INVESTMENT FORECAST

Office

Denver

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Investors Prioritize The Mile High City; Fundamentals Pass Recovery Inflection Point

Deliveries tumble as absorption trends turn corner. A substantial rise in space available for sublease hit Denver in the year following the onset of COVID-19, especially in core areas. Demand has returned entering 2022, however, with subleasing trends now well below their peaks, especially in the central submarkets. In recent months, Deloitte, Datadog and PNC Bank all signed leases to fill a combined 70,000 square feet downtown. The volume of space available for sublease should decline further this year as less new space is developed. Completions are down from pre-pandemic yearly totals, and much of the pipeline is build-to-suit or already leased. At the same time, firms re-entering offices will aid vacancy and rent downtown, as the space available for sublease drops, and outside the core, where fundamentals were relatively healthier during the downturn. In addition, policies to entice future arrivals could draw more coastal firms into Denver's office space.

Investment and leasing activity return in concert. After receding due to pandemic uncertainty, transaction activity downtown has increased and driven the overall number of deals above 2019 levels. Confidence from investors stems from an eventual return to in-person work and the metro's tendency to attract cost-conscience tech companies. Denver's recovery potential is high because entry costs are low compared to tech hubs like Austin, Seattle and the Bay Area, leading to high levels of out-of-state investor demand. Class A office buildings have been most frequently traded near DTC in the southeastern corridor, downtown and in Broomfield. First-year yields are in the high-4 percent range for the downtown transactions but can climb as much as 200 basis points higher in the suburban locations. Investors looking for lower-than-market-average prices have been successful targeting Class B/C assets under 100,000 square feet in highly commutable Southeast Denver, achieving cap rates close to 6 percent on most trades.

2022 Market Forecast

Employment up 2.9% — The gain of 45,000 roles is nearly half of last year's additions. Moreover, 19,000 of the jobs are traditionally office-using spots.

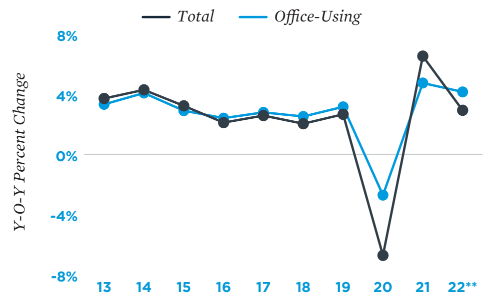
Construction 1,400,000 sq. ft. — Deliveries represent roughly a 0.8 percent increase to existing inventory. This is down from the 1.2 percent rise resulting from last year's completions.

Vacancy down 60 bps — Net absorption stemming from job expansion will contract the vacancy rate in Denver to 18.6 percent, leaving availability 530 basis points above pre-pandemic levels.

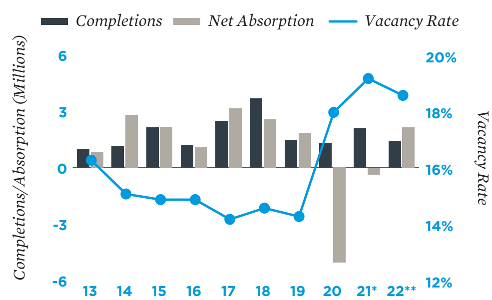
Rent up 1.3% — The average asking rent reaches $24.10 per square foot in 2022, driven by high-end completions in the core and a decrease in space available for sublease.

Investment — Broomfield has seen a rise in transaction volume recently. This trend will likely continue as RTD's B-line expands, allowing workers to commute here from both Boulder and Denver.

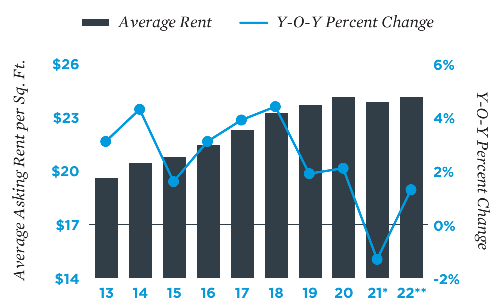
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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