TRANSWESTERN
REAL ESTATE SERVICES

SOUTHEAST DENVER OFFICE MARKET

Q4 2024

TRENDLINES

	Q4 2023	Q4 2024	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
Unemployment Rate	3.2%	4.5%	↑	4.6%	↓
Net Absorption (MSF)	(0.256)	(0.076)	↑	(0.097)	↑
Overall Vacancy Rate	16.4%	18.1%	↑	15.2%	↓
Overall Vacant Sf (MSF)	7.339	8.082	↑	6.727	↓
Under Construction (MSF)	0.324	0.862	↑	0.573	↔
Asking Rent (PSF)	$27.99	$28.30	↑	$27.49	↑
Sales Volume (Millions)	$50.744	$145.98	↑	$119.90	↑

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

OFFICE MARKET OVERVIEW

4th Quarter Recovery

Southeast Denver had hit slow patch through 2024, but with the close of the year, Q4 metrics are showing signs of stabilization. In line with 2024's overall trend, absorption and vacancy continued to inch upwards. Fortunately, the rate of vacancy and negative absorption growth is stalling. Return to office mandates by companies across the industry spectrum are pushing occupancy up. In some cases, companies are encountering challenges in accommodating the rising number of office employees due to previous office reductions.

Office construction remains stalled. Starts are expected to remain sidelined until the President Trump's economic policy and their ensuing reverberations crystallize. Deal volume continued to see a noticeable uptick over the quarter further signaling a return in activity across the market. Contrary to the recent national CPI reports, rents across the SE market remained stagnant. Overall, most metrics point to a balancing office market for what had up until this point appeared to be a shaky year. Recovery may be well on its way.

ECONOMY

High Hopes Outweigh an Uncertain Future

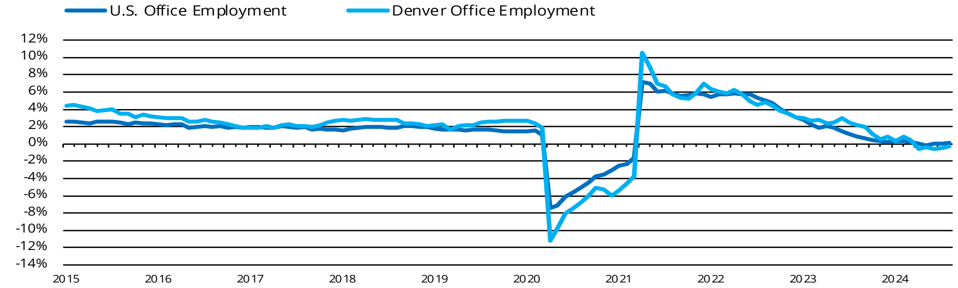
CPI measures proved to be stubborn through 2024's last quarter and by December the FOMC had opted for 3 consecutive rate cuts in the preceding months. While the lowered Fed rates typically signal lower mortgage rates, 10-year treasury rates, and easing financing conditions, the opposite has occurred. As such, money has not been flowing as freely into the economy.

Many are eyeing the Bureau of Labor Statistics with fears of rising unemployment. National unemployment has kept relatively steady staying just around 4.2% but Denver has not fared as well. From August through November, the Denver metro saw unemployment increase by 0.1% from 4.4% to 4.5%. Over the year, employment figures behaved in similar fashion to that of the SE leasing market with brief bouts of weakness in line with projections, but primarily characterized by stabilization.

From a year-over-year perspective, Education and Government lead job growth with increases in employment of 2.8% and 2.6% respectively. Quarterly, these verticals were also the biggest gainers with Government leading the charge at 3.8% and Education at 2.6%.

The biggest year-over-year drags on employment came from the Information and Trade, Transportation, & Utilities sectors. They each had contracted 2.3% and 1.2% over the year. Quarterly, the Leisure and Hospitality and Financial Activities verticals faced the greatest challenge, shrinking by 4.7% and 2%. Moving forward, the market will be taking close note of the effects financial policy on the job market, with many expecting the new president's policies to be softer on corporate taxes. There may be some relief in the coming year.

