



COMMAND SPACE

By Tom Schuman

The Union Offers New Tech Home

As companies and organizations publicly announced their intentions in late 2016 and early this year to move into The Union 525 scale-up space on the south edge of downtown Indianapolis, the congratulatory emails to

managing partner John Hurley almost always contained the same three words: **It's about time.**

The well-wishers were referring to the establishment of a long overdue facility for that still-growing, second-stage company that is not prepared or financially equipped to settle into a traditional office space. The biggest

hurdle to overcome for these organizations is the typical office lease – whether it be five, seven or 10 years.

Jeff Ready is CEO of Scale Computing, which moved from its home in the Purdue Research Park of Indianapolis to The Union in early March. He summarizes the challenge.

“Frankly, as an early stage company, you don’t really know how big you’re going to be or how small you’re going to be 12 months from now, much less seven years from now. Once you’re in a space, if you’ve got investors and a board of directors and a 10-year lease, you’re looking at a multi-million-dollar transaction.”

A potential earlier move for Scale was called off with one of the primary reasons being the “board of directors not being super comfortable with us locking ourselves into something like that.”

For Hurley, co-founder and CEO of SmartFile, this adventure started with trying to find suitable space for his company. SmartFile had basically doubled year after year, he conveys, and was on its fifth office in

a six-year period.

In trying to expand beyond 2,000 to 3,000 square feet and move closer to the heart of downtown, he says, “What I found early on was I had to do a five- or seven-year lease and I had to put it on my own personal credit. That’s a problem when you start talking about \$7,000, \$10,000 a month and the business fails.”

The solution: If you can’t find what you are looking for, create it.

Halls of learning

The Union, located at 525 South Meridian Street in the capital city, is located between the downtown office operation of Rolls-Royce Corp. and the nearby Eli Lilly & Company campus. The building has a long history of its own.

Dedicated in 1895 as the Industrial Training School, the 122,000-square foot facility (also now 122 years old) is said to be the first vocational high school in the nation. It served for many years as the home for Manual and later Wood high schools before the latter closed in 1978. Brouger Insurance Group converted it into an office building in 1984, and Lilly occupied the space beginning in early 2000.

Three investors and real estate veterans – John Teibel, Brad Teibel and Al Krygier – with much of their experience in northwest Indiana purchased the building in 2015. Various uses (including apartments, condominiums, office space and more) were contemplated with none hitting the mark until a mutual acquaintance brought Hurley into the mix.

“I came over here, walked in for the very first time and saw that gym, and I thought not only was this a great space for SmartFile, but this would be a great space for tech companies like SmartFile,” he enthusiastically recalls. “I said to John Teibel, ‘I don’t know how we’re going to make this happen but I want to be part of it.’”

That first viewing and conversation took place approximately one year ago. Fast forward to today and The Union will soon be home for



John Hurley, CEO of SmartFile, is passionate about the potential for The Union 525 – already 100% leased before building renovations are complete.

about 15 tech companies, a Launch Indy version of the successful Launch Fishers co-working space, the Purdue Polytechnic High School Indianapolis (featured in the May-June 2016 *BizVoice*®), an undisclosed anchor tenant and more.

A Hoosier ‘Gem’

The beauty of The Union comes, in part, in reviving the history of the building and in the simplicity of meeting the needs of today’s companies. In a tour, Hurley points to reutilizing iron beams and two bell towers that were part of the original structure. The former schoolyard will be a courtyard gathering space, complete with a four-story slide.

Igniting Development in South Bend

The Studebaker Corporation was a longtime driver of the South Bend economy. On that site today, the developing Ignition Park is striving to meet the needs of innovators and entrepreneurs.

Flexibility is the key to serving companies on that growth spiral. The HeadQuarters co-working space opened in late 2016, while the Notre Dame Turbomachinery Laboratory is a \$36 million facility working with industry and government partners. Others in the Catalyst One and Catalyst Two buildings are in varying stages of development.

Brad Toothaker, managing partner of the Great Lakes Capital (GLC) family of companies as well as president and CEO of Bradley Company, says there is not really a size description that fits Ignition Park tenants.

“It’s a little more thematic in terms of R&D, high tech and information systems. We are intended to be a next phase growth location for companies (whether coming from Innovation Park at Notre Dame or other locations) to continue to have some shared resources for a period of time ... from there, we can scale internally into dedicated spaces that might be needed.”

