

MARKETBEAT

Denver, Colorado

Office Q3 2016



DENVER OFFICE

Economic Indicators

	Q3 15	Q3 16	12-Month Forecast
Denver Employment	1.40 M	1.44 M	▲
Denver Unemployment	3.5%	3.6%	▼
U.S. Unemployment	5.2%	4.9%	▼

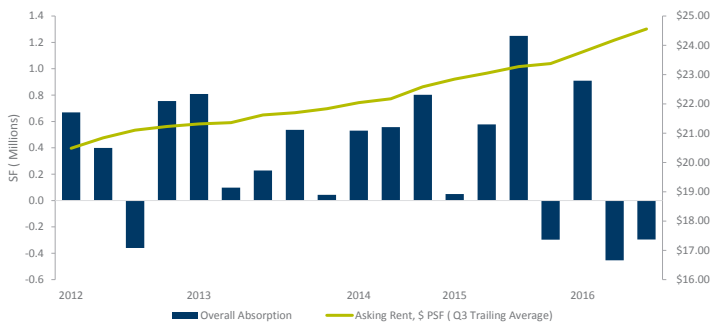
Market Indicators (Overall, All Classes)

	Q3 15	Q3 16	12-Month Forecast
Overall Vacancy	12.0%	12.1%	▼
Net Absorption	1,163,240	-295,134	▲
Under Construction	2,433,810	3,705,368	▲
Average Asking Rent*	\$23.59	\$25.09	■

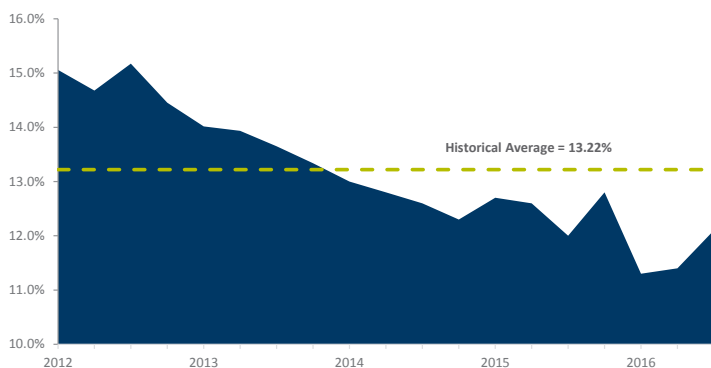
*Rental rates reflect gross asking \$psf/year

Net Absorption/Asking Rent

4-QTR Trailing Average



Overall Vacancy



Economy

The third quarter of 2016 saw Denver's economy remain healthy with the unemployment rate at 3.6%, up just 10 basis points (BPS) from one year ago. That uptick is due more to an influx of new residents with Denver having the largest population growth rate over the past year for major U.S. cities at +2.8% according to the Denver Post. There are currently no signs of a slowdown in Denver's economy thus employers continue to have the opportunity to recruit and retain the best talent.

Market Overview

The Denver office market finished the third quarter with a direct vacancy rate of 10.8%. This represents an increase of 20 BPS from the second quarter of 2016. Overall vacancies saw a 70 BPS increase quarter-to-quarter, largely due to the approximately 418,000 square feet (SF) of sublease space that hit the market in the third quarter.

Direct absorption recovered in the third quarter, ending at +50,110 SF. Overall absorption year-to-date remains positive for the Denver metro area at just under +460,000 SF. The Central Business District (CBD) continued to endure the effects of the oil and gas downturn, leading to the second consecutive quarter of negative absorption. With oil and gas sublease space having few suitors willing to backfill their traditionally built spaces, subleases continue to compile and sit vacant. The Southeast Suburban market saw a resurgence in absorption in the third quarter, ending at approximately +39,000 SF. Boulder recorded the largest positive absorption of any area, roughly +95,000 SF, largely due to SolidFire and Galvanize occupying this quarter.

Currently we are tracking roughly 859,000 SF of sublease space available in the CBD by Oil & Gas tenants. With Markwest newly marketing five floors (89,903 SF) at 1515 Arapahoe, tenants continue to shed space to mitigate losses. These second generation build-outs continue to be unattractive to the new wave of tenants looking to occupy within the CBD because it lacks the open floor plans so popular today.

