

DENVER OFFICE MARKET

Q4 2023



TRENDLINES

	Q4 2022	Q4 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.3%	3.2%	↑	4.3%	↑
NET ABSORPTION (MSF)	0.457	(0.185)	↓	(0.148)	↑
OVERALL VACANCY RATE	15.5%	17.5%	↑	13.9%	↓
OVERALL VACANT SF (MSF)	20.041	22.737	↑	17.836	↓
UNDER CONSTRUCTION (MSF)	2.595	3.663	↑	2.453	↓
ASKING RENT (PSF)	\$31.66	\$32.26	↑	\$30.21	↔
SALES VOLUME (Millions)	\$161.31	\$175.43	↑	\$175.43	↑

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

Q4 SIGNALS CAUTIOUS OPTIMISM

While not the breakout quarter the market needed, 2023's final frame brought some uplift to end a challenging year for the Denver office market. Employment remains relatively stable given the interest rate environment throughout 2023.

Absorption and vacancy may have closed in the red, but both saw a significant lift over the Q3 results, signaling a possible shift in the market towards stabilization. Meanwhile, rents continue their marginal uptrend driven in part by the delivery of new Class A spaces that are maintaining their pricing power. Construction, much like investment sales, remained muted during the quarter. Demand in the market is piling up as investors, developers, and tenants prefer to remain on the sidelines in anticipation of the market bottom.

Overall, economic indicators in the form of strong consumer spending, stable unemployment, and what looks to be a year of slowing (if not dropping) interest rates could create a commercial environment that would ease that pent-up demand.

