Colliers

Denver

Retail

22Q2

The Denver retail market continues to trend in the right direction. Despite a negative quarter for absorption, activity remained strong while rental rates surpassed pre-pandemic highs. Deliveries were slow, but the pipeline continues to grow as developers regain confidence in the future. Investors have grown increasingly bullish on retail's rebound, with the market on pace to set a record for investment sales volume. The table is set for a strong second half for the Denver retail market.

Accelerating success.

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Key Takeaways

- Net absorption returned to negative territory for the first time in five quarters at -58,948 SF
- Average asking rates surpassed pre-pandemic heights, closing at $18.32/SF on a triple net basis
- Deliveries were slow, but the pipeline grew for the third consecutive quarter with 569,980 SF under construction at quarter's end
- Investment activity continues to accelerate, nearing the $1.0B mark at the mid-year point

		YOY	FORECAST
Vacancy Rate	5.4%	▼	▼
Net Absorption	-58.9K SF	▼	▲
Under Construction	570M SF	▼	▲
Overall Industrial Asking Lease Rates (NNN)	$18.32/SF	▲	▲

Denver Retail Recovery Continues

The Denver retail market continued its steady recovery from the pandemic and its associated lockdowns during the second quarter. Vacancy stayed mostly flat quarter-over-quarter, closing at 5.4% and demonstrating a 60-basis-point drop from the post-pandemic peak. Absorption dipped back into negative territory for the first time in five quarters, but activity remained steady as the 782.1K SF leased during the quarter matched the average of the prior six quarters. Deliveries were slow, but the pipeline is growing again, demonstrating developer confidence in the future of brick and mortar, although construction costs continue to rise. Average asking rents increased for the third consecutive quarter as tenant demand bounces back and landlords are able to push rates once again. Investor confidence has increased as well, with annual sales volume nearing the $1.0B mark at the mid-year point. As the worst of the pandemic fades, so does the worst for retail. Expect the steady rebound to continue over the second half of the year with continued rent growth, positive absorption, and an increasing return to normalcy for the retail market.

Market Indicators

3.1% Unemployment Rate

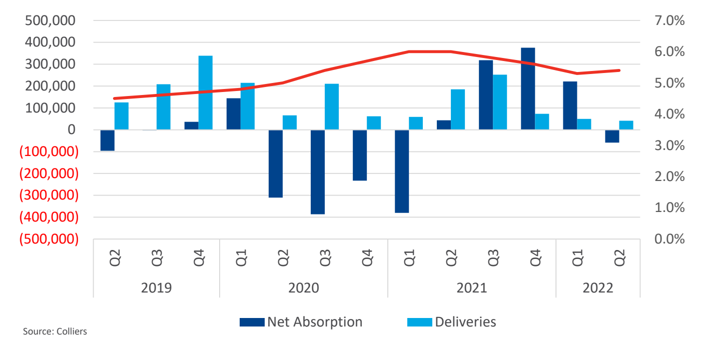
4.52% GDP - % Change Yr./Yr.

3.013% U.S. 10 Year Treasury Note

Historic Comparison

	Q2 2021	Q1 2022	Q2 2022
Total Inventory (SF)	132,108,063	132,104,175	132,133,568
New Supply (SF)	185,126	49,894	41,600
Net Absorption (SF)	43,594	221,336	(58,948)
Overall Vacancy	6.0%	5.3%	5.4%
Under Construction (SF)	634,346	566,100	569,980
Overall Asking Rates (NNN)	$17.52	$17.83	$18.32

Market Graph



Source: Colliers

Four straight quarters of substantial negative absorption following the onset of the pandemic led to a 120-basis-point increase in vacancy, but the market has demonstrated strong signs of recovery since. Denver's retail market recorded four consecutive quarters of positive absorption before this quarter's negative figure and vacancy has contracted 60 basis points as a result. Deliveries have been low the past three quarters, but as developer and investor confidence continues to increase, expect metrics to remain strong over the second half of 2022.

Labor Force

	TOTAL NONFARM	LEISURE & HOSPITALITY	SERVICE INDUSTRY
12-Mo. Employment Growth	4.6%	10.0%	7.4%
12-Mo. Actual Employment Change	69,900	15,700	4,300

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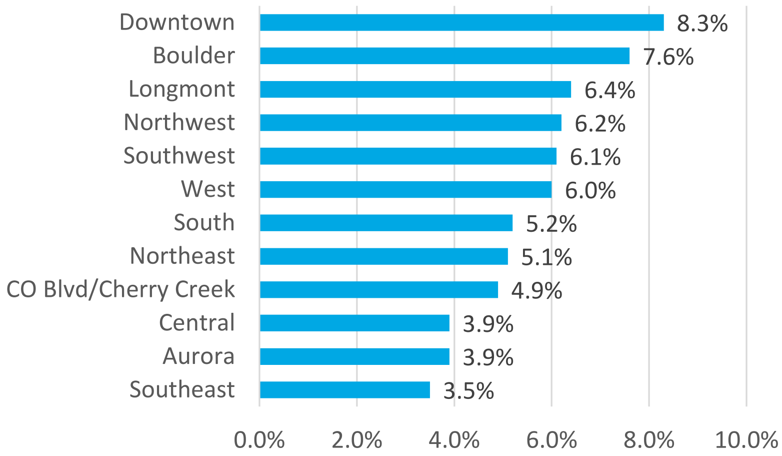
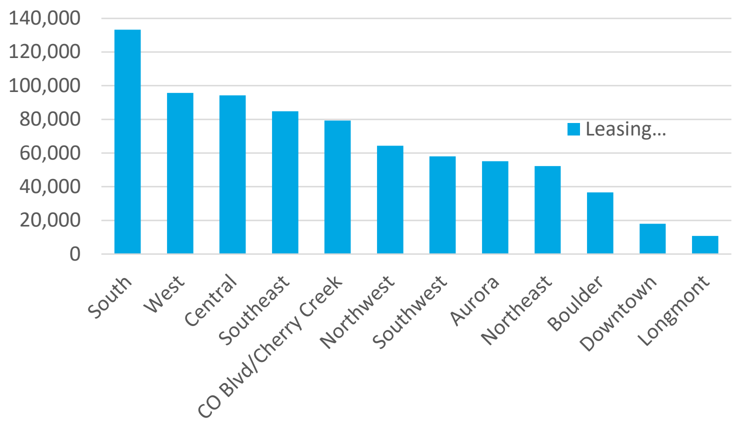
Vacancy

Vacancy closed the second quarter 2022 at 5.4% on an overall basis, indicating a 10-basis-point increase over the first quarter, but a 60-basis-point decrease year-over-year. Direct vacancy mirrored this growth as sublet retail space remains minimal around the metro, closing at 5.3% after a 10-basis-point quarterly increase. Sublet vacancy decreased 10 basis points to close at 0.1% for the Denver metro. This marginal quarterly increase in overall vacancy was driven by a return to negative territory for absorption during the second quarter. The Northeast submarket recorded the largest quarterly increase in vacancy as it increased 140 basis points, while the Southeast submarket demonstrated the strongest decrease, contracting 80 basis points during the quarter. Expect vacancy to trend downward over the second half of 2022 as the retail market returns to pre-pandemic levels of normalcy.



