

Denver, CO



Quick stats

15.0%

Denver office vacancy rate, up 60 basis points from 4Q2020 and 5.0% year-over-year

\$29.63 FSG

average asking rate for direct office space, down by less than 0.1% year-over-year

-1.7 MSF

quarter-end office net absorption, 8.4 times lower than the 1Q2020 quarter-end total

1.1 MSF

office space under construction, 66.4% of which is pre-leased

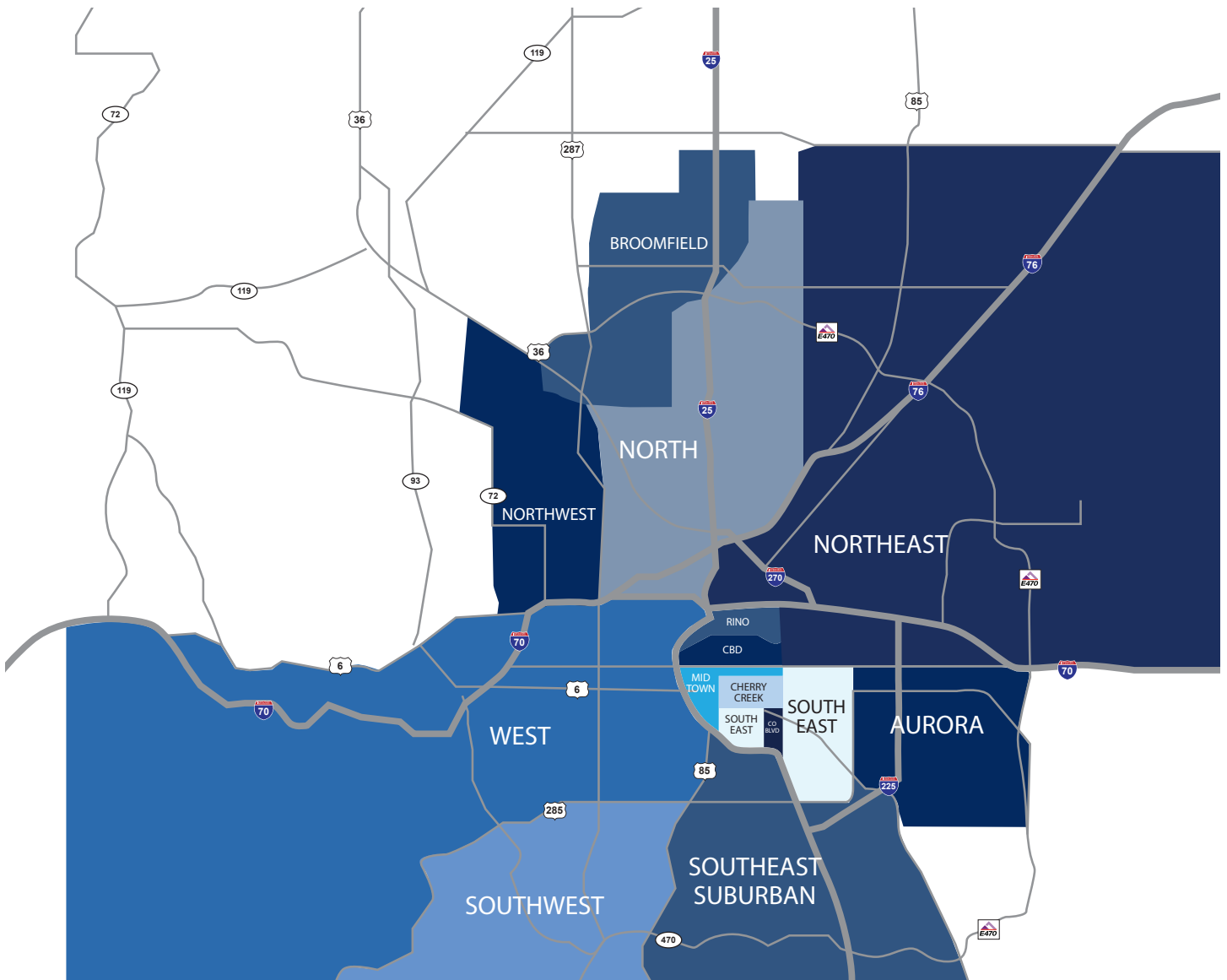
\$306.4 M*

total 1Q2021 office sales volume, up 47% from 4Q2020

*total updated 4-6-2021

Market highlights

- Office leasing activity totaled 993,039 square feet (sf) in 1Q2021, representing a 13% decline quarter-over-quarter (Q/Q) and the slowest quarter since 2Q2020. The largest deal was Sherman & Howard's 60,000-sf lease at the newly-completed Block 162, which represented a 54% reduction in square footage from their current location at 633 17th Street. With the demonstrated functionality of the flexible/remote work model as a result of COVID-19, the market will likely see more examples of downsizing and flights to quality in the coming quarters.
- The average full-service gross (FSG) asking rate in Denver contracted slightly in the first quarter of 2021 with an average rental rate of \$29.63 FSG, down from \$29.72 FSG at the end of 2020. Though office rent growth had begun tapering off in Denver prior to the on-set of COVID-19, rental rate contraction the last four quarters has been relatively modest, with many landlords offering greater concessions on TI and free rent in order to preserve face rates. However, with a 5% jump in vacancy YOY, rental rates are beginning to reflect the drop-off in demand.
- Though office sales volume has yet to approach pre-pandemic levels, office transactions were up 47% Q/Q, ending 1Q2021 with \$306.4 million. The Southeast Suburban submarket, which has been popular with investors for years due to its high-credit tenancy and comparatively lower prices, continues to be the most consistent submarket for investment activity during the pandemic, accounting for \$137.5 million of the total sales volume for 1Q2021.
- Spurred by uncertainty and shifting corporate priorities in regards to professional office space, net absorption trended negative for the fourth consecutive quarter, ending 1Q2021 with negative 1,772,065 sf of net absorption. Office vacancy rose 60 basis points Q/Q as a result, ending the first quarter of 2021 with a vacancy rate of 15%. With companies still downsizing or shuttering their offices entirely, the vacancy rate will likely continue to rise as 2021 progresses.
- With projects like Block 162 and McGregor Square nearing completion and no new construction starts in the first quarter of 2021, the development pipeline is thinning out, with only 380,447 sf currently slated to be under construction in 1Q2022. The pandemic and the rising cost of materials remain the driving factors in determining if and when new projects will break ground.



Submarket trends



Lowest Vacancy Rate
 (Overall, all classes)
 Northeast 4.9 %
Overall Denver 15.0%



Highest Avg. Asking Rent
 (FSG Direct, all classes)
 RiNo/Plate Valley \$46.17 FSG
Overall Denver \$29.62 FSG



Highest Sales Volume
 (All classes)
 Southeast Suburban 137.5 Million
Overall Denver \$306.4 Million*

*total updated 4-6-2021



Highest 1Q Leasing Activity
 (Overall, all classes)
 Southeast Suburban 338,754 SF
Overall Denver 999,016 MSF



Largest YOY Vacancy Decrease
 (Overall, all classes)
 North 9.0%
Overall Denver (5.0)%



Highest 4Q Net Absorption
 (Overall, all classes)
 Northwest 44,499 SF
Overall Denver (1.7) MSF

Submarkets by the numbers

Submarket	Inventory	Vacant SF	Vacancy %	YTD Net Absorption	YTD Leasing Activity	Under Construction	Total Office Pre-Leased SF	Average Asking Rent (FSG)
Aurora	5,087,449	577,221	11.3%	12,447	13,236	-	-	\$21.42
Broomfield	5,914,917	728,034	12.3%	(100,978)	40,138	-	-	\$27.14
CBD	30,999,396	5,521,710	17.8%	(607,999)	222,419	203,406	133,662	\$36.74
Cherry Creek	2,133,424	263,989	12.4%	6,754	19,457	75,000	75,000	\$37.57
Colorado Blvd/Southeast	6,113,072	1,020,659	16.7%	(85,728)	28,044	-	-	\$27.14
Midtown	3,812,755	340,859	8.9%	5,496	4,075	-	-	\$29.98
North	2,309,468	208,105	9.0%	(3,919)	9,236	-	-	\$22.80
Northeast	2,873,552	141,603	4.9%	17,092	36,222	39,400	25,058	\$24.10
Northwest	4,014,040	420,583	10.5%	44,499	123,552	-	-	\$25.21
RiNo/Platte Valley	4,528,620	782,990	17.3%	13,104	53,097	250,402	0	\$46.17
Southeast Suburban	40,612,851	6,693,413	16.5%	(868,044)	338,754	521,899	489,758	\$27.84
Southwest	6,427,649	546,652	8.5%	(72,266)	28,907	-	-	\$18.41
West	8,217,953	1,158,832	14.1%	(132,523)	75,902	-	-	\$24.41
Total	123,045,146	18,404,650	15.0%	(1,772,065)	993,039	1,090,107	723,478	\$29.63

Select first quarter leases

Submarket	Tenant	Industry	Property	SF	Type
Broomfield	Nuvasive	medical device	12101 Airport Way	28,401	New
CBD Core	Sherman & Howard	law	675 15th Street	60,000	New
LoDo	Crispin Porter	advertising	1901 Wazee Street	18,244	New
Southeast Suburban	Regus	coworking	8310 S. Valley Highway	32,946	Renewal
Southeast Suburban	NTT Global Network	network services	5680 Greenwood Plaza Boulevard	23,459	Renewal

