

Robust leasing activity emphasizes strong market fundamentals as availability continues to stabilize

▶ 8.8%

Availability Rate

▼ 388K

SF Net Absorption

▼ 540K

SF Completed

▼ 5.9M

SF Under Construction

▲ \$9.23

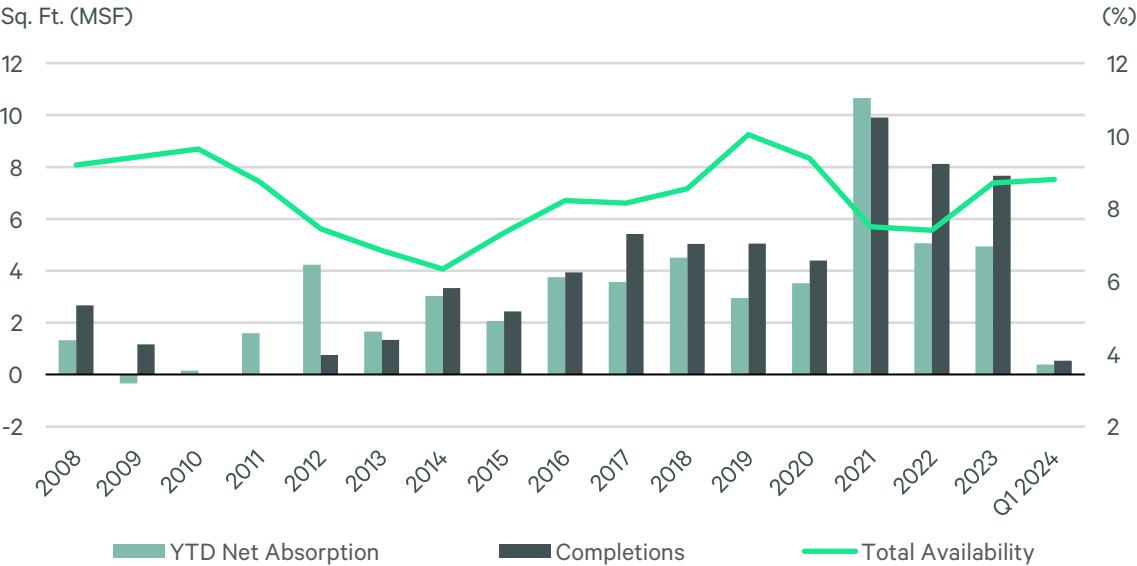
NNN / Asking Rent

Note: Arrows indicate change from previous quarter.

MARKET SUMMARY

- Total leasing volume in Q1 2024 exceeded 2.3 million sq. ft., a 41.3% increase quarter-over-quarter and the highest first quarter leasing volume since Q1 2022.
- Development activity saw a 7.8% decline quarter-over-quarter with 31 buildings under construction spanning just under 5.9 million sq. ft. in Q1 2024. 540,000 sq. ft. delivered this quarter.
- Metro Denver average asking rent reached \$9.23 per sq. ft. in Q1 2024, recording a solid 1.2% increase quarter-over-quarter and 6.3% year-over-year.
- Both total availability and direct vacancy remained largely unchanged, each increasing a subtle 10 basis points quarter-over-quarter to 8.8% and 7.6%, respectively.
- Metro Denver posted an overall sales volume of \$251.0 million in Q1 2024, a 99.1% increase from the \$126.0 million seen in the previous quarter.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE Research Q1 2024

Net Absorption

Just under 388,000 sq. ft. of positive net absorption was recorded throughout metro Denver in the first quarter of 2024, roughly half of the total recorded in the first quarter of 2023. Q1 2024’s total was heavily dragged down by more than 2.4 million sq. ft. of tenants delaying occupancies due to prolonged tenant improvement buildouts from a lack of labor and material. Total negative absorption was mostly fueled by four tenants over 70,000 sq. ft. vacating their space, putting just under 500,000 sq. ft. of available space onto the market. As construction starts continue to taper, deliveries have begun to slow as well as only 540,000 sq. ft. of speculative space was delivered in the first quarter. The first quarter saw no speculative or build-to-suit occupancies as delayed tenant improvements continue to be the theme.

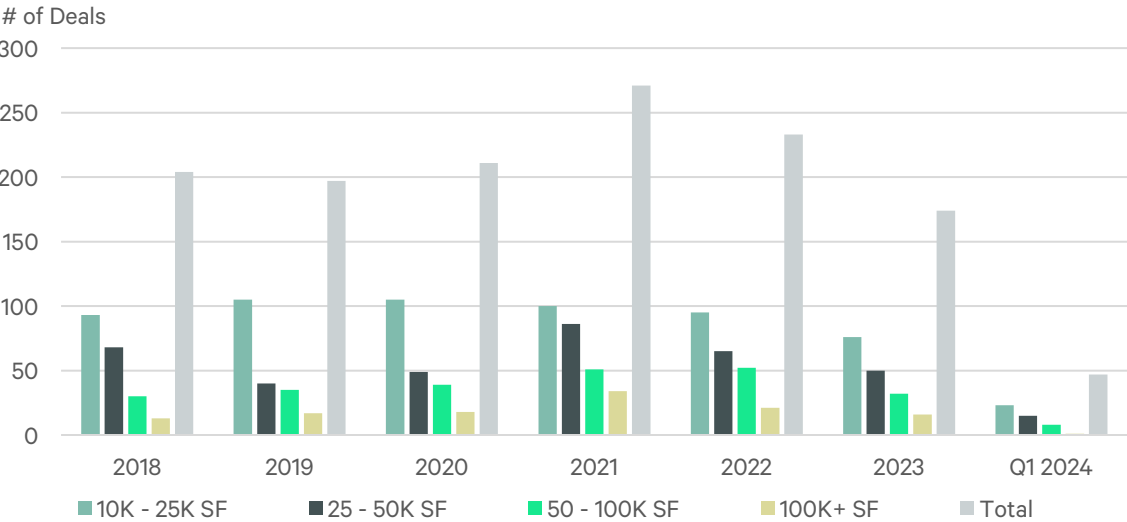
Vacancy and Availability

Direct vacancy rate in metro Denver remained largely unchanged at 7.6%, recording a subtle 10-bps increase quarter-over-quarter and 50-bps year-over-year in the first quarter of 2024. Historically, due to Denver’s extensive supply of new industrial product, total availability is seeing record high numbers that are exceeding the 10-year average of 8.1%. As we move into the 2024-year Denver is now experiencing a stabilization in availability as newly delivered space and construction starts continue to diminish. Total availability remained largely unchanged, alike vacancy, at 8.8% increasing a slight 10-bps increase quarter-over-quarter and 110-bps year-over-year. As development continues to taper, we will continue to see the market regain balance, leading to further compression in both vacancy and availability as the year progresses.

Average Asking & Achieved Rents

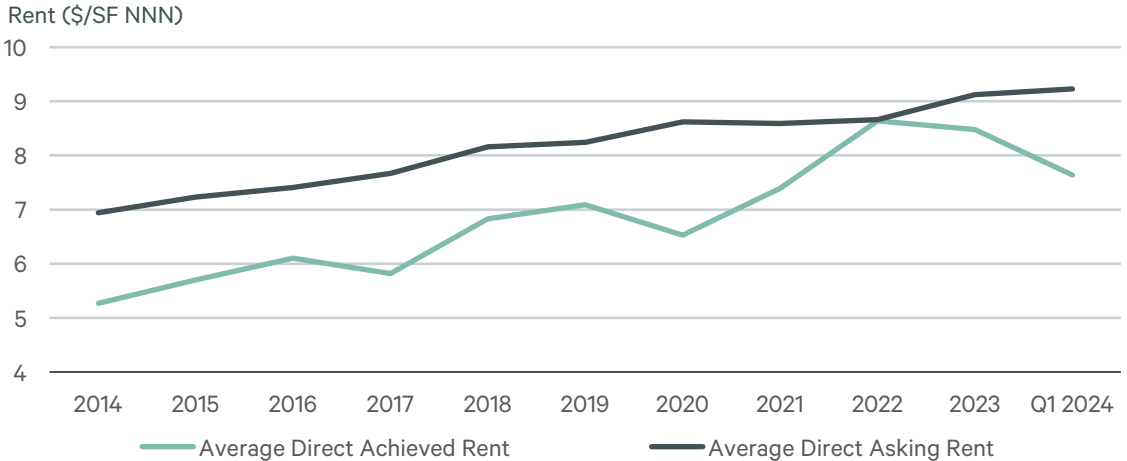
Average asking rent reached \$9.23 per sq. ft. in Q1 2024, recording a solid 1.2% increase quarter-over-quarter and 6.3% year-over-year. Asking rent in the Northeast submarket increased by a strong 7.5% quarter-over-quarter to \$13.24 per sq. ft., the largest jump of any submarket and having been driven by its formidable barrier to entry due to its highly sought-after prime location. Achieved rents in Denver saw an 11.9% decrease quarter-over-quarter to \$7.64 per sq. ft. NNN in the first quarter largely due to over 1.6 million sq. ft. signed in Class B and C buildings that accounted for 70.0% of leases signed for the quarter.

FIGURE 2: Number of Lease Deals Executed by Size Range



Source: CBRE Research Q1 2024

FIGURE 3: Average Asking vs Average Achieved Rent



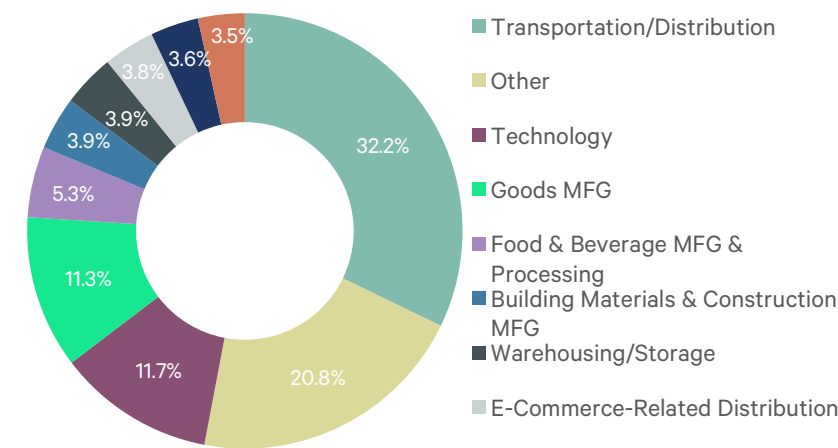
Source: CBRE Research Q1 2024

Leasing Activity

Total leasing volume in Q1 2024 exceeded 2.3 million sq. ft., a 41.3% increase quarter-over-quarter and the highest first quarter leasing volume since Q1 2022 with 2.6 million sq. ft. leased. One lease over 100,000 sq. ft. was completed in Q1 2024, a notable decrease from the four recorded in the previous quarter. Significant deals signed this quarter included Amprius’ 799,000-sq.-ft. lease at 18875 E Bromley Lane and MWI Veterinary Supply’s 75,000-sq.-ft. lease done 15845 E 32nd Ave.

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 79.6% of the total volume with just over 1.8 million sq. ft. transacted. Renewals accounted for 20.4% of leasing activity, posting just over 471,000 sq. ft. transacted.

FIGURE 4: Leasing Activity by Industry Type, Q2 2023 – Q1 2024



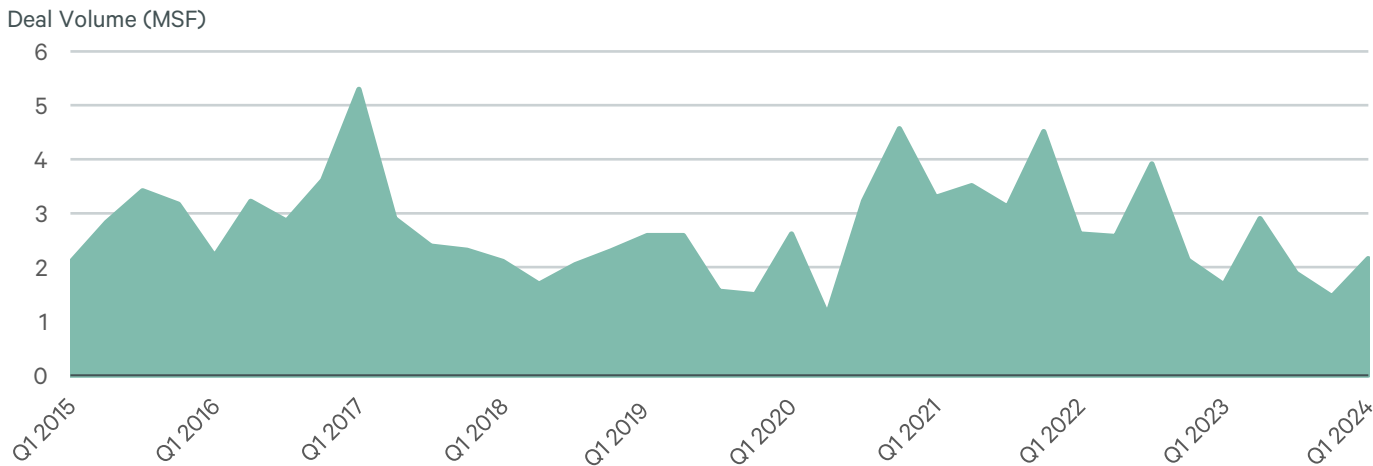
Note: Other includes Business Services, Energy, Telecommunications & more
Source: CBRE Research Q1 2024

FIGURE 5: Top Lease Transactions

Tenant	Size (SF)	Location	Submarket	Industry	Lease Type
Amprius	800,000	18875 E 152nd Ave	I-76 Corridor	Technology	New Lease
MWI Veterinary Supply	75,000	15845 E 32nd Ave	Airport	Transportation/Distribution /Logistics	Renewal
Wilson Art Inc.	74,000	Washington St & E 58th Ave	North Central	Goods MFG	New Lease
Xcimer Energy	74,000	10325 E 47th Ave	Airport	Energy	New Lease
Corden Pharma	65,000	14915 Grant St	North	Life Science	New Lease

Source: CBRE Research Q1 2024

FIGURE 6: Historical Leasing Activity



Source: CBRE Research Q1 2024

Development Activity

Driven by the deceleration in construction starts in Q1 2024, the industrial development pipeline saw a 7.8% decline quarter-over-quarter with 31 buildings under construction spanning just under 5.9 million sq. ft. Q1 2024 is the lowest recorded volume of industrial product under construction since Q3 2019 with 5.0 million sq. ft. under construction. In the first quarter of 2024, four industrial projects broke ground for a total of just under 223,000 sq. ft., an 85.6% decrease in construction starts year-over-year. Nearly 34.0% of the product underway is currently pre-committed, supported by three BTS projects totaling over 1.8 million sq. ft. Out of the 4.0 million sq. ft. of speculative space under construction, only 315,000 sq. ft. (3.4%) 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.

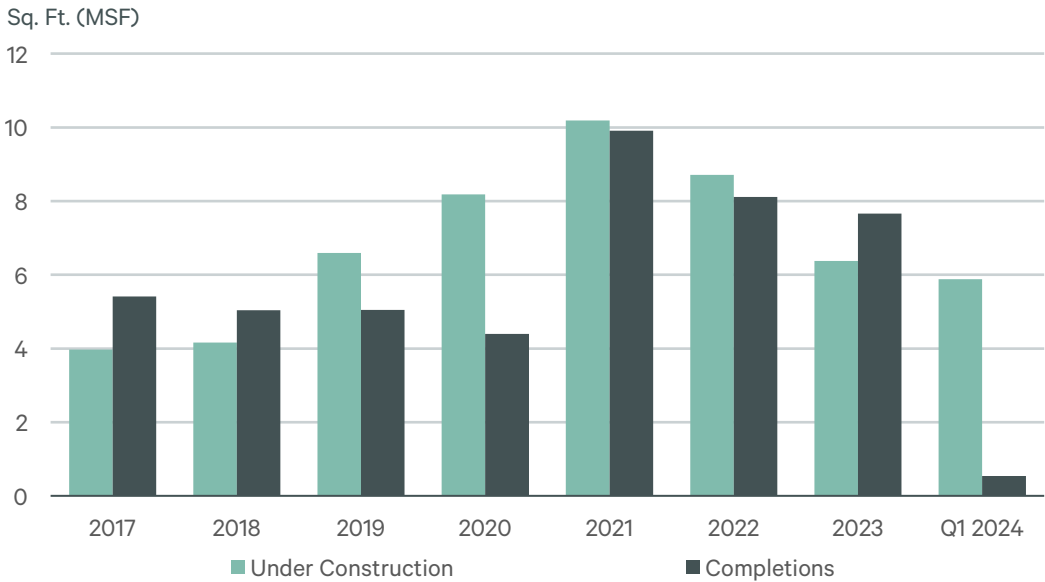
Denver saw 540,000 sq. ft. of newly delivered space across five properties in Q1 2024. All five projects completed were speculative, with just over 58,000 (10.9%) of the space being pre-leased at time of delivery. Notable deliveries in Q1 2024 included all four of the Pivot buildings totaling just under 473,000 sq. ft. and Park 36 – Building 2 at 67,000 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	Q2 2024
Target BTS	North	E-470 & I-25	Thornton	BTS	525,000	Q2 2024
Denali Logistics Park – Building 1	Airport	64 th Ave & Harvest Rd	Aurora	Spec	352,614	Q2 2024
Quantum 56 – Building 1	North Central	NWC 56 th Ave & I-25	Denver	Spec	350,400	Q2 2024

Source: CBRE Research Q1 2024

FIGURE 7: Annual Development Activity



Source: CBRE Research Q1 2024

Investment Trends

Twenty-two properties with an overall sales volume of \$251.0 million traded hands in Q1 2024, a 99.1% increase from the \$126.0 million seen the prior quarter. There were seven properties apart of portfolio sales totaling over \$163.4 million that heavily skewed the quarter’s total. Elevated interest rates and more limited capital availability with investors 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 as we head deeper into 2024.

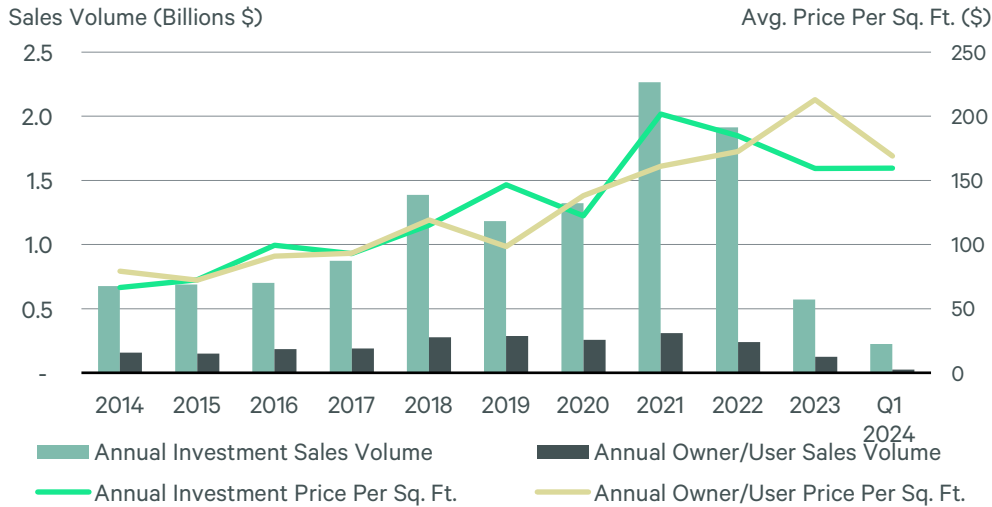
Investment sales in metro Denver accounted for 89.7% of the sales volume at \$225.0 million in Q1 2024. Investment properties sold at an average price of \$143 per sq. ft. The largest independent transaction was The Midtown National Group’s acquisition of 4800 Dahlia St from Watchung Capital for \$13.5 million. The 103,000-sq.-ft. asset sold for \$131 per sq. ft. As we predicted a more active first quarter for 2024, we anticipate strengthened activity for the rest of 2024 based on a combination of new listings and properties under contract. Total owner/user sales in Q1 2024 came in at \$25.9 million between four transactions, a 28.2% decrease from the volume recorded a year earlier. Owner/user properties sold for an average price of \$169 per sq. ft., a 20.2% decrease quarter-over-quarter.

Economy & Employment

Continued economic growth paired with the Fed signaling more accommodative policy all suggests the U.S. economy is heading toward a ‘soft landing’. GDP growth should be less than half 2023’s pace when growth topped 3.0%. Reasons for the slowdown include a more prudent consumer and much weaker hiring. The Fed will likely make three, 25 basis point cuts this year. This outlook is putting downward pressure on longer-term rate expectations, providing some optimism for real estate capital markets, but the recovery will only begin after the first cut is actually delivered.

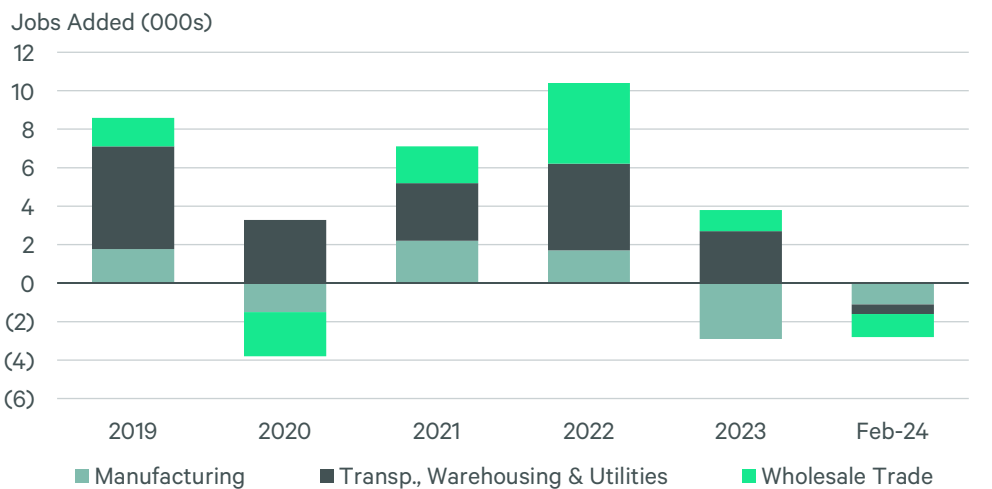
Total non-farm employment in metro Denver increased 1.0% year-over-year as of February 2024, adding 17,400 jobs. Industrial-using employment—including manufacturing, transportation, warehousing and utilities, and wholesale trade—declined 1.6% over the same period after losing 4,200 jobs. Each of the sub-industries posted negative annual employment growth and was led by the transportation, warehousing and utilities sector where employment decreased by 2.5%. Wholesale trade employment fell by 2.0%, while manufacturing employment dropped by a slight 0.6%. Metro Denver’s unemployment rate rose to 4.1% in February, an increase of 30 basis points month-over-month and 90 basis points year-over-year.

FIGURE 9: Investment Trends



Source: CBRE Research Q1 2024

FIGURE 10: Industrial-Using Employment Growth



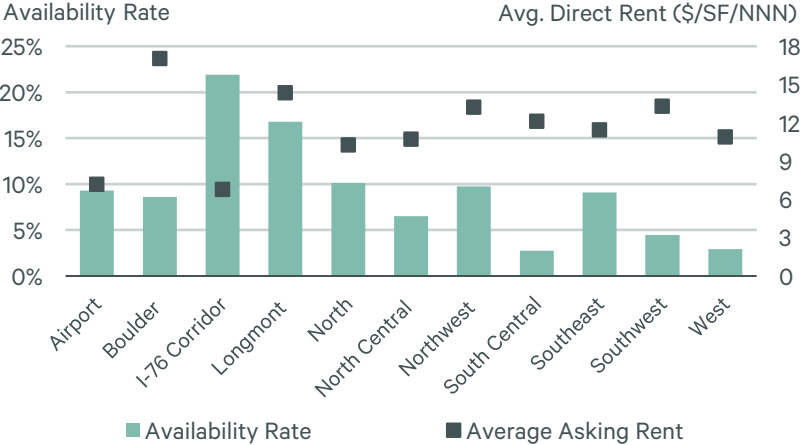
Source: U.S. Bureau of Labor Statistics, February 2024

Submarket Performance

The Northwest submarket posted the highest total positive net absorption for Q1 2024 with just under 260,000 sq. ft. accounting for 66.9% of total positive absorption in metro Denver. The I-76 submarket captured the majority of leasing activity accounting for 34.1%, of the total at just over 799,000 sq. ft. which is the submarkets' highest volume in the last 10 years. The second highest total occurred in Q3 2022 with 383,000 sq. ft. leased. The North Central submarket captured 87.5% of newly delivered space, while the Northwest accounted for the remaining 12.5%. The Airport submarket continued to lead the development pipeline in Q1 2024, accounting for 42.8% of all space under construction.

In Q1 2024, the Airport submarket captured the five largest move outs over 50,000 sq. ft. that totaled just under 500,000 sq. ft. of negative absorption. Airport East posted just under 275,000 sq. ft. of negative absorption including FedEx's 200,000-sq.-ft. move out at Majestic Commercenter – Building 7 and EPS-Doublet's 95,000-sq.-ft. move out at Smith Road Commerce Center. Leasing activity came in at just over 325,000 sq. ft and Airport East continued to house all projects under construction in the Airport submarket in Q1 2024. Airport East saw its total availability rate increase 270-bps quarter-over-quarter to 14.0%, while Airport Central availability saw an 80-bps increase quarter-over-quarter. The Airport Central micromarket accounted for just over 436,000 sq. ft. of leasing activity in Q1 2024.

FIGURE 11: Submarket Availability and Asking Rent



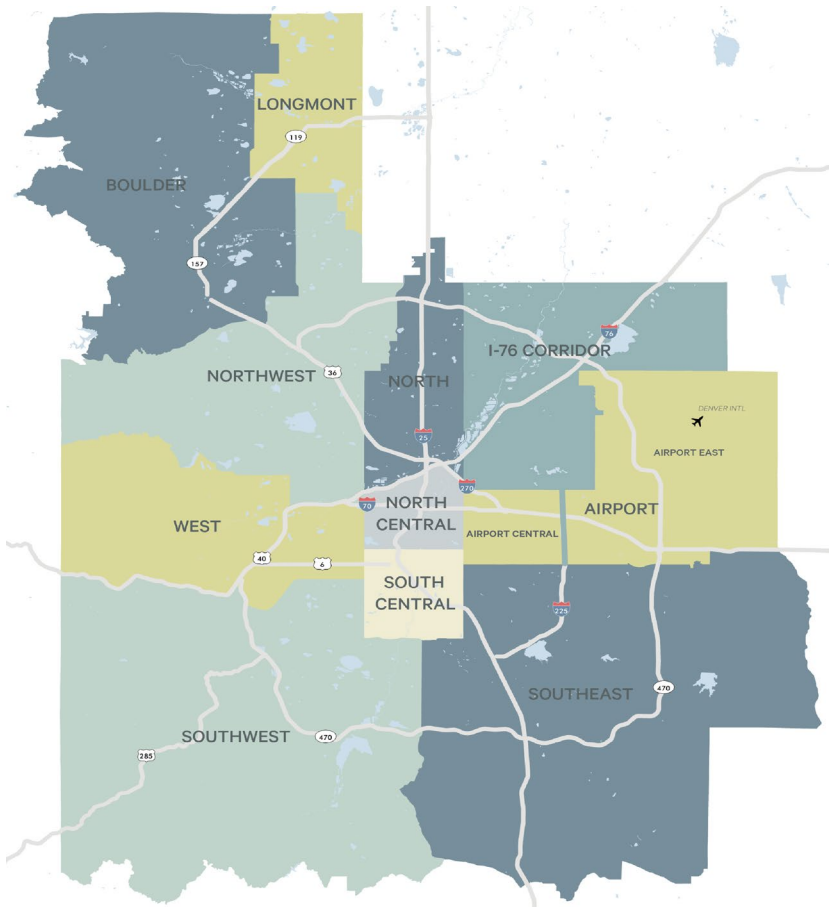
Source: CBRE Research Q1 2024

FIGURE 12: Market Statistics by Submarket

Submarket	Net Rentable Area (SF)	Q1 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Average Asking Rent (NNN / \$/SF/YR)	Total Availability Rate (%)	Direct Vacancy Rate (%)
Airport	100,766,519	(402,112)	(402,112)	2,515,914	\$7.19	9.3	7.5
Airport East	44,628,627	(45,347)	(45,347)	2,515,914	\$6.73	14.0	11.9
Airport Central	55,901,405	(356,765)	(356,765)	-	\$8.28	5.6	4.0
Boulder	10,888,581	(23,209)	(23,209)	-	\$17.05	8.6	4.4
I-76 Corridor	15,619,192	200,326	200,326	-	\$6.79	21.9	26.2
Longmont	5,824,557	15,053	15,053	-	\$14.38	16.8	15.9
North	13,123,388	279,924	279,924	1,769,688	\$10.27	10.1	10.0
North Central	35,019,944	89,644	89,644	581,250	\$10.73	6.5	4.8
Northwest	17,797,566	259,640	259,640	673,031	\$13.24	9.8	9.1
South Central	24,873,549	(41,117)	(41,117)	40,904	\$12.15	2.7	1.6
Southeast	23,670,382	56,394	56,394	298,127	\$11.47	9.1	7.8
Southwest	8,702,727	(86,050)	(86,050)	-	\$13.31	4.5	1.9
West	11,251,540	39,461	39,461	-	\$10.90	2.9	1.8
METRO TOTAL	267,537,945	387,954	387,954	5,878,914	\$9.23	8.8%	7.6%

Source: CBRE Research Q1 2024

Market Area Overview



CBRE Offices

Downtown Denver

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Denver Tech Center

5455 Landmark Place, Suite C102
Greenwood Village, CO 80111

Boulder

2755 Canyon Boulevard
Boulder, CO 80302

Colorado Springs

102 South Tejon Street, Suite 1100
Colorado Springs, CO 80903

Fort Collins

3003 East Harmony Road, Suite 300
Fort Collins, CO 80528

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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