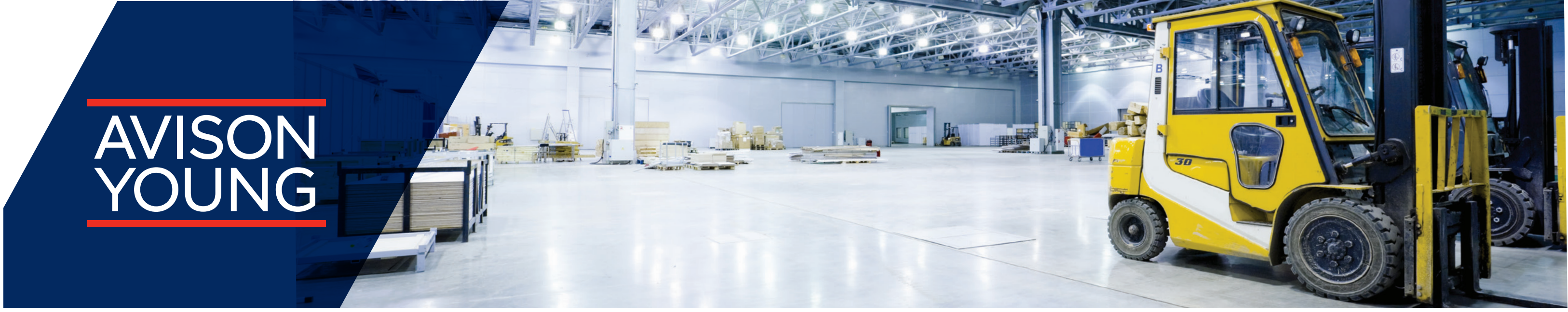

Third Quarter 2019 / Manufacturing Research Report

Denver

Market Overview

Even amidst Federal interest rate cuts and speculation surrounding a national economic slowdown, Colorado's economy shows few signs of slowing. The state's unemployment rate has been below 4% since the second quarter of 2015, making a strong labor market comparable to that seen during the dot-com boom in the late 90s and early 00s. New business filings have risen year-over-year (YOY) as well, and the Colorado Secretary of State has reported that Colorado's economy grew at an annualized rate of 3.6%, out-pacing the US average of 3.1%.

Trade Wars and Industry Growth

Across the US, current tariffs and uncertainties about further changes to US trade policies have put a strain on the manufacturing industry. The global purchasing managers' index, which is the main metric used to track activity within the manufacturing sector, recorded a contraction in the month of September. However, experts in the field in Colorado have reported they have not seen the same signs of recession that are occurring in other US markets. Consulting firm Manufacturer's Edge suggested that growth remains healthy in the Colorado manufacturing sector, with the state's main challenge being how to properly manage and sustain said growth.

Labor Scarcity

Labor scarcity is the biggest factor limiting manufacturing growth. Colorado had a net gain of 2,486 manufacturing jobs in 2018, with another 1,700 projected for 2019. The focus remains on finding the skilled labor necessary to sustain the sector's expansion. Nonprofits like CareerWise Colorado have begun offering apprenticeship programs across the state which provide young professionals with technical skills and lessen labor scarcity in the manufacturing industry. There are also projects like Front Range Community College's Center for Advanced Technologies in Longmont, which is specifically focused on training students in the more-technologically based skills that have become increasingly important manufacturing field.

Vacancy & Absorption

In concert with the sector's continuing demand, the manufacturing real estate market remains steady through the third quarter of 2019. Manufacturing vacancy ended the third quarter at 3.4%, 1.9% below the Denver industrial market at-large. This number represented an 80-basis point (bps) drop from the second quarter, speaking to the increasing need for manufacturing space. Net absorption remained positive through the third quarter, with 17,341 square feet (sf) recorded. This brought the year-to-date net absorption total to 64,076 sf, up significantly from 2018, which recorded negative net absorption of 422,609.

Construction

As of the third quarter, there was 646,000 sf of manufacturing space under construction, including cleaning technology giant Kärcher's new North American headquarters at 24000 E. 64th in Aurora. The facility, which is equipped with a digital warehouse management system and a new manufacturing execution system, represents where the manufacturing industry is headed, with technology driving both processes and production for more efficiency. Construction is down year-over-year, in part due to the light land market in Denver. Tenants are instead looking to optimize their current space, with landlords working to entice new and expanding companies with upgraded building.

Rental Rates

Manufacturing rental rates experienced a modest 2% increase quarter-over-quarter, ending the third quarter at $7.17. While rents in more saturated submarkets like E. I-70/Montbello continued to hover around $6 NNN, tighter submarkets like the North and South Central are rising to $9-$11 NNN. This late in the real estate cycle, rent growth is unlikely in the coming quarters, though there is no indications rates will contract in the remainer of 2019, either.

Market Inventory	Vacancy Rate	2Q Net Absorption	Construction Pipeline	Average Asking Rate
36,342,151 sf	3.4%	17,341 sf	646,000 sf	$7.17