

Metro Absorption Doubles & Construction Thrives as the 1st Half of 2015 Comes to a Close

MARKET OVERVIEW

The Metro Denver office market gained strength during the second quarter with positive net absorption – doubling first quarter absorption. After an increase in available sublease space over the past three quarters, the second quarter showed positive absorption of approximately 82 percent of the sublease space that has come available since third quarter 2014. Approximately 70 percent of the absorbed sublease space came from the Southeast submarket, and nearly 25 percent was located in the Downtown submarket. The Metro added another 1.1 million square feet of new construction, bringing the total to over 3.3 million square feet of office product currently under construction. Downtown Denver is leading the charge with over 1.8 million square feet under construction – 93 percent of which is Class A product.

MARKET INDICATORS*

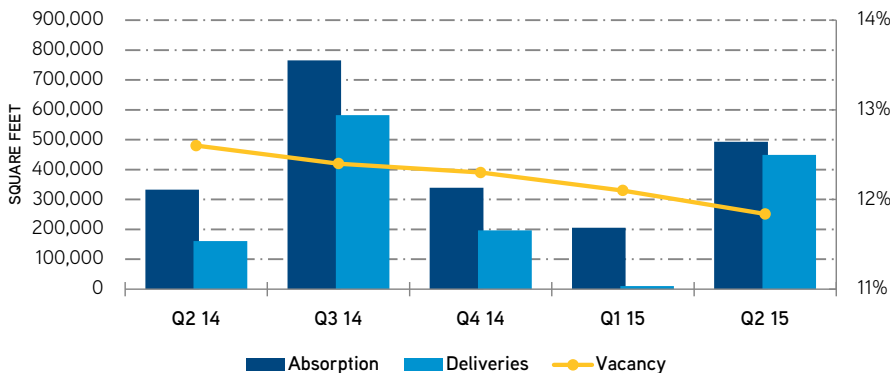
	Q2 2015	Projected Q3 2015
VACANCY	↓	↓
NET ABSORPTION	+	+
DELIVERIES	↑	↑
RENTAL RATE	↑	↑

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

SUMMARY STATISTICS

	Q2 2014	Q2 2015
VACANCY RATE	12.6%	11.8%
ABSORPTION YTD	683,113 SF	697,956 SF
DELIVERIES YTD	217,089 SF	459,973 SF
UNDER CONSTRUCTION	2,248,720 SF	3,317,157 SF
ASKING RENTS/SF	\$23.07/SF	\$24.26/SF

Denver Office Market Q2 2014-Q2 2015



Source: CoStar, Colliers Research

HIGHLIGHTED ECONOMIC TRENDS

Economic Success

According to **Area Development**, Metro Denver **ranks first among 373 MSA's** analyzed for economic and workforce data for its **"Leading Locations"** study. (2015)

1ST

Local Employment Growth

As of **May 2015**, the Bureau of Labor Statistics indicated the estimated **unemployment rate** for the **Metro Denver area at 4.1 percent** – which is unchanged from the previous month, but well below the previous year's unemployment rate of **4.8 percent in May 2014**. The **National unemployment rate is 5.5 percent**.

4.1%

Investment Sales

Investment activity during the second quarter totaled over **1.7M SF** **\$287,000,000** throughout Metro Denver with nearly **1.7 million square feet** trading hands.

1.7M SF

Downtown Denver's Class A average rental rate has increased 8.6% year-over-year from the second quarter 2014 - while Metro Denver's overall average rental rate increased 5.0% year-over-year.

ABSORPTION

Second quarter absorption doubled compared to the previous quarter with over 492,000 square feet of positive net absorption being reported - the primary contributing suburban submarket being the Southeast market with just over 400,000 square feet of absorption. Class B buildings accounted for approximately 88 percent of the Metro's reported positive net absorption. Metro Class C buildings reported negative absorption of nearly 47,000 square feet, and the Downtown submarket reported negative net absorption of 135,176 square feet.

VACANCY

The overall second quarter vacancy rate decreased by approximately 20 basis points to 11.8 percent. Compared to the second quarter 2014, the overall vacancy rate has decreased 70 basis points. Lower vacancy rates in the Southeast, Broomfield, and Northeast submarkets offset increases in vacancy rates in the Downtown and Colorado Boulevard/Glendale submarkets. The vacancy rate in the Southeast submarket decreased by approximately 80 basis points from the previous quarter - a significant decrease considering the 44.7 million square feet in the Southeast market. Vacancy in the Downtown submarket has increased to 11.0 percent in the second quarter, which is down 80 basis points from the previous quarter.

