

MARKETBEAT

Office Snapshot Q4 2015

Denver, Colorado



DENVER OFFICE

Economic Indicators

	Q4 14	Q4 15	12-Month Forecast
Denver Employment	1.44M	1.45M	▲
Denver Unemployment	4.0%	3.1%	▼
U.S. Unemployment	5.6%	5.0%	▼

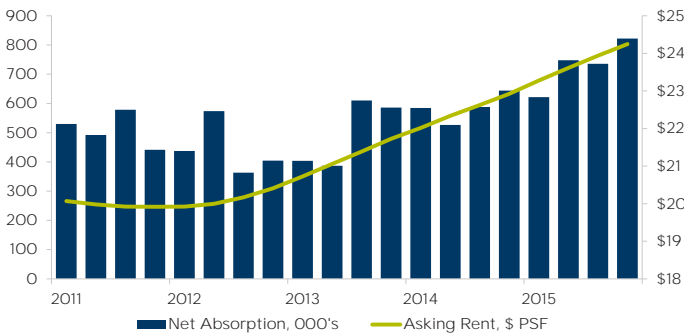
Market Indicators (Overall, All Classes)

	2014	2015	12-Month Forecast
Overall Vacancy	10.8%	10.0%	▼
Net Absorption	717,088	1,062,659	▲
Under Construction*	2,504,694	2,928,738	▼
Average Asking Rent** (FS)	\$23.50	\$24.73	▲

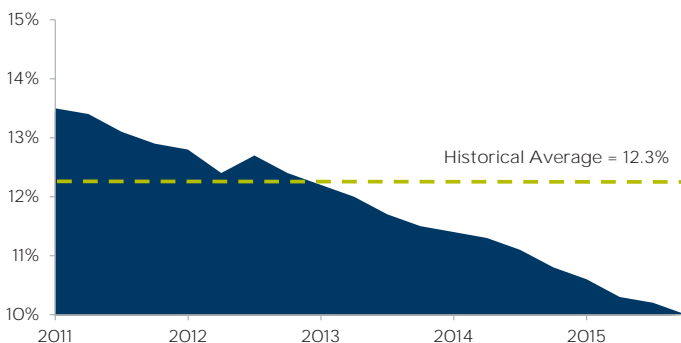
*Includes single and multi-tenant buildings
 **Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Asking Rent

4Q Trailing Average



Overall Vacancy



Economic Overview

At the close of the fourth quarter of 2015, the indicators point to a still strong Denver economy. Unemployment continues to fall, down to 3.1%, with jobs being created across many sectors. A diverse and vibrant economy has helped Denver weather falling oil prices that have affected many other areas of the county. In fact, according to a 2015 ranking by Forbes, Denver ranks number one in the country for best places for businesses and careers. With a high median household income, a relatively low cost of living compared to other major metro areas and a desirable location at the foot of the Rocky Mountains, Denver is an attractive place for people and companies to relocate.

Office Market Overview

The Denver office market ended Q4 2015 with an overall vacancy rate of 10.0%. This is slightly down from the Q3 rate of 10.2% and reflects a very respectable 80 basis point (bps) decrease from the 10.8% rate that was in place one year ago. The overall market recorded 1,063,000 square feet (SF) of net absorption in Q4, bringing the year-to-date total to 3,289,000 SF. The Q4 total is the highest net absorption rate recorded in a single quarter since Q2 of 2007, and the highest annual absorption post-recession.

The average asking rent rate for office space in Metro Denver is currently \$24.73 PSF on an annual full service basis. This is up 1.4% from the third quarter and up 4.9% from this time last year. Average rental rates in Denver have now increased for 18 consecutive quarters. The CBD remains the highest with an average gross asking rate of \$35.73 PSF, 3.7% higher from average rates this time last year.

Nineteen office buildings delivered in the Metro Denver area in 2015, of which sixteen were of the multi-tenant variety. Another 2,791,000 SF of multi-tenant office space is under construction in seventeen buildings in Metro Denver. We continue to expect that these new buildings will deliver and open their doors at 50-60% leased on average. Construction in Denver appears to be continuing at a healthy pace with an abundance of new companies coming to Denver.

