Office Insight

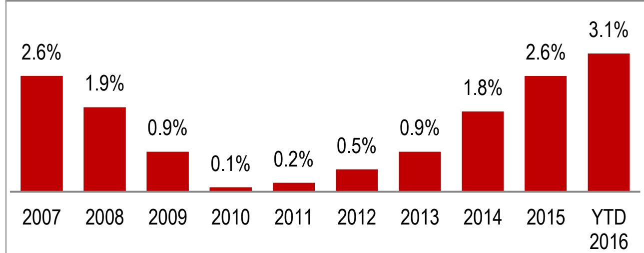
Denver | Q2 2016

Economy remains strong after slow first quarter

Square footage under construction hits decade-high

The 3.3 million square feet (m.s.f.) currently under construction represents a 10-year high. Developers' confidence in Denver persists, even though just 23.3 percent of new stock is already pre-leased—a figure that rests below the U.S. average. Builders remain optimistic that once users see completion or significant progress on construction, signed leases will follow. While a crane-dotted skyline typically indicates a healthy market, there are several subleases coming to the market thanks to the continued slump in energy pricing. An influx of availability will impact the pace at which new construction is leased, potentially pressing owners to lower rates or offer more concessions in order to fill their buildings.

Square feet under construction as a percent of inventory

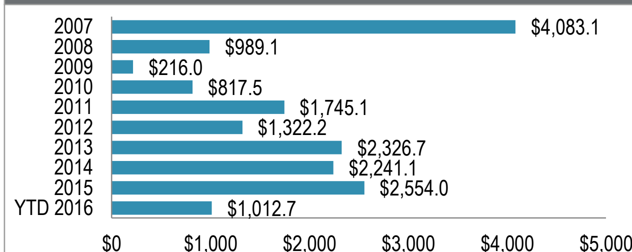


Source: JLL Research

Sales volume sees slackening

For the last three years, investment sales volume has surpassed $2.2 billion annually; through the first half of 2016, transaction volume has been more muted. This is not attributable to reduced interest in Denver. Rather, investors are cautiously approaching trades with more selectivity—in no small part due to global and domestic economic uncertainty, as well as the impending Presidential election. Pricing has leveled off (even retreating in some cases) because buyers want more return for the perceived risk. Still, properties are, in fact, trading—mostly in suburban areas. Sales are expected to pick up throughout the rest of 2016, but barring a significantly strong next six months, investment volume is likely to fall short of last year's totals.

Total annual sales volume ($M)



Source: JLL Research, Real Capital Analytics

Distressed oil pricing adding to sublease availability

Since the second quarter of 2014, when available sublease space sat at 2.0 m.s.f., several more companies have placed all or part of their leased space onto the sublease market. Most are oil and gas firms looking to reduce or eliminate headcount and footprint. Between mid-2014 and this past January, the WTI Spot Price plummeted by approximately 75.0 percent. More recently, pricing has begun to rebound, but the interim saw many companies forced to immediately cut costs, often starting with real estate. The resultant (and comparatively more affordable) space has offered some tenants an opportunity to lease high-quality space at discounted rates—providing a measure of relief in a landlords' market.

Change in sublease space Q2 2014 to Q2 2016

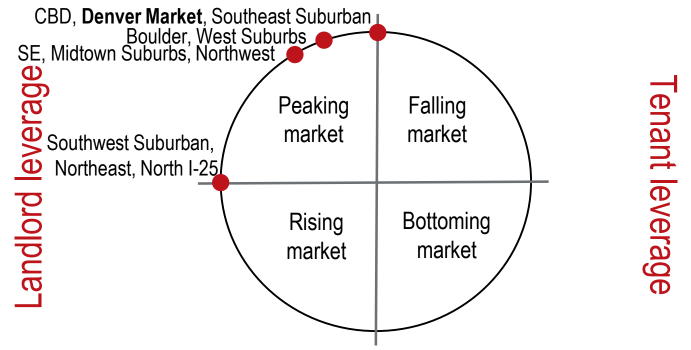
+900,000 s.f.

Increase in sublease space over the past two years

Source: JLL Research

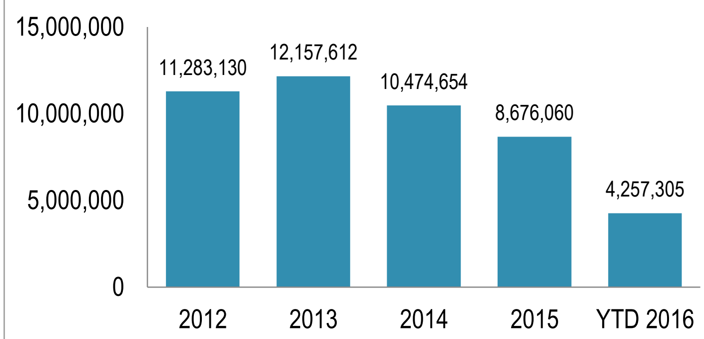
107,707,439 Total inventory (s.f.)	**178,364** Q2 2016 net absorption (s.f.)	**$26.28** Direct average asking rent	**3,339,171** Total under construction (s.f.)
13.6% Total vacancy	**-171,171** YTD net absorption (s.f.)	**7.8%** 12-month rent growth	**23.3%** Total preleased

