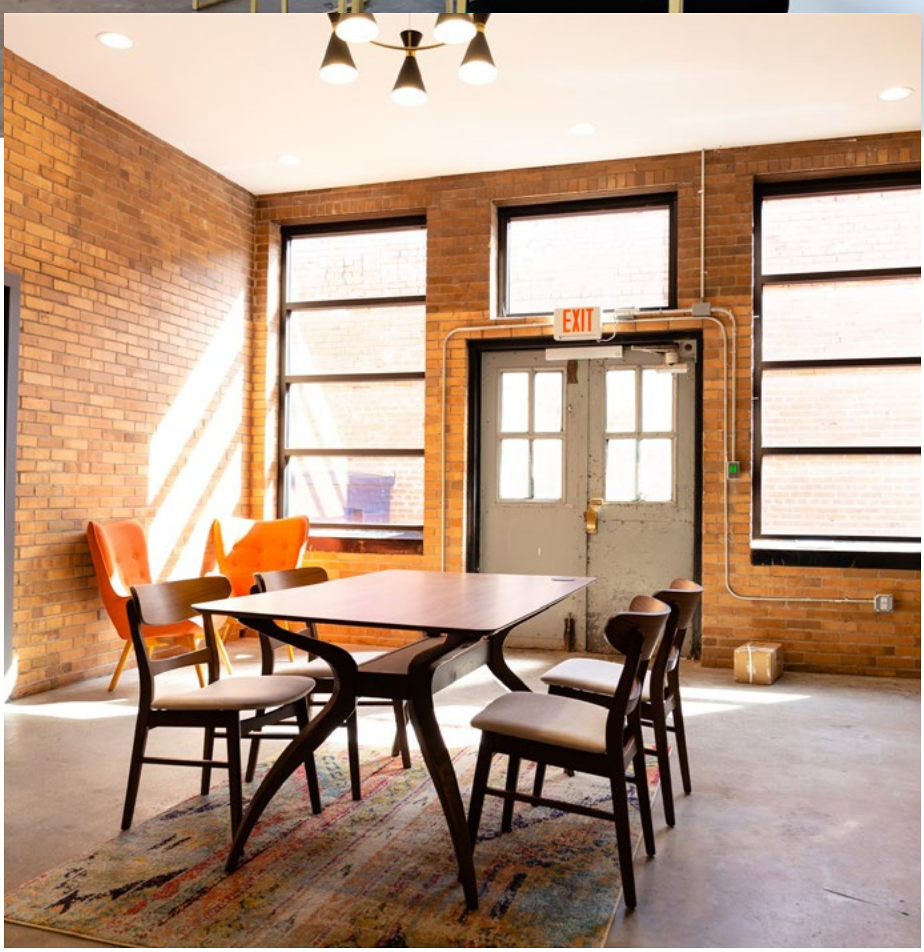
"The Treasury was built around the

See **COWORKING,** page 6

Courtesy/Workflow

Courtesy/Workflow

Courtesy/Miranda Hodges



The Treasury, located in Oklahoma City's Film Row. Courtesy/Miranda Hodges

COWORKING
continued from page 5

value of in-person interaction, so we had to completely pivot in March to make sure we were continuing to meet the needs of our members without a physical space," Hannah Schmitt said. "This pandemic really made us realize our community isn't about the space at all, but about the people and how they support each other online and off."

Vault 405

Vault 405 in downtown Edmond is a coworking space powered by Citizens Bank of Edmond. It offers day passes, personal stations, private offices, conference rooms and events.

Josh Pape, executive vice president and chief banking officer of Citizens Bank of Edmond, shared Vault 405's carefully planned pandemic response, which included precautionary measures in early March followed by a 21-day closure in response to the governor's order for all nonessential businesses. On May 1, Vault 405 opened for all members under limited

Courtesy/Miranda Hodges

hours with various guidelines to encourage distancing and safety. On June 1, access for members increased to allow for limited conference room use. In early July, member access returned to 24/7.

"It was important for Vault 405 to offer waivers and discounts on membership fees when the initial disruption began with the pandemic, and we believe this contributed towards our high retention rate," said Pape, who reported most members have remained with Vault 405.

All Vault 405 membership fees were waived for the month of April, discounted 50% in May and 30% in June.

New interest in coworking at Vault 405 picked up as businesses shifted to remote-working.

"Most inquiries were regarding our day passes to try the facility during normal working hours," Pape said, which they were unable to accommodate since Vault 405 was closed at that time. "As Oklahoma adjusts to a new normal with the presence of COVID-19, we expect a number of people will continue to telework and will seek out alternative workspaces to provide separation from home life."

