



Colliers

Denver

Office

23Q2

Denver's office market has experienced ongoing struggles in the first half of 2023, with vacancy rates remaining at near-record highs. The rise in sublease space indicates that vacancy will continue to increase in the future. This suggests that employers are grappling with the decision of returning to the office, as the hybrid work model appears to have become a permanent fixture. Companies are likely to face significant challenges before fully embracing a return to the office, as they come to realize the inefficiencies of hybrid work.

Accelerating success.



Denver Office 23Q2

Key Takeaways

- Absorption bounces back
- Leasing activity is slowly declining, realizing 1.85 MSF in Q2 2023
- Despite easing pandemic fears, large companies still face difficulties returning to the office. Hybrid work will remain until companies deem it unprofitable.
- Denver remains well-positioned looking forward due to its diversified economy, highly educated workforce, and high quality of life.



Looking Forward

Despite recent economic challenges faced, including decreased leasing activity and increased vacancy rates in Q2 2023, Denver still holds a favorable position for future growth. Denver's strengths lie in its highly skilled and educated workforce, diverse tenant mix, low unemployment rates, and ongoing corporate relocations. These factors collectively indicate the region's resilience and positive prospects for economic development in the coming years. While acknowledging the current obstacles, it is crucial to recognize the underlying strengths that continue to support Denver's economy and contribute to its long-term growth potential.

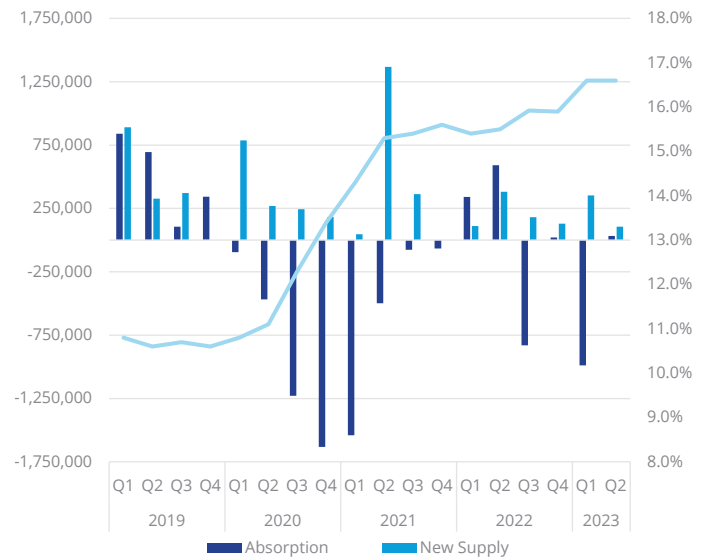
Market Indicators



Historic Comparison

	23Q2	23Q1	22Q2
Total Inventory (in Thousands of SF)	171,996	171,592	169,241
New Supply (in Thousands of SF)	107	353	382
Net Absorption (in Thousands of SF)	33	-989	590
Overall Vacancy	16.6%	16.6%	15.6%
Under Construction (in Thousands of SF)	3,581	2,947	1,682
Direct Asking Lease Rates (FSG)	\$30.59	\$31.57	\$31.23

Market Graph



The latest metrics for Q2 in Denver reveal a challenging reality for the office market, with low absorption, high vacancy rates, and little new supply. This indicates a limited demand for office space.

