

1Q24

# Denver Industrial Market Overview



**NEWMARK**

# Market Observations

## Economy

- The region’s unemployment rose but is still historically low, keeping concerns about limited room for job growth and finding qualified workers in the forefront of regional business concerns.
- Colorado economists continue to forecast a soft landing for the state economy with positive but slowing job growth that is consistent with the projected lower rate of GDP growth this year.
- Several business surveys have shown a general positive outlook and business moving back into an expansion mindset for the first time after 16 months of contraction.

## Major Transactions

- Kratos Industries leased and occupied the full 112,000 SF warehouse at 14401 West 65th Way.
- Goodwill renewed its 136,000 SF lease at Dartmouth Industrial Park Building 2 in the Southwest submarket.
- The largest sale of the quarter was Hyde Development and M.A. Mortenson Company’s purchase of the three-industrial-building Peoria Business Center portfolio in the East submarket for \$73.5M or \$124/SF.

## Leasing Market Fundamentals

- Quarterly absorption recorded 219,841 SF, down from the previous quarter but higher than the first quarter of 2023.
- Vacancy increased to 9.1% despite positive absorption due to 1.9MSF of spec space delivering vacant and with no pre-leasing.
- Activity maintained its more consistent, stable and moderate pace from the previous two quarters.

## Outlook

- Absorption will be strong in the next quarter, boosted by the delivery of the PepsiCo BTS. Vacancy will still incrementally climb as vacant spec space also delivers without pre-leasing.
- Fewer new buildings will enter the construction pipeline due to low pre-leasing velocity, continuing difficulty to obtain capital and high vacancy rates in existing product.
- After two years of negative sentiment about the future of the economy among Colorado business leaders surveyed by the University of Colorado Leeds School of Business, confidence jumped into positive territory due to the improved outlook of general economic conditions and interest rates.

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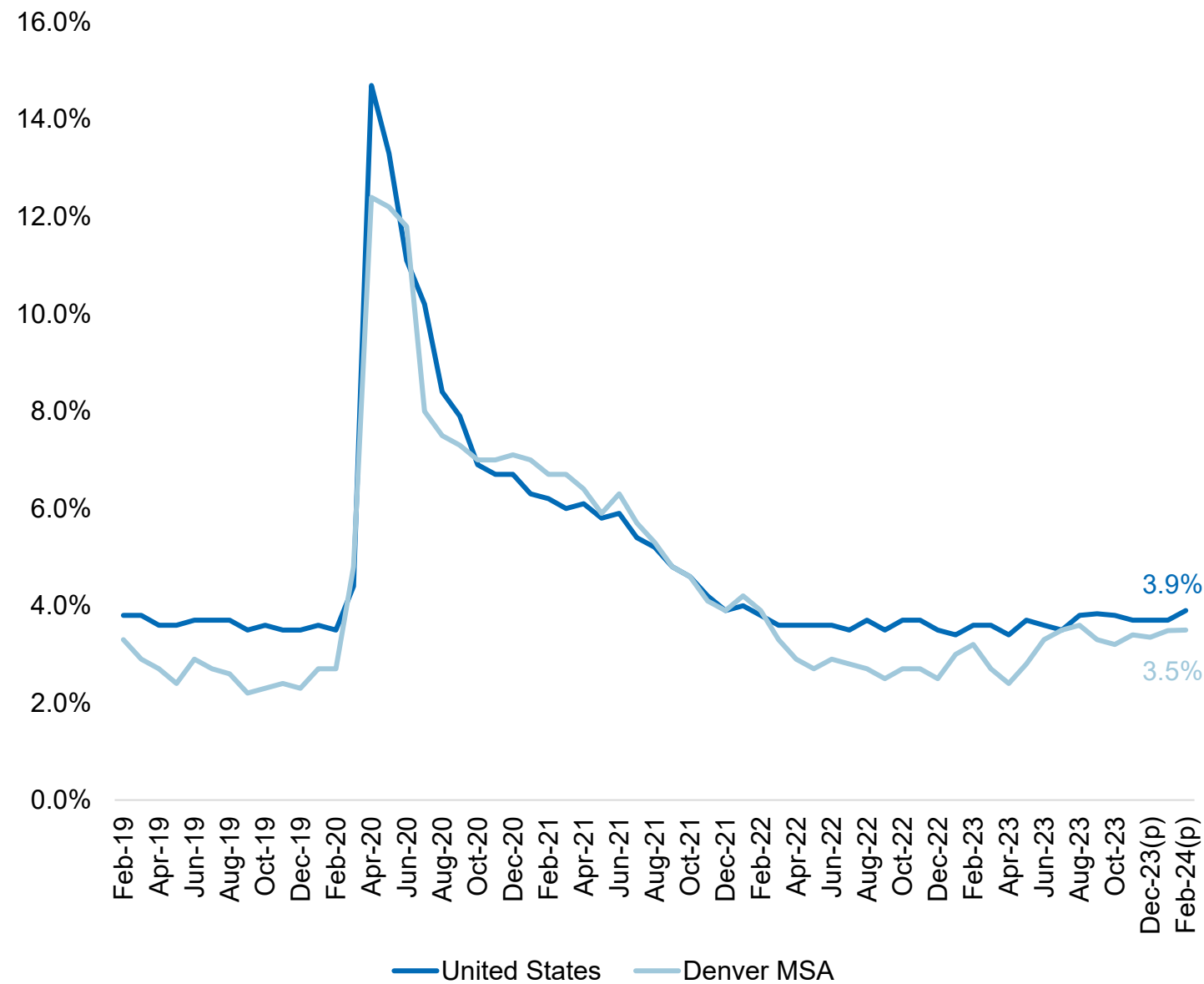
# Economy



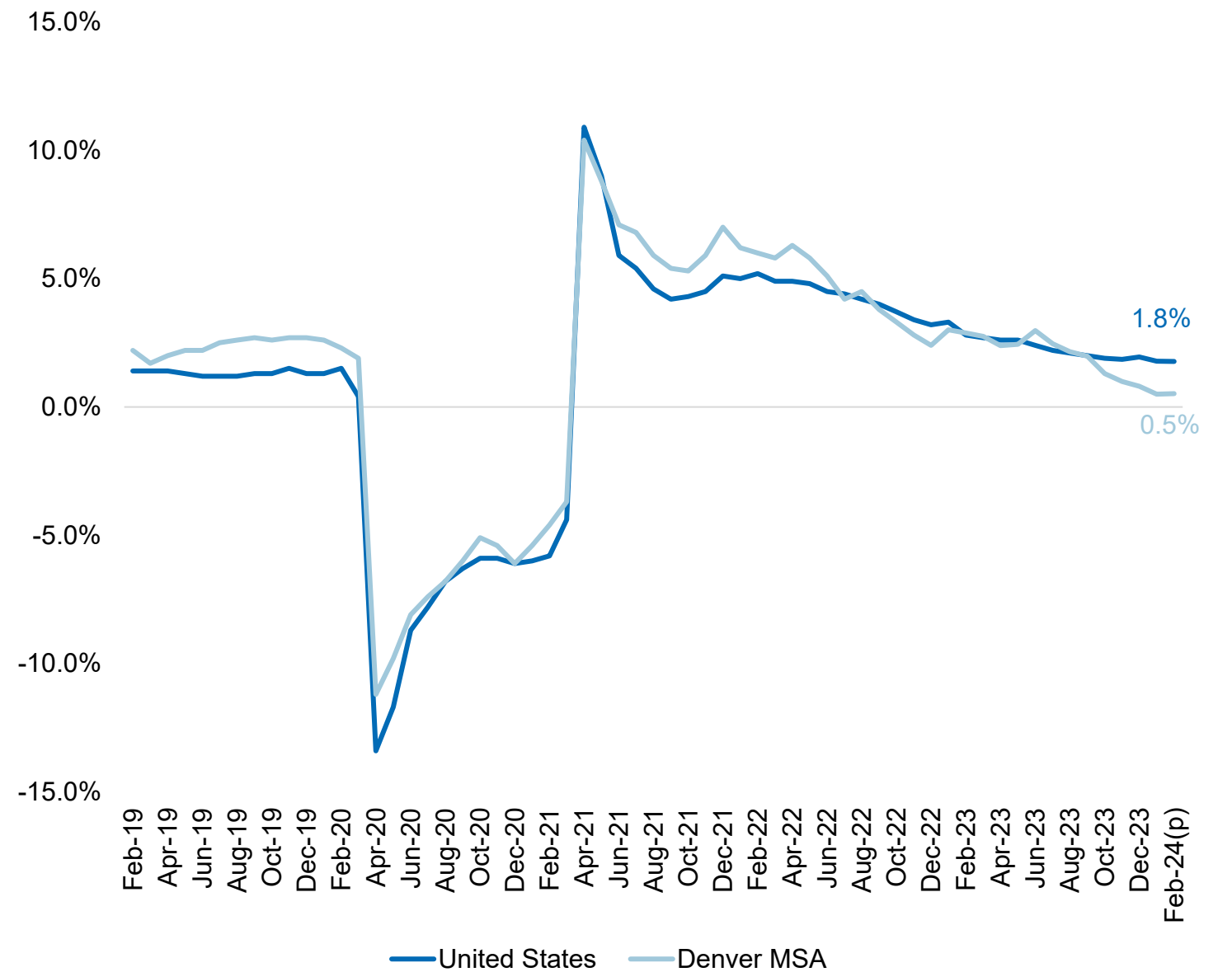
# Unemployment Relatively Stable but Job Growth Continues to Slow

The unemployment rate in Denver reached 3.5% in February, unchanged from the previous month but up year-over-year from 3.0%; it has remained below the national rate since the beginning of 2022. Job growth slowed but remained positive, following expectations for a slowing but healthy economy in 2024.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

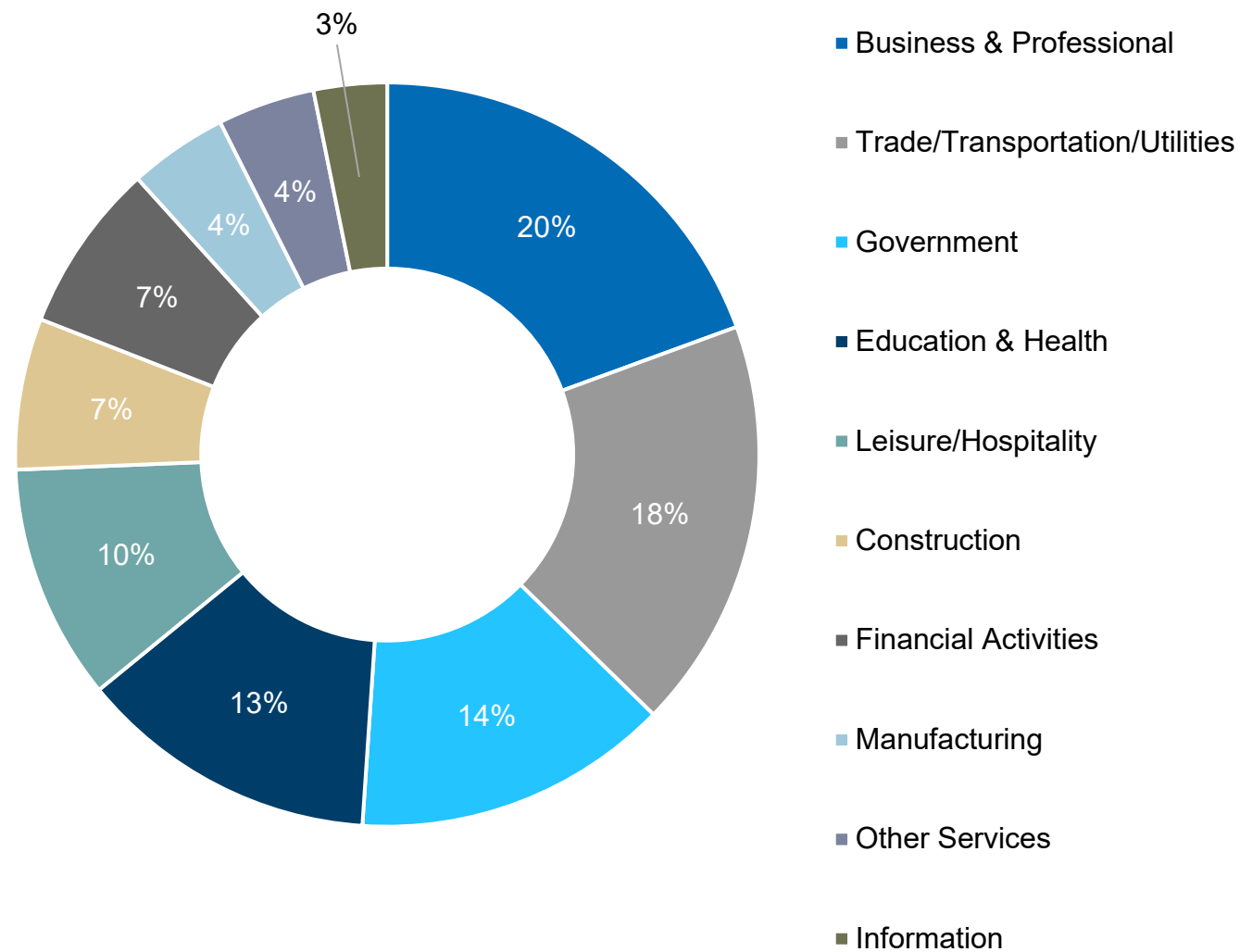


Source: U.S. Bureau of Labor Statistics, Denver MSA

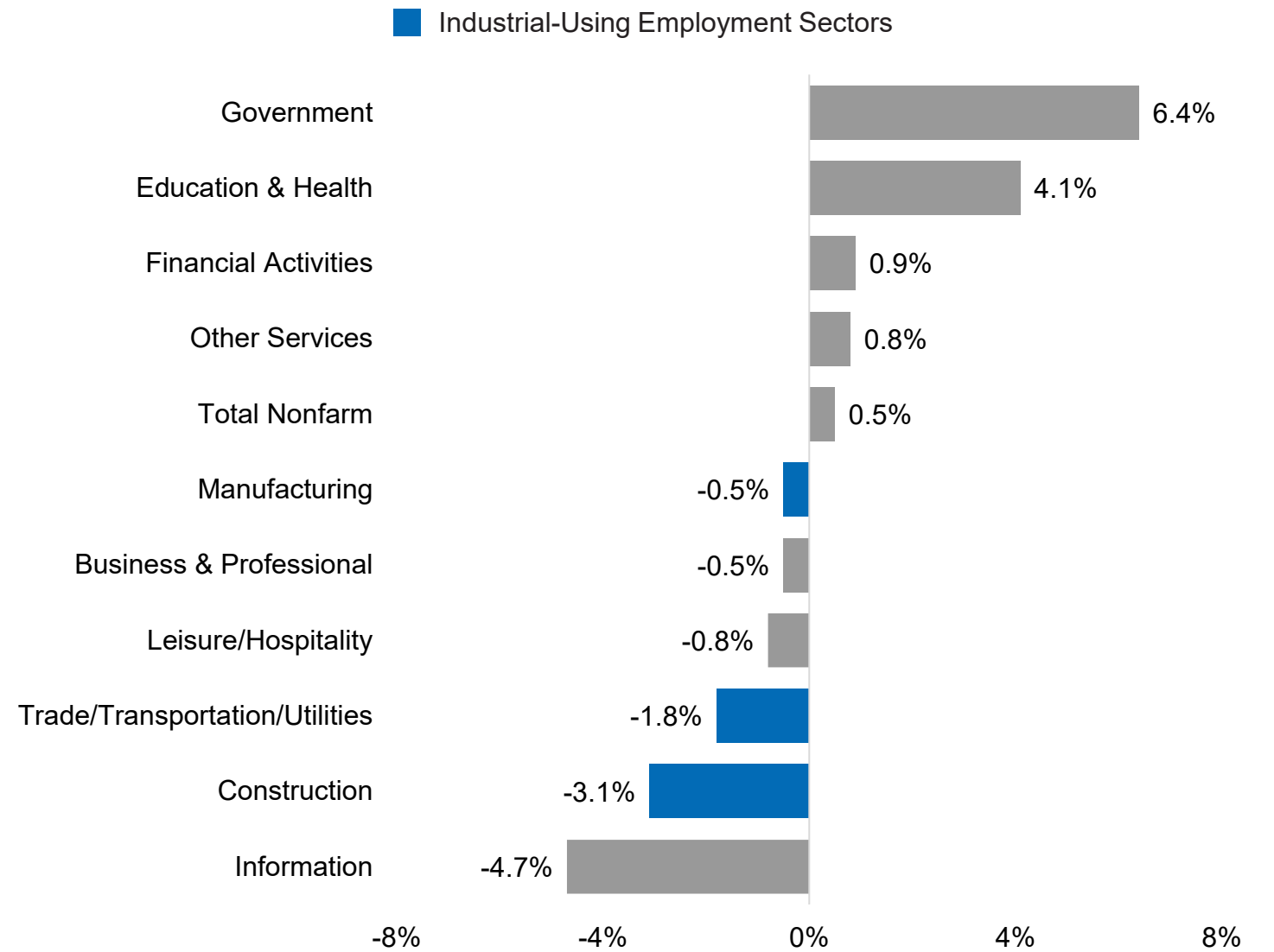
# Industrial Sectors Struggle Amidst the Wider Slowing Job Growth

Half of the ten sectors posted growth but the rest, including all of the industrial-occupying or adjacent sectors, contracted. Construction saw the largest loss of employment year-over-year.

Employment by Industry, February 2024(p)



Employment Growth by Industry, 12-Month % Change, February 2024(p)

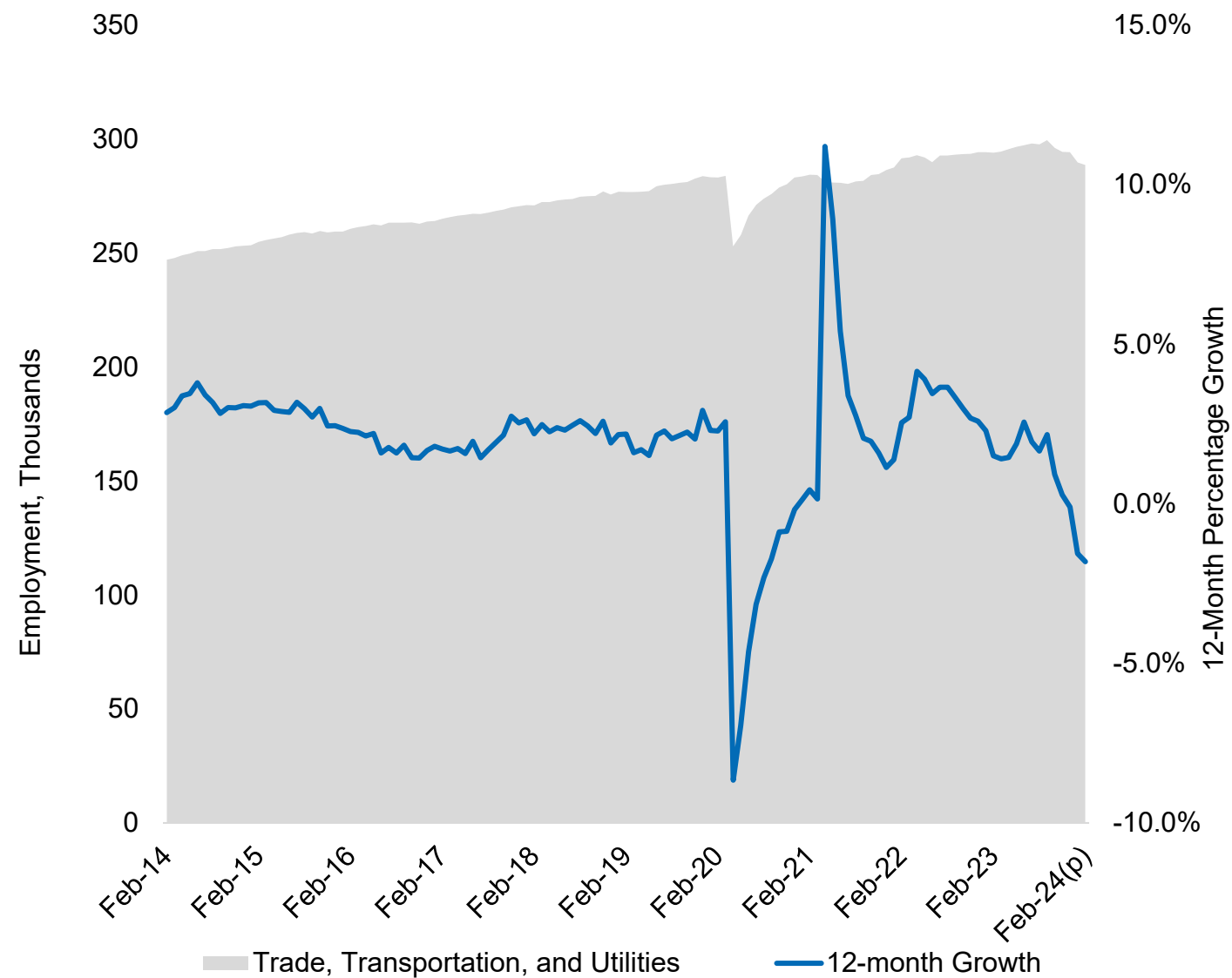


Source: U.S. Bureau of Labor Statistics, Name of Local MSA(s)