Toothaker, with his real estate background, is fully aware of the long-term lease challenge inherent in the traditional space model.

“That’s part of the reason the Ignition Park development includes a couple of buildings, and ultimately more buildings, with long-term substantial tenant commitments – to be able to offer this space where people can add one seat at a time and on a very flexible basis,” he shares. “Ultimately, that 10-employee group turns into 25 people and they make a longer-term commitment to lease space in 5,000 square

feet or whatever it may be.”

Toothaker notes that traditional office space is “capital intensive,” but that innovation space developers are making a “capital investment commitment up front in creating the space to begin with. But you’re not going to be customizing it and spending a lot of additional money downstream.”

Great Lakes purchased 13 acres from the city of South Bend to build Catalyst One and Catalyst Two. As those facilities near 100% occupancy, there is room for more buildings on that site and the company has the option to purchase 11 additional acres. Work on the next facilities could begin later this year.

Before Ignition Park became the hub of such activities, Great Lakes was working with area companies like SMART Temps and Vennli.

“We’ve done that on a case-by-case basis for many years, scaling them up over time with their space requirements,” Toothaker reveals. “We structured rent scenarios, invested in them and grew them in a way that was comfortable for them and stayed flexible for their growth.”

Great Lakes has a GLC Ventures arm that is actively working with others and aiding companies at various financing stages.

Toothaker cites another recent development in the world of co-working and beyond, which he describes as “really cool.”

“More companies are sharing space and mixing intelligence and resources. So you might have three engineers with different companies that are in different space but have collaborative intelligence that can benefit one another.”

RESOURCE: Brad Toothaker, Great Lakes Capital, at www.greatlakescapital.com

And then there's the gym, already nicknamed "The Gem". Refurbished hardwood floors and a bowl structure that will include tenant and sponsor logos around the perimeter add to the attraction. A partnership with Klipsch, whose CEO graduated from the former Wood High School, will bring state-of-the-art sound for special events and programs.

John Wechsler, CEO of Launch Fishers, will guide the Launch Indy operation. He shares that his grandfather played basketball in the facility at one time.

"The physical structure is just incredible," he offers. "The courtyard for special events is going to be a very unique space. Probably the 'gem' of the whole thing is that gymnasium. It looks like it is taken straight out of *Hoosiers*. I'm excited about the potential from a weekly tech basketball league, which is already in the works, to the capability of large-scale events."

Wechsler adds that street events, on the

Meridian side of the building, are another possibility.

On the amenity side, Hurley and company have put together an attractive offering. It starts with 5,000-square-foot pods that come with two conference rooms, two smaller meetup rooms, a kitchenette, movable walls and data connections galore.

Hurley observes, "I didn't get any pushback from anybody saying, 'Can you add this wall there or put this window there?' It was, 'Oh great, you've made those decisions for me and I'm OK with it.' It's very simple – big, open spaces, a couple of private areas and lots of connectivity. You bring your furniture and plug in and you're ready to go."

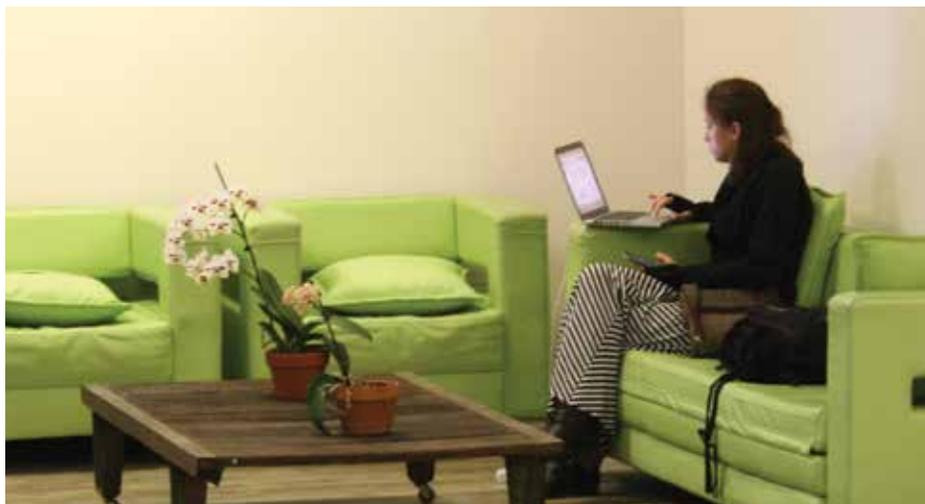
Ready, who had looked at the space prior to The Union concept being fully developed, affirms that rationale. "The internet is included, they've got a small data center on-site – all these things you would

normally have to deal with, they have taken care of. It's sort of a turnkey space. If somebody vacated tomorrow, they would probably have somebody else signed up by the end of the week."

