

# DENVER OFFICE MARKET

Q1 2024



## TRENDLINES

	Q3 2023	Q3 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.2%	4.2%	↑	4.3%	↑
NET ABSORPTION (MSF)	(0.954)	(0.304)	↓	(0.200)	↑
OVERALL VACANCY RATE	15.4%	17.0%	↑	14.3%	↑
OVERALL VACANT SF (MSF)	20.997	23.242	↑	18.282	↑
UNDER CONSTRUCTION (MSF)	3.840	3.422	↓	2.537	↓
ASKING RENT (PSF)	\$31.73	\$32.12	↑	\$30.41	↔
SALES VOLUME (Millions)	\$148.80	\$8.68	↓	\$441.08	↑

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

## MARKET LOOKS FOR SOFTENING

Mild leading indicators within the Denver office market suggest a period of stabilization as the public acclimates to the risks associated with an economy seeking to achieve a soft landing. Denver maintains its streak among the nation's highest vacancy rates at 17.8%. Net absorption ended Q1 in the red due to weakness in the Downtown submarket and unemployment ticked up across the metro area, though it remains below the 5-year average.

As anticipated, construction starts are slowing and investment sales have all but come to a halt as the market attempts to forecast between one to three interest rate cuts for the year. In response to growing vacancy and the extended obscurity of demand, rents are coming down from last quarter's highs. By and large, the market saw similar conditions play out during 2023.

Moving through 2024, the market hopes to see meaningful progress in corporate policies regarding return to office as well as some relaxation in interest rates, predicated by cooling inflation and consumer demand.