Leasing activity continued to impress with just under 2.3 million square feet (MSF) signed for in the third quarter. Though down from the second quarter figure of 2.6 MSF, the average deal sized increased by 37%, to 7,093 SF. Two noteworthy deals for the quarter were Charter Communications new lease at Village Center Station II for 306,000 SF and EKSH's new 120,000 SF lease at 8181 E. Tufts Ave.

The metro-wide direct gross rental rate increased by 1.6% from the second quarter to the third quarter of 2016, to \$25.29 per square foot (PSF). Year-over-year rate increase were up 6.8%, from the third quarter of 2015 when the average direct rental rate was \$23.68 PSF. All building classes recorded an increase

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in direct rental rates, with the largest (+8.5%) occurring in Class C product for the second consecutive quarter. The Southeast Suburban submarket (SES) recorded the largest increase in direct average rental rates, ending the quarter at \$24.01 PSF. With rates continuing to climb, some tenants are being priced out of Class A office product, leading tenants to scour the metro area for lower cost options.

The Denver metro area has approximately 3.7 million SF of office space under construction, with approximately 86% of this speculative construction. Currently these buildings are collectively 40% preleased. Downtown development continued to headline the activity, with nearly 57% of all construction occurring in the urban core. One notable development that broke ground this quarter was the Hub, a mixed-used Transit Oriented Development (TOD) in the up-and-coming RiNo (River North) District. This project will deliver 220,000 SF of office product, 26% pre-leased to Home Advisors, along with 27,000 SF of first floor retail and a 150-room boutique hotel concept all set to deliver at the end of 2017.

For decades, RiNo was dominated by factories and warehouses, but over the past five years an immense transformation has been occurring making it a top destination for office users, apparent by BOA Technologies recent 100,000 SF lease at Zeppelin's new Flight Development and the aforementioned Home Advisors lease at the HUB Development. Besides, The Hub, another large development that has been announced for RiNo is the addition of the new Denver World Trade Center (WTC) proposed development at 38th and Blake. Once completed, WTC will add 250,000 SF of office space, a 200-room hotel, 30,000 SF of retail space and 50,000 SF of conference facilities. With a total of 11 office projects proposed and high demand, RiNo will continue to sustain a healthy trajectory of tenant migration.

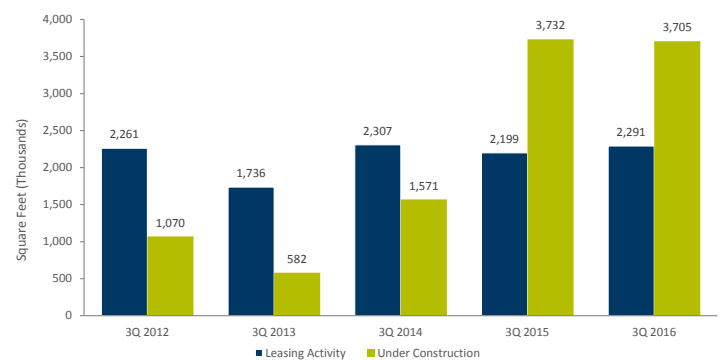
The SES market had one new building break ground. Village Center Station II, a 306,000 SF build-to-suit for Charter Communications, is expected to deliver in the second quarter of 2018. Currently three out of the four buildings that are under construction in the SES market are located near TOD stops, reflecting the importance of mass transit to office development.

With the influx of new industries into the market, Denver has solidified itself as a top U.S. office market with a more mixed tenant base. We continue to see the tech industry flock to the CBD in order to pull from the talent pool the urban core can provide. With no new office developments set to deliver after 2018, tenant demand for new construction will outpace supply of new product. Tenants continue to be willing to pay a premium to locate in new construction, thus landlords will need to update amenities in older product in order to compete.

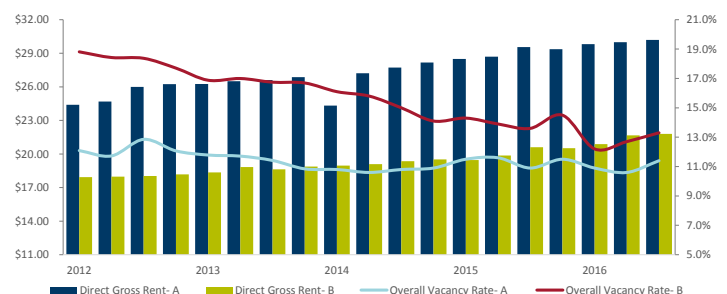
Outlook

- The technology sector has quickly emerged as a leader in space absorption.
- Leasing activity has picked up in the suburbs due to lower rents, larger blocks of availability and wider selection of options.
- Tenants continue to show an appetite for new construction as leasing of new space remains at a healthy pace.

