SOUTH METRO ECONOMIC DEVELOPMENT GROUP

OFFICE REGION REVIEW

SOUTHEAST METRO
DENVER, COLORADO

Contributing Authors: Tiffany Arries, Cushman & Wakefield; Eric Nesbitt, Nesbitt Group; Mark Grillo, UGL Equis; Greg Titus, Fairbairn Commercial
For Additional Information, contact Bart Sayyah (303) 795-0142 or email BSayyah@bestchamber.com

Denver's Southeast Metro region contains the largest concentration of office inventory in the metro area, with over 27.8 million square feet (msf) of commercial-grade, non-owner occupied property. A full 56.8% of this is qualified as class A space, while 39.9% qualifies as class B. Bounded by East Hampden Avenue to the north and Broadway/Highlands Ranch to the west, this region is greatly influenced by its proximity to I-25 (which runs north/south through the center of its territory) and several other major metro-area thoroughfares, including C-470, Parker Road and I-225. It will also be one of the greatest beneficiaries of new urban infill development activity along the new light-rail corridor that parallels I-25. Rivaled in size only by Denver's Central Business District (24.6 million square feet), the South Metro region is a prime commercial center supported by excellent housing, a diverse and well-qualified labor force, state-of-the-art infrastructure and high-end amenities.

Highlights

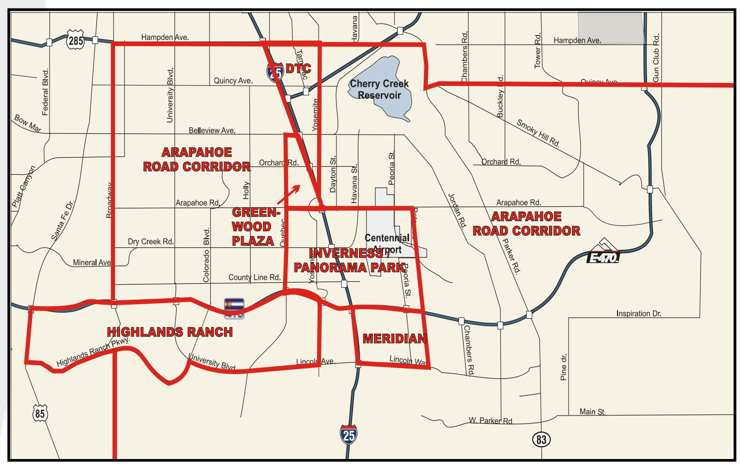
- **Overall vacancies in the Southeast Metro region dropped again as 2008 opened, falling 1.5 percentage points to end the first quarter at 13.5%.** Class A vacancy rates shrunk 0.8 percentage points year-over-year to 10.7%, while class B rates declined 2.7 percentage points during this timeframe to 16.5%. Vacancy rates will likely edge up slightly as new construction is completed and more sublease space comes on the market.
- **Leasing activity reached 812,098 sf in the first quarter , on par with what was seen during the same timeframe last year.** The largest deal thus far in 2008 was the commitment by Newmont Mining to relocate its corporate headquarters into 156,075 sf upon completion of the new Palazzo Verdi building in Greenwood Village. Other significant deals include a joint Arapahoe-Douglas County Workforce Training program occupying 30,640 sf (also in Greenwood Village), and global software solutions provider Mincom leasing 21,667 sf in the Denver Tech Center.
- **Year-to-date absorption slowed substantially in first quarter and was only about one-third of first quarter 2007's absorption number, but remained positive at 62,019 sf.**
- **Overall weighted average rental rates quoted rose 5.4% from year-ago levels to $20.61 per square foot (psf).** Class A rates registered significant year-over-year appreciation, increasing 5.9% during the past twelve months to $24.15 psf overall. Class B quotes were only 2.9% higher in the same period, ending first quarter 2008 at $19.00 psf overall. Rental rates should hold steady or even increase slightly in the coming year, particularly in class B spaces that have not seen a lot of rental appreciation over the last few years.