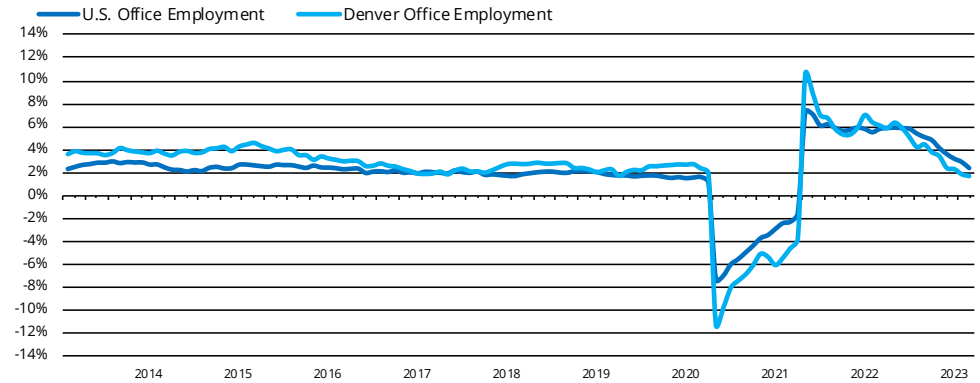


ECONOMY

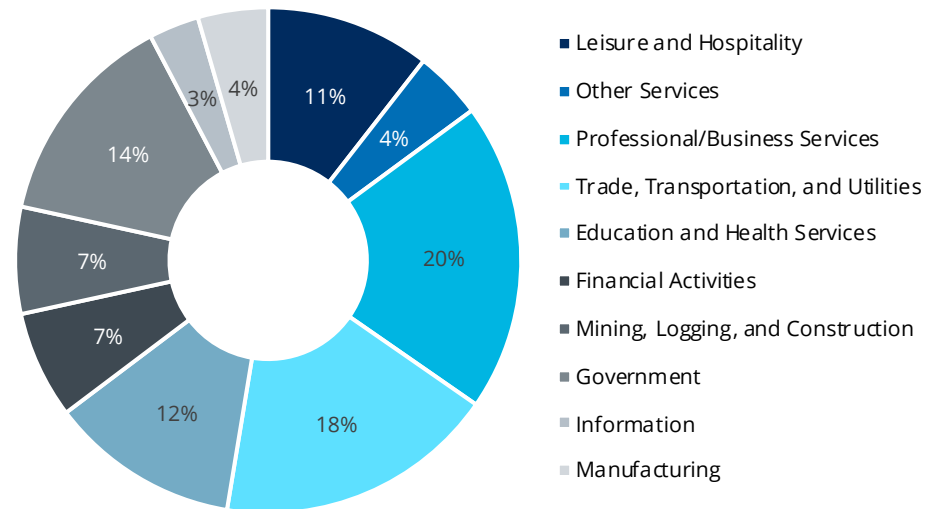
Measured Optimism Closes 2023

- Despite a year of unfavorable macroeconomic conditions and media frenzy surrounding high profile corporate layoffs, Denver employment has held relatively firm. Year-over-year employment is down only 0.6%, with most of the year in positive job growth, except for October and November. The Leeds Business Confidence Index (LBCI) reports an uptick in confidence over Industry Hiring. Their leading metric rose from Q3's 44.9 to 45.4 reinforcing the cautious optimism business owners are taking into the new year. Q4 employment may have taken a turn toward the negative, but forward-looking conditions spell out a favorable, if cautious, environment for job growth.
- The industries with the most contraction in order of magnitude are the Financial Activities, Information, and the Trade, Transportation, and Utilities sectors. They have experienced job losses at year over year rate of -6.5%, -4.7%, and -3.5%, respectively. With Denver's reputation as a both a logistics and tech hub, maintaining employment levels over 2023 only highlights the strength and future potential for the Denver job market moving forward.
- Keeping Denver's employment environment afloat are the Other Services, Professional/Business Services, and Government sectors. Other Services, the smallest portion of total employment count, grew by 7.9% or 3,000 jobs. Professional Services saw year over year growth at 6.0% or 18,000 jobs and lastly, the Government sector added 8,200 job or 3.85%.

Y-O-Y CHANGE IN OFFICE JOBS



SHARE OF EMPLOYEES BY INDUSTRY (DENVER)



Source: Bureau of Labor Statistics, Transwestern

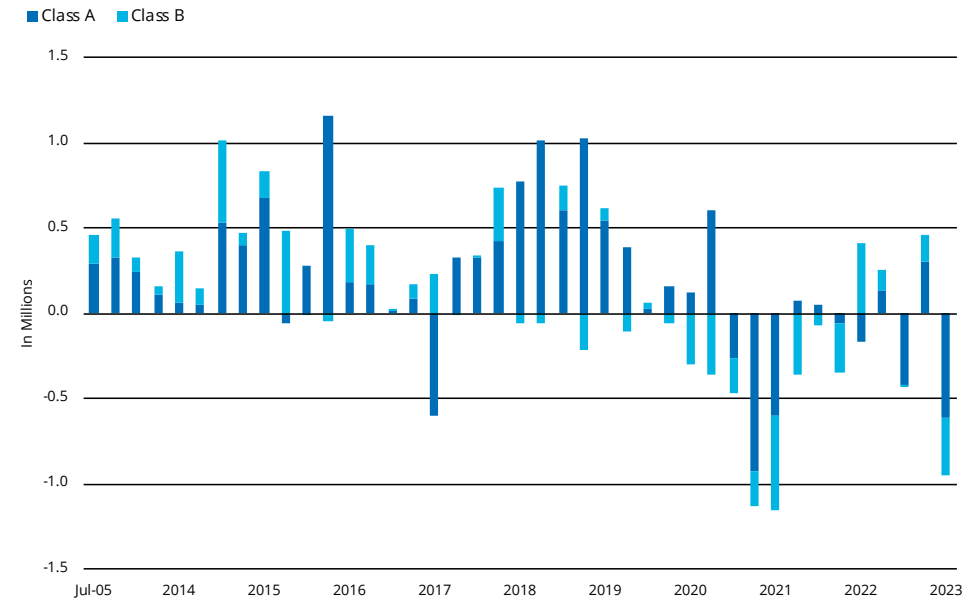


NET ABSORPTION

Class B Outpaces Class A in Absorption

- Q4 leasing activity was reported at 2.1 MSF, which on a yearly basis is down 6.6% from 2.2 MSF and on a quarterly basis fell by 5.4% from 2.2 MSF. In terms of total absorption, the market netted negative 185,000 SF, a significant improvement over the previous quarter's negative 727,000 SF, but an equally significant drop from last year's positive 457,000 SF.
- This quarter flipped the "flight to quality" narrative that has played out across many major markets on its head. Class B absorption far outpaced Class A absorption at 129,000 SF and negative 314,000 SF respectively. Class A buildings within the Downtown and particularly the Southeast market each contributed 84,000 SF and 342,000 SF of negative absorption. Overall, the rise of Class B leasing in Q4 is a good signal for the health of the market as demand evens out between asset class.
- Downtown's largest negative absorption event resulted from WeWork's 71,000 SF move out from the Wells Fargo Center. The entirety of 161 Inverness was reintroduced into the market as a vacant available building which added 255,000 SF of negative absorption for the Southeast submarket.
- Of the Class B market clusters, the West and notably the Southeast markets emerged as the strongest areas in terms of absorption recording 60,000 SF and 120,000 SF.
- The largest single leasing event for the Southeast market was a 16,000 SF lease in Terrace Tower by Nixon Shefrin Ogburn Drew.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

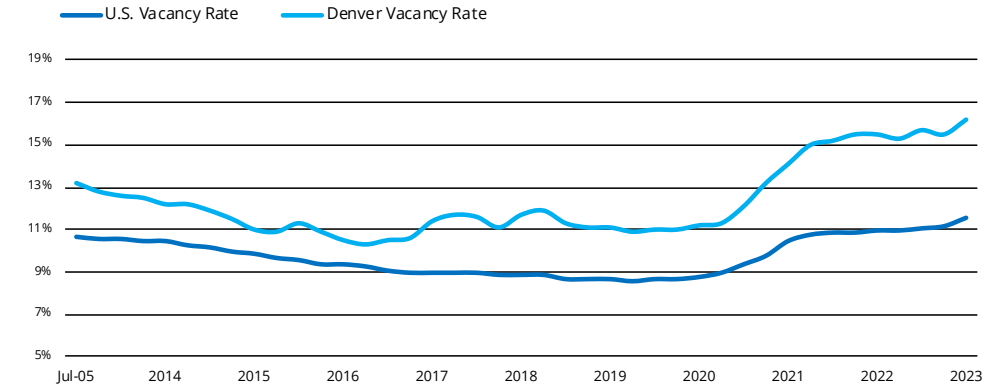


VACANCY & AVAILABILITY

Vacancy Searches for Ceiling

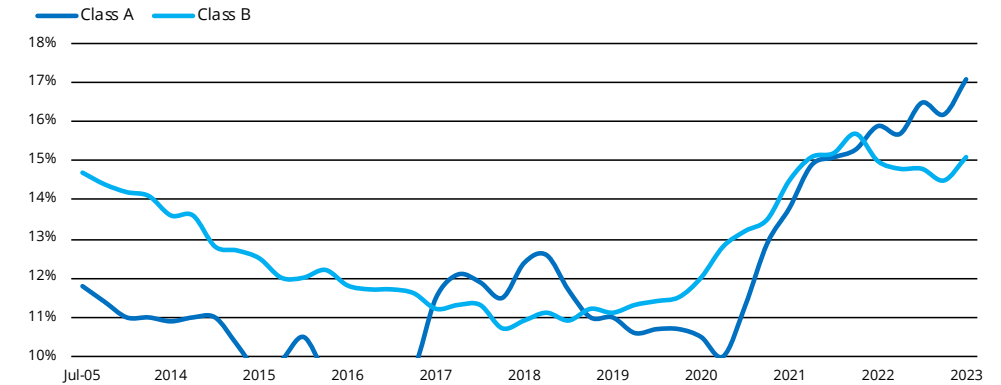
- Vacancies across the Denver metro reached another all-time high this quarter at just under 22.7 MSF or 17.5%. Fortunately, this marginal increase represents a less than 0.02% increase over Q3's 22.5 MSF or 17.3%. Among building classes, Class A vacancy sits at 18.9% while Class B vacancy sits at 15.8%.
- Contrary to vacancies, available space fell over Q4. Total available space dropped from 36.2 MSF in Q3 to 35.6 MSF in Q4. Class A properties are approximately 28.8% available while Class B availability was reported at 21.3%. Between direct and sublease availabilities, direct availability dropped 516,000 SF or 1.7% and sublease availability fell 185,000 SF or 3%.
- Q4 marks the third consecutive dip in sublease availability. At this point, declining sublease availability can be partially attributed to expirations in the primary lease as well as the convincing concessions that were offered to drive demand. This signals a positive sign for the markets as direct leasing will not have to compete with the record level of sublease space as seen over the last two years.

