

MARKETBEAT DENVER



Industrial Q4 2022

	YoY Chg	12-Mo. Forecast
6.9% Vacancy Rate	▲	—
1.3M Net Absorption, SF	▼	—
8.1M Under Construction, SF	▲	—
\$9.59 Asking Rent, PSF	▼	▲
<i>Overall, Net Asking Rent</i>		

ECONOMIC INDICATORS Q4 2022

	YoY Chg	12-Mo. Forecast
1.6M Denver Employment	▲	▲
3.5% Denver Unemployment Rate	▼	▼
3.7% U.S. Unemployment Rate	▼	▲

Source: BLS, Moody's Analytics

ECONOMY: Unemployment Drops to 3.3% Even As Interest Rates Continue to Rise

After six consecutive quarters of decline, Metro Denver's unemployment rose 20 basis points (bps) quarter-over-quarter (QOQ) in the fourth quarter 2022, ending December at 3.5%. The national unemployment rose as well, increasing 50 bps QOQ. However, both the local and national unemployment rate are down compared to the fourth quarter 2021, indicating that employment figures remain healthy despite ongoing recessionary concerns. While the Federal Reserve remains focused on controlling the cost of credit to control inflation, minutes from the Fed's latest policy meeting in December 2022 indicated a willingness by officials to slow the pace of interest rate hikes in 2023 in order to limit the risk of economic growth.

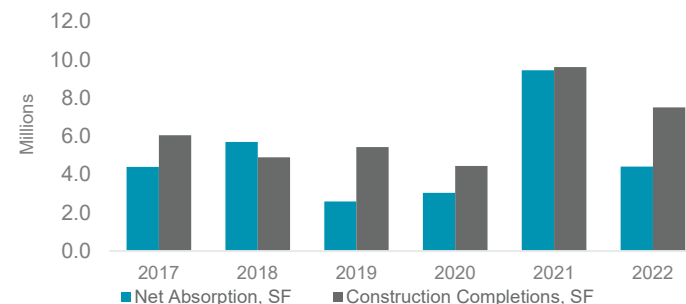
SUPPLY: Vacancy Rates Remain High as Speculative Developments Surge

Fourth quarter 2022 marked the fourth consecutive quarter in which vacancy rates rose for industrial product; the overall vacancy rate recorded a QOQ increase of 20 bps to end fourth quarter 2022 at 6.9%. Direct vacancy rates followed the same trend, climbing 30 bps to end the fourth quarter 2022 at 6.7%. Both overall and direct vacancy rates were up on a YOY basis as well, rising by a more-drastic 80 bps and 90 bps, respectively. The fourth quarter 2022 rate of 6.9% marked a five-year high for overall vacancy rate for industrial product in the Denver market. The trend of rising vacancy rates has been foreseeable to a certain extent, as developers have been busy delivering new product; given that 84.4% of this new product has been delivered on a speculative basis, only 17.1% of which was preleased. While leasing within newly-completed buildings has been strong over the course of 2022, it will take some time for the pendulum to swing back towards lower vacancy rates that are historically characteristic of the Denver industrial market.

PRICING:

Metro-wide asking rates decreased on both an overall and direct basis in the fourth quarter 2022, ending the year at \$9.59 per square foot (psf) triple net (NNN) and \$9.54 psf NNN, respectively. However, this drop-off is likely due to a recalibration of reporting previously-undisclosed rental rates rather than a change within the market. Both overall and direct rates remain elevated compared to mid-year 2021, an indication that rent growth remains steady in the Denver Metro. With the rising cost of capital heavily affecting both ground-up new development and tenant improvements in both new and existing space, rental rates continue to move up. Rent escalations began to move upward during the year with most leases being in the 3.0% to 3.5% range. With demand remaining steady in Denver, it is likely that rental rates will continue to grow in relation to rising costs, at least in the short-term.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RATE



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ACTIVITY: Northeast Submarket Dominates Busy Quarter for Leasing

After a sharp QOQ drop-off in third quarter 2022, fourth quarter 2022 registered another QOQ decrease of 17.1%. This decrease of 413,000 sf brought the fourth quarter leasing activity total to just over 2.0 million square feet (msf). As a result, the year-end 2022 total was 10.8 msf, which is more in line with historical numbers compared to 2021's record-breaking year of 14.3 msf of leases executed. Of the 1.7 msf of new leases signed throughout the quarter, 49.5% were signed in the Northeast submarket, further solidifying the submarket as Denver's most prominent for industrial activity.

