NAIOP COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION COLORADO CHAPTER

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NAIOP AND BROWNSTEIN HYATT FARBER SCHRECK PRESENTS

MID-YEAR ECONOMIC FORECAST

JULY 21, 2020 | WEBINAR

NAIOP Mid-Year Economic Forecast Webinar

PANELISTS

Tim Richey
Vice Chairman
CBRE

Jim Bolt
Vice Chairman
CBRE

Shane Ozment
Vice Chairman
Newmark Knight Frank

Jordan Robbins
Managing Director, Capital Markets
JLL

Eric Roth
Senior Vice President
CBRE

Matthew DeBartolomeis
First Vice President
CBRE

Lee Diamond
Senior Vice President
CBRE

Dan McGowan
Managing Director
JLL

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Capital Markets Presentation
Tim Richey, CBRE

July 15, 2020

2020 NAIOP ECONOMIC FORECAST

DENVER
CAPITAL MARKETS
OUTLOOK

CBRE

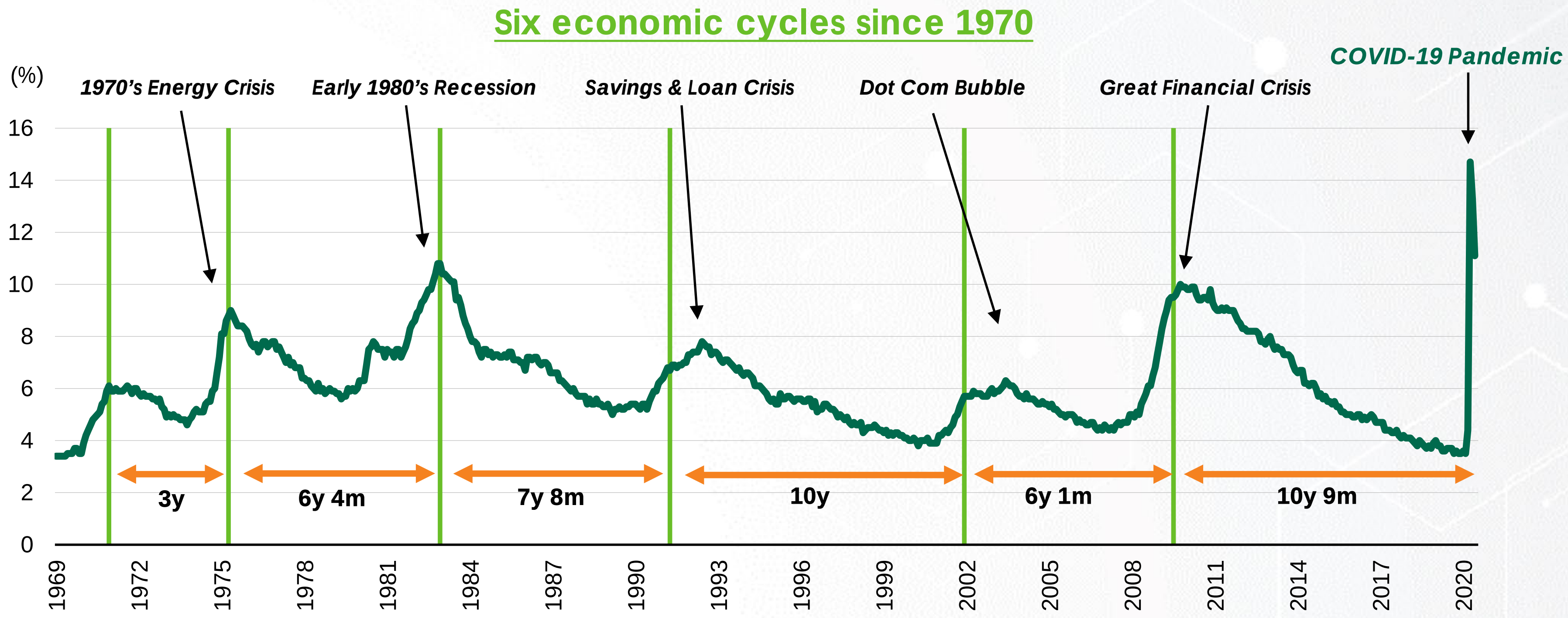
TIM RICHEY
VICE CHAIRMAN
CAPITAL MARKETS OFFICE WEST /
INSTITUTIONAL PROPERTIES

GOOD NEWS AND CHALLENGING NEWS

- COVID curves are bending, but not as quickly as predicted
- More fiscal and monetary stimulus on its way
- 70% of recent jobless claims are temporary, but uncertainty on the horizon
- Corporate America gearing up for tempered re-start
- Oil price decline and coworking pull back create challenges for Colorado
- Denver is the 4th most concentrated Millennial market

