

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 (MSF)	(0.136)	(0.023)	↑	(0.125)	↑
OVERALL VACANCY RATE	17.4%	18.9%	↑	14.9%	↓
OVERALL VACANT SF (MSF)	23.616	25.698	↑	20.011	↓
UNDER CONSTRUCTION (MSF)	2.439	4.029	↑	2.421	↓
ASKING RENT (PSF)	\$30.90	\$30.90	↔	\$29.35	↓
SALES VOLUME (Millions)	\$656.01	\$61.66	↓	\$525.14	↑

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

MARKET SHOWS SIGNS OF IMPROVEMENT ALONGSIDE INFLATION STABILIZATION

The metro Denver market improves on weak Q1 metrics with growth in net absorption and vacancies. Compared to Q1s outflows of 1.1 MSF, Q2 came in strong with outflows of 83,000 SF. Specifically, direct leasing came in at -283,000 SF and while sublease spaces added 202,000 SF. In terms of vacant space, Q1 added 1.2 MSF while Q2 gave an additional 200,000 SF. Coupled with minor decreases in direct and sublease rates, market conditions appear to be stabilizing as investors and owners prepare for a softer-than-expected economic landing. In contrast, sales volume remains muted given growing uncertainty over valuations and limited financing availability. Despite all that, broader economic tailwinds from slowing inflation and persistently strong employment numbers paint a picture of a stabilizing market with budding opportunities for prospective tenants and investors.

At over 4 MSF, the active construction pipeline continues its 6-year highs. Prior to the pandemic, active projects for Q4 2019 came in at 2.7 MSF. Denver's unemployment rate increased .04% this quarter, most notably from weakness in the Financial Activities and Trade, Transportation, & Utilities industries. These signs, however, reflect the efficacy of the Federal Reserve's hawkish monetary policy, not weakness in the local job market. As evidenced by strong construction numbers and a resilient macro-economic environment, the future of the Denver market as it weathers through the pandemic's wake, looked just a bit brighter in Q2.

