

# DENVER OFFICE MARKET

## 2Q19 CONTINUES FULL STEAM AHEAD

Following a banner year in 2018 and a strong first quarter, Denver's office market continued its trend of expansion, posting 414,002 square feet of net absorption for the second quarter of 2019 and year-to-date (YTD) net absorption of 922,033 square feet. Vacancy fell to 14.8%, down from 15.3% in the prior quarter and down 126 basis points from 16.1% one year ago. Vacancy will likely continue to fall over the next several quarters, as tenants, many of them new to the Denver market, occupy space leased in both new and existing buildings. The Denver office market has enjoyed an impressive expansion run lasting 38 consecutive quarters and resulting in 12.3 million square feet of net absorption, 9.8 million square feet of deliveries, a 479-basis-point plunge in vacancy and steadily appreciating rental rates.

Eight of Denver's nine submarkets posted positive net absorption for second-quarter 2019, led by the Downtown and Midtown submarkets with 179,729 square feet and 106,963 square feet, respectively. The West submarket logged moderately negative quarterly net absorption. The Downtown and Southeast submarkets led the market with YTD net absorption of 500,421 square feet and 233,870 square feet, respectively, and only the Southeast Suburban (SES) and Southwest submarkets posted negative YTD net absorption. Direct asking rates increased year-over-year in all submarkets, and rates in the core submarkets continued to reach record highs.

The Downtown submarket led the market in 2018 with annual net absorption of 1.2 million square feet, and this trend continued into 2019. This submarket accounted for the lion's share of YTD absorption, driven by new and expanding tenants. Activity was concentrated in the Class A sector, which posted YTD net absorption of 437,476 square feet. The Class B and Class C sectors were relatively flat, with absorption of 71,880 square feet and negative 8,935 square feet, respectively. Overall vacancy stood at 16.0%, down from 16.6% in the prior quarter and down 163 basis points from 17.6% one year ago. Class A asking rates reached an all-time high of \$43.50/SF, up 52.6% from the cyclical low of \$28.50/SF in 2009.

In 2018, the SES submarket posted full-year net absorption approaching 1.0 million square feet, the second-highest in the entire Denver market. This strong performance was the result of vigorous corporate expansion, which slowed in the first half of 2019. Quarterly net absorption totaled 15,641 square feet, while YTD net absorption remained in the red at negative 103,624 square feet, largely because of one large closure in first-quarter 2019. Overall vacancy stood at 17.3%, stable from the prior quarter and second-quarter 2018. Several large users are in the market for space, which will likely drive expansion later in the year. Asking rates were stable from fourth-quarter 2018.

## CURRENT CONDITIONS UPDATE

Quarterly net absorption of 414,002 SF, marking the 38th consecutive quarter of expansion

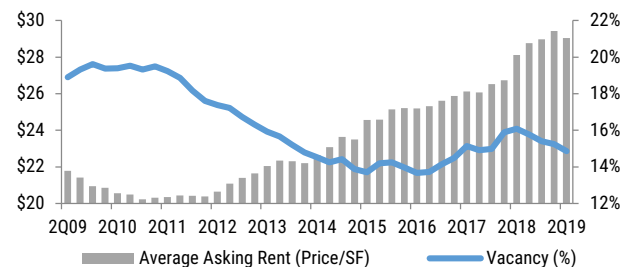
YTD absorption reached 922,033 SF

Vacancy rate of 14.8%

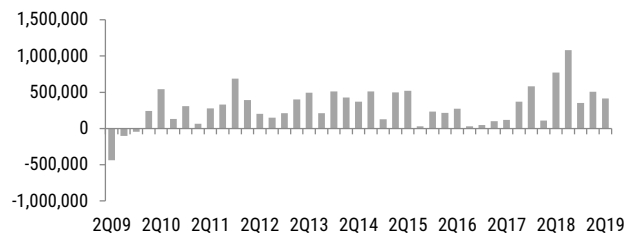
2.1 MSF under construction

## MARKET ANALYSIS

### Asking Rent and Vacancy



### Net Absorption (SF)



## MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	99.4 MSF	99.4 MSF	99.1 MSF	↑
Vacancy Rate	14.8%	15.3%	16.1%	↓
Quarterly Net Absorption	414,002	508,031	773,843	↑
Median Asking Rent	\$29.04	\$29.43	\$28.12	↑
Under Construction	2.1 MSF	1.8 MSF	2.0 MSF	↔
Deliveries	0	408,825	1.1 MSF	↑

