



Denver Office Market

Year of Continuing Recovery Despite Headwinds and Speedbumps

2021 marked a slow climb back towards normality. Activity steadily increased as the year progressed and reached pre-pandemic levels in September, although the rise of the Delta and Omicron variants once again brought uncertainty for some tenants. Many delayed their return to the office again, and those in the market have changed their size requirements multiple times during their search as plans change with the news cycle. High-quality space, new construction and certain submarkets are still attracting high interest, especially in the Cherry Creek and LoDo/CPV micro-markets.

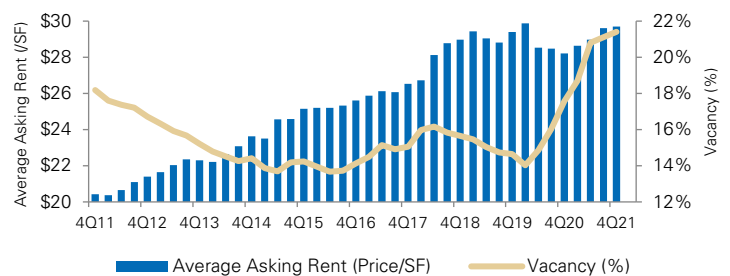
The fourth quarter of 2021 continued to see new vacancy postings slow with a smattering of occupancies from the few tenants that signed new leases in 2020. Quarterly net absorption was negative 235,879 square feet, bringing the full year to just under negative 3 million square feet. The rise in vacancy continued to slow, increasing only slightly to 21.4% from 21.2% in the prior quarter and up 384 basis points from 17.8% one year ago. All three classes experienced contraction in 2020 and this trend continued through 2021. Despite this, Class A space in all submarkets continues to be in demand as tenants look to upgrade to new space with better amenities.

Current Conditions

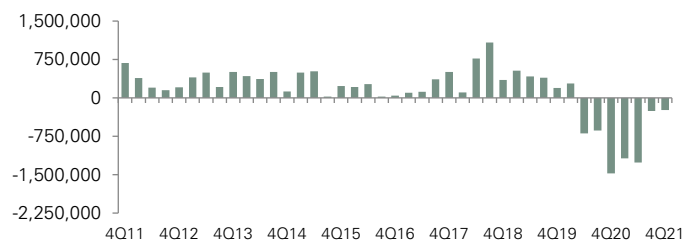
- Quarterly net absorption of -235,879 SF
- Vacancy rate of 21.4%
- The quarterly loss of occupancy was concentrated in Class B product
- There is 3.5 MSF of available sublease space in the Denver market with 2.6 MSF of it vacant. While vacant sublease space increased slightly year-over-year, the total amount available decreased.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	100.6 MSF	100.6 MSF	99.5 MSF	↑
Vacancy Rate	21.40%	21.11%	17.56%	↓
Quarterly Net Absorption (SF)	-235,879	-252,166	-1.5 MSF	↑
Median Asking Rent/SF	\$29.70	\$29.61	\$28.22	↑
Under Construction (SF)	813,903 SF	599,903 SF	2.1 MSF	↑
Deliveries	0 SF	102,955 SF	34,000	↑

Submarket Activity

Four of Denver's nine submarkets posted positive net absorption for the fourth quarter of 2021, led by the Midtown submarket and the hot Cherry Creek micro-market, with 72,523 square feet, and followed by the West submarket with 48,793 square feet. The Downtown submarket continued to see several tenants downsize and logged negative quarterly absorption of negative 198,341. The Midtown and Northeast submarkets were the only two in the market that did not contract year-over-year, with full-year absorption of 7,947 square feet and 7,293 square feet, respectively. After rental rates stagnated in 2020, this year saw them begin to rise again. Most landlords are holding firm on rates but the increase in operating expenses continue to push full-service rates, especially in new construction. Some landlords in select areas, like Cherry Creek, are even beginning to successfully push rates. Negotiating power remains on the tenant side throughout the overall market, with many asking for multiple concessions from landlords who are resistant to lowering rental rates as activity continued to pick up throughout the year.

Investors Returned to Office Product in 2021

The Denver investment market rebounded in 2021, achieving over \$2.2 billion in sales with 8.8 million square feet of office buildings trading ownerships. This level of transaction volume nearly matched 2019's investment totals of \$2.5 billion in sales over 12.4 million square feet. 2021 was also a significant

improvement over 2020 office investment sales of \$1.6 billion, which ended a streak of annual volume over \$2 billion that originated in 2012. The high-water mark for office investment sales volume was \$3.2 billion in 2007.