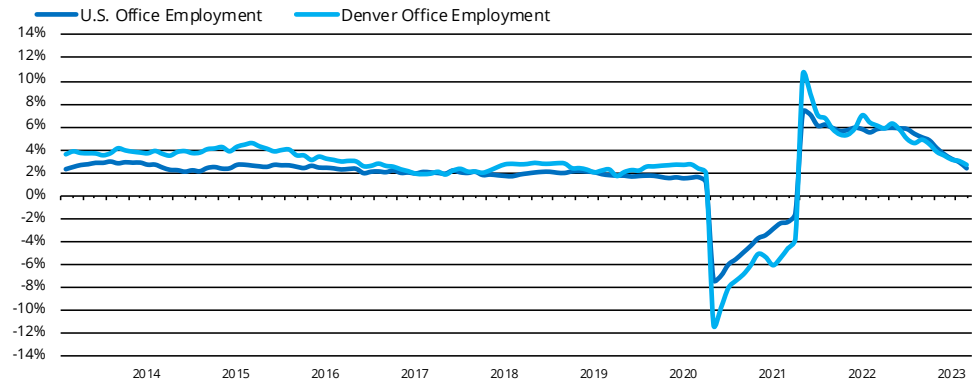


### ECONOMY

#### Public Sentiment Strengthens as Unemployment Normalizes

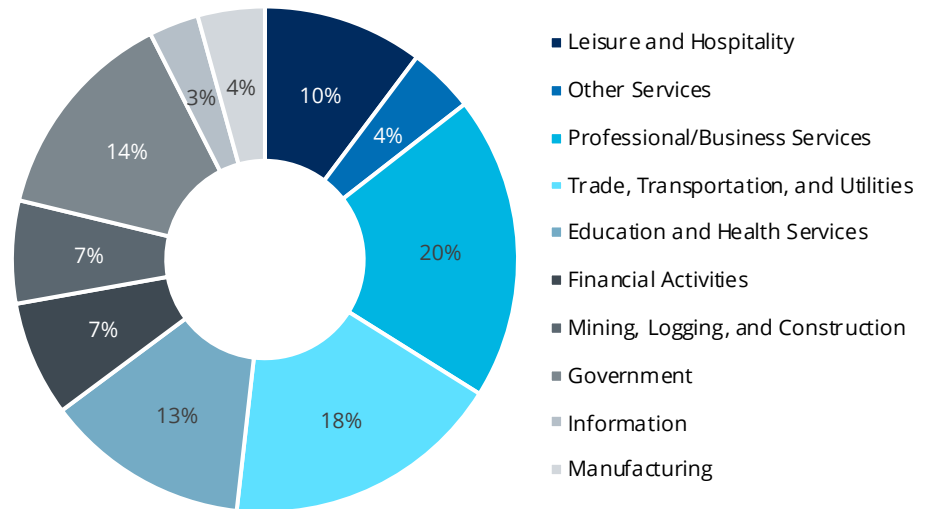
- The Denver Metro has seen upward trends across most economic indicators. As it did throughout 2023, consumer confidence this year remains resilient. Figures for the Mountain Region Consumer Confidence Index have risen 12.4% quarter-over-quarter and 12.3% year-over-year. The Leeds Business Confidence Index also noted increases across all survey components covering sentiment on Colorado’s economy, the national economy, industry sales, and hiring and profits. In fact, each component shifted from a negative to a positive outlook.
- Although sentiment from consumers and business owners show optimism in the coming quarters, preliminary labor statistics reported an increase of 100 basis points from 3.2% to 4.2% quarterly and yearly. National unemployment grew quarterly by 0.1% and year-over-year by 0.3%, closing out Q1 at 3.8%. Nonfarm jobs has decreased by 0.9% for the quarter but interestingly, witnessed increases of 0.8% compared to Q1 2023. National averages showed a 0.3% yearly increase and a 0.1% quarterly increase in the number of jobs.
- The Manufacturing and Education & Health Services sectors experienced the most growth, expanding by 1% and 1.4% respectively. Conversely, the weakest sectors this quarter were the Trade, Transportation & Utilities and the Mining, Logging, & Construction sector which had contracted by 3.29% and 2.84% respectively during the quarter.

