

Denver Outperforms Other Markets in Pricing Growth, Boosting Interest From Large-Scale Industrial Owners

Rise in e-commerce, population growth motivate developers to build more.

Growing demand from major distributors, manufacturing firms and e-commerce giants has fueled the substantive expansion of Denver's industrial sector. Nearly 15 million square feet has been built since 2012, while the average rent neared the \$8 per square foot threshold in the second quarter amid robust absorption. Developers remain committed to Denver's industrial market with population growth of roughly 37,000 people this year and a rise in e-commerce sales, leading to the strongest year of deliveries for the current cycle. Amazon will occupy the largest project of 2018, a 2.4 million-square-foot distribution center rising in North Denver. A substantial portion of development remains speculative, which will contribute to another year of rising vacancy and tepid rent growth. Competition for new Class A space close in to dense residential areas has been on the rise as consumers' demand for rapid delivery grows, which will help rent growth in prime areas of the market as more available space is filled.

Robust pricing growth keeps large investors active, compresses yields. Denver has recorded some of the best asset appreciation in the nation, rising an average of 8 percent annually over the past 10 years. On a per square foot basis, pricing passed \$150 during the 12 months that ended at midyear, soaring roughly 15 percent from the prior yearlong period. The average cap rate compressed considerably over the past year, now resting in the low-6 percent territory. Out-of-state buyer activity grew during the most recent trading period amid a 9 percent reduction in overall deal flow, emphasizing the attractiveness of industrial investment in Denver. Strong competition from institutional investors for well-located sites near residential areas will keep pricing elevated, which could motivate more private investors to list and capture recent pricing growth.

2018 Market Forecast

- Employment**  Building on the creation of 33,800 jobs in 2017, employers will up 2.5% add 36,500 workers to company payrolls this year.
- Construction**  Deliveries reach a cycle high in 2018, surpassing last year's total by roughly 1.5 million square feet. A 2.4 million-square-foot Amazon distribution center is this year's largest delivery.
- Vacancy**  A large amount of speculative construction supports a lift to the market vacancy rate, which will reach 5.9 percent this year after rising 20 basis points in 2017.
- Rent**  Rising vacancy has slowed rent growth, reaching \$7.77 per square foot this year. A 0.6 percent drop was posted last year.
- Investment**  Pricing expectations continue to be reset amid high levels of investor interest, though slowing rent growth may widen the buyer/seller gap.



* Forecast
Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

Denver Office
Bob Kaplan Vice President, Regional Manager
1225 17th Street, Suite 1800
Denver, Colorado 80202
(303) 328-2000 | bob.kaplan@marcusmillichap.com

For information on national industrial trends, contact:
John Chang Senior Vice President | Research Services
Tel: (602) 707-9700 | john.chang@marcusmillichap.com

Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of June 2018. Asking rent is based on the full service marketed rental rate. 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 office data are made during the fourth 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.