

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-conscious 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.

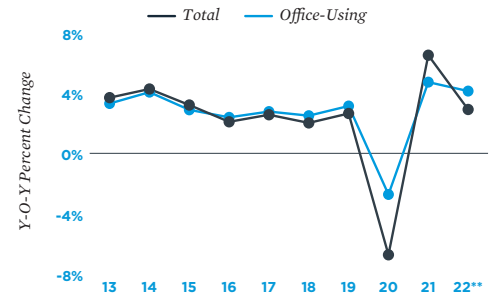
Deliveries represent roughly a 0.8 percent increase to existing inventory. This is down from the 1.2 percent rise resulting from last year's completions.
- Vacancy** down 60 bps

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%

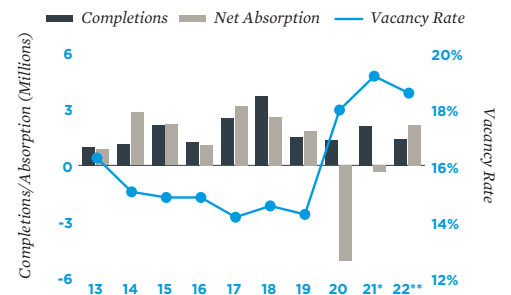
The average asking rent reaches \$24.10 per square foot in 2022, driven by high-end completions in the core and a decrease in space available for sublease.
- Investment**

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.

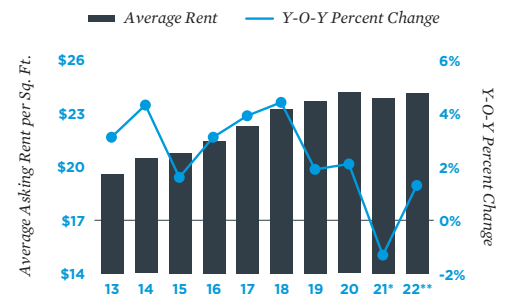
Employment Trends



Supply and Demand



Rent Trends



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

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.