OVERALL VACANCY RATE



Source: CoStar, Transwestern

DENVER OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

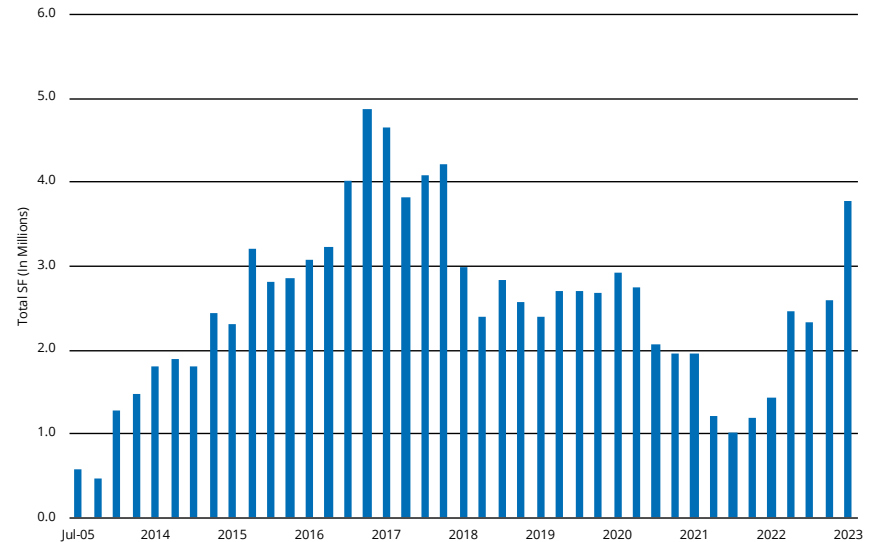


UNDER CONSTRUCTION

Slowing Development Remains Above National Average

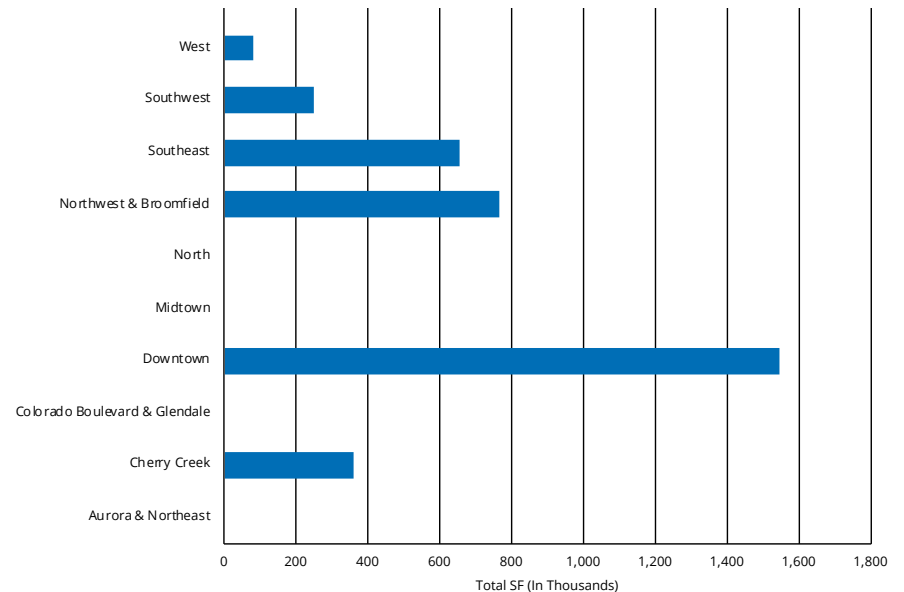
- Denver’s current construction pipeline sits at 3.6 MSF which represents 2.8% of total inventory. Only 47.7% of space under construction has been preleased. From a submarket perspective, 1.5 MSF or 42.3% of total active construction is confined to the Downtown cluster. When delineating by building class, a stark majority of construction is focused on Class A buildings at 3.1 MSF or 85.6% of total construction. With the five-year construction average at 2.4 MSF, and the current macro-economic environment, we expect construction, especially within the office space, to level off in 2024.
- Although construction starts have slowed in response to an uncertain economic environment, two projects broke ground this quarter. Schnitzer West began a 140,000 SF Class A office project at 201 Filmore St as of December 2023, with approximately 122,000 SF preleased. A smaller 8,000 SF Class B medical office space also broke ground this quarter at 13557 Huron St within the North Denver submarket.
- For additional details regarding active construction in the Denver market, check out the below developments:
 - » 1900 Lawrence (Downtown / CBD)
 - » Steel House – 3100 Brighton Blvd (Downtown / Platte River)
 - » Sante Fe Yards, Building 3 – E Mississippi Ave (Southwest Denver)
 - » World Trade Center Denver – 4100 Fox St (Northwest Denver)
 - » 201 Filmore St (Cherry Creek)

