

3Q24

# Denver Office Market Overview



NEWMARK

# Market Observations

## Economy

- The region’s unemployment inched up but is 23 basis points under the national rate.
- Despite sluggish job growth, payroll company ADP rated Denver the hottest hiring market in the nation based on pay growth, starting wages and hiring rate for 15 million workers.
- The University of Colorado Leeds School of Business recorded decreased confidence for the coming fourth quarter of 2024 among Colorado business leaders, largely due to national issues such as the upcoming presidential election and inflation.

## Major Transactions

- bet365 occupied 120,000 SF at One Platte in the Downtown submarket.
- The Department of Interior vacated the three buildings in the Corporate Center at Academy Park in the West submarket for a total of 213,000 SF and consolidated into existing government buildings.
- Arrow Electronics vacated the full 128,500 SF building at 9201 East Dry Creek Road in the Southeast Suburban submarket and consolidated into its existing build-to-suit in the same submarket.

## Leasing Market Fundamentals

- Large single tenants downsizing and consolidating into other existing locations dominated the third quarter of 2024, offsetting growth and weighing absorption back down into negative territory.
- One new building completed in the third quarter, the 80,000 SF 255 Fillmore Street building in Cherry Creek, and two existing buildings, the 207,000 SF Riverfront Festival Center in the Southwest submarket and the 83,000 SF Lansing Point in the Southeast Suburban, were sold and the new owners converted them to leasable office buildings.
- The drop in the median asking rental rate from the previous quarter is the result of the continuing trend of top-quality space being the first to lease, removing it from the calculations, rather than landlords decreasing asking rates.

## Outlook

- Despite worries about the slowing national economy and political uncertainty, Colorado business leaders surveyed by the University of Colorado Leeds School of Business were more positive for the first quarter of 2025, highlighting the calm after the political storm and confidence that growth will return in the coming year.
- Large downsizes are expected to continue to slow as companies settle into a more stable office size and will begin planning for future expansion in the coming year.
- The price of tenant improvements and office buildout, along with the long waiting periods for receiving permitting approval will spec suites, will keep sublease space or just renewing in existing space the top choices for tenants currently in the market.

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1. Economy
  2. Leasing Market Fundamentals

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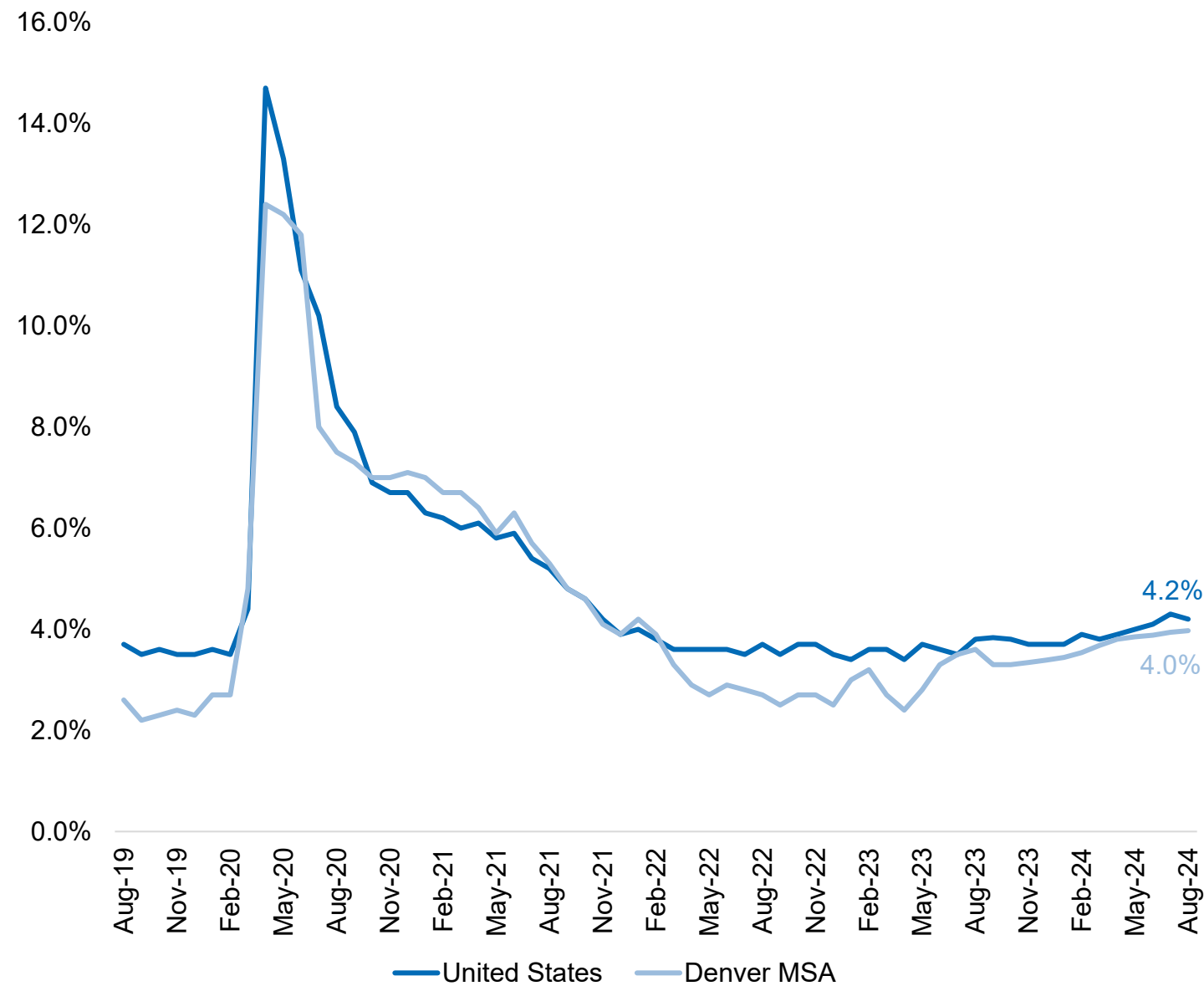
# Economy



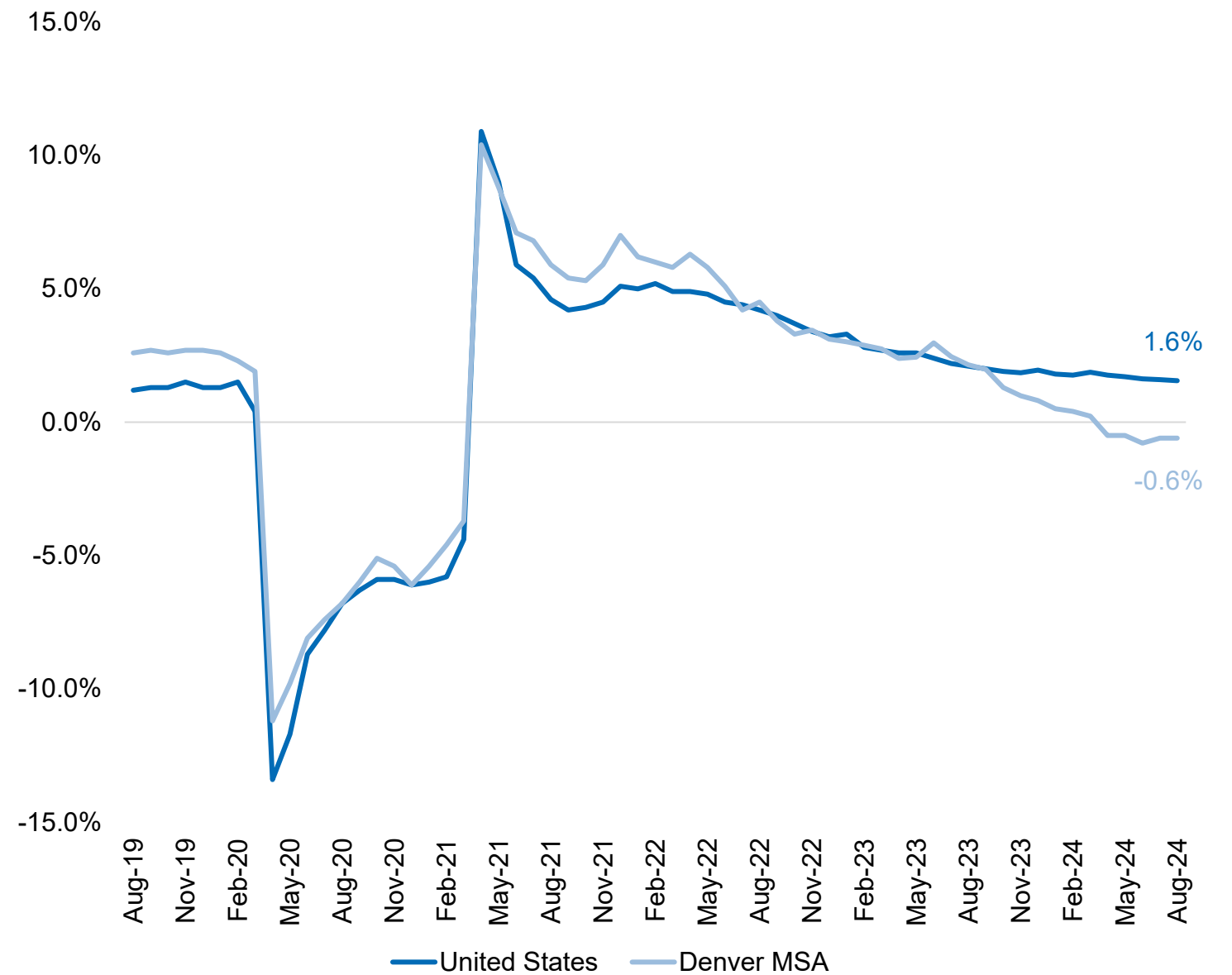
# Unemployment Beats National Level but Job Growth Lags

