

OFFICE REGION REVIEW

SOUTHEAST METRO DENVER, COLORADO

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. Rivalled in size only by Denver's Central Business District (26.4 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

- **Southeast Metro vacancies have fallen considerably the past several periods, ending 2007 with an overall rate of just 13.3% - the lowest level recorded in seven years.** Class A vacancy rates were down 1.2 percentage points year-over-year to a low 10.2%, while class B rates fell 1.4 percentage points during this time frame to 16.1%.
- **Quoted rents rose \$1.30 psf year-over-year to \$20.53 psf overall for all classes.** Class A escalations were significantly higher (up \$2.18 psf to \$23.13 psf), while class B hikes were appreciably softer (rising \$0.64 psf to \$18.91 psf).
- **Overall absorption (a measure of the net change in occupied space) was down from last year's record levels, but still impressive at 785,828 sf on leasing activity of almost 3.6 msf.** Insurance companies, asset management firms and credit intermediaries were involved in 31.3% of all new and expansion deals signed. Companies like Sentry Insurance (taking 37,515 at Gateway Plaza at Meridian), Old Mutual Capital (signing for 21,300 sf at Regency Plaza One in the Denver Tech Center) and Springbok Services (leasing 14,468 sf at Lincoln Office Center in the Inverness/ Panorama submarket) typify financial-sector transactions closed this year. Professional/business services accounted for 26.2% of Southeast Metro transactions closed. Representative deals included Harris Engineering's 59,573-sf lease at Gateway Plaza, Clifton Gunderson's 49,318-sf signing at Crescent VII, and Educational Sales Management's taking of 17,440 sf at Southlands.
- **Tightening market conditions prompted developers to go ahead with several speculative projects, including the 285,000-sf Palazzo Verdi and the 99,000-sf Parkside Office Plaza.**

Southeast Metro Statistics

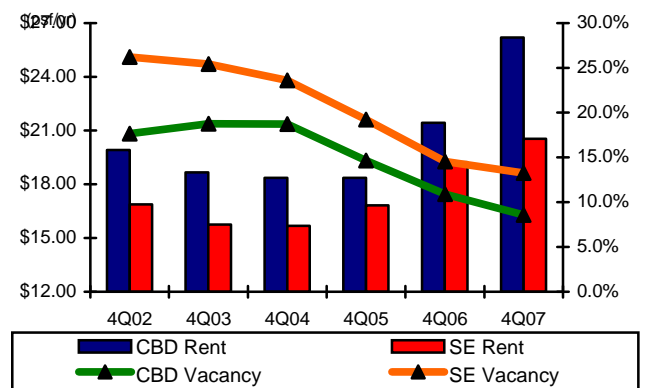
		CHANGE FROM PRIOR YEAR
Total Inventory	27,832,626 sf	
Direct Asking Rental Rate	\$20.53 psf/yr	7.0% ▲
Class A	\$24.07 psf/yr	10.1% ▲
Class B	\$19.04 psf/yr	3.5% ▲
Class C	\$15.15 psf/yr	5.9% ▲
Overall Vacancy Rate	13.3%	-1.3 pct. pts ▼
YTD Construction Completions	164,001 sf	-42,539 sf ▼
Under Construction	884,817 sf	666,816 sf ▲

Central Business District Statistics

		CHANGE FROM PRIOR YEAR
Total Inventory	24,049,778 sf	
Direct Asking Rental Rate	\$26.89 psf/yr	20.1% ▲
Class A	\$30.23 psf/yr	19.8% ▲
Class B	\$25.42 psf/yr	23.5% ▲
Class C	\$19.64 psf/yr	12.7% ▲
Overall Vacancy Rate	7.5%	-1.9 pct. pts. ▼
YTD Construction Completions	0 sf	n/a
Under Construction	1,074,897 sf	1,024,897 sf ▲

