

Robust Economy Paves Way for Denver's Office Market

MARKET OVERVIEW

Denver's office market continues to benefit from strong economic fundamentals, as the metro area repeatedly adds to its overall total employment. A continually growing employment base, especially in the professional services sector, is adding to the need for desirable office space not only for occupiers, but also to investors looking to the Denver office market as a reliable venture. Denver's office market has experienced significant investment activity throughout the past 16 months, with Class A assets in the Downtown and Southeast submarkets driving transaction volume. Current construction activity throughout the metro totals approximately 3.1 million square feet – down slightly from the previous quarter as nearly 1.5 million square feet of new inventory was delivered during the quarter.

HIGHLIGHTED ECONOMIC TRENDS

Local Unemployment Rates

As of **February 2018**, the Bureau of Labor Statistics indicated the estimated unemployment rate for the Metro Denver area at **3.1 percent**. The National unemployment rate is **4.1 percent**.

3.1%

MARKET INDICATORS*

	Q1 2018	Projected Q2 2018
VACANCY	↑	↔
NET ABSORPTION	+	+
DELIVERIES	↑	↓
RENTAL RATE	↑	↑

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

SUMMARY STATISTICS

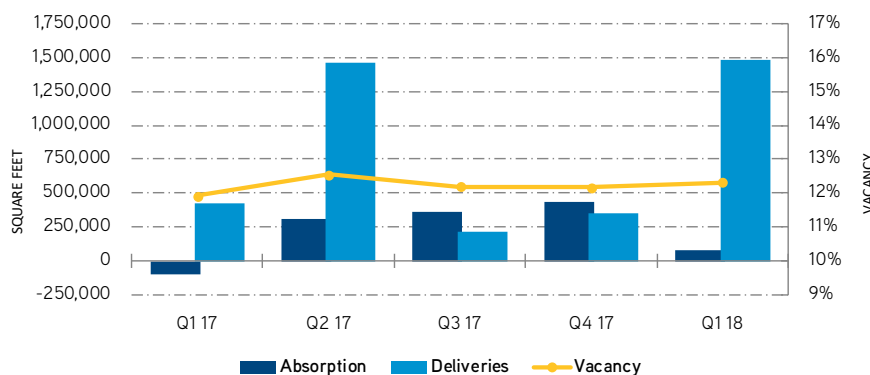
	Q1 2017	Q1 2018
VACANCY RATE	11.9%	12.3%
ABSORPTION YTD	-97,632	80,239
DELIVERIES YTD	422,653	1,482,157
UNDER CONSTRUCTION	5,385,002	3,135,140
ASKING RENTS/SF	\$26.30	\$27.23

Local Employment Growth

Metro Denver total employment increased by approximately **40,800 jobs** between **February 2017** and **February 2018**.

40,800

Denver Office Market Q1 2017-Q1 2018



Source: CoStar, Colliers Research

Investment Sales

First quarter investment activity totaled more than **\$970 million** throughout Metro Denver. A significant increase from **Q1 2017** totals or **\$410 million**.

\$970M

Metro absorption totaled more than 80,200 square feet during Q1 2018.

ABSORPTION

Metro office absorption totaled approximately 80,200 square feet during the first quarter as 6 of 10 submarkets experienced positive absorption. The Downtown submarket recorded positive absorption of approximately 120,000 square feet despite 1144 Fifteenth delivering vacant, as the two largest tenants, Chipotle and Gates Corporation, are scheduled to move in later in the year. Absorption throughout the market was relatively moderate during the quarter, but is anticipated to increase throughout 2018. Notable tenants moving in during the quarter included Traveler’s at INOVA Dry Creek 2, and AAA at 6061 South Willow Drive.

VACANCY

Overall metro office vacancy remains near the 12 percent mark as vacancy increased slightly quarter-over-quarter to 12.3 percent. Vacancy increased in the Downtown submarket quarter-over-quarter to 13.9 percent from 11.9 percent with the delivery of 1144 Fifteenth. Vacancy is anticipated to remain relatively stable as the year progresses, as more than 60 percent of the inventory scheduled for delivery during 2018 is pre-leased.

