



JONES LANG
LASALLE®

Real value in a changing world

The Denver office market

Past, present and *future*



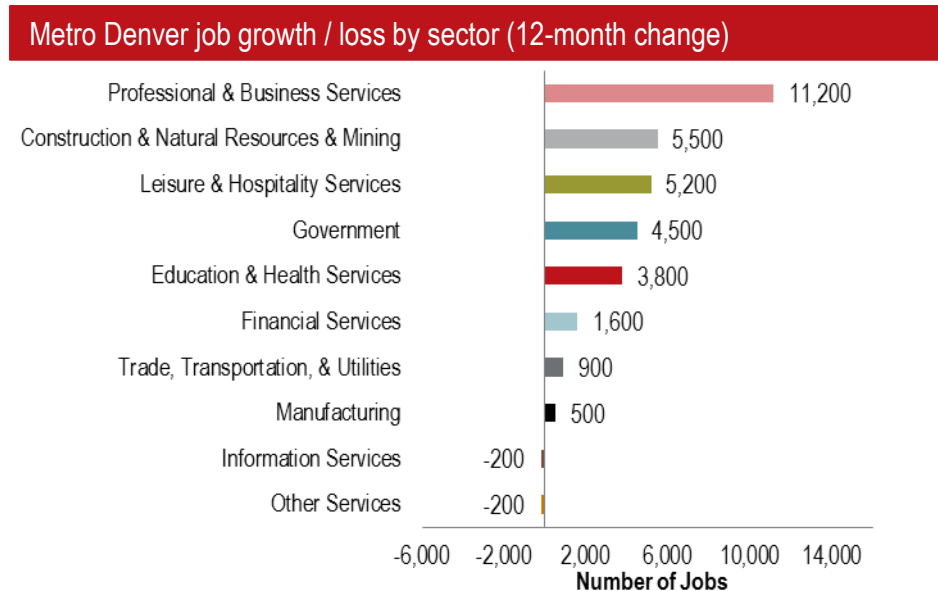
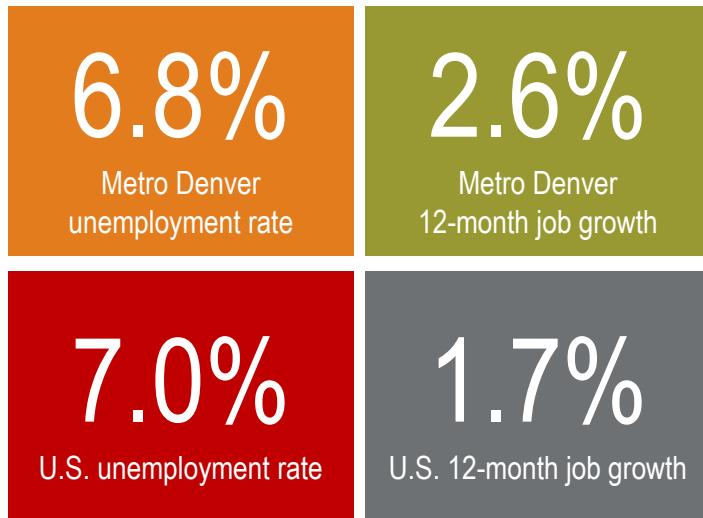
Peter Schippits
Senior Vice President
December 2013

The office market: Past, present and future

The signs of a healthy office market:

- ✔ Positive absorption
- ✔ Increasing rental rates and decreasing or stable vacancy
- ✔ Active capital markets
- ✔ Controlled development

Metro Denver employment update



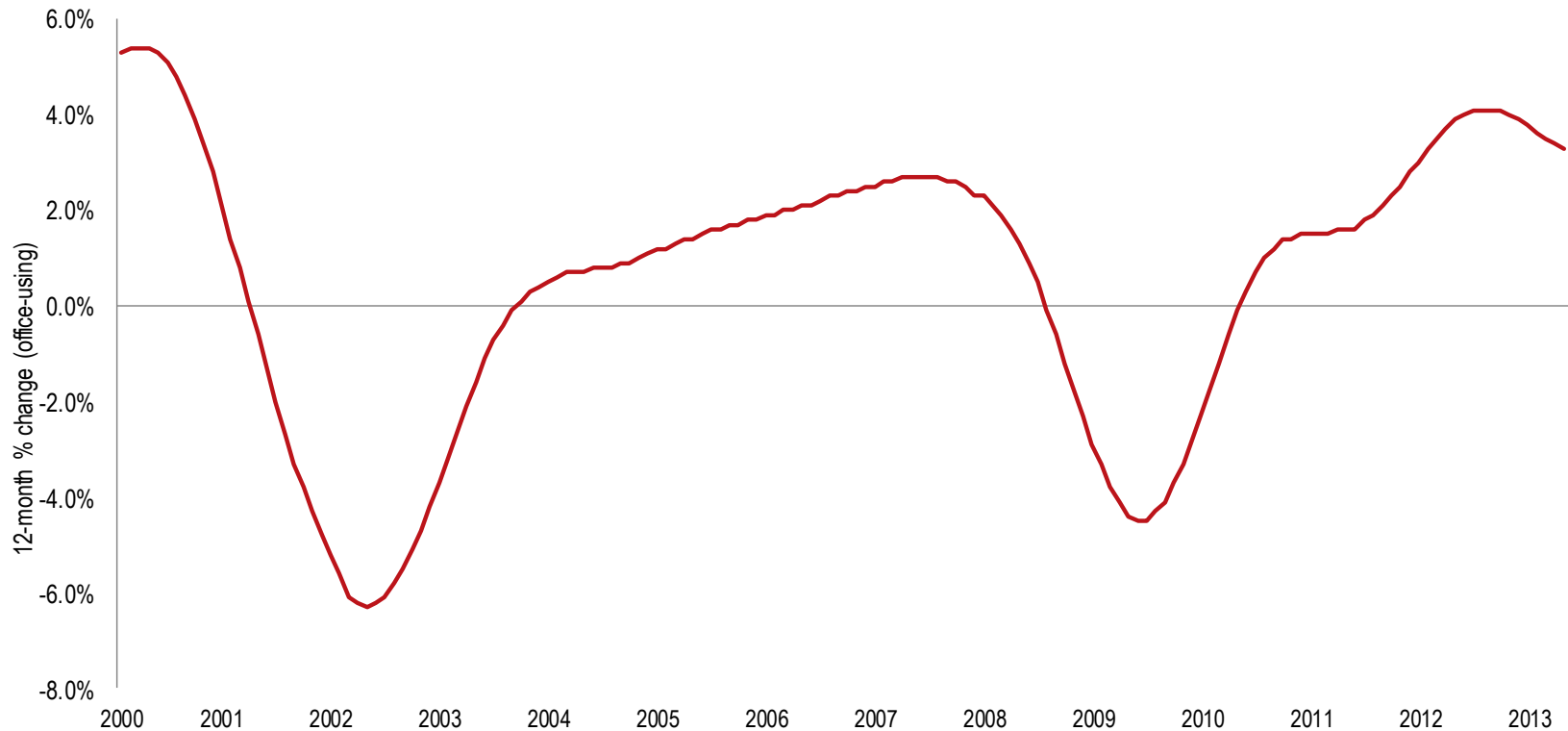
Real estate implications

Cost containment remains key for most tenants in the market. Real estate is generally the second largest expenditure for companies after personnel costs, so tenants are continuing to keep a close eye on their office space and look for opportunities to consolidate or condense their operations as they manage expenses.

Most areas across the country are struggling to see job growth translate into demand for office space. The drive to efficiency has created denser work environments, built around open floor plans and reduced interior space. A push within many sectors to adopt more telecommuting and hoteling has also restricted organic growth in the office market. In today's environment, more job growth will be necessary to spur office demand given the dramatic changes underway in terms of space utilization.

