

# Office Market Correction Evident as Negative Absorption Continues in CBD

## MARKET OVERVIEW

The third quarter of 2016 marked the third straight quarter Denver’s Central Business District experienced negative absorption and decreasing asking rental rates, as the Mile High City’s premiere office submarket appears to be showing signs of stabilization. Although market indicators suggest a correction in the CBD, the outlook for suburban submarkets remain slightly more optimistic. Positive net absorption throughout the suburban sector of the metro totals over 1.1 million square feet for the year, as occupiers turn their attention toward the more affordable suburban submarkets outside of Central Denver. With nearly 2.5 million square feet of Class A office product scheduled for delivery in the CBD over the next two years, supply will likely be abundant – it remains to be seen if demand will follow.

### MARKET INDICATORS\*

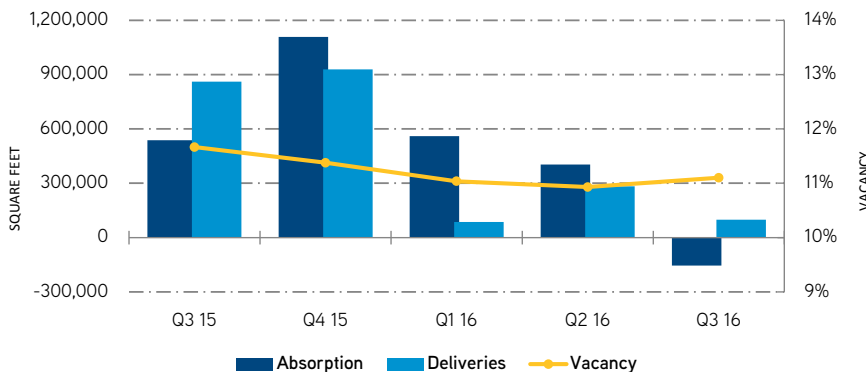
	Q3 2016	Projected Q4 2016
VACANCY	↓	↑
NET ABSORPTION	—	—
DELIVERIES	↓	↑
RENTAL RATE	↔	↔

\*Arrows compare current quarter to the previous quarter's historically adjusted figures.

### SUMMARY STATISTICS

	Q3 2015	Q3 2016
VACANCY RATE	11.7%	11.1%
ABSORPTION YTD	1,497,791	808,470
DELIVERIES YTD	1,278,655	468,345
UNDER CONSTRUCTION	3,352,184	4,348,105
ASKING RENTS/SF	\$24.89	\$25.82

## Denver Office Market Q3 2015-Q3 2016



Source: CoStar, Colliers Research

## HIGHLIGHTED ECONOMIC TRENDS

### Local Unemployment Rates

As of **August 2016**, the Bureau of Labor Statistics indicated the estimated unemployment rate for the Metro Denver area at **3.2 percent** – down from the previous month, and below the previous year’s unemployment rate of **3.4 percent** in **August 2015**. The National unemployment rate is **5.0 percent**.

### Local Employment Growth

Metro Denver employment rose **2.3 percent**, or an additional **35,500 jobs** between **August 2015 and 2016**.

### Investment Sales

Third quarter investment activity totaled nearly **\$283 million** throughout Metro Denver.

**Overall metro absorption totaled negative 154,778 square feet during the quarter.**

## ABSORPTION

Both the CBD and the Southeast submarkets reported negative absorption for the quarter. However, it should be noted that although negative absorption in the CBD can be attributed to the steady trickle of sublease space becoming available in the market; negative absorption in the Southeast submarket stems from the single-tenant vacancy of Comcast at the Atrium I building. Comcast recently vacated the 136,000-square-foot space and will move to the new Class A, INOVA building on South Havana Street in January 2017. Negative absorption has been more prevalent during 2016, as third quarter leasing activity slowed significantly compared to previous quarters. Leasing activity hit its lowest quarterly total since the first quarter of 2009.

## VACANCY

Overall third quarter vacancy increased 20 basis points from the previous quarter, and 7 of 10 submarkets reported an increase in vacancy over the previous quarter; however year-over-year vacancy remains 60 basis points lower compared to Q3 2015. After nearly six years of steadily declining vacancy, rates have likely reached the bottom as the market appears to be entering a plateau phase. Additionally, total available sublease space in the CBD has reached historic levels with over 1.3 million square feet available – this continues to negatively affect downtown absorption.