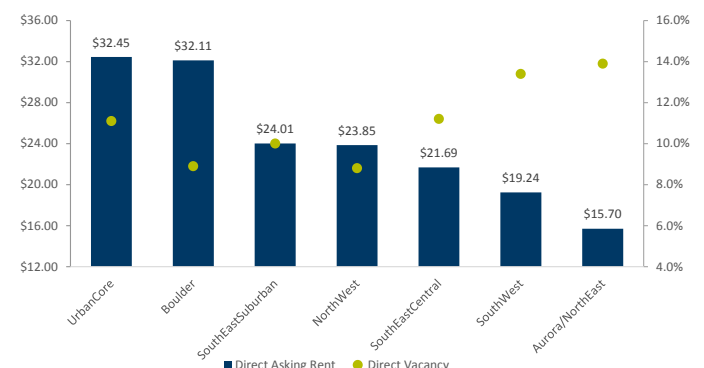
Leasing Activity Under Construction



Class AB Rate Vacancy Metro



Submarket Rate Vacancy (Overall Occupier Activity)



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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE (SF)	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Boulder	4,309,087	8,209	383,332	9.1%	94,572	136,419	330,516	200,000	\$32.08	\$46.17
Midtown	4,253,716	23,625	266,215	6.8%	1,188	-6,311	364,722	220,000	\$25.84	\$30.50
CBD	27,740,536	569,725	3,287,139	13.9%	-99,885	-99,885	1,353,233	1,873,584	\$32.23	\$34.25
Southeast Central/ Cherry Creek	10,967,660	49,198	1,224,976	11.6%	-93,919	-160,921	363,224	300,116	\$21.69	\$26.39
Northeast/Aurora	7,612,142	32,383	1,058,032	14.3%	26,078	37,780	438,054	-	\$15.76	\$21.61
Northwest	13,883,872	178,666	1,218,615	10.1%	-31,777	127,450	759,110	-	\$23.19	\$26.01
Southeast Suburban	31,175,311	330,110	3,131,443	11.1%	38,998	453,492	2,510,730	1,111,668	\$23.79	\$25.64
Southwest	10,112,971	176,902	1,357,198	15.2%	-56,504	-28,065	448,079	-	\$19.23	\$21.67
DENVER TOTALS	110,055,295	1,368,818	11,926,950	12.1%	-295,134	459,959	6,567,668	3,705,368	\$25.09	\$29.44

*Rental rates reflect gross asking \$psf/year

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE (SF)	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Class A	55,363,749	962,433	5,337,071	11.4%	-138,680	738,498	4,103,755	3,705,368	\$30.20	\$29.44
Class B	42,721,073	384,790	5,318,111	13.3%	-182,555	-211,622	2,004,382	-	\$21.80	\$21.59
Class C	11,970,473	21,595	1,271,768	10.8%	26,101	-66,917	459,531	-	\$18.83	\$18.92

*Rental rates reflect gross asking \$psf/year

Significant Construction Activity Q3 2016

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
1401 Lawrence	301,130	First Gulf	Q4 2016	CBD
Granite Place at Village Center	299,654	Confluent	Q1 2017	Southeast Suburban

Key Lease Transactions Q3 2016

PROPERTY	SF	DEVELOPER	TRANSACTION TYPE	SUBMARKET
6360 South Fiddlers Green Cir.	306,053	Charter Communications	New Lease	Southeast Suburban
6399 South Fiddlers Green Cir.	179,468	Charter Communications	Renewal	Southeast Suburban
8181 East Tufts Ave.	120,550	EKSH	New Lease	Southeast Suburban
6300 S. Syracuse Way	61,550	Squaretwo Financial	New Lease	Southeast Suburban

Key Sale Transactions Q3 2016

PROPERTY	SF	SELLER/BUYER	PRICE	SUBMARKET
CH2M Hill Bldgs. 1-3	389,776	Columbia Property Trust/Angelo, Gordan & Co.	\$122,000,000	Southeast Suburban
Stanford Place III	367,416	Legacy Partners II/AG Stanford Place III LLC	\$39,250,000	Southeast Suburban
Tuscany Plaza	259,118	CREF Tuscany Plaza LLC/GPIF Tuscany Plaza LLC	\$46,600,000	Southeast Suburban
Crescent V	89,895	Principal RE Investors/Everod V Samuel	\$21,700,000	Southeast Suburban

