A Colorado Real Estate Journal Publication
December 2021

OFFICE & INDUSTRIAL Quarterly

CoStar Group
Leasing activity has returned across the metro area. In Highlands Ranch, Lockheed Martin leased more than 200,000 additional square feet at the 8740 Lucent Blvd. building.

Investors refocus as occupancy passes inflection point

Brian C. Smith, CCIM, SIOR
First vice president investments, and director, Healthcare Real Estate and National Office & Industrial divisions, Smith Office Team, Marcus & Millichap

The disruptions of COVID-19 on the national office market have been significant, and while Denver has not been spared from the new challenges, the market benefits from some unique traits. Business-friendly policies have made the Mile High City an attractive place for both startups and large tech firms seeking lower rents relative to tech hubs like San Francisco, Seattle and Austin, Texas. Denver also already was a remote work hub prior to 2020, supporting one of the largest pre-pandemic untethered workforces of any major metro area. As such, Denver ultimately will see less space attrition than some other markets. The arrival of companies new to the area together with the expansion of some existing firms should balance out any downsizing of other office-using businesses, allowing space absorption trends to move toward pre-pandemic levels in 2022. Diminished speculative construction also will help neutralize the long-term effects of remote work.

Denver experienced one of the larger increases in office vacancy of any major market in 2020 as firms attempted to capitalize on empty offices, applying negative pressure on rents. Office fundamentals in downtown Denver and adjacent submarkets such as Lower Downtown and Platte River were hit the hardest, with the vast majority of the 4.1 million square feet available for sublease in November located in those submarkets. Suburban office hot spots like the Denver Tech Center, Greenwood Village and Broomfield also have experienced rising vacancy, however less tenant loss and available subleasing space have allowed for slight rent gains. Heading into 2022, many of these negative trends have begun reversing toward pre-COVID-19 norms. The amount of space available for sublease has finally contracted after peaking at 4.7 million sf in early 2021. Firms anticipating a return to in-person or hybrid work also have contributed to vacancy beginning to descend in the core as the leasing outlook improves.

Leasing activity has returned in the metro area following a pandemic-era lull. Vacancy rates have reached their peaks and have begun ticking back down, especially in the hardest-hit areas surrounding the

Please see Market Update, Page 14

INSIDE

Contents

Letter from the Editor

Surviving the office free fall

Before we saw the world change in the face of the pandemic, market statistics often were compared to previous economic challenges. The burst of the dot-com bubble and the Great Recession were the two flash points often referenced when discussing past cycles and trying times. While both of those had devastating impacts on the commercial real estate world, the speed at which COVID-19 literally and figuratively turned off the lights on office properties put most office real estate professionals in uncharted territory. There was a sense of free fall with no clear bottom in sight.

However, recent activity seems to be signaling that we may have hit the bottom in the middle of the year, and the office sector is now starting to dust itself off.

In Denver, the third quarter saw the strongest leasing demand since the fourth quarter of 2019, availability plateaued and the overall supply of available sublease space fell to its lowest level since the third quarter of 2020, according to a third-quarter Savills Denver office market report. The national outlook for strong new absorption in 2022 seems positive as well, according to a recent report from NAIOP.

While the free fall may be behind us, the time it will take to recover is undetermined. The Savills report may have said it best, "While economic conditions have improved across the Denver region, the long-term impact of work-from-home policies may stunt a rapid recovery in the Denver office market."

The pandemic recovery is different for office than almost all other parts of the commercial real estate world. As the articles beginning on Page 19 can attest, industrial hardly skipped a beat. The same can be said about multifamily and much of health care. It seems even retail had a softer landing as many retailers struggling pre-pandemic left the market and those remaining have adapted and know the path forward.

But in the office sector, debates still continue regarding how remote and hybrid work will be incorporated into long-term company growth. According to the NAIOP report, office access data collected by Kastle Systems across 10 large metropolitan areas indicated an average office utilization rate of 36.8% in late October as compared to near-full utilization in early March 2020. Clearly, there's still a long way to go, and answers about who will be using that space and how remain to be seen.

With new construction remaining tight, sublease space decreasing and a new year with new company objectives ahead of us, there's reason the believe 2022 will answer many of our questions about the ways in which Coloradans will chose to work.

Michelle Z. Askeland
maskeland@crej.com
303-623-1148, Ext.104

OFFICE — MARKET UPDATE

Denver office market shows signs of growth again

Andy Cullen
Partner and managing broker, Tributary Real Estate

Metro Denver's commercial real estate market is showing signs of a "return to normal" following several quarters of uncertainty fueled by the ongoing effects of the COVID-19 pandemic. From initial lockdowns to ever-evolving health protocols to changes in workplace demands, companies have had to navigate what are likely some of the hardest years of their existence. And the office market has felt it.

There's no question that there still are challenges to overcome as the marketplace tries to right itself after an unprecedented shock, but a few glimmers of hope for the office market became clear in the third quarter, including positive net absorption, economic growth and investor activity, and lease rates stabilization.

■ **Positive net absorption.** One of the most encouraging statistics from this past quarter was the positive net absorption of office space. Marking the first time this figure has ventured into positive territory since the beginning of 2020, the office market experienced positive net absorption of nearly 240,000 square feet, including both direct leasing and subleasing.

This figure shows a shift back to what leasing activity looked like in the Denver office market in the years leading up to the pandemic, bolstered by fewer companies relinquishing their office space. In total, companies leased more than 2.3 million sf of office space in metro Denver in the third quarter, an increase of 43% over the third quarter of 2020, when leasing activity was still largely stifled by COVID-19.

■ **Economic growth.** Economic activity also has increased in the Denver metro area with the proliferation of COVID-19 vaccines. As restaurants, bars, hotels and entertainment spaces are hitting their full stride again, more and more offices are resuming in-person operations or adopting hybrid models that allow maximum flexibility for employees who have become accustomed to working from home.

As Denver continues to attract employers and employees, local, national and international investor interest continues to increase in the Mile High City. Total building sales totaled more than $1.7 billion across the metro area. Among major transactions, the sale of the VF Corp. headquarters building (formerly the Gates building) set a new record for downtown Denver at $800 per sf.

The volume of activity bodes well for the future of the office market locally, after more than a year when office spaces across the metro area were largely left vacant.

■ **Lease rates.** While there are multiple signs of improvement, the market still looks very different than it did in 2019. Before the pandemic, the metro Denver office market was arguably the strongest it had ever been, with average rents approaching $30 per sf, a large amount of new office product under construction and vacancy rates holding steady at sub-10%, even with new buildings coming on line.

	Vacancy Rate	Total Office Space	Office Space Under Construction	Average Rental Rate	Total Building Sales Volume
Downtown Denver	24.5%	34M SF	574K SF	$37.16/SF	$475M
West	24.2%	6.6M SF	42.4K SF	$24.42/SF	$48.6M
Northwest	24.6%	12.6M SF	149K SF	$30.78/SF	$379M
Glendale/Cherry Creek	21.2%	9.4M SF	152K SF	$29.35/SF	$183M
Denver Tech Center	26.6%	23.8M SF	106K SF	$27.77/SF	$457M

Source: CoStar (Q3 2021)

Third-quarter statistics for the Denver metro area office market

Now, the total vacancy rate is 14.3%, up 4.4% from its pre-pandemic position. The amount of space under construction has been cut in half, although a big reason for that is the delivery earlier this year of major office buildings like Block 162, which added more than 600,000 sf of office space to the downtown market. Historically, buildings like that don't come around in Denver very often, so it's not surprising.

Many companies placed their space on the sublease market throughout 2020, with the total vacant sublet space more than doubling over the course of the year to 2.4 million sf. Today, there is more than 3 million sf of vacant office space available for sublease.

While direct gross office rents have held steady on average, ticking up by almost $1 to $29.60 per sf year over year, rents for sublease space reflect the glut of space that hit the market during the pandemic, dropping more than $2 to $24.08 per sf on a gross basis.

Even with these shifts, the metro Denver office market still is largely a tenant's market, although some submarkets are more favorable than others and tenants continue to be challenged with extended permit times, rising construction costs and supply chain issues. Right now, many owners are open to negotiating various concessions like tenant improvement dollars, shorter lease terms or discounted rental rates. As the office market continues to strengthen, these types of concessions will not be as readily available, but there will continue to be opportunities for companies to grow within the Mile High City. And that will be a welcome sign for all. ▲

andy@tributaryre.com

Office Properties Quarterly - Financing Sources Matrix

TYPE OF CAPITAL	SOURCE OF CAPITAL	EXPLANATION	RATES/SPREADS	LTV/COVERAGE	TERM	AMORTIZATION	FOCUS	TRENDS
LIFE INSURANCE COMPANY	• Insurance premiums • Annuity and GIC sales	• Non-Recourse • Longer-term fixed rate loan	150-200 bps spreads over corresponding UST (3.00% - 4.00%)	• Up to 65% LTV • 1.50x Minimum DCR	5-30 Years	20-30 Years	• Downtown, urban locations or popular suburban office parks • Multi-tenant, traditional floor plates • Top tier tenants with good credit • Major metros & secondary markets (being more selective on secondary markets) •Diversified rent rolls with evenly distributed rollover	• Office is currently the most challenging asset type to finance, lenders are underwriting higher vacancy factors • Lenders are digging further into the rent roll to understand each tenant business models and credit • Higher push for properties with (1) credit tenants and term or (2) multi tenant properties with smaller independent business tenants and diversified rollover • Most competitive at 50% - 60% leverage with strong sponsors • Starting to target high-quality suburban office more due to impacts of COVID-19 on more urban areas
CONDUIT (CMBS)	• Sales of mortgage-backed securities through public markets	• Non-Recourse • Longer-term fixed rate loan	175 - 250 bps spread over corresponding US Swap Rate (3.25% - 4.50%)	• Up to 70% LTV • 1.40x Minimum DCR • 9.0% Minimum Debt Yield	10 Years	25-30 Years (Full-term I/O available at moderate leverage)	• Downtown office • Suburban office • Single-tenant with structure • Secondary/Tertiary Markets	• Looking at office assets but being more selective with effects of COVID-19 •Higher emphasis on tenants' credit or loan structure around rollover •Longer down-times assumed and higher leasing reserves required • Targeting acquisition or cash-neutral refinances in the current environment
BANK	• Corporate Debt • Deposits	• Recourse (non-recourse becoming more available) • Shorter-term fixed and floating rate loans	3.25% - 4.25%	• Up to 65% LTV • 1.40x Minimum DCR • 9.5% Minimum Debt Yield	Up to 10 Years Fixed, Typical Max Term is 5-7 Years	25-30 Years	• All office assets • Value-add with guaranties • Secondary/Tertiary Markets	• Being more selective on asset quality given the current environment • Most competitive for Sponsors with established banking relationships and strong borrower history that are willing to accept recourse • Hard to find non-recourse office financing from banks currently • More flexible (open) prepayment terms
DEBT FUND / BRIDGE LOAN	• Private Capital • Institutional Capital	• Non-Recourse • Shorter term bridge loans for acquisition and/or repositioning	L+ 325-500 bps spreads	• Up to 75% LTC • Going-in 1.0x DCR	1-5 Years (3+1+1)	Interest Only	• Value-Add Transactions • Recapitalizations	• Most lenders have a LIBOR floor of 15 or 25 bps • Being more selective on asset quality given the current environment • Pricing depends on leverage level, property quality, and Sponsor strength • Needs to have strong value-add business plan and story in place • Limited interest for non-cash flowing assets
MEZZANINE/ PREFERRED EQUITY	• Private Capital • Institutional Capital	• Junior financing secured by a pledge of, or participation in ownership interest	Mezzanine 8%-12%	• Up to 80% LTC • 1.10x DCR	2-10 Years	Interest Only (in most cases)	• All office assets • Value-Add Transactions • Recapitalizations	• Preferred equity offers higher funding than mezzanine, but at a higher cost • Minimum investment is typically $5MM but can start as low as $1MM when paired with senior position

DCR - Debt Coverage Ratio
DUS - Delegated Underwriter Servicer
LTV - Loan to Value Ratio
LTC - Loan to Cost Ratio
LIBOR - London Interbank Offered Rate
REIT - Real Estate Investment Trust

This information is intended to illustrate some of the lending options currently available. Other options may exist. While Essex Financial Group strives to present this information as accurately as possible, no guarantee is made as to the accuracy of the data presented, or the availability of the terms at time of application. Rates and terms are subject to change. Please contact one of our mortgage bankers for up to date rate and term information.

Essex Financial Group | 1401 17th Street, Suite 700 | Denver, CO 80202 | www.essexfg.com

Essex Financial Group - Recent Office Transactions

Highland Place II
Centennial, CO
$17,155,000 Bridge Loan
Bridge Lender

Medical Dental Building
Seattle, WA
$75,000,000 Permanent Loan
Life Insurance Company

Heritage I & II
Dallas, TX
$29,000,000 Permanent Loan
Life Insurance Company

Jeff Riggs
Founder and Chairman
(303) 843-0440
jriggs@essexfg.com

Cooper Williams
President / Principal
(303) 843-4581
cwilliams@essexfg.com

Peter Keepper
Principal
(303) 843-6002
peterk@essexfg.com

Mike Jeffries
Principal
(303) 843-9220
mjeffries@essexfg.com

Alex Riggs
Principal
(303) 843-4027
ariggs@essexfg.com

Paul Donahue
Assistant VP
(303) 843-4021
pdonahue@essexfg.com

Blaire Butler
Assistant VP
(303) 843-4024
bbutler@essexfg.com

Chris White
Assistant VP
(303) 843-4583
cwhite@essexfg.com

OFFICE — MARKET UPDATE

Northern Colorado office market remains resilient

Prior to the pandemic, Northern Colorado was considered a very healthy real estate market, and the pandemic's effect on the office market have been mostly short-lived. A few larger employers such as State Farm, Nutrien and Madwire are not utilizing a significant amount of their leased space. Although these vacancies provide opportunities for large users, they generally do not affect the overall market due to over 75% of the office leases being for space of less than 5,000 square feet. Employers continue to speculate that a significant number of employees will work from home, at least part time, for the foreseeable future and that demand for Northern Colorado will increase in 2022.