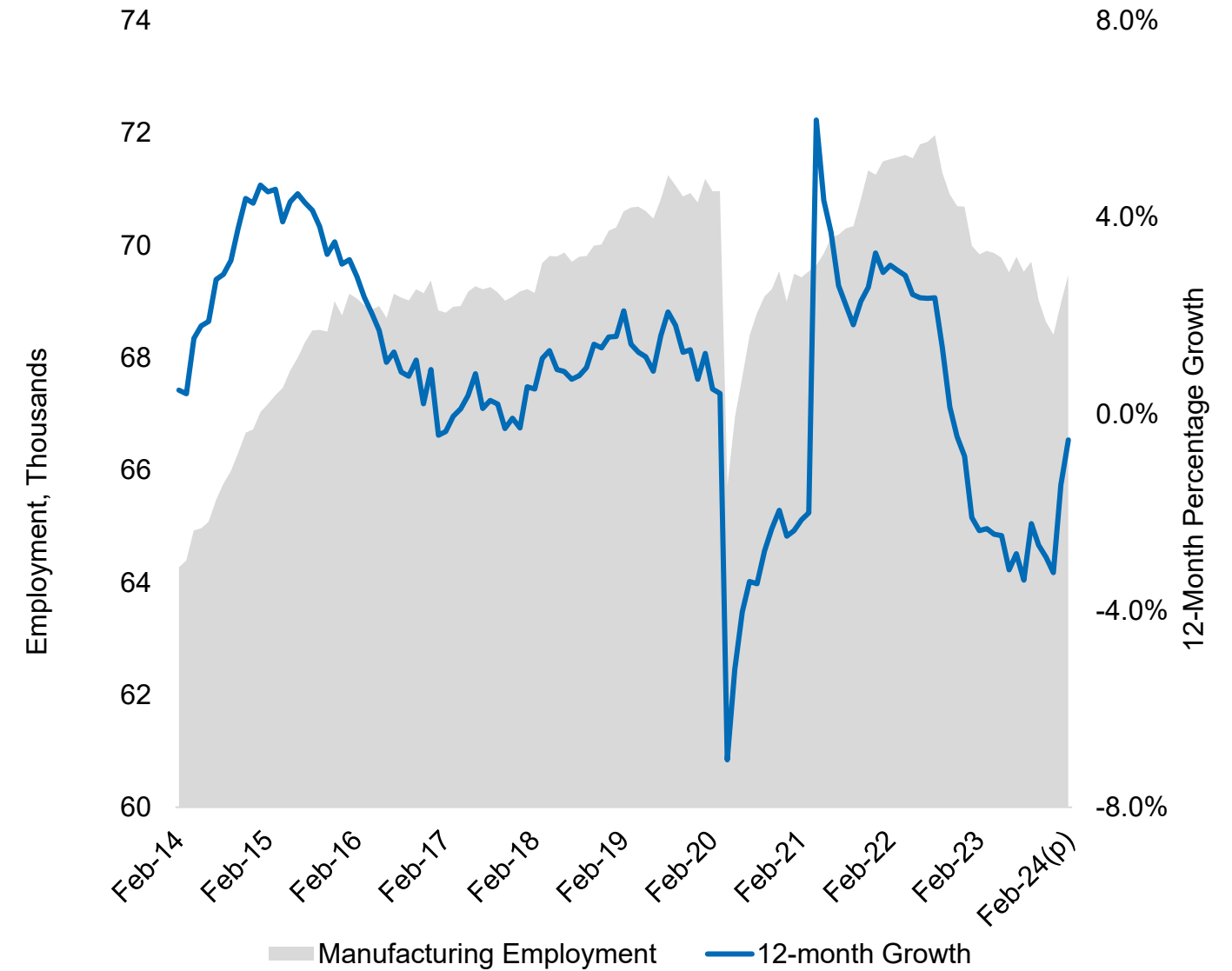
# Tale of Two Sectors

Despite both being down compared to last February, Manufacturing has been rapidly adding jobs since December 2023, nearly recovering the jobs lost over the course of 2023. However, Trade/transportation/utilities employment has steadily declined since September 2023.

Total Employment and 12-Month Growth Rate, Trade, Transportation & Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Denver MSA

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# Leasing Market Fundamentals

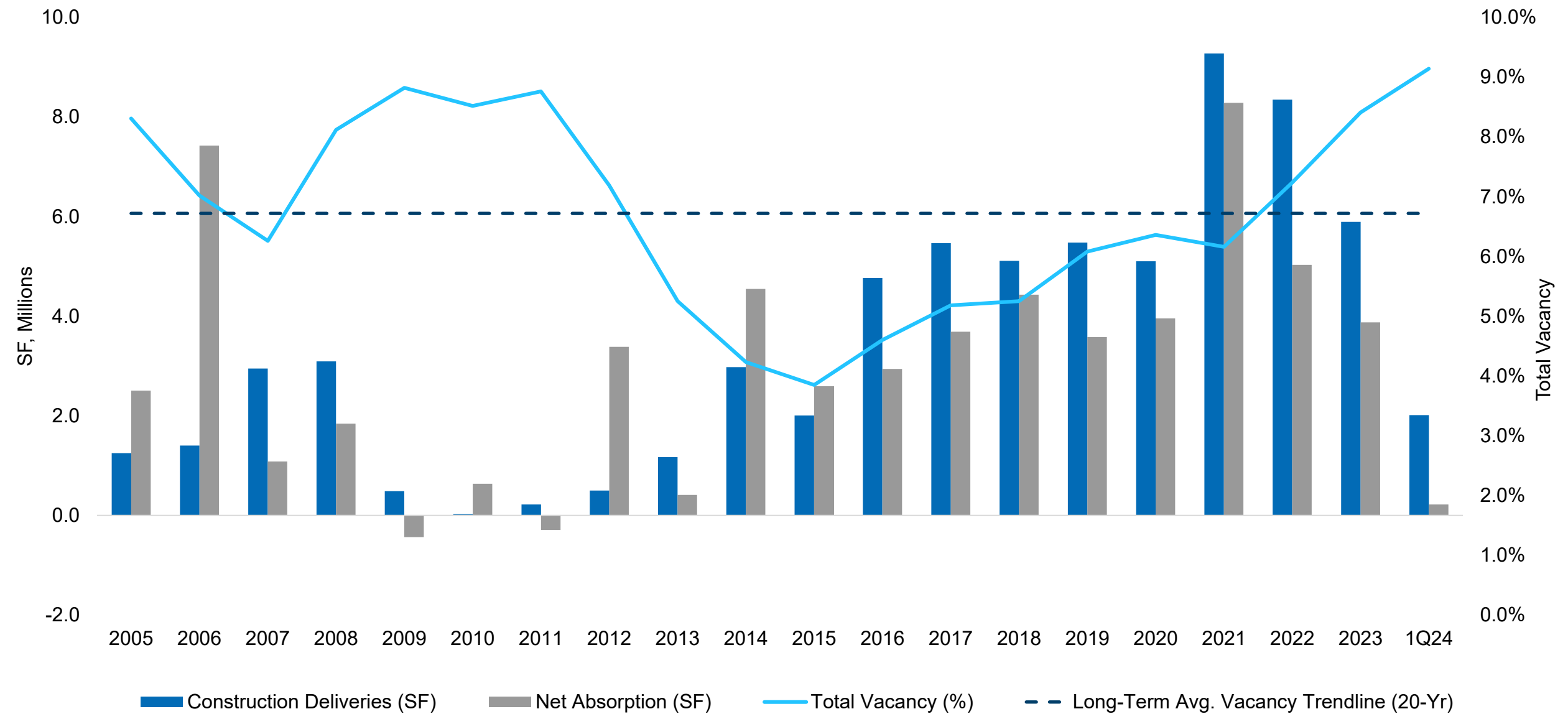




# Pipeline Continues to Drive Vacancy Up

The supply of new speculative product continues to outpace demand and propel vacancy despite the market maintaining healthy absorption and steady lease velocity.

