

FIGURES | DENVER DOWNTOWN OFFICE | Q4 2022

First positive absorption posted Downtown since Q3 2020

▲ 27.2%

Total Vacancy Rate

▲ 14K

SF Net Absorption

▶ \$39.68

FSG / Lease Rate

▶ 704K

SF Under Construction

▼ 1.4M

SF YTD Leasing Activity

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

HIGHLIGHTS

- Positive 13,600 sq. ft. of direct net absorption was recorded in Q4 2022, marking the first quarterly positive absorption since Q3 2020 and bringing the annual total to negative 434,900 sq. ft.
- Sublease availability increased 44.1% year-over-year, reaching a new peak of 2.2 million sq. ft.
- Q4 2022 leasing activity totaled 283,000 sq. ft. of transactions, bringing the annual total to 1.4 million, a 38.4% decrease year-over-year.
- The average direct asking lease rate remained flat year-over-year at \$39.68 per sq. ft. FSG.
- Total vacancy rose 40 bps quarter-over-quarter and 330 bps year-over-year to 27.2%. Q4 2022 marks the eighth consecutive quarter of increasing vacancy.
- 1900 Lawrence remains the sole property Downtown under construction, keeping the development pipeline static at 704,000 sq. ft.

Figure 1: Net Absorption by Class

Net Absorption Sq. Ft. (000s)



Source: CBRE Research Q4 2022

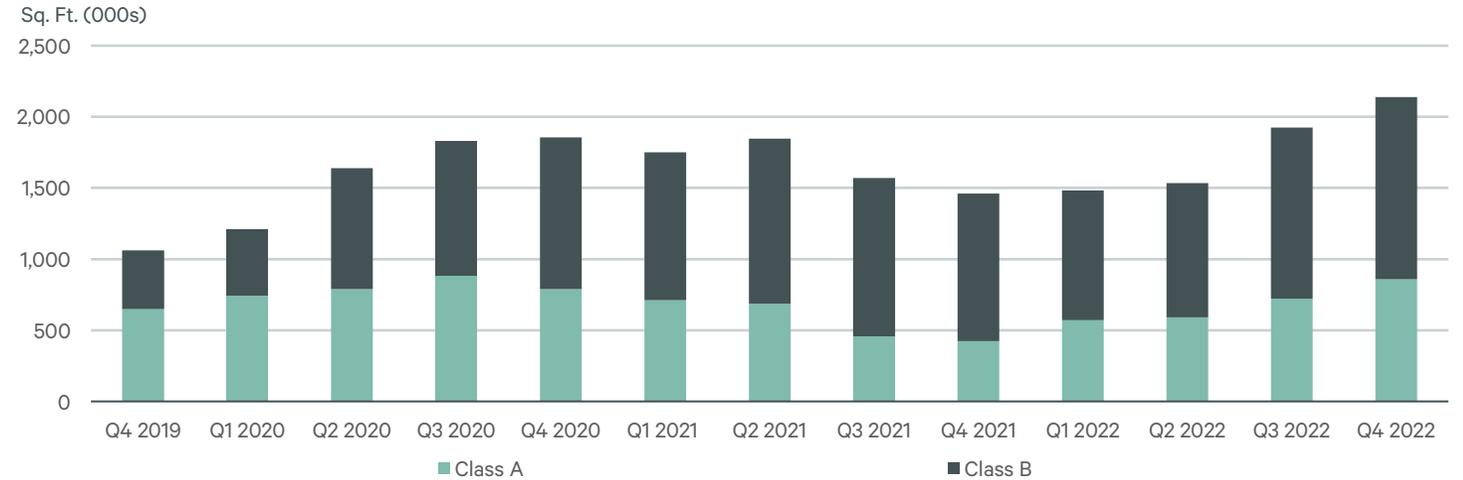
Sublease Availability

Downtown sublease availability rose to 2.2 million sq. ft. in Q4 2022, an increase of 44.1% year-over-year. Increasing sublease availability is not unique to the Downtown submarket but it continues to possess the highest total among metro Denver submarkets. Listing partial or entire spaces is a precautionary financial move given the current economic climate and an outcome of companies further redefining their real estate needs and long-term work strategy by shedding underutilized space. The Mid-CBD micromarket accounts for most of the sublease volume with 1.3 million sq. ft., or 61.2% of the total, an increase of 21.6% year-over-year. The Uptown micromarket saw the largest yearly jump in sublease availability, which climbed 274.6% to 148,800 sq. ft. Uptown is comprised of mostly Class B and C buildings which historically have accounted for most of the sublease availability in the submarket.

Vacancy

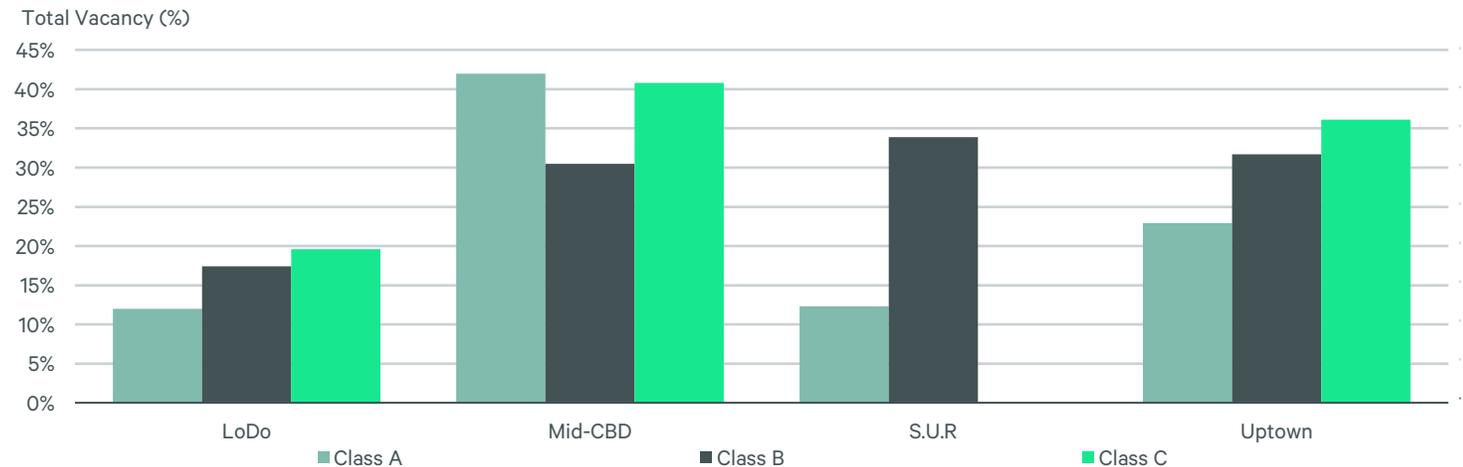
Total vacancy rose steadily each quarter throughout 2022, resulting in a yearly increase of 330 bps to 27.2%. Q4 2022 marks the eighth consecutive quarter of increasing vacancy, which was largely driven by Class B properties where vacancy rose 380 bps year-over-year to 30.0%. Class A vacancy increased considerably as well at 340 bps annually and is explained by several new vacant properties delivering during the year. A prominent variable that is contributing to rising vacancy rates is an uptick in tenant downsizes, such as Physician Health Partners vacating over 37,000 sq. ft. at 1125 17th St (Class B, S.U.R) to occupy a smaller footprint of 23,000 sq. ft. at Prism (Class A, Mid-CBD). Another large downsize that moved the needle was Transamerica vacating two floors at 1801 California for roughly 56,000 sq. ft.

Figure 2: Sublease Availability by Class



Source: CBRE Research Q4 2022

Figure 3: Total Vacancy by Micromarket



Source: CBRE Research Q4 2022

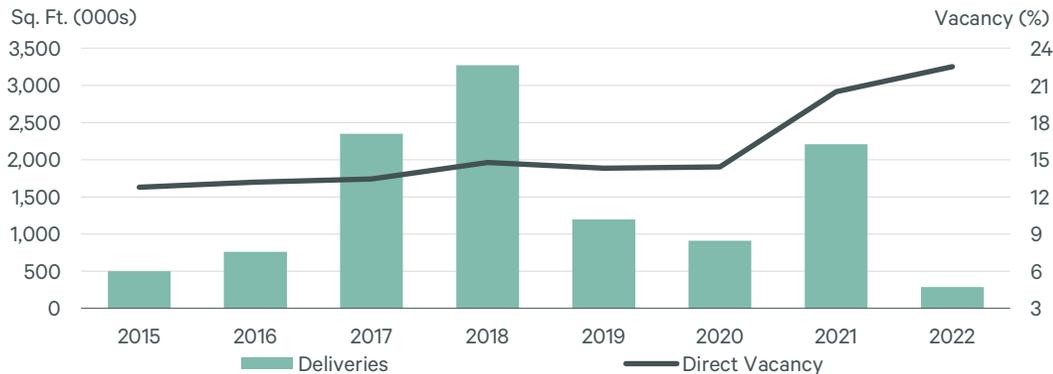
Average Asking Lease Rate

Downtown’s average asking lease rate recorded no change year-over-year, remaining flat at \$39.68 per sq. ft. FSG. After the average rate jumped substantially in 2021 due to new deliveries and some landlords pushing rates, asking rates have leveled off, recording marginal quarterly changes this year. The average asking rate in the LoDo micromarket performed the best in 2022, increasing 5.4% to \$53.52 per sq. ft. FSG, while the Uptown micromarket recorded a 2.4% decrease year-over-year to \$33.82 per sq. ft. FSG. LoDo is a high performing area and competition for the limited amount of available premium space has kept rates elevated. Meanwhile, Uptown has underperformed recently due to its less desirable location and lack of higher-quality properties, causing a drop in rates.

Development

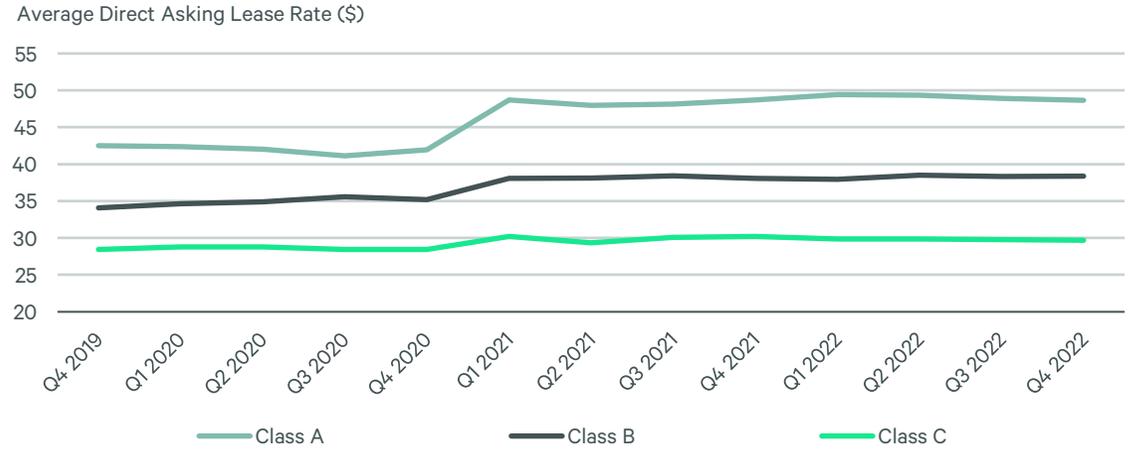
The Downtown development pipeline saw no change in Q4 2022, with only 1900 Lawrence remaining under construction. This quarter, the 704,000-sq-ft. building obtained its first lease: Gibson, Dunn and Crutcher is slated to take the top floor for 31,200 sq. ft. when the property delivers in 2024. The construction pipeline is expected to remain stagnant for the foreseeable future as inflation and interest rate increases are making financing more costly and difficult to obtain for developers and investors.