DELIVERIES & CONSTRUCTION

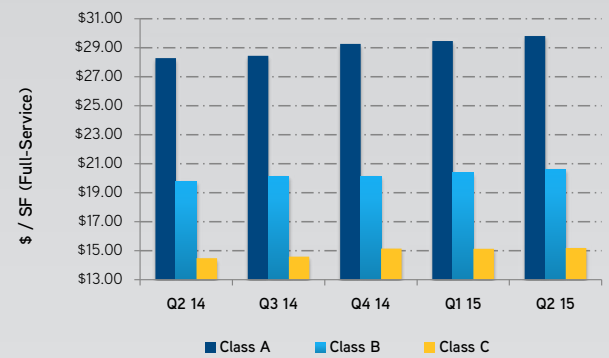
Deliveries increased significantly during the second quarter 2015 compared to the first quarter, as several projects were completed delivering nearly 450,000 square feet to the market. The Metro market is also experiencing an increase in construction starts with approximately 1.1 million square feet of new office product breaking ground during the second quarter.

At the end of the first quarter, approximately 2.2 million square feet was under construction throughout the Metro office market. At the close of the second quarter, there is over 3.3 million square feet under construction. Much of the 1.1 million square feet of new construction is attributed to Downtown's 1144 Fifteenth - a 640,000-square-foot, Class A office building. Class A product accounts for nearly 93 percent of Denver's CBD construction currently underway.

RENTAL RATES

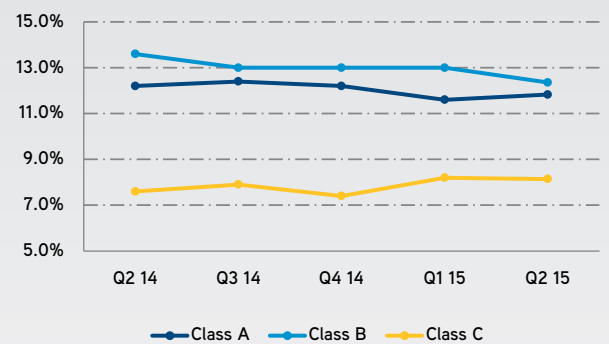
Overall direct asking rental rates increased to \$24.26 per square foot (full service) in the second quarter—a \$1.15 per square foot, or 5.0 percent increase from the second quarter 2014 when the average asking rate was \$23.11 per square foot. Asking rental rates for Class A space throughout the Metro area averaged \$29.81 per square foot - a 4.9 percent increase year-over-year. Class B rental rates appreciated 4.5 percent year-over-year indicating an average asking rate of \$20.63 per square foot during the second quarter.

