

Metro Absorption Improves - Vacancy Rises during Q2

MARKET OVERVIEW

The first half of 2017 experienced an increase in the vacancy rate, yet asking rates continue to rise and year-to-date absorption, although low compared to recent years past, is still positive totaling nearly 175,000 square feet. While office market fundamentals are most certainly slowing, a return to balance in terms of tenant-landlord negotiations will likely be the outcome over the next year. With more than 4.1 million square feet of office product scheduled for completion by the end of 2018, occupiers will have multiple options as the effects of elevated demand for more than five years are realized. The current under construction total is the second highest total since the early 2000's; however, currently it accounts for less than 2.8 percent of the overall inventory, compared to nearly 6.5 percent during the previous construction boom. Leasing activity for new inventory over the next year and a half will have a relatively nominal impact on the overall office market, but it will determine the frequency with which proposed projects get off the ground.

MARKET INDICATORS*

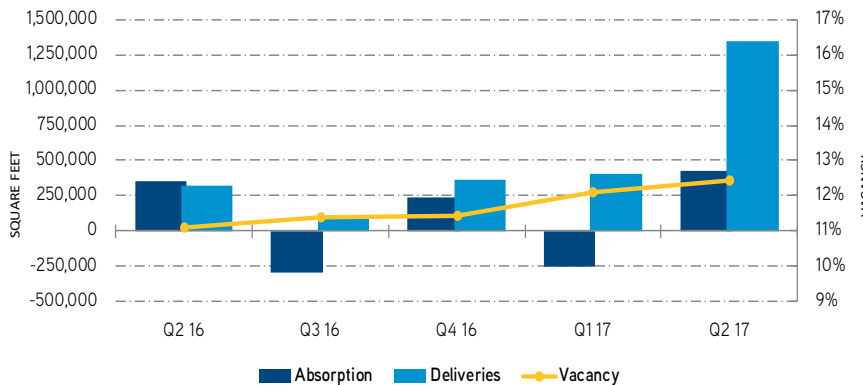
	Q2 2017	Projected Q3 2017
VACANCY	↑	→
NET ABSORPTION	+	→
DELIVERIES	↑	↑
RENTAL RATE	↑	↔

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

SUMMARY STATISTICS

	Q2 2016	Q2 2017
VACANCY RATE	11.1%	12.4%
ABSORPTION YTD	822,324	174,522
DELIVERIES YTD	406,445	1,747,503
UNDER CONSTRUCTION	3,164,395	3,954,896
ASKING RENTS/SF	\$25.82	\$26.66

Denver Office Market Q2 2016-Q2 2017



Source: CoStar, Colliers Research

HIGHLIGHTED ECONOMIC TRENDS

Local Unemployment Rates

As of **May 2017**, the Bureau of Labor Statistics indicated the estimated unemployment rate for the Metro Denver area at **2.3 percent** – down slightly from the previous year's unemployment rate of **3.0 percent** in **June 2016**. The National unemployment rate is **4.4 percent**.

Local Employment Growth

Metro Denver employment rose **4.0 percent**, or an additional **59,938 jobs** between **May 2016** and **May 2017**.

Investment Sales

\$386M Second quarter investment activity totaled nearly **\$386 million** throughout Metro Denver.

Metro absorption totaled 425,000 square feet during the second quarter.

ABSORPTION

The metro office market recovered from negative absorption during the first quarter to post more than 425,000 square feet of positive net absorption for the second quarter. Much of the absorption contributed during the quarter is from the delivery of the new Denver Health Administration Building along Broadway, of which Denver Health occupies a majority of the 300,000-square-foot Class B building. Seven of ten submarkets reported positive absorption during the quarter. Denver’s Downtown and Southeast submarkets combined for more than 170,000 square feet of positive net absorption, respectively.

VACANCY

The metro vacancy rate increased yet again during the second quarter and currently sits at 12.4 percent. The second quarter increase brings the year-over-year total to approximately 130 basis points higher compared to Q2 2016. Several projects delivered nearly vacant during the quarter, which has contributed to the increase in vacancy. Granite Place at Village Center, a 299,702-square-foot, Class A office building was completed in April, but will not be occupied until the fourth quarter. The long-awaited One Bellevue Station also delivered during the quarter and is approximately 15 percent leased, respectively. Vacancy is anticipated to increase slightly throughout the second half of 2017 as more deliveries are expected.