Recent Transactions



Sale
11148 Benton St.
Northwest Denver
20,228 SF
\$3,500,000



Sale
1095 S. Monaco Pkwy.
Colorado Blvd/Glendale
20,144 SF
\$3,425,000



Sale
2755 S. Locust St.
Southeast
38,852 SF
\$5,137,750



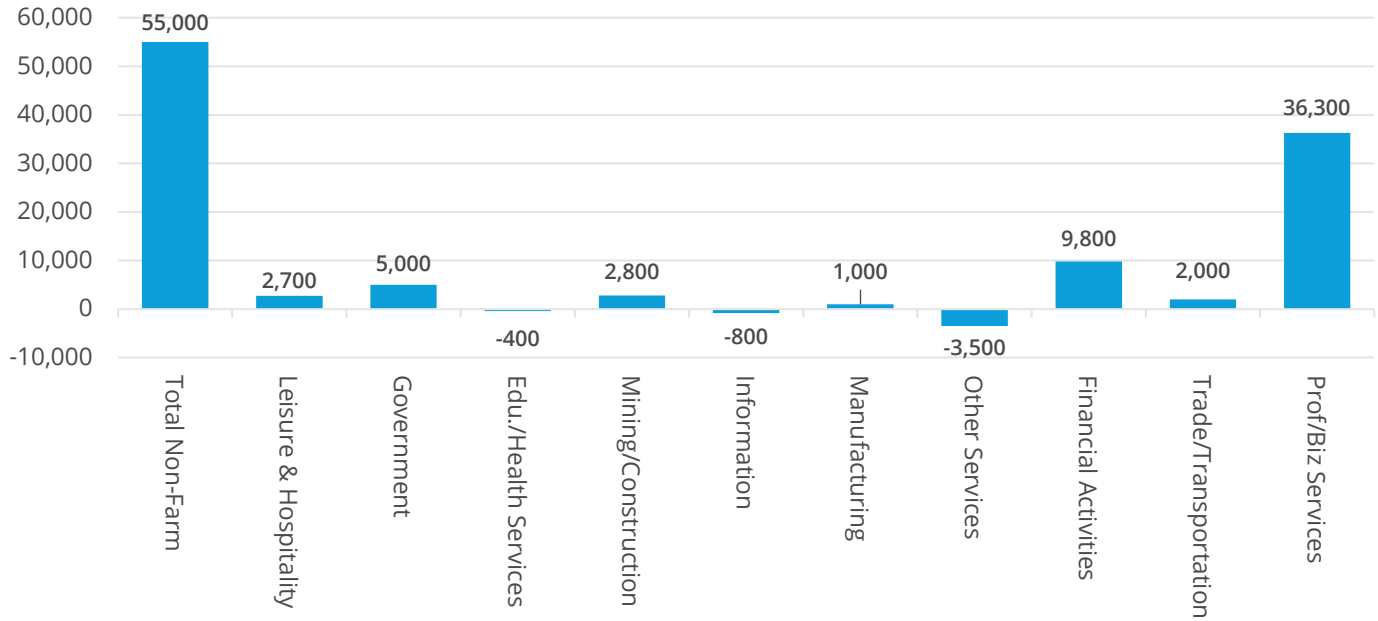
Sale
5301 S. Federal Cir.
Southwest
40,258 SF
\$4,375,000



Sale
384 Inverness Pkwy.
Southeast
51,527 SF
\$3,494,000

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 gained 13,000 cumulative jobs (preliminary) from its nonfarm payroll in Q2. Denver has now added 186,200 jobs since peak unemployment in April 2020.

The unemployment rate in the Denver MSA decreased 20 bps to 3.2% in January, with the largest job gains in leisure and hospitality and professional services. The unemployment rate in the Metro is one-fourth of its peak of 12.4% in April 2020. Denver's attractiveness to remote workers is anticipated to fuel ongoing job growth and contribute to a decline in unemployment rates.

Absorption & Leasing Activity

A notable statistic for Q2 2023 is that absorption returned to a positive figure in the Denver Metro, recording 33,189 SF. 2022 realized a total of 121,807 SF of absorption, the first half of 2023 realized -956,215 SF of absorption. Leasing activity in Q2 slightly decreased recording 1.85 million square feet, marking the fifth consecutive quarter that has recorded less than the three-year quarterly average 2.4 million square feet.

Construction

The Denver Metro has not recorded significant office delivery in the first half of the year. The only delivery in Q2 was 8959 E. 40th Ave., in Denver (107K SF).

The office construction pipeline has risen in the last quarter. There is currently 3.58 MSF under construction in the Denver Metro; 1,704,622 SF of which is Downtown and headlined by 1900 Lawrence (704K SF), T3 Offices (251K SF), and The Current River North (280k SF). 656,000 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). Expect to see deliveries delayed as construction costs remain high and demand remains low.

Vacancy

Denver Metro's office vacancy did not change in Q2 2023, staying at 16.6%. The Downtown market maintained the Metro's highest vacancy at 23.4%.

Space available for sublease declined for the first time in a year, realizing a 217,000 SF decrease to 4.1 MSF. The majority of sublease space, 1.5 MSF, remains downtown, followed by 1.24 MSF in the Southeast. Throughout the rest of the year, expect to see sublease availabilities decrease and direct vacancy rates to increase.

Rents

Denver's office market continues to navigate the lingering effects of the pandemic, and one noteworthy indicator is the variance in rental rates between submarkets. In Q2 2023, the direct average full-service lease rates experienced a slight increase to \$30.59/SF compared to the previous quarter. However, beneath this overall stability lies notable variations within the market, with downtown witnessing a minor uptick from \$37.70/SF to \$37.77/SF, and the Southeast submarket showing a rise from \$26.93/SF to \$27.24/SF. The premium between these two submarkets remains at approximately 30%.

These rent increases in major submarkets underscore the significant struggles faced by others. While direct asking rates are projected to remain relatively steady, landlords have been providing increased concessions in their efforts to attract tenants back to physical office spaces. Consequently, this has led to a plateauing effect on effective lease rates.

It is crucial to monitor these developments closely as Denver's office market adapts to evolving circumstances, considering both the interplay between different submarkets and the potential influence of tenant demands and landlord incentives.

Sales

The most notable sale of the quarter was 11148 Benton St., trading to Sterling Property Investment Company from Premier Members FCU for \$3.5M (\$173/SF). The 20,000 SF property was built in 2006 and 100% occupied at the time of sale. Sales volume has significantly declined in the past three months. This is most likely due to banks not giving out loans to the struggling asset class. Most sales this year have been from private investors or owner-users.

Expect to see this trend continue throughout 2023 and 2024.

Forecast

Denver's office market has faced persistent challenges during the first half of 2023, as evidenced by sustained high vacancy rates. Uncertainty surrounding employers' return-to-office plans has contributed to this trend, with many remaining indecisive about the future of their work arrangements. The noticeable increase in sublease space further suggests that vacancy rates are poised to rise in the coming months.

One key observation is the growing acceptance and adoption of the hybrid work model, which has now firmly established itself as a permanent fixture in the modern workplace. This shift towards a more flexible work approach has prompted companies to reassess their space requirements, leading to an excess supply of available office space.

Before a significant return to the traditional office environment is observed, it is anticipated that companies will need to encounter sufficient challenges to recognize the limitations of the hybrid work model in terms of efficiency and collaboration. This recognition may come through experiences of reduced productivity, difficulties in maintaining company culture, or the realization that certain tasks are better suited for in-person collaboration.

