

NAIOP MIDYEAR FORECAST

JULY 2014



OFFICE INVESTMENT MARKET COMMENTARY

NAIOP MIDYEAR
FORECAST

GENERAL TRENDS

- Oversupply of domestic and foreign capital
- Increasing bid support
- Now hitting historic price levels
- Suburban product coming into favor
- ±100 - 150 bps premium for Suburban vs. CBD
- Investors accepting more risk for less return
- 2014 sales volume should eclipse 2013

DENVER	2012	2013	Rolling 12 mos.
CLOSED (MSF)	9	15	14.75
\$ VOLUME (MM)	\$1,443	\$2,612	\$2,675.4
\$ PSF	\$149	\$176	\$200
# OF SALES	78	123	117
AVG. SIZE (MM)	\$19	\$21	\$23
AVG. CAP RATE	7.18%	7.23%	7.0%

TRENDS | OPPORTUNITIES | PREDICTIONS

DENVER

NAIOP MIDYEAR
FORECAST

RECENT TRENDS

- Value-add CBD investment demand is strong but opportunities are scarce
- Investor demand has been deep for core CBD product
- New construction in Union Station hitting record pricing
- Foreign capital making a strong push for CBD and SES product
- Investor focus is oriented toward mass transit

CURRENT OPPORTUNITIES

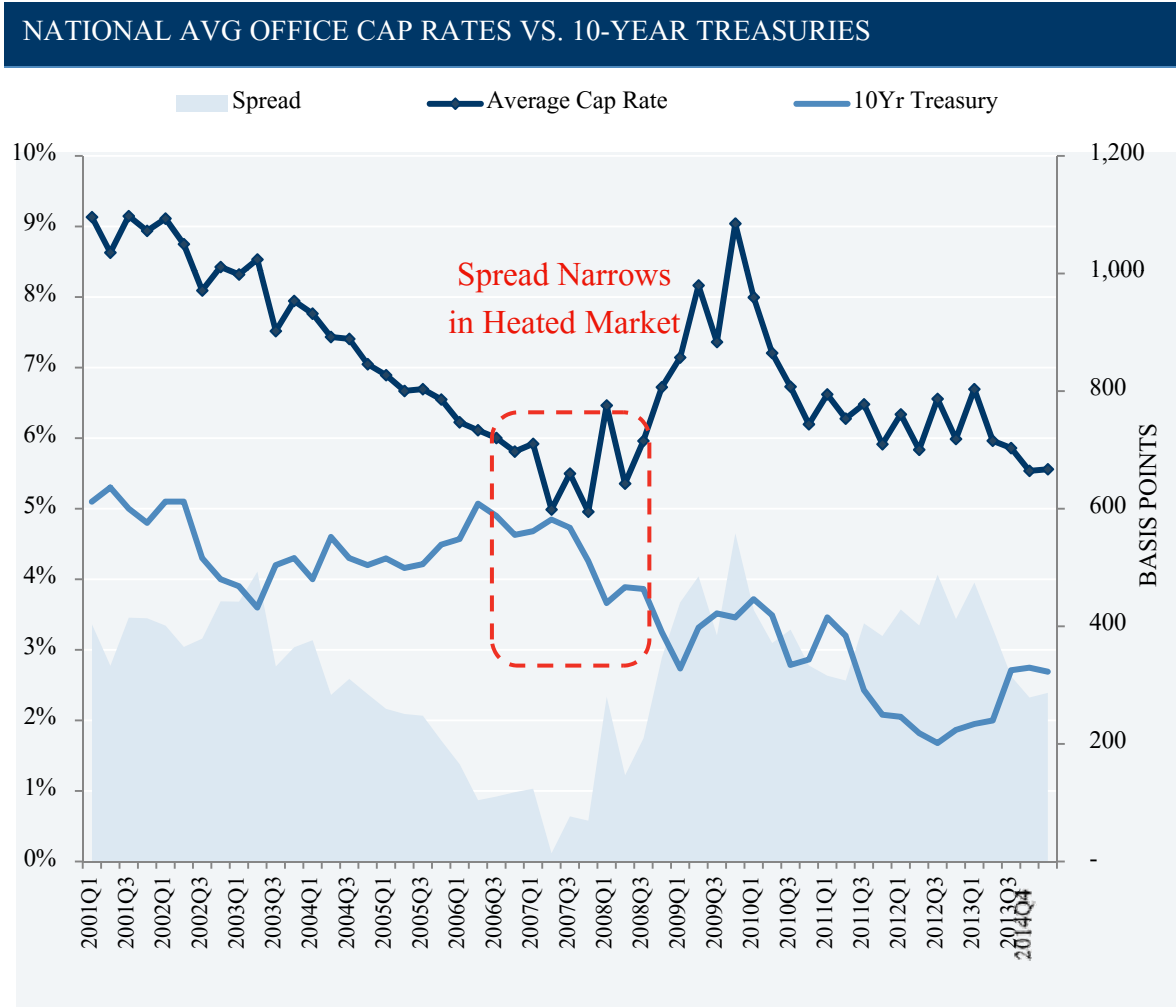
- Core plus suburban product (80-90% leased) is thinly bid and offers higher risk adjusted returns
- Spec CBD office development yielding historically high profit margins

