



Denver Industrial Market

New Deliveries and Organic Growth Continue to Drive the Market

Tenants' confidence in the future continued to improve due to vaccination and strong signs of the beginning to a larger economic recovery. Denver's industrial market continued to flourish and outperform other product types in the second quarter of 2021, recording the second-best quarterly absorption in over 10 years with 2.2 million square feet, behind only second-quarter 2020, with 2.3 million square feet. Following a strong first quarter, year-to-date absorption reached 2.8 million square feet. Vacancy still increased to 6.9% due to the delivery of nearly 1.7 million square feet of vacant speculative space, up from 6.7% in the prior quarter and from 5.9% one year ago.

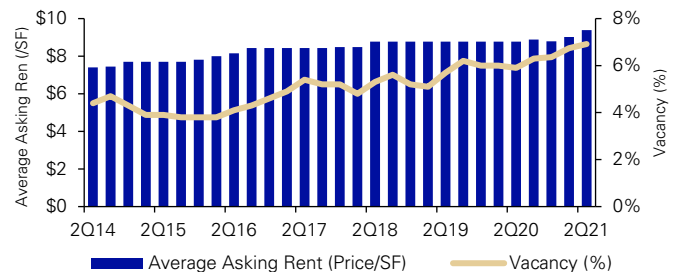
All but one of Denver's seven submarkets posted positive net absorption for second-quarter 2021. The East submarket outpaced the others with 1.6 million square feet, buoyed by the delivery of Shamrock Food's build-to-suit (BTS) and logging the highest YTD absorption, with 2.3 million square feet. The Northwest submarket also continued to hold its place as the second highest following the first quarter with quarterly absorption of 179,277 square feet and YTD absorption of 228,193 square feet. The West was the only submarket to finish the quarter with negative absorption.

Current Conditions

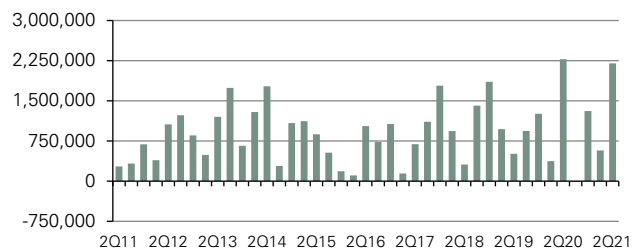
- Asking rates increased for new industrial/warehouse product
- 10.2 million square feet due to deliver by end of 2021
- Vacancy continues to rise despite positive absorption due to the delivery of vacant new product
- High-finish R&D/Flex product continues to struggle as the space attracts office tenants that are currently re-evaluating their space, with many to adopt hybrid or entirely work-from-home models

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	213.7 MSF	210.9 MSF	207.2 MSF	↑
Vacancy Rate	6.9%	6.7%	5.9%	↑
Quarterly Net Absorption (SF)	2.2 MSF	573,962	2.3 MSF	↑
Median Asking Rent/SF	\$9.39	\$9.02	\$8.77	↑
Under Construction (SF)	7.1 MSF	8.6 MSF	7.0 MSF	↓
Deliveries	2.8 MSF	1.6 MSF	1.9 MSF	↓

Rental Rates

Rental rates increased year-over-year, primarily in the industrial/warehouse sector in submarkets that have high-quality new product and are largely due to the increasing cost of tenant improvements and construction. Rates had previously plateaued since 2018, when they reached what was then record highs. Although the industrial market is performing better than other sectors, landlords of existing buildings are cautious about pushing rates beyond current highs as tenants in certain sectors continue to struggle to recover from the economic hardship incurred during the pandemic. The persistence of high rental rates, as well as increasing operating expenses, have already put strain on some tenants even before the pandemic.

Pipeline on Track for Historic Year

Thirteen projects totaling 2.8 million square feet delivered during the second quarter; all but three were speculative construction that delivered vacant; however, the square-footage was nearly even between speculative construction and BTS, as the BTS delivered included the 918,000-square-foot Shamrock Foods project. Combined with the buildings delivered in the first quarter, as well as those currently under construction, a record-breaking 10.2 million square feet is due to deliver over the course of 2021. This includes owner-user and build-to-suit projects currently under construction will provide nearly 3.8 million square feet of positive absorption. The two largest buildings currently under construction are both BTS, one for Amazon and another for Lowe's, both due to deliver in the last quarter of the year.

Eleven additional buildings totaling 1.5 million square feet broke ground in the second quarter. The highest concentration of the new construction continues to be in the East submarket, with 64.1% of the total square feet under development and the top four largest buildings. The Northeast submarket, which has the next largest currently under development, currently has 1.1 million square feet under construction.

Looking Forward

The industrial market overall continues to be uniquely poised for continued growth, even as the duration of the pandemic remains to be seen. The increased prominence of ecommerce shows no signs of receding, even as restrictions are entirely lifted and drive demand for necessary warehouse space. The lingering problems with the supply chain have motivated many tenants into increasing their inventories to avoid further and future disruptions. This continued demand will help contribute to the record absorption that is projected for 2021, which will maintain the clamor from developers and investors to build and own industrial product. However, some office tenants with space in high-quality R&D/flex space will continue to reevaluate future space needs as they explore ways to cut costs.

Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Planterra Foods	1485 East 61st Avenue	Central	Sublease	189,120
Amazon	6050 Washington Street	Central	New	167,050
Pet Food Experts	2101 West 64th Avenue	Central	New	157,000
Sashco	14802 Grant Street	Northeast	New	121,000

Select Sales Transactions

Building Name	Submarket	Sale Price	Price/SF	Square Feet
Colorado Technology Center Portfolio	Northwest	\$392,900,000	\$234	1,678,959
Edge 470 Portfolio	Southeast	\$28,430,000	\$179	159,219
Icon Property Industrial Portfolio	East	\$27,242,896	\$109	248,806
1910 North Gun Club Road	East	\$25,000,000	\$153	163,790
7910 Shaffer Parkway	Southwest	\$14,500,000	\$144	100,550

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	42,755,417	675,100	7.48%	81,634	2,158	\$7.75	\$10.50	\$9.13
East	82,183,789	4,563,474	7.37%	1,550,011	2,329,006	\$6.25	\$9.00	\$7.63
Northeast	14,289,533	1,092,484	3.62%	143,337	152,477	\$7.75	\$10.50	\$9.13
Northwest	16,463,317	632,978	9.52%	179,277	228,193	\$8.25	\$12.50	\$10.38
Southeast	19,970,955	0	12.64%	147,502	-26,794	\$9.00	\$11.50	\$10.25
Southwest	15,236,477	0	2.74%	122,194	130,558	\$8.25	\$9.75	\$9.00
West	22,815,892	156,586	2.22%	-25,101	-42,783	\$9.25	\$11.25	\$10.25
Total Market	213,715,380	7,120,620	6.92%	2,198,854	2,772,815	\$8.07	\$10.71	\$9.39

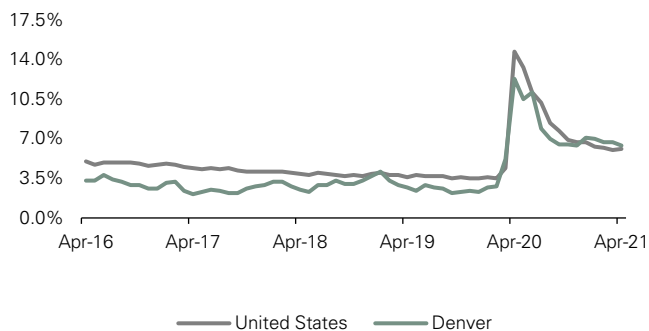
Economic Conditions

Denver has historically outperformed the national unemployment pre-pandemic. After spiking to 8.5% in December 2020, the unemployment rate has decreased to 6.4% in April 2021, based on preliminary numbers. Even though Colorado has recovered 71.0% of total jobs lost in March and April of 2020 and 76.0% of the private sector jobs lost, an increase in residents who have reentered the workforce has offset the increase in jobs.

