MARKET REPORT

Retail

Denver Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

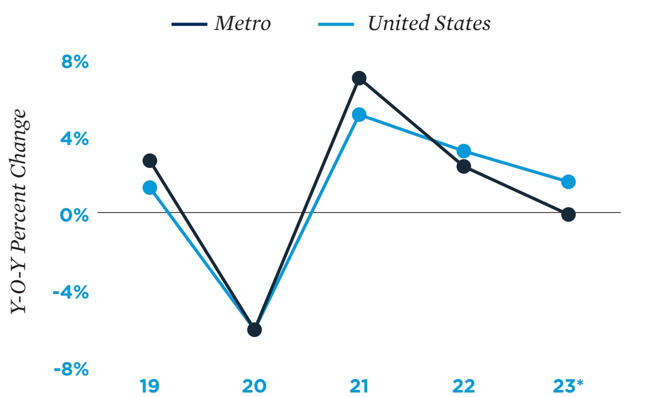
4Q/23

Population Trends Bolster Denver's Retail Outlook; Headwinds Countered by Limited Development

Rental dynamics spur nearby tenant demand. The residential corridors of Aurora and Northwest Denver each recorded 5-plus percent growth in occupied apartment stock between 2019 and the midpoint of 2023. A population-induced boost to retailer performance helped compress each submarket's vacancy rate more than 230 basis points in that span. While much of this dynamic came from renters' preferences realigning, Denver's growth outlook is also influential. In 2023, net in-migration achieves a seven-year high, prompting household formation to exhibit its largest total since 2019. Many transplants are finding well-paying jobs, with the metro's median household income rising 8.1 percent over the yearlong period ending in September, an all-time high. The increasing affluence of Denver's residents adds another tailwind for its retail sector.

Subdued construction accompanies economic hurdles. Through the decade ending in 2019, developers completed an average of 900,000 square feet of retail space per annum. Builders have hardly exceeded half that amount in any 12-month span since. This has helped direct prospective tenants to existing stock, allowing vacancy to ease 30 basis points below its year-end 2019 measure in June. Student loan payments, which resumed in October, are nevertheless taking up a portion of discretionary budgets. Combined with a slight employment pullback, consumer spending at restaurants and experiential retailers may ease, presenting some near-term challenges.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2023 Outlook

1,000 JOBS
will be lost

EMPLOYMENT:

The addition of 5,500 professional and technical services jobs in the first nine months of 2023 helped mitigate the metro's overall loss during this span. Denver's overall employment base ticks down 0.1 percent this year.

500,000 SQ. FT.
will be completed

CONSTRUCTION:

Completions will accelerate in 2023, after Denver recorded its lowest count during a calendar year in 2022. Still, a 0.4 percent increase to metro supply will match Denver's second-lowest rate of growth in more than a decade.

10 BASIS POINT
increase in vacancy

VACANCY:

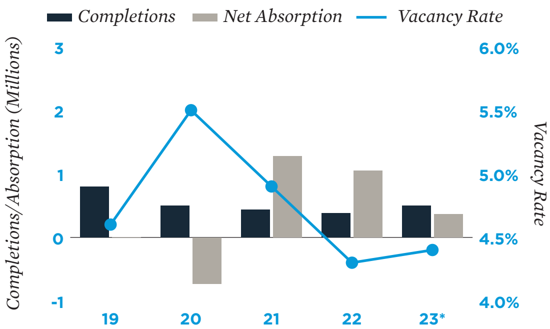
Denver's vacancy rate lifts marginally to 4.4 percent. Despite noting its first increase since 2020, substantial reductions over the prior two years result in the measure holding 150 basis points below its long-term average.

2.9% INCREASE
in asking rent

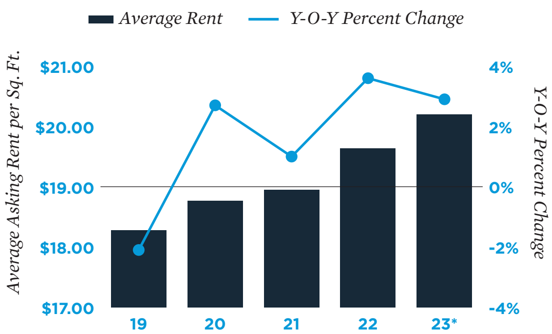
RENT:

Tight vacancy and minimal supply-side pressure support a rent growth rate that far exceeds the metro's 1.2 percent historical mean. This raises the local average asking rate to $20.20 per square foot by year-end.

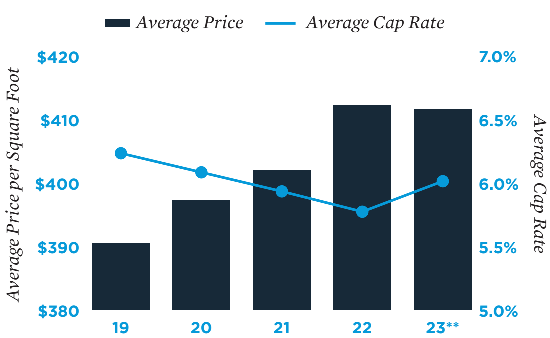
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

2Q 2023 - 12-Month Period

CONSTRUCTION

435,000 sq. ft. completed

- Single-tenant supply additions accounted for three-fourths of deliveries over the year ending in June, expanding the segment's stock by 4.1 percent.
- Downtown's retail inventory increased by 1.7 percent over the annual period ended in the second quarter. A 55,000-square-foot addition near the 16th Street Mall in the third quarter of last year headlined deliveries here.

VACANCY

50 basis point decrease in vacancy Y-O-Y

- Aurora achieved a record-low 3.2 percent vacancy rate in June, matching the Colorado Boulevard-Cherry Creek area as the lowest in the metro.
- For the first time since early 2021, net absorption was negative in the second quarter. This space relinquishment lifted the market's vacancy rate 10 basis points from a four-year low in March to 4.3 percent in June.

RENT

3.8% increase in the average asking rent Y-O-Y

- Multi-tenant rent growth over the year ended in June was 4.9 percent, increasing its average asking rate to $21.08 per square foot. Meanwhile, the single-tenant segment gained 3.4 percent, reaching $19.65 per square foot.
- The Colorado Boulevard-Cherry Creek and Central Denver submarkets led the metro in rent growth, each exceeding 12 percent.

Investment Highlights

- A challenged lending environment regressed trading velocity substantially in the first half of the year, following a historical level of activity experienced across 2021 and 2022. Preliminary data points to this trend persisting into the third quarter of this year; however, a September hold to the federal funds rate offers improving optimism for financing stability. Long-term population growth prospects should also help garner investor confidence moving forward as the metro is anticipated to add more than 150,000 new residents over the next five years.
- While multi-tenant trading activity in the first nine months of the year fell nearly 50 percent compared to the final three quarters of 2022, single-tenant velocity dropped 40 percent. Tenant demand in the latter segment is well documented, with cash flow consistency offered by triple-net leases likely to appeal to investors in a period of economic uncertainty.
- Nearly one-fourth of transactions through the first half of the year were accounted for in Western Denver, which encompasses Lakewood and Wheat Ridge. Operators here benefit from a tight local vacancy rate, as the measure was 150 basis points below its long-term average entering July.

IPA Retail

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