

# Denver Industrial Market

## Denver's Industrial Market Begins the Year on a High Note

Following 2021's record figures, Denver's industrial market exhibited moderated levels of expansion for the first quarter of 2022, with an absorption of 1.1 million square feet. Although down from the previous quarter due to far fewer build-to-suit buildings being delivered, market-wide absorption was still up 44.4% year-over-year. Most of this expansion was attributed to sustained activity in the e-commerce, and food and beverage industries as we enter the post-pandemic world. Highly confident tenants drove elevated leasing in the sub-100,000-square-foot market, while large tenants prioritized waiting for high-end product over taking what was available. Vacancy market-wide marginally decreased by 0.2% from last quarter to 6.0% but remained below 6.8% vacancy in the first quarter of 2021.

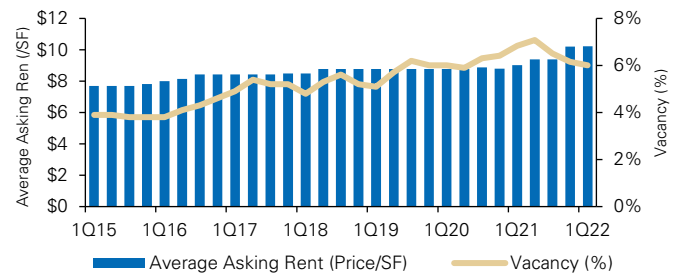
As in past quarters, the East submarket logged the highest level of absorption with a total of 720,771 square feet. This was in large part due to the delivery and occupation of the Subaru of America's 554,232-square-foot build-to-suit. Vacancy in this submarket was 6.0%, down from 7.8% year-over-year. The Central submarket recorded the second highest quarterly absorption at 202,767 square feet, and vacancy decreased to 6.0%. Absorption in the Northeast submarket was the lowest in the Denver market at -6,112 square feet, and vacancy there swelled to 8.3% from 3.8% in the last 12 months. All other submarkets posted mildly positive absorption under 65,000 square feet.

### Current Conditions

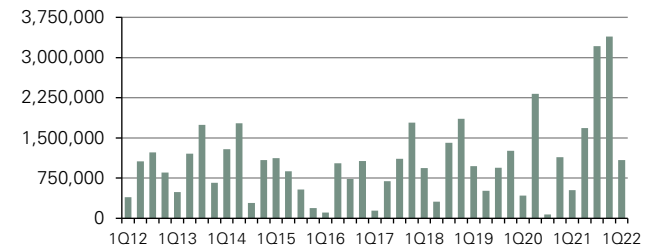
- Asking rates increased YOY for all submarkets in at least one product type and five out of seven submarkets saw them rise in both
- 10.0 million square feet due to deliver in 2022
- Vacancy is down for the third consecutive quarter
- Tenants, investors and developers are all still bullish on the future of the market

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



### Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	218.5 MSF	218.0 MSF	210.8 MSF	↑
Vacancy Rate	6.0%	6.2%	6.7%	↑
Quarterly Net Absorption (SF)	1.1 MSF	3.4 MSF	602,822 SF	↓
Median Asking Rent/SF	\$10.23	\$10.20	\$9.02	↑
Under Construction (SF)	13.0 MSF	8.8 MSF	8.6 MSF	↓
Deliveries	715,898 SF	3.6 MSF	1.6 MSF	↑

## RESEARCH Q1 2022

### Rental Rates

The confidence of owners is at an all-time high after consecutive quarters of expansion. As a result, they are expected to pass the increased costs of construction and improvements onto tenants, and rental rates will be increasing for the foreseeable future. In the Central and Northeast submarkets, rental rates were up 12.5% and 13.1%, respectively, from the previous quarter. All other submarkets' rates remained stable from the fourth quarter of 2021, but significant year-over-year increases were evident. Rental rates for the whole market were up 13.4% from a year ago. Meanwhile, the East submarket recorded a staggering 31.0% annual increase due to a whirlwind of demand and the delivery of high-end product near the airport. Rent increases since the first quarter of 2021 in the Northwest submarket were also very high at 22.4%, while all other submarkets experienced increases of less than 15.0%. The flight to quality was apparent as Class A spaces led the charge for increased rent, and rates for older Class B buildings remained stable.

