

Denver 2022 Year-End Report

Though the volume of layoffs seems significant, the tech industry is the sector contracting the most. Employees in Tech, however, make up roughly 2% of the labor force, so losses thus far have not had a meaningful economic impact. Otherwise, the job market is still strong with the most growth in healthcare, hotel and leisure, and personal services, but the sector of office-users (finance, insurance, real estate, and legal) is increasing as well.

Tech companies that grew headcount significantly in the last two years are scaling back and evaluating office space needs. Traditional office-using companies are still building on the strategy that the office is a crucial part of the collaborative environment and focusing on creating intentional workplaces. The customized, hybrid workplace encourages employees to use the space in a meaningful and productive way. Additionally, coworking has become a cornerstone for many companies looking for maximum flexibility and growth opportunities.

RAISE

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Fast 5 Trends

Tenants Gain the Upper Hand - With vacancy at record highs, landlords are getting more aggressive with concession packages and flexibility around lease terms to retain existing tenants and lure new tenants.

Experience, Wellness, Flexibility - Though the hybrid work model is here to stay, many buildings throughout Denver are undergoing renovations to attract employees back to the office with amenities they can't get from home.

Sublease Surge - Sublease space hit a record high with over 6 msf, up 47% from Q1 2022. For space-seeking tenants, subleases can provide more flexibility with turnkey spaces and allow tenants to hold off on making any long-term commitments.

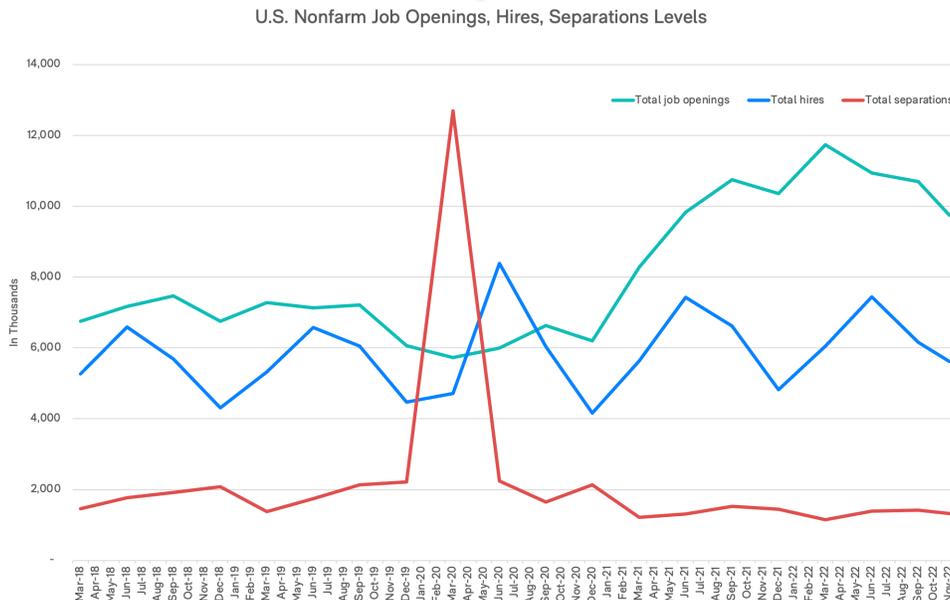
Denver's New Hotspot - The demand for office space in Denver's Cherry Creek market skyrocketed in 2022, and shows no signs of slowing, with four office buildings currently under construction and many more proposed.

Boulder Life Science Boom - Institutional investors have entered the Boulder market and are funding new development and repositioning lab-capable buildings to match the increasing tenant demand over the last five years.

U.S. Employment

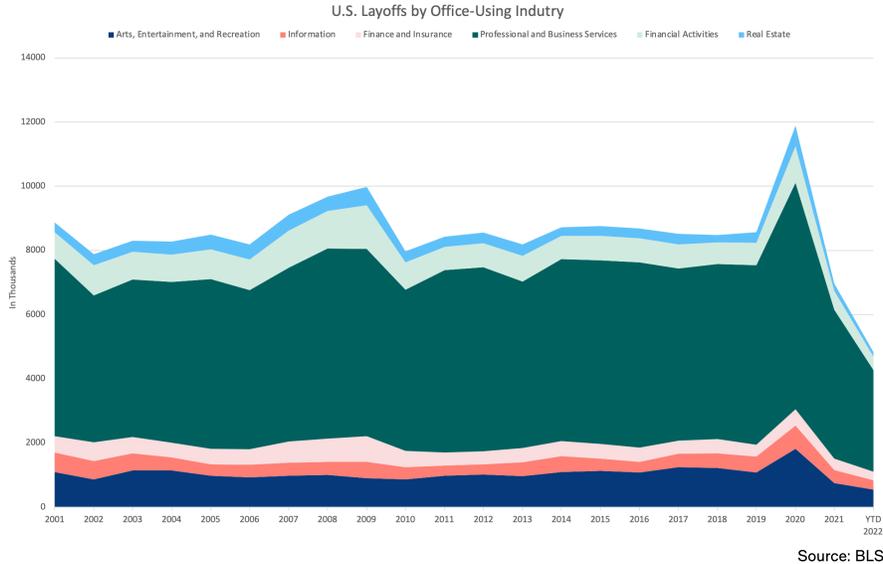
Since the dramatic spike in separations (layoffs, quits, discharges) in March 2020, levels returned to normal and November 2022 totals were 29% and 33% below the ten-year and five-year averages, respectively. Job openings peaked in April 2022, but as of November 2022, were still 50% above the ten-year average. Hires have recurrently fluctuated, with a higher-than-usual spike in September 2020, and ended 2022 just 3% above the ten-year average.

The Information sector accounted for just 3% of total nonfarm separations, as of November 2022, and was also 7% and 30% below ten-year and five-year averages, respectively. Job openings peaked in May 2020, but despite the subsequent decline, were still 60% and 29% above ten-year and five-year averages, respectively, as of November 2022. Hires levels peaked in both October 2020 and 2021 and remained at higher-than-average levels for 21 of the past 26 months.



Source: JOLTS

U.S. Layoffs

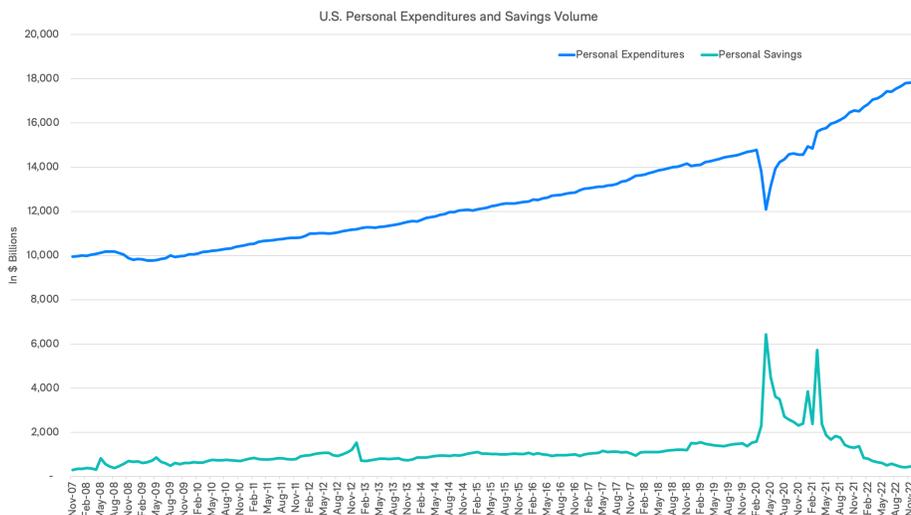


The volume of layoffs in the office-using sector decreased sharply since 2020 and is now below even 2008 levels. Professional and Business Services typically bear the brunt of layoffs when moving into a recession, and are the slowest to recover from that cycle.

Colorado's biggest layoffs of 2022 came from American Financing Company, HSS, Planterra Foods and Twitter. Several companies, however, including Teamwork, HNA Live, Zivaro and Entenris choose Colorado for new offices and/or expansions.