## CONTINUED STRONG DEMAND FOR NEW PRODUCT

Thirteen projects totaling 2.1 million square feet are currently under construction or renovation. During the first quarter of 2019, the HUB (245,002 square feet) and Prism (93,816 square feet) were completed in the Downtown submarket, and Financial House (70,000 square feet) was delivered in the Midtown submarket. There were no buildings delivered in second-quarter 2019.

Nine projects are under construction in the Downtown submarket: Block 162 (595,000 square feet), 930 15th Street (the renovation/conversion to multi-tenant of a 208,011-square-foot former CenturyLink building), McGregor Square (190,000 square feet), Platte Fifteen (136,368 square feet), Revolution 360 (134,000 square feet), HUB North (97,698 square feet), Market Station (the 95,000-square-foot office portion of the mixed-use redevelopment of the former RTD bus hub), 4180 Wynkoop (63,000 square feet) and 3060 Brighton Boulevard (a 44,802-square-foot renovation project). 6900 Layton (362,366 square feet), which is 49% pre-leased to Newmont Mining, is being built in the SES submarket.

In the Midtown submarket, 260 North (55,000 square feet) is under construction, as is the first office component (62,660 square feet) of the massive 9th & Colorado infill redevelopment of the former University of Colorado Health Sciences Center, located in the Northeast submarket. In second-quarter 2019, the 26,322-square-foot office and retail project located at 2128 West 32nd Avenue broke ground.

Three owner/user projects are also under construction: Partners Group's 79,000-square-foot headquarters in the Northwest submarket, the 60,000-square-foot Buell Public Media Center in the Downtown submarket and a 65,805-square-foot building for the Denver Housing Authority in the Midtown submarket. Per NKF methodology, these user buildings are not included in the office inventory upon completion, although the proliferation of owner/user projects is indicative of Denver's robust economy.

## LOOKING FORWARD

Last year proved exceptional for the Denver office market, which posted 2.3 million square feet of annual net absorption. The market has not realized this level of annual absorption since the pre-recession year of 2006. Economic and office market fundamentals remain strong for metro Denver. Continued job and population growth are forecast through 2019, and strong absorption and a restrained development pipeline will likely propel vacancy lower over the next several quarters.

## LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Sunrun	717 17th Street	Downtown	Renewal/Expansion	118,800
Enerplus	950 17th Street	Downtown	Renewal	72,400
Granicus	1999 Broadway	Downtown	New	28,600
Procure Software	1125 17th Street	Downtown	New	20,300
Summit Utilities	Inova Dry Creek 2	SES	New	17,800

## SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
11000, 11300 & 11400 Westmoor Circle	Northwest	\$71,100,000	\$166	428,000
Belleview Corporate Plaza I & II	SES	\$42,500,000	\$247	172,200
9201 East Dry Creek Road	SES	\$40,100,000	\$312	128,500
8400 East Crescent Parkway	SES	\$28,200,000	\$209	135,200
169 Inverness Drive West	SES	\$27,000,000	\$228	118,500