### Pipeline Expected to Break Records Once Again

After an all-time high 9.3 million square feet delivered in 2021, 2022 is expected to break that record with a grand total of 10.0 million square feet scheduled for completion in 2022. Following nearly 3.6 million square feet of deliveries in the final quarter of 2021, the market began to normalize with 715,898 square feet delivered in the first quarter of 2022. This number is sure to increase once again as 15 buildings totaling 3.9 million square feet broke ground in the first quarter of 2022; eight of these buildings will deliver later this year. Ravenous demand for industrial property has propelled a sizable increase from the previous quarter in new construction across the nation alongside

historic national lows in vacancy. Denver is no exception with 13.0 million square feet currently under construction, which is a 31.9% quarterly increase and 33.3% year-over-year increase. Speculative construction dominates 92.0% of the construction pipeline. In terms of where construction is focused, 56.6% of total space under construction is in the East submarket, followed by 15.8% in the Northeast and 13.1% in the Southeast submarkets.

### Looking Ahead

2022 is shaping up to be another star-studded year for Denver's industrial market, characterized by the entrance of many new-to-market investors and developers. Although construction costs continue to rise, investors remain bullish and expect years of expansion to come. The supply chain will still be problematic for the construction industry, as shortages of raw inputs and finished products persist. Copper and aluminum supplies are expected to be affected by conflict in eastern Europe. These issues will be compounded by a lack of truck operators, increasing fuel costs, and insufficient warehouse capacity across the United States.

All in all, demand is very high and the massive number of deliveries this year will attempt to satisfy the needs of booming e-commerce and the return of large retailers aiming to ramp up warehouse space. External factors will force landlords to drive rates up, but there will be no scarcity of willing tenants, as national brands have more than enough capital to swallow these increases. Despite this, vacancy is expected to increase given the enormous supply of speculative buildings delivering this year, but over-building is out of the question due to unwavering demand.

### Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
BEGA Lighting	1775 West 160th Avenue	Northwest	New	152,761
RK Mechanical	17450 East 32nd Place	East	New	142,413
Ball Aerospace	16163 West 45th Drive	Northeast	New	103,314
84 Lumber Company	11002 East 108th Avenue	East	New	81,952
Confidential	11243 East Caley Avenue	Southeast	New	79,343

### Select Sales Transactions

Building Name	Submarket	Sale Price	Price/SF	Square Feet
76 Commerce 4 and 5	Northeast	\$85,250,000	\$138	618,480
Park 76 Distribution Center	Northeast	\$49,800,000	\$186	267,557
5120 & 5140 Race Court	Central	\$39,250,000	\$197	199,167
Eagle Rock Distributing Portfolio	Central	\$33,800,000	\$125	269,974
Hampden Industrial Park	Southwest	\$25,000,000	\$197	126,956

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	43,134,650	751,724	5.96%	202,767	202,767	\$9.00	\$10.50	\$9.75
East	85,108,594	7,341,823	5.98%	720,771	720,771	\$7.00	\$12.00	\$9.50
Northeast	15,381,916	2,048,168	8.18%	-6,112	-6,112	\$8.00	\$10.50	\$9.25
Northwest	16,848,302	909,392	6.44%	53,274	53,274	\$10.25	\$13.00	\$11.63
Southeast	19,859,247	1,704,096	11.58%	20,752	20,752	\$10.00	\$12.50	\$11.25
Southwest	15,258,150	60,580	2.57%	60,496	60,496	\$8.25	\$10.50	\$9.38
West	22,908,278	154,224	1.47%	33,065	33,065	\$9.25	\$12.50	\$10.88
<b>Total Market</b>	<b>218,499,137</b>	<b>12,970,007</b>	<b>5.96%</b>	<b>1,085,013</b>	<b>1,085,013</b>	<b>\$8.82</b>	<b>\$11.64</b>	<b>\$10.23</b>

