

DENVER INDUSTRIAL MARKET

INDUSTRIAL SHOWS ITS RESILIENCE

Even as the pandemic propelled the real estate market into uncharted territory, Denver's industrial market posted the best quarterly absorption in over 10 years with 2.2 million square feet. Benefitting from large leases signed pre-COVID and lacking the large moveouts that have plagued other sectors, the second quarter of 2020 boosted the market past a quiet first quarter, bringing year-to-date net absorption to 2.5 million square feet. Vacancy was 5.9%, down slightly from 6.0% in the prior quarter but up from 5.7% one year ago.

Four of Denver's seven submarkets posted positive net absorption for second-quarter 2020. The East submarket outpaced the others with 1.6 million square feet, followed by the Northwest submarket with 389,014 square feet. The Southwest and West submarkets also logged moderate positive absorption, while absorption in the Northeast was flat. The Central and Southeast submarkets finished the quarter with moderate negative absorption.

Rental rates remained largely unchanged from first-quarter 2020. During 2018, rates experienced a similar plateau after reaching what was then record highs, with the only increases dependent on high-quality new product, as well as the increasing cost of tenant improvements and construction. Although the Industrial market seems to be weathering the current downturn better than other sectors, owners are cautious about pushing rates beyond current historic highs as uncertainty in the future continues. The persistence of high rates had already put strain on some tenants, particularly tenants whose leases are coming due, as they are facing drastically higher prices than when they had originally signed their leases.

After an uncharacteristic first quarter that posted negative absorption, the East submarket came roaring back in the second quarter with absorption of 1.6 million square feet. Nearly all activity was concentrated in the warehouse/distribution sector, which provided for YTD net absorption of 1.3 million square feet. Vacancy decreased slightly year over year, from 7.4% to 7.1%. The largest source of absorption this quarter came from Amazon occupying two warehouses for a total of 1.3 million square feet. Karcher's 380,000-square-foot build-to-suit was also delivered and fully occupied.

The Southeast submarket posted the largest net loss of occupancy with quarterly absorption of negative 86,579 square feet. A strong first quarter kept the YTD absorption in the black with 45,801 square feet. The vacancy rate of the submarket increased slightly from both the previous quarter to 8.2% from 5.2%, as well as year-over-year from 6.0%. Historically, growth has been concentrated in the R&D/flex sector but 2020 is proving to buck this trend; the R&D/flex sector posted YTD absorption of negative 168,170 square feet, compared with the industrial/warehouse sector's 213,971 square feet.

CURRENT CONDITIONS

Thirty-fourth consecutive quarter of positive growth in the market

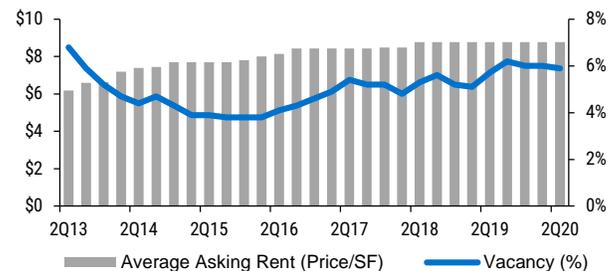
Rental rates continue holding steady

E-commerce demand and pre-COVID funding keeps the pipeline active

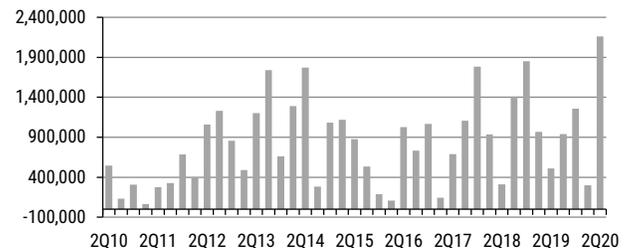
Continuing interest in owning industrial product keeps \$/SF high

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	207.0 MSF	205.1 MSF	201.7 MSF	↑
Vacancy Rate	5.9%	6.0%	5.7%	↑
Quarterly Net Absorption	2.2 MSF	297,347	510,687	↓
Median Asking Rent	\$8.77	\$8.77	\$8.77	↔
Under Construction	7.0 MSF	6.9 MSF	3.8 MSF	↓
Deliveries	485,000	485,000	1.7 MSF	↑

PIPELINE SHOWS NO FEAR

Ten projects totaling 1.9 million square feet delivered during the second quarter. Combined with those delivered in the first quarter, as well as those currently under construction, 8.0 million square feet is due to deliver over the course of 2020. It includes a record-breaking building, the largest single-tenant warehouse that will surpass Amazon's massive 855,000-square-foot distribution center that delivered in 2018. The 900,000-square-foot Shamrock Foods build-to-suit broke ground in the first quarter and is due to deliver at the end of the year. Despite the recession and future uncertainty, the pipeline shows no signs of slowing down. Fourteen buildings broke ground in the second quarter for a combined 2.1 million square feet.

