Denver CBD office market overview

NAIOP – Brokerage Team of the Year 2014

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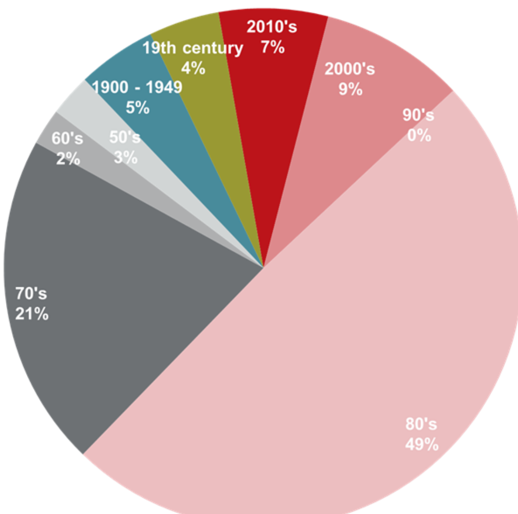
Senior Vice President

Aging CBD office stock pushing landlords toward capital reinvestment

CBD office inventory by time period constructed



Source: JLL Research

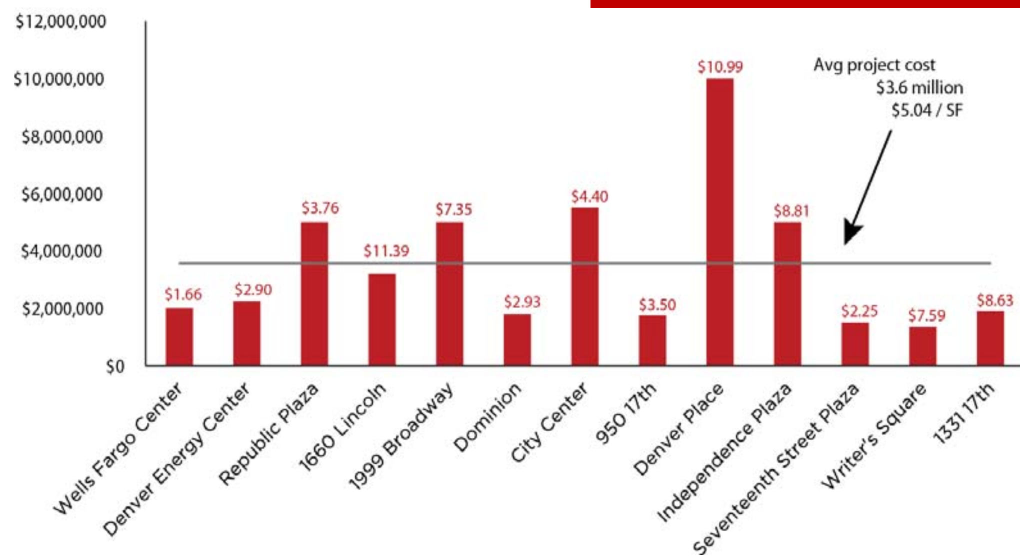
Examining year-built data for Downtown office product shows that buildings came online in 72 different years. A full 70.0 percent of total rentable building area was constructed in just 13 of those years, from the early 1970s until the mid 1980s.

With seven of 10 square feet at least 30 years old, owners of dated properties are beginning to invest heavily back into properties, hoping to remain competitive with projects coming out of the ground today and seeking increased prospects for existing-tenant retention.

Capital improvement plans have been recently completed, commenced or planned for at least 14 CBD assets that total 10.6 m.s.f. From brand new amenity floors to reskinned exteriors to new elevators and HVAC, these owners have invested (or will invest) a weighted average of $9.86 p.s.f. in upgrades.

CBD capital improvements

Not including 1801 California, $46.3 million has been spent (or is in planning) on re-investment



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CBD new construction

	16M	1601 Wewatta	Triangle Building	The Lab	1801 Wewatta	1401 Lawrence	Z Block	1144 Fifteenth
Address	1550 Market St.	1601 Wewatta	1550 Wewatta	2420 17th St.	1801 Wewatta	1401 Lawrence St.	18th St. & Wazee	1144 15th Street
Developer	Elevation Development Group	Hines	East West Partners	Opus Development Company	Portman Holdings / Hensel Phelps	First Gulf	Grand American / McWhinney	Hines
RSF	146,000 s.f.	300,000 s.f.	230,000 s.f.	73,108 s.f.	100,000 s.f.	311,015 s.f.	260,000 s.f.	660,000 SF
Completion Date	2014	2016	2016	2016	2016	2017	2017	2018
% Leased	58%	37%	35%	65%	0%	30%	36%	0%

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4

CBD average asking rents

TROPHY
- New record-high achieved in each of last 4 quarters
- Up 23.6% since recession-era trough
- Up 10.1% over pre-recession peak