The increased number of technology companies in this portion of the state backs up Ready's assertion. "Two years ago, this could have worked," Hurley contends. "Ten years ago, it wouldn't have."

Then you can add in the following key elements:

- Leases, at what Hurley describes as 30% below market value, that range from one to three years
- A coffee house, free parking, workout facility, bike storage and the locker room/showers that were part of the old schools
- Access to other tech companies – both in the building and nearby – and the downtown location



Collaboration areas and a "gem" in the form of a former high school gymnasium are among the places that will bring people together for camaraderie and special events.



Growing up

The Launch Indy component, while one-fifth the size of its wildly popular "big brother" in Fishers, will have a similar look and feel: large, open spaces; soft seating; casual areas; dedicated desks for those in need; and classrooms to accommodate groups from 10 up to 60. It will also be part of the Indiana Coworking Passport program, which gives access to some 40 other locations around the state.

Is The Union the next step for companies ready to "launch" to a new level?

"I think it depends. We've had companies grow out of Launch Fishers that would be candidates to go into a space that size," ponders Wechsler, citing Bluebridge Digital (now Emplify) as an example. "It's not inconceivable we would have companies launch out of a co-work location and go straight into a 5,000-square-foot space. But at the same time you could have those who are on not quite as aggressive a growth path that would go into a smaller space for a year or two before going into a 5,000-square-footer of their own."

Asked why a space like The Union has not become a reality sooner, Wechsler mentions a slow adaptation to the new model of doing business.

"There are a lot of entrenched business interests that kind of fly in the face of the entrepreneur and the innovator. With the free agent nation of the gig economy combined with the innovation economy where companies start up and grow very rapidly, they can't tie it up for traditional real estate leases the way they have been done over the years," he says. "If you look at the ecosystem as a whole, it can grow very rapidly if these companies are freed up to accelerate faster than the traditional real estate model."



The evolution of space from raw to finished product is ongoing.

“There’s enough deal flow that I don’t think the real estate investor and owner are approaching it from a position of scarcity but approaching it from the perspective of this thing is rising, the tide is rising for everyone – if we can just keep that innovation curve improving, it’s going to be good for everyone.”

Business benefits

Hurley and several of the other early occupants also expect The Union to assist in two vital areas – attracting talent and capital.

“For us, from a tenant’s point of view, it’s extremely difficult in this market to hire great talent. We’re all competing for the same pool of people,” Hurley conveys. “If coming to this space and walking in and saying, ‘Wow, I get to work here every single day and that’s the one thing I have, I’m going to leverage it as much as I possibly can. For me, culture is very, very important. I put a lot of emphasis on culture, on community, on being open. This space really fits well with that model.’”

Scale Computing’s Ready is pleased with the strong relationship he had with Purdue, with the

Adjusting to a New Landscape

Karl LaPan, president and CEO of the Northeast Indiana Innovation Center (NIIC) in Fort Wayne, believes today’s technology and entrepreneurial landscape is different than in the past. The important aspect for communities and organizations is to be prepared to help those companies at all levels.

“We’re seeing a big change from 15 years ago (the NIIC began operation in the early 2000s). Whether technology-powered or innovative, you’re seeing these rapid ups and downs. Part of the business model of supporting high-growth, high-performance companies is you’ve got to be able to support their needs at whatever stage they are,” he expresses. “They may not be in incubation or acceleration very long before they’re in emerging growth.

“What’s happened today is you have to look at this as more of a continuum rather than a start and stop. Unlike 15 years ago where you incubated and jettisoned these companies and off they go – today, the growth is not linear. The way to support and help these companies today is to be available to provide a continuum of services for both the peaks and valleys that these companies experience,” LaPan continues. “The public perception is that we incubate them and throw them out. If you don’t (serve all stages), they’re going to go to a different community to get that. So you’ve got to connect those dots. And I don’t think in Indiana, we really get that.”