Southeast Metro Statistics

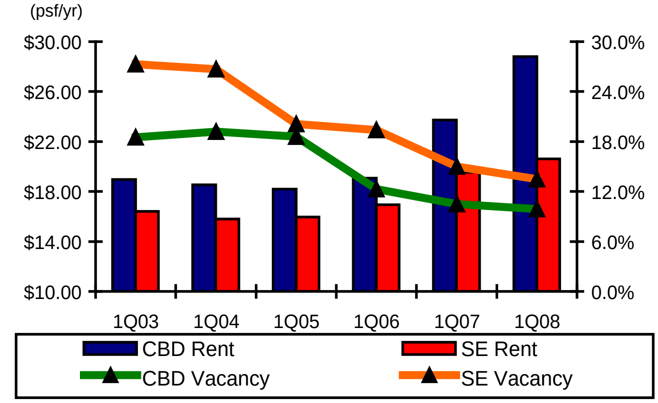
		CHANGE FROM PRIOR YEAR	
Total Inventory	27,832,626 sf		
Direct Asking Rental Rate	$20.94 psf/yr	5.4%	▲
Class A	$24.15 psf/yr	5.9%	▲
Class B	$19.00 psf/yr	3.2%	▲
Class C	$15.68 psf/yr	8.0%	▲
Overall Vacancy Rate	13.5%	-1.5 pct. pts	▼
YTD Construction Completions	0 sf	n/a	
Under Construction	992,275 sf	402,446 sf	▲

Central Business District Statistics

		CHANGE FROM PRIOR YEAR	
Total Inventory	24,623,388 sf		
Direct Asking Rental Rate	$29.04 psf/yr	18.7%	▲
Class A	$32.62 psf/yr	20.5%	▲
Class B	$26.28 psf/yr	12.9%	▲
Class C	$19.14 psf/yr	15.0%	▲
Overall Vacancy Rate	9.9%	-0.6 pct. pts.	▼
YTD Construction Completions	0 sf	n/a	
Under Construction	1,077,997 sf	468,394 sf	▲



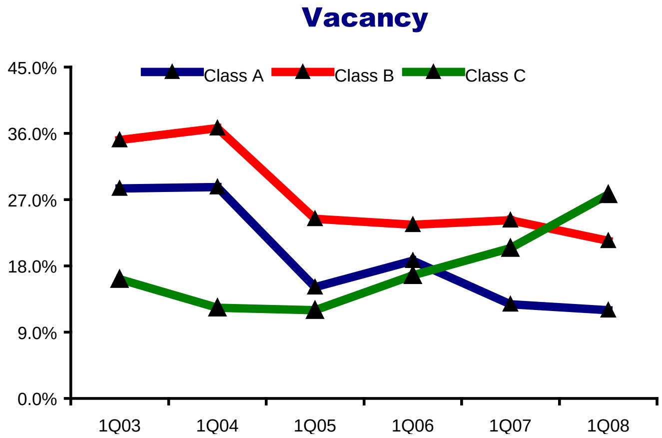
Overall Rent vs. Vacancy

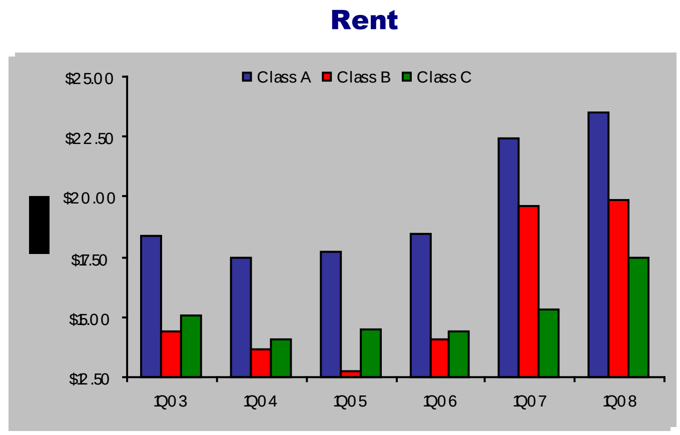


For more information, please contact our Research Department
Cushman & Wakefield, Inc.
1050 Seventeenth Street, Suite 1400
Denver, Colorado 80265 • (303) 813-6400