CLASS A
- Up 25.8% since recession-era trough
- Up 4.1% over pre-recession peak

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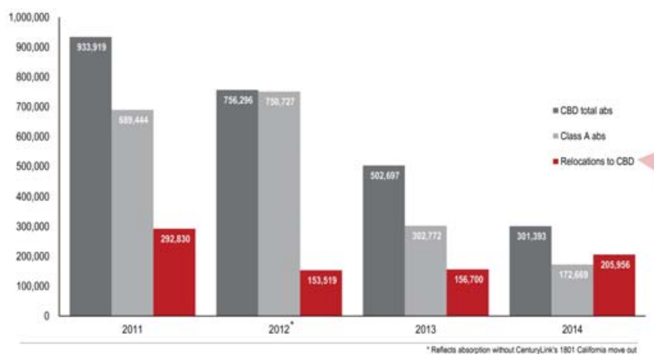
CBD absorption and SF of in-migration since 2011

Industry breakdown

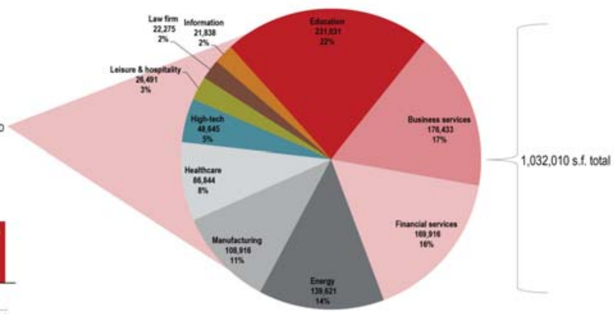
Over the past three years, leases signed by new-to-CBD tenants have increasingly represented a larger share of the market's total annual net absorption.

2012 1 in 5 SF absorbed → 2013 1 in 3 SF absorbed → 2014 7 in 10 SF absorbed



Last 4 Years + New-to-CBD tenants + Signed 23 Full-floor + leases = 1.0 MSF

Such moves have increasingly represented a larger share of the CBD's total annual net absorption. Below is a look at the industry composition of these transactions.



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CBD headwinds – top four trends

1 Oil & Gas Subleases

More sublease space has been put on the market last quarter than was leased by Oil & Gas tenants all of last year in top tier buildings.

506,200 SF
sublease on the market

56 months
average remaining term

$25 / SF
average asking rent

CBD headwinds – top four trends

2 Employee Density

At present, roughly 1,000 oil and gas layoffs. Using below density ratio, you need 1.8 non-Oil & Gas jobs to backfill the space lost by a single Oil & Gas layoff.

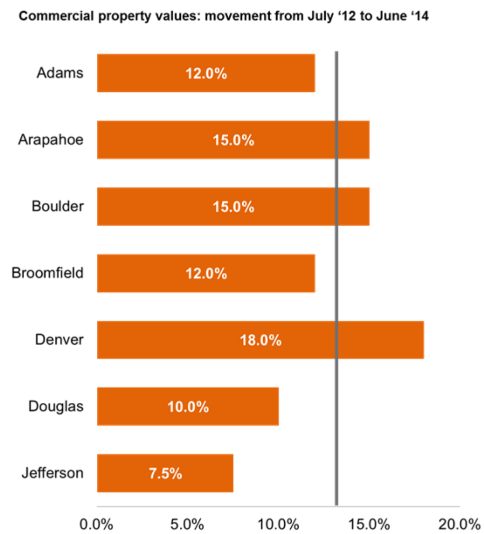
Average
non-industry user
234 SF
per employee

Average
Oil & Gas user
421 SF
per employee

CBD headwinds – top four trends

3 Assessed Values / Tax Increase

Owners will receive new property tax bills in January, and, in many cases, the additional costs—likely to be rather substantial—will be passed on to tenants in the form of higher tax expenses.



Source: JLL Research, county assessors' offices

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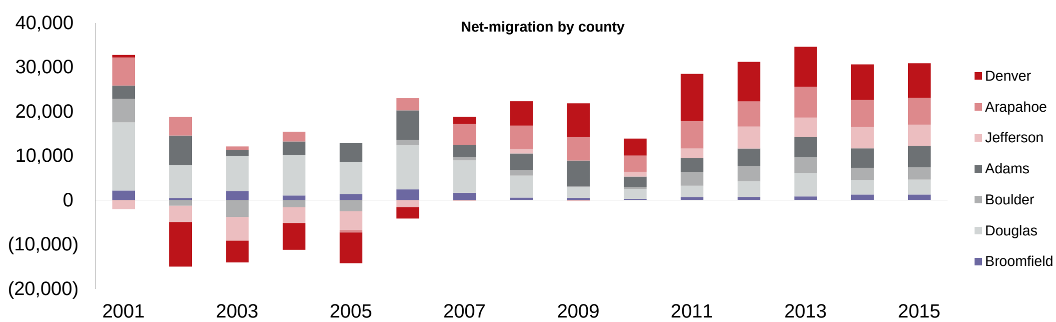
CBD headwinds – top four trends

4 Cost of Living

Denver ranked fourth in drawing residents from other states last year. Denver County has recorded the highest number of gains. Housing construction hasn't kept pace with the growing population. The result—few metros in the nation have seen home prices and apartment rents climb faster than here.



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