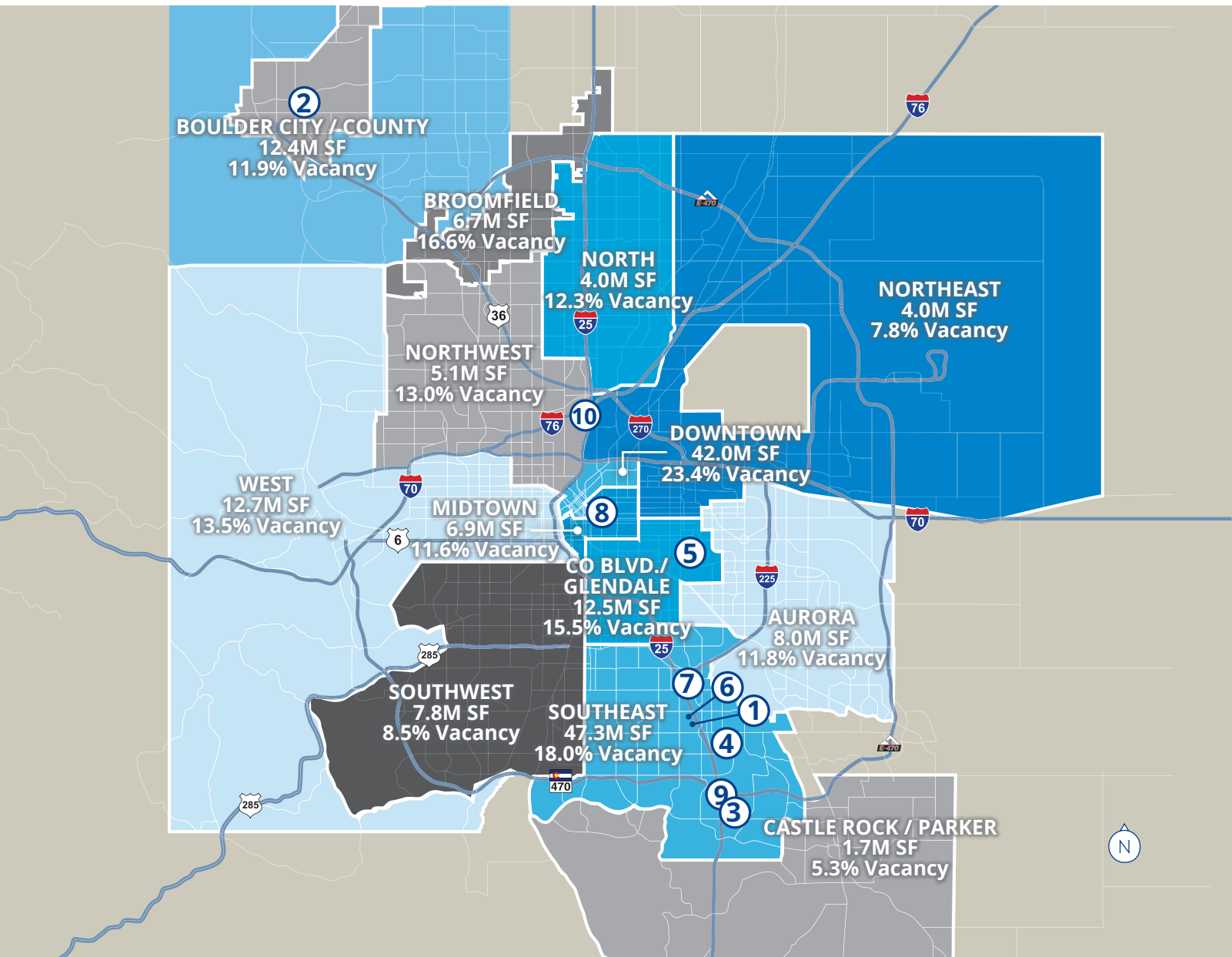
Q2 2023 metrics suggest that the lasting effects of the pandemic on the market are becoming evident. As companies navigate the complexities of determining optimal return-to-office strategies, a sense of market uncertainty persists. Nevertheless, Denver stands out among major metropolitan areas, poised for a relatively swift recovery, owing to its resilient workforce characterized by high education levels and the presence of diverse industries. It is clear, however, that the market will continue to be shaped by the ongoing impact of the pandemic for the foreseeable future.

Inflation Falls to a Rate of 3.0% in June



Source: BLS

Significant Leasing Activity



Top Leases This Quarter

	Building Address	Building Name	Rentable Square Feet (RSF)	Tenant	Deal Type
1	6560 Greenwood Plaza Blvd.	Two Greenwood Plaza	120,979	Kaiser Permanente	Direct
2	2300 55th St.		61,117	CordenPharma	Direct
3	9555 S. Maroon Cir.	Two Maroon Circle	42,840	Undisclosed	Sublease
4	7173 S. Havana St.	Building A	37,166	Village Work & Wellness Center	Direct
5	7901 E. Lowry Blvd.	The Quad at Lowry, Building 4	35,796	ION Clean Energy	Direct
6	8051 E. Maplewood Ave.	GCP- Building 4	35,344	ADS Group LLC.	Direct
7	5050 S. Syracuse St.	50 Fifty DTC	32,106	Undisclosed	Sublease
8	1225 17th St.	Seventeenth Street Plaza	28,885	Ballard Spahr LLP.	Direct
9	9189 S. Jamaica St.	North Building	24,409	S3 Shared Service Solutions, LLC.	Sublease
10	280 W. 62nd Ave.		22,689	MTM Transit, LLC.	Sublease



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	29,020,728	5,683,500	19.6%	1,374,523	4.7%	7,237,424	24.9%	24.9%	174,405	-13,248	-	1,704,622	\$38.77
B	11,773,601	2,463,543	20.9%	99,924	0.8%	2,563,467	21.8%	21.2%	99,779	-67,428	-	-	\$36.03
C	1,167,001	27,693	2.4%	7,365	0.6%	35,058	3.0%	5.9%	451	33,810	-	-	\$35.07
TOTAL	41,961,330	8,174,736	19.5%	1,481,812	3.5%	9,835,949	23.4%	23.3%	274,635	-46,866	-	1,704,622	\$38.05
Midtown													
A	1,907,809	154,232	8.1%	82,976	4.3%	237,208	12.4%	12.7%	-	4,699	-	-	\$26.50
B	3,358,170	413,030	12.3%	16,124	0.5%	429,154	12.8%	12.1%	10,992	-22,266	-	-	\$26.38
C	1,654,797	8,021	0.5%	125,318	7.6%	133,339	8.1%	7.9%	1,180	-2,114	-	-	\$10.29
TOTAL	6,920,776	575,283	8.3%	224,418	3.2%	799,701	11.6%	11.5%	12,172	-19,681	-	-	\$23.63
Suburban													
Aurora													
A	1,756,508	319,770	18.2%	123,418	7.0%	443,188	25.2%	26.7%	5,961	26,059	-	-	\$25.31
B	5,495,505	464,223	8.4%	-	0.0%	464,223	8.4%	8.7%	22,180	15,830	-	-	\$20.09
C	737,675	32,030	4.3%	-	0.0%	32,030	4.3%	2.4%	-	-14,100	-	-	\$17.71
TOTAL	7,989,688	816,023	10.2%	123,418	1.5%	939,441	11.8%	10.7%	28,141	27,789	-	-	\$22.01
Boulder													
A	2,593,916	179,987	6.9%	47,669	1.8%	227,656	8.8%	8.3%	18,163	-12,215	-	163,000	\$33.21
B	9,394,033	1,104,297	11.8%	76,952	0.8%	1,181,249	12.6%	12.8%	186,990	23,993	-	56,000	\$30.25
C	436,620	71,822	16.4%	-	0.0%	71,822	16.4%	16.4%	-	-	-	-	\$23.87
TOTAL	12,424,569	1,356,106	10.9%	124,621	1.0%	1,480,727	11.9%	11.4%	205,153	11,778	-	219,000	\$30.38
Broomfield													
A	4,029,610	880,911	21.9%	56,137	1.4%	937,048	23.3%	26.8%	25,441	142,777	-	-	\$29.51
B	2,556,905	171,121	6.7%	-	0.0%	171,121	6.7%	8.4%	11,169	44,508	-	-	\$31.04
C	70,412	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	\$0.00
TOTAL	6,656,927	1,052,032	15.8%	56,137	0.8%	1,108,169	16.6%	13.5%	36,610	187,285	-	-	\$30.01
Colorado Blvd./Glendale													
A	5,207,977	841,164	16.2%	63,054	1.2%	904,218	17.4%	18.4%	122,569	54,906	-	235,879	\$31.97
B	6,388,923	759,301	11.9%	204,049	3.2%	963,350	15.1%	14.6%	90,691	-28,781	-	59,713	\$25.72
C	918,286	64,117	7.0%	2,287	0.2%	66,404	7.2%	7.2%	2,287	-	-	-	\$19.20
TOTAL	12,515,186	1,664,582	13.3%	269,390	2.2%	1,933,972	15.5%	14.3%	215,547	26,125	-	295,592	\$28.51
Longmont													
A	107,805	23,062	21.4%	-	0.0%	23,062	21.4%	32.5%	5,597	11,934	-	-	\$26.01
B	714,677	45,213	6.3%	4,733	0.7%	49,946	7.0%	6.9%	2,620	-970	-	-	\$23.35
C	134,558	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	\$18.83
TOTAL	957,040	68,275	7.1%	4733	0.5%	73,008	7.6%	8.8%	8,217	10,964	-	-	\$24.61
North													
A	759,766	37,375	4.9%	6,706	0.9%	44,081	5.8%	-9.6%	-	-498	106,527	-	\$26.09
B	3,063,138	356,202	11.6%	79,612	2.6%	435,814	14.2%	12.4%	13,494	-54,690	-	-	\$25.47
C	128,181	6,607	5.2%	-	0.0%	6,607	5.2%	7.4%	2,849	2,849	-	-	\$15.98
TOTAL	3,951,085	400,184	10.1%	86,318	2.2%	486,502	12.3%	10.3%	16,343	-52,339	106,527	-	\$25.55
Northeast													
A	690,099	31,957	4.6%	87,161	12.6%	119,118	17.3%	15.8%	2,710	-9,881	-	-	\$22.64
B	2,447,475	157,867	6.5%	-	0.0%	157,867	6.5%	5.4%	10,592	-25,192	-	-	\$25.62
C	876,097	30,961	3.5%	5,114	0.6%	36,075	4.1%	3.7%	2,100	-3,687	-	-	\$13.65
TOTAL	4,013,671	220,785	5.5%	92,275	2.3%	313,060	7.8%	4.2%	15,402	-38,760	-	-	\$23.12



