



Denver Office Market

Delayed Occupancies as Delta Variant Renews Uncertainty

While activity in the beginning of the quarter was slow, September saw a return to the increased activity seen in the previous quarter. However, the rise of the Delta variant once again brought uncertainty for some tenants. Many delayed their return to the office, and those in the market have changed their size requirements multiple times during their search as their plans change with the news cycle. The continuing supply problems also caused delays in construction and tenant improvements, contributing to other tenants having to push back their occupancy date into the fourth quarter. High-quality space, new construction and certain micromarkets are still attracting high interest.

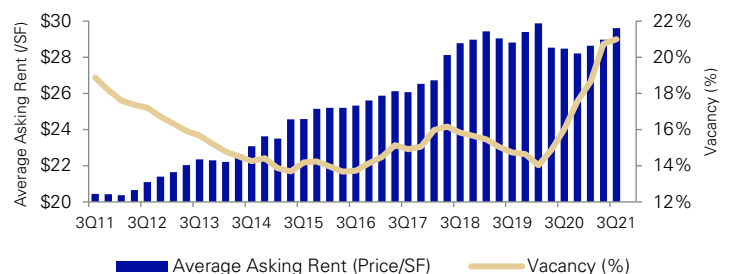
Quarterly net absorption was -215,616 square feet, bringing year-to-date to just under -2.6 million square feet. Vacancy increased slightly to 21.0%, up from 20.7% in the prior quarter. Unlike the prior two quarters where all three classes experienced contraction, Class B was the only class to experience a loss of occupancy in the third quarter, with quarterly absorption of -293,169 square feet and YTD absorption of -1.1 million square feet. Class A space in all submarkets continues to be in high demand as tenants look to upgrade, even as some are also looking to downsize.

Current Conditions

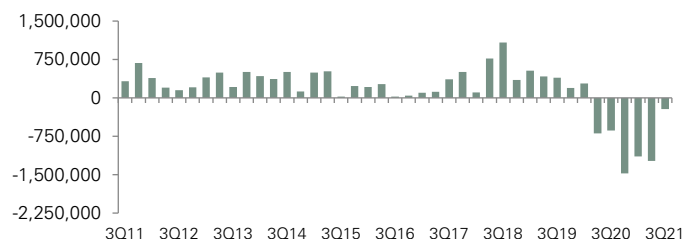
- Quarterly net absorption of -215,616 SF
- Vacancy rate of 21.0%
- The loss of occupancy was concentrated in Class B product
- There is 3.7 MSF of available sublease space in the Denver market with 2.7 MSF of it vacant. While vacant sublease space increased slightly from last quarter, the total amount available continued to decrease.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	100.6 MSF	100.5 MSF	99.5 MSF	↑
Vacancy Rate	21.00%	20.73%	16.02%	↓
Quarterly Net Absorption (SF)	-215,616	-1.2 MSF	-637,038	↑
Median Asking Rent/SF	\$29.61	\$28.97	\$28.47	↑
Under Construction (SF)	599,903 SF	552,672 SF	1.5 MSF	↓
Deliveries	102,955 SF	1.1 MSF	634,163	↓

Submarket Activity

Two of Denver's nine submarkets posted positive net absorption for the third quarter of 2021; Midtown, which has the highly sought-after Cherry Creek micromarket, led the market with 105,435 square feet of quarterly absorption, followed by the Southeast, with 21,782 square feet. Most landlords are holding firm on rates but the increase in operating expenses continue to push full service rates, especially in new construction. Some landlords in select areas, like Cherry Creek, are even tentatively trying to push rates again. Those landlords looking to be aggressive to entice deals continue to offer concessions rather than lower rents. 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.

Sale Transactions Limited but Still Historic

Transaction activity picked up in the last half of 2020, but the year still ended with only \$1.6 billion across 24 transactions, down from 12.4 million square feet valued at \$2.5 billion in 2019. Although investor activity continued to be thin for office product through third-quarter 2021, select products are still pulling in record-breaking numbers. After VF Corp.'s HQ in Downtown sold

In August for nearly \$800/SF, MetLife Investment Management purchased Civica Cherry Creek in Midtown for a total of \$108.0 million, or \$921/SF.

Looking Forward

Denver's office sector deal flow is expected to continue into the fourth quarter. Although some companies searching for new space might drag their feet until the new year, many of the companies that had their move-in delayed till the fourth quarter will be anxious to occupy, and few companies are discussing radically downsizing. Rental rates will continue to increase, mostly due to the increasing operation expenses and taxes, rather than landlords pushing rates. Sublease space will continue to gradually decrease after reaching its plateau. More space may trickle onto the market as companies continue to evaluate space while planning to reoccupy, but few large new blocks of space will enter the market. Vacancy will continue to level out in the last quarter of 2021 due to the new and delayed move-ins, while the new vacancies will be mostly to companies downsizing, rather than tenants leaving the market. Continued job and population growth are forecasted to continue through the next several years, and the anticipated strong pent-up demand for high quality space in select markets, combined with a restrained development pipeline, will likely turn the corner to positive absorption in 2022.

Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Transamerica	1801 California Street	Downtown	Downsize	80,000
T-Mobile	990 South Broadway	Midtown	Expansion/Renewal	78,336
Ares Management/ Black Creek Group	1200 Tabor Street	Downtown	New	67,633
iCIMS	707 17th Street	Downtown	Sublease	47,043
RBC Wealth Management	1801 California Street	Downtown	New	25,000

Select Sale Transactions

Building	Market	Sale Price	Price/SF	Square Feet
1551 Wewatta Street	Downtown	\$228,000,000	\$800	285,168
Granite Tower	Downtown	\$203,300,000	\$343	593,527
Civica Cherry Creek	Midtown	\$108,000,000	\$921	117,235
Peakview Tower	SES	\$66,000,000	\$250	264,149
Gogo Building	Northwest	\$59,100,000	\$317	186,231

RESEARCH Q3 2021

Submarket Statistics						
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	3Q Absorption (SF)	YTD Absorption (SF)	Direct FSG Asking Rent (Price/SF)
Overall (Classes A, B & C)						
Aurora	4,492,438	0	17.48%	-23,157	-49,054	\$18.50
Downtown	31,801,548	532,103	24.31%	-20,102	-863,803	\$42.27
Midtown	5,866,099	67,800	15.19%	105,435	-45,204	\$30.00
Northeast	2,080,997	0	12.80%	-11,536	29,447	\$21.30
Northwest	8,311,484	0	16.27%	-61,275	-195,263	\$25.75
Southeast	6,469,671	0	22.39%	21,782	-251,487	\$24.50
Southeast Suburban	30,588,359	0	21.33%	-86,742	-830,747	\$25.00
Southwest	2,802,519	0	19.01%	-6,924	-27,605	\$21.00
West	8,180,075	0	19.45%	-133,097	-349,521	\$22.13
Total Market	100,593,190	599,903	21.00%	-215,616	-2,583,237	\$29.61
Class A						
Aurora	349,208	0	58.38%	0	0	\$23.00
Downtown	21,262,372	532,103	22.18%	63,071	-382,626	\$50.75
Midtown	2,898,314	67,800	11.09%	93,825	-28,302	\$44.94
Northeast	783,902	0	3.33%	-8,647	3,628	\$26.78
Northwest	5,223,108	0	17.22%	-17,895	-164,368	\$27.00
Southeast	2,658,600	0	22.94%	-24,329	-87,021	\$29.00
Southeast Suburban	17,848,131	0	21.61%	49,998	-37,023	\$28.31
Southwest	1,046,425	0	33.27%	1,517	-2,157	\$31.06
West	1,086,754	0	17.11%	-11,513	-73,865	\$26.50
Total Class A	53,156,814	599,903	21.27%	73,530	-1,320,482	\$35.82
Class B						
Aurora	3,297,326	0	15.51%	-27,464	-84,930	\$19.61
Downtown	8,578,626	0	29.05%	-61,420	-382,190	\$37.40
Midtown	2,082,635	0	17.63%	-589	-9,271	\$27.77
Northeast	873,070	0	23.15%	-8,419	23,355	\$23.00
Northwest	2,594,102	0	15.98%	-47,109	-24,483	\$24.00
Southeast	2,414,293	0	27.16%	-45,963	-169,039	\$24.30
Southeast Suburban	10,851,727	0	22.18%	-86,742	-830,747	\$23.50
Southwest	1,204,414	0	10.28%	-8,452	-24,712	\$19.50
West	6,043,077	0	20.94%	-107,410	-249,980	\$21.00
Total Class B	37,939,270	0	22.24%	-293,169	-1,103,724	\$25.24

