

Denver Office Market

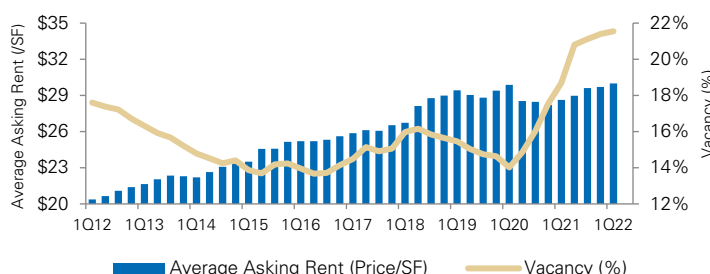
First Quarter of Positive Absorption in Two Years

After 11 years of expansion for the Denver office market, 2020 saw a 10-month unprecedented disruption from the pandemic, and 2021 marked a slow climb back towards normality. Activity steadily increased as the year progressed and reached pre-pandemic levels in the fall of 2021, although the rise of the Delta and Omicron variants once again brought uncertainty for some tenants at the end of the year. With the new year and the pandemic numbers continuing to drop, employers have once again started to set plans for returning employees to the office. Activity picked up across all submarkets and industry types, although medium- and small-sized tenants remain the most active and engaged.

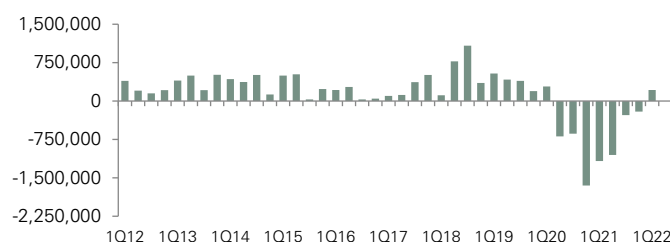
The increased activity from previous quarters has finally allowed the market to once again enter a growth stage. Quarterly net absorption was 215,897 square feet, the first quarter with net positive absorption in two years. Vacancy still rose slightly to 21.6% from 21.4% in the prior quarter due to new vacant product added to the market, up 260 basis points from 19.0% one year ago. As the flight to quality continues, Class A buildings posted the strongest absorption, while Class B conversely saw a decrease in occupancy.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Current Conditions

- Quarterly net absorption of 215,897 SF.
- Vacancy rate of 21.6%.
- Both Class A and Class C logged positive absorption.
- There is 4.0 MSF of available sublease space in the Denver market with 2.3 MSF of it vacant. While available sublease space increased from the previous quarter, the total amount vacant continued to decrease.

Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	101.3 MSF	100.8 MSF	99.8 MSF	↑
Vacancy Rate	21.55%	21.42%	17.86%	↓
Quarterly Net Absorption (SF)	215,897	-207,635	-1.7 MSF	↑
Median Asking Rent/SF	\$30.00	\$29.70	\$28.63	↑
Under Construction (SF)	967,948 SF	813,903 SF	1.5 MSF	↑
Deliveries	0 SF	0 SF	0 SF	↑

Submarket Activity

Five of Denver's nine submarkets posted substantial positive net absorption for the first quarter of 2022, with Southeast Suburban (SES) posting the largest with 514,230 square feet. The Aurora and Southwest submarkets recorded relatively flat quarterly net absorption. Most landlords continue to hold firm on asking rates since the end of 2021 but the increase in taxes have pushed the median direct full-service gross asking rates up year-over-year in five submarkets. Some landlords in select areas, like Cherry Creek, are even beginning to successfully push rates, especially for new construction. Negotiating power remains on the tenant side throughout the overall market, with many asking for multiple concessions from landlords who are resistant to lowering rental rates.

Construction Pipeline Returns to Healthy State

No new construction was completed in the first quarter of 2022, but four previous owner/user buildings were converted to multi-tenant, including two in SES that provided much of the submarket's absorption this quarter. Seven projects, totaling 967,948 square feet, are currently under construction or renovation. Four of those projects are under construction in the Downtown submarket: One Platte (250,00 square feet); the Current (238,000 square feet); T3 RiNo (214,000 square feet); and Emily's Office (the 43,000-square-foot renovation/conversion of the former Emily Griffith school). In the SES submarket, Vectra

Bank has decided to make 25.8% of its 130,000-square-foot build-to-suit (BTS) available for lease by other tenants; the project is due to deliver at the end of 2022.

Looking Forward

As 2022 progresses, Denver's office sector improving deal flow is expected to forge ahead as companies that put their search for new space on hold due to uncertainty will once again need to make long-term office decisions and will reengage their searches for office space that best suits their new requirements. The flight to quality will persist for Class A and Class B tenants as many companies will hope to entice employees back to the workplace. Rental rates will continue to increase, mostly due to the increasing operation expenses and taxes, although landlords of top-quality space will test pushing rates as interest will remain high. Sublease space will keep gradually decreasing from the high point in 2020, although plug-and-play space will remain an attractive option for companies looking for quick occupancy. Vacancy will level out in the second quarter of 2022 due to the new and delayed move-ins, while the newly marketed vacancies will largely come from companies downsizing, rather than tenants leaving the market. Job growth are expected to maintain through the next several years, and the anticipated pent-up demand for high quality space in select markets, combined with a restrained development pipeline, will result in positive absorption in the next quarter of 2022.

Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Boom Supersonic	6801 South Tucson Way	SES	New	154,021
Boom Supersonic	6803 South Tucson Way	SES	New	112,686
PDC Energy	1099 18th Street	Downtown	Sublease	108,459
Starz	6363 South Fiddler's Green Circle	SES	New	100,119
Dynatrace	1900 16th Street	Downtown	New	52,886

Select Sale Transactions

Building	Market	Sale Price	Price/SF	Square Feet
1800 Larimer Street	Downtown	\$291,000,000	\$533	546,427
1st Avenue Plaza Portfolio	Midtown	\$104,800,000	\$397	264,274
One DTC	SES	\$55,650,000	\$231	240,931
Lockton Center	SES	\$35,000,000	\$277	126,129
Hardware Block	Downtown	\$25,800,000	\$477	54,125

Submarket Statistics						
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	1Q Absorption (SF)	YTD Absorption (SF)	Direct FSG Asking Rent (Price/SF)
Overall (Classes A, B & C)						
Aurora	4,589,190	0	19.26%	5,365	5,365	\$18.50
Downtown	31,713,245	746,103	26.22%	-282,700	-282,700	\$44.07
Midtown	5,866,099	91,800	15.47%	-49,837	-49,837	\$32.75
Northeast	2,080,997	0	13.62%	5,077	5,077	\$22.19
Northwest	8,429,889	0	18.77%	-16,438	-16,438	\$25.64
Southeast	6,469,671	0	22.74%	-68,035	-68,035	\$24.50
Southeast Suburban	30,945,204	130,045	20.63%	514,230	514,230	\$25.00
Southwest	3,006,470	0	17.43%	37,807	37,807	\$20.75
West	8,180,075	0	17.99%	70,428	70,428	\$22.00
Total Market	101,280,840	967,948	21.55%	215,897	215,897	\$30.00
Class A						
Aurora	445,960	0	46.40%	87,191	87,191	\$23.00
Downtown	21,262,372	702,630	16.90%	-50,223	-50,223	\$52.82
Midtown	2,898,314	67,800	16.17%	-52,066	-52,066	\$44.43
Northeast	783,902	0	1.53%	0	0	\$27.61
Northwest	5,108,200	0	18.60%	-113,265	-113,265	\$27.00
Southeast	2,658,600	0	22.74%	12,571	12,571	\$29.00
Southeast Suburban	18,135,538	130,045	20.87%	358,505	358,505	\$28.50
Southwest	1,250,376	0	28.28%	19,197	19,197	\$31.87
West	1,086,754	0	16.71%	-398	-398	\$27.00
Total Class A	53,630,016	900,475	21.42%	261,512	261,512	\$36.78
Class B						
Aurora	3,297,326	0	18.76%	-75,502	-75,502	\$19.75
Downtown	8,531,467	43,473	33.01%	-221,246	-221,246	\$38.50
Midtown	2,082,635	24,000	17.60%	-5,005	-5,005	\$27.77
Northeast	873,070	0	22.45%	5,977	5,977	\$27.05
Northwest	2,848,241	0	20.70%	96,155	96,155	\$24.20
Southeast	2,414,293	0	22.75%	-107,297	-107,297	\$25.07
Southeast Suburban	10,921,165	0	21.83%	122,974	122,974	\$23.50
Southwest	1,204,414	0	10.20%	14,210	14,210	\$20.42
West	6,043,077	0	19.16%	48,307	48,307	\$21.50
Total Class B	38,215,688	67,473	23.50%	-121,427	-121,427	\$25.50

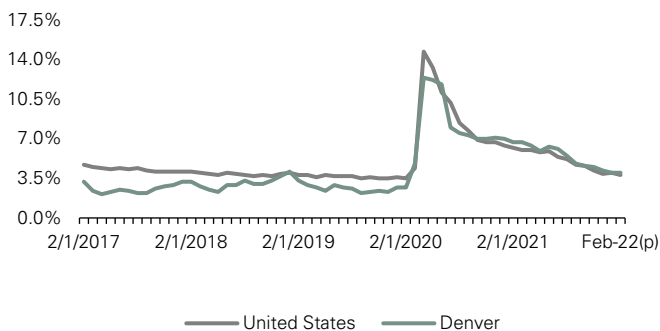
Economic Conditions

Denver has historically outperformed the national unemployment pre-pandemic. After spiking to 8.5% in December 2020, the unemployment rate has continued to decrease. It reached 4.0% in February 2022 based on preliminary numbers, the lowest rate recorded since March 2020. Although the unemployment rate isn't dropping as fast as other states, the labor force participation rate has exceeded pre-pandemic levels. In February, Colorado became one of just 11 states in the nation that have recovered over 100% of the jobs lost during the pandemic.

The leisure and hospitality sector continued to have the largest job growth based off preliminary numbers in February, with year-over-year growth at 23.9%. None of the 10 employment sectors posted job losses. The important office-occupying professional and business services sector is Denver's largest employment sector, accounting for 19.3% of total nonfarm employment.

Unemployment Rate

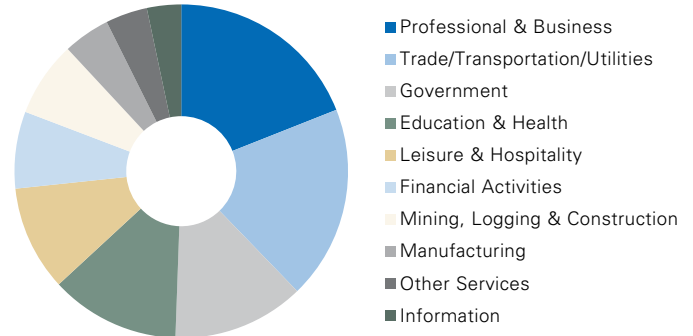
SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment by Industry

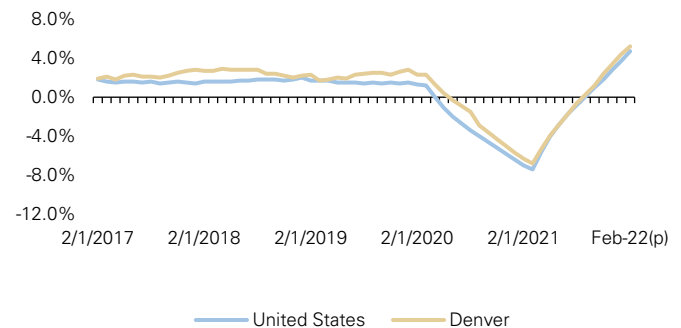
DENVER, February 2022



Source: US Bureau of Labor Statistics

Payroll Employment

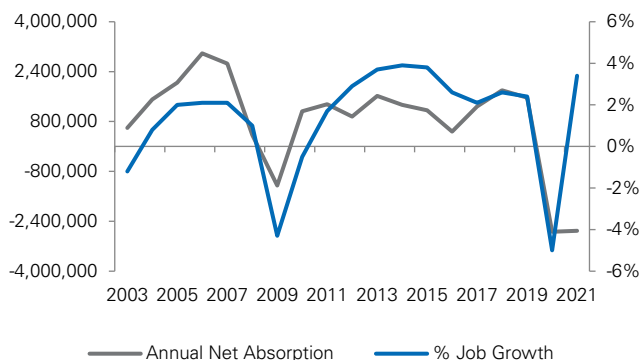
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth and Absorption

