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Denver industrial insight report

Q2 2021

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U.S. industrial drivers

DENVER INDUSTRIAL INSIGHT REPORT
Q2 2021

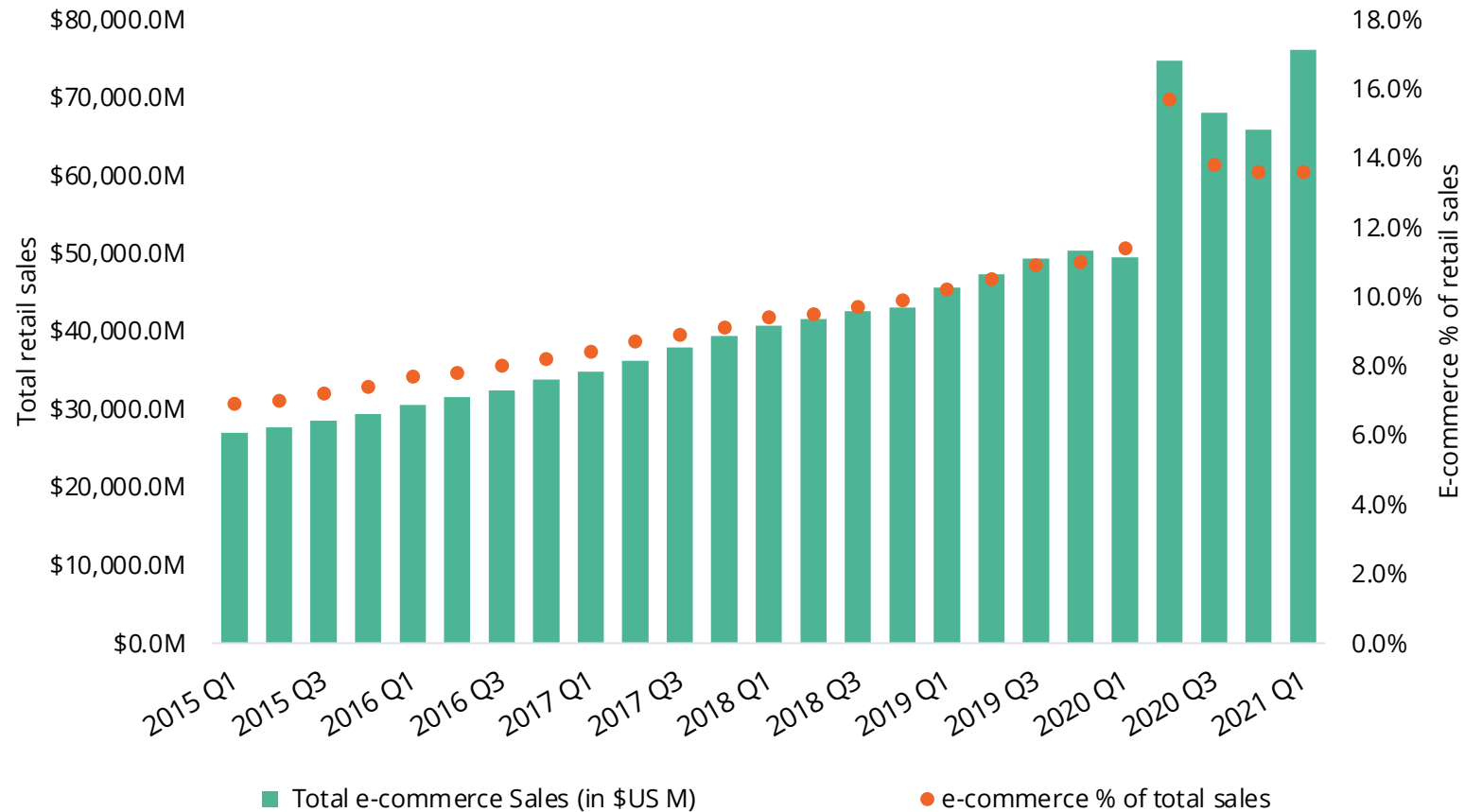
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U.S. total retail and e-commerce sales

15.7%

E-commerce share of overall retail sales in Q1 2021

Demand for e-commerce surged during the initial shock of lockdowns, driving industrial demand to record levels. As the economy begins to reopen, the rate of e-commerce growth is nearly double pre-COVID levels, suggesting accelerated e-commerce demand is sustainable.



Source: Federal Reserve Bank of St. Louis

Property type job gains and losses

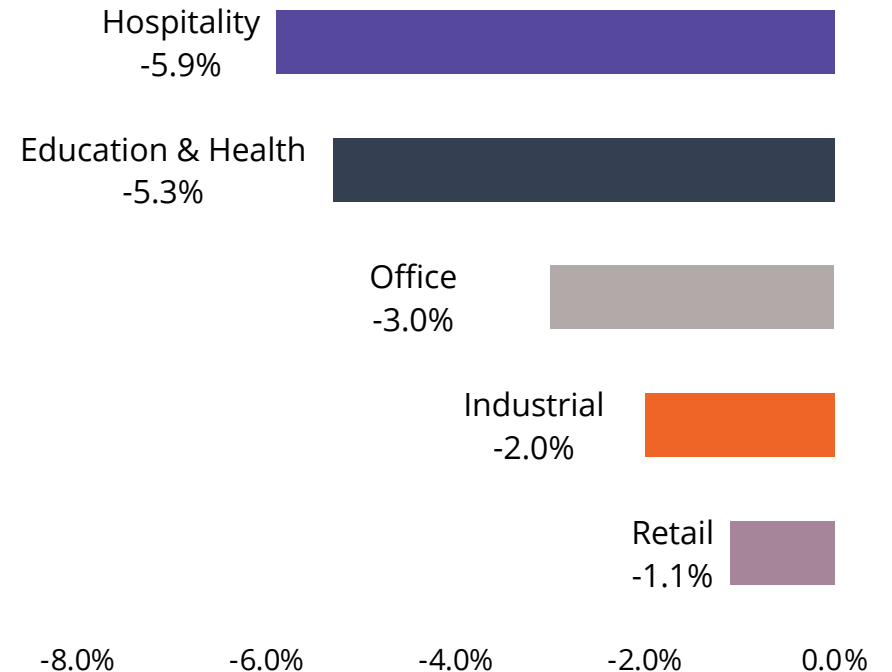
-2.9%

Change in total industrial employment during the pandemic

Post-COVID industrial job losses have been mild compared with other segments of the labor market, underscoring the industry's comparative strength as cities and economies reopen.

[VIEW DASHBOARD](#)

Total change in U.S. job gains/(losses)
February 2020 to May 2021



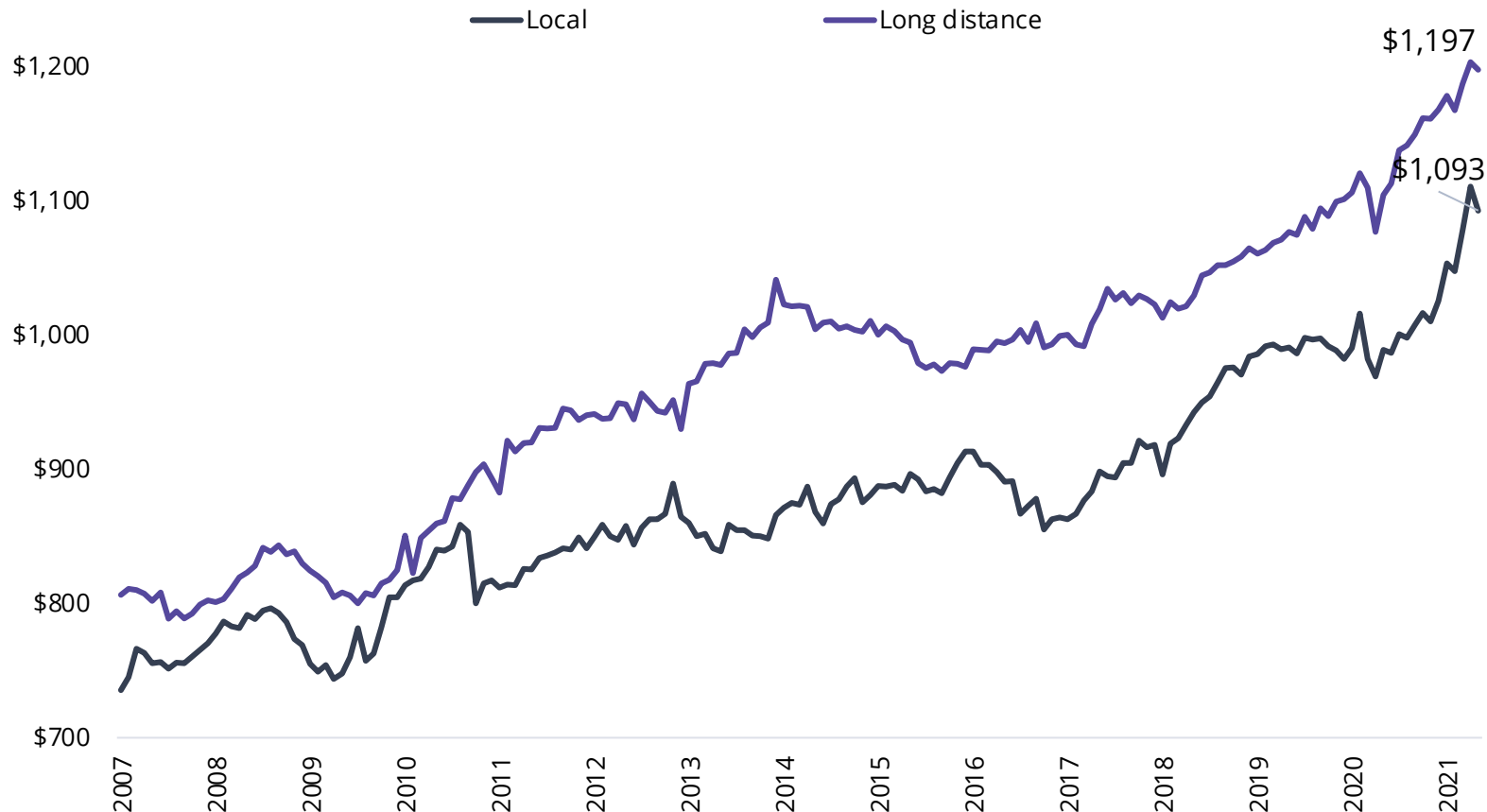
Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Weekly earnings for U.S. trucking employees

+ 10.5%

Annual change in local trucking weekly earnings, 2007 to 2021

As employers compete to fill vacant positions, wage pressure for trucking has accelerated sharply over the past 15 months. Initially focused on long-distance truckers in the early stages of the pandemic, the trend has increasingly spread to local trucking.



Source: Bureau of Labor Statistics



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Denver market fundamentals

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Key industrial takeaways



Economic conditions

- The Denver metro area's industrial-centric employment is now larger than it was prior to the pandemic. Between February 2020 and May 2021, Denver added **3,000 new industrial jobs** as total industrial employment now stands at 327,500.
- Transportation, warehousing & utilities jobs have accounted for most of the job gains within industrial-central employment after adding **5,000 new jobs** between February 2020 and May 2021.



Industrial demand

- Overall leasing activity among industrial properties stands at **4.9 msf** for 2021 YTD. Average deal size has grown by almost **4,000 sf** (when compared to 2020 leasing activity) as tenants begin to re-evaluate their space needs.
- Leasing Activity among flex properties is up by **18.2 percent** when comparing Q1-Q2 2021 activity to Q1-Q2 2020 activity and on pace to surpass 2020 totals.

Key industrial takeaways



Industrial supply

- As national, regional and local logistics and e-commerce businesses continue to expand throughout the market, developers are working to meet demand. The market has seen over **3 msf** deliver so far in 2021 while close to **10 msf** of new product is currently under development.
- Direct vacancy stands at **7.1 percent** despite a record number of deliveries that have flooded the market in 2021 and introduced new vacancy to the market.
- Almost **80 percent** of all available large blocks of space >100,000 sf are in the 100,000 – 250,000 sf size range, totaling **2.1 msf**.



Pricing trends

- Overall asking rents have remained stable after increasing by **10.1 percent** since Q1 2020 and steadily grown since 2015.
- Industrial rents have grown by **7.5 percent** since Q2 2020 while flex rents have seen significant growth after jumping by **11.8 percent**.



Capital markets

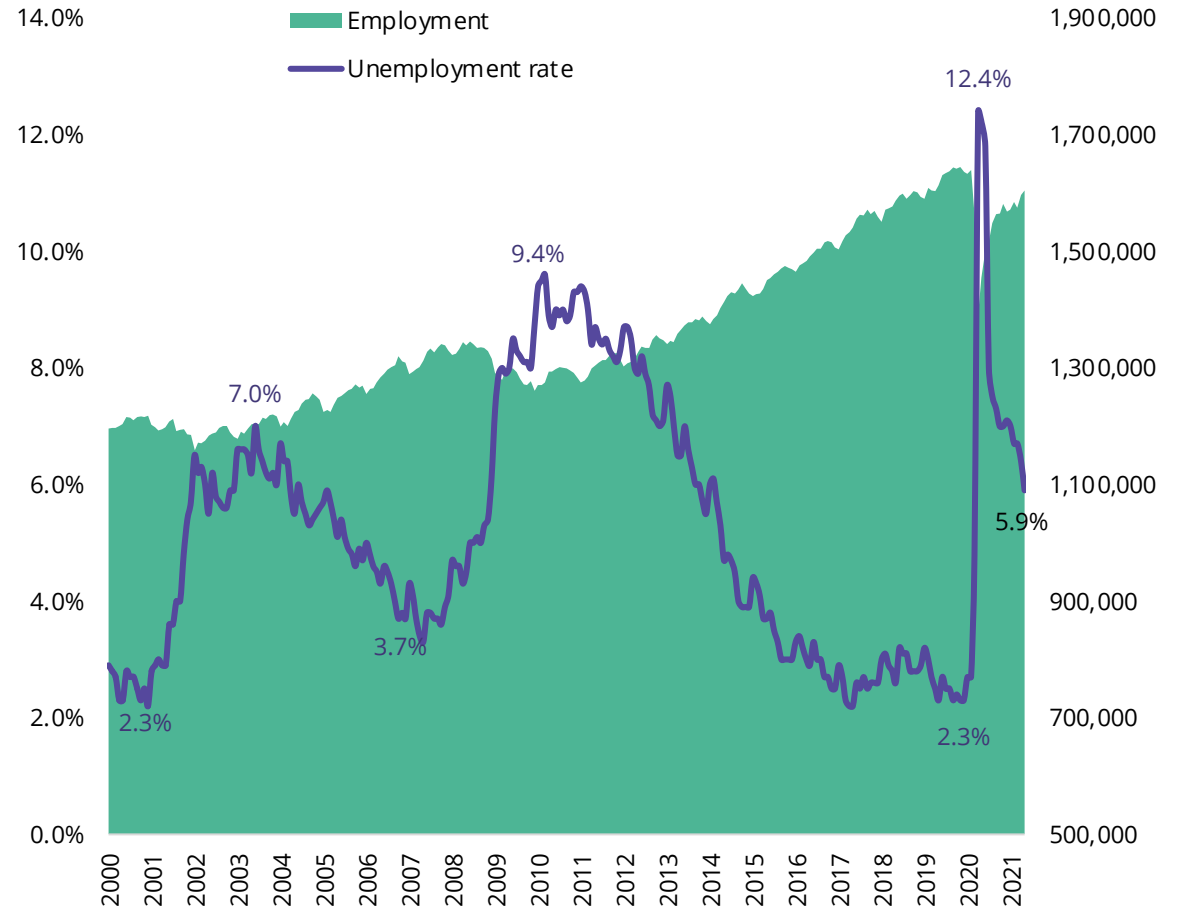
- Average asset pricing has grown to **\$145 psf** in 2021, up from \$138 psf in 2020.
- Sales activity in Q2 2021 doubled compared to Q2 2020 as market fundamentals remain strong for the Denver industrial market.

