

SOUTHEAST DENVER OFFICE MARKET

Q2 2023



TRENDLINES

| | Q2 2022 | Q2 2023 | ONE-YEAR TREND | FIVE-YEAR AVERAGE | 12-MONTH FORECAST |
|--------------------------|-----------|----------|----------------|-------------------|-------------------|
| UNEMPLOYMENT RATE | 2.7% | 2.8% | ↑ | 4.2% | ↑ |
| NET ABSORPTION (SF) | (459,666) | (13,281) | ↑ | (55,547) | ↑ |
| OVERALL VACANCY RATE | 17.8% | 18.4% | ↑ | 18.3% | ↓ |
| OVERALL VACANT SF (MSF) | 8.207 | 8.522 | ↑ | 7.161 | ↓ |
| UNDER CONSTRUCTION (MSF) | 657,360 | 656,765 | ↔ | 499,503 | ↓ |
| ASKING RENT (PSF) | \$27.31 | \$27.22 | ↓ | \$26.40 | ↓ |
| SALES VOLUME (Millions) | \$237.37 | \$73.60 | ↓ | \$154.59 | ↑ |

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

FLIGHT TO QUALITY HOLDS TRUE IN AN ENDURING SOUTHEAST MARKET

Q2 yielded mix results as tenants flee Class B product in favor of more modern, amenitized Class A properties. Overall, the market is certainly feeling the squeeze of larger macroeconomic headwinds plaguing office leasing and investment across the nation. Sustained rate hikes and uncertainty in return to office plans have created a very skittish environment as tenants continue to establish hybrid back-to-work models and struggle to find available financing.

As expected, vacancies are up slightly while leasing activity and absorption have shown marginal declines. The brunt of this weakness can be attributed to Class B properties. Coupled with strong absorption for Class A buildings, new availability in these quality spaces is clearly enticing an already limited number of prospective office tenants. On a brighter note, office sales have rebounded significantly from their historic lows last quarter and rents have seen marginal increases across the board. As the Southeast market struggles to find solid footing in an uncertain, but increasingly optimistic market, it's clear that there is still some remaining demand for quality products, just at the right price and terms.

