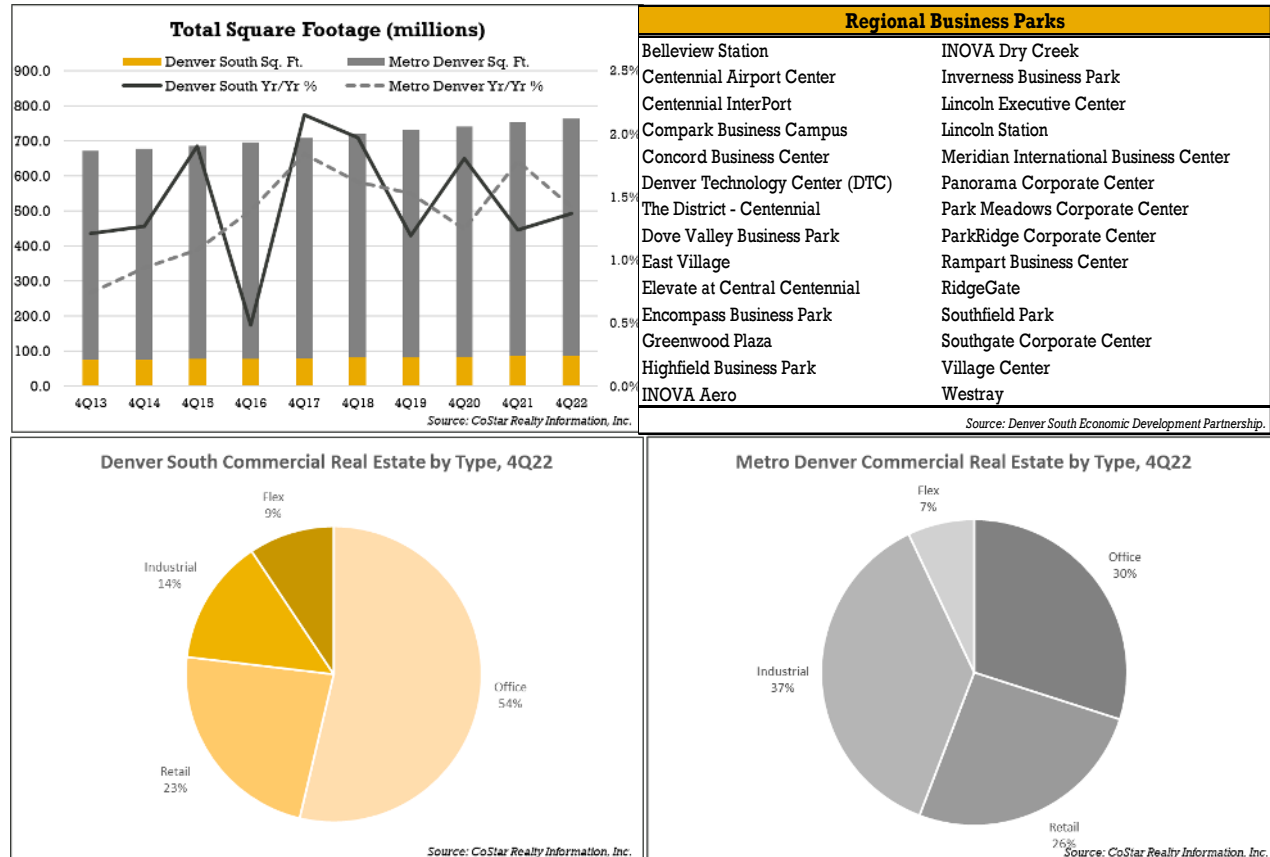


## Commercial Real Estate

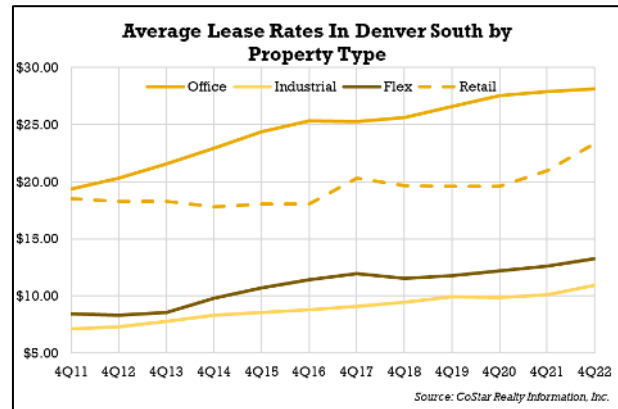
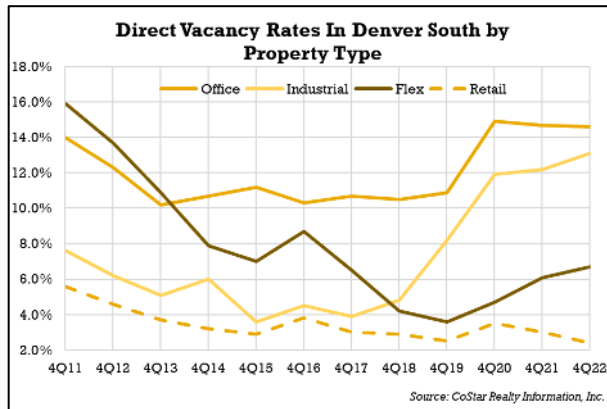
- The Denver South region has 86.8 million square feet of combined office, industrial, flex, and retail space in 2,234 buildings as of the fourth quarter of 2022.
  - Office (54 percent) accounted for the largest share of space among the four property types in Denver South, while industrial represented the largest share of Metro Denver's commercial real estate market (37 percent).
  - The Denver South region contains nearly 13 percent of the total space in Metro Denver.
  - Since 2011, the Denver South region added nearly 12 million square feet of total space.



## Historical Trends

- The commercial real estate markets recorded low vacancy rates and record high average lease rates between 2011 and 2019. In 2020, the commercial real estate market worsened due to the pandemic for all four property types. From 2019 to 2020, vacancy rates increased for all property types and lease rates increased at a slower pace or remained flat. Market conditions improved in 2021 and 2022 for retail and office but deteriorated for industrial and flex.
- The vacancy rates in the Denver South region fell in three of the four property types between 2011 and 2019 but fluctuated over the period. Vacancy rates rose for all property types from 2019 to 2020 for all property types. From 2020 to 2022, flex and industrial vacancy continued to rise and office vacancy declined slightly but remains elevated. Retail vacancy, on the other hand, has fallen to historic low levels.

- The average lease rates in Denver South generally climbed in all four property types between 2011 and 2022, driven by increased real estate investment and a growing economy that fueled demand for space. Average annual increases ranged from 2.1 percent per year for retail space to 4.2 percent per year for flex space.



### Current Trends

- The vacancy rate declined in two of the four property types in the Denver South region between the fourth quarters of 2021 and 2022, with the retail market recording the largest decrease of 0.6 percentage points. The industrial market recorded the largest increase in the vacancy rate, rising by 0.9 percentage points.
  - Metro Denver recorded declines in the vacancy rate in three of the four property types. The vacancy rate in the industrial market rose over-the-year to 5.3 percent.
  - The flex (-0.2 percentage points) and retail (-0.4 percentage points) property types recorded the largest declines in the vacancy rate between the fourth quarters of 2021 and 2022.

### Denver South Commercial Vacancy and Lease Rates by Property Type

		Total Existing Square Footage (millions)		Vacancy Rate		Avg Lease Rate (per sq. ft.)	
		4Q 2021	4Q 2022	4Q 2021	4Q 2022	4Q 2021	4Q 2022
<b>Office</b>	<b>Denver South</b>	46.3	46.6	14.7%	14.6%	\$27.86	\$28.10
	<b>Metro Denver</b>	202.3	203.0	12.3%	12.2%	\$29.47	\$30.99
<b>Industrial</b>	<b>Denver South</b>	11.2	11.9	12.2%	13.1%	\$10.13	\$10.97
	<b>Metro Denver</b>	243.9	251.6	4.9%	5.3%	\$9.22	\$9.70
<b>Flex</b>	<b>Denver South</b>	8.1	8.1	6.1%	6.7%	\$12.61	\$13.26
	<b>Metro Denver</b>	47.3	47.8	5.8%	5.6%	\$14.39	\$15.20
<b>Retail</b>	<b>Denver South</b>	20.0	20.1	3.0%	2.4%	\$20.95	\$23.36
	<b>Metro Denver</b>	174.6	175.3	4.5%	4.1%	\$19.30	\$20.22

Note: Vacancy rate and average lease rate are for direct space only (excludes sublet space). Industrial, flex, and retail lease rates are triple-net; office rates are full-service.

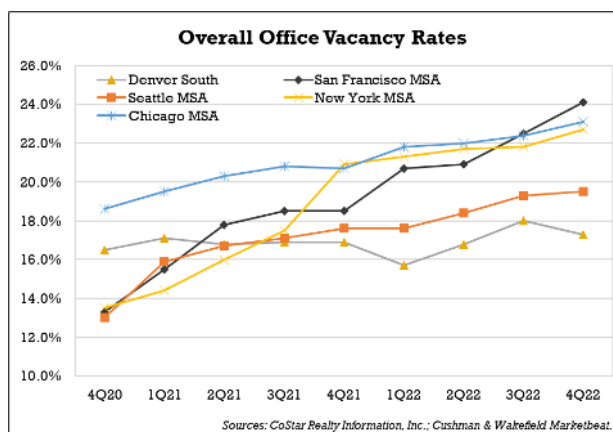
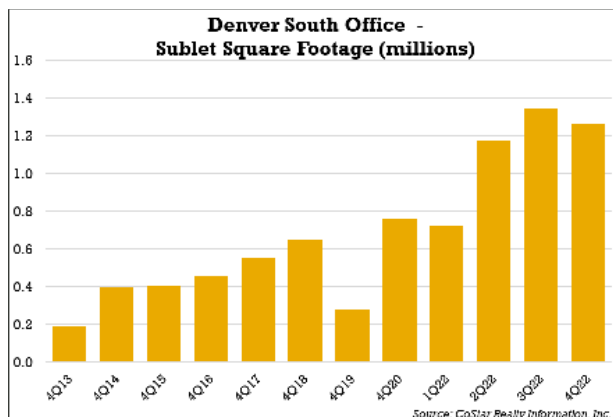
Source: CoStar Realty Information, Inc.

Over-the-year, the average lease rate increased in all four property types in the Denver South region. The retail market recorded the largest increase in the average lease rate over-the-year, rising 11.5 percent to \$23.36 per square foot.

- The average lease rates increased in all four property types in Metro Denver over-the-year, with the flex market recording the largest increase of 5.6 percent.
- Office sublease space in the Denver South region fell by 5.7 percent between the third and fourth quarters of 2022, after jumping 14 percent between the second and third

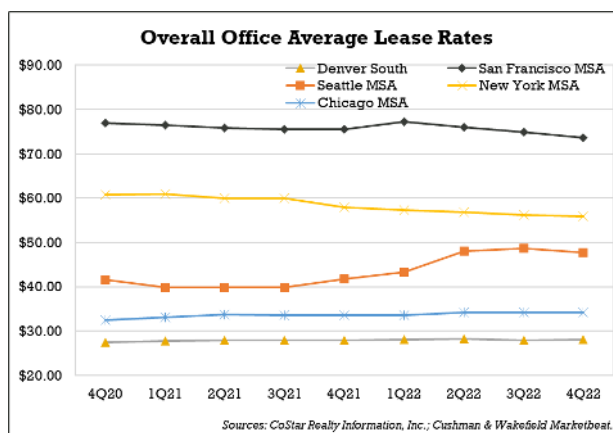
quarters, as companies continue navigating the implications of remote work and making long-term office decisions for space that best suit their new work requirements.

- Office sublease space rose 25.1 percent over-the-year.
- The amount of space under construction in the Denver South region reached a combined 1.38 million square feet across all four property types in the fourth quarter of 2022, down almost 20 percent compared with the same time last year and representing 2 fewer buildings under construction during the period.
  - The largest projects under construction in the Denver South region were the Westray Tower 1 office building that will add 351,222 square feet of office space, BlueScope Logistics Center II that will add 304,620 square feet of industrial space, and Building 173 at Blackhawk Street and Briarwood Avenue that will provide 173,224 square feet of industrial space.



#### Office Vacancy & Average Lease Rates for Competitor MSAs

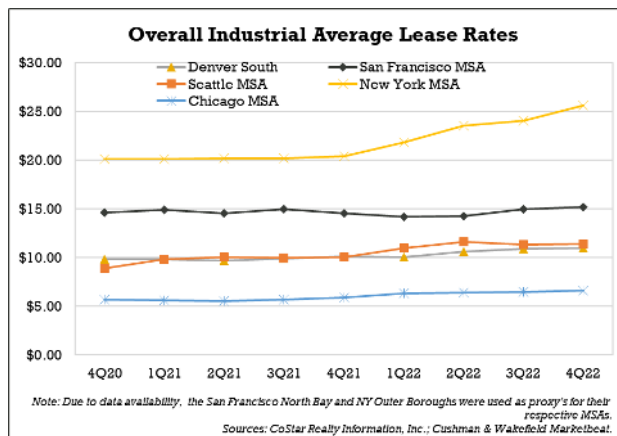
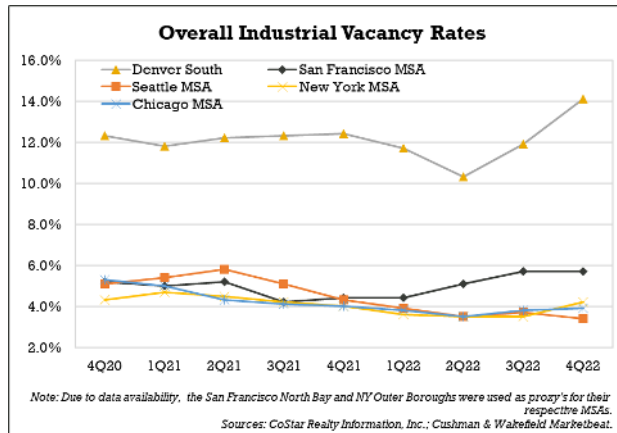
- The overall office vacancy rates increased in all competitor MSAs over-the-year.
  - The Denver South region's overall office vacancy rate was the lowest among the competitor MSAs in 4Q 2022, and posted the smallest increase compared with last year.
  - The San Francisco MSA had the highest overall office vacancy rate in the fourth quarter of 2022 at 24.1 percent. The San Francisco MSA also had the largest overall increase in the office vacancy rate, rising 5.6 percentage points over-the-year.
- The Denver South area had the lowest overall office average lease rate among the competitor MSAs. The average lease rate in the Denver South region rose 0.9 percent over-the-year.
  - Office average lease rates decreased in two of the five competitor MSAs. The New York MSA (-3.4 percent) had the largest over-the-year decrease in the office average lease rate. The Seattle MSA posted the largest lease rate increase, rising by 14.2 percent over-the-year.



- The San Francisco MSA has historically had the highest average office lease rate among the competitor MSAs. The San Francisco MSA's overall average lease rate is over 2.5 times higher than the average lease rate in the Denver South region.

### Industrial Vacancy & Average Lease Rates for Competitor MSAs

- The Denver South region's overall industrial vacancy rate was the highest among the competitor MSAs at 14.1 percent in 4Q 2022.
  - The overall industrial vacancy rate declined in two of the five competitor MSAs over-the-year. The Seattle MSA had the largest decline of 0.9 percentage points.
- Ongoing tight market conditions and elevated demand levels in the industrial market continue to exert substantial pressure on average lease rates.
  - The Denver South region's overall industrial average lease rate was the second lowest among the competitor MSAs.
  - All five competitor MSAs experienced an increase in the overall industrial average lease rate between 4Q 2021 and 4Q 2022.



Commercial Vacancy and Lease Rates by Property Type					
		Overall Vacancy Rate		Overall Avg Lease Rate (per sq. ft.)	
		4Q 2021	4Q 2022	4Q 2021	4Q 2022
<b>Office</b>	<b>Denver South</b>	16.9%	17.3%	\$27.86	\$27.97
	<b>San Francisco MSA</b>	18.5%	24.1%	\$75.54	\$74.93
	<b>Seattle MSA</b>	17.6%	19.5%	\$41.79	\$48.61
	<b>New York MSA</b>	20.9%	22.7%	\$57.86	\$56.18
	<b>Chicago MSA</b>	20.7%	23.1%	\$33.51	\$34.15
<b>Industrial</b>	<b>Denver South</b>	12.4%	14.1%	\$10.13	\$10.97
	<b>San Francisco MSA</b>	4.4%	5.7%	\$14.51	\$15.16
	<b>Seattle MSA</b>	4.3%	3.4%	\$10.05	\$11.36
	<b>New York MSA</b>	4.0%	4.2%	\$20.43	\$25.63
	<b>Chicago MSA</b>	4.0%	3.9%	\$5.88	\$6.62

Notes: Vacancy rates and average lease rates are for direct & sublet space. Due to data availability, the San Francisco North Bay and NY Outer Boroughs were used as proxy's for their respective MSAs.  
Sources: CoStar Realty Information, Inc.; Cushman & Wakefield Marketbeat.