**SUBMARKET STATISTICS**

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)
<b>Overall (Classes A, B &amp; C)</b>						
Aurora	4,492,438	0	15.9%	26,251	2,378	\$17.73
Downtown	30,083,725	1,585,155	16.0%	179,729	500,421	\$38.91
Midtown	5,853,072	81,322	9.5%	106,963	139,656	\$30.74
Northeast	1,990,194	62,660	10.2%	11,402	25,749	\$22.44
Northwest	8,343,932	0	11.7%	47,555	108,998	\$25.86
Southeast	6,534,871	0	13.1%	41,088	233,870	\$22.85
Southeast Suburban	30,835,773	362,366	17.23%	15,641	-103,624	\$25.07
Southwest	2,836,519	0	8.2%	2,011	-59,921	\$19.50
West	8,410,915	0	12.8%	-16,738	74,506	\$21.00
<b>TOTAL MARKET</b>	<b>99,381,439</b>	<b>2,091,503</b>	<b>14.8%</b>	<b>414,002</b>	<b>922,033</b>	<b>\$29.04</b>

**Class A**

Aurora	349,208	0	67.9%	2,039	2,039	\$24.50
Downtown	19,695,878	1,540,353	15.6%	162,240	437,476	\$43.50
Midtown	2,714,037	55,000	9.7%	139,407	188,921	\$38.50
Northeast	827,779	62,660	10.9%	8,146	14,455	\$28.00
Northwest	5,223,108	0	9.8%	37,503	85,772	\$29.51
Southeast	2,658,600	0	14.6%	34,020	182,475	\$28.21
Southeast Suburban	17,877,005	362,366	17.5%	5,234	29,629	\$29.15
Southwest	1,046,425	0	8.4%	-11,100	-20,498	\$25.69
West	1,255,301	0	12.5%	-2,435	26,984	\$25.00
<b>TOTAL CLASS A</b>	<b>51,647,341</b>	<b>2,020,379</b>	<b>15.4%</b>	<b>375,054</b>	<b>947,253</b>	<b>\$33.30</b>

**Class B**

Aurora	3,297,326	0	13.0%	12,771	-22,670	\$18.50
Downtown	8,369,057	44,802	17.3%	42,160	71,880	\$34.43
Midtown	2,045,147	26,322	9.7%	-10,661	-31,866	\$26.50
Northeast	738,390	0	9.0%	10,761	11,749	\$21.78
Northwest	2,626,550	0	17.2%	4,907	9,565	\$22.50
Southeast	2,451,493	0	14.0%	15,336	37,118	\$23.50
Southeast Suburban	10,990,422	0	18.1%	-7,100	-127,213	\$23.85
Southwest	1,204,414	0	7.2%	1,115	-10,496	\$18.00
West	6,105,370	0	13.3%	1,425	90,344	\$19.00
<b>TOTAL CLASS B</b>	<b>37,828,169</b>	<b>71,124</b>	<b>15.4%</b>	<b>70,707</b>	<b>28,411</b>	<b>\$25.47</b>

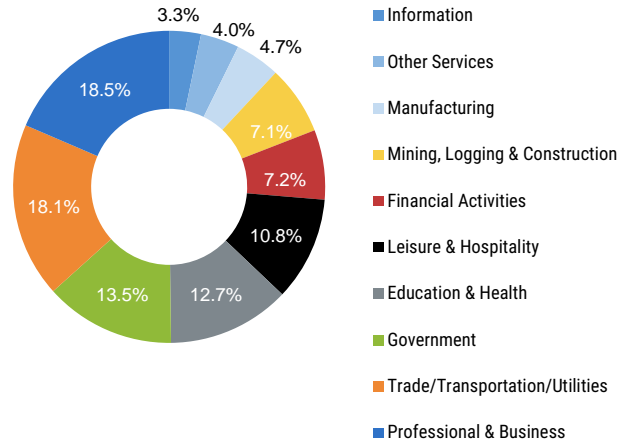
## ECONOMIC CONDITIONS

Denver's economy maintained its trend of steady albeit slower growth, with payroll employment in April increasing 1.1% over the past year. This followed annual job growth of 3.8% in 2015, 2.6% in 2016, 2.1% in 2017 and 2.5% in 2018.