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

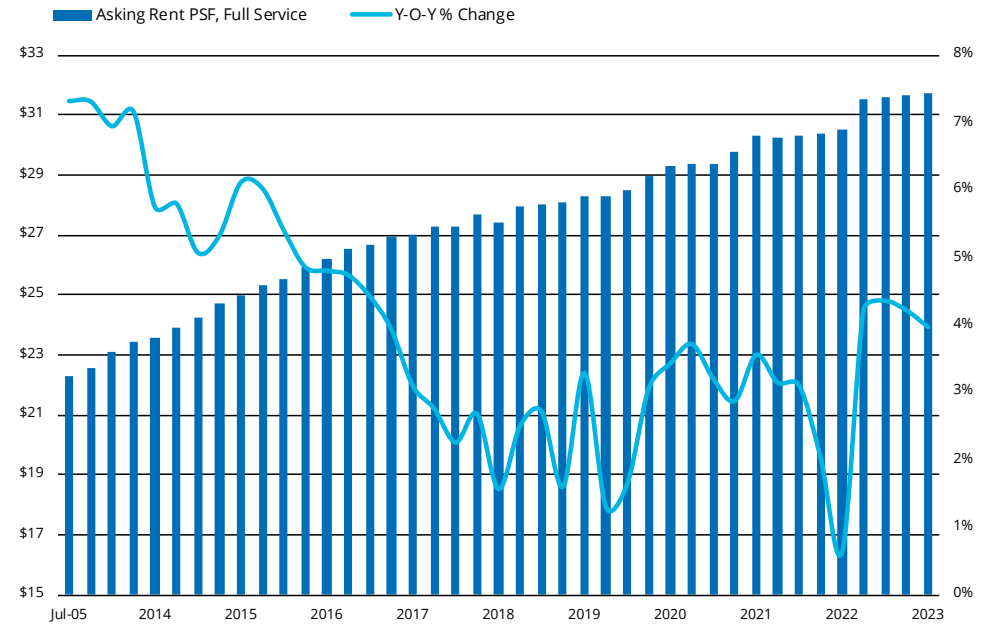


RENTAL RATES

Rent Growth Slows; Sublease and Direct Lease Spreads Growth

- On a quarterly basis, direct rents have inched up from \$25.05/SF to \$25.20/SF, or 0.59%. For Class A product, quarterly direct rents are up \$0.34 or 1.3% landing at \$26.44/SF while Class B quarterly rents have climbed \$0.37 or 1.6% rising to \$25.20/SF.
- The breakout submarkets for Q4 were Aurora/Northeast and the Downtown markets. Q4 rents for the Aurora/Northeast cluster was up 3.5% from \$19.53 to \$20.21/SF. Class B properties which make up 77.5% of the submarkets contributed the bulk of the rent growth for this quarter.
- In the case of the Downtown market, rents are up 2.8% from \$27.09 to \$27.85/SF, which can be attributed to strength in the cluster's Class A product that makes up 72.7% of the total submarket.
- Denver's weakest markets in terms of rent growth were the Midtown and surprisingly the Cherry Creek markets. Quarter-over-quarter rent growth for the Midtown cluster dropped 14.1% from \$25.69 to Q4's \$22.07/SF. This slump can be attributed to decreased pricing within Class B product as Class A rents have remained steady throughout the Midtown submarket. Cherry Creek, which historically has commanded the strongest pricing power, saw rents drop 4.5% to \$37.85/SF from \$39.62. This quarter's rent dip snaps a three-quarter streak of rent growth for the red-hot submarket.
- The sublease and direct rate spread grew over Q4. Currently, the spread sits at \$5.69/SF which represents a 7.4% quarter-over-quarter increase from \$5.29. As expected, the spread between Class A rents of \$5.66 falls short of the Class B spread which sits at \$6.12/SF for Q4. Despite the spread disparity, these concessions have started to result in growing absorption for Class B office space.

ASKING RENT



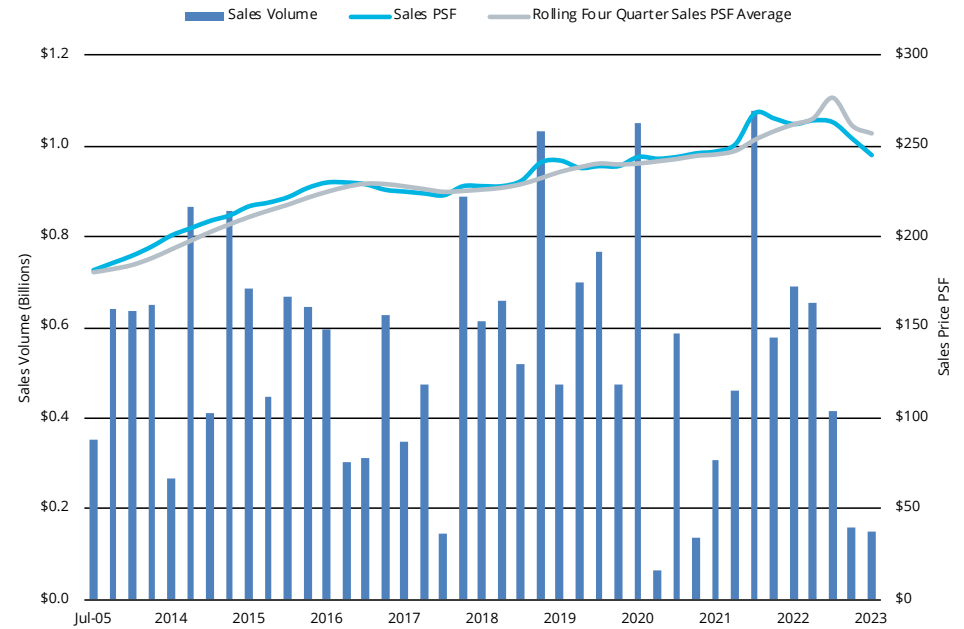
Source: CoStar, Transwestern

SALES

Valuations and Rates Cast a Shadow Over Investment Sales

- Property sales rebounded quarter-over quarter-from just over \$57 million in Q3 to \$175 million, representing 207% of growth. Year-over-year sales are up 8.8% from \$161 million. On a per square foot basis, Q4 saw an increase of about \$10 PSF up from \$239 to \$249. Buyers are coming to terms with the current market and are softening expectations as financing options do not look likely to drastically improve in the near term. Given this new norm, higher sales figures represent a spot of optimism in an otherwise depressed market, although \$175 million remains well below the 5-year average sales volume of \$489 million. In short, the market has a lot to resolve with buyers and sellers before it potentially returns to the pre-pandemic norms.
- Denver’s largest publicly recorded sale for Q4 closed mid-December for Riverview at 1700 Platte. Texas based Crescent Real Estate purchased the 203,000 SF Class A office space for \$129.1 million (or \$637/SF) from Lionstone Partners. At the time of sale, the building was 100% leased to bp.
- Buyer capital composition for 2023 has shifted in favor of Institutional and Private capital. Respectively, they make up 50.9% and 39% of purchasing for the Denver office market. REIT/Listed capital has cut down purchasing by nearly two thirds with Cross Border capital all but disappearing and composing just 0.1% of total buyer capital for 2023.

SALES VOLUME



Source: CoStar, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
XCEL ENERGY	T3 Offices	Platte River	Pre-Lease	220,175
BOA TECHNOLOGY	Flight	Platte River	Renewal	87,787
EF INSTITUTE	Platte 15	Platte River	New Lease	67,679
SARGENT AND LUNDY	Inverness Business Park	Inverness	New Lease	46,841
IWG	One Civic Center	CBD	New Lease	43,251

Source: CoStar, Transwestern

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
RIVERVIEW AT 1700 PLATTE	Platte River	\$129,100,000	202,536	\$637.00	Crescent Real Estate LLC	Lionstone Partners LLC, CalSTRS
PARK RIDGE 6	Lone Tree	\$23,000,000	161,128	\$142.66	Confluent Development	W.P. Carey Inc.
161 INVERNESS DR W	Inverness	\$16,500,000	255,132	\$64.67	Westside Investment Partners, Inc.	Artis REIT
CENTERRA @ COLORADO STATION	Colorado Blvd/I-25	\$14,000,000	204,182	\$68.57	Matador Equity Partners	Stream Realty Partners, LP

Source: CoStar, Transwestern



MARKET INDICATORS

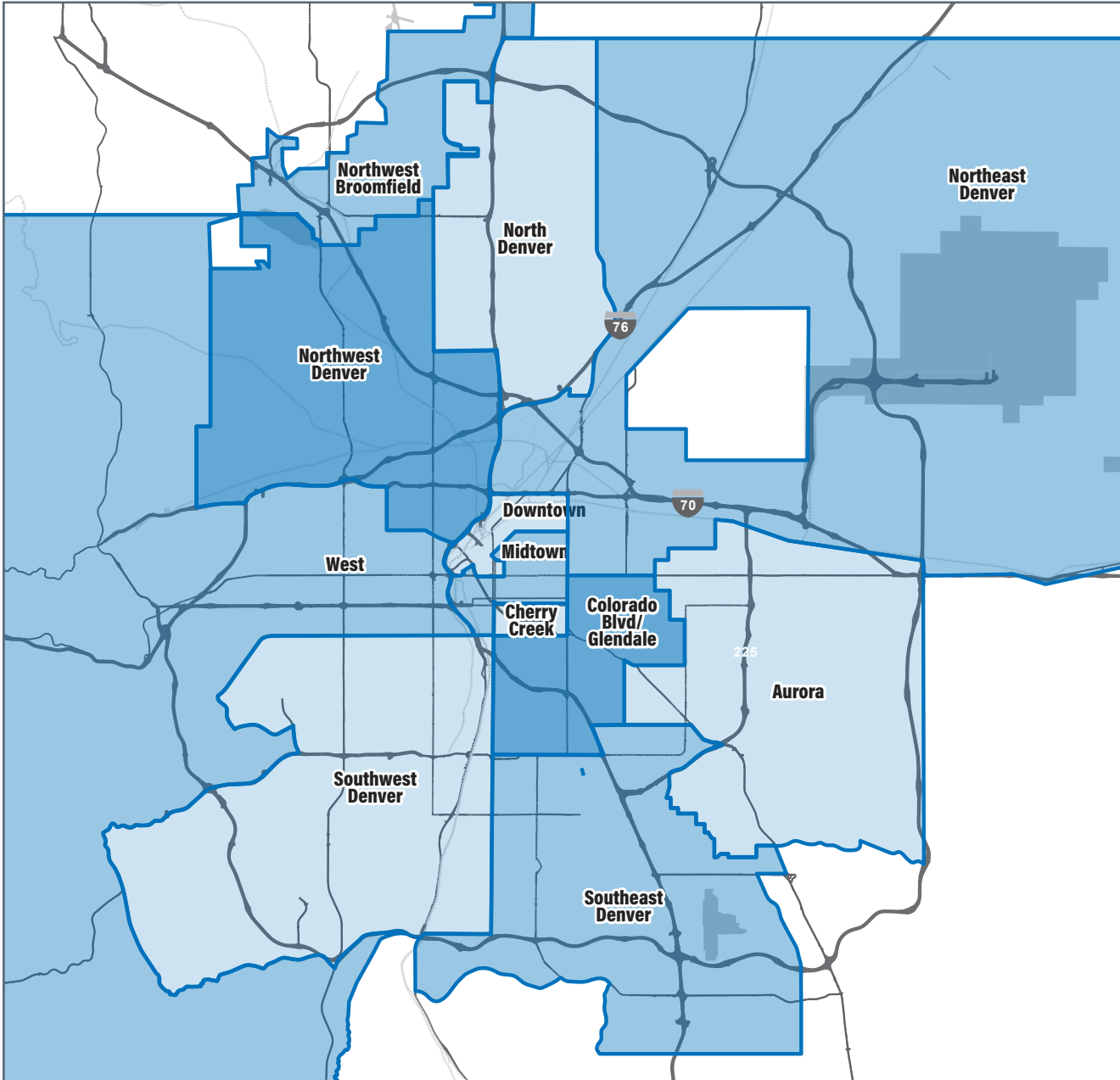
Class A

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	1,687,817	241,562	14.3%	27.2%	0	16,149	106,089	\$22.30
CHERRY CREEK	1,543,145	39,718	2.6%	4.3%	300,768	18,308	96,165	\$39.16
COLORADO BOULEVARD & GLENDALE	3,513,937	793,215	22.6%	24.3%	0	(13,206)	(105,772)	\$29.40
DOWNTOWN	29,325,630	6,523,532	22.2%	27.2%	1,482,586	(83,547)	(809,668)	\$28.11
MIDTOWN	1,493,154	100,450	6.7%	12.3%	0	(3,302)	(5,201)	\$26.85
NORTH	644,155	27,588	4.3%	6.1%	0	6,230	5,732	\$27.17
NORTHWEST & BROOMFIELD	6,138,406	1,077,586	17.6%	21.6%	767,685	86,373	(29,228)	\$20.84
SOUTHEAST	25,304,779	4,573,412	18.1%	20.2%	332,775	(341,820)	(489,619)	\$25.03
SOUTHWEST	566,692	8,918	1.6%	1.6%	250,000	(5,960)	6,335	\$20.30
WEST	2,280,996	285,808	12.5%	15.9%	0	6,504	(52,841)	\$26.53
TOTAL	72,498,711	13,671,789	19.9%	22.6%	3,133,814	(314,271)	(1,278,008)	\$26.44

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	5,819,718	557,939	9.6%	9.7%	0	17,578	(41,121)	\$19.61
CHERRY CREEK	1,118,817	66,807	6.0%	6.2%	59,713	2,690	13,283	\$36.04
COLORADO BOULEVARD & GLENDALE	3,930,834	582,086	14.8%	19.0%	0	39,312	(100,637)	\$26.62
DOWNTOWN	11,011,718	2,781,402	25.3%	25.8%	65,000	(206,876)	(526,266)	\$27.15
MIDTOWN	1,668,854	377,704	22.6%	23.0%	0	37,060	3,914	\$17.79
NORTH	1,789,642	249,753	14.0%	18.0%	0	29,352	(16,519)	\$24.86
NORTHWEST & BROOMFIELD	4,255,096	396,832	9.3%	10.9%	0	(1,454)	(53,310)	\$22.66
SOUTHEAST	16,271,482	2,625,663	16.1%	21.2%	323,984	60,156	(32,576)	\$23.38
SOUTHWEST	4,739,996	496,509	10.5%	10.9%	0	31,114	8,719	\$19.35
WEST	6,620,354	930,043	14.0%	15.1%	80,000	120,159	(43,700)	\$22.94
TOTAL	57,226,511	9,064,738	17.8%	18.1%	528,697	129,091	(788,213)	\$24.04



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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