

MARKETBEAT

SES Denver, Colorado

Office Q3 2019



DENVER OFFICE

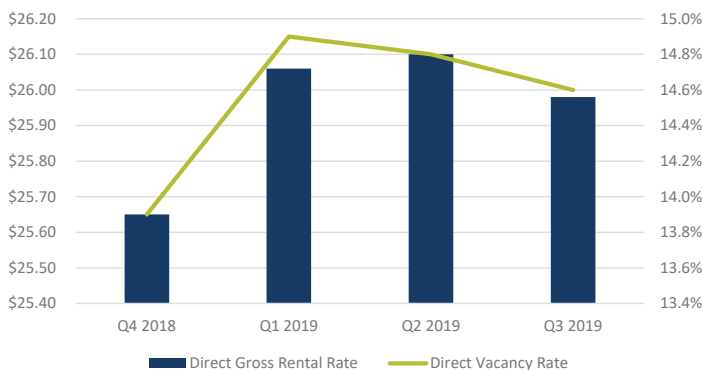
Economic Indicators

	Q3 18	Q3 19	12-Month Forecast
Denver Employment	1.51M	1.53M	▲
Denver Unemployment	3.3%	2.8%	▲
U.S. Unemployment	3.8%	3.7%	▲

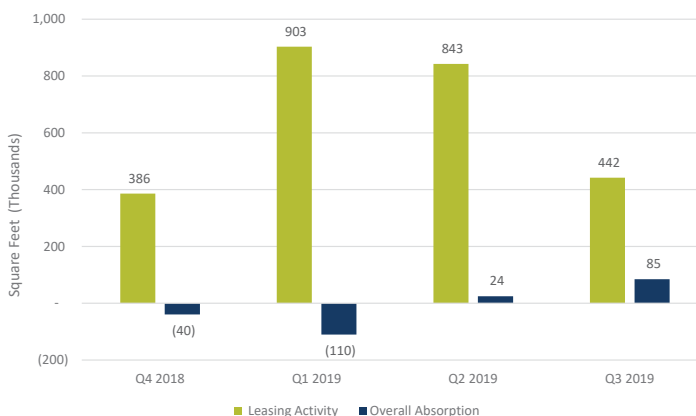
Market Indicators (SES, All Classes)

	Q3 18	Q3 19	12-Month Forecast
Overall Vacancy	15.6%	16.3%	■
Net Absorption	369k	85k	▲
Under Construction	543k	365k	▼
Overall Average Asking Rent	\$25.23	\$25.68	■

DIRECT RENTAL RATES VS. VACANCY RATES



OVERALL LEASING ACTIVITY AND NET ABSORPTION



Vacancy and Rental Rates

The Southeast Suburban (SES) submarket remained relatively flat for the second consecutive quarter, with direct vacancy decreasing 20 basis-points (bps) to 14.6% at the end of the third quarter 2019. This decrease was largely due to Traveler's move into 112,000 square feet (sf) at INOVA Dry Creek 2. Overall vacancy recorded a larger decrease of 30 bps quarter-over-quarter, decreasing to 16.3% at the end of the quarter. Overall vacancy continues to be driven by the Meridian micro-market, which increased 100 bps quarter-over-quarter to 25.4%. The flight to quality continues to drive the market, with Class A vacancy continuing to trend down, while Class B product vacancy has continued to trend upwards. During the third quarter 2019, Class A product recorded a 50 bps decrease to 16.8%, while Class B product recorded a 30 bps increase to 16.0% on an overall basis.

Rental rates in the SES submarket remained relatively flat for the second quarter in a row, with direct gross rental rates decreasing \$0.12 per square foot (psf) to \$25.98 psf at the end of the third quarter 2019. Overall Rental rates followed suit, decreasing \$0.10 psf to \$25.68 psf at the end of the third quarter 2019. Rental rates across all classes remained relatively stable, with Class B product recording the only increase in overall gross rental rates, up \$0.11 psf to \$23.39 psf at the end of the third quarter 2019.

Leasing Activity

Leasing activity has continued its downward trend throughout 2019 with just over 442,000 sf leased during the third quarter 2019, representing a large decrease from the approximately 796,000 sf leased during the second quarter 2019 and a far cry from the over 903,000 sf leased during the first quarter 2019. The most notable lease that occurred during the third quarter 2019 was United Launch Alliance's 251,000 sf renewal at Panorama Corporate Center I and IV. The other notable lease that occurred during this quarter was Philadelphia Insurance's new 24,000 sf lease at 188 Inverness, as they relocate from 640 Plaza Drive in Highlands Ranch.

Net absorption ended the third quarter 2019 with approximately 85,000 sf absorbed, largely attributed to the aforementioned second-phased occupancy of Travelers' at INOVA Dry Creek 2. Year-to-date net absorption has followed the trend of the overall submarket with approximately -1,000 sf absorbed, causing the SES submarket to be a tale of two cities throughout 2019. The SES submarket (year-to-date 2019) has recorded over 158,000 sf of absorption in Class A product, while Class B has continued to struggle with roughly -161,000 sf of net absorption, solidifying the flight-to-quality movement.

Construction

No new buildings delivered or broke ground during the third quarter 2019, with 6900 Layton representing the lone project currently under construction. 6900 Layton will deliver approximately 385,000 sf of office and ground floor retail and will be the second office building constructed on the 42-acre mixed use master-planned transit-oriented development. This building is still currently 49% preleased to Newmont Mining and is set to deliver in summer 2020.

Outlook

The SES submarket has continued to plateau throughout 2019, which will remain the trend for the foreseeable future. Net absorption should finish the year positive, as large users take occupancy of previously leased space. In turn, vacancy should continue its downward trend as these blocks are absorbed. Construction levels will continue to remain low, with 6900 Layton the only new product delivering during 2020. With the low new construction totals, expect the delta between Class A and B product to widen, as tenants continue to absorb high-quality space.