

Office Market Positioned for Long-Term Growth as Construction Thrives

MARKET OVERVIEW

The Metro Denver office market's resiliency has endured throughout the past two years as vacancy has stabilized and absorption remains positive overall. Although the Central Business District reported negative absorption to close out 2016, suburban submarkets filled the void by contributing over 1 million square feet in positive net absorption. Confidence in the metro office market is apparent as speculative office construction continues to increase, despite some indications we may be nearing the end of this cycle. However, it is worth noting that over 75 percent of current office construction is located within 0.5 miles of existing or future light rail stations. As several transit oriented developments take shape around the metro, developers are confident in their ability to attract future occupiers with desired public transportation options, while offering competitive rates not available on either coast.

MARKET INDICATORS*

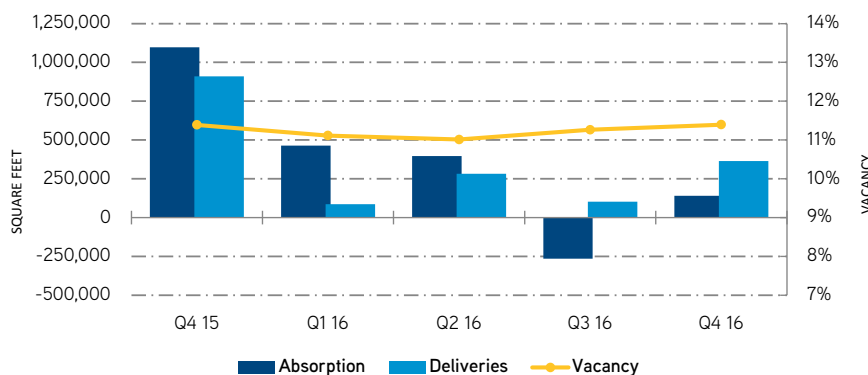
	Q4 2016	Projected Q1 2017
VACANCY	↑	↑
NET ABSORPTION	+	—
DELIVERIES	↑	↑
RENTAL RATE	↑	↔

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

SUMMARY STATISTICS

	Q4 2015	Q4 2016
VACANCY RATE	11.4%	11.4%
ABSORPTION YTD	2,672,951	736,193
DELIVERIES YTD	2,188,730	836,849
UNDER CONSTRUCTION	2,829,344	5,131,620
ASKING RENTS/SF	\$25.27	\$26.25

Denver Office Market Q4 2015-Q4 2016



Source: CoStar, Colliers Research

HIGHLIGHTED ECONOMIC TRENDS

Local Unemployment Rates

As of **November 2016**, the Bureau of Labor Statistics indicated the estimated unemployment rate for the Metro Denver area at **2.6 percent** – down slightly from the previous year's unemployment rate of **3.1 percent** in **November 2015**. The National unemployment rate is **4.6 percent**.

Local Employment Growth

Metro Denver employment rose **3.5 percent**, or an additional **55,700 jobs** between **October 2015** and **2016**.

Investment Sales

Fourth quarter investment activity totaled nearly **\$473 million** throughout Metro Denver.

Metro absorption totaled over 736,000 square feet during 2016.

ABSORPTION

The Southeast submarket finished off the year strong with a positive net absorption of over 150,000 square feet during the fourth quarter, and over 465,000 square feet for the year. The Central Business District reported approximately 15,400 square feet of negative absorption for the quarter and more than 300,000 square feet of negative absorption for the year. The Southeast submarket has slowly edged its way past the CBD in overall performance during the year by surpassing the CBD in overall leasing activity by more than 350,000 square feet for the year. Although market indicators in the CBD suggest the submarket has peaked, demand for newer space is still evident, as the Metro's three largest leases signed during the quarter were for Class A product in the CBD totaling over 260,000 square feet.

VACANCY

The overall fourth quarter vacancy rate increased 10 basis points from the previous quarter to 11.4 percent - similar to the fourth quarter rate of 2015. Since the vacancy rate dipped below 12 percent during the first quarter 2015, it has remained within the 11 percent range for the last eight quarters. However, with nearly 1.6 million square feet anticipated for delivery during the first and second quarters of 2017, vacancy is projected to increase, as several projects will likely hit the market with low occupancy.