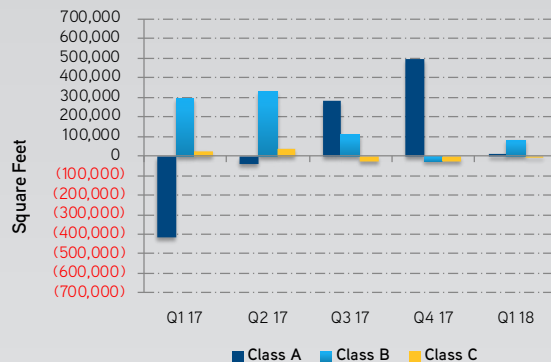
DELIVERIES & CONSTRUCTION

First quarter metro deliveries totaled approximately 1.48 million square feet, as the Downtown submarket experienced the delivery of 1144 Fifteenth – the highly anticipated 40-story, Class A office tower. Other notable deliveries included Riverview at 1700 Platte, INOVA Dry Creek 2 in the Southeast, and ATRIA in Broomfield. Currently, the metro Denver office market has more than 3.1 million square feet under construction. The largest project underway in the Downtown submarket is the 16 Chestnut Building at 428,219 square feet – a Class A building that will be approximately 80 percent occupied by DaVita. Village Center Station II and 50 Fifty DTC are the two largest projects in the Southeast submarket, and are set for delivery next quarter.

RENTAL RATES

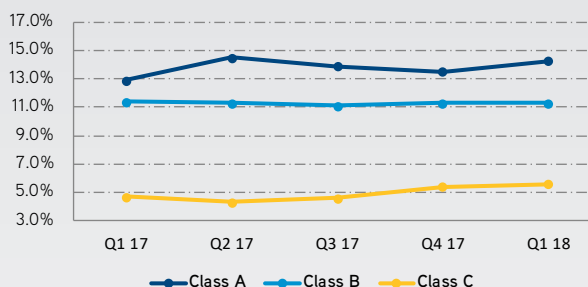
The overall first quarter asking rental rate for office space in Metro Denver was \$27.23 per square foot – a 3.5 percent increase year-over-year, but no change from the previous quarter. Five of ten submarkets experienced increases in asking rental rates quarter-over-quarter. Asking rates have continued to increase as Denver’s longest real estate cycle stretches into its eighth year. However, moving forward over the next two years, expect rental rate increases to be more restrained.