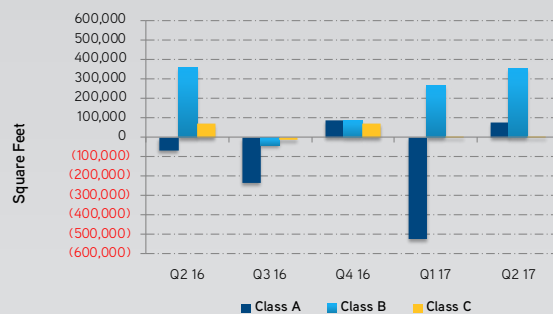
DELIVERIES & CONSTRUCTION

Metro deliveries totaled more than 1.34 million square feet during the second quarter, as Granite Place at Village Center and One Bellevue Station were delivered in the Southeast submarkets. The Colorado Boulevard submarket experienced its first significant delivery in years with the completion of Colorado Center’s Tower III. Currently, the metro has over 4.1 million square feet of construction projects underway. Construction of Class A product is still the norm throughout the metro and accounts for well over 90 percent of construction projects. Another 500,000 square feet is anticipated for delivery during the third quarter.

RENTAL RATES

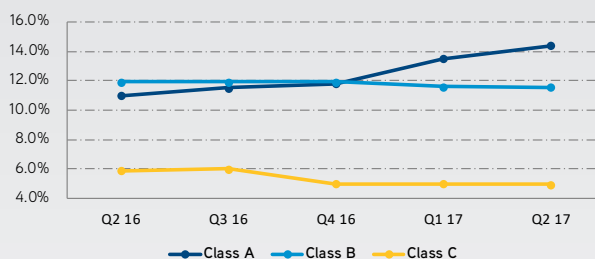
Overall second quarter asking rental rates for office space in Metro Denver was \$26.66 per square foot – a 3.3 percent increase year-over-year. Seven of ten submarkets experienced an increase in asking rates. Aurora, Broomfield and the Southeast submarket all experienced slight decreases in asking rates. Class A asking rates in the CBD passed the \$35 per square foot mark again after declining for five consecutive quarters. Overall asking rates in the Southeast fell slightly for the first time since 2011, but asking rates remain above \$25 per square foot. Asking rates will likely remain stable with little-to-no room for growth as landlords begin to offer concessions rather than continue to push their rates.

Absorption



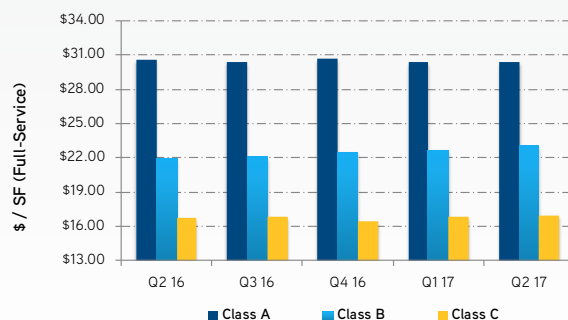
Source: CoStar, Colliers Research

Vacancy



Source: CoStar, Colliers Research

Rental Rates



Source: CoStar, Colliers Research

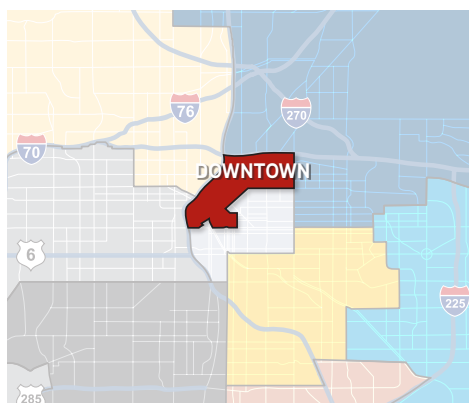
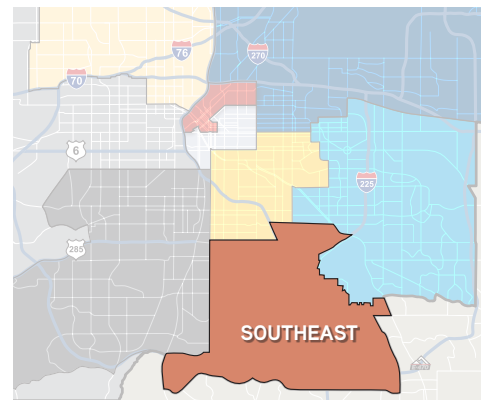
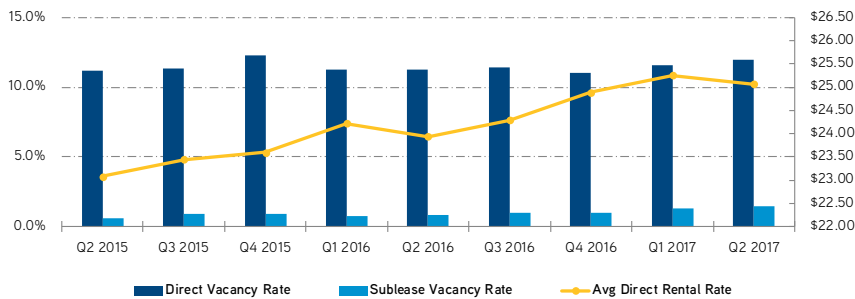
Submarket Statistics

