Fundamentals remain stable, investment sales and development hit zero

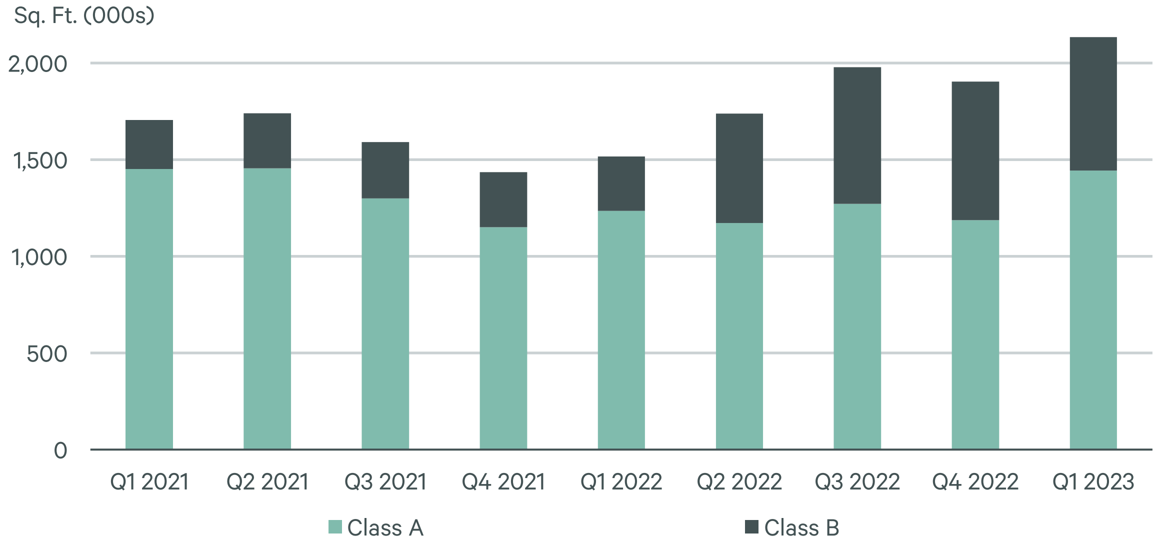
18.3%	108K	$27.92	N/A	270K
Vacancy Rate	SF Net Absorption	FSG / Lease Rate	SF Under Construction	SF YTD Leasing Activity

Note: Arrows indicate change from previous quarter (unless otherwise indicated).

HIGHLIGHTS

- Positive 108,000 sq. ft. of direct net absorption was posted in Q1 2023, the second consecutive quarter of growth for the submarket. The lack of any large move outs was the catalyst to net absorption remaining positive.
- After the completion of Vectra Bank's headquarters in Q4 2022, the office development pipeline has been tepid. Currently there are no projects under construction.
- Leasing activity decreased 8.4% quarter-over-quarter to 270,000 sq. ft., with Class A properties receiving 81.6% of total activity.
- Sublease availability increased 12.1% quarter-over-quarter to 2.1 million sq. ft., as multiple large blocks of additional space hit the market.
- Total vacancy dropped 50 bps to 18.3% and direct vacancy declined 30 bps to 15.4%.
- The average direct asking lease rate dropped slightly, decreasing 0.2% quarter-over-quarter to $27.92 per sq. ft. FSG.

Figure 1: Sublease Availability by Class



Source: CBRE Research Q1 2023

Vacancy

In the first quarter of 2023, total vacancy dropped 40 basis points (bps) from the 18.7% seen at the end of 2022. Southeast total vacancy has experienced two consecutive quarters of decline, minimizing the year-over-year increase to just 40 bps. Class A total vacancy continued to decline, decreasing 60 bps to 17.6%, while Class B dropped 20 bps to 21.1% Direct vacancy improved with a 30-bps decrease to 15.4%. The change was driven by Class A properties, where vacancy declined 50 bps quarter-over-quarter to 15.1%. The Greenwood Plaza micromarket experienced the largest drop in direct vacancy with an 80-bps quarter-over-quarter decline to 20.2%, while the Inverness micromarket had the greatest increase, rising 30 bps to 18.1%.

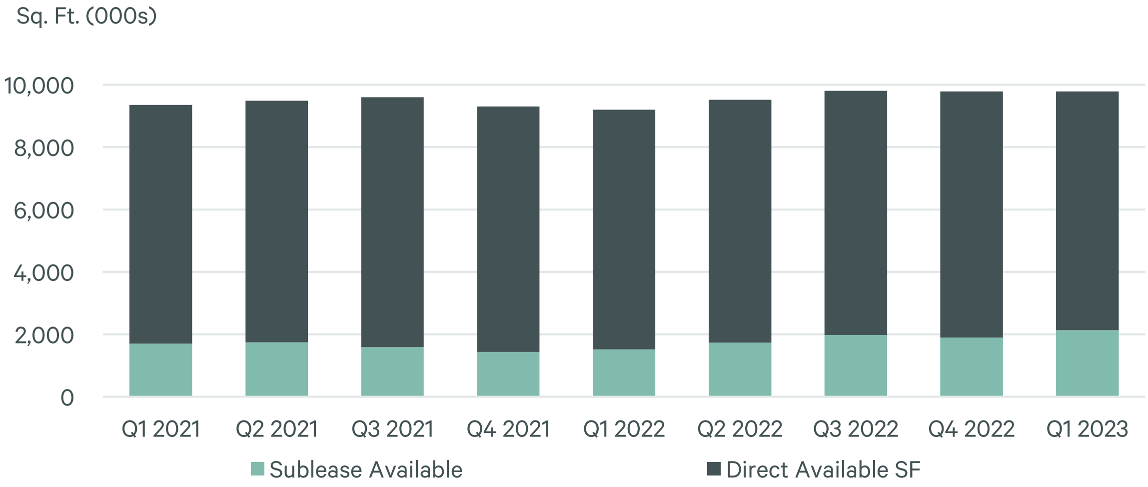
Sublease Availability

After dipping slightly in Q4 2022, sublease availability rose 12.2% quarter-over-quarter to 2.1 million sq. ft., reaching a new all-time peak for the submarket. As companies now face a cloudy economic landscape, they have renewed focus on efficiency. The rise in sublease availability can be attributed to multiple large blocks of space hitting the market, specifically Zoom looking to sublet 92,000 sq. ft. at 7601 DTC Pky and Comcast adding 85,000 sq. ft. at 7250 S Havana St. With no notable removals to offset the additions, the Southeast ended the quarter with a 40.5% year-over-year increase in sublease availability. Class A sublease availability increased 21.6% quarter-over-quarter to 1.4 million sq. ft., while Class B availability decreased 3.5% to 691,000 sq. ft. The DTC micromarket had the greatest net increase in sublease space, adding 146,000 sq. ft, a 37.9% increase quarter-over-quarter.

Development

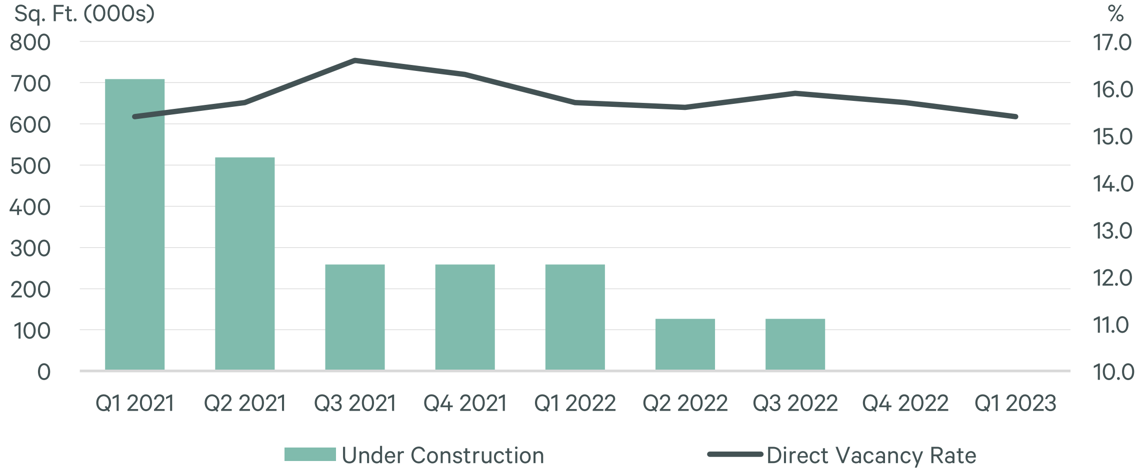
Vectra Bank's Headquarters delivered 127,000 sq. ft. of space in Q4 2022, completing the last remaining office building under construction. Currently there are no projects underway in the Southeast submarket as inflated construction costs, higher interest rates and elevated vacancies are discouraging developers. While there are a variety of projects in different stages of preconstruction, the lack of anchor tenants and the unwillingness or inability to break ground on a speculative basis have kept them from coming to fruition.

Figure 2: Sublease Available vs. Direct Available



Source: CBRE Research Q1 2023

Figure 3: Under Construction vs. Direct Vacancy Rate



Source: CBRE Research Q1 2023

Leasing Activity

Activity remained relatively stable as total leasing volume declined 8.4% quarter-over-quarter to 270,000 sq. ft. The Southeast submarket accounted for three of the five largest leases signed in the Denver metro in Q1 2023. A large portion of overall activity was new leases or expansions, with renewals only accounting for 25.6% of activity. The flight-to-quality trend continued, with no notable leases singed in Class C properties and Class B activity only making up 18.4% of total leasing volume in Q1 2023. Year-over-year there was a 34.9% decrease in total leasing volume.

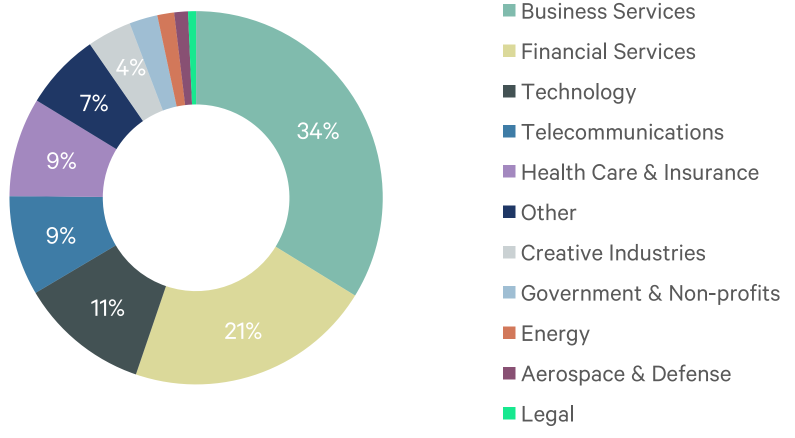
The rolling four-quarter total of leasing activity decreased 100,000. sq. ft to reach 1.5 million sq. ft. in Q1 2023. The business services sector became more dominant with 501,000 sq. ft. signed, comprising 33.8% of the total. Financial services followed with 318,000 sq. ft. (21.4%) and was trailed by technology with 167,000 sq. ft. (11.4%). Creative industries had the greatest decrease in its share of leasing activity, shrinking 5.2 percentage points from the 9.1% it contributed in Q4 2022.

Figure 4: Top Lease Transactions

Lease Type	Tenant	SF	Address	Micromarket
New Lease	Zynex	41,000	9555 S Maroon Cir	Meridian/Ridgegate
New Lease	Kodiak Building Partners	32,000	9780 Mt Pyramid Ct	Meridian/Ridgegate
New Lease	Leidos	31,000	169 Inverness Dr W	Inverness
New Lease	Open Technology Solutions	27,000	9189 S Jamaica St	Meridian/Ridgegate
Renewal	Skye Commercial	24,000	188 Inverness Dr W	Inverness

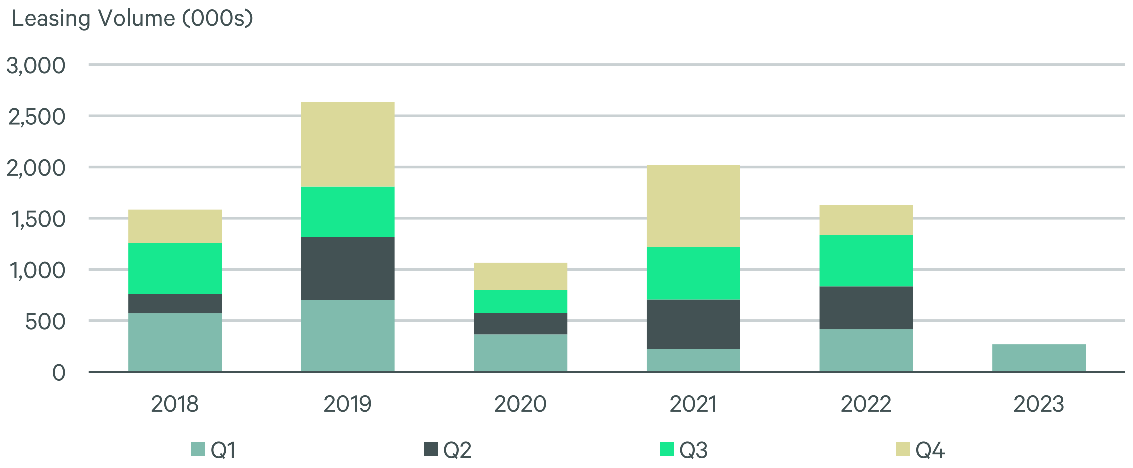
Source: CBRE Research Q1 2023

Figure 5: Leasing Activity by Industry (Q2 2022 – Q1 2023)



Source: CBRE Research Q1 2023

Figure 6: Annual Leasing Volume



Source: CBRE Research Q1 2023

Net Absorption

The Southeast posted absorption for the 2nd consecutive quarter in Q1 2023, with positive 108,00 sq. ft. of net absorption. The quarter saw a 14.1% quarter-over-quarter decline and a 67.9% year-over-year drop in positive net absorption. Class A properties were the catalyst for this quarter, driven by Gen II occupying their 72,000 sq. ft. space at 6900 Layton, and Zeta Associates occupying 41,000 sq. ft. at 6200 S Syracuse. Class B properties also remained positive with 22,000 sq. ft. of net absorption. The overall submarket was supported by the lack of any move outs larger than 35,000 sq. ft.

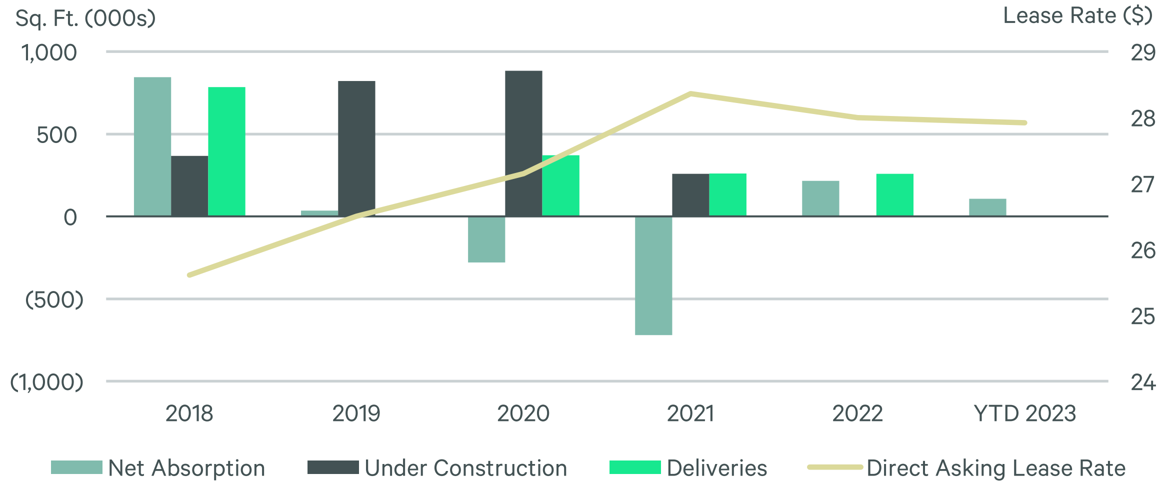
Average Asking Lease Rates

The overall average direct asking lease rate declined 0.2% quarter-over-quarter to $27.92 per sq. ft. FSG. Year-over-year rates declined 1.2%, as landlords opt to provide elevated concessions as opposed to dropping asking rates. Greenwood Plaza maintained the highest average direct rate, which increased to $30.29 per sq. ft. Average Class A rate decreased marginally to $30.40 per sq. ft. FSG, while the average Class B rate rose 3.2% to reach $25.19 per sq. ft. FSG.

Figure 7: Asking Rates by Class

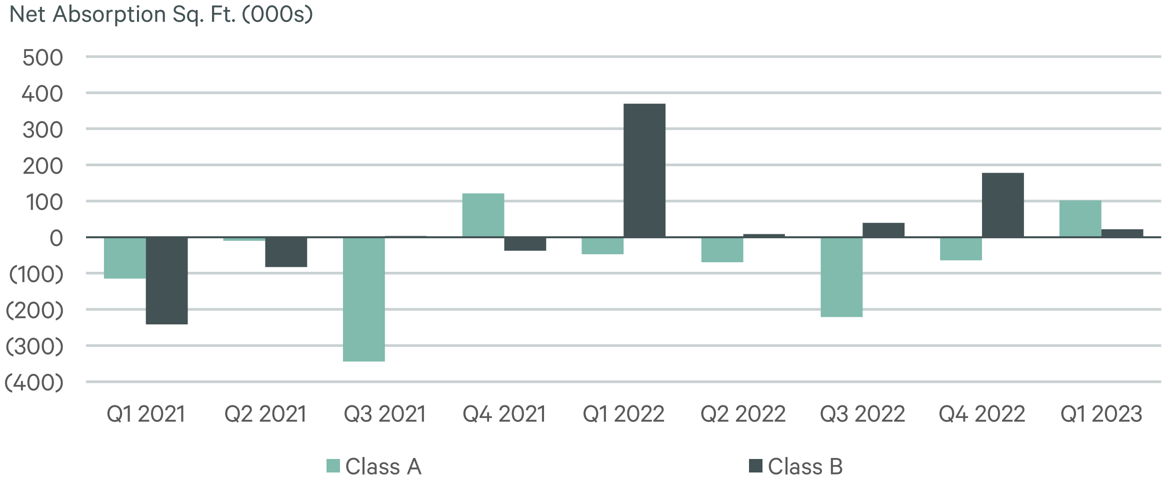
Source: CBRE Research Q1 2023

Figure 8: Net Absorption, Construction, Deliveries and Lease Rates



Source: CBRE Research Q1 2023

Figure 9: Net Absorption by Class

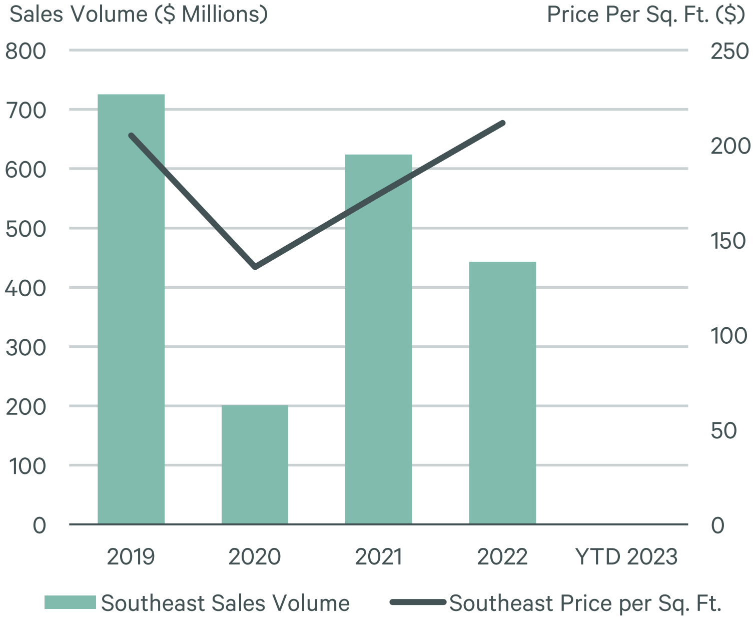


Source: CBRE Research Q1 2023

Investment Trends

Investment sales had a slow start to the year, with no properties trading hands in the Southeast submarket. It was the first time since Q2 2020 that there were zero sq. ft. of transactions recorded. This marks a significant decline from both the $51.4 million of investment volume in Q4 2022 and the $135.4 million that was transacted in the first quarter of last year. Elevated interest rates and a diminished appetite for office assets among lenders has taken its toll, as the rolling four-quarter total dropped to $317.9 million from $453.3 million last quarter.

Figure 10: Investment Activity



Source: CBRE Research Q1 2023

Figure 11: Quarterly Statistics

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Total NRA (SF)	36,930,363	37,062,096	37,062,096	37,189,096	37,173,163
Under Construction (SF)	258,733	127,000	127,000	-	-
Direct Vacant (%)	15.7	15.6	15.9	15.7	15.4
Sublease Vacant (%)	2.2	2.9	3.3	3.1	3.0
Direct Available (%)	20.8	21.0	21.1	21.2	20.6
Sublease Available (%)	4.1	4.7	5.3	5.6	5.7
Sublease Available (SF)	1,519,270	1,739,969	1,978,611	2,095,792	2,134,468
Net Absorption (SF)	336,823	(70,620)	(176,026)	125,696	108,002
Average Direct Asking Lease Rate ($)	28.26	28.12	27.82	28.00	27.92

Source: CBRE Research Q1 2023

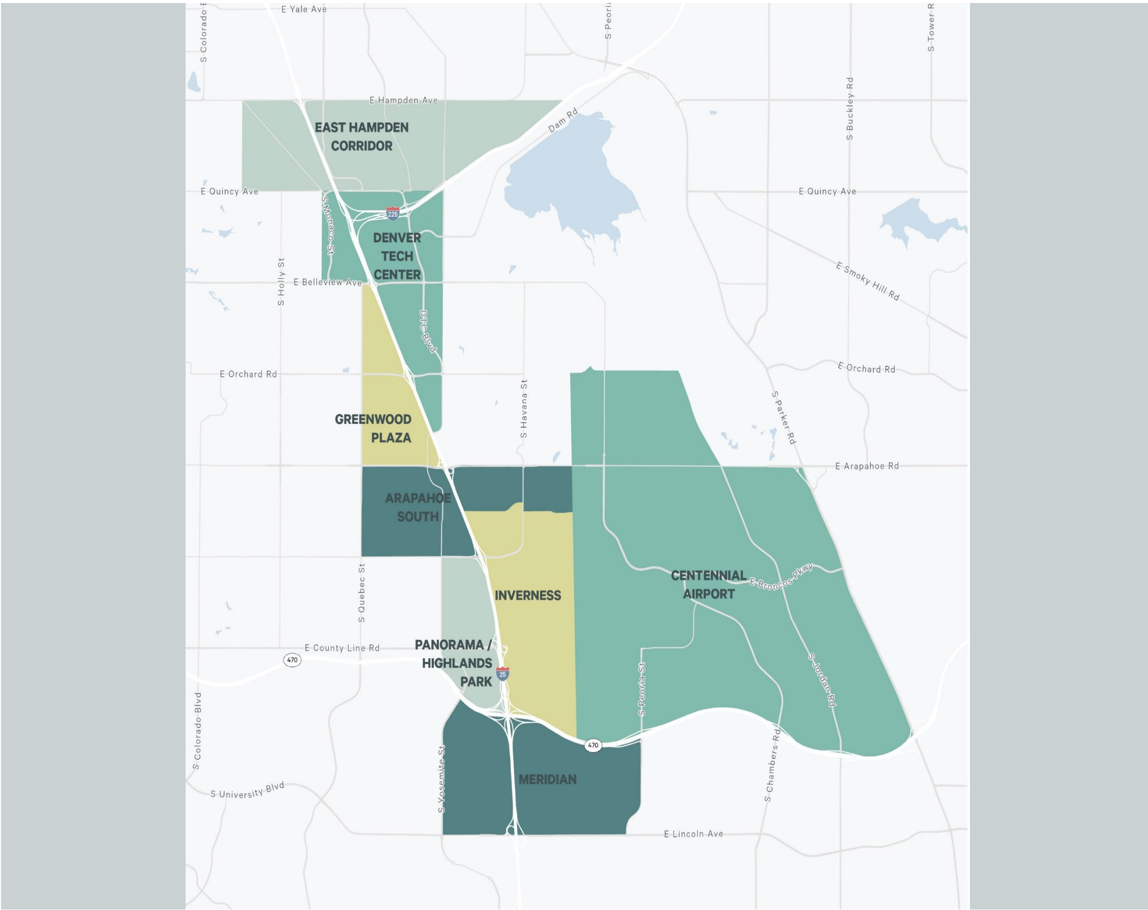
Market Statistics

Figure 12: Quarterly Statistics by Class

Class A	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Total NRA (SF)	21,852,635	21,852,635	21,992,756	21,992,756	21,992,756	22,124,489	22,124,489	22,251,489	22,251,489
Direct Vacant (%)	12.3	12.4	13.7	13.2	13.8	13.9	14.8	15.6	15.1
Sublease Available (SF)	1,451,505	1,455,061	1,299,470	1,149,779	1,235,499	1,171,563	1,272,137	1,187,026	1,443,315
Total Available (%)	24.8	24.9	25.7	24.2	25.6	25.5	26.4	26.7	26.2
Net Absorption (SF)	(114,727)	(10,488)	(344,079)	121,237	(47,537)	(69,045)	(220,967)	(64,133)	102,103
Average Direct Asking Lease Rate ($)	30.59	30.27	31.64	31.83	31.34	31.06	30.37	30.47	30.40
Class B	**Q1 2021**	**Q2 2021**	**Q3 2021**	**Q4 2021**	**Q1 2022**	**Q2 2022**	**Q3 2022**	**Q4 2022**	**Q1 2023**
Total NRA (SF)	12,475,308	12,475,668	12,565,308	12,565,308	12,646,409	12,646,409	12,629,	12,629,072	12,629,072
Direct Vacant (%)	22.0	22.7	22.8	22.9	20.0	19.4	18.8	16.9	16.8
Sublease Available (SF)	251,775	284,147	291,198	284,994	281,526	566,161	706,474	716,089	691,153
Total Available (%)	29.2	30.3	29.0	29.4	26.2	28.6	29.3	29.9	29.0
Net Absorption (SF)	(241,159)	(89,015)	5,262	(37,428)	369,146	8,506	39,623	178,114	21,806
Average Direct Asking Lease Rate ($)	24.35	24.26	24.80	24.81	25.00	24.70	24.76	25.11	25.19
Class C	**Q1 2021**	**Q2 2021**	**Q3 2021**	**Q4 2021**	**Q1 2022**	**Q2 2022**	**Q3 2022**	**Q4 2022**	**Q1 2023**
Total NRA (SF)	2,308,535	2,308,535	2,308,535	2,308,535	2,308,535	2,308,535	2,308,535	2,308,535	2,292,602
Direct Vacant (%)	9.8	9.2	10.6	10.4	9.7	11.4	9.9	9.4	10.2
Sublease Available (SF)	5,501	7,943	2,245	2,245	2,245	2,245	-	-	-
Total Available (%)	12.2	11.8	12.9	12.9	11.6	11.8	11.3	11.1	12.8
Net Absorption (SF)	3,449	14,252	(30,296)	4,424	15,214	(10,081)	5,318	11,715	(15,907)
Average Direct Asking Lease Rate ($)	17.27	18.01	18.47	18.23	17.94	17.98	18.25	18.29	18.61

Source: CBRE Research Q1 2023

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
2755 Canyon, First Floor
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 Southeast Submarket (as displayed on the adjacent map). Buildings which have begun construction as evidenced by site excavation or foundation work.

Contacts

Ryan McCauley
Research Analyst
+1 303 824 4710
ryan.mccauley@cbre.com

Peyton Pellington
Research Analyst
+1 303 583 2017
peyton.pellington@cbre.com

Jonathan Sullivan
Research Manager
+1 303 824 4706
jonathan.sullivan@cbre.com