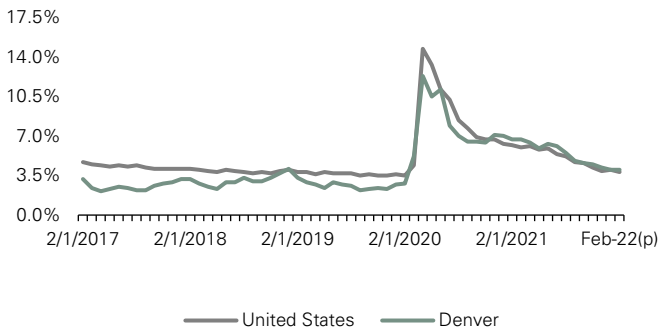
### Economic Conditions

Denver has historically outperformed the national unemployment pre-pandemic. After spiking to 8.5% in December 2020, the unemployment rate has continued to decrease. It reached 4.0% in February 2022 based on preliminary numbers, the lowest rate recorded since March 2020. Although the unemployment rate isn't dropping as fast as other states, the labor force participation rate has exceeded pre-pandemic levels. In February, Colorado became one of just 11 states in the nation that have recovered over 100% of the jobs lost during the pandemic.

The leisure and hospitality sector continued to have the largest job growth based off preliminary numbers in February, with year-over-year growth at 23.9%. None of the 10 employment sectors posted job losses. The important office-occupying professional and business services sector is Denver's largest employment sector, accounting for 19.3% of total nonfarm employment.

### Unemployment Rate

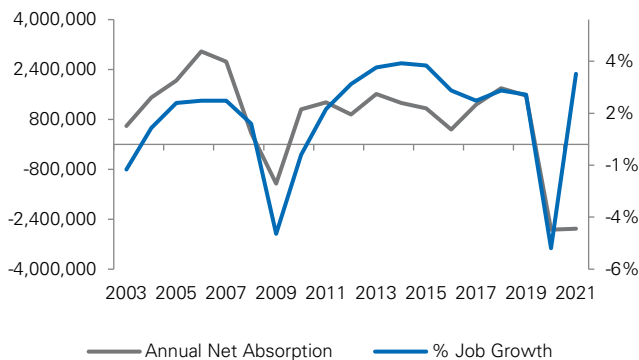
SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

### Employment Growth and Absorption

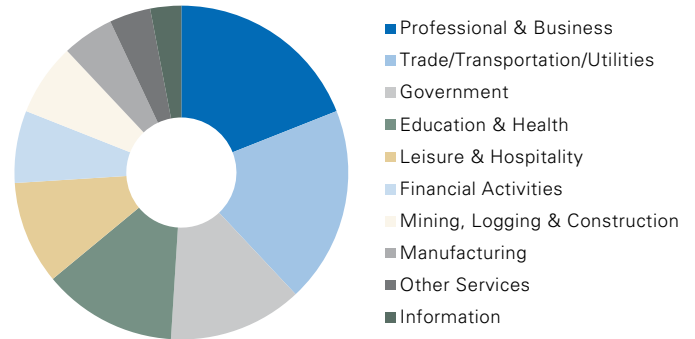
DENVER YOY EMPLOYMENT GROWTH AND OFFICE ANNUAL ABSORPTION



Source: U.S. Bureau of Labor Statistics

### Employment by Industry

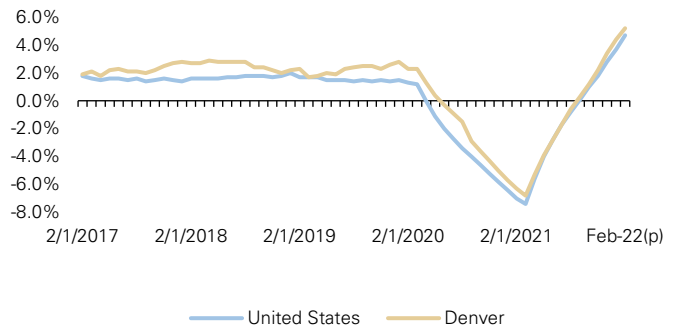
DENVER, February 2022



Source: US Bureau of Labor Statistics

### Payroll Employment

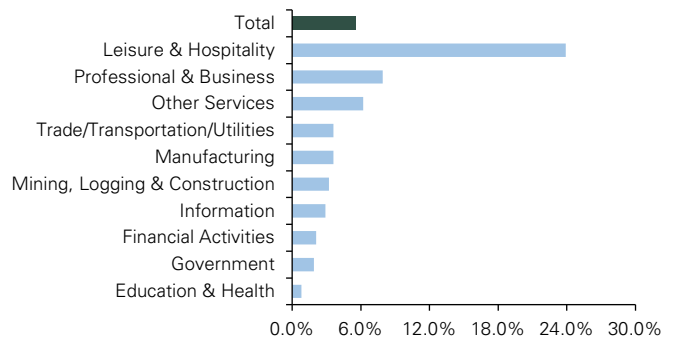
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

