



Denver leasing demand plummets again while COVID-19 continues to disrupt market fundamentals

Economic activity faltered in the third quarter, both locally and nationally, due to the ramifications of the COVID-19 pandemic. Third-quarter office leasing volume fell below 1.0 million square feet (msf), the lowest quarterly total in more than a decade. This represents a 31.2% decline from last quarter and a 64.2% decline compared to Q3 2019. Many occupiers are reevaluating space needs and are delaying long-term real estate decisions until uncertainty wanes. Meanwhile, most office-using employees continue working remote. Many deals closed over the past six months have been short term renewals as occupiers prefer a wait-and-see approach. Demand for office space after the new year may largely hinge on whether an effective vaccine will become available in the foreseeable future.

Availability, largely due to subleases, continues upward trend

Companies seeking to offload their existing space have significantly contributed to climbing availability rates across Denver. During the third quarter more than 1.0 msf of sublease space came available, bringing the total amount of sublease inventory to nearly 4.6 msf across the market. In downtown Denver alone, 2.1 msf of sublease space currently sits available, pushing the downtown availability rate to 27.5%. Overall availability in the market surged 220 basis points over the quarter to 21.6%, reaching the highest level in more than eight years.

Increasingly favorable tenant conditions expected to persist in the near term

With persistent pandemic uncertainty and growing concerns of a potential second wave occurring later in the year, it is likely that subdued demand will continue in upcoming quarters. Despite the dramatic drop off in leasing activity and soaring availability, landlords have yet to react with repricing. Overall asking rents held firm over the quarter, now at \$29.83 psf. As tenants leverage highly discounted sublease pricing, this will place significant downward pressure on direct taking rents in the near to medium term. Increased flexibility in the tenant's favor can be expected in Q4 2020 and beyond as a result of the shift in supply and demand.

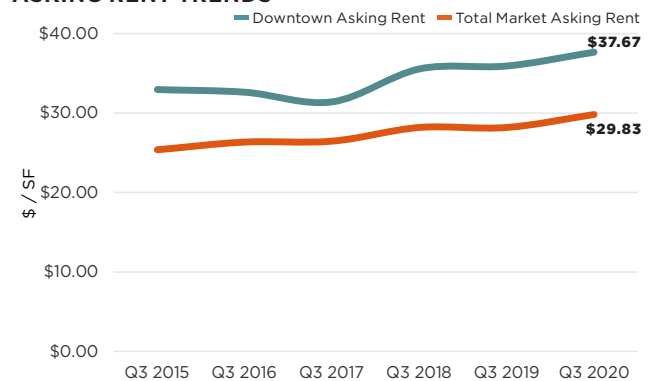
Outlook

- Many real estate decisions will almost certainly remain on hold until economic uncertainty subsides, and workers can return to the office in greater numbers
- Until leasing demand returns and availability stabilizes, direct asking rents will face downward pressure; for now, tenants still have access to record level concession packages
- With cost control imperative across many organizations, sublease space will drive supply-side increases through the remainder of the year

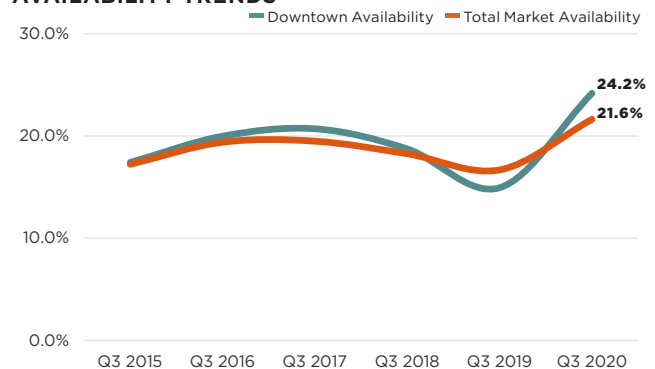
KEY STATISTICS

	Q3 2019	Q3 2020	y-o-y Change
Inventory	111.1 MSF	112.7 MSF	▲
Availability Rate	16.7%	21.6%	▲
Overall Asking Rental Rate	\$28.18	\$29.83	▲
Downtown Asking Rental Rate	\$35.94	\$37.67	▲
Quarterly Leasing Activity	2.2 MSF	0.8 MSF	▼