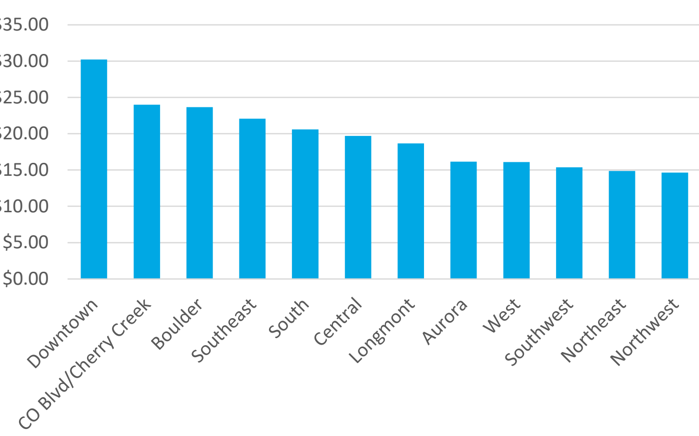
Absorption & Leasing Activity

Denver retail product recorded 782,100 SF of leasing activity during the second quarter 2022, a figure right in line with the 782,400-SF quarterly average of the prior six quarters. The largest lease of the quarter was Urban Air's new 43,800-SF space at Quebec Village Shopping Center. The South submarket headlined activity during the second quarter as 133,200 SF leased, while activity was slow in the Boulder and Longmont submarkets as they combined for just 47,300 SF of activity. Absorption slowed during the second quarter, recording -58,900 SF and marking the first negative figure for the market in five quarters. As demand remains steady and tenant confidence continues to accelerate, expect activity to remain strong and absorption to return to positive territory over the second half of the year.



Rental Rates

Average asking rental rates for Denver retail product closed the second quarter at $18.32/SF on a triple net basis. This figure indicated quarterly growth of 2.7% and 4.6% year-over-year as asking rates surpassed pre-pandemic highs. The Aurora submarket demonstrated the strongest quarterly rent growth, increasing 5.3% during the second quarter. Rent growth in the Colorado Boulevard/Cherry Creek submarket was noteworthy as well, increasing 4.5% as the area continues to demand among the highest rental rates in the entire metro. The Downtown submarket continues to demand the highest rental rates in the metro area, but recorded the largest quarterly decrease as rates fell 1.8%. As the retail market continues its rebound, expect rental rates to continue to grow over the second half of the year.



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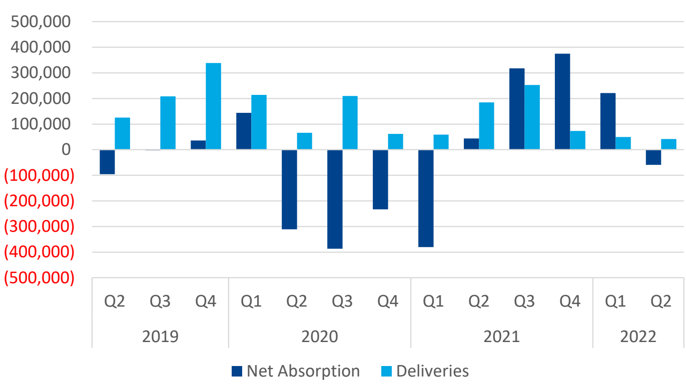
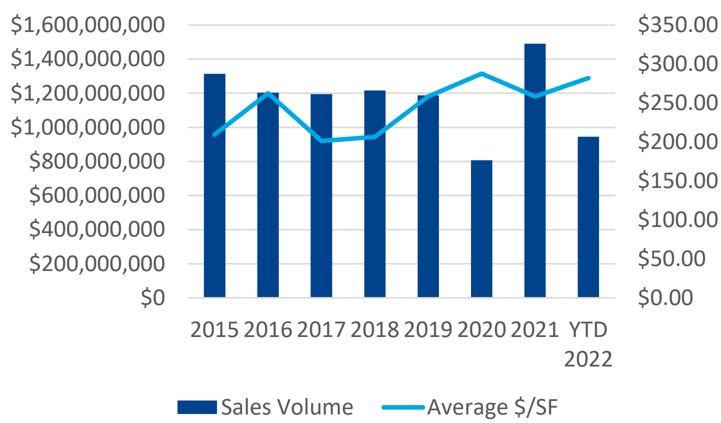
Construction