Rental Rates



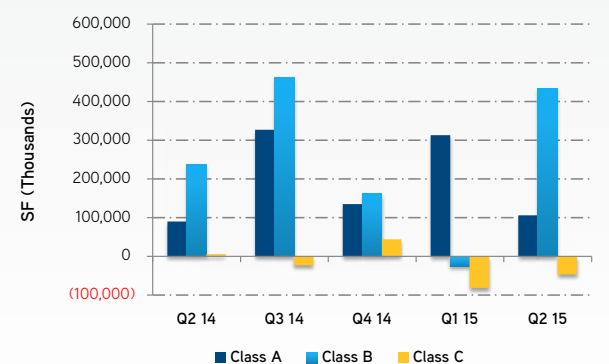
Source: CoStar, Colliers Research

Vacancy



Source: CoStar, Colliers Research

Absorption



Source: CoStar, Colliers Research

Submarket Statistics

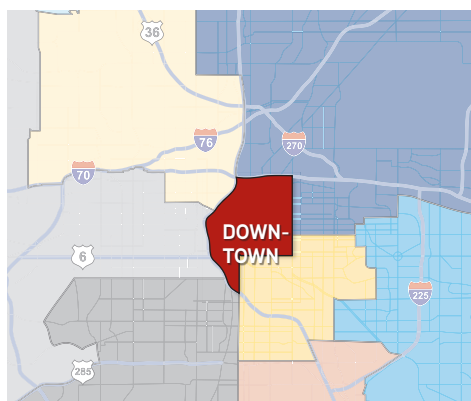
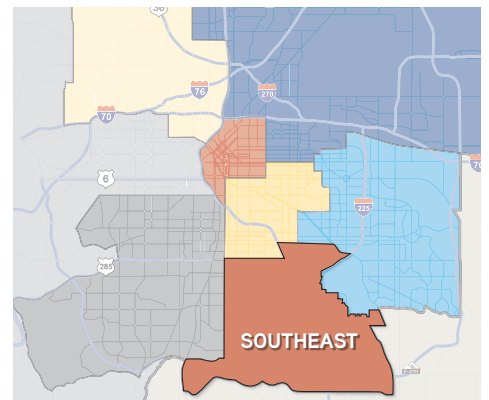
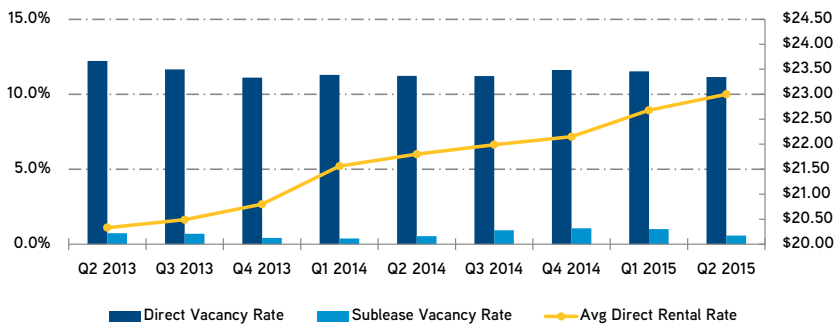
Submarket/Class	Buildings	Total Inventory SF	Direct Vacancy Rate	Sublease Vacancy Rate	Vacancy Rate Current	Vacancy Rate Prior Qtr	Leasing Activity SF	Net Absorption Current Qtr SF	Net Absorption YTD SF	Deliveries Current Qtr SF	Deliveries YTD SF	Under Construction SF	Avg. Direct Rental Rate (SF)
EXISTING PROPERTIES							ACTIVITY	ABSORPTION	CONSTRUCTION			RENTS	
DOWNTOWN													
CENTRAL BUSINESS DISTRICT/LODO													
A	50	21,609,358	12.0%	1.1%	13.0%	12.5%	459,714	(112,954)	(43,984)	-	-	1,728,369	\$35.58
B	170	11,798,366	7.7%	1.0%	8.7%	7.3%	82,158	(21,825)	(20,701)	156,384	167,035	130,822	\$28.47
C	45	1,732,644	1.0%	0.0%	1.0%	1.0%	0	(397)	(3,979)	-	-	-	\$29.22
Total	265	35,140,368	10.0%	1.0%	11.0%	10.2%	541,872	(135,176)	(68,664)	156,384	167,035	1,859,191	\$33.62
SUBURBAN													
AURORA													
A	12	1,809,923	6.8%	0.0%	6.8%	5.2%	3,518	(29,931)	(11,876)	-	-	112,000	\$22.17
B	112	5,597,830	11.5%	0.1%	11.6%	11.9%	56,865	13,724	83,824	-	-	-	\$18.16
C	34	848,578	11.0%	0.0%	11.0%	12.4%	12,967	11,282	12,885	-	-	-	\$11.46
Total	158	8,256,331	10.4%	0.1%	10.5%	10.4%	73,350	(4,925)	84,833	-	-	112,000	\$17.90
BROOMFIELD													
A	19	3,067,131	9.2%	1.0%	10.3%	10.7%	70,421	12,867	138,483	-	-	105,288	\$29.80
B	46	2,988,835	6.3%	0.8%	7.1%	7.9%	10,283	23,872	76,946	-	-	11,009	\$22.93
C	4	59,982	0.0%	0.0%	0.0%	0.0%	-	-	-	-	-	-	\$17.50
Total	69	6,115,948	7.7%	0.9%	8.6%	9.2%	80,704	36,739	215,429	-	-	116,297	\$26.67
