

Savills Studley Report Denver office sector

Q3 2018



SUMMARY

Market Highlights

LEASING UP SLIGHTLY

Quarterly leasing volume positively reversed directions, rising from 1.9 million square feet (msf) to 2.0 msf, and on par with the market's long-term average. Tenants have leased 8.8 msf in the four most recent quarters, on track with the long-term market average.

CLASS A AVAILABILITY DROPS

The market's overall availability rate ticked down by 10 basis points to 18.6% this quarter, the second consecutive quarter with a slight decrease. The region's Class A rate

posted a sharper 40 basis point decrease to 19.3%.

RENTAL RATE UP SLIGHTLY

Overall asking rent posted a 2.4% increase, rising from \$27.54 to \$28.20. The Class A asking rent rose by 2.3% to \$31.90.

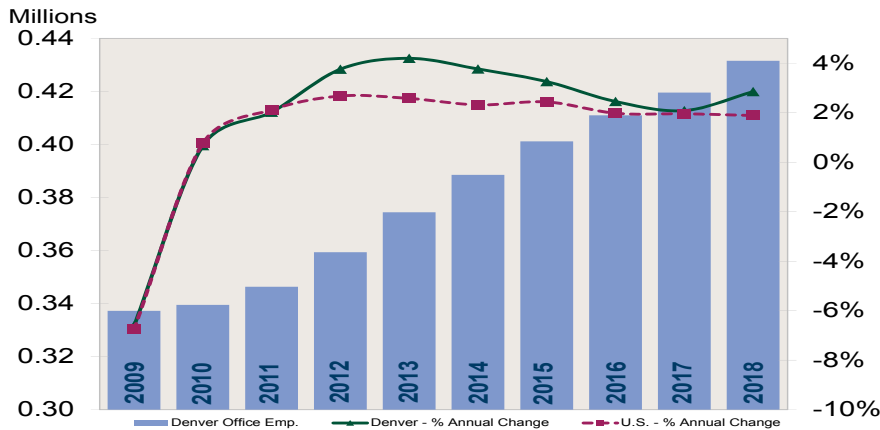
SALES UP

Office property sales during the first seven months of the year totaled \$1.5 billion, a 31% increase compared to the first seven months of 2017.

"Some tech firms are expanding at a rapid pace, but continued commitment to space efficiency among law firms and many other sectors is restraining space absorption. However, VF Corporation and Slack's arrival validate the positive market momentum."

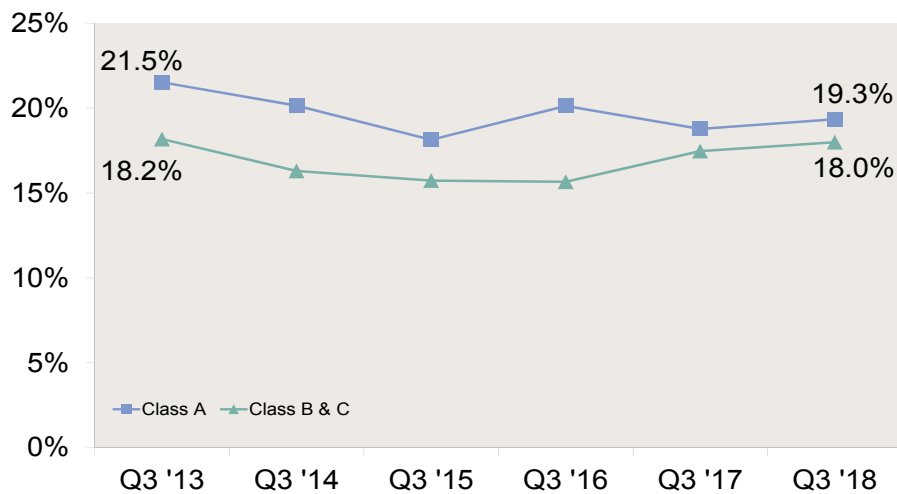
Todd Roebken, Executive Managing
Director