Absorption



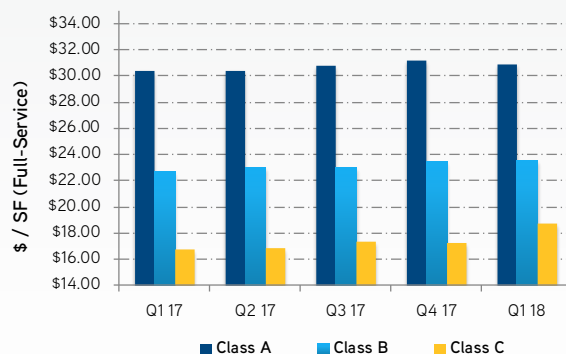
Source: CoStar, Colliers Research

Vacancy



Source: CoStar, Colliers Research

Rental Rates



Source: CoStar, Colliers Research

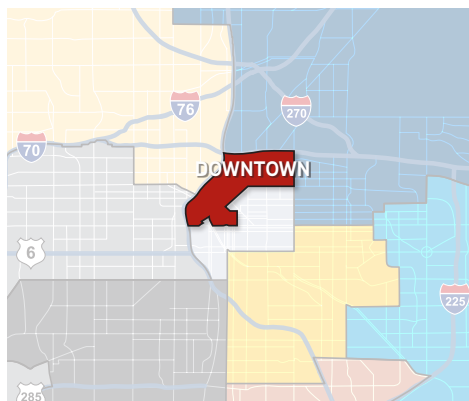
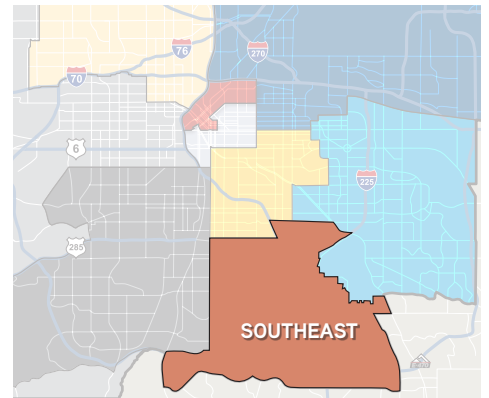
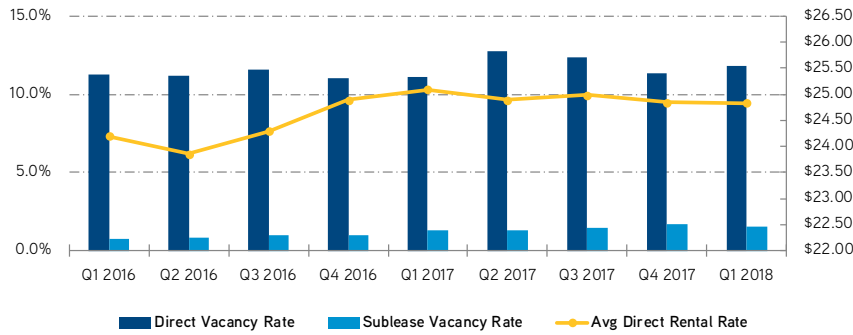
Submarket Statistics