COVID-19 BROUGHT AN ABRUPT END TO THIS CYCLE

U.S. unemployment rate %, a common indicator of economic cycle



Source: Bureau of Labor Statistics, CBRE Research, June 2020.

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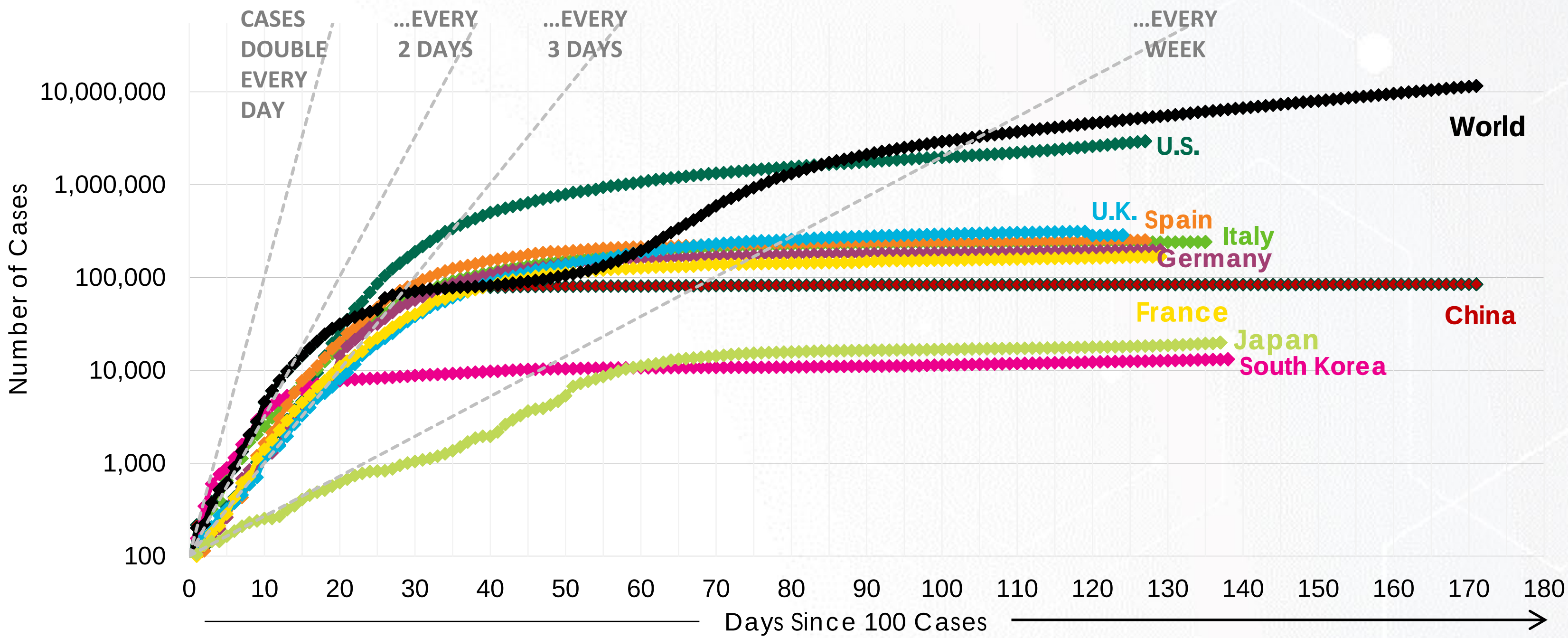
THE CURVE IS MOSTLY FLATTENED IN THE DEVELOPED WORLD

Cumulative number of confirmed cases, by number of days since 100th case



Source: Financial Times, CBRE Research, European Centre for Disease Prevention, Macrobond, 7 July 2020.

