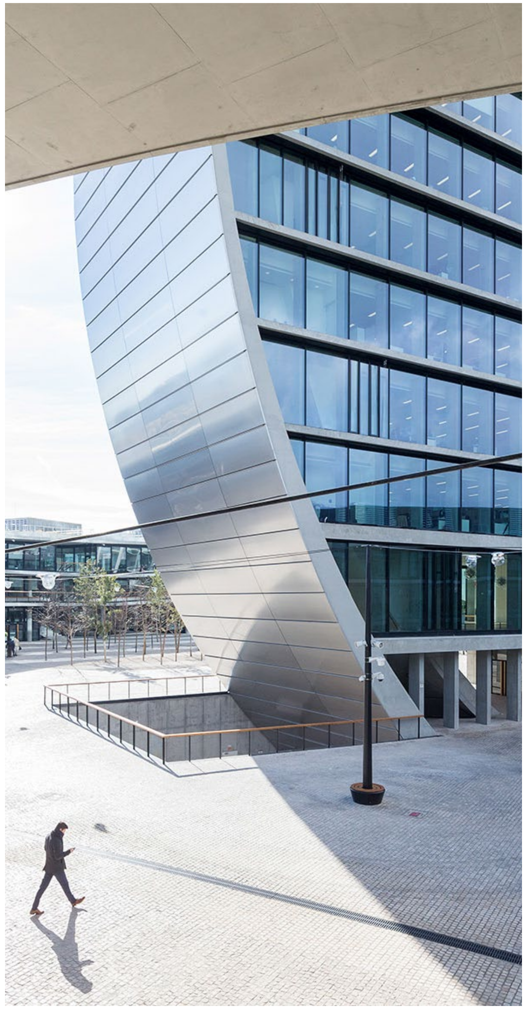


Denver Office Sublease Space: Analysis & Post-Covid Trends

6/1/2023

Big Picture

19%

Of total national office availability was sublease space as of Q1 2023

The markets with the most sublease availability are unsurprisingly some of the largest office markets in the country. Two sectors that have been more actively adding sublease space, technology and financial services, are among the largest office occupiers in these markets.

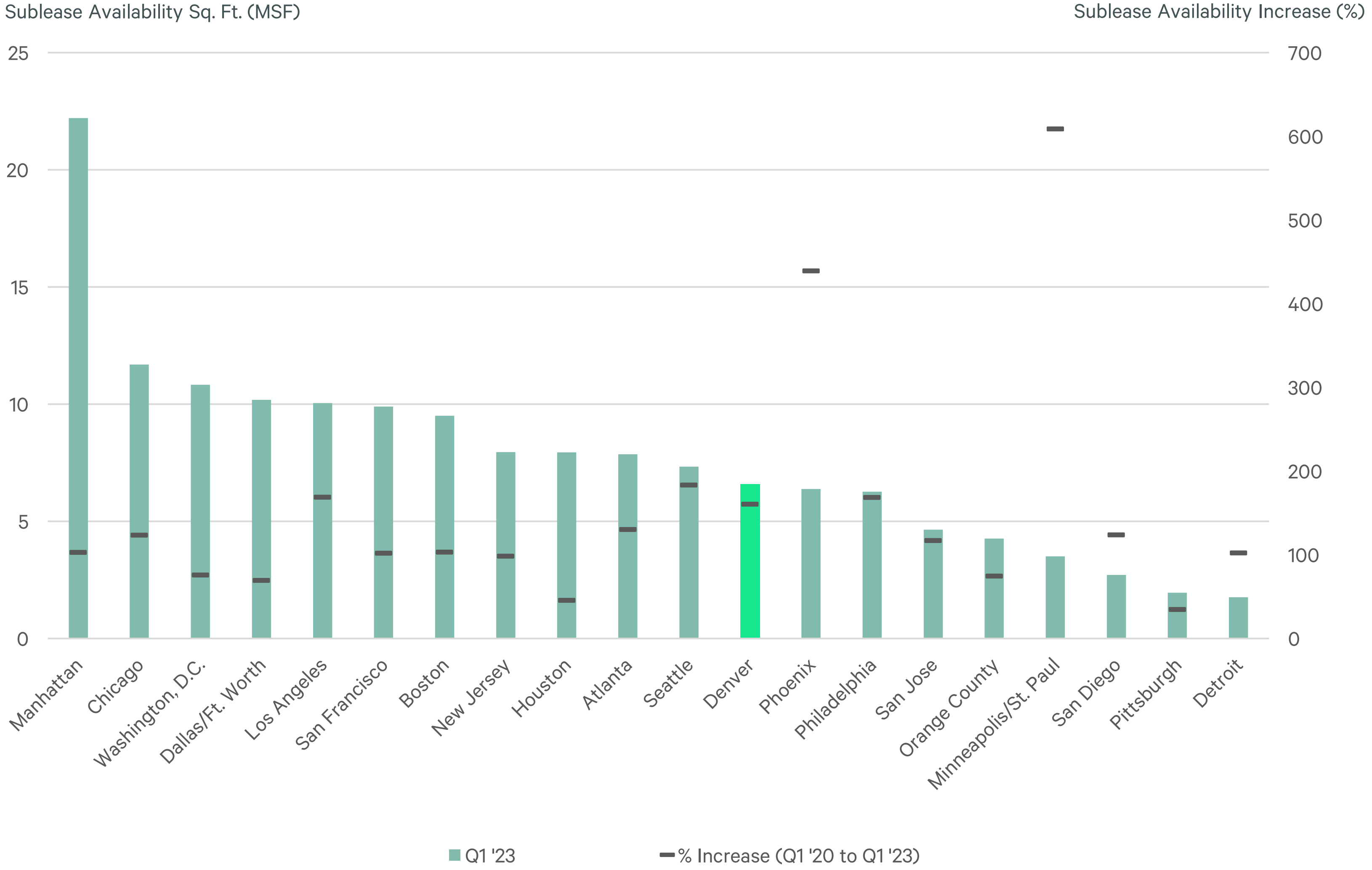
Among the 20 largest U.S. office markets, sublease availability has risen by an average of 152% since Q1 2020. Denver's sublease availability has risen at a similar pace, having increased 161% over the same three-year period.

65%

Of companies now require employees to return to the office

Source: 2023 CBRE U.S. Office Occupier Sentiment Survey

Figure 1: National Sublease Availability by Market

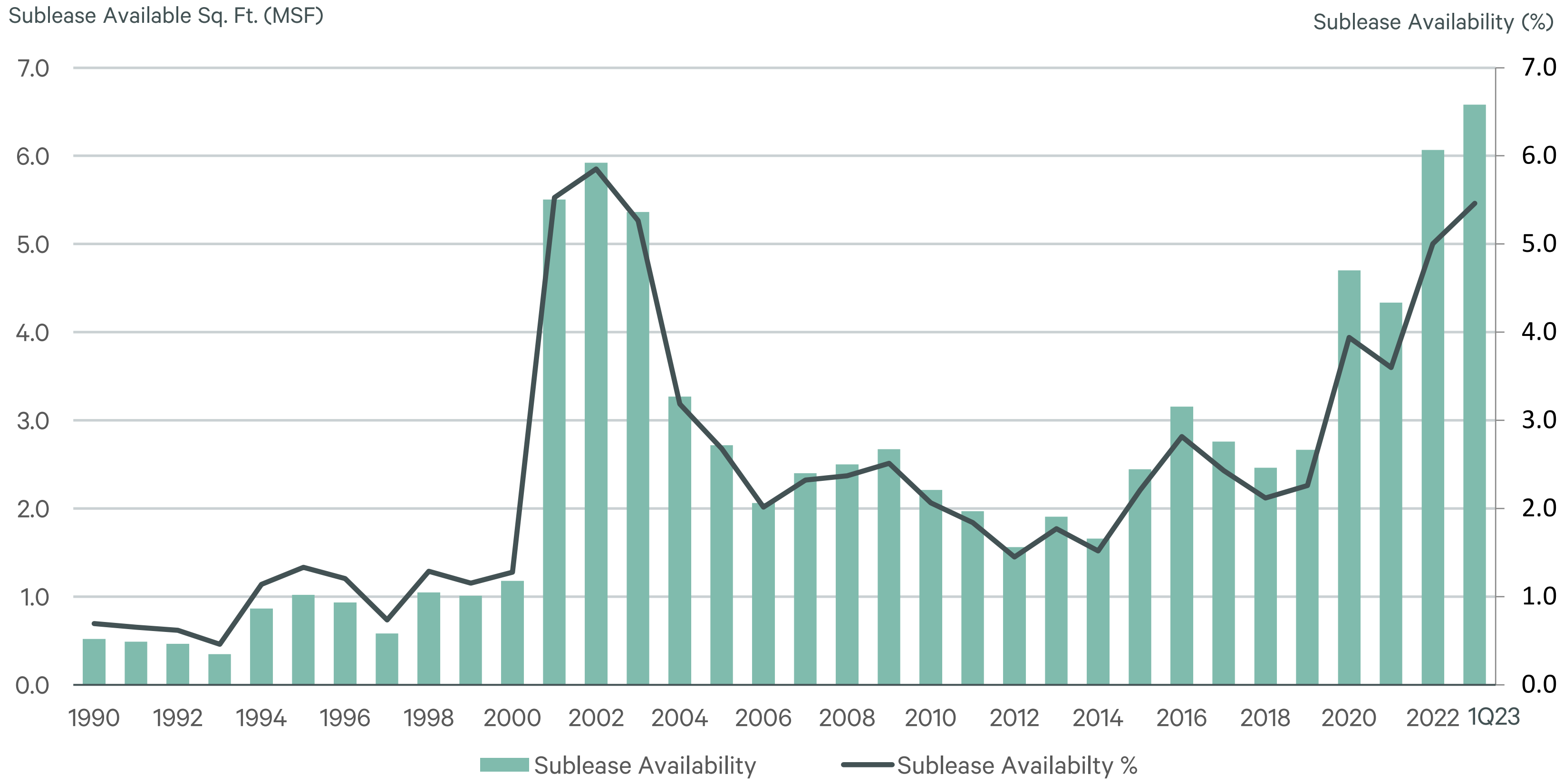


Historical Perspective

Despite the many things that were unprecedented about the pandemic, the increase in sublease space was not one. Denver experienced a similar rise when the Dot-com Bubble burst in 2001. Available sublease space rose from 1.2 million sq. ft. in 2000, to 5.5 million sq. ft a year later, an increase of 365%. While the rise was rapid, the recovery was quick as well, with sublease availability declining 39.0% from 2003 to 2004 as the economy rebounded and companies expanded. Noticeably small is the peak of the Great Financial Crisis, where sublease availability rose only 29.7% from the previous low of 2.0 million sq. ft. in 2006.

The lowest amount of sublease space available in the Denver metro was 1.6 million sq. ft. in 2012. There was a notable increase in 2016 as the oil market declined and the stock market faced headwinds, resulting in a 29.1% increase in sublease space year-over-year. At the end of 2019, the office market was performing well with 2.7 million sq. ft. of sublease space accounting for 13.3% of overall availability.

FIGURE 2: Historical Denver Metro Sublease Availability



The Covid-19 Pandemic

When the pandemic hit in March of 2020, it had an immediate impact on the Denver office market and the broader economy. Denver implemented a stay-at-home order from March 25th to May 5th of 2020, with only businesses deemed essential to be in the office. The effects were profound. Leasing activity plummeted as business came to a stand still and more companies began to re-evaluate their existing office space to accommodate social distancing and work from home. Available sublease space in the Denver metro increased 76.4% from 2.6 million sq. ft. to 4.7 million sq. ft. by the end of 2020.

2021 started with a vaccine being distributed to first responders and interest rates remaining low. The year closed on a slightly positive note, with sublease space decreasing 7.7% from 4.7 million sq. ft. available to 4.3 million sq. ft. This trend was short lived as sublease space saw a large spike in 2022. Companies continued to evaluate work from home and much of the rapid economic growth in 2021 was eroded as the federal reserve sharply increased interest rates to battle inflation. Between Q1 2022 and Q1 2023, available sublease space in the Denver metro increased by 2.1 million sq. ft.

Availability by Class

Since Q1 2020, sublease availability in the Denver metro has increased from 2.5 million to 6.6 million sq. ft., a 160.6% increase. One of the earliest trends that occurred during the pandemic was the flight to quality. Occupiers were able to downsize due to less people coming into the office and gained the ability to rent higher quality space. Class A sublease space in the metro increased 55.2% from Q1 2020 to Q4 2020, while Class B space increased 136.2%, supporting this trend. However, after this period the growth in Class A sublease availability across the metro rose at a more similar pace as Class B. From Q1 2022 to Q1 2023 Class A availability has increased 38.7%, while Class B has risen 57.1%.

The flight to quality is more apparent Downtown where the bulk of sublease space is in Class B buildings, while the opposite is true in the Southeast. At the end of Q1 2023, 67.6% of Southeast sublease availability was in Class A buildings. It is important to note that the Class A NRA in the Southeast is 76.2% more than the Class B. Recently there has been a notable increase of Class A sublease availability outside of the Southeast and Downtown submarkets, which has risen 90.8% since Q3 2022 with the Northwest and Boulder submarkets being the major contributor.

FIGURE 3: Total Sublease Availability

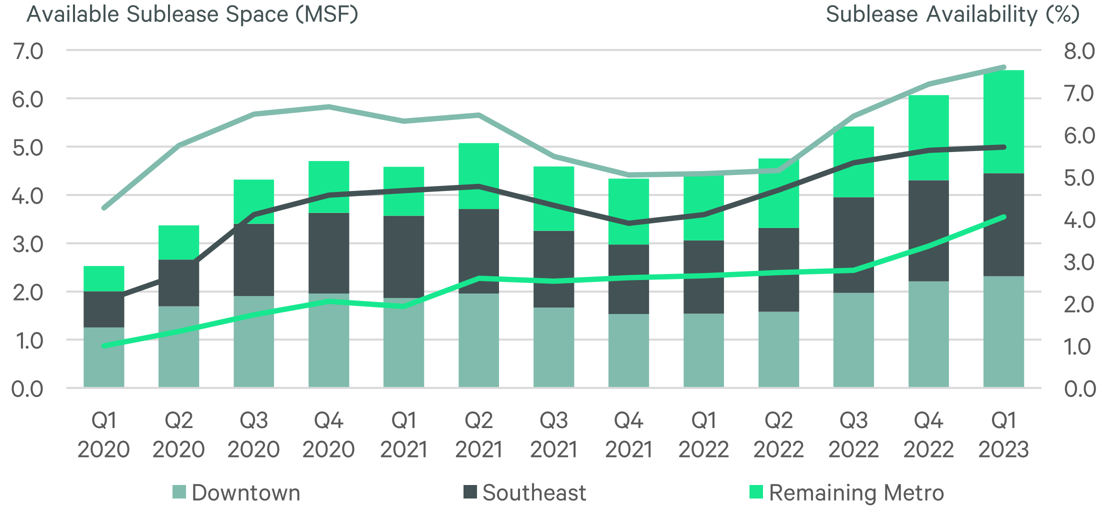


FIGURE 4: Class A Sublease Availability

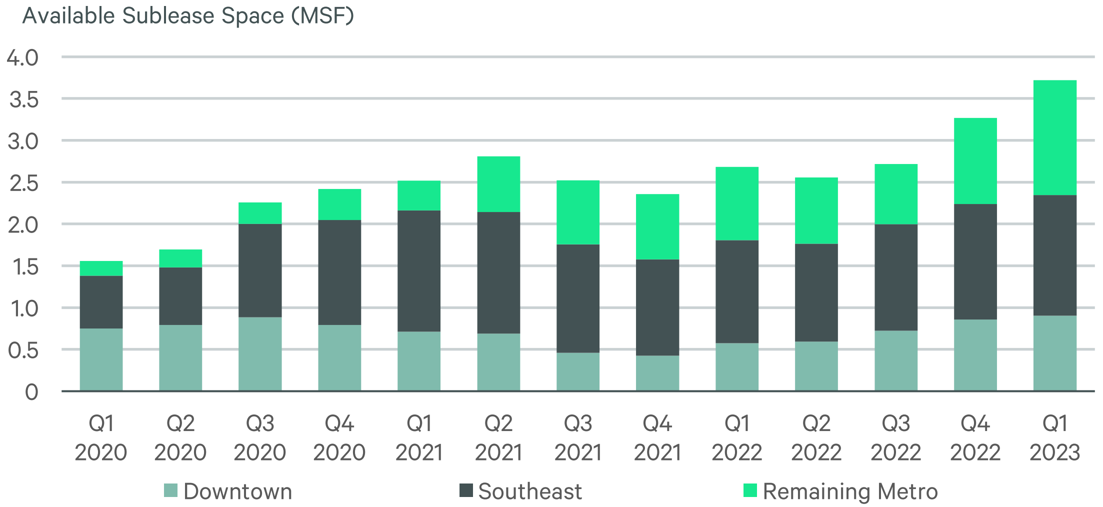
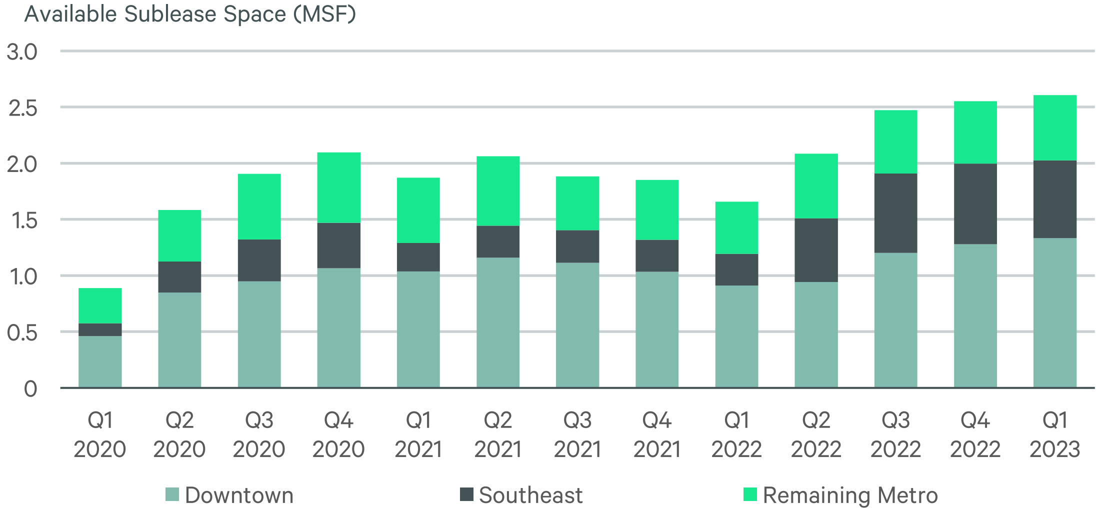


FIGURE 5: Class B Sublease Availability



Lease Rates

The overall average asking sublease rate experienced a robust increase at the onset of the pandemic. From Q1 2020 to Q1 2021, there was a large amount of premier Downtown office sublease space hitting the market at premium rates. For Example, Antero Energy listed 36,537 sq. ft. at 1881 16th St for $35 NNN, Advanced Energy listed 19,809 Sq. Ft. at 1595 Wynkoop for $36 NNN and Optiv put up 24,600 sq. ft at 1144 15th St for $40.00 NNN. These top-tier spaces were quickly leased or reoccupied and the overall average asking sublease rate for the metro began to decline after Q1 2021. This, combined with large spaces at lower rates hitting the market, caused the Denver metro average asking sublease rate to decrease from $31.19 FSG PSF in Q1 2021 to $26.71 FSG PSF in Q1 2022.

Both the Downtown and Southeast submarkets saw a jump in spaces over 75,000 sq. ft. over the course of 2022, increasing from a combined six availabilities in Q1 2022, to 14 availabilities in Q1 2023. As the Pandemic began, 66.6% of sublease spaces were under 15,000 sq. ft. in the Southeast and 45.2% Downtown. That number has remained relatively stable with Downtown having 44.9% under 15,000 sq. ft. and the Southeast at 56.8% as of Q1 2023.

FIGURE 6: Average Asking Sublease Rate

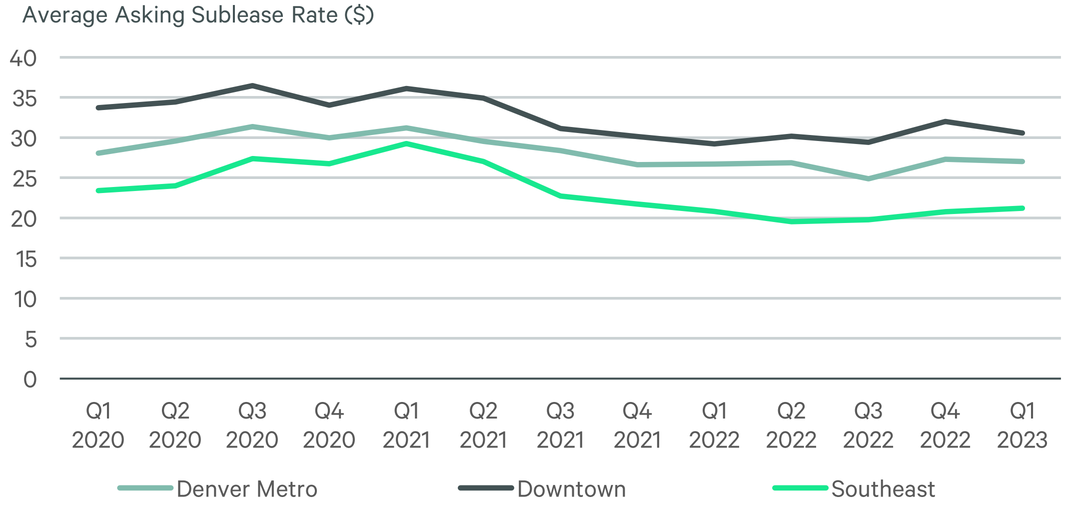


Figure 7: Downtown Sublease Availability – Count by Size Range

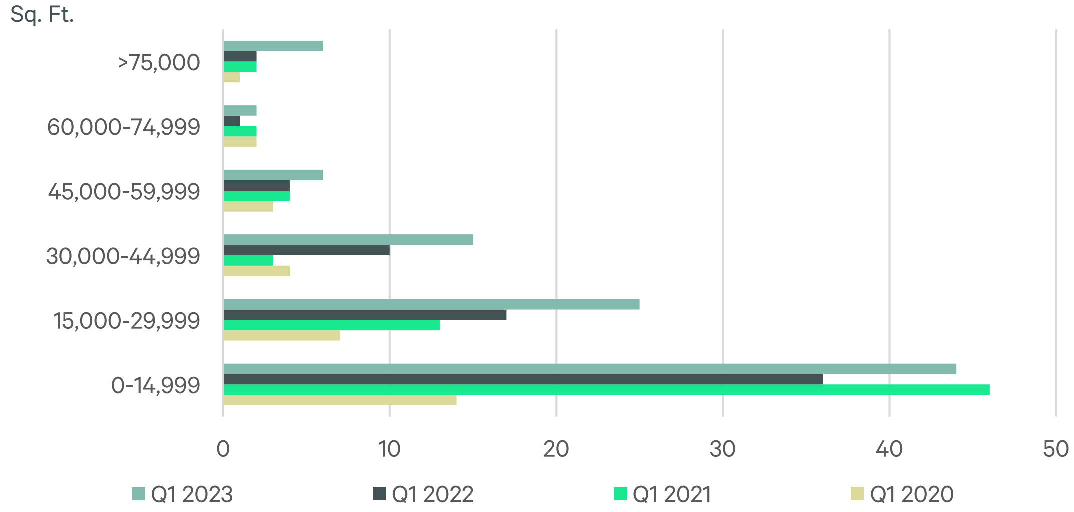
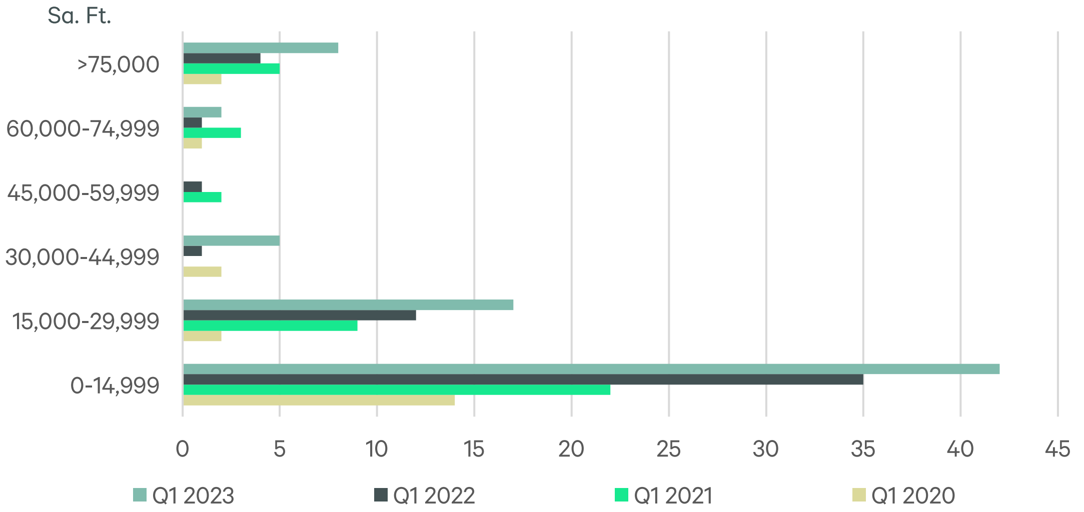


Figure 8: Southeast Sublease Space Size Range



Downtown

The Energy sector has historically been one of the largest office occupiers in Downtown Denver. In the period leading up to the pandemic, the industry was facing challenges. Lower oil prices, consistent mergers and acquisitions, and a changing regulatory environment for oil and gas in Colorado led companies to reduce their real estate holdings. The result was Energy being responsible for 44.0% of the available 1.3 million sq. ft. of sublease space in Q1 2020.

With much of Downtown still under social distancing restrictions a year into the pandemic, we see the impact of tech companies that quickly adopted work from home. The Tech industry jumped 5.0% in its share of space on the sublease market in the first year. By Q1 2022, the Business Services industry produced a similar rise as the Tech industry, making up 17.5% as work from home became a competitive advantage for some companies looking to lure scarce talent.

As of Q1 2023, the economic landscape has drastically changed from Q1 2021. With Covid-19 and work from home mandates in the rearview mirror, along with the economic stimulus that followed, the Tech industry has fully felt the shift. In recent years, Denver has benefitted from the growth and diversification provided by Tech company expansions, but now the real estate market is seeing some attrition from the rise, with Tech now having the most available sublease space at 31.9%.

23%

Tech industry's share of total sublease space nationally

21%

Tech industry's share of total leasing nationally 2018-2019

FIGURE 9: Q1 2020 Sublease Availability

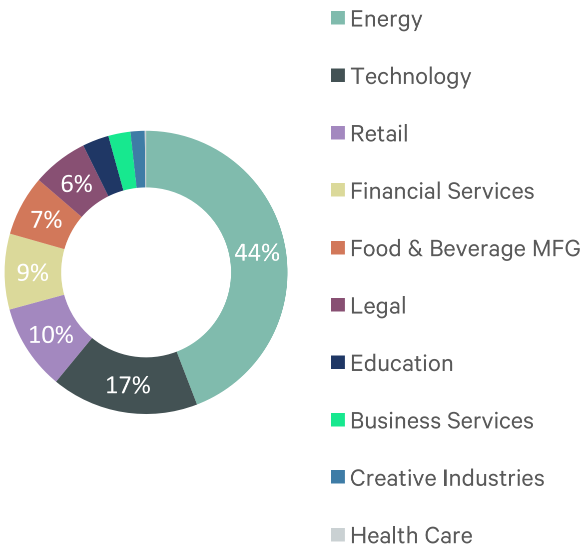


FIGURE 10: Q1 2021 Sublease Availability

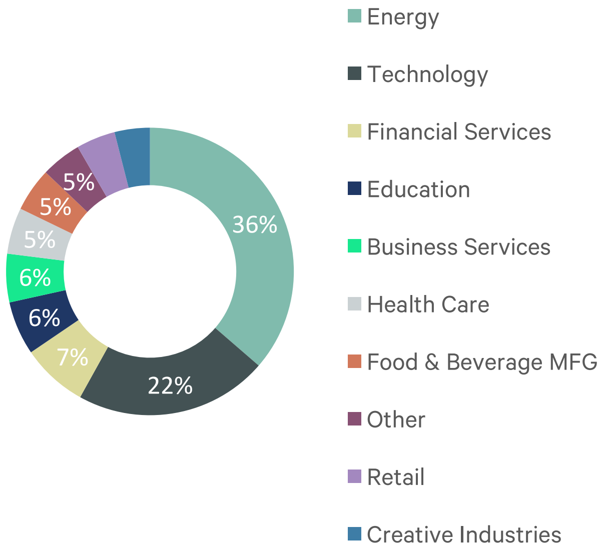


FIGURE 11: Q1 2022 Sublease Availability

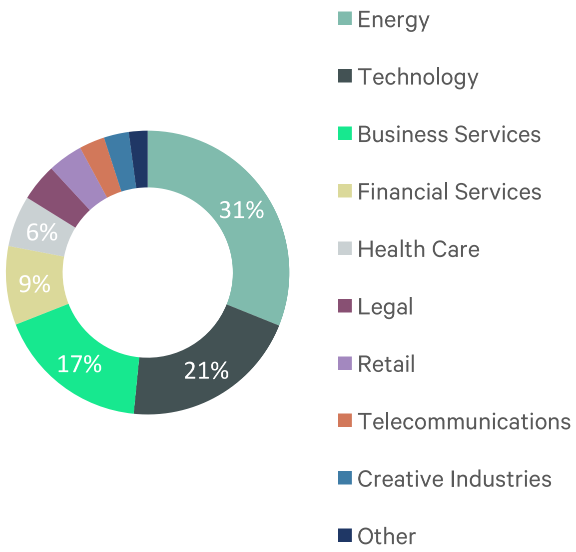
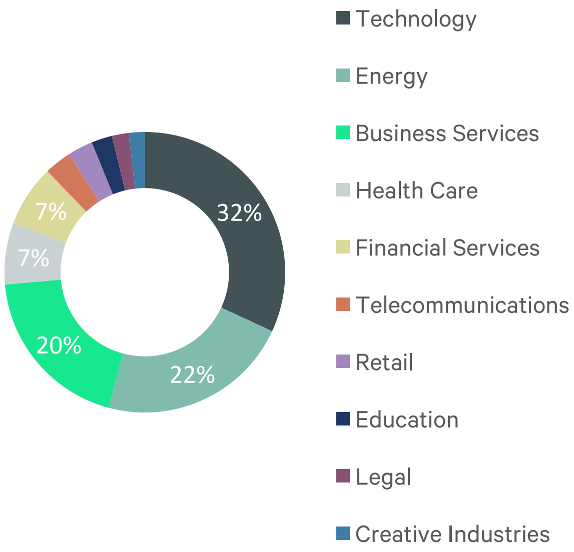


FIGURE 12: Q1 2023 Sublease Availability



Southeast

At the onset of the pandemic, the Southeast office market had only two sublease availabilities over 65,000 sq. ft., with Cognizant Technology Solutions and Century Link listing 167,000 sq. ft. each. The Southeast has long been defined by the Telecom industry, which established the area as a satellite market to Downtown. This became apparent as the industry's share of sublease space increased from 24.5% in Q1 2020 to 37.9% by Q1 2021. Telecom behemoths Comcast, AT&T and even smaller players like WOW! Internet put up a combined 637,000 sq. ft. across seven buildings in the first year of the pandemic. Of this space, 418,000 sq. ft. remains up for sublease, with the rest having gone direct or been leased by a subtenant.

Business Services took the lead back by Q1 2022, driven by Jacobs Engineering adding 206,000 sq. ft. at 9189-9191 S Jamaica St. The majority of Jacobs' space would be leased within a year by fellow engineering company Burns and McDonnell but would be supplanted in the market by Business Services firm Computershare adding 283,000 sq. ft at 6200 S Quebec St. in Q2 2022.

Despite the Southeast having a lower concentration of tech companies than the Downtown or Boulder markets, it has still seen a similar rise in sublease space. This shows no submarket was impervious to the impacts of work from home, and the trend was not just contained to the Tech industry but also pervasive among the more traditional Business Services companies.

15%

Business Service industry share of total sublease space nationally

28.2M

National sublease leasing volume for 2022

FIGURE 13: Q1 2020 Sublease Availability

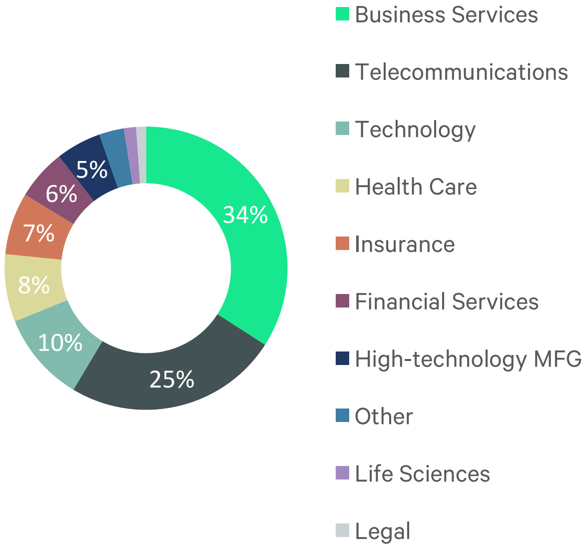


FIGURE 14: Q1 2021 Sublease Availability

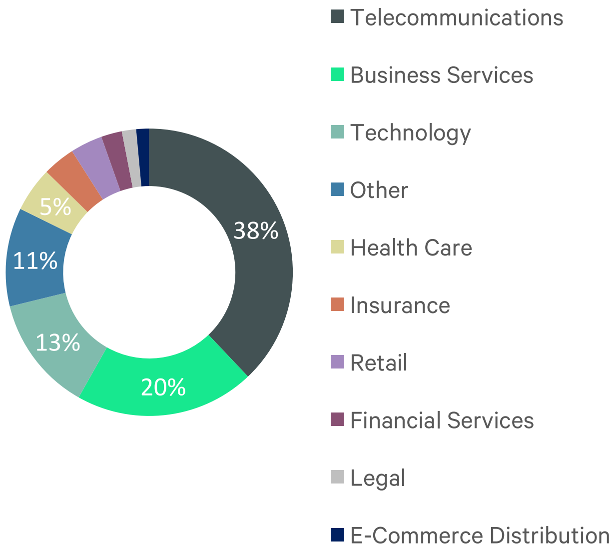


FIGURE 15: Q1 2022 Sublease Availability

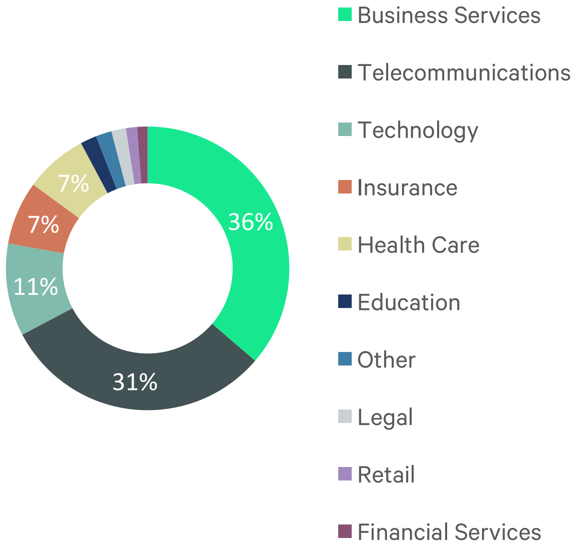
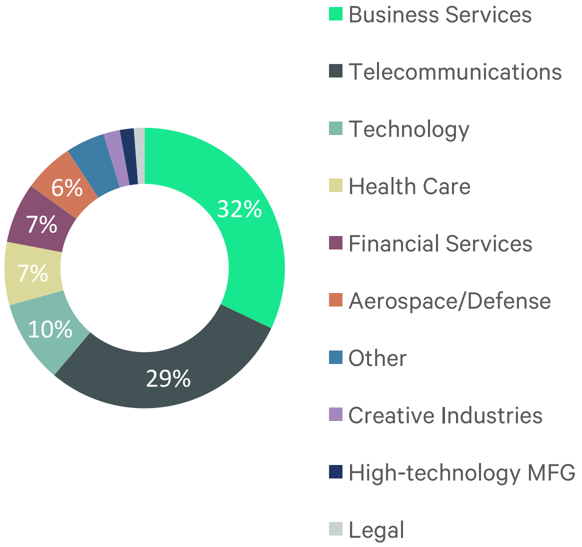


FIGURE 16: Q1 2023 Sublease Availability



Looking Forward

Since March 2020, the average Downtown lease term remained stable between 35 and 40 months, but there was a steady increase of available term in the Southeast each year. The appetite for sublease space has varied in the last three years. The peak of leases signed for the metro was 309,000 sq. ft. in Q2 2021, with the low being 22,000 sq. ft. in Q3 2020. 2023 got off to a solid start, with 98,000 sq. ft. or 1.5% of available sublease space being taken in the first quarter.

The Covid-19 Public Health Emergency officially ended May 11th, 2023 and the full long-term impacts of the pandemic have yet to be realized. In the remaining three quarters of 2023 there will be 491,00 sq. ft. of expiring subleases in the Denver metro, with Downtown having the largest share at 237,000 sq. ft. The peak of expiring subleases for Downtown and the remaining metro will occur in 2024, while the Southeast will peak later in 2027. There will be 1.2 million sq. ft. of subleases expiring in 2024, equal to 4.8% of the direct availability in the metro as of Q1 2023.

If all factors remained the same and no current sublease availabilities were leased or reoccupied, the Denver metro direct vacancy rate would increase 210 basis points from 17.7% in Q1 2023 to 19.8% by the end of 2025. Looking at the Southeast, the direct vacancy rate would increase 210 basis points to 17.5%, while Downtown vacancy would jump 350 basis points from 23.9% to 27.4%.

FIGURE 17: Average Remaining Term

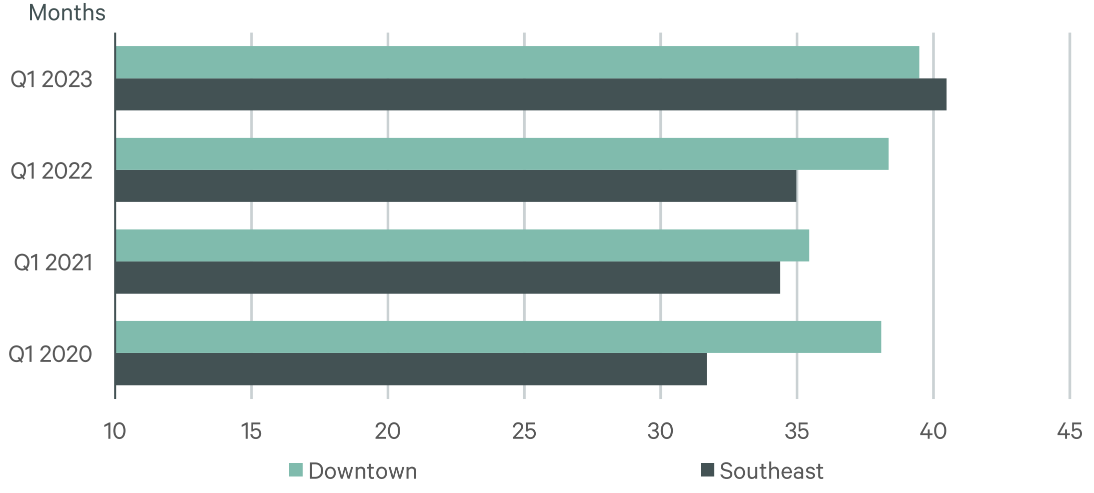


FIGURE 18: Upcoming Sublease Space Expiries by Year

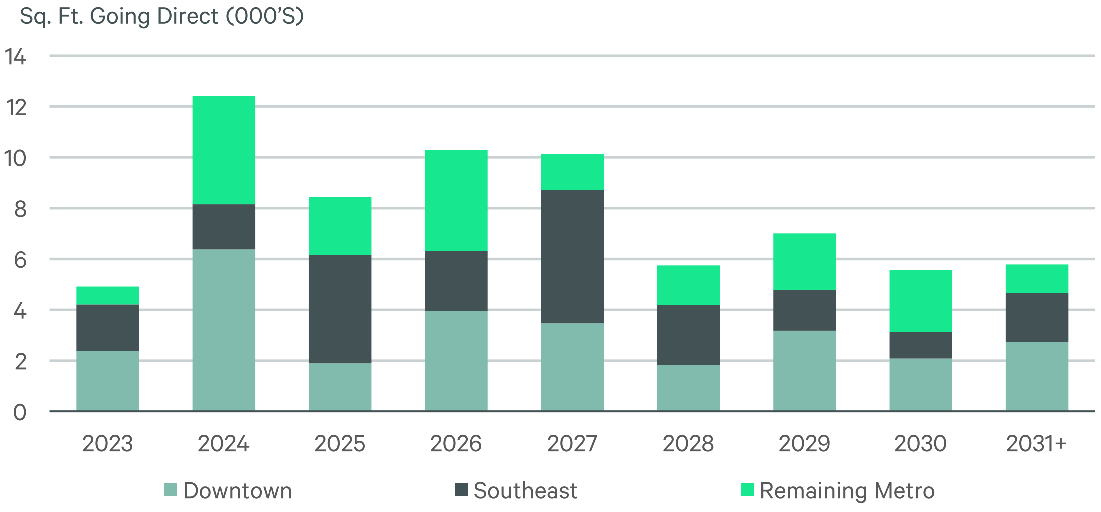


FIGURE 19: Historical Denver Metro Sublease Availability

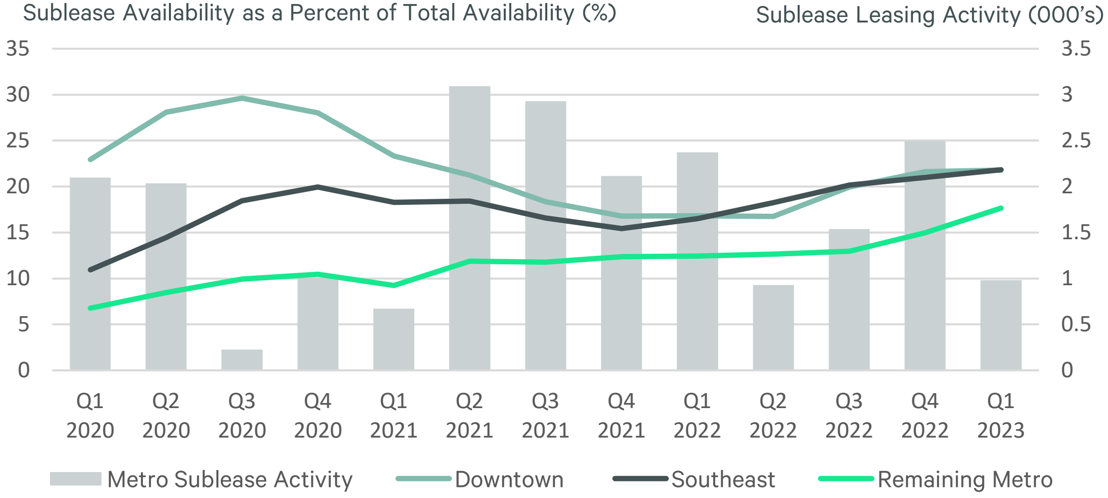


Figure 20: Largest Sublease Additions Downtown Since Q1 2020

Building	District	Sublessor	Space Added	Building Class	Date Added
1050 17th St	Mid-CBD	QEP Resources	173,106	B	June 2021
3601 Walnut St	LoDo	Home Advisor	152,366	A	February 2022
1701 Platte St	LoDo	Robinhood	119,000	A	November 2022
717 17th St	Mid-CBD	SunRun	118,865	B	April 2020
707 17th St	Mid-CBD	2U	94,611	B	April 2020

Figure 21: Largest Sublease Removals Downtown Since Q1 2020

Building	District	Sublessor	Space Removed	Sublessee	Date Removed
1099 18th St	Mid-CBD	Occidental Petroleum	130,068	PDC Energy	February 2022
1144 15th St	LoDo	Chipotle	96,247	Multiple	Multiple
1801 California St	Mid-CBD	Molson Coors	89,126	Contentful/Charlottes Web	May 2021
370 17th St	Mid-CBD	Civitas Resources	73,924	Direct	February 2021
1515 Arapahoe St	S.U.R.	Bridgepoint Education	54,657	Direct	August 2021

Figure 22: Largest Additions In The Southeast Since Q1 2020

Building	District	Sublessor	Space Added	Building Class	Date Added
6200 S Quebec St	Greenwood Plaza	Computershare	282,802	B	June 2022
161 Inverness Dr W	Inverness	AT&T	256,764	A	August 2020
9189-9193 S Jamaica St	Meridian/Ridgegate	Jacobs	220,119	A	February 2021
9601 E Panorama Cir	Panorama/Highland Park	Comcast	144,096	A	October 2020
7979 E Tufts Ave	DTC	Western Union	99,614	A	December 2022

Figure 23: Largest Removals In The Southeast Since Q1 2020

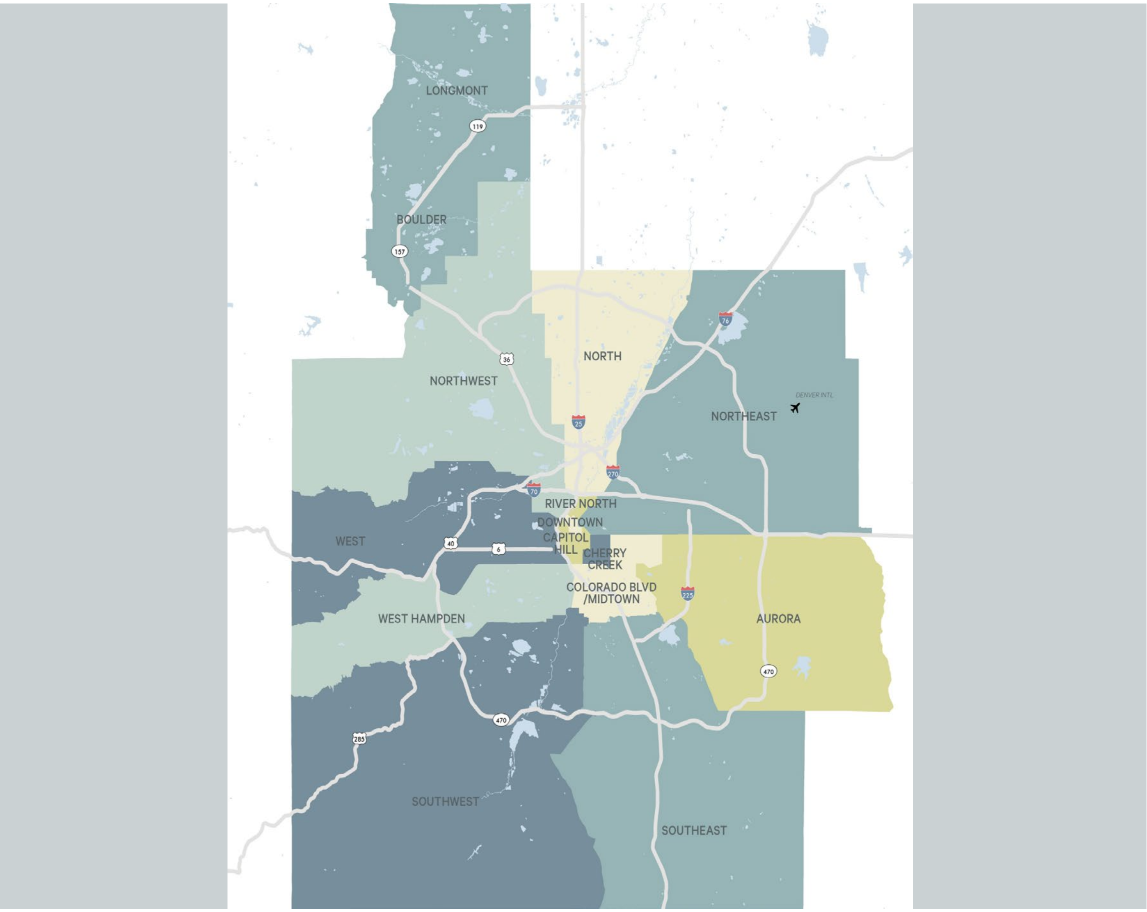
Building	District	Sublessor	Space Removed	Sublessee	Date Removed
9189-9191 S Jamaica St	Meridian/Ridgegate	Jacobs	192,676	Burns and McDonnell	December 2022
10475 Park Meadows Dr	Meridian/Ridgegate	Time Warner	166,708	Lockheed Martin	April 2020
9655 Maroon Cir	Meridian/Ridgegate	Trizetto	147,862	Zynex Medical	April 2021
9380 Station St	Meridian/Ridgegate	Nationwide Insurance	77,688	Direct	November 2020
6900 Layton Ave	DTC	Newmont Mining	72,300	DCP Midstream	April 2021

FIGURE 24: Q1 2023 Market Statistics by Submarket

SUBMARKET	NRA (SF)	Total Vacancy Rate (%)	Direct Vacancy Rate (%)	Sublease Availability (SF)	Under Construction (SF)	Average Lease Rate ($./SF/YR FSG)	Qtr. Direct Net Absorption (SF)
Aurora	5,719,099	20.0	17.4	256,121	-	21.45	(1,336)
Boulder	6,448,375	14.8	13.1	357,908	394,080	36.83	11,012
Capitol Hill	2,417,465	21.0	10.9	248,551	-	30.24	16,086
Cherry Creek	2,733,665	8.5	7.8	20,075	280,548	35.96	(36,564)
Colorado Blvd/ Midtown	6,608,989	20.1	18.0	189,029	-	27.69	(83,986)
Downtown	30,617,096	28.3	23.9	2,316,311	704,036	39.42	(97,309)
Longmont	850,557	7.8	7.5	7,883	-	21.44	(12,426)
North	2,976,821	16.9	16.1	28,282	-	24.39	(5,855)
Northeast	1,198,063	16.6	15.7	97,815	106,527	27.67	120
Northwest	8,431,924	22.1	18.3	462,677	33,000	29.99	(69,088)
River North	2,062,364	31.0	23.0	212,825	957,281	46.85	9,379
Southeast	37,173,163	18.3	15.4	2,134,468	-	27.92	108,002
Southwest	5,481,059	14.2	13.8	20,979	-	25.62	(32,285)
West	6,721,865	18.2	15.8	217,179	-	26.02	(68,299)
West Hampden / Alameda	1,030,097	18.2	17.6	11,889	-	20.02	12,030
METRO TOTAL	120,470,602	20.9	17.7	6,581,992	2,475,472	31.99	(250,519)

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 Boulevard, 1st floor
Boulder, CO 80302

Fort Collins
3003 E. Harmony Road, Suite 300
Fort Collins, CO 80528

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

Survey Criteria

Includes all office buildings 10,000 sq. ft. and greater in size, excluding owner-user, in Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas and Jefferson counties. Buildings which have begun construction as evidenced by site excavation or foundation work.

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