January, 2020
Market Insight Report

Exclusive insights for industrial occupiers.

Denver Industrial

cresa

2019 Denver Industrial Market

Mike Statter, SIOR CCIM
Senior Vice President

Before writing this editorial, I went back and re-read the one I wrote for our 2019 mid-year newsletter. Don't mean to say I told you so… but my predictions for the remainder of the year proved accurate. We experienced 3 million square feet of positive absorption for the year and our vacancy rate ticked up to just north of 6% from around 4.5% at the beginning of 2019. With more than 6 million square feet of new product under construction—on top of over 4 million square feet having been delivered during 2019—Denver is experiencing an industrial building boom.

Given that an average good year for Denver is about 3 million square feet of positive absorption, the simple math tells us that a good percentage of this new product coming online will remain available into 2021 and possibly beyond. This is good news for our clients: more choices and opportunities, hungrier landlords, and a leveling (or more likely a modest dip) of asking rates and deal terms.

We continue to experience acceptance of our business model—working only with occupiers of industrial real estate—with more and more clients. By not soliciting business from REITs, developers, or institutional owners, we are able to perform our fiduciary duty to our clients in a conflict-free setting. I again invite you to give us a call if you would like to learn more about how this can work for you.

LOCATION STRATEGY

Before homing in on a site for your facility, you need to figure out where your optimal market sits.

When it comes to industrial operations, Cresa offers a multidimensional solution that aligns operations, labor, location, logistics, and real estate. Other firms simply can't compete.

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PIEDMONT PLASTICS PORTFOLIO SPOTLIGHT

Cresa's Denver office was hired by Piedmont in October 2015 as their exclusive agent to help manage their North American real estate portfolio. Piedmont's lease information is kept in a cloud-based Lease Harbor database that provides monthly reports outlining key lease dates and terms, so that no renewal, termination, or expansion rights are missed.

In addition, Cresa and Piedmont implemented a strategy involving branch and regional managers, as well as corporate executives to provide input and help shape the strategy at the beginning of each assignment. Utilizing this inclusive, up-front strategy in tandem with strong local representation from Cresa offices, Cresa has been successful at creating the needed leverage with landlords to mitigate base rate increases in nearly every assignment to date.

CLIENT OBJECTIVES

A distributor of plastic sheet/rod/tubing products, Piedmont operates distribution centers in 45 North American locations, totaling approximately 800,000 SF of office/warehouse space across their portfolio. The great majority of Piedmont's offices are centrally located in major metropolitan areas in order to be convenient for client pickup and delivery.

A unique aspect of their distribution centers is the need for Early Suppression Fast Response ("ESFR") fire protection systems in order to obtain occupancy permits from local municipalities. This requirement, coupled with rising rents in nearly all of the markets Piedmont is located in, posed a real challenge in terms of controlling expenses in a mature business where profitability is achieved through robust sales volume and controlling sales margins and closely managing operating expenses.

2019 ASSIGNMENTS

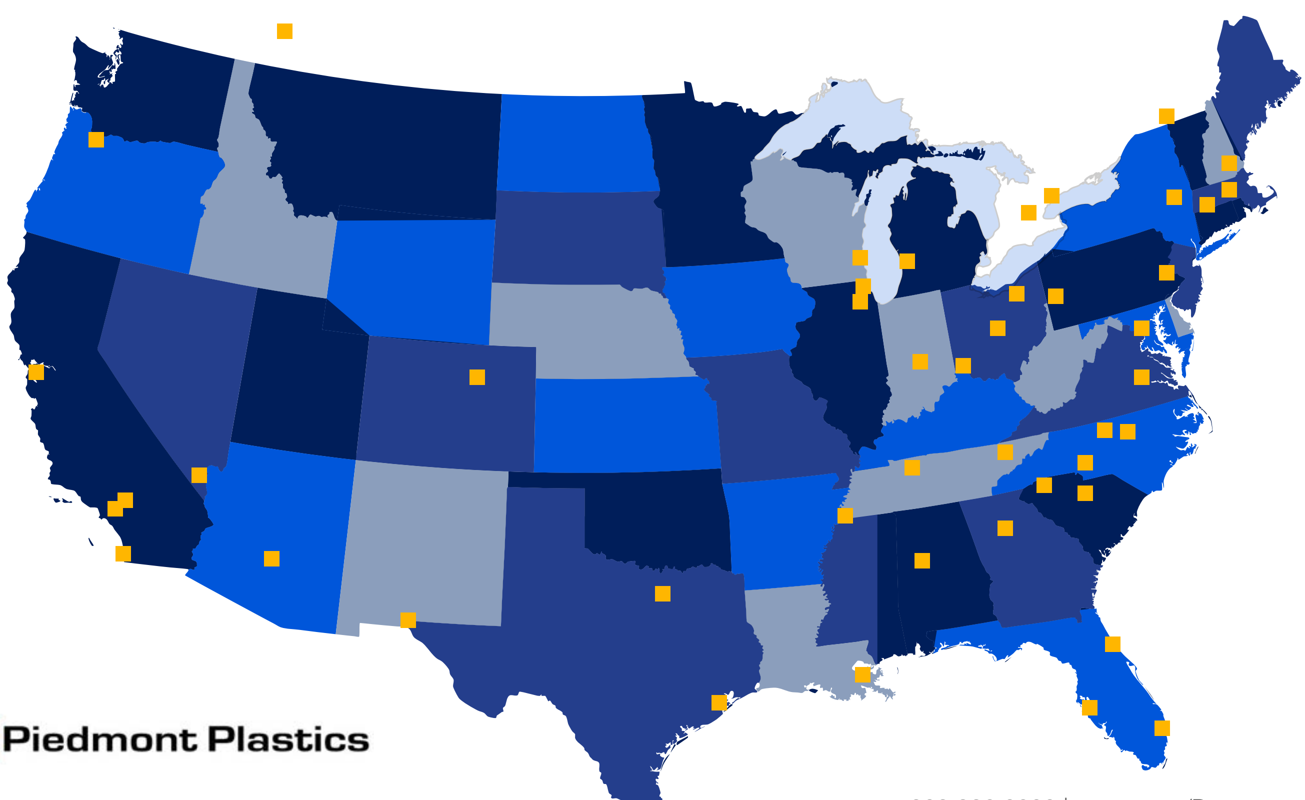
Locations:

- Orange County, CA (New Location)
- Pittsburgh, PA (Renewal)
- Memphis, TN (Renewal)
- Chicago, IL (New Location)
- Pelham, AL (Renewal)
- Phoenix, AZ (Relocation)
- Houston, TX (Renewal)
- Boston, MA (Relocation)
- Greenville, SC (Renewal)
- Cincinnati, OH (Renewal)

