



TRANSWESTERN

REAL ESTATE
SERVICES

DENVER OFFICE MARKET

Q2 2024



TRENDLINES

	Q2 2023	Q2 2024	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
Unemployment Rate	2.8%	3.9%	↑	4.4%	↑
Net Absorption (MSF)	(0.100)	(0.296)	↓	(0.270)	↓
Overall Vacancy Rate	16.6%	18.5%	↑	14.5%	↑
Overall Vacant Sf (MSF)	21.733	24.358	↑	18.865	↑
Under Construction (MSF)	2.783	2.056	↓	2.098	↓
Asking Rent (PSF)	\$31.83	\$31.88	↑	\$30.57	↔
Sales Volume (Millions)	\$276.86	\$203.41	↓	\$429.18	↑

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

OFFICE MARKET OVERVIEW

Market Looks For Softening

As one of the leading office construction pipelines in the country, the Denver office market is shuddering under the pressure of the sheer amount of new office space that is and will be coming online very soon. This quarter recorded a marked jump in partially vacant deliveries which had pushed absorption and vacancy further into negative territory.

Unemployment edged higher, outpacing the national statistics. With unemployment now close to our pre-pandemic numbers, Americans are increasingly fearful of a recession. Fortunately, inflation across the Mountain region grew at slower pace than the national average as the Federal Reserve seriously hints at impending rate cuts.

The active pipeline may be at national high, but new projects starts have slowed in the face of higher construction costs and tight financing. Investment sales however rebounded significantly off the Q1 lows highlighting the demand that has been pent up in the face of unfavorable interest rates.



ECONOMY

No News is Good News

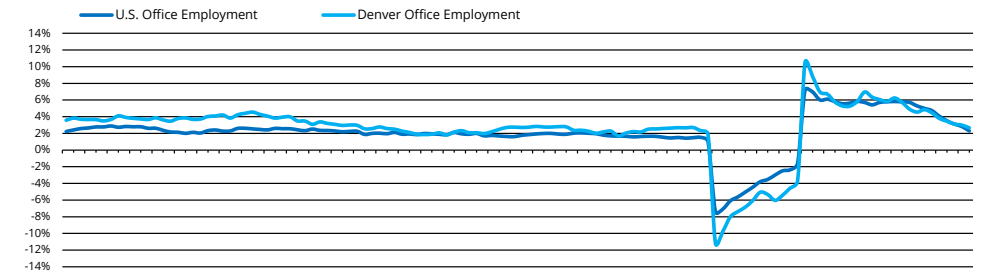
After tumultuous first half to 2024, the stabilization across most economics metrics is a welcome sight. A key factor in this stabilization is the apparent success in combating inflation. Where CPI across the US rose over the quarter at 0.59%, the mountain region saw just over half of that price increase at 0.29%. A year-over-year look at CPI also paints a similar picture with the national average at 2.97% and the mountain region at 2.32%.

Unemployment has emerged as a focal point for the Federal Reserve, alongside CPI and Core PCE. Aware of the tightening effects of their hawkish policy, the Fed is noticing the uptick in joblessness claims and unemployment, with Denver at no exception. Unemployment closed out the quarter at 3.9% growing 0.4% on the quarter and 1.1% on the year.

Of all this quarters employment contraction, the industry most affected this quarter and possibly within the last couple years is the Information sector. This quarter the Information industry contracted 2.93% while contracting year over year by a eye-opening 6.58%. Across the nation, these types of roles have also contracted, but at a fraction of the effect seen in our own market at 0.17% on the quarter and 1.22% on the year.

On the other hand, the Leisure and Hospitality sector led job growth in Q2, expanding 3.77% due to seasonal summer hiring. This is welcome recovery as the year-over-year figures reveal a -3.23% contraction since May of 2023.

