

MARKET REPORT

INDUSTRIAL

Denver Metro Area

IPA INSTITUTIONAL
PROPERTY
ADVISORS

2H/19

Land Availability Around Airport Boosts Market Outlook; Deal Flow Headlined by Large-Volume Sales

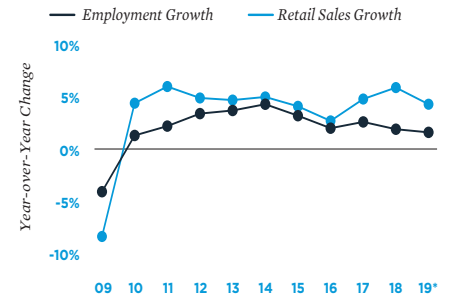
Construction hits cyclical high amid whirlwind of demand drivers. Denver's industrial market continues to gain prominence as strong population growth in the metro and along the Colorado Front Range heightens the need for companies to set up operations in the area. Additionally, strong growth in e-commerce, last-mile delivery and warehousing industry tenancy is still outpacing historically high development. These factors will encourage builders to remain active, finalizing 6.2 million square feet in 2019 — the highest delivery volume in more than a decade. The Peña Boulevard corridor and the area just southwest of Denver International Airport — some of the metro's fastest-growing industrial submarkets — will collectively receive almost half of the market's total completions. Proximity to the airport, railways and major thoroughfares make this spot attractive to many builders, although this area's vacancy will remain elevated in the coming months until demand catches up to supply. Developers are also staying active in northeast Denver this year, adding 640,000 square feet in the I-25 North Mousetrap and I-76 corridors. Incremental waves of development in this area have put pressure on the submarket's vacancy rate, dramatically moving it different directions over the past several years.

More sophisticated capital trickling into Denver. Investment activity remains modest as many owners hold their properties while price appreciation stays elevated. Private buyers continue to home in on suburban warehouses in the 10,000- to 50,000-square-foot range as entry costs generally sit below \$5 million for these buildings. Similar properties in locations closer to the core can command significantly higher prices, mostly targeted by a mix of investors seeking to capitalize on the growing last-mile delivery trend. Downtown Denver's quickly expanding population, fueled by strong white-collar job growth, has bolstered the bidding environment for urban these assets. With the metro's limited available assets, some institutions are utilizing their deep pools of capital to acquire properties with high-growth potential from longtime owners.

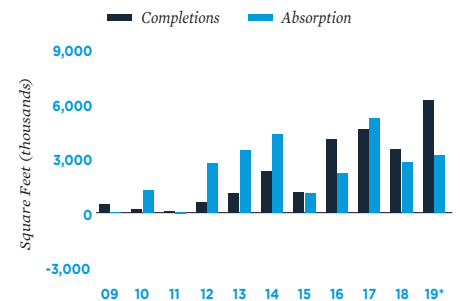
2019 Market Forecast

- Employment** up 1.6%
Job creation will soften for the second year in a row as Denver organizations add 24,000 workers to payrolls in 2019. The professional and business services sector will maintain its brisk pace of hiring.
- Construction** 6.2 million sq. ft.
Construction is scheduled to increase by 76 percent this year, supported by three 500,000-plus square foot projects.
- Vacancy** up 150 bps
The continued wave of new supply will push market vacancy up significantly to 6.0 percent, marking the fourth vacancy increase in the past five years.
- Rent** up 7.3%
Strong demand trends and new high-quality space on the market is set to drive the average asking rent up to \$8.63 per square foot.
- Investment**
Limited listings will remain a challenge for many investors in the coming months, encouraging them to look elsewhere for opportunities. Colorado Springs and the north end of the Front Range may provide a number of alternative options to buyers willing to expand their search parameters.

Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; Moody's Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of September 2019. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and industrial data are made during the third quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.