800K of Office/ Warehouse Space

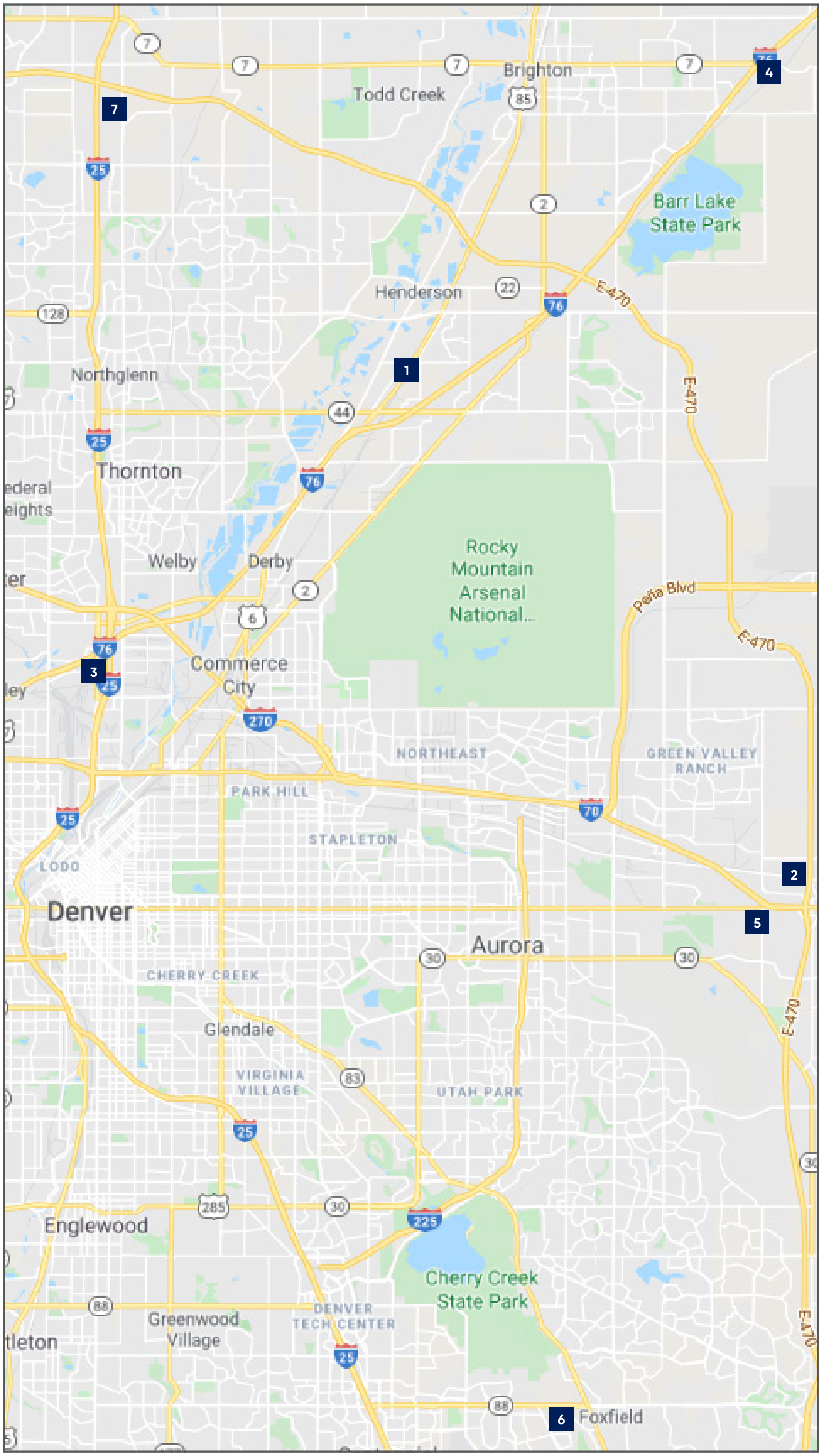
45 North American Locations

2 Cresa Advisors



Piedmont Plastics

INDUSTRIAL PARK DEVELOPMENT PIPELINE



1	COLORADO LOGISTICS CENTER
	Developer: Brennan Investments
	Park Size: 60 Aces, 950K SF
	Currently Under Construction
	Size: 560K SF
	Delivery: Q2 2020

2	FIRST AURORA COMMERCE CTR
	Developer: First Industrial
	Park Size: 1.9M SF
	Construction Completed
	Size: 556K SF
	Delivered: Q3 2019

3	CENTRAL SIXTY-FOUR
	Developer: Corum
	Park Size: 220K SF
	Currently Under Construction
	Size: 220K SF
	Delivery: Q4 2020

4	I-76 COMMERCE CTR
	Developer: Hyde
	Park Size: 1.8M SF
	Currently Under Construction
	Size: 266K SF
	Delivery: Q4 2019

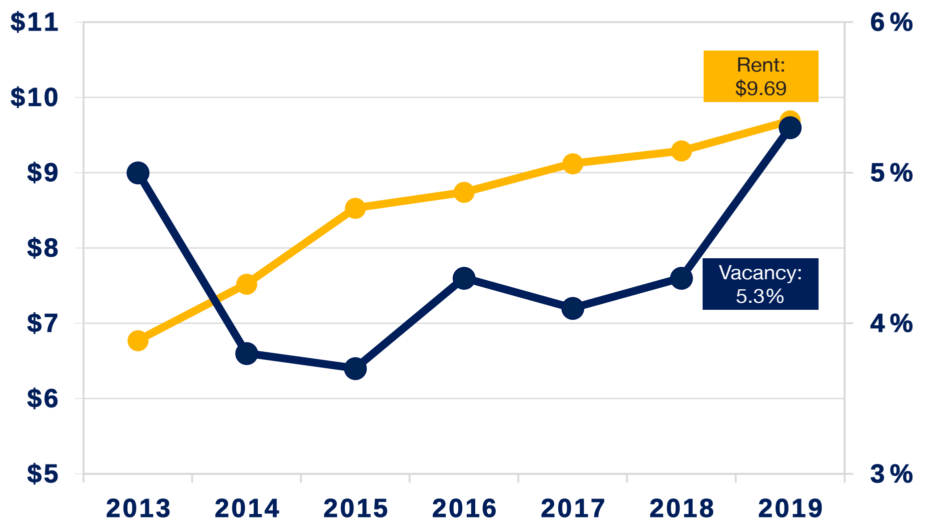
5	STAFFORD LOGISTICS CTR
	Developer: NorthPoint
	Park Size: 350 Acrs | 4.4M SF
	Currently Under Construction
	Size: 594K SF
	Delivery: Q3 2020

6	ENCOMPASS BP
	Developer: Central Development
	Park Size: 730K SF
	Currently Under Construction
	Size: 106K SF
	Delivery: Q2 2019

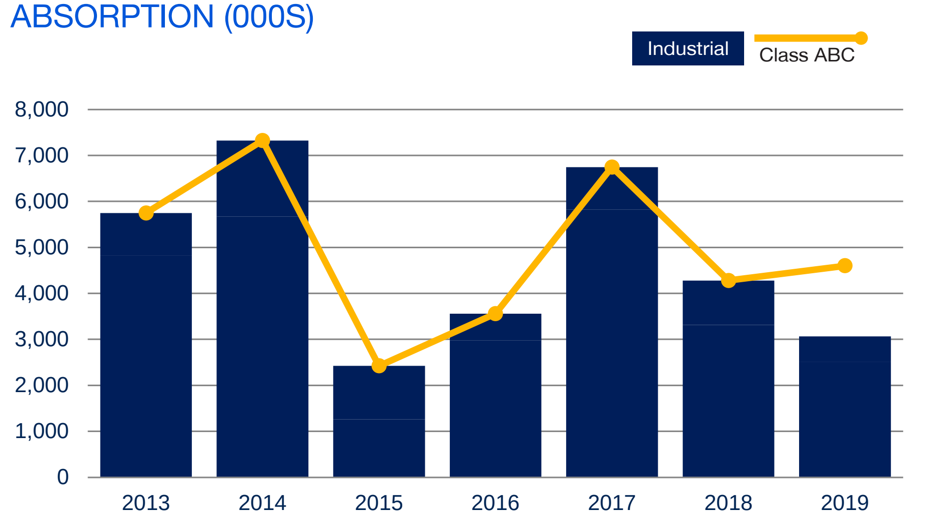
7	25 NORTH
	Developer: United Properties
	Park Size: 900K SF
	Currently Under Construction
	Size: 340K SF
	Delivery: Q1 2020

DENVER INDUSTRIAL—Q4 2019

RATES VS. VACANCY



ABSORPTION (000S)



INDUSTRIAL LEASING IN THE DENVER METRO AREA

A confluence of events has turned Denver into one of the most active second-tier industrial markets in the country. Robust demand in this regional market with strong economic growth this cycle is stemming from the growth of retail sales, employment, and industrial production in the metro area and the greater Colorado region.

Furthermore, the emergence of the marijuana industry's presence with the passing of Amendment 64 in November 2012 created a new demand driver, with new and relatively unsophisticated tenants operating with entirely different profit margins.

Vacancies remain below the long-term average even after 2019 shattered records with more than 6 million SF of deliveries. Entering 2020, about 5.5 million SF was under construction.

Industrial rents are more than 60% above the peak of the previous cycle, one of the best performances in the nation. However, rent growth in 2019 noticeably moderated from outsized figures in previous years, when the market routinely posted annual gains of more than 7%.

Costar Report 1/16/2020

Front Range Industrial Market Recap

Market	Supply	Vacancy	Market Rent	Under Construction	Q4 Absorption	12 Mo Absorption
Boulder	27.5M SF	6.2%	$11.46/SF	578K SF	219K SF	504K SF
CO Springs	36.1M SF	5.0%	$8.76/SF	67.6K SF	217K SF	901K SF
Ft. Collins	22.8M SF	5.2%	$9.68/SF	128K SF	97.3K SF	445K SF
Greeley	25M SF	2.1%	$9.91/SF	463K SF	31K SF	585K SF

Labor Challenges Q and A

Podcast: Episode 2

Listen to the entire podcast:
http://bit.ly/INDimpactsEp2

Mike Statter
Sr Vice President
Industrial Services

Matt Burton
Vice President
Industrial Services

Nat Estes
Vice President
Consulting

What are some of the larger issues related to labor from the perspective of a manufacturing and distribution type operator?

Nat: Nobody in the industrial world four-five years ago was thinking labor or where they could find staff first. Now it's the first question they ask. In manufacturing and distribution, we're talking blue-collar, hourly workers. And it is top of mind, can they find enough reliable staff to fill their operation and meet whatever the need is for their clients.

Matt: How do you see the economy as it pertains to labor availability and demand?