Eight sectors experienced positive job growth in April, with leisure and hospitality posting the largest growth at 52.4%. Only the government and information sectors continue to see job loss on a 12-month basis. Professional and business services and transportation are the largest employment sectors in Denver, accounting for 37.8% of the nonfarm employment.

Unemployment Rate

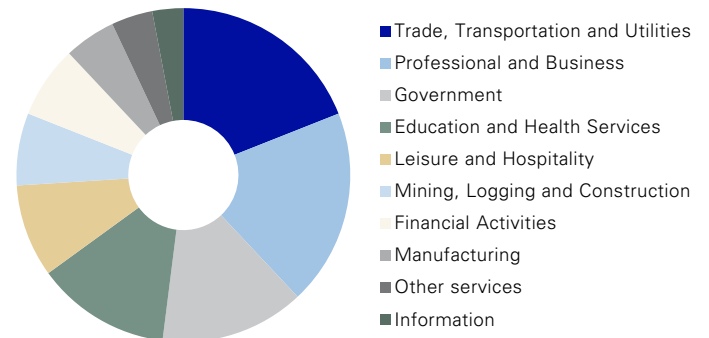
SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment by Industry

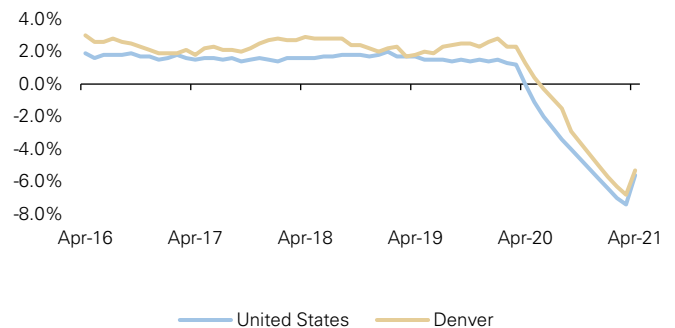
DENVER, April 2021



Source: US Bureau of Labor Statistics

Payroll Employment

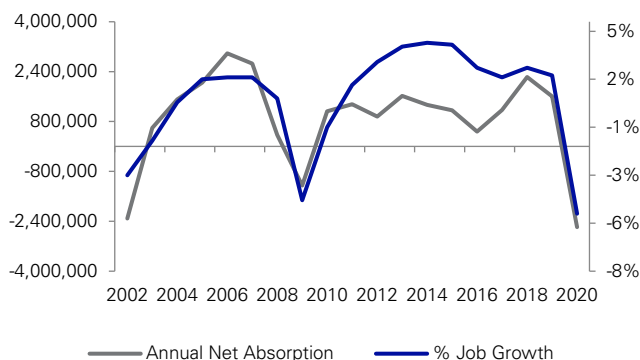
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth and Absorption

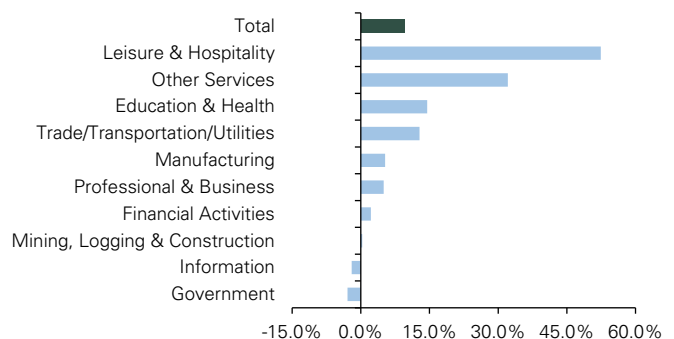
DENVER YOY EMPLOYMENT GROWTH AND OFFICE ANNUAL ABSORPTION



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

DENVER, APRIL 2021, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



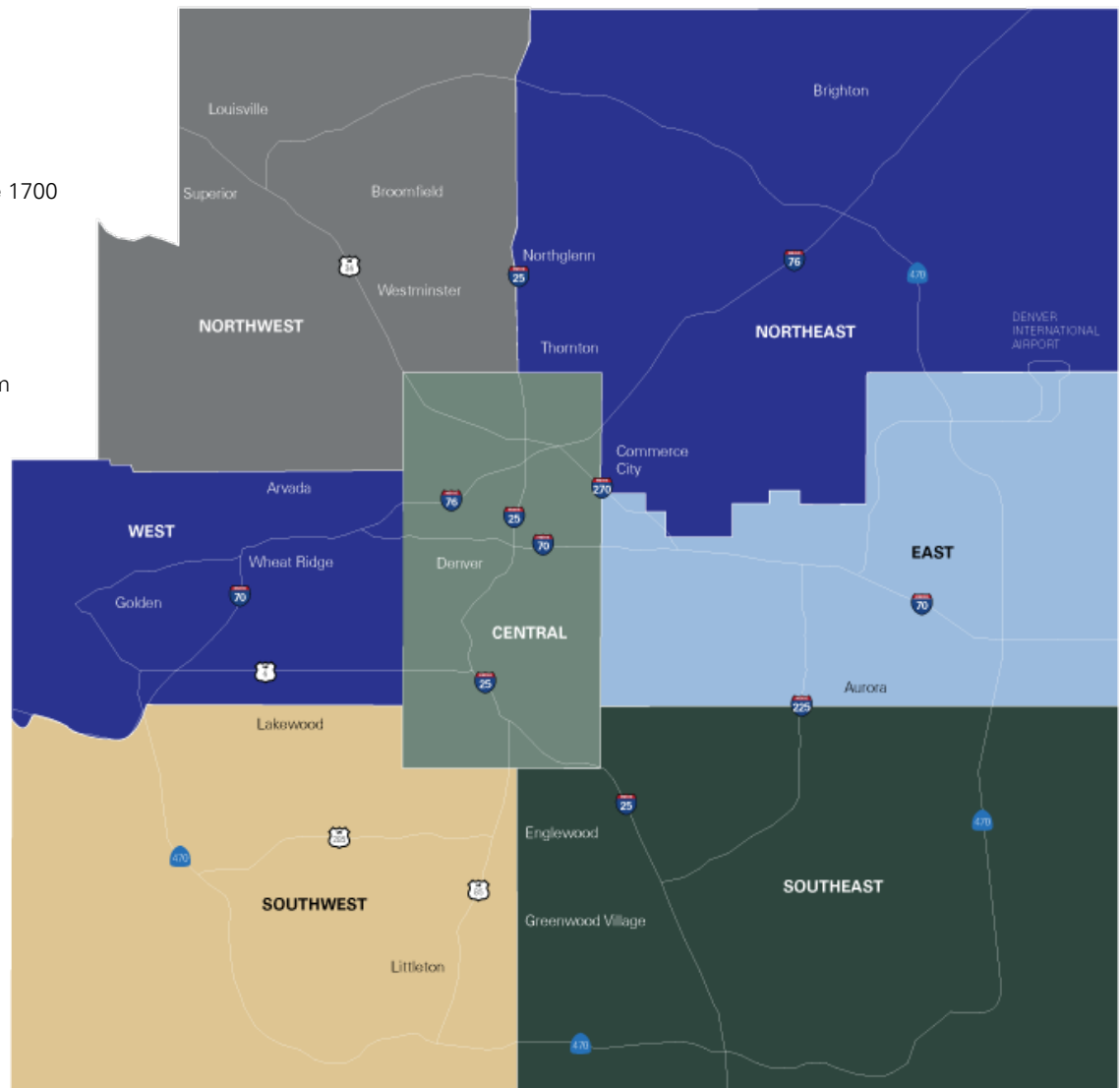
Source: U.S. Bureau of Labor Statistics

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