

MARKETBEAT

Denver, Colorado

Office Q3 2019



DENVER OFFICE

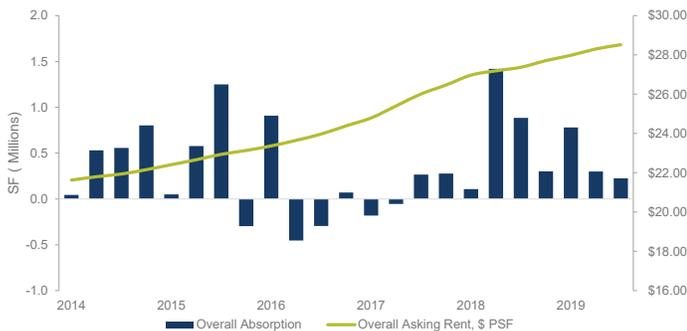
Economic Indicators

	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 (Overall, All Classes)

	Q3 18	Q3 19	12-Month Forecast
Overall Vacancy	15.7%	14.8%	■
Net Absorption	884k	225k	■
Under Construction	2.5M	1.8M	▲
Average Overall Asking Rent	\$27.72	\$28.59	■

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



Overall Vacancy



Economic Overview

The Denver metro area closed out the third quarter 2019 with strengthening economic fundamentals. Denver's unemployment rate decreased 50 basis points (bps) quarter-over-quarter, ending the third quarter 2019 at 2.8%, well below the national unemployment rate of 3.7%. Colorado's economy continues to provide good job growth with 9,400 new jobs added from July to August according to the Metro Denver EDC. With signs emerging of an economic slowdown, Denver's economy has become diverse and well balanced throughout this expansion period, allowing for it to be well positioned if a downturn occurs.

Market Overview

Overall vacancy in the Denver metro area trended down for the third consecutive quarter, decreasing 40 bps quarter-over-quarter to 14.8% at the end of the third quarter 2019. Direct vacancy recorded a more marginal decrease of 20 bps to 13.4% at the end of the third quarter. This decrease is largely attributed to the Urban Core, which contracted 70 bps to 14.6% as tenants occupied previously leased large blocks of space. All classes remained flat or recorded a decrease in direct vacancy, with Class A product recording the largest decrease of 60 bps to 13.5% at the end of the third quarter 2019. Class A product vacancy has continued its downward trend throughout the first three quarters of 2019, as the flight-to-quality continues to occur throughout the metro area.

Net absorption continued to trend positively for the ninth consecutive quarter, with approximately 225,000 square feet (sf) absorbed during the third quarter 2019. This positive absorption was largely driven by the Urban Core submarket which closed out the third quarter 2019 with approximately 334,000 sf absorbed. Class A product continues to dominate net absorption, as the aforementioned flight-to-quality continues. During the third quarter 2019, Class A net absorption contributed just shy of 377,000 sf of absorption, while Class B product continued to see large negative net absorption numbers, recording approximately -141,000 sf of net absorption. Year-to-date, Class A product has accounted for 98.4% of the 1.3 million square feet (msf) absorbed throughout the first three quarters of 2019. Net absorption should continue to trend positively throughout the remainder of 2019, as tenants take occupancy of previously leased large blocks of space. The Urban Core should continue to be the catalyst, as it remains the epicenter of activity throughout the metro area.

Leasing activity recorded a decrease compared to the approximately 2.4 msf leased during the second quarter 2019, with roughly 2.1 msf leased during the third quarter 2019. Of this 2.1 msf, Class A product accounted for roughly 50% of leasing activity for the quarter, with just over 1.0 msf leased during the

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third quarter 2019. The most notable lease that occurred during the third quarter 2019 was United Launch Alliance's 251,000 sf renewal at Panorama Corporate Center I and IV in the SES submarket. The second largest lease executed 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. Rounding out the top three was Checkr's new 92,000 sf lease at 18th Street Atrium in the CBD, which is expected to start occupying during the first half of 2020. WeWork leased two more spaces in the Central Business District (CBD) submarket at 1660 Lincoln (56,000 sf) and The Vault (33,000 sf) and now has become the largest CBD office tenant, surpassing DaVita during the third quarter 2019. WeWork has taken down mass amounts of space over the past five years, which is expected to reduce dramatically going forward given all the information that has come to light in recent months. As this shakes out, this could cause a potential headwind in Denver's office market going forward. Leasing activity will continue to be solid around the metro area, albeit less than the 9.7 msf per year average that has been exhibited over the prior three years. Activity will continue to be highly concentrated around the Urban Core, in order to take advantage of the accessibility, walkability and the talented labor pool that Central Denver provides.