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	23,033,670	14.0%	2.3%	16.2%	17.3%	576,600	240,729	91,452	-	347,653	1,937,013	\$35.02
B	136	11,612,685	10.1%	1.3%	11.4%	9.6%	128,768	(155,221)	(80,067)	53,478	53,478	23,337	\$30.29
C	21	1,316,177	4.0%	0.0%	4.0%	4.0%	5,382	0	(1,182)	-	-	-	\$22.64
Total	215	35,962,532	12.4%	1.8%	14.2%	14.3%	710,750	85,508	10,203	53,478	401,131	1,960,350	\$33.53
MIDTOWN													
SOUTH MIDTOWN/CAPITOL HILL													
A	7	1,114,758	5.2%	0.0%	5.2%	5.2%	-	-	(51,934)	-	-	-	\$32.28
B	51	3,497,938	4.6%	0.1%	4.6%	3.6%	9,137	254,852	-	300,000	300,000	-	\$24.88
C	39	1,620,195	4.3%	0.0%	4.3%	4.3%	1,200	0	(3,162)	-	-	-	\$21.81
Total	97	6,232,891	4.6%	0.0%	4.6%	4.1%	10,337	254,852	171,832	300,000	300,000	-	\$25.49
SUBURBAN													
AURORA													
A	14	2,051,785	10.2%	0.0%	10.2%	5.5%	12,477	(97,803)	(109,208)	-	-	-	\$24.28
B	78	5,255,275	8.8%	0.0%	8.8%	9.1%	50,758	19,386	6,343	-	-	-	\$17.44
C	17	595,381	9.7%	0.0%	9.7%	9.7%	5,892	(207)	1,193	-	-	-	\$12.19
Total	109	7,902,441	9.2%	0.0%	9.2%	8.2%	69,127	(78,624)	(101,672)	-	-	-	\$18.69
BROOMFIELD													
A	20	3,171,782	7.1%	1.1%	8.2%	9.8%	57,099	49,044	75,051	-	-	176,588	\$28.73
B	31	2,808,121	8.3%	0.0%	8.3%	8.7%	6,055	12,675	403	-	-	-	\$25.00
Total	51	5,979,903	7.7%	0.6%	8.2%	9.3%	63,154	61,719	75,454	-	-	176,588	\$26.86
COLORADO BOULEVARD/GLENDALE													
A	25	4,091,715	17.6%	0.6%	18.2%	13.0%	75,888	(11,780)	(10,290)	229,670	229,670	154,768	\$30.76
B	93	6,612,069	8.3%	0.5%	8.9%	9.4%	77,975	36,844	38,044	-	-	-	\$23.81
C	25	1,004,115	9.7%	0.3%	10.1%	8.5%	172	(15,772)	12,178	-	-	-	\$16.55
Total	143	11,707,899	11.7%	0.5%	12.2%	10.5%	154,035	9,292	39,932	229,670	229,670	154,768	\$26.57
NORTH/NORTHEAST													
A	11	1,263,489	3.4%	0.4%	3.8%	5.4%	-	20,786	14,048	-	-	43,586	\$25.51
B	74	4,971,250	9.5%	0.3%	9.8%	7.6%	110,087	(110,834)	(39,713)	-	55,000	-	\$21.35
C	16	921,396	1.8%	0.0%	1.8%	1.5%	0	(3,459)	(4,165)	-	-	-	\$15.28
Total	101	7,156,135	7.4%	0.3%	7.7%	6.4%	110,087	(93,507)	(29,830)	-	55,000	43,586	\$22.00
NORTHWEST													
A	16	1,748,874	15.0%	5.9%	20.9%	18.9%	43,998	(34,593)	(190,587)	-	-	-	\$26.82
B	61	2,372,912	11.3%	0.5%	11.9%	12.9%	107,721	24,376	46,266	-	-	213,564	\$20.51
C	15	435,489	0.6%	0.5%	1.1%	4.6%	5,008	15,419	12,591	-	-	-	\$19.00
Total	92	4,557,275	11.7%	2.6%	14.3%	14.4%	156,727	5,202	(131,730)	-	-	213,564	\$22.43
SOUTHEAST													