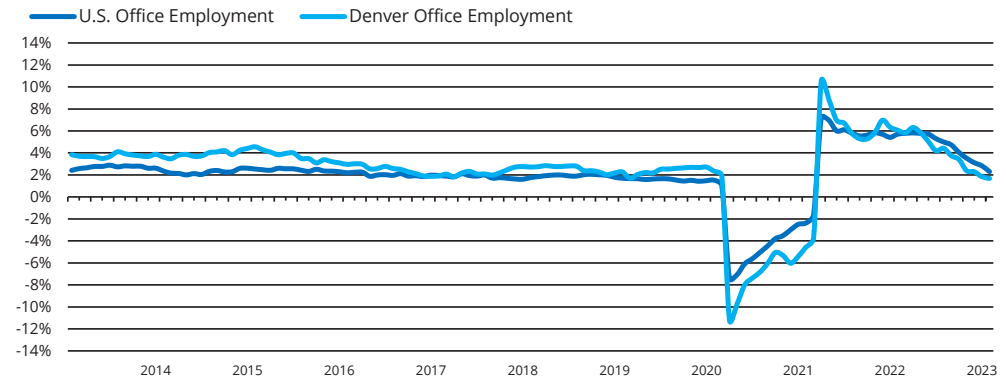


METRO DENVER ECONOMY

Mixed Results in Finance & Tech with Strength in Government Jobs

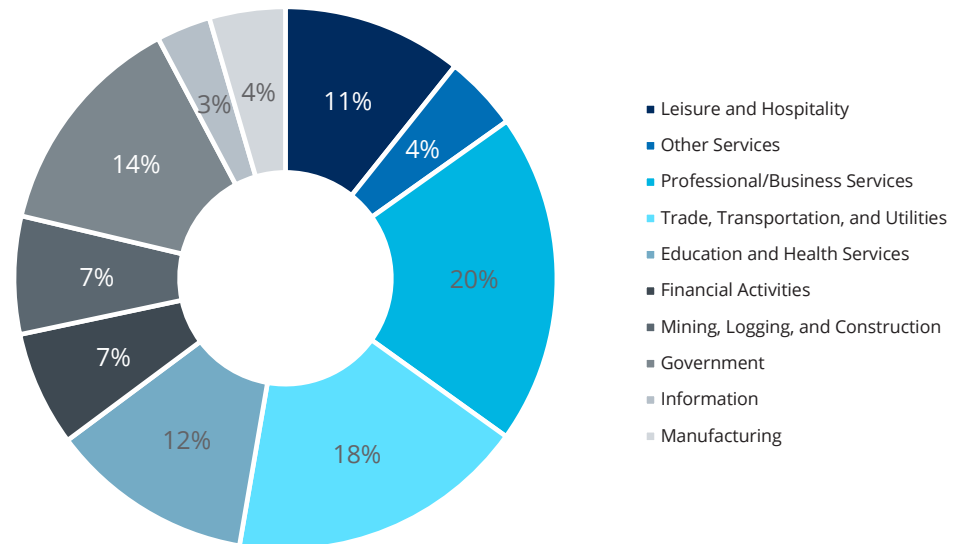
- Office employment across the Denver MSA remains resilient despite the Federal Reserve's efforts. In aggregate, the market's unemployment rate has seen a quarterly decrease of 0.4% landing at 2.8% while it has decreased 0.3% on a yearly basis from 3.1% in Q2 2022.
- The market primarily continues industry trends from last quarter with the financial activities and information services persisting in weighing down the market's employment metrics at -8.4% and -5.3% respectively. Trade, Transportation and Utilities also came in lower at -5.1%.
- Employment in Government jobs strengthened adding 5.1% compared to the national average of 2.8%.
- Where the national numbers reflected chiefly positive employment growth, Denver experienced a slight dip in year-over-year employment. The state of the Denver job market reflects downstream effects of the Federal Reserve's attempts at righting inflation. Their now over yearlong crusade at slowing down the job market with rising interest rates have successfully cooled hiring in the Tech, IT, and Financial Service industries. That said, job growth may have reached a slight lull in Denver, but the area remains near 10-year historical lows at 2.8% unemployment showing the resilience this market has maintained through and following the pandemic.

Y-O-Y CHANGE IN DENVER OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF DENVER EMPLOYEES BY INDUSTRY



Source: Bureau of Labor Statistics, Transwestern

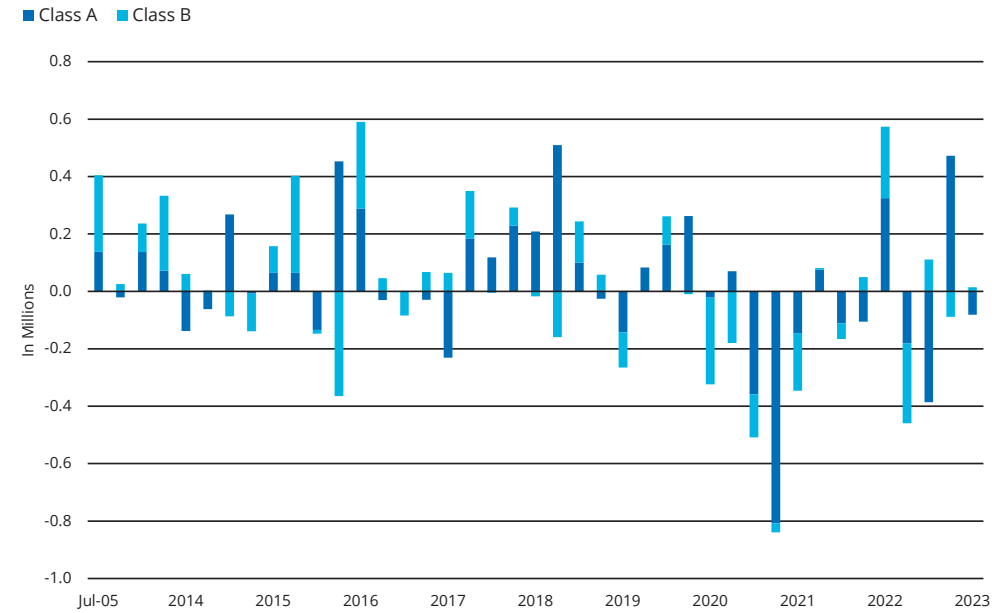


NET ABSORPTION

Class A Outshines Class B

- At first glance, the Southeast market appears to show weakness by most metrics.
- Following last quarter, absorption is in the red again at -64,000 SF between direct and subleased spaces. Year to date as of the end of Q2 absorption came in at -91,000 SF.
- Leasing activity also came in slightly lower at 826,000 SF compared to Q1s 831,000 SF. However, looking year over year Southeast leasing activity was up a meaningful 10% from Q2 2022s 750,000 SF.
- If the results are split between asset class, there is a clear bifurcation in metrics. Of the total net negative absorption of -64,000 SF in the Southeast market, Class B contributed -166,000 SF where Class A products yielded positive absorption of 101,000 SF.
- The top 3 submarkets with most year over year net absorption were Inverness at 236,000 SF, Greenwood Village at 180,000 SF, & Lone Tree at 120,000 SF
- The 3 leaders in negative year over year net absorption were Centennial at -357,000 SF, Panorama / Highland Park at -281,000 SF, and Highlands Ranch at -12,000 SF
- Demand in the Southeast market appears to be rooted in opportunity for lower sublease rates in increasingly more available class A product that is not feasible in urban areas such as the CBD, Platte River, and RiNo submarkets.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

