

MARKETBEAT OFFICE SNAPSHOT



DENVER, CO

A Cushman & Wakefield Research Publication

Q2 2015



ECONOMIC OVERVIEW

The Denver economy is among the most robust in the country recording a 3.4% increase in GDP over the last 12-month period. Non-farm employment increased 2.3% with the addition of 30,075 jobs. The professional & business services and financial activities services sectors drove demand for office space, increasing payrolls by 1.2% and 1.3%, respectively, over the same time frame. Oil and gas prices remained low, spurring layoffs in the oil and gas, manufacturing, and engineering sectors, which has directly impacted office sublease space in the market.

VACANCY AND RENTAL RATES

Organic growth led activity in Denver's office market with businesses taking up additional space as employers increased payrolls. Several large commitments were inked and as a result of this activity, metro direct vacancy decreased 80 basis points (bps) to 11.6% over the last 12-month period. As oil and natural gas (ONG) prices decreased, energy firms reassessed future operations, which affected the Central Business District (CBD). As a result, a pullback on exploration and employment occurred directly impacting sublease availabilities, with nearly 500,000 sf of vacant space is being marketed in the CBD, where the largest concentration of ONG firms resides. Direct year-to-date absorption of nearly 247,000 square feet (sf) in the CBD led to a year-over-year decline of 40 bps in vacancy, ending the quarter at 10.1%. The Southeast Suburban (SES) region vacancy remained unchanged year over year but declined quarter over quarter to 10.6%, a 30-bps decrease.

High demand supports a number of new construction projects and pre-leasing activity that pushed asking rents higher. Denver metro's direct weighted gross asking rent increased 5.8% year over year to \$23.23 per square foot per year (psf/yr). The largest increase metrowide occurred in the CBD, where rents climbed 8.3% to a new record high of \$32.46 psf/yr. Strong demand in the SES submarket allowed owners to hike asking rents 6.0% to \$22.91 psf/yr.

CONSTRUCTION

The highly anticipated One Bellevue Station broke ground, which will add nearly 340,000 sf of top-tier class A space to the SES market on the light rail. In the CBD, Hines broke ground on 1144 Fifteenth, a 640,000-sf high-rise in the midtown market. The majority of construction, all of which are speculative developments, surrounds Union Station. These projects include Union Tower West at 1801 Wewatta St. (95,000 sf), Z Block at 1800 Wazee St. (205,000 sf), and A Block at 1881 16th St. (56,000 sf).

LEASING ACTIVITIES

Year-to-date leasing activity for 2015 remained strong and on par with previous years, recording 4.80 million square feet (msf) leased metrowide. Sizable new transactions in the metro included URS/ACOM's 330,000-sf lease at 6200 S. Quebec Street and Envision's 77,000-sf lease at 6363 S. Fiddlers Green Circle in the SES. Hogan Lovells' leased over 70,000 sf while Colorado Athletic Club leased 37,325 sf both at 1601 Wewatta Street in LoDo.

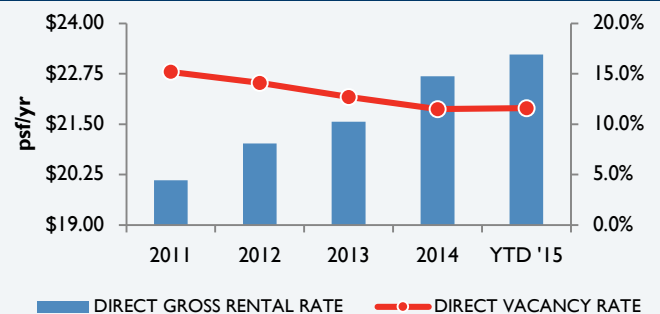
OUTLOOK

As momentum continues, firms will look to lock in quality space near amenities to attract and retain top talent. Nearly 1.1 msf of new construction will enter the market by yearend resulting in a balanced supply and demand market. Vacancy will remain stable as rents push higher in key areas in the metro.

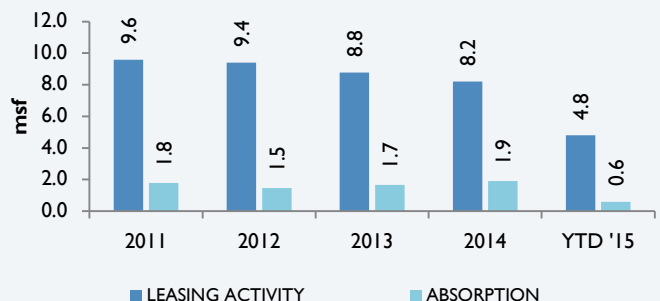
STATS ON THE GO

	Q2 2014	Q2 2015	Y-O-Y CHANGE	12 MONTH FORECAST
Direct Vacancy	12.4%	11.6%	-80 bps	▼
Direct Asking Rents (psf/yr)	\$21.95	\$23.23	5.8%	▲
YTD Leasing Activity (sf)	4,413,676	4,801,739	8.8%	◀▶

DIRECT RENTAL VS. VACANCY RATES



OVERALL LEASING ACTIVITY



DENVER, CO

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT NET ABSORPTION	YTD OVERALL NET ABSORPTION	DIRECT WTD. AVG ALL CLASSES GROSS RENTAL RATE*	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
URBAN CORE	30,889,467	11.1%	9.5%	1,145,783	1,909,228	0	268,888	106,909	\$31.63	\$35.30
CENTRAL BUSINESS DISTRICT	27,041,310	11.9%	10.1%	1,047,687	1,859,106	0	246,600	90,492	\$32.46	\$35.31
MIDTOWN	3,848,157	5.5%	5.2%	98,096	50,122	0	22,288	16,417	\$20.35	\$31.00
SOUTHEAST CENTRAL	10,935,376	13.1%	12.4%	309,154	298,402	136,500	210,776	163,903	\$19.96	\$26.31
SOUTHEAST	3,254,147	16.0%	14.9%	56,208	0	0	41,547	4,631	\$16.05	\$19.72
CHERRY CREEK	7,681,229	11.9%	11.4%	252,946	298,402	136,500	169,229	159,272	\$22.13	\$30.22
AURORA/NORTHEAST	7,697,131	18.7%	18.6%	387,054	0	0	136,735	135,048	\$15.52	\$21.06
NORTHEAST	2,704,809	26.5%	26.4%	117,340	0	0	(6,979)	(6,979)	\$16.50	\$21.58
EAST/AURORA	4,992,322	14.5%	14.3%	269,714	0	0	143,714	142,027	\$14.53	\$17.00
NORTHWEST	13,514,859	14.5%	13.4%	568,898	111,788	0	(9,131)	(28,067)	\$22.57	\$25.15
NORTHWEST CORRIDOR	7,817,412	13.6%	12.3%	320,225	86,288	0	(18,385)	(40,204)	\$26.09	\$28.32
WEST DENVER	4,893,403	16.6%	16.0%	228,232	25,500	0	8,942	11,825	\$18.70	\$20.73
GUNBARREL	309,209	6.5%	4.3%	0	0	0	0	0	\$17.50	N/A
LONGMONT	494,835	11.5%	11.5%	20,441	0	0	312	312	\$17.48	N/A
SOUTHWEST	10,117,907	15.5%	14.7%	221,422	0	0	42,791	29,944	\$18.00	\$22.37
SOUTHWEST	7,532,527	16.3%	15.5%	139,323	0	0	35,127	34,679	\$17.34	\$21.48
UNION SQUARE	2,585,380	13.2%	12.1%	82,099	0	0	7,664	(4,735)	\$20.46	\$22.65
SOUTHEAST SUBURBAN	30,874,165	11.2%	10.6%	2,060,050	614,140	0	9,164	90,573	\$22.91	\$25.63
DENVER TECH CENTER	9,247,340	11.8%	10.8%	387,492	0	0	(148,718)	(161,693)	\$23.97	\$25.49
GREENWOOD PLAZA	8,124,139	12.0%	11.4%	816,889	614,140	0	(185,798)	(191,036)	\$22.34	\$26.34
INVERNESS/PANORAMA	7,512,865	10.9%	10.4%	645,318	0	0	313,473	407,341	\$23.50	\$24.94
ARAPAHOE RD	2,864,817	9.3%	9.3%	77,163	0	0	7,104	7,104	\$15.34	\$23.00
MERIDIAN	3,125,004	9.9%	9.7%	133,188	0	0	23,103	28,857	\$26.30	\$26.54
BOULDER	3,695,983	7.0%	6.1%	109,378	201,732	0	92,773	98,917	\$26.65	\$34.55
DOWNTOWN BOULDER	1,245,871	3.7%	3.7%	33,763	140,135	0	21,037	32,666	\$34.38	\$40.86
CENTRAL BOULDER	1,279,606	5.9%	3.7%	26,836	0	0	23,687	23,687	\$27.73	\$34.22
EAST BOULDER	1,170,506	11.8%	11.4%	48,779	61,597	0	48,049	42,564	\$23.55	\$27.82
DENVER TOTAL	107,724,888	12.6%	11.6%	4,801,739	3,135,290	136,500	751,996	597,227	\$23.23	\$28.69

* RENTAL RATES REFLECT ASKING PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT Q2 2015 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
6200 South Quebec Street, Greenwood Village	Greenwood Plaza	URS/ACOM Solutions	B	330,033
1601 Wewatta Street, Denver	CBD	Hogan Lovells	AA	77,000
1221 Broadway, Denver	Midtown	Four Winds Interactive, LLC	AA	50,122
SIGNIFICANT Q2 2015 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
6380 South Fiddlers Green Circle, Greenwood Village	Greenwood Plaza	KBS REIT III, Inc.	\$76,700,000 / \$328	233,958
1730 Blake Street, Denver	CBD	Stoltz Real Estate Partners	\$17,900,000 / \$317	56,378
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
1550 Wewatta Street, Denver (Triangle Bldg)	CBD	Speculative	Q3 2015	232,170 / 39.1%
1601 Wewatta Street, Denver	CBD	Speculative	Q3 2015	281,991 / 38.1%
4700 Pearl Parkway, Boulder	East Boulder	Speculative	Q4 2015	61,597 / 0.0%
7001 East Belleview Avenue (One Belleview Station)	Greenwood Plaza	Speculative	Q1 2016	339,853 / 0.0%
1401 Lawrence Street, Denver	CBD	Speculative	Q2 2016	301,130 / 28.7%
1144 15 th Street, Denver	CBD	Speculative	Q4 2017	634,145 / 0.0%