



Colliers

Denver

Office

23Q1

Denver's office market has experienced a sluggish start to 2023, with net absorption taking a sharp decline, and leasing activity remaining below historical averages. The region's major employers are still grappling with their plans for returning to the office, as they navigate the ongoing effects of the pandemic. However, as time passes, it is increasingly apparent that the hybrid work model has become a permanent fixture in the workplace. To entice and retain employees back into the office, companies are prioritizing the implementation of comprehensive amenity packages and upgraded workspaces.

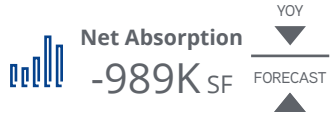
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Denver Office 23Q1

Key Takeaways

- Absorption returns to negative figures.
- Leasing activity remains muted, realizing 1.9 MSF in Q1 2023.
- Despite easing pandemic fears, large companies still face difficulties returning to the office. Expect a hybrid work model to become more common.
- Denver remains well-positioned looking forward due to its diversified economy, highly educated workforce, and a high quality of life.



A Resilient City

Although Denver's economy has faced some recent challenges, such as declining demand for office space as indicated by decreased leasing activity and rental rates in Q1 2023, the city remains well-positioned for future growth. Denver benefits from a highly skilled and educated workforce, a diverse mix of tenants, low unemployment rates, and ongoing corporate relocations, all of which are promising signs for the region's economic resilience. With that said, the office market still faces significant challenges. Forecasts for a full rebound in office usage remain uncertain, making it difficult to predict when or even if such a recovery will occur.

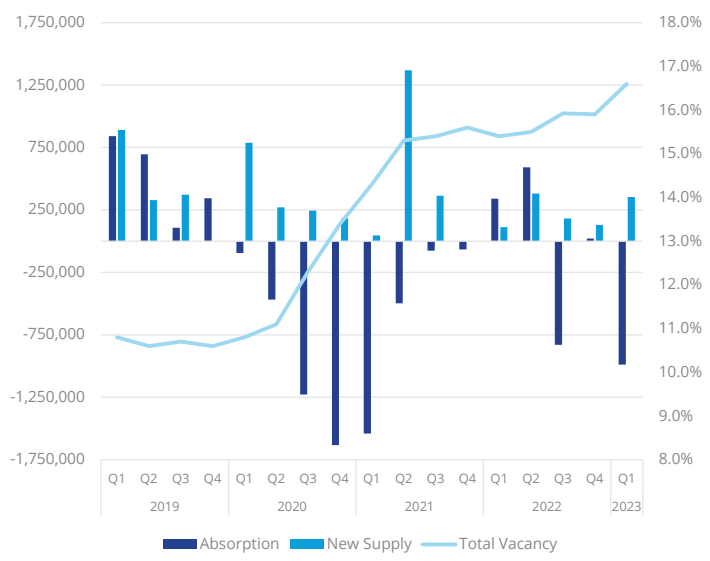
Market Indicators



Historic Comparison

	23Q1	22Q4	22Q1
Total Inventory (in Thousands of SF)	171,592	171,217	168,865
New Supply (in Thousands of SF)	353	130	111
Net Absorption (in Thousands of SF)	-989	21	340
Overall Vacancy	16.6%	15.9%	15.4%
Under Construction (in Thousands of SF)	2,947	4,082	1,326
Direct Asking Lease Rates (FSG)	\$31.57	\$31.40	\$29.97

Market Graph



The latest metrics for Q1 in Denver reveal a challenging reality for the office market, with negative absorption and increasing vacancy rates indicating a limited demand for office space.

Recent Transactions



Sale
1801 Wewatta St.
Denver/Downtown
112,651 SF
\$54,000,000



Sale
1530 W. 13th Ave.
Denver/Midtown
23,972 SF
\$5,750,000



Sale
2860-2870 N. Speer Blvd.
Denver/Northwest Denver
26,000 SF
\$5,800,000

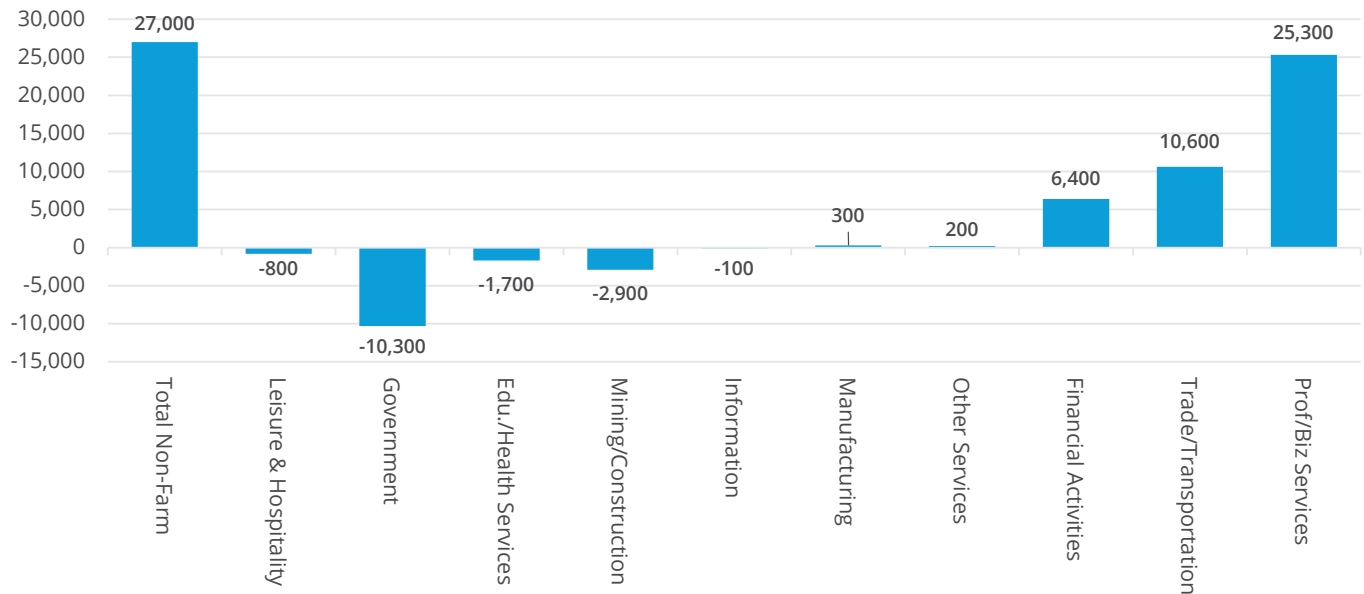


Sale
143 Union Blvd.
Lakewood/West Denver
191,564 SF
\$24,900,000



Sale
1800 30th St.
Boulder
53,791 SF
\$5,100,000

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 lost 33,000 cumulative jobs from its non-farm payroll in Q1. Denver has now added 173,200 jobs since peak unemployment in April 2020.

The unemployment rate in the Denver MSA increased 0.1% to 3.4% in January, with the largest job gains in transportation and professional services. The unemployment rate in the Metro is one-fourth of its peak of 12.4% in April 2020. Given Denver's appeal to remote workers, the city is expected to continue experiencing job growth and a reduction in unemployment rates in the foreseeable future.

Absorption & Leasing Activity

The most notable statistic for Q1 2023 is that absorption plummeted to a negative figure in the Denver Metro, recording -989,404 SF. 2022 realized a total of 121,807 SF of absorption. Leasing activity in Q1 saw a similar level recording 1.9 million SF, marking the fourth consecutive quarter that has recorded less than the three-year average 2.4 million SF.

Construction

The Denver Metro has not recorded significant office delivery to start the year. The only delivery in Q1 was the pair of Medtronic buildings (353K SF).

The office construction pipeline has slowed slightly in Denver. There is currently 2.95 million 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). 675,000 SF 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

Denver Metro's office vacancy stood at 16.6% as of Q1 2023. The Downtown market maintained the Metro's highest vacancy at 23.3%, which is 260 bps higher than the previous quarter.

Space available for sublease rose for the fourth consecutive quarter, realizing a 170,000 SF increase to 4.3 million SF. The majority of sublease space, 1.6 million SF, remains downtown, followed by 1.25 million SF in the Southeast.

Rents

Denver's office market continues to grapple with the impacts of the pandemic, with a moderate decline in average lease rates being a notable indicator. Direct average full-service lease rates in Q1 2023 remained unchanged at \$30.58/SF, compared to Q4 2022. However, this overall stability masks some significant fluctuations within the market, with downtown experiencing an increase from \$37.59/SF to \$37.70/SF, while the Southeast saw a slight decrease from \$27.03/SF to \$26.93/SF. The premium between the two submarkets remains at approximately 30%. While direct asking rates are expected to remain flat, landlords are offering increased concessions to attract tenants back to the office, resulting in plateauing effective lease rates.

Sales

The most notable sale of the quarter was Union Tower West (1801 Wewatta St.) trading to Beacon Capital Partners from Invesco Advisers, Inc. for \$54M (\$479/SF). The 113,000 SF property was built in 2017 and 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 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 for several months.

Forecast

The Denver office market remains troubled, as evidenced by a decrease in both leasing activity and absorption. Although efforts to reintegrate remote workers back into the workplace continue, many large employers continue to face difficulties in doing so. This situation has resulted in increased flexibility in work arrangements, posing significant challenges for landlords attempting to secure new leases in a climate dominated by hybrid work models. These trends suggest that the Denver office market will continue to encounter significant obstacles in the years ahead.

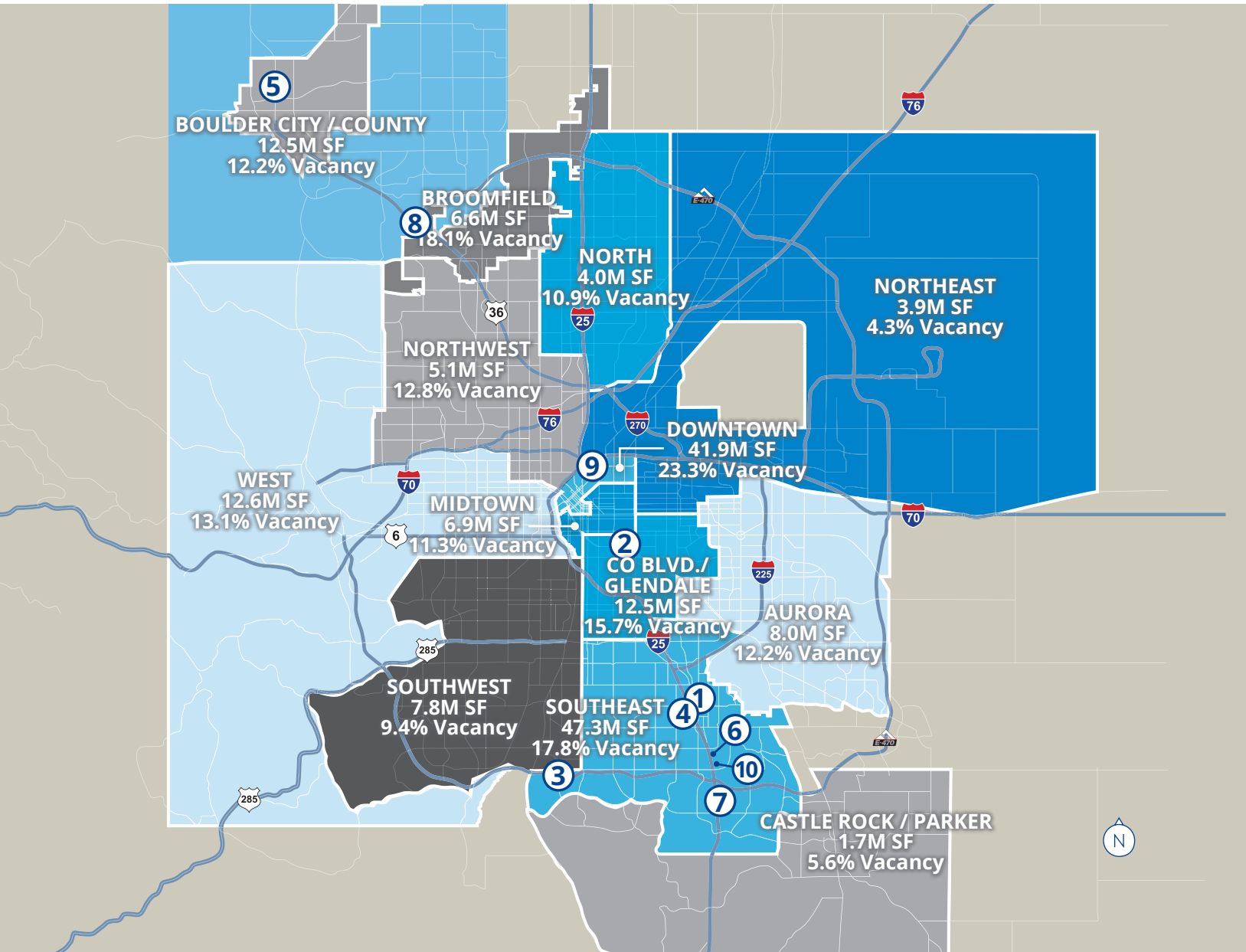
In Q1 2023, metrics indicate that the pandemic's impact on the market will likely last through the end of the year, and even beyond. With companies still grappling with the best strategies for returning to the office, market uncertainty remains. However, Denver remains well-positioned to recover more quickly than many other major metropolitan areas, given its robust, highly-educated workforce, and diverse industries. Nevertheless, it is evident that the pandemic will continue to shape the market for some time to come.

Inflation Falls to a Rate of 6.1% in February



Source: BLS

Significant Leasing Activity



Top Leases This Quarter

	Building Address	Building Name	Rentable Square Feet (RSF)	Tenant	Deal Type
1	6162 S. Willow Dr.	Atrium III	51,688	Arapahoe County Public Health	Direct
2	2955 E. 1st Ave.		36,224	Unknown	Direct
3	8744 Lucent Blvd.	Arc 470	35,642	Blue Origin	Direct
4	6363 S. Fiddler's Green Cir.	Palazzo Verdi	33,373	AngloGold	Direct
5	2995 Center Green Ct.		33,146	ION	Direct
6	169 Inverness Dr. W.		31,004	Leidos	Direct
7	9189 S. Jamaica St.	North Bldg.	26,910	Open Technology Systems	Sublease
8	390 Interlocken Cres.	390 Interlocken Crescent	25,010	Sierra Space	Direct
9	3601 Walnut St.	HUB South	25,000	AgentSync	Sublease
10	188 Inverness Dr. W.	188 Inverness	24,284	Low Commercial Services	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	28,987,473	5,907,778	20.4%	1,435,227	5.0%	7,237,424	25.0%	23.1%	261,630	-536,351	-	1,704,622	\$38.44
B	11,699,537	2,326,445	19.9%	127,263	1.1%	2,453,708	21.0%	20.3%	60,310	-73,849	-	-	\$35.49
C	1,167,001	54,248	4.6%	14,620	1.3%	68,868	5.9%	7.5%	13,720	18,981	-	-	\$36.10
TOTAL	41,854,011	8,288,471	19.8%	1,577,110	3.8%	9,760,000	23.3%	21.9%	335,660	-591,219	-	1,704,622	\$37.70
Midtown													
A	1,907,809	150,413	7.9%	91,494	4.8%	241,907	12.7%	13.2%	10,597	9,798	-	-	\$27.03
B	3,357,396	390,764	11.6%	16,124	0.5%	406,888	12.1%	12.6%	8,399	14,851	-	-	\$26.19
C	1,658,015	5,907	0.4%	125,318	7.6%	131,225	7.9%	7.8%	-	-1,214	-	-	\$10.40
TOTAL	6,923,220	547,084	7.9%	232,936	3.4%	780,020	11.3%	11.5%	18,996	23,435	-	-	\$23.41
Suburban													
Aurora													
A	1,743,140	326,286	18.7%	142,961	8.2%	469,247	26.9%	25.1%	7,174	-32,000	-	-	\$25.15
B	5,475,868	480,053	8.8%	-	0.0%	480,053	8.8%	8.3%	24,061	-27,615	-	-	\$20.72
C	737,675	17,930	2.4%	-	0.0%	17,930	2.4%	2.6%	6,400	1,048	-	-	\$16.92
TOTAL	7,956,683	824,269	10.4%	142,961	1.8%	967,230	12.2%	10.7%	37,635	-58,567	-	-	\$22.47
Boulder													
A	2,592,469	171,053	6.6%	44,388	1.7%	215,441	8.3%	8.2%	2,612	-2,825	-	163,000	\$39.93
B	9,430,041	1,164,060	12.3%	71,453	0.8%	1,235,513	13.1%	13.2%	87,211	314,746	353,000	-	\$30.67
C	436,626	71,822	16.4%	-	0.0%	71,822	16.4%	7.8%	2,307	-37,594	-	-	\$23.87
TOTAL	12,459,136	1,406,935	11.3%	115,841	0.9%	1,522,776	12.2%	11.4%	92,130	274,327	353,000	163,000	\$31.48
Broomfield													
A	3,518,190	645,740	18.4%	213,071	6.1%	858,811	24.4%	19.5%	33,917	-173,487	-	-	\$30.49
B	2,962,460	327,526	11.1%	-	0.0%	327,526	11.1%	6.8%	14,695	-125,582	-	-	\$30.53
C	70,412	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-
TOTAL	6,551,062	973,266	14.9%	213,071	3.3%	1,186,337	18.1%	13.5%	48,612	-299,069	-	-	\$30.31
Colorado Blvd/Glendale													
A	5,213,890	896,098	17.2%	63,026	1.2%	959,124	18.4%	15.7%	114,064	-140,253	-	295,592	\$32.21
B	6,389,464	725,050	11.3%	209,319	3.3%	934,369	14.6%	13.8%	111,146	-54,156	-	-	\$27.78
C	918,286	64,117	7.0%	2,287	0.2%	66,404	7.2%	10.0%	3,566	25,837	-	-	\$19.23
TOTAL	12,521,640	1,685,265	13.5%	274,632	2.2%	1,959,897	15.7%	14.3%	228,776	-168,572	-	295,592	\$29.91
Longmont													
A	104,805	34,996	33.4%	-	0.0%	34,996	33.4%	35.3%	14,887	2,007	-	-	\$26.01
B	714,677	44,243	6.2%	4,733	0.7%	48,976	6.9%	5.2%	4,900	-12,166	-	-	\$23.32
C	134,558	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	\$18.83
TOTAL	954,040	79,239	8.3%	4733	0.5%	83,972	8.8%	7.7%	19,787	-10,159	-	-	\$24.89
North													
A	759,766	33,503	4.4%	6,706	0.9%	40,209	5.3%	3.9%	3,379	-10,263	-	106,527	\$26.62
B	3,063,138	299,342	9.8%	81,782	2.7%	381,124	12.4%	12.0%	12,220	-12,848	-	-	\$25.53
C	128,181	9,456	7.4%	-	0.0%	9,456	7.4%	5.2%	1,133	-2,739	-	-	\$15.98
TOTAL	3,951,085	342,301	8.7%	88,488	2.2%	430,789	10.9%	10.3%	16,732	-25,850	-	106,527	\$25.65
Northeast													
A	583,612	2,710	0.5%	-	0.0%	2,710	0.5%	0.0%	51,037	-2,710	-	-	\$28.20
B	2,447,475	127,175	5.2%	5,500	0.2%	132,675	5.4%	5.5%	30,634	2,808	-	-	\$25.16
C	872,669	27,274	3.1%	5,114	0.6%	32,388	3.7%	3.2%	2,100	-4,704	-	-	\$13.65
TOTAL	3,903,756	157,159	4.0%	10,614	0.3%	167,773	4.3%	4.2%	83,771	-4,606	-	-	\$24.66