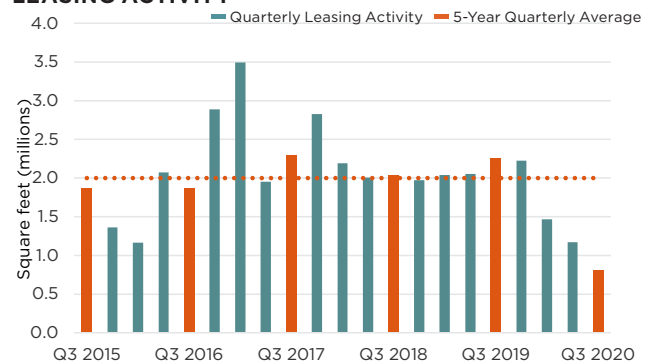
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

7 of 10

of major transactions were new locations

49.5%

of large transactions occurred in the Southeast submarket by square footage

23.2%

TAMI sector tenants represented 23.2% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
LogistiCare Solutions	72,994	6900 Layton Avenue	New Location	Southeast	Healthcare
NGL Energy	48,415	9th Ave @ Colorado Boulevard	New Location	Northeast	Energy & Utilities
Kiewit	35,216	10350 Park Meadows Drive	New Location	Southeast	Professional Services
General Atomics	32,000	10800 E Geddes Avenue	Relocation	Southeast	Energy & Utilities
SurveyGizmo	26,499	168 Centennial Parkway	New Location	Northwest	TAMI
T-Mobile	24,554	1901 Wazee Street	New Location	LoDo / Platte / RiNo	TAMI
Undisclosed Tenant	24,541	1901 Wazee Street	New Location	LoDo / Platte / RiNo	TAMI
Fidelity National Title	21,300	4643 S Ulster Street	Renewal	Southeast	Financial Services
Colorado Secretary of State	20,467	1700 Broadway	New Location	Central Business District	Government
KCCT Architecture	20,000	1350 Independence Street	Relocation	West	Professional Services

Source Savills Research

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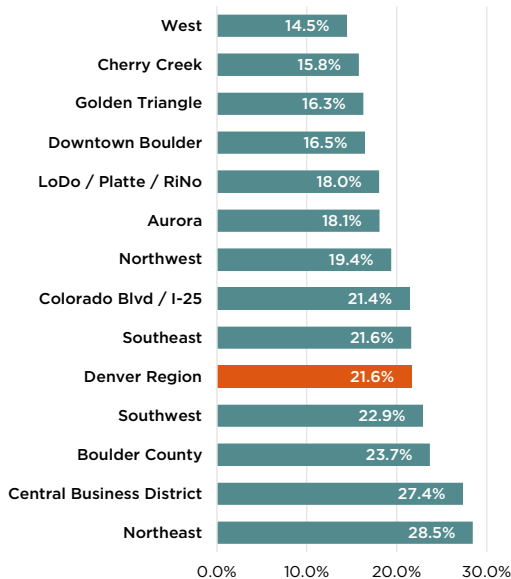
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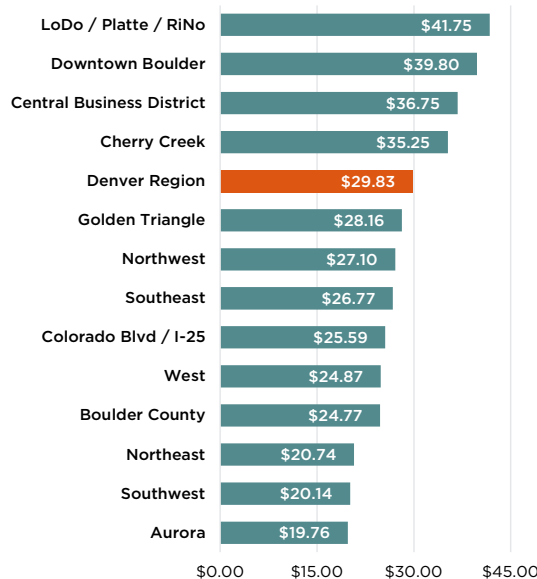
AVAILABILITY RATE COMPARISON

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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