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	68	24,807,476	13.5%	1.5%	15.0%	12.1%	636,978	144,679	144,679	982,313	982,313	1,605,415	\$35.49
B	132	11,294,465	11.6%	1.3%	12.8%	12.6%	123,645	(25,082)	(25,082)	-	-	30,433	\$30.16
C	21	1,320,077	1.6%	0.0%	1.6%	1.6%	-	-	-	-	-	-	\$19.96
Total	221	37,422,018	12.5%	1.4%	13.9%	11.9%	760,623	119,597	119,597	982,313	982,313	1,635,848	\$33.31
MIDTOWN													
SOUTH MIDTOWN/CAPITOL HILL													
A	7	1,110,758	5.2%	3.5%	8.7%	5.2%	-	(38,631)	(38,631)	-	-	146,805	\$29.96
B	52	3,516,452	3.2%	0.1%	3.4%	3.7%	15,698	10,448	10,448	-	-	-	\$25.68
C	39	1,583,486	5.4%	0.1%	5.5%	4.3%	4,035	(19,472)	(19,472)	-	-	-	\$22.89
Total	98	6,210,696	4.2%	0.7%	4.9%	4.1%	19,733	(47,655)	(47,655)	-	-	146,805	\$26.01
SUBURBAN													
AURORA													
A	13	1,923,991	7.6%	0.0%	7.6%	7.6%	-	-	-	-	-	-	\$23.65
B	78	5,466,270	9.2%	0.1%	9.3%	9.8%	36,755	27,884	27,884	-	-	-	\$19.47
C	17	595,381	3.6%	0.0%	3.6%	5.4%	-	10,706	10,706	-	-	-	\$12.47
Total	108	7,985,642	8.4%	0.1%	8.5%	9.0%	36,755	38,590	38,590	-	-	-	\$19.96
BROOMFIELD													
A	21	3,348,370	11.4%	1.7%	13.1%	7.8%	31,240	(15,883)	(15,883)	176,588	176,588	-	\$26.70
B	31	2,808,151	7.7%	0.0%	7.7%	8.7%	-	30,298	30,298	-	-	-	\$23.64
Total	52	6,156,521	9.7%	0.9%	10.6%	8.3%	31,240	14,415	14,415	176,588	176,588	-	\$25.67
COLORADO BOULEVARD/GLENDALE													
A	25	4,121,361	14.9%	0.6%	15.5%	17.7%	86,991	87,922	87,922	-	-	317,510	\$32.35
B	93	6,691,571	9.9%	0.9%	10.8%	9.6%	69,599	(74,754)	(74,754)	-	-	23,000	\$25.61
C	25	1,031,525	12.9%	0.0%	12.9%	13.3%	15,268	4,089	4,089	-	-	-	\$18.09
Total	143	11,844,457	11.9%	0.7%	12.6%	12.7%	171,858	17,257	17,257	-	-	340,510	\$28.00
NORTH/NORTHEAST													
A	12	1,294,382	9.6%	1.9%	11.6%	9.4%	30,046	(28,615)	(28,615)	-	-	-	\$25.63
B	76	5,064,076	9.5%	0.1%	9.6%	9.3%	27,037	26,393	26,393	43,586	43,586	10,000	\$22.03
C	17	974,069	2.7%	0.0%	2.7%	2.5%	2,100	(1,871)	(1,871)	-	-	-	\$14.95
Total	105	7,332,527	8.6%	0.4%	9.0%	8.4%	59,183	(4,093)	(4,093)	43,586	43,586	10,000	\$23.50
NORTHWEST													
A	24	2,351,105	18.1%	3.3%	21.4%	15.4%	77,218	(139,267)	(139,267)	-	-	200,000	\$25.96
B	89	4,055,112	9.6%	0.4%	9.9%	11.3%	32,044	107,925	107,925	57,600	57,600	-	\$22.52
C	16	487,949	7.3%	0.0%	7.3%	6.0%	2,229	(5,952)	(5,952)	-	-	-	\$20.53
Total	129	6,894,166	12.3%	1.3%	13.6%	12.4%	111,491	(37,294)	(37,294)	57,600	57,600	200,000	\$24.01
SOUTHEAST													
A	153	24,227,258	12.1%	2.2%	14.3%	13.6%	330,229	21,783	21,783	222,070	222,070	541,000	\$26.81
B	301	18,909,111	11.7%	0.9%	12.6%	12.6%	212,975	(11,927)	(11,927)	-	-	-	\$22.90
C	33	1,166,188	7.2%	0.2%	7.4%	7.2%	15,641	(2,285)	(2,285)	-	-	-	\$15.91
Total	487	44,302,557	11.8%	1.6%	13.4%	13.0%	558,845	7,571	7,571	222,070	222,070	541,000	\$24.83
SOUTHWEST													
A	5	1,241,467	7.8%	0.0%	7.8%	7.6%	4,250	(2,309)	(2,309)	-	-	-	\$26.15
B	102	5,048,755	11.7%	0.6%	12.3%	11.4%	70,032	(44,748)	(44,748)	-	-	29,177	\$18.99
C	19	661,786	3.6%	0.0%	3.6%	4.5%	3,266	6,446	6,446	-	-	-	\$13.52
Total	126	6,952,008	10.2%	0.5%	10.7%	10.1%	77,548	(40,611)	(40,611)	-	-	29,177	\$19.53
WEST													
A	21	2,649,505	9.5%	1.9%	11.5%	10.7%	34,332	(20,769)	(20,769)	-	-	175,000	\$27.03
B	133	8,323,872	13.2%	0.3%	13.4%	13.8%	65,427	35,877	35,877	-	-	56,800	\$21.99
C	26	720,893	5.8%	0.0%	5.8%	5.5%	9,018	(2,646)	(2,646)	-	-	-	\$15.16
Total	180	11,694,270	11.9%	0.6%	12.5%	12.6%	108,777	12,462	12,462	-	-	231,800	\$22.78
SUBURBAN TOTAL													
A	274	41,157,439	12.1%	1.8%	14.0%	12.9%	594,306	(97,138)	(97,138)	398,658	398,658	1,233,510	\$27.38
B	903	56,366,918	10.9%	0.6%	11.5%	11.5%	513,869	96,948	96,948	101,186	101,186	118,977	\$22.39
C	153	5,637,791	6.5%	0.0%	6.5%	6.7%	47,522	8,487	8,487	-	-	-	\$16.57
Total	1,330	103,162,148	11.1%	1.0%	12.2%	11.8%	1,155,697	8,297	8,297	499,844	499,844	1,352,487	\$24.34
DENVER MARKET GRAND TOTAL													
A	349	67,075,673	12.5%	1.7%	14.3%	12.5%	1,231,284	8,910	8,910	1,380,971	1,380,971	2,985,730	\$30.85
B	1,087	71,177,835	10.6%	0.6%	11.3%	11.3%	653,212	82,314	82,314	101,186	101,186	149,410	\$23.62
C	213	8,541,354	5.5%	0.0%	5.6%	5.5%	51,557	(10,985)	(10,985)	-	-	-	\$18.74
Total	1,649	146,794,862	11.2%	1.1%	12.3%	12.2%	1,936,053	80,239	80,239	1,482,157	1,482,157	3,135,140	\$27.23
QUARTERLY COMPARISON													
Q1 18	1,649	146,794,862	11.2%	1.1%	12.3%	12.2%	1,936,053	80,239	80,239	1,482,157	1,482,157	3,135,140	\$27.23
Q4 17	1,643	145,984,705	11.0%	1.2%	12.2%	12.2%	2,938,212	437,433	1,009,111	348,559	2,446,993	4,037,038	\$27.24
Q3 17	1,640	145,697,164	11.1%	1.1%	12.2%	12.6%	2,865,241	361,258	571,678	211,675	2,098,434	4,327,922	\$26.71
Q2 17	1,640	145,518,641	11.5%	1.1%	12.6%	11.9%	2,783,897	308,052	210,420	1,464,106	1,886,759	4,168,460	\$26.55
Q1 17	1,633	144,034,535	10.8%	1.1%	11.9%	11.0%	3,235,903	(97,632)	(97,632)	422,653	422,653	5,385,002	\$26.30

