



Denver office market report

Q1 2023

**AVISON
YOUNG**

Denver office market trends

9.8%

Sublease Availability Increases

Sublease availability has grown 9.8% since last quarter, reaching 6.5 million sf in Q1 2023, the highest point in the market's history.

The top industries that have given back space are tech, media/telecom and healthcare companies.

Most of the sublet space available resides in the downtown and southeast suburban submarkets, are in Class A buildings, and are listed between 20,000 and 50,000 sf.

4.7%

Direct Full-Service Annual Rent Growth

With ample space availabilities, rent growth has plateaued this quarter. Overall annual rent growth was 4.7% with the majority of that growth incurred in the first half of 2022.

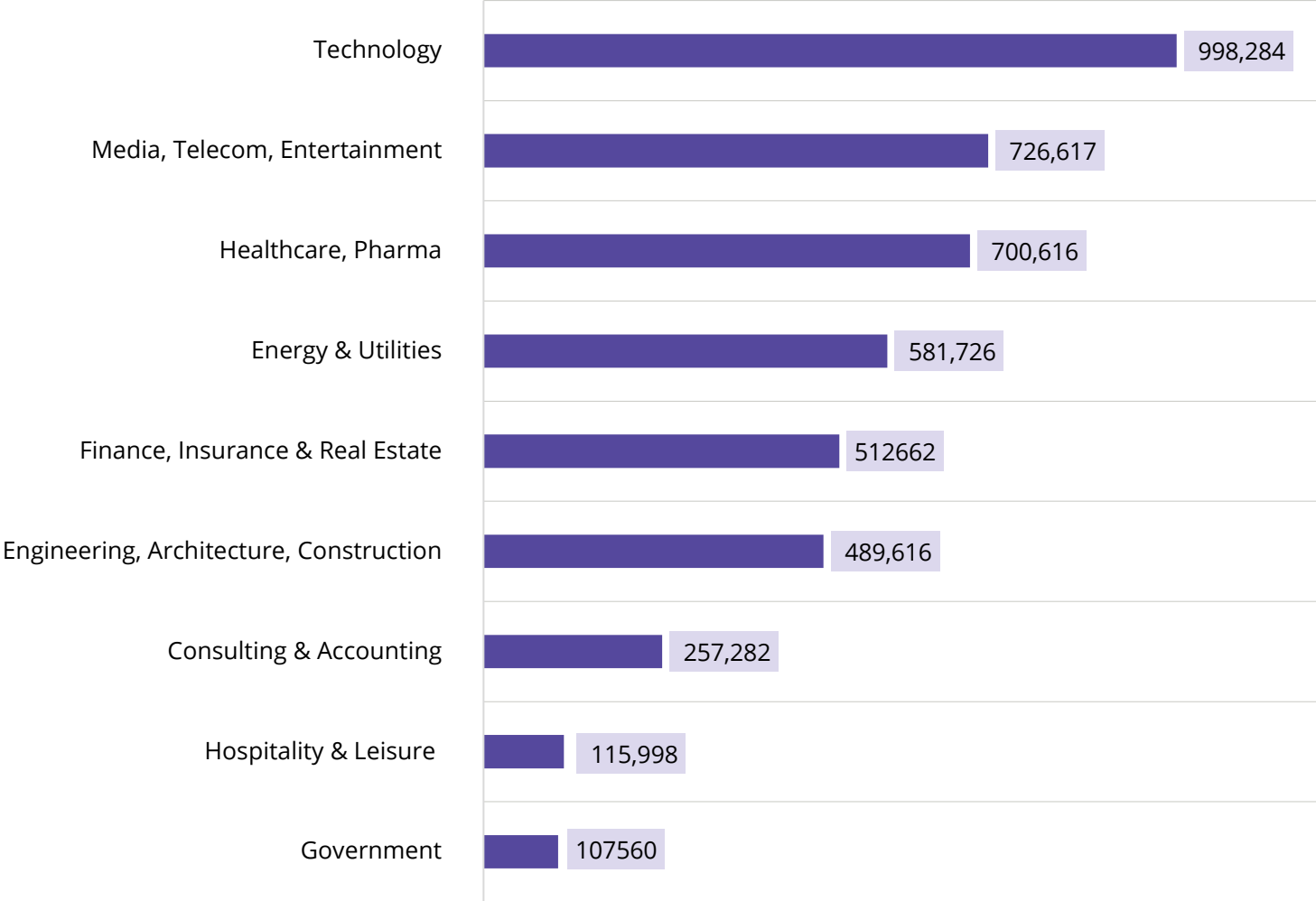
Looking closer at the different quality of product, Class A office space saw only 2.7% rent growth in the past 12 months compared to Class B rents which grew 7% in the same timeframe.

