

MARKETBEAT

SES Denver, Colorado

Office Q3 2018



DENVER OFFICE

Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Denver Employment	1.46M	1.51M	▲
Denver Unemployment	2.8%	2.7%	▼
U.S. Unemployment	4.4%	3.9%	▼

Market Indicators (SES, All Classes)

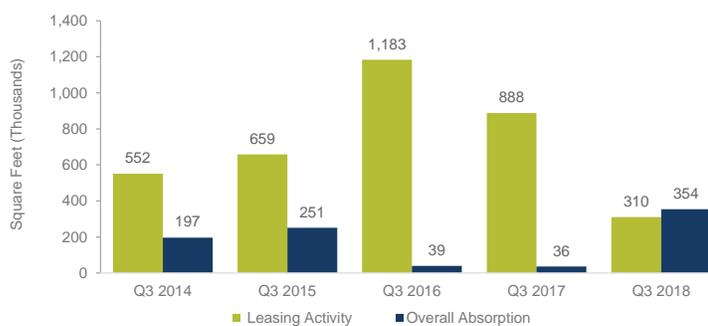
	Q3 17	Q3 18	12-Month Forecast
Overall Vacancy	16.4%	15.6%	▲
Overall Net Absorption	36k	807k	▼
Under Construction	899k	543k	▼
Overall Average Asking Rent	\$25.27	\$25.23	▲

*Rental Rates reflect gross asking \$psf/year

DIRECT RENTAL RATES VS. VACANCY RATES



OVERALL LEASING ACTIVITY AND NET ABSORPTION



Vacancy and Rental Rates

Direct vacancy in the Southeast Suburban (SES) submarket continued its downward trend through the third quarter 2018, decreasing 60 basis-points (bps) to 14.2%. This decrease is partially due to Performance Food Group occupying previously leased space during the quarter at 188 Inverness, as well as the organic growth occurring throughout the submarket. Overall vacancy followed the trend, decreasing 90 bps to 15.6% during the third quarter 2018. The Meridian micro-market recorded the largest quarter-over-quarter change with overall vacancy increasing 1000 bps, to 20.7%. This large increase is largely attributed to Western Union vacating its two-building 391,000 square foot (sf) campus at 12500 and 12510 Belford Avenue.

Direct gross rental rates remained relatively flat during the third quarter 2018, decreasing \$0.13 per square foot (psf) to \$25.58 psf. Overall rental rates exhibited a similar decrease quarter-over-quarter, decreasing \$0.20 psf to \$25.23 psf. Class A product was the only class to report a decrease in rental rates, decreasing 1.9% to \$27.23 during the third quarter 2018. This decrease can be attributed to tenant demand for high-quality, Class A space that has left primarily lower-caliber Class A space available in the market.

Leasing Activity

Leasing activity was less robust compared to the second quarter 2018, with just shy of 310,000 sf transacted during the third quarter 2018. The most notable lease for the quarter was Lockton Companies' 135,000 sf renewal and expansion at 8110 E Union Avenue. Two other notable leases during the third quarter 2018 included Aimco's 48,000 sf renewal at 4852 S Ulster Street and Zoom Video's 31,000 sf expansion at 7601 Technology Way, taking space from Jackson National Life on a sublease basis. Net absorption continued to trend positively, with approximately +354,000 sf absorbed during the third quarter 2018. At the end of the third quarter 2018, year-to-date net absorption had eclipsed +764,000 sf, representing a large increase from the approximately +106,000 sf absorbed during the first three quarters of 2017.

Construction

One DTC West represented the lone delivery in the SES submarket during the third quarter 2018. This 72,000 sf Class A development delivered at approximately 95% leased. Currently the SES submarket has approximately 543,000 sf under construction. One development broke ground in the SES submarket during the third quarter 2018. 6900 Layton will bring a new 382,000 sf Class A development to the 42-acre Belleview Station transit-oriented development site. Once completed, this building will become the new 144,000 sf global headquarters of Newmont Mining, and is slated to deliver during the second quarter 2020. The other development currently under construction is 50 Fifty DTC. This 179,000 sf Class A development is set to deliver during the fourth quarter 2018 and is currently 0% preleased.

Outlook

The SES submarket's healthy trajectory will continue as it benefits from organic growth and limited new supply. As this growth continues and companies continue to expand their footprints, net absorption should remain positive, albeit at a much lower figure compared to the previous two quarters. Rental rates will continue to grow at a modest pace, almost exclusively by way of new construction delivering during the fourth quarter 2018. The SES submarket will benefit from the lack of large block availabilities in the CBD, with nine blocks of second generation space over 100,000 sf currently available in the SES submarket.