

Quick Stats

18,900

Net employment increase through February, up 2.6% year-over-year**

2.5%

Unemployment in Denver as of February 2020, 100 basis points below the national average**

2,834,373

Square feet now under construction, with 39% pre-leased.

10.5%

The Denver office vacancy rate, up 20 basis points from fourth quarter of 2019.

**data reflecting COVID-19-related unemployment /net employment figures not yet available

First Quarter 2020 / Office Research Report

Denver

Market Overview

Despite the COVID-19 pandemic, whose unprecedented disruption has affected nearly every industry in both the Denver and the greater United States, the first quarter of 2020 in Denver saw sustained positive fundamentals from the office sector, continuing the trend of “growing but slowing” which dominated much of 2019. Though rental rate growth, net absorption, and leasing activity all slowed in the first quarter, the office market showed few signs of contraction prior to the implementation of shelter-in-place initiatives in response to COVID-19.

Vacancy & Availability

Denver office vacancy remained fairly steady in the beginning of 2020, rising only 20 basis points (bps) from the end of 2019 to conclude the first quarter at 10.5%. Though this figure represented a slight up-tick from the previous quarter, year-over-year the vacancy rate has remained flat, suggesting relative market stability over the last five quarters. A 50-bps decline in vacancy in the CBD/LoDo/Platte Valley submarket and a 10-bps decline in the Southeast both helped to keep the vacancy rate stable, despite up-ticks in the Aurora, Northwest,

Southwest, and West submarkets. With a number of speculative projects due to deliver in the second quarter and a great deal of uncertainty surrounding COVID-19's impact on the leasing pipeline, it's possible the vacancy rate may trend upward as 2020 progresses.

Asking Rates

Rental rate growth, though considerably less steep than in previous years, continued into the first quarter of 2020, with the weighted full-service gross (FSG) average rising 1% over the previous quarter to end at \$29.19 per square foot (psf). While some experts predicted a softening of suburban rental rates in 2020, eight of the twelve submarkets recorded positive rental growth in the first quarter. Unsurprisingly, the CBD/LoDo/Platte Valley submarket experienced the largest gain, with the FSG average rate climbing from \$35.05 psf to \$36.68 psf, a nearly 5% gain.

Denver has continued to reap the rewards of a competitive labor market as an increasing number of companies vie for millennial talent by leasing space in the urban core. The announcements of more corporate relocations to the market continued late

into 2019, seeming to suggest that there still might have been room for rent growth in the market. However, given the present disruption to local and global economies, it is a trend which is increasingly unlikely to persist into the next several quarters.



Absorption & Leasing Activity

Net absorption remained positive in the first three months of 2020, ending the quarter at 240,334 square feet (sf). This represented a slight drop-off from the fourth quarter of 2019. As concerns over the long-term effects of COVID-19 mount,

there is a possibility of delayed move-ins or reduced square footages in the coming quarters for already-signed deals. Big move-ins like Croc's 88,293-sf lease at 13601 Via Varra Way in Broomfield helped absorption trend positive, though several large move-outs in the Southeast resulted in negative 80,846 sf of absorption for the market's largest submarket. The Southeast continues to seek balance as tenant migration trends towards the city center, leaving large blocks of space in the Denver Tech Center and adjacent micromarkets vacant. With personnel cuts and hiring freezes due to COVID-19, the market may see a further drop in absorption later in the year.

Construction & Deliveries

Despite a robust pipeline, completions were fairly light in the first quarter of 2020, with only two buildings totaling 86,086 sf delivering during the quarter. Despite a ground-breaking ceremony in February, Hines delayed construction on their new 250,000-sf project at 3500



Blake Street due to COVID-19 related safety concerns. Work did begin on what was previously the CenturyLink headquarters at 930 15th Street in the CBD, which will undergo a massive renovation, including the addition of a glass curtain facade and new amenities. When completed, the building—whose new address will be 1490 Curtis Street—is expected to compete as new construction on rental rates. Elsewhere in the CBD, construction continues on the 595,000-sf speculative project at 675 15th Street. Though the building is not due to deliver until fourth quarter 2020, pre-leasing could be stymied by the current market disruption.

Capital Markets

After a modest fourth quarter in 2019 which recorded \$404 million in investment sales, there were just over \$1 billion in sales in the first quarter of 2020. In February, Brookfield Properties purchased Denver City Center, which includes 707 and 717 17th Street and totals 1,226,205 sf, for \$400 million. Valued at \$195 million and \$205 million, the buildings respectively sold for \$354 psf and \$307 psf. Beacon Capital Partners bought One Tabor Center at 1200 17th Street and an adjacent land site from Ivanhoe for \$400 million, or \$570 psf for the building. In continuation of their purchasing streak in 2019, Terracap Management bought another two-building, 313,959-sf portfolio located at 600-650 S. Cherry Street for \$54.6 million, or \$174 psf. Concerns over the long-term effects of COVID-19 will likely impact investment sales volume, though a low federal interest rate and a strategic repositioning could spell opportunities for investors looking to acquire well-positioned assets, potentially at below-market value.



Trends to Watch



- With the on-going safety measures instituted amidst the COVID-19 pandemic, it's possible there will be a shift in how companies and landlords lease office space going forward. While the emphasis has traditionally been on "density and efficiency", newly emerging health initiatives may shift the emphasis to safety and wellness, possibly prompting companies to reconfigure or expand their office square footage in order to lower employee density.

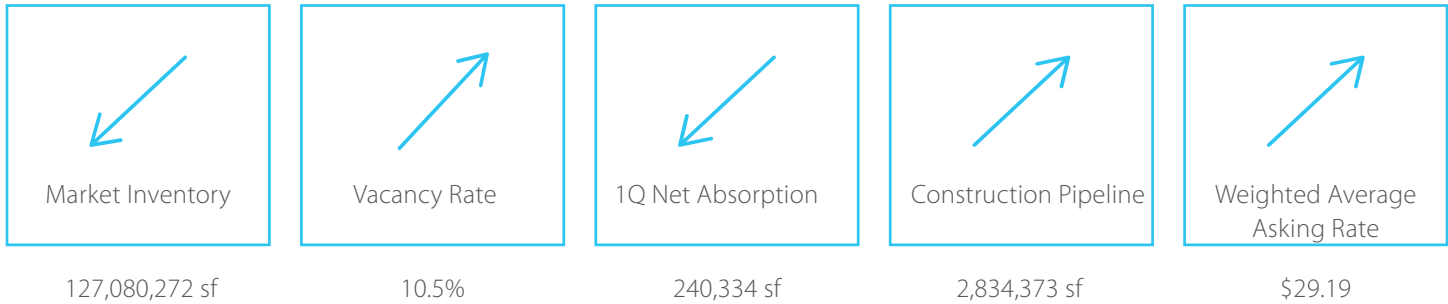


- Between a drop in oil prices due to Saudi Arabia's price war with Russia and dramatically lessened demand as a result of world-wide stay-at-home directives, oil and gas companies are struggling to pick up the pieces. With the oil & gas industry accounting for nearly 20% of the office space in the CBD, it's possible that Denver could see a rise in sublease space as energy companies look to realign.



- Co-working and "creative workspaces" have grown from a trend to a paradigm shift in Denver. While the co-working model will now have to contend with the growing priorities of sanitation and safe distancing in the workplace, its flexible model could prove attractive to companies looking to stay agile in an uncertain environment. With so many tech companies into the market, Denver will likely see the co-working model playing a pivotal role in the post-COVID-19 office leasing landscape.

Office Market Snapshot

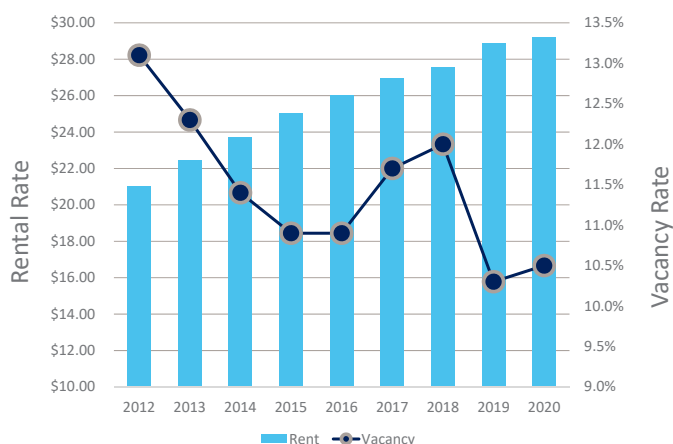


1Q2020 Market Stats

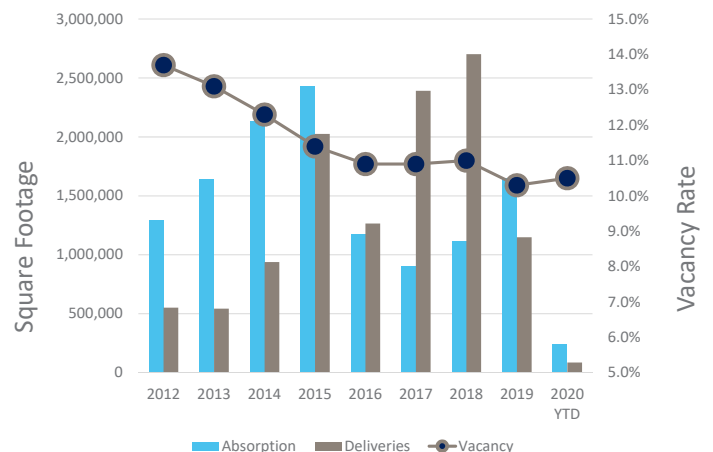
Submarket	# of Buildings	Inventory sf	Vacant sf	Vacancy %	YTD Net Absorption	YTD Leasing Activity (sf)	Delivered YTD	Under Construction	Total Office Pre-Leased (sf)	Average Asking Rent (Weighted)
Aurora	73	5,297,088	526,328	9.9%	(23,557)	12,170	-	0	0	\$19.95
Broomfield	45	5,935,753	534,536	9.0%	46,605	24,190	-	0	0	\$27.05
CBD/LoDo/Platte Valley	214	37,125,911	4,246,537	11.4%	78,519	391,184	-	1,783,042	387,690	\$36.68
Colorado Blvd/Glendale	116	10,373,483	1,148,295	11.1%	(11,229)	98,622	64,680	163,065	43,778	\$28.86
Midtown	74	4,190,487	321,380	7.7%	1,829	40,021	-	0	0	\$28.76
North Denver	30	2,362,157	236,948	10.0%	(11,147)	15,852	-	0	0	\$23.72
Northeast	35	2,871,541	128,304	4.5%	5,114	26,290	-	0	0	\$21.93
Northwest Denver	71	3,866,026	391,034	10.1%	105,348	26,290	-	243,433	220,974	\$25.61
Parker/Castle Rock	18	730,491	35,949	4.9%	7,287	355	21,406	0	0	\$26.09
Southeast Denver	396	40,095,507	4,481,000	11.2%	(80,846)	822,173	-	644,833	447,038	\$28.03
Southwest Denver	101	5,997,988	510,749	8.5%	18,862	80,228	-	0	0	\$19.16
West Denver	134	8,233,840	760,612	9.2%	103,549	1,643,354	-	0	0	\$24.23
Total	1,307	127,080,272	13,321,672	10.5%	240,334	3,180,729	86,086	2,834,373	1,099,480	\$29.19



Historical Vacancy & Rent



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	Square Feet	Type
JP Morgan Chase	1601 Market Street	CBD	56,449 sf	financial
Deloitte Digital	1601 Market Street	CBD	31,400 sf	technology
Autodesk	1601 Wewatta Street	CBD	36,025 sf	software
Alto Pharmacy	1062 Delaware Street	Midtown	27,156 sf	pharmaceutical
AECOM	7595 Technology Way	Southeast	70,170 sf	engineering

Top Sales

Building	Buyer	Submarket	Square Feet	Sale Price	PSF
707-717 17th Street -Denver City Center	Brookfield	CBD	1,226,205 sf	\$400,000,000	\$326/sf
1200 17th Street - One Tabor Center	Beacon Capital Partners	CBD	696,027 sf	\$396,700,000	\$570/sf
600 & 650 S. Cherry Street - Cherry Creek Plaza 1 & 2	TerraCap Management	Colorado Blvd.	335,059 sf	\$54,600,000	\$162/sf
5660-5680 Greenwood Plaza Boulevard - Triad Orchard Station South	Focus Property Group	Southeast	411,000 sf	\$54,000,000	\$131/sf
12500 Belford Avenue - Meridian Campus 1	Diloreto	Southeast	391,240 sf	\$40,000,000	\$102/sf

Under Construction

Building	Developer	Submarket	Square Feet	% Leased	Delivery
1490 Curtis Street - The Link	Steelwave	CBD	225,000 sf	0.0%	Nov-20
675 15th Street - Block 162	Patrinely Group	CBD	595,000 sf	0.0%	Dec-20
Boulevard 1 One - Southeast & Southwest Buildings	Confluent Development	Colorado Blvd.	163,065 sf	55.4%	Nov-20
1601 Market Street - Market Station	Continuum Partners	LoDo	95,400 sf	92.1%	Jul-20
1901 Wazee Street - Macgregor Square	Hensel Phelps	LoDo	210,900 sf	0.0%	Jan-21
2128 W. 32nd Avenue - LoHi Offices	City Street Investors	Northwest	57,433 sf	36.8%	Apr-20
3600 Brighton Boulevard - Revolution 360	Haselden Construction	Platte Valley	171,000 sf	7.0%	Jun-20
3650 Blake Street - HUB North	Beacon Capital Partners	Platte Valley	105,340 sf	0.0%	Jun-20
3060 Brighton Boulevard	Mass Equities, Inc.	Platte Valley	70,000 sf	0.0%	Sep-20
6900 Layton Avenue	Prime West	Southeast	384,712 sf	48.7%	Sep-20
Trainstation Circle & Sky Ridge Avenue - Kiewit Regional HQ	Kiewit	Southeast	260,121 sf	100%	Jan-21

AY Denver Team

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