

MARKETBEAT

SES 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 (SES, All Classes)

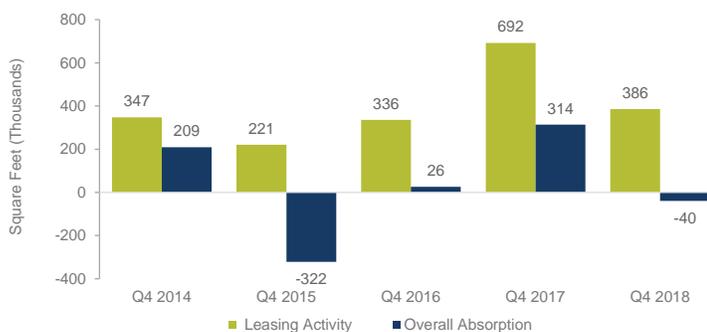
	Q4 17	Q4 18	12-Month Forecast
Overall Vacancy	16.3%	15.2%	■
Overall Net Absorption	314k	-40k	▲
Under Construction	774k	363k	■
Overall Average Asking Rent	\$25.33	\$25.32	■

*Rental Rates reflect gross asking \$psf/year

DIRECT RENTAL RATES VS. VACANCY RATES



OVERALL LEASING ACTIVITY AND NET ABSORPTION



Vacancy and Rental Rates

The Southeast Suburban (SES) submarket closed out 2018 with an overall vacancy rate of 15.2%, representing a 110 basis-point (bps) decrease year-over-year from 16.3% to close 2017. Direct vacancy also recorded a decrease year-over-year, contracting 80 bps to 13.9%. Another indicator worth noting is the availability rate, which excludes leased vacant space, but includes all vacant and occupied space that is being marketed for lease. The overall availability rate has continued to increase over the past five quarters, increasing 350 bps year-over-year, to 21.2% at the end of the fourth quarter 2018, which is largely concentrated in the Meridian submarket.

Overall and direct gross rental rates both recorded marginal increases of approximately 0.3% quarter-over-quarter to \$25.32 per square foot (psf) and \$25.65 psf, respectively. Rental rates have stabilized, apparent in the negligible year-over-year rental rate growth. At the end of 2017, the SES submarket recorded an overall gross rental rate of \$25.33 psf, while direct gross rental rates closed out 2017 at \$25.67 psf.

Leasing Activity

Leasing activity was less robust compared to the third quarter 2018, with just shy of 386,000 square feet (sf) leased during the fourth quarter 2018. Year-end leasing activity for 2018 was substantially lower than 2017, with approximately 2.3 million square feet (msf) leased, compared to the roughly 3.4 msf leased in the SES submarket during 2017. The most noteworthy lease for the fourth quarter 2018 was Newmont Mining's 37,000 sf expansion at 6900 Layton. Other notable leases include TIBCO's 30,000 sf renewal at High Pointe and CACI's new 28,000 sf lease at Denver Corporate Center II. Net absorption was negative during the fourth quarter 2018 with approximately -40,000 sf absorbed. Even with the negative absorption that occurred during the fourth quarter, 2018 provided some of the strongest positive net absorption in recent memory, recording approximately +847,000 sf of absorption. This was vastly due to Charter Communications' phasing into Granite at Village Center Station and their 306,000 sf build-to-suit at Spectrum Plaza.

Construction

One building delivered in the SES Submarket during the fourth quarter 2018. 50 Fifty Syracuse delivered roughly 179,000 sf to the Denver Tech Center micro-market and opened with 0% preleasing. During 2018, the SES submarket had four projects deliver, bringing approximately 774,000 sf of new product to the submarket, which was collectively 66% leased at the end of 2018. One project, 6900 Layton, is currently under construction and is slated to deliver approximately 363,000 sf of rentable office space in the second quarter 2020, and is already 48% preleased.

Outlook

The SES submarket has continued to stabilize, which should continue throughout 2019. With 2019 being a low rollover year, leasing activity will remain low compared to the 3.0 msf of average leasing activity exhibited in the prior five years, but expect leasing activity to increase from 2018 totals, the lowest figure since 2009. Rental rate growth has stalled and with only one new project under construction, expect rental rates growth to be marginal at best.