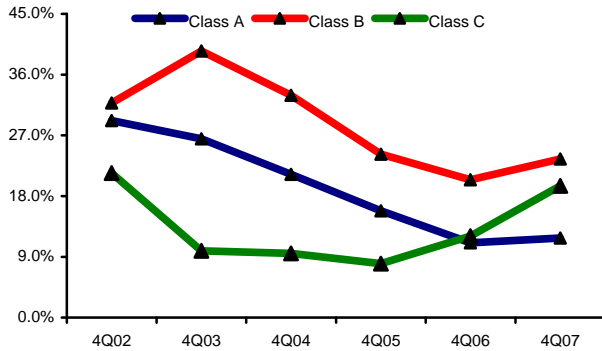


Overall Rent vs. Vacancy

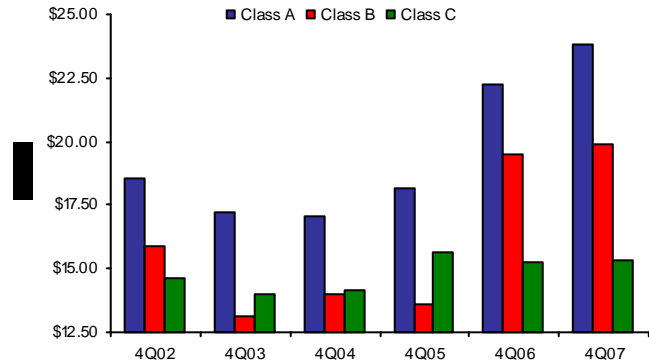


Denver Tech Center

Vacancy



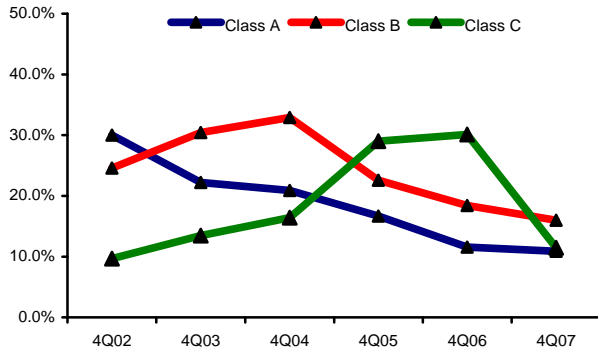
Rent



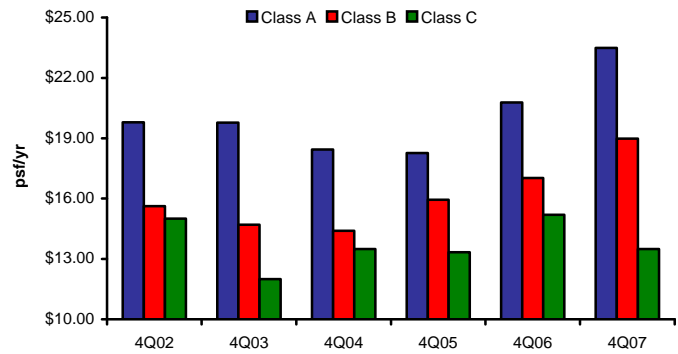
The Denver Tech Center (DTC) market is an upscale triangular office park containing over 66 buildings with approximately 8.8 million square feet of space. Half of these buildings are classified as “Class A”, and the corridor continues to enjoy popularity among corporate users of office space. At the end of the 4th quarter, average asking rates for direct and sublease space was \$22.70, an increase of only \$0.57 from the 3rd quarter. Overall vacancy actually increased from 13.9% at the end of the 2nd quarter to 14.2% at the end of the 3rd quarter. These rental rate and vacancy trends suggest that the DTC market may be stabilizing after previous quarters of significant rental rate increases and low vacancy.

