



Colliers

Denver

Office

22Q3

Denver's office recovery has halted as net absorption rapidly declines. Leasing activity has also slowed in the recent months. As large employers struggle to figure out their return to office plans, pushback from employees is delaying the mass return to office that was previously forecasted. Employers are continuing to utilize robust amenity packages and upgraded workspaces to attract and retain employees back in the office.

Accelerating success.



Denver Office 22Q3

Key Takeaways

- Absorption plummets in Q3.
- Leasing activity slows, realizing 1.9MSF in Q3 2022.
- Ongoing fears surrounding the pandemic are fading, but the majority of large companies are struggling to get back in the office. As time passes, we expect to see an increasingly hybrid model by late-2022 or early-2023.
- Denver remains well-positioned for recovery due to its successful vaccination distribution, diverse tenant base, educated workforce, and company relocation/expansion announcements.



Finding the New Normal

The pandemic headlines seem to be in the rear-view for the Denver Metro area. Despite falling positivity rates, and large vaccination percentages, the return to office continues to be a struggle. Demand for office space seems to be falling as net absorption, leasing activity, and rates all realized smaller values in the third quarter. Although demand seems to be shrinking, the macroeconomic indicators still show promise for the market moving forward. A growing and well-educated labor force, diverse tenant mix, declining unemployment, and ongoing company relocations continue to showcase Denver's resiliency and position the metro for a strong recovery moving forward.

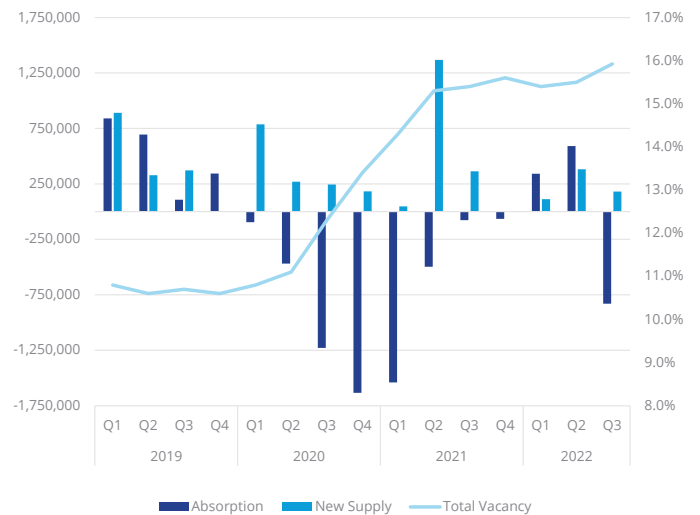
Market Indicators



Historic Comparison

	22Q3	22Q2	21Q3
Total Inventory (in Thousands of SF)	169,752	169,610	169,095
New Supply (in Thousands of SF)	181	382	111
Net Absorption (in Thousands of SF)	-830	590	-76
Overall Vacancy	15.9%	15.5%	15.4%
Under Construction (in Thousands of SF)	3,465	1,682	1,566
Direct Asking Lease Rates (FSG)	\$31.34	\$31.21	\$29.74

Market Graph



A large fall in net absorption stands out in the Q3 2022 metrics. Increasing vacancy rates paired with little new supply highlight the ongoing struggle for employers to get their employees back in the office.

