

Savills Studley Report

Denver office sector

Q1 2016



SUMMARY

Market Highlights

STABLE AVAILABILITY RATES

The region's Class A availability rate inched down by 0.2 pp to 17.5%. The overall availability was nearly unchanged, increasing from 15.9% to 16.0%. The CBD's Class A rate rose by 0.6 pp to 19.0%, but rates fell by 1.6% to 15.4% in LoDo and dropped by 0.8 pp to 18.0% in Southeast.

RENTS NUDGE HIGHER

Overall asking rent increased quarterly by 0.7% to \$25.84 and registered a 7.9% annual gain. Class A rent also rose by 0.7% to \$30.32 and has spiked by 7.3% year-on-year.

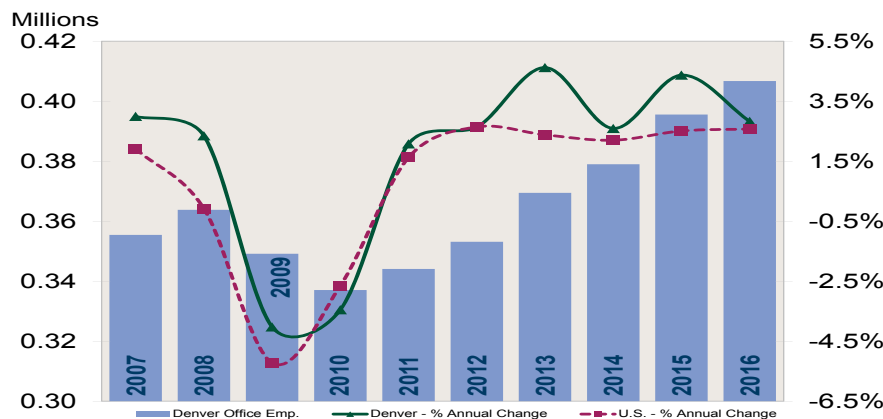
LEASING COOLS

Leasing activity decreased from 2.7 msf in the fourth quarter of 2015 to 1.6 msf in the first quarter. Even so, tenants have leased 8.8 msf in the four most recent quarters, only 3.7% below the long-term historical rate.

"Development activity Downtown and in emerging districts such as RiNo is gathering momentum as more landlords are eager to tap into the steady demand and rental rate growth achieved in LoDo."

