MARKETBEAT
Denver, Colorado
Office Q2 2019

CUSHMAN & WAKEFIELD

DENVER OFFICE

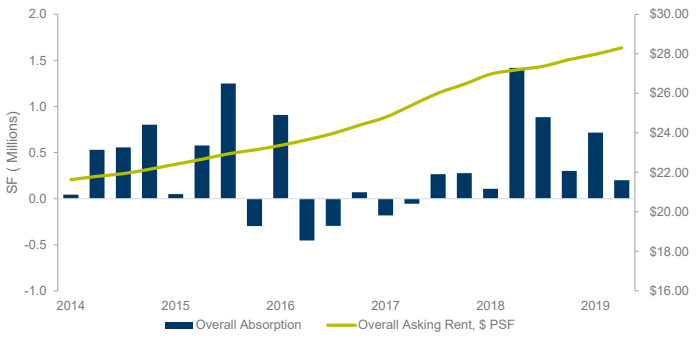
Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
Denver Employment	1.50M	1.51M	▲
Denver Unemployment	3.0%	3.3%	▬
U.S. Unemployment	3.9%	3.6%	▼

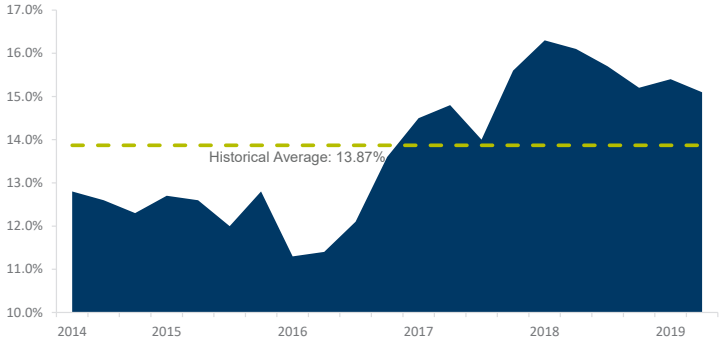
Market Indicators (Overall, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Overall Vacancy	16.1%	15.1%	▬
Net Absorption	1.42M	202k	▬
Under Construction	2.1M	1.9M	▲
Average Overall Asking Rent	$27.50	$28.81	▲

Overall Net Absorption/Overall Asking Rent
4-QTR TRAILING AVERAGE



Overall Vacancy



Economic Overview

Denver's economy recorded over 28,000 new nonfarm jobs through the first half of 2019, representing a large decrease compared to the 41,000 new jobs added during the first half of 2018 according to the Metro Denver Economic Development Corporation. Despite slowing job growth and signs of a slowdown on both a national and global level, Denver's economy is still performing well compared to national standards. Denver's unemployment has trended down quarter-over-quarter to 3.3%, 30 basis-points (bps) lower than the national average at the end of the second quarter 2019. With a well-diversified economy and strong economic fundamentals, Denver's growth will continue, although more moderately than the pace exhibited in prior years.

Market Overview

Overall vacancy continued to trend downward, decreasing 30 bps to 15.1% at the end of the second quarter 2019. Similarly, direct vacancy decreased 40 bps on a quarter-over-quarter basis, down to 13.6% at the mid-year mark 2019. This decrease metro-wide is largely due to the Urban Core, which continues to be the epicenter of activity. Direct vacancy, in the Urban Core, decreased 40 bps to 15.3%, which is largely attributed to the Lower Downtown & Central Platte Valley (LoDo) micro-market decreasing 280 bps on a quarter-over-quarter basis, to 12.9%. This decrease in LoDo vacancy is largely attributed to Slack Technologies, Advanced Energy and several others taking occupancy of space signed in previous quarters.

Net absorption recorded in positive territory for the eighth consecutive quarter, with approximately 202,000 square feet (sf) absorbed during the second quarter 2019. The Central Business District (CBD) continues to drive the market, representing 99% of the total net absorption for the entire metro area. The market continues to be driven by Class A product, which recorded over 343,000 sf of absorption during the second quarter 2019, while Class B product relinquished space with -154,000 sf of net absorption over the same period. Denver Metro net absorption during the first half of 2019 is down approximately 39.9% from the nearly 1.5 million square feet (msf) absorbed throughout the first half of 2018, largely attributed to the aforementioned decrease in new jobs throughout the Denver metro area. At the mid-year mark, the Denver office market has exhibited just shy of 919,000 sf of net absorption. Throughout the remainder of 2019, Denver's office market will continue to trend positively, as tenants occupy leased large blocks. Despite several large move-outs already planned to occur over the course of the year, largely due to consolidations, the market will continue to trend positively to finish 2019.

