



Colliers

Denver

Office

22Q4

Denver's office market is showing resilience as net absorption returned to a positive figure. Leasing activity remains subdued when compared to the historic average. Large employers continue to struggle with their return to office plans. As we get further past the pandemic, it is clear that the hybrid work model is here to stay. Employers are continuing to utilize robust amenity packages and upgraded workspaces to attract and retain employees back in the office.

Accelerating success.



Denver Office
22Q4

Key Takeaways

- Absorption returned to positive figures.
- Leasing activity remained constant, realizing 1.9MSF in Q4 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.
- Denver remains well-positioned for recovery due to its successful vaccination distribution, diverse tenant base, educated workforce, high quality of life, and company relocation/expansion announcements.



Positioned for Success

The Denver metropolitan area appears to be transitioning out of the struggles of the pandemic, as evidenced by extremely low positivity rates and a high rate of vaccination. However, the post-pandemic transition back to office usage has proven to be a difficult process. Indicators of demand for office space, such as leasing activity and rental rates, both decreased in the fourth quarter. Despite these trends, the overall outlook remains positive, as Denver boasts a skilled and educated workforce, a diverse mix of tenants, a low unemployment rate, and ongoing corporate relocations. These factors show Denver's resilience and position it for a promising future.

Market Indicators



Historic Comparison

	22Q4	22Q3	21Q4
Total Inventory (in Thousands of SF)	171,217	169,752	168,865
New Supply (in Thousands of SF)	130	181	0
Net Absorption (in Thousands of SF)	21	-830	-66
Overall Vacancy	15.9%	15.9%	15.6%
Under Construction (in Thousands of SF)	4,082	3,465	1,326
Direct Asking Lease Rates (FSG)	\$31.40	\$31.34	\$29.88

Market Graph



Positive absorption highlights the Q4 metrics for Denver. Stagnant vacancy rates paired with minimal new supply highlights the ongoing struggle for employers to get their employees back to office.

Recent Transactions



Sale
12155 W. Alameda Pky.
Lakewood/West
115,560 SF
\$43,072,167



Sale
16401 E. Centretch Pky.
Aurora
116,500 SF
\$17,669,900



Sale
5500 Greenwood Plaza Blvd.
Englewood/Southeast
69,855 SF
\$15,700,000



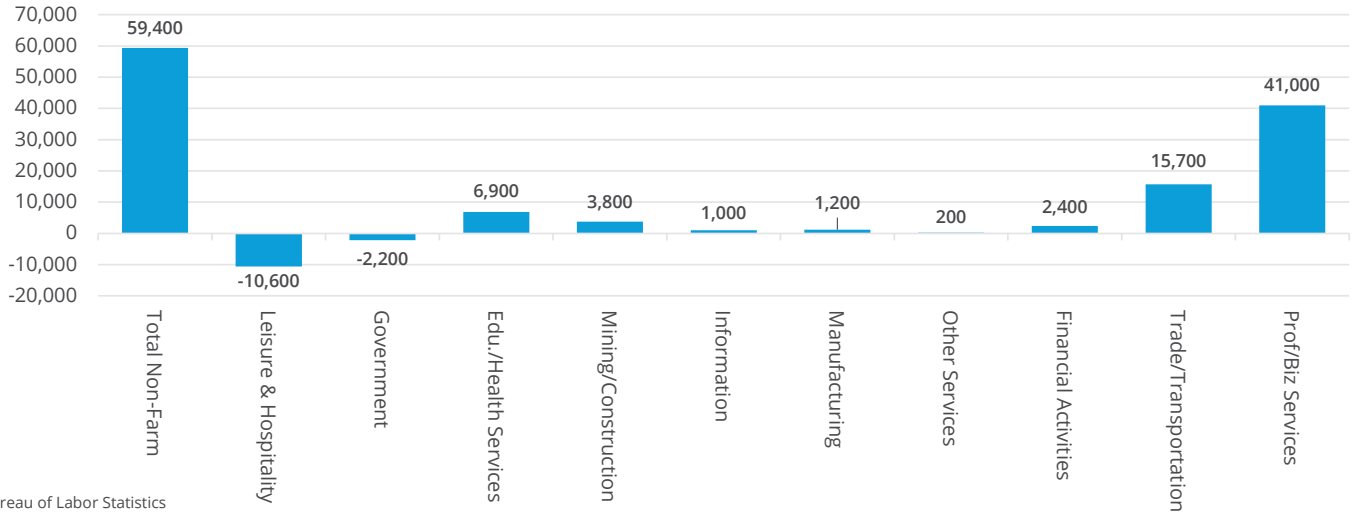
Sale
518 17th St.
Denver/Downtown
274,598 SF
\$14,790,000



Sale
9510 S. Meridian Blvd.
Englewood/Southeast
157,639 SF
\$14,357,500

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 2,100 cumulative jobs to its nonfarm payroll in Q4 and has added 206,200 jobs since peak unemployment in April 2020.

