

2017: A Solid Year for the Metro Denver Office Sector

MARKET OVERVIEW

Denver’s office market finished 2017 with strong positive absorption during the fourth quarter with more than 437,000 square feet absorbed, predominately from Class A space in the Downtown and Southeast submarkets. Office investment activity spiked during the fourth quarter with the sale of two recently constructed Class A buildings in both the Downtown and Southeast submarkets. Granite Place at Village Center delivered to the market in April 2017 and sold for approximately \$127 million in December. 1401 Lawrence, which was completed in the fourth quarter of 2016, sold for \$225 million, or \$723/sf. This set a record for the highest price per square foot of an office building in the Denver market, breaking a record previously set by the sale of the Triangle Building when it transacted at \$678/sf in May 2017. With more than 4 million square feet of new deliveries on the horizon, average asking rental rates continue to increase as the threshold for what well-positioned occupiers are willing to pay for new space expands.

MARKET INDICATORS*

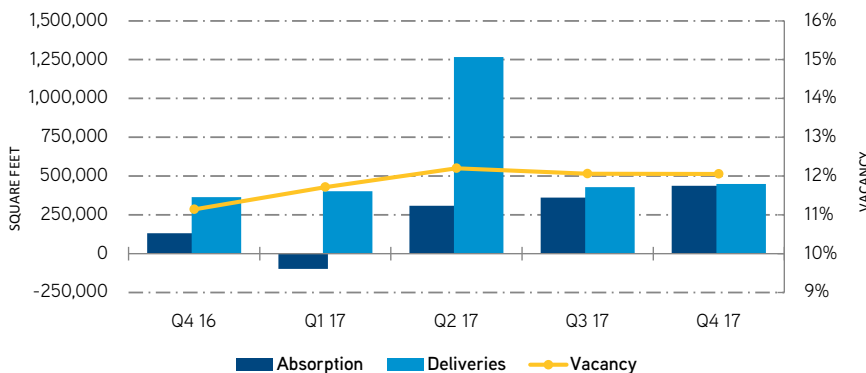
	Q4 2017	Projected Q1 2018
VACANCY	—	↔
NET ABSORPTION	+	+
DELIVERIES	↑	↑
RENTAL RATE	↑	↑

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

SUMMARY STATISTICS

	Q4 2016	Q4 2017
VACANCY RATE	11.1%	12.1%
ABSORPTION YTD	776,696	1,009,111
DELIVERIES YTD	873,929	2,547,440
UNDER CONSTRUCTION	3,164,395	4,037,038
ASKING RENTS/SF	\$26.22	\$27.29

Denver Office Market Q4 2016-Q4 2017



Source: CoStar, Colliers Research

HIGHLIGHTED ECONOMIC TRENDS

Local Unemployment Rates

As of **November 2017**, the Bureau of Labor Statistics indicated the estimated unemployment rate for the Metro Denver area at **2.8 percent**. The National unemployment rate is **4.1 percent**.

Local Employment Growth

Metro Denver total employment increased **2.0 percent**, or an additional **56,000 jobs** between **November 2016** and **November 2017**.

Investment Sales

Fourth quarter investment activity totaled more than **\$811 million** throughout Metro Denver. Up **40%** from **Q4 2016**.

Metro absorption totaled more than 1 million square feet during 2017.

ABSORPTION

Metro office absorption totaled more than 437,000 square feet during the fourth quarter as seven of ten submarkets reported positive absorption. Once again the Downtown and Southeast submarkets recorded strong positive absorption numbers with 317,000 and 327,000 square feet, respectively. Charter Communications took occupancy of their 257,000-square-foot space at Granite Place in December, boosting absorption in the Southeast submarket. Larger corporate users will likely continue to keep their sights on new, Class A construction in Denver’s popular submarkets.

VACANCY

Metro vacancy remained unchanged compared to the previous quarter as the fourth quarter recorded a 12.1 percent vacancy rate. Overall office vacancy has held steady near 12 percent for the entirety of 2017, ranging from 12 to 12.4 percent during the year. Continued variation in vacancy is anticipated as several new construction projects are slated for delivery in 2018.