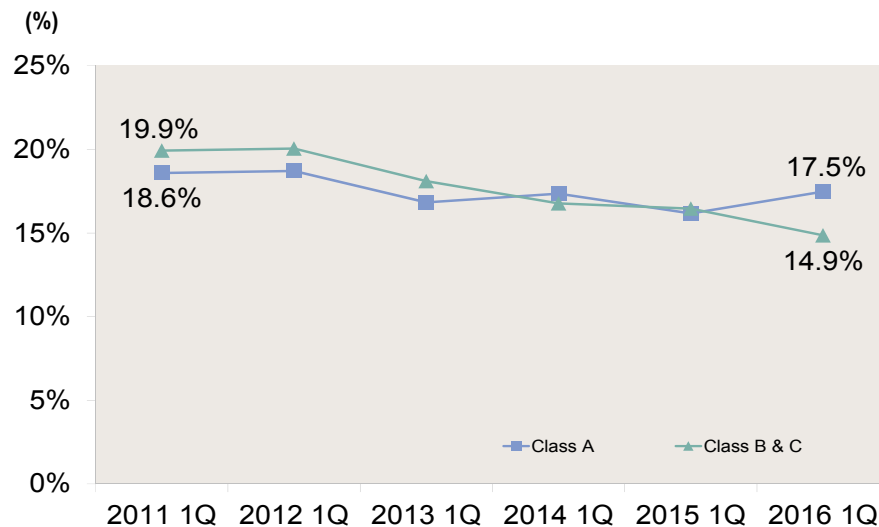
Ashley Elkin, Assistant Director

Office-Using Employment Trends

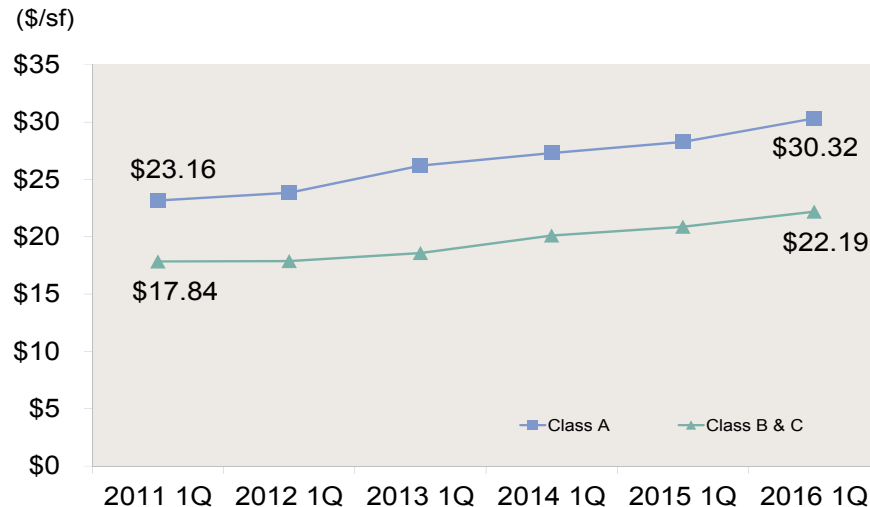


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



Tenants and Developers Push into Rino and Downtown

As of January, office-using employment in the Denver region was 43,100 jobs (11.8%) above its pre-recession peak in April 2008. While growth seemed to be slowing, it regained momentum in the last three months, with nearly 5,000 office-using jobs added since October 2015. Despite a decrease in quarterly activity from 2.7 msf in the fourth quarter of 2015 to only 1.6 msf in the first quarter, tenants have leased 8.6 msf in the four most recent quarters, just below the long-term historical average of 9.1 msf.

The availability rate continued to fall slightly, declining by 0.2 pp to 17.5% in the Class A sector. Quality space options in LoDo and Downtown remain tight. In turn, asking rent and effective rent have pushed higher into record territory in the last few quarters. The average Class A asking rent in LoDo rose by 1.2% in the first quarter to \$40.73. Effective rent continued to spike. The latest Savills Effective Rent Index reports that in the premier Class A properties Downtown, taking rent has attained levels that are nearly 50.0% above their peak in the last cycle. Companies pushed out of LoDo due to a lack of big blocks and asking rents that exceed \$40.00/sf have been looking for alternatives in the CBD. Other companies seeking bigger blocks can still consider build-to-suits in suburban markets.

Pursuit of Millennials Fuels More Leasing Downtown

Area businesses, particularly those in the tech or creative sector, continue to focus their attention on space in the urban core. Dish Network Corp. announced plans to open a 20,000-sf software development office at 1615 17th Street, two blocks from Union Station. The media/cable company has a massive headquarters in Douglas County but hopes that the LoDo location will help it recruit and retain millennials who will support its satellite TV business. Dish Network will join other media companies – Liberty Global and Comcast – that have either relocated Downtown or expanded their presence there. HomeAdvisor, currently based in Lakewood, is reportedly seeking space for a technology and sales office Downtown.

The region's diverse industry base was on display in the leasing market as energy and financial firms, along with a medical device manufacturer, all completed leases. There were fewer mega-deals in the 50,000-sf and larger range but a few tenants were on the move. The Northwest submarket

secured its biggest lease in quite some time as Biomet took 104,000 sf at 10255 Westmoor Drive. Also in Northwest, Gaiam Americas renewed 40,964 sf at 833 W. South Boulder Road. While a few oil and gas firms have added sublet space and trimmed payrolls in recent months, the energy sector has not retreated entirely. XTO Energy subleased 53,818 sf from CH2M Hill at 9193 S. Jamaica Street in Englewood. However, signs of retrenchment within the oil and gas industry are emerging. We expect greater impact from these cutbacks next quarter.