-23%

Sales Prices Decline Year-Over-Year

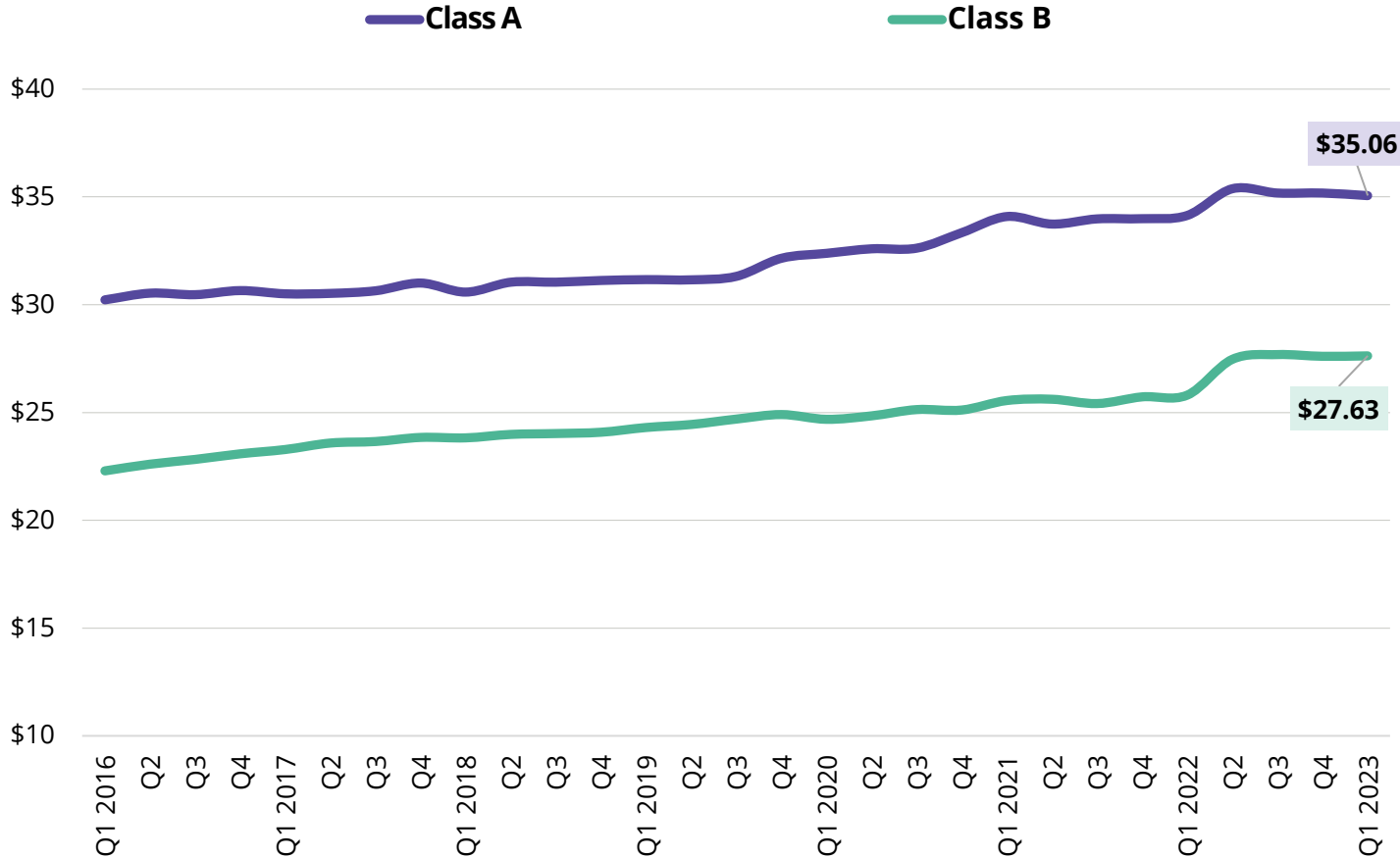
While a hopeful start to the year anticipated headwinds ending by the summer, the banking crisis in early March resulted in further challenging office economics as lenders subsequently went back into their shell. This resulted in 5 transactions closing and price per square foot declining by 23% when compared to Q1 2022. Sales activity in the CBD was non-existent due to poor return-to-office occupancies and other economic challenges.

Sublease availability by industry



The top industries placing sublet space on the market are technology, media/telecom and healthcare companies.

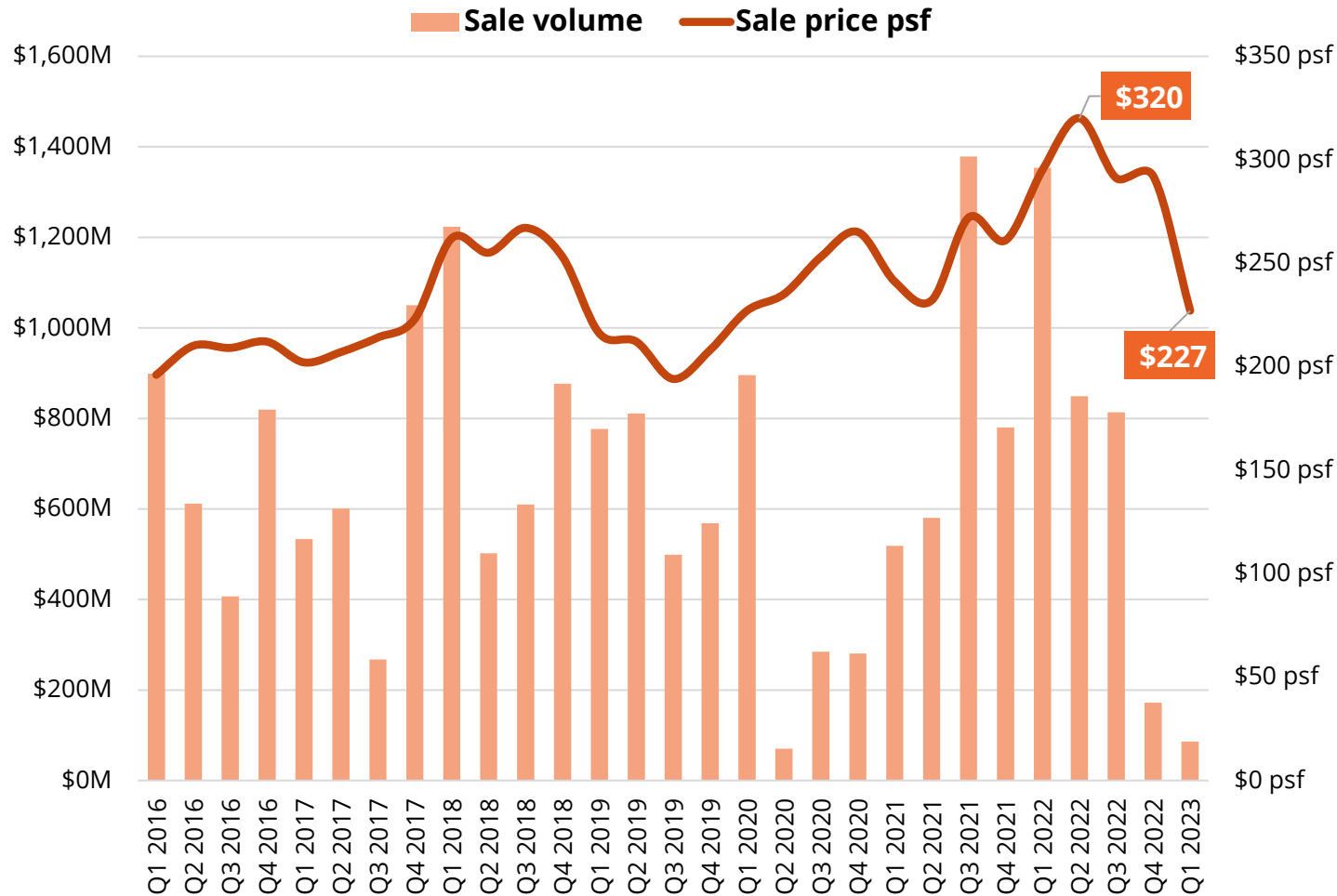
Office direct full-service rents



Rents growth across all classes has plateaued in Q1 2023.