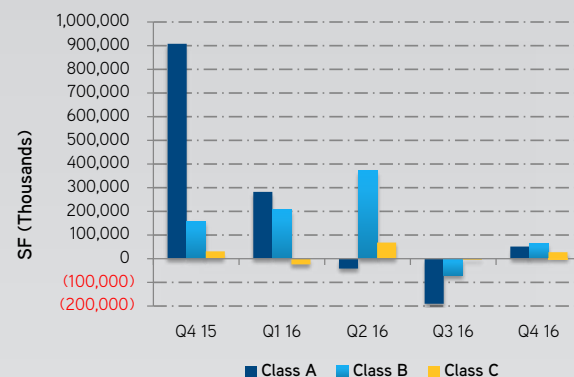
DELIVERIES & CONSTRUCTION

Metro deliveries for 2016 totaled nearly 837,000 square feet - the lowest total of the last three years. Deliveries in the CBD submarket reached over 300,000 square feet during the fourth quarter with the completion of 1401 Lawrence in December, a Class A office building located in the CBD that was 70 percent leased upon completion. Currently, Metro Denver has over 5.1 million square feet of office product under construction predominately located in the CBD or Southeast submarkets, of which 93 percent is classified as Class A product. With over three quarters of construction activity located within a walkable distance from a light rail station, Denver is positioning itself for long-term growth as an increasing portion of the workforce desires proximity to public transportation.

RENTAL RATES

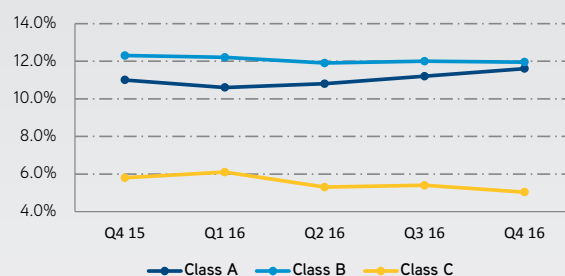
The overall fourth quarter boasted record asking rental rates for office space in the Metro Denver at \$26.25 per square foot - a 3.9 percent increase year-over-year. Asking rates in the CBD once again decreased from the previous quarter, marking a decrease for each quarter of 2016. CBD asking rates fell to \$33.55 per square foot - similar to asking rates during the third quarter 2015. To the contrary, asking rates in the Southeast submarket were sitting at \$24.89 per square foot at the end of the year - a 5.4 percent increase year-over-year.

