

4Q24

Denver Office Market Overview



NEWMARK

Market Observations

Economy

- The region’s unemployment increased to slightly above the national rate but job growth, an increase in business-entity renewal and healthy GDP create a sense of cautious optimism.
- Downtown return to office has leveled out at 61.7%, outperforming Kastle’s 10 city average of peer cities by more than 10%.
- The University of Colorado Leeds School of Business recorded increased confidence for the first quarter of 2025 among Colorado business leaders, climbing into neutral territory from the more pessimistic attitude last quarter.

Major Transactions

- 2U’s 103,000 SF lease at 707 17th Street in the Downtown submarket expired and all subtenants vacated.
- Davis, Graham & Stubbs upgraded to new construction and downsized in the Downtown submarket, vacating 99,000 SF at 1550 17th Street and occupying 77,000 SF at 3400 Walnut Street.
- After selling the building to an investor last quarter, Catholic Health initiatives vacated the full 83,000 SF building at 11045 East Lansing Circle in the Southeast Suburban submarket, but the space has already been leased by the Douglas County Board of Commissioners, who plans to occupy in the summer of 2025.

Leasing Market Fundamentals

- While downsizes continued to offset the growth of other tenants, a corner may have been turned this year as three of the five largest new vacancies have already been leased by new tenants that will occupy in 2025.
- Two new buildings completed in the fourth quarter: the 55,000 SF Mortenson build-to-suit in Downtown that is expected to be occupied next quarter, and the 41,000 SF office building at 12120 Quantum Parkways in the Northwest submarket.
- Class A asking rates nudged up the market median from the prior quarter as tenants continue to look for high quality over cheaper rents.

Outlook

- There has been both empirical and anecdotal evidence of an increasing number of companies discussing a return to the office, many of which will have to grow to have space for increased employee attendance.
- Downsizes are expected to continue into the new year as companies continue to look for upgraded space to entice workers back to the office and will want to offset the corresponding higher rental rate with a smaller footprint.
- Despite some concerning signs in the state economy, economists from the University of Colorado Business Research Division are forecasting growth in 2025, although at the slower rate, and few indicators of a recession.

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1. Economy
 2. Leasing Market Fundamentals

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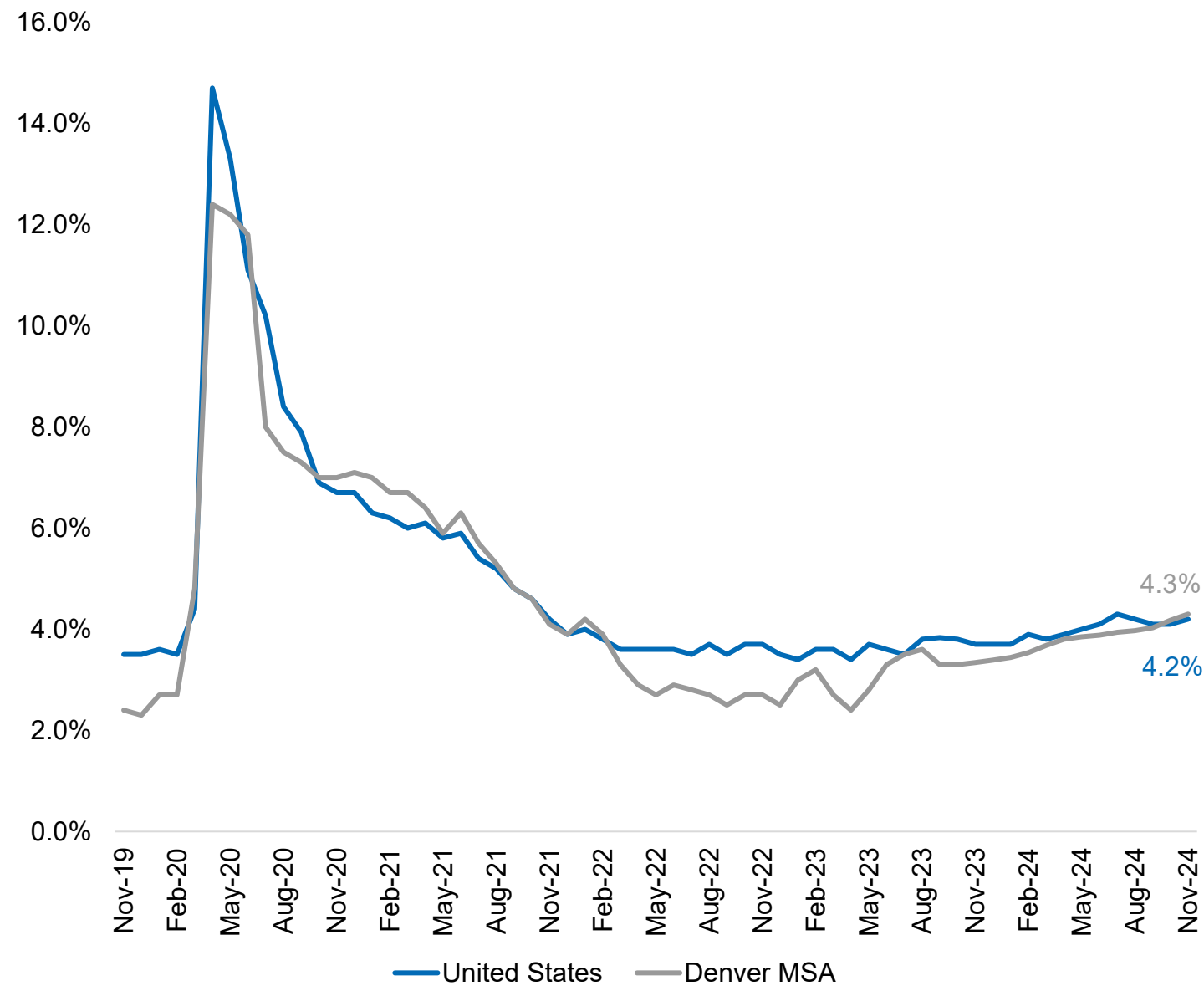
Economy



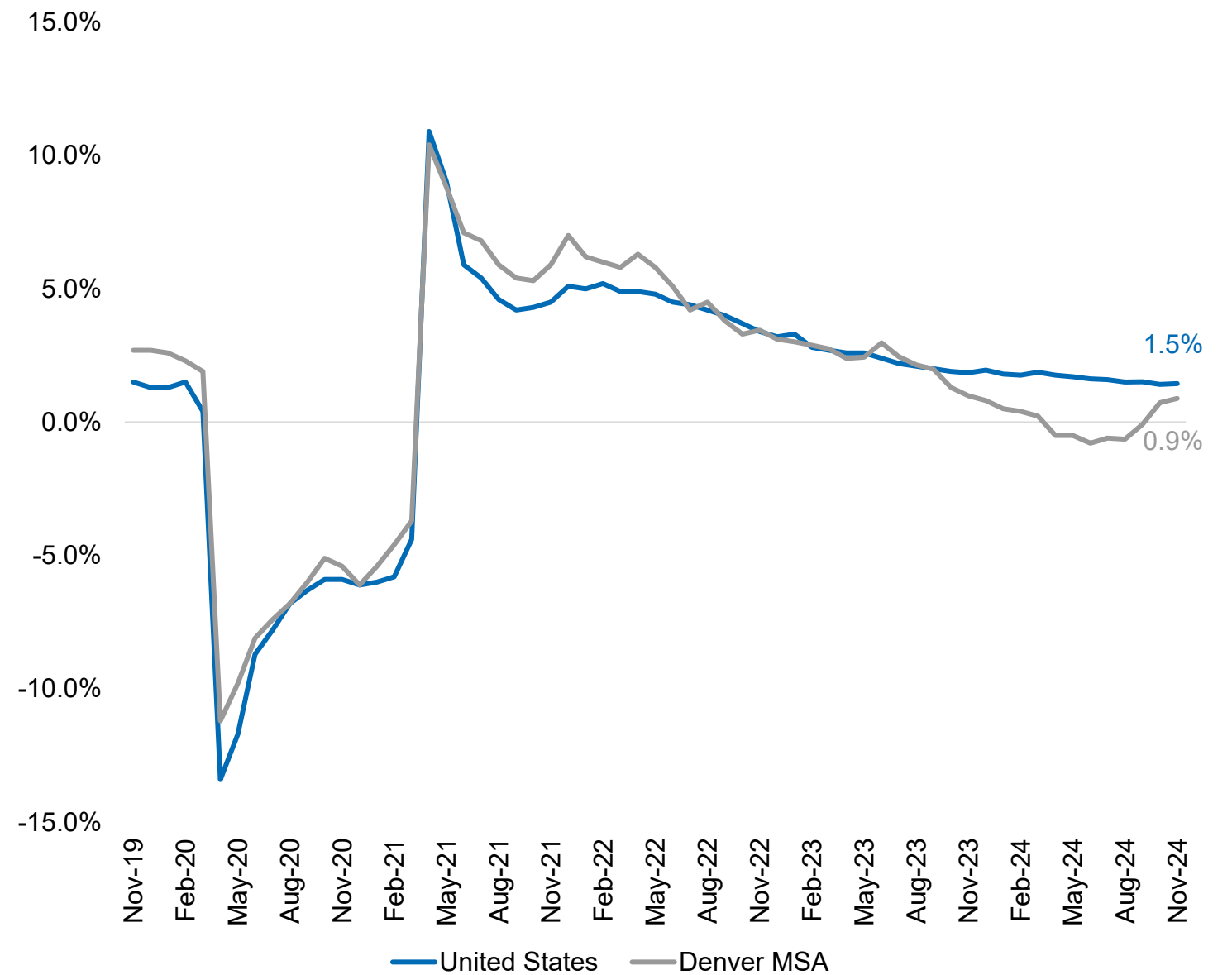
Denver Adds Jobs but Also Sees Unemployment Rise

Denver job growth returned in the first two months of the fourth quarter, despite unemployment rising just above the national rate. Despite the increase in unemployment, Colorado still has the 4th highest seasonally adjusted labor force participation rates, behind only North Dakota, Nebraska and Utah.

Unemployment Rate, Seasonally Adjusted



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

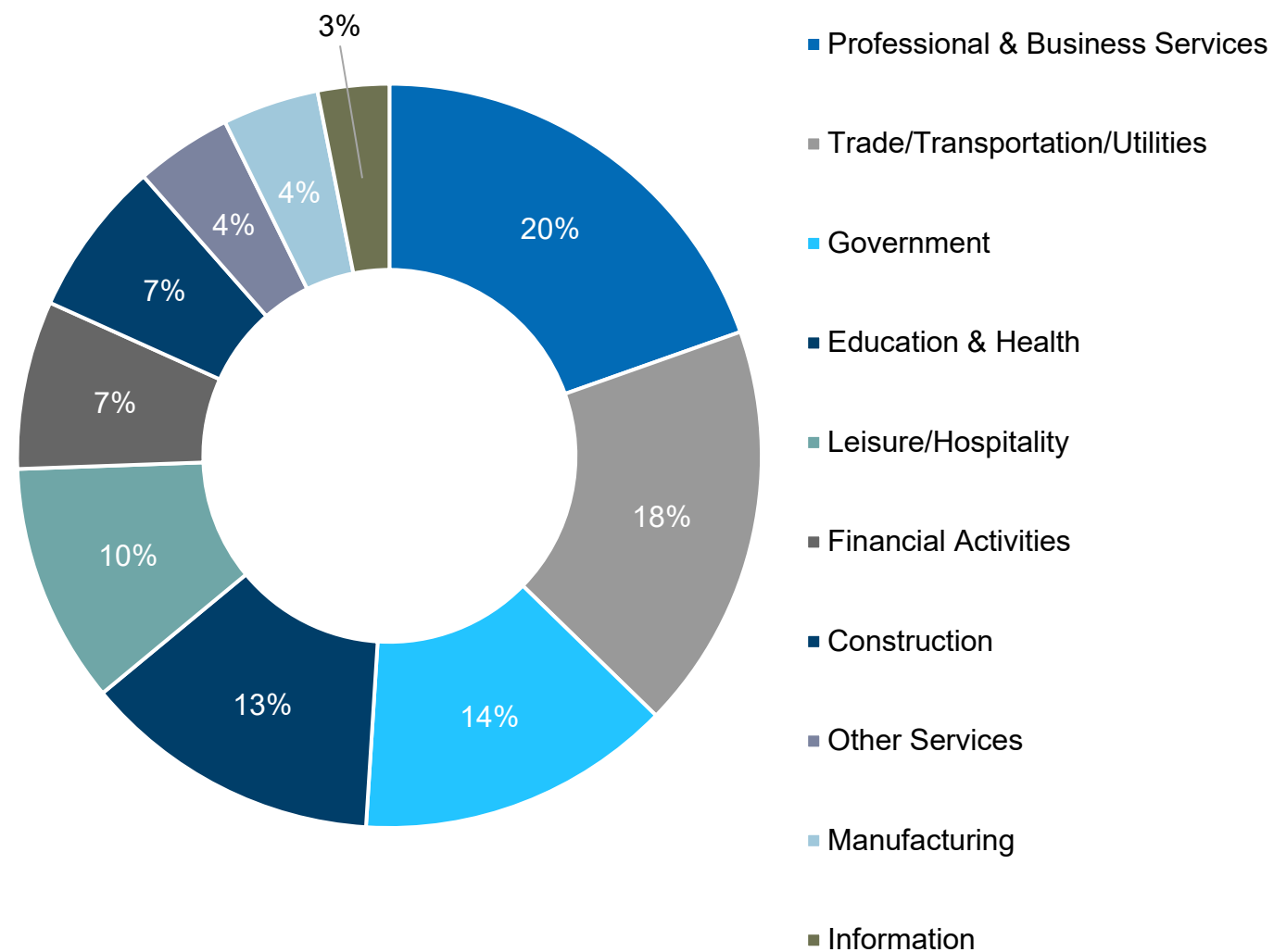


Source: U.S. Bureau of Labor Statistics, Denver MSA

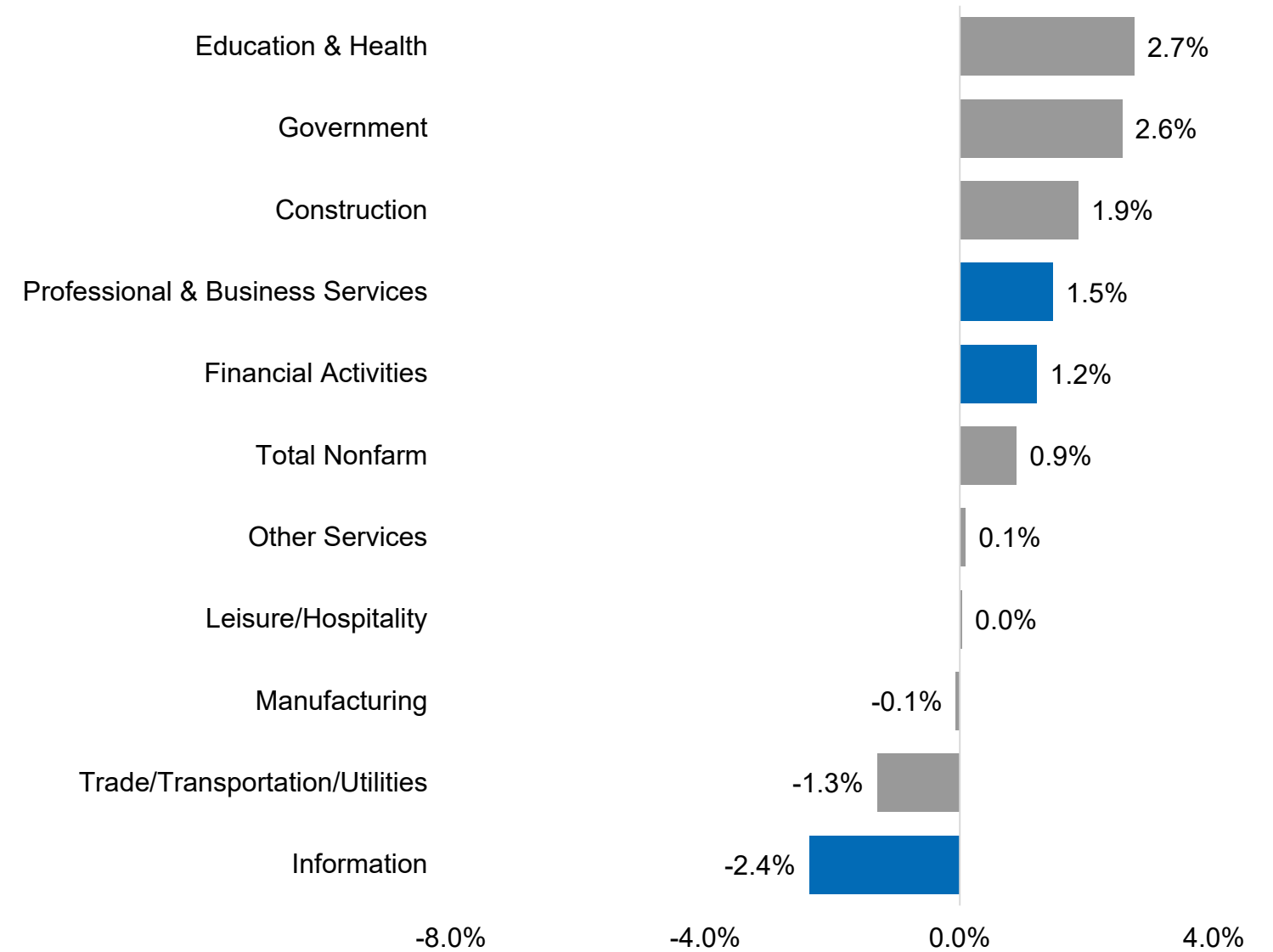
The Majority of Office-Occupying Sectors Continue to Grow

Both the professional and business services as well as financial activities posted year-over-year job growth. The information sector continues to shed jobs, a trend expected to continue into 2025 according to the 2025 Colorado Business Economic Outlook released by the University of Colorado Leeds School of Business.

Employment by Industry, November 2024(p)



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

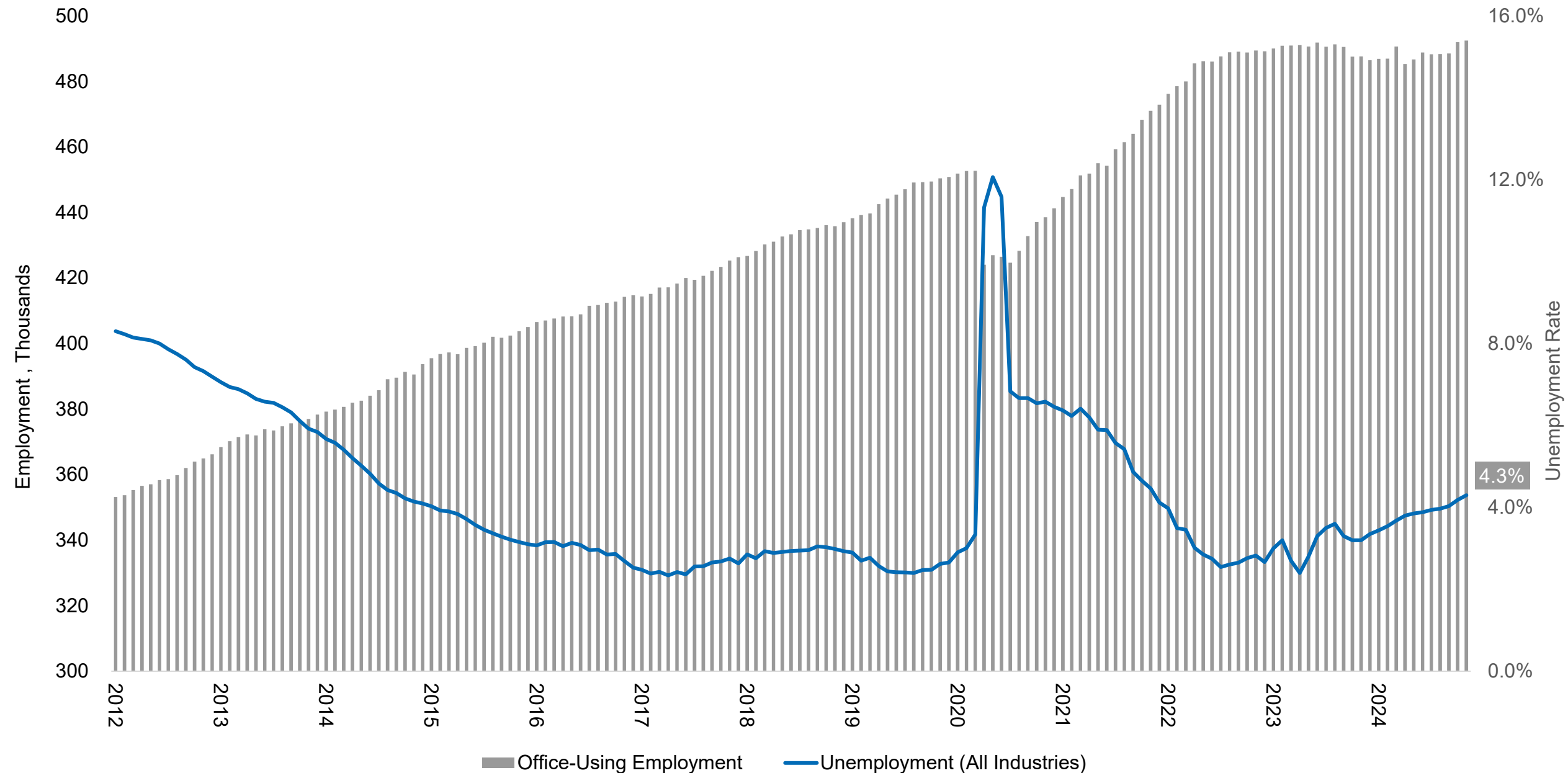


Source: U.S. Bureau of Labor Statistics, Denver MSA

Office-Using Employment Posts Persistent Growth

Despite higher unemployment, office-using employment has added nearly 5,000 net new jobs year-over-year.

Office-Using Employment* and Unemployment Across All Industries



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

Note: November 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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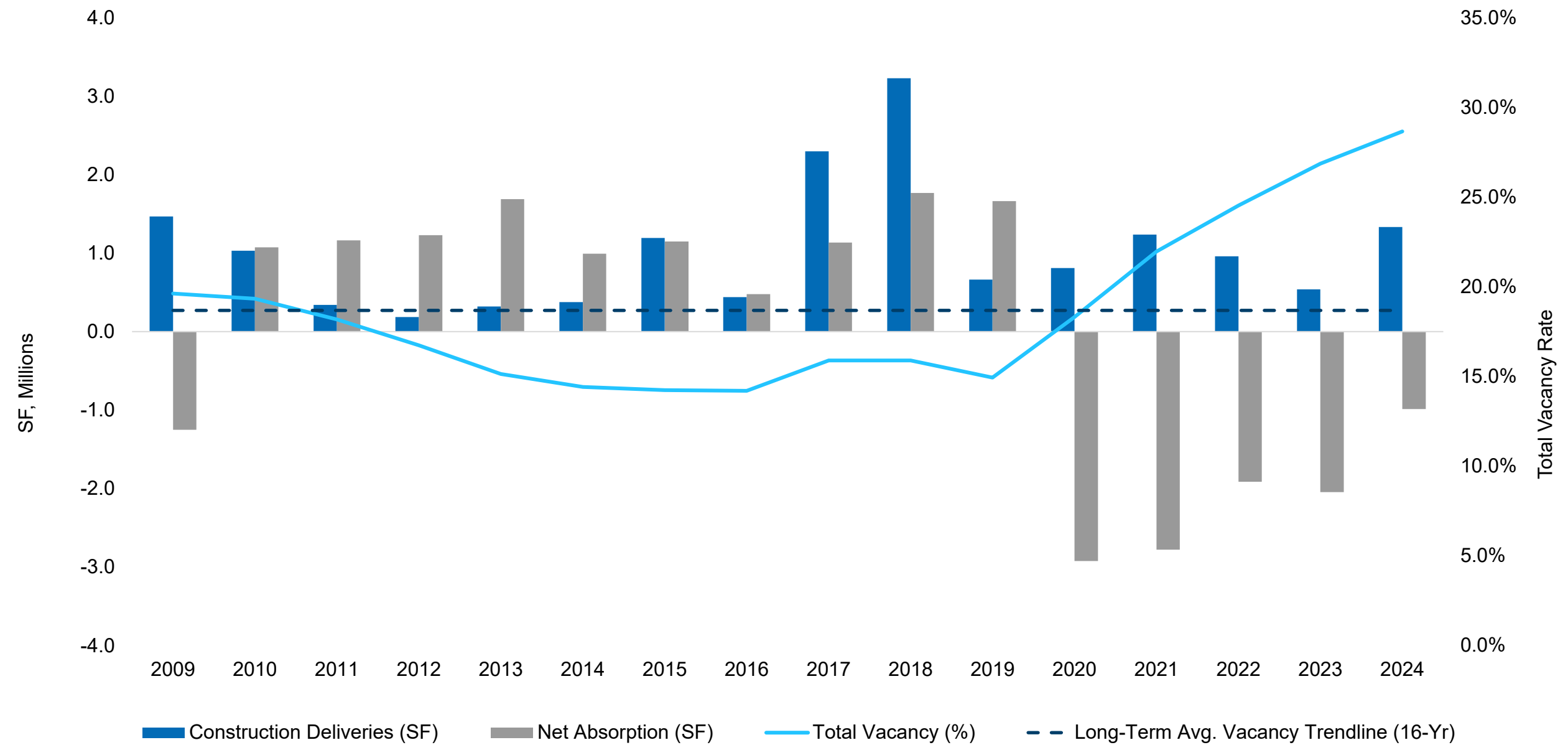
Leasing Market Fundamentals



Rate of Downsizes Slow as Companies Establish a Tentative New Normal

The flight to quality creating a dramatic bifurcation in the market was the pervasive trend in 2024, with Class A product posting positive annual absorption for the first time since the pandemic. However, downsizing and the delivery of vacant speculative product over the course of the year pushed market vacancy to 28.7%.

Historical Construction Deliveries, Net Absorption, and Vacancy

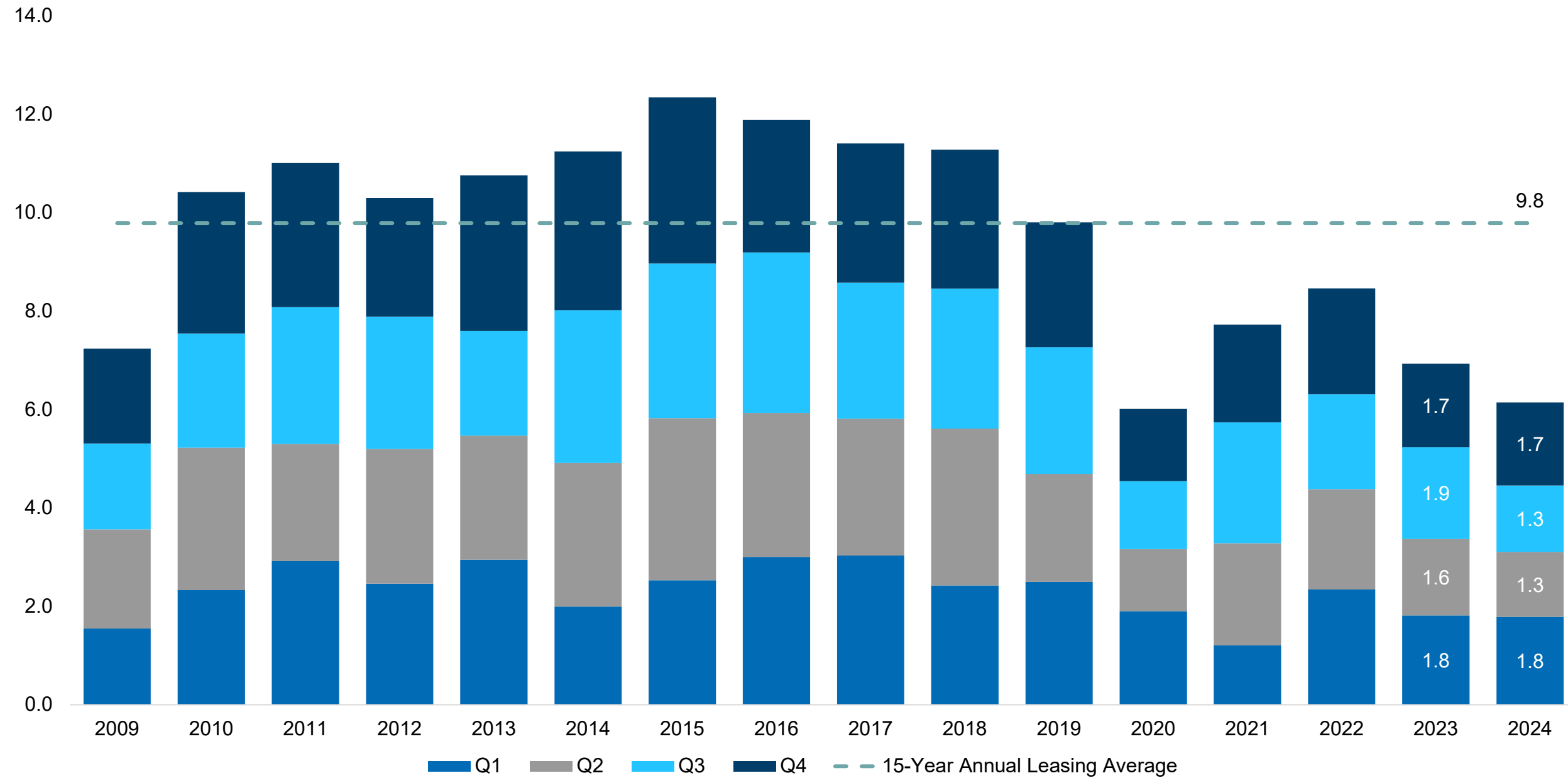


Source: Newmark Research

Leasing Activity Increases from Prior Quarter

After two quarters of tenants showing little urgency to sign, leasing picked up in the last quarter of the year, on par with leasing activity of the fourth quarter in 2023.

Total Leasing Activity (msf)



Source: Newmark Research, CoStar

Average Lease Size Increased Even With Fewer Signed

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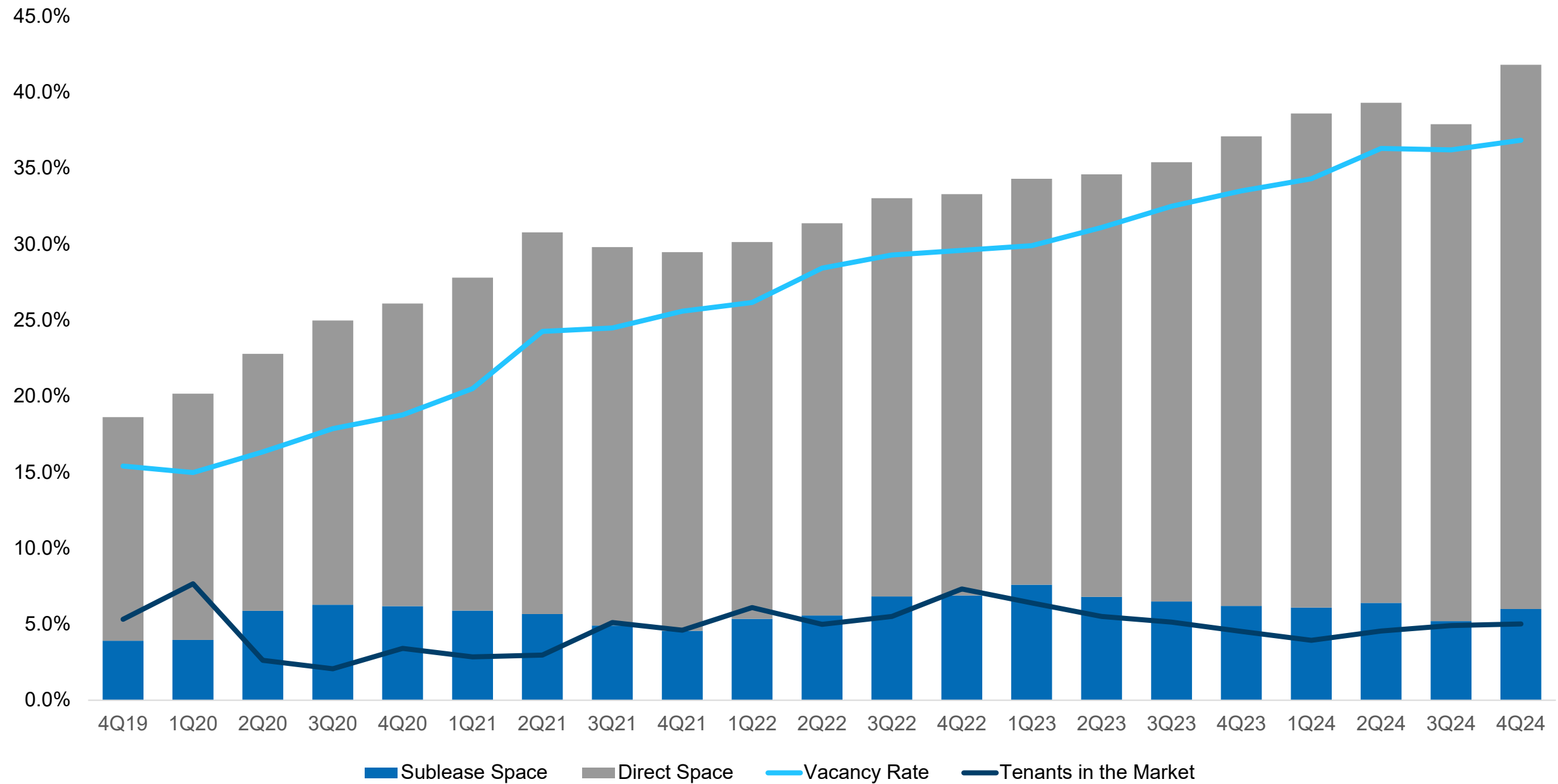
Leasing Velocity Increased for Most Submarkets

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Downtown Availability and Vacancy Increase

Both direct and sublease availability increased in the fourth quarter after decreasing in the prior quarter. While the amount of space tenants in the market are currently looking for remained stable, those looking to expand could potentially lease nearly 440,000 SF beyond their current footprint.

Available Space and Tenant Demand as Percent of Downtown Market



Source: Newmark Research, CoStar

Several Submarkets Turn the Corner

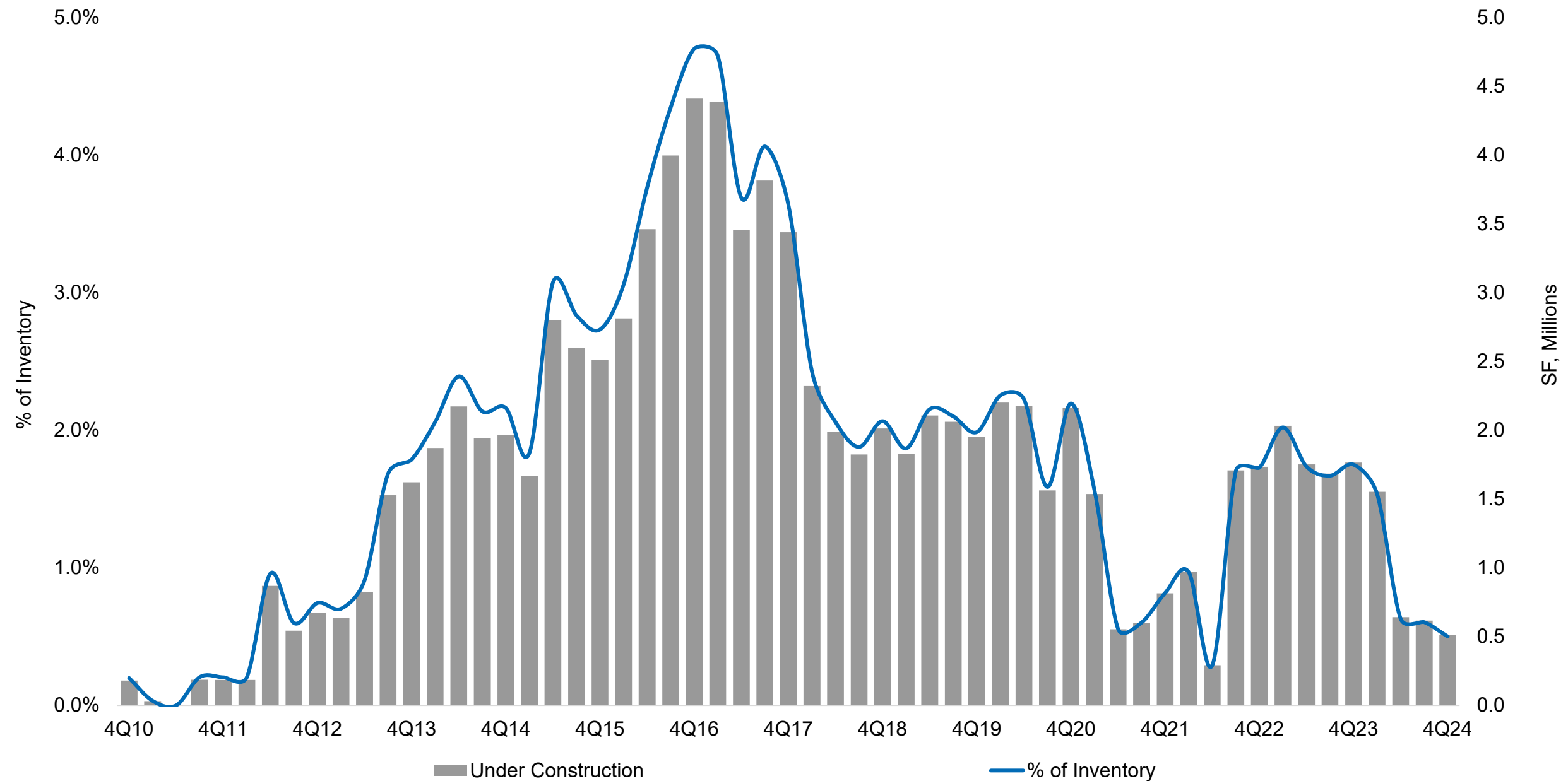


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Pipeline Limited as Capital is Dependent on Preleasing

With rising vacancy and decreasing value, financing for new is functionally impossible without a tenant willing to commit to pre-leasing more than half of the project before construction begins. New projects are unlikely to break ground in the foreseeable future outside of the Cherry Creek neighborhood, with low vacancy and the highest and most reliable in-demand in the market.

Office Under Construction and % of Inventory



Source: Newmark Research, CoStar

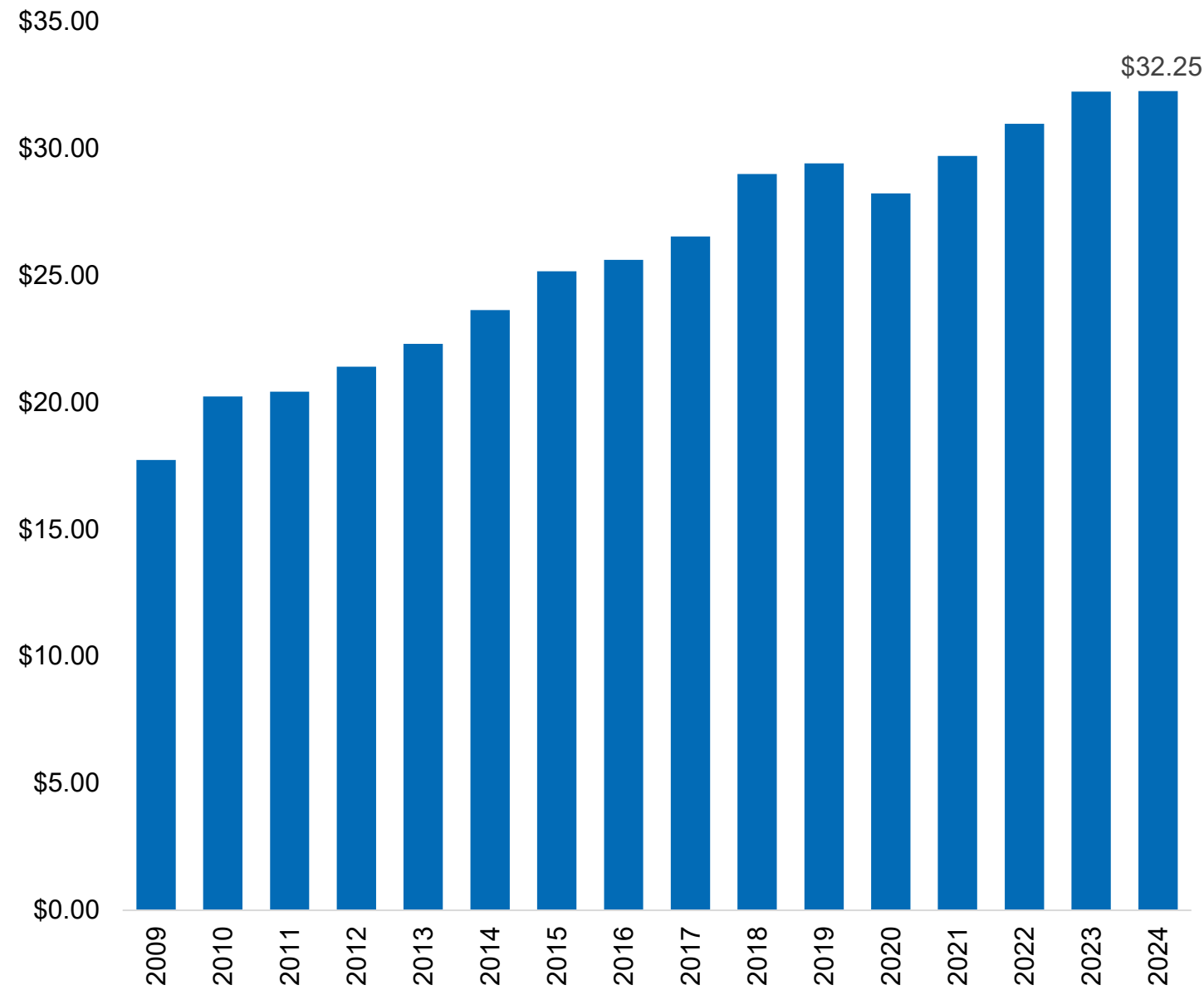
Midtown Soon to Be the Only Submarket With New Product Under Construction

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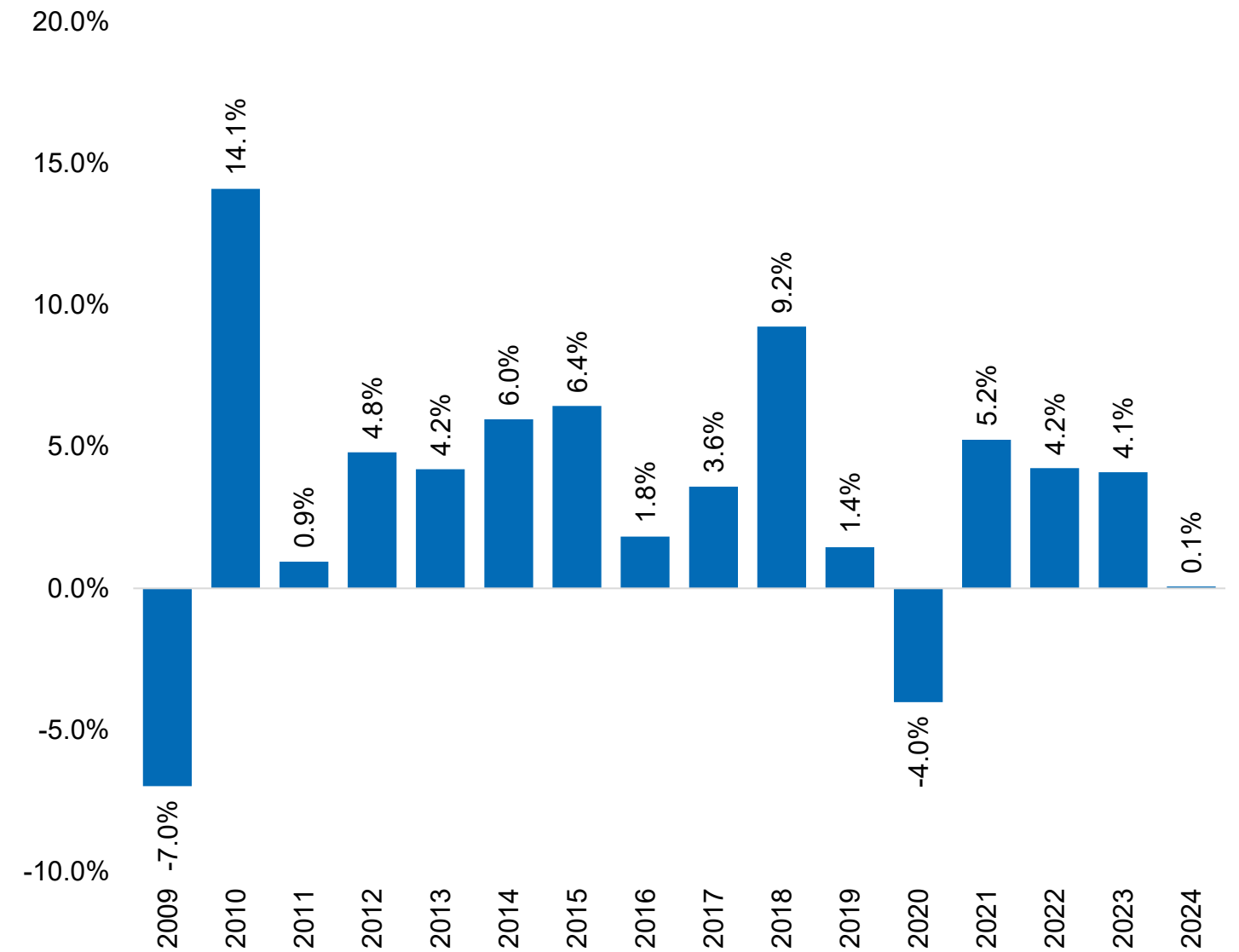
Record Rents in Class A Offsets Higher Availability of Lower Rate Space

The median asking rate saw a small increase year-over-year, as increases in select Class A buildings slightly outpaced the lower quality space that came onto the market over the course of the year. Few buildings with space already on the market are decreasing rents as landlords still prefer to make concessions in TIs and free rent.

Office Median Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

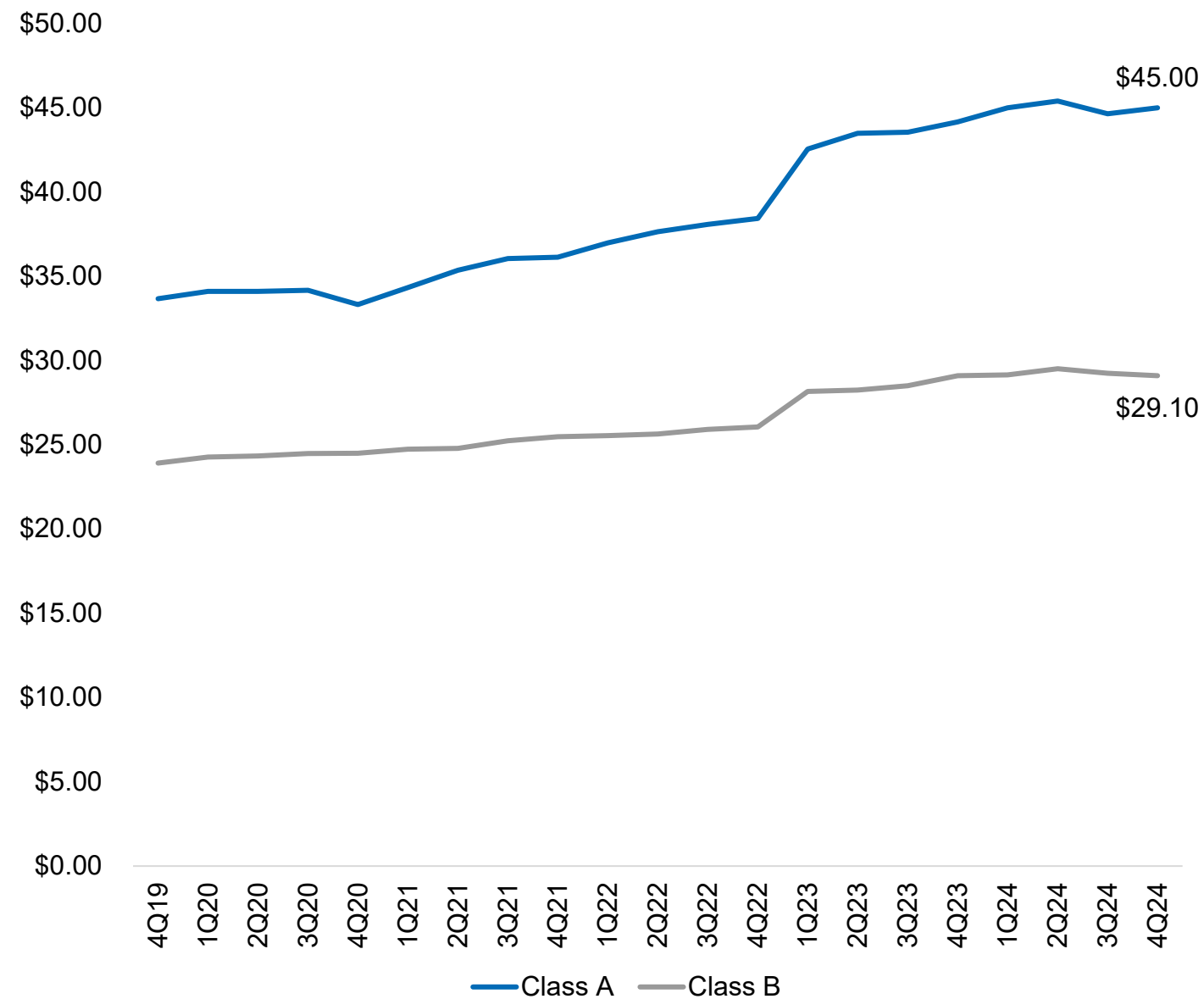


Source: Newmark Research

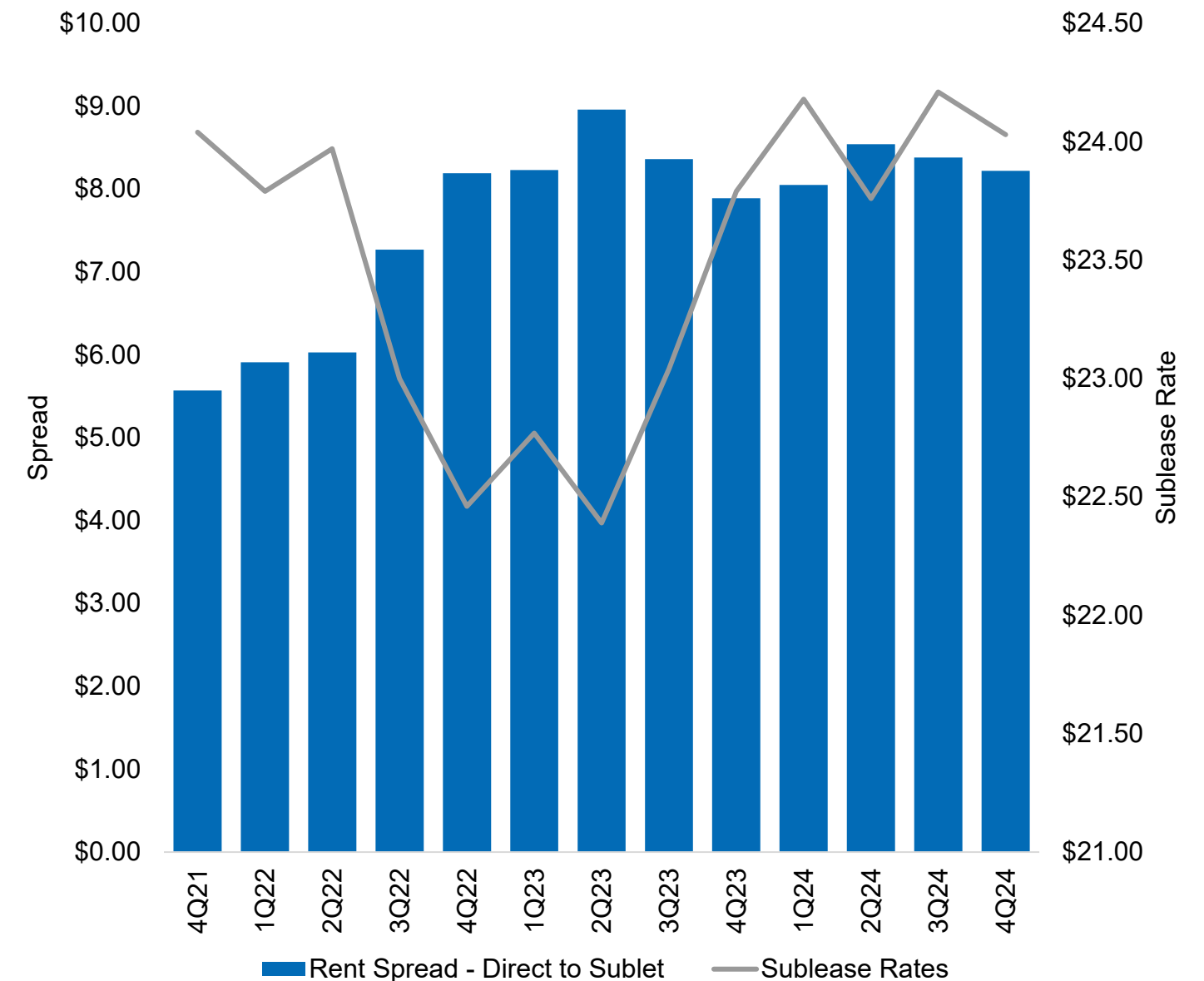
Flight to Quality Trend Spurs Class A to Cautiously Push Rates

Class A rates increased a tentative 1.3% year-over-year while Class B rates, despite increased availability and vacancy, remained effectively stable, as tenants continue to flock to high quality space over lower rates. Sublease space, especially those that are plug-and-play, also remain in high demand and the rates spread between direct and sublease space has shrunk in that past three quarters.

Class A and Class B Median Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Asking Rate Trends Depend on Quality of Available Space

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Notable 4Q24 Lease Transactions

The top deals showcased the dynamic tenant behavior seen in the market as a whole; renewals, expansions, downsizes, upgrading to higher quality space and a large new lease for the government sector.

Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
ibotta	1400-1490 16th Street	Downtown	Direct New	96,720
<i>Taking the 4th-6th floors, expanding by more than a third from its current location.</i>				
Douglas County Board of County Commissioners	11045 East Lansing Circle	Southeast Suburban	Direct New	81,063
<i>Leased the entire building after previous owner/user Catholic Health Initiative sold the building to an investor and vacated.</i>				
IMA Financial Group	1705 17th Street	Downtown	Lease Renewal	65,439
<i>Renewed for the 3rd-5th floors, downsizing by 20,000 SF.</i>				
Pax8	6363 South Fiddlers Green Circle	Southeast Suburban	Direct New	48,961
<i>Downsized and leased the 11th-12th floors.</i>				
Salesforces	1225 17th Street	Downtown	Lease Renewal	48,961
<i>Renewed for the 5th-6th floors.</i>				

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Appendix



Submarket Overview



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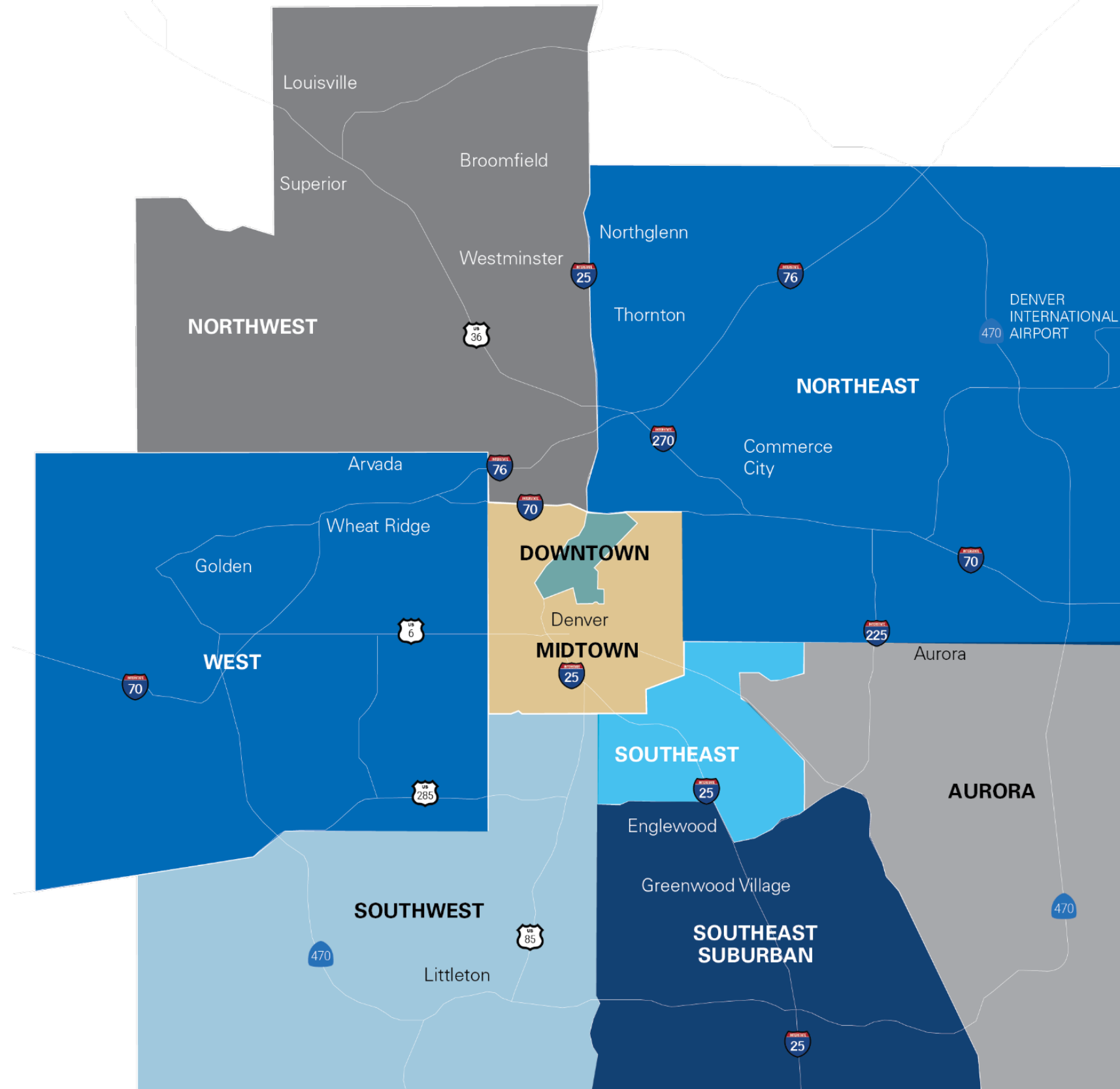


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Denver - Submarket Map



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