

Savills Studley Report Denver office sector

Q2 2018



SUMMARY

Market Highlights

LEASING FALLS AGAIN

Quarterly leasing volume fell for the second quarter in a row, decreasing from 2.2 million square feet (msf) to 1.9 msf. For the first time in several years, no leases over 100,000 sf were completed. Tenants have leased 9.3 msf in the four most recent quarters, on track with the long-term market average.

AVAILABILITY RATES SHOW LITTLE CHANGE

The market's overall availability rate fell by 10 basis points to 18.8% this quarter. In contrast, The Class A availability rate fell by 80 basis points to 19.7%.

RENTAL RATE INCREASES

Overall asking rent inched up by 0.4% from \$27.44 to \$27.54 this quarter, and has jumped by 3.4% year-on-year. The Class A average rent increased by 2.7% to \$31.20 this quarter, but has increased by 2.4% year-on-year.

SALES UP

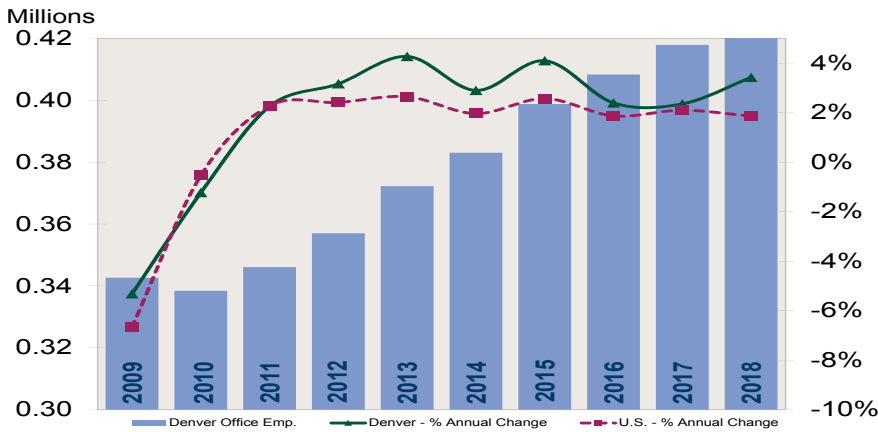
Office property sales during the last six months (through May 2018) totaled \$1.9 billion, a 215% increase compared to the previous six-month total of \$616 million.

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"Sensing an opportunity, Denver tech firms, with support from state agencies are intensifying their efforts to lure talent and innovative firms to the region. A high quality of life and lower costs relative to California continue to appeal to some companies."

Brendan Fisher, Corporate Managing Director

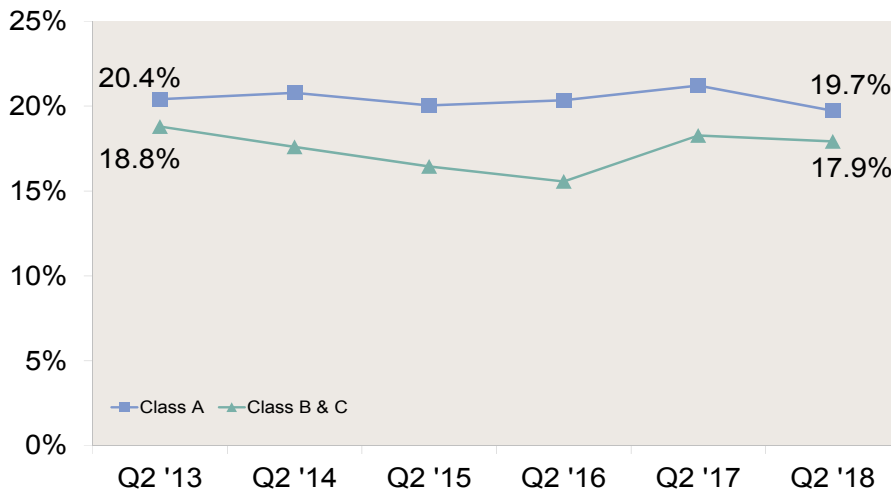
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Office-Using Employment Trends

