

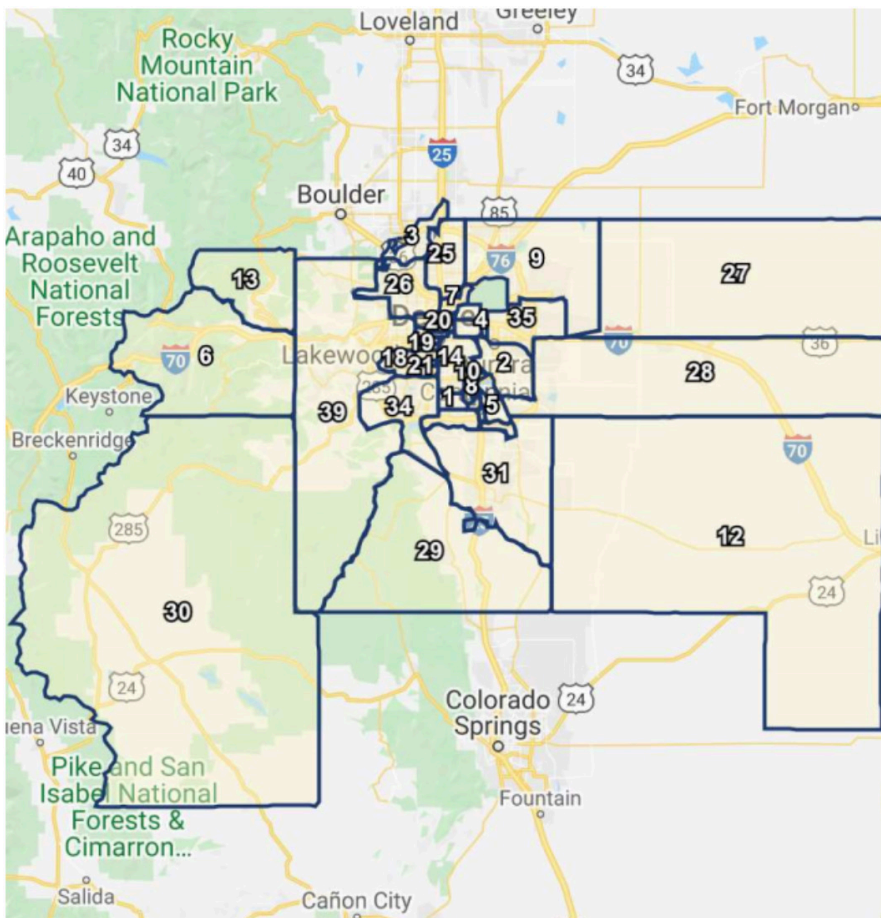
2020 Q2 INDUSTRIAL MARKET REPORT

Denver, CO

OVERVIEW

THE CITY AND COUNTY OF DENVER has an estimated population of 727,000. Denver is the 19th most populous city in the US and is the 5th fastest growing city. The Denver MSA has a population of 2.8 million; the market consists of ten Colorado counties: the City and County of Denver, Arapahoe County, Jefferson County, Adams County, Douglas County, the City and County of Broomfield, Elbert County, Park County, Clear Creek County, and Gilpin County.

Much like the rest of the world, Denver is feeling the immediate fallout of the coronavirus pandemic. As of mid-March 2020, unemployment claims have hit 380,000 in the state of Colorado. The Denver market



No.	Submarket
1	Arapahoe Rd
2	Aurora
3	Broomfield County
4	Cent E I-70/Montbello
5	Centennial
6	Clear Creek County
7	Commerce City
8	Denver Tech Center
9	DIA
10	East Hampden
11	East I-70/270
12	Elbert County
13	Gilpin County
14	Glendale
15	Greenwood Village
16	Highlands Ranch
17	Inverness
18	Lakewood
19	Lower Central
20	Lower North Central
21	Lower South Central
22	Meridian
23	Mid Central
24	Mid South Central
25	North Denver
26	Northwest Denver
27	Outlying Adams Cnty
28	Outlying Arapahoe Cty
29	Outlying Douglas Cnty
30	Park County
31	Parker/Castle Rock
32	Quebec St
33	Southeast C-470
34	Southwest C-470
35	SW DIA/Pena Blvd
36	Upper Central
37	Upper North Central
38	Upper South Central
39	West Denver

is heavily populated with oil and gas companies which are being negatively impacted by the coronavirus pandemic. Volatile oil prices have hit 18-year lows in March 2020 which is leading to widespread layoffs throughout the sector. Denver's International Airport is a major profit center in the market and has seen flights reduced by as much as 90% per airline. The airport had previously generated \$33 billion for the state of Colorado; recent trends indicate that this number could decline sharply over the next few months.

Some positivity in the Denver market is due to the fact that the market has become very tech oriented over the past decade. Tech employers have been in the forefront of allowing employees to work from home and are more insulated from widespread shutdowns. Tech companies have facilitated the work-from-home transition smoothly. Denver job growth in the technology industry has exceeded the national average by approximately 3% annually over the last 5 years. Tech jobs grew by more than 7% in 2019, one of the highest growth rates in the country. Corporate expansions and relocations by tech companies such as Amazon, Slack, and Conga drove employment gains, choosing to expand in Denver for its robust workforce, quality of life, and cost of doing business.

MARKET REVIEW

A confluence of events turned Denver into one of the most active industrial markets in the country in the past decade. Robust demand in this regional market with strong economic growth this cycle is stemming from the growth of retail sales, employment, and industrial production in the metro area and the greater Colorado region. Furthermore, the emergence of the marijuana industry's presence with the passing of Amendment 64 in November 2012 created a new demand driver this cycle, with new and relatively unsophisticated tenants operating with entirely different profit margins.

The Denver industrial market has an inventory of 249 million square feet. Warehouse/distribution product make up 161 million square feet, or about 65%. Vacancy is currently steady at 5.5%. The coronavirus pandemic has had less of a negative impact on the industrial sector than the office or retail sector. Many industrial operations are deemed an essential business in Colorado. E-commerce and 3PL businesses have experienced an increase in activity due to increased home deliveries. Amazon recently leased 700,000 square feet in Aurora in mid-March which marks the largest deal in the Denver market to occur during the pandemic.

Industrial rents for warehouse/distribution are currently averaging \$8.85/SF. Before the coronavirus pandemic, Denver had the third highest rate of rent growth in the country at 7% year over year, only lagging behind San Francisco and San Jose. Rent growth has begun to slow down and is likely to decrease within the next year. Supply is expected to outpace demand in 2020 and Costar is predicting average rents

Leases Signed (May 2019-May 2020)					
Tenant	Address	City	Submarket	SF	Date Signed
Amazon	2889 Himalaya Rd	Aurora	SW DIA/Pena Blvd	701,900	Mar-20
Amazon	22300 E 26th Ave	Aurora	SW DIA/Pena Blvd	555,840	Nov-19
GE Appliances	17100 E 81st Ave	Commerce City	DIA	352,000	May-19
Safilo's	22905 E 19th Ave	Aurora	SW DIA/Pena Blvd	309,962	Sep-19
Sealy Mattress	18701 E 38th Ave	Aurora	SW DIA/Pena Blvd	289,113	Jul-19

to fall to \$8.20/SF by the end of the year. Economists are predicting a “swoosh” shaped recovery after the potential rent drop. This could lead to a prolonged multi-year crawl to raise rents to previous levels. The warehouse/distribution market was very healthy in 2019. GE Appliances leased 352,000 square feet in a speculative industrial project in the SW DIA/Pena submarket called Nexus leaving 190,000 square feet available. Safilo’s, an eyewear company, moved into 310,000 square feet of new construction at Prologis Park 70 in the SW DIA/Pena during Q3 2019. Also, nearby, there was 290,000 square feet leased by Sealy Mattress in Q4 2019.

Under Construction (2020)						
Developer	Tenant	Address	City	Submarket	SF	Estimated Completion
Majestic Realty Co	Shamrock Foods	E 32nd & Picadilly Rd	Aurora	SW DIA/Pena Blvd	900,000	Dec-20
NorthPoint Development	Spec	20500 E Colfax Ave	Aurora	SW DIA/Pena Blvd	594,138	Aug-20
Ferguson Enterprises	Spec	E 19th Ave	Aurora	SW DIA/Pena Blvd	450,000	Apr-21
Hyde Development	Spec	22600 E I-76 Frontage Rd	Brighton	DIA	352,240	Aug-20
Brennan Investment Group	Spec	112th Ave & Hwy 85	Commerce City	DIA	330,250	Aug-20
Lincoln Property Company	Spec	17956 E 84th Ave	Commerce City	DIA	312,833	Dec-20

Industrial deliveries were at an all-time high in 2019 at 6 million square feet with positive net absorption of 2.4 million square feet. About 50% of the 2019 deliveries are vacant and available as of the close of Q1 2020. There is currently another 6.9 million square feet under construction; an unprecedented 4.5 million square feet is speculative development. Most of the new construction is occurring near the Airport in either the SW DIA or DIA submarket. Notable construction projects include a 900,000 square foot build-to-suit project for Shamrock Foods as well as a large speculative building totaling 594,000 square feet, estimated to deliver Q4 2020.

SUBMARKET SUMMARY – WAREHOUSE/DISTRIBUTION

SW DIA/Pena Blv		Quebec St		Centennial	
Inventory SF	33.5 M	Inventory SF	9 M	Inventory SF	5.8 M
Under Construction SF	2.6 M	Under Construction SF	0	Under Construction SF	450 K
12 Mo Net Absorp SF	1.5 M	12 Mo Net Absorp SF	40.6 K	12 Mo Net Absorp SF	(120 K)
Vacancy Rate	10.5%	Vacancy Rate	4.7%	Vacancy Rate	9.0%
Market Rent/SF	\$6.95	Market Rent/SF	\$6.53	Market Rent/SF	\$11.21
Annual Rent Growth	2.4%	Annual Rent Growth	2.6%	Annual Rent Growth	2.6%

Northwest Denver		DIA	
Inventory SF	8.9 M	Inventory SF	6.8 M
Under Construction SF	362 K	Under Construction SF	1.5 M
12 Mo Net Absorp SF	(79.2 K)	12 Mo Net Absorp SF	188 K
Vacancy Rate	4.1%	Vacancy Rate	4.5%
Market Rent/SF	\$9.84	Market Rent/SF	\$8.76
Annual Rent Growth	2.4%	Annual Rent Growth	2.6%

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