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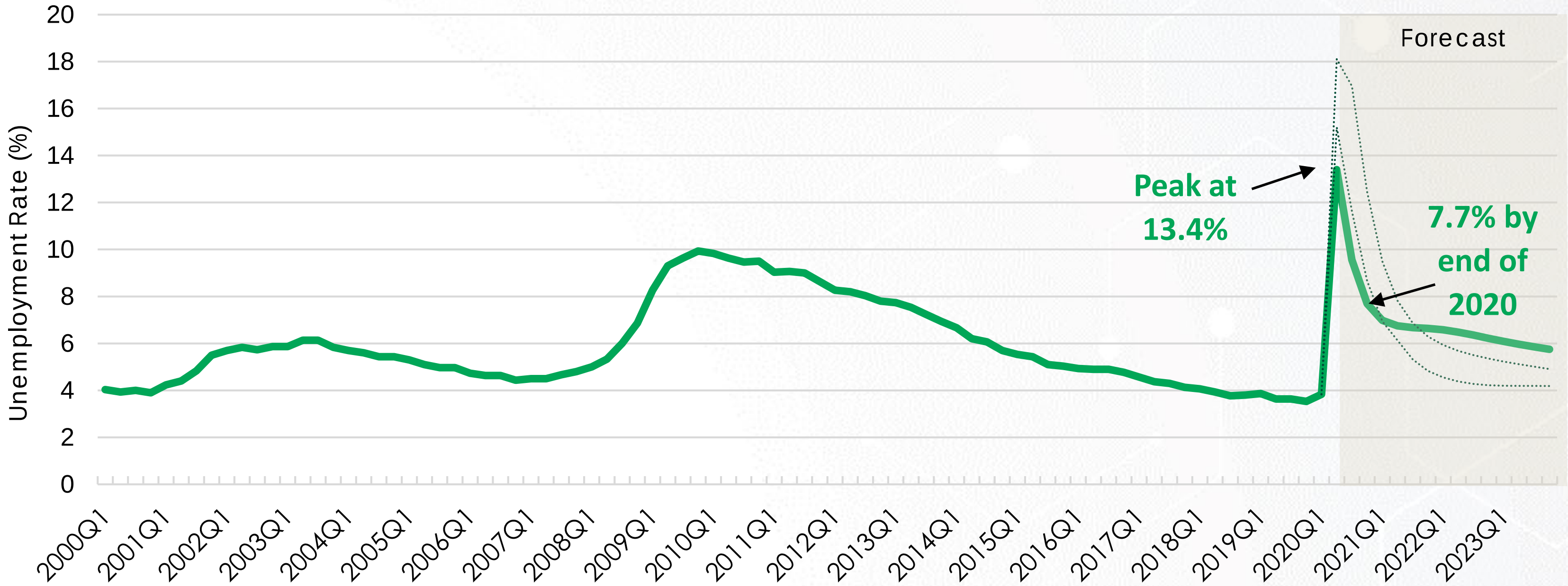
WE EXPECT A RELATIVELY RAPID BOUNCE BACK IN THE US

