

MARKETBEAT

Denver, Colorado

Industrial Q2 2019



DENVER INDUSTRIAL

Economic Indicators

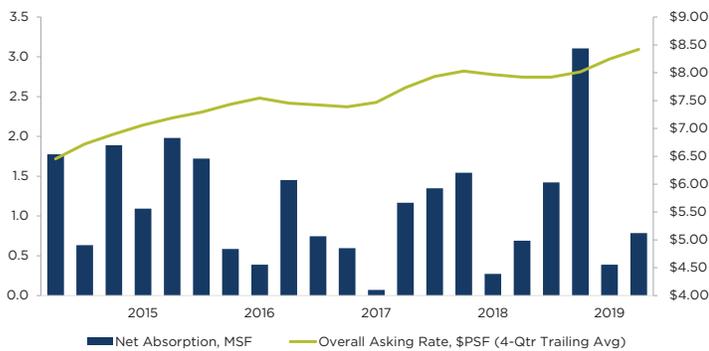
	Q2 18	Q2 19	12-Month Forecast
Denver Employment	1.50M	1.51M	▲
Denver Unemployment	3.0%	3.3%	■
U.S. Unemployment	3.9%	3.6%	▼

Market Indicators (Overall, All Product Types)

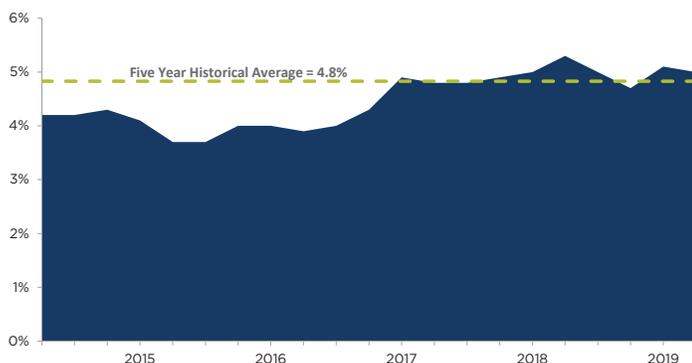
	Q2 18	Q2 19	12-Month Forecast
Overall Vacancy	5.3%	5.0%	▲
Net Absorption	690.5k	785.8k	▲
Under Construction	4.7M	4.5M	■
Average Asking Rent	\$7.92	\$8.61	■

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

Overall Net Absorption/Asking Rent



Overall Vacancy



Economic Overview

Denver was ranked by US News & World Report as the second best place to live in the country during the second quarter 2019 and is consistently named among the strongest economies in the nation. The Denver metro added 28,000 new nonfarm jobs during the first half of the year according to the Metro Denver EDC; a strong figure, but a slowdown compared to the 41,000 jobs added during the same period of 2018. Despite slowing job growth, Denver unemployment closed the second quarter 2019 at 3.3%, a figure that continues to outpace the national average of 3.6%. Considering the several billion dollars invested in major active and pending infrastructure projects, a booming construction pipeline, and investors continuing to trade properties at a rapid pace, the future remains bright for the Denver economy as the premier location in the Rocky Mountain region.

Market Overview

Vacancy in industrial product across the Denver metro remained mostly flat during the second quarter 2019, closing at 5.0% on an overall basis. This figure indicated a 10 basis point (bps) decrease from the first quarter 2019 and a 30 bps decrease from the second quarter 2018, one year ago. Overall vacancy has hovered between 4.7% and 5.3% since the beginning of 2017, indicative of a very strong market considering that more than 13.4 million square feet (msf) has delivered to the metro over that same period. As more than 900,000 square feet (sf) has delivered twelve of the past thirteen quarters, and more than 4.5 msf remains under construction, demand in the market will continue to be tested. Demand has remained strong, but following a slow first half of the year for leasing activity, expect vacancy to rise slightly over the remainder of 2019.

