

FIGURES | DENVER DOWNTOWN OFFICE | Q2 2022

Development activity resumes in downtown Denver

▲ 26.9%

Vacancy Rate

▲ (126K)

SF Net Absorption

▶ \$40.17

FSG / Lease Rate

▲ 704K

SF Under Construction

▼ 842K

SF YTD Leasing Activity

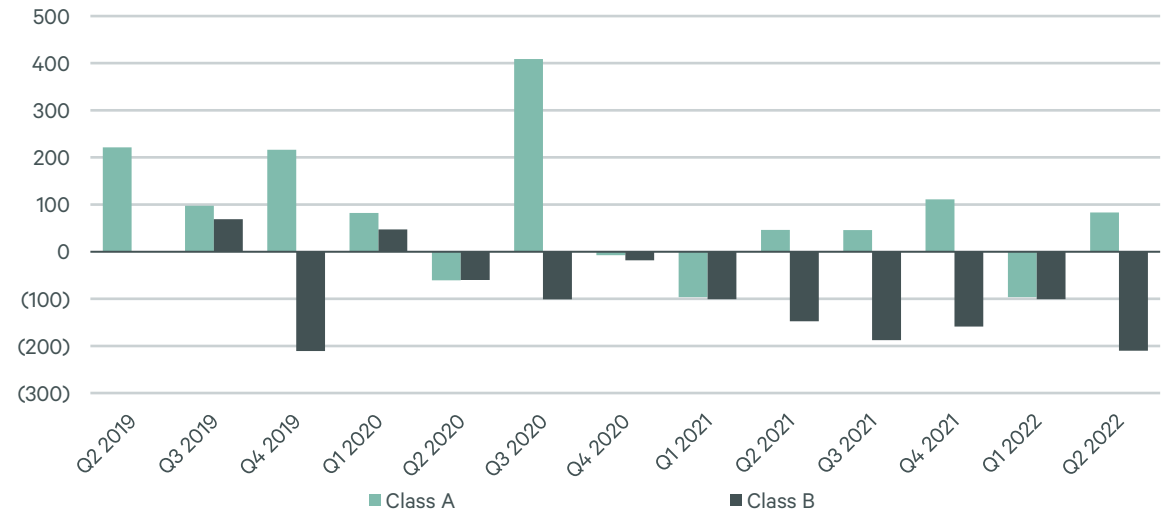
Note: Arrows indicate change from previous quarter.

HIGHLIGHTS

- Development activity resumed in the Downtown submarket in Q2 2022 with the 700,000-sq.-ft. office tower at 1900 Lawrence breaking ground.
- Leasing volume has slowed, dipping by 25.3% quarterly to 360,000 sq. ft. and down 34.9% year-over-year.
- Sublease availability increased 2.4% quarter-over-quarter to 1.5 million sq. ft. available, down from the peak of 1.9 million sq. ft. in Q2 2021.
- The average direct asking lease rate was flat on a quarterly basis, increasing less than 1.0% to \$40.17 per sq. ft. FSG.
- Negative 126,000 sq. ft. of net absorption was posted in Q2 2022—the seventh consecutive quarter of negative activity.
- Vacancy remained elevated at 26.9%, increasing 220 bps from the previous quarter.

Figure 1: Net Absorption by Class

Net Absorption Sq. Ft. (000s)

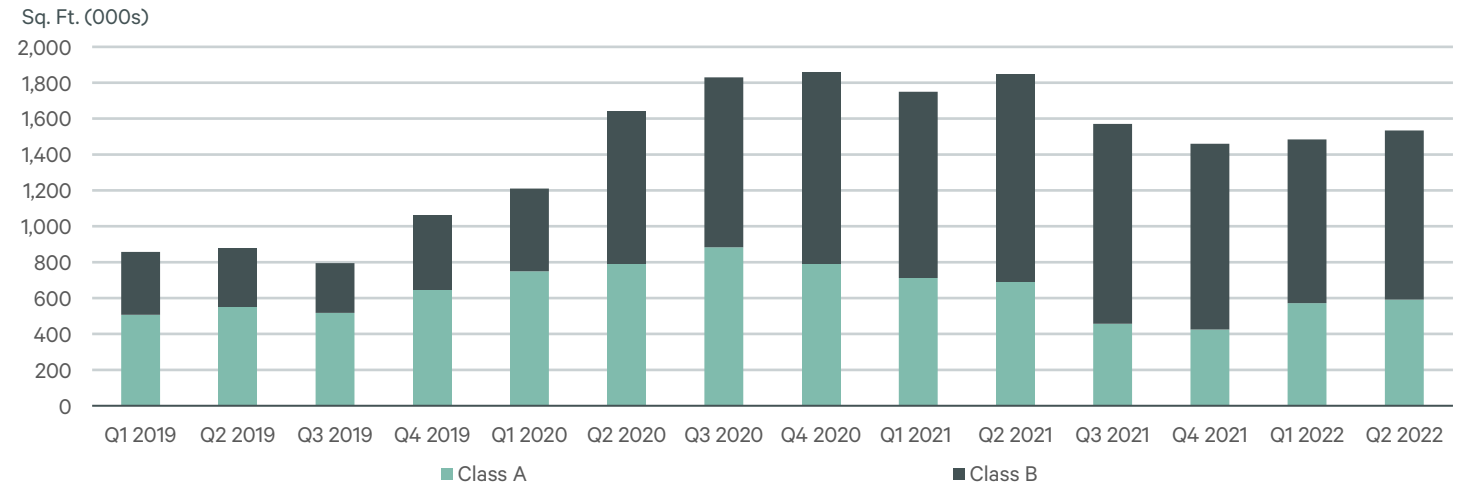


Source: CBRE Research Q2 2022

Sublease Availability

Sublease availability in the Downtown submarket increased slightly quarter-over-quarter, rising 2.4% to 1.5 million sq. ft. After peaking in Q2 2021 at 1.9 million sq. ft., sublease availability has declined and remained in the 1.5 million-sq.-ft. range since Q4 2021. Class B inventory maintained the largest share of sublease availability in Downtown, increasing 3.5% quarterly to 943,000 sq. ft. Class A product finished the quarter similarly with sublease availability growing by 3.4% to 591,000 sq. ft. Sublease availability by industry remained concentrated in Energy (26.9%), Technology (18.7%) and Business Services (13.1%) sectors. As occupiers continue to develop their return-to-work strategies, we expect sublease availability to gradually decline in future quarters. Flight to quality will remain an important component for companies looking to establish a physical presence, although premium office space for sublease remains scarce and competitive in the Downtown submarket.

Figure 2: Sublease Availability by Class

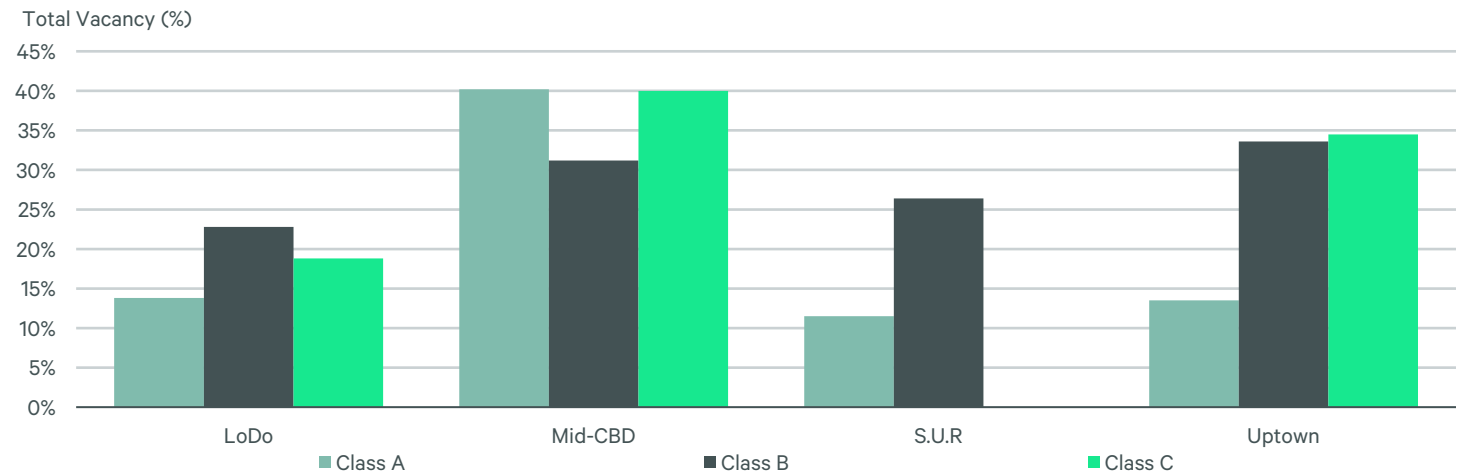


Source: CBRE Research Q2 2022

Vacancy

Total vacancy continued to increase in Q2 2022, rising 220 bps quarter-over-quarter to 26.9%. The quarterly increase was largely due to new construction projects, notably One Platte which delivered 242,000 sq. ft. of vacant space to Downtown. This directly impacted Class A vacancy rates which rose 170 bps to 20.7%. The vacancy rate for Class B space also increased this quarter to 30.2%, up 330 bps quarterly. The substantial rise in Class B vacancy was largely attributed to SM Energy’s downsize. The energy company moved out of its 101,000-sq.-ft. space at 1775 Sherman Street (Class B) and relocated to 59,000 sq. ft. at Wells Fargo Center (Class A).

Figure 3: Total Vacancy by Micromarket



Source: CBRE Research Q2 2022

Average Asking Lease Rates

Average asking lease rates recorded a nominal quarterly increase of less than 1.0% to finish Q2 2022 at \$40.17 per sq. ft. FSG. On the heels of multiple completions Downtown in Q2 2021—Block 162, McGregor Square and Market Station—rental rates have recorded marginal quarterly increases and have only increased 1.7% from one year ago. Class A rental rates decreased less than 1.0% quarterly to \$49.32 per sq. ft. FSG after peaking the previous quarter at \$49.68 per sq. ft. FSG. Year-over-year, Class A rental rates have increased 1.8% after recording significant growth from the aforementioned new construction deliveries. Class B properties also experienced minimal quarterly changes, increasing 1.4% quarterly to \$38.51 per sq. ft. FSG.

Development

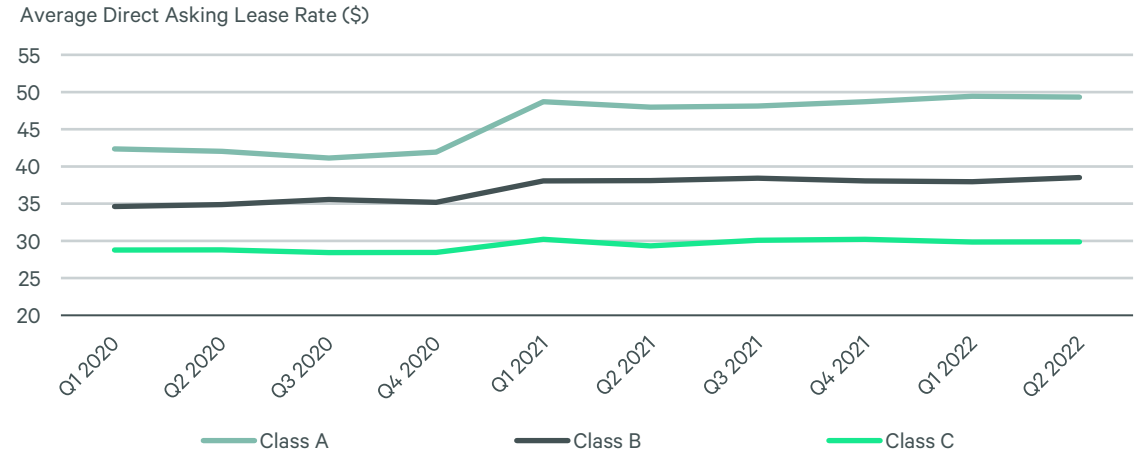
Development activity resumed in the Downtown submarket in Q2 2022 with 1900 Lawrence, a 30-story, 704,000-sq.-ft. office tower, breaking ground. The project, which is currently the only office project under construction in Downtown, is slated to deliver in Q2 2024. Two speculative office properties delivered in Q2 2022 comprising a total of 285,000 sq. ft. The 242,000-sq.-ft. One Platte project delivered 242,000 sq. ft. of new space to the LoDo/CPV micromarket with 50.8% preleased. Robinhood, a financial services company, is set to occupy the top two floors totaling 120,000 sq. ft. in Q3 2022.

Figure 4: Notable Deliveries

Property Name	Address	SF	Preleased SF	Spec/BTS
One Platte	1701 Platte St	241,764	119,811	Spec
Emily's Office	1221-1261 Glenarm Pl	43,473	0	Spec

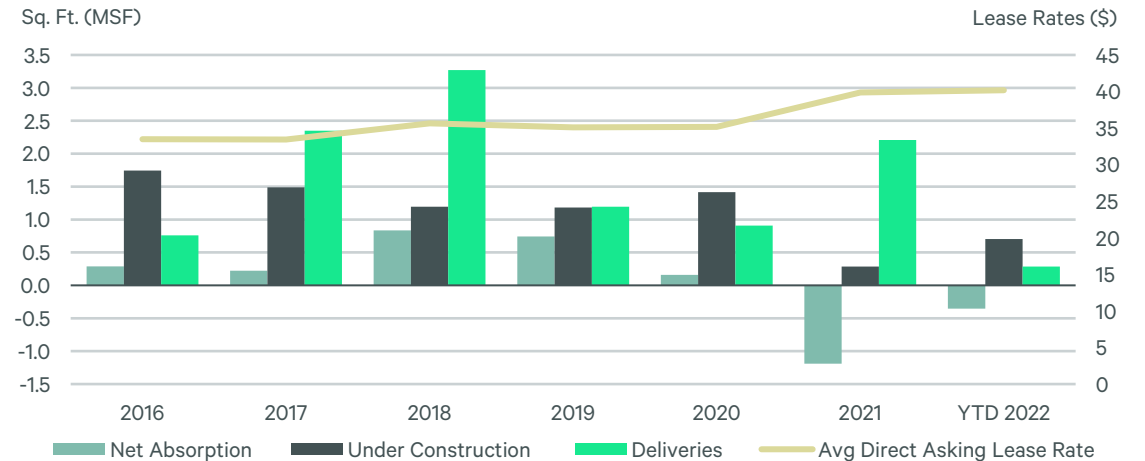
Source: CBRE Research Q2 2022

Figure 5: Average Asking Direct Lease Rates by Class



Source: CBRE Research Q2 2022

Figure 6: Historical Net Absorption, Construction, Deliveries and Direct Asking Lease Rates



Source: CBRE Research Q2 2022

Leasing Activity

Leasing activity decreased quarter-over-quarter as 360,000 sq. ft. transacted in Q2 2022. This marks a 25.3% decrease from when 482,000 sq. ft. was leased in Q1 2022. Year-over-year, leasing activity declined by 34.9% as tenants continue to adjust their office workplace strategies. Leasing of sublet spaces this quarter was limited to only one transaction that accounted for just 3.8% of the total leasing. Over the last four quarters, leasing volume totaled 2.2 million sq. ft. The Energy sector remained the primary driver of leasing activity over the last year, recording 528,000 sq. ft. or 23.8% of total leasing volume. Technology users followed with 393,000 sq. ft. (17.7%), while Legal rounded out the top three with 357,000 sq. ft. (16.1%). The top three largest deals in Q2 2022 included: Colorado based law firm, Brownstein Hyatt Farber Schreck signing a new lease at recently constructed Block 162 for 103,000 sq. ft. across floors 26-29; MarkWest Energy Partners downsizing and renewing to 95,000 sq. ft. in 1515 Arapahoe Street; and Bryan Cave also downsizing and renewing to 50,000 sq. ft. on floors 41 and 42 in Wells Fargo Center.

Net Absorption

The Downtown submarket recorded its seventh consecutive quarter of negative absorption activity with 126,000 sq. ft. of negative net absorption in Q2 2022. Class B properties were the catalyst for the negative figures, posting negative 210,000 sq. ft. of net absorption. Class A properties finished the quarter in positive territory with 83,000 sq. ft. absorbed. Year-to-date, Downtown posted negative 354,000 sq. ft. of net absorption, marking a strong improvement from when negative 681,000 sq. ft. was absorbed through the first two quarters of 2021. Continued occupier consolidation in the energy sector was the primary driver of negative net absorption this quarter as SM Energy vacated its 101,000-sq.-ft. headquarters at 1775 Sherman Street to downsize to 59,000 sq. ft. at Wells Fargo Center. The Mid-CBD micromarket was the main contributor to negative absorption this quarter, posting negative 163,000 sq. ft., while LoDo/CPV was the only micromarket to record positive net absorption of 48,000 sq. ft.