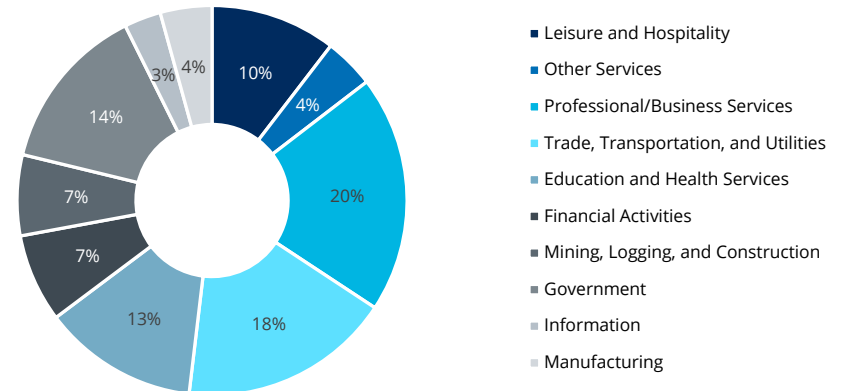
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

Denver | February 2024

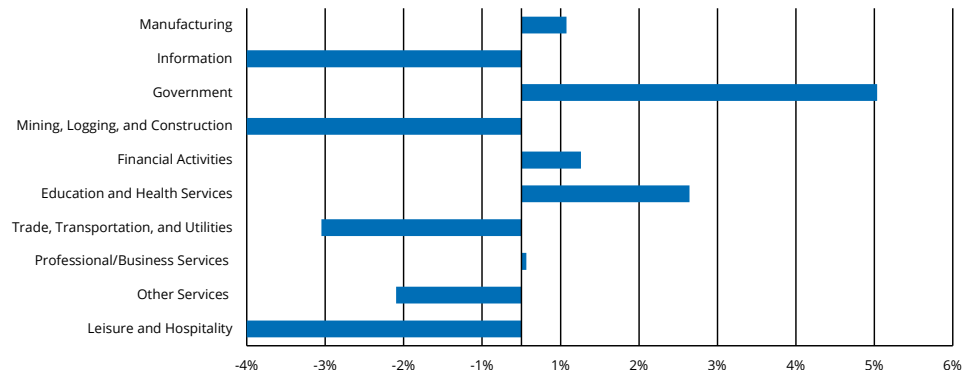


Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Denver

June 2022 - June 2023



Source: Bureau of Labor Statistics, Transwestern

In Thousands



NET ABSORPTION

Downsizing Diminishing Demand

Q2 absorption took a hit on all sides with a total negative absorption of 296,000 SF over the quarter. With the 5-year absorption average at about -273,000 SF it's quite clear that the market remains firmly lodged in this extended period of correction.

Demand is around the market is simply, at best, lukewarm. At this point in the economic cycle, tenants are not looking to expand. While they are renewing leases, many of these leases are for much less space than was previously occupied. Two major corporations – Meta and Whole Foods had reported they would be decreasing their Downtown office footprints each by around 50%.

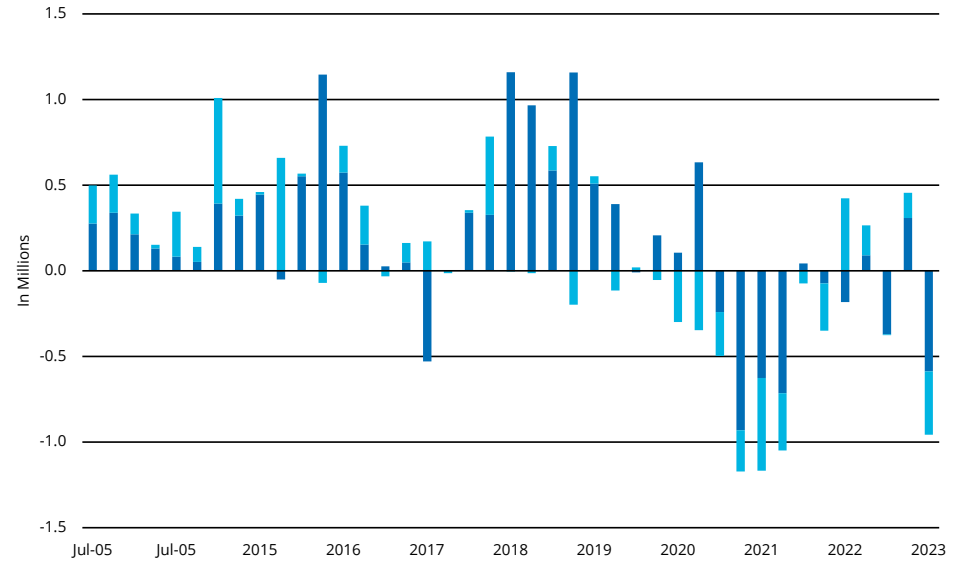
There is hope however, as these companies prepare for a weaker economic environment. Kastle systems, a security systems provider for commercial properties across the nation, has been tracking office attendance in buildings they service. Their tracking indicates that there has been a painfully slow but steady increase in office attendance since the end of 2022 following public statements made by corporate giants like UPS, Boeing, JP Morgan, Amazon, & Dell.

The Cherry Creek submarket cluster emerged as this quarter's absorption leader with total absorption at just over 89,000 SF. Both class A and class B properties managed to keep this quarter's absorption in the black.

Conversely, not to the markets surprise, the submarket that drove the most negative absorption was the downtown cluster. Over the quarter, 151,000 SF was returned to the market.

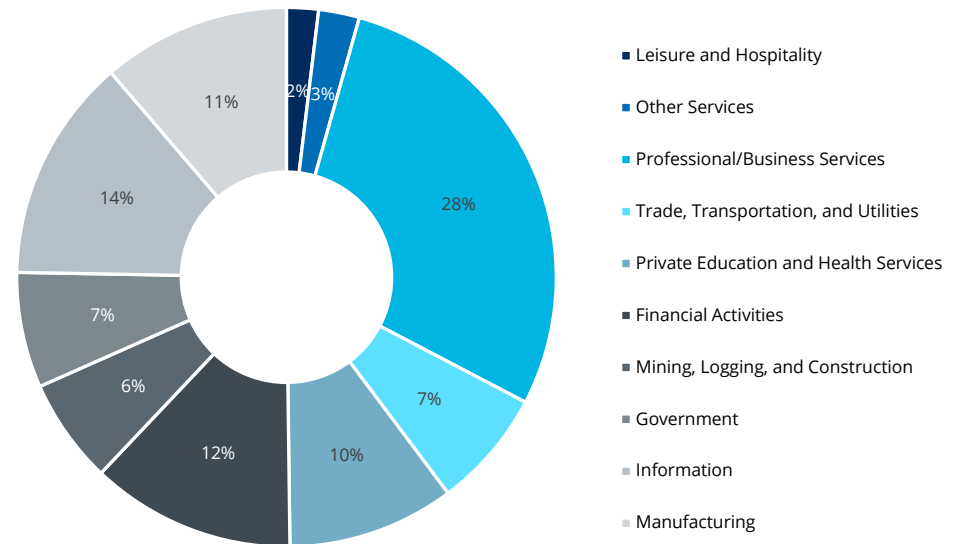
NET ABSORPTION BY CLASS

■ Class A ■ Class B



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY Q2 2024



Source: CoStar, Transwestern



VACANCY & AVAILABILITY

Record Vacancy Strikes Again

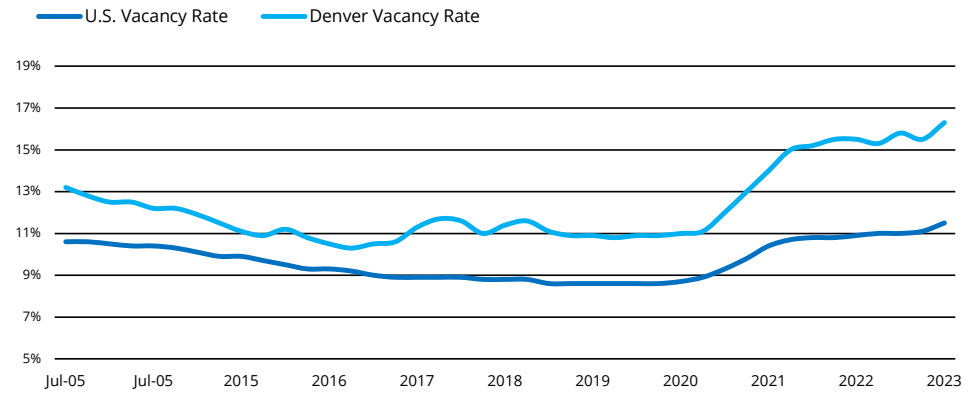
Vacancy pushed to another all-time high at 24.4 MSF or 18.6%. Quarterly, vacancy is up 0.9% and yearly it has grown by a marked 2%.

Class A properties saw a increase in vacancy of about 1.2% on the quarter and 2.6% on the year. Over those same periods, Class B properties experienced an uptick of about 0.6% quarterly and a surprising downtick of 0.2% on the year. Clearly the market is being weighed down by its concentration in Class A buildings. New construction from a nation leading development pipeline is not helping these figures either. We expect these vacancies to continue their upward trend for next couple of years with over 2.3 MSF currently under construction and a majority of those projects in Class A construction.