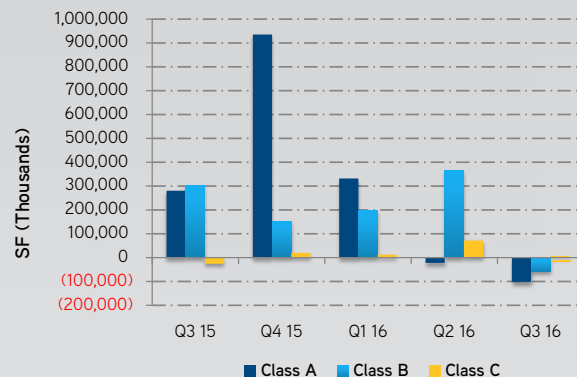
## DELIVERIES & CONSTRUCTION

Year-to-date deliveries have decreased significantly compared to 2015, with just over 468,000 square feet delivered to the market through the end of September, compared to the 1.28 million square feet delivered through September 2015. Current construction activity for the metro totals over 4.3 million square feet and has reached its highest total since Q2 2001. Union Tower West and 1401 Lawrence, two Downtown, Class A projects, are scheduled for delivery in December. These two projects will add approximately 424,000 square feet to the Class A inventory, and are pre-leased at 68 and 61 percent, respectively. There are currently four, Class A construction projects underway in the Southeast submarket totaling 1,065,000 square feet.

## RENTAL RATES

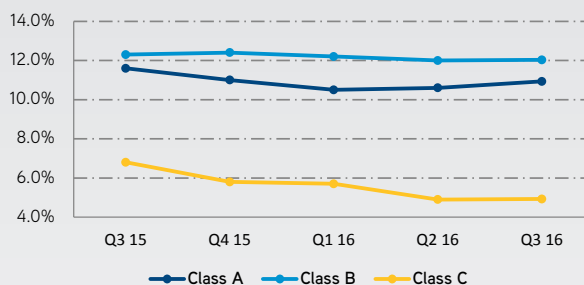
Rental rates appear to have reached a tipping point as there was no change in the overall direct asking rate for the metro, and a majority of metro submarkets experienced a slight decline in their overall asking rates. With demand for prime CBD office space slowing, prospective tenants are focusing on more affordable suburban office space, as Class B suburban space accounted for over one-third of all leasing activity for the quarter. After nearly five years of a landlord's market with escalating rents, especially with regard to Class A rates, asking rents in the CBD declined in all Class types, while asking rents in the Southeast submarket appreciated across all Classes.

