

Savills Studley Report Denver office sector

Q3 2017



SUMMARY

Market Highlights

LEASING INCREASES

Quarterly leasing volume rose by 23.7% to 2.5 msf, exceeding the long-term quarterly average of 2.3 msf by 9.2%. Tenants have leased 8.7 msf in the four most recent quarters, just under the long-term average of 9.1 msf.

AVAILABILITY RATES DOWN SLIGHTLY

Denver's overall availability rate declined by 0.1% from 17.5% to 17.4% in the quarter. A quarter-on-quarter decrease of 80 basis points from 20.3% to 19.5% in Class A buildings spurred the slight decline. In contrast, availability in Class B and C properties rose by 50 basis points to 15.7%.

RENTAL RATE TICKS UP

Asking rent was nearly unchanged, increasing by 0.2% from \$26.58 to \$26.63. The rate has increased by 2.5% year-on-year. The Class A average rent was essentially unchanged, rising from \$29.66 to \$29.67.

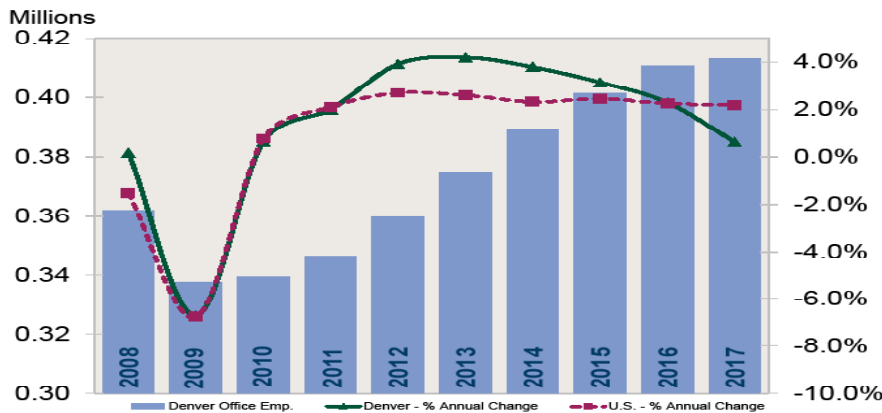
SALES DOWN SLIGHTLY

Office property sales through July totaled \$1.1 billion—a 19.7% decline from \$1.3 billion in the same period during 2016.

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"Movement to new product such as 1144 15th, and space densification, opens up blocks of space in older properties. The availability of big blocks in micro-markets such as Uptown is creating leverage for tenants. These locations can also provide significantly lower operating expenses, further reducing cost relative to new construction at the LoDo end of Downtown."

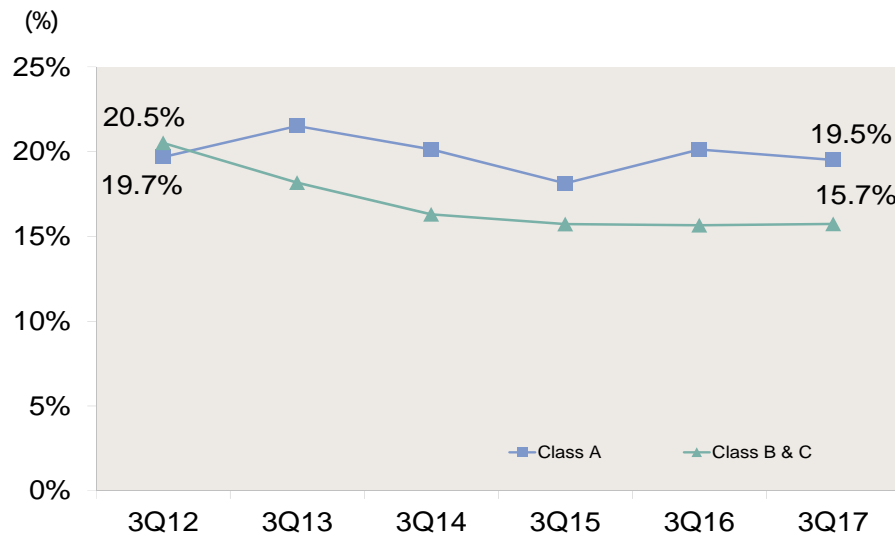
Brendan Fisher,
Corporate Managing Director

