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DENVER METROPOLITAN COMMERCIAL REAL ESTATE UPDATE
Mid Year 2015

High Lease Rates and Low Vacancies A Hard Pill to Swallow for Tenants

Denver's strong job market and growing population have decreased the office vacancy for 6 consecutive years. The Denver office market now stands at approximately 10.0% vacant, even with oil and gas companies unloading excess office space as they continue to lay off employees due to low oil prices. Mostly located in the central business district, over 400,000 square feet of oil and gas occupied space has come on the market as subleases. If oil prices continue to remain at the current level, up to another 600,000 square feet is expected to be offered for sublease. As sublet space typically comes on the market at attractive lease rates, most of this space is backfilled fairly quickly. Strong tenant demand has fueled new construction of office buildings in key markets. 1.8 million square feet in the central business district alone. Significant developments are under way that will change the Denver skyline, like the Hines building, a 662,000 square foot Class A 40 story skyscraper at 15th and Lawrence. Most new developments are experiencing unprecedented preleasing of 30% to 40% before the project is even completed. Even with all of the new development, the Denver market is still under developing and that continues to put upward pressure on lease rates.

Denver's office market is tricky for tenants having to make a lease decision. Faced with lease rate increases of 15% to 40%, many tenants are being forced to relocate to lower quality space. Tenants compete for key office space similar to home buyers in the residential market. Act quickly or find the space no longer available. Be prepared to show strong financial information for your company or expect requests for personal guarantees and increased security deposits, if the landlord will even negotiate with you. Free rent, moving allowances, and upgraded tenant finish packages are still out there but limited compared to 3 years ago. Tenants without options to renew in their lease must focus on lease renewals more than 1 year in advance of their lease expiration. Tenants with lease renewal options must follow the requirements of their option carefully.

Average asking lease rates for Denver office space have continued to increase and are now $23.81 per square foot on a full service lease. This represents a 1.4% in just the second quarter of 2015. Average asking lease rates in class A buildings were at $29.23 per square foot and class B buildings where at $20.72 per square foot for full service leases at the end of second quarter 2015. The Denver warehouse vacancies have decreased to 2.9% and we are still seeing strong absorption and demand. The average quoted lease rate for warehouse space at the end of second quarter 2015 stood at $6.60 per square foot on a NNN lease. Rental rates for buildings zoned for marijuana use continue to come in at 3 to 4 times what they were before legalization. Unable to afford these rates, non marijuana tenants have been forced out of their spaces and find it difficult to obtain the warehouse space they need to operate their business.

The Denver commercial real estate market will continue to have solid growth over the next two years with increasing lease rates. It is critical for tenants to act 12 to 24 months prior to their lease expiration to complete a lease renewal or to identify alternative locations. Tenants must make a quick decision when they find a space that works for their company. A delay of even one day could result in the space being leased by someone else. Retaining an experienced commercial real estate consultant to represent your company is imperative if you want the ability to quickly identify upcoming space options and the market knowledge to keep your occupancy costs as low as possible.

DENVER OFFICE SUBMARKETS STATISTICS
Average Quoted Lease Rate Per Square Foot Per Year

	2nd Quarter 2012			2nd Quarter 2015		
Class	A	B	C	A	B	C
CBD	$29.50	$21.37	$16.06	$33.79	$27.52	$27.87
Aurora	$19.52	$15.65	$10.64	$22.17	$18.05	$11.49
CO Blvd.	$20.23	$17.35	$16.37	$25.91	$21.06	$16.90
SE	$22.69	$17.33	$12.62	$25.58	$19.93	$14.18
NE	$23.28	$17.01	$13.65	$25.00	$17.31	$17.02
North	$19.00	$18.14	$12.13	$18.60	$20.07	$15.74
West	$25.88	$18.22	$13.28	$25.73	$19.62	$14.64
SW	$24.49	$16.74	$13.13	$26.44	$16.84	$14.50
NW	$23.37	$17.79	$13.25	$24.02	$19.33	$15.04

Average Quoted Vacancy Rate

	2nd Quarter 2012	2nd Quarter 2015
CBD	9.1%	10.9%
Aurora	14.5%	10.0%
Colorado Blvd.	14.1%	11.5%
Southeast	12.7%	11.5%
Northeast	11.0%	7.9%
North	13.6%	14.6%
West	12.1%	13.4%
Southwest	15.2%	14.2%
Northwest	10.3%	11.6%

Denver average change in asking lease rates between 2nd Quarter 2012 and 2nd Quarter 2015
Class A 17.4% increase
Class B 13.7% increase
Class C 15.5% increase

Interesting Denver office Market Tidbits
- Denver's office space consists of 33% class A, 54% class B, and 13% class C office buildings.
- The Capital Hill submarket has the lowest vacancy at 3.3%
- The Panorama/Highland Park submarket has the highest vacancy at 19.5%
- The Platte River submarket has the highest average quoted lease rate at $38.02/RSF/year
- The Centennial submarket has the lowest average quoted lease rate at $15.53/RSF/year

Data source: Costar

"Thinking about Selling? Your window of opportunity may be closing..."

