

Denver occupiers faced with pain amid COVID-19 disruption, opportunity may exist on other side

By the end of March, the rapidly evolving COVID-19 pandemic had slowed or halted nearly all Denver businesses. Several sectors with a notable corporate presence in Denver, including retail, transportation, and leisure, have suffered significantly to date. Additionally, the oil and gas industry faced huge price drops, and Denver witnessed its first energy bankruptcy of this cycle by Whiting Petroleum. As the forecast of a recession in the U.S. appears increasingly likely, Denver's market dynamics have the potential to be dramatically altered. As part of this, office availability is expected to rise this year while asking rents will see significant downward pressure due to slackening demand for space.

Availability increases across market; asking rents continue to grow, but likelihood exists for repricing in some submarkets

Ahead of any COVID-19 related impact, overall availability increased for the second consecutive quarter, finishing at 17.8% and marking a 30-basis-point increase over the preceding quarter. The LoDo / Platte submarket saw a surge of space come to market, increasing availability to 13.6% (up 230 basis points). Likewise, availability in the Central Business District (CBD) surged 110 basis points to 19.8%. While downward pressure should at least flatten rental rate growth in the near term, Denver asking rents increased in the first quarter, rising 1.9% from last quarter to \$28.82 per square foot (psf).

Transaction volume slows prior to beginning of economic pullback; tech firms active in Q1

Leasing activity this period totaled 1.5 million square feet (msf), the lowest quarterly volume since early 2016. Deal volume is expected to further slow in the near term as occupiers take stock of the COVID-19-related impact on their businesses. Prior to the crisis, the technology sector was notably active in the market, with four of the top ten leases of the quarter signed by tech firms. Among the market's largest deals completed this period, AECOM committed to a combined 100,424 square feet (sf) at 7595 Technology Way and 9780 Mt. Pyramid Court, in the Southeast submarket. Also, Gusto signed a 49,694-sf sublease at 1515 Arapahoe Street, across the street from their existing location at Tabor Center.

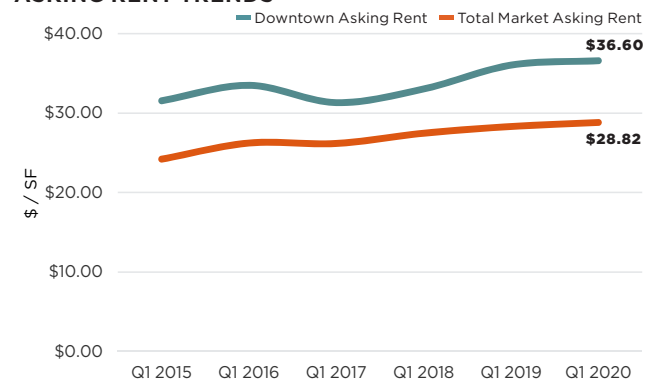
Outlook

- Increased availability and at least a flattening of rental rate growth is anticipated as a result of COVID-19, but the intensity of the disruption to the market's fundamentals is still to be determined
- Landlord concessions including rent abatement, tenant improvement allowance, and term flexibility are likely to increase before any significant drop in asking rents
- Once the turbulence passes and the market enters a recovery cycle, occupiers will be presented with real opportunities to recast their real estate cost structure

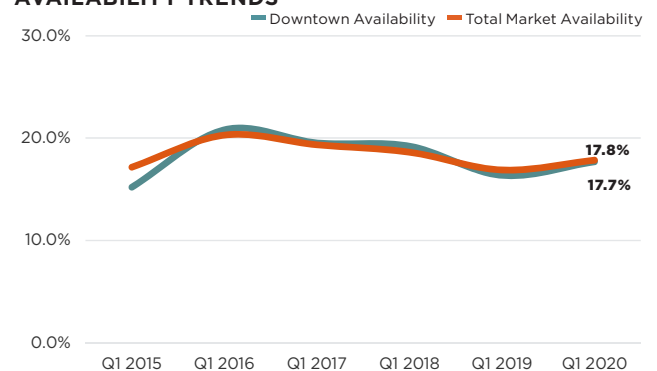
KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	110.7 MSF	112.3 MSF	▲
Availability Rate	16.9%	17.8%	▲
Overall Asking Rental Rate	\$28.32	\$28.82	▲
Downtown Asking Rental Rate	\$36.04	\$36.60	▲
Quarterly Leasing Activity	2.0 MSF	1.5 MSF	▼

