AVISON YOUNG

Capital Markets Report / Fourth Quarter 2020

Denver, CO

Transaction Volume

Office

1Q20	2Q20	3Q20	4Q20
$1.4B	$47.8M	$156M	$154M

Industrial

1Q20	2Q20	3Q20	4Q20
$516M	$397M	$307M	$290M

Retail

1Q20	2Q20	3Q20	4Q20
$162M	$47.2M	$68M	$66M

Multi-family

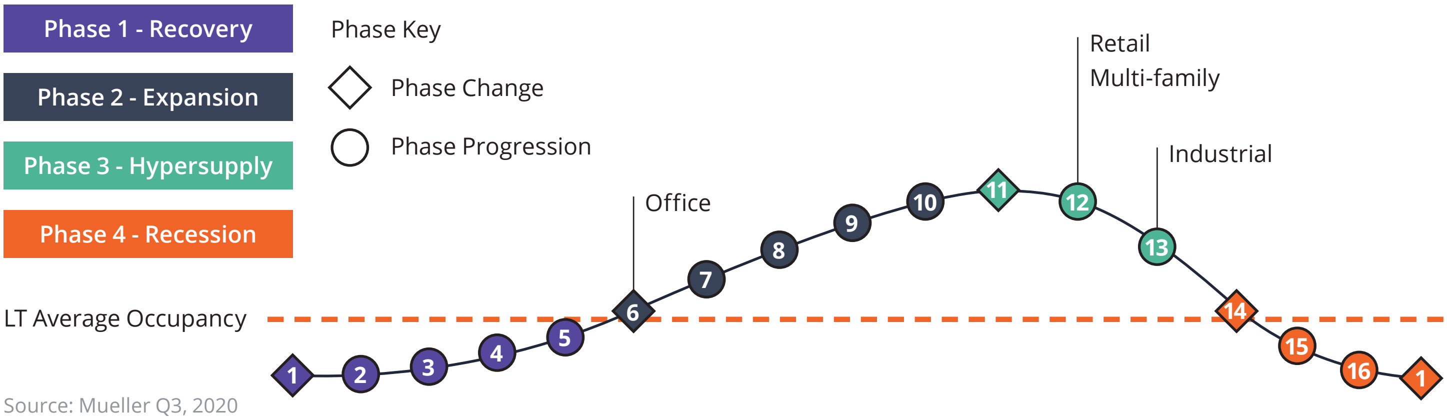
1Q20	2Q20	3Q20	4Q20
$751M	$899M	$567M	$1.2B

Investors continue to bet big on multi-family as the market grapples with pandemic-fueled uncertainty

Market highlights

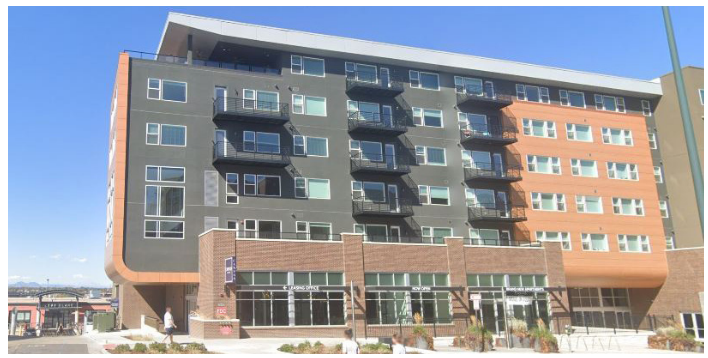
- Though the Colorado economy is showing some resilience in the face of COVID-19, the pandemic continues to cast a long shadow over both the state and local economies. In Denver, employment and tax revenue are both down year-over-year (YOY), with decreased consumer spending and depressed business investment both hindering economic activity. What economists had originally hoped to be a "v-shaped" recovery will likely be u-shaped, with the period of economic depression lasting longer before true recovery begins.
- Demand in the multi-family sector—both from a leasing and investment perspective—remains strong in Denver, though the pandemic has prompted a focal shift from the urban core to the suburbs. Suburban property sales accounted for nearly 65% multi-family investment volume in the fourth quarter of 2020. However, high-rent urban product continued to command the highest prices per unit, an indication that investors are betting on vaccine distribution to reignite leasing interest in the downtown submarkets in the near future.
- Industrial investment activity continues to be driven by strong tenants, with an Amazon distribution facility and a fully-leased portfolio representing some of the most influential deals in the fourth quarter of 2020. As the pandemic continues to create shifts in consumer behavior, there is an increased emphasis on e-commerce real estate. In addition to higher values for distribution warehouses, developers continue to pursue options for adaptive reuse of distressed retail properties in high-density areas for conversion into fulfillment centers and last touch facilities.
- Larimer Square—which has served as the cultural heart of LoDo since being saved from demotion by Denver visionary Dana Crawford in the 1960s—sold in December for $92.5 million to real estate investor Asana. The sale included 223,325-square feet of retail and creative office space and served as an encouraging indication of investors' faith in the recovery of Denver's office and entertainment sectors post-pandemic.

Market cycle | Denver, CO



Source: Mueller Q3, 2020

Notable sales transactions



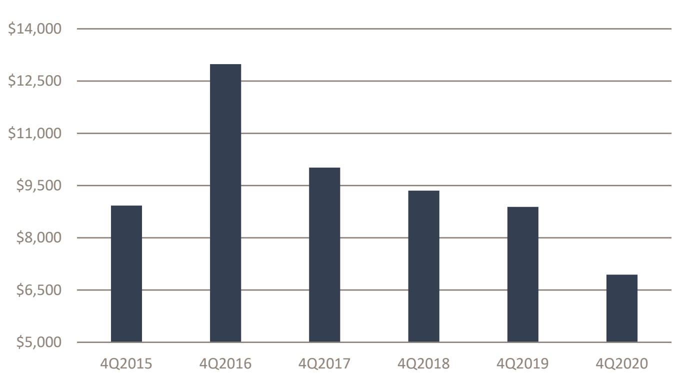
North Washington Commerce Center

In November, Inland Private Capital purchased the 151,6880-sf distribution facility at 900 E. 128th Avenue for $57 million. In addition to the Class A building—which was built in 2019 and which is fully leased to Amazon, according to Real Capital Analytics—the sale included additional land for a second building as well a three-story structured parking garage.

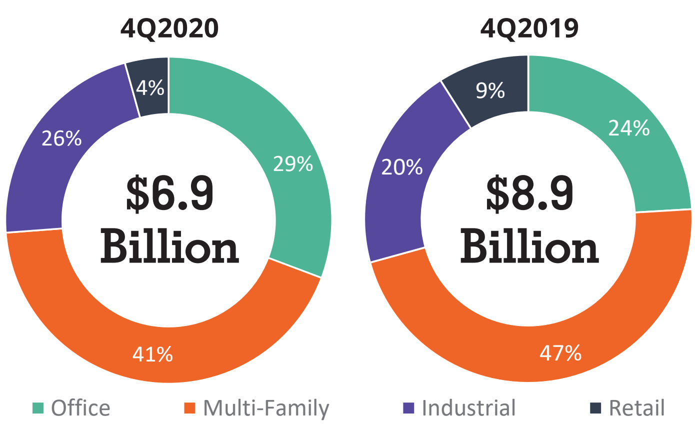
Canvas on Blake

The sale of the 241-unit multi-family property located at 2401 Blake Street, which sold to Cahill Equities in November for $103 million, represented the highest per-unit sale of the quarter at $428,630 per unit. The sale of Canvas on Blake illustrates the enduring value Class A urban properties in Denver command despite rising vacancy and rental concessions as a result of the pandemic.

Transaction Volume (12-month total, in millions)



Share of Volume by Product Type (12-month total)



Select fourth quarter sales

Property	Type	Size (sf/unit)	Price	Price per sf/unit/ac	Buyer
Terrace Building - 5575 DTC Parkway	Office	114,910 sf	$15,400,000	$149/sf	TerraCap Partners
4949 S. Syracuse Street	Office	62,633 sf	$13,300,000	$174/sf	TerraCap Partners
3955 E. Exposition Avenue	Office	43,578 sf	$7,000,000	$161/sf	Campus Realty
Larimer Square - 1400-1498 Larimer Street	Office	223,325 sf	$92,500,000	$389/sf	Asana Partners
Paper Building - 1625-1631 Wazee Street	Office	49,316 sf	$14,750,000	$299/sf	Global Pacific Properties
Broomfield Industrial Portfolio 2105 Abbott Ave	Industrial	509,164 sf	$48,000,000	$94/sf	Westcore Properties
Enterprise Park Business Center - Buildings 1-3	Industrial	464,224 sf	$77,000,000	$167/sf	Nuveen
North Washington Commerce Center - 900 E. 128th Avenue	Industrial	151,405 sf	$57,000,000	$376/sf	Inland RE Group
6050 E. 56th Avenue	Industrial	26,020 sf	$14,000,000	$538/sf	Manitoulin Group
Commerce Square - 3250 Quentin Street	Industrial	144,464 sf	$16,000,000	$110/sf	Graham Street Realty
6543 Wadsworth Boulevard	Retail	24,537 sf	$4,169,862	$170/sf	A Squared Holdings
Kings Valley Marketplace - 30403 Kings Valley Drive	Retail	58,807 sf	$7,000,000	$119/sf	Kenneth B Marsh
Block One Promenade at Castle Rock - 6384 Promenade Parkway	Retail	154,896 sf	$38,000,000	$245/sf	The Kroenke Group
Founders Marketplace - 848 N. Ridge Road	Retail	77,164 sf	$18,700,000	$242/sf	The Kroenke Group
The Metro - 2121 Delgany Street	Multi-family	415 units	$160,300,000	$386,265/unit	Rockwood Capital/ Security Properties
Bell Summit at Flatirons - 210 Summit Boulevard	Multi-family	500 units	$154,060,000	$308,120/unit	Treeline Partners
Artwalk City Center - 801 Englewood Parkway	Multi-family	438 units	$123,500,000	$281,963/unit	Oak Coast Properties
Canvas on Blake - 2401 Blake Street	Multi-family	241 units	$103,000,000	$431,417/unit	Cahill Realties
Briargate on Main - 18901 E. Briargate Lane	Multi-family	325 units	$101,000,000	$310,769/unit	BREIT

30%
year-over-year decline in investment sales volume in Denver from 2019 to 2020

2.6%
loan delinquency rate averaged across office, retail industrial, and multi-family

6.4%
unemployment rate in Denver as of November 2020, up 4.1% year-over-year

Economic conditions

3 Month LIBOR		10 Yr Treasury Note		NAREIT Index Value	
0.24%	▲ 0.01%	0.66%	▲ 0.01%	$194.04	▲ $1.09
Valid 12/31/20	Change from 3Q2020	Valid 12/31/20	Change from 3Q2020	Valid 12/31/20	Change from 3Q2020

Interest Rates

Federal Reserve Chair announced The Fed has no plans for raising the federal interest rate above 0.25%, where it has been since March. This has some investors bracing for a rise in inflation when the economy eventually rebounds post-pandemic.

Debt and Equity

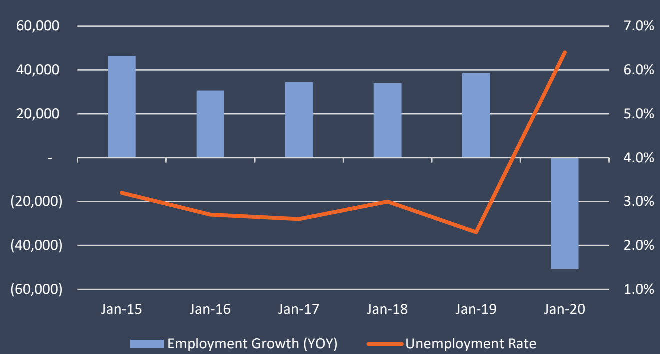
While third-party equity issuance remains plentiful, the pervasive uncertainty of the pandemic has translated to greater upside risk, For many corporate borrowers, the emphasis remains on refinancing existing debt in order to take advantage of lower interest rates.

Stock Market

The market continues to react to news regarding the COVID-19 vaccine and Joe Biden's inauguration. Spurred by hopes of a economic recovery in 2021, some investors have begun pivoting from high quality stocks to cheaper, high-yield "value" bonds

Loan Exposure and Delinquency Rates

Given decreases in occupancy and depleted net operating income (NOI), the weighted average debt yield for Denver office properties declined 60 basis points and the delinquency rate rose to 4.2%, with an additional 8.9% of debt volume flagged by servicers as having "cause for concern". In contrast, the weighted average NOI was up in a the multi-family sector, though an increase in loan origination volume quarter-over-quarter resulted in a dramatic decrease in debt yield, signaling increased leverage.



Denver Unemployment & Job Growth

Employment in Denver continued to trend upward through the end of 2020, with November marking the seventh consecutive month of employment growth. However, non-farm employment remains down by 50,700 jobs year-over-year (YOY), sobering evidence of COVID-19's continued impact. Leisure and hospitality remain the industries most profoundly affected by the pandemic, recording a 21% decrease in employment YOY and accounting for 58% of total job loss in the market. Manufacturing remained the only industry in Colorado to experience job growth in 2020, recording a 1.3% increase through November

For more information

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