Looking Forward

Denver's office sector slowly improving deal flow is expected to continue into the new year. Companies that put their search for new space on hold until the new year will once again reengage, while many of the companies that had their move-in delayed will be anxious to occupy. New vacancies will continue to reach pre-pandemic levels of movement as few companies are discussing radically downsizing. Rental rates will continue to increase, mostly due to the increasing operation expenses and taxes, although landlords of top-quality space will begin to test pushing rates. Sublease space will continue to gradually decrease from the high point in 2020. Vacancy will continue to level out in the first half of 2022 due to the new and delayed move-ins, while the newly marketed vacancies will be mostly to companies downsizing, rather than tenants leaving the market. Job and population growth are forecasted to continue through the next several years, and the anticipated strong pent-up demand for high-quality space in select markets, combined with a restrained development pipeline, will likely turn the corner to positive absorption in mid-2022.

Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
AT&T	7670 South Chester Street	SES	Sublease	70,572
Genapsys	10385 Westmoor Drive	Northwest	New	40,682
Exclusive Resorts	1901 Wazee Street	Downtown	Relocation/Downsize	24,554
Mountain View Pain	630 Plaza Drive	Southwest	New	20,639
Enverus	633 17th Street	Downtown	Sublease	19,654

Select Sale Transactions

Building	Market	Sale Price	Price/SF	Square Feet
Fiddlers Green Center Portfolio	SES	\$162,391,000	\$222	730,560
Gateway Centre Portfolio	Northeast	\$66,850,000	\$222	301,107
Revolution 360	Downtown	\$34,901,735	\$205	170,000
Orchard Pointe	SES	\$20,950,000	\$173	120,873
8001 South InterPort Boulevard	SES	\$17,500,000	\$292	60,000

RESEARCH Q4 2021

Submarket Statistics						
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	4Q Absorption (SF)	2021 Absorption (SF)	Direct FSG Asking Rent (Price/SF)
Overall (Classes A, B & C)						
Aurora	4,492,438	0	17.64%	-7,270	-56,324	\$18.50
Downtown	31,801,548	746,103	25.31%	-198,341	-1,181,969	\$43.33
Midtown	5,866,099	67,800	14.28%	72,523	7,947	\$32.75
Northeast	2,080,997	0	13.87%	9,822	7,293	\$20.00
Northwest	8,311,484	0	17.17%	-74,475	-269,738	\$25.64
Southeast	6,469,671	0	21.74%	24,161	-209,909	\$24.50
Southeast Suburban	30,588,359	0	21.66%	-82,034	-931,381	\$25.00
Southwest	2,802,519	0	20.04%	-29,058	-56,663	\$21.00
West	8,180,075	0	18.85%	48,793	-300,728	\$22.00
Total Market	100,593,190	813,903	21.40%	-235,879	-2,991,472	\$29.70
Class A						
Aurora	349,208	0	56.52%	6,502	6,502	\$23.00
Downtown	21,262,372	746,103	23.06%	-84,513	-569,701	\$50.88
Midtown	2,898,314	67,800	13.37%	92,879	45,205	\$43.00
Northeast	783,902	0	1.53%	10,485	14,113	\$27.61
Northwest	5,223,108	0	18.22%	-52,491	-216,859	\$27.00
Southeast	2,658,600	0	22.40%	14,242	-22,781	\$29.16
Southeast Suburban	17,848,131	0	21.68%	-12,655	-648,424	\$28.20
Southwest	1,046,425	0	35.637%	-24,669	-26,826	\$30.25
West	1,086,754	0	16.67%	4,748	-69,117	\$27.00
Total Class A	53,156,814	813,903	21.58%	-45,472	-1,487,888	\$36.13
Class B						
Aurora	3,297,326	0	16.47%	-31,583	-116,513	\$19.75
Downtown	8,578,626	0	30.48%	-105,294	-504,747	\$38.08
Midtown	2,082,635	0	18.57%	-19,710	-28,981	\$27.77
Northeast	873,070	0	23.13%	32,176	23,555	\$21.50
Northwest	2,594,102	0	16.63%	-17,044	-41,527	\$24.00
Southeast	2,414,293	0	24.90%	37,215	-114,407	\$25.12
Southeast Suburban	10,851,727	0	23.10%	-81,793	-282,867	\$23.50
Southwest	1,204,414	0	11.38%	-13,199	-37,911	\$19.75
West	6,043,077	0	19.96%	59,435	-190,545	\$22.00
Total Class B	37,939,270	0	22.74%	-139,797	-1,293,943	\$25.46

