

Robust demand tightens availability while large deliveries push annual absorption to just under 5.0 msf

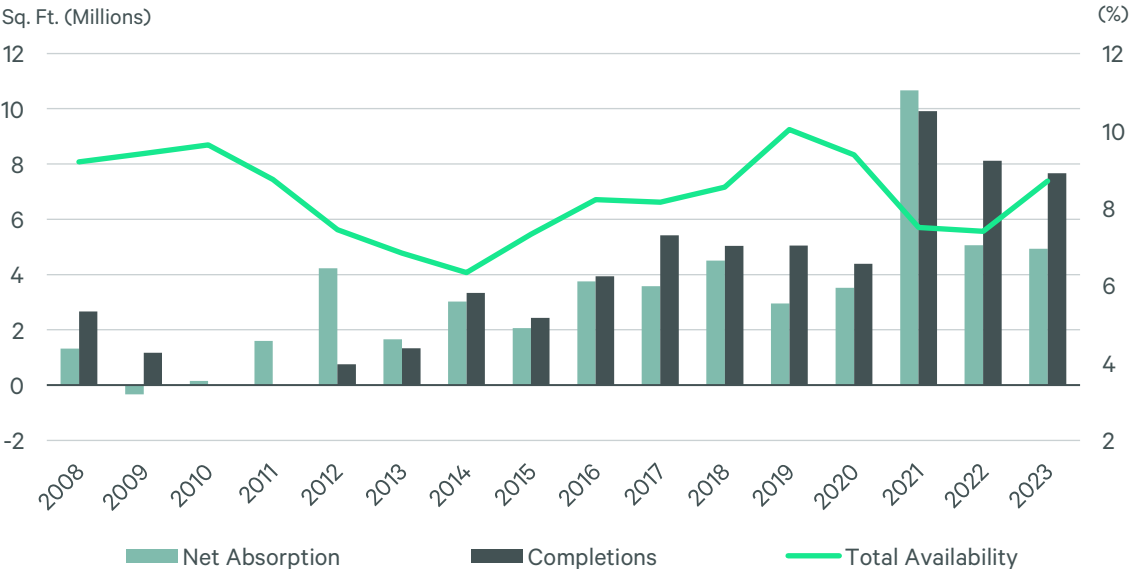


Note: Arrows indicate change from previous quarter.

MARKET SUMMARY

- Total leasing volume in Q4 2023 exceeded 1.4 million sq. ft., pushing the annual total to over 8.2 million sq. ft. transacted.
- Over 2.2 million sq. ft. of positive net absorption was posted in the fourth quarter, driving the 2023 total to just under 5.0 million sq. ft.
- Development activity decreased 33.3% year-over-year to 6.3 million sq. ft. under construction at the end of Q4 2023. Nearly 3.7 million sq. ft. delivered this quarter.
- Metro Denver average asking rent reached \$9.12 per sq. ft. NNN in Q4 2023, recording a solid increase of 2.4% quarter-over-quarter and 5.8% year-over-year.
- Total availability decreased 20 bps quarter-over-quarter and increased 130 bps year-over-year to 8.7% in Q4 2023.
- Metro Denver posted an overall sales volume of \$126.1 million in Q4 2023, a 54.9% drop from the \$280.8 million seen in the previous quarter.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE Research Q4 2023

Net Absorption

Over 2.2 million sq. ft. of positive net absorption was recorded throughout metro Denver in the fourth quarter of 2023. This impressive performance to close out the year pushed annual net absorption to just below 5.0 million sq. ft., making it the fifth highest yearly total ever recorded in Denver. Q4 2023 net absorption was primarily influenced by significant build-to-suit activity, which resulted in more than 1.7 million sq. ft. of newly occupied space. Notable build-to-suit occupancies in Q4 2023 included Dollar General occupying their 919,000 sq. ft. space at E-470 & E 64th Ave and Home Depot occupying their 512,000 sq. ft. space at Clarion Gateway. Due to sustained demand for new industrial space, the Airport submarket was once again the leader for activity in Q4 2023 with over 1.5 million sq. ft. of positive net absorption. This activity pushed the Airport’s annual 2023 absorption total to nearly 3.3 million sq. ft., the highest of any submarket in metro Denver. Notable speculative occupancies included both Boise Cascade and Core & Main occupying a combined 230,000 sq. ft. at 104th Commerce Park – Building 1.