The unemployment rate in the Denver MSA decreased 0.2% to 3.3% in November, with the largest job gains in education and professional services. The unemployment rate in the Metro is one-fourth of its peak of 12.4% from 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 lower unemployment moving forward.

Absorption & Leasing Activity

The most notable statistic for Q4 2022 is that absorption returned to a positive figure in the Denver Metro, recording 21,056 SF. Q3 2022 realized -830,000 SF but YTD absorption numbers are still positive. For a struggling office market, there still is much promise for 2023 and beyond. Leasing activity saw a similar level recording 1.9M SF, marking the third consecutive quarter that has recorded less than the two year average of 2.4M SF.

Construction

The Denver Metro did not record significant office deliveries in 2022. The only delivery in Q4 was the Vectra Bank Building (130K SF).

The office construction pipeline continues to grow in Denver. There is currently 4.1MSF under construction in the Denver Metro. 1,375,947 SF of this is Downtown and headlined by 1900 Lawrence (704K SF), T3 Offices (251K SF), and The Current River North (280K SF). 675,000 square feet remain under construction in the Southeast consisting of Westray Tower 1 (350K SF), and The District Buildings Three (164K SF) and Four (161K SF).

Vacancy

The Denver Metro's office vacancy stood at 15.9% to end the year. The Downtown market maintained the Metro's highest vacancy at 21.7%, which is 0.4% less than the previous quarter.

Space available for sublease rose for the third time this year, realizing a 300,000 SF increase to 4.1M SF. The majority of sublease space, 1.5M SF, remains downtown, followed by 1.3 M SF in the Southeast. Sublet vacancy is approaching the highest figure in Denver's history, and will be something to watch through the first half of 2023.

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 Q4 to \$30.58/SF from \$30.60/SF. Class A rates in the Southeast realized a \$0.25/SF increase to \$29.82/SF while Downtown saw a small decrease from \$38.90/SF to \$38.37/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 Western Area Power Admin HQ Building trading to the NGP Group from EGP Aurora LLC for \$43M (\$372/SF). The 116,000 SF property was built in 1999 and was 100% occupied at the time of sale. 5500 Greenwood Plaza Blvd. traded to Beaver Creek Investments from Focus Property Group for \$16M (\$224/SF). This 70,000 SF property was built in 1974 and was 100% occupied at the time of sale.

Denver has realized a noticeable decrease in investment interest since the increase in interest rates and this trend is expected to continue moving forward.

Forecast

The Denver office market experienced difficulties during the final quarter of 2022. Both leasing activity and rental rates dropped during this period. Despite efforts to bring back employees who have been working from home, many large employers are still finding it challenging to do so, leading to increased flexibility in work arrangements. Landlords continue to face challenges in signing new leases as hybrid work remains prevalent. This trend suggests ongoing struggles for the Denver office market in the years ahead.

Despite these challenges, Denver has some positive factors in its favor, such as ongoing corporate relocations and expansions, as well as an influx of remote workers drawn to the city’s high quality of life.

Metrics from the fourth quarter indicate that the impact of the pandemic on the office market will likely be long-lasting. Companies are still uncertain about the best strategies for returning to the office, leading to ongoing market hesitation. Leasing activity and rental rates showed a decline after a period of growth earlier in the year, making the future of the office market uncertain.

Despite these difficulties, Denver is well-positioned to recover faster than many other major metropolitan areas, thanks to its large, well-educated workforce and diverse industries. It is clear, however, that the pandemic will continue to affect the market for a significant amount of time to come.