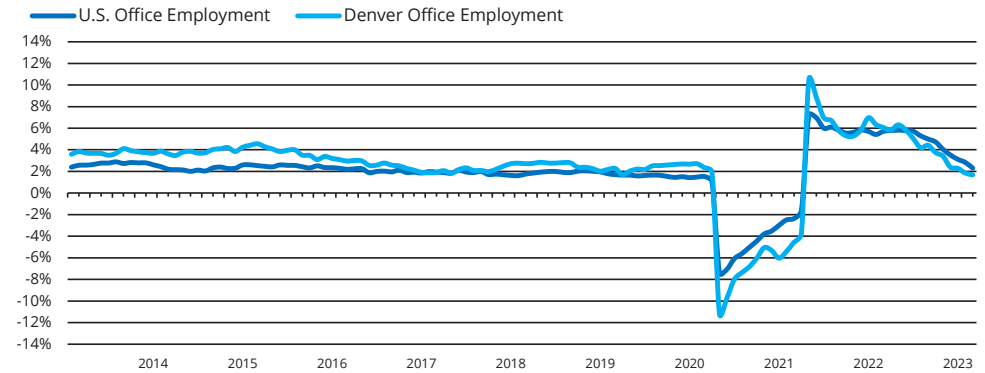


ECONOMY

Mixed Results in Finance & Tech with Strength in Government Jobs

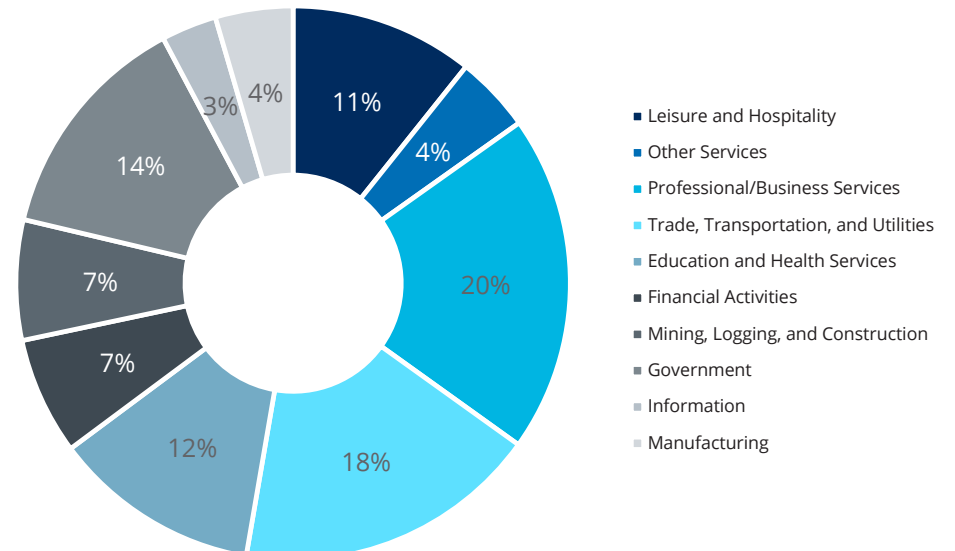
- Office employment across the Denver MSA yielded mixed results. In aggregate the market’s unemployment rate had increased .04% has continued to see growth at a year-over-year rate of 1.1%, while National employment grew 2.4% over the same period
- The market primarily continues last quarter’s industries trends with the financial activities and information services persisting in weighing down the market’s employment rate at -8.4% and -5.3% respectively. This quarter 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 to 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 OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY (DENVER)



Source: Bureau of Labor Statistics, Transwestern

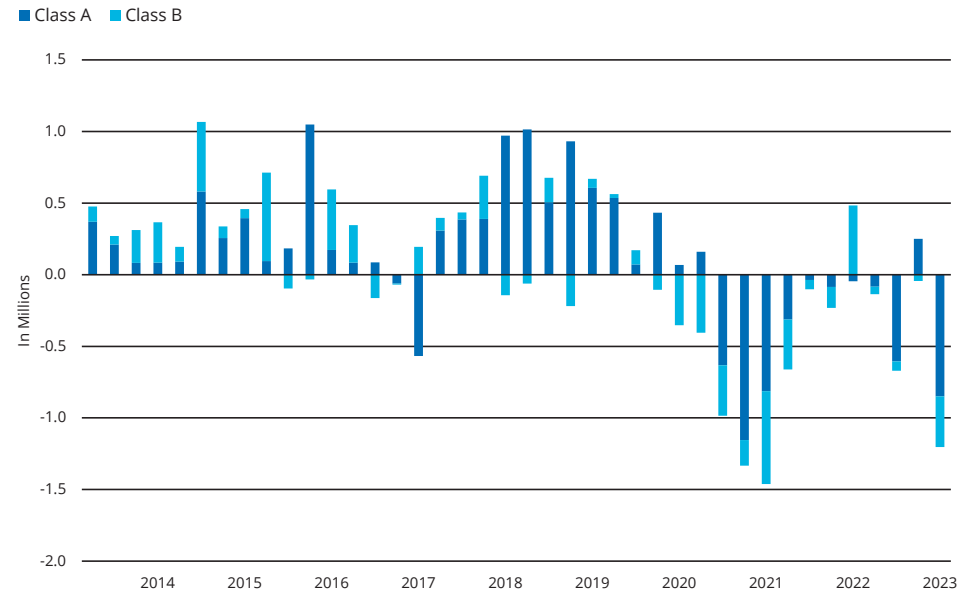


NET ABSORPTION

Absorption Returns to the Positive for Most; Direct and Sublease Space Continue to Grow

- Leasing activity continues the past trend from Q1 with a slight slump. Q2 yielded 1.56 MSF of leasing.
- Activity has evened out further between asset classes, with just 55% of total activity focused on class A properties this quarter.
- On a quarter over quarter basis, most Denver metro submarkets had positive absorption minus the Downtown and North Denver submarkets. When accounting for both direct and sublease absorption they endured negative absorption of 80,000 SF and 53,000 SF, respectively.
- On a year over year basis, half of Denver’s submarkets are negative in absorption. The Downtown and Northwest & Broomfield markets have seen the greatest outflows. Between the 2 markets, net absorption totaled at -867,050 SF signaling the headwinds still faced by office property in CBD areas as businesses continue to evaluate and re-evaluate the extent of their office needs.
- The strongest demand in the markets looks to be confined to:
 - » Opportunities for lower lease rates in class A product in suburban areas such as the Southeast, Northwest & Broomfield markets in response to lower rents and flexible leasing options.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

