



Office Q2 2022

YoY  
Chg 12-Mo.  
Forecast

20.6%

Vacancy Rate



-843K

Net Absorption, SF



1.9 MSF

Under Construction, SF



\$31.36

Asking Rent, PSF



(Overall Gross, All Property Classes)

ECONOMIC INDICATORS  
Q2 2022YoY  
Chg 12-Mo.  
Forecast

1.6M

Denver  
Employment

3.5%

Denver  
Unemployment Rate

3.6%

U.S.  
Unemployment Rate

Source: BLS, Moody's Analytics

## ECONOMY: Unemployment Drops to 3.5%, Runaway Inflation Countered with Interest Rate Hikes

Metro Denver's unemployment rate dropped to 3.5% in the second quarter 2022, down 60 basis points (bps) from the prior quarter's 4.1% rate but still above the pre-pandemic low of 2.3% in late 2019. Nonfarm employment also continued to improve, rising to nearly 1.6 million after 69,700 jobs were added during the quarter. Inflation has continued to increase at a breakneck pace. As of May 2022, the cost off all items is up 8.1% on the year. Recessionary concerns are beginning to mount as the Federal Reserve acts to temper runaway inflation. The Fed raised its benchmark rate by 75 bps in June and is likely to hike rates another 50 to 75 bps in July.

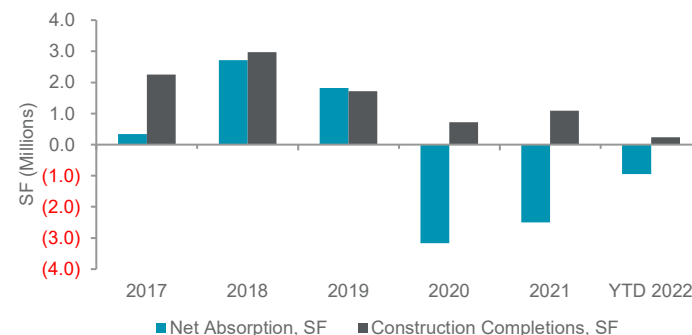
## SUPPLY: Vacancy Back on the Upswing, Sublease Availability Surpasses 5.0 Million Square Feet

Office vacancy held largely stable for two straight quarters leading up to the second quarter of 2022, when vacancy rates rose by a higher-than-expected 70 bps to reach an average of 20.6%. On an annual basis, overall vacancy is up 130 bps from 19.3%, which is a notable improvement on the 510 bp increase seen during the prior 12-month period. With tenant downsizing outpacing expansions, vacancy increased in both the Central Business District (CBD) and non-CBD submarkets in the second quarter 2022. CBD vacancy continues to increase at a more accelerated pace than non-CBD vacancy. CBD vacancy rose to 26.4% in the second quarter 2022, increases of 150 bps quarter-over-quarter (QOQ) and 290 bps year-over-year (YOY). Non-CBD vacancy rose to 18.5%, increases of 40 bps QOQ and 70 bps YOY. On a direct basis, Class A vacancy increased 60 bps QOQ to 17.9% and is up 80 bps YOY. Class B direct vacancy rose 50 bps QOQ to 19.8% and is up 170 bps YOY. Higher leasing volume and more sustained occupancy in Class A space is supporting more stable vacancy rates, while Class B vacancy has been more volatile due to lower leasing volume and much higher negative absorption. After trending downward for most of 2021, sublease availability was on the rise again in the first half of 2022, having surpassed 5.0 million square feet (msf) for the first time since the COVID-19 pandemic and rivaling levels last seen following the Dot-com bust.

## PRICING: Asking Rents Largely Unchanged in Q2 2022

The average asking rent for the Denver Metro continued its slight upward trajectory in the second quarter 2022, reaching \$31.36 per square foot (psf). This represents a 0.3% increase QOQ and an increase of 2.1% on the \$30.70 psf average from a year earlier. Average asking rents in the CBD and non-CBD submarkets are trending in opposite directions. The CBD average has been trickling downward over the past year, reaching \$38.26 psf or a decrease of 2.3% YOY that has been underpinned by the proportionate increase in lower priced space. Outside the CBD, the average asking rent has increased 2.1% YOY and is more directly linked to some landlords slightly pushing rates.

## OFFICE SPACE DEMAND &amp; DELIVERIES



## DIRECT VACANCY &amp; ASKING RENT



# DENVER, COLORADO

Office Q2 2022



## ACTIVITY: Leasing Activity Falls Back to Levels Seen in 2021

Metro-wide leasing activity slowed in the second quarter 2022 to approximately 1.8 million square feet (msf), a level similar to the average quarterly volume in 2021 and noticeably below the post-pandemic high of nearly 2.5 msf to start off the year. The slowdown in activity was relatively widespread, with most micro-markets posting declines this quarter. Activity in the CBD and Southeast Suburban submarkets dropped 32.6% and 45.3% QOQ, respectively. Activity in Class A space continued to outweigh Class B activity in the second quarter 2022, capturing 58.0% of total leasing volume. There was an absence of large new leases during the quarter, with just a handful of deals 30,000 sf or larger signed. Sierra Space signed the largest new lease of the quarter when it committed to 116,100 sf in Building 6 at Oracle's campus in Broomfield. This lease is yet another example of Colorado's flourishing Aerospace industry. Brownstein Hyatt Farber Schreck signed the only other new lease of the quarter above 100,000 sf. The Denver-based law firm took 104,000 sf at Block 162, bringing the building to roughly 40.0% leased. Rounding out the top leases for the quarter was Davis Graham & Stubbs' preleasing of 77,100 sf in RiNo at 3400 Walnut Street (Paradigm RiNo), and Gen II Fund Services' 72,900 sf lease at 6900 Layton Avenue at Belleview Station.

## ABSORPTION: After Trending Nearly Positive, Net Absorption was Deeper in the Red in Q2 2022

Following two straight quarters of net absorption nearly trending positive, the second quarter 2022 saw net absorption reach negative 842,900 sf. This level is reflective of those witnessed in the first half of 2021 and continues to illustrate the substantial amount of downsizing occurring among occupiers and new vacant sublease space still coming to market. The overarching trend of employees working-from-home on a more permanent basis will continue to put downward pressure on occupancy. Case in point is Computershare's new 282,800 sf sublease in the Southeast Suburban submarket which sits almost entirely vacant. Class B space continues to account for most of the market's negative absorption, which in the first half of 2022 totaled 68.7% or roughly 649,000 sf.

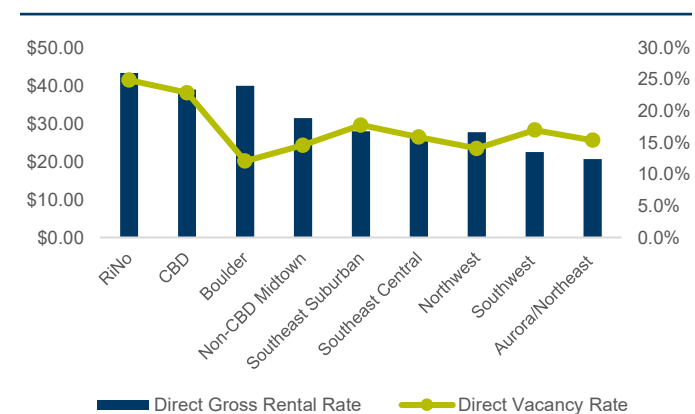
## CONSTRUCTION: More Projects Set to Enter the Construction Pipeline

The second quarter brought forth the first new office delivery of 2022. 1701 Platte Street (One Platte) delivered 238,800 sf to the CBD's LoDo micro-market. The project delivered vacant as Robinhood, which preleased half of the building, has delayed its occupancy and is contemplating its longer-term real estate needs. The under-construction pipeline grew from 979,800 sf in the prior quarter to nearly 1.9 msf in the second quarter 2022. 1900 Lawrence Street in the CBD broke ground this quarter, adding 704,000 sf, while both the Macy's redevelopment and Apple's build-to-suit in Boulder are underway, adding a combined 313,500 sf to the submarket.

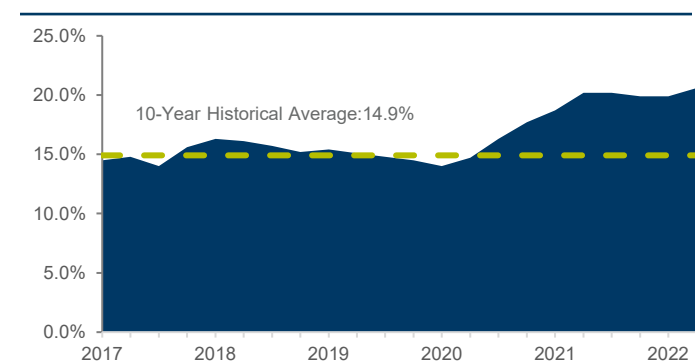
## OUTLOOK

- Hybrid and fully-remote work models are being implemented on a more permanent basis and as a result, the rebound in office occupancy has been less favorable than anticipated.
- Higher negative net absorption, slower leasing volume, the spike in sublease availability and overarching recessionary concerns have weakened the office market outlook as these conditions are expected to continue for the remainder of the year and potentially into 2023.
- Most landlords have yet to decrease asking rents, but as overall conditions remain challenging, free rent and tenant finishing concessions continue to climb.
- New office construction remains on the upswing, with one or more projects breaking ground in 2022 in each of the CBD, Cherry Creek, RiNo, Northwest and Boulder submarkets.

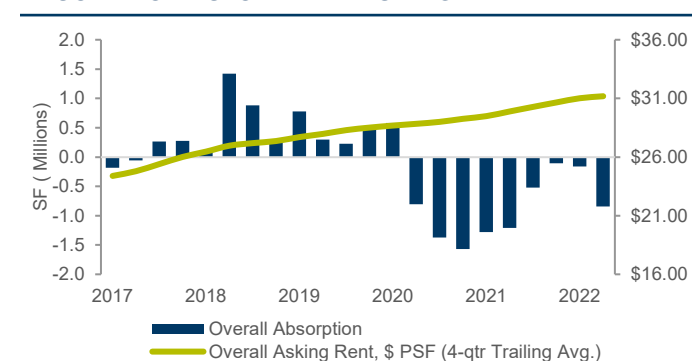
## SUBMARKET COMPARISON



## 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	6,055,307	733,719	124,259	14.2%	-28,251	17,637	141,688	313,478	\$38.90	\$45.21
Midtown (Non-CBD)	3,805,683	554,523	62,130	16.2%	6,909	-81,070	93,750	0	\$31.29	\$38.32
CBD	32,281,149	7,385,238	1,127,642	26.4%	-315,154	-688,574	961,252	704,036	\$38.26	\$41.44
RiNo	2,103,272	524,706	53,832	27.5%	28,542	58,891	242,801	444,913	\$43.25	\$45.84
Aurora/Northeast	7,767,312	1,196,131	222,269	18.3%	-9,424	-24,565	189,942	106,527	\$21.30	\$24.00
Northwest	14,673,464	2,061,634	272,169	15.9%	-57,076	-20,638	471,082	0	\$27.63	\$30.32
Southeast Suburban	33,784,770	6,000,882	1,047,937	20.9%	-471,389	-89,412	1,412,503	118,064	\$27.84	\$30.46
Southeast Central	11,042,072	1,759,861	172,223	17.5%	-5,108	-89,664	485,382	170,712	\$26.57	\$30.85
Southwest	9,375,550	1,590,994	49,158	17.5%	-8,043	-27,002	372,706	0	\$22.55	\$26.77
Denver Totals	120,888,579	21,807,688	3,132,619	20.6%	-842,908	-944,397	4,326,106	1,857,730	\$31.36	\$35.27

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

## KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
500 Eldorado Boulevard – Building 6	Northwest (NW Corridor)	Sierra Space	116,056	New Lease
675 15th Street (Block 162)	CBD (Midtown)	Brownstein Hyatt Farber Schreck	103,974	New Lease
3400 Walnut Street (Paradigm RiNo)	RiNo	Davis Graham & Stubbs	77,142	New Lease
6900 Layton Avenue (Bellevue Station)	SES (Greenwood Plaza)	Gen II Fund Services	72,914	New Lease
6200 South Syracuse Street (Carrara Place)	SES (DTC)	Kimley-Horn	62,122	New Lease
675 15th Street (Block 162)	CBD (Midtown)	Moss Adams	24,780	New Lease

## KEY SALES TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	BUYER / SELLER	RSF	PRICE/ \$ PSF
5445 DTC Parkway (The Quadrant)	SES (DTC)	Vanderbilt Office Properties   CalSTRS	338,900	\$62.0M / \$183
9151 East Panorama Circle (Arrow Building)	SES (Inverness/Panorama)	Drawbridge Realty   BentallGreenOak	223,200	\$106.0M / \$475
370 Interlocken Boulevard	Northwest (NW Corridor)	Urban Renaissance Group   Equus Capital Partners	150,700	\$34.4M / \$229
4949 South Niagara Street (One DTC West)	SES (Denver Tech Center)	GLL Real Estate Partners   One DTC West LLC	72,000	\$42.3M / \$587

