

MARKETBEAT

Denver, Colorado

Industrial Q1 2019



DENVER INDUSTRIAL

Economic Indicators

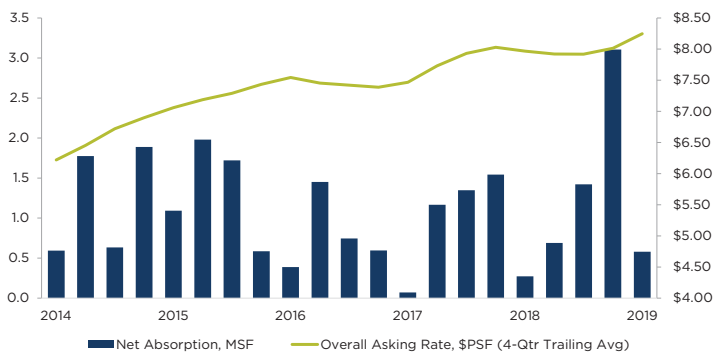
	Q1 18	Q1 19	12-Month Forecast
Denver Employment	1.49M	1.51M	■
Denver Unemployment	2.9%	3.6%	■
U.S. Unemployment	4.1%	3.8%	▼

Market Indicators (Overall, All Product Types)

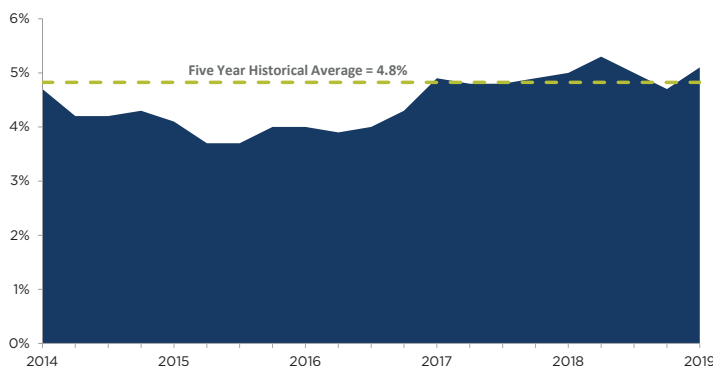
	Q1 18	Q1 19	12-Month Forecast
Overall Vacancy	5.0%	5.1%	■
Net Absorption	202.7k	579.3k	▲
Under Construction	4.6M	4.1M	■
Average Asking Rent	\$7.78	\$8.71	■

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

Overall Net Absorption/Asking Rent



Overall Vacancy



Economic Overview

Denver was recently ranked as the second best place to live in the country and is consistently named among the strongest economies in the nation. The Denver metro added nearly 37,700 new jobs year-over-year as of February and closed the first quarter with an unemployment rate of 3.6%; continuing to outpace the national average of 3.8%. Major infrastructure improvements are under way and impending across the Denver metro area including the Central I-70 redevelopment, the National Western Stock Show Complex renovation and the multi-billion dollar, multi-year renovation to DIA. Potential headwinds may arise, as new legislative measures could hamper the region's robust growth in the near future. However, as the United States' economy nears its longest expansion phase in history, Denver should continue to thrive throughout 2019 as the premier location in the Rocky Mountain region.

Market Overview

Vacancy in the Denver metro industrial market recorded an uptick to start the year as it closed the first quarter 2019 at 5.1% on an overall basis. This figure represented a 40 basis point (bps) increase quarter-over-quarter and a 10 bps increase year-over-year from when vacancy closed the first quarter 2018 at 5.0%. Vacancy has fluctuated since the beginning of 2017 as a result of the massive amount of new construction that has delivered with limited preleasing activity, but has largely leased quickly once delivered. This trend continued as nearly 918,000 square feet (sf) delivered during the first quarter with overall preleasing of 26.4%.

Metro-wide overall rental rates for all industrial product types continued to set record highs as they closed the first quarter 2019 at \$8.71 per square foot (psf) on a triple net basis (NNN). This represented a 4.4% increase quarter-over-quarter from when rents were \$8.34 to close 2018 and a substantial increase of 12.0% year-over-year from when rents closed the first quarter 2018 at \$7.78 psf NNN. This increase has been primarily driven by rising rates in warehouse and distribution product which closed the first quarter 2019 at \$7.18 psf NNN on an overall basis; an increase of 8.6% over the fourth quarter 2018 and 12.5% year-over-year. New product continues to drive rates higher and, despite the increased competition, landlords of older product have proven resistant to lowering rates to attract tenants. Rental rates will likely close 2019 higher than they were to close 2018, but expect slower growth compared to that seen over the past year.

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Leasing activity was solid to start the year as the first quarter 2019 recorded over 2.1 million square feet (msf) of activity. This number exceeded the 1.7 msf recorded during the fourth quarter 2018 as well as the 2.0 msf recorded during the first quarter 2018, one year ago. The most notable lease of the quarter was New Age Beverage's new 155,800 sf lease at 18245 E 40th Ave. They will backfill Gold Bug's former space which has remained vacant since 2017. Another noteworthy lease for the quarter was Rocky Mountain Foods' 140,000 sf new lease at 13300 E 38th Ave in the former Acme Distribution space. Rounding out the largest leases for the quarter was RK Mechanicals' 139,400 sf lease at 20101 E 36th Dr. The Northeast submarket was home to all three of the largest leases for the first quarter 2019, indicative of the level of activity there as the submarket accounted for 45.4% of all industrial leasing activity.

Absorption was strong to start the year, especially considering that the first quarter has been the slowest in terms of absorption for four of the last five years. Metro-wide, +579,300 sf was absorbed. While this number pales in comparison to the +3.1 msf absorbed during the fourth quarter 2018, which was inflated due to Sears retaking occupancy of a sublease space they had been listing over a million sf, it far exceeded the +272,700 sf absorbed during the first quarter 2018.

New construction continues to deliver at a remarkable pace across the Denver metro area as more than 900,000 sf has delivered eleven of the past twelve quarters. During the first quarter 2019, nearly 918,000 sf delivered. Prologis Park Central was home to the most notable deliveries for the quarter as Buildings 1, 2 and 5 delivered 166,300 sf, 383,100 sf and 79,800 sf, respectively. Building 1 delivered 27.1% preleased to Gustave A. Larson Company and Buildings 2 and 5 delivered completely vacant, although Building 5 has a lease out for the entire building that is expected to sign early in the second quarter. More than 4.1 msf of industrial product remains in the under construction stage of the pipeline, all of which is expected to deliver by the end of 2019. Roughly 3.6 msf of this product is spec and is collectively 10.6% preleased. As a result, expect vacancy to continue to fluctuate as this product delivers largely vacant throughout the year but should lease quickly. More than 60% of the nearly 17 msf that has delivered since the beginning of 2016 has been spec product. Expect future construction numbers to remain robust but skew more towards BTS product as a result of increased competition in spec product as well as development costs that have risen to the point that BTS projects are more financially feasible.

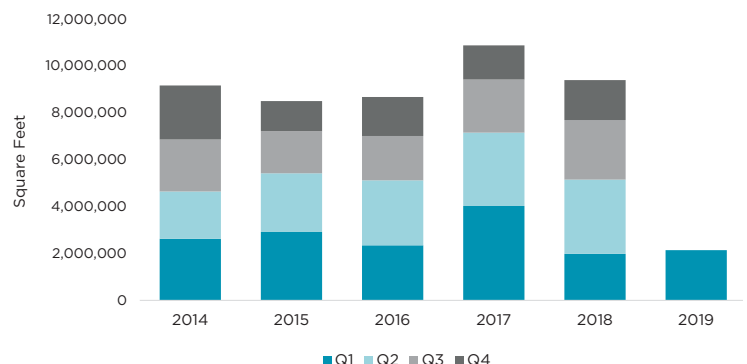
Investment Sales

2018 was the strongest year on record for investment sales in the Denver industrial market as total sales volume surpassed a billion dollars for the first time ever. Looking to build off this momentum, the first quarter 2019 recorded over \$330M in investment sales, headlined by the Etkin Johnson portfolio which Berkeley Partners acquired for more than \$247M. The most notable non-portfolio investment sale of the quarter was 7103 S Revere Pkwy which changed hands between GEMISYS Financial Services and Watumull Properties Corp for \$16.9M. Cap rates remain low as the market-wide average during the first quarter was under 6.8%. As steady demand continues for industrial properties across the Denver metro area, sales activity should continue to be strong throughout 2019.

Outlook

- The construction boom continues across Denver and preleasing activity continues to be limited while newly delivered space has tended to lease quickly. Expect vacancy to fluctuate quarterly as a result of this, but vacancy should remain consistently low and leasing activity should remain strong. As all of the projects currently under construction are expected to deliver by the end of 2019, expect new projects to continue to break ground over the course of the year.
- There are a number of large requirements in the market considering BTS projects. With an abundance of such opportunities available, it would not be surprising to see over a million sf of BTS projects under construction by the end of the year.
- Between the "Central 70" I-70 improvements and the National Western Center redevelopment nearby, it will be interesting to see the effects these two massive projects and their associated traffic ramifications will have on occupiers' search for space.

Leasing Activity



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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)
Central	992	43,781,164	72,120	1,907,127	4.5%	66,451	30,000	\$8.13	\$7.90	\$12.76
NORTHEAST	1,474	102,600,184	291,688	5,464,665	5.6%	210,259	3,047,224	\$5.41	\$9.08	\$9.84
Northwest	929	48,131,804	181,103	2,449,637	5.5%	315,852	589,912	\$11.13	\$9.30	\$11.82
Southeast	483	21,646,253	130,678	1,192,381	6.1%	-20,050	106,000	\$9.95	\$7.76	\$10.98
Southwest	803	27,739,508	36,911	601,782	2.3%	6,815	345,126	\$8.23	\$9.72	\$10.36
DENVER TOTALS	4,681	243,898,913	712,500	11,615,592	5.1%	579,327	4,118,262	\$7.07	\$8.89	\$11.32

*Not reflective of U.S. MarketBeat Tables

Under Construction Q1 2019

PROJECT	SF	DEVELOPER	ESTIMATED COMPLETION	SUBMARKET
First Aurora Commerce Center - Phase 1 (Spec)	555,840	First Industrial	Q3 2019	Northeast
22905 E 19th Ave, Prologis Park 70 Bldg 15 (Spec)	509,600	Prologis	Q2 2019	Northeast
18100 East 40th, Gateway Park Bldg 22 (Spec)	419,060	The Pauls Corporation	Q2 2019	Northeast
E 64th St, Karcher North America (BTS)	380,000	SunCap Property Group	Q4 2019	Northeast
NEC W Carder Court Dr & S Santa Fe, Parc Santa Fe (Spec)	345,126	JacksonShaw	Q2 2019	Southwest
18701 East 38th Avenue, 38th & Tower Building 1 (Spec)	287,862	United Properties	Q2 2019	Northeast

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
18245 E 40th Ave	155,775	New Age Beverage	New Lease	Northeast
13300 E 38th Ave	140,000	Rocky Mountain Foods	New Lease	Northeast
20101 E 36th Dr	139,395	RK Mechanical	New Lease	Northeast
6770 Brighton Blvd	60,000	SRS Roofing	Renewal	Northeast
14303 E Moncrieff Pl	52,483	Grand Worldwide Logistics	New Lease	Northeast

Key Sale Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE (\$/SF)	SUBMARKET
Etkin Johnson Portfolio	1,770,961	Etkin Johnson/Berkeley Partners	\$247,500,000 (\$140)	*Multi
Valley Business Center	203,361	Valley Business Corp/BKM Capital Partners	\$24,250,000 (\$119)	Southwest
7103 S Revere Pkwy	58,405	GEMISYS Financial Services/Watumull Properties	\$16,890,000 (\$289)	Southeast
301 W 60th Pl	69,096	Rocky Mountain Prestress/McClung Logan Equipment Co.	\$13,000,000 (\$188)	Central
2495 Blake St	14,600	Furniture Row/Workplace Elements	\$7,886,800 (\$540)	Central

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Industrial Submarkets



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