

METRO DENVER | INDUSTRIAL

Q1 2021

A Note Regarding COVID-19

As we publish this report, the U.S. and the world at large are facing a tremendous challenge, the scale of which is unprecedented in recent history. The spread of the novel coronavirus (COVID-19) is significantly altering day-to-day life, impacting society, the economy and, by extension, commercial real estate. The extent, length and severity of this pandemic is unknown and continues to evolve at a rapid pace. The scale of the impact and its timing varies between locations. To better understand trends and emerging adjustments, please subscribe to Colliers' [COVID-19 Knowledge Leader page](#) for resources and recent updates.

Industrial: The Asset of Choice

Market Overview

2020 is at last in the rearview and as vaccine distribution accelerates, COVID-19 will be soon as well. As of the beginning of April, 19.4% of the United States' population was fully vaccinated with Colorado trending slightly above the national average with 19.6% of the state's population fully vaccinated. Manufacturing of the vaccine has amplified as well with March production more than doubling February's, leading the Biden Administration to announce that all Americans will be eligible for vaccines by the end of April. Denver employment has been steadily recovering as well, with over 154,700 jobs added since the pandemic-induced April 2020 low, causing unemployment rates to fall from 12.3% to 6.9% as of the end of February. These factors are a strong sign that the nation is well on its way to recovery and the economy should accelerate throughout 2021.

These figures paint a picture of hope for a rebound in retail and office product as stores re-open and employees consider returns to the office. But this is speculation following devastating setbacks for these product types in 2020, whereas industrial product was nearly business as usual throughout the year. The same factors that crushed office and retail product types led to an explosion in e-commerce. At the end of 2019, e-commerce accounted for approximately 11.3% of total retail sales in the US and had grown consistently by about 70 bps a year since the Great Recession. By the end of 2020, e-commerce represented 14.0% of total retail sales around the country, representing a 270-bps jump year-over-year and condensing an estimated 3-5 years of e-commerce adoption into less than a calendar year. This not only buoyed demand for industrial product throughout the pandemic but ensures continued demand for the foreseeable future as these users continue to grow near population centers.

Market Indicators

Relative to prior period	Q1 2021	Projected Q2 2021
Vacancy	↑	—
Net Absorption	↑	—
Deliveries	↓	↓
Rental Rate	↑	↑

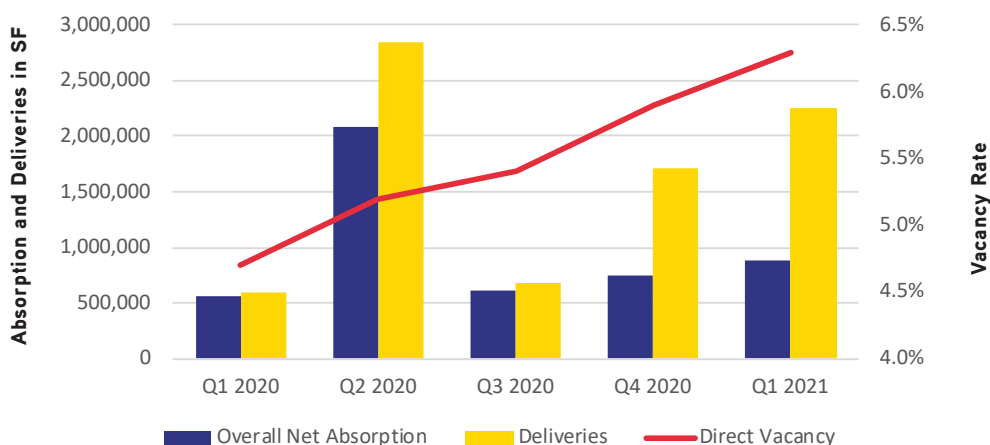
*Arrows compare current quarter to the previous quarter's historically adjusted figures

Denver Metro Summary Statistics

	Q1 2021	Q1 2020
Vacancy Rate	6.87%	5.09%
Absorption YTD	877,121	565,795
Deliveries YTD	2,246,198	145,061
Under Construction	7,839,663	5,696,928
Asking Rents/SF - WH/D	\$8.55	\$8.04
Asking Rents/SF - All Ind.	\$9.79	\$9.12
Total SF	257,118,788	250,979,530