Figure 7: Leasing Activity (Q3 2021 – Q2 2022)

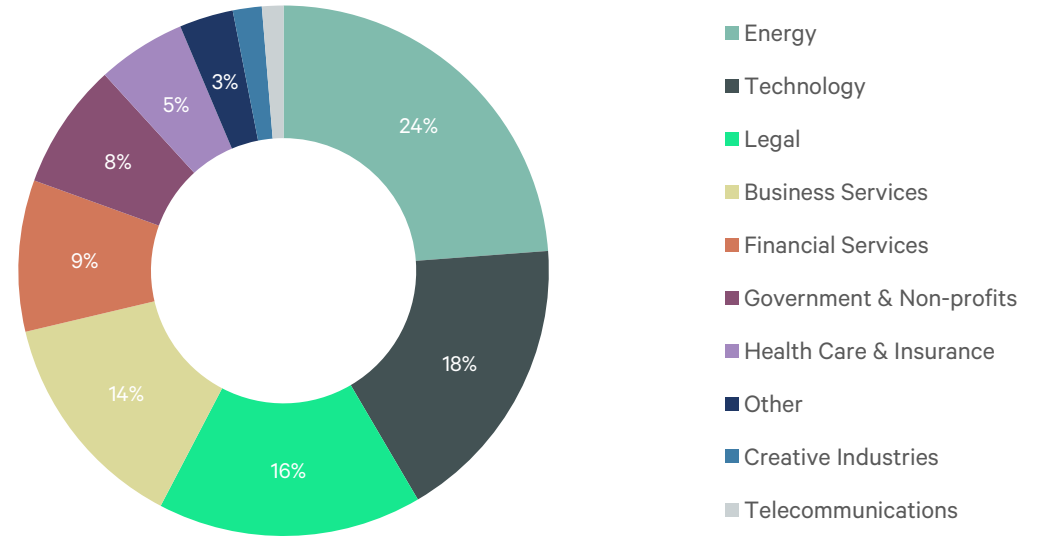


Figure 8: Top Lease Transactions

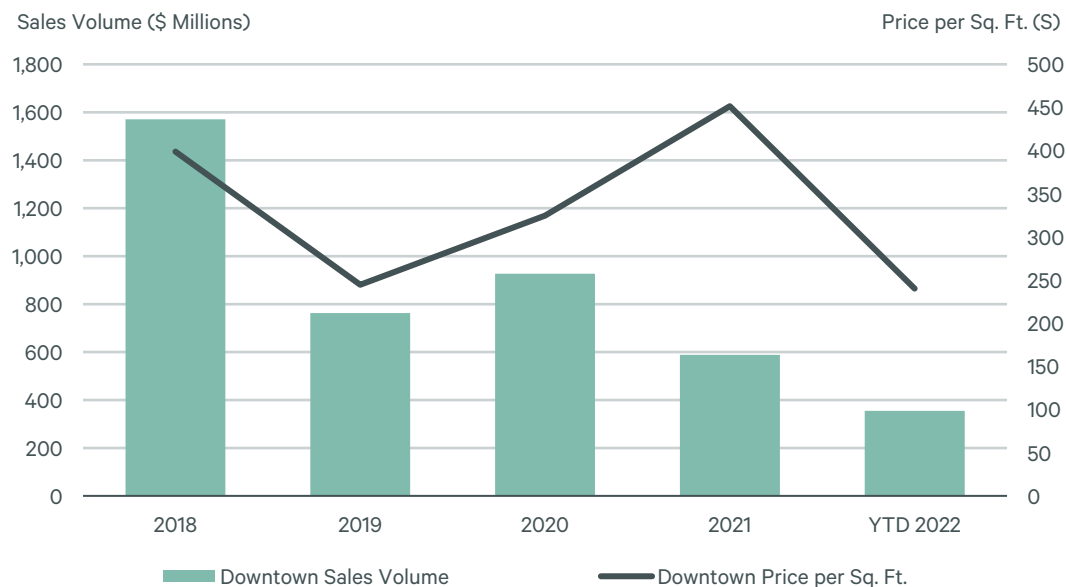
Lease Type	Tenant	SF	Address	Micromarket	Sublease
New Lease	Brownstein Hyatt Farber Schreck	103,000	675 15th St	Mid-CBD	No
Renewal/Contraction	MarkWest Energy Partners	95,000	1515 Arapahoe St	Mid-CBD	No
Renewal/Contraction	Bryan Cave LLP	50,000	1700 Lincoln St	Uptown	No
Renewal	GSA	26,000	999 18th St	Mid-CBD	No
New Lease	Project Canary	22,000	1200 17th St	S.U.R	No

