

# DENVER OFFICE MARKET

## Q3 2022



### TRENDLINES

	Q3 2021	Q3 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	5.3%	3.3%	↓	4.2%	↔
NET ABSORPTION (MSF)	(189,518)	(635,225)	↓	7,742	↑
OVERALL VACANCY RATE	17.6%	18.7%	↑	14.4%	↓
OVERALL VACANT SF (MSF)	23.391	24.496	↑	18.730	↓
UNDER CONSTRUCTION (MSF)	1.187	2.330	↓	2.429	↔
ASKING RENT (PSF)	\$30.29	\$30.88	↑	\$29.13	↔
SALES VOLUME (Millions)	\$1,078.40	\$441.00	↓	\$574.70	↔

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

## MARKET REMAINS ACTIVE AMIDST TIGHTENING FINANCIAL CONDITIONS

The metro Denver office market has slowed from its promising rebound in the latter half of 2021 and beginning of this year. Inflationary pressures as well as uncertainty surrounding interest rate hikes, political elections, global conflicts, and continued supply chain issues are broad causes for a slowing real estate market and economy. Despite heightened volatility, the Denver office market has continued to move forward.

As the market proceeds into the final quarter of 2022, leasing and sales activity saw a decrease from the prior quarter, however, both tenants and buyers remain active throughout the market. Over 1.7 million square feet of space was leased during the third quarter. An abundance of sublease and large block space availabilities have continued to grow, adding upward pressure on vacancy and availability rates as well as downward pressure on rental rates.