*Source: Colliers Analytics

Absorption & Deliveries vs Vacancy



Investment Sales Overview

Increased clarity for industrial product types lies in sharp contrast to the murky futures for retail and office product, and investors have taken notice. Over \$320.6M of industrial investment changed hands during the first quarter 2021, suggesting that the product type is on track to surpass the \$1.0B mark for the fourth consecutive year. Historically, retail and office investment sales volume has surpassed industrial in the Denver metro, but 2020 demonstrated a major shift as industrial investment sales volume was 28.5% above the prior five-year annual average while office and retail product was down 25.6% and 18.4%, respectively, compared to their five-year averages. This trend has continued into 2021 as the \$320.6M sold in industrial product during the first quarter nearly matched the \$377.5M of office product sold and nearly doubled the \$163.0M sold in retail product. Expect another strong year for industrial investment sales as the product type maintains the most attractive fundamentals and strongest demand.

Vacancy

Overall vacancy closed the first quarter at 6.9%, representing a quarterly increase of 40 bps and an increase of 180 bps year-over-year. Rising vacancy has been driven almost exclusively by vacant space in new deliveries; the nearly 4.1 msf of spec product that delivered during 2020 is currently 75.0% vacant. This product should largely lease up over the course of the year (the roughly 5.8 msf of spec delivered in 2019 is currently 28.4% vacant), but with a robust pipeline remaining under construction, expect vacancy to remain mostly flat throughout 2021.

Lease Rates

Asking rental rates closed the first quarter at \$8.55 psf NNN for warehouse and distribution product, representing quarterly growth of 2.0% and 6.3% year-over-year. Average rates across all industrial product types closed at \$9.79 psf NNN which represented 2.2% growth over the fourth quarter 2020 and 7.3% year-over-year. Rental rates should continue to steadily rise throughout 2021 as demand remains strong and new product continues to deliver at a rapid pace.

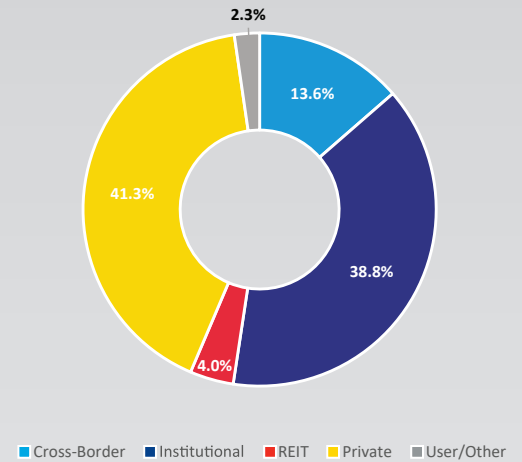
Leasing Activity

Nearly 2.9 msf of industrial product leased during the first quarter, a figure that slightly trailed the 2020 quarterly average of 3.2 msf. The largest lease of the quarter was Aspen Distribution's 280,000-sf sublease at Majestic Commercenter's Building 20. Also noteworthy was US AutoForce's new 139,200-sf lease at Pecos Logistics Park's Building 3. Leasing activity should remain strong throughout the year as e-commerce needs continue to grow and new spec availabilities abound throughout the market.

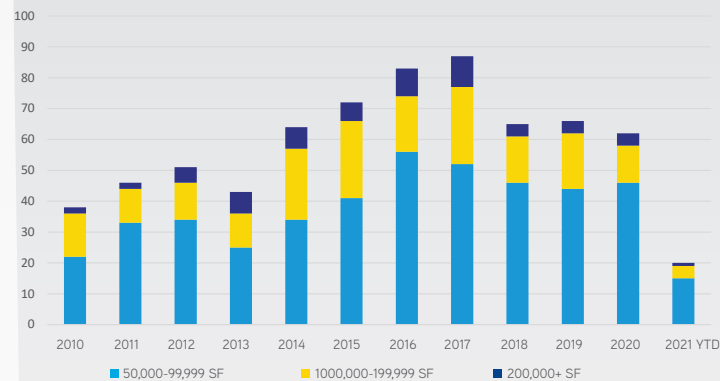
Absorption

The Denver metro recorded strong net absorption of 877,121 sf during the first quarter, representing the strongest quarter since the second quarter of 2020. This brought absorption over the four quarters of the pandemic to over 4.3 msf. While this figure is objectively strong, it is staggering considering that retail and office product have recorded -1.2 msf and -4.7 msf over the same time period. Absorption will remain strong throughout 2021 as newly delivered space leases up over the course of the year.