CUSHMAN & WAKEFIELD
Global Real Estate Solutions

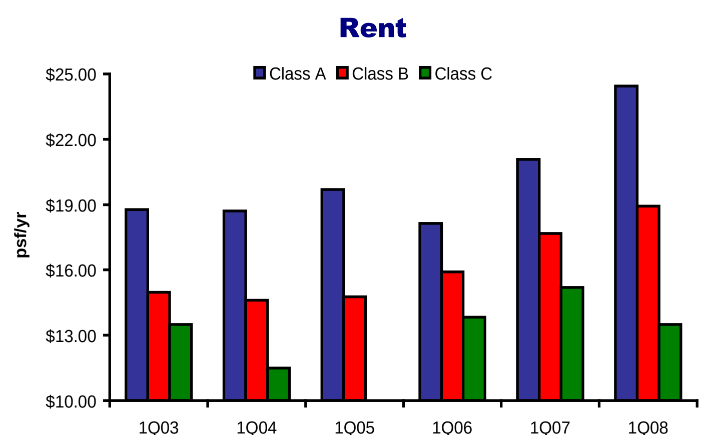
Denver Tech Center





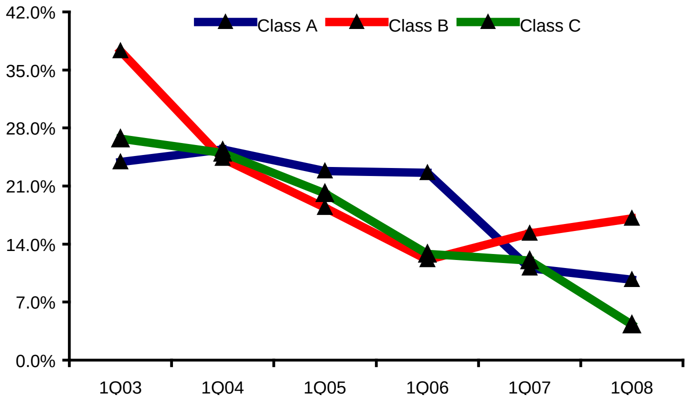
The Denver Tech Center (DTC) market is an upscale triangular office park containing over 66 buildings with approximately 8.8 million square feet of space. Half of these buildings are classified as "Class A", and the corridor continues to enjoy popularity among corporate users of office space. At the end of the1st quarter, average asking rates for direct and sublease space was $22.06, a decrease of $0.64 from the 4th quarter. Overall vacancy increased from 14.2% at the end of the 4th quarter to 14.5% at the end of the 1st quarter. These trends suggest that activity is cooling in this submarket and the general downturn in the economy may be affecting office leasing in the DTC.

