

**2015 Finishes Strong, 2016 Looks the Same
Rents Continue Ascent**

While some areas around the country are questioning whether the economy is peaking, businesses in Denver continue to remain optimistic. Denver's major job growth industries of mining/lodging/construction/education/health and government added over 12,000 jobs in Q4, 2015. This job growth has driven Denver's unemployment rate down to 3.1%, below the national rate and as such, continues to cause the office vacancy to decrease. Colorado's low cost of living and desirable location near the Rocky Mountains is attracting significant population growth, making Colorado the second fastest growing state in the nation and an attractive place for companies to relocate to and hire the talent they are looking for.

Denver's office market ended 2015 at 9.5% vacancy and continues to favor landlords. With the lowest office market vacancy in 15 years, Q4, 2015 recorded the highest net absorption rate of vacant office space in a single quarter since the Q2, 2007. The oil and gas downturn has not had the negative impact on the office market that was expected as the quantity of oil and gas sublease space has been leasing up fairly quickly. New construction of office buildings were down Q4, 2015 and another 3.4 million square feet of new office space is under construction. Expectations are that these new buildings will deliver and open up already preleased by 50-60%. The largest projects under construction at the end of Q4, 2015 were 1144 15th St at over 640,000/square feet and 7001 E Bellevue Ave at 318,000/square feet. Average asking lease rates for Denver office space have continued to increase and are now \$24.44 per square foot on a full service lease, representing a 1.4% increase in Q4, 2015. Average asking lease rates ended 2015 with class A buildings at \$29.64 per square foot and class B buildings at \$21.43 per square foot for full service leases. Facing other hidden costs aside from 15% to 40% rent increases, tenants are being hit with build-out costs and significant parking costs. Parking has become a commodity in many areas, especially the CBD where unreserved spaces can cost over \$200 per month.

Denver's office market is tricky for tenants having to make a lease decision and many companies find they have to downgrade to a lower quality building just to keep their rent affordable for their business. Most of the office vacancy in the market is in smaller suites under 10,000/square feet in size. As a small tenant, you should have many options to choose from, but don't expect that to make the landlords any softer on their asking lease rates. Tenants still need to act quickly on a space they like or they may 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. Free rent, moving allowances, and upgraded tenant finish packages are still out there but limited compared to the past. Tenants without options to renew in their lease must focus on lease renewals more than 1 year in advance of their lease expiration. Larger tenants may have to start the lease process up to two years in advance. 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.



Selected Denver Office Submarkets Statistics

4th Quarter 2015 Metro Denver Office Market

↓	↑	↑	↓
Vacancy Rates 9.5%	Average Lease \$24.44/RSF/Year	Net Absorption 1,329,482/SF	4th Quarter Deliveries 10 Buildings 739,971/SF

Average Quoted Lease Rate Per Square Foot Per Year

Class	4th Quarter 2012			4th Quarter 2015		
	A	B	C	A	B	C
CBD	\$29.44	\$20.25	\$16.03	\$33.41	\$25.38	\$28.69
Aurora	\$19.01	\$15.27	\$11.20	\$24.67	\$18.55	\$11.44
CO Blvd.	\$22.37	\$15.89	\$15.97	\$32.61	\$19.80	\$16.04
SE	\$22.93	\$17.10	\$12.85	\$25.86	\$20.67	\$15.06
NE	N/A	\$17.98	\$14.77	N/A	\$19.56	\$13.35
North	\$18.94	\$17.61	\$12.38	\$21.35	\$20.05	\$17.16
West	\$27.28	\$18.34	\$13.66	\$25.40	\$19.87	\$15.39
SW	\$22.52	\$16.64	\$13.28	\$26.26	\$17.93	\$14.79
NW	\$23.92	\$17.82	\$12.85	\$24.21	\$19.92	\$15.69

Average Quoted Vacancy Rate

	4th Quarter 2012	4th Quarter 2015
CBD	13.1%	11.3%
Aurora	13.8%	9.2%
Colorado Blvd.	15.7%	10.1%
Southeast	13.5%	11.9%
Northeast	12.7%	7.9%
North	13.8%	6.7%
West	12.5%	11.8%
Southwest	16.9%	12.4%
Northwest	10.6%	10.9%

**Denver's average change in asking lease rates between
4th Quarter 2012 and 4th Quarter 2015**

- Class A 15.7% increase**
- Class B 18.0% 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 3.1%
- The East Hampden submarket has the highest vacancy at 16.9%
- The Platte River submarket has the highest average quoted lease rate at \$39.74/RSF/year
- The East Hampden submarket has the lowest average quoted lease rate at \$15.95/RSF/year

Data source: Costar

Effects of the Oil Price Drop on Office Lease Rates

By: *George Moseley*

The recent 71% drop in the price of oil from June, 2014 to present day has deeply impacted oil & gas exploration, production and sales, as well as all industries which support these efforts. Oil & gas companies have slashed their overhead and operating budgets to protect their bottom lines. This has impacted numerous CRE markets across the United States and the World, especially near locations which have seen the surge in oil production from fracking. Opportunities have hence been created in these areas for office subleases at attractively lower lease rates.

