CU Real Estate Forum

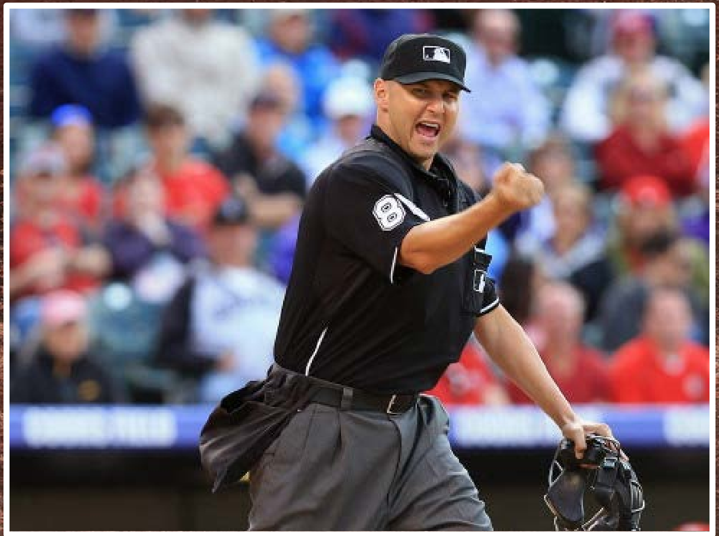
The Game is Still Going…

The Longest 7th Inning Ever

Presenter: Doug Wulf

Monday, December 7, 2015

CUSHMAN & WAKEFIELD



Out!

Safe!

Where Are We in the Cycle?

Recession-Recovery Table

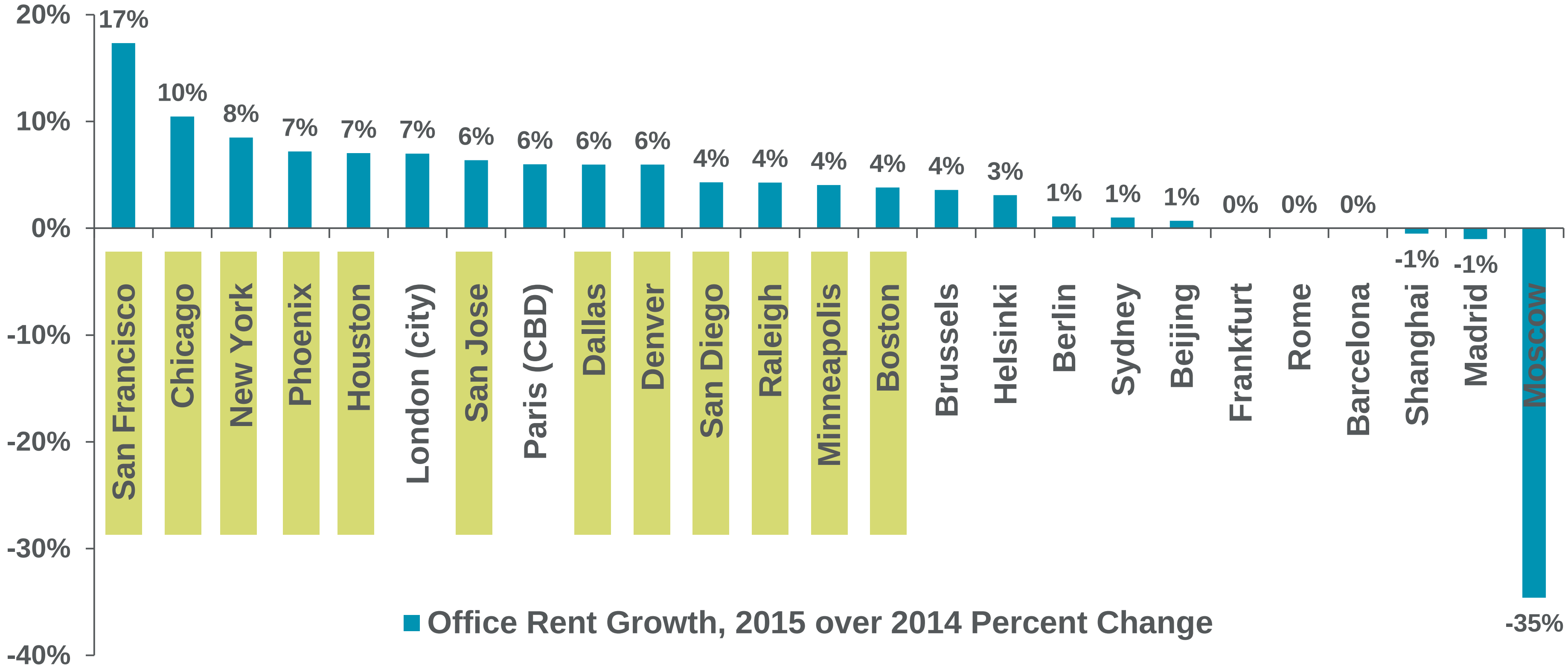
History is not on our side

Recession	Recovery/Expansion Period	Length of Expansion Following Recession	GDP Growth During Expansion	Monthly Job Growth During Expansion (000s)
1948	Q1 1950 – Q1 1953	13 qtrs	7.4%	182
1953	Q3 1954 – Q2 1957	12 qtrs	4.1%	115
1957	Q3 1958 – Q1 1960	7 qtrs	6.7%	165
1960	Q2 1961 – Q3 1969	34 qtrs	5.1%	169
1969	Q1 1971 – Q3 1973	11 qtrs	5.3%	198
1973	Q2 1975 – Q4 1979	19 qtrs	3.5%	239
1980	Q4 1980 – Q2 1981	3 qtrs	4.4%	145
1981	Q1 1983 – Q2 1990	30 qtrs	4.4%	233
1990	Q2 1991 – Q4 2000	39 qtrs	3.8%	203
2001	Q4 2001 – Q4 2007	25 qtrs	2.7%	83
2007	Q3 2009 – current	24 qtrs+	2.2%	130
Average (48-01)		**19.7 qtrs**	**4.8%**	**169.3**