A	148	23,369,654	12.0%	2.0%	14.0%	11.0%	352,381	(108,169)	(289,424)	657,702	657,702	1,339,604	\$27.18
B	299	18,932,442	12.4%	0.8%	13.2%	14.2%	266,617	188,792	295,227	-	-	40,000	\$22.39
C	32	1,101,599	4.5%	0.1%	4.6%	4.9%	9,334	4,001	(986)	-	-	-	\$19.23
Total	479	43,403,695	12.0%	1.4%	13.4%	12.3%	628,332	84,624	4,817	657,702	657,702	1,379,604	\$25.06
SOUTHWEST													
A	6	1,359,634	13.1%	0.2%	13.3%	12.3%	-	(14,165)	5,751	-	-	-	\$26.36
B	102	5,042,116	15.8%	0.3%	16.1%	16.2%	40,602	5,580	57,560	-	-	-	\$17.68
C	19	668,534	5.2%	0.0%	5.2%	5.4%	6,760	1,085	(3,912)	-	-	-	\$13.48
Total	127	7,070,284	14.3%	0.3%	14.5%	14.4%	47,362	(7,500)	59,399	-	-	-	\$18.26
WEST													
A	20	2,552,728	9.5%	1.7%	11.2%	12.3%	25,679	28,843	18,349	-	24,000	240,000	\$27.93
B	133	7,927,335	14.2%	0.3%	14.5%	15.5%	79,166	74,992	65,107	-	-	-	\$21.88
C	27	752,031	3.7%	0.2%	3.9%	3.9%	2,620	44	(7,339)	-	-	-	\$12.47
Total	180	11,232,094	12.4%	0.6%	13.1%	14.0%	107,465	103,879	76,117	-	24,000	240,000	\$22.49
SUBURBAN TOTAL													
A	260	39,609,661	11.8%	1.7%	13.5%	11.1%	567,522	(167,837)	(486,310)	887,372	911,372	1,954,546	\$27.57
B	871	53,921,520	11.6%	0.5%	12.1%	12.5%	738,981	251,811	469,237	-	55,000	253,564	\$21.53
C	151	5,478,545	5.2%	0.1%	5.4%	5.4%	29,786	1,111	9,560	-	-	-	\$15.32
Total	1,282	99,009,726	11.3%	1.0%	12.3%	11.6%	1,336,289	85,085	(7,513)	887,372	966,372	2,208,110	\$24.03
DENVER MARKET GRAND TOTAL													
A	325	63,758,089	12.5%	1.9%	14.4%	13.3%	1,144,122	72,892	(446,792)	887,372	1,259,025	3,891,559	\$30.42
B	1,058	69,032,143	11.0%	0.6%	11.6%	11.6%	876,886	351,442	616,098	353,478	408,478	276,901	\$23.10
C	211	8,414,917	4.9%	0.1%	5.0%	5.0%	36,368	1,111	5,216	-	-	-	\$16.92
Total	1,594	141,205,149	11.3%	1.1%	12.4%	12.1%	2,057,376	425,445	174,522	1,240,850	1,667,503	4,168,460	\$26.66
QUARTERLY COMPARISON													
Q2 17	1,594	141,205,149	11.3%	1.1%	12.4%	12.1%	2,057,376	425,445	174,522	1,240,850	1,667,503	4,168,460	\$26.66
Q1 17	1,587	139,964,299	11.0%	1.1%	12.1%	11.4%	2,760,648	(250,923)	(250,923)	402,653	402,653	5,385,002	\$26.36
Q4 16	1,582	139,561,646	10.5%	0.9%	11.4%	11.4%	2,931,616	241,029	770,367	364,615	873,929	5,131,620	\$26.24
Q3 16	1,580	139,197,031	10.6%	0.8%	11.4%	11.1%	3,356,284	(292,986)	529,338	102,869	509,314	4,068,593	\$25.89
Q2 16	1,579	139,094,162	10.5%	0.7%	11.1%	11.4%	3,436,012	355,049	822,324	320,020	406,445	3,164,395	\$25.82

