

MARKETBEAT DENVER

Medical Office Q2 2021



14.7%

Vacancy Rate

YoY
Chg



12-Mo.
Forecast



75,000

Net Absorption, SF



\$21.70

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2021

1.5M

Denver
Employment

YoY
Chg



12-Mo.
Forecast



6.4%

Denver
Unemployment Rate



5.9%

U.S.
Unemployment Rate



Source: BLS

ECONOMY: Unemployment Numbers See Large Year-Over-Year Decline

Unemployment in Denver's Metro economy decreased slightly from the first quarter 2021 to the second quarter 2021, dropping by 30 basis-points (bps) to 6.4%. Even more impressive is the progress Denver has made year-over-year (YoY), with the unemployment rate decreasing by 360 basis points since the second quarter 2020. As Denver continues to outpace the country in vaccination rates and more businesses begin to bring employees back into the office, Denver is well positioned to help lead the country on the road to recovery.

VACANCY: Direct and Overall Vacancy Rates Continue to Rise

Denver Metro's off-campus medical office building (MOB) market had a sizeable rise in overall vacancy rates of 90 bps quarter-over-quarter (QoQ), pushing the overall rates to 14.4%. Sublease vacancy remained unchanged, while direct rates rose 100 basis points QoQ, ending the second quarter 2021 at 14.2%.

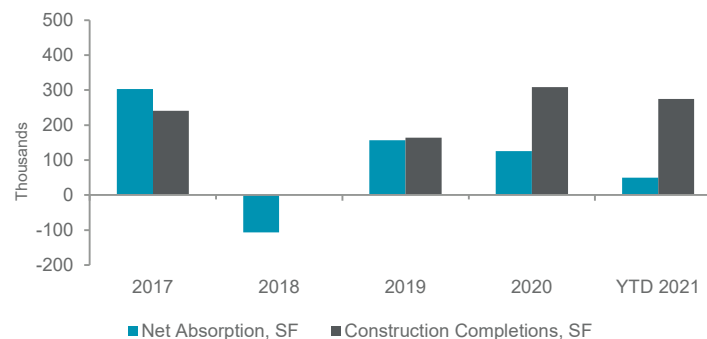
On-campus MOB's vacancy saw an even more significant increase in overall vacancy rates, increasing 240 bps to 15.0%. Nearly all of this rise in vacancy can be attributed to direct space, which had an increase of 230 bps QoQ to 13.6%. Sublease vacancy rates remained very low, increasing just 10 bps QoQ, to end the second quarter 2021 at 1.4%.

PRICING: Asking Rents Continue to Rise Slowly

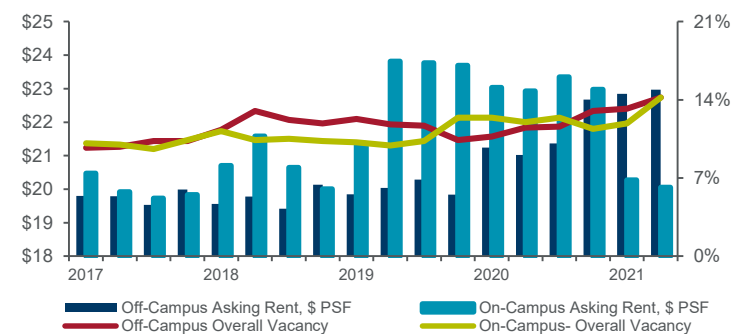
Overall triple-net (NNN) rental rates for off-campus saw a slight improvement in the second quarter 2021, increasing less than one percent QoQ to \$23.02 psf. While this was not a significant increase on a quarterly basis, overall asking rates have increased by an impressive 8.9% YoY.

On-campus MOB direct NNN rental rates closed the second quarter 2021 at \$22.20 psf. Overall NNN rental rates for on-campus MOB product rose slightly this quarter to \$21.37 psf. As new construction continues to be concentrated in the off-campus market, on-campus rental rates slightly trail those of off-campus buildings.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Activity: Off-Campus MOB Market Sees Increased Activity

The second quarter 2021 brought the off-campus market a large influx of leasing activity, increasing 64.2% from the first quarter 2021 to approximately 162,000 sf. The Northwest submarket was responsible for approximately 47% of this activity, posting 76,000 sf. On-campus leasing activity also improved drastically quarter-over quarter (QoQ) with approximately 62,000 sf of leases signed, after only one 3,760-square-foot deal completing in the first quarter 2021.

The most notable deal signed during the second quarter 2021 was a 43,034-square-foot renewal by The Urology Center of Colorado at 2777 Mile High Circle in West Denver. The second-most notable deal executed was United Urology's 26,000-square-foot lease at 10535 Park Meadows Boulevard in Lone Tree.

