



AVISON
YOUNG

Denver Office Insight Report

Q2 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Reopening efforts and higher vaccination rates have allowed the Denver unemployment rate to rebound from a high of 12.2 percent to **6.4 percent**.
- Office-related job losses have totaled **2.5 percent** compared with 4.4 percent for other industries' job losses, underscoring the disproportionate impact the pandemic had on the discretionary segments of the local economy.



Recovery rate

- The overall post-COVID rate of recovery based on extrapolated cell phone data is **57.2 percent**.
- Activity has increased by **336.7 percent** year-over-year, as the hospitality sector has begun to recover and office occupiers have begun to navigate their return-to-work strategies.



Office demand

- Leasing activity has increased by **60.2 percent** in Q2 2021 compared with Q2 2020.
- The **"flight to quality"** trend persists as tenants begin searching for higher quality, more efficient space as they transition to return-to-work.
- Of the 2.2 msf of leasing activity in Q2 2021, the Suburban Southeast submarket accounted for over **40.6 percent** while the CBD, Cherry Creek, Midtown & RiNo/Platte Valley submarkets accounted for **32.7 percent**.

Key takeaways



Office supply

- Overall vacancy for the Denver market has risen to **18.7 percent**, compared to **16.2 percent** in Q4 2020.
- Sublet vacancy has doubled since Q2 2020, as sublease vacancy has risen to **2.6 percent** (3.2 msf) compared to Q2 2020 which stood at **1.3 percent** (1.5 msf).
- **1.035 msf** of office is currently under construction; office developments slated to deliver by year-end 2021 (285,000 sf), are currently **65.1 percent** preleased.



Pricing trends

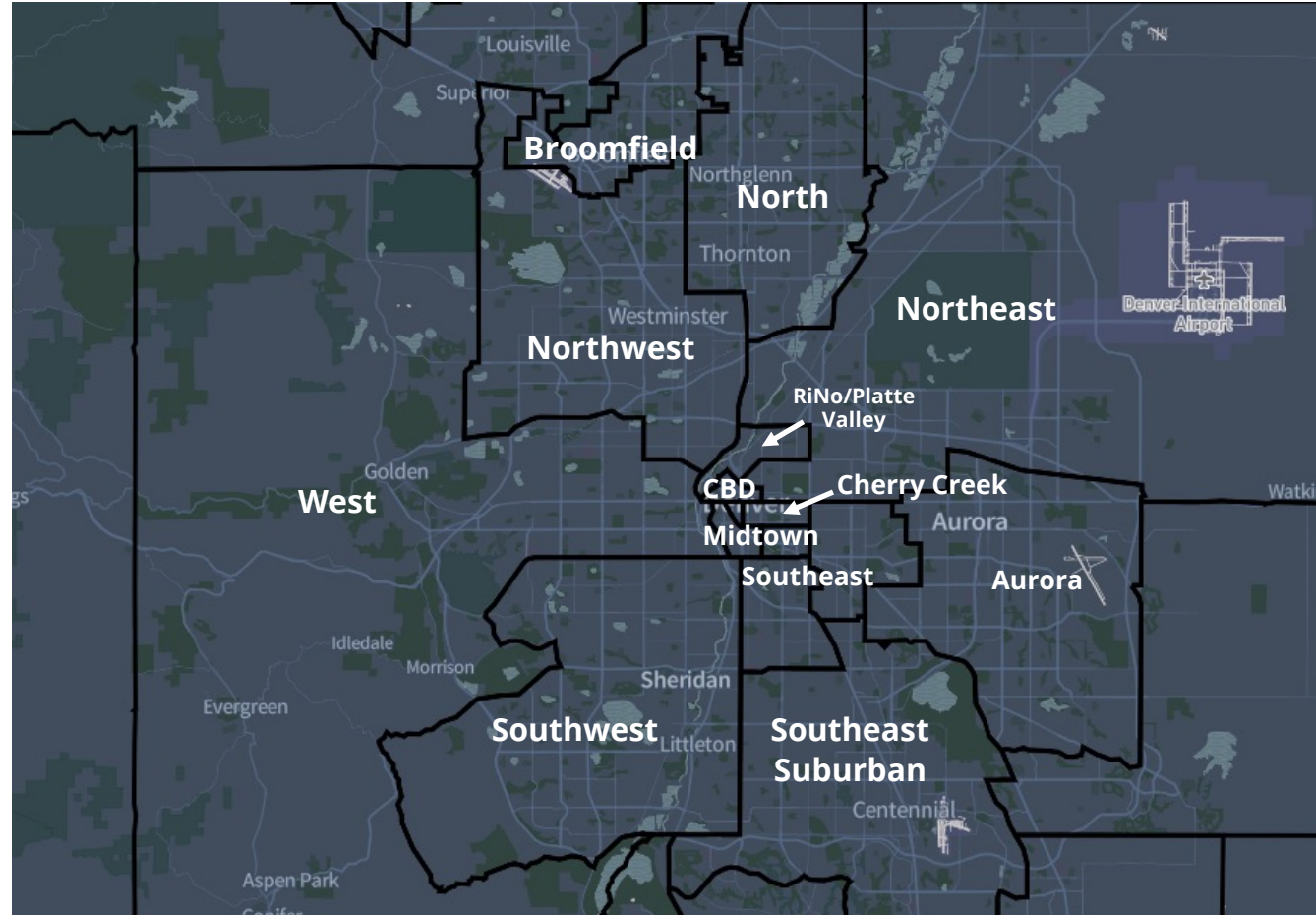
- Overall asking rents have held firm despite the pandemic as landlords look to hold face rates and offer greater concession packages to entice future tenants.
- Demand for high quality, efficient space continues to grow and has driven pricing among new developments into the upper **\$30s NNN psf**.



Capital markets

- Office sales activity reached **\$420.1 million** in Q2 2021 for the Denver market, surpassing total sales activity from the last 12 months which totaled **\$357.8 million**.
- **85 percent** of office sales activity in Q2 2021 was concentrated in the Suburban Southeast & Broomfield submarkets; meanwhile, downtown sales activity has slowed as owners continue to assess existing and future market conditions.

Denver submarket overview

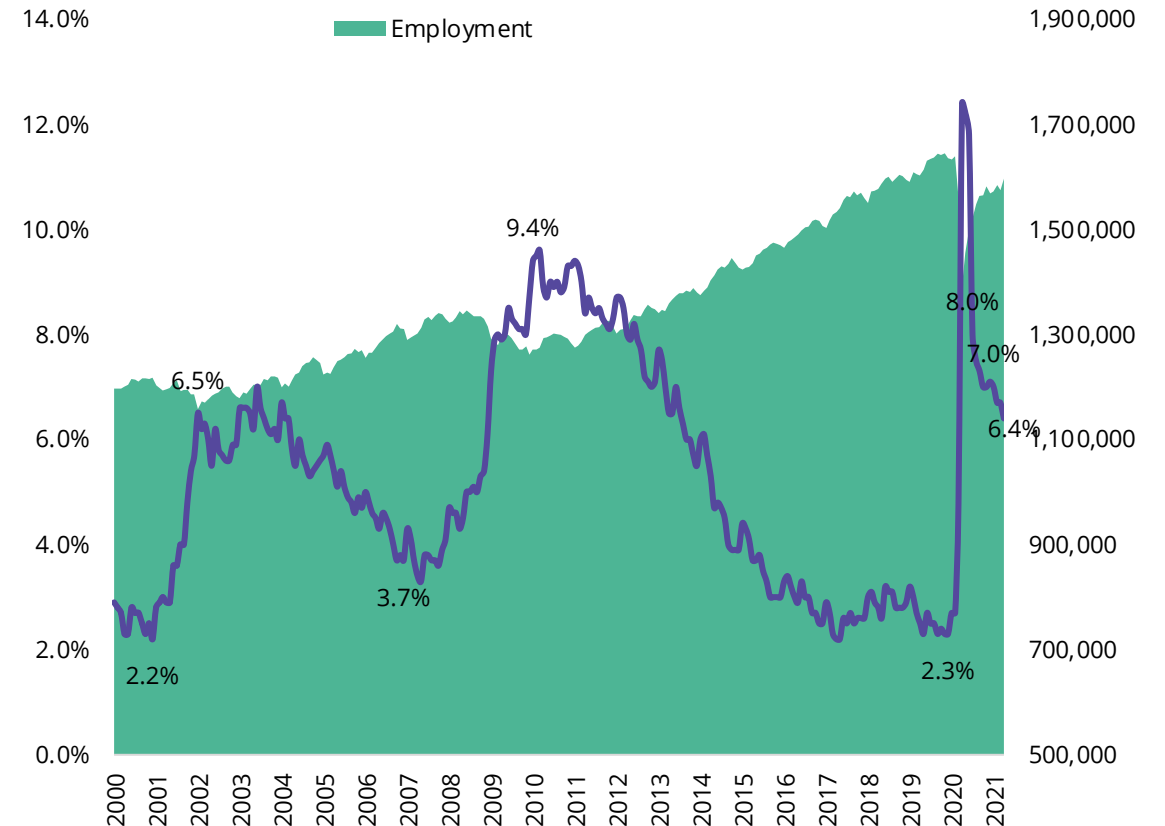


Employment and unemployment rate

6.4%

Denver MSA unemployment rate as of April 2021 is now approximately half the unemployment rate from April 2020 (12.4%).

Historically tightened labor market conditions were halted by the pandemic with 246,592 job losses between February and April 2020. However, reopening efforts enabled the Denver MSA to recover 83% of jobs lost at the height of the pandemic.



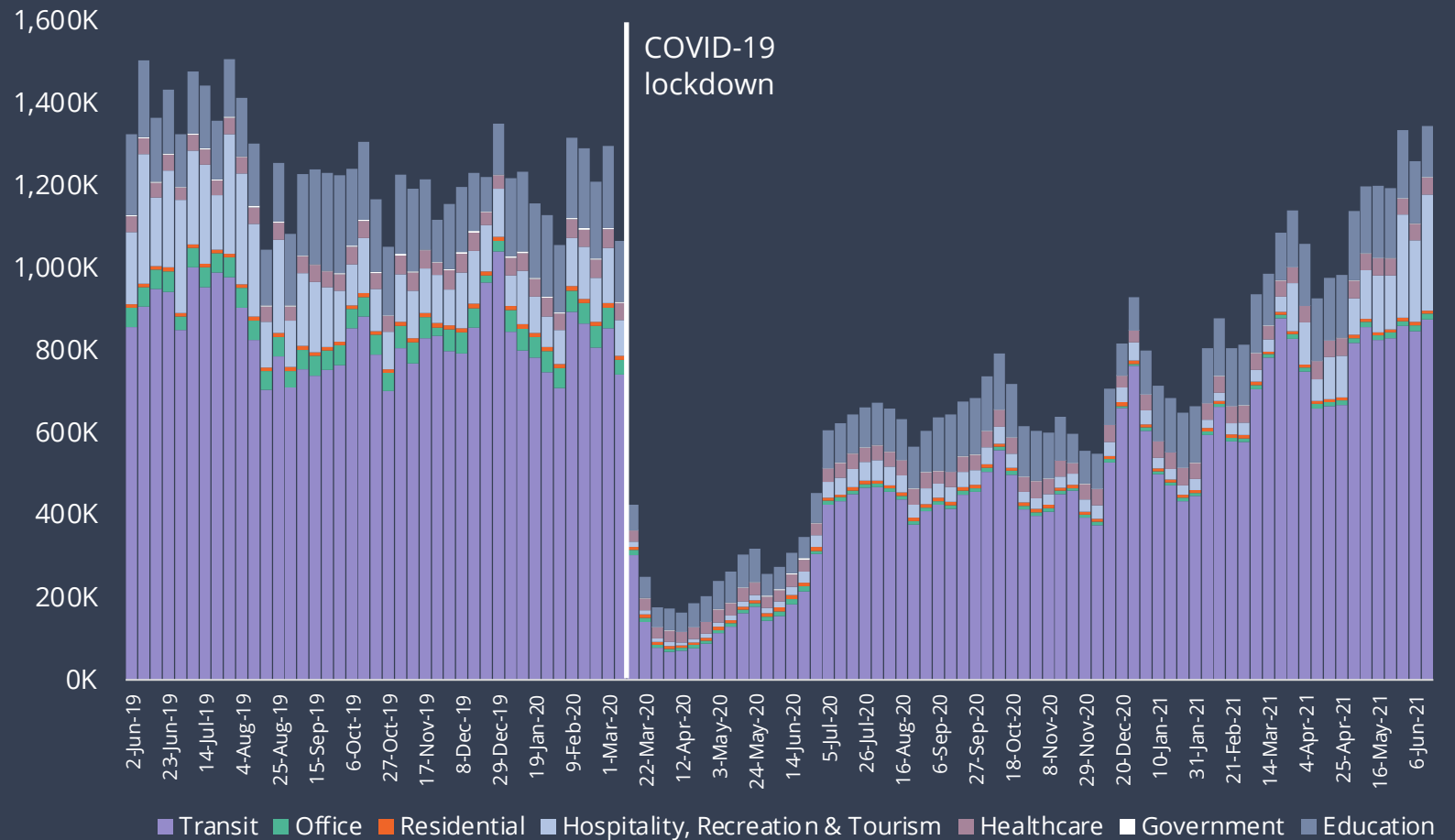
Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Recovery index

57.2%

Post-COVID rate of recovery based on representative locations through Q2 2021

Activity levels have steadily escalated and are now at pre-pandemic levels. Activity has increased by 336.7% year-over-year, underpinned by strong growth in hospitality (+1,296.7%) and transit (+376.0%).



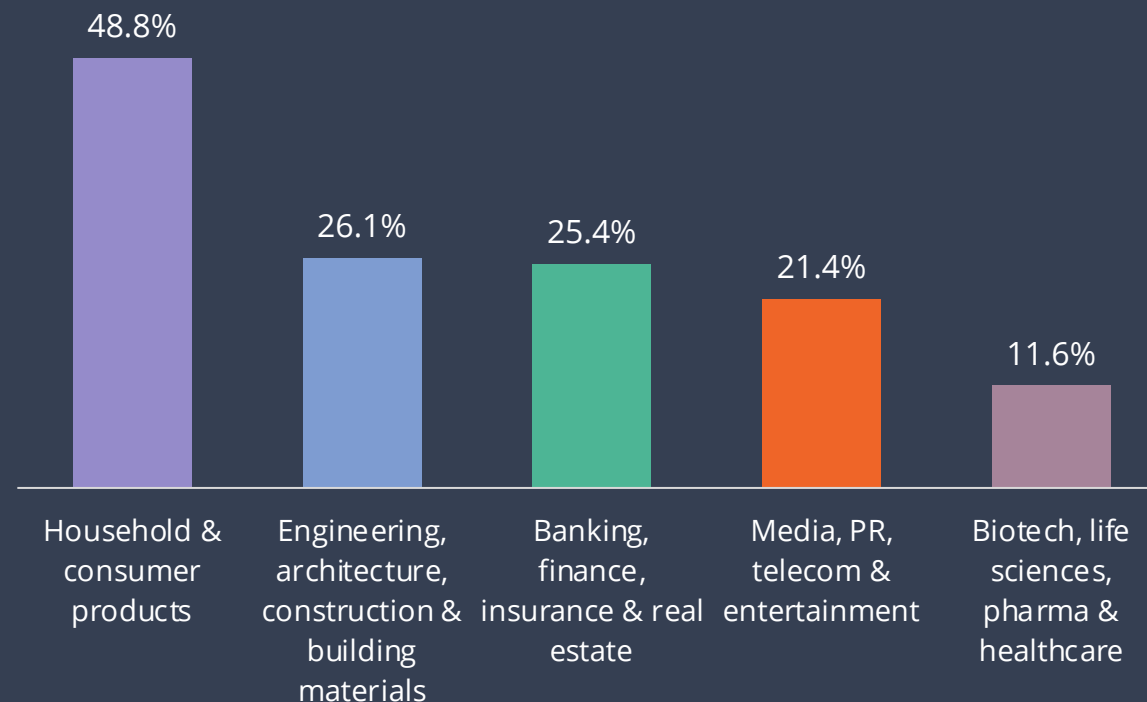
Note: Representative areas of interest.
Pre-COVID period measured as 12/1/2019 to 3/8/2020.
Post-COVID period measured as 3/15/2020 to 6/20/2021.
Source: Orbital Insights, AVANT by Avison Young

Recovery index for select office occupiers

21.1%

Post-COVID rate of recovery for representative Denver office occupiers through Q2 2021

Office employers have taken unique approaches in their return-to-work efforts, with financial services returning more quickly than tech and media firms. Bellwether firms, namely banks, are increasingly requesting their employees to return to the office by Labor Day, which should cause this recovery index to rise considerably.