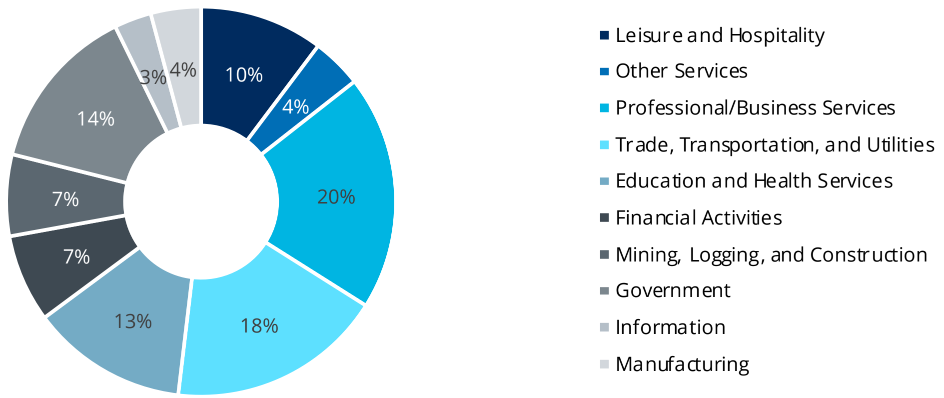
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

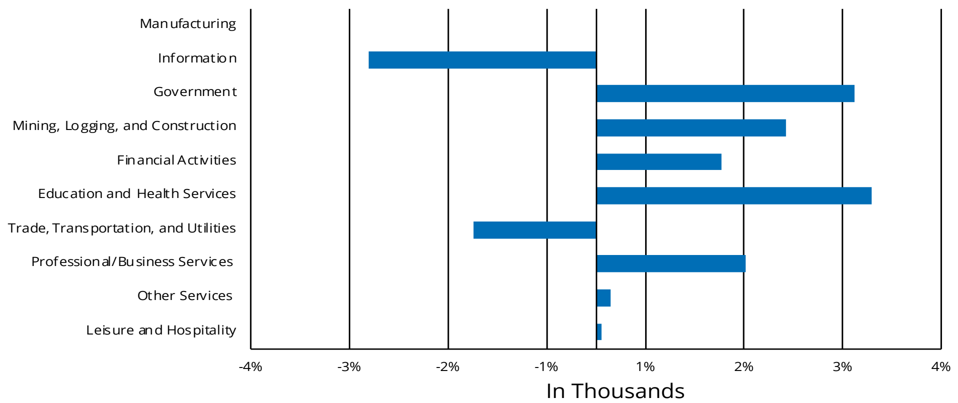
Denver | February 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Denver



Source: Bureau of Labor Statistics, Transwestern

NET ABSORPTION

Market Bottoms in the Rearview?

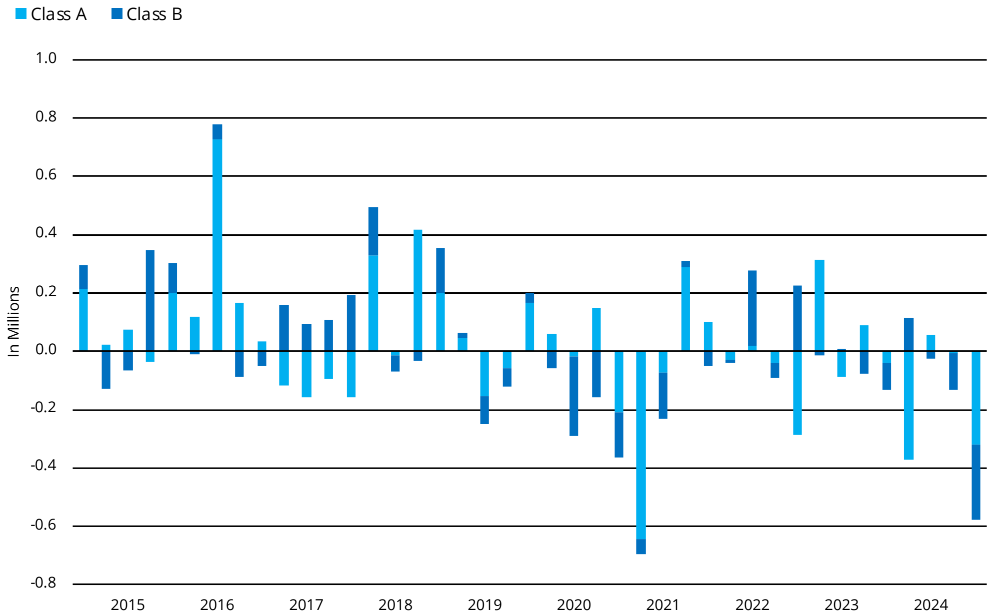
The Southeast market reported a marked improvement over the previous quarter's absorption figures. While negative, total absorption for Q4 was corrected to just under -60,000 SF. This represents just over 4 times more absorption on a quarterly basis from Q3's negative absorption of 307,000 SF. Similarly, absorption is showing notable improvements over last year's negative absorption of 251,000 SF.