### 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

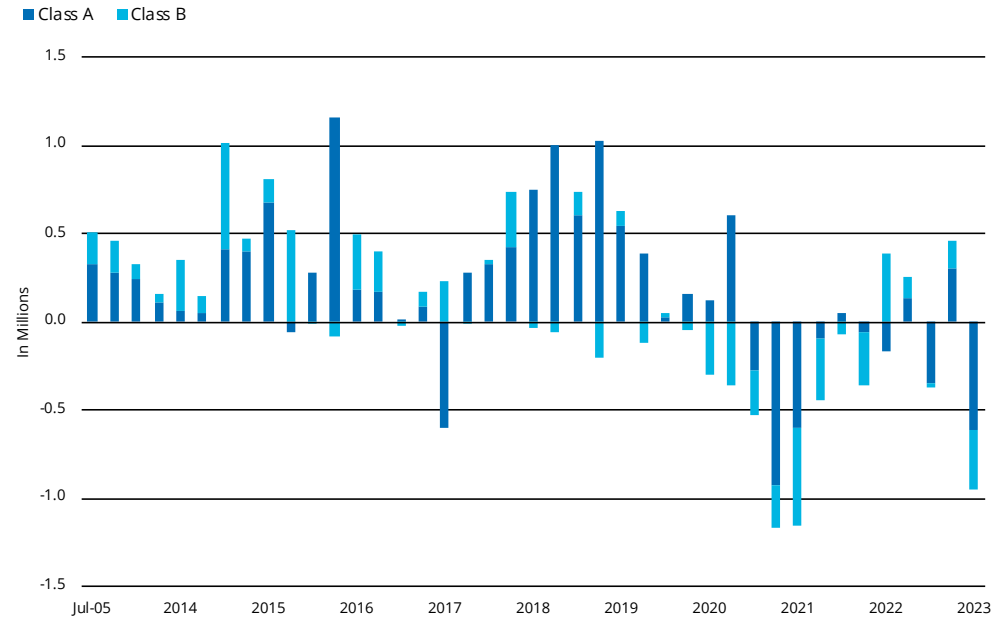


### NET ABSORPTION

#### Negative Absorption Looks to Bottom Out

- First Quarter 2024 absorption started 2024 in the negative with the market giving back 304,000 SF. This represents a quarterly increase of 81% over Q4 2023 which saw negative absorption of 168,000 SF. Looking at a year-over-year view, improvements are evident as negative absorption fell 68% from the previous year's figure of negative 954,000 SF. The irregularity in quarterly absorption, despite year-over-year strength, suggests that the market may be bottoming out.
- Like trends observed nationwide, Denver's leasing challenges persist, particularly in the Downtown submarket cluster. Quarterly absorption came in at negative 222,000 SF, while absorption was reported at negative 1.1 MSF over the last four quarters. Across both Class A and Class B properties, the Downtown cluster accounted for 57.2 % of all negative absorption this quarter. From a yearly perspective, this same cluster accounts for a daunting 72% of all negative absorption throughout the metro. Overall, tenant downsizing has continued to outpace the rate of new leases and renewals. Even tenants with historically large footprints like aerospace or energy companies are signing leases at a fraction of their pre-pandemic footprint.
- In contrast, the Southeast submarket cluster emerged as this quarter's absorption leader, with positive absorption of 54,000 SF. Notably, while Class B properties in the Southeast market recorded negative absorption of 82,000 SF, this was outweighed by Class A absorption of 136,000 SF.

### NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

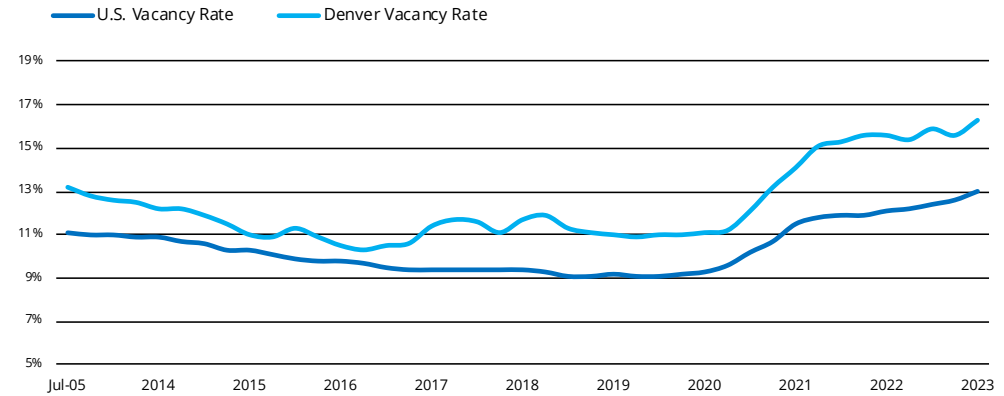


### VACANCY & AVAILABILITY

#### Vacancy Shows No Signs of Relief

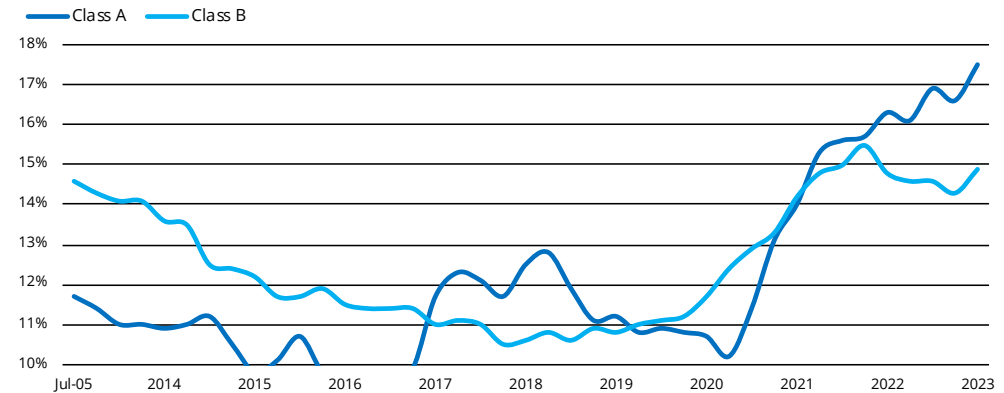
- Vacancy reached another all-time high this quarter at 22.3 MSF or 17.8%. This represents a quarterly increase of 0.3% and a year-over-year increase of 1.5%. When considering building class, Class A properties are 19.2% vacant while Class B buildings are 16.1% vacant. Class A vacancy grew 0.3% and Class B vacancy climbed 0.4% over the quarter. Looking ahead, vacancies are expected to grow as Denver’s considerable construction pipeline delivers new office space to the market. This, coupled with the fact that Denver is among the nation’s top cities for tech worker concentration, will further exacerbate the vacancy dilemma plaguing the metro area as elevated interest rates hinder the growth potential of tech companies.
- Available office space expanded over Q1 with total availability growing by just over 0.03% or about 1 MSF to land at 30.2 MSF. At 30.2 MSF, the Denver metro sits at 22.8% available. Class A properties are 25% available while Class B availability was reported at 19.5%. Q1 figures show a 0.9% increase in Class A availability with a 0.5% increase in Class B availability since Q4.
- Sublease availability has consistently decreased over the last year, with a quarterly decrease of about 174,000 SF or 0.2%. This decline suggests less competition for direct leasing, signaling a positive sign for leasing strength. However, current leasing trends point to higher availabilities in the coming year. Companies, tech particularly, have been decreasing their footprints at the time of renewal, which suggests that there may be an uptick in sublease availability moving forward. Therefore, the Denver metro will remain a competitive leasing landscape for building owners.

