

MARKETBEAT

Denver, Colorado

Office Q1 2017



STATS ON THE GO

Economic Indicators

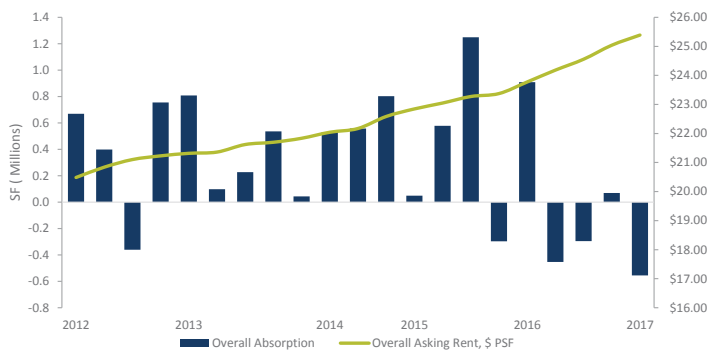
	Q1 16	Q1 17	12-Month Forecast
Denver Employment	1.42 M	1.45 M	▲
Denver Unemployment	4.9%	2.8%	▼
U.S. Unemployment	4.9%	4.8%	■

Market Indicators (Overall, All Classes)

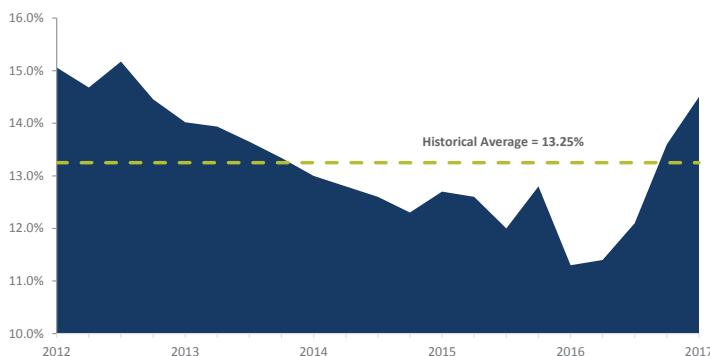
	Q1 16	Q1 17	12-Month Forecast
Overall Vacancy	11.3%	14.5%	▲
Net Absorption	909,250	(554,793)	▲
Under Construction	2,093,934	4,569,201	■
Average Overall Asking Rent	\$24.56	\$25.80	■

*Rental Rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent 4-Qtr Trailing Average



Overall Vacancy



Economy

The Denver economy continued to flex its muscles over the past year with a further decrease in its unemployment rate from 3.0% in the first quarter of 2016 to 2.8% in the first quarter of 2017. Colorado, in fact, is expected to rank among the top 10 states for job growth for the sixth year in a row, with a projected gain of 63,400 jobs in 2017 representing a 2.4% rate of growth, according to The Denver Post. In general, Denver is expected to remain one of the top performing markets in the U.S. with an expanding workforce.

Market Overview

In contrast to the strong overall economic numbers above, the Denver office market recorded an increase in its vacancy rate in the first quarter of 2017, with the overall figure up 90 basis points (BPS) quarter-over-quarter to 14.5% and the direct figure up 70 BPS to 12.6%. The primary reason for the rise in vacancy during the quarter was the roughly 280,000 square feet (SF) of vacant sublease space added market-wide. The increase in direct vacancy can be attributed to space becoming fully vacant, from relocations of companies throughout the Denver metro area, as well as new buildings delivering to the market in the first quarter of 2017. The Class A segment of the market recorded the largest increase out of all classes increasing 120 BPS to 11.9% while the Southwest submarket had the most significant rise of all submarkets, with the direct figure up 160 BPS to 14.6%.

Absorption was in the red to start the year, closing the first quarter of 2017 with a direct figure of -136,243 SF. This is a large swing, almost 350,000 SF, from the fourth quarter of 2016 which posted +194,861 SF of direct positive absorption. With that being said, leasing activity remained steady at the beginning of 2017 with over 1.7 million square feet (MSF) transacted, correlating closely with the amount of deals done and in the fourth quarter of 2016. Some notable deals included Encana's 335,000 SF renewal and contraction at Republic Plaza, Charter Communications' 256,844 SF new lease at Granite Place at Village Center, GSA's 72,598 SF renewal at Atrium III and BP America's lower 48 Division expanding by 51,120 SF at its newly dedicated headquarters on Platte Street.