Source: National Bureau of Economic Research

Investors Are Drawn to the U.S. Fundamentals

Office Rent Growth: U.S. Markets vs. Other Cities Around the World

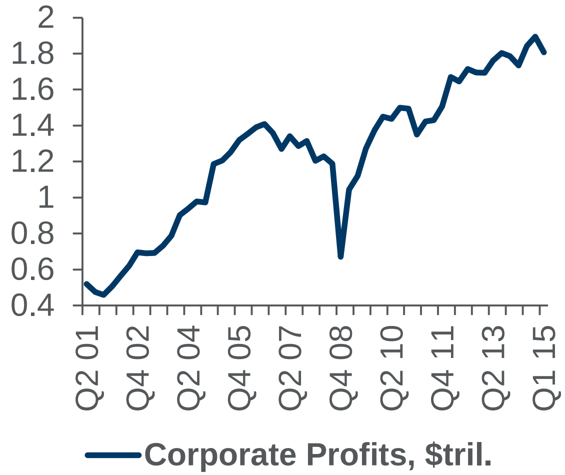


Source: Cushman & Wakefield Research

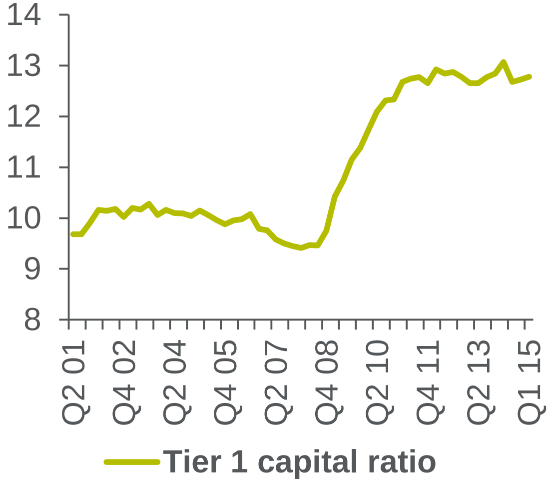
U.S. Fundamentals Remain STRONG

HH Balance Sheets Fantastic

Soaring Corporate Profits



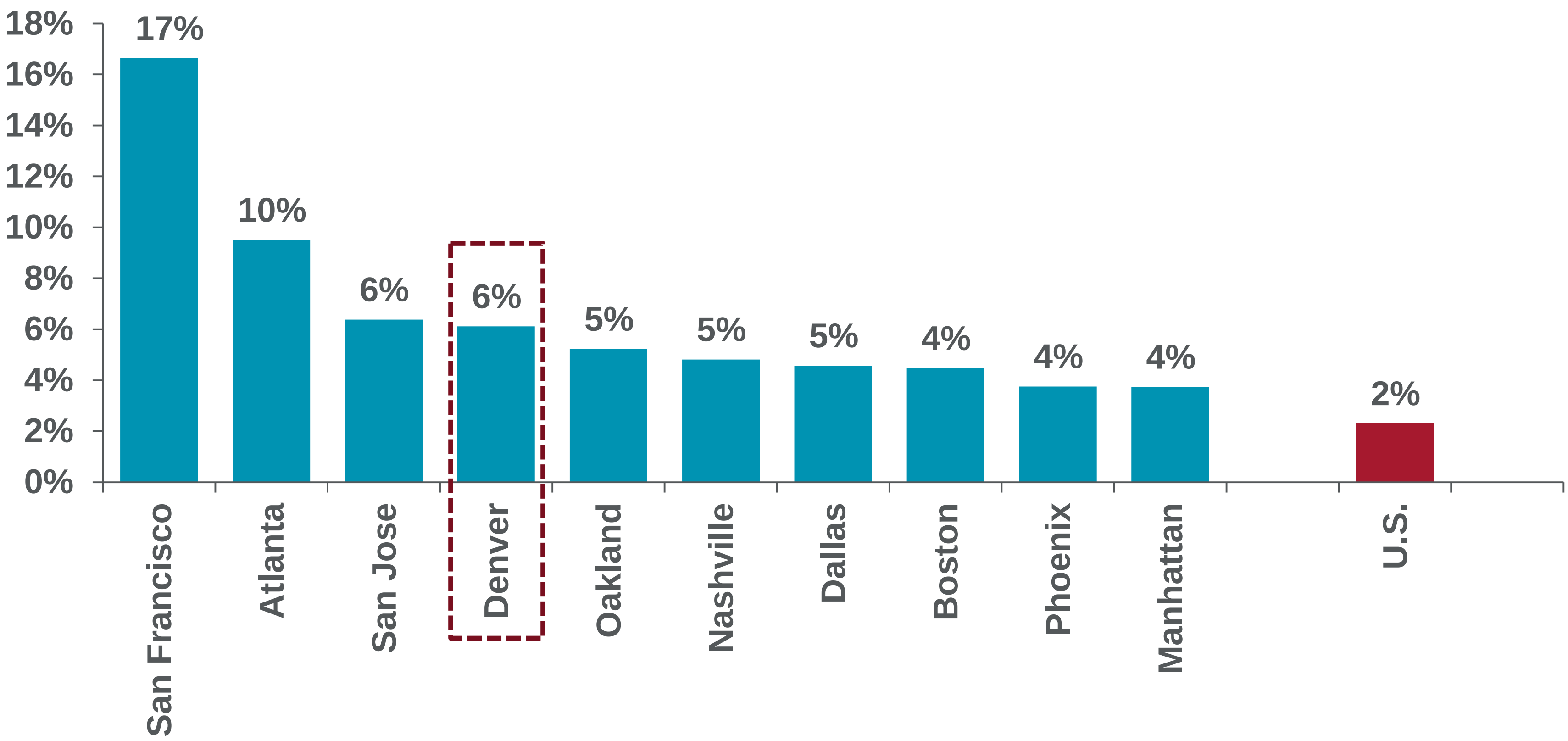
Solid Bank Balance Sheets



