

# MARKETBEAT

## SES Denver, Colorado

### Office Q2 2017



#### STATS ON THE GO

##### Economic Indicators

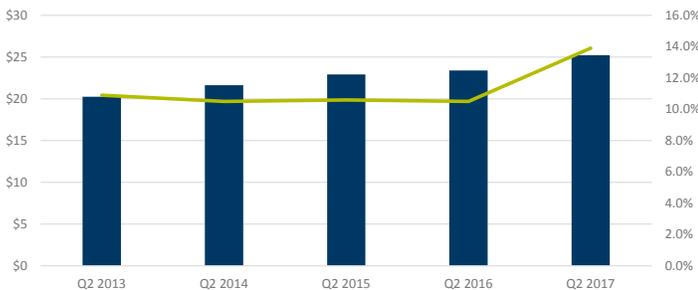
	Q2 16	Q2 17	12-Month Forecast
Denver Employment	1.42 M	1.45 M	▲
Denver Unemployment	3.1%	2.3%	■
U.S. Unemployment	4.9%	4.4%	■

##### Market Indicators (Overall, All Classes)

	Q2 16	Q2 17	12-Month Forecast
Overall Vacancy	11.4%	15.1%	▼
Net Absorption	(348,089)	103,123	▲
Under Construction	596,616	1,337,742	▼
Average Asking Rent	\$23.29	\$24.85	■

\*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 experienced a 100 basis point (BPS) increase in the second quarter of 2017 compared to the previous quarter, closing with a direct vacancy rate of 13.9%. This large increase can be attributed to the deliveries of One Belleview Station and Granite Tower at Village Center. Although Granite Tower at Village Center was 100% leased upon completion, it negatively impacted the vacancy rate due to the spaces being technically vacant until CSG and Charter Communications occupy in the second half of 2017. The direct availability rate, which is defined as, everything that is being marketed whether currently vacant or an anticipated vacancy, saw a minimal 20 BPS increase, ending the second quarter of 2017 at 16.8%.

The average gross rental rate in the SES increased to \$25.23 per square foot (PSF), representing a 10% increase year-over-year when rental rates were \$22.91 PSF. The increase in the rental rate can again be partially attributed to the delivery of One Belleview Station and Granite Place at Village Center Station, which set new highs for asking rates in the submarket. Due to these buildings delivering, Class A rental rates saw the largest increase, up 7.6% year-over-year, closing the quarter at \$27.35 PSF.

#### Leasing Activity

Leasing activity slowed from the first to the second quarter of 2017, at just over 388,000 SF. Notable deals for the second quarter included Sierra Nevada's 85,935 SF short-term renewal at Executive Center I, Air Methods' new 62,124 SF lease at Landmark Corporate Center and CSG's 39,780 SF lease at Granite Place at Village Center, which they will occupy in the second half of 2017. Direct absorption bounced back in the second quarter with +103,123 SF of positive absorption. The SES market is expected to continue to exhibit strong absorption throughout the remainder of 2017, as large users occupy already leased space.

#### Construction

As mentioned above, two buildings delivered in the SES market during the second quarter of 2017 with One Belleview Station and Granite Place at Village Center adding 597,290 SF of Class A office product to the market. Both buildings have shown strong activity, further solidifying tenant's pent up demand for new construction. Granite Place at Village Center is fully-leased to Charter Communications and CSG Systems, while One Belleview Station has a great deal of interest from large corporate users. No new projects broke ground in the SES market this quarter, although 553,053 SF in build-to-suits and 804,689 SF in speculative developments are currently under construction, with 563,431 SF set to deliver in 2017 and the remaining set to deliver by the end of 2018.

#### Outlook

Large users continue to scour the market, exploring expansion and/or relocation options. With nine users in the market with requirements over 100,000 SF, leasing activity should remain strong throughout the remainder of the year. Absorption will trend positive, as the larger tenants that have signed leases start to occupy in the second half of 2017. Rental rates will hold steady in the near-term, while vacancy will trend down as users start to occupy. Overall, the SES market will remain an active and a competitive market through the latter half of 2017, further continuing its momentum that was seen in the second quarter of 2017.