



Denver Office Market

Measured Recovery and Reopening

Denver continued to recover and reopen from the unprecedented 10-month disruption caused by the pandemic. Deal velocity steadily increased in the second quarter across all submarkets and industry types, although still below pre-pandemic levels, as the vaccine rollout continued in earnest and companies continued to bring back employees and reopen offices. Many tenants that used the first quarter of 2021 to assess their needs for office space also reentered the market. Although there were multiple large tenants actively searching the market for space, 20,000 square feet or smaller available spaces saw the most activity.

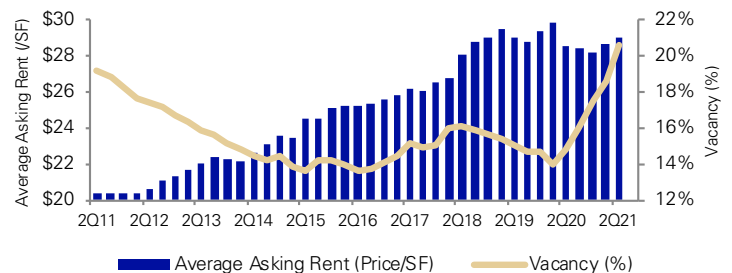
The market continued to suffer from the lack of deals signed in the previous three quarters, with few new move-ins to offset new vacancies. Quarterly net absorption was -1.1 million square feet, bringing year to date (YTD) to -2.2 million square feet. Vacancy rose to 20.6%, up from 18.6% in the prior quarter and up 660 basis points from 14.0% one year ago. Like the prior two quarters, all three classes experienced contraction, with Class A posting the largest loss of occupancy with quarterly absorption of -593,357 square feet and annual absorption of -1.2 million square feet.

Current Conditions

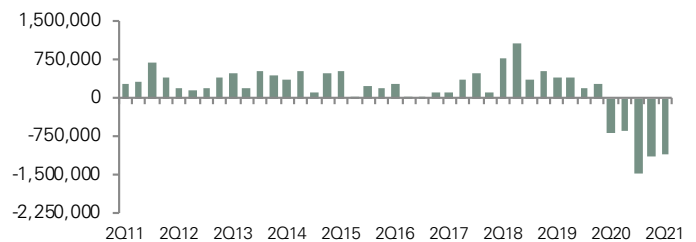
- Quarterly net absorption of -1.1 million SF
- Vacancy rate of 20.6%
- The loss of occupancy was spread across all sectors
- There is 4.1 MSF of available sublease space in the Denver market with 2.6 MSF of it vacant. However, the rate of sublease space coming onto the market has slowed significantly and is likely to not see any large increases in the immediate future.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	100.5 MSF	99.5 MSF	98.9 MSF	↑
Vacancy Rate	20.59%	18.63%	14.86%	↓
Quarterly Net Absorption (SF)	-1.1 MSF	-1.2 MSF	-666,911	↑
Median Asking Rent/SF	\$28.97	\$28.63	\$28.53	↑
Under Construction (SF)	552,672 SF	1.5 MSF	2.2 MSF	↓
Deliveries	1.1 MSF	0	205,783	↓

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Submarket Activity

Only one of Denver's nine submarkets, the Northeast, posted positive net absorption for second-quarter 2021, with 13,549 square feet, and boasts the only positive YTD absorption of 56,466 square feet. Landlords who are getting aggressive with deals continue to offer concessions in TI's and free rent but most are holding firm on rates. Class A space especially maintains a high demand; some landlords in select areas, like Cherry Creek, are even tentatively trying to push rates again. Negotiating power remains on the tenant side, with many asking for multiple concessions from landlords for tenant improvements, free rent and maximum flexibility, such as shorter terms or the right to terminate. These are not new requests but are being requested and granted more often than in pre-pandemic negotiations.

Delayed Buildings Deliver, Pipeline Remains Low

After no new projects completed in first-quarter 2021, five delivered in the second quarter, all but one in the Downtown submarket: Block 162 (595,000 square feet); the Link (the renovation/conversion to multi-tenant of a 229,287-square-foot former CenturyLink building); McGregor Square (190,000 square feet); Market Station (the 111,000-square-foot office portion of the mixed-use redevelopment of the former RTD bus hub); and Boulevard One (a mixed use project with 70,000 square feet of office space). The construction pipeline continues to be heavily affected; only three projects, totaling 552,000 square feet, are

currently under construction or renovation. An average of 1.5 million square feet delivered per year over the past five years, but only one 250,000-square-foot building is due to deliver in 2022 and one 240,000-square-foot building in 2023. There are currently no buildings under construction in the SES submarket that are not owner/user projects.

Looking Forward

Denver's office sector deal flow remains below normal levels but will begin to return to pre-pandemic levels in the fall as schools reopen and companies will largely return to the office. Few companies are discussing radically downsizing and are optimistic about future growth. Larger deals for new space that began at the beginning of the year have had time to progress through the leasing process, and many will occupy in the third quarter. Sublease space appears to have reached a relative plateau as the rate of new sublease space has slowed. More space may trickle onto the market as companies continue to evaluate space while planning to reoccupy, but it appears unlikely that many more large new blocks of space will enter the market due to the pandemic. Vacancy will begin to level out in the second half of 2021 due to the new move-ins while the level of new vacancies equilibrate to a pre-pandemic level. Continued job and population growth are forecasted through the year, and the anticipated strong pent-up demand, combined with a restrained development pipeline, will likely turn the corner on vacancy late in 2021 or early 2022.

Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Zynex	9655 Maroon Circle	SES	Sublease	110,754
DCP Midstream	6900 Layton Avenue	SES	Sublease	72,300
Contentful	1800 California Street	Downtown	Sublease	67,039
Nextworld	8200 East Maplewood Avenue	SES	New	52,355
JP Morgan Chase	1601 Market Street	Downtown	Expansion	31,400

Select Sale Transactions

Building	Market	Sale Price	Price/SF	Square Feet
Mountain View Corporate Center Portfolio	Northwest	\$97,250,000	\$211	461,438
385 Interlocken Crescent	Northwest	\$95,000,000	\$320	297,262
Alturas DTC Portfolio	SES	\$75,100,000	\$158	476,232
1615 Platte Street	Downtown	\$60,000,000	\$531	112,979
116 Inverness Drive East	SES	\$24,500,000	\$113	217,000

RESEARCH Q2 2021

Submarket Statistics						
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	2Q Absorption (SF)	YTD Absorption (SF)	Direct FSG Asking Rent (Price/SF)
Overall (Classes A, B & C)						
Aurora	4,492,438	0	16.96%	-19,702	-25,897	\$18.25
Downtown	31,801,548	488,630	24.19%	-379,325	-827,252	\$41.00
Midtown	5,763,144	64,042	14.70%	-25,099	-104,726	\$28.00
Northeast	2,080,997	0	11.29%	13,549	56,466	\$20.80
Northwest	8,311,484	0	15.45%	-39,041	-126,742	\$25.51
Southeast	6,469,671	0	22.79%	-77,908	-277,564	\$24.85
Southeast Suburban	30,612,560	0	20.88%	-476,361	-698,632	\$25.00
Southwest	2,802,519	0	18.76%	-30,988	-20,681	\$20.71
West	8,215,775	0	18.11%	-69,175	-210,559	\$22.00
Total Market	100,550,136	552,672	20.59%	-1,104,050	-2,235,587	\$28.97
Class A						
Aurora	349,208	0	56.76%	0	0	\$23.00
Downtown	21,262,372	488,630	22.35%	-249,230	-417,796	\$48.00
Midtown	2,795,359	0	14.52%	-22,772	-76,214	\$41.60
Northeast	783,902	0	3.33%	9,467	12,275	\$26.22
Northwest	5,223,108	0	16.74%	-65,124	-139,227	\$26.73
Southeast	2,658,600	0	24.82%	-24,329	-87,021	\$29.00
Southeast Suburban	17,848,131	0	20.81%	-281,761	-493,570	\$28.40
Southwest	1,046,425	0	33.41%	-23,607	-3,674	\$31.06
West	1,086,754	0	15.51%	-21,681	-56,487	\$26.50
Total Class A	53,053,859	488,630	21.00%	-679,037	-1,261,714	\$34.41
Class B						
Aurora	3,297,326	0	10.82%	-51,887	-57,466	\$19.61
Downtown	8,578,626	0	28.47%	-128,581	-332,222	\$35.66
Midtown	2,082,635	64,042	17.60%	4,428	-8,682	\$27.53
Northeast	873,070	0	19.91%	6,273	47,257	\$22.50
Northwest	2,594,102	0	14.16%	35,469	22,626	\$24.00
Southeast	2,414,293	0	25.26%	-60,426	-123,076	\$24.85
Southeast Suburban	10,851,727	0	22.30%	-189,263	-196,131	\$23.50
Southwest	1,204,414	0	9.58%	-11,100	-16,260	\$19.50
West	6,078,777	0	19.64%	-39,214	-142,570	\$21.00
Total Class B	37,974,970	64,042	21.52%	-434,301	-806,524	\$24.59

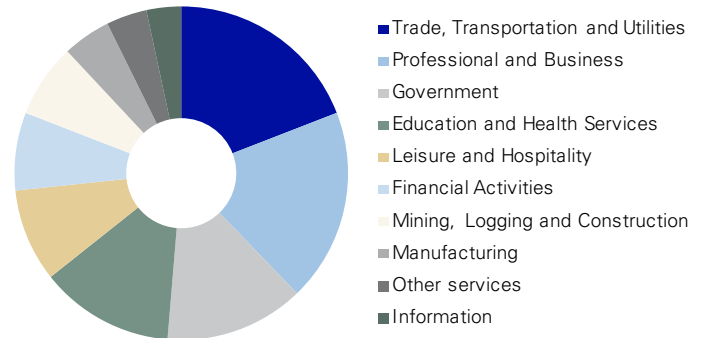
Economic Conditions

Denver has historically outperformed the national unemployment pre-pandemic. After spiking to 8.5% in December 2020, the unemployment rate has decreased to 6.4% in April 2021, based on preliminary numbers. Even though Colorado has recovered 71.0% of total jobs lost in March and April of 2020 and 76.0% of the private-sector jobs lost, an increase in residents who have reentered the workforce has offset the increase in jobs.

Eight sectors experienced positive job growth in April, with leisure and hospitality posting the largest growth at 52.4%. Only the government and information sectors continue to see job loss on a 12-month basis. Professional and business services and transportation are the largest employment sectors in Denver, accounting for 37.8% of the nonfarm employment.

Employment by Industry

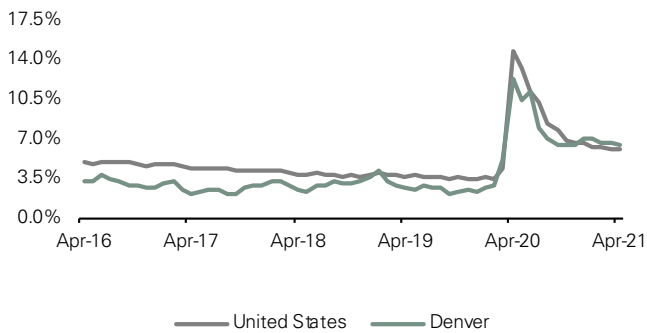
DENVER, April 2021



Source: US Bureau of Labor Statistics

Unemployment Rate

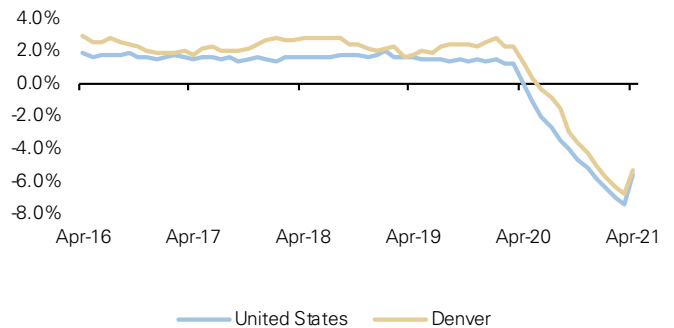
SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Payroll Employment

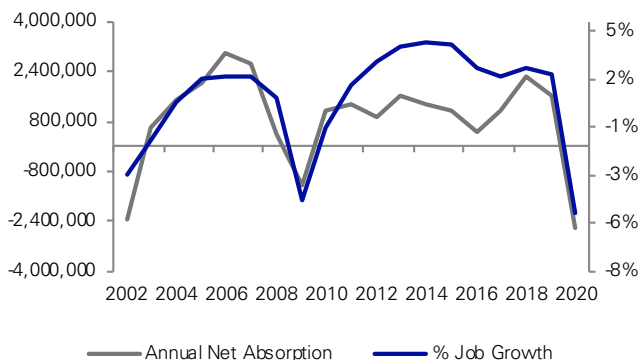
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth and Absorption