## Absorption



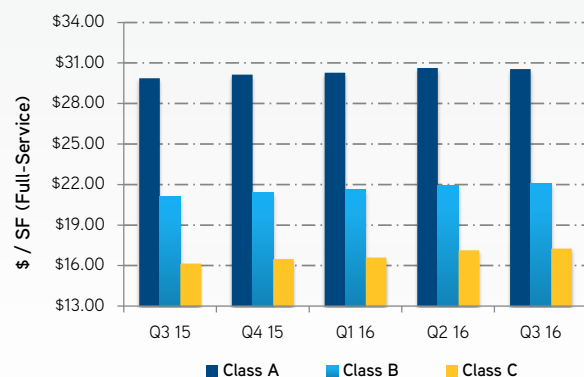
Source: CoStar, Colliers Research

## Vacancy



Source: CoStar, Colliers Research

## Rental Rates



Source: CoStar, Colliers Research

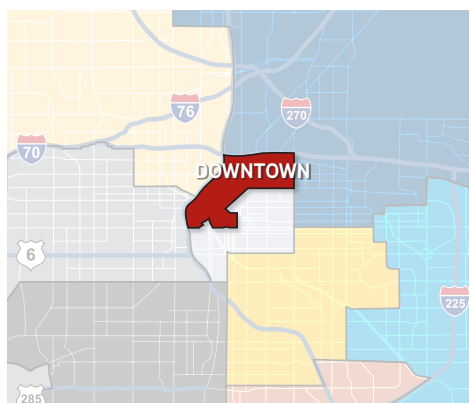
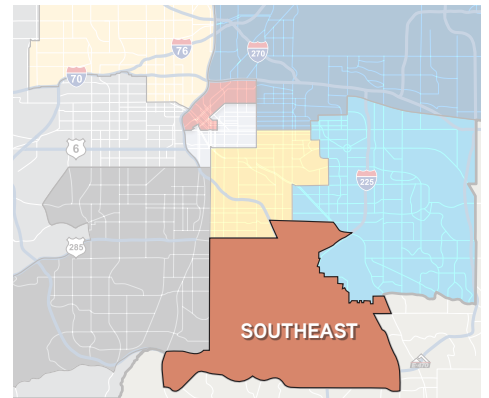
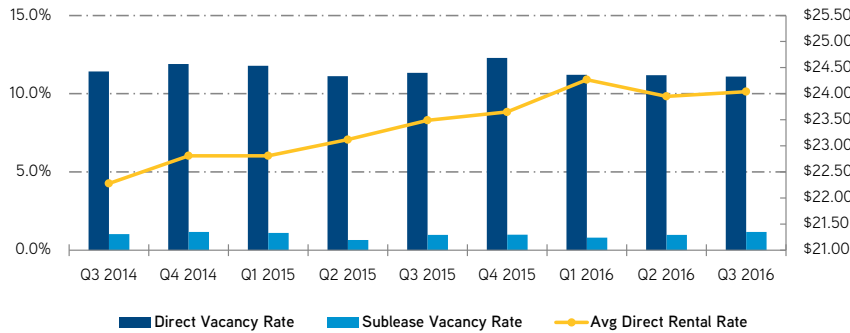
# Submarket Statistics

