



	YoY Chg	12-Mo. Forecast
14.7% Vacancy Rate	▲	▲
-733K Net Absorption, SF	▼	▼
2.0MSF Under Construction	▼	▼
\$29.09 Rental Rate	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS
QX 2020

	YoY Chg	12-Mo. Forecast
1.4M Denver Employment	▼	▲
11.5% Denver Unemployment Rate	▲	▼
13.0% U.S. Unemployment Rate	▲	▼

Source: BLS

ECONOMY: Denver's Economy Impacted as Nation Continues to Battle Pandemic

The COVID-19 pandemic struck the U.S. economy in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent information specific to COVID-19 [here](#).

VACANCY: Metro Vacancy Increases as Tenants Work Through Pandemic

Metro-wide vacancy rose for the first time in five quarters, increasing 70 basis points (bps) quarter-over-quarter to 14.7%. This increase in overall vacancy was largely attributed to the over 600,000 square feet (sf) of sublease space that came to the market during the second quarter 2020 and was highly concentrated in the Central Business District (CBD). Vacant sublease space almost doubled to roughly 1.1 msf in the CBD by the end of the second quarter 2020 due to mergers and acquisitions, relocations, the oil and gas downturn and the COVID-19 pandemic.

Direct vacancy recorded a much more subtle increase of 20 bps quarter-over-quarter to 13.0% at the end of the second quarter. Class B and C product were the catalysts to this uptick as both increased by 80 bps to 15.7% and 9.9%, respectively. Contrarily, direct vacancy in Class A product contracted 40 bps quarter-over-quarter to 11.5% as tenants occupied previously leased large blocks of space in Class A product across the Denver metro area.

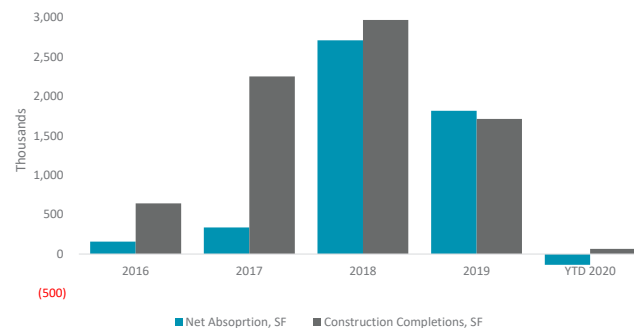
PRICING: Stable Pricing Continues Through the First half of 2020

Overall gross rental rates remained relatively flat from the first quarter to the second quarter 2020, increasing less than a percent to \$29.09 per square foot (psf). Rental rate growth has continued to flatten on a year-over-year basis, increasing approximately 1.0% from when rental rates were \$28.81 psf, one year ago. Like overall, direct rental rates also marginally increased less than a percentage point quarter-over-quarter and closed out the second quarter 2020 at \$29.13 psf. This increase is solely attributed to Class A product, which increased roughly 2.0% to \$33.30 psf at the end of the second quarter, while both Class B and C product recorded decreasing rates during the same time period.

ACTIVITY: Slowing Activity Occurs as Pandemic Hinders Economy

The Denver metro office market recorded just north of 936,000 sf leased during the second quarter 2020, bringing first half 2020 totals to approximately 2.9 million square feet (msf) leased. This represents a drastic reduction from the over 5.1 msf leased throughout the first half of 2019. Leasing activity has continued to be highly concentrated in Class A product during the first half of 2020, with roughly 1.7 msf of the 2.9 msf being

DENVER METRO SPACE / DEMAND DELIVERIES



DENVER METRO RENTAL RATE VS. VACANCY RATE





leased in Class A space. The most notable lease of the second quarter 2020 was Lockheed Martin's 166,700-sf sublease at ParkRidge One (10475 Park Meadows Drive) in the Southeast Suburban (SES) submarket. Another notable lease that occurred in the SES submarket was ViaSat's 99,800-sf renewal at 349 Inverness Drive South (Parkside Office Plaza at Inverness). Rounding out the top three was the 48,400-sf lease by NGL Energy Partners at the newly-constructed 9th and Colorado office development.

ABSORPTION: Net Absorption Records First Negative Quarter in Eleven Quarters

Net absorption recorded a large downswing from the roughly 597,000 sf absorbed during the first quarter, ending the second quarter 2020 with approximately -733,000 sf. This large delta from the first to the second quarter 2020 is the result of the aforementioned market conditions that continue to suppress the economy. The CBD was the hardest hit of all submarkets due to its high concentration of oil and gas tenants who continue to adjust to low oil prices. Coupled with the relocation of Molson Coors' headquarters to Chicago (-89,000 sf), the CBD recorded over -388,000 sf of absorption during the second quarter 2020.

Direct absorption recorded negative absorption, albeit less severe, with just north of -106,000 sf of absorption. At the mid-year mark, direct absorption remained positive with approximately 360,000 sf absorbed throughout 2020. However, this figure represents a far cry from the over 1.2 msf that was absorbed throughout the first two quarters of 2019. Class A product continues to thrive with roughly 740,000 sf of positive absorption through the first half 2020, while Class B demand languishes with negative absorption (-357,000 sf) as tenants continue their flight to higher quality space.

