MARKET REPORT

Retail

Denver Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

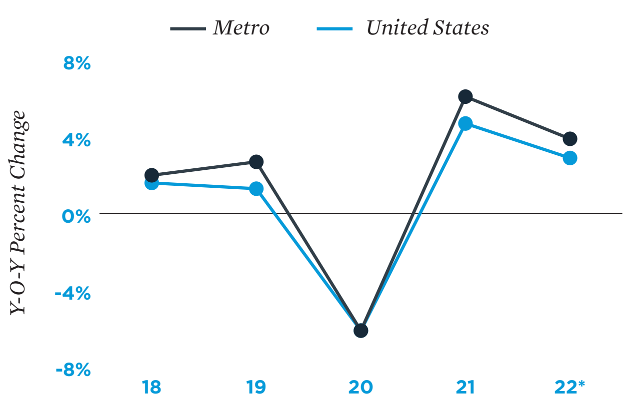
2Q/22

Suburban Retail Still Thriving; Turnaround in Urban Locales Imminent

High incomes bring national retailers to Denver. Due to its diverse landscape of high-skill employment sectors, the metro is home to the largest median household income in the U.S., outside of Washington, D.C. and the Bay Area. The market also boasts a top 10 rate of income growth among major American metros. A wealthier populace has enticed national brands to establish footprints and expand operations in Denver. The health crisis shifted tenant demand outwards, as vendors looked to mitigate the distance between stores and clientele, tightening vacancy in most of the metro's suburban pockets. Southeast, Northeast, Central Denver and Aurora are all reporting year-over-year vacancy drops of at least 100 basis points in March. Buildings in Downtown Denver, Cherry Creek and areas near DTC stand to benefit most from a return-to-office movement.

Hardest-hit sectors rebounding in 2022. Restaurants, nightclubs and gyms were a sizable portion of the business closures during the pandemic. These segments are bouncing back after local gathering rules were loosened, however. Multiple new leases have been signed by these types of retailers recently, including a restaurant and pickleball facility in Westminster, a gym in Aurora and a nightclub downtown. Strong performers during the health crisis have also expanded, with Dick's Sporting Goods and Dollar Tree adding square feet in the last year. Diverse leasing brought multi-tenant and single-tenant availability to a similar threshold, with multi-tenant vacancy at 5.0 percent and the single-tenant rate 10 basis points lower in March.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

60,000 JOBS
will be created

EMPLOYMENT:

After surpassing the pre-pandemic employment level in 2021, Denver will continue adding workers at an above-average rate. The 3.9 percent expansion in staffing is the secondlargest annual gain after 2015, trailing only the recovery observed in 2021.

550,000 SQ. FT.
will be completed

CONSTRUCTION:

Completions will rise in 2022 as developers increase activity for the first time since 2018. Northeast and Central Denver are the two submarkets with the most inventory under construction, at a combined 430,000 square feet.

50 BASIS POINT
decrease in vacancy

VACANCY:

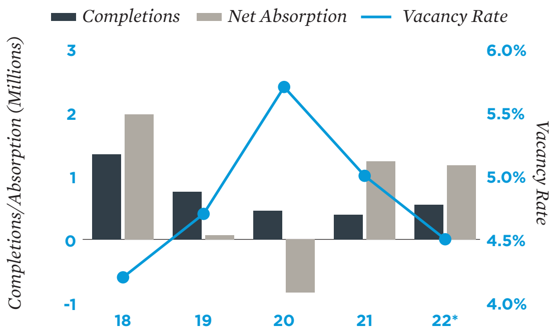
Following last year's 70-basis-point retreat, metrowide vacancy is set to contract again this year to 4.5 percent. This will put retail vacancy beneath the year-end 2019 level for the first time after the start of the health crisis.

3.1% INCREASE
in asking rent

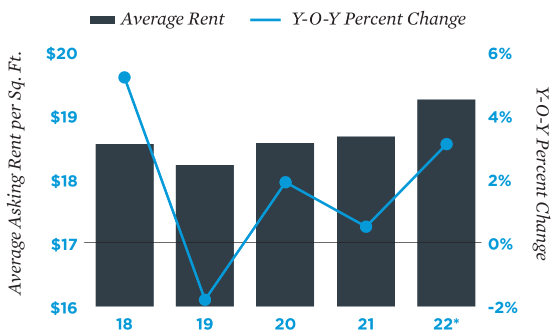
RENT:

As health restrictions loosen and consumers return to entertainment venues and workplaces, the rate of asking rent growth in the metro will elevate ahead of last year's 0.5 percent clip. The rise to $19.25 per square foot is the fastest gain since 2018.

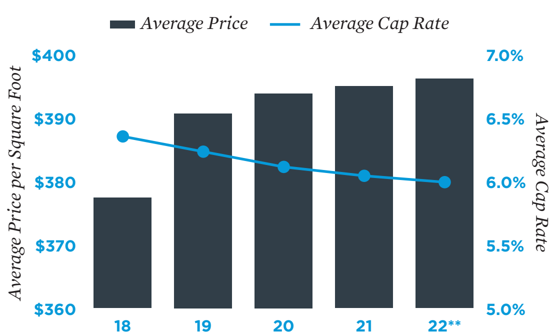
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

376,000 sq. ft. completed

- Developers have over 540,000 square feet of space in the pipeline as of April, suggesting the future annual totals will remain subdued compared to the five-year trailing average of 782,000 square feet finalized per year.
- Development activity slowed during the 12-month period ended in March, with a marketwide inventory expansion of just 0.3 percent.

VACANCY

90 basis point decrease in vacancy Y-O-Y

- A ramp up in leasing activity toward the end of 2021 and early in 2022 has aided in reducing Denver's retail vacancy rate to 4.9 percent.
- Downtown is the only submarket that did not report vacancy compression year-over-year in March. Suburban locales like Aurora, Southeast and Northeast Denver all noted contractions of more than 100 basis points.

RENT

1.1% increase in the average asking rent Y-O-Y

- Rents grew in the opening quarter of 2022, the first time Denver rates have risen during the initial three months of a year since 2018, enabling the average asking rent to climb to $18.73 per square foot in March.
- Recovery in the multi-tenant segment has led to asking rents climbing 8.3 percent over the past 12 months, reaching $18.67 per square foot.

Investment Highlights

- Sales volume rose sharply in 2021, as recovering fundamentals, coupled with the stable performance by necessity-based retail assets throughout the pandemic, helped raise investor confidence in the metro. The average sale price has risen slightly of late, at $481 and $321 per square foot for single-tenant and multi-tenant buildings, respectively.
- Investors are targeting single-tenant assets in Central and West Denver, usually prioritizing restaurant, drug stores and sporting goods retailers. Cap rates for these properties are 5.5 percent on average, but can swing 100 basis points in either direction based on tenant roster and location. Colfax Avenue, Colorado Boulevard and Broadway are popular locales.
- Single-tenant transactions still represent the bulk of recent trades, but recovery in the multi-tenant tranche has caused the gap to narrow. The growing communities of Northeast and Northwest Denver recorded the most assets changing hands, usually involving fully-leased or stabilized grocery-anchored centers. Cap rates on these transactions can be as low as 3 percent depending on occupancy and tenant mix, but can yield closer to 6 percent at the higher end. Sporting goods-anchored centers are also in high demand, due to strong performance during the health crisis.