With occupancy rates increasing over the last 6 years, we are seeing more and more Landlords putting their buildings on the market for sale. Not just your typical Landlords either. Some properties are hitting the market now for the first time ever. Is it because of the shift to a Landlord's market? Is it due to the record high prices Landlords are seeing similar property trade for? Is it due to the MMJ boom of grow operations and dispensaries, or is it because capital gains taxes increased to 23.8% and will probably go higher?

The answer varies amongst the owners, but most likely a combination of the above and many more possibilities. However, there are a few reasons that Landlords may be looking to sell as well, that don't seem as glamorous. Landlords might be selling because they don't see lease rates and sale prices like these hanging around for very long. Maybe they are taking advantage of the market now, while they believe lease rates are peaking? I'm not sure why an owner of a property for the last 30+ years would sell at the time that cash flow rates are the best they have seen in years . . .

Point is, buyers are coming into the market and buying at cap rates of 6% or sometimes lower while owners are sitting on a 9% cap, so why not sell? Why not sell and take advantage of the 1031 exchange tax code and trade up into multi-family or a better class building or a bigger building - great idea right? Wait a minute, not if Congress decides to take away that wonderful deferred tax code many investors have counted on and used for years. Fact is, Congress knows the amount of money that could be collected in taxes should they take the 1031 tax benefit away.

So, as an owner, you may want to ask yourself - Do I sell now and exchange into a different, more stable investment? Is my building the investment I want to hold on to for years to come - what will lease rates do in my market?

Fact is, with lease rates peaking, prices higher than ever, a chance that the 1031 exchange may go away and the chance that history repeats itself and we see a quick downturn in the market, now may be the perfect time to sell and the window of opportunity to do so may close quicker than we think . . .

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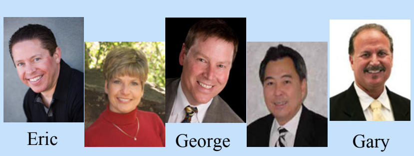

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Member: DMCAB Denver Metro Commercial Association of Brokers

Colorado's Pot Rush

By: George Moseley

Since Colorado's legalization of medical marijuana in 2000 and retail marijuana in 2012, the local real estate market has seen an increased demand for industrial warehouse space. Warehouses with the correct zoning and geographical locations have seen lease rates rise from $3.50 per square foot NNN per annum to $12-$18 per square foot NNN and sales prices for these buildings have risen from, $40 per square foot to $85 per square foot. In 2014, 4.5 million square feet of industrial space in Denver was occupied by medical & retail cultivation and production of all forms of consumable marijuana and that figure is steadily rising. Landlords of these buildings typically offer minimal to no free rent, require higher security deposits equal to 3 to 6 months' rent and tenants foot the entire bill of building the space out for a grow operation. As more Colorado counties legalize marijuana, new vacancies and construction will arise to take advantage of this opportunity. Even so, the challenge presented is a lack of low-cost debt. Since national banks are currently forbidden from lending money to marijuana related operations, land sales and construction costs are being financed primarily by all-cash transactions. This indicates a slow path of growth in new grow space. However, since the product is light and easy to transport, yet very valuable, growers will seek out the lowest cost per square foot of grow space available. Even so, dispensaries often report that the supply does not meet their customers' increasing demand. Chances look good that the current run-up in medical and retail marijuana property prices will fade in three to five years as cheaper land is developed and construction costs for grow space is minimized with the use of more efficient green-house style designs.

Stop Making Your Landlord Rich Own Your Office Space

With office vacancy rates declining and lease rates rising you can own your office space for less than the cost to lease. The incentives to ownership keep growing and loans for the purchase of commercial owner user properties are very easy to obtain. Both SBA and Conventional loans are readily available. SBA recently started their full fixed rate 25 year loans. Interest rates for SBA range in the 5.5 to 6.0% while conventional owner occupied loans can be as low as 4.5%! This makes purchasing your own office space very attractive. Tenants as small as 600 square feet have the ability to purchase and own the office space they need. Ownership provides stability and control over the costs of your occupancy. When a tenant owns their space, their monthly payments go to building equity in an asset instead of buying a building for their landlord. Purchase of an office space takes about four months longer than a lease. Thus, if you are going to consider purchase you should start about one year in advance of when you want to be in the space. Make sure you discuss purchase options with your commercial real estate consultant and find out what so many other tenants already know; Ownership is the Future of Leasing!

API Sheldon-Gold Realty Inc. Covers 130 Markets Worldwide

API; the only single point of accountability, global tenant representation firm in the world. With coverage in 130 markets, we can manage your real estate leases holdings anywhere in the world and you have one point of contact here in the USA. API has represented over 400 companies, most of which are Fortune 500, allowing them to manage their corporate real estate in a straightforward and strategic way. API uses a process centric model that addresses the unique challenges of a global portfolio. Our model integrates the strengths of tenant representation with turnkey consulting, transaction and project management. If your firm has multiple locations in the USA or the world, then API Sheldon-Gold Realty Inc. may just be your perfect solution. Learn more at www.api-global.com.