Vault 405 is committed to evolving to meet the needs of members and potential new customers navigating teleworking. According to Pape, one area being explored is how to be more accessible virtually. He foresees a long-term shift in the workforce to more remote or flexible options, which will increase the need for coworking spaces.

"Vault 405 is the right solution, offering affordable flexibility for alternative workspace," he said. "Additionally, this pandemic has strengthened our mission for Vault 405 to be a networking engine for small business owners to stay plugged in and informed about resources and programs that can help sustain their operations."

"As Oklahoma adjusts to a new normal with the presence of COVID-19, we expect a number of people will continue to telework and will seek out alternative workspaces to provide separation from home life."

— Josh Pape, executive vice president and chief banking officer of Citizens Bank of Edmond, which developed Vault 405

Courtesy/Depositphotos

Local brokers weigh in on office market

By Jennifer Sharpe
The Journal Record

The COVID-19 pandemic has forced businesses to evaluate their office space in new ways, as mandatory closures, social distancing and work-from-home measures have changed the way people work. Commercial real estate professionals in the office sector have been closely monitoring the situation, working to provide for their clients in an evolving environment where there is no clear direction for the future.

An immediate effect of the pandemic has been a sharp decrease in leasing activity.

Craig Tucker, managing broker with Price Edwards & Company, and Lee Wallis, managing director at CBRE, both noted significant slowdown on new leases. With companies focused on their office closings, reopenings and the economic impact of the pandemic on their output and productivity, leasing new office space has become low priority. However, there has not been an increase in available office space on the market yet. Tucker predicts that there likely will be an increase at some point, but with most tenants on five-, 10- or 15-year leases, there is not significant rollover in any one month that would be noticeable to date.

Accordingly, CBRE's local data for the Oklahoma City market has shown few rent defaults, and office usage tracking indicates approximately half of their managed Oklahoma City portfolio of offices are open, with many firms still allowing employees the flexibility to work from home.

"Many employees and companies have proven that work and business can successfully be done from home with the right technology support," Wallis said. "However, our research and feedback from clients also shows that people miss the day-to-day interactions and experiences unique to an in-person presence in a physical office. The desire for this collaboration, camaraderie and company culture experience remain in demand, both for employers and employees."

To that end, CBRE is expecting that office demand will increase as users return to their offices and conditions resume a more normal rhythm.

Tucker anticipates the same, acknowledging how many companies have found that some employees can work just as efficiently from home as they can in an office, but whether that becomes a long-term approach remains to be seen.

"Personally, I think working from home hampers career advancement and the teamwork aspect of all being in person, when possible, with a shared objective," he said.

Mark Beffort, CEO of Robinson Park,

also notes downsides of a 100% work-from-home model, believing that people will still need to physically come together to effectively maintain relationships. While Beffort is confident in the bullishness of the office market, he foresees less development and less density within the actual office spaces moving forward. Tenants will be looking for more quality in Class A space, demanding higher standards for green features, and measures aimed at health, safety and cleanliness. Beffort anticipates buildings may consider a certification process in the future to assure that they are meeting clean standards, which might prove challenging to smaller buildings.

"Some of the smaller buildings will not be able to attract clients because they might not be able to offer those types of services, or they are not as efficient in delivering green, health, safety and clean," Beffort said. "The bigger, better buildings will be able to more easily provide a safe, comfortable environment."

CBRE predicts that many companies will eventually find balance in a hybrid of in-person and work from home, with the physical office acting as the hub that connects employees and teams with their companies.

"Recent surveys suggest that most employees want to work at least two or three days in the office," Wallis said. "Offices will continue to do what they have always done, which is to serve as the hubs for the human elements and experiences of the workplace, like relationships and in-person collaborations, that even the best technology cannot provide."

Since March, Tucker has seen individual companies navigating the pandemic in different ways. One company had been considering a fairly sizable expansion, but changed its mind after experiencing remote work conditions. It now realizes that it does not need more space, and may, in fact, need less. Another company, even with most staff still working from home, feels they will all eventually come back to the office, and it may need more space to provide additional room for social distancing and to ensure the safety of staff in open workspaces. That was also the case with another recent building sale, where he said the client ended up nearly doubling the square footage it originally set out to purchase to allow for future growth and more space between employees in cubicle areas.

"Personally, I think working from home hampers career advancement and the teamwork aspect of all being in person, when possible, with a shared objective."