## Historical Construction Deliveries, Net Absorption, and Vacancy

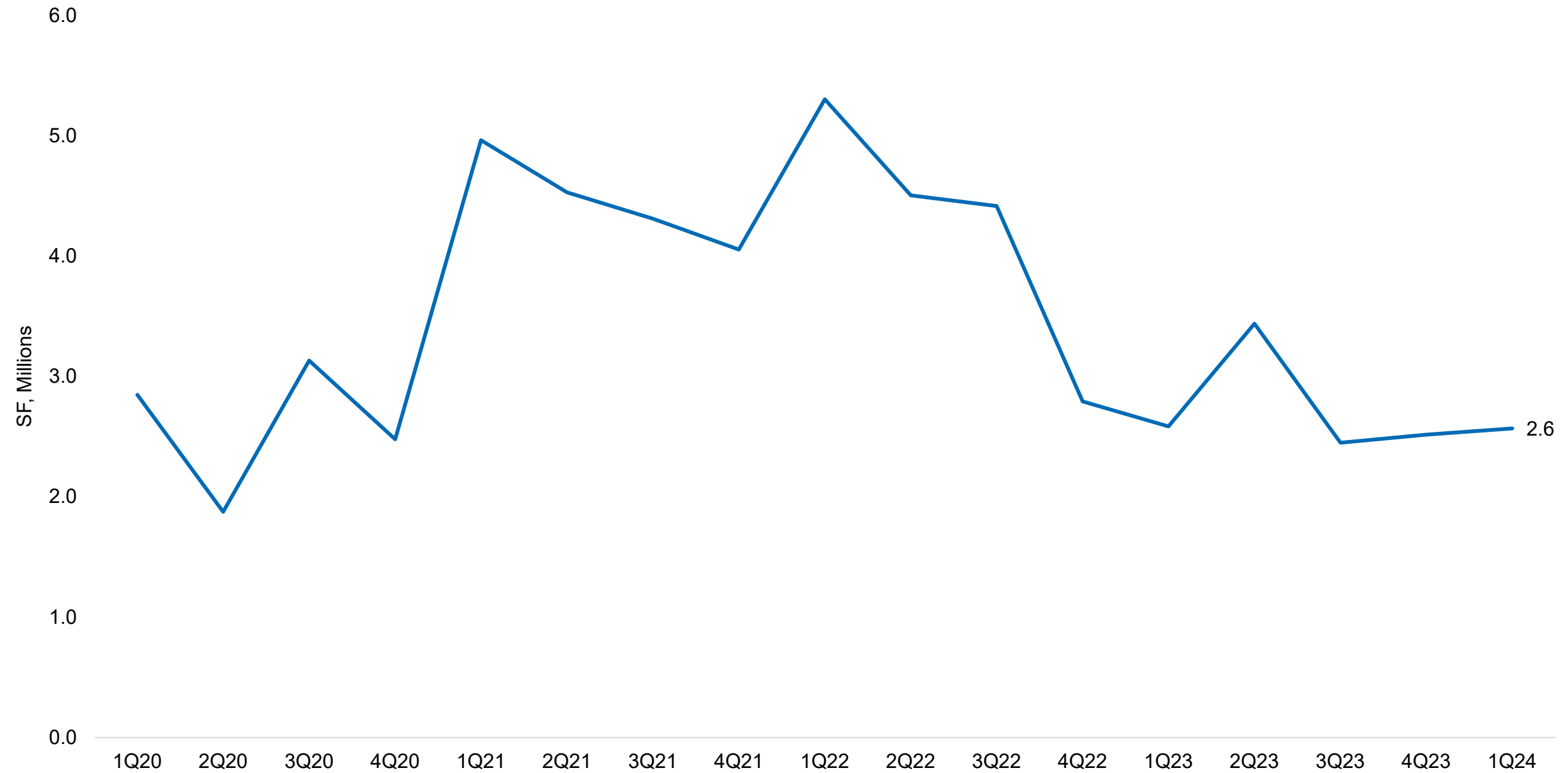


Source: Newmark Research

# Leasing Activity Evenly Increases

The easing of economic concerns have spurred a return to cautious growth, although deals remain limited as many tenants that needed to grow signed during the previous years. The tenants in the market have more options for space and more time to thoroughly explore them before signing a lease.

Total Leasing Activity (SF)

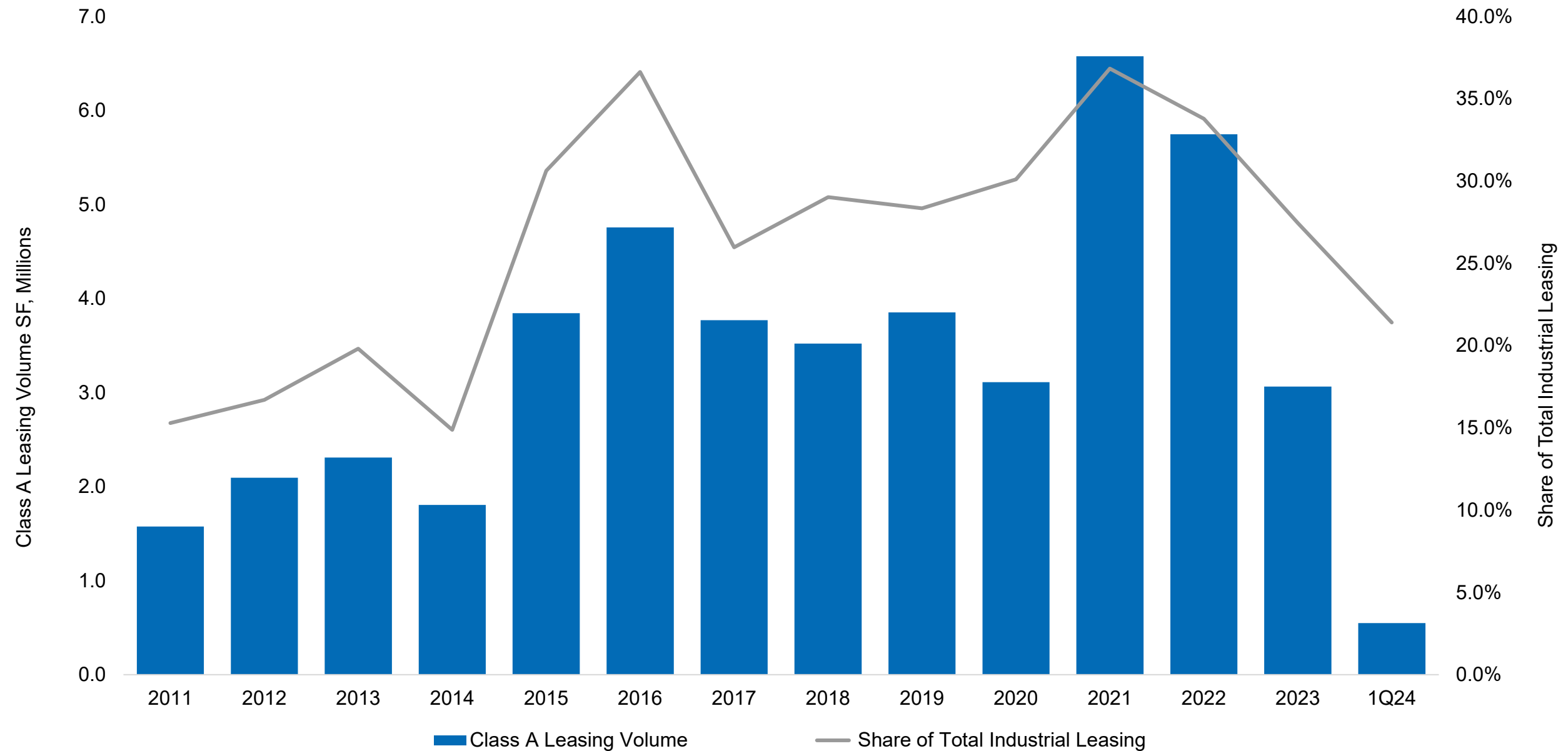


Source: Newmark Research, CoStar

# Class A Warehouse Leasing Slows with Wider Leasing Trend

Class A warehouse product leasing in the first quarter of 2024 only accounted for 21.4% of total Industrial leasing, down from 27.4% of overall activity in 2023, which was comparable to the average of 27.8% between 2017-2019. While the share of Class A warehouse leasing has been trending down from the high seen in 2021, the flight to quality trend is expected to continue through the year and keep new construction desirable.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