Greenwood Village

Vacancy



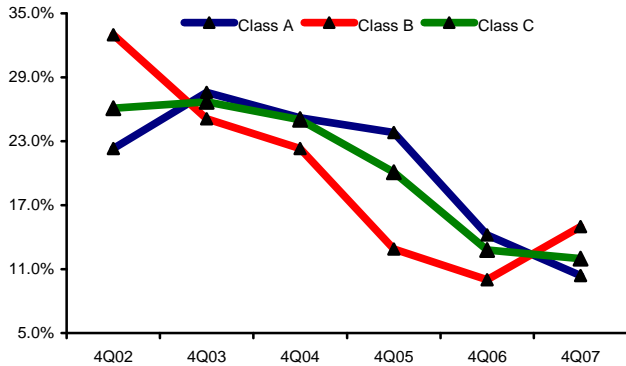
Rent



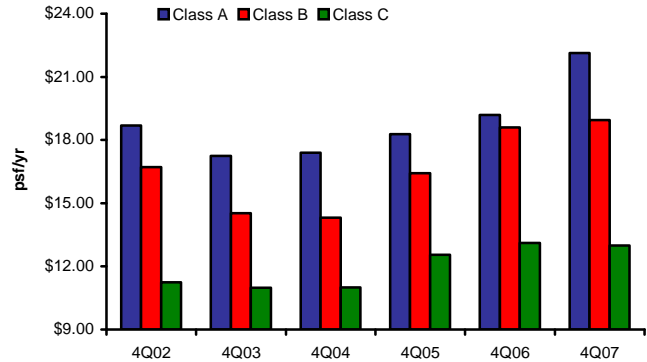
With 7.5 million square feet of office space in 62 buildings, the Greenwood Village submarket is the second largest in the southeast suburbs. For 2007, the submarket positively absorbed 139,749 sf of office space in Centennial, Englewood and Greenwood Village. The office vacancy rate at the close of the year dropped to 14.3%, a decrease of 1.8 percentage points. This drop in vacancy motivated landlords to further push rental rates, something they had done throughout 2007. Average asking rental rates increased by \$2.15 a sq. ft. year-over-year, rising from \$17.94 to the current \$20.09 per sq. ft. Notable leases in Greenwood Village for the fourth quarter included Ciber’s expansion of their multi-floor deal for additional space in the soon-to-be completed Palazzo Verdi building, and Mercury Payment Systems, which relocated into Two Greenwood Plaza. Leasing activity in the submarket for the year remained very strong, with nearly 900,000 sf leased. Two significant properties in the submarket sold during the fourth quarter, with the Paragon Building and Plaza Quebec I both coming under new ownership.

Inverness / Panorama

Vacancy



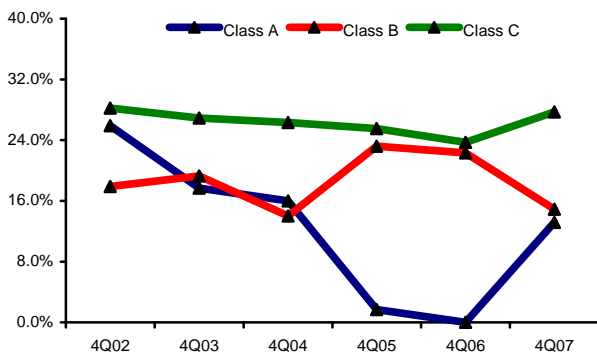
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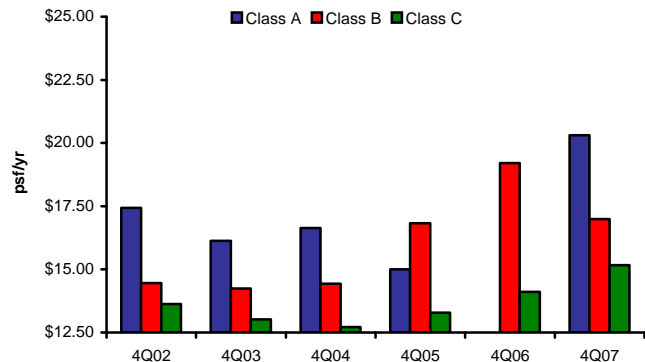
The Inverness/Panorama submarket (6 million square feet in 68 buildings) continues to show strength as rental rates rise and companies are drawn to this market's location, amenities and newer buildings. However, the Inverness/Panorama submarket continues to remain one of the stronger markets with over 900,000 square feet of leasing activity for 2007 and commands some of the higher rental rates in the market with direct Class A rates averaging \$22.00 per square foot. 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.