Denver retail deliveries were slow during the second quarter as three projects delivered a total of 41,600 SF. The largest delivery for the quarter was the 17,800-SF medical building located at 1910 Coalton Road in the Northwest submarket. The pipeline demonstrates increasing developer confidence however as volume grew for the third consecutive quarter with 570,000 SF under construction at quarter's end. The largest project currently under construction is the 130,000-SF Amber Creek in the Northeast submarket. Also noteworthy were two blocks at Downtown Superior totaling 53,100 SF. The Central and Northeast submarkets headline active developments with 180,400 SF and 150,700 SF currently underway, respectively. Despite this acceleration, development remains muted compared to the pre-pandemic landscape. Annual deliveries averaged 1.1 MSF during the five years prior to 2020, while only 999,000 SF has delivered over the nine quarters since. As retail metrics continue to strengthen, developer confidence will as well, so expect construction activity to accelerate over the remainder of the year. However, it is worth noting that construction costs and timelines continue to increase as labor and material shortages hamper development across the nation.



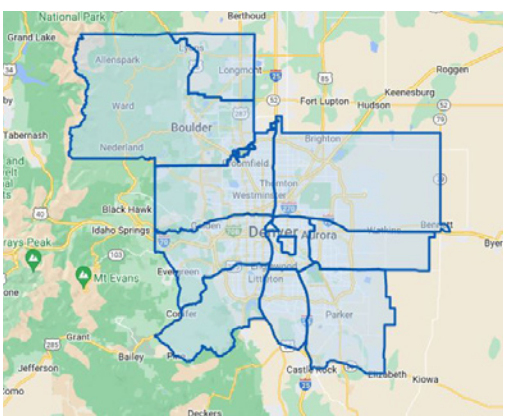
Investment Activity

Retail investment activity has been surging as the impacts of the pandemic continue to fade. Investment was understandably muted during 2020 as the $806.3M in sales volume represented the lowest annual figure since 2012. The market bounced back in 2021 as the $1.5B that transacted represented the largest annual figure in Denver's history. This momentum has largely carried into 2022 as the market recorded $944.9M in sales volume by the mid-year point. The largest sale of the quarter were two buildings in Cherry Creek as Alpine Investments acquired them for $25.2M from Unico Properties. Also noteworthy was the Streets at SouthGlenn as The Borman Group acquired it from Alberta Development Partners for $15.7M. The market is on track to set a sales volume record again in 2022, but it is worth noting that volatility in the debt market may lead to some upward adjustment in cap rates over the second half of the year and beyond.



Market Description

The Denver metro retail market is composed of 132.1 MSF of product in buildings over 10,000 SF. Brick and mortar retail was devastated by the pandemic across the country, but the rebound around the Denver market has been strong as lockdowns and other associated retailer concerns continue to fade. Denver's rampant population growth, coupled with the lack of another major metro for over 400 miles in any direction, makes Denver an ideal target among retailers seeking a location in the Rocky Mountain region. As the market continues to return to normalcy, the future is brightening for Denver retail and a booming population assures that tenants will continue to pursue Denver retail product.



Notable Retail Sales

Property	Submarket	Sale Price	SF	Price/SF	Buyer	Seller
2645 E. 2nd Ave. & 227 Clayton St.	CO Blvd/Cherry Creek	$25,150,000	21,660	$1,161.13	Alpine Investments	Unico Properties
Streets at SouthGlenn	South	$15,700,000	24,693	$635.81	The Borman Group	Alberta Development Partners
Summit Thornton	Northeast	$15,578,560	49,980	$311.70	Spirit Realty Capital	Summit Companies
Castle Pines Marketplace	South	$15,500,000	93,416	$165.92	Robert Perry Investments	CNA Enterprises
1108-1116 Pearl St.	Boulder	$14,250,000	21,285	$669.49	Holley Ellis	Bruce Greene

Notable Leasing Activity

Property	Submarket	Leased SF	Lease Type	Tenant Name
Quebec Village Shopping Center	South	43,800	New	Urban Air
West Sixth Commerce Center	West	32,200	New	IDS GeoRadar
7801 W. Colfax Ave.	West	30,900	New	Heart Heating & Cooling
3000 E. 3rd Ave.	CO Blvd/Cherry Creek	30,000	New	Unknown
8500 E. Orchard Rd.	Southeast	20,000	New	Boot Barn

