Denver

Office 21Q3

Denver's office recovery continues as leasing activity maintained strong momentum following Q2 and net absorption realized significant improvement. Although a mass return to the office continues to be put on hold for many companies, concerns over the delta variant are fading and investor sentiment remains robust throughout the Denver Metro.

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Denver

Office 21Q3

Key Takeaways

- Leasing activity maintained Q2's strong pace at 2.4 million SF
- Net Absorption continues to show significant improvement and is expected to turn positive by mid-2022
- Ongoing uncertainty regarding the Delta variant is fading and a mass return to the office is expected in early 2022
- Two office sales set new high-water marks on a $/SF basis
- Denver remains well-positioned for recovery due to its successful vaccination distribution, diverse tenant base, educated workforce, and company relocation/expansion announcements

		YOY	Forecast
Vacancy Rate	15.4%	▲	—
Net Absorption	-77K SF	▲	▲
Under Construction	1.05M SF	▼	▼
Overall Class A Asking Lease Rates (FSG)	$29.75/SF	▲	—

Leasing Momentum Continues

While the delta variant caused short-term concern for tenants, demand for office space continued its strong Q2 momentum as Q3 realized the second consecutive quarter of leasing activity over 2.3 million square feet. While still negative, net absorption posted its strongest figure since the onset of the pandemic and macroeconomic indicators continue to point to a return to positive territory as early as mid-2022. A growing and well-educated labor force, diverse tenant mix, declining unemployment, and ongoing company relocations continue to showcase Denver's resiliency and position the metro for a robust recovery relative to other markets.

Market Indicators

5.50% Unemployment Rate

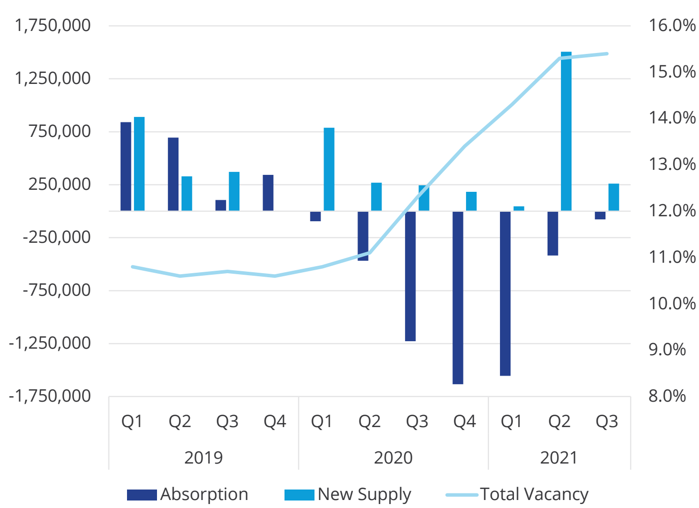
2.32% YoY Labor Force Growth

1.48% U.S. 10 Year Treasury Note

Historic Comparison

	21Q3	21Q2	20Q3
Total Inventory (in Thousands of SF)	168,437	168,177	166,479
New Supply (in Thousands of SF)	363	1,506	245
Net Absorption (in Thousands of SF)	-77	-418	-1,228
Overall Vacancy	15.4%	15.3%	12.3%
Under Construction (in Thousands of SF)	1,051	1,534	2,701
Overall Asking Lease Rates (FSG)	$29.75	$29.68	$28.92

Market Graph



Strong leasing demand and significantly improving net absorption highlight Q3 metrics. Regional vacancy continues to climb, but the pace at which it is doing so has drastically declined, with total vacancy increasing only 10-basis points (bps) to 15.4%. Only one significant building delivered in Q3, being phase one of Kiewit's regional headquarters in Lone Tree.

Recent Transactions

Sale
1551 Wewatta St
LoDo | 285,168 SF

Sale
1099 18th St
Granite Tower
CBD | 593,527 SF

Sale
250 Fillmore St.
Civica Cherry Creek
Cherry Creek | 117,235 SF

Sale
6465 Greenwood Plaza Blvd.
Peakview Tower
Greenwood Village | 264,149 SF

Sale
105 Edgeview Dr.
Gogo Building
Broomfield | 186,231 SF

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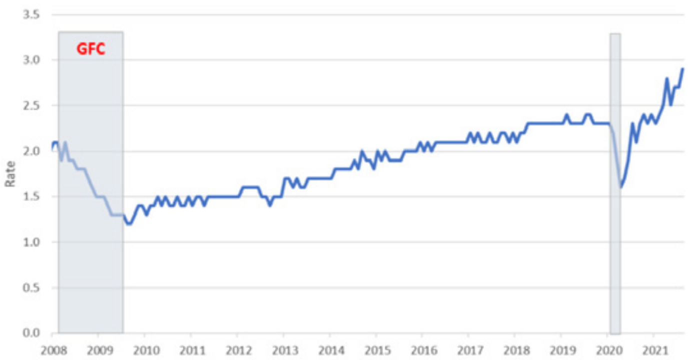
Employment

The Bureau of Labor Statistics (BLS) reports that the Denver Metro added 13,500 cumulative jobs to its payroll in July and August and has added 226,500 jobs since peak unemployment in April 2020.

The unemployment rate in the Denver MSA fell by 60-bps to 5.5% in August, with the largest job gains in leisure and hospitality and government. Over the past twelve months, the unemployment rate has more than halved since standing at 12.2% in May 2020. Fading delta variant concerns, company relocations and expansions, and Denver's desirability for remote employees are expected to aid the Metro's continued job growth and lower unemployment throughout 2021.

Total Nonfarm Quit Rate



Source: Capital Economics, MarketWatch, BLS

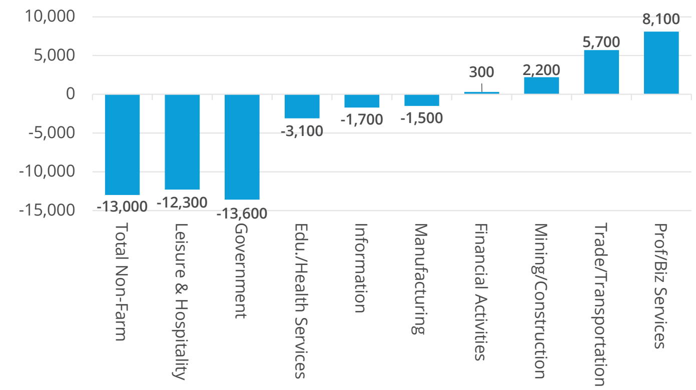
Construction

After 11 properties delivered in Q2 totaling 1.5 million square feet, only three properties delivered in Q3 being phase one of Kiewit's regional headquarters (260k SF) in Lone Tree, 240 Saint Paul (64k SF) in Cherry Creek, and The Hooper (39k SF) in the Capitol Hill. Kiewit's regional HQ phase one accounted for 260,000 square feet and phase two, expected to deliver in Q4, will add 132,000 square feet.

10 properties over 20,000 square feet remain under construction in the metro totaling 1.1 million square feet. 574,000 square feet are under construction downtown headlined by One Platte (250k SF) and The Current River North (280k SF). 268,000 square feet remain under construction in the Southeast primarily consisting of Vectra Bank's headquarter building (106k SF) and phase two of Kiewit's regional headquarters (132k SF).

Denver Employment Change by Sector

Since February 2020



Source: Bureau of Labor Statistics

Absorption

Net Absorption made a significant recovery in Q3 at -77,000 square feet after realizing six consecutive quarters of negative absorption averaging -899,000 square feet. This was driven by a continued rebound in leasing activity to pre-pandemic levels at 2.4 million square feet, marking the second consecutive quarter of absorption over 2 million square feet since Q1 2020. However, 260,000 square feet was driven by the completion and occupancy of Kiewit's regional headquarters in the Southeast, which welcomed its first employees in July. Further buoying Southeastern net absorption was Lockheed Martin's 204,000 SF move into Campus 470. Additional occupancies of note include multiple tenants accounting for 110,000 SF in McGregor Square, Quantum Corporation occupying 75,000 SF in Waterpark at Briarwood III, Honeywell moving into 64,000 SF at 310 Interlocken, and Twitter occupying 64,000 SF at S'Park Railyards. With demand increasing throughout the metro, net absorption is expected to return to positive territory by mid-2022.

Vacancy

Denver Metro's office vacancy stood at 15.4% at the end of Q3, representing a 10-bps increase over the prior quarter. The Downtown market maintained the Metro's highest vacancy at 20.2%. The suburban markets also realized a 20-bps vacancy rate increase to 14.2%.

Space available for sublease declined for the first time since the onset of the pandemic, realizing a modest decrease to 3.2 million square feet. The majority of sublease space, 1.2 million square feet, remains downtown, followed by 1.1 million square feet in the Southeast. The sublease vacancy rate declined by 10-bps quarter over quarter and stands at 1.9% as of the end of Q3.

Rents

Moderately increasing average lease rates continue to highlight Denver's resiliency and office recovery from the pandemic. Direct average full-service lease rates in Denver increased slightly in Q3 to $29.75/SF from $29.68/SF. Class A rates in the Southeast increased minimally to $30.93/SF while Downtown decreased from $39.52/SF to $39.43/SF as landlords offer aggressive rates to fill vacant space. The premium between the two distinguished submarkets remains around 30%. It is expected that while direct asking rates will remain relatively flat, effective lease rates will decrease before stabilizing over the next six months as landlords offer increased concessions to attract tenants back to the office.

Sales

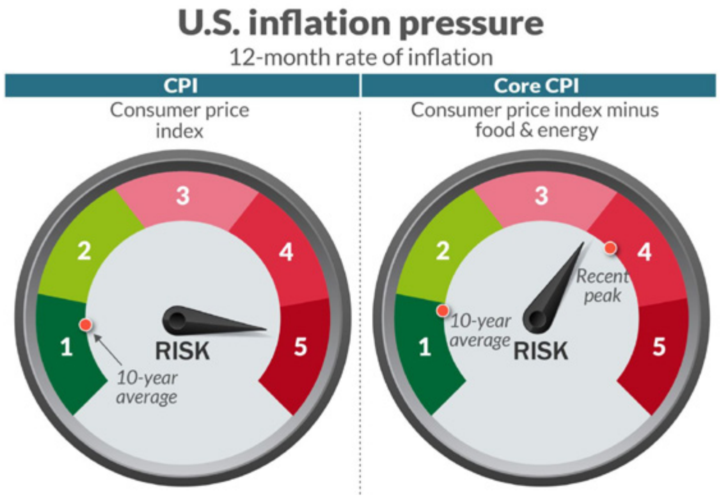
This quarter was highlighted by two office investment sales that set consecutive new high-water marks on a $/SF basis. In late August, RFR Realty closed on 1551 Wewatta St in LoDo for $228M ($800/SF). The property is 100% occupied by VF Corp, serving as the company's headquarters, with approximately 11 years remaining on the lease. One month later, MetLife Investment Management acquired Civica Cherry Creek for $108M ($921/SF). The 117,000 SF Cherry Creek property, built in 2018, had occupancy of 96% with 8.2 years WALT.

A third notable sale was that of Granite Tower in the CBD to Florida-based CP Group, marking the company's first acquisition in the Denver market. The 593,000 SF property was purchased for $203M ($343/SF). $11M in renovations were completed prior to the sale and occupancy was approximately 81%.

Denver has realized a noticeable increase in investment interest since the lows of the pandemic and this trend is expected to continue in the final quarter as investors look to finalize deals in the current year.

Inflation Rises to Annualized Rate of 5.4% in September

Consumer Price Index climbs 0.4% to 30-year Peak



Source: Capital Economics, MarketWatch

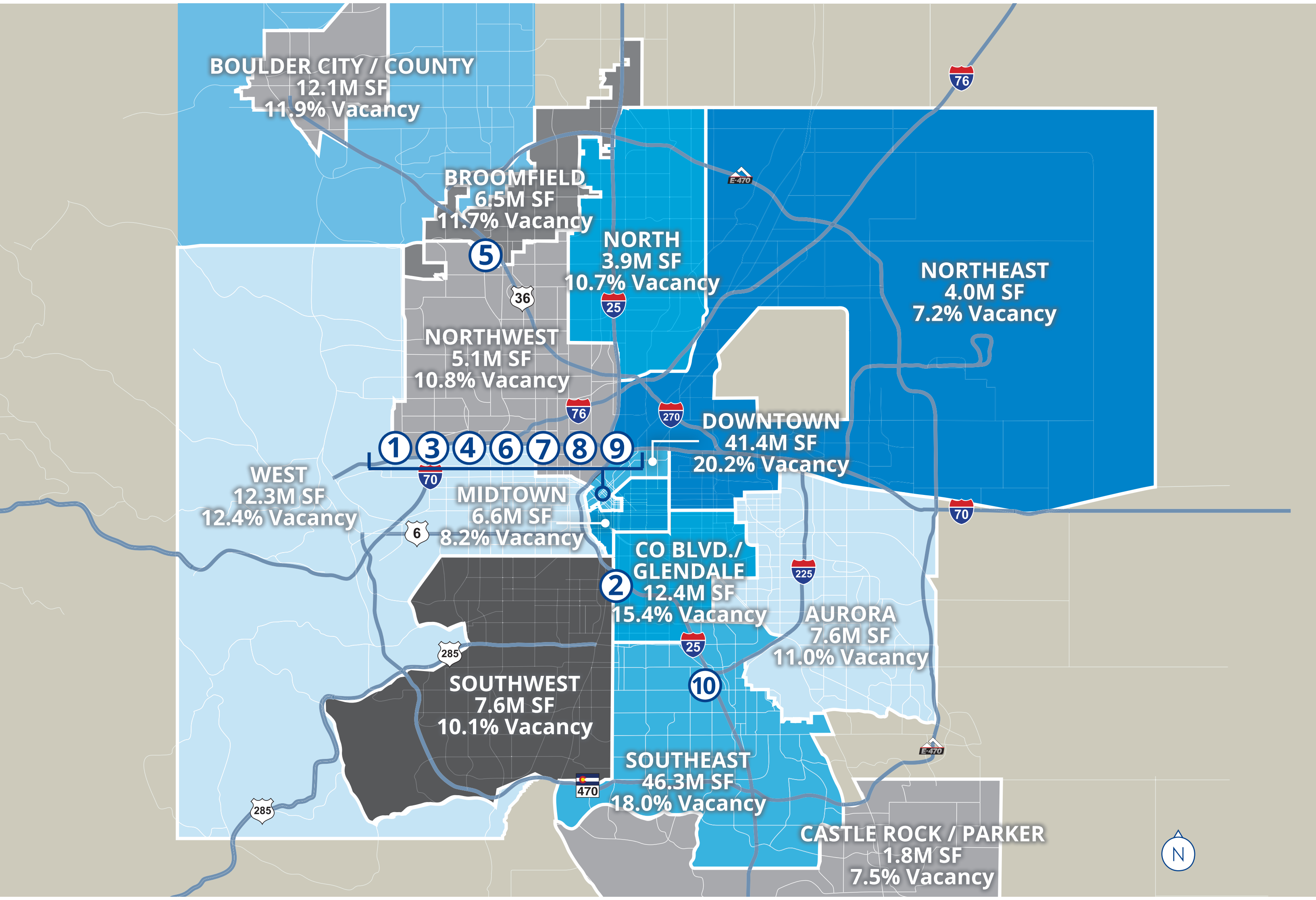
Forecast

Concerns over the delta variant appear to be increasingly short-term as cases per million continue to fall from its mid-September peak. While many large companies have pushed back their return-to-office plans to early 2022, increasingly positive indicators surrounding COVID point to few new causes for further delay. Additionally, Denver continues to benefit from company relocations and expansions, as well as remote workers choosing to make Denver home due to its high quality of life.

While lagging metrics continue to point to a distressed market, quarter-over-quarter fundamentals illustrate that the Denver Metro is on the road to recovery. Leasing activity surpassed 2.3 million square feet for the second consecutive quarter, showing a return to pre-pandemic levels, and net absorption showed a significant improvement as compared to the trailing four-quarter average of -1.2 million square feet. These indicators are expected to help push net absorption to positive territory within the next year.

The Denver office market continues to recover. Strong leasing activity points to companies preparing to again utilize offices as their primary place of business and macroeconomic fundamentals will strengthen as a result. Denver remains well-positioned and is expected to recover faster than most other large metros, partially due to a large educated workforce, growing population, and a diverse industry mix.

