

Office Market Fundamentals to Remain Strong into 2019

MARKET OVERVIEW

Continued interest in Denver’s office market was apparent during 2018, as total absorption for the year reached more than 3.1 million square feet – by far the highest annual total in the last 10 years. Overall vacancy has been relatively similar year-over-year, after a 100-basis-point increase mid-year, and asking rental rates have increased more than 4.5 percent since the fourth quarter of 2017. Office investment activity recorded more than \$1 billion in sales during the fourth quarter and approximately \$3.0 billion annually during 2018. Job growth and net in-migration have moderated over the past year compared to three years prior; however, both categories recorded strong performances during 2018. Office fundamentals should continue to perform well during 2019, as the metro area remains a highly sought-after city for companies looking to relocate or expand.

MARKET INDICATORS*

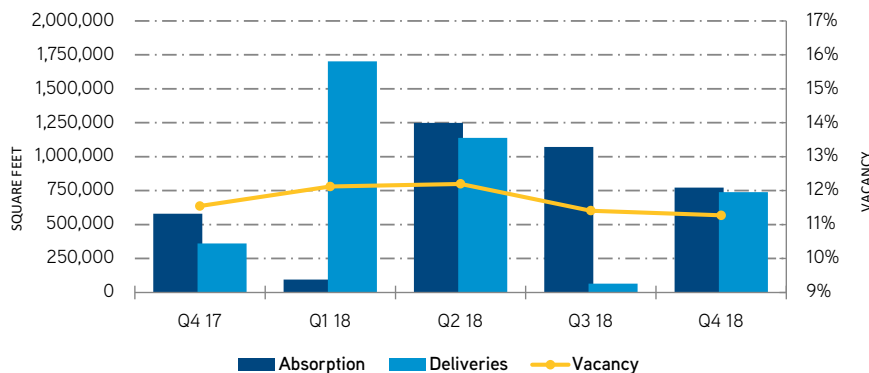
	Q4 2018	Projected Q1 2019
VACANCY	↓	↑
NET ABSORPTION	—	+
DELIVERIES	↑	↑
RENTAL RATE	↑	↔

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

SUMMARY STATISTICS

	Q4 2017	Q4 2018
VACANCY RATE	11.5%	11.3%
ABSORPTION YTD	1,503,149	3,186,662
DELIVERIES YTD	2,536,348	3,643,154
UNDER CONSTRUCTION	4,037,038	3,166,262
ASKING RENTS/SF	\$27.11	\$27.81

Denver Office Market Q4 2017-Q4 2018



Source: CoStar, Colliers Research

HIGHLIGHTED ECONOMIC TRENDS

Local Unemployment Rates

As of **November 2018**, the Bureau of Labor Statistics indicated the estimated unemployment rate for the Metro Denver area at **3.3 percent**. The National unemployment rate is **3.7 percent**.

Local Employment Growth

Metro Denver total employment increased by approximately **30,000 jobs** between **November 2017** and **November 2018**.

Investment Sales

Fourth quarter investment activity totaled more than **\$1 billion** throughout Metro Denver.

Office absorption totaled more than 700,000 square feet during Q4.

ABSORPTION

Metro Denver office absorption totaled more than 700,000 square feet during the fourth quarter, bringing the year-end total to slightly more than 3.1 million square feet. The Downtown submarket finished the year with positive net absorption of approximately 590,000 square feet, while the Southeast submarket reported more than 156,000 square feet of negative absorption – the result from several mid-sized tenant move-outs. DaVita took occupancy of their 324,534-square-foot space at the newly-delivered 16 Chestnut prior to the end of the fourth quarter, expanding their Union Station presence and boosting absorption Downtown. WeWork has been at the forefront for companies expanding throughout the metro and will continue to contribute to absorption in 2019. WeWork now has the largest office footprint in Denver with over 610,000 square feet – and likely more to come.

VACANCY

Similar to rates seen throughout 2017, overall office vacancy held steady near the 12 percent mark for the entirety of 2018. The overall fourth quarter vacancy rate was 11.3 percent, falling slightly by 10 basis points from the previous third quarter rate of 11.4 percent. Compared to the fourth quarter 2017, overall vacancy decreased by 20 basis points. With over 3.1 million square feet in the construction pipeline, minor variation in vacancy is anticipated; however, demand looms large, as evidenced by strong positive absorption during 2018. Several projects currently under construction report little-to-no pre-leasing activity, but over the past three years, leasing has lagged during the early stages of construction only to be nearly fully-leased upon completion. Large blocks of Class A space are increasingly difficult to come by throughout Metro Denver, so expect a majority of construction projects currently underway to find tenants in 2019.

