CBRE

MARKETVIEW
DENVER INDUSTRIAL & LOGISTICS
Q3 2020

Industrial market proves resilient in uncertain climate

Availability Rate	Achieved Rate	Net Absorption	Under Construction	Completions
10.5% ▲	$7.65 NNN ▲	966,200 SF ▼	7.1 MSF ▲	815,000 SF ▼

*Arrows indicate change from previous quarter.

- Over 966,000 sq. ft. of positive net absorption was recorded in Q3 2020—a 69.0% increase from Q3 2019.
- The overall average achieved lease rate for Q3 2020 climbed 1.6% quarter-over-quarter to $7.65 per sq. ft. NNN.
- The overall average direct asking lease rate rose 1.2% quarter-over-quarter to $9.00 per sq. ft. NNN in Q3 2020.
- Direct vacancy remained stable quarter-over-quarter at 6.9%, while total availability increased by 28 bps to 10.5% in Q3 2020.
- Six buildings comprising nearly 815,000 sq. ft. delivered in Q3 2020 as construction activity remained elevated with 7.1 million sq. ft. underway—the highest total in over 20 years.
- Year-to-date investment sale volume reached nearly $945.0 million, up 20.8% year-over-year.

MARKET SUMMARY

Metro Denver saw its 42nd consecutive quarter of positive net absorption, recording over 966,000 sq. ft. of net absorption in Q3 2020 and pushing year-to-date (YTD) net absorption to over 2.8 million sq. ft., a 37.9% increase year-over-year. Construction volume remained elevated with 7.1 million sq. ft. of projects underway, eclipsing Q1 2020's near record numbers and taking the spot for second highest construction volume since 1997. Of the total volume, 4.7 million sq. ft (66.3%) is planned for speculative (spec) space. Direct vacancy remained stable at 6.9%, but availability rose slightly to 10.5% in Q3 2020. Although there was only an increase of $0.11 quarter-over-quarter, average direct asking lease rates continued to grow. The average achieved lease rate followed suit, rising 1.6% quarter-over-quarter to $7.65 per sq. ft. triple net (NNN) in Q3 2020. An overall sales volume of $314.0 million was recorded in Q3 2020, bringing YTD sales volume to $1.1 billion, a 9.7% increase year-over-year. Investment sales accounted for the lion's share of the total sales volume this quarter as owner/user sale volume continued to decline.

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Figure 1: Denver Market Statistics

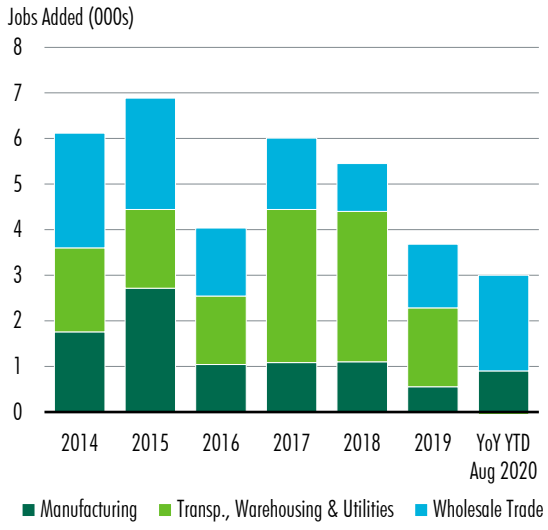
Submarket	Net Rentable Area (SF)	Net Absorption (SF)	Under Construction (SF)	Average Asking Lease Rate ($/SF/YR NNN)	Availability Rate (%)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)
Airport	87,659,452	475,840	3,044,566	6.67	11.2	6.9	8.1
Boulder	13,249,941	(122,668)	-	13.90	12.5	7.8	9.0
I-76 Corridor	11,062,383	160,162	558,000	12.36	4.0	3.2	3.3
Longmont	6,640,180	(21,935)	433,294	12.85	18.4	12.8	14.1
North	10,953,867	141,150	1,427,699	8.86	14.6	10.6	10.9
North Central	35,974,263	116,020	675,100	8.98	10.0	6.7	7.0
Northwest	16,938,884	(60,701)	146,318	9.86	10.6	8.7	9.0
South Central	25,759,761	47,103	-	8.48	6.3	3.8	3.9
Southeast	21,565,029	29,451	635,034	10.00	12.4	9.0	9.8
Southwest	9,150,326	213,334	-	10.28	10.3	6.8	8.0
West	11,335,881	(11,543)	142,167	10.71	6.6	4.6	4.6
Metro Denver	250,289,967	966,213	7,062,178	9.00	10.5	6.9	7.6

Source: CBRE Research, Q3 2020.

INDUSTRIAL-USING EMPLOYMENT

Industrial-using employment—including manufacturing, transportation, warehousing and utilities, and wholesale trade—started 2020 strong before economic fallout from the COVID-19 pandemic brought an end to a decade of economic expansion. While these industries have suffered losses, continued demand for consumer products and an increase in online shopping have buoyed job growth to some extent. On an average annual year-to-date basis, these industries added 1,600 jobs over the same period a year earlier, an increase of 0.7%. After peaking at 12.1% in April, the metro area's unemployment rate fell to 6.9% in August as some pandemic-related job losses were reversed.

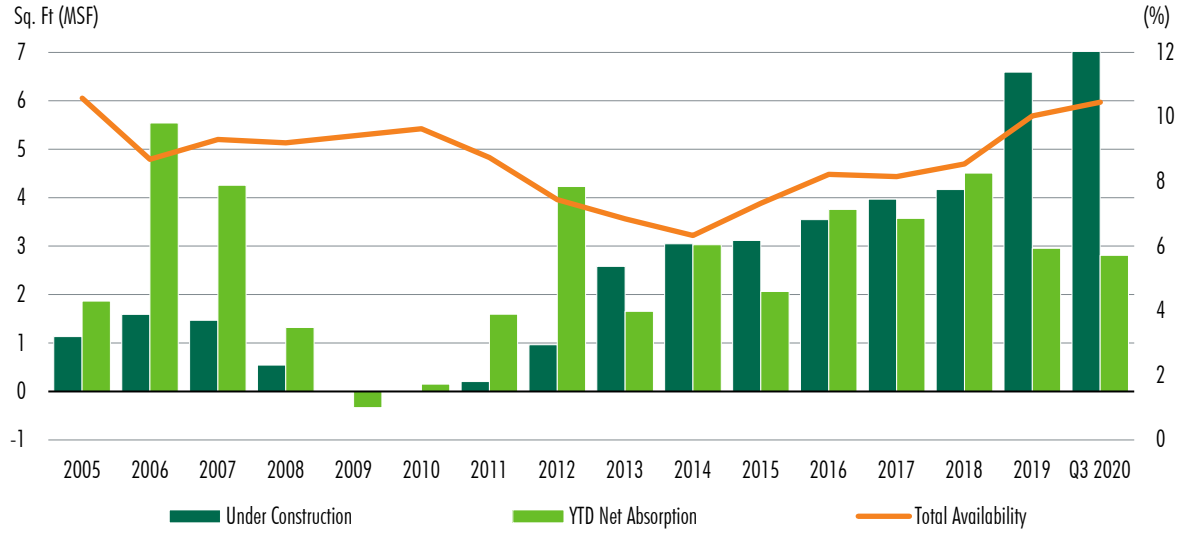
Figure 2: Industrial-Using Employment Growth



Source: U.S. Bureau of Labor Statistics, Aug 2020.

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Figure 3: Construction, Net Absorption and Availability



Source: CBRE Research, Q3 2020

VACANCY & AVAILABILITY

Direct vacancy remained stable quarter-over-quarter with an increase of only 2 bps to stay at 6.9%, while total availability increased by 28 bps to 10.5% in Q3 2020. With the amount of available sublease space decreasing quarter-over-quarter by about 150,000 sq. ft., it was the 780,000 sq. ft. of direct available space added to the market that drove up availability rates in Q3 2020.

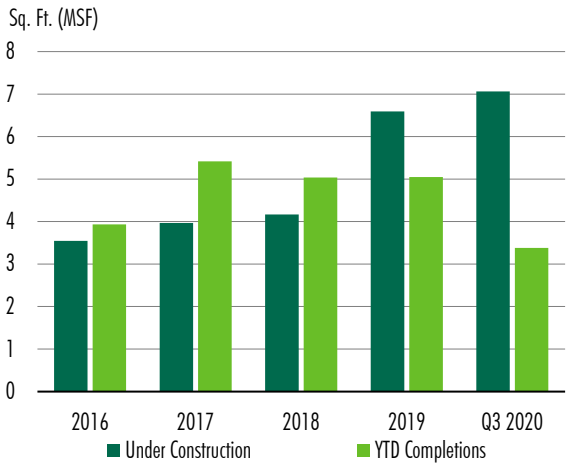
CONSTRUCTION

Six projects were completed in Q3 2020, totaling 814,777 sq. ft. The Airport submarket saw over 314,000 sq. ft. of warehouse deliveries in Clarion Gateway's new Buildings 24 and 25. Other notable completions included the 147,252-sq.-ft. Potomac Park at Dove Valley Building 2, and Buildings 1 and 2 at 25 North, totaling 219,200 sq. ft. of spec warehouse space. Projects under construction in Q3 2020 totaled 7.1 million sq. ft., surpassing Q1 2020's abundant total and falling just short of the highest volume recorded in 1997. Notable projects under construction include Shamrock Foods' 900,000-sq.-ft. BTS and Stafford Logistics Center Building 1, totaling over 594,000 sq. ft. of spec space, both located in the Airport submarket. Speculative projects comprised 66.3% of the total space under construction as of Q3 2020.

NET ABSORPTION

Positive net absorption of 966,213 sq. ft. was recorded this quarter, a 69.0% increase from Q3 2019. The Airport submarket was the primary driver for this quarter's positive net absorption, recording 476,000 sq. ft. of net absorption—almost 50% of the total. Significant move-ins this quarter included Terumo occupying its 169,590-sq.-ft. space at Parc Santa Fe Building B in Littleton, Amazon moving into 151,668 sq. ft. at the North Washington Commerce Center in Thornton, and three tenants filling the 135,792-sq.-ft. Clarion Gateway Building 2 in its entirety.

Figure 4: Industrial Construction Activity



Source: CBRE Research, Q3 2020.

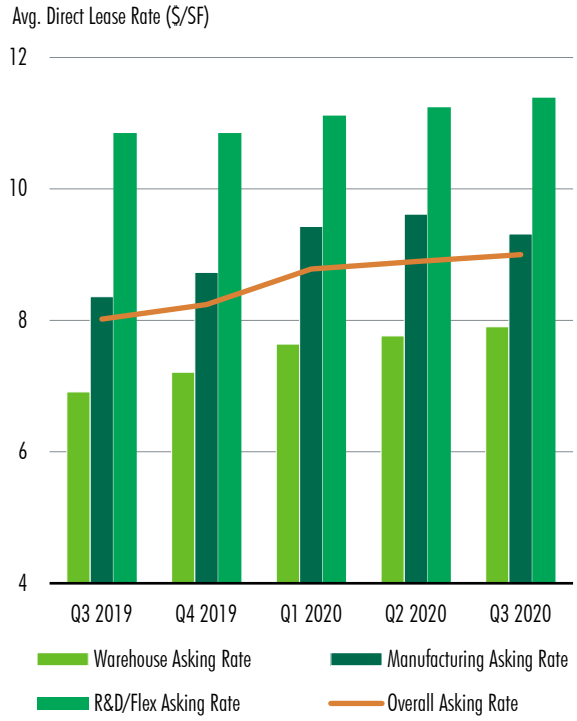
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AVERAGE LEASE RATES

The average asking lease rate increased $0.11 quarter-over-quarter to $9.00 per sq. ft. NNN in Q3 2020. The average asking rates for both Warehouse and R&D/Flex product types increased quarter-over-quarter by $0.14 and $0.15, respectively, reaching $7.90 and $11.39 per sq. ft. NNN. Manufacturing rates fell $0.31 to $9.31 per sq. ft. NNN. Average asking rates in the Airport submarket remained stable, reporting just a $0.02 decrease quarter-over-quarter to $6.67 per sq. ft. NNN. The Southwest submarket saw a significant jump quarter-over-quarter from $9.55 to $10.28 per sq. ft. NNN in Q3 2020.