Significant Leasing Activity



	Tenant Name	Building Address	Building Name	Rentable Square Feet (RSF)	Deal Type
1	Transamerica	1801 California St.	1801 California	80,000	Direct
2	T-Mobile	990 S Broadway	Broadway Station 2	78,336	Direct
3	Centennial Resource Development	1001 17th St.	1001 17th	67,856	Direct
4	Ares Management (Black Creek Group)	1200 17th	Tabor Center	67,633	Direct
5	Honeywell	310 Interlocken Pkwy	310 Interlocken	64,382	Direct
6	iCIMS	707 17th St.	707 17th St	47,043	Sublease
7	Caerus Oil & Gas	1001 17th St.	1001 17th	32,937	Direct
8	RBC Wealth Management	1801 California St.	1801 California	25,000	Direct
9	Physicians Health Partners	999 17th St.	Prism	24,468	Direct
10	ModivCare	6900 Layton Ave.	6900 Layton	20,829	Direct

Recent Transactions

PROPERTY	SUBMARKET	BUILDING CLASS	LEASED SF	Type	Tenant
1801 California St.	CBD	A	80,000	Direct	TransAmerica
990 S Broadway Broadway Station II	CO Blvd/I-25	A	78,336	Direct	T-Mobile
1001 17th St.	CBD	A	67,856	Direct	Centennial Resource Development
1200 17TH ST TABOR CENTER	CBD	A	67,633	Direct	Ares Management (Black Creek Group)

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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 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	27,969,347	4,778,969	17.1%	1,072,927	3.8%	20.9%	20.7%	573,064	-53,549	-	573,875	$39.43
B	12,376,857	2,328,560	18.8%	140,764	1.1%	20.0%	19.2%	135,007	-98,085	-	0	$31.65
C	1,013,077	47,259	4.7%	3,115	0.3%	5.0%	3.9%	-	-11,103	-	0	$22.38
TOTAL	41,359,281	7,154,788	17.3%	1,216,806	2.9%	20.2%	19.8%	708,071	-162,737	-	573,875	$37.00
Midtown												
A	1,569,885	167,413	10.7%	58,790	3.7%	14.4%	11.9%	1,681	-4,704	39,000	0	$32.49
B	3,348,039	297,362	8.9%	13,009	0.4%	9.3%	10.1%	22,971	26,589	-	0	$27.35
C	1,705,180	7,433	0.4%	0	0.0%	0.4%	0.0%	0	-7,574	-	0	$20.18
TOTAL	6,623,104	472,208	7.1%	71,799	1.1%	8.2%	8.4%	24,652	14,311	39,000	0	$29.65

Suburban

Submarket/ Class	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacant SF	Sublease Vacancy Rate	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	1,426,670	203,993	14.3%	0	0.0%	14.3%	10.8%	-	-49,302	-	0	$24.80
B	5,458,845	549,320	10.1%	75,366	1.4%	11.4%	10.5%	19,824	-49,552	-	0	$20.86
C	698,512	7,321	1.0%	0	0.0%	1.0%	2.5%	3,344	10,090	-	0	$11.72
TOTAL	7,584,027	760,634	10.0%	75,366	1.0%	11.0%	9.9%	23,168	-88,764	-	0	$21.86
Boulder												
A	2,519,154	180,216	7.2%	15,543	0.6%	7.8%	7.5%	25,186	-7,814	-	0	$38.51
B	9,156,128	1,028,695	11.2%	164,553	1.8%	13.0%	12.4%	193,702	-59,479	-	0	$25.65
C	437,570	54,528	12.5%	0	0.0%	12.5%	10.2%	0	-9,689	-	0	$20.11
TOTAL	12,112,852	1,263,439	10.4%	180,096	1.5%	11.9%	11.3%	218,888	-76,982	-	0	$26.80
Broomfield												
A	3,603,422	539,919	15.0%	15,195	0.4%	15.4%	16.1%	17,890	26,459	-	90,000	$28.49
B	2,903,359	185,119	6.4%	20,260	0.7%	7.1%	9.2%	65,854	60,773	-	0	$23.68
TOTAL	6,506,781	725,038	11.1%	35,455	0.5%	11.7%	13.0%	83,744	87,232	-	90,000	$27.15
Colorado Blvd/Glendale												
A	5,154,967	856,138	16.6%	61,243	1.2%	17.8%	18.1%	168,420	68,413	64,000	76,715	$31.68
B	6,285,732	796,452	12.7%	72,577	1.2%	13.8%	14.8%	92,569	60,023	-		$26.83
C	947,857	108,502	11.4%	14,475	1.5%	13.0%	12.4%	5,094	-5,552	-	0	$21.98
TOTAL	12,388,556	1,761,092	14.2%	148,295	1.2%	15.4%	16.0%	266,083	122,884	64,000	76,715	$28.97
Longmont												
A	104,805	53,512	51.1%	0	0.0%	51.1%	51.1%	0	0	-	0	$26.01
B	714,673	19,376	2.7%	0	0.0%	2.7%	4.1%	4,887	10,036	-	0	$24.95
C	134,558	0	0.0%	0	0.0%	0.0%	0.0%	0	0	-	0	$18.30
TOTAL	954,036	72,888	7.6%	0	0.0%	7.6%	8.7%	4,887	10,036	-	0	$25.71
North												
A	759,793	33,691	4.4%	0	0.0%	4.4%	2.5%	0	-14,934	-	0	$27.28
B	3,040,467	308,907	10.2%	74,191	2.4%	12.6%	11.9%	15,170	-21,982	-	0	$25.82
C	128,181	5,216	4.1%	0	0.0%	4.1%	1.2%	1,312	-3,688	-	0	$15.34
TOTAL	3,928,441	347,814	8.9%	74,191	1.9%	10.7%	9.7%	16,482	-40,604	-	0	$25.83
Northeast												
A	583,612	5,529	0.9%	0	0.0%	0.9%	0.9%	5,529	0	-	0	$26.08
B	2,484,733	225,198	9.1%	39,559	1.6%	10.7%	10.1%	16,004	-13,604	-	0	$22.00
C	896,719	14,727	1.6%	0	0.0%	1.6%	1.1%	5,424	-4,919	-	0	$16.41
TOTAL	3,965,064	245,454	6.2%	39,559	1.0%	7.2%	5.8%	26,957	-18,523	-	0	$21.80
Northwest												
A	2,101,026	253,638	12.1%	15,970	0.8%	12.8%	14.9%	10,658	43,977	-	0	$28.13
B	2,519,004	239,562	9.5%	5,660	0.2%	9.7%	10.8%	48,539	26,455	-	0	$21.74
C	515,579	38,724	7.5%	0	0.0%	7.5%	5.4%	0	-10,978	-	0	$15.76
TOTAL	5,135,609	531,924	10.4%	21,630	0.4%	10.8%	11.9%	59,197	59,454	-	0	$25.15

