MARKETBEAT

Office Snapshot Q1 2016

Denver, Colorado: Central Business District

CUSHMAN & WAKEFIELD

Economic Overview

At the end of the first quarter of 2016, the Denver economy remains strong in many fundamental indicators. Most recent statics show that unemployment continues to fall, down to 3.0% which is a 1.5% change year-over-year. Metro Denver's population is expected to increase to 3.3 million by 2020, allowing Denver to keep adding talented young professionals to its growing labor pool. With a high median household income and a relatively low cost of living Denver is maintaining its position as a top destination for people and companies to relocate to.

Vacancy and Rental Rates

Downtown vacancy continues on its downward trend from Q4 2015, due to the growing diversity of office users. The downtown Denver market ended the first quarter of 2016 with an overall vacancy rate of 12.4%. Currently, downtown Denver has roughly 3,439,000 SF of vacant space, which reflects both sublease and direct vacancies. Direct rental rates grew .2% from Q4 2015 to Q1 2016, ending the quarter at $33.02 per square foot (PSF) on an average gross basis. Class C downtown office product saw the highest increase in average rates, increasing 4.1% to finish the quarter at $23.25 PSF. Class A gross rents saw a slight increase ending Q1 at $35.71 PSF, while Class B gross rents declined 3.3%, ending Q1 2016 at $27.45 PSF. Class A gross rental rates in downtown are reaching the $50.00 PSF range on new construction, creating a $10.00-$15.00 PSF difference between Class A and Class B office products.

Leasing Activity

Leasing activity for downtown finished the first quarter of 2016 at 157,000 square feet (SF). Class A space accounted for 74.9% of leasing activity for Q1 of 2016, with Class B product representing 21.1% of leasing activity for the downtown market. Noteworthy transactions included CoBiz Financial's 44,020 SF at 1401 Lawrence and Autodesk's 17,428 SF at the Triangle Building. Activity remains strong despite the oil and gas downturn, thanks in part to other office users in industries like tech, financial services, and healthcare backfilling tenant demand. The oil and gas sector continues to struggle with low oil and gas prices, leading companies to cutting employee count and occupancies. Currently we are tracking roughly 700,000 SF of total oil and gas space available. With oil and gas facing an uphill road, we will be watching to see how many more oil and gas related companies shed space to help mitigate their losses from the oil and gas downturn.

Construction

There is currently 1,296,000 SF under construction in the downtown Denver market. The most notable projects under construction are 1401 Lawrence, 1144 15th Street and the Dairy Block building between 18th and 19th street on Wazee Street. Most new buildings continue to be delivered at 60-70% occupancies or better. 1144 15th, has no pre-leasing yet and represents 670,000 SF of spec office space under construction in downtown Denver.

Outlook

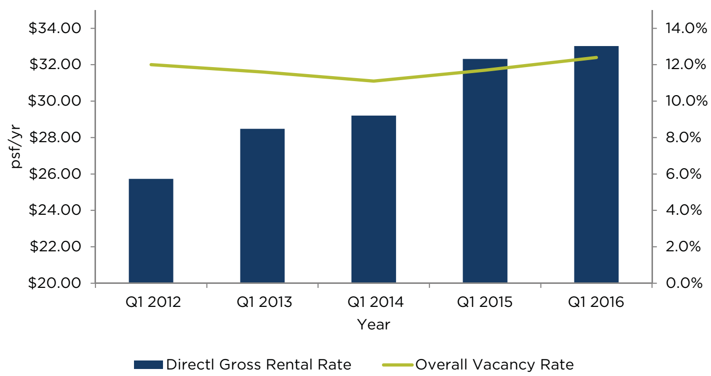
The underlying fundamentals of the CBD office market have remained strong to start 2016. The increase of diverse office users relocating to the CBD will help shelter the downtown market from the oil and gas downturn. With the wave of bigger leases starting to roll in 2017 and 2018, the CBD and the downtown Denver market will start to ramp up its leasing activity throughout 2016. Rental rates and vacancy rates will remain competitive for both owners and tenants as more new Class A and AA product enters the market.

STATS ON THE GO

Economic Indicators

	Q1 15	Q1 16	Y-O-Y Change	12-Month Forecast
Direct Vacancy	10.2%	10.8%	60 bps	▼
Direct Asking Rents (psf/yr)	$32.32	$33.02	2.2%	▲
YTD Leasing Activity (sf)	505,166	157,135	-68.9%	▲

DIRECT RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY