



NAIOP Mid Year Office Market Forecast

July 15, 2014

CBRE



Where have we been?

Where are we now?

Where are we going?

WHERE HAVE WE BEEN?

2013 Year End Quick Stats

- ↓ **Vacancy across all markets**
- ↑ **Rental rates across all markets**
- ↑ **New construction across all markets**



- **Market wide absorption = 1.5 Million SF**
- **Market wide vacancy = 13.5%**
- **64% of all absorption was in Southeast Denver**



Source: CBRE Research

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WHERE HAVE WE BEEN?

Denver Economy Displays Strong Signals



37,810

Jobs added in Denver Metro
(2013)



3.0%

Increase in retail sales
(Q4 2013 vs Q4 2012)



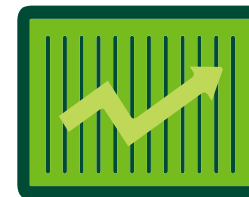
6,879

Metro single-family home starts: up 142% since 2009, about 30% annually
(2013)



31,660

People moved to Denver metro in 2013



+2.8%

GMP growth in 2013

Source: Moody's Data Buffett

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WHERE ARE WE NOW?

Market Breakout

■ Southeast

- Vacancy ↑ Rates ↑
 - **Capital Markets Activity**
 - **Telecommunications Vacancy**

■ Downtown

- Vacancy ↑ Rates ↑
 - **Demand from Energy Firms**
 - **Anticipation of Union Station Impact**
 - **New Construction Pricing in LoDo**

■ Northwest

- Vacancy ↓ Rates ↓
 - **Landlords Loosening in Lease Negotiations**

MARKET STATISTICS	2013	Q2 2014
Direct Vacancy Rates – Denver Metro	13.5%	13.4%
Direct Asking Lease Rates – Denver Metro	\$22.20	\$22.53
Direct Vacancy Rates – Southeast	10.8%	11.0%
Direct Asking Lease Rates – Southeast	\$21.08	\$22.26
Direct Vacancy Rates – Downtown	11.7%	12.4%
Direct Asking Lease Rates – Downtown	\$30.00	\$30.57
Direct Vacancy Rates – Northwest	20.6%	19.7%
Direct Asking Lease Rates – Northwest	\$24.66	\$24.54
Metro Absorption (SF)	1,423,534	829,360

WHERE ARE WE GOING?

Supply vs. Demand Predictions

■ Southeast

- Asking Rent Rates ↑ Absorption ↑
 - **Demand from Financial Services**
 - **Capital Markets**

■ Downtown

- Asking Rent Rates ↑ Absorption ↑
 - **Demand from Energy Companies**
 - **Bakken Shelf**

■ Northwest

- Asking Rent Rates -- Absorption ↑
 - **Aircell takes occupancy in September**
 - **Boulder Labor Force**

	Southeast	Downtown	Northwest
Current Activity	5,000,000	3,509,781	500,000
Current Absorption YTD	(42,498)	127,668	34,384
New Construction YTD	883,500	675,148	26,220
Est. Average Rates	\$23.15	\$31.79	\$25.27

WHERE ARE WE GOING?

WHY?

INFRASTRUCTURE INVESTMENT



\$10.6 Billion



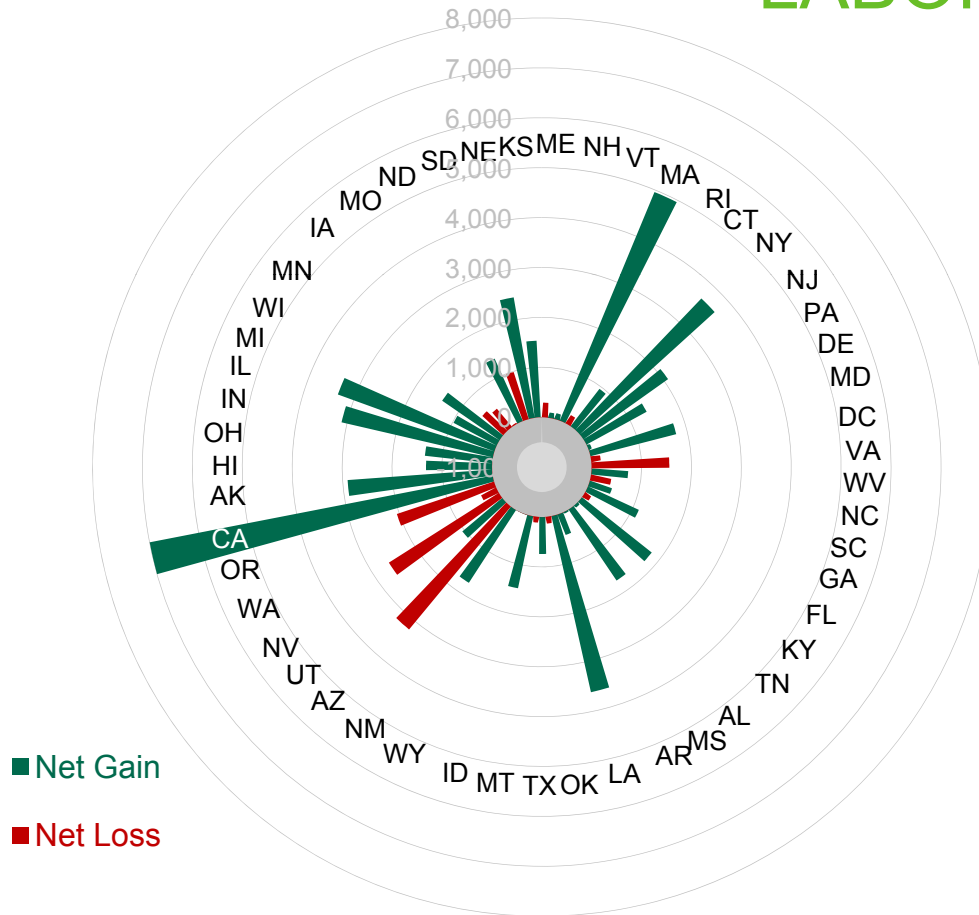
FasTracks - \$7.4B
DIA Transit Center and Hotel - \$554M
Trex - \$1.7B
Union Station Redevelopment - \$1B



WHERE ARE WE GOING?

WHY?

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- Denver is 2nd in influx of Millennials (ages 25-34) between 2009 - 2012
- Colorado was 5th fastest growing state 2012-2013
- Colorado Net Migration strongest from California, Massachusetts, New York

WHY?

- Lifestyle
- Domino Effect
- Job Opportunities

Source: U.S. Census Bureau



WHERE ARE WE GOING?

Forecast

TRENDS

- Increased parking ratios needed in suburban markets
- Emphasis on culture/location/workplace vs. cost
- Continued capital markets activity driving lease rates
- Continued construction price increases leading to lower TI buying power

WHERE ARE WE GOING?

Forecast

BOLD PREDICTIONS FOR NEXT 12 MONTHS

- ❑ \$35/SF FSG Lease Rate in New Construction in Southeast Denver
- ❑ \$50/SF FSG Lease Rate in New Construction in Downtown Denver
- ❑ Major Headquarter Relocation to Metro Denver
- ❑ Large M&A Effecting a Major HQ Company in Colorado