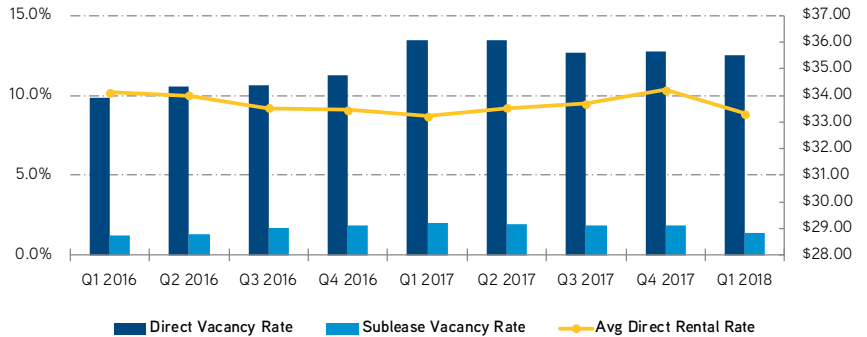
Southeast & Downtown Statistics

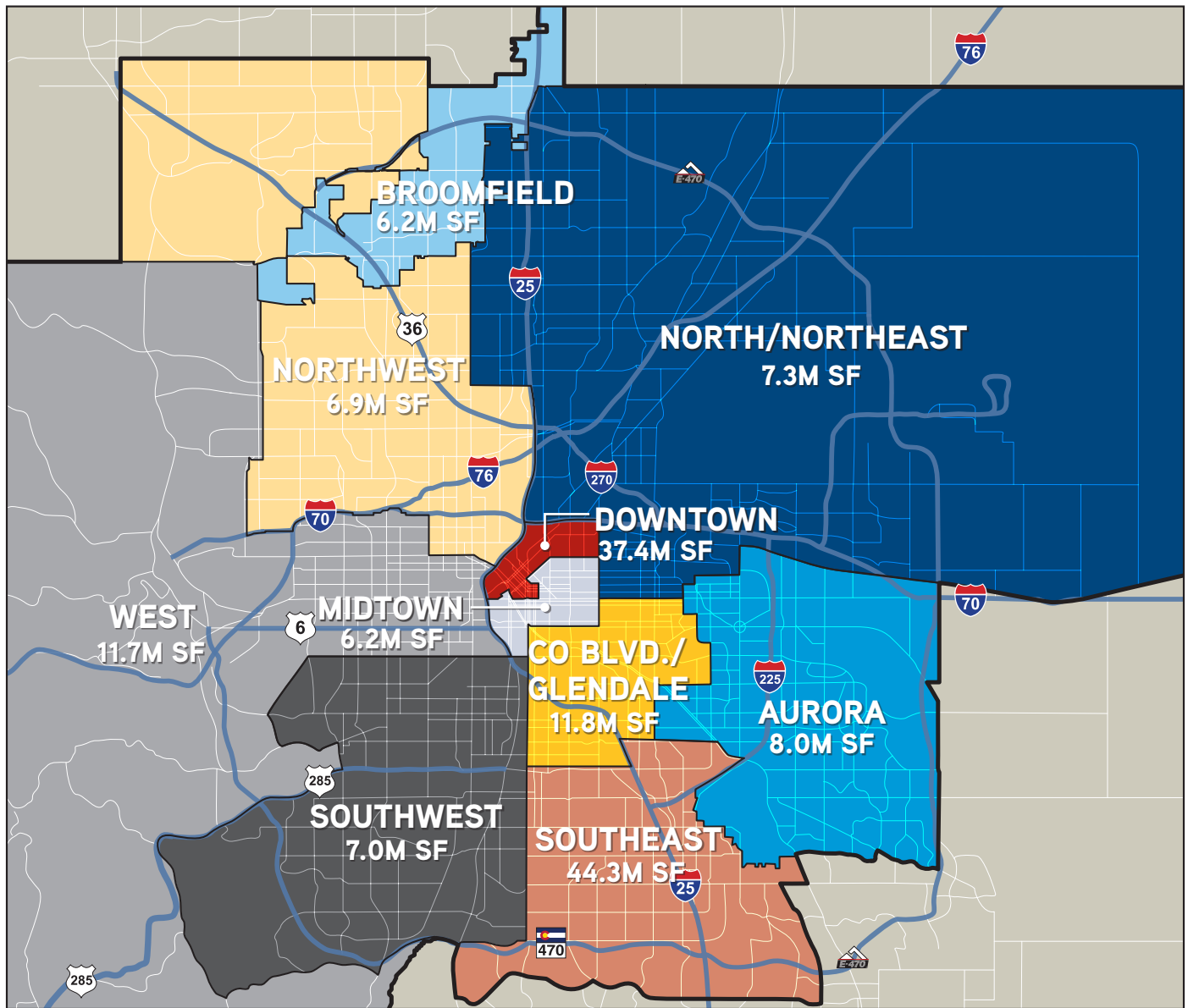
Period/Class	Buildings	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacant SF	Sublease Vacancy Rate	Total Vacant SF	Vacancy Rate Current	Leasing Activity SF	Net Absorption Current Qtr. SF	Deliveries Current Qtr. SF	Average Rental Rate (FS)
EXISTING PROPERTIES				VACANCY				ACTIVITY	ABSORP.	CONSTR.	RENTS	
DENVER-SOUTHEAST OFFICE MARKET OVERVIEW												
Q1 2018	487	44,302,557	5,241,735	11.8%	697,060	1.6%	5,938,795	13.4%	558,845	7,571	222,070	\$24.83
Q4 2017	486	44,080,487	4,984,108	11.3%	740,188	1.7%	5,724,296	13.0%	1,091,673	443,835	115,859	\$24.84
Q3 2017	485	43,964,628	5,419,036	12.3%	633,236	1.4%	6,052,272	13.8%	1,501,875	5,319	211,675	\$24.98
Q2 2017	484	43,752,953	5,573,690	12.7%	571,794	1.3%	6,145,484	14.0%	945,893	382,011	880,958	\$24.89
Q1 2017	480	42,851,995	4,771,979	11.1%	554,990	1.3%	5,326,969	12.4%	1,131,641	(183,556)	20,000	\$25.09
Q4 2016	479	42,951,995	4,721,443	11.0%	421,970	1.0%	5,143,413	12.0%	707,190	160,961	0	\$24.89
Q3 2016	480	42,964,479	4,987,119	11.6%	429,739	1.0%	5,416,858	12.6%	1,575,738	(274,920)	0	\$24.29
Q2 2016	480	42,964,479	4,789,038	11.1%	352,900	0.8%	5,141,938	12.0%	1,147,174	36,283	0	\$23.85
Q1 2016	479	42,944,197	4,821,954	11.2%	335,985	0.8%	5,157,939	12.0%	945,503	518,769	20,282	\$24.20
DENVER-SOUTHEAST OFFICE SUBMARKET BREAKOUT BY CLASS												
A	153	24,227,258	2,942,022	12.1%	523,470	2.2%	3,465,492	14.3%	330,229	21,783	222,070	\$26.81
B	301	18,909,111	2,215,401	11.7%	171,538	0.9%	2,386,939	12.6%	212,975	(11,927)	0	\$22.90
C	33	1,166,188	84,312	7.2%	2,052	0.2%	86,364	7.4%	15,641	(2,285)	0	\$15.91
Total	487	44,302,557	5,241,735	11.8%	697,060	1.6%	5,938,795	13.4%	558,845	7,571	222,070	\$24.83
DENVER-DOWNTOWN OFFICE SUBMARKET OVERVIEW												
Q1 2018	221	37,422,018	4,684,144	12.5%	515,707	1.4%	5,199,851	13.9%	760,623	119,597	982,313	\$33.31
Q4 2017	219	37,111,705	4,740,120	12.8%	684,448	1.8%	5,424,568	14.6%	885,871	70,255	110,000	\$34.20
Q3 2017	218	37,001,705	4,690,326	12.7%	694,497	1.9%	5,384,823	14.6%	587,705	286,976	0	\$33.68
Q2 2017	218	37,001,705	4,967,187	13.4%	704,612	1.9%	5,671,799	15.3%	859,468	101,346	53,478	\$33.52
Q1 2017	217	36,948,227	4,964,494	13.4%	755,173	2.0%	5,719,667	15.5%	1,237,420	(229)	347,653	\$33.22
Q4 2016	214	35,928,574	4,039,406	11.2%	660,379	1.8%	4,699,785	13.1%	1,493,420	(10,066)	309,988	\$33.46
Q3 2016	213	35,618,586	3,775,376	10.6%	604,355	1.7%	4,379,731	12.3%	904,015	(166,543)	0	\$33.51
Q2 2016	213	35,618,586	3,753,322	10.5%	459,866	1.3%	4,213,188	11.8%	1,414,593	(211,822)	66,000	\$34.00
Q1 2016	212	35,552,586	3,499,736	9.8%	435,630	1.2%	3,935,366	11.1%	511,516	(28,788)	0	\$34.11
DENVER-DOWNTOWN OFFICE SUBMARKET BREAKOUT BY CLASS												
A	68	24,807,476	3,354,223	13.5%	373,109	1.5%	3,727,332	15.0%	636,978	144,679	982,313	\$35.49
B	132	11,294,465	1,308,272	11.6%	142,598	1.3%	1,450,870	12.8%	123,645	(25,082)	0	\$30.16
C	21	1,320,077	21,649	1.6%	0	0.0%	21,649	1.6%	0	0	0	\$19.96
Total	221	37,422,018	4,684,144	12.5%	515,707	1.4%	5,199,851	13.9%	760,623	119,597	982,313	\$33.31