The overall Denver average asking rent climbed by 0.5% to \$25.96 per square foot on a full service basis (PSF) in the first quarter of 2017. The Central Business District (CBD) & Southeast Suburban (SES) submarkets recorded marginal increases, both rising by 0.7% and 0.5%, respectively. Though asking rents have continued to rise, albeit minimally, concession packages across Denver have generally been climbing as well, translating to a flat or even somewhat lower average effective rent.

Developers continue to add new and renovated product to the Denver market with tenant demand high for the best and newest. Two buildings were completed in the CBD during the first quarter

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of 2017 - Dairy Block and 1801 Wewatta, which added approximately 290,000 SF of rentable office space. These properties together delivered at 76% preleased, reflecting the still strong tenant demand for new construction. Meanwhile, three projects moved into the construction phase in early 2017 in the Urban Core. Steam on Platte is a 65,000 SF redevelopment of the old Steam building next to Mile High Stadium. In LoDo, SugarSquare will deliver 12,240 SF of office space to that always tight submarket. And finally, RiNo Station will bring 110,000 SF of office space to the up and coming RiNo submarket. That area continues to be a hotbed for new construction, producing both redevelopments and adaptive re-use projects, bringing new life to the once run-down Brighton Boulevard.

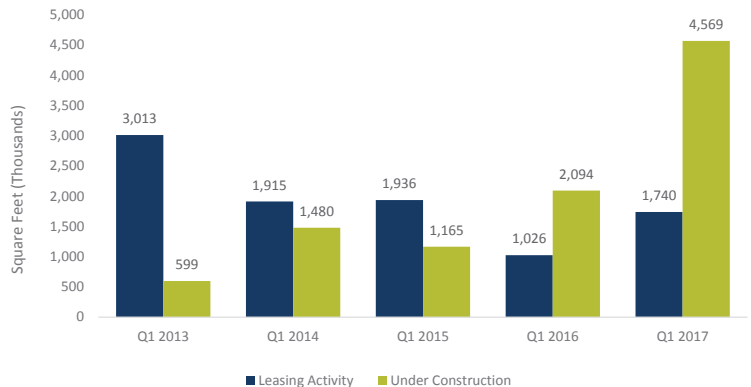
Three other office projects broke ground around the metro-area in the first quarter of 2017. One DTC West will add 72,000 SF to the SES submarket when it delivers in the second quarter of 2018. The SES currently has over 1.7 MSF under construction, with delivery split evenly between 2017 and 2018. The two other buildings that broke ground this quarter were located in Boulder. Canyon 28 is a mixed-use development that will deliver 32,000 SF of office space to the tight downtown Boulder market. The other property is 3710 Iris Avenue, adding 40,000 SF of office space by the end of 2017.

The Denver office market recorded what was, admittedly, a sluggish first quarter. For the remainder of the year, we are expecting increased activity thanks to upcoming large lease expirations. Still there is an increase in office product delivering over the next couple of years which will translate to healthy competition for those tenants. The longer term prospects remain positive. This is largely due to a more diverse tenant mix and an influx of new users to the market. Industries including telecommunications to tech to insurance are expanding in Denver thanks to an educated workforce, a lower cost of living and other positive quality of life benefits. With these large corporations viewing Denver as a relocation option due to the amenities of Colorado, the Denver office market will continue to fare well for the foreseeable future, but not nearly as strong as we've seen during Denver's impressive post-recession run.

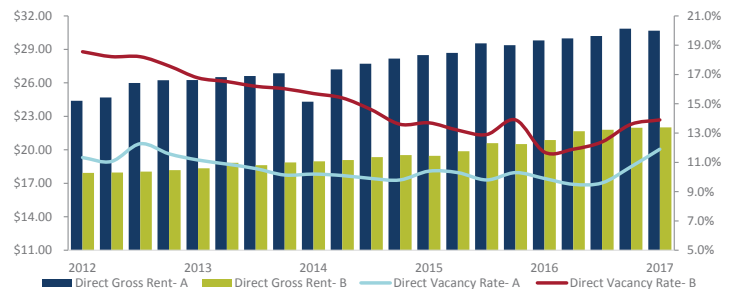
Outlook

- Strong leasing activity will continue in the CBD.
- The Northwest Corridor will remain tight with few big block options for larger users.
- With large expected subleases coming available, the SES submarket will remain unpredictable.