The highest concentration of the new construction continues to be in the East submarket, but five of the buildings that broke ground this quarter were in the Central submarket, which now has 1.1 million square feet for 15.4% of the total amount of broken ground. The Southeast submarket, which has already seen nearly 500,000 square feet deliver in the first half of the year, currently has 961,000 square feet under construction.

INDUSTRIAL PRODUCT STILL DESIRABLE

Sales volume for 2019 reached \$1.1 billion, with 8.7 million square feet having traded hands and continued the strong pace in the first half of 2020, with 6.0 million square feet traded for \$712.6 million. The top transaction in second-quarter 2020 based on sale price was Link Industrial Properties' acquisition of the CSM Corporation portfolio that included five industrial buildings in the Denver market for \$93.6 million; the entire 71-property portfolio traded for \$629.1 million.

LOOKING FORWARD

The pandemic has put both the real estate market and economy in uncharted territory. Although contraction in the global and local economies appear to be reversing course by the close of the quarter, the depth and duration of the recession remain to be seen. The full COVID-19 effect has not impacted the Industrial market statistics yet but leasing activity has dropped as uncertainty and stay-at-home orders induced a "COVID coma." This slowdown will inevitably lead to slower growth in the last half of the year. Rental rates will largely remain stable, while some landlords will elect to drop their asking rates to entice tenants to sign deals. Sales activity will remain strong as the sector continues to be more resilient than other product types. Projects that were planned and funded pre-COVID will continue to break ground, while the pipeline beyond such projects will slow as vacancy continues to increase.

The Industrial market is uniquely situated to weather and even benefit from this black swan event in the long term. The varying restrictions that have been imposed to combat the pandemic has driven an increased prominence of ecommerce, leading to increased demand for the necessary warehouse space. This increased demand will also keep investors interested and maintain the demand to own industrial product for both investors and tenants. The continued demand is not across all business types, as Denver's retail and hospitality sectors have already suffered significant layoffs because of mandatory closures of nonessential businesses. With many large retailers announcing bankruptcies and future store closures, the need for warehouse space for those tenants will decrease.

LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
CEVA	26100-26120 East 68th Avenue	East	New	94,814
Winn Marion Barber	7151 South Blackhawk	Southeast	New	53,000
Keefe	12000 East 45th Avenue	East	New	47,600
Hajoca Corporation	500 West 53rd Place	Northwest	New	39,202
Sierra Nevada Corporation	321 South Taylor Avenue	Northwest	New	34,843

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
CSM Corporation Portfolio	Multiple	\$93,642,000	\$77	1,222,732
9410 East 40 th Avenue	East	\$85,700,000	\$132	647,483
1325 West Oxford Avenue	Southwest	\$24,344,808	\$162	150,000
9801 Dallas Street	Northeast	\$13,311,691	\$206	64,501
16035 Table Mountain Parkway	West	\$13,000,000	\$251	51,739

SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Central	41,837,184	1,070,811	5.0%	-77,678	170,751	\$7.00	\$8.50	\$7.75
East	78,163,859	3,428,874	7.3%	-1,586,225	1,569,302	\$5.50	\$9.00	\$7.25
Northeast	13,919,333	907,200	4.4%	-1,600	21,800	\$7.00	\$10.50	\$7.00
Northwest	15,939,120	430,472	8.2%	389,014	386,149	\$7.50	\$11.50	\$9.50
Southeast	19,014,986	960,527	8.2%	-86,579	45,801	\$9.00	\$11.50	\$10.25
Southwest	15,438,033	0	4.0%	114,995	30,735	\$8.25	\$9.75	\$9.00
West	22,692,899	177,627	1.2%	239,554	236,740	\$9.00	\$10.75	\$9.88
TOTAL MARKET	207,005,414	6,975,511	5.9%	2,163,931	2,461,278	\$7.61	\$10.17	\$8.77