Recent Transactions



Sale
240 Saint Paul St.
Colorado Blvd./Glendale
75,000 SF
\$69,015,300



Sale
210 University Blvd.
Colorado Blvd./Glendale
186,366 SF
\$67,700,000



Sale
155 Cook St.
Colorado Blvd./Glendale
27,500 SF
\$9,875,000



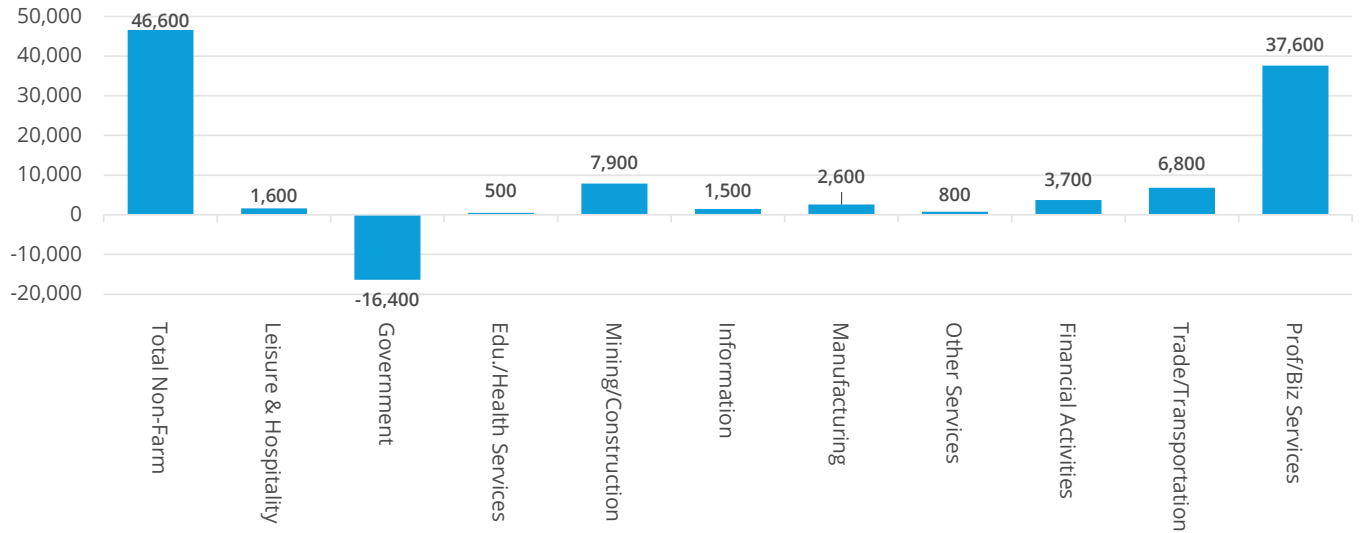
Sale
1687-1707 Cole Blvd.
West Denver
155,610 SF
\$32,700,000



Sale
4100 E. Arkansas Ave.
Colorado Blvd./Glendale
63,335 SF
\$14,700,000

Denver Employment Change by Sector

Since February 2020



Source: Bureau of Labor Statistics

Employment

The Bureau of Labor Statistics (BLS) reports that the Denver Metro added 1,200 cumulative jobs (preliminary) to its nonfarm payroll in quarter three and has added 204,100 jobs since peak unemployment in April 2020.

The unemployment rate in the Denver MSA decreased 20 basis points to 3.3% in August, with the largest job gains in hospitality and professional services. The unemployment rate in the Metro is less than one-third of its peak of 12.4% in April 2020. Fading variant concerns, company relocations and expansions, and Denver's desirability for remote employees are expected to aid the Metro's continued job growth and continued lower unemployment moving forward.

Absorption & Leasing Activity

The most notable statistic for the third quarter is that absorption rapidly decreased in the Denver Metro, recording -830,000 SF. The first two quarters of the year both realized positive absorption and YTD absorption numbers are still positive. For a struggling office market, there is still hope for the rest of 2022. Leasing activity saw a minor decrease in levels recording 1.9M SF, representing the second consecutive quarter that has recorded less than the 3-year average 2.4M SF.

Construction

The Denver Metro has not recorded significant office deliveries so far in 2022. The only delivery in quarter three was phase two of Kiewit's regional headquarters (182K SF).

The office construction pipeline doubled its value from the second quarter of 2022. There is currently 3.5M SF under construction in the Denver Metro, 1,375,947 SF of which is Downtown and headlined by 1900 Lawrence (704K SF), T3 Offices (251K SF), and The Current River North (280K SF). 452,000 SF remain under construction in the Southeast highlighted by Vectra Bank's headquarter building (130K SF).

Vacancy

Denver Metro's office vacancy stood at 15.9% at the end of the third quarter. The Downtown submarket maintained the Metro's highest vacancy rate at 22.1%.

Space available for sublease rose for the second time this year, realizing a 200,000 SF increase to 3.7M SF. The majority of sublease space, 1.4M SF, remains downtown, followed by 1.3M SF in the Southeast.

Rents

Moderately decreasing average lease rates highlight Denver’s struggle in office recovery from the pandemic. Direct average full-service lease rates in Denver decreased slightly in this quarter to \$30.60/SF from \$31.23/SF. Class A rates in the Southeast realized a \$2.00/SF decrease to \$29.57/SF while Downtown saw a similar decrease from \$40.83/SF to \$38.90/SF. The premium between the two distinguished submarkets remains around 30%. It is expected that while direct asking rates will remain flat, effective lease rates will plateau as well as landlords offer increased concessions to attract tenants back to the office.

Sales

The most notable sale of the quarter was the Equinox Building trading to Gart Properties from Pluss Investment Company for \$69M (\$920/SF). The 75,000 SF property was built in 2021 and was 100% occupied at the time of sale. 210 University Boulevard traded to Corum Real Estate Group from Pacific Life Insurance Company for \$67M (\$363/SF). This 186,000 SF property was built in 1985 and was 97% occupied at the time of sale. A third notable transaction was 155 Cook Street trading to Mill Creek Residential Trust from John F. Sheridan for \$10M (\$359/SF).

Denver has realized a noticeable increase in investment interest since the lows of the pandemic and this trend is expected to continue throughout 2022.

Forecast

The Denver office market struggled during the third quarter of 2022. Absorption and rental rates both declined during the past three months. Large employers are still struggling to get their “work from home” employees back to the office but are becoming more lenient with their plans. Landlords are seeing continued struggles with signing new leases as hybrid work stays very prevalent. This quarter was a step back for the Denver office market and is showing signs of ongoing struggle for years to come. Although challenges remain, Denver continues to benefit from company relocations and expansions, as well as remote workers choosing to make Denver home due to its high quality of life.

Third quarter metrics point to a lasting effect from the pandemic. With companies still unsure about the best return-to-office strategies, the market will continue to struggle. The third quarter showed significant signs of hesitation within the market. With absorption and rental rates decreasing after a positive first half of the year, much of the office market future remains unknown.

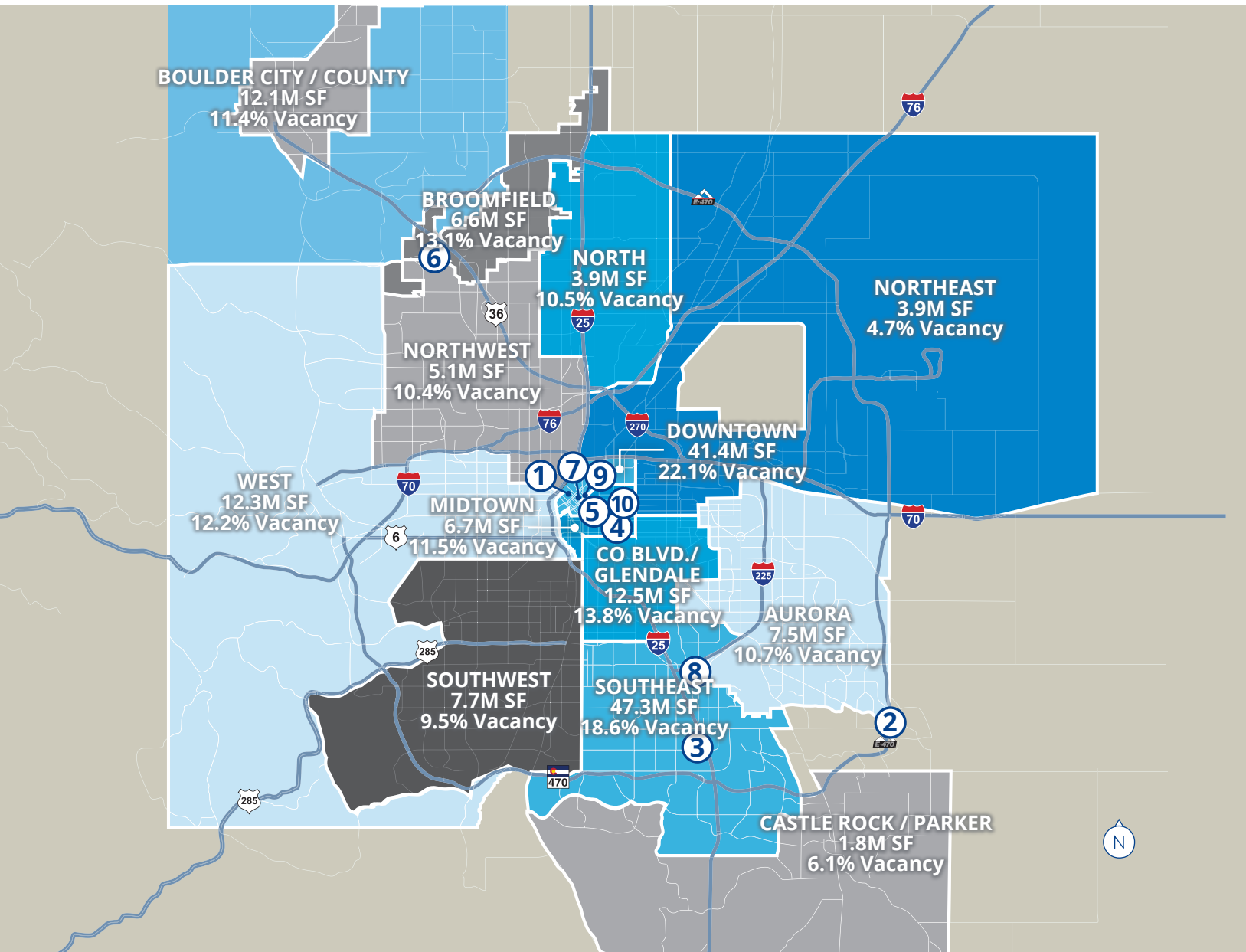
Denver remains well-positioned and is expected to recover faster than the majority of other large metro areas benefitting from a large educated workforce and diverse industry mix, but it is clear that the pandemic will continue to affect the market for a significant amount of time moving forward.