PREDICTIONS

- Foreign capital will continue to make increasingly larger investments in the CBD and stronger moves into suburban markets
- Mid-5% cap rate will become the norm for class A CBD core product

THE CAPITAL MARKETS – CAP RATE COMPRESSION

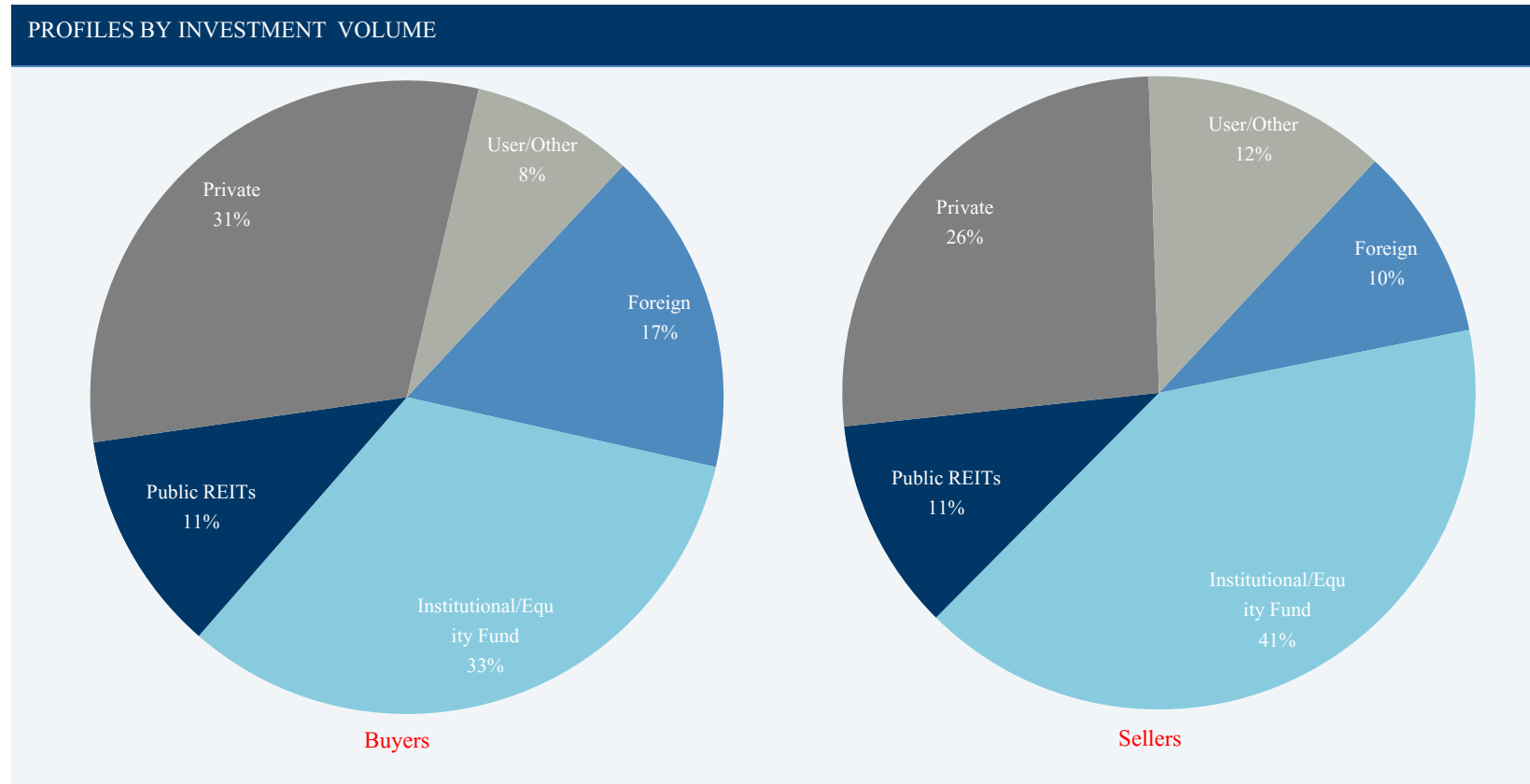
CAP RATE TRENDS - HISTORIC SPREADS SUGGEST STABLE RATES INTO 2015



Sources: RCA, Moody's Analytics, C&W Capital Markets

- 322 bps average spread since 2001 compared to 280 bps currently
- Treasuries likely to expand without much cap rate pressure
- Conclusion ... Stable near-term cap rates