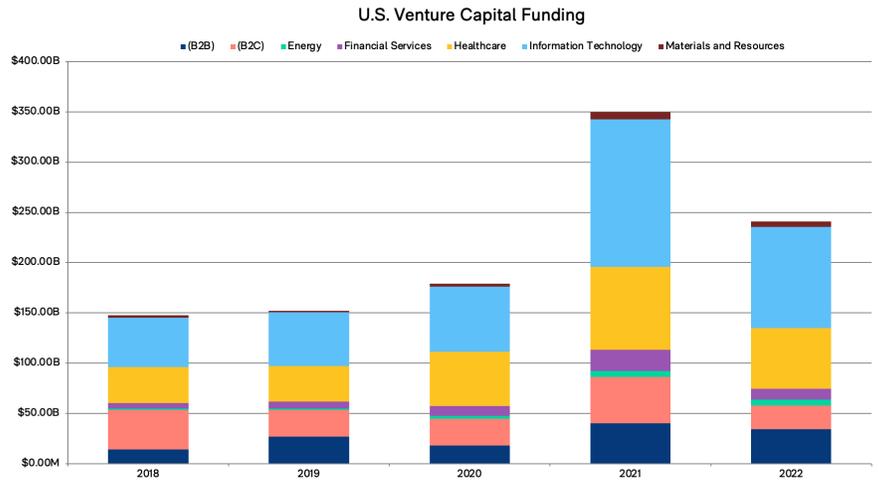
U.S. Spending and Expenditures

Historic personal savings levels in April 2020 and February 2021 were related to COVID-19 and the Omicron outbreaks, followed by sharp decreases as expenditures (goods, services, household) increased due to rising prices. Used vehicle prices, which had been a major contributor to the initial inflation burst, have steadily dropped over the past year. Food prices dropped for the first time after increasing at a constant rate of 0.9% the past few months. Gasoline prices have also dropped after steady increases in 2021. If prices of goods and services keep falling as higher interest rates curb demand, the target rate can be attainable in the latter half of 2023.



U.S. VC Funding

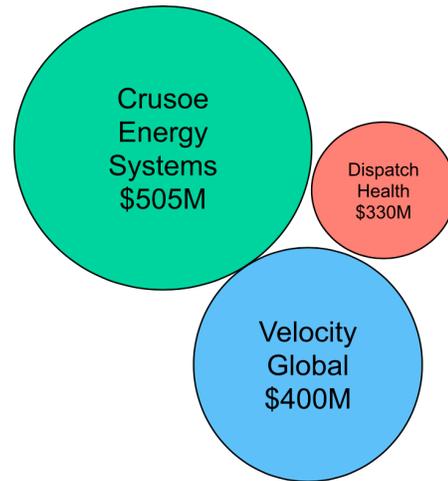
The Information Technology sector received a higher percentage of funding over the past five years totaling \$414B, followed by Healthcare.



Source: Pitchbook

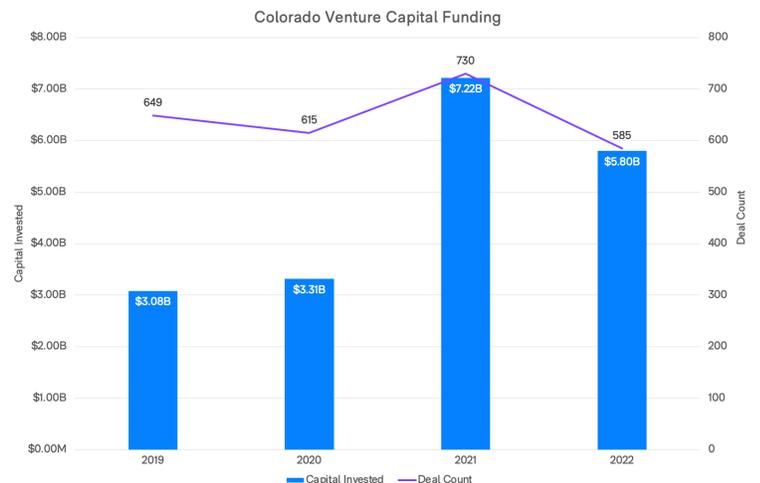
Colorado VC Funding

The top three deals reflect current industry trends. Crusoe Energy Systems, an oil and gas industry services company, reflects the Energy sector’s resilience despite economic fluctuations. Velocity Global, an HR software company, reflects the growing popularity of the hybrid workplace. DispatchHealth reflects the emerging Life Science sector in Colorado.



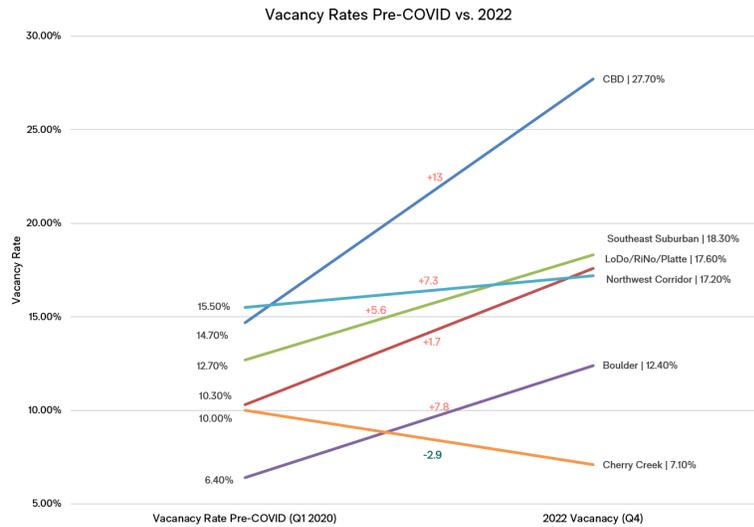
Source: Pitchbook

Despite a decrease in VC funding from 2021 to 2022, capital investment eclipsed 2019 levels. The higher level of investment in 2021 was due to pent-up demand and 2022 levels are likely the new benchmark.



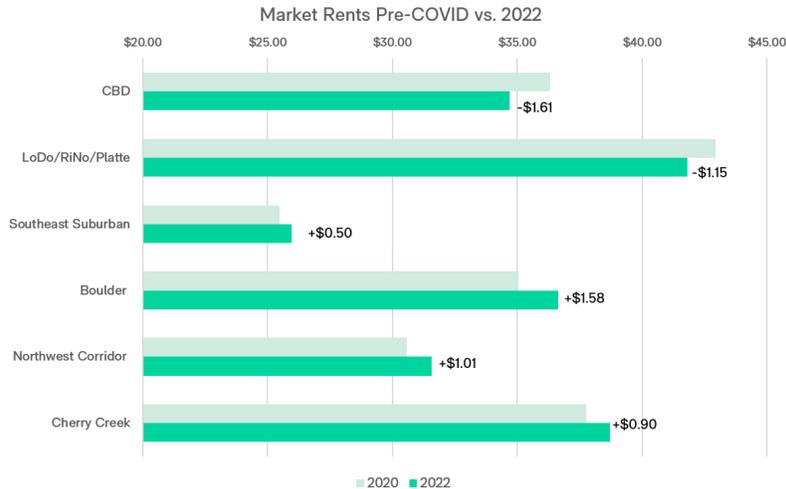
Source: Pitchbook

Availability Trends



Source: Raise

Except Cherry Creek, vacancy rates increased in all other submarkets, with the most dramatic rise in Downtown - CBD, LoDo, RiNo, and Platte Valley.



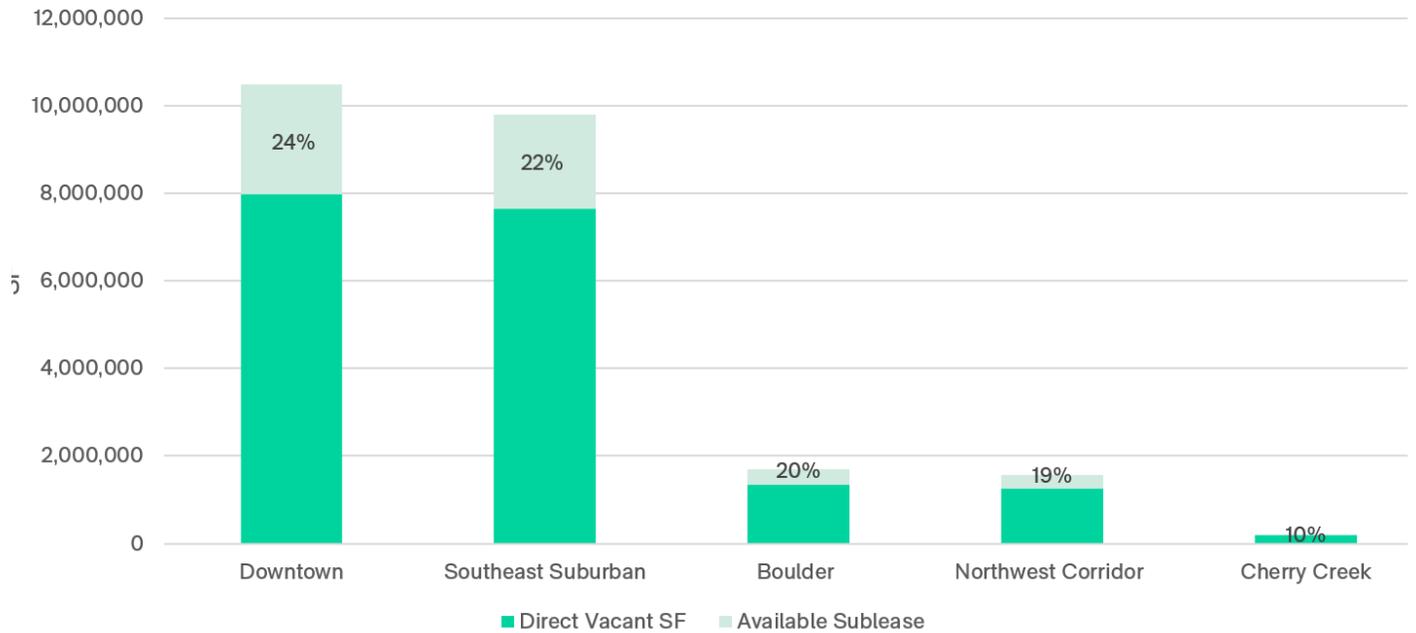
Source: Raise

Despite vacancy rates significantly rising in the majority of submarkets, asking rents have yet to drop as anticipated. Landlords opted to offer greater concession packages to keep asking rents stable.

Should Class C product convert to residential as recently reported, those tenants will have the opportunity to move to higher-quality Class B space, which will reduce overall inventory and decrease vacancy.

Availability By Submarket

Direct vs. Sublease Availability



Source: Raise

Denver metro sublease availability increased by 47% since Q1 2022. Big block subleases over 25K square feet (sf) made up the majority of availability in the Downtown and Southeast Suburban submarkets due to large tech and telecommunications tenants downsizing and embracing a hybrid workplace model.

Large Companies with Sublease Space on Market

| SUBMARKET | SUBLANDLORD | SF AVAILABLE | BUILDING |
|-----------|-----------------------|--------------|------------------------------------|
| Southeast | AECOM | 282,000 | Millennium Plaza - 6200 S. Quebec |
| Southeast | DirecTV | 257,000 | 161 Inverness |
| Aurora | ADT Security Services | 123,500 | 3190 S. Vaughn |
| Downtown | Robinhood | 120,000 | One Platte - 1701 Platte |
| Downtown | Checkr | 92,500 | 18th Street Atrium - 1621 18th St. |
| Downtown | Whiting Petroleum | 71,000 | Wells Fargo Center - 1700 Lincoln |

High-quality Class A sublease space is still attractive for tenants hesitant to make long-term commitments. With the high cost of tenant improvements, lingering supply chain issues, and long permitting times, plug-and-play options provide more flexibility.

Leasing Activity

Top 10 Deals of the Year

| TENANT | SUBMARKET | LEASED SF | BUILDING | DATE SIGNED |
|---------------------------------|--------------|-----------|-----------------------------|-------------|
| Boom Technologies | Southeast | 287,000 | 6801-6803 S. Tucson Way | 1Q |
| Burns & McDonald | Southeast | 155,209 | 9191 S. Jamaica St. | 4Q |
| Fidelity | Southeast | 142,585 | 6501 S. Fiddlers Green Cir. | 3Q |
| Antero Resources | Cherry Creek | 123,000 | 201 Fillmore St. | 4Q |
| Sierra Space | Northwest | 116,055 | 500 Eldorado Blvd. | 2Q |
| PDC Energy | Downtown | 108,459 | 1099 18th St. | 1Q |
| Brownstein Hyatt Farber Schreck | Downtown | 103,974 | Block 162 | 2Q |
| Starz Entertainment | Southeast | 100,119 | 6363 S. Fiddlers Green | 1Q |
| Sierra Nevada | Southeast | 85,935 | 11551-11601 E. Arapahoe Rd. | 1Q |
| Davis Graham & Stubbs | RiNo | 77,142 | 3400 Walnut St. | 2Q |

Influencer Deals

Brokered by Raise Team

| PURCHASE | NEW DEVELOPMENT | LIFE SCIENCES | FLEX | LIFE SCIENCES |
|---|---|---|--|---|
| Undisclosed |  |  |  |  |
| • building purchase • 157,639 sf | • 10-year lease signed in 2022 • 43,392 sf | • 7-year lease signed in 2022 • 28,238 sf | • 5-year lease signed in 2022 • 17,762 sf | • 7-year lease signed in 2022 • 20,000 sf |
| 9510 S. Meridian Blvd. Englewood, CO | McGregor Square Denver, CO | 1713 38th St. Boulder, CO | Elevate @ Central Centennial Centennial, CO | 1315 W. Century Dr. Louisville, CO |

Office Demand

Currently, there are six tenants in the market for over 100K sf, primarily in the Energy and Professional Services industries. The Aerospace industry's rapid growth was driven by more Colorado startups looking for space and companies making the move from California. Uniquely, Aerospace typically needs both manufacturing, industrial-type buildings and offices.

Occupancy Trends

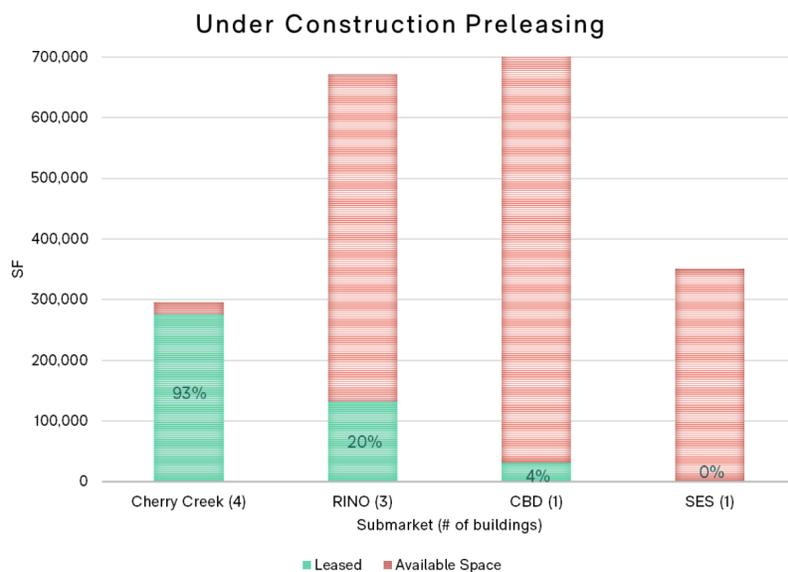
According to Kastle data, there is a steady increase of Denver employees making their way back to the office. Compared with the top ten metro areas' return-to-office average of 47%, Downtown Denver's employees are returning to the office at a rate of 54% as of October 2022.

Additionally, visits to transit stations throughout Metro Denver are nearing pre-pandemic levels, with multiple days in October 2022 where transit station activity actually surpassed pre-pandemic levels.

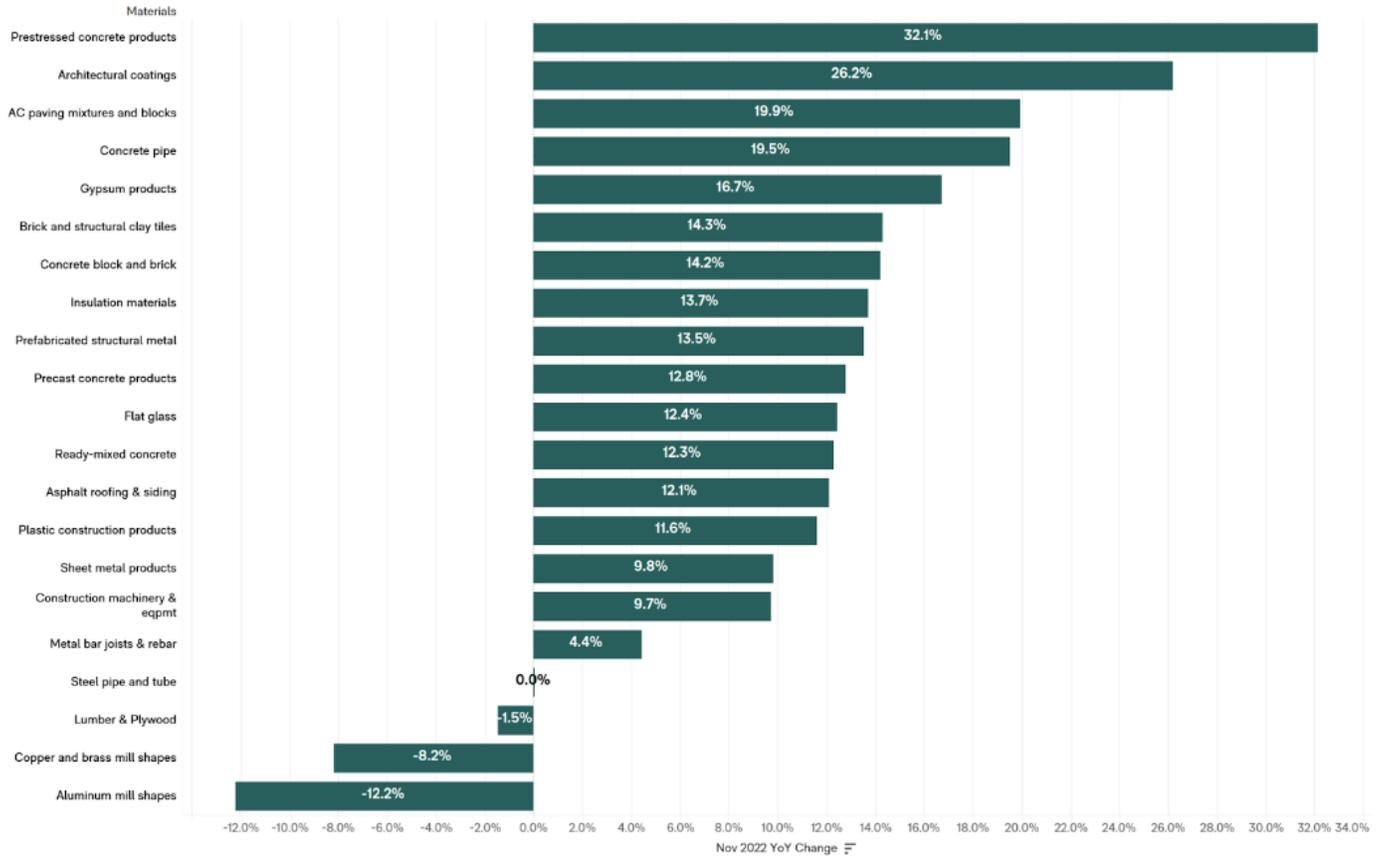
Development Trends

Downtown Denver's newest skyscraper, Block 162, now over 50% leased, has had incredible success attracting tenants, despite the challenging leasing environment. The one-of-a-kind indoor/outdoor amenities and state of the art design are appealing to tenants focused on attracting and retaining top talent, especially law firms. The only building under construction downtown, 1900 Lawrence, hopes to have similar success.

Office demand in Cherry Creek soared recently, with 4 buildings currently under construction and developers eager to build more. Demand came from companies embracing the hybrid work model. Companies can slightly downsize and provide their employees with a luxury office environment in the most sought-after walkable neighborhood in Denver.



U.S. Construction Costs



Source: BLS

The impacts of supply-chain disruptions have been the steady increase in construction materials and labor costs. As of November 2022, U.S. construction materials pricing increased 9.7% year over year (YoY) but dipped 0.4% from the previous month. Pricing on construction materials downstream from petroleum production, such as concrete and asphalt, increased sharply in 2022 driven by inflation, supply-chain disruptions, and lower oil production.

Summary

There is little doubt that the signs of a recession are accumulating and the effects of the pandemic recession are still present. On the brighter side, there is still an abundance of cash both on the investment side and personal savings. In order for inflation to stabilize, wage growth will need to level off, which will put downward pressure on demand, and subsequently, pricing on consumer goods.

In order to better weather this downturn and prepare for the next growth cycle, now is the time for companies to consider a financial strategy and review market fundamentals for flight-to-quality and repositioning opportunities. Though all eyes are on large companies to see what workplace strategy they are adopting, the large companies are also looking to the nimble startups that are test fitting hybrid models to which large companies can scale.

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