

3Q23

Denver Industrial Market Overview



NEWMARK

Market Observations

Economy

- The region’s tenaciously high labor participation rate leaves limited room for job growth, despite slight increase in unemployment.
- Colorado economists lowered their expected risk of recession in the next 12 months due to multiple promising indicators over the past three months.
- Inflation, affordable housing and finding qualified workers continue to be the top concerns limiting job growth.

Major Transactions

- Prime Source moved from 130,000 SF in 12950 East 38th Avenue to 170,000 SF at HighPoint Building 1.
- Two tenants occupied a total of 159,000 SF at 9300 East 46th Place; Metrie moved from 43,000 SF at 13100 East Albrook Drive into 101,000 SF and CED occupied 58,000 SF.
- Kellar Warehousing vacated 140,000 SF from Medline’s build-to-suit.

Leasing Market Fundamentals

- Quarterly absorption recorded 572,556 SF, bringing year-to-date absorption to 1.8 MSF. Delays in construction and tenant improvements pushed back several expected move-ins to the end of the year.
- Vacancy grew to 8.4%, once again due to deliveries outpacing absorption. The increase in both availability and vacancy are keeping rental rates to remain stable despite rising costs.
- The average time between signing a lease for first generation space and when the tenant can occupy the space has increased to one year due to several compounding issues; therefore, the absorption of many leases signed now will not be seen until late 2024.

Outlook

- Absorption in the last quarter of the year will be one of the strongest, bolstered by the deliver of Dollar General’s 919,000 SF build-to-suit. It will still be outpaced by the amount of vacant speculative deliveries, pushing vacancy higher.
- As demand returns to pre-pandemic levels, it will take time for tenants to fill the flood of speculative construction delivered over the past few years.
- Rent growth will continue to be slow and cautious due to softening market fundamentals.

1. Economy
2. Leasing Market Fundamentals

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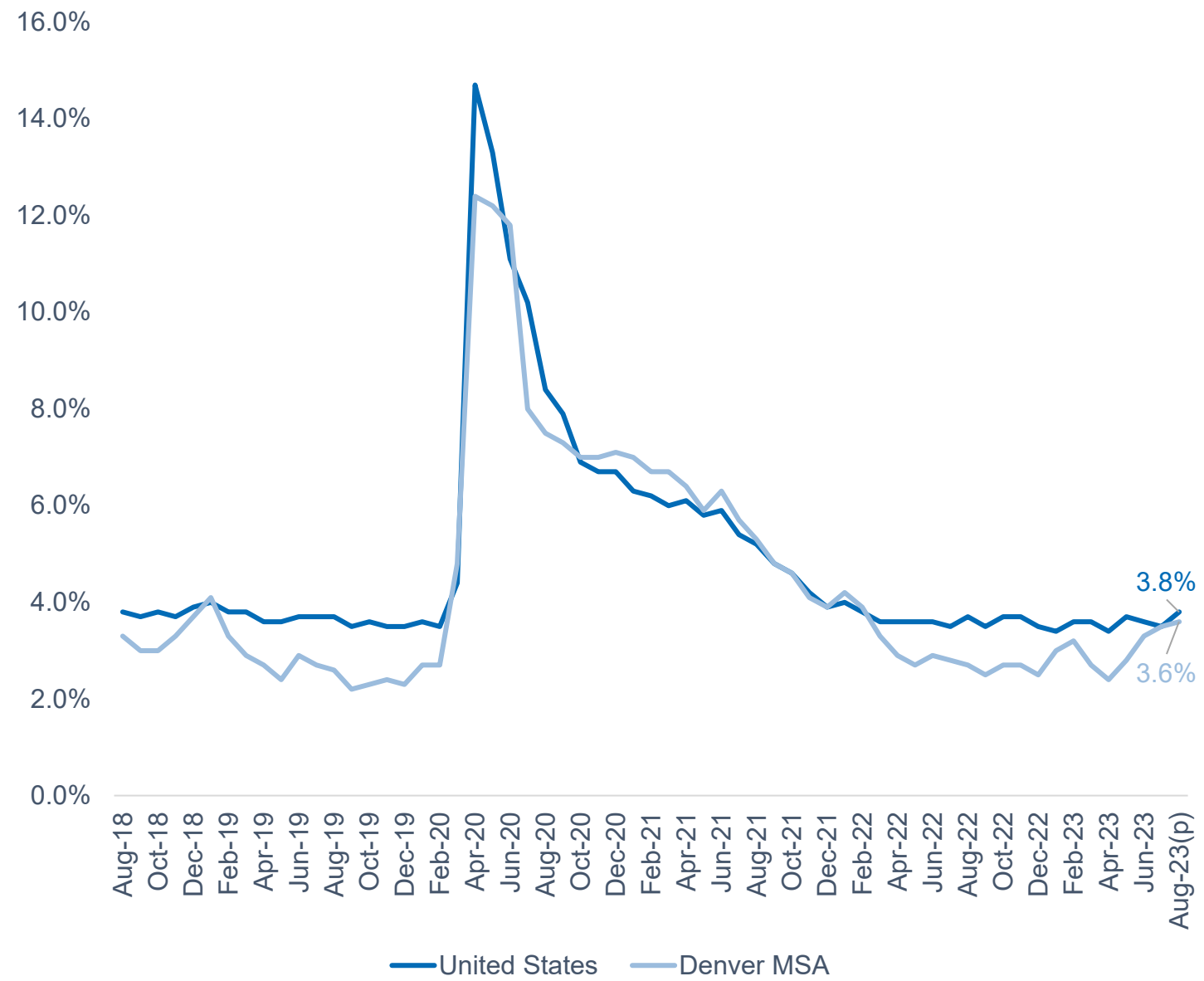
Economy



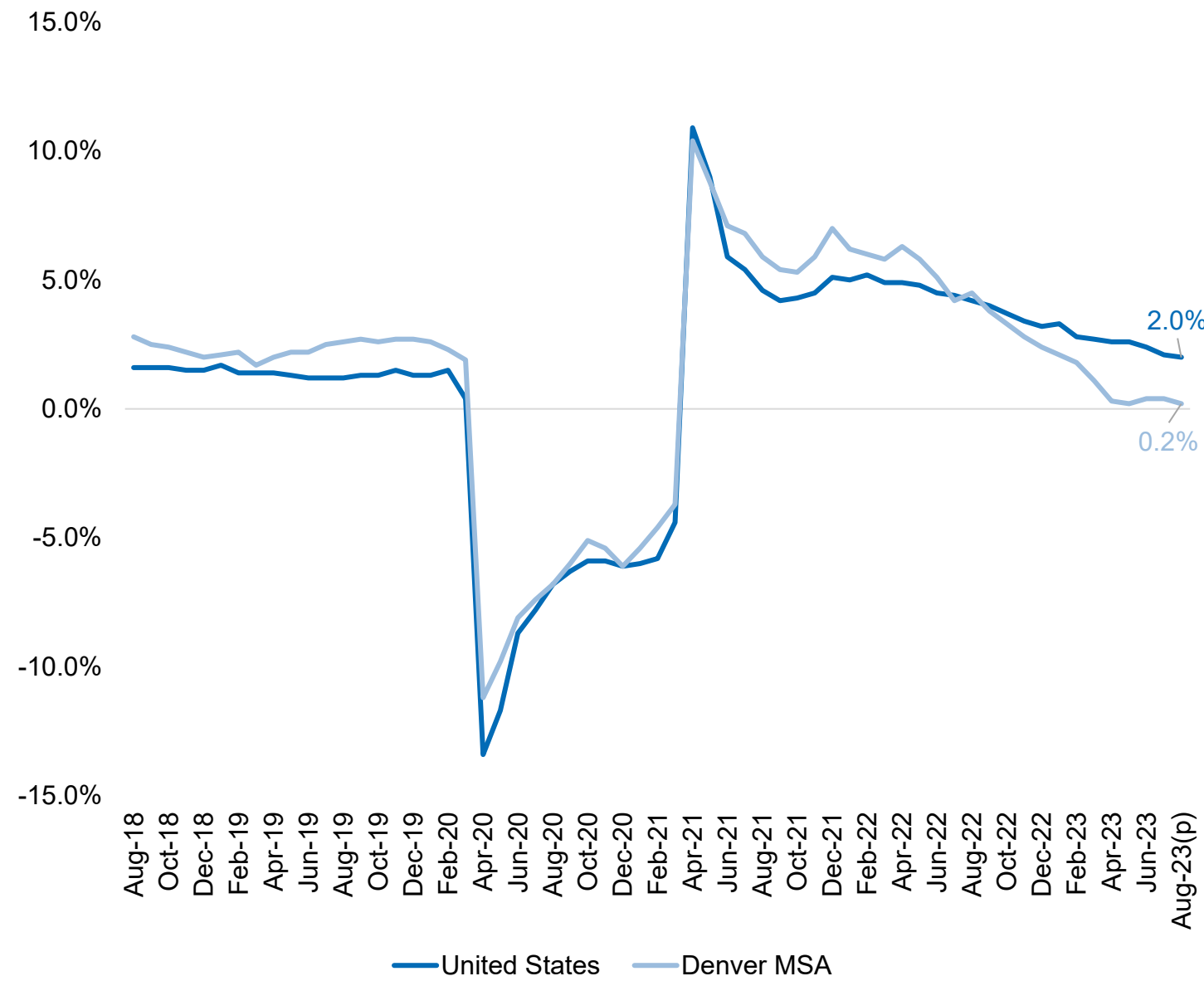
Unemployment Inches Higher as Job Growth Plateaus

The unemployment rate in Denver rose slightly in August to 3.6% from the previous month at 3.5%, partially due to a slight increase in labor force being added as the people continue to move into the area. Job creation has persistently been below the national rate for several months, but the labor-force participation rate exceeds the nation's numbers.

Unemployment Rate, Seasonally Adjusted



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



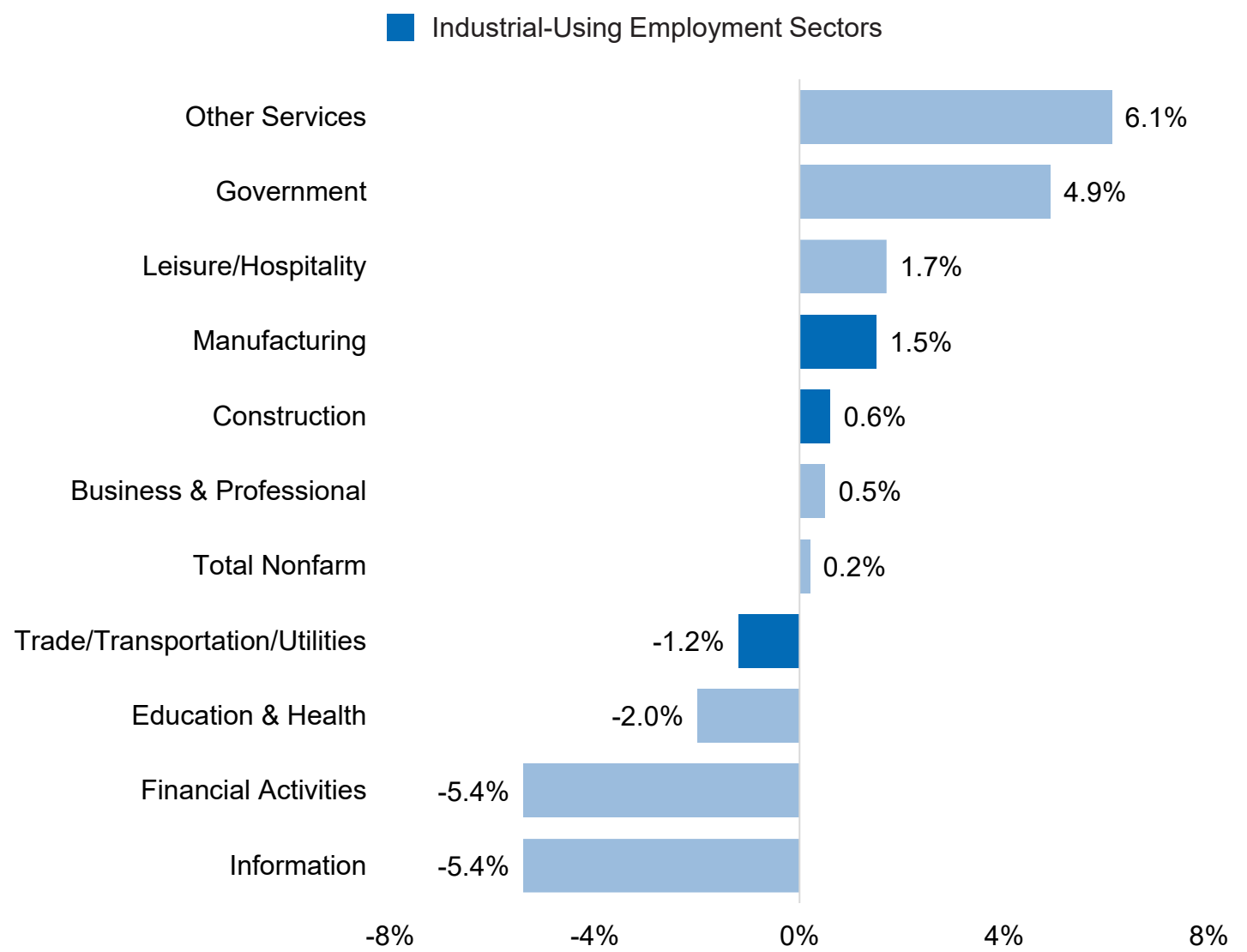
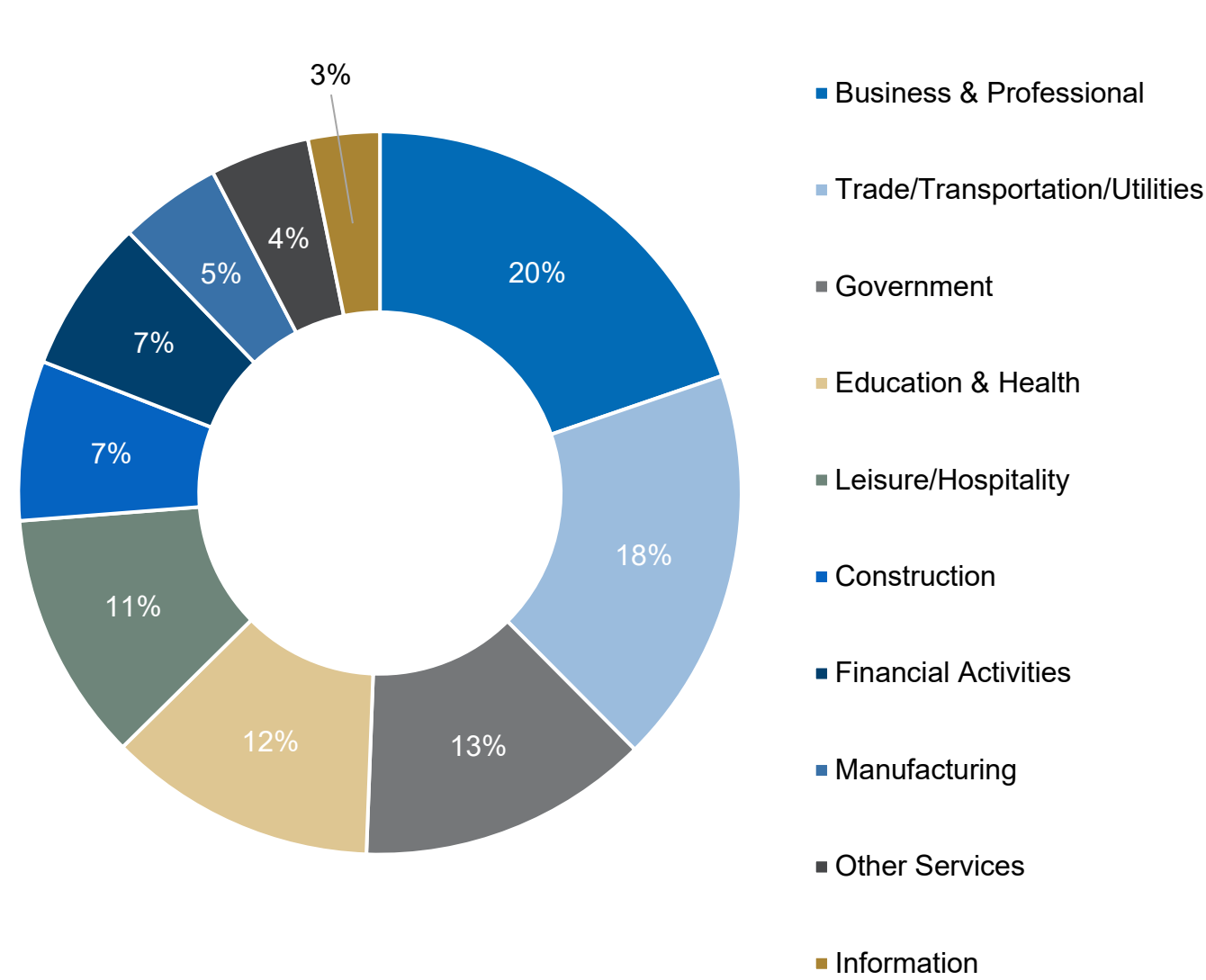
Source: U.S. Bureau of Labor Statistics, Denver MSA

Two of Three Industrial-Occupying Sectors Post Growth

Seven of the ten sectors posted growth, including the largest sector, business and professional services. In industrial-occupying or adjacent industries, trade, transportation and utilities continued to lose jobs but construction and manufacturing both posted growth.

Employment by Industry, August 2023(p)

Employment Growth by Industry, 12-Month % Change, August 2023(p)

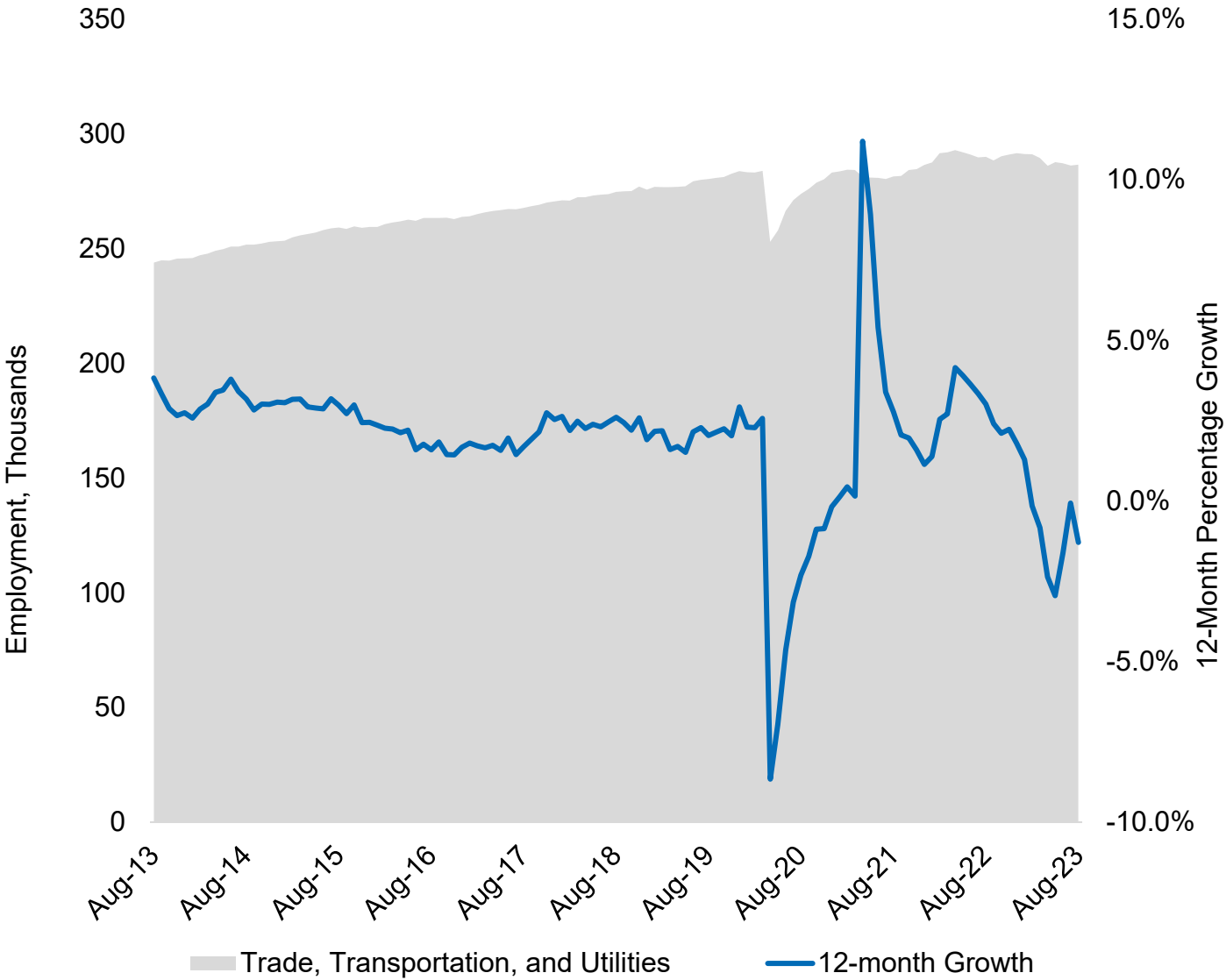


Source: U.S. Bureau of Labor Statistics, Denver MSA

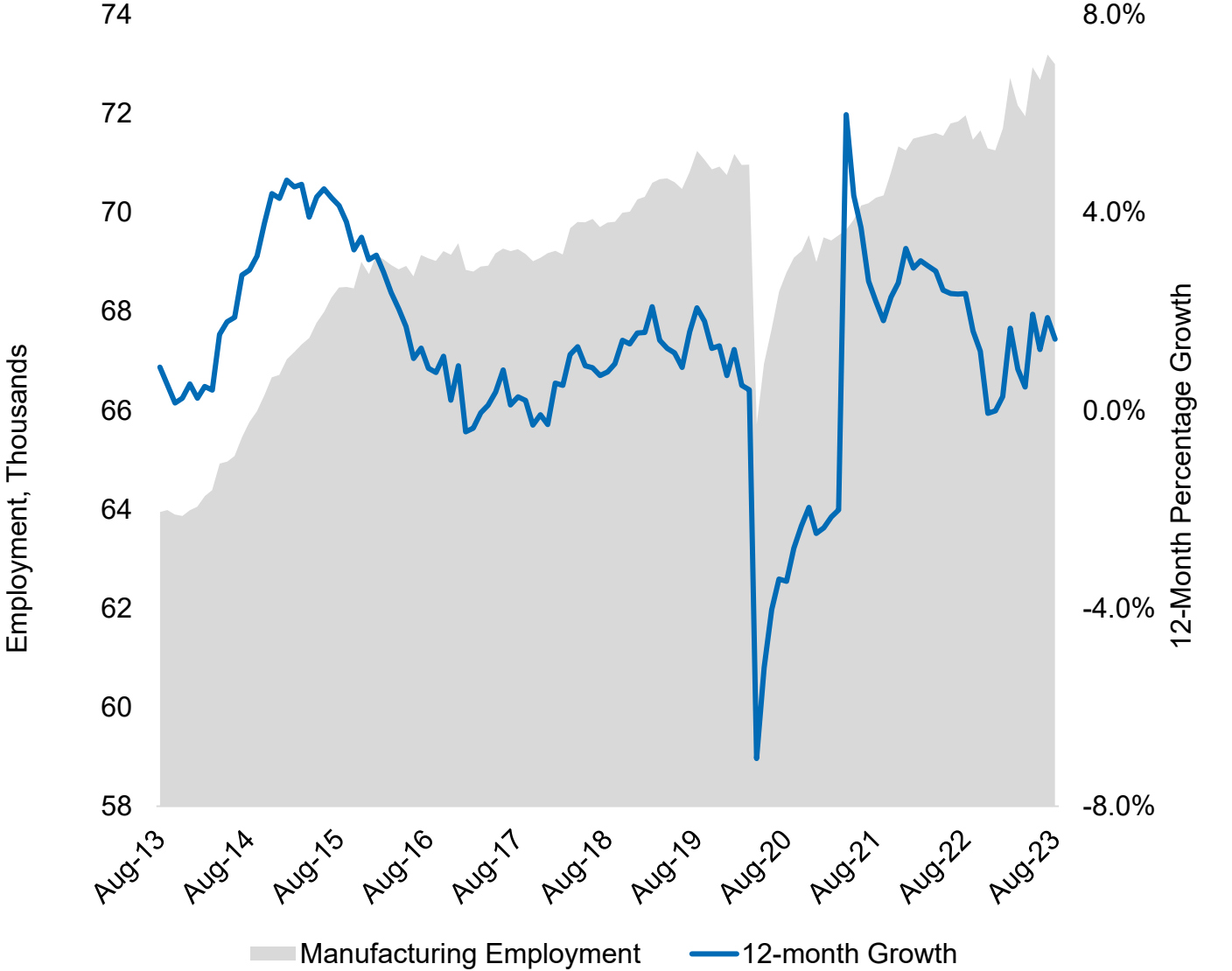
Industrial Sectors Employment Growth Uneven but Still Better than Pre-Pandemic

Trade/transportation/utilities jobs have posted consistent 12-month losses since February 2023 but remains above pre-pandemic numbers. Manufacturing jobs have posted 12-month increases every month since April 2021, except for the last two months in 2022.

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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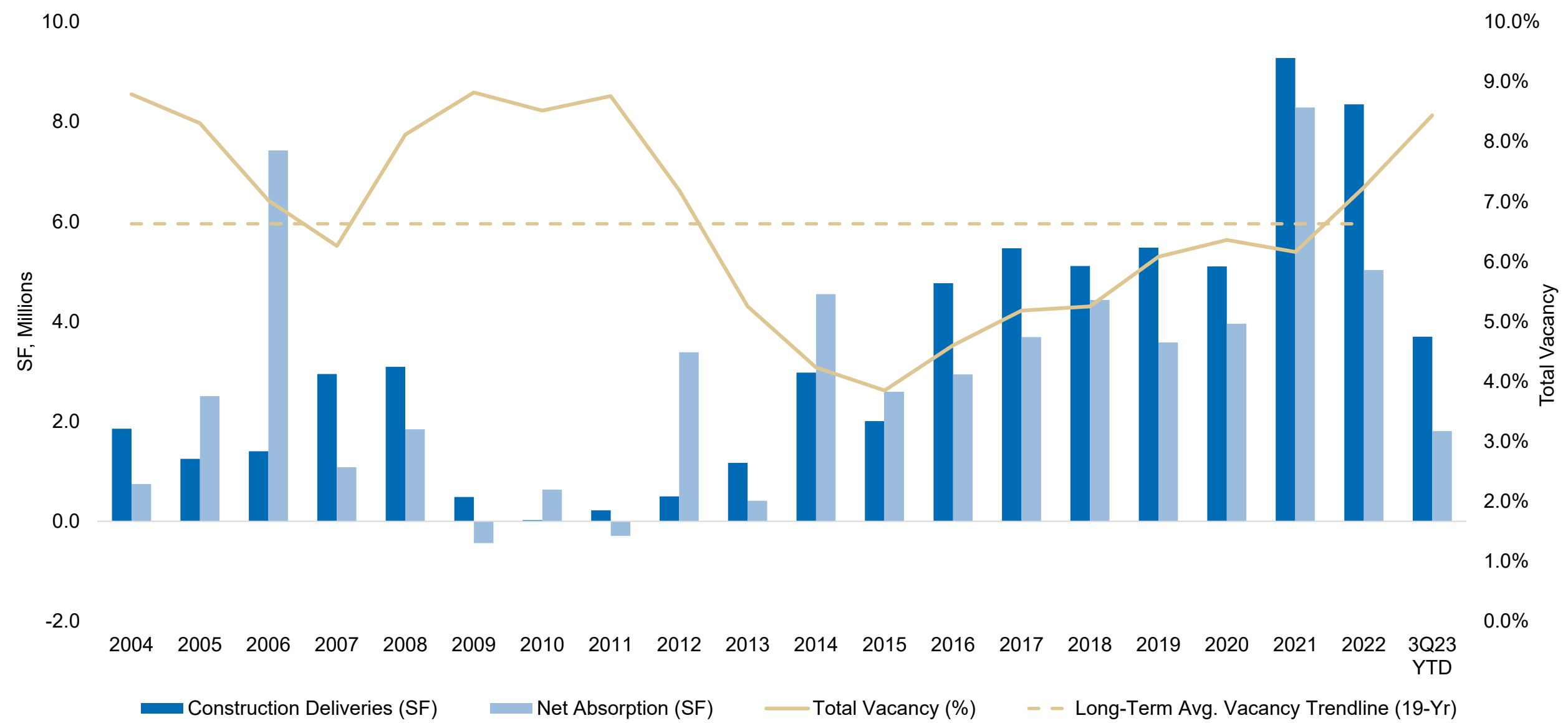
Leasing Market Fundamentals



Spec Development Pushes Vacancy as Demand Returns to Pre-pandemic Levels

Demand continues to cool slightly from its pandemic driven frenzy, leading absorption and deliveries back to pre-pandemic behavior. The pipeline of speculative development will take longer to slow, which continues to be the driving force of the rising vacancy.

Historical Construction Deliveries, Net Absorption, and Vacancy

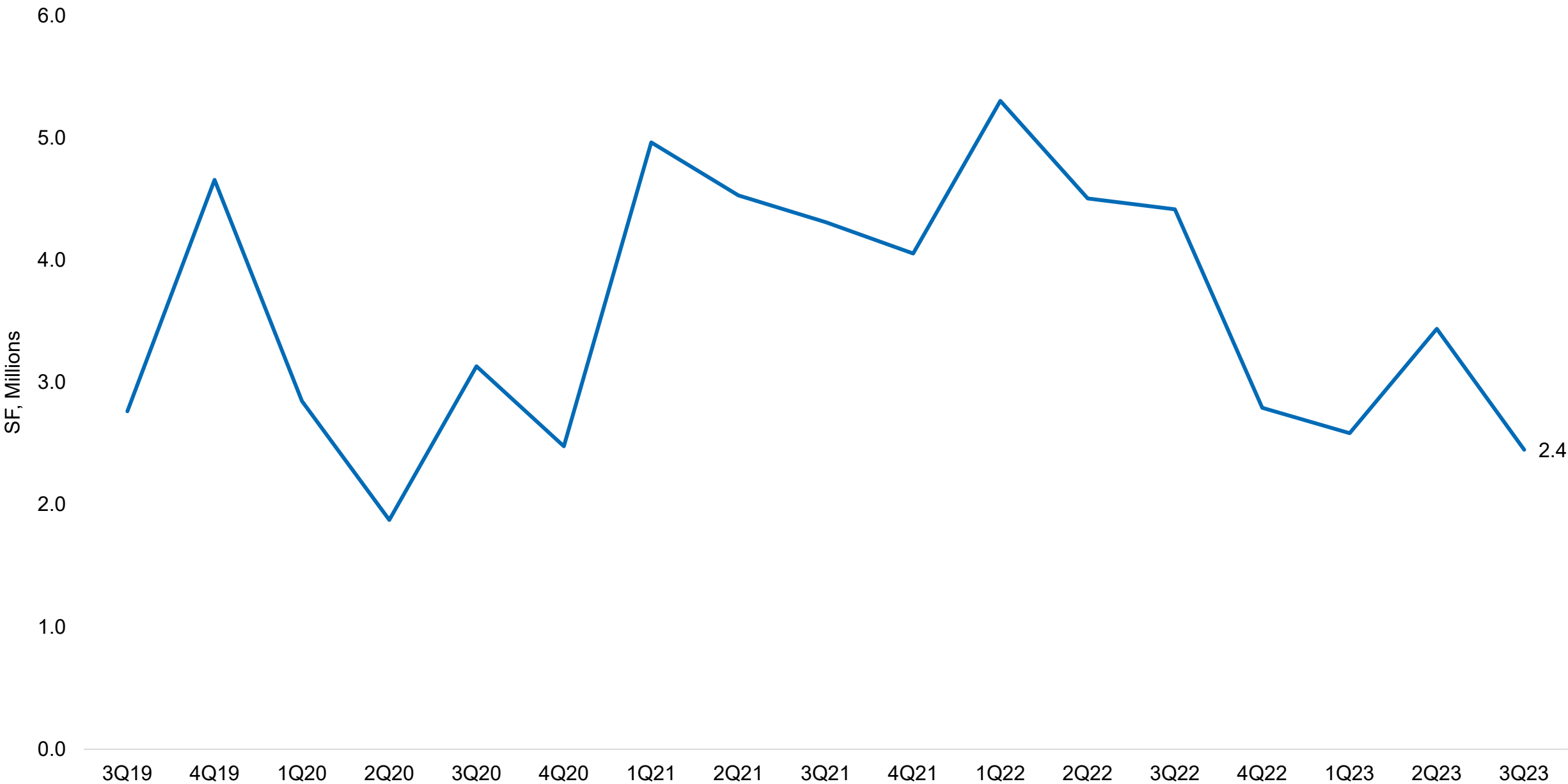


Source: Newmark Research

Economic Concerns Cools Demand

In the third quarter of 2023, demand for industrial space resumed a more cautious but still healthy pace of the first quarter of the year. Many tenants that needed to grow signed during the pandemic. Other tenants who might consider growth or relocating are largely biding their time until there is a clearer outlook of the economy.

Total Leasing Activity (SF)

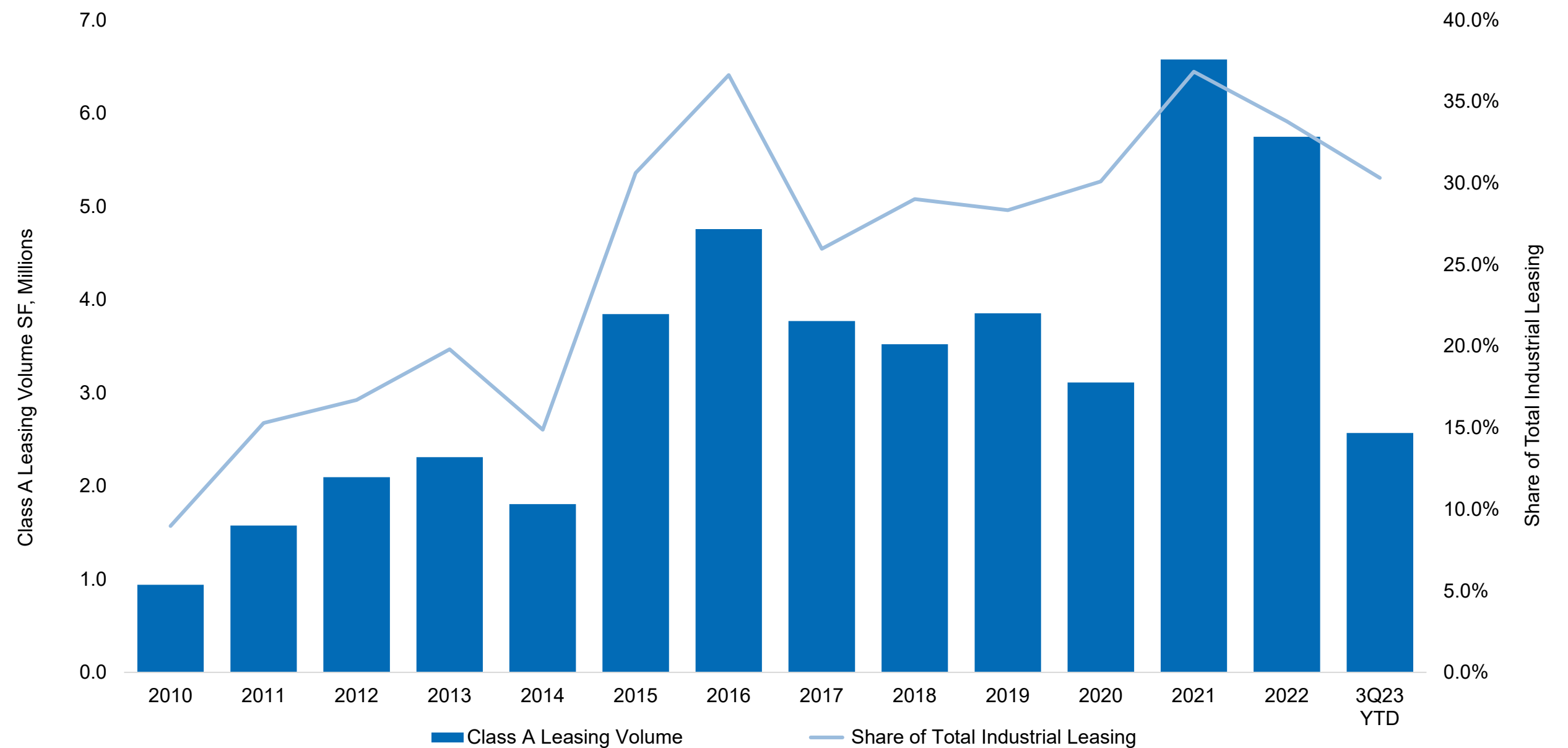


Source: Newmark Research, CoStar

Class A Warehouse Leasing Slowing Follows Similar Trend of Pre-pandemic Behavior

Class A warehouse leasing represented 30.3% of overall activity through the third quarter of 2023, down from 2021 high of 36.8% but still above the 28.3% seen in 2019. New construction continues to be highly desirable.

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

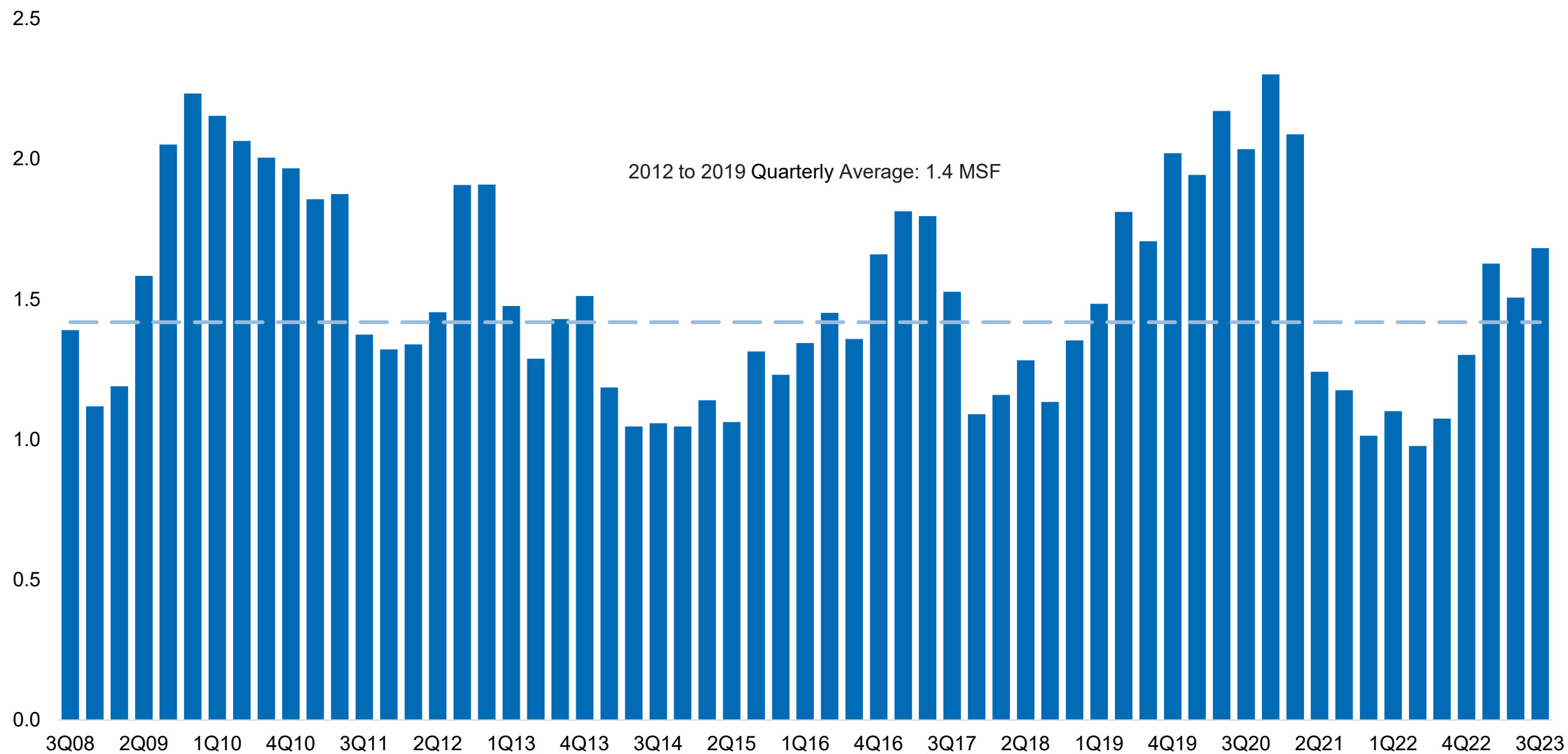


Source: Newmark Research, CoStar

Industrial Sublease Availability Raises Again But Below Pandemic High

Sublease volume in the third quarter of 2023 increased from the prior quarter and above the quarterly pre-pandemic average but the upward trend appears to be slowing. It is expected to continue to increase at a slower pace over the next few quarters.

Available Industrial Sublease Volume (msf)

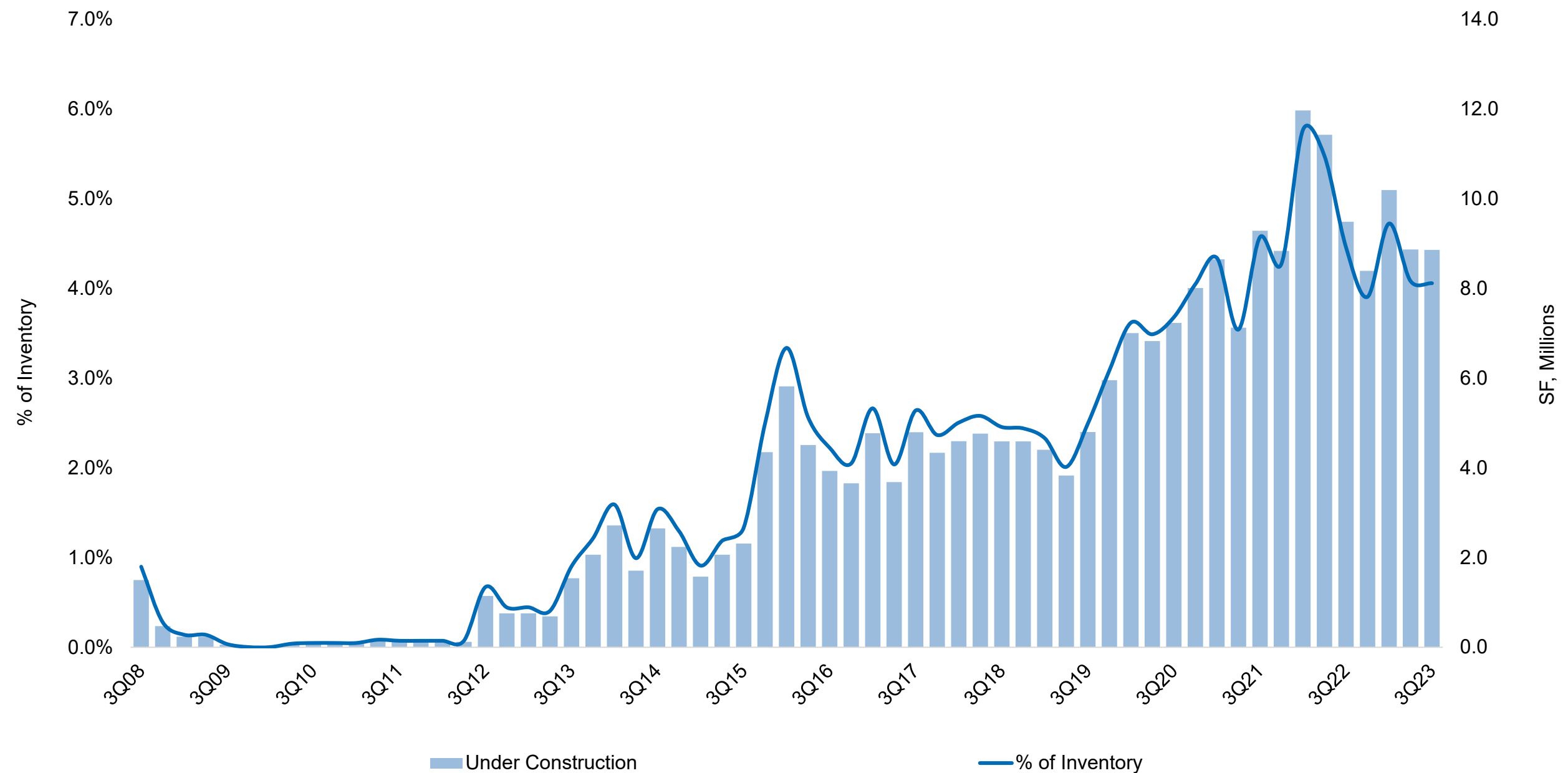


Source: Newmark Research, CoStar

Industrial Supply Pipeline Plateaued but Not For Long

Although the pipeline have been relatively stable for the past four quarters, that trend is not expected to continue. The softening demand, interest rates lingering at high levels and the increasing availability and vacancy have created a chilling effect for developers. Few speculative buildings are expected to break ground in the coming year without a tenant committed to pre-lease space.

Industrial Under Construction and % of Inventory

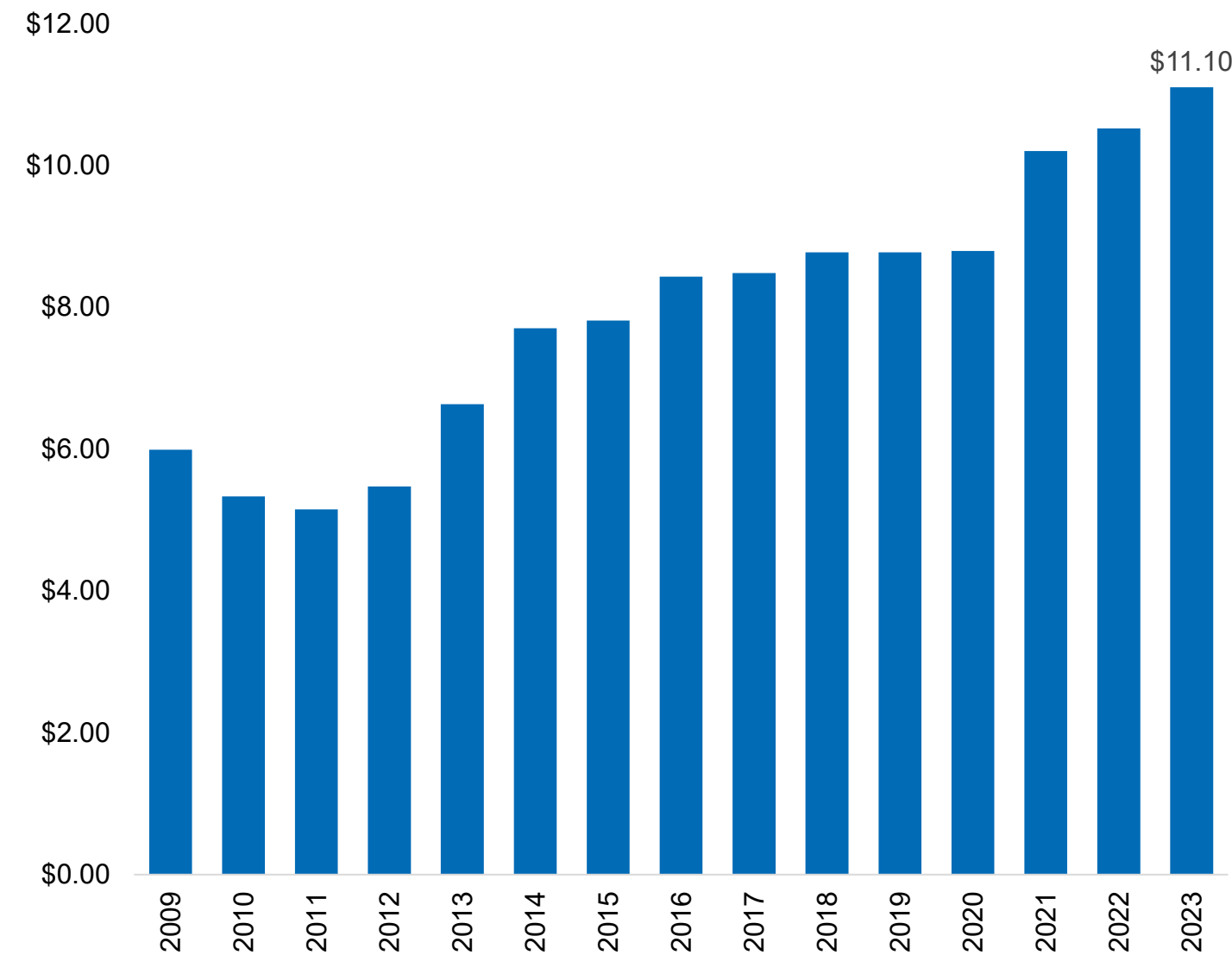


Source: Newmark Research, CoStar

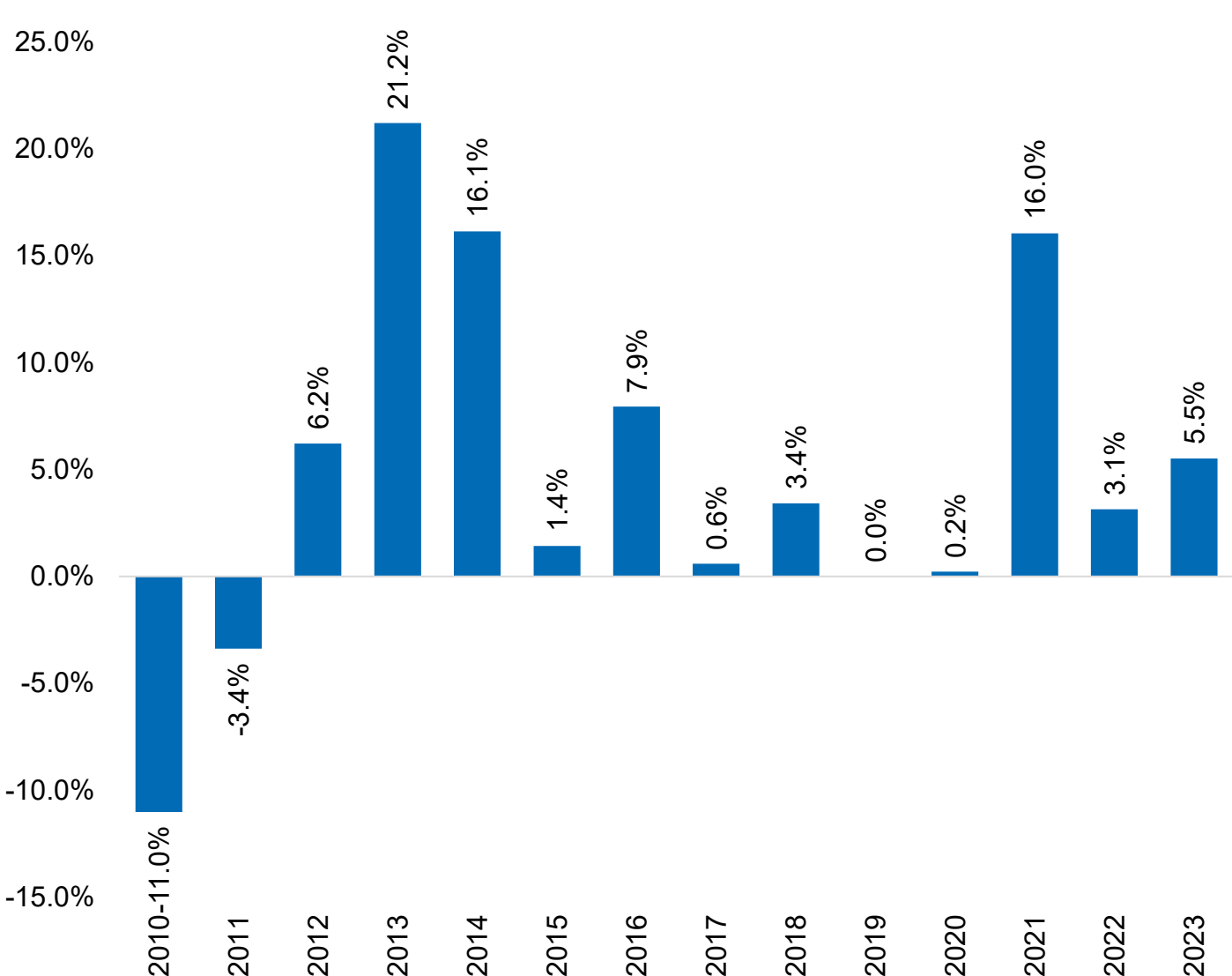
Despite Healthy Demand, Vacancy Keeps Asking Rates Stagnant

Industrial median asking rents have only seen incremental increases quarter-to-quarter due to tenant leverage to negotiate prices based on the existing inventory of options.

Industrial Median Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Notable 3Q23 Lease Transactions

Top leases for the quarter were dominated by renewals that included expansions. Sales volume has also decreased year-over-year although price-per-square foot has only decreased slightly. The top sale of the quarter was the Dove Valley Business Center I that traded for \$29.8M or \$199/SF.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Rexel <i>The renewal also includes an expansion of 49,600 SF.</i>	11175 East 55th Avenue	East	Renewal	187,200
Mesa Systems, Inc. <i>Mesa Systems, Inc., a moving and storage company, has been in the building since the beginning of 2018.</i>	403 South Airport Boulevard	East	Renewal	118,916
Victrola <i>Victrola moved its office headquarters from Port Washington, New York to Denver in 2021.</i>	10899 Havana Street	East	Direct New	103,031
Tendeg <i>Tendeg was approved for state and local tax incentives. This new location will consolidate two previous locations that totaled 43,000 SF together.</i>	1350 South 96th Street	Northwest	Consolidation / Expansion	100,080
Forward Air <i>Forward Air initially occupied 34,000 SF in the building in December 2007 and has grown at the location since then.</i>	4555-4685 Geneva Street	East	Renewal	96,460

Source: Newmark Research

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