Seven of the 10 industry sectors enjoyed year-over-year job creation in April 2019. The largest year-over-year growth was recorded by the other services sector at 5.6%, followed by the professional and business services sector at 3.9%. The information, financial activities and leisure and hospitality sectors lost jobs, posting negative 1.0%, negative 1.4% and negative 3.0% job growth, respectively. Among the office-occupying sectors, the professional and business services sector grew, and the information and financial activities sectors contracted, as previously described. The professional and business services sector has surpassed the trade, transportation and utilities sector to become Denver's largest employment sector, accounting for 18.5% of total non-farm employment. This diverse sector includes Denver's booming tech industry. Unemployment in Denver rose to 4.1% in January but has decreased steadily as the year has progressed, falling to 2.7% in April.

## EMPLOYMENT BY INDUSTRY

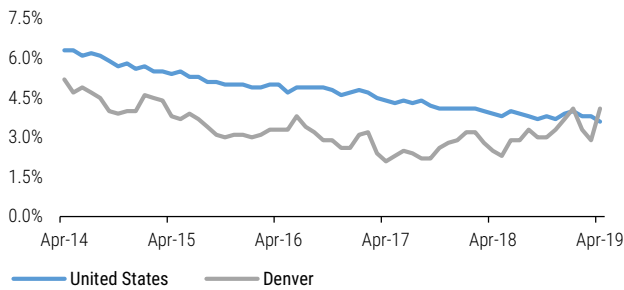
Denver, April 2019



Source: U.S. Bureau of Labor Statistics

## UNEMPLOYMENT RATE

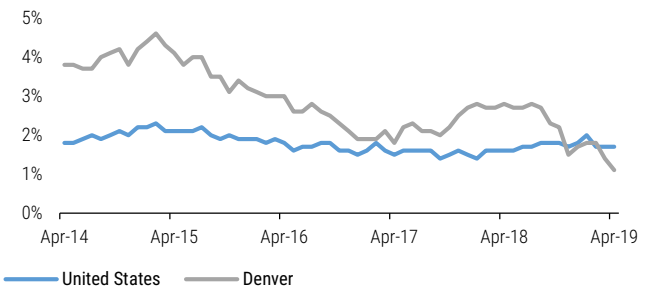
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## PAYROLL EMPLOYMENT

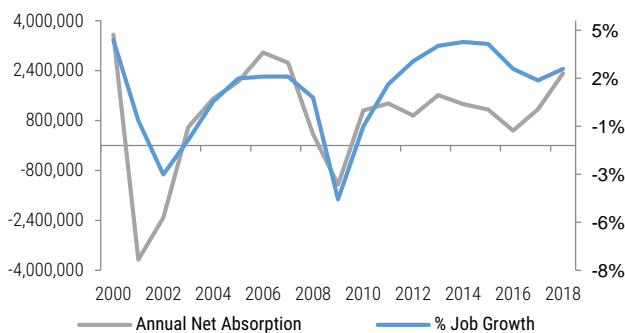
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## EMPLOYMENT GROWTH AND ABSORPTION

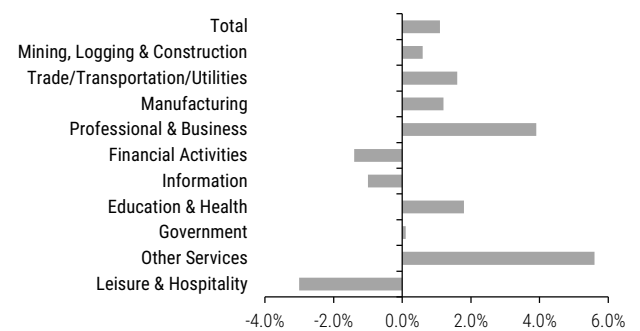
Denver YOY Employment Growth and Office Annual Absorption



