Denver

Office

23Q3

Denver's office market has faced ongoing difficulties in 2023, with high vacancy rates persisting. The significant increase in sublease options suggests that vacancies will continue to rise. While vacancy rates are climbing, so are asking rates, mainly due to the strong demand for modern Class A spaces. We expect to see companies encounter notable challenges before fully adopting a return to the office, as they grapple with the perceived drawbacks of hybrid work setups.

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Key Takeaways

- Absorption plummets.
- Leasing activity bounces back, realizing 1.98 MSF in Q3 2023.
- Major companies are still finding it difficult to return to the office. Hybrid work will remain until it is deemed unprofitable.
- Denver's future outlook remains promising due to its diverse economy, highly educated workforce, and exceptional quality of life.

	Value	YOY	FORECAST
Vacancy Rate	17.4%	▲	▲
Net Absorption	-1.3M SF	▼	▲
Under Construction	3.78M SF	▲	▼
Overall Asking Lease Rates (FSG)	$30.98/SF	▲	▬

Looking Forward

Despite recent economic challenges, including heightened vacancy rates and a significant drop in net absorption in Q3 2023, Denver's office market is positioned for growth. The city benefits from a highly skilled and educated workforce, a diverse tenant base, low unemployment rates, and a steady influx of corporate relocations. These factors together indicate the region's resilience and positive outlook for economic development in the coming years. While there will continue to be short-term pain in the local office market, the future holds promise as demand shifts towards more modern and attractive office spaces.

Market Indicators

2.77%
Unemployment Rate

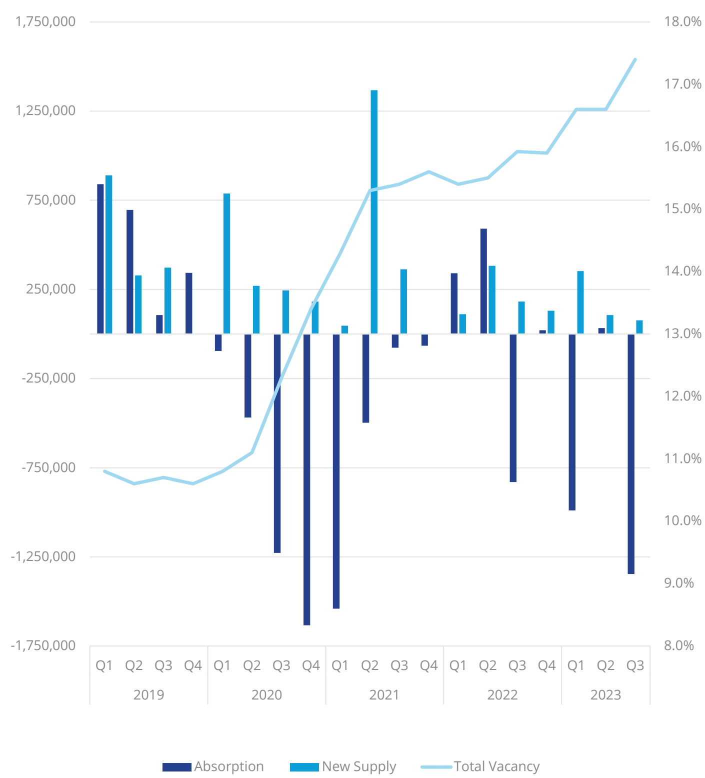
2.36%
YOY Real GDP Growth

4.624%
U.S. 10 Year Treasury Note

Historic Comparison

	23Q3	23Q2	22Q3
Total Inventory (in Thousands of SF)	172,352	171,996	169,752
New Supply (in Thousands of SF)	77	107	182
Net Absorption (in Thousands of SF)	-1,345	33	-830
Overall Vacancy	17.4%	16.6%	15.9%
Under Construction (in Thousands of SF)	3,779	3,581	3,466
Direct Asking Lease Rates (FSG)	$30.98	$30.59	$30.60