Inflation Declines to a Rate of 7.1% in November



Source: BLS



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	29,449,736	5,368,073	18.2%	1,370,412	4.7%	6,738,485	22.9%	22.7%	366,116	-42,791	-	1,392,301	\$38.37
B	11,813,782	2,255,540	19.1%	124,319	1.1%	2,379,859	20.1%	20.7%	108,353	63,901	-	-	\$35.44
C	1,191,001	70,872	6.0%	20,370	1.7%	91,242	7.7%	4.4%	6,747	-38,432	-	-	\$35.21
TOTAL	42,454,519	7,694,485	18.1%	1,515,101	3.6%	9,209,586	21.7%	21.6%	481,216	-17,322	-	1,392,301	\$37.59
Midtown													
A	1,658,675	160,211	9.7%	91,494	5.5%	251,705	15.2%	13.9%	16,282	-20,858	-	-	\$28.13
B	3,358,979	404,161	12.0%	17,578	0.5%	421,739	12.6%	12.1%	18,435	-13,946	-	-	\$27.51
C	1,658,015	4,693	0.3%	125,318	7.6%	130,011	7.8%	7.8%	-	-	-	-	\$10.40
TOTAL	6,675,669	569,065	8.5%	234,390	3.5%	803,455	12.0%	11.5%	34,717	-34,804	-	-	\$24.53
Suburban													
Aurora													
A	1,743,140	294,286	16.9%	142,961	8.2%	437,247	25.1%	19.4%	40,171	-99,304	-	-	\$26.26
B	5,077,639	444,897	8.8%	-	0.0%	444,897	8.8%	8.8%	5,724	3,990	-	-	\$20.88
C	696,679	18,978	2.7%	-	0.0%	18,978	2.7%	2.8%	317	317	-	-	\$14.40
TOTAL	7,517,458	758,161	10.1%	142,961	1.9%	901,122	12.0%	10.7%	46,212	-94,997	-	-	\$22.69
Boulder													
A	2,588,861	151,150	5.8%	61,466	2.4%	212,616	8.2%	8.1%	9,935	-3,281	-	1,100,955	\$40.95
B	9,053,406	1,096,655	12.1%	100,933	1.1%	1,197,588	13.2%	12.3%	141,198	-82,218	-	353,000	\$31.28
C	435,011	36,535	8.4%	-	0.0%	36,535	8.4%	7.9%	-	-2,307	-	-	\$23.35
TOTAL	12,077,278	1,284,340	10.6%	162,399	1.3%	1,446,739	12.0%	11.4%	151,133	-87,806	-	1,453,955	\$32.04
Broomfield													
A	3,535,717	638,917	18.1%	46,407	1.3%	685,324	19.4%	17.4%	11,650	-68,609	-	-	\$30.29
B	2,981,734	198,859	6.7%	3,085	0.1%	201,944	6.8%	8.4%	3,105	47,734	-	-	\$30.36
C	70,412	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	\$0.00
TOTAL	6,587,863	837,776	12.7%	49,492	0.8%	887,268	13.5%	13.2%	14,755	-20,875	-	-	\$30.31
Colorado Blvd/Glendale													
A	5,213,890	761,833	14.6%	57,038	1.1%	818,871	15.7%	15.4%	94,132	-15,196	-	235,879	\$32.85
B	6,489,899	657,421	10.1%	222,792	3.4%	880,213	13.6%	12.8%	127,225	-48,193	-	59,713	\$27.68
C	918,286	84,228	9.2%	8,013	0.9%	92,241	10.0%	12.4%	13,501	21,406	-	-	\$19.53
TOTAL	12,622,075	1,503,482	11.9%	287,843	2.3%	1,791,325	14.2%	13.9%	234,858	-41,983	-	295,592	\$30.02
Longmont													
A	104,805	37,003	35.3%	-	0.0%	37,003	35.3%	36.0%	-	704	-	-	\$26.01
B	714,677	34,273	4.8%	2,537	0.4%	36,810	5.2%	5.5%	529	2,533	-	-	\$23.38
C	134,558	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	\$18.83
TOTAL	954,040	71,276	7.5%	2,537	0.3%	73,813	7.7%	8.1%	529	3,237	-	-	\$24.85
North													
A	759,766	33,320	4.4%	-	0.0%	33,320	4.4%	3.8%	3,374	-4,364	-	-	\$27.63
B	3,042,945	271,938	8.9%	85,061	2.8%	356,999	11.7%	12.5%	22,735	23,471	-	-	\$24.91
C	128,181	6,717	5.2%	-	0.0%	6,717	5.2%	2.0%	2,102	-4,164	-	-	\$15.98
TOTAL	3,930,892	311,975	7.9%	85,061	2.2%	397,036	10.1%	10.5%	28,211	14,943	-	-	\$25.21
Northeast													
A	583,612	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	126,000	\$28.57
B	2,446,475	129,983	5.3%	5,500	0.2%	135,483	5.5%	6.6%	33,086	25,417	-	106,527	\$24.26
C	872,669	22,570	2.6%	5,114	0.6%	27,684	3.2%	2.5%	-	-6,053	-	-	\$13.65
TOTAL	3,902,756	152,553	3.9%	10,614	0.3%	163,167	4.2%	4.7%	33,086	19,364	-	232,527	\$24.24