Tenants continue to relocate and to expand in Denver in order to tap into the young and growing workforce. Sunrun Inc., a San Francisco solar power panel company announced it will create a national corporate office in downtown Denver adding 800 jobs. HomeAdvisor, a growing tech company announced a sales training program in downtown Denver,

MARKETBEAT

Office Snapshot Q4 2015

Denver, Colorado



creating 100 new jobs.

In downtown Denver, the market is experiencing a large rent gap between new and old buildings, over \$50 full service gross (FSG) PSF for new class A construction compared to roughly \$30 FSG PSF average rents for 25 year old+ buildings. This sizeable percentage premium does not exist anywhere else in the Metro Denver market. Tenants are increasingly showing a willingness to pay the higher rates in order to have the newest and best space and amenities. This also makes downtown a major focus for speculative developers looking to build new office space in this highly active submarket.

In 2016, Denver RTD will open rail lines A, B, G, and R. These lines will connect from Union Station in Lower Downtown (LoDo) east to Denver International Airport, north to Westminster, west to Arvada, and southeast along E-470. Light Rail will slightly more than double the amount of track currently active in Denver Metro from 48 miles up to 98.7 miles. Another 65 miles of Light Rail track is proposed for future construction, one of the lines will extend 41 miles, up to Longmont, through Boulder. The new infrastructure of rail lines makes the office space along those routes more desirable to tenants and investors, spurring further attractive development opportunities in Metro Denver.

Office land prices in Denver Metro are at an all-time high. In downtown Denver office land sites are selling between \$280/SF and \$600/SF, Hines purchased .90 acres at 1144 15th Street for \$535/SF. In the River North area (RiNo), sites are selling between \$80/SF and \$160/SF. Sites in the southeast are selling between \$20/SF and \$50/SF. Areas that are well located with transportation and are amenity rich are difficult to find thus will continue to escalate in value.

We are currently tracking roughly 700,000 SF of sublease space from oil and gas companies in downtown Denver. Currently, 11 separate ballot proposals have been filed with the state legislature, to put more regulations on how oil and gas is extracted, in some cases leading to a 50% drop in oil and gas activity statewide. If these proposals reach the ballot and are passed, this, coupled with low crude pricing may further negatively impact oil and gas occupancies.

The vacancy rate in the exceptionally strong Boulder submarket is at 5.7%. Lack of available space is forcing tenants to look in East Boulder and down the US-36 corridor. East Boulder lease rates have jumped roughly \$6.00/SF/

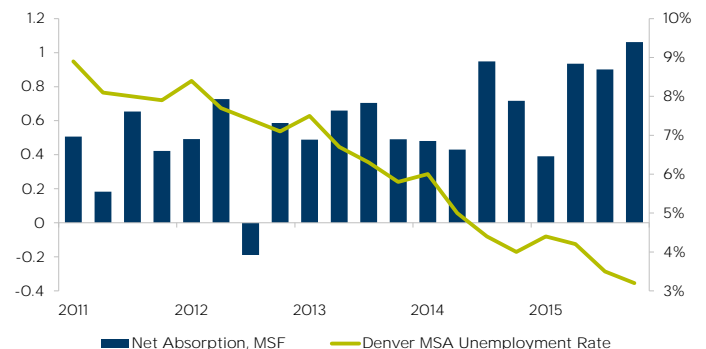
NNN, due to the transition of ownership from local owners to institutional owners in the last 18 months. The sale of buildings is driving prices higher, an example of which is Unico purchasing the W.W. Reynolds portfolio.

The Denver office market has posted a record high net absorption rate post-recession. The oil and gas downturn has not had the negative impact many analysts predicted due to the diversity in tenants and businesses now residing in Denver. The continued strength of tenant demand in the office market will result in further economic expansion driven in large part by public transportation enhancements and increased migration to Colorado.

Outlook

- New construction with close light rail access continues to perform quite well.
- The widening rent gap between A and B product has most likely peaked.
- A protracted 2016 oil price downturn will flatten CBD rent growth.

