MARKETBEAT

SES Denver, Colorado

Office Q2 2019

CUSHMAN & WAKEFIELD

DENVER OFFICE

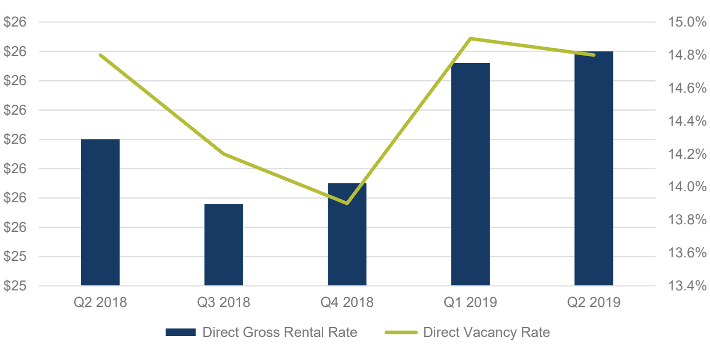
Economic Indicators

	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%	▼

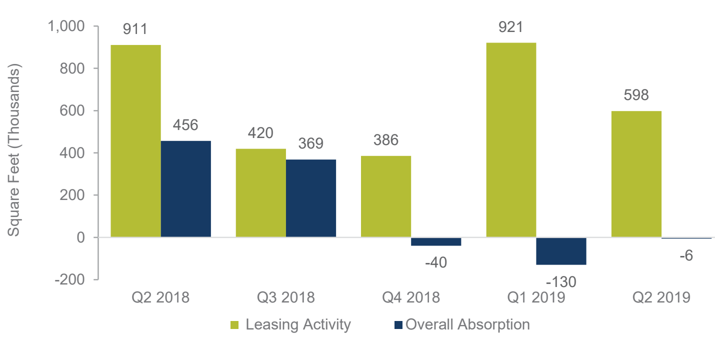
Market Indicators (SES, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Overall Vacancy	16.5%	16.6%	▬
Net Absorption	518k	-6k	▲
Under Construction	246k	363k	▬
Overall Average Asking Rent	$25.43	$25.78	▬

DIRECT RENTAL RATES VS. VACANCY RATES



OVERALL LEASING ACTIVITY AND NET ABSORPTION



Vacancy and Rental Rates

The Southeast Suburban (SES) submarket remained relatively flat quarter-over-quarter, with direct vacancy decreasing 10 basis-points (bps) to 14.8% at the end of the second quarter 2019. This decrease was mirrored in the overall vacancy rate, which also provided a 10 bps decrease from the first quarter 2019 to 16.6% at the end of the second quarter 2019. The flight to quality continues to occur in the SES, as Class A product continues to see the bulk of activity, while Class B product vacancy rates continue to rise. Class A product in the SES submarket recorded a 30 bps decrease quarter-over-quarter to 15.1% during the second quarter 2019, while Class B product recorded a 50 bps increase to 14.8% during the same timeframe on a direct basis.

Following the overall trend of the SES submarket, direct gross rental rates remained rather flat, recording a minor increase of $0.04 per square foot (psf), closing out the second quarter 2019 at $26.10 psf. Even with rental rates remaining flat throughout the first half of 2019, the direct gross rental rate has increased moderately year-over-year, up 1.2% from the $25.80 psf recorded, one year ago. Class A & B product recorded marginal increases quarter-over-quarter in direct rates, increasing to $27.77 psf ($.03 psf) and $23.57 psf ($0.13 psf), respectively.

Leasing Activity

New leasing activity was less robust compared to the first quarter 2019, with just north of 598,000 square feet (sf) leased during the second quarter 2019. Activity remains concentrated within Class A product which represented 72.2% (432,000 sf) of leasing activity during the second quarter 2019. Year- to-date leasing activity eclipsed 1.5 msf through the first half of 2019, mirroring the 1.5 msf leased during the first two quarters of 2018. The largest lease executed during the second quarter 2019 in the SES submarket was HealthOne's 82,000-sf renewal at Belleview Corporate Plaza II. The second largest transaction was the 78,000-sf sublease by Lockheed Martin at the CH2M campus. Rounding out the top three was Zoom Video's expansion and renewal for 59,000-sf at 7601 DTC.

Net absorption remained relatively flat compared to the approximately -130,000 sf absorbed during the first quarter 2019, with approximately -6,000 sf absorbed during the second quarter 2019. Through the first half of 2019 the SES submarket has recorded approximately -136,000 sf of absorption, representing a drastic change from the first half of 2018, which recorded just north of 528,000 sf of absorption. Class B product has been the catalyst for this low absorption figure, with roughly -165,000 sf of net absorption through the first half of 2019.

Construction

No new buildings delivered or broke ground during the second quarter 2019. 6900 Layton represents the lone building currently under construction in the SES submarket. This vibrant mixed-use development will deliver approximately 385,000 sf of office above ground floor retail during summer 2020 and is currently 49% preleased to Newmont Mining.

Outlook

The SES submarket will remain stable for the foreseeable future. With known large move-ins expected to occur towards the end of 2019, even with some large move-outs occurring, expect absorption to bounce back from its first-half lows. In turn, vacancy should trend downward and close out 2019 lower than current vacancy rates. Rental rate growth should occur, albeit marginally, with the delta between Class A and B rental rates continuing to widen. Overall, the SES submarket will be flat throughout the remainder of 2019 and into early 2020. The market will remain good, but expectations need to be tempered compared to the highs of 2018.