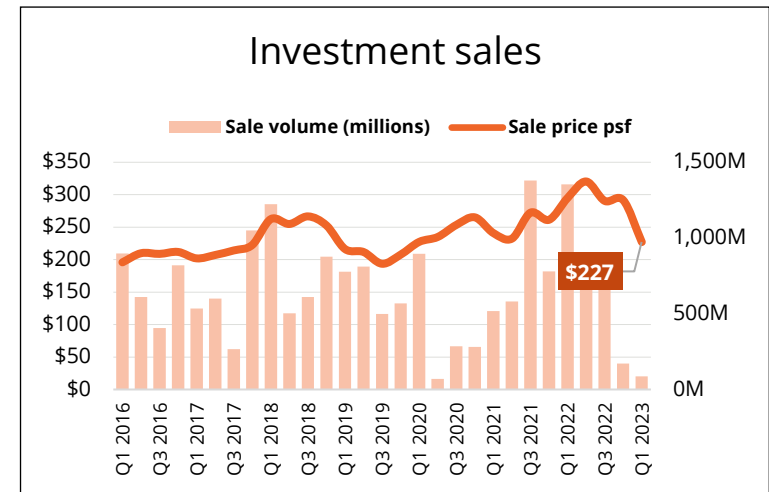
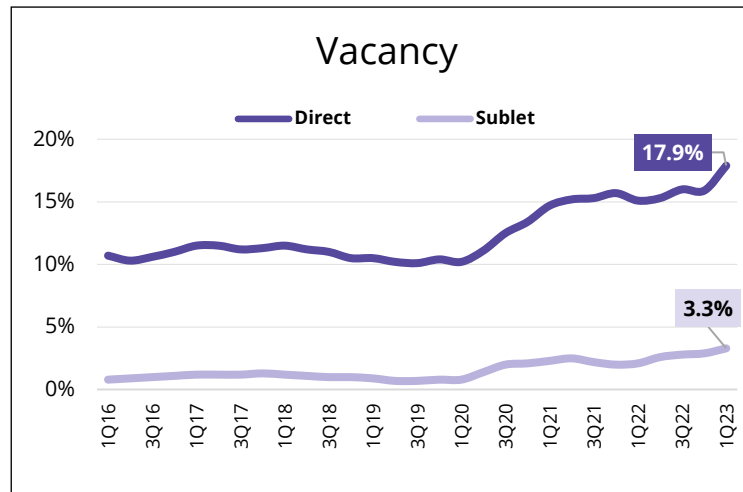
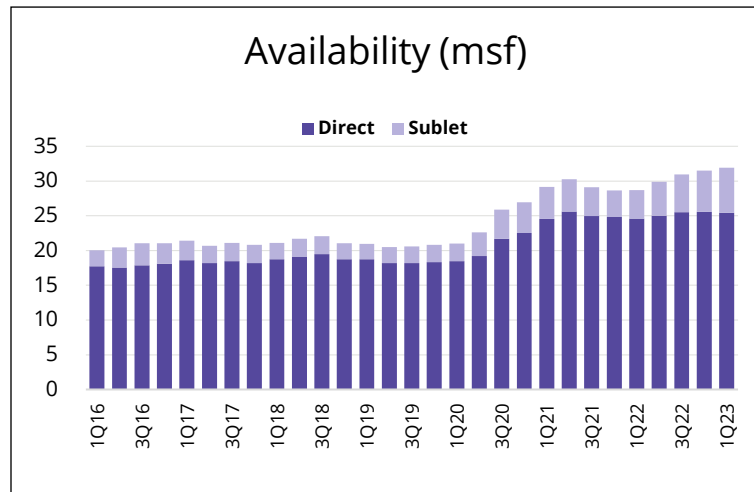
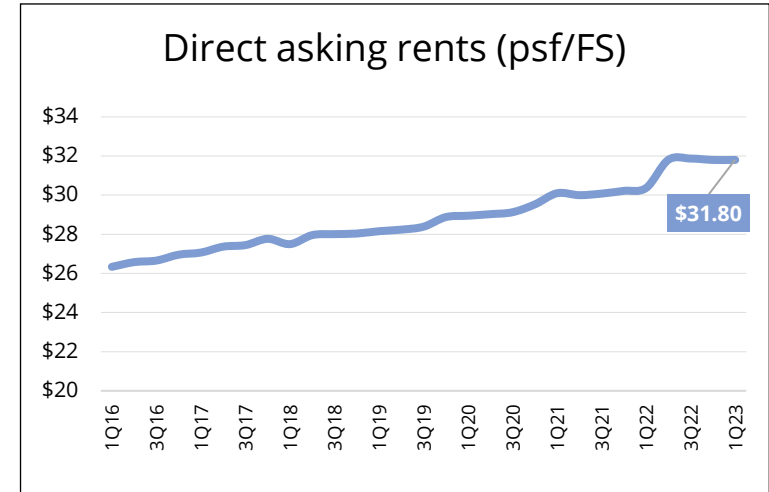