In terms of leasing activity, deals have swung over to Class A properties. Class A properties make up 53% of the total market but in Q4, comprised 68% or 367,000 SF of the total leasing volume. These figures are down from Q3's leasing activity 452,000 SF by 19%. On the other side, Class B properties saw leasing activity total at 175,000SF. This represents a drop of about 34% from Q3's 264,000 SF.

By submarket, the highest negative absorption was reported in the Inverness and Greenwood Village markets. Respectively, they each saw 43,000 and 41,000 SF of negative absorption. Merrick, an engineering firm founded in Denver, with just under 1,000 employees, had vacated the 104,000 SF they had used as their corporate headquarters within Greenwood Village. Inverness' absorption troubles were the result of smaller, more frequent negative absorption events rather than the vacating of a single large tenant.

The Denver Tech Center and East Hampden lead the Southeast cluster in positive absorption. Each had seen 25,000 and 16,000 SF of absorption respectively. As the bottom of the market looks to be fading into the background, Southeast Denver may finally see trending positive absorption in 2025.

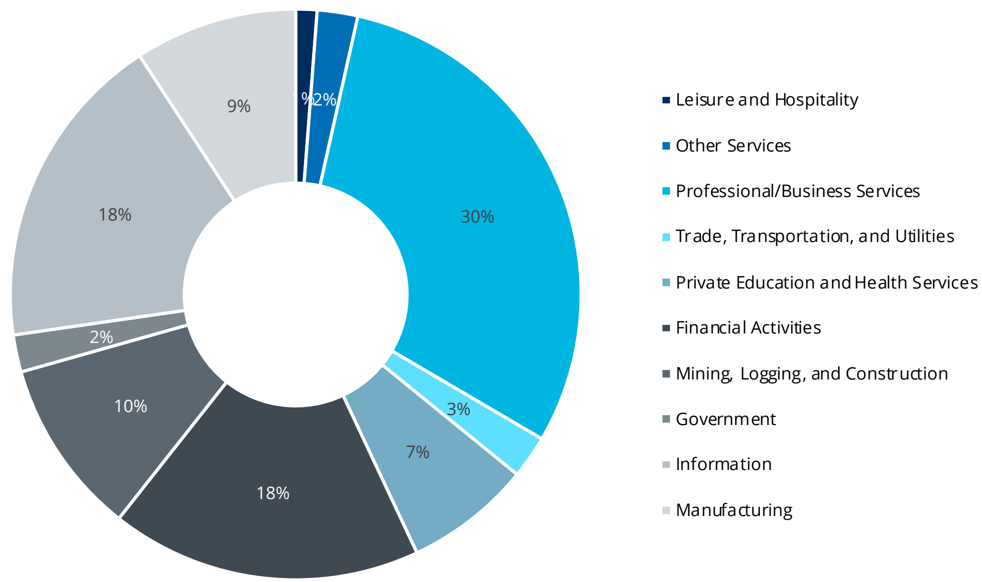
NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY

Q3 2024



Source: CoStar, Transwestern

VACANCY & AVAILABILITY

Class B Holds Steady While Class A Vacancy Jumps

Vacancy inched higher over Q4 rising 0.2% from 17.9% to yet another all time high at 18.1%. On the year, vacancy has risen 1.7% from 12.9%. Likewise, national office vacancy pushed up marginally. It grew by 0.1% from 12.7% to 12.8% over the quarter. On a yearly basis, national vacancy has increased 0.6% from 12.2% buoyed primarily by the sunbelt markets.

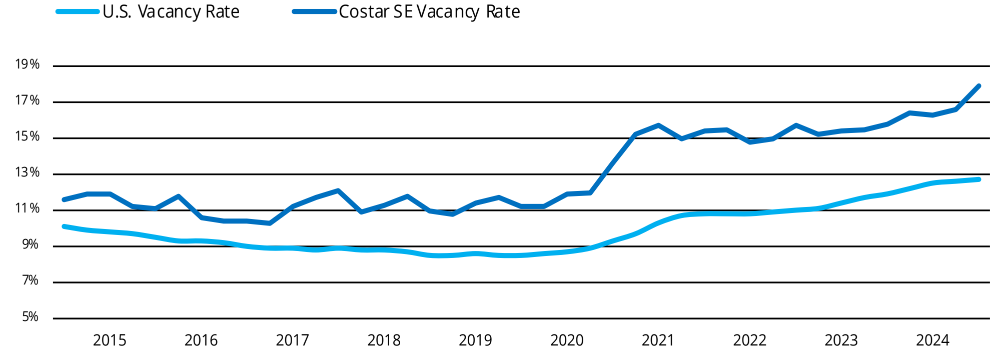
As long as net absorption remains negative, the market will continue to see new record vacancy, although 2025 is positioning itself well to reverse this trend. Large and small companies alike are increasing their return to office mandates either by increasing the days in office or dropping hybrid allowances altogether. President Trump had recently signed an executive order calling federal workers within the executive branch to return to the office five days a week.