Direct gross rental rates decreased for the first time in the past four quarters, decreasing approximately 1.5% to \$28.36 per square foot (psf) at the end of the third quarter 2019. Like direct, overall gross rental rates also recorded a decline quarter-over-quarter, albeit a much more moderate decrease, down approximately 0.8% to \$28.59 psf at the end of the third quarter 2019. This delta between direct and overall gross rental rates is largely attributed to Chipotle's 126,000 sf sublease in the CBD, which is quoting \$36.00 psf on a triple-net (NNN) basis. Class A product was the only class that recorded a decrease in overall gross rental rates from the second quarter 2019 to the third quarter 2019, decreasing roughly 1.1% to \$32.43 psf. As demand for high quality space continues by occupiers, Class A space has routinely been leased at a rapid clip, compared to other classes. In turn, this has caused overall average rental rates to drop, strictly due to the lack of high-quality available space in the market at the end of the third quarter 2019. Gross rate growth should continue over the next 12 months, largely impacted by increasing taxes and the delivery of new construction over the next four quarters.

The Denver metro office market had two buildings deliver during the third quarter 2019. North Wynkoop (4180 Wynkoop Street) and 260 North (260 N. Josephine Street) delivered 120,000 sf of rentable office product to the RiNo and Cherry Creek submarkets and were 57.6% preleased, collectively. No new projects broke ground in the third quarter 2019, but one

notable renovation started. The Link at 930 15th Street started its renovation during the third quarter 2019 in the CBD. This building, which was formerly occupied by CenturyLink, is set to go through a full internal and external renovation, replacing the dated exterior with all glass and updating the worn interior. This building is slated to deliver 222,000 sf of rentable office product to the CBD during the fourth quarter 2020. Currently the Denver metro area has just over 1.8 msf under construction, which was collectively 14.8% preleased at the end of the third quarter 2019. Looking forward, construction activity will be highly centralized around the Urban Core, with RiNo seeing the bulk of development activity. Preleasing activity should continue to rise as these buildings get closer to completion, as new construction has continued to see strong leasing activity during this development cycle.

Outlook

- Until Class A product becomes substantially higher priced than Class B product, the flight to a A quality buildings will continue as Class B nominal pricing remains.
- The oil and gas sector continues to see consolidation pressure and will be far less likely to commit to long term leases in Denver.
- Large tenant relocations above 100,000 rsf may be minimal due to concern by decision markers regarding the confluence of market cycle timing, growing trade concerns and the upcoming 2020 elections.

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	5,862,278	78,768	414,087	8.4%	-30,013	225,364	417,382	118,000	\$33.17	\$37.24
Midtown (Non-CBD)	3,898,709	114,334	383,866	12.8%	20,554	-45,541	142,877	28,036	\$25.59	\$25.29
CBD	30,241,594	571,135	4,521,196	16.8%	240,285	645,105	1,963,737	1,010,849	\$37.93	\$42.04
RiNo	1,638,712	6,582	329,510	20.5%	73,567	223,771	233,974	227,698	\$45.55	\$50.66
Northeast/Aurora	7,685,935	8,237	1,056,357	13.9%	-857	7,658	327,064	0	\$21.04	\$23.41
Northwest	14,355,396	112,787	1,897,648	14.0%	-145,173	-89,649	815,891	0	\$25.95	\$28.35
Southeast Suburban	32,692,152	549,171	4,763,474	16.3%	84,633	-1,156	2,187,920	364,970	\$25.68	\$27.32
Southeast Central	10,983,083	90,772	1,193,455	11.7%	48,380	394,789	593,507	62,660	\$26.33	\$31.97
Southwest	9,624,638	147,467	1,089,531	12.9%	-66,451	-54,364	461,041	0	\$20.98	\$23.69
Denver Totals	116,982,497	1,679,253	15,649,124	14.8%	224,925	1,305,977	7,143,393	1,812,213	\$28.59	\$32.43

*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	61,365,184	1,201,102	8,289,310	15.5%	376,743	1,285,148	4,223,903	1,749,553	\$32.20	\$32.43
Class B	45,538,859	465,121	6,434,224	15.2%	-141,179	-4,977	2,530,424	62,660	\$24.86	\$24.80
Class C	10,078,454	13,030	925,590	9.3%	-10,639	25,806	389,043	0	\$23.45	\$23.41

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

Key Lease Transactions Q3 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Panorama Corporate Center I & IV	250,615	United Launch Alliance	Renewal	Southeast Suburban
1621 18th Street (18th Street Atrium)	92,477	Checkr	New	CBD
707 17th Street (City Center)	91,500	2U	New	CBD
2550 Crescent Drive (Lafayette Corporate Campus)	80,132	Blue Canyon Technologies	New	Northwest Corridor
1290 Broadway	64,626	ALPS Funds	Renewal	Non-CBD Midtown

Significant Construction Activity Q3 2019

PROJECT	RBA	DEVELOPER	COMPLETION DATE	SUBMARKET
675 15th Street (Block 162)	600,000	Patrinely Group	Q4 2020	CBD
6900 Layton Avenue	384,712	Prime West / Partners Group	Q3 2020	Southeast Suburban
1901 Wazee (Rockies West Lot)	210,900	Colorado Rockies	Q1 2021	CBD
3600 Brighton Boulevard (Revolution 360)	171,000	Tributary Real Estate	Q3 2020	Platte River
2375 15th Street (Platte 15)	156,915	Crescent Real Estate/Goff Capital	Q4 2019	CBD

