MARKETBEAT

CBD DENVER

Office Q3 2022

CUSHMAN & WAKEFIELD

CLASS A

Inventory: 23 msf

Vacancy: 19.1%

Leasing Activity YTD: 933,000 sf

Average Asking Rent: $44.23 psf

CLASS B

Inventory: 7.3 msf

Vacancy: 30.8%

Leasing Activity YTD: 190,500 sf

Average Asking Rent: $33.77 psf

CLASS C

Inventory:1.8 msf

Vacancy: 22.3%

Leasing Activity YTD: 42,700 sf

Average Asking Rent: $30.64 psf

OVERALL

Inventory: 32.2 msf

Vacancy: 27.0%

Leasing Activity YTD: 1.2 msf

Average Asking Rent: $38.54 psf

MARKET FACT

1.9 MSF

Total Sublease availability in the CBD, setting a new market record

CENTRAL BUSINESS DISTRICT

Vacancy

After rising 150 basis points (bps) in the second quarter 2022, vacancy in the Central Business District (CBD) increased by 70 bps quarter-over-quarter (QOQ) to end the third quarter 2022 at 27.0% on an overall basis, including sublease space. This represented a 290-bps increase in overall vacancy year-over-year (YOY) compared to the third quarter 2021. Direct vacancy exhibited a more modest increase, rising 30 bps QOQ to end the third quarter 2022 at 23.1%. Despite a slight decrease in sublease availability in the second quarter 2022, sublease availability once again began trending upwards in the third quarter 2022, increasing 50 bps QOQ to 6.1%. There is now a record-setting 1.9 million square feet (msf) of sublease space available in the CBD, and with many sublessor tenants indicating they don't intend to reoccupy, some percentage of this availability will likely translate into direct vacancy in the coming quarters.

Rental Rate

The CBD's average asking rent recorded a modest increase in the third quarter 2022 to $38.54 per square foot (psf) on an overall basis, a $0.28-psf increase compared to the second quarter 2022. However, this figure represented a $1.10-psf decrease compared to the third quarter 2021, which recorded an average overall rate of $39.64 psf. Direct asking rates experienced a contraction both QOQ and YOY, decreasing by $0.68 psf and $0.44 psf, respectively. While it would be easy to assume this contraction is a result of softening market conditions, it is also worth noting that leasing activity remains concentrated in high-dollar Class A space, which can drive down the calculated average as that space is leased. Class A rates averaged $45.41 psf on a direct basis and $44.23 psf on an overall basis, a respective $1.96-psf and $2.10-psf increase YOY. Class B rates averaged $33.77 psf on a direct basis and $33.79 psf on an overall basis.

Leasing

Denver's CBD experienced another notable slowdown in leasing activity in the third quarter 2022, with a total of 203,600 square feet (sf) in new leases signed. This represented a 90.0% decrease in leasing QOQ, bringing the 2022 year-to-date (YTD) total for leasing activity in the CBD to just under 1.2 msf, a 21.8% decrease compared to the first three quarters of 2021. With new economic headwinds in the form of inflation and rising interest rates, tenant behavior over the last two quarters has largely reverted to a wait-and-see approach, with many existing tenants opting to extend or renew short-term at their current location rather than signing new leases. The largest new lease of the quarter was Bain & Company's 38,800-sf lease at Block 162, which continues to perform well despite the more subdued leasing landscape. Also of note was Scope Technologies, who subleased 25,200 sf at Republic Plaza in Uptown.

Absorption

After nearly recording negative 633,000 sf in net absorption during the first half of 2022, net absorption in the CBD continued to trend negative in the third quarter 2022, with negative 289,400 sf of absorption in the third quarter 2022. Absorption in the CBD continues to be heavily impacted by delayed occupancies of leases signed in previous quarters, with three of the top five expected move-ins delaying to fourth quarter 2022 or later. Move-outs and downsizing continue to outweigh net new leasing activity, an indication that net absorption will likely continue to trend negative for the next several quarters. The largest move-in of the quarter was Gusto, who expanded into 34,000 sf at 1515 Arapahoe. They will be listing the 15,000 sf they previously occupied in the building for sublease next quarter.

Construction

The third quarter 2022 was relatively quiet in term of construction activity, with no new projects delivering or breaking ground. The only project which remains under construction in the CBD is 1900 Lawrence, which broke ground in the second quarter 2022 and is expected to be completed by mid 2024. Though new construction product like Block 162 and Market Station continue to perform well in the CBD, rising interest rates have made financing office projects extremely difficult, meaning that the construction pipeline is likely to remain lean for the next several quarters.

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MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)	OVERALL AVG ASKING RENT (CLASS A)
LoDo	8,171,541	1,074,922	240,754	16.1%	-108,630	-39,933	313,830	0	$49.58	$57.26
Midtown	14,790,845	4,027,488	805,000	32.7%	-146,844	-583,499	655,149	704,036	$39.06	$42.22
Uptown	9,211,127	2,323,218	243,937	27.8%	-33,920	-307,209	197,245	0	$33.76	$36.37
CBD TOTALS	32,173,513	7,425,628	1,289,691	27.0%	-289,394	-930,641	1,166,224	704,036	$38.54	$44.23

TOP LEASES

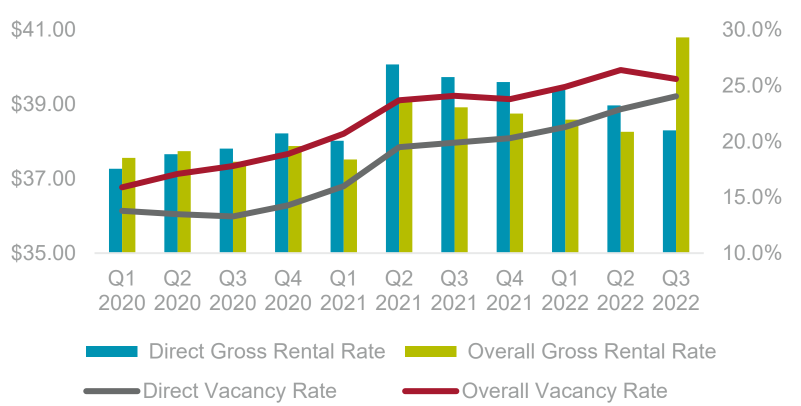
PROPERTY	TENANT	SIZE (SF)	TYPE	SUBMARKET
555 17th Street	Holland and Hart	167,637*	Renewal	Midtown
1801 California Street	Gibson Dunn & Crutcher LLP	43,977*	Renewal	Midtown
1900 16th Street	Analysis Group	40,681	New Lease	Lodo
675 15th Street – Block 162	Bain & Company, Inc	29,544	New Lease	Uptown
370 17th Street – Republic Plaza	Scope Technologies	25,221	Sublease	Midtown

* Renewals and Subleases not included in top leases.

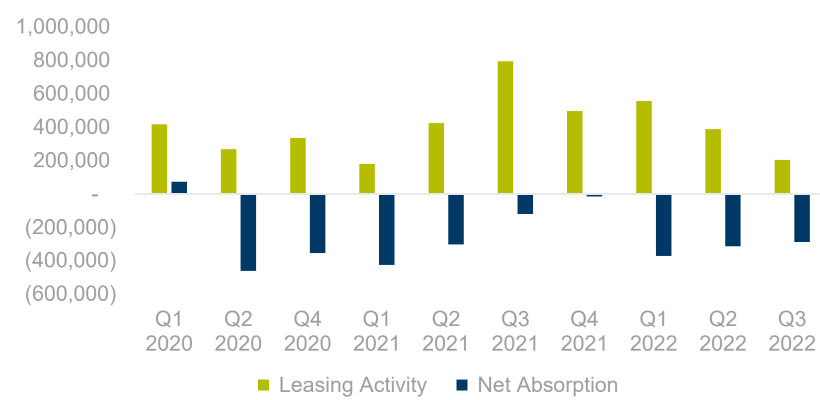
UNDER CONSTRUCTION PROJECTS

ADDRESS	OWNER / DEVELOPER	SIZE (SF)	MAJOR TENANTS	SUBMARKET
1900 Arapahoe Street – 1900 Lawrence	Riverside Investment & Development	704,000	N/A	Midtown

