

FIGURES | DENVER INDUSTRIAL | Q1 2023

Industrial fundamentals remain resilient despite economic uncertainty

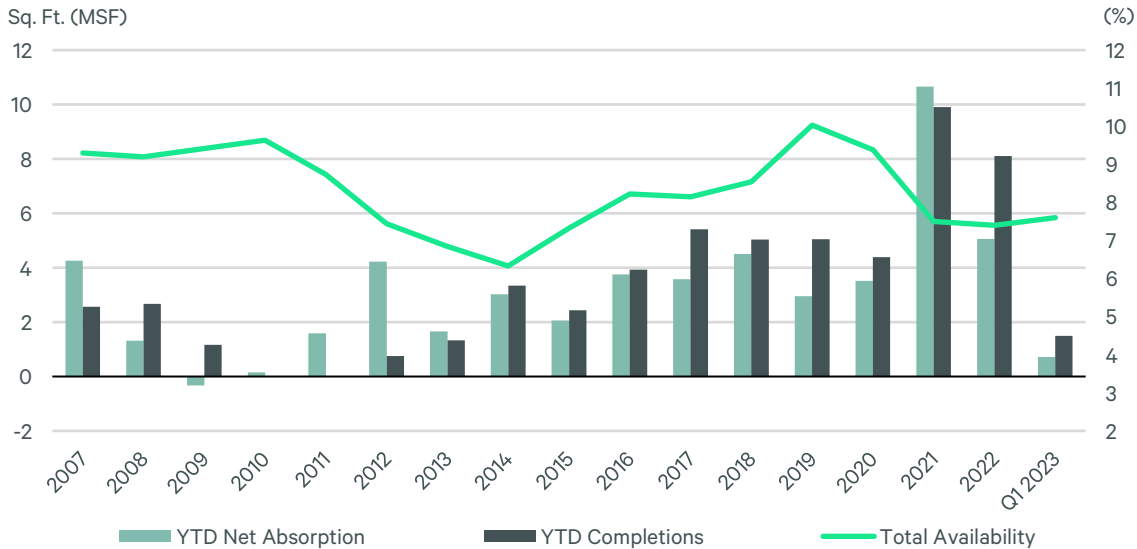


Note: Arrows indicate change from previous quarter.

HIGHLIGHTS

- Metro Denver continued to see strong rent growth with the average achieved rate increasing 18.4% year-over-year to \$9.20 per sq. ft. NNN in Q1 2023.
- Over 724,000 sq. ft. of net absorption was posted, the 52nd consecutive quarter of positive total net absorption recorded in Denver.
- Development activity increased 15.8% quarter-over-quarter with 10.1 million sq. ft. under construction at the end of Q1 2023.
- Total leasing volume transacted in metro Denver climbed to nearly 1.7 million sq. ft., down 24.2% quarter-over-quarter.
- Due to a large number of deliveries in Q1, total availability rate and direct vacancy rate slightly increased quarter-over-quarter by 20 bps and 10 bps, respectively.
- As economic uncertainty continues and capital markets remain volatile, sales activity fell in Q1 2023, recording an overall volume of \$192.0 million.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE Research Q1 2023

Net Absorption

Over 724,000 sq. ft. of total positive net absorption was recorded throughout metro Denver in Q1 2023, just under half of the total recorded in the first quarter 2022. This total was heavily dragged down by more than 333,000 sq. ft. of sublease space on the market being vacated, the largest being Planterra Foods shutting down their 189,120-sq.-ft. space at 1485 E 61st Ave. Total positive absorption was mostly fueled by tenants occupying recently delivered speculative space, highlighting the sustained demand for new industrial product in the Denver market. This trend will likely continue into future quarters as many significant occupancies have been delayed due to increased timing for tenant build-outs. Notable speculative occupancies in Q1 2023 included Target moving into their 141,524-sq.-ft. space at Prologis Broadway Distribution Center and Claremont Foods moving into their 108,006-sq.-ft. space at Park 12 Hundred – Building 1. The only build-to-suit (BTS) activity in the first quarter was the delivery and occupancy of Western Industrial’s 130,000-sq.-ft. project at Porteos. With over 3.5 million sq. ft. of BTS space in the development pipeline and steady leasing activity, net absorption is expected to remain positive through the end of the year.