### OVERALL VACANCY RATE



Source: CoStar, Transwestern

### DENVER OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

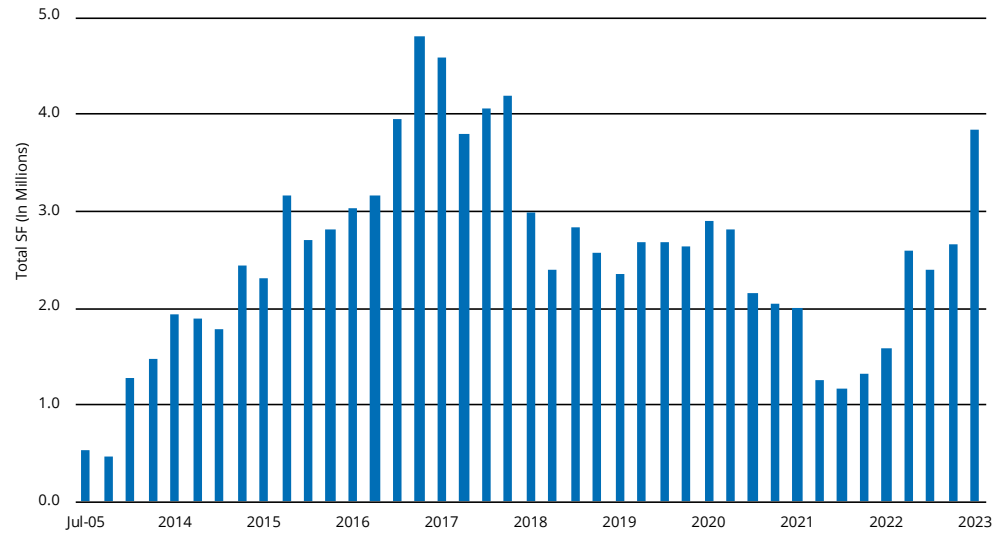


### UNDER CONSTRUCTION

#### Historic Construction Pipeline Looms in the Face of Historic Vacancies

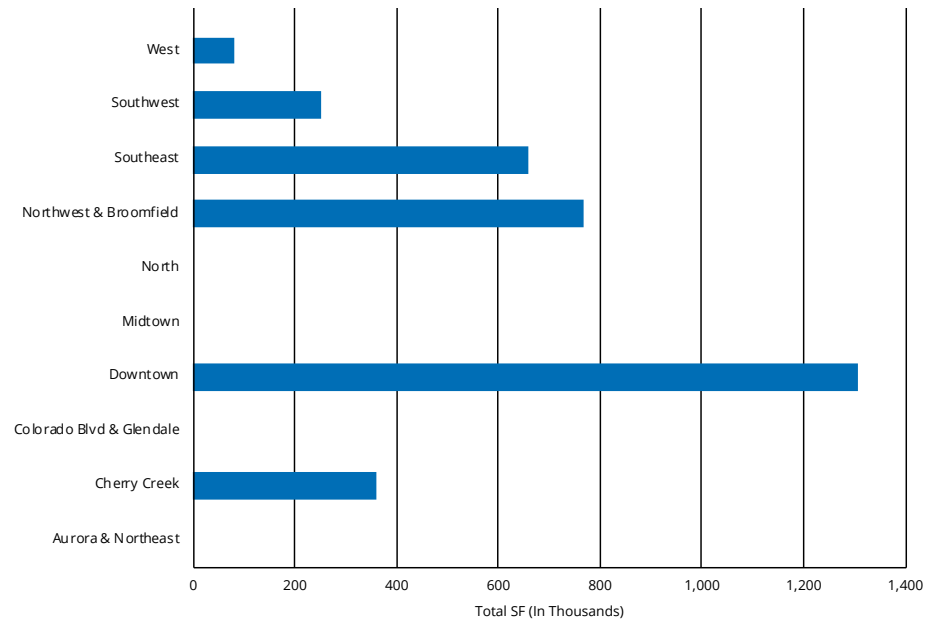
- Active office construction of 3.4 MSF may currently remain elevated above the national average, but this number is expected to continue its descent in the face of weaker office demand and what appears to be a “higher for longer” interest rate environment. With no new projects breaking ground this quarter, active construction is down 239,000 SF or 6.5% for the quarter.
- Much of the current construction pipeline broke ground in late 2022 in anticipation of impending rate hikes. In fact, Q1 of 2023 yielded the highest construction starts on record with about 1.2 MSF of new construction.
- Despite its leasing challenges, the Downtown market holds the highest concentration of active projects across the metro at 38.2%. This marks a potential risk factor to monitor as the Downtown market presently comprises 31.3% of Denver’s total office space.
- 350 Blake St or T3 Rino within the Platte River submarket was delivered in February. The 6 story, 239,000 SF Class A space will serve as the new headquarters for Xcel Energy. It also includes bicycle storage, outdoor seating, a sky terrace, a fitness center, and proximity to public transportation along with ground level retail space for lease.
- For additional active construction projects in the Denver market, check out the following developments:
  - » 3083 Walnut St (Downtown / LoDo)
  - » 13557 Huron (North Denver)
  - » 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