Office-Using Employment Trends

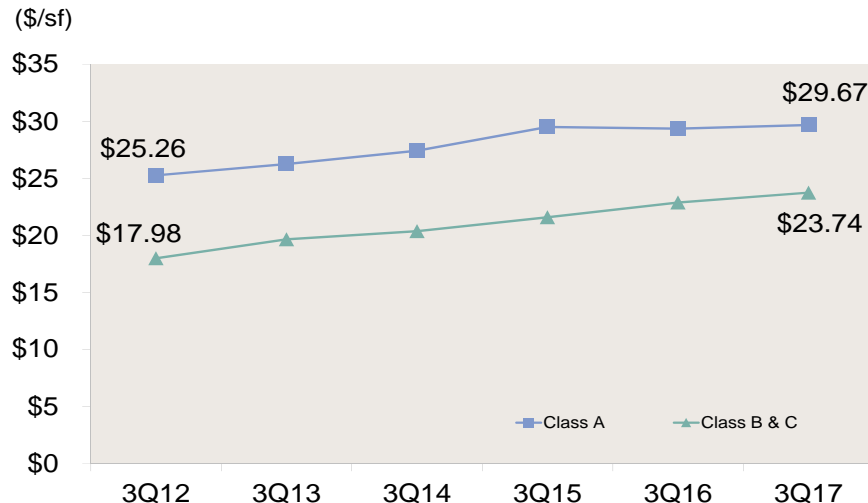


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



Deal Volume up Slightly

Sales and leasing over the last three months pushed to a level that was just above the market's long-term historical average. Tenants are kicking the tires on many of the new buildings underway in LoDo/Platte and the CBD where demand from tech and creative sector firms is still quite strong. Leasing activity at these new buildings, as well as in newer more efficient properties in suburban Denver, is opening up more vacancies across much of the market – ultimately providing tenants more leverage.

Hiring and leasing activity is somewhere between the moribund pace seen right after commodity prices tanked in 2015 and the frenetic pace of the prior two years. Corporate relocation activity has also cooled, limiting leasing activity. Soaring operating expenses have also curbed movement - expenses have jumped by 30% in some buildings during this cycle. The expansion among tech firms Downtown remains a bright spot. Ibotta announced that it will double its commitment at 1801 California from 38,000 sf to 76,000 sf. Founded in 2011, the app developer has a current headcount of 259 with plans to add another 92 by the end of the year.

High Tolerance for Record Rent in LoDo

Some tenants are showing a surprising tolerance level for record-setting rents in LoDo. Leasing activity at newly constructed properties in LoDo remains surprisingly strong considering the lofty rent being charged. As of mid-September, 14 of the 40 floors at 1144 Fifteenth were leased, with letters of intent reportedly out on most other floors. A few interested tenants have been elbowed out of negotiations. This reflects the building's exclusivity as the first new high-rise since the late 1980s. Asking rent ranges from \$28.00 to \$40.00 NNN. Multiple local tenants that are already based downtown have signed leases at the building.

Suburban Tenants Pursue Value and Room For Growth

Although it fell short of long-term averages, leasing was spread quite evenly across the region – LoDo and surrounding new submarkets are attracting much of the attention, but a fair number of leases are taking place in suburban locations. The biggest deal of the quarter, by far, was Western Union's 246,500-sf lease at Denver

Tech Center (7001 E Belleview Ave). The payment-processing icon will move its global headquarters from Douglas County. The building, which was completed earlier this year, will bear Western Union's name. With the property now 100% leased, developer Prime West is now considering when to break ground on another speculative building within the 42-acre site. Meanwhile, Western Union is selling two buildings it currently owns in Douglas County – 12500 E Bedford and 12510 E Bedford.

