

Market Analysis

Fourth Quarter 2019

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Tech Growth Drives Demand



The Denver office market is thriving, bolstered by tech firm expansions and relocations. All employment sectors grew during the 12 months ending in August, gaining some 37,000 jobs for a year-over-year increase of 3.9%. Job gains in office-using sectors are likely to continue in the near term as major employers grow their footprints in the market. While the metro's population growth began to decelerate from its peak four years ago, Denver continued to expand rapidly, at an estimated pace of 920 people per month. Unemployment was at a near-record low—2.6% in August—highlighting the need to attract even more skilled labor to the market.

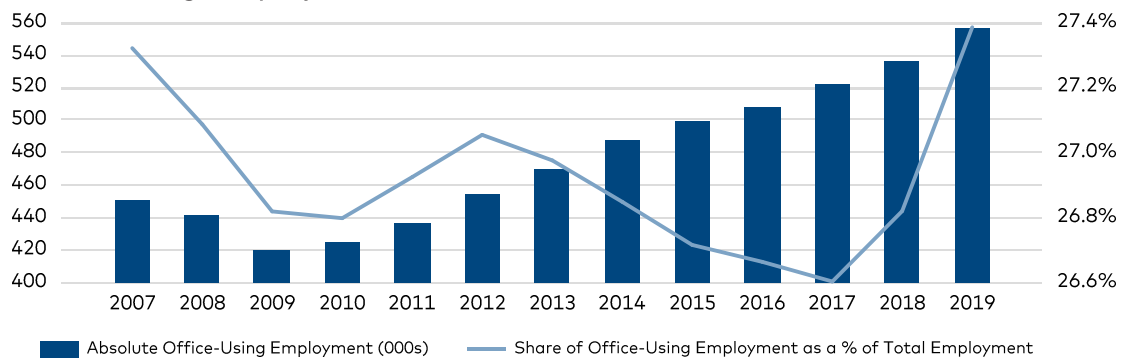
Vacancy tightened across the market to 12.4% in September, due to a slower pace of deliveries this year. Demand will remain strong, as firms including Amazon, 2U and Checkr announced significant leases and expansion plans in sought-after assets in Five Points and other high-growth submarkets. Asking prices held steady at \$27.16 per square foot, though differences between Class A and B pricing are anticipated to increase as tenants flock to amenitized, modern workspaces.

The year's office investment volume was \$2.1 billion through September, far below the cycle high in 2018, though transaction volume began to increase in the third quarter. With acquisition yields for high-end properties ranging between 4.8% and 5.8%, the metro was comparable to gateway markets like Chicago and other expanding tech hubs like Portland.

ECONOMIC SNAPSHOT

- Denver gained 36,900 jobs during the 12 months ending in August. All employment sectors grew, though the largest gains were made in professional and business services (14,900 jobs) and education and health services (7,300 jobs). The market's unemployment rate stood at 2.6% in August, 70 basis points lower year-over-year and 110 basis points less than the U.S. average. The metro continued to boast strong population growth, though not enough to overcome skilled labor shortages in several sectors.
- Office-using jobs comprised 27.4% of the total workforce, notably higher than the national average of 21.8%. These sectors added a combined total of 19,100 jobs, growing 3.4% year-over-year. Apart from professional and business services, the financial activities and information sectors also grew, albeit more modestly, with gains of 3,900 and 300 jobs.
- Tech employers were behind much of the growth, lured by Colorado's low corporate tax rate and a large talent pool from the metro's universities. Amazon recently announced plans to create 400 new jobs, doubling employment at its Denver Tech Hub facility.

Office-Using Employment



Source: Bureau of Labor Statistics (BLS). Data as of August 2019

Employment Growth by Sector as of August 2019 (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	360	17.7%	14,900	4.3%
65	Education and Health Services	251	12.3%	7,300	3.0%
55	Financial Activities	134	6.6%	3,900	3.0%
15	Mining, Logging and Construction	152	7.5%	3,200	2.1%
80	Other Services	78	3.8%	3,000	4.0%
70	Leisure and Hospitality	234	11.5%	2,500	1.1%
30	Manufacturing	119	5.9%	1,400	1.2%
90	Government	296	14.5%	300	0.1%
50	Information	63	3.1%	300	0.5%
40	Trade, Transportation and Utilities	347	17.1%	100	0.0%

Source: Bureau of Labor Statistics (BLS). Data as of August 2019

LEASING | Vacancy

- Denver's overall office vacancy rate stood at 12.4% in September. High demand for amenitized space resulted in a 9.4% vacancy for Class A, while Class B space was 15.4% vacant. We expect vacancy to remain stable through the end of the year, factoring the few major completions on the horizon.
- The Denver CBD's office inventory had a 12.2% vacancy rate. While the submarket's dated office stock faced steep competition from other areas, demand for space downtown remained strong. In October, Checkr signed one of the largest leases of the year for 92,447 square feet in the 18th Street Atrium.