Employment and unemployment

5.9%

Denver unemployment rate as of May 2021 and continues to improve

Before the pandemic, unemployment was at historical lows; however, between February 2020 and April 2020, Denver lost 247,000 jobs. The Denver area has since added 211,000 jobs, an 85.6% recovery between April 2020 and May 2021.



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Property type job gains and losses

+0.9%

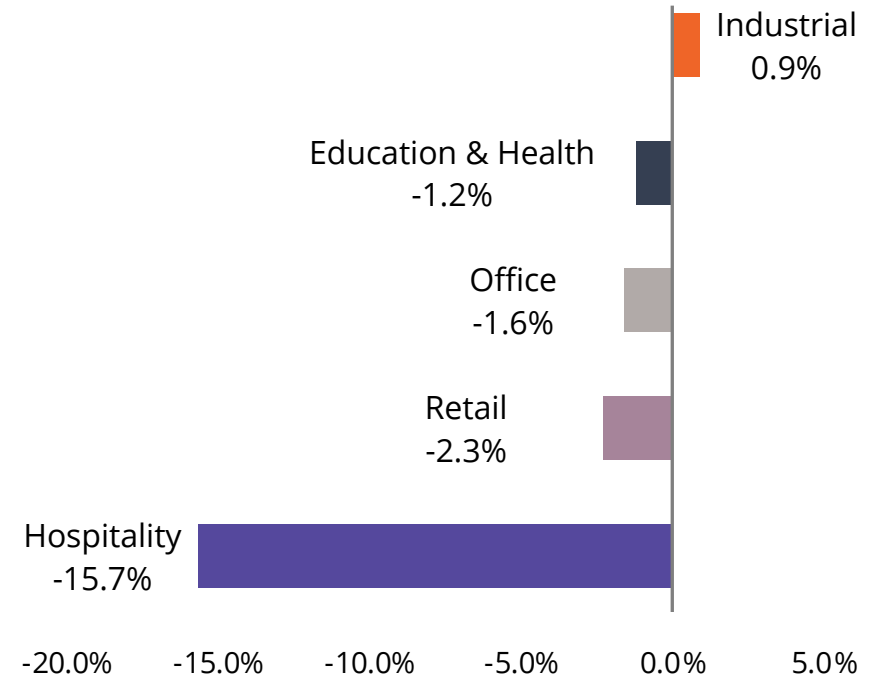
Change in industrial-centric employment between February 2020 and May 2021

The Denver metro area's industrial-centric employment is now larger than it was prior to the pandemic. Between February 2020 and May 2021, Denver added 3,000 new industrial jobs.

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Total change in Denver MSA* job gains/(losses)

February 2020 to May 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Industrial job gains and losses

7.1%

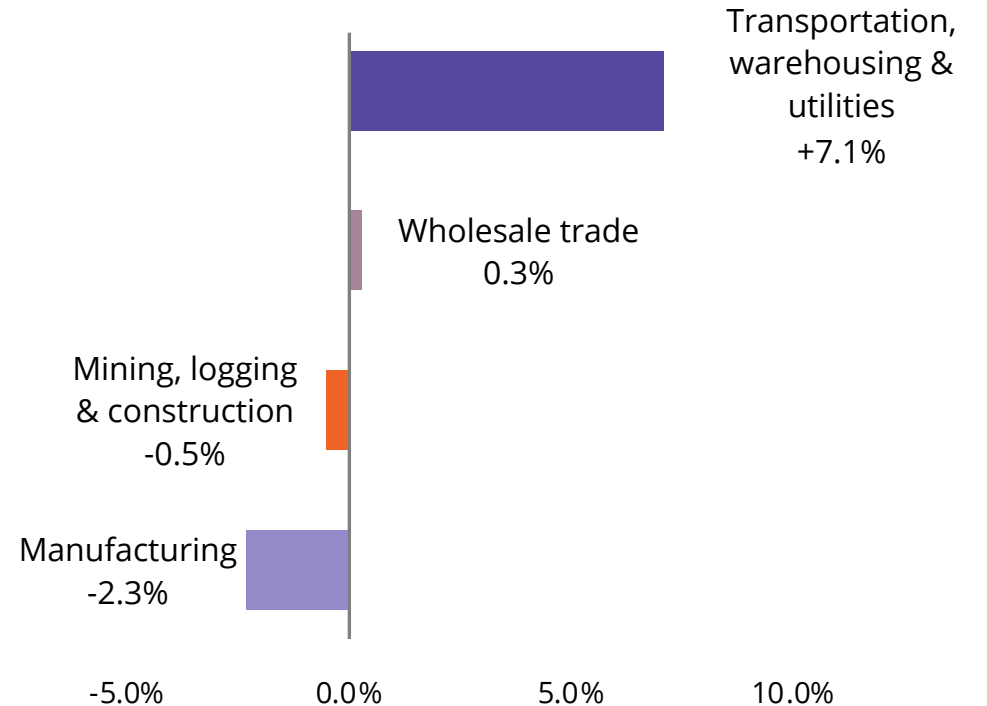
Change in transportation, warehousing & utilities employment during the pandemic

Transportation, warehousing & utilities jobs have accounted for the majority of job gains within industrial-central employment after almost 5,000 new jobs were added between February 2020 and May 2021.