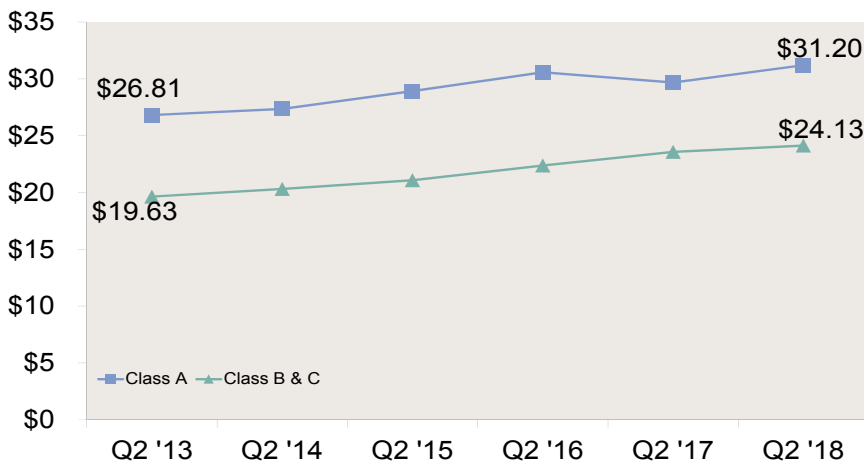


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Tech Firms Heighten Recruiting Efforts

Area businesses continue to show mixed results but growth overall continues apace. Some sectors, including tech and coworking, are in expansion mode. Many traditional space occupiers such as law firms and professional/business services are very much focused on efficiency. In general, the region's economy and area businesses are on very solid footing, supporting relatively steady leasing, particularly in Downtown Denver and Boulder. There were no blockbuster 100,000-plus-sf transactions in the second quarter, but several mid-sized leases were completed. The region's Class A availability rate dipped by 80 basis points to 19.7% and has fallen by nearly 150 basis points year-on-year.

Telecom, Other Sectors, Still in Transition

The region has had ample experience dealing with mergers and acquisitions in the telecom sector. T-Mobile's \$26 billion bid for Sprint raises questions about the impact on Denver's fourth-largest telecom company. The telecom sector is already undergoing some restructuring that is negatively impacting Denver. In the wake of its merger with Level 3 Communications, CenturyLink Inc is laying off 2% of its workforce, approximately 1,050 people. The company employs about 7,800 people in Colorado.

Conversely, local cable TV and broadband heavyweight Charter Communications is on a steady growth path. The Connecticut-based firm is adding eight more floors at 6175 S. Willow Drive. This follows their lease of the entirety of 6360 S. Fiddlers Green Circle last year. In this case a merger – with Time Warner Cable and Bright House Networks – has brought growth rather than cuts. The company recently said it plans to add 800 additional jobs.

The energy sector is recovering as oil and gas prices rise. Some top energy firms are still consolidating, though. BP announced that it will reduce its upstream workforce by about 3% (540 people). It is unclear where the cuts, expected to be completed in July, will take place. Even so, BP still expects to move its Lower 48 division from Houston to the Riverview at 1700 Platte. The division will employ about 200 people. Additionally, Ultra Petroleum Corp. announced plans to move its Houston office and combine it with the Denver operations.

Tech Innovators Expand

Denver's tech sector continues to benefit from the nationwide expansion of many of California's tech companies.

Colorado agencies and local tech leaders are collaborating on an effort to maintain or possibly increase the flow of California firms to the region. "Pivot to Colorado" is a \$500,000 campaign from state development agencies and several local tech companies to recruit tech talent in Colorado. With an unemployment rate of 2.1% in Denver and 2.8% across the state, finding properly skilled employees is a challenge.

According to the Colorado Economic Development Office the state has 11,000 tech companies. Tech firms backing the effort include SendGrid, Ibotta and Gusto. Shopping app Ibotta and payroll firm Gusto have both had success finding local talent. Ibotta now has more than 500 people after adding 100 employees in the last year. San Francisco-based Gusto, a payroll and benefits software provider, opened its first Denver location in 2015. It has 275 employees based at a 40,000 sf space in Tabor Center and want to grow even more. Funding Circle has announced their commitment to a minimum of 150 new jobs in Denver, abating its growth in Northern California in favor of more fertile ground in Colorado.

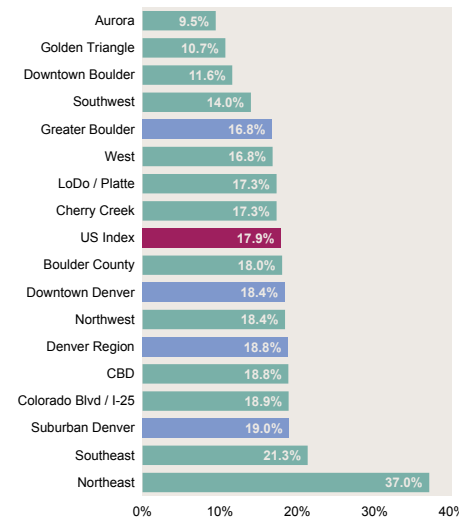
Home-Grown Entrepreneurs

In addition to capturing the overflow of tech companies from other markets, local accelerator programs have had success nurturing home-grown tech entrepreneurs. Some graduates of the Canopy Boulder accelerator program recently raised funds – including Wurk, which recently raised \$3.2 million in bridge financing. The startup, which was launched in 2015, designed a human-resources platform for the cannabis industry.

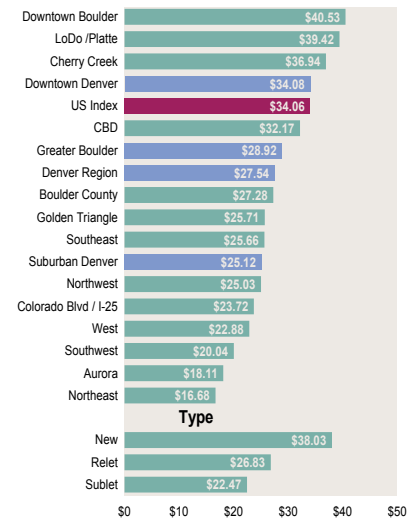
Colorado has emerged over the years as one of the top U.S. biotech hubs. Bidesix recently raised \$5.28 million in capital. The life science firm designs molecular diagnostics tests. Additionally, Boulder-based Wunder Capital raised \$112 million in equity and debt financing. The Boulder-based bank lends money for commercial-scale solar power projects. A 2014 graduate of the Boulder TechStars startup accelerator, Wunder has financed more than 185 solar projects that have added about 65 MW worth of solar energy.

The Colorado Economic Development Commission recently approved a \$10.5 million tax incentive package in a bid to lure San Francisco-based Slack to Denver. The cloud messaging app company already announced that it will open a second Denver office, but it is unclear if this is the full move that would bring more than 500 jobs to the region.

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
Pax8	74,031	5500 S Quebec St	Southeast
High Point Resources	59,548	555 17th St	Central Business District
Faegre Baker Daniels	58,097	1144 15th St	Central Business District
RSM	38,774	555 17th St	Central Business District
Comcast	36,480	3025 S Parker Rd	Aurora
Mercy Housing	36,341	1600 Broadway	Central Business District
Alterra Mountain Co.	34,519	3501 Wazee St	Central Business District
WeillDyne RX	33,100	7472 S Tucson Way	Southeast
Regis University	28,341	6380 S Fiddlers Green Cir	Southeast
Lennar Colorado	26,910	9193 S Jamaica St	Southeast
Sum of Top 10 Leases	426,141	Sum of 2nd Qtr Leasing Activity	1.9 MSF

Strong Startup Community Supports Coworking

A few mid-sized and larger firms are taking space in coworking facilities. This can be an effective short-term strategy for companies making their first entry into a market or for companies looking to expand through a satellite office in a different submarket. Web site and mobile app designer Effective, is placing its 12,000-sf headquarters at 2162 Market street on the market and moving to WeWork's new location at the Tabor Center slated to open in August.

