
3Q23

Denver Office Market Overview



NEWMARK

Market Observations

Economy

- The region’s tenaciously high labor participation rate leaves limited room for job growth, despite slight increase in unemployment.
- Colorado economists lowered their expected risk of recession in the next 12 months due to multiple promising indicators over the past three months.
- Inflation, affordable housing and finding qualified workers continue to be the top concerns limiting job growth.

Major Transactions

- Crocs vacated 88,000 SF and occupied 126,500 SF in the Northwest submarket. Leased in 1Q22, Crocs was originally supposed to occupy in 4Q22 but was delayed until this quarter.
- Kaiser’s lease term ran out on its 96,000 SF lease in the Southeast Suburban submarket and was fully vacated. The space has been available since 3Q22.
- Sierra Space reoccupied the 86,000 SF it had available for sublease and took it off the market.

Leasing Market Fundamentals

- Absorption in the third quarter of 2023 totaled negative 837,000 SF, bringing year-to-date total to negative 1.8 MSF.
- One building completed in the third quarter: the eight-story 200 Clayton Street in the hot Cherry Creek micromarket has 71,000 square feet of office that was 86% pre-leased at the time of delivery.
- Vacancy increased from the prior quarter while rents hovered at their current rates, with Class A space getting record-breaking numbers.

Outlook

- Colorado business leaders surveyed by the University of Colorado Leeds School of Business remained largely pessimistic about industry sales, profits, hiring plans, capital expenditures and the national and state economies, despite two-thirds admitting the economy was doing better than they expected.
- This enduring pessimism will keep small, high-finish, plug-and-play options or short-term extensions the most attractive to tenants, while large blocks of space will struggle.
- With progress of bringing employees back to the office appearing to stall, future office growth will partially rely on how and if management further pursues the issue.

1. Economy
2. Leasing Market Fundamentals

2Q23

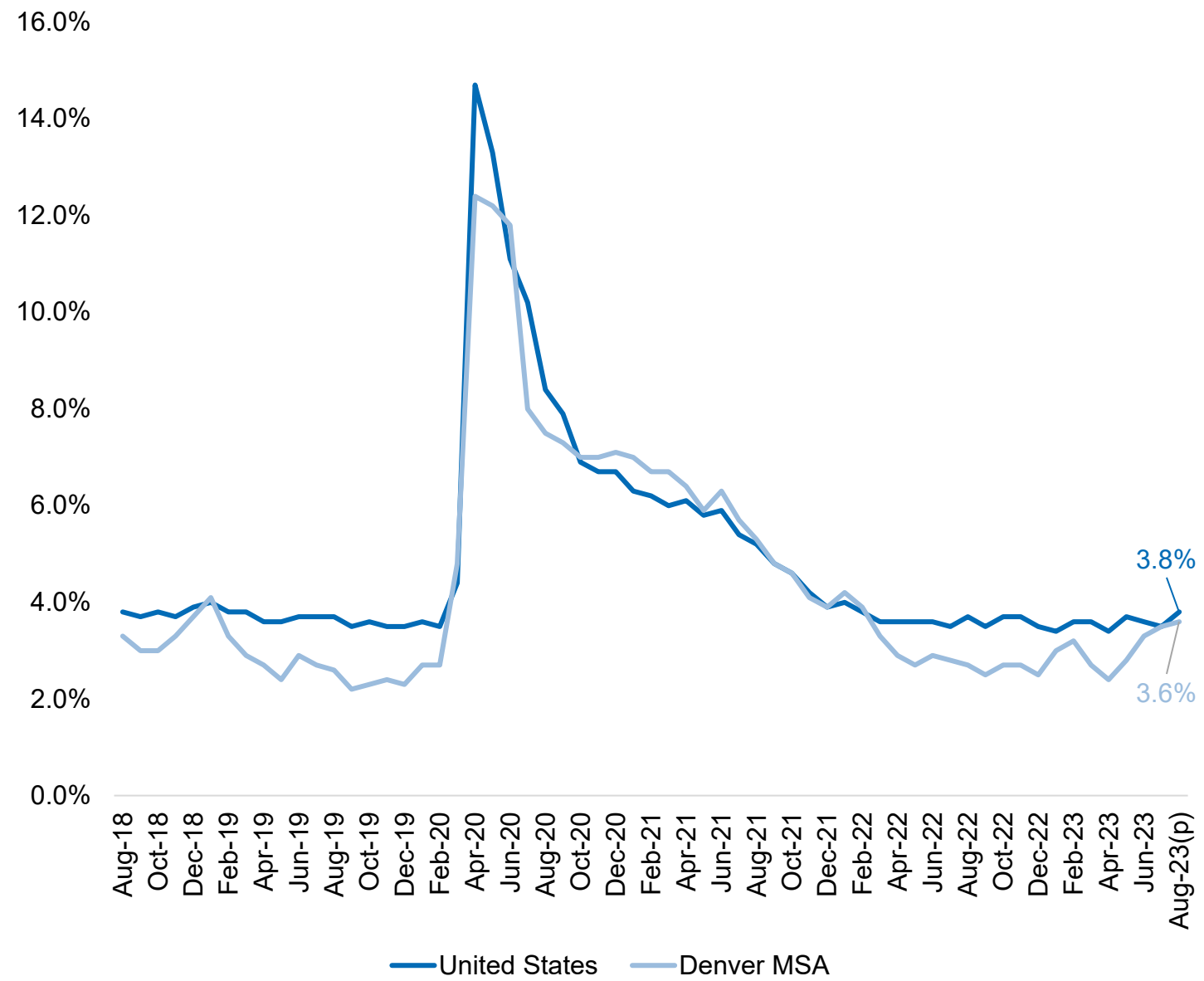
Economy



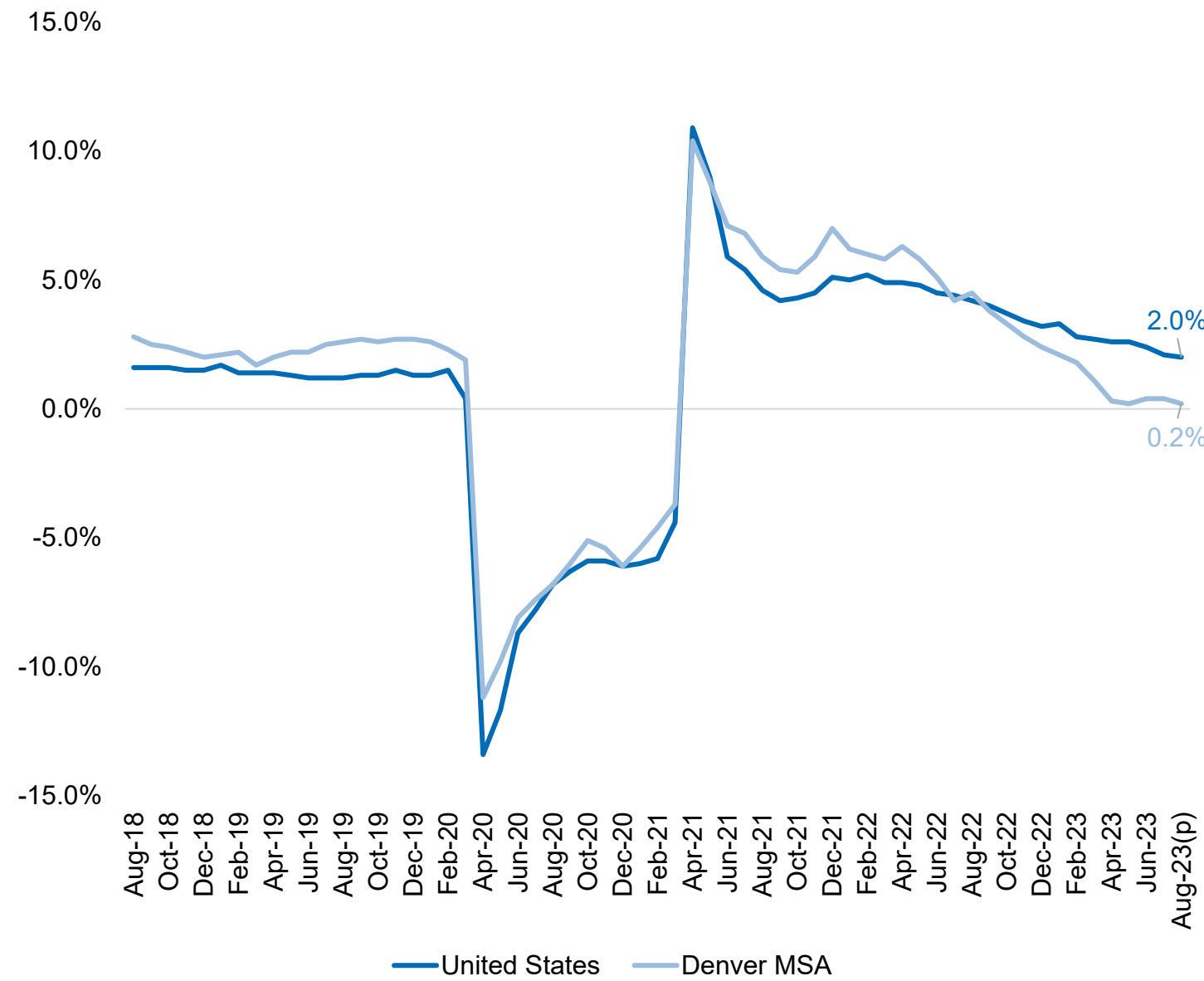
Unemployment Inches Higher as Job Growth Plateaus

The unemployment rate in Denver rose slightly in August to 3.6% from the previous month at 3.5%, partially due to a slight increase in labor force being added as the people continue to move into the area. Job creation has persistently been below the national rate for several months, but the labor-force participation rate exceeds the nation's numbers.

Unemployment Rate, Non-Seasonally Adjusted



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

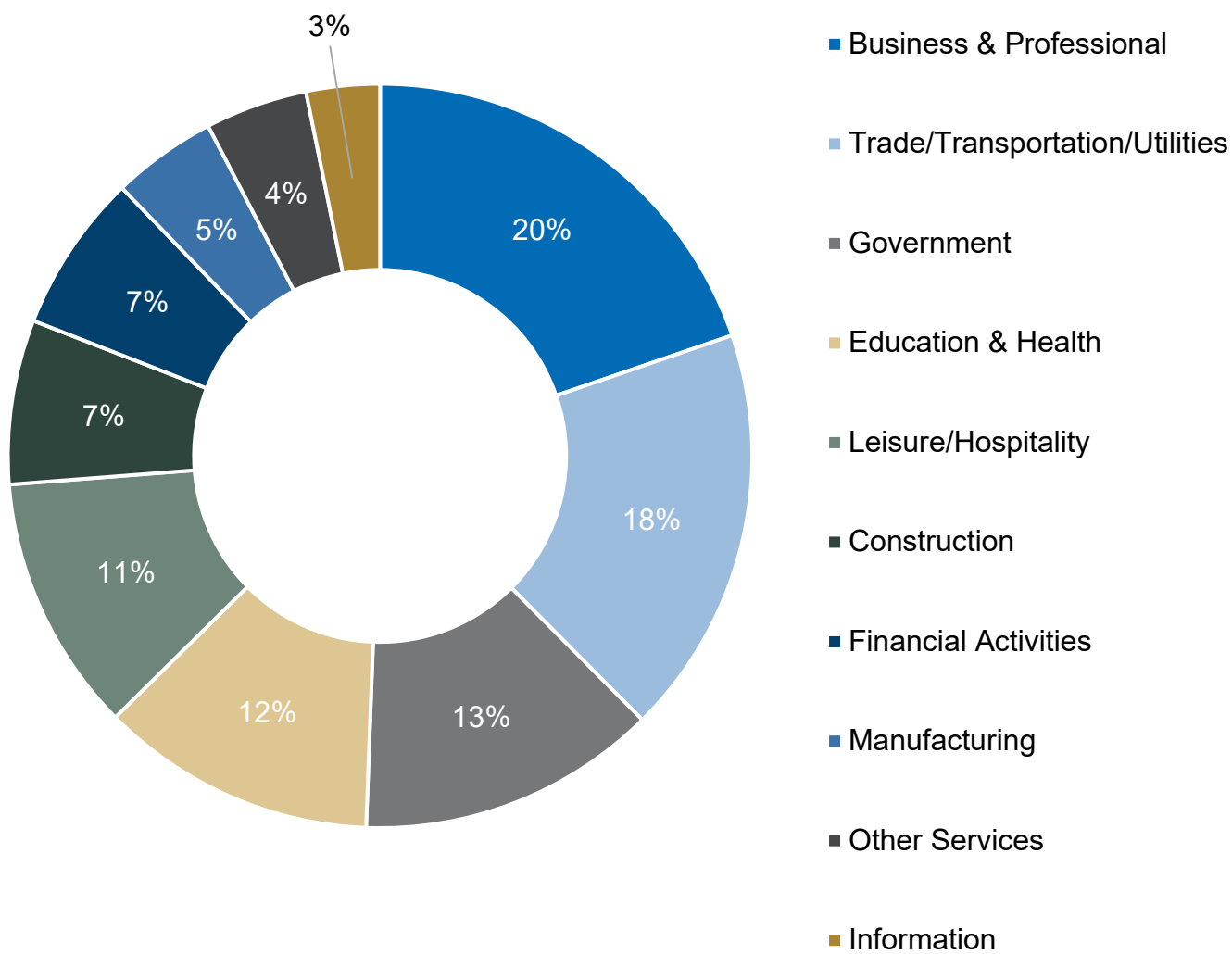


Source: U.S. Bureau of Labor Statistics, Denver MSA

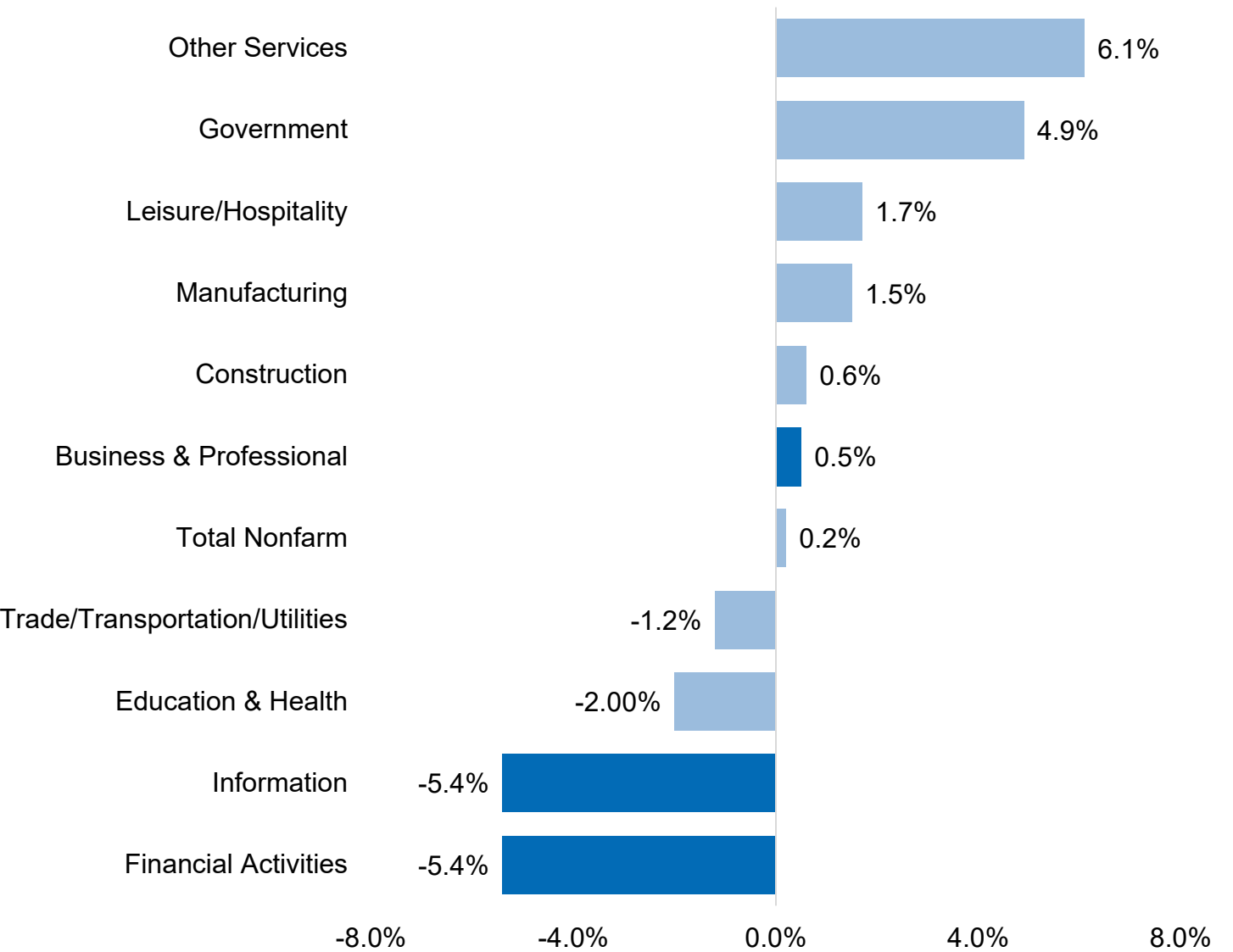
Job Growth Uneven for Office-Occupying Sectors

Seven of the ten sectors posted growth, including the largest sector, business and professional services. The other services sector posted the largest job growth while the high-interest rate environment continued to hurt the financial activities sector, which posted the highest job losses.

Employment by Industry, August 2023(p)



Employment Growth by Industry, 12-Month % Change, August 2023(p)

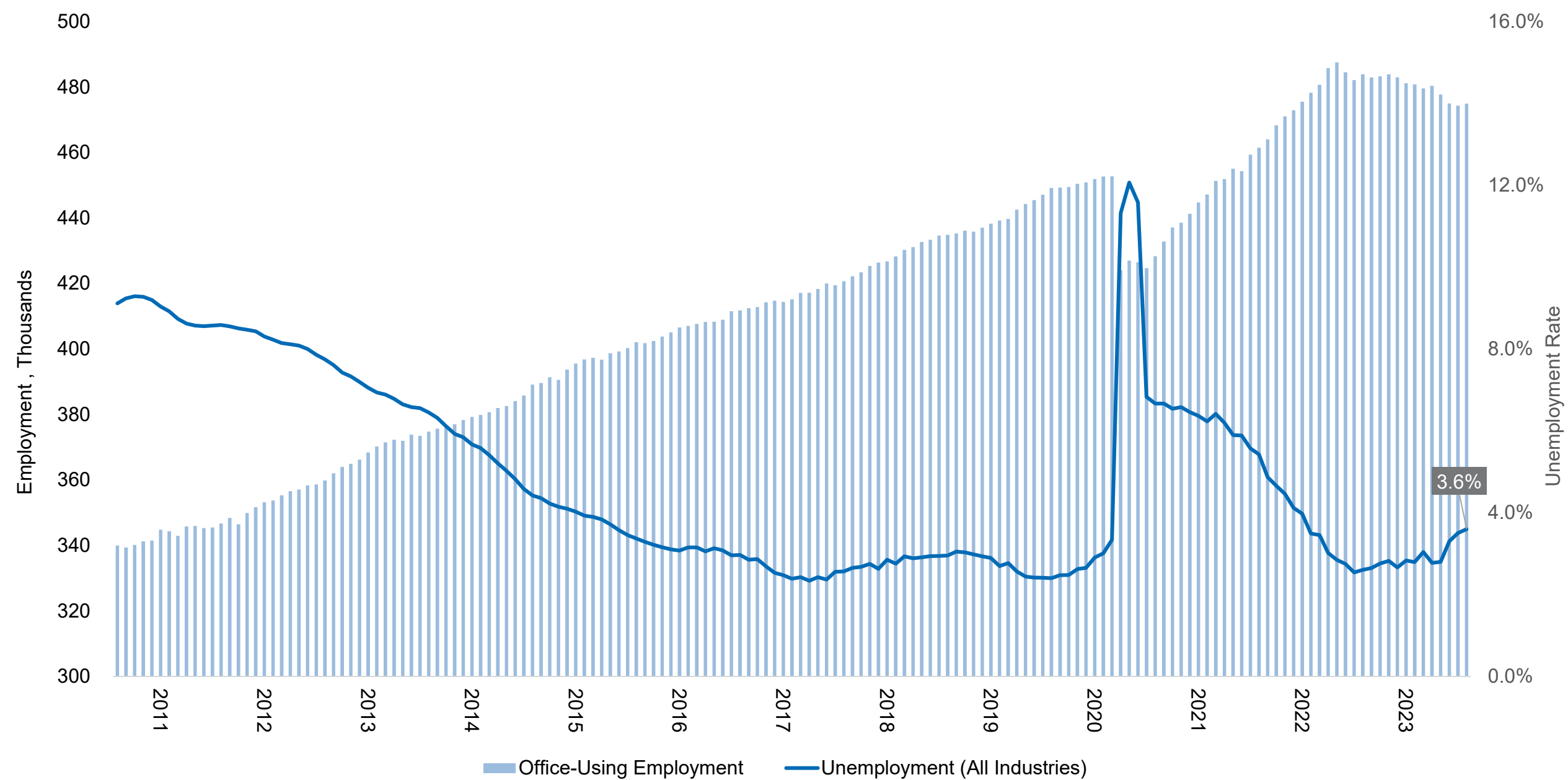


Source: U.S. Bureau of Labor Statistics, Denver MSA

Office-Using Employment Equalizes as Fears of a Recession Begin to Ease

Compared to earlier in the year, when concerns about uncontained inflation and financial fallouts from bank collapses, a healthier-than-projected labor market and strong consumer demand has made the economic outlook brighter.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Denver MSA
Note: August 2023 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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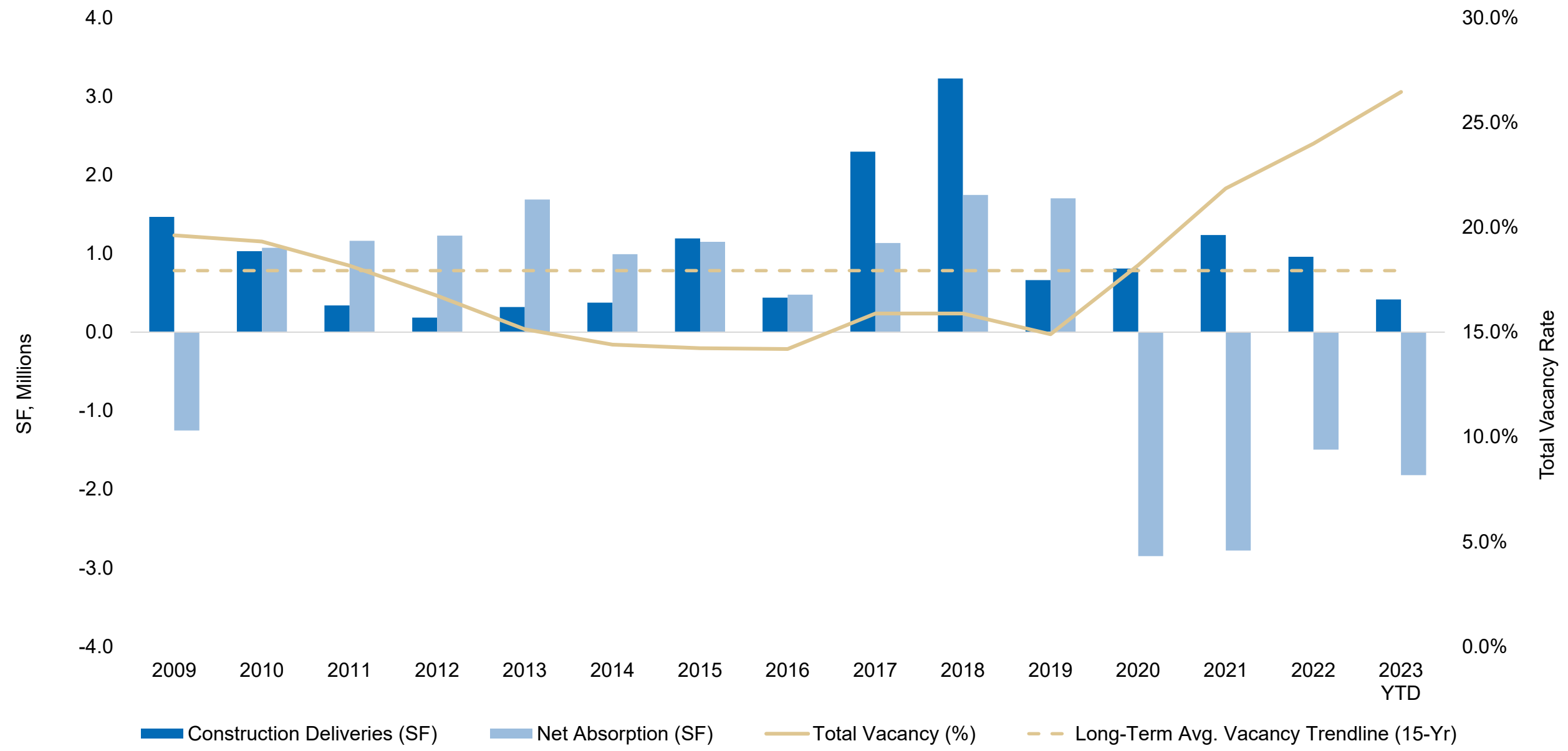
Leasing Market Fundamentals



Trends of Flight to Quality & Downsizing Continue to Dominate the Market

The vacancy rate increased to 26.5% in the third quarter of 2023 from 25.3% in the prior quarter. Many of the new move-ins were made by tenants upgrading to higher quality space which resulted in small increases or negative net changes in total office size. In addition, several large tenants who had already signaled their plans to significantly downsize vacated their space once their lease term ended or before and put the space onto the sublease market.

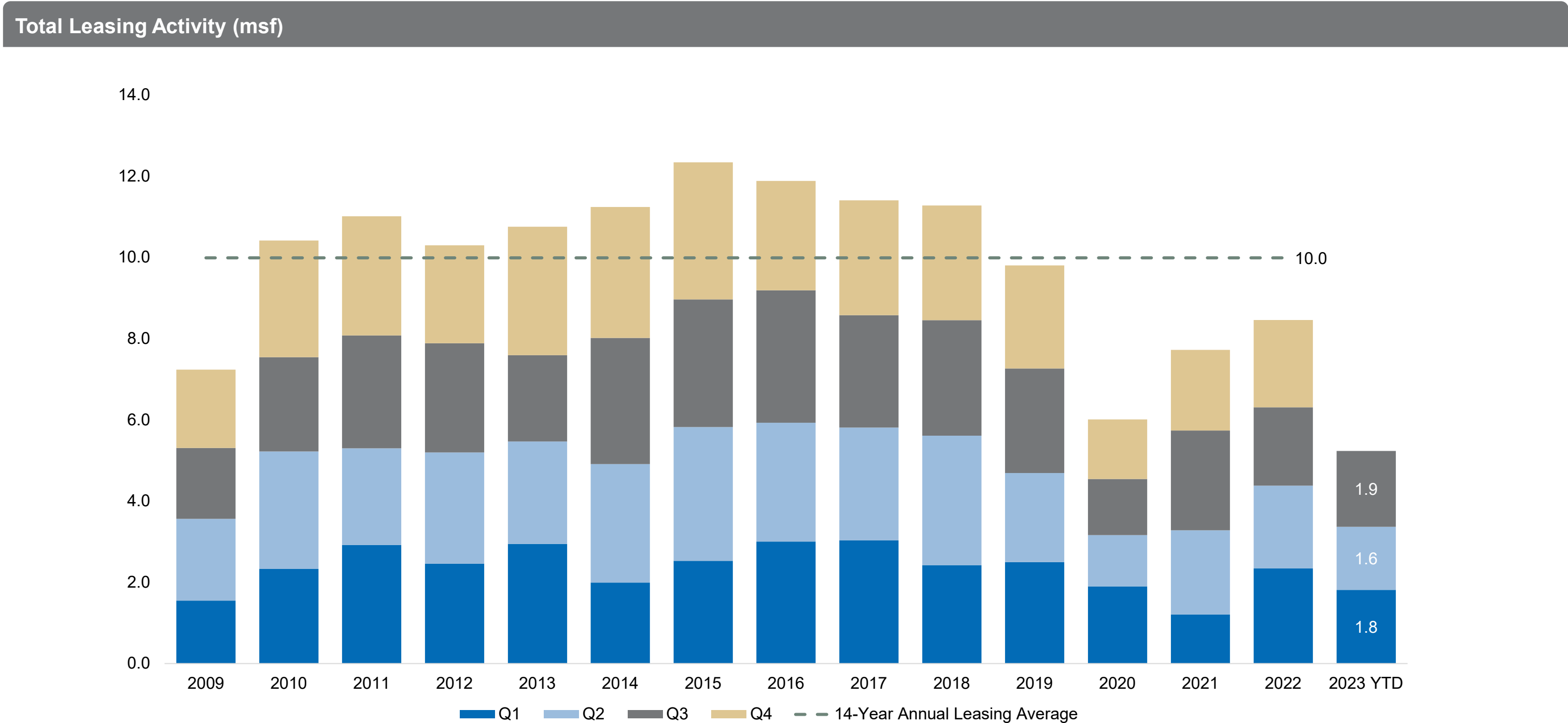
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity Modestly Increases

After the summer doldrums, more leases were signed in the third quarter at the same amount seen in the third quarter of 2022. However, companies continue to reassess their financial situation and office requirement as the return to office has stalled and economic questions endure.

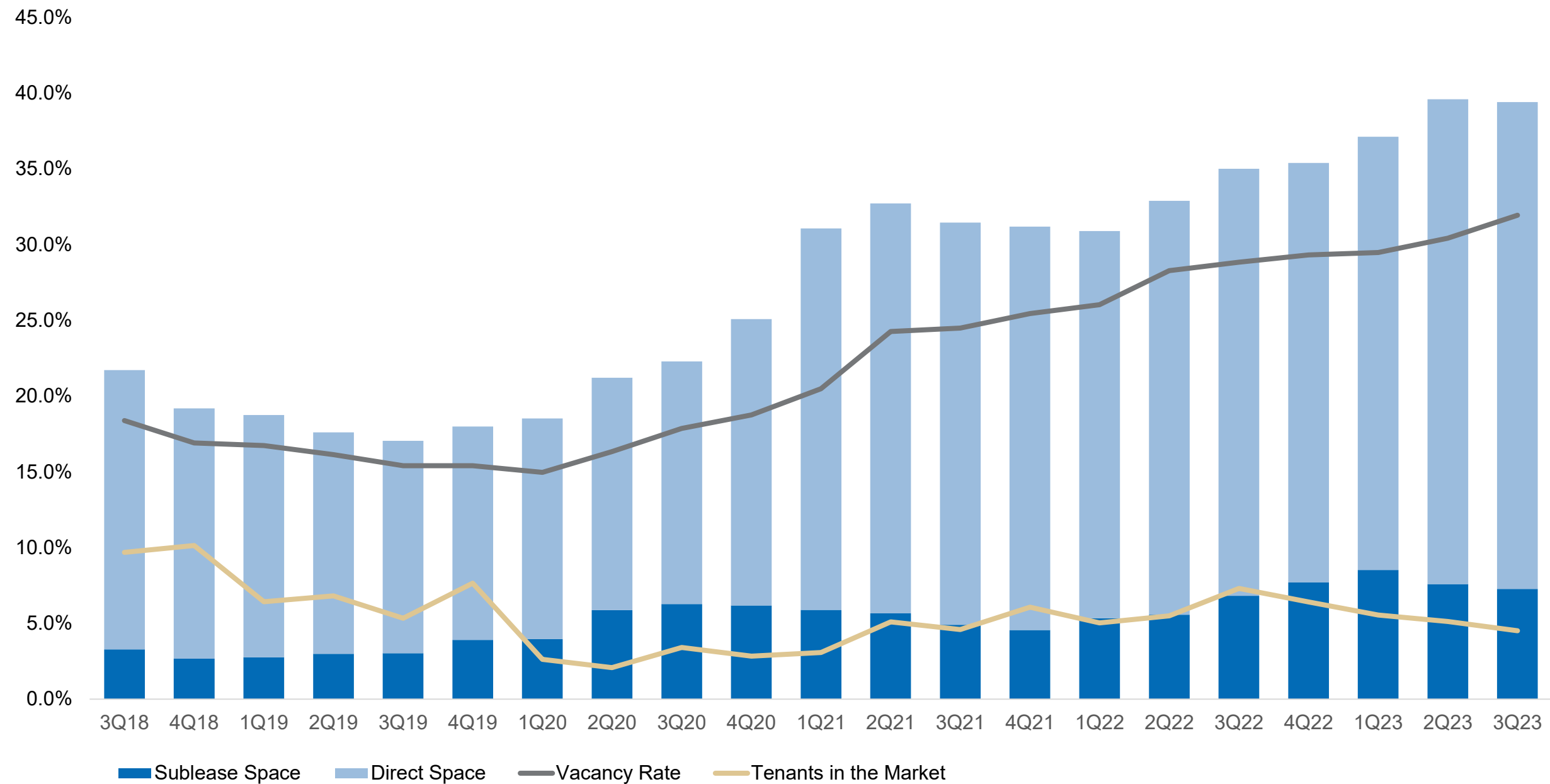


Source: Newmark Research, CoStar

Downtown Vacancy Increases but Availability Unaffected

Available space was largely unchanged from the previous quarter, but vacancy continued to climb as more companies vacated space that had already been available or relocated to take space from companies looking to downsize their footprint. Older and obsolete space is expected to linger on the market as the current tenants in the market are looking to upgrade their space or renew and downsize.