Inflation Hovers at an Annualized Rate of 8.3% in August



Source: BLS

Significant Leasing Activity



Top Leases This Quarter

	Building Address	Building Name	Rentable Square Feet (RSF)	Tenant	Deal Type
1	1900 16th St.	1900 Sixteenth Street	43,536	Analysis Group	Direct
2	23770 E. Smoky Hill Rd.	Aurora Medical Plaza	37,486	Children's Hospital Colorado	Direct
3	7960 S. Chester St.	Waterview IV	30,502	Gray Matters	Direct
4	370 17th St.	Republic Plaza	25,221	Undisclosed	Sublease
5	675 15th St.	Block 162	24,780	Moss Adams LLP	Direct
6	325 Interlocken Pky.	Building B	23,011	Undisclosed	Direct
7	1225 17th St.	Seventeenth Street Plaza	21,950	WilmerHaler	Direct
8	4600 S. Ulster St.	Metropoint I	21,861	Undisclosed	Direct
9	1099 18th St.	Granite Tower	21,223	PDC Energy	Direct
10	555 17th St.	555 17th St.	19,683	Civitas Resources	Direct



Existing Properties		Vacancy							Activity	Absorption	Construction		Rents
Submarket/ Class	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacant SF	Sublease Vacancy Rate	Total Vacancy SF	Total Vacancy Rate	Vacancy Rate Prior Qtr.	Leasing Activity SF	Net Absorption Current Qtr. SF	Deliveries Current Qtr. SF	Under Construction SF	Avg. Rental Rate
Downtown													
A	28,559,542	5,328,037	18.7%	1,325,700	4.6%	6,653,737	23.3%	22.8%	350,196	-141,328	-	1,375,947	\$38.90
B	11,701,820	2,368,342	20.2%	75,418	0.6%	2,443,760	20.9%	19.7%	86,122	-139,375	-	-	\$35.54
C	1,148,771	40,760	3.5%	9,630	0.8%	50,390	4.4%	5.6%	2,759	14,196	-	-	\$35.54
TOTAL	41,410,133	7,737,139	18.7%	1,410,748	3.4%	9,147,887	22.1%	21.6%	439,077	-266,507	-	1,375,947	\$38.01
Midtown													
A	1,658,675	170,329	10.3%	60,518	3.6%	230,847	13.9%	14.7%	18,878	13,185	-	-	\$29.52
B	3,351,181	390,215	11.6%	17,578	0.5%	407,793	12.2%	10.7%	4,831	-48,791	-	-	\$27.68
C	1,658,015	4,693	0.3%	125,318	7.6%	130,011	7.8%	0.4%	-	-95,050	-	-	\$19.15
TOTAL	6,667,871	565,237	8.5%	203,414	3.1%	768,651	11.5%	9.6%	23,709	-130,656	-	-	\$24.56
Suburban													
Aurora													
A	1,743,139	318,400	18.3%	19,543	1.1%	337,943	19.4%	18.8%	40,171	-10,007	-	-	\$25.71
B	5,064,854	445,701	8.8%	3,186	0.1%	448,887	8.9%	7.5%	12,120	-69,593	-	-	\$20.82
C	696,679	19,295	2.8%	-	0.0%	19,295	2.8%	3.0%	-	-6,400	-	-	\$14.40