Notably, large companies like Amazon, JPMorgan, AT&T, Disney, & Salesforce are also on record calling workers back to the office at least four to five days a week.

Class A buildings within the Southeast market continue to weigh down the Southeast cluster. Collectively, this subset of buildings saw a increase in vacancy of 0.6% growing from 20.3% to 20.9% on the quarter. On the year, Class A vacancy increased 1.7% from 19.2%.

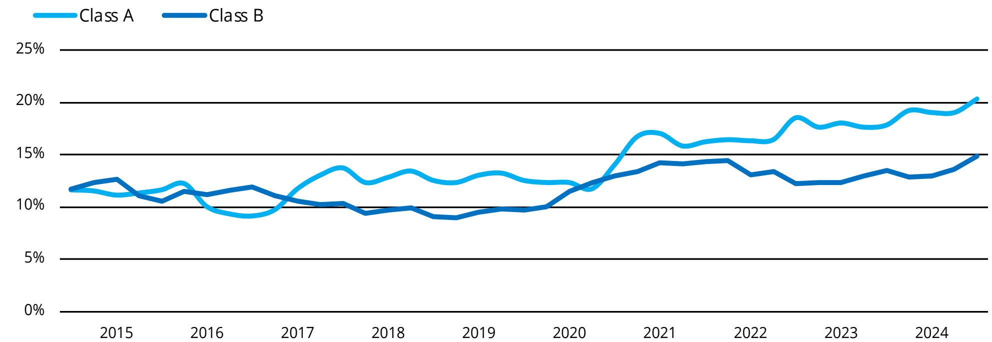
Class B however, saw a marked increase on the year but kept steady on the quarter. Over Q4, vacancy kept its place at 14.9%, but over 2024 Class B vacancy grew by 2% from 12.9%.

OVERALL VACANCY RATE



Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

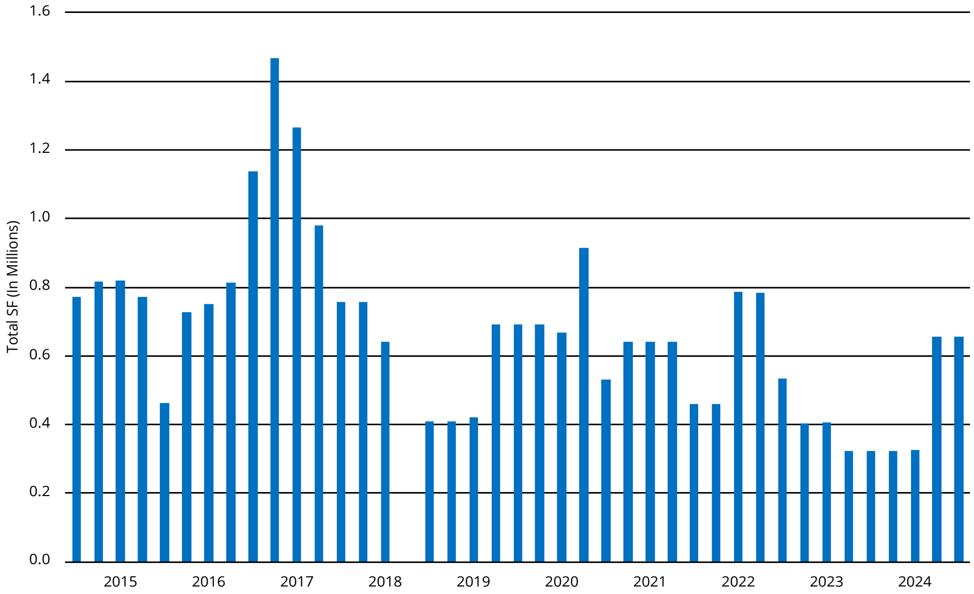
UNDER CONSTRUCTION

Another Quiet Quarter

No new construction broke ground for Q4 and no new deliveries were recorded. While it's likely this continues for the near term in response to muted demand in office commercial projects, there is potential smaller, higher-end projects to break ground as the future of interest rates for 2025 remains unclear.