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	2,129,794	246,253	11.6%	59,980	2.8%	306,233	14.4%	12.6%	8,662	-38,438	-	-	\$27.20
B	2,493,074	237,178	9.5%	-	0.0%	237,178	9.5%	9.6%	11,007	2,556	-	32,734	\$22.96
C	514,296	24,508	4.8%	-	0.0%	24,508	4.8%	5.1%	564	1,521	-	-	\$16.32
TOTAL	5,137,164	507,939	9.9%	59,980	1.2%	567,919	11.1%	10.4%	20,233	-34,361	-	32,734	\$24.68
Parker/Castle Rock													
A	686,385	18,522	2.7%	3,889	0.6%	22,411	3.3%	2.6%	1,397	-4,739	-	-	\$29.92
B	983,974	91,950	9.3%	2,039	0.2%	93,989	9.6%	9.4%	4,619	-1,145	-	-	\$26.93
C	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	1,670,359	110,472	6.6%	5,928	0.4%	116,400	7.0%	6.6%	6,016	-5,884	-	-	\$27.30
Southeast													
A	26,274,346	4,306,702	16.4%	666,744	2.5%	4,973,446	18.9%	20.4%	509,339	392,912	-	351,222	\$29.82
B	19,908,778	2,848,640	14.3%	610,670	3.1%	3,459,310	17.4%	16.8%	179,041	-1,311	130,045	323,984	\$23.88
C	1,156,077	82,876	7.2%	285	0.0%	83,161	7.2%	7.2%	4,644	31	-	-	\$19.62
TOTAL	47,339,201	7,238,218	15.3%	1,277,699	2.7%	8,515,917	18.0%	18.6%	693,024	391,632	130,045	675,206	\$27.03
Southwest													
A	1,603,492	52,252	3.3%	12,177	0.8%	64,429	4.0%	4.0%	720	-	-	-	\$25.96
B	5,445,615	644,511	11.8%	20,765	0.4%	665,276	12.2%	11.5%	37,059	-39,611	-	-	\$21.00
C	719,263	36,661	5.1%	843	0.1%	37,504	5.2%	5.3%	-	798	-	-	\$13.44
TOTAL	7,768,370	733,424	9.4%	33,785	0.4%	767,209	9.9%	9.4%	37,779	-38,813	-	-	\$21.40
West													
A	2,664,690	203,823	7.6%	107,180	4.0%	311,003	11.7%	11.9%	40,451	6,573	-	-	\$27.69
B	9,097,282	1,034,714	11.4%	75,015	0.8%	1,109,729	12.2%	11.8%	103,175	-37,077	-	-	\$25.23
C	817,518	52,074	6.4%	61,236	7.5%	113,310	13.9%	13.8%	3,068	-771	-	-	\$21.79
TOTAL	12,579,490	1,290,611	10.3%	243,431	1.9%	1,534,042	12.2%	11.9%	146,694	-31,275	-	-	\$25.53
SUBURBAN TOTAL													
A	47,888,498	6,744,061	14.1%	1,157,842	2.4%	7,901,903	16.5%	16.8%	719,831	166,258	-	1,814,056	\$30.44
B	67,735,498	7,691,019	11.4%	1,128,397	1.7%	8,819,416	13.0%	12.7%	668,503	-103,854	130,045	875,958	\$23.76
C	6,462,950	365,147	5.6%	75,491	1.2%	440,638	6.8%	7.0%	24,196	10,778	-	-	\$18.15
TOTAL	122,086,946	14,800,227	12.1%	2,361,730	1.9%	17,161,957	14.1%	14.0%	1,412,530	73,182	130,045	2,690,014	\$26.28
DENVER MARKET GRAND TOTAL													
A	78,996,909	12,272,345	15.5%	2,619,748	3.3%	14,892,093	18.9%	19.0%	1,102,229	102,609	-	3,206,357	\$29.98
B	82,908,259	10,350,720	12.5%	1,270,294	1.5%	11,621,014	14.0%	13.8%	795,291	-53,899	130,045	875,958	\$26.12
C	9,311,966	440,712	4.7%	221,179	2.4%	661,891	7.1%	6.8%	30,943	-27,654	-	-	\$18.54
TOTAL	171,217,134	23,063,777	13.5%	4,111,221	2.4%	27,174,998	15.9%	15.9%	1,928,463	21,056	130,045	4,082,315	\$30.58
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q4 2022	171,217,134	23,063,777	13.5%	4,111,221	2.4%	27,174,998	15.9%	15.9%	1,928,463	21,056	130,045	4,082,315	\$30.58
Q3 2022	169,752,119	2,328,221	13.7%	3,748,453	2.2%	27,030,664	15.9%	15.5%	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%	25,946,449	15.6%	15.4%	2,891,185	340,773	111,479	1,566,872	\$30.05

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\$3.3B
in revenue



2B
square feet under management



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professionals and staff

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