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	273,053	12.8%	97,901	4.6%	370,954	17.4%	16.8%	4,182	-13,775	-	600,000	\$27.12
B	2,493,036	270,961	10.9%	-	0.0%	270,961	10.9%	10.9%	21,743	205	-	-	\$24.12
C	513,286	27,236	5.3%	-	0.0%	27,236	5.3%	4.6%	2,414	-3,449	-	-	\$16.24
TOTAL	5,138,012	571,250	11.1%	97,901	1.9%	669,151	13.0%	12.7%	28,339	-17,019	-	600,000	\$25.34
Parker/Castle Rock													
A	686,385	1,397	0.2%	-	0.0%	1,397	0.2%	0.6%	892	3,025	-	-	\$33.70
B	1,024,209	87,641	8.6%	2,039	0.2%	89,680	8.8%	8.9%	11,334	1,869	-	-	\$27.50
C	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	1,710,594	89,038	5.2%	2,039	0.1%	91,077	5.3%	5.6%	12,226	4,894	-	-	\$27.61
Southeast													
A	26,946,859	4,462,776	16.6%	539,025	2.0%	5,001,801	18.6%	18.9%	528,940	101,546	-	332,781	\$29.72
B	19,300,968	2,751,563	14.3%	701,803	3.6%	3,453,366	17.9%	17.0%	320,255	-172,802	-	323,984	\$24.16
C	1,028,466	45,010	4.4%	550	0.1%	45,560	4.4%	4.7%	4,435	2,500	-	-	\$19.39
TOTAL	47,276,293	7,259,349	15.4%	1,241,378	2.6%	8,500,727	18.0%	17.8%	853,630	-68,756	-	656,765	\$27.24
Southwest													
A	1,603,864	39,725	2.5%	-	0.0%	39,725	2.5%	2.5%	-	-	-	-	\$26.01
B	5,433,101	590,728	10.9%	16,058	0.3%	606,786	11.2%	11.9%	70,911	40,998	-	25,000	\$20.98
C	719,263	10,808	1.5%	-	0.0%	10,808	1.5%	5.5%	1,686	28,538	-	-	\$13.12
TOTAL	7,756,228	641,261	8.3%	16,058	0.2%	657,319	8.5%	9.4%	72,597	69,536	-	25,000	\$21.34
West													
A	2,761,743	192,800	7.0%	104,675	3.8%	297,475	10.8%	10.5%	24,818	-7,375	-	-	\$27.99
B	9,011,400	1,213,303	13.5%	81,286	0.9%	1,294,589	14.4%	13.9%	48,054	-43,446	-	80,000	\$25.11
C	951,933	59,836	6.3%	61,236	6.4%	121,072	12.7%	11.6%	2,143	-10,940	-	-	\$25.62
TOTAL	12,725,076	1,465,939	11.5%	247,197	1.9%	1,713,136	13.5%	13.0%	75,015	-61,761	-	80,000	\$25.59
SUBURBAN TOTAL													
A	49,276,222	7,283,977	14.8%	1,125,746	2.3%	8,409,723	17.1%	17.5%	739,273	296,503	106,527	1,331,660	\$30.44
B	67,323,370	7,972,420	11.8%	1,166,532	1.7%	9,138,952	13.6%	13.3%	810,033	-198,478	-	544,697	\$23.76
C	6,514,777	348,427	5.3%	69,187	1.1%	417,614	6.4%	6.4%	17,914	1,711	-	-	\$18.15
TOTAL	123,114,369	15,604,824	12.7%	2,361,465	1.9%	17,966,289	14.6%	14.6%	1,567,220	99,736	106,527	1,876,357	\$26.28
DENVER MARKET GRAND TOTAL													
A	80,204,759	13,121,709	16.4%	2,583,245	3.2%	15,884,355	19.8%	20.1%	913,678	287,954	106,527	3,036,282	\$28.90
B	82,455,141	10,848,993	13.2%	1,282,580	1.6%	12,131,573	14.7%	14.4%	920,804	-288,172	-	544,697	\$26.13
C	9,336,575	384,141	4.1%	201,870	2.2%	586,011	6.3%	6.6%	19,545	33,407	-	-	\$19.08
TOTAL	171,996,475	24,354,843	14.2%	4,067,695	2.4%	28,601,939	16.6%	16.6%	1,854,027	33,189	106,527	3,580,979	\$30.59
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q2 2023	171,996,475	24,354,843	14.2%	4,067,695	2.4%	28,601,939	16.6%	16.6%	1,854,027	33,189	106,527	3,580,979	\$30.59
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	\$30.57
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