Centennial / Arapahoe Road Corridor

Vacancy



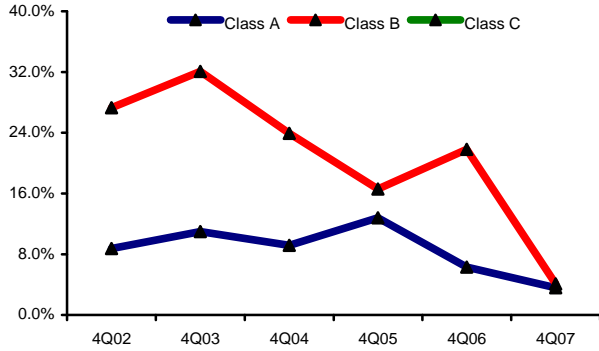
Rent



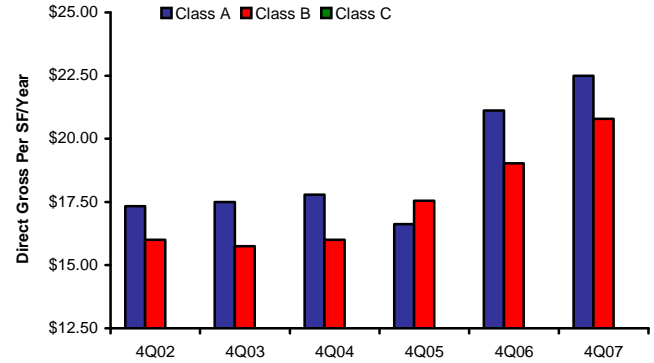
The Centennial/Arapahoe Road corridor consists of approximately 3 million square feet of office space in 76 buildings. The Centennial/Arapahoe Road corridor continues to see great office leasing opportunities in all classes. With approximately 500,000 of available office space in this market, opportunities abound with lease rates as low as \$15.00 per square foot for Class C space and overall lease rates at less than \$17.00 per square foot. 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.

Meridian

Vacancy



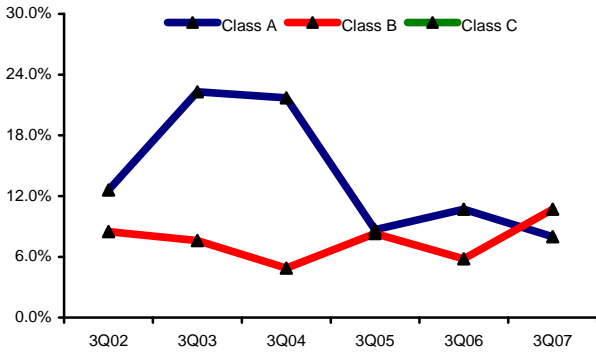
Rent



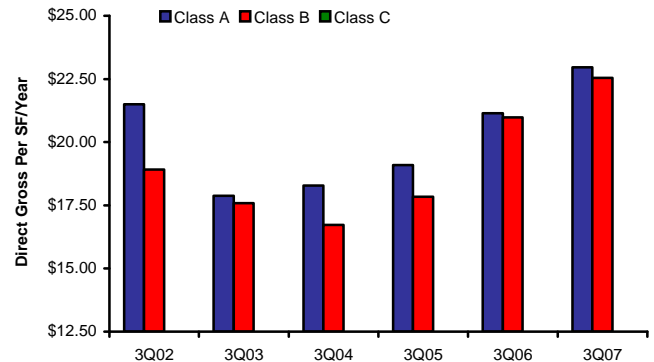
Vacancy rates have dropped dramatically while asking rental rates have increased substantially in the past 6 months in the Meridian Submarket (59 buildings, 4.5 million sf) according to Cushman & Wakefield Research and CoStar Property Database. Average asking rates have risen dramatically to \$26.00/psf up from \$23.00/psf just six months ago. Vacancy rates have slid to just over 6%. Three large transactions that occurred in the fourth quarter were Dex Media taking the entire spec building (143,000 sf) at Lincoln Station, Harris Corp. is planning on occupying 62,000 sf at 9800 South Meridian Blvd., and Sentry Insurance is taking down 37,000 sf at 9800 South Meridian Blvd., as well. These three transactions have contributed to helping lower the vacancy levels.

Highlands Ranch

Vacancy



Rent



The Highlands Ranch office submarket consists of approximately 2.2 million square feet in 49 buildings, ranging from Class A to Class C space. Vacancy rates have nudged up slightly in the 4th quarter due to the addition of approximately 85,000 sf that came on line in the 4th quarter. This has increased vacancy rates to approximately 12%. Average asking lease rates are currently between \$19.00 and \$28.00 per square foot on a full service basis. This submarket has consistently been well occupied due to its location and the shallowness of the market in general.