Financial sector tenants were active in multiple submarkets. CoBiz Financial took 44,010 sf at 1401 Lawrence Street in the CBD. The firm will relocate from 67,000 sf at 821 17th Street. In the Southwest submarket, Chatham Financial committed to 31,200 sf at 7926 S. Platte Canyon Road. In Southeast, Cetera Financial Group leased 17,447 sf at 4600 S. Syracuse Street. Finally, in the West submarket, Guaranty Bank signed a 16,902 sf deal at 2480 W. 26th Avenue.

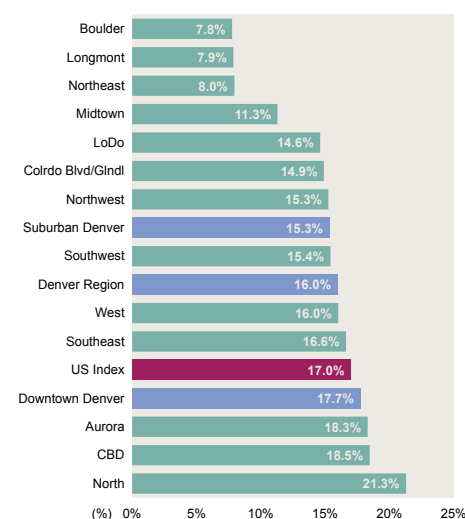
Spec Construction in Southeast

Progress continues on three speculative development projects in Southeast submarkets. Coming online between December 2016 and January 2018, the new construction will deliver more than 800,000 sf of new Class A inventory. One Belleview Station (318,000 sf) and Inova Dry Creek (212,000 sf) are on track for completion by year end, while Granite Place (300,000 sf) is projected to deliver in early 2018. These buildings represent the first speculative projects of their kinds in years for the Southeast market. While no tenants have yet announced commitments, the buildings reportedly offer competitive pricing as compared to high-rise product in the market, while each features large floorplates of 30,000 sf or greater that can accommodate single- or multi-tenant configurations.

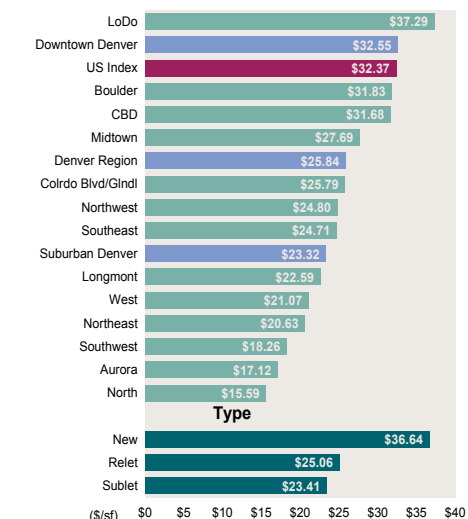
Next Phase of Union Station Redevelopment Ahead

LoDo and Union Station have captured much of the office development activity in the last few years. Developers appear to be eager to move ahead with their proposed projects. Transit-oriented projects and the conversion of buildings into creative office space remain popular. Local developer Continuum Partners, for example, recently bought Market Street Station from the City of Denver for \$14.5 million. Continuum had a right of purchase from the city as part of its agreement to be the master developer of Union Station. The

Availability Rate Comparison



Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Biomet, Inc.	104,000	10225 Westmoor Dr	Northwest
XTO Energy	53,818	9193 S Jamaica St	Southeast
National Cattlemen's Beef Association*	49,953	9110 E Nichols Ave	Southeast
CoBiz Financial	44,010	1401 Lawrence St	Central Business District
Denver Health	39,829	1391 N Speer Blvd	Midtown
Gaiam Americas	37,743	833 W South Boulder Rd	Northwest
Regus	34,036	2301 Blake St	Central Business District
Chatham Financial	31,200	7926 S Platte Canyon Rd	Southwest
Maptek	29,079	14143 Denver West Pky	West
Twitter	28,750	1301 Walnut St	Boulder
Sum of Top 10 Leases	452,418	Sum of 1st Qtr Leasing Activity	1.6 MSF

former RTD bus terminal has been closed since 2014. The two-acre site includes all of the block except for the RTD building at 1600 Blake Street.