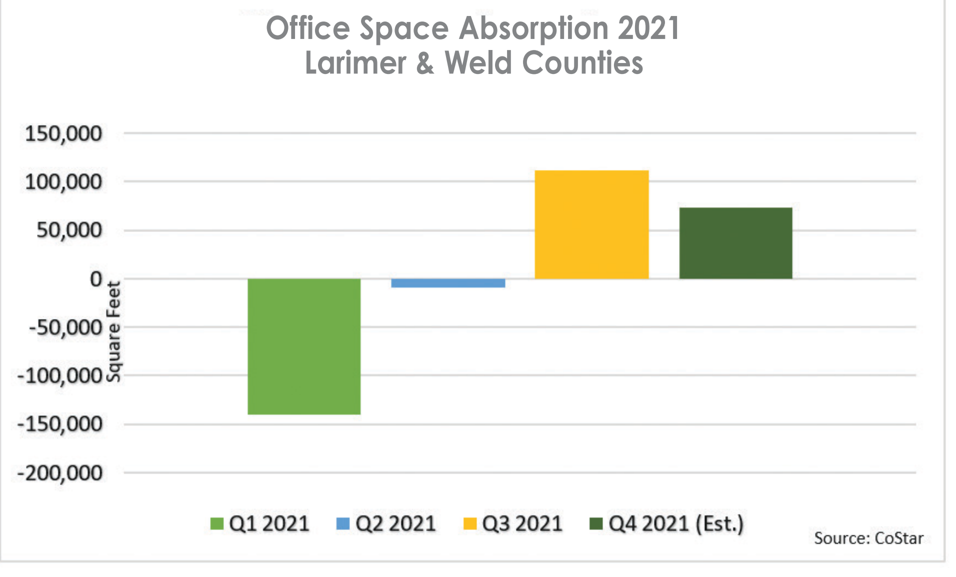
Ron Kuehl
Broker/partner, Realtec CRES Loveland

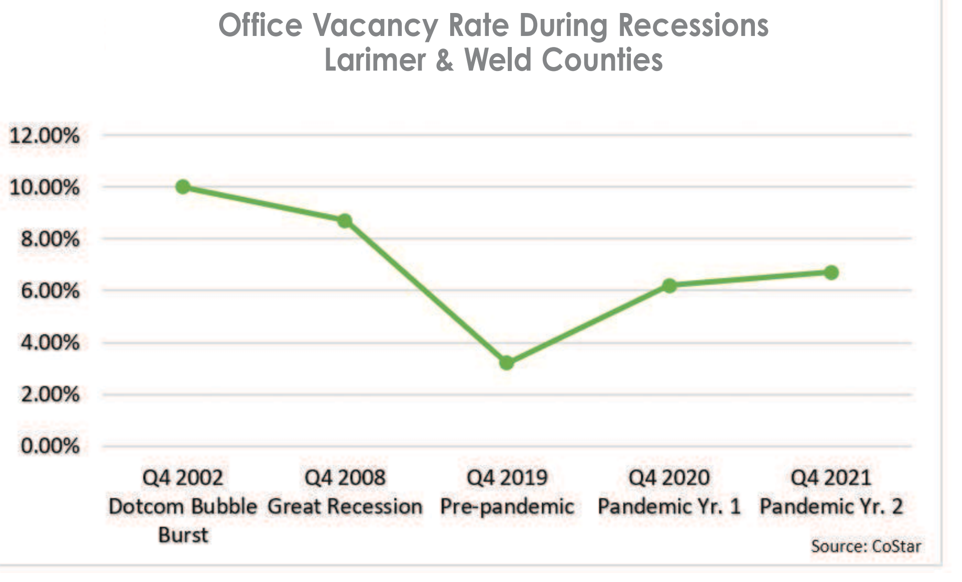
■ **Fort Collins, Loveland and Larimer County.** In the Fort Collins/Loveland market, absorption was negative for six quarters (first-quarter 2020 to second-quarter 2021), a first for the submarket in over a decade. In the third quarter, absorption turned positive, and over the last 12 months, there has been 83,000 sf of absorption in a submarket of approximately 12 million sf. Once the pandemic set in, the vacancy rate rose to above 7% from a healthy 3.91% rate reported in fourth-quarter 2019. The current vacancy rate stands at 6.4%. Additionally, there is 272,000 sf of sublease space, bringing the availability rate up to 9.3%. The historical availability rate has been 7.2%. There have been only five tenants leasing space greater than 10,000 sf over the last 12 months, with the most prominent being Animal Health International's lease of 15,542 sf in the Centerra master planned development. Positive absorption is forecasted for the fourth quarter of this year and throughout 2022. The Fort Collins/Loveland market experienced a surge in unemployment to over 11% in April 2020 at the height of the governmental shutdowns and has rebounded well with Larimer County posting a September unemployment rate of 3.9%.

Jamie Globelnik
Broker, Realtec CRES Loveland

Investment sales activity picked back up beginning in the fourth quarter of 2020, with office sales of $100 million over the previous 12 months. Historical sales in the submarket have been approximately $52 million annually. Sales to owner-users remain strong as Northern Colorado businesses continue to have a robust culture of ownership versus leasing. In a recent sales transaction, a group of physicians paid $410 per sf for a new building in core-and-shell condition that was in a premier location at Cen-

Please see Kuehl, Page 14





OFFICE — OUTLOOK

Denver office sector is rebounding as year ends

The pandemic disrupted many sectors of commercial real estate – from retail to hotels and, of course, office space. While the theme of 2021 has been lingering uncertainty, 2022 is anticipated to be a game-changing year for the office sector.

At the start of 2021 many companies attempted to firm up plans for a summer or Labor Day return to the office. Unfortunately, the surge of the delta variant put those plans on hold. Now the goal post has been set for the first quarter of 2022. With this in mind, we already are starting to see signs of recovery in metro Denver's office sector.

Leasing activity in the third quarter totaled 1.4 million square feet in metro Denver, marking two straight quarters of the highest activity since the onset of the pandemic.

Sublease availability decreased metrowide, falling 9.8% quarter over quarter. The decline was even greater downtown, which saw a 15% decrease in sublease availability.

Nineteen office transactions occurred in the third quarter, posting a total volume of $1.1 billion, indicating strong investor confidence in the future of Denver's office market. Downtown Denver set a new price per sf sale record with the sale of 1551 Wewatta.

Investor confidence is supported by lease rates. Average asking rates are at historically high levels, exceeding $30 per sf full-service gross for the first time ever in metro Denver. Direct rental rates also are up with an increase of $2.45, or

Chris Phenicie
Senior vice president, Denver, CBRE

8.4%, year over year.

Part of what is driving the strong performance of Denver's office market is the tech industry. This may come as a surprise to many people as tech firms have been some of the loudest proponents for remote work. At the same time, these firms have been scooping up office space in markets across the country. The tech industry alone is responsible for leasing 1 million sf in metro Denver through the third quarter of this year, the front-runner among all industries.

CBRE recently released its annual Tech-30 report, which looks at the impact of the tech industry on the office markets of North America's 30 leading tech hubs. The report found that tech is leading a national rebound in U.S. office leasing activity. Tech firms account for 22% of all U.S. office leasing activity in the second and third quarters, up from 17% in 2020. The share is even higher in metro Denver, where tech has claimed 28.5% of all office leases executed through the third quarter of this year.

The tech industry has fared particularly well over the past two years, as the pandemic increased demand for services like e-commerce and those that promote the ability to work from home. The success of

Jim Havey/Havey Productions

Nineteen office transactions occurred in the third quarter, posting a total volume of $1.1 billion, indicating strong investor confidence in the future of Denver's office market. Downtown Denver set a new price per sf sale record with the sale of 1551 Wewatta.

these businesses has triggered employment growth. High-tech employment is metro Denver grew by 11.5% over the past two years, ranking 11th among the top 30 tech hubs.

Even before the pandemic, tech firms were expanding outside their headquarters markets in an effort to diversify their workforces. Since 2013, tech companies based in the San Francisco Bay Area have leased 2.1 million sf across Denver. Remote work has only accelerated this trend.

While tech firms have led leasing activity in metro Denver and are contributing to our office sector's rebound, they are not alone. Metro Denver's office market remains well diversified with several other industries also active in recent leasing. Following technology's 28.5% share of office leasing activity year to date, business services account for 13.5% of activity, followed by energy (12.5%) and financial services (11.2%).

What all these industries are likely to have in common looking ahead

Please see Phenicie, Page 14

OFFICE — TRENDS

User-occupied building acquisitions on the rise

John Becker
Senior vice president, Fuller Real Estate

The Denver office market shows slow improvement as we gently emerge from the pandemic-induced office market sales slump of 2020. Job growth is up, and there is evidence of an improved suburban office market in the strong interest in owner-user-occupied office buildings.

The market for user office buildings is rarely examined. The industrial real estate market is awash with user purchases, but office building sales are more often multitenant investments, with relatively few user office purchases.

Interestingly, we are seeing single-tenant user office buildings being bought by companies that want to diversify away from their core businesses and become real estate owners as well. This trend is even extending to users buying multitenant buildings to occupy a portion of the building and rent the rest, becoming not only real estate owners but also landlords.

In the Ken Caryl sales market, a market I specialize in, six out of the seven office buildings sold in 2021 went to users. This submarket isn't as small as you'd think, with over 775,000 square feet of office product and a similar amount of flex product, but 75% of the office building sales year to date were to users, with an average price per sf of over $208. While typically sub-10,000-sf buildings, this submarket has seen user buildings sell to a church, a pediatrics group, dentists and home health groups.

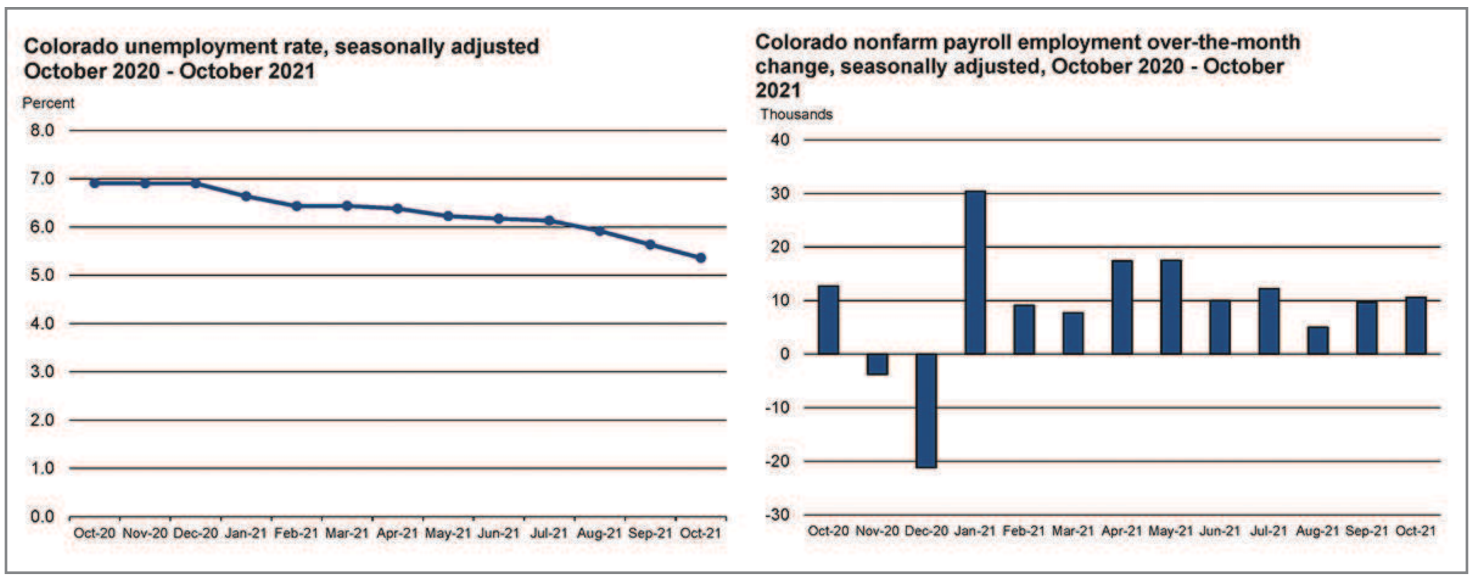
By extension the metro market is experiencing a similar trend. As of November, just under $180 million in office transactions (greater than $350,000) sold to users in the metro Denver area this year, up slightly in dollar volume from last year to date, but the number of transactions is up 35% in the number of deals (125 this year), according to CoStar. I attribute this increase in user interest to a gently improving economy as we emerge from the COVID-19 slump. Job growth is up, and small companies have the newfound confidence to invest in real estate to accommodate their growing businesses, all the while having the diversification tool offered by real estate ownership.

Notable user office sales this year in metro Denver include:

- 333 S. Allison Parkway in Lakewood, which sold to Colorado Christian University for $5 million;
- 33 Inverness, which sold for nearly $3.07 million;
- 2401 Larimer St., which sold for almost $3.38 million;
- 2800 W. Midway in Broomfield, which sold to Hunter Douglas for $4 million;
- KC Plaza at 4401 S. Quebec St., which sold for $4.6 million to a user-investor; and
- The largest user sale, 9359 E. Nichols Ave., which sold to a church for $8.25 million.

The most recent Colorado employment study by the Colorado Department of Labor and Employment, published Nov. 19, shows steady job growth in the state. The number of individuals employed has grown by 133,000 this year, while unemployment continues to fall.

These healthy job statistics point to an improving economy and good consumer confidence, which helps drive user-office purchases throughout the metro area.



The most recent Colorado employment study by the Colorado Department of Labor and Employment, published Nov. 19, shows steady job growth. The number of individuals employed has grown by 133,000 this year, while unemployment continues to fall.

Please see Becker, Page 14

OFFICE — TRENDS

Expect greener, wellness-focused office buildings

Stephanie Lawrence
Senior managing director, Granite Properties

As more people return to the office, they may notice a lot more green space, enhanced air quality, outdoor workspaces and an overall emphasis on wellness. Office owners are focused on sustainability, health and well-being now more than ever before.

While the wellness trend started before the pandemic, it has increased dramatically since then. In 2020, both Fitwel and the International WELL Building Institute saw a spike in registrations. In fact, Fitwel saw a growth in registrations by 190% in 2020 with fourth-quarter registrations increasing by 644% over the same quarter in 2019. In the Denver area, Granite will pursue Fitwel certifications for Regency Plaza and Plaza Tower One in 2022 and we hope to follow with the rest of our portfolio in the coming years.

One major factor behind this push for sustainable and healthy buildings is the increased focus of the business community on the Environmental, Social and Governance movement. Investors increasingly base their investment decisions on a company's ESG performance. As a result, real estate companies looking to raise capital often are asked by investors to share their ESG efforts. At the same time, companies working toward their ESG goals seek sustainable, wellness-focused office buildings to help reduce their environmental footprint and ensure their employees benefit from working in a healthy building.

The wellness trend also is creating more compelling workspace that draws employees to the office by enhancing their work-life experience. Whether companies are returning full-time or through a hybrid, flexible approach, the office continues to be the place for employees to collaborate, innovate, connect and create culture. To help attract top talent back to their buildings, office owners are incorporating wellness features to provide an inviting, healthy, enjoyable workspace where employees want to be.