DELIVERIES & CONSTRUCTION

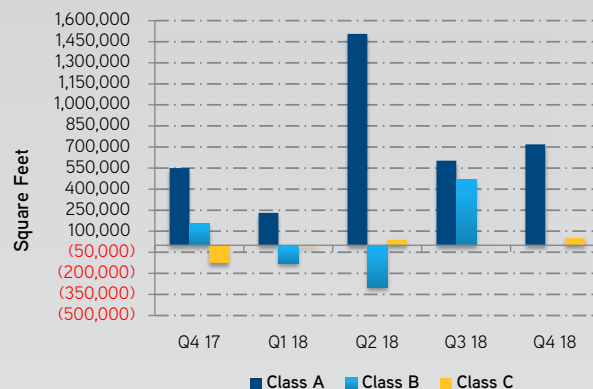
Office deliveries totaled approximately 3.6 million square feet during 2018. Fourth quarter deliveries accounted for approximately 738,000 square feet, of which 58 percent was delivered in the Downtown submarket by one building – 16 Chestnut. The highly-anticipated office building, which was 100 percent pre-leased by DaVita and Slack Technologies, was completed in November in the Downtown submarket. Anchored by DaVita, 16 Chestnut is a 428,219-square-foot, 19-story building located in Denver’s popular Union Station neighborhood. In the Southeast submarket, the 185,000-square-foot office building known as 50 FIFTY DTC was delivered, but in contrast to 16 Chestnut, it was delivered with no pre-leasing.

As 2018 comes to a close, there is more than 3.1 million square feet under construction over 33 properties throughout the Metro Denver office market. Of the office product under construction, over 90 percent is classified as Class A space. Notable projects currently under construction include 6900 Layton Avenue in the Southeast submarket, as well as Block 162, Platte 15, Prism and the Hub in the Downtown submarket.

RENTAL RATES

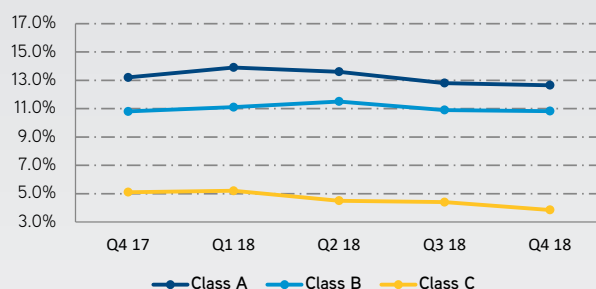
The overall direct asking rental rate increased to \$27.81/SF (FSG) in the fourth quarter – a 2.6 percent, or a \$0.70/SF, increase year-over-year. Class A rental rates averaged \$31.34/SF, which is a 1.4 percent increase from the average asking rate during the fourth quarter of 2017. Class B asking rates appreciated 2.5 percent over the past 12 months, ending the fourth quarter of 2018 at \$24.00/SF. Rental rates continue to trend upwards as demand for premium office product remains steady. Denver’s especially tight labor market has created incentive for users to upgrade their office space in order to attract, and keep, talent.

