MARKETBEAT
Denver CBD, Colorado
Office Q3 2019

CUSHMAN & WAKEFIELD

DENVER OFFICE

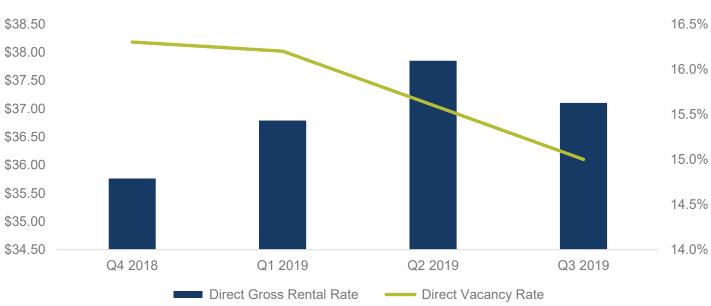
Economic Indicators

	Q3 18	Q3 19	12-Month Forecast
Denver Employment	1.51M	1.53M	▲
Denver Unemployment	3.3%	2.8%	▲
U.S. Unemployment	3.8%	3.7%	▲

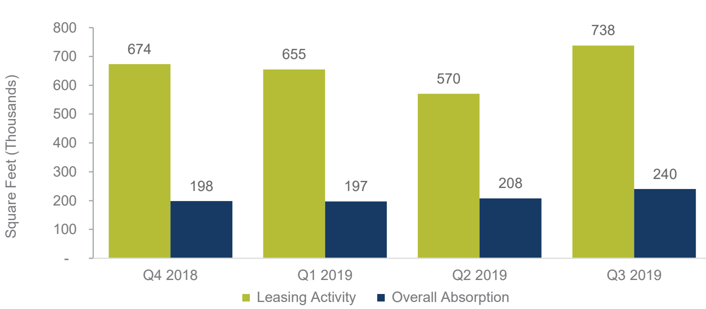
Market Indicators (CBD, All Classes)

	Q3 18	Q3 19	12-Month Forecast
Overall Vacancy	17.7%	16.8%	▼
Overall Net Absorption	153k	240k	▬
Under Construction	1.3M	1.0M	▬
Overall Average Asking Rent	$35.31	$37.93	▲

DIRECT RENTAL RATES VS. VACANCY RATES



OVERALL LEASING ACTIVITY AND NET ABSORPTION



Vacancy and Rental Rates

The Central Business District (CBD) continues to be at the forefront of Denver's office market and ended the third quarter 2019 with solid fundamentals. Vacancy continued to trend down for the fourth consecutive quarter, decreasing 80 bps to 16.8% on an overall basis at the end of the third quarter 2019. Direct vacancy followed suit, decreasing 60 bps quarter-over-quarter to 15.0% at the end of the third quarter 2019. This decrease in vacancy is partially attributed to ServiceSource taking occupancy at Denver City Center and multiple move-ins that occurred at 1144 Fifteenth. The overall availability rate, which removes leased vacant space, but includes all space being marketed for lease - regardless if vacant or occupied - recorded a 130 bps decrease quarter-over-quarter to 15.7%.

Overall gross rental rates recorded a marginal decrease during the third quarter 2019, down 0.4% to $37.93 per square foot (psf). Direct gross rental rates recorded a more sizeable decrease quarter-over-quarter, decreasing approximately 2.0% to $37.10 psf at the end of the third quarter 2019. This decrease is largely attributed to the flight-to-quality that is being exhibited throughout the metro-area, as the higher end space continues to see strong demand from users. As this space continues to see the bulk of leasing activity, it has removed higher-end more costly space from the market, which was the main catalyst for a decrease in rental rates.

Leasing Activity

Leasing activity was up from the roughly 570,000 square feet (sf) leased during the second quarter 2019, with north of 738,000 sf leased during the third quarter 2019. Class A product continues to dominate leasing activity, accounting for 64.9% of CBD leasing activity during the third quarter 2019. The most notable lease that occurred during the third quarter 2019 was Checkr's 92,000 sf lease at 18th Street Atrium and will be their second headquarter location. Another notable lease that occurred during the third quarter 2019 was 2U's 92,000-sf expansion at Denver City Center, bringing their total footprint to approximately 180,000 sf. Lastly, WeWork inked two leases at 1660 Lincoln (54,000 sf) and The Vault (33,000 sf) during the third quarter 2019 and surpassed DaVita as the largest tenant in the CBD. Net absorption remained in positive territory for the eleventh consecutive quarter, with approximately 240,000 sf absorbed. Net absorption continues to be driven by Class A product which accounted for 84.2% (202,000 sf) of third quarter 2019 CBD net absorption.

Construction

No new projects broke ground during the third quarter 2019, but the CBD had one major project go under renovation. The Link at 930 15th started its full building renovation during the third quarter 2019 and is slated to deliver 222,000 sf of office product to the CBD during the fourth quarter 2020. Currently four projects remain under construction in the CBD totaling approximately 1.0 msf of new office product and are collectively 5.4% preleased. Preleasing activity on these buildings should continue to rise, as new construction has historically delivered at 60%-70% preleased during this development cycle.

Outlook

The CBD will continue to drive the Denver metro market for the foreseeable future. Rental rates should grow, as demand continues to be strong throughout the CBD. Coupled with rising real estate taxes and delivering new construction, expect gross rental rates to trend upwards through the first half of 2020, with growth being more subdued than what has been exhibited in prior years. Net absorption should continue to trend positively, although it could slow down significantly depending on WeWork's future and what happens with its future lease obligations. Currently, it is too early to tell how large this headwind will be, but it could present a major disruptor to the CBD office market as more information comes to fruition in the upcoming months.