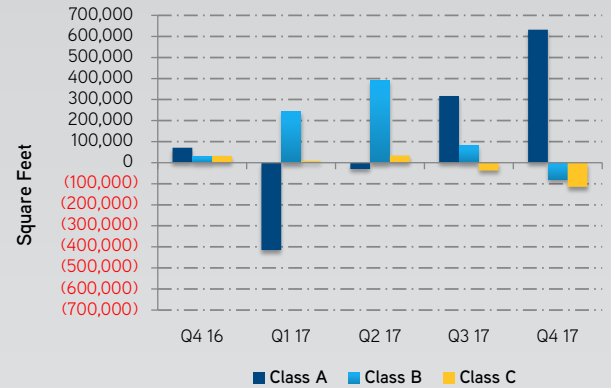
DELIVERIES & CONSTRUCTION

Fourth quarter metro deliveries were relatively similar compared to the previous quarter totaling just over 448,000 square feet; third quarter deliveries totaled 428,000 square feet. The metro Denver office market added more than 2.5 million square feet of inventory during 2017 - significantly more than the previous year total of 873,000 square feet. Current construction activity totals more than 4 million square feet. The Central Business District is set for the delivery of the largest office project since the 1980’s, as the 662,000-square-foot 1144 Fifteenth building nears completion.

RENTAL RATES

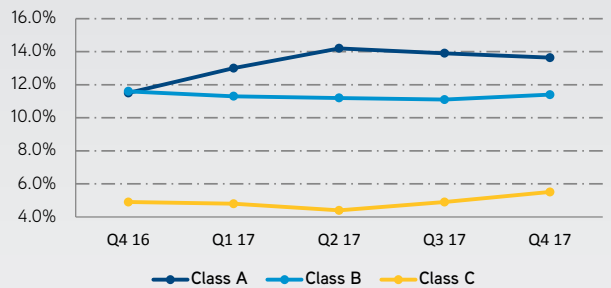
The overall fourth quarter asking rental rate for office space in Metro Denver was \$27.29 per square foot – a 4.1 percent increase year-over-year. Five of ten submarkets experienced increases in asking rental rates quarter-over-quarter, and asking rate growth increased approximately 4 percent year-over-year. Asking rates continue to grow as demand for newer space remains and new deliveries hit the market setting the pace for incremental increases.