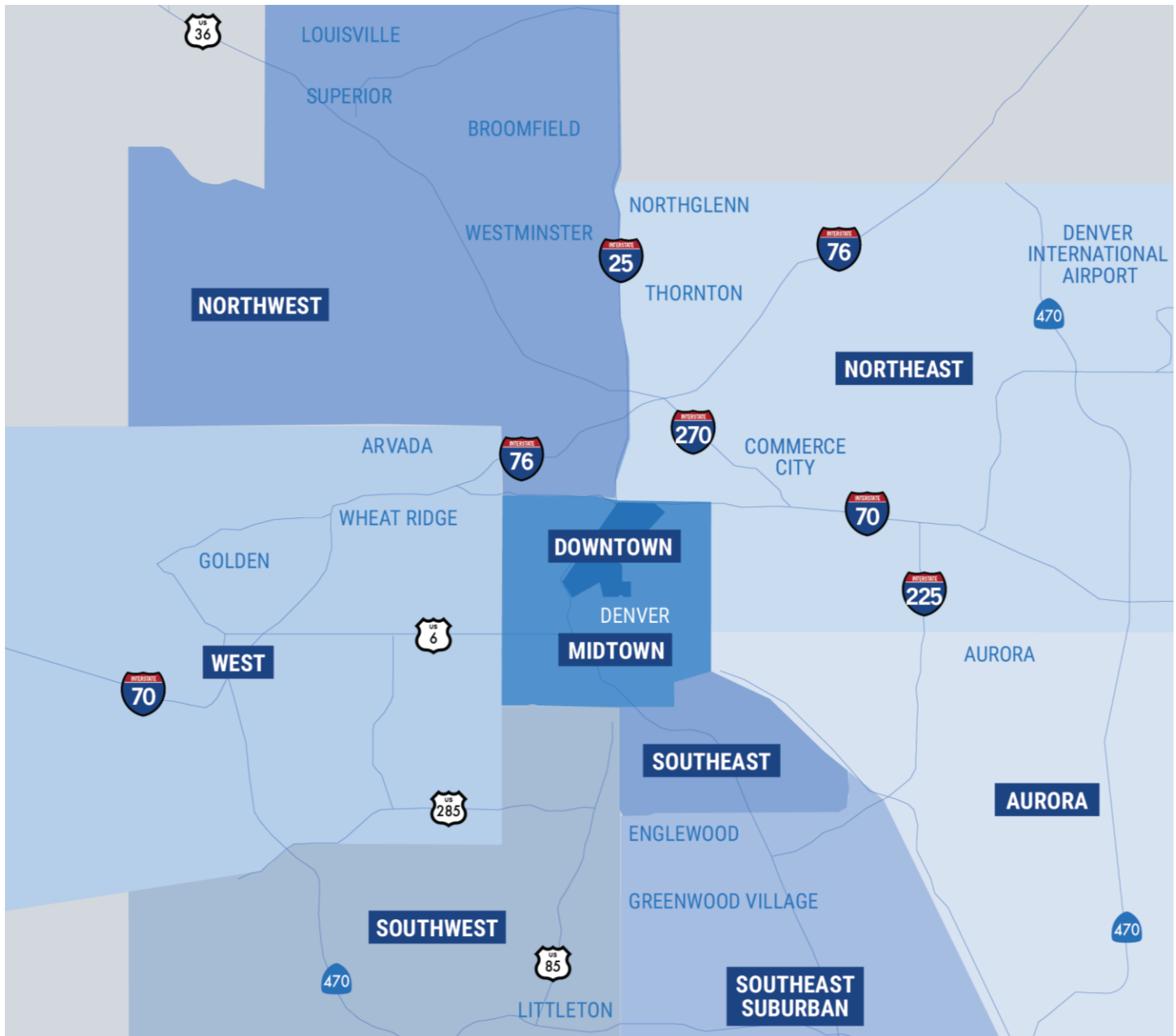
Source: U.S. BLS/NKF Research

## EMPLOYMENT GROWTH BY INDUSTRY

Denver, April 2019, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics



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