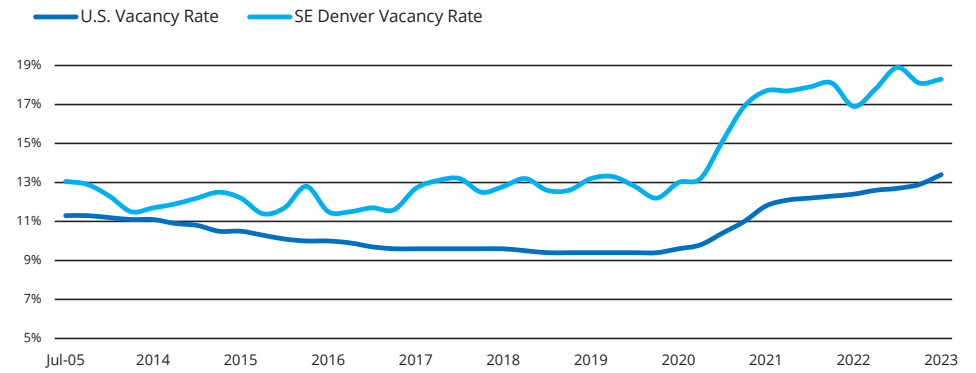


VACANCY & AVAILABILITY

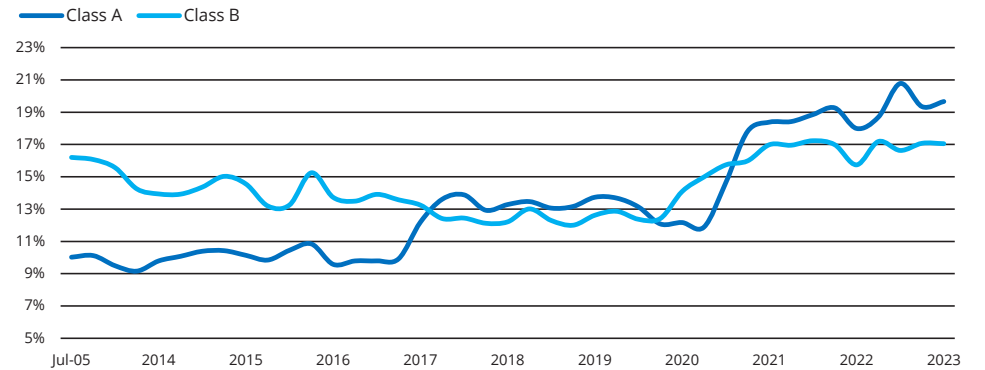
Availability & Vacancies Continue Record Highs Amidst Strength in Subleasing

- Vacancy across the Southeast is at 18.5%, a marginal change from Q1's 18.4%.
- Another 75,000 SF of vacant space was added in Q2 extending the past 5 quarters uptrend. At 8.1 MSF, Q2 delivered another all-time high in vacant space.
- Following the vacancy numbers, available space reached an all-time high of 12.1 MSF, up 3% quarter over quarter and up 11% on a year over year basis. With the ongoing upswing, a record 26% of the market is currently available for sublease or direct lease.
- One big difference in availability this quarter vs the last is its composition by lease type. Sublease availability was down for Q2 by 245,000 SF or 10%. Unfortunately, the decline in sublease space was far outweighed by the direct lease addition of 582,000 SF or 6%.
- There is also value in breaking out these metrics by class and lease type. Although this quarter yielded another all-time high vacancy, Class A vacancy fell over 100,000 SF where Class B vacancy rose 176,000 SF. Furthermore, direct leasing vacancies, regardless of product class, are up for the quarter. When looking at the subleases, however, only Class A vacancies have seen a marginal decline.
- This quarter's office leasing shows a noticeable preference for subleasing in more modern and improved Class A products. Tenants while recently more optimistic, are still uncertain where the market is headed. In today's environment, a multitude of options are available in terms of pricing, concessions, and length, tenants are fit to stand on the sideline to wait for calmer waters before fully committing to a long-term space.

