

YoY Chg 12-Mo. Forecast

6.9%
Vacancy Rate



753,700
Net Absorption, SF



9.3M
Under Construction, SF



\$9.37
Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS
Q2 2021

YoY Chg 12-Mo. Forecast

1.4M
Denver
Employment



6.4%
Denver
Unemployment Rate



5.9%
U.S.
Unemployment Rate



Source: BLS, Moody's Analytics

ECONOMY: Vaccination Rates Help Clear the Path to Recovery

After four consecutive quarters of negative employment growth year-over-year (YOY), nonfarm employment in Denver was up by 7.6% YOY in the second quarter 2021. With 61.2% of the eligible population fully vaccinated as of June 2021, Denver has been able to accelerate re-opening, providing a much-needed boost to the local and regional businesses and fast-tracking Denver's economic recovery. Increases in consumption and investment spending have provided a positive outlook for Colorado's statewide economy, with year-end forecasts predicting 6.2% in GDP growth in 2021. If accurate, this growth will represent a full recovery of the state's GDP.

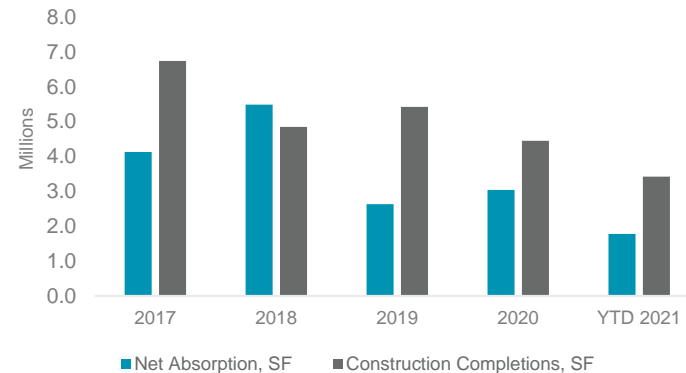
SUPPLY: Speculative Construction Continues to Increase Vacancy Rates

The direct vacancy rate rose for the fourth consecutive quarter in second quarter 2021, increasing 20 basis points (bps) quarter-over-quarter (QOQ) to end June 2021 at 6.2%. Despite a 10-bps decrease in sublease vacancy during second quarter 2021, the overall vacancy rate in the Denver Metro also increased 20 bps QOQ to end second quarter 2021 at 6.9%. As was the case in the first quarter 2021, speculative construction continues to be a contributing factor to the rise in direct vacancy. Of the nearly 736,000 square feet (sf) of speculative construction which delivered in the second quarter 2021, only one building—which accounted for just over 16.3% of the total speculative square footage—was pre-leased. Compounded by several sizeable move-outs and almost 270,000 sf of vacant deliveries, the Southeast submarket recorded a 140-bps increase in direct vacancy to end the second quarter 2021 at 11.2%.

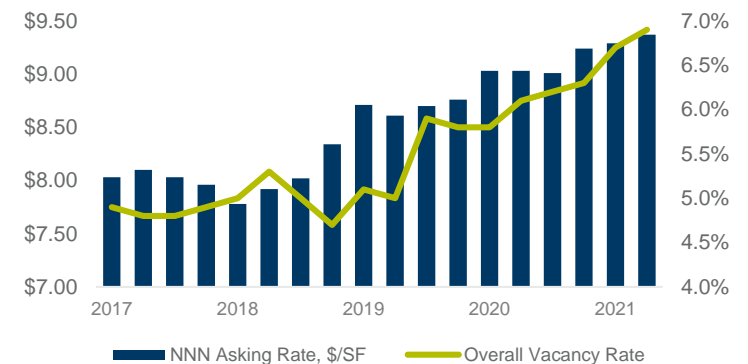
PRICING: Direct Lease Rate Growth Contracts Quarter-over-Quarter as Overall Rates Increase

On a direct triple net (NNN) basis, industrial asking rates remained relatively flat from the first quarter to the second quarter 2021, decreasing by only \$0.02 per square foot (psf) to end the second quarter 2021 at \$9.35 psf. Though direct NNN asking rates have grown \$0.10 psf since the second quarter 2020, the second quarter 2021 is the third consecutive quarter in which direct NNN asking rates have declined, a reasonable indication that industrial rents in Denver—at least on a direct basis—have begun to stabilize. That said, overall NNN rates increased by \$0.08 psf QOQ, ending second quarter 2021 at \$9.37 psf. This increase in overall NNN asking rates is due to an increase in sublease availability within Class A buildings, which has resulted in a \$1.02 psf uptick in sublease NNN rents QOQ. A \$0.24 psf increase in warehouse/distribution rents on an overall basis QOQ has also created upward pressure on the overall NNN rate, even as overall manufacturing rents contracted QOQ.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RATE



ACTIVITY: Activity Strengthens as Industrial Growth Remains Robust

After a robust 3.7 million square feet (msf) of leasing activity in the first quarter 2021, leasing activity remained highly active in the second quarter 2021, recording 3.1 msf of signed leases through the end of June 2021. This represented a 31.8% increase in leasing volume YOY and is an indication of the industrial market’s enduring strength in Denver. The most notable deal executed during the second quarter 2021 was Planterra’s 189,100-square-foot lease at Majestic Commercenter Building 26 in the Northeast. Also of note was International Paper’s full-building lease at Axis 70 West in the Northwest, a 142,100-sf building which broke ground in June of 2021 and is slated to deliver in the first quarter 2022.

ABSORPTION: Absorption Remains Positive, Continuing a Historic Run

The second quarter 2021 recorded over 753,000 sf of positive absorption metro-wide, bringing year-to-date net absorption to just over 1.7 msf . Warehouse/distribution product continues to drive the bulk of the positive absorption, accounting for nearly 89.5% of the positive absorption during the second quarter 2021. After trending negative in the first quarter 2021, both manufacturing and flex product reported positive net absorption during the second quarter 2021. The Northeast accounted for 87.0% of the total net absorption with nearly 659,000 sf in positive net absorption, while the Southeast reported over 131,000 sf in negative absorption, driven by 269,000 sf in vacant deliveries and Sierra Nevada’s 86,000-square-foot move-out at 10949 East Peakview Avenue.

CONSTRUCTION: Development Pipeline Swells to 9.3 MSF During Q2 2021

Seven buildings totaling just over 1.3 msf delivered during the second quarter 2021, including two build-to-suit (BTS) and five speculative projects. Of the speculative development, only 25 North Building 3—located in the Northeast submarket—was pre-leased. With a slate of new construction starts in the second quarter 2021, Denver now has 9.3 msf its the development pipeline, setting a new market record for sf under construction. Despite several BTS projects over 1.0 msf, the distribution between BTS and speculative development is fairly even through the second quarter 2021, with BTS projects accounting for approximately 51.6% of the total square footage. However, with several large-scale BTS developments preparing to break ground and material shortages causing delays and price surges, it’s possible the scale may tip further in favor of BTS throughout the balance of 2021.

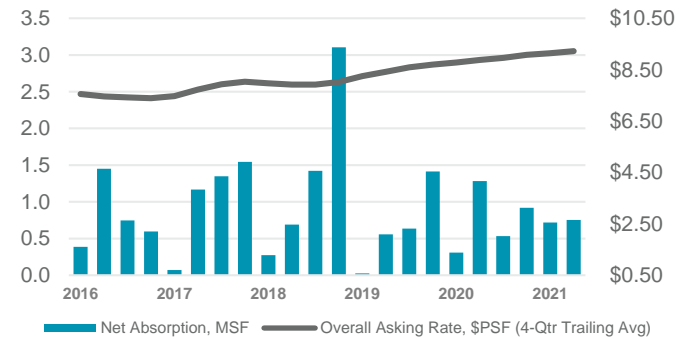
SALES: Industrial Investment Sales Stay Hot

The second quarter 2021 recorded just over \$601.8 million in industrial investment sales, representing an 84.3% increase in investment sales volume QOQ. The most notable transaction of the second quarter 2021 was the sale of Etkin Johnson’s 16-building, 1.67 msf Colorado Technology Center portfolio, which was purchased by Starwood REIT for \$392.9 million in April. The portfolio was 93% leased at the time of purchase and represented the largest industrial sale by dollar volume in Colorado history. Also of note, was PGIM’s \$63.7 million purchase of a three-building, 594,000-square-foot portfolio at Ascent Commerce Center in the Northeast submarket.

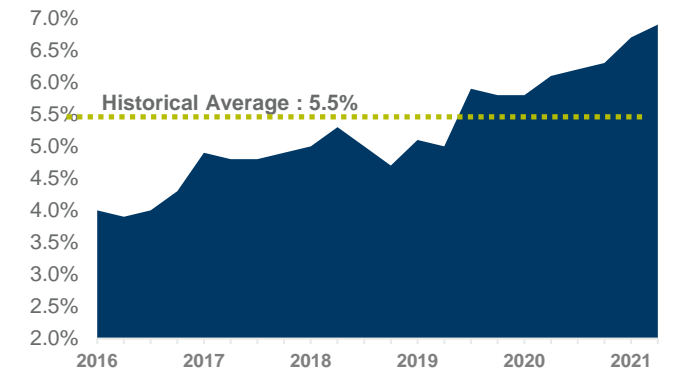
OUTLOOK:

- Despite supply chain delays and material shortages, new development remains very active in Denver.
- User activity continues to gain steam, with the number of tenant requirements increasing.
- Activity in Denver’s industrial market is now at higher levels than pre-pandemic and will continue to increase for leasing, sales, and new developments.
- Based on strong leasing activity during the first two quarters and scheduled build-to-suit deliveries in the second half of the year, net absorption will be exceptionally high and should set a new record.

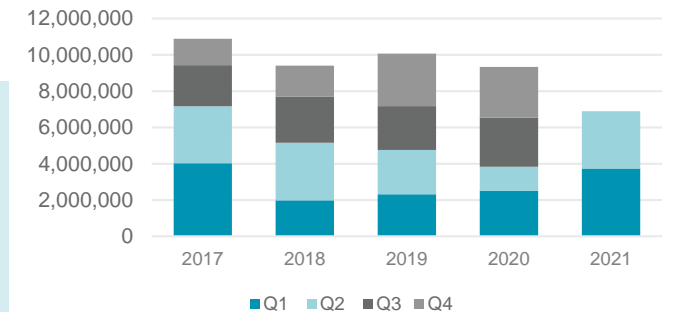
ABSORPTION VS. RENT



OVERALL VACANCY



LEASING ACTIVITY



MARKET STATISTICS

MARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	CONSTRUCTION COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT (FLEX)	OVERALL WEIGHTED AVG NET RENT (W/D)	OVERALL WEIGHTED AVG NET RENT (HT)
Central	43,020,935	2,785,442	6.5%	8,681	320,722	842,881	437,240	\$10.59	\$13.37	\$8.90	N/A
Northeast	108,286,977	7,443,656	6.9%	645,841	1,519,451	7,531,755	571,000	\$4.24	\$10.56	\$6.52	N/A
Northwest	47,121,623	3,203,368	6.8%	(21,354)	91,213	694,545	55,200	\$11.82	\$13.74	\$10.69	\$14.28
Southeast	22,949,238	2,766,408	12.1%	(14,066)	-187,154	303,639	269,215	\$6.86	\$11.02	\$9.36	\$10.88
Southwest	26,407,193	827,415	3.1%	134,601	32,105	0	0	\$8.68	\$11.52	\$8.92	\$10.28
Grand Total	247,785,966	17,026,289	6.9%	753,703	1,776,337	9,372,820	1,332,655	\$8.94	\$12.19	\$7.89	\$12.04

*Rental rates reflect weighted NNN asking \$/psf/year

KEY LEASE TRANSACTIONS Q2 2021

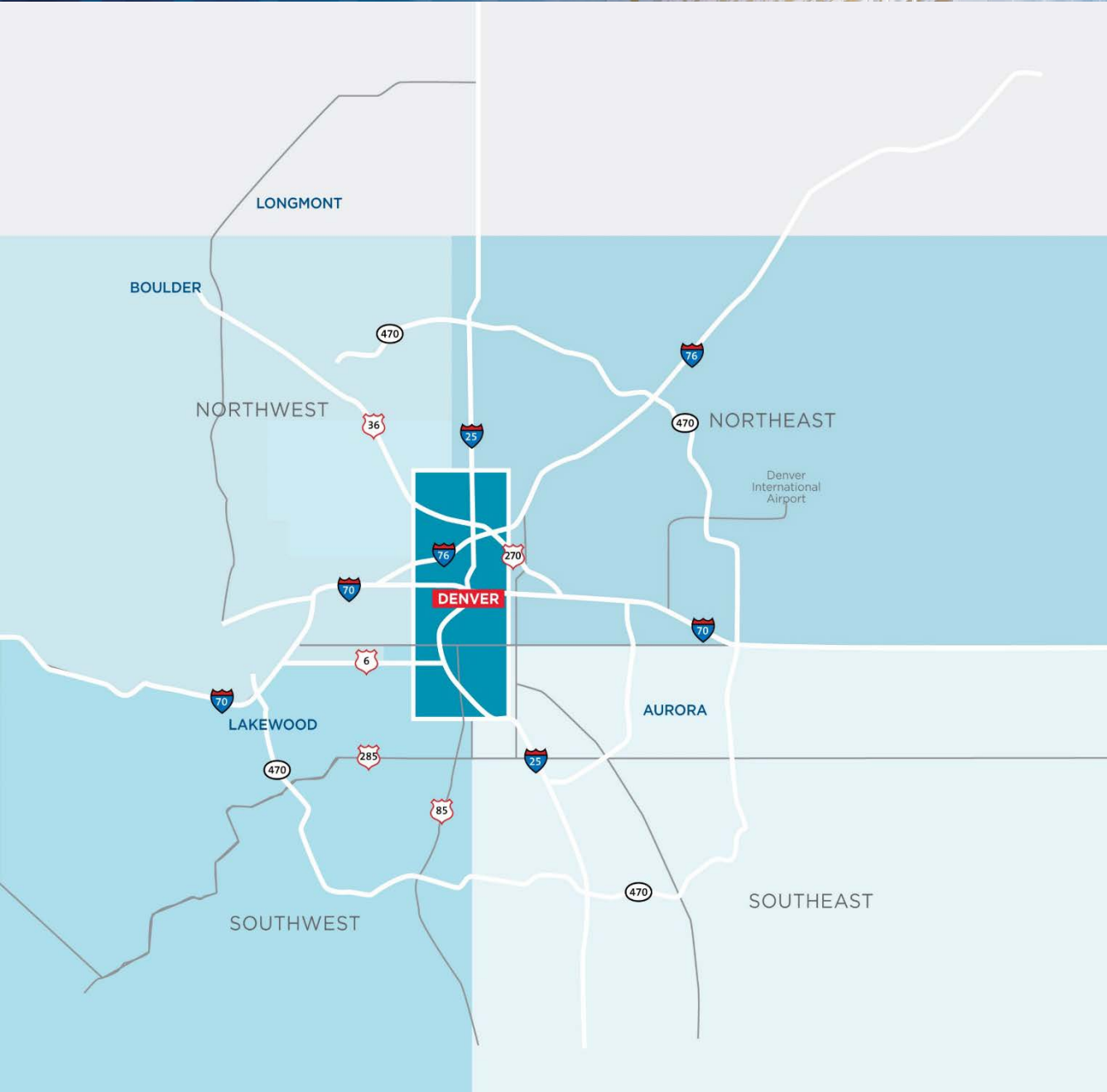
PROPERTY	MARKET	TENANT	SF	TRANSACTION TYPE
Majestic Commercenter – Bldg. 26	Central	Planterra Foods	189,100	New Lease
Central Sixty-Four – Bldg. 1	Central	Pet Food Express	157,100	New Lease
Axis 70 West	Northwest	International Paper	142,100	New Lease
25 North – Bldg. 3	Northeast	Sascho	121,000	New Lease

KEY SALE TRANSACTIONS Q2 2021

PROPERTY	MARKET	SELLER/BUYER	SF	Price	Price/SF
CTC Industrial Portfolio (16 Bldgs.)	Northwest	Etkin Johnson / Starwood REIT	1,671,885	\$393,000,000	\$235
Ascent Commerce Center – Bldgs. 1-3	Northeast	Crow Holdings / PGIM	594,900	\$63,750,000	\$107
EDGE 470 – Bldgs. 1 & 2	Southeast	Etkin Johnson / KKR	159,219	\$28,500,000	\$179
Park 70	Northeast	AEW JV Karis / KKR	163,800	\$25,000,000	\$152

KEY CONSTRUCTION COMPLETIONS YTD 2021

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
Prologis Park 70 – Ferguson BTS	Northeast	Ferguson	450,000	Ferguson/Prologis
North Central Logistics Center – Bldg. B	Central	N/A	290,239	SunCap
BlueScope Logistics Center	Southeast	N/A	136,915	BlueScope Properties Group
Elevate at Central Centennial – Bldg. 1	Southeast	N/A	132,300	Corum Real Estate Group



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