DENVER

EXECUTIVE SUMMARY

- Denver's population has grown 20% since 2010, with millennials accounting for 52% of in-migration. With a relatively young and well-educated population, Denver continues to attract new employers seeking talent.
- Seeking asylum from increasingly high rents in the coastal markets the number of tech companies relocating to Denver from San Francisco and the Silicon Valley have had a positive effect on both absorption and rents in the office sector.
- Five years recreational cannabis sales began in Denver, the industry continues to boom, with the focus shifting from recreational marijuana to the extraction, production, and sale of the federally legal, hemp-based CBD oil.
- With the low cost of debt and equity and attractive yields, Denver has increasingly become a target for both domestic and foreign capital, despite rising property values and cap rate compression.

The Denver market continues to be defined by robust population growth, which has driven companies seeking well-educated talent to the market, attracted multi-family and office investors drawn to sustained rent growth and healthy cash flows, and increased the need for last-mile industrial space as consumer demand rises in concert with the positive net migration year-over-year.

Beyond a growing population, one of the leading influences on the Denver commercial real estate landscape has been the influx of both start-up and established tech companies that have either relocated or expanded to Denver over the last ten years. Tech companies absorbed over 1.3 million square feet (msf) from 2018 through third quarter 2019, accounting for 35% of total office space absorption during that period. 2020 will undoubtedly see the tech presence grow throughout Denver, especially in the Central Business District and surrounding submarkets. In April of 2019, Amazon signed a 98,000 square foot (sf) lease in Lower Downtown with plans to hire 400 new employees in 2020.

High-density areas will continue to see rents climb as a result of rising construction costs, albeit at a more modest rate. After a period of bullish development from 2016-2018, the office development pipeline in Denver has thinned. However, the new space is seeing healthy leasing activity. As a result, vacancy is likely to continue trending down in 2020, with absorption holding steady.

Like many other markets across the United States, Denver waits to see what impact WeWork's future will have on both absorption and vacancy figures in 2020. WeWork has leased over 606,000 sf in Denver since 2016, but their failed IPO has prompted questions regarding square footage they've leased but not yet absorbed. 2020 will likely see landlords exhibiting more caution when negotiating with the coworking titan, and any return of underperforming space could have significant impact on both vacancy and absorption figures.

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	↑	↑
Vacant Space	↓	→	↑
Construction Levels	↑	↑↑	↓↓
Leasing Volume	→	↑	→
Investment Volume	↓	↓	↓

Along with the emerging tech presence, Denver continues to see growth in the aerospace, construction, and healthcare industries. The aerospace sector is likely to see more expansion in 2020, starting with Lockheed Martin's a new 266,000 sf flex facility at their Waterton Campus in Littleton, which will bring the total footprint of the campus to 3.5 msf. To the south, the expansion of the RTD Light Rail has given way to significant transit-oriented development, including a large build-to-suit facility for construction and engineering firm Kiewit.

The industrial sector in Denver remains white-hot as increased consumer demand continues to drive last-mile and logistics real estate in the progressively tight in-fill submarkets. Land in key submarkets like the E I-70/Montbello has all been snapped up and promptly developed over the last five years. The construction pipeline continues to be dominated by speculative development, a testament to the faith developers seem to have in the Denver market. With in-migration and GDP growth projected to continue in 2020, it is likely the industrial sector's growth will continue as well.

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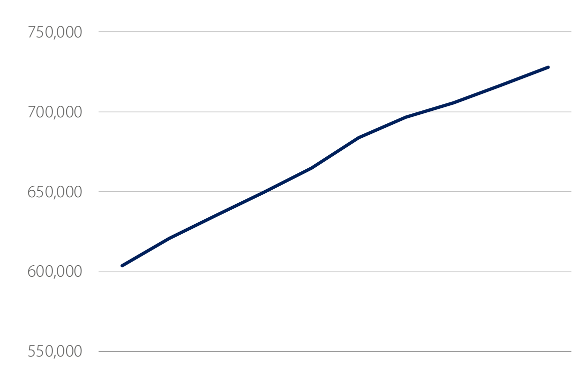
Build-to-suit activity in Denver has remained solid over the last several years, with several large companies electing to either relocate to the market or expand their current footprint. With its strategic position between the coasts and its growing population, Denver remains an attractive option for regional distribution hubs.

The new frontier of the cannabis industry in Colorado is the extraction and treatment of cannabidiol (CBD) oil. Given its lack of psychoactive compounds, CBD is federally legal and is increasingly available at large national retailers like Whole Foods and Walmart. Driven by rabid consumer demand, The CBD industry is also pioneering the use of technology in industrial buildings to facilitate their business, with CBD tenants pushing for larger tenant allowances to accommodate their specialized needs. As with tech, the cannabis industry has evolved from a trend to a paradigm shift, with

POPULATION GROWTH

Denver Annual Population Growth



*Projected
Source: BLS.gov

the production and storage of hemp-based products serving as the greatest driving force heading into 2020.

As with other markets, Denver's retail landscape continues to center around the experiential, with food halls and public markets continuing to thrive in both urban and suburban locations. With their high sales per square foot, marijuana dispensaries are also poised to have a transformative effect on the Denver retail landscape in the next several years, including increased rent growth and absorption. While current zoning and financial restrictions may keep the cannabis industry from having a significant impact on retail in 2020, its effects are still likely to be felt long-term.

Denver's investment landscape continues to be driven by plentiful capital and the rising costs of land, construction, and labor. Despite the availability of debt and lower interest rates, investment volume in Denver was down in 2019 as investors continue to be conservative in their underwriting. With ongoing discussions of a global economic slowdown, investment volume is predicted to slow again in 2020. However, investment activity will likely remain healthy. Denver continues to generate real estate investment volume well above its 0.9% share of the U.S. population, with a 2.1% market share of national transactions in the first half of 2019. With big deals continuing to be inked late into 2019, Denver's total deal market share is liable to hold steady, if not grow, in 2020.

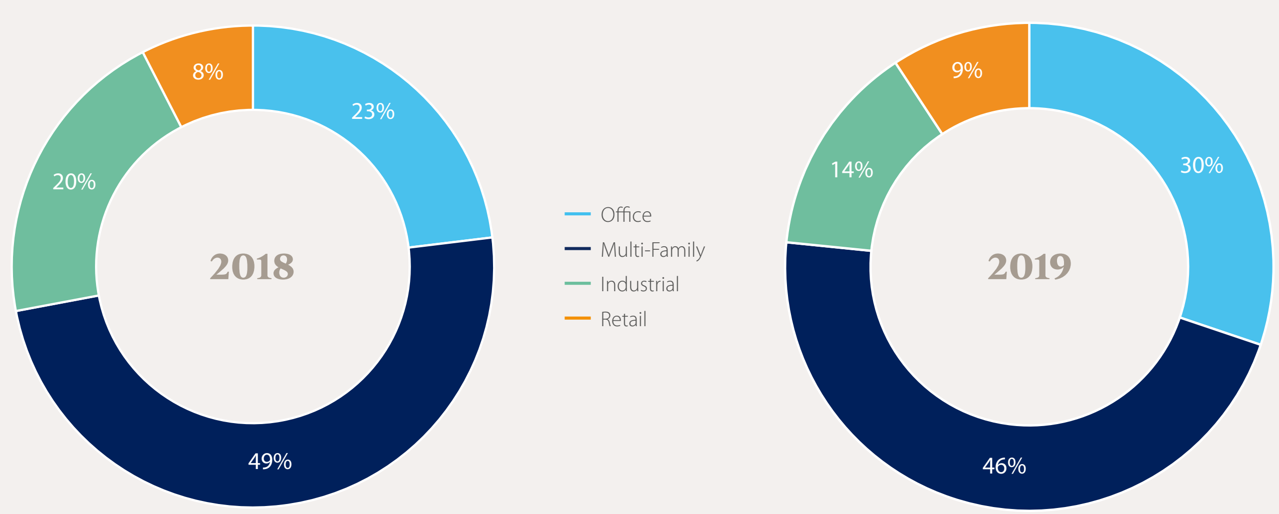
In the office sector, buyers have begun investing in large-scale renovations to retrofit existing buildings with the modern amenities necessary to compete with new construction on rental rates, a trend which has emerged in both the urban and suburban submarkets. With a continued emphasis on wellness in the workplace and the need for modern amenities to satisfy millennial talent, this is a pattern likely to persist in 2020, especially as construction shortages endure. Construction consulting company Rider Levett Bucknall cited Denver as having the third highest construction cost escalation in North America, projecting a 4% construction cost escalation year-over-year in 2020.

Denver continues to rank in the top ten of the US markets for multifamily transaction volume, coming in at number eight at the end of 2018. With population and wage growth driving demand causing rents to soar, investors remain eager to capitalize on the sector's continued success. With millennial in-migration projected to continue into 2020, multifamily development and investor demand will seek to keep pace.

The new frontier of the cannabis industry is the extraction and treatment of cannabidiol (CBD) oil. With a broader customer base than psychoactive marijuana products, consumer demand for CBD-related products continues to drive industrial rents and property values.

YEAR-OVER-YEAR INVESTMENT VOLUME

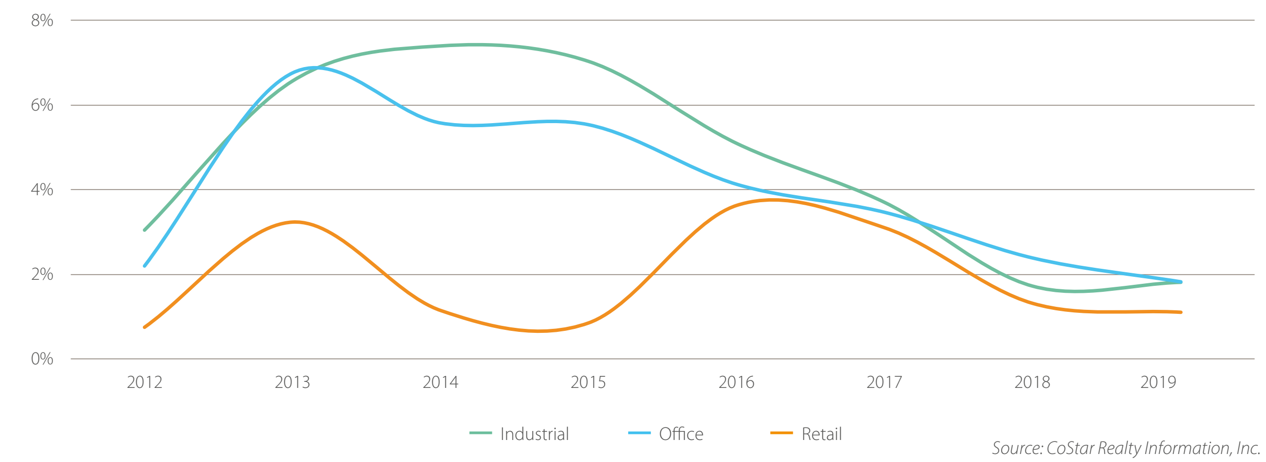
Denver Annual Investment Volume by Asset Type



Source: Real Capital Analytics

RENT GROWTH

Dever Year-Over-Year Percentage Rent Growth by Asset Type



Source: CoStar Realty Information, Inc.

Despite more conservative lender underwriting and the current cycle timing, grocery and grocery-anchored retail strips continue to provide retail investors with returns that defy the so-called "retailpocalypse." Investors are focused on strong tenant history in the desirable submarkets, and with property values at all-time highs, the focus is on purchasing capital flows rather than targeting strip centers as value-add opportunities.

Denver continued to enjoy an increase in both domestic and foreign capital in 2019, a trend that will likely persist in 2020. Between 2018 and 2019, Denver recorded more than $805 million in foreign investments, and the market has seen foreign investments rise 650% since 2007. Given Denver's rapid rent growth and comparably lower property costs, it will remain a market in which both foreign and out-of-state capital can achieve favorable yields. Denver's investment in public transit—which has given rise to transit-oriented development—has also attracted investors. With the RTD's recent expansion of the Light Rail to the south and plans for more growth in 2020, this interest is unlikely to wane in the foreseeable future.

Overall, Denver's continuing growth and economic diversification have cultivated a healthy commercial real estate landscape, and one that seems poised to thrive in 2020. Industry professionals remain cautious in both development and investment decisions as the cycle stretches on. While 2020 is predicted to show some signs of cooling off, there are no indications the market need have cause for concern.

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