OVERALL VACANCY RATE



DENVER OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

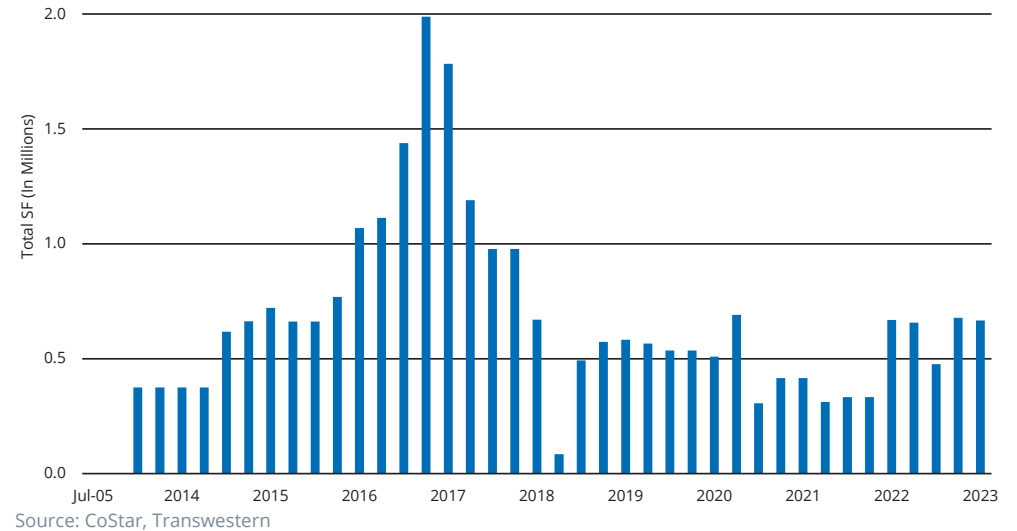


UNDER CONSTRUCTION

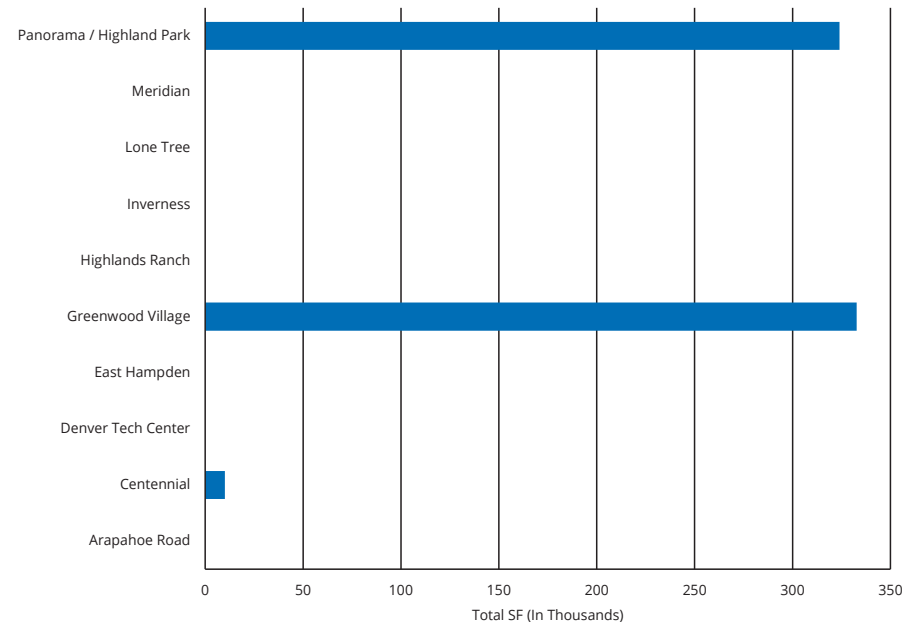
New Projects Underway, 36 Acre Development Breaks Ground

- Currently 3 properties are under way in the Southeast market that will result in 656,000 SF of new office space.
 - The largest property, called Westray Tower 1, will be located at 6363 Greenwood Plaza Blvd within the Greenwood village submarket. There is second Westray Tower, aptly titled Westray Tower 2, currently under proposal and slated to start in 2026. The ongoing project is expected to finish in 2025 and add 332,775 SF to the available market space.
 - A portfolio of office space known as The District, also broke ground this quarter. Building Four and Building Three are both underway and expected to add a total of 313,000 SF to the Panorama/ Highland Park submarket.
- » Plans for this 36-acre destination neighborhood will eventually include approximately 2.5 million square feet of office space, 30,000 square feet of retail space, 1,800 residential units, as well as a 200-key hotel.