Following are a few examples of what those workspaces may look like.

■ **Outdoor workspace**. Outdoor workspace allows employees to work in fresh air surrounded by natural light. For example, we offers a number of inviting outdoor workspaces across the Denver portfolio for people to work, socialize or unwind. We are continuously looking for ways to create additional outdoor areas for our customers to offer to their employees.

■ **Nature-centered experiences.** Spending time in nature can reduce stress and enhance well-being. While many office buildings offer landscaped, outdoor workspaces, it also is important to offer things like complimentary bike programs and close proximity to trails. Bringing the outdoors indoors also can be effective through biophilic design, including vegetation in customer lounges, use of natural materials, and floor-to-ceiling windows for an abundance of natural light.

The pandemic accelerated already occurring trends in office space that target goals of sustainability, health and well-being. For example, Regency Plaza in Denver is pursuing Fitwell certification.

■ **Physical and community wellness.** Many studies show a link between wellness and productivity. These days, office fitness centers rival a regular gym experience with large cardio and weight rooms, group classes and locker rooms. This amenity contributes to customer physical well-being while also offering space for employees to connect outside the office. Programs like our TogetherWeConnect platform also can offer customers regular philanthropic, educational and professional development events to foster community in the building.

■ **Enhanced indoor air quality and touch-free experiences.** Due to the pandemic, indoor air quality went from a "nice to have" to a "must

Please see Lawrence, Page 14

CCIM Colorado/Wyoming CCIM Chapter

Champions for knowledge, integrity and relationships within the commercial real estate industry

The Power of the Pin

A 50-year tradition of commercial real estate education and entrepreneurship that cuts across generations, industry categories, and continents.

CCIM Colorado/Wyoming Chapter would like to extend our sincere gratitude to outgoing 2021 Chapter President Ryan Toole. Thank you for your thoughtful leadership and dedicated service to our Chapter.

Ryan R. Toole, CRE, CCIM
Alterra Real Estate Advisors, LLC

Thank you to our 2021 Sponsors

GOLD SPONSOR

Centennial Lending
INTEGRITY. EXPERTISE. SERVICE. INNOVATION.

SILVER SPONSOR

Colorado Real Estate Journal

INDUSTRY PARTNERS

Asset Preservation Incorporated
Cantor Fitzgerald
Dunton Commercial
Farha Roofing
Fidelity National Title — National Commercial Services
JRES James Real Estate Services
Laff Gordon Bennett Logan PC
John Propp Commercial Group
SocotraCapita
Summit Wealth Strategies, LLC
us bank
WeatherSure Systems — A Division of AVI Roofing, Inc. — Roofing · Waterproofing · Solar

The mission of CCIM Institute is to elevate our members to the highest levels of success in the Commercial Real Estate profession. Thanks to our signature designation program and topical education courses, almost ***70% of CCIM designees hold the title of owner, partner, principal or president.***

That's the Power of the Pin.

OFFICE — MARKET UPDATE

Continued from Page 1

core. Honeywell has leased an additional 64,000 sf in Broomfield, and Lockheed Martin Corp. has expanded after leasing more than 200,000 additional sf in Highlands Ranch. Additionally, during the second half of 2021, Deloitte, Datadog and PNC Bank signed leases to fill a combined 70,000 sf of office space downtown, signaling a return of some demand in the central neighborhoods. At the same time, many established businesses have chosen to downsize offices to fit their needs more efficiently. Two such firms, Sherman & Howard and DCP Mainstream, have signed leases showing a nearly 50% reduction in used office space as a result of long-term hybrid work models.

Development is down from prepandemic levels, despite the return of leasing activity, particularly among speculative projects. Many of those facilities that are moving forward are concentrated downtown and in the rapidly developing River North neighborhood, while build-to-suit developments continue to be focused in the suburbs. One of the largest projects underway is phase II of the Kiewit regional headquarters in Lone Tree, with over 130,000 sf of already filled space to open in late 2021 or early 2022. Additionally, Vectra Bank is slated to finish its 105,000-sf headquarters in DTC by late 2022. Builders delivering less space, both speculative and accounted for, should help lower available sublease space downtown while also aiding vacancy declines and rent increases in areas outside the core.

Amid diminishing uncertainty, a return of transaction activity downtown has driven the quantity of exchanges above even 2019 levels. Much of this investor confidence comes from the metro area's ability to attract new firms heading into 2022 and the scheduled return to office for many of Denver's largest companies. Several of the most prominent transactions recorded in 2021 were with first-time buyers in the area, from both out of state and international origin, looking to capitalize on yield potential not seen in other tech hubs. This is evidenced by the average cap rate on office trades remaining in the high 6% range in Denver, compared with mid-6% yields in Austin, high 5% in Seattle and high 4% in San Francisco. Entry costs are significantly lower in Denver than in these other metro areas, allowing a more diverse pool of investors to target the area. Growing suburban employment hubs like Broomfield, Aurora and the southeast corridor provide prospective buyers with a variety of options.

Offices in Denver will continue trending toward pre-pandemic performance levels in the coming year, supported by company arrivals and expansions. While the way firms use offices may have shifted structurally to some degree, many businesses still have return-to-office plans in place. As leasing improves amid a lull in construction, sublease space will return to much more typical levels, potentially falling over the coming years back into the 2 million sf range seen prior to the health crisis. Expecting a full return to 2019 vacancy and rent growth next year is unlikely, but the trend is certainly heading in that direction. Comparatively low costs for both firms and investors will continue to bring both to the metro area for the foreseeable future.▲

brian.smith@marcusmillichap.com

Kuehl

Continued from Page 6

terra in Loveland.

■ **Greeley and Weld County.** The Greeley/Weld County office market is comprised of 5.8 million sf of inventory, compared with an inventory of 12 million sf of office in Fort Collins/Loveland. Over the last 12 months, net absorption in Greeley was negative 110,008 sf. The vacancy rate in Greeley was 2.44% at the beginning of 2020 and currently stands at 7.4%; after considering sublease space, the availability rate is 13.4%. State Farm put 150,000 sf on the market at its Promontory location, representing the largest block of office space available in Greeley in the past several years; one of the largest lease transactions took place when JBS Swift leased 48,000 sf of this space. With over 90% of the 2021 lease transactions being for space of less than 5,000 sf, the JBS Swift lease represents a significant win for the Greeley office market.

Greeley has not traditionally been an active investment market for office space. In 2021, the largest office sale was for a 20,000-sf building for $2.9 million. Of the 37 sales over the last 12 months, the average sales price was approximately $137 per sf.

■ **Northern Colorado in 2022.** Although the current preference among employees is to work from home, after the pandemic subsides, employers will reevaluate their "at home" options based upon costs, productivity, ability to attract and retain talent, and the effect on strategic growth plans. It is anticipated that some businesses will begin to fully open up their offices in 2022 as well as continue to mold their work-from-home business models. In Northern Colorado, we anticipate that the in-person office environment will outweigh the preference to work at home, particularly among smaller businesses occupying 5,000 sf or less, which is the primary occupancy group for the area. Indecisiveness on occupancy strategies will continue in the near future and companies will continue to seek shorter-term leases to accommodate a hybrid model consisting of 20% to 30% of employees working from home, at least part time. While the hybrid occupancy model will reduce near-term future absorption, modest absorption is predicted throughout 2022. ▲

ronk@realtec.com
jamiek@realtec.com

Phenicie

Continued from Page 8

is a revisiting of how they use office space. Our firm has been at the forefront of workplace strategy for years. Five years ago, we revamped our downtown Denver office to a free-address, tech-enabled system – the same type of system many companies are now considering as part of their plans for a hybrid work environment.

Our company's greatest minds agree that the office will continue to play a critical role as we emerge from the pandemic, but the way employees use the office will change. With exceptions for certain industries, offices will become hubs for collaboration and culture building. More square footage will be dedicated to "we" spaces designed to bring employees and clients together, with more of the heads-down "me" space relegated to home. Perks like in-building fitness centers, restaurant offerings, outdoor space and meeting areas will grow in demand. Health, wellness and sustainability also will become even bigger priorities for owners and tenants.

No one would say the last 18 months have been an easy time to be an office broker, but we now stand at one of the most exciting junctures for the sector. And few places are better poised for the office's next chapter than metro Denver. ▲

chris.phenicie@cbre.com

Becker

Continued from Page 10

Although office absorption as a whole has remained negative in the preceding 12 months, with 2.7 million sf of negative absorption, according to CoStar's third-quarter Office Market report, the giant in the room is the delivery of the Kiewit regional headquarters building in Lone Tree. This property accounted for 260,121 sf of space, and it's a user property. The Kiewit property may very sell to an investor later, but for now it's a large user-developed suburban office. That Kiewit Corp. would have the confidence to build a regional headquarters building in metro Denver attests to the confidence in this market as evidenced by the employment gains described above.

Most user transactions are of much smaller scale and consist of small businesses looking to own real estate to house their small staffs of employees. Again, it's typical for industrial users to own their real estate, but it's refreshing to see an increase in office users emerging as a force. For a 5,000-sf to a more-than-30,000-sf building owner, even if it's multitenant with some vacancy, a user sale may result in a higher price per sf than a pure cap rate investment sale, as the buyer is getting the utility of occupying the building, which often is more valuable in its mind, and in the seller's pocket.

Speaking of multitenant office buildings with some vacancy, another investment strategy employed by user office building owners is that of the user-investor buyer. This user-employer diversifies its portfolio by acquiring a multitenant office building with enough vacancy to accommodate its office needs, all the while having the remaining tenants in the building pay rent to offset its occupancy costs. The user-employer not only evolves into a commercial real estate owner but also diversifies again into the role of a landlord. This strategy is not for everyone, as running a business with a payroll is hard enough, and adding ownership, plus landlord and asset and property management can challenge even the most energetic multitasker. The diversification tools employed by these strategies most certainly would offset the energy used but ensure a well-diversified requirement portfolio for a small to medium businessperson.

The evidence of the viability and robust market activity in user-acquired office buildings is strong. The Denver economic situation continues to improve, and acquisition of user office buildings attests to consumer confidence that this positive trend will continue as we emerge from our COVID-19 induced economic slump. ▲

jbecker@fullerre.com

Lawrence

Continued from Page 12

have" safety feature for office buildings. In 2020, our company enhanced the indoor air quality portfoliowide, including in our Denver buildings, by installing the clean air technology Needlepoint Bipolar Ionization into HVAC systems and elevators. We also retrofitted touch-free fixtures on entry doors and in restrooms.

While focusing on wellness and sustainability builds a healthier environment for our communities and customers, it also is a sound financial decision. A recent MIT study found that "healthy building effective rents transact between 4.4% and 7.7% more per square foot than their nearby non-certified and non-registered peers." There also are cost savings associated with sustainable buildings as they consume less energy, carbon and water, and cost less to operate. The majority of our office buildings are LEED certified as well as Energy Star rated, which we believe is important to their long-term performance.

While some may see wellness in the corporate setting as a fleeting trend, we embrace these improvements as critical to the customer experience and financial performance of our buildings. We look forward to welcoming more people through our doors in 2022 and are eager to see the positive impact our many wellness initiatives have on our building communities. ▲

slawrence@graniteprop.com

COMMUNITIES OPEN FOR BUSINESS

EDC DIRECTORY

ADAMS COUNTY REGIONAL ECONOMIC PARTNERSHIP

Lisa Hough
President/CEO
303-902-6920
lisa.hough@adamscountyrep.com
www.adamscountyrep.com
Targeted Industries: Aerospace; Aviation; Bio/Life Science; Energy; Food, Agribusiness & Beverage; Manufacturing

BERTHOUD, TOWN OF

Walter J. Elish
Business Development Manager
970-344-5806
welish@berthoud.org
Targeted Industries: Aerospace, IT Software, Fabrication and Production Technology Manufacturing, Distribution and Electronic Commerce, Plastics, Food Processing and Manufacturing

BOULDER ECONOMIC COUNCIL

Scott Sternberg
Executive Director
303-442-1044
scott.sternberg@boulderchamber.com
www.bouldereconomiccouncil.org
Targeted Industries: Aerospace, Bioscience, Cleantech, IT/Software, Natural Products, Outdoor Recreation

BROOMFIELD, CITY & COUNTY OF

Jeff Romine
Economic Vitality Director & Economist
303-464-5579
jromine@broomfield.org
www.investbroomfield.com
Targeted Industries: InfoTech, Finance/Asset Management, Global, Aerospace, Healthy Living/Foods and HealthTech. Community-focused targets include experience retailers and creative restaurants.

CHERRY CREEK NORTH BID

Nick LeMasters
President & CEO
303-394-2904
nick@cherrycreeknorth.com
www.cherrycreeknorth.com
Targeted Industries: Retail, restaurants, hotels, boutique office including legal, accounting, wealth management and residential uses.

COLORADO SPRINGS CHAMBER AND EDC

Cecilia Harry, CEcD
Chief Economic Development Officer
719-575-4310
charry@cscedc.com
www.cscedc.com
Targeted Industries: Aerospace & Defense, Aviation Related & Specialty Manufacturing, Cybersecurity, Information Technology, Healthcare & Medical Technologies, Sports & Outdoor Recreation

COLORADO SPRINGS, DOWNTOWN PARTNERSHIP OF

Susan Edmondson
President & CEO
719-886-0088
susan@downtowncs.com
www.DowntownCS.com
Targeted Industries: Retail, food-and-beverage, creative industries, tech/software, aerospace, cybersecurity, health and wellness, multifamily

COMMERCE CITY ECONOMIC DEVELOPMENT

Michelle Claymore
Economic Development Director
303-289-3747
mclaymore@c3gov.com
www.c3gov.com
Targeted Industries: DIA Technology, Advanced Manufacturing, Logistics and Distribution, Business and Professional Services, Retail/Hospitality/Leisure

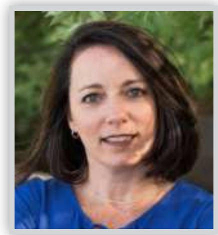
DENVER SOUTH

Thomas Brook
President/CEO
303-531-8379
Tom@Denver-South.com
www.denver-south.com
Targeted Industries: Aerospace/Aviation, Software and Electronics/IT, Health Sciences, Broadband and Internet, Engineering Services, Financial Services.

