INVESTMENT FORECAST

RETAIL

Denver Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

2019

Softened Construction Keeps Vacancy on Downward Trajectory; Buyers Keep Options Open

Tight conditions persist in urban core. For the 10th consecutive year, the average market vacancy will contract, retreating below 5 percent for the first time in more than a decade. The urban core and adjacent neighborhoods carry the lowest rates in the metro around 3 percent. Areas farther from the core are witnessing vacancy measures above the market rate as supply growth in these areas is more substantial. However, on a metro level, development will decrease in 2019, dropping roughly 40 percent in relation to last year. Shopping centers make up a sizable portion of this year's construction volume, headlined by Vista Highlands in Broomfield. The metro's largest completion will be Phase II of the 9th and Colorado mixed-use project, which adds roughly 185,000 square feet of retail space. This development is projected to create more demand for neighboring retail locations as vendors seek the proximity to a prominent social hub, building on the area's already-strong rent growth. Parts of Aurora may also log significant rent advances as household formation strengthens, especially in the suburb's most easterly sections.

Turnkey and value-add assets on investors' radars. Denver's healthy demographics and still-favorable cap rates continue to lure out-of-state investors as well as local buyers. With its rapidly growing population, Castle Rock is becoming a highly targeted area for many of these investors. Though cap rates are relatively low in the 5 to 6 percent range, investors see considerable upside in many of the retail properties here. In addition, interest surrounding North Lakewood continues to rise as well, fueled by a recent light-rail expansion. Numerous assets in this area require significant space and operational upgrades, attracting opportunistic investors seeking initial returns in the high-7 to low-8 percent realm, up to 100 basis points above the market average. Buyers seeking similar yields will also scour Aurora as the suburb continues to mature and expand farther eastward.

2019 Market Forecast

Employment up 2.4% — Job creation in Denver will remain on par with the previous two years as employers staff 36,000 new workers.

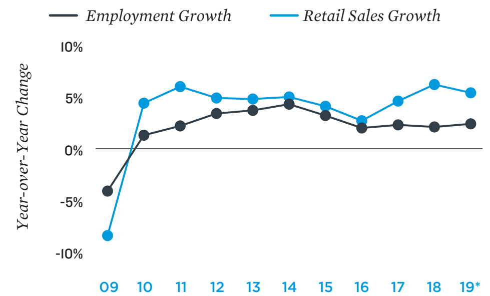
Construction 690,000 sq. ft. — Development slows following nearly 1 million square feet delivered in 2018. Outer-ring suburbs receive much of the new supply amid robust household formation.

Vacancy down 30 bps — Absorption thoroughly outpaces development in 2019, pushing market vacancy down to 4.4 percent. By year end, the rate will have fallen 150 basis points during the past five years.

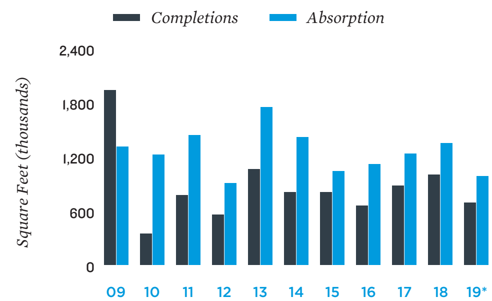
Rent up 3.9% — Limited available space may encourage some owners to raise rents in response to market conditions, bumping the average asking rent up to $19.54 per square foot.

Investment — Retailers are following new households to the Northwest Corridor, which comprises Highway 36 between Denver and Boulder. Here, strip centers trade in the mid- to upper-8 percent range.

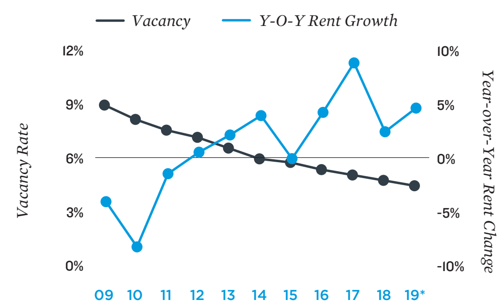
Employment vs. Retail Sales Trends



Retail Completions



Asking Rent and Vacancy Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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