UNDER CONSTRUCTION



UNDER CONSTRUCTION BY SUBMARKET



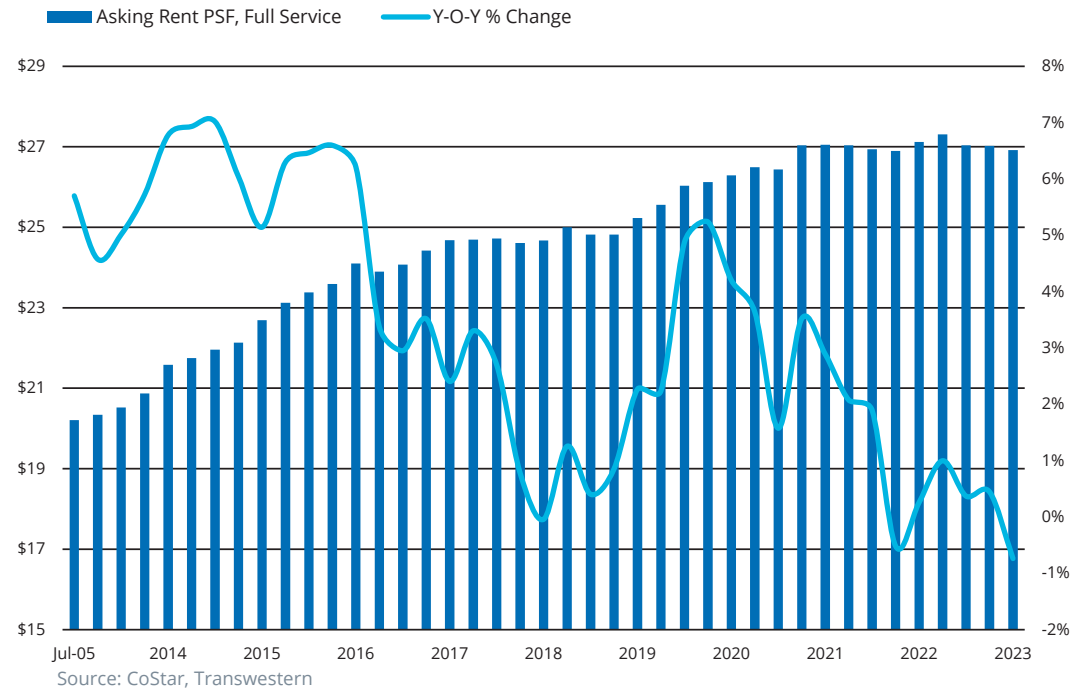


RENTAL RATES

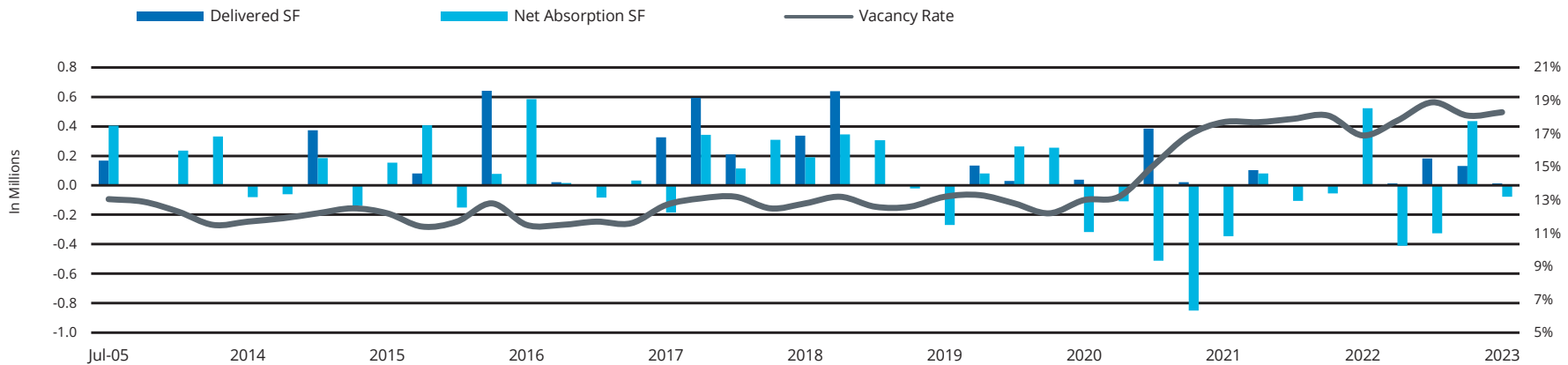
Rents Hold Steady; Sublease Rates Begin to Fall