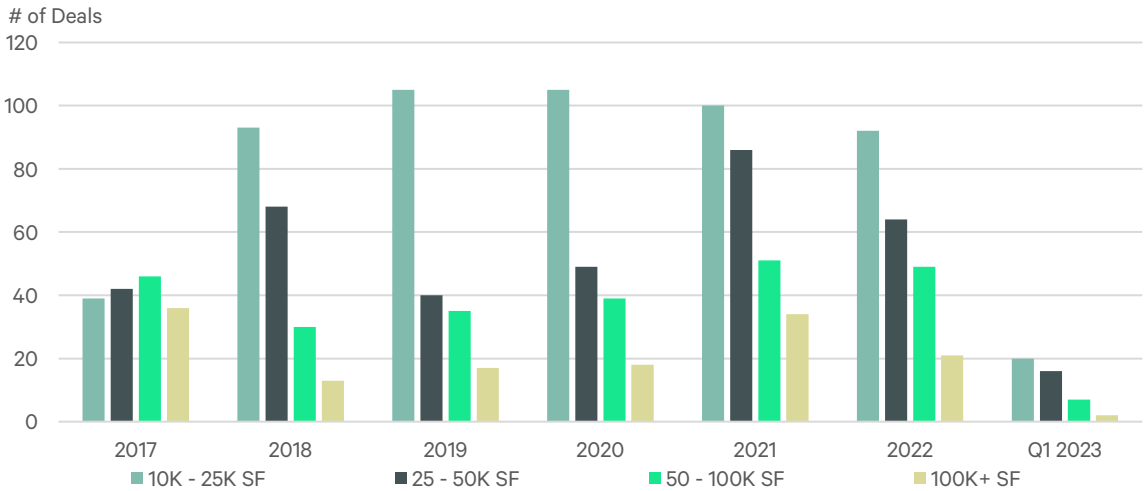
Vacancy and Availability

Metro Denver saw increases in both vacancy and availability rates in Q1 2023 due to the continual high delivery volume of speculative industrial space, which reached nearly 1.4 million sq. ft. this quarter. Total availability rose 20 bps quarter-over-quarter to 7.6%, while direct vacancy rose 10 bps to 6.8%. With over 6.5 million sq. ft. of speculative supply currently under construction, paired with a pre-leasing volume of 5.8%, this trend will likely continue through 2023 as more completions hit the market.

Average Lease Rates

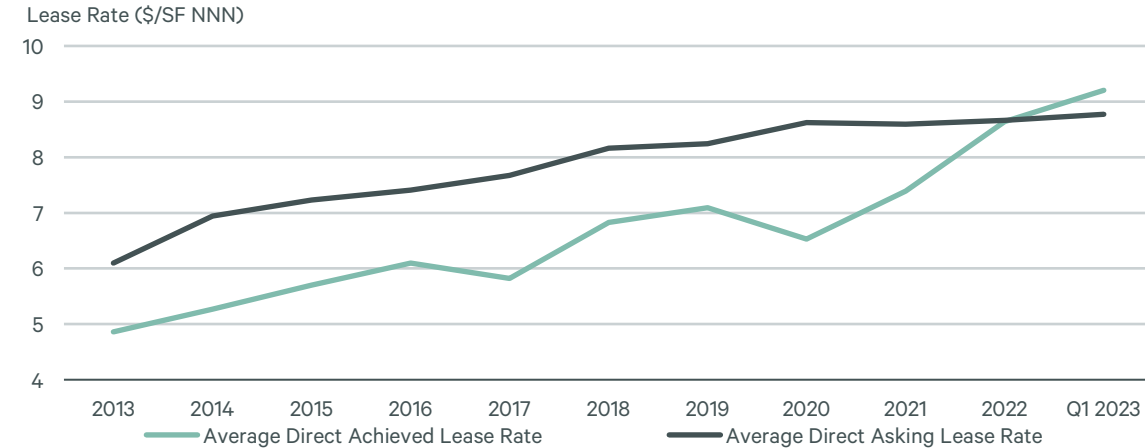
The average asking lease rate reached \$8.77 per sq. ft. NNN in the first quarter of 2023, recording a marginal increase of 1.3% quarter-over-quarter. Average asking lease rates in the Boulder submarket increased 7.6% quarter-over-quarter to \$16.96 per sq. ft., the largest jump of any submarket and one caused by a lack of supply and robust demand due to the submarket’s growing attraction as an innovation hub. Quarterly achieved rates in Denver remained flat quarter-over-quarter at \$9.20 per sq. ft. NNN but experienced an 18.4% jump year-over-year. Growth in achieved rates is expected to continue with nearly 5.0 million sq. ft. of new speculative industrial space projected to deliver by the end of 2023.

FIGURE 2: Number of Lease Deals Executed by Size Range



Source: CBRE Research Q1 2023

FIGURE 3: Average Asking vs Average Achieved Lease Rates



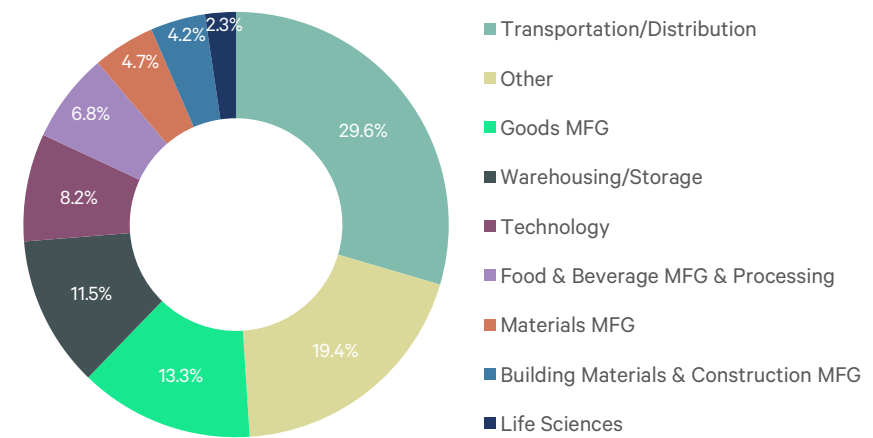
Source: CBRE Research Q1 2023

Leasing Activity

Total leasing volume softened in Q1 2023 with nearly 1.7 million sq. ft. transacted, a 24.2% quarter-over-quarter decrease but still a relatively high volume considering the current state of the economy. Two leases over 100,000 sq. ft. were inked in Q1 2023, notably down from the four signed in Q4 2022. Significant deals signed this quarter include Johnson Cherry Creek’s 250,000-sq.-ft. new lease at 18875 E Bromley Lane in Brighton and Ferguson Enterprises’ 135,000-sq.-ft. new lease at 25 North at Bulls Crossing – Building 6 in Thornton.

Leasing activity was again 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 nearly 3.0 million sq. ft., or 29.7% of total leasing activity. New leases were the main driver for leasing activity, accounting for over 79.1% of the total volume with nearly 1.3 million sq. ft. transacted. As more industrial supply comes onto the market in future quarters, demand for new product is expected to remain high and continue to fuel modest leasing activity.

FIGURE 4: Leasing Activity by Industry Type, Q2 2022 – Q1 2023



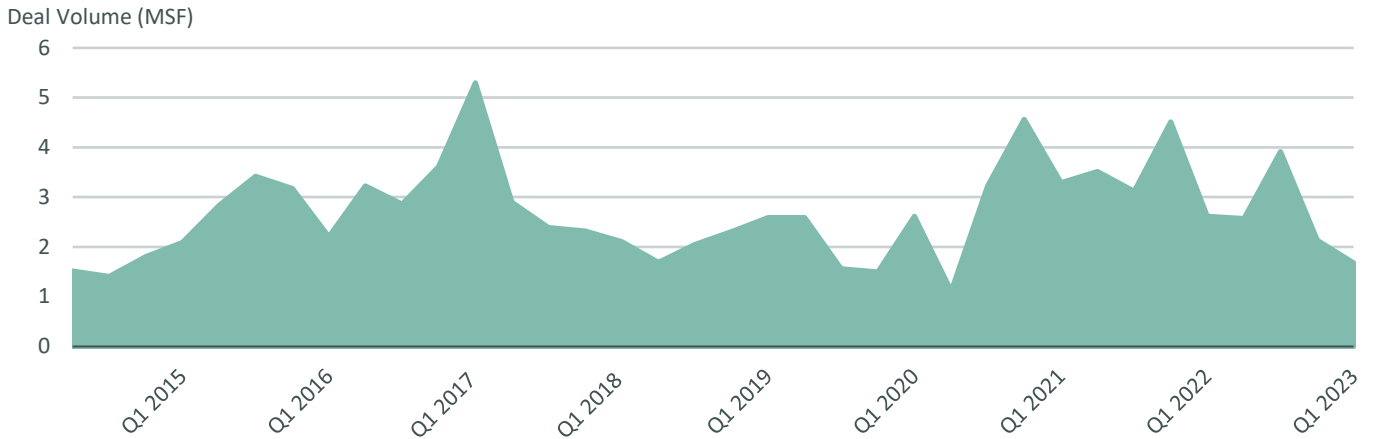
Note: Other includes Business Services, Energy, Telecommunications & more
Source: CBRE Research Q1 2023

FIGURE 5: Top Lease Transactions

Tenant	Size (SF)	Location	Industry	Lease Type
Johnson Cherry Creek	250,000	18875 E 152 nd Ave	Transportation/Distribution	New Lease
Ferguson Enterprises	135,000	14827 Grant St	Building Materials & Construction MFG	New Lease
Iron Mountain Information Management	90,316	3900 Nome St	Other	Extension
Eaton	76,188	W 160 th Ave & Sheridan	Electrical MFG	New Lease
Advanced Thin Films	61,600	1625 S Fordham	Technology	New Lease

Source: CBRE Research Q1 2023

FIGURE 6: Historical Leasing Activity



Source: CBRE Research Q1 2023

Development Activity

The Denver industrial development pipeline remained elevated in the first quarter of 2023 with 41 buildings under construction combining for nearly 10.1 million sq. ft. of space. Despite uncertainty surrounding the market due to the current state of the economy, Denver saw a large jump in industrial construction starts with over 2.7 million sq. ft. breaking ground in the first quarter. The largest project to break was Opus’ Sun Empire development, which currently consists of nearly 829,000 sq. ft. between two buildings. 38.7% of new construction is pre-leased, supported by the seven BTS projects totaling over 3.5 million sq. ft. underway. Out of the 6.5 million sq. ft. of speculative space under construction, only 379,000 sq. ft. (5.8%) is pre-leased. Notable projects under construction include Pepsi’s 1.2-million-sq.-ft. BTS and Dollar General’s 919,000-sq.-ft. BTS. Notable speculative projects underway include the 625,000-sq.-ft. DIA Logistics Park at Porteos – Building 1 and the 613,758-sq.-ft. Lovett 76 Logistics Park.

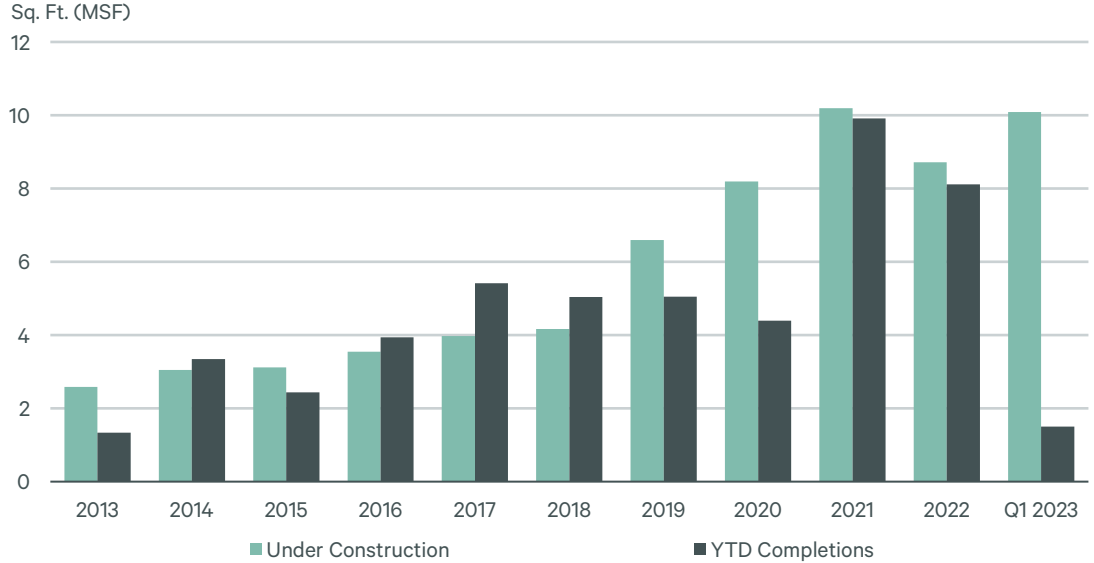
Denver saw over 1.5 million sq. ft. across 12 buildings deliver to the market in the first quarter. Over 305,000 sq. ft. (20.3%) of the new product was pre-leased at the time of delivery. The completion of Western Industrial’s 130,000-sq.-ft. building marked the only BTS that delivered in the first quarter. Other notable completions include First 76 Industrial Park at 199,500 sq. ft., Encompass Business Park – Building 173 at 173,224 sq. ft., and Clarion Gateway – Building 27 at 156,831 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	Q1 2024
Dollar General BTS	Airport	E-470 & E 64 th Ave	Aurora	BTS	919,000	Q1 2024
DIA Logistics Park at Porteos Building 1	Airport	64 th Ave & Powhaton Rd	Aurora	Spec	625,000	Q2 2023
Sun Empire – Building 1A	Airport	E 56 th Ave & Harvest Rd	Aurora	Spec	624,094	Q1 2024
Lovett 76 Logistics Center	I-76 Corridor	E 160 th Ave & Frontage Rd	Brighton	Spec	613,758	Q1 2024

Source: CBRE Research Q1 2023

FIGURE 7: Annual Development Activity



Source: CBRE Research Q1 2023

Investment Trends

Eighteen properties with an overall sales volume of \$192.0 million traded hands in Q1 2023, a 58.4% quarter-over-quarter decrease and a 56.4% year-over-year decrease. As financial conditions continue to tighten, buyers are forced to manage risk in the face of rising interest rates, inflation, and other concerns surrounding the macroeconomic environment. These volatile conditions, along with the looming possibility of a recession, have caused the bid-ask spread to widen making it more difficult for transactions to occur.

Investment sales accounted for 70.0% of the overall sales volume in Q1 2023, posting a total of \$134.4 million at an average price of \$148.2 per sq. ft. The average price per sq. ft. among properties transacted experienced a 29.8% drop quarter-over-quarter but is likely to remain more stable than for other property types as the industrial sector continues to exhibit strong fundamentals. The largest transaction this quarter was Scannell Property’s \$72.2 million sale of FedEx’s BTS at Porteos. The 482,693-sq.-ft. building sold to Stonemont Financial Group for \$149.6 per sq. ft.

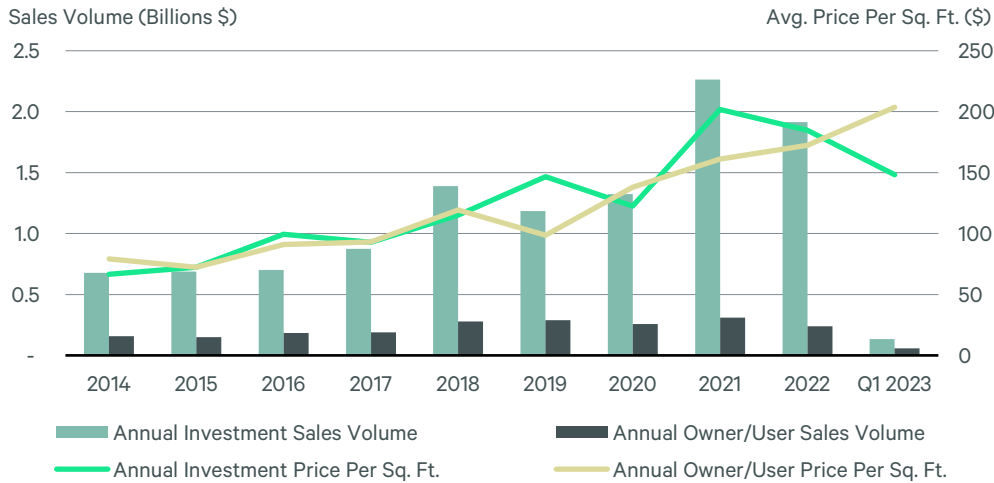
Total owner/user sales volume in Q1 2023 came in at over \$57.6 million between seven transactions, more than double the volume recorded in Q4 2022. Owner/user properties sold for an average price of \$203.6, a 16.6% jump quarter-over-quarter. The largest owner/user sale this quarter was Industrial Outdoor Venture’s \$21.0 million sale of 8780 E 93rd Place in Commerce City. The 52,500-sq.-ft. property sold to Doka USA for \$400.0 per sq. ft.

Employment

The U.S. Fed implemented its second 25 basis point rate hike of Q1 2023 in late March, pushing its target rate to 4.75%-5.00%, up from 0.25%-0.50% a year earlier and the highest rates have been since 2007. The Federal Reserve expects to bring rates to 5.1% in 2023, likely signaling another 25-basis-point increase by year-end. High borrowing costs and tightening liquidity due to headwinds in the banking sector will impede consumer spending and continue to dampen business and real estate investment, which collectively are exacerbating recession fears.

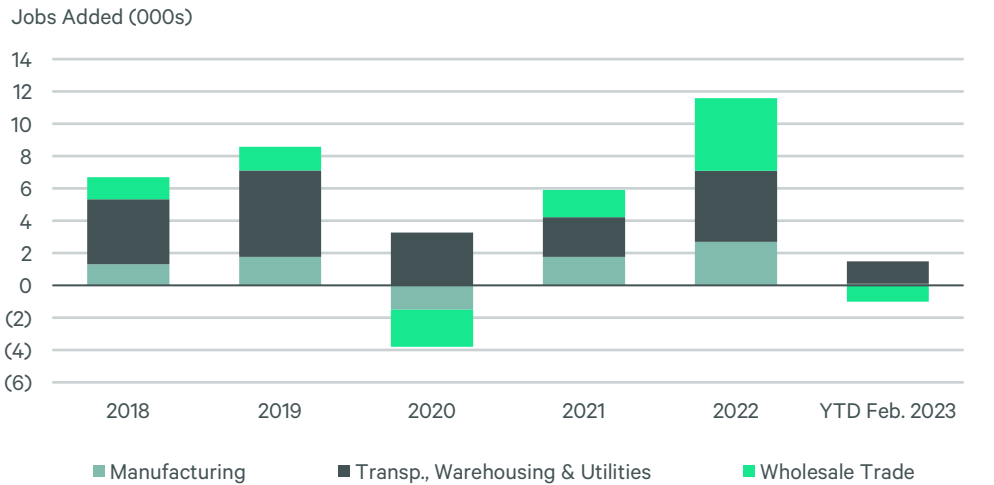
Total non-farm employment in metro Denver increased 1.4% during the first two months of 2023 on a year-over-year basis, adding 24,200 jobs. Industrial-using employment—including manufacturing, transportation, warehousing and utilities, and wholesale trade—grew by 0.8% and added 2,100 jobs year-to-date. Metro Denver’s unemployment rate rose 20 basis points in February to 3.1% and is up from a cyclical low of 2.5% in December 2022. On a year-over-year basis, unemployment is down 70 basis points from 3.8%.

FIGURE 9: Investment Trends



Source: CBRE Research Q1 2023

FIGURE 10: Industrial-Using Employment Growth



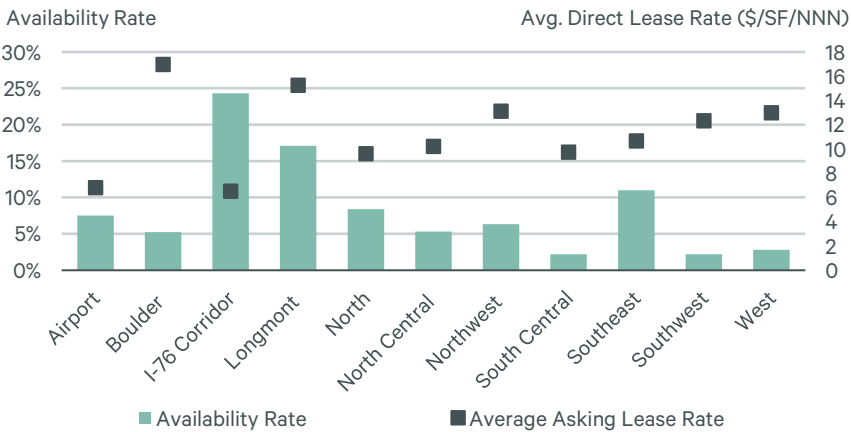
Source: U.S. Bureau of Labor Statistics, March 2023

Submarket Performance

The Airport submarket remained the highest performer across all primary metrics in the metro area, accounting for 42.2% of all leasing activity and 45.6% of all positive absorption. The airport also led the way for development in Q1 2023, accounting for 52.6% of all space that was under construction and 28.6% 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 317,000 sq. ft. of positive net absorption and leasing activity came in just shy of 290,000 sq. ft. transacted. Airport East’s ample new construction deliveries pushed its availability rate up 160 bps to 10.6%. Airport Central saw a 40 bps drop in availability quarter-over-quarter, highlighting the low delivery volume but sustained leasing activity within the area. However, the micromarket posted a negative absorption total due to several delayed occupancies and Vestas Wind Systems vacating their 119,983-sq.-ft. space at 5175 Joliet St, which is currently listed as available for sublease.