Absorption



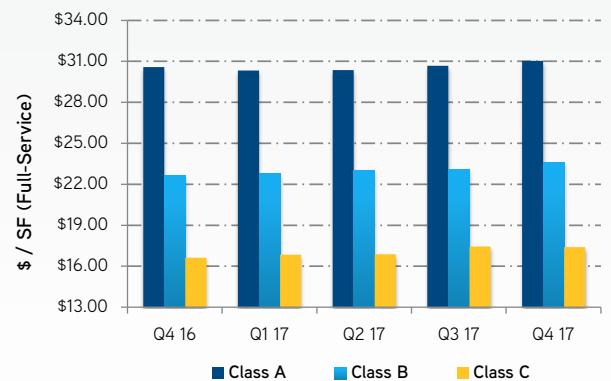
Source: CoStar, Colliers Research

Vacancy



Source: CoStar, Colliers Research

Rental Rates



Source: CoStar, Colliers Research

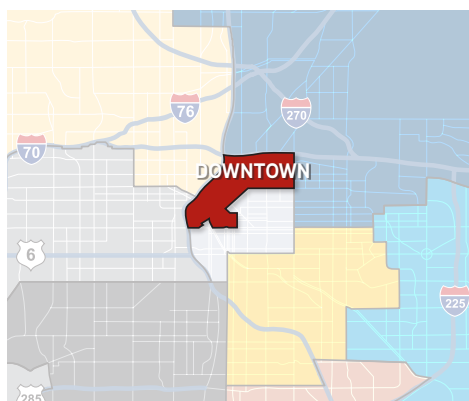
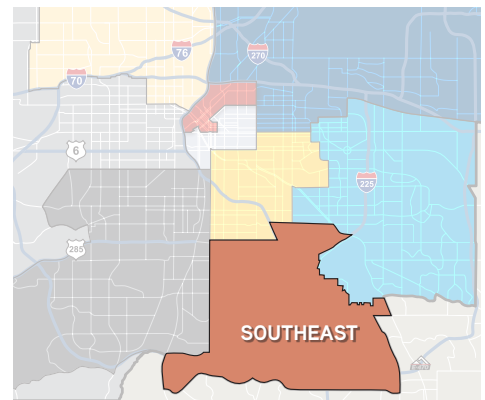
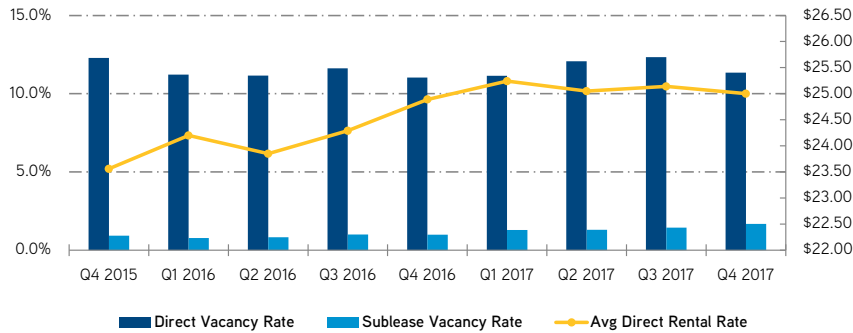
Submarket Statistics