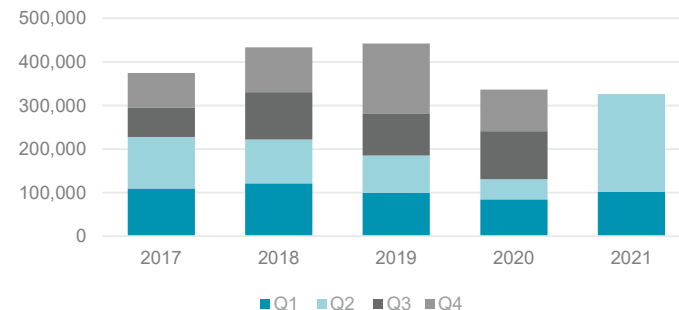
Absorption: Off-Campus Net Absorption Gains Momentum

Off-campus MOB product had a strong quarter, moving back into positive territory with approximately 88,000 sf of positive absorption in the second quarter 2021. This puts the overall off-campus net absorption at positive 85,000 sf year-to-date (YTD). On-campus net absorption remained negative this quarter, despite improving by approximately 17,000 sf QoQ to post negative 13,000 sf in the second quarter 2021.

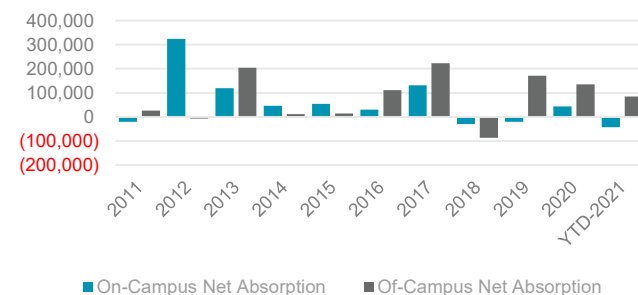
Construction: Three Buildings Deliver, Two Remain Under Construction

Three significant buildings totaling approximately 263,000 sf delivered in the second quarter 2021, one on-campus building and two off-campus buildings. The largest of these buildings is a 139,065-square-foot addition to the Boulevard 1, a large mixed-use project in the Lowry neighborhood within the Northeast Metro submarket.

LEASING ACTIVITY ON & OFF-CAMPUS (METRO DENVER)



ON-CAMPUS VS. OFF-CAMPUS NET ABSORPTION



Outlook

- Leasing activity in the Denver metro market remains stable, especially with independent groups in the off-campus submarkets. This activity is expected to continue through the rest of 2021.
- Forward progress with House Bill 1232 poses new challenges for MOB landlords and tenants. The bill will require the healthcare industry to reduce health insurance premiums substantially. As this affects the operations of the healthcare industry, we anticipate tenants will migrate to lower cost MOB's.
- Mental health, behavioral health, and developmental health groups are currently the demand leaders for space in the market both locally and nationally. More traditional office landlords are catering to these types of groups.



FRONT RANGE MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*
Metro Denver On-Campus	4,277,313	59,635	581,828	15.0%	-13,092	-42,561	65,893	0	\$21.37
Southeast Metro Off-Campus	1,103,302	4,586	114,740	10.8%	8,721	12,477	49,321	30,000	\$23.05
Southwest Metro Off-Campus	609,454	1,473	114,736	19.1%	-10,562	-16,378	7,207	0	\$23.88
Northeast Metro Off-Campus	1,329,462	0	205,282	15.4%	130,488	141,637	80,536	0	\$25.31
Northwest Metro Off-Campus	1,120,963	3,907	161,515	14.8%	-15,377	-41,147	83,516	0	\$20.87
North Suburban Off-Campus	921,070	0	132,757	14.4%	-24,376	-13,173	9,390	0	\$21.93
South Suburban Off-Campus	256,217	2,732	27,149	11.7%	-1,070	1,494	10,978	13,500	\$22.25
Metro Denver Off-Campus Totals	5,340,468	12,698	756,179	14.4%	87,824	84,910	260,389	43,500	\$23.02
Colorado Springs	2,223,418	4,488	238,545	10.9%	22,571	12,497	102,312	0	\$16.51
Boulder	861,567	0	34,284	4.0%	12,072	21,137	19,533	0	\$19.01
Northern Colorado	1,518,602	0	242,000	15.9%	-22,130	-24,721	8,033	86,000	\$17.30
FRONT RANGE TOTALS	14,221,368	76,821	1,852,836	13.6%	87,245	51,262	436,719	129,500	\$20.89

KEY LEASE TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
2777 Mile High Stadium Circle	Northwest Metro	The Urology Center of Colorado	43,034	Renewal
10535 Park Meadows Boulevard	On-Campus	United Urology	26,000	New Lease
630 Plaza Drive	Southwest Metro	Arcadis	13,863	New Lease
130 Rampart Way	Northeast Metro	Undisclosed	11,382	New Lease

KEY SALES TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
16601 East Centretech Parkway	Northwest Metro	Kaiser Foundation Health Plan / Holly Park Developer	99,053	\$3.7M/\$38
10535 Park Meadows Boulevard	On-Campus	National Healthcare Development / Healthpeak Properties	80,000	\$38.0M/\$475
11111 East Mississippi Avenue	Northeast Metro	Betzalel Getzel / Andrew Feinstein	46,604	\$4.0M/\$85
11175 East Mississippi Avenue	Northeast Metro	Kenneth Gross / RMTN Properties	18,492	\$2.8M/\$128

KEY CONSTRUCTION COMPLETIONS YTD 2021

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
Boulevard 1	Northeast Metro	N/A	139,065	Confluent Development
500 East Hampden Avenue	On-Campus	N/A	104,000	Hill Companies

DENVER

Medical Office Q2 2021



MEDICAL OFFICE SUBMARKETS

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