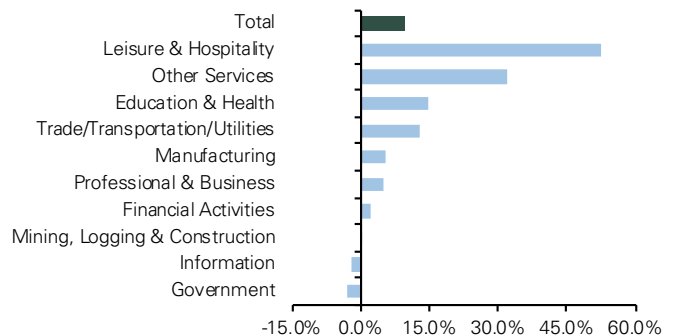
DENVER YOY EMPLOYMENT GROWTH AND OFFICE ANNUAL ABSORPTION



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

DENVER, APRIL 2021, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

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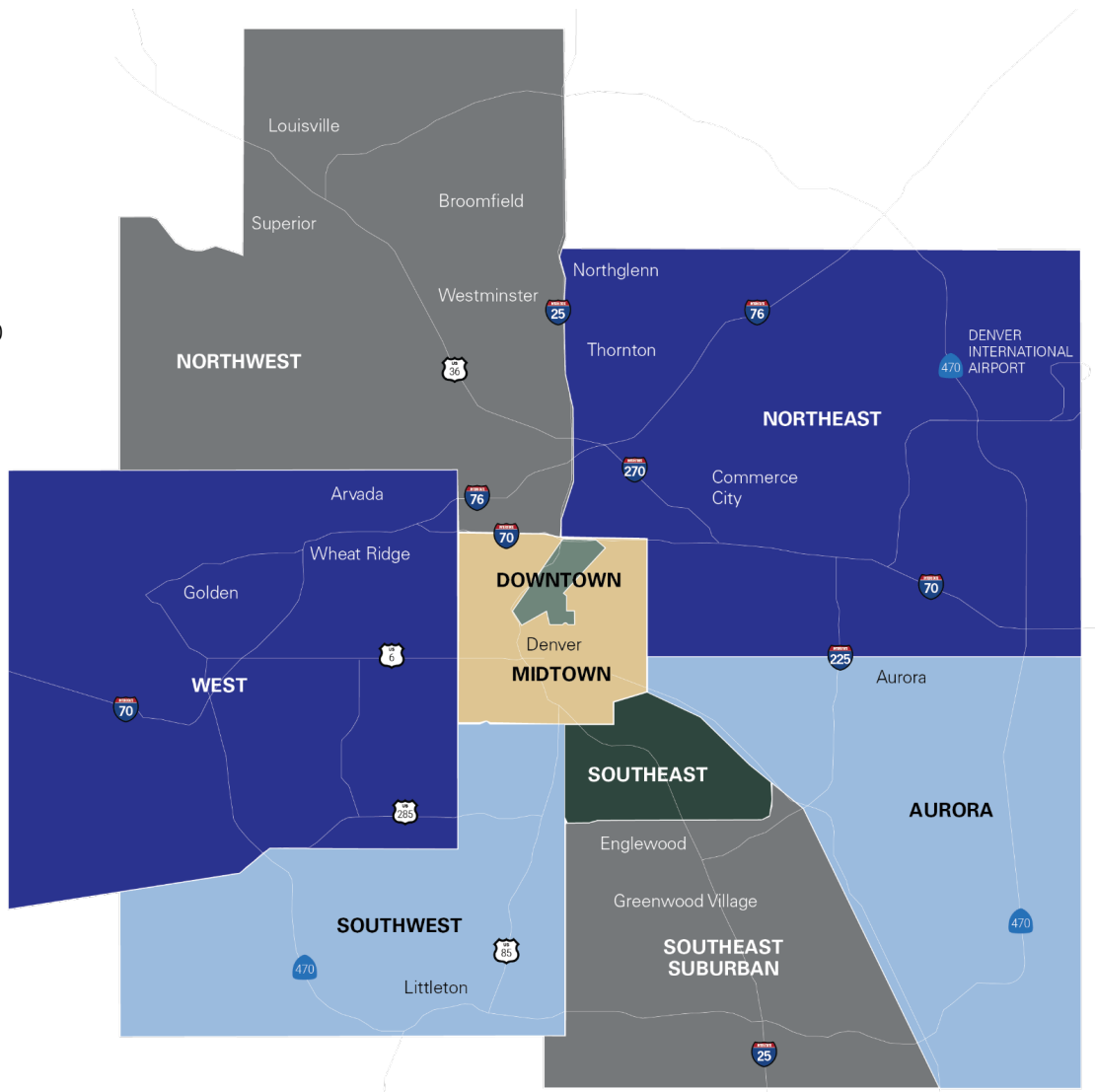
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