

Denver Industrial Market

Denver's Industrial market Continues to Expand

After a solid first quarter of 2022, the Denver industrial market returned to normal deal flow, with a quarterly net absorption of 715,758 square feet. Food and beverage, as well as e-commerce tenants were responsible for a significant portion of leasing activity this quarter, as 2022 year-to-date absorption equaled 1.5 million square feet. Market-wide vacancy reached 6.3%, up from 6.0% last quarter but down from 6.9% year-over-year. An isolated large move-out in the I-76 Corridor contributed to lower net absorption, and the delivery of nearly 500,000 square feet of vacant speculative space led to higher vacancy this quarter.

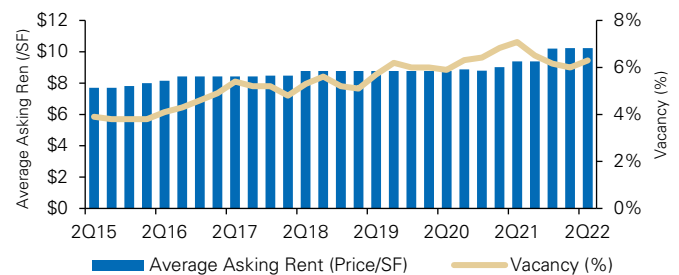
The East submarket logged the highest quarterly absorption among all the submarkets at 679,936 square feet. This was, in large part, due to the delivery and occupation of the 482,693-square-foot FedEx build-to-suit project at 56th Avenue and Jackson Gap Street in Aurora. Vacancy in the submarket was 6.5%, up from 6.4% last quarter but down from 7.4% year-over-year. The Southeast submarket had the second-highest quarterly absorption at 538,753 square feet and vacancy was 8.8%, a drop from 11.6% last quarter and 12.6% year-over-year. The Northeast submarket had the lowest quarterly absorption at negative 1.3 million square feet, driven by Costco's 1.3 million-square-foot move-out at 18875 East Bromley Ln. Vacancy reached 18.1%, having risen from 8.2% last quarter and 3.6% year-over-year. The Central, Northwest and West submarkets all recorded more than 180,000 square feet in absorption for the quarter, whereas the Southwest submarket posted 29,961 square feet.

Current Conditions

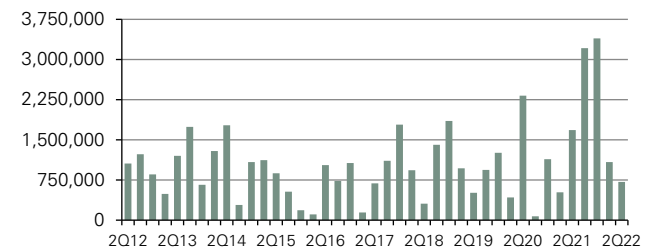
- Asking Rates remained mostly flat
- 7.2 million square feet is due to deliver by the end of 2022
- Vacancy is up after three consecutive quarters of decreases due to the delivery of vacant new product
- Food and beverage, as well as e-commerce tenants continue to be market leaders in absorption

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	220.1 MSF	219.1 MSF	212.8 MSF	↑
Vacancy Rate	6.3%	6.0%	6.9%	↑
Quarterly Net Absorption (SF)	715,758 SF	838,429 SF	2.2 MSF	↓
Median Asking Rent/SF	\$10.23	\$10.23	\$9.39	↔
Under Construction (SF)	11.7 MSF	12.0 MSF	7.1 MSF	↓
Deliveries	1.2 MSF	715,898 SF	2.8 MSF	↑

RESEARCH Q2 2022

Year-to-date absorption was highest in the East submarket at 1.0 million square feet, followed by the Central submarket at 621,109 square feet. The Northwest, Southeast and West submarkets each recorded more than 230,000 square feet in year-to-date absorption and the Southwest submarket registered 90,457 square feet. The Northeast submarket had the lowest year-to-date absorption figure of negative 1,288,320 square feet.

Rental Rates

Although largely stable since last quarter, certain landlords remain willing to push rental rates higher due to the strength of the industrial market and a multitude of macroeconomic pressures. Increased transportation, labor, energy, and raw material prices have driven construction expenditures and tenant improvement costs to unseen levels. This has provoked rate hikes across high-quality buildings in the Central submarket, where landlords have increased tenant improvement allowances to justify the elevated pricing. Rental rates were flat in every other submarket quarter-over-quarter but increases in the last year are evident. The East submarket's median rental rates increased by 24.5% year-over-year, while Northwest and Southwest submarkets saw median rental rates increase by 12.0% and 11.6%, respectively. The remaining submarkets posted year-over-year median rental rate increases under 10%.

Pipeline Sustains Historic Levels

Deliveries jumped from 742,128 square feet in the prior quarter to seven buildings comprising 1.2 million square feet in the second quarter of 2022. Two of these buildings were BTS

projects and represented 50.2% of newly delivered space. The remaining five completed projects were speculative and only one was pre-leased upon completion. With 11.7 million square feet under construction across 63 projects in the Denver market, there is no shortage of future supply. Total area under construction decreased by just 2.0% since last quarter but increased by 64.6% year-over-year.

Three projects totaling 1.4 million square feet broke ground this quarter and 36 buildings totaling 5.4 million square feet are due to deliver next quarter. Speculative projects dominate the pipeline, representing 96.2% of total space under construction. Kroger's 300,000-square-foot Fulfillment Center in the East submarket is the only large build-to-suit project currently being built. Between now and the end of the calendar year, 7.2 million square feet is scheduled to deliver. Most of the construction projects are in the East submarket with 57.2% of total under construction space, followed by the Northeast submarket at 16.8% and the Southeast submarket at 10.6%.

Looking Ahead

2022 presents some headwinds, but the Denver industrial market has shown no signs of slowing down. Although high inflation and actions by the Federal Reserve are leading many to believe that a recession is on the horizon, the market is stable. Vacancy is expected to increase due to the delivery of speculative space that has not been pre-leased, but a contraction hasn't occurred in over six years and developers continue to see value. Denver is the ninth most expensive market for construction in the U.S. market, yet development has not been hampered at all. New projects continue to break ground even as construction costs steadily rise.

Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Home Depot	11700 East 47th Avenue	East	Renewal	336,800
Performance Food Group	East 100th Avenue & Havana Street	Northeast	New	280,000
Target	6300 North Broadway	Central	New	141,524
Priority Wire & Cable	10000-10300 East 40th Avenue	East	Renewal	115,829
Keystone Tower Systems	6050 Washington Street	Central	New	108,937

Select Sales Transactions

Building Name	Submarket	Sale Price	Price/SF	Square Feet
Denver Infill Portfolio	East, Central, West	\$251,999,200	\$188	1,337,629
North Washington Commerce Center	Northeast	\$34,461,727	\$211	163,686
Dove Valley Business Center II	Southeast	\$29,366,600	\$195	150,598
National Archives & Record Administration	Northwest	\$22,275,000	\$138	161,730
Aeon Building	East	\$16,606,500	\$419	39,600

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	42,634,537	751,724	4.55%	330,592	621,109	\$9.00	\$10.50	\$9.75
East	85,661,789	6,702,437	6.50%	679,936	1,021,932	\$7.00	\$12.00	\$9.50
Northeast	15,677,196	1,965,801	18.09%	-1,282,208	-1,288,320	\$8.00	\$10.50	\$9.25
Northwest	16,979,302	980,870	6.10%	180,770	234,044	\$10.25	\$13.00	\$11.63
Southeast	19,859,247	1,244,774	8.79%	538,753	521,238	\$10.00	\$12.50	\$11.25
Southwest	15,258,150	60,580	2.37%	29,961	90,457	\$8.25	\$10.50	\$9.38
West	23,076,708	12,054	1.04%	237,954	297,249	\$9.25	\$12.50	\$10.88
Total Market	220,146,929	11,718,210	6.26%	715,758	1,497,709	\$8.82	\$11.64	\$10.23

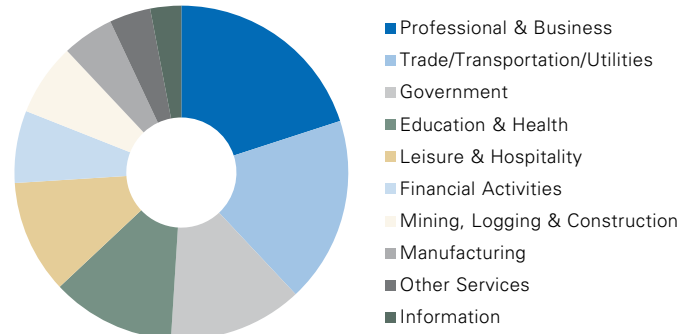
Economic Conditions

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 3.1% in May 2022 based on preliminary numbers, below both the state unemployment at 3.5% and the nation at 3.6%. Although the unemployment rate isn't dropping as fast as other states, the labor force participation rate has exceeded pre-pandemic levels.

The leisure and hospitality sector continued to have the largest job growth based off preliminary numbers in May, with year-over-year growth at 14.1%. None of the 10 employment sectors posted job losses. The important office-occupying professional and business sector is Denver's largest employment sector, accounting for 19.7% of total nonfarm employment.

Employment by Industry

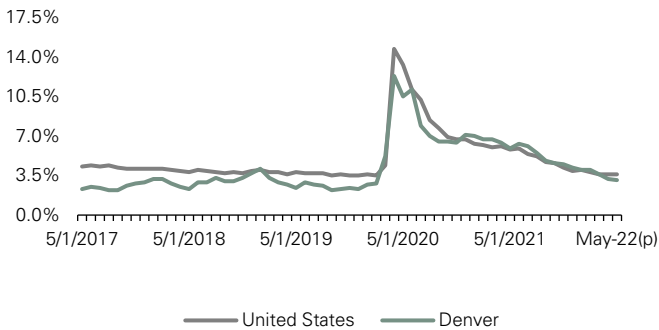
DENVER, May 2022



Source: US Bureau of Labor Statistics

Unemployment Rate

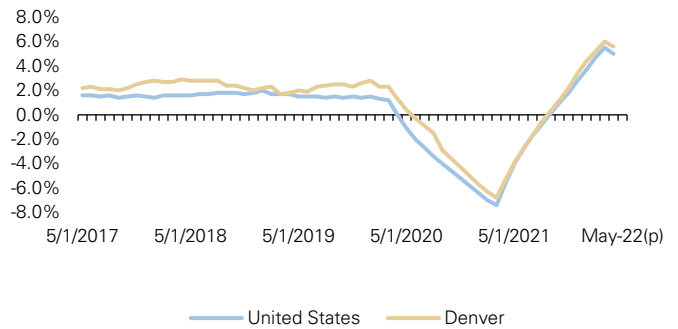
SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Payroll Employment

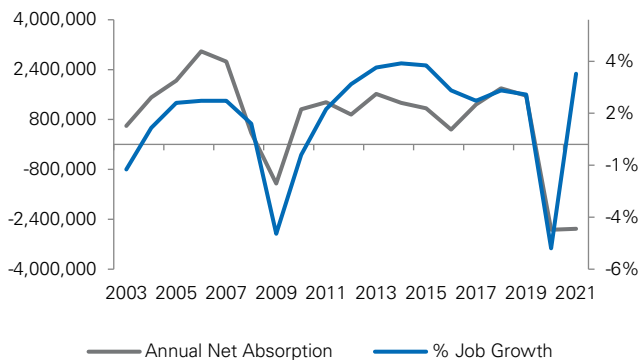
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth and Absorption

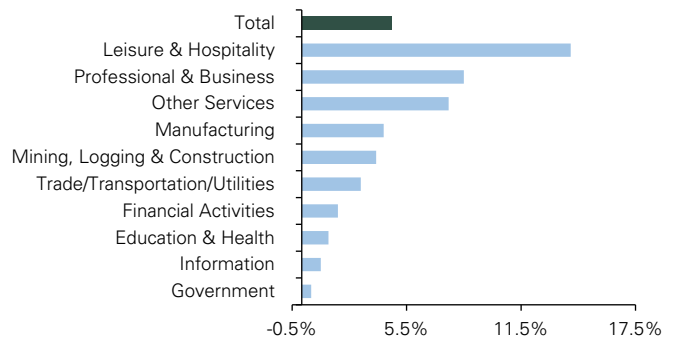
DENVER YOY EMPLOYMENT GROWTH AND OFFICE ANNUAL ABSORPTION



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

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



Source: U.S. Bureau of Labor Statistics

For more information:

New York Headquarters

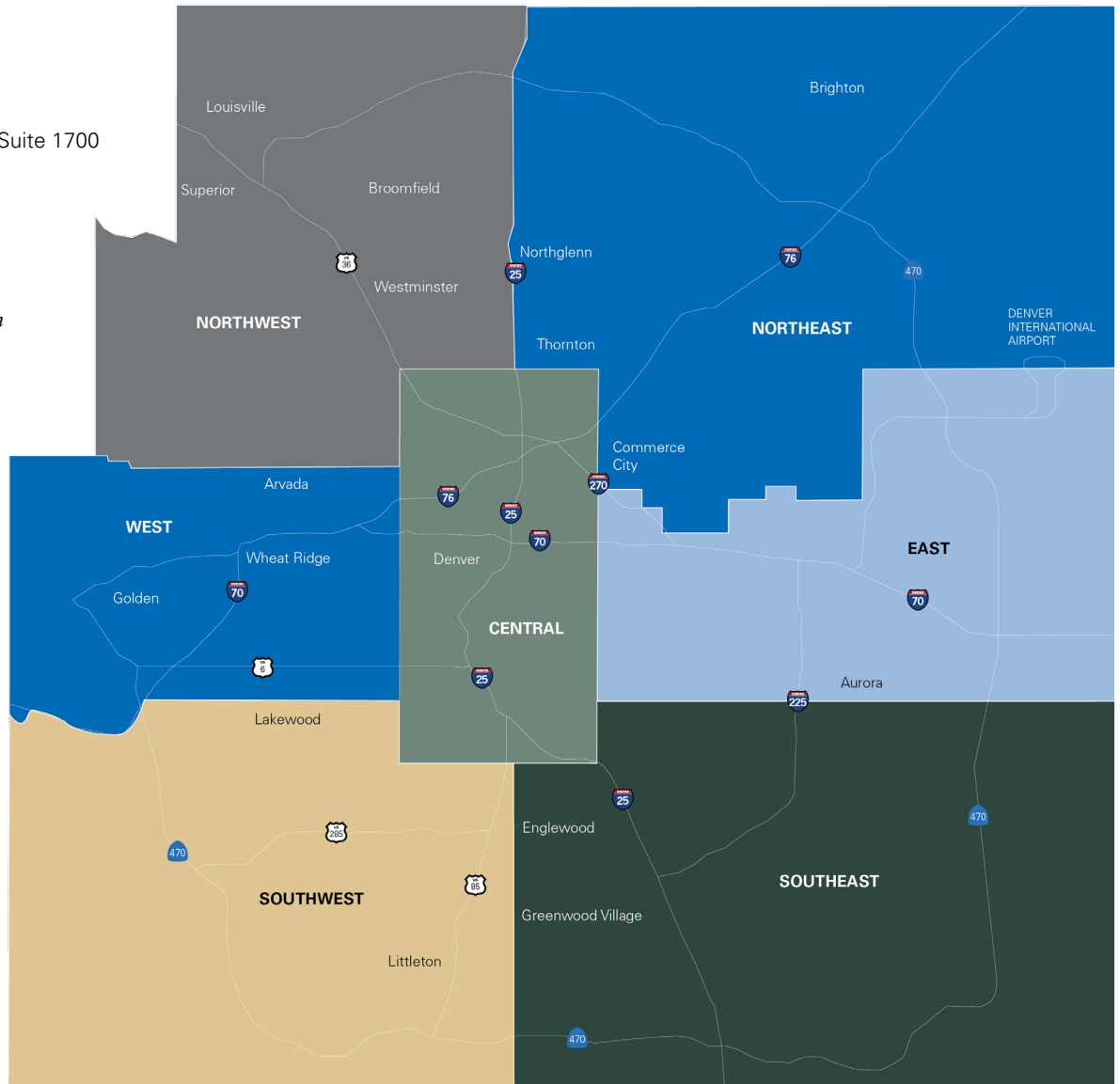
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