Absorption



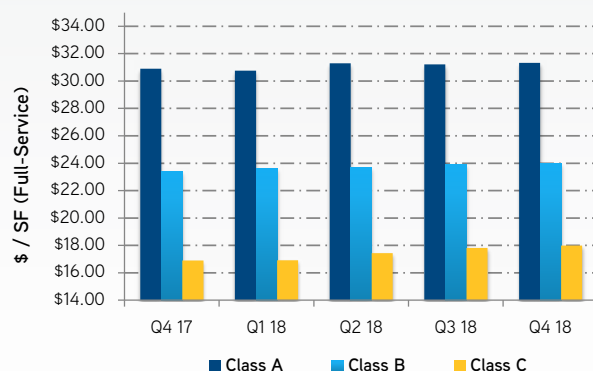
Source: CoStar, Colliers Research

Vacancy



Source: CoStar, Colliers Research

Rental Rates



Source: CoStar, Colliers Research

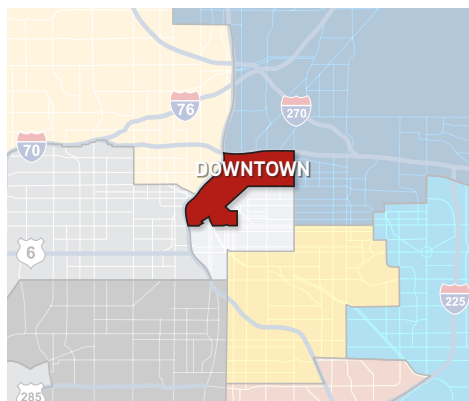
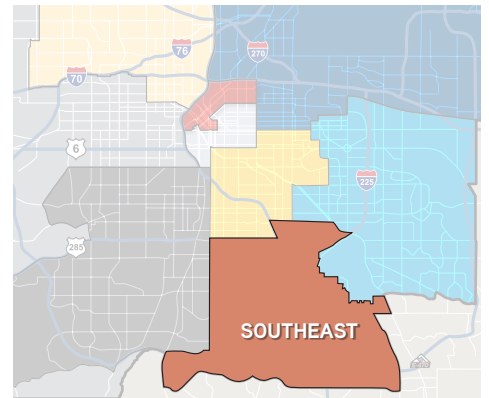
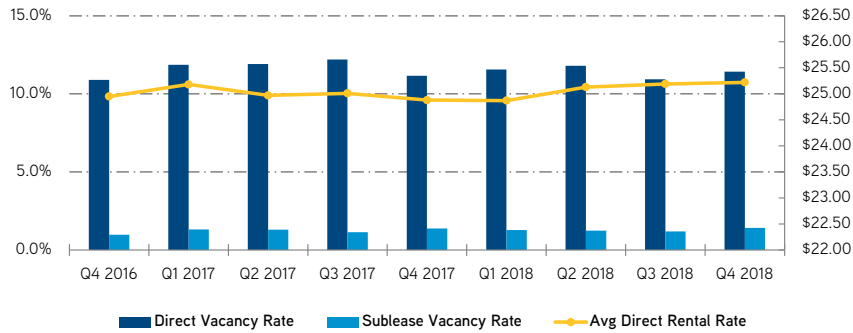
Submarket Statistics