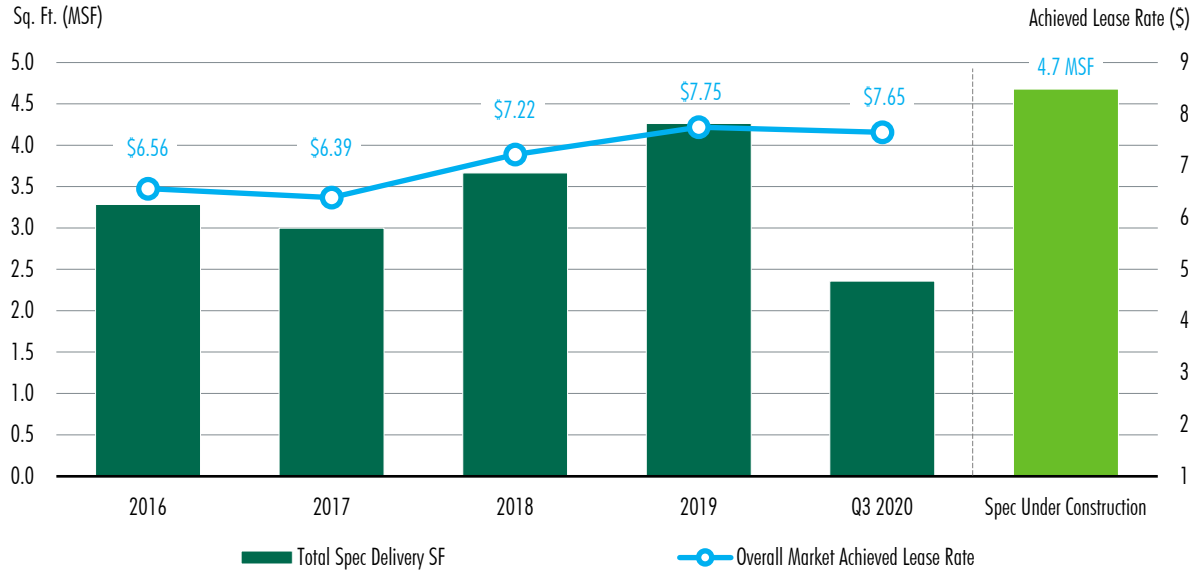
The gap between average asking rates and average achieved rates remained steady in Q3 2020. The average achieved lease rate (based upon a weighted average of executed lease transactions) increased 1.6% quarter-over-quarter, reaching $7.65 per sq. ft. NNN. The average achieved lease rate for the Airport submarket fell only $0.17 to $6.92 quarter-over-quarter. Achieved rates across other submarkets were more volatile. The South Central submarket saw average achieved rates jump $1.07 to $10.86 per sq. ft. NNN, marking a key quarter-over-quarter submarket increase.

Figure 5: Average Direct Lease Rates by Product Type



Source: CBRE Research, Q3 2020.

Figure 6: Annual Speculative Deliveries vs Average Achieved Lease Rate



Source: CBRE Research, Q3 2020.

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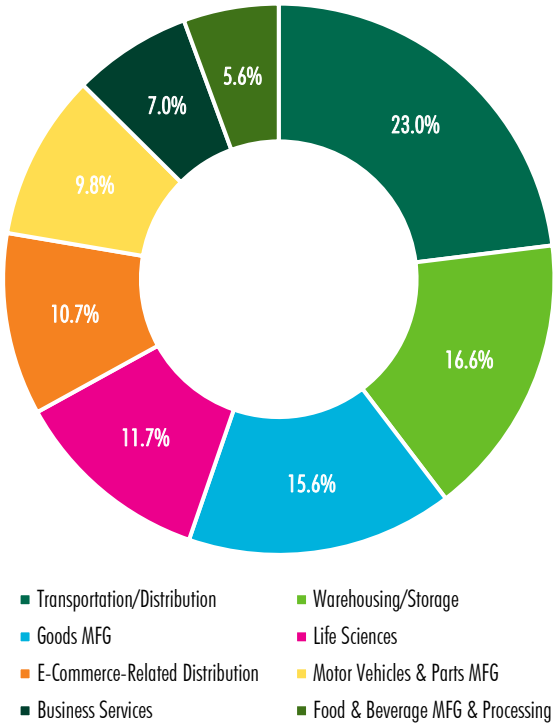
LEASING ACTIVITY

Leasing volume in Q3 2020 reached 2.1 million sq. ft., down 29.3% quarter-over-quarter. The activity was fueled by Subaru's 550,000-sq.-ft. lease and Pepsi's 283,500-sq.-ft. lease. There were nine leases over 100,000 sq. ft. signed in Q3 2020, which is greater than the total of the past three quarters combined. New leases accounted for over two-thirds of the activity this quarter, with short-term renewal activity not as prevalent as it was earlier in the year. The transportation/distribution industry continued to account for the largest portion of leasing activity over the past four quarters, representing 23.0% of total activity. The warehousing/storage industry managed to edge out the goods manufacturing industry this quarter for the second largest share of overall leasing activity at 16.6%.

