Denver CBD, Colorado

Office Q2 2019

CUSHMAN & WAKEFIELD

DENVER OFFICE

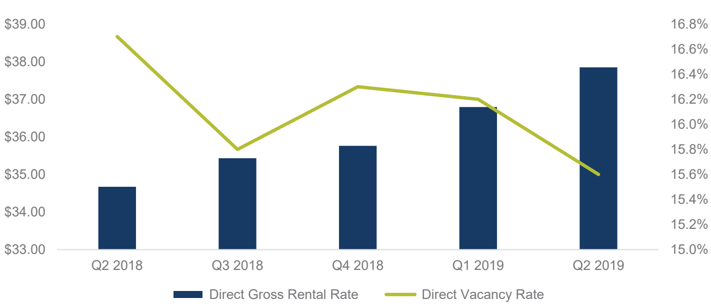
Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
Denver Employment	1.50M	1.51M	▲
Denver Unemployment	3.0%	3.3%	▬
U.S. Unemployment	3.9%	3.6%	▼

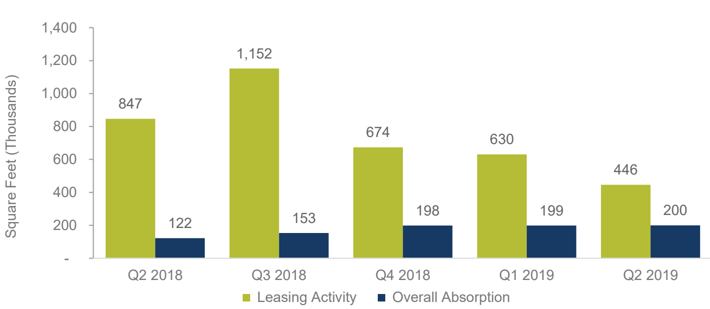
Market Indicators (CBD, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Overall Vacancy	17.8%	17.6%	▼
Overall Net Absorption	122k	200k	▲
Under Construction	1.3M	1.0M	▲
Overall Average Asking Rent	$34.09	$38.13	▲

DIRECT RENTAL RATES VS. VACANCY RATES



OVERALL LEASING ACTIVITY AND NET ABSORPTION



Vacancy and Rental Rates

The Central Business District (CBD) continued to provide strong office fundamentals through the first half of 2019. Direct vacancy recorded a 60 basis-point (bps) decrease from the first quarter 2019 to the second quarter 2019, reaching the mid-year mark at 15.6%. This decrease is partially attributed to Slack Technologies and Advanced Energy occupying previously leased large blocks of space. Overall vacancy also recorded a decrease, albeit more moderate, down 40 bps to 17.6% at the end of the second quarter 2019. Class A and B direct vacancy both recorded decreases quarter-over-quarter, decreasing 80 bps (15.1%) and 20 bps (17.6%), respectively, while Class C product remained unchanged at 14.1% during the second quarter 2019.

Rental rate growth continued from the first quarter 2019 to the second quarter 2019, increasing 2.9% to $37.85 per square foot (psf). Year-over-year direct rental rate growth has been robust, increasing approximately 9.2% from when direct gross rental rates were $34.67 psf. The tight office market has led to landlords raising rates, in some cases increasing rates by $1.00-$2.00 psf. Increasing occupancy costs and the delivery of new construction have also contributed to gross rental rate growth. All classes recorded an increase in rental rates quarter-over-quarter, with Class A product recording the largest increase, up 3.3% to $41.80 psf on a direct basis.

Leasing Activity

Leasing activity was less robust when compared to the approximately 630,000 square feet (sf) leased during the first quarter 2019, as roughly 446,000 sf leased during the second quarter 2019. Leasing activity for the first half of the year decreased on a year-over-year basis, with approximately 1.1 million square feet (msf) leased through the first two quarters of 2019, compared to the 1.5 msf leased during the first two quarters of 2018. Following the metro Denver trend, Class A product continued to dominate leasing activity, representing 71.1% (765,000 sf) through the first two quarters of 2019. The most notable lease that occurred during the second quarter 2019 was Wells Fargo's 245,000-sf downsize and renewal at Wells Fargo Center. Another notable lease that occurred during the second quarter 2019, was Pie Insurance's new 25,000-sf lease at 1755 Blake. Net absorption remained positive for the tenth consecutive quarter, with approximately 200,000 sf absorbed during the second quarter 2019. Through the first half of 2019, the CBD has recorded just north of 398,000 sf of net absorption, an increase from the approximately 319,000 sf absorbed during the first half of 2018.

Construction

No new buildings broke ground or delivered in the CBD submarket during the second quarter 2019. Currently the CBD has just over 1.0 msf of office product under construction, which is collectively 0% preleased at the end of the second quarter 2019. This figure is expected to rise, as demand for new construction continues to be robust and is amplified by the lack of large available blocks in second generation space.

Outlook

The CBD continues to be the epicenter of office activity in the Denver metro area, and this is expected to continue for the foreseeable future. Absorption should continue to trend positively as activity in the CBD remains strong. Rental rate growth will continue, largely due to the lack of available large blocks, with only four contiguous blocks available - over 100,000 sf - between existing and under construction product. 2020 should see a sizeable increase in real estate taxes, as 2019 reassessments are applied, further increasing gross rental rates. Combined with the delivery of new construction, CBD rate growth will continue to push market rates higher. Construction levels should rise during the latter half of 2019, with the full rehab of the old CenturyLink building at 930 15th expected to occur.