MARKETBEAT

Office Snapshot Q3 2015

Denver, Colorado: Central Business District

CUSHMAN & WAKEFIELD

Economic Overview

Denver's economy, innovative environment, and high concentration of businesses at every stage continues to attract top talent and firms. In the last 12-month period, non-farm employment increased 2.3% with 31,050 new jobs created. The educational and health services and construction sectors improved payrolls by 4.1% and 6.6%, respectively, year over year. Strong demand for top-tier talent decreased the unemployment rate 40 basis points (bps) to 3.6% over the same time frame.

Vacancy and Rental Rates

The healthy growth of Denver's Central Business District (CBD) office market in the first half of 2015 carried into the second half of the year. Pre-leasing in projects under construction picked up significantly and continued to garner the attention of tenants seeking Class AA space. The CBD's inventory increased by 2.0%, or by approximately 568,000 square feet (sf), in third quarter, 52.2% of which was occupied upon delivery. The balanced supply and demand helped keep vacancy stable over last year at 10.4%. As new and existing tenants move to the highly desired space over the next quarter, vacancy will continue to decline in the CBD.

As oil and natural gas (ONG) prices remained at market lows, energy firms reassessed future operations, which affected the CBD overall vacancy rate. ONG companies pulled back on exploration employment reducing demand and resulting in a 40 bps increase in overall vacancy to 11.9%. Nearly 670,000 sf of ONG sublease space on the market has created an opportunity for existing firms to expand into space below market rates.

New construction projects, combined with an increased demand, improved the CBD's direct weighted gross asking rent by 8.5% year over year to $33.33 per square foot per year (psf/yr). Higher asking rents in newly-delivered key projects will have a spillover effect on stabilized existing Class A buildings with limited sublease space. Currently, direct gross asking rates for Class AA properties range between $34.00 psf/yr and $45.00 psf/yr.

Leasing Activities

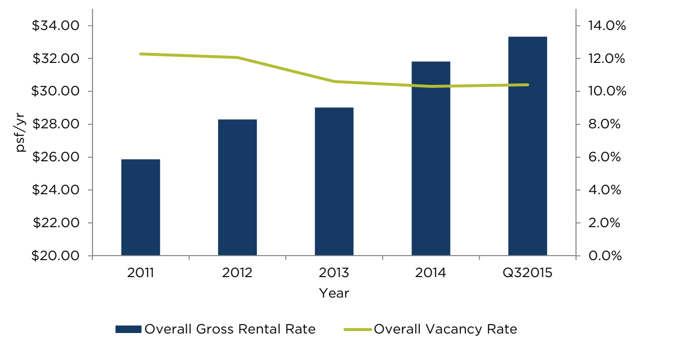
Leasing activity in the CBD finished strong for the third quarter, on par with previous years, totaling 1.7 million square feet (msf) year to date. Class A space accounted for over 80.0% of leasing activity over the same time period. Noteworthy transactions included The United States GSA's 73,115-sf lease at 1801 California Street, WeWork's 69,820-sf lease at 1550 Wewatta Street, and Comcast Cable Communications' 33,579-sf lease at 1515 Wynkoop Street.

STATS ON THE GO

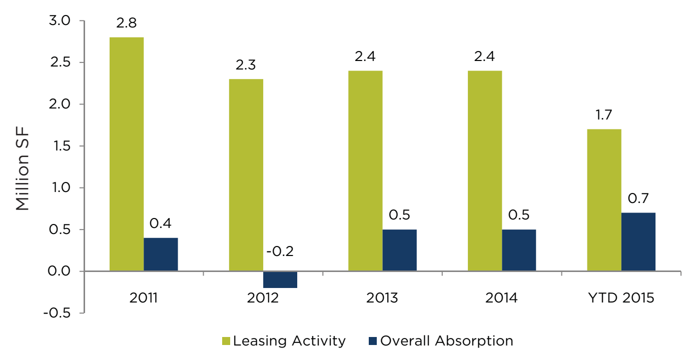
Economic Indicators

	Q3 14	Q3 15	Y-O-Y Change	12-Month Forecast
Direct Vacancy	10.4%	10.4%	00 bps	▼
Direct Asking Rents (psf/yr)	$30.71	$33.33	8.5%	▲
YTD Leasing Activity (sf)	1,823,790	1,712,136	-6.1%	▲

DIRECT RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



New and under construction properties remained at the epicenter of activity attracting top tenants that favor the work-live-play millennial work force.

Outlook

The underlying fundamentals of the CBD market will remain strong and weather the adversity of low energy prices by attracting a diverse base of collaborative workspace, high-tech, and healthcare tenants. Pre-leasing for under construction properties will be competitive between firms and will be a key factor of the overall strength of the CBD market. Developers will sign significant tenants before breaking ground on proposed projects to ensure future success. The nearly 1.3 msf of office space under construction will add to the balanced supply and demand keeping vacancy and rent growth stable into 2016.