FOR MORE INFORMATION
 Jack Friedman
 Research Analyst
 Denver
 +1 303 309 3528
jack.friedman@colliers.com

Tim Morris
 Director of Research & Analytics
 Denver
 +1 720 833 4630
tim.morris@colliers.com

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351 offices in 67 countries on 6 continents

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Canada: 41
Latin America: 12
Asia Pacific: 33
EMEA: 78



\$3.3B
in revenue



2B
square feet under management



18,000 +
professionals and staff

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Market Contacts:

Robert Whittelsey

Principal
+1 303 283 4581
robert.whittelsey@colliers.com

Chris Wiley

Principal
+1 303 283 4588
chris.wiley@colliers.com

Matthew Ball

Principal
+1 303 309 3526
matt.ball@colliers.com

Jeremy Reeves

Vice President
+1 303 283 1375
jeremy.reeves@colliers.com

Abby Pattillo

Vice President
+1 303 283 4579
abby.pattillo@colliers.com

Zac Blaha

Broker Associate
+1 303 283 4597
zac.blaha@colliers.com

Hunter Courtney

Broker Associate
+1 303 339 2232
hunter.courtney@colliers.com

Catie O'Dwyer

Operations Manager
+1 303 283 4570
catie.odwyer@colliers.com

Anna Urgitus

Analytics and Outreach
+1 720 833 4624
anna.urgitus@colliers.com

Lauren Hodapp

Marketing/Client Svcs Coord
+1 303 283 4592
lauren.hodapp@colliers.com

Phil Sweeney

Vice President
+1 303 565 3785
phil.sweeney@colliers.com

Ashley Harris

Marketing Coord
+1 303 283 4589
ashley.harris@colliers.com

Colliers | Denver Tech Center
4643 S. Ulster Street, Suite 1000
Denver, CO | USA

Colliers | Downtown Denver
1200 17th Street, Suite 650
Denver, CO | USA

REGIONAL AUTHORS:

Jack Friedman

Research Analyst
+1 303 309 3528
jack.friedman@colliers.com

Tim Morris

Director of Research & Analytics
+1 720 833 4630
tim.morris@colliers.com