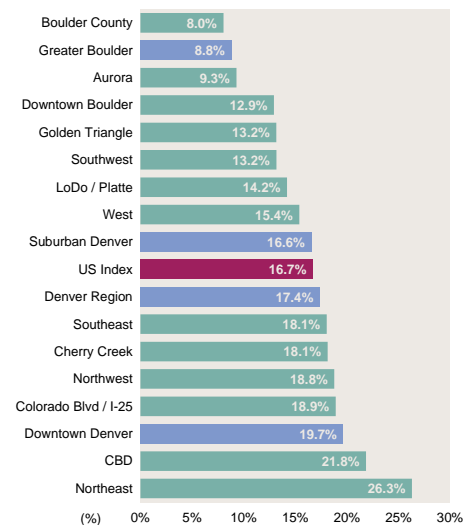
Other than Western Union's lease, smaller and mid-sized firms accounted for most of the activity, including several tech firms. Parking, as well as the infrastructure of each individual building, imposes a limit on how many people can be shoehorned into space. Some suburban buildings offer firms anticipating future growth the room to spread out, as well as the parking they need. This includes Enquire Solutions, which took the 8th floor at 6400 S Fiddlers Green in the Denver Tech Center. The provider of CRM software and call center services in the senior housing and healthcare sector employs 200 people. The new office will provide room for future growth and gives the company a much-needed training facility.

Some energy firms have actually been adding a bit of staff as energy markets stabilize. BP, for example, has been growing here. A few alternative energy firms are moving and expanding. Also, Namaste Solar, is relocating the headquarters for its residential division to 6707 Winchester Circle – leasing 15,132 sf in North Boulder.

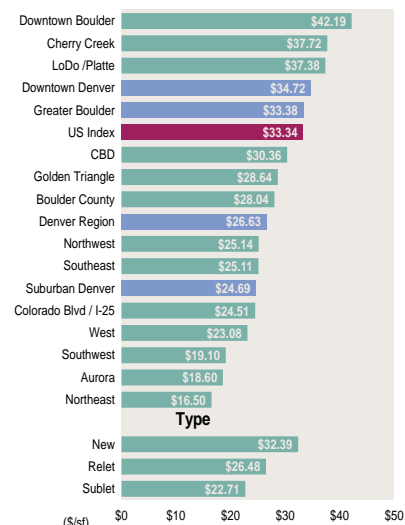
Tenants Have Array of Space Options to Consider

Even with these leases, availability was essentially flat in the quarter. The overall availability rate ticked down by only 10 basis points, to 17.4% in the third quarter. Tenants looking for bigger blocks of space in LoDo and Downtown Boulder face a space crunch, but in the balance of the market, tenants can still find multiple options to consider across much of the region. Consequently most landlords do not have much leverage to push rent higher. Face rents (up by only 0.2% during the quarter) have generally been flat for most of the year, but net effective rents are down slightly in some older properties (A-/B+) as landlords in suburban Denver and the Uptown section of Downtown have increased concessions. Older buildings

Availability Rate Comparison



Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Western Union	246,500	7001 E Belleview Ave	Denver Tech Center
Level Office	79,107	1630 Welton St	Central Business District
Department of Justice	73,115	1801 California St	Central Business District
Elavon^	65,700	7459 S Lima	Inverness
The Green Solution	63,000	4100 E Arkansas Ave	Colorado Blvd / I-25
Ball Aerospace	48,400	2675 Crescent Dr	Boulder County
lbotta	38,356	1801 California St	Central Business District
IBM (Promontory)	38,000	1999 Broadway	Central Business District
Colorado Therapeutics	33,600	486 S Pierce Ave	Boulder County
Uber Technologies	32,699	400 Centennial Pky	Northwest
Sum of Top Transactions	718,477	Sum of 3rd Qtr Leasing Activity	2.5 MSF

*Renewal **Renewal/Expansion ^Sale

are struggling to drive leasing and present tenants with some value-plays.

Tenants trying to preserve their bottom line, as well as those unable to find blocks of space large enough to accommodate future growth, can capitalize on more reasonably priced options and generous concessions in Denver Tech Center, Broomfield, Northwest and the Boulder suburbs. The Uptown section of Downtown also has multiple blocks of space available, creating leverage for tenants. Following a trend seen in a fair number of markets, sublease space is on the rise. Sublet supply has posted the biggest jump in Lone Tree and Meridian area as a few firms put some of their space on the market.

Looking Forward

As more tech firms mature and enter later rounds of funding, LoDo and Cherry Creek

could follow the same course as Downtown Boulder and see some companies migrate to suburban locations upon lease rollover. Densification of space utilization is far from over. That said, some tech and creative sector companies were already very efficient in terms of how much space they allocated per employee.

Everyone's attention has been on Amazon's search for a second headquarters. The \$5-billion facility would bring an estimated 50,000 employees and a campus between five and eight million sf. The New York Times recently anointed Denver as one of the front-runners. This would certainly be a big splash in a market that still has a small-town feel. Based on Amazon's needs there is no existing availability that could accommodate their requirements, though.

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
1	Central Business District	22,018	2,194	4,810	-2.2%	4,474	21.8%	-0.5%	20.6%	\$30.36	0.2%	\$30.47
	Central Business District - Class A	15,360	1,884	3,477	-0.8%	3,201	22.6%	-0.2%	22.8%	\$31.67	0.2%	\$31.44
2	LoDo / Platte	8,807	696	1,250	-13.4%	1,597	14.2%	-2.2%	17.7%	\$37.38	-1.1%	\$36.84
	LoDo / Platte - Class A	6,023	484	847	-16.4%	1,181	14.1%	-2.8%	19.2%	\$38.75	-1.5%	\$38.71
3	Golden Triangle	1,529	32,989	201	-14.2%	89	13.2%	-2.2%	6.4%	\$28.64	3.2%	\$24.47
	Golden Triangle - Class A	734	0	74	-22.1%	15	10.1%	-2.9%	4.2%	\$30.10	6.7%	\$25.96
4	Cherry Creek	2,347	128	426	6.2%	303	18.1%	1.1%	13.9%	\$37.72	9.2%	\$24.56
	Cherry Creek - Class A	1,045	40	244	0.4%	137	23.4%	0.1%	15.8%	\$44.46	10.0%	\$27.34
5	Colorado Blvd / I-25	9,516	579	1,800	-2.3%	1,902	18.9%	-0.4%	20.5%	\$24.51	1.1%	\$26.29
	Colorado Blvd / I-25 Class A	2,508	113	583	-8.7%	634	23.3%	-2.2%	26.3%	\$30.70	2.1%	\$31.63
6	Northeast	2,682	119	705	-1.8%	603	26.3%	-0.5%	23.4%	\$16.50	-7.3%	\$21.91
	Northeast - Class A	415	4	111	2.9%	58	26.7%	0.8%	11.4%	\$25.93	0.5%	\$25.54
7	Aurora	3,629	84	337	-7.4%	459	9.3%	-0.7%	15.3%	\$18.60	2.5%	\$30.46
	Aurora - Class A	315	1	44	1.6%	5	13.9%	0.2%	7.4%	\$19.00	0.0%	\$33.50
8	Southeast	32,908	2,546	5,940	2.9%	5,922	18.1%	0.5%	18.4%	\$25.11	-0.7%	\$14.95
	Southeast - Class A	16,555	1,723	3,008	-9.3%	3,303	18.2%	-1.9%	20.3%	\$26.41	-1.5%	\$21.20
9	Southwest	6,059	204	798	-7.2%	991	13.2%	-1.0%	15.3%	\$19.10	2.1%	\$21.44
	Southwest - Class A	1,365	39	102	-2.6%	167	7.5%	-0.2%	5.4%	\$22.98	3.3%	\$25.00
10	West	8,549	365	1,316	-1.9%	1,391	15.4%	-0.3%	17.5%	\$23.08	-0.2%	\$17.72
	West - Class A	1,370	84	253	-1.9%	249	18.5%	-0.4%	19.7%	\$25.40	-0.1%	\$19.00
11	Northwest	11,229	705	2,108	16.0%	1,714	18.8%	2.5%	13.5%	\$25.14	1.9%	\$23.49
	Northwest - Class A	4,375	358	1,174	21.7%	861	26.8%	4.8%	14.8%	\$26.75	0.3%	\$26.00
12	Downtown Boulder	1,311	108	170	5.2%	204	12.9%	0.6%	14.3%	\$42.19	1.8%	\$18.84
	Downtown Boulder - Class A	399	51	22	-0.3%	22	5.4%	0.0%	8.5%	\$43.57	6.2%	\$21.98
13	Boulder County	6,898	514	555	-11.2%	639	8.0%	-1.0%	6.4%	\$28.04	1.4%	\$21.43
	Boulder County - Class A	681	179	39	-23.5%	79	5.7%	-1.7%	2.0%	\$31.34	N/A	N/A
1-2	Downtown Denver Total	30,825	2,890	6,060	-4.8%	6,071	19.7%	-1.0%	20.4%	\$34.72	-0.8%	\$31.58
	Downtown Denver - Class A	21,384	2,368	4,324	-4.3%	4,382	20.2%	-0.9%	21.6%	\$34.99	-2.2%	\$32.62
12-13	Greater Boulder Total	8,209	621	724	-7.8%	843	8.8%	-0.8%	10.2%	\$33.38	1.0%	\$23.65
	Greater Boulder - Class A	1,080	230	60	-16.6%	101	5.6%	-1.1%	9.3%	\$34.86	1.9%	\$26.96
2-13	Suburban Denver Total	86,657	5,384	14,357	1.6%	14,217	16.6%	0.2%	16.6%	\$24.69	1.1%	\$23.65
	Suburban Denver - Class A	29,760	2,592	5,655	-3.3%	5,529	19.0%	-0.6%	19.1%	\$27.58	1.0%	\$26.96
1-13	Greater Denver Total	117,482	8,666	20,417	-0.4%	20,288	17.4%	-0.1%	17.6%	\$26.63	0.2%	\$25.97
	Greater Denver - Class A	51,144	4,588	9,979	-3.7%	9,911	19.5%	-0.8%	20.1%	\$29.67	0.0%	\$29.36