Source: Federal Reserve, Census Bureau, Cushman & Wakefield Research

Rent Growth: Who’s Hot

Office Asking Rents: 2015 Q3 over 2014 Q3, % Change

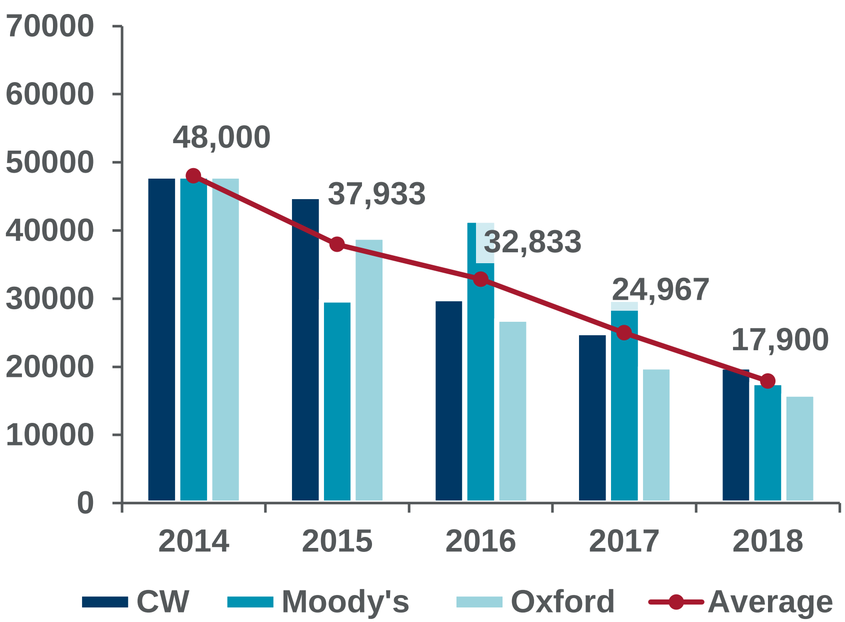


Source: Cushman & Wakefield Research

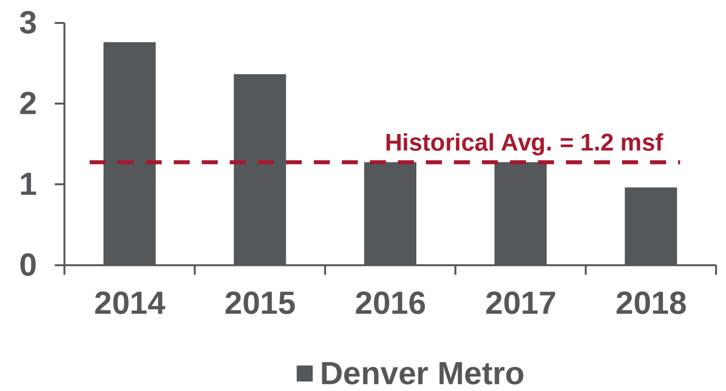
Denver’s Office Sector Outlook

Job Growth Forecast

Total Nonfarm



Absorption Forecast

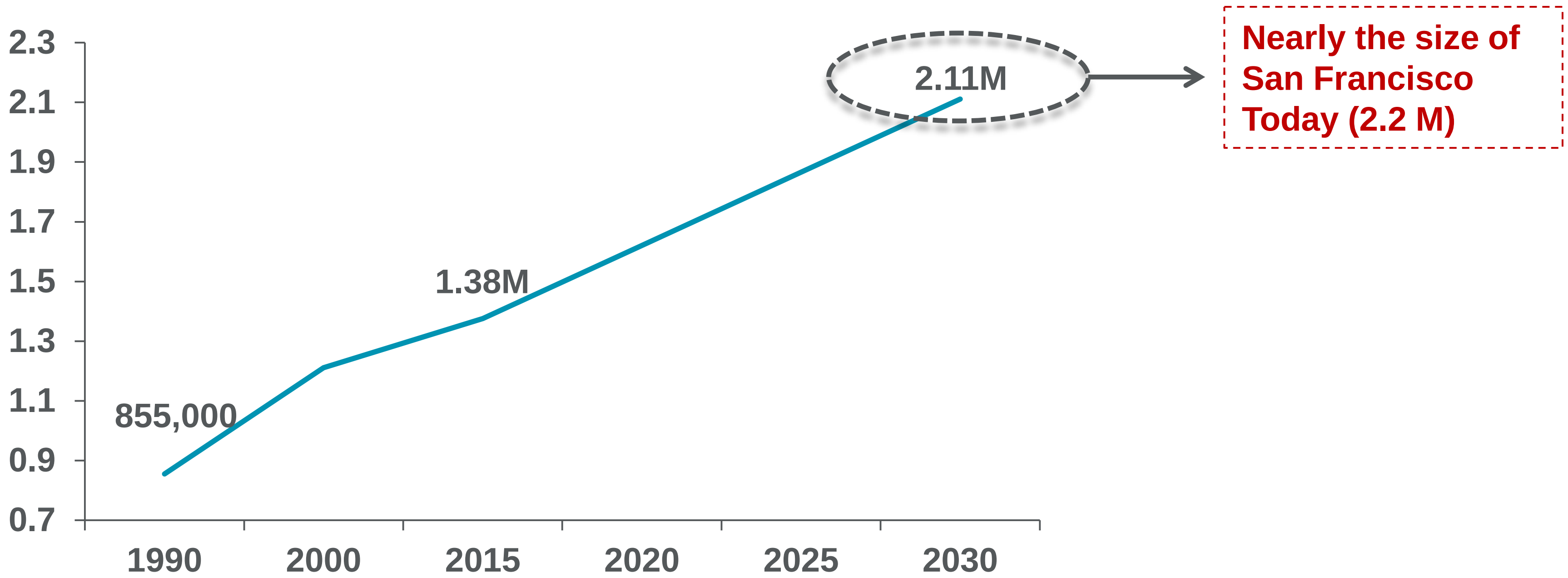


28% Office-using

Source: Cushman & Wakefield Research

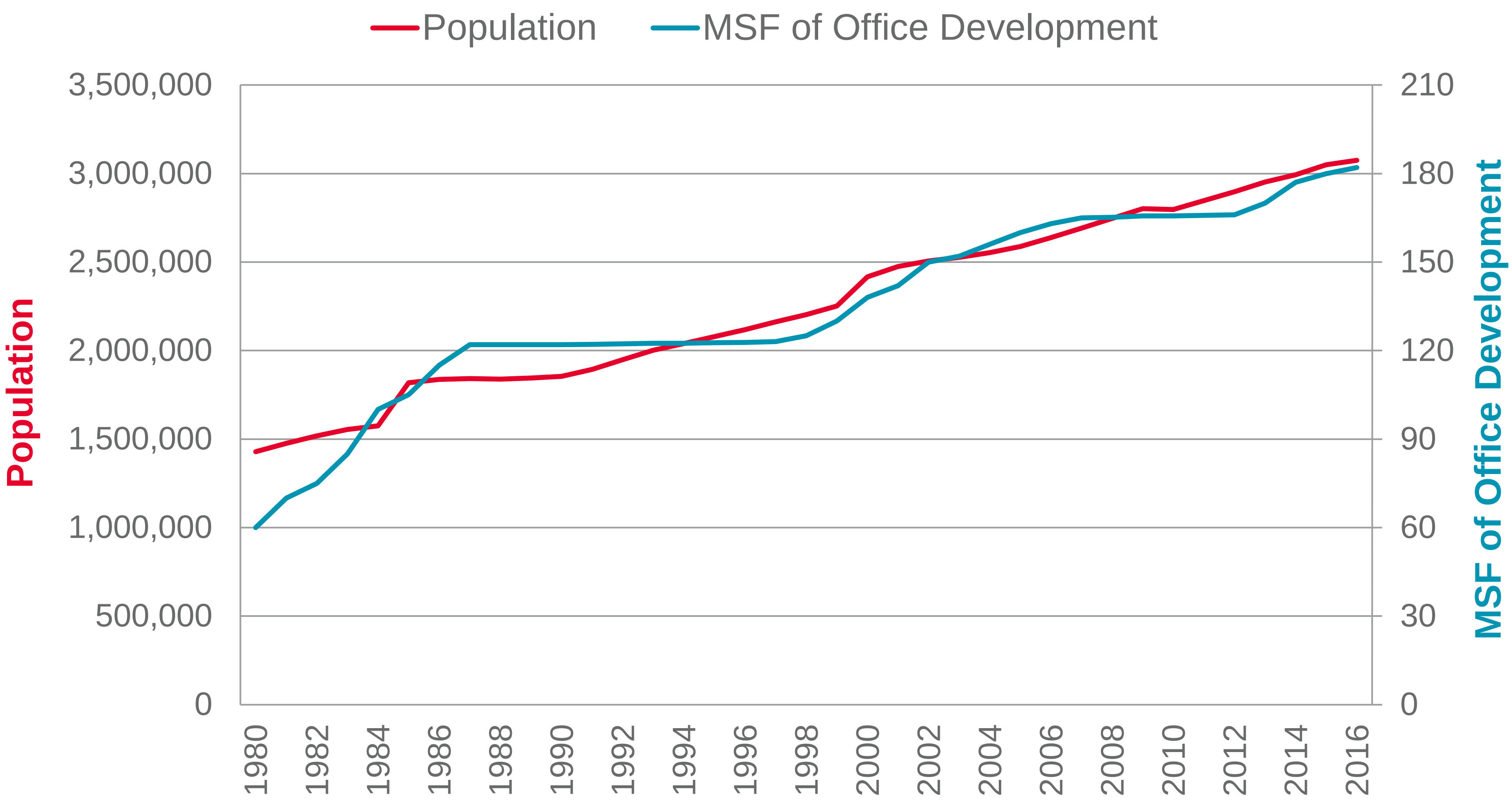
Denver's Stunning Growth Trajectory

Total Nonfarm Employment



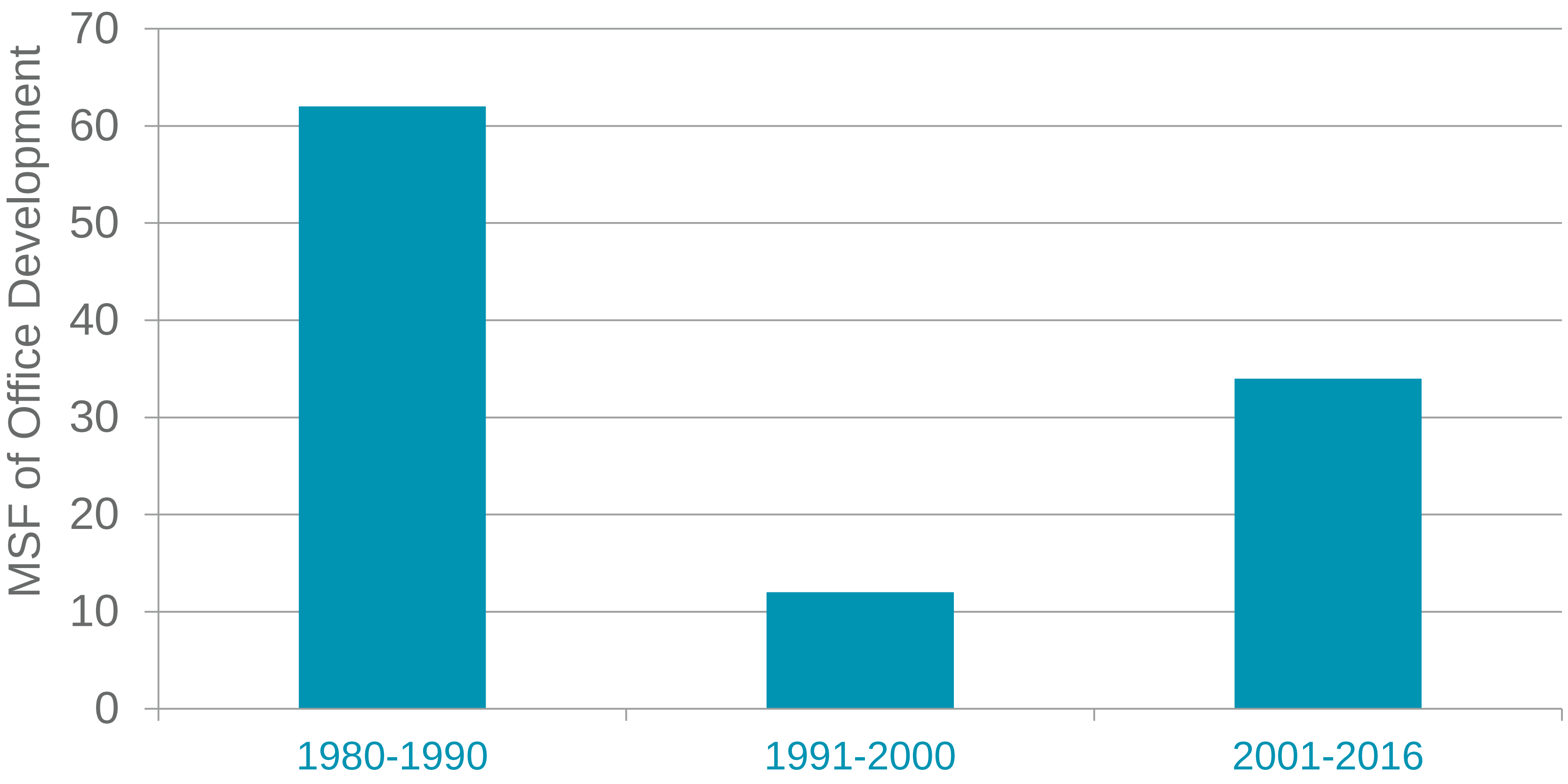
Source: BLS

Population and Office Supply



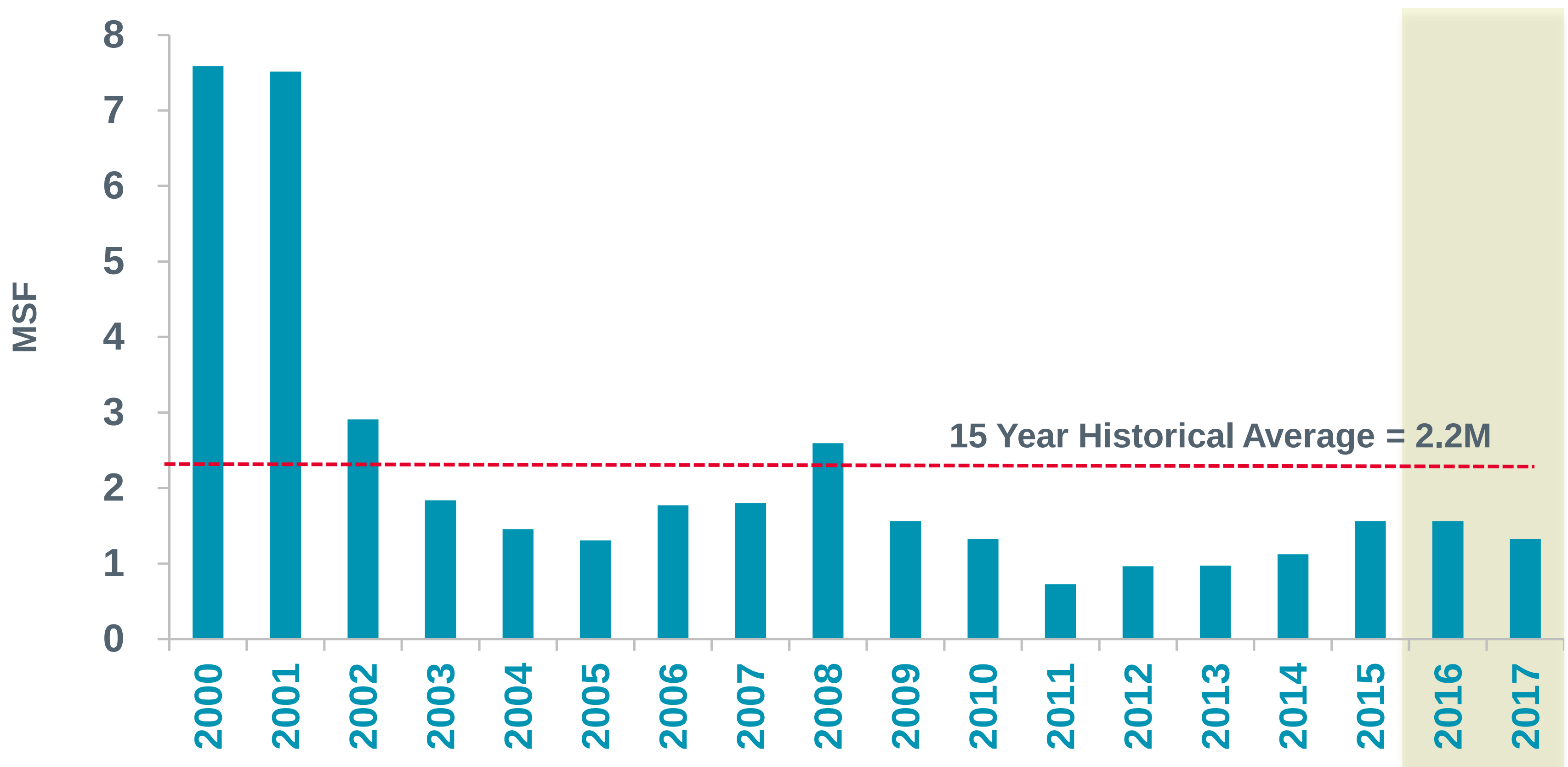
Office Building Deliveries

Single Tenant and Multi Tenant



Supply Trends: Office Sector

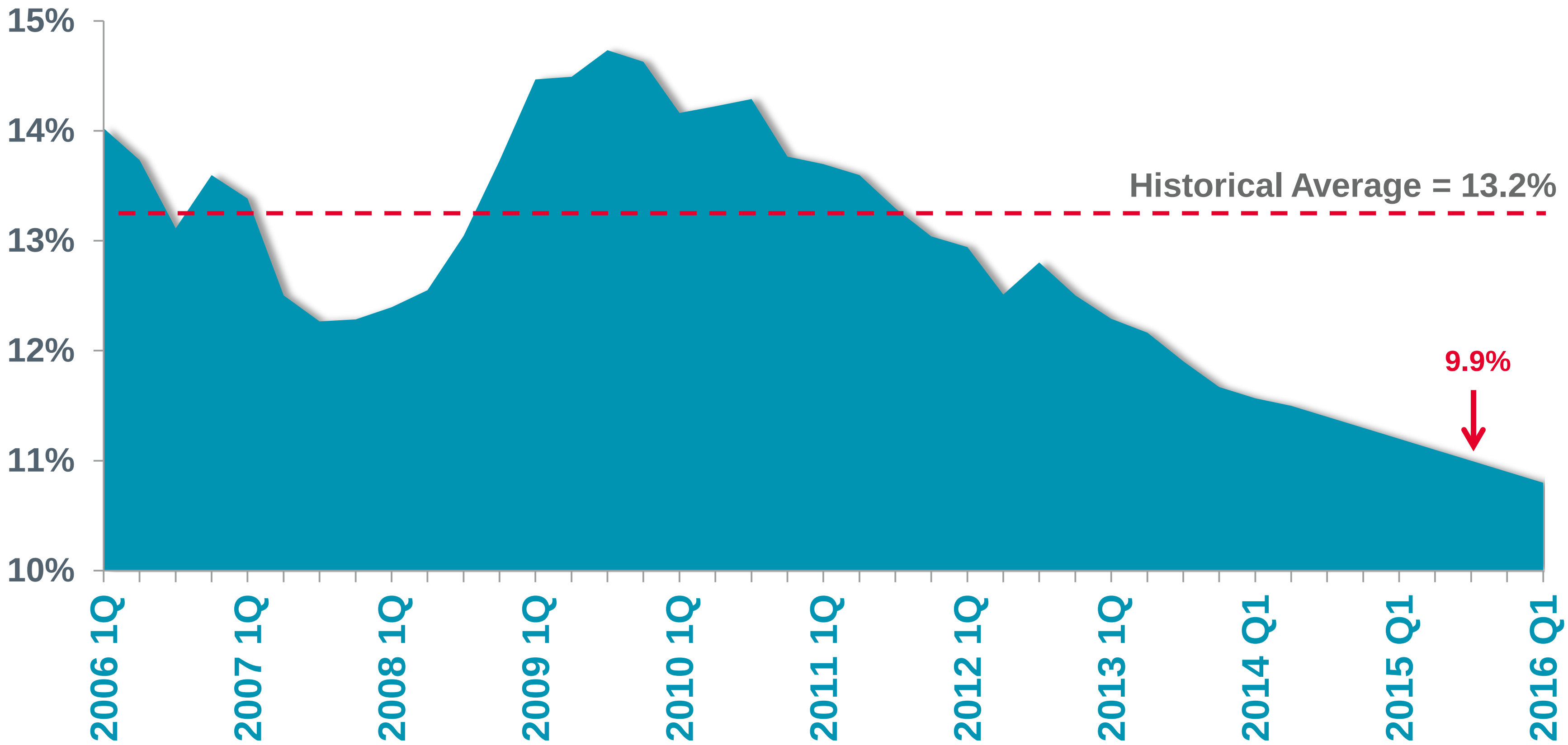
Denver Metro: Deliveries



Source: CoStar, Cushman & Wakefield Research