Figure 5: Historical Deliveries and Direct Vacancy Rates



Source: CBRE Research Q4 2022

Figure 6: Average Asking Direct Lease Rates by Class



Source: CBRE Research Q4 2022

Figure 7: Historical Net Absorption, Construction, and Direct Asking Lease Rates



Source: CBRE Research Q4 2022

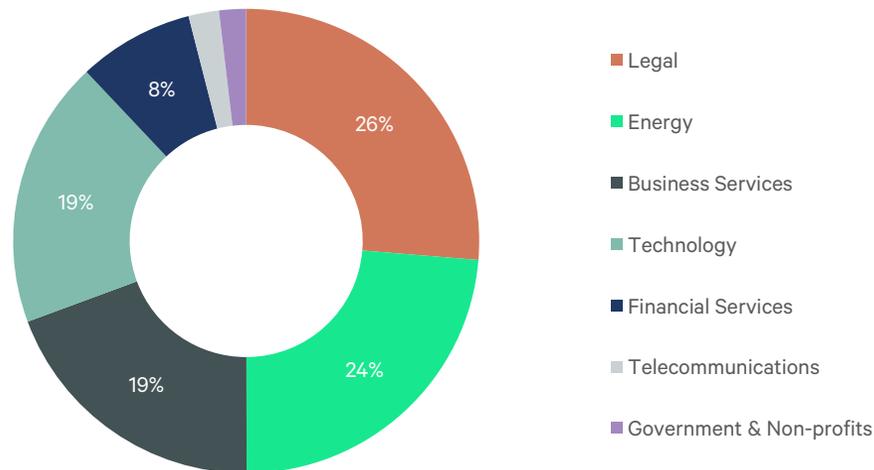
Leasing Activity

Leasing activity rounded out the year with 283,000 sq. ft. transacted in the fourth quarter, the lowest quarterly volume of 2022. Rolling four quarter leasing volume totaled 1.4 million sq. ft., a 38.4% yearly decrease from the 2.2 million sq. ft. transacted in 2021. In the first half of the year, activity continued its momentum from 2021, but slowly tapered off in the second half of 2022. This is a result of several factors including the Federal Reserve’s series of rate hikes that will likely spawn a moderate recession, which is impeding long-term real estate decision making among tenants. Also, many companies are shedding underutilized space as their workplace needs have shifted. A recent example includes Weatherford, which vacated almost 18,000 sq. ft. to consolidate in a smaller footprint at 410 17th St. Class A properties dominated leasing activity with 771,000 sq. ft. (56.1%) transacted in 2022, proving that the flight-to-quality trend remains prevalent Downtown. Historical heavy-hitting industries, such as the Technology and Energy sectors, recorded annual decreases in activity of 52.5% and 29.0%, respectively. Meanwhile traditional office-using industries, such as Legal and Business Services, saw year-over-year increases of 39.8% and 21.2%, respectively.

Net Absorption

Positive 13,600 sq. ft. of direct net absorption was recorded in the Downtown submarket, marking the first quarter of positive net absorption since Q3 2020. This brought the annual total to negative 434,900 sq. ft., a significant improvement from the negative 1.2 million sq. ft. posted in 2021. Class A properties were the driving force with positive 99,200 sq. ft. absorbed in Q4 2022, bringing its annual total to 137,700 sq. ft. of net absorption. Many larger move-ins this quarter were the result of continued delayed occupancies that finally materialized, such as Renewal Energy Systems (42,000 sq. ft.) and Exclusive Resorts (25,000 sq. ft.) occupying at McGregor Square, and World Wide Technology (23,000 sq. ft.) and Ares Management (63,000 sq. ft.) occupying at Tabor Center. Class A absorption was offset by Class B properties recording negative 78,900 sq. ft and Class C properties posting negative 6,800 sq. ft in Q4 2022. Again, flight-to-quality was a factor as tenants continue to compete for premium available space while flocking from lower-quality properties. The LoDo and S.U.R micromarkets were the largest contributors to positive absorption in Q4 2022, each recording around 45,000 sq. ft. of net absorption, bringing their annual totals to 128,000 sq. ft. and 33,900 sq. ft., respectively.

Figure 7: Leasing Activity (Q1 2022 – Q4 2022)



Source: CBRE Research Q4 2022

Figure 8: Top Lease Transactions

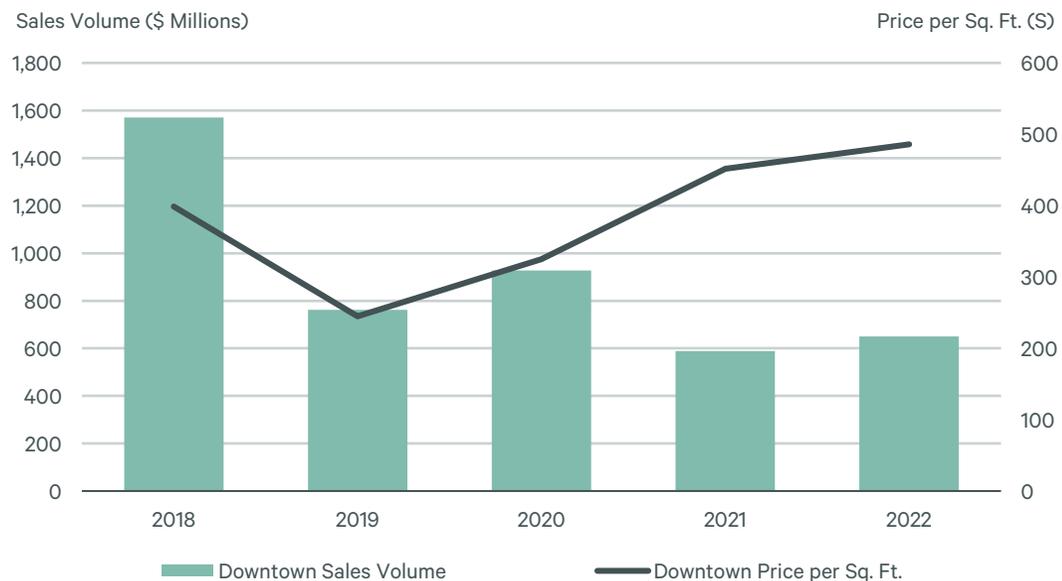
| Lease Type | Tenant | SF | Address | Micromarket | Sublease |
|---------------------|---------------------------|--------|--------------------|-------------|----------|
| New Lease | Gibson, Dunn and Crutcher | 31,000 | 1901 Aprapahoe St | S.U.R | No |
| New Lease | Matillion | 29,000 | 675 17th St | Mid-CBD | No |
| New Lease | Pivot Energy | 23,000 | 1601 Wewatta St | LoDo | No |
| Renewal/Contraction | Fairfield and Woods | 22,000 | 1801 California St | Mid-CBD | No |
| New Lease | Melio | 22,000 | 1755 Blake St | LoDo | No |

Source: CBRE Research Q4 2022

Investment Sales

Even with investment activity stalling across metro Denver in the second half of 2022, annual sales volume Downtown totaled \$650.3 million. This marks a 16.4% increase from the \$558.6 million recorded in 2021. The annual increase is attributed to two major sales: 1800 Larimer which sold for \$291.0 million (\$532.55 per sq. ft.) in Q1 2022 and 1401 Lawrence which traded hands in Q3 2022 for \$233.0 million (\$751.64 per sq. ft.). Investment activity in Q4 2022 was minimal with only one property trading hands. Goldman Sachs and Unico Properties sold the Denver Club Building (518 17th St) to Westside Investment Partners for \$14.5 million (\$52.80 per sq. ft.). Activity in the fourth quarter of 2022 reflects the current capital markets landscape as investors have been deterred by spiking interest rates and heightened economic uncertainty.

Figure 9: Investment Activity



Source: CBRE Research Q4 2022

Market Overview

Figure 10: Quarterly Statistics

| | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 |
|---------------------------------------|------------|------------|------------|------------|------------|
| Total NRA (SF) | 30,350,732 | 30,375,332 | 30,660,569 | 30,660,569 | 30,660,569 |
| Under Construction (SF) | 285,237 | 285,237 | 704,036 | 704,036 | 704,036 |
| Direct Vacant (%) | 20.4 | 21.2 | 22.6 | 22.8 | 22.5 |
| Sublease Vacant (%) | 3.5 | 3.2 | 3.6 | 4.1 | 4.7 |
| Direct Available (%) | 25.0 | 25.1 | 25.6 | 25.8 | 26.1 |
| Sublease Available (%) | 5.0 | 5.1 | 5.1 | 6.4 | 7.2 |
| Sublease Available (SF) | 1,531,406 | 1,541,373 | 1,578,750 | 1,972,843 | 2,207,220 |
| Net Absorption (SF) | (255,635) | (232,679) | (121,781) | (93,949) | 13,551 |
| Average Direct Asking Lease Rate (\$) | 39.68 | 39.85 | 40.17 | 39.77 | 39.68 |
| Leasing Activity (SF) | 704,571 | 482,149 | 359,940 | 249,798 | 283,138 |

Figure 11: Micromarket Statistics, Q4 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 (%) | 9.8 | 29.0 | 13.6 | 26.1 |
| Total Available (%) | 21.0 | 39.7 | 21.4 | 40.7 |
| Average Direct Asking Lease Rate (\$) | 52.53 | \$37.85 | 47.81 | 32.82 |
| Sublease Available (SF) | 477,850 | 1,350,639 | 229,977 | 148,754 |

Source: CBRE Research Q4 2022

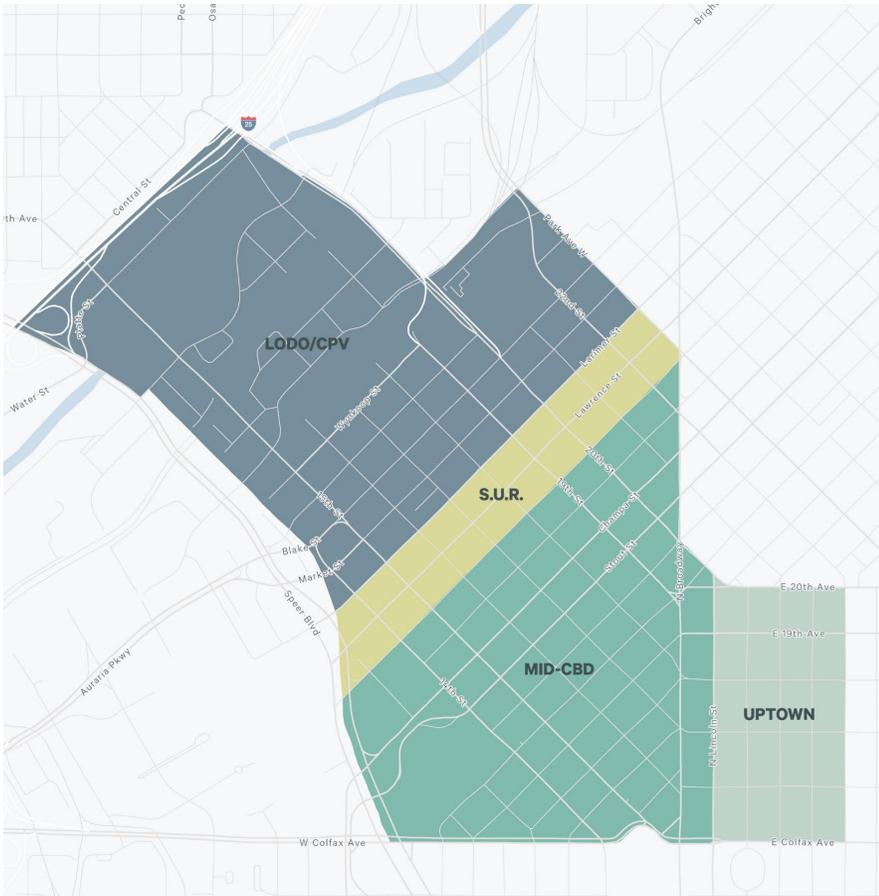
Market Statistics

Figure 12: Quarterly Statistics by Class

| Class A | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 |
|---------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Total NRA (SF) | 11,025,470 | 11,051,602 | 11,936,198 | 11,936,198 | 11,936,198 | 11,936,198 | 12,221,435 | 12,221,435 | 12,221,435 |
| Direct Vacant (%) | 9.3 | 10.1 | 16.9 | 16.4 | 15.5 | 16.3 | 18.6 | 18.3 | 17.0 |
| Sublease Available (SF) | 790,644 | 712,126 | 686,897 | 457,058 | 424,641 | 572,193 | 591,377 | 723,454 | 858,148 |
| Total Available (%) | 17.4 | 20.3 | 23.8 | 22.9 | 22.2 | 23.7 | 24.2 | 24.4 | 25.6 |
| Net Absorption (SF) | (7,445) | (82,135) | (3,903) | 45,791 | 101,937 | (96,483) | 81,624 | 47,673 | 99,194 |
| Average Direct Asking Lease Rate (\$) | 41.94 | 40.87 | 48.43 | 48.12 | 48.70 | 49.68 | 49.32 | 48.89 | 48.66 |
| Class B | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q3 2022 |
| Total NRA (SF) | 14,446,325 | 14,461,452 | 14,461,452 | 14,461,452 | 14,461,452 | 14,461,452 | 14,461,452 | 14,461,452 | 14,461,452 |
| Direct Vacant (%) | 15.6 | 17.4 | 18.3 | 20.2 | 21.1 | 21.8 | 23.2 | 23.6 | 24.1 |
| Sublease Available (SF) | 1,065,375 | 1,037,556 | 1,159,188 | 1,113,137 | 1,034,970 | 911,608 | 943,059 | 1,200,506 | 1,279,953 |
| Total Available (%) | 26.6 | 30.2 | 33.1 | 32.8 | 34.1 | 33.0 | 34.4 | 37.3 | 38.1 |
| Net Absorption (SF) | (18,414) | (242,170) | (172,352) | (269,086) | (166,617) | (105,611) | (209,977) | (124,880) | (78,868) |
| Average Direct Asking Lease Rate (\$) | 35.17 | 35.50 | 38.20 | 38.44 | 38.07 | 37.96 | 38.51 | 38.31 | 38.38 |
| Class C | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q3 2022 |
| Total NRA (SF) | 3,946,002 | 3,953,082 | 3,953,082 | 3,953,082 | 3,953,082 | 3,977,682 | 3,977,682 | 3,977,682 | 3,977,682 |
| Direct Vacant (%) | 24.0 | 26.3 | 27.8 | 28.1 | 32.5 | 33.1 | 33.5 | 33.5 | 33.7 |
| Sublease Available (SF) | 102,593 | 112,011 | 113,901 | 93,666 | 71,795 | 57,572 | 44,314 | 48,883 | 69,119 |
| Total Available (%) | 31.4 | 34.5 | 40.6 | 40.2 | 38.8 | 38.9 | 37.6 | 37.7 | 39.2 |
| Net Absorption (SF) | (31,307) | (123,738) | (56,531) | (13,954) | (190,955) | (30,585) | 881 | (16,742) | (6,775) |
| Average Direct Asking Lease Rate (\$) | 28.44 | 26.92 | 29.68 | 30.09 | 30.22 | 29.84 | 29.86 | 29.79 | 29.67 |

Source: CBRE Research Q4 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

2755 Canyon Boulevard, 1st 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 Downtown Denver submarket. Buildings which have begun construction as evidenced by site excavation or foundation work.

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