

MARKETBEAT DENVER

Industrial Q2 2022



	YoY Chg	12-Mo. Forecast
6.0% Vacancy Rate	▼	—
332K Net Absorption, SF	▼	▲
10.3M Under Construction, SF	▲	▼
\$10.40 Asking Rent, PSF	▲	—
<i>Overall, Net Asking Rent</i>		

ECONOMIC INDICATORS Q2 2022

	YoY Chg	12-Mo. Forecast
1.6M Denver Employment	▲	▲
3.5% Denver Unemployment Rate	▼	▼
3.6% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics

ECONOMY: Unemployment Drops to 3.5%, Excessive Inflation Countered with Interest Rate Hikes

Metro Denver's unemployment rate dropped to 3.5% in the second quarter 2022, down 60 basis points (bps) from the prior quarter's 4.1% rate but still above the pre-pandemic low of 2.3% in late 2019. Nonfarm employment also continued to improve, rising to nearly 1.6 million after 69,700 jobs were added during the quarter. Inflation has continued to increase at a breakneck pace. As of May 2022, the cost of all items is up 8.1% on the year. Recessionary concerns are beginning to mount as the Federal Reserve acts to temper profound inflation. The Fed raised its benchmark rate by 75 bps in June and is likely to hike rates another 50 to 75 bps in July.

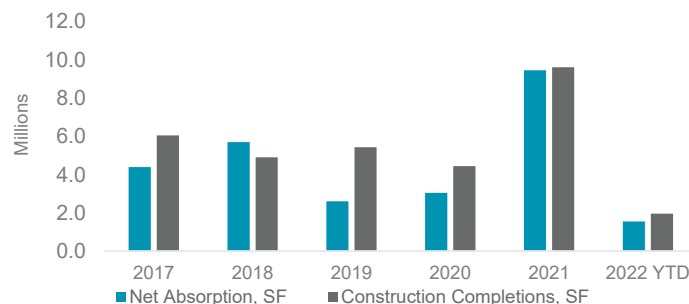
SUPPLY: Vacancy Rates See a Minor Uptick, Largely Due to Costco's 1.3 msf Move-Out

For the first time in six quarters, overall industrial vacancy in Denver increased, rising 30 bps in the second quarter 2022 to 6.0%. Direct vacancy followed suit, increasing 35 bps quarter-over-quarter (QOQ) to end the second quarter 2022 at 5.7%. Both overall and direct vacancy rates were down on a year-over-year (YOY) basis, declining 30 bps and 70 bps, respectively, compared to second quarter 2021. It is chiefly important to note that this increase in vacancy rates is skewed by Costco vacating 1.3 million square feet (msf) in an older building in Brighton in the Northeast submarket. The move was so consequential that had they not vacated, the overall vacancy rate for second quarter 2022 would have declined to 5.5%. Despite the overall vacancy rate continually hovering just above the five-year historical average of 5.4%, the persistent QOQ decreases in overall vacancy and minor uptick this quarter indicate the robust demand for industrial space in Denver, especially when considering the volume of projects currently under construction across the market, which spans a total of 10.3 msf.

PRICING: Heightened Market Growth Fuels Increasing Lease Rates

Second quarter 2022 marked another consecutive quarter of increases in industrial lease rates for both direct and overall, albeit only slightly: direct asking rates increased by \$0.07 per square foot (psf) to an average of \$10.50 psf on a triple net (NNN) basis, and overall NNN rates increased by \$0.01 psf to an average of \$10.40 psf NNN. For the fifth consecutive quarter, rental rates for industrial space in the Denver market rose, with direct and overall asking rates increasing YOY by \$1.06 psf and \$1.19 psf, respectively. While vacancy rates continued to float slightly above the five-year average, landlords in the Denver metro remain in an auspicious position, as the market's consistent growth allows them to achieve increasingly-high rental rates. Additionally, Denver landlords are beginning to see increases in annual rent escalations that have been happening in other strong industrial markets around the country.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RATE



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ACTIVITY: Leasing Activity Rebounds to Double First Quarter 2022's Total

The second quarter of 2022 represented a substantial increase in overall leasing activity, nearly doubling the activity in first quarter 2022, recording 4.1 msf. Year-to-date (YTD) activity of roughly 6.5 msf indicates that overall leasing activity in 2022 will likely near recent annual totals, although most likely will fall short of 2021's record-breaking year which recorded 14.2 msf. The most notable signing of the quarter was Home Depot's 512,000 sf build-to-suit (BTS) at Clarion Gateway Business Park; also worth mentioning were Palot Solutions Group's 210,000 sf lease in the Majestic Commercenter and Target's 141,500 sf space in the Prologis Broadway Distribution Center.

ABSORPTION: Ample Positive Absorption Marred by Large 1.3 msf Costco Move-Out

An otherwise strong quarter for absorption was counteracted by Costco vacating 1.3 msf and multiple occupancies being pushed back to Q3 and Q4 2022. The Costco move-out brought down the end of quarter net absorption total from a would-be 1.6 msf to 331,800 sf. Costco completed a 317,000-sf BTS project near the airport last year, so it appears a change of space has been their game plan for quite some time. Additionally, the quarter saw some substantial move-ins, particularly from BTS spaces that were delivered and occupied in the quarter: The most notable was FedEx occupying their 482,700 sf BTS near the Denver Airport. Further, Hello Fresh occupied 150,000 sf in the Majestic Commercenter and International Paper occupied 142,200 sf at the new Axis 70 West development.

CONSTRUCTION: Pipeline Continues to Grow as Deliveries are Pushed Back

The second quarter of 2022 followed suit in the activity of the first quarter: a few large projects were delivered, and more were pushed back to the next quarter due to construction delays. The most notable completion of the quarter was the 482,700 sf FedEx BTS in the Northeast submarket. All together, second quarter 2022 deliveries recorded a total of 1.2 msf. While higher numbers may have been expected at the beginning of the quarter, the industrial construction pipeline continues to swell, as there is currently 10.3 msf under construction, 95.0% of which is being developed on a speculative basis.

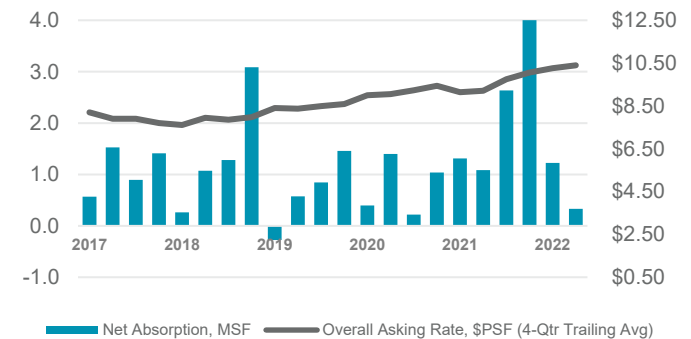
SALES: Momentous Quarter Highlighted by Sale of 1.34 msf 8-Property Portfolio

With \$532 million in sales volume recorded, the second quarter 2022 more than doubled the volume of the proceeding quarter. With multiple banner sales, the quarter was characterized by voluminous transactions, the most notable of which was an eight-property portfolio that spans the Denver metro, totaling some 1.3 msf. Stockbridge Capital Group purchased the portfolio from Link Logistics Real Estate for roughly \$252 million. Further, PepsiCo sold 478,000 sf on 30 acres of land to Stoltz Real Estate Partners for a whopping \$158 million; the land will be a redevelopment project after Pepsi occupies their new BTS facility near the airport. Looking forward, the rising interest rate environment is negatively impacting capital market transactions that will likely result in a slowdown in Q3 sales.

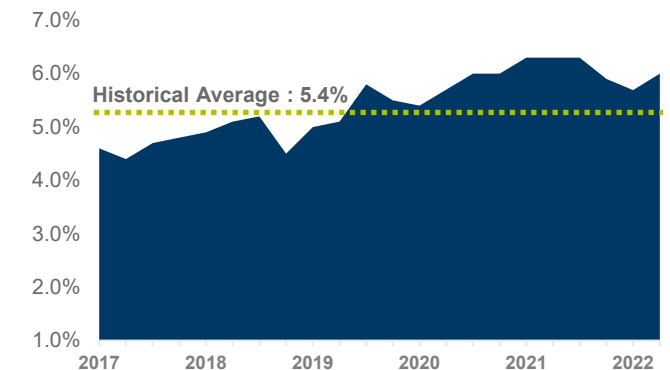
OUTLOOK:

- As vacancy rates and net absorption took hits this quarter due to Costco's 1.3 msf vacancy, rebounds in both metrics are likely, especially when considering the plethora of move-ins originally scheduled for second quarter 2022 that were pushed back due to TI permitting and construction delays.
- Denver fundamentals remain solid and is a favorable market for landlords as demand continues to be strong with robust rent growth.
- The strong leasing this quarter and delayed occupancies from previous quarters will provide for a very good second half of the year for absorption.
- Rising inflation and interest rates are concerns for a recession along with a potential housing bubble that may negatively impact leasing and sales activity for the remainder of the year.

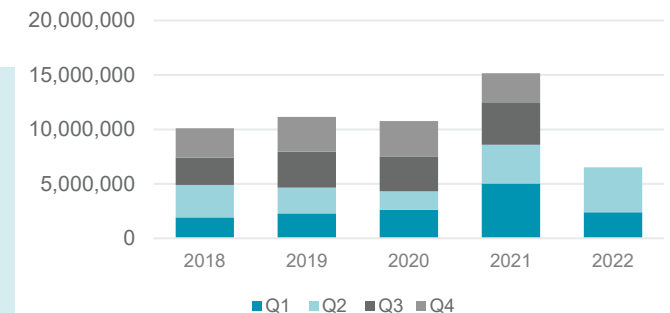
ABSORPTION VS. RENT



OVERALL VACANCY



LEASING ACTIVITY



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MARKET STATISTICS

MARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CONSTRUCTION (SF)	CURRENT QTR CONSTRUCTION COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT (FLEX)	OVERALL WEIGHTED AVG NET RENT (W/D)
Central	44,292,497	2,356,763	5.3%	502,488	620,380	813,168	761,324	324,000	\$10.33	\$14.02	\$9.06
Northeast	114,893,073	8,034,527	7.0%	-848,354	167,945	3,051,417	7,447,825	482,693	\$5.39	\$10.65	\$8.11
Northwest	47,907,606	2,598,280	5.4%	442,192	415,008	1,360,479	841,452	424,308	\$10.64	\$13.60	\$12.13
Southeast	22,952,392	1,861,280	8.1%	188,133	278,077	719,613	1,244,844	-	N/A	\$12.37	\$9.94
Southwest	26,434,866	570,001	2.2%	47,390	75,083	256,916	0	-	\$8.96	\$11.26	\$10.36
Grand Total	256,480,434	15,420,851	6.0%	331,849	1,556,493	6,201,593	10,295,445	1,231,001	\$8.98	\$12.75	\$9.12

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

KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	MARKET	TENANT	SF	TRANSACTION TYPE
Clarion Gateway BTS	Northeast	Home Depot	512,000	New Lease
3700 North Windsor Drive – Bldg. 28	Northeast	Paliot Solutions Group	210,195	New Lease
Prologis Broadway Dist. Center -- 6300 Broadway	Central	Target	141,524	New Lease
6050 Washington Street – Bldg. 2	Central	Keystone Tower Systems	108,937	New Lease

KEY SALE TRANSACTIONS Q2 2022

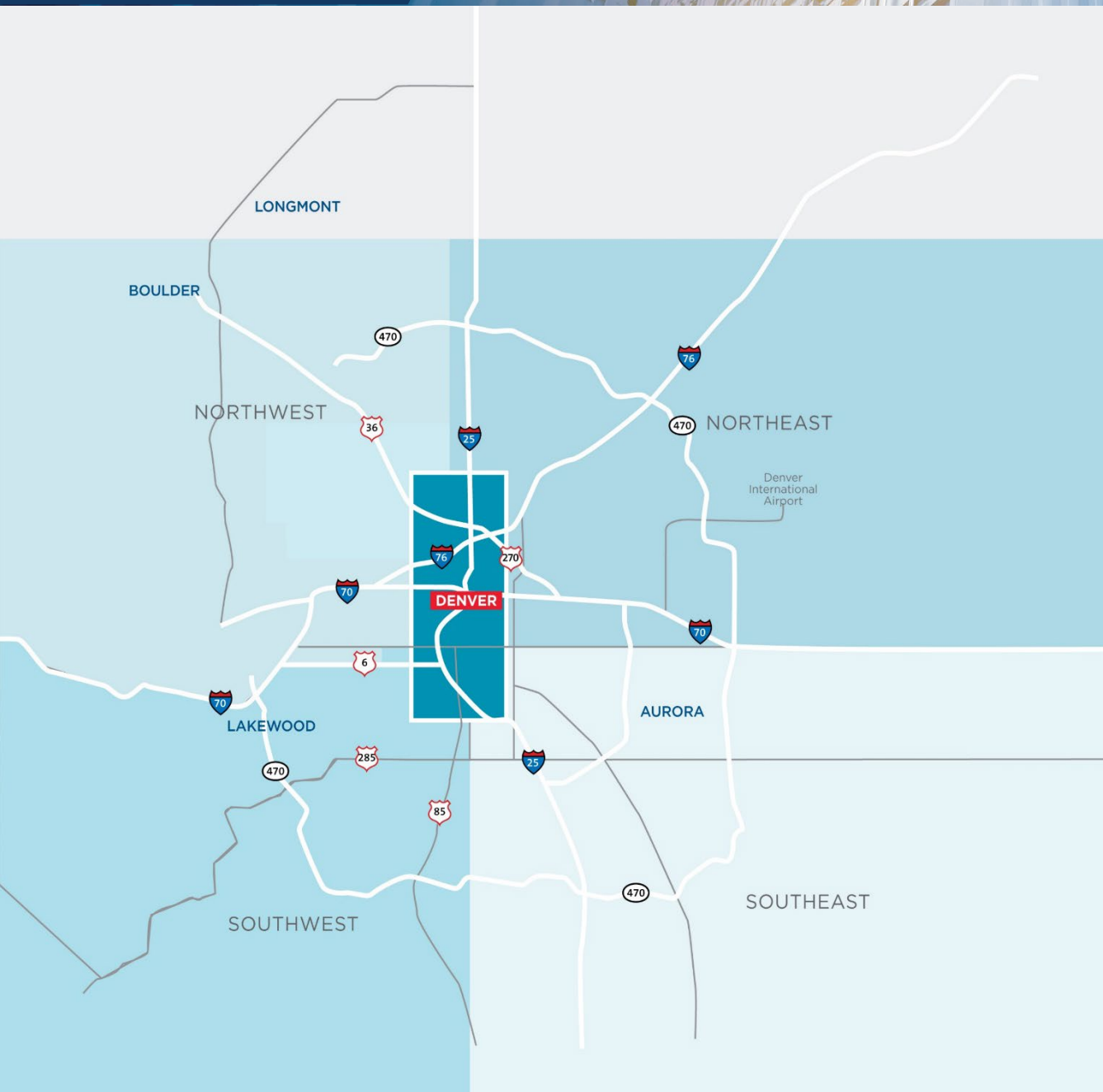
PROPERTY	MARKET	SELLER/BUYER	SF	\$Price	\$Price/SF
Link Logistics - 8 Property Portfolio	Denver Metro	Link Logistics Real Estate / Stockbridge Capital Group	1,337,629	\$251,999,200	\$179
North Washington Commerce Center- Bldgs. A & B	Northeast	Opus / KKR Real Estate Select Trust	282,108	\$58,100,000	\$206
6201 East 42 nd Avenue	Northeast	4221 Monaco Street / Black Pine Properties	100,000	\$10,500,000	\$105
5861 North Tennyson Street	Northwest	PKS Arvada LLC / L & L Dry Creek LLC	80,640	\$9,000,000	\$112

KEY CONSTRUCTION COMPLETIONS Q2 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
56th Avenue & Jackson Gap Street – FedEx BTS	Northeast	FedEx	482,693	Scannell Properties
North Washington Commerce Center- Bldgs. A & B	Northeast	n/a	282,108	KKR Real Estate Select Trust / Opus
Axis 70 West	Northwest	International Paper	142,200	Westfield Company, Inc.

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