MARKETBEAT

Denver CBD, Colorado

Office Q2 2017

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STATS ON THE GO

Economic Indicators

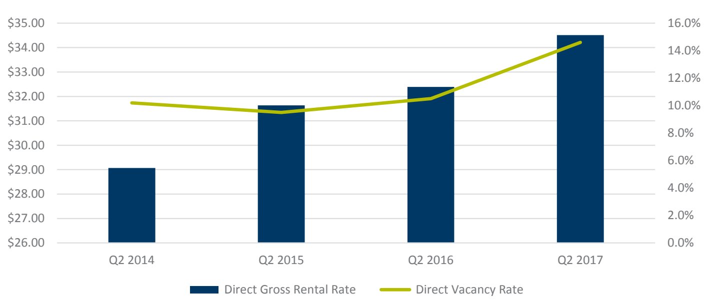
	Q2 16	Q2 17	12-Month Forecast
Denver Employment	1.42 M	1.45 M	▲
Denver Unemployment	3.1%	2.3%	▬
U.S. Unemployment	4.9%	4.4%	▬

Market Indicators (Overall, All Classes)

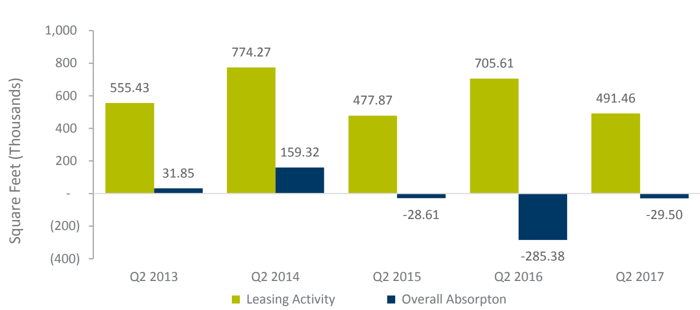
	Q2 16	Q2 17	12-Month Forecast
Overall Vacancy	11.5%	16.8%	▲
Net Absorption	-266,000	-29,504	▲
Under Construction	1,724,277	1,358,358	▼
Average Asking Rent	$32.29	$33.65	▬

*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) closed the second quarter of 2017 with a direct vacancy rate of 14.6%, an 80 basis point (BPS) uptick from the previous quarter. This increase can be attributed to downsizing and relocations that occurred in the market, as businesses reduced their footprint to increase efficiency and density within an open creative concept utilized today. The overall vacancy rate increased a marginal 10 BPS from the first quarter, closing at 16.8%. Sublease vacancies declined thanks to the stablization of the Oil & Gas sector due to their faith in the government's stance on environmental deregulation in the first quarter. With uncertainty still looming, even with OPEC's production cuts, we will continue to monitor the effect on office users in the CBD.

During the second quarter of 2017 the direct gross rental rate increased, closing with rate of $34.51 per square foot (PSF). Year-over-year rental rates grew by 4.7%, from $32.95 PSF a year ago. This jump in the gross rental rate is partially attributed to the increase in real estate taxes which have impacted user's all-in occupancy costs, throughout the CBD. To no surprise, Class A recorded the largest increase in rental rates from quarter-to-quarter, increasing by 2.2% to $37.57 PSF. The Class B rental rate was up, but just marginally, while Class C rents declined 3.4% to $25.47 PSF.

Leasing Activity

Leasing activity was slightly less robust quarter-over-quarter at just over 491,000 SF signaling slower leasing activity than the roughly 558,000 SF leased in the first quarter of 2017. Notable deals for the quarter include Marketo's new 51,377 SF lease at City Center, Jagged Peak's new 44,078 SF lease at 1401 Lawrence and Evolve Vacation Rental Network's new 38,231 SF lease at Johns Manville Plaza. Absorption finished the quarter slightly in the red with a net absorption of -29,504 SF, in line with the overall market forecast of remaining flat.

Construction

The "A-Block" represented the lone delivery in the CBD in the second quarter, opening at 100% leased to Antero Resources and Continuum Partners. There were no new buildings breaking ground in the second quarter but there is almost 1.4 MSF under construction, all expected to deliver in 2018. Leasing activity remained strong on new construction thanks to tenants' willingness to pay a premium for it, due to the efficient floor plates, amenities and new building systems that are absent in older product.

Outlook

Despite a sluggish first half, the CBD continued to perform above historical standards thanks to an influx of tenants looking to relocate, or expand in the urban core in order to utilize the educated work-force and amenities in this market. The CBD will continue to grow as it further lures large corporate users, from inside and outside the market, looking to attract and retain the top talent in the Denver-metro area.