

Q2 2017

Office Insight

New construction and increased availability swings pendulum toward users

- Construction starts have slowed (particularly CBD) but remain active for smaller buildings in hot areas (RiNo and Platte Valley).
- Asking rates are growing at a more muted pace and are driven by new construction, rather than increasing rates in existing buildings.
- In a near-full employment market, user demand could take a hit as fewer people look for work, resulting in reduced tenant demand.

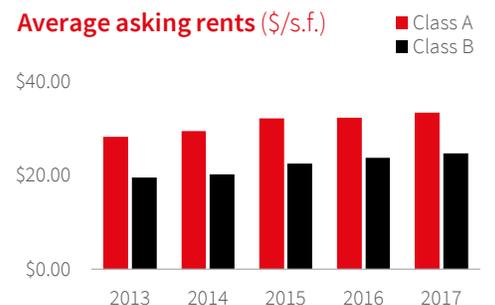
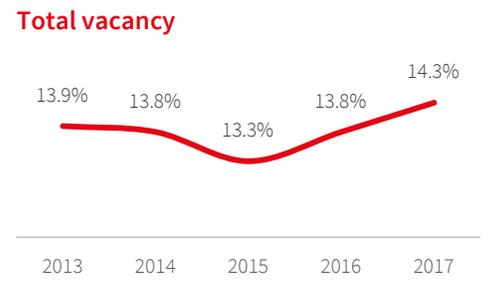
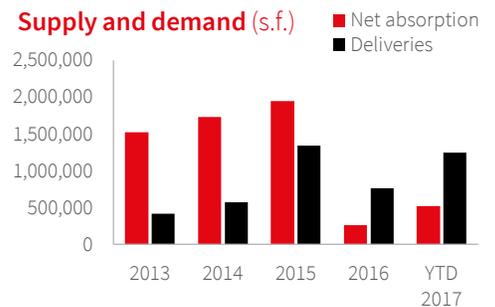
Despite positive total net absorption, total vacancy rose for the fifth consecutive quarter thanks to new deliveries with empty space. Newly built Colorado Center, Tower III adds to the market 229,670 square feet (s.f.), with no signed leases to-date, plus One Bellevue Station delivered 318,000 s.f., but tenants will not occupy until next quarter. Nearly 200,000 s.f. of sublease space was absorbed this quarter, finally chipping away at the eight-year high sublease vacancy that was largely a product of the energy sector's downturn.

As expected, rental rate growth is waning. Rents rose 1.4 percent market-wide—a paltry increase compared against the nearly double-digit leap Denver recorded last year. Investor and user interest remains focused in LoDo and other suburban transit-oriented developments. However, neighborhoods that were once industrial hubs, like Platte Valley and RiNo, are quickly moving to the top of tenants' lists. With new developments and redevelopments, plus retail and restaurants, these areas are attracting a variety of tenants, from tech to energy. BP leased 127,000 s.f. in Platte Valley, and HomeAdvisor is expanding its presence in the market with a new 70,000-s.f. RiNo flagship.

Outlook

Denver's 2.1 percent unemployment rate is the nation's lowest among large metros. Our economy is thriving, but fewer available jobs and a shortage of skilled labor may curb user demand. Landlords will continue to offer concessions to attract and retain tenants; owners should consider upgrades to remain competitive, especially with newer product. With availability on the rise and new construction coming online over the next four quarters, users will have additional options to consider while negotiating deal terms. In short, advantage tenants.

Fundamentals	Forecast
YTD net absorption	523,791 s.f. ▲
Under construction	4,312,123 s.f. ▼
Total vacancy	14.3% ▼
Average asking rent (gross)	\$28.21 p.s.f. ▲
Concessions	Rising ▲



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