

MARKETBEAT

DENVER OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



1Q09

ECONOMY

Metro Denver's economy reflected the strains of this current global downturn, with nonfarm payrolls suddenly being slashed, industry revenue growth slowing down significantly and consumer spending virtually grinding to a halt. On a year-over-year basis the metro area was down 46,400 jobs through March 2009, yet latest figures from the U.S. Bureau of Labor Statistics show more than 60,000 positions have been eliminated in just the past six months – with most of these accruing since December. Only three major sectors posted employment gains: education and health (up by 4,400 jobs), government (up by 2,900 positions), and other services (up by 300 workers). Nonfarm industry sales excluding retail were up 6.4% in 2008 compared to 2007, ending the year at over \$46.8 billion. However, fourth quarter sales rose just 1.5% from prior-year levels. Retail sales increased at a 3.3% year-over-year rate to almost \$35.6 billion, but were 12.4% lower in the fourth quarter of 2008 compared to fourth quarter 2007. With the metro area's unemployment rate now estimated at over 7.9% and further layoffs likely, the near-term economic prognosis remains grim and signals mounting pressures for commercial property markets.

OVERVIEW

The overall office vacancy rate rose 220 basis points (bp) in the past twelve months to end first quarter 2009 at 16.0% and was up 140 bp from three months ago, as more space came to market than was leased. This resulted in negative overall absorption of 843,590 square feet (sf) for the quarter. In the Central Business District (CBD), overall vacancies were up 490 bp year-over-year to 14.7%, while suburban vacancies increased by 130 bp to 16.5%. Only two regions registered vacancy declines: the Southeast (down 90 bp to 17.4% overall) and the Northwest (down 60 bp to 12.7% overall). The Aurora/Northeast area experienced a 340 bp vacancy increase year-over-year, closing first quarter at 24.5% overall, while in the Southeast Suburban region overall vacancies were up 310 bp to 17.6%.

Rental rates were 2.7% higher than one year ago to an overall weighted average asking rate of \$21.62 per square foot (psf), yet were 0.7% lower than reported at year-end 2008. Class A rents increased just \$0.17 psf compared to one year ago to \$25.33 psf, but averaged \$0.07 psf lower than in December. Class B rents were up \$0.27 psf from first quarter 2008 to \$19.81 psf, while class C rents were \$0.95 psf higher at \$15.96 psf.

Leasing activity was noticeably slower in first quarter 2009, amounting to just over 1.4 million square feet (msf). The largest transaction closed was a 67,250-sf commitment by ZOLL Data Systems at The Views II in Broomfield, where it will grow its operations by over 73.2% from current occupancy levels at Mountain View Corporate Center. Other significant transactions include a 47,380-sf expansion by medical device manufacturer Nellcor Puritan Bennett at Corporate Place 2 in Boulder, a 40,125-sf lease by the environmental engineering firm Stanley Consultants at Waterview III, and a 39,879-sf move by business management software specialist IQNavigator to Peakview Tower I. Petroleum Development Corporation will expand its local offices by about 13,000 sf with the 26,480-sf lease it closed at Denver Financial Center in the CBD, while the law firm Polsinelli Shughart will stay about the same size following its recent merger when it takes possession of the 25,000-sf suite it leased at Hines Tower.

FORECAST

Area employers are expected to cut payrolls even further over the next six quarters, leading to higher office market vacancy rates and more rental rate reductions. Business sentiment will stay gloomy for several periods due to ongoing financial market instability and restricted credit availability. Tenants hunker down, with many opting for short-term renewals as they look to weather this storm. Landlords get aggressive in tenant retention and recruitment efforts. Value-seeking investors stay on the sidelines waiting to spot "bottom-dollar" opportunities, but may find discounts less drastic than desired.

BEAT ON THE STREET

"One of the positives going into this downturn is that Denver has relatively little new supply overhang. So, although vacancies are likely to rise, they are probably not going to reach record levels because the market isn't overbuilt. That said, once recovery is underway, lifestyle motivators that make people want to live and work here will boost demand ahead of other markets."