Under Construction

Property	Submarket	SF	Developer	Estimated Completion
Amber Creek	Northeast	130,000	WMG Development	Q3 2022
Downtown Superior - Blocks 7 & 9	Boulder	53,100	Avanti Properties Group	Q3 2022/Q1 2023
Boulevard One - Target	Central	25,000	Kelmore Development	Q3 2022
Nine Mile Corner	Boulder	18,200	Evergreen Development	Q3 2022
4637 Central Park Blvd. - Chili's	Northeast	10,700	Unknown	Q4 2022

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Q2 Retail Overview

Submarket	# of Bldgs	Total SF	Direct Vacancy %	Sublease Vacancy %	Total Vacancy %	Prior Qtr. Vacancy %	Leasing Activity	Overall Net Absorption	Deliveries	Under Construction	Average Rental Rate (NNN)
Aurora	258	10,045,547	3.9%	0.0%	3.9%	4.1%	55,151	17,128	0	0	$16.15
Boulder	264	9,130,623	7.0%	0.6%	7.6%	6.5%	36,569	(100,934)	0	86,269	$23.66
Central	468	13,479,268	3.9%	0.0%	3.9%	3.6%	94,224	(47,477)	0	180,395	$19.69
CO Blvd/ Cherry Creek	102	4,097,876	4.6%	0.3%	4.9%	4.5%	79,227	(14,411)	0	12,600	$24.00
Downtown	82	2,861,895	8.3%	0.0%	8.3%	7.9%	17,957	(12,661)	0	0	$30.21
Longmont	133	4,337,809	6.4%	0.0%	6.4%	6.7%	10,744	9,894	0	0	$18.67
Northeast	301	12,201,563	5.1%	0.0%	5.1%	3.7%	52,189	(152,185)	24,600	150,688	$14.87
Northwest	472	20,484,544	6.1%	0.1%	6.2%	6.3%	64,285	27,314	0	46,028	$14.64
South	348	16,045,955	5.2%	0.0%	5.2%	5.9%	133,191	94,099	0	0	$20.60
Southeast	332	12,799,192	3.5%	0.1%	3.5%	4.3%	84,803	108,457	17,000	10,000	$22.07
Southwest	197	9,046,321	6.1%	0.0%	6.1%	6.4%	58,004	23,000	0	0	$15.37
West	503	17,602,975	5.9%	0.1%	6.0%	5.9%	95,740	(11,172)	0	84,000	$16.09
MARKET TOTAL	3,460	132,133,568	5.3%	0.1%	5.4%	5.3%	782,084	(58,948)	41,600	569,980	$18.32

Q2 Shopping Center Overview

Submarket	# of Bldgs	Total SF	Direct Vacancy %	Sublease Vacancy %	Total Vacancy %	Prior Qtr. Vacancy %	Leasing Activity	Overall Net Absorption	Deliveries	Under Construction	Average Rental Rate (NNN)
Malls	119	13,005,459	5.0%	0.1%	5.1%	5.1%	8,290	(2,637)	0	0	$30.00
Power Centers	199	15,133,882	6.7%	0.2%	6.9%	5.8%	13,603	(178,066)	0	0	$19.32
Neighborhood/ Community Center	1,176	53,075,237	6.7%	0.1%	6.8%	7.0%	507,554	114,020	0	12,600	$17.37
Strip Center	369	6,038,731	5.5%	0.1%	5.5%	5.4%	44,190	5,727	17,000	0	$19.39
Other	3	309,891	-	-	0.0%	0.4%	-	1,200	0	0	-
SHOPPING CENTERS TOTAL	1,866	87,563,200	6.3%	0.1%	6.5%	6.4%	573,637	(59,756)	17,000	12,600	$17.82

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$3.3B
in revenue

2B
square feet under management

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