Nat: Denver has seen a dramatic decrease in unemployment, particularly in tech-driven industries. There has been an influx of west coast technology talent in terms of relocating operations or companies growing their software and engineering in Denver. But, since we're talking industrial talent, we're seeing Denver building like crazy and trying to get ready for the future state, which is more and more growth.

So, Denver is at a 70 percent employment rate, which is incredibly high, certainly in the last decade. The United States is at 61 percent. So, Denver is basically saying that our growth is not going to come from our current labor force, we expect our growth to come from inbound migration. So far the city and the region has been very successful in attracting that talent from elsewhere.

What is going to be interesting and what's tough is that in the interim, when you have a 70 percent unemployment rate, how are you going to win the talent war? Frankly we've seen some firms say they are going to get out of Denver. They are going to find the Denver of the future.

Those that are staying put, they are getting their HR team involved; they are getting their operations team involved; they're getting high-level stakeholders involved to set strategies for the next two to five years on how they are going to recruit and retain talent. So, the clients that are successful, they are the ones that have that team in place and are thinking through that strategy. And they are really thinking about it from three strategies:

1. How do we pay our people?
2. Who are we competing against?
3. How can we build a culture and a workforce where people want to stay?

Matt: How are companies attracting the next generation of employees and keeping them engaged and interested?

Nat: This is the 64,000-dollar question as they say. Where you start in terms of retaining talent is that first level supervisor. There has been numerous studies and research done on why people leave organizations, and most frequently, whoever their direct supervisor is, is a direct indicator of whether or not they will stay or go.

Pay levels are obviously very important. You need to be able, as an employer, to understand what is expected in the market versus what you are paying. Not only just compensation, but also the benefits that are being offered.

Understand where you are, relative to your market, then you can start making the right choices in regards to retaining your talent.

DENVER is building like crazy and trying to get ready for the future state, which is **MORE AND MORE GROWTH.**

How to Analyze the Condition of an Industrial Facility Before You BUY or LEASE

Looking to move into a new space?

Chances are you'll have to go through the extensive process of checking the structure and overall site to ensure it'll be able to support your company's intended use. A simple visual inspection of the facility's internal systems and the site's overall physical condition may not be enough to tell you the full history of property. To satisfy your concerns of the property's suitability or potential liability to your business, ask yourself these five guiding questions.

1. **What is the condition of the HVAC system?**
   As a rule of thumb, when inspecting any potential property, start by examining the HVAC system on the roof that cools the premises. Verify the year it was installed to confirm its age and useful life, and request maintenance records to confirm that the system has been maintained on a quarterly basis.

   If you're considering a multi-tenant building, ask neighboring occupiers about actual maintenance practices. Are there any legacy systems left on the roof that could compromise the roof membrane? If so, who's responsible for the repair and/or removal of these systems? Once these important questions are answered, you may be able to neg otiate a warranty on the system's integrity along with lease language to offset any potential costs of needed repairs or replacement during the last lease year.

2. **What is the condition of the slab, foundation and dock height?**
   These assessments will help identify cracking, shifting, sloping or chipping of seams that can lead to damage to material handling equipment. Be sure to ask what year the building was constructed and of the construction practices at that time related to site compaction. The height of the warehouse floor compared to the truck well height should also be analyzed by your transportation team to confirm that tractors, trucks and other delivery vehicles can load and offload effectively.

3. **How will the facility receive connectivity?**
   Is the building served by fiber lines? If so, which companies currently provide connectivity service? This can impact alarm monitoring system capabilities, total cost to deploy alternative services, like satellite or dark fiber, and timing to transition an operation. Sometimes, a provider will claim to be able to service a building only for this to change during a technician visit.

4. **What is the condition of the electrical system?**
   Hire a licensed building inspector or electrician to help you evaluate electrical service to the building. It's good practice to test or verify these systems to validate that electrical panels, distribution, transformers and wiring are in good working condition before entering into a lease contract.

5. **How are the driveways, truck courts and yards?**
   Because industrial facilities deal with a high volume of traffic for deliveries to and from the property, carefully examining the driveways, truck courts and yards will yield some of the most important questions of the inspection process.

   The base material of a yard will impact how often it requires new surfacing and how it handles in different weather conditions. Again, be sure to verify who'll be responsible for performing and/or paying for repairs and maintenance. This should always be carefully negotiated during the lease review process.

Carefully examining each of the facility's systems and exploring the history of the site are critical steps to take when considering investing in an industrial property, regardless if you're leasing or buying. Conducting a thorough investigation into these areas will undoubtedly help you in uncovering unknown risks prior to committing to the space and assist you in avoiding potential costs in the future.

