

# MARKET REPORT

RETAIL

Denver Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

3Q/21

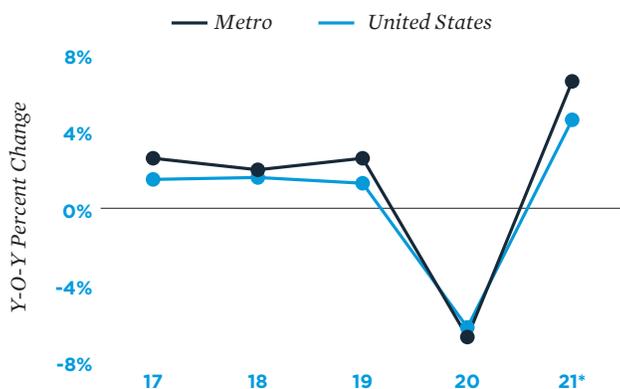
## Momentum Building After a Challenging Stretch; Lower-Cost Areas Enticing Retailers

### Improved leasing in the second quarter a sign of progress.

Retail fundamentals in Denver were dampened by the health crisis like in much of the nation, but the metro seems to be finding its footing as 2021 advances. Net absorption came in at 226,000 square feet in the April through June period, ending a streak of six consecutive quarters when more space was vacated than leased. Economic clarity, job gains and the vaccine rollout generated greater demand for retail space in Denver, which should continue in the second half of this year. Tenants are most frequently leasing space in the Northwest and Central submarkets, with each area registering first half absorption totals exceeding 130,000 square feet. The Northwest corridor is attractive to retailers seeking comparatively lower rates, as the average asking rent here is about 20 percent below the market average.

**Downtown Denver faces a longer recovery.** Retailers in dense urban corridors were disproportionately impacted by the pandemic. The transition to remote working depleted foot traffic from staff typically reporting to offices in the CBD, while crowd-drawing venues largely closed their doors. These headwinds are subsiding as the economy reopens, employees return to offices and events allow attendees, which will boost spending downtown in the second half. Nonetheless, the urban core has steep obstacles to overcome. Vacancy jumped more than 500 basis points year over year to 8.7 percent in June as the average asking rent fell by 5.3 percent. On a positive note, supply concerns are minimal with less than 50,000 square feet in the downtown pipeline as of July.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Retail 2021 Outlook



**95,000  
JOBS**

*will be created*

### EMPLOYMENT:

Hiring activity accelerated in the first half of this year, with the metro job total growing by more than 55,000 personnel. Additional gains in the second half will expand staff counts by 6.6 percent overall in 2021.



**600,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

Completions are expected to exceed last year's total by about 130,000 square feet. Delivery volume in 2021 will still be the smallest of any year in the past decade outside 2020. Market inventory is projected to grow by less than 0.5 percent.



**0  
BASIS POINT**

*change in vacancy*

### VACANCY:

The rate of availability will hold steady in 2021 at 5.6 percent as the retail environment in Denver settles after a combined 150-basis-point vacancy jump over the past two years. Net absorption returns positive for the first time since 2018.



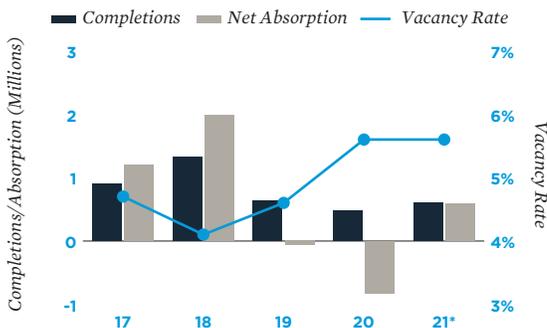
**0.9%  
INCREASE**

*in asking rent*

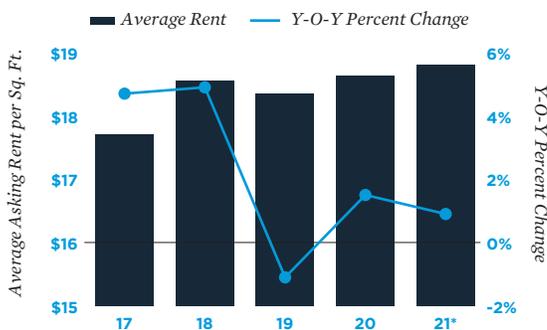
### RENT:

The average asking rent will edge up to \$18.80 per square foot in 2021, building off the 1.5 percent growth registered last year. By the end of 2021, the average rate will be nearly 5.0 percent higher than the pandemic-era low recorded at midyear 2020.

## Supply and Demand



## Rent Trends



## Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

### IPA Retail

#### Daniel Taub

Senior Vice President, National Director  
Tel: (212) 430-5100 | dtaub@ipausa.com

For information on national retail trends, contact:

#### John Chang

Senior Vice President, National Director | Research Services  
Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

## 2Q21 – 12-Month Period



### CONSTRUCTION

**474,000** square feet completed

- Approximately 25 percent less space was finalized during the July 2020 through June 2021 span relative to the previous year. Downtown Denver led all submarkets with the addition of 164,000 square feet.
- In the past four quarters, single-tenant space accounted for about two-thirds of completions, yet the segment's stock grew by just 0.3 percent.



### VACANCY

**70** basis point increase in vacancy Y-O-Y

- Net absorption in the second quarter was the highest since late 2019. Stronger demand kept vacancy in check, with the rate moving up just 10 basis points in the first half to 5.7 percent.
- Northwest Denver was the only submarket to register a decrease in availability during the past year. Downtown vacancy went up the most.



### RENT

**2.7%** increase in the average asking rent Y-O-Y

- Denver's average asking rent surged in the second half of 2020 as high-quality buildings returned to the leasing market, but this was not representative of conditions. Thus, rates eased in the first half of 2021.
- In June of this year, the average asking rent stood at \$18.44 per square foot, which is roughly 0.5 percent higher than the 2019 level.

## Investment Highlights

- During the past 12 months ended in June, almost 10 percent more single-tenant assets changed hands compared with the previous year, boosted by an exceptionally strong fourth quarter 2020. Sale prices held relatively firm at an average of \$468 per square foot, while the mean cap rate for single-tenant buildings moderated to 5.7 percent.
- South and West Denver recorded higher single-tenant buying activity as strong suburban household creation stimulated interest. On the west side, investors focused on Lakewood and Wheat Ridge. Littleton and Centennial were popular targets south of the core.
- Multi-tenant deal flow strengthened by more than 15 percent annually as the average sale price inched up to \$321 per square foot. Properties in the \$1 million to \$10 million range accounted for roughly 95 percent of multi-tenant trades. During that 12-month span, transacted assets had an average first-year return of 6.4 percent, down 20 basis points.
- West Denver recorded the largest share of multi-tenant deals during the past year, including several portfolio acquisitions by out-of-state buyers. Cap rates here typically range from 5 percent to 7 percent.