Office Vacancy Remains Tight

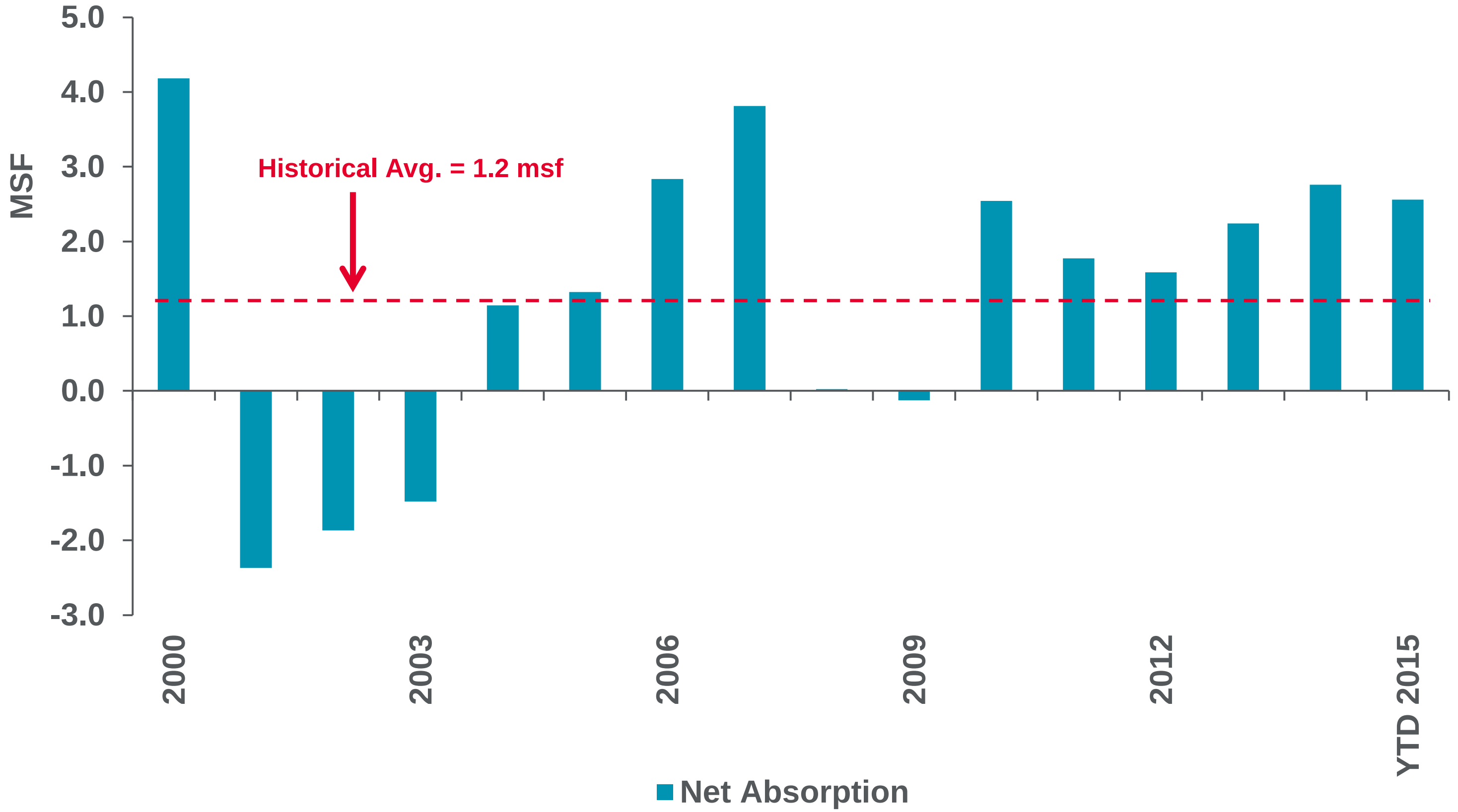
Denver Metro Vacancy



Source: CoStar, Cushman & Wakefield Research

Denver’s Office Sector Trends

Demand (Net Absorption)

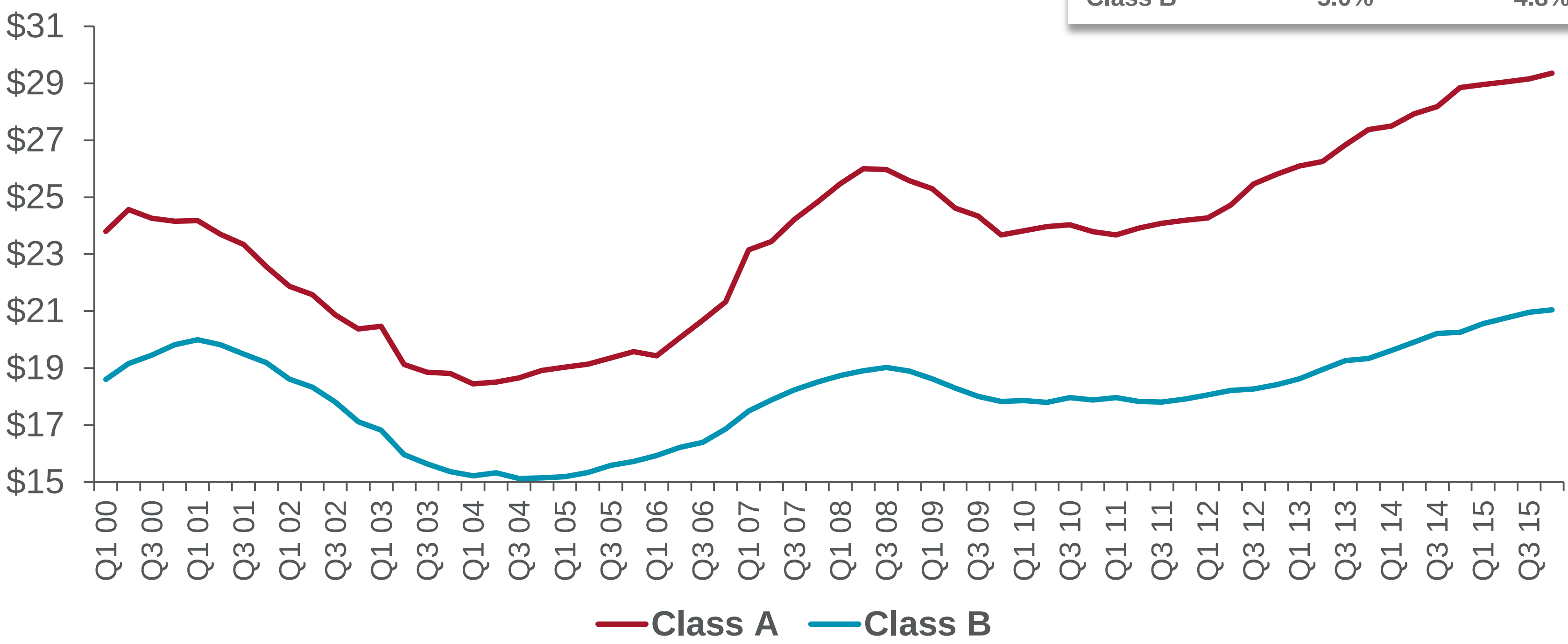


Source: Cushman & Wakefield Research

Denver Office Rent Trends

Rent Growth, Yr./Yr.

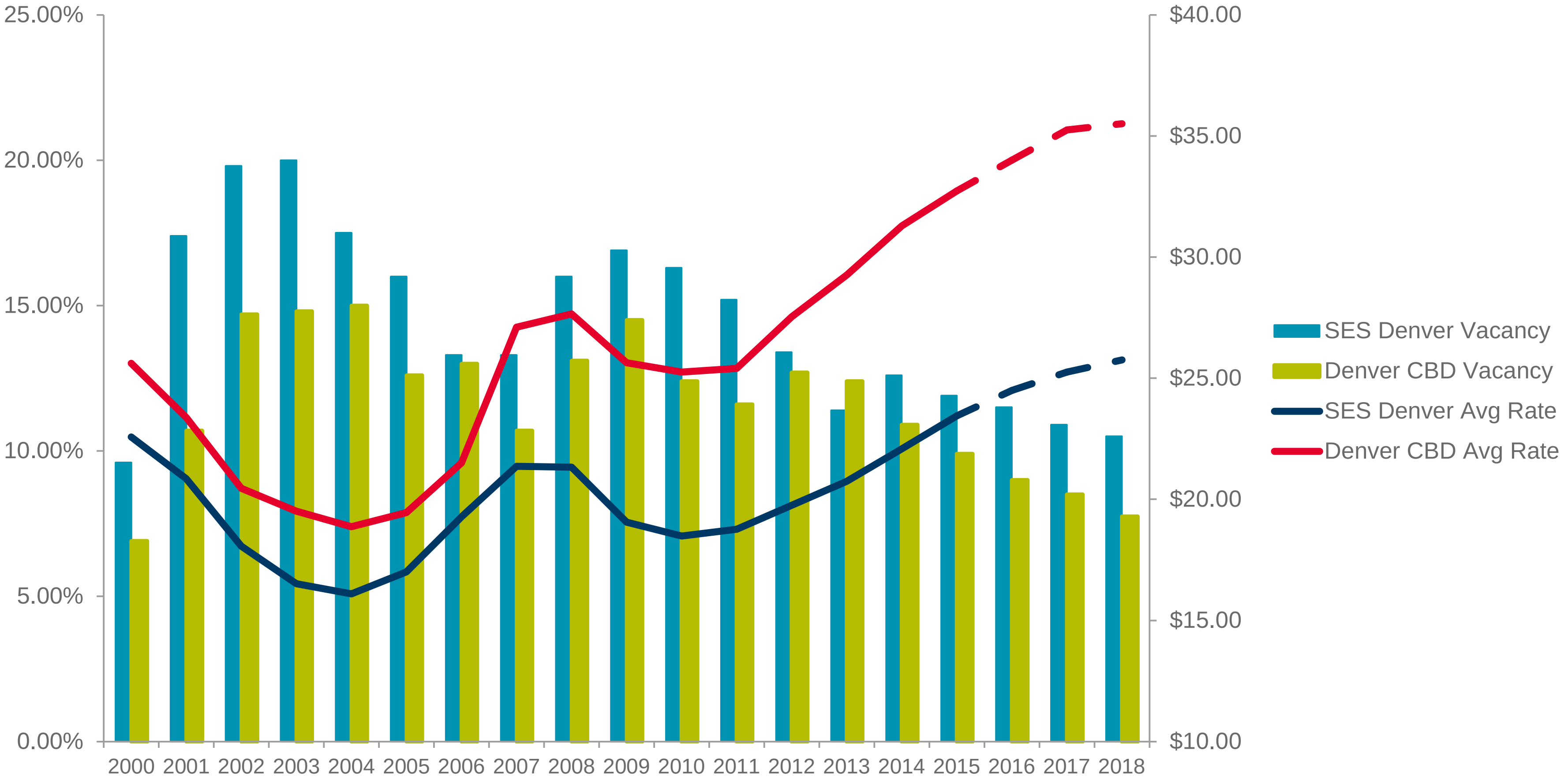
	2014	Q3 15
Class A	5.5%	5.0%
Class B	5.0%	4.8%