Source: CBRE Research Q2 2022

Investment Sales

Investment sales in the Downtown submarket remained stagnant this quarter as only three transactions were recorded worth a total sales volume of \$30.1 million. The overall average price per sq. ft. was \$400.26 in Q2 2022, down 7.2% from Q1 2022. The largest transaction on a total sale price basis was The George in the Mid-CBD micromarket, which Harbor Associates acquired from Stockbridge Capital Group for \$17.2 million (\$179.17 per sq. ft.). Slowed sales activity is expected through the balance of the year as investors remain cautious due to recent interest rate hikes.

Figure 9: Investment Activity



Source: CBRE Research Q2 2022

Market Overview

Figure 10: Quarterly Statistics

	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Total NRA (SF)	30,350,732	30,350,732	30,350,732	30,375,332	30,660,569
Under Construction (SF)	293,875	293,875	285,237	285,237	704,036
Direct Vacant (%)	18.9	19.4	20.8	21.6	23.3
Sublease Vacant (%)	4.0	3.5	3.5	3.2	3.6
Direct Available (%)	23.9	24.4	25.0	25.1	25.6
Sublease Available (%)	6.5	5.5	5.0	5.1	5.1
Sublease Available (SF)	1,959,986	1,663,861	1,531,406	1,541,373	1,578,750
Net Absorption (SF)	(204,615)	(155,879)	(272,348)	(227,803)	(126,057)
Average Direct Asking Lease Rate (\$)	39.48	39.72	39.68	39.63	40.17
Leasing Activity (SF)	526,622	674,685	704,571	482,149	359,940

Figure 11: Micromarket Statistics, Q1 2022

	Lower Downtown/ Central Platte Valley	Mid-Central Business District	Skyline Urban Renewal	Uptown
Total NRA (SF)	6,504,372	17,118,219	4,212,433	2,825,545
Direct Vacant (%)	13.0	29.8	12.9	23.5
Total Available (%)	19.4	36.5	20.7	37.1
Average Direct Asking Lease Rate (\$)	52.67	38.03	48.05	33.99
Sublease Available (SF)	334,709	1,029,950	152,251	61,840