ECONOMIC CONDITIONS

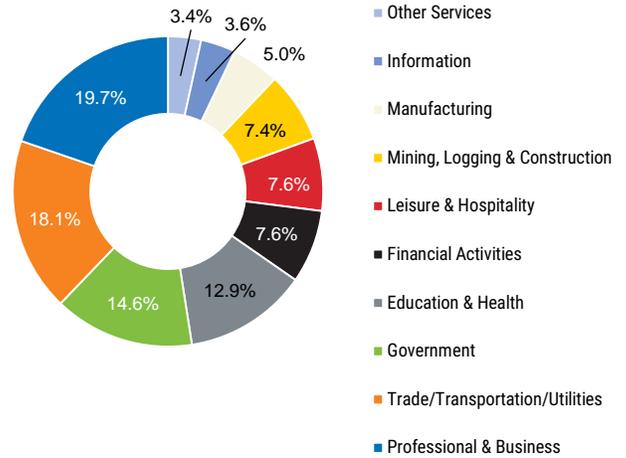
Preliminary average annual job growth for the Denver metro area for the 12-month period through May 2020 was 0.4%, and the average rates for 2017, 2018 and 2019 were 2.1%, 2.6% and 2.2%, respectively.

Nine of 10 industry sectors logged job loss in May. The information sector posted moderate job growth of 1.0%. The leisure & hospitality, other services and trade, transportation & utilities services sectors logged the largest year-over-year losses at negative 39.1%, negative 18.2% and negative 7.5%, respectively. The important office-occupying professional & business services sector and the trade, transportation and utilities sector remain Denver's largest employment sectors, accounting for 19.7% and 18.1% of total non-farm employment, respectively.

Denver's preliminary May 2020 unemployment rate stood at 10.4%, a number that would have been unthinkable at the beginning of the year; except for a small spike at the end of 2018 and in January 2019, Denver unemployment has been around 3% or below since April 2016.

EMPLOYMENT BY INDUSTRY

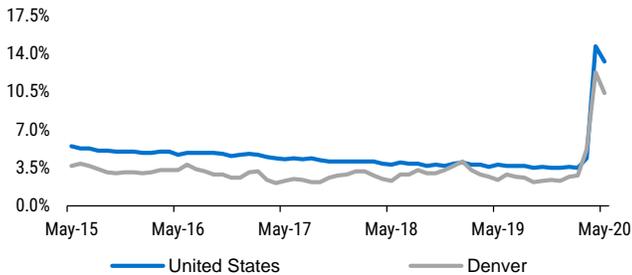
Denver, May 2020



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

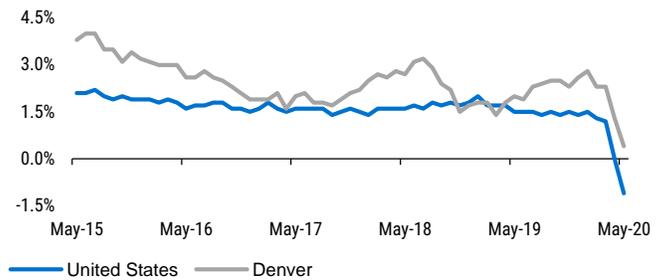
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

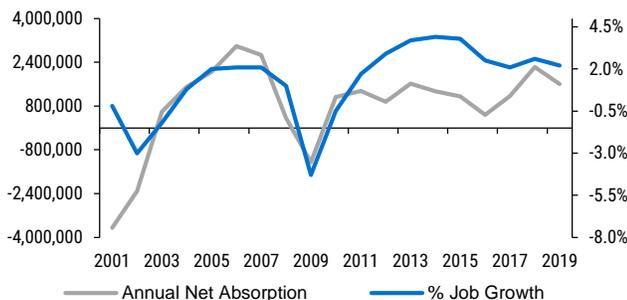
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH AND ABSORPTION

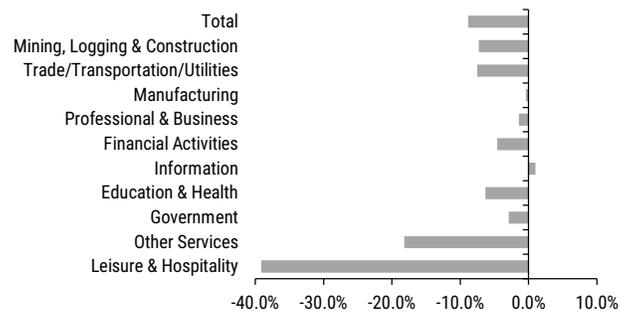
Denver YOY Employment Growth and Office Annual Absorption