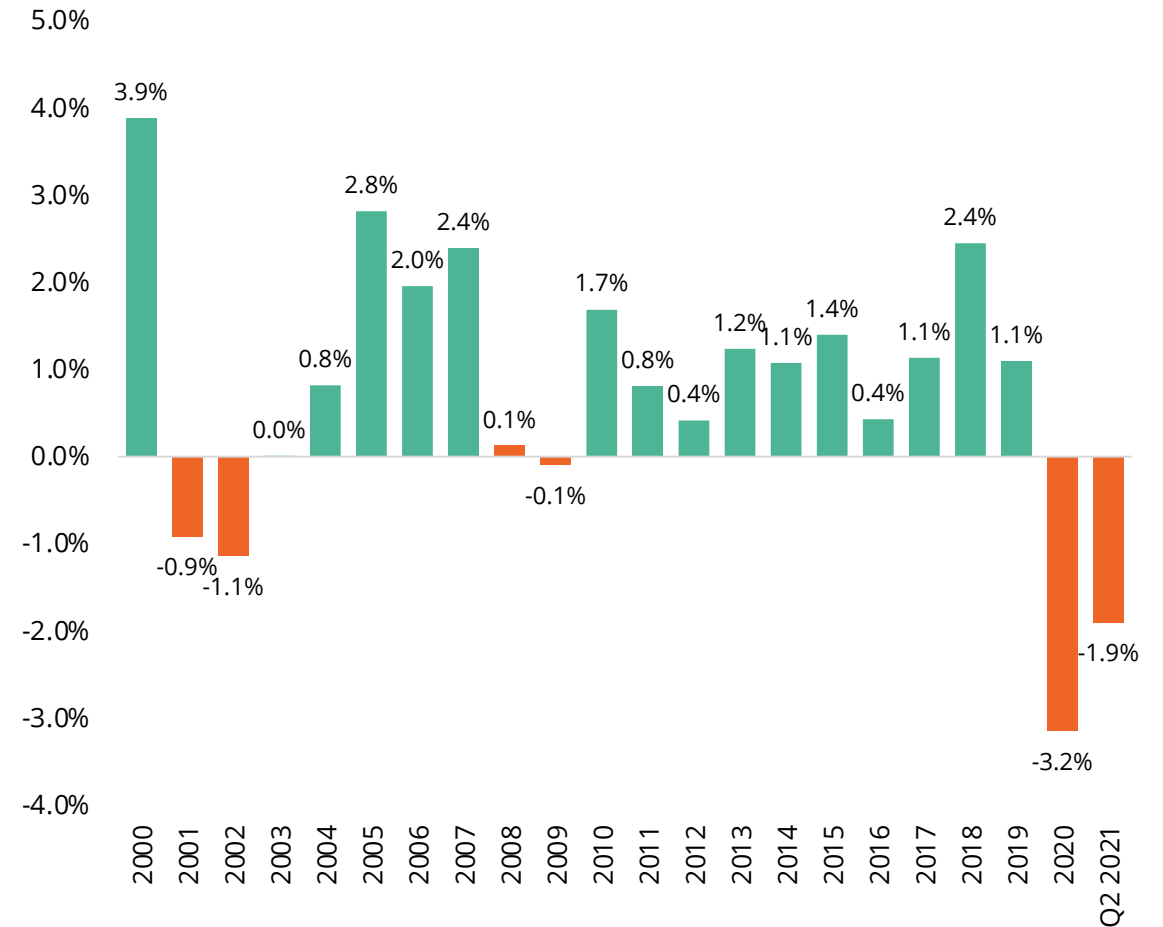


Note: Select, major occupiers only. Weekdays only.
Pre-COVID period measured as 6/1/2019 to 3/14/2020.
Post-COVID period measured as 3/15/2020 to 6/20/2021.
Source: Orbital Insights, AVANT by Avison Young

-2.5%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Negative absorption from Q1 2020 to Q2 2021 has totaled 6.2 million sf, representing -2.5% of the existing stock. The amount of negative absorption significantly surpasses the lows of the early 2000's recession (-1.0%) and global financial crisis (-0.1%).



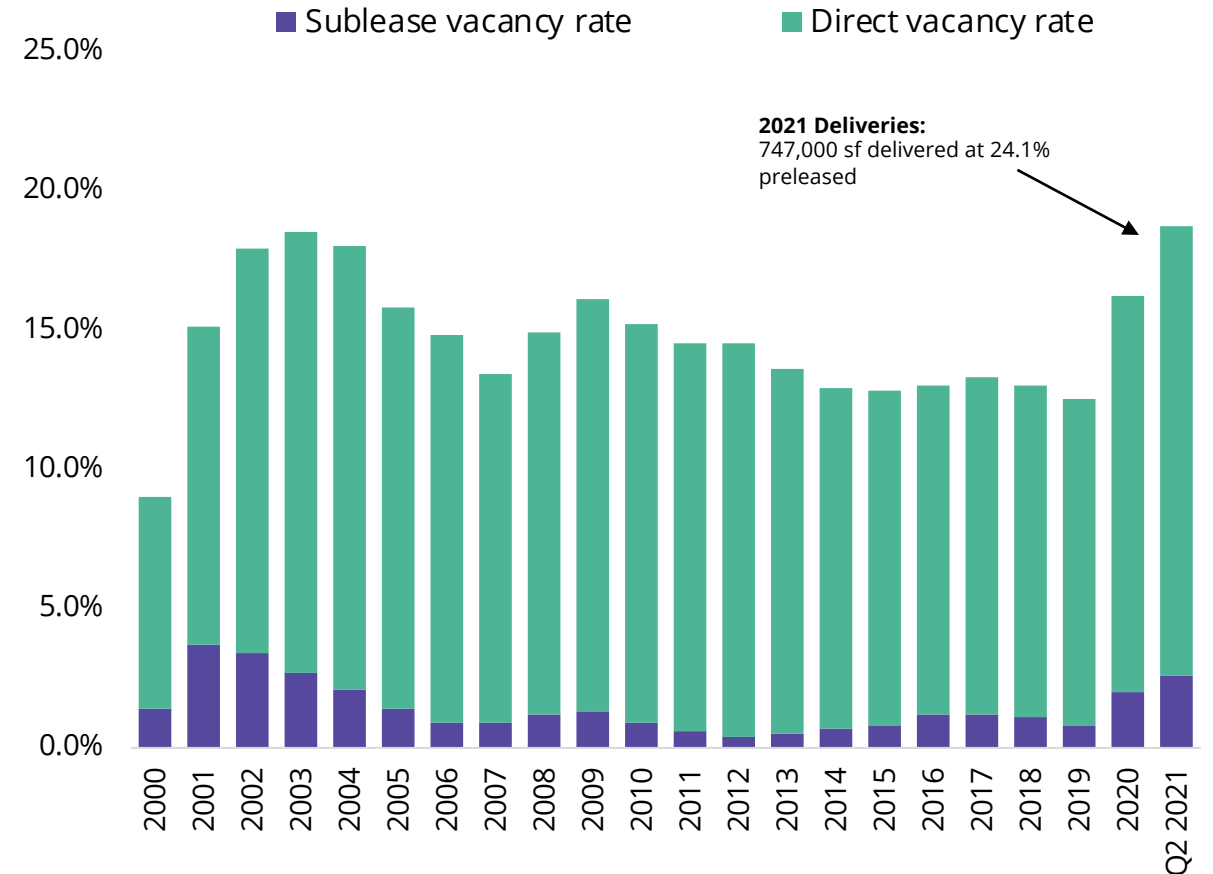
Source: AVANT by Avison Young

Vacancy rate

16.1%

Record high Denver direct vacancy as of Q2 2021

The Q2 2021 vacancy rate is a record high in terms of sublease, direct and total percentages. Reminiscent of the effects of the dot-com bubble, the pandemic has triggered a significant increase in sublet and direct vacancy.



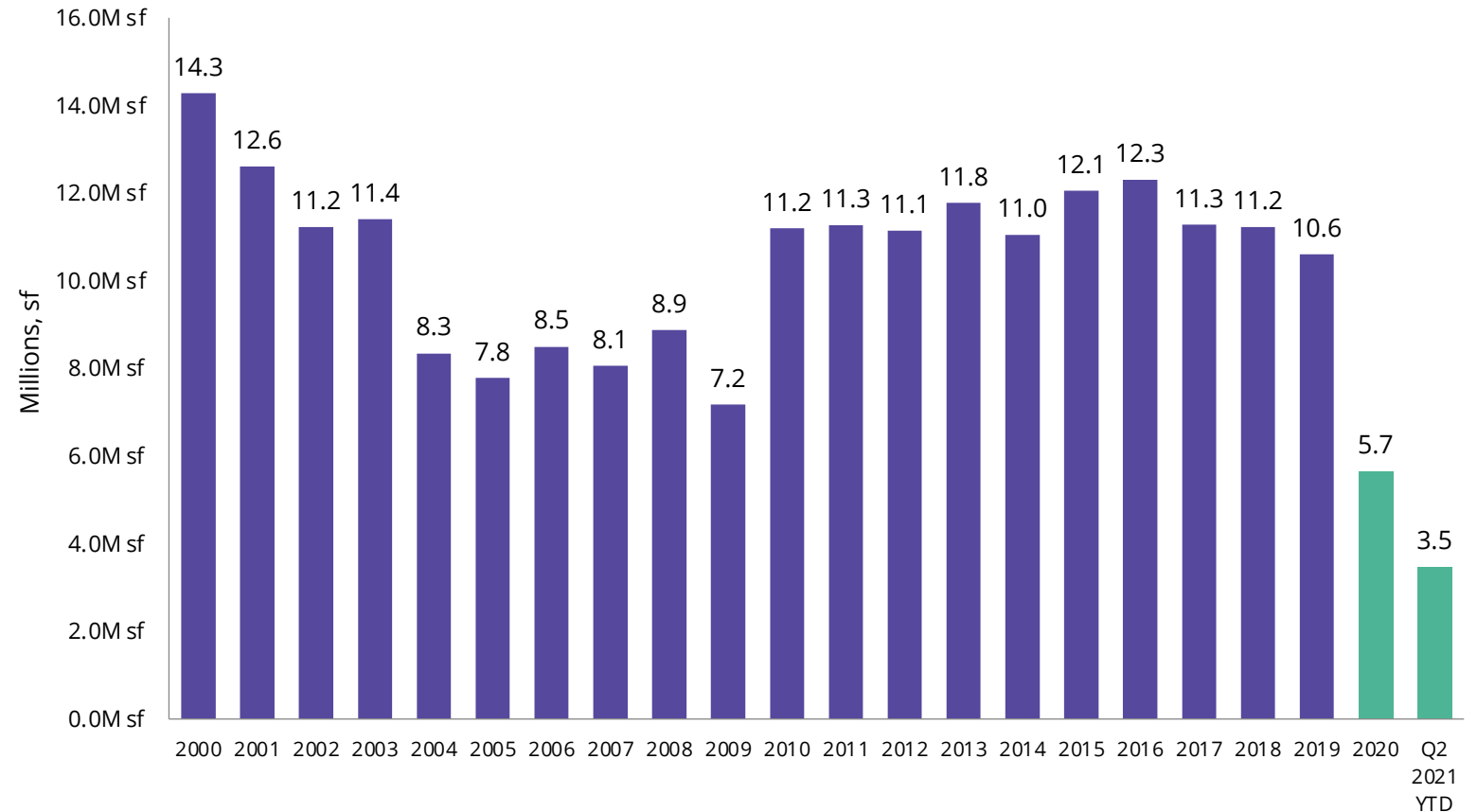
Source: AVANT by Avison Young

Office leasing activity

60.2%

Increase in leasing activity for Q2 2021 vs. Q2 2020

Though Denver is on track to surpass last year's leasing activity, ongoing recovery efforts coupled with local government policies post-pandemic could play a significant role.



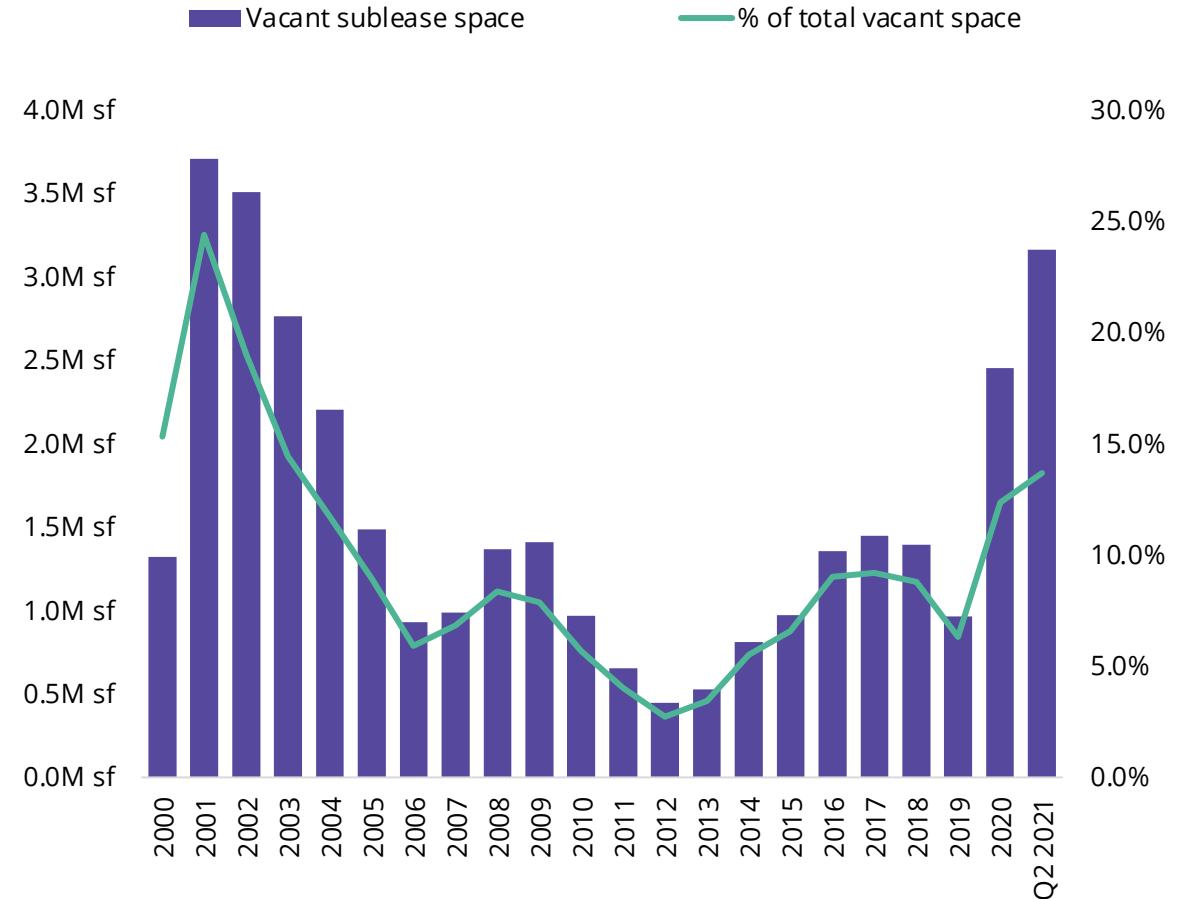
Source: AVANT by Avison Young

Vacant sublease space

3.16 msf

Record levels of sublease vacant space

Though the share of sublease-to-total vacant space of 13.7% stands below the early 2000's recession, sublease vacancy has grown by 707,091 square feet during 2021.



Source: AVANT by Avison Young

Denver office construction

8 properties

under construction

1.04 msf

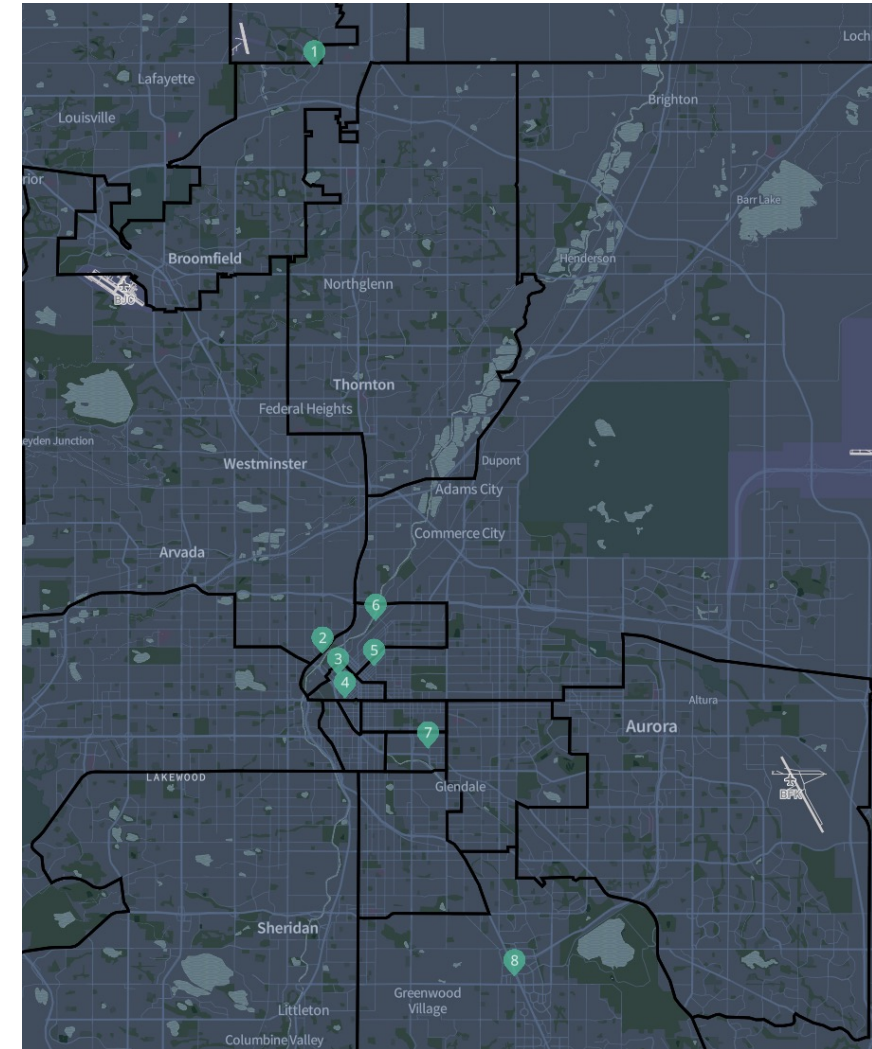
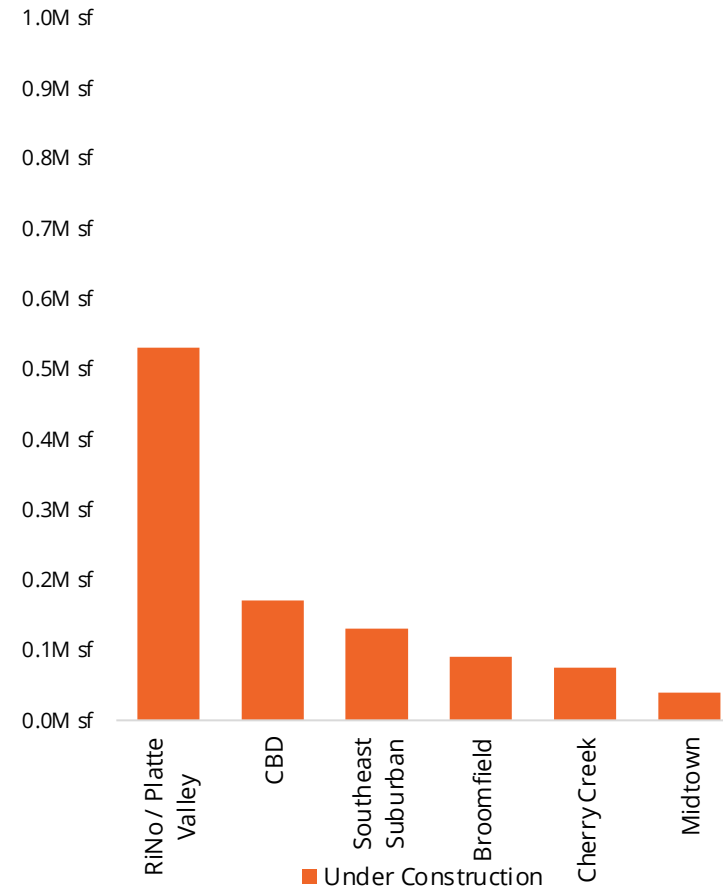
under construction

60%

Preleased space in under construction buildings

284,000 sf

expected to deliver in 2021



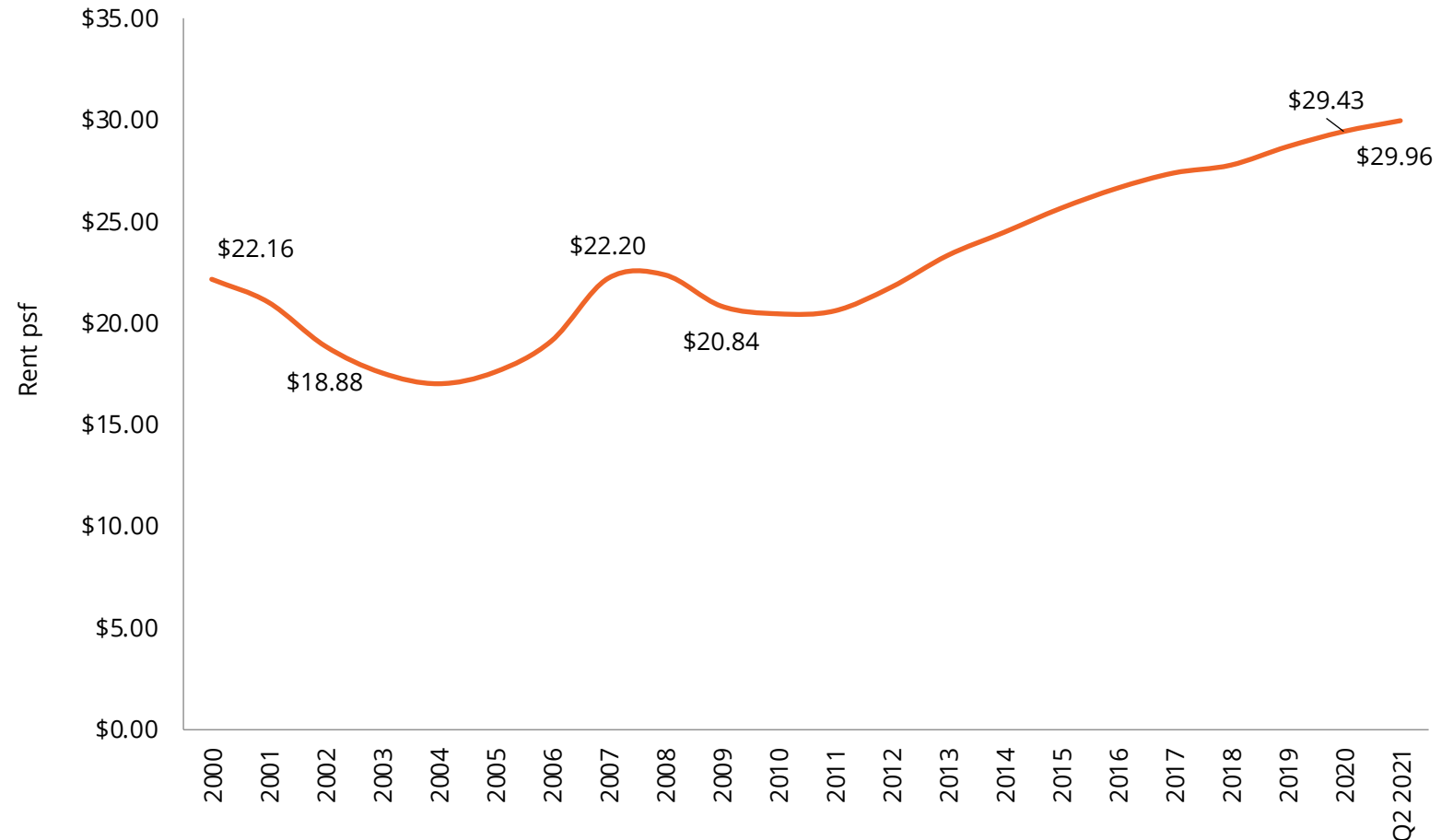
Source: AVANT by Avison Young

Base rents

\$29.96

Rates have held firm despite the pandemic

Though base rents have slightly softened following the pandemic and the resultant recession, rates have held firm when compared to the early 2000s (-17.8%) and the Great Recession (7.9%).