Absorption



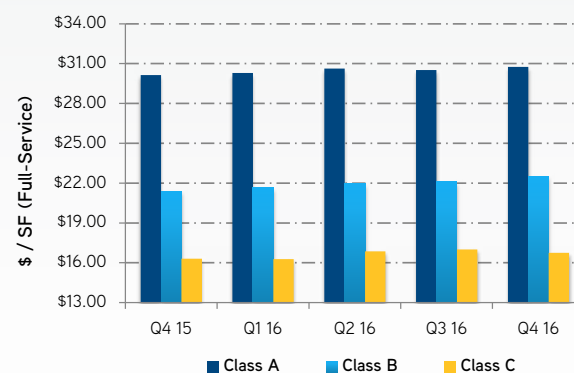
Source: CoStar, Colliers Research

Vacancy



Source: CoStar, Colliers Research

Rental Rates



Source: CoStar, Colliers Research

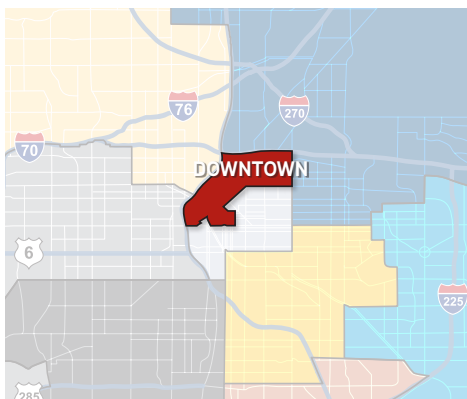
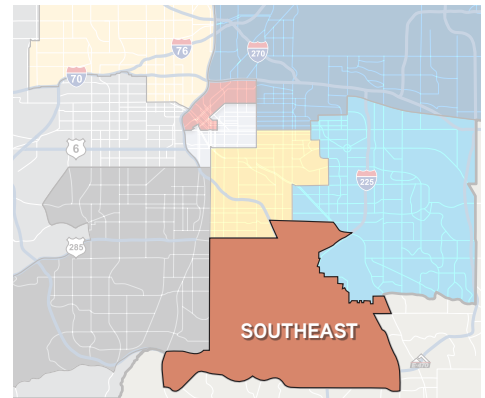
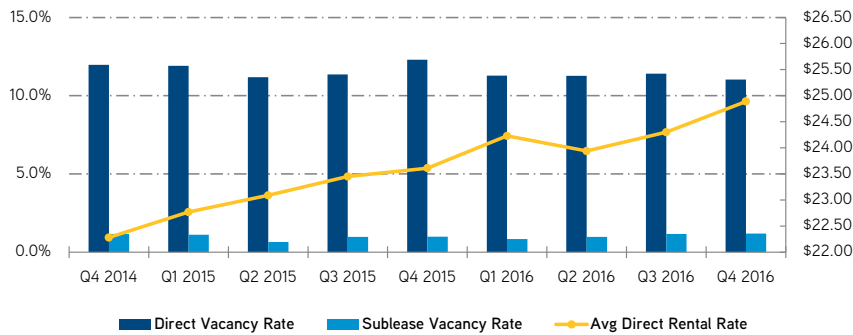
Submarket Statistics

