

Research &
Forecast Report

METRO DENVER | INDUSTRIAL
Q2 2019

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Industrial Market Sizzles Heading into Summer

Market Overview

Fueled by the rise of e-commerce, Denver's booming industrial market continued its blistering pace in the second quarter of 2019. Developers delivered nearly 1.5 million SF of new space to the market, on top of the 4+ million SF delivered over the previous four quarters. However, despite all of the new product, the market has only experienced a 30 basis point increase from the 4.5% rate posted a year ago. Not surprisingly, lease rates have climbed quarter after quarter and now average $9.18/SF.

With the spotlight shining so brightly on Denver, the market continues to see cap rate compression as investment interest remains strong. Following on the heels of Berkeley Partners $247,500,000 acquisition of 19 properties from Etkin Johnson last quarter, Blackstone announced they will be acquiring 11 Colorado properties consisting of nearly 1.9 million SF as part of their $18.7 billion purchase of GLP's national portfolio.

Highlighted Trends

- Metro Denver's deliveries totaled nearly 1.5 million SF during the quarter. 3.5 million SF is projected to be delivered next quarter.
- 14 out of 15 submarkets recorded positive net absorption.
- $57,509,600 was the allocated Colorado portion of Blackstone's $18.7 billion acquisition of GLP's national portfolio that closed in June.
- Asking lease rates increased 4.9% during the quarter.

Market Indicators

Relative to prior period	Q2 2019	Projected Q3 2019
Vacancy	↑	↓
Net Absorption	+	+
Deliveries	↓	↑
Rental Rate	↑	↑

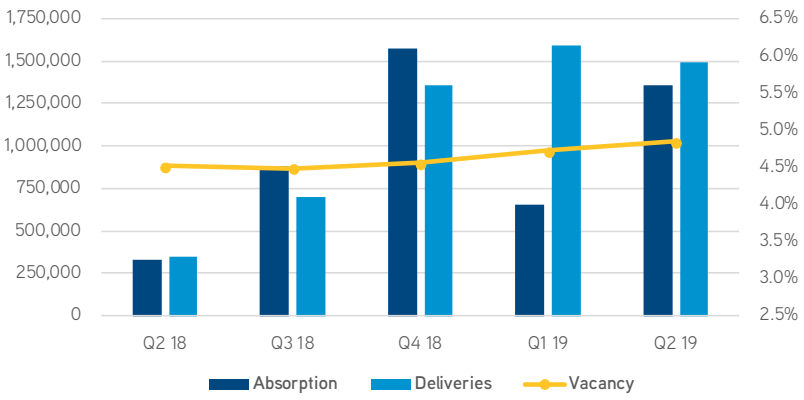
*Arrows compare current quarter to the previous quarter's historically adjusted figures

Denver Metro Summary Statistics

	Q2 2018	Q2 2019
Vacancy Rate	4.5%	4.8%
Absorption YTD	821,154	2,006,470
Deliveries YTD	2,562,994	3,083,665
Under Construction	4,509,535	4,664,020
Asking Rents/SF	$8.80	$9.18
Total SF	266,205,071	271,793,833

*Source: CoStar

Denver Industrial Market Q2 2018–Q2 2019



Second quarter net absorption totaled more than 1,350,000 SF.

Absorption

The market absorbed over 1 million SF of space for the second time in three quarters and fourteen of the fifteen submarkets posted positive absorption for the quarter. Weld County led the pack with 456,852 SF of absorption, of which 380,000 SF was attributed to Smucker's new Uncrustables facility. Other big needle movers were Bunzl's occupancy of 164,492 SF at 19700 E. 23rd Avenue and New Age Beverages occupying the former Goldbug facility at 18245 E. 40th Avenue, both of which were in the SW DIA/ Peña Boulevard market.

