MARKET REPORT

Retail

Denver Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

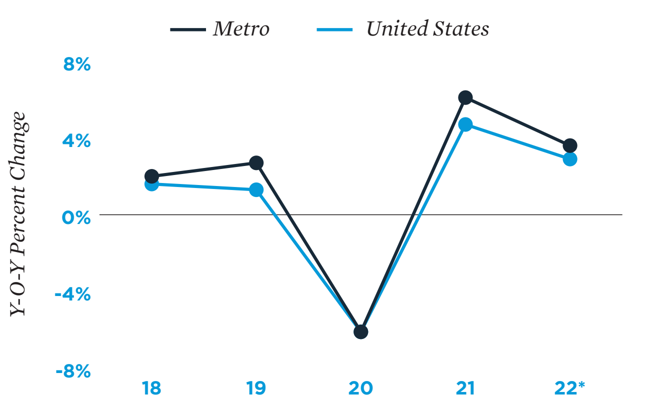
3Q/22

Lower-Cost Submarket a Top Performer; Strong Spending Leads to Strong Rebound

Aurora's retail resurgence is noteworthy. Following the market's economic recovery from the health crisis, suburban fundamentals have strengthened. Aurora, in particular, is having an impressive retail rebound, as its growing apartment renter base is heightening local consumer demand for goods and services. Over the past year ended in the second quarter, the submarket's retail sector experienced year-over-year vacancy compression of 240 basis points and average asking rent expansion of 8.0 percent, leading all submarkets. Inventory here grew by just 0.4 percent during the four-quarter period, guiding expanding retailers to existing options. Local supply growth is expected to further dwindle in the near term, as a minimal volume of space was underway in the submarket as of August.

Downtown and Central Denver making progress. At the end of 2019, the Downtown and Central submarkets had the lowest vacancy rates and highest rents in the metro. Following out-migration from the urban core and a shift to remote work during the pandemic, retail space in these locales struggled as midweek and entertainment-based foot traffic plunged. By the second quarter of 2022, asking rents in the Central submarket still remained considerably lower than year-end 2019, while vacancy was 120 basis points higher, despite minimal inventory growth. Downtown Denver, in particular, was 520 basis points off its 2019 mark. However, a recent compression of 30 basis points year-over-year has brought vacancy to 8.3 percent in the second quarter of 2022.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

55,000 JOBS
will be created

EMPLOYMENT:

The midyear unemployment rate reached 3.4 percent, declining for the eighth consecutive quarter, although still above the pre-pandemic mark. Led by business and professional services hiring, total employment will increase by 3.6 percent in 2022.

425,000 SQ. FT.
will be completed

CONSTRUCTION:

Completions will rise for the first time since 2018, as declining vacancy warrants supply additions. Still, total inventory expands by just 0.3 percent, as the volume of space delivered trails the prior 10-year average by more than 400,000 square feet.

50 BASIS POINT
decrease in vacancy

VACANCY:

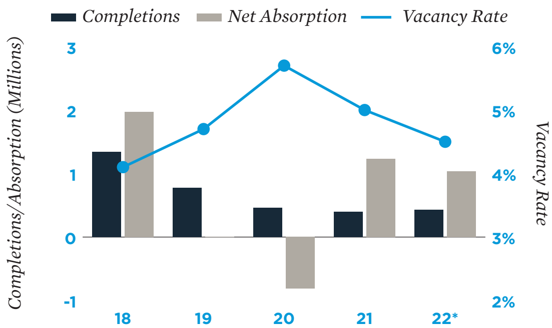
Availability will return to midyear 2019 levels, declining to 4.5 percent by the end of 2022. With heightened consumer demand and positive absorption, vacancy will continue to tighten throughout the Denver metro.

3.3% INCREASE
in asking rent

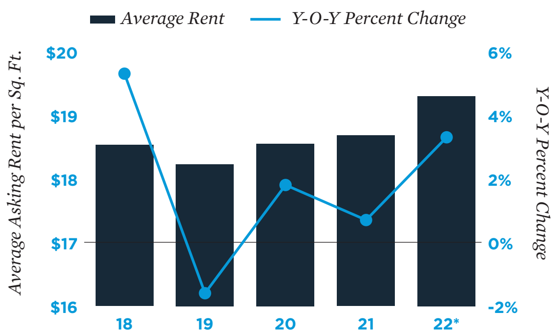
RENT:

A competitive leasing environment fueled by contracting vacancy will back rent growth in the metro. By the end of this year, the average asking rate will rest at $19.30 per square foot, the second-lowest marketed rent among major Mountain markets.

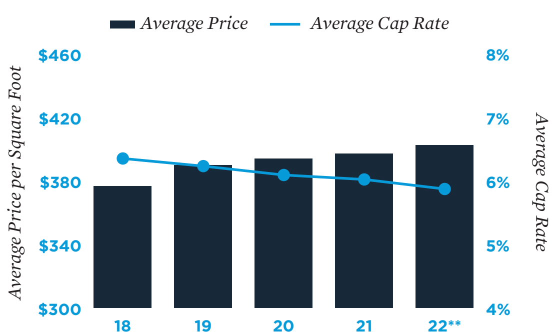
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

2Q 2022 - 12-Month Period

CONSTRUCTION

256,000 sq. ft. completed

- Supply additions over the past 12 months ending in June represented the lowest four-quarter total on record as inventory grew by just 0.2 percent.
- Multi-tenant completions slowed significantly during the yearlong period, as just two of Denver's 10 submarkets recorded deliveries in this segment.

VACANCY

70 basis point decrease in vacancy Y-O-Y

- Historically low inventory expansion helped drive vacancy back down from pandemic highs. Availability dropped 80 basis points since the start of 2021 to 5.0 percent in the second quarter of this year.
- Of Denver's 10 submarkets, Northeast was the only one to increase in vacancy year-over-year in the second quarter, inching up 10 basis points.

RENT

2.9% increase in the average asking rent Y-O-Y

- Increased demand for available space amid a lack of new supply pushed the average asking rent beyond the $19 per square foot mark in June.
- The mean multi-tenant rate expanded significantly year-over-year in the second quarter, jumping 7.4 percent compared to single-tenant marketed rents, which increased just 1.3 percent on average.

Investment Highlights

- Strong market fundamentals bolstered by low inventory additions and heightened consumer demand have backed investor demand for Denver-area retail assets. Transaction velocity over the four-quarter span ending in June reflects this, as deal flow jumped nearly 50 percent over the prior 12-month stretch. The lack of upcoming supply pressure on existing multi-tenant properties is boosting investor competition for shopping centers, producing an 80 percent rise in trading and an over 90 percent hike in dollar volume over the same period.
- The Central submarket, surrounding the Cherry Creek-Glendale neighborhood, noted the highest number of trades during the yearlong period, accounting for nearly 20 percent of all transactions metrowide. Sales in this submarket averaged a $3.3 million purchase price, with a mean per square foot cost of $327, second only to Colorado BL-Cherry Creek.
- The metro's average cap rate declined 20 basis points last year, consistent with both single- and multi-tenant properties, to 5.9 percent. With a mean sale price increase of 2.0 percent year-over-year in the second quarter, assets transacted at $403 per square foot on average over the past year.

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