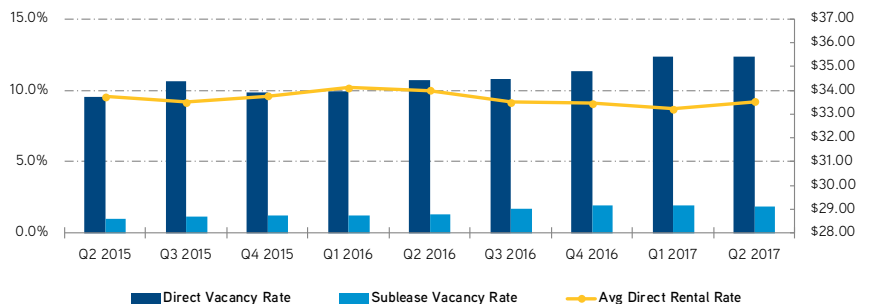
Southeast & Downtown Statistics

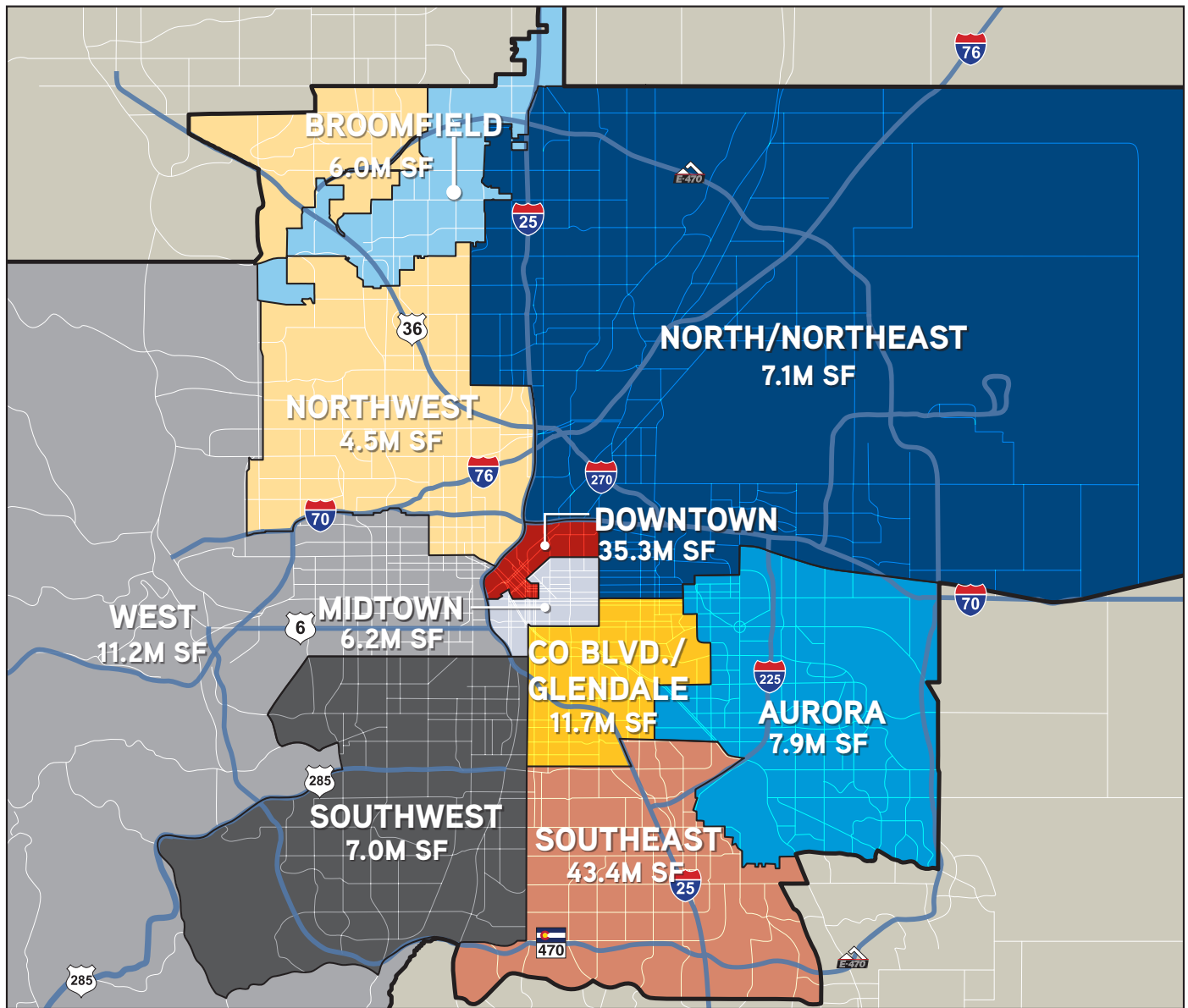
Period/Class	Buildings	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacant SF	Sublease Vacancy Rate	Total Vacant SF	Vacancy Rate Current	Leasing Activity SF	Net Absorption Current Qtr. SF	Deliveries Current Qtr. SF	Average Rental Rate (FS)
EXISTING PROPERTIES			VACANCY				ACTIVITY		ABSORP.	CONSTR.	RENTS	
DENVER-SOUTHEAST OFFICE MARKET OVERVIEW												
Q2 2017	479	43,403,695	5,189,440	12.0%	627,977	1.4%	5,817,417	13.4%	628,332	84,624	657,702	\$25.06
Q1 2017	476	43,025,695	4,977,128	11.6%	546,913	1.3%	5,524,041	12.8%	1,011,662	(79,807)	0	\$25.25
Q4 2016	475	42,725,993	4,722,562	11.1%	421,970	1.0%	5,144,532	12.0%	679,747	177,474	0	\$24.89
Q3 2016	475	42,725,993	4,892,267	11.5%	429,739	1.0%	5,322,006	12.5%	1,558,243	(149,999)	0	\$24.29
Q2 2016	475	42,725,993	4,819,107	11.3%	352,900	0.8%	5,172,007	12.1%	1,117,455	6,694	20,282	\$23.94
Q1 2016	474	42,705,711	4,822,434	11.3%	335,985	0.8%	5,158,419	12.1%	936,343	495,848	0	\$24.22
Q4 2015	474	42,705,711	5,255,246	12.3%	399,021	0.9%	5,654,267	13.2%	1,268,466	103,636	582,792	\$23.60
Q3 2015	471	42,122,449	4,788,189	11.4%	386,452	0.9%	5,174,641	12.3%	991,984	(204,647)	0	\$23.44
Q2 2015	471	42,122,449	4,718,209	11.2%	251,785	0.6%	4,969,994	11.8%	1,569,802	536,920	45,000	\$23.08
DENVER-SOUTHEAST OFFICE SUBMARKET BREAKOUT BY CLASS												
A	148	23,369,654	2,797,153	12.0%	475,714	2.0%	3,272,867	14.0%	352,381	(108,169)	657,702	\$27.18