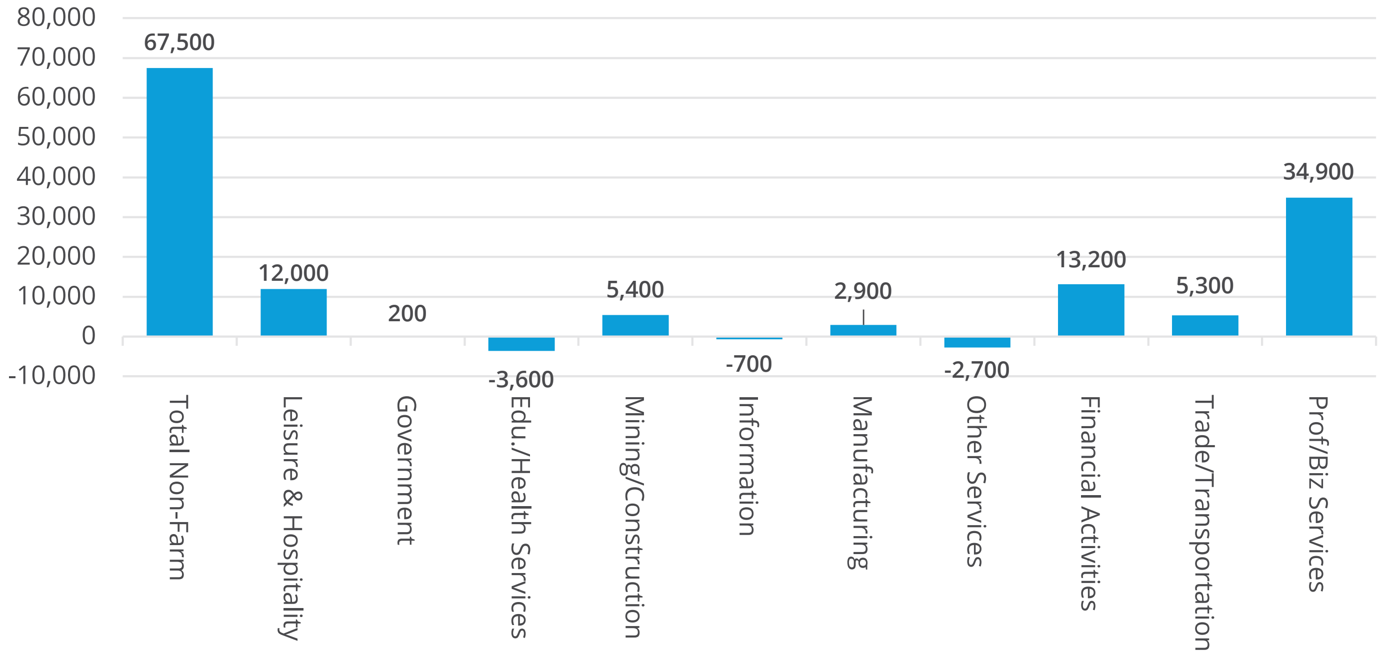
Market Graph



The latest metrics for Q3 in Denver reveal a challenging reality for the office market, with a steep drop in absorption, increasing vacancy rates, and little new supply. This indicates a limited demand for office space.

Denver Employment Change by Sector

Since February 2020



Source: Bureau of Labor Statistics

Employment

The Bureau of Labor Statistics (BLS) reports that the Denver Metro lost 2,500 cumulative jobs (preliminary) from its nonfarm payroll in Q3. Denver has now added 183,800 jobs since peak unemployment in April 2020.

The unemployment rate in the Denver MSA increased to 2.8% in January, with the largest job gains in leisure and hospitality and professional services. The unemployment rate in the Metro is one-fourth of its peak of 12.4% in April 2020. Denver's attractiveness to remote workers is anticipated to fuel ongoing job growth and contribute to a decline in unemployment rates.

Absorption & Leasing Activity

In Q3 2023, Denver Metro experienced a significant drop in absorption, recording -1,345,892 SF. The first half of the year saw a decrease of -956,215 SF in absorption, with Q2 realizing 33,000 SF. Additionally, leasing activity in Q3 increased, totaling 1.97 million square feet. This marks the sixth consecutive quarter with lower figures than the three-year average of 2.4 million square feet.

Construction

The Denver Metro did not record a significant office delivery in the first half of the year. The only delivery in Q3 was 200 Clayton Street, in Cherry Creek (77K SF).

The office construction pipeline has stayed about the same in the last quarter. There is currently 3.78MSF under construction in the Denver Metro. 1,547,586 SF of which is Downtown and headlined by 1900 Lawrence (704K SF), T3 Offices (251K SF), and The Current River North (280K SF). 656,000 square feet remain under construction in the Southeast consisting of Westray Tower 1 (350K SF), and The District Buildings Three (164K SF) and Four (161K SF). Construction activity should remain muted as construction costs remain high and demand remains low.

Vacancy

In Q3 2023, Denver Metro's office vacancy surged to 17.4%. The Downtown market experienced the highest vacancy in the Metro, rising by 180 basis points to 25.1%.

The available sublease space also saw an increase, totaling 4.4 million SF. The majority, 1.6 million square feet, is located downtown, followed by 1.4 million SF in the Southeast. Expect a reduction in sublease availabilities and a rise in direct vacancy rates, particularly in less desirable areas like downtown.

Rents

Denver's office market continues to grapple with the enduring impacts of the pandemic, and a significant trend to note is the variation in rental rates across submarkets. In Q3 2023, the direct average full-service lease rates saw a notable increase, rising from $30.59 to $30.98. Notably, downtown experienced an uptick from $37.77/SF to $38.12/SF, while the Southeast submarket saw a rise from $27.24/SF to $27.52/SF. This maintains a roughly 30% premium between these two submarkets.

These rent hikes in major submarkets highlight the challenges faced by others. While direct asking rates are projected to remain relatively stable, landlords will continue to offer increased concessions to entice tenants back to physical office spaces. This has led to a leveling off in effective lease rates. Additionally, with the shift in demand towards newer, more appealing spaces becoming the new norm, an increase in rates is anticipated.

Close monitoring of these developments is crucial as Denver's office market adjusts to evolving circumstances. This includes considering the dynamic between different submarkets and the potential impact of tenant needs and landlord incentives.

Forecast

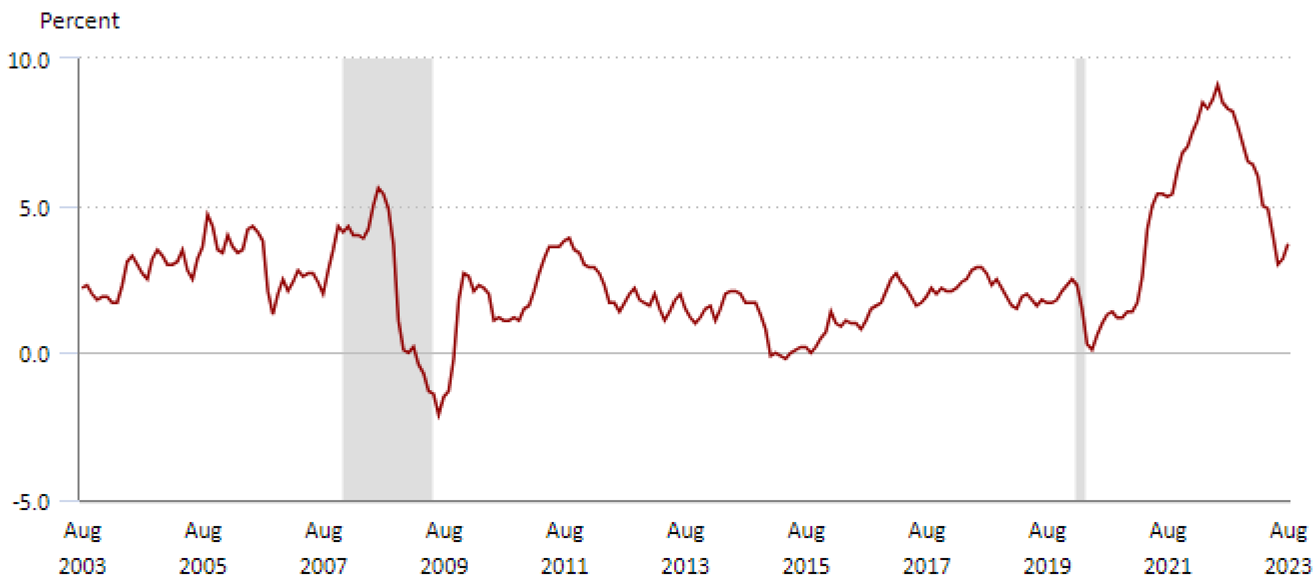
Denver's office market has continued to face persistent challenges in Q3, as evidenced by sustained high vacancy rates. Uncertainty surrounding employers' return-to-office plans has contributed to this trend, with many remaining indecisive about the future of their work arrangements. The noticeable increase in sublease space further suggests that vacancy rates are poised to rise in the next quarter and to start 2024.

One key observation is the growing acceptance and adoption of the hybrid work model, which has now firmly established itself as a permanent fixture in the modern workplace. This shift towards a more flexible work approach has prompted companies to reassess their space requirements, leading to an excess supply of available office space.

Before a significant return to the traditional office environment is observed, it is anticipated that companies will need to encounter sufficient challenges to recognize the limitations of the hybrid work model in terms of efficiency and collaboration. This recognition may come through experiences of reduced productivity, difficulties in maintaining company culture, or the realization that certain tasks are better suited for in-person collaboration.

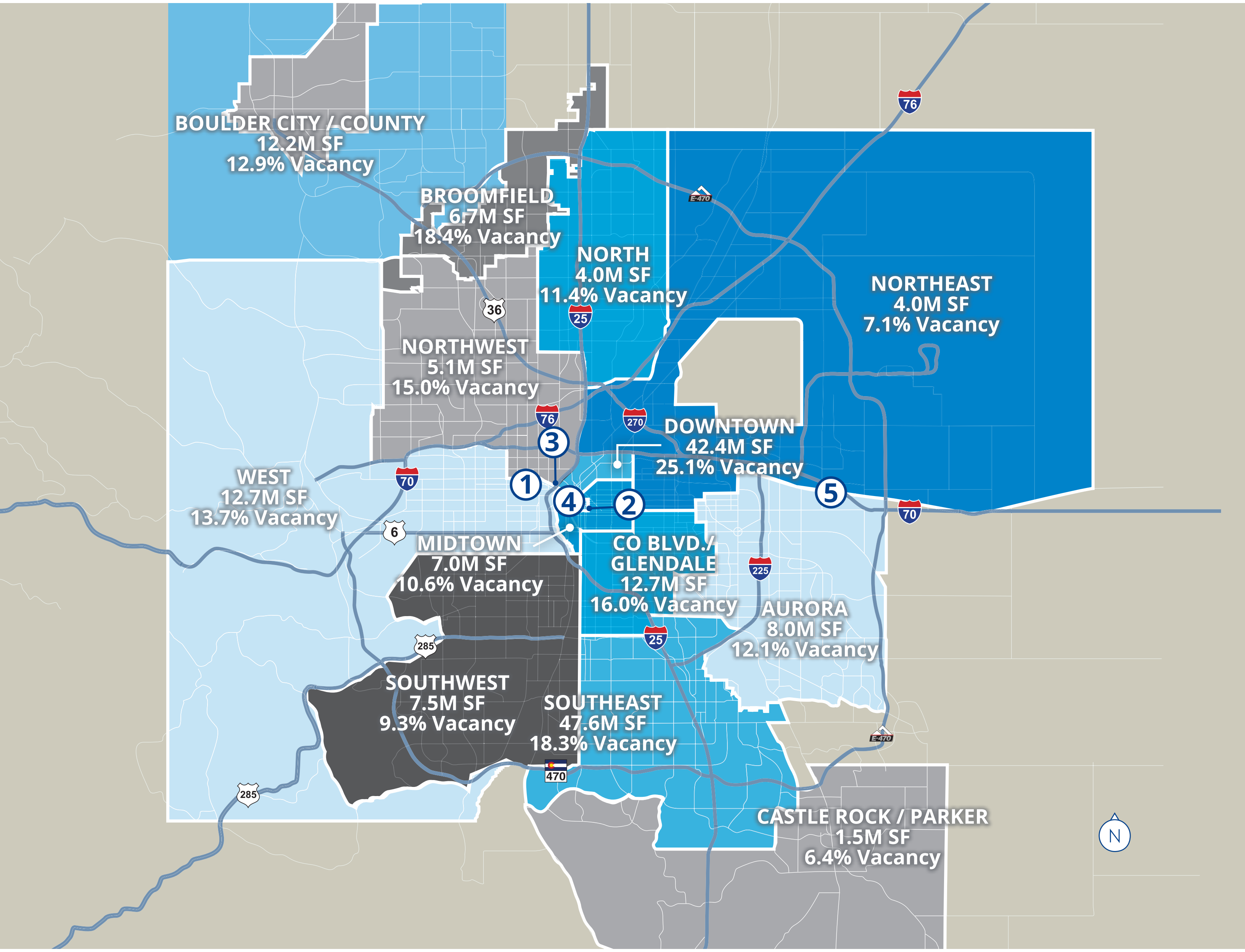
Q3 2023 metrics suggest that the lasting effects of the pandemic will continue indefinitely until tenants drive a mass return to office. As companies navigate the complexities of determining optimal return-to-office strategies, a sense of market uncertainty persists. Nevertheless, Denver stands out among major metropolitan areas, poised for a relatively swift recovery, owing to its resilient workforce characterized by high education levels and the presence of diverse industries. It is clear, however, that the market will continue to be shaped by the ongoing impact of the pandemic for the foreseeable future.

Inflation Rises to a Rate of 3.7 in August



Source: BLS

Submarkets by Vacancy



Top Leases This Quarter

	Building Address	Building Name	Rentable Square Feet (RSF)	Tenant	Deal Type
1	1701 Platte St.	One Platte	119,720	Bet 365	Sublease
2	370 17th St.	Republic Plaza	73,924	City of Denver	Direct
3	1400 16th St.	16 Market Square	34,509	INEOS	Sublease
4	675 15th St.	Block 162	28,250	Visit Denver	Direct
5	18000 E. 22nd Ave.	18000 E. 22nd Ave.	26,678	MGX Equipment Services	Sublease

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Existing Properties		Vacancy							Activity	Absorption	Construction		Rents
Submarket/ Class	**Total Inventory SF**	**Direct Vacant SF**	**Direct Vacancy Rate**	**Sublease Vacant SF**	**Sublease Vacancy Rate**	**Total Vacancy SF**	**Total Vacancy Rate**	**Vacancy Rate Prior Qtr.**	**Leasing Activity SF**	**Net Absorption Current Qtr. SF**	**Deliveries Current Qtr. SF**	**Under Construction SF**	**Avg. Rental Rate**
Downtown													
A	29,345,363	6,439,985	21.9%	1,468,696	5.0%	7,908,681	27.0%	24.6%	529,024	-675,420	-	1,482,586	$38.81
B	11,904,673	2,608,612	21.9%	112,323	0.9%	2,720,935	22.9%	22.0%	79,793	-96,398	-	65,000	$36.11
C	1,167,001	30,450	2.6%	7,365	0.6%	37,815	3.2%	3.0%	-	-2,757	-	-	$35.62
TOTAL	42,417,037	9,079,047	21.4%	1,588,384	3.7%	10,667,431	25.1%	23.3%	608,817	-774,575	-	1,547,586	$38.12
Midtown													
A	1,907,809	177,623	9.3%	82,976	4.3%	260,599	13.7%	12.4%	-	-23,391	-	-	$26.68
B	3,458,008	335,896	9.7%	6,795	0.2%	342,691	9.9%	12.4%	12,387	84,944	-	-	$26.63
C	1,621,797	106,831	6.6%	30,000	1.8%	136,831	8.4%	8.2%	-	-3,492	-	-	$22.00
TOTAL	6,987,614	620,350	8.9%	119,771	1.7%	740,121	10.6%	11.4%	12,387	58,061	-	-	$23.63

