



Office Q4 2021

YoY  
Chg 12-Mo.  
Forecast**19.9%**

Vacancy Rate

**-108K**

Net Absorption, SF

**789K**

Under Construction, SF

**\$31.13**

Asking Rent, PSF



(Overall Gross, All Property Classes)

**ECONOMIC INDICATORS  
Q4 2021**YoY  
Chg 12-Mo.  
Forecast**1.5M**Denver  
Employment**5.3%**Denver  
Unemployment Rate**4.2%**U.S.  
Unemployment Rate

Source: BLS, Moody's Analytics

**ECONOMY: Another COVID Variant Emerges, Recovery Holding Firm**

Metro Denver's unemployment rate dropped to 5.3% in the fourth quarter 2021, a decline of 80 basis points (bps) against the 6.1% rate reported a quarter earlier and a 190-bps decline over the 7.2% seen a year ago. Nonfarm employment climbed above 1.5 million in the fourth quarter 2021, with 76,600 jobs added over the past year or an increase of 5.3%. Inflationary pressures persisted during the final months of 2021 as the Denver Metro witnessed a 6.5% increase in the cost of all items year-over-year (YOY). The emergence of the Omicron variant in December and subsequent spike in positive cases could cause more companies to delay return-to-office plans yet again and dampen the recent recovery in office occupancy.

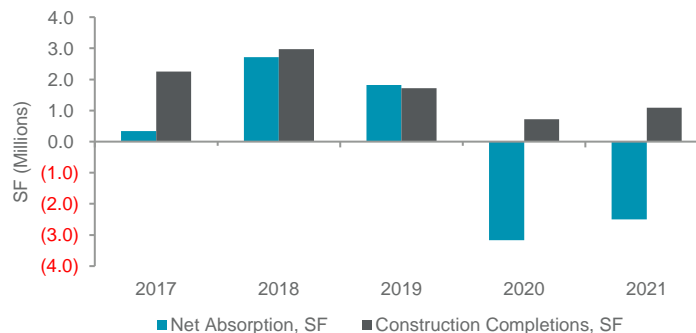
**SUPPLY: Vacancy Rose 220 Basis Points in 2021, Ends Year at 19.9%**

Vacancy rates were more stable in the fourth quarter 2021, with the metro average sitting just under 20.0%. This represents an increase of 220 bps against the 17.7% rate reported at the end of 2020. After troughing at 14.0% pre-COVID-19 in the first quarter of 2020, vacancies are up an average of nearly 600 bps. On a direct basis, vacancy rates averaged 17.7% in the fourth quarter 2021, an increase of 260 bps YOY.

By subtype, Class A direct vacancy ended 2021 at 17.3%, an increase of 330 bps YOY, while Class B direct vacancy stood at 19.4%, an increase of 200 bps YOY. The higher jump in Class A direct vacancy is largely associated with the delivery of some new construction that remains vacant. Sublease vacancy, which has increased considerably during the COVID-19 pandemic, eased in the second half of 2021 and stood at 2.8 million square feet (msf) by the end of 2021. This is the lowest level since the third quarter 2020 and is down from a peak of 3.3 msf in the second quarter of 2021.

**PRICING: Average Asking Rates See Moderate Growth in 2021**

The average asking rent for office space in the Denver Metro ended 2021 at \$31.13 per square foot (psf), a 5.1% increase over the average rent recorded in the fourth quarter of 2020. While some landlords were able to slightly increase asking rates during 2021 despite broader conditions of elevated vacancy and abundant sublease space, the increase was in large part driven by the greater proportion of available Class A direct space than Class B direct space this year compared to levels seen in 2020. New construction deliveries with premium rents were also a factor, but to a lesser degree. On a direct basis, Class A asking rents averaged \$35.89 psf, an increase of 4.3% YOY. Class B direct asking rents averaged \$26.83 psf, an increase of 3.7% YOY that was largely the byproduct of an increase in weighting among available, higher-priced Class B space in the Central Business District (CBD).

**OFFICE SPACE DEMAND & DELIVERIES****DIRECT VACANCY & ASKING RENT**

# DENVER, COLORADO

Office Q4 2021



## ACTIVITY: Leasing Activity Sees a Rebound in the Second Half of 2021

Fourth quarter 2021 leasing activity totaled 1.9 million square feet (msf), which followed on the heels of the highest quarterly total since the beginning of 2020. Resurgent activity in the second half of 2021 brought the annual total to 7.2 msf, a promising 23.3% increase over the total seen in 2020. While some tenants are following the flight-to-quality trend within the core submarkets, it was the Class B sector that posted an increased share of leasing activity in 2021. More tenants seemingly opted for more cost-effective options amidst the downturn including competitive sublease space.