DOWNTOWN DENVER PARTNERSHIP

Tami Door
President & CEO
303-534-6161
tdoor@downtowndenver.com
www.downtowndenver.com
Targeted Industries: Downtown has a strong and diverse concentration of industries, including: legal services, accounting, energy/natural resources, finance/insurance, engineering/architecture and broadcasting/telecommunications

FIRESTONE, CITY OF



Paula Mehle, AICP
Director of Economic Development and FURA
303-531-6265
pmehle@firestoneco.gov
https://www.firestoneco.gov/
Targeted Industries: Retail Trade, Accommodation and Food Services, Residential, Business & Professional Services, Sports & Outdoor Recreation, Health & Wellness, Technology

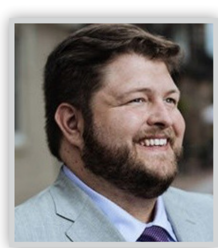
FOUNTAIN, CITY OF

Kimberly Bailey
Economic Development / Urban Renewal Director
719-322-2056
kbailey@fountaincolorado.org
www.fountaincolorado.org
www.furaco.org
Targeted Industries: Manufacturing (*specialized "niche" advanced, food/AG*) - Transportation & Logistics - Homeland Security (*military, law enforcement*) - Entrepreneurialism - Renewable Energy - Motorsports Economy (*tourism & entertainment*)

GRAND JUNCTION ECONOMIC PARTNERSHIP

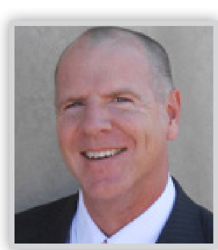
Steve Jozefczyk
Interim Director
970-245-4332
steve@gjep.org
www.gjep.org
Targeted Industries: Aerospace and Advanced Manufacturing; Agriculture; Energy and Renewables; Health and Medical Care; Outdoor Recreation; Technology and Entrepreneurship; Opportunity Zone projects.

JEFFERSON COUNTY ECONOMIC DEVELOPMENT CORP.



Jansen Tidmore
President & CEO
303-202-2965
jtidmore@jeffcoedc.org
www.jeffcoedc.org
Targeted Industries: Aerospace, Aviation, Adv Manu, Beverage Prod., Bioscience, Energy, Engineering, IT/Telecom

LAKEWOOD, CITY OF



Robert Smith
Economic Development Director
303-987-7732
rsmith@lakewood.org
www.lakewood.org
Targeted Industries: Healthcare/Bioscience, Professional, Scientific & Technical Services, Arts, Entertainment & Recreation, Transit-Mixed Use Development (TMU), Retail Trade, Federal/State Government and Public Administration

LONGMONT EDP

Jessica Erickson
President/CEO (we have photo)
303-651-0128
jessica@longmont.org
www.longmont.org
Targeted Industries: Smart Manufacturing, Food & Beverage, Business Catalysts, Knowledge Creation & Deployment

COMMUNITIES OPEN FOR BUSINESS

EDC DIRECTORY

LONE TREE, CITY OF

Jeff Holwell
Director of Economic Development and Public Affairs
303-708-1818
jeff.holwell@cityoflonetree.com
http://www.cityoflonetree.com
Targeted Industries: Aerospace, Financial Services, Health Care, Professional Services, Retail, and Technology

METRO DENVER ECONOMIC DEVELOPMENT CORP.

Raymond Gonzales
CEO
303-620-8092
raymond.gonzales@metrodenver.org
www.metrodenveredc.org
Targeted Industries: Aerospace, aviation, bioscience, broadcasting/telecommunications, energy, financial services and information technology/software, health and wellness, food and beverage production.

NORTHWEST DOUGLAS COUNTY EDC

Amy Sherman
President
303-791-3500 ext. 5
asherman@nwdouglascounty.org
www.nwdouglascounty.org
Targeted Industries: Aerospace, Health Care, Outdoor Recreation, Professional Services, Technology

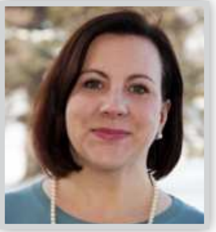
SUPERIOR, TOWN OF

Jill Mendoza, CEcD
Economic Development Manager
303-499-3675 ext. 141
jillm@superiorcolorado.gov
https://www.superiorcolorado.gov/
Targeted Industries: Entertainment, Hotel, Life sciences, Outdoor industry, Recreation, Retail, Restaurant, Taproom/tasting room, Technology

THORNTON, CITY OF

John Cody
Economic Development Director
303-538-7448
john.cody@thorntonco.gov
www.businessinthornton.com
Targeted Industries:

WESTMINSTER ECONOMIC DEVELOPMENT



Stephanie Troller
Business Development Manager
303-658-2318
stroller@cityofwestminster.us
www.westminstereconomicdevelopment.us
Targeted Industries: Aerospace, Information & Technology, Life Sciences & Healthcare, Professional & Technical Services, Experiential Retail & Entertainment, Unique Dining

WINDSOR, TOWN OF

Stacy Miller
Economic Development Director
970-674-2414
smiller@windsorgov.com
www.windsorgov.com
Targeted Industries: Manufacturing; Retail Trade; Professional, Scientific and Technical Services; Accommodation and Food Services

If your community would like to appear in the EDC Directory, please contact Lori Golightly at lgolightly@crej.com or 303-623-1148 ext. 102.

Colorado Real Estate Journal

Unless otherwise indicated, events will be held at
The Hyatt Regency Aurora - Denver Conference Center
13200 E. 14th Place, Aurora, CO 80011

2022 CREJ CONFERENCE SCHEDULE

Tuesday, April 12 – AM
2022 Affordable Housing Summit & Expo
Colorado Real Estate Journal

Tuesday, April 12 – PM
2022 Multifamily Development & Investment Conference & Expo
Colorado Real Estate Journal

Wednesday, April 13 – AM
2022 Property Management Conference & Expo
Colorado Real Estate Journal

Wednesday, April 13 – PM
2022 Retail Summit & Expo
Colorado Real Estate Journal

Thursday, April 14 – AM
2022 Health Care & Life Sciences Conference and Expo
Colorado Real Estate Journal

Thursday, April 14 – PM
2022 Denver Commercial Real Estate Outlook & Expo
Colorado Real Estate Journal

Monday, May 16 – AM
2022 Development, Construction & Design Conference and Expo
Colorado Real Estate Journal

Monday, May 16 – PM
2022 Residential & Commercial Land Development Conference & Expo
Colorado Real Estate Journal

Tuesday, May 17 – AM
2022 Office Summit & Expo
Colorado Real Estate Journal

Tuesday, May 17 – PM
2022 Industrial Summit & Expo
Colorado Real Estate Journal

September Dates TBD

2022 Hotel Summit & Expo
Colorado Real Estate Journal

2022 Senior Housing & Care Conference and Expo
Colorado Real Estate Journal

2022 Fall Multifamily Development & Investment Conference & Expo
Colorado Real Estate Journal

2023 Colorado Commercial Real Estate Investment Outlook & Expo
Colorado Real Estate Journal

2022 CREJ CONFERENCE SERIES

Conference Exhibitor & Sponsorship Levels

PLATINUM EXHIBITOR $3,500
- 3-minute presentation to conference attendees with optional PowerPoint/video (Category Exclusivity: No one else in your primary line of business may participate at the platinum or gold level.)
- Your logo will appear on the event registration page on crej.com and will be linked to your company website
- Your logo will appear in the printed conference program as well as in the PowerPoint at the event
- 10'x10' booth space at the event; power included
- Mailing list of all attendees
- 4 complimentary admissions to the event (value of $90 each)

GOLD EXHIBITOR $2,000
- 2-minute presentation to conference attendees with optional PowerPoint/video
- Your logo will appear on the event registration page on crej.com and will be linked to your company website
- Your logo will appear in the printed conference program as well as in the PowerPoint at the event
- 10'x10' booth space at the event; power included
- Mailing list of all attendees
- 4 complimentary admissions to the event (value of $90 each)

SILVER EXHIBITOR $595
- 6-foot tabletop space at the event; no power
- Your name will appear on the event registration page on crej.com with a link to your website
- Your name will appear in the printed conference program as well as in the PowerPoint at the event
- Mailing list of all attendees
- 2 complimentary admissions to the event (value of $90 each)

CORPORATE SPONSOR $395
- Your logo will appear on the event registration page on crej.com and will be linked to your company website
- Your logo will appear in the printed conference program as well as in the PowerPoint at the event
- Mailing list of all attendees
- 2 complimentary admissions to the event (value of $90 each)

2022 ANNUAL EVENT BAG LOGO SPONSOR $3,500 (limited to one)
- Your logo will appear prominently on each attendee's bag at all 10+ CREJ conference series events
- One complimentary admission to each event (value of $90 each)

2022 ANNUAL EVENT LANYARD SPONSOR $3,500 (limited to one)
- Sponsoring company provides lanyard with company logo
- One complimentary admission to each event (value of $90 each)

To Reserve Your Exhibitor/Sponsor Package, or for questions please call Lori Golightly at 303-623-1148 ext. 102 or e-mail lgolightly@crej.com

A Colorado Real Estate Journal Publication December 2021
INDUSTRIAL PROPERTIES

Bulk distribution and last-mile facilities target Denver

In early 2020, in partnership with Hyde Development, Mortenson purchased an undeveloped, 125-acre land parcel in Aurora, with plans to develop the acreage into HighPoint Logistics Park, a 2.2 million-square-foot industrial park near Denver International Airport. Prior to 2020, Denver had only five industrial buildings over 1 million sf. Today, there are three new buildings over 1 million sf under construction and five additional active requirements for over 1 million sf across the metro area.

This year will go down in history as the year the term "supply chain" moved out of the boardroom and into mainstream culture.

The breakdown in the supply chain began with the onset of the pandemic when many factories that produce goods shut down in an effort to contain virus spread and prepare for the impending economic downturn that would ensue. Widespread shutdowns left dozens of container ships either dry-docked or sold for scrap as the steel was worth more than payment on the idle ship, leading to a significant reduction in container ship liner capacity. As ship capacity declined, imports rose, now up by almost 15% relative to 2019, which is creating even longer delays. These supply chain disruptions are forcing companies to rethink their strategy, and metro Denver is emerging as an attractive target for new bulk distribution and last-mile facilities.

Todd Witty
Senior vice president, Denver, CBRE

Driving much of the increased demand for goods is a shift in inventory strategy. Pre-pandemic, retailers operated from a "just-in-time" strategy, keeping just enough on hand to keep shelves stocked based on typical buying patterns. Then the pandemic hit, shoppers stocked up in a panic, and many store shelves sat empty for days or longer. To avoid a reoccurrence, retailers are now establishing "safety stock" inventory protocols, doubling or tripling their warehouse requirements in some cases.

On top of demand for increased inventory and shipping delays, supply chain issues are compounded by a labor shortage. In the U.S., nearly 50% of the truckload industry historically has been independent owner-operators. The suspension of business and initial shutdowns that occurred early in the pandemic pushed many of these operators into early retirement. Drivers immediately found other work in construction and other sectors and never returned to the trucking industry. In addition, a combination of fear of COVID-19 and federal economic relief funding kept some labor at home. With too few drivers, the goods that do arrive in ports are taking longer and cost more to move. Pre-pandemic the average truckload cost per mile was $2 to $2.25. Today it is $3 to $3.50, which is a 50% increase in shipping cost per mile.

This increase in shipping cost and rising pressure to deliver goods in

Please see Trends, Page 32

INSIDE

INDUSTRIAL — MARKET UPDATE

State of the market: Industrial activity in Denver

The state of the market around the Denver metro area over the last 12-18 months has been nothing short of noteworthy. From a booming market prior to the COVID-19 pandemic, to the slow-down in activity following the stay-at-home order issued by Gov. Jared Polis affecting individual owners and businesses last year, now to the V-shaped recovery curve that's led us to the bustling state of the market we see today, it has been quite a ride for both industrial users and investors in the Denver metro area.

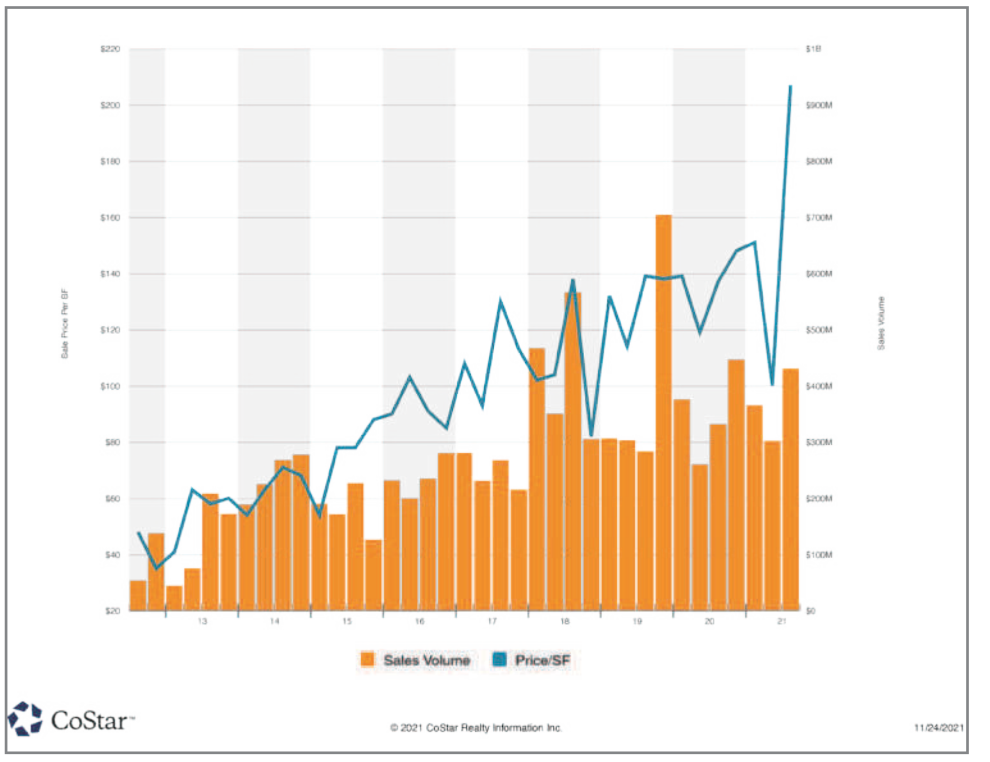
Over the few years leading up to the COVID-19 pandemic, demand for industrial product made it the second most attractive product type for investors in Denver, just behind multifamily investments, due to increasing population growth driving rental demand from small-business owners for industrial use properties, as well as secular trends such as e-commerce growth driving demand for warehouse and distribution center capacity. Beyond end users, the market also observed an increased amount of institutional capital flowing into the Denver metro area, which made supply for quality, large-scale assets increasingly scarce, pushing values up. Cap rates, which for the average credit tenant averaged around 7.5% to 8% in the years prior to the pandemic, are now averaging around 6% and 7% on market transactions observed over

M. Chandler Lisle
Associate adviser, Pinnacle Real Estate Advisors

the current term. The journey to get to this current point of strength, however, is one worth discussing.