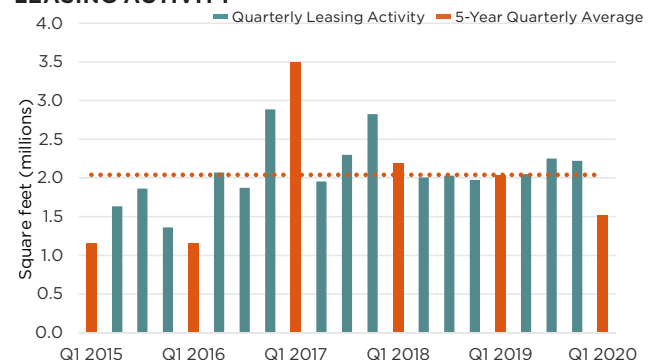
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

7 of 10

of major transactions were new locations

37.9%

of large transactions occurred in the Southeast submarket

48.3%

TAMI sector tenants represented 48.3% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
AECOM	70,170	7595 Technology Way	New Location	Southeast	Engineering
Gusto	49,694	1515 Arapahoe Street	New Location	Central Business District	TAMI
Adwerks	36,931	1755 Blake Street	New Location	LoDo / Platte / RiNo	TAMI
Autodesk	36,025	1601 Wewatta Street	Relocation	LoDo / Platte / RiNo	TAMI
EN Engineering	32,093	9777 Pyramid Court	New Location	Southeast	Engineering
AECOM	30,254	9780 Mt Pyramid Court	New Location	Southeast	Engineering
Jonah Energy	24,473	370 17th Street	New Location	Central Business District	Energy & Utilities
Guild Education	23,873	370 17th Street	Expansion	Central Business District	Education
Facebook	23,336	1900 16th Street	Expansion	LoDo / Platte / RiNo	TAMI
Beacon Communications	22,703	7810 Shaffer Parkway	New Location	Southwest	TAMI

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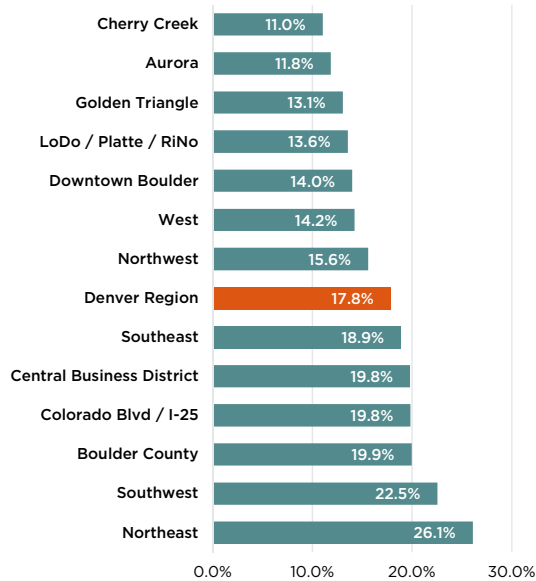
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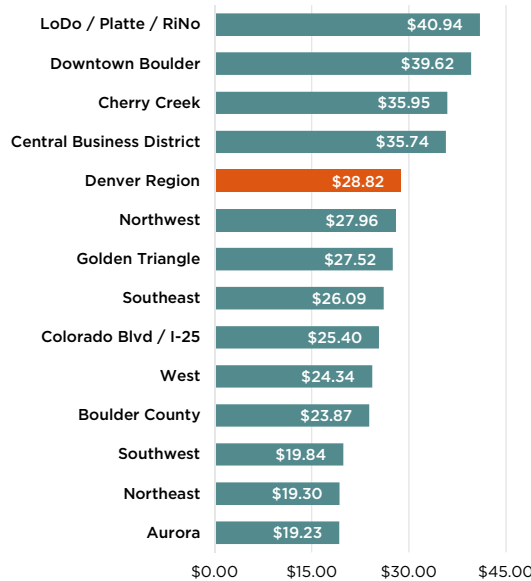
AVAILABILITY RATE COMPARISON

Denver Submarkets



RENTAL RATE COMPARISON (\$/SF)

Denver Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot (psf). Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

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