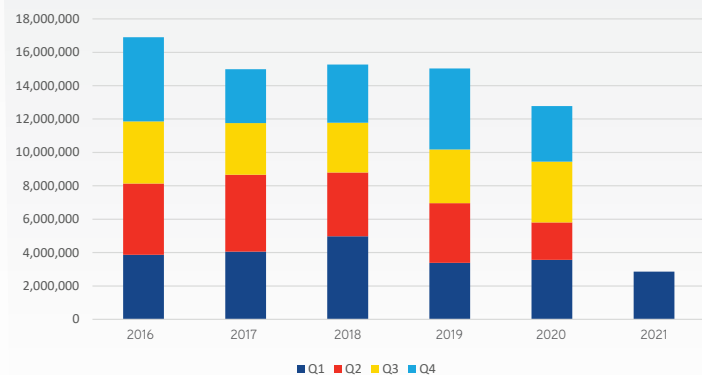
Capital Composition, Trailing 12 Months



Annual Deals by Size



Leasing Activity by Quarter



Source: Colliers Analytics

NOTABLE TRANSACTIONS Q1 2020 | DENVER INDUSTRIAL MARKET

Top Industrial Sales Activity						
PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
Tower Business Center	Northeast/Airport	\$66,450,000	422,961	\$157.11	EverWest	United Properties
Park 12 Hundred	North	\$50,250,000	289,810	\$173.39	KKR	McShane Development
Dove Valley	Southeast	\$20,000,000	150,598	\$132.80	Westcore Properties	Brennan Investment Group
5180-5270 Fox St	North Central	\$15,000,000	200,005	\$75.00	Brennan Investment Group	Southern Glazer's Wine & Spirits
9751 E 102nd Ave	I-76/Brighton	\$6,000,000	34,051	\$176.21	Colorado Floor Company	GEP Investments

Source: Colliers Analytics

Notable Leasing Activity				
PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME
Majestic Commercenter - Bldg 20	Northeast/Airport	280,000	Sublease	Aspen Distribution
Pecos Logistics Park - Bldg 3	North Central	139,200	New	US AutoForce
Denver Business Center	Northeast/Airport	105,432	Renewal	McKesson
Interstate Business Center	Northeast/Airport	104,912	New	ReadySpaces
Park 70	Northeast/Airport	99,776	New	CHEP USA
Majestic Commercenter - Bldg 23	Northeast/Airport	99,120	New	Next Level Resource Partners
Summit Distribution Center	Northeast/Airport	82,131	New	State of Colorado DHSEM

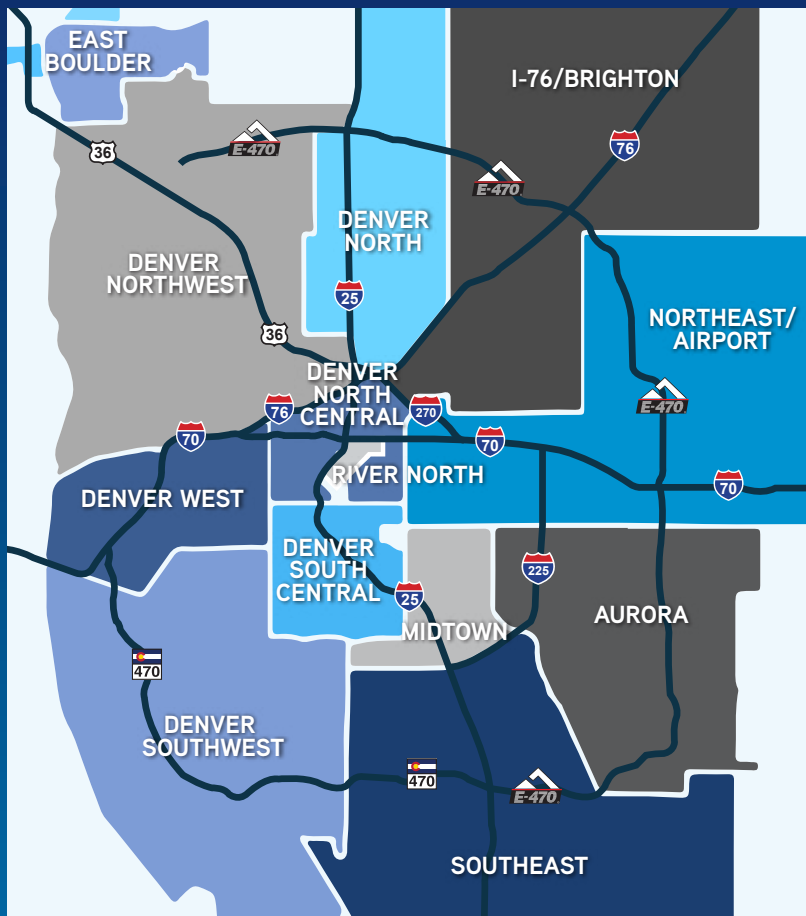
Source: Colliers Analytics

Industrial Overview									
SUBMARKET/ CLASS	BLDGS	TOTAL SF	TOTAL AVAILABLE SF	TOTAL VACANT SF	VACANCY %	DIRECT AVAILABLE	SUBLEASE AVAILABLE	ABSORPTION	WEIGHTED AVERAGE RENT (NNN)
AURORA									
Warehouse/Distribution	25	612,116	91,416	25,000	4.08%	91,416	0		\$7.50
Flex	42	1,500,498	195,221	102,981	6.86%	195,221	0		\$9.70
Total	67	2,112,614	286,637	127,981	6.06%	286,637	0	-6,033	\$9.70
CENTRAL BOULDER									
Warehouse/Distribution	36	1,129,823	54,444	51,156	4.53%	39,644	14,800		\$12.83
Flex	15	547,741	26,836	8,190	1.50%	26,836	0		\$17.50
Total	51	1,677,564	81,280	59,346	3.54%	66,480	14,800	-4,890	\$13.47
NORTH									
Warehouse/Distribution	168	9,204,950	1,791,547	579,809	6.30%	1,757,372	34,175		\$9.59
Flex	39	1,647,231	244,623	234,796	14.25%	241,623	3,000		\$13.48
Total	207	10,852,181	2,036,170	814,605	7.51%	1,998,995	37,175	63,383	\$10.23
NORTH CENTRAL									
Warehouse/Distribution	633	26,489,463	2,604,202	1,568,395	5.92%	2,184,088	420,114		\$8.13
Flex	36	1,143,020	325,235	249,248	21.81%	325,235	0		\$18.15
Total	669	27,632,483	2,929,437	1,817,643	6.58%	2,509,323	420,114	-30,321	\$10.26
NORTHWEST									
Warehouse/Distribution	507	20,203,259	1,810,711	1,614,815	7.99%	1,795,259	15,452		\$10.22
Flex	224	7,602,803	758,947	499,515	6.57%	728,656	30,291		\$12.78
Total	731	27,806,062	2,569,658	2,114,330	7.60%	2,523,915	45,743	-74,967	\$10.95