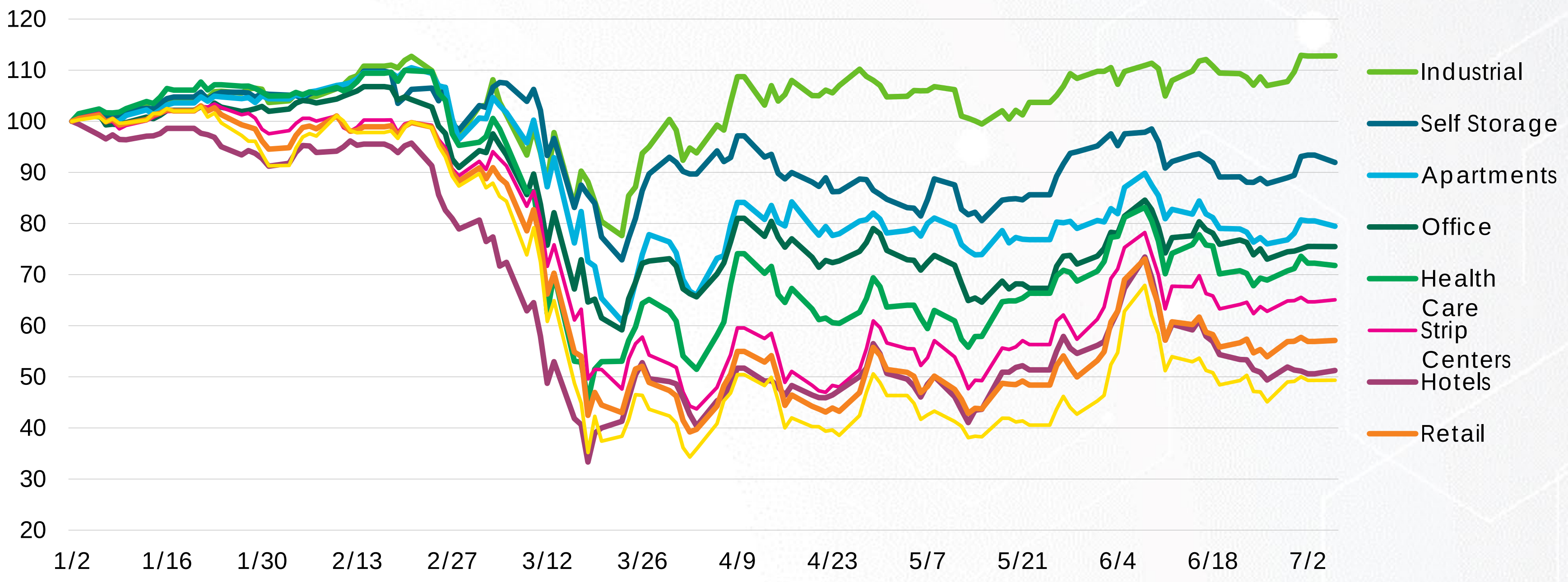
U.S. unemployment rate, 16 years old and above



Source: BLS, CBRE Research, July 2020.

INDUSTRIAL RESILIENT; RETAIL AND HOTEL STRUGGLING

U.S. REIT Index by sectors



Source: Wilshire Associates Incorporated, CBRE Research, 7 July 2020.

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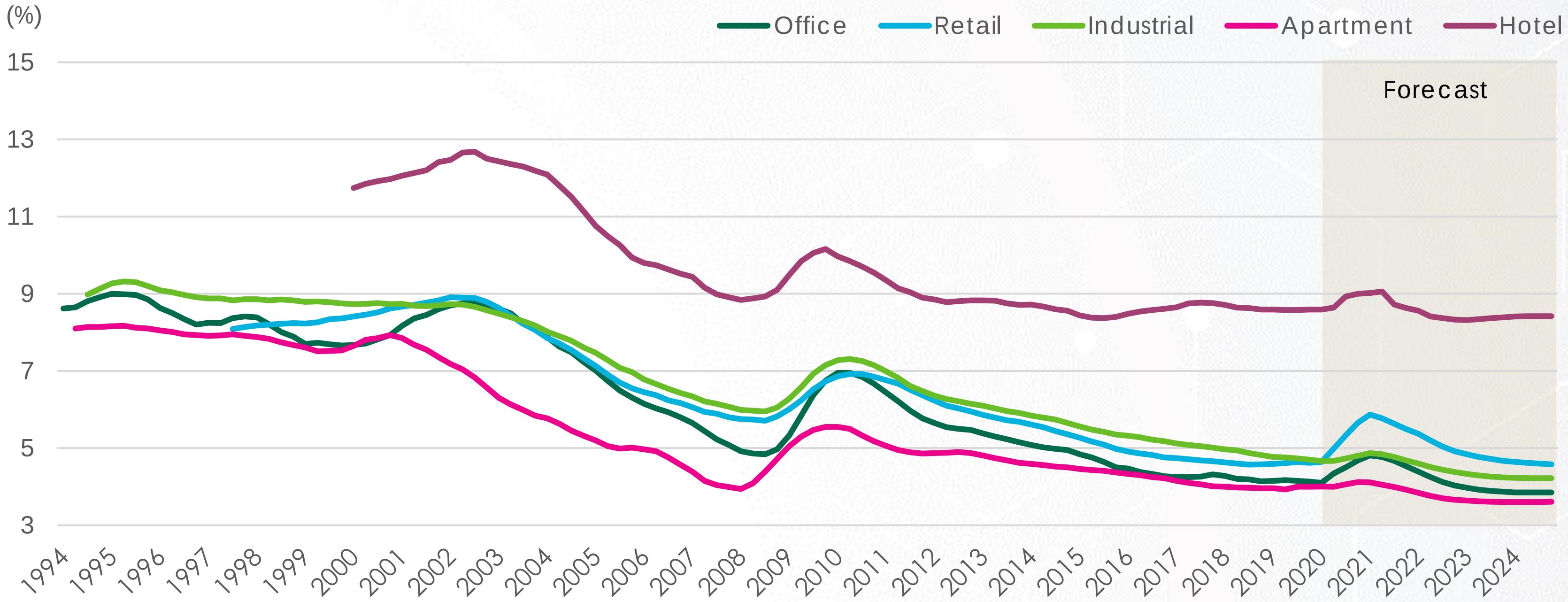
CAP RATES LIKELY TO INCREASE IN THE SHORT TERM

Capitalization rates for major property types in the U.S.



Source: CBRE Econometric Advisors, Q1 2020.

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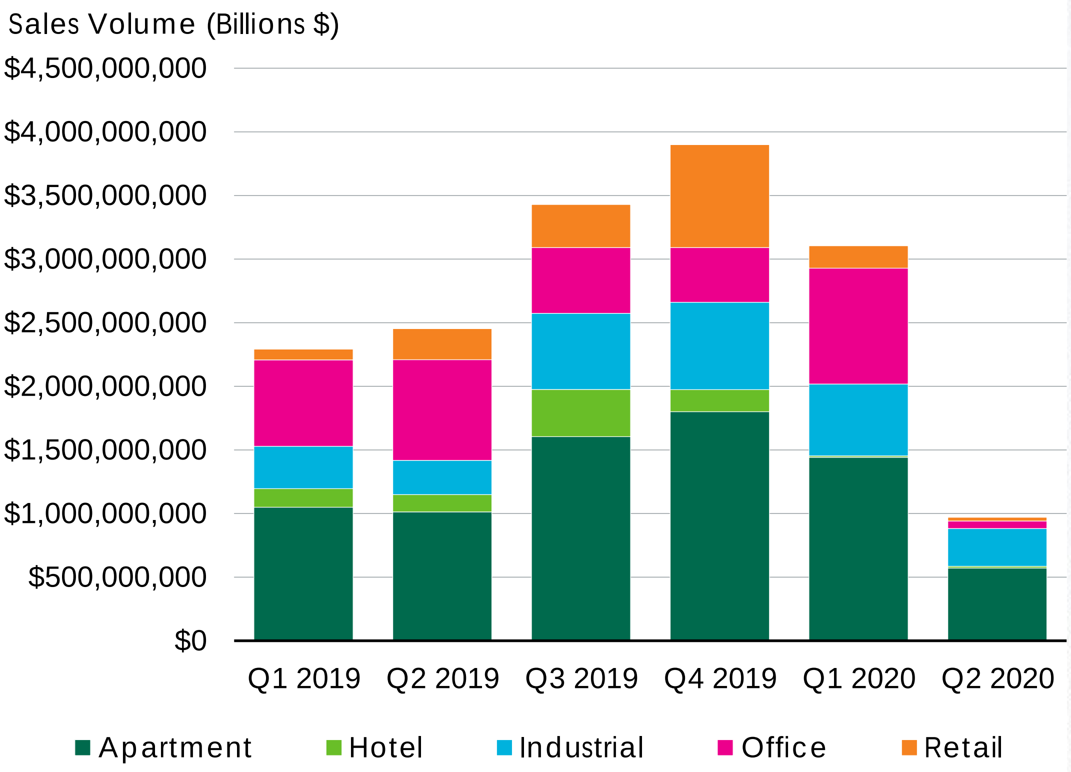
DENVER QUARTERLY SALES VOLUME COMPARISON