Denver | Southeast Office Market



Denver | Downtown Office Market





SIGNIFICANT RECENT TRANSACTIONS

SALES ACTIVITY

PROPERTY	SUBMARKET	SALE PRICE	SIZE SF	BUYER	SELLER
1801 California* 1801 California St.	CBD	\$285,000,000	1,372,241	PNC Realty Investors, Inc.	Brookfield Properties, Inc.
One Belleview Station 7001 E. Belleview Ave.	Southeast	\$152,000,000	318,000	Ramrock Real Estate	Prime West Companies
RE/MAX Plaza 5075 S. Syracuse Street	Southeast	\$115,000,000	247,731	KORE Investments	Equity Commonwealth

*Partial Interest

LEASING ACTIVITY

PROPERTY	SUBMARKET	BLDG. CLASS	LEASED SF	COMPANY
Belleview Station (Proposed) Layton Avenue	Southeast	A	142,000	Newmont Mining
Colorado Center III 2000 S. Colorado Boulevard	Colorado Blvd.	A	136,000	Cigna
1125 17th Street	CBD	A	40,845	Xactly

413 offices in 69 countries on 6 continents

United States: **145**

Canada: **28**

Latin America: **23**

Asia Pacific: **86**

EMEA: **131**

\$2.7

billion in
annual revenue

2.0

billion square feet
under management

15,400

professionals
and staff

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