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
DOWNTOWN													
CENTRAL BUSINESS DISTRICT/LODO/CENTRAL PLATTE VALLEY													
A	56	22,673,440	12.4%	2.1%	14.5%	13.3%	661,364	5,629	(106,602)	311,015	311,015	2,286,078	\$35.20
B	133	11,342,456	9.4%	1.0%	10.5%	10.3%	178,463	(13,311)	(187,419)	-	66,000	53,478	\$29.71
C	21	1,316,177	3.9%	0.0%	3.9%	3.3%	4,200	(7,718)	(7,718)	-	-	-	\$21.49
Total	210	35,332,073	11.1%	1.7%	12.8%	12.0%	844,027	(15,400)	(301,739)	311,015	377,015	2,339,556	\$33.55
MIDTOWN													
SOUTH MIDTOWN/CAPITOL HILL													
A	6	1,092,758	0.6%	0.0%	0.6%	0.6%	-	-	(6,064)	-	-	-	\$31.76
B	50	3,188,625	4.1%	0.1%	4.2%	4.5%	31,095	34,222	8,849	28,600	28,600	300,000	\$23.93
C	39	1,630,077	4.1%	0.0%	4.1%	4.2%	4,164	1,062	(19,446)	-	-	-	\$21.99
Total	95	5,911,460	3.5%	0.1%	3.5%	3.7%	35,259	35,284	(16,661)	28,600	28,600	300,000	\$24.98
SUBURBAN													
AURORA													
A	13	1,921,923	4.5%	0.0%	4.5%	5.4%	726	17,338	16,332	-	-	-	\$19.00
B	79	5,381,202	9.9%	0.0%	9.9%	10.3%	33,335	21,582	72,710	-	-	-	\$18.61
C	16	561,515	7.3%	0.0%	7.3%	7.9%	3,303	3,303	11,229	-	-	-	\$12.27
Total	108	7,864,640	8.4%	0.0%	8.4%	8.9%	37,364	42,223	100,271	-	-	-	\$17.91
BROOMFIELD													
A	20	3,171,782	10.5%	1.1%	11.6%	11.5%	86,608	(3,318)	23,282	-	102,869	173,380	\$28.39
B	31	2,807,034	8.3%	0.0%	8.3%	8.1%	21,476	(5,580)	10,591	-	-	-	\$24.75
Total	51	5,978,816	9.5%	0.6%	10.1%	9.9%	108,084	(8,898)	33,873	-	102,869	173,380	\$26.70
COLORADO BOULEVARD/GLENDALE													
A	24	3,857,821	12.7%	0.4%	13.1%	12.8%	58,294	(10,715)	(126,498)	-	-	450,564	\$29.92
B	94	6,854,323	10.4%	0.2%	10.6%	10.5%	94,530	(1,722)	59,438	-	-	-	\$22.48
C	23	737,405	9.0%	0.1%	9.1%	8.8%	5,997	(2,233)	(31,891)	-	-	-	\$15.58
Total	141	11,449,549	11.1%	0.2%	11.3%	11.2%	158,821	(14,670)	(98,951)	-	-	450,564	\$25.71
NORTH/NORTHEAST													
A	11	1,263,489	4.5%	0.4%	4.9%	5.0%	-	692	36,330	-	41,400	-	\$24.73
B	74	5,237,446	6.9%	0.6%	7.5%	6.7%	3,827	(41,488)	81,212	-	54,425	-	\$19.59
C	17	946,438	1.3%	0.0%	1.3%	8.7%	0	69,587	99,986	-	-	-	\$15.53
Total	102	7,447,373	5.8%	0.5%	6.3%	6.7%	3,827	28,791	217,528	-	95,825	-	\$20.26
NORTHWEST													
A	20	2,039,309	8.7%	0.0%	8.7%	11.0%	9,581	45,899	85,831	-	-	-	\$25.84
B	85	3,829,015	10.9%	0.5%	11.5%	9.7%	76,400	(67,812)	(26,429)	-	-	57,700	\$21.82
C	18	538,138	10.4%	0.3%	10.7%	3.8%	4,583	(37,239)	(4,829)	-	-	-	\$18.97
Total	123	6,406,462	10.2%	0.3%	10.5%	9.6%	90,564	(59,152)	54,573	-	-	57,700	\$22.90