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	72	25,573,982	10.9%	1.7%	12.6%	12.4%	701,173	613,270	2,006,569	428,219	1,836,013	1,769,268	\$36.40
B	133	11,371,107	11.8%	1.5%	13.3%	13.3%	149,520	(4,050)	(83,333)	-	50,000	44,075	\$30.06
C	20	1,295,077	3.2%	0.0%	3.2%	1.7%	-	(20,364)	(20,364)	-	-	-	\$19.96
Total	225	38,240,166	10.9%	1.6%	12.5%	13.1%	850,693	588,856	1,902,872	428,219	1,886,013	1,813,343	\$34.89
MIDTOWN													
SOUTH MIDTOWN/CAPITOL HILL													
A	7	1,110,758	2.9%	2.4%	5.2%	5.0%	-	(2,322)	(101)	-	-	171,800	\$29.69
B	54	3,559,935	3.8%	0.0%	3.8%	4.5%	45,499	24,090	(65,008)	-	-	-	\$26.38
C	35	1,489,800	3.2%	0.0%	3.2%	3.4%	4,938	2,264	(16,555)	-	-	-	\$21.67
Total	96	6,160,493	3.5%	0.4%	3.9%	4.3%	50,437	24,032	(81,664)	-	-	171,800	\$26.06
SUBURBAN													
AURORA													
A	13	1,817,371	7.1%	0.0%	7.1%	7.1%	-	-	16,000	-	-	-	\$23.84
B	78	5,506,357	9.9%	0.1%	10.0%	9.9%	28,018	(3,710)	(17,108)	-	-	-	\$19.78
C	17	595,381	3.1%	0.0%	3.1%	3.5%	2,300	2,300	13,534	-	-	-	\$13.15
Total	108	7,919,109	8.8%	0.1%	8.8%	8.8%	30,318	(1,410)	12,426	-	-	-	\$20.20
BROOMFIELD													
A	23	3,450,164	6.1%	0.5%	6.7%	7.2%	-	19,280	122,325	-	176,587	159,000	\$27.36
B	31	2,808,051	9.0%	0.0%	9.0%	8.9%	7,725	(1,622)	(7,228)	-	-	42,500	\$24.58
Total	54	6,258,215	7.4%	0.3%	7.7%	8.0%	7,725	17,658	115,097	-	176,587	201,500	\$26.59
COLORADO BOULEVARD/GLENDALE													
A	26	4,238,784	16.8%	0.7%	17.5%	18.0%	98,059	21,470	103,980	-	117,236	230,000	\$31.31
B	95	6,756,743	8.6%	0.7%	9.4%	9.1%	110,932	(17,943)	12,322	-	-	77,660	\$26.06
C	25	1,031,525	9.8%	0.0%	9.8%	11.2%	22,635	14,552	30,352	-	-	-	\$19.93
Total	146	12,027,052	11.6%	0.7%	12.3%	12.4%	231,626	18,079	146,654	-	117,236	307,660	\$27.74
NORTH/NORTHEAST													
A	14	1,366,932	8.0%	1.6%	9.6%	10.2%	11,688	8,620	(9,534)	-	-	-	\$26.25
B	80	5,514,177	7.4%	0.3%	7.7%	9.5%	40,132	100,439	112,477	-	43,586	48,000	\$23.07
C	18	1,015,385	3.3%	0.0%	3.3%	2.5%	14,021	(8,493)	(8,117)	-	-	-	\$14.35
Total	112	7,896,494	7.0%	0.5%	7.5%	8.7%	65,841	100,566	94,826	-	43,586	48,000	\$23.85
NORTHWEST													
A	27	2,575,774	21.7%	0.1%	21.7%	23.9%	26,115	150,108	(101,379)	125,000	182,700	-	\$26.11
B	92	4,155,405	9.3%	0.3%	9.6%	11.9%	69,258	93,368	165,878	-	155,864	18,500	\$21.84
C	16	563,388	3.9%	0.0%	3.9%	3.3%	0	(3,370)	(4,986)	-	-	-	\$16.66
Total	135	7,294,567	13.3%	0.2%	13.5%	15.3%	95,373	240,106	59,513	125,000	338,564	18,500	\$23.80
SOUTHEAST													
A	157	24,920,872	11.5%	1.8%	13.3%	12.2%	363,610	(113,505)	629,705	185,000	803,168	511,743	\$26.86
B	301	18,885,626	11.8%	0.9%	12.8%	12.3%	248,583	(83,794)	(102,133)	-	-	61,356	\$23.44
C	33	1,172,731	3.4%	0.1%	3.5%	6.9%	2,044	40,912	43,629	-	-	-	\$16.38
Total	491	44,979,229	11.4%	1.4%	12.8%	12.1%	614,237	(156,387)	571,201	185,000	803,168	573,099	\$25.22
SOUTHWEST													
A	6	1,282,497	9.9%	0.0%	9.9%	10.5%	24,178	7,296	(32,674)	-	-	32,360	\$29.89
B	101	5,047,668	11.5%	0.2%	11.7%	10.4%	52,543	(66,485)	(89,637)	-	-	-	\$18.30
C	17	613,986	1.2%	0.0%	1.2%	1.5%	1,400	1,268	21,315	-	-	-	\$15.00
Total	124	6,944,151	10.3%	0.2%	10.4%	9.6%	78,121	(57,921)	(100,996)	-	-	32,360	\$19.48
WEST													
A	23	2,919,289	6.7%	1.4%	8.1%	8.7%	30,164	14,934	322,856	-	278,000	-	\$27.10
B	135	8,483,844	10.2%	0.3%	10.5%	10.1%	54,099	(38,258)	118,237	-	-	-	\$22.67
C	26	716,666	1.9%	0.0%	1.9%	4.9%	4,098	21,417	25,640	-	-	-	\$16.42
Total	184	12,119,799	8.9%	0.6%	9.4%	9.4%	88,361	(1,907)	466,733	-	278,000	-	\$23.18
SUBURBAN TOTAL													
A	289	42,571,683	11.5%	1.3%	12.9%	12.5%	553,814	108,203	1,051,279	310,000	1,557,691	933,103	\$27.32
B	913	57,157,871	10.2%	0.5%	10.8%	10.7%	611,290	(18,005)	192,808	-	199,450	248,016	\$22.79
C	152	5,709,062	4.1%	0.0%	4.2%	5.4%	46,498	68,586	121,367	-	-	-	\$17.24
Total	1,354	105,438,616	10.4%	0.8%	11.3%	11.1%	1,211,602	158,784	1,365,454	310,000	1,757,141	1,181,119	\$24.63
DENVER MARKET GRAND TOTAL													
A	368	69,256,423	11.2%	1.5%	12.6%	12.8%	1,254,987	719,151	3,057,747	738,219	3,393,704	2,874,171	\$31.34
B	1,100	72,088,913	10.2%	0.7%	10.8%	10.8%	806,309	2,035	44,467	-	249,450	292,091	\$24.00
C	207	8,493,939	3.8%	0.0%	3.9%	4.4%	51,436	50,486	84,448	-	-	-	\$18.00
Total	1,675	149,839,275	10.3%	1.0%	11.3%	11.4%	2,112,732	771,672	3,186,662	738,219	3,643,154	3,166,262	\$27.81
QUARTERLY COMPARISON													
Q4 18	1,675	149,839,275	10.3%	1.0%	11.3%	11.4%	2,112,732	771,672	3,186,662	738,219	3,643,154	3,166,262	\$27.81
Q3 18	1,673	149,160,896	10.5%	0.9%	11.4%	12.2%	2,761,716	1,072,108	2,414,990	65,000	2,904,935	3,084,857	\$27.75
Q2 18	1,672	149,095,896	11.2%	0.9%	12.2%	12.1%	3,224,323	1,247,783	1,342,882	1,137,515	2,839,935	2,907,368	\$27.69
Q1 18	1,664	147,901,032	11.2%	1.0%	12.1%	11.5%	2,270,037	95,099	95,099	1,702,420	1,702,420	3,135,140	\$27.20
Q4 17	1,656	146,411,876	10.5%	1.1%	11.5%	11.7%	3,174,893	579,517	1,503,149	360,859	2,536,348	4,037,038	\$27.11