— Craig Tucker, managing broker with Price Edwards & Company

Courtesy/Depositphotos

Important things to know about depreciating building improvements

By Jennifer Sharpe
The Journal Record

Depreciating building improvements on commercial property can be confusing for real estate owners.

As an initial consideration, Todd J. Pefferman, partner at BKD, recommends knowing whether improvements made during the year should be capitalized and therefore depreciated, or if they can be considered a repair under IRS Repair Regulations. Improvements that qualify as repairs can be expensed when paid rather than depreciated over time.

Pefferman also said the useful life of an asset should not be overlooked.

"Assets with a useful life of 15 years or less can take advantage of the current bonus depreciation rules, which allow 100% of the cost to be deducted in the year of purchase," he said.

Consideration should also be given to writing off the demolition costs and asset values of items removed from a building, explains Heidi Henderson, executive vice president for Engineered Tax Services. She said building owners and landlords often forget the value in these write-offs.

"This is called disposition, or abandonment, and can generate a large deduction when items are removed and replaced."

Henderson suggests having a detailed cost segregation study, which enables the owner to easily identify the original cost of the asset so it can be written off when replaced. Cost segregation is the process of identifying and classifying building components that allow a building owner to accelerate depreciation and generate additional cash flow.

Michael Johnson with Legacy Ventures, the Oklahoma representative of Cost Segregation Services Inc., said the IRS allows a building owner to depreciate a building in two ways: straight-line over 39 years, or by using a cost segregation study to accelerate certain parts of the property faster, typically in five, seven or 15 years. Specialty electrical, equipment, carpeting, anti-bacterial paint, parking lots and security are examples of things that can be accelerated. When items are accelerated, it creates a greater depreciation expense to offset revenue.

"An engineering-based cost segregation study is a great tool to generate this cash flow through tax savings strategies, and help maintain compliance with the tax laws surrounding your building," Johnson said.

In past years, the depreciation generated by cost segregation would generate extra cash flow simply by reducing taxes. Johnson said recently passed legislation allows certain situations to generate a loss and a refund back from a prior tax year. The CARES Act corrects congressional oversight in the 2017 Tax Cuts and Jobs Act and now defines Qualified Improvement Property as 15-year property. Any QIP acquired and placed in-service after Sept. 27, 2017 is eligible for 100% bonus depreciation, and bonus depreciation can be retroactively applied to QIP expenditures. As Johnson explains, this allows one to capture potentially large depreciation deductions on QIP-defined improvements made in 2018, 2019 and 2020. Additionally, the CARES Act allows for a five-year carryback of net operating losses arising in 2018, 2019 and 2020. If a business has a net operating loss, it can now be used as a loss carryback to obtain a refund from a prior year of gains, generating cash flow in the current tax cycle. If a net operating loss is already being carried forward, that loss can be used to offset 100% of income. Previously the TCJA had limited the use of net operating losses to allow businesses to offset only 80% of income in future years, but now that limitation is temporarily lifted through 2020, freeing up more cash flow as less taxes need to be paid to the IRS.

"These rules are very favorable to owners of commercial real estate," said Pefferman.

Henderson concurs, and cites additional energy-efficient building incentives and 179 deductions as tax code sections that allow many costs to be immediately deducted.

"Many recent tax law changes continue to expand the benefits of investing in real estate," she said. "The TCJA expanded bonus depreciation for existing buildings, increased the 179 deduction and adopted the Opportunity Zone strategy. The CARES Act passed the QIP rules which allow taxpayers to deduct many improvements made to their building. The appropriations bill passed in December 2019 extended 179D and 45L for new or remodeled buildings that are energy efficient, and offer deductions or credits to help pay for some of these fixtures," she said. "All of these bills have been focused on encouraging and promoting real estate."

Developer handles COVID-19 delays in stride

A sign facing the Kilpatrick Turnpike advertises for commercial mixed-use space in the upcoming Mustang Creek Crossing development, to be built on 260 acres in Mustang. Photo by Janice Francis-Smith

By Janice Francis-Smith

Sam Couri is in no particular hurry, driving his pickup truck through wide-open, green fields dotted with wildflowers on a sunny day. On one side of the Kilpatrick Turnpike, Couri owns 100 acres; on the other side 160 acres. The two tracts of land are joined by an underpass that one day will allow people visiting what will be known as the Mustang Creek Crossing development to travel from one side to the other safely, without crossing the road.

Plans are to create a destination retail shopping, dining and entertainment center – much like Chisholm Creek on the north side of Oklahoma City, but even bigger.

"This is going to be 10 restaurant sites backing up to the water," said Couri, sweeping his arm along a swath of land as he drives. "This is going to be the real deal. This is a hospital. This is going to be theater.