Office-Using Employment Trends

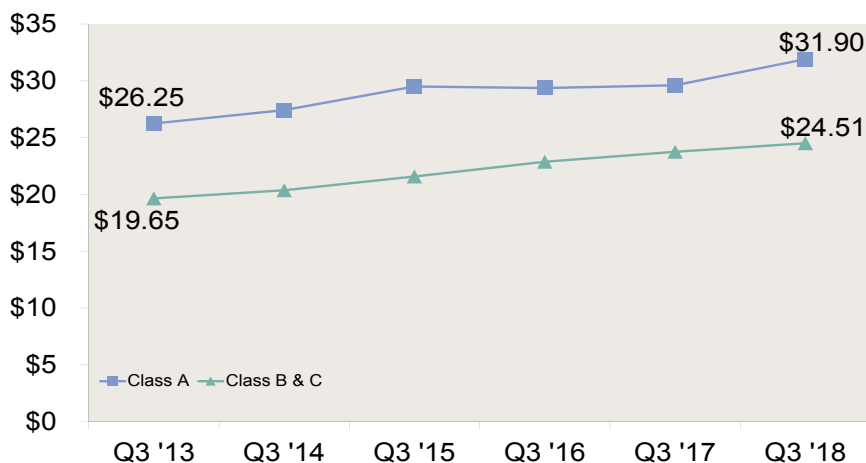


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Downtown Denver – Running Hot with Tech and Lifestyle

Denver's economy is rolling along at a steady pace and some area firms are expanding. Banks, general professional/business services and the legal sector, in particular, remain committed to space efficiency. Two companies made Denver headlines by signing significant leases in the third quarter: VF Corporation and Slack Technologies. VF Corporation, relocating from Greensboro, NC expects to house 800 employees at their new outdoor brands headquarters in LoDo. The firm leased the entire building at 1551 Wewatta for a 12-year period, Gates Corporation's old headquarters. VF Corporation will begin renovations in early 2019 and gradually relocate people over time. VF Corporation will relocate several different brands to Denver: North Face, backpack giant JanSport, running-shoe manufacturer Altra, as well as the headquarters of sock-maker Smartwool. All of the relocating business brands intersect with Colorado's magnetic outdoor lifestyle.

Headquartered in San Francisco, Slack Technologies will occupy 80,474 sf across the sixth and seventh floors of Denver's newest delivery, 16 Chestnut. The Colorado Office of Economic Development recently granted Slack Technologies \$10.5 million in incentives in order to bring an extra 550 jobs to Colorado. Slack's decision is yet another validation of downtown Denver as a major technology industry hub in the US.

Other tech firms that already have a presence in the region are consolidating multiple locations. OnDeck Capital's extensive growth also illustrates Denver's growing presence in the fintech sector. The online small business lender has seen its payroll spike from 15 employees to about 160 in the last five years. Located at 101 W. Colfax Avenue, the company said it plans to grow by 15% in the next five months.

Denver Suburban Markets Hold Their Own

The suburban markets held their own in tech as well. AppExtremes will consolidate multiple locations at Atria, located at 13699 Via Varra Road in Broomfield. The company, which operates as Conga, will occupy 88,000 sf, a big jump from the 30,000 sf it leases at 390 Interlocken Blvd. The consolidation of operations from different locations could create as many as 570 new jobs. Conga acquired Octiv and Orchestrate in March. It provides software that automates and streamlines data-management tasks.

All industry sectors in Denver are facing labor shortages. With an unemployment rate now