Vacancy

Although over 5 million SF of new product has been delivered over the past year, the market remains extremely tight. Despite the waves of new construction being delivered each quarter, the vacancy rate now sits at 4.8% and has only experienced a small uptick over the last several quarters. While the overall market is approaching a 5% vacancy rate, several submarkets are below 4%. The tightest areas are found in the West at 1.8%, South Central and Weld County at 2.2%, Southwest at 3.3% and the Central submarket at 3.6%. Conversely, the Longmont and Broomfield markets are bringing up the rear at 14.1% and 10.6% respectively. Despite another large wave of developments scheduled to deliver next quarter, limited space options will continue to be a concern for tenants, particularly those looking for 200,000+ SF or more.

Deliveries & Construction

For the third consecutive quarter, over 1.3 million SF was delivered to the market. While several of the new properties were 100% preleased, a handful of properties had zero pre-leasing at time of delivery. While the market has done an admirable job of absorbing the new space it has received over the last few years, the market is going to be pushed to its limits next quarter as an estimated 3.5 million SF is projected to roll out of the pipeline. While there is still time to get deals done, the market is bracing for an uptick in vacancy rates as just over 25% of the 3.5 million SF has been pre-leased.

Rental Rates

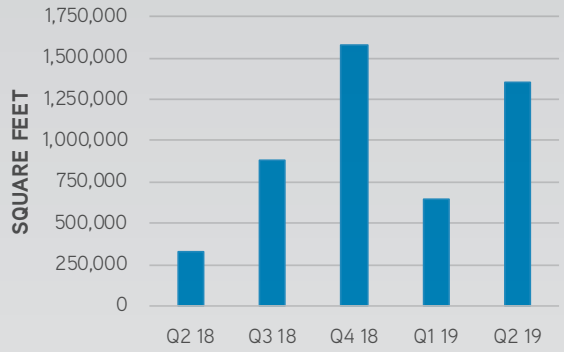
Lease rates continue to rise as more and more new buildings are delivered to the market with higher asking rates and demand for second generation space remains strong. Overall, rates increased by 4.9% during the quarter to $9.18/SF. Rent acceleration in the Central corridor remained strong as tenants have a limited supply of inventory to choose from and developers are faced with skyrocketing land costs. The only submarket with rents below $7.00/SF for non-flex space is located in the East I-70/Montbello submarket. Rents average $6.12/SF in the highly concentrated warehouse/distribution market. With an anticipated increase in vacancy rates over the last half of the year due to a glut of new buildings being delivered, lease rates are projected to climb, but at a slower rate than previous quarters.

Sales Activity

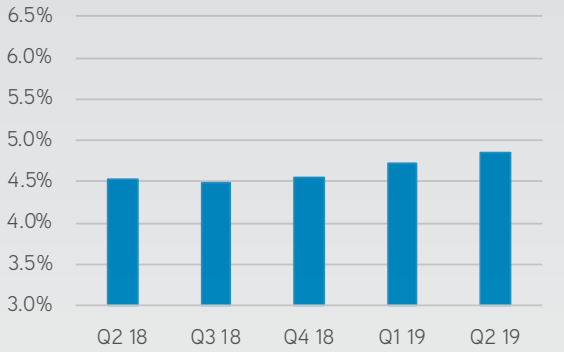
Demand for industrial property remained strong during the second quarter despite the continued compression on cap rates. Sales volume nearly reached $375 million during the quarter, a 10% increase over the prior two quarters.

In addition to Blackstone's acquisition of GLP's portfolio, several other prominent facilities traded hands during the second quarter. Valley Business Center, a 5-building park with 203,361 SF was sold at a 6.3% cap rate to BKM Capital Partners for $24.25 million ($119.25/ SF). The 4-property Airways Business Center portfolio totaling just over 382,000 SF was purchased by EastGroup Properties for $48.27 million. Lastly, Clarion Partners purchased 18100 and 18300 E. 40th Avenue for just over $57 million from the Pauls Company. These two recently completed properties are 419,060 and 184,040 SF respectively and were 100% vacant at time of sale.

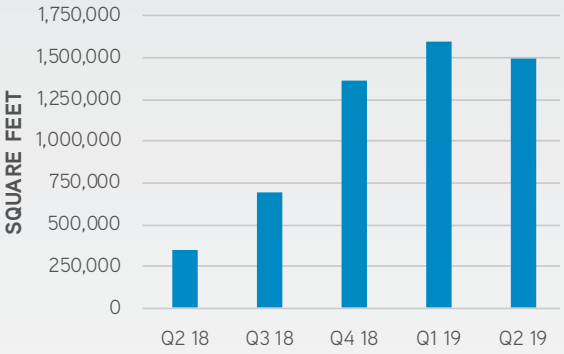
Absorption



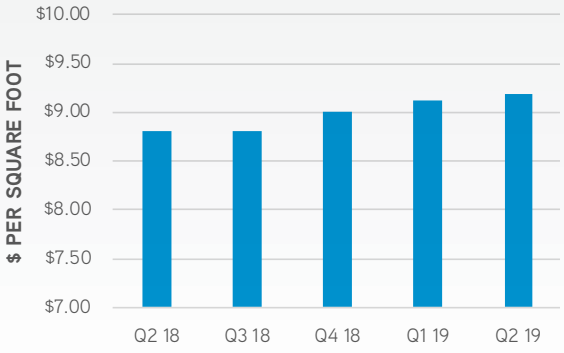
Vacancy



Deliveries



Rental Rates



Recent Transactions

Industrial – Denver - Sales Activity

PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
Airways Business Center (2250 and 2460 Airport Blvd.)	East I-70/ Montbello	$48,270,000	382,093	$126	EastGroup Properties	Principal RE Advisors
5120 Race Ct.	North Central	$24,500,000	125,844	$195	Forum Real Estate Group	Colorado Premium Meat Processing Solutions
7909 S. Chambers Rd.	Southeast Denver	$12,375,000	52,000	$238	Merritt Companies	Ridge Development
6859 N. Foothills Highway	Boulder	$8,972,948	65,916	$136	McKinney Capital	Laslo Bagi

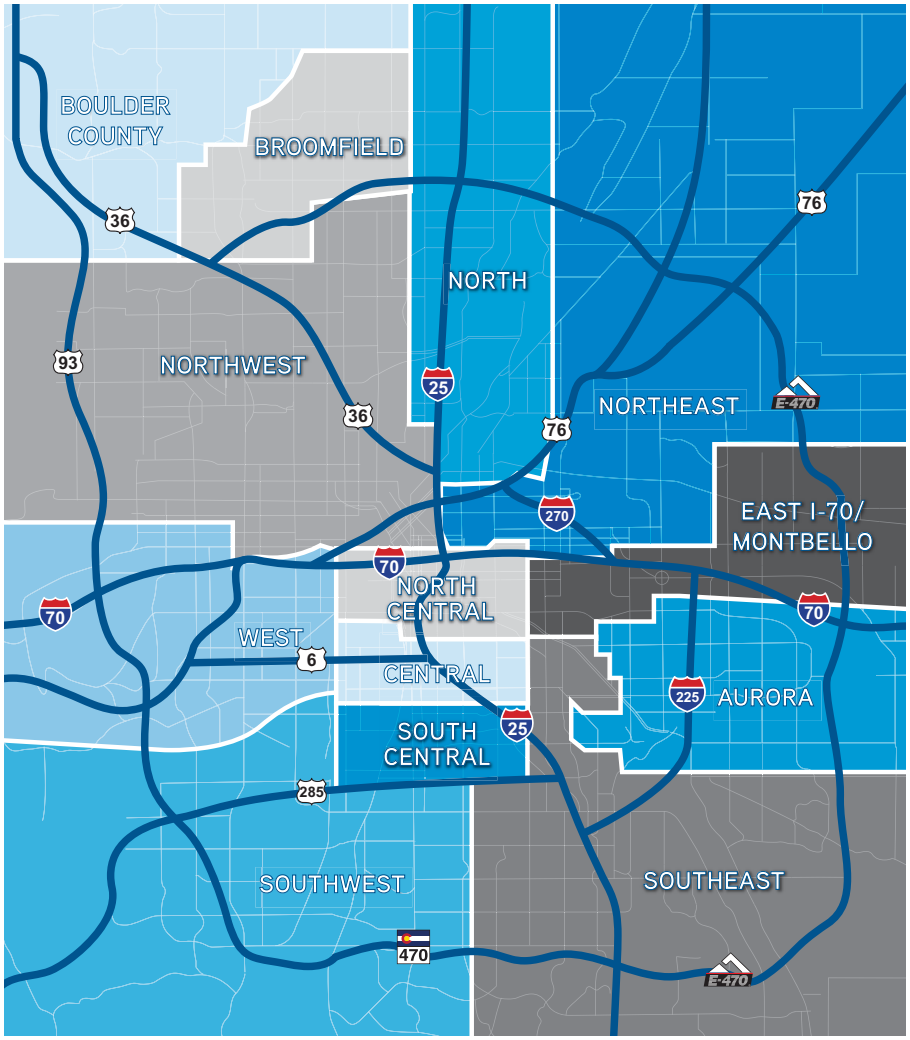
Industrial – Denver - Leasing Activity

PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME
18245 E. 40th Ave.	East I-70/Montbello	155,775	New	New Age Beverages
13331-13333 E. 37th Ave.	East I-70/Montbello	126,123	Renewal	Acme
14200 E. Moncrieff Pl.	East I-70/Montbello	117,283	New	Beacon Sales
6150 Downing St.	Commerce City	79,840	New	Amazon

Industrial Overview

EXISTING PROPERTIES			VACANCY				ACTIVITY	ABSORPTION		CONSTRUCTION			RENTS
SUBMARKET/ CLASS	BLDGS	TOTAL INVENTORY SF	DIRECT VACANCY RATE	SUBLEASE VACANCY RATE	VACANCY RATE CURRENT	VACANCY RATE PRIOR QTR	LEASING ACTIVITY SF	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	DELIVERIES CURRENT QTR SF	DELIVERIES YTD SF	UNDER CONSTRUCTION SF	AVG RENTAL RATE (NNN)
AURORA													
Industrial	29	657,018	0.9%	0.0%	0.9%	6.2%	-	35,119	33,659	-	-	-	$10.93
Flex	45	1,596,646	7.8%	0.0%	7.8%	9.0%	24,585	19,085	37,817	-	-	50,000	$7.72
Total	**74**	**2,253,664**	**5.8%**	**0.0%**	**5.8%**	**8.2%**	**24,585**	**54,204**	**71,476**	**-**	**-**	**50,000**	**$7.87**
BOULDER													
Industrial	283	10,247,121	6.0%	1.0%	7.0%	8.3%	186,042	137,014	131,551	-	-	299,261	$10.70
Flex	225	9,942,365	3.8%	0.7%	4.5%	5.2%	118,648	75,347	(37,094)	-	31,000	-	$13.84
Total	**508**	**20,189,486**	**4.9%**	**0.8%**	**5.7%**	**6.8%**	**304,690**	**212,361**	**94,457**	**-**	**31,000**	**299,261**	**$12.02**
BROOMFIELD													
Industrial	79	3,627,510	10.7%	0.0%	10.7%	11.2%	21,280	17,007	12,566	-	139,786	35,000	$9.79
Flex	30	1,086,526	8.3%	0.0%	8.3%	8.5%	38,607	1,863	(16,586)	-	-	152,761	$12.59
Total	**109**	**4,714,036**	**10.2%**	**0.0%**	**10.2%**	**10.6%**	**59,887**	**18,870**	**(4,020)**	**-**	**139,786**	**187,761**	**$10.21**
CENTRAL													
Industrial	305	10,882,009	3.6%	0.0%	3.6%	3.5%	50,927	14,959	18,669	30,000	30,000	30,000	$9.22
Flex	10	289,417	0.0%	3.2%	3.2%	8.2%	-	14,457	(9,293)	-	-	-	$8.50
Total	**315**	**11,171,426**	**3.5%**	**0.1%**	**3.6%**	**3.6%**	**50,927**	**29,416**	**9,376**	**30,000**	**30,000**	**30,000**	**$9.19**
EAST I-70/MONTBELLO													
Industrial	1,078	80,210,558	5.8%	0.3%	6.1%	5.5%	2,123,827	127,367	347,174	231,540	675,600	2,931,672	$6.12
Flex	62	1,974,219	4.4%	0.0%	4.4%	4.2%	-	(3,364)	(29,719)	-	-	117,000	$8.96
Total	**1,140**	**82,184,777**	**5.7%**	**0.3%**	**6.1%**	**5.7%**	**2,123,827**	**124,003**	**317,455**	**231,540**	**675,600**	**3,048,672**	**$6.58**