"Well, who knows if a theater is going to come with all this – hell, they're all about broke," Couri added later. "But we have an (letter of intent), that's about all I can tell you."

Couri, who has been involved in Oklahoma real estate since the 1960s, holds a clear vision for the project but is content to watch and wait for a little while as the situation evolves. He's looking for just the right retailers and restaurants that will match the tone and scope of the project.

"We're looking for the right people: banks, savings and loan, credit unions, offices," Couri said. "We can take anybody that fits, if I want them. I turn down people if I don't like the program, but we'll sure look at everything. This is a big deal. It's like a whole town out there. We're developing a whole town."

For now, the development and many other projects envisioned by local developers are experiencing delays due to complications caused by the pandemic. While Couri is looking for the right tenants, businesses are looking for the right investments to make amid all the uncertainty.

"Lenders have become quite selective; in fact, for a while there at the peak of the crisis many lenders stopped lending altogether," Brian Stoffers, who oversees the Debt & Structured Finance practice at CBRE, said during CBRE's July 10 The Weekly Take podcast. "They weren't sure how to price their assets, price their mortgages. … We've seen a lot of lenders come back but we've also got some fallen soldiers, if you will, lenders that may not make it through this crisis."

Capital is coming back in recent weeks, but conservatively, Stoffers said.

"I would say on average its 5-10% less proceeds than pre-COVID, and when it comes to asset classes like lodging and retail very, very difficult to come by," he said.

Consumers' buying patterns may have altered due to the pandemic, but Couri said business is still getting done.

"The virus has certainly become a factor, because I don't think anybody wants to die, you know, but by the same token it hasn't stopped the world," Couri said. "We've got several really good prospects and we're about to do a couple of new deals. It's pretty neat."

Though shoppers have leaned toward buying more online in recent weeks, Couri does not believe brick-and-mortar retail is dead, as some have asserted. But retail offerings do need to be something special in order to draw shoppers out of their homes and to destination retail centers.

The Mustang Creek Crossing development is itself an example of how a changing landscape may be adapted for economic growth. The proposed entrance to the site is a wide stretch of road about half a mile long. It's a piece of what used to be the turnpike, before the new road was constructed. Couri worked with government officials to get an underpass built below the current roadway to keep the development connected and pedestrian-friendly, while remaining easily accessible from the turnpike.

A few developments along the edges of the Mustang Creek Crossing site already are completed or are underway, including a Wendy's restaurant, an OnCue convenience store and a Car Wash Express near the corner of SW 15th Street and Mustang Road.

Couri's portfolio faces him with changes in multiple industries, including hospitality. Among his extensive list of properties is the building in downtown Oklahoma City's Bricktown entertainment district that once housed the Spaghetti Warehouse restaurant.

A family-style restaurant right across the street from the 10-story, 182-room Renaissance Hotel under construction at the corner of Sheridan and Oklahoma Avenue seemed a sure bet when ground was broken on the hotel last fall. But there's no pressure to rush the project as construction continues on the hotel and the industry adapts to respond to the pandemic, he said.

"We've been remodeling and waiting for the right tenant to come along," Couri said. "I'm not at liberty to tell you what it's going to be, but it's going to be something that people will really like in the Bricktown area."

Renovations are underway in the space that once housed the Spaghetti Warehouse restaurant in downtown Oklahoma City's Bricktown entertainment district. Photo by Janice Francis-Smith

QUESTION:

Ask the Industry: How is COVID-19 changing the commercial construction industry?

"Covid-19 has changed our industry and is expediting innovation in commercial construction communication. Effective communication and coordination between owners, architects, engineers, contractors, suppliers, and hands-on workers is essential to the success of every project. We used to shake hands and gather our teams in conference rooms, field offices, on job sites and at production facilities. This simple convenience once taken for granted is no longer available to us.

Project meetings are very visual and interactive with schedules, drawings, work plans, charts, sketches, renderings and much more. In management, we are learning to be more effective with technology to share information and collaborate. We meet in smaller groups on job sites creatively re-imagining standard work processes to keep goals and workflow aligned and build safely."

Stan Lingo, President
Lingo Construction Services

"The impact COVID has had on commercial construction is still evolving and has yet to be fully realized – as a 'lag' business construction usually doesn't react to or feel the impact of economic shifts as quickly as other industries, so I think it will be towards the end of this year or early 2021 before we will truly understand all of the impacts.