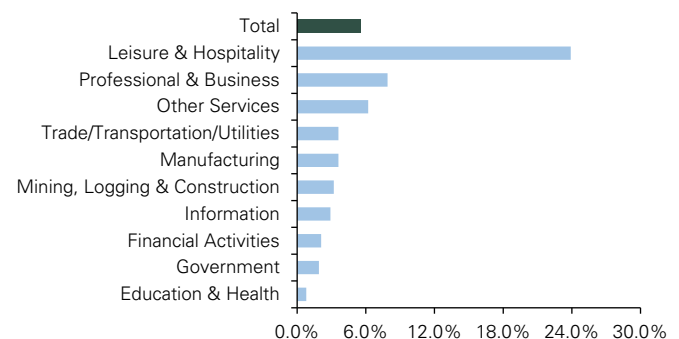
DENVER YOY EMPLOYMENT GROWTH AND OFFICE ANNUAL ABSORPTION



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

DENVER, FEBRUARY 2022 (P), 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

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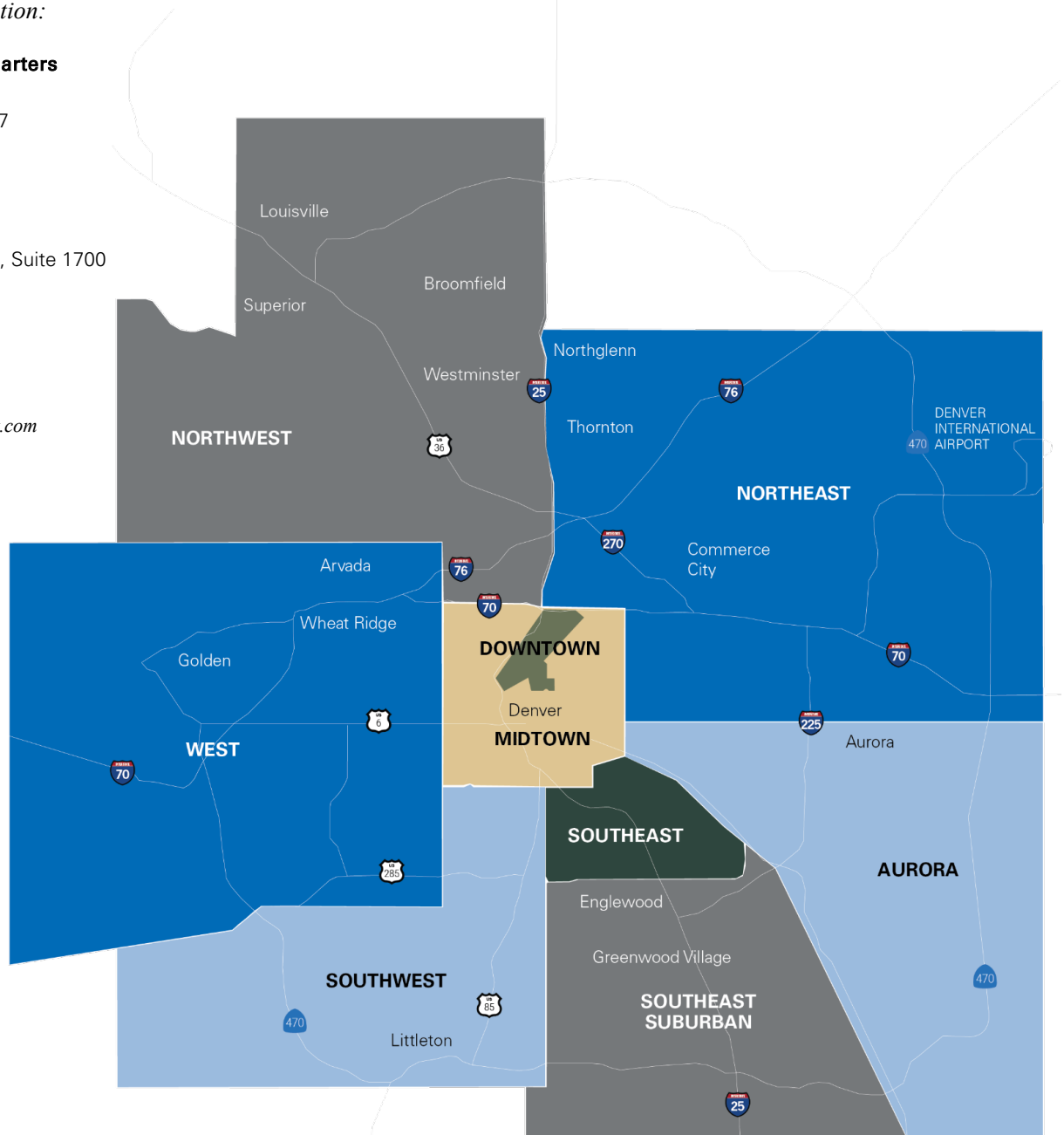
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