Denver Office Net Absorption/Unemployment Rate



Submarket Asking Rents (FSG)



MARKETBEAT

Office Snapshot Q4 2015

Denver, Colorado



SUBMARKET	TOTAL BUILDINGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE (SF)	CURRENT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)	OVERALL AVERAGE ASKING RENT (CLASS A)
Aurora	299	9,021,917	9,752	936,672	10.5%	(20,964)	151,267	0	\$18.28	\$24.67
Boulder	668	11,662,149	123,411	543,820	5.7%	(52,677)	(184,648)	237,472	\$26.12	\$33.52
Capitol Hill / Midtown	670	8,890,739	15,443	292,007	3.5%	41,612	64,022	0	\$23.42	\$24.31
CBD	360	36,353,710	430,546	3,477,679	10.8%	265,376	622,217	1,520,567	\$33.64	\$35.73
Colorado Blvd / Cherry Creek	467	13,751,991	17,508	1,231,574	9.1%	82,995	346,534	259,982	\$24.90	\$30.35
Northeast	390	8,726,798	13,139	638,784	7.5%	58,409	474,388	53,000	\$19.00	\$23.71
Northwest	700	15,778,573	95,470	1,382,164	9.4%	87,297	260,712	118,580	\$23.34	\$27.12
Southeast	849	46,506,180	337,611	5,047,493	11.6%	404,697	1,024,332	551,879	\$23.45	\$26.18
Southwest	547	9,847,442	22,546	1,202,347	12.4%	75,914	190,784	0	\$17.79	\$26.44
West	715	13,686,869	14,487	1,603,217	11.8%	120,000	339,169	187,258	\$20.07	\$26.65
CLASSES										
Class A	317	62,487,527	721,661	5,828,524	10.5%	1,037,542	1,964,271	2,534,162	\$30.15	
Class B	2,909	91,244,463	337,396	9,468,232	10.7%	(454)	1,226,521	394,576	\$21.56	
Class C	2,439	20,494,378	20,856	1,059,001	5.3%	25,571	97,985	0	\$16.97	
TOTAL	5,665	174,226,368	1,079,913	16,355,757	10.0%	1,062,659	3,288,777	2,928,738	\$24.73	

Office asking rents converted to Full Service

Significant Construction Activity 4Q 2015

PROJECT	SF	DEVELOPER	COMPLETION DATE	SUBMARKET
1144 Fifteenth Street	662,000	Hines	Q1 2018	CBD
7001 E Belleview Avenue	318,000	Prime West Companies	Q4 2016	Southeast
1401 Lawrence Street	311,000	First Gulf Corporation	Q2 2016	CBD
1800 Wazee Street	235,000	McWhinney Real Estate Services	Q1 2017	CBD
2000 S Colorado Boulevard	232,000	LPC and ASB Capital	Q1 2017	Colorado Blvd / Cherry Creek

Key Lease Transactions 4Q 2015

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
16 Chestnut Place	265,322	DaVita Healthcare Partners Inc.	New Lease	CBD
9191 S Jamaica Street	370,000	CH2M Hill, Inc.	Renewal	Southeast
1560 Broadway	144,543	Colorado Department of Regulatory Agencies	Renewal	CBD
7601 Technology Way	119,459	Jackson National Life	Renewal	Southeast
6162 S Willow Drive	67,200	2011 Data Management	Renewal	Southeast

Key Sale Transactions 4Q 2015

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
6360 S Fiddler's Green Circle	274,000	Shea Properties / GLL Real Estate Partners, LLC	\$113,463,400 / \$414	Southeast
303 E 17th Avenue	295,000	Broadreach / Kennedy-Wilson Properties Ltd.	\$65,500,000 / \$221	CBD
1621 18th Street	117,000	Toma West / Stoltz Real Estate Partners	\$44,000,000 / \$375	CBD
10375 Park Meadows Drive	192,000	BGP Parkridge, LLC / Pepf Parkridge Four LLC	\$42,200,000 / \$219	Southeast
116 Inverness Drive East	214,000	Legacy Partners / Cordia Capital Management	\$35,975,000 / \$168	Southeast