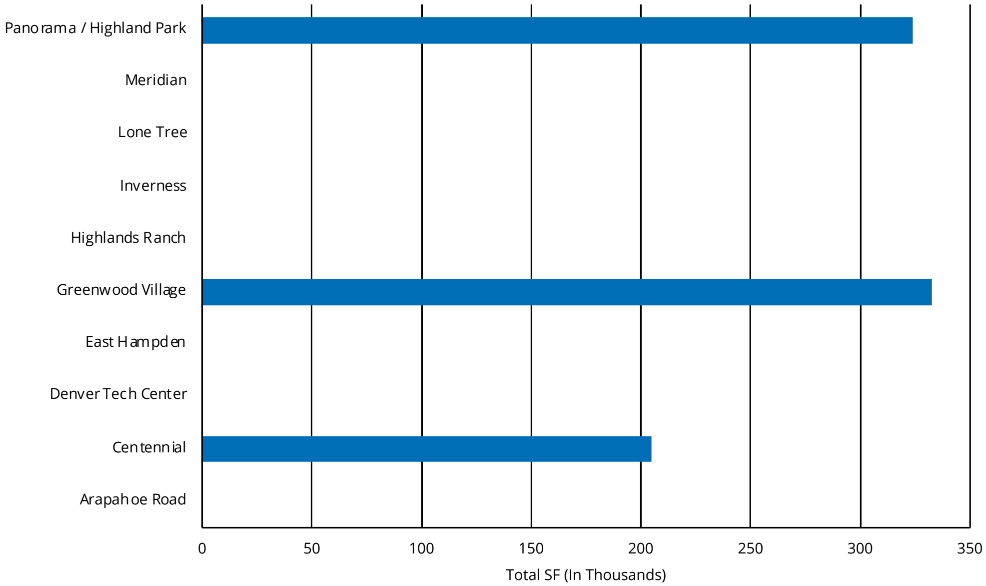
Looking forward, tariffs and the coming changes in immigration policy that can result in labor supply shocks remain potential headwinds in addition to the overall demand for office space.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

LEASING AND RENTAL RATES

Rates Largely Unmoved

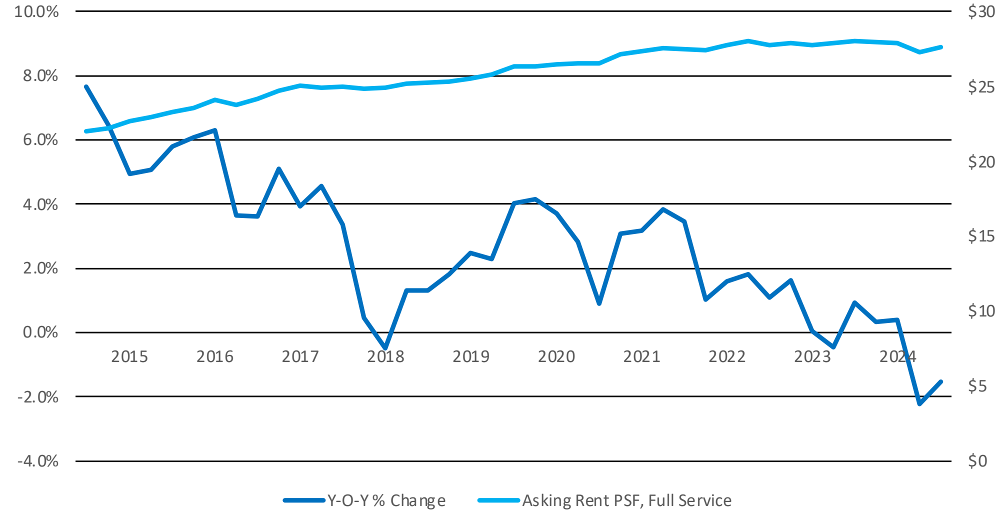
This quarters rent figures require a bit of detail to paint the full picture. At first glance, a nominal average of Southeast rents would show a marginal decrease in rents by about $0.11 to $23.14 from last quarter's $23.25. Year-over-year nominal averages reported a similar trend with rents falling a marginal $0.07 to $23.21

A weighted average of Southeast rates, however, reveal a slight increase in rates by $0.06 from $23.65 to $23.71 for Q4. This highlights rate increases observed in the larger Southeast submarkets as their rent bumps outweigh the nominal reductions seen in the smaller markets potentially signaling growing strength in the leasing market. Although, a yearly perspective shows rates had fallen $0.35 from last year's $24.06.