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	2,131,690	262,379	12.3%	97,901	4.6%	360,280	16.9%	14.5%	22,674	-50,946	-	-	\$26.94
B	2,493,074	271,166	10.9%	-	0.0%	271,166	10.9%	9.5%	22,973	-33,988	-	32,734	\$23.28
C	513,286	23,787	4.6%	-	0.0%	23,787	4.6%	4.8%	2,161	721	-	-	\$16.06
TOTAL	5,138,050	557,332	10.8%	97,901	1.9%	655,233	12.8%	11.1%	47,808	-84,213	-	32,734	\$24.88
Parker/Castle Rock													
A	686,385	3,530	0.5%	892	0.1%	4,422	0.6%	3.3%	10,889	17,989	-	-	\$29.76
B	1,026,831	89,510	8.7%	2,039	0.2%	91,549	8.9%	9.2%	1,048	2,440	-	-	\$27.18
C	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	1,713,216	93,040	5.4%	2,931	0.2%	95,971	5.6%	6.8%	11,937	20,429	-	-	\$27.46
Southeast													
A	26,621,532	4,464,877	16.8%	615,038	2.3%	5,079,915	19.1%	18.9%	476,833	-54,879	-	321,038	\$29.34
B	19,625,839	2,670,693	13.6%	636,281	3.2%	3,306,974	16.9%	17.0%	304,222	31,417	-	323,984	\$24.20
C	1,028,466	47,510	4.6%	550	0.1%	48,060	4.7%	8.1%	6,323	35,101	-	-	\$19.90
TOTAL	47,275,837	7,183,080	15.2%	1,251,869	2.6%	8,434,949	17.8%	17.9%	787,378	11,639	-	645,022	\$26.93
Southwest													
A	1,603,492	39,725	2.5%	-	0.0%	39,725	2.5%	4.0%	8,110	24,704	-	-	\$25.96
B	5,445,615	627,019	11.5%	20,765	0.4%	647,784	11.9%	12.2%	58,939	17,492	-	-	\$20.88
C	719,263	38,503	5.4%	843	0.1%	39,346	5.5%	5.2%	909	-1,842	-	-	\$13.39
TOTAL	7,768,370	705,247	9.1%	21,608	0.3%	726,855	9.4%	9.9%	67,958	40,354	-	-	\$21.28
West													
A	2,761,743	183,745	6.7%	107,180	3.9%	290,925	10.5%	12.0%	26,691	41,497	-	-	\$27.67
B	9,043,573	1,169,857	12.9%	81,286	0.9%	1,251,143	13.8%	12.0%	64,201	-162,008	-	-	\$25.17
C	817,518	48,896	6.0%	61,236	7.5%	110,132	13.5%	13.9%	1,647	3,178	-	-	\$23.79
TOTAL	12,622,834	1,402,498	11.1%	249,702	2.0%	1,652,200	13.1%	12.2%	92,539	-117,333	-	-	\$25.54
SUBURBAN TOTAL													
A	48,320,714	7,064,642	14.6%	1,291,163	2.7%	8,355,805	17.3%	16.5%	772,267	-381,166	-	886,157	\$30.44
B	68,118,055	7,995,694	11.7%	1,113,158	1.6%	9,108,852	13.4%	12.8%	736,250	-59,460	353,000	356,718	\$23.76
C	6,376,940	349,295	5.5%	70,030	1.1%	419,325	6.6%	6.9%	26,546	19,006	-	-	\$18.15
TOTAL	122,815,709	15,409,631	12.5%	2,474,351	2.0%	17,883,982	14.6%	14.0%	1,535,063	-421,620	353,000	1,242,875	\$26.28
DENVER MARKET GRAND TOTAL													
A	79,215,996	13,122,833	16.6%	2,817,884	3.6%	15,835,136	20.0%	18.8%	1,044,494	-907,719	-	2,590,779	\$29.55
B	83,174,988	10,712,903	12.9%	1,256,545	1.5%	11,969,448	14.4%	13.9%	804,959	-118,458	353,000	356,718	\$26.15
C	9,201,956	409,450	4.4%	209,968	2.3%	619,418	6.7%	7.1%	40,266	36,773	-	-	\$19.01
TOTAL	171,592,940	24,245,186	14.1%	4,284,397	2.5%	28,424,002	16.6%	15.9%	1,889,719	-989,404	353,000	2,947,497	\$30.58
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q1 2023	171,592,940	24,245,186	14.1%	4,284,397	2.5%	28,424,002	16.6%	15.9%	1,889,719	-989,404	353,000	2,947,497	\$30.58
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

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\$3.3B
in revenue



2B
square feet under management



18,000 +
professionals and staff

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