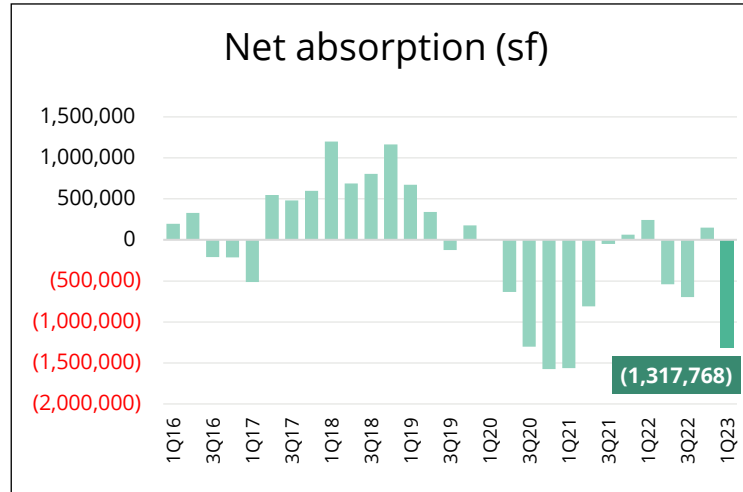
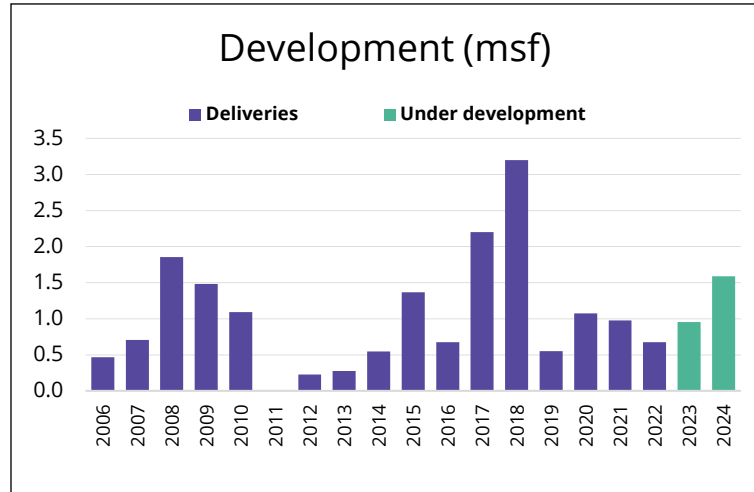
Class A rents have increased by 2.9% in the past 2 years, compared to Class B product rising 8.1% over same period.