In a reversal over last quarter, the Denver Tech Center lead the market in quarterly rent growth with rate increases of $0.70 or 2.8% from $24.89. Yearly rent growth was greatest in the Highlands Ranch submarket with $1.21 or 5.6% rate growth landing at $22.68.

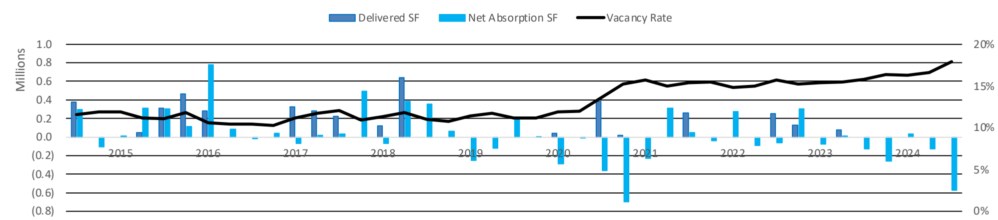
Partially reversing its yearly trends, the submarket with the greatest rate decreases in rent was Highlands Ranch. Over Q4, the market saw rates decrease $0.56 dropping to $22.68. Additionally, the submarket with the highest rate drops on a yearly basis was the Denver Tech Center which had fallen $0.93 to $25.59.

ASKING RENT



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

SALES

Investor Activity Picks Up

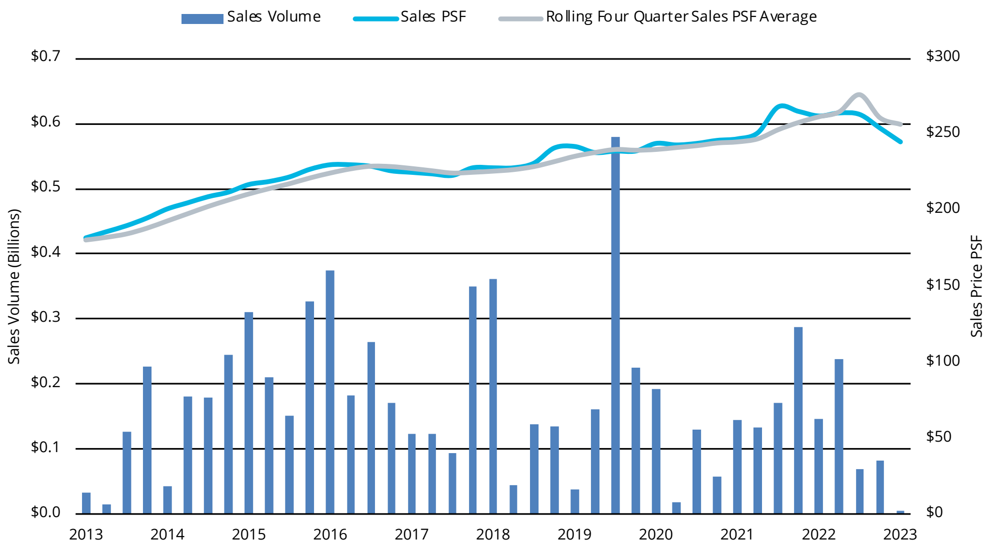
2024 was a year of rebounds in investment volume. At $146 million, office sales shot up quarterly by 53% and year-over-year by 188%.

The market is showing strength in the face of multiple discounted office sales, as sales per square foot is increasing for the first time in over a year. Contrary to the past three quarters, Q4's $197/SF outpaced the rolling four quarter sales per square foot figure of $176/SF.

Buyer composition has shifted in favor of private acquisitions as most cross-border and institutional buyers have opted to remain on the side lines or look to other less expensive markets.