Source: Newmark Research, CoStar

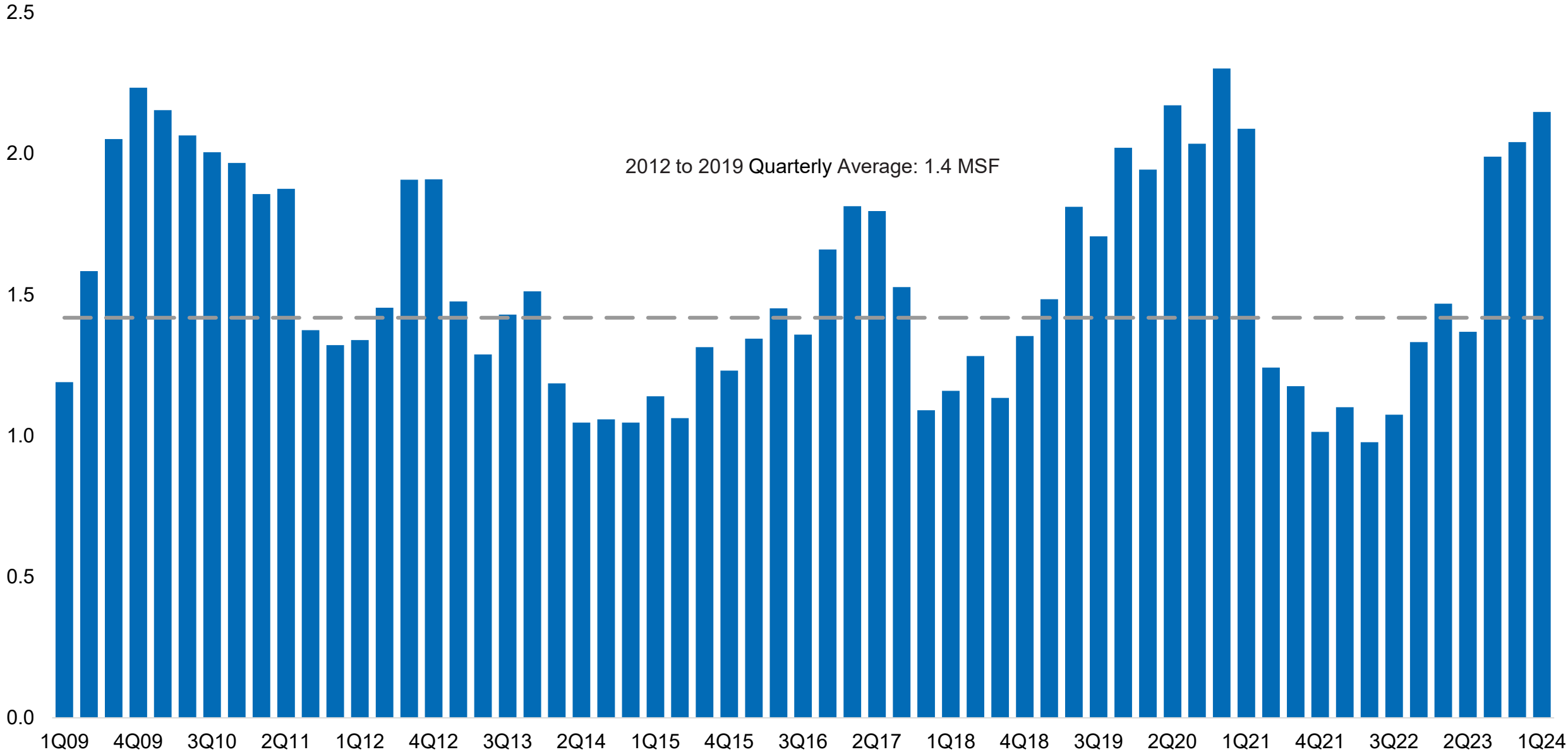


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# Industrial Sublease Availability Grows but Still Below Pandemic High

With demand for industrial space continuing at a predictable rate, some tenants contemplating downsizing have put their space on the market to test the waters but many will only vacate if a subtenant can be found.

Available Industrial Sublease Volume (msf)



Source: Newmark Research, CoStar

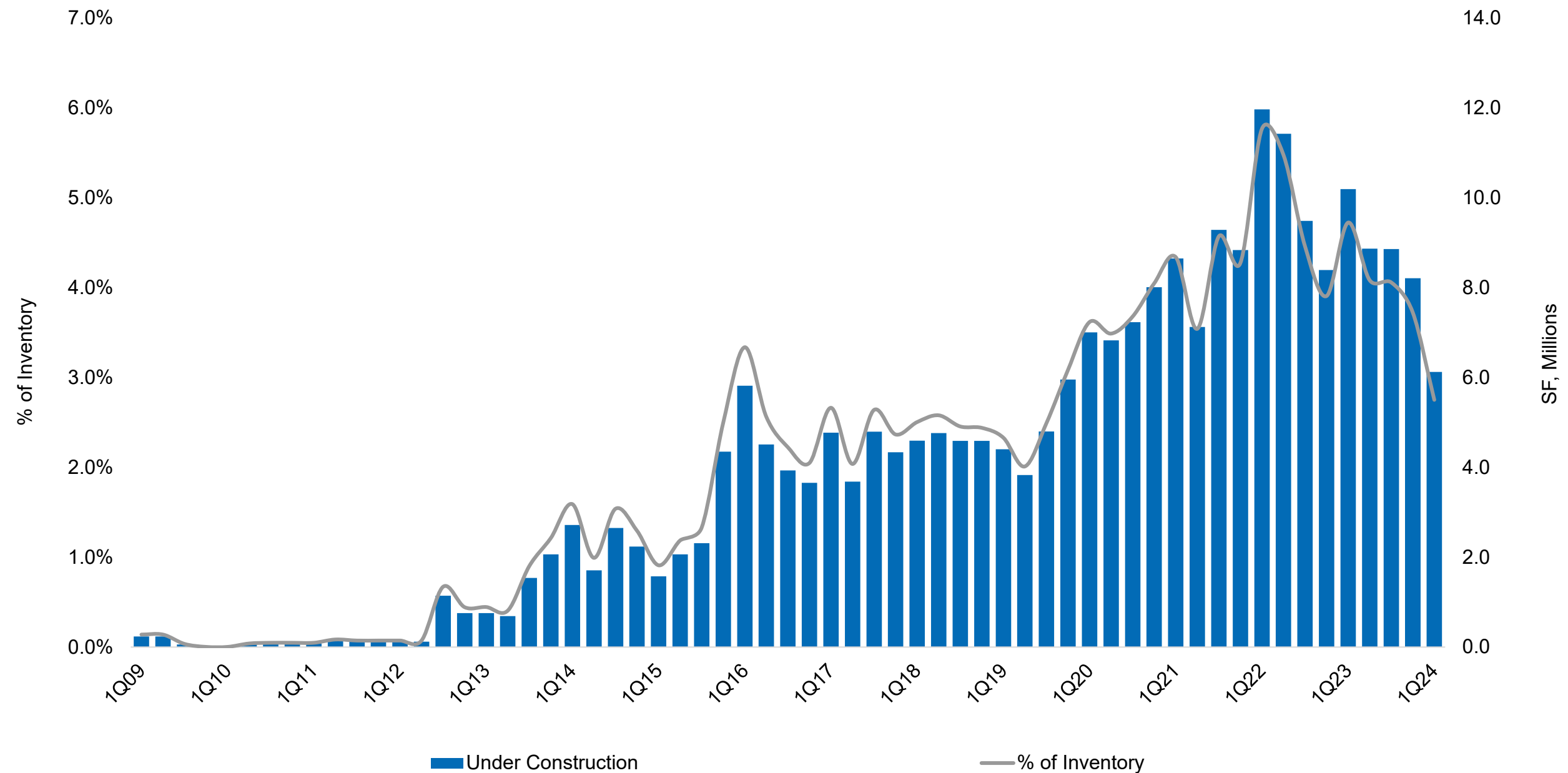


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# Predicted Slowing of Industrial Supply Pipeline Arrives

While 2023 maintained a steady pipeline despite rising vacancy, only three new projects broke ground for 214,000 SF, compared to the 11 delivered buildings for a total of 2.0 MSF. With financing difficult to obtain for BTS projects and plenty of first-generation spec space currently vacant, the pipeline is expected to continue to thin as the year progresses.

