



Denver Office Market

Continued Pandemic Distress with Few Long-Term Commitments

Denver's office sector has seen year-long disruption with the looming uncertainty of the pandemic and stay-at-home orders. With a vaccine hopefully delivered throughout Denver by the end of 2021, more companies will be willing to make long-term commitments. Currently we are at record highs of negative absorption throughout the major submarkets. Many tenants are reassessing their needs for office space.

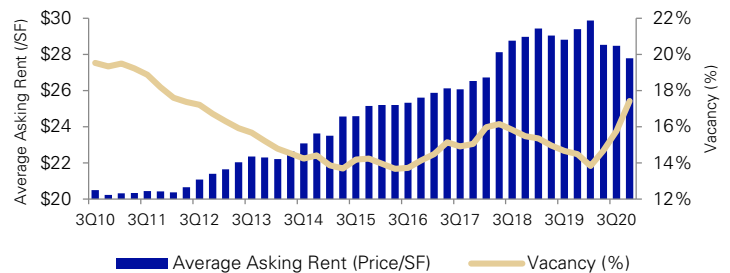
Quarterly net absorption totaled negative 1.5 million square feet, producing year-to-date net absorption of negative 2.5 million square feet. Vacancy rose from 15.8% to 17.4% from the third to fourth quarter of 2020. Yearly vacancy is up 2.9% from 2019 to 2020. The Class A sector continued to be affected by the pandemic accumulating net absorption of negative 1.1 million in the fourth quarter of 2020. The Class B has also struggled as net absorption was negative 297,926 square feet and has the largest market-wide vacancy at 19.6%. The Class C sector saw negative net absorption of 46,213 square feet in the fourth quarter of 2020 and was the least affected asset class.

Current Conditions

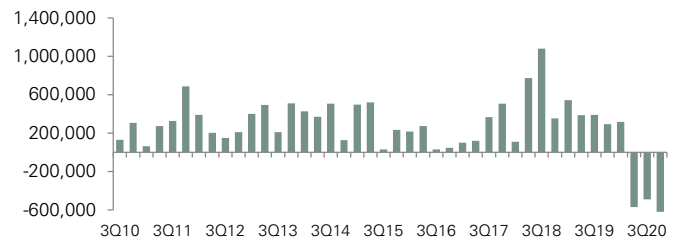
- Quarterly net absorption of negative 1.5 million SF
- Vacancy rate of 17.4%
- The loss of occupancy continued in the Class B sector
- 1.3 million SF under construction with 1Q21 set to be the delivery timeline

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	100.2 MSF	100.1 MSF	99.6 MSF	↑
Vacancy Rate	17.42%	15.80%	14.45%	↑
Quarterly Net Absorption (SF)	-1,491,739	-522,960	269,333	↓
Median Asking Rent/SF	\$27.79	\$28.47	\$29.40	↓
Under Construction (SF)	1,307,130	1,333,452	2,000,000	↓
Deliveries	26,322	696,823	136,368	↓

Submarket Activity

Two of Denver’s nine submarkets saw a smaller loss in net absorption, Aurora and Northwest. Aurora lost 72,025 square feet in the third quarter and only 35,001 square feet in fourth quarter. The Northwest submarket saw a smaller loss in the fourth quarter losing 28,648 square feet in quarter four compared to 41,052 in quarter three. The Southeast Suburban submarket saw the largest loss in net absorption at 705,069 square feet in the fourth quarter. The Downtown submarket also saw negative 214,572 square feet in net absorption in quarter four and accumulated negative 658,921 square feet annually. The Class A space in the Downtown, Southeast and Southwest submarkets both posted more than 200,000 in negative net absorption for the year. The Northwest and Northeast submarkets were the only areas to keep positive absorption for the year.

Four submarkets saw asking rates lower since the third quarter including Aurora, Midtown, Northeast and Southeast Suburban. The spread of asking rates is primarily within the B and C classes and lower quality space is not in the same demand as previous periods. The class A office space saw less volatility in asking prices compared to B and C classes, as there is still higher demand for Class A product within Denver.

Buildings Set to Deliver in First-Quarter 2021

The projects that are on pace to complete construction in the first quarter of 2021 are Block 162 (595,000 square feet), One Platte (250,402 SF), McGregor Square (190,000 square feet) and Market Station (95,000 square feet). Midtown set to complete three projects in the 2nd and 3rd quarter of 2021, 240 St. Paul Street (64,000 SF), Boulevard One (50,000 SF) and 2600 Welton Street (33,000 SF). These upcoming deliveries will impact the Downtown and Midtown markets solely and addition vacant space will be on the market in 2021.

Looking Forward

Denver’s office sector remains disrupted by the uncertainty of when a vaccine will be delivered. Companies with renewal options on the horizon are hesitant to make long-term commitments. Many of the tenants leaving office space are correlated to more people transitioning to remote working. The job market in Denver has been on a steady increase in recent months as over 16,500 more jobs were created in October and 7,000 more in September. We saw a steady decrease in job losses in the first two quarters of 2020. The total labor force in Colorado is 3% lower in 2020 (2.77 million) than in 2019 (2.69 million), which is lower than the national rate of job loss of over 5 percent.

Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Richey May	9780 South Meridian Blvd	SES	New	34,942
Healthpeak Properties	5050 South Syracuse	SES	New	32,106
Trade Desk	1595 Wynkoop	Downtown	New	20,263
Atlantic Specialty Insurance	188 Inverness Dr	SES	New	19,351
Motley Fool	555 17th Street	Downtown	New	18,137

Select Sale Transactions				
Building	Market	Sale Price	Price/SF	Square Feet
1402-1499 Larimer Street	Downtown	\$92,500,000	\$389	237,384
4949 S Syracuse & 5575 DTC Parkway	SES	\$28,687,500	\$157.8	181,763
14200 Exposition Avenue	Downtown	\$22,408,912	\$170.41	131,500
1625-1631 Wazee Street	Downtown	\$14,750,000	\$299.09	49,316

RESEARCH Q4 2020

Submarket Statistics						
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	4Q Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)
Overall (Classes A, B & C)						
Aurora	4,492,438	0	16.38%	-35,001	-158,454	\$16.50
Downtown	30,663,993	1,389,417	18.40%	-214,572	-658,921	\$39.83
Midtown	5,949,482	147,000	12.99%	6,425	-170,676	\$26.00
Northeast	2,124,874	0	13.72%	-24,554	6,525	\$20.32
Northwest	8,343,932	0	13.91%	-28,648	85,760	\$25.51
Southeast	6,534,871	0	19.19%	-189,747	-402,519	\$24.50
Southeast Suburban	30,806,899	0	18.76%	-705,069	-738,853	\$24.63
Southwest	2,836,519	0	18.58%	-266,515	-275,546	\$20.00
West	8,410,588	0	15.32%	-34,058	-163,013	\$21.00
Total Market	100,163,596	1,536,417	17.42%	-1,491,739	-2,475,697	\$27.79
Class A						
Aurora	349,208	0	58.4%	0	12197	\$23.00
Downtown	20,127,944	1,389,417	15.5%	-121,113	-278397	\$47.41
Midtown	2,795,359	147,000	11.8%	3,628	-66502	\$38.02
Northeast	827,779	0	31.6%	-24,554	38209	\$27.00
Northwest	5,223,108	0	14.1%	-26,811	109516	\$26.73
Southeast	2,658,600	0	21.6%	-118,873	-197810	\$28.94
Southeast Suburban	17,848,131	0	18.1%	-614,904	-339649	\$27.37
Southwest	1,046,425	0	35.2%	-262,092	-253301	\$22.50
West	1,255,301	0	9.8%	-7,435	31887	\$27.00
Total Class A	52,131,855	1,536,417	16.69%	-1,147,600	-943,850	\$32.83
Class B						
Aurora	3,297,326	0	12.93%	-23,140	-124829	\$19.75
Downtown	8,553,782	0	24.54%	-53,634	-256422	\$34.00
Midtown	2,082,635	0	17.18%	2,569	-74673	\$26.00
Northeast	873,070	0	25.32%	-34,171	-42823	\$18.85
Northwest	2,626,550	0	14.99%	-2,945	1043	\$24.00
Southeast	2,451,493	0	21.37%	-65,959	-192493	\$24.27
Southeast Suburban	10,990,422	0	20.90%	-66,421	-333664	\$23.50
Southwest	1,204,414	0	8.23%	-13,568	-21868	\$19.00
West	6,105,043	0	17.22%	-40,657	-170732	\$21.00
Total Class B	38,184,735	0	19.56%	-297,926	-1,216,461	\$24.34

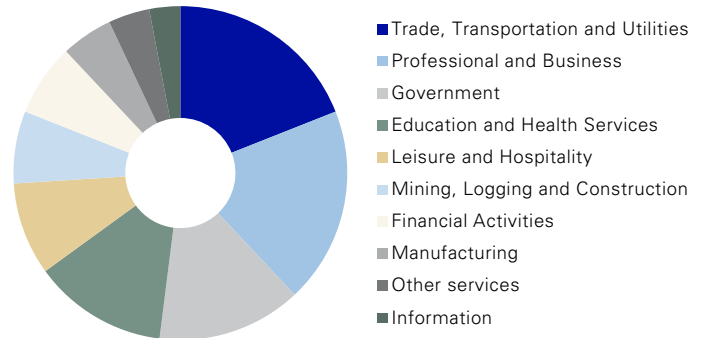
Economic Conditions

Employment growth in Denver averaged 2.4% per year from 2017-2019. Unfortunately, the employment declined by 3.8% in 2020 and was at a yearly low of negative 12.9% in April and has bounced back substantially.

The unemployment rate has dropped 50 basis points since September of 2020 to 6.5% currently. Manufacturing, information and financial activities were the only sectors that experienced higher unemployment rates in November. Manufacturing (8%) and professional & business services (1.4%) were up in job growth from October to November. The other sectors were still negative over the last 12 months. Professional & business services and transportation are the largest employment sectors in Denver accounting for 38% of the Non-Farm employment.

Employment by Industry

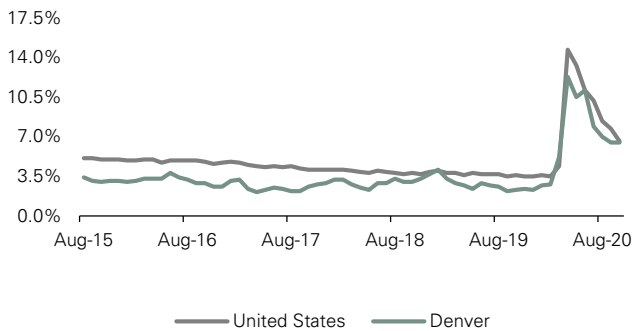
DENVER, NOV 2020



Source: US Bureau of Labor Statistics

Unemployment Rate

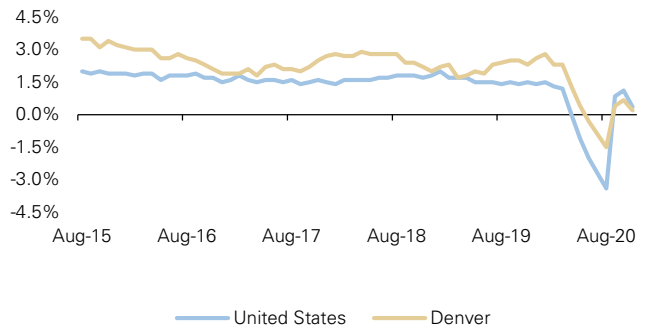
SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Payroll Employment

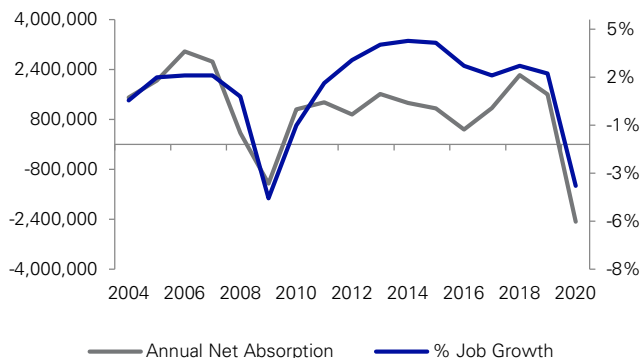
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth and Absorption