Current conditions – submarket



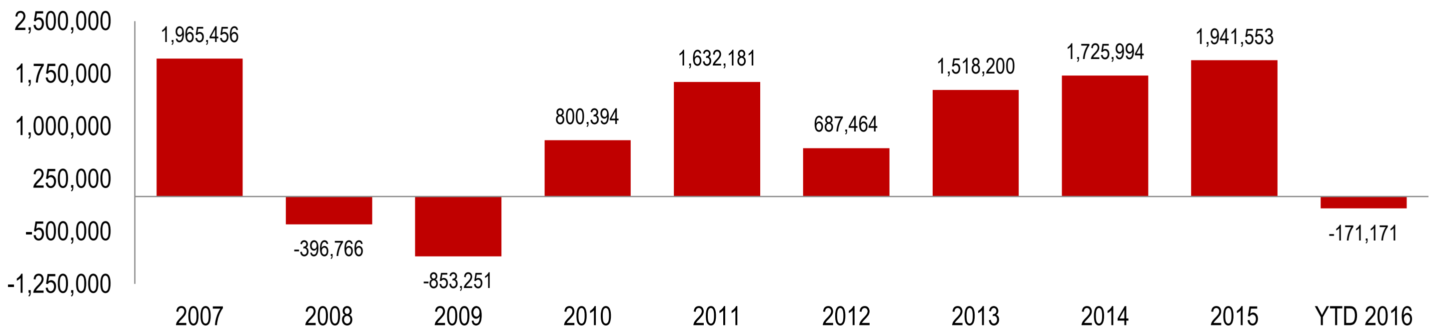
Source: JLL Research

Historical leasing activity (s.f.)



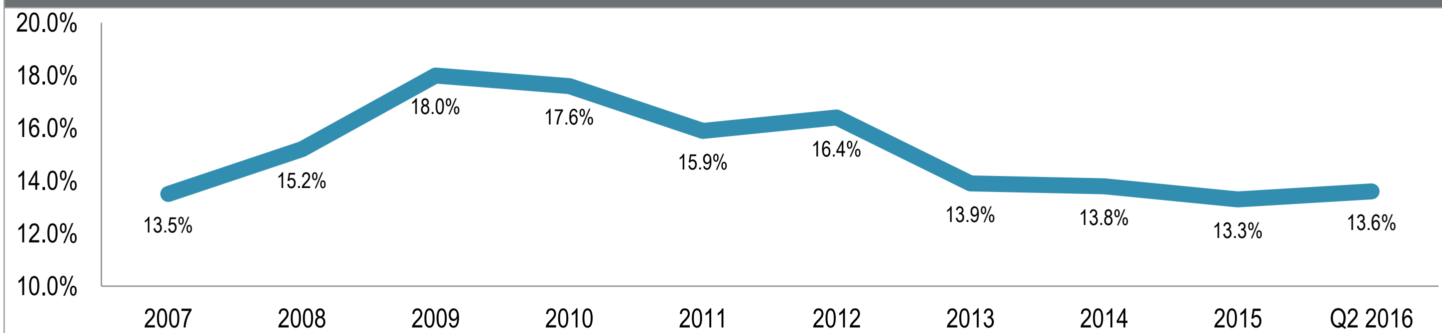
Source: JLL Research

Total net absorption (s.f.)



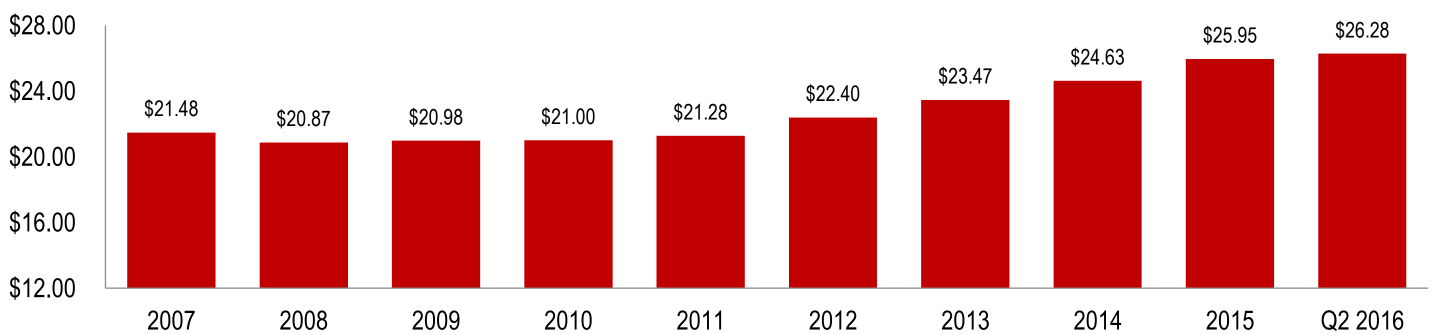
Source: JLL Research

Total vacancy rate (%)



Source: JLL Research

Direct average asking rent ($ p.s.f.)



Source: JLL Research

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