

# MARKETBEAT OFFICE SNAPSHOT



## DENVER, CO – SOUTHEAST SUBURBAN

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 as well as 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.

### CURRENT ACTIVITY

Denver's Southeast Suburban (SES) market is making moves to become a more amenity filled region to support the increase of quality of space coming to the market. A mix of new and existing tenants inking deals in the region helped direct vacancy recover 30 basis points (bps) quarter over quarter, due to Charles Schwab occupying its new build-to-suit and vacating nearly 300,000 square feet (sf). Direct vacancy at the end of the second quarter decreased to 10.6%, which will continue decline due to the large leases signed with occupancies in late 2015 and early 2016. An example of this is the Comcast deal inked for the entire vacated Charles Schwab space and will occupy mid-2016. Additionally, ACOM Solutions signed at 6200 South Quebec Street and 6901 South Havana Street. Demand from multiple sectors increased year-to-date leasing activity 35.2% resulting in over 2.0 msf of leasing activity in first half of the year. Top-tier Class A space accounted for 57.9% of all leasing activity, while Class B accounted for 37.4%. Class A and B properties have been in high demand and vacancy will remain tight until additional properties enter the market.

Tenants are seeking space in sustainably-designed buildings with flexible floorplates, walkable amenities, and direct access to bus services and light rail. As employees needs/wants evolve this trend is driving tenant demand. Landlords of well-positioned buildings with flexible space increased rents in response to the heightened demand. As a result, direct weighted gross asking rates increased 6.0%, year over year to \$22.91 per square foot per year (psf/yr). Class A asking rents increased 2.9% to \$25.63 psf/yr over the last 12-month period, which is expected to increase as new construction projects will dominate leasing activity for the SES region.

The highly anticipated One Belleview Station broke ground, which will add nearly 340,000 sf of top-tier class AA space located on the light rail. This transit-oriented project will garner the attention of large tenants looking to pull top talent from downtown and the suburban areas. As

pre-leasing activity gains momentum, other developers in the region will begin to move forward with projects to catch the spillover demand from One Belleview Station's success.

### OUTLOOK

The fundamentals of the SES market remain strong and will continue to improve as employment gains occur across large sectors in the region. As pre-leasing activity gets underway, it will be a strong gauge for the overall health of the SES region. Transit-oriented properties will draw top talent that desires walkable amenities and vacancy will remain steady as firms compete for newly-constructed space entering the market. Rental rates are likely to increase as existing class AA space competes with new project pricing. This will result in developers will pushing plans through the pipeline to take advantage of the favorable market conditions.

### STATS ON THE GO

	Q2 2014	Q2 2015	Y-O-Y CHANGE	12 MONTH FORECAST
Direct Vacancy	10.5%	10.6%	10 bps	▼
Direct Asking Rents (psf/yr)	\$21.62	\$22.91	6.0%	▲
YTD Leasing Activity (sf)	1,523,166	2,060,050	35.2%	▲

### DIRECT RENTAL VS. VACANCY RATES



### OVERALL LEASING ACTIVITY