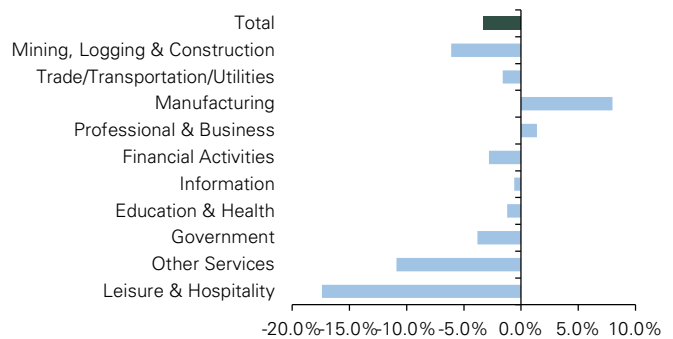
DENVER YOY EMPLOYMENT GROWTH AND OFFICE ANNUAL ABSORPTION



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

DENVER, NOV 2020, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

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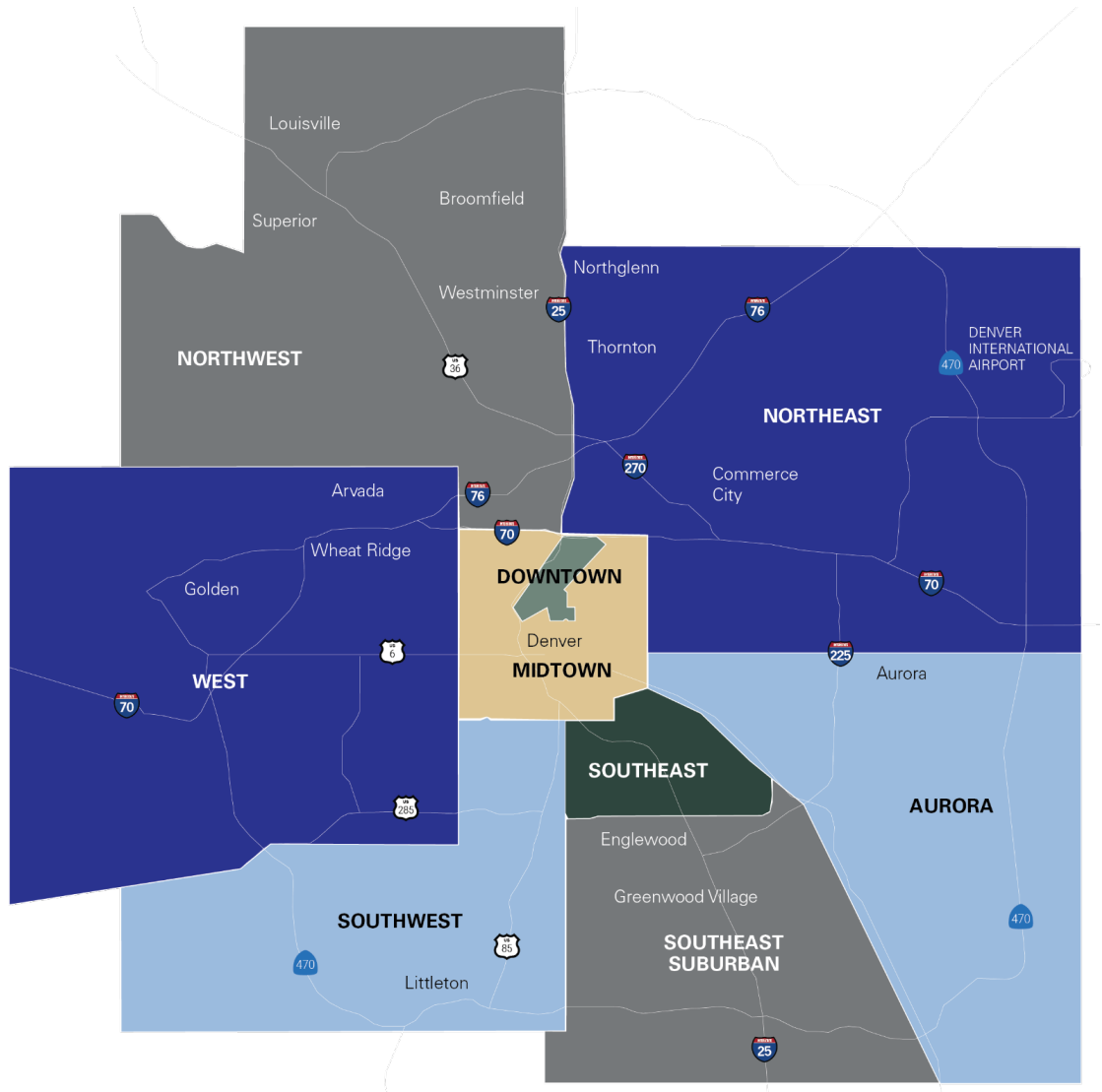
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