

FIGURES | MEDICAL OFFICE | H2 2022

# Medical office remained a stable asset in 2022

▼ 6.4%  
Direct Vacancy Rate

▶ 229K  
SF YTD Net Absorption

▶ \$33.70  
FSG / Lease Rate

▲ 164K  
SF Under Construction

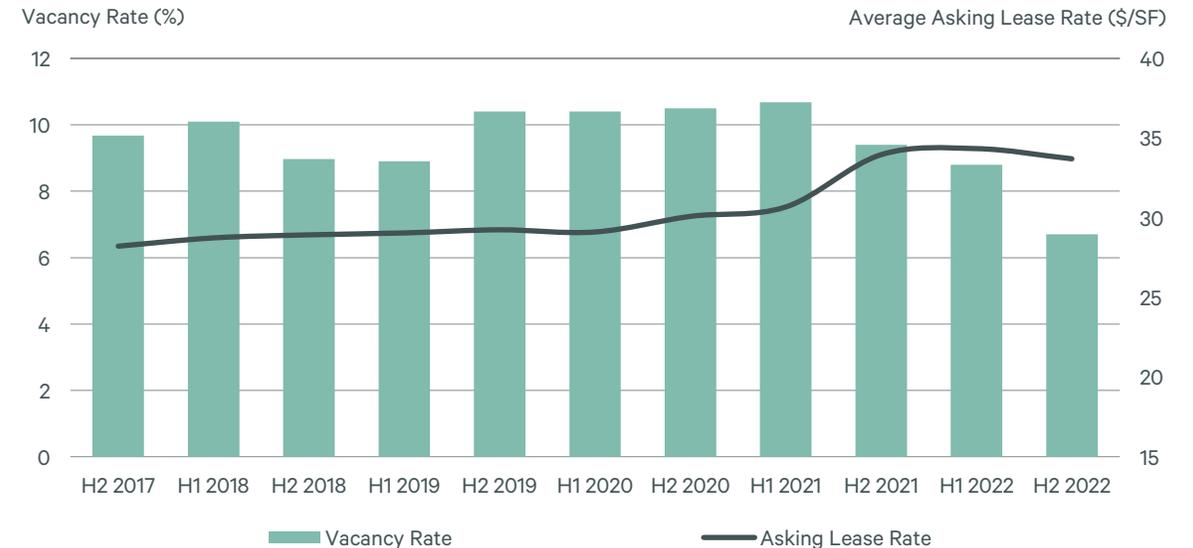
▼ 87K  
SF YTD Deliveries

Note: Arrows indicate change from previous year-end.

## HIGHLIGHTS

- Metro Denver’s medical office building (MOB) market posted 228,600 sq. ft. of positive net absorption in 2022, continuing its momentum from the 233,800 sq. ft. recorded in 2021.
- 21 properties traded hands in the second half of 2022 for a total sales volume of \$119.1 million (\$291.58 per sq. ft.), bringing annual investment sales activity to \$265.8 million (\$283.09 per sq. ft.), an increase of 7.2% year-over-year.
- After reaching a record high in 2021, the average direct asking rate marginally decreased 0.8% year-over-year to \$33.70 per sq. ft. FSG. Off-Campus lease rates drove the annual dip, decreasing 2.4% year-over-year to \$31.48 per sq. ft.
- Direct vacancy decreased 80 basis points (bps) from the end of 2021 to 6.4% in 2022, marking the lowest vacancy rate in the last five years.
- The construction pipeline remained below historical levels with just four MOB properties totaling 164,000 sq. ft. underway as of year-end 2022. Two properties delivered in 2022, both of which were completed during the first half of the year.

FIGURE 1: Vacancy vs Asking Lease Rates



Source: CBRE Research Q4 2022

FIGURE 2: Market Statistics by Submarket

SUBMARKET	Buildings (#)	NRA (SF)	Availability (SF)	Availability Rate (%)	Vacancy (SF)	Vacancy Rate (%)	YTD Net Absorption (SF)	Average Asking Lease Rate (\$/YR/FSG)
Aurora	27	1,408,777	55,272	3.9	45,370	3.2	73,969	28.94
Boulder	13	428,253	19,676	4.6	5,921	1.4	5,690	19.95
Capitol Hill	6	464,569	-	0.0	-	0.0	0	-
Cherry Creek	6	297,350	3,777	1.3	3,777	1.3	0	38.50
Colorado Blvd/ Midtown	20	960,965	87,970	9.2	90,903	9.5	21,243	28.92
Longmont	9	282,206	41,397	14.7	41,397	14.7	14,945	26.65
North	33	1,227,983	51,752	4.2	42,895	3.5	26,525	35.14
Northeast	31	2,736,609	102,782	3.8	105,585	3.9	(27,978)	48.27
Northwest	30	1,113,141	103,075	9.3	91,546	8.2	21,971	27.64
Southeast	79	3,063,888	310,126	10.1	290,137	9.5	20,690	35.69
Southwest	48	1,854,814	264,837	14.3	184,845	10.0	86,321	35.69
West	35	1,381,714	107,973	7.8	122,046	8.8	(13,319)	25.16
West Hampden / Alameda	5	127,688	7,351	5.8	7,351	5.8	(1,408)	24.00
<b>METRO TOTAL</b>	<b>342</b>	<b>15,347,957</b>	<b>1,155,988</b>	<b>7.5</b>	<b>1,031,773</b>	<b>6.7</b>	<b>228,649</b>	<b>33.70</b>

Source: CBRE Research Q4 2022

## Absorption, Vacancy & Availability

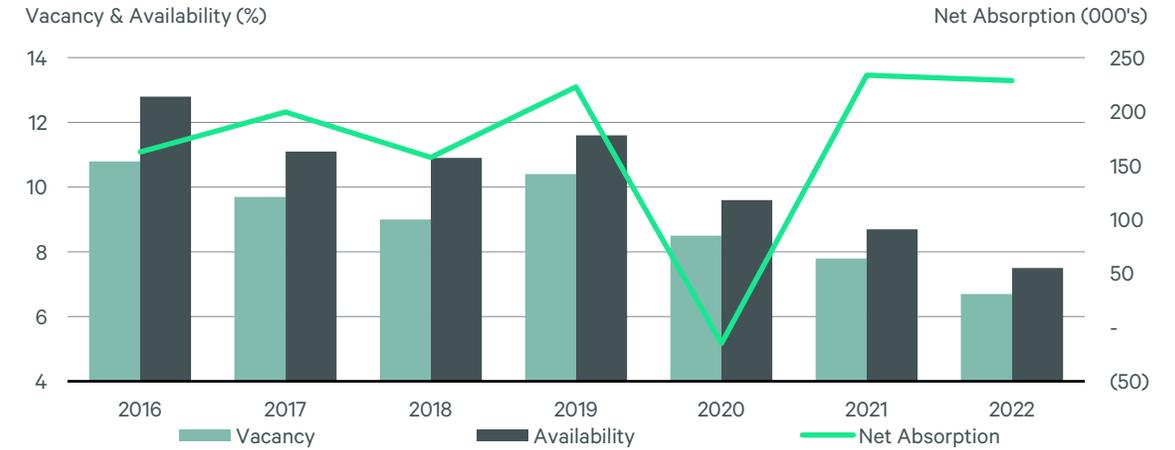
The Denver medical office building (MOB) market recorded 228,600 sq. ft. of net absorption in 2022, continuing its momentum from the 233,800 sq. ft. posted in 2021. Absorption trailed off in the second half of the year, only recording 88,900 sq. ft., while the first half saw 139,800 sq. ft. of absorption. Activity remained strong through 2022, however there was an uptick in renewals among medical tenants in H2 2022. This is partially due to increasing construction costs of tenant build-outs, resulting in a more moderate net absorption posted in H2 2022. Off-campus properties were the largest contributor to absorption this year, recording 161,000 sq. ft., while On-Campus properties recorded 67,600 sq. ft. The Southwest submarket led activity with 80,000 sq. ft. of positive net absorption in 2022, followed closely by the Aurora submarket with 74,000 sq. ft.

Direct vacancy decreased 80 basis points (bps) year-over-year to 6.4%, marking the lowest vacancy rate seen in metro Denver in the last five years. Multi-tenant properties drove this dip, with vacancy having decreased 100 bps since 2021 to 9.4%. While multi-tenant properties contributed to the annual decrease in direct vacancy, vacancy amongst those properties remains much higher compared to single-tenant properties whose vacancy has remained flat at 0.7% since 2020. Availability rates continued to decline throughout 2022, dropping 60 bps year-over-year to 7.5%.

## Lease Rates

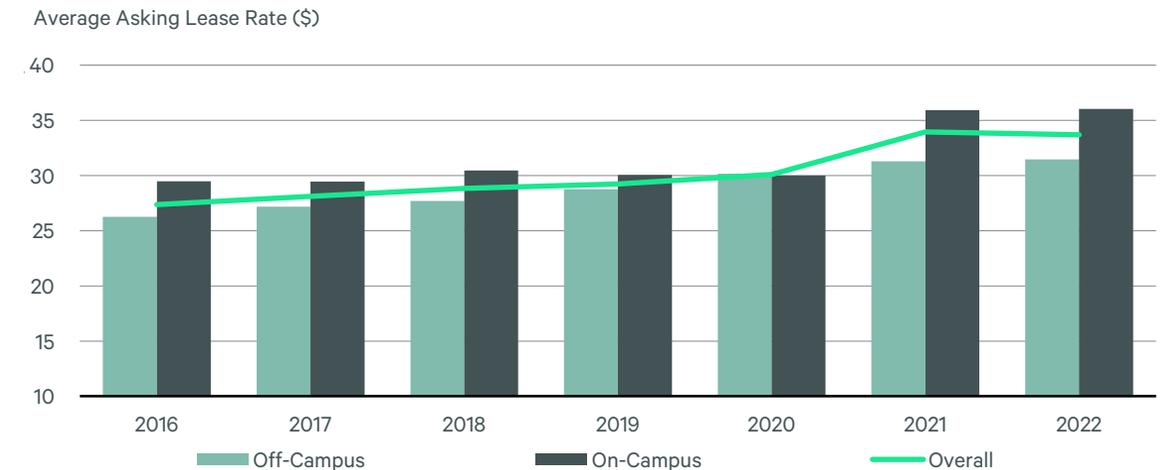
After reaching a record high in 2021, the direct average lease rate leveled off in 2022, marginally decreasing 0.8% to \$33.70 per sq. ft. Even with the minor annual dip, lease rates remain historically high and are expected to remain stable due to medical tenants' more stable occupancies, long-term leases and demand drivers such as, location, accessibility, and hospital affiliations. With no properties delivering in H2 2022, the market lacked new prime properties skewing the average lease rate. On-Campus properties saw a slight annual increase in lease rates, rising 0.3% to \$36.03 per sq. ft. FSG, while the average lease rate amongst Off-Campus properties decreased 2.4% to \$31.48 per sq. ft. FSG.

FIGURE 3: Absorption, Vacancy and Availability



Source: CBRE Research Q4 2022

FIGURE 4: On Campus/Off Campus Average Asking Lease Rates



Source: CBRE Research Q4 2022

## Development Activity

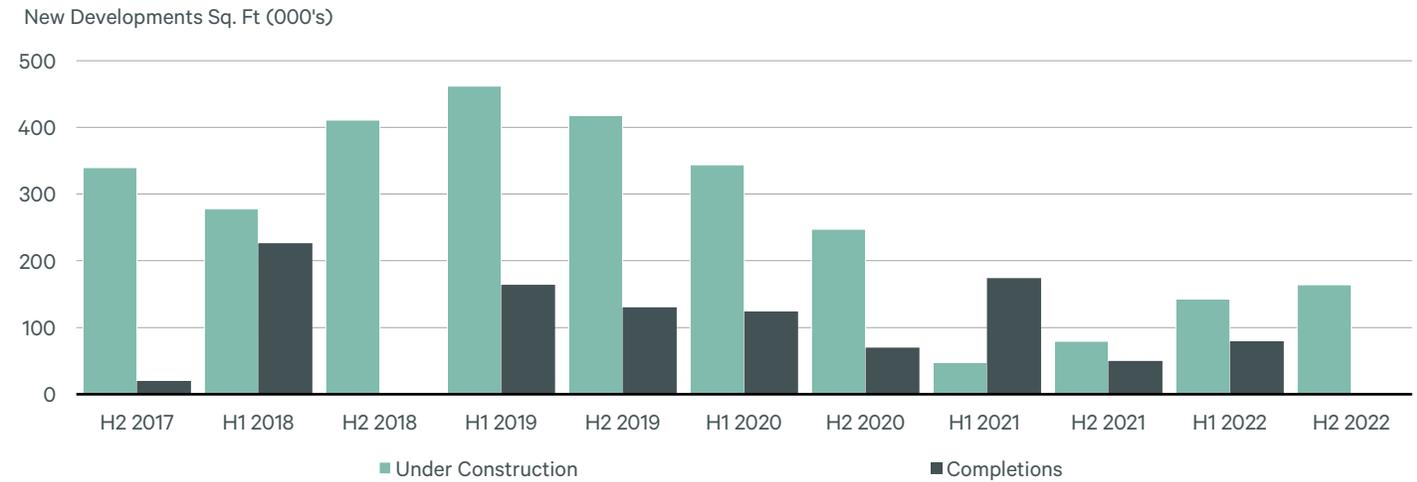
There were four properties totaling 164,000 sq. ft. underway at the end of 2022. This is an improvement from the 79,500 sq. ft. under construction in 2021 but remains below historical levels. The most notable project under construction is SCL’s 144,000-sq-ft. build-to-suit property which broke ground in the first half of 2022 and is slated to deliver in early 2024. The rest of the pipeline is comprised of three smaller properties, all of which are expected to deliver in the first half of 2023. Following the substantial wave of development in 2019, the pipeline leveled off and has yet to return to pre-pandemic levels. No properties delivered across the Denver MOB market in the second half of 2022.

There are two upcoming projects that are expected to return the development pipeline back to its robust, pre-pandemic levels. These projects are the Rose Medical Building in Denver, being developed by Development Solutions Group, and UC Health working with Remedy to develop a new medical building in Highlands Ranch.

## Investment Trends

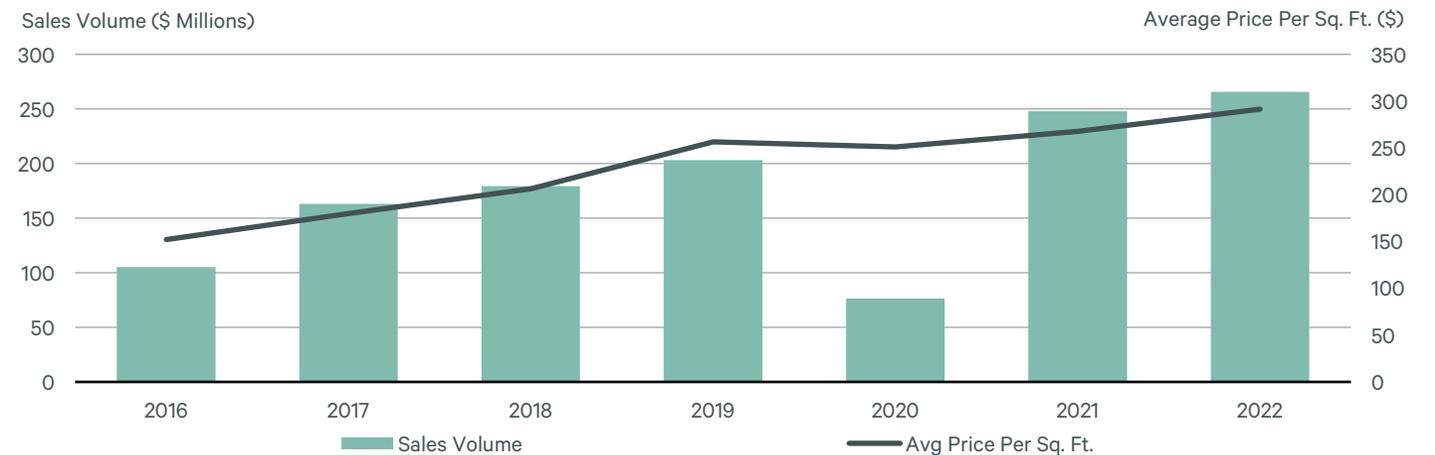
Investment sales activity remained strong in 2022, with an annual sales volume of \$265.8 million (\$283.09 per sq. ft.), a 7.2% year-over-year increase. Most of the activity took place in the first half of the year, as the spike in interest rates in H2 2022 deterred investors from investing in all asset types. However, even with a moderate recession approaching, the MOB market recorded historic sales volume, exemplifying how MOB properties remain a stable and prized asset for investors. Of the 21 properties that traded hands in H2 2022, the largest sale was the office portfolio of 1687-1707 Cole Boulevard which comprises a number medical tenants. Bancroft Capital sold the 155,600-sq-ft. property to North Beacon Capital for \$32.7 million, or \$210.14 per sq. ft.

FIGURE 5: Notable Projects Under Construction



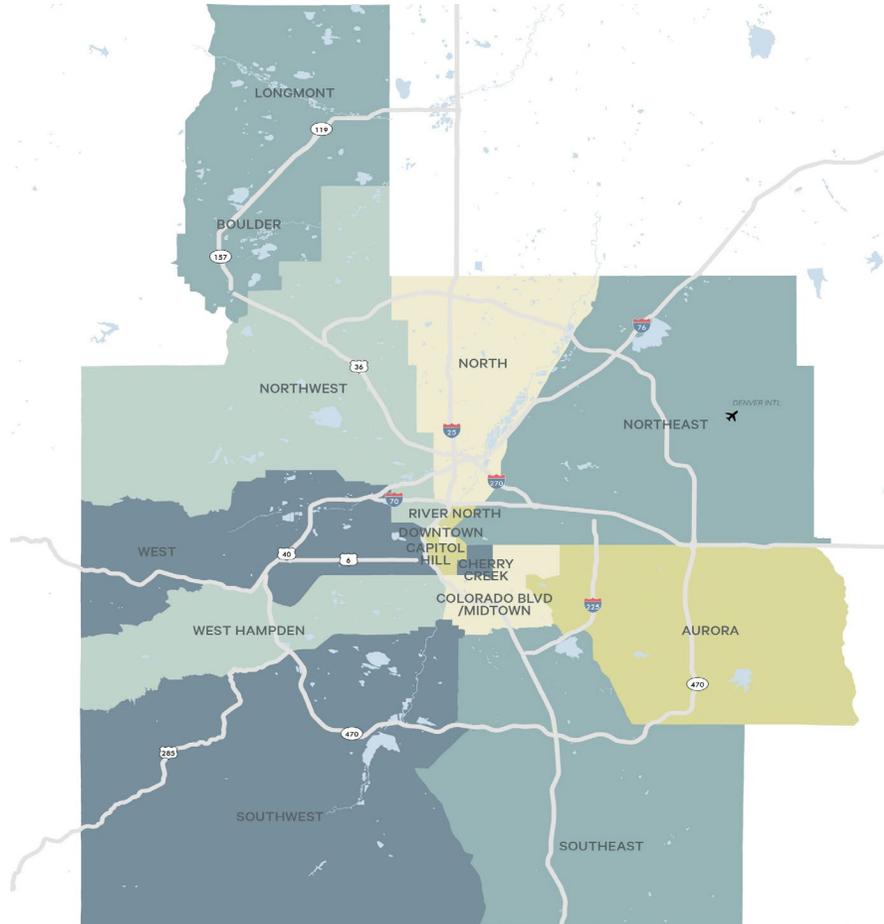
Source: CBRE Research Q4 2022

FIGURE 6: Investment Sales



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, 1<sup>st</sup> 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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