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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 Rate	Vacancy Rate Prior Qtr	Leasing Activity SF	Net Absorption Current Qtr SF	Deliveries Current Qtr SF	Under Construction SF	Avg Rental Rate
Parker/Castle Rock												
A	688,835	13,318	1.9%	-	0.0%	1.9%	2.4%	0	3,127	-	0	$29.44
B	983,950	114,126	11.6%	4,517	0.5%	12.1%	9.1%	14,250	-28,971	-	0	$29.18
C	87,926	-	0.0%	-	0.0%	0.0%	-10.7%	612	-9,388	-	0	$20.00
TOTAL	1,760,711	127,444	7.2%	4,517	0.3%	7.5%	5.5%	14,862	-35,232	-	0	$29.29
Southeast												
A	25,739,065	3,997,005	15.5%	923,571	3.6%	19.1%	18.9%	323,927	143,517	260,013	267,627	$30.93
B	19,355,546	3,225,986	16.7%	131,092	0.7%	17.3%	16.9%	321,326	-76,712	-	0	$23.42
C	1,161,430	67,585	5.8%	-	0.0%	5.8%	5.8%	2,416	-85	-	0	$17.06
TOTAL	46,256,041	7,290,576	15.8%	1,054,663	2.3%	18.0%	17.7%	647,669	66,720	260,013	267,627	$27.46
Southwest												
A	1,551,321	84,649	5.5%	48,150	3.1%	8.6%	8.6%	8,400	812	-	0	$24.55
B	5,343,670	601,792	11.3%	15,310	0.3%	11.5%	12.7%	71,571	59,925	-	0	$20.76
C	670,741	17,248	2.6%	-	0.0%	2.6%	1.2%	0	-8,959	-	0	$12.14
TOTAL	7,565,732	703,689	9.3%	63,460	0.8%	10.1%	10.8%	79,971	51,778	-	0	$21.06
West												
A	2,762,958	175,200	6.3%	123,356	4.5%	10.8%	9.2%	29,102	-43,308	-	0	$28.57
B	8,704,330	1,062,756	12.2%	118,418	1.4%	13.6%	13.2%	126,802	-29,851	-	42,369	$24.75
C	829,735	39,127	4.7%	-	0.0%	4.7%	5.5%	20,569	6,885	-	0	$15.81
TOTAL	12,297,023	1,277,083	10.4%	241,774	2.0%	12.4%	11.8%	176,473	-66,274	-	42,369	$24.86
Suburban Total												
A	46,995,628	6,396,808	13.6%	1,203,028	2.6%	16.2%	16.0%	589,112	170,947	324,013	434,342	$29.88
B	66,950,437	8,357,289	12.5%	721,503	1.1%	13.6%	13.5%	990,498	-62,939	-	42,369	$24.38
C	6,508,808	352,978	5.4%	14,475	0.2%	5.6%	5.1%	38,771	-36,283	-	0	$21.06
TOTAL	120,454,873	15,107,075	12.5%	1,939,006	1.6%	14.2%	14.0%	1,618,381	71,725	324,013	476,711	$26.44
Denver Market Grand Total												
A	76,534,860	11,343,190	14.8%	2,334,745	3.1%	17.9%	17.6%	1,163,857	112,694	363,013	1,008,217	$33.33
B	82,675,333	10,983,211	13.3%	875,276	1.1%	14.3%	14.2%	1,148,476	-134,435	-	42,369	$26.48
C	9,227,065	407,670	4.4%	17,590	0.2%	4.6%	4.0%	38,771	-54,960	-	0	$23.42
TOTAL	168,437,258	22,734,071	13.5%	3,227,611	1.9%	15.4%	15.3%	2,351,104	-76,701	363,013	1,050,586	$29.75
Denver Market Quarterly Comparison and Totals												
Q3 2021	168,437,258	22,734,071	13.5%	3,227,611	1.9%	15.4%	15.3%	2,351,104	-76,701	363,013	1,050,586	$29.75
Q2 2021	168,177,137	22,502,376	13.4%	3,287,484	2.0%	15.3%	14.3%	2,378,683	-418,013	1,506,295	1,534,002	$29.68
Q1 2021	166,707,478	20,982,958	12.6%	2,919,230	1.8%	14.3%	13.4%	1,515,535	-1,554,781	46,500	2,603,187	$29.75
Q4 2020	166,660,978	19,710,660	11.8%	2,590,247	1.6%	13.4%	12.3%	1,839,150	-1,632,916	182,151	2,624,541	$29.27
Q3 2020	166,478,827	18,210,926	10.9%	2,274,914	1.4%	12.3%	10.6%	1,687,986	-1,227,936	244,675	2,700,798	$28.92