RENTAL RATE VS. VACANCY RATE



LEASING ACTIVITY VS. ABSORPTION



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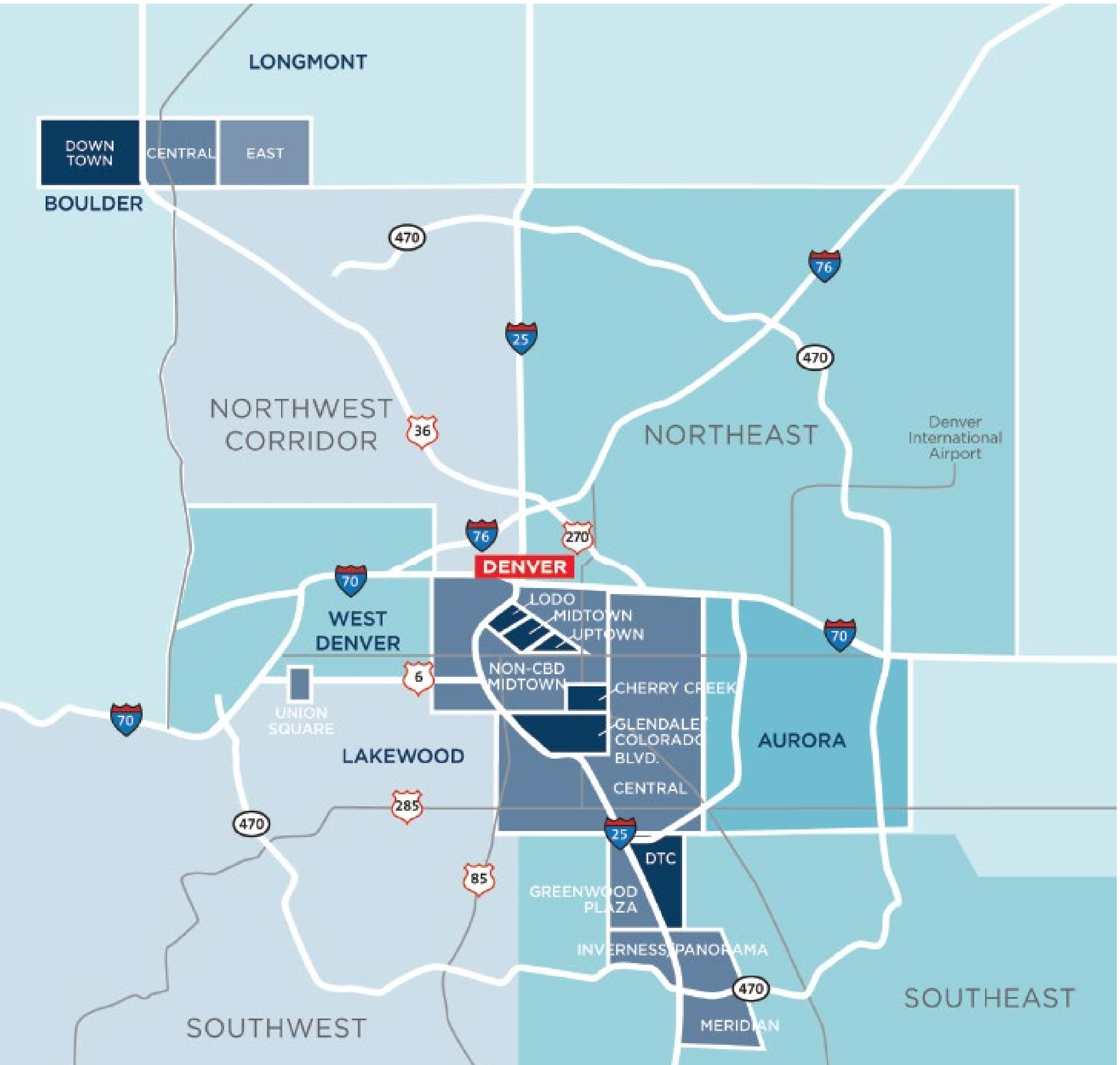

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