Suburban

Submarket/ Class	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacant SF	Sublease Vacancy Rate	Total Vacancy SF	Total Vacancy Rate	Vacancy Rate Prior Qtr.	Leasing Activity SF	Net Absorption Current Qtr. SF	Deliveries Current Qtr. SF	Under Construction SF	Avg. Rental Rate
Aurora													
A	1,756,508	313,626	17.9%	130,595	7.4%	444,221	25.3%	25.2%	46,233	-1,033	-	-	$25.16
B	5,491,651	493,719	9.0%	1,053	0.0%	494,772	9.0%	8.5%	21,919	-30,549	-	-	$20.03
C	737,675	27,003	3.7%	-	0.0%	27,003	3.7%	4.3%	30,930	5,027	-	-	$17.62
TOTAL	7,985,834	834,348	10.4%	131,648	1.6%	965,996	12.1%	11.8%	99,082	-26,555	-	-	$22.03
Boulder													
A	2,562,437	258,368	10.1%	13,839	0.5%	272,207	10.6%	8.9%	24,893	-44,551	-	169,373	$32.45
B	8,973,762	1,074,895	12.0%	160,125	1.8%	1,235,020	13.8%	12.6%	90,190	-103,034	-	56,000	$30.73
C	665,615	71,822	10.8%	-	0.0%	71,822	10.8%	10.8%	-	-	-	-	$22.45
TOTAL	12,201,814	1,405,085	11.5%	173,964	1.4%	1,579,049	12.9%	11.7%	115,083	-147,585	-	225,373	$30.79
Broomfield													
A	4,029,610	916,683	22.7%	143,875	3.6%	1,060,558	26.3%	23.3%	50,304	-123,510	-	142,680	$29.19
B	2,555,979	164,335	6.4%	-	0.0%	164,335	6.4%	6.7%	5,250	6,786	-	-	$31.31
C	70,412	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	$0.00
TOTAL	6,656,001	1,081,018	16.2%	143,875	2.2%	1,224,893	18.4%	13.5%	55,554	-116,724	-	142,680	$30.01
Colorado Blvd./Glendale													
A	5,280,876	838,035	15.9%	108,807	2.1%	946,842	17.9%	17.4%	118,244	34,091	76,715	159,164	$33.38
B	6,389,162	848,269	13.3%	172,639	2.7%	1,020,908	16.0%	15.1%	147,878	-57,558	-	59,713	$25.85
C	1,017,830	64,117	6.3%	4,335	0.4%	68,452	6.7%	7.5%	4,053	7,512	-	-	$19.95
TOTAL	12,687,868	1,750,421	13.8%	285,781	2.3%	2,036,202	16.0%	15.4%	270,175	-15,955	76,715	218,877	$29.38
Longmont													
A	107,805	18,411	17.1%	-	0.0%	18,411	17.1%	21.4%	2,528	4,651	-	-	$26.01
B	746,597	42,388	5.7%	6,911	0.9%	49,299	6.6%	7.2%	6,703	4,525	-	-	$22.76
C	134,558	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	$18.83
TOTAL	988,960	60,799	6.1%	6911	0.7%	67,710	6.8%	7.8%	9,231	9,176	-	-	$23.98
North													
A	759,766	33,818	4.5%	6,706	0.9%	40,524	5.3%	5.8%	9,969	3,557		-	$25.87
B	3,084,196	334,400	10.8%	73,577	2.4%	407,977	13.2%	14.1%	36,759	27,837	-	-	$25.44
C	128,181	2,913	2.3%	-	0.0%	2,913	2.3%	5.2%	8,885	3,694	-	-	$15.98
TOTAL	3,972,143	371,131	9.3%	80,283	2.0%	451,414	11.4%	12.2%	55,613	35,088	-	-	$25.49
Northeast													
A	690,099	29,247	4.2%	87,161	12.6%	116,408	16.9%	17.3%	3,018	2,710	-		$22.64
B	2,451,838	140,054	5.7%	-	0.0%	140,054	5.7%	6.4%	12,111	17,813	-		$25.80
C	876,097	23,857	2.7%	5,114	0.6%	28,971	3.3%	4.1%	6,242	7,104	-	-	$13.65
TOTAL	4,018,034	193,158	4.8%	92,275	2.3%	285,433	7.1%	7.8%	21,371	27,627	-	-	$23.40

Suburban continued

Existing Properties		Vacancy							Activity	Absorption	Construction		Rents
Submarket/ Class	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacant SF	Sublease Vacancy Rate	Total Vacancy SF	Total Vacancy Rate	Vacancy Rate Prior Qtr.	Leasing Activity SF	Net Absorption Current Qtr. SF	Deliveries Current Qtr. SF	Under Construction SF	Avg. Rental Rate
Northwest													
A	2,131,690	288,850	13.6%	105,132	4.9%	393,982	18.5%	17.4%	15,059	-23,028	-	600,000	$27.33
B	2,471,042	283,722	11.5%	63,057	2.6%	346,779	14.0%	10.9%	11,098	-78,347	-	32,734	$23.80
C	516,638	28,784	5.6%	-	0.0%	28,784	5.6%	5.8%	2,102	981	-	-	$18.42
TOTAL	5,119,370	601,356	11.7%	168,189	3.3%	769,545	15.0%	13.1%	28,259	-100,394	-	632,734	$25.29
Parker/Castle Rock													
A	426,264	1,397	0.3%	-	0.0%	1,397	0.3%	0.3%	-	-	-	-	$33.70
B	1,024,209	91,813	9.0%	-	0.0%	91,813	9.0%	8.8%	14,018	-2,133	-	-	$27.97
C	-	-	-	-	-	-	-	-	-	-	-	-	$0.00
TOTAL	1,450,473	93,210	6.4%	-	0.0%	93,210	6.4%	6.3%	14,018	-2,133	-	-	$27.97
Southeast													
A	27,041,560	4,311,263	15.9%	561,133	2.1%	4,872,396	18.0%	17.9%	238,352	-34,243	-	332,775	$30.14
B	19,569,280	2,973,617	15.2%	840,992	4.3%	3,814,609	19.5%	18.5%	290,133	-197,595		323,984	$24.17
C	1,028,466	21,971	2.1%	-	0.0%	21,971	2.1%	4.4%	3,930	23,589	-	-	$17.38
TOTAL	47,639,306	7,306,851	15.3%	1,402,125	2.9%	8,708,976	18.3%	17.8%	532,415	-208,249	-	656,759	$27.52
Southwest													
A	669,621	33,283	5.0%	-	0.0%	33,283	5.0%	5.9%	1,042	6,442	-	250,000	$26.14
B	6,144,101	623,814	10.2%	19,074	0.3%	642,888	10.5%	9.9%	41,520	-36,102	-	25,000	$20.06
C	719,263	24,649	3.4%	-	0.0%	24,649	3.4%	1.5%	-	-13,841	-	-	$13.22
TOTAL	7,532,985	681,746	9.1%	19,074	0.3%	700,820	9.3%	8.7%	42,562	-43,501	-	275,000	$20.45
West													
A	2,901,369	339,188	11.7%	104,675	3.6%	443,863	15.3%	14.9%	26,679	-11,688	-	-	$26.66
B	8,809,308	1,132,220	12.9%	50,018	0.6%	1,182,238	13.4%	13.0%	67,685	-36,188	-	80,000	$24.84
C	984,843	51,073	5.2%	62,296	6.3%	113,369	11.5%	12.3%	11,978	7,703	-	-	$24.67
TOTAL	12,695,520	1,522,481	12.0%	216,989	1.7%	1,739,470	13.7%	13.4%	106,342	-40,173	-	80,000	$25.27
SUBURBAN TOTAL													
A	48,357,605	7,382,169	15.3%	1,261,923	2.6%	8,644,092	17.9%	17.4%	536,321	-186,602	76,715	1,653,992	$30.44
B	67,711,125	8,203,246	12.1%	1,387,446	2.0%	9,590,692	14.2%	13.4%	745,264	-484,545	-	577,431	$23.76
C	6,879,578	316,189	4.6%	71,745	1.0%	387,934	5.6%	6.2%	68,120	41,769	-	-	$18.15
TOTAL	122,948,308	15,901,604	12.9%	2,721,114	2.2%	18,622,718	15.1%	14.6%	1,349,705	-629,378	76,715	2,231,423	$26.28
DENVER MARKET GRAND TOTAL													
A	79,610,777	13,999,777	17.6%	2,813,595	3.5%	16,813,372	21.1%	19.9%	1,065,345	-885,413	76,715	3,136,578	$28.87
B	83,073,806	11,147,754	13.4%	1,506,564	1.8%	12,654,318	15.2%	14.6%	837,444	-495,999	-	642,431	$26.11
C	9,668,376	453,470	4.7%	109,110	1.1%	562,580	5.8%	6.2%	68,120	35,520	-	-	$19.98
TOTAL	172,352,959	25,601,001	14.9%	4,429,269	2.6%	30,030,270	17.4%	16.6%	1,970,909	-1,345,892	76,715	3,779,009	$30.98
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q3 2023	172,352,959	25,601,001	14.9%	4,429,269	2.6%	30,030,270	17.4%	16.6%	1,970,909	-1,345,892	76,715	3,779,009	$30.98
Q2 2023	171,996,475	24,354,843	14.2%	4,067,695	2.4%	28,601,939	16.6%	16.6%	1,854,027	33,189	106,527	3,580,979	$30.59
Q1 2023	171,592,940	24,245,186	14.1%	4,284,397	2.5%	28,424,002	16.6%	15.9%	1,889,719	-989,404	353,000	2,947,497	$30.58
Q4 2022	171,217,134	23,063,777	13.5%	4,111,221	2.4%	27,174,998	15.9%	15.9%	1,928,463	21,056	130,045	4,082,315	$30.57

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351 offices in 67 countries on 6 continents

United States: 115
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EMEA: 78

$3.3B
in revenue

2B
square feet under management

18,000 +
professionals and staff

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