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Total change in Denver MSA* job gains/(losses)

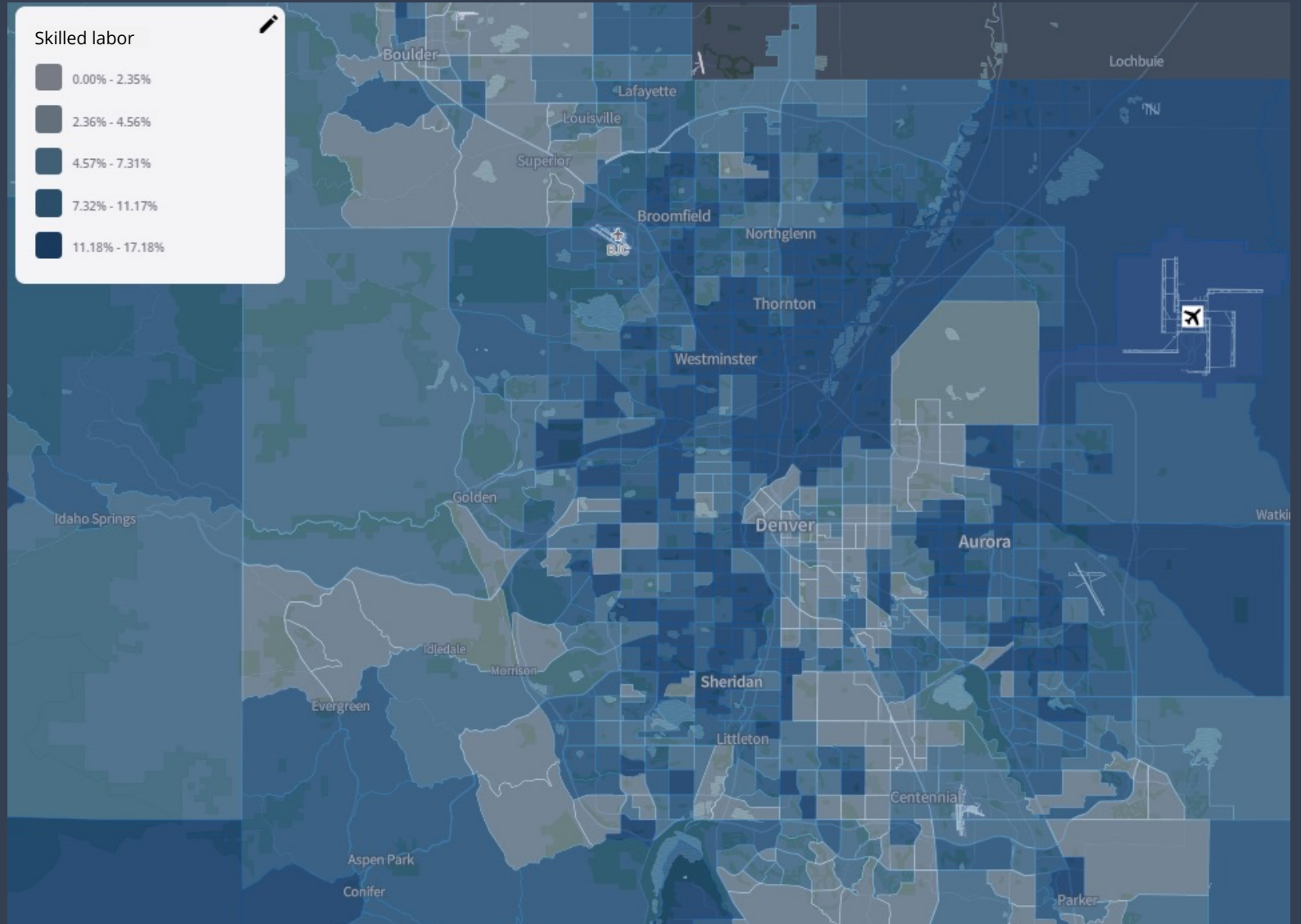
February 2020 to May 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Skilled labor workforce concentration

Source: AVANT by Avison Young, ESRI
Large pockets of skilled labor workforce are found
throughout Denver's largest Industrial submarkets





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Denver industrial overview

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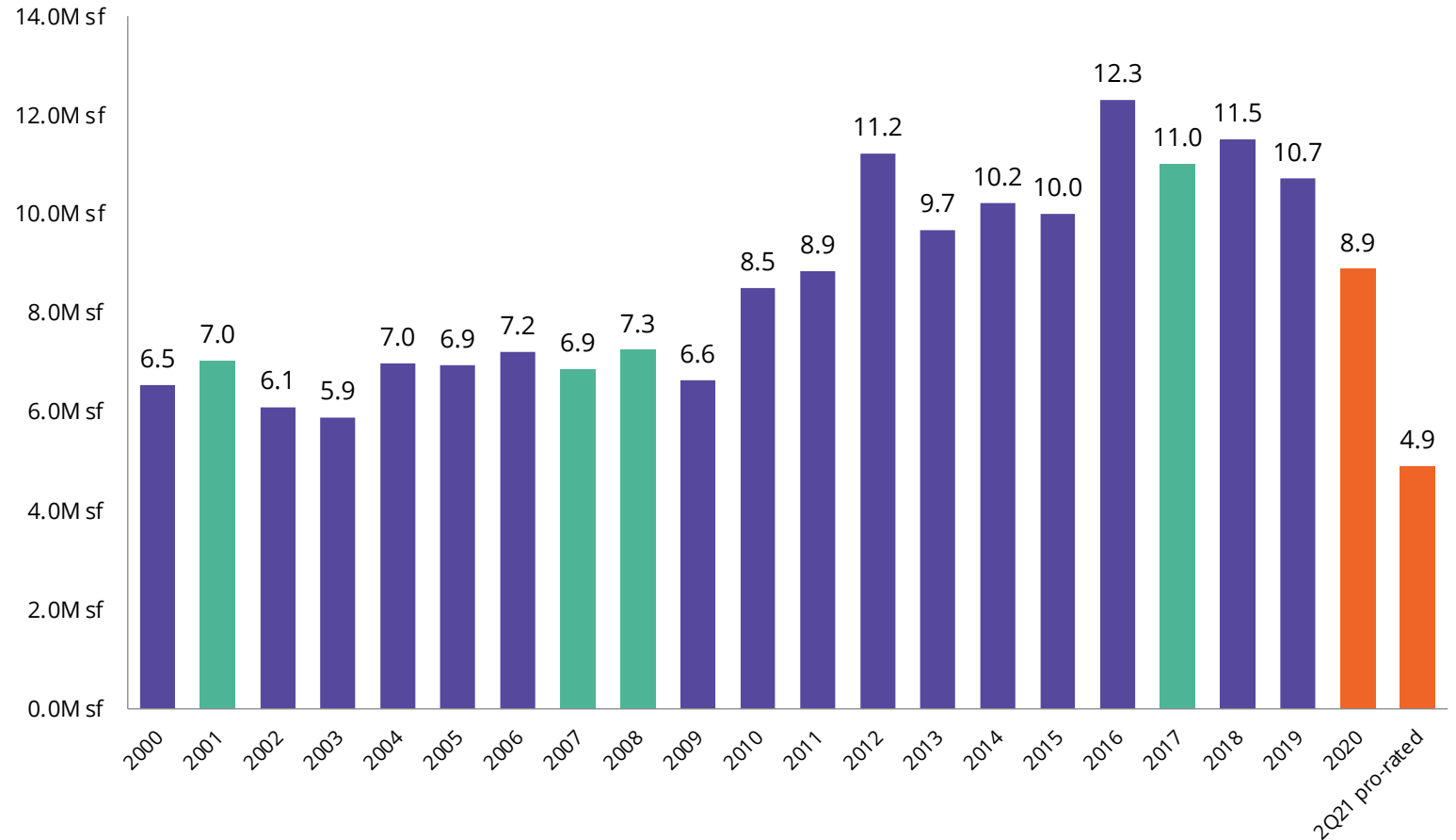
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Industrial leasing activity

4.9 msf

Leasing activity YTD 2021

Total leasing activity in 2021 has kept pace with Q1 & Q2 2020 leasing activity; meanwhile, average deal size has grown by almost 4,000 sf compared to 2020.



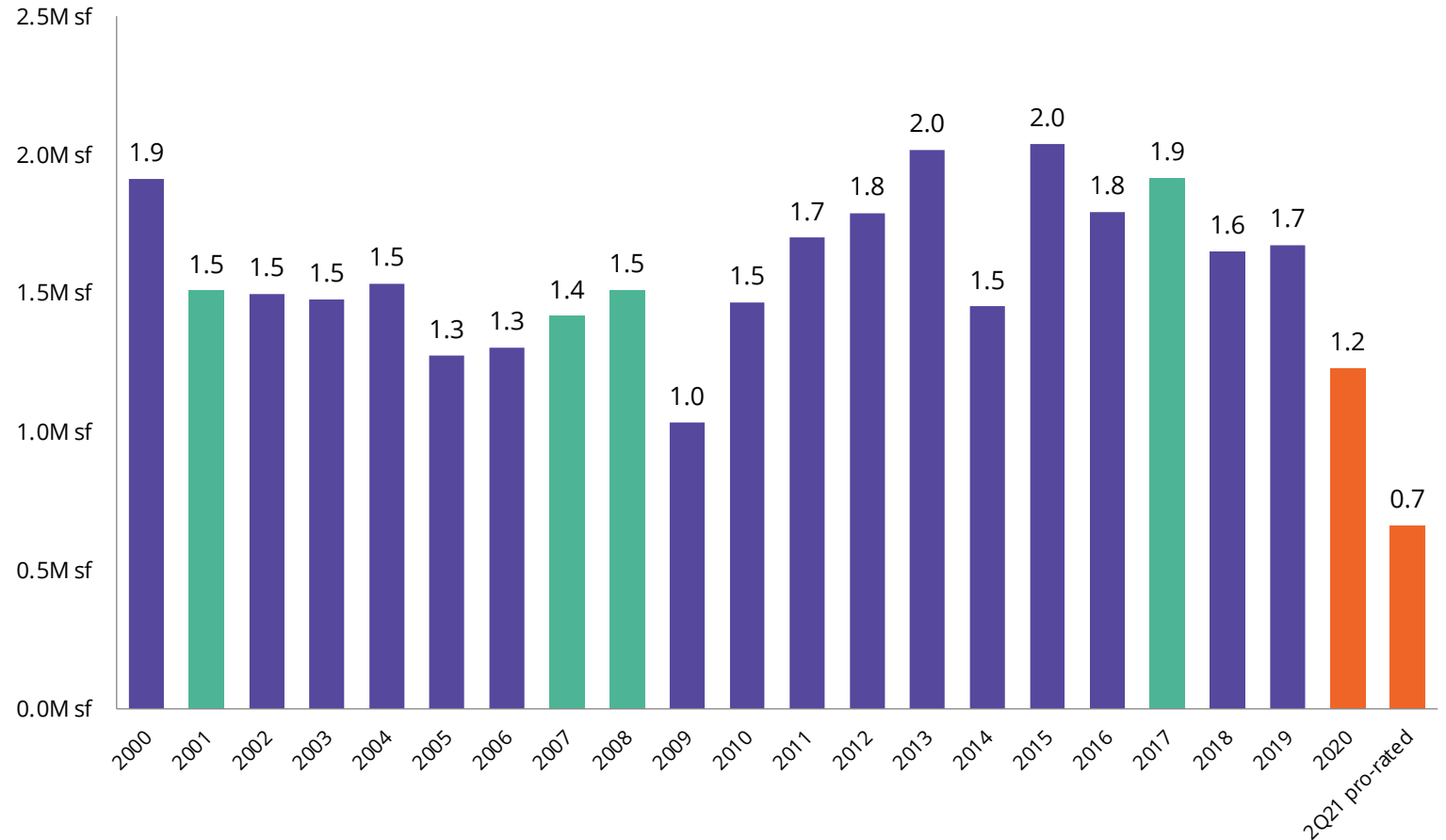
Source: CoStar

Flex leasing activity

+ 18.2%

**Growth in YTD 2021
leasing activity
compared to Q1 & Q2
2020**

Leasing activity in 2021 is on pace to surpass 2020 totals but remains below levels seen in 2019.



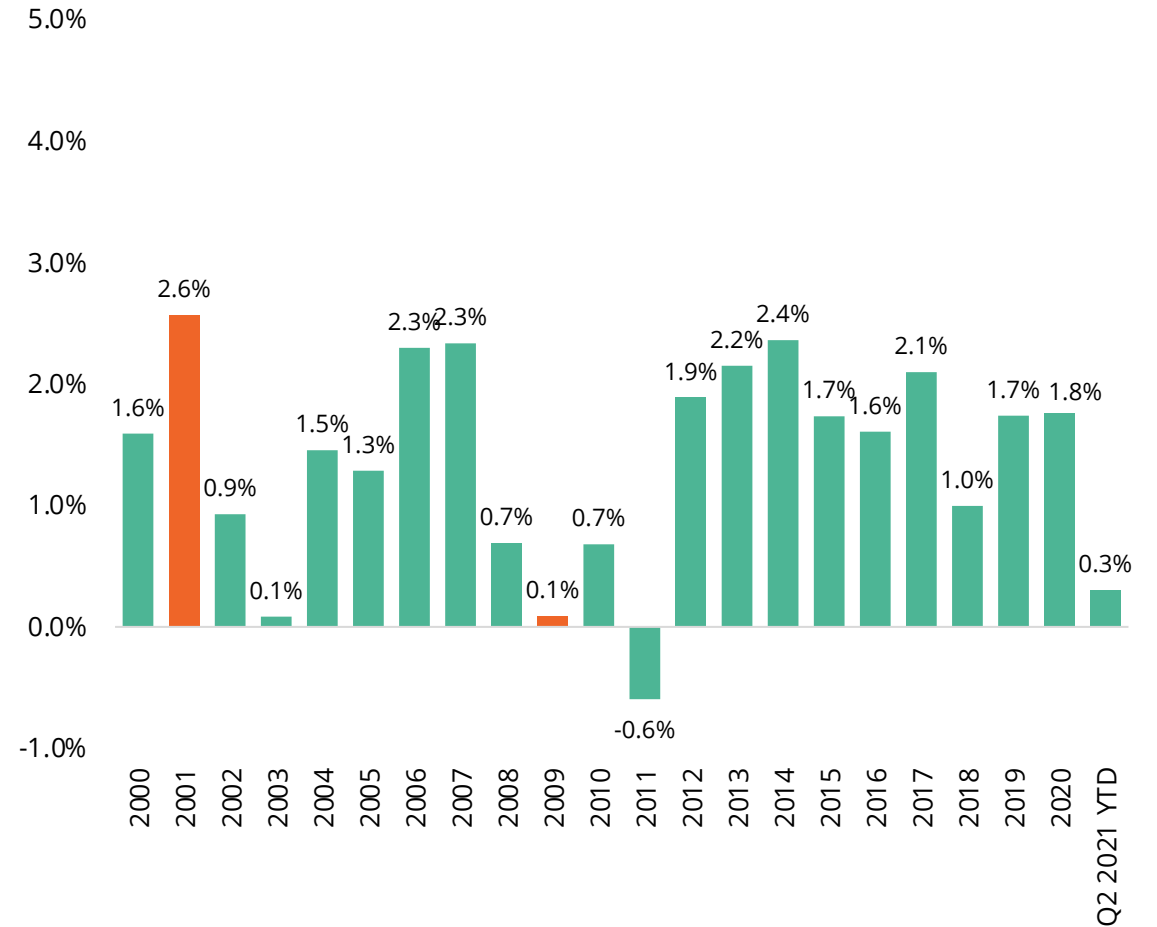
Source: CoStar

Industrial net absorption

644,200 sf

Direct net absorption in 2021 YTD

Absorption through mid-year remains healthy as total net absorption stands at 556,500 sf despite being pulled down by almost 110,000 sf of negative sublet absorption in Q2 2021. The market has seen over 3 msf of new product deliver in 2021, which has introduced new vacancy. However, the development pipeline currently stands at 10 msf as landlords remain bullish on demand.



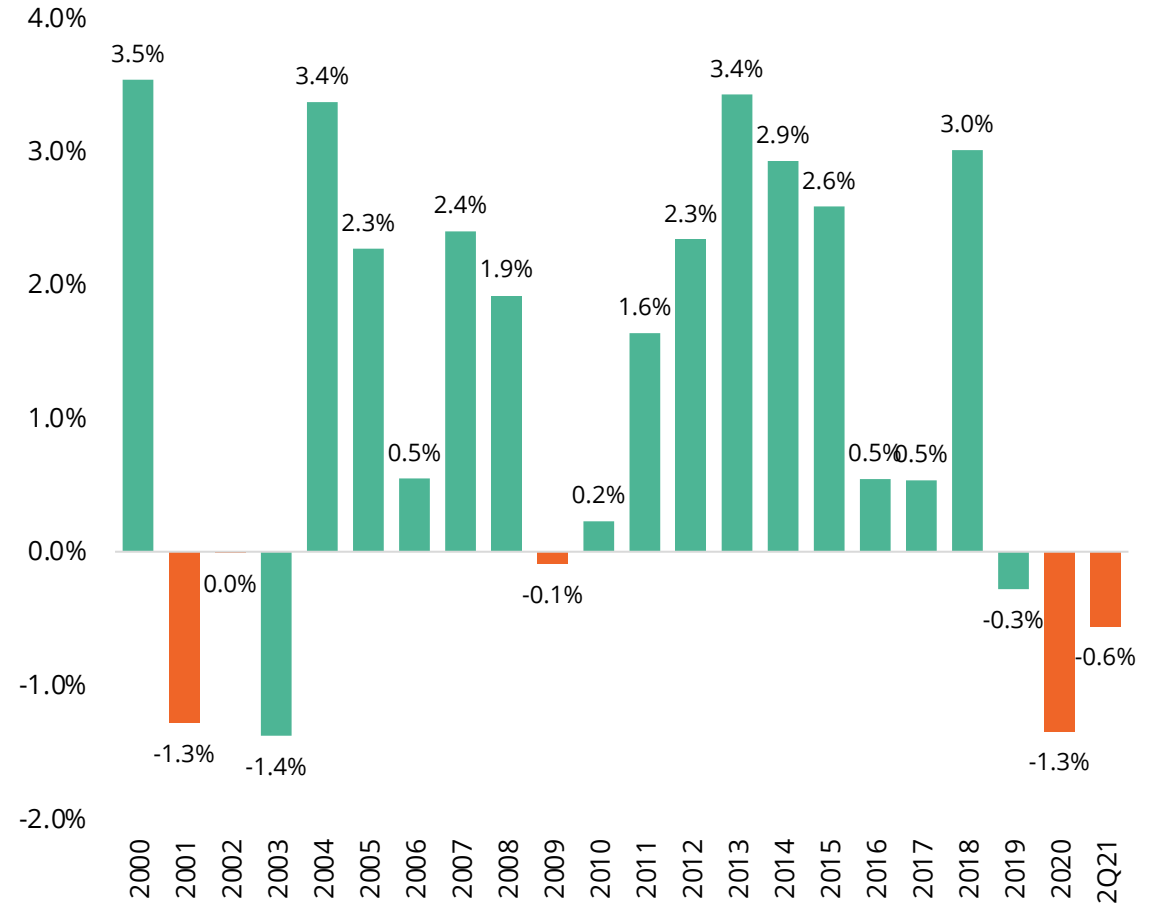
Note: Absorption is measured as the year-over-year change in occupied square feet.
Source: CoStar

Flex net absorption

53,236 sf

Net absorption in Q2 2021

Though total net absorption stands at approximately -145,000 sf YTD for 2021, absorption in Q2 2021 was positive at 53,000 sf.



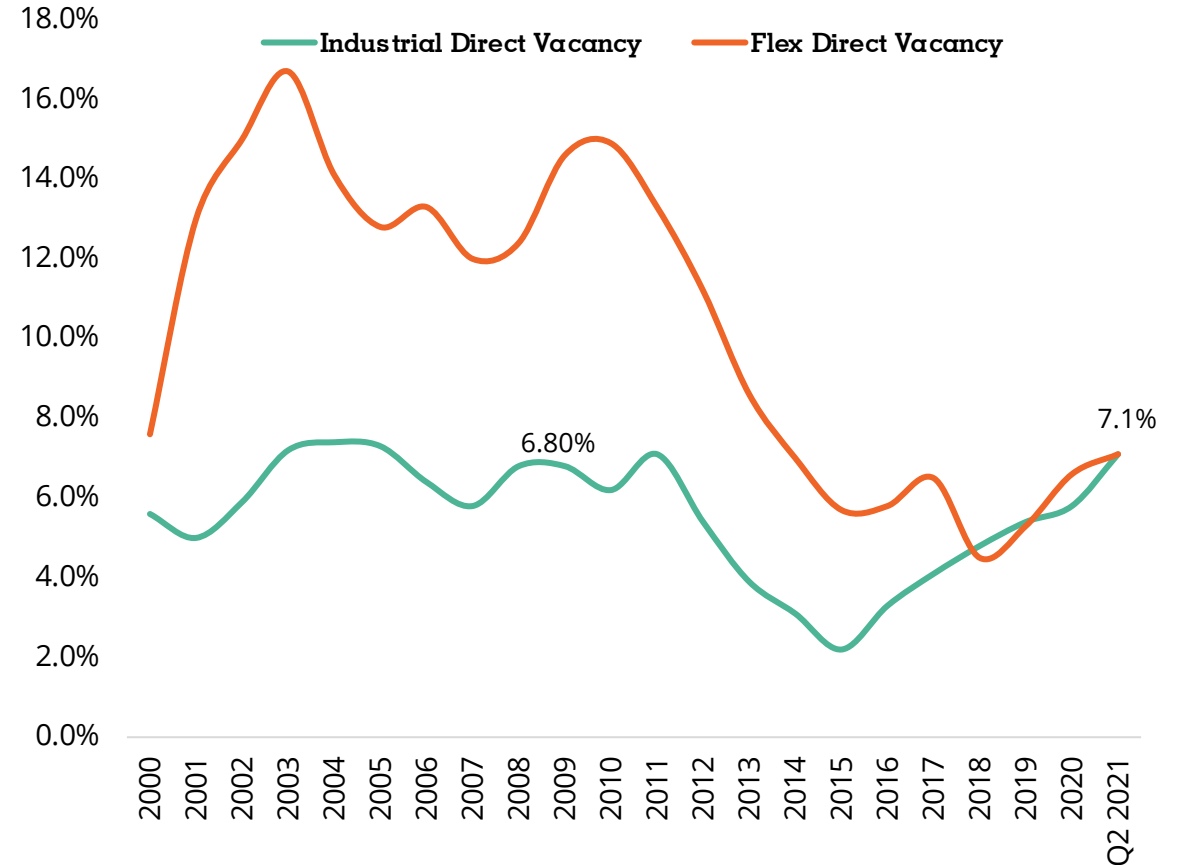
Note: Absorption is measured as the year-over-year change in occupied square feet.
Source: CoStar

