

SOUTHEAST DENVER OFFICE MARKET

Q3 2024



TRENDLINES

| | Q3 2023 | Q3 2024 | ONE-YEAR TREND | FIVE-YEAR AVERAGE | 12-MONTH FORECAST |
|-----------------------------|---------|---------|-------------------|----------------------|----------------------|
| Unemployment Rate | 3.6% | 4.2% | ↑ | 4.5% | ↑ |
| Net Absorption (MSF) | (0.131) | (0.576) | ↓ | (0.084) | ↑ |
| Overall Vacancy Rate | 15.8% | 17.9% | ↑ | 14.8% | ↔ |
| Overall Vacant Sf (MSF) | 7.082 | 8.012 | ↑ | 6.574 | ↔ |
| Under Construction (MSF) | 0.324 | 0.657 | ↓ | 0.565 | ↔ |
| Asking Rent (PSF) | \$28.03 | \$27.60 | ↓ | \$27.39 | ↔ |
| Sales Volume (Millions) | \$6.720 | \$95.58 | ↓ | \$140.56 | ↑ |

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

OFFICE MARKET OVERVIEW

Steady Does It

The Southeast market maintained its performance across most metrics despite some setbacks in absorption and resulting vacancy. Leasing activity continues to decelerate as tenants scrutinize any decision to occupy office space. Furthermore, according to Costar reports rental rates took an interesting turn with gross rates increasing while net rents fell. Luckily, investment has picked up, but prices have fallen, especially for older buildings with high operating costs and dwindling occupancy.

Many business owners remain uncertain over the future of the economy which has dampened hiring in the short term and edged unemployment further. Tenants have little reason to upsize if the business is not growing. Upward revisions to recent unemployment numbers, however, have given credence to a more optimistic outlook. Within Colorado, consumer sentiment is signaling resilience with a steady CPI measurement. Moving forward, all attention will be on Federal Reserve's sentiment on rate cuts.



ECONOMY

Rate Cut Reverberations

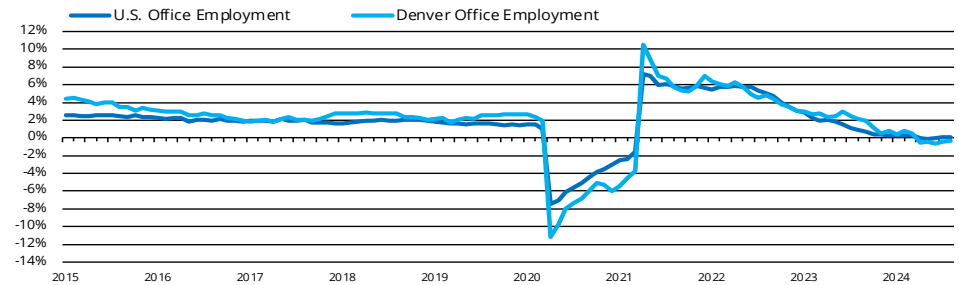
Q3 was closed out with the Federal Reserve’s first rate cut in four years. This is a welcome sign of stabilization across the nation’s commercial markets. Lower rates may offer relief for distressed buildings and leeway in underwriting for further growth in investment volume. With inflation in the background, the Federal Reserve has turned their attention to unemployment and its relationship to interest rates.

Recently, initial reports for August and July national payroll employment were revised upwards by 31.2% from 231,000 to 303,000. In fact, unemployment in both the US as well as the Denver Metro each saw unemployment decrease by 0.1% over the quarter.

Denver’s leader in employment growth for the second consecutive quarter was the Leisure & Hospitality sector at 3.6% to the upside. Interestingly, the sector has contracted by 2.9% over the past year. The Financial Activities along with the Mining, Logging, & Construction sectors each saw quarterly growth of 2.6%.

Denver’s weakest employment numbers were reported by the Government vertical which slid by 3% on the quarter. The sector had been a consistent performer throughout 2024 resulting in year over year growth of 3.4% despite this quarter’s performance. The Manufacturing and Education & Health Services sector fell by -1.1% and 0.8% respectively on the quarter.