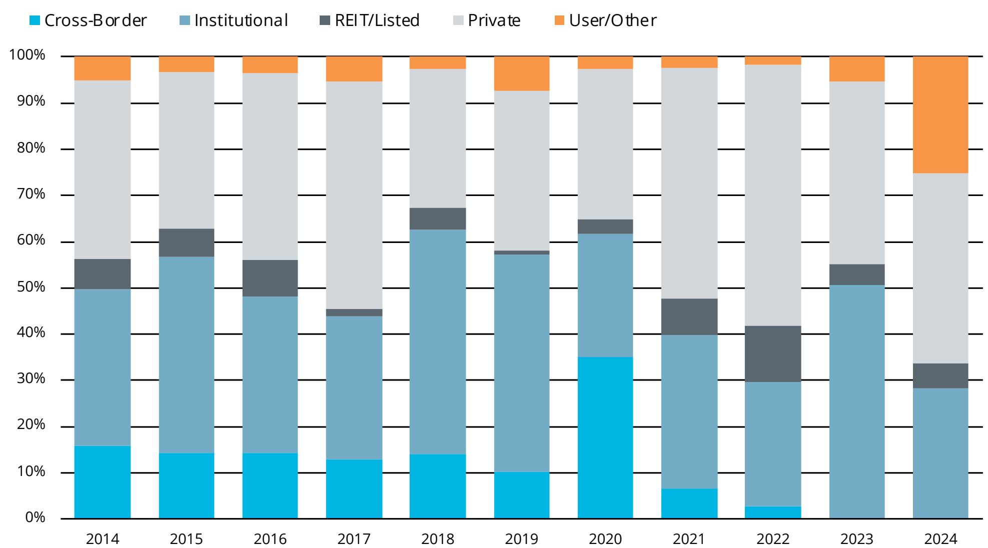
One thing is clear; pent up interest in the available buyers is beginning to release as the market is finally positioned well enough to take on largely vacant assets that had been waiting on the markets for, in some cases, years.

SALES VOLUME



Source: CoStar, Transwestern

BUYER CAPITAL COMPOSITION



Source: CoStar, Transwestern

NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
Douglas County Board of Commissioners	Meridian Int'l Bus Ctr	Meridian	New Lease	81,063
Stryker	Triad Orchard Station	Greenwood Village	Renewal	40,459
-	Palazzo Verdi	Greenwood Village	New Lease	33,373
-	Denver Corporate Center I	Denver Tech Center	New Lease	21,589

Source: CoStar, Transwestern

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
9197 S Peoria St	Meridian	$45,500,000	271,678	$167	CommonSpirit Health	TTEC
7887 E Belleview Ave	Denver Tech Center	$20,000,000	260,010	$77	Real Capital Solutions, Inc.	Endeavor Real Estate Group
8900 Liberty Cir	Centennial	$15,000,000	316,500	$47	Mobile TV Group	Liberty Broadband
9201 E Dry Creek Rd	Centennial	$12,250,000	128,500	$95	Consolidated Investment Group	Kawa Capital Management

Source: CoStar, Transwestern

MARKET INDICATORS

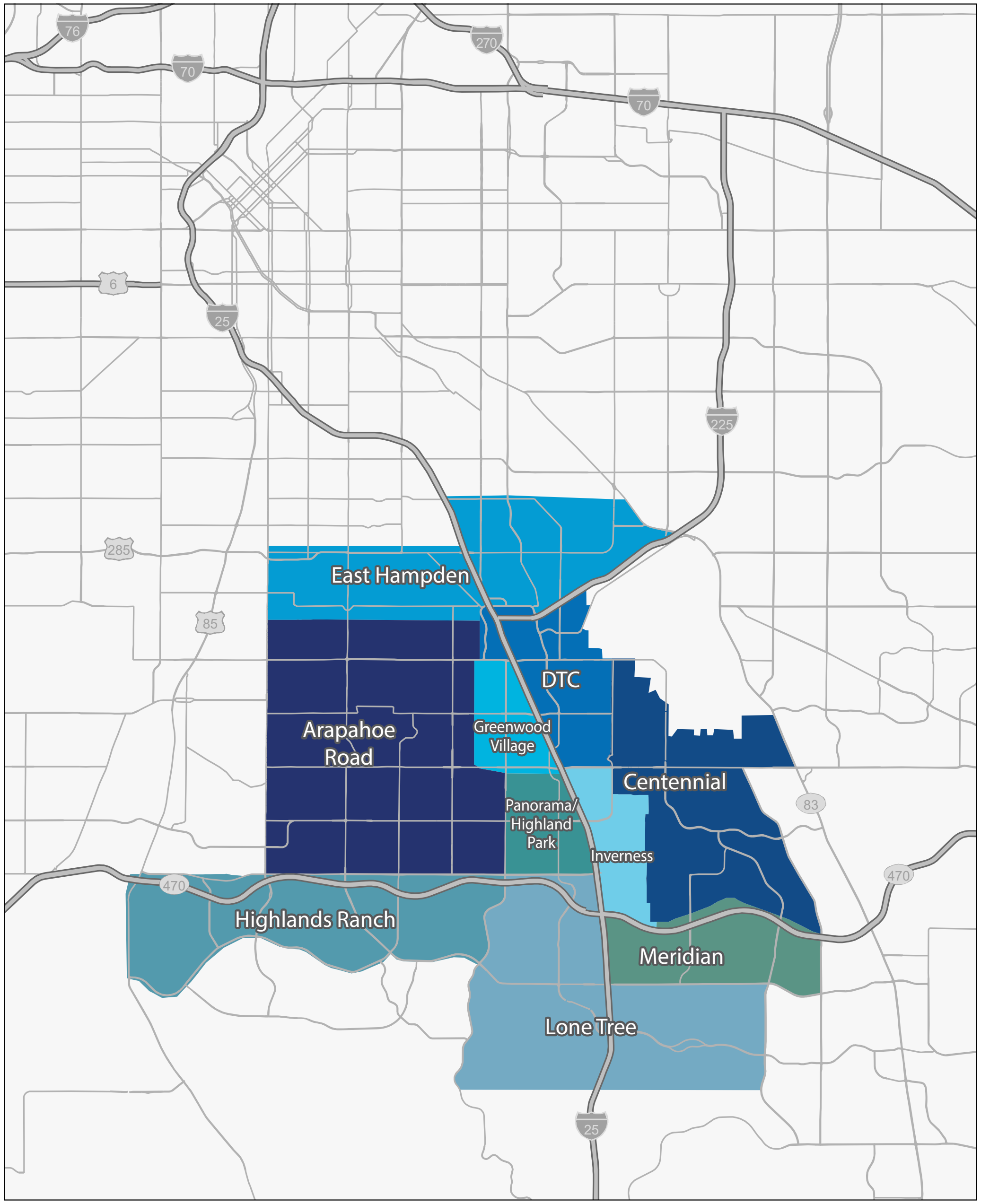
Class A & B | Q4 2024 (Direct Leasing)