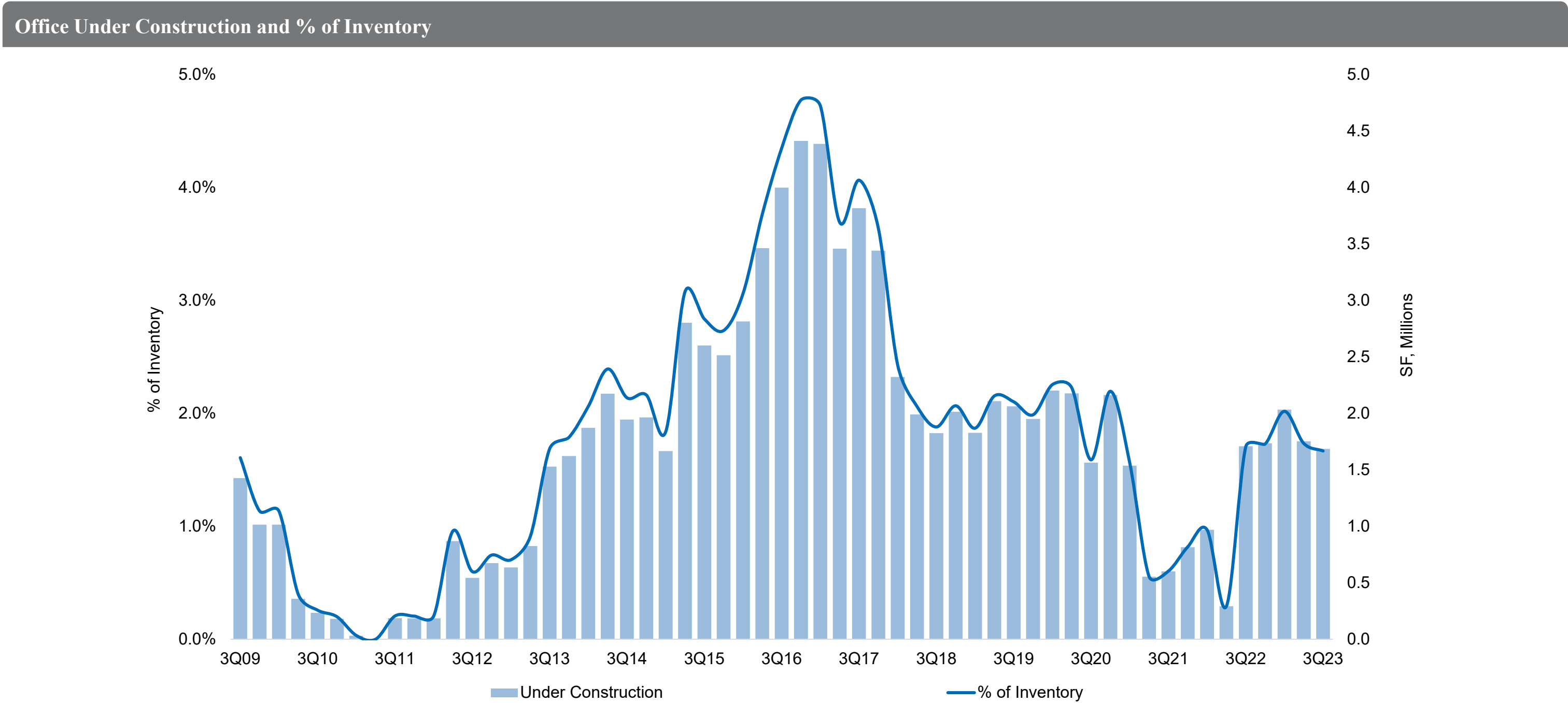
Available Space and Tenant Demand as Percent of Downtown Market



Source: Newmark Research, CoStar

No New Ground-Breakings as Market Faces Multiple & Varied Headwinds

Despite high quality new construction commanding some of the most interest, the construction pipeline remains constrained. All of the projects currently under construction are contained in two micromarkets that face unique problems. The LoDo/CPV micromarket Downtown has the majority of projects and total square-footage but only has 9.8% of the space pre-leased. In contrast, the projects in Cherry Creek in Midtown at 80.6% pre-leased but have few possible sites for future projects.

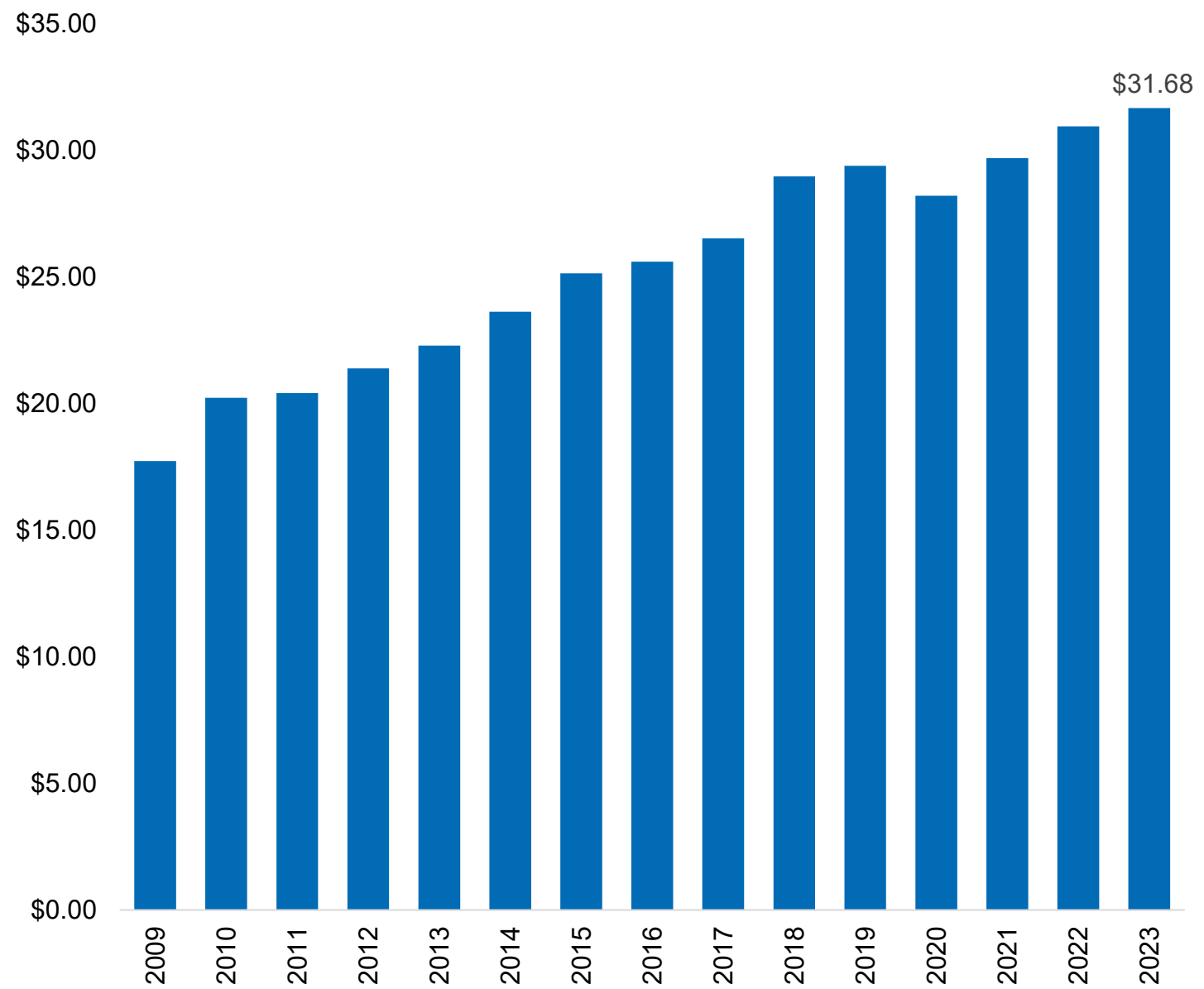


Source: Newmark Research, CoStar

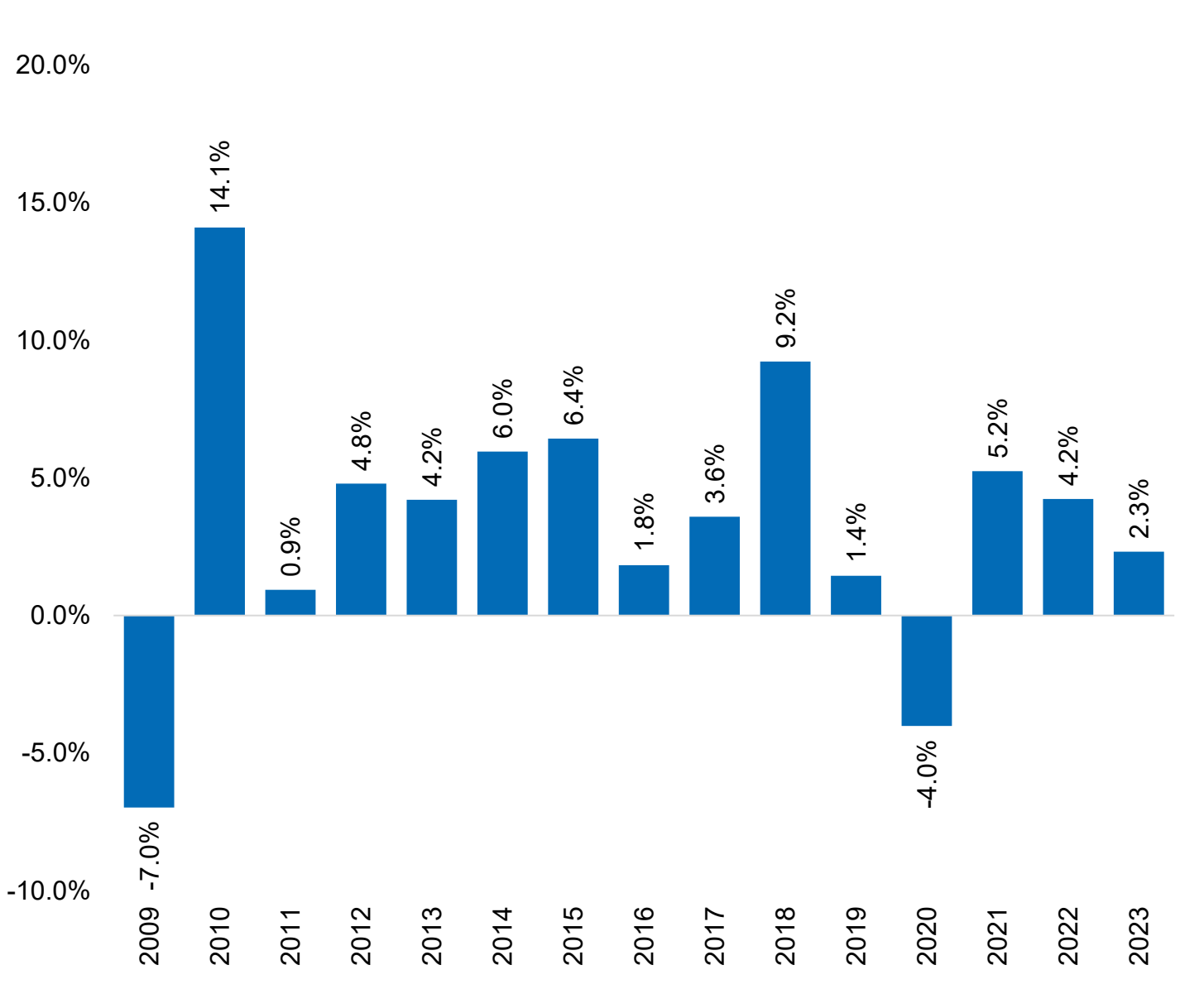
Overall Rent Increases Due to Higher Taxes, Costs & Limited Demand

Higher taxes, operating expenses and construction costs have forced landlords to increase rental rates year-over-year but at a cautious pace. Few tenants in the market willing to compromise quality of space for lower rates provide little incentive to drop asking rates despite the record vacancy and availability.