After originally signing a lease for 64,000 at The Tabor Center, WeWork took another four floors, increasing its footprint to 150,000 sf and raising the desk count from 1,000 to more than 2,100. In some cases WeWork is offering several months rent abatement, and heavily discounted rent for a few additional months. Interestingly, some building valuations are being negatively impacted by large co-working occupancy. In Denver, any building with over 30% occupancy by co-working operator(s)

is starting to be penalized due to perceived excessive risk.

Mixed Exit Results

2017 was the year of "exit" for many Colorado tech firms. The term "exit" refers to developing tech startups crossing over to the next financial step in business. This could mean a company getting acquired, going public or attracting significant capital. Some of the Colorado tech companies that underwent an exit in 2017 include: Layer 3 TV, who is headquartered out of 9,933 square feet in 1660 Wynkoop, sold to T-Mobile, eBags, who fills 29,928 square feet at 5500 Greenwood Plaza Blvd, sold to Samsonite, and WideOpenWest, who has a strong presence in both Colorado Springs and Southeast Denver, went public. Many of these fledging tech firms hope to emulate the success of firms such as SendGrid, who also went public in 2017. SendGrid occupies floors 5 – 7 at 1801 California St totaling 107,581 square feet. SendGrid's stock opened at \$18.55. At \$18.00 per share, SendGrid's company market cap is \$578 million.