## KEY CONSTRUCTION/RENOVATION COMPLETIONS Q2 2022

PROPERTY	SUBMARKET	MAJOR TENANT(S)	RSF	OWNER / DEVELOPER
1701 Platte Street (One Platte)	CBD (LoDo)	Robinhood	238,800	The Nichols Partnership JV Shorenstein Properties

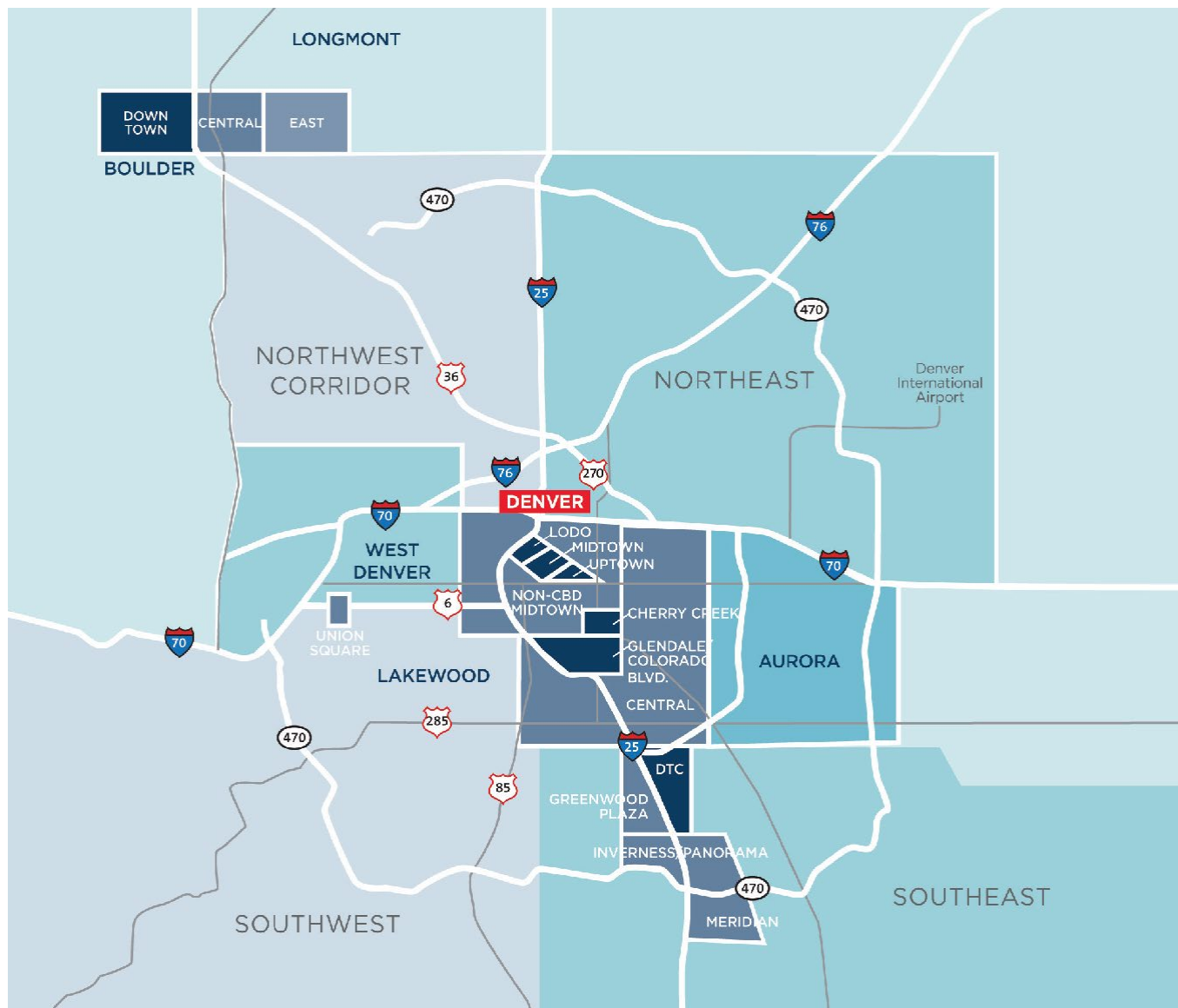


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**CUSHMAN &  
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