CONSTRUCTION: One Renovation Delivers During Q2 2020

The Denver metro office market had no new ground-up developments deliver during the second quarter 2020, as all construction timelines were affected by the pandemic. One new adaptive re-use renovation project did deliver to the market during the second quarter 2020. 3060 Brighton, developed by Mass Equities and AECOM Capital, delivered 68,000 sf to the RiNo submarket during the second quarter 2020. This building delivered 100% preleased to VF Corp, which will house a portion of its Global Innovation Center.

One project broke ground during the second quarter 2020, bringing under construction totals up to approximately 2.0 msf; collectively 22% preleased at the end of the second quarter 2020. The one building that broke ground during the second quarter 2020 was 240 Saint Paul in Cherry Creek. This 75,000-sf development is being developed by BMC Investments and will contain 64,000 sf of office atop 11,000 sf of ground floor retail. Currently this building is already 92% preleased, showing the demand for new product in the affluent Cherry Creek neighborhood.

Two projects remained under renovation at the end of the second quarter 2020. The Link at 950 15th in the CBD and 777 Grant Street in the Non-CBD Midtown submarket are continuing their renovations and are expected to deliver over 290,000 sf during the winter and have had no preleasing activity at the end of the second quarter 2020.

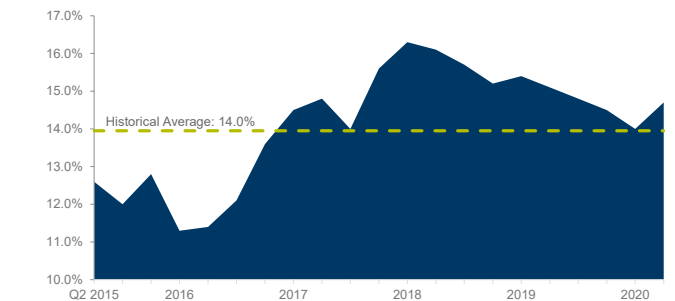
Outlook

- The vast majority of leasing activity for Q3 and Q4 will be short term lease extensions by tenants taking a "wait and see" attitude on both the market and their businesses.
- The several proposed speculative new office projects in RiNo and the CBD that were set to break this year will most likely remain on hold until 2021, meaning there will be a two year gap in new construction deliveries until late 2023, or beyond.
- Many tenants are concluding much earlier than anticipated that they can perform well enough in a work-from-home role to counter their applied needs by 10%-50% and in some instances, completely.

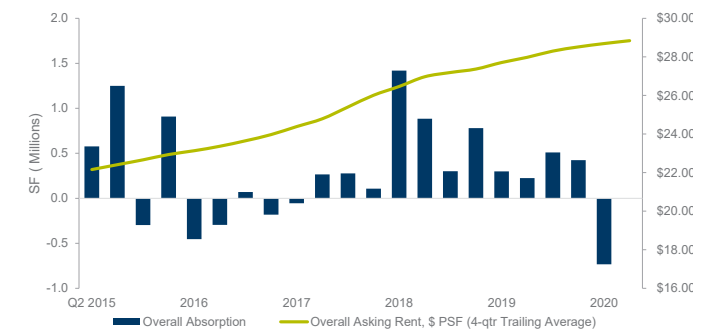
DENVER METRO SUBMARKET COMPARISON



DENVER METRO OVERALL VACANCY VS. HISTORICAL AVG.



DENVER METRO ABSORPTION VS. OVERALL ASKING RATE





MARKET STATISTICS

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	5,837,927	68,752	381,275	7.7%	-23,129	46,064	243,879	221,956	\$35.16	\$39.37
Midtown (Non-CBD)	3,728,136	25,892	476,744	13.5%	-56,393	-40,208	75,250	28,036	\$26.73	\$29.79
CBD	30,703,379	1,095,332	4,142,975	17.1%	-388,432	-235,006	659,491	1,114,690	\$37.74	\$42.06
RiNo	1,819,557	13,091	356,337	20.3%	-45,073	36,572	21,211	228,698	\$45.81	\$48.22
Aurora/Northeast	7,571,339	98,608	1,065,956	15.4%	-129,704	-78,805	160,549	0	\$20.86	\$24.25
Northwest	14,343,441	151,407	1,875,016	14.1%	149,989	142,520	275,631	0	\$26.57	\$29.56
Southeast Suburban	33,481,446	391,800	4,636,179	15.0%	-144,722	94,726	1,000,139	364,970	\$26.21	\$28.04
Southeast Central	11,019,991	68,340	1,330,422	12.7%	-76,234	-115,944	303,714	64,000	\$27.57	\$33.31
Southwest	9,561,045	117,137	1,061,885	12.3%	-18,908	14,399	159,149	0	\$21.47	\$24.96
Denver Totals	118,066,261	2,030,359	15,326,789	14.7%	-732,606	-135,682	2,899,013	2,022,350	\$29.09	\$33.07