## Industrial Under Construction and % of Inventory

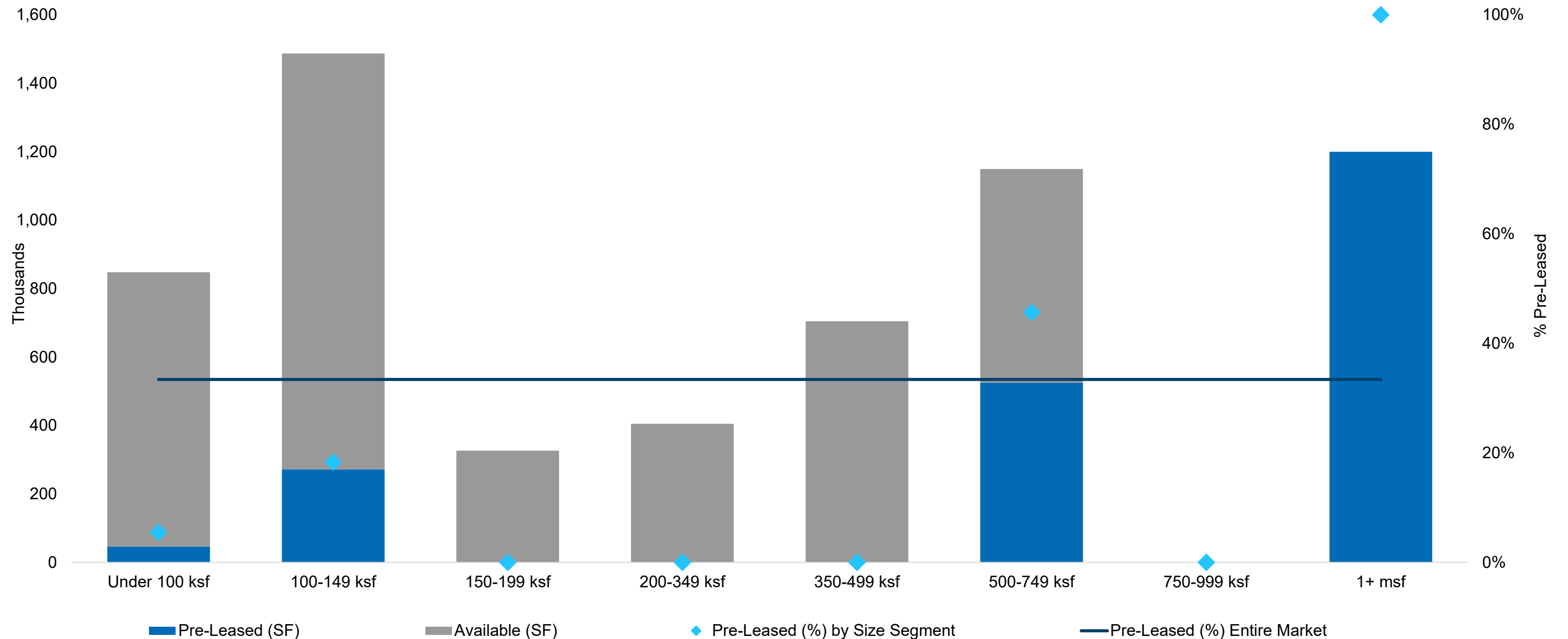


Source: Newmark Research, CoStar

# Total Construction is Concentrated in the 100-149K SF Segment

Pre-leasing remains limited in product that is currently under construction. Three of the seven size segments have zero pre-leasing and the PepsiCo's BTS, the market's only 1+ MSF project, is expected to deliver next quarter.