COLORADO BOULEVARD/GLENDALE													
A	24	3,857,018	11.4%	0.3%	11.7%	8.6%	109,072	106,538	112,519	247,938	247,938	210,000	\$26.38
B	135	7,180,748	11.9%	0.1%	12.0%	12.4%	60,775	25,315	(57,608)	-	-	54,628	\$21.07
C	61	1,252,323	4.7%	0.0%	4.7%	4.5%	700	(2,614)	(48,021)	-	-	-	\$16.86
Total	220	12,290,089	11.0%	0.2%	11.2%	10.4%	170,547	129,239	6,890	247,938	247,938	264,628	\$22.34
NORTH/NORTHEAST													
A	11	1,518,527	24.3%	0.0%	24.3%	30.0%	0	87,000	78,600	-	-	-	\$21.80
B	126	5,415,767	8.0%	0.9%	8.9%	9.9%	38,013	52,876	51,455	-	-	13,764	\$18.61
C	34	846,235	16.0%	0.0%	16.0%	18.5%	4,882	21,014	(42,945)	-	-	-	\$16.47
Total	171	7,780,529	12.1%	0.6%	12.7%	14.7%	42,895	160,890	87,110	-	-	13,764	\$18.39
NORTHWEST													
A	19	2,014,146	14.0%	0.7%	14.8%	14.8%	108,390	(326)	(37,023)	-	-	-	\$24.50
B	170	5,142,387	11.8%	0.5%	12.3%	11.6%	124,647	(36,435)	(34,166)	-	-	-	\$19.21
C	51	974,054	9.3%	1.4%	10.7%	8.7%	10,040	(19,250)	(11,739)	-	-	-	\$14.69
Total	240	8,130,587	12.1%	0.7%	12.7%	12.1%	243,077	(56,011)	(82,928)	-	-	-	\$20.53
SOUTHEAST													
A	136	21,569,743	10.1%	0.6%	10.7%	11.1%	701,703	84,176	193,188	-	-	919,277	\$25.87
B	422	21,374,524	12.7%	0.6%	13.3%	14.6%	580,775	319,117	272,592	45,000	45,000	-	\$20.21
C	78	1,761,063	5.2%	0.0%	5.2%	5.1%	4,784	(2,494)	(92)	-	-	-	\$14.14
Total	636	44,705,330	11.1%	0.6%	11.7%	12.5%	1,287,262	400,799	465,688	45,000	45,000	919,277	\$23.00
SOUTHWEST													
A	5	1,246,467	4.0%	1.3%	5.3%	5.3%	-	-	(2,406)	-	-	-	\$26.44
B	156	5,832,964	17.2%	0.3%	17.5%	17.4%	81,929	(2,781)	(14,328)	-	-	-	\$16.70
C	60	1,223,615	14.5%	0.0%	14.5%	11.4%	5,014	(38,366)	(27,296)	-	-	-	\$14.28
Total	221	8,303,046	14.8%	0.4%	15.2%	14.7%	86,943	(41,147)	(44,030)	-	-	-	\$16.82