Source: CBRE Research Q2 2022

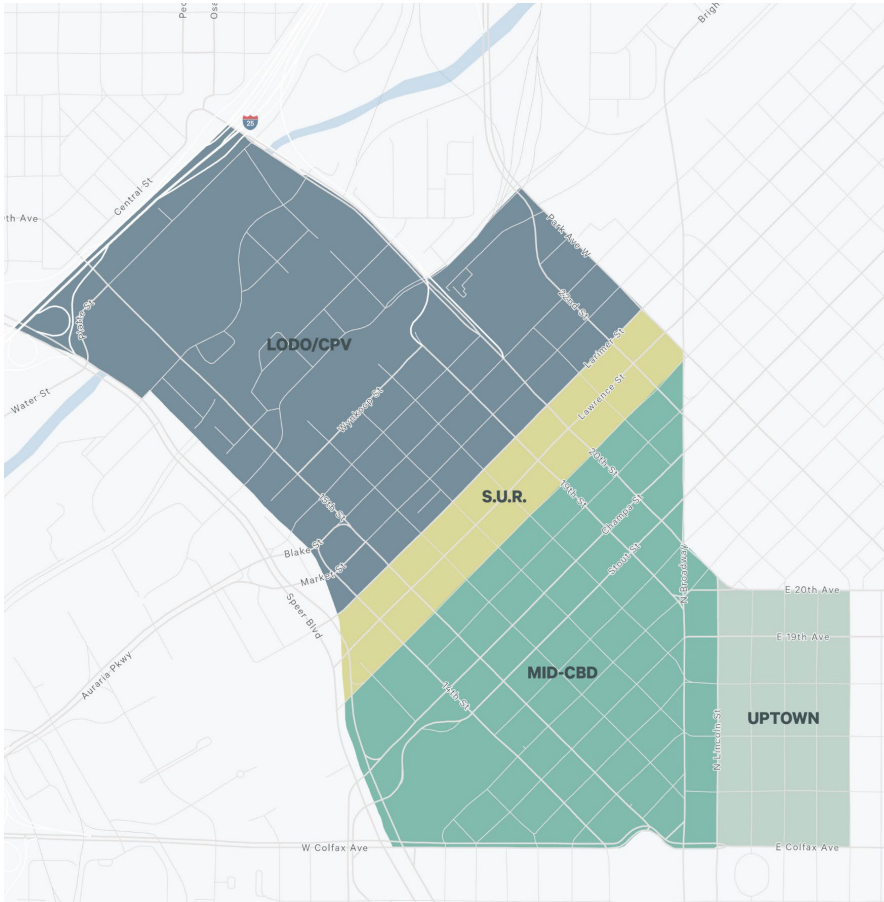
Market Statistics

Figure 12: Quarterly Statistics by Class

Class A	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Total NRA (SF)	11,025,470	11,025,470	11,025,470	11,051,602	11,936,198	11,936,198	11,936,198	11,936,198	12,221,435
Direct Vacant (%)	12.7	9.2	9.3	10.2	16.9	16.5	15.6	16.5	17.7
Sublease Available (SF)	790,049	883,094	790,644	712,126	686,897	457,058	424,641	572,193	591,377
Total Available (%)	15.2	16.2	17.4	20.3	23.8	22.9	22.2	23.7	24.2
Net Absorption (SF)	(60,847)	408,762	(7,445)	(82,135)	(1,055)	45,821	101,937	(96,483)	83,039
Average Direct Asking Lease Rate (\$)	42.03	41.13	41.94	40.87	48.43	48.12	48.70	49.44	49.32
Class B	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Total NRA (SF)	14,440,721	14,429,021	14,446,325	14,461,452	14,461,452	14,461,452	14,461,452	14,461,452	14,461,452
Direct Vacant (%)	14.3	15.0	15.6	17.4	18.6	20.1	21.8	22.5	25.2
Sublease Available (SF)	849,167	946,954	1,065,375	1,037,556	1,159,188	1,113,137	1,034,970	911,608	943,059
Total Available (%)	23.0	24.4	26.6	30.2	33.1	32.8	34.1	33.0	34.4
Net Absorption (SF)	(59,972)	(101,213)	(18,414)	(242,170)	(172,352)	(212,673)	(183,330)	(100,735)	(209,977)
Average Direct Asking Lease Rate (\$)	34.88	35.56	35.17	35.50	38.20	38.44	38.07	37.96	38.51
Class C	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Total NRA (SF)	3,939,402	3,939,402	3,946,002	3,953,082	3,953,082	3,953,082	3,953,082	3,977,682	3,977,682
Direct Vacant (%)	21.7	23.5	24.0	26.3	27.8	28.1	33.0	33.6	33.5
Sublease Available (SF)	49,850	76,742	102,593	112,011	113,901	93,666	71,795	57,572	44,314
Total Available (%)	25.7	28.5	31.4	34.5	40.6	40.2	38.8	38.9	37.6
Net Absorption (SF)	(22,409)	(60,291)	(31,307)	(123,738)	(56,531)	(13,954)	(190,955)	(30,585)	881
Average Direct Asking Lease Rate (\$)	28.80	28.42	28.44	26.92	29.68	30.09	30.22	29.84	29.86

Source: CBRE Research Q2 2022

Market Area Overview



CBRE Offices

Downtown Denver

1225 17th Street, Suite 3200
Denver, CO 80202

Denver Tech Center

5455 Landmark Place, Suite C102
Greenwood Village, CO 80111

Boulder

1805 11th Street, Unit A
Boulder, CO 80302

Colorado Springs

102 South Tejon Street, Suite 1100
Colorado Springs, CO 80903

Fort Collins

3003 East Harmony Road, Suite 300
Fort Collins, CO 80528

Survey Criteria

Includes all office buildings 10,000 sq. ft. and greater in size, excluding owner-user, in the Downtown Denver submarket. Buildings which have begun construction as evidenced by site excavation or foundation work.

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