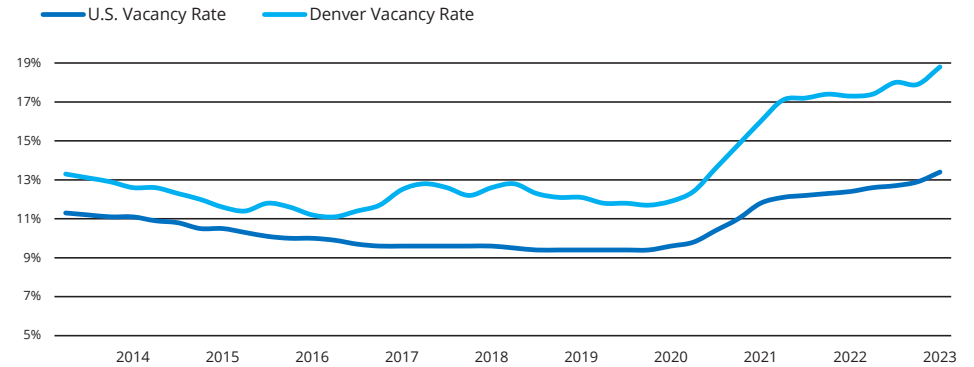


VACANCY & AVAILABILITY

Rising Vacancies and Strong Construction Pipeline Contributes to All-Time Availability

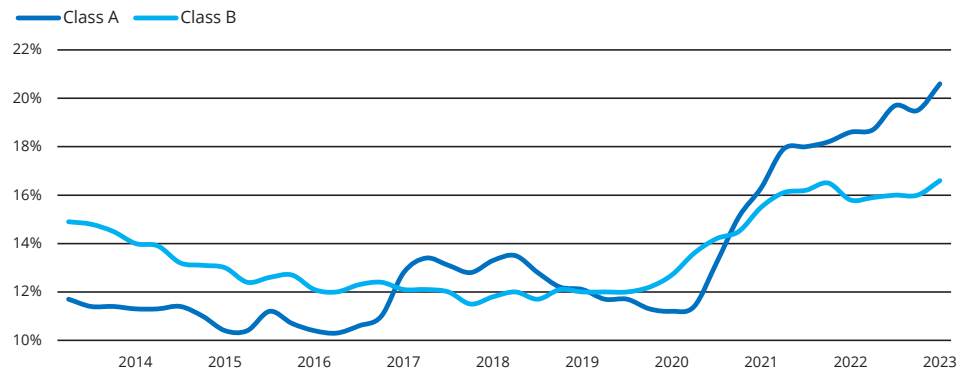
- Total available square feet across the Denver market continues to climb to all-time highs at 35.6 MSF. Rising vacancies, new subleases, and record-breaking construction have come together to create the perfect storm for record availabilities as evidenced in the last 6 quarters.
 - » Keeping in line with the previous quarter, 62% of this space derives from class A product, while 38% is contributed by vacancies in class B product.
- With vacant SF still near historical highs at 19% and 25.5% of total inventory actively available for direct lease or sublease, Denver remains one of the weaker office markets in the country. The greatest headwind the market faces remains in large block and sublease spaces. A high concentration of tech companies reevaluating office leasing needs has created a competitive leasing market for landlords as greater concessions and more flexible leasing terms are offered to entice tenants.
- Available sublease space is down 500,000 SF to 6.1 MSF from last quarters all time high of 6.6 MSF snapping a yearlong trend of increases.
- Direct lease availability, on the other hand, continues to grow to all-time highs at 29.9 MSF
- Q2 closed direct vacancies at 16.2% and 2.7% in sublease vacancies for a total of 18.9% in the overall market.

OVERALL VACANCY RATE



Source: CoStar, Transwestern

DENVER OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

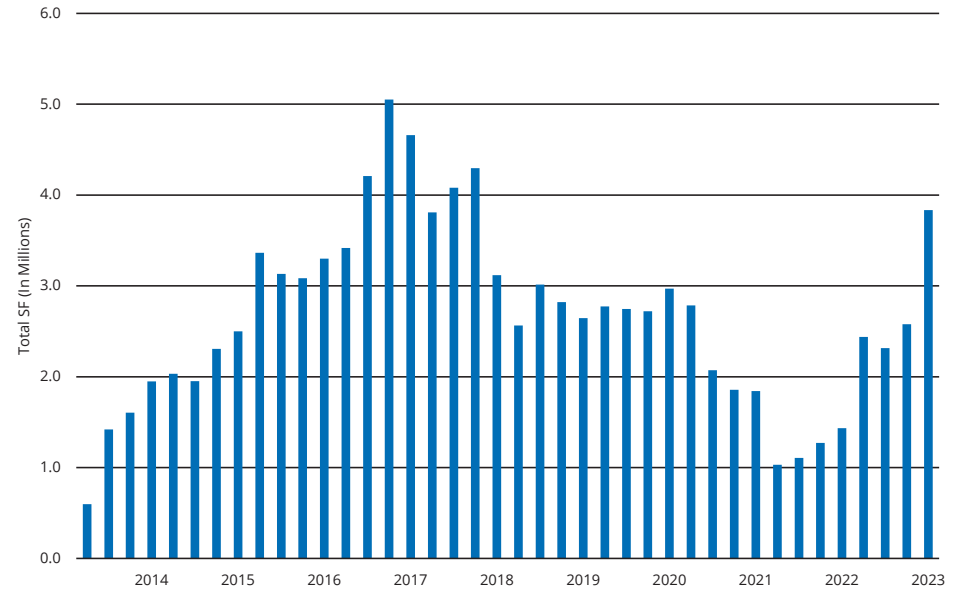


UNDER CONSTRUCTION

Flight to Quality Spurs Downtown Development

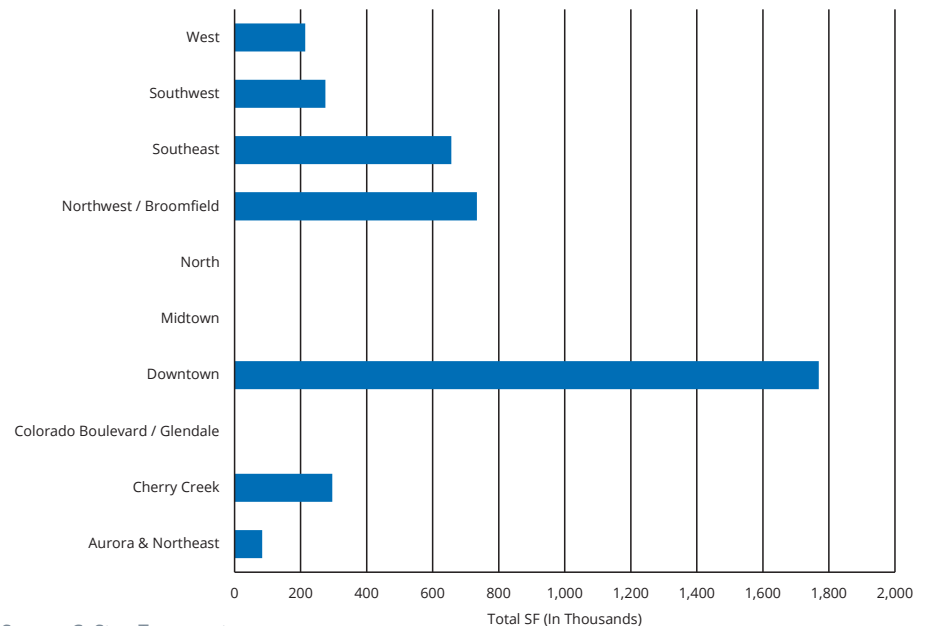
- A 5 year high of 4.2 MSF from 21 office projects will be added to the market in the coming years.
- Active projects are spread evenly amongst the Denver metro area with a marginal concentration of 29% projects confined to the Downtown submarket.
- The Platte River submarket has seen the most development with most new development occurring in the trendy RiNo district.
- Regarding building trends, developers are giving special consideration to broader post-pandemic trends. Denver tenants are concerned with back to office plans, new technological amenities and automation, open co-working spaces, green building materials, and proximity to public transportation. Businesses are pushing for the return to office and will give preference to buildings with amenities that will draw employees out of their homes.
- For additional details regarding active construction in the Denver market, check out the below developments:
 - » T3 RiNo – 3500 Blake St (Downtown / RiNo)
 - » Paradigm River North – 3400 Walnut St (Downtown / RiNo)
 - » 1900 Lawrence (Downtown / CBD)
 - » The Current, River North – 3615 Delgany St (Downtown / RiNo)
 - » Westray Tower 1 – 6363 Greenwood Plaza Blvd (Southeast / Greenwood Village)
 - » Fillmore @ Third – 320 Fillmore St (Cherry Creek)

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

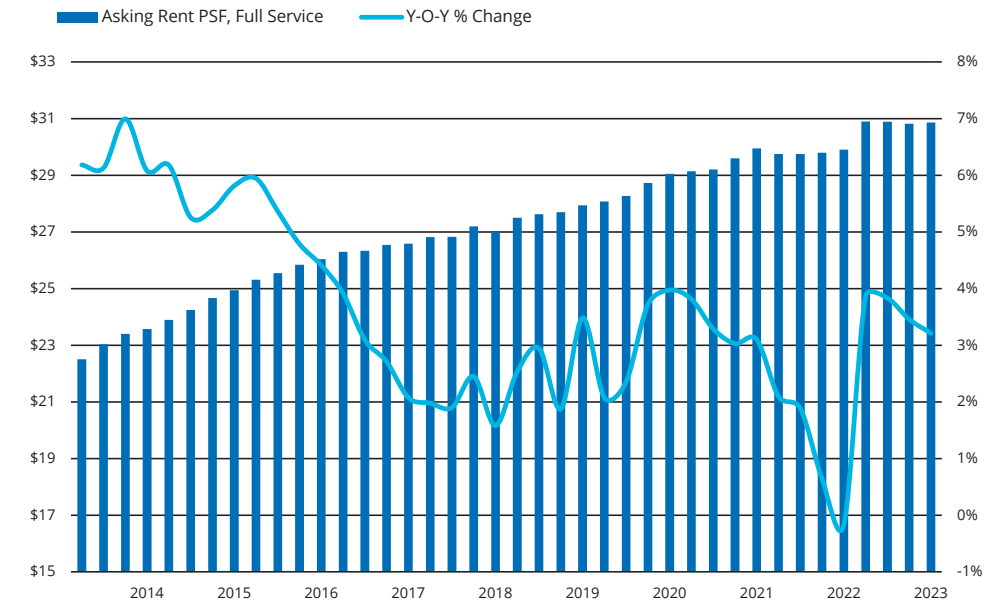


RENTAL RATES

Cherry Creek Shows Strength; Overall Market Rates Lag Inflation

- Average annual rent growth came in at 1.3% with most markets showing a marginal depression in rents. If measured against inflation, real rent growth is negative for the year signaling the strength of the tenant in today's market.
- The Midtown cluster performed the weakest with an 8% drop in rents year-over-year.
- Submarket clusters that recorded the largest asking rate growth over the last twelve months include Cherry Creek (16.1%) and West (2.3%).
 - » Cherry Creek has been a big beneficiary of the flight to quality narrative since the submarket has a higher concentration of Class A property.
- Overall, the metro market closed the second quarter of 2023 with average asking rates at \$30.90 per square foot, essentially remaining the same from Q1's \$30.86.
- Direct rates remained unchanged on a quarterly basis concluding the quarter at \$31.78 per square foot.
- Sublease rates decreased 2.4% on a quarterly basis from \$23.24 per square foot in Q1 2023 to \$22.69 in Q2 2023.

ASKING RENT



Source: CoStar, Transwestern

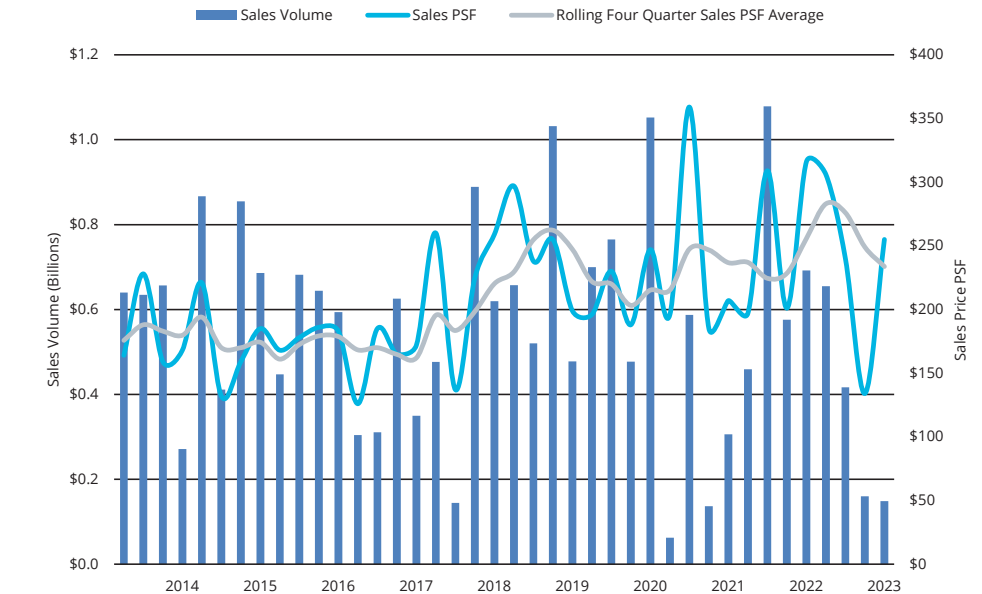


SALES

Sales Volume Continues to Search for a Floor

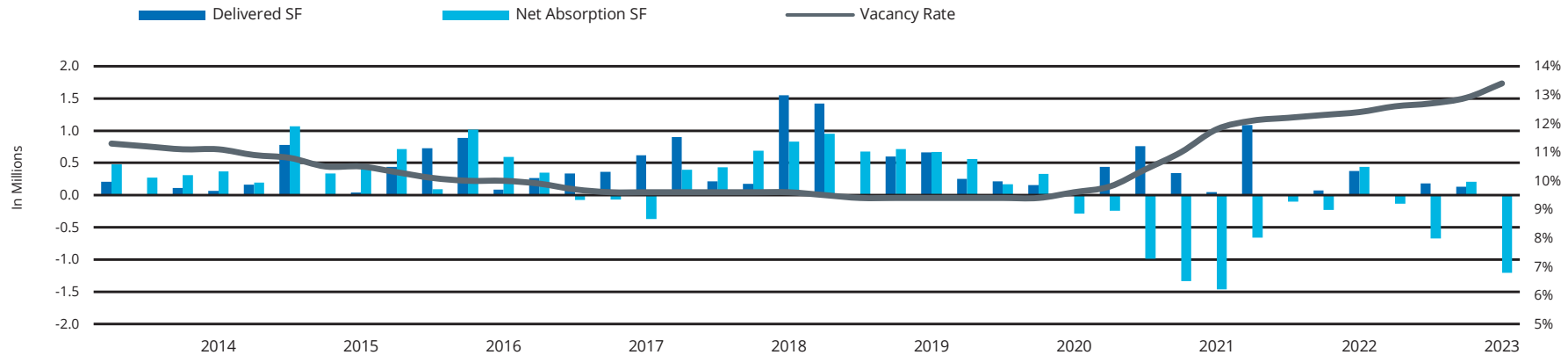
- Q2 sales volume came in at just 57% of last quarter's \$148 million to end the quarter at \$61 million. This underlines the current uncertainty of office valuations plaguing most of the nation's office markets. Coupled with a weaker price per square foot of \$130, it's clear that there is lack of demand on the buyer side as rising interest rates create an extremely difficult environment for buyers and sellers alike.
- Wynkoop Row at 1340 Wynkoop St, sold for \$18.1 million at \$411 per SF. At the time the property was 100% leased. Investors are interested in cashflow. Well leased and well maintained buildings make up the bulk of quality sales with solid valuations.