WEST													
A	17	1,913,296	8.0%	2.1%	10.1%	8.0%	13,585	(41,602)	(8,927)	-	-	-	\$27.32
B	207	8,586,877	16.1%	0.1%	16.2%	16.9%	141,779	60,036	50,264	-	-	32,000	\$19.82
C	79	1,421,131	10.2%	0.0%	10.2%	9.1%	3,172	(16,066)	(7,709)	-	-	-	\$13.93
Total	303	11,921,304	14.1%	0.4%	14.5%	14.6%	158,536	2,368	33,628	-	-	32,000	\$19.86
SUBURBAN TOTAL													
A	243	36,996,251	10.5%	0.6%	11.1%	11.5%	1,006,689	218,722	462,558	247,938	247,938	1,346,565	\$26.11
B	1,374	62,119,932	12.6%	13.0%	13.0%	13.7%	1,095,066	455,724	428,979	45,000	45,000	111,401	\$19.70
C	401	8,386,981	9.4%	9.6%	9.6%	9.1%	41,559	(46,494)	(124,917)	-	-	-	\$14.53
Total	2,018	107,503,164	11.6%	0.5%	12.1%	12.3%	2,143,314	627,952	766,620	449,322	292,938	1,457,966	\$21.59
DENVER MARKET GRAND TOTAL													
A	293	58,605,609	11.0%	0.8%	11.8%	11.6%	1,466,403	105,768	418,574	247,938	247,938	3,074,934	\$29.81
B	1,544	73,918,298	11.8%	0.5%	12.4%	12.7%	1,177,224	433,899	408,278	201,384	212,035	242,223	\$20.63
C	446	10,119,625	8.0%	0.1%	8.1%	7.7%	41,559	(46,891)	(128,896)	-	-	-	\$15.19
Total	2,283	142,643,532	11.2%	0.6%	11.8%	11.9%	2,685,186	492,776	697,956	449,322	459,973	3,317,157	\$24.26
QUARTERLY COMPARISON													
Q2 15	2,283	142,643,532	11.2%	0.6%	11.8%	12.1%	2,685,186	492,776	697,956	449,322	459,973	2,677,157	\$24.26
Q1 15	2,284	142,194,210	11.3%	0.8%	12.1%	12.3%	2,580,085	205,180	205,180	10,651	10,651	2,200,602	\$23.95
Q4 14	2,284	142,183,559	11.6%	0.7%	12.4%	12.4%	3,051,880	339,677	1,788,586	197,020	996,511	2,222,262	\$23.70
Q3 14	2,280	141,986,539	11.8%	0.6%	12.4%	12.6%	3,309,469	765,796	1,448,909	582,402	799,491	834,692	\$23.35
Q2 14	2,276	141,404,137	12.2%	0.4%	12.6%	12.7%	2,964,808	332,556	683,113	161,089	217,089	2,248,720	\$23.07