Industrial and flex vacancy rate

7.1%

Direct vacancy as of Q2 2021

Despite a record number of deliveries vacancy continues to hover in the single digits. However, as construction activity continues to grow, vacancy rates could face upward pressure.



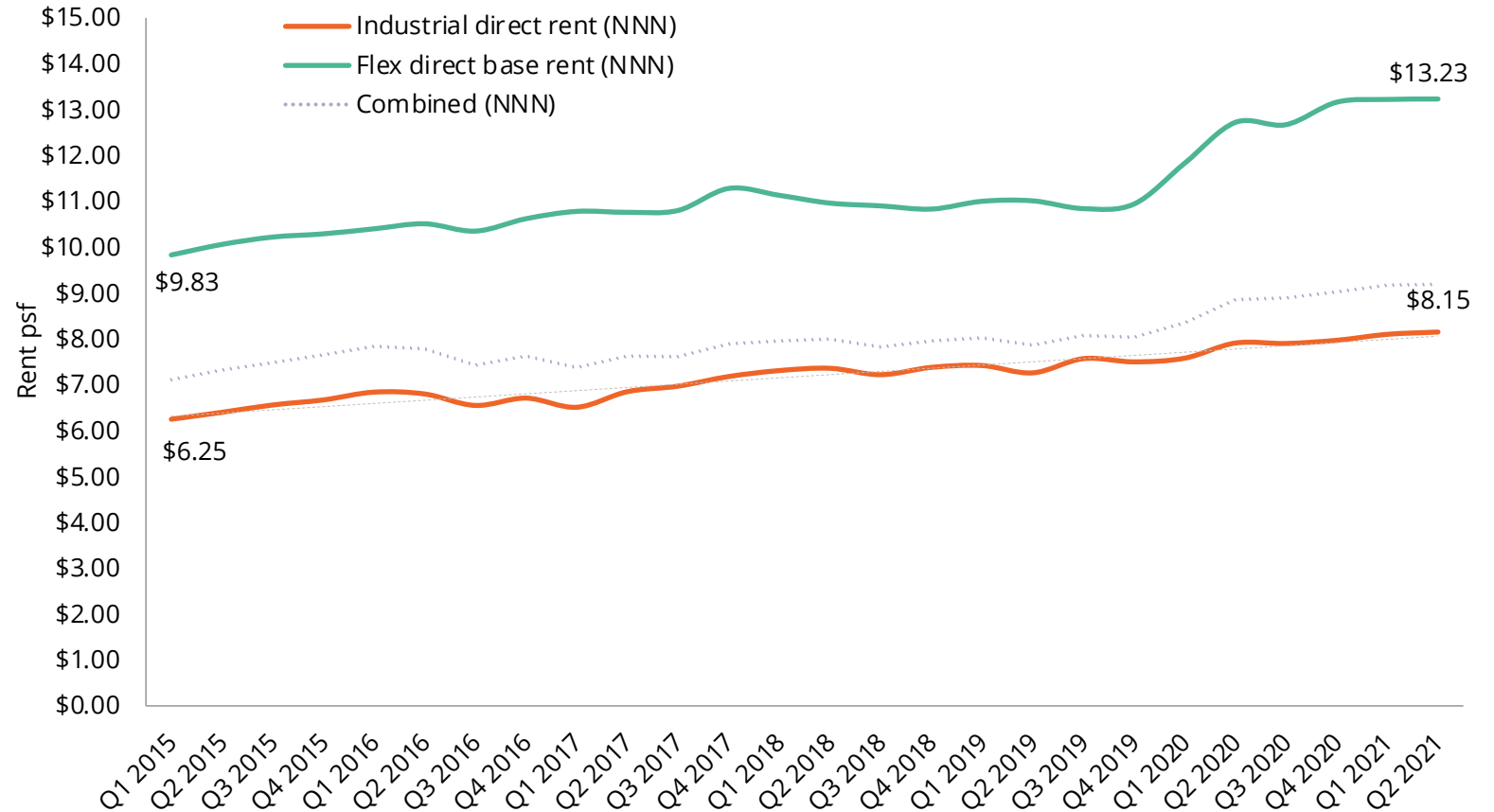
Source: CoStar

Base rents

+ 10.1%

Growth NNN rents (Industrial & Flex) since Q1 2020

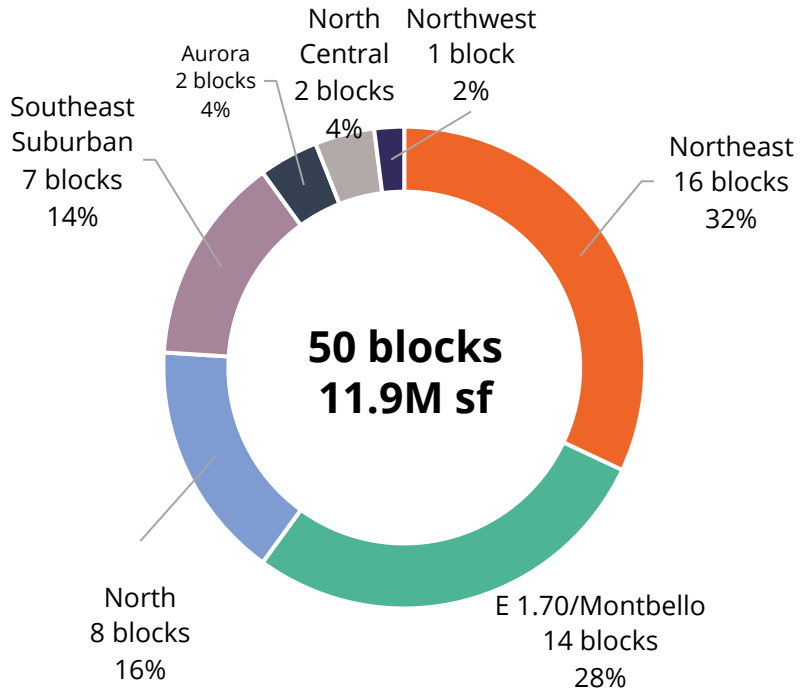
Base rents have held firm in the second quarter, but overall have trended upward since 2015, increasing by 29.3% over the last six years.