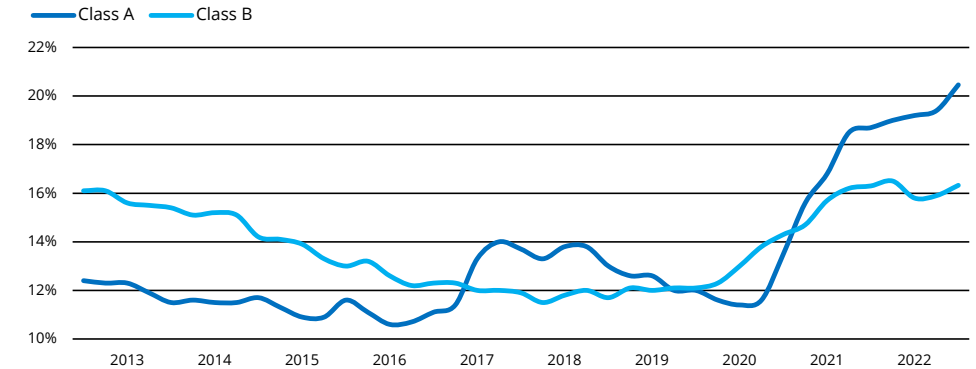


### ECONOMY

#### Positive Local Employment Hedges Economic Volatility

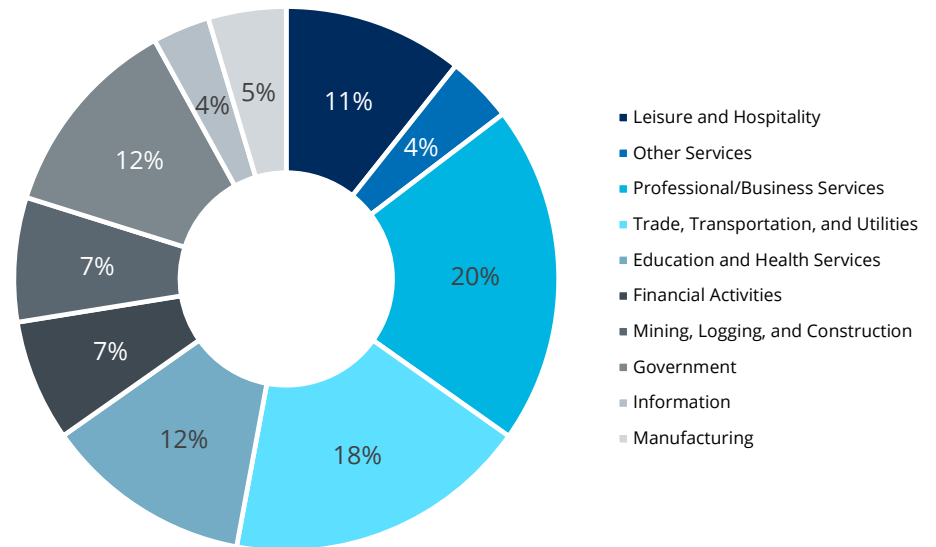
- Overall office employment across the Denver MSA continued the positive momentum seen throughout the first half of 2022.
- Current data shows that metro Denver office employment grew 3.6% in August on a year-over-year basis. All employment sectors across the metro Denver area posted positive growth over the last year. Leisure and Hospitality employment grew 8.42% over the last year. The Information and Professional and Business services sectors grew 5.93% and 4.97%, respectively.
- Metro Denver office employment continues to benefit from in-migration and a strong local economy. The current unemployment rate is at 3.3%. This year's average unemployment is 3.5%, a significant improvement from an average of 5.5% unemployment in 2021.
- The metro Denver Economic Development Corporation remains committed to bringing new and innovative companies into the market. Denver's diverse business environment and strategic geographic location also work to promote continued business growth.

### Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

### SHARE OF EMPLOYEES BY INDUSTRY



Source: Bureau of Labor Statistics, Transwestern

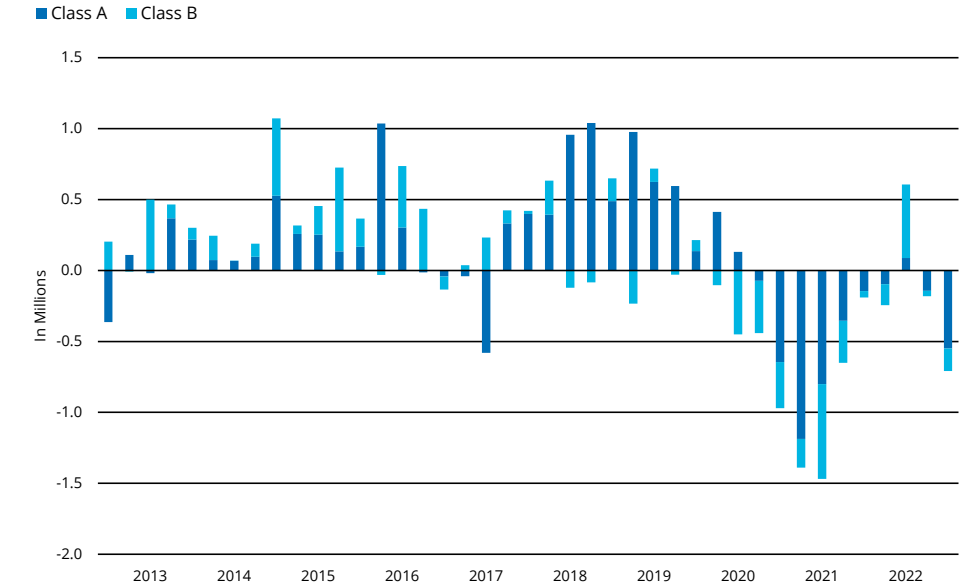


### NET ABSORPTION

#### Leasing Activity Continues with Headwinds

- The metro Denver market experienced slower demand in the third quarter due to continued volatility within financial markets.
- Although leasing activity surpassed 1.7 million square feet, net absorption remained negative for the second consecutive quarter this year.
- Negative absorption was driven mainly by Class A product within Denver’s two main employment hubs, the Southeast and Downtown submarkets.
- Negative net absorption amongst these specific submarkets has been partially driven by the massive influx of new delivery office properties between 2021 and this year.
- Many businesses that have resolved to hybrid policies have leased smaller spaces, leaving many large corporate offices vacant or available for sublease. An influx of sublease and large block space (50k+ SF) has also recently become available.

### NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

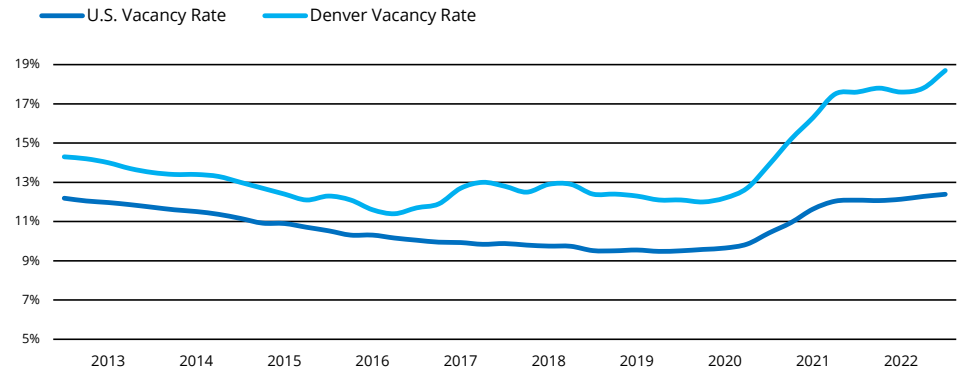


### VACANCY & AVAILABILITY

#### Large Block and Sublease Availabilities Increase Vacancy Rate

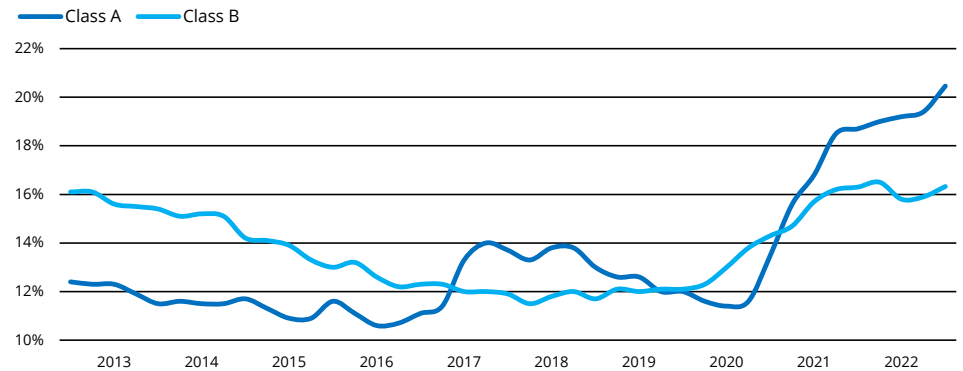
- Overall vacancy in Denver currently stands at 18.4%. An increase in vacancy has mainly been influenced through negative net absorption among large-block Class A properties.
- This quarter's rise in vacancy occurred after over a year of relatively stagnant rates averaging around 17.7%. The rise in vacancy has also created an increase of available square feet, which now totals a historic high of 32.6 million square feet.
- Volatility throughout the macroeconomic environment this year has slowed the otherwise encouraging trends that began to take shape in 2021.
- Quarter 3 closed with direct vacancy at 15.9% and sublet vacancy at 2.56%.
- Positive unemployment gains and projections for the next 10 years will drive performance through any short-term headwinds.

