Denver Office Market

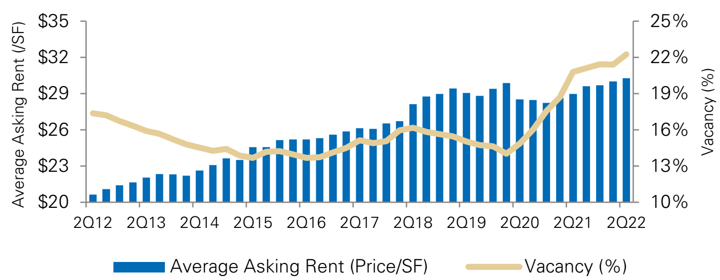
Growth Falters in 2Q22

Denver experienced an inconsistent second quarter of 2022, with activity bifurcated by building quality and tenant sector; new construction saw a flurry of new leases signed from select industries looking to upgrade their office space from older Class A and Class B space, while other industries continued to downsize. Many tenants across all industry sectors are transitioning from worries about the pandemic and their solution to the work-from-home model to looming questions about the economy. Some have put their searches for new space on hold once again to minimize operating cost and provide a more cushioned balance sheet for an uncertain future. Although there were multiple large tenants actively searching the market for space, 20,000 square feet or smaller available spaces continued to see the most activity.

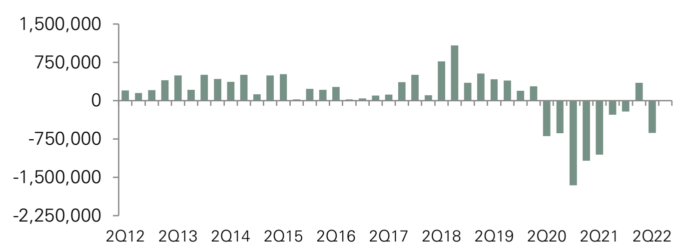
The sublease market was the source of much of the contraction in the second quarter of 2022 that largely offset the growth in the prior quarter. Both subleases that ran out their original terms and new vacant sublease space put onto the market drastically affected multiple submarkets.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Current Conditions

- Quarterly net absorption of -625,693 SF.
- Vacancy rate of 22.2%.
- Older Class A buildings experienced the largest contraction.
- There is 4.7 MSF of available sublease space in the Denver market with 2.7 MSF of it vacant. This Is the first quarter since the third quarter of 2021 that saw an increase in both vacant and available sublease space.

Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	101.6 MSF	101.3 MSF	100.8 MSF	↑
Vacancy Rate	22.24%	21.41%	20.88%	↑
Quarterly Net Absorption (SF)	-625,693	353,371	-1.1MSF	↑
Median Asking Rent/SF	$30.27	$30.00	$28.97	↑
Under Construction (SF)	1.7 MSF	967,948 SF	552,672 SF	↑
Deliveries	282,284 SF	0 SF	1.1 MSF	↑

NEWMARK

Submarket Activity

Only three of Denver's nine submarkets, the Northeast, Southeast and Southwest, posted positive net absorption for the second quarter of 2022, with 33,013 square feet, 20,730 square feet and 2,892 square feet, respectively. Due to growth in the first quarter of 2022, four submarkets still maintain positive YTD absorption, with Southeast Suburban (SES) boasting the largest of 418,818 square feet. Landlords who are getting aggressive continue to offer concessions in tenant improvements and free rent, but most are holding firm on asking rates. New construction and top-quality space especially maintain high demand. Landlords with such space or in select areas, like Cherry Creek, are continuing to tentatively push rates, largely due to the ever-increasing cost of construction and tenant improvements. 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.

Pipeline Continues to be Active with New Projects

After no new projects completed in the first quarter of 2022, two delivered in the second quarter of 2022, both in the Downtown submarket: One Platte (250,00 square feet) and Emily's Office (the 43,000-square-foot renovation/conversion of the former Emily Griffith school). Eight projects, totaling 1.7 million square feet, are currently under construction or renovation. Four of those projects are under construction in the Downtown submarket. 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

Denver's deal flow is expected to forge ahead but concerns about the future of the economy are likely to remain in the short term. Even so, tenant activity is improving, with many tenants reengaging to search 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 hope to entice employees back to the workplace with an upgraded office environment. Rental rates will continue to increase, mostly due to increasing costs of construction, tenant improvements, operating expenses and taxes, especially for landlords of top-quality space that will be more able to push rates. Sublease space will gradually decrease from the current high point as high-finish plug-and-play space will remain an attractive option for companies looking for quick occupancy. Vacancy will continue to incrementally increase; the newly marketed space will largely come from companies moving to Class AA space and downsizing, rather than tenants leaving the market. Continuing job growth over the next several years, paired with the anticipated demand for high quality space in select markets, will keep the market healthy but lingering concerns about the local and global economy will restrain growth for the next few quarters.

Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
MPLX LP	1515 Arapahoe Street	Downtown	Renewal	107,490
Brownstein Hyatt Farber Schreck	675 15th Street	Downtown	New	103,000
Davis Graham & Stubbs	3400 Walnut Street	Downtown	New	77,000
Kimley-Horn	6200 South Syracuse Way	SES	New	62,122
Bryan Cave	1700 Lincoln Street	Downtown	New	52,000

Select Sale Transactions

Building	Market	Sale Price	Price/SF	Square Feet
9151 East Panorama Circle	SES	$106,000,000	$467	227,000
The Quadrant	SES	$62,000,000	$183	338,911
One DTC West	SES	$42,250,000	$587	72,000
370 Interlocken Boulevard	Northwest	$34,450,000	$229	150,656
Church Ranch Building 4	Northwest	$25,400,000	$204	124,644

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	4,589,190	0	19.5%	-11,155	-5,790	$18.50
Downtown	31,995,529	1,357,264	28.02%	-501,053	-651,430	$44.04
Midtown	5,866,099	172,124	15.78%	-18,503	-68,340	$33.20
Northeast	2,080,997	0	12.04%	33,013	38,090	$21.55
Northwest	8,429,889	0	18.68%	-5,581	-8,336	$26.72
Southeast	6,469,671	0	22.55%	20,730	-55,837	$25.00
Southeast Suburban	30,945,204	130,045	20.94%	-95,412	418,818	$25.00
Southwest	3,006,470	0	17.49%	2,892	40,699	$20.00
West	8,180,075	0	18.18%	-50,624	19,804	$23.92
Total Market	**101,563,124**	**1,659,433**	**22.24%**	**-625,693**	**-272,322**	**$30.27**
Class A						
Aurora	445,960	0	46.40%	0	87,191	$23.00
Downtown	21,501,183	1,357,264	25.81%	-487,011	-404,911	$53.14
Midtown	2,898,314	148,124	15.67%	5,063	-47,003	$46.00
Northeast	783,902	0	1.53%	0	0	$27.61
Northwest	5,108,200	0	17.88%	22,979	-76,603	$28.50
Southeast	2,658,600	0	21.57%	18,137	22,176	$29.00
Southeast Suburban	18,135,538	130,045	21.65%	-141,287	217,218	$28.75
Southwest	1,250,376	0	27.07%	15,179	34,376	$31.08
West	1,086,754	0	18.95%	-24,358	-24,756	$26.75
Total Class A	**53,868,827**	**1,635,433**	**22.61%**	**-591,298**	**-192,312**	**$37.39**
Class B						
Aurora	3,297,326	0	18.73%	773	-74,729	$19.15
Downtown	8,574,940	0	33.67%	-27,193	-248,439	$38.50
Midtown	2,082,635	24,000	19.49%	-14,162	-19,167	$28.00
Northeast	873,070	0	18.53%	34,185	40,162	$23.00
Northwest	2,848,241	0	21.68%	-28,131	68,024	$25.09
Southeast	2,414,293	0	29.62%	-10,325	-117,622	$25.87
Southeast Suburban	10,921,165	0	21.51%	34,912	157,886	$23.50
Southwest	1,204,414	0	11.21%	-12,244	1,966	$20.00
West	6,043,077	0	19.68%	-31,333	16,974	$22.28
Total Class B	**38,259,161**	**24,000**	**23.73%**	**-53,518**	**-174,945**	**$25.75**