Submarket/Class	Buildings	Total Inventory SF	Direct Vacancy Rate	Sublease Vacancy Rate	Vacancy Rate Current	Vacancy Rate Prior Qtr	Leasing Activity SF	Net Absorption Current Qtr SF	Net Absorption YTD SF	Deliveries Current Qtr SF	Deliveries YTD SF	Under Construction SF	Avg. Direct Rental Rate (SF)
EXISTING PROPERTIES							ACTIVITY	ABSORPTION	CONSTRUCTION			RENTS	
<b>DOWNTOWN</b>													
<b>CENTRAL BUSINESS DISTRICT/LODO/CENTRAL PLATTE VALLEY</b>													
A	53	22,270,250	11.4%	1.8%	13.2%	13.5%	273,444	71,491	(72,285)	-	-	2,477,200	\$35.26
B	134	11,384,859	9.4%	1.1%	10.5%	9.0%	203,851	(162,467)	(192,839)	-	66,000	53,478	\$29.61
C	23	1,382,284	3.8%	0.0%	3.8%	3.8%	6,073	0	(8,295)	-	-	-	\$24.16
<b>Total</b>	<b>210</b>	<b>35,037,393</b>	<b>10.4%</b>	<b>1.5%</b>	<b>11.9%</b>	<b>11.7%</b>	<b>483,368</b>	<b>(90,976)</b>	<b>(273,419)</b>	<b>-</b>	<b>66,000</b>	<b>2,530,678</b>	<b>\$33.60</b>
<b>MIDTOWN</b>													
<b>SOUTH MIDTOWN/CAPITOL HILL</b>													
A	6	1,111,860	0.5%	0.0%	0.5%	0.5%	-	-	(6,064)	-	-	-	\$27.81
B	49	3,171,374	4.4%	0.1%	4.4%	4.0%	18,415	(14,794)	(25,373)	-	-	328,600	\$23.04
C	39	1,608,168	4.2%	0.0%	4.2%	4.2%	885	(177)	(20,508)	-	-	-	\$21.79
<b>Total</b>	<b>94</b>	<b>5,891,402</b>	<b>3.6%</b>	<b>0.0%</b>	<b>3.6%</b>	<b>3.4%</b>	<b>19,300</b>	<b>(14,971)</b>	<b>(51,945)</b>	<b>-</b>	<b>-</b>	<b>328,600</b>	<b>\$22.99</b>
<b>SUBURBAN</b>													
<b>AURORA</b>													
A	13	1,921,923	5.4%	0.0%	5.4%	5.0%	18,615	(6,907)	(1,006)	-	-	-	\$21.56
B	79	5,381,202	9.4%	0.0%	9.4%	10.8%	40,887	76,045	51,128	-	-	-	\$18.41
C	16	561,515	7.9%	0.0%	7.9%	8.3%	-	2,120	7,926	-	-	-	\$12.25
<b>Total</b>	<b>108</b>	<b>7,864,640</b>	<b>8.3%</b>	<b>0.0%</b>	<b>8.3%</b>	<b>9.2%</b>	<b>59,502</b>	<b>71,258</b>	<b>58,048</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$18.04</b>
<b>BROOMFIELD</b>													
A	20	3,167,893	10.5%	1.0%	11.5%	6.5%	15,336	(68,645)	22,711	98,980	98,980	-	\$28.38
B	31	2,804,207	8.1%	0.0%	8.1%	9.1%	22,640	27,716	14,771	-	-	-	\$23.87
<b>Total</b>	<b>51</b>	<b>5,972,100</b>	<b>9.4%</b>	<b>0.5%</b>	<b>9.9%</b>	<b>7.7%</b>	<b>37,976</b>	<b>(40,929)</b>	<b>37,482</b>	<b>98,980</b>	<b>98,980</b>	<b>-</b>	<b>\$26.75</b>
<b>COLORADO BOULEVARD/GLENDALE</b>													
A	24	3,857,821	12.0%	0.5%	12.4%	11.8%	35,283	(24,199)	(103,031)	-	-	344,446	\$29.40
B	94	6,867,909	10.4%	0.0%	10.4%	10.6%	65,349	13,276	80,924	-	-	-	\$22.71
C	22	711,601	5.7%	0.0%	5.7%	3.0%	3,955	(19,379)	(16,661)	-	-	-	\$15.57
<b>Total</b>	<b>140</b>	<b>11,437,331</b>	<b>10.6%</b>	<b>0.2%</b>	<b>10.8%</b>	<b>10.5%</b>	<b>104,587</b>	<b>(30,302)</b>	<b>(38,768)</b>	<b>-</b>	<b>-</b>	<b>344,446</b>	<b>\$25.35</b>
<b>NORTH/NORTHEAST</b>													
A	11	1,262,956	4.6%	0.4%	5.0%	4.2%	21,781	(9,858)	35,638	-	41,400	-	\$24.57
B	74	5,237,446	6.5%	0.2%	6.7%	7.6%	24,334	49,113	122,700	-	54,425	30,000	\$19.54
C	17	1,656,292	5.0%	0.0%	5.0%	5.2%	2,081	4,395	69,099	-	-	-	\$15.33
<b>Total</b>	<b>102</b>	<b>8,156,694</b>	<b>5.9%</b>	<b>0.2%</b>	<b>6.1%</b>	<b>6.6%</b>	<b>48,196</b>	<b>43,650</b>	<b>227,437</b>	<b>-</b>	<b>95,825</b>	<b>30,000</b>	<b>\$20.21</b>
<b>NORTHWEST</b>													
A	20	2,037,040	11.0%	0.0%	11.0%	10.5%	3,441	(9,941)	39,932	-	-	-	\$24.95