INVESTMENT TRENDS

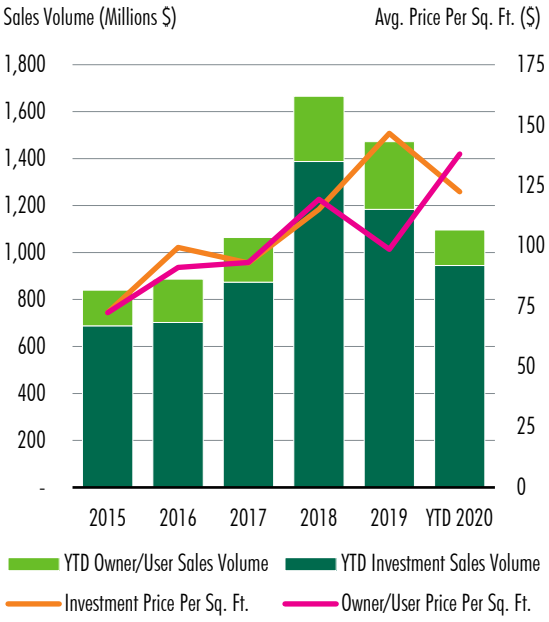
Twenty-six properties traded hands in Q3 2020, recording an overall (investment and owner/user) sales volume of $314.0 million, a 9.7% increase year-over-year. The overall average price per sq. ft. remained stable, up only 0.7% to $132.42. Investment sales volume increased 20.6% year-over-year to $288.6 million in Q3 2020, with an average price per sq. ft. of $131.27 per sq. ft., a 24.3% decrease from Q3 2019. The largest single building transaction recorded in the metro area this quarter was the $49.0 million sale of 333-335 Centennial Pkwy in Louisville. Other notable transactions in Q3 2020 included the three-building Crow Holdings Industrial Portfolio, which traded for $85.2 million, and the three-building Highfield Business Park portfolio, fetching a total of $64.5 million. Owner/user sales numbers were down significantly quarter-over-quarter, totaling $25.4 million in Q3 2020, with an average price per sq. ft. of $147.17. In line with the 71.0% decline from last quarter, owner/user sales volume fell 59.7% year-over-year.

Figure 7: Leasing Activity by Industry Type, Q4 2019–Q3 2020



Source: CBRE Research, Q3 2020.

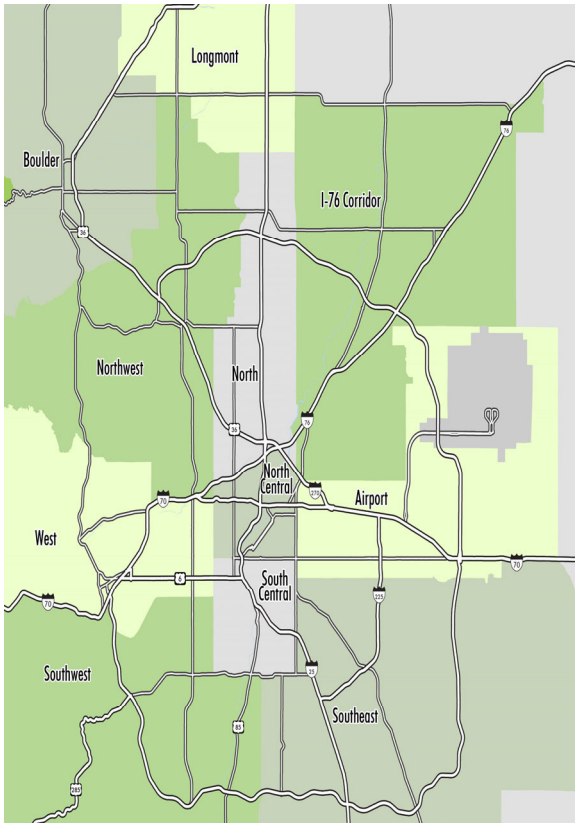
Figure 8: Investment Trends



Note: Sale data is based on transactions $2.5 million and above

Source: CBRE Research, Q3 2020.

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MARKET OUTLOOK

The Denver industrial market continued to push forward with a strong quarter of deliveries, positive net absorption and an abundant construction pipeline. Confidence remains high as the Denver industrial market continued its streak of positive net absorption for the 42nd consecutive quarter. Asking rates have been holding steady and achieved rates have shown slight growth as the uncertainty in the market brought on by COVID-19 has highlighted the strength and resilience of the industrial product type. Several sizable deals have closed, and tour activity has increased. The Denver region is positioned to remain a highly sought-after destination, as indicated by strong investor demand and stable fundamentals. Overall, healthy leasing activity, robust investment sales volume and a near record breaking development pipeline all indicate a mature and dynamic market.

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