

### Overview

Nonfarm industry sales have steadily improved over the past twelve months for which data is available, and consumer spending continues to rise, allowing for some optimism that momentum will build again once uncertainties over debt defaults, austerity measures and higher energy prices are resolved. Yet, after a relatively healthy start in the first quarter of this year, employment growth has slowed in the metro-Denver area over the past several months. Preliminary estimates released by the U.S. Bureau of Labor Statistics for May 2011 show a net loss of 400 jobs over the past twelve months, as growth in some sectors like professional and business services (up 2.5% for a net gain of 5,000 jobs), education and health (up 2.7% by 3,900 workers) and leisure and hospitality (up 1.6% by 2,100 positions) were off-set by ongoing losses in others like specialty trade contracting (down 10.8% by 4,600), government (down 2.4% by 4,500), and financial activities (down 2.8% by 2,500).

### Rents and Vacancy Rates

Overall vacancy has fallen 1.3 percentage points (pp) from year-ago levels, ending second quarter at 16.6%. Greatest improvement was recorded in the Aurora and Northeast submarkets (down 3.7 pp, collectively, to 25.2% overall), followed by the Southeast Suburban region (down 1.9 pp to 17.2% overall) and the Central Business District (CBD – where overall vacancy has decreased 1.8 pp year-over-year to 14.2%). With very little new speculative construction remaining in the pipeline and demand from office-occupying industries expected to pick up, second quarter results mark an important milestone in Denver’s office market recovery.

Rents appear to have stabilized, ending second quarter 2011 at a weighted average rate of \$20.10 per square foot (psf) overall (down just 0.1% from this time last year). Class A rates have actually begun to appreciate in select areas, causing the overall rate metro-wide to edge 0.4% higher year-over-year to \$24.05 psf. In the Denver-Boulder Corridor, for instance, class A rents increased 10.0% over the past twelve months to \$25.98 psf overall, while in the Meridian submarket they rose 2.9% to \$20.32 psf, and in the Denver Tech Center they were up 1.0% to \$21.10 psf overall. Meanwhile concessions are gradually being reigned in, with fewer months of free rent and less generous tenant improvement packages on offer.

### Leasing Activity

Almost 4.7 million square feet (msf) of new and expansion leases have been signed this year, down 15.1% from the same period one year ago but still far healthier than the 3.2 msf recorded for mid-year 2009. More than a third of these transactions took place in the Southeast Suburban region, where a number of strong companies continue to thrive. For instance, satellite entertainment provider DirecTV leased 66,226 square feet (sf) in first quarter at One Greenwood Plaza to house its customer service operations, while end-to-end mortgage servicer Integrated Asset Services expanded last quarter by 49,984 sf at 4600 South Syracuse. The CBD has also seen strong demand, accounting for more than a quarter of new transactions closed to date. Significant deals signed this quarter included accounting firm Hein & Associates (leasing 31,635 sf for an intra-market move to 1999 Broadway), resort developer and operator Intrawest (taking 26,491 sf at 18<sup>th</sup> Street Atrium, where it will re-locate its headquarters from Vancouver), and DaVita (expanding into 19,729 sf at 16 Market Square as it waits for its new headquarters facility to be completed). Other noteworthy second-quarter transactions closed throughout the metro area include online business solution provider Verio’s 38,915-sf signing at Plaza 25 at Greenwood Village, Ontargetjobs.com’s 27,945-sf commitment at Peakview Tower I, and Mile High Organic’s 21,600-sf move to Boulder Daily Camera’s former premises at 1048 Pearl Street.

The average lease size to date is 3,524 sf, with a total of 1,328 transactions closed. Although this is 14.4% lower than the long-term historical average for this market, it reflects an important uptick in small business activity which had been significantly constrained over the past several years.

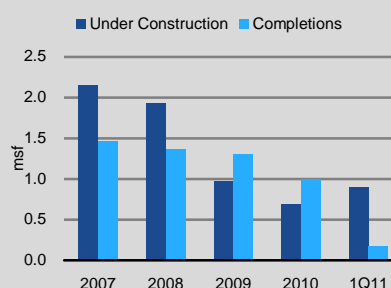
### Outlook

If present trends continue, office market conditions in metro Denver should tighten further as the economy strengthens and entrepreneurial vigor resurfaces. Cushman & Wakefield expects vacancy rates will continue to fall and rental rates will begin to appreciate significantly over the next several years as landlords look to recapture territory lost and quality office space becomes increasingly scarce. Class A markets will see greatest improvement in the near term, but B and C markets should also rebound as economic recovery becomes more diffused.

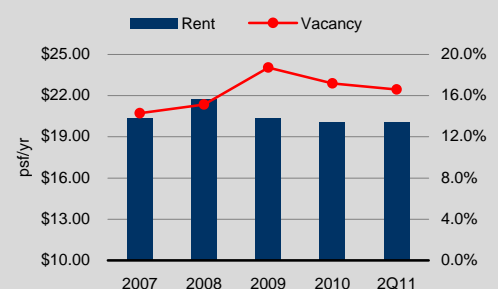
#### Stats on the Go

	2Q10	2Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	17.9%	16.6%	-1.3 pp	▼
Overall Asking Rents	\$20.13	\$20.10	-0.1%	▲
YTD Leasing Activity (msf)	5.51	4.68	-15.1%	▲

