

MARKETBEAT

Denver, Colorado

Office Q4 2018



DENVER OFFICE

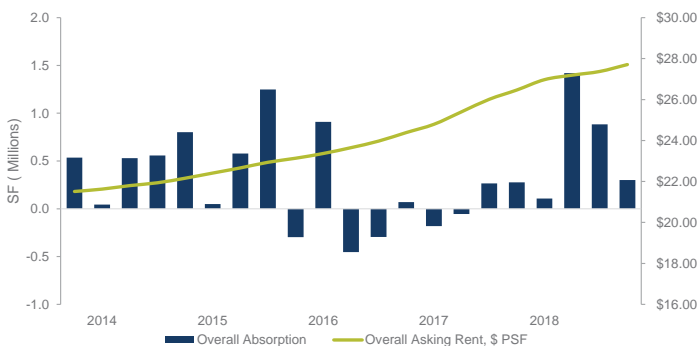
Economic Indicators

	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%	▼

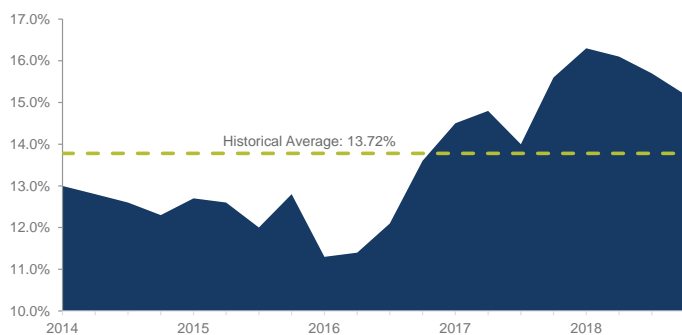
Market Indicators (Overall, All Classes)

	Q4 17	Q4 18	12-Month Forecast
Overall Vacancy	15.6%	15.2%	■
Net Absorption	266k	301k	■
Under Construction	3.2M	2.1M	▼
Average Overall Asking Rent	\$26.86	\$28.21	▲

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



Overall Vacancy



Economic Overview

Denver's unemployment rate of 3.1% continues to outpace the national average of 3.7%. As the national economy continues to fire on all cylinders, Denver's economy has continued to perform well. With recent stock market volatility, the Fed raising rates by another quarter point, trade tensions between China and the United States and a slowing international economy, all eyes will be on the first half of 2019. As for Denver, the same volatility leads to some uncertainty. However all indicators point to a very good start in 2019.

Market Overview

Overall vacancy has continued to contract throughout 2018 in Denver's office market, closing out the fourth quarter at 15.2%. This represents a 50 basis point (bps) decrease since the third quarter and a 40 bps decrease year-over-year, when overall vacancy was 15.6%. Direct vacancy followed suit, down 50 bps from the third quarter 2018 to 13.9%, while decreasing 30 bps from 14.2% one year ago. This decrease in vacancy indicates the health of Denver's market and was largely driven by expansions throughout the metro area such as DaVita's 340,000 square foot (sf) lease at the newly constructed 16 Chestnut in the Central Business District (CBD). Although signs of a slowdown are beginning to appear, the market is being driven by the CBD, which continues to see the bulk of activity in the metro area.

Net absorption remained positive for the seventh consecutive quarter with just south of +301,000 sf of absorption. 2018 exhibited one of the most robust periods during this expansion cycle, with approximately +2.7 million square feet (msf) of net absorption metro-wide, representing the first year since 2015 that metro-wide absorption eclipsed +1.0 msf and the first time since 2010 that net absorption surpassed +2.0 msf. This positive absorption is coming from multiple industries, with the largest contributors being technology, real estate, financial and business services. Denver's economy continues to attract new companies, while existing tenants expand. Coworking giant WeWork leased over 514,000 sf around the metro area during 2018 and could soon become the largest occupier in the CBD, as it continues to take down large blocks of space at a rapid clip.