Source: Jones Lang LaSalle Research

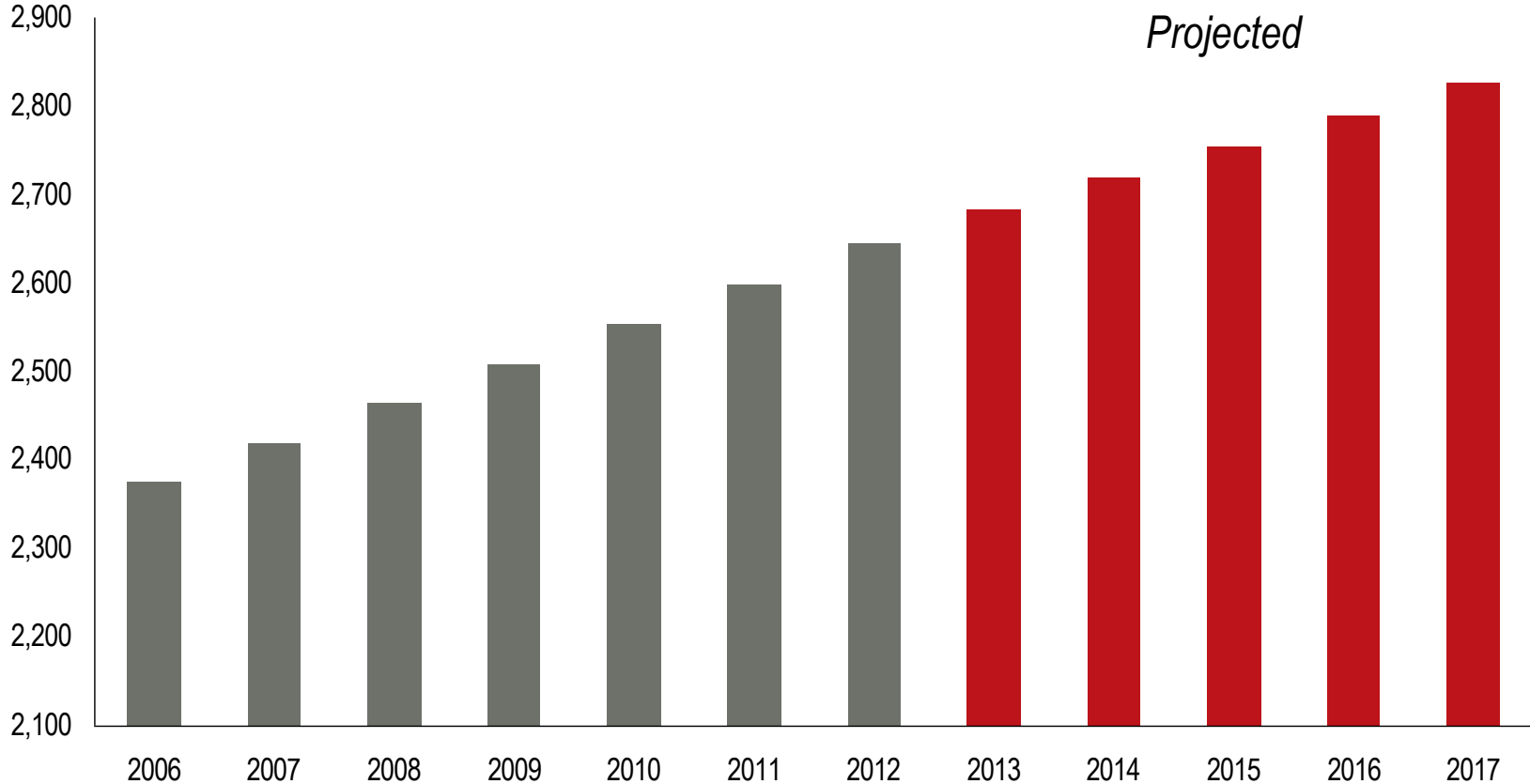
Despite slowing slightly, office-using job growth in Denver still trending above 3.0 percent in 2013



Source: Bureau of Labor Statistics, Jones Lang LaSalle

On the population front, Denver's population has surged and is expected to continue to surge over the next five years

Denver annual population



Source: economy.com, Jones Lang LaSalle

How big is that population surge expected to be?



Denver population growth

19.0%

2006-2017 projected*

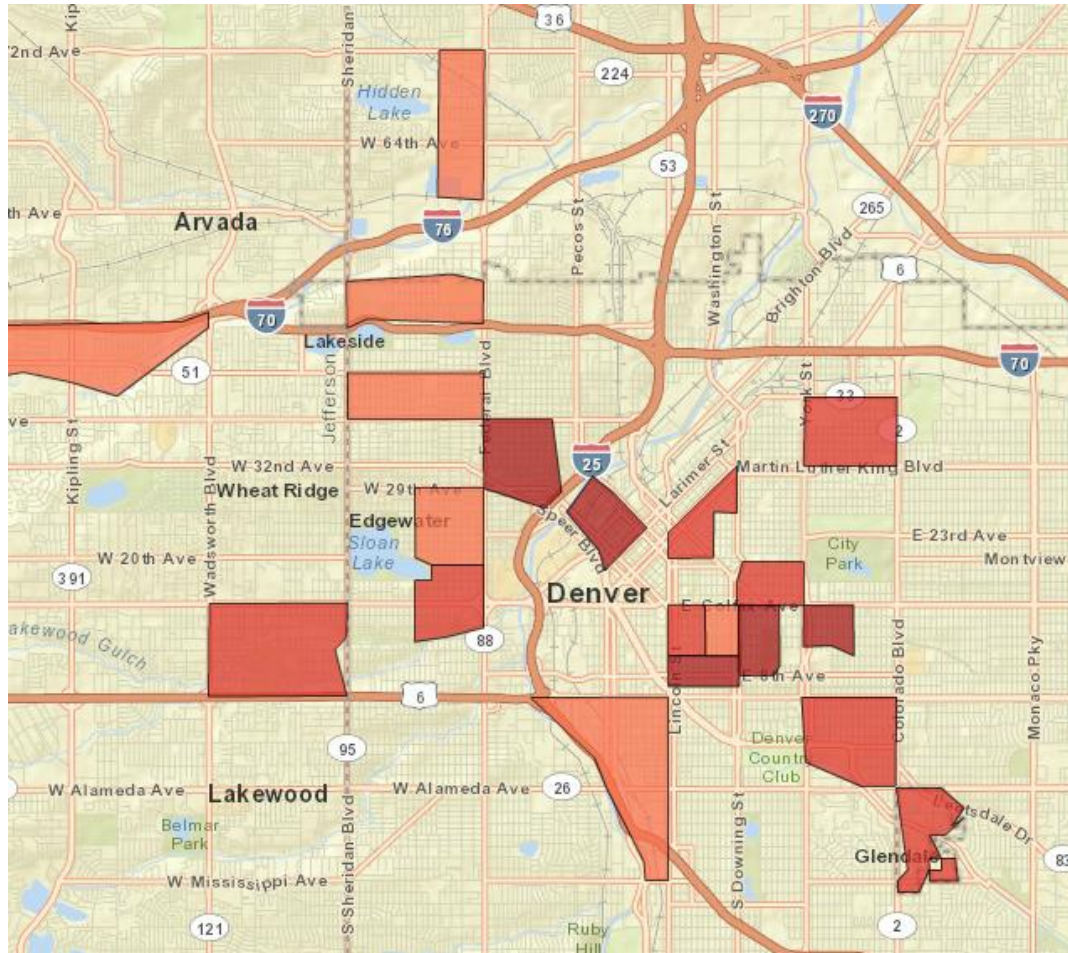
Source: economy.com, Jones Lang LaSalle

Within the region, Denver CBD posting faster population gains than surrounding area



