

Office Leasing Resilient as Sublease Space Remains Elevated

MARKET OVERVIEW

Overall, market fundamentals remain resilient in the Metro Denver office market. Asking rental rates continue to rise, construction is booming, and leasing activity, although the lowest first quarter total since 2009, is still performing well with over 2 million square feet leased during the quarter. Negative absorption was reported during the first quarter as the market experienced an influx of vacant sublease space, as occupiers continue to shed unnecessary space or upgrade to newer space. Sublease space has trickled on to the market for the past two years with vacant sublease space now at levels seen immediately following the recession in 2009. Over the next two years, the metro will see the delivery of more than 4.5 million square feet of new office product, and as newer space is absorbed, sublease space will likely remain elevated.

MARKET INDICATORS*

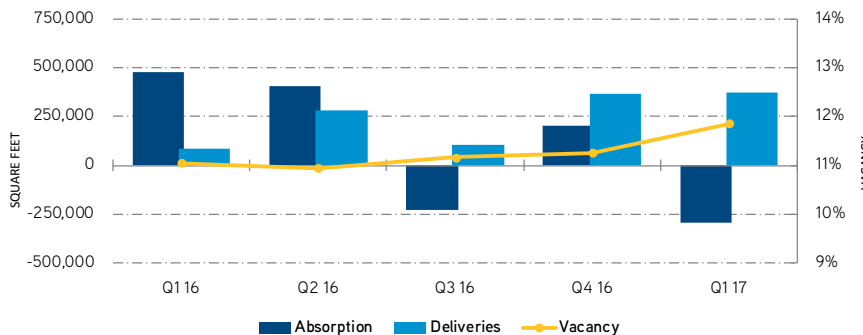
	Q1 2017	Projected Q2 2017
VACANCY	↑	↑
NET ABSORPTION	—	—
DELIVERIES	↔	↑
RENTAL RATE	↑	↔

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

SUMMARY STATISTICS

	Q1 2016	Q1 2017
VACANCY RATE	11.1%	11.9%
ABSORPTION YTD	478,759	-292,770
DELIVERIES YTD	86,425	371,653
UNDER CONSTRUCTION	3,056,323	5,385,002
ASKING RENTS/SF	\$25.56	\$26.46

Denver Office Market Q1 2016-Q1 2017



Source: CoStar, Colliers Research

HIGHLIGHTED ECONOMIC TRENDS

Local Unemployment Rates

As of **February 2017**, the Bureau of Labor Statistics indicated the estimated unemployment rate for the Metro Denver area at **3.2 percent** – up slightly from the previous year's unemployment rate of **3.1 percent** in **February 2016**. The National unemployment rate is **4.7 percent**.

Local Employment Growth

Metro Denver employment rose **2.7 percent**, or an additional **39,454 jobs** between **February 2016** and **2017**.

Investment Sales

\$387M First quarter investment activity totaled nearly **\$387 million** throughout Metro Denver.

Metro absorption totaled negative 292,000 square feet during the first quarter.

ABSORPTION

The metro office market experienced negative absorption for the second time in the last three quarters with over 292,000 square feet of negative absorption. Six of ten submarkets reported negative absorption during the quarter with the bulk of the newly vacated space attributed to Class A space stemming from a handful of tenants. Class B product contributed over 223,000 square feet of positive net absorption; however, strong Class B absorption wasn't significant enough to overcome 537,000 square feet of negative absorption from Class A. Both the Southeast and CBD submarkets reported negative absorption over 80,000 square feet, with Class A buildings the determining factor for the total overall negative absorption for those submarkets. The Northwest submarket also contributed over 126,000 square feet of negative absorption to the metro total.

VACANCY

Office vacancy jumped 60 basis points during the first quarter as vacant sublease space reached levels not seen since 2009. The total overall vacancy rate sits at 11.9 percent – similar to the first quarter of 2015. The increase in vacancy should not be a cause for concern, as the current vacancy rate is still well-below pre-recession levels when vacancy was above 12 percent. With historic levels of office construction underway, and as companies downsize space requirements in the name of efficiency and increased collaboration, vacancy is likely to fluctuate over the next year, but still remain below 13 percent.