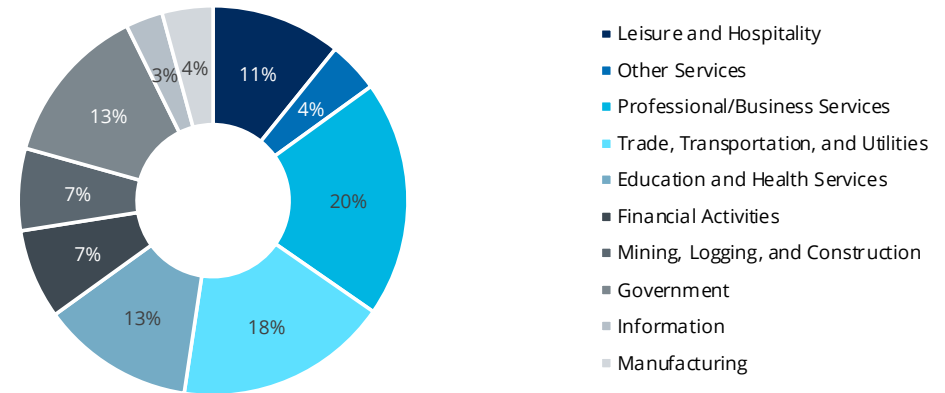
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

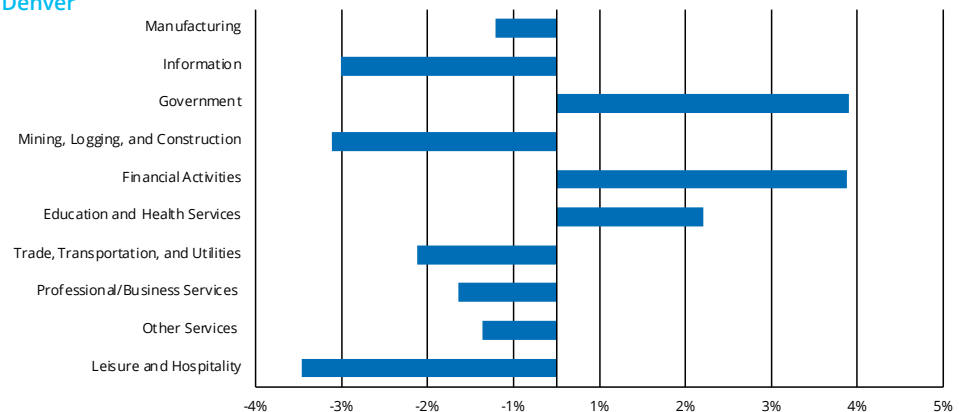
Denver | February 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Denver



Source: Bureau of Labor Statistics, Transwestern

In Thousands



NET ABSORPTION

Waning Unemployment Fears Curb Demand

At first glance, reported absorption for Q3 would have more than quadrupled last quarter's negative absorption of 130,000 SF for a total negative absorption of 576,000 SF. Absorption revisions corrected the market absorption figures closer to -307,000 SF or a 136.2% quarter over quarter increase. These post revision figures paint a more accurate, but still struggling picture of Southeast leasing market. Overreactions to the release of preliminary unemployment numbers above expectations can be partially to blame for the decrease in activity throughout the market.

Leasing activity between class A buildings and class B buildings had evened out over the quarter. Between classes, class A buildings make up roughly 55% of our surveyed market but represented 47% of the 106 deals closed and class B buildings which make up the other 45% of market took the remaining 53% of deals. Those 50 class A deals resulted in 254,000 SF of leased space where the 56 class B deals resulted in 137,000 SF of leased space.

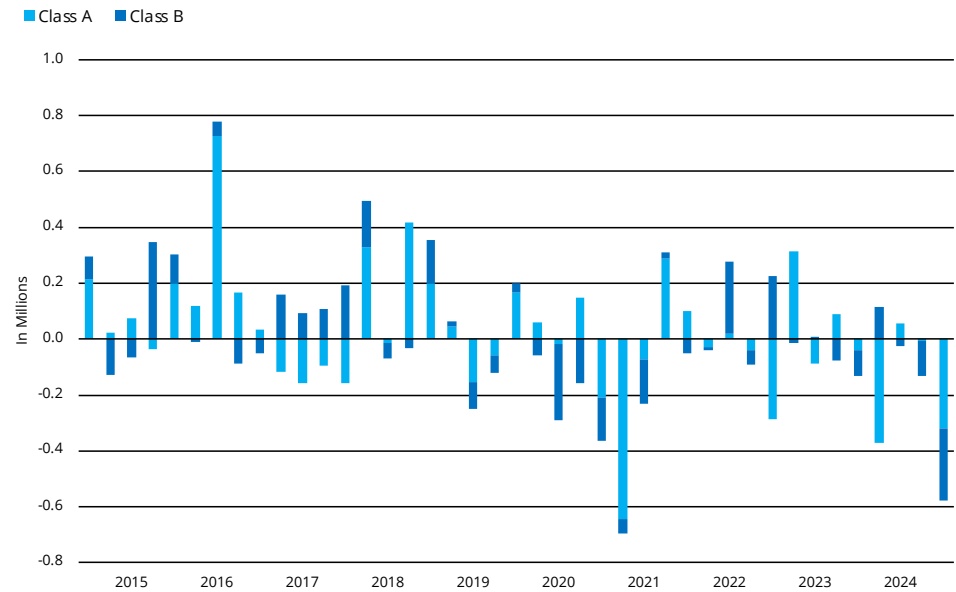
The Southeast's weakest submarket by absorption was the Denver Tech Center with total negative absorption of 211,000 SF. Oracle, who had officed in this building for 24 years, vacated over 115,000 SF of space in the building bearing their namesake.

The next two submarkets with the lowest absorption figure this quarter were East Hampden and Inverness with negative absorption of 74,000 SF and 71,000 SF, respectively.

Including revisions, the Greenwood Village submarket lead the Southeast cluster in absorption netting 45,000 SF. 167,000 SF was initially miscategorized as positive absorption, yet with these corrections, the market remains the most resilient over the course of Q3.

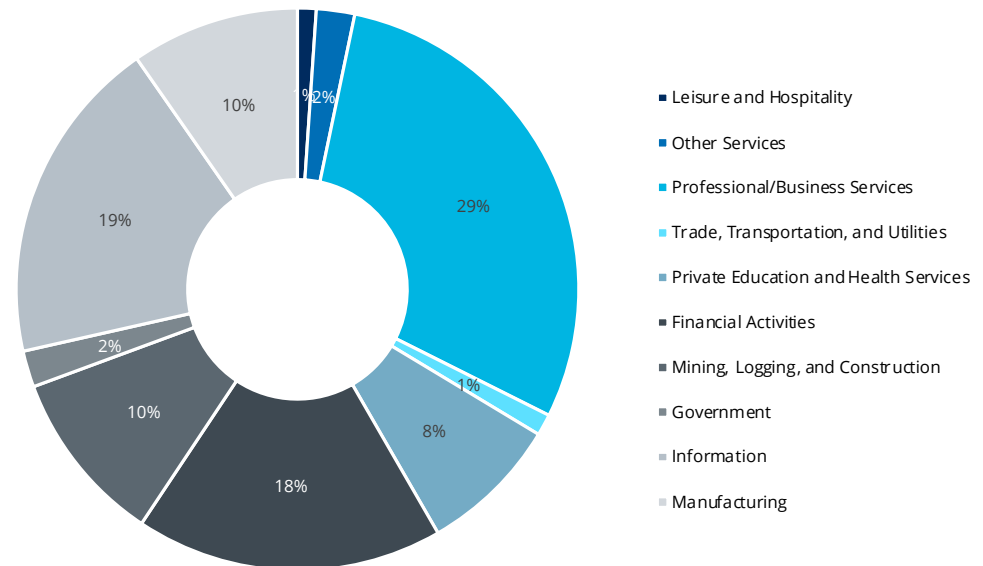
Runner ups include the Panorama/Highland Park and Lone Tree with absorption of 10,000 SF and 4,000 SF each.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY Q3 2024



Source: CoStar, Transwestern



VACANCY & AVAILABILITY

Direct Vacancy Jumps while Sublease Vacancy Dips

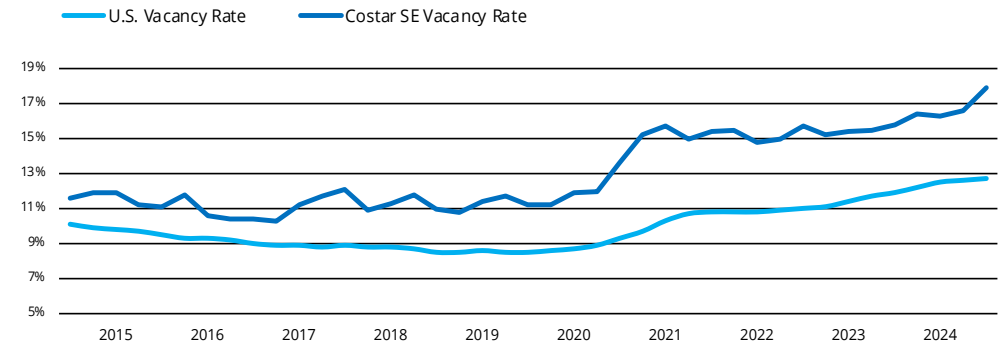
Vacancy pushed higher for another consecutive quarter, although not quite as high as initially reported. The market reported 17.9% vacancy, but following corrections, vacancy should be closer to 17.3%. This represents quarterly increases of 0.1% and a yearly increase of 1.3%. Using the corrected numbers, average 3-year vacancy grew by 0.2% to 15.8% while the average 5-year vacancy grew by a marginal 0.1% to settle at 14.8%.

Like the last quarter, these Q3 vacancy figures mark another all time high in office vacancy across both the Southeast cluster and the nation. Fortunately, however, it looks like the Southeast cluster has kept pace with national figures as national office vacancy also edged up by 0.1% to 12.7%.

Interestingly, quarterly sublease vacancy managed to shrink by 0.1% from 2.9% to 2.8% which presents two very different potential situations and explanations. Either subleases are being leased and taken off the market due to more favorable lease terms and the reality of a tenant focused market or the underlying leases are expiring, and management has begun to list these spaces direct, which would partly explain this quarter's jump in vacant space.

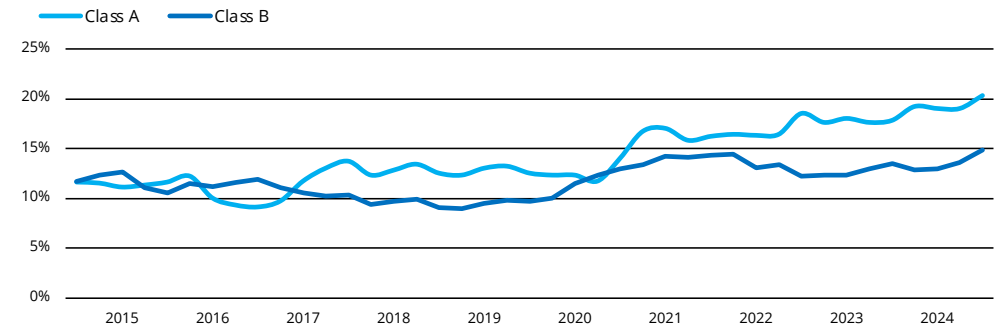
Class A vacancy continues to far outpace Class B properties. Corrected vacancy places Class A properties near 20% vacant while Class B have reported just under 14.7%. Each had seen vacancy increase by nearly 1% and 1.1% respectively.

OVERALL VACANCY RATE



Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

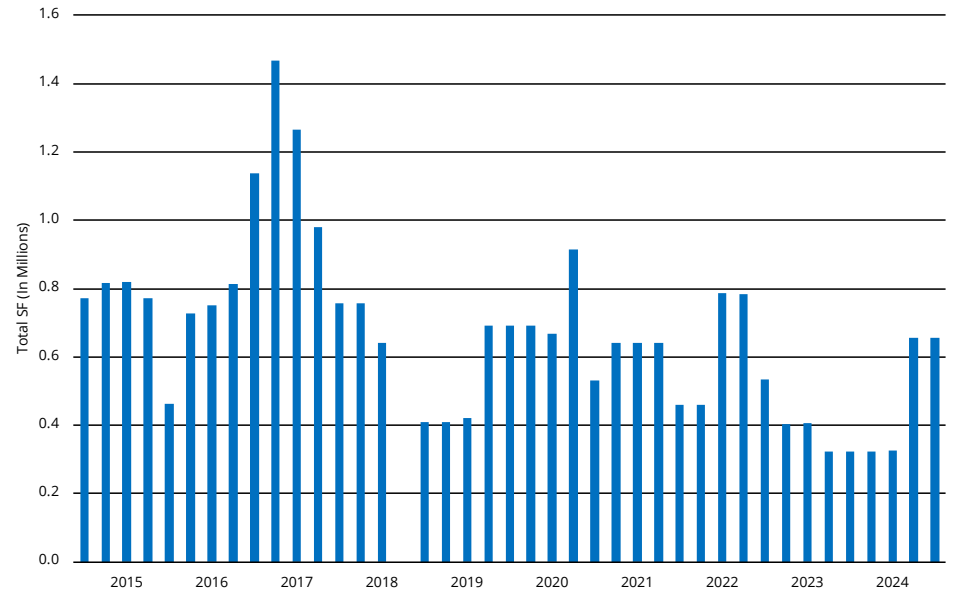


UNDER CONSTRUCTION

Quiet for Q3

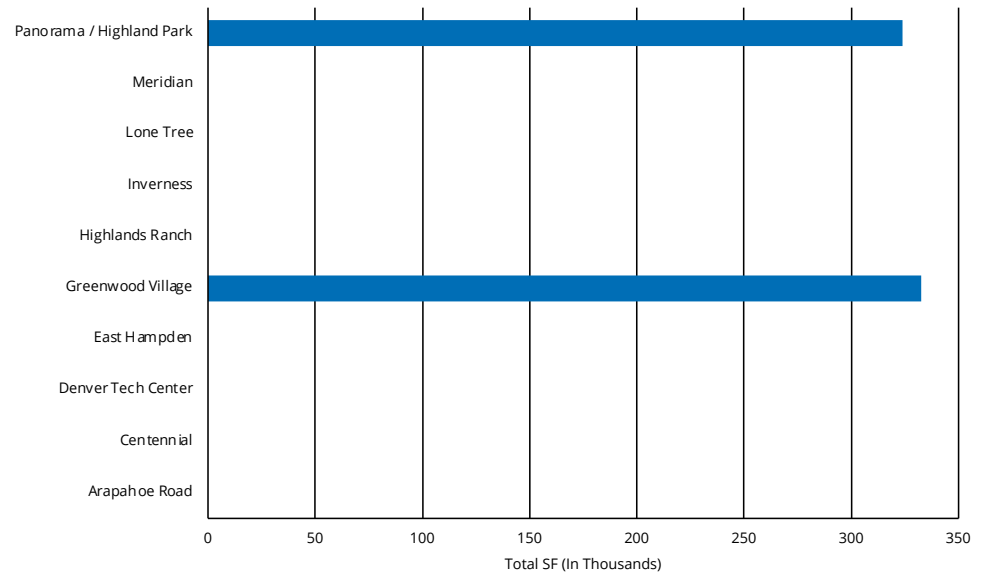
No new construction broke ground for Q3 and no new deliveries were recorded. While it's likely this continues for the immediate term with muted demand for office space, there is potential for less risky smaller projects to break ground as the likelihood of rate cuts increases. The rise of new development will rest on the shoulders of consumer and business owners as consumer and hiring trends will be front and center for the Federal Reserve.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern



LEASING AND RENTAL RATES

Net Rent Down as Gross Rates Rise

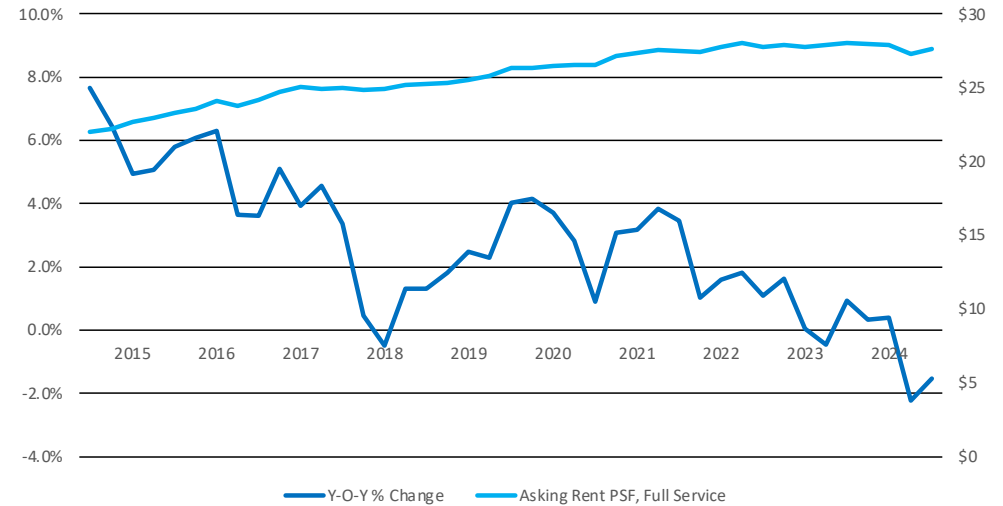
Q3 rental rates reported gross rents had increased while net rents had fallen. Net rents are dropping in response to lukewarm demand, but gross rents are forced upwards to keep pace with increasing operating costs. Specifically, gross rents have grown \$0.30 or 1.1% on the quarter and have fallen by \$0.43 or 1.53% on the year. Net rents have fallen \$0.48 or 1.9% and \$0.61 or 2.5% on the quarter and year respectively. Until more businesses implement return to office polices, rents and rent growth for will likely remain muted.

While direct rates find their footing, gross sublease rates have quietly climbed on both a quarterly and yearly basis. On the quarter, gross sublease rates are up \$0.11 or 0.5% and on the year they climbed \$0.85 or 4.2%. Either most well priced subleases have been occupied leaving behind less desirable spaces with costly term or tenants are leasing for the short term in hopes of a more favorable leasing environment down the line.

The Denver Tech Center has lead the quarter in direct rate decreases. Over Q3, the market saw rates drop by \$1.36 or 5.2%. Additionally, DTC lead the cluster in year over year direct rate decline. On the year, the submarket is down \$1.80 or 6.7%.

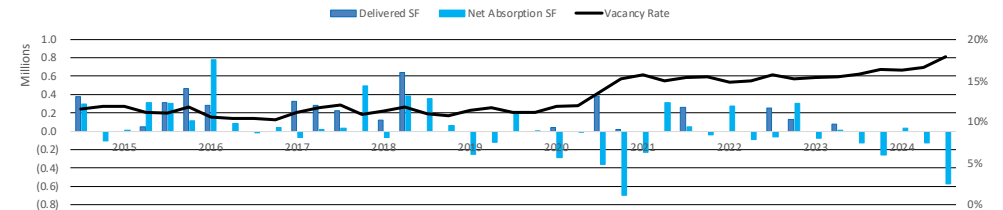
The submarket with the most aggressive direct rate growth for the quarter was the Highland Ranch submarket. Quarterly growth was reported at \$1.27 or 5.78% to land at a submarket average of \$23.24 PSF. Centennial, produced the greatest year-over-year rent gain with \$1.98 or 11% to land at \$20.05.

ASKING RENT



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern



SALES

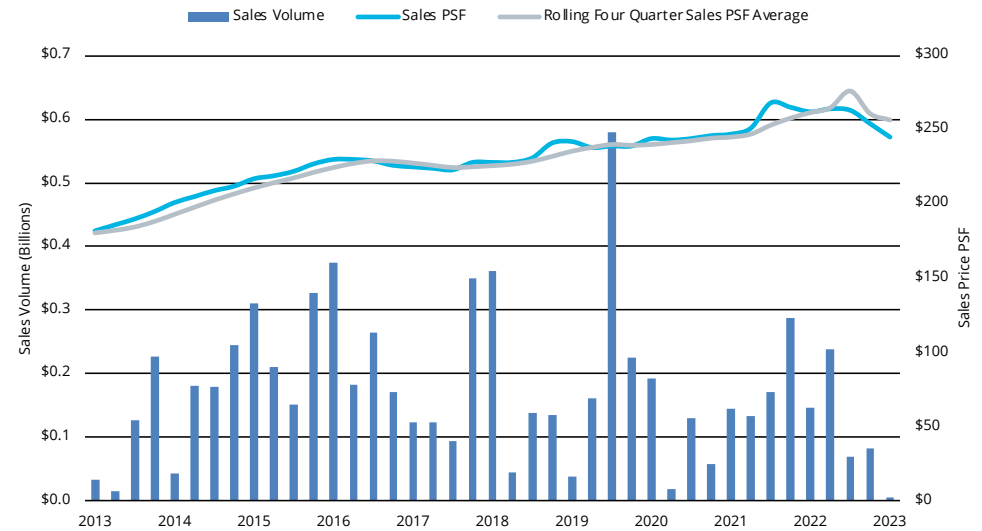
Discount Sales

Investment activity is picking up in the Southeast market, especially among its older more distressed inventory. This quarter's sales gave valuable insight into the core type of office assets that make up the brunt of the Southeast market.

Overall, sales per square feet are trending down with cap rates increasing for aging office buildings. Quarter-over-quarter price per square foot came down 5.4% from Q2's \$166 per square feet to this quarter's \$157 per square foot. On a year-over-year basis, price per square foot is down 12% from \$176 per square foot. Conversely, volume has seen quarterly growth of 12% increasing from \$85 million to \$96 million. Year-over-year there has been a dramatic jump of 1326% from last year's \$6.7 million

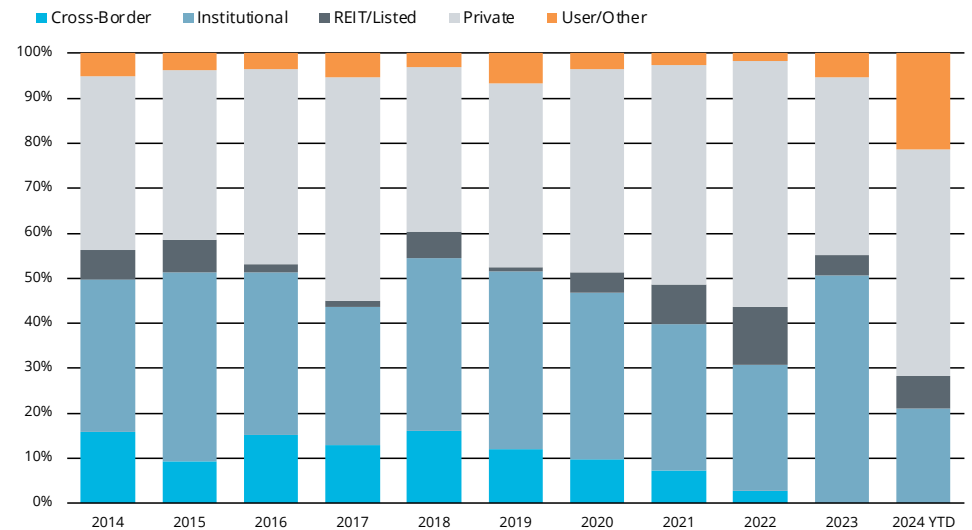
Buildings continue to sell at a fraction of their most recent purchase prices. Most recently, Park Ridge 4, a 192,000 SF office building constructed in 2001, was sold for \$18 million or about \$92 a square foot. Park Ridge 4 was reportedly 90% leased at the time of it's auction sale. The building was last sold for \$42.2 million which represents a discount of 57%.

SALES VOLUME



Source: CoStar, Transwestern

BUYER CAPITAL COMPOSITION



Source: CoStar, Transwestern



NOTABLE LEASES

| TENANT | ADDRESS | SUBMARKET | TYPE | SF LEASED |
|------------------------|---------------------------------|--------------------|-----------|-----------|
| Spectrum | Granite Place at Village Center | Denver Tech Center | Renewal | 299,568 |
| Pulte Mortgage Company | Bellevue Center | Denver Tech Center | New Lease | 36,497 |
| N/A | Arapahoe Business Park | Centennial | New Lease | 33,743 |
| RIA Neurovascular | Inova Corporate Center I | Inverness | New Lease | 21,305 |

Source: CoStar, Transwestern

NOTABLE SALES

| ADDRESS | SUBMARKET | SALES PRICE | BUILDING SF | PRICE PSF | BUYER | SELLER |
|----------------------------------|--------------------|--------------|-------------|-----------|---------------------------------------|---|
| 4600 S Ulster & 4610 S Ulster St | Denver Tech Center | \$22,000,000 | 433,000 | \$51 | Koelbel & Co & Real Capital Solutions | California State Teachers Retirement System |
| 10375 Park Meadows Dr | Lone Tree | \$18,000,000 | 192,359 | \$94 | KORE Investments | Principal Real Estate Investors |
| 116 Inverness Dr | Inverness | \$14,950,000 | 216,999 | \$69 | Real Capital Solutions, Inc. | Miller Global Properties |
| 8101 E Prentice Ave | Inverness | \$14,400,000 | 161,313 | \$89 | Granite Properties | Dunton Commercial |

Source: CoStar, Transwestern



MARKET INDICATORS

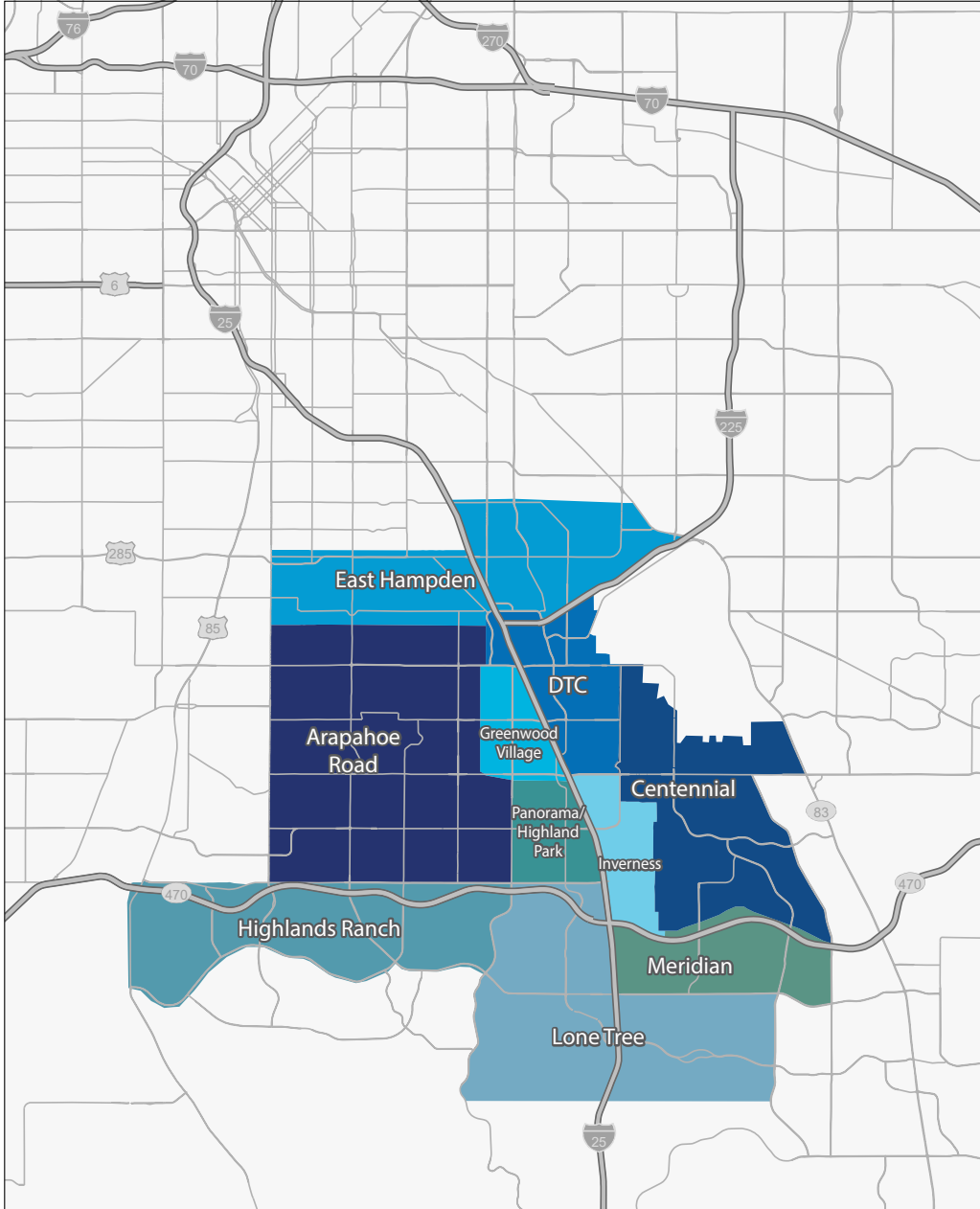
Class A & B | Q3 2024 (Direct Leasing)

