Industrial Market Report

Denver Market
Q3 | 2018

PREPARED BY

UNIQUE PROPERTIES

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12 MONTH DELIVERIES	12 MONTH NET ABSORPT.	VACANCY RATE	12 MONTH RENT GROWTH
4M SF	4.5M SF	4.6%	6.6%

OVERVIEW

Rents have skyrocketed this cycle: Moving into the second half of 2018, rents had eclipsed last cycle's peak by just over 50%, behind only San Francisco and San Jose nationally.

A confluence of events has led Denver to become one of the hottest industrial markets in the country. Robust demand in this regional market with a strong local economy is stemming from the growth of retail sales, employment, and industrial production in the metro area and the greater Colorado region. Furthermore, the rise of the marijuana industry with the passing of Amendment 64 in November 2012 created an additional demand segment, with new and relatively unsophisticated tenants operating with entirely different profit margins.

Overall, the market is uniquely strong. Remarkably, rent growth exceeded 8% in 2016, even after posting back-to- back gains of 12% in 2014 and 2015. While still growing at a rapid clip, rent growth continues to moderate from its 2014-2015 highs, alongside an uptick in the availability rate and higher levels of speculative development.

Vacancies remain tight and below the historical average, and fell for a second straight quarter in 18Q1 (albeit following seven straight quarters of slight increases). Over 5 million SF delivered in 2017, by far the most this cycle, and most of which was distribution and warehousing space. With much-needed speculative development finally hitting the market, somewhat of a further moderation in rent gains can be expected, at least relative to the explosive growth of recent years.

KEY INDICATORS

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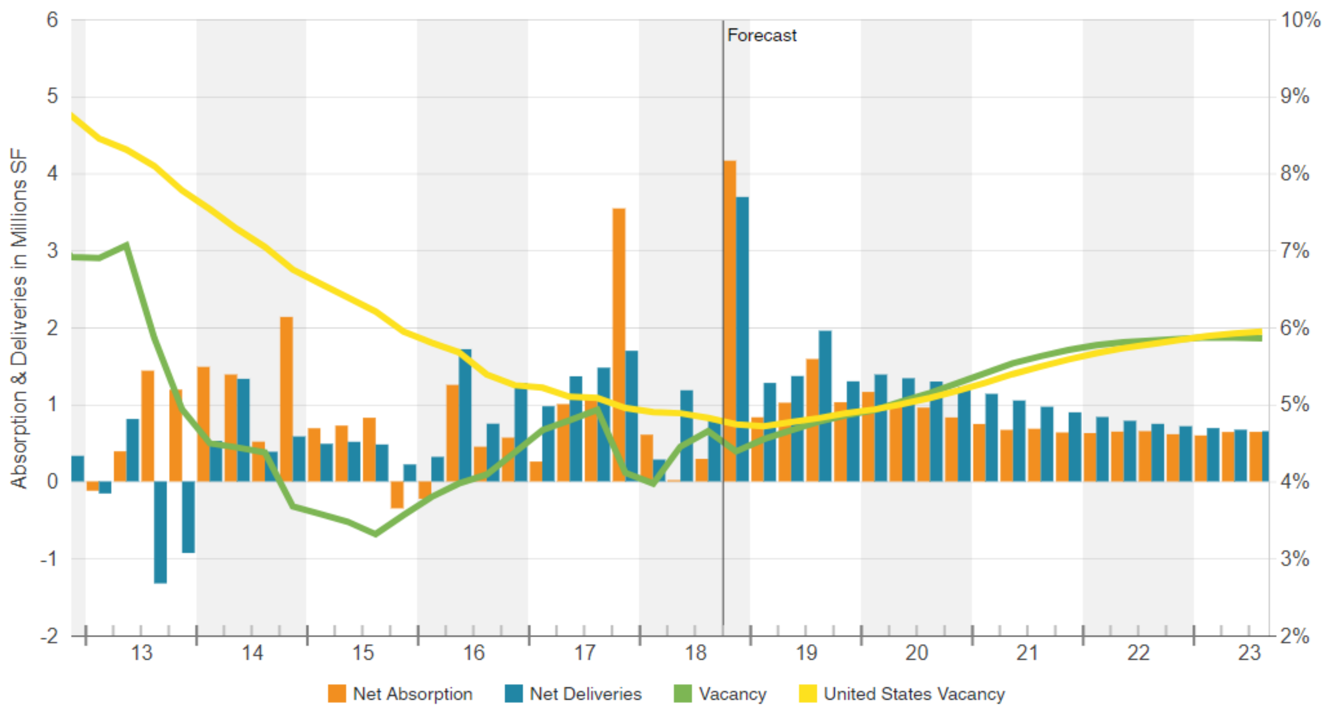
Current Quarter	RBA	Vacancy Rate	Asking Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
Logistics	157,055,316	4.8%	$8.66	8.3%	219,336	0	6,356,174
Specialized Industrial	48,216,965	3.4%	$9.68	5.3%	12,462	0	170,800
Flex	33,308,359	5.3%	$12.73	7.9%	(19,680)	0	1,087,165
Market	**238,580,640**	**4.6%**	**$9.43**	**7.7%**	**212,118**	**0**	**7,614,139**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	-0.3%	6.8%	5.3%	10.1%	2004 Q2	3.3%	2015 Q3
Net Absorption SF	4.5 M	2,265,154	3,829,981	6,238,171	2018 Q1	(1,872,597)	2003 Q3
Deliveries SF	4 M	2,726,833	5,314,188	5,644,793	2001 Q4	217,430	2011 Q1
Rent Growth	6.6%	2.7%	2.6%	10.1%	2015 Q2	-4.7%	2003 Q3
Sales Volume	$1.7 B	$660.0 M	N/A	$1.7 B	2018 Q3	$202.6 M	2010 Q1