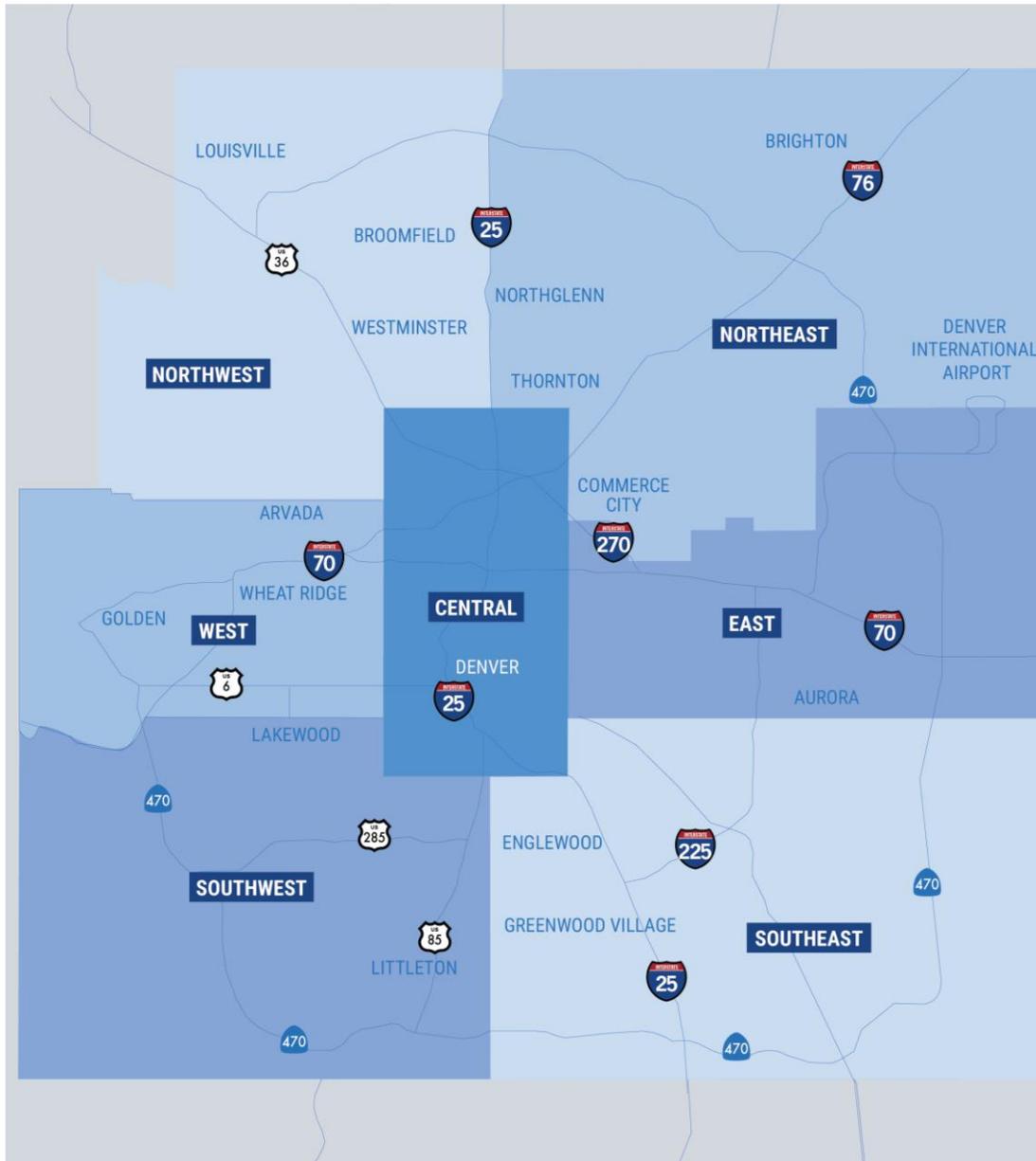
Source: U.S. BLS/NKF Research

EMPLOYMENT GROWTH BY INDUSTRY

Denver, May 2020, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics



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