| 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 |
|--------------------------|-------------------|------------------|--------------|----------------------|-----------------------|-------------------|-------------------------|------------------------|--------------------------|
| Arapahoe Road | 668,426 | 69,046 | 10.3% | 10.3% | 0 | 17,042 | 47,795 | \$26.27 | - |
| Centennial | 2,525,703 | 470,188 | 18.6% | 26.7% | 0 | (8,558) | (7,621) | \$20.05 | \$14.54 |
| Denver Tech Center | 12,299,413 | 1,973,516 | 16.0% | 19.3% | 0 | (211,242) | (160,739) | \$24.89 | \$18.90 |
| East Hampden | 2,663,940 | 481,958 | 18.1% | 18.3% | 0 | (74,068) | (76,661) | \$19.26 | \$16.19 |
| Greenwood Village | 9,280,712 | 1,614,571 | 17.4% | 21.3% | 332,775 | 209,082 | 93,969 | \$24.01 | \$17.38 |
| Highlands Ranch | 1,993,138 | 392,130 | 19.7% | 20.5% | 0 | (520) | (4,342) | \$23.24 | \$20.60 |
| Inverness | 5,823,221 | 1,264,296 | 21.7% | 23.6% | 0 | (208,483) | (435,370) | \$22.18 | \$16.60 |
| Lone Tree | 2,357,081 | 361,603 | 15.3% | 15.3% | 0 | (162,346) | (161,484) | \$20.46 | - |
| Meridian | 3,345,044 | 716,541 | 21.4% | 21.4% | 0 | (18,426) | (126,608) | \$26.12 | \$18.00 |
| Panorama / Highland Park | 3,747,759 | 667,880 | 17.8% | 22.4% | 323,984 | (118,274) | (98,287) | \$25.92 | \$16.35 |
| TOTAL | 44,704,437 | 8,011,729 | 17.9% | 20.8% | 656,759 | (575,793) | (929,348) | \$23.64 | \$16.39 |

MARKET INDICATORS

Class B | Q3 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 |
|--------------------------|-------------------|------------------|--------------|----------------------|-----------------------|-------------------|-------------------------|------------------------|--------------------------|
| Arapahoe Road | 288,125 | 31,135 | 10.8% | 10.8% | 0 | - | 32,309 | \$30.17 | - |
| Centennial | 517,250 | 332,849 | 64.3% | 65.5% | 0 | -3,730 | (8,166) | \$17.46 | \$18.74 |
| Denver Tech Center | 8,975,378 | 1,365,218 | 15.2% | 19.6% | 0 | -50,872 | 3,451 | \$25.88 | \$18.89 |
| East Hampden | 1,183,711 | 324,048 | 27.4% | 27.8% | 0 | -51,484 | (87,088) | \$19.60 | \$16.19 |
| Greenwood Village | 4,230,414 | 862,680 | 20.4% | 21.6% | 332,775 | 37,725 | (12,225) | \$24.54 | \$18.13 |
| Highlands Ranch | 1,154,474 | 318,573 | 27.6% | 28.7% | 0 | 7,040 | 7,111 | \$23.74 | \$21.35 |
| Inverness | 2,529,769 | 651,038 | 25.7% | 27.9% | 0 | 31,844 | (213,092) | \$23.05 | \$17.25 |
| Lone Tree | 1,780,555 | 291,169 | 16.4% | 16.4% | 0 | -166,708 | (165,846) | \$21.65 | - |
| Meridian | 2,177,031 | 429,615 | 19.7% | 19.7% | 0 | -13,045 | (72,117) | \$26.35 | - |
| Panorama / Highland Park | 1,849,727 | 411,491 | 22.2% | 31.3% | 323,984 | -109,568 | (120,144) | \$27.02 | \$15.62 |
| TOTAL | 20,018,003 | 2,993,913 | 15.0% | 17.8% | 0 | (256,995) | (323,632) | \$22.03 | \$15.59 |



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

his 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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