

MARKETBEAT

Denver, Colorado

Industrial Q3 2018



DENVER INDUSTRIAL

Economic Indicators

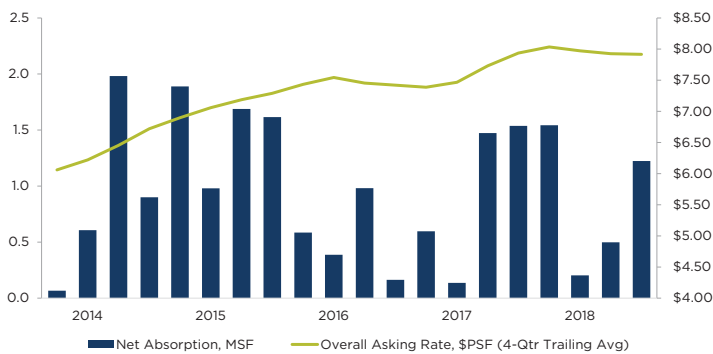
	Q3 17	Q3 18	12-Month Forecast
Denver Employment	1.46M	1.51M	▲
Denver Unemployment	2.8%	2.7%	■
U.S. Unemployment	4.4%	3.9%	▼

Market Indicators (Overall, All Product Types)

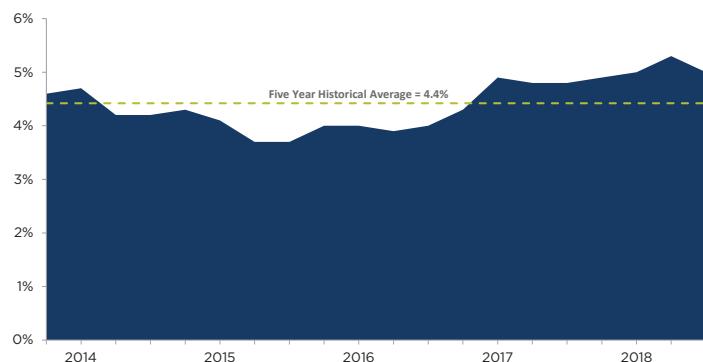
	Q3 17	Q3 18	12-Month Forecast
Overall Vacancy	4.8%	5.0%	▲
Net Absorption	1.5M	1.2M	▲
Under Construction	4.1M	5.1M	■
Average Asking Rent	\$8.03	\$8.02	▼

*Rental rates reflect triple net asking \$psf/year
 *Numbers do not reflect national numbers

Overall Net Absorption/Asking Rent



Overall Vacancy



Economic Overview

Denver's economy maintained strong fundamentals during the third quarter 2018, with unemployment of 2.7% at the end of the quarter. In fact, Denver ranks as the best economy in the nation according to 24/7 Wall Street, exemplified by 2.7% annual GDP growth and 2.4% annual growth in employment over the past five years. Although growth has slowed since Denver's explosive post-recession recovery, expect the economy to continue to climb at a more sustainable pace for the foreseeable future. With the United States' economy on pace to record the longest expansion phase in history by June 2019, Denver will continue to benefit from relocations and expansions as it has cemented itself as the premier location in the Rocky Mountain region.

Market Overview

The Denver metro industrial market recorded overall vacancy of 5.0% to close the third quarter 2018, a 30 basis point (bps) decrease quarter-over-quarter, and marked the first time in five quarters that vacancy has contracted. This decrease in vacancy was driven by a huge rebound in absorption following a sluggish first half of 2018 as the market recorded +1.2 million square feet (msf) of absorption during the third quarter 2018. This was a significant increase compared to the approximately +700,400 square feet (sf) absorbed through the first half of the year and was primarily due to an online commerce giant occupying an 855,000 sf build-to-suit (BTS) fulfillment center during the third quarter 2018. Leasing activity was similarly strong, recording 2.34 msf of activity. Despite this figure representing the strongest third quarter for leasing activity since 2013, year-to-date leasing activity is the lowest since the recession after a slow start to the year. Through the first three quarters of 2018, there has been just under 5.4 msf of activity, which trails the average for the first three quarters of the prior five years by nearly 2.1 msf. Following a five year period of annual leasing activity in excess of 8.5 msf, punctuated by two years over 10.1 msf, it seems that those tenants that wanted to relocate in the market, already have. This is further evidenced in the 95 tenants searching for more than 10,000 sf that Cushman & Wakefield's industrial team is currently tracking in the market compared to over 130 tenants this time last year. The largest lease of the quarter was Safilo's 309,000-sf lease at Building 15 in Prologis Park 70. Other notable leases for the quarter included Paragon 28's 106,000-sf lease at Compark Business Campus and Sturgeon Electric's 102,800-sf lease at 4250 Oneida St.

Metro-wide, overall rental rates averaged \$8.02 per square foot (psf) on a triple net (nnn) basis to close the third quarter 2018, a 1.3% increase quarter-over-quarter and \$0.01 psf decrease year-over-year. Direct rental rates closed the quarter at \$7.99 psf, an increase of 1.5% quarter-over-quarter and a decrease of \$0.06 psf year-over-year. The largest contributor to this marginal net rent growth quarter-over-quarter was warehouse

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and distribution product in the Northwest submarket as it recorded \$10.50 psf on a direct basis and \$10.44 psf on an overall basis, increases of 3.4% and 3.0% respectively quarter-over-quarter. As tenant activity in the market has slowed, coupled with the 5.1 msf of construction expected to deliver over the next three quarters which are currently only 9.9% preleased, expect rental rates to decline as landlords pursue aggressive lease rates to fill their space.

The introduction of new product has not slowed as nearly 1.5 msf delivered during the third quarter 2018 and 5.1 msf, the second highest for a single quarter in over a decade, remains under construction. Over 60% of this development is located in the Northeast submarket with over 3.1 msf under construction, including the three largest active projects. Nexus at DIA will deliver 540,600 sf of BTS space for GE Appliance while Prologis Park 70's Building 15 and Gateway Park Building 22 will deliver 509,600 sf and 419,100 sf of spec space, respectively. All three of these projects are expected to deliver during the first half of 2019. It is important to note that the vast majority of these projects, 4.2 msf of the 5.1 msf total, are spec projects, suggesting that developers remain bullish on the Denver market, despite a slow year so far in terms of leasing activity.

Investment Sales

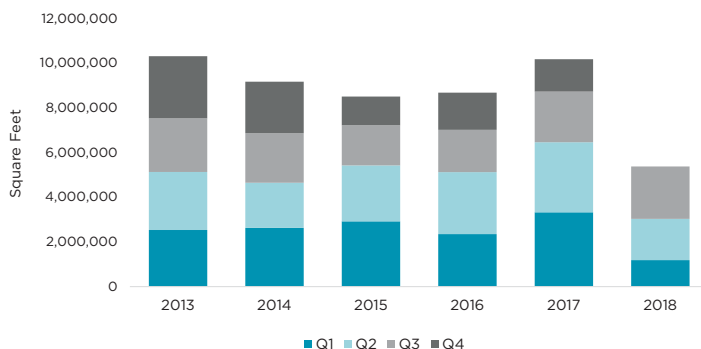
Investor appetite for industrial real estate in Denver continues at a torrid pace. 2017 was the strongest year in history in terms of total sales volume and lowest recorded cap rates and the trend has not let up over the first three quarters of 2018. Year-to-date sales volume has already surpassed this record with over \$888 million (M) in total sales volume through three quarters compared to \$854M in sales volume over the entirety of 2017. The market continues to have limited offerings, so when quality product comes to market there is a feeding frenzy among buyers. In spite of rising interest rates, average cap rates dropped to 6.55% (down 18 bps year-over-year from 6.73% in 2017), partially driven by the lowest stabilized Class A core cap rates ever documented in the market in the range of low 4-4.5%. As capital continues to target Colorado, expect

cap rates to remain stable through the end of 2018. Notable transactions this quarter included 3200 Walnut St in Boulder which changed hands between BioMed Realty and Tritower Financial Group for \$52.3M (\$350 psf), Central 62, which traded between RREEF Property Trust and JP Morgan Investment Management for \$21.3M (\$172 psf) and 2535 E 40th Ave which AT&T sold to Isele 40th Ave, LLC for \$19M (\$81 psf). This last sale was a sale-leaseback with short term to AT&T as they seek relocation options. The property generated strong buyer interest due to its proximity to the highly sought-after RiNo area and will undergo redevelopment within the next year to capitalize on the burgeoning commercial, residential, and entertainment options in the area. With several large public improvement projects just commencing, including the Stock Show renovation, the DIA renovation and the Central 70 project, strong performance by the industrial sector should continue for the foreseeable future.

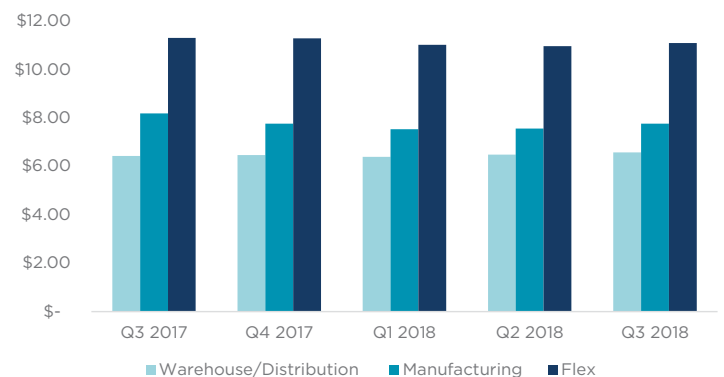
Outlook

- Construction costs continue to rise and tenant activity has slowed, but with construction activity near all-time highs, it appears investors have not been dissuaded from the market. Expect rental rates for new product to be lower than typically expected for new space as landlords pursue aggressive rates in a slower market.
- Leasing activity and absorption recorded huge rebounds after a slow start to the year and should continue to trend upwards with approximately 5.1 msf of new product expected by the end of the second quarter 2019. However, vacancy should rise in the short term until the newly delivered space leases up.
- With the "Central 70" I-70 improvements well under way and the National Western Center kicking off nearby, it will be interesting to see the effects these two massive projects will have on occupiers' search for space.

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	491	23,648,851	191,862	1,704,933	8.0%	141,460	540,304	\$10.88	\$9.38	\$13.05
Central	997	44,076,919	26,160	1,444,118	3.3%	104,687	717,632	\$7.33	\$6.84	\$7.91
NORTHEAST	1,475	103,235,588	256,450	5,666,639	5.7%	776,886	3,123,163	\$5.59	\$6.38	\$9.14
Northwest	923	48,148,421	232,766	2,542,712	5.8%	188,820	608,804	\$10.44	\$9.43	\$11.72
Southeast	483	22,150,041	110,169	1,178,590	5.8%	88,326	264,652	\$9.15	\$7.65	\$10.95
Southwest	807	27,649,741	20,666	863,700	3.2%	65,120	408,676	\$8.28	\$8.41	\$11.01
DENVER TOTALS	4,685	245,260,710	646,211	11,695,759	5.0%	1,223,839	5,122,927	\$6.61	\$7.76	\$11.08

*Not reflective of national statistics

Under Construction Q3 2018

PROJECT	SF	DEVELOPER	ESTIMATED COMPLETION	SUBMARKET
8251 Quintero Street, Nexus at DIA (BTS)	540,600	Becknell Industrial	Q1 2019	Northeast
22655 E. 19th Ave., Prologis Park 70 Bldg. 15 (Spec)	509,600	Prologis	Q2 2019	Northeast
18100 E. 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
22600 E. I-76 Frontage Rd., 76 Commerce Center, Bldg. 4 (Spec)	352,240	Hyde Development	Q2 2019	Northeast
NEC W. Carder Court Dr. & S. Santa Fe, Parc Santa Fe (Spec)	345,126	Jackson Shaw	Q2 2019	Southwest

Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
22655 E. 19th Ave., Prologis Park 70, Bldg. 15	309,000	Safilo	Direct	Northeast
14445 Grasslands Dr., Compark Business Campus	106,000	Paragon 28	Direct	Southeast
4250 Oneida St., Airport Industrial Center	102,848	Sturgeon Electric	Direct	Northeast
17851 E. 40th Ave., Gateway Park 4 East	85,898	Undisclosed	Direct	Northeast
14200 East Moncrieff Place	80,000	Fuelco Energy	Direct	Northeast

Key Sale Transactions Q3 2018

PROPERTY	SF	SELLER/BUYER	PRICE (\$/SF)	SUBMARKET
3200 Walnut Street	149,556	BioMed Realty/Tritower Financial	\$52,300,000 (\$350)	Northwest
Central 62	124,000	RREEF Property Trust/JP Morgan Investment Mgmt	\$21,325,000 (\$172)	Central
2535 East 40th Avenue	234,250	AT&T/Iselo 40th Ave. LLC	\$19,000,000 (\$81)	Northeast
Northwest Commerce Park	121,440	Urban Investment Group/Stockbridge	\$12,200,000 (\$100)	Northwest
Upland Distribution Center II	153,813	Prologis/Cabot Properties	\$12,100,000 (\$78)	Northeast

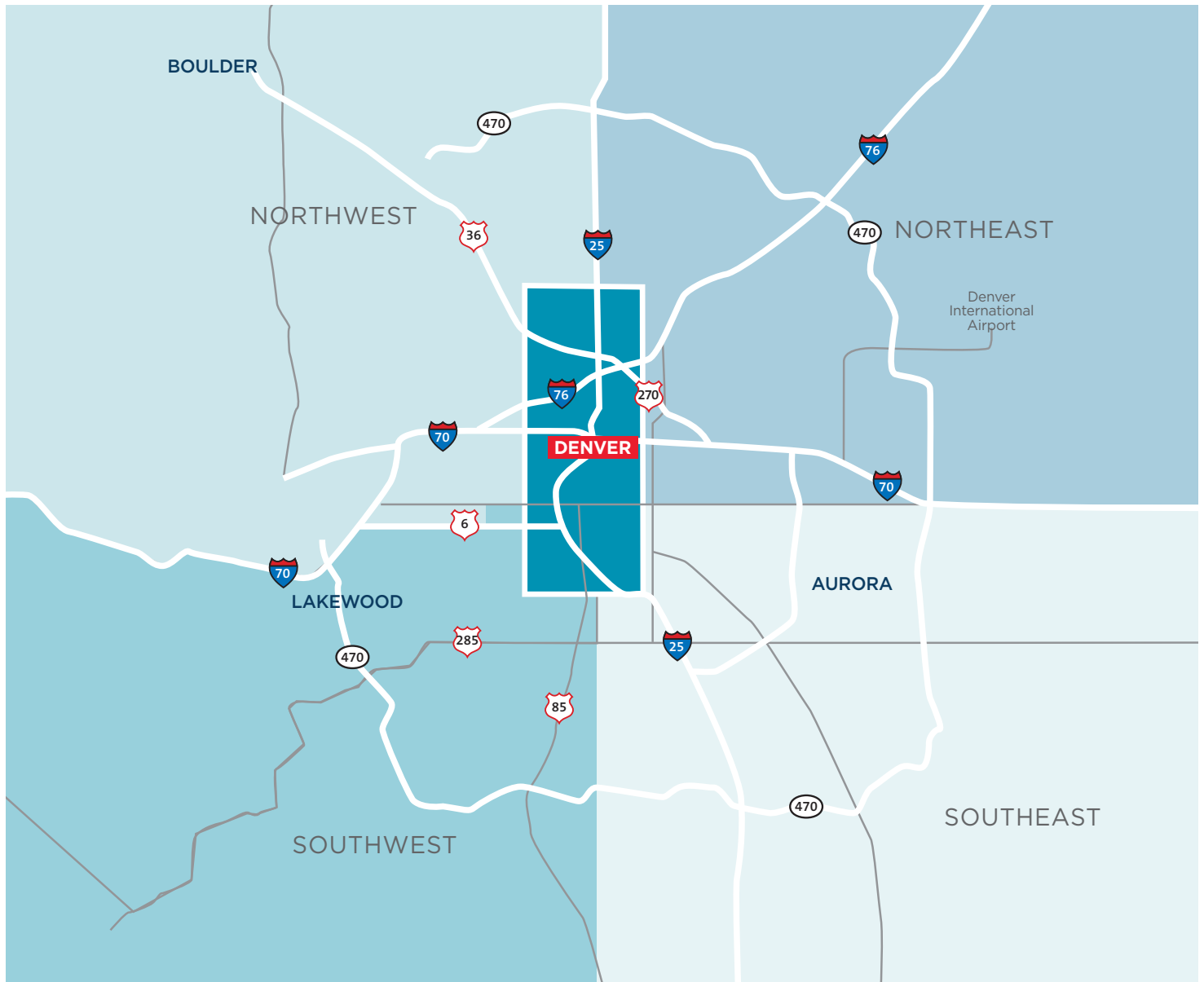
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INDUSTRIAL SUBMARKETS

METRO DENVER / ADAMS, ARAPAHOE, BOULDER, BROOMFIELD, DENVER, DOUGLAS, ELBERT AND JEFFERSON COUNTIES



Cushman & Wakefield
1401 Lawrence Street
Suite 1100
Denver, Colorado 80202
cushmanwakefield.com

For more information, contact:
Michael Coppola
Senior Research Analyst
Tel: +1 303 312 4212
michael.coppola@cushwake.com

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