ABSORPTION: Sizeable Q4 Move-ins Cement 2022's Healthy Year for Absorption

Fourth quarter 2022 marked another strong quarter for overall absorption, continuing to pick up the slack of second quarter 2022's abnormal low. The 1.3 msf of overall net absorption in fourth quarter brought the annual total to 4.4 msf, a four-year high outside of 2021's banner year. Perhaps the highest contribution to net absorption during the fourth quarter 2022 was tenants occupying spaces they had signed in second quarter 2022, where a 2022-high of 4.1 msf in leasing activity was recorded. The most notable move-ins of the quarter were Paliot Solutions' 210,000-sf space at Majestic Commerce Center – Building 28 and Living Spaces' 141,100-sf space at Clarion Gateway Park – Building 22, both in the Northeast submarket.

CONSTRUCTION: 2022's New Deliveries Leap Past Five-Year Average

While the fourth quarter 2022 didn't see as many projects deliver as the previous quarter, it still experienced a significant amount of construction completions, amounting to 1.7 msf. This brought the total to 7.5 msf, which sits roughly at 18% above the five-year average of 6.3 msf. The most notable delivery of the quarter were buildings 1 & 3 of 104th Commerce Park in Brighton; the two buildings were delivered on a speculative basis and collectively totaled roughly 571,000 sf. Also of note was the completion of Clarion Gateway Park – Buildings 26 & 27, which topped out at 331,000 sf and 157,000 sf, respectively. The largest construction start of the quarter was Denali Phase I, which will total 760,000 sf of spec space across three buildings upon completion. The under-construction pipeline inflated by roughly 800,000 sf to end the year at 8.1 msf.

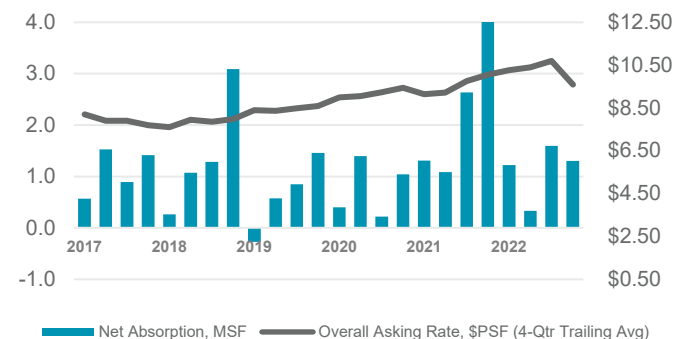
SALES: Portfolio Sales Boost EOY Sales Volume to Over Two Billion

The fourth quarter 2022 recorded just over \$184 million in total sales volume, which represented a QOQ decrease of roughly \$15 million. The \$184 million in sales volume was spread across 10 transactions, 14 fewer than the previous quarter, despite the modest 7.7% decline in sales volume. This brought the year-to-date industrial sales volume to \$2.1 billion. The largest sale of the quarter was the eleven-building Broomfield Industrial Portfolio, which Westcore Properties sold to the Lightstone Group for \$72 million. Also of note was the two-building Airport Central Portfolio JP Morgan sold to TA Realty for \$33 million.