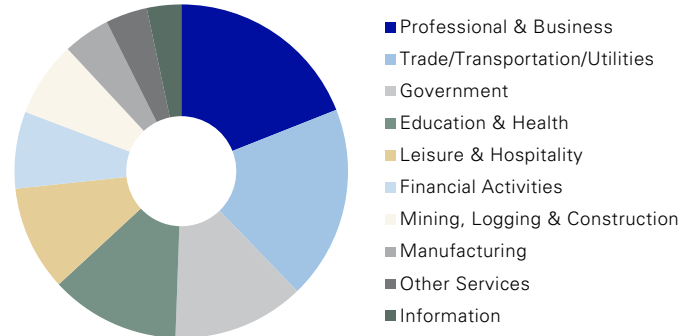
Economic Conditions

Denver has historically outperformed the national unemployment pre-pandemic. After spiking to 8.5% in December 2020, the unemployment rate has decreased to 5.5% in August 2021, based on preliminary numbers. This is the lowest unemployment rate since the start of the pandemic. Job growth has also been on a steady recovery; while the 12-month job growth in June was -2.8%, preliminary numbers for job growth in August was -0.6%.

All 10 sectors experienced positive job growth in August based on preliminary numbers, with leisure and hospitality posting the largest growth at 17.1%, with other services close behind, with 14.0%. Professional and business services is the largest employment sector in Denver, accounting for 19.0% of the nonfarm employment.

Employment by Industry

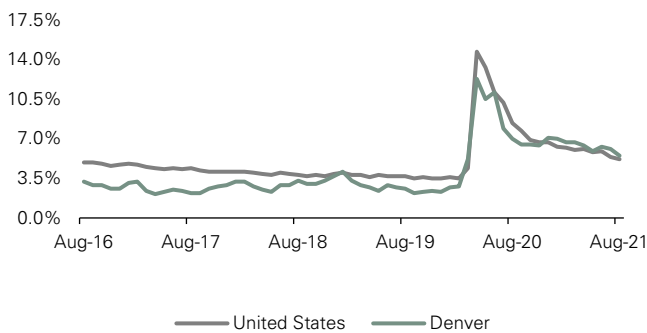
DENVER, August 2021



Source: US Bureau of Labor Statistics

Unemployment Rate

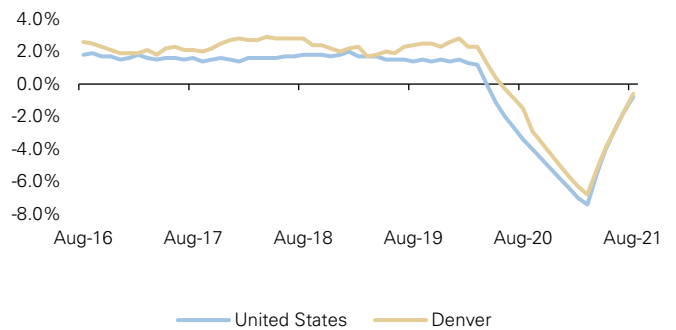
SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Payroll Employment

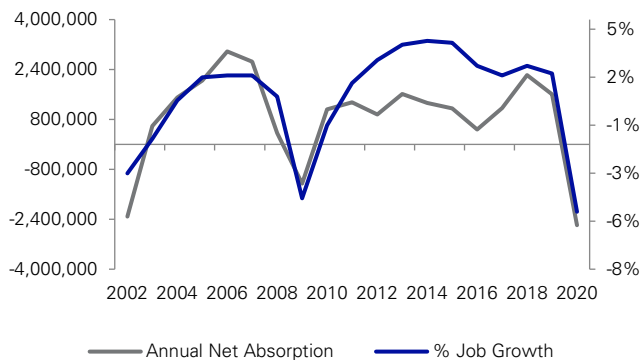
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth and Absorption