Leasing activity was down from the roughly 2.5 msf leased during the third quarter to approximately 2.0 msf leased during the fourth quarter 2018. The urban core stole headlines for leasing activity during the fourth quarter 2018 with approximately 907,000 sf leased, representing 45% of the total leasing activity in the region and nine of the ten largest deals for the quarter,

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further solidifying the strength of the Urban Core. The most noteworthy lease that occurred during the fourth quarter 2018 was Anadarko's 296,000 sf renewal at 1099 18th Street. The second largest lease signed for the quarter was Raytheon's 175,000 sf renewal at its campus in Aurora (16430 & 16470 Hughes). The third largest lease was BOK Financial's 139,000 sf expansion and renewal at Colorado State Bank Building (1600 Broadway), in which they will consolidate multiple locations. For the fourth consecutive quarter, WeWork continued to dominate leasing headlines around the metro area, executing three new leases around the Urban Core at 821 17th Street, 1615 Platte Street and 3600 Brighton Boulevard for a total of approximately 163,000 sf. Throughout 2018, the metro area recorded just shy of 10.0 msf of activity, representing a large increase over the approximately 7.8 msf leased throughout 2017. Leasing activity should slow in 2019, largely due to less new construction and a low lease rollover year.

Metro-wide overall gross rental rates increased approximately 1.8% from the third to fourth quarter 2018, ending 2018 at \$28.21 per square foot (psf). Direct rental rates also recorded a moderate increase of 1.7% quarter-over-quarter, to \$28.25 psf. This increase in rental rate is partially attributed to new product coming online fully vacant, as well as demand continuing to outpace supply. The Boulder submarket recorded the largest increase of all submarkets quarter-over-quarter, increasing roughly 4.1% to \$34.56 psf. This increase was largely attributed to the Downtown Boulder micro-market, which increased to \$43.44 psf (1.5%) quarter-over-quarter, largely due to the lack of supply in Boulder as its direct vacancy of 10.6% is the lowest of any submarket in the Denver metro area. Both Class A and Class B direct gross rental rates increased quarter-over-quarter growing approximately 1.0% (\$32.04 psf) and 2.8% (\$24.93 psf), respectively. Direct gross rental rates metro-wide continue to provide strong year-over-year growth, increasing 4.2% from \$27.10 psf one year ago. This is much lower than the 6.1% average annual direct gross rental rate growth exhibited in the prior three years, reflecting a more sustainable growth rate. Gross rental rate growth will continue throughout 2019 as new construction delivers and real estate taxes continue to rise, driven by increasing assessment values.

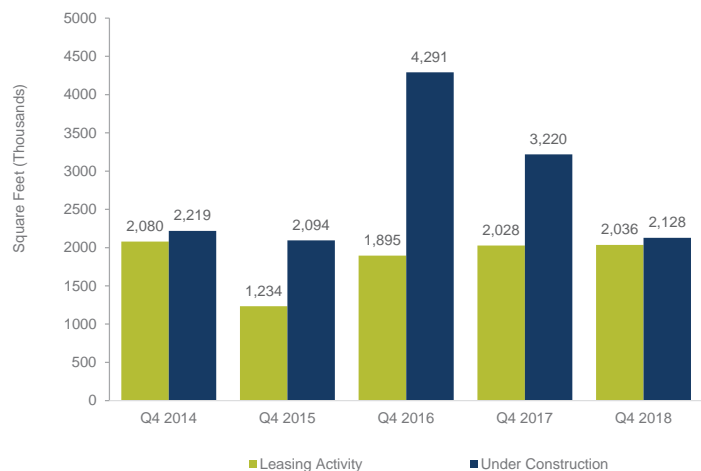
Denver's office market had two buildings deliver during the fourth quarter 2018; 16 Chestnut and 50 Fifty Syracuse which delivered over 607,000 sf to the CBD and the Southeast Suburban (SES) submarkets, respectively. These buildings tell

a tale of two submarkets, with 16 Chestnut delivering 100% preleased and 50 Fifty Syracuse delivering with no preleasing activity. Three new projects broke ground during the fourth quarter 2018 for a total of approximately 266,000 sf of rentable office product. The most notable project that broke ground during the quarter was the Rockies West lot. This large-scale, mixed-use project, will be home to the Rockies Hall of Fame and include event space, multi-family, retail, hospitality and roughly 211,000 sf of office on one square block at 19th and Wazee Streets. Currently the market has just north of 2.1 msf under construction, 630,000 sf of which is expected to deliver during 2019.

Outlook

- **Coworking/collaborative office users will not slow down their absorption of new space, with suburban markets their new focus.**
- **Pricing for new construction is at a point where very few projects are financially viable related to net rents and will result in no more than two to five new speculative buildings breaking ground around Metro Denver in 2019.**
- **Very good availability combined with competitive rental rates, should shift more 2019 leasing activity to suburban markets.**
- **Increasing traffic congestion, commute times for employees, rising monthly parking costs and public transit access will become top talking points among tenants in 2019.**

Leasing Activity / Under Construction



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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	5,759,973	139,743	608,303	13.0%	19,985	209,794	693,240	42,029	\$32.91	\$39.92
Midtown (Non-CBD)	4,846,730	37,786	553,641	12.2%	80,050	403,632	571,566	338,420	\$30.75	\$32.57
CBD	30,028,213	581,261	4,890,977	18.2%	198,308	670,611	3,371,244	1,108,246	\$35.88	\$39.71
Northeast/Aurora	7,616,205	43,627	841,481	11.6%	-3,586	63,950	387,315	0	\$19.36	\$24.71
Northwest	14,656,852	65,600	1,921,809	13.6%	35,521	225,358	956,931	0	\$25.25	\$27.16
Southeast Suburban	33,642,091	440,429	4,669,598	15.2%	-39,757	847,030	2,321,290	363,428	\$25.32	\$27.09
Southeast Central	11,101,290	141,392	1,705,794	16.6%	15,945	149,127	1,106,882	247,386	\$26.78	\$32.57
Southwest	9,810,078	102,265	1,129,465	12.6%	-5,671	144,228	585,135	28,377	\$21.07	\$24.48
Denver Totals	117,461,432	1,552,103	16,321,068	15.2%	300,795	2,713,730	9,993,603	2,127,886	\$28.21	\$31.89

*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	60,765,417	977,714	8,833,026	16.1%	383,424	2,423,698	6,118,235	2,023,197	\$32.04	\$31.89
Class B	45,302,272	534,317	6,257,285	15.0%	-37,610	303,202	3,140,498	104,689	\$24.93	\$24.87
Class C	11,375,743	40,072	1,230,757	11.2%	-45,019	-13,170	734,870	0	\$22.59	\$22.56

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

Significant Construction Activity Q4 2018

PROJECT	SF	DEVELOPER	COMPLETION DATE	SUBMARKET
675 15th Street (Block 162)	595,000	Patrinely Group	Q4 2020	CBD
6900 Layton Avenue	381,732	Prime West/Partners Group	Q2 2020	Southeast Suburban
3601 Walnut Street (The HUB)	250,243	Beacon Capital	Q1 2019	Non-CBD Midtown
1901 Wazee (Rockies West Lot)	210,900	Colorado Rockies	Q1 2021	CBD
2375 15th Street (Platte 15)	156,915	Crescent Real Estate/Goff Capital	Q4 2019	CBD

Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1099 18th Street	295,743	Anadarko	Renewal	CBD
16430 & 16740 Hughes Drive	174,515	Raytheon	Renewal	Aurora
1600 Broadway (Colorado State Bank Building)	138,675	BOK Financial	Expansion/Renewal	CBD
1999 Broadway	125,000	IRS	Renewal	CBD
1515 Wynkoop Street	97,000	Amazon	New Lease	CBD

Key Sale Transactions Q4 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Denver West Office Portfolio	1,242,815	Highbrook/DPC & Bridge Commercial	\$143,750,000 / \$116	West Denver
950 17th Street (US Bank Building)	531,608	Ivanhoe Cambridge/Hines & Samsung SRA	\$194,227,500 / \$365	CBD
1775 Sherman Street & 1776 Lincoln Street (Denver Financial Center)	438,461	USAA Real Estate/Lincoln Property Company	\$95,000,000 / \$217	CBD
1601 Wewatta Street	299,545	Hines & JP Morgan Chase/Morgan Stanley	\$222,262,390 / \$742	CBD

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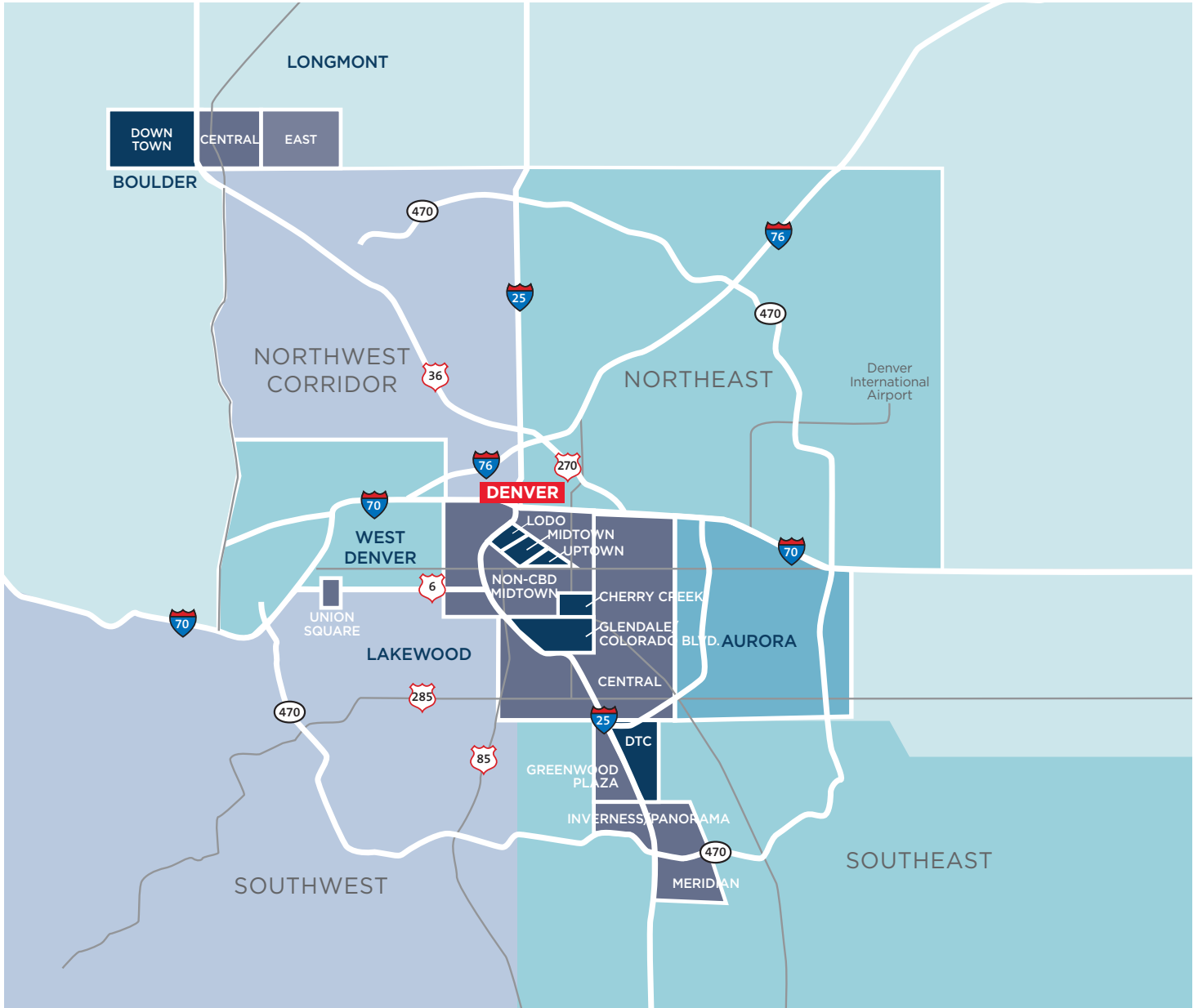
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OFFICE SUBMARKETS

METRO DENVER / ADAMS, ARAPAHOE, BOULDER, BROOMFIELD, DENVER, DOUGLAS, ELBERT AND JEFFERSON COUNTIES



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