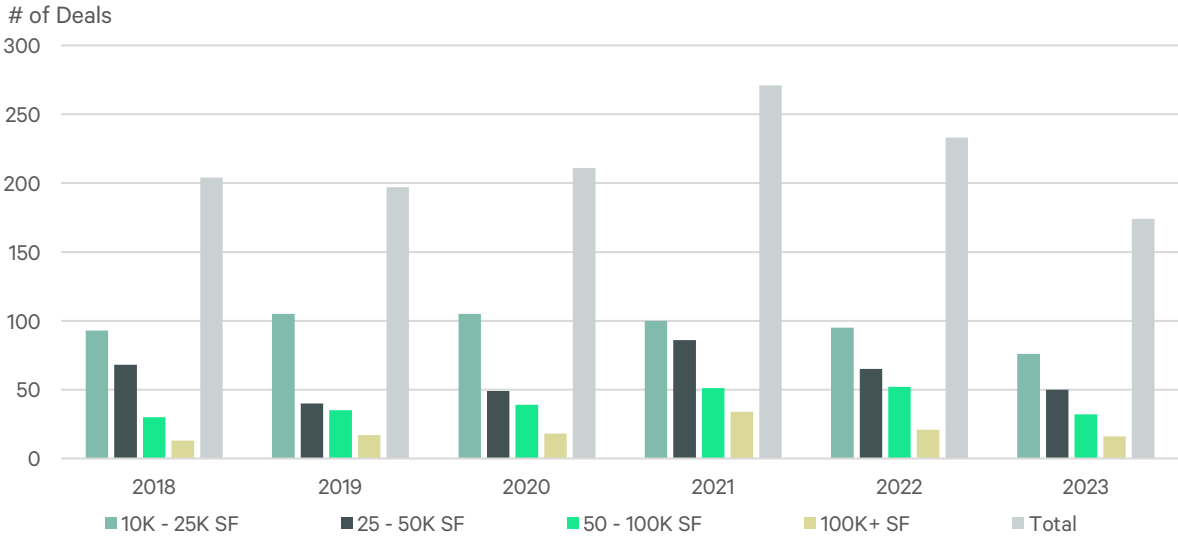
Vacancy and Availability

Direct vacancy rate in metro Denver experienced a 50-bps jump year-over-year to 7.3% in the fourth quarter due to nearly 5.5 million sq. ft. of speculative product being delivered in 2023. Denver is seeing tightening availability as demand remains healthy for newly delivered space and construction starts continue to slow. Total availability decreased 20 bps quarter-over-quarter but was up a slight 130 bps year-over-year to 8.7% in Q4 2023. As development begins to taper, it is expected that the market will regain balance, leading to further compression in both vacancy and availability over the medium-term.

Average Asking & Achieved Rents

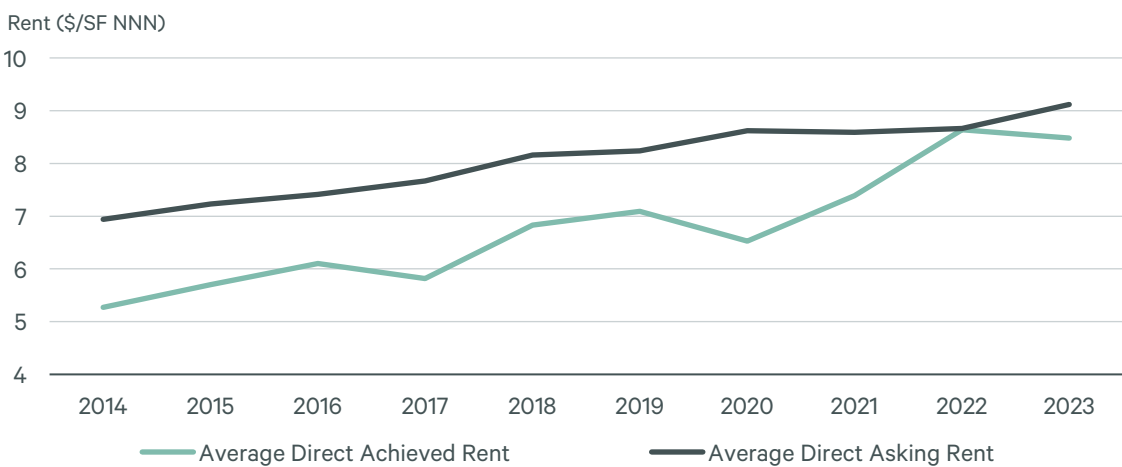
Average asking rent reached \$9.12 per sq. ft. NNN in Q4 2023, recording a solid increase of 2.4% quarter-over-quarter and 5.8% year-over-year. Average asking rent in the South Central submarket increased nearly 16.0% year-over-year to \$11.40 per sq. ft. NNN, the largest jump of any submarket which was caused by high barriers to entry and robust demand due to the submarket’s prime location. Quarterly achieved rents in Denver saw an 8.8% decrease year-over-year to \$8.48 per sq. ft. NNN in the fourth quarter due to 56.6% of all space transacted in 2023 being in Class B and C properties.

FIGURE 2: Number of Lease Deals Executed by Size Range



Source: CBRE Research Q4 2023

FIGURE 3: Average Asking vs Average Achieved Rent



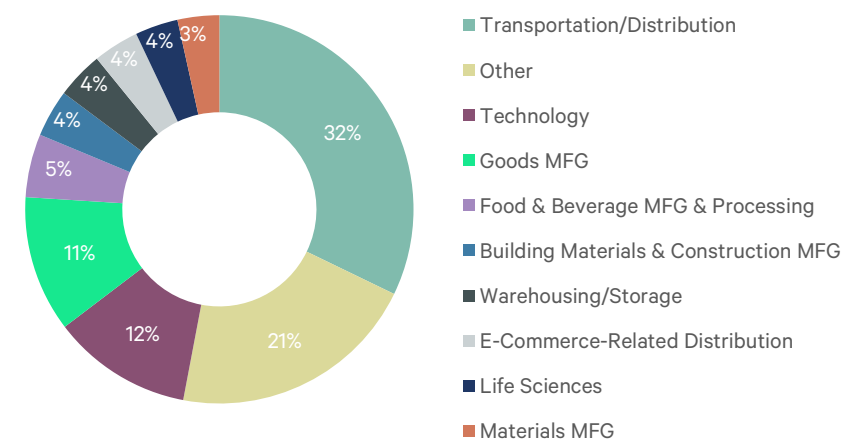
Source: CBRE Research Q4 2023

Leasing Activity

Total leasing volume in Q4 2023 exceeded 1.4 million sq. ft., pushing the annual total to over 8.2 million sq. ft. transacted. Denver’s annual total experienced a 27.3% dip from 2022’s volume and fell below the five-year average of 10.7 million sq. ft. Four leases over 100,000 sq. ft. were completed in Q4 2023, a slight decrease from the six recorded in the previous quarter. Significant deals signed this quarter included Discount Tire’s-338,500-sq.-ft. lease and Marcone Group’s-156,000-sq.-ft. lease both done at Center Park Logistics Center – Building 2.

Leasing activity continues to remain well diversified across several industries. The transportation/distribution sector, including 3PLs, continued to lead the way for activity with a rolling four-quarter leasing volume of slightly over 2.1 million sq. ft., or 32.2% of total leasing activity. New leases were the primary driver of activity, accounting for 75.4% of the total volume with just over 1.0 million sq. ft. transacted. Renewals accounted for 24.6% of leasing activity, posting just over 357,000 sq. ft. transacted.

FIGURE 4: Leasing Activity by Industry Type, Q1 2023 – Q4 2023



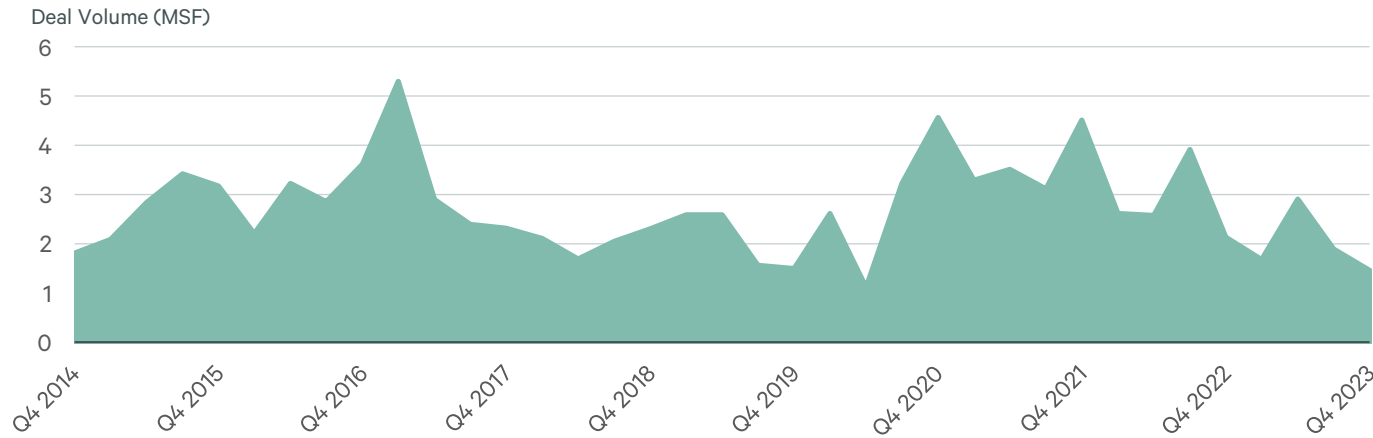
Source: CBRE Research Q4 2023

FIGURE 5: Top Lease Transactions

Tenant	Size (SF)	Location	Submarket	Industry	Lease Type
Discount Tire	338,548	9400 E 46 th Ave	Airport	Motor Vehicles & Parts MFG	New Lease
Marcone Group	155,850	9400 E 46 th Ave	Airport	Goods MFG	New Lease
FreshPoint Denver	114,614	5151 Bannock St	North Central	Transportation/ Distribution	Renewal
Mittera Colorado	111,350	5000 Osage St	North Central	Transportation/ Distribution	Renewal
MSI Holdings	97,656	18250 E 40 th Ave	Airport	Other	Renewal

Source: CBRE Research Q4 2023

FIGURE 6: Historical Leasing Activity



Source: CBRE Research Q4 2023

Development Activity

Driven by the deceleration in construction starts in Q4 2023, the industrial development pipeline saw a 33.3% decline year-over-year with 36 buildings under construction spanning more than 6.3 million sq. ft. In 2023, Denver saw just 4.2 million sq. ft. of industrial product break ground, a 35.2% drop in construction starts year-over-year. Due to ongoing macroeconomic volatility, developers are expected to maintain a cautious approach and reassess the market, resulting in a continuation of slower speculative construction starts throughout 2024 and likely into 2025. Nearly 32.2% of the product underway is currently pre-committed, supported by three BTS projects totaling over 1.8 million sq. ft. Out of the 4.5 million sq. ft. of speculative space under construction, only 194,000 sq. ft. (4.3%) is pre-leased. Notable projects under construction include Pepsi’s 1.2-million-sq.-ft. BTS and Target’s 622,500-sq.-ft. BTS. Meanwhile major speculative projects underway include the 624,000-sq.-ft. Sun Empire – Building 1A and the 353,000-sq.-ft. Denali Logistics Park – Building 1.

Denver saw just under 3.7 million sq. ft. of new deliveries across 11 properties in Q4 2023, pushing the annual total to over 7.6 million sq. ft. Eight out of the 11 projects completed were speculative, with none of the space being pre-leased at time of delivery. Notable deliveries in Q4 2023 included Dollar General’s 919,000-sq.-ft. BTS and Lovett 76 Logistics Center at 614,000 sq. ft.

FIGURE 8: Top Projects Under Construction

Property Name	Submarket	Address	City	Spec/BTS	Size (SF)	Est. Completion
Pepsi BTS	Airport	E 72 nd Ave & E Tower Rd	Denver	BTS	1,200,000	Q4 2023
Sun Empire – Building 1A	Airport	E 56 th Ave & Harvest Rd	Aurora	Spec	624,094	Q1 2024
Target BTS	North	E-470 & I-25	Thornton	BTS	525,000	Q1 2024
Denali Logistics Park – Building 1	Airport	64 th Ave & Harvest Rd	Aurora	Spec	352,614	Q1 2024
Quantum 56 – Building 1	North Central	NWC 56 th Ave & I-25	Denver	Spec	350,400	Q2 2024

Source: CBRE Research Q4 2023

FIGURE 7: Annual Development Activity



Source: CBRE Research Q4 2023

Investment Trends

Twenty-four properties with an overall sales volume of \$126.1 million traded hands in Q4 2023, a 59.4% drop from the \$280.8 million seen in the prior quarter. The fourth quarter’s activity pushed annual overall sales volume to \$697.0 million, down notably from the \$2.1 billion recorded in 2022. Elevated interest rates and more limited capital availability with banks largely on the sidelines has significantly dampened transaction activity since the second half of 2022. However, there is still capital available in the Denver industrial market for new and valued assets with well-credited borrowers. The sector’s fundamentals remain robust, hinting at a potential rebound in correlation with the improvement of the macroeconomic environment as inflation slows and the Fed likely begins to lower interest rates in 2024.

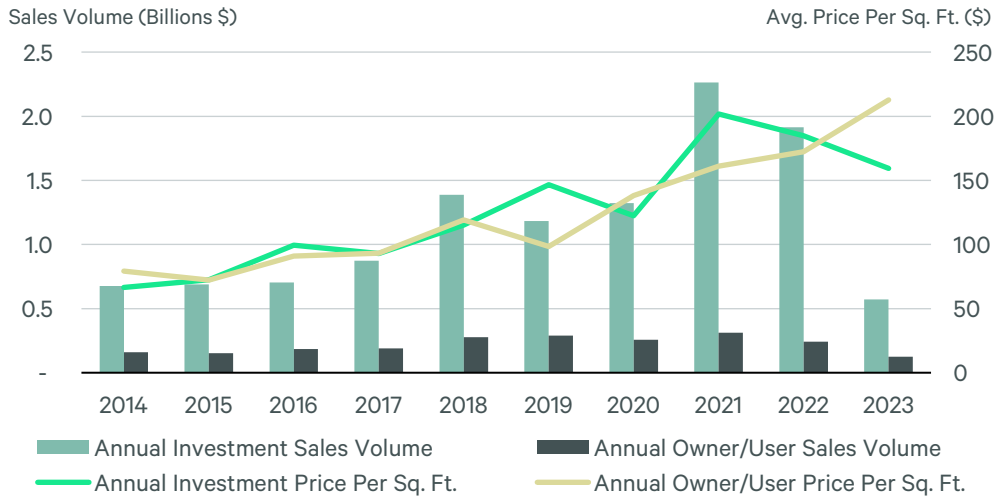
Investment sales in metro Denver accounted for 83.9% of the sales volume at \$105.8 million in Q4 2023 and pushed annual investment volume to \$571.1 million. Investment properties sold at an average price of \$143.3 per sq. ft. The largest investment transaction was Crosse Partners’ acquisition of Moncrieff Business Center from Zurich Alternative Asset Management for \$10.9 million. The 101,000-sq.-ft. asset sold for \$107.49 per sq. ft. This sector anticipates an active first quarter of 2024 based on a combination of new listings and properties under contract. Total owner/user sales in Q4 2023 came in at \$20.2 million between seven transactions, a slight decrease from the volume recorded last quarter. Owner/user properties sold for an average price of \$211.9 per sq. ft., a 21.3% year-over-year increase.

Economy & Employment

The combination of continued economic momentum with a likelihood that the Fed’s dramatic tightening cycle is now complete makes a ‘soft landing’ appear more likely for early 2024 but the pace of growth will be more modest than in recent quarters. Higher wages are helping to maintain higher, albeit decelerating, core inflation. This will likely translate into the Fed only slowly lowering its target rate in 2024. CBRE expects 75 to 100 basis points worth of rate cuts in 2024.

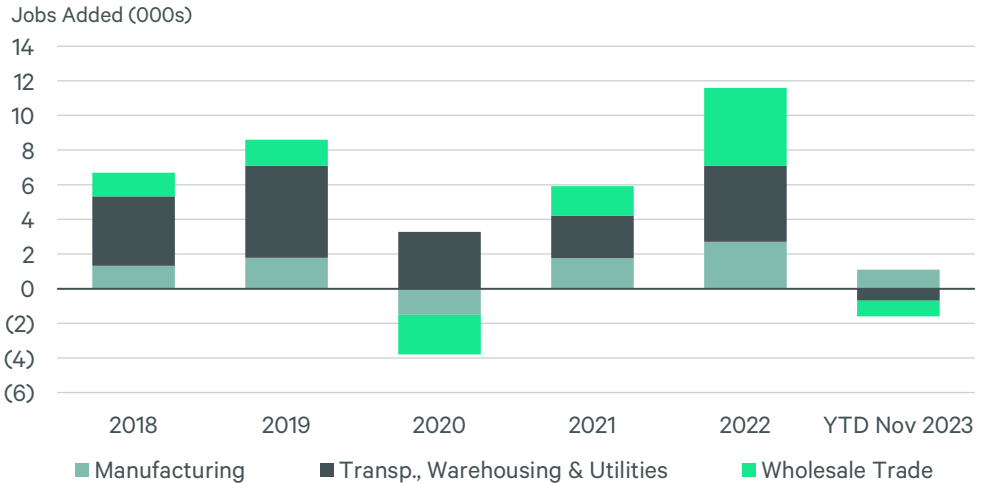
Total non-farm employment in metro Denver increased 0.6% year-over-year through the first 11 months of 2023, adding 11,300 jobs. Industrial-using employment—including manufacturing, transportation, warehousing and utilities, and wholesale trade—declined 0.2% over the same period with 600 net jobs lost. Manufacturing employment rose 1.2% year-over-year, while transportation, warehousing and utilities employment decreased 0.5% and wholesale trade employment decreased 1.5%. Metro Denver’s unemployment rate was unchanged month-over-month in November at 3.2% but was up 50 basis points year-over-year.

FIGURE 9: Investment Trends



Source: CBRE Research Q4 2023

FIGURE 10: Industrial-Using Employment Growth



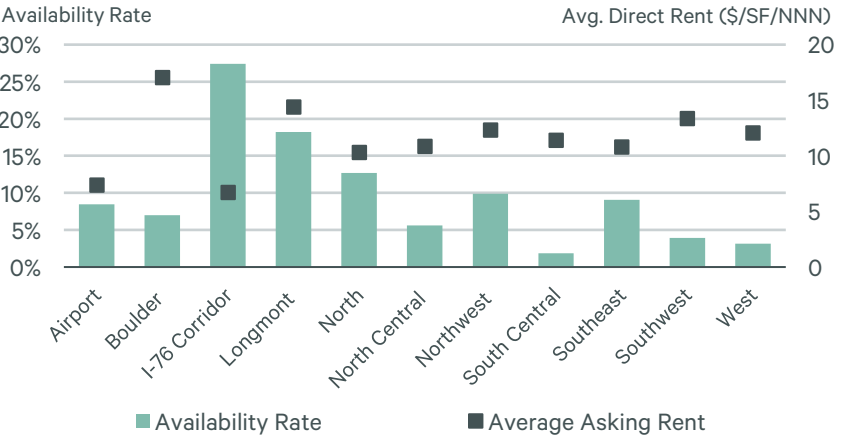
Source: U.S. Bureau of Labor Statistics, December 2023

Submarket Performance

The Airport submarket remained the highest performer across all primary metrics in the metro area, accounting for 72.5% of all leasing activity and 68.1% of all positive net absorption. The Airport once again led the development pipeline in Q4 2023, accounting for 39.4% of all space that was under construction and 71.7% of the quarterly delivery volume in metro Denver.

Dividing the Airport into two micromarkets, East and Central, highlights the unique dynamics within both areas. Airport East posted just under 150,000 sq. ft. of positive absorption and leasing activity came in at just over 243,000 sq. ft. Airport East continued to house all projects under construction and new deliveries in the Airport submarket in 2023 and saw its total availability rate decrease 70 bps quarter-over-quarter to 11.3%. Strong activity in the East micromarket helped push year-to-date net absorption in the Airport submarket to nearly 3.3 million sq. ft. The Airport Central micromarket accounted for just over 800,000 sq. ft. of leasing activity in Q4 2023.

FIGURE 11: Submarket Availability and Asking Rent



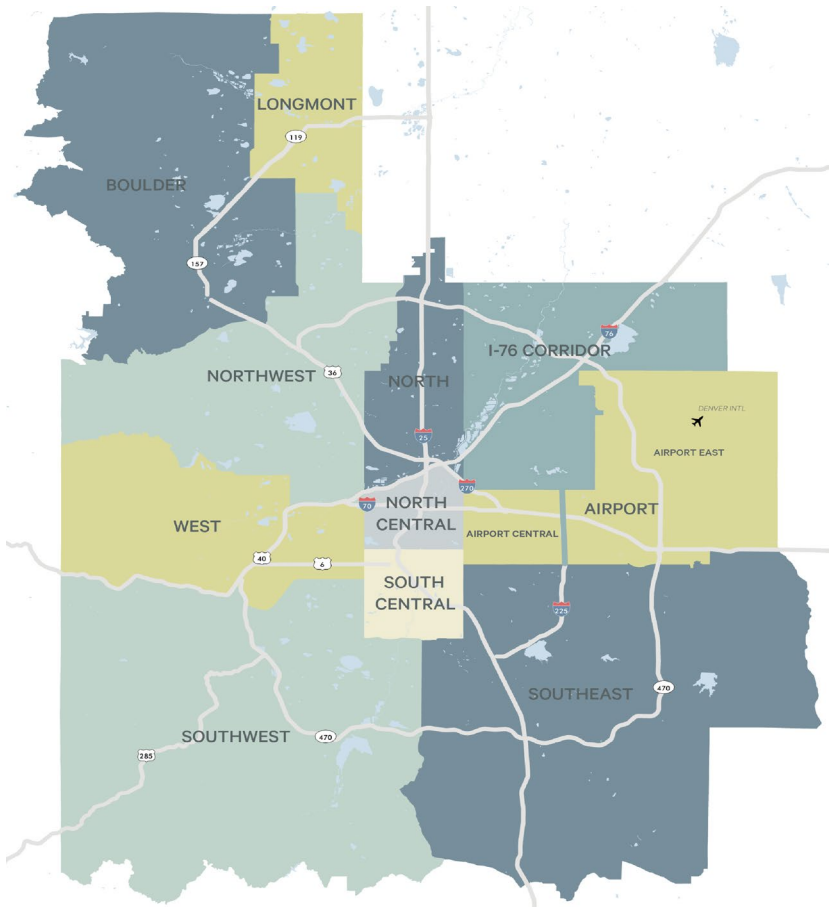
Source: CBRE Research Q4 2023

FIGURE 12: Market Statistics by Submarket

Submarket	Net Rentable Area (SF)	Q4 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Average Asking Rent (NNN / \$/SF/YR)	Total Availability Rate (%)	Direct Vacancy Rate (%)
Airport	100,439,824	1,553,726	3,256,346	2,515,914	\$7.36	8.5	7.0
Airport East	41,826,065	148,542	1,436,519	2,515,914	\$6.68	11.3	9.3
Airport Central	55,811,572	(26,666)	387,977	-	\$9.02	4.4	3.2
Boulder	10,937,584	(48,384)	(231,207)	-	\$17.03	7.0	4.1
I-76 Corridor	15,619,192	407,176	579,557	-	\$6.70	27.4	26.7
Longmont	5,824,557	(11,778)	(94,694)	-	\$14.39	18.2	15.7
North	13,112,067	(2,360)	280,153	1,769,688	\$10.31	12.7	12.0
North Central	34,565,010	132,522	432,055	1,054,050	\$10.85	5.6	3.0
Northwest	17,638,796	(49,262)	(5,436)	740,231	\$12.31	9.9	10.3
South Central	24,868,661	75,022	44,206	-	\$11.40	1.8	0.9
Southeast	23,696,782	247,711	679,687	298,097	\$10.80	9.1	8.6
Southwest	8,693,131	(3,811)	104,407	-	\$13.36	3.9	1.3
West	11,251,540	(20,514)	(107,828)	-	\$12.05	3.2	1.7
METRO TOTAL	266,647,144	2,280,048	4,937,246	6,377,980	\$9.12	8.7	7.3

Source: CBRE Research Q4 2023

Market Area Overview



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Colorado Springs, CO 80903

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Survey Criteria

Includes all industrial and flex buildings 10,000 sq. ft. and greater in size in Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas and Jefferson counties. Buildings which have begun construction as evidenced by site excavation or foundation work.

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