MARKETBEAT
OFFICE SNAPSHOT

DENVER, CO - CBD
A Cushman & Wakefield Research Publication

Q2 2015

ECONOMIC OVERVIEW

The Denver economy is among the most robust in the country with a 3.4% increase in GDP over the last 12-month period. Non-farm employment increased 2.3% with the addition of 30,075 jobs. The professional & business services and financial activities services sectors drove demand for office space, increasing payrolls by 1.2% and 1.3%, respectively, over the same time frame. Oil and gas prices remained low, spurring layoffs in the oil and gas, manufacturing, and engineering sectors, which has directly impacted office sublease space in the market.

VACANCY AND RENTAL RATES

Denver's CBD office market accelerated in the last quarter as small businesses secured space in sought-after areas and growing firms increased their footprints. Additionally, pre-leasing in under-construction projects continued to garner the attention of tenants seeking class AA space. The CBD's inventory will increase by 2.0%, or 538,000 square feet (sf), in 2015 resulting in a balanced supply and demand market. Absorption of nearly 247,000 sf year to date led to a 40-basis point (bp) decline year over year in direct vacancy, ending the quarter at 10.1%.

As oil and natural gas (ONG) prices decreased, energy firms reassessed future operations, which increased the supply of vacant sublease space in the CBD, where the largest concentration of ONG firms resides, to nearly 500,000 sf. This increase pushed overall vacancy up 90 bps to 11.9% over the last 12-month period. While previous forecasts predicted over 1.0 msf of sublease space entering the market, current trends show a slowdown in vacated sublease space.

Strong underlying fundamentals of the Denver metro spurred additional development in significant areas of the regions. Increased demand in the form of new deals inked at newly constructed buildings increased the CBD's direct weighted gross asking rent by 8.3% year over year to $32.46 per square foot per year (psf/yr). As key projects deliver in the coming quarters, rental rate increases will likely stabilize for existing class A buildings with limited sublease space. Currently, direct gross asking rates for class AA properties range between $35.00 and $45.00 psf/yr.

CONSTRUCTION & LEASING ACTIVITY

In the CBD, Hines broke ground on 1144 Fifteenth, a 640,000-sf high-rise in the midtown market. The majority of construction, all of which are speculative developments, surrounds Union Station. These projects include Z Block, 1801 Wewatta St. (95,000 sf), Union Tower West, 1800 Wazee St. (205,000 sf), and Block A, 1881 16th St. (56,000 sf).

Year-to-date leasing activity increased 5.8% from the same time during the previous year to nearly 1.05 sf leased. Class A space accounted for 81.1% of leasing activity through the midpoint of the year. Noteworthy transactions included Hogan Lovells' 77,000-sf lease and Colorado Athletic Club's 37,317-sf lease at 1601 Wewatta Street, and Tesoro Logistics Operations LLC's 31,343-sf deal at 1801 California Street.

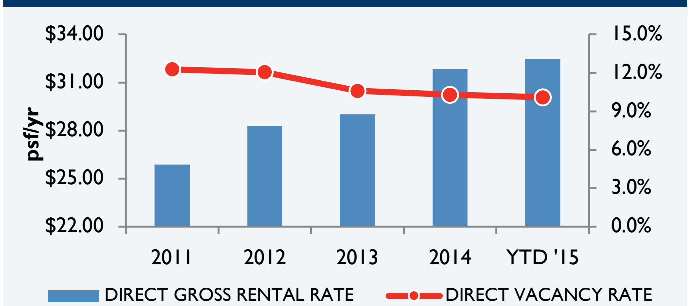
OUTLOOK

Healthy pre-leasing activity in new construction projects bodes well for future leasing efforts in the CBD. The balanced supply of space and tenant demand will stabilize vacancy and rent growth. Sublease vacancies will continue to enter the market, though at a slower pace than previously anticipated.

STATS ON THE GO

	Q2 2014	Q2 2015	Y-O-Y CHANGE	12 MONTH FORECAST
Direct Vacancy	10.5%	10.1%	-40 bps	▼
Direct Asking Rents (psf/yr)	$29.98	$32.46	8.3%	▲
YTD Leasing Activity (sf)	990,230	1,047687	5.8%	▲

DIRECT RENTAL VS. VACANCY RATES



OVERALL LEASING ACTIVITY

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