FIGURE 11: Submarket Availability and Lease Rates



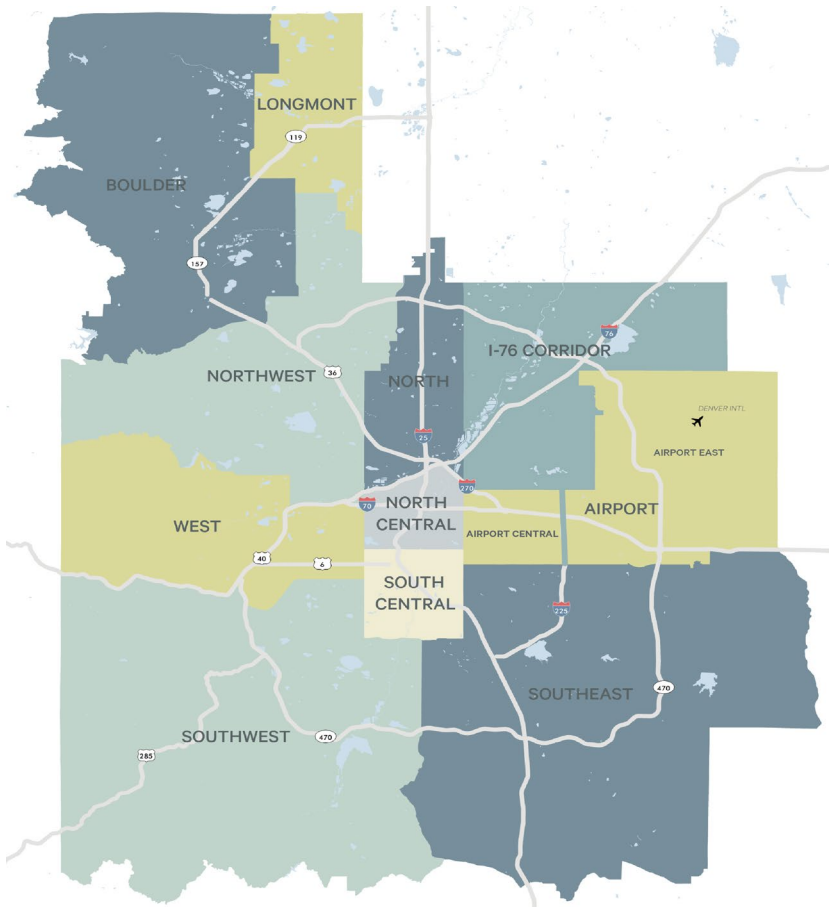
Source: CBRE Research Q1 2023

FIGURE 12: Market Statistics by Submarket

Submarket	Net Rentable Area (SF)	Q1 Net Absorption (SF)	Under Construction (SF)	Average Asking Lease Rate (NNN / \$/SF/YR)	Total Availability Rate (%)	Direct Vacancy Rate (%)
Airport	96,523,194	259,801	6,090,233	6.81	7.5	6.5
Airport East	40,802,149	317,581	1,023,330	6.33	10.6	10.1
Airport Central	55,721,045	(57,780)	-	7.67	5.3	3.8
Boulder	11,139,489	(13,402)	-	16.96	5.2	3.5
I-76 Corridor	14,712,013	315,081	888,750	6.51	24.3	24.1
Longmont	5,273,968	(96,718)	-	15.26	17.1	18.5
North	12,610,365	123,937	1,342,422	9.59	8.4	8.1
North Central	34,439,643	(73,728)	607,200	10.21	5.3	4.7
Northwest	17,143,571	(46,437)	708,115	13.12	6.3	6.3
South Central	24,921,717	45,350	-	9.74	2.2	0.7
Southeast	23,511,902	130,704	445,973	10.65	11.0	9.9
Southwest	8,691,019	91,434	-	12.31	2.2	1.6
West	11,298,091	(11,691)	-	12.97	2.8	1.1
METRO TOTAL	260,264,972	724,331	10,082,693	8.77	7.6	6.8

Source: CBRE Research Q1 2023

Market Area Overview



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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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