

MARKETBEAT

SES Denver, Colorado

Office Q3 2016



STATS ON THE GO

Economic Indicators

	Q3 15	Q3 16	12-Month Forecast
Denver Employment	1.40 M	1.44 M	▲
Denver Unemployment	3.5%	3.6%	▼
U.S. Unemployment	5.2%	4.9%	▼

Market Indicators

	Q3 15	Q3 16	Y-O-Y Change	12-Month Forecast
Overall Vacancy	10.2%	11.1%	90 BPS	■
Overall Asking Rents (psf/yr)	\$22.55	\$23.79	5.5%	■
YTD Leasing Activity (sf)	2,737,090	2,510,730	-8.3%	▲

Vacancy and Rental Rates

The Southeast Suburban (SES) had a resurgent third quarter of 2016, closing with an overall vacancy of 11.1%, declining by 30 basis-points (BPS) from the previous quarter. The primary reason was significant leases signed in the second quarter with tenants occupying in the third quarter.

The direct rental rate recorded moderate growth in the third quarter of 2016, closing at \$24.01 per square foot (PSF), which represents an increase of 2.6% from quarter-to-quarter. Rental rates increased across all classes with the largest occurring within Class A product which climbed 2.3% quarter-to-quarter to \$26.06 PSF.

Leasing Activity

Leasing activity greatly increased from the second quarter to the third quarter to over 1.1 million square feet (MSF). The bulk of leasing activity occurred in Class A buildings with just over 1.0 MSF in deals. Noteworthy transactions in the third quarter were Charter Communications' new lease of 306,000 square feet (SF) at Village Center Station II and EKS&H's 120,000 SF new lease at 8181 E. Tufts Ave. With leasing activity starting to show signs of picking back up, net absorption closed out the third quarter with +38,998 SF of overall absorption.

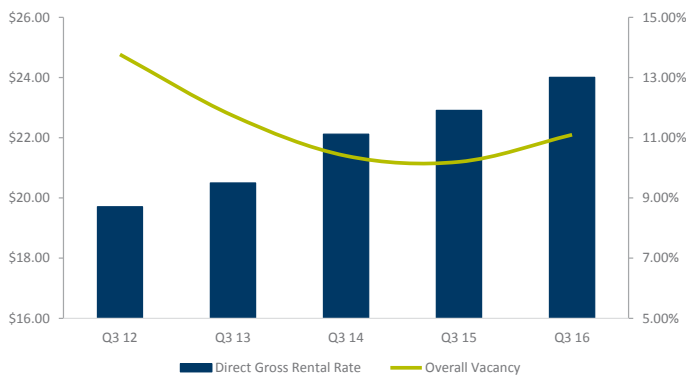
Construction

Village Center Station II was the only building to break ground in the third quarter of 2016 with its 306,000 SF set to deliver in the second quarter of 2018. One Belleview Station will deliver 318,000 SF of Class A+ office space to the north Denver Tech Center by the end of 2016 and signed its first tenant, Eide Bailly, in the third quarter. This project is near closing a lease with a high-end restaurant which will further improve its amenities. Another project under construction is Granite Place at Village Center. This project is set to deliver approximately 300,000 SF in the first quarter of 2017. All three of these projects are strategically placed at Transit Oriented Development (TOD) sites, affirming that this project type will be integral to the future of the Denver office market. The last project under construction is the three building campus of INOVA at Dry Creek. The first building, the future home to Comcast, will providing them 212,000 SF of Class A office space.

Outlook

The third quarter provided the reassurance that the SES submarket still has healthy momentum, even if at a more moderate pace than the past several of years. Moving forward, numerous large leases will soon start to roll (expire) with most, if not all, tenants choosing to stay within the submarket. This will further reinforce the fact that there remain numerous tenants that desire the convenience and amenities available within the SES.

DIRECT RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY