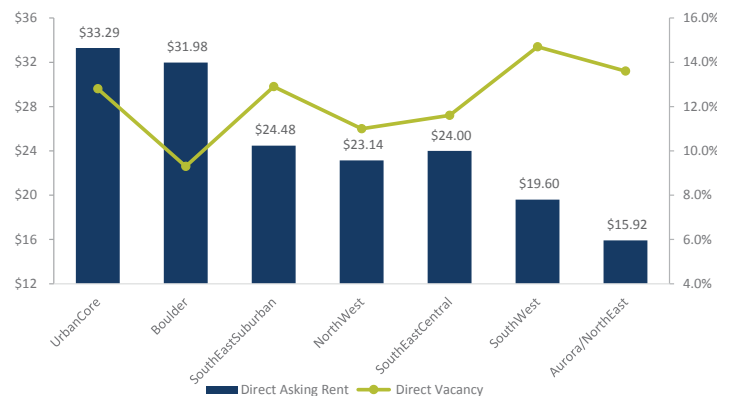
Leasing Activity Under Construction



Class AB Rate Vacancy Metro



Direct Vacancy and Asking Rents



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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)
Boulder	5,141,609	209,246	476,014	13.3%	-30,089	-30,089	99,915	372,200	\$31.92	\$37.95
Midtown	4,281,609	20,082	259,468	6.5%	40,028	40,028	44,528	525,343	\$25.68	\$35.98
CBD	28,487,244	802,883	3,944,743	16.7%	-23,455	-23,455	557,917	1,381,814	\$32.64	\$35.19
Southeast Central/ Cherry Creek	10,829,738	139,308	1,261,140	12.9%	-108,304	-108,304	142,702	309,774	\$23.93	\$26.60
Northeast/Aurora	7,612,142	12,160	1,036,322	13.8%	7,191	7,191	34,503	43,586	\$15.98	\$21.96
Northwest	13,904,687	185,923	1,533,199	12.4%	-94,542	-94,542	156,082	231,080	\$22.93	\$26.47
Southeast Suburban	31,150,644	631,472	4,018,395	14.9%	-216,592	-216,592	596,968	1,705,404	\$24.19	\$25.79
Southwest	10,077,970	189,060	1,486,027	16.6%	-131,030	-131,030	107,506	-	\$19.52	\$22.15
DENVER TOTALS	111,485,643	2,910,134	14,015,308	14.5%	-554,793	-554,793	1,740,121	4,569,201	\$25.80	\$29.85

*Rental rates reflect gross asking \$psf/year

CLASS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT
Class A	55,999,532	1,585,843	6,656,808	14.7%	-299,845	-299,845	1,031,529	4,367,061	\$30.67	\$29.85
Class B	43,495,759	559,685	6,057,895	15.2%	-243,950	-243,950	453,498	202,140	\$22.01	\$21.95
Class C	11,990,352	44,606	1,300,605	11.2%	-10,998	-10,998	255,094	-	\$20.34	\$20.33

*Rental rates reflect gross asking \$psf/year

Significant Construction Activity Q1 2017

PROJECT	SF	DEVELOPER	COMPLETION DATE	SUBMARKET
1144 15th Street	634,145	Hines	Q1 2018	CBD
16 Chestnut Building	428,218	Continuum Development	Q1 2018	CBD
One Belleview Station	318,000	Prime West Companies	Q2 2017	Southeast Suburban
Granite Place at Village Center	299,654	Confluent	Q2 2017	Southeast Suburban
Colorado Center Tower III	210,000	Lincoln Property Company	Q2 2017	Southeast Central

Key Lease Transactions Q1 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Republic Plaza	333,929	Encana Oil & Gas (USA) Inc.	Renewal	CBD
Granite Place at Village Center	256,844	Charter Communications	New Lease	Southeast Suburban
US Bank Tower	95,749	US Bank	Renewal	CBD
Atrium III	72,598	GSA-VA and DISA	Renewal & Expansion	Southeast Suburban