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	61	23,576,776	13.2%	2.0%	15.2%	16.4%	364,605	452,881	711,816	210,313	557,966	2,097,003	\$35.61
B	135	11,554,250	11.6%	1.5%	13.0%	11.8%	196,382	(146,477)	(264,746)	-	53,478	172,000	\$30.57
C	20	1,295,077	1.7%	0.0%	1.7%	2.5%	-	10,738	23,793	-	-	-	\$21.59
Total	216	36,426,103	12.2%	1.8%	14.0%	14.4%	560,987	317,142	470,863	210,313	611,444	2,269,003	\$34.22
MIDTOWN													
SOUTH MIDTOWN/CAPITOL HILL													
A	7	1,110,758	5.2%	0.0%	5.2%	7.2%	-	21,722	(51,934)	-	-	65,805	\$29.35
B	51	3,482,253	3.7%	0.0%	3.7%	4.7%	64,762	35,991	259,944	-	300,000	-	\$24.85
C	38	1,559,177	3.5%	0.0%	3.5%	3.9%	10,303	4,955	(49,234)	-	-	-	\$20.63
Total	96	6,152,188	3.9%	0.0%	3.9%	4.9%	75,065	62,668	158,776	-	300,000	65,805	\$25.16
SUBURBAN													
AURORA													
A	14	2,158,414	9.1%	0.0%	9.1%	9.3%	0	5,868	(94,919)	-	-	-	\$24.30
B	77	5,229,758	9.2%	0.2%	9.3%	9.3%	39,070	(2,600)	(20,362)	-	-	-	\$17.50
C	17	595,381	5.4%	0.0%	5.4%	5.4%	5,450	(260)	27,040	-	-	-	\$12.44
Total	108	7,983,553	8.9%	0.1%	9.0%	9.0%	44,520	3,008	(88,241)	-	-	-	\$19.72
BROOMFIELD													
A	20	3,171,782	6.7%	1.1%	7.8%	8.5%	39,226	22,319	88,440	-	-	255,588	\$28.85
B	31	2,808,151	8.7%	0.0%	8.7%	10.1%	32,285	37,374	68,473	-	-	-	\$25.03
Total	51	5,979,933	7.7%	0.6%	8.3%	9.2%	71,511	59,693	156,913	-	-	255,588	\$26.89
COLORADO BOULEVARD/GLENDALE													
A	25	4,108,444	16.5%	1.4%	17.9%	17.4%	65,872	(22,565)	(3,697)	-	229,670	153,510	\$32.84
B	93	6,662,469	9.1%	0.5%	9.6%	8.4%	66,638	(82,238)	(24,594)	-	-	-	\$25.42
C	26	1,051,947	14.1%	0.0%	14.1%	5.6%	16,990	(89,924)	(69,995)	-	-	-	\$17.85
Total	144	11,822,860	12.1%	0.8%	12.9%	11.3%	149,500	(194,727)	(98,286)	-	229,670	153,510	\$28.28
NORTH/NORTHEAST													
A	11	1,263,489	9.6%	0.0%	9.6%	3.3%	13,900	(78,990)	(59,282)	-	-	-	\$25.76
B	73	4,946,090	9.8%	0.1%	9.9%	9.3%	23,264	(25,360)	(69,816)	-	55,000	43,586	\$21.93
C	17	974,069	2.5%	0.0%	2.5%	1.7%	5,636	(7,437)	(11,602)	-	-	-	\$14.91
Total	101	7,183,648	8.7%	0.1%	8.8%	7.3%	42,800	(111,787)	(140,700)	-	55,000	43,586	\$22.83
NORTHWEST													
A	23	2,313,305	12.4%	3.3%	15.7%	16.7%	187,980	24,209	(164,384)	-	-	200,000	\$26.56
B	87	3,934,900	10.4%	0.6%	11.0%	7.9%	88,704	(68,670)	17,800	57,700	57,700	63,476	\$23.06
C	17	525,749	5.6%	0.0%	5.6%	3.1%	2,657	(13,427)	28,010	-	-	-	\$20.79
Total	127	6,773,954	10.7%	1.5%	12.2%	10.6%	279,341	(57,888)	(118,574)	57,700	57,700	263,476	\$24.67
SOUTHEAST													
A	150	23,869,463	11.2%	2.4%	13.6%	14.1%	585,492	210,778	159,145	115,859	1,208,626	785,070	\$27.25
B	300	18,934,014	11.8%	0.9%	12.6%	13.3%	312,187	124,138	406,827	-	20,000	-	\$22.72
C	34	1,176,145	7.2%	0.1%	7.3%	6.6%	5,763	(7,906)	(34,788)	-	-	-	\$16.22
Total	484	43,979,622	11.4%	1.7%	13.0%	13.6%	903,442	327,010	531,184	115,859	1,228,626	785,070	\$25.00
SOUTHWEST													
A	5	1,241,467	7.6%	0.0%	7.6%	4.8%	-	(34,832)	(26,575)	-	-	-	\$26.15
B	101	5,017,825	11.3%	0.6%	11.9%	13.1%	49,315	64,694	135,401	-	-	-	\$18.94
C	20	692,152	4.9%	0.0%	4.9%	4.2%	1,489	(5,155)	(3,312)	-	-	-	\$13.85
Total	126	6,951,444	10.0%	0.4%	10.4%	10.8%	50,804	24,707	105,514	-	-	-	\$19.46
WEST													
A	20	2,524,997	8.8%	1.5%	10.3%	9.2%	14,320	30,823	4,230	65,000	65,000	175,000	\$27.23
B	133	8,412,235	13.8%	0.1%	13.9%	13.7%	82,557	(16,604)	48,237	-	-	26,000	\$21.90
C	27	752,199	5.4%	0.4%	5.9%	5.0%	13,824	(6,612)	(20,805)	-	-	-	\$14.72
Total	180	11,689,431	12.2%	0.5%	12.6%	12.2%	110,701	7,607	31,662	65,000	65,000	201,000	\$22.59
SUBURBAN TOTAL													
A	268	40,651,361	11.1%	1.9%	13.0%	13.0%	906,790	157,610	(97,042)	180,859	1,503,296	1,569,168	\$27.83
B	895	55,945,442	11.0%	0.5%	11.5%	11.5%	694,020	30,734	561,966	57,700	132,700	133,062	\$22.29
C	158	5,767,642	6.8%	0.1%	6.9%	4.6%	51,809	(130,721)	(85,452)	-	-	-	\$16.54
Total	1,321	102,364,445	10.8%	1.0%	11.8%	11.7%	1,652,619	57,623	379,472	238,559	1,635,996	1,702,230	\$24.53
DENVER MARKET GRAND TOTAL													
A	336	65,338,895	11.7%	1.9%	13.6%	14.1%	1,271,395	632,213	562,840	391,172	2,061,262	3,731,976	\$31.04
B	1,081	70,981,945	10.8%	0.6%	11.4%	11.2%	955,164	(79,752)	557,164	57,700	486,178	305,062	\$23.59
C	216	8,621,896	5.5%	0.0%	5.5%	4.2%	62,112	(115,028)	(110,893)	-	-	-	\$17.41
Total	1,633	144,942,736	10.9%	1.2%	12.1%	12.1%	2,288,671	437,433	1,009,111	448,872	2,547,440	4,037,038	\$27.29
QUARTERLY COMPARISON													
Q4 17	1,633	144,942,736	10.9%	1.2%	12.1%	12.1%	2,288,671	437,433	1,009,111	448,872	2,547,440	4,037,038	\$27.29
Q3 17	1,632	144,771,054	11.0%	1.1%	12.1%	12.2%	2,299,338	361,258	571,678	428,675	2,032,178	4,327,922	\$26.78
Q2 17	1,632	144,592,531	11.1%	1.1%	12.2%	11.7%	2,541,665	308,052	210,420	1,267,240	1,603,503	4,168,460	\$26.63
Q1 17	1,624	143,108,291	10.6%	1.1%	11.7%	11.1%	2,931,889	(97,632)	(97,632)	402,653	402,653	5,385,002	\$26.34
Q4 16	1,621	142,705,638	10.2%	0.9%	11.1%	11.0%	3,004,764	131,575	776,696	364,615	873,929	5,131,620	\$26.22