Leasing activity recorded a sharp decrease quarter-over-quarter, with roughly 1.9 msf leased during the second quarter

2019. Conversely, the bulk of tenant activity during the second quarter 2019 were renewals, exemplified by the three largest deals of the quarter. The most notable deal that occurred during the second quarter 2019 was Wells Fargo's 245,000-sf renewal and downsize at Wells Fargo Center. Wells Fargo will give back their top three floors, which have already been backfilled, while consolidating in the lower floors of Wells Fargo Center. The second largest lease for the quarter was Healthone's 82,000-sf renewal at Belleview Corporate Center Building II. Rounding out the top 3 is Alteryx's 78,000-sf renewal and expansion at Mountain View Building I in the Northwest Corridor. RiNo continues to see strong leasing activity on new construction, with EverCommerce leasing a full floor, approximately 50,000 sf, and bringing the newly constructed Hub South to 100% leased. This lease will greatly increase EverCommerce's footprint over their current 16,000-sf space at 1515 Wynkoop. Through the end of 2019, leasing activity will remain healthy, but expectations will need to be tempered compared to recent years as economic growth levels off. The Urban core will continue to exhibit the bulk of tenant activity as urbanization continues.

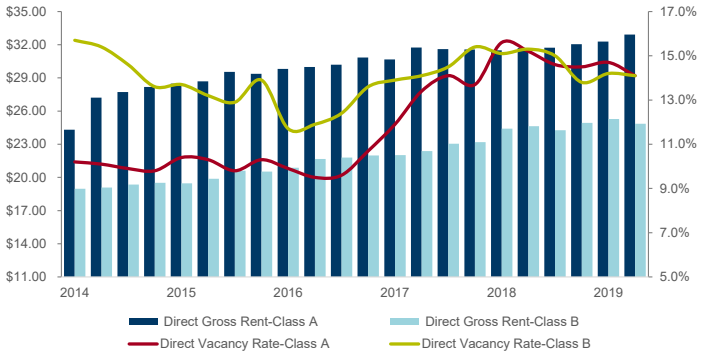
Direct gross rental rates increased marginally quarter-over-quarter, to $28.79 per square foot (psf) at the mid-year point. This was largely due to the strong 2.9% rent growth exhibited in the CBD quarter-over-quarter, ending the second quarter 2019 at $37.85 psf on a direct basis. As the CBD remains supply-constrained with very few large blocks available, landlords have pushed rates across the board, in some instances increasing asking rates by $1.00-$2.00 psf since the end of 2018. Gross rental rates have also been impacted by the rising occupancy costs of real estate taxes and operating expenses. As expected, Class A product continues to drive rate growth, increasing approximately 2.0% to $32.92 psf on a gross basis, while Class B product decreased 1.7% to $24.85 during the same timeframe. Rate growth has continued to slow on a year-over-year basis with metro-wide direct gross rental rates increasing 3.3%, from $27.85 psf one year ago, and well below the prior three-year average of 6.2%. Overall gross rental rates have experienced a larger increase year-over-year, up 4.9% to $28.81 psf at the end of the second quarter 2019. Rental rate growth is expected to slow throughout the remainder of 2019, with the CBD and new construction being the main catalysts behind rate growth. With reassessments being applied during 2020, expect to see a large increase in real estate taxes as properties have continued to trade hands at a premium. Combined with the over 1.4 msf expected to deliver during 2020, gross rental rates will continue to grow over the next four quarters.

The Denver metro area had no buildings deliver during the second quarter 2019 but had two new projects break ground in the RiNo submarket, bringing under construction totals to approximately 1.9 msf. Hub North broke ground during the second quarter 2019 and is expected to deliver approximately 98,000 sf of office product to the up-and-coming RiNo submarket during summer of 2020. Original plans for the site called for a hotel component, but as Hub South delivered 80% preleased during the first quarter and is now fully leased, demand has driven Beacon to change plans and build a second office building instead. The other project that broke ground was Revolution 360. This Class A development will deliver 130,000 sf of office product, and is slated to deliver during the second half of 2020, which is 53.7% preleased to WeWork. Construction activity will continue for the foreseeable future, with the Urban Core being the driver as developers bring proposed projects to fruition. RiNo will headline development activity over the next 12 months, as this submarket continues its vibrant transformation.