LEASING | Listings

- As of September 1, the average asking price in Denver was \$27.16 per square foot, significantly less than the national average of \$37.18 per square foot. Class A space was listed at \$31.42 per square foot and Class B at \$24.69 per square foot.
- The centrally located Five Points submarket had the highest listing prices in the metro at \$42.96 per square foot. The suburban area of Northeast Denver had the lowest rates, at \$18.03 per square foot.

COWORKING

- Coworking providers continued to expand in Denver in 2019, with 2.8 million square feet, or 1.8% of total office inventory. Five Points had the highest amount of coworking space, with elevated tenant demand in the submarket's trendy RiNo district.
- WeWork was the largest coworking provider in Denver, with 785,752 square feet in seven submarkets. The company's future remains in turmoil following uncertainty over its long-term profitability.

Vacancy by Submarket

Top Submarkets	Vacancy Rate (%)
Denver-Five Points	1.4%
Denver-West	1.6%
Denver-North	2.7%
Denver-South	4.0%
Fort Collins	4.2%

Source: Yardi® Matrix. Data as of September 2019
Note: Vacancy including sublease

Available Properties

Top Submarkets	Square Feet Available	Properties Available
Denver-Central Business District	2,340,570	52
Colorado Springs	2,254,510	107
Denver Tech Center	1,645,550	112
Centennial	1,470,870	98
Lakewood-West	912,507	50
Total Market	14,875,200	973

Source: Yardi® Matrix. Data as of September 2019

Top Coworking Tenants (Square Feet)

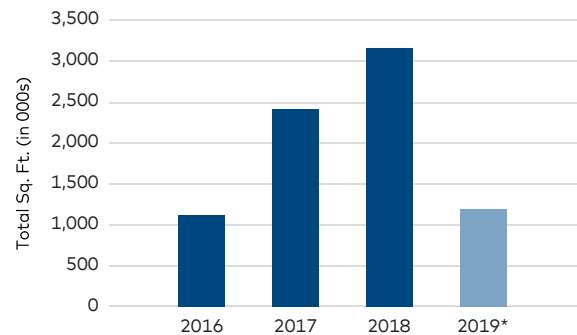
Coworking Tenant/ Operators	No. of Locations	Square Feet Leased
WeWork	13	785,752
Regus	25	439,022
Novel Coworking	2	172,682
Galvanize	2	108,000
Office Evolution	10	102,992

Source: Yardi® Matrix. Data as of September 2019

SUPPLY

- Developers added some 815,588 square feet to Denver's competitive office stock year-to-date through September. While an additional 400,339 square feet is anticipated to come online before the end of the year, 2019's completed square footage is expected to be far less than last year's 3.2 million square feet of deliveries, the current cycle's high point.
- Some 2.7 million square feet was under construction as of September, accounting for 1.8% of total office inventory, with 10.4 million square feet in the planning and permitting stages. Work on new projects is likely to increase, given limited supply and high demand for modern space in several areas.
- Beacon Capital Partners' March delivery of the 274,158-square-foot The HUB South in the Five Points submarket was the largest completion of the year. The eight-story building contains five floors of office space above structured parking, and 24,158 square feet of retail space. The property was partially leased to HomeAdvisor and WeWork prior to completion, and EverCommerce signed for the remaining space in June.
- Prime West's 384,712-square-foot 6900 Layton in the Denver Tech Center was the largest office development underway outside Denver's CBD. Anchor tenant Newmont Mining signed a 179,600-square-foot lease prior to the project's groundbreaking in late 2018. The property is expected to deliver in summer 2020, backed by \$89.7 million in construction financing from U.S. Bank.

