Forecast 2021

Denver, CO

AVISON YOUNG

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Denver, CO

Executive Summary

- Corporate in-migration remains largely unchanged by COVID-19 as companies continue relocating to Denver
- Office sublease space is on the rise as tenants re-examine their need for a physical office space.
- The multifamily sector is king in Denver even as rents drop and potential loan exposure grows
- With COVID-19's effect on e-commerce, "last-mile" warehouses remain at the heart of Denver's industrial market
- Denver's growth and competitive building values coupled with low interest rates continue to attract investors

Beyond the continually-evolving social and economic effects of the COVID-19 pandemic, the second biggest economic driver in Denver continues to be sizable corporate expansions and relocations to the market by companies across the major economic sectors.

From tech companies fleeing the exorbitant rents of the Silicon Valley to aerospace firms drawn by Denver's highly skilled workforce, Denver's commercial real estate landscape continues to benefit from the city's increasingly diverse economy.

However, the influx of new tenants to the market has not off-set the rise in office sublease availability, which has grown significantly as a result of the pandemic—up nearly 53.7% year-over-year as of the third quarter of 2020. The pandemic has served as a large-scale case study on the work-from-home model, proving that technology can make working remotely not only possible, but functional. While the consensus seems to be that there is still value in having an office for the purpose of fostering collaboration and culture, Denver is seeing a number of large-scale tenants revaluating their real estate footprint as corporate America experiences a tonal shift towards a more flexible working model.

Given Denver's sustained population growth and the continued influx of high-paying jobs to the market, the multifamily sector remains white-hot in the Denver market. Denver remained in the top four U.S. major metro markets for total absorption year-over-year through 3Q2020 and has outpaced the national rent collection average since the start of the pandemic.

Multifamily financing options remain plentiful and cheap, and pent-up investor demand has kept Denver fourth overall in multifamily sales volume across the major metros through the year ending in 3Q2020. While the upcoming spate of new construction deliveries in some of Denver's highest-rent districts—includeing RiNo and Cherry Creek—will likely push vacancy in 2021, the ability to work remote has been projected to result in greater population

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growth in Denver in 2021, meaning multifamily demand will likely remain strong, mitigating the risk of increased loan exposures as a result of rent non-payment by tenants.

E-commerce had been transformative of Denver's industrial market even prior to COVID-19, but with the exponential increase in online shopping and grocery delivery, the need has only grown more pressing. In addition to higher building values (and rents) for properties in "last mile" locations, Denver is seeing developers exploring options for adaptive reuse of distressed retail properties in high-density areas for conversion into fulfilment centers and last touch facilities.

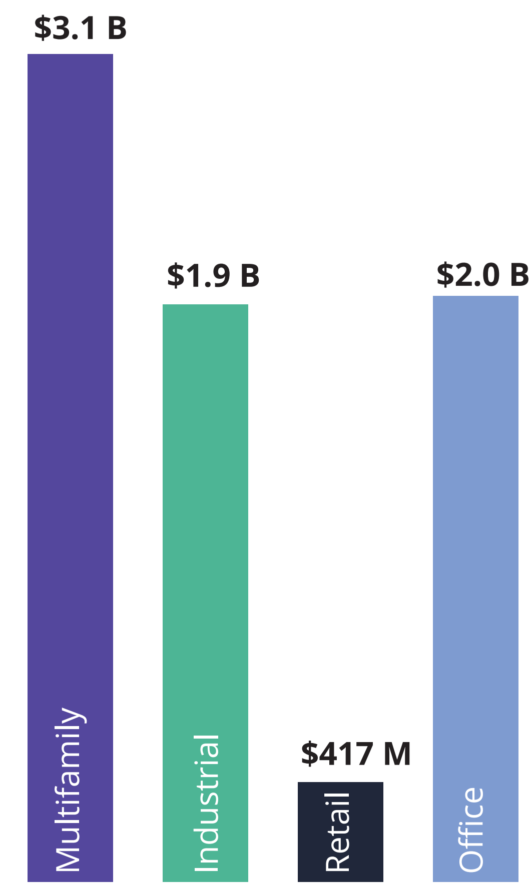
Denver remained in the top twenty markets for total investment volume for the year ending in 3Q2020, with large deals occurring across the sectors even amidst the pandemic. For office, the Southeast Suburban market continues to draw both foreign and out-of-state investors. In the industrial sector, cash-flow investors have driven the majority of acquisitions, leading to an uptick in sale and leasebacks as owner-users look to free up capital. More broadly, cold storage and "last mile" warehouse space remain in high demand with institutional investors looking to capitalize on Denver's growth potential.

Multifamily investment remains evenly distributed across classes and product types, from Class C buildings demonstrating strong rent growth to luxury properties commanding top dollar. For retail, grocery and grocery-anchored properties have become all-important as consumer habits shift to accommodate spending more time at home, driving grocery profits and rents. Overall, the pandemic has made sales trends more difficult to predict, but Denver's performance in both the second and third quarters of 2020 suggest that investor interest will persist in 2021, possibly rebounding to pre-pandemic figures depending on how the virus trends and how economic recovery fares as a result.

Trend watch

No place like home
The pandemic confirmed the functionality of work-from-home, prompting tenants to reevalute their need for office space

Hyperlocal
With COVID-19 increasing e-commerce demand, industrial real estate remains driven by supply chain needs



12-Month Transaction Volume
RCA Analytics

Get more market information

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