### OVERALL VACANCY RATE



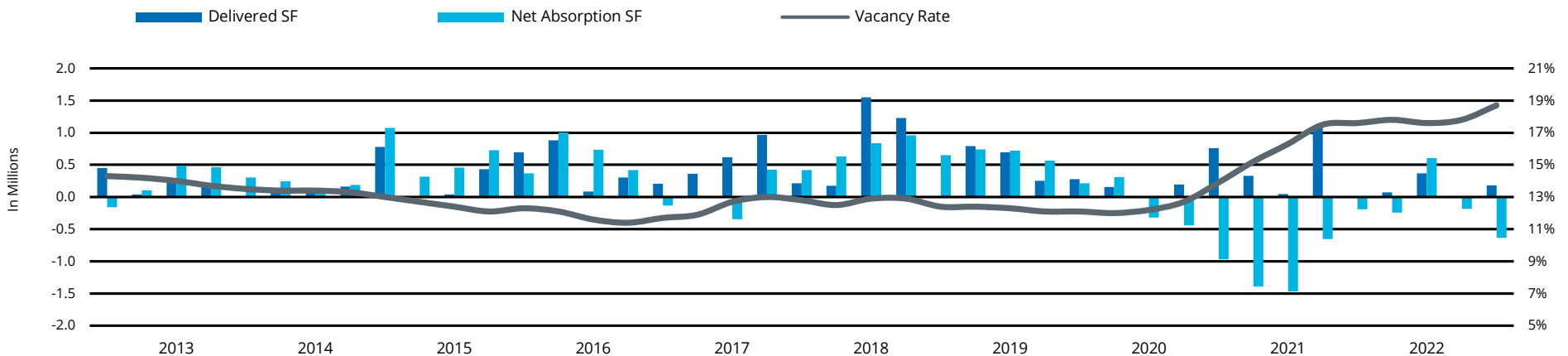
Source: CoStar, Transwestern

### DENVER OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

### DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

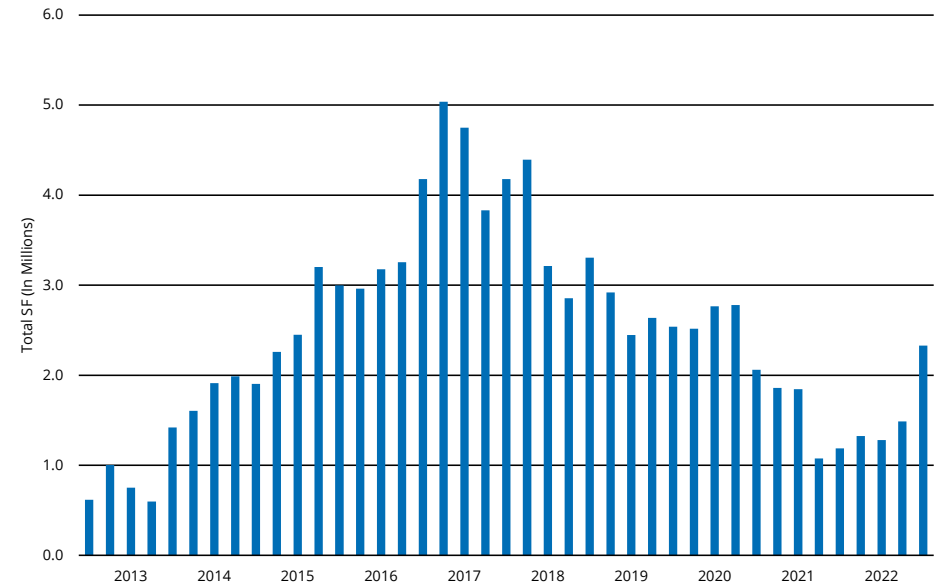


### UNDER CONSTRUCTION

#### Pipeline Remains Active Across Key Submarket Clusters

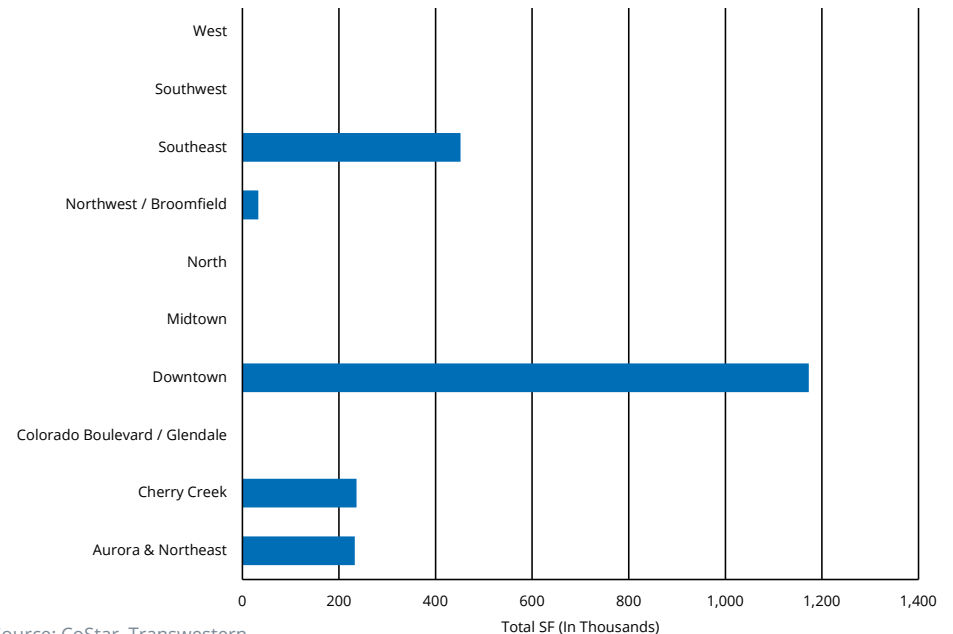
- Construction in Denver is booming with 13 new properties currently under construction and 8 more currently in final planning stages.
- Total square feet currently under construction totals more than 2.3 million square feet, 44% of which has broken ground in 2022. The only delivery during Quarter 3 was Kiewit’s new Regional Headquarters at 10055 Trainstation Circle.
- New construction projects are primarily located in the RiNo, Cherry Creek, and Southeast I-25 corridor submarkets.
- Modernization of Denver’s office space through both new construction and renovations will attract new businesses as well as retain tenant interest in an era where working from home has become widely popular.
- “Experiential office” has become highly favored among tenants and will continue to drive demand towards higher quality assets.