Office Median Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

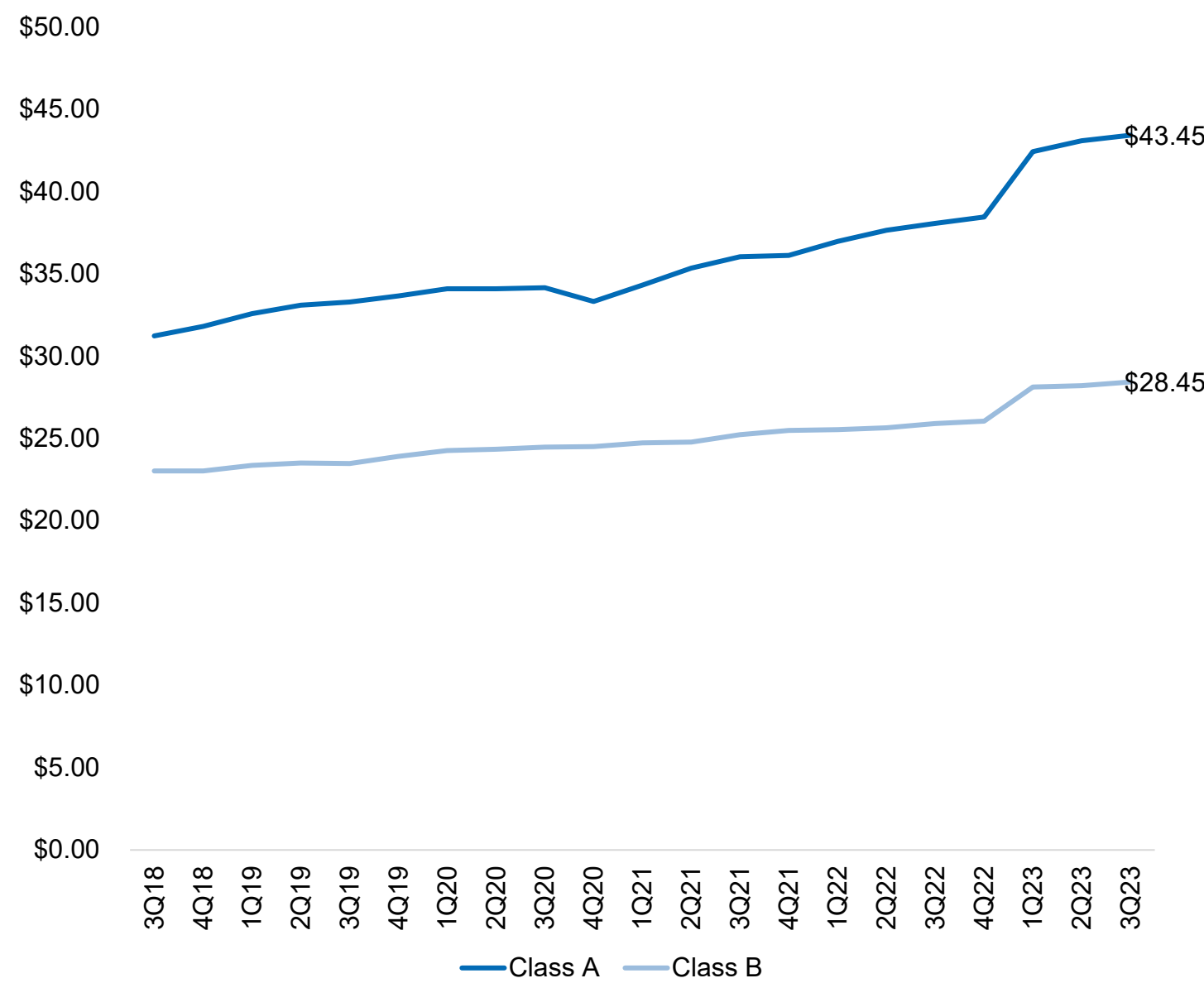


Source: Newmark Research

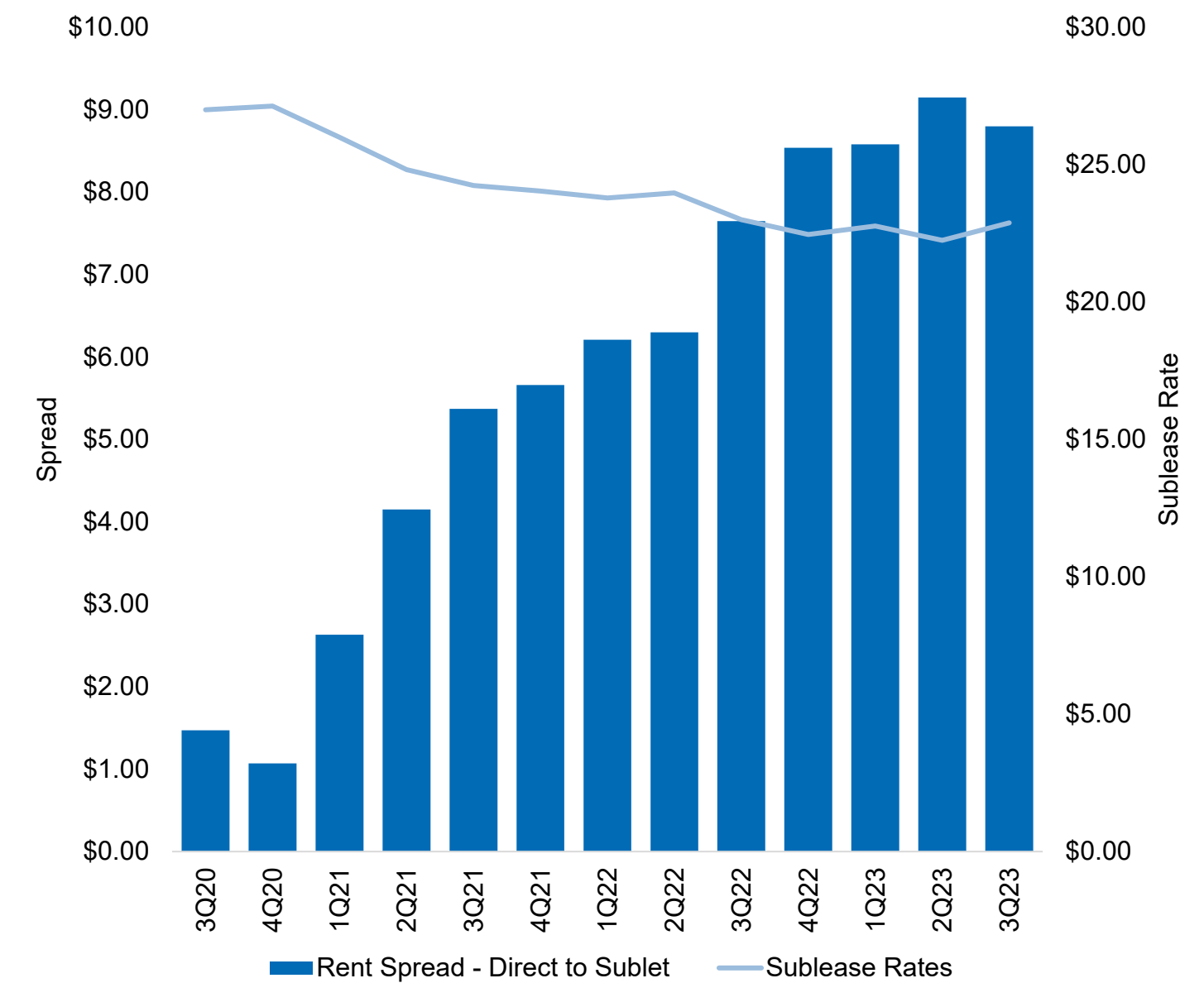
All Classes Maintain Steady Rates

While higher taxes and operating expenses drove rates in the beginning of the year, rates were mostly stable in the third quarter across all product classes. With limited demand focused on new product, Class A rates will continue to push the high-end of rates over the long-term while Class B and C products will have little incentive to lower rates as their operating expenses climb.

Class A and Class B Median Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Activity Subdued

Leasing activity continued to be dominated by extensions and short-term commitments as tenants remained unsure about the long-term economic outlook. The modestly improving horizon is expected to translate into more business confidence in the coming quarters, although the stagnation of the return to the office will keep the increase restrained.

Notable 3Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Ovintiv	370 17th Street	Downtown	Lease Extension	262,334
This extension includes a 71,600 SF downsize over three floors that were vacated this quarter.				
Zayo	1401 Wynkoop Street	Downtown	Lease Extension	48,000
Blend and extend deal that will commence in 2Q27 and shed 20,000 SF.				
Visit Denver	675 15th Street	Downtown	Lease Relocation	28,250
Visit Denver upgraded to newer construction and nearly doubled its previous office size.				
Booyah Advertising	1700 Lincoln Street	Downtown	Sublease	24,550
Original Whiting Petroleum had not previously vacated the floor and has two additional floors that are available for sublease and still occupied.				
S3 Shared Service Solutions	9189 South Jamaica Street	Southeast Suburban	Sublease	24,409
S3 Shared Service Solutions took the last of the remaining sublease space available in the building.				

Source: Newmark Research

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