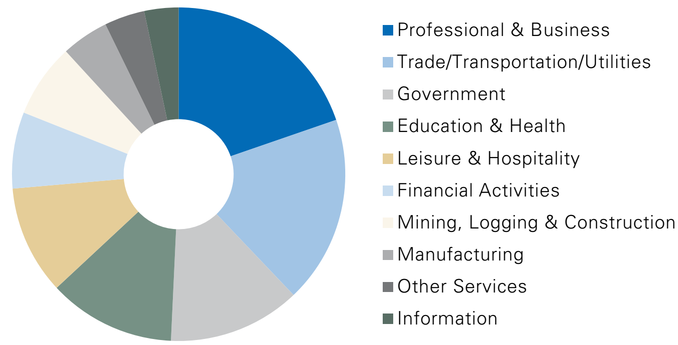
Economic Conditions

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 3.1% in May 2022 based on preliminary numbers, below both the state unemployment at 3.5% and the nation at 3.6%. Although the unemployment rate isn't dropping as fast as other states, the labor force participation rate has exceeded pre-pandemic levels.

The leisure and hospitality sector continued to have the largest job growth based off preliminary numbers in May, with year-over-year growth at 14.1%. 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 19.7% of total nonfarm employment.

Employment by Industry

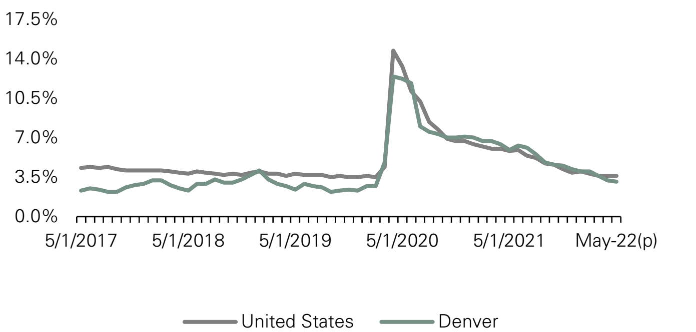
DENVER, May 2022



Source: US Bureau of Labor Statistics

Unemployment Rate

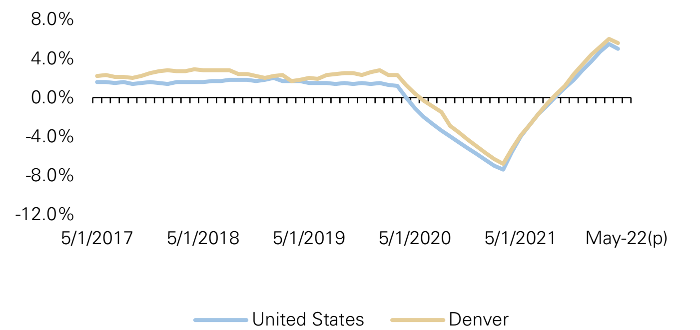
SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Payroll Employment

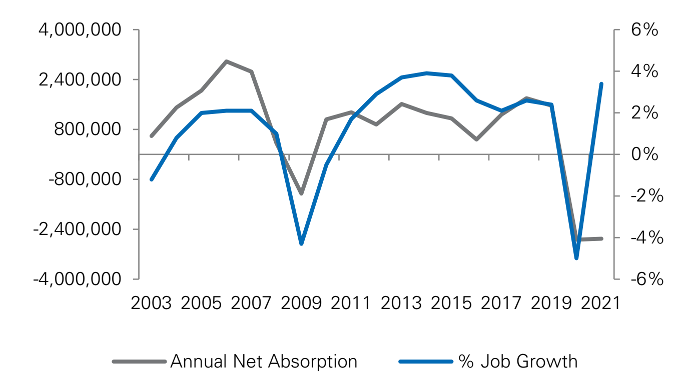
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth and Absorption