Notable activity in the fourth quarter 2021 was led by York Space Systems' 138,100-square-foot new lease at 6060 South Willow Drive in the Denver Tech Center micro-market, another example of Denver's growing and increasingly prominent Aerospace industry. Rounding out the quarter's top new leases were AT&T's sublease at 7670 South Chester Street in Inverness/Panorama and Ball Aerospace's expansion in the Northwest Corridor. The Central Business District (CBD) recorded a handful of new leases in the 20,000 to 40,000 square foot range primarily in Class A buildings.

## ABSORPTION: Net Absorption Slightly Negative, Best Quarterly Performance Since Q1 2020

Net absorption for the fourth quarter 2021 amounted to negative 105,700 square feet, the best quarterly performance since the first quarter of 2020. For the year, net absorption totaled negative 2.5 msf, a considerable improvement over the negative 3.2 msf witnessed in 2020. The Class A subtype saw negative net absorption of roughly negative 740,000 sf, while the Class B subtype saw nearly double that amount of negative 1.5 msf. As one might expect, it was the metro's two largest submarkets that saw the largest contractions in demand, with the CBD and Southeast Suburban submarkets recording a combined negative 1.5 msf, or 60.5% of the metro's total net absorption in 2021. Expectations of improved leasing activity into 2022 will push net absorption levels toward positive territory, but with new COVID-19 variants emerging and more occupiers adopting hybrid work models, the recovery could be more prolonged than anticipated.

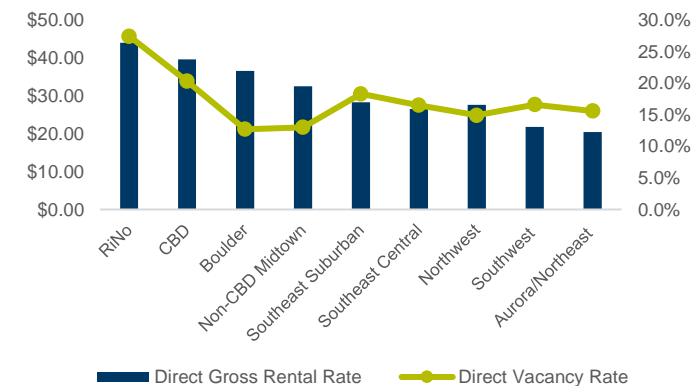
## CONSTRUCTION: Construction Pipeline Remains Moderate, Will Increase in 2022

The fourth quarter 2021 saw the delivery of another office building, namely 240 Saint Paul Street located in the Cherry Creek micro-market. The completion of the fully preleased 64,000-square-foot building brought the 2021 new construction delivery total to 1.1 msf. New construction underway amounts to approximately 790,000 sf split among five properties after Hines' T3 development in RiNo kicked off this quarter. The project spans roughly 215,000 sf and is expected to deliver in late 2023. Several projects are set to enter the pipeline in 2022, including 1900 Lawrence Street, a 700,000-square-foot office building in the CBD's Midtown micro-market and 235 Fillmore Street in the Cherry Creek micro-market.

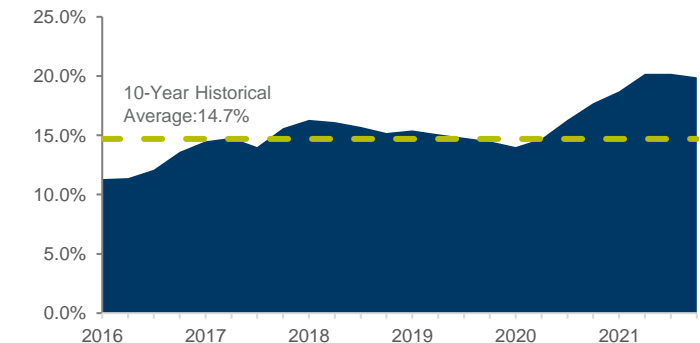
## OUTLOOK

- The spike in COVID-19 cases associated with the Omicron variant may further delay companies return-to-office plans and dampen the recent recovery in office occupancy in the near-term.
- Net absorption of both direct and sublease space will begin to trend positive in 2022 as more tenants reoccupy offices, putting gradual downward pressure on the market's elevated vacancy.
- More sustained leasing activity is expected due to tenants reassessing space requirements and identifying longer-term strategies. Shorter-term leases, spec suites and the flight-to-quality will remain prevalent.
- With most landlords having kept rents stable during the pandemic, future declines, if any, will be limited.
- Successful leasing of new construction will spur another wave of development in 2022, with one or more projects set to break ground in each of the CBD, Southeast Suburban, Cherry Creek, RiNo and Boulder office markets.