Available office space expanded by 897,000 SF to a total of 30.6 MSF. At this record setting level, the Denver metro’s availability as grown to 22.9% representing quarterly change of +0.6% and a yearly change of +1.3%.

Sublease availability expanded by approximately 146,000 square feet or 2.6% on the quarter, terminating a five-quarter contractionary trend. This notable increase underscores weakening demand. If tenants are electing to close out their leasing contracts, even at their short-term expense, confidence in the long-term economic picture may be waning. Not all hope is lost however, as looking back a year, sublease availability has decreased by 408,000 SF or 6.7% showing that this quarter’s figures may just be a blip in the long run.

OVERALL VACANCY RATE





UNDER CONSTRUCTION

Record Construction May Bring Record Vacancy

At a 2.3 MSF, Denver maintains its status as one of the most active metros in terms of office construction. Most of these projects had broken ground during the pandemic’s low-interest rate environment as developers and investors were quick to lock in low financing rates. Unfortunately for many of those same professionals, much of what little interest was available from 2021- 2022 has long since dried up. The size of the pipeline may be worth little more than bragging rights unless investors find willing tenants to occupy these new and improved spaces.

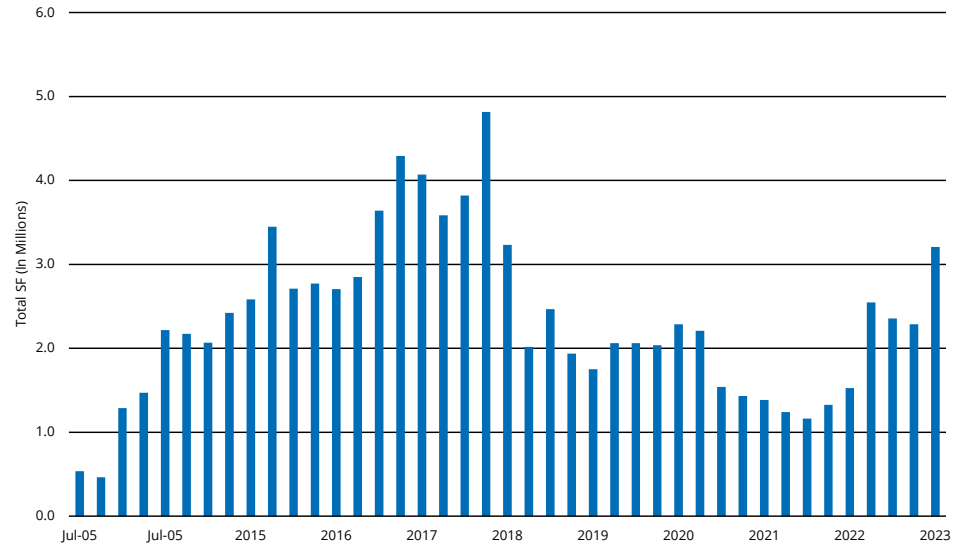
Of the active construction available, 80% of these projects are Class A spaces. While demand has waned for office space overall, in most major markets, newer Class A spaces have done well in terms of leasing and absorption as tenants are demonstrating a willingness to lease more modern and ammenitized spaces.

Five buildings were delivered through Q2. Of these five, the most notable was a 30-story 720,000 class A building within the CBD market. 1900 Lawrence was completed in April of this year and will feature an indoor workout facility, outdoor terrace, no-touch amenities, and state of the art air quality systems.

For additional active construction projects in the Denver market, check out the following developments:

