

Taking into consideration the 2012 election, continued economic uncertainty and a challenging job market, it is understandable that Landlords, Investors, and Tenants continue to pause before making major real estate decisions. Fortunately, Denver continued toward positive economic recovery with key indicators showing strength. The real estate market is noticing an influx of Tenants focused in IT-software and energy. The states infrastructure projects have greatly contributed to making new construction projects a reality in Denver. State based projects such as the light rail expansion and the Denver International Airport improvements have enabled Denver to sustain a growing workforce.

Denver's office market saw a slight increase in vacancy rates from 12.3% in 2Q to 12.5% in 3Q partially due to the 477,131 RSF of new inventory delivered by the end of 3Q. Despite the slight increase, commercial office lease rates were up 20% in 3Q2012 with an average rate of \$20.37 SF. Business growth and increased lease rates coupled with the fact that currently Denver has 912,780 SF of new office inventory under construction with varying delivery dates is encouraging.

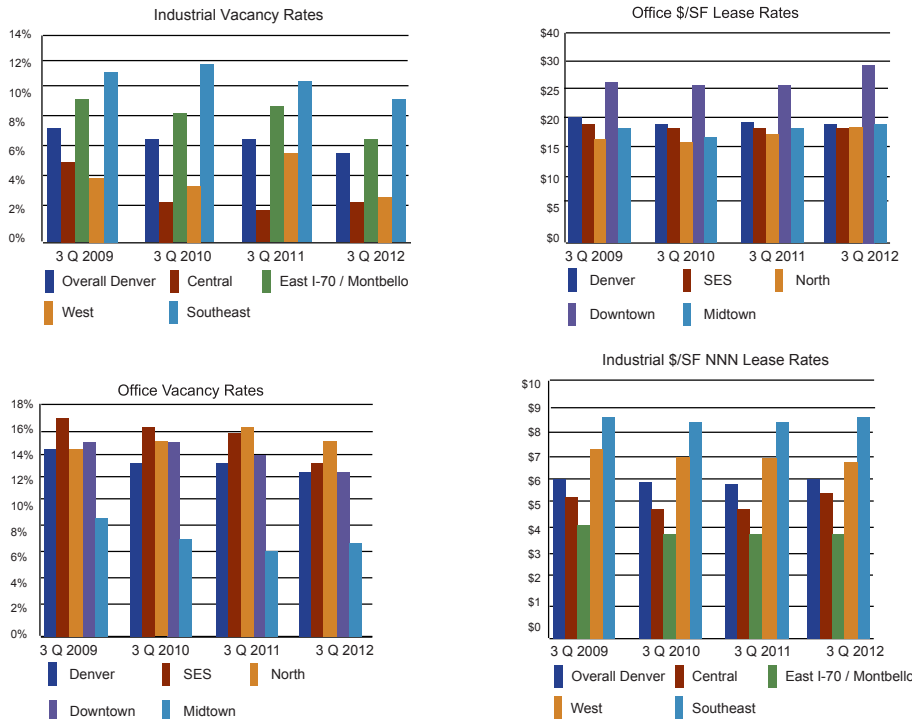
The Industrial market is beginning to experience improvement. Vacancy rates during 3Q2012 dropped to 7.8% from 8.1% at the end of 2Q2012. Just slightly behind the office market, the Industrial sector gained 329,597 SF of new inventory. Landlords are noticing a slight increase in NNN lease rates, finishing 3Q2012 at an average \$5.96 SF from \$5.92 SF in the previous quarter.

Although the real estate market in Denver stayed relatively positive during 3Q2012, 4Q is always a challenge with momentum slowing down as we head into the holiday season, budget season, and end of the year wrap up. The good news is, all signs point to Denver remaining strong in its economic recovery.

Denver Employment		
National Unemployment Average 7.8%—Sep 2012—NSA		
	Employment Change*	Unemployment Rate
Jul-11	+993	8.4%
Jul-12 (r)	-3,617	8.2%
Aug-11	-7,943	8.3%
Aug12	+1,810	7.7%

Source: Bureau of Labor Statistics NSA = not seasonally adjusted
*Change from prior month

Denver Real Estate



U.S. Employment By The Numbers

Nonfarm payroll employment: +114,000 ▼ Civilian labor force participation rate: 63.6% N/C

Source: Bureau of Labor Statistics, September 2012

Inside The Market

Denver 3Q 2012 Real Estate Activity

- Gateway East Industrial LLC is constructing a 550,000 SF Food Processing Facility, 2013 delivery, the future location of United Natural Foods, Inc.
- Digital Realty Trust Inc. purchased Southeast Corporate Center for \$90,846,892 from DCI Technology Holdings, LLC. Property size: 286,000 SF, YOC 1984
- United Stor-All Centers, LLC sold 6150 Leetsdale Drive, a 70,150 SF Class B Industrial building to CubeSmart LP for \$10.6 million. Built in 2006, the project was 90% leased
- Peakview Tower traded at a 6.07% cap for \$54 million. Barclays Capital sold the Class A 264,149 SF building constructed in 2001 to KBS Realty Advisors
- Trulia expanded into 19,289 SF at Waterpark II. TIs were \$5.00 SF, starting rate \$20.50 FSG
- Polystrand Inc. constructed its 114,475 SF facility at 8375 Highfield Parkway in the SES submarket. The project is 55% office, 45% warehouse and is reinforced concrete
- Buchanan Street Partners partnered with Lowe Enterprises Inc. to purchase Parkridge Corporate Center (10375 Park Meadows Drive) for \$34 million. Seller, Miller Global Properties LLC originally purchased the property in 2004 for \$30.15 million. The 192,359 SF, 6 story building was 93% leased
- Waterview 4 – 7958 S Chester Street sold as part of a portfolio by California State Teacher's Retirement System to Cole of Centennial Co, LLC. Constructed in 2000, the 6 story building totals 167,917 SF. Cole of Centennial Co, LLC purchased the property at a 6.24% cap for \$32.55 million

