Denver Office Market Outlook 2008

Presented by Frank Kelley
IT’S JUST A FLESH WOUND…

ECONOMY

OFFICE MARKET
HOT TOPICS

• Absorption remains positive despite turbulence
• Some new vacancy has been introduced due to sublease space converting to direct space
• Rental rates see more modest increases than witnessed in 2007
• Projects continue to break ground Downtown and Southeast, with plans for projects in other submarkets as well

DENVER QUICK STATS

<table>
<thead>
<tr>
<th></th>
<th>12.9%</th>
<th>Overall Lease Rates</th>
<th>$20.93</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Vacancy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class A Rates</td>
<td>$24.33</td>
<td>Construction</td>
<td>2.6M</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2Q 07</th>
<th>3Q 07</th>
<th>4Q 07</th>
<th>1Q 08</th>
<th>2Q 08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Vacancy</td>
<td>11.0%</td>
<td>11.4%</td>
<td>13.0%</td>
<td>13.2%</td>
<td>12.9%</td>
</tr>
<tr>
<td>Overall Lease Rates</td>
<td>$22.00</td>
<td>$21.00</td>
<td>$20.00</td>
<td>$19.00</td>
<td>$18.00</td>
</tr>
<tr>
<td>Class A Rates</td>
<td>$24.33</td>
<td></td>
<td></td>
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<td>2.6M</td>
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</tr>
</tbody>
</table>
### STATE OF THE MARKET – SECOND QUARTER 2008

<table>
<thead>
<tr>
<th>Location</th>
<th>Vacancy</th>
<th>Asking Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aurora</td>
<td>18.8%</td>
<td>$16.66</td>
</tr>
<tr>
<td>Boulder</td>
<td>12.3%</td>
<td>$17.85</td>
</tr>
<tr>
<td>Capital Hill</td>
<td>15.5%</td>
<td>$21.07</td>
</tr>
<tr>
<td>Cherry Creek</td>
<td>8.7%</td>
<td>$23.16</td>
</tr>
<tr>
<td>S. Colo/Midtown</td>
<td>18.1%</td>
<td>$17.73</td>
</tr>
<tr>
<td>Downtown</td>
<td>11.2%</td>
<td>$26.96</td>
</tr>
<tr>
<td>Longmont</td>
<td>15.5%</td>
<td>$16.44</td>
</tr>
<tr>
<td>North</td>
<td>17.4%</td>
<td>$16.77</td>
</tr>
<tr>
<td>Northeast</td>
<td>17.1%</td>
<td>$19.49</td>
</tr>
<tr>
<td>Northwest</td>
<td>14.0%</td>
<td>$20.41</td>
</tr>
<tr>
<td>Southeast</td>
<td>12.0%</td>
<td>$21.29</td>
</tr>
<tr>
<td>Southwest</td>
<td>9.0%</td>
<td>$19.55</td>
</tr>
<tr>
<td>W. Hamp–Alam</td>
<td>10.7%</td>
<td>$13.51</td>
</tr>
<tr>
<td>West</td>
<td>14.3%</td>
<td>$17.20</td>
</tr>
<tr>
<td>METRO</td>
<td>12.9%</td>
<td>$20.93</td>
</tr>
</tbody>
</table>
STATE OF THE DOWNTOWN MARKET – Q2 ‘08

VACANCY RATE VS. LEASE RATES

DOWNTOWN QUICK STATS

<table>
<thead>
<tr>
<th>Direct Vacancy</th>
<th>Overall Lease Rates</th>
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<tbody>
<tr>
<td>11.2%</td>
<td>$26.96</td>
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</table>

<table>
<thead>
<tr>
<th>Class A Rates</th>
<th>Construction</th>
</tr>
</thead>
<tbody>
<tr>
<td>$29.20</td>
<td>1M</td>
</tr>
</tbody>
</table>
STATE OF THE SOUTHEAST MARKET – Q2 ‘08

**SOUTHEAST QUICK STATS**

- Direct Vacancy: 12.0%
- Overall Lease Rates: $21.29
- Class A Rates: $24.56
- Construction: 1M

**VACANCY RATE VS. LEASE RATE**

![Graph showing vacancy rate vs. lease rate over time, with data points for 2Q 07 to 2Q 08.](chart.png)
STATE OF THE NORTHWEST MARKET – Q2 ‘08

VACANCY RATE VS. LEASE RATE

NORTHWEST QUICK STATS

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Direct Vacancy</td>
<td>14.7%</td>
</tr>
<tr>
<td>Overall Lease Rates</td>
<td>$20.41</td>
</tr>
<tr>
<td>Class A Rates</td>
<td>$25.34</td>
</tr>
<tr>
<td>Construction</td>
<td>0</td>
</tr>
</tbody>
</table>
The cost of occupancy Downtown in 2010 for Class A space will likely be above $35. For Class “AA” and new construction, rates will likely be above $40.

CURRENT OPERATING EXPENSES
Downtown - $11.95
Suburban - $8.50
How do the Denver Office Market fundamentals measure up to other Energy Markets?