Please contact us for further information

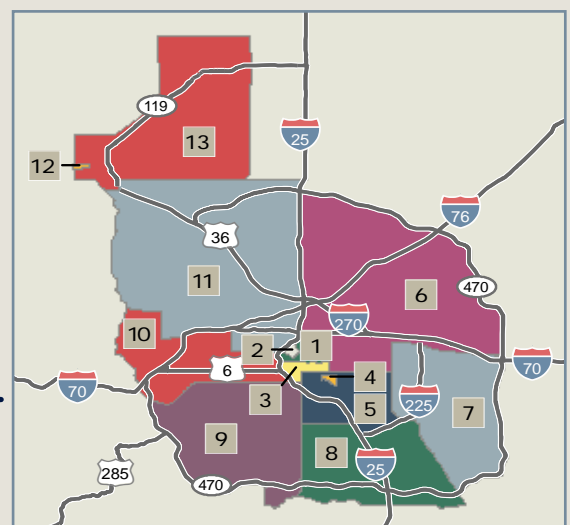
Savills Studley
 1125 17th Street,
 Suite 2300
 Denver, CO 80202
 (303) 302-5100

Denver Region Co-Heads

Rick Schuham - Executive Vice President
 rschuham@savills-studley.com
 Todd Roebken - Executive Managing Director
 troebken@savills-studley.com
 Greg Bante - Executive Managing Director
 gbante@savills-studley.com

Corporate Research Contacts
 Anders Klein - Research Manager
 aklein@savills-studley.com

Max Planning - Research Assistant
 mplanning@savills-studley.com



(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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