Denver Industrial 22Q2

Denver industrial continued to boom during the second quarter as rental rates hovered near record-highs, vacancy remained largely flat, strong leasing activity continued, and development activity accelerated. Absorption was severely impacted by a large move-out and tenant buildout delays, but as demand remains strong and delayed occupancies and developments occupy and deliver over the second half of 2022, **Denver industrial is set to finish 2022 on another strong note.**

Accelerating success.

Denver Industrial 22Q2

Key Takeaways

- Net absorption was severely impacted by tenant buildout delays and a massive 1.3 MSF move-out during the second quarter as the market recorded 232.6K SF absorption.
- Asking rates remain near record-highs, averaging $10.68/SF to close the second quarter.
- The pipeline continues to grow as 889.1K SF delivered during the second quarter and 9.9 MSF remained underway at quarter's end.
- Investment activity continues to accelerate, exceeding the $1.0B mark year-to-date, with an average price per square foot of $182.

		YOY	Forecast
Vacancy Rate	5.8%	▼	—
Net Absorption	232.6K SF	▼	▲
Under Construction	9.9M SF	▲	—
Overall Industrial Asking Lease Rates (NNN)	$10.68/SF	▲	▲

Denver Industrial Continues to Hum but Absorption Impacted by Construction Timelines

The Denver industrial market remained strong to close the second quarter. Rental rates continued to hover around record highs, vacancy stayed mostly flat quarter-over-quarter, and steady leasing activity continued, nearing 3.9 MSF. Developers continue to flock to Denver to serve this growing demand as 889,100 SF delivered with an additional 9.9 MSF in projects underway across the metro area at quarter's end. Investment activity remained rampant as year-to-date sale volume surged past the $1.0B mark and average price per square foot has even surpassed 2021's record figure. Construction timelines have been slow, as material and labor shortages continue to hamper development and tenant buildouts, pushing more than 1.6 MSF in occupancies planned for the first half of the year into the second half and beyond. This coupled with a 1.3 MSF move-out in Brighton severely impacted net absorption figures during the second quarter. Despite construction challenges, the industrial market continues to boom across the metro area, and as tenants occupy delayed move-ins over the second half of 2022, expect a strong second half for Denver industrial.

Market Indicators

3.1% Unemployment Rate

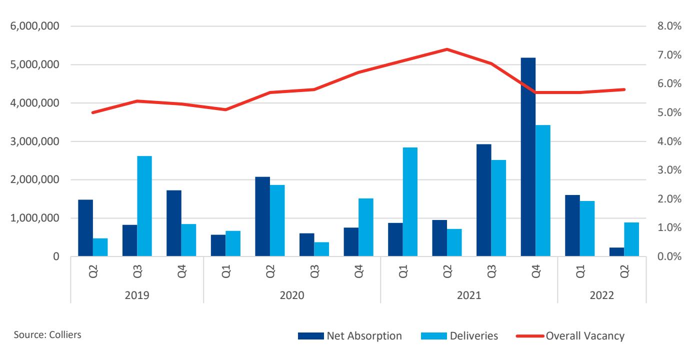
4.52% GDP - % Change Yr./Yr.

3.013% U.S. 10 Year Treasury Note

Historic Comparison

	Q2 2021	Q1 2022	Q2 2022
Total Inventory (SF)	260,239,537	267,749,721	268,638,849
New Supply (SF)	717,247	1,445,120	889,128
Net Absorption (SF)	952,101	5,181,489	232,597
Overall Vacancy	7.2%	5.7%	5.8%
Under Construction (SF)	9,615,815	9,898,395	9,918,013
Overall Asking Rates (NNN)	$9.94	$10.81	$10.68

Market Graph



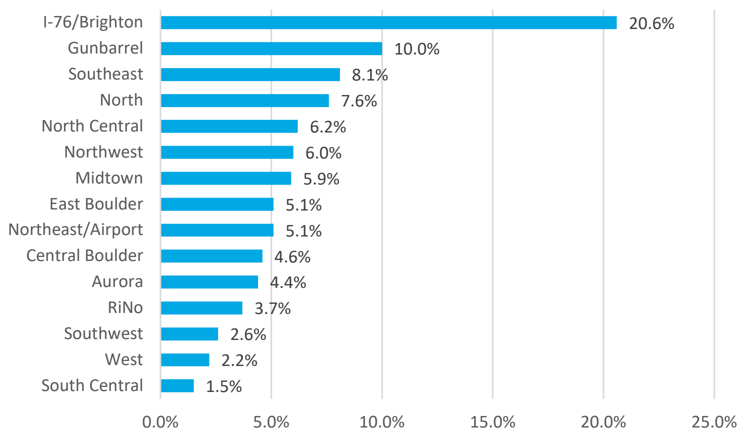
Overall vacancy has remained largely flat over the past three quarters, although it did increase 10 bps during the second quarter as absorption was negatively impacted by buildout timelines and a large move-out. Both deliveries and absorption suffered as a result of construction-related challenges. Expect both absorption and construction deliveries to rebound substantially over the second half of 2022 with vacancy remaining mostly flat as strong absorption figures are balanced by the delivery of new speculative product.

Labor Force

	CONSTRUCTION	MANUFACTURING	TRANSPORTATION, TRADE & UTILITIES
12-Mo. Employment Growth	3.9%	4.3%	3.1%
12-Mo. Actual Employment Change	4,200	3,000	8,500

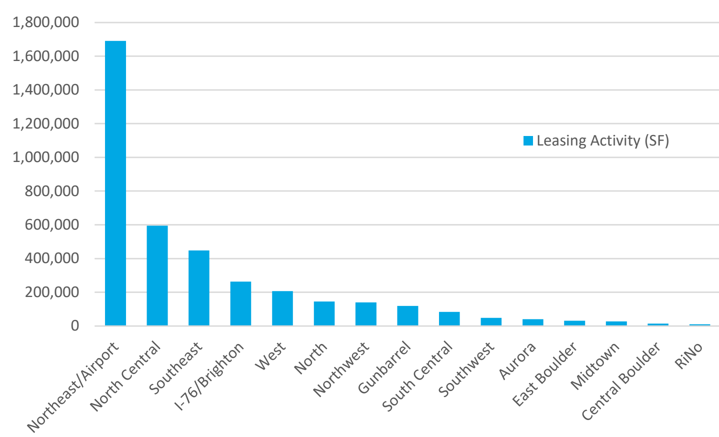
Vacancy

Vacancy closed the second quarter 2022 at 5.8% on an overall basis, indicating a 10-bps increase over the first quarter 2022, but a 140-bps decrease year-over-year. Direct vacancy largely mirrored this as sublet space remains minimal around the metro, closing at 5.5%; a 10-bps increase over the first quarter and 110-bps decrease year-over-year. This quarterly increase was driven almost exclusively by the 1.3 MSF move-out at 18875 East Bromley Lane in Brighton. This move-out led to a huge spike in vacancy in the I-76/Brighton submarket as vacancy rose 830 bps to 20.6%. Expect vacancy to remain mostly flat over the second half of 2022 as strong absorption figures are balanced by substantial deliveries.



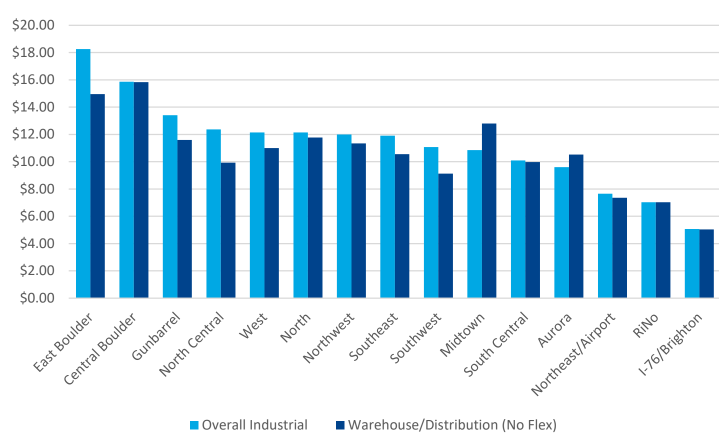
Absorption & Leasing Activity

Denver industrial product recorded 3.8 MSF of leasing activity during the second quarter 2022, a figure roughly on par with the 3.9 MSF quarterly average of the past three years. The largest new lease of the quarter was PFG as they plan a 275,000 SF BTS at Central 76, expected to break ground next quarter. Another noteworthy lease in new construction was Target's lease for the entire 141,500 SF at Prologis' Broadway Distribution Center, slated to complete during the second half of this year. Absorption slowed during the second quarter, recording 232,600 SF as tenant buildout delays and the aforementioned Brighton move-out had severe impacts. As demand remains strong around the metro and options in new construction abound, expect leasing activity to remain steady while absorption records a massive rebound as delayed move-in's occupy.



Rental Rates

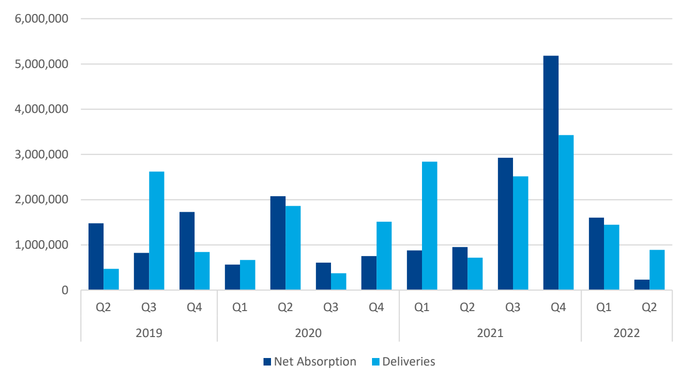
Average asking rental rates across all industrial product types closed the second quarter at $10.68/SF NNN. This figure indicated a decrease of 1.2% from the first quarter 2022, but a 7.4% increase year-over-year. Asking rates for warehouse and distribution product (excluding flex) closed at $9.16/SF NNN, similarly representing a 1.5% decrease from the first quarter but a 3.0% increase year-over-year. It's also worth noting that both these figures were the highest on record for the metro during the first quarter of this year. Flex rates closed at $14.78/SF NNN, indicating no change from the first quarter and an 11.3% increase year-over-year. As tenant demand remains strong and new product continues to deliver, expect steady rate growth to return over the remainder of the year.



Denver Industrial 22Q2

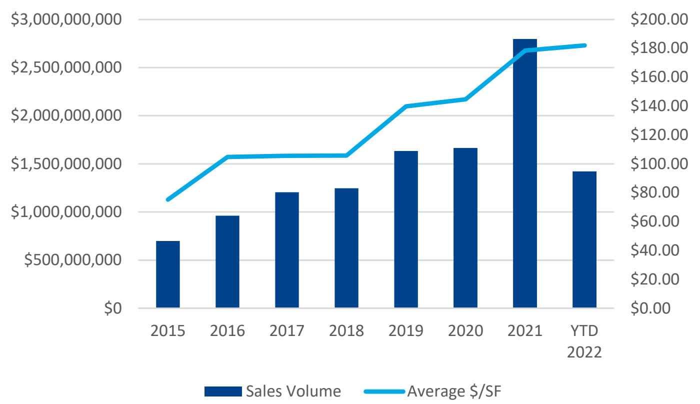
Construction

The Denver metro industrial pipeline continues to boom as 889,100 SF delivered during the second quarter while more than 9.9 MSF remained underway at quarter's close. The most notable completions for the quarter were Buildings A and B at North Washington Commerce Center, totaling 282,100 SF. One noteworthy project slated to break ground next quarter is the 1.0-MSF Building 6 at Stafford Logistics Center, significant not only for its size but the fact that it will represent the first 1.0-MSF speculative building in Denver's history. There is a notable lack of BTS product currently underway after BTS projects accounted for more than half of 2021's deliveries, but with PFG expected to break ground during the third quarter and several recent land acquisitions by users, expect this to change by year's end. The Northeast/Airport submarket continues to account for the majority of new product in the metro, boasting 56.4% of the metro's active projects. Expect this to continue to be the case, although with several million square feet proposed near the I-25 & E-470 interchange, the North submarket is set to grow substantially over the coming years.



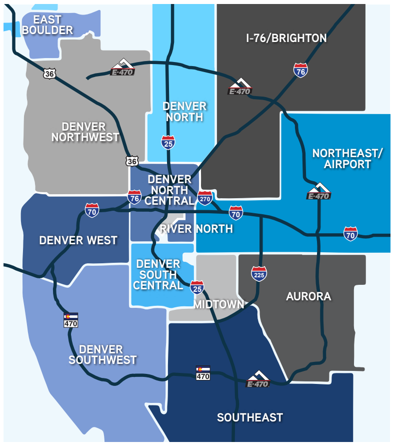
Investment Activity

Industrial investment activity continues to surge across the metro area, surpassing $1.4B year-to-date by the end of the second quarter, and representing the strongest first half to a year in Denver's history. Average price per square foot neared $182, a figure that would indicate the strongest in history as well if it holds through the end of the year. The largest investment sale of the quarter was the 1.3-MSF Denver Infill Portfolio that Stockbridge acquired for $252.0M from Link Logistics. Also noteworthy was the sale of the 185,400 SF Gunbarrel Tech Center which traded hands from Westside Investment Partners to Good Investment Partners for $39.0M. The market has a chance to surpass 2021's record $2.8B investment sales volume, which would indicate the seventh consecutive year of volume growth for the metro. Expect investors to continue to aggressively pursue Denver industrial product, although volatility in the debt market could lead to some upward adjustment in cap rates over the remainder of the year.



Market Description

The Denver metro industrial market is composed of 268.6 MSF of product in buildings over 10,000 SF. Denver is unique as despite a rapidly growing population and strong economy, it exists on an island in the middle of the country without a major city for over 400 miles in any direction. As a result, companies that want to distribute in Denver, need to have a presence in Denver. Industrial activity has steadily risen as e-commerce, food and beverage users, and other local distribution needs have increased. Tenant requirements are increasing in both volume and size as 24.0% of the buildings over 100,000 SF in the market have been built since 2015. Denver is in the midst of unprecedented growth and poised for it to continue for the indefinite future.



Notable Industrial Sales

Property	Submarket	Sale Price	SF	Price/SF	Buyer	Seller
Denver Infill Portfolio	*Various	$251,999,200	1,337,629	$188.39	Stockbridge	Link Logistics
Gunbarrel Tech Center	Gunbarrel	$39,000,000	185,384	$210.37	Good Investment Partners	Westside Investment Partners
17101 Huron St.	North	$22,275,000	161,730	$137.73	Easterly Government Properties	Centennial Realty Advisors
7477 E. Dry Creek Pkwy.	Gunbarrel	$20,000,000	126,540	$158.05	Particle Measuring Systems	DPC Development
2100 Central Ave.	East Boulder	$17,000,000	54,028	$314.65	Blackstone	Boulder Warehouse Association

Notable Leasing Activity

Property	Submarket	Leased SF	Lease Type	Tenant Name
Mile High Business Center	Northeast/Airport	336,800	Renewal	BlueTriton Brands
Central 76	I-76/Brighton	275,000	New	PFG
Stapleton Business Center	Northeast/Airport	186,100	Renewal	Ford
Prologis Broadway Distribution Center	North Central	141,500	New	Target
Enterprise Business Center	Northeast/Airport	115,800	Renewal	Priority Wire & Cable

Under Construction

Property	Submarket	SF	Developer	Estimated Completion
DIA Logistics Park at Porteos - Bldg. 1	Northeast/Airport	625,000	Ambrose	Q4 2022
Lovett 76	I-76/Brighton	614,300	Lovett Industrial	Q4 2022
First Aurora Commerce Center - Bldg. E	Northeast/Airport	588,100	First Industrial	Q3 2022
HighPoint Logistics Park - Bldg. 1B	Northeast/Airport	541,800	Hyde	Q4 2022
Central Park Logistics Center - Bldg. 2	Northeast/Airport	493,300	Brookfield	Q3 2022