These graphs illustrate the benchmarks set by markets with a comparable Energy economic base. The graphs illustrate Denver losing ground with the comparable markets, falling from outperforming to underperforming. This indicates the potential that Denver has for an upward correction, closing this gap in the near future.
DENVER AS A TRANSIT MARKET

How do the Denver Office Market fundamentals measure up to other Transit Markets?

These graphs illustrate the benchmarks set by markets with comparable Transit infrastructure. Transit has been noted as one of the most significant factors in the performance of an office market, and therefore this benchmark is indicative of the potential that the Denver office market has upon full implementation of the FasTracks transit project.
WHERE IS THE DENVER OFFICE MARKET IN THE CYCLE?

**Expansion**
- Declining Vacancy
- New Construction
- Rent Growth

**Office – Downtown**

**Overall Market**

**Office – Suburban**
- Declining Vacancy
- Limited Construction
- Rent Growth Negative or <Inflation Rate

**Recovery**
- Increasing Vacancy
- New Construction
- Rent Growth Positive but Declining

**Hypersupply**
- Increasing Vacancy
- New Construction
- Rent Growth Positive but Declining

**Recession**
- Increasing Vacancy
- More Completions
- Rent Growth Negative or <Inflation Rate
2.6 MILLION SF OF OFFICE SPACE UNDER CONSTRUCTION

**1900 16th Street**
350,000 SF Phase I
Kennedy
2009 Occupancy
$26.50 - $30 NNN

**Palazzo Verdi**
312,000 SF
John Madden
2008 Occupancy
$21 - $23 NNN

**Village Center Station I**
200,000 SF
Shea
2009 Occupancy
$23 NNN

**1515 Wynkoop**
285,000 SF
Hines
2008 Occupancy
$25 - $29 NNN

**1800 Larimer**
496,359 SF
Westfield
2010 Occupancy
Rates TBD

**1400 Wewatta**
320,000 SF
Opus
2008 Occupancy
$26 - $28 NNN

In addition, Granite/Urban Frontier has purchased land in the Northwest Office Market, with Hines and Franklin St / Prime West making plans for additional developments.

**MAJOR PLANNED PROJECTS**

**Signature Tower**
747,000 SF
Aardex
2010 Occupancy
$20 - $24 NNN

**Two Tabor**
820,000 SF
Callahan Capital Partners
2010 Occupancy
Rates TBD
METRO DENVER OFFICE CONSTRUCTION PIPELINE

GEOGRAPHIC ALLOCATION OF PIPELINE
Projects under construction & proposed

- Southeast: 28%
- Downtown: 48%
- Northwest: 10%
- Remaining Sectors: 14%

How does the current phase compare with past construction “booms?”

<table>
<thead>
<tr>
<th>Year</th>
<th>SF Delivered</th>
<th>Vacancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>14,357,580</td>
<td>28.1%</td>
</tr>
<tr>
<td>1985</td>
<td>6,995,353</td>
<td>27.7%</td>
</tr>
<tr>
<td>1999</td>
<td>6,020,523</td>
<td>7.1%</td>
</tr>
<tr>
<td>2008 est</td>
<td>1,750,000</td>
<td>12%</td>
</tr>
<tr>
<td>2010 forecast</td>
<td>2,500,000</td>
<td>11%</td>
</tr>
</tbody>
</table>
The Denver Office Market is trending towards shorter recovery timeframes.

We are 80 months into our current expansion phase.

<table>
<thead>
<tr>
<th>Trough</th>
<th>Peak</th>
<th>Trough</th>
<th>Expansion</th>
<th>Contraction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar 1991</td>
<td>Mar 2001</td>
<td>Nov 2001</td>
<td>120</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: www.NBER.org

The Denver Office Market is trending towards shorter recovery timeframes.
ECONOMIC OUTLOOK

- Moderate Job Growth – expected to remain tempered near-term
- High energy costs and rising interest rates – expenses will continue to increase
- Housing Market - Cooling nationally, less so in Denver

LONG-TERM FACTORS FOR DENVER
- Well Capitalized Ow nerships (equity/interest rates)
- Strong Long-Term Fundamentals
  - Labor Force - Demographics
  - Housing
  - FasTracks – Light Rail
- Out-of-State Activity
- Land Opportunities

- Construction Costs Continue to Increase
- Economic indicators point to a slowdown throughout 2008
OFFICE FUNDAMENTALS OUTLOOK

- Rental rate increases could continue above-inflation, but growth will be tapered from its recent pace.
- Select markets will see continued increases in rental rates due to a lack of supply, such as the Northwest or West.
- Vacancy rate stabilization might not be achieved in 2008, like previously expected.

- Investment activity will remain tempered throughout 2008. However, Denver is still a more attractive market to invest in than major markets even with trend of lower cap rates.
- Although volume is down 50%, several key Denver office assets will trade hands this year.
- Downtown will act as a catalyst for improving vacancy and rising rental rates in other markets.
Denver Office Market Outlook

Frank Kelley, July 2008