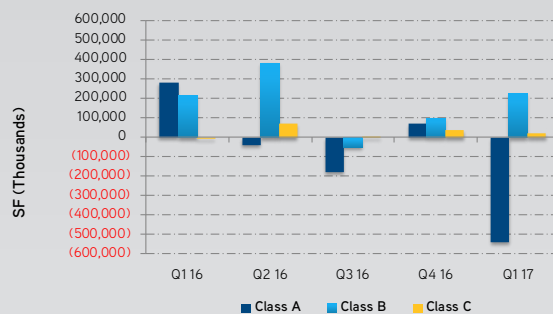
DELIVERIES & CONSTRUCTION

The metro added over 371,000 square feet to the market during the quarter with the completion of Union Tower West and Dairy Block in the CBD making up over 93 percent of the total delivered. Construction is still thriving throughout the metro with over 5 million square feet under construction – a majority of which is speculative, Class A product. Approximately 1.5 million square feet of new office product is slated for delivery over the next two quarters throughout the metro, with the long-awaited One Belleview Station, and the fully-leased Granite Place in the Southeast submarket scheduled for completion.

RENTAL RATES

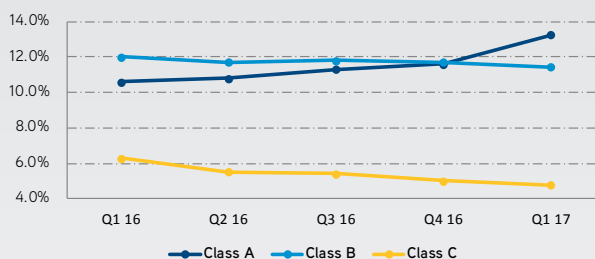
Overall first quarter asking rental rates for office space in Metro Denver reached \$26.46 per square foot – a 3.5 percent increase year-over-year. Asking rates increased in all submarkets with the exception of the Southwest submarket, which experienced a moderate decrease from the previous quarter. Asking rates in the CBD increased to \$33.71 per square foot – similar to where rates were at the end of 2015, but down from the \$34 per square foot mark reached in early 2016. Asking rates in the Southeast submarket increased yet again, as the overall rate surpassed the \$25 per square foot mark for the first time. Landlords continue to push asking rates while concessions are increasingly becoming more apparent as the office market nears a plateau.