TOTAL	7,504,672	783,396	10.4%	22,729	0.3%	806,125	10.7%	9.5%	52,291	-86,000	-	-	\$22.58
Boulder													
A	2,588,638	147,869	5.7%	61,466	2.4%	209,335	8.1%	6.5%	6,744	-40,192	-	1,100,821	\$40.89
B	9,053,378	1,047,367	11.6%	68,003	0.8%	1,115,370	12.3%	12.2%	86,203	-7,756	-	35,300	\$30.86
C	435,005	46,980	10.8%	-	0.0%	46,980	10.8%	7.9%	-	-12,760	-	-	\$23.35
TOTAL	12,077,021	1,242,216	10.3%	129,469	1.1%	1,371,685	11.4%	12.1%	92,947	-60,708	-	1,136,121	\$31.68
Broomfield													
A	3,575,370	599,748	16.8%	16,967	0.5%	616,715	17.2%	16.9%	11,262	-14,039	-	-	\$32.30
B	2,981,734	246,593	8.3%	3,085	0.1%	249,678	8.4%	6.5%	25,953	-55,999	-	-	\$30.86
C	70,412	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	\$0.00
TOTAL	6,627,516	846,341	12.8%	20,052	0.3%	866,393	13.1%	12.0%	37,215	-70,038	-	-	\$31.90
Colorado Blvd/Glendale													
A	5,210,428	751,345	14.4%	25,330	0.5%	776,675	14.9%	16.5%	125,187	36,895	-	176,825	\$31.60
B	6,340,267	673,340	10.6%	158,680	2.5%	832,020	13.1%	14.5%	95,011	-6,116	-	59,713	\$27.36
C	943,192	101,154	10.7%	12,493	1.3%	113,647	12.0%	11.5%	9,294	4,477	-	-	\$19.70
TOTAL	12,493,887	1,525,839	12.2%	196,503	1.6%	1,722,342	13.8%	14.3%	229,492	35,256	-	236,538	\$29.08
Longmont													
A	104,805	37,707	36.0%	-	0.0%	37,707	36.0%	33.2%	2,711	-2,915	-	-	\$26.01
B	714,673	30,004	4.2%	9,339	1.3%	39,343	5.5%	4.0%	10,048	-10,779	-	-	\$23.25
C	134,558	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	\$18.83
TOTAL	954,036	67,711	7.1%	9339	1.0%	77,050	8.1%	6.6%	12,759	-13,694	-	-	\$24.73
North													
A	759,793	28,956	3.8%	-	0.0%	28,956	3.8%	4.1%	-	2,188	-	-	\$27.63
B	3,044,595	295,406	9.7%	85,064	2.8%	380,470	12.5%	12.8%	27,400	8,424	-	-	\$24.90
C	128,181	2,553	2.0%	-	0.0%	2,553	2.0%	1.2%	3,953	-977	-	-	\$15.98
TOTAL	3,932,569	326,915	8.3%	85,064	2.2%	411,979	10.5%	10.7%	31,353	9,635	-	-	\$25.20
Northeast													
A	583,612	-	0.0%	-	0.0%	-	0.0%	0.0%	17,613	-	-	126,000	\$28.94
B	2,443,312	155,400	6.4%	5,500	0.2%	160,900	6.6%	8.3%	35,595	42,023	-	106,527	\$23.04
C	872,669	16,517	1.9%	5,114	0.6%	21,631	2.5%	2.8%	3,536	2,636	-	-	\$13.95
TOTAL	3,899,593	171,917	4.4%	10,614	0.3%	182,531	4.7%	5.6%	56,744	44,659	-	232,527	\$23.42



