

**CLASS A**

Inventory: 23 msf

Vacancy: 22.1%

Leasing Activity YTD: 1.1 msf

Average Asking Rent: \$30.63 psf

**CLASS B**

Inventory: 12 msf

Vacancy: 23.1%

Leasing Activity YTD: 584,800 sf

Average Asking Rent: \$23.35 psf

**CLASS C**

Inventory: 777,600 sf

Vacancy: 5.2%

Leasing Activity YTD: 25,800 sf

Average Asking Rent: \$17.69 psf

**OVERALL**

Inventory: 33.9 msf

Vacancy: 22.1%

Leasing Activity YTD: 1.7 msf

Average Asking Rent: \$28.03 psf

**MARKET FACT****120 bps**

Quarter-over-quarter increase in overall vacancy in Q3 2022.

**SOUTHEAST SUBURBAN****Vacancy**

The Southeast Suburban (SES) submarket experienced a 120-basis-point (bps) increase in overall vacancy quarter-over-quarter (QOQ) end the third quarter 2022 at 22.1%. Direct vacancy followed a similar pattern, rising 50 bps QOQ to end the third quarter 2022 at 18.3%. This marked the second consecutive quarter of increased vacancy in the SES, after overall and direct rates rose 130 bps and 40 bps, respectively, in the second quarter 2022. Unsurprisingly, both Class A and Class B space experienced an increase in overall vacancy in the third quarter 2022. Class A vacancy rose 180 bps to end the third quarter at 22.1%, while Class B vacancy rose 20 bps QOQ to end at 23.1%. On a direct basis, Class A vacancy rose 90 bps and Class B dropped 10 bps to end the quarter at 18.0% and 19.7%, respectively. The absence of sizable net new leasing activity combined with several large move-outs contributed to the increase in vacancy in the third quarter 2022.

**Rental Rate**

After a contraction in asking rates in the second quarter 2022, asking rates in the SES stabilized in the third quarter 2022, increasing by \$0.19 per square foot (psf) QOQ to end September 2022 at an overall average rate of \$28.03 psf. The direct average rate remained flat QOQ at \$27.96 psf. Despite the increase in rates QOQ, both direct and overall rates experienced a slight contraction on a year-over-year (YOY) basis, respectively decreasing by \$0.26 and \$0.12 compared to the third quarter 2021. Overall, Class A and Class B asking rents followed a similar pattern, increasing QOQ but exhibiting a slight decline on a YOY basis. Despite what the recent changes in the vacancy rate may suggest about the state of the market, the YOY contraction in asking rates is likely a result of higher-dollar spaced being leased rather than landlords dropping rates.

**Leasing**

Similar to the second quarter 2022, leasing activity in the SES experienced another significant slowdown in the third quarter 2022, ending the quarter with just under 270,000 square feet (sf) in leases signed. This figure represented a decline of nearly 185.0% in leasing activity QOQ, bringing the year-to-date (YTD) total for leasing activity in the SES to just over 1.7 million square feet (msf). While 2022 continues to outpace 2021 in terms of leasing volume in the SES, the drop-off in activity in both the second and third quarters are a telling indication of how the current economic uncertainty seems to have influenced tenant behavior. The largest new deal of the quarter was USI Insurance's 21,800-sf lease at Regency Plaza One, which is notably smaller than top deals signed in prior quarters. With recessionary concerns continuing to mount, it likely that leasing activity will remain subdued throughout the balance of 2022 and possibly into early 2023.

**Absorption**

Despite realizing its first quarter of positive net absorption since early 2020 in the first quarter 2022, net absorption trended negative for the second consecutive time in the third quarter 2022, recording just over negative 465,000 square feet (sf) in net absorption. This represented the third lowest quarterly total of the current cycle, and brought to YTD total for net absorption in the SES to negative 587,900 sf. In addition to move-outs and downsizing activity, net absorption continues to be affected by delayed occupancies related to material shortages and build-out delays. Through three quarters of 2022, Class A space has recorded just under 375,000 sf of negative absorption, while Class B has recorded 85,500 sf of negative net absorption.

**Construction**

The third quarter 2022 was relatively quiet in terms of construction activity in the SES, with no new projects delivering or breaking ground. The Vectra Bank building at 7222 E. Layton Avenue remains the sole project under construction and is estimated to deliver in the fourth quarter 2022. While new construction projects—particularly transit-oriented development like Belleview Station—have typically performed well in the SES, 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.

# SES DENVER

Office Q3 2022

## 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)
Arapahoe Road	2,350,490	299,294	398,293	17.0%	-5093	-116,763	72,388	0	\$22.19	\$29.84
DTC	9,562,625	1,791,557	2,009,583	21.0%	-138,372	-198,547	341,068	0	\$29.59	\$31.17
Greenwood Plaza	9,736,082	2,047,992	2,427,204	24.9%	-50,589	-215,896	578,603	118,064	\$30.61	\$36.94
Inverness/Panorama	8,149,825	1,640,601	1,872,183	23.0%	-229,652	132,601	668,672	0	\$25.41	\$27.97
Meridian	4,058,684	410,179	761,057	18.8%	-43,108	-189,239	45,220	0	\$26.63	\$26.63
<b>SES TOTALS</b>	<b>33,857,706</b>	<b>6,189,623</b>	<b>7,468,320</b>	<b>22.1%</b>	<b>-466,814</b>	<b>-587,844</b>	<b>1,705,951</b>	<b>118,064</b>	<b>\$28.03</b>	<b>\$30.63</b>

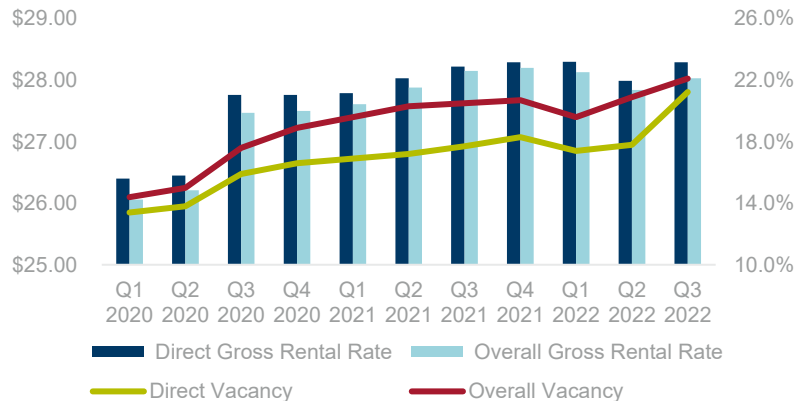
## TOP LEASES

ADDRESS	TENANT	SIZE (SF)	TYPE	SUBMARKET
6501 S. Fiddlers Green Circle – Fiddlers Green Center II	Fidelity Real Estate Company	144,100*	Renewal	Greenwood Plaza
4600 S. Ulster Street	USI Insurance	21,800	New Lease	Denver Tech Center
4643 S. Ulster Street – Regency Plaza One	Raymond James & Associates	20,400*	Renewal	Denver Tech Center

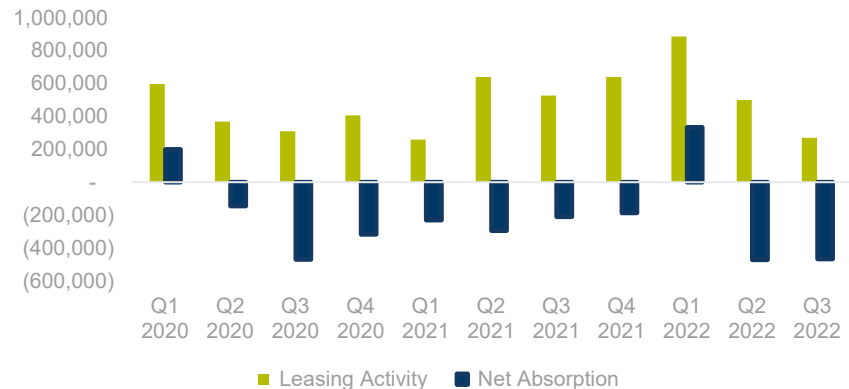
## TOP INVESTMENT SALES

ADDRESS	BUYER   SELLER	SIZE (SF)	SALE PRICE	\$ PSF
Stanford Place III - 4582 S. Ulster Street	Menashe Properties / Angelo Gordon & Co.	365,000	\$50,000,000	\$137.00/SF

## RENTAL RATE VS. VACANCY RATE

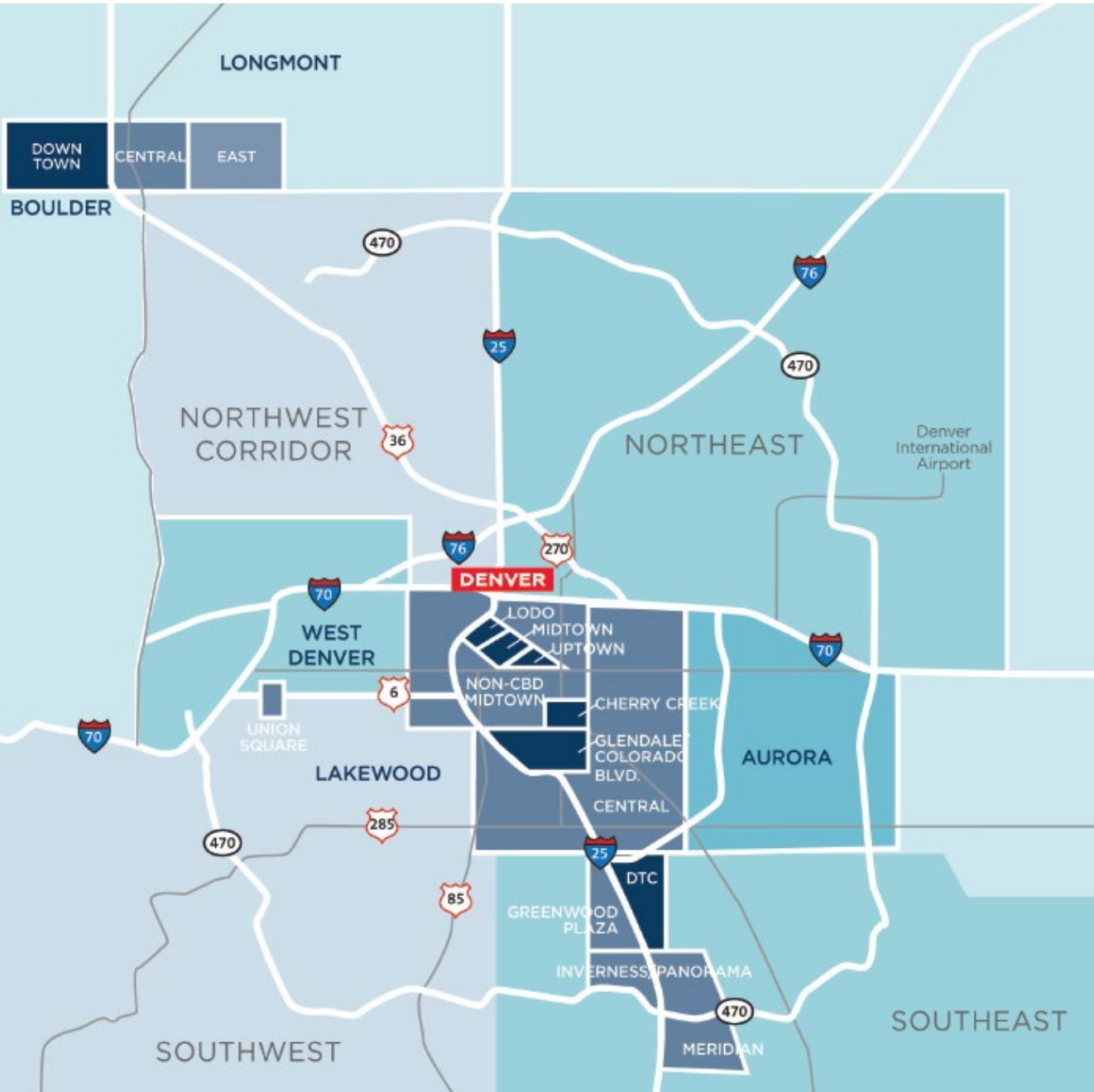


## LEASING ACTIVITY VS. ABSORPTION



# SES DENVER

Office Q3 2022



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