Retail availability continues to compress around suburban Denver

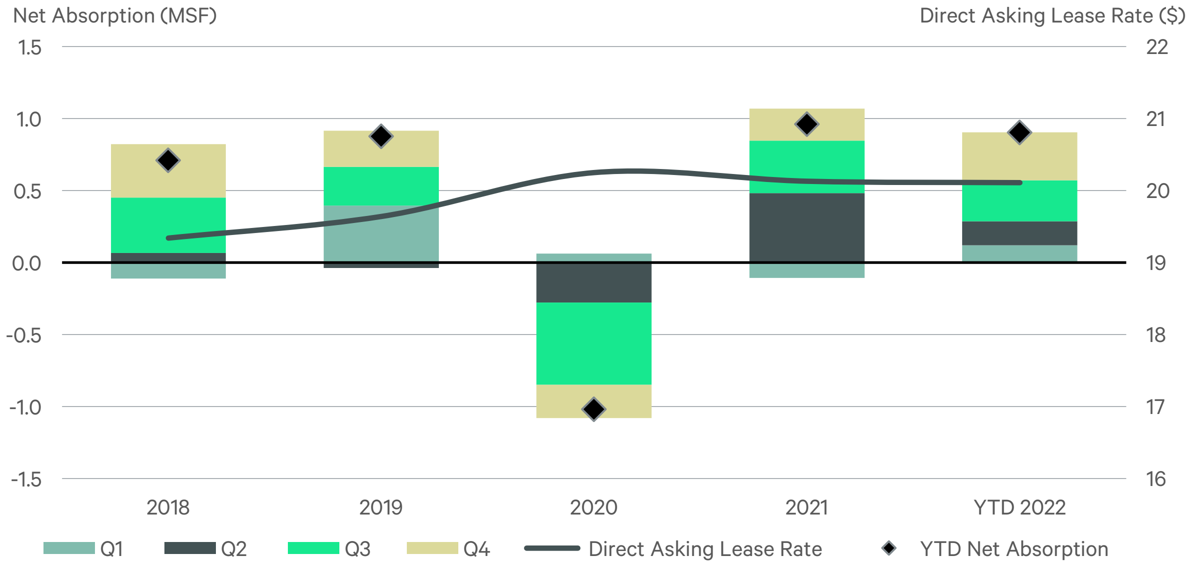
▼6.3%	▲333K	▼90K	▼692K	▶$20.11
Direct Vacancy Rate	SF Net Absorption	SF Completed	SF Under Construction	NNN / Asking Lease Rate

Note: Arrows indicate change from previous quarter.

HIGHLIGHTS

- Over 333,000 sq. ft. of net absorption was recorded in Q4 2022, pushing the YTD total to just over 903,000 sq. ft.—the second consecutive year of positive absorption.
- Direct vacancy declined 50 basis points (bps) year-over-year to 6.3%, while availability dropped 100 bps to 7.0%.
- The average asking lease rate was largely stable in 2022 after falling less than 1.0% year-over-year to $20.11 per sq. ft. NNN.
- The construction pipeline dipped below 700,000 sq. ft. as of year end 2022. Eight buildings totaling just over 90,000 sq. ft. delivered in the fourth quarter, pushing annual delivery volume to 407,000 sq. ft.
- Sales volume totaled $350.2 million in Q4 2022, a 4.3% decrease quarter-over-quarter. Fourth quarter activity pushed YTD sales volume to $1.7 billion, 26.3% greater than 2021's total volume.

FIGURE 1: Net Absorption Vs. Average Asking Lease Rate



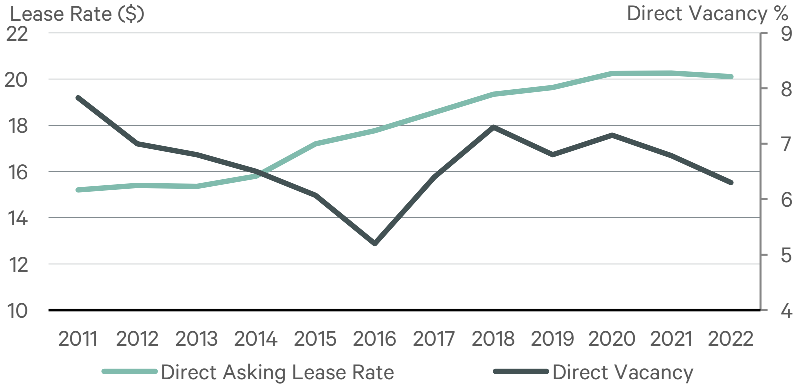
Source: CBRE Research, Q4 2022

Market Overview

The metro Denver retail market remained strong in Q4 2022, posting over 333,000 sq. ft. of positive net absorption. The market will continue to be tested as the retail sector continues to see a lull in delivery of new product. Given the supply-demand imbalance, fundamentals will likely remain healthy moving into 2023. Suburban markets remain the focus of most retailers given their appealing spaces that allow size and build-out flexibility. Significant openings this quarter included the 21,700 sq. ft. Sierra's located at 5134-5142 S Wadsworth Blvd. and Lefthand Brewing's new 18,680 sq.-ft. location at 4180 Brighton Blvd.

Direct vacancy rate in metro Denver experienced a 50-basis-point (bps) decrease year-over-year to 6.3%. The Colorado Boulevard submarket, which includes the upscale Cherry Creek Neighborhood, saw the largest annual drop in vacancy, which fell 190 bps to 3.7% in Q4 2022. The metro's total availability rate decreased 100 bps year-over-year to 7.0% in Q4 2022. The Northwest submarket posted the highest YTD absorption total with 229,500 sq. ft. of positive net absorption.

FIGURE 2: Average Asking Lease Rate Vs. Direct Vacancy



Source: CBRE Research, Q4 2022

FIGURE 3: Market Statistics by Submarket

Submarket	Net Rentable Area (SF)	Q4 Net Absorption (SF)	YTD Net Absorption (SF)	Average Asking Lease Rate ($/SF/YR NNN)	Under Construction (SF)	Total Availability Rate (%)	Direct Vacancy Rate (%)
Aurora	711,115,012	(15,537)	94,351	19.35	5,500	4.5	4.6
Boulder	3,652,026	14,022	65,048	26.07	22,144	9.6	7.5
Central	9,011,393	45,056	101,883	22.46	109,537	8.4	7.1
Colorado Boulevard	2,775,770	21,728	6,082	27.10	14,792	4.6	3.7
Northeast	9,071,060	32,733	101,770	17.06	184,469	7.5	7.1
Northwest	14,908,523	52,076	224,788	16.59	229,476	7.4	7.2
South	13,058,108	51,451	115,979	18.84	-	6.5	5.7
Southeast	7,629,371	48,885	96,935	25.66	29,800	5.6	5.1
Southwest	6,795,639	52,467	63,849	16.36	79,565	5.8	5.4
West	9,099,880	30,632	23,548	23.46	16,748	9.1	7.8
Market Total	**83,125,784**	**333,513**	**903,235**	**20.11**	**692,031**	**7.0**	**6.3**

Source: CBRE Research, Q4 2022

Average Lease Rates

High tenant demand and low availability continues to drive the retail market's recovery. The average asking rate in metro Denver decreased a modest 2.2% quarter-over-quarter to $20.11 per sq. ft. NNN. The Colorado Boulevard submarket posted the highest average asking rate again this quarter at $27.10 per sq. ft. NNN, a 2.5% decrease quarter-over-quarter. The South submarket experienced the largest quarterly decrease in average asking rate, dropping 7.6% to $18.84 per sq. ft. NNN. As availability continues to remain tight and construction slows, rates are expected to increase steadily in these suburban markets.

Investment Trends

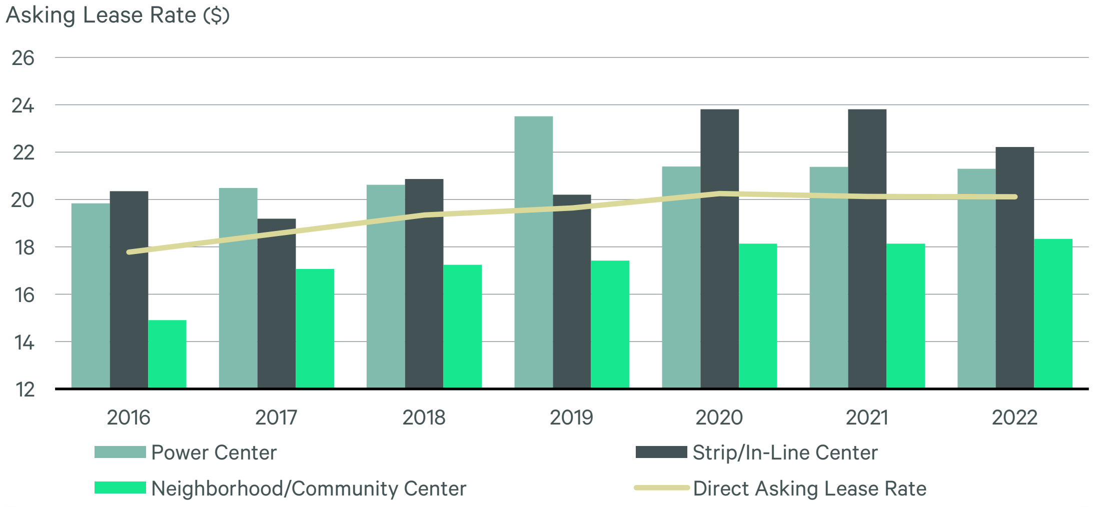
Total sales activity slightly dipped once again in Q4 2022 with a volume of $350.2 million transacted, down 4.3% quarter-over-quarter. The fourth quarter's activity pushed YTD total sales volume to nearly $1.7 billion, up 26.3% year-over-year. Transactions valued at $1.0 million and greater sold for an average price of $233.29 in Q4 2022. Investment sales accounted for over 87.2% of the total sales volume in Q4 2022 at $305.2 million. The quarterly investment total was heavily driven by multi-building portfolios trading hands, the largest being Wafra Inc.'s $73.8 million purchase of Walton Street Capital's Harvest Junction Shopping Center which consisted of 12 buildings and nearly 365,000 sq. ft. As concerns remain for the macroeconomic environment and the rising cost of capital on a national level, sales activity is expected to continue to drop through the first half of 2023. As inflation is expected to ease and interest rate hikes become less aggressive, sales volume may pick back up towards the end of 2023.

FIGURE 4: Notable Sales

Property	Address	Submarket	Sale Price ($)	Size (SF)
Harvest Junction Shopping Center (Portfolio)	205 Ken Pratt Blvd	Longmont	73,800,000	364,918
Westminster Place Shopping Center (Portfolio)	7353-7399 Federal Blvd	Northwest	20,100,000	98,975
Celebrity Lanes Family Entertainment Center	15755 E Arapahoe Rd	Southeast	13,750,000	50,000
Willow Run Plaza	12900-12910 Zuni St	Northwest	10,900,000	91,565

Source: CBRE Research, Q4 2022

FIGURE 5: Average Asking Lease Rate by Type of Center



Source: CBRE Research, Q4 2022

FIGURE 6: Investment Trends

Note: Sales volume for transactions $1.0M and higher
Source: CBRE Research, Q4 2022

Development Activity

The retail development pipeline slowed in Q4 2022 with just over 692,000 sq. ft. of space under construction, an 8.6% drop year-over-year. Activity is being heavily driven by pre-committed freestanding retail, such as King Sooper's 103,000-sq.-ft. project in Erie and Furniture Row's 74,000-sq.-ft. project in Littleton.

Denver retail posted a delivery volume of 90,000 sq. ft. in Q4 2022, less than half the volume delivered in the third quarter. The largest completion this quarter was the 30,000-sq.-ft. 3301 N Downing St. As availability for prime retail space continues to compress in future quarters and construction volume remains stagnant, developers may recognize the lack of supply and push for more ground-breakings in metro Denver.

Employment

The Fed Funds Rate reached its highest level in five years in December amidst stubbornly high inflation, which began to ease at a more accelerated pace in Q4 2022. While a recession appears imminent in 2023, wider expectations are of a more moderate slowdown. Higher borrowing costs will impact businesses and consumers alike, ultimately trimming employment levels and dampening consumer confidence, which was evidenced in December when retail sales posted their sharpest decline of 2022 at 1.1%..

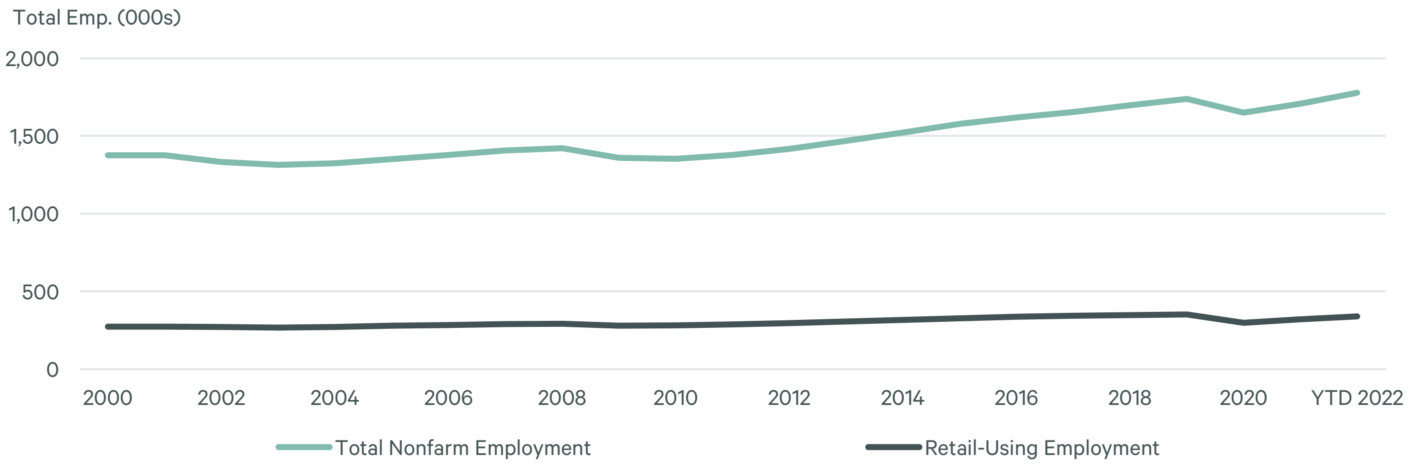
Total non-farm employment in metro Denver increased 4.2% through November on an average year-to-date basis, gaining 70,900 jobs. Retail-using employment—including retail trade and leisure & hospitality—posted 5.7% job growth. Employment in the leisure & hospitality sector accounted for the strongest job growth at 10.6% and added 17,500 jobs year-to-date. Metro Denver's unemployment rate declined slightly in November to 3.2% and is down 130 basis points year-over-year from 4.5%.

FIGURE 7: Notable Projects Under Construction

Property Name	Submarket	City	Size (SF)	Est. Completion
Amber Creek	Northeast	Thornton	150,000	Q2 2023
Nine Mile Corner - Kings Sooper's	Northwest	Erie	103,000	Q3 2023
Furniture Row	Southwest	Littleton	74,000	Q3 2023
Shops at Olde Town Station	Northwest	Denver	15,000	Q2 2023

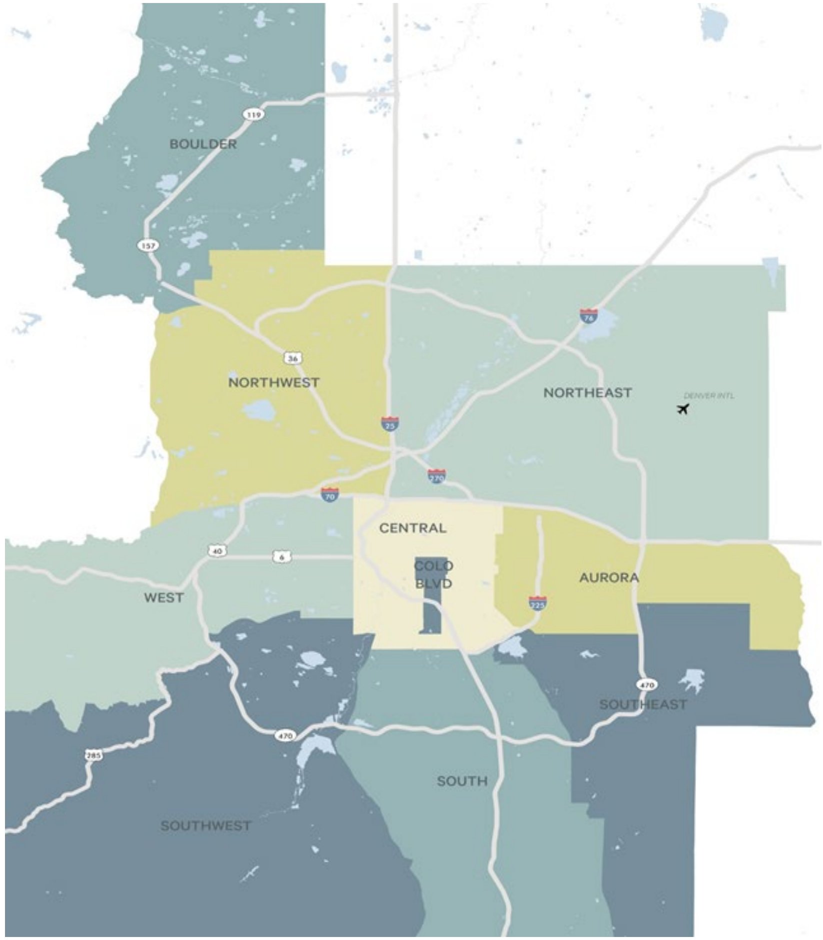
Source: CBRE Research, Q4 2022

FIGURE 8: Retail Using Employment vs. Total Nonfarm Employment



Source: U.S. Bureau of Labor Statistics, December 2022

Market Area Overview



CBRE Offices

Downtown Denver
1225 17th Street, Suite 3200
Denver, CO 80202

Denver Tech Center
5455 Landmark Place, Suite C102
Greenwood Village, CO 80111

Boulder
2755 Canyon Boulevard
Boulder, CO 80302

Fort Collins
3003 E. Harmony Road, Suite 300
Fort Collins, CO 80528

Colorado Springs
102 South Tejon Street, Suite 1100
Colorado Springs, CO 80903

Survey Criteria

Includes all retail buildings 5,000 sq. ft. and greater in size in Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas and Jefferson counties. Buildings which have begun construction as evidenced by site excavation or foundation work.

Contacts

Jack Finn
Research Analyst
+1 303 628 7495
jack.finn@cbre.com

Kailee Lammers
Research Analyst
+1 303 824 4704
kailee.lammers@cbre.com

Jonathan Sullivan
Research Manager
+1 303 824 4706
jonathan.sullivan@cbre.com

CBRE