

MARKETBEAT

Office Snapshot Q1 2016

Denver, Colorado: Southeast Denver



Economic Overview

At the close of the first quarter of 2016, the Denver economy remains strong in many fundamental indicators. Most recent statistics show that unemployment continues to fall, down to 3.0% which is a 1.5% change year-over-year. Metro Denver's population is expected to increase to 3.3 million by 2020, allowing Denver to keep adding talented young professionals to its growing labor pool. With a high median household income and a relatively low cost of living Denver is maintaining its position as a top destination for people and companies to relocate to.

Vacancy and Rental Rates

The southeast suburban market ended the first quarter of 2016 at an overall vacancy of 10.5%, down 1.9% from Q4 2015. The lowest vacancy in the Southeast Suburban market is in Inverness and Panorama Park, where overall vacancy rates have reached 7.3%, representing a 3.5% decline from Q4 2015. Rental rates have continued to climb in the Southeast Suburban market posting a direct average gross rate of \$24.01 per square foot (PSF), an increase of 1.4% from Q4 2015. The Denver Tech Center posted the highest average rental rate, finishing the quarter at \$24.83 PSF. Class A rental rates flattened out from quarter to quarter, ending Q1 2016 at \$25.77 PSF. Class B direct rental rates increased 4.5%, ending the quarter at \$22.24 PSF.

Leasing Activity

Leasing activity for the SES office market cooled off during the first quarter of 2016 with only 305,936 square feet (SF) transacted. This is a sharp decrease from the 713,808 SF that was leased during the 1st quarter of 2015. Overall, this is not an indicator of future activity. Leasing activity should become more active in the second half of 2016 as larger sized leases start to roll in 2017 and beyond.

Construction

Currently the SES corridor has three buildings under construction. One of the buildings is One Bellevue Station, a Class AA building set to deliver in the fall of 2016. One Bellevue Station is located in the north tech center and will bring 318,000 SF of new construction to the north DTC market. Another project that just broke ground was Granite Properties' Village Station DTC, located at Arapahoe Road and Interstate 25. This 300,000 SF project will add an additional 10 stories of Class AA office space to the SES market. Both of these properties are located near TOD developments, solidifying the fact that TOD development will be the cornerstone of future office development in Denver real estate for years to come. The third office building under construction in the SES market is INOVA Dry Creek. This property, located at 7250 South Havana, will add 212,000 SF of office space and is planned to deliver in Q4 2016. Lastly, Corum Real Estate Group may be breaking ground on a

STATS ON THE GO

Economic Indicators

	Q1 15	Q1 16	Y-O-Y Change	12-Month Forecast
Direct Vacancy	10.8%	10.0%	80 bps	▼
Direct Asking Rents (psf/yr)	\$21.89	\$24.01	9.7%	▲
YTD Leasing Activity (sf)	724,658	305,936	-57.8%	▲

DIRECT RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



twelve story office building in the north DTC in Q3 2016. This building will add 187,000 SF of Class AA office, located at 5050 South Syracuse, and is expected to deliver in the second quarter of 2018.

Outlook

The SES market will remain steady through 2016. With large tenant demand starting to ramp up, the SES will remain a healthy market. With easy accessibility, lower rent options, and an abundance of low cost parking, the Southeast Suburban market will continue to attract tenants looking for a less expensive alternative to the downtown market.