### Employment Growth by Industry

DENVER, FEBRUARY 2022 (P), 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

For more information:

**New York Headquarters**

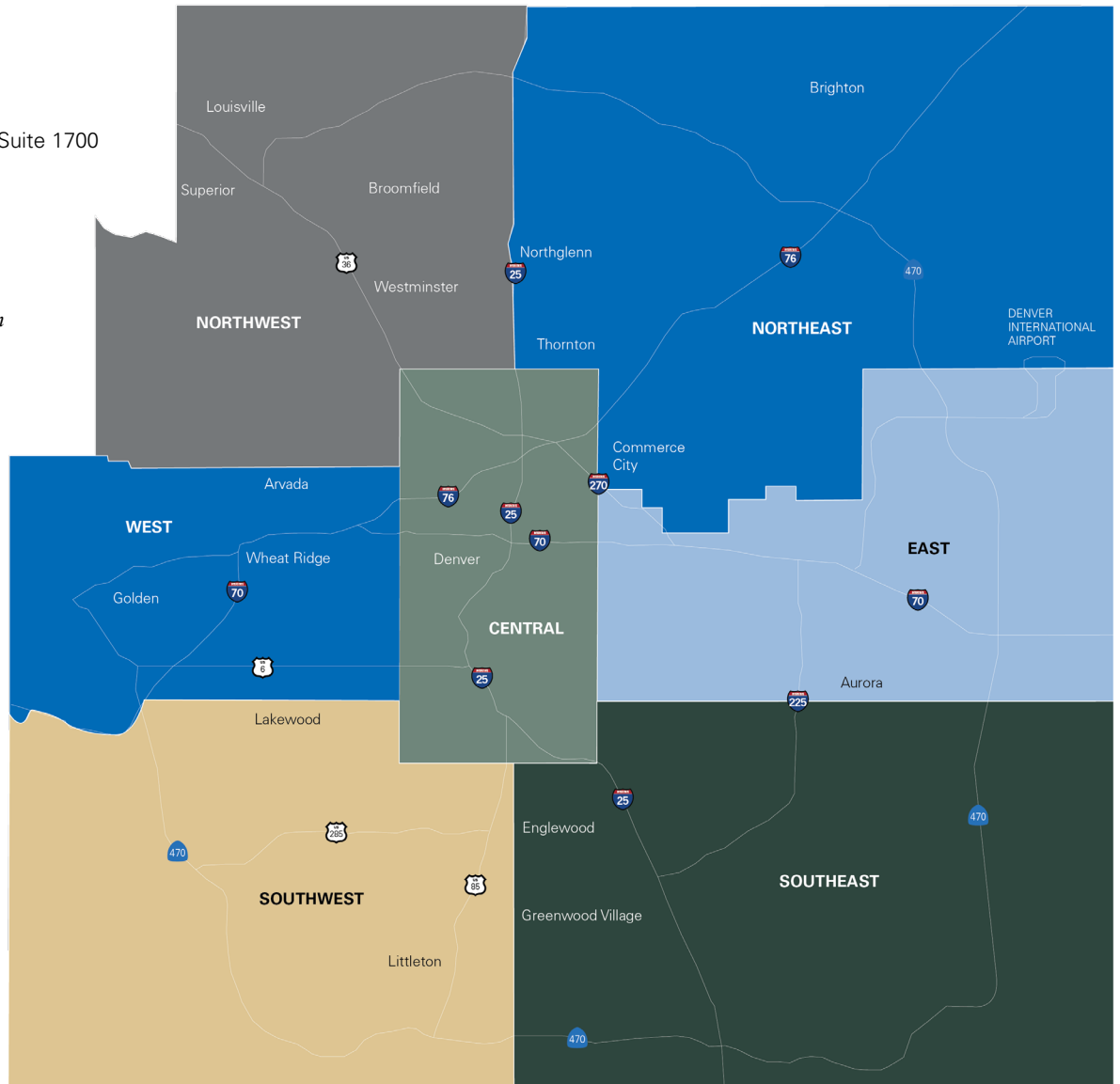
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