

MARKETBEAT

Office Snapshot Q3 2015

Denver, Colorado: Southeast Suburban (SES)



Economic Overview

Denver's economy, innovative environment, and high concentration of businesses at every stage continued to attract top talent and firms. In the last 12-month period, non-farm employment increased 2.3% with 31,050 new jobs created. The educational & health services and construction sectors improved payrolls by 4.1% and 6.6%, respectively, year over year. Strong demand for top-tier talent decreased the unemployment rate 40 basis points (bps) to 3.6% over the same time frame.

Vacancy and Rental Rates

Anticipating additional amenities to Denver's Southeast Suburban (SES) region, many firms secured space in third quarter. Demand across multiple sectors led to the year-over-year 10-basis-point decline in direct vacancy, ending the quarter at 9.6%. In the first quarter of 2015, vacancy peaked at 10.9% largely due to the Charles Schwab occupying its new build-to-suit and vacating nearly 300,000 square feet (sf), though the SES submarket quickly returned to equilibrium. Over the last 12 months, demand increased 8.2% resulting in nearly 420,000 sf of year-to-date absorption. Top-tier class A space constituted 54.0% of all leasing activity, while class B made up 45.1%. Class A and B properties have been in high demand and vacancy will remain tight until additional properties enter the market.

Tenants sought space in sustainably-designed buildings with flexible floorplates, walkable amenities, and direct access to bus services and light rail. This trend drives tenant demand as employees needs/wants evolve. In response to the heightened demand, landlords of well-positioned buildings with flexible space increased rents and as a result, direct weighted gross asking rates increased 3.6% year over year to \$22.91 per square foot per year (psf/yr). New construction projects are expected to dominate leasing activity for the SES region and class A asking rents, which increased 2.6% to \$25.51 psf/yr over the last 12-month period, should increase further.

Construction

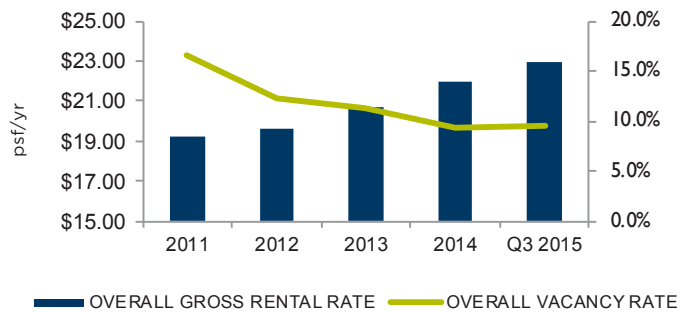
Construction of the highly-anticipated, transit-oriented project One Belleview Station is underway, which will deliver nearly 340,000 sf of top-tier class AA space in late 2016. The amenity-rich location spurred additional transit-oriented developments in the region. The additional multi-family, retail, and office space will garner the attention of large tenants looking to attract top talent from downtown and the suburban areas. A mix of tenants and investors are securing space as the SES market moves toward becoming a more walkable region and the increased activity surrounding One Belleview Station will have a spillover effect on other transit-oriented projects near the light rail.

STATS ON THE GO

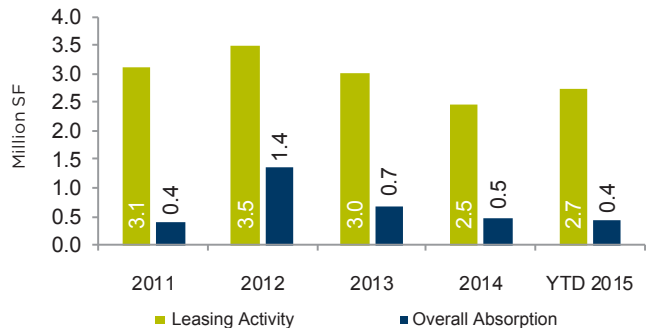
Economic Indicators

	Q3 14	Q3 15	Y-O-Y Change	12-Month Forecast
Direct Vacancy	9.7%	9.6%	-10 bps	▼
Direct Asking Rents (psf/yr)	\$22.12	\$22.91	3.6%	▲
YTD Leasing Activity (sf)	2,073,609	2,737,090	32.0%	▲

DIRECT RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



Currently, there are nearly 1.7 msf in the proposed pipeline, 89.4% of which is planned speculative office projects.

Outlook

Denver recently ranked number one on the Forbes list of "Best Places for Business and Careers." The SES has a large concentration of soft- and high-tech companies and the millennials' live-work-play cultural shift has pushed firms to look at transit-oriented projects that offer a plethora of amenities. These positive attributes, along with increased leasing activity, bodes well for future growth of the SES region. Transit-oriented projects will draw the most attention and will push down vacancy and drive up rental rates along the light-rail corridor and spur developers to push plans through the pipeline to take advantage of favorable market conditions.