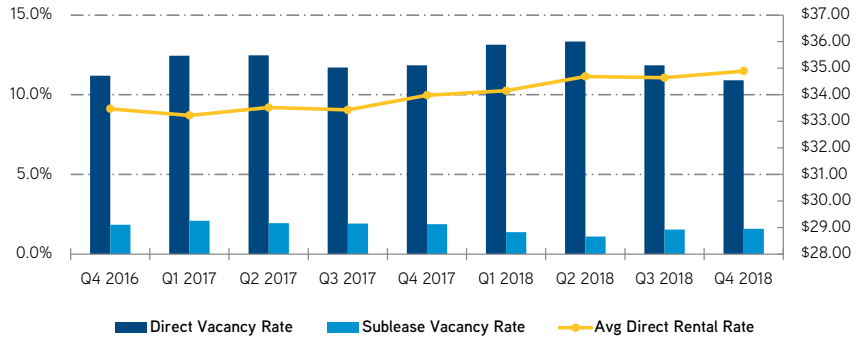
Southeast & Downtown Statistics

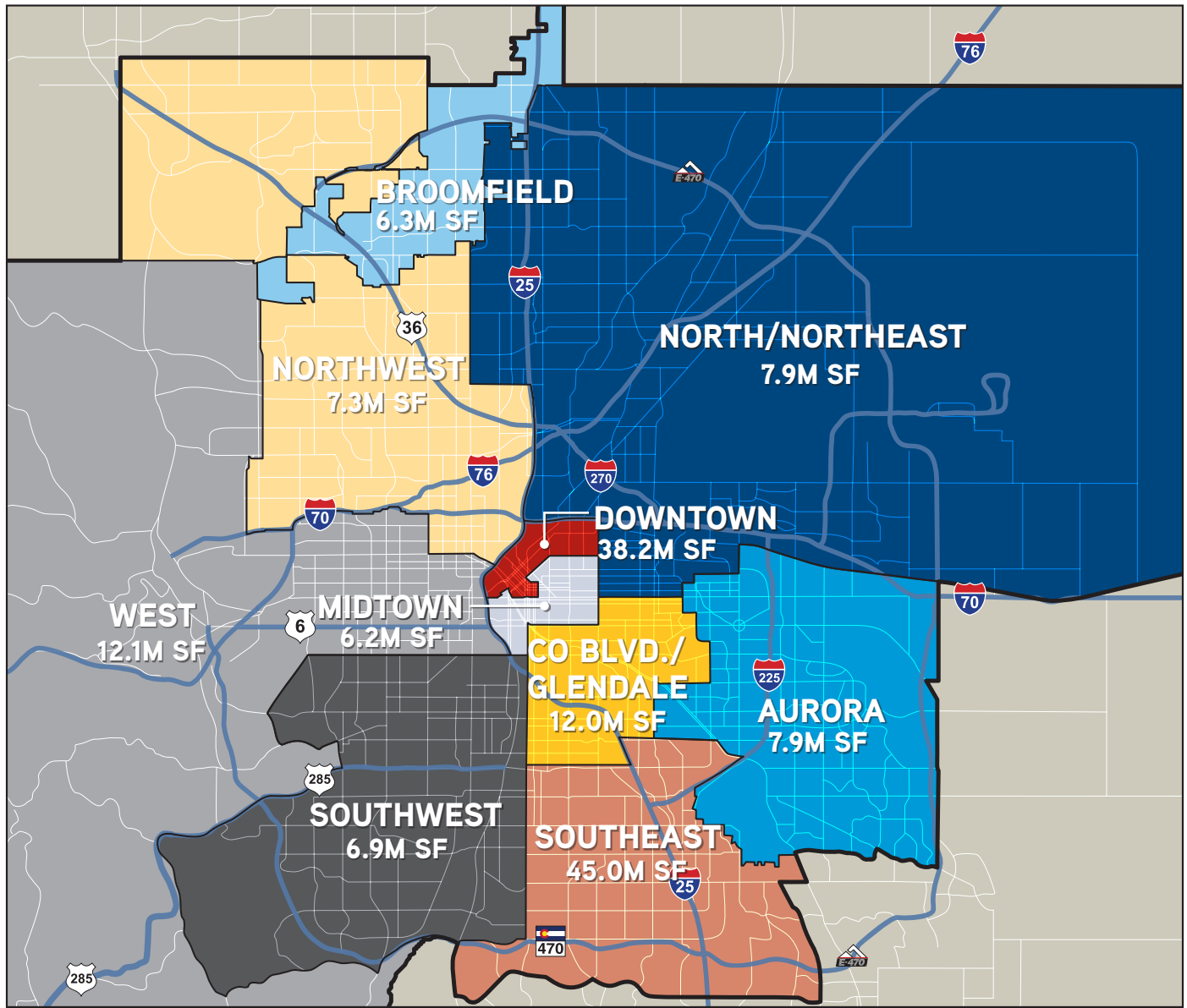
Period/Class	Buildings	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacant SF	Sublease Vacancy Rate	Total Vacant SF	Vacancy Rate Current	Leasing Activity SF	Net Absorption Current Qtr. SF	Deliveries Current Qtr. SF	Average Rental Rate (FS)
EXISTING PROPERTIES				VACANCY				ACTIVITY	ABSORP.	CONSTR.	RENTS	
DENVER-SOUTHEAST OFFICE MARKET OVERVIEW												
Q4 2018	491	44,979,229	5,134,576	11.4%	635,928	1.4%	5,770,504	12.8%	614,237	(156,387)	185,000	\$25.22
Q3 2018	490	44,794,229	4,897,408	10.9%	531,709	1.2%	5,429,117	12.1%	704,618	411,792	0	\$25.19
Q2 2018	490	44,794,229	5,284,616	11.8%	556,293	1.2%	5,840,909	13.0%	946,015	252,795	396,098	\$25.13
Q1 2018	488	44,398,131	5,132,211	11.6%	565,395	1.3%	5,697,606	12.8%	627,565	63,001	222,070	\$24.87
Q4 2017	487	44,176,061	4,930,014	11.2%	608,523	1.4%	5,538,537	12.5%	1,109,687	455,192	115,859	\$24.88
Q3 2017	486	44,060,202	5,376,299	12.2%	501,571	1.1%	5,877,870	13.3%	1,499,695	125,384	211,675	\$25.01
Q2 2017	485	43,848,527	5,219,785	11.9%	571,794	1.3%	5,791,579	13.2%	936,142	376,853	880,958	\$24.97
Q1 2017	481	42,247,137	5,012,052	11.9%	554,990	1.3%	5,567,042	13.2%	1,130,460	(140,705)	47,638	\$25.18
Q4 2016	479	42,919,931	4,677,161	10.9%	421,970	1.0%	5,099,131	11.9%	707,190	175,690	0	\$24.95
DENVER-SOUTHEAST OFFICE SUBMARKET BREAKOUT BY CLASS												
A	157	24,920,872	2,861,437	11.5%	456,266	1.8%	3,317,703	13.3%	363,610	(113,505)	185,000	\$26.86