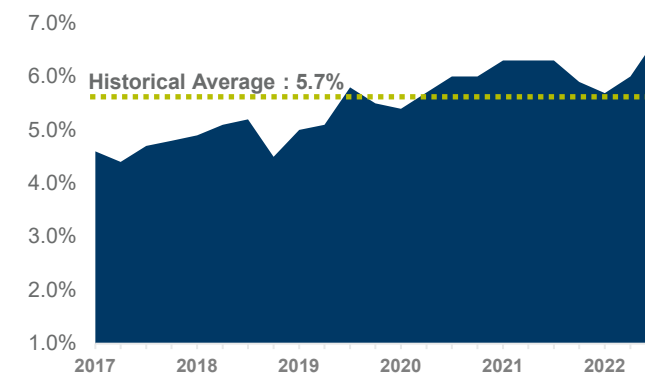
OUTLOOK:

- Expect vacancy rates to remain comparatively elevated until spec space gets filled and the market recalibrates.
- Despite the drop in rental rates due to capturing previously-undisclosed rates, pricing continues to trend in an upward direction. While the cost of capital is significant, rates will continue to increase from persistent demand.
- Amid healthy demand and expected notable delayed move-ins, net absorption is anticipated to finish 2023 strongly in the black.
- With construction starts projected to slow this coming year, new supply totals should fall in comparison to the robust total reported in 2022.

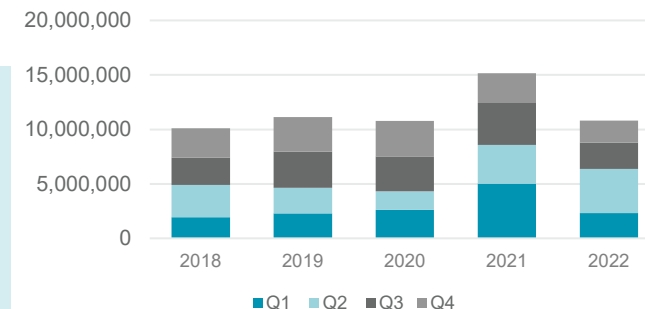
ABSORPTION VS. RENT



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	44,510,947	2,341,282	5.3%	371,091	1,068,235	1,330,864	645,676	612,524	\$9.81	\$14.09	\$10.47
Northeast	118,970,581	10,246,066	8.6%	766,976	2,162,752	6,102,453	5,298,074	5,474,559	\$6.77	\$10.93	\$7.07
Northwest	48,100,555	2,675,264	5.6%	114,607	532,928	1,689,288	1,461,711	706,643	\$11.14	\$13.20	\$12.43
Southeast	23,675,134	2,358,986	10.0%	42,442	494,632	1,131,021	709,662	720,268	N/A	\$12.44	\$10.39
Southwest	26,420,693	528,306	2.0%	7,134	168,333	548,745	-	-	\$8.81	\$10.93	\$11.36
Grand Total	261,677,910	18,149,904	6.9%	1,302,250	4,426,880	10,802,371	8,115,123	7,513,994	\$9.25	\$12.69	\$8.52

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

KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	MARKET	TENANT	SF	TRANSACTION TYPE
Clarion Gateway Park – Bldg. 22	Northeast	Living Spaces	141,171	New Lease
Park 76 Distribution Center – Bldg. 2	Northeast	Eagle Rock Distribution Company	121,400	New Lease
Central Park Logistics Center – Bldg. 2	Central	Metrie	100,840	New Lease
Boulder Innovation Campus – Bldg. 2	Northwest	Honeywell International	98,640	New Lease

KEY SALE TRANSACTIONS Q4 2022

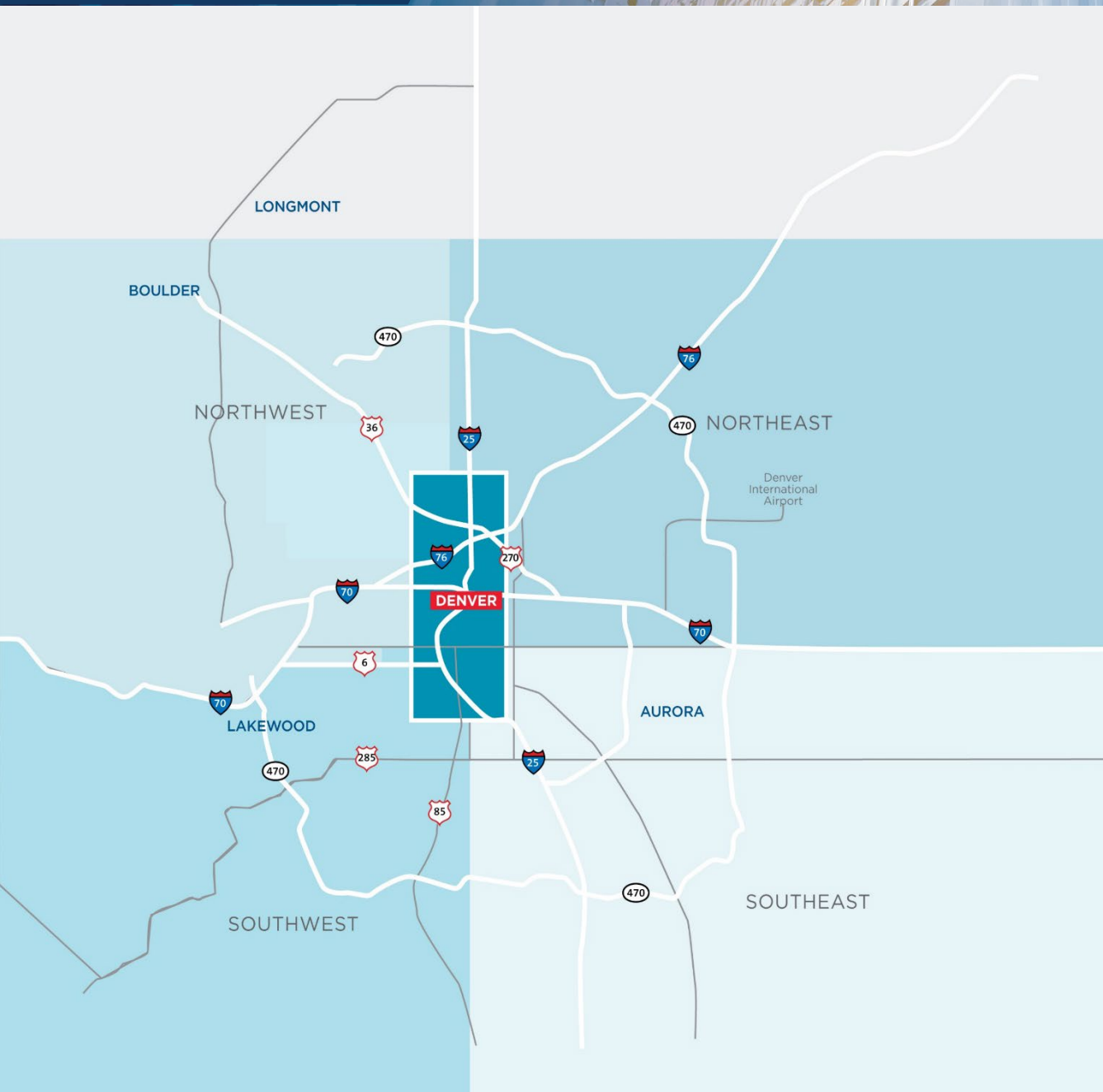
PROPERTY	MARKET	SELLER / BUYER	SF	\$Price	\$Price/SF
Broomfield Industrial Portfolio (11 buildings)	Northwest	Lightstone Group / Westcore Properties	509,164	\$72,000,000	\$141
Airport Central Portfolio (2 buildings)	Northeast	JP Morgan / TA Realty	339,992	\$33,000,000	\$97
8125 East 88 th Avenue	Northeast	Truist / Bridge Investment Group	98,118	\$31,900,000	\$325
1855 South Flatiron Court	Northwest	Qwest Corporation / BioMed Realty	33,000	\$15,000,000	\$455

KEY CONSTRUCTION COMPLETIONS Q4 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
104 th Commerce Park – Bldgs. 1 & 3	Northeast	n/a	570,985	Clarion Partners
Clarion Gateway Park – Bldgs. 26 & 27	Northeast	n/a	488,211	Clarion Partners
First 76 – Bldg. 1	Northeast	n/a	199,500	First Industrial Realty Trust

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Cara Stamp

Research Manager

+1 303 218 3258

cara.stamp@cushwake.com

Eli Snyder

Research Analyst

+1 303 312 4268

eli.snyder@cushwake.com

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