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.
1	Central Business District	21,645	2,079	4,080	-4.7%	4,880	18.8%	-0.8%	22.4%	\$32.17	5.2%	\$30.25
	Central Business District - Class A	15,114	1,563	2,754	-4.4%	3,368	18.2%	-0.7%	22.1%	\$34.11	6.4%	\$31.58
2	LoDo / Platte	10,278	889	1,780	-8.4%	1,836	17.3%	-1.8%	18.1%	\$39.42	-0.8%	\$37.78
	LoDo / Platte - Class A	7,234	653	1,288	-11.8%	1,253	17.8%	-2.7%	17.6%	\$41.60	0.8%	\$39.33
3	Golden Triangle	1,641	90,934	176	1.4%	235	10.7%	0.2%	14.3%	\$25.71	-7.8%	\$27.77
	Golden Triangle - Class A	771	21,225	68	-14.5%	95	8.8%	-1.5%	12.3%	\$24.45	-16.9%	\$28.21
4	Cherry Creek	2,524	153	437	5.6%	401	17.3%	0.0%	16.7%	\$36.94	0.6%	\$34.55
	Cherry Creek - Class A	1,072	61	206	-2.0%	243	19.2%	-0.4%	22.7%	\$42.76	-2.4%	\$40.40
5	Colorado Blvd / I-25	8,751	923	1,653	-12.7%	1,848	18.9%	-2.6%	21.0%	\$23.72	-2.9%	\$24.27
	Colorado Blvd / I-25 Class A	2,508	299	574	-19.1%	652	22.9%	-5.4%	26.0%	\$26.36	-10.1%	\$30.05
6	Northeast	2,023	94	749	71.0%	710	37.0%	16.3%	33.7%	\$16.68	-25.9%	\$17.64
	Northeast - Class A	421	35	117	-5.0%	108	27.7%	-1.4%	25.6%	\$25.94	-0.1%	\$25.79
7	Aurora	3,127	244	296	-5.1%	345	9.5%	-0.5%	11.0%	\$18.11	-3.0%	\$18.11
	Aurora - Class A	315	101	38	0.0%	43	12.1%	0.0%	13.7%	\$23.84	25.5%	\$19.00
8	Southeast	30,603	2,918	6,530	6.6%	6,094	21.3%	1.3%	20.0%	\$25.66	1.4%	\$25.35
	Southeast - Class A	16,926	1,972	3,807	7.3%	3,861	22.5%	1.4%	23.0%	\$27.47	3.1%	\$26.90
9	Southwest	4,936	275	691	-4.8%	912	14.0%	-0.7%	18.5%	\$20.04	-1.4%	\$18.58
	Southwest - Class A	995	67	137	11.3%	95	13.8%	1.4%	9.6%	\$23.50	3.0%	\$21.46
10	West	7,467	413	1,255	-5.5%	1,359	16.8%	-1.0%	18.2%	\$22.88	-0.7%	\$23.17
	West - Class A	1,363	92	244	-12.9%	258	17.9%	-2.7%	18.9%	\$25.78	-0.6%	\$25.44
11	Northwest	9,892	751	1,822	-4.1%	1,808	18.4%	-1.1%	18.6%	\$25.03	-0.7%	\$24.82
	Northwest - Class A	4,929	460	1,049	-9.2%	983	21.3%	-3.0%	20.7%	\$27.18	1.2%	\$26.67
12	Downtown Boulder	1,477	111	171	-2.9%	238	11.6%	-0.3%	16.1%	\$40.53	-1.2%	\$41.45
	Downtown Boulder - Class A	399	14	7	4.7%	22	1.8%	0.1%	5.4%	\$40.40	-4.9%	\$41.01
13	Boulder County	5,902	396	1,065	4.7%	976	18.0%	0.9%	16.4%	\$27.28	-1.8%	\$27.66
	Boulder County - Class A	610	53	97	-8.4%	123	15.9%	-1.5%	20.1%	\$36.78	0.4%	\$31.43
1-2	Downtown Denver Total	31,923	2,968	5,860	-5.9%	6,363	18.4%	-1.1%	19.9%	\$34.08	-9.3%	\$35.02
	Downtown Denver - Class A	22,348	2,215	4,042	-6.9%	4,520	18.1%	-1.3%	20.2%	\$36.09	-7.1%	\$35.78
12-13	Greater Boulder Total	7,379	507	1,236	3.6%	786	16.8%	0.7%	10.6%	\$28.92	-11.8%	\$33.04
	Greater Boulder - Class A	1,008	67	104	-7.6%	72	10.3%	-0.9%	7.2%	\$37.03	-3.6%	\$34.21
3-13	Suburban Denver Total	78,341	6,368	14,846	2.3%	14,136	19.0%	0.4%	18.1%	\$25.12	-0.3%	\$24.42
	Suburban Denver - Class A	30,308	3,176	6,343	-0.6%	5,847	20.9%	-0.3%	19.5%	\$27.91	1.2%	\$27.31
1-13	Greater Denver Total	110,264	9,336	20,706	-0.1%	21,643	18.8%	-0.1%	19.7%	\$27.54	0.4%	\$26.62
	Greater Denver - Class A	52,656	5,391	10,386	-3.1%	11,103	19.7%	-0.8%	21.2%	\$31.20	2.7%	\$29.68

Please contact us for further information

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

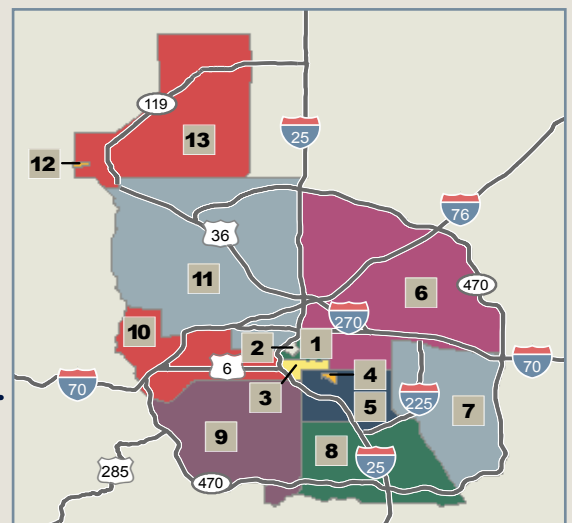
Denver Region Co-Heads

Rick Schuham - Vice Chairman, Director
 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.
 ^Unless otherwise noted, source for data is Savills Studley.
 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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