MARKETBEAT
SES Denver, Colorado
Office Q1 2019

CUSHMAN & WAKEFIELD

DENVER OFFICE

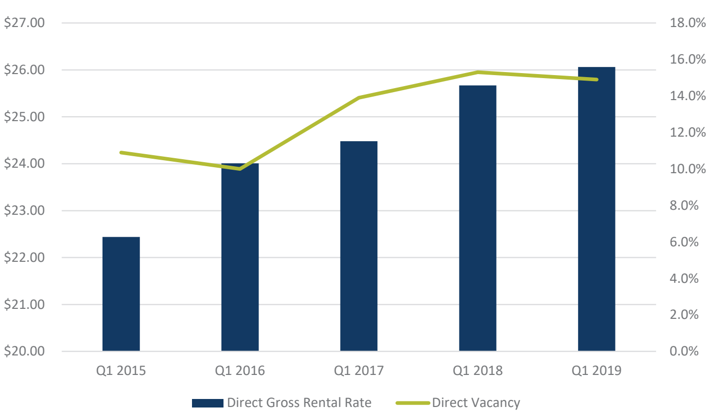
Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
Denver Employment	1.49M	1.51M	▲
Denver Unemployment	2.9%	3.6%	▬
U.S. Unemployment	4.1%	3.8%	▼

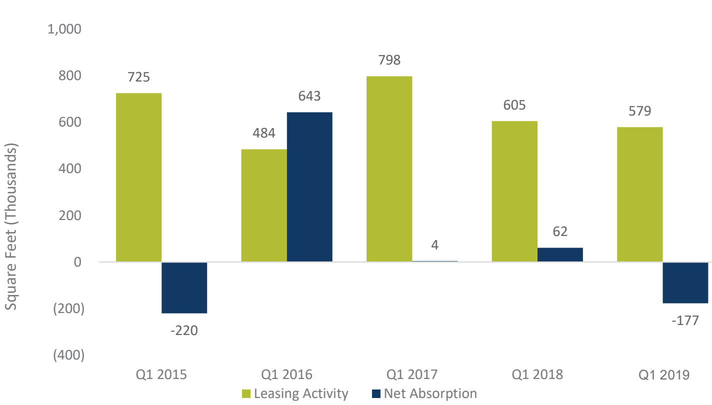
Market Indicators (SES, All Classes)

	Q1 18	Q1 19	12-Month Forecast
Overall Vacancy	17.1%	16.7%	▬
Net Absorption	-1k	-177k	▲
Under Construction	552k	363k	▬
Overall Average Asking Rent	$25.36	$25.78	▬

DIRECT RENTAL RATES VS. VACANCY RATES



OVERALL LEASING ACTIVITY AND NET ABSORPTION



Vacancy and Rental Rates

The Southeast Suburban (SES) submarket recorded a 100 basis-point (bps) increase in vacancy during the first quarter 2019, to 14.9% on a direct basis. Like direct, overall vacancy also recorded a large increase, increasing 150 bps to 16.7% at the end of the first quarter 2019. Vacancy continues to be driven by the Meridian micro-market. At the end of the first quarter 2019, overall vacancy within the Meridian micro-market was 26.2%, the highest overall vacancy rate for any micro-market across the Denver metro area. Another indicator worth noting is the availability rate. This rate, which excludes leased vacant space, but includes all vacant and occupied space that is being marketed for lease, recorded a 60 bps decrease to 20.4% on an overall basis during first quarter 2019 for the SES submarket.

Direct average gross rental rates grew moderately, increasing approximately 1.6% quarter-over-quarter to $26.06 per square foot (psf) during the first quarter 2019. Direct gross rental rates continued to stabilize, growing 1.5% year-over-year from when direct gross rental rates were $25.67 psf, one year ago. This is a significantly slower, but more sustainable, pace compared to the 4.8% average growth exhibited in the prior three years. Overall gross rental rates followed suit, growing roughly 1.8% quarter-over-quarter to $25.78 psf at the end of the first quarter 2019.

Leasing Activity

Leasing activity bounced back from a slow fourth quarter 2018, with approximately 579,000 square feet (sf) leased during the first quarter 2019. The largest lease for the quarter was Cochlear's 161,000 sf sublease at ParkRidge Six, backfilling the fully vacant building. Two other notable leases for the quarter were: Sierra Nevada's 41,000 sf renewal at 9800 S. Meridian Boulevard and Yes Communities' 32,000 sf new lease at 50 Fifty DTC, which will relocate from 1900 16th in the Central Business District. Coming off one of the strongest years for absorption ever in 2018, net absorption started out 2019 with approximately -177,000 sf of net absorption. This decrease is largely attributed to Class B product, which accounted for -125,000 sf (71%) of net absorption, during the first quarter 2019.

Construction

No new buildings delivered in the SES submarket during the first quarter 2019 and there is only one project under construction. The roughly 382,000 sf 6900 Layton is set to deliver mid-2020 and is currently 49% preleased to Newmont Mining. Momentum at the newly constructed 5050 S. Syracuse project has ramped up, as 75,000 sf was leased during the first quarter 2019 after delivering fully vacant during the fourth quarter 2018.

Outlook

The SES submarket should bounce back from a slow start, with strengthening fundamentals as the year progresses. Absorption should increase, as tenants occupy previously leased space, which will in turn contract vacancy rates. Rental rate growth will continue to be moderate, with growing occupancy costs continuing to be the catalyst behind gross rate growth. The flight from Class B to A product will continue, as occupiers view their real estate as a key driver in the recruitment and retention of employees within the SES submarket.