

MARKETBEAT

Denver CBD, Colorado

Office Q4 2018



DENVER OFFICE

Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
Denver Employment	1.48M	1.51M	▲
Denver Unemployment	2.9%	3.1%	■
U.S. Unemployment	4.1%	3.7%	▼

Market Indicators (CBD, All Classes)

	Q4 17	Q4 18	12-Month Forecast
Vacancy	16.2%	18.2%	■
Net Absorption (sf)	119k	198k	▲
Under Construction (sf)	1.4M	1.1M	▼
Average Asking Rent*	\$33.51	\$35.88	▲

*Rental Rates reflect gross asking \$psf/year

Vacancy and Rental Rates

The Central Business District's (CBD) overall vacancy rate increased 50 basis-points (bps) quarter-over-quarter, ending 2018 at 18.2%. This increase was largely due to Gates vacating 1551 Wewatta, Alterra vacating 18th Street and Chipotle vacating multiple locations in LoDo. Although approximately 344,000 square feet (sf) have been backfilled, they have not yet been occupied. Direct vacancy followed suit increasing 50 bps to 16.3% from the third to the fourth quarter 2018. Year-over-year vacancy increased 200 bps, from 14.3% on a direct basis, one year ago. The overall availability rate, an indicator that accounts for all available space, whether vacant or occupied, decreased 70 bps quarter-over-quarter to 16.7%.

Direct rental rates increased by approximately 1.0% quarter-over-quarter, closing out 2018 at \$35.76 per square foot (psf). Year-over-year rate growth has been robust, increasing roughly 4.4% from when direct rental rates were \$34.29 psf at the end of 2017. Growth has continued to trend upward as new construction delivers and real estate taxes continue to increase at a rapid clip.

Leasing Activity

During the fourth quarter 2018, leasing activity was just shy of 674,000 sf, a large decrease from the over 1.1 million square feet (msf) leased during the third quarter 2018. Even with this decrease in leasing activity quarter-over-quarter, 2018 was a historic year for the CBD with just shy of 3.4 msf of activity. This record-setting year was largely attributed to WeWork's continued growth within the CBD, VF Corporation's headquarter relocation from North Carolina and the organic growth that has occurred throughout 2018. The CBD recorded seven of the metro's ten largest leases for the fourth quarter 2018, including Anadarko's 296,000 sf renewal at 1099 18th Street, BOK Financial's consolidation and expansion of 139,000 sf at Colorado State Bank Building and the IRS's 125,000 sf downsize and renewal at 1999 Broadway. Net absorption remained positive for the eighth consecutive quarter with just north of +198,000 sf absorbed. 2018 net absorption was at a historic high in the CBD with approximately +671,000 sf absorbed, the highest metric since 2010.

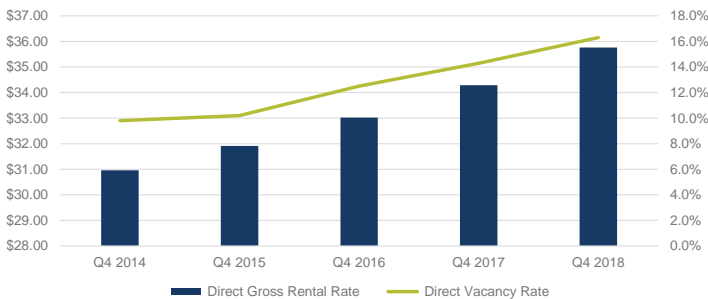
Construction

One project delivered 428,000 sf to the CBD during the fourth quarter 2018. 16 Chestnut delivered in the LoDo/Central Platte Valley micro-market and was 100% preleased to DaVita and Slack Technologies, with occupancy for both expected during the first quarter 2019. The lone project that broke ground during the fourth quarter 2018 was the Rockies West lot, located at 1901 Wazee. This large-scale mixed-use project will encompass approximately 211,000 sf of office along with apartments, retail, a hotel and the Rockies Hall of Fame event space, for a total of roughly 828,000 sf of development. Currently the CBD has just over 1.1 msf of speculative office development, which was collectively 0% preleased at the end of 2018.

Outlook

The CBD continues to be the epicenter of office activity in the Denver metro area. With a strong 2018 in the books, the CBD is expected to continue its momentum into 2019. Rental rate growth is expected to continue, largely due to rising real estate taxes and new construction deliveries, especially if these building deliver with strong preleasing. Net absorption should continue to trend positively during 2019, after coming off a big year for leasing activity, as these tenants start to occupy leased space. With the lack of available product continuing to hinder the market and the low rollover year in 2019, expect leasing activity to decrease.

DIRECT RENTAL RATES VS. VACANCY RATES



OVERALL LEASING ACTIVITY AND NET ABSORPTION