Select first quarter sales

Submarket	Property	Buyer	SF	Sales Price	Price/SF
Broomfield	Broomfield Professional Campus - 3301 W. 144th Avenue	BPC Investors	59,604	\$16,750,000	\$281/SF
Southeast	Campus at Cherry Creek - 4300 Cherry Creek Drive South	Boyd Watterson	355,687	\$95,000,000	\$267/SF
Southeast Suburban	Hines Tech Center - 4600 S. Syracuse Street	Principal RE Investors, Miller Global	314,000	\$74,262,500	\$237/SF
Southeast Suburban	Inova Dry Creek 2 - 10825 E. Geddes Avenue	Libitzky Property Company	233,000	\$63,200,000	\$271/SF
West	Signature Center - 14143 Denver W. Parkway	Vista Investment Group	185,920	\$30,490,000	\$164/SF

Under construction

Submarket	Property	Developer	SF	% Leased	Delivery
Northeast	The Hooper - 2600 Welton Street	Palisade Partners	39,400	39.4%	Jun-21
Cherry Creek	240 St. Paul Street	BMC Development	75,000	89.2%	Jun-21
Southeast Suburban	Kiewit Regional HQ Phase I & II	Kiewit	391,854	100.0%	Jun-21
Southeast Suburban	Vectra Bank Building - 7222 E. Layton Avenue	Vectra Bank	130,045	74.0%	Dec-22
RiNo/Platte Valley	1701 Platte Street - One Platte	The Nichols Partnership	250,402	0.0%	Feb-22

Data and trend report

7.0%

Unemployment Rate
in Denver as of
January 2021

-4.9%

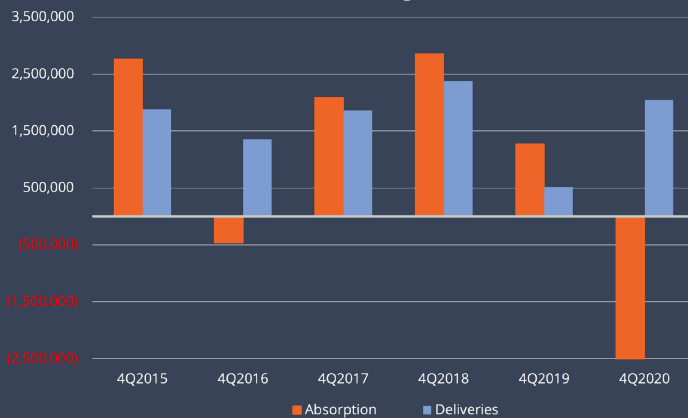
change in
employment YOY
from January 2020

+48.5%

increase in the
Bloomberg Colorado
Index* YOY from
February 2020

*a price-weighted index measuring the performance of the Colorado economy.
All index members are headquartered in CO and have a minimum market capitalization of \$10 million.

Deliveries vs. Absorption (12-month rolling total)



Tenant Migration

Though Boulder has long been the darling of high-tech start-ups and corporate giants like Google, comparably higher rental rates and have begun driving tenants from the Boulder market into Denver. Expect to see more companies making the move over the next few years.



Shifting Design Priorities

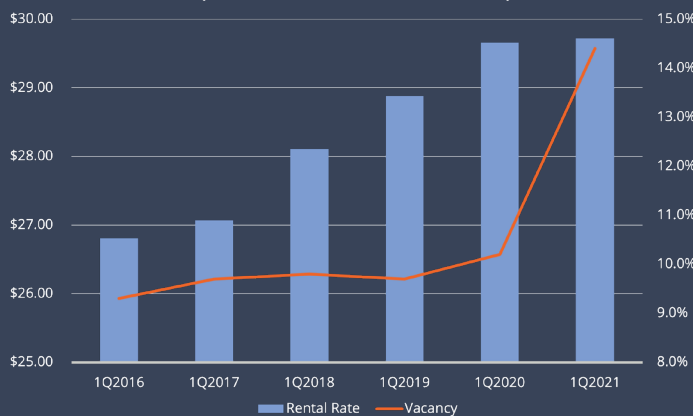
As occupiers look towards return-to-work, the design of the post-pandemic office remains top of mind. Most architects and design experts agree that the high-density open plan will likely be phased out, and a greater emphasis placed on touch-free fixtures and socially-distanced workspaces.



The Future of Coworking

With coworking firms continuing to shed space in Denver, it may seem that COVID-19 has rendered the coworking model obsolete. However, the flexibility coworking can offer will likely attract enterprise clients looking to establish satellite offices, particularly in the suburban submarkets.

Average Asking Rate vs. Vacancy (all classes - \$/sf/full service)



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