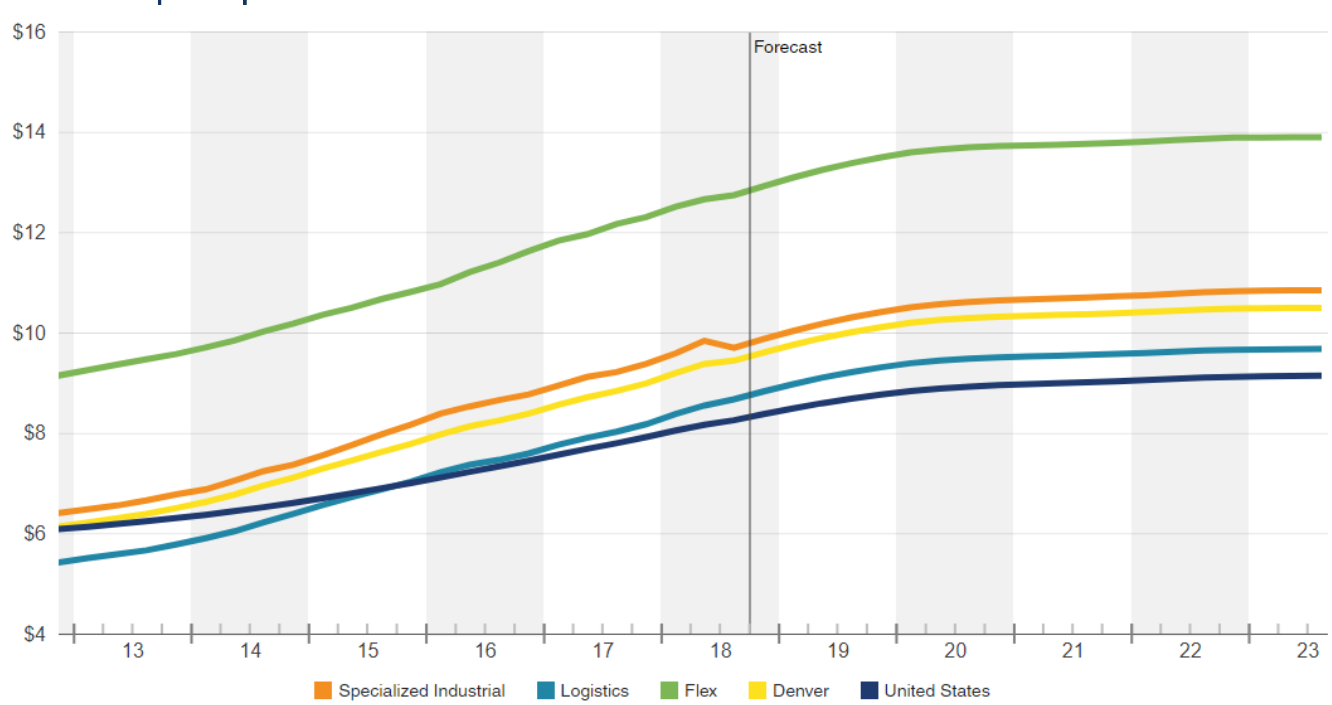
LEASING

Net Absorption, Net Deliveries, & Vacancy



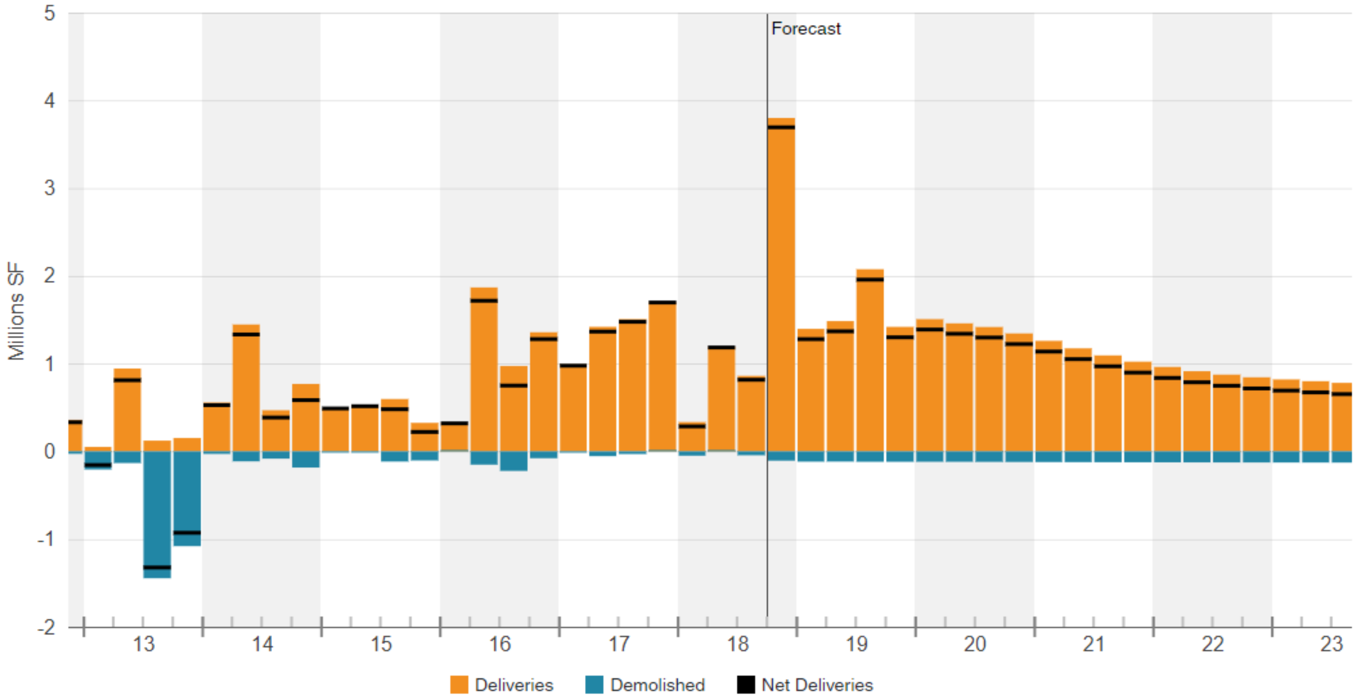
RENT

Market Rent per Square Foot



UNDER CONSTRUCTION

PROPERTIES	SQUARE FEET	PERCENT OF INVENTORY	PRELEASED
38	7,614,139	3.7%	56.3%



Development is at cyclical highs across several metrics. Near the end of 18Q3, roughly eight million SF was underway, up from about four million SF as of year-end 2016 (a postrecession high at the time). The amount of available under construction space was recently just shy of four