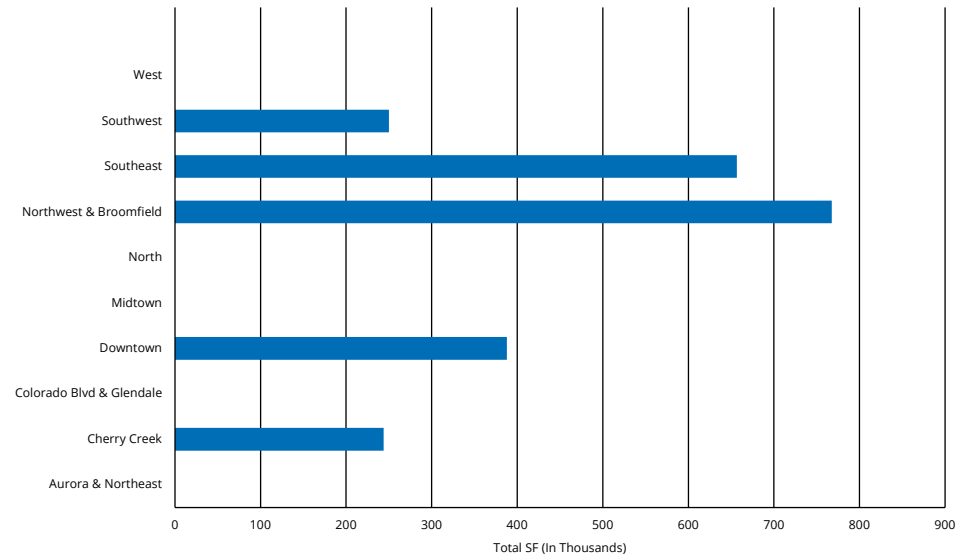
- 3083 Walnut St (Downtown / LoDo)
- 13557 Huron (North Denver)
- Sante Fe Yards, Building 3 – E Mississippi Ave (Southwest Denver)
- World Trade Center Denver – 4100 Fox St (Northwest Denver)
- 201 Filmore St (Cherry Creek)

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern



LEASING AND RENTAL RATES

Nominal Rates Fall as Weighted Rates Grow

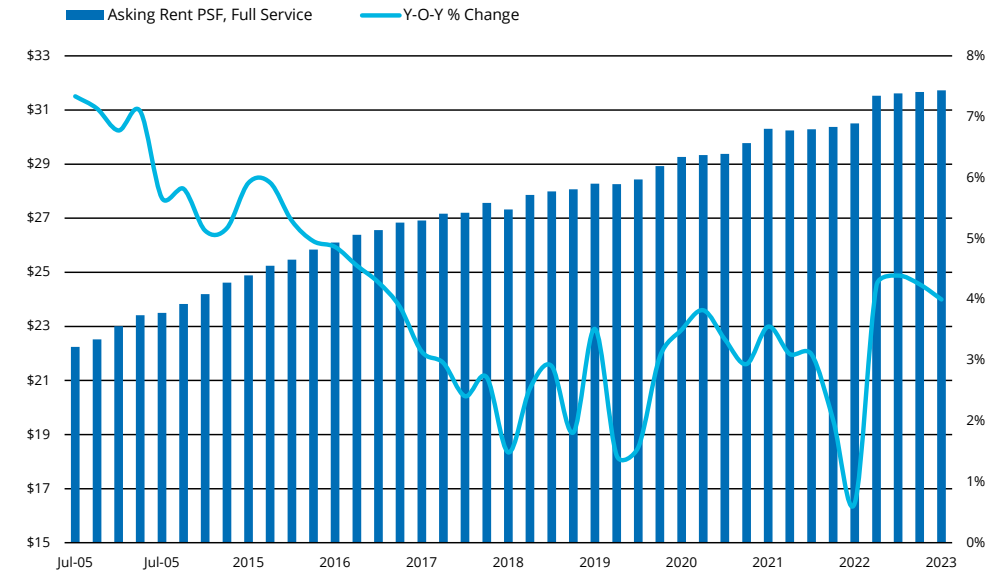
Rents remained steady for Q1. Base direct rents are down \$0.10/SF quarterly to settle at \$25.10/SF. Class A direct rents have come up \$0.20/SF over the quarter, landing at \$26.24/SF, while Class B rents have come down marginally, falling \$0.03/SF to \$23.64/SF. On the other hand, subleases have 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.

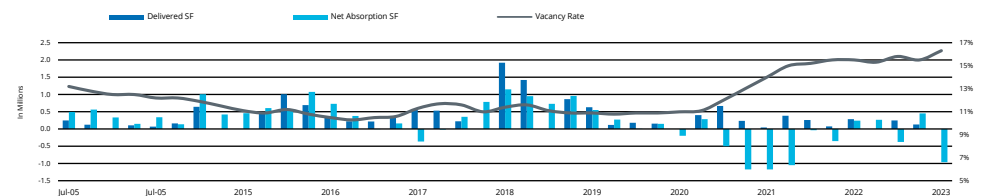
Q1 witnessed a contraction in the direct and sublease rent spread. With the current market spread of \$4.98/SF, the spread shrank 12.4% from last quarter’s \$5.69/SF quarter primarily due to the notable increase in sublease rates for Class B buildings. Surprisingly, it was Class B properties that struggled to fill space this quarter, so it is likely these rates will need to fall to match demand.