Office Completions (Square Feet)



Source: Yardi® Matrix. Data as of September 2019
*Total Year Projections

Construction Activity

Top Submarkets	Square Feet Under Construction
Denver-Five Points	625,692
Denver-Central Business District	595,000
Denver Tech Center	370,429
Denver-North	277,825
Denver-Highland	190,604
Total Market	2,700,088

Source: Yardi® Matrix. Data as of September 2019

Construction Distribution

Top Submarkets	% of Inventory
Denver-Five Points	43.5%
Denver-North	29.8%
Denver-Highland	16.6%
Englewood	8.5%
Denver-Cherry Creek	3.5%
Total Market	1.8%

Source: Yardi® Matrix. Data as of September 2019

INVESTMENT TRANSACTIONS

- Denver's total transaction volume was \$2.1 billion through September 2019, 61% less than the previous year's cycle high of \$3.4 billion. Volume was highest mid-year, when \$878 million closed across 25 transactions in June and July.
- Class A acquisition yields in the first half of the year ranged between 4.8% and 5.8% for stabilized properties, with Class B yields between 6.3% and 7.3%. Class A transactions accounted for 69% of the year's volume, as investors continued to add higher-end assets to their portfolios.
- Denver Tech Center had the highest volume through September, totaling \$524.1 million, followed closely by \$503.5 million in the CBD. Although the DTC's office stock was dated, with an average building age of 33 years, the area had the largest suburban office inventory in the metro. Prime US REIT acquired two assets from KBS Realty Advisors in July, totaling \$233.7 million, or 44.6% of the submarket's overall volume.
- Rialto Capital Management's \$127.3 million acquisition of the 436,455-square-foot 410 17th St. from Ivanhoe Cambridge was the largest transaction in the CBD. Built in 1977, the LEED Gold-certified tower had previously sold in mid-2015 for \$125 million.

Transaction Volume

Top Submarkets	Total Transaction Square Feet	Total Transaction Volume (000s)
Denver Tech Center	2,004,133	\$524,060
Denver-Central Business District	2,564,121	\$503,543
Denver Boulder Turnpike	1,177,368	\$169,218
Centennial	921,452	\$166,568
Denver-Northeast	293,723	\$87,530
Total Market	11,362,078	\$2,075,300

Source: Yardi® Matrix. Data as of September 2019

Average Price

Top Submarkets	Avg. Price Per Square Foot
Denver-LoDo	\$697.03
Denver-Cherry Creek	\$539.07
Meridian	\$313.80
Denver-Northeast	\$298.00
Boulder	\$276.59

Source: Yardi® Matrix. Data as of September 2019

Investment Activity

Top Buyers	Total Transaction Square Feet	Total Transaction Volume (000s)
Prime US Reit	559,013	\$233,700
Rialto Capital Management	436,455	\$127,250
Rising Realty Partners	598,592	\$124,693
Nuveen Real Estate	444,595	\$110,900
Beacon Capital Partners	513,000	\$105,000

Source: Yardi® Matrix. Data as of September 2019



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ALTO Real Estate Buys Shopping Center

The 91 percent-leased asset is shadow-anchored by Home Depot, Walmart and Sam's Club.



CommonGrounds Inks New Lease

Flowhub signed an exclusive-use lease agreement with the flexible space operator for its new headquarters in downtown Denver.



Granite Properties Grows Tech Center Portfolio

The company acquired Regency Plaza for \$71.3 million and revealed plans to make significant interior and exterior upgrades.



Two Mid-Rises Trade for \$72M

DPC Cos. and Bridge Investment Group sold two 11-story buildings located within the Denver Tech Center.