B	301	18,885,626	2,233,263	11.8%	179,063	0.9%	2,412,326	12.8%	248,583	(83,794)	0	\$23.44
C	33	1,172,731	39,876	3.4%	599	0.1%	40,475	3.5%	2,044	40,912	0	\$16.38
Total	491	44,979,229	5,134,576	11.4%	635,928	1.4%	5,770,504	12.8%	614,237	(156,387)	185,000	\$25.22
DENVER-DOWNTOWN OFFICE SUBMARKET OVERVIEW												
Q4 2018	225	38,240,166	4,172,747	10.9%	606,825	1.6%	4,779,572	12.5%	850,693	588,856	428,219	\$34.89
Q3 2018	224	37,811,947	4,481,236	11.9%	582,128	1.5%	5,063,364	13.4%	1,272,693	428,691	0	\$34.64
Q2 2018	224	37,811,947	5,043,821	13.3%	417,771	1.1%	5,461,592	14.4%	1,066,703	623,409	288,481	\$34.69
Q1 2018	221	37,388,382	4,913,504	13.1%	515,707	1.4%	5,429,211	14.5%	710,715	261,916	1,169,313	\$34.15
Q4 2017	218	36,399,069	4,311,184	11.8%	684,448	1.9%	4,995,632	13.7%	1,055,597	161,898	180,000	\$33.98
Q3 2017	216	36,169,652	4,233,616	11.7%	694,497	1.9%	4,928,113	13.6%	678,813	286,979	0	\$33.43
Q2 2017	216	36,169,652	4,510,477	12.5%	704,612	1.9%	5,215,089	14.4%	872,089	90,346	53,478	\$33.52
Q1 2017	215	36,116,174	4,496,784	12.5%	755,173	2.1%	5,251,957	14.5%	1,239,645	(241,294)	397,070	\$33.22
Q4 2016	213	35,768,521	4,002,631	11.2%	660,379	1.8%	4,663,010	13.0%	11,493,420	(21,241)	0	\$33.47
DENVER-DOWNTOWN OFFICE SUBMARKET BREAKOUT BY CLASS												
A	72	25,573,982	2,794,439	10.9%	431,453	1.7%	3,225,892	12.6%	701,173	613,270	428,219	\$36.40
B	133	11,371,107	1,336,295	11.8%	175,372	1.5%	1,511,667	13.3%	149,520	(4,050)	0	\$30.06
C	20	1,295,077	42,013	3.2%	0	0.0%	42,013	3.2%	0	(20,364)	0	\$19.96
Total	225	38,240,166	4,172,747	10.9%	606,825	1.6%	4,779,572	12.5%	850,693	588,856	428,219	\$34.89