Key Sale Transactions Q3 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Denver Corporate Center II & III Portfolio	381,466	DPC Development Companies / TerraCap Management, LLC	\$71,800,000 / \$188	Southeast Suburban
4643 South Ulster (Regency Plaza)	319,967	Barings Real Estate Advisers LLC / Granite Properties, Inc.	\$71,300,000 / \$223	Southeast Suburban
7601 Technology Way (7601 DTC)	191,368	Griffin Capital Essential Asset REIT / City Office REIT, Inc.	\$48,800,000 / \$225	Southeast Suburban
9655 Maroon Circle	166,912	Lexington Realty Trust / Sentinel Real Estate Corporation	\$61,300,000 / \$367	Southeast Suburban
400 South Colorado Boulevard	122,788	Westcore Properties / DPC Development Companies	\$18,100,000 / \$148	Colorado Blvd. / Glendale

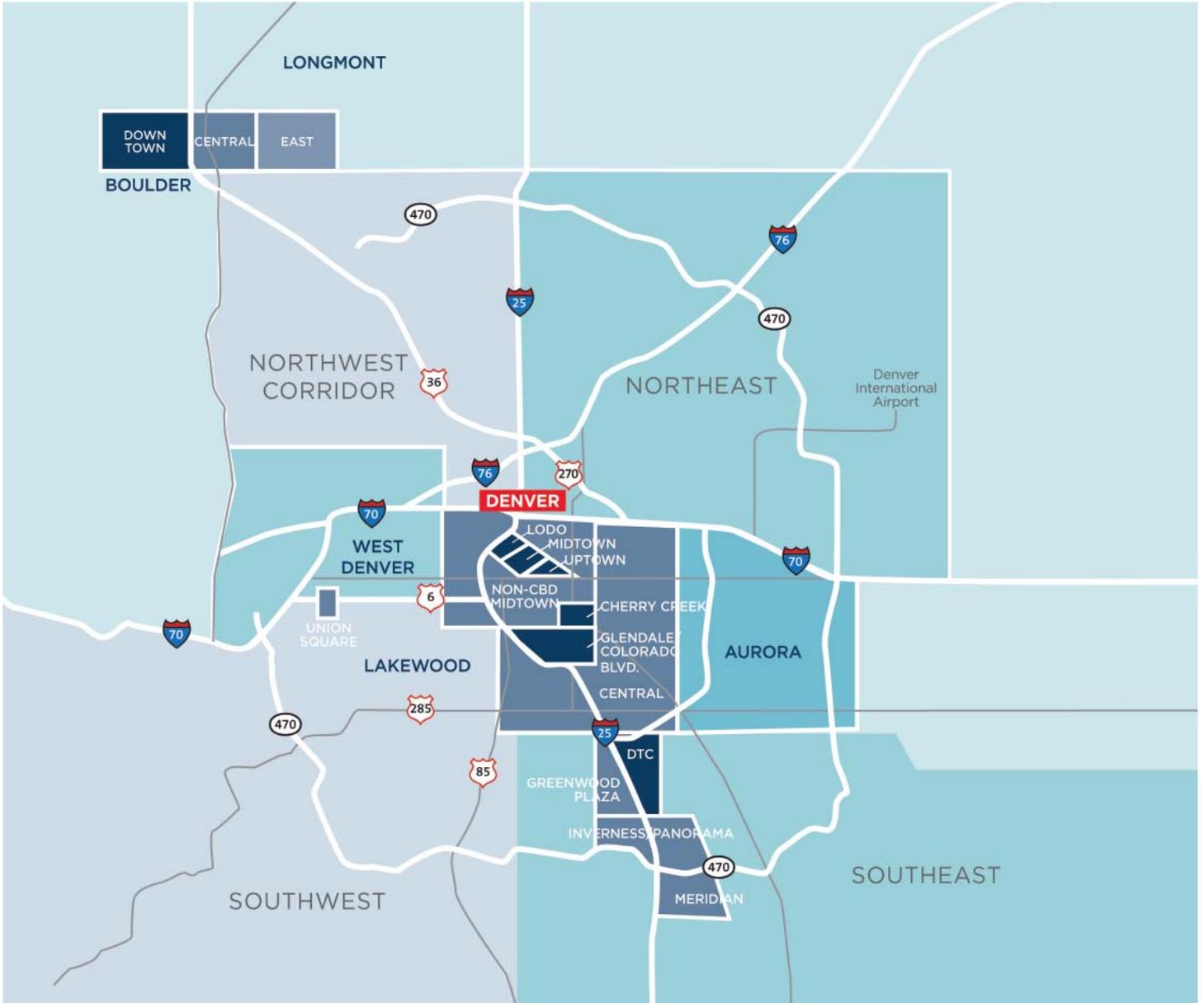
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Office Submarkets



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