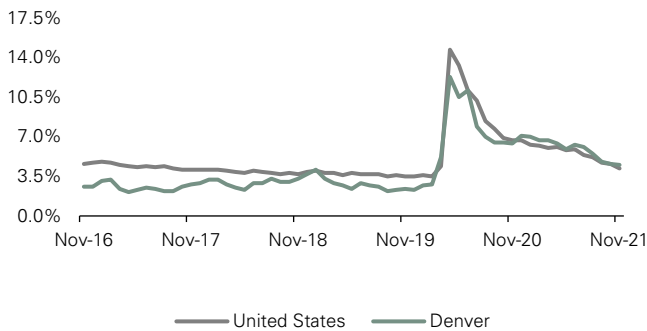
Economic Conditions

After spiking to 8.5% in December 2020, the unemployment rate has continued to decrease. It reached 4.5% in November 2021, based on preliminary numbers, the lowest rate recorded since March 2020. Although the unemployment rate isn't dropping as fast as other states, the labor force participation rate continues to be one of the highest in the nation. In November, the participation rate was 68.2%, the fourth highest in the nation.

The leisure and hospitality sector continued to have the largest job growth based off preliminary numbers in November, with year-over-year growth at 18.4%. The important office-occupying professional and business services sector is Denver's second largest employment sector, accounting for 18.8% of total nonfarm employment. None of the ten employment sectors posted job losses.

Unemployment Rate

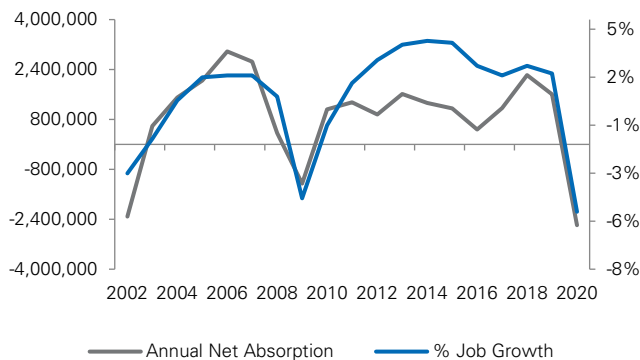
SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment Growth and Absorption

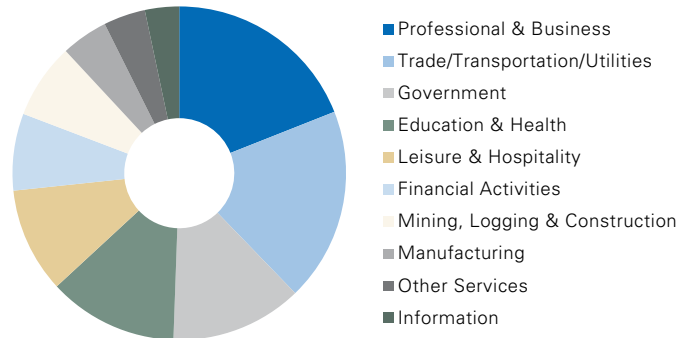
DENVER YOY EMPLOYMENT GROWTH AND OFFICE ANNUAL ABSORPTION



Source: U.S. Bureau of Labor Statistics

Employment by Industry

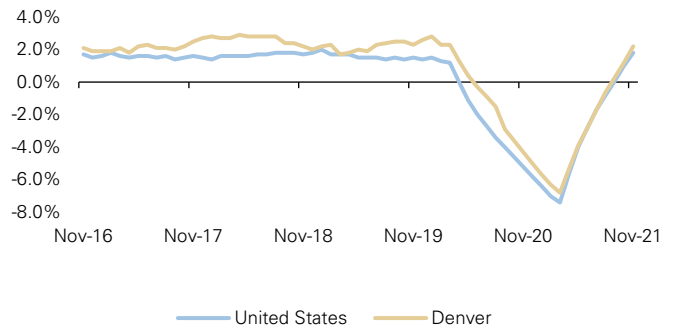
DENVER, November 2021



Source: US Bureau of Labor Statistics

Payroll Employment

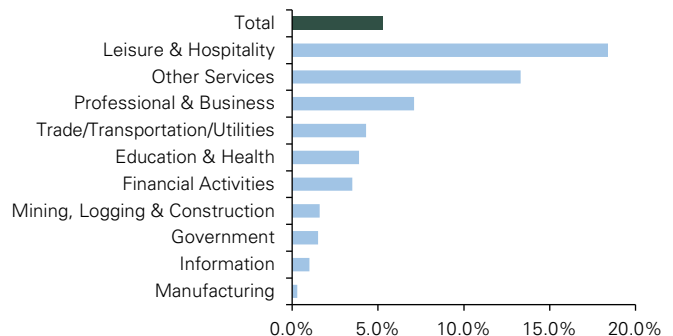
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

DENVER, NOVEMBER 2021 (P), 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

For more information:

New York Headquarters

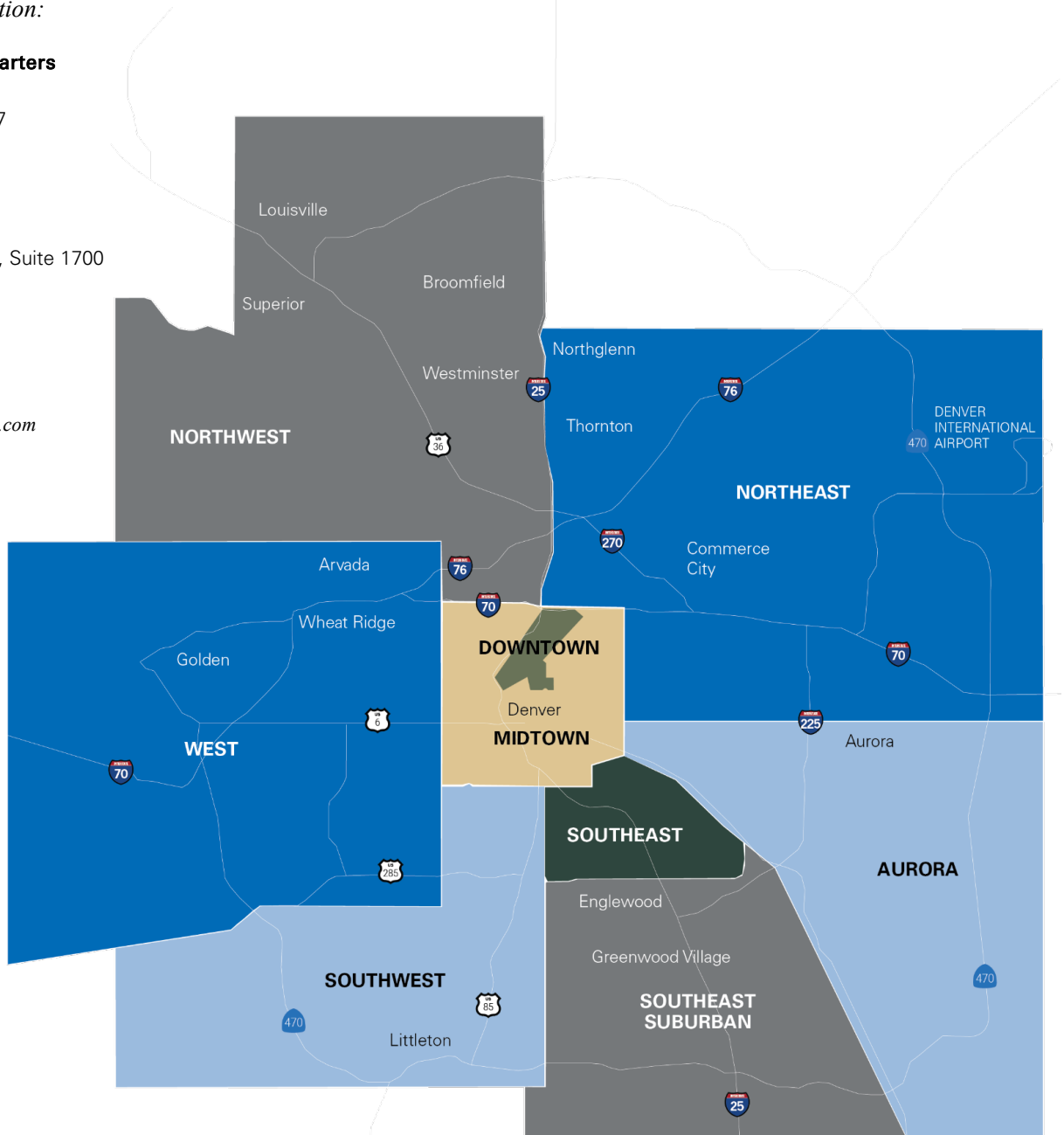
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