Hilton Opens Dual-Branded Hotel

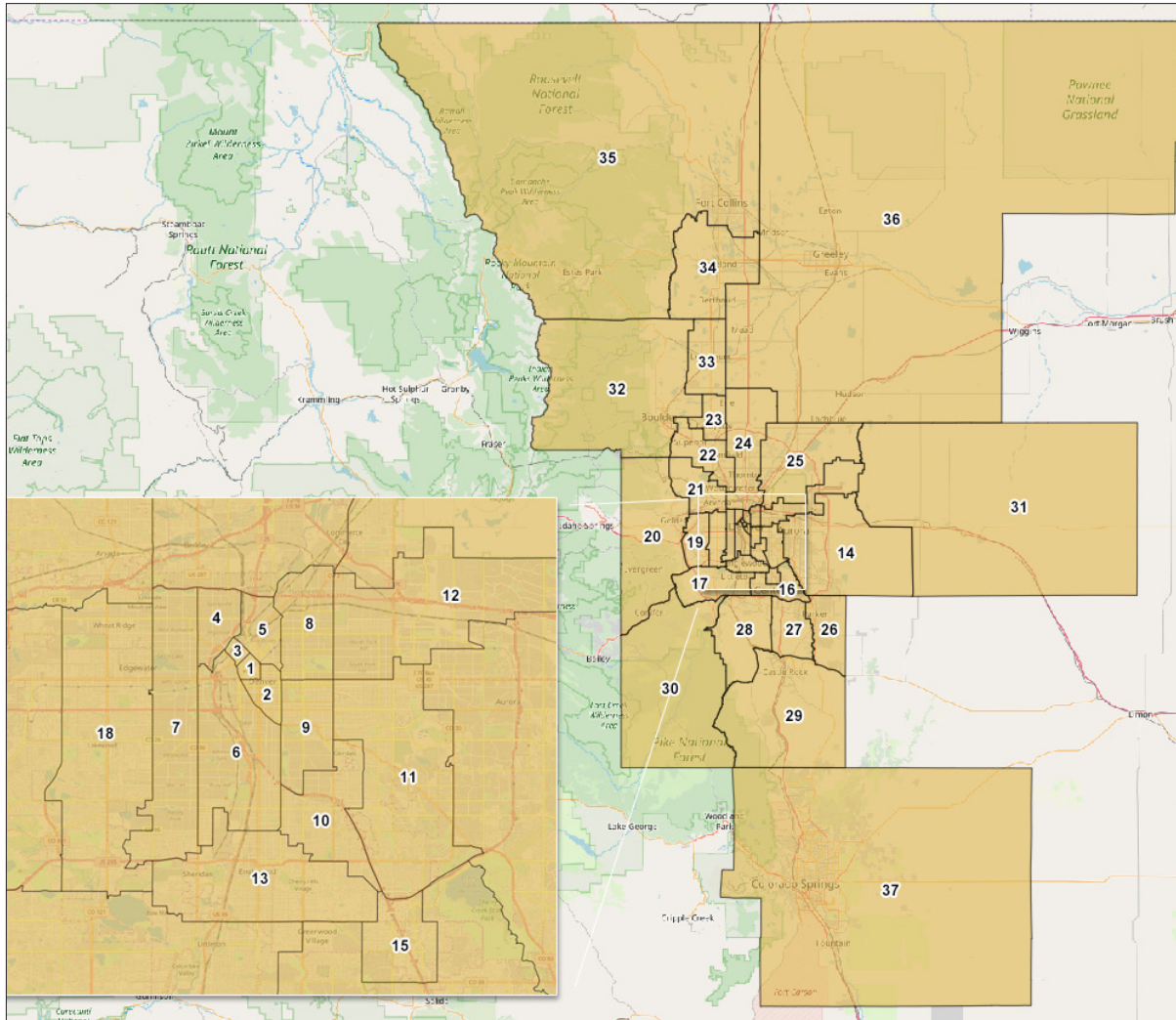
The property is the second dual-branded hotel the company has opened this summer.



Brennan Investment Group Starts Spec Logistics Project

The five buildings of the nearly 1 million-square-foot development will serve as a connector for Denver-area companies and their supply chains.

YARDI MATRIX OFFICE SUBMARKETS | Metropolitan Denver



Area #	Submarket
1	Denver–Central Business District
2	Denver–Capitol Hill
3	Denver–LoDo
4	Denver–Highland
5	Denver–Five Points
6	Denver–South
7	Denver–West
8	Denver–North
9	Denver–Cherry Creek
10	Denver–Glendale
11	Denver–East
12	Denver–Northeast
13	Englewood
14	Aurora
15	Denver Tech Center
16	Centennial
17	Littleton
18	Highway 121 Corridor
19	Lakewood–West

Area #	Submarket
20	Golden
21	Arvada
22	Denver Boulder Turnpike
23	Lafayette–Louisville Central
24	I-25 Corridor
25	I-76 Corridor
26	Parker
27	Meridian
28	Highlands Ranch
29	Castle Rock
30	Outlying Jefferson County
31	Outlying Adams County
32	Boulder
33	Longmont
34	Loveland
35	Fort Collins
36	Greeley
37	Colorado Springs

OFFICE REPORT DEFINITIONS AND METHODOLOGY

- Office using employment is defined as all jobs within the Professional and Business Services, Financial Activities and Information sectors.
- Rents shown in the listing section are reported on a Full Service (FSG) basis. Yardi Matrix subscribers have access to both listed rents and FSG equivalent rents.
- Class A and A+/Trophy buildings are combined for reporting purposes.
- Yardi Matrix tracks properties with 50,000 square feet or more.

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