Q1 2019-Q2 2020



Source: Real Capital Analytics, July 2020

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BOTTOM LINE

- **A wide V-shaped trajectory for GDP growth**
  - Stabilization in Q3 and recovery starting in Q4
  - Strong growth in 2021
- **H2 recovery subject to considerable downside risks**
- **A swoosh-shape recovery for real estate**
  - Industrial: 12 months
  - Apartments: 12 months
  - Office: 24 months
  - Retail: 36 months
  - Hotel: 36 months
- **Long term industrial & multi-family come out ahead. Retail behind. Office stays the course.**
- **Capital values broadly resilient over 24-36 months**

THANK YOU!

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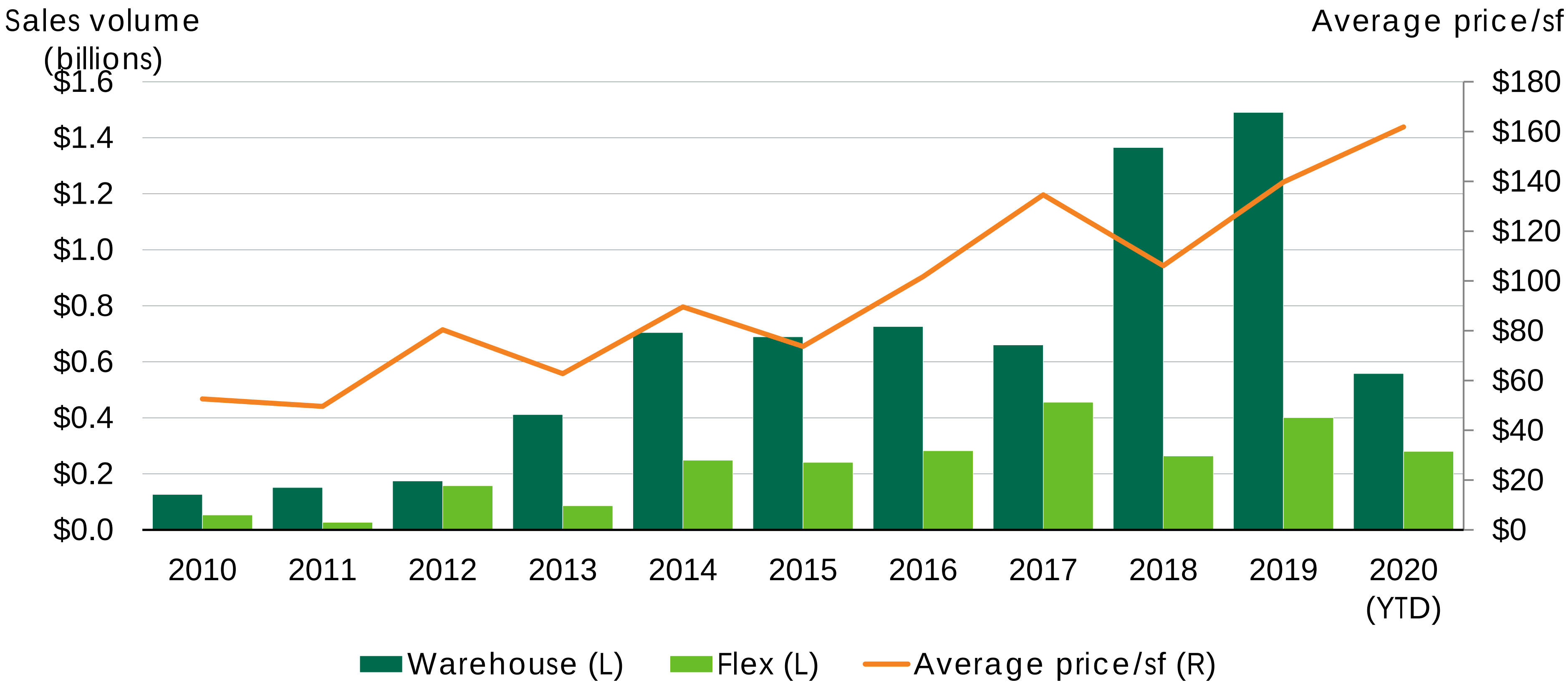