### UNDER CONSTRUCTION



Source: CoStar, Transwestern

### UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

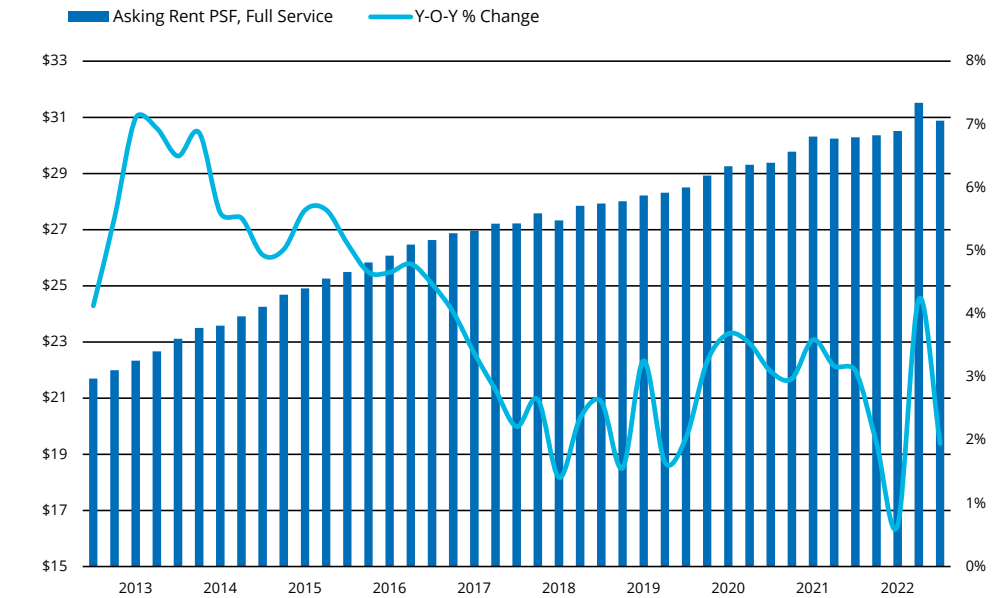


### RENTAL RATES

#### Rates Show Modest Increase Across the Metro Market

- Market and asking rates have remained relatively stagnant over the preceding eight quarters. A slight decline occurred in 2020 with market rates, however, asking rates continued to rise during this time.
- On a year-over-year basis, the market rate has increased just 1% to \$30.62 per square foot. Over the same period asking rates have climbed 3.87% to \$30.88 per square foot.
- Inflationary pressures have pushed asking rates above the average market rate.
- Comparing rates among each submarket cluster on a yearly basis helps identify trends across the entire metropolitan market area. Clusters that recorded the largest rental rate growth (asking rate) over the last year are:
  - Northwest & Broomfield: 10.9%
  - Downtown: 4.9%
  - Aurora & Northeast: 4.4%
- For context, traditionally high rate submarkets like Cherry Creek recorded negative rate gains, while the remainder of the metro market recorded little to no change of 1% or less.

### ASKING RENT



Source: CoStar, Transwestern

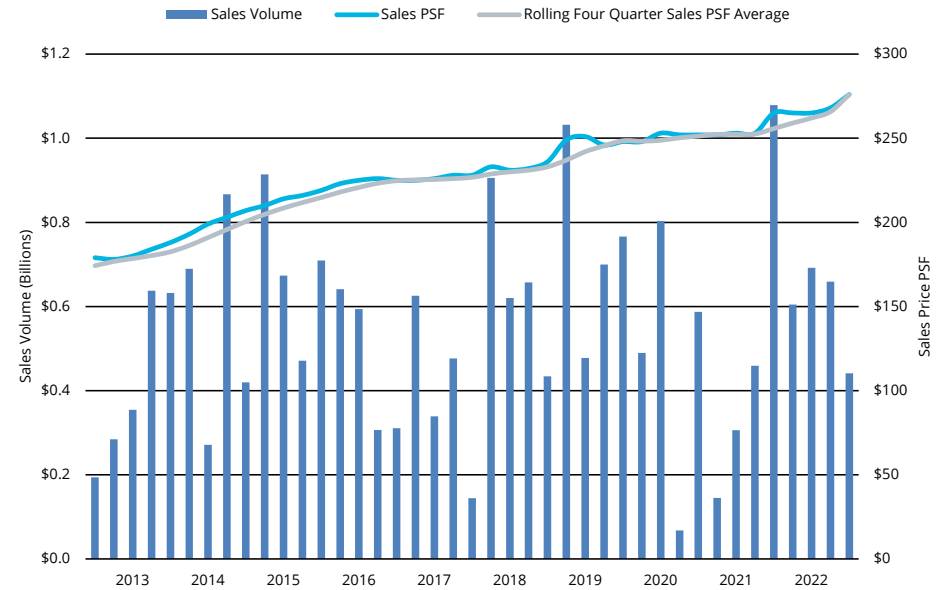


## SALES

### Sales Remain Active

- Sales volume in quarter three totaled \$400 million. While total sales volume was less than the first two quarters of this year, the sales price per square foot reached a historic high of \$274.
- Despite macroeconomic effects and rapidly rising interest rates, sales activity over the first three quarters of this year are only 12% less than the first three quarters of 2019.
- The top sale of this quarter was the U.S. Bank building at 210 University Boulevard. The property sold for \$67.7 million and is located in the Cherry Creek submarket, which is an area with high demand.

## SALES VOLUME



Source: CoStar, Transwestern



## NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
REGIONAL TRANSPORTATION DISTRICT	1560 Broadway	CBD	Direct	84,903
TNHC COLORADO, INC.	6430 S Fiddlers Green Cir	Greenwood Village	Direct	12,417
THE FACTION GROUP	821 17th St	CBD	Direct	11,122
AMERITA, INC.	5299 DTC Blvd	Denver Tech Center	Direct	10,214
REVGEN PARTNERS	1331 17th St	LoDo	Direct	10,049