From March through June of last year, the Denver market experienced the greatest negative local economic impact seen since 2008. In March, the statewide stay-at-home order issued from Gov. Polis created a unique disruption in the local market. Many businesses deemed "unessential" became unable to operate in person, which made their businesses vulnerable. Fortunately, industrial owner-users historically represented the majority of industrial property ownership surrounding Denver, and many were deemed essential businesses, which helped enable the industrial market to fare better than other real estate product types.

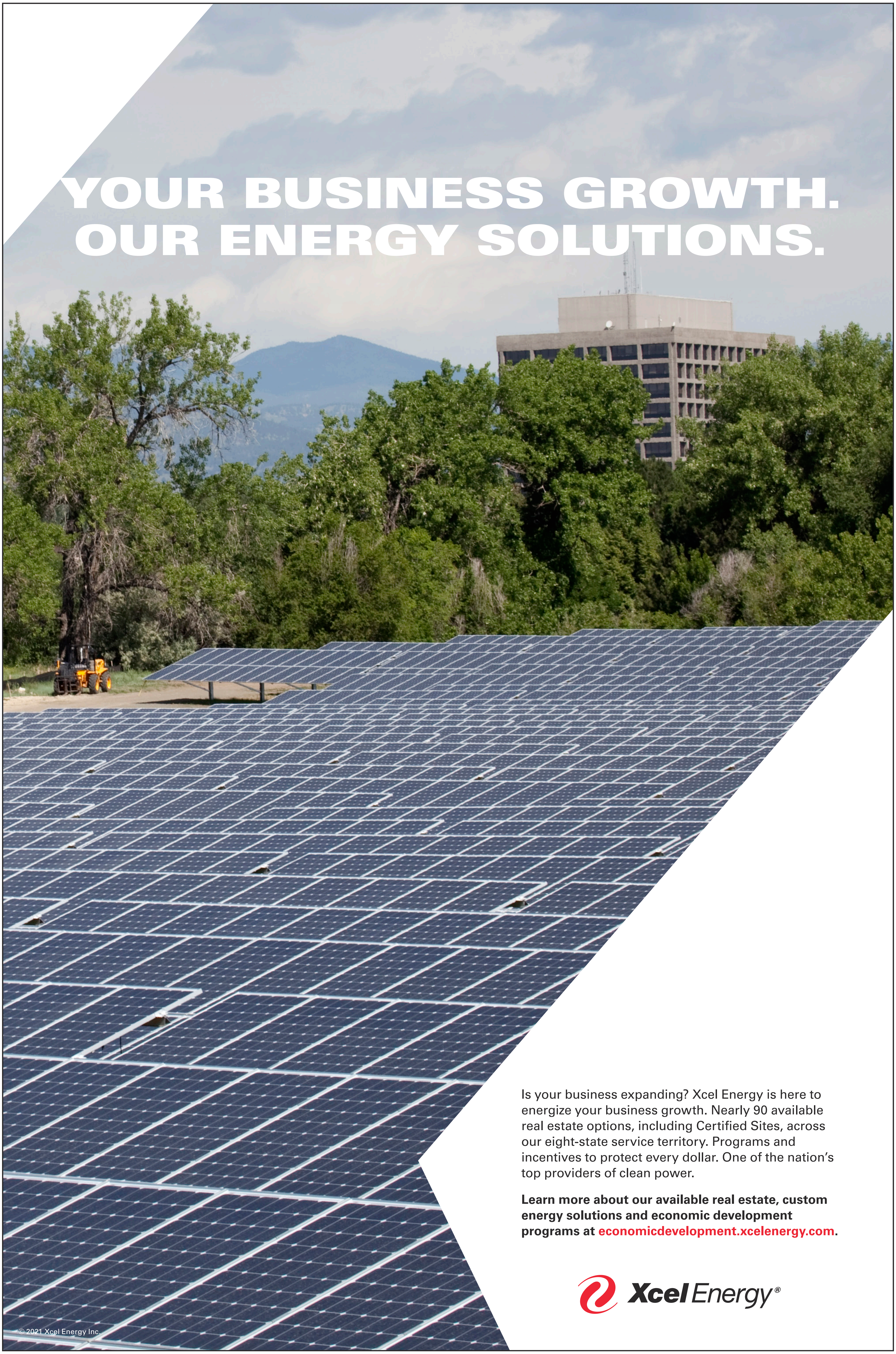
With regard to financial conditions, the historically low interest rates entering the pandemic were pushed even lower and remain at highly attractive levels today. Lower borrowing costs played a role in supporting the industrial market when new deal activity slowed during the depths of the pandemic in 2020, and have since contributed to the rise in property values as buyers are able to pay higher amounts



Sales volume and sale price per square foot for the Denver area from 2012 to 2021

for a similar return. In some cases, the competition for deals has driven expected returns lower. On the other hand, owners have been able to benefit by selling at all-time-high prices, especially to other owner-users who have few alternatives to paying a premium for the right space for their business. In particular, industrial yard space is currently seeing record demand and price per square foot levels in the Denver metro area, exacerbated by a dwindling amount of supply. In some cases, industrial property with fenced yard has doubled or even tripled in value due to zoning laws that only allow outdoor storage in specific areas around Denver. A recent example is 8000 E. 96th Ave., a 4,000-square-foot metal building sitting on 17 acres of I-3 Commerce City zoned land, which was bought for $1,750 per sf, or $7 million, at the end of September to be repurposed into a Class A warehouse

Please see Lisle, Page 31


YOUR BUSINESS GROWTH.
OUR ENERGY SOLUTIONS.
Is your business expanding? Xcel Energy is here to energize your business growth. Nearly 90 available real estate options, including Certified Sites, across our eight-state service territory. Programs and incentives to protect every dollar. One of the nation's top providers of clean power.
Learn more about our available real estate, custom energy solutions and economic development programs at economicdevelopment.xcelenergy.com.
Xcel Energy®
© 2021 Xcel Energy Inc.

INDUSTRIAL — MARKET UPDATE

Experts wonder: How low can cap rates go?

As we end 2021, one thing is clear: Investors are willing to purchase industrial assets at record low capitalization rates. Our industrial capital markets team has tracked 30 markets nationwide that have seen capitalization rates go below 4% and four markets – including Denver – that have seen astounding sub-3% capitalization rates. Certain trends emerging within the asset class have supported the record-breaking valuations. In Denver, those trends include record absorption, rising costs of construction and a lack of dirt available and ready to be put into production, all applying upward pressure on lease rates. This growth environment has allowed investors to accept lower in-place yields.

Larry Thiel
Managing director, capital markets, JLL

Astute investors are finding opportunities with near-term lease expirations and underwriting lease rates 20% or more over contractual lease rates, then trending that market lease rate by 7% or more annually, bringing a stabilized future yield between 4% and 5%. Even leases that were signed a year ago are perceived to have unlocked value with a reset in lease rates at expiration.

Denver's growth trajectory is well documented; it is one of the country's hottest markets and driven by leading metrics in job growth, population growth and quality of life. This growth is translating to a significant demand for Class A industrial space to service the region and impressive growth in lease rates. According to our research, Denver's average asking rate is $7.71 per square foot triple net, growing over 100% in the last 10 years in select submarkets.

Carmon Hicks
Managing director, industrial, JLL

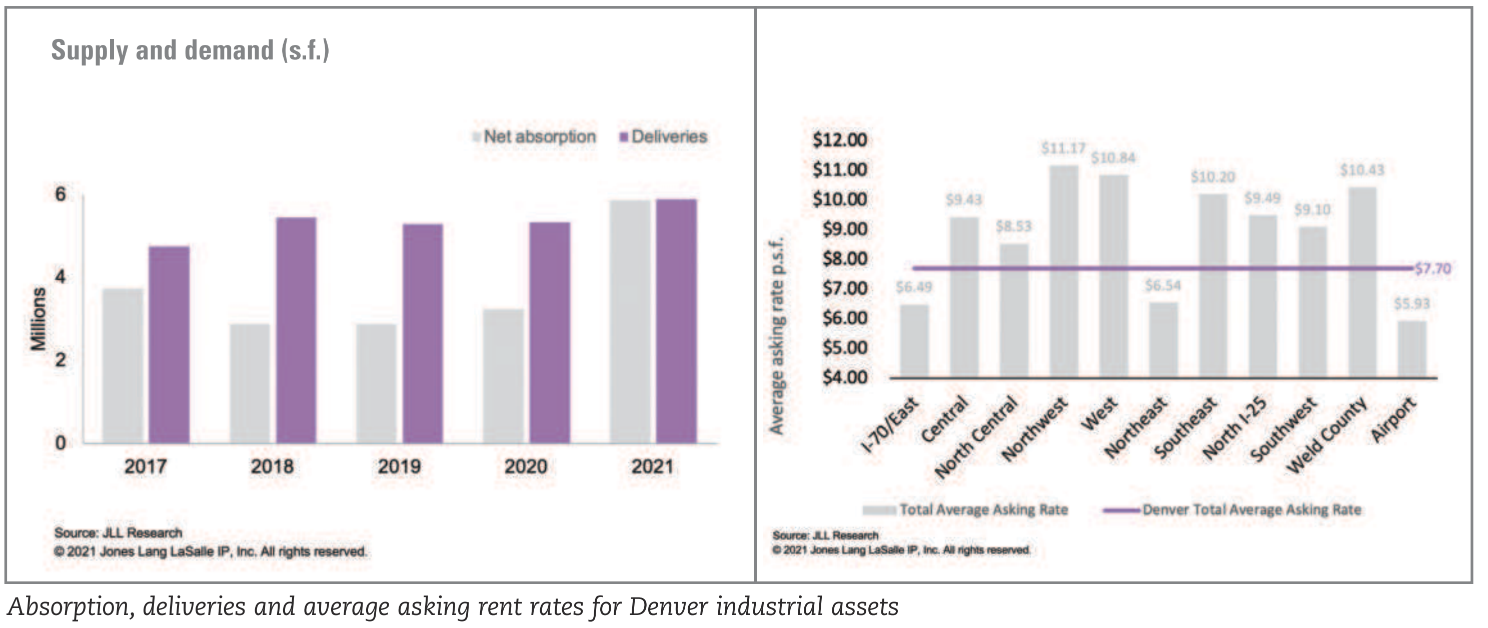
Industrial developers and owners are being rewarded with a low 6% vacancy rate. In the third quarter, Denver has hit the highest level of absorption in a single quarter for the past decade at 3 million sf. This brought the total absorption for Denver to 5.86 million sf. The fourth quarter is on track for the same amount of absorption with the delivery of two significant build-to-suits for Lowe's Home Improvement and Kroger, King Soopers' parent company.

Year to date, Denver has delivered 6.08 million sf of industrial, with 2.97 million delivered in the third quarter alone. The pipeline remains robust at 9.37 million sf under construction, but this number has retreated slightly due to supply chain disruptions and a shortage of skilled labor.

The pandemic has accelerated the growth of e-commerce and the need for more warehousing, but also it has disrupted the cost and availability of materials to build industrial assets. It is estimated that costs have increased 40% or more in some instances, requiring higher lease rates from tenants in order to meet development pro formas.

Watch for more cap rate compression and higher lease rates in pro formas as developers scour the market for the next development site and investors compete for a limited choice of existing assets. ▲

larry.thiel@am.jll.com
carmon.hicks@am.jll.com



Absorption, deliveries and average asking rent rates for Denver industrial assets

Industrial Properties Quarterly - Financing Sources Matrix

TYPE OF CAPITAL	SOURCE OF CAPITAL	EXPLANATION	RATES / SPREADS	LTV/COVERAGE	TERM	AMORTIZATION	FOCUS	TRENDS
LIFE INSURANCE COMPANY	• Insurance premiums • Annuity and GIC sales	• Non-Recourse • Longer-term fixed rate loan	2.50%-3.25%	• Up to 70% LTV • 1.35x Minimum DCR	5-30 Years	20-30 Years	• Established industrial corridors or properties with superior access, last-mile product very popular • Vintage and new product, will compete aggressively for new construction • Single-tenant with long-term lease (credit preferred) or multi-tenant with staggered rollover • Major metro areas & secondary markets (being more selective on secondary markets) • Older industrial product with good operating history and good occupancy • Flex industrial product, subject to location and quality	• Industrial is seen as one of the most attractive asset classes for insurance companies given the perceived risk associated with office, retail, and hospitality assets • Competing on value-add light lease up deals with floating rate programs and hybrid bridge programs • Newly constructed or well-maintained product is in high demand with additional interest for construction financing from select life companies • Full-term interest only to be considered for 55%-60% with strong sponsors • Lender sensitivity to deals with a large cash-out component, especially for newly constructed assets • Properties with CBD or marijuana tenants are still challenging, despite the continued changes in legislation
CONDUIT (CMBS)	• Sales of mortgage-backed securities through public markets	• Non-Recourse • Longer-term fixed rate loan	2.75%-3.75%	• Up to 70% LTV • 1.25x Minimum DCR • 7.0% Minimum Debt Yield	5, 7, & 10 Years	Typically full-term I/O, 25-30 Years	• Secondary/Tertiary Markets • Large transactions or portfolios that are tough for other lenders to pursue alone • Staggered rollover or small individual tenant exposure that will reduce CMBS required reserves	• Strong B-piece buyer demand for stabilized industrial • Leasing capital reserves or cash management incorporated for large rollover events • Can be more competitive on larger one-off deals or portfolios that may be too large for other lending sources • Will compete on flex product as well, if metrics make sense for securitization
BANK	• Corporate Debt • Deposits	• Recourse (non-recourse becoming more available on case-by-case basis) • Shorter-term fixed and floating rate loans	2.25%-3.50%	• Up to 70% LTV • 1.30x Minimum DCR	Up to 10 Years Fixed, Typical Max Term is 5-7 Years	25-30 Years	• All industrial assets • Value-add with guaranties • Clients with relationship potential • Secondary/Tertiary Markets	• Very strong appetite for construction or re-position on assets with strong sponsor and good location • Floating rate programs range from L+150-L+250 • Most competitive for sponsors with established banking relationships and strong borrower history that are willing to accept recourse • Establishing a deposit relationship is becoming a requirement • Primarily recourse loans, with non-recourse available to strong sponsors at lower leverage • More flexible (open) prepayment terms • For loans under $10M, pricing closer to 3.00%
DEBT FUND / BRIDGE LOAN	• Private Capital • Institutional Capital	• Non-Recourse • Shorter term bridge loans for acquisition and/or repositioning	L+250-375 bps spreads	• Up to 80% LTC • Going-in 1.0x DCR	1-5 Years (3+1+1)	Interest Only	• Value-Add Transactions • Transactions with major rollover within the next 3 years • Recapitalizations • New construction	• Most lenders have a LIBOR floor of 15 or 25 bps • Competing on ground up construction at higher leverage than banks are considering • Pricing depends on leverage level, property quality, Sponsor strength , and loan size • Needs to have strong business plan and attractive location
MEZZANINE/ PREFERRED EQUITY	• Private Capital • Institutional Capital	• Junior financing secured by a pledge of, or participation in ownership interest	Mezzanine 8%-12%	• Up to 85% LTC • 1.10x DCR	2-10 Years	Interest Only (in most cases)	• All industrial assets • Value-Add Transactions • Recapitalizations	• Preferred equity offers higher funding than mezzanine, but at a higher cost • Minimum investment is typically $5MM but can start as low as $1MM when paired with senior position

DCR - Debt Coverage Ratio
DUS - Delegated Underwriter Servicer

LTV - Loan to Value Ratio
LTC - Loan to Cost Ratio

LIBOR - London Interbank Offered Rate
REIT - Real Estate Investment Trust

This information is intended to illustrate some of the lending options currently available. Other options may exist. While Essex Financial Group strives to present this information as accurately as possible, no guarantee is made as to the accuracy of the data presented, or the availability of the terms at time of application. Rates and terms are subject to change. Please contact one of our mortgage bankers for up to date rate and term information.

