INVESTMENT FORECAST

OFFICE

Denver Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

2020

Light-Rail Expansion Highlights Office and Investor Demand in the Mile-High City

Denver's office market remarkably resilient with conditions healthy. Developers have remained disciplined when considering new projects over the past few years. Even speculative office space is largely focused in the major office districts of LoDo, the CBD and near the Denver Technology Center. FasTracks, the nation's largest transit expansion plan, is attracting both speculative projects and office-using tenants seeking locations near new stations. Transit-oriented developments account for a significant share of development, and more than a dozen new stations are underway, providing ample opportunities for new projects. However, uncertainty following WeWork's failed initial public offering could bring space in the city's core back onto the market. The coworking firm, which is the metro's largest holder of office space, recently saw a developer back away from an impending lease. Nonetheless, the overall office market has a solid foundation and bright outlook.

Mid-tier properties that can be repositioned dominate sales activity. Class B assets are aggressively targeted as investors seek buildings that can be upgraded to attract technology firms. A prevailing and ongoing strategy among investors is to capture demand at current or future stops along the metro's transit lines. As light-rail construction timelines shorten, prices for these properties climb and cap rates compress. The average cap rate at the beginning of this year was in the mid-6 percent range, the lowest in the past two decades. Class C properties garner plenty of attention, accounting for approximately 25 percent of deals and trading at first-year returns near 7 percent. Midtown and West Denver properties with a sizable vacancy component draw the most attention from buyers. Institutions and capital migrating from the coasts, meanwhile, are focused on Class A properties in the CBD, LoDo and Denver Technology Center.

2020 Market Forecast

Employment up 1.7%: The pace of employment growth declines modestly this year as 26,300 jobs are created. Office-using sectors are poised to expand 2.3 percent as 10,300 spots are created.

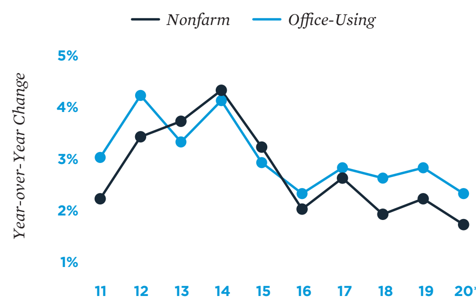
Construction 2.3 million sq. ft.: Developers pick up the pace in 2020 as inventory expands 1.4 percent. Entering the year, pre-leasing hovers near 50 percent.

Vacancy up 30 bps: Vacancy ticks up to 14.6 percent this year, erasing the 10-basis-point decline posted in 2019.

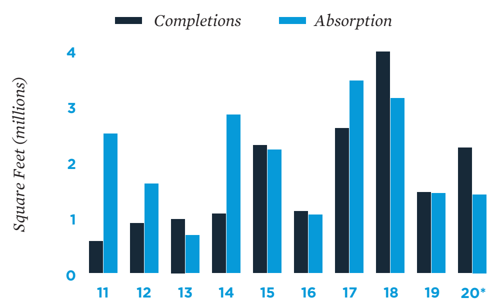
Rent up 2.2%: By year end, the average asking rent reaches $27.36 per square foot. Last year, asking rent inched up 2.3 percent.

Investment: Investors focus on transit-oriented developments near future stops along FasTracks or Class C properties with potential to retenant at higher market rents.

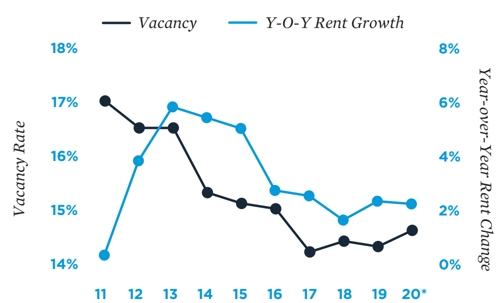
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



** Forecast*
Sources: CoStar Group, Inc.; Real Capital Analytics

Alan Pontius

Senior Vice President | Director
Office and Industrial Properties Division
(415) 963-3000
apontius@ipausa.com

Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. Forecasts for employment and office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.