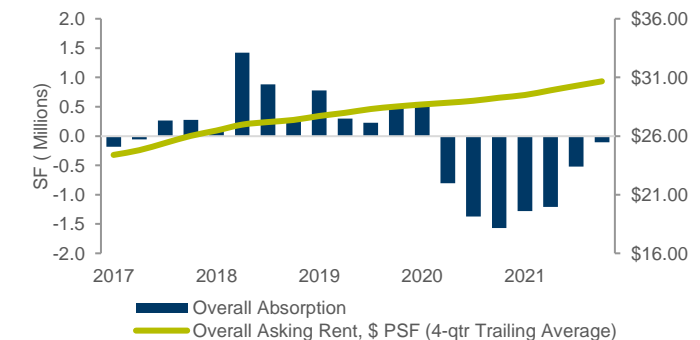
## SUBMARKET COMPARISON



## OVERALL VACANCY VS. HISTORICAL AVERAGE



## ABSORPTION VS. OVERALL ASKING RENT





## MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)	OVERALL AVG ASKING RENT(CLASS A)
Boulder	6,060,559	769,365	131,049	14.9%	29,551	33,872	417,792	0	\$36.49	\$46.63
Midtown (Non-CBD)	3,802,839	495,128	41,027	14.1%	-8,690	-96,604	103,233	0	\$32.26	\$44.75
CBD	32,042,338	6,493,176	1,146,071	23.8%	-16,295	-780,951	1,936,370	238,811	\$38.75	\$42.36
RiNo	2,110,579	579,074	58,355	30.2%	7,650	-62,582	179,533	444,913	\$43.73	\$45.98
Aurora/Northeast	7,738,690	1,208,345	219,883	18.5%	-55,568	-244,934	285,820	0	\$21.01	\$24.09
Northwest	14,368,565	2,137,237	187,282	16.2%	-43,724	-390,753	732,381	0	\$27.47	\$29.99
Southeast Suburban	33,846,120	6,183,625	838,278	20.7%	-186,775	-728,179	2,199,562	33,677	\$28.20	\$30.61
Southeast Central	11,091,468	1,833,231	36,934	17.9%	120,860	-151,137	781,702	71,459	\$26.38	\$29.74
Southwest	9,388,012	1,561,234	107,191	17.8%	47,724	-73,529	533,334	0	\$21.84	\$26.94
Denver Totals	120,449,170	21,260,415	2,766,070	19.9%	-105,717	-2,494,797	7,169,747	788,860	\$31.13	\$35.27

\*Rental rates reflect full service gross asking. \*\*Renewals not included in leasing statistics

## KEY LEASE TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
6060 South Willow Drive (East Village)	SES (Denver Tech Center)	York Space Systems	138,125	New Lease
7670 South Chester Street (Panorama Corp. Center)	SES (Inverness/Panorama)	AT&T	70,824	Sublease
10385 Westmoor Drive (Westmoor Tech Park)	Northwest (Northwest Corridor)	Ball Aerospace	40,682	New Lease
1515 Arapahoe Street (Park Central)	CBD (Midtown)	Gusto	36,368	New Lease
1001 17th Street	CBD (Midtown)	Great Western Oil & Gas	35,088	New Lease
1801 California Street	CBD (Midtown)	Summit Materials	33,191	New Lease

## KEY SALES TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	BUYER / SELLER	RSF	PRICE / \$ PSF
Gateway Centre (4 Building Portfolio)	Aurora/Northeast	Flywheel Capital   Equus Capital Partners	299,613	\$66.9M / \$223
Creekside Business Park (3 Building Portfolio)	Northwest (Longmont)	CapRidge Partners   Brass Real Estate	257,266	\$37.8M / \$147
3600 Brighton Boulevard (Revolution 360)	RiNo	Shorenstein   Haselden Construction	160,000	\$72.0M / \$450
8480 East Orchard Road (Orchard Pointe)	SES (Denver Tech Center)	Alturas   Cress Capital	121,000	\$21.0M / \$173

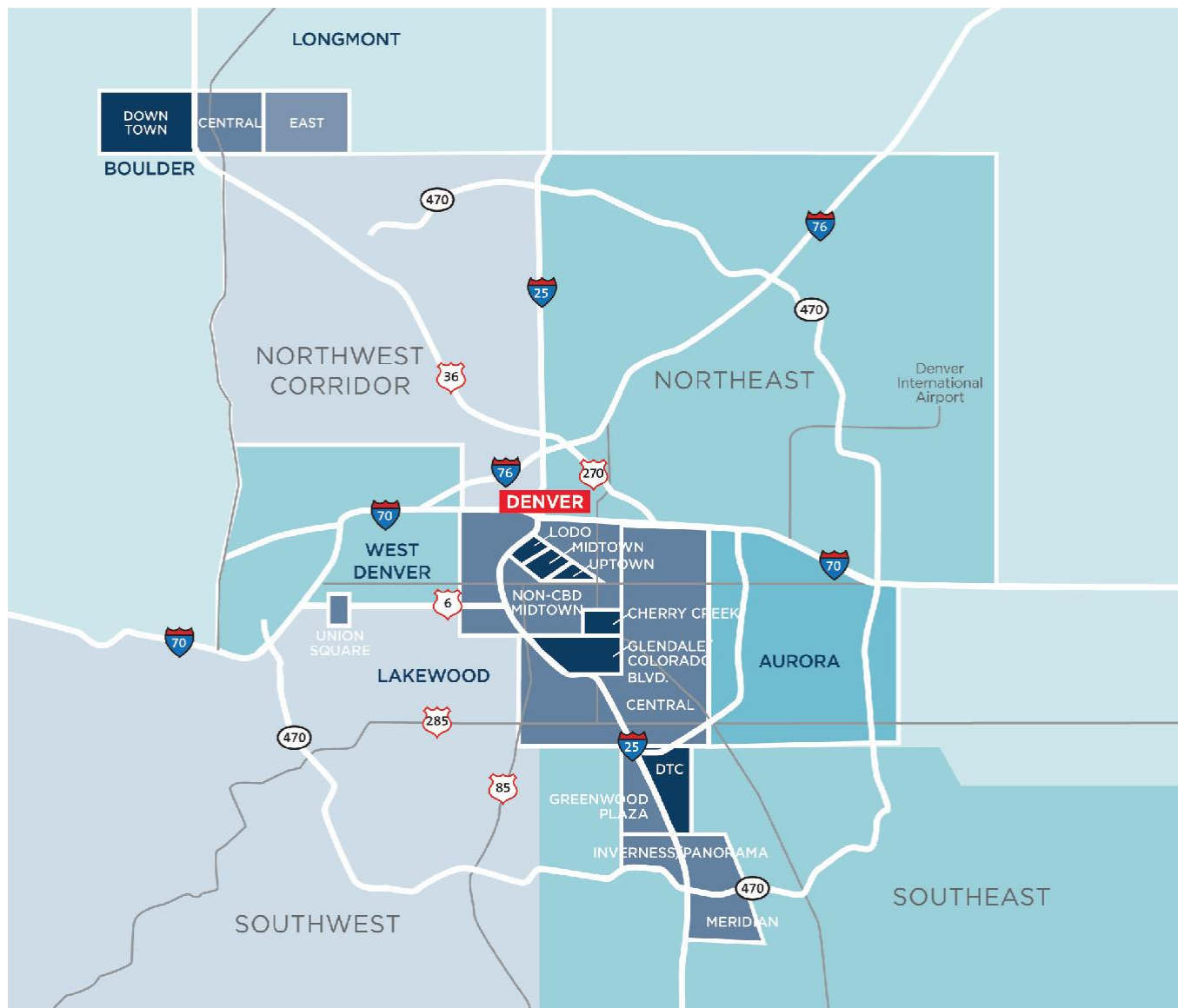
## KEY CONSTRUCTION/RENOVATION COMPLETIONS Q4 2021

PROPERTY	SUBMARKET	MAJOR TENANT(S)	RSF	OWNER / DEVELOPER
240 Saint Paul Street	Southeast Central (Cherry Creek)	Equinox	64,000	BMC Investments



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