Suburban continued

Existing Properties		Vacancy							Activity	Absorption	Construction		Rents
Submarket/ Class	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacant SF	Sublease Vacancy Rate	Total Vacancy SF	Total Vacancy Rate	Vacancy Rate Prior Qtr.	Leasing Activity SF	Net Absorption Current Qtr. SF	Deliveries Current Qtr. SF	Under Construction SF	Avg. Rental Rate
Northwest													
A	2,134,768	253,710	11.9%	14,085	0.7%	267,795	12.5%	14.1%	4,538	33,021	-	-	\$27.15
B	2,493,074	235,799	9.5%	3,935	0.2%	239,734	9.6%	8.8%	40,725	-21,281	-	32,734	\$22.68
C	514,296	26,029	5.1%	-	0.0%	26,029	5.1%	2.0%	5,123	-15,850	-	-	\$16.98
TOTAL	5,142,138	515,538	10.0%	18,020	0.4%	533,558	10.4%	10.3%	50,386	-4,110	-	32,734	\$24.83
Parker/Castle Rock													
A	686,385	16,275	2.4%	1,397	0.2%	17,672	2.6%	1.7%	-	-5,800	-	-	\$29.01
B	983,974	90,805	9.2%	2,039	0.2%	92,844	9.4%	9.6%	5,440	1,662	-	-	\$26.89
C	87,926	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	\$20.00
TOTAL	1,758,285	107,080	6.1%	3,436	0.2%	110,516	6.3%	6.1%	5,440	-4,138	-	-	\$27.09
Southeast													
A	26,256,276	4,548,437	17.3%	817,921	3.1%	5,366,358	20.4%	18.3%	404,045	-411,423	181,687	-	\$29.57
B	19,835,409	2,814,879	14.2%	535,512	2.7%	3,350,391	16.9%	17.5%	340,461	122,215	-	451,782	\$23.89
C	1,223,053	83,192	6.8%	-	0.0%	83,192	6.8%	4.0%	9,819	-33,672	-	-	\$21.21
TOTAL	47,314,738	7,446,508	15.7%	1,353,433	2.9%	8,799,941	18.6%	17.6%	754,325	-322,880	181,687	451,782	\$26.99
Southwest													
A	1,550,806	52,252	3.4%	12,177	0.8%	64,429	4.2%	4.5%	-	5,383	-	-	\$25.96
B	5,420,653	604,080	11.1%	21,585	0.4%	625,665	11.5%	11.8%	58,423	12,370	-	-	\$21.00
C	719,263	38,302	5.3%	843	0.1%	39,145	5.4%	6.2%	2,907	5,593	-	-	\$13.90
TOTAL	7,690,722	694,634	9.0%	34,605	0.4%	729,239	9.5%	9.8%	61,330	23,346	-	-	\$21.42
West													
A	2,658,318	194,436	7.3%	123,140	4.6%	317,576	11.9%	11.0%	16,635	-24,874	-	-	\$26.94
B	8,803,102	1,006,001	11.4%	66,651	0.8%	1,072,652	12.2%	12.7%	56,800	47,240	-	-	\$24.91
C	817,518	51,303	6.3%	61,236	7.5%	112,539	13.8%	12.9%	10,481	-6,943	-	-	\$21.47
TOTAL	12,278,938	1,251,740	10.2%	251,027	2.0%	1,502,767	12.2%	12.4%	83,916	15,423	-	-	\$25.13
SUBURBAN TOTAL													
A	47,852,338	6,949,135	14.5%	1,092,026	2.3%	8,041,161	16.8%	15.6%	628,906	-431,763	181,687	1,403,646	\$30.44
B	67,179,025	7,645,375	11.4%	962,579	1.4%	8,607,954	12.8%	12.9%	794,179	62,410	-	686,056	\$23.76
C	6,642,752	385,325	5.8%	79,686	1.2%	465,011	7.0%	6.0%	45,113	-63,896	-	-	\$18.15
TOTAL	121,674,115	14,979,835	12.3%	2,134,291	1.8%	17,114,126	14.1%	13.6%	1,468,198	-433,249	181,687	2,089,702	\$26.66
DENVER MARKET GRAND TOTAL													
A	78,070,555	12,447,501	15.9%	2,478,244	3.2%	14,925,745	19.1%	18.2%	997,980	-559,906	181,687	2,779,593	\$34.03
B	82,232,026	10,403,932	12.7%	1,055,575	1.3%	11,459,507	13.9%	13.8%	885,132	-125,756	-	686,056	\$25.82
C	9,449,538	430,778	4.6%	214,634	2.3%	645,412	6.8%	5.3%	47,872	-144,750	-	-	\$18.40
TOTAL	169,752,119	23,282,211	13.7%	3,748,453	2.2%	27,030,664	15.9%	15.4%	1,930,984	-830,412	181,687	3,465,649	\$30.60
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q3 2022	169,752,119	23,282,211	13.7%	3,748,453	2.2%	27,030,664	15.9%	15.4%	1,930,984	-830,412	181,687	3,465,649	\$30.60
Q2 2022	169,241,283	22,731,798	13.4%	3,504,278	2.1%	26,236,076	15.5%	15.6%	2,093,120	590,390	382,135	1,682,011	\$31.23
Q1 2022	168,890,562	23,063,972	13.7%	2,882,477	1.7%	25,945,449	15.4%	15.6%	2,891,185	340,773	111,479	1,566,872	\$30.05
Q4 2021	168,489,281	23,126,894	13.5%	3,080,913	1.9%	26,207,807	15.6%	15.4%	2,663,013	-65,951	-	1,325,867	\$29.86

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\$3.3B
in revenue



2B
square feet under management



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professionals and staff

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