

# MARKETBEAT

## Denver, Colorado

### Industrial Q2 2018



#### DENVER INDUSTRIAL

#### Economic Indicators

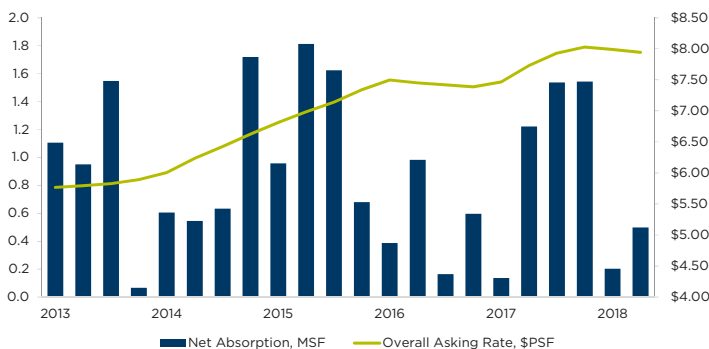
	Q2 17	Q2 18	12-Month Forecast
Denver Employment	1.46M	1.49M	▲
Denver Unemployment	2.6%	2.7%	■
U.S. Unemployment	4.3%	3.8%	▼

#### Market Indicators (Overall, All Product Types)

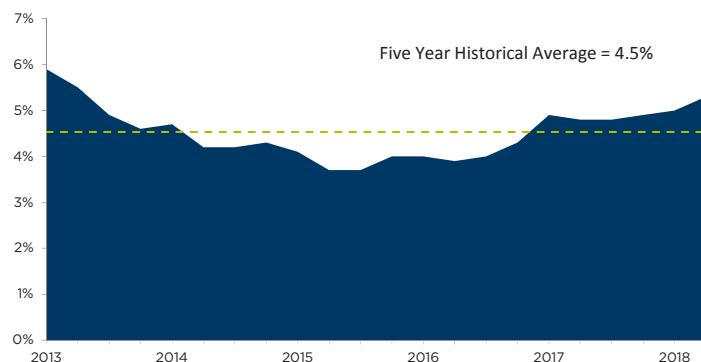
	Q2 17	Q2 18	12-Month Forecast
Overall Vacancy	4.8%	5.3%	■
Net Absorption	1.2M	498k	▲
Under Construction	6.2M	4.7M	▲
Average Asking Rent	\$8.10	\$7.92	■

\*Rental rates reflect triple net asking \$psf/year

#### Overall Net Absorption/Asking Rent



#### Overall Vacancy



#### Economic Overview

Denver metro economic momentum continues to roll on with one of the lowest unemployment rates in the nation and several full of top 5 national rankings, including best place for business and best place to live. Colorado's unemployment rate has remained below the national average for the 13th consecutive year and is expected to remain near historically low levels throughout 2018. Denver unemployment closed the first half of 2018 at 2.7%, down 20 basis points (bps) from first quarter 2018. The City and County of Denver's annual growth rate just published for 2017 was 1.4% for the second year in a row, reflecting a slowing pace due to lack of labor. Annual growth for 2011-2015 was 2.0%, the city's 3rd longest-running population boom driving an extensive range of construction, immigration, civic projects and GDP.

#### Market Overview

Overall vacancy in the Denver Metro industrial market closed the second quarter of 2018 at 5.3%, up from 5.0% recorded the first quarter of 2018. This uptick in vacancy was due to two new large developments, totaling approximately 1 million square feet (msf), that delivered this quarter without any preleasing. Warehouse and office/service metro-wide recorded vacancy rates at 5.1% and 6.7% respectively, representing 20 bps and 60 bps increases from last quarter. Despite vacancy rising, leasing activity began to ramp up at the end of the quarter. During the second quarter, 127 deals were signed totaling more than 1.8 msf, bringing the first half of 2018 to 264 deals and approximately 3.5 msf, compared to the historic high first half of 2017 that totaled 7 msf. Leasing activity for Q1 and Q2 2017 were significantly higher than normal due to multiple leases by one undisclosed tenant totaling 2 msf. At the end of the second quarter 2018, tenant requirements have increased, and it is anticipated that the second half of the year will result in an uptick of leasing activity. The Northeast submarket posted 905,000 square feet (sf) of leasing activity for the second sequential quarter. Metro-wide triple net asking rental rates per square foot (psf) have begun to level at an average of \$7.92 psf during the second quarter of 2018. This was up from \$7.78 recorded the first quarter 2018. Warehouse rates increased 1.4% from last quarter to \$6.48 nnn psf metro-wide with a downtick of -2.2% in the Northeast. This is attributed to an increase in supply from new construction projects delivering to the market and triple net operating expense increases from higher property tax valuations.

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Construction hasn't slowed, with more than 4.7 msf currently under construction and activity well above the five-year historical average of 2.9 msf. Delivery of new product to the market this quarter was 1.55 msf compared to the quarterly average of 1.1 msf since 2016. The Northeast recorded more than 2.9 msf under construction and 740,000 sf of deliveries while the Central Submarket closed the quarter with approximately 780,000 sf under construction and approximately 627,000 sf in the Northwest. Notable construction completions this quarter included Majestic Commercenter Building 15 (701,900 sf) and Park 12 Hundred Buildings 1-4 (325,000 sf total). Denver Metro recorded positive net absorption of about 498,000 sf with about +538,500 sf of net absorption in the Northeast submarket with the majority concentrated I-70 East. During the first half of 2018, there was more than +807,000 sf of net absorption, down from +1.6 msf in the first half of 2017.

### Investment Sales

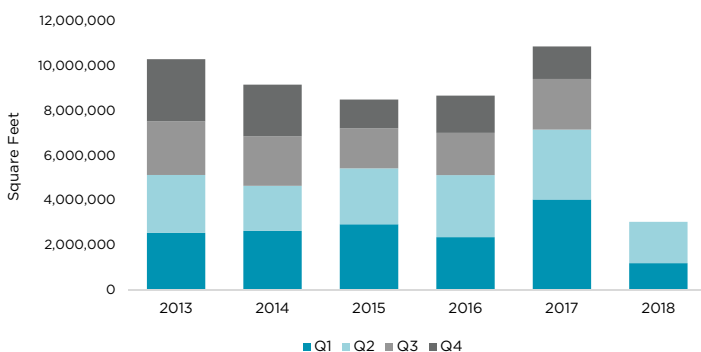
Investor appetite for industrial real estate in Denver continues at a torrid pace. 2017 was the strongest year in history in terms of total sales volume and low cap rates, which this trend has not let up in the first half of 2018. Throughout the first two quarters of the year, sales volume is on pace to record its most active year ever (\$656 M total sales volume so far in 2018 compared to \$854 M in sales volume for the entire year in 2017). The market continues to have limited offerings; therefore, when quality product comes to market there is a feeding frenzy by buyers. Despite rising interest rates, average cap rates dropped to 5.99% (down 74 basis point from 6.73% average in 2017). We have also seen the lowest stabilized Class A core cap rates ever documented in the market in the range of 4 - 4.5%. As capital continues to target Colorado, we expect cap rates to remain stable through the end of 2018. Notable transactions so far in 2018 include: Hub 25 Portfolio (421,499 sf) sold for \$74 M

(\$175.56/sf), Boulder County Business Center (556,410 sf) sold for \$68.5 M (\$123.11/sf), Denver Urban Business Center (330,820 sf) sold for \$33.35 M (\$102.77/sf), and Confluent Center 70 (105,670/sf) for \$15.725 M (\$148.81/sf). The Stock Show and DIA renovation, coupled with the Central 70 project may cause some disruptions in the market, however, we anticipate continued strong performance by the industrial sector for the foreseeable future.

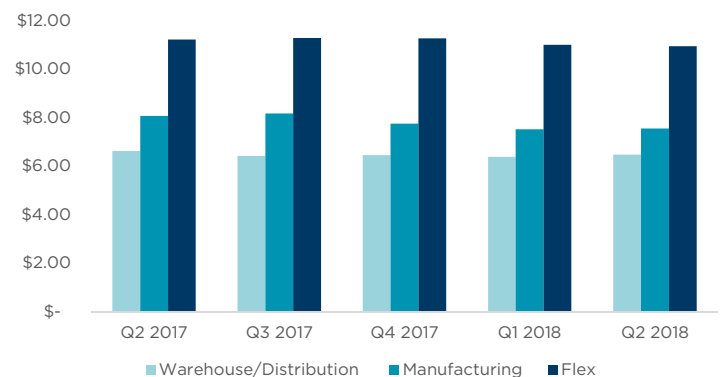
### Outlook

- There are several large infrastructure projects in Metro Denver that will impact the industrial market in the future. "Central 70," the Interstate 70 infrastructure improvement project began preemptive construction work this quarter with lane restrictions along the west area of the project, southside of 47th Avenue between Williams and Josephine streets. Within the same vicinity, the National Western complex began rerouting traffic to start site preparation for massive redevelopment. Also, Denver International Airport (DIA) broke ground on a \$1.5 billion gate expansion project, with proposals out for further expansion and access improvement projects.
- After being implemented for six months, the Green Roof Initiative was revisited by Denver's City Council proposing seven options to make it more cost effective for owners and developers than the original ordinance passed by voters.
- New development activity will continue to be at historic highs in the near term as many new projects will break ground in the second half of 2018 and are planned for 2019 for both speculative and build-to-suit.
- High construction costs will continue to be a factor in the market for both new construction and tenant improvements.

### Leasing Activity



### Overall Net Average Asking Rate By Product Type



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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE (SF)	OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVG. NET RENT (W/D)	OVERALL WEIGHTED AVG. NET RENT (MF)	OVERALL WEIGHTED AVG. NET RENT (FLEX)
Boulder/Broomfield	489	23,503,858	151,487	1,637,347	7.6%	35,566	483,786	\$10.54	\$9.03	\$10.54
Central	996	44,016,919	23,200	1,462,957	3.4%	-34,047	777,632	\$7.14	\$6.68	\$7.01
<b>NORTHEAST</b>	<b>1,473</b>	<b>102,133,882</b>	<b>1,433,048</b>	<b>5,202,076</b>	<b>6.5%</b>	<b>538,508</b>	<b>2,961,615</b>	<b>\$5.71</b>	<b>\$6.61</b>	<b>\$8.65</b>
Northwest	429	24,400,270	7,530	742,422	5.3%	-7,162	155,990	\$10.14	\$9.13	\$10.14
Southeast	481	22,037,438	60,304	1,203,777	5.7%	13,382	363,652	\$8.97	\$6.25	\$10.98
Southwest	806	27,618,251	18,650	1,035,622	3.8%	-48,614	0	\$8.87	\$7.73	\$11.01
<b>DENVER TOTALS</b>	<b>4,674</b>	<b>243,710,618</b>	<b>1,694,219</b>	<b>11,284,201</b>	<b>5.3%</b>	<b>497,633</b>	<b>4,742,675</b>	<b>\$6.48</b>	<b>\$7.58</b>	<b>\$11.00</b>

\*Rental rates reflect net asking \$psf/year

#### Under Construction Q2 2018

PROJECT	SF	DEVELOPER	ESTIMATED COMPLETION	SUBMARKET
Confidential (BTS)	855,000	Trammell Crow	Q3 2018	Northeast
Haier-Becknell (BTS)	540,931	Becknell Industrial	Q1 2019	Northeast
18100 East 40th, Gateway Park Bldg. 22 (Spec)	419,060	The Pauls Corporation	Q1 2019	Northeast
6050 Washington, Prologis Park Central Bldg 2 (Spec)	383,104	Prologis	Q1 2019	Central
76 Commerce Center Bldg 5 (Spec)	266,240	Hyde Development	Q4 2018	Northeast
Eastpark 70 Building 2 (Spec)	243,200	Consolidated Investment Group	Q3 2018	Northeast
18300 E 40th, Gateway Park Bldg 23 (Spec)	184,040	The Pauls Corporation	Q1 2019	Northeast
Prologis Park Central Bldg 1 (Spec)	166,345	Prologis	Q4 2018	Central

#### Key Lease Transactions Q2 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
8251 Quintero Street	351,834	Haier-GE Appliances	Direct	Northeast
3801 Havana Street Enterprise Park Bldg 3	176,902	Pinnacle Architectural Lighting	Direct	Northeast
10000 East 45th Avenue Stapleton Business Center	102,075	Stone Collection	Direct	Northeast
5775 Broadway Centercore Distribution Center Bldg 1	88,649	National Tire Wholesale (NTW)	Direct	Central
6961 S Blackhawk Encompass Business Park Bldg 1	80,000	Undisclosed	Direct	Southeast

#### Key Sale Transactions Q2 2018

PROPERTY	SF	SELLER/BUYER	PRICE (\$/SF)	SUBMARKET
Boulder County Business Center	556,410	Equity Commonwealth/Lakestar Properties	\$68,500,000 (\$123.11/SF)	Northwest
Hub 25 Portfolio	421,499	Westfield Company, Inc./J.P. Morgan Investment Mgt.	\$74,000,000 (\$175.56/SF)	Central
Denver Urban Business Center	330,820	Triumph Real Estate Corp./Forum Real Estate Group	\$33,350,000 (\$108.53/SF)	Central
Confluent Center 70	105,670	Confluent Development/LBA Realty	\$15,725,000 (\$148.81/SF)	Northeast
Centennial Park II	77,400	Environmental Development, Ltd./TAREalty	\$11,100,000 (\$143.41/SF)	Southeast

