

DENVER OFFICE MARKET

LINGERING PANDEMIC CAUSES LINGERING UNCERTAINTY

Denver's office sector deal flow in the second quarter of 2020 was greatly disrupted by the statewide stay-at-home orders, as well as the later safer-at-home staggered reopening. Many companies went into a hibernation mode and put off making major future decisions as much as possible. The continuing uncertainty surrounding the prolonged nature of the pandemic, paired with the upcoming election, resulted in most tenants continuing to delay any commitments on future office space through the third quarter and forced some to reevaluate the space they currently have.

Quarterly net absorption was negative 522,960 square feet, producing year-to-date absorption of negative 851,941 square feet. Vacancy rose to 15.8%, up from 14.8% in the prior quarter and up 111 basis points from 14.7% one year ago. The Class A sector was the most resilient in the third quarter, with quarterly absorption of negative 35,129 square feet and year-to-date absorption of 317,746 square feet, benefiting from a strong first quarter. The Class B sector continued to be the most affected, with quarterly absorption of negative 318,387 square feet, while the Class C sector posted more moderate negative absorption.

Two of Denver's nine submarkets posted flat net absorption for third-quarter 2020, the Southwest and West submarkets with negative 4,362 square feet and negative 9,439 square feet, respectively. The Southeast submarket saw the largest loss of occupancy in the third quarter, posting quarterly net absorption of negative 111,157 square feet. Although all three posted negative quarterly absorption, the Northwest submarket led the market with year-to-date net absorption of 114,408 square feet and only the Northeast and Southeast Suburban submarkets also maintained positive year-to-date net absorption. Direct asking rates decreased year-over-year in four submarkets, as the additional space that has come on the markets has spread the range of rental rates, especially for lower quality space that are on the lower end of asking rates.

The Downtown submarket was the market leader in both 2018 and 2019 with annual net absorption of 1.2 million square feet and 1.0 million square feet, respectively. This continued through first-quarter 2020 but the oil and gas troubles, paired with the pandemic, turned the momentum negative in the past two quarters. This submarket continued to be heavily affected, with quarterly absorption of negative 157,746 square feet and year-to-date absorption of negative 352,634 square feet. Activity improved from the previous quarter but was still down in the historically strong Class A sector, which posted quarterly absorption of negative 41,783 square feet, bringing year-to-date absorption to negative 105,391 square feet. The Class B and Class C sectors continued to see activity drop. Overall vacancy stood at 17.4%, up from 16.2% in the prior quarter and from 15.3% one year ago.

CURRENT CONDITIONS UPDATE

Quarterly net absorption of negative 522,960 SF

Vacancy rate of 15.8%

Loss of occupancy is continues to be focused in the Class B sector

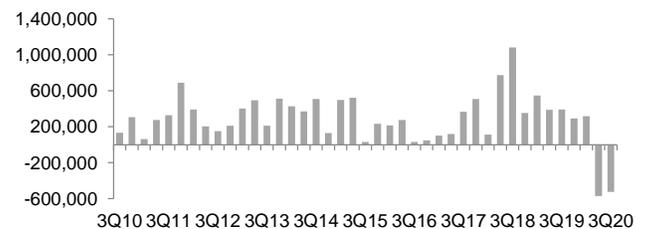
1.6 MSF under construction & no new projects are expected to break ground until tenants are willing to sign significant new leases

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	100.1 MSF	99.5 MSF	99.6 MSF	↑
Vacancy Rate	15.8%	14.8%	14.7%	↑
Quarterly Net Absorption	-522,960	-568,944	392,108	↑
Median Asking Rent	\$28.47	\$28.53	\$28.82	↓
Under Construction	1.6 MSF	2.2 MSF	2.1 MSF	↓
Deliveries	634,163	205,783	118,000	↓

In 2018, the SES submarket posted annual net absorption approaching 1.0 million square feet. This strong performance was the product of vigorous corporate expansion that slowed in 2019, which posted annual absorption of 106,327 square feet. Although organic growth resulted in the market's strongest performance in the first quarter, the following two quarters have been characterized by large corporate move-ins in Class A being offset by small and medium sized tenants vacating Class B buildings, ultimately posting quarterly net absorption of negative 50,842 square feet in the third quarter and year-to-date absorption of 7,897 square feet.

PIPELINE CONTINUES TO DELIVER BUT NO NEW PROJECTS BREAK GROUND

After three projects were completed in the first half of 2020, four buildings delivered in third-quarter 2020: Revolution 360 (134,000 square feet), HUB North (97,698 square feet) and 3501 Blake Street (34,099 square feet) in Downtown and 6900 Layton (362,366 square feet) in the SES submarket. Nine projects totaling 1.6 million square feet are currently under construction or renovation.

Five projects are under construction in the Downtown submarket: Block 162 (595,000 square feet), One Platte (250,402 square feet), the Link (the renovation/conversion to multi-tenant of a 229,287-square-foot former CenturyLink building), McGregor Square (190,000 square feet) and Market Station (the 95,000-square-foot office portion of the mixed-use redevelopment of the former RTD bus hub). There are no projects currently under construction in the SES submarket that are not owner-user.

SALE TRANSACTIONS RESUME BUT INVESTORS CONTINUE TO BE CAUTIOUS

The investment market finished 2019 strong with annual totals of 12.4 million square feet, valued at \$2.5 billion but activity slowed in second-quarter 2020 as investors have struggled to find meaningful data points to use as guides amongst the unprecedented real estate environment brought on by the pandemic. Transaction activity picked up in the third quarter but still remains lower than the same time in 2019. The top transaction of the quarter based on sale price was Brookfield's acquisition of the Wells Fargo Center in Uptown from Beacon Capital Partners for \$450.0 million.

LOOKING FORWARD

Denver's office sector deal flow remains heavily disrupted from normal levels as most companies continue to have employees work from home. It is expected that businesses with term on their leases or with short-term renewal options will continue with a watchful waiting approach, with the occasional exception of companies in the medical and technology sectors that have experienced a boom in business during the pandemic. Although Denver does have exposure in the vulnerable sectors of tourism and energy, there is continued optimism that Denver's diverse economy and a decade of robust market fundamentals will mitigate long-term economic effects and pave the way for a return to growth.

LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
LogistiCare Solutions	3600 Layton Avenue	Southeast Suburban	New	73,000
Whiting Petroleum	1700 Lincoln Street	Downtown	Renewal & Downsize	75,000
Camp Bowie Service Center	7901 East Lowry	Southeast	Extension	46,000
Dorsey & Whitney LLP	1400 Wewatta Street	Downtown	Renewal	35,000

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
1700 Lincoln St–Wells Fargo Center	Downtown	\$450,000,000	\$369	1,219,058
6340 S Fiddlers Green Cir– CoBank Center	SES	\$120,000,000	\$438	274,287
6161 S Syracuse Way- Syracuse Hill III	SES	\$6,800,000	\$147	46,187
1400 W 122nd Ave –Pavilion Court	Northwest	\$5,3750,000	\$181	29,761

SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)
Overall (Classes A, B & C)						
Aurora	4,492,438	0	15.6%	-72,025	-123,453	\$19.00
Downtown	30,663,993	1,389,417	17.4%	-157,746	-352,634	\$39.72
Midtown	5,923,160	173,322	12.6%	-60,024	-167,554	\$29.26
Northeast	2,0124,874	0	13.3%	-16,313	16,679	\$21.27
Northwest	8,343,932	0	13.8%	-41,052	114,408	\$25.51
Southeast	6,534,871	0	16.2%	-111,157	-209,298	\$23.69
Southeast Suburban	30,806,899	0	16.3%	-50,842	7,897	\$25.00
Southwest	2,836,519	0	9.2%	-4,362	-9,031	\$20.00
West	8,410,915	0	14.9%	-9,439	-128,955	\$20.76
TOTAL MARKET	100,137,601	1,562,739	15.8%	-522,960	-851,941	\$28.47
Class A						
Aurora	349,208	0	58.4%	-5,653	12,197	\$23.00
Downtown	20,127,944	1,389,417	14.6%	-41,783	-105,391	\$47.41
Midtown	2,769,037	64,000	10.7%	-42,177	-60,583	\$38.52
Northeast	827,779	0	3.2%	0	38,209	\$27.00
Northwest	5,223,108	0	14.0%	-11,297	136,327	\$27.00
Southeast	2,658,600	0	17.1%	-55,338	-78,937	\$29.38
Southeast Suburban	17,848,131	0	14.5%	56,305	292,451	\$28.00
Southwest	1,046,425	0	10.1%	28,174	8,791	\$31.06
West	1,255,301	0	9.2%	1,280	39,322	\$26.50
TOTAL CLASS A	52,105,533	1,453,417	14.3%	-70,489	282,386	\$34.09
Class B						
Aurora	3,297,326	0	12.2%	-46,414	-101,689	\$19.50
Downtown	8,553,782	0	23.5%	-74,038	-162,966	\$34.00
Midtown	2,082,635	109,322	17.3%	-16,280	-77,242	\$27.53
Northeast	873,070	0	23.1%	-11,093	-23,052	\$23.25
Northwest	2,626,550	0	14.9%	-21,132	3,988	\$24.63
Southeast	2,451,493	0	18.5%	-40,222	-123,060	\$23.69
Southeast Suburban	10,990,422	0	20.1%	-91,717	-242,758	\$23.50
Southwest	1,204,414	0	7.1%	-29,677	-8,300	\$19.49
West	6,105,370	0	16.6%	12,186	-130,075	\$20.88
TOTAL CLASS B	38,185,062	109,322	18.6%	-318,387	-865,154	\$24.34

ECONOMIC CONDITIONS

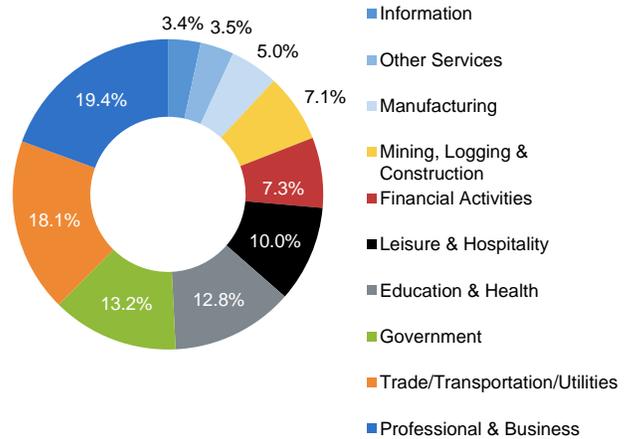
Preliminary average annual job growth for the Denver metro area for the 12-month period through August 2020 was negative 1.5%, and the average rates for 2017, 2018 and 2019 were 2.1%, 2.6% and 2.2%, respectively.

Eight of ten industry sectors logged job loss in August. The manufacturing sector posted solid job growth of 5.2% and the important, office-occupying professional and business services sector grew slightly by 0.1%. The leisure and hospitality; other services and mining, logging and construction services sectors logged the largest year-over-year losses at negative 17.4%, negative 13.1% and negative 7.8%, respectively. The professional and business services sector and the trade, transportation and utilities sector remain Denver's largest employment sectors, accounting for 19.7% and 18.1% of total nonfarm employment, respectively.

Denver's preliminary August 2020 unemployment rate stood at 7.0%, an improvement from the high of 12.3% in April. Pre-pandemic, except for a small spike at the end of 2018 and in January 2019, Denver unemployment has been around 3% or below since April 2016.

EMPLOYMENT BY INDUSTRY

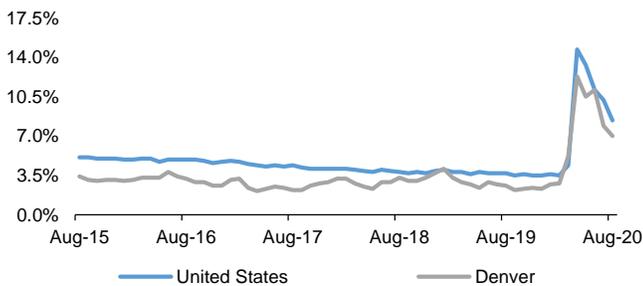
Denver, August 2020



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

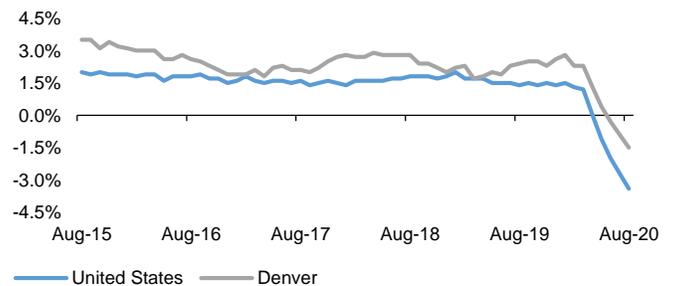
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

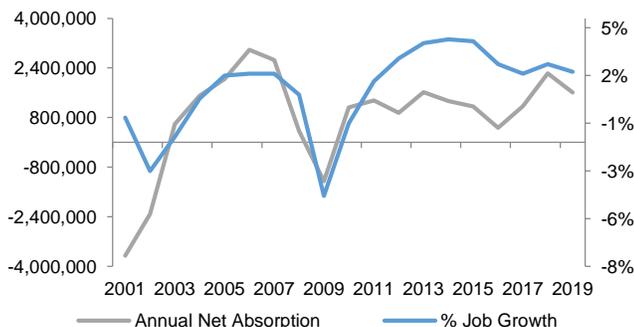
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH AND ABSORPTION

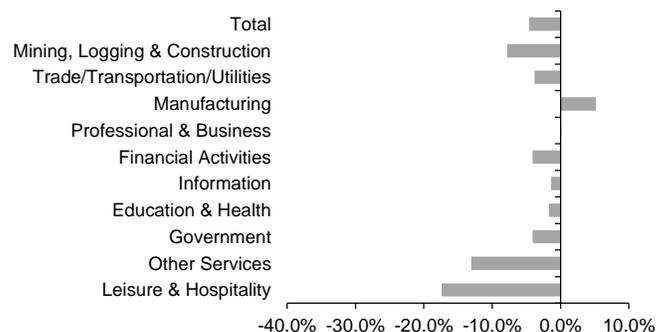
Denver YOY Employment Growth and Office Annual Absorption



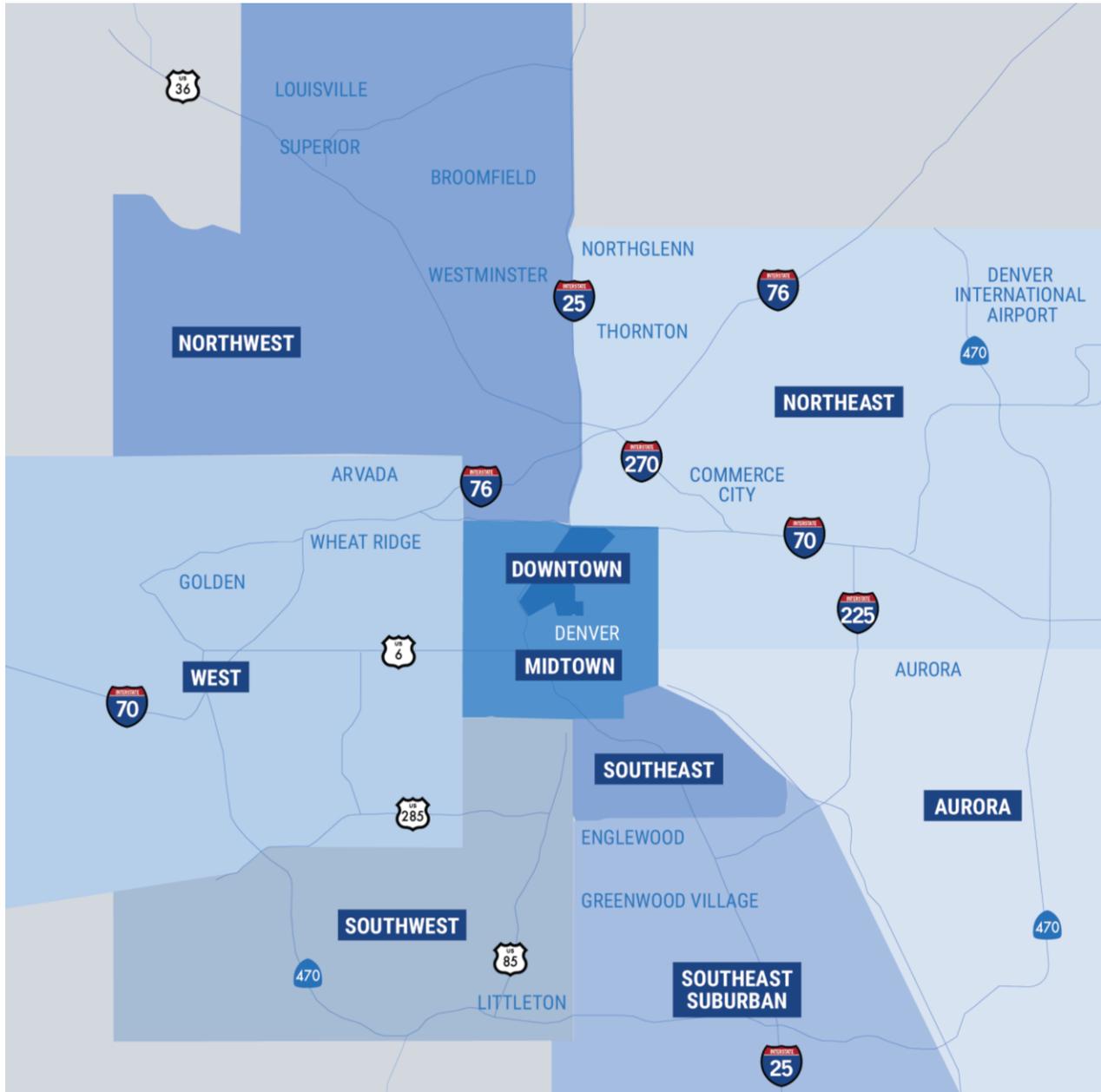
Source: U.S. Bureau of Labor Statistics/NKF Research

EMPLOYMENT GROWTH BY INDUSTRY

Denver, August 2020, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics



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DENVER

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