SOUTHEAST													
A	142	22,242,483	9.0%	1.5%	10.5%	10.7%	174,847	47,897	327,633	-	20,282	1,667,420	\$27.68
B	301	19,393,418	13.8%	0.9%	14.7%	15.2%	301,043	100,809	139,158	-	-	119,000	\$22.04
C	32	1,101,653	4.4%	0.1%	4.5%	4.7%	9,160	1,856	1,797	-	-	-	\$16.97
Total	475	42,737,554	11.0%	1.2%	12.2%	12.6%	485,050	150,562	468,588	-	20,282	1,786,420	\$24.89
SOUTHWEST													
A	6	1,359,634	12.4%	1.4%	13.7%	13.7%	-	0	(118,167)	-	-	-	\$26.57
B	101	4,964,319	16.3%	0.3%	16.6%	15.9%	28,558	(16,117)	87,924	25,000	25,000	-	\$17.29
C	19	669,573	4.6%	0.0%	4.6%	3.6%	521	(6,741)	1,480	-	-	-	\$12.99
Total	126	6,993,526	14.4%	0.5%	14.9%	14.3%	29,079	(22,858)	(28,763)	25,000	25,000	-	\$17.97
WEST													
A	19	2,448,728	7.0%	1.1%	8.2%	6.0%	7,633	(52,173)	(31,188)	-	28,258	-	\$26.02
B	131	7,787,515	14.4%	0.3%	14.7%	15.4%	95,600	51,779	323,112	-	159,000	24,000	\$21.23
C	27	751,308	5.2%	0.0%	5.2%	5.9%	6,891	4,919	15,550	-	-	-	\$12.00
Total	177	10,987,551	12.1%	0.5%	12.6%	12.7%	110,124	4,525	307,474	-	187,258	24,000	\$12.49
SUBURBAN TOTAL													
A	255	38,305,169	9.1%	1.1%	10.2%	10.3%	337,689	45,620	213,555	-	192,809	2,291,364	\$26.02
B	896	56,254,272	12.2%	0.5%	12.7%	12.7%	654,769	41,451	747,716	25,000	238,425	200,700	\$20.98
C	152	5,306,030	5.6%	0.1%	5.6%	6.2%	30,455	33,452	93,322	-	-	-	\$14.90
Total	1,303	99,865,471	10.6%	0.7%	11.4%	11.5%	1,022,913	120,523	1,054,593	25,000	431,234	2,492,064	\$20.63
DENVER MARKET GRAND TOTAL													
A	317	62,071,367	10.1%	1.5%	11.6%	11.2%	999,053	51,249	100,889	311,015	503,824	4,577,442	\$30.76
B	1,079	70,785,353	11.4%	0.6%	11.9%	12.0%	864,327	62,362	569,146	53,600	333,025	554,178	\$22.52
C	212	8,252,284	5.0%	0.0%	5.0%	5.4%	38,819	26,796	66,158	-	-	-	\$16.75
Total	1,608	141,109,004	10.5%	0.9%	11.4%	11.3%	1,902,199	140,407	736,193	364,615	836,849	5,131,620	\$26.25
QUARTERLY COMPARISON													
Q4 16	1,608	141,109,004	10.5%	0.9%	11.4%	11.3%	1,902,199	140,407	736,193	364,615	836,849	5,131,620	\$26.25
Q3 16	1,605	140,744,389	10.4%	0.8%	11.3%	11.0%	2,825,501	(264,554)	595,966	102,869	472,234	4,068,593	\$25.93
Q2 16	1,604	140,641,520	10.4%	0.7%	11.0%	11.1%	3,066,496	396,492	860,520	282,940	369,365	3,164,395	\$25.86
Q1 16	1,599	140,358,580	10.5%	0.7%	11.1%	11.4%	2,609,356	464,028	464,028	86,425	86,425	3,056,323	\$25.56
Q4 15	1,597	140,272,155	10.7%	0.7%	11.4%	11.9%	3,640,243	1,097,702	2,672,951	910,075	2,188,730	2,829,344	\$25.27