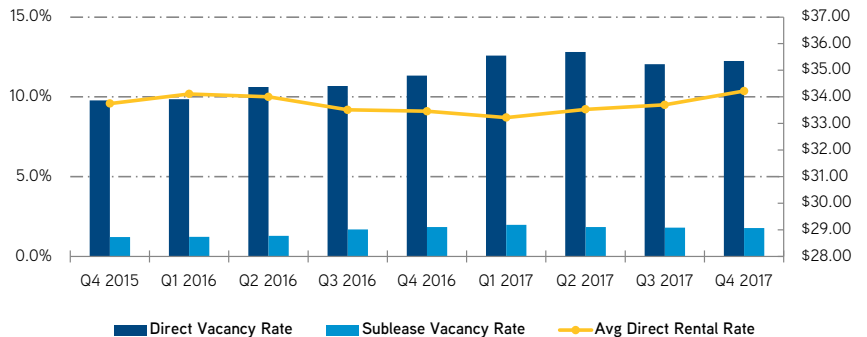
Southeast & Downtown Statistics

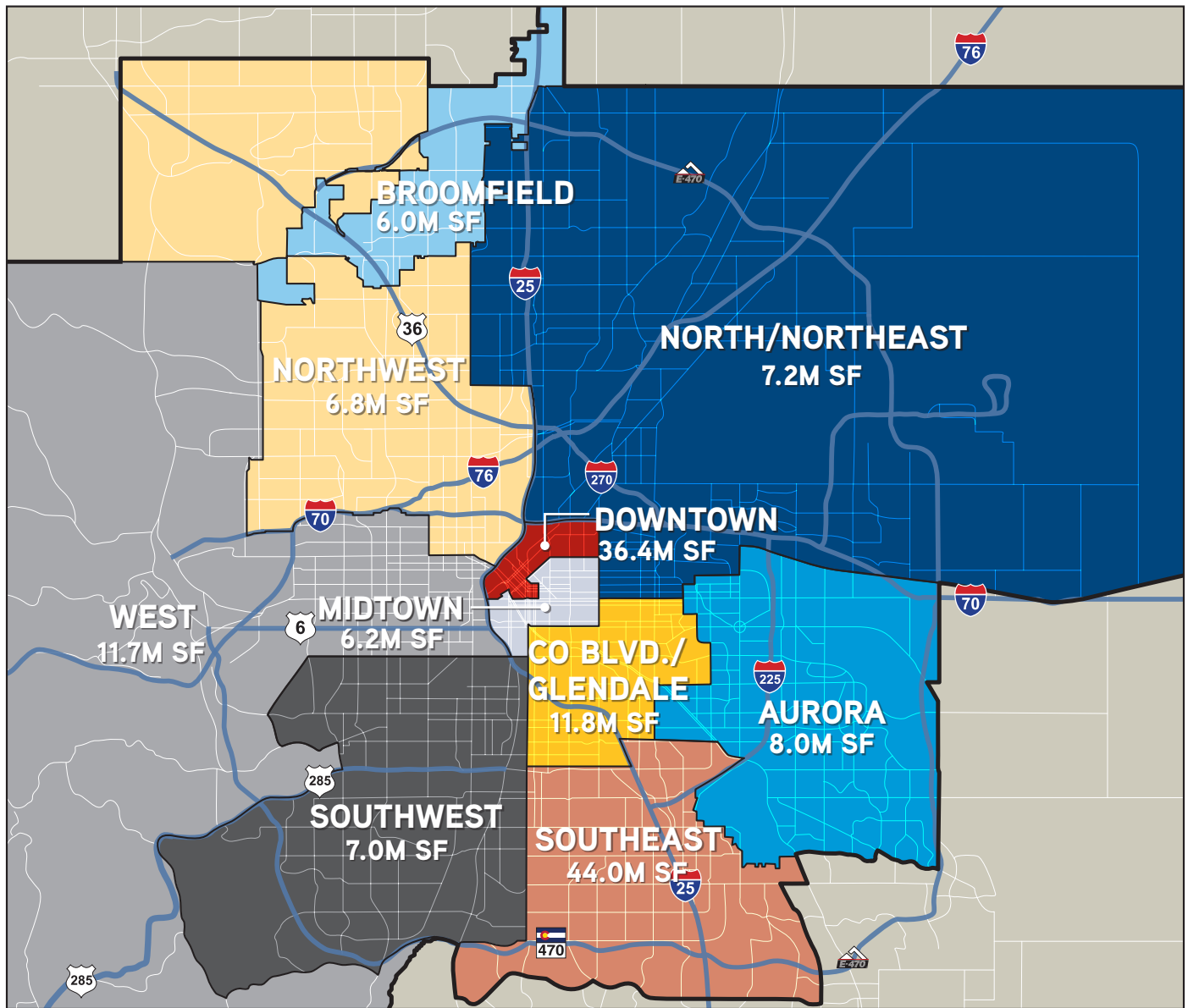
Period/Class	Buildings	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacant SF	Sublease Vacancy Rate	Total Vacant SF	Vacancy Rate Current	Leasing Activity SF	Net Absorption Current Qtr. SF	Deliveries Current Qtr. SF	Average Rental Rate (F5)
EXISTING PROPERTIES				VACANCY				ACTIVITY	ABSORP.	CONSTR.	RENTS	
DENVER-SOUTHEAST OFFICE MARKET OVERVIEW												
Q4 2017	484	43,979,622	4,992,392	11.4%	740,188	1.7%	5,732,580	13.0%	903,442	327,010	115,859	\$25.00
Q3 2017	484	43,979,622	5,426,354	12.3%	633,236	1.4%	6,059,590	13.8%	1,131,850	5,619	211,675	\$25.14
Q2 2017	484	43,767,947	5,281,740	12.1%	571,794	1.3%	5,853,534	13.4%	839,198	381,811	901,092	\$25.05
Q1 2017	478	42,866,855	4,779,263	11.1%	554,990	1.3%	5,334,253	12.4%	1,064,424	(183,256)	0	\$25.24
Q4 2016	478	42,866,855	4,729,027	11.0%	421,970	1.0%	5,150,997	12.0%	707,190	161,161	0	\$24.89
Q3 2016	479	42,979,339	4,994,903	11.6%	429,739	1.0%	5,424,642	12.6%	1,575,738	(275,220)	0	\$24.29
Q2 2016	479	42,979,339	4,796,522	11.2%	352,900	0.8%	5,149,422	12.0%	1,147,174	25,499	20,282	\$23.85
Q1 2016	478	42,959,057	4,818,654	11.2%	335,985	0.8%	5,154,639	12.0%	945,503	519,869	0	\$24.20
Q4 2015	478	42,959,057	5,275,487	12.3%	399,021	0.9%	5,674,508	13.2%	1,268,466	100,936	582,792	\$23.56
DENVER-SOUTHEAST OFFICE SUBMARKET BREAKOUT BY CLASS												
A	150	23,869,463	2,682,108	11.2%	570,876	2.4%	3,252,984	13.6%	585,492	210,778	115,859	\$27.25
B	300	18,934,014	2,225,302	11.8%	168,662	0.9%	2,393,964	12.6%	312,187	124,138	0	\$22.72
C	34	1,176,145	84,982	7.2%	650	0.1%	85,632	7.3%	5,763	(7,906)	0	\$16.22
Total	484	43,979,622	4,992,392	11.4%	740,188	1.7%	5,732,580	13.0%	903,442	327,010	115,859	\$25.00
DENVER-DOWNTOWN OFFICE SUBMARKET OVERVIEW												
Q4 2017	216	36,426,103	4,459,761	12.2%	647,142	1.8%	5,106,903	14.0%	560,987	317,142	210,313	\$34.22
Q3 2017	216	36,316,103	4,376,967	12.1%	657,191	1.8%	5,034,158	13.9%	479,971	258,998	0	\$33.70