Source: CoStar, Transwestern

## NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
200 UNIVERSITY BLVD	Cherry Creek	\$67,700,000	186,366	\$363.26	Corum Real Estate Group, Inc.	Pacific Life Insurance Company
390 INTERLOCKEN CRESCENT (PORTFOLIO SALE)	Broomfield County	\$60,500,000	241,516	\$250.50	Urban Renaissance Group	Franklin Street Properties
4582 S ULSTER ST	Denver Tech Center	\$50,000,000	363,416	\$137.58	Menashe Properties	Angelo, Gordon & Co
380 INTERLOCKEN CRESCENT (PORTFOLIO SALE)	Broomfield County	\$42,000,000	240,185	\$174.87	Urban Renaissance Group	Franklin Street Properties
270 ST. PAUL ST	Cherry Creek	\$18,100,000	28,230	\$641.16	Fulenwider, Inc.	Pauls Corp

Source: CoStar, Transwestern



## MARKET INDICATORS

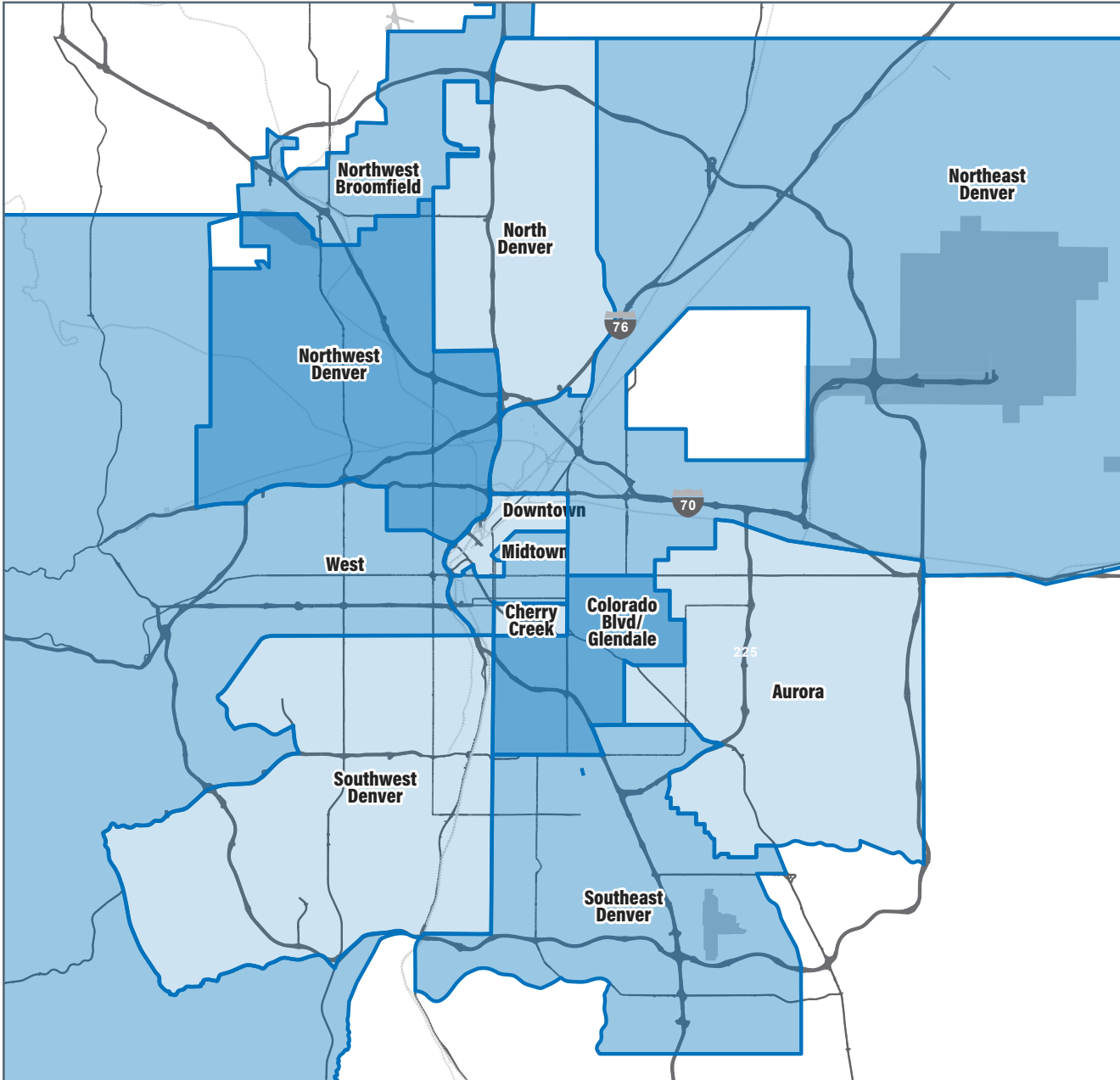
## Class A

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF
AURORA & NORTHEAST	1,882,502	318,400	16.0%	17.0%	232,527	(10,007)	6,910	\$25.97
CHERRY CREEK	1,517,568	39,173	2.5%	2.9%	236,538	5,409	126,174	\$34.86
COLORADO BOULEVARD & GLENDALE	3,563,474	712,172	20.0%	21.3%	0	31,486	50,820	\$31.29
DOWNTOWN	28,056,056	5,319,206	19.1%	23.9%	1,143,036	(156,068)	(454,592)	\$38.90
MIDTOWN	1,351,612	165,025	12.2%	16.7%	0	13,185	30,484	\$29.39
NORTH	644,155	31,144	4.8%	4.8%	0	1,467	4,014	\$27.63
NORTHWEST & BROOMFIELD	5,654,510	851,104	15.0%	15.5%	32,734	13,765	(22,634)	\$30.83
SOUTHEAST	24,923,774	4,497,216	17.7%	21.0%	451,782	(434,955)	(394,751)	\$29.58
SOUTHWEST	1,550,806	52,252	3.4%	4.2%	0	5,383	68,370	\$25.96