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
Arapahoe Road	676,437	75,318	11.1%	11.1%	0	(9,534)	36,605	$26.27
Centennial	2,544,544	470,468	18.5%	26.5%	0	(280)	8,289	$19.75
Denver Tech Center	12,544,454	1,948,780	15.5%	18.8%	0	24,736	(131,163)	$25.59
East Hampden	2,680,595	465,881	17.4%	17.4%	0	16,077	(70,939)	$19.17
Greenwood Village	9,058,782	1,684,809	18.6%	22.7%	332,775	(40,962)	(3,292)	$23.95
Highlands Ranch	1,993,962	394,787	19.8%	20.4%	0	(2,657)	26,004	$22.68
Inverness	5,712,240	1,307,199	22.9%	24.8%	0	(42,903)	(237,841)	$21.89
Lone Tree	2,361,373	366,321	15.5%	15.5%	0	(4,718)	(172,890)	$20.46
Meridian	3,335,770	698,658	20.9%	20.9%	0	17,883	(94,613)	$26.10
Panorama / Highland Park	3,740,603	669,686	17.9%	22.6%	323,984	(1,806)	(111,736)	$25.56
TOTAL	**44,648,760**	**8,081,907**	**18.1%**	**21.0%**	**656,759**	**(44,164)**	**(751,576)**	**$23.71**

MARKET INDICATORS

Class B | Q4 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
Arapahoe Road	388,312	36,047	9.3%	9.3%	0	(1,398)	12,432	$19.95
Centennial	1,965,736	137,619	7.0%	17.0%	205,000	(280)	15,322	$20.25
Denver Tech Center	3,985,277	648,533	16.3%	16.7%	0	30,960	(136,177)	$23.18
East Hampden	1,496,884	146,377	9.8%	9.8%	0	11,533	4,643	$18.33
Greenwood Village	5,417,825	858,162	15.8%	22.0%	0	(26,784)	(6,830)	$23.83
Highlands Ranch	839,488	67,271	8.0%	8.5%	0	6,286	6,713	$18.39
Inverness	3,182,526	615,583	19.3%	21.0%	0	(2,325)	(260,697)	$21.06
Lone Tree	576,526	70,434	12.2%	12.2%	0	-	4,362	$15.79
Meridian	1,166,635	286,926	24.6%	24.6%	0	-	(52,865)	$25.57
Panorama / Highland Park	2,037,945	277,276	13.6%	14.0%	0	(3,317)	10,761	$22.57
TOTAL	**21,057,154**	**3,144,228**	**14.9%**	**17.8%**	**205,000**	**14,675**	**(402,336)**	**$22.03**



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.