

MARKETBEAT

SES Denver, Colorado

Office Q1 2017



STATS ON THE GO

Economic Indicators

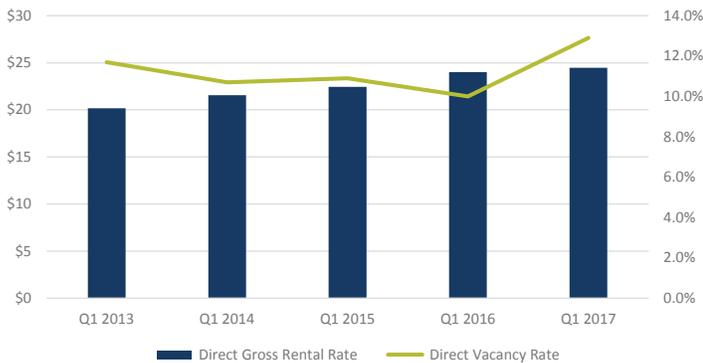
	Q1 16	Q1 17	12-Month Forecast
Denver Employment	1.42 M	1.45 M	▲
Denver Unemployment	4.9%	2.8%	▼
U.S. Unemployment	4.9%	4.8%	■

Market Indicators (Overall, All Classes)

	Q1 16	Q1 17	12-Month Forecast
Overall Vacancy	10.5%	14.9%	▲
Net Absorption	642,885	(216,592)	▲
Under Construction	296,962	1,705,404	■
Average Asking Rent	\$23.80	\$24.19	■

*Rental Rates reflect gross asking \$psf/year

DIRECT RENTAL VS. VACANCY RATES



OVERALL LEASING ACTIVITY AND NET ABSORPTION



Vacancy and Rental Rates

The Southeast Suburban (SES) Submarket saw a large jump in its direct vacancy rate, increasing 140 basis points (BPS) quarter-over-quarter to 12.9%. The direct availability rate (that is everything being marketed whether currently vacant or an anticipated vacancy) for the SES market also increased from the fourth quarter 2016 to the first quarter 2017, reporting a rate of 16.8%, while the overall availability rate closed the quarter at 19.5%. A good example of this increase in the direct availability rate was the addition of EKSH's roughly 130,000 square feet (SF) of available space, directly impacting the availability rate today, that came onto the market this quarter but will not impact the direct vacancy rate until August 2017.

Like the rest of metro Denver, rental rates in SES were generally flat in the first quarter 2017. The direct average asking rent on a gross basis increased by \$0.13 per square foot (PSF), finishing the quarter at \$24.48 PSF. By class, the direct figures recorded declines in the A and C segments though Class B saw positive rental growth (up by approximately 1.0%, to \$22.51 PSF). Two of the five micro-markets registered increases from the fourth quarter 2016 to the first quarter 2017: Inverness/Panorama and Denver Tech Center climbing to \$23.72 PSF and \$25.51 PSF, respectively. Lease transactions in the SES submarket are generally landing on the lower end of the asking rate rental range along with elevated concession packages, particularly higher TIs.

Leasing Activity

Leasing activity increased from the fourth quarter 2016 to the first quarter 2017, with 597,000 SF leased. Two noteworthy deals that occurred during the first quarter were Charter Communications new 256,844 square feet (SF) lease at Granite Tower at Village Station and GSA's 75,598 SF renewal at Atrium III. Direct absorption was slightly negative in the first quarter 2017, at -42,318 SF. In fact, all micro-markets in the SES displayed negative absorption numbers, except for the Denver Tech Center, which had +84,968 SF of positive absorption, thanks to USAA's purchase and occupancy of Atrium 1.

Construction

No buildings delivered during the first quarter. The lone building that broke ground this quarter was One DTC West which will deliver 72,000 SF of Class A product in the second quarter of 2018, which is already 60% preleased. With the tenant mix in the SES being more cost sensitive, we are seeing new construction deliver at a lower pre-leased rate, compared to its downtown counterparts. With just over 1.7 million square feet (MSF) under construction in the SES submarket and with 806,337 SF set to deliver in 2017, we will closely monitor the success that SES developments will have at attracting tenants at these somewhat higher new construction rental rates.

Outlook

Large corporate users have begun exploring relocation or expansion options within the SES (an example being Travelers' entry into the submarket for approximately 80,000 SF to 200,000 SF). Meanwhile, several large leases will roll over the next two years. The new construction, at a higher price point may be attractive to tenants relocating from higher priced markets or submarkets though it might be a reach for the typical value tenant that has been attracted to the SES submarket in the past. Nevertheless, with an uptick in the number of tenants in the market, expect better activity over the remainder of 2017 and into 2018.