ASKING RENT



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern



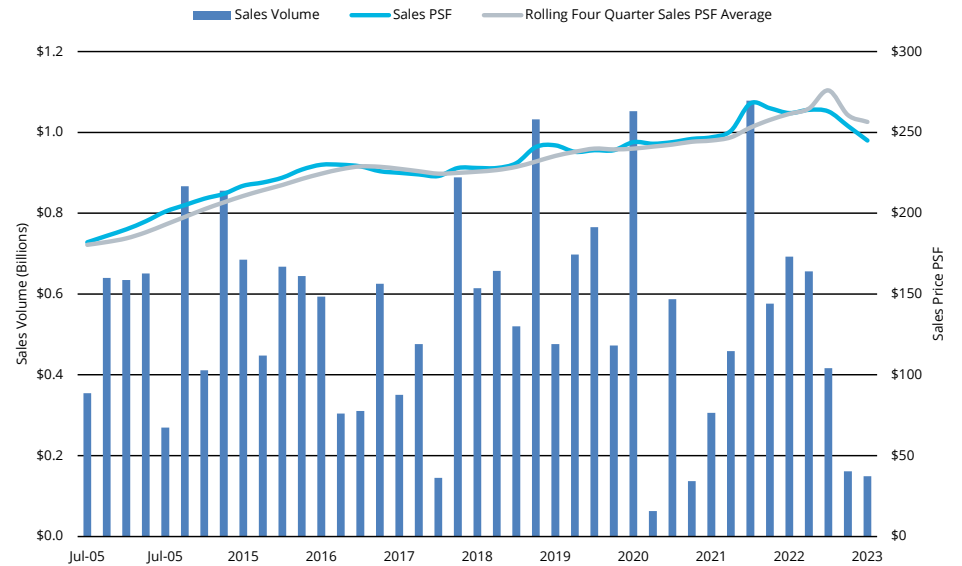
SALES

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.

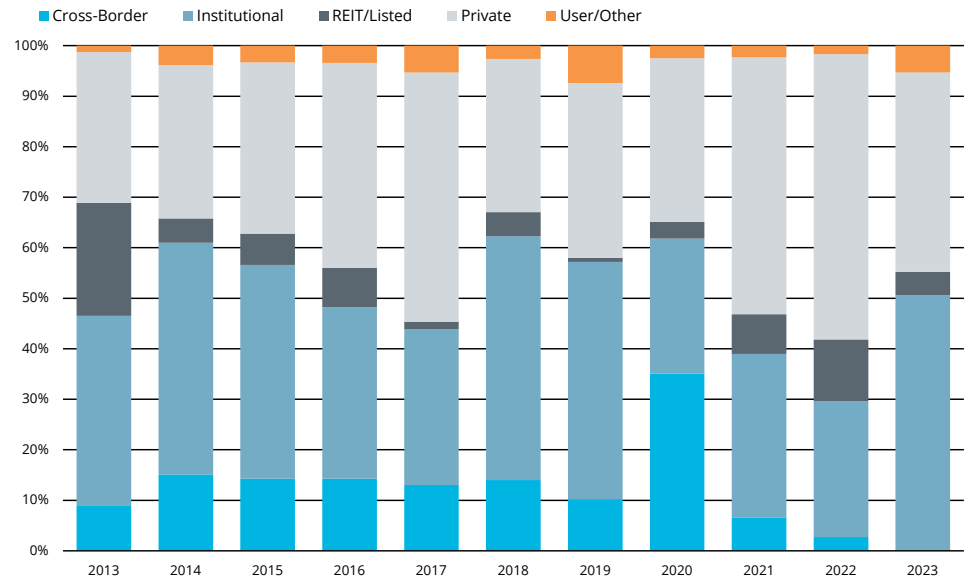
The only recorded sale for Q1 came from the West Denver submarket for 12596 W Bayaud Ave also known as the Union Terrace Building. Recentric Realty Capital purchased the 1982-constructed 84,000 SF Class B building for \$8,675,000, or \$103/SF, from seller, Bancroft Capital. Until its sale in January, the building had sat on the market for more than half a year.