In the short-term, our two main concerns are workforce and material shortages. From a workforce point of view, the stimulus package created a disincentive for lower-tiered hourly workers who could collect additional unemployment ($600 week = $15 per hour job), in addition those who are still working are less productive due to the protection measures i.e. masks, temperature scans, social distancing, remote work etc. Add to that when/if a member of a crew tests positive then, in large part, you lose the crew as a whole for several days/weeks – so getting and keeping workforce has been an issue.

Materials shortages are just now starting to be felt – all factories both foreign and domestic have been operating under some sort of reduced capacity – some due to restrictions imposed by their states/countries, some by the workforce shortages mentioned above and some by both. This reduced capacity throughout the supply chain has slowed or stopped some materials from arriving timely or at all. This has had an impact on project schedules and costs. In all I would say the impact is like it is for all of us – a moving target. There is a lot of information and some good, some not and the effects of shut down, open up, shut down, open partially, etc., have been difficult to manage through."

Bryan Timberlake, President & CEO
Timberlake Construction

"I have been in the construction business for 35 years and COVID-19 has introduced the most unique time in our industry. We have overcome volatile business cycles, material shortages, labor strikes, tariffs and other situations beyond our control, and have been able to navigate them because of previous experience. COVID-19 came quickly with no knowledge of how to deal with it that we 'dropped everything' to understand it, develop a plan on how to cope with it and continue to build. We are having daily meetings with our management and safety professionals and have developed protocol to handle any type of situation in a very dynamic environment. COVID-19 impacts us because of material shortages from factory shutdowns and labor shortages because of the virus. These shortages challenge our ability to put work in place. All the while, and justifiably so, our owners want their buildings built on schedule!"

Dave Kollmann
President
Flintco LLC

SALES POINTS

EMPLOYMENT

STATEWIDE	June 2020	June 2019
Labor Force	1,765,773	1,839,224
Employment	1,649,171	1,780,170
Unemployed	116,602	59,054
Unemployment rate	6.6%	3.2%
Total Nonfarm jobs	1,604,000	1,700,200
Goods Producing jobs	237,900	274,100
Services Producing jobs	1,366,100	1,426,100
Manufacturing jobs	128,900	141,300
Government jobs	337,100	350,200
Trade, Trans. & Utilities jobs	294,500	300,400

OKC MSA	June 2020
Labor Force	674,046
Employment	626,774
Unemployed	47,272
Unemployment rate	7.0%
Unemployment rate (June 2019)	3.3%

TULSA MSA	June 2020
Labor Force	457,238
Employment	423,902
Unemployed	33,336
Unemployment rate	7.3%
Unemployment rate (June 2019)	3.4%

TOTAL RETAIL TRADE

	June 2020	June 2019
Statewide	$3,208,311,221	$3,378,697,288
OKC MSA	$1,218,904,584	$1,269,508,081
Tulsa MSA	$816,275,399	$861,737,792
Lawton MSA	$81,866,593	$85,235,905

BANKRUPTCIES

	Jan.-June 2020	Jan.-June 2019
Western District of OK Filings	2,232	2,692
Northern District of OK Filings	1,091	1,388
Eastern District of OK Filings	676	748

AIR TRAFFIC

Will Rogers World Airport	Jan.-June 2020	Jan.-June 2019
Enplanements	479,578	1,059,362
Deplanements	491,529	1,055,779
Total Passengers	971,107	2,115,141

Tulsa International Airport	Jan.-June 2020	Jan.-June 2019
Enplanements	319,057	730,221
Deplanements	322,458	737,250
Total Passengers	641,515	1,467,471

REAL ESTATE

OKC Area Residential	June 2020	June 2019
Closed Listings	2,750	2,303
Pending Listings	2,675	2,020
Average Sale Price	$228,331	$222,436
Median Sale Price	$198,000	$190,000
% Selling Price to List Price	98%	98%
Average Days on Market	41	42
End-of-Month Inventory	4,615	6,280

Tulsa Area Residential	June 2020	June 2019
Closed Listings	1,605	1,376
Pending Listings	2,008	1,361
New Listings	2,151	2,008
Average Sale Price	$218,701	$209,943
Average % List Price to Selling Price	98.12%	97.80%
Average Days on Market	33.54	35.37
End-of-Month Inventory	4,104	7,322
Months of Supply of Inventory	5.83	3.23

Sources: Oklahoma Employment Security Commission; The Center for Economic and Management Research at the University of Oklahoma's Price College of Business; U.S. Bankruptcy Courts of Western, Northern and Eastern Districts of Oklahoma; Will Rogers World Airport; Tulsa International Airport; Oklahoma City Metropolitan Association of Realtors and Greater Tulsa Association of Realtors