

Denver Industrial Market

Denver's Industrial Market Demonstrated Strong Demand

2022 was a fantastic year for the Denver industrial market as annual absorption attained 5.0 million square feet for just the second time in the last 10 years. The East submarket posted the highest annual absorption with 2.9 million square feet and had the largest move-in of the year: Paliot occupied 210,195 square feet at 3700 North Windsor Drive in the third quarter of 2022. In second place was the Southeast submarket with 1.1 million square feet of annual absorption. At negative 978,898 square feet, the Northeast submarket was the only submarket with annual absorption in negative territory, mostly due to a single large move-out in the third quarter of 2022. All other submarkets recorded annual absorption over 200,000 square feet.

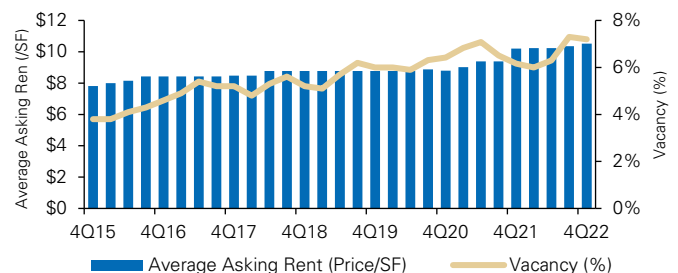
Rental rates in the Northwest, Southeast and Southwest submarkets saw slight bumps at the end of 2022 from the previous quarter, but the remaining submarkets were flat. Year-over-year increases were seen in the Northeast, Northwest, Southeast and Southwest submarkets. Although increasing at slower rates than in past quarters, growing construction costs continue to prop up rental rates in newly constructed buildings, as do increasing tenant improvement costs across all industrial products.

Ending the Year with a Strong Quarter

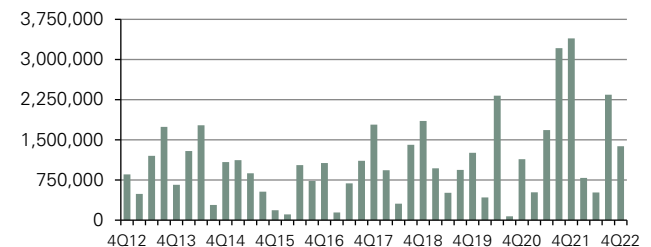
Denver's industrial market produced absorption of 1.4 million square feet in the fourth quarter of 2022. Although less than the prior quarter, this was nearly double both the first and second quarters of 2022. Market-wide vacancy was 7.2%, up from 6.9% in

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Current Conditions

- Asking Rates moderately increased in the Northwest, Southeast and Southwest submarkets
- 6.6 million square feet is due to deliver in 2023
- Vacancy is up for the third straight quarter due to the delivery of vacant speculative product
- Food and beverage as well as building supply tenants were market leaders in absorption this quarter

Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	226.7 MSF	224.4 MSF	218.6 MSF	↑
Vacancy Rate	7.2%	6.9%	6.1%	↔
Quarterly Net Absorption (SF)	1.4 MSF	2.4 MSF	4.1 MSF	↔
Median Asking Rent/SF	\$10.52	\$10.36	\$10.20	↔
Under Construction (SF)	8.4 MSF	9.5 MSF	8.8 MSF	↓
Deliveries	2.3 MSF	4.1 MSF	3.6 MSF	↓

RESEARCH Q4 2022

the third quarter of 2022 and 6.1% year-over-year. In line with annual trends, the East submarket logged the highest quarterly absorption with 575,790 square feet, where vacancy was 7.6%, up from 7.4% in the previous quarter and 6.3% year-over-year. Several vacant speculative deliveries can be blamed for increased vacancy in this submarket, including Clarion Gateway Building 26 at 19100 East 38th Avenue, the largest building to be completed in the entire market in the fourth quarter of 2022. The Southeast submarket posted the second-highest quarterly absorption of 448,220 square feet, where vacancy reached 11.3%, up from 10.5% in the third quarter of 2022 but down from 11.4% year-over-year. The Northwest submarket had the lowest level of quarterly absorption at 18,228 square feet, where vacancy was 8.3%, flat from last quarter and up from 6.9% year-over-year. Eagle Rock Distributing occupied 121,063 square feet at 10818 East 108th Avenue in the Northeast submarket, taking the top spot for largest move-in market-wide this quarter.

Near Record Pipeline

Five buildings totaling 859,464 square feet broke ground in the fourth quarter of 2022, and two of these buildings are expected to deliver in 2023. There is no shortage within the pipeline, as 39 projects totaling 8.4 million square feet are under construction across the Denver market; 70.3% of space under construction is speculative, while two of the largest buildings under construction are build-to-suit. The East submarket also contains the most space under construction with 52.6%, distantly followed by the Northeast submarket with 24.1% and the Northwest submarket with 14.9%; 2022 saw the delivery of near-record square footage with 8.3 million square feet across 49 buildings. Most of these

deliveries were speculative, representing 84.6% of new supply over the course of the year. Construction appears to be receding from record levels, as total area under construction decreased by 11.1% since last quarter and by 4.6% year-over-year; 16 projects totaling 2.5 million square feet will deliver in the first quarter of 2023, and 6.6 million square feet across 33 projects are slated for delivery during the entire year of 2023.

Looking Ahead

Supply chain problems that have been present since the beginning of the pandemic have eased slightly but will continue to cause significant delays for tenants moving into new space during the coming year. Consumer demand is expected to hold up well amidst a mild recession in 2023. As such, industrial product will remain key to storing enough goods for retailers who will retain large amounts of inventory as they take a cautious approach to supply chain problems. Borrowing rates are higher than in past years, but industrial sales will continue at a steady pace as warehouse is expected to be the most prized of the main product types. Vacancy will increase next quarter with the delivery of 2.2 million square feet of vacant speculative space, while median asking rental rates across the Denver market will remain largely flat in 2023. Although at a more moderated rate than in past quarters, construction and tenant improvements costs are still climbing and rental rates will push higher among newly delivered buildings as a result. Net absorption will remain strong throughout next year as many leases signed in 2022 will occupy. Construction starts and total space under construction will decrease as developers become less able to fund new projects and multiple buildings already underway deliver in 2023.

Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Target	Target Build-To-Suit	Northeast	New	525,000
Living Spaces	18100 East 40th Avenue	East	New	141,171
Eagle Rock Distribution Company	10818 East 108th Avenue	Northeast	New	121,063
Metrie	9300 East 46th Place	East	New	100,840
M S International Inc.	18250 East 40th Avenue	East	New	97,656

Select Sales Transactions

Building Name	Submarket	Sale Price	Price/SF	Square Feet
Broomfield Industrial Portfolio	Northwest	\$69,103,824	\$141	490,640
Gateway Central 64	Central	\$47,700,000	\$216	220,619
GE Building & Midway Distribution Center I	East	\$33,000,000	\$97	340,960
DPI Foods Products Co.	Northeast	\$31,874,000	\$325	98,118
Academy Downs	Southwest	\$22,450,000	\$186	120,464

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	43,428,373	640,068	4.75%	88,523	1,084,676	\$9.00	\$10.50	\$9.75
East	89,705,107	4,428,659	7.55%	575,790	2,936,106	\$7.00	\$12.00	\$9.50
Northeast	16,927,302	2,030,333	19.79%	26,690	-978,898	\$8.00	\$10.50	\$9.25
Northwest	17,363,106	1,257,595	8.32%	18,228	229,198	\$11.50	\$13.00	\$12.25
Southeast	20,975,309	45,072	11.32%	448,220	1,126,009	\$11.00	\$12.50	\$11.75
Southwest	15,308,150	10,580	1.68%	111,999	245,014	\$9.50	\$11.00	\$10.25
West	23,024,628	12,024	0.65%	110,605	388,582	\$9.25	\$12.50	\$10.88
Total Market	226,731,975	8,424,331	7.24%	1,380,055	5,030,687	\$9.32	\$11.71	\$10.52

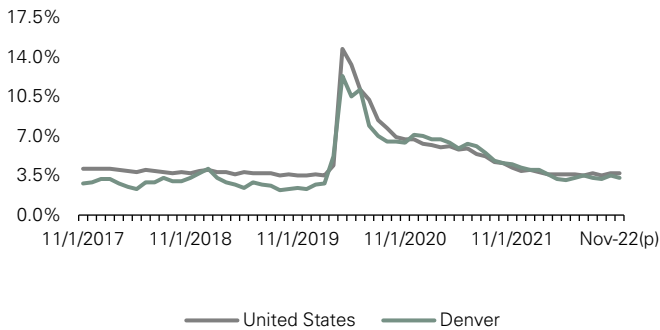
Economic Conditions

Denver and the State of Colorado had a stronger than expected year in 2022, with both outperforming the nation. Denver and Colorado posted job growth of 4.5% and 4.6%, respectively, compared to the nation's 4.2%. After spiking to 8.5% in December 2020, the unemployment rate has, by and large, continued a downward trajectory. It reached 3.3% in November 2022 based on preliminary numbers, below both the state unemployment at 3.5% and the nation at 3.7%.

The professional and business sector posted the largest job growth based off preliminary numbers in November, with year-over-year growth at 8.8%. The important professional and business services sector is Denver's largest employment sector, accounting for 20.2% of total nonfarm employment. Only one of the 10 employment sectors posted job losses; financial activities, traditionally adverse to volatility, saw a decrease of 2.1%.

Unemployment Rate

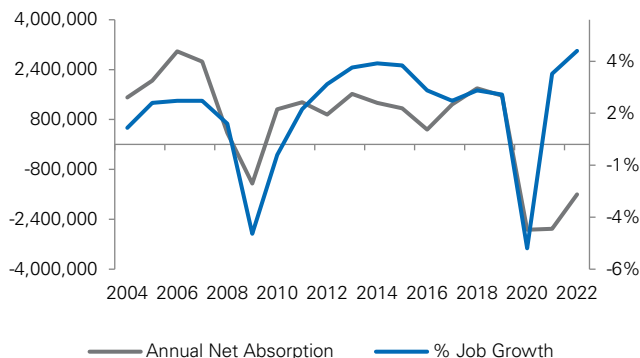
SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment Growth and Absorption

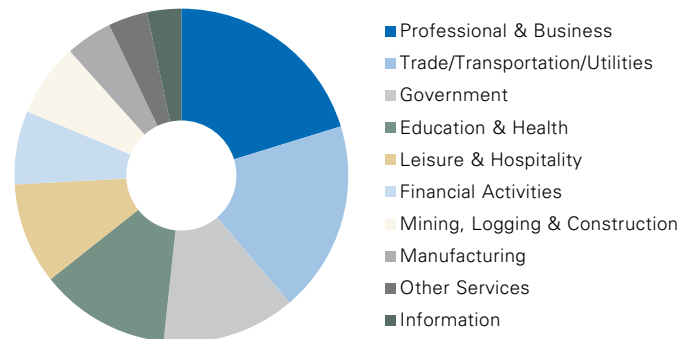
DENVER YOY EMPLOYMENT GROWTH AND OFFICE ANNUAL ABSORPTION



Source: U.S. Bureau of Labor Statistics

Employment by Industry

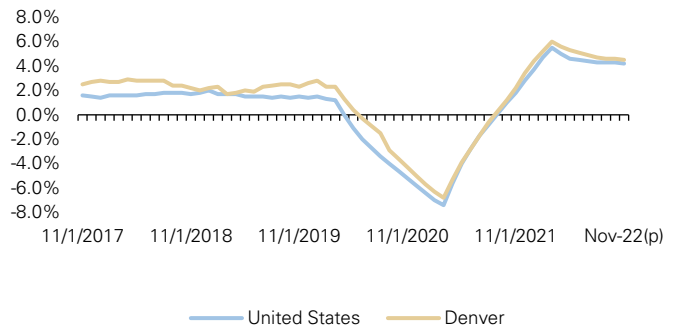
DENVER, November 2022



Source: US Bureau of Labor Statistics

Payroll Employment

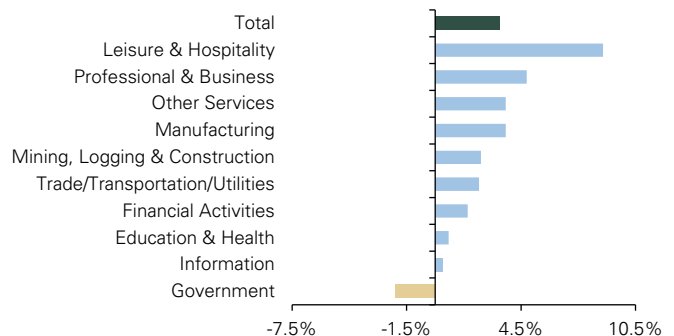
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

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



Source: U.S. Bureau of Labor Statistics

For more information:

New York Headquarters

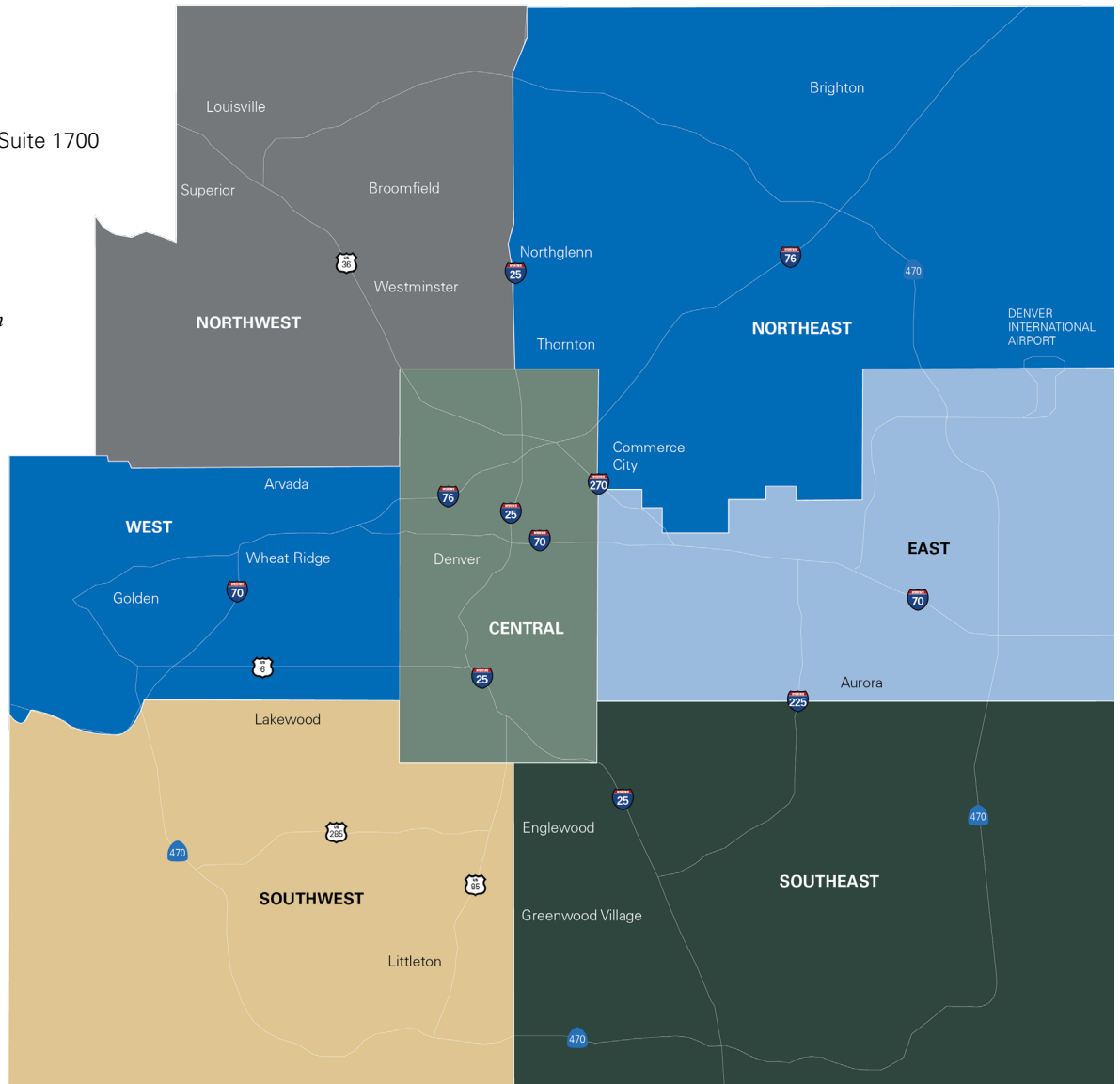
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