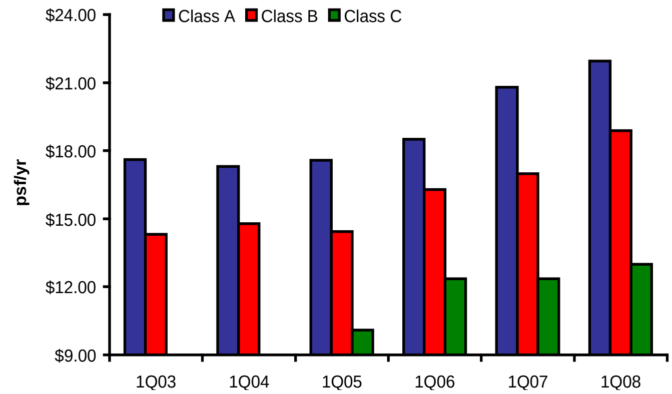
Greenwood Village



With 7.5 million square feet of office space in 62 buildings, the Greenwood Village submarket is the second largest in the southeast suburbs. In the first quarter of 2008, this submarket experienced negative absorption of 22,347 sf of office space in Centennial, Englewood and Greenwood Village. The office vacancy rate at the close of the year rose to 15%, an increase of 0.7 percentage points. Despite a rise in vacancy rates landlords continued to push rental rates further by $.54 from year end 2007. Average asking rental rates in the Greenwood Village submarket are $20.63 per sq. ft. and the average asking rental rate for Class A buildings averages $25.39 per sq. ft. Despite negative absorption, Greenwood Village experienced significant leasing activity in buildings under construction. Newmont Mining Corporation signed a notable lease for 156,075 rsf which will contribute to the market's absorption when Pelazzo Verdi delivers in June of this year. The Arapahoe / Douglas County Workforce Training also leased over 30,000 rsf at the CoBank Center located at 5500 South Quebec Street. Leasing activity in the submarket for the year remained very strong, with nearly 384,743 sf leased, representing 43% of the activity that the market experienced for the entire year of 2007. .

Inverness / Panorama

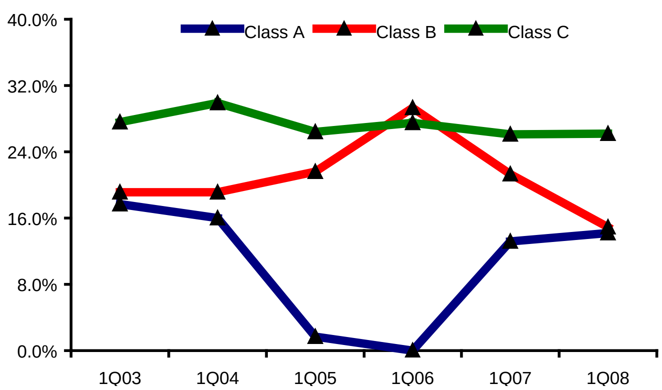




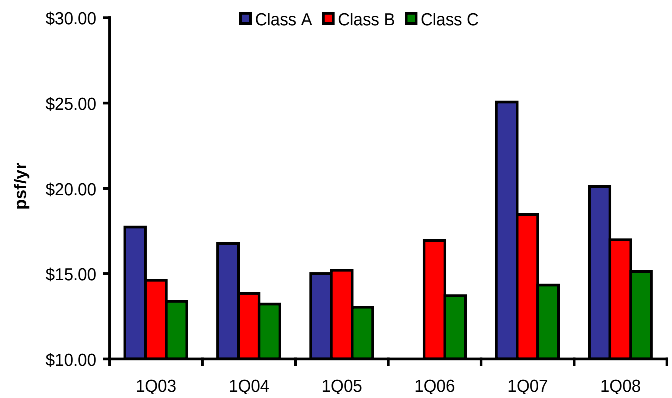
The Inverness/Panorama submarket (Approximately 6 million square feet in 68 buildings) continues to show strength as rental rates rise and companies are drawn to this market's location, amenities and newer buildings. The rental rates range from $13.00 to $20.00. A major advantage to the Panorama market is that the access of the Dry Creek exit is one of the least congested interchanges off the southern I-25 corridor. The attraction of the adjacent Centennial Airport, Inverness Hotel and the Park Meadows Mall combine to help continue to make this submarket a mainstay for companies considering relocation. The Vallagio residential high end condominiums at north end are giving Inverness the beginnings of a true mixed use environment with other similar high-end residential plans for the interior of the park facing the golf course.

