NAIOP 2005

Mid-Year Commercial Real Estate Forecast Meeting

Office Market Overview
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July 12, 2005
Metro Denver Office Market Overview

Introduction

Slow, Steady Improvement
Positive Economic Indicators
  GDP
  GSP
Consumer Confidence
Unemployment
Job Growth

Improving Real Estate Fundamentals
Absorption
Increasing Activity
Decreasing Vacancy and Availability

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Improving Submarkets

**Northwest**
- 7,416,210 SF
- 28.4% Vacant
- 36.7% Available
- 83,504 SF Absorption

**Southeast**
- 32,130,138 SF
- 14.9% Vacant
- 20.3% Available
- 39,283 SF Absorption

**West**
- 6,488,649 SF
- 19.0% Vacant
- 22.5% Available
- -38,015 SF Absorption

**Downtown**
- 22,740,378 SF
- 13.6% Vacant
- 18.6% Available
- 135,240 SF Absorption
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Lagging Submarkets

Colo. & I-25
5,793,15 SF
22.9% Vacant
25.2% Available
-87,449 SF Absorption

Aurora
5,881,267 SF
20.7% Vacant
29.5% Available
-50,483 SF Absorption

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Real Estate Fundamentals
Absorption

Setbacks in 2004
- Sun Micro Systems
- Oracle / PeopleSoft
- Qwest
- ICG
- Global Crossing

But Good News for Future Absorption
- Less Sublease Space
  - 5,921,323 in 2002 to 2,961,527 Today
  - Expirations
  - Subleases
  - Buyouts
- Shadow Space Dried Up
- Organic Growth versus Out of State Growth

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Absorption continued

Positive 1.1 Million SF of Absorption in 2004
New Net Absorption – Recent Transactions
- Dean Foods: 138,000 SF absorption
- DigitalGlobe: 100,000 SF absorption
- McData: 90,000 SF absorption
- Gambro: 80,000 SF absorption
- Forest Oil: 50,000 SF absorption
- Molson-Coors: 44,000 SF absorption
- RTD/Fast Tracks: 41,000 SF absorption
- Leopopard Communications: 25,000 SF absorption
- Delta Petroleum: 25,000 SF absorption
- Medtronics: 15,000 SF absorption

South East Absorption from Colorado Boulevard and Aurora
- Aurora loan services: 100,000 SF
- MDC: 100,000 SF
- US Nursing: 34,000 SF
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Activity

Diversification of Prospects and Tenants
- 1980s: Oil and Gas
- 1990s: High Tech
- Today: Oil and Gas, High Tech, Telecommunications, Mining, Healthcare, Financial Services, Real Estate, Defense, Engineering, Service Companies, Government

Size of Tenants
- 75% of Tenants are under 10,000 SF
- Trend Toward Larger Transactions
  - 1 year ago: no tenant over 50,000 SF in the SE
  - Today there are several
  - Downtown: 8 Tenants Looking for 20,000 SF of net absorption

Risks Still Exist
- Consolidation of Telecommunications
- Acquisition Targets
- Live / Work Environments and Telecommuting

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Competitive Metro Market

Housing and Labor Costs are High, but Denver Still Desirable

- Quality of Life
- Educated Work Force
- Cultural Improvements
  - Art Museum
- Transportation Improvements
  - RTD, TREX, FasTracks
- Convention Center / Hotel Improvements / Event Centers
- Residential Developments
  - Douglas County
  - Golden Triangle Condo Conversion
- Infrastructure Improvements
- Healthcare
  - Colorado Health and Science
  - Children’s Hospital
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Redevelopments

Stone & Webster – Retail & Residential

Belmar

Plaza Marin – High end Condos

29th Street Project

Trammell Crow Company

Continuum Partners

John Madden Company

The Macerich Company

Westcor

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**TODs and FasTracks**

**Well Located Parcels Positioning For Long Term Impact**

FasTracks Plan includes 119 miles of additional light and commuter rail

90 transit stations on average

Based on nationwide statistics, property values for locations within walking distance to rail carry a premium of 15 – 20%

Office users will begin to see the value in transit served locations and seek to relocate or extend transit service to their front doors

Already seeing the trend of tenant decisions made based on location to light rail stations, particularly in the SE
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Predictions

Slow, Steady Growth Throughout 2005
Absorption will overall be positive through 2005 and 2006

Rental rates will be flat throughout 2005
Some rent increases in Class A
Flight to Quality

Slow, steady rent growth during next 3 years
Predictions continued

New Construction – When Will We See Sustained Level of Build to Suits?

Absorption

Historically, absorption averaged 2.5 million SF per year in the 80s, 2 million SF per year in the 90s and 400,000 SF per year since 2000

We have to absorb approximately 10M SF to hit a 10% vacancy

(10M / 2-3M SF = 4-5 Years

Job Growth

DRCOG Projects a 3.5 % annualized average job growth (+/- 6,000 office space jobs/year)
1 job to 250 SF of space
10% vacancy will be achieved in 2010

Will See Sustained Speculative Building in Late 2000
for Delivery in 2010

Denver Office Employment Growth and Vacancy Projections

Office Employment Growth

Office Vacancy