EXISTING PROPERTIES			VACANCY				ACTIVITY	ABSORPTION		CONSTRUCTION			RENTS
SUBMARKET/ CLASS	BLDGS	TOTAL INVENTORY SF	DIRECT VACANCY RATE	SUBLEASE VACANCY RATE	VACANCY RATE CURRENT	VACANCY RATE PRIOR QTR	LEASING ACTIVITY SF	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	DELIVERIES CURRENT QTR SF	DELIVERIES YTD SF	UNDER CONSTRUCTION SF	AVG RENTAL RATE (NNN)
LONGMONT													
Industrial	97	2,981,736	5.9%	0.7%	6.6%	6.7%	-	3,380	12,308	-	111,000	128,100	$10.82
Flex	47	2,610,659	26.5%	0.0%	26.5%	26.5%	-	1,199	(4,829)	-	-	-	$12.98
Total	**144**	**5,592,395**	**15.5%**	**0.4%**	**15.9%**	**14.1%**	**0**	**4,579**	**7,479**	**-**	**111,000**	**128,100**	**$12.14**
NORTH CENTRAL													
Industrial	424	16,774,175	4.2%	0.0%	4.2%	4.0%	79,712	(39,770)	(15,323)	30,202	30,202	47,918	$9.95
Flex	22	704,878	2.7%	0.0%	2.7%	3.6%	9,609	6,711	3,327	-	-	-	$19.86
Total	**446**	**17,479,053**	**4.2%**	**0.0%**	**4.2%**	**4.0%**	**89,321**	**(33,059)**	**(11,996)**	**30,202**	**30,202**	**47,918**	**$10.38**
NORTH													
Industrial	163	7,793,215	5.1%	0.0%	5.1%	6.1%	25,348	77,245	78,838	-	-	400,605	$8.65
Flex	42	1,777,243	2.6%	1.2%	3.7%	3.6%	22,890	(2,835)	31,439	-	30,000		$14.07
Total	**205**	**9,570,458**	**4.6%**	**0.2%**	**4.8%**	**5.7%**	**48,238**	**74,410**	**110,277**	**-**	**30,000**	**400,605**	**$9.08**
NORTHEAST													
Industrial	435	20,128,269	5.4%	0.0%	5.4%	3.8%	117,340	129,981	598,438	462,944	1,170,220	11,925	$8.06
Flex	35	1,012,260	1.7%	0.0%	1.7%	2.4%	10,079	6,540	13,770	-	-	-	$13.34
Total	**470**	**21,140,529**	**5.2%**	**0.0%**	**5.2%**	**3.7%**	**127,419**	**136,521**	**612,208**	**462,944**	**1,170,220**	**11,925**	**$8.35**
NORTHWEST													
Industrial	295	11,688,512	3.9%	0.8%	4.6%	3.8%	29,300	48,066	24,651	145,000	145,000	-	$7.85
Flex	80	1,951,362	4.4%	0.1%	4.5%	3.1%	6,622	(11,232)	23,112	15,104	15,104	-	$10.47
Total	**375**	**13,639,874**	**3.9%**	**0.7%**	**4.6%**	**3.7%**	**35,922**	**36,834**	**47,763**	**160,104**	**160,104**	**-**	**$8.49**
SOUTH CENTRAL													
Industrial	403	10,709,801	1.7%	0.0%	1.7%	1.8%	52,265	3,554	(51,138)	-	-	-	$8.26
Flex	28	625,112	9.7%	0.0%	9.7%	10.3%	27,829	4,254	(23,286)	-	-	-	$10.11
Total	**431**	**11,334,913**	**2.2%**	**0.0%**	**2.2%**	**2.2%**	**80,094**	**7,808**	**(74,424)**	**-**	**-**	**-**	**$8.46**
SOUTHEAST													
Industrial	245	10,163,593	2.8%	0.7%	3.4%	3.9%	85,295	39,874	198,243	27,378	105,928	133,378	$9.73
Flex	256	8,801,957	4.2%	0.6%	4.7%	5.1%	75,289	48,771	18,178	25,200	25,200	12,000	$11.20
Total	**501**	**18,965,550**	**3.4%**	**0.6%**	**4.0%**	**4.4%**	**160,584**	**88,645**	**216,421**	**52,578**	**131,128**	**145,378**	**$10.45**
SOUTHWEST													
Industrial	191	6,011,486	1.1%	0.7%	1.8%	1.6%	60,976	(13,425)	(24,775)	-	-	-	$9.37
Flex	112	3,900,821	5.4%	0.1%	5.5%	6.2%	72,895	29,280	25,287	-	-	100,000	$10.74
Total	**303**	**9,912,307**	**2.8%**	**0.5%**	**3.3%**	**3.3%**	**133,871**	**15,855**	**512**	**-**	**-**	**100,000**	**$10.39**
WELD COUNTY													
Industrial	495	19,370,274	1.8%	0.0%	1.8%	1.9%	94,333	437,247	492,140	444,000	458,625	136,400	$10.69
Flex	64	2,231,626	6.1%	0.0%	6.1%	6.9%	16,650	19,605	11,635	-	-	30,000	$10.55
Total	**559**	**21,601,900**	**2.2%**	**0.0%**	**2.2%**	**2.4%**	**110,983**	**456,852**	**503,775**	**444,000**	**458,625**	**166,400**	**$10.66**
WEST													
Industrial	246	14,733,681	1.6%	0.1%	1.7%	1.8%	2,325	89,551	93,925	81,000	116,000	48,000	$9.66
Flex	114	7,309,784	1.9%	0.1%	2.0%	2.6%	29,402	40,483	11,786	-	-	-	$11.61
Total	**360**	**22,043,465**	**1.7%**	**0.1%**	**1.8%**	**1.6%**	**31,727**	**130,034**	**105,711**	**81,000**	**116,000**	**48,000**	**$10.54**
MARKET TOTAL													
Industrial	4,768	225,978,958	4.4%	0.3%	4.7%	4.4%	2,928,970	1,107,169	1,950,926	1,452,064	2,982,361	4,202,259	$8.23
Flex	1,172	45,814,875	5.3%	0.4%	5.7%	6.2%	453,105	250,164	55,544	40,304	101,304	461,761	$12.10
Total	**5,940**	**271,793,833**	**4.6%**	**0.3%**	**4.8%**	**4.6%**	**3,382,075**	**1,357,333**	**2,006,470**	**1,492,368**	**3,083,665**	**4,664,020**	**$9.18**
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q2 19	5,940	271,793,833	4.6%	0.3%	4.8%	4.6%	3,382,075	1,357,333	2,006,470	1,492,368	3,083,665	4,664,020	$9.18
Q1 19	5,927	270,037,485	4.5%	0.2%	4.7%	4.6%	2,574,196	650,187	650,187	1,591,387	1,591,387	4,959,361	$9.12
Q4 18	5,915	268,883,158	4.3%	0.2%	4.6%	4.5%	3,375,012	1,575,916	4,523,075	1,359,393	4,620,241	4,891,468	$9.00
Q3 18	5,904	267,011,678	4.3%	0.2%	4.5%	4.5%	2,979,293	878,472	1,699,626	697,854	3,260,848	4,668,700	$8.81
Q2 18	5,891	266,205,071	4.3%	0.2%	4.5%	4.2%	3,744,013	328,383	821,154	349,339	2,562,994	4,509,535	$8.80



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2.0
billion square feet
under management

17,300
professionals
and staff

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