Outlook

- With such limited new construction underway throughout the metro area, many developers are planning new buildings in multiple submarkets. With limited attractive land sites that carry a high price, coupled with increasing construction costs, future deliveries will be severely limited over the next 3 years.
- Sublease space, especially those in larger blocks, are starting to engage throughout the city due to continued corporate consolidations and downsizing.
- Anti-growth sentiment, particularly in the newly elected Denver City Council will continue to present challenges to developers and elongate the approval and delivery timeframes for new product.

Direct Gross Rent - Class A and B



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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)
Boulder	5,816,236	94,619	451,028	9.4%	-3,210	228,665	214,578	118,000	$33.36	$39.56
Midtown (Non-CBD)	3,937,171	114,228	411,912	13.4%	3,983	-75,839	106,728	26,322	$25.30	$26.45
CBD	**30,228,451**	**587,312**	**4,720,626**	**17.6%**	**199,651**	**398,244**	**1,076,674**	**1,010,849**	**$38.13**	**$41.74**
RiNo	1,531,528	5,614	342,073	22.7%	13,096	140,964	212,724	289,553	$46.10	$51.06
Northeast/Aurora	7,685,935	37,159	1,128,911	15.2%	38,146	-1,526	213,859	0	$21.25	$24.58
Northwest	14,336,770	157,650	1,721,354	13.1%	-11,471	11,023	549,404	0	$25.16	$27.77
Southeast Suburban	32,614,806	567,320	4,835,257	16.6%	-5,991	-136,141	1,519,329	364,890	$25.78	$27.42
Southeast Central	10,928,429	54,609	1,239,848	11.8%	-5,349	349,653	415,592	117,314	$25.83	$31.68
Southwest	9,615,573	135,405	1,072,048	12.6%	-27,293	3,479	238,578	0	$21.13	$25.45
Denver Totals	116,694,899	1,753,916	15,923,057	15.1%	201,562	918,522	4,547,466	1,926,928	$28.81	$32.79

**Rental rates reflect gross asking $psf/year*
***Does not include renewals*

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	61,461,551	1,211,773	8,666,614	16.1%	343,412	879,010	2,855,321	1,864,268	$32.92	$32.79
Class B	44,387,372	514,747	6,256,735	15.3%	-154,126	27,109	1,403,682	62,660	$24.85	$24.76
Class C	10,845,976	27,396	999,708	9.5%	12,276	12,403	228,463	0	$22.33	$22.19

**Rental rates reflect gross asking $psf/year*
***Does not include renewals*

Significant Construction Activity Q2 2019

PROJECT	RBA	DEVELOPER	COMPLETION DATE	SUBMARKET
675 15th Street (Block 162)	600,000	Patrinely Group	Q4 2020	CBD
6900 Layton Avenue	385,094	Prime West / Partners Group	Q3 2020	Southeast Suburban
1901 Wazee (Rockies West Lot)	210,900	Colorado Rockies	Q1 2021	CBD
2375 15th Street (Platte 15)	156,915	Crescent Real Estate / Goff Capital	Q4 2019	CBD
2100 30th Street (REVE Boulder)	118,000	Southern Land Company	Q1 2021	Boulder

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1700 Lincoln Street (Wells Fargo Center)	245,000	Wells Fargo	Renewal/Downsize	CBD
4900 S. Monaco St. (Belleview Corporate Plaza)	81,508	HealthOne	Renewal	Southeast Suburban
12303 Airport Way (Mountainview - Bldg. 1)	79,661	Alteryx	Renewal/Expansion	Northwest Corridor
9193 South Jamaica Street	77,697	Lockheed Martin	Sublease	Southeast Suburban
7601 Technology Way (7601 DTC)	59,341	Zoom Video	Renewal/Expansion	Southeast Suburban

Key Sale Transactions Q2 2019

PROPERTY	SF	SELLER/BUYER	PRICE / $PSF	SUBMARKET
1560 Broadway (Civic Center Plaza)*	598,592	Beacon Capital Partners / Rising Realty Partners	$124,700,000 / $208	CBD
410 17th Street*	436,455	Ivanhoe Cambridge / Rialto Capital	$127,250,000 / $292	CBD
Westmoor Building 8, 9 & 10 Portfolio	433,548	Investcorp / Capridge Partners	$71,100,000 / $164	Northwest Corridor
1700 Broadway*	394,174	Artis Real Estate / Beacon Capital Partners	$78,000,000 / $198	CBD
1801 Broadway (Trinity Place)	189,163	Velocis / Novel Coworking	$40,200,000 / $213	CBD