#### Under Construction vs. Completions



#### Overall Rental vs. Vacancy Rates



## Market/Submarket Statistics

Market / Submarket	Inventory	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Direct Absorption	YTD Overall Absorption	Overall Wtd. Avg. All Classes Gross Rental Rate*	Direct Wtd. Avg. Class A Gross Rental Rate*
<b>CBD</b>	<b>26,850,302</b>	<b>14.2%</b>	<b>13.2%</b>	<b>1,239,190</b>	<b>244,160</b>	<b>0</b>	<b>106,942</b>	<b>197,270</b>	<b>\$25.83</b>	<b>\$28.83</b>
<b>Midtown</b>	<b>3,780,732</b>	<b>9.0%</b>	<b>8.6%</b>	<b>108,911</b>	<b>600,000</b>	<b>0</b>	<b>(7,790)</b>	<b>(5,257)</b>	<b>\$18.08</b>	<b>\$20.00</b>
<b>Southeast Central</b>	<b>10,391,612</b>	<b>19.5%</b>	<b>19.2%</b>	<b>466,345</b>	<b>0</b>	<b>0</b>	<b>106,723</b>	<b>93,919</b>	<b>\$17.09</b>	<b>\$20.56</b>
Southeast	2,826,914	23.4%	23.2%	85,944	0	0	40,240	33,298	\$14.32	\$17.70
Cherry Creek	7,564,698	18.0%	17.7%	380,401	0	0	66,483	60,621	\$18.44	\$21.76
<b>Aurora / Northeast</b>	<b>7,919,645</b>	<b>25.2%</b>	<b>24.3%</b>	<b>292,156</b>	<b>0</b>	<b>151,700</b>	<b>245,685</b>	<b>242,273</b>	<b>\$15.47</b>	<b>\$19.04</b>
Northeast	5,087,292	22.7%	22.6%	194,928	0	0	60,334	60,334	\$14.87	\$16.35
Aurora	2,832,353	29.7%	27.2%	97,228	0	151,700	185,351	181,939	\$16.29	\$21.13
<b>Southwest</b>	<b>10,006,843</b>	<b>15.3%</b>	<b>15.0%</b>	<b>443,819</b>	<b>0</b>	<b>0</b>	<b>50,625</b>	<b>78,341</b>	<b>\$18.52</b>	<b>\$21.42</b>
Southwest	7,479,840	17.0%	16.6%	320,626	0	0	1,703	24,348	\$18.32	\$22.04
Union Square	2,527,003	10.4%	10.1%	123,193	0	0	48,922	53,993	\$19.49	\$20.29
<b>Southeast Suburban</b>	<b>30,362,757</b>	<b>17.2%</b>	<b>16.9%</b>	<b>1,677,269</b>	<b>0</b>	<b>0</b>	<b>245,992</b>	<b>316,854</b>	<b>\$18.74</b>	<b>\$20.98</b>
Denver Tech Center	9,121,686	16.0%	15.8%	652,975	0	0	171,044	210,207	\$19.88	\$21.10
Greenwood Plaza	8,021,998	18.1%	17.5%	544,832	0	0	(21,380)	(19,541)	\$18.54	\$22.55
Inverness/Panorama	6,624,461	16.8%	16.5%	249,723	0	0	138,128	134,310	\$19.00	\$20.29
Arapahoe Road	3,960,298	17.8%	17.7%	140,565	0	0	(23,945)	(25,645)	\$15.36	\$18.88
Meridian	2,634,314	19.2%	19.2%	89,174	0	0	(17,855)	17,523	\$20.15	\$20.32
<b>Northwest</b>	<b>14,823,696</b>	<b>15.9%</b>	<b>14.7%</b>	<b>452,792</b>	<b>55,718</b>	<b>30,006</b>	<b>(200,999)</b>	<b>(174,694)</b>	<b>\$21.70</b>	<b>\$24.99</b>
Denver-Boulder Corridor	10,054,561	16.0%	15.1%	332,027	0	0	(171,758)	(144,225)	\$23.34	\$25.98
West Denver	4,769,135	15.6%	13.9%	120,765	55,718	30,006	(29,241)	(30,469)	\$18.17	\$21.64
<b>NON-CBD</b>	<b>77,285,285</b>	<b>17.4%</b>	<b>16.9%</b>	<b>3,441,292</b>	<b>655,718</b>	<b>181,706</b>	<b>440,236</b>	<b>551,436</b>	<b>\$18.48</b>	<b>\$21.81</b>
<b>DENVER TO TAL</b>	<b>104,135,587</b>	<b>16.6%</b>	<b>15.9%</b>	<b>4,680,482</b>	<b>899,878</b>	<b>181,706</b>	<b>547,178</b>	<b>748,706</b>	<b>\$20.10</b>	<b>\$24.05</b>

\* Rental rates reflect asking \$psf/year.

## Market Highlights

### SIGNIFICANT 2Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
8100 East Maplewood Avenue	Greenwood Village	Verio	38,915	B
1999 Broadway	Central Business District	Hein & Associates	31,635	A
999 18th Street	Central Business District	Epicore Human Capital Mgmt.	28,751	A

### SIGNIFICANT 2Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
1515 Wynkoop	Central Business District	American Realty Advisors	306,791	\$118,000,000
6312 South Fiddlers Green Circle	Greenwood Plaza	Cornerstone Real Estate Advisors	259,118	\$46,000,000
11800-11802 Ridge Parkway	Denver-Boulder Corridor	Semaho, Inc.	345,427	\$42,000,000

### SIGNIFICANT 2Q11 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
9200 West Colfax	West Denver	N/A	30,006	2Q11

### SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Ralph L. Carr Colorado Judicial Center	Midtown	Colorado State Judiciary	600,000	1Q13
DaVita Headquarters	Central Business District	DaVita	244,160	2Q12
Jefferson Office Park	West Denver	N/A	55,718	3Q11