Stage two companies, those beyond the incubation period, have three primary needs – new markets, talent and capital – according to LaPan. The Emerging Growth Center facility that is part of the NIIC serves as a home for these organizations. The focus is on companies with 10 or more employees with at least \$1 million in revenue and falling into one of the defined areas of high-tech activity as the facility is a certified technology park.



A variety of programs are offered through the Northeast Indiana Innovation Center.

While market rent rates typically apply, there are advantages to the setting.

“Up until a few years ago you could do leases of 18 months to three years, but we’re seeing a tightening of supply – a return to five-, seven-, 10-year leases,” LaPan says of northeast Indiana. “But we allow lease breakage on our campus, to go from a smaller space to a bigger space. We give that kind of Disney Hopper pass so you can grow up with the flexibility you need as long as we have not contributed significant dollars to lease improvements.”

LaPan notes that some companies outside the NIIC secure more space than needed in fear it won’t be available later. “So they are spending a lot of money in anticipating growth before that growth actually materializes. One of the things we try to do is mitigate that so companies aren’t taking on that extra commitment before they’re ready to do it.”

In addition to the space flexibility, the existing relationships and resources of the certified technology park are valuable.

“Where it can help is organize, facilitate and matchmake” to meet those market, talent and capital needs, LaPan concludes.

RESOURCE: Karl LaPan, Northeast Indiana Innovation Center, at theniic.org

research park facility allowing his company to move to different parts of the building as it grew. But the far westside location was not always a plus, especially for those that might live on the northeast side of the city or in Hamilton County.

“People sort of assume that if you live in the metro Indy area, at some point in your career you might work downtown,” he speculates. “All the soft amenities of downtown – bars and restaurants, places to eat lunch, places to meet. We have a lot of young employees and a lot of them live downtown. I’ve been told by other tech companies that have moved from a suburban/metro area to a downtown that it made their recruiting much easier, and I expect it will be much the same for us.”

And there’s the fun part of the equation.

“It’s really just the tech culture. We’re a bunch of geeks, right,” he adds, “so yesterday (shortly after moving into the space in March) spontaneously my entire office grabbed their Nerf guns and attached SmartFile in the middle of the day.”

Rod Reasen, co-founder and CEO of Springbuk (see story on Page 32), is also

pleased to be co-located with others in similar circumstances. His company had moved numerous times within the same north side building. He wanted a central location and the opportunity to “be an influencer in the tech community.”

“As scale-ups, there is the likelihood that everybody in this building will be doing a capital raise in the next 12 months if they’re not doing it right now. This is a central location where venture capitalists can come in and spend a day and make it worthwhile,” he offers. “If Indiana cannot draw that outside investment capital, you might as well throw out the tech community and abandon it.

“If we can’t draw capital here, it’s going to do one of two things: Companies like ours will move to where the capital is or they’ll die.”

Teaming together

While Hurley was receiving the “it’s about time” congratulatory messages, the impression of the “time period” from starting to show the potential of the building to being fully leased varies depending on the person.

Ready figures that one of several failed

attempts to move Scale to a new location took about nine months. “From the time this space was made available until we signed the lease was about a month. It moved very quickly.”

Conversations began near the end of the summer. The final lease was signed just before Christmas.

“It was a lot longer process than I thought it would be,” says Hurley, admitting his passion isn’t immediately shared by all. “Real estate people are going, ‘Are you crazy?’ But I’m thinking you need space. We have the best space on the planet. We’re doing it at 30% below market value. You need this space.”

No matter the time frame, Hurley believes The Union, in addition to preserving the heritage of an historic building, can send a message to others.

“I believe strongly that other industries can come together. What people are starting to realize is that these tech guys might be on to something,” he contends. “It’s OK to share ideas; it’s OK to have challenges and be open about those challenges. It’s OK to say, ‘All right, I screwed that one up; now let’s figure out what our next steps are.’”

RESOURCES: The Union at union525.com | John Hurley, SmartFile, at www.smartfile.com | John Wechsler, Launch Fishers, at launchfishers.com | Jeff Ready, Scale Computing, at www.scalecomputing.com

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