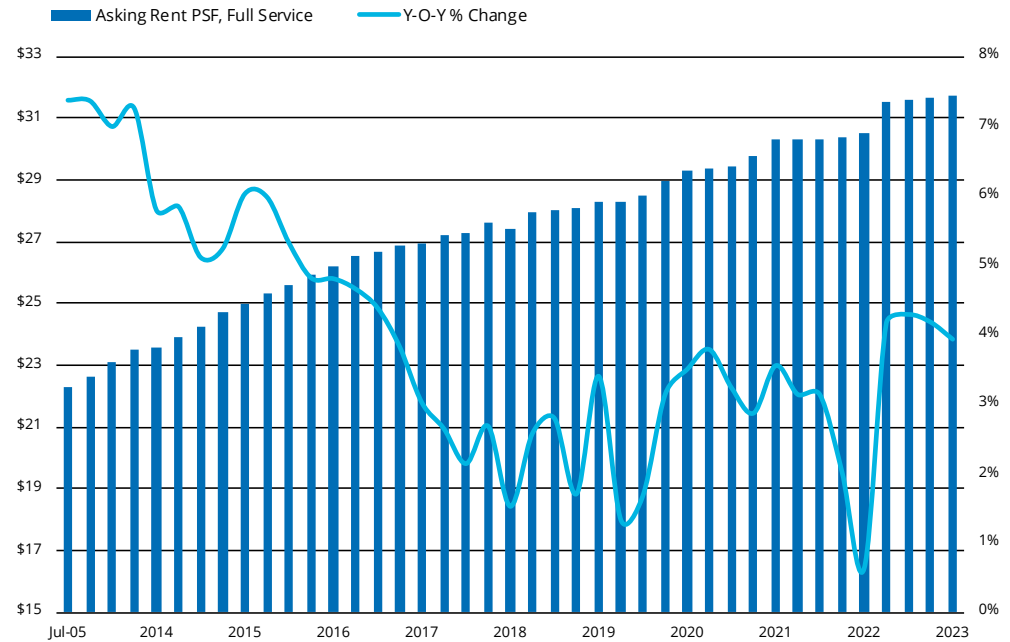


## RENTAL RATES

### Direct Rates Remain Steady; Sublease Rates Rise

- Rents remained steady for Q1. Base direct rents are down \$0.10/SF quarterly to settle at \$25.10/SF. Class A direct rents have come up \$0.20/SF over the quarter, landing at \$26.24/SF, while Class B rents have come down marginally, falling \$0.03/SF to \$23.64/SF. On the other hand, subleases have seen meaningful growth across both Class A and Class B product. Sublease rates for Class A buildings are up \$0.20/SF landing at \$20.99/SF and Class B buildings saw bumps of \$1.12/SF rising to \$19.03/SF.
- For the second quarter in a row the Aurora & Northeast submarket emerged as the metro's leader in rent growth. The submarket grew rents 1.2% from \$20.21/SF to \$20.46/SF for the quarter. Coming in second was the Southwest market which reported 1.1% of direct rent gains rising from \$19.45/SF to \$19.67/SF.
- Rent growth in the North and Cherry Creek submarkets were the weakest among Denver's submarkets clusters. Rents for the North submarket dropped by 4.3% from \$20.66/SF to \$21.59/SF. Cherry Creek, for second quarter in a row, ranked second in weakest rent growth. This submarket, known for its pricing power, saw rents drop 2% from \$37.85/SF to \$37.08/SF.
- Q1 witnessed a contraction in the direct and sublease rent spread. With the current market spread of \$4.98/SF, the spread shrank 12.4% from last quarter's \$5.69/SF quarter primarily due to the notable increase in sublease rates for Class B buildings. Surprisingly, it was Class B properties that struggled to fill space this quarter, so it is likely these rates will need to fall to match demand.

