

1Q24

# Denver Office Market Overview



NEWMARK

# Market Observations

## Economy

- The region’s unemployment rose but is still historically low, keeping concerns about limited room for job growth and finding qualified workers in the forefront of regional business concerns.
- Colorado economists continue to forecast a soft landing for the state economy with positive but slowing job growth that is consistent with the projected lower rate of GDP growth this year.
- Several business surveys have shown a general positive outlook and business moving back into an expansion mindset for the first time after 16 months of contraction.

## Major Transactions

- Lockheed Martin vacated the 167,000 SF ParkRidge One in the Southeast Suburban submarket.
- The City & County of Denver occupied the remaining three floors it leased at Republic Plaza in Downtown for 74,000 SF.
- Wells Fargo vacated three floors for a total of 71,000 SF at the Wells Fargo Center in Downtown.

## Leasing Market Fundamentals

- Absorption in the first quarter of 2024 totaled negative 582,000 SF.
- One building completed in the first quarter, the 214,000 SF T3 RiNo building in the Downtown submarket. Xcel Energy has pre-leased the entire building but won’t occupy until summer 2025.
- Class A space continues to set record-breaking numbers each quarter pushing up the overall median asking rate, despite vacancy and availability also increasing.

## Outlook

- After two years of negative sentiment about the future of the economy among Colorado business leaders surveyed by the University of Colorado Leeds School of Business, confidence jumped into positive territory due to the improved outlook of general economic conditions and interest rates.
- As confidence in the future grows, more tenants will start making long-term decisions and the preference for short-term leases will fade in favor of asking for cheaper rates or other concessions.
- The continuing prolonged wait time for construction permit approvals will keep spec suites in high demand as tenants will not want to wait over a year for TI’s to complete.

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1. Economy
  2. Leasing Market Fundamentals

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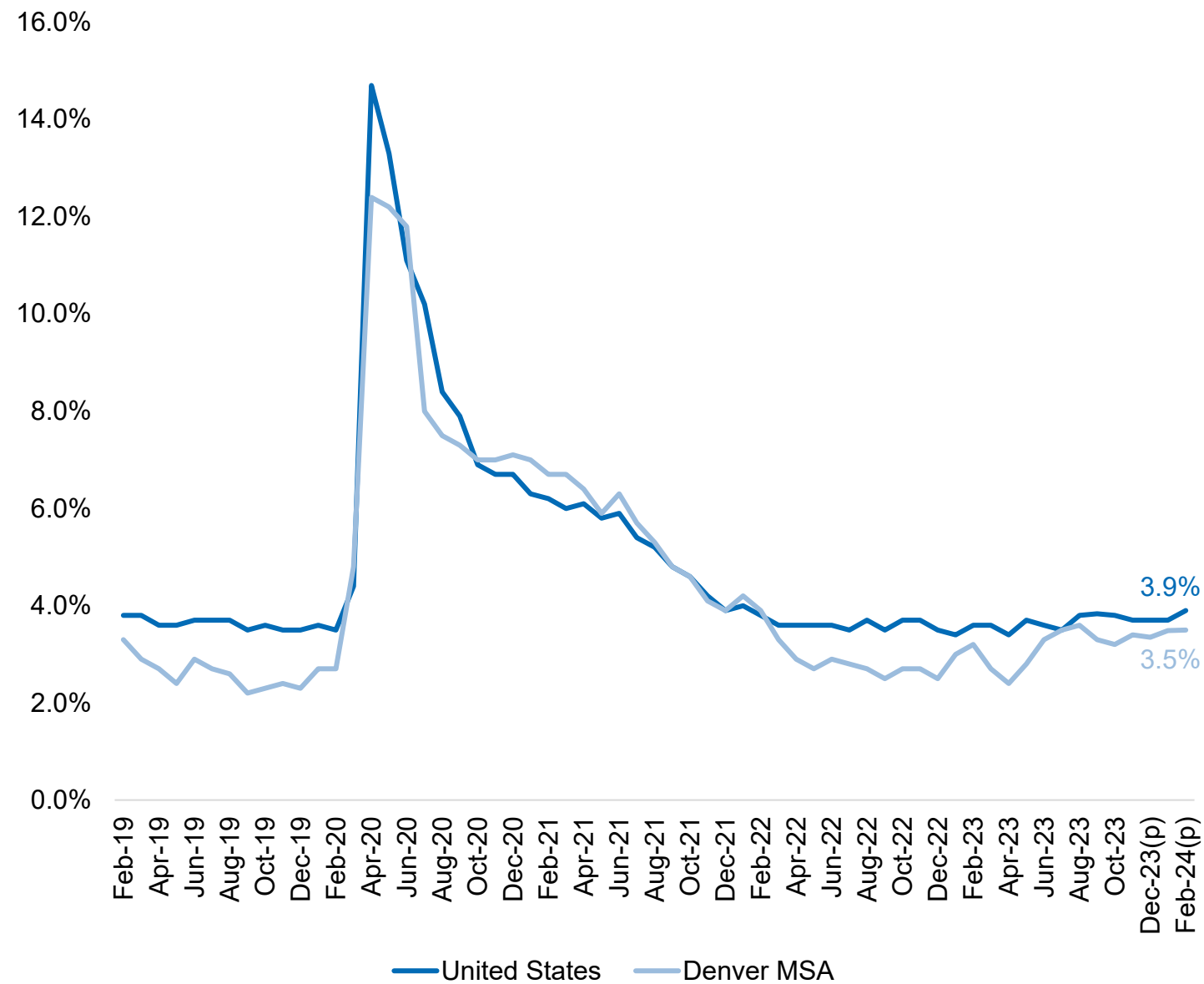
# Economy



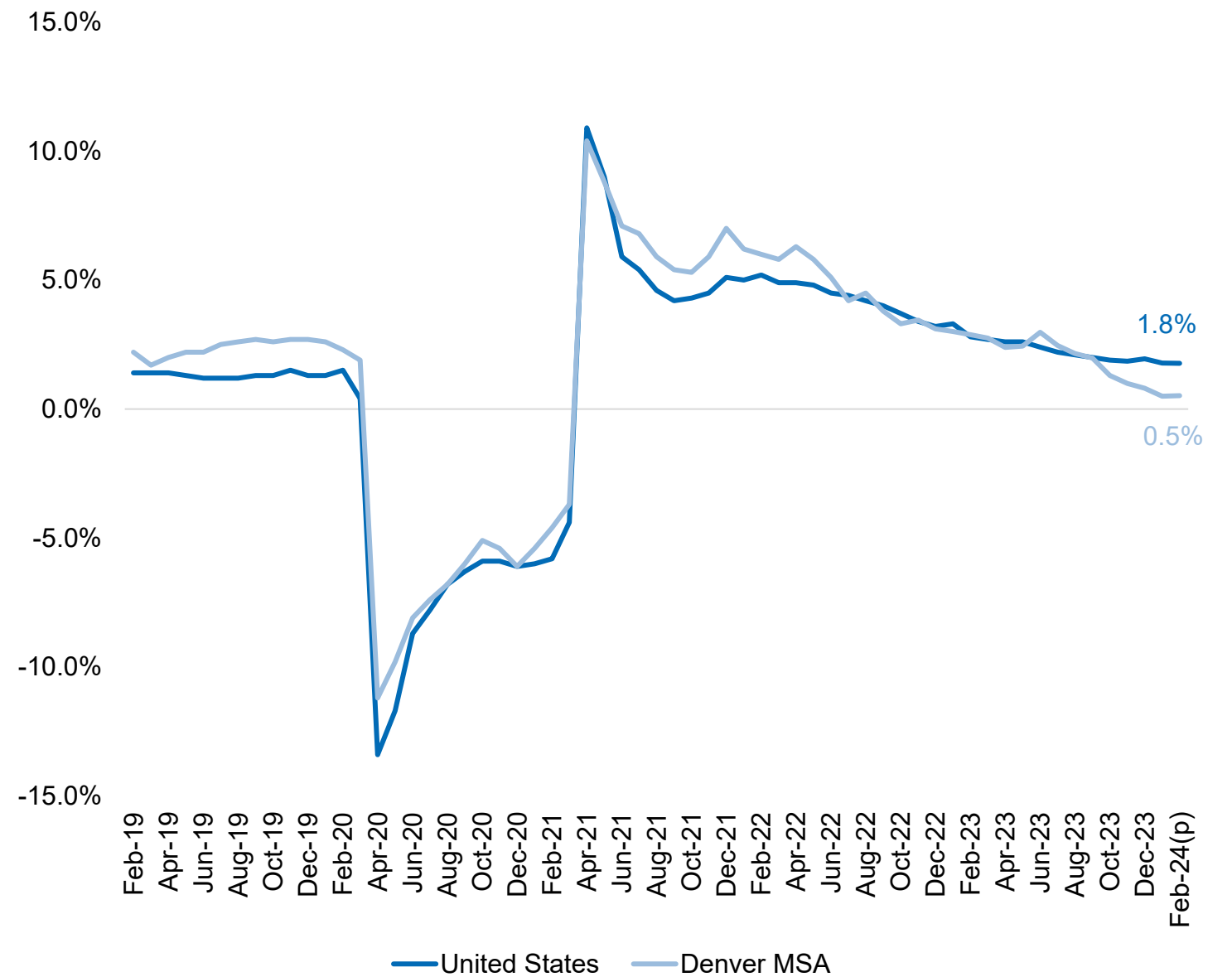
# Unemployment Relatively Stable but Job Growth Continues to Slow

The unemployment rate in Denver reached 3.5% in February, unchanged from the previous month but up year-over-year from 3.0%; it has remained below the national rate since the beginning of 2022. Job growth slowed but remained positive, following expectations for a slowing but healthy economy in 2024.

Unemployment Rate, Non-Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

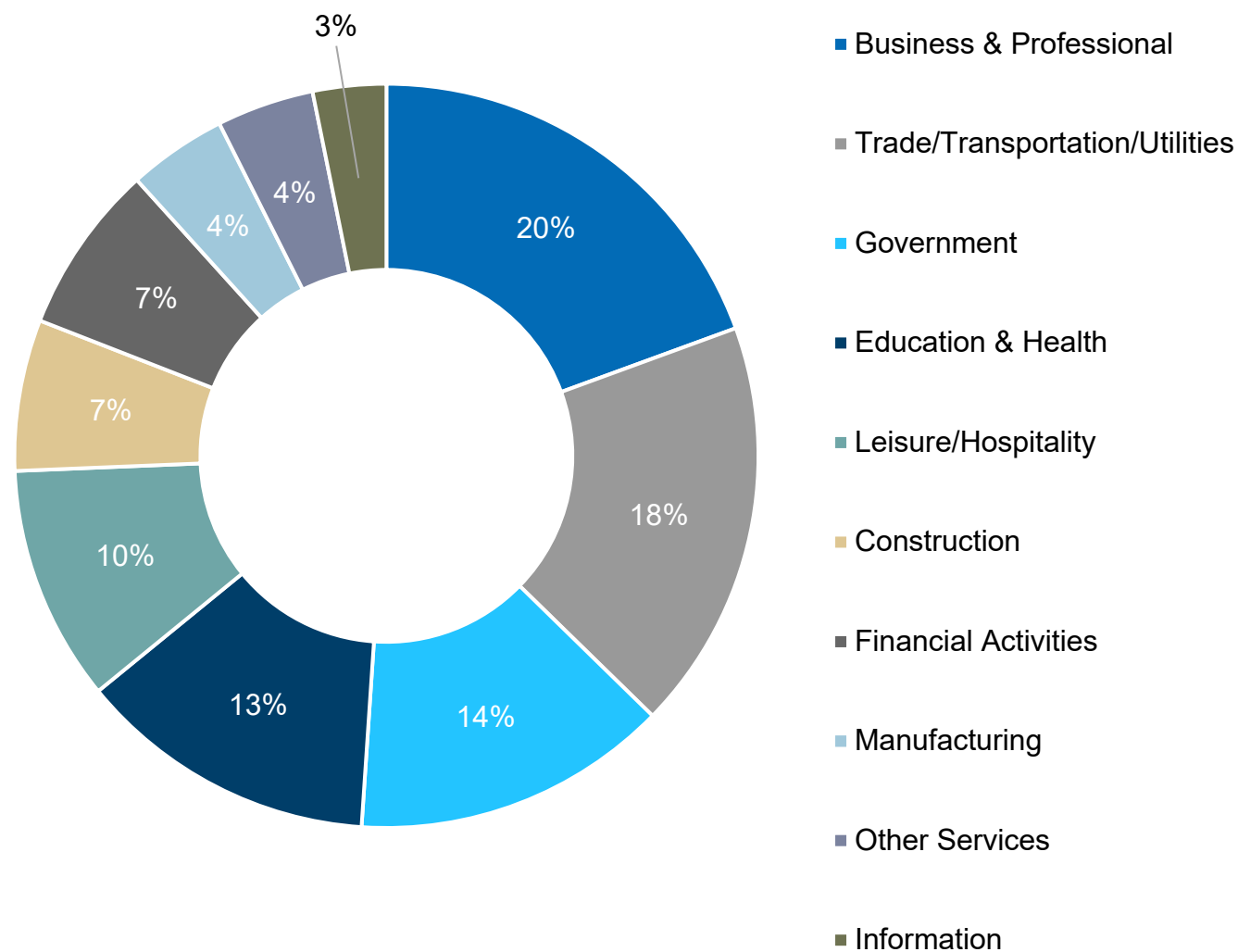


Source: U.S. Bureau of Labor Statistics, Denver MSA

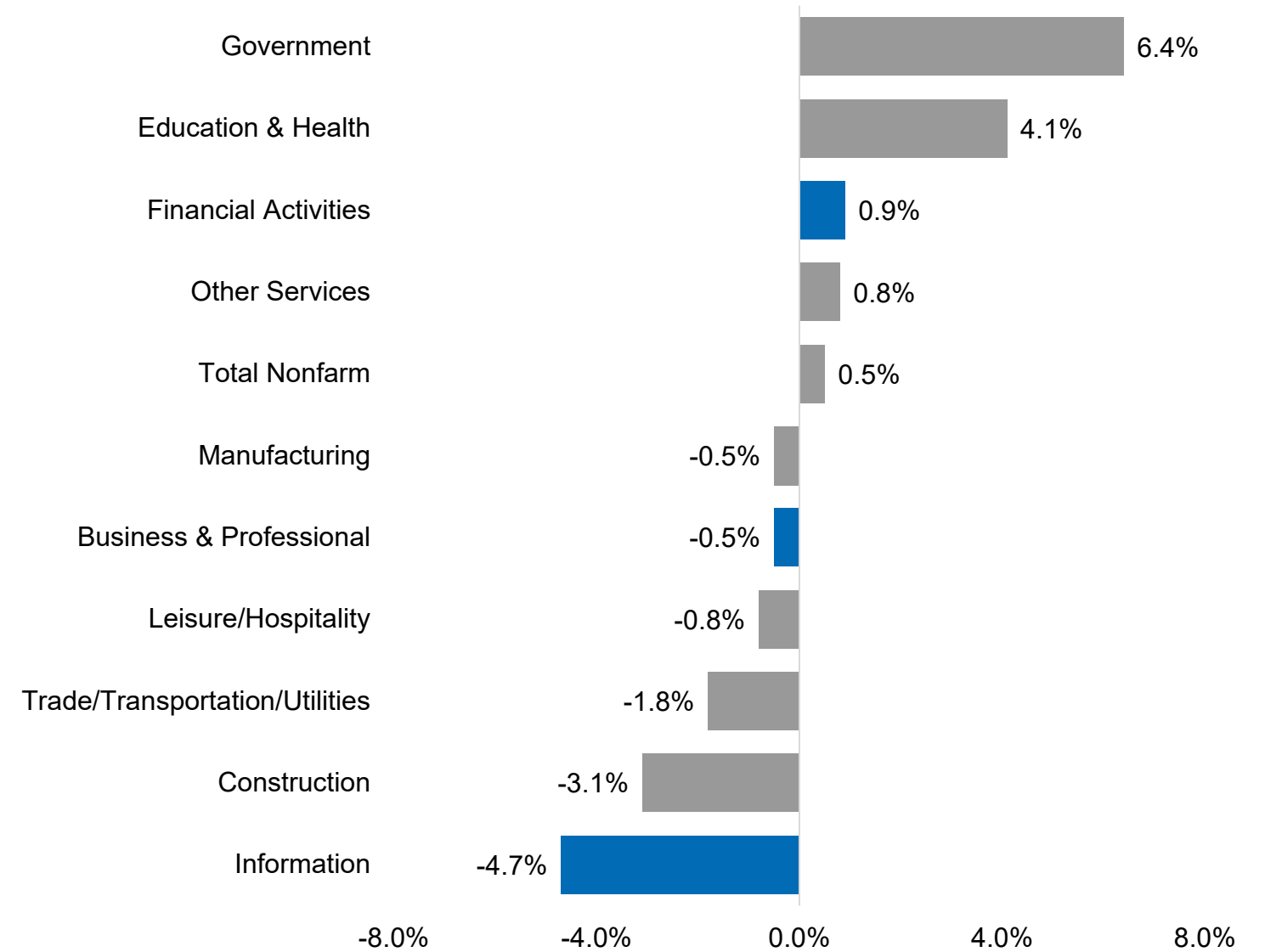
# One Office-Occupying Sector Rebounds While Another Continues to Struggle

Half of the ten sectors posted growth while two of the three office-occupying sectors contracted. The financial activities sector turned a corner after struggling under prolonged high interest rates, but information companies, which posted the highest job losses, continued to shrink their employee count.

Employment by Industry, February 2024(p)



Employment Growth by Industry, 12-Month % Change, February 2024(p)

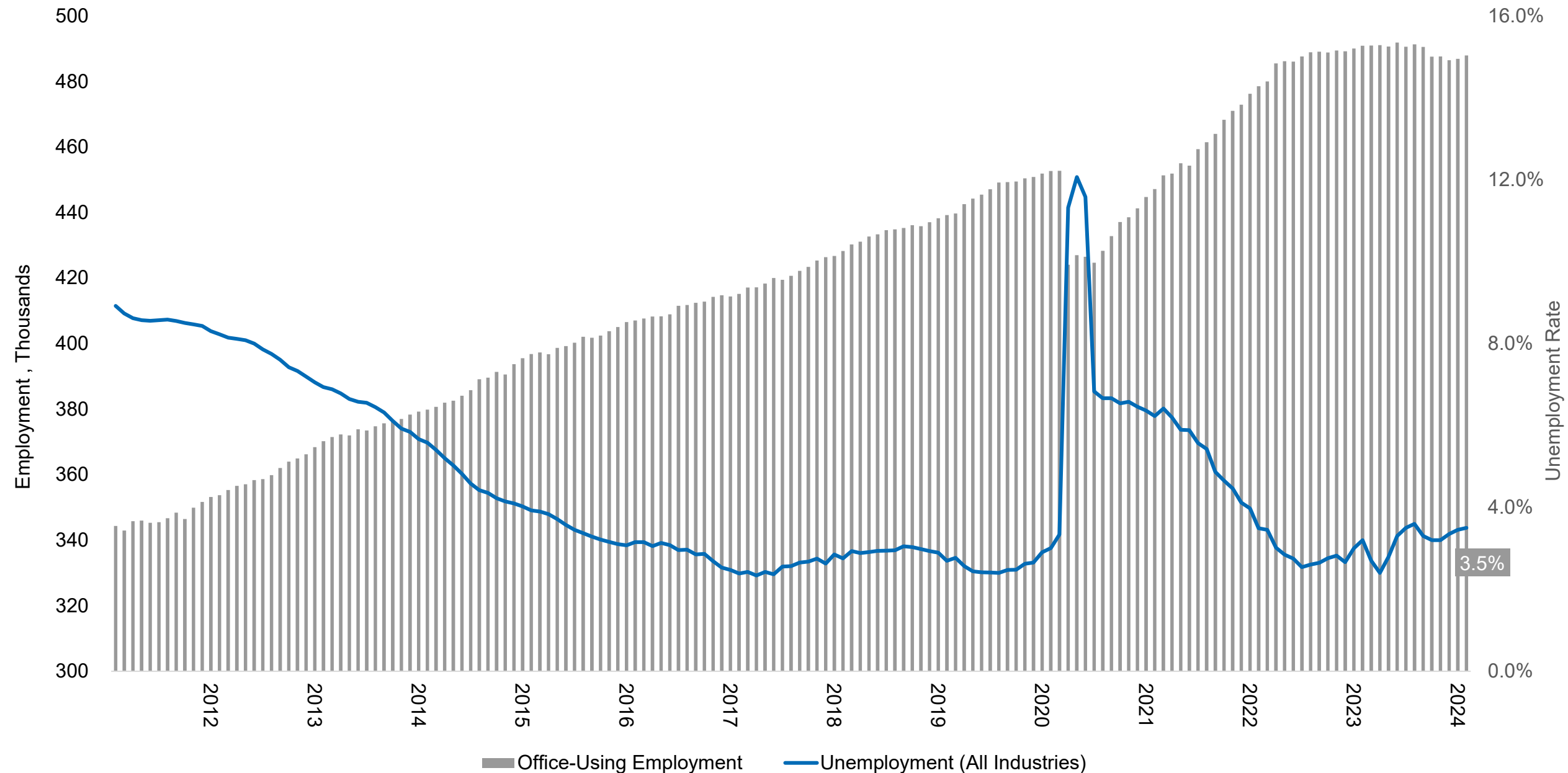


Source: U.S. Bureau of Labor Statistics, Denver MSA

# Office-Using Employment Plateaus Above Pre-Pandemic Levels

Despite slowing job growth, office-using employment has not only recovered from the pandemic but has grown by nearly 8%.

## Office-Using Employment\* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Denver MSA

Note: February 2024 data is preliminary.

\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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# Leasing Market Fundamentals

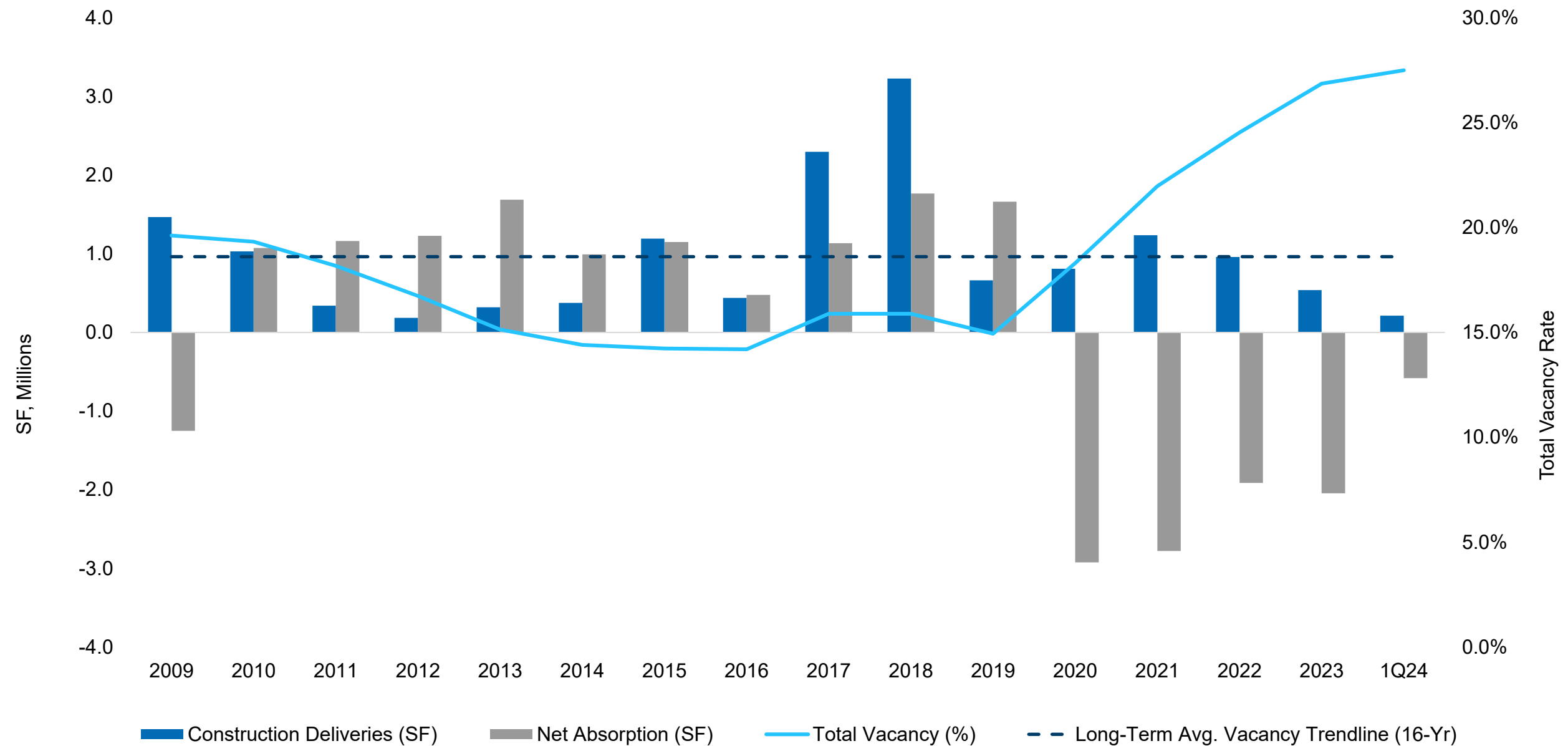




# Familiar Patterns Persist into the New Year

Tenants continue to downsize with only a limited number of new leases and expansions to offset the larger trend. Absorption was similar to the previous quarter and the first quarter of the previous year, pushing the vacancy rate higher to 27.5% in the first quarter of 2024, up year-over-year from 25.0%.

## Historical Construction Deliveries, Net Absorption, and Vacancy

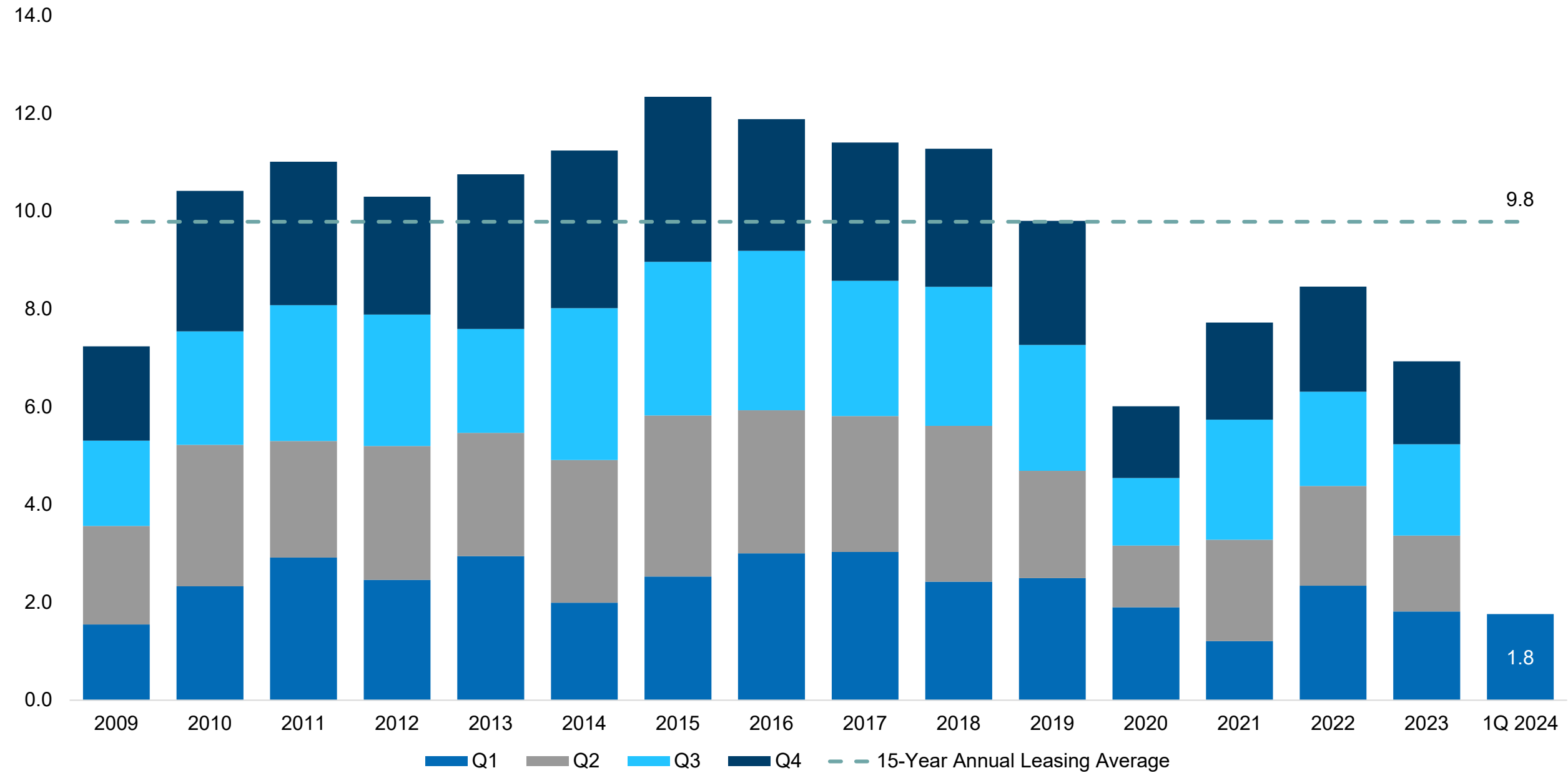


Source: Newmark Research

# Leasing Activity Comparable YoY

Despite decreased activity at the end of 2023, the first quarter of 2024 saw an increase to levels seen in the first quarter of 2023.

## Total Leasing Activity (msf)

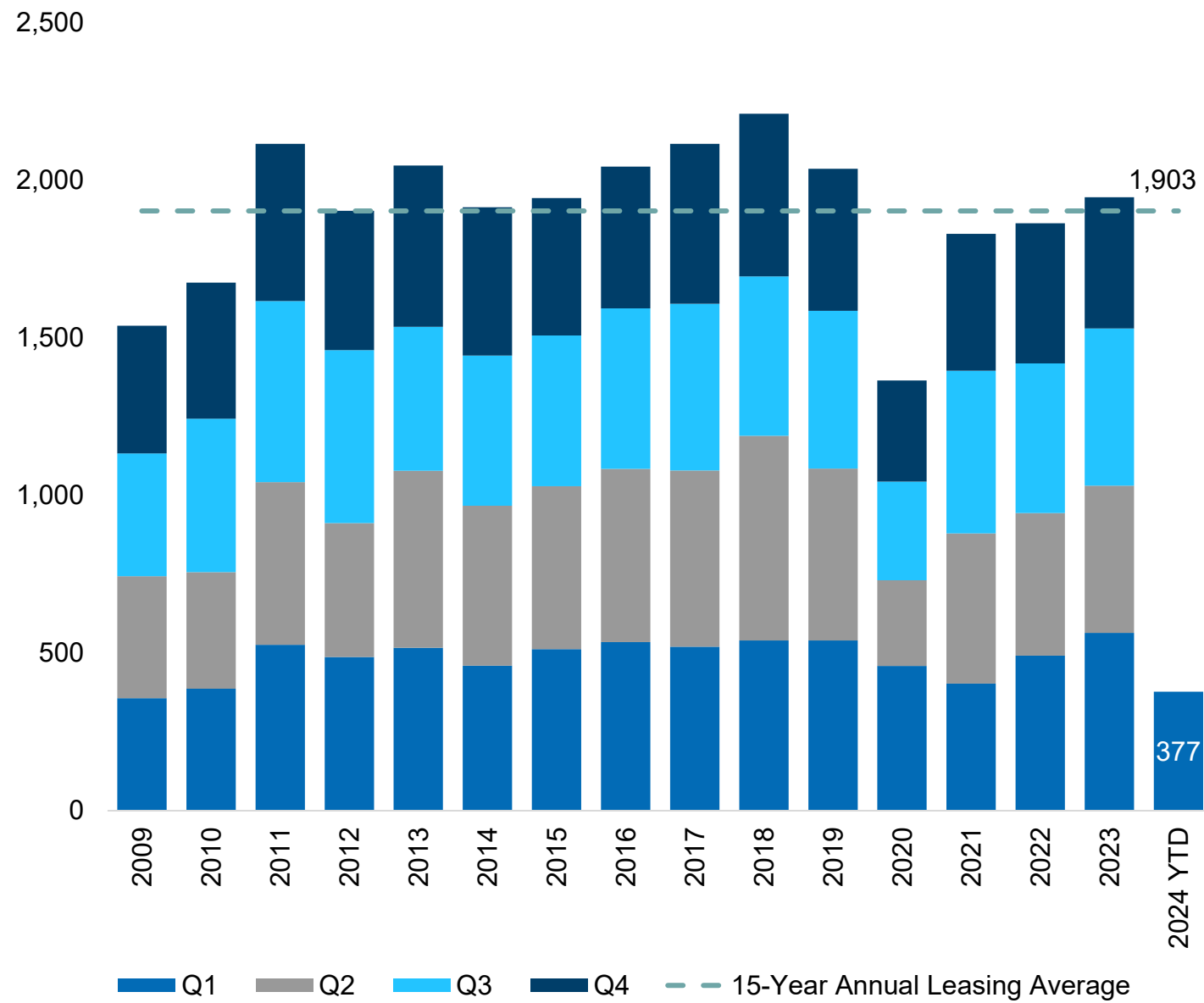


Source: Newmark Research, CoStar

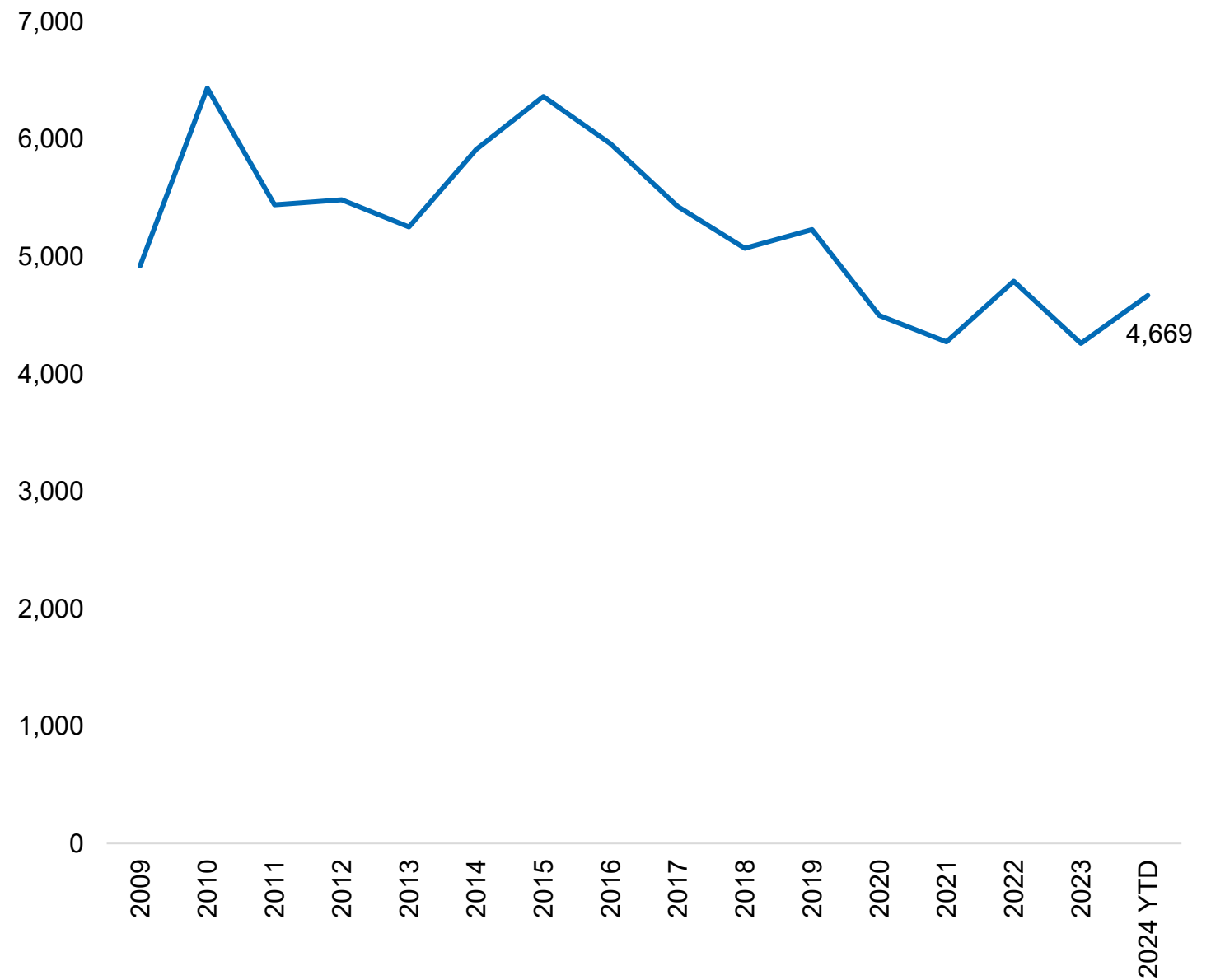
# Lease Size Increases but Fewer Are Being Signed

While the average lease size signed in the first quarter was an increase from the previous year, the total number of leases signed in the first quarter of 2024 was down 33.2% year-over-year.

Number of Leases Signed



Average Lease Size (sf)



Source: Newmark Research, CoStar

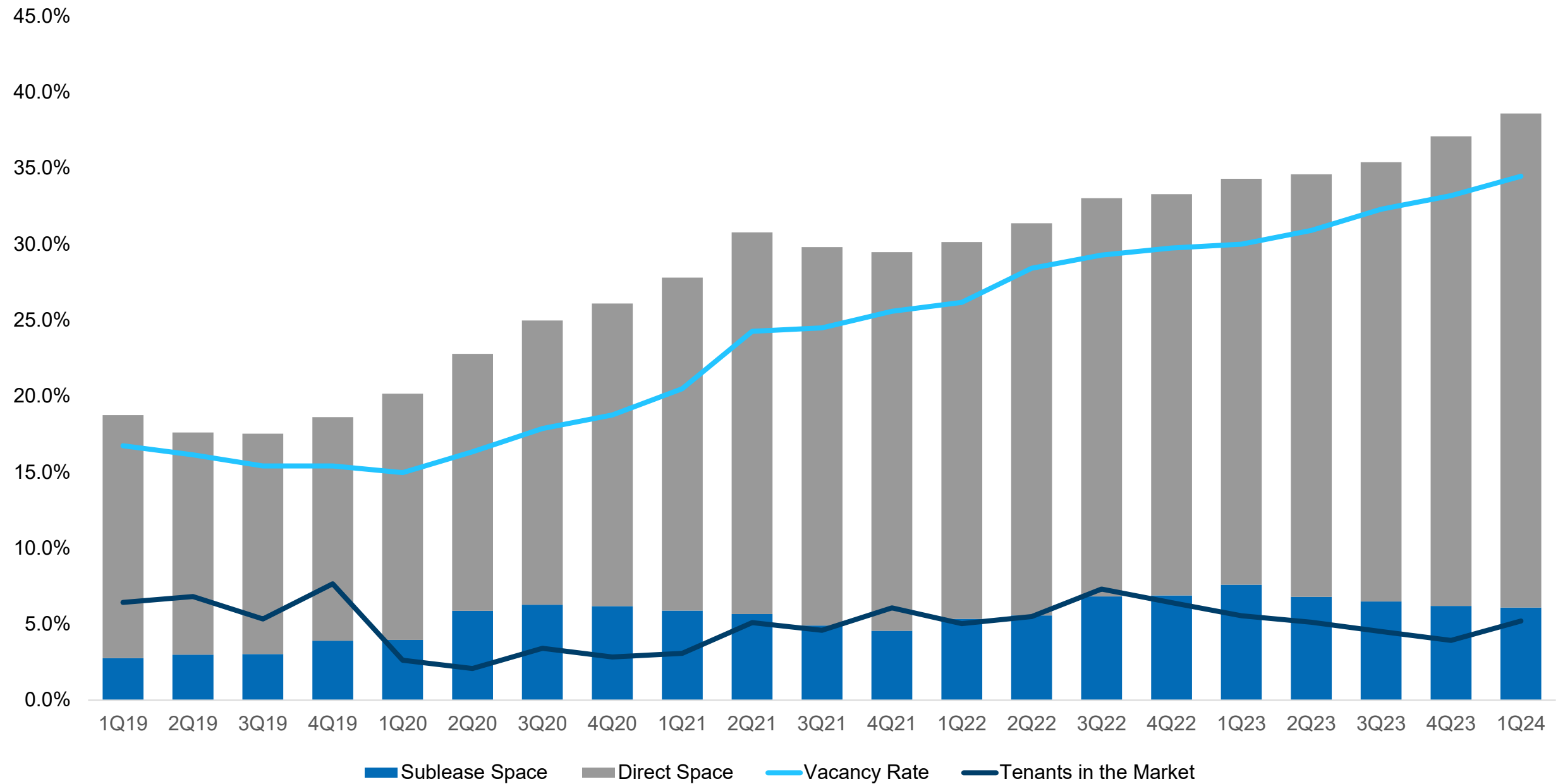


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# Downtown Availability and Vacancy Still Climbing

Available sublease space has slowly been decreasing as term on the original lease expires and the space converts to direct availability with limited new sublease spaces being put on the market. The number of tenants in the market increased but remain cautious and slow moving as the large amount of available space creates little impetus to drive decision making.

Available Space and Tenant Demand as Percent of Downtown Market



Source: Newmark Research, CoStar

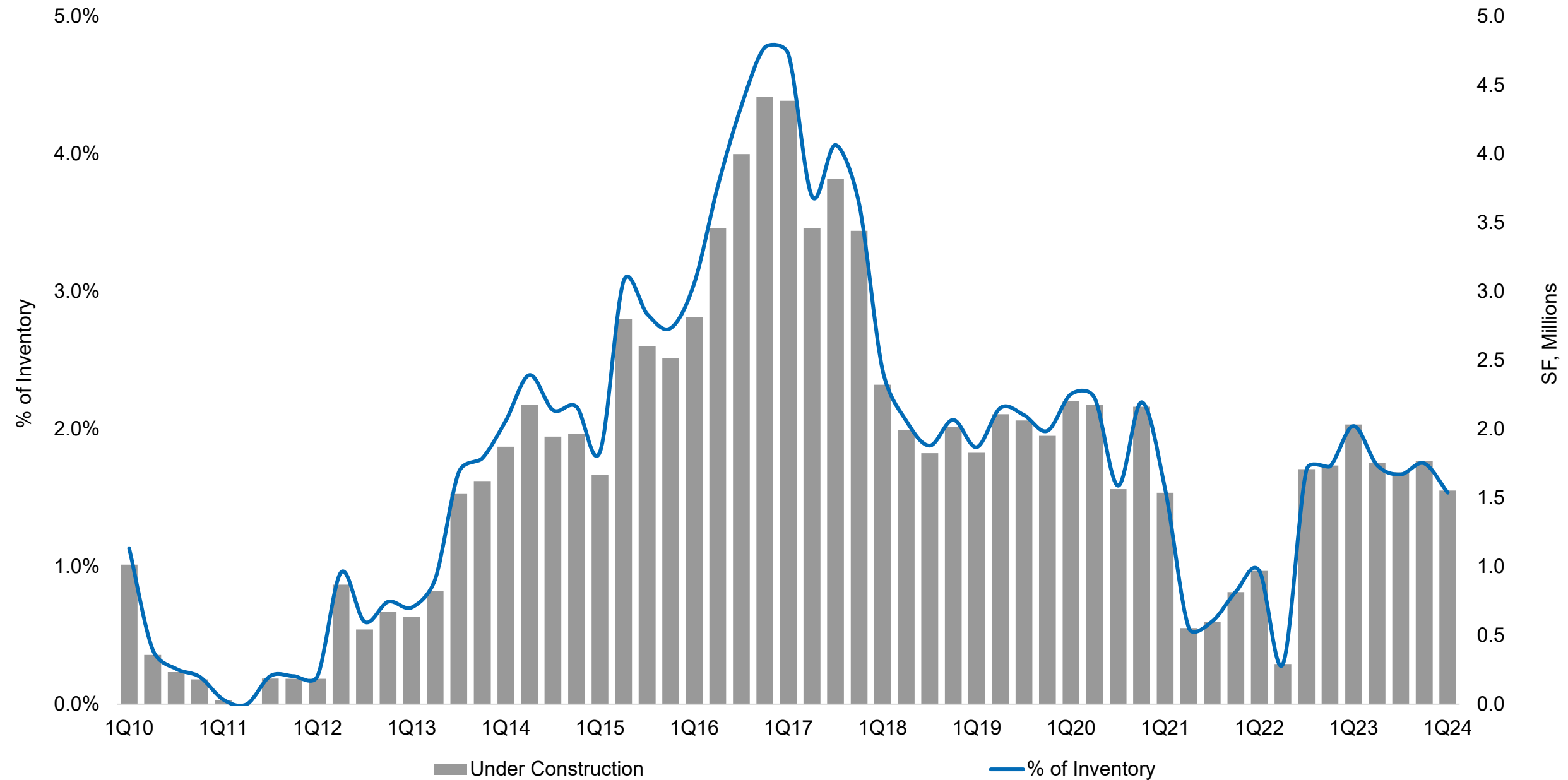


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# No New Ground-Breakings

The construction pipeline remains constrained as financing is impossible without a tenant willing to commit to pre-leasing more than half of the project before construction begins. The high-demand Cherry Creek neighborhood with low vacancy is currently the only location that can reliably attract such demand.

## Office Under Construction and % of Inventory

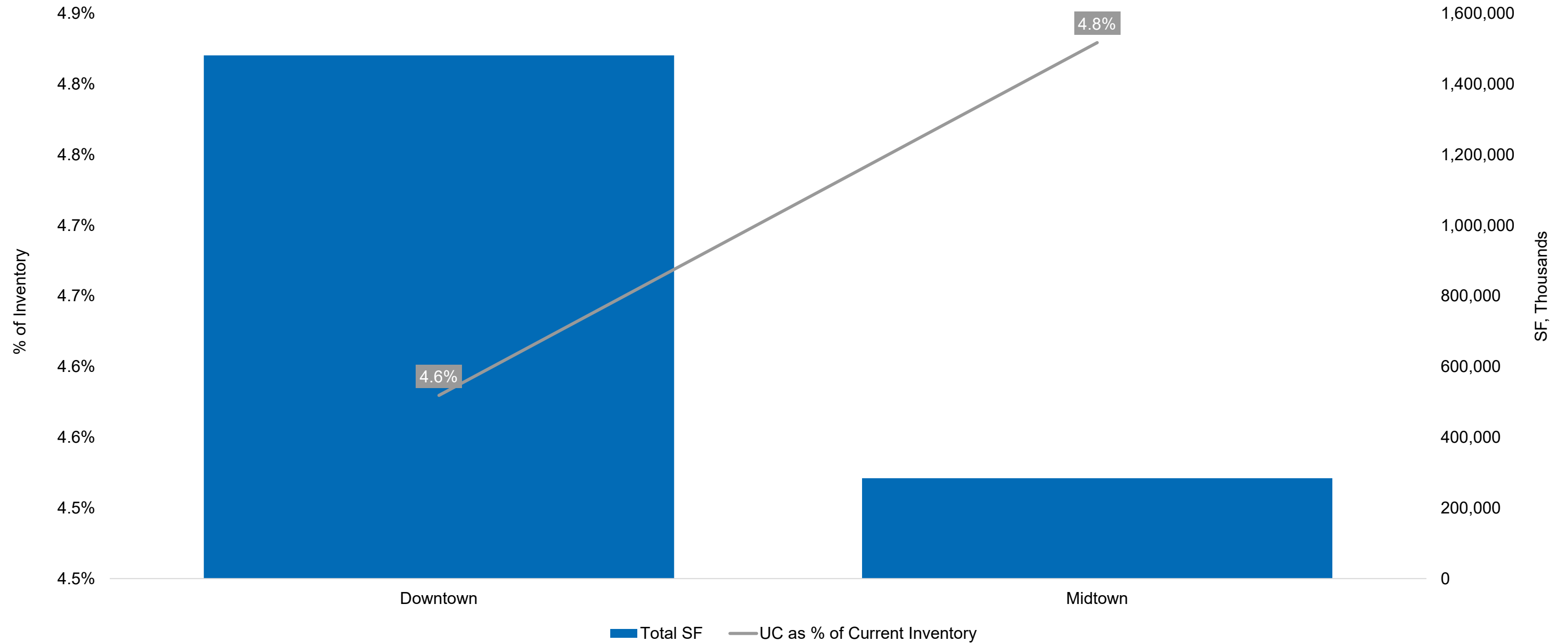


Source: Newmark Research, CoStar

# Downtown Has More Under Construction but Midtown Largely Monopolizes Demand

All of the projects currently under construction are contained in two micromarkets: the LoDo/CPV micromarket Downtown and the Cherry Creek neighborhood in Midtown. Interest in Downtown speculative development has begun to wane, and Midtown is expected to be the only submarket with projects under construction by the end of the year.

## Office Under Construction and % of Inventory



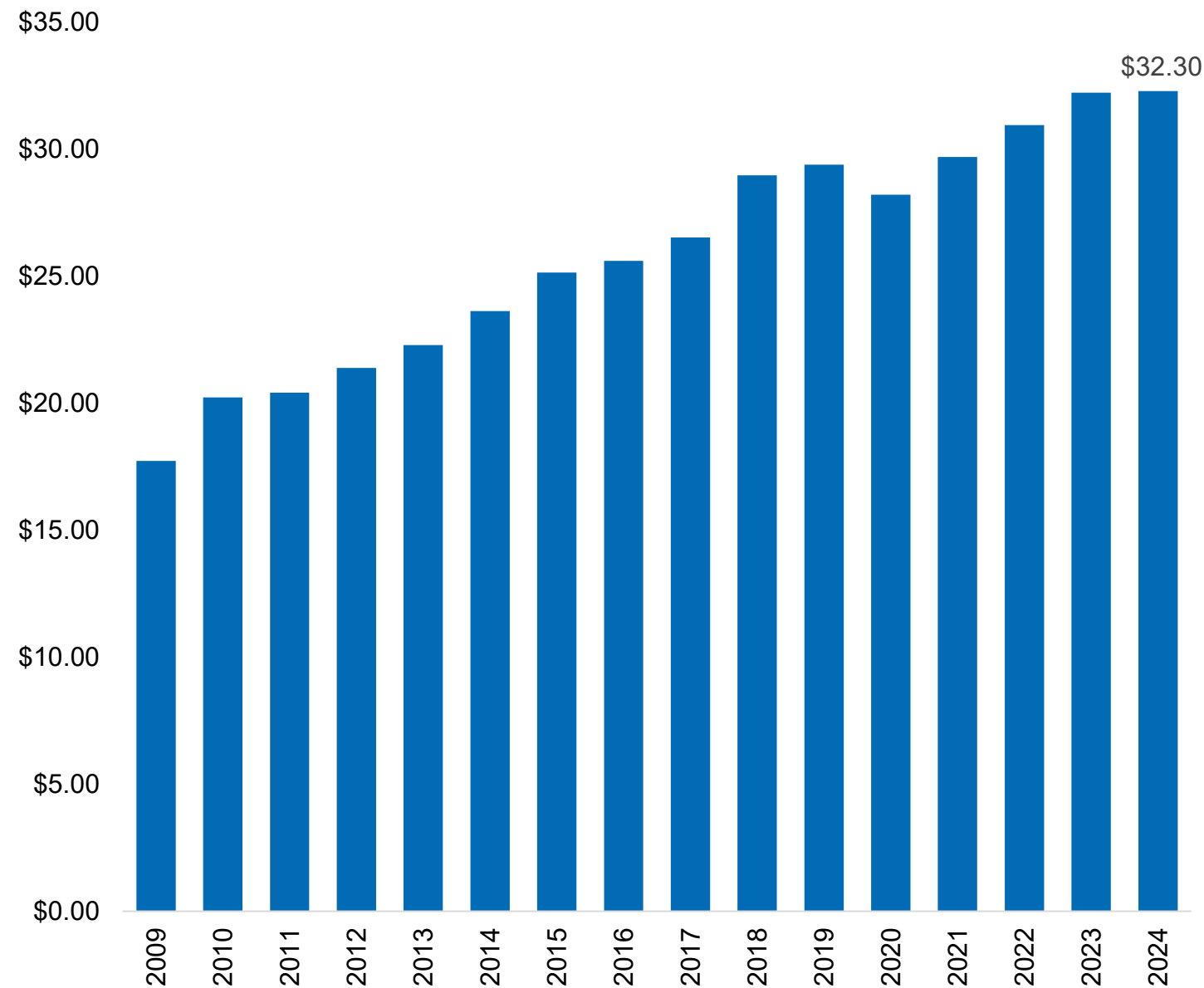
Source: Newmark Research



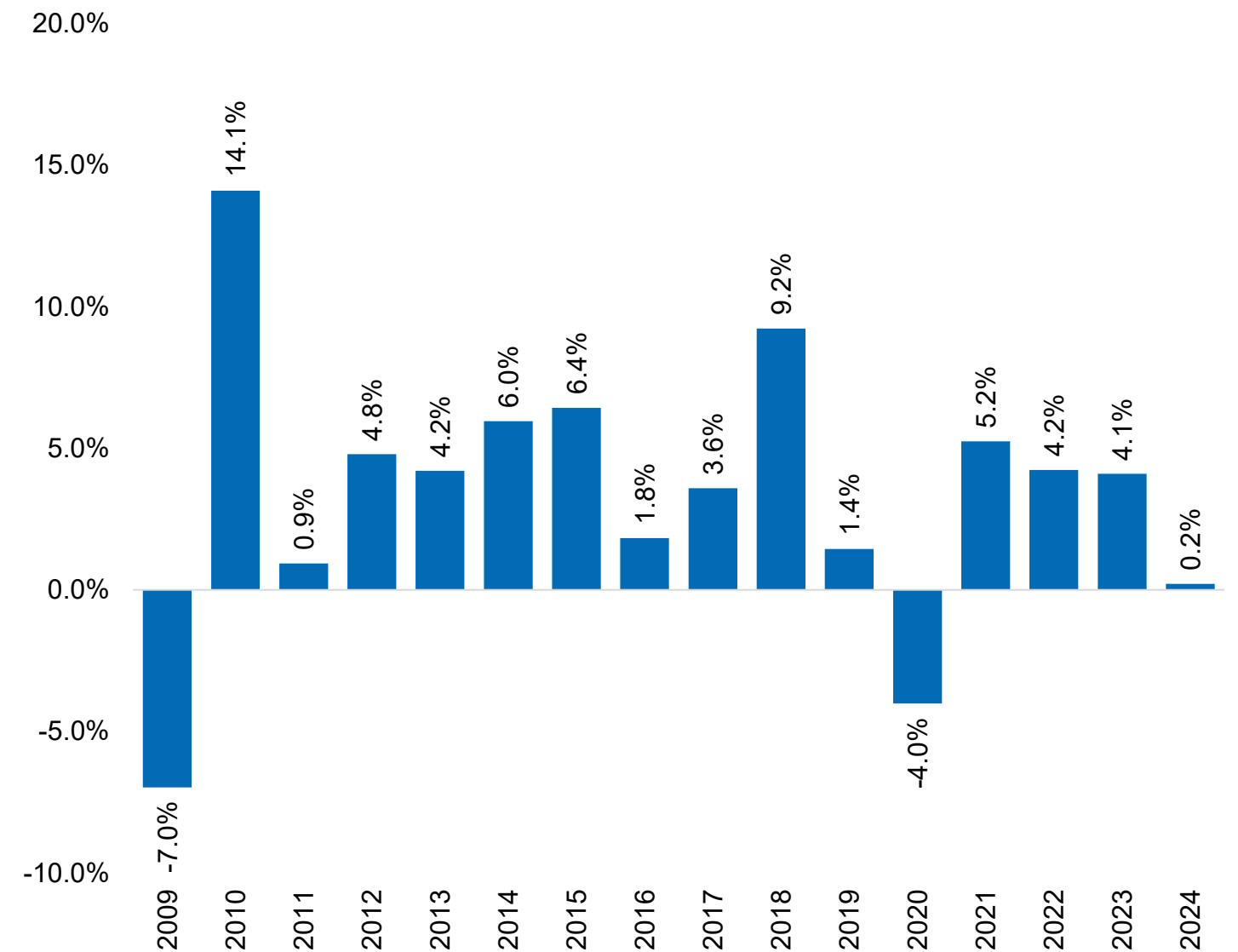
# Highest Quality Product in Uniquely Desirable Locations Nudge Rents Up

Rates remained largely unchanged in the first quarter of 2024 from the previous quarter, with only select Class A buildings still pushing rents. The majority of landlords continue to offer other concessions rather than drop asking rates.