Essex Financial Group | 1401 17th Street, Suite 700 | Denver, CO 80202 | www.essexfg.com

Essex Financial Group - Recent Industrial Transactions

Norcross Portfolio
Norcross, GA
$31,500,000 Permanent Loan
CMBS Lender

6383 Las Positas Road
Livermore, CA
$15,300,000 Bridge Loan
Life Company

701 Topeka
Castle Rock, CO
$7,425,000 Bridge Loan
Debt Fund

Jeff Riggs
Founder and Chairman
(303) 843-0440
jriggs@essexfg.com

Cooper Williams
President / Principal
(303) 843-4581
cwilliams@essexfg.com

Peter Keepper
Principal
(303) 843-6002
peterk@essexfg.com

Mike Jeffries
Principal
(303) 843-9220
mjeffries@essexfg.com

Alex Riggs
Principal
(303) 843-4027
ariggs@essexfg.com

Paul Donahue
Assistant VP
(303) 843-4021
pdonahue@essexfg.com

Blaire Butler
Assistant VP
(303) 843-4024
bbutler@essexfg.com

Chris White
Assistant VP
(303) 843-4583
cwhite@essexfg.com

INDUSTRIAL — OUTDOOR STORAGE

Outdoor storage users feeling the NIMBY pinch

In 2016, I started working on a new development near Denver International Airport that required the acquisition of a parcel of land upon which my client was to build thousands of parking spaces and a relatively small building of about 10,000 square feet. Scale aside, I quickly learned that to the north and west of Peña Boulevard in Commerce City, storage parking that required an outdoor storage zoning designation was not allowed, so we focused on parcels south and east of Peña Boulevard in Aurora where zoning in developments like Porteos could accommodate outdoor storage. I thought: How could Commerce City, whose name underscores a decades-long track record of welcoming business – heavy industry and otherwise – be turning away companies with outdoor storage needs? And what if other businesses didn't have the opportunity to cross the street for the zoning they needed?

Alexander F. Becker
Principal, Real Estate Consultants of Colorado LLC

Since then, I have worked with landscapers, contractors, engineering firms, mechanics, car dealerships, animal care companies, trucking companies and the like for their outdoor storage acquisitions, and I can tell you these are hard searches for nothing fancy. Most of these uses are not stereotypically dirty or noisy, but municipalities require a zoning designation for the outdoor storage that speaks more to heavy industry than the outdoor use itself. Moreover, municipalities rarely issue more of these designations, so buying raw land and building from scratch is often not an option. My clients usually are among many buyers lined up on the property's first day to market, competing to pay the asking price or more at levels that are pushing values to new highs after we have stretched the geographic boundaries of our search to disappointing distances. Buyers and tenants are then calculating the increase in fuel costs, hourly wages, and vehicle wear and tear that they will incur because they now will be 5, 10 or 15 miles farther from their target audience. In this sense, the problem becomes one not only of demand exceeding supply but also of the waste caused by moving farther away from one's target audience.

Unfortunately, these companies have a tough road ahead. Earlier this year, Adams County proposed regulatory amendments that would limit outdoor storage for industrial properties in unincorporated locations. Currently, certain Adams County industrial zoning designations allow for outdoor storage on the lesser of 80% of property's acreage or 10 acres. The new proposal calls for permissible outdoor storage on between 25% and 50% of the property's land area, allegedly with no grandfather clause to protect existing businesses that have enjoyed the current allowances for years. Months into the process, the county delayed a November vote on the new zoning policy after an October survey found that 80% of businesses polled opposed the amendment.

CoStar Group

The 1980s steel-sided warehouse with a half-acre yard … obsolete or priceless?

So why has the scarcity of outdoor storage become an increasingly acute trend? There are at least two explanations: First, there is the sentiment that outdoor storage is unsightly and so communities should protect themselves against such tarnish. In the case of Adams County, the regulatory amendment is said to have been born from the local growth in new housing developments that would be exposed to nearby industrial activity. Second, when land becomes more valuable, the highest and best use often becomes maximizing the building square footage rather than the yard space. Take River North, for example, where properties previously used for heavy industry now regularly sell above $200 per land square foot. As a result, the small industrial buildings on large lots make way for new developments that maximize the building-to-land ratio and the height allowed by zoning. As central neighborhoods like RiNo

Please see Becker, Page 32

INDUSTRIAL — OUTDOOR STORAGE

Zoning changes prompt new owner consortium

Adams County first proposed a change to zoning language that would restrict the amount of outside storage allowed in unincorporated areas within the county in June, causing major concern among industrial property owners whose business models rely on yard storage. The county was due to vote on the change in November, but the vote was delayed, thanks to the newly formed Industrial Property Owners Consortium of Adams County, more commonly referred to as IPOC.

IPOC was created by local industrial property owners – many of whom have been operating within Adams County for decades – as a direct result of the proposed zoning changes, and the movement quickly gained momentum, with over 160 businesses joining the consortium. IPOC's main aim was to better educate Adams County officials on the impact the changes would have on local industrial users ahead of the vote in November. To that end, IPOC held a meeting in September and invited the staff of the Adams County Board of Commissioners to hear the owners' concerns.

The meeting prompted the Adams County Board of Commissioners to take an informal survey among its members regarding the issue in October, and after 80% voted in favor of further investigation surrounding the change, the board ultimately decided to delay the zoning vote until early 2022. The Adams County board also promised to host

Ryan Searle
Director, Cushman & Wakefield

several study sessions on the topic, the first of which is scheduled for Jan. 21, 2022.

Though the issue of outside storage restrictions remains a potential roadblock to industrial users in Adams County pending the final decision in 2022, the delayed vote remains a victory for IPOC and has many positive implications for the future. The outcome of the meeting in Adams County served as a proof of concept for the consortium's ability to provide a unified voice for industrial property owners and demonstrated the impact IPOC could have not only in Adams County but also in municipalities across the Front Range.

To this end, IPOC recently registered as an official 501(c)(6) organization and elected a board of directors. While IPOC initially formed in response to challenges in Adams County, the organization now seeks to be a resource for municipalities across the greater Denver area to better understand the industrial users within their communities and the value they provide.

While the formation of IPOC remains a positive step in improving communication between industrial users and the municipalities they operate within, the circumstances under which the organization was formed also are indicative of a broader issue which the industrial sector has faced in the wake of Denver's exponential growth over the last decade. Despite the key role that industrial real estate plays in enabling economic growth, whether it be manufacturing plants or last-mile logistics facilities, the industrial product type often has faced opposition from local communities displeased with the aesthetic and environmental impacts of industrial buildings.

Brannan Cos.

Industrial Property Owners Consortium of Adams County, more commonly referred to as IPOC, was created by local industrial property owners as a direct result of the proposed zoning changes that would restrict the amount of outside storage allowed in unincorporated areas within the county.

The proposed zoning change in Adams County is a perfect example of this issue in action. In addition to reducing the percentage of outside storage permitted on a building's lot, the proposal also calls for required screen fencing "to conceal outside storage from all adjacent road right of way," indicating that the objection to outside storage is based at least in part on its negative visual impact.

However, this perception that industrial real estate – particularly for heavy/manufacturing use – has a negative impact on a community's value also demonstrates why an organization like IPOC is so critical. In his address to the Adams County Board of Commissioners in Septem-

Please see Searle, Page 31

INDUSTRIAL — INVESTOR INSIGHTS

The Rocky Mountain region's case for industrial

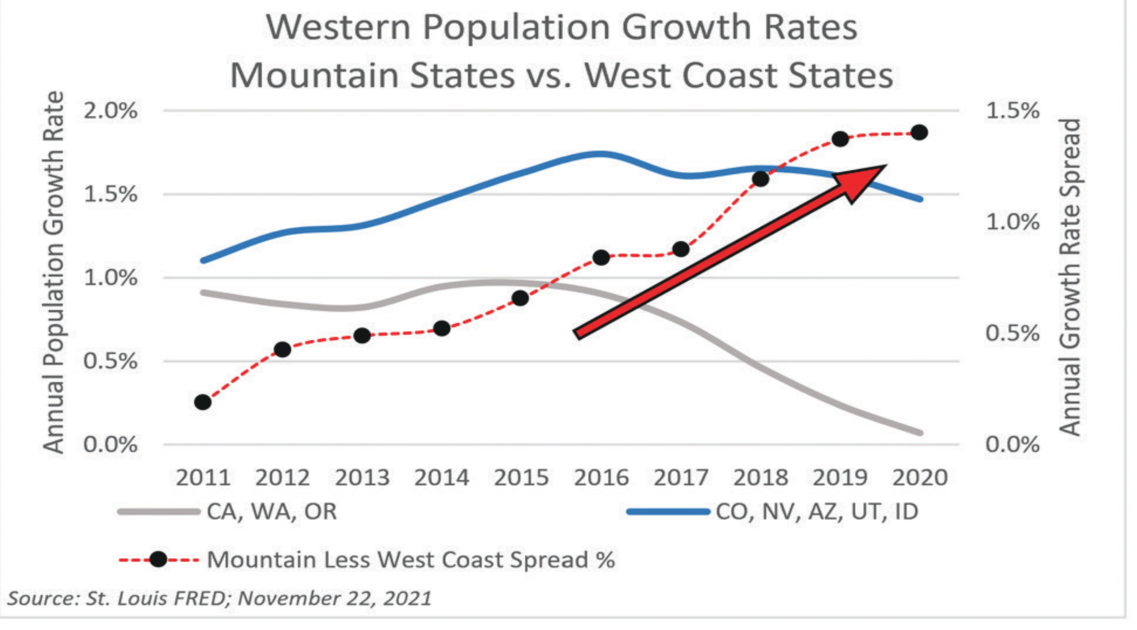
Pat Blasdell
Managing director, real estate team, Bow River Capital

John Layton
Vice president, real estate team, Bow River Capital

How has industrial real estate in the Rocky Mountains evolved from a once overlooked sector by the national occupiers and institutional investors to one of today's darlings of commercial real estate? In short, this evolution is driven by three major themes, each of which strengthens the others: the fundamental shift in consumer behavior, the decentralization of the national supply chain and a change in population growth relative to gateway coastal states in the west.

■ The fundamental shift in purchasing behavior by businesses and consumers. Long gone are the days when that Terrell Davis jersey could only be purchased from the shelf after driving 5 miles in traffic both ways. Today, we live in a culture of immediacy. The certainty and immediacy when purchasing a product in five minutes on a smartphone is a significant enough feeling of control for most people that they're willing to wait a day or two (rarely) to receive that product. This online purchasing power we hold today is the driving force changing businesses and consumer behavior, a phenomenon often referred to as the "Amazon effect." According to a Nov. 18 report issued from the U.S. Department of Commerce, e-commerce, which accounted for less than 5% of total retail sales in 2012, continues to gain its fair share of the market at over 13% today. In the third quarter, e-commerce retail sales were up 6.6% year over year on an adjusted basis. This acceleration in consumer behavior is expected to continue as e-commerce extends its reach across the country, to markets with populations of even less than 100,000. Manufacturers, suppliers and employees are demanding speedy deliveries to remain competitive in the marketplace – loyalty is now not as much relationship driven, as it is performance driven – and e-commerce buyers are quickly shifting their purchasing power to the fastest and most reliable common denominator. This is a compelling driver for industrial real estate – these industrial occupiers are expected to continue to stretch their footprints to meet the consumer in their backyard. Today, to be a top contender in the list of online options evaluated by the consumer, companies ideally need their inventory within a 30-mile radius of their expected end user.

■ Decentralization of the supply chain. This end user distribution footprint – often referred to as "last-mile distribution" – is the decentralization of the supply chain. Free same-day delivery is code in industrial real estate for "companies are extending their supply chains." Amazon has most notably set the bar with what we refer to as its hub-and-spoke model: a 2.5-million-square-foot hub facility, accompanied by one to three 100,000- to 250,000-sf warehouses within a 60-minute drive of its hubs. Instead of continuing to warehouse a high concentration of its inventory in gateway industrial markets like the Inland Empire, we're seeing other credit tenants following suit by increasing their footprint in cities like Denver and, subsequently, inking first-time leases in the high-growth secondary and tertiary markets like Northern Colorado, Colorado Springs and Boise, Idaho. Walmart will deliver items from its store and/or warehouse to your doorstep the same day; Home Depot will deliver its inventory from its store and/or warehouse to your job site the following day.



The mountain states have experienced population growth every year for 75 consecutive years, most recently by 15.9% over the last decade. Meanwhile, the spread in population growth between mountain states and western coastal states has widened over the last decade.

Please see Blasdell, Page 32

INDUSTRIAL — OUTLOOK

Last-mile delivery primes activity beyond Denver

Mindy Rietz
Development director, Confluent Development

According to the 2020 U.S. Census, Denver is the fastest-growing city in Colorado, followed closely by Colorado Springs. Pre-pandemic, both cities had been experiencing steady, yet notable growth, largely due to the region's appealing outdoor and recreational lifestyle, employment opportunities and business climate, but 2021 has brought a surge of new demand across the entire state.

The news cycle has been dominated by the need for residential opportunities to meet the demands of a flourishing region, but the need for industrial projects has proven equally important to capture this growth as well as adapt to fast-evolving consumer demands and the active e-commerce marketplace. In fact, the Society of Industrial and Office Realtors reported that "deals are being completed, not stalled," and leasing activity in industrial has experienced a 30% increase since last year. What's more, a second-quarter report shared by CBRE reports a 2.7% direct vacancy rate for distribution space.

