## Market Review & Outlook

**Review: Tenants Facing Elevated Costs**

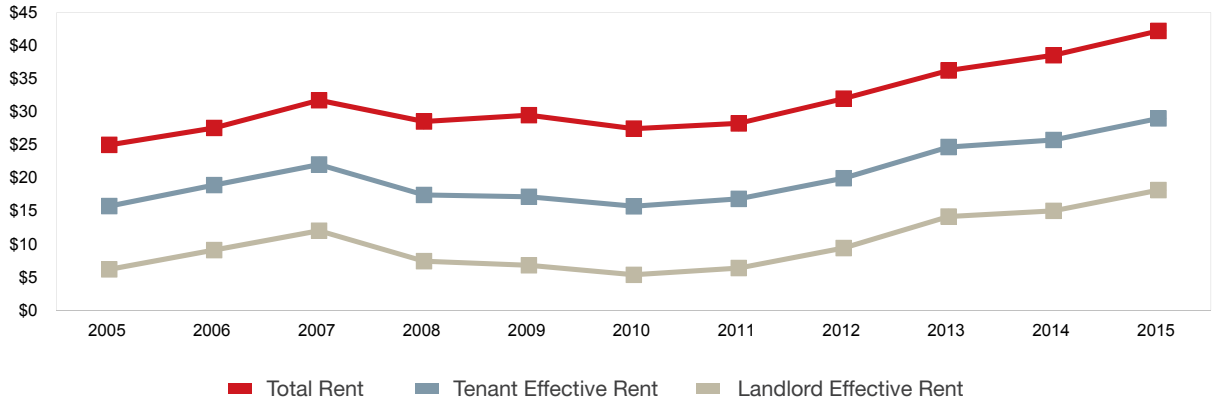
Office-using employment slowed a bit in the region during 2015. Nevertheless, demand for premium view space in LoDo and Downtown remained brisk. Leasing volume Downtown jumped from 2.0 msf in 2014 to 2.9 msf. Tenant effective rent in turn spiked by 12.6%.

| | 2015 | % Change |
|---|---|---|
| Net Rent | $30.56 | 13.2 |
| Operating Expenses | 6.92 | 1.0 |
| Real Estate Taxes | 2.85 | 1.8 |
| Tenant Electricity | 1.90 | 0.0 |
| Total Rent | 42.23 | 9.5 |
| Amortized Concessions | -13.23 | 3.3 |
| **Tenant Effective Rent** | **29.00** | **12.6** |
| **Landlord Effective Rent** | **18.17** | **20.8** |

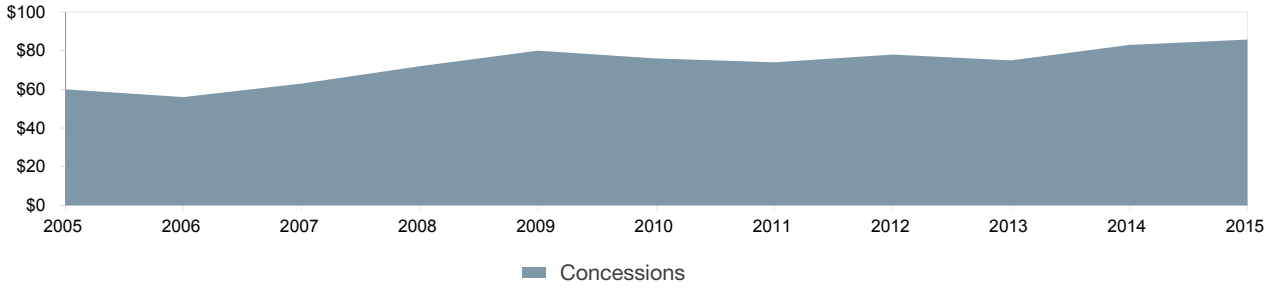
**Outlook: Further Increases Next Year**

Rent for the very highest-caliber space Downtown is likely to push well above $40.00 in 2016 thanks to steady demand from local and out-of-market firms. A limited supply of big blocks, rising parking costs and long commutes will give more companies cause to consider options in suburban locations.

## Rent Trends




| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Average Annual Change 2014-2015 | 2010-2015 | 2005-2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total Rent** | $25.00 | $27.56 | $31.75 | $28.54 | $29.50 | $27.45 | $28.26 | $32.00 | $36.25 | $38.55 | $42.23 | 9.5% | 9.0% | 5.4% |
| **Tenant Effective Rent** | $15.74 | $18.92 | $22.03 | $17.43 | $17.16 | $15.72 | $16.84 | $19.97 | $24.68 | $25.74 | $29.00 | 12.6% | 13.0% | 6.3% |
| **Landlord Effective Rent** | $6.18 | $9.10 | $12.02 | $7.42 | $6.80 | $5.37 | $6.38 | $9.41 | $14.17 | $15.04 | $18.17 | 20.8% | 27.6% | 11.4% |

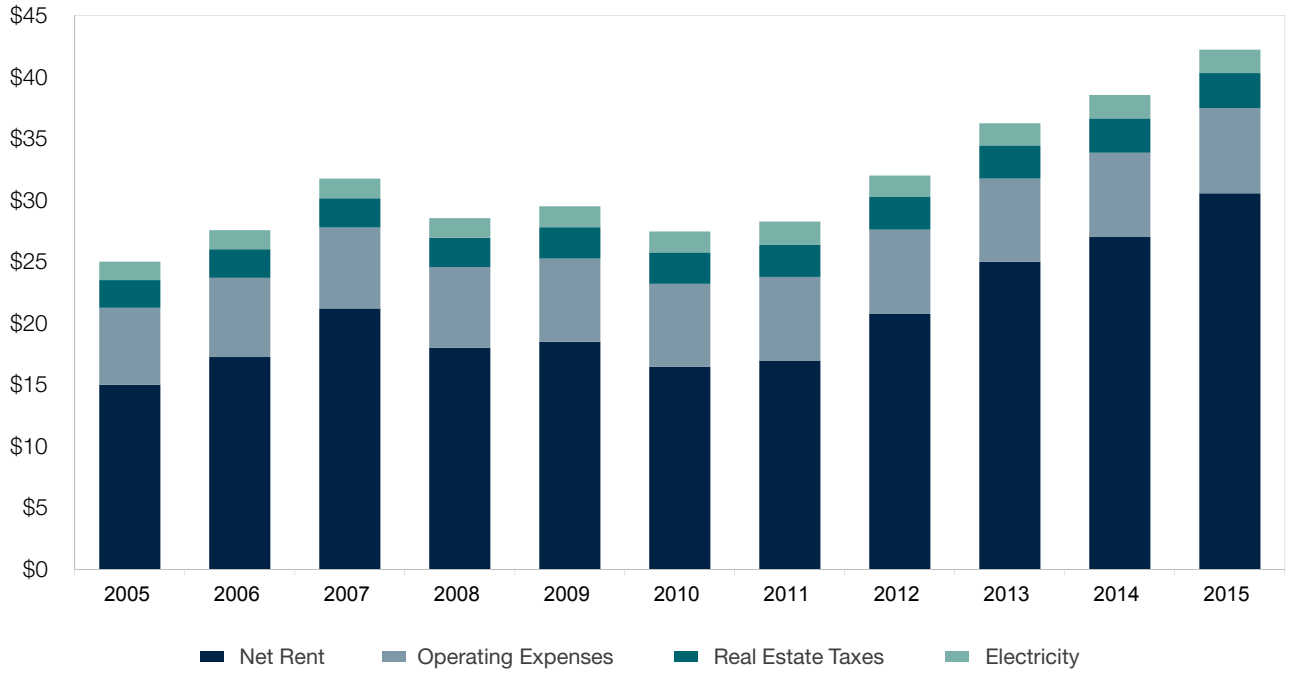



| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Average Annual Change 2014-2015 | 2010-2015 | 2005-2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Concessions** | $60.00 | $56.00 | $63.00 | $72.00 | $80.00 | $76.00 | $74.00 | $78.00 | $75.00 | $83.00 | $85.77 | 3.3% | 2.4% | 3.6% |
| **Concessions/Rent Ratio*** | 37.0% | 31.3% | 30.6% | 38.9% | 41.8% | 42.7% | 40.4% | 37.6% | 31.9% | 33.2% | 31.3% | -1.9 | | |

* Equals amortized concessions as a percentage of total rent.

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Total rent rose for the fifth consecutive year, jumping by 9.5% to $42.23 in what appears to be Denver's the longest expansion cycle in decades. Net rent rose by 13.2%, from $27.00 to $30.56. Operating expenses (+1.0%) and real estate taxes (+1.8%) increased but tenant electric was stable. Concessions fell a bit as a percentage of total rent. Tenant effective rent pushed higher into record territory, increasing by 12.6% to $29.00 – yet another peak for occupancy costs. Landlord effective rent rose by 20.8% to $18.17, also a new peak.




| | | | | | | | | | | | | Average Annual Change | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2014-2015 | 2010-2015 | 2005-2015 |
| **Net Rent** | $15.00 | $17.25 | $21.20 | $17.99 | $18.50 | $16.45 | $16.96 | $20.75 | $25.00 | $27.00 | $30.56 | 13.2% | 13.2% | 7.4% |
| **Operating Expenses** | $6.25 | $6.44 | $6.57 | $6.57 | $6.75 | $6.75 | $6.80 | $6.85 | $6.75 | $6.85 | $6.92 | 1.0% | 0.5% | 1.0% |
| **Real Estate Taxes** | $2.25 | $2.32 | $2.38 | $2.38 | $2.55 | $2.55 | $2.60 | $2.65 | $2.70 | $2.80 | $2.85 | 1.8% | 2.2% | 2.4% |
| **Electricity** | $1.50 | $1.55 | $1.60 | $1.60 | $1.70 | $1.70 | $1.90 | $1.75 | $1.80 | $1.90 | $1.90 | 0.0% | 2.2% | 2.4% |
| **Total Rent** | **$25.00** | **$27.56** | **$31.75** | **$28.54** | **$29.50** | **$27.45** | **$28.26** | **$32.00** | **$36.25** | **$38.55** | **$42.23** | **9.5%** | **9.0%** | **5.4%** |

## Lease Terms/Concessions

**Review: Value of Concessions Declines**

Landlords have been particularly inflexible regarding base rents; some have been pulling back on concessions as well. Although the nominal value of concessions rose, the value of packages relative to rent decreased for the second year in a row. Free rent periods declined and additional costs not included in leases such as parking, build-out costs and relocation expenses continued to escalate.

| Leases Under 50,000 sf | |
|---|---|
| **Average Term:** | 5-10 years |
| **Free Rent:** | 3-8 months |
| **Tenant Improvements:** | $30.00-$50.00/sf |
| **Discretionary Allowance:** | $0.50-$1.00/sf |

| Leases Over 50,000 sf | |
|---|---|
| **Average Term:** | 5-10 years |
| **Free Rent:** | 3-12 months |
| **Tenant Improvements:** | $35.00-$55.00/sf |
| **Discretionary Allowance:** | $0.50-$1.00/sf |

**Outlook: Largest Tenants Pushing to Suburbs**

Tenants can still find base floors in some of the new buildings in LoDo and existing properties Downtown, but view space is very tight and is coming at a premium. Tenants looking for bigger spaces and companies that signed at sub-$30.00 rates in the last cycle are recoiling at the cost of space as they approach lease rollover. Northwest and Southeast buildings stand to capture additional relocations in coming quarters.

## Local & U.S. Historical Rent Trends




**Total Rent***

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Denver** | $25.00 | $27.56 | $31.75 | $28.54 | $29.50 | $27.45 | $28.26 | $32.00 | $36.25 | $38.55 | $42.23 |
| **U.S Median** | $33.88 | $35.66 | $38.79 | $37.92 | $34.95 | $33.63 | $35.65 | $37.93 | $37.85 | $40.24 | $42.32 |
| **U.S Average** | $34.87 | $38.96 | $44.33 | $43.88 | $37.75 | $37.11 | $39.68 | $39.70 | $40.92 | $44.07 | $45.38 |

**Tenant Effective Rent**

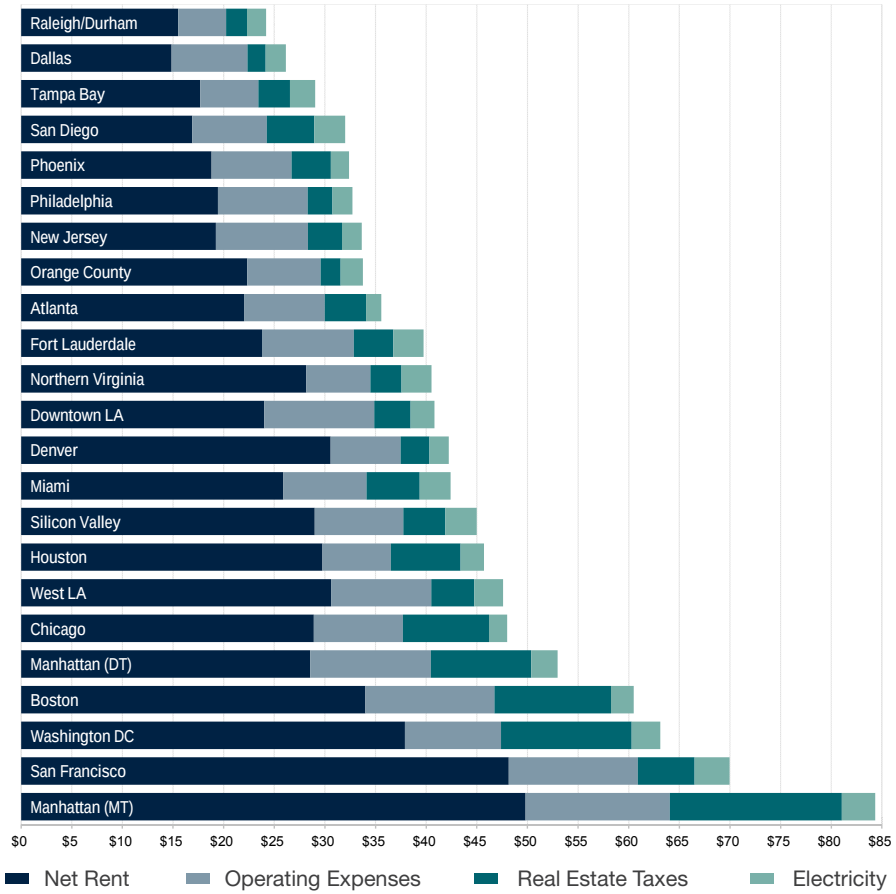
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Denver** | $15.74 | $18.92 | $22.03 | $17.43 | $17.16 | $15.72 | $16.84 | $19.97 | $24.68 | $25.74 | $29.00 |
| **U.S Median** | $23.34 | $25.55 | $29.18 | $30.01 | $25.45 | $24.61 | $25.51 | $26.75 | $27.11 | $28.99 | $30.36 |
| **U.S Average** | $27.60 | $31.70 | $36.76 | $35.16 | $27.02 | $26.72 | $28.68 | $28.85 | $29.98 | $32.63 | $33.70 |

**Landlord Effective Rent**

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Denver** | $6.18 | $9.10 | $12.02 | $7.42 | $6.80 | $5.37 | $6.38 | $9.41 | $14.17 | $15.04 | $18.17 |
| **U.S Median** | $10.80 | $12.11 | $15.19 | $18.10 | $10.12 | $9.90 | $9.60 | $10.16 | $11.44 | $13.69 | $14.23 |
| **U.S Average** | $13.68 | $17.11 | $21.24 | $19.15 | $11.13 | $10.94 | $12.54 | $12.57 | $13.51 | $15.68 | $16.39 |

* All rents are unweighted. See National SERI for weighted averages.

## Rent Components




Since 1995, the Savills Effective Rent Index (SERI) has been providing the real estate industry's only comprehensive, in-depth study of effective rental rate trends for prime Class A office properties in the nation's major Central Business Districts (CBDs) and selected suburban markets. Using actual completed transaction data as its source, the SERI report offers "real world" numbers that reflect negotiated terms, including lease concessions and operating expense information. All numbers in this report are based on larger long-term direct leases signed in higher-caliber Class A properties located in Downtown Denver and LoDo during 2015.

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## Glossary

**Concessions:** Includes the tenant improvement allowance plus the value of the rental rate abatement. Amortized concessions are amortized over the average market lease term, using beginning-of-period payments.

**Landlord Effective Rent:** An estimate of rent received from a tenant less related expenses.

**Net Rent:** The gross rental rate exclusive of the tenant's proportionate share of real estate taxes, operating expenses and tenant electricity.

**Operating Expenses:** Includes (1) heating, ventilation and air conditioning (HVAC); (2) maintenance; (3) common area utilities and electricity; (4) cleaning; and (5) all other non-capital costs associated with the operation of a building.

**Real Estate Taxes:** Local real estate taxes exclusive of special assessments and other one-time charges.

**Tenant Effective Rent:** An estimate of the actual cost of occupancy for the tenant. The calculation is the total rent minus amortized lease concessions.

**Tenant Electricity:** Payments made by the tenant, whether to the landlord or public utility, or by the landlord as a general building expense, for the electrical power utilized within a tenant's premises, exclusive of building HVAC.

**Total Rent:** The sum of the four rental rate components: net rent, operating expenses, real estate taxes and electricity.

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