SALES VOLUME



Source: CoStar, Transwestern

BUYER CAPITAL COMPOSITION



Source: CoStar, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
Johns Manville	Denver City Center	CBD	Renewal	121,000
Conmed Corporation	Palazzo Verdi & Fiddlers Green II	Greenwood Village	New Lease	50,405
-	1515 Wynkoop	LoDo	New Lease	50,000
Kutak Rock	Union Station Neighborhood	Platte River	New Lease	40,000

Source: CoStar, Transwestern

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
101 W Colfax Ave	CBD	\$88,500,000	340,538	\$260	City and Cnty of Denver	Kayan LLC
Orchard Park Medical Center	North Denver	\$30,550,000	75,605	\$404	Remedy Medical Properties	Development Solutions Group LLC
Centerra @ Colorado Station	Colorado Blvd/I-25	\$14,000,000	204,182	\$69	Matador Equity Partners	Stream Realty Partners, LP
Union Terrace Building	West Denver	\$8,680,000	84,145	\$103	Recentric Realty Capital	Bancroft Capital

Source: CoStar, Transwestern

= Transwestern deal



MARKET INDICATORS

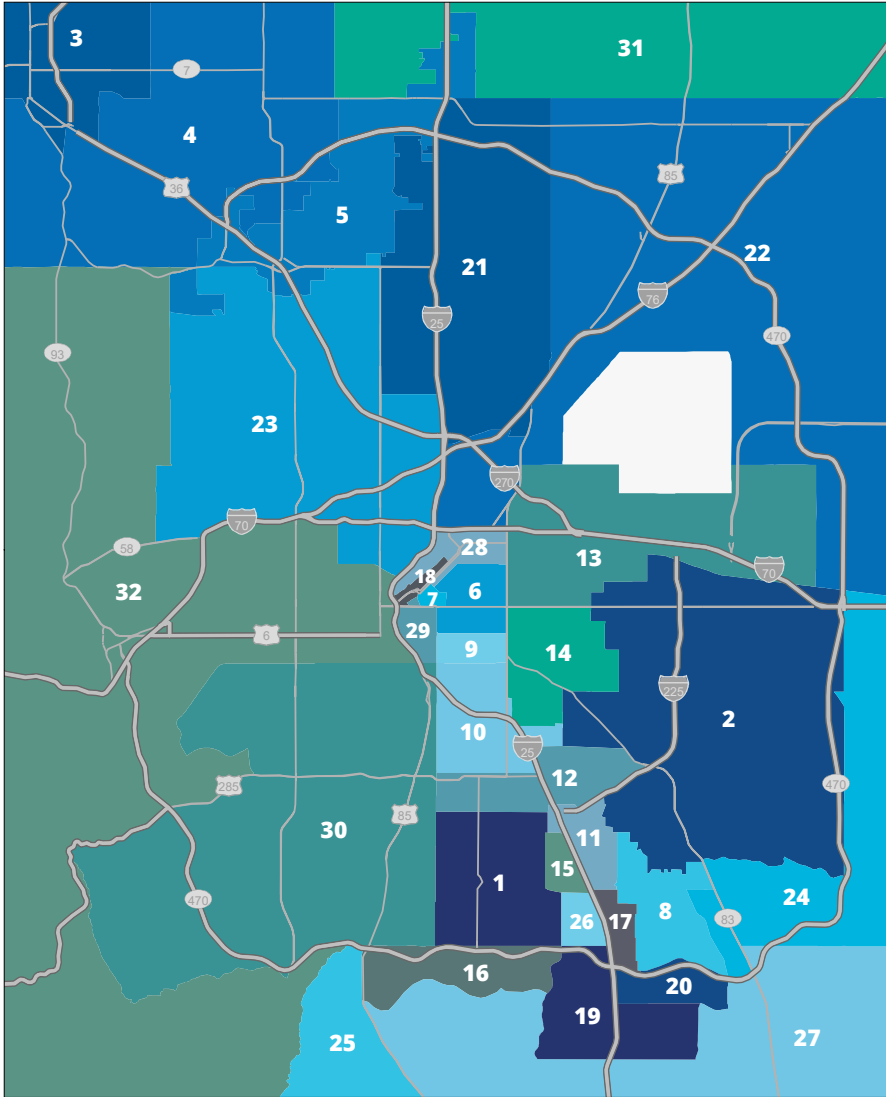
Class A | Q2 2024 (Direct Leasing)