- Average market rates remained virtually unchanged, while average asking rates saw a slight decline on a quarterly basis.
- Southeast submarkets yielding the largest asking rate growth over the last twelve months include Arapahoe Road (7.7%) and Meridian (6.7%).
- Average rents across the submarket for Q2 weighted by inventory share came in at \$26.96. Quarter over quarter, average rents came up a marginal \$0.22 or 0.8%
- Between the lease types, both direct and sublease rates saw a slight uptick this quarter. Direct rates ended the quarter up just \$0.13 at \$27.90 while sublease rates went up \$0.18 to close the quarter at \$19.22. While sublease rates remain near 10-year lows because of a glut in supply of newly available sublease space, direct rates continue to keep in line with an over decade long trend of steady increases.

ASKING RENT



DELIVERY IMPACT ON KEY INDICATORS



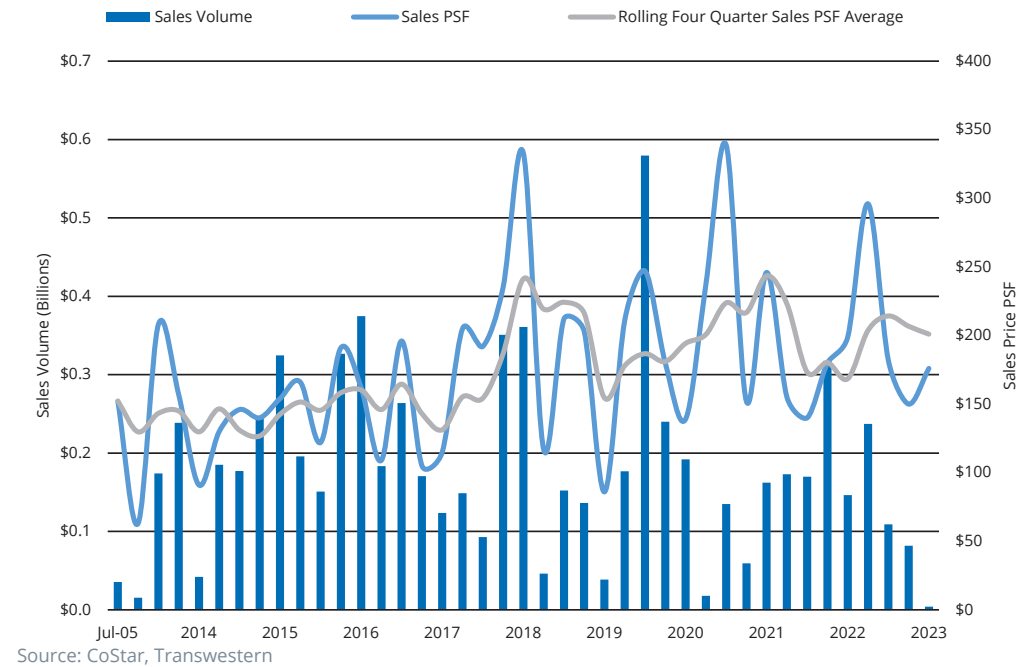


SALES

Investment Activity Volatile Off Record Lows

- Coming off Q1's less-than-stellar sales of \$4.1 million, quarter over quarter sales are up to \$73 million. While hopeful, Q2 sales were still well below both the 10-year average of \$180 million and the 5-year average of \$150 million.
- 9 office properties exchanged hands this quarter with the average sale price at \$176/SF.
 - » Of these 9 properties, 3 sold were over 50,000 SF
- Sale price is in line with the 10 year and 4 quarter average of \$176 and \$171, respectively. Still, \$176 remains below the 5-year average which remains buoyed at \$199 due to the volatility in pricing throughout the pandemic.
- We can expect sales to be muted for the foreseeable future as markets search for suitable commercial property valuations and uncertainty over quantitative tightening soothes to an expected softer landing.