Denver as well as Colorado's larger economy often outpace the nation in multiple key metrics, despite lethargic job growth. Both rank higher than the national rate on labor force participation and wage growth. According to ADP, yearly pay growth hit 5.8% in Denver, ranking in the 98th percentile for the nation.

Unemployment Rate, Seasonally Adjusted



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

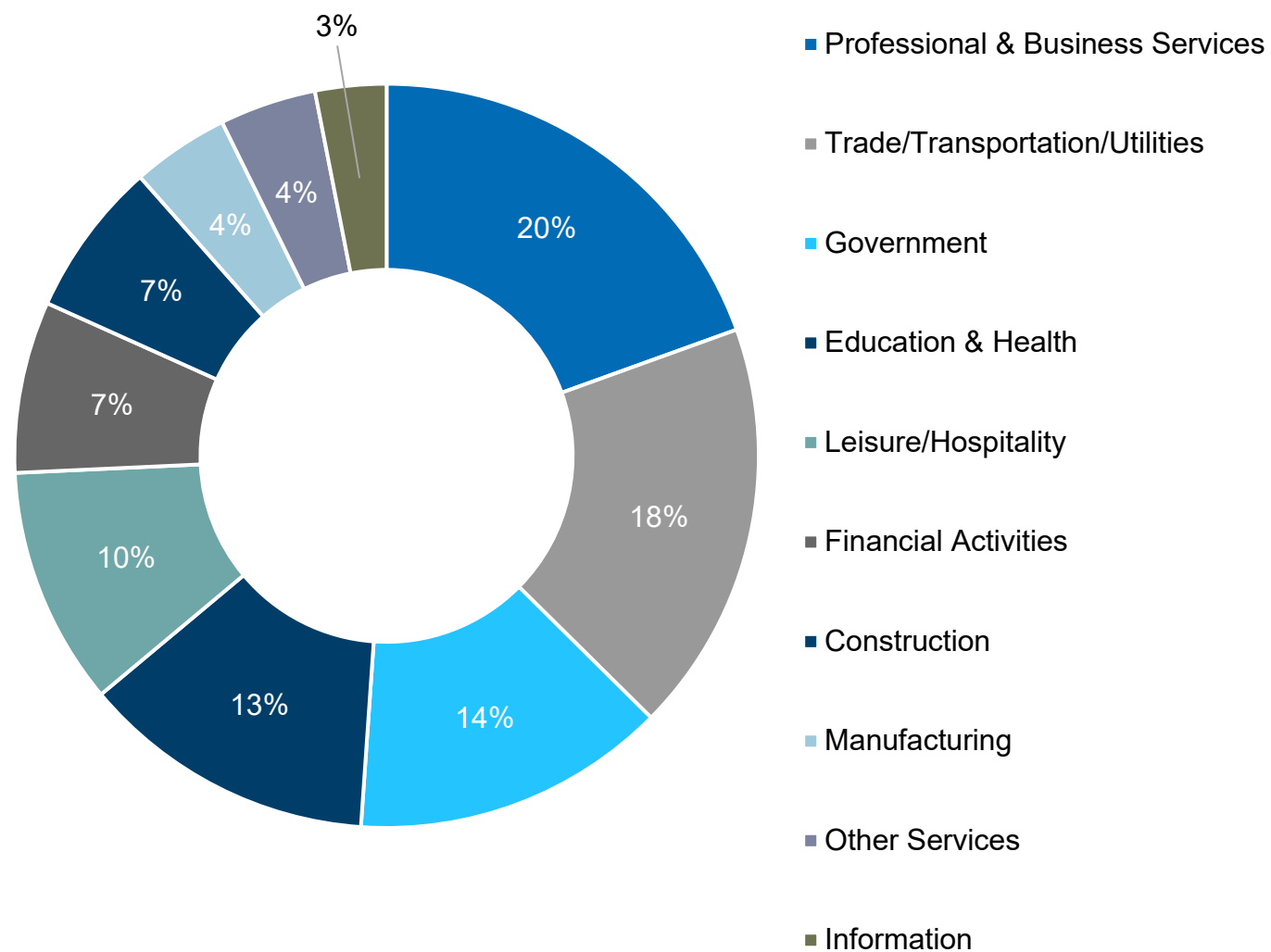


Source: U.S. Bureau of Labor Statistics, Denver MSA

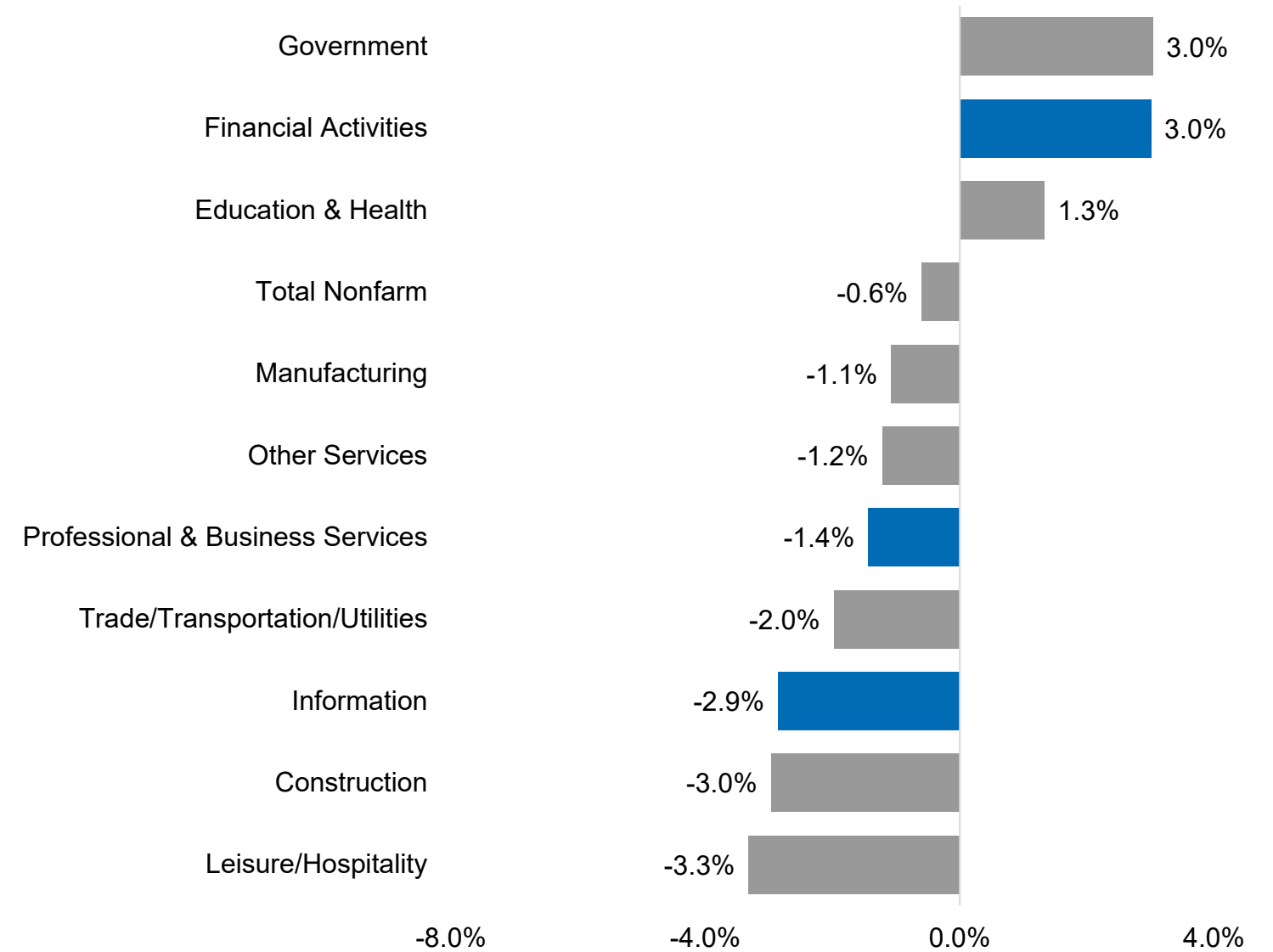
# Interest Rate Cut Effects Not Yet Seen

Although seven of the ten sectors posted some year-over-year job loss despite the anticipated interest rate cut, the financial activities sector continued to add jobs. Both the construction and professional services were cited by ADP's research as having higher starting wages than other markets.

Employment by Industry, August 2024(p)



Employment Growth by Industry, 12-Month % Change, August 2024(p)

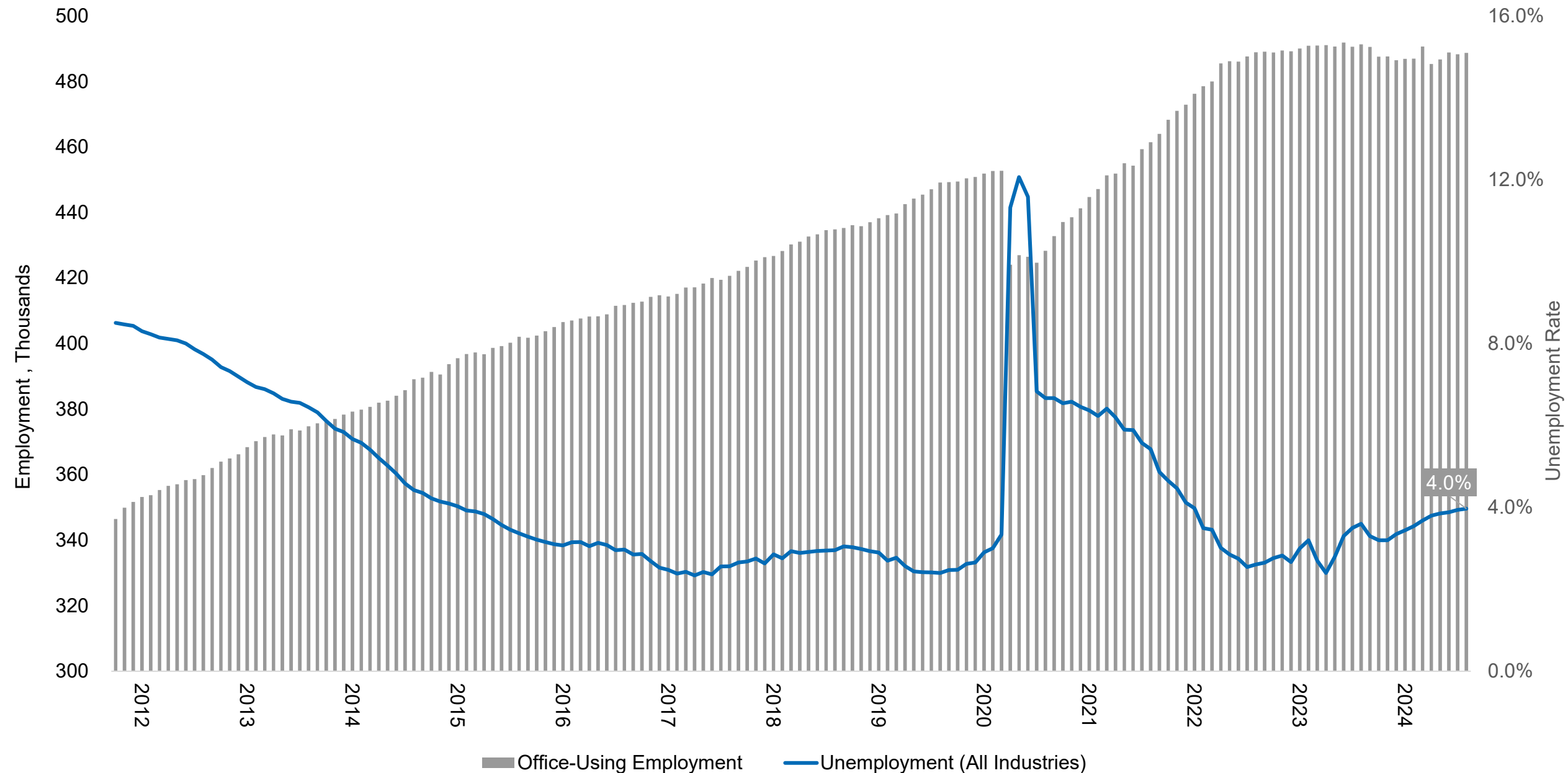


Source: U.S. Bureau of Labor Statistics, Denver MSA

# Office-Using Employment Record Incremental Growth

Despite being down year-over-year and slightly higher unemployment, office-using employment has added over 2,000 net new jobs since the beginning of the year.

## Office-Using Employment\* and Unemployment Across All Industries



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

Note: August 2024 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

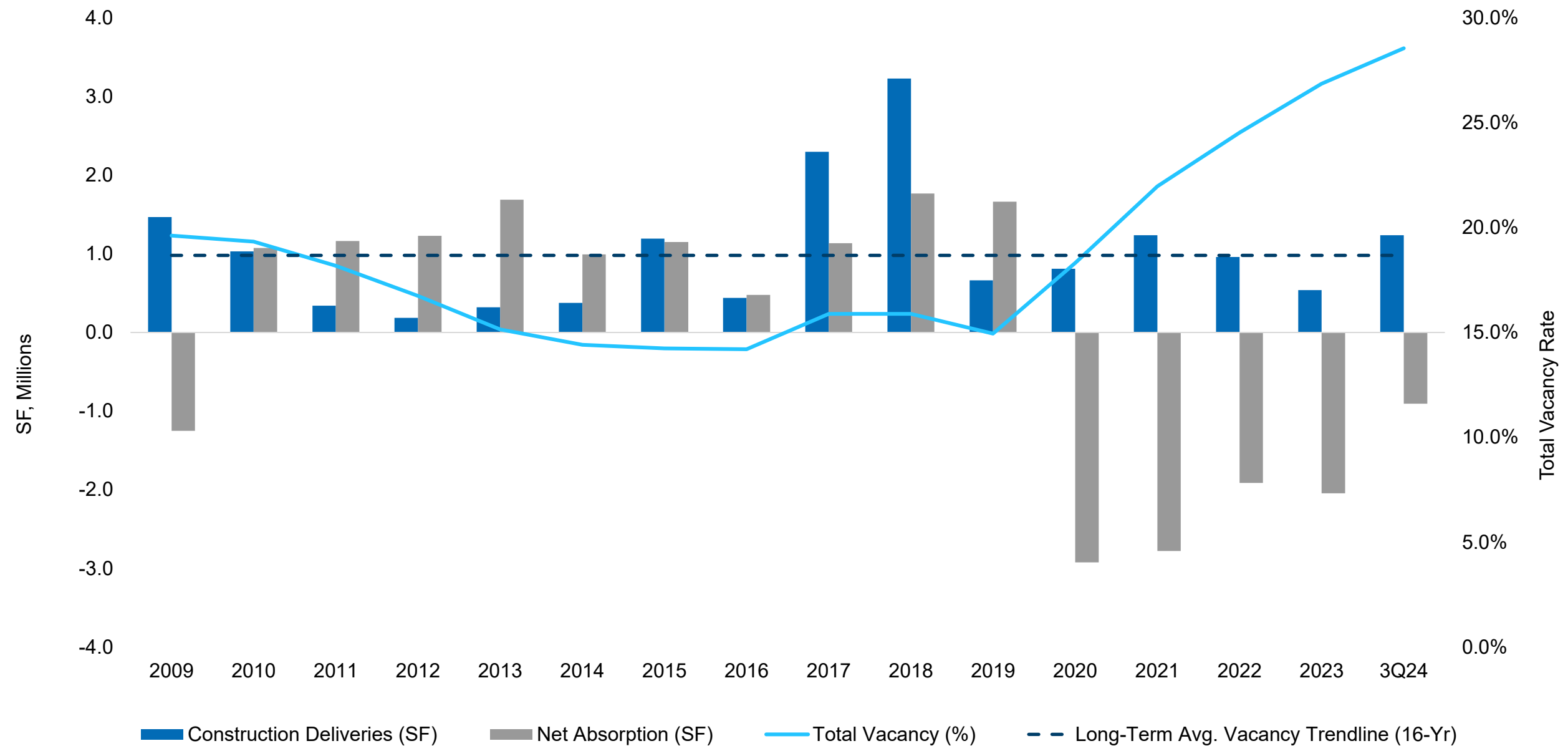




# An Uneven Recovery Begins to Show

The third quarter illustrated the continuation of the bifurcated market. Two large tenant downsizes pulled quarterly absorption into the red, but they were partially offset by a major new tenant occupying nearly 120,000 SF of top-quality space. Class A recorded year-to-date absorption of 416,000 SF. The rate of climb for vacancy has slowed, rising to 28.6% in the third quarter of 2024.

## Historical Construction Deliveries, Net Absorption, and Vacancy

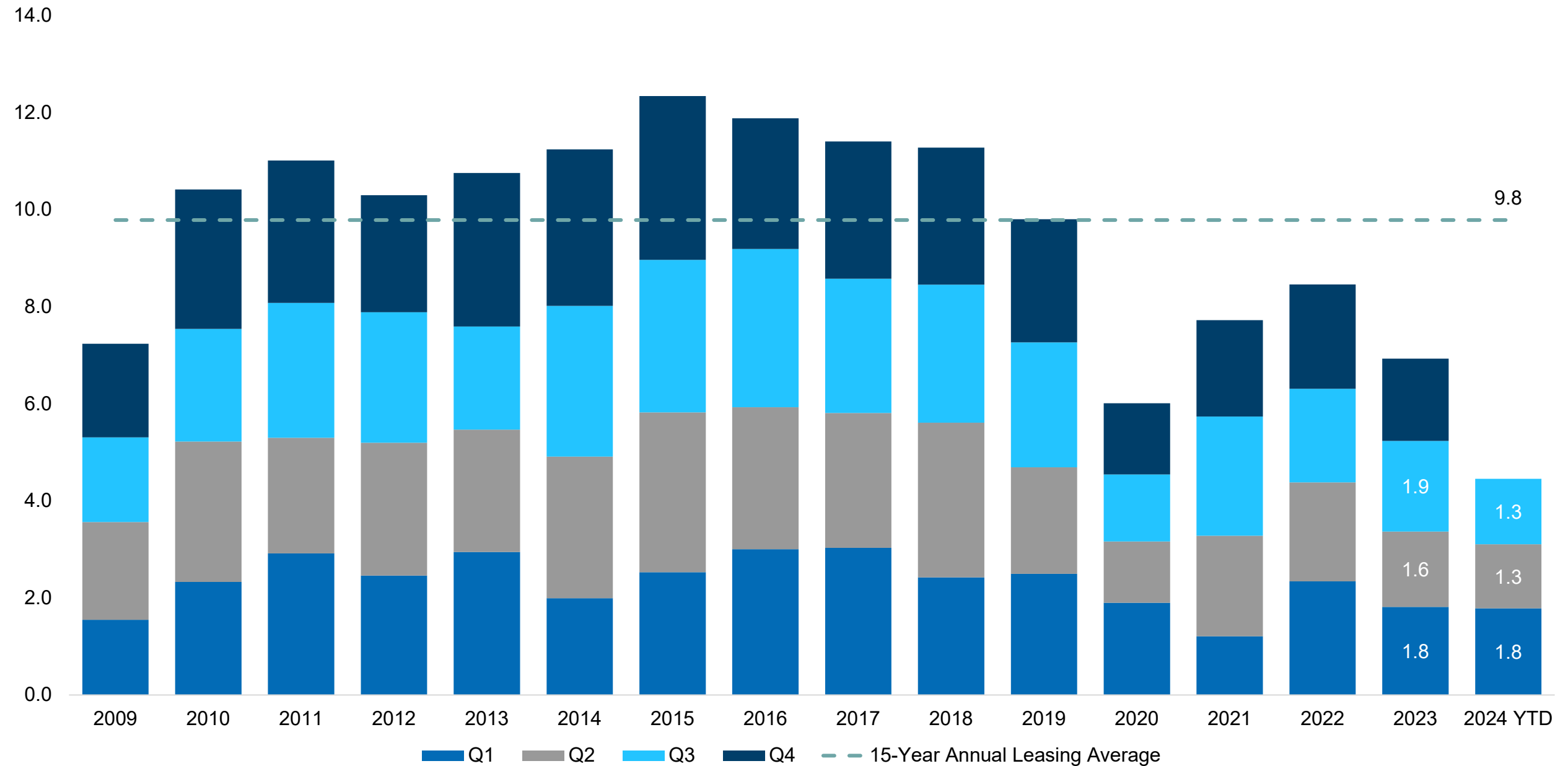


Source: Newmark Research

# Leasing Activity Steady from Prior Quarter as Tenants Show Little Urgency

The third quarter of 2024 posted 1.3 million SF of space leased, nearly unchanged from last quarter but down year-over-year.

Total Leasing Activity (msf)



Source: Newmark Research, CoStar

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## Average Lease Size Dips as Fewer are Signed

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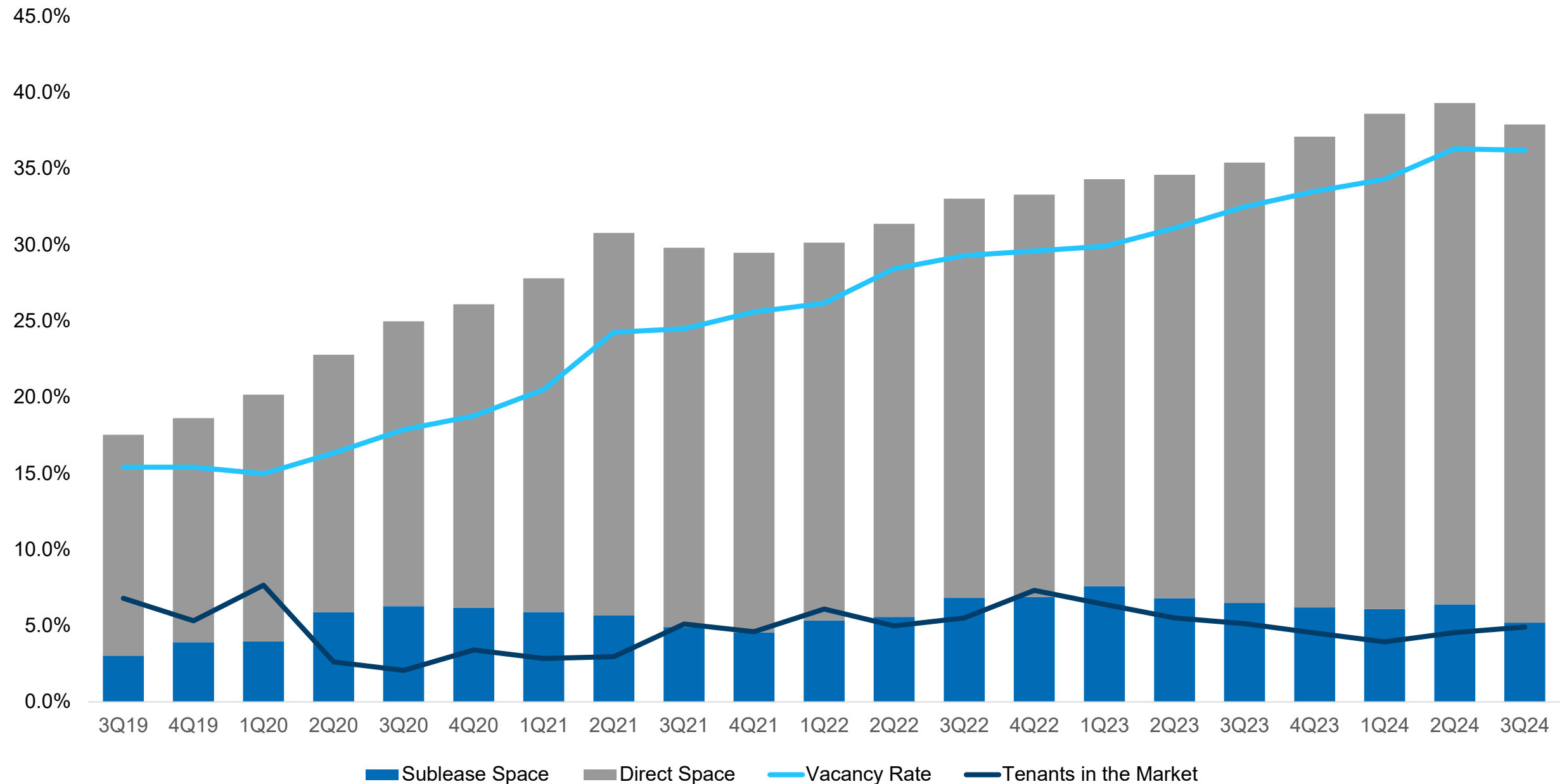
## Most Submarkets Recorded Leasing Velocity Slowed in the Third Quarter

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# Lower Downtown Availability and Vacancy as More Tenants Look for Space

The upward trend of more tenants into the market continued from the prior quarter as availability among both direct and sublease space decreased for the first time since the end of 2021. Of those currently active, tenants new to the market or looking to expand could potentially lease more than 500,000 SF beyond their current footprint.

Available Space and Tenant Demand as Percent of Downtown Market

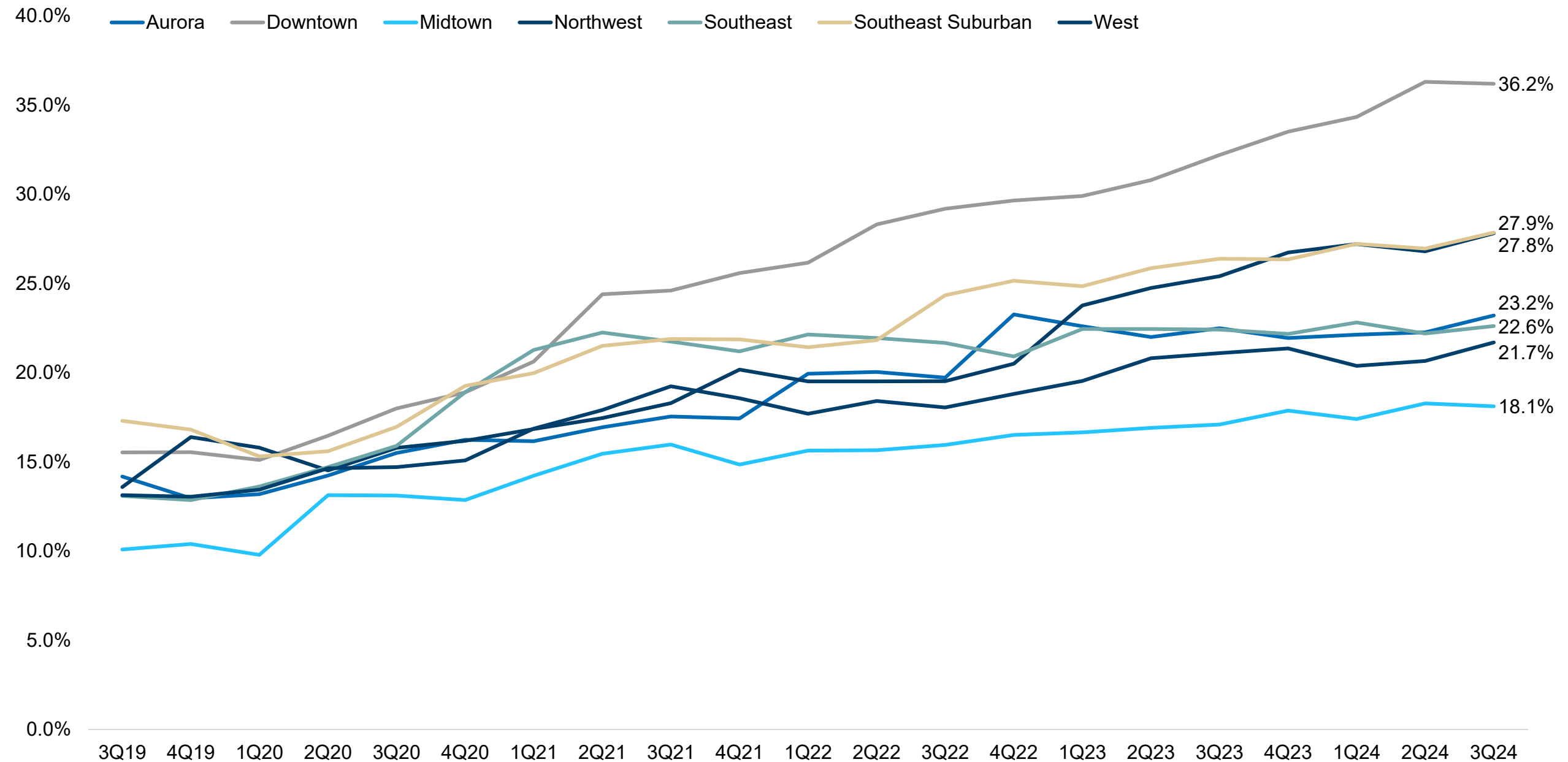


Source: Newmark Research, CoStar

# Downtown Vacancy Improves but the Majority of Submarkets Continue to Rise

Although four of the seven submarkets saw an increase in vacancy, the Downtown submarket, which has seen the highest vacancy rates of any submarket since 2021, saw a decrease in vacancy from the previous quarter for the first time since the pandemic.

Vacancy Rate by Submarket

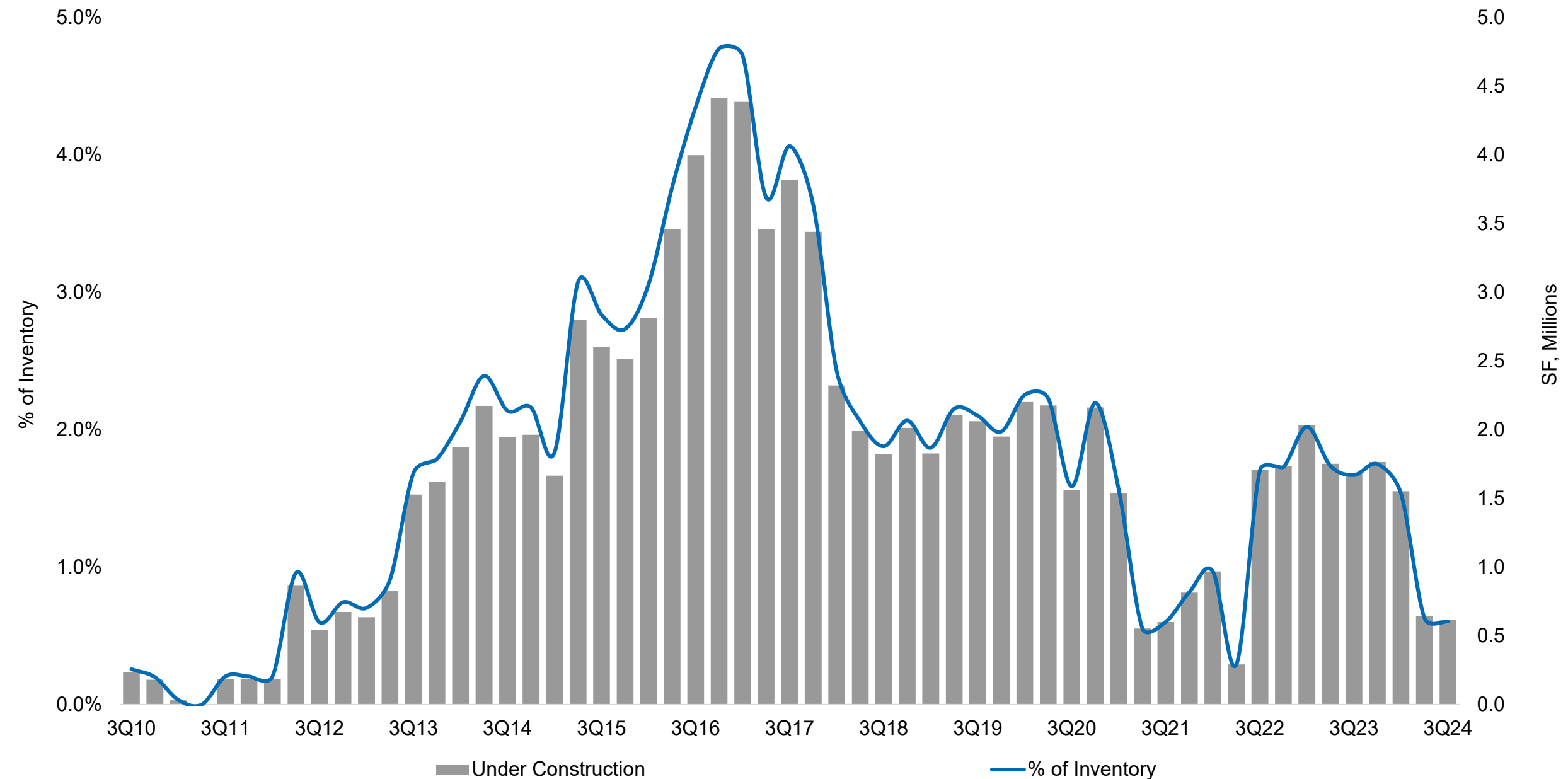


Source: Newmark Research

# High Vacancy and No Capital Keeps Pipeline Limited

Financing remains functionally impossible without a tenant willing to commit to pre-leasing more than half of the project before construction begins. Because of this, the Cherry Creek neighborhood, with low vacancy and the highest and most reliable demand in the market, is the only market expected to see new projects break ground for the foreseeable future.

## Office Under Construction and % of Inventory



Source: Newmark Research, CoStar

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## Midtown Sees One New Project Break Ground While Another Stalls Before Delivery

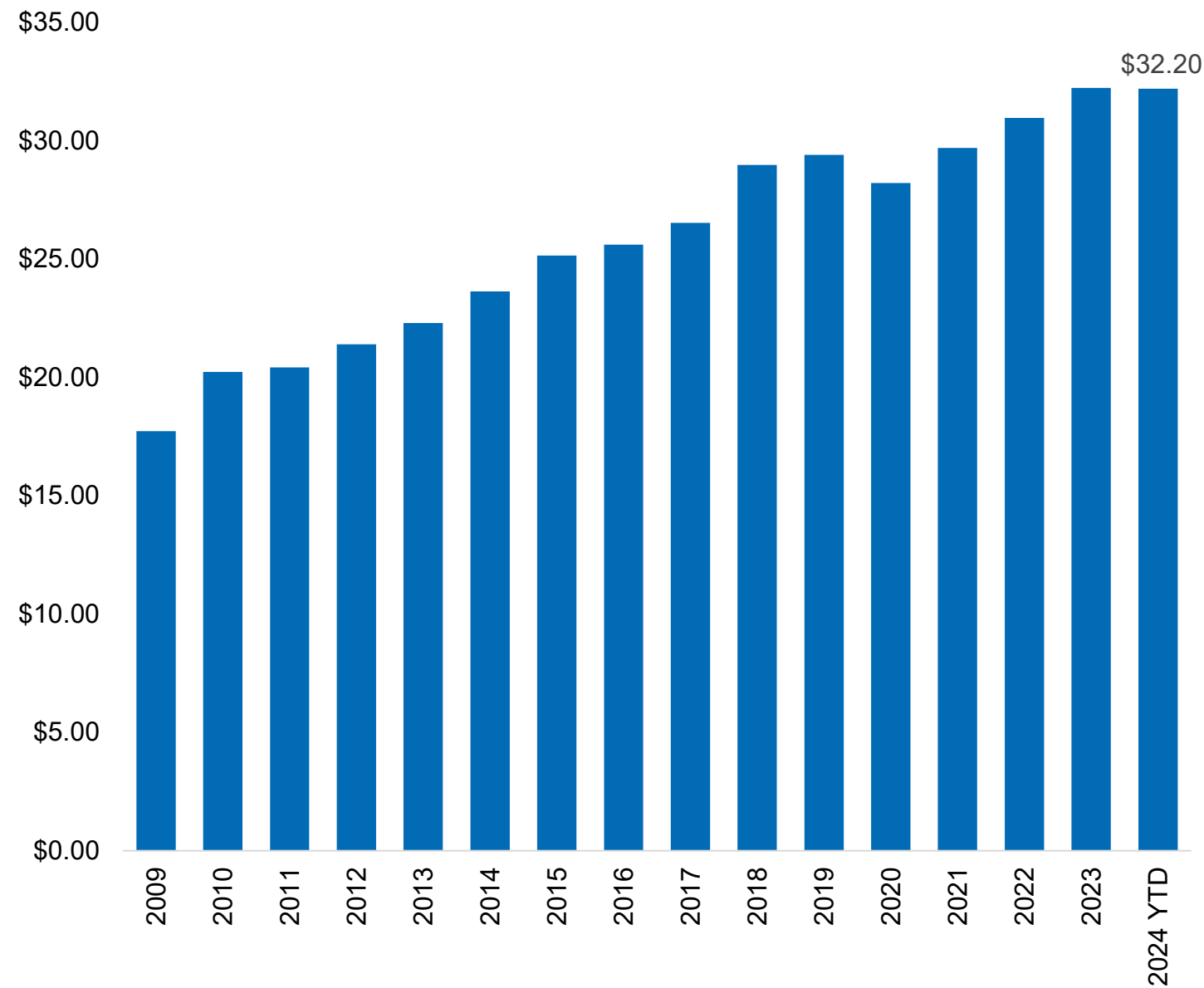
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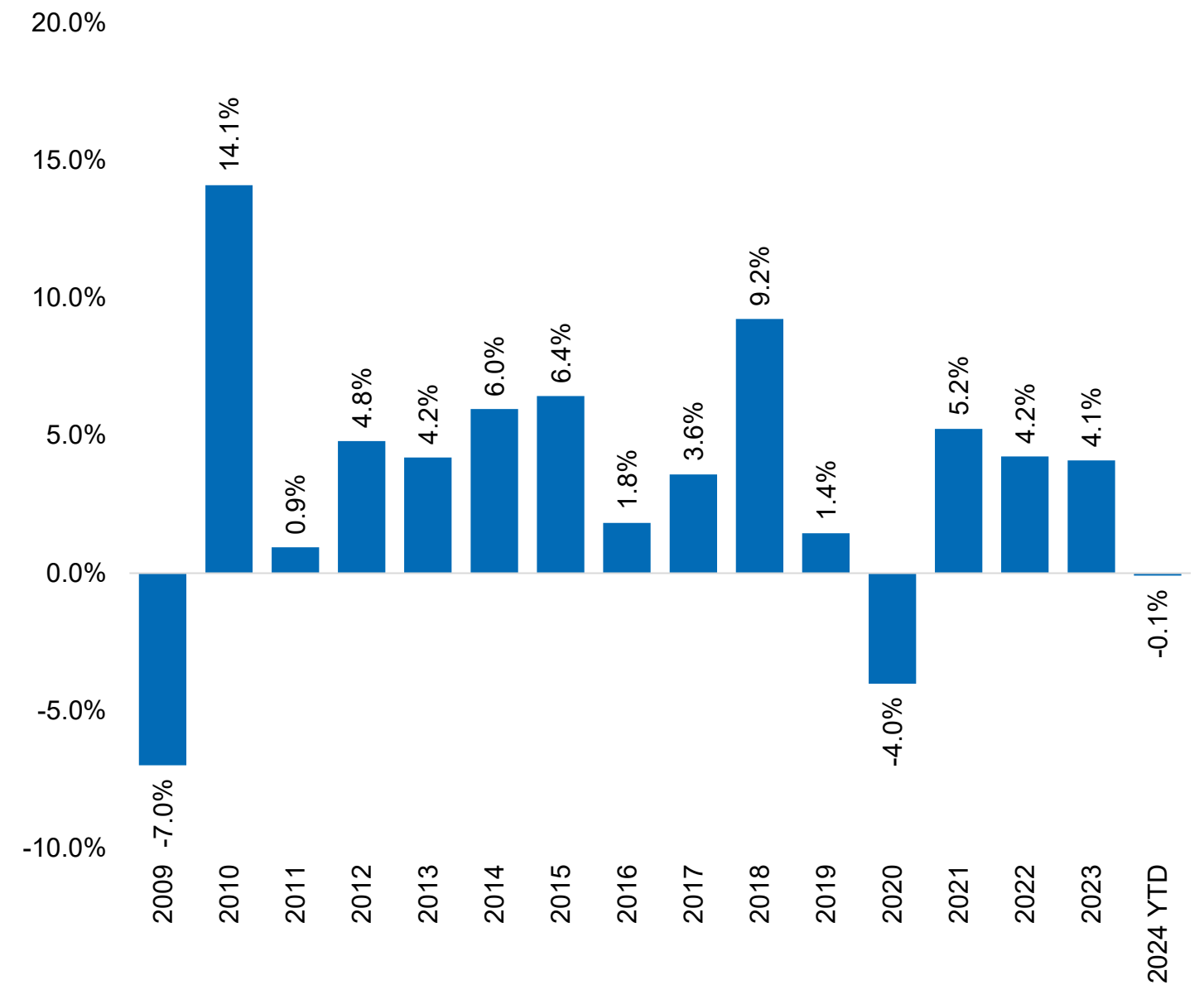
# Highest Quality Product Coming Off the Market Plateaus Overall Asking Rents

The median asking rate saw a small decrease in the third quarter of 2024 from the previous quarter, as select Class A buildings saw less available space and more lower quality space came onto the market. Few buildings are decreasing rents on space that is already available as landlords still prefer to make such concessions during lease negotiations.

Office Median Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

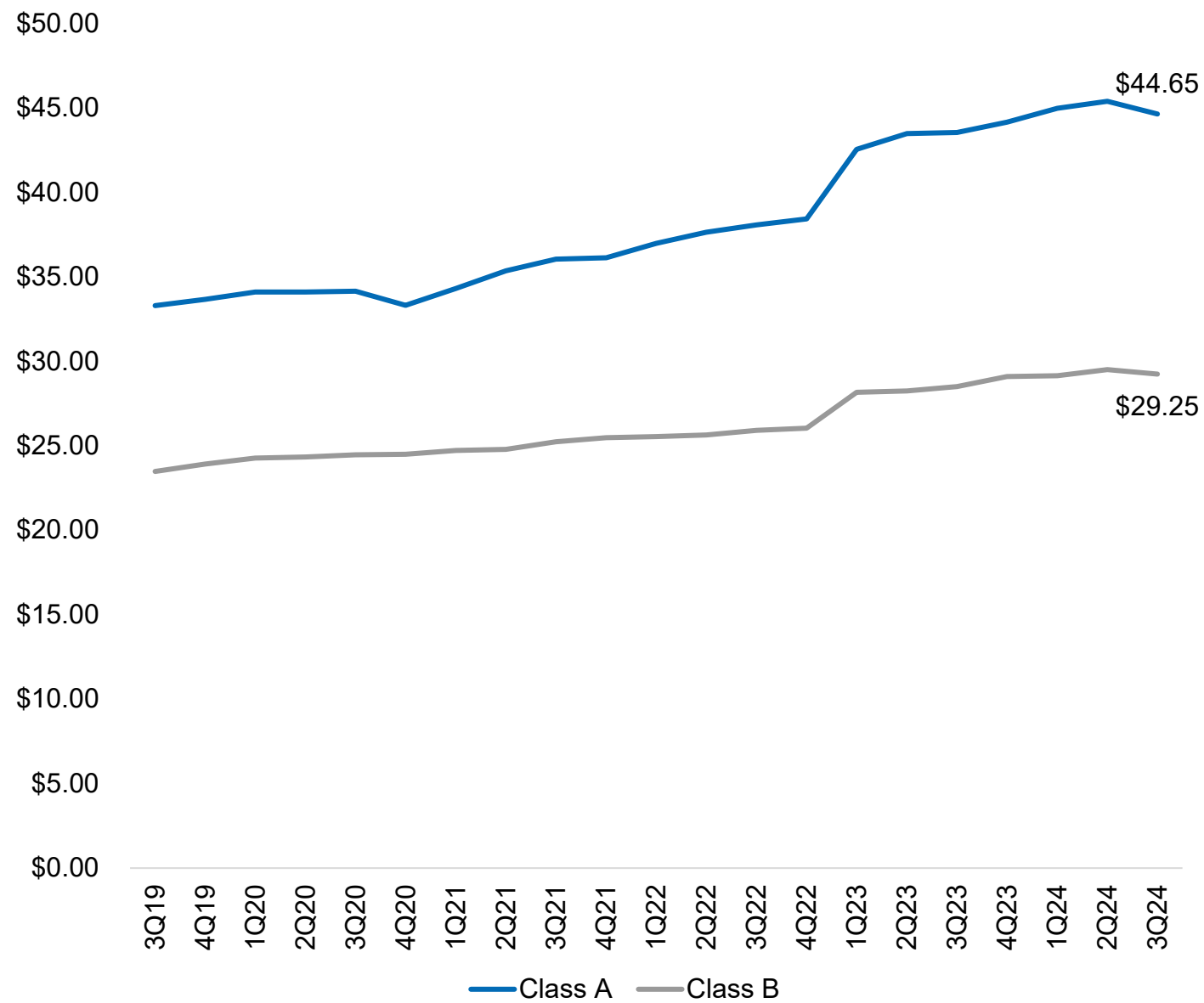


Source: Newmark Research

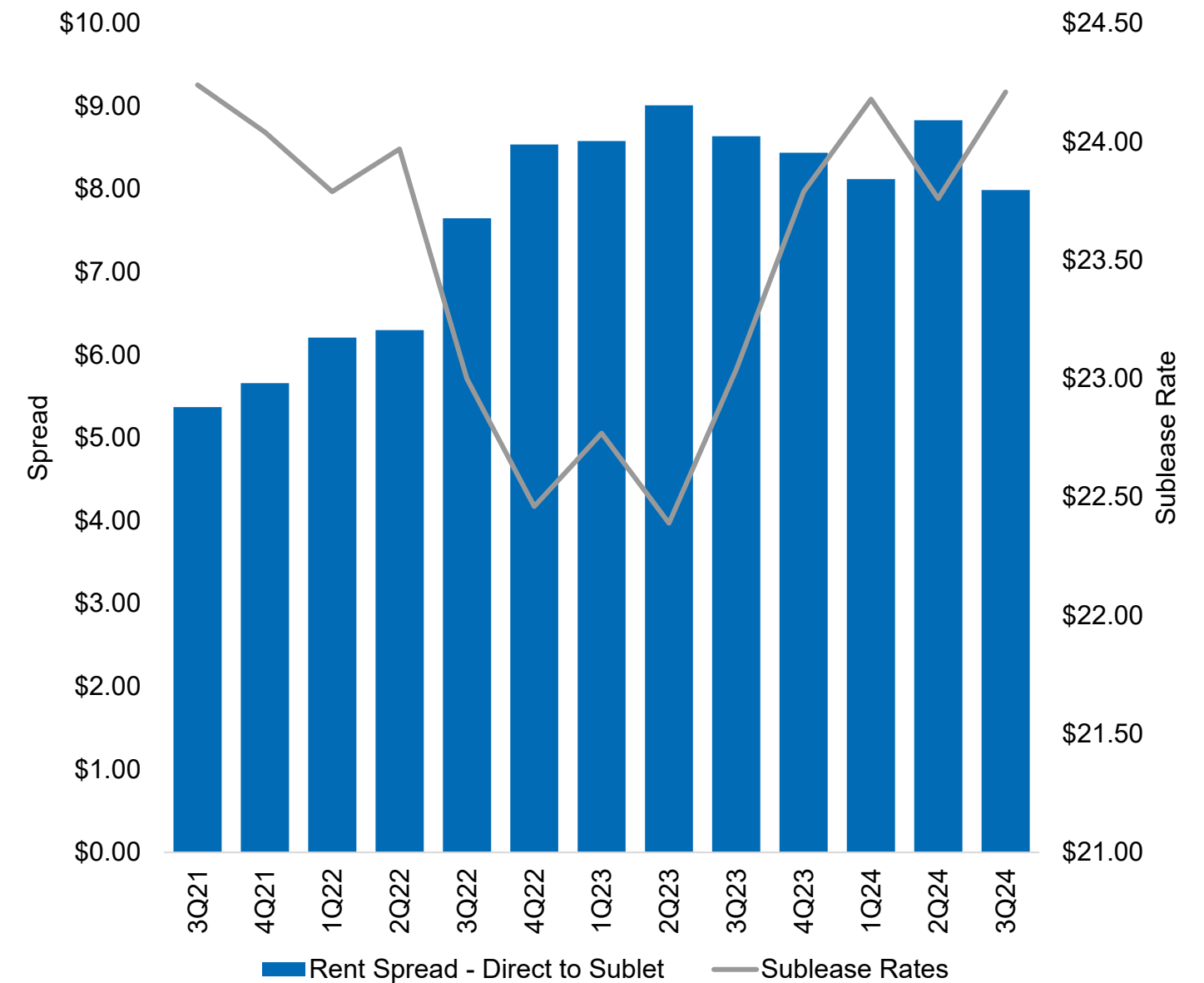
# Flight to Quality Trend Removes Most Expensive Space from the Equation

As tenants continue to look to upgrade their space, the most expensive asking rates come off the market, leaving only the middling or lower quality asking rates, accounting for the decrease in median asking rates, rather than rates being lowered for already existing space. Sublease space also continues to be highly desirable to avoid long waits for construction permits and has seen a corresponding increase in asking rates.

### Class A and Class B Median Asking Rents



### Sublease Rates



Source: Newmark Research, CoStar

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## Quality of Available Space Dictates Asking Rate Trends on Submarket Level

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# Expanding in Place Emerges as Top Choice for Many Tenants

With many buildings having some amount of available space within them, many tenants chose to remain at their current location and simply expand to avoid the hassle, cost and time of moving to a new location.

## Notable 3Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Civitas	555 17th Street	Downtown	Lease Renewal	59,805
<i>In addition to the renewal, Civitas also signed two lease expansions over the course of the third quarter, adding nearly 40,000 SF to its footprint.</i>				
Amazon	1515 Wynkoop Street	Downtown	Lease Expansion	47,427
<i>The expansion doubles Amazon's current space in the building.</i>				
Stack Infrastructure	1700 Broadway	Downtown	Lease Expansion/Renewal	39,608
<i>Stack Infrastructure will move one floor down from their current leased space in the building stack and take an additional floor further down.</i>				
Pulte Mortgage	6900 Layton Avenue	Southeast Suburban	Direct New	36,497
<i>Upgrading from a Class B building in the same submarket, this new class A space will be a downsize from their current location.</i>				
Trade Desk	2001 16th Street	Downtown	Sublease New	36,491
<i>Nearly doubling in size from its previous location, Trade Desk will be subleasing space from the medical company DaVita.</i>				

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# Appendix



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## Submarket Overview

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## Downtown Submarket Overview Page #1



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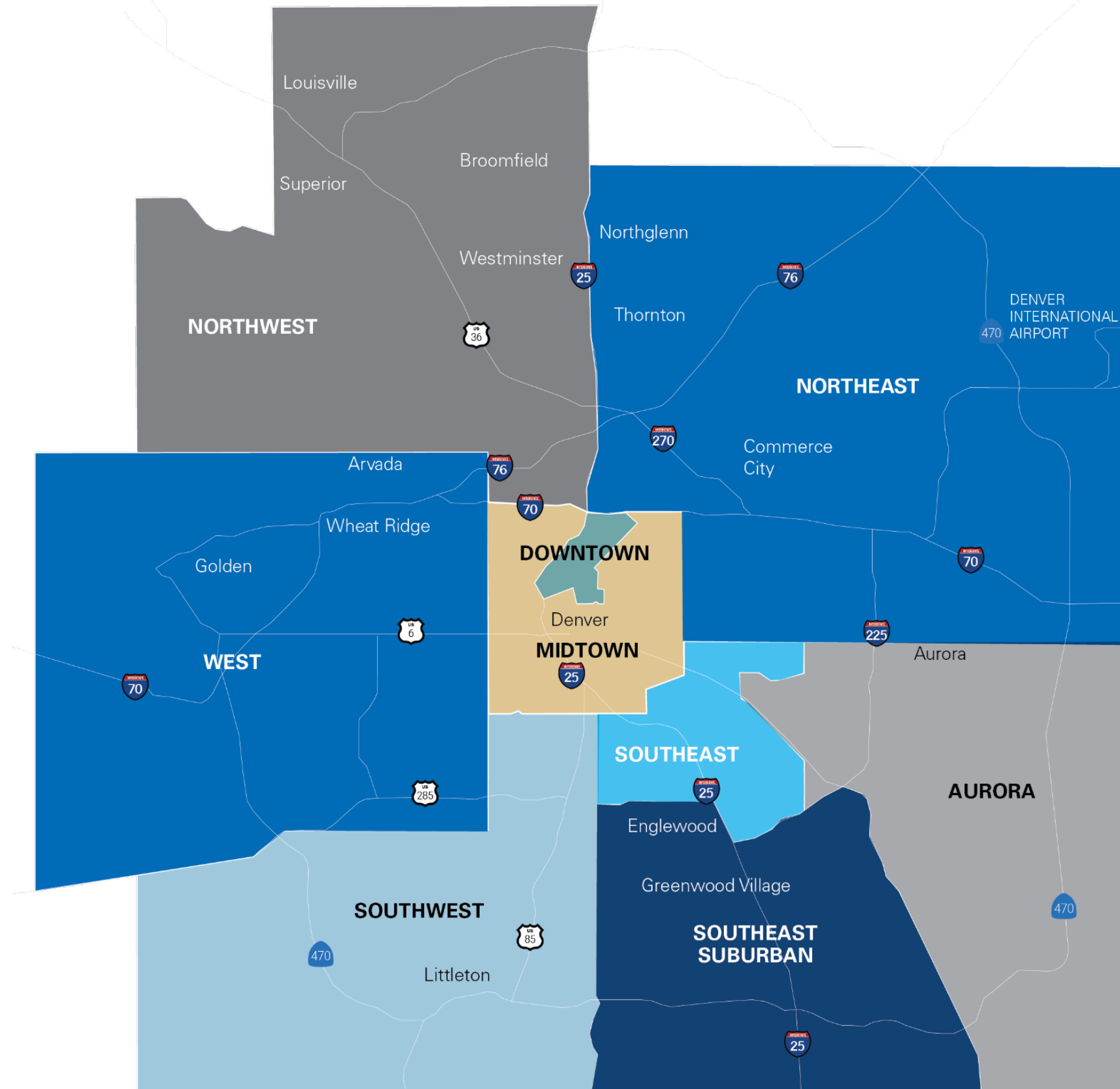


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# Denver - Submarket Map



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