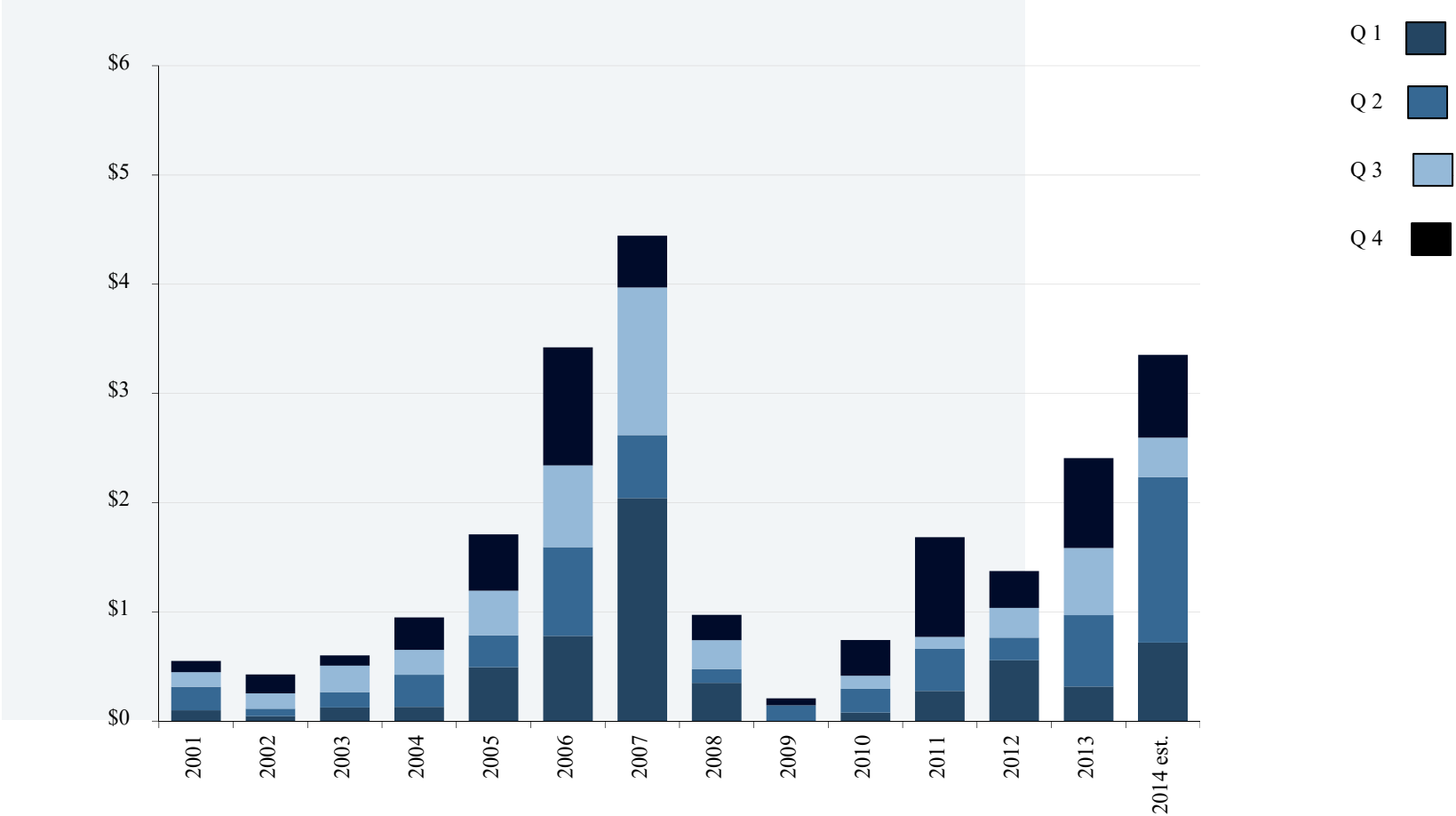
2013 US OFFICE BUYER & SELLER PROFILES



Source: RCA

THE CAPITAL MARKETS

DENVER INVESTMENT SALES VOLUME, 2001-2014 IN \$BILLIONS

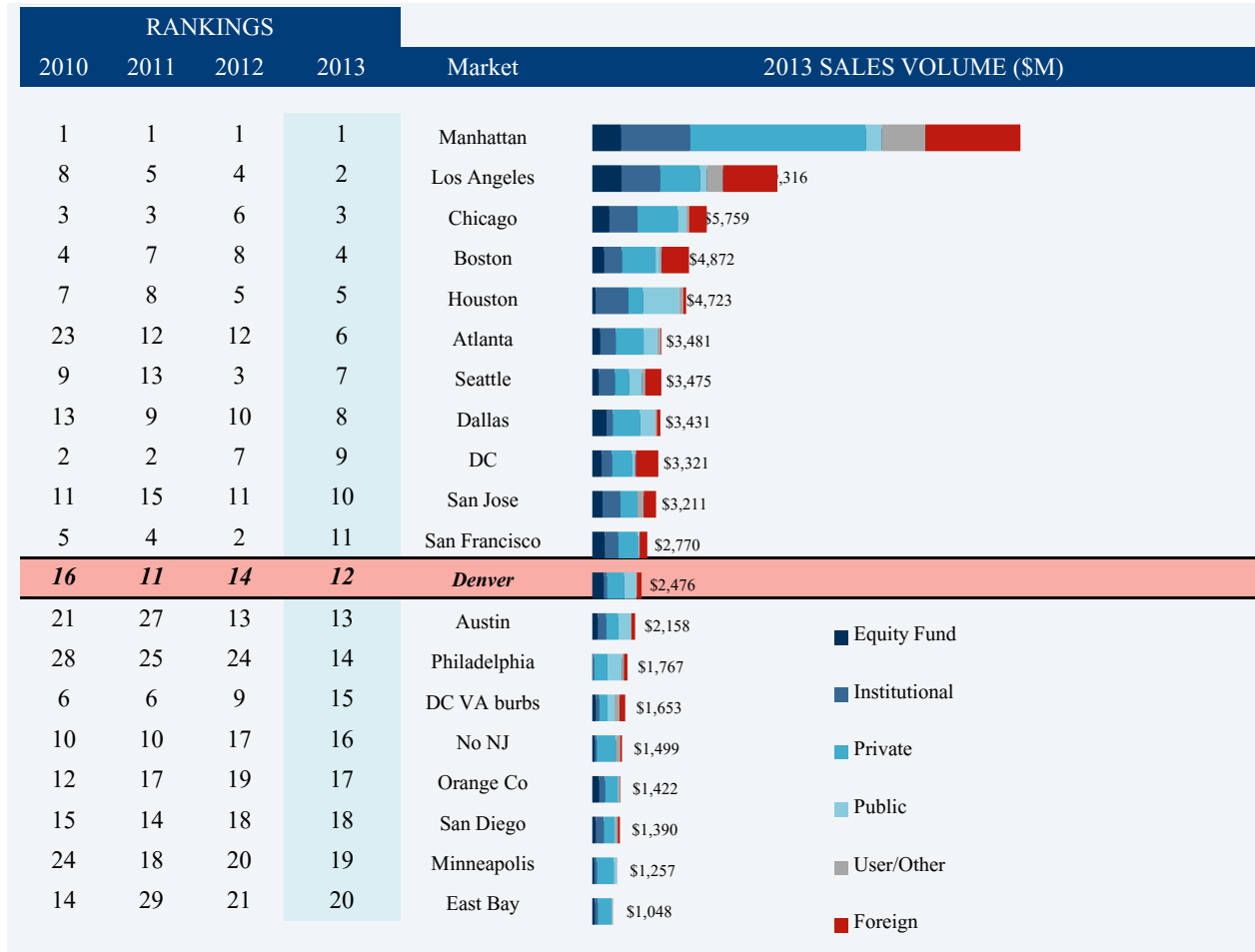


Closed deals \$5M+, including partial interest and entity level sales.

Source: RCA, C&W Capital Markets

DEAL FLOW – US MAJOR MARKET RANKINGS

2013 TOP 20 OFFICE MARKETS IN \$MILLIONS



Source: RCA

RECENT | CURRENT DEALS

DENVER

NAIOP MIDYEAR
FORECAST

Denver Recently Closed Deals

	ONE UNION STATION CBD - LoDo <i>Core / Single-Tenant</i>	PARK CENTRAL CBD - Midtown/LoDo <i>Core</i>	ORCHARD FALLS Suburban – Greenwood Plaza <i>Core</i>
			
Status	<i>Closed (June 2014)</i>	<i>Closed (May 2014)</i>	<i>Closed (April 2014)</i>
Size (SF)	111,464	558,346	146,276
% Leased	100%	98%	94%
Seller	East West Partners & Starwood Capital	Walton Street Capital	JP Morgan & Equity West
Buyer	GLL	Invesco Realty Advisors	Toma West
Value	± \$67 M (± \$602 PSF)	\$212.9 M (\$381 PSF)	\$25.8 M (\$176 PSF)
Key Pricing Metric	5.25% In-Place Cap Rate	5.75% In-Place Cap Rate	7.0% Cap Rate
Registrants	92	71	79
Tours	16	14	9
Bids	12	6	8

ALWAYS PUT YOUR CLIENTS NEEDS FIRST

*Sometimes this means advising them to not do a deal that is on the table. This can be hard especially for a young starving broker. It will pay huge dividends in the long run.

*Guard your reputation ferociously and the money will take care of it self.

www.cushmanwakefield.com

TIM RICHEY
Vice Chairman
Denver, Colorado
tim.richey@cushwake.com
303-813-6405

MIKE WINN
Vice Chairman
Denver, Colorado
mike.winn@cushwake.com
303-813-6475