Overall rental rates across all industrial product types fell slightly during the second quarter 2019, closing the quarter at \$8.61 per square foot (psf) on a triple net (NNN) basis. This was a marginal decrease of 1.1% from the first quarter 2019, but still represented an 8.7% increase year-over-year from the second quarter 2018 when overall rental rates were \$7.92 psf NNN. Rates in manufacturing product were the primary driver for the quarter-over-quarter rental rate decrease as they fell 2.4% to \$8.68 psf NNN during the second quarter 2019. Conversely, warehouse/distribution product has driven the surge in rental rates seen over the past year as they have risen 10.6% year-over-year to \$7.17 psf NNN, from \$6.48 psf NNN, a year ago. New product continues to drive rates higher and, despite the increased competition, landlords of older product have proven resistant to lowering rates. Rental rates may fluctuate over the next several quarters, but expect slower growth compared to the unsustainable pace seen over the past several years; rents have grown 22.3% since the second quarter 2016.

Leasing activity was solid during the second quarter 2019, although slower when compared to the past several second

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quarters. Just over 2.2 msf of industrial product leased across the metro area during the second quarter 2019, a slight decrease from the nearly 2.3 msf that leased during the first quarter 2019, and a far cry from the almost 3.2 msf that leased during the second quarter 2018, one year ago. The largest lease of the quarter was Charlotte's Web as they leased all 137,000 sf at 700 Tech Court which had been vacant since its completion at the end of 2018. Another notable deal was Howard Logistics' 126,000 sf lease at 13331 East 37th Avenue. Other notable leases included Beacon Sales' 117,000 sf lease at 14200 East Moncrieff Place and the City of Denver's 109,000 sf full-building lease at 4650 Steele Street. The Northeast submarket continues to dominate industrial leasing activity as 44.3% of all activity for the quarter took place there. This trend can be expected to continue as more than 3.3 msf remains under construction in the Northeast submarket. Expect leasing activity to remain solid throughout the next several quarters, though it will likely trail the strong totals of 10.9 msf and 9.4 msf seen in 2017 and 2018, respectively.

Absorption was strong during the second quarter 2019, as metro-wide 785,800 sf was absorbed. This was more than double the 388,200 sf absorbed during the first quarter 2019 and also exceeded the 690,500 sf absorbed during the second quarter 2018, one year ago. The largest driver for this positive absorption was New Age Beverage backfilling Gold Bug's 156,000 sf former space at 18245 East 40th Avenue. Other notable move-ins were Bunzl occupying 148,000 sf at Eastpark 70's Building 2 and Howard Logistics taking occupancy of 126,000 sf at 13331 East 37th Avenue.

As mentioned earlier, construction activity continues its remarkable pace around the Denver metro area as over 911,000 sf delivered during the second quarter 2019. The largest project to deliver during the second quarter 2019 was Prologis Park 70's 509,600 sf spec Building 15, which delivered 60.1% pre-leased to Safilo, and is expected to occupy during the third quarter 2019. Other notable deliveries included Gateway Park's 184,000 sf spec Building 23 and Broomfield Commerce Center's 140,000 sf spec Building 1 which both delivered fully vacant. More than 4.5 msf of industrial product remains under construction across the Denver metro, nearly 3.9 msf of which is expected to deliver over the remainder of 2019. Approximately 2.7 msf of the product expected to deliver this year is spec and is collectively only 5.2% pre-leased. Expect vacancy to continue to fluctuate quarterly as a result of this product delivering largely vacant but likely seeing strong activity once delivered, if recent trends continue. Spec product has defined this development cycle, but as competition amongst spec developments intensifies and rising development costs reach a point where BTS projects are more financially feasible for many tenants, expect future development to skew more towards BTS product.

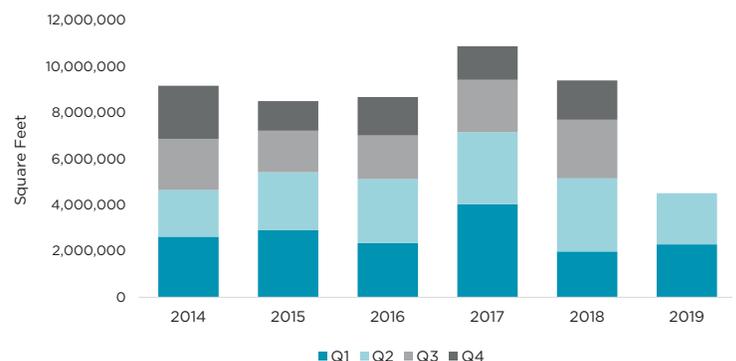
Sale Activity

Building off of 2018's record year for investment sales, investment offerings continue to trade hands at a rapid pace and are well on pace to surpass last year's figures. Through the first half of the year, the Denver metro has recorded over \$830M in investment sales, more than \$400M of which closed during the second quarter 2019. This total for the year is primarily driven by Berkeley Partners' acquisition of the Etkin Johnson portfolio during the first quarter, but several notable deals closed this quarter as well. Clarion Partners acquired the two buildings comprising 603,000 sf at 18100-18300 East 40th Avenue from Pauls Real Estate Investments for \$57.5M and EastGroup Properties purchased Airways Business Center's Buildings 2, 4, 5 & 6 from Principal Financial Group for \$48.3M. As steady demand continues for industrial properties across the Denver metro area, sale activity should continue to be strong for the remainder of 2019.

Outlook

- The construction boom continues across Denver and preleasing activity continues to be limited while newly delivered space has tended to lease quickly. Overall vacancy should remain low, but following a slow start to the year for leasing activity, expect vacancy to rise slightly over the remainder of 2019.
- 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 a surge in the amount 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	43,802,733	97,233	1,815,079	4.4%	99,777	290,000	\$7.89	\$7.90	\$12.23
Northeast	1,478	103,388,013	354,218	5,702,826	5.9%	261,326	3,339,008	\$5.70	\$8.39	\$10.34
Northwest	930	48,279,467	163,931	2,393,053	5.3%	229,300	450,036	\$10.37	\$8.92	\$11.86
Southeast	483	21,646,253	175,296	961,466	5.3%	104,370	106,000	\$10.39	\$9.00	\$11.23
Southwest	803	27,739,508	21,638	535,393	2.0%	91,048	345,126	\$8.46	\$9.09	\$10.27
DENVER TOTALS	4,686	244,855,974	812,316	11,407,817	5.0%	785,821	4,530,170	\$7.17	\$8.68	\$11.38

*Not reflective of U.S. MarketBeat Tables

Under Construction Q2 2019

PROJECT	SF	DEVELOPER	ESTIMATED COMPLETION	SUBMARKET
22300 East 26th Avenue First Aurora Commerce Center Phase 1 (Spec)	555,840	First Industrial Realty Trust	Q3 2019	Northeast
18100 East 40th, Gateway Park Bldg. 22 (Spec)	419,060	Clarion Partners	Q3 2019	Northeast
East 64th Street, Karcher North America (BTS)	380,000	Karcher North America/SunCap	Q4 2019	Northeast
22905 East 19th Avenue, Prologis Park 70 (BTS)	353,500	Southern Glazer's Wine & Spirits	Q3 2019	Northeast
18701 East 38th Avenue Tower Business Center Bldg 1 (Spec)	287,862	United Properties	Q3 2019	Northeast

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
700 Tech Court	136,610	Charlotte's Web	Direct	Northwest
13331 East 37th Avenue	126,123	Howard Logistics	Direct	Northeast
14200 East Moncrieff Place	117,283	Beacon Sales Acquisition Inc.	Direct	Northeast
4650 Steele Street	108,928	City of Denver	Direct	Northeast
Prologis Park Central Building 5	79,840	Undisclosed eCommerce	Direct	Central

Key Sale Transactions Q2 2019

PROPERTY	SF	SELLER/BUYER	PRICE (\$/SF)	SUBMARKET
18100-18300 East 40th Avenue	603,100	Pauls Real Estate Investments/Clarion Partners	\$57,509,600 (\$95)	Northeast
Airways Business Center (Bldgs 2, 4, 5, 6)	382,717	Principal Financial Group/EastGroup Properties	\$48,270,000 (\$126)	Northeast
5120-5140 Race Court	199,549	Mark Middleton/Forum Real Estate Group	\$24,500,000 (\$123)	Central
2555 West Midway Boulevard	363,582	Sandoz Inc/Mile High Labs	\$18,800,000 (\$52)	Northwest
7909 Chambers	52,000	Transwestern/Merritt Equipment Company	\$12,375,000 (\$238)	Southeast

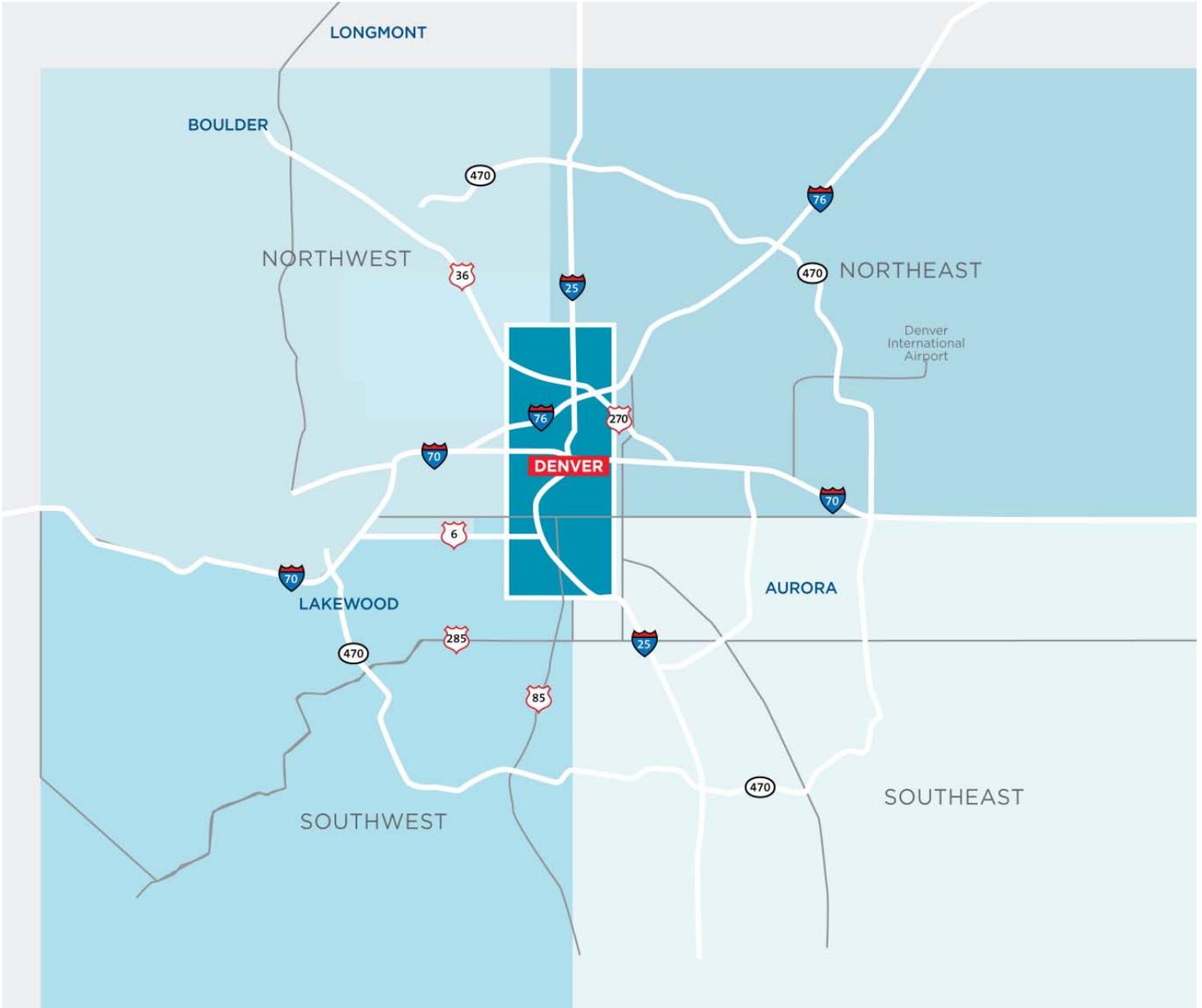
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Industrial Submarkets



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