B	86	3,942,238	12.0%	0.5%	12.5%	11.8%	19,242	(29,004)	22,798	-	-	-	\$20.22
C	18	538,138	3.5%	0.3%	3.8%	4.1%	4,575	1,875	32,410	-	-	-	\$19.61
<b>Total</b>	<b>124</b>	<b>6,517,416</b>	<b>11.0%</b>	<b>0.3%</b>	<b>11.3%</b>	<b>10.7%</b>	<b>27,258</b>	<b>(37,070)</b>	<b>95,140</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$21.55</b>
<b>SOUTHEAST</b>													
A	141	22,186,537	8.5%	1.5%	10.0%	10.2%	414,744	33,471	388,685	-	20,282	1,065,381	\$26.79
B	301	19,472,326	14.4%	0.8%	15.2%	14.8%	279,991	(87,554)	62,439	-	-	-	\$21.77
C	33	1,138,541	5.5%	0.1%	5.5%	6.2%	3,583	7,968	1,459	-	-	-	\$15.98
<b>Total</b>	<b>475</b>	<b>42,797,404</b>	<b>11.1%</b>	<b>1.2%</b>	<b>12.3%</b>	<b>12.1%</b>	<b>698,318</b>	<b>(46,115)</b>	<b>452,583</b>	<b>-</b>	<b>20,282</b>	<b>1,065,381</b>	<b>\$24.04</b>
<b>SOUTHWEST</b>													
A	6	1,359,634	12.4%	1.4%	13.7%	5.0%	-	(118,167)	(118,167)	-	-	-	\$26.05
B	101	5,075,901	15.3%	0.3%	15.6%	16.1%	51,323	26,392	100,786	-	-	25,000	\$17.37
C	20	693,785	4.3%	0.0%	4.3%	6.5%	10,949	15,263	15,644	-	-	-	\$12.04
<b>Total</b>	<b>127</b>	<b>7,129,320</b>	<b>13.7%</b>	<b>0.5%</b>	<b>14.1%</b>	<b>13.1%</b>	<b>62,272</b>	<b>(76,512)</b>	<b>(1,737)</b>	<b>-</b>	<b>-</b>	<b>25,000</b>	<b>\$17.88</b>
<b>WEST</b>													
A	19	2,448,728	6.0%	0.0%	6.0%	7.3%	10,817	30,394	20,985	-	28,258	-	\$25.66
B	131	7,787,515	14.7%	0.4%	15.1%	15.7%	132,539	41,672	271,333	-	159,000	24,000	\$21.13
C	27	753,314	5.9%	0.0%	5.9%	5.2%	2,346	(4,877)	11,331	-	-	-	\$12.83
<b>Total</b>	<b>177</b>	<b>10,989,557</b>	<b>12.1%</b>	<b>0.3%</b>	<b>12.5%</b>	<b>13.1%</b>	<b>145,702</b>	<b>67,189</b>	<b>303,649</b>	<b>-</b>	<b>187,258</b>	<b>24,000</b>	<b>\$21.83</b>
<b>SUBURBAN TOTAL</b>													
A	254	38,242,532	8.8%	1.1%	9.9%	9.2%	520,017	(173,852)	285,747	98,980	188,920	1,409,827	\$27.11
B	897	56,568,744	12.3%	0.4%	12.8%	13.0%	636,305	117,656	726,879	-	213,425	79,000	\$20.88
C	153	6,053,186	5.3%	0.0%	5.4%	5.5%	27,489	7,365	121,208	-	-	-	\$15.33
<b>Total</b>	<b>1,304</b>	<b>100,864,462</b>	<b>10.6%</b>	<b>0.7%</b>	<b>11.2%</b>	<b>11.1%</b>	<b>1,183,811</b>	<b>(48,831)</b>	<b>1,133,834</b>	<b>98,980</b>	<b>402,345</b>	<b>1,488,827</b>	<b>\$22.94</b>
<b>DENVER MARKET GRAND TOTAL</b>													
A	313	61,624,642	9.6%	1.3%	10.9%	10.6%	793,461	(102,361)	207,398	98,980	188,920	3,887,027	\$30.55
B	1,080	71,124,977	11.5%	0.5%	12.0%	11.9%	858,571	(59,605)	508,667	-	279,425	461,078	\$22.11
C	215	9,043,638	4.9%	0.0%	4.9%	5.0%	34,447	7,188	92,405	-	-	-	\$17.27
<b>Total</b>	<b>1,608</b>	<b>141,793,257</b>	<b>10.3%</b>	<b>0.8%</b>	<b>11.1%</b>	<b>10.9%</b>	<b>1,686,479</b>	<b>(154,778)</b>	<b>808,470</b>	<b>98,980</b>	<b>468,345</b>	<b>4,348,105</b>	<b>\$25.81</b>
<b>QUARTERLY COMPARISON</b>													
Q3 16	1,608	141,793,257	10.3%	0.8%	11.1%	10.9%	1,686,479	(154,778)	808,470	98,980	468,345	4,348,105	\$25.82
Q2 16	1,607	141,694,277	10.3%	0.7%	10.9%	11.0%	2,901,335	403,002	963,248	282,940	369,365	3,351,066	\$25.82
Q1 16	1,602	141,411,337	10.4%	0.7%	11.0%	11.4%	2,543,551	560,246	560,246	86,425	86,425	3,233,693	\$25.51
Q4 15	1,600	141,324,912	10.7%	0.7%	11.4%	11.7%	3,646,888	1,107,605	2,605,396	929,172	2,207,827	2,690,416	\$25.23
Q3 15	1,597	140,395,740	11.0%	0.7%	11.7%	12.1%	3,030,066	537,020	1,497,791	861,196	1,278,655	3,352,184	\$24.89