B	299	18,932,442	2,342,535	12.4%	151,613	0.8%	2,494,148	13.2%	266,617	188,792	0	\$22.39
C	32	1,101,599	49,752	4.5%	650	0.1%	50,402	4.6%	9,334	4,001	0	\$19.23
Total	479	43,403,695	5,189,440	12.0%	627,977	1.4%	5,817,417	13.4%	628,332	84,624	657,702	\$25.06
DENVER-DOWNTOWN OFFICE SUBMARKET OVERVIEW												
Q2 2017	215	35,962,532	4,442,305	12.4%	665,199	1.8%	5,107,504	14.2%	710,750	85,508	53,478	\$33.53
Q1 2017	214	35,909,054	4,449,851	12.4%	689,683	1.9%	5,139,534	14.3%	1,002,312	(75,305)	347,653	\$33.22
Q4 2016	212	35,561,401	4,034,030	11.3%	682,546	1.9%	4,716,576	13.3%	1,518,312	2,950	311,015	\$33.46
Q3 2016	211	35,250,386	3,804,156	10.8%	604,355	1.7%	4,408,511	12.5%	904,015	(166,543)	0	\$33.50
Q2 2016	211	35,250,386	3,782,102	10.7%	459,866	1.3%	4,241,968	12.0%	1,414,593	(240,602)	66,000	\$34.00
Q1 2016	210	35,184,386	3,499,736	9.9%	435,630	1.2%	3,935,366	11.2%	511,516	(28,758)	0	\$34.10
Q4 2015	210	35,184,386	3,475,077	9.9%	431,531	1.2%	3,906,608	11.1%	1,279,266	451,726	245,123	\$33.75
Q3 2015	208	34,969,663	3,730,753	10.7%	412,858	1.2%	4,143,611	11.8%	1,075,840	92,816	606,299	\$33.50
Q2 2015	205	34,363,364	3,276,169	9.5%	353,959	1.0%	3,630,128	10.6%	934,228	66,513	81,384	\$33.74
DENVER-DOWNTOWN OFFICE SUBMARKET BREAKOUT BY CLASS												
A	58	23,033,670	3,214,307	14.0%	519,929	2.3%	3,734,236	16.2%	576,600	240,729	0	\$35.02
B	136	11,612,685	1,175,992	10.1%	145,270	1.3%	1,321,262	11.4%	128,768	(155,221)	53,478	\$30.29
C	21	1,316,177	52,006	4.0%	0	0.0%	52,006	4.0%	5,382	0	0	\$22.64
Total	215	35,962,532	4,442,305	12.4%	665,199	1.8%	5,107,504	14.2%	710,750	85,508	53,478	\$33.53

