

Quick Stats

18,900

Net employment increase through February up 2.6% year-over-year**

2.5%

Unemployment in Denver as of February 2020, 100 basis points (bps) below the national average**

6,230,987

Square feet under construction with 32.2% pre-leased.

5.0%

Denver industrial vacancy rate down 60 bps from fourth quarter of 2019.

**data reflecting COVID-19-related unemployment/net employment figures not yet available

First Quarter 2020 / Industrial Research Report

Denver

Market Overview

Prior to the proliferation of the COVID-19 pandemic, the Denver industrial market outlook remained positive through the first quarter of 2020. The unprecedented nature of COVID-19's disruption has generated uncertainty in both the commercial real estate industry and the economy-at-large. However, the industrial sector may experience an up-side—or perhaps, more realistically, some resilience—to the pandemic's effects as the need for warehouse space grows. In the first quarter, the Denver industrial market recorded an increase in investment sales volume compared to the fourth quarter of 2019. This may suggest that Denver has an opportunity to remain an important hub for both commercial leasing and investment sales in the coming quarters.

Vacancy & Availability

Vacancy dropped 60 basis points (bps) from the end of 2019, concluding the first quarter of 2020 at 5% vacant. This did represent a 30-bps increase year-over-year (YOY). However, the drop is an important testament to pre-COVID-19 demand, particularly in light of the amount of speculative space which delivered in 2019 with little to no pre-leasing activity. Manufacturing vacancy increased 30 bps from the fourth quarter of 2019 to

the first quarter of 2020, ending March with 3.7% vacancy. Manufacturing remains one of the chief drivers of Colorado's economy, though labor shortages have proved an impediment to growth over the last several years. Warehouse vacancy enjoyed a 110-bps drop in the first quarter. While vacancy in other industrial sectors is predicted to see a somewhat-dramatic rise as shelter-in-place initiatives continue to cause economic disruption, demand for e-commerce could buffer warehouse vacancy later in the year.

Asking Rates

After years of sustained rental rate growth, the market experienced a predicted softening in rental rates in the first quarter of 2020, fueled in part by the rise in vacancy YOY. The quarter ended with a weighted NNN average of \$8.38 per square foot (psf), down 4% quarter-over-quarter. This may be due in part to rental rate contraction in the E. I-70/Montbello submarket, which constitutes the largest percentage of the market's total square footage. The submarket experienced a rather dramatic decrease in average NNN rents, falling from \$7.11 psf to \$6.23 psf quarter-over-quarter. Warehouse rental rates also experienced a drop-off in the first quarter. It's possible that increased

Denver

demand and continued rent growth in the cold storage sub-sector could stave off sustained contraction in warehouse rental rates. Manufacturing rents experienced a decrease as well, though at a more measured rate.

Absorption and Demand

Total net absorption decreased for the second consecutive quarter, ending the first quarter of 2020 at a modest 386,751 square feet (sf). Move-ins by large retailers like Best Buy—who took occupancy of 28,765 sf at 1600 Abilene Street in Aurora—and Walmart—who moved into 33,626 sf at 221 N. Kuner Road in the Northeast—helped absorption to trend positive. Looking into coming quarters, the pipeline reflects a number of significant move-ins that would suggest net absorption will remain positive through the end of the year. However, the full effect of COVID-19's impact on the real estate market and the economy remain unknown, and it's possible some signed deals may push to delay occupancy or shrink their intended square footage to adapt to the changing economic landscape. The largest deal of the quarter was discount clothing retailer TJX's 94,621 sf lease at 8251 Quintero Street in the Northeast.

Construction and Deliveries

Deliveries were light in the first quarter of 2020, even as the construction pipeline swelled to 6.2 million square feet (msf). Pre-leasing figures continue to be low for speculative space even as more speculative warehouse projects continue to break ground. Work continues on several multi-building speculative

projects across the market, including Brennan Investment Group's 558,000 sf project in the Northeast, and United Properties two-building project totaling 219,200 sf in North Denver. Both Brennan and United's projects are due to deliver late summer, and as-yet neither has seen any significant pre-leasing activity. Several additional projects have begun site work but have yet to break ground, and though none have announced plans to delay, the possibility remains as COVID-19 continues to create change in the market.

Capital Markets

The first quarter of 2020 recorded \$516 million in investment sales, a nearly \$70 million jump from the fourth quarter of 2019. In February, REIT Prologis' \$4 billion acquisition of Industrial Property Trust (IPT) closed, including three buildings totaling 751,476 sf in the Denver market for an allocated \$64 million. Also of note was the sale of the 149,652 sf flex building at 14101 E. Otero Avenue in Englewood, which sold for \$23 million, or \$154 psf. The sale represents the growing importance of the Southeast submarket in the industrial sector, particularly as increased access due to the E-470 improvements offer an attractive alternative for logistics hubs. Despite the pandemic, Denver's industrial market remains attractive to investors, and could provide opportunities to acquire prime assets, possibly at below-market value.

5.0%
VACANCY RATE

6.2 msf
UNDER
CONSTRUCTION

\$8.38 NNN
AVG. ASKING RATE

Trends to Watch



- In response to stay-at-home measures designed to curtail the spread of COVID-19, e-commerce continues to boom. This has created increased demand for warehouse space and logistics hubs as both established e-commerce companies and more traditional retailers look to pivot their business to reflect current consumer priorities. Even beyond the expiration of shelter-in-place initiatives, the desire to self-isolate may provide a buffer to the industrial sector as e-commerce continues to proliferate.

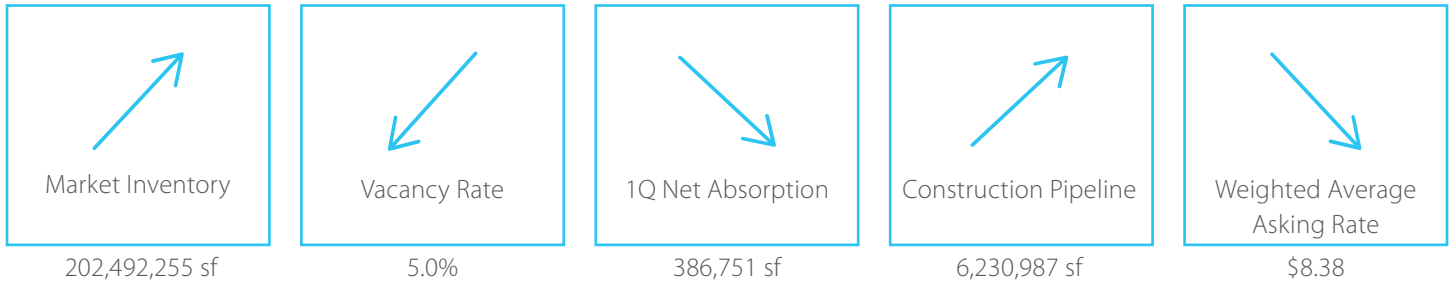


- Between Saudi Arabia's price war with Russia and dramatically lessened demand as a result of world-wide shelter-in-place directives, crude oil prices are nearing all-time lows. In a further strain on the industry, oil storage is approaching critical levels. With a drop in oil prices often comes market volatility, and a continued disruption within the oil and gas industry may cause commercial real estate investors, developers, and tenants to reexamine their strategies accordingly.



- Even as it continues to wreak havoc on the restaurant industry, COVID-19 has only increased the need for cold storage in the Denver market and the country at-large. Social distancing guidelines and stay-at-home directives have created a greatly-increased demand for fresh groceries, augmenting an already white-hot sub-sector of the industrial market. As developers work to build or retrofit new cold storage facilities to meet the demand, the market will likely see the cold storage inventory grow, along with rents.

Industrial Market Snapshot



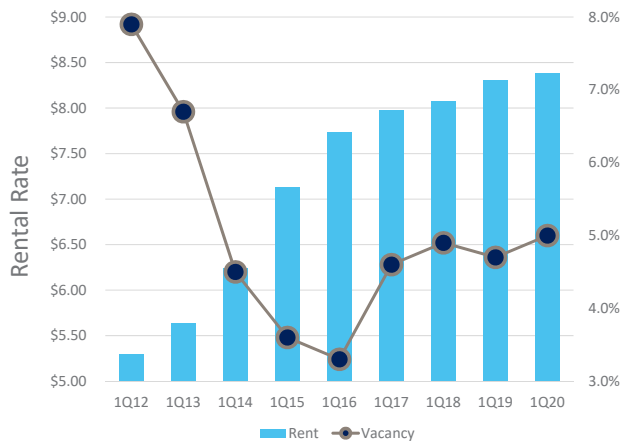
1Q2020 Market Stats

Submarket	Buildings	Inventory SF	Vacant SF	Vacancy %	YTD Net Absorption	YTD Leasing Activity (SF)	Delivered YTD	Under Construction	Pre-leased (SF)	Average Asking Rent
Aurora	42	2,115,779	135,269	6.4%	27,940	26,912	-	50,000	50,000	\$7.60
Broomfield	68	4,249,850	318,537	7.5%	35,130	50,171	-	0	0	\$10.03
Central	153	8,839,501	158,797	1.8%	66,208	0	-	0	0	\$10.13
E. I-70/Montbello	837	79,151,014	4,808,233	6.1%	202,030	1,448,003	-	2,734,520	1,318,000	\$6.23
Glendale	40	1,688,037	24,210	1.4%	(5,298)	16,677	-	0	0	\$8.90
Longmont	78	4,733,473	758,070	16.0%	7,093	0	-	78,000	38,000	\$11.98
North	125	8,996,794	641,921	7.1%	(66,217)	72,732	-	1,129,282	269,000	\$9.56
North Central	241	13,517,029	526,910	3.9%	(37,405)	69,764	-	0	0	\$8.92
Northeast	248	17,377,521	633,750	3.6%	147,140	194,051	-	737,573	33,657	\$8.65
Northwest	205	11,058,657	420,913	3.8%	(43,205)	16,322	-	362,160	0	\$9.06
Parker/Castle Rock	17	685,182	100,671	14.7%	7,248	3,548	-	0	0	\$10.07
South Central	194	8,144,318	204,934	2.5%	13,111	110,953	-	0	0	\$8.64
Southeast	252	14,734,331	911,516	6.2%	62,597	156,733	-	788,452	0	\$10.56
Southwest	151	7,789,108	264,464	3.4%	(28,945)	15,440	-	50,000	0	\$10.38
West	192	19,411,661	211,593	1.1%	(676)	45,974	35,000	301,000	301,000	\$11.02
Total	2,843	202,492,255	10,119,788	5.0%	386,751	2,227,280	35,000	6,230,987	2,009,657	\$8.38

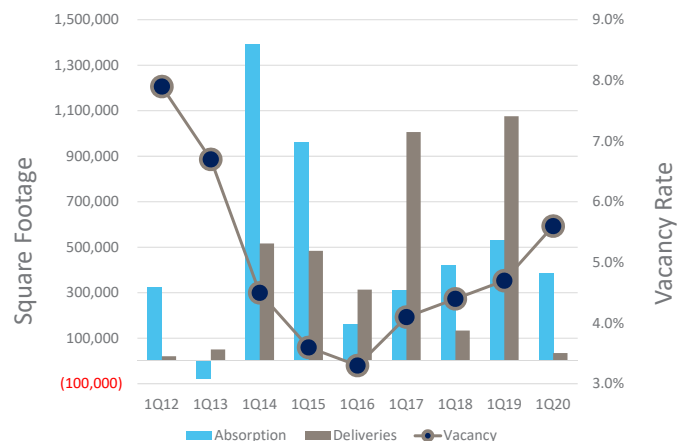
1Q2020 Building Deliveries

5495 W. 6th Avenue--Coated Metals Build-to-Suit
(35,000 sf) Lakewood

Historical Vacancy & Rent



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	Square Feet (sf)	Industry
Safilo's (expansion)	22905 E. 19th Avenue	E. I-70/Montbello	99,227 sf	eye-ware manufacturer
TJX Companies	8251 Quintero Street	E. I-70/Montbello	94,621 sf	clothing manufacturer
Colorado Distribution Group	1151 E. 45th Avenue	E. I-70/Montbello	62,614 sf	logistics
U-Haul Company of Colorado	4744 Forest Street	E. I-70/Montbello	43,410 sf	professional services
Tesla	450 E. 52nd Avenue	North Central	30,202 sf	automotive

Top Sales

Building	Buyer	Submarket	Square Feet (sf)	Sale Price	PSF	Date
2470 Airport Boulevard - Airways Business Center	Prologis (IPT acquisition)	Aurora	423,000 sf	\$36,000,000	\$85.00	Jan-20
11363 Reed Way - Interpark Industrial Center	Stockbridge Capital	Broomfield	239,816 sf	\$46,525,000	\$194.00	Feb-20
5501 Peoria Street	Prologis (IPT acquisition)	E. I-70/Montbello	228,376 sf	\$19,500,000	\$85.00	Jan-20
3821-3897 Steele Street	Harbert Mgmt. Corp.,	North Central	482,700 sf	\$73,800,000	\$153.00	Jan-20
14101 E. Otero Avenue - Dove Valley Business Center	Westcore Properties	Southeast	149,652 sf	\$23,000,000	\$154.00	Feb-20

Under Construction

Building	Developer	Submarket	Square Feet (sf)	% Pre-leased	Delivery
26100-26120 E. 68th Avenue - JAG Logistics Center, Trade 1	J.A. Green Development	E. I-70/Montbello	180,000 sf	0%	Jun-20
Colorado Logistics Park, Bldgs. A,B & D	Brennan Investment Grp.	E. I-70/Montbello	558,000 sf	0%	Jul-20
20500 E. Colfax Avenue - Stafford Logistics Center, Bldg. 1	NorthPoint	E. I-70/Montbello	594,138 sf	0%	Jul-20
5303 Havana Street - Prologis Park Stapleton North	Prologis	E. I-70/Montbello	209,078 sf	0%	Nov-20
25 North - Bldgs. 1 & 2	United Properties	North	219,200 sf	0%	Mar-20
7450-52 Clayton Street North Central Bldgs. A, B & C	SunCap Property Group	North	641,082 sf	0%	Dec-20
22600 E I-76 - 76 Commerce Center, Bldg. 4	Hyde Development	Northeast	352,240 sf	0%	May-20
7901-7955 S. Potomac Street - Potomac Park 1 & 2	The Opus Group	Southeast	265,522 sf	0%	May-20
Edge 470- Bldgs. 1 & 2	Etkin Johnson	Southeast	159,259 sf	0%	Oct-20
Ridge Road & Robb Street - Mountain Gateway, Bldgs. 1 & 2	Cale Enterprises	Northwest	142,180 sf	0%	Jun-20
12257 S. Wadsworth Boulevard - Lockheed Martin Facility	Hensel Phelps	West	266,000 sf	100%	Apr-20

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