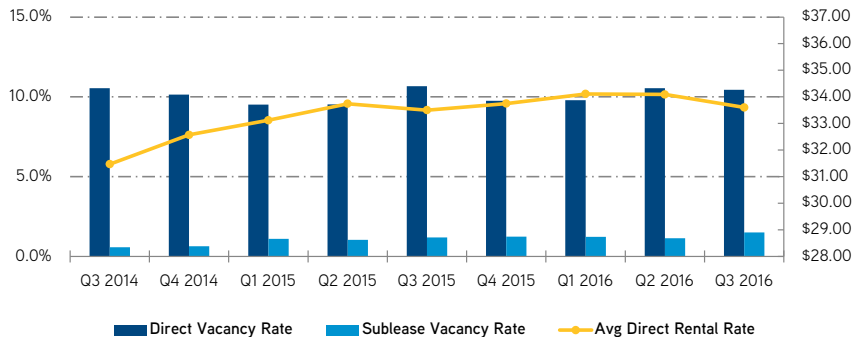
# Southeast & Downtown Statistics

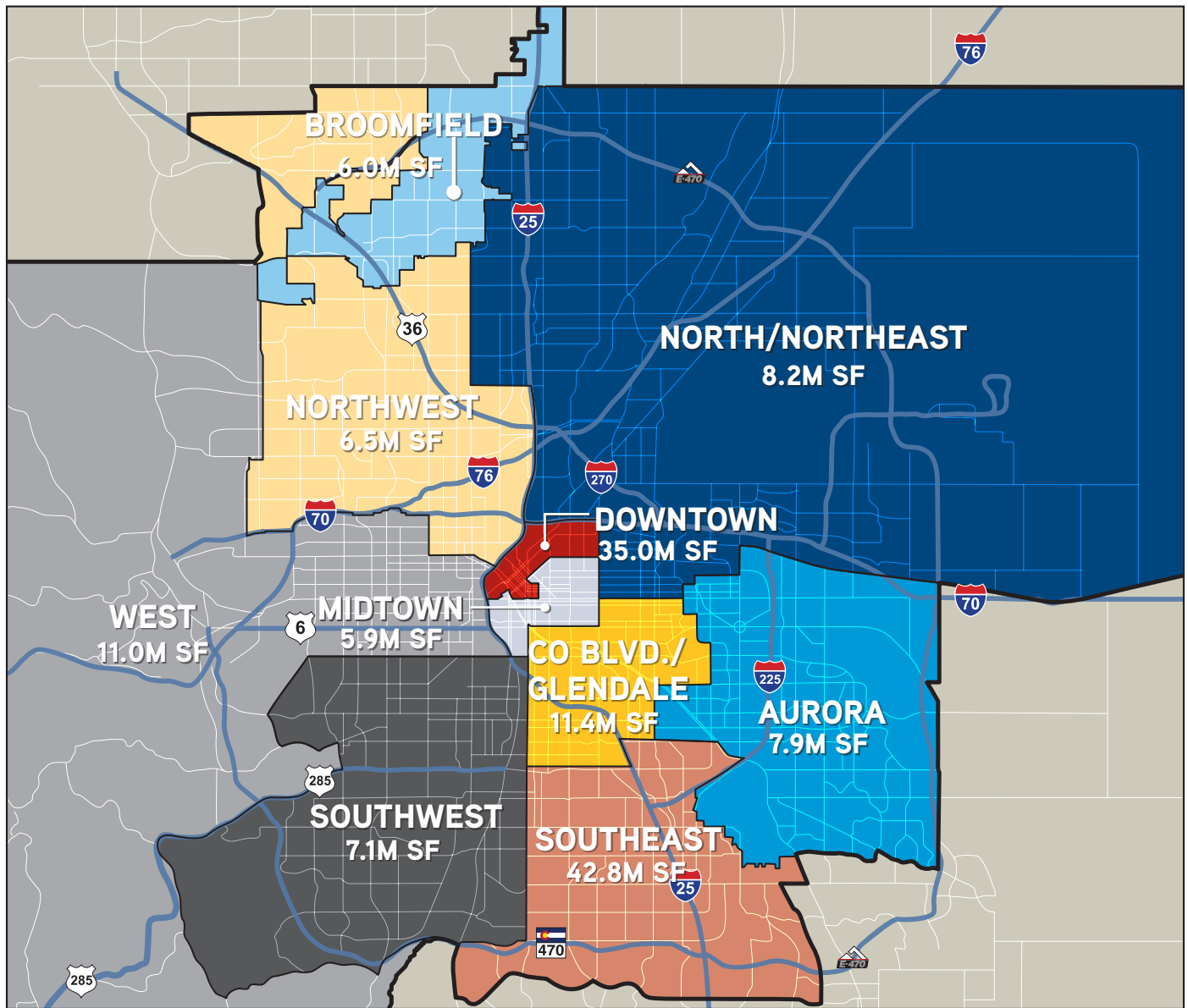
Period/Class	Buildings	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacant SF	Sublease Vacancy Rate	Total Vacant SF	Vacancy Rate Current	Leasing Activity SF	Net Absorption Current Qtr. SF	Deliveries Current Qtr. SF	Average Rental Rate (F5)
EXISTING PROPERTIES			VACANCY				ACTIVITY		ABSORP.	CONSTR.	RENTS	
<b>DENVER-SOUTHEAST OFFICE MARKET OVERVIEW</b>												
Q3 2016	475	42,797,404	4,746,784	11.1%	498,777	1.2%	5,245,561	12.3%	698,318	(46,115)	0	\$24.04
Q2 2016	475	42,797,404	4,783,831	11.2%	415,615	1.0%	5,199,446	12.1%	969,579	(40,711)	20,282	\$23.95
Q1 2016	474	42,777,122	4,796,375	11.2%	342,078	0.8%	5,138,453	12.0%	867,504	539,409	0	\$24.27
Q4 2015	474	42,777,122	5,254,642	12.3%	423,220	1.0%	5,677,862	13.3%	1,266,533	100,235	582,787	\$23.65
Q3 2015	471	42,193,865	4,784,189	11.3%	410,651	1.0%	5,194,840	12.3%	991,984	(226,197)	0	\$23.49
Q2 2015	471	42,193,865	4,692,659	11.1%	275,984	0.7%	4,968,643	11.8%	1,545,376	512,294	45,000	\$23.12
Q1 2015	470	42,148,865	4,969,301	11.8%	466,636	1.1%	5,435,937	12.9%	1,116,198	69,116	22,075	\$22.81
Q4 2014	470	42,148,865	5,014,555	11.9%	490,498	1.2%	5,505,053	13.1%	1,237,318	(225,960)	36,000	\$22.81
Q3 2014	469	42,112,865	4,809,096	11.4%	433,997	1.0%	5,243,093	12.5%	1,283,003	130,450	375,000	\$22.28
<b>DENVER-SOUTHEAST OFFICE SUBMARKET BREAKOUT BY CLASS</b>												
A	141	22,186,537	1,888,516	8.5%	332,899	1.5%	2,221,415	10.0%	414,744	33,471	0	\$26.79
B	301	19,472,326	2,795,827	14.4%	165,228	0.8%	2,961,055	15.2%	279,991	(87,554)	0	\$21.77
C	33	1,138,541	62,441	5.5%	650	0.1%	63,091	5.5%	3,583	7,968	0	\$15.98
<b>Total</b>	<b>475</b>	<b>42,797,404</b>	<b>4,746,784</b>	<b>11.1%</b>	<b>498,777</b>	<b>1.2%</b>	<b>5,245,561</b>	<b>12.3%</b>	<b>698,318</b>	<b>(46,115)</b>	<b>0</b>	<b>\$24.04</b>
<b>DENVER-DOWNTOWN OFFICE SUBMARKET OVERVIEW</b>												
Q3 2016	210	35,037,393	3,657,328	10.4%	525,413	1.5%	4,182,741	11.9%	483,368	(90,976)	0	\$33.60
Q2 2016	210	35,037,393	3,692,543	10.5%	399,222	1.1%	4,091,765	11.7%	1,239,916	(172,233)	66,000	\$34.09
Q1 2016	209	34,971,393	3,425,587	9.8%	427,945	1.2%	3,853,532	11.0%	477,018	(10,210)	0	\$34.11
Q4 2015	209	34,971,393	3,410,472	9.8%	432,850	1.2%	3,843,322	11.0%	1,319,398	491,956	245,123	\$33.75
Q3 2015	207	34,756,670	3,706,378	10.7%	414,177	1.2%	4,120,555	11.9%	1,075,840	108,623	622,106	\$33.50
Q2 2015	204	34,134,564	3,251,794	9.5%	355,278	1.0%	3,607,072	10.6%	934,228	89,933	81,384	\$33.74
Q1 2015	203	34,053,180	3,242,230	9.5%	373,391	1.1%	3,615,621	10.6%	846,822	53,371	0	\$33.12
Q4 2014	203	34,053,180	3,453,153	10.1%	215,839	0.6%	3,668,992	10.8%	995,020	117,113	0	\$32.57
Q3 2014	203	34,053,180	3,591,160	10.5%	194,945	0.6%	3,786,105	11.1%	894,286	421,626	185,000	\$31.47
<b>DENVER-DOWNTOWN OFFICE SUBMARKET BREAKOUT BY CLASS</b>												
A	53	22,270,250	2,533,656	11.4%	405,228	1.8%	2,938,884	13.2%	273,444	71,491	0	\$35.26
B	134	11,384,859	1,071,063	9.4%	120,185	1.1%	1,191,248	10.5%	203,851	(162,467)	0	\$29.61
C	23	1,382,284	52,609	3.8%	0	0.0%	52,609	3.8%	6,073	0	0	\$24.16
<b>Total</b>	<b>210</b>	<b>35,037,393</b>	<b>3,657,328</b>	<b>10.4%</b>	<b>525,413</b>	<b>1.5%</b>	<b>4,182,741</b>	<b>11.9%</b>	<b>483,368</b>	<b>(90,976)</b>	<b>0</b>	<b>\$33.60</b>