Denver | Q1 2022 | Industrial | Market Statistics

Colliers

Type	# of Bldgs.	Total SF	Current Qtr. Deliveries	Under Construction	Total Available SF	Total Vacant SF	Vacancy %	Direct Available	Sublease Available	Absorption	Weighted Average Rent (NNN)
AURORA											
WAREHOUSE/DISTRIBUTION	24	589,165			118,870	-	-	118,870	0		$10.53
FLEX	42	1,501,299			79,807	92,248	6.1%	79,807	0		$9.37
TOTAL	**66**	**2,090,464**	**0**	**0**	**198,677**	**92,248**	**4.4%**	**198,677**	**0**	**30,514**	**$9.61**
CENTRAL BOULDER											
WAREHOUSE/DISTRIBUTION	34	1,085,008			26,874	26,874	2.5%	26,874	0		$15.83
FLEX	16	593,050			84,809	51,051	8.6%	84,809	0		$16.00
TOTAL	**50**	**1,678,058**	**0**	**0**	**111,683**	**77,925**	**4.6%**	**111,683**	**0**	**(10,963)**	**$15.87**
NORTH											
WAREHOUSE/DISTRIBUTION	133	8,085,714			1,052,533	642,372	7.9%	1,052,533	0		$11.77
FLEX	39	1,125,571			58,040	58,040	5.2%	55,040	3,000		$13.77
TOTAL	**172**	**9,211,285**	**282,108**	**596,575**	**1,110,573**	**700,412**	**7.6%**	**1,107,573**	**3,000**	**41,846**	**$12.14**
NORTH CENTRAL											
WAREHOUSE/DISTRIBUTION	829	33,725,289			2,538,224	1,724,721	5.1%	2,323,251	214,973		$9.93
FLEX	65	2,319,998			564,300	517,057	22.3%	559,726	4,574		$22.80
TOTAL	**894**	**36,045,287**	**0**	**614,000**	**3,102,524**	**2,241,778**	**6.2%**	**2,882,977**	**219,547**	**145,444**	**$12.37**
NORTHWEST											
WAREHOUSE/DISTRIBUTION	218	9,739,537			599,123	393,181	4.0%	584,295	14,828		$11.34
FLEX	130	4,820,048			615,121	475,871	9.9%	575,763	39,358		$13.22
TOTAL	**348**	**14,559,585**	**0**	**724,747**	**1,214,244**	**869,052**	**6.0%**	**1,160,058**	**54,186**	**161,394**	**$12.00**
SOUTH CENTRAL											
WAREHOUSE/DISTRIBUTION	706	22,011,043			573,442	343,444	1.6%	521,064	52,378		$9.97
FLEX	39	995,929			7,492	5,992	0.6%	7,492	0		$13.77
TOTAL	**745**	**23,006,972**	**0**	**0**	**580,934**	**349,436**	**1.5%**	**528,556**	**52,378**	**11,181**	**$10.09**
SOUTHEAST											
WAREHOUSE/DISTRIBUTION	257	11,832,554			2,241,852	1,066,684	9.0%	2,152,942	88,910		$10.56
FLEX	227	7,839,578			832,001	521,784	6.7%	769,973	62,028		$13.12
TOTAL	**484**	**19,672,132**	**173,257**	**1,104,987**	**3,073,853**	**1,588,468**	**8.1%**	**2,922,915**	**150,938**	**140,270**	**$11.91**
SOUTHWEST											
WAREHOUSE/DISTRIBUTION	210	7,271,940			949,443	199,689	2.7%	868,325	81,118		$9.13
FLEX	127	7,595,471			178,032	190,156	2.5%	163,145	14,887		$12.32
TOTAL	**337**	**14,867,411**	**0**	**0**	**1,127,475**	**389,845**	**2.6%**	**1,031,470**	**96,005**	**32,400**	**$11.07**
WEST											
WAREHOUSE/DISTRIBUTION	342	17,483,436			530,420	348,388	2.0%	484,058	46,362		$11.00
FLEX	143	4,806,240			190,510	139,943	2.9%	189,010	1,500		$13.54
TOTAL	**485**	**22,289,676**	**142,200**	**0**	**720,930**	**488,331**	**2.2%**	**673,068**	**47,862**	**155,700**	**$12.14**

Denver | Q1 2022 | Industrial | Market Statistics

Type	# of Bldgs.	Total SF	Current Qtr. Deliveries	Under Construction	Total Available SF	Total Vacant SF	Vacancy %	Direct Available	Sublease Available	Absorption	Weighted Average Rent (NNN)
EAST BOULDER											
WAREHOUSE/DISTRIBUTION	90	2,720,539			128,050	96,184	3.5%	95,590	32,460		$14.95
FLEX	78	2,194,012			283,757	152,776	7.0%	221,370	62,399		$19.98
TOTAL	**168**	**4,914,551**	**0**	**0**	**411,807**	**248,960**	**5.1%**	**316,960**	**94,859**	**35,484**	**$18.25**
GUNBARREL											
WAREHOUSE/DISTRIBUTION	41	1,967,569			177,426	103,034	5.2%	148,149	29,277		$11.60
FLEX	45	2,172,984			229,823	310,976	14.3%	208,700	21,123		$15.00
TOTAL	**86**	**4,140,553**	**0**	**0**	**407,249**	**414,010**	**10.0%**	**356,849**	**50,400**	**17,500**	**$13.41**
I-76/BRIGHTON											
WAREHOUSE/DISTRIBUTION	249	13,894,868			4,320,537	2,983,603	21.5%	4,320,537	0		$5.04
FLEX	19	610,871			1,500	-	-	1,500	0		$16.00
TOTAL	**268**	**14,505,739**	**121,063**	**1,279,205**	**4,322,037**	**2,983,603**	**20.6%**	**4,322,037**	**0**	**(1,305,700)**	**$5.07**
MIDTOWN											
WAREHOUSE/DISTRIBUTION	41	1,185,013			72,187	58,257	4.9%	72,187	0		$12.80
FLEX	41	1,227,245			86,155	84,544	6.9%	86,155	0		$10.14
TOTAL	**82**	**2,412,258**	**0**	**0**	**158,342**	**142,801**	**5.9%**	**158,342**	**0**	**13,594**	**$10.85**
NORTHEAST/AIRPORT											
WAREHOUSE/DISTRIBUTION	1,144	92,591,310			9,688,197	4,779,457	5.2%	9,285,215	441,913		$7.36
FLEX	74	2,722,134			280,863	109,664	4.0%	251,257	73,191		$12.46
TOTAL	**1,218**	**95,313,444**	**170,500**	**5,598,499**	**9,969,060**	**4,889,121**	**5.1%**	**9,536,472**	**515,104**	**744,093**	**$7.65**
RINO											
WAREHOUSE/DISTRIBUTION	72	3,548,948			166,650	141,430	4.0%	166,650	0		$7.03
FLEX	8	382,486			2,500	2,500	0.7%	2,500	0		-
TOTAL	**80**	**3,931,434**	**0**	**0**	**169,150**	**143,930**	**3.7%**	**169,150**	**0**	**19,840**	**$7.03**

**As the path of growth stretches north, Colliers research re-aligned our submarkets during Q2 2022. This change impacted the North, North Central, Northwest and West submarkets.*

Denver Metro Totals

Quarter	Under Construction	Total SF	Total Available	Total Vacant	Direct Vacancy %	Direct Available	Sublet Available	Absorption	Weighted Average Rent - WH/D	Weighted Average Rent - ALL
Q2 2022	**9,918,013**	**268,638,849**	**26,678,538**	**15,619,920**	**5.5%**	**25,476,787**	**1,284,279**	**232,597**	**$9.16**	**$10.68**
Quarterly Comparison										
Q1 2022	9,898,395	266,820,585	25,544,793	15,293,639	5.4%	24,188,232	1,420,467	1,601,784	$9.30	$10.81
Q4 2021	8,390,400	266,023,206	26,067,608	15,250,942	5.4%	24,818,404	1,329,773	5,181,489	$8.94	$10.28
Q3 2021	10,754,572	262,294,373	25,948,090	17,621,883	6.2%	24,661,886	1,432,835	2,925,571	$8.72	$9.72
Q2 2021	9,615,815	261,391,344	26,813,474	18,924,189	6.6%	25,374,529	1,565,135	952,101	$8.89	$9.94

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