SALES VOLUME





NOTABLE LEASES

| TENANT | ADDRESS | SUBMARKET | TYPE | SF LEASED |
|-------------------------------------|----------------------|-------------------|--------|-----------|
| ARAPAHOE COUNTY PUBLIC HEALTH DEPT. | 6162 S WILLOW DR | Greenwood Village | Direct | 51,688 |
| UTILITY GLOBAL, INC. | 373 INVERNESS PKY | Inverness | Direct | 19,346 |
| INTEGRATED MEDICAL EVALUATIONS | 6143 S WILLOW DR | Greenwood Village | Direct | 7,429 |
| BOHANNAN HOUSTON, INC. | 10303 E DRY CREEK RD | Inverness | Direct | 7,106 |

Source: CoStar, Transwestern

NOTABLE SALES

| ADDRESS | SUBMARKET | SALES PRICE | BUILDING SF | PRICE PSF | BUYER | SELLER |
|--------------------|-------------------|-------------|-------------|-----------|--------------------------------------|-------------------------------|
| 7790 E ARAPAHOE RD | Greenwood Village | \$2,060,000 | 13,638 | \$151.05 | Realty One Group Premier | Ironton Investments 5 |
| 12737 E EUCLID DR | Centennial | \$1,950,000 | 10,000 | \$195.00 | Todd C Burnham | Gamma Phi Beta Sorority, Inc. |
| 7450 E PROGRESS PL | Greenwood Village | \$1,725,000 | 10,415 | \$165.63 | Leeds West Group, Inc. | Not Disclosed |
| 2690 S HOLLY ST | East Hampden | \$1,696,000 | 12,500 | \$135.68 | Montessori School of Washington Park | ArrowMark Partners |