Denver | Southeast Office Market



Denver | Downtown Office Market





SIGNIFICANT RECENT TRANSACTIONS

SALES ACTIVITY

PROPERTY	SUBMARKET	SALE PRICE	SIZE SF	BUYER	SELLER
1601 Wewatta Street	Platte River	\$222,000,000	299,127	Morgan Stanley & Co. LLC	Hines
U.S. Bank Tower 950 17th Street	CBD	\$194,227,500	531,608	Hines	Ivanhoe Cambridge, Inc.
Denver West Business Park*	West	\$143,750,000	1,468,106	DPC Development Companies & Bridge Investment Group	Highbrook Investors
Denver Financial Center Tower I & II 1775 Sherman & 1776 Lincoln Street	CBD	\$95,250,000	447,514	Lincoln Property Company	USAA Real Estate Company

*22 property portfolio

LEASING ACTIVITY

PROPERTY	SUBMARKET	BLDG. CLASS	LEASED SF	TYPE	COMPANY
Granite Tower 1099 18th Street	CBD	A	295,743	Extension	Anadarko Petroleum Corporation (Extension)
The Hub 3601 Walnut Street	Platte River	A	81,113	Expansion	HomeAdvisor (Expansion)
Revolution360 3600 Brighton Boulevard	Platte River	A	65,000	New	WeWork
1401 Wynkoop Street	LoDo	A	60,000	New	Zayo Group Holdings

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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