Absorption



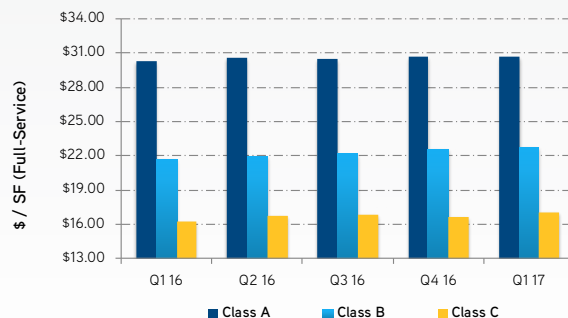
Source: CoStar, Colliers Research

Vacancy



Source: CoStar, Colliers Research

Rental Rates



Source: CoStar, Colliers Research

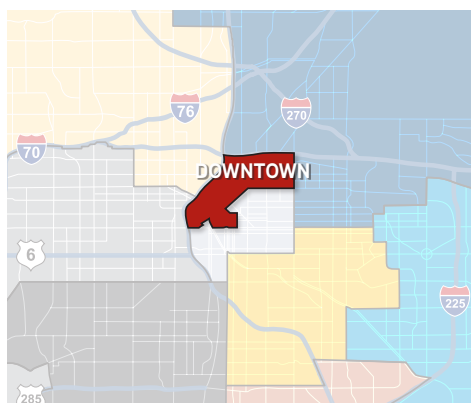
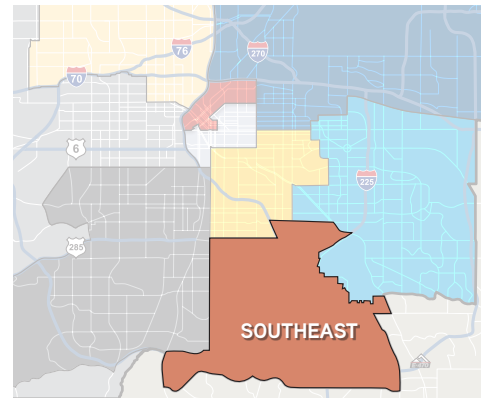
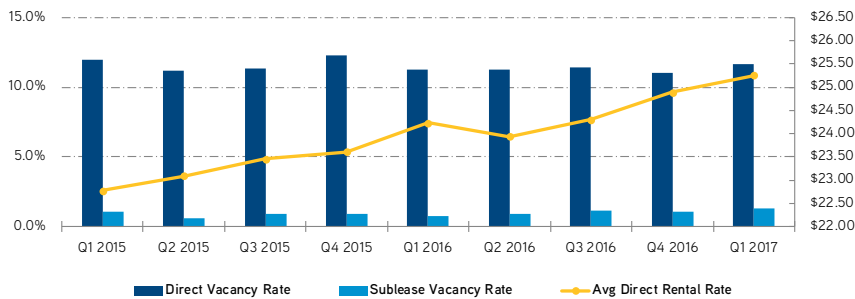
Submarket Statistics