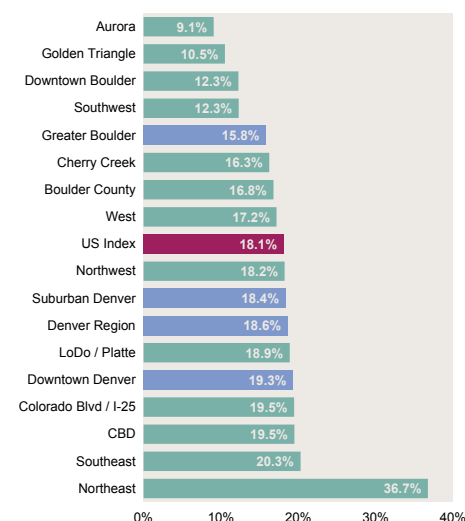
at 2.9%, competition for skilled and unskilled labor is intense. While there continues to be meaningful net inbound migration to Colorado, the pace has slowed slightly. Part of the reason is the cost of housing. Similarly rent for some commercial space continues to rise, especially in the tightest submarkets like Boulder. Big and even mid-sized blocks of space in Boulder are few and far between, and come at a high cost. There are more tenants still seeking to be located in the Boulder market. Competition for space, particularly blocks over 10,000 square feet, is strong. Many tech firms consider Boulder's location an important consideration because of its proximity to the exceptional engineering program at CU Boulder. It is also reasonably close to the Colorado School of Mines and boasts an already established and durable startup scene.

Broomfield and Westminster have historically benefited from companies seeking alternatives to Boulder, but the continuing trend of moving to downtown Denver and skipping over the I-36 corridor is showing signs of impact. The expansion of two tech heavyweights – Google and more recently Amazon – make it likely that conditions will tighten even more in Boulder. Google Pearl Place, Google's 200,000-sf campus, opened just a few months ago. Google is also expected to lease the entirety of 2100 30th St, a 118,000-sf building slated to break ground this month, adjacent to their newly opened building. Google will have room for 1,500 employees in its multi-phase Boulder office. Amazon announced plans to move a team of engineers focused on multi-channel advertising to a 33,000-sf building at 1900 15th Street, across from the Pearl Street Mall. Amazon currently has about 250 engineers in offices across Denver, Boulder and Broomfield.

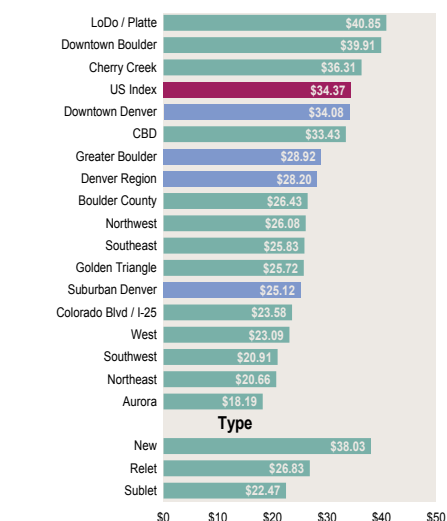
Energy Sector – High and Potential Low

Oil and gas was hit hard by the decline in commodity prices. The fallout in the energy sector boosted sublet supply back in 2015-2016. By the end of 2016, available sublet space had jumped to 1.2 msf, an increase of 73.7% from the prior year. Sublet supply has fallen from 1.5 msf to 1.4 msf in the last six months. Some oil and gas firms are on the rebound, spurring activity among field services firms as well. Well Data Labs signed a 10,721-sf lease at 1675 Larimer Street and will move from 2,500 sf on another floor in the building. The company provides oil and gas companies with software that analyzes hydraulic fracturing “completions” data. The firm, which had eight employees as of late 2017, plans to have 30 employees by year-end 2018, and 60 by the end of 2019. Denver has also been seeing renewed interest

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
VF Corporation	285,197	1551 Wewatta St	LoDo / Platte
Whiting Petroleum Corporation	134,348	1700 Lincoln St	Central Business District
WeWork	117,000	1700 Lincoln St	Central Business District
Slack Technologies	80,474	2001 16th St	LoDo / Platte
WeWork	50,757	3601 Walnut St	LoDo / Platte
Aimco Apartments	47,753	4582 S Ulster St	Southeast
OrthoFi	36,157	900 S Broadway	Colorado Blvd / I-25
Google	32,407	3333 Walnut St	Downtown Boulder
Zoom Technologies	30,502	7601 Technology Way	Southeast
20/20 Tax Resolution	21,070	11800 Ridge Pky	Northwest
Sum of Top 10 Leases	835,665	Sum of 3rd Qtr Leasing Activity	2.0 MSF

from the VC and private equity sector. Stout Street Capital, a spinoff of oil and gas firm Strata Resources, announced that it will raise \$20 million for its second fund. Voter will face a critical ballot initiative, Proposition 112, in the upcoming November election. Proposition 112 seeks to put further limits on drilling rules and fracking in particular. The natural gas industry in Colorado is significant. The results of that vote will be further covered in our year-end review, especially if it passes.

Coworking Maintains Impact and Expands

In a move that was a first in Denver for WeWork, Full Contact relocated its HQ to 1200 17th Street with plans to almost double its workforce over the next four years. The firm will occupy nearly a full floor at the WeWork Tabor Center, moving from 1755 Blake Street in Union Station. A company spokesperson said the WeWork center met all its requirements in terms of flexibility, transition and amenities.

WeWork and other coworking firms are trying to establish a niche for bespoke agile space – giving firms the ability to customize a space under a short-term lease. WeWork has a robust enterprise format business housing large numbers of large corporations' employees. The Full Contact commitment to a single floor represents a new segment of the traditional tenant base WeWork is pursuing.

Coworking providers are also pushing out to suburban locations. Some are filling former law firm space. Thrive Workplace signed a five-year lease for 20,807 sf in Arvada's Creekside Business Park. This will be its third Denver area location. Thrive will occupy a space at 5610 Ward Road that was previously leased by law firm HindmanSanchez PC in 2016. WeWork inked two more sizeable leases in the third quarter: 117,000 sf at Wells Fargo Center and 50,757 sf at The HUB. These two transactions bring its total square footage to 438,000 sf in the Downtown Denver area.

Map	Submarket	Total	Leasing Activity	Available SF			Availability Rate			Asking Rents Per SF		
		SF (1000's)	Last 12 Months	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. ⁽¹⁾	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	Central Business District	21,585	1,856	4,210	3.2%	4,750	19.5%	0.7%	21.8%	\$33.43	3.9%	\$30.25
	Central Business District - Class A	15,114	1,482	2,752	-0.1%	3,427	18.2%	0.0%	22.5%	\$35.81	5.0%	\$31.52
2	LoDo / Platte	10,338	1,267	1,954	9.7%	1,250	18.9%	1.6%	12.3%	\$40.85	3.6%	\$37.38
	LoDo / Platte - Class A	7,234	1,022	1,471	14.2%	847	20.3%	2.5%	11.9%	\$42.64	2.5%	\$38.75
3	Golden Triangle	1,641	97,246	173	-1.7%	201	10.5%	-0.2%	12.3%	\$25.72	0.0%	\$28.64
	Golden Triangle - Class A	771	26,322	58	-14.0%	74	7.5%	-1.2%	9.6%	\$23.72	-3.0%	\$30.10
4	Cherry Creek	2,524	182	410	-6.2%	426	16.3%	-1.1%	17.8%	\$36.31	-1.7%	\$37.72
	Cherry Creek - Class A	1,072	76	205	-0.3%	244	19.1%	-0.1%	22.8%	\$43.87	2.6%	\$44.46
5	Colorado Blvd / I-25	8,751	824	1,703	3.0%	1,797	19.5%	0.6%	20.4%	\$23.58	-0.6%	\$24.51
	Colorado Blvd / I-25 Class A	2,508	277	582	1.4%	583	23.2%	0.3%	23.3%	\$26.09	-1.0%	\$30.70
6	Northeast	2,023	60	743	-0.8%	705	36.7%	-0.3%	33.4%	\$20.66	24.6%	\$16.50
	Northeast - Class A	421	31	117	0.0%	111	27.7%	0.0%	26.3%	\$25.94	1.8%	\$25.93
7	Aurora	3,127	255	284	-4.3%	337	9.1%	-0.4%	10.8%	\$18.19	0.4%	\$18.60
	Aurora - Class A	315	101	38	0.0%	44	12.1%	0.0%	13.9%	\$20.00	0.0%	\$19.00
8	Southeast	30,511	2,534	6,192	-5.2%	5,641	20.3%	-1.0%	18.5%	\$25.83	0.7%	\$25.11
	Southeast - Class A	16,926	1,680	3,457	-9.2%	3,008	20.4%	-2.1%	17.9%	\$27.62	0.6%	\$26.41
9	Southwest	4,915	269	605	-12.5%	792	12.3%	-1.7%	16.0%	\$20.91	4.3%	\$19.01
	Southwest - Class A	995	68	146	6.4%	96	14.7%	0.9%	9.6%	\$23.93	1.8%	\$22.43
10	West	7,467	420	1,284	2.3%	1,302	17.2%	0.4%	17.4%	\$23.09	0.9%	\$23.11
	West - Class A	1,363	123	204	-16.4%	253	15.0%	-2.9%	18.6%	\$25.72	-0.2%	\$25.40
11	Northwest	9,892	679	1,804	-1.0%	2,000	18.2%	-0.2%	20.6%	\$26.08	4.2%	\$24.94
	Northwest - Class A	4,929	445	1,075	2.5%	1,080	21.8%	0.5%	22.7%	\$27.78	2.2%	\$26.46
12	Downtown Boulder	1,595	87	196	14.1%	170	12.3%	0.7%	11.5%	\$39.91	-1.5%	\$42.19
	Downtown Boulder - Class A	399	0	14	95.5%	22	3.6%	1.8%	5.4%	\$39.63	-1.9%	\$43.57
13	Boulder County	5,903	297	991	-6.9%	534	16.8%	-1.3%	9.0%	\$26.43	-3.1%	\$28.09
	Boulder County - Class A	610	45	63	-34.8%	39	10.4%	-5.5%	6.3%	\$40.84	11.1%	\$31.34
1-2	Downtown Denver Total	31,923	3,123	6,163	-1.0%	6,363	19.3%	-0.2%	19.9%	\$34.08	-9.3%	\$35.02
	Downtown Denver - Class A	22,348	2,505	4,223	-2.7%	4,520	18.9%	-0.5%	20.2%	\$36.09	-7.1%	\$35.78
12-13	Greater Boulder Total	7,497	385	1,187	-0.5%	786	15.8%	-0.3%	10.6%	\$28.92	-11.8%	\$33.04
	Greater Boulder - Class A	1,008	45	78	-31.3%	72	7.7%	-3.5%	7.2%	\$37.03	-3.6%	\$34.21
3-13	Suburban Denver Total	78,347	5,703	14,384	-0.9%	14,136	18.4%	-0.2%	18.1%	\$25.12	-0.3%	\$24.42
	Suburban Denver - Class A	30,308	2,873	5,960	-6.6%	5,847	19.7%	-1.4%	19.5%	\$27.91	1.2%	\$27.31
1-13	Greater Denver Total	110,270	8,826	20,548	-0.8%	19,906	18.6%	-0.1%	18.1%	\$28.20	2.4%	\$26.59
	Greater Denver - Class A	52,656	5,378	10,183	-1.9%	9,827	19.3%	-0.4%	18.8%	\$31.90	2.3%	\$29.61

Please contact us for further information

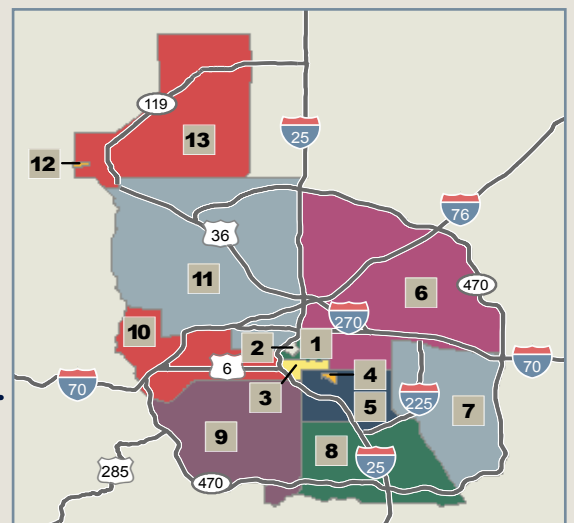
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(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
Statistics are calculated using both direct and sublease information.
Short-term sublet spaces (terms under two years) were excluded.
^Unless otherwise noted, source for data is Savills Studley.
The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.
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