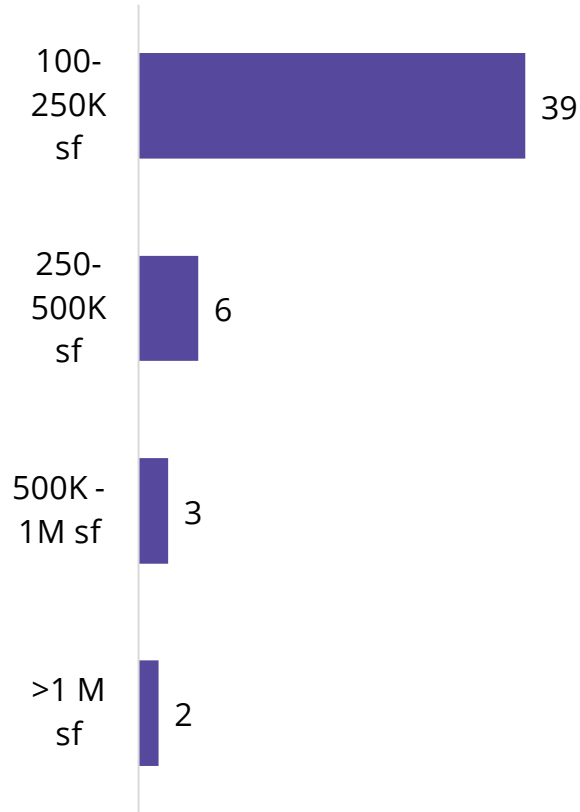
Source: AVANT by Avison Young

Industrial large-block availabilities > 100,000 sf

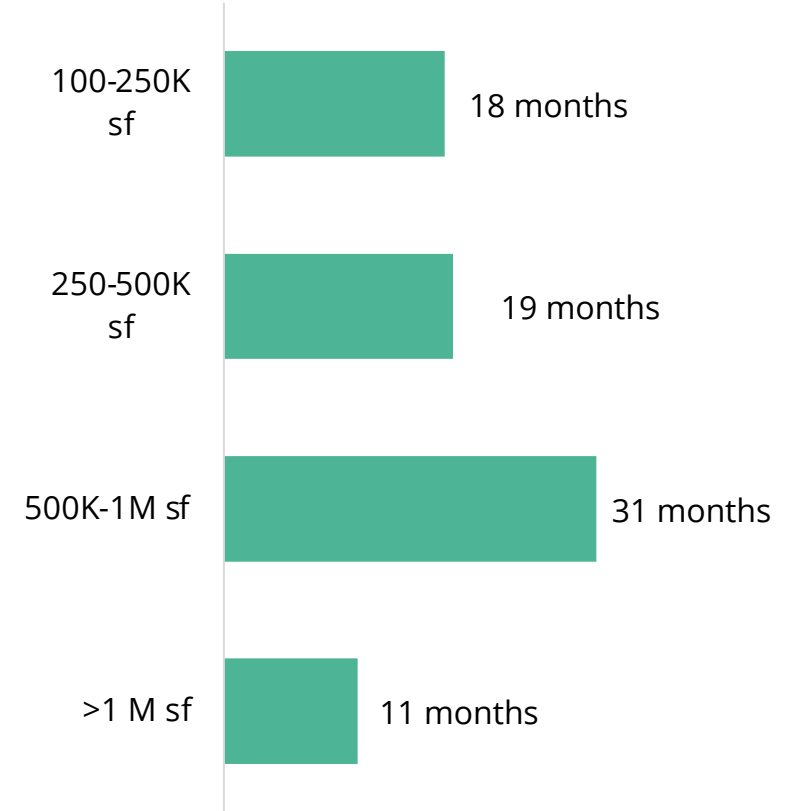
Direct availability by submarket



Direct availability by size tranche



Average time on market by size tranche



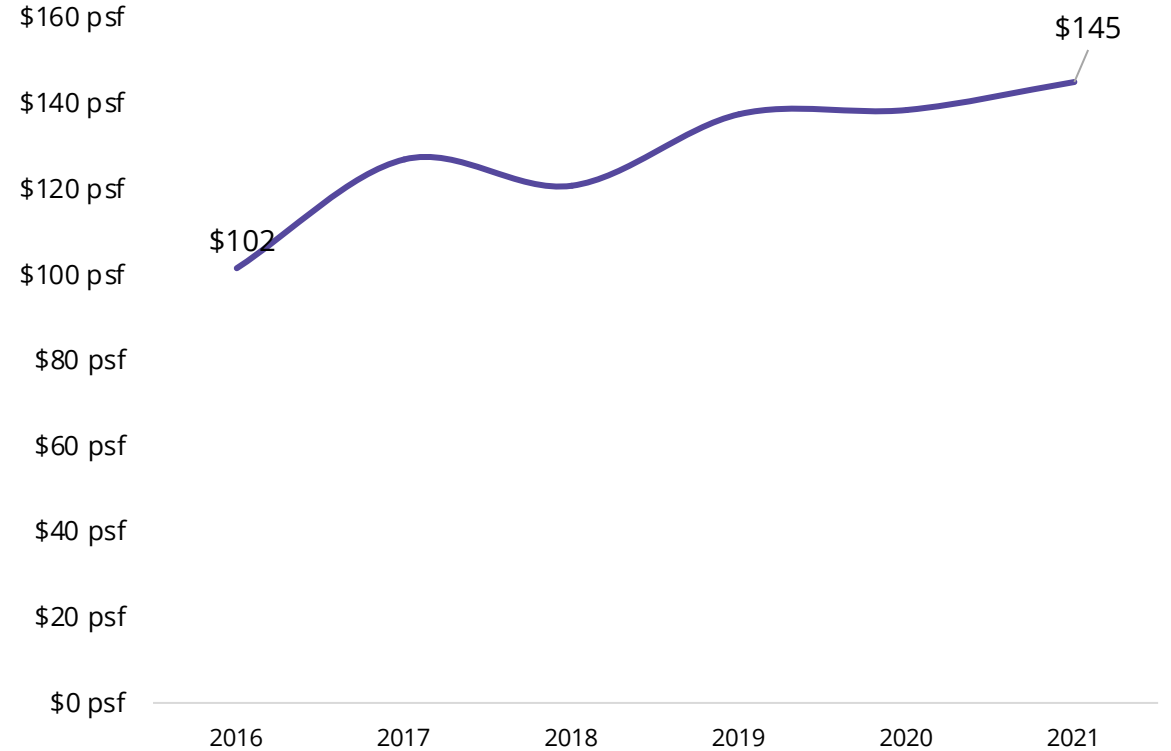
Source: AVANT by Avison Young

Industrial asset pricing

\$145 psf

Denver industrial pricing 2021YTD

Pricing for Denver industrial assets continues to climb as average asset pricing pushes towards \$150 psf.



Source: AVANT by Avison Young
RCA

Looking forward



Here's what we can expect

- **New supply** is expected to continue to flood the market as a mixture of build-to-suits and spec developments are set to deliver in the near-term which will offer tenants new, high-quality options.
- **Strong leasing demand coupled with job growth in the industrial sector** is expected to continue which will help manage vacancy levels across the region. Demand will continue to keep pace with new development for the foreseeable future.
- **Vacancy among properties less than 75,000 sf hovers at 4.8 percent** compared to the overall market average of 7.1 percent which could impact pricing and competition for tenants in search of smaller blocks of space.
- Solid leasing fundamentals have driven investment interest to industrial. **E-commerce penetration** has only reinforced the need for new and different types of last-mile and just in time facilities near Denver consumers.



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Let's talk

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