



Denver leasing activity falls to record lows as COVID-19 disrupts growth cycle

With economic activity on hold for the majority of the second quarter due to concerns stemming from ongoing pandemic disruption, Denver watched business activity stall, causing record lows in transaction volume. Oil and gas companies, a key industry for regional business, have been hit especially hard. Second-quarter leasing activity dipped 43.1% year over year, marking the lowest level of quarterly activity in at least 15 years. Many businesses were forced to re-evaluate strategic priorities, operating models, cost structures and office space footprints during the quarter, causing leasing decisions to be put on hold.

Availability swells as new product nears delivery, occupiers look to shed space

Overall availability increased 160 basis points over the quarter, closing at 19.4%. A handful of large office developments are on track to deliver within the year, adding to the stock of available space. Among them, Block 162 and McGregor Square are trophy-quality projects nearing completion and both have yet to secure prelease deals. Meanwhile, many Denver firms looked to offload space this quarter as a cost reduction response to the COVID-19 pandemic, and sublease inventory burgeoned as a result. More than 3.8 million square feet (msf) of sublets were available across the market at the quarter's close - 800,000 sf of which was added in the second quarter alone. Some of the largest new sublease blocks included 130,000 sf of space from Occidental Petroleum at 1099 18th Street, 73,700 sf from Extraction at 370 17th Street, and 65,700 sf from Checkr at 1621 18th Street.

With conditions unlikely to significantly improve in Q3, tenant favorable conditions should prevail

As COVID-19 outbreaks continue to occur throughout the country, and concerns persist of a second wave occurring later in the year, it is likely that weakened demand will extend into the third quarter. Still, landlords have not yet seen a need for wholesale repricing. In fact, overall asking rates increased to \$29.95 psf, up 7.0% over the same period last year. This rate growth can be partly attributed to lofty asking rates being marketed at many of the soon-to-deliver projects. Despite this, more tenant favorable conditions are expected in the near-to-medium term. The combined effect of occupiers reconsidering their office space needs, and a growing glut of discounted sublease inventory, may force many landlords to reconsider base asking rents. Concessions are likely to remain competitive.

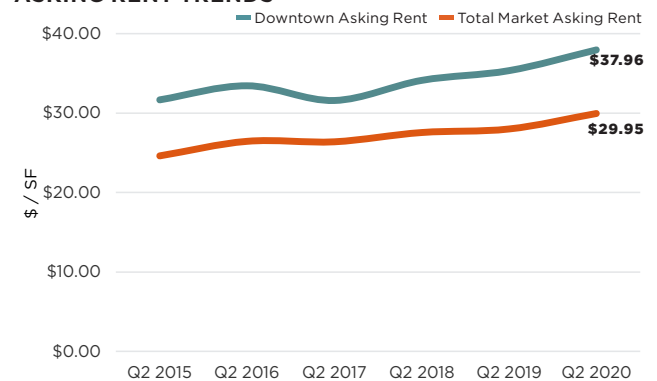
Outlook

- Many real estate decisions will almost certainly remain on hold until the economic dislocation caused by COVID-19 clears and businesses can return to the office
- With cost control imperative across many organizations, sublease space will drive supply-side increases through the remainder of the year
- Availability will rise in the near term as companies continue to reevaluate office space and labor requirements

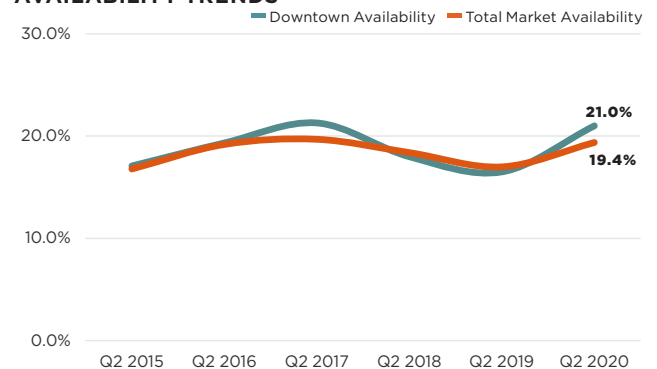
KEY STATISTICS

	Q2 2019	Q2 2020	y-o-y Change
Inventory	111.0 MSF	112.5 MSF	▲
Availability Rate	17.0%	19.4%	▲
Overall Asking Rental Rate	\$28.00	\$29.95	▲
Downtown Asking Rental Rate	\$35.35	\$37.96	▲
Quarterly Leasing Activity	2.1 MSF	1.2 MSF	▼