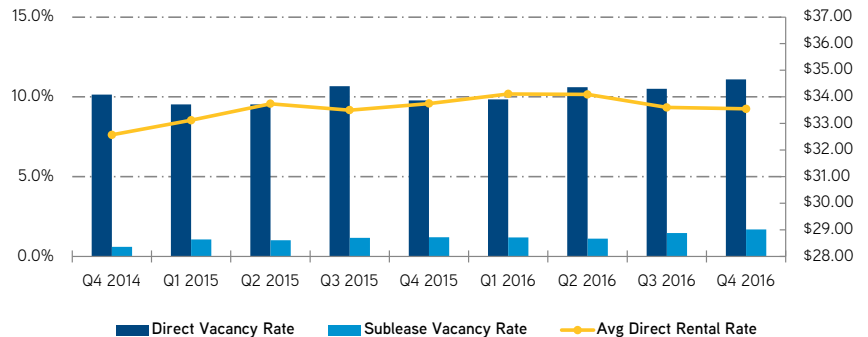
Southeast & Downtown Statistics

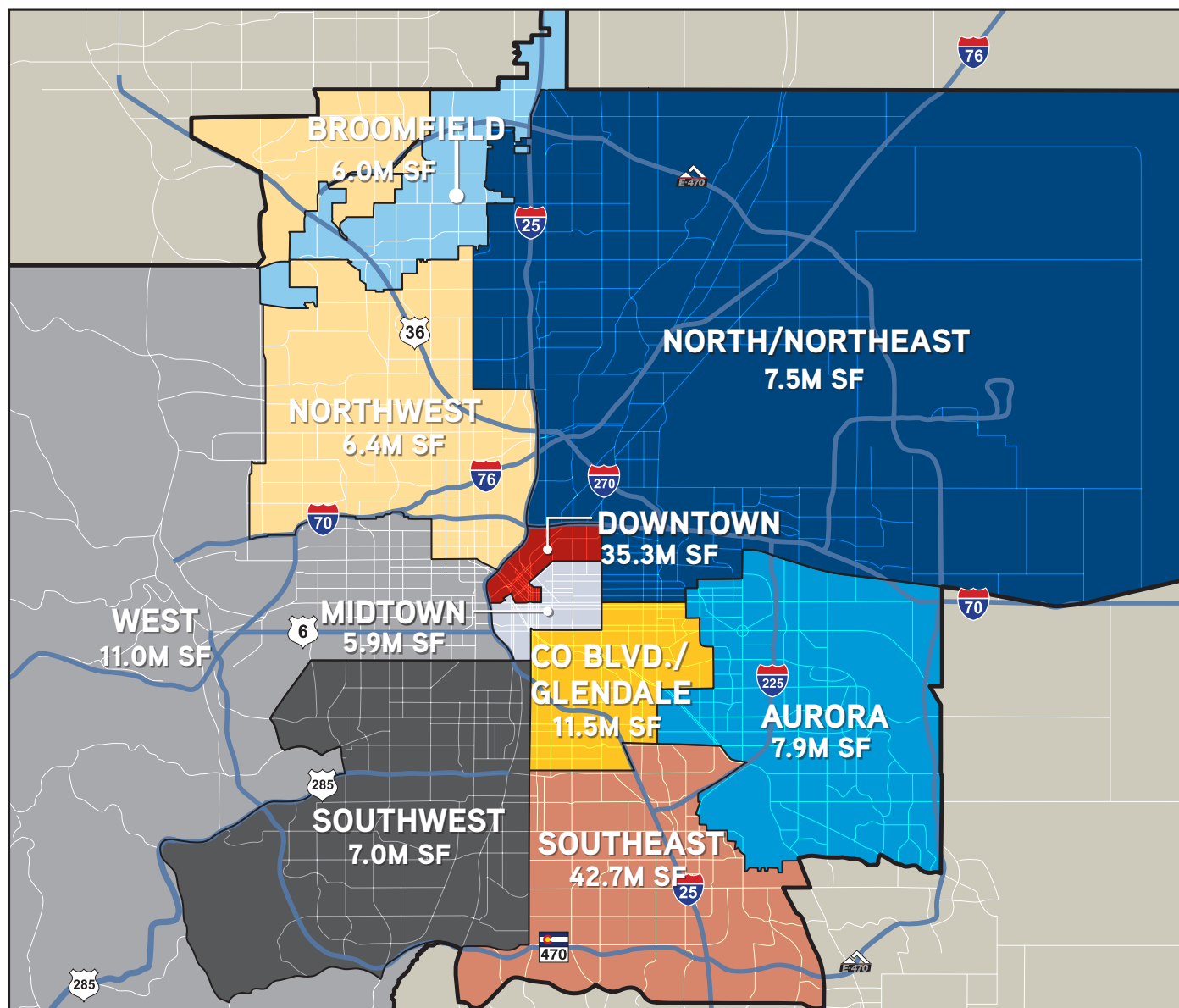
Period/Class	Buildings	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacant SF	Sublease Vacancy Rate	Total Vacant SF	Vacancy Rate Current	Leasing Activity SF	Net Absorption Current Qtr. SF	Deliveries Current Qtr. SF	Average Rental Rate (F5)
EXISTING PROPERTIES		VACANCY							ACTIVITY	ABSORP.	CONSTR.	RENTS
DENVER-SOUTHEAST OFFICE MARKET OVERVIEW												
Q4 2016	475	42,737,554	4,716,141	11.0%	509,819	1.2%	5,225,960	12.2%	485,050	150,562	0	\$24.89
Q3 2016	475	42,737,554	4,877,745	11.4%	498,777	1.2%	5,376,522	12.6%	1,395,287	(146,678)	0	\$24.30
Q2 2016	475	42,737,554	4,814,229	11.3%	415,615	1.0%	5,229,844	12.2%	988,970	(28,925)	20,282	\$23.94
Q1 2016	474	42,717,272	4,820,453	11.3%	360,184	0.8%	5,180,637	12.1%	885,610	493,629	0	\$24.23
Q4 2015	474	42,717,272	5,251,046	12.3%	423,220	1.0%	5,674,266	13.3%	1,268,466	103,836	582,792	\$23.61
Q3 2015	471	42,134,010	4,784,189	11.4%	410,651	1.0%	5,194,840	12.3%	991,984	(204,847)	0	\$23.45
Q2 2015	471	42,134,010	4,714,009	11.2%	275,984	0.7%	4,989,993	11.8%	1,569,802	536,720	45,000	\$23.09
Q1 2015	470	42,089,010	5,015,077	11.9%	466,636	1.1%	5,481,713	13.0%	1,137,548	47,766	22,075	\$22.77
Q4 2014	470	42,089,010	5,038,981	12.0%	490,498	1.2%	5,529,479	13.1%	1,237,318	(225,960)	36,000	\$22.28
DENVER-SOUTHEAST OFFICE SUBMARKET BREAKOUT BY CLASS												
A	142	22,242,483	1,994,804	9.0%	335,536	1.5%	2,330,340	10.5%	174,847	47,897	0	\$27.68
B	301	19,393,418	2,672,571	13.8%	173,633	0.9%	2,846,204	14.7%	301,043	100,809	0	\$22.04
C	32	1,101,653	48,766	4.4%	650	0.1%	49,416	4.5%	9,160	1,856	0	\$16.97
Total	475	42,737,554	4,716,141	11.0%	509,819	1.2%	5,225,960	12.2%	485,050	150,562	0	\$24.89
DENVER-DOWNTOWN OFFICE SUBMARKET OVERVIEW												
Q4 2016	210	35,332,073	3,921,657	11.1%	596,396	1.7%	4,518,053	12.8%	844,027	(15,400)	311,015	\$33.55
Q3 2016	209	35,021,058	3,677,023	10.5%	514,615	1.5%	4,191,638	12.0%	740,619	(90,976)	0	\$33.60