SALES VOLUME



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
VILLAGE WORK & WELLNESS CENTER	7173 S Havana St	Inverness	Direct	37,166
UNIVERSITY OF COLORADO HEALTH	7901 E Lowry Blvd	Glendale	Direct	35,796
ADS GROUP LLC	8051 E Maplewood Ave	Greenwood Village	Direct	35,344
BALLARD SPAHR LLP	1225 17th St	LoDo	Sublease	28,885
S3 SHARED SERVICE SOLUTIONS	9189 S Jamaica St	Meridian	Sublease	24,409

Source: CoStar, Transwestern

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
5800 S QUEBEC ST	Greenwood Village	\$5,112,500	163,648	\$31.24	Colorado Health & Tech Centers	Peakstone Realty Trust
145 INVERNESS DR E	Inverness	\$25,000,000	54,000	\$462.96	Remedy Medical Properties Kayne Anderson Real Estate	Development Solutions Group LLC
384 INVERNESS PKY	Inverness	\$3,494,000	51,527	\$67.81	NexGen Resources Corporation	Graham Street Realty
1430 WYNKOOP ST (PART OF A 2 PROPERTY SALE)	Northwest Denver	\$18,100,000	44,045	\$410.94	Westfield Company, Inc.	Westfield Company, Inc.