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF DIRECT	ASKING RENT PSF SUBLEASE
Aurora & Northeast	1,688,909	378,874	22.4%	28.0%	0	(29,737)	(112,309)	\$22.72	\$19.01
Cherry Creek	1,552,451	38,226	2.5%	3.5%	243,964	51,780	133,343	\$39.87	\$39.77
Colorado Blvd & Glendale	3,029,350	616,925	20.4%	21.9%	0	(24,497)	11,859	\$30.29	\$19.87
Downtown	30,473,953	7,646,892	25.1%	30.1%	322,860	(74,267)	(656,322)	\$27.69	\$23.12
Midtown	1,493,154	106,197	7.1%	12.7%	0	(5,747)	(14,887)	\$17.53	\$18.56
North	644,155	21,880	3.4%	5.2%	0	11,168	15,495	\$28.06	\$21.29
Northwest & Broomfield	5,439,222	1,023,671	18.8%	22.5%	742,680	(2,035)	64,299	\$21.47	\$18.79
Southeast	25,565,947	4,484,747	17.5%	20.1%	332,775	(83,911)	(312,385)	\$24.97	\$18.46
Southwest	566,692	14,164	2.5%	2.5%	250,000	(5,246)	(4,764)	\$20.99	-
West	2,292,489	265,597	11.6%	14.0%	0	8,787	(29,906)	\$25.71	\$23.10
TOTAL	72,746,322	14,597,173	20.1%	23.8%	1,892,279	(153,705)	(905,577)	\$26.20	\$20.99

MARKET INDICATORS

Class B | Q2 2024 (Direct Leasing)

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF DIRECT	ASKING RENT PSF SUBLEASE
Aurora & Northeast	5,791,748	430,242	7.4%	8.1%	0	22,898	128,056	\$19.48	\$17.72
Cherry Creek	1,384,353	139,931	10.1%	11.0%	0	37,382	47,789	\$32.99	-
Colorado Blvd & Glendale	3,697,479	482,656	13.1%	16.9%	0	59,034	11,349	\$25.95	\$14.64
Downtown	11,338,382	3,174,753	28.0%	28.7%	65,000	(77,026)	(489,839)	\$26.73	\$26.92
Midtown	1,609,444	369,350	22.9%	23.4%	0	(4,207)	21,029	\$23.83	\$12.64
North	1,791,601	220,088	12.3%	16.3%	0	18,164	77,170	\$24.48	\$17.00
Northwest & Broomfield	4,763,033	441,362	9.3%	11.1%	25,005	14,413	(34,185)	\$20.63	\$16.17
Southeast	17,295,536	2,808,159	16.2%	20.1%	323,984	(54,774)	(149,656)	\$23.39	\$16.48
Southwest	4,831,053	481,388	10.0%	10.7%	0	17,072	2,613	\$19.52	\$19.07
West	6,567,936	1,213,033	18.5%	19.3%	0	(175,477)	(162,475)	\$22.90	\$18.43
TOTAL	59,070,565	9,760,962	16.5%	18.6%	413,989	(142,521)	(548,149)	\$23.48	\$18.42



Denver Office Submarkets

- 1 Arapahoe Rd
- 2 Aurora
- 3 Boulder
- 4 Boulder County
- 5 Broomfield County
- 6 Capitol Hill
- 7 CBD
- 8 Centennial
- 9 Cherry Creek
- 10 Colorado Blvd/I-25
- 11 Denver Tech Center
- 12 East Hampden
- 13 East I-70/Montbello
- 14 Glendale
- 15 Greenwood Village
- 16 Highlands Ranch
- 17 Inverness
- 18 LoDo
- 19 Lone Tree
- 20 Meridian
- 21 North Denver
- 22 Northeast Denver
- 23 Northwest Denver
- 24 Outlying Arapahoe County
- 25 Outlying Douglas County
- 26 Panorama/Highland Park
- 27 Parker/Castle Rock
- 28 Platte River
- 29 South Midtown
- 30 Southwest Denver
- 31 Weld County
- 32 West Denver

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

[William Kim](#)

Researcher
william.kim@transwestern.com
 303.952.5594

ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. An integrated approach formed from fresh ideas drives value for clients across commercial real estate services, development, investment management and opportunistic programs for high-net-worth investors. The firm operates through 30+ U.S. offices and global alliances with BNP Paribas Real Estate and Devencore. Learn more at transwestern.com and [@Transwestern](https://twitter.com/Transwestern).