**Not reflected in U.S. Marketbeat*

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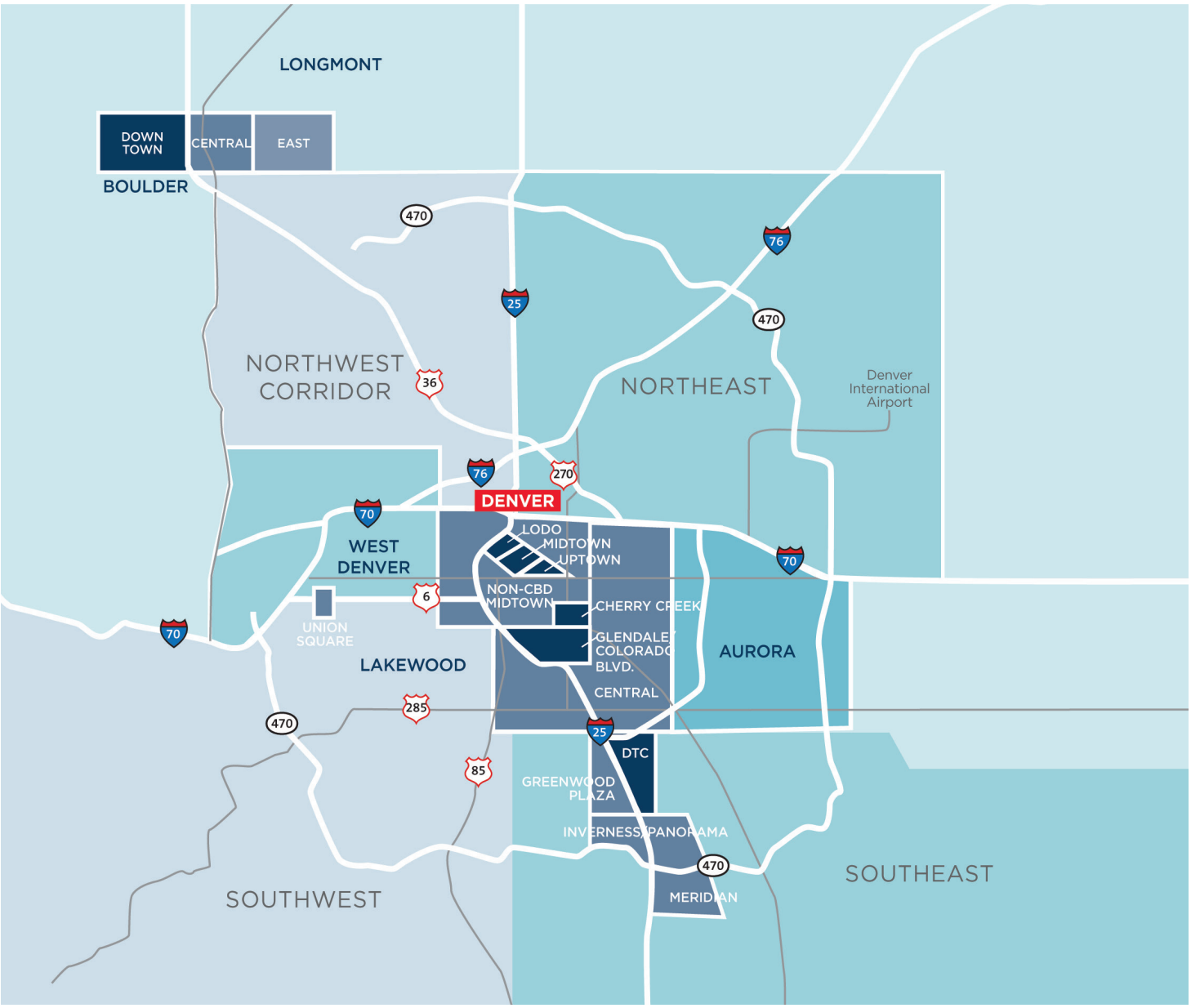
Office Submarkets



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