## Denver | Southeast Office Market Q3 2016



## Denver | Downtown Office Market Q3 2016





**SIGNIFICANT RECENT TRANSACTIONS**

**SALES ACTIVITY**

PROPERTY	SUBMARKET	SALE PRICE	SIZE SF	BUYER	SELLER
CH2M Building 9189-9193 S. Jamaica Street	Meridian	\$122,000,000	370,485	Angelo, Gordon & Co.	Columbia Property Trust
Tuscany Plaza 6312 S. Fiddlers Green Circle	Greenwood Village	\$46,600,000	259,118	Crescent RE Holdings	Cornerstone RE Advisors

**LEASING ACTIVITY**

PROPERTY	SUBMARKET	BLDG. CLASS	LEASED SF	COMPANY
3517 Ringsby Court	Platte River/RiNo	A	140,000	BOA Technology, Inc.
8181 E. Tufts Avenue	Denver Tech Center	A	120,000	EKS&H
3601 Walnut Street	Platte River/RiNo	A	60,000	HomeAdvisor, Inc.

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# 554 offices in 66 countries on 6 continents

United States: **153**

Canada: **34**

Latin America: **24**

Asia Pacific: **231**

EMEA: **112**

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## \$2.5

billion in  
annual revenue

## 2.0

billion square feet  
under management

## 16,000

professionals  
and staff

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## About Colliers International

*Colliers International Group Inc. (NASDAQ: CIGI; TSX: CIG) is a global leader in commercial real estate services with more than 16,000 professionals operating from 554 offices in 66 countries. With an enterprising culture and significant insider ownership, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide. Services include brokerage, global corporate solutions, investment sales and capital markets, project management and workplace solutions, property and asset management, consulting, valuation and appraisal services, and customized research and thought leadership. Colliers International has been ranked among the top 100 outsourcing firms by the International Association of Outsourcing Professionals' Global Outsourcing for 10 consecutive years, more than any other real estate services firm.*

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