Office Median Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

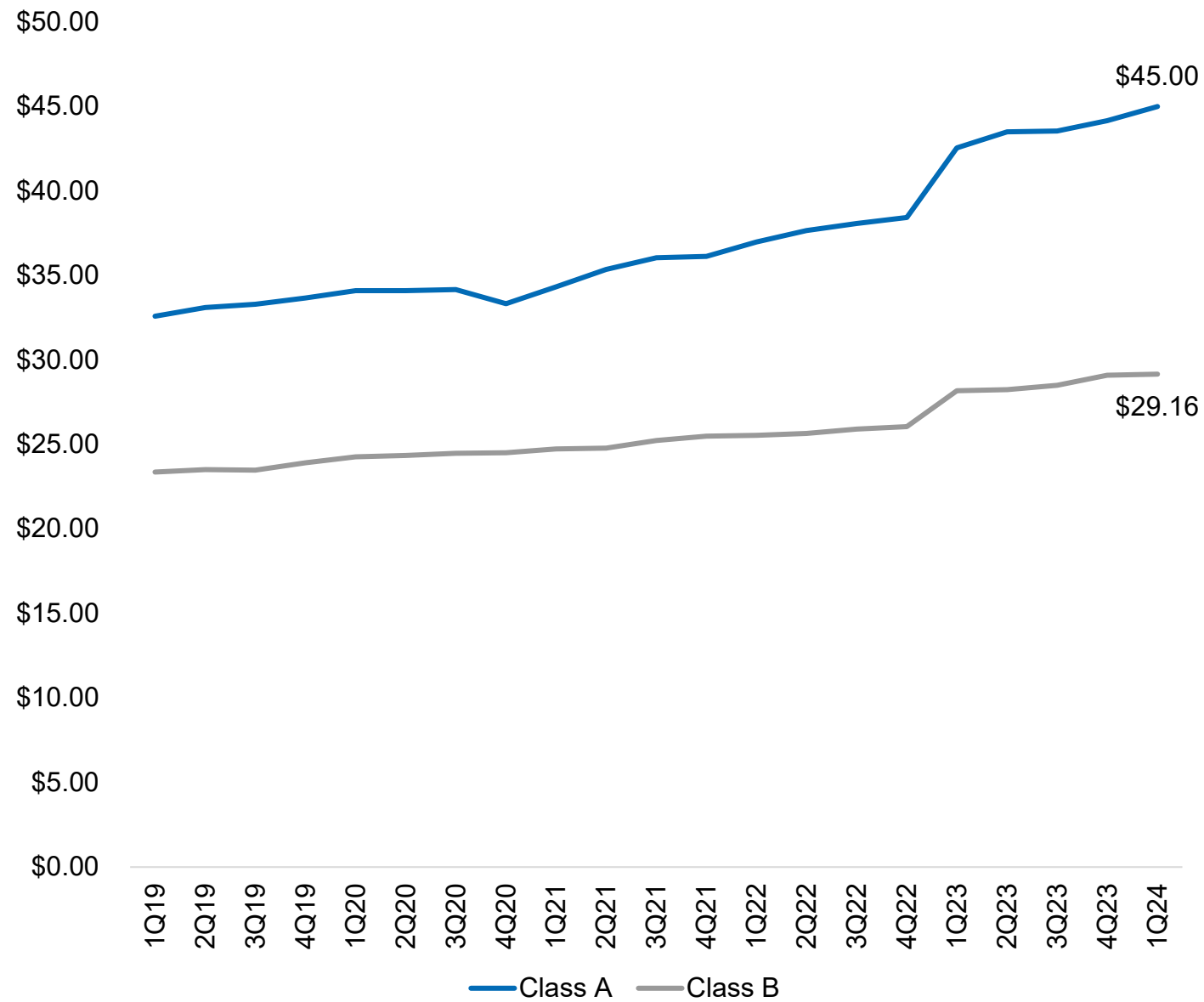


Source: Newmark Research

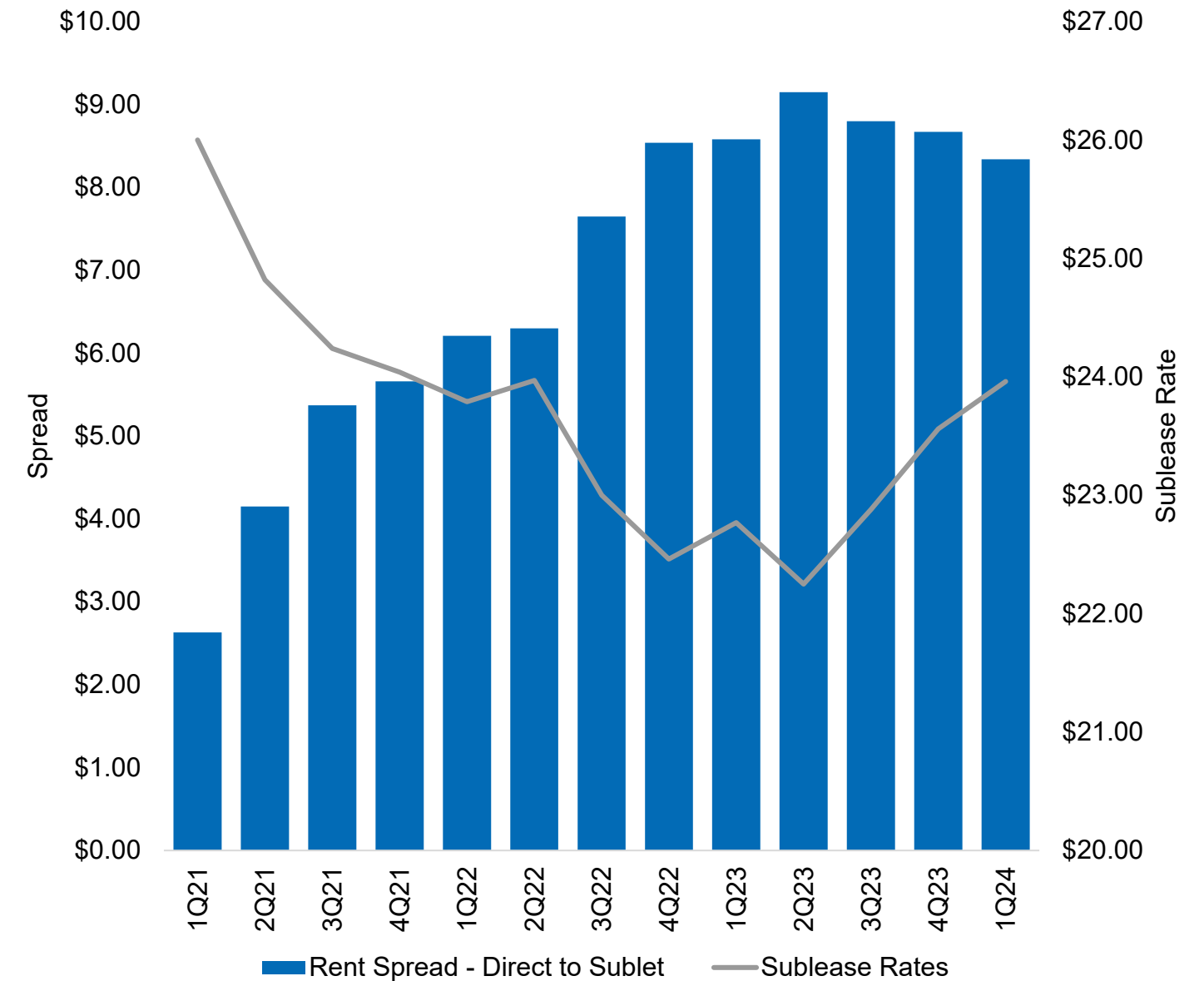
# Only Class A Rates Increase While Spread Between Direct and Sublease Shrinks

Without dramatic changes in taxes and operating expenses, rates remained largely stable across all but the most in-demand and expensive product. In contrast, sublease rates have seen steady increases over the past four quarters.

Class A and Class B Median Asking Rents



Sublease Rates



Source: Newmark Research, CoStar



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# Companies Continue to Kick the Can with Renewals and Extensions

Many of the largest leases signed in the first quarter consisted of tenants extending the available time to search for a new location or just deciding to remain at their current location, rather than deal with the economics and prolonged buildout time a new location may require. Landlords are also eager to keep current tenants rather than face the still anemic pool of potential new tenants.

## Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Janus Henderson Investors	151 Detroit Street	Midtown	Lease Renewal	162,540
<i>Janus Henderson renewed its lease for the entire building in Cherry Creek; it originally pre-leased the building while it was still under construction in 2001.</i>				
First Western Financial	1900 16th Street	Downtown	Lease Renewal	50,468
<i>The renewal was for the 5th and 12th floors.</i>				
Coresite	1001 17th Street	Downtown	Lease Renewal	49,500
<i>Coresite originally occupied the 5th-6th floors in November 2013.</i>				
ADP	7979 East Tufts Avenue	Southeast Suburban	Sublease New	42,823
<i>The original tenant, Western Union, has two additional floors available for sublease.</i>				
Invenergy	1001 17th Street	Downtown	Direct New	35,088
<i>Invenergy expanded by nearly 25,000 SF and moved from 1401 17th Street.</i>				

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# Appendix



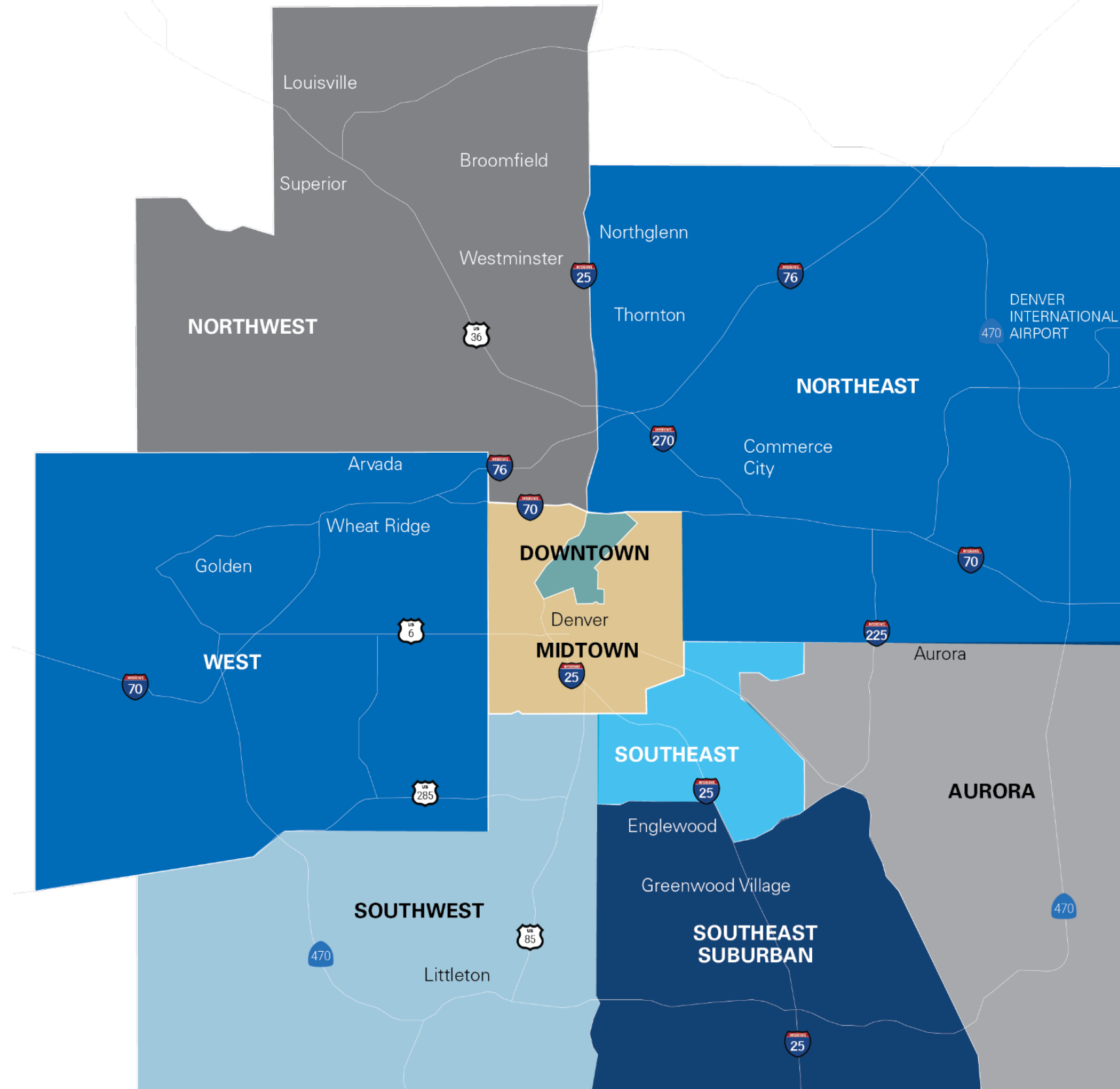


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# Denver - Submarket Map





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