Total Construction by Size Segment: Pre-Leased vs. Available Space



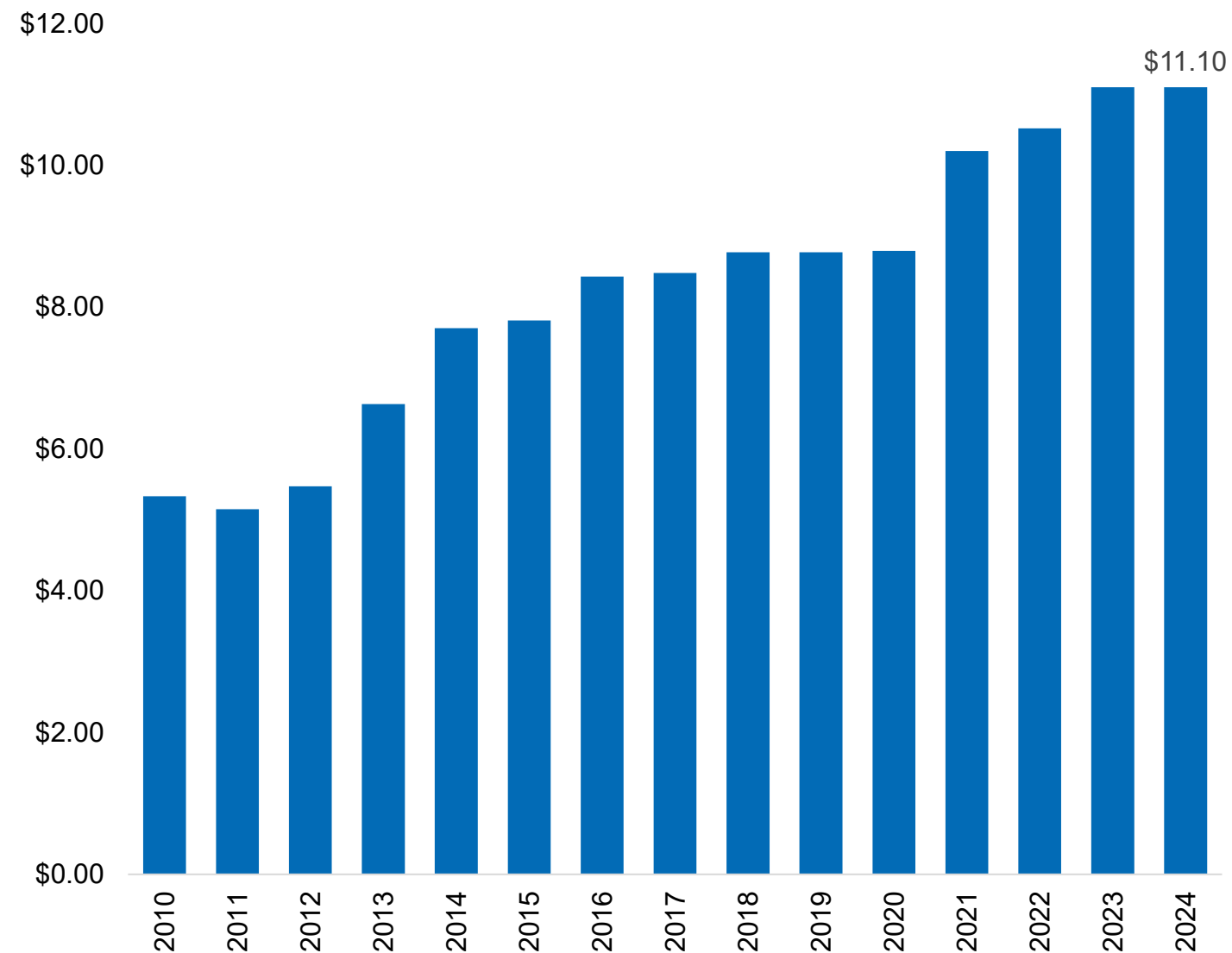
Source: Newmark Research



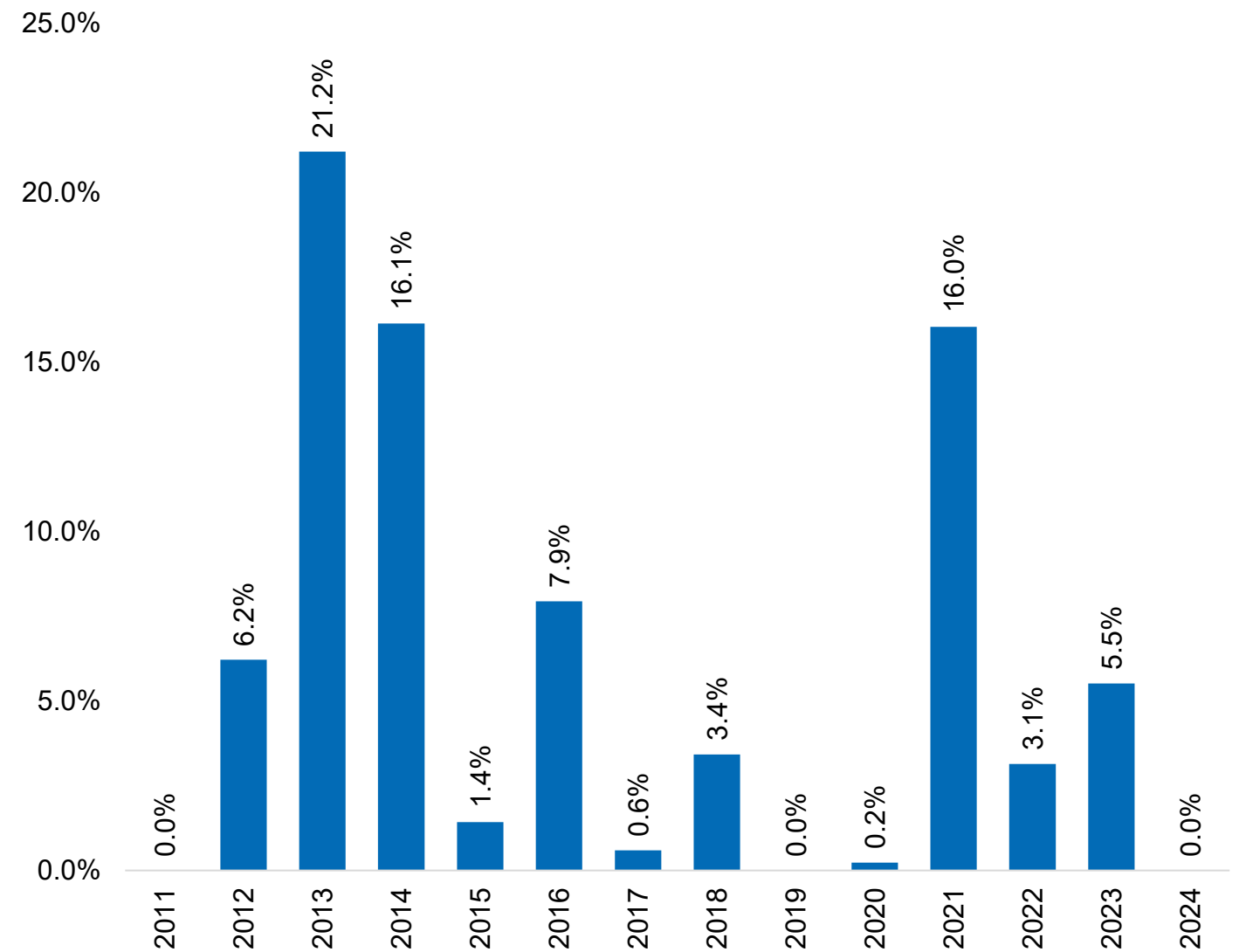
# Asking Rates Unchanged but May Soften for Certain Product Types

High quality industrial space with smaller suite sizes have seen rates rise while larger footprints have maintained current rates despite rising availability and vacancy by offering concessions elsewhere. Large blocks of space 200,000 SF or more are likely to see rates soften throughout the year as availability and vacancy climb.

Industrial Median Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar



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# Notable 1Q24 Lease Transactions

The first quarter of the year saw several large tenants that are new to the market land as well as large current tenants decide to renew in place.

## Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Goodwill <i>Goodwill originally occupied for over half the building in April 2011.</i>	3155-3199 South Platte River Dr	Southwest	Renewal	135,779
Kratos Industries <i>This is a full building lease and will be pure growth for the manufacturer.</i>	14401 West 65th Way	Northwest	Direct New	112,000
Access <i>The move will be expansion for the data processing company.</i>	10405-10445 East 49th Avenue	East	Direct New	79,646
MWI Animal Health <i>The original lease for the same size commenced in September 2005.</i>	15845 East 32nd Avenue	East	Renewal	75,000
Wilsonart <i>This will be Wilsonart's first facility in the Denver market.</i>	525 East 58th Ave	Central	Direct New	74,514

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# Appendix / Tables



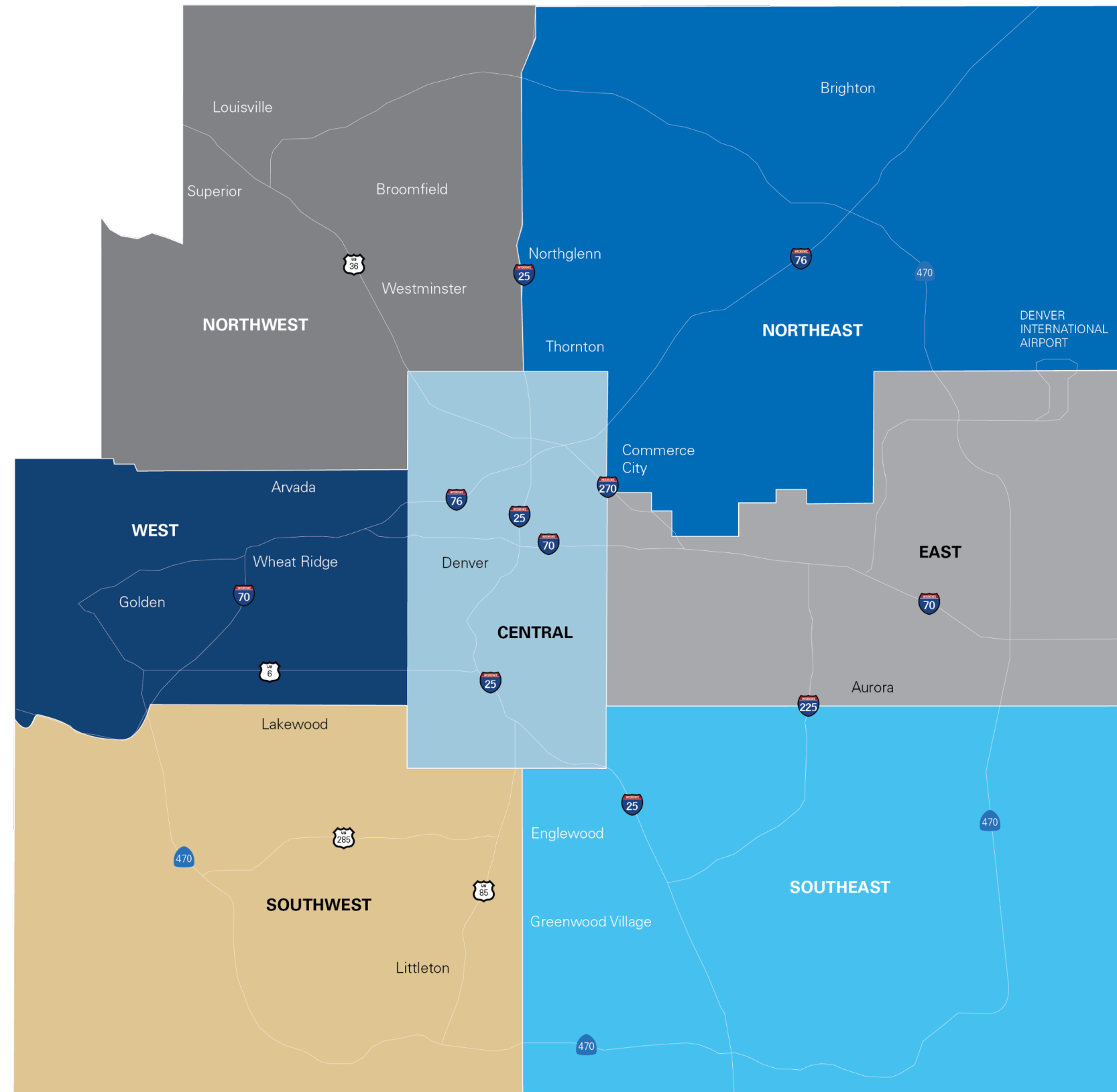


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# Submarket Map



Source: Newmark Research



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