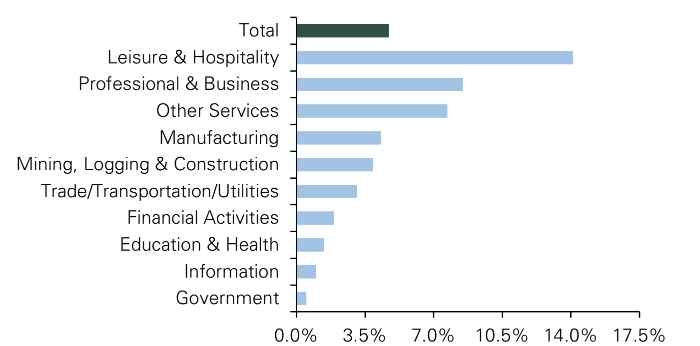
DENVER YOY EMPLOYMENT GROWTH AND OFFICE ANNUAL ABSORPTION



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

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



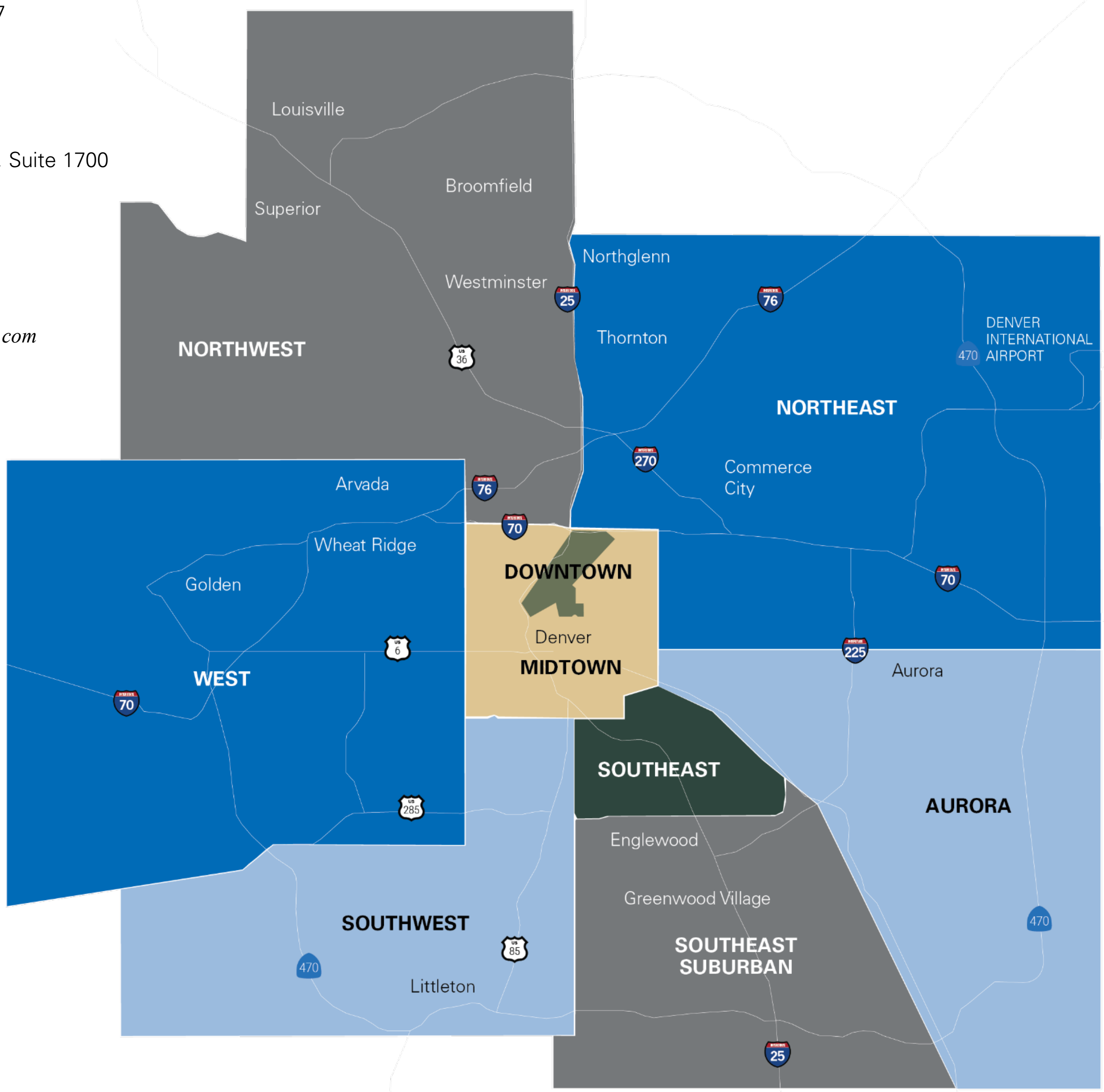
Source: U.S. Bureau of Labor Statistics

For more information:

New York Headquarters
125 Park Ave.
New York, NY 10017
t 212-372-2000

Denver
1800 Larimer Street, Suite 1700
Denver, CO 80202
t 303-892-1111

Mandi Johnson
Research Manager
mandi.johnson@nmrk.com
nmrk.com



Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at ngkf.com/research.