

# MARKETBEAT

## Denver, Colorado

### Industrial Q4 2018



#### DENVER INDUSTRIAL

#### Economic Indicators

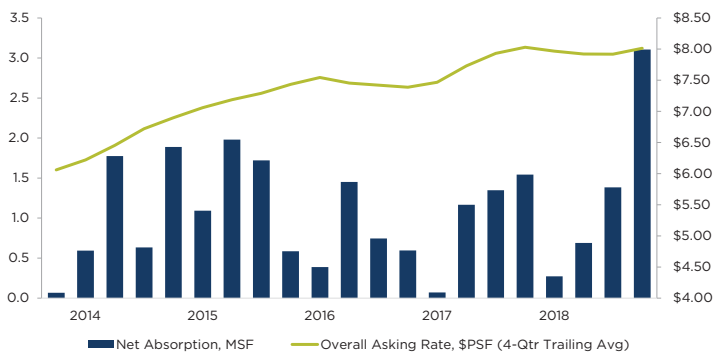
	Q4 17	Q4 18	12-Month Forecast
Denver Employment	1.48M	1.51M	▲
Denver Unemployment	2.9%	3.1%	■
U.S. Unemployment	4.1%	3.7%	▼

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

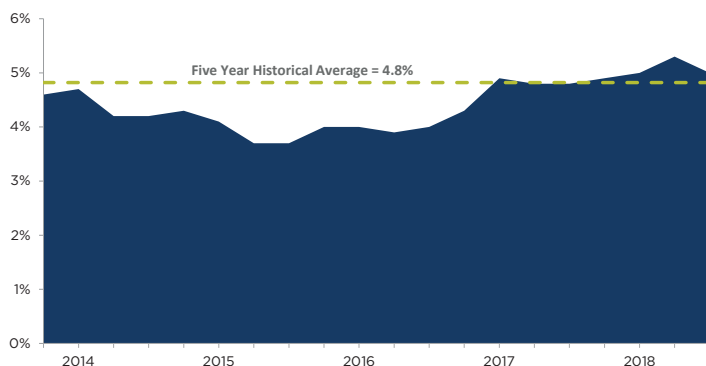
	Q4 17	Q4 18	12-Month Forecast
Overall Vacancy	4.9%	4.7%	▲
Net Absorption	1.5M	3.1M	▼
Under Construction	3.9M	4.7M**	▼
Average Asking Rent	\$7.96	\$8.34	■

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

#### Overall Net Absorption/Asking Rent



#### Overall Vacancy



#### Economic Overview

The nation's best economy, according to 24/7 Wall Street, kept up its strong run to close 2018, ending the fourth quarter with an unemployment rate of 3.1%. The Denver metro added over 30,000 jobs year-over-year as of November and, despite the seemingly endless flow of new people to the area, continues to outpace national unemployment which closed the year at 3.7%. Major infrastructure improvements are under way across the Denver metro including the Central 70 redevelopment, the Stock Show Complex renovation and the multi-billion dollar, multi-year renovation to DIA. The Wall Street Journal named DIA the best airport in the country and in August it broke a 12-year old record for the most freight cargo transported in a single month. These investments, coupled with Denver's diverse economy and great quality of life, ensure growth will continue throughout 2019 and that Denver is poised to handle it. As the United States' economy nears its longest expansion phase in history, Denver will continue to thrive as the ideal location in the Rocky Mountain region.

#### Market Overview

Overall vacancy in the Denver metro industrial market continued to contract to close the year, ending at 4.7%. This figure represented a 30 basis point (bp) decrease quarter-over-quarter and a 20 bp decrease year-over-year, marking the lowest vacancy for the market since the end of 2016. This drop in vacancy was driven by the largest single quarter for absorption on record with over +3.1 million square feet (msf) absorbed. While this number is inflated due to Sears retaking possession of a 1.0 msf sublease they had been marketing as vacant, the other +2.1 msf of absorption would still have been the largest figure for a quarter since 2007. Leasing activity during the fourth quarter 2018 was the lowest for any quarter this year at just over 1.7 msf, though this trend of a slower fourth quarter has been consistent for the past four years. This brought the year-end total for leasing activity to 9.4 msf, roughly 100,000 square feet (sf) below the average of 9.5 msf for the prior five years. The largest lease of the quarter was Bunzl's 148,000 sf lease at Eastpark 70's Building 2. Another notable lease was Great Plains Moving & Storage as they leased nearly 82,000 sf at 76 Commerce Center's Building 5. The more than 3.2 msf of new spec construction expected to deliver by the end of the second quarter 2019 is only 9.9% preleased, so expect a short-term uptick in vacancy through the first half of 2019 but steady leasing activity throughout the year.

Metro-wide overall rental rates continued to rise for the fourth consecutive quarter, reaching \$8.34 per square foot (psf) on a triple net (NNN) basis. This figure represented an increase of 4.0% quarter-over-quarter and an increase of 4.8% year-over-year from when rents closed 2017 at \$7.96 psf. This jump in rental rates was primarily driven by manufacturing product

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which experienced a 14.6% increase in NNN rental rates year-over-year, to \$8.89 psf on an overall basis. Overall vacancy in manufacturing product closed 2017 at 3.3% and rose 90 basis points over the course of 2018, so this increase in rental rate was due to more expensive product becoming available. Rental rate growth will likely remain flat over the next year as higher rental rates in new product are mitigated by low preleasing activity, significant competition and landlords of existing product pursuing more aggressive rates to compete with new construction.

New industrial product continues to deliver at a torrid pace as just under 1.5 msf delivered during the fourth quarter 2018. This brought the total deliveries for the year to just under 4.9 msf and the average quarterly deliveries for the past 12 quarters to over 1.2 msf. The largest projects that delivered over the course of 2018 were the 855,000 sf BTS for an online commerce giant at 14601 Grant St in Thornton, the 702,000 sf spec Building 15 at Majestic Commercenter and the 540,600 sf BTS for GE Appliance at the Nexus at DIA project. Nearly 4.7 msf remains under construction across the Denver metro, all but 68,500 sf of which is expected to deliver during 2019. The Northeast submarket continues to dominate development headlines with 58% of the projects in the construction stage of the pipeline located in the submarket. The two largest projects remaining in the pipeline are First Aurora Commerce Center's Phase 1 which will total nearly 556,000 sf and Prologis Park 70's 510,000 sf Building 15 expected in the third and second quarters of 2019, respectively. Both projects are located in the Northeast submarket.

### Investment Sales

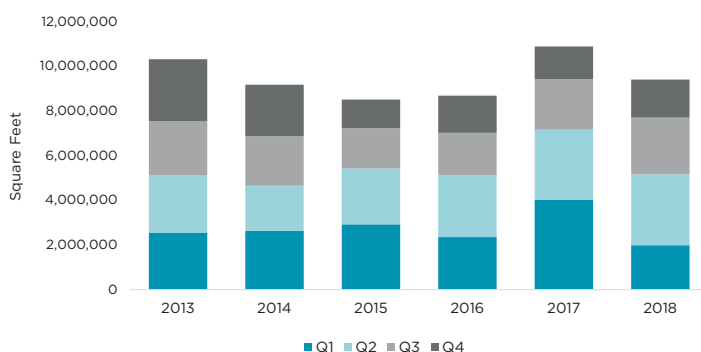
2018 was the strongest year on record for investment sales in the Denver industrial market as total sales volume surpassed a billion dollars for the first time ever. Class A core cap rates remained among the lowest on record at 4-4.5%. The market continues to have limited offerings, so when quality product

comes to market there is a feeding frenzy among buyers. In spite of the Fed bumping interest rates, the ten-year treasury has remained low, which has in turn pushed average cap rates even lower to a market-wide average of 6.7%. As capital continues to target Colorado, expect industrial cap rates to remain stable through 2019. The most notable transactions in terms of sales volume for the year were the Gateway Portfolio which changed hands between Pauls Real Estate and Clarion Partners for \$206M (\$105 psf), the Cabot Industrial Portfolio which Cabot Properties sold to Blackstone for \$99.4M (\$92 psf), and Hub 25 which Westfield Company sold to JP Morgan Investment Group for \$74M (\$176 psf). The aforementioned infrastructure projects around Denver should ensure that strong performance in the industrial sector continues for the foreseeable future.

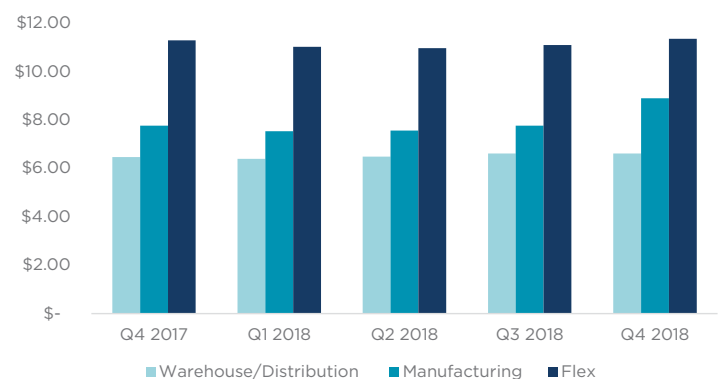
### Outlook

- Construction activity remains near all-time highs and with 99% of it expected to deliver during 2019, expect more projects to begin development throughout the year. Rental rate growth will likely be flat as the higher rates of new product are dulled by competition and falling rates in older product as landlords pursue more aggressive rates to lease space.
- Overall vacancy will likely rise in the short-term as new space delivers over the first half of the year, but expect steady leasing activity throughout the year and absorption to follow suit as this 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)
Central	1,000	44,185,378	53,960	1,332,087	3.1%	262,793	659,491	\$7.64	\$7.61	\$11.38
<b>NORTHEAST</b>	<b>1,479</b>	<b>104,117,598</b>	<b>191,629</b>	<b>5,450,557</b>	<b>5.4%</b>	<b>2,364,992</b>	<b>2,709,724</b>	<b>\$5.53</b>	<b>\$8.27</b>	<b>\$10.00</b>
Northwest	931	48,609,849	167,120	2,612,921	5.7%	111,460	702,007	\$10.97	\$9.67	\$12.01
Southeast	484	22,258,041	122,969	994,832	5.0%	130,613	270,652	\$8.83	\$7.76	\$10.86
Southwest	808	27,713,291	28,584	683,572	2.6%	235,129	345,126	\$8.25	\$9.34	\$10.99
<b>DENVER TOTALS</b>	<b>4,702</b>	<b>246,884,157</b>	<b>564,262</b>	<b>11,073,969</b>	<b>4.7%</b>	<b>3,104,987</b>	<b>4,687,000</b>	<b>\$6.61</b>	<b>\$8.89</b>	<b>\$11.36</b>

\*Not reflective of U.S. MarketBeat Tables

### Under Construction Q4 2018

PROJECT	SF	DEVELOPER	ESTIMATED COMPLETION	SUBMARKET
First Aurora Commerce Center - Phase 1 (Spec)	555,840	First Industrial	Q3 2019	Northeast
22655 East 19th Avenue, Prologis Park 70 Building 15 (Spec)	509,600	Prologis	Q2 2019	Northeast
18100 East 40th, Gateway Park Building 22 (Spec)	419,060	The Pauls Corporation	Q1 2019	Northeast
6050 Washington, Prologis Park Central Building 2 (Spec)	383,104	Prologis	Q1 2019	Central
NEC West Carder Court Drive and South Santa Fe, Parc Santa Fe (Spec)	345,126	Jackson Shaw	Q2 2019	Southwest
18701 East 38th Avenue, 38th & Tower Building 1 (Spec)	287,862	United Properties	Q2 2019	Northeast

### Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Eastpark 70 - Building 2	147,747	Bunzl	Direct	Northeast
76 Commerce Center - Building 5	81,773	Great Plains Moving & Storage	Direct	Northeast
Highfields Business Park - Building 6	51,000	LiteEye	Direct	Southeast
14402 East 33rd Place	50,050	Motion & Flow Products	Direct	Northeast
Interpark 70 - Building E	46,270	Freebird	Direct	Northeast

### Key Sale Transactions Q4 2018

PROPERTY	SF	SELLER/BUYER	PRICE (\$/SF)	SUBMARKET
18875 East Bromley Lane	1,305,700	Morris James LLP/Starboard Realty Services	\$40,750,000 (\$31)	Northeast
5751 Pecos Street	73,099	Rocky Mountain Prestress/Westfield Company	\$40,712,100 (\$557)	Central
435-495 East 62nd Avenue	124,000	RREEF Property Trust/JP Morgan	\$21,325,000 (\$172)	Central
7304 South Joliet	71,172	United Properties/Gulftech International	\$16,100,000 (\$226)	Southeast
13705 Compark Boulevard	63,882	Applied Control Equipment/One Liberty Properties	\$12,800,000 (\$200)	Southeast

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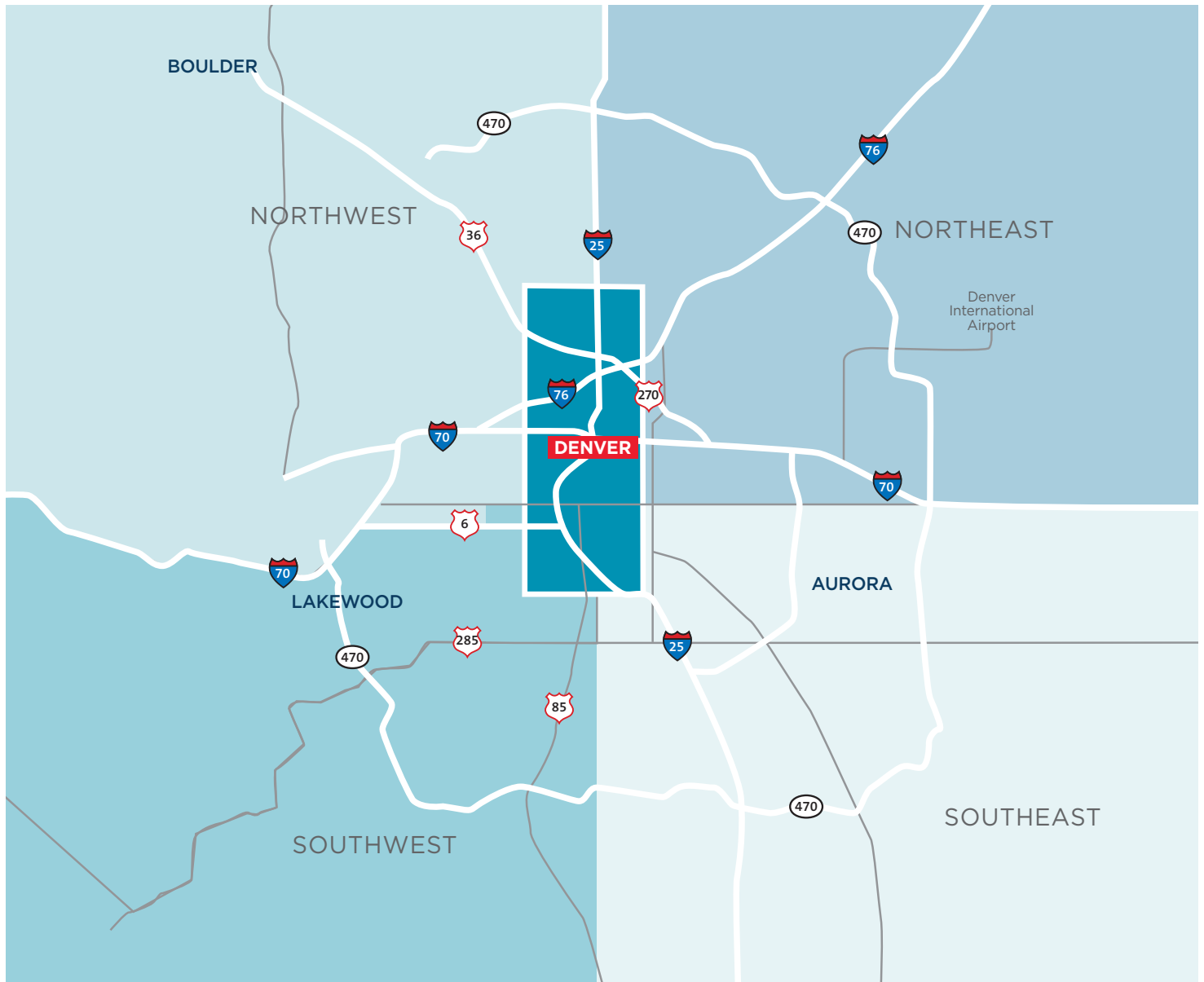
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#### INDUSTRIAL SUBMARKETS

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



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