Office capital markets stifle



Office sales were few and far between in Q1 2023 and valuations remain rocky through the tumultuous market conditions.

Denver office market indicators



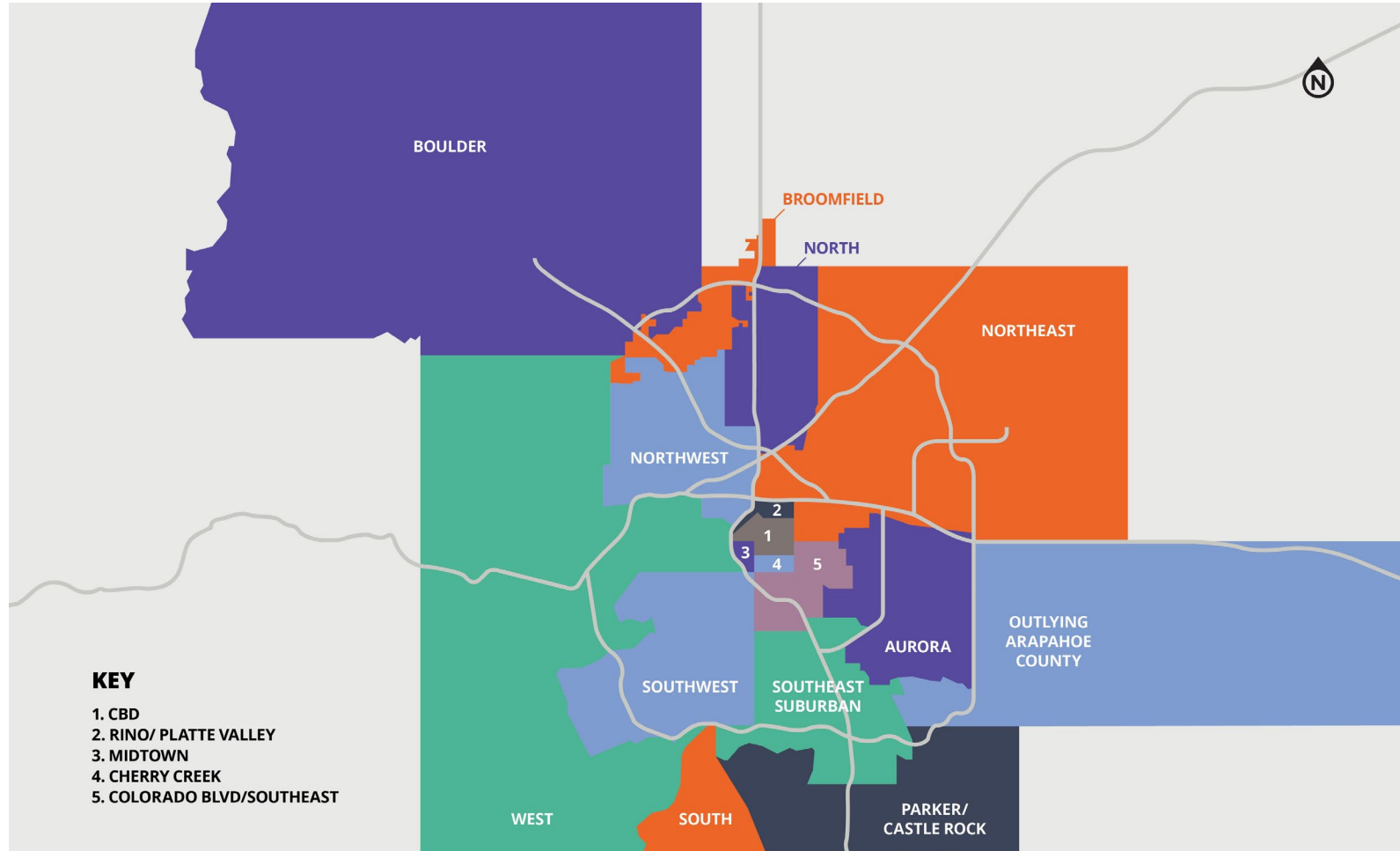
Denver office market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2023)	Direct asking rent FS
Aurora	3,580,751	-	-	16.7%	5.8%	20.7%	7,236	\$21.61
Boulder	10,950,353	-	150,000	12.9%	1.0%	13.5%	(124,622)	\$31.84
Broomfield	3,549,748	-	-	23.0%	6.3%	28.3%	(221,719)	\$31.08
CBD	31,710,595	-	704,036	22.8%	3.8%	26.2%	(772,026)	\$38.55
Cherry Creek	2,792,826	-	295,592	5.9%	1.0%	6.9%	3,398	\$35.31
Colorado Blvd / Southeast	6,533,663	-	-	18.5%	3.0%	21.5%	(169,005)	\$29.89
Midtown	669,481	-	-	11.6%	8.1%	18.7%	8,540	\$27.46
North	1,831,714	-	-	19.0%	5.7%	24.7%	(36,570)	\$25.50
Northeast	1,565,459	-	-	9.0%	0.0%	8.0%	(7,414)	\$23.57
Northwest	3,386,937	-	32,734	12.9%	2.9%	15.3%	(55,782)	\$25.44
RiNo / Platte Valley	5,764,946	-	1,038,270	14.4%	9.5%	22.9%	46,233	\$47.36
Southeast Suburban	36,710,925	-	675,206	18.6%	3.1%	21.6%	37,551	\$27.67
Southwest	5,730,306	-	-	14.6%	0.5%	13.7%	29,963	\$20.24
West	8,254,266	-	-	17.9%	3.6%	20.8%	(61,601)	\$26.20
Market Total	123,031,970	-	2,895,838	17.9%	3.3%	21.2%	(1,317,768)	\$31.80

Denver office market stats by class

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2023)	Direct asking rent FS
Class A	68,825,078	-	2,449,407	19.0%	4.1%	23.1%	(953,425)	\$35.06
Class B	51,306,925	-	446,431	17.2%	2.4%	19.6%	(342,060)	\$27.63
Market total	123,031,970	-	2,895,838	17.9%	3.3%	21.2%	(1,317,768)	\$31.80

Denver submarket map



Office insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and
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