Denver | Southeast Office Market Q2 2017



Denver | Downtown Office Market Q2 2017





SIGNIFICANT RECENT TRANSACTIONS

SALES ACTIVITY

PROPERTY	SUBMARKET	SALE PRICE	SIZE SF	BUYER	SELLER
Triangle Building 1550 Wewatta Street	CBD	\$154,000,000	227,000	Union Investment	Starwood Capital / East West Partners
Inova I 7250 South Havana Street	Southeast	\$67,500,000	211,675	Capri EGM	United Properties

LEASING ACTIVITY

PROPERTY	SUBMARKET	BLDG. CLASS	LEASED SF	COMPANY
Landmark Corporate Center 5500 South Quebec Street	Southeast	B	62,124	Air Methods Corporation
City Center 707 17th Street	CBD	A	51,377	Marketo
1401 Lawrence 1401 Lawrence Street	CBD	A	44,078	Jagged Peak Energy

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

About Colliers International

Colliers International Group Inc. (NASDAQ: CIG; TSX: CIG) is a global leader in commercial real estate services with more than 15,000 professionals operating from 396 offices in 68 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.

MARKET CONTACTS:

Robert Whittelsey
Principal
+1 303 283 4581
robert.whittelsey@colliers.com

Jason Sheehy
Principal
+1 303 283 4593
jason.sheehy@colliers.com

Chris Wiley
Principal
+1 303 283 4588
chris.wiley@colliers.com

Jonathan Jones
Senior V.P.
+1 303 283 4582
jonathan.jones@colliers.com

Katy Sheehy
Vice President
+1 303 283 4563
katy.sheehy@colliers.com

Matthew Ball
Tenant Advisory Serv.
+1 303 309 3526
matt.ball@colliers.com

Abby Vollmer
Associate
+1 303 283 4579
abby.vollmer@colliers.com

Jamie Faus
Associate
+1 303 283 4597
jamie.faus@colliers.com

Chris Hoffmeister
Associate
+1 303 283 1375
chris.hoffmeister@colliers.com

Colliers International | Denver Tech Center
4643 S. Ulster Street, Suite 1000
Denver, CO | USA

Phil Sweeney
Senior V.P.
+1 303 565 3785
phil.sweeney@colliers.com

David Morrison, CCIM
Senior V.P.
+1 303 565 3784
david.morrison@colliers.com

Colliers International | Downtown Denver
1200 17th Street, Suite 1225
Denver, CO | USA

REGIONAL AUTHOR:

Tyson Price
Research Director
+1 303 283 4561
tyson.price@colliers.com

Drew Carlson
Research Analyst
+1 303 283 4624
drew.carlson@colliers.com