FOR MORE INFORMATION

Ford Malmquist, MBA
Associate Broker | Market Analyst
Denver
+1 303 283 4561
ford.malmquist@colliers.com

Tim Morris
Director of Research & Analytics
Denver
+1 303 745 5800
tim.morris@colliers.com

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Market Contacts:

Robert Whittelsey
Principal
+1 303 283 4581
robert.whittelsey@colliers.com

Chris Wiley
Principal
+1 303 283 4588
chris.wiley@colliers.com

Matthew Ball
Principal
+1 303 309 3526
matt.ball@colliers.com

Jeremy Reeves
Vice President
+1 303 283 1375
jeremy.reeves@colliers.com

Abby Pattillo
Vice President
+1 303 283 4579
abby.pattillo@colliers.com

Zac Blaha
Associate
+1 303 283 4597
zac.blaha@colliers.com

Thevin Campton, CCIM
Capital Markets
+1 720 833 4628
thevin.campton@colliers.com

Ford Malmquist
Associate Broker |
Market Analyst
+1 303 283 4561
ford.malmquist@colliers.com

Catie O'Dwyer
Operations Manager
+1 303 283 4570
catie.odwyer@colliers.com

Anna Urgitas
Analytics and Outreach
+1 720 833 4624
anna.urgitas@colliers.com

Colliers |Denver Tech Center
4643 S. Ulster Street, Suite 1000
Denver, CO | USA

Phil Sweeney
Senior V.P.
+1 303 565 3785
phil.sweeney@colliers.com

Colliers | Downtown Denver
1200 17th Street, Suite 650
Denver, CO | USA

REGIONAL AUTHORS:

Ford Malmquist
Associate Broker |
Market Analyst
+1 303 283 4561
ford.malmquist@colliers.com

Tim Morris
Director of Research & Analytics
+1 720 833 4630
tim.morris@colliers.com