As appeared in…

A Colorado Real Estate Journal Publication

March 2026

OFFICE & INDUSTRIAL Quarterly

Denver CRE forecast 2026: Denial gets priced

Forecasts are usually wrong. Cycles are not. Denver is not collapsing. It is being repriced. And 2026 is the year denial gets marked to market.

For years, Denver underwrote itself like migration was permanent, hiring was linear, and money would stay cheap. None of that was durable. What we are seeing now is not drama. It is arithmetic.

Colorado enters 2026 with job growth slowing materially. CU Boulder's Business Research Division is projecting roughly 0.6% job growth, about 17,500 jobs statewide, and unemployment drifting toward 4.1%. That is not a recession. It is stagnation. Stagnation is worse for real estate than a sharp downturn because nothing resets cleanly. Occupancy bleeds. Rents stall. Expenses keep rising. Time becomes your enemy.

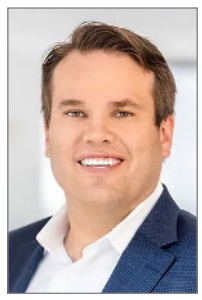
Migration is no longer a tailwind you can underwrite blindly. Bank of America Institute data shows movers have more than halved since 2021. Most are not making cross-country bets; they are relocating within their region. More nearby arbitrage than national reshuffling. Denver still attracts people, but momentum slowed into late 2025. Nearly two-thirds of major metros saw domestic outflows. That tells you this is not a Denver-only issue. It is a normalization of mobility.

The nuance matters. Metro Denver can show inflow while the city and county of Denver runs flat to negative net migration. For downtown office, retail and multifamily, that distinction is critical. A metro win does not fix a central business district vacancy problem.

Credit markets are already confirming the turn. Trepp reports office CMBS delinquency at 12.34% as of January, an all-time high. "Extend and pretend" is fading. Lenders are forcing paydowns, recaps or keys back. That is not panic. That is price discovery.

Expenses are not cooperating. Colorado private-sector hourly earnings have risen year over year. CU Boulder flags tariffs, policy shifts, and constrained labor as ongoing cost pressure. Underwrite expenses aggressively. Vacancy is not the only risk. Margin compression is.

Entitlement friction is its own tax. Local operators peg Denver approvals at two to three years. Phoenix and Salt Lake can do it in one. Time is capital. When approvals take three years, your hurdle rate moves up whether you admit it or not.



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Five hard truths for 2026

1. Denver is being repriced until the business narrative resets. Capital markets price perception as much as fundamentals. Meta cuts its downtown footprint. VF Corp. subleases LoDo space. Palantir moves its headquarters to Miami. Each headline goes into a board memo somewhere. Individually they are manageable. Collectively they shift the narrative.

Policy choices add to that perception. When a city bans Immigration and Customs Enforcement agents from municipal buildings, it may be locally popular. Nationally, it reads as political volatility. Investors and site selectors are not underwriting ideology. They are underwriting predictability. If Denver screens as higher friction, it competes as a higher-risk allocation. That means fewer true relocations and more defensive "maintain a presence" leases.

The fundamentals are not broken. But capital prices perception. Until leadership reasserts a clear, growth-oriented, pro-business narrative, Denver trades at a discount.

2. Cherry Creek gets real about what it is. It is not a second CBD. It is a constrained, premium submarket with a defined ceiling. In the last cycle, cheap capital let it absorb larger tenants than its physical layout and infrastructure naturally support. In a slower growth environment, that stretch stops.

Tenants above 15,000 square feet will focus on efficiency and expansion flexibility. Smaller floor plates, parking costs, and congestion limit Cherry Creek's ability to scale teams. That does not make it weak. It makes it boutique.

Growth becomes incremental, not explosive. Cherry Creek wins high-margin, image-driven users with smaller footprints. Scale demand consolidates where scale is structurally possible.

3. Conversions move forward. They do not fix downtown alone. High Fidelity Plaza at 621 and 633 17th St. pursuing Downtown Development Authority support is a sign that the market is finally moving. Unlike many proposed conversions, this project actually makes strategic sense. Its size, scale, and location give it the ability to act as an anchor for that part of downtown and concentrate residential density, foot traffic and retail activation in a way smaller projects cannot.

But conversions should not be mistaken for a broader strategy. The economics only work if demand returns. The most natural renter for downtown housing is still the downtown employee. If the city subsidizes residential units without restoring the daytime workforce, it risks institutionalizing low rents rather than rebuilding demand.

Small rent movements matter. Move rents 50 cents per square foot per month and building value changes materially. At normal cap rates, that shift alone can reduce required public subsidy by roughly $100 per sf. Demand, not construction cost, is the real leverage point.

The sequence matters. Restore jobs first. Then convert or demolish the remaining obsolete office space. And while 621 and 633 is exactly the type of building that should convert, the reality remains that in most cases it is still cheaper and easier to keep office as office. Conversions should happen where the building, scale, and location justify it, not everywhere.

4. Multifamily distress broadens. This is not just a suburban B and C story. Cheap debt pulled forward a decade of apartment supply. We built as if 2021 was permanent. It was not. Now absorption lags deliveries. Concessions return. Effective rents reset. Meanwhile cap rates move higher. Lower net operating income and higher exit yields create refinancing gaps.

Newly constructed Class A is not immune. Many projects were underwritten to peak rent growth and tight expense ratios. If your basis assumes rents the market will not support, quality does not save you. When construction loans convert or permanent debt matures in 2026 and 2027, equity gaps appear. This is a capital cycle problem, not a quality problem.

5. The suite economy accelerates. AI and stalled hiring shrink the unit of demand. A white-collar slowdown does not eliminate office need. It atomizes it. Displaced professionals become solo operators and consultants out of necessity. Companies hesitate to backfill roles. AI increases output without increasing head count. Demand fragments into 1,000 to 5,000 sf. Coworking and spec suites benefit. Undivided 30,000-sf plates struggle.

Large floor plates require confidence in multiyear hiring growth. That confidence is scarce. Buildings that can subdivide efficiently win. Those waiting for a single large tenant will wait a long time.

The grind through 2029

Denver is not imploding. It is resetting.

Cheap money mispriced risk and accelerated consumption. We built product that penciled because capital was artificial. Now valuations are resetting to what cash flow can actually support. That hurts current equity. It forces lenders to take write-downs. It is also how markets clear.

Here is the upside. We will own high-quality, recently delivered assets at fractions of replacement cost. Buildings that cost up to $800 per sf to deliver may trade at less than half that basis. That kind of embedded discount rarely exists in a structurally attractive city. It exists now because the capital stack is broken, not because the assets are.

This is the best long-term setup Denver could have asked for. We overbuilt. We overpaid. We believed pro formas that assumed permanent tailwinds. The reset clears that excess. The city ends up with newer inventory at rational bases.

The only real constraint is psychology. Equity has to accept impairment at best or complete loss at worst. Lenders have to recognize losses and move assets instead of extending and hoping. Until that happens at scale, the market grinds. Once it does, it clears fast.

This year rewards conservative capital and disciplined operators. Buy below replacement cost. Underwrite realistic rent growth. Assume expenses stay high. Demand yield for volatility.

The pain belongs to the prior basis. The opportunity belongs to the next one. ▲

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