Centennial / Arapahoe Road Corridor

Vacancy

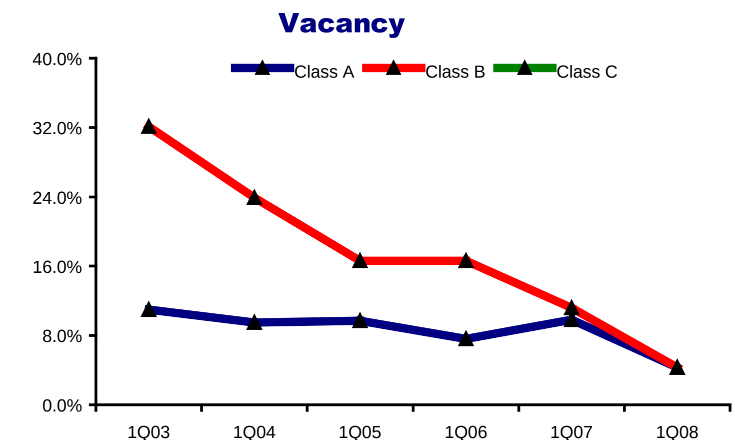


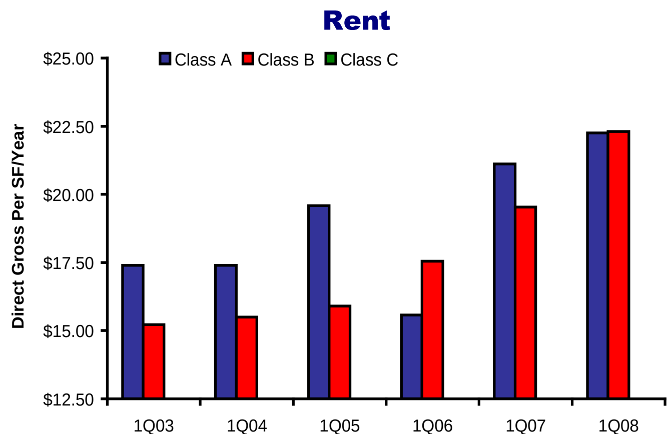
Rent



The Centennial/Arapahoe Road corridor consists of slightly over 3 million square feet of office space in 76 buildings. The Centennial/Arapahoe Road corridor continues to see great office leasing opportunities in all classes. With just under 500,000 of available office space in this market, opportunities abound with lease rates as low as $15.00 per square foot for Class C space and rates up over $20.00 for Class A space. The proximity to restaurants and service retail makes Centennial a great place to set up medical offices as well as a prime location for general administrative offices. This market also includes portions of Littleton, Greenwood Village and Lone Tree. The scarcity of land in the Lone Tree area and the emergence of Sky Ridge Medical Center as a regional medical center make medical office space a growing and quite popular commodity. This area continues to be one of the best economical options with good amenities.

Meridian





Vacancy rates have continued to slide while asking rental rates have increased over the past 3 years in the Meridian Submarket (59 buildings, 4.5 million sf) according to Cushman & Wakefield Research and CoStar Property Database. Average asking rates are approaching $25.00 per square foot on a full service basis, while the vacancy rates continuing to trend below 6%. Most transactions are involving the smaller tenants (below 5,000 users). On the new construction front, One Lincoln Station (140,000 sf) is set to deliver in early 2008 and is close to signing a full building undisclosed user. Also Maroon V (90,000 sf) is set to be delivered in late 2008.

Highlands Ranch

The Highlands Ranch office submarket consists of approximately 2.2 million square feet in 51 buildings, ranging from Class A to Class C space. Highlands Ranch has shown a significant increase in vacancy in the past 2 quarters, from the 9% range to almost 14%, which is a sharp jump in their historical averages. The largest block of space available in the Highlands Ranch submarket is a 17,000 sublease space at the Lucent Technologies building off of Lucent Drive and C-470, according to CoStar Property Database. Average asking lease rates are currently between $19.00 and $28.00 per square foot on a full service basis. The forecast for vacancy rate is predicted to remain in the 12% - 14% range and rental rates to remain the same as demand for office space continues to be stagnant.