Local Trends

Denver Employment Private - Sector Workers		Denver Employment Building Construction		Denver Employment Education and Health Services	
2006	1,048,700	2006	15,700	2006	123,100
2007	1,071,600	2007	15,500	2007	128,000
2008	1,079,400	2008	14,500	2008	133,500
2009	1,022,300	2009	11,400	2009	137,700
2010	1,019,100	2010	10,400	2010	141,100
2011	1,022,300	2011	11,400	2011	137,700
2012-YTD	1,084,800	2012-YTD	9,800	2012-YTD	153,400

Source: Bureau of Labor Statistics

Colorado Employment Growth Rates Change from Prior Year

	Q2-12	Q1-12	Q2-11	2011	2010
Total nonfarm	1.5%	2.1%	1.4%	1.5%	-1.0%
Manufacturing (6%)	2.5%	2.9%	3.0%	2.8%	-3.2%
Other (nonmanufacturing) goods-producing (5%)	4.2%	4.8%	0.0%	0.3%	-10.3%
Private service-producing (72%)	1.6%	2.4%	2.0%	1.9%	-0.4%
Government (17%)	0.0%	0.0%	-0.8%	-0.3%	0.9%
Unemployment rate (percent of labor force)	8.1%	8.7%	8.4%	8.3%	8.9%

Source: FDIC

Quick Fact

4.6%

The increase in weekly wages for the state of Colorado between August 2011 and August 2012. The current average weekly wage for the private sector is \$854.

Source: Bureau of Labor Statistics

National Trends

CEO Survey—Third Quarter 2012

	Increase	No Change	Decrease
How do you expect your company's sales to change in the next six months?	58%	27%	15%
How do you expect your company's U.S. capital spending to change in the next six months?	30%	51%	19%
How do you expect your company's U.S. employment to change in the next six months?	29%	37%	34%

Source: Business Roundtable Q3 2012. Survey is a forecast of economic conditions in the next six months. Percentages may not equal 100 due to rounding.

U.S. Job Openings, SAAR

Survey Date	Job Openings (000s)
August 2012	3,561
July 2012	3,664
June 2012	3,762
May 2012	3,642
April 2012	3,447
March 2012	3,498
February 2012	3,477
January 2012	3,498

Source: Bureau of Labor Statistics SAAR = seasonally adjusted annual rate

Employment Cost Index, NSA

	Index Number	12-Month Change
Q3-2011	115.2	2.8%
Q4-2011	115.5	2.0%
Q1-2012	116.5	2.0%
Q2-2012	116.8	1.7%

Source: Bureau of Labor Statistics 2005 = 100.0 NSA = not seasonally adjusted

Consumer Price Index Medical, NSA

	Aug-11	Aug-12	Y-Y Change
Medical care	400.3	417.1	+4.1%
Medical care services	424.5	442.4	+4.2%
Hospital services*	242.0	253.3	+4.7%
U.S. all items	226.5	230.3	+1.7%

Source: Bureau of Labor Statistics NSA = not seasonally adjusted 1982-84 = 100.0 *1996 = 100.0

Domestic Automotive Units (000s)

	U.S. Production	Unit Sales	Inventory Level
July-11	234.0	339.9	774.7
July-12	385.9	424.1	827.5
Aug-11	264.6	343.8	558.8
Aug-12	344.1	447.9	849.4

Source: Bureau of Economic Analysis

Personal Income In Billions of Dollars, SAAR

	Mar-12	Apr-12 (r)	May-12 (r)	Jun-12	Jul-12 (r)	Aug-12
Personal income	13,298 ▲	13,355 ▲	13,396 ▲	13,415 ▲	13,447 ▲	13,430 ▼
Disposable personal income	11,837 ▲	11,855 ▲	11,884 ▲	11,919 ▲	11,934 ▲	11,947 ▲

Personal consumption expenditures

Source: Bureau of Economic Analysis SAAR = seasonally adjusted annual rate

(r) = revised

Gross Domestic Product

Q2-11	1.3%
Q3-11	1.8%
Q4-11	3.0%
Q1-12	2.0%
Q2-12 (r)	1.3%

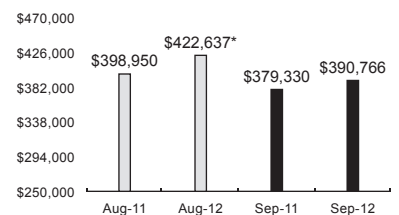
Source: Bureau of Economic Analysis Percent change from prior qtr. (r) = revised

Consumer Confidence Index

May-12	64.4
Jun-12	62.0
Jul-12	65.4
Aug-12	60.6
Sep-12 (p)	61.3

Source: The Conference Board 1985 = 100 (p) = preliminary (r) = revised

Total U.S. Retail Sales In Millions (000,000s) NSA



Source: U.S. Department of Commerce NSA = not seasonally adjusted *revised data Most recent data available