Some of the planned projects include sites that have been the subject of development proposals in prior cycles. Houston-based Patrinely is proposing a 32-story tower on a site known as Block 162. The office component of Patrinely's proposal calls for 21 stories of office space atop 13 floors of parking. A tenant amenity space on the 12th floor would have a fitness center, meeting rooms, an outdoor exercise area and an indoor/outdoor social lounge with fire pits.

Robust Sales Continue

Many of the highest-caliber buildings Downtown have already changed hands. Investors remain bullish on Denver and many are starting to target second-tier, Class A- buildings or smaller boutique-style loft/warehouse properties with character. Phoenix Property Company recently paid

\$26 million (\$172/sf) to buy 475 17th Street. The 151,425-sf building was nearly 95.0% occupied at time of sale. The seller, Western Development Group, has made about \$1.0 million in renovations, including upgrades to the lobby and atrium. In LoDo, Unico Properties paid \$13.0 million for the Elephant Corral building at 1444 Wazee Street. The Seattle-based investor also recently bought two parking lots and several condos on Wazee Street for \$9.5 million. Just a year ago, Pennsylvania-based Stoltz Real Estate Partners paid \$17.0 million for the properties. Unico acquired several other properties last year, including 1430 Wynkoop Street and the Denver Club on 17th Street.

Investors are also eyeing properties in Suburban Denver. In Broomfield, Chicago-based GEM Realty Capital recently paid \$83.5 million, or \$280/sf, for Central Park Tower. The 297,000-sf property, located in the Interlocken Business Park and constructed in 2010, was 86% occupied at time of sale.