Q2 2016	209	35,021,058	3,712,238	10.6%	388,424	1.1%	4,100,662	11.7%	1,336,622	(177,109)	66,000	\$34.09
Q1 2016	208	34,955,058	3,440,406	9.8%	417,147	1.2%	3,857,553	11.0%	479,798	(18,254)	0	\$34.11
Q4 2015	208	34,955,058	3,417,247	9.8%	422,052	1.2%	3,839,299	11.0%	1,319,398	485,181	245,123	\$33.75
Q3 2015	206	34,740,335	3,706,378	10.7%	403,379	1.2%	4,109,757	11.8%	1,075,840	108,623	622,106	\$33.50
Q2 2015	203	34,118,229	3,251,794	9.5%	344,480	1.0%	3,596,274	10.5%	934,228	89,933	81,384	\$33.74
Q1 2015	202	34,036,845	3,242,230	9.5%	362,593	1.1%	3,604,823	10.6%	846,822	53,371	0	\$33.12
Q4 2014	202	34,036,845	3,453,153	10.1%	205,041	0.6%	3,658,194	10.7%	995,020	117,113	0	\$32.57
DENVER-DOWNTOWN OFFICE SUBMARKET BREAKOUT BY CLASS												
A	56	22,673,440	2,801,136	12.4%	480,265	2.1%	3,281,401	14.5%	661,364	5,629	311,015	\$35.20
B	133	11,342,456	1,069,697	9.4%	116,131	1.0%	1,185,828	10.5%	178,463	(13,311)	0	\$29.71
C	21	1,316,177	50,824	3.9%	0	0.0%	50,824	3.9%	4,200	(7,718)	0	\$21.49
Total	210	35,332,073	3,921,657	11.1%	596,396	1.7%	4,518,053	12.8%	844,027	(15,400)	311,015	\$33.55

Denver | Southeast Office Market Q4 2016



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SIGNIFICANT RECENT TRANSACTIONS

SALES ACTIVITY

PROPERTY	SUBMARKET	SALE PRICE	SIZE SF	BUYER	SELLER
Dominion Plaza 600 17th Street	CBD	\$154,000,000	571,468	Franklin Street Properties	Beacon Capital Partners/ Callahan Capital Partners
Writer Square 1512 Larimer Street	LoDo	\$96,000,000	170,538	The Kroenke Group	LaSalle Investment Management/ Unico Properties

LEASING ACTIVITY

PROPERTY	SUBMARKET	BLDG. CLASS	LEASED SF	COMPANY
1144 15th Street	CBD	A	100,660	Gates Corporation
1801 California Street	CBD	A	85,165	Healthgrades
1144 15th Street	CBD	A	75,692	Optiv Security

554 offices in
66 countries on
6 continents

United States: **153**

Canada: **34**

Latin America: **24**

Asia Pacific: **231**

EMEA: **112**

\$2.5

billion in
annual revenue

2.0

billion square feet
under management

16,000

professionals
and staff

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