MARKETBEAT
Denver CBD, Colorado
Office Q1 2017

STATS ON THE GO

Economic Indicators

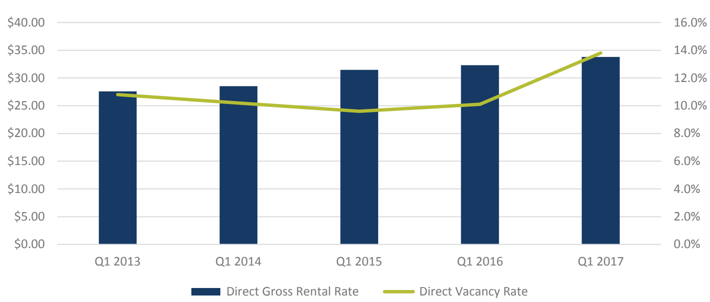
	Q1 16	Q1 17	12-Month Forecast
Denver Employment	1.42 M	1.45 M	▲
Denver Unemployment	4.9%	2.5%	▼
U.S. Unemployment	4.9%	4.8%	▬

Market Indicators (Overall, All Classes)

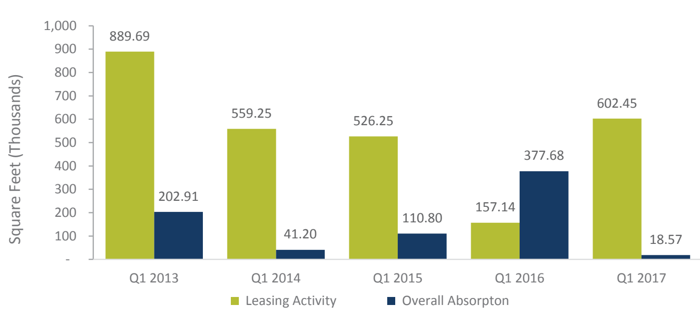
	Q1 16	Q1 17	12-Month Forecast
Overall Vacancy	11.5%	16.7%	▲
Net Absorption	399,681	(23,455)	▲
Under Construction	1,296,055	1,381,814	▲
Average Asking Rent	$31.56	$32.64	▬

*Rental Rates reflect gross asking $psf/year

DIRECT RENTAL VS. VACANCY RATES



OVERALL LEASING ACTIVITY AND NET ABSORPTION



Vacancy and Rental Rates

The Central Business District (CBD) rang in the New Year with a 50 basis point (BPS) uptick in its direct vacancy rate, closing the first quarter of 2017 at 13.8 %. The cause for much of that increase was due to the two buildings - 1801 Wewatta and Dairy Block - delivering at 24.0% vacant.

The direct gross average asking rate showed signs of flattening in the first quarter, with a marginal increase of 0.7% from the fourth quarter of 2016 and closing out the first quarter of 2017 at $33.79 per square foot (PSF). The Class A average asking rate saw the largest increase quarter-to-quarter, increasing 1.1%, to $36.74 PSF. Though asking rents have continued to rise, albeit minimally, concession packages in the CBD have generally been climbing as well, translating to a flat or even somewhat lower average effective rent

Leasing Activity

Leasing continued its healthy velocity, with approximately 558,000 SF of activity in the first quarter of 2017. Even though this was a decrease from the fourth quarter of 2016, it did represent a significant climb compared to the 335,000 SF leased in the first quarter of 2016. Noteworthy transactions for the quarter include Encana's 335,000 square foot (SF) renewal at Republic Plaza, U.S. Bank's 95,749 SF renewal at 950 17th and BP America's Lower 48 Division expanding by 51,120 SF at their new headquarters on Platte Street. Tenant demand remains sturdy for new construction, apparent by activity at three recent deliveries: CTRL Collective's full floor lease at the Dairy Block, The Triangle Building now 99.0% leased and Deloitte making its new home at 1601 Wewatta. The CBD ended the first quarter of 2017 with +27,888 SF of positive absorption, slightly lower than the +83,495 SF of direct absorption in the fourth quarter of 2016.

Construction

As mentioned above, the CBD saw two buildings deliver this quarter - Dairy Block and 1801 Wewatta, both in the LoDo submarket, with roughly 290,000 SF of rentable office space at 76% pre-leased. The lone building that broke ground during the first quarter was Sugar-Square which will bring four stories (12,240 SF) of class B office space to LoDo in the first quarter of 2018. Currently, there is approximately 1.4 million square feet (MSF) under construction. With only A Block (53,478 SF) set to deliver in 2017 and being 96% leased, we will continue to observe tenant demand nearly outstripping supply of new construction.

Outlook

Despite a somewhat sluggish first quarter, the Denver CBD continues to perform well by historical standards. New and expanding tenants are attracted to the area thanks to its superior connectivity via the light rail network along with other amenities. With new and renovated product being added within the urban core and a desire to be by a well-educated workforce to live, work and play in this mixed-use environment, expect the Denver CBD to continue to perform well into the future.