WEST	1,927,951	170,169	8.8%	14.6%	0	(18,749)	(35,920)	\$26.60
<b>TOTAL</b>	<b>71,072,408</b>	<b>12,155,861</b>	<b>17.9%</b>	<b>20.5%</b>	<b>2,096,617</b>	<b>(549,084)</b>	<b>(621,125)</b>	<b>\$30.10</b>

## MARKET INDICATORS

## Class B

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF
AURORA & NORTHEAST	6,188,507	572,107	9.4%	9.5%	0	(7,828)	203,273	\$21.17
CHERRY CREEK	1,183,661	99,956	8.9%	9.4%	0	551	38,571	\$35.83
COLORADO BOULEVARD & GLENDALE	4,696,734	541,500	11.5%	14.6%	0	(7,366)	(15,895)	\$26.13
DOWNTOWN	10,410,545	2,357,170	22.6%	23.2%	30,000	(143,303)	(205,883)	\$35.67
MIDTOWN	1,719,292	368,072	21.4%	22.4%	0	(48,791)	(110,421)	\$28.75
NORTH	2,275,747	311,066	12.8%	16.5%	0	10,018	4,646	\$24.91
NORTHWEST & BROOMFIELD	4,862,128	433,242	9.0%	9.1%	0	(77,831)	(50,935)	\$26.66
SOUTHEAST	18,216,170	2,768,116	15.6%	18.6%	0	78,268	36,023	\$23.97
SOUTHWEST	4,521,813	483,167	10.7%	11.1%	0	11,513	17,400	\$20.97
WEST	7,048,036	1,020,771	14.5%	15.4%	0	24,986	175,471	\$24.93
<b>TOTAL</b>	<b>61,122,633</b>	<b>8,955,167</b>	<b>16.2%</b>	<b>16.3%</b>	<b>30,000</b>	<b>(159,783)</b>	<b>92,250</b>	<b>\$26.90</b>



### RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Denver Metropolitan area. This report includes single-tenant, multi-tenant and owner-user properties and excludes properties owned and occupied by a government agency. This analysis includes only properties over 25,000 SF and excludes medical properties such as hospitals and medical campuses.

### FOR MORE INFORMATION

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