Source: AVANT by Avison Young

Core submarket totals

	CBD	Cherry Creek	Colorado Blvd / Southeast	RiNo / Platte Valley	Midtown	Aurora	Southeast Suburban
Total RBA	51,522,038 sf	2,222,215 sf	6,885,056 sf	4,395,308 sf	3,760,159 sf	5,076,783 sf	40,442,208 sf
Sublease vacant sf & Percentage	1,261,409 sf (4.0%)	0 sf (0.0%)	198,269 sf (2.9%)	104,352 sf (2.4%)	71,396 sf (1.9%)	10,363 sf (0.2%)	1,111,565 sf (2.7%)
Direct Vacant Percentage	18.0%	12.4%	18.6%	14.3%	11.5%	14.3%	17.0%
2021 YTD Net Absorption	-1,064,444 sf	46,665 sf	-135,024 sf	-64,351 sf	-97,784 sf	-55,686	-366,492 sf
2020 Net Absorption	-1,221,041 sf	-96,126 sf	-258,214 sf	7,604 sf	-40,762 sf	-127,174	-1,981,083 sf
2021 Deliveries	607,987 sf	-	139,065 sf	-	-	-	-
Under Construction	170,273 sf (2 buildings)	75,000 sf (1 building)	-	530,402 sf (2 buildings)	39,400 sf (1 building)	-	130,045 sf (1 building)
Total Office Pre-Leased	61.1%	89.2%	-	8%	36.4%	-	74.1%
Average Direct Asking Rent (FSG)	\$36.49	\$38.45	\$27.44	\$44.14	\$29.87	\$21.12	\$27.71

Core submarket totals

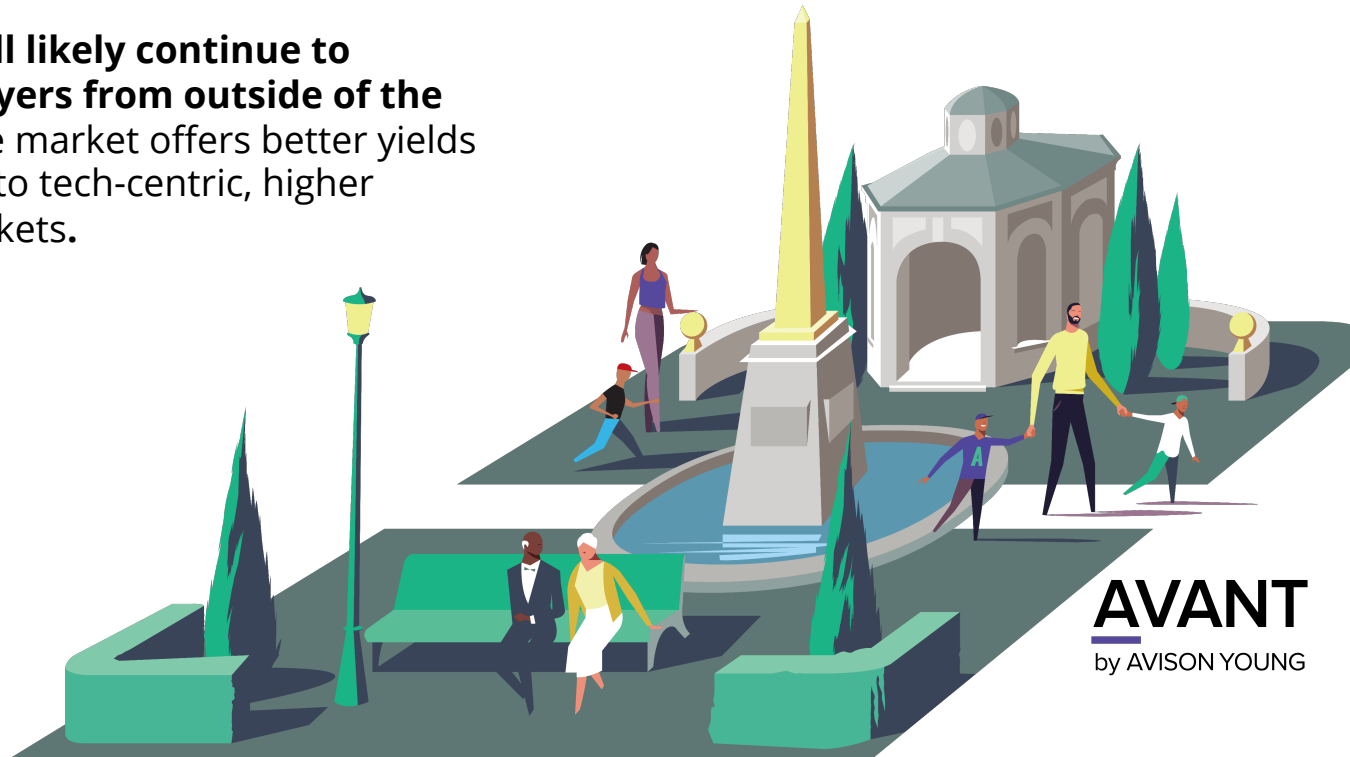
	Broomfield	North	Northeast	Northwest	Southwest	West
Total RBA	5,727,870 sf	2,267,256 sf	2,613,524 sf	4,201,657 sf	6,232,644 sf	8,363,146 sf
Sublease vacant sf & Percentage	35,455 sf (0.6%)	74,191 sf (3.3%)	42,097 sf (1.6%)	37,244 sf (0.9%)	60,661 sf (1.0%)	155,087 sf (1.9%)
Direct Vacant Percentage	11.8%	13.9%	8.3%	16.9%	12.1%	15.1%
2021 YTD Net Absorption	-122,786 sf	-5,535 sf	-38,909 sf	-121,178 sf	-134,552 sf	-198,085 sf
2020 Net Absorption	-29,141 sf	-14,964 sf	-5,975 sf	113,812 sf	-106,384 sf	-114,343 sf
2021 Deliveries	-	-	-	-	-	-
Under Construction	90,000 sf (1 building)	-	-	-	-	-
Total Office Pre- Leased SF	100%	-	-	-	-	-
Average Direct Asking Rent (FSG)	\$27.34	\$25.53	\$23.26	\$24.73	\$20.95	\$24.41

Looking forward



Here's what we can expect

- Companies have struggled to fill jobs due to the extra unemployment benefits given during the pandemic. As these benefits are removed, **the unemployment rate will decrease**, as more of the workforce returns by the end of 2021.
- Pushes for **return to the office by Labor Day could drive future leasing activity** as tenants that postponed their long-term occupancy strategies re-enter the market.
- **The supply of sublease space in the market should decrease** as companies take advantage of the pricing these spaces provide, as well as less space becoming available as companies return to the office.
- **Denver will likely continue to attract buyers from outside of the area** as the market offers better yields compared to tech-centric, higher priced markets.



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Let's talk

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