Source: CoStar, Transwestern



MARKET INDICATORS

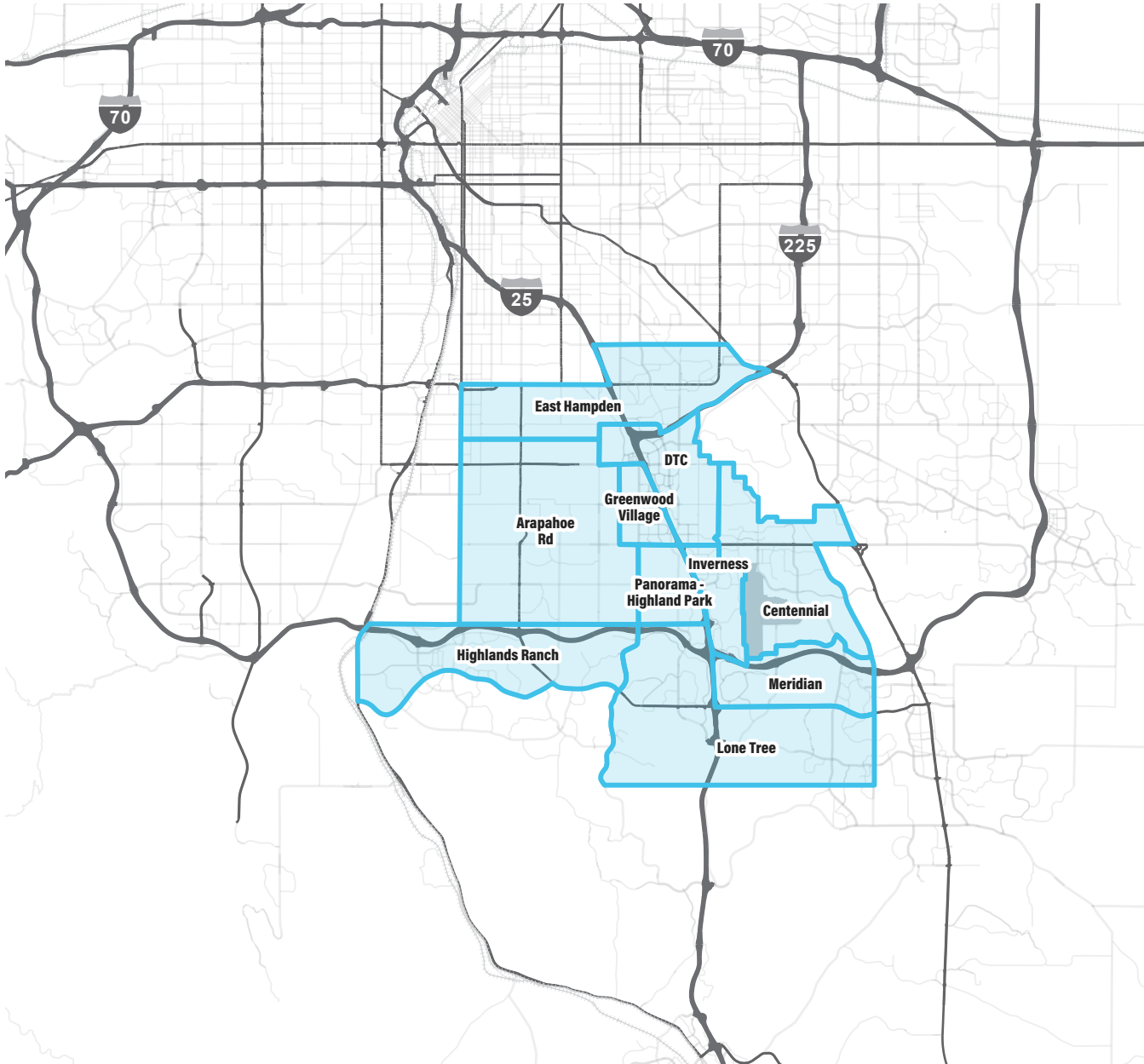
Class A & B

| 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 |
|--------------------------|-------------------|------------------|---------------------|----------------------|-----------------------|-------------------|-------------------------|-----------------|
| ARAPAHOE ROAD | 874,244 | 140,959 | 16.1% | 16.3% | 0 | (11,490) | 16,630 | \$26.94 |
| CENTENNIAL | 2,522,856 | 470,767 | 18.7% | 25.5% | 10,050 | (45,546) | (356,835) | \$19.91 |
| DENVER TECH CENTER | 12,734,850 | 1,717,810 | 13.5% | 15.5% | 0 | 101,765 | 40,786 | \$29.14 |
| EAST HAMPDEN | 3,092,687 | 455,090 | 14.7% | 15.3% | 0 | 7,336 | 31,056 | \$20.01 |
| GREENWOOD VILLAGE | 9,438,549 | 1,768,640 | 18.7% | 22.9% | 332,781 | (136,956) | 186,117 | \$28.62 |
| HIGHLANDS RANCH | 2,205,778 | 421,980 | 19.1% | 18.5% | 0 | (11,603) | (12,086) | \$31.14 |
| INVERNESS | 5,604,516 | 886,111 | 15.8% | 18.3% | 0 | 83,609 | 236,765 | \$24.80 |
| LONE TREE | 2,938,258 | 347,903 | 11.8% | 13.1% | 0 | (79,984) | 123,308 | \$28.94 |
| MERIDIAN | 3,359,207 | 530,283 | 15.8% | 17.4% | 0 | 17,111 | 33,436 | \$24.58 |
| PANORAMA / HIGHLAND PARK | 3,596,478 | 560,148 | 15.6% | 20.3% | 323,984 | 62,477 | (280,801) | \$27.25 |
| TOTAL | 46,367,423 | 7,299,691 | 16.1% | 18.4% | 666,815 | (13,281) | 18,376 | \$26.96 |

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 |
|--------------------------|-------------------|------------------|---------------------|----------------------|-----------------------|-------------------|-------------------------|-----------------|
| ARAPAHOE ROAD | 586,119 | 77,515 | 13.2% | 13.5% | 0 | (16,954) | (34,207) | \$21.98 |
| CENTENNIAL | 2,068,718 | 601,661 | 7.4% | 15.2% | 0 | (32,988) | (28,103) | \$19.91 |
| DENVER TECH CENTER | 3,541,056 | 577,713 | 17.0% | 18.4% | 0 | (41,879) | 9,231 | \$26.52 |
| EAST HAMPDEN | 2,066,102 | 243,459 | 11.8% | 12.3% | 0 | (588) | 5,795 | \$17.69 |
| GREENWOOD VILLAGE | 4,846,119 | 767,621 | 15.8% | 23.5% | 0 | (36,894) | 77,049 | \$24.65 |
| HIGHLANDS RANCH | 893,796 | 58,941 | 6.6% | 7.0% | 0 | (16,717) | 4,119 | \$24.38 |
| INVERNESS | 3,006,337 | 544,789 | 18.1% | 21.7% | 0 | (29,117) | 44,505 | \$21.99 |
| LONE TREE | 520,170 | 19,805 | 3.8% | 3.8% | 0 | 4,833 | 728 | \$25.77 |
| MERIDIAN | 528,513 | 46,667 | 8.8% | 8.8% | 0 | (11,480) | (8,350) | \$24.05 |
| PANORAMA / HIGHLAND PARK | 1,633,519 | 326,843 | 20.0% | 20.5% | 323,984 | 15,757 | (166,755) | \$27.51 |
| TOTAL | 19,690,449 | 3,265,014 | 14.3% | 18.1% | 323,984 | (166,027) | (95,988) | \$23.45 |



RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Southeast Suburban Denver market. This report includes single-tenant, multi-tenant and owner-user properties and excludes properties owned and occupied by a government agency. - This report includes Class A & B properties 10,000 square feet or larger and excludes all properties owned by medical or government entities.

FOR MORE INFORMATION

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