Needless to say, industrial is showing no sign of slowing down in 2022, and several notable trends this year signal the start of a new era of heightened confidence and interest in industrial development.

■ **All eyes are on the last mile.** Retail forecasts show e-commerce will make up 22% of global retail sales by 2023, based on the growing number of e-commerce websites that rely heavily on delivery services. At a time when 41% of consumers rank same-day delivery as their most important attribute when shopping online, the last-mile delivery approach has become more relied upon than ever. Dedicated to ensuring a product purchased on an e-commerce platform makes it to the consumer in a timely manner, last-mile delivery facilities are strategically developed to be closer to where consumer demand exists.

As demonstrated in both 2020 and 2021, there has been a dramatic movement from many urban areas to suburban and developing communities. Now, more than ever, the last mile matters, and distribution becomes increasingly decentralized.

Amazon is a retail behemoth, and its hub-and-spoke model continues to be adopted by competitors looking to secure a location for the last leg of their delivery to service the local population quickly, efficiently and on time. In recent years, competitors in the retail market discovered unique ways to maintain pace with the likes of Amazon. Best Buy, for example, pivoted 250 of its store designs to become "hubs" to ship more online orders and handle more volume.

■ **Colorado Springs makes its debut.** From the industrial development perspective, developers across the state must take note of new trends and shifts in e-commerce. Colorado continues to forge ahead in industrial, and development in the state is expanding along the Interstate 25 corridor, becoming less focused on Denver. As the state's capital and vibrant metropolitan area, Denver always will be a major player, but when looking at active developments, which regions are the most affordable and where residents will enjoy the best quality of life, we see this trending further and further along the corridor, from Fort Collins all the way to Pueblo.

Central Park Business Center, a speculative infill industrial park located at the intersection of Interstate 70 and Central Park Boulevard, represents one of the few undeveloped infill sites in the market. The site has experienced interest from industrial users looking for convenient access for logistics and distribution throughout the metro area.

Amid the pandemic, Colorado Springs has become a rising star. Not only has it been recognized by U.S. News & World Report, ranking the city as No. 6 out of its 150 "Best Places to Live in the U.S. in 2021-2022," but also the city is becoming an attractive destination for both residents and companies alike. A notable catalyst for this increased interest in Colorado Springs is the master plan update to the Colorado Springs Airport, which will "provide the airport with a 20-year road map into the future." The airport already is seeing an increase in commercial flights and deliveries, as well as visitors and tourists who are coming into the Springs directly and bypassing Denver altogether.

As the standard of living in Denver is becoming increasingly challenging based on incoming demand, Colorado Springs has been a benefactor of transient growth. From new home developments to national corporations establishing headquarters, this region is well-posi-

Please see Rietz, Page 32

INDUSTRIAL — OUTLOOK

2021's industrial revolution brings about evolution

"You say you want a revolution / well, you know / we all want to change the world," sang the Beatles as they revolutionized the music industry. Merriam-Webster defines revolution as "a sudden, radical or complete change" and the industrial revolution of the late 18th century and well into the 19th century was a true societal revolution. Just as society needed a revolution to adapt to growing production needs several centuries ago, Denver is in the midst of adapting to rapidly changing and growing logistics needs, and as such, we are witnessing a true revolution in Denver industrial.

Tim Morris
Director, research & analytics, Colliers

It's no secret how vital Denver's role in the industrial market has become. Denver's location as a geographic island of sorts in the middle of the country, without a major metro for over 400 miles in any direction, makes it an essential location in the distribution chain. This is especially true for those distributors looking to supply Denver's booming population.

■ **Population growth.** The Denver metro area population has grown 19% since 2010, surpassing the 3 million mark, and is expected to grow another 7.5% over the next five years, according to ESRI. The pandemic hit Denver as hard as any major metro, but as of the end of September, unemployment had contracted 220 basis points since the beginning of the year to 4.8%, while employment levels had returned to 2019 figures, according to the U.S. Bureau of Labor Statistics. Denver's idyllic natural setting and business climate have led to continued strong net migration figures, and as company relocations and remote workers continue to choose Denver, distribution needs have increased proportionately.

■ **Leasing activity and absorption.** "You tell me that it's evolution / well, you know / we all want to change the world."

So how has Denver evolved? The metro area's industrial leasing activity had averaged over 15.3 million square feet annually over the past five years headed into the pandemic and surpassed 11.4 million sf year to date as of the end of the third quarter. This is a steady increase over the 13.8 million sf the market averaged the five years prior and has corresponded closely with the growth of e-commerce, which accounted for 7.8% of total retail sales five years ago, compared with 13.3% now, according to FRED Economic Data.

Developers have shifted to larger site plans as the construction pipeline continues to swell. Absorption figures have been strong as this new space has leased up, averaging 3.7 million sf over the past five years and blowing past the year-to-date figure as absorption reached 4.8 million sf through three quarters of 2021. The market is on pace to set a record for absorption this year with an additional 3 million sf forecasted for the fourth quarter.

■ **Construction.** "You say you got a real solution / well, you know / we'd all love to see the plan."

How is Denver adapting to this growth? In order to accommodate this increasing demand, the market delivered over 26.3 million sf of industrial product over the past five years, in addition to the more than 6.3 million sf that already had delivered through three quarters of 2021. The primary driver for 2021's massive absorption figure has been build-to-suit occupancies, which have amplified around the area, namely with Shamrock, Amazon and Lowe's all occupying buildings over 900,000 sf this year. Subaru and Ferguson will combine to occupy another 1 million sf of BTS product before year's end. As requirements have grown in size around the Denver metro area, developers have adapted. The average building size delivered this year is over 217,200 sf, a number that is 75% larger than the average building delivered five years ago, and will increase with several of the aforementioned large BTS projects set to deliver during the fourth quarter. It hasn't just been BTS growth, though; 19% of Denver's industrial buildings over 100,000 sf have delivered since the end of 2015.

■ **Industrial investment: The product of preference.** Investors have been quick to take notice of Denver's industrial market growth, and that interest only intensified with industrial product enjoying much more stability compared to office and retail product since the onset of the pandemic. Industrial and flex investment volume already had surpassed $1.4 billion as of the end of the third quarter, marking the fifth consecutive year of sales volume north of $1 billion, a figure the metro area had never reached before 2017. The average price per square foot was $180 through three quarters of this year, more than doubling the $76 per sf recorded during 2015. As cap rates have continued to compress, including Denver's first sub-4% cap sale, investors are becoming increasingly aggressive in their pursuit of Denver industrial product.

■ **Market challenges: Construction cost, entitlements and labor.** Headwinds do exist in the market that are worth noting. With lease-up typically taking six to 18 months for new spec product, vacancy has risen in the short term and closed the third quarter at 6.8% on an overall basis. While this can give investors pause, it is important to consider the sheer momentum in the Denver market as well as the record absorption we are seeing this year. Construction costs have skyrocketed coming out of the pandemic, but many believe we are nearing a plateau, with stabilization expected by mid-2022. Labor shortages continue to plague industrial tenants and construction, but Denver's ever-growing employment base promises an increasing return to work in the year to come. Land costs have steadily risen around the metro area, but rent growth and cap rate compression have made this easier to stomach among investors and developers. As Denver's industrial revolution forges on, with capital becoming increasingly aggressive and tenants continuing to flock, "don't you know it's gonna be all right"?

Revolution, evolution, solution … 2021 marks the new industrial revolution. ▲

tim.morris@colliers.com

INDUSTRIAL — TRENDS

Construction: Looking back for a view of the future

Chris Alcorn
President, Alcorn Construction Inc.

The end of 2021 is in sight and, like 2020, it's a year we won't miss. This year has seen 30% to 40% increases in overall industrial building costs – not to mention the long lead times for materials like steel and roofing. Last fall, lead times for those items were three to four months whereas now we're waiting seven to 10 months for them to come in. With those trends in mind, here is what we expect to see carrying into 2022.

■ **Sites are hard to find.** We are starting to see shortages of available sites and, as a result, many of those that are available require rezoning, or have significant slopes, demolition requirements or landfill components.

Rezoning is possible but adds significant time – in some cases eight to 12 months to get through the approval process. It also puts considerable risk on the land's buyers if they commit to purchase without jurisdictional approval contingencies. In today's tight market, some buyers are choosing to waive these contingencies to win land. And with jurisdictions and local neighborhood groups becoming increasingly resistant to construction projects, risks are high for buyers who waive rezone contingencies.

Sloped sites also can represent significant costs for projects. Right now, the cost for dirt export sits at roughly $17 per cubic yard, and import is $17-$25 per cubic yard, depending on specifications. There's a lot of money to be won or lost by carefully designing your site to reduce import/export and by working with your geotechnical engineer to ensure that import specifications provide the team with options. Another tactic that can be utilized is a sloped slab, which can reduce the amount of import required, is barely noticeable at only half a percent slope and is widely accepted by the industry here in Colorado.

As the value of land increases, sites with existing buildings on them are becoming more common. When crafting a demolition budget, be sure to account for asbestos abatement in addition to standard demolition costs. Many buyers don't realize that Phase I and Phase II report protocols do not require asbestos testing, but state law requires testing on buildings of any age before demolition can be performed. This requirement stands in all circumstances, unless the building's original architect of record is willing to certify that no materials containing asbestos are present in the building.

Landfill sites also have become much more common in the past several years. On these sites, challenges can include buried construction debris, which is the easiest and least expensive landfill type to build over. Another, household waste, brings in the added requirements for structural slabs and methane mitigation. And finally, brownfield sites contaminated with chemicals and heavy metals can require significant early planning to deal with the long-term legal and monitoring risks on the site.

■ **More activity outside central Denver.** As land becomes harder to find and logistics companies continue to try to serve last-mile locations, we are seeing more activity outside the Denver metro area. There is significant activity in places like Mead, Johnstown, Loveland, Brighton, Monument and Watkins, as well as more activity than usual in Colorado Springs and Fort Collins.

■ **Solar ready.** Owners for many of the speculative buildings we currently have under construction are asking for the option to have the building constructed with solar in mind. That means the inclusion of a conduit from the main electrical room to the roof. Additionally, adding a solar array on a building's roof imposes added structural load on the building. There are a few ways that this load can be handled, one being to design the joist and deck to support the solar panels. In our experience, the premium for this upgrade is roughly $2 to $3 per square foot. Additionally, you could have the solar panel provider install a system that locates the supports near the columns of the building to support the loads between columns. This strategy can result in a significantly reduced cost to the building's structure.

■ **Cost and supply chain predictions.** With contractors currently maintaining a strong backlog, and the October Architectural Billings Index for Commercial/Industrial practices at 57.4, demand for industrial buildings is not likely to slow down through 2022. We can expect the pace of price increases to slow but not reverse until late in 2022. Even then, while we may see some softening, prices are unlikely to return to pre-2021 levels. While a few of my sources tell me they could see materials prices subsiding to a level that would bring pricing down around 10% by late next year, I'm not sure I believe that materials suppliers will be willing to give back that kind of ground. By the second or third quarter of 2022, materials like steel and roofing will likely maintain lead times in the six- to eight-month range, an improvement from the recent seven to 10 months but still above pre-2021 levels.

In many ways, 2021 has been a huge improvement over 2020, but the industry still is working to normalize itself. We continue to encourage customers to bring a contractor on board early to help navigate these trends and get customers into their space faster and at a lower cost than with a traditional design-bid-build process. ▲

chris@alcornci.com

INDUSTRIAL — TRENDS

Colorado remains leader for cannabis measures

Bryan McLaren
CEO, Zoned Properties Inc.

Nearly a decade ago, Colorado became the first U.S. state to legalize recreational cannabis, setting a standard for marijuana regulatory structure in other markets across the nation. As one of the longest-running programs, Colorado serves as the industry's original case study, with new markets often compared to it.

Headset, a cannabis data and market intelligence solution, recently released ranked total cannabis sales by state from January through September. Arizona, which began recreational sales at the beginning of this year, landed second behind California at $1.6 billion in sales and surpassing Colorado by $175 million.

Though Arizona may have made the recreational transition faster, already outpacing legacy markets, Colorado continues to be an attractive investment market for cannabis industry stakeholders because of its continued evolution.

This year, Denver City Council passed a series of bills making comprehensive updates to marijuana city codes, including the adoption of a marijuana hospitality licensing program. In addition, six municipalities that previously had prohibited recreational sales voted on whether to allow marijuana businesses in those cities.

■ **New commercial opportunities.** Almost half of the U.S. population lives in a state with legal adult-use cannabis, and two-thirds have access to medical cannabis. In a recent Gallup poll, support for marijuana legalization reached a record high of 68%. With these numbers on the rise, cannabis real estate continues to be an attractive opportunity for investors. It is estimated that in the U.S. there are $1.5 trillion worth of industrial zoned properties within the commercial real estate sector. By comparing the cannabis industry's economic impact in the U.S. against total gross domestic product, a rough estimate suggests that cannabis development projects will initially account for about half a percent of industrial real estate, creating a total addressable market of $50 billion to $75 billion in commercial real estate.

These opportunities are not relegated to newly legalized states. In Colorado and other older markets, cannabis retail operations are undergoing an overhaul, in part due to the pandemic. The average size of retail space in dispensaries grew in 2020, rising 50% in medical cannabis establishments and 35% in recreational shops to meet new consumer demands.

Veteran operators of well-established brands in Colorado are redesigning their retail environments, recognizing that the industry has changed and so have cannabis shoppers. Some are adding drive-thru components to streamline ordering and pickup, while others are adding one-on-one consulting and exclusive VIP rooms. Most recently, the concept of consumption lounges is taking center stage.

In Colorado, the city of Denver has ended the cap on new cultivation and retail store locations and is now accepting applications for marijuana hospitality business licenses, of which there are three different types:

- Hospitality – Customers can consume cannabis inside of the establishment.
- Hospitality and sales – Owners can offer on-site consumption and sell a small amount of cannabis.
- Mobile hospitality – Owners can operate marijuana tour buses.

Cannabis hospitality and tourism is one of the newer sectors of the fast-growing market, and for the first six years, social equity applicants will have exclusivity over these licenses in Colorado. In March, the state established a new Cannabis Advancement Program designed to aid communities impacted by the war on drugs. The program will provide loans, grants and assistance to marijuana social equity business applicants.

These updated regulations and new business models illustrate how Colorado, despite being one of the most robust and long-standing recreational programs in the country, has room to grow.

