MARKET REPORT

Office

Denver Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

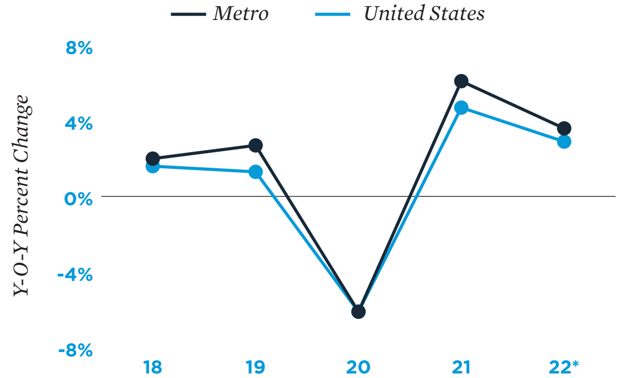
4Q/22

Suburban Office Occupancy Exhibiting Resurgence; Northwest and Southern Submarkets Lead the Way

Availability tightening in specific locale. Vacancy in the northwest portion of the metro expanded by triple-digit basis points between 2020 and 2021, reflecting metrowide performance. However, the submarkets of Broomfield and Northwest Denver — spanning Arvada and Westminster — have since experienced a reversal. In both areas, availability was down over 200 basis points year-over-year at the mid-point of 2022. These submarkets have fared well in their pandemic recovery, given their discounted asking rents and larger local talent pools. Of late, engineering-centric businesses have accounted for the most new leases here, as these submarkets' relative proximity to the University of Colorado, a nationally-recognized program, offers benefit to recruiters.

Tech Center fundamentals improving. Down over 100 basis points from record highs in 2021, vacancy in the Southeast Denver submarket, home to the Denver Tech Center, has started its push toward pre-pandemic levels. The submarket registered positive net absorption of 550,000 square feet during the four-quarter period ending in June, with Starz Entertainment committing to 100,000 square feet in September. As local fundamentals begin their recovery, approximately 600,000 square feet of space is underway. Fortunately, 60 percent of this space was pre-leased as of August. The well accounted for construction pipeline and overall improvement in tenant demand offer reasons for optimism in Denver's largest submarket, which accounts for nearly 30 percent of total stock.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook

55,000 JOBS
will be created

EMPLOYMENT:

Backed by continued expansion in the Denver Tech Center, year-over-year employment is set to increase by 3.6 percent in 2022. This continued job growth will result in traditional office-using employment rising by 4.7 percent this year.

750,000 SQ. FT.
will be completed

CONSTRUCTION:

Development will increase total inventory by just 0.4 percent in 2022, the metro's smallest increase since 2011. With supply additions dropping below 1 million square feet for the first time since 2013, existing space should face less competition drawing tenants.

10 BASIS POINT
decrease in vacancy

VACANCY:

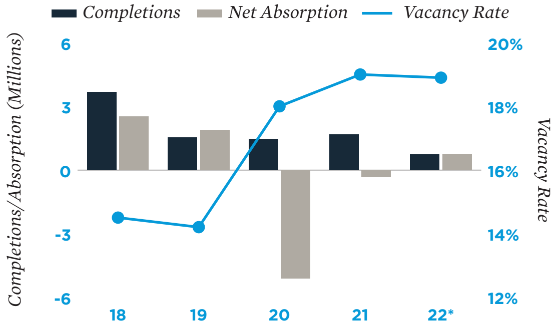
The return of local tech and business services companies to in-person operations helps availability tighten by year-end. This will drop vacancy to 18.9 percent, the metro's first annual compression since 2019.

1.9% INCREASE
in asking rent

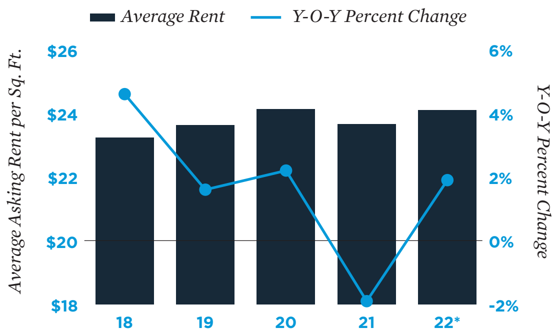
RENT:

Positive net absorption and moderately tightening conditions back average asking rent growth, extending this metric to $24.10 per square foot. Following declines last year, the rate will return within 0.4 percent of the all-time high.

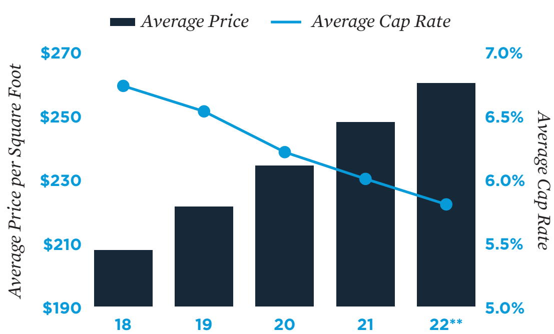
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

2Q 2022 - 12-Month Period

CONSTRUCTION

759,000 sq. ft. completed

- Supply additions over the previous 12 months ending in June dropped nearly 70 percent from the same span in 2021.
- Projects in Downtown and Parker-Castle Rock accounted for roughly 70 percent of recent supply additions. A 250,000-square-foot property near Hirshorn Park highlighted the list of completions.

VACANCY

50 basis point decrease in vacancy Y-O-Y

- Class A vacancy compressed 40 basis points over the past year, the sector's first annual decline in nine quarters.
- The CBD's vacant stock expanded by more than 260,000 square feet over the past year, raising availability 50 basis points to a historical high of 26.6 percent in June.

RENT

0.2% increase in the average asking rent Y-O-Y

- Broomfield and Southwest Denver experienced double-digit asking rent growth of 16.5 and 10.3 percent, respectively, over the yearlong period.
- Slow progression toward in-office operations continues to weigh on CBD rents, with the average asking rate here dropping 2.4 percent year-over-year in the second quarter to $26.99 per square foot.

Investment Highlights

- Improving market fundamentals over the previous four quarters ending in June spurred investor confidence in the Denver office market. This correlated to a continued influx of out-of-state purchasers, heightened competition for listings and greater transaction velocity, with deal flow up nearly 70 percent annually through midyear. West Denver, spanning Lakewood to Golden, accounted for the most deals of any submarket, as investors seek below-average purchase prices in areas exhibiting strong or recovering fundamentals.
- Over the trailing 12 months ending in June, the average sale price reached $260 per square foot, a 7.9 percent increase year-over-year. This resulted in a near 170 percent jump in dollar volume, and a 30-basis-point drop in the average cap rate to 5.8 percent.
- Institutional investors continued to expand their Mile High portfolios throughout the year. Of all transactions larger than 10,000 square feet, nearly one quarter were priced at $20 million or more, with most properties located in Broomfield County and the Denver Tech Center. As hiring and in-person employment initiatives continue in the metro, these locales are likely to remain target destinations for investors.

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