Key Sale Transactions Q1 2017

PROPERTY	SF	SELLER/BUYER	PRICE	SUBMARKET
1125 17th Street	499,975	Broadreach Capital Partners / Goldman Sachs	\$169,700,000	CBD
Signature Centre at Denver West	185,920	Signature Centre Investments / Integrated Properties	\$31,750,000	West
Atrium I	136,592	St. Paul Fire & Marine Insurane Company / AAA	\$11,800,000	Southeast Suburban
Park Meadows Corporate Center II	70,273	Farmers Group, Inc. / Griffin Essential Asset REIT II	\$14,750,000	Southeast Suburban
Flatiron Park	60,017	Della Cava Development Co. / 5395 Pearl Parkway LLC	\$12,125,000	Boulder

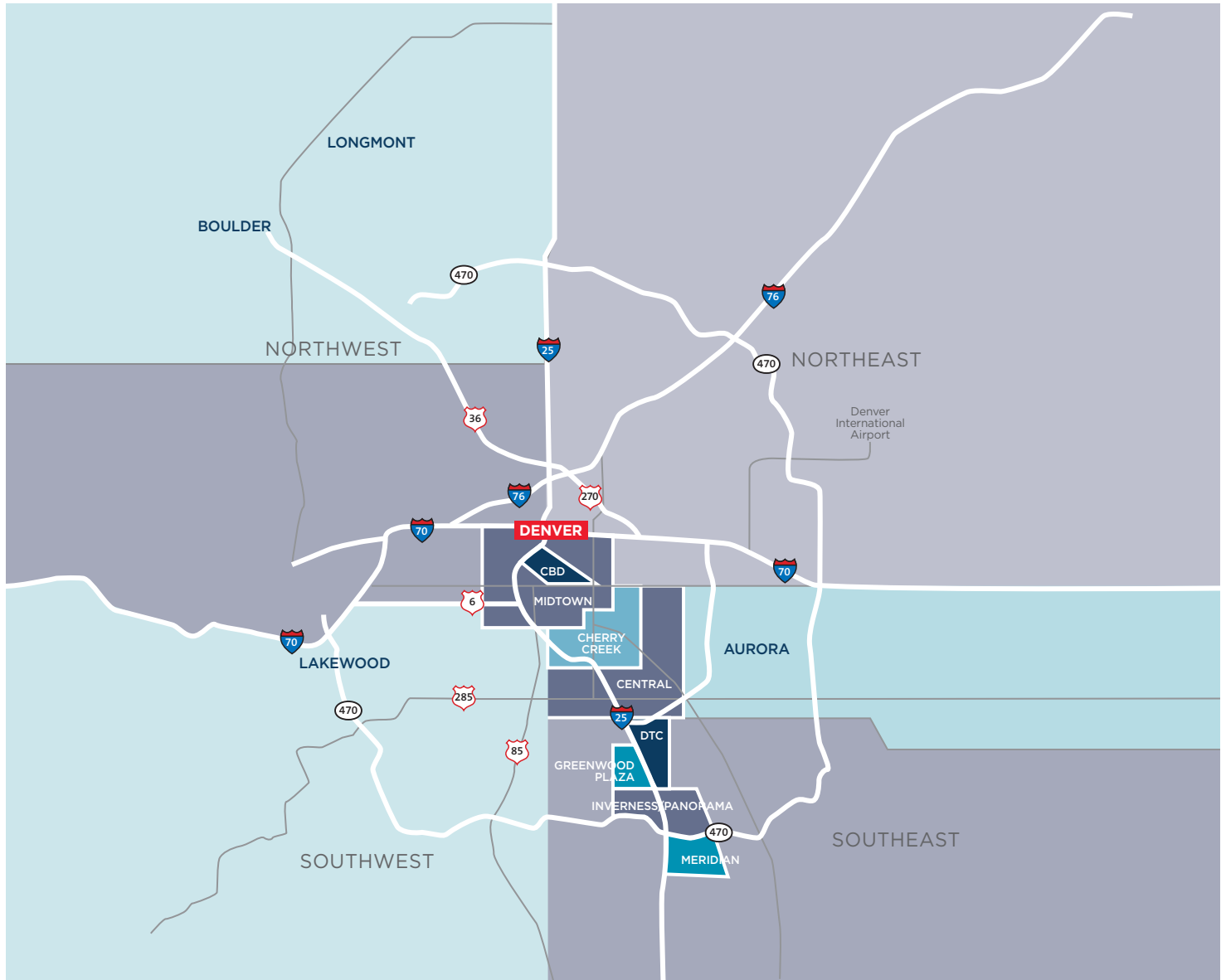
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OFFICE SUBMARKETS

DENVER, COLORADO



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