Data includes buildings with over 10,000 SF RBA not including those where medical or government users are the primary owner and occupier. The information contained in this report was provided by sources deemed to be reliable, however, no guarantee is made as to the accuracy or reliability. As new, corrected or updated information is obtained, it is incorporated into both current and historical data, which may invalidate comparison to previously issued reports.

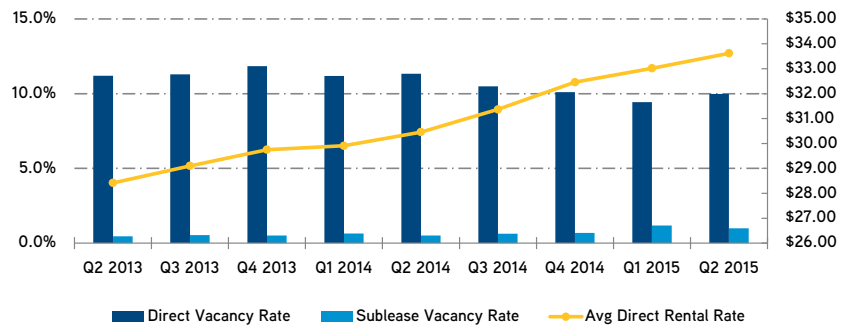
Southeast & Downtown Statistics

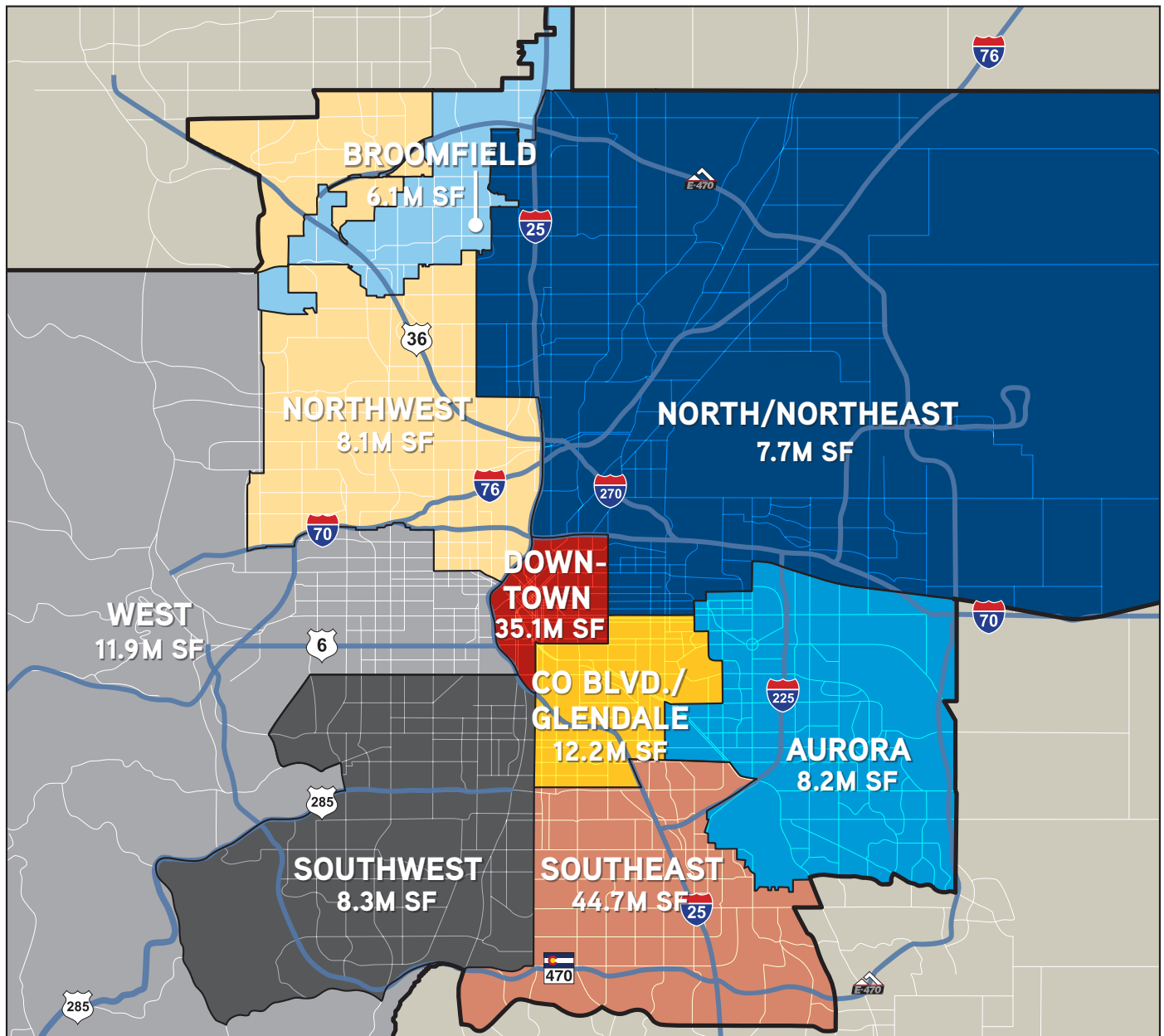
Period/Class	Buildings	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacant SF	Sublease Vacancy Rate	Total Vacant SF	Vacancy Rate Current	Leasing Activity SF	Net Absorption Current Qtr. SF	Deliveries Current Qtr. SF	Average Rental Rate (F5)
EXISTING PROPERTIES			VACANCY				ACTIVITY		ABSORP.	CONSTR.	RENTS	
DENVER-SOUTHEAST OFFICE MARKET OVERVIEW												
Q2 2015	636	44,705,330	4,980,944	11.1%	258,684	0.6%	5,239,628	11.7%	1,287,262	400,799	45,000	\$23.00
Q1 2015	635	44,660,330	5,146,091	11.5%	449,336	1.0%	5,595,427	12.5%	1,075,545	64,889	0	\$22.68
Q4 2014	635	44,660,330	5,188,132	11.6%	472,184	1.1%	5,660,316	12.7%	1,232,992	(207,802)	36,000	\$22.15
Q3 2014	634	44,624,330	5,000,831	11.2%	415,683	0.9%	5,416,514	12.1%	1,322,491	162,244	375,000	\$21.99
Q2 2014	632	44,249,330	4,969,399	11.2%	234,359	0.5%	5,203,758	11.8%	1,233,417	(19,963)	22,285	\$21.80
Q1 2014	631	44,227,045	4,992,694	11.3%	168,816	0.4%	5,161,510	11.7%	695,624	(65,019)	0	\$21.56
Q4 2013	631	44,227,045	4,911,879	11.1%	184,612	0.4%	5,096,491	11.5%	1,029,408	326,743	0	\$20.80
Q3 2013	632	44,270,709	5,160,110	11.7%	306,788	0.7%	5,466,898	12.3%	1,042,395	507,566	275,000	\$20.49
Q2 2013	631	43,995,709	5,378,096	12.2%	321,368	0.7%	5,699,464	13.0%	1,123,767	173,897	180,000	\$20.33
DENVER-SOUTHEAST OFFICE SUBMARKET BREAKOUT BY CLASS												
A	136	21,569,743	2,179,158	10.1%	123,114	0.6%	2,302,272	10.7%	701,703	84,176	0	\$25.87
B	422	21,374,524	2,710,100	12.7%	135,570	0.6%	2,845,670	13.3%	580,775	319,117	45,000	\$20.21
C	78	1,761,063	91,686	5.2%	0	0.0%	91,686	5.2%	4,784	(2,494)	0	\$14.14
Total	636	44,705,330	4,980,944	11.1%	258,684	0.6%	5,239,628	11.7%	1,287,262	400,799	45,000	\$23.00
DENVER-DOWNTOWN OFFICE SUBMARKET OVERVIEW												