In Denver, there was a significant influx of oil & gas producers setting up their headquarters starting in 2008 to work the Niobrara, Denver, Julesburg, Bakken, Powder River, and the Green River Basins, once the technology of hydraulic fracturing became economically feasible. In addition to exploration and production companies, there was also an increase in employment for law firms, accounting firms, and IT firms servicing the industry. According to the Colorado Real Estate Journal, oil & gas firms occupy 13% of the occupied office space in downtown Denver amounting to 4.45 million square feet. Downtown Denver (including LoDo) is the largest office submarket in the Denver metro area. The submarket boasts a total of 34 million square feet. In the spring of 2015, that all began to unravel. Many drilling contractors and producers stopped their drilling & exploration efforts as the price of oil began to fall from \$106/bbl in mid-2014 to \$54/bbl. That's when things got interesting in the office market. Oil exploration and production companies began layoffs in their Denver corporate offices. Newly-vacated office space downtown was put on the market for sublease. This couldn't have come at a better time for other Denver office tenants who had been facing historically low vacancies and high lease rates. The surge in available office space for sublease began rising in mid to late 2014. By mid 2015, 350,000 square feet of office space was vacated downtown and in LoDo. It looked like relief for other tenants was here at last, and these tenants quickly began absorbing those available sublease spaces. These tenants were mostly comprised of cable TV and internet providers, financial services companies, aerospace contractors, software developers, and the burgeoning marijuana grow and retail sales business. They received discounts of \$2/square foot to \$4/square foot. Since then, only an additional 70,000 square feet has been placed on the market for sublease.

What was expected to be a minimum 10% drop in lease rates has become only a six to nine month pause in the continued rise of office lease rates downtown, now averaging \$33.01/square foot. Discount-minded tenants will have to wait a few more years. The take-away from this story is that the Denver economy has now proven itself resilient to the ebbs & flows of the oil & gas industry. Deep recessions seen in the early '80s are a thing of the past.

The Hidden Costs of Signing a Lease Unrepresented

By: *Sam Marks*

Office tenants typically make two major mistakes when renewal time comes around. The first is folding your cards by asking your landlord for a renewal proposal. By doing this you are indicating two things to your landlord, the first being that you are only considering a renewal and not exploring any competing space and the second is that you have not sought the assistance of a professional tenant representative to educate you on the market. Once a landlord thinks that you are committed to staying and will be going through the renewal process unrepresented, he can and will most likely make you an offer that is not in line with market rates and terms. Both of these pieces of leverage for the landlord can be eliminated by engaging a tenant representative specializing in commercial real estate. While a landlord may tell you this will raise the rental rate, this is simply incorrect, as brokerage fees are already factored into the lease rates and agreed to in advance with the landlords listing broker. Additionally, just letting your landlord know that you have retained representation tells him to put his best foot forward or risk losing you as a tenant. The second common mistake made by tenants, is not allowing enough time for the relocation/renewal process as a whole. Leaving too short of a time puts the advantage in the landlord's hands, as your landlord will realize that you don't have the time you need to relocate if you don't like your renewal proposal. Tenants occupying less than 10,000 square feet should begin the process no less than one year out, for spaces larger than 10,000 square feet, up to two years of planning may be required.

Here are some reasons why you may think you don't need to engage a commercial real estate professional to represent you in your lease renewal:

"My landlord offered me a \$.50 reduction in my lease rate". While that sounds nice, it is actually quite common for market rates to drop more than the lease rate reduction offer by your landlord.

"My landlord is giving me a great lease rate; I spoke with my neighbor and someone in another building to confirm this". Whether someone is getting a market deal is not only dependent upon the rate, there are a number of variables that contribute to getting a "market deal".

If you can't answer the following questions, then you have left the door open for the landlord to take advantage:

-What tenant improvement allowance should you be receiving on a lease renewal?

-Do you know how much free-rent you should be receiving on a lease renewal?

-What should be negotiated on your lease renewal relative to the operating expense costs?

-What is fair for a tenant, in the current office market, with regards to parking charges, holdover provisions, relocation clauses, options to renew, and your ability to sublease?

You would never go to court without your attorney or through an IRS audit without your accountant. Why would your company want to make one of its top 3 financial commitments without having proper market knowledge and guidance? Especially when you can have it at no cost to your company! Whatever you do, even if it isn't us, make sure you choose and retain a commercial real estate tenant representative to represent you in your office lease decisions.

Month-to-Month Tenancies are Bad News for Colorado Tenants

Many tenants are unaware that a month-to-month lease could be detrimental to their business. Unless stated otherwise in the lease, Colorado state law only requires 10 days notice prior to the next payment period for the landlord to terminate or change the terms of a monthly tenancy.

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