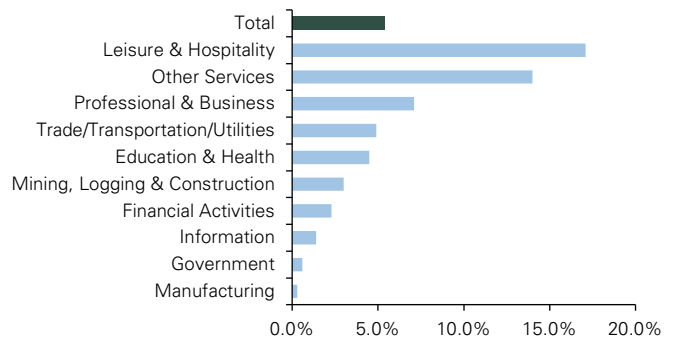
DENVER YOY EMPLOYMENT GROWTH AND OFFICE ANNUAL ABSORPTION



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

DENVER, AUGUST 2021, 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

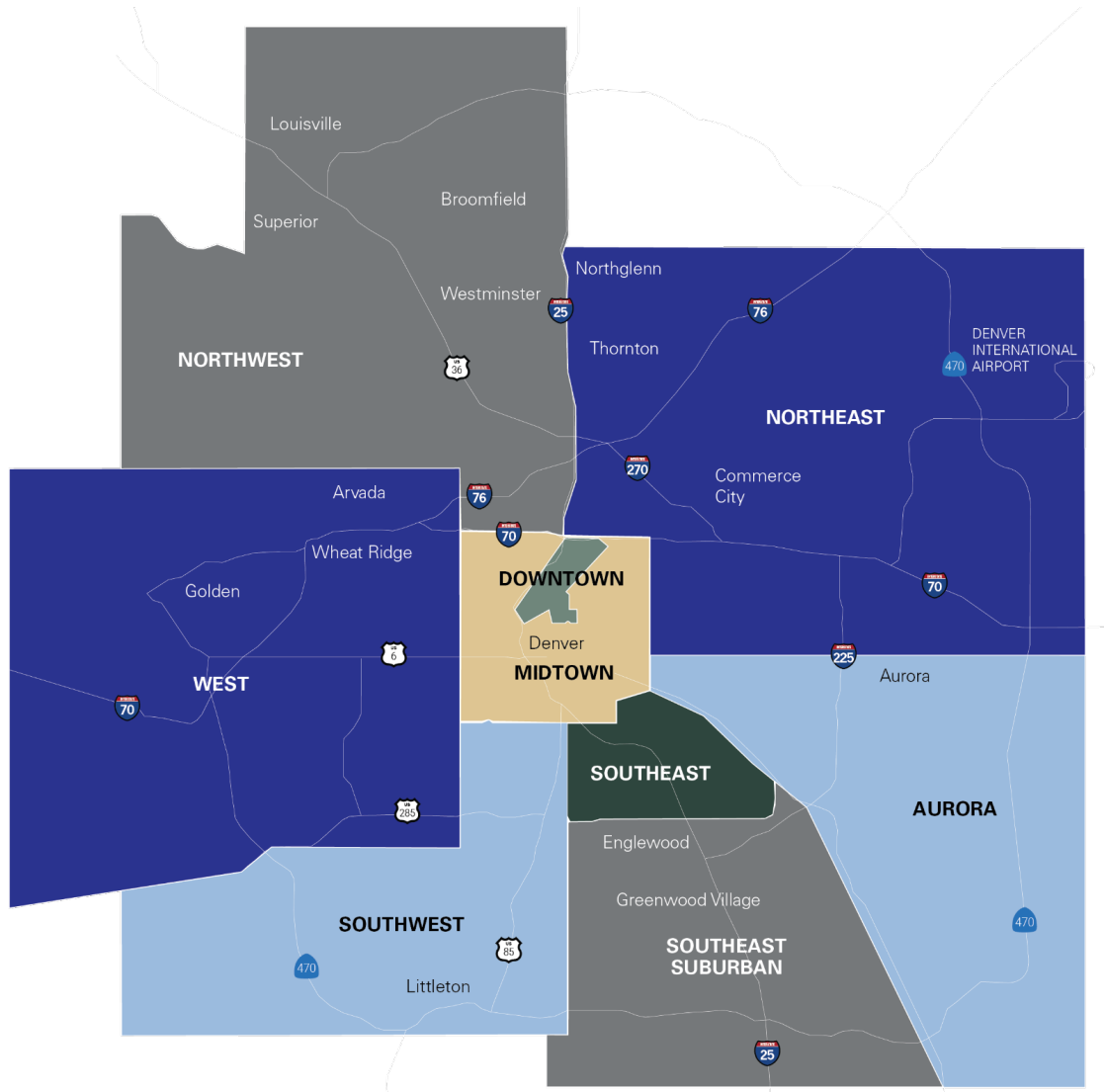
Denver

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.
All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark has not verified any such information, and the same constitutes the statements and representations only of the source thereof not of Newmark. Any recipient of this publication should independently verify such information and all other information that may be material to any decision the recipient may make in response to this publication and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial and tax aspects and implications. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download or in any other way reproduce this publication or any of the information it contains. This document is intended for informational purposes only, and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter.