

FIGURES | DENVER INDUSTRIAL | Q4 2022

Strong achieved rent growth highlights persistent demand for Denver industrial

► 7.2%

Availability Rate

▼ 5.1M

SF YTD Net Absorption

▼ 6.8M

SF YTD Completed

▼ 8.7M

SF Under Construction

▲ \$9.25

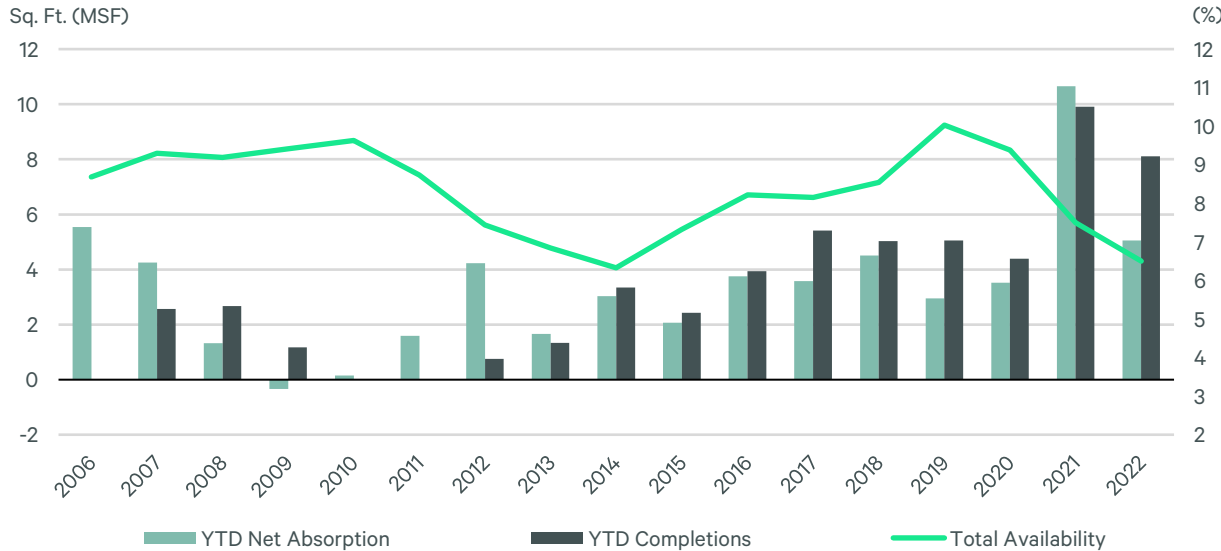
NNN / Achieved Lease Rate

Note: Arrows indicate change from previous quarter (unless otherwise indicated).

HIGHLIGHTS

- Total leasing volume transacted in metro Denver climbed to over 2.0 million sq. ft., pushing the annual total to over 11.2 million sq. ft.
- Construction activity decreased 2.4% quarter-over-quarter with 8.7 million sq. ft. under construction at the end of Q4 2022.
- Over 1.5 million sq. ft. of positive net absorption was posted in Q4 2022, pushing the YTD total to nearly 5.1 million sq. ft.—a 52.5% decrease from the total recorded in 2021.
- 1.3 million sq. ft. of new construction delivered in the fourth quarter, causing the total availability rate to remain stable while direct vacancy decreased 10 bps quarter-over-quarter.
- Due to tightening availability and steady tenant demand in the fourth quarter, the average achieved rate increased 16.7% year-over-year to \$9.25 per sq. ft. NNN.
- As interest rates increase, sales activity continued to moderate in Q4 2022, recording \$461.6 million in overall volume and driving YTD volume to \$2.2 billion.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE Research Q4 2022

Net Absorption

Over 1.5 million sq. ft. of positive net absorption was recorded throughout metro Denver in the fourth quarter of 2022. Another strong quarter of activity pushed the annual total to nearly 5.1 million sq. ft. of positive absorption, the fourth highest yearly total ever recorded in Denver. Unlike last year’s total, which was mainly driven by large build-to-suit activity, 2022’s total was strongly fueled by smaller tenants occupying speculative space. Due to sustained demand for new industrial space, the Airport submarket was once again a strong catalyst for activity in Q4 2022 with over 700,000 sq. ft. of positive net absorption recorded. This activity pushed the Airport’s year-to-date absorption total to nearly 3.0 million sq. ft., the highest of any submarket in Denver. The second highest total for 2022 was recorded in the Southeast submarket, which posted an annual total of over 724,000 sq. ft. Significant occupancies this quarter included RK Mission Critical’s 142,400-sq.-ft. space at 17450 E 32nd Ave and Eagle Rock Distributing’s 121,100-sq.-ft. space at Park 76 Distribution Center – Building 2.

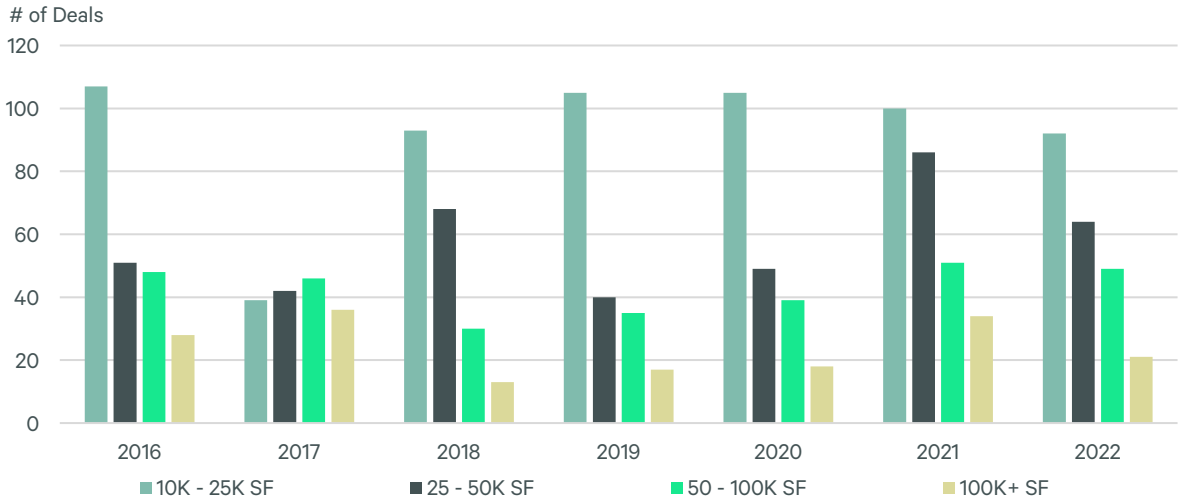
Vacancy and Availability

Direct vacancy rate in metro Denver experienced a 110-bps jump year-over-year to 6.5% in the fourth quarter due to nearly 6.9 million sq. ft. of new speculative product being delivered in 2022. Despite the increase in vacancy, Denver is seeing tightening availability as demand remains healthy for newly delivered space. Total availability rate decreased 30 bps year-over-year to 7.2% in Q4 2022. Strong leasing activity to close the year paired with a slowdown in construction starts point to further vacancy and availability rate compression in the coming quarters.

Average Lease Rates

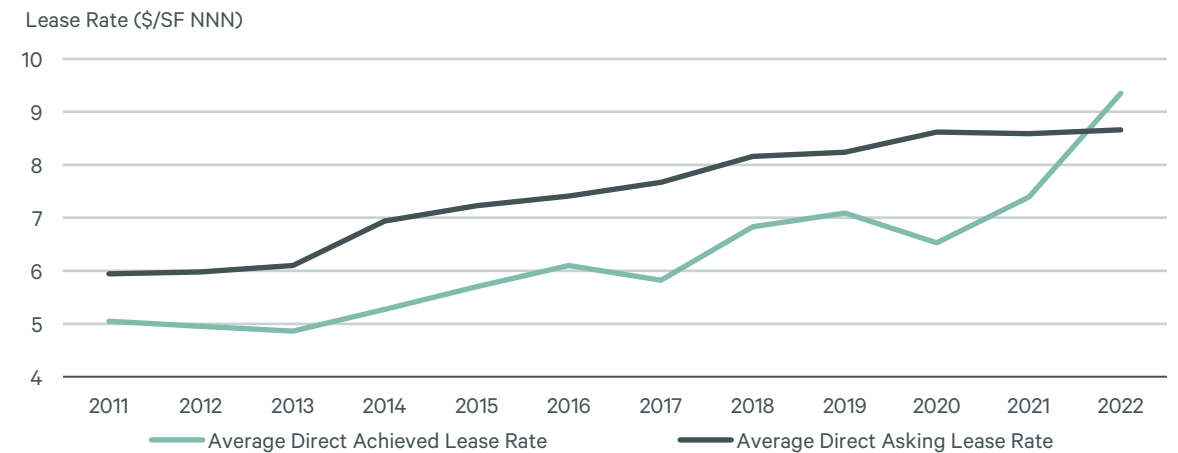
The average asking lease rate reached \$8.66 per sq. ft. NNN in Q4 2022, recording a marginal increase of less than 1.0% quarter-over-quarter and year-over-year. Average asking lease rate in the North Central submarket increased nearly 26.0% year-over-year to \$10.68 per sq. ft., the largest jump of any submarket which was caused by low availability and robust demand due to the submarket’s convenient location. Quarterly achieved rates in Denver saw a 16.7% year-over-year increase to \$9.25 per sq. ft. NNN in the fourth quarter, the highest quarterly average recorded in 2022. Growth in achieved rate is expected to continue with over 5.9 million sq. ft. of new speculative industrial space slated to deliver by the end of 2023.

FIGURE 2: Number of Lease Deals Executed by Size Range



Source: CBRE Research Q4 2022

FIGURE 3: Average Asking vs Average Achieved Lease Rates



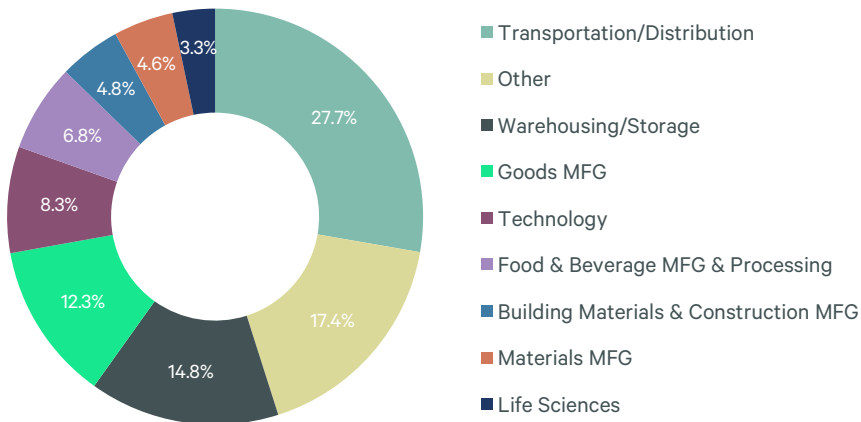
Source: CBRE Research Q4 2022

Leasing Activity

Total leasing volume in Q4 2022 exceeded 2.0 million sq. ft., pushing the annual total to over 11.2 million sq. ft. transacted. Denver’s annual total experienced a 22.6% dip from 2021 but remained slightly above the five-year average of 10.7 million sq. ft. Four leases over 100,000 sq. ft. were signed in Q4 2022, a slight decrease from the six recorded in the previous quarter. Significant deals inked this quarter include PrimeSource Building Product’s 170,294-sq.-ft. lease at Highpoint Logistics Park – Building 1 and Living Spaces Furniture’s 141,171-sq.-ft. lease at Clarion Gateway – Building 22.

Leasing activity was again well-diversified across several industries. The transportation/distribution, including 3PLs, sector continued to lead the way for activity with a rolling four-quarter leasing volume of 2.9 million sq. ft., or 27.7% of total leasing activity. New leases accounted for 78.7% of the volume recorded in Q4 2022, a much larger share than the 50.1% recorded last quarter. As demand for new industrial product persists in Denver, leasing activity is expected to remain high as more new builds come onto the market in the near future.

FIGURE 4: Leasing Activity by Industry Type, Q4 2021-Q4 2022



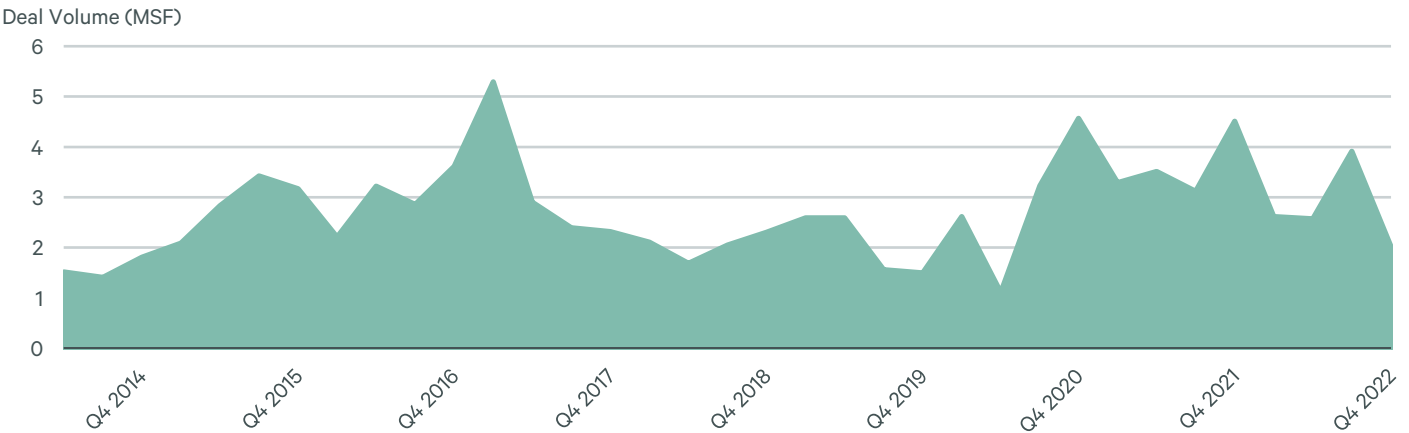
Note: Other includes Business Services, Energy, Telecommunications & more
Source: CBRE Research Q4 2022

FIGURE 5: Top Lease Transactions

Tenant	Size (SF)	Location	Industry	Lease Type
PrimeSource Building Products	170,294	E 64 th Ave	Materials MFG	New Lease
Living Spaces Furniture LLC	141,171	18100 E 40 th Ave	Goods MFG	New Lease
Eagle Rock Distributing Co	121,063	10818 E 46 th PI	Transportation/Distribution	New Lease
Metrie	100,840	9300 E 46 th PI	Transportation/Distribution	New Lease
Honeywell International Inc	98,640	96 th St & Dillon Rd	Materials MFG	New Lease

Source: CBRE Research Q4 2022

FIGURE 6: Historical Leasing Activity



Source: CBRE Research Q4 2022

Development Activity

Despite a slowdown in construction starts in Q4 2022, the industrial development pipeline remained elevated with 41 projects combining for over 8.7 million sq. ft. under construction. Nearly 5.7 million sq. ft. (65.3%) of the space under construction is speculative space, 5.9% of which is pre-leased. Following a slow start to year, six BTS projects combining for over 3.0 million sq. ft. broke ground in the second half of 2022. The uptick in BTS activity in the third and fourth quarters helped push overall pre-leasing volume to 38.6% in 2022. Notable projects under construction include the 1.2-million-sq.-ft. Pepsi BTS and Dollar General’s 919,000-sq.-ft. BTS. Notable speculative projects that are currently underway include the 626,000-sq.-ft. Building 1 at DIA Logistics Park at Porteos and the 461,580-sq.-ft. Majestic Commercenter Building – 12.

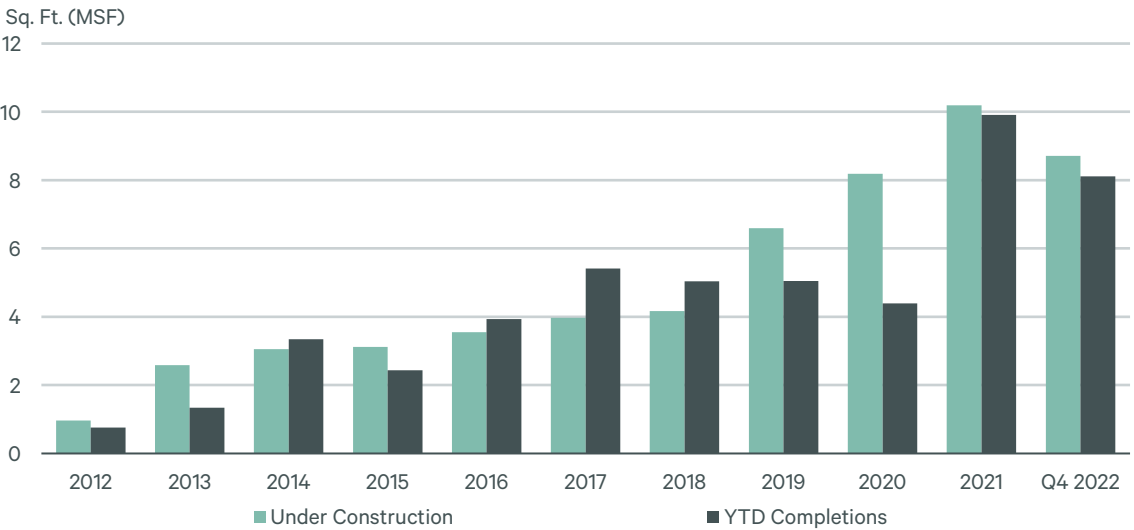
Denver saw nearly 1.3 million sq. ft. of new product delivered in Q4 2022 between seven properties, pushing the annual total to over 8.1 million sq. ft. Every project completed in the fourth quarter was speculative, with 14.9% of the space being leased at the time of delivery. Notable deliveries in Q4 2022 include Gateway Building 26 at 331,380 sq. ft. and 104th Commerce Center Building 1 and 3 at 272,672 sq. ft. and 298,313 sq. ft., respectively.

FIGURE 8: Top Projects Under Construction

Property Name	Submarket	Address	City	Spec/BTS	Size (SF)	Est. Completion
Pepsi BTS	Airport	E 72 nd & E Tower Rd	Denver	BTS	1,200,000	Q4 2024
Dollar General BTS	Airport	E-470 & E 64 th Ave	Aurora	BTS	919,000	Q4 2024
DIA Logistics Park at Porteos Building 1	Airport	64 th Ave & Powhaton Rd	Aurora	Spec	626,000	Q4 2022
Home Depot BTS	Airport	40 th Ave & Pena Blvd	Aurora	BTS	512,720	Q3 2024
Majestic Commercenter - Building 12	Airport	20600 E 35th Dr	Aurora	Spec	461,580	Q4 2022

Source: CBRE Research Q4 2022

FIGURE 7: Annual Development Activity



Source: CBRE Research Q4 2022

Investment Trends

Forty-three properties with an overall sales volume of \$461.6 million traded hands in Q4 2022, a 4.7% quarter-over-quarter increase but a 55.6% drop year-over-year. Sales activity leveled out on a national scale in the second half of the year as both investors and users are forced to manage risk in the face of rising interest rates, inflation, and other concerns about the macroeconomic environment. The fourth quarter’s sales activity pushed the annual volume to nearly \$2.2 billion, a 16.3% decrease from a record-breaking 2021.

Investment sales accounted for 94.0% of the overall sales volume in Q4 2022 posting a total of \$434.0 million at an average price of \$177.93 per sq. ft. This brings annual investment sales to over \$1.9 billion, down 15.5% year-over-year, but a relatively high mark despite economic headwinds. The largest single property transaction this quarter was Berkeley Partner’s \$69.6 million sale of 333-335 Centennial Parkway in Louisville. The 411,485-sq.-ft. building sold to Walton Street Capital for \$169.40 per sq. ft. The largest portfolio that traded hands in Q4 2022 was the 11-building, 512,000-sq.-ft., Broomfield Industrial Portfolio that Westcore Property Group sold to Lightstone Group for a total of \$72.0 million. Other notable transactions included the \$33.0 million sale of the Airport Central Portfolio, which consisted of two properties totaling over 340,000 sq. ft., and Central 64 for \$47.7 million, which consisted of two properties totaling 220,000 sq. ft.

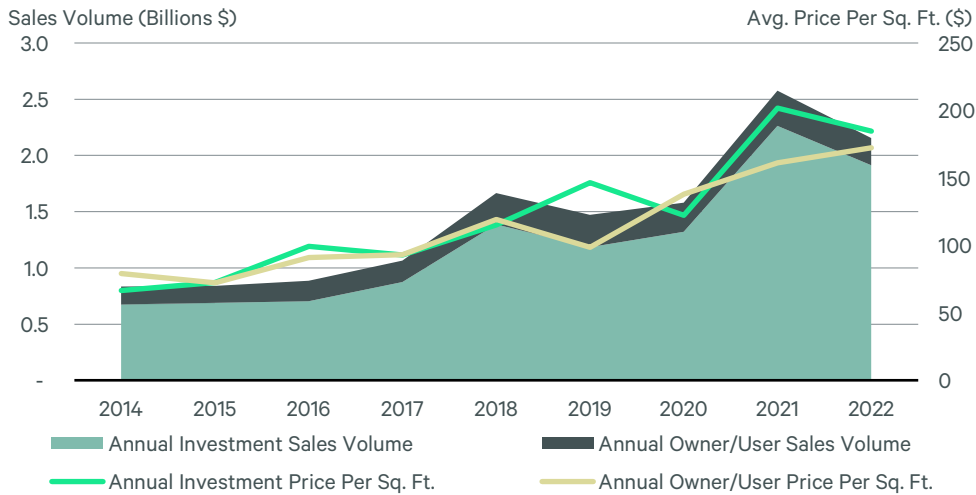
Total owner/user sales volume in Q4 2022 came in at just over \$27.6 million, a 55.1% decrease quarter-over-quarter. This total pushed annual owner/user sales to nearly \$240.7 million, a 22.5% decrease year-over-year. Owner/user sales traded for an average price of \$172.39 in 2022, a 7.7% jump from the average recorded in 2021.

Employment

The Fed Funds Rate reached its highest level in five years in December 2022 amidst stubbornly high inflation, which has moderated slightly in recent months but continues to be supported by high food, housing and labor costs. While a recession appears imminent in 2023, wider expectations are of a more moderate slowdown. Higher costs of capital and the impact on corporate earnings are encouraging cost cutting that will trim employment levels, directly impacting consumer confidence and savings rates but ultimately leading to an expected, sharper decline in inflation.

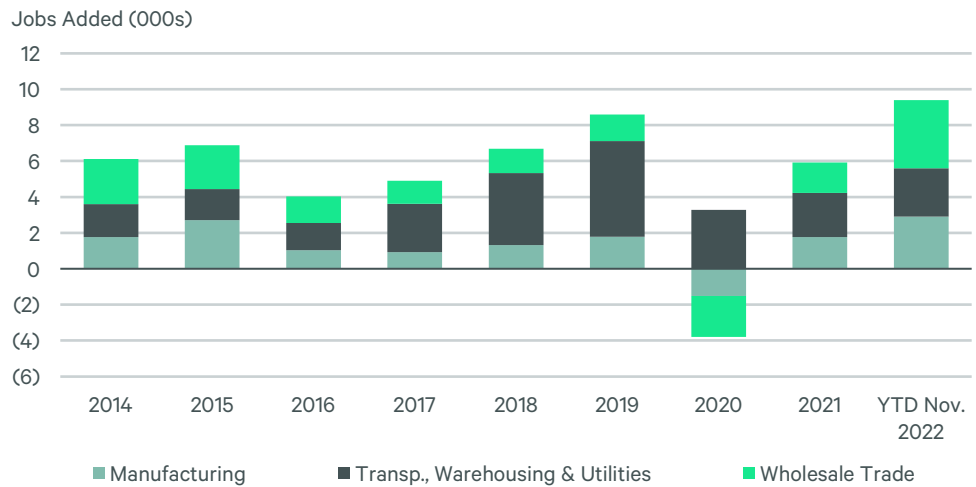
Total non-farm employment in metro Denver increased 4.2% through November on an average year-to-date basis, gaining 70,900 jobs. Industrial-using employment—including manufacturing, transportation, warehousing and utilities, and wholesale trade—grew by 3.8% and added 9,400 jobs year-to-date. Metro Denver’s unemployment rate declined slightly in November to 3.2% and is down 130 basis points year-over-year from 4.5%.

FIGURE 9: Investment Trends



Source: CBRE Research Q4 2022

FIGURE 10: Industrial-Using Employment Growth



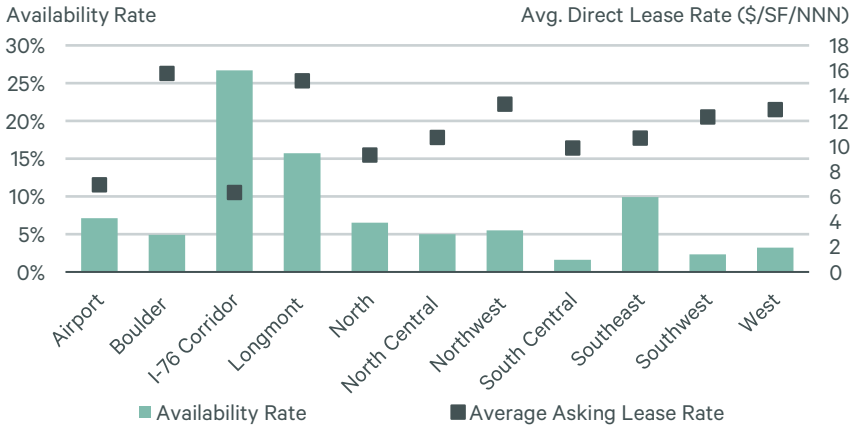
Source: U.S. Bureau of Labor Statistics, December 2022

Submarket Performance

The Airport submarket remained the highest performer across all primary metrics in the metro area, accounting for 53.6% of all leasing activity and 45.3% of all positive net absorption. The Airport also led the way for development in Q4 2022, accounting for 63.8% of all space that was under construction and 43.9% of the quarterly delivery volume in metro Denver.

Dividing the Airport submarket into two micromarkets, East and Central, highlights the unique dynamics within both areas. Airport East posted over 430,000 sq. ft. of positive net absorption and leasing activity came in just shy of 500,000 sq. ft. transacted. Airport East’s abundant new construction deliveries pushed its availability rate up 50 bps to 9.0%. The Airport Central micromarket posted nearly 275,000 sq. ft. of positive net absorption in the fourth quarter. Strong activity in both micromarkets helped push year-to-date net absorption to nearly 3.0 million sq. ft. in the Airport submarket. Availability throughout metro Denver is likely to continue to compress in future quarters as demand for new product remains strong and construction starts have slightly slowed.

FIGURE 11: Submarket Availability and Lease Rates



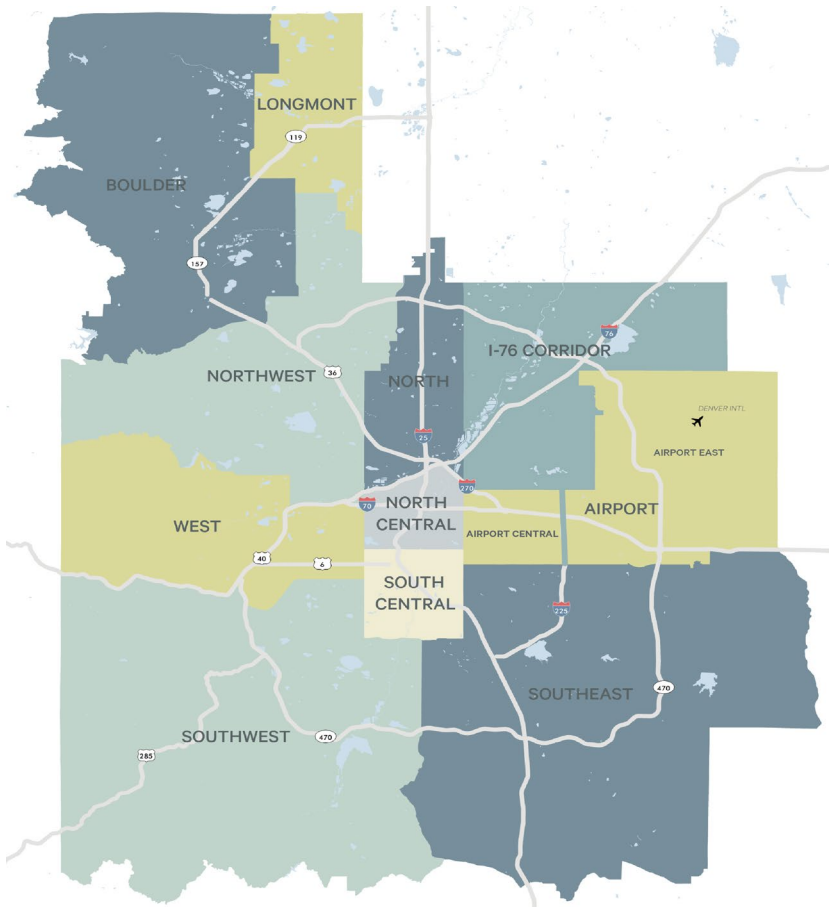
Source: CBRE Research Q4 2022

FIGURE 12: Market Statistics by Submarket

Submarket	Net Rentable Area (SF)	Q4 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Average Asking Lease Rate (NNN / \$/SF/YR)	Total Availability Rate (%)	Direct Vacancy Rate (%)
Airport	95,695,563	704,626	2,988,597	5,561,881	6.91	7.1	6.0
Airport East	39,748,701	430,115	2,413,625	5,561,881	6.13	9.0	9.0
Airport Central	55,946,862	274,511	574,972	-	7.89	5.7	3.9
Boulder	12,555,785	173,411	228,072	-	15.75	4.9	3.4
I-76 Corridor	15,096,439	5,365	(994,734)	526,992	6.29	26.7	27.0
Longmont	5,345,968	(5,221)	34,364	-	15.17	15.7	16.4
North	12,782,540	143,045	644,467	1,059,247	9.26	6.5	6.6
North Central	36,269,028	122,230	477,464	-	10.68	5.0	4.4
Northwest	17,958,028	157,957	508,037	734,356	13.31	5.5	6.5
South Central	15,189,366	119,783	212,959	-	9.83	1.6	1.0
Southeast	23,225,287	101,128	724,690	777,833	10.62	9.9	7.9
Southwest	9,082,269	65,253	184,624	50,000	12.30	2.3	2.0
West	11,351,372	(33,339)	50,259	-	12.87	3.2	1.2
METRO TOTAL	264,551,645	1,554,398	5,058,799	8,710,309	8.66	7.2	6.5

Source: CBRE Research Q4 2022

Market Area Overview



CBRE Offices

Downtown Denver

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Denver Tech Center

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Boulder

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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.

Revised Methodology

The reported achieved lease rates have been recalculated with the average executed lease rates weighted by area leased (Sq. Ft.).

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