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	58	23,021,093	14.1%	2.1%	16.2%	14.2%	730,003	(157,898)	(157,898)	347,653	347,653	2,027,013	\$35.54
B	133	11,349,168	8.6%	1.0%	9.6%	10.2%	115,655	75,154	75,154	-	-	53,478	\$29.59
C	21	1,316,177	4.0%	0.0%	4.0%	3.9%	-	(1,182)	(1,182)	-	-	-	\$22.64
Total	212	35,686,438	12.0%	1.7%	13.7%	12.6%	845,658	(83,926)	(83,926)	347,653	347,653	2,080,491	\$33.71
MIDTOWN													
SOUTH MIDTOWN/CAPITOL HILL													
A	7	1,112,854	5.2%	0.0%	5.2%	0.5%	-	(51,934)	(51,934)	-	-	-	\$31.84
B	50	3,197,875	5.2%	0.1%	5.3%	4.4%	21,282	(27,924)	(27,924)	-	-	300,000	\$24.74
C	39	1,617,351	4.3%	0.0%	4.3%	4.1%	1,600	(3,162)	(3,162)	-	-	-	\$21.90
Total	96	5,928,080	5.0%	0.0%	5.0%	3.6%	22,882	(83,020)	(83,020)	-	-	300,000	\$25.40
SUBURBAN													
AURORA													
A	14	2,051,785	5.5%	0.0%	5.5%	4.9%	3,051	(11,405)	(11,405)	-	-	-	\$24.16
B	78	5,251,788	9.2%	0.0%	9.2%	8.9%	14,501	(13,829)	(13,829)	-	-	-	\$17.74
C	16	561,515	9.8%	0.0%	9.8%	10.1%	4,858	1,900	1,900	-	-	-	\$12.34
Total	108	7,865,088	8.2%	0.0%	8.2%	7.9%	22,410	(23,334)	(23,334)	-	-	-	\$18.92
BROOMFIELD													
A	20	3,171,782	9.4%	1.1%	10.5%	11.2%	56,647	23,707	23,707	-	-	176,588	\$29.15
B	31	2,807,034	8.7%	0.0%	8.7%	8.3%	16,627	(12,272)	(12,272)	-	-	-	\$24.82
Total	51	5,978,816	9.0%	0.6%	9.6%	9.8%	73,274	11,435	11,435	-	-	176,588	\$27.17
COLORADO BOULEVARD/GLENDALE													
A	24	3,862,045	13.1%	0.2%	13.3%	13.0%	57,609	(9,927)	(9,927)	-	-	492,230	\$29.99
B	93	6,611,123	8.5%	0.3%	8.8%	9.0%	84,919	11,020	11,020	-	-	-	\$23.16
C	25	1,003,615	4.2%	0.2%	4.4%	7.9%	4,320	34,683	34,683	-	-	-	\$16.66
Total	142	11,476,783	9.7%	0.3%	10.0%	10.3%	146,848	35,776	35,776	-	-	492,230	\$25.78
NORTH/NORTHEAST													
A	11	1,263,489	5.0%	0.4%	5.4%	4.9%	-	(6,738)	(6,738)	-	-	43,586	\$24.30
B	74	5,213,422	6.5%	0.6%	7.1%	7.5%	21,992	21,969	21,969	-	-	-	\$19.47
C	16	925,765	1.4%	0.0%	1.4%	1.4%	682	(706)	(706)	-	-	-	\$15.59
Total	101	7,402,676	5.6%	0.5%	6.1%	6.3%	22,674	14,525	14,525	-	-	43,586	\$20.70
NORTHWEST													
A	20	2,039,309	11.9%	4.6%	16.5%	8.7%	9,670	(157,835)	(157,835)	-	-	-	\$25.60
B	85	3,829,015	9.9%	0.7%	10.7%	11.6%	23,189	34,617	34,617	-	-	57,700	\$22.00
C	18	538,138	10.9%	0.3%	11.2%	10.7%	3,476	(2,828)	(2,828)	-	-	-	\$19.00
Total	123	6,406,462	10.6%	1.9%	12.6%	10.6%	36,335	(126,046)	(126,046)	-	-	57,700	\$23.09
SOUTHEAST													