Source: Esri BAO, Jones Lang LaSalle...Highlighted census tracts have 2010-12 population growth of 3.0+ percent

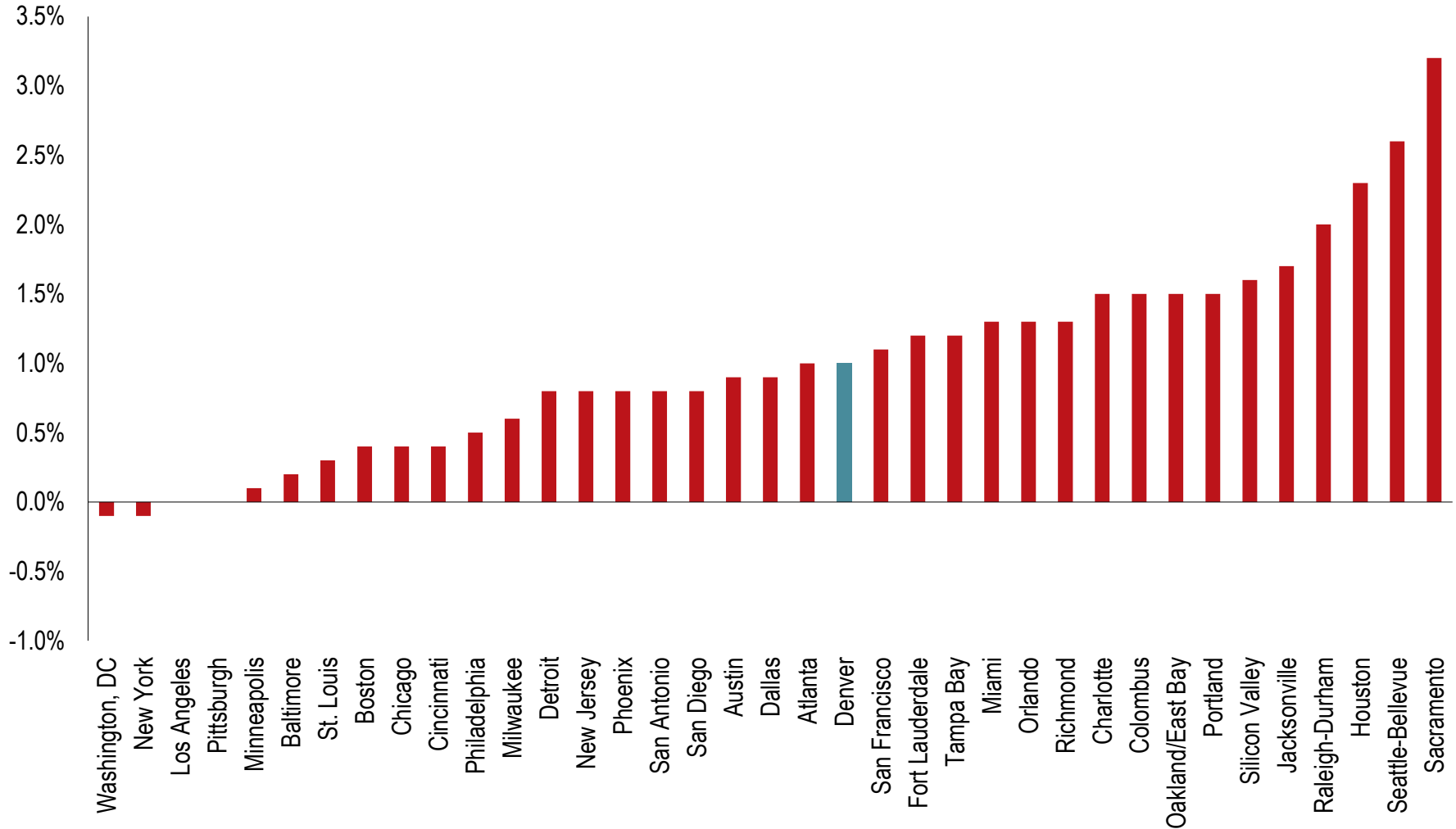
In 1990, it was a different story: central Denver had the highest residential vacancy in the metro area



Source: Esri BAO, Jones Lang LaSalle... Highlighted census tracts have at least 20 vacant household units

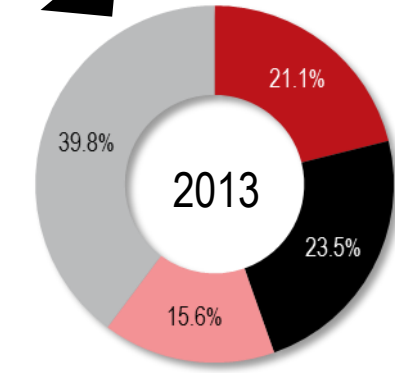
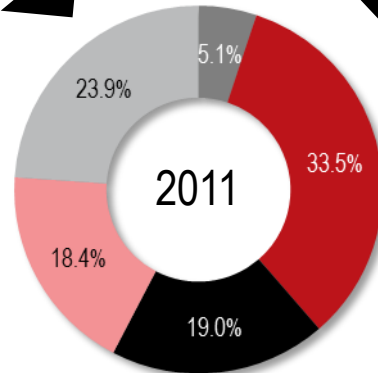
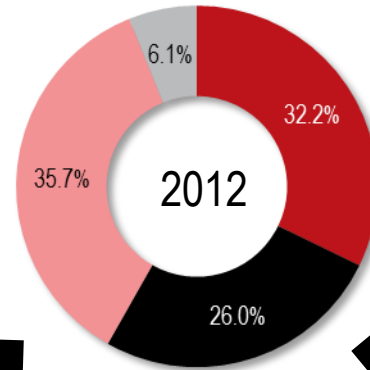
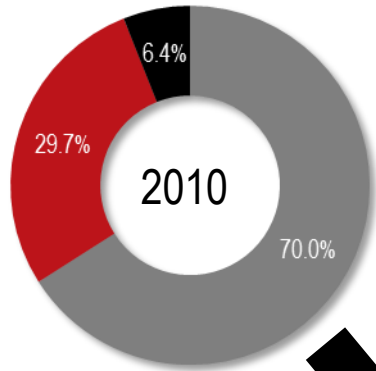
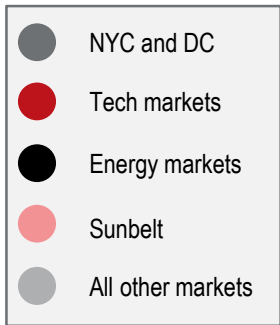
Absorption in major U.S. markets

Absorption as a percent of inventory



Source: Jones Lang LaSalle

Tech and energy still leading recovery, but more markets are participating heading into the last months of 2013

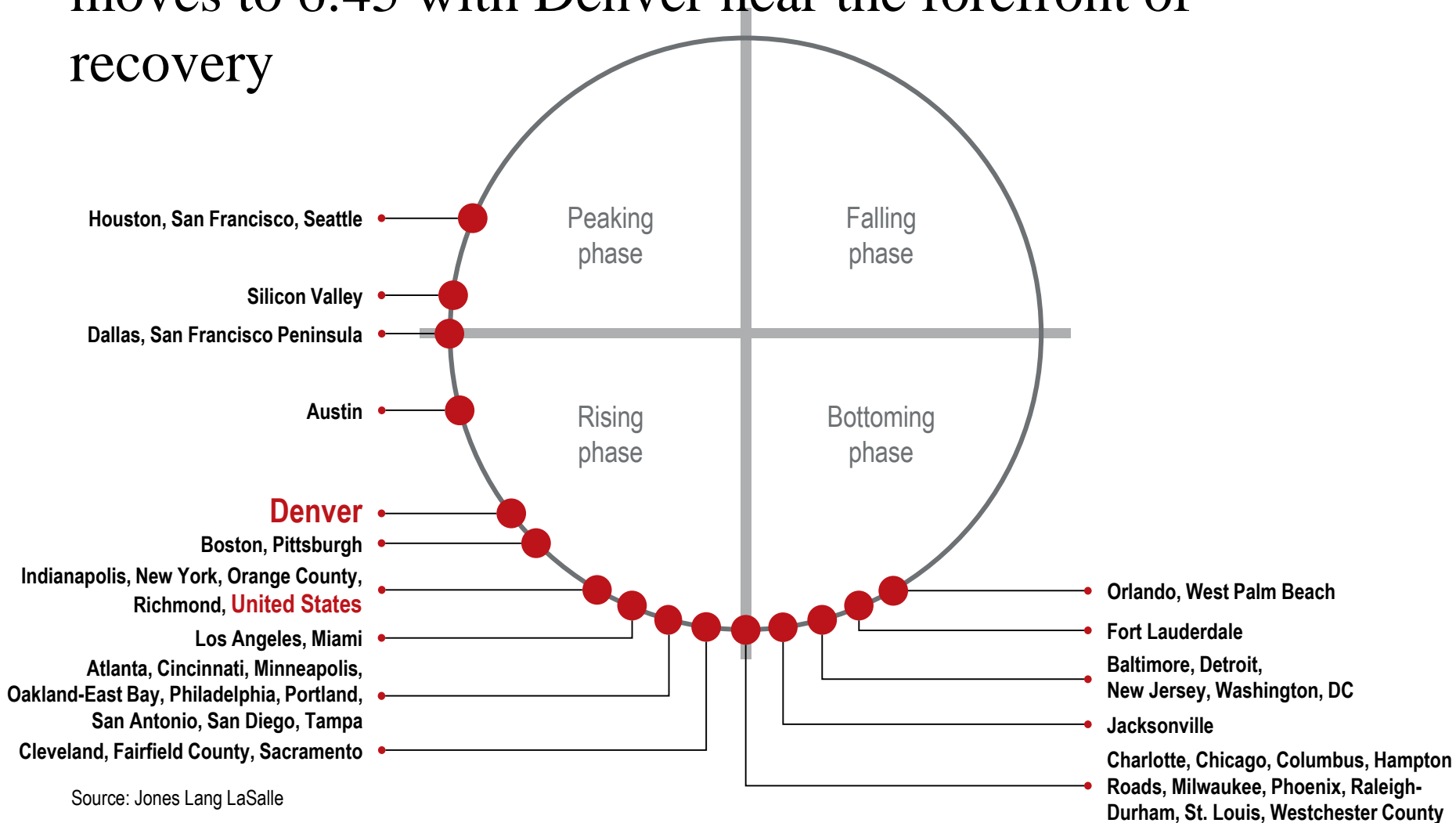


2010: New York and DC comprise 70.0 percent of absorption.
2011: Tech and energy emerge, comprising 52.5 percent of absorption; New York and DC fall to 5.1 percent.
2012: Sunbelt markets grow to over one-third of absorption, but tech and energy remain dominant (58.2 percent of 2012 absorption); New York and DC both post negative annual absorption.
2013: Growth in other markets now makes them responsible for 39.8 percent of YTD absorption; New York and DC still absent.

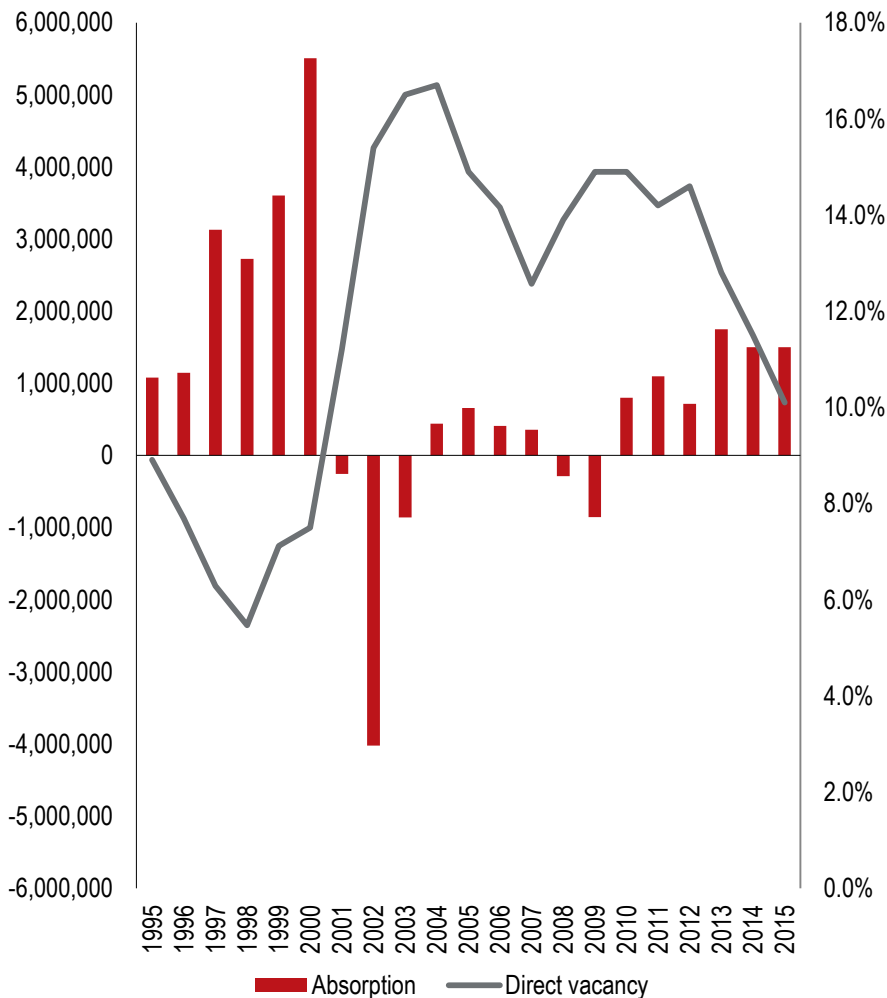
Source: Jones Lang LaSalle
 Numbers may add to over 100.0 percent

Denver an energy market

With majority of markets seeing rising rents, U.S. moves to 6:45 with Denver near the forefront of recovery



Metro Denver market dynamics



Source: Jones Lang LaSalle

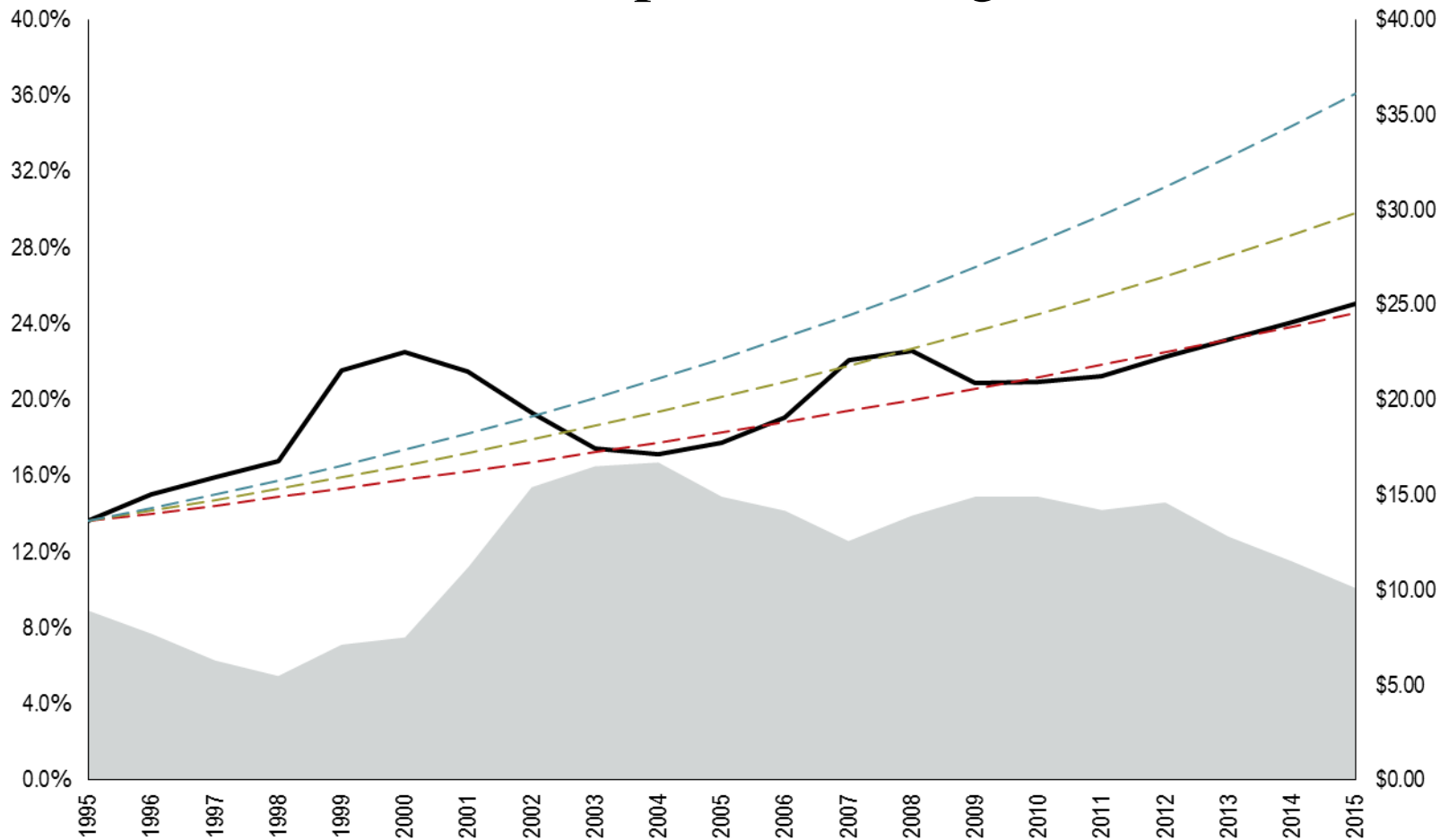
Market statistics

- 113.5 million s.f. market (1,092 buildings)
- 13.1 percent direct vacancy rate
- 14.2 percent total vacancy rate
- Class A: 10.6 percent direct vacancy; \$27.52 / s.f.
- Class B: 16.5 percent direct vacancy; \$19.35 / s.f.
- Under construction: 1,535,176 s.f. (61.2 percent leased)

Market trends

- The number of buildings under construction has increased dramatically over the past year and speculative construction is now a viable option in some submarkets.
- There are currently 200 blocks of available space over 20,000 s.f. throughout the market. It is expected that this number will decrease over the next few quarters.

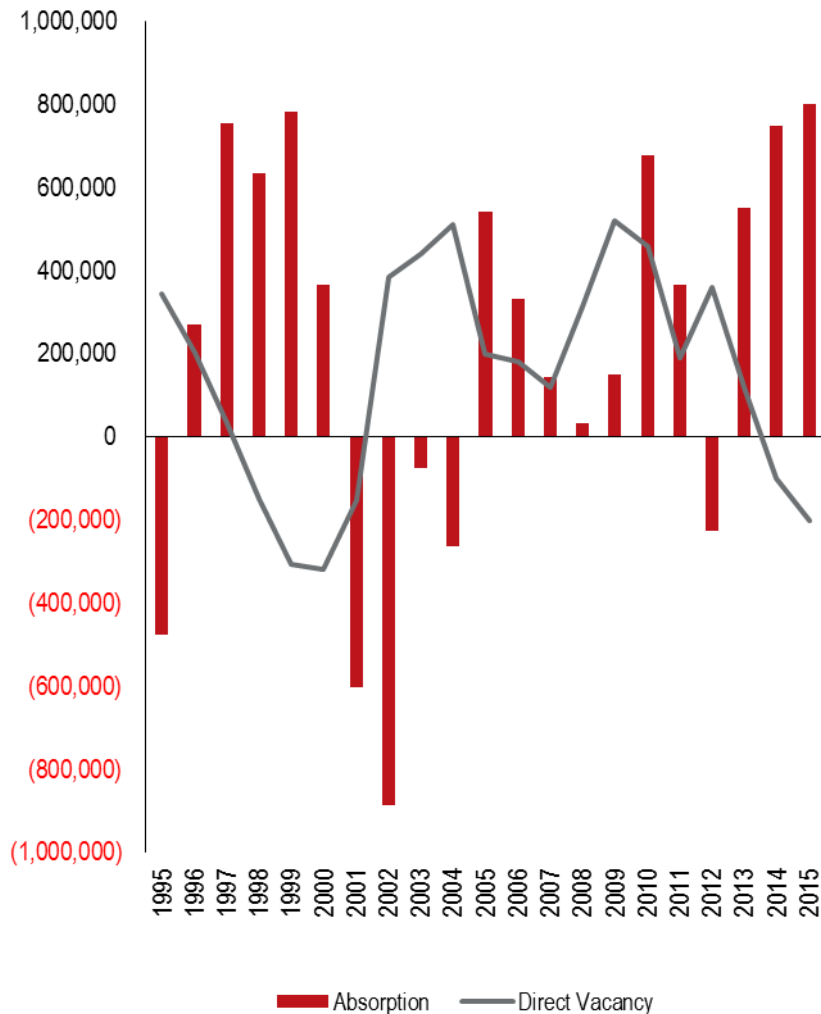
Metro Denver vacancy and rental rates comparing actual rent to 3, 4, and 5 percent rent growth rates



Source: Jones Lang LaSalle

Direct Vacancy
 Rental Rate
 3.0%
 4.0%
 5.0%

CBD market dynamics



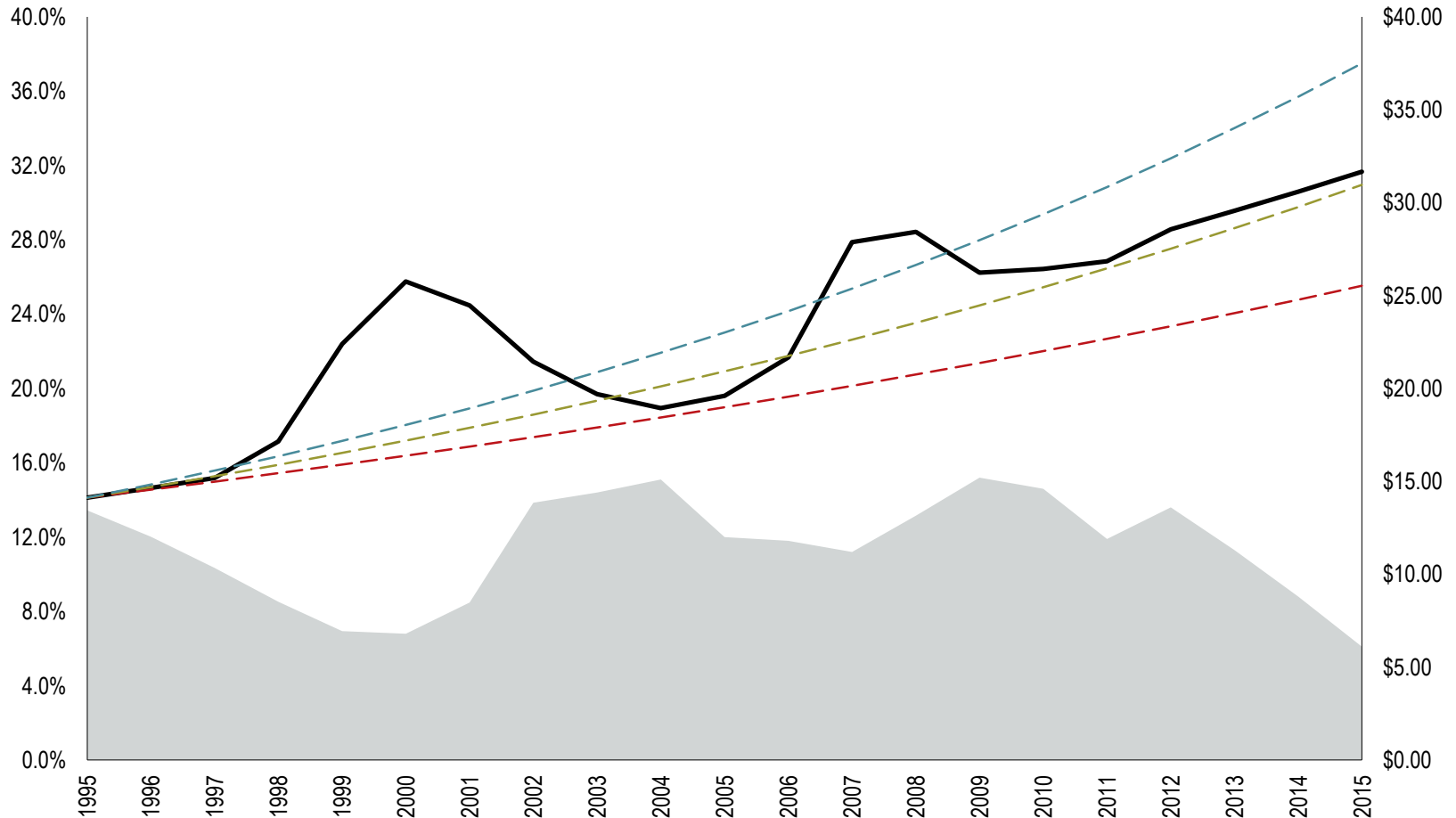
Market statistics

- 30.0 million s.f. market (156 buildings)
- 11.5 percent direct vacancy rate
- 13.1 percent total vacancy rate
- Class A: 10.9 percent direct vacancy; \$31.52 / s.f.
- Class B: 17.2 percent direct vacancy; \$23.58 / s.f.
- Under construction: 660,156 s.f. (34.1 percent leased)

Market trends

- A 299,990-square-foot 100 percent speculative office building is under construction at 1601 Wewatta Street.
- Blocks greater than 20,000 square feet of space in trophy and Class A properties are declining, however there are currently a handful of options in the CBD.

CBD vacancy and rental rates comparing actual rent to 3, 4, and 5 percent rent growth rates



Source: Jones Lang LaSalle

Direct Vacancy

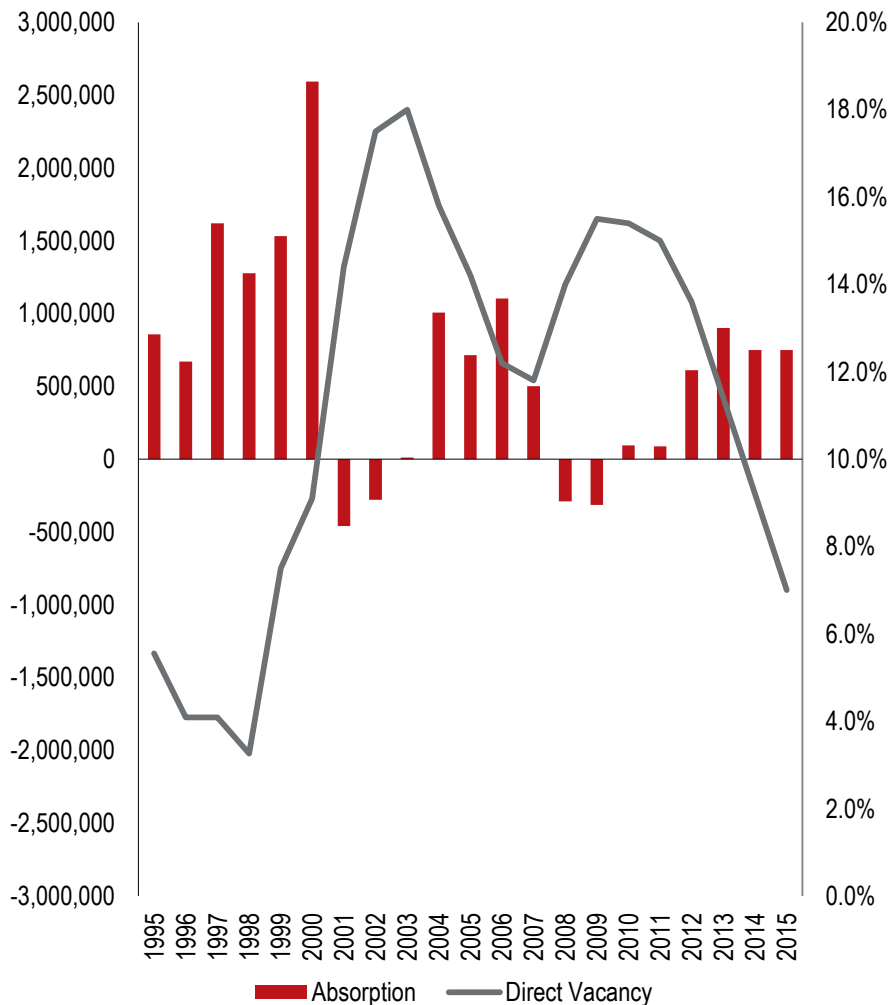
FSG Rental Rate

3.0%

4.0%

5.0%

Southeast Suburban market dynamics



Source: Jones Lang LaSalle

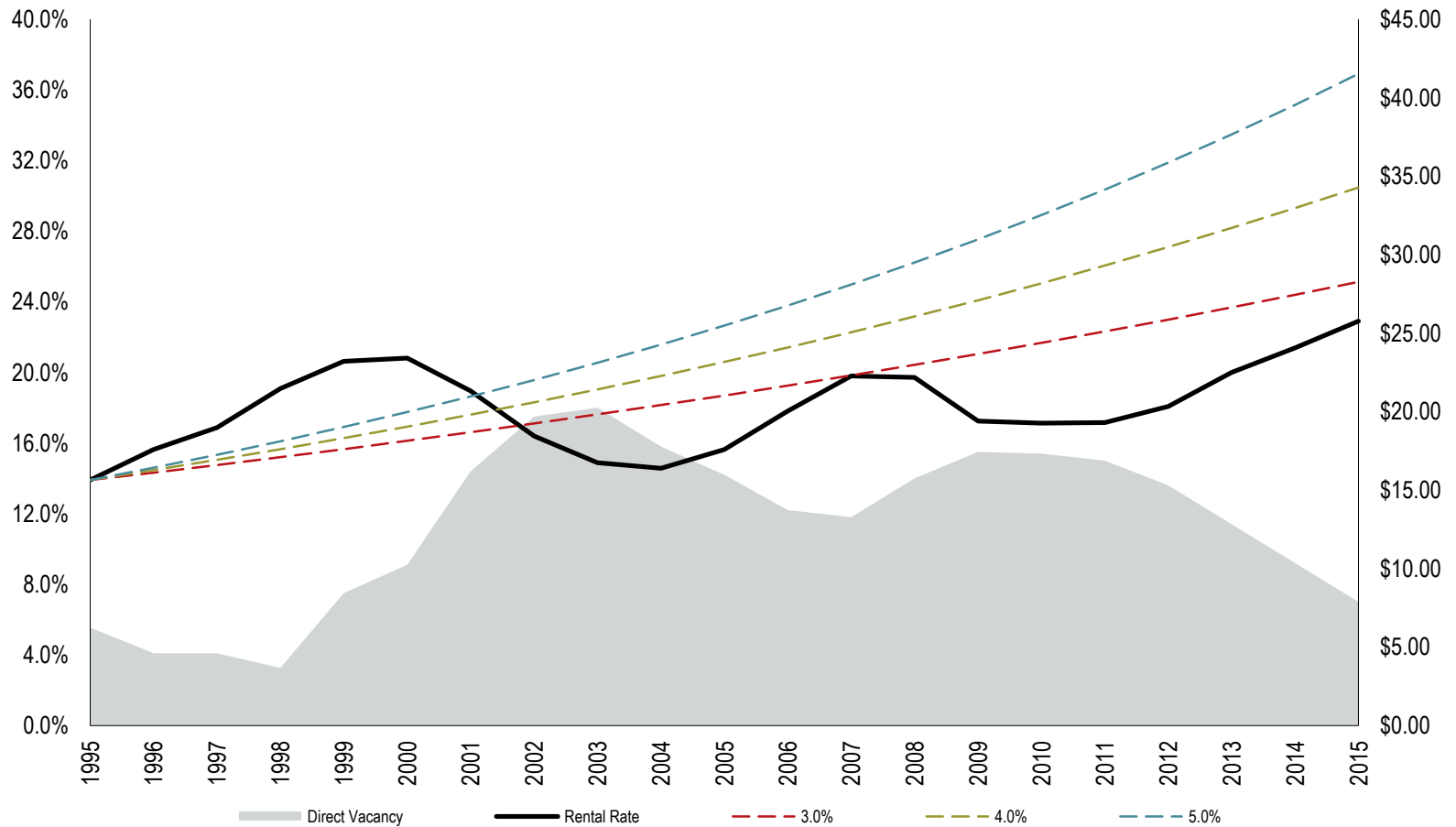
Market statistics

- 33.9 million s.f. market (301 buildings)
- 11.5 percent direct vacancy rate
- 13.2 percent total vacancy rate
- Class A: 8.5 percent direct vacancy; \$24.21 / s.f.
- Class B: 15.6 percent direct vacancy; \$18.23 / s.f.
- Under construction: 650,000 s.f. (100 percent leased)

Market trends

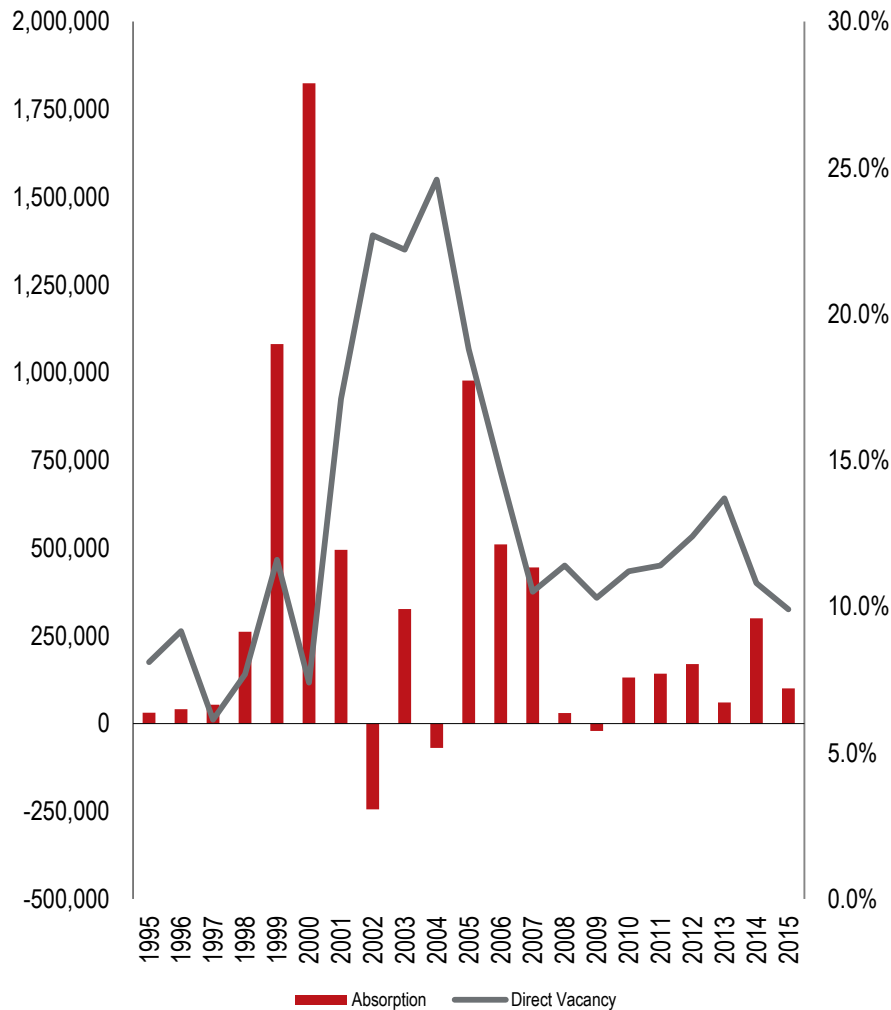
- Kaiser Permanente is on track to finish their 275,000-square-foot office building by the end of 2013. In addition, Charles Schwab is under construction on two of three office buildings, each 187,500 square feet.
- The submarket has numerous options for tenants under 100,000 square feet, and there are 11 blocks available for tenants over 100,000 square feet.

Southeast Suburban vacancy and rental rates comparing actual rent to 3, 4, and 5 percent rent growth rates



Source: Jones Lang LaSalle

Northwest market dynamics



Source: Jones Lang LaSalle

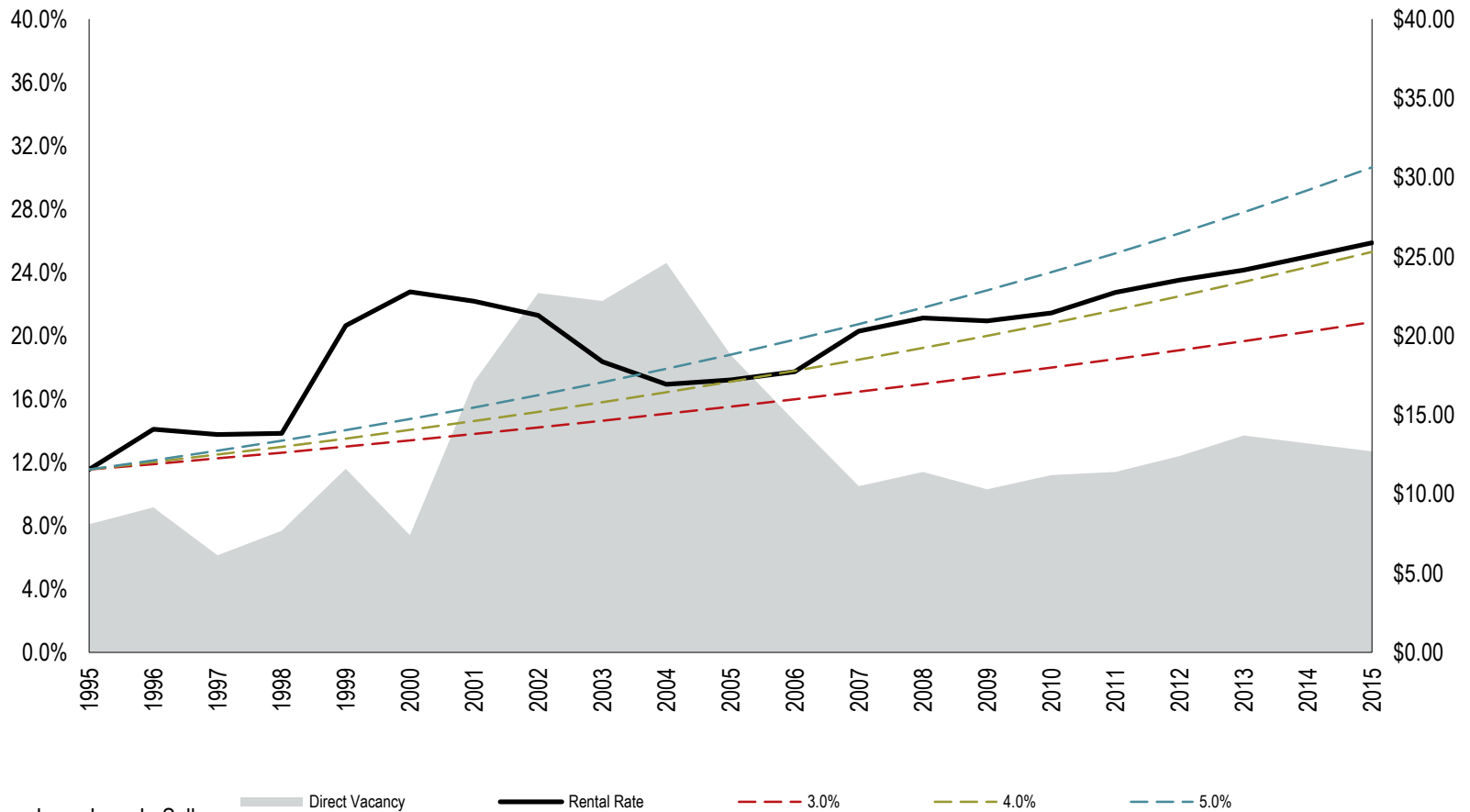
Market statistics

- 10.4 million s.f. market (110 buildings)
- 13.8 percent direct vacancy rate
- 14.6 percent total vacancy rate
- Class A: 15.8 percent direct vacancy; \$27.44 / s.f.
- Class B: 12.0 percent direct vacancy; \$21.79 / s.f.
- Under construction: 0 s.f.

Market trends

- The most recent building to deliver in the submarket, Eos at Interlocken, in September 2012 remains 100 percent vacant. It is expected that two tenants will occupy space in the building in the coming months.
- Leasing activity has been sluggish in the submarket in 2013, however it is anticipated that activity will speed up next year.

Northwest vacancy and rental rates comparing actual rent to 3, 4, and 5 percent rent growth rates



Source: Jones Lang LaSalle

Active Capital Markets

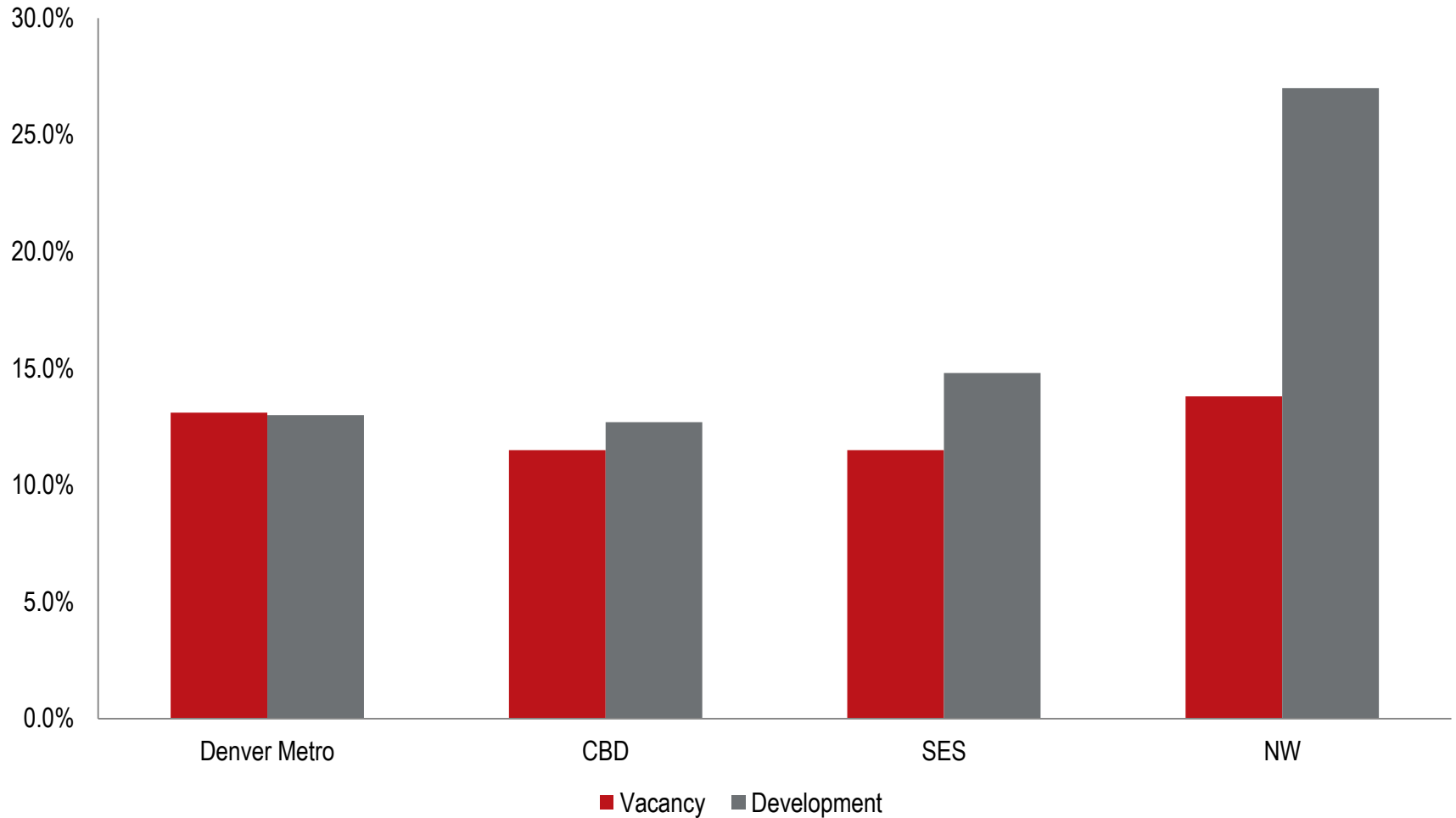
Sales in the Denver Metro market since 2000



Source: Jones Lang LaSalle Research

Controlled Development

10-year development versus existing vacancy



Source: Jones Lang LaSalle Research