Q2 2015	265	35,140,368	3,509,757	10.0%	349,050	1.0%	3,858,807	11.0%	541,872	(135,176)	156,384	\$33.62
Q1 2015	264	35,058,984	3,307,497	9.4%	416,134	1.2%	3,723,631	10.6%	713,694	66,512	10,651	\$33.02
Q4 2014	263	35,048,333	3,541,153	10.1%	238,339	0.7%	3,779,492	10.8%	943,938	230,225	123,000	\$32.46
Q3 2014	262	34,925,333	3,663,727	10.5%	222,990	0.6%	3,886,717	11.1%	914,249	432,266	207,402	\$31.37
Q2 2014	260	34,717,931	3,933,848	11.3%	177,733	0.5%	4,111,581	11.8%	690,968	93,590	112,552	\$30.46
Q1 2014	259	34,605,379	3,871,539	11.2%	221,080	0.6%	4,092,619	11.8%	468,691	92,348	0	\$29.91
Q4 2013	260	34,709,219	4,110,275	11.8%	178,532	0.5%	4,288,807	12.4%	1,206,745	(86,791)	109,078	\$29.75
Q3 2013	259	34,600,141	3,906,694	11.3%	186,244	0.5%	4,092,938	11.8%	731,521	(56,903)	0	\$29.10
Q2 2013	259	34,600,141	3,876,843	11.2%	159,192	0.5%	4,036,035	11.7%	873,047	281,445	0	\$28.42
DENVER-DOWNTOWN OFFICE SUBMARKET BREAKOUT BY CLASS												
A	50	21,609,358	2,582,541	12.0%	231,105	1.1%	2,813,646	13.0%	459,714	(112,954)	0	\$35.58
B	170	11,798,366	909,958	7.7%	117,945	1.0%	1,027,903	8.7%	82,158	(21,825)	156,384	\$28.47
C	45	1,732,644	17,258	1.0%	0	0.0%	17,258	1.0%	0	(397)	0	\$29.22
Total	265	35,140,368	3,509,757	10.0%	349,050	1.0%	3,858,807	11.0%	541,872	(135,176)	156,384	\$33.62

Denver | Southeast Office Market Q2 2013-Q2 2015



Denver | Downtown Office Market Q2 2013-Q2 2015





SIGNIFICANT RECENT TRANSACTIONS

SALES ACTIVITY

PROPERTY	SUBMARKET	SALE PRICE	SIZE SF	BUYER	SELLER
Village Center Station I 6380 S. Fiddler's Green Circle	Greenwood Village	\$76,700,000	233,958	KBS REIT III, Inc.	Principal Real Estate Investors, LLC
Denver Club Building 518 17th Street	CBD	\$30,000,000	231,453	Unico Properties, LLC	Lowe Enterprises Investors

LEASING ACTIVITY

PROPERTY	SUBMARKET	BLDG. CLASS	LEASED SF	COMPANY
Panorama Corporate Center 9401 E. Panorama Circle	Panorama/Highland Park	A	136,850	Comcast
Gateway Plaza at Meridian 9800 S. Meridian Boulevard	Meridian	A	83,000	Kaiser Permanente

502 offices in 67 countries on 6 continents

United States: **140**

Canada: **31**

Latin America: **24**

Asia Pacific: **199**

EMEA: **108**

\$2.3

billion in
annual revenue

1.7

billion square feet
under management

16,300

professionals
and staff

About Colliers International

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