SUBMARKET/ CLASS	BLDGS	TOTAL SF	TOTAL AVAILABLE SF	TOTAL VACANT SF	VACANCY %	DIRECT AVAILABLE	SUBLEASE AVAILABLE	ABSORPTION	WEIGHTED AVERAGE RENT (NNN)
SOUTH CENTRAL									
Warehouse/Distribution	703	21,392,865	1,024,245	972,470	4.55%	904,652	119,593		\$8.57
Flex	37	946,053	25,842	33,513	3.54%	25,842	0		\$11.23
Total	740	22,338,918	1,050,087	1,005,983	4.50%	930,494	119,593	-29,919	\$8.75
SOUTHEAST									
Warehouse/Distribution	254	11,355,425	1,803,202	1,262,509	11.12%	1,779,437	23,765		\$9.61
Flex	227	7,843,731	937,066	683,374	8.71%	758,471	227,292		\$12.07
Total	481	19,199,156	2,740,268	1,945,883	10.14%	2,537,908	251,057	181,935	\$10.67
SOUTHWEST									
Warehouse/Distribution	201	6,910,520	500,222	217,111	3.14%	293,394	206,828		\$7.98
Flex	130	7,649,937	447,788	355,611	4.65%	447,788	0		\$11.38
Total	331	14,560,457	948,010	572,722	3.93%	741,182	206,828	14,112	\$9.56
WEST									
Warehouse/Distribution	130	8,963,251	159,764	66,837	0.75%	159,764	0		\$11.58
Flex	70	2,833,131	210,460	166,989	5.89%	205,805	4,655		\$12.53
Total	200	11,796,382	370,224	233,826	1.98%	365,569	4,655	28,650	\$12.16
EAST BOULDER									
Warehouse/Distribution	93	2,808,987	81,952	75,776	2.70%	70,336	11,616		\$13.96
Flex	83	2,458,705	425,503	267,124	10.86%	321,149	104,354		\$19.51
Total	176	5,267,692	507,455	342,900	6.51%	391,485	115,970	-12,084	\$18.15
GUNBARREL									
Warehouse/Distribution	42	1,969,893	244,304	199,799	10.14%	244,304	0		\$11.33
Flex	45	2,152,285	363,947	305,742	14.21%	329,875	34,072		\$12.81
Total	87	4,122,178	608,251	505,541	12.26%	574,179	34,072	-17,611	\$12.44
I-76/BRIGHTON									
Warehouse/Distribution	278	13,357,202	1,736,797	967,416	7.24%	1,604,797	132,000		\$13.66
Flex	20	644,531	-	-	-	-	-		\$13.50
Total	298	14,001,733	1,736,797	967,416	6.91%	1,604,797	132,000	128,831	\$13.66
MIDTOWN									
Warehouse/Distribution	41	1,269,961	28,140	4,899	0.39%	28,140	0		\$11.60
Flex	40	1,219,971	139,891	94,934	7.78%	139,891	0		\$8.99
Total	81	2,489,932	168,031	99,833	4.01%	168,031	0	-30,430	\$9.15
NORTHEAST/AIRPORT									
Warehouse/Distribution	1126	86,090,741	9,131,489	6,729,704	7.82%	7,973,150	1,220,183		\$6.97
Flex	76	3,015,605	199,122	191,650	6.36%	155,537	43,585		\$17.35
Total	1202	89,106,346	9,330,611	6,921,354	7.77%	8,128,687	1,263,768	639,451	\$7.24
RINO									
Warehouse/Distribution	79	3,772,604	190,719	109,603	2.91%	190,619	19,940		\$8.93
Flex	8	382,486	18,152	24,578	6.43%	18,152	0		\$35.00
Total	87	4,155,090	208,871	134,181	3.23%	208,771	19,940	27,014	\$9.96

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
Q1 2021	5,437,412	257,118,788	25,571,787	17,663,544	6.25%	23,036,453	2,665,715	877,121	\$8.55	\$9.79
QUARTERLY COMPARISON										
Q4 2020	5,756,772	256,155,225	25,343,526	16,576,317	5.87%	22,597,490	2,909,218	751,677	\$8.38	\$9.58
Q3 2020	6,922,775	254,443,331	23,787,750	15,314,257	5.45%	21,218,644	2,711,488	606,814	\$8.23	\$9.42
Q2 2020	6,711,606	253,814,273	21,842,735	2,508,596	5.22%	19,233,198	2,826,442	2,077,745	\$8.24	\$9.37

Source: CoStar | Properties: 20,000 SF +



400 offices in
68 countries on
6 continents

United States: **109**
Canada: **43**
Latin America: **18**
Asia Pacific: **35**
EMEA: **85**

\$3.3
billion in
annual revenue

2.0
billion square feet
under management

17,300
professionals
and staff

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