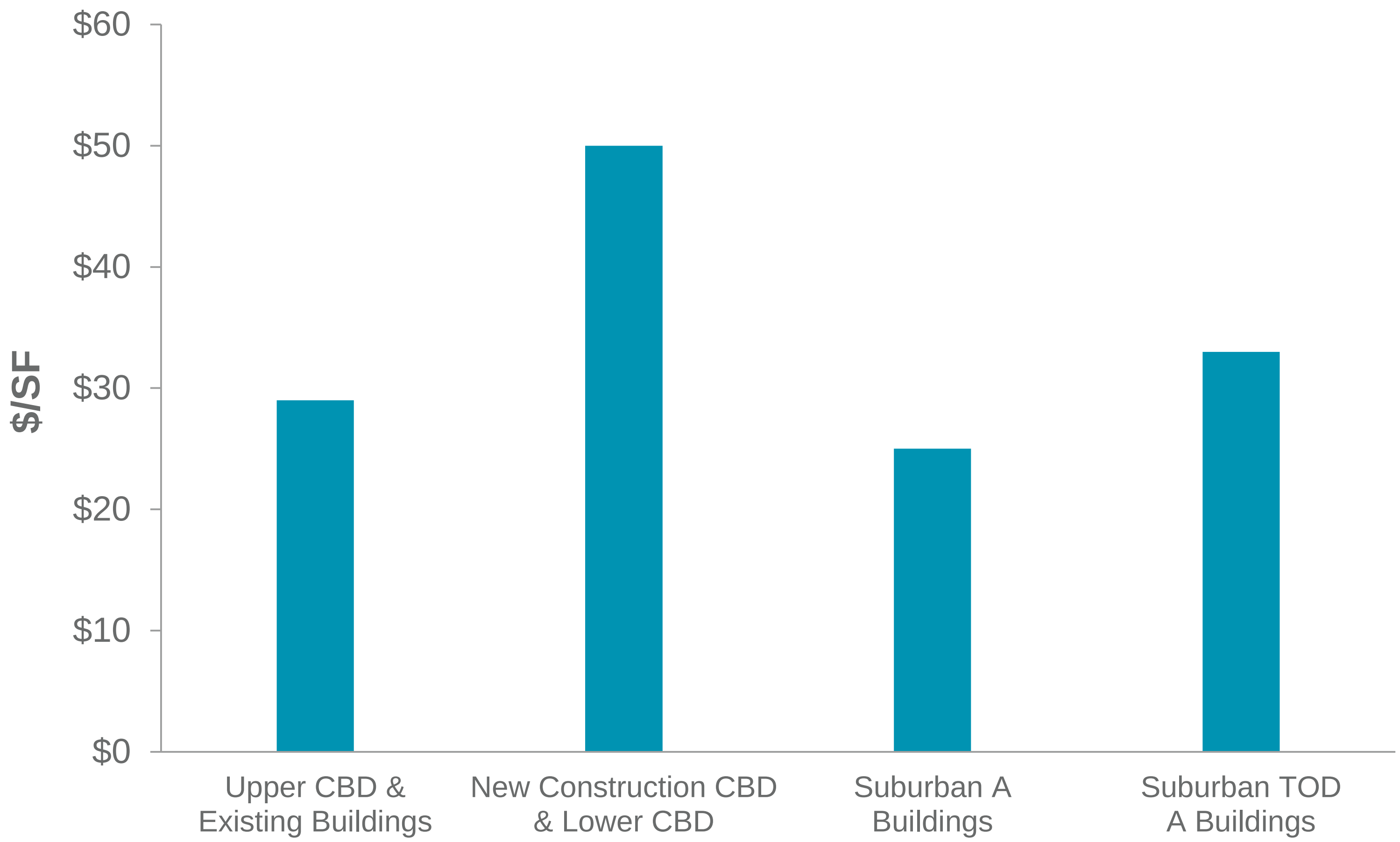
Source: Cushman & Wakefield Research

Historical and Projected Rent and Vacancy Trends

Southeast Denver vs. Downtown Denver

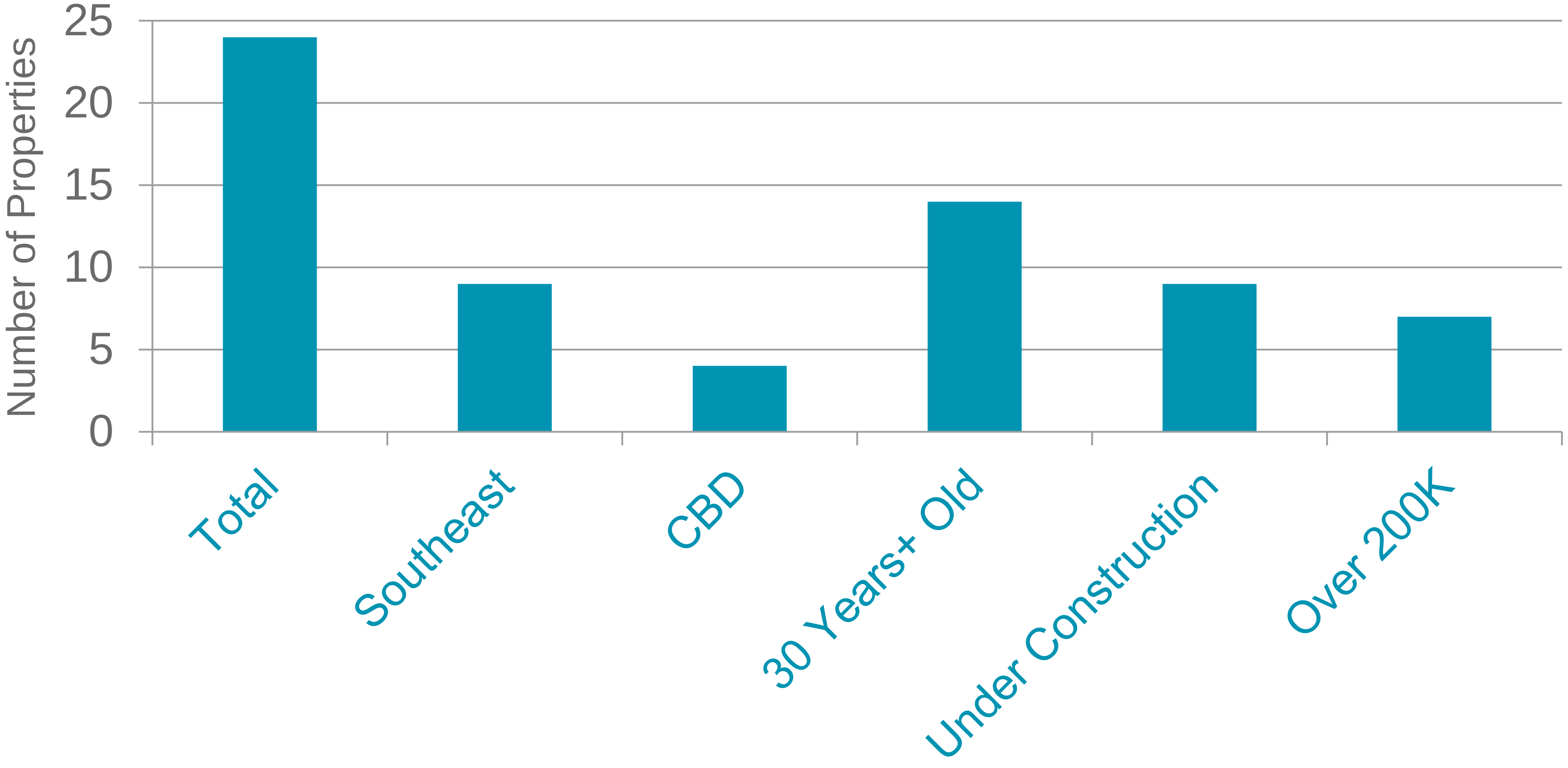


The Rent Gap


$/SF
$60
$50
$40
$30
$20
$10
$0
Upper CBD & Existing Buildings
New Construction CBD & Lower CBD
Suburban A Buildings
Suburban TOD A Buildings