Source: CoStar, Transwestern



MARKET INDICATORS

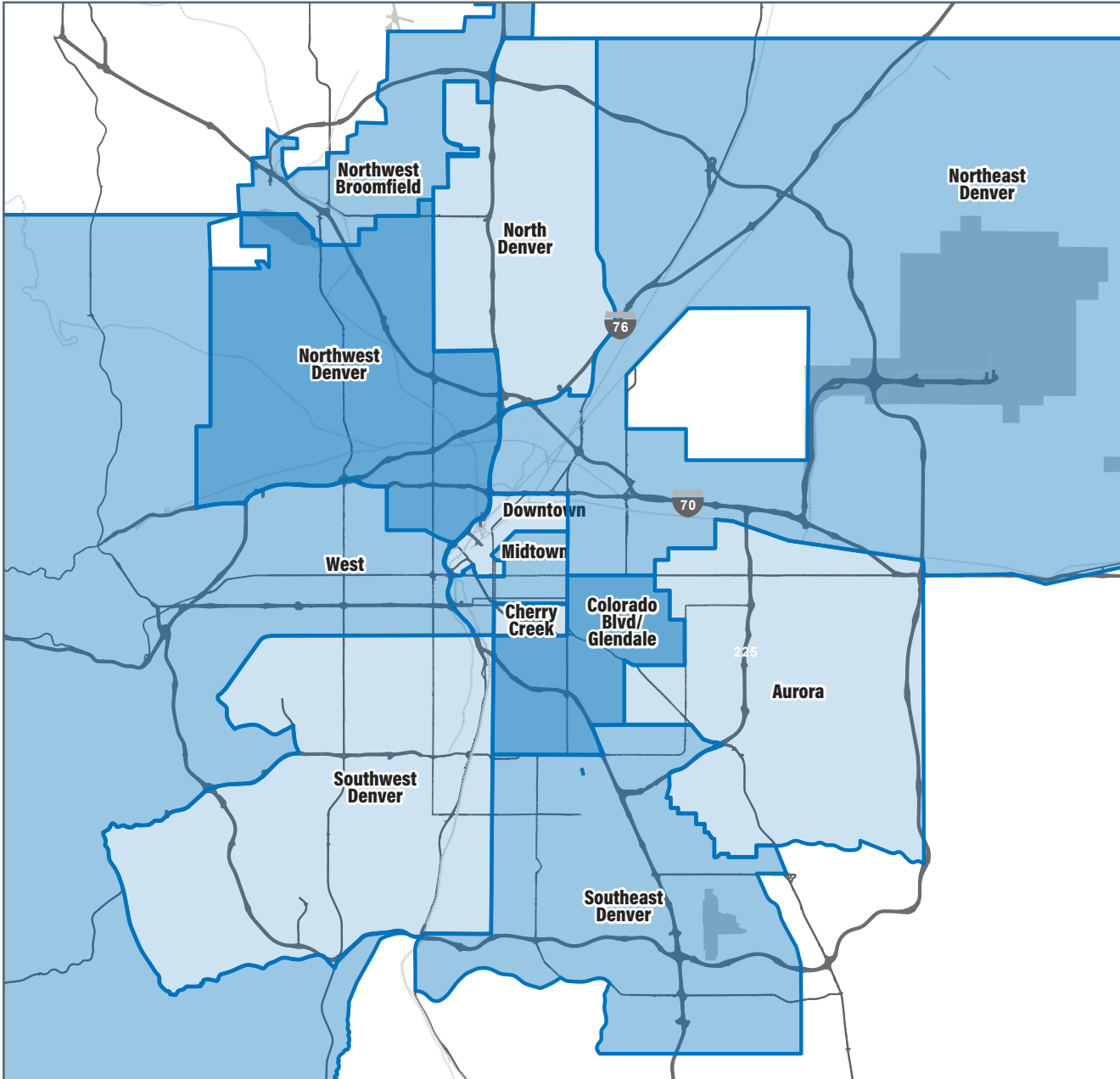
Class A

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	2,037,692	266,565	13.1%	23.4%	83,699	16,178	(95,964)	\$22.52
CHERRY CREEK	1,571,368	35,800	2.3%	4.2%	235,879	2,211	(26,502)	\$44.91
COLORADO BOULEVARD & GLENDALE	3,566,936	805,364	22.6%	23.5%	0	37,473	(110,936)	\$30.74
DOWNTOWN	28,974,514	5,683,500	19.6%	24.4%	1,704,622	(13,248)	(632,712)	\$38.77
MIDTOWN	1,599,726	150,819	9.4%	14.6%	0	4,699	6,824	\$26.50
NORTH	644,128	37,375	5.8%	6.8%	0	(498)	(12,937)	\$26.09
NORTHWEST & BROOMFIELD	6,138,406	1,148,509	18.7%	21.2%	701,200	132,103	(234,338)	\$28.77
SOUTHEAST	26,591,611	4,412,440	16.6%	18.9%	332,781	152,746	105,880	\$29.77
SOUTHWEST	1,603,864	39,725	2.5%	2.5%	250,000	-	-	\$26.01
WEST	2,533,713	174,118	6.9%	10.8%	134,000	(10,781)	12,297	\$27.95
TOTAL	75,261,958	12,754,215	18.1%	20.4%	3,442,181	320,883	(988,388)	\$30.20

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	6,749,846	614,771	9.1%	13.1%	0	(15,312)	4,629	\$20.81
CHERRY CREEK	1,123,948	87,707	7.8%	3.2%	59,713	6,218	2,348	\$41.56
COLORADO BOULEVARD & GLENDALE	4,619,738	597,046	12.9%	27.9%	0	(37,531)	(107,611)	\$24.53
DOWNTOWN	10,847,900	2,439,567	22.5%	19.9%	65,000	(67,428)	(204,134)	\$36.12
MIDTOWN	1,725,507	391,898	22.7%	10.4%	0	(22,266)	(71,163)	\$27.07
NORTH	2,271,648	344,653	15.2%	18.0%	0	(52,357)	(37,367)	\$25.48
NORTHWEST & BROOMFIELD	4,403,639	399,277	9.1%	18.7%	32,734	57,224	(74,884)	\$27.44
SOUTHEAST	17,235,311	2,669,575	15.5%	19.2%	323,984	(165,048)	(66,972)	\$24.27
SOUTHWEST	4,555,569	493,483	10.8%	3.5%	25,000	2,293	(5,397)	\$21.00
WEST	7,221,334	1,189,818	16.5%	10.1%	80,000	(50,175)	(181,413)	\$25.15
TOTAL	60,754,440	9,227,795	16.6%	16.4%	586,431	(344,382)	(741,964)	\$27.34



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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