

DENVER'S REACHING NEW HEIGHTS

# CAPITAL MARKET & INVESTMENT TRENDS

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## CAPITAL MARKET BIG PICTURE

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- The broader U.S. capital markets remain very favorable
- Institutional capital significantly increasing allocations to real estate
- Foreign capital flows are significant
- Investors are reaching for return and yield

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## REAL ESTATE FUNDAMENTALS AND INVESTMENT ACTIVITY ARE STRONG

- Property values at all-time highs
- Cap rates at all-time lows
- NOI is approaching prior peak
- Investment sales volume is strong

Investment conundrum: Where to find returns?		
	Yield	10-yr Treasury Multiple
5-year Treasury Yield	1.7%	
10-year Treasury Yield	2.4%	
Investment Grade Bonds	3.2%	1.4x
AAA CMBS	3.2%	1.4x
BBB CMBS	6.0%	2.6x
High Yield Bonds	5.9%	2.5x
Class A Core Real Estate (Unlevered)	5.3%	2.3x
Class A Core Real Estate IRR (Levered 50% at 4.5% I/O)	6.0%	2.6x



Source: 1 – Bloomberg, Commercial Mortgage Alert as of June 2, 2015

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## DENVER OFFICE INVESTMENT MARKET

- Oversupply of domestic and foreign capital
- Increasing bid support
- Hitting historic price levels
- Investors accepting more risk for less return
- Cap rates fell in both CBD and suburban markets
- Suburban product coming into favor
- Portfolio transactions on the rise
- 2015 sales volume will eclipse 2014

DENVER	Q1 2014	Q1 2015
Closed (MSF)	7	10
\$ Volume (mil)	\$747.9	\$1467
\$ PSF	\$133	\$164
# of Sales	73	103
Avg. Cap Rate	7.27%	7.16%



## RECENT TRENDS

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### Denver

- Market is as active as we have seen in last 25 years
- Brick and timber product getting bid up
- LoDo - Red Hot
- Pull back in oil – insignificant investor impact
- New construction supply is becoming a topic
- Foreign capital making a strong push for SES product



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## CURRENT OPPORTUNITIES

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### Denver

- 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
- Portfolios are slightly discounted
- Uptown is under priced
- Northwest corridor is under priced
- Transit-oriented and mixed-use assets to experience strong appreciation



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## RECENT | CURRENT DEALS

### DENVER



Rally Software Building Boulder	
Size	154,476 SF
% Leased	100%
Value	\$53,200,000 (\$344/SF)
Seller	MAVD
Buyer	The Lionstone Group



Village Center Station Greenwood Village	
Size	234,915 SF
% Leased	99%
Value	\$76,700,000 (\$327/SF)
Seller	Principal Global & Shea Properties
Buyer	KBS Realty



Greenwood Corporate Plaza Greenwood Village	
Size	620,797 SF
% Leased	85%
Value	\$91,500,000 (\$147/SF)
Seller	Broadreach Capital Partners/Equity West
Buyer	Goldman Sachs/ ScanlanKemperBard



## PREDICTIONS

### Denver

- Mid-5% cap rate will become the norm for class A CBD core product
- A deal will trade in LoDo at a sub-5% cap rate
- Investment sales velocity will remain strong into 2016
- Denver will remain a top 10 investment market
- Oil and gas pull back will be offset by growth in TAMI (Technology–Advertising–Media–Information)
- Real Estate Bull Market will last longer than most expect



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