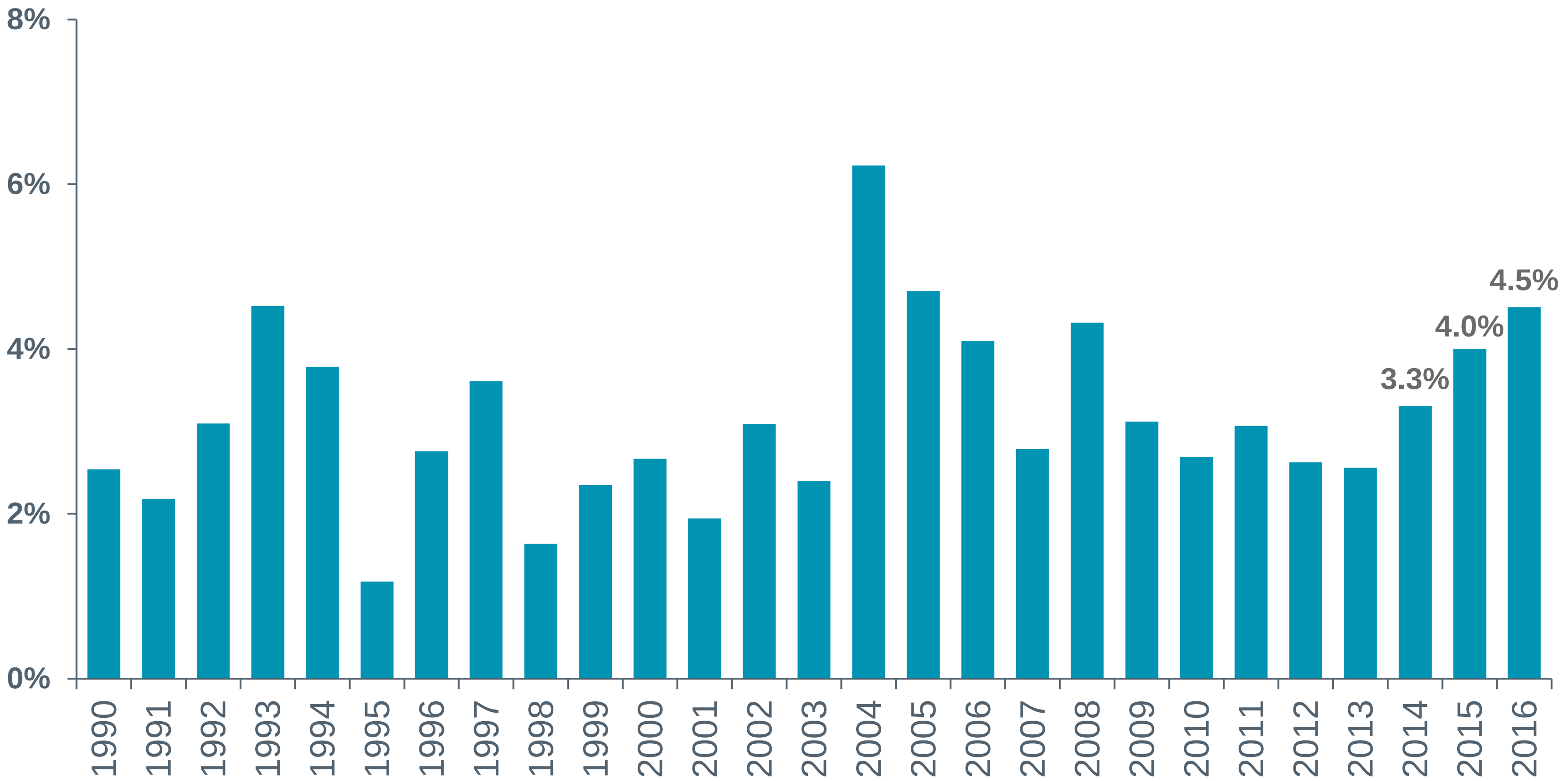
Large Blocks of Space – They Are Old

Metro Denver 100,000 SF and Larger



Construction Costs Forecast

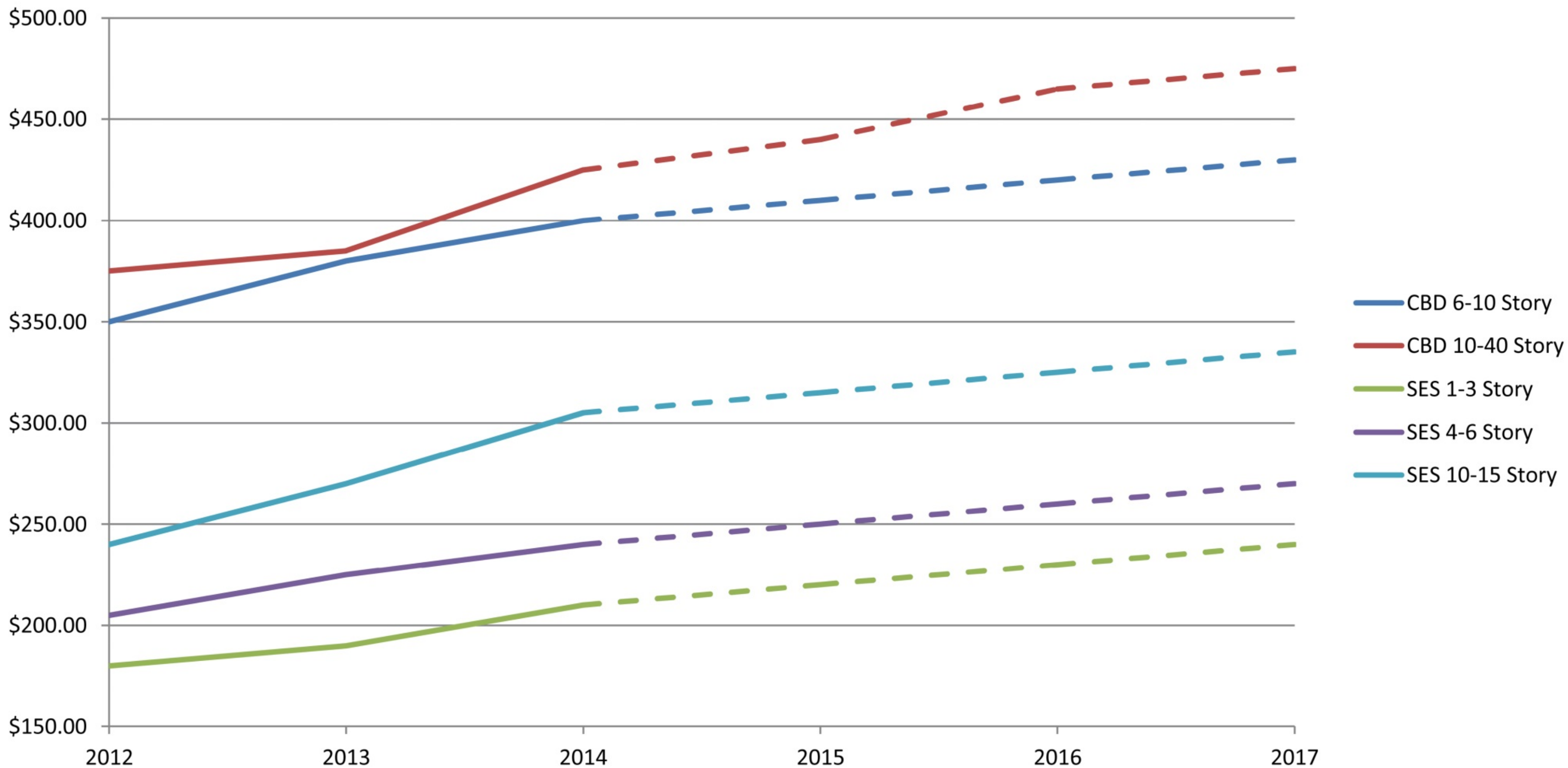
Yr./Yr. Percent Change.



Source: ENR, Cushman & Wakefield Research

Downtown and Southeast Denver Projected Construction Costs

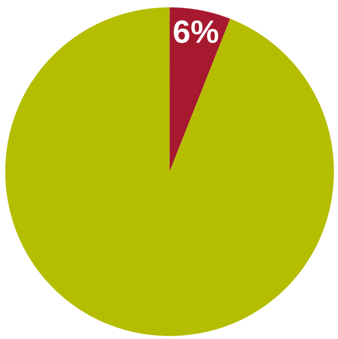
Southeast Denver vs. Downtown Denver



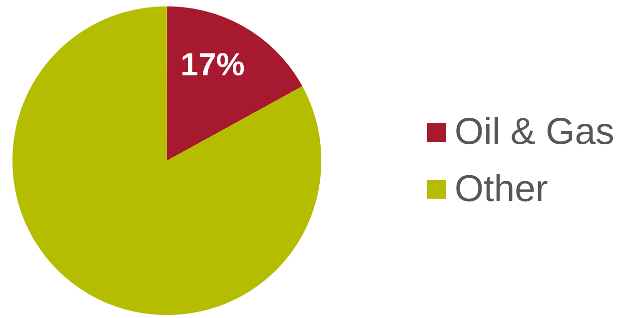
Denver is NOT Houston

Percent of Gross Metro Product

Denver



Houston



Mild Headwinds

- Only 6% of economy links to energy
- 96% of jobs created in Denver are in non-energy
- 20% of CBD leased to energy tenants
- Only 2.3 msf of office u/c