Q2 2017	216	36,316,103	4,653,828	12.8%	667,306	1.8%	5,321,134	14.7%	820,412	22,326	53,478	\$33.53
Q1 2017	215	36,262,625	4,565,008	12.6%	717,867	2.0%	5,282,875	14.6%	1,100,249	(127,593)	347,653	\$33.22
Q4 2016	213	35,914,972	4,068,186	11.3%	660,379	1.8%	4,728,565	13.2%	1,493,420	(9,039)	311,015	\$33.46
Q3 2016	212	35,603,957	3,804,156	10.7%	604,355	1.7%	4,408,511	12.4%	904,015	(166,543)	0	\$33.51
Q2 2016	212	35,603,957	3,782,102	10.6%	459,866	1.3%	4,241,968	11.9%	1,414,593	(240,602)	66,000	\$34.00
Q1 2016	211	35,537,957	3,499,736	9.8%	435,630	1.2%	3,935,366	11.1%	511,516	(28,758)	0	\$34.11
Q4 2015	211	35,537,957	3,475,077	9.8%	431,531	1.2%	3,906,608	11.0%	1,273,884	452,726	198,000	\$33.75
DENVER-DOWNTOWN OFFICE SUBMARKET BREAKOUT BY CLASS												
A	61	23,576,776	3,100,849	13.2%	478,464	2.0%	3,579,313	15.2%	364,605	452,881	210,313	\$35.61
B	135	11,554,250	1,337,263	11.6%	168,678	1.5%	1,505,941	13.0%	196,382	(146,477)	0	\$30.57
C	20	1,295,077	21,649	1.7%	0	0.0%	21,649	1.7%	0	10,738	0	\$21.59
Total	216	36,426,103	4,459,761	12.2%	647,142	1.8%	5,106,903	14.0%	560,987	317,142	210,313	\$34.22

Denver | Southeast Office Market Q4 2017



Denver | Downtown Office Market Q4 2017





SIGNIFICANT RECENT TRANSACTIONS

SALES ACTIVITY

PROPERTY	SUBMARKET	SALE PRICE	SIZE SF	BUYER	SELLER
1401 Lawrence 1401 Lawrence St.	CBD	\$225,000,000	311,015	Heitman	First Gulf Corporation
Granite Place @ Village Center 6165 S. Willow Dr.	Southeast	\$126,950,000	299,568	Crestone Partners	Granite Properties, Inc
Arrow Building 9151 E. Panorama Cir.	Southeast	\$87,000,000	227,000	Bentall Kennedy	Miller Global Properties

LEASING ACTIVITY

PROPERTY	SUBMARKET	BLDG. CLASS	LEASED SF	COMPANY
1144 Fifteenth 1144 15th St.	CBD	A	126,000	Chipotle
7979 E. Tufts Ave.	Southeast	A	85,000	Western Union
Corporex Center 188 Inverness Dr. W	Southeast	A	66,809	Performance Food Group

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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