■ **A community-first approach, revisited.** From the beginning, Colorado has focused on building a cannabis program around its community. The first $40 million of the state's marijuana tax revenue annually goes toward education, and in fiscal year 2020-21, an additional $80.3 million in excess excise tax revenue was transferred to the Public School Capital Construction Assistance Fund.

In November, Colorado voters had the opportunity to vote on Proposition 119, which would have included a 5% increase on the recreational marijuana sales tax that currently sits at 15% not including local government taxes. The proposition did not pass, showing a shift in voter mentality to the consumer and patient. This was reflected across other election results related to tax increases on the local level.

■ **Colorado impact on federal legalization.** Colorado continues to hold flagship status for the new American cannabis economy as well as a harbinger of what lies ahead. The States Reform Act, a Republican-led initiative to legalize marijuana at the federal level, proposed by U.S. Rep. Nancy Mace of South Carolina, in many ways honors the history of Colorado's approach to regulating cannabis at the state level and throughout local communities. Specifically, the States Reform Act creates a federal regulatory structure that is molded to systems already in place, treating cannabis much like other traditional industries that are regulated by federal oversight in agricultural, retail and pharmaceutical categories. Perhaps the most significant factor within the States Reform Act is the regulatory structure allows each state to continue down its own pathways of discovery to explore and adopt the appropriate regulatory structures for cannabis in its own communities. ▲

Lisle

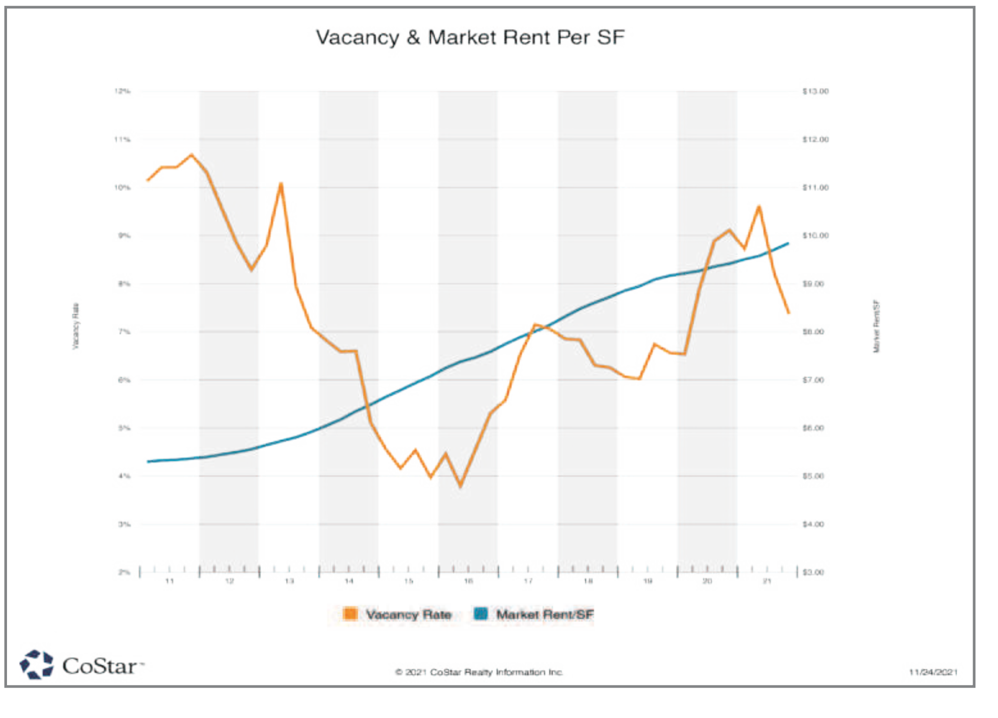
Continued from Page 20

and distribution logistics center, while offering ample yard space for users.

From taking the pulse of hundreds of property owners and investors across the Denver metro industrial market this year, "cautiously optimistic" is the outlook for many as we look forward to 2022. More industrial owners who have held properties with significant equity built up over time have caught wind of the increase in property values, and many are coming to the conclusion that now is an ideal time to sell, which means there could an increased supply of industrial properties coming to market.

As we look out to 2022, we see many economic indicators trending positively, which should support a robust economy and, in turn, robust demand for industrial properties. While the rise in property values over the last 18 months has been incredibly strong, we see prices being grounded by fundamentally driven local demand surrounding Denver. However, the local growth and economic environment statewide remains exposed against several factors the market should keep a close eye on. Macroeconomic factors and economic policies paired with the month-over-month rise of inflation compared to 2020, and various supply chain hurdles, including rising material and labor costs, will continue to impact industrial real estate moving forward in the Denver market. Next year should present a robust period of market activity for both buyers and sellers. ▲

clisle@pinnaclerea.com



Searle

Continued from Page 26

ber, Dave White, the general manager of JFW Trucking and a founding member of IPOC, put it best when he said, "We understand that our community is constantly evolving and ever-changing to meet the current and future needs of its residents. In fact, most of the companies associated with IPOC have had a direct hand in the development of this community. Whether it be the fabrication of steel beams, the production of infrastructure materials, the construction of homes and buildings, or the manufacturing of parts, we are proud to be part of this community."

Restricting or prohibiting industrial users can have major economic and environmental implications, which may not be apparent to municipalities or community members. For instance, a manufacturer required to relocate farther from its client base may be forced to raise prices to offset higher operating costs. Similarly, the lack of larger industrial sites zoned for manufacturing use may result in a manufacturer needing to spread its operations over several locations, which can translate to a greater environmental impact in terms of power used, gasoline required, etc.

These are the types of issues that IPOC hopes to educate municipalities on as the organization grows, with the ultimate goal of improving public understanding of the role industrial users play within the larger ecosystem of their communities. For those interested in becoming a member of IPOC, visit the organization's Facebook page to join the outreach list, or send an inquiry to adcoipoc@gmail.com. ▲

ryan.searle@cushwake.com

INDUSTRIAL — TRENDS

Continued from Page 19

shorter time frames now have companies that traditionally have distributed to Denver from surrounding states targeting the metro area. This is driving record levels of demand for industrial space. Net absorption is on pace to set a new benchmark this year in metro Denver with nearly 4.5 million sf absorbed in the first three quarters of this year, a 70% increase year over year. Requirements also are reaching historic sizes. To put this in perspective, Denver had only five industrial buildings over 1 million sf prior to 2020. Today, there are three new buildings over 1 million sf under construction, and there currently are five additional active requirements for over 1 million sf across the metro area.

High levels of demand aren't just impacting the largest requirements in the market. We are seeing strong demand in the midsize requirements around 100,000 sf across several submarkets in the metro area where, traditionally, most industrial activity ran east along the Interstate 70 corridor. Now developers are turning their attention to other submarkets, and industrial construction is beginning to surge in southeast Denver, north and northwest Denver, Boulder, Colorado Springs and Northern Colorado. There is currently 9.7 million sf of industrial space under construction in the area, with over 50% of that space being preleased.

There is no doubt the supply chain is strained, and it is creating hardship for many businesses and shoppers. Yet hardship often precipitates opportunity. The industrial sector is emerging from this pandemic a changed industry, with Denver anticipated to be a major beneficiary of a shifting supply chain. ▲

todd.witty@cbre.com

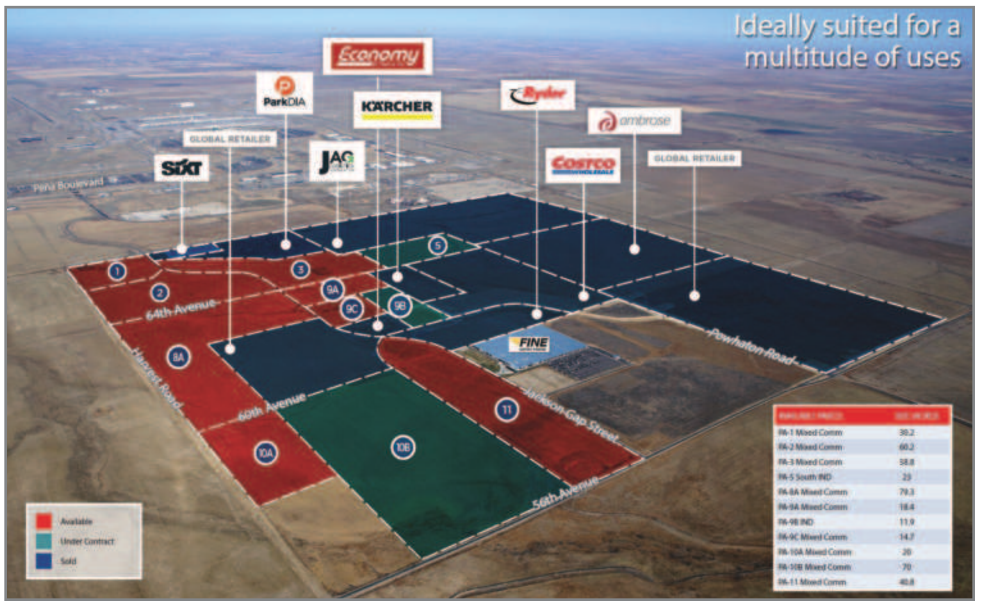
Becker

Continued from Page 24

appreciate, the surrounding rings also experience a bump. And when values increase as they have on the Front Range in recent years, the dissemination of this trend has far-reaching results: All of a sudden, outdoor storage is only available on the fringe, and the need to move farther and farther out leads to increased traffic and pollution, decreased efficiencies and a perpetual cycle of systematic business displacement.

If outdoor storage seems to be going away but is critical for so many businesses upon which we all rely, what can we do about it? First, buy industrial properties with outdoor storage components and keep their current uses … although perhaps not in unincorporated Adams County. Supply and demand fundamentals should bring you handsome returns from both rental income and land banking perspectives. Second, be a vocal citizen with your local government and work together to put a sustainable and responsible plan in place for how planning departments can incorporate new neighborhood plans allowing for outdoor storage in a safe and respectful way. Third, businesses can alleviate supply pressures by using only the outdoor storage area they truly need and subleasing out the rest. And fourth, we have a responsibility to continue exploring technologies and supply chain strategies that can reduce the amount of outdoor storage space on which the businesses we use depend. ▲

abecker@rec-colorado.com



CoStar Group

Porteos is a new development in Aurora that has areas zoned for outdoor storage

Blasdell

Continued from Page 27

We believe this fundamental decentralization of the supply chain from offshore to onshore now all the way to smaller population centers is an inflection point for Rocky Mountain industrial markets, which are by nature smaller (but growing) population centers. This is a leading reason why key centers in the Rocky Mountain geography are experiencing below-average vacancies in the region, an indicator we expect to remain relatively stable going forward. Additionally, liquidity in this region has increased as more institutional buyers are adding these high-growth markets to their portfolios for the first time – following credit tenancy in this trend toward decentralization. Institutional buyers can acquire a Home Depot warehouse in Northern Colorado with the same underlying credit at a positive yield spread to gateway markets. As more institutional buyers add these markets, compressed yields may continue relative to gateway markets. The icing on the cake for industrial in the mountain states is that population growth is also at a similar (and compelling) point of inflection.

■ **Population growth amplifies tail winds.** Our favorite real estate metric and the oldest in the book is population growth. In our view, there's reason to believe that Rocky Mountain industrial is well positioned given the shifts in population growth. Mountain states have grown every year for 75 consecutive years, most recently by 15.9% over the last decade. Not every region in the country can say the same, and some states are now experiencing consistent population declines. By way of example, according to the St. Louis FRED, as of Nov. 22, New York state's population has declined each year since 2015, losing 1.6% over that time. Similarly, the state of Illinois' population has declined each year since 2013, losing a total of 2.4% during that stretch. The case for mountain states is detailed further by the spread between growth rates in the western United States shown in the chart on Page 27.

This spread in population growth between mountain states and western coastal states has widened over the last decade. Interestingly, this spread has remained positive for mountain states in the last five decades except for five years between 1986 and 1990. This has not always been the case. Between 1921 and 1971, mountain states had a positive growth rate spread in only 15 years, or 30%. Strong population growth means higher levels of consumption compared to previous years, resulting in an expected growth of industrial inventory requirements over the coming years. We believe that the recent widening of this spread over the last decade, coupled with the fundamental shift in purchasing behavior and the decentralization of the supply chain to the benefit of end user markets, creates a compelling trifecta for industrial outperformance in the Rocky Mountain area going forward.

These are the trends that we believe will continue driving growth in Colorado and the Rocky Mountain region and why we're especially bullish on industrial in our backyard. ▲

Rietz

Continued from Page 28

tioned to become a viable alternative to Denver. Traditionally known as a hub for aerospace and defense, Colorado Springs offers a solid economic foundation, which has proved attractive for companies outside of those industries and future residents. Companies that previously believed they could easily distribute their products from Denver will soon realize that, with the complications with last-mile facilities and I-25 congestion, to best service the Colorado Springs market they must be in Colorado Springs.

■ **Tailor your strategy to projected demand.** Commercial real estate developers might have their eyes on the horizon to pursue large parcels of undeveloped land in Colorado, such as near Denver International Airport, but small, infill industrial projects have long had a history of outperforming the big-box projects, and this will hold true in 2022.

In an urban core like Denver or a growing city like Colorado Springs, there often are undeveloped parcels of land, vacant lots or empty buildings that are primed for redevelopment and opportunity. An example of this type of project is Central Park Business Center, a speculative infill industrial park that our team has developed, located at the intersection of Interstate 70 and Central Park Boulevard. Representing one of the few undeveloped infill sites in this market, the site has experienced interest from industrial users looking for convenient access for logistics and distribution throughout the metro area. Class A buildings with highway frontage and easy access for customers are a rare find in Denver, but they cater to a single large user or multiple midsized tenants.

When mapping a strategy to meet the demand for industrial space in the Denver and Colorado Springs markets, developers must keep in mind the three core tenets of a successful industrial property: location, visibility and access.

Denver always has been and will continue to be "the darling" of Colorado. However, secondary markets like Colorado Springs and Fort Collins are picking up momentum and becoming attractive residential and business destinations. As the Denver metro area continues to evolve, in 2022 we'll see companies become more keenly aware of the bevy of industrial and logistical opportunities that these alternative markets have to offer.

Highfield Business Park, a joint development project from Confluent Development and Bradbury Properties, is a 100-acre industrial hub located in unincorporated Douglas County.

The significant rise in e-commerce and notable shifts in the competitive retail market on a national scale have local impacts. In Colorado, a growing population, coupled with heightened consumer demand for same-day delivery, will result in a critical need for last-mile delivery properties that effectively encompass the entire market. In 2022, developers may want to consider planting a flag in each corner of the Front Range to capture these demands and trends as this state continues to grow beyond Denver. ▲

mrietz@confluentdev.com