Map	Submarket	Total	Leasing Activity	Available SF			Availability Rate			Asking Rents Per SF		
		SF (1000's)	Last 12 Months	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. ⁽¹⁾	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1a	Central Business District	25,406	1,986	4,691	5.9%	3,991	18.5%	1.0%	17.1%	\$31.68	0.5%	\$30.10
	Central Business District - Class A	18,237	1,536	3,474	3.3%	2,711	19.0%	0.6%	16.4%	\$33.21	0.9%	\$31.54
1b	LoDo	5,930	787	867	-4.4%	470	14.6%	-1.6%	9.6%	\$37.29	1.8%	\$33.94
	LoDo - Class A	3,808	649	585	-0.4%	212	15.4%	-1.6%	7.6%	\$40.73	1.2%	\$38.68
2	Southeast	33,103	2,805	5,505	-0.6%	5,920	16.6%	-0.3%	18.6%	\$24.71	0.9%	\$23.88
	Southeast - Class A	15,740	1,707	2,841	-2.4%	2,820	18.0%	-0.8%	19.3%	\$26.32	-0.1%	\$26.01
3	Northwest	10,447	931	1,594	-6.9%	1,833	15.3%	-1.1%	18.1%	\$24.80	0.1%	\$24.53
	Northwest - Class A	4,705	635	746	-8.1%	904	15.9%	-1.4%	19.7%	\$27.71	0.2%	\$26.81
4	Colorado Blvd/Glendale	9,410	441	1,403	5.1%	1,170	14.9%	0.7%	13.1%	\$25.79	0.6%	\$21.01
	Colorado Blvd/Glendale - Class A	2,994	134	637	8.9%	323	21.3%	1.7%	12.8%	\$30.97	-2.2%	\$22.74
5	West	9,053	407	1,451	1.4%	1,546	16.0%	0.2%	17.4%	\$21.07	0.7%	\$20.73
	West - Class A	1,246	45	179	-16.8%	232	14.4%	-2.9%	18.6%	\$25.04	1.1%	\$25.61
6	Boulder	8,384	408	652	9.0%	432	7.8%	0.6%	5.3%	\$31.83	5.9%	\$27.00
	Boulder - Class A	1,000	36	130	20.4%	8	13.0%	1.5%	1.1%	\$35.53	2.8%	\$37.87
7	North	2,853	68	608	9.3%	629	21.3%	1.8%	22.7%	\$15.59	3.0%	\$15.42
	North - Class A	302	22	35	0.0%	35	11.4%	0.0%	21.3%	\$21.07	2.2%	\$20.11
8	Northeast	1,433	52	114	-27.3%	166	8.0%	-3.0%	11.6%	\$20.63	-4.8%	\$19.67
	Northeast - Class A	327	0	34	-24.5%	40	10.5%	-3.4%	12.2%	\$25.00	0.0%	\$25.00
9	Aurora	6,868	396	1,257	2.1%	1,374	18.3%	0.4%	20.0%	\$17.12	-0.3%	\$16.42
	Aurora - Class A	829	3	151	80.8%	90	18.2%	8.1%	10.9%	\$17.89	2.5%	\$17.24
10	Midtown	1,081	87	122	-5.1%	61	11.3%	-0.6%	6.3%	\$27.69	2.8%	\$27.26
	Midtown - Class A	550	55	55	-2.1%	12	10.0%	-0.2%	2.6%	\$33.13	3.5%	\$35.00
11	Southwest	6,724	328	1,037	-2.0%	1,269	15.4%	-0.3%	18.5%	\$18.26	-1.0%	\$19.05
	Southwest - Class A	1,280	4	69	-13.1%	128	5.4%	-0.8%	9.0%	\$20.51	4.5%	\$24.58
12	Longmont	442	3	35	2.6%	27	7.9%	0.2%	6.2%	\$22.59	2.4%	\$21.58
	Longmont - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1a-1b	Downtown Denver Total	30,989	2,773	5,558	4.1%	4,462	17.7%	0.5%	15.8%	\$32.55	0.5%	\$30.50
	Downtown Denver - Class A	21,699	2,185	4,059	2.7%	2,924	18.4%	0.2%	15.1%	\$34.30	0.9%	\$32.06
2-12	Suburban Denver Total	89,800	6,621	13,777	0.0%	14,426	15.3%	-0.1%	16.5%	\$23.32	0.9%	\$21.91
	Suburban Denver - Class A	28,972	3,289	4,857	-1.4%	4,562	16.8%	-0.5%	16.9%	\$27.36	0.4%	\$25.83
1-12	Greater Denver Total	121,135	8,607	19,336	1.1%	18,888	16.0%	0.1%	16.3%	\$25.84	0.7%	\$23.95
	Greater Denver - Class A	51,016	4,825	8,916	0.4%	7,485	17.5%	-0.2%	16.2%	\$30.32	0.7%	\$28.27

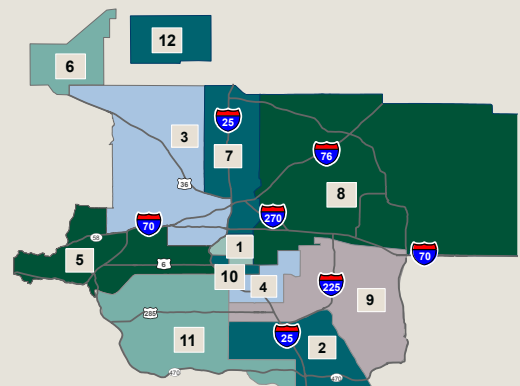
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(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
Statistics are calculated using both direct and sublease information.
Short-term sublet spaces (terms under two years) were excluded.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.
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