million SF. Prior to 2018, the amount of available under construction space did not top 2.5 million SF at any point during the current cycle.

Developers are moving ahead with increasingly ambitious speculative projects. In June 2018, developer Majestic Realty wrapped up construction on a 701,900 SF speculative building in the 1,500 Majestic Commercecenter. All of the space remained available shortly after the project's delivery.

In 18Q3, Prologis broke ground on its largest speculative development to-date, a 508,000 SF distribution building at ProLogis Park 70.

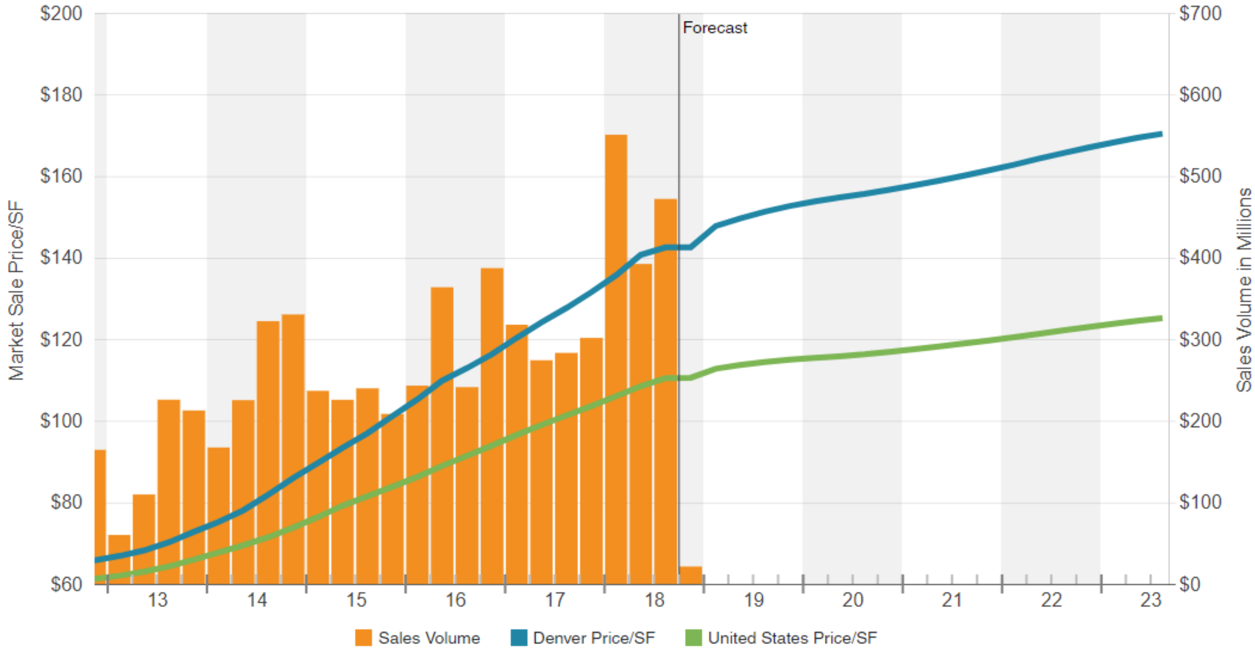
While much of the big box development has been concentrated along I-70 east of Denver (including the two aforementioned projects), construction has ramped up in an industrial node just south of the intersection of I-76 and I-25. Around the beginning of 2018, ProLogis broke ground on three fully speculative buildings containing a combined total of just over 600,000 SF, the largest being a 380,000 SF distribution building. The buildings will be part of a new logistics hub called ProLogis Park Central.