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
10475 Park Meadows Drive (PakRidge One)	Southeast Suburban (Meridian)	Lockheed Martin	166,708	Sublease
349 Inverness Drive South (Parkside Office Plaza at Inverness)	Southeast Suburban (Inverness/Panorama)	Viasat	99,798	Renewal*
9th & Colorado	Southeast Central	NGL Energy Partners	48,415	New Lease
1700 Broadway	CBD (Uptown)	State of Colorado	45,778	Renewal*
2945 Wilderness Place	Boulder	SomaLogic	30,887	Renewal*

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	RSF	PRICE/ \$ PSF
3200 Cherry Creek Drive South (The Citadel)	Southeast Central	Amstar / Matador Equity Partners	130,652	\$44.0M / \$337

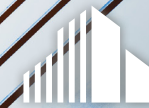
KEY CONSTRUCTION COMPLETIONS YTD 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
9th & Colorado	Colorado Blvd/Glendale	N/A	64,680	Continuum Partners

MARKETBEAT

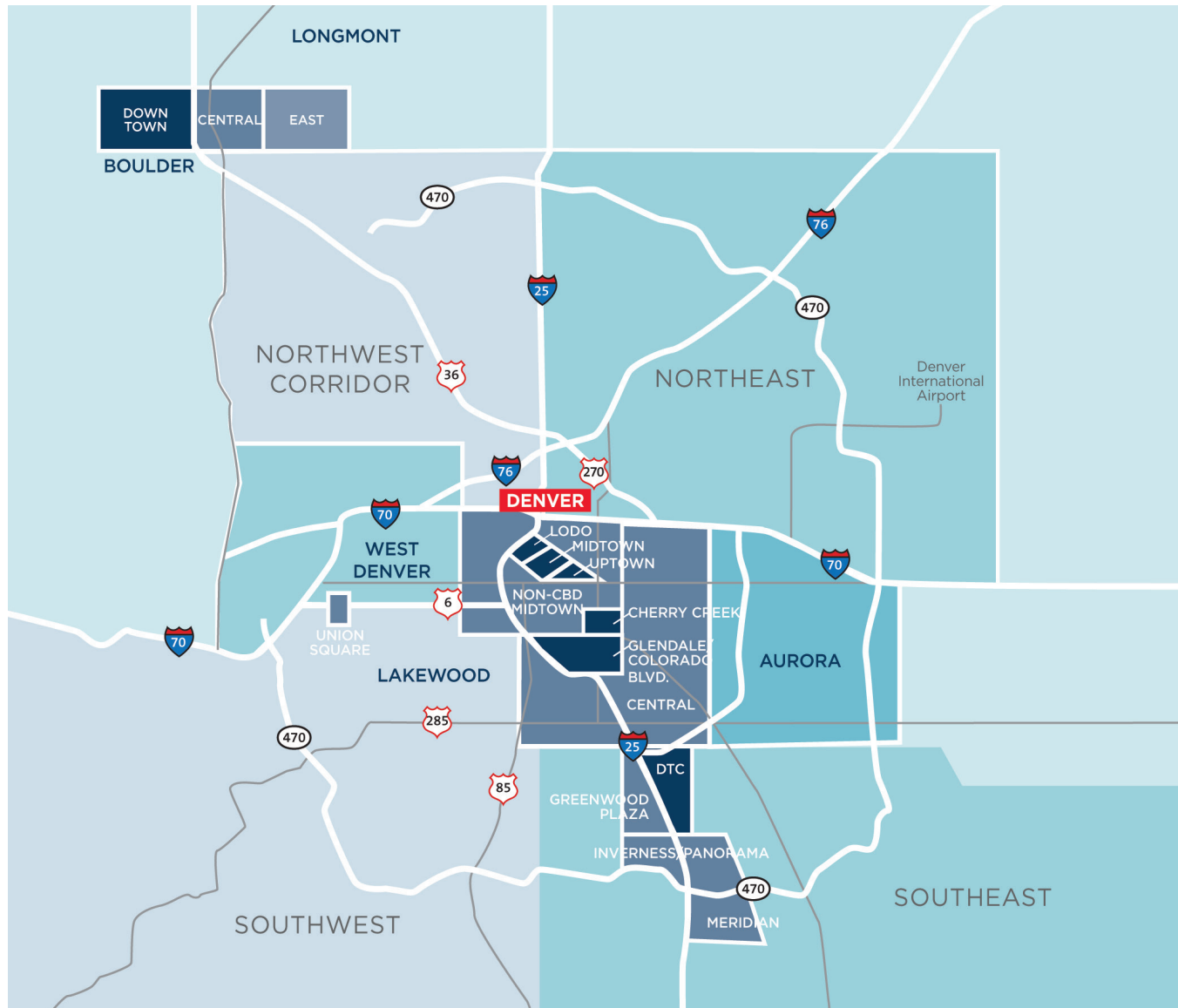
DENVER, COLORADO

Office Q2 2020



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