## ASKING RENT



Source: CoStar, Transwestern

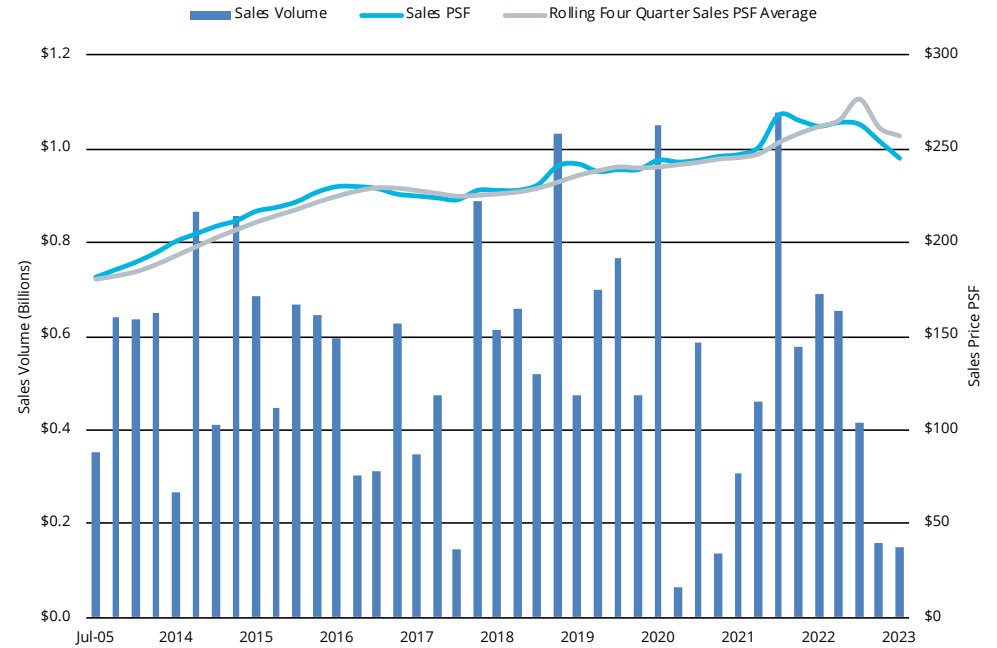


## INVESTMENT SALES

### Sales Slow Amid Rate Cut Uncertainty

- Investment sales tumbled to start off the year. At just \$10.2 million, quarter-over-quarter sales fell 95% from \$175 million while year-over-year sales yielded a 94% drop from \$149 million. Sales per square foot followed suit, dropping precipitously from last quarter's \$249/SF to Q1's \$103/SF. Buyers and sellers alike were cautious to start the year since the Fed had only hinted at rate cuts. Furthermore, lack of clarity in the direction of inflation clouded the likelihood of said cuts. As such, lukewarm sentiment from buyers and sellers resulted in less than stellar investment sales this quarter.
- The only recorded sale for Q1 came from the West Denver submarket for 12596 W Bayaud Ave also known as the Union Terrace Building. Recentric Realty Capital purchased the 1982-constructed 84,000 SF Class B building for \$8,675,000, or \$103/SF, from seller, Bancroft Capital. Until its sale in January, the building had sat on the market for more than half a year.

## SALES VOLUME



Source: CoStar, Transwestern



## NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
DISH NETWORK CORPORATION	Riverfront Festival Ctr	Southwest	New Lease	206,992
JANUS HENDERSON INVESTORS	Clayton Lane Retail Center	Cherry Creek	Renewal	162,540
ONEFLIGHT INTERNATIONAL	H-10	Centennial	New Lease	80,598
FIRST WESTERN TRUST BANK	1900 Sixteenth Street	Platte River	Renewal	50,000

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.
CENTERRA @ COLORADO STATION	Colorado Blvd/I-25	\$14,000,000	204,182	\$68.57	Matador Equity Partners	Stream Realty Partners, LP
UNION TERRACE BUILDING	West Denver	\$8,680,000	84,145	\$68.57	Recentric Realty Capital	Bancroft Capital

Source: CoStar, Transwestern



## MARKET INDICATORS

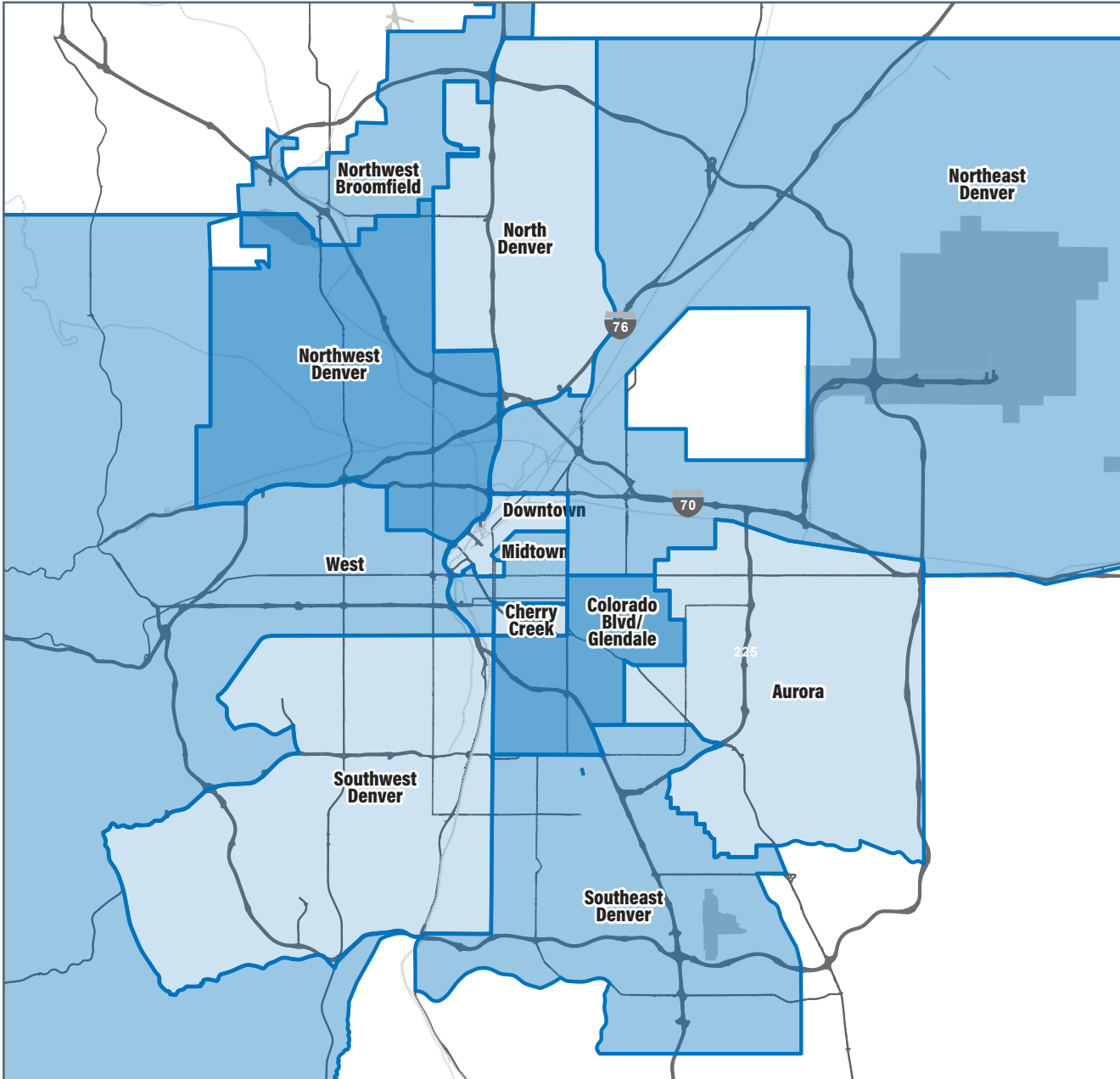
## Class A

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
<b>TOTAL</b>	<b>72,498,711</b>	<b>13,671,789</b>	<b>19.9%</b>	<b>22.6%</b>	<b>3,133,814</b>	<b>(314,271)</b>	<b>(1,278,008)</b>	<b>\$26.44</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	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
<b>TOTAL</b>	<b>57,226,511</b>	<b>9,064,738</b>	<b>17.8%</b>	<b>18.1%</b>	<b>528,697</b>	<b>129,091</b>	<b>(788,213)</b>	<b>\$24.04</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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