

MARKETBEAT

DENVER INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



1Q09

ECONOMY

After beginning to show signs of trouble in the final quarter of 2008, metro Denver's economy weakened considerably through the first three months of 2009. Company employment rolls were down 3.7% in March 2009 compared to one year ago, while business sales slowed down significantly and consumer spending virtually ground to a halt. Excluding retail, nonfarm industry receipts were up 6.4% in 2008 compared to 2007, ending the year at over \$46.8 billion; however, fourth quarter sales rose just 1.5% from prior-year levels. Retail sales increased at a 3.3% year-over-year rate to almost \$35.6 billion, but were 12.4% lower in the fourth quarter of 2008 compared to fourth quarter 2007. With the metro area's unemployment rate now estimated at over 7.9% and further layoffs likely, the near-term economic prognosis remains grim and threatens to escalate pressures in commercial property markets in coming periods.

OVERVIEW

While economic deterioration has been recent and severe, industrial market statistics for this quarter remained relatively good. The overall industrial vacancy rate was down 10 basis points (bp) in the past twelve months to end first quarter 2009 at 6.2%, but was up 30 bp from three months ago as 579,572 square feet (sf) of new construction space came online, while leasing activity and space give-backs otherwise balanced each other out. In the Northeast, which received the bulk of new construction over the past year, overall vacancy rates were 40 bp higher than one year ago at 7.3%. In the Central and Southwest regions vacancy levels were flat compared to first quarter 2008, at 2.9% and 4.1% overall, respectively. The Southeast region saw vacancy rates dip 170 bp during this time frame to 9.5% overall. Similarly, the Northwest registered a 60 bp overall vacancy rate decline to 5.3%. Overall absorption, which is a measure of the net change in occupancy levels, amounted to 876,069 sf for the quarter. Warehouse/distribution properties saw good demand, accounting for 94.3% of this total, while office service properties registered the first quarter of negative absorption in four years.

Weighted average asking rents were unchanged from first quarter 2008, at \$6.02 per square foot (psf) overall for all product types. Warehouse/distribution rents were 4.5% higher year-over-year, at \$4.81 psf overall, while manufacturing rates plunged 7.4% psf to \$5.49 psf overall and office service rents edged 0.7% higher to end the quarter at an overall rate of \$8.69 psf.

Leasing activity of nearly 2.2 million square feet (msf) was down from this time last year, but still in line with historical averages. High-cube warehouse/distribution properties with ample loading facilities and sizeable trailer storage areas were especially popular this quarter. At Majestic Commercenter (where four of this period's ten-largest leases were signed) companies like Anheuser-Busch (which leased 119,116 sf), Electrolux Home Products (which took 71,820 sf), Andersen Distribution (signing for 59,916), and L.A. Records Management (leasing 42,964 sf) were able to secure the large spaces they required that offered optimal configurations critical to ongoing operational success. Other noteworthy transactions included Propak Logistics' 95,000-sf commitment to take over a former Furniture Row facility at 5501 Peoria, Sunflower Market's 50,981-sf lease at Upland Distribution Center, and Custom Direct's 35,940-sf signing at Table Mountain Commerce Center.

Tight credit markets put a damper on the quarter's sales activity, with just 929,138 sf having been acquired in this 196.0-msf market. Representative user transactions include automotive aftermarket supplier Ozark/O'Reilly's purchase of 360,000 sf at ProLogis Park 70 to open a new regional distribution facility, food processing machinery manufacturer Kevry Corporation's 95,686-sf warehouse/distribution facility in Denver, and the Ducts Unlimited Mechanical Systems acquisition of 12,100 sf in Arvada. Only five investment sales were closed, all involving 100%-leased properties.

FORECAST

Denver's industrial vacancy rate is likely to rise in coming quarters as more companies find it increasingly difficult to stay afloat amidst dwindling revenue streams and severely restricted access to credit. Tenants can locate many good values with a high number of space options to choose from; however, there will be only a few quality, large space availabilities as construction supply lines dry up. Landlords will be motivated in tenant retention and negotiating new leases, as occupancy is "king," even as they face greater competitive pressures to ensure product offered meets increasingly discerning requirements. Watch for an uptick in older-property renovations to bring second- and third-generation space up to more modern standards.

BEAT ON THE STREET

"One of the positives going into this downturn is that Denver has relatively little new supply overhang. So, although vacancies are likely to rise, they are probably not going to reach record levels because the market isn't overbuilt. That said, once recovery is underway, lifestyle motivators that make people want to live and work here will boost demand ahead of other markets."

– Sherman R. Miller, Executive Managing Director / West Regional Manager

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	1.1%	-2.9%	1.8%
CPI Growth	3.8%	-1.0%	1.9%
Regional			
Unemployment	5.2%	8.3%	8.5%
Employment Growth	0.8%	-4.9%	-0.2%

Source: Moody's | Economy.com

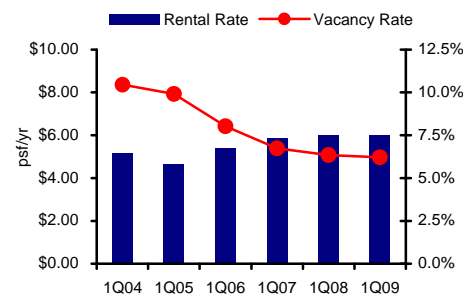
MARKET FORECAST

LEASING ACTIVITY should average 8.0 msf to 10.0 msf per year over the next two years.

DIRECT ABSORPTION is likely to average 0.8 msf to 1.2 msf per quarter range through 2009.

CONSTRUCTION activity will drop off in 2009 with developers unwilling to move forward on speculative projects.

OVERALL VACANCY VS. RENTAL RATES



MARKET/SUBMARKET STATISTICS

MARKET/SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION**	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WEIGHTED AVERAGE NET RENTAL RATE*			
								HT	MF	OS	W/D
Northwest I-25 Corridor	10,743,028	163	6.4%	35,427	0	0	10,704	N/A	N/A	\$6.75	\$4.87
West	11,073,327	161	2.3%	61,934	0	0	25,115	\$9.57	N/A	\$8.86	\$5.00
Northwest Central	6,388,294	180	4.0%	32,278	23,100	13,120	748	N/A	N/A	\$8.55	\$7.20
Broomfield/Boulder	21,409,879	336	6.7%	314,373	0	21,790	180,108	\$9.70	\$7.43	\$9.55	\$5.95
Northwest Total	49,614,528	840	5.3%	444,012	23,100	34,910	216,675	\$9.68	\$7.43	\$8.86	\$5.61
Central I-70 Corridor	22,654,883	461	4.9%	228,371	0	0	(53,406)	N/A	N/A	\$5.51	\$4.07
I-70 East	47,829,009	545	8.3%	1,095,410	0	444,947	622,122	N/A	\$3.50	\$6.99	\$4.76
Northeast I-25 Corridor	3,114,552	84	4.3%	28,536	0	0	14,517	N/A	N/A	\$8.00	\$6.05
Northeast Central	12,701,044	302	8.0%	72,156	30,000	99,715	81,709	N/A	\$4.12	\$6.69	\$4.95
Brighton	3,046,136	24	7.3%	15,000	0	0	0	N/A	N/A	N/A	\$2.50
Northeast Total	89,345,624	1,416	7.3%	1,439,473	30,000	544,662	664,942	N/A	\$3.97	\$6.69	\$4.58
Central Total	19,426,115	548	2.9%	49,147	0	0	25,372	N/A	\$5.34	\$4.50	\$4.16
Southeast Central	4,355,354	115	10.6%	18,670	0	0	4,387	\$8.00	\$5.50	\$8.58	\$5.93
Southeast Suburban	13,296,780	267	9.1%	127,169	140,688	0	20,191	\$9.58	N/A	\$9.66	\$7.49
Southeast Total	17,652,134	382	9.5%	145,839	140,688	0	24,578	\$9.00	\$5.50	\$9.36	\$7.15
Southwest Central	10,631,341	387	3.6%	39,482	0	0	(62,860)	N/A	\$4.91	\$4.88	\$5.26
Southwest Englewood	6,867,502	196	4.8%	35,603	0	0	10,857	N/A	\$5.95	\$9.59	\$4.92
Lakewood	2,478,131	76	4.5%	10,797	0	0	(3,495)	N/A	N/A	\$11.58	\$6.71
Southwest Total	19,976,974	659	4.1%	85,882	0	0	(55,498)	N/A	\$5.40	\$9.99	\$5.28
TOTAL	196,015,375	3,845	6.2%	2,164,353	193,788	579,572	876,069	\$9.32	\$5.45	\$8.72	\$4.86

*Rental rates reflect \$psf/year

** Under Construction revised.

HT = High Tech MF = Manufacturing OS = Office Service W/D = Warehouse/Distribution

MARKET HIGHLIGHTS

SIGNIFICANT 1Q09 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
19750 East 35th Drive	I-70 East	Anheuser-Busch Companies	119,116	Warehouse/Distribution
5501 Peoria Street	I-70 East	Propak Logistics	95,000	Warehouse/Distribution
3605 Windsor Drive	I-70 East	Electrolux Home Products	71,820	Warehouse/Distribution

SIGNIFICANT 1Q09 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
24210 East 19th Avenue	I-70 East	Ozark/O'Reilly	360,000	\$19,260,000
1095 South 4th Avenue	Brighton	Caprice Realty Investments	183,482	\$6,450,000
5125 Race Court	Central I-70	Kevry Corporation	135,322	\$6,000,000

SIGNIFICANT 1Q09 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Enterprise Park - Buildings 1 and 2	I-70 East	N/A	288,597	1/09
11605 East 55th Avenue	I-70 East	N/A	100,000	2/09
Marty Farms Industrial Center - Building 1	Northeast Central	HD Supply	42,000	3/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Concord Business Center Phase II	Southeast Suburban	N/A	140,688	5/09
Marty Farms Industrial Center - Building 2	Northeast Central	Airgas Intermountain	30,000	4/09
Marshall Court	Northwest Central	Aspen Electronics Manufacturing	23,100	5/09



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