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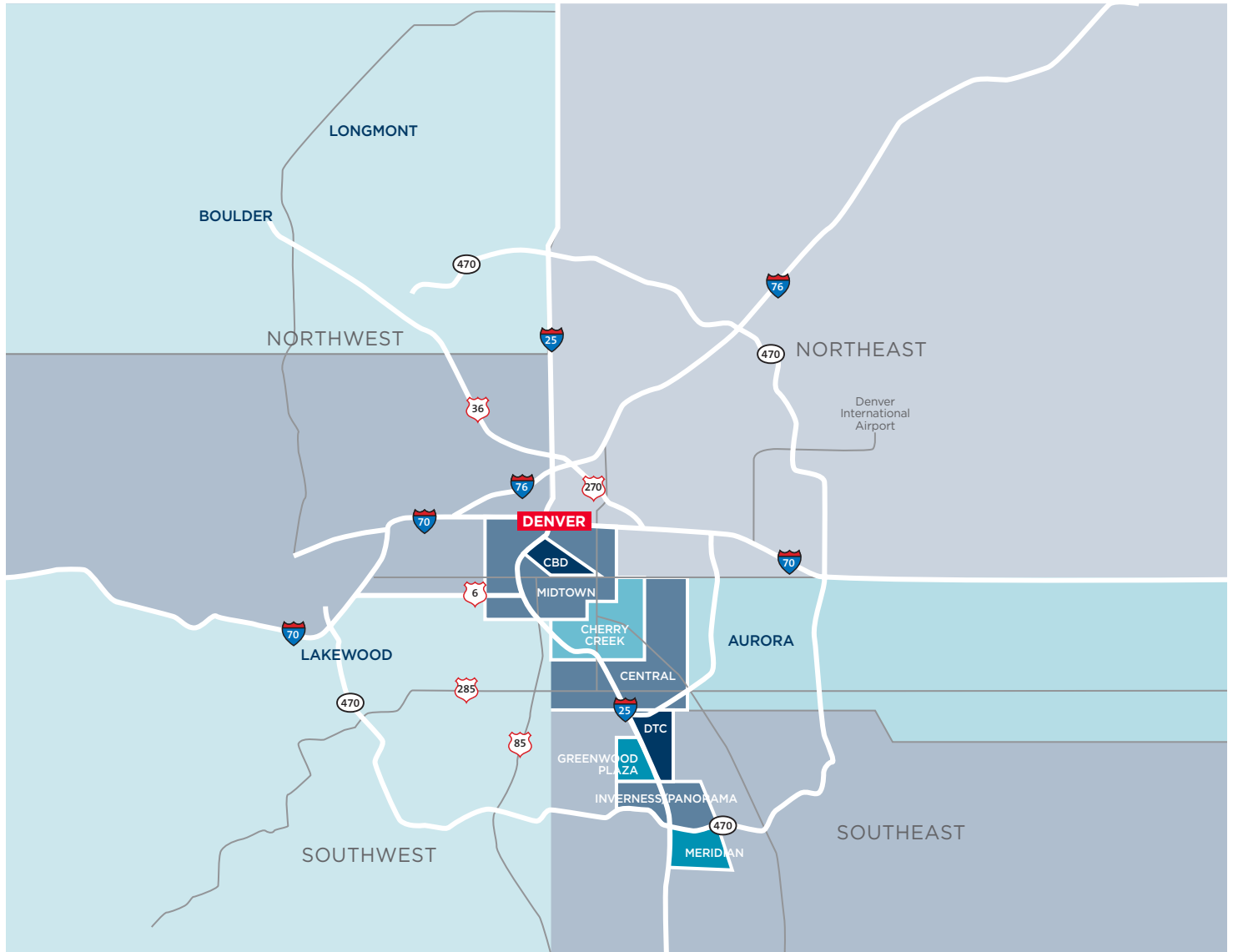
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OFFICE SUBMARKETS

DENVER, COLORADO



Cushman & Wakefield
1515 Arapahoe Street
Suite 1200
Denver, Colorado 80202
cushmanwakefield.com

For more information, contact:
Andrea Jones
Vice President
Research & Marketing
Tel: +1 303 312 4256
andrea.jones@cushwake.com

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