■ *Justin Walseth*
Senior Vice President | Industrial Services
Cresa

About Cresa

Occupiers Deserve Better.

A better space to work, create, build, grow. A better outcome for your people and organization. A better advocate who puts your needs first. In fact, your results depend on better.

At Cresa, we are proud to be by your side. We've purpose-built our company with occupiers at the forefront of everything we do, empowering you no matter where you are. Helping you navigate the landscape, uncovering hidden opportunities that work in your favor for that extra edge.

We have a proven record of securing the results you need to power your business forward. Because we're Cresa. We work together to put occupiers first—for better.

Contact

For more information about Cresa and the Denver market, please contact:

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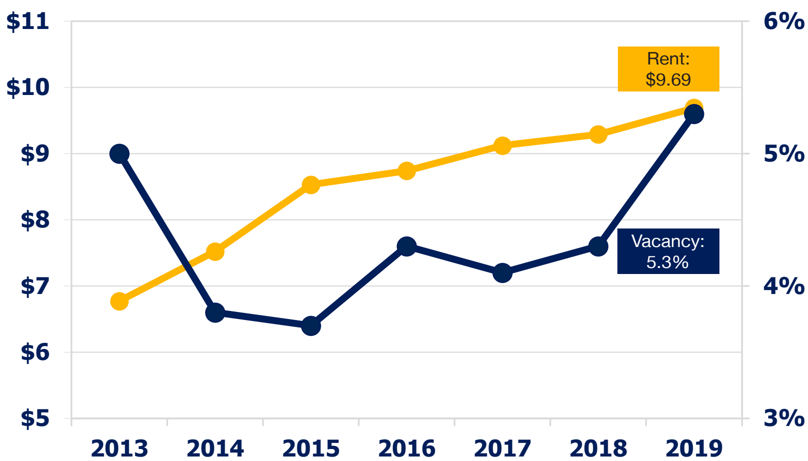
DENVER INDUSTRIAL
Market Report | Q4 2019

SUPPLY (F&W) **247M SF**	VACANCY **5.3%** ↑	AVG RENT **$9.69/SF** ↓	YTD ABSORPTION **3.01M SF**
BUILDINGS **7,817**	UNDER CONSTRUCTION **5.6M SF**	Q4 DELIVERIES **686K SF**	

RATES vs. VACANCY



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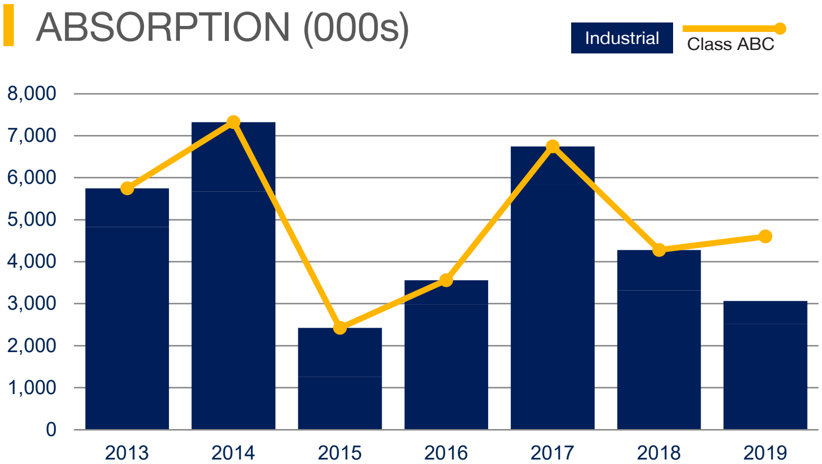

2020 MADE IN COLORADO MANUFACTURING FORUM & AWARDS

Cresa is a proud sponsor of the 2020 Made in Colorado Manufacturing Forum & Awards.

This highly anticipated event will showcase the achievements of the Made in Colorado 100 manufacturers and discuss solutions to issues challenging Colorado's manufacturing sector. We will also be awarding five companies who have excelled over the past year. Come ready to network, share knowledge and celebrate manufacturing in Colorado!

coloradobiz

DATE | Thursday, March 12, 2020

TIME | 3:00 PM - 6:00 PM MDT

LOCATION | Mile High Station
2027 West Colfax Avenue
Denver, CO 80204

Tickets

http://bit.ly/MadeCOTkts

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