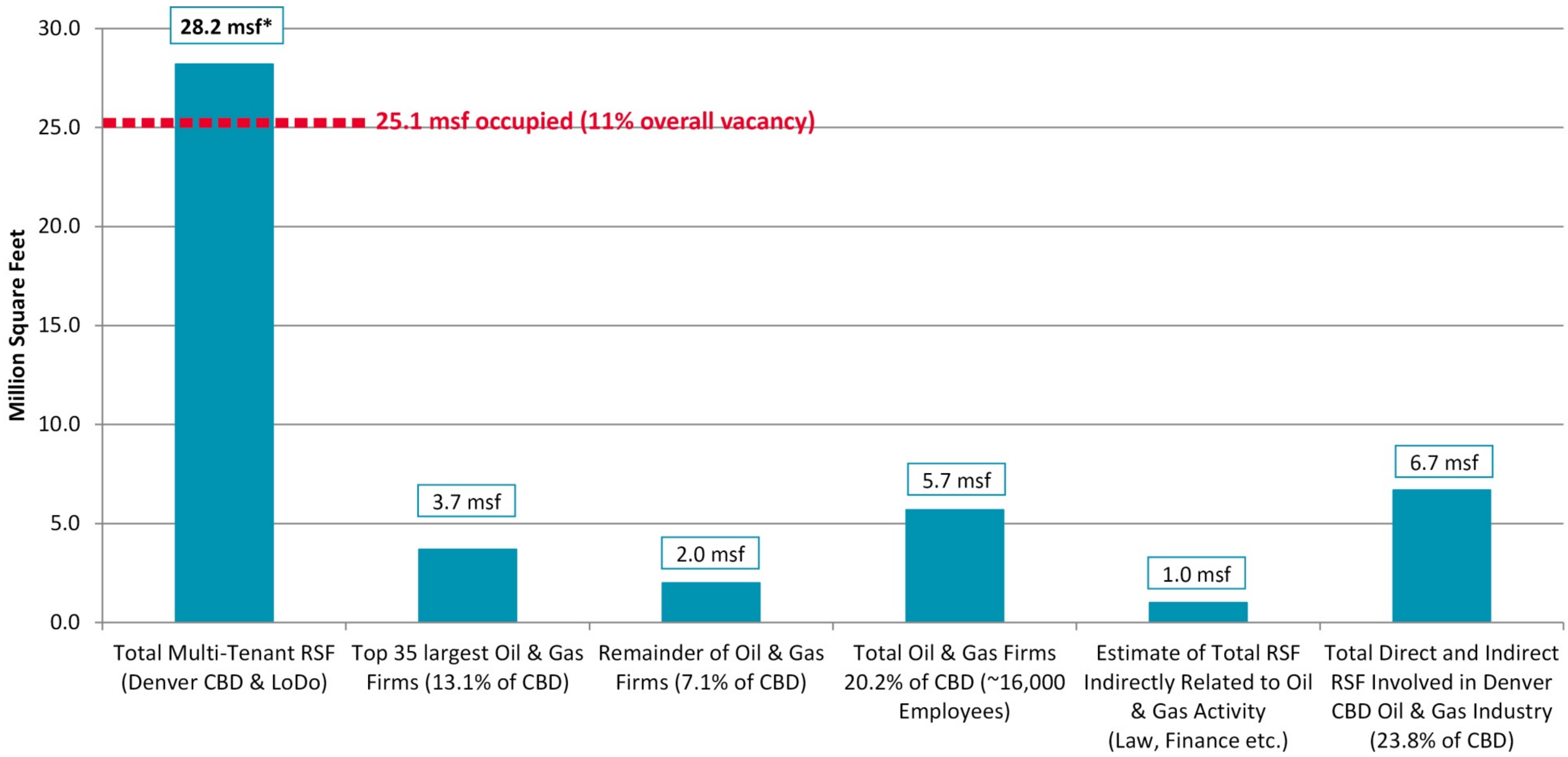
Major Headwinds

- 17% of economy links to energy
- 51% of CBD leased to energy tenants
- 17 msf of office u/c

Source: BEA, Cushman & Wakefield Research

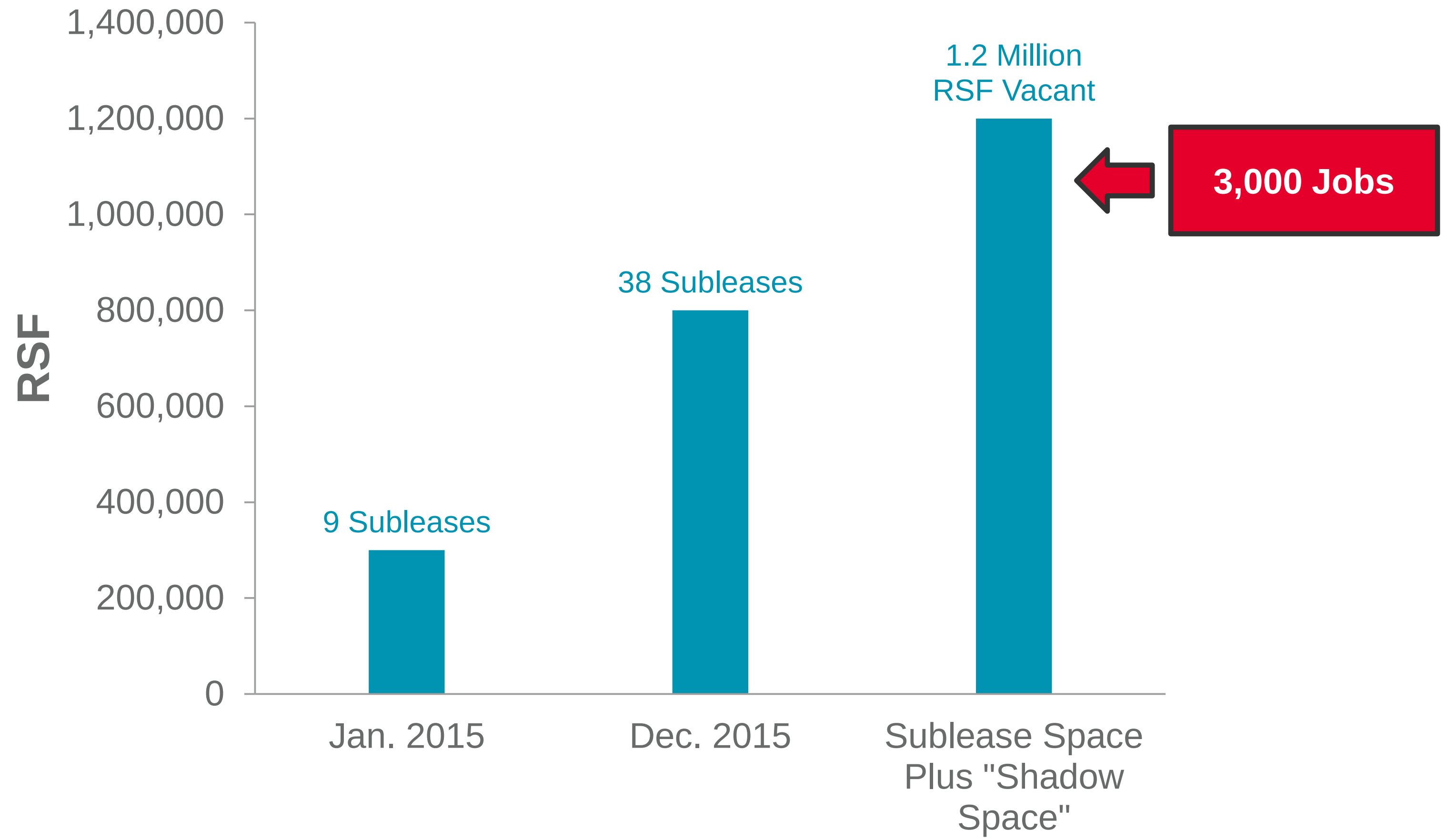
Oil and Gas Occupancy

Downtown Denver



Source: Cushman & Wakefield Research

Oil and Gas Sublease Space



Where Will the Market Still be Hot?

- RiNo
- LoDo and Platte Valley
- Cherry Creek North
- SoBo to Gates
- Southeast TOD

Conclusions

- Vibrant, TOD/Amenity rich sites will capture the majority of office tenant demand and absorption going forward
- The emerging "rent gap" will widen
- Projected speculative office construction deliveries of 1-2 million SF per year during 2015-2018 for Metro Denver will NOT exceed tenant demand
- Limited well located sites and increasing land/construction costs will further limit new supply
- Energy is the wild card and 2016 will be the swing year one way or the other
- The game is not over, it will just be a little less exciting

CU Real Estate Forum

The Game is Still Going…

The Longest 7th Inning Ever

Presenter: Doug Wulf

Monday, December 7, 2015

CUSHMAN & WAKEFIELD