A	143	22,498,560	10.8%	1.7%	12.5%	11.7%	525,244	(181,255)	(181,255)	-	-	1,966,407	\$27.65
B	300	19,371,207	13.1%	1.0%	14.1%	14.6%	260,303	106,235	106,235	-	-	99,000	\$22.44
C	32	1,101,599	4.9%	0.1%	4.9%	4.5%	2,099	(4,987)	(4,987)	-	-	-	\$17.72
Total	475	42,971,366	11.7%	1.3%	13.0%	12.8%	787,646	(80,007)	(80,007)	-	-	2,065,407	\$25.25
SOUTHWEST													
A	6	1,359,634	11.9%	0.2%	12.0%	13.7%	-	22,856	22,856	-	-	-	\$26.45
B	101	5,005,870	15.6%	0.4%	16.0%	16.5%	63,126	23,794	23,794	-	-	-	\$17.32
C	19	669,573	4.0%	0.0%	4.0%	4.6%	3,188	4,103	4,103	-	-	-	\$13.19
Total	126	7,035,077	13.8%	0.3%	14.1%	14.8%	66,314	50,753	50,753	-	-	-	\$17.87
WEST													
A	19	2,448,728	7.8%	0.7%	8.5%	8.2%	35,163	(7,132)	(7,132)	-	-	169,000	\$27.80
B	132	7,817,434	14.9%	0.4%	15.3%	15.1%	104,991	4,322	4,322	24,000	24,000	-	\$21.69
C	26	731,308	3.8%	0.0%	3.8%	3.0%	2,906	(6,116)	(6,116)	-	-	-	\$12.54
Total	177	10,997,470	12.6%	0.4%	13.0%	12.7%	143,060	(8,926)	(8,926)	24,000	24,000	169,000	\$22.35
SUBURBAN TOTAL													
A	257	38,695,332	10.3%	1.4%	11.7%	10.9%	687,384	(327,729)	(327,729)	-	-	2,847,811	\$27.78
B	894	55,906,893	11.6%	0.6%	12.2%	12.5%	589,648	175,856	175,856	24,000	24,000	156,700	\$21.52
C	152	5,531,513	5.0%	0.1%	5.1%	5.6%	21,529	26,049	26,049	-	-	-	\$16.41
Total	1,303	100,133,738	10.8%	0.9%	11.6%	11.5%	1,298,561	(125,824)	(125,824)	24,000	24,000	3,004,511	\$23.95
DENVER MARKET GRAND TOTAL													
A	322	62,829,279	11.6%	1.6%	13.3%	11.9%	1,417,387	(537,561)	(537,561)	347,653	347,653	4,874,824	\$30.66
B	1,077	70,453,936	10.8%	0.6%	11.4%	11.7%	726,585	223,086	223,086	24,000	24,000	5,131,620	\$22.74
C	212	8,465,041	4.7%	0.1%	4.8%	5.0%	23,129	21,705	21,705	-	-	-	\$17.07
Total	1,611	141,748,256	10.8%	1.0%	11.9%	11.3%	2,167,101	(292,770)	(292,770)	371,653	371,653	5,385,002	\$26.46
QUARTERLY COMPARISON													
Q1 17	1,611	141,748,256	10.8%	1.0%	11.9%	11.3%	2,167,101	(292,770)	(292,770)	371,653	371,653	5,385,002	\$26.46
Q4 16	1,607	141,376,603	10.4%	0.9%	11.3%	11.2%	2,857,320	200,008	859,048	364,615	836,849	5,131,620	\$26.21
Q3 16	1,604	141,011,988	10.4%	0.8%	11.2%	10.9%	3,363,305	(225,514)	659,040	102,869	472,234	4,068,593	\$25.88
Q2 16	1,603	140,909,119	10.3%	0.6%	10.9%	11.1%	3,480,312	405,795	884,554	282,940	369,365	3,164,395	\$25.82
Q1 16	1,598	140,626,179	10.4%	0.6%	11.1%	11.4%	2,832,752	478,759	478,759	86,425	86,425	3,056,323	\$25.56

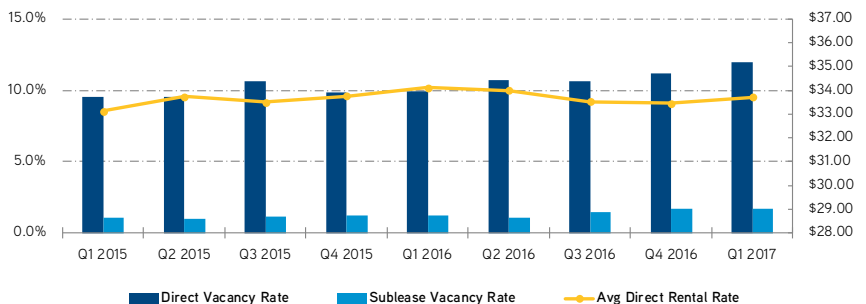
Southeast & Downtown Statistics

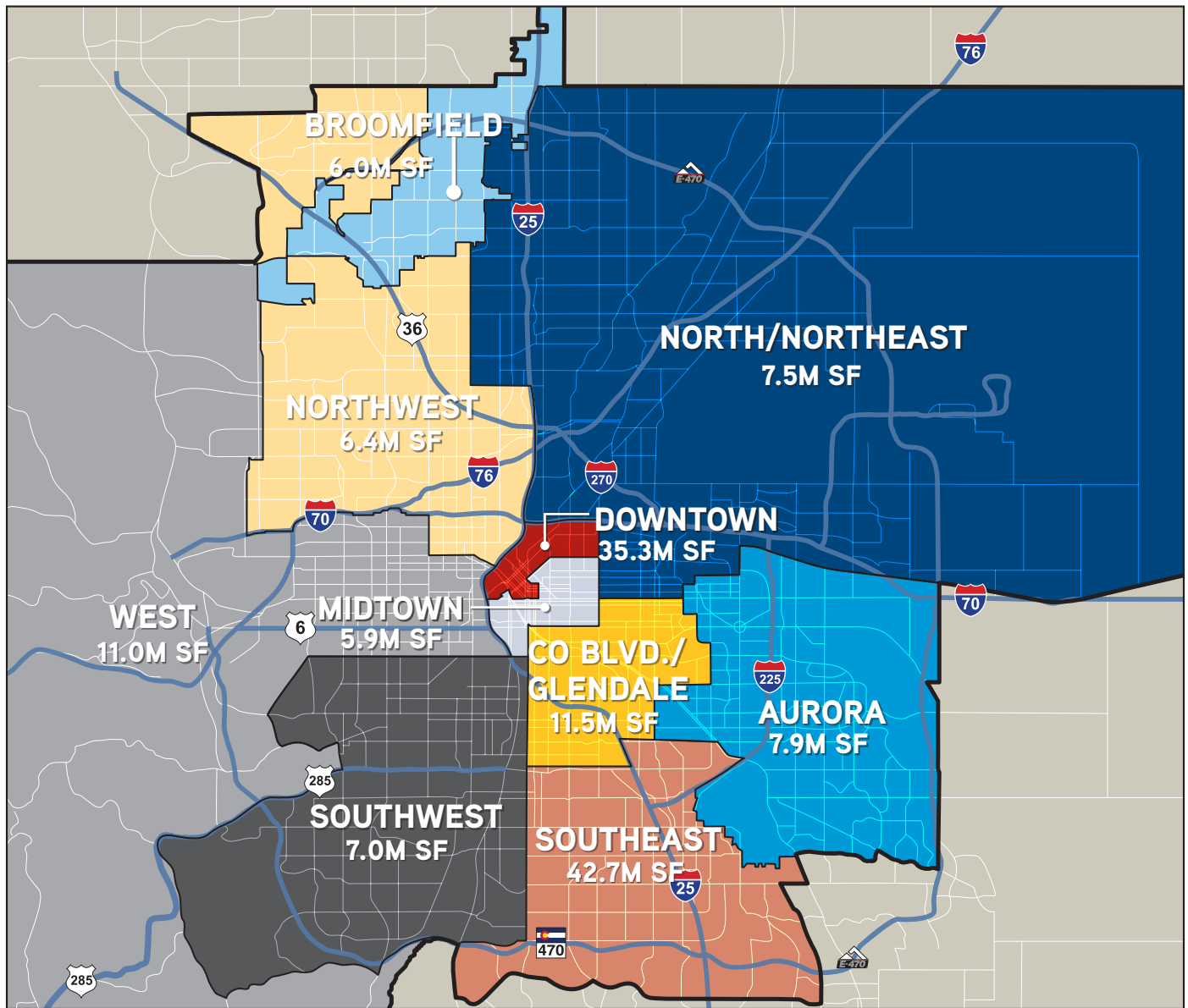
Period/Class	Buildings	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacant SF	Sublease Vacancy Rate	Total Vacant SF	Vacancy Rate Current	Leasing Activity SF	Net Absorption Current Qtr. SF	Deliveries Current Qtr. SF	Average Rental Rate (FS)
EXISTING PROPERTIES				VACANCY				ACTIVITY	ABSORP.	CONSTR.	RENTS	
DENVER-SOUTHEAST OFFICE MARKET OVERVIEW												
Q1 2017	475	42,971,366	5,019,252	11.7%	564,270	1.3%	5,583,522	13.0%	787,646	(80,007)	0	\$25.25
Q4 2016	474	42,671,664	4,716,141	11.1%	466,809	1.1%	5,182,950	12.1%	648,113	169,373	0	\$24.89
Q3 2016	474	42,671,664	4,877,745	11.4%	474,578	1.1%	5,352,323	12.5%	1,563,790	(146,700)	0	\$24.30
Q2 2016	474	42,671,664	4,814,207	11.3%	391,416	0.9%	5,205,623	12.2%	1,117,455	(31,722)	20,282	\$23.94
Q1 2016	473	42,651,382	4,817,634	11.3%	335,985	0.8%	5,153,619	12.1%	936,343	496,448	0	\$24.23
Q4 2015	473	42,651,382	5,251,046	12.3%	399,021	0.9%	5,650,067	13.2%	1,268,466	103,836	582,792	\$23.61
Q3 2015	470	42,068,120	4,784,189	11.4%	386,452	0.9%	5,170,641	12.3%	991,984	(204,847)	0	\$23.45
Q2 2015	470	42,068,120	4,714,009	11.2%	251,785	0.6%	4,965,794	11.8%	1,569,802	536,720	45,000	\$23.09
Q1 2015	469	42,023,120	5,015,077	11.9%	442,437	1.1%	5,457,514	13.0%	1,137,548	47,766	22,075	\$22.77
DENVER-SOUTHEAST OFFICE SUBMARKET BREAKOUT BY CLASS												
A	143	22,498,560	2,430,333	10.8%	376,394	1.7%	2,806,727	12.5%	525,244	(181,255)	0	\$27.65
B	300	19,371,207	2,535,166	13.1%	187,226	1.0%	2,722,392	14.1%	260,303	106,235	0	\$22.44
C	32	1,101,599	53,753	4.9%	650	0.1%	54,403	4.9%	2,099	(4,987)	0	\$17.72
Total	475	42,971,366	5,019,252	11.7%	564,270	1.3%	5,583,522	13.0%	787,646	(80,007)	0	\$25.25
DENVER-DOWNTOWN OFFICE SUBMARKET OVERVIEW												
Q1 2017	212	35,686,438	4,279,175	12.0%	595,869	1.7%	4,875,044	13.7%	845,658	(83,926)	347,653	\$33.71
Q4 2016	210	35,338,785	3,956,612	11.2%	592,806	1.7%	4,549,418	12.9%	1,447,785	(11,810)	311,015	\$33.46