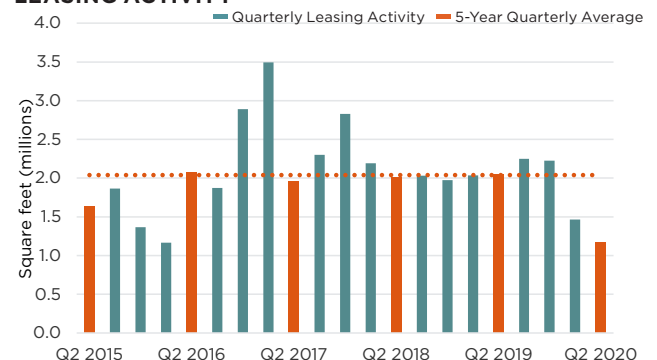
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

7 of 10

of major transactions were new locations

63.4%

of large transactions occurred in the Southeast submarket

51.3%

Professional Services sector tenants represented 51.3% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Lockheed Martin	166,708	10475 Park Meadows Drive	New Location	Southeast	Professional Services
Colorado's Health Capitol	26,252	303 E 17th Avenue	New Location	Central Business District	Healthcare
Cooley LLP	25,323	1144 15th Street	Relocation	Central Business District	Legal Services
Trace3	24,033	4601 DTC Boulevard	Expansion	Southeast	Professional Services
Gymshark	23,869	370 17th Street	New Location	Central Business District	Retail
Radiology Imaging Associates	23,450	10800 E Geddes Avenue	Relocation	Southeast	Healthcare
Wealth Strategies Group	21,840	6455 S Yosemite Street	New Location	Southeast	Financial Services
Primoris Renewable Energy	20,830	3800 Lewiston Street	New Location	Northeast	Energy & Utilities
Trade Desk	20,263	1595 Wynkoop Street	New Location	LoDo / Platte / RiNo	TAMI
The Motley Fool	19,584	555 17th Street	New Location	Central Business District	Financial Services

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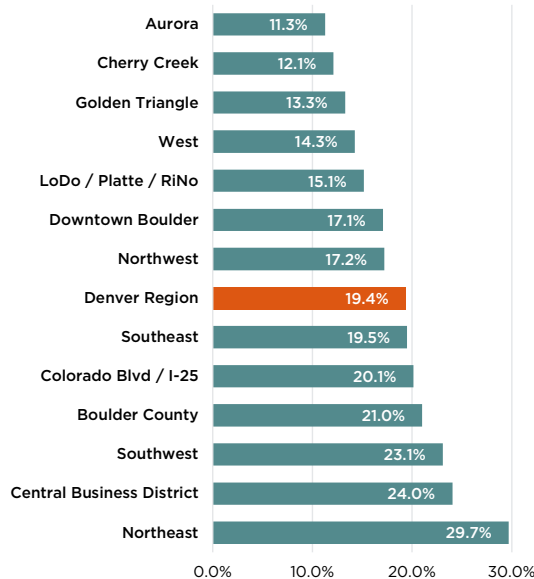
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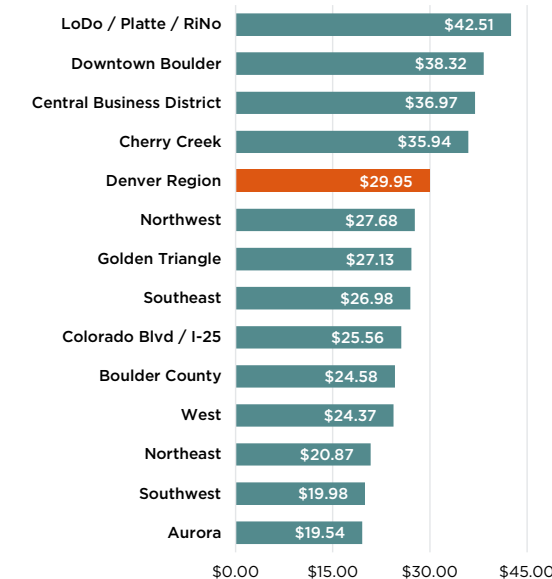
AVAILABILITY RATE COMPARISON

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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