Another nearly untouched part of the metro is about to see a speculative development: In September 2018, Santa Monica, CA-based Cale Enterprises announced plans to imminently break ground on two buildings (59,000 SF and 82,000 SF) in Arvada, near the intersection of Ridge Rd and Robb St. The development will be the first larger speculative project in this part of the metro in over 15 years, and is expected to complete in the third quarter of 2019. The buildings will be divisible down to about 10,000 SF, a lower threshold than much of what has been constructed this cycle.

While options for tenants in search of 100,000-200,000 SF began to expand several years ago, tenants in search of the largest spaces have only recently been presented with an expanded roster of new options. Near the end of 18Q3, there were five separate logistics developments that either delivered this year, or that were currently under construction with at least 350,000 SF available. The success of these developments should act as a barometer on whether or not developers continue to step on the gas with large speculative projects.

SALES

SALE COMPARABLES	AVG. CAP RATE	AVG. PRICE/SF	AVG. VACANCY@SALE
542	6.7%	$116	9.4%



Investment topped the $1 billion mark early in the third quarter of 2018, and annual sales volume is on track to easily set a new all-time high.

Investment in 2018 has been headlined by large multi-property and portfolio deals. This includes New York, NY-based Clarion Partners' March 2018 acquisition of 26 industrial properties from Pauls Corporation for $345 million. Those properties included 14 (almost two million SF) in the Denver metro, all located along I-70 near the Denver International Airport. The Denver properties traded for an allocated $220 million as part of the larger deal, representing the largest industrial transaction in the metro's history.

In another 18Q1 trade, Blackstone Real Estate Income Trust acquired seven Denver properties for an allocated $139 million as part of a $1.8 billion portfolio sale.

In a notable 18Q2 trade involving recently delivered logistics space, J.P. Morgan Investment Management acquired the four-building 421,000 SF Hub 25 industrial campus for $74 million, or $176/SF—some of the highest pricing ever recorded in Denver. Construction on the development wrapped up in 2017, and the buildings were roughly 95% occupied at the time of the sale. HUB 25 is located just south of the intersection of I-25 and I-76, an area beginning to see explosive growth. Nearby, ProLogis recently broke ground on a multi-building campus containing just over 600,000 SF, all of which is speculative.

In 2017, investment came within $100 million of the all time record set in 2016, when $1.2 billion in sales closed. One of the headline trades of 2017 closed in March, when a private Hawaii-based buyer acquired a five warehouse portfolio in Montbello for $46.2 million, or $90/SF. Three of the buildings (all of which delivered in the mid-1980's) classified as logistics space, and comprised 80% of the 514,000 SF traded. The seller behind the deal, Boston-based TA Realty (acquired by the New York City-based Rockefeller Group in 2015), had acquired the same portfolio of properties for $28.9 million in 2008. This marks TA Realty's second major portfolio sale of warehouses in Montbello in less than a year. In September 2016, the firm sold a 17 warehouse portfolio for $57.7 million ($67/SF) to the LA County Employees Retirement Association.

A theme that emerged in 2016 was an influx of investment activity involving recently built logistics space. Six properties built between 2014-2016 traded in 2016, while from 2012-2015, only a combined five properties built after 2009 changed hands.