Q3 2016	209	35,027,770	3,711,978	10.6%	514,615	1.5%	4,226,593	12.1%	904,015	(90,976)	0	\$33.51
Q2 2016	209	35,027,770	3,747,193	10.7%	388,424	1.1%	4,135,617	11.8%	1,428,714	(177,109)	66,000	\$34.00
Q1 2016	208	34,961,770	3,475,361	9.9%	417,147	1.2%	3,892,508	11.1%	515,595	(18,254)	0	\$34.11
Q4 2015	208	34,961,770	3,452,202	9.9%	422,052	1.2%	3,874,254	11.1%	1,319,398	450,226	245,123	\$33.75
Q3 2015	206	34,747,047	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	34,124,941	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	34,043,557	3,242,230	9.5%	362,593	1.1%	3,604,823	10.6%	846,822	53,371	0	\$33.12
DENVER-DOWNTOWN OFFICE SUBMARKET BREAKOUT BY CLASS												
A	58	23,021,093	3,248,689	14.1%	487,443	2.1%	3,736,132	16.2%	730,003	(157,898)	347,653	\$35.54
B	133	11,349,168	978,480	8.6%	108,426	1.0%	1,086,906	9.6%	115,655	75,154	0	\$29.59
C	21	1,316,177	52,006	4.0%	0	0.0%	52,006	4.0%	0	(1,182)	0	\$22.64
Total	212	35,686,438	4,279,175	12.0%	595,869	1.7%	4,875,044	13.7%	845,658	(83,926)	347,653	\$33.71

Denver | Southeast Office Market Q1 2017



Denver | Downtown Office Market Q1 2017





SIGNIFICANT RECENT TRANSACTIONS

SALES ACTIVITY

PROPERTY	SUBMARKET	SALE PRICE	SIZE SF	BUYER	SELLER
Bank One Tower 1125 17th Street	CBD	\$169,000,000	489,393	Goldman Sachs	Broadreach Capital Partners, Equity West Investment Partners
Cascades 6300 S. Syracuse Way	Southeast	\$63,000,000	335,343	America's Capital Partners	SteelWave

LEASING ACTIVITY

PROPERTY	SUBMARKET	BLDG. CLASS	LEASED SF	COMPANY
Republic Plaza 370 17th Street	CBD	A	333,929	Encana Oil & Gas (Renewal)
Granite Place 6175 S. Willow Drive	Southeast	A	256,884	Charter Communications
Denver Place 999 18th Street	CBD	A	180,000	Vertafore

396 offices in 68 countries on 6 continents

United States: **153**

Canada: **29**

Latin America: **24**

Asia Pacific: **79**

EMEA: **111**

\$2.6

billion in
annual revenue

2.0

billion square feet
under management

15,000

professionals
and staff

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