– Sherman R. Miller, Executive Managing Director / West Regional Manager

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	1.1%	-2.9%	1.8%
CPI Growth	3.8%	-1.0%	1.9%
Regional			
Unemployment	5.2%	8.3%	8.5%
Employment Growth	0.8%	-4.9%	-0.2%

Source: Moody's | Economy.com

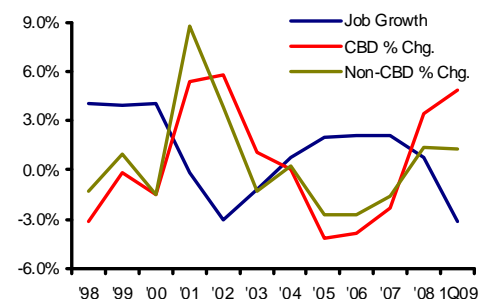
MARKET FORECAST

LEASING ACTIVITY was down significantly in first quarter 2009, and is likely to remain below historical levels for the next several periods. ↓

OVERALL ABSORPTION is expected to be negative for the balance of 2009 as more tenants look to downsize and subleases are put on the market. ↓

CONSTRUCTION deliveries will drop off significantly by 2010 as financing options tighten further and speculative development is brought to a standstill. ↓

JOB GROWTH VS. VACANCY RATES



MARKET/SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Central Business District	25,789,200	127	14.7%	12.9%	250,131	848,822	474,884	(325,088)	\$32.44
Midtown	3,529,587	59	6.1%	6.0%	57,192	0	0	16,259	\$25.00
Urban Core	29,318,787	186	13.7%	12.1%	307,323	848,822	474,884	(308,829)	\$32.44
Southeast Denver	2,796,822	57	20.2%	18.8%	26,983	0	10,971	(14,650)	\$20.51
Cherry Creek	7,455,772	83	16.4%	15.4%	163,380	0	0	(2,109)	\$23.51
Southeast	10,252,594	140	17.4%	16.3%	190,363	0	10,971	(16,759)	\$22.06
Aurora	4,794,558	72	23.0%	22.8%	56,483	0	0	(8,023)	\$16.67
Northeast	2,410,675	37	27.5%	27.1%	30,166	175,155	0	(27,566)	\$23.87
Aurora / Northeast	7,205,233	109	24.5%	24.2%	86,649	175,155	0	(35,589)	\$18.63
Southwest	7,032,430	136	14.1%	14.2%	66,043	0	0	(88,654)	\$25.06
Union Square	2,141,044	31	11.2%	11.5%	19,755	0	0	(41,938)	\$19.46
Southwest	9,173,474	167	13.4%	13.6%	85,798	0	0	(130,592)	\$22.55
Denver Tech Center	8,873,678	66	19.1%	16.3%	83,712	0	0	(221,370)	\$23.42
Greenwood Plaza	7,732,260	63	13.6%	12.5%	113,432	200,174	0	(38,473)	\$24.86
Inverness / Panorama	6,389,797	72	21.2%	20.1%	212,147	0	0	(4,308)	\$23.51
Arapahoe Road	3,265,412	80	20.1%	19.8%	41,978	140,000	0	(112,517)	\$21.39
Meridian	2,589,178	25	12.0%	11.4%	9,093	0	0	(20,135)	\$25.11
Southeast Suburban	28,850,325	306	17.6%	16.1%	460,362	340,174	0	(396,803)	\$23.69
Denver-Boulder Corridor	7,854,618	114	14.4%	11.4%	202,709	65,336	0	94,639	\$25.11
West Denver	4,518,604	110	9.8%	7.9%	79,692	22,458	0	(49,657)	\$19.80
Northwest	12,373,222	224	12.7%	10.1%	282,401	87,794	0	44,982	\$24.49
CBD	25,789,200	127	14.7%	12.9%	250,131	848,822	474,884	(325,088)	\$32.44
NON-CBD	71,384,435	1,005	16.5%	15.1%	1,162,765	603,123	10,971	(518,502)	\$23.11
DENVER TOTAL	97,173,635	1,132	16.0%	14.5%	1,412,896	1,451,945	485,855	(843,590)	\$26.04

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 1Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
The Views II	Denver-Boulder Corridor	ZOLL Data Systems	67,250	A
Corporate Place 2	Denver-Boulder Corridor	Nellcor Puritan Bennett	47,380	B
Waterview III	Inverness / Panorama	Stanley Consultants	40,125	A

SIGNIFICANT 1Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
N/A				

SIGNIFICANT 1Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
1515 Wynkoop Street	Central Business District	Van Gilder Insurance	277,416	3/09
1400 Wewatta Street	Central Business District	Townsend & Townsend & Crew	197,468	1/09
100 Spruce Street	Southeast	N/A	10,971	3/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
1800 Larimer	Central Business District	Xcel Energy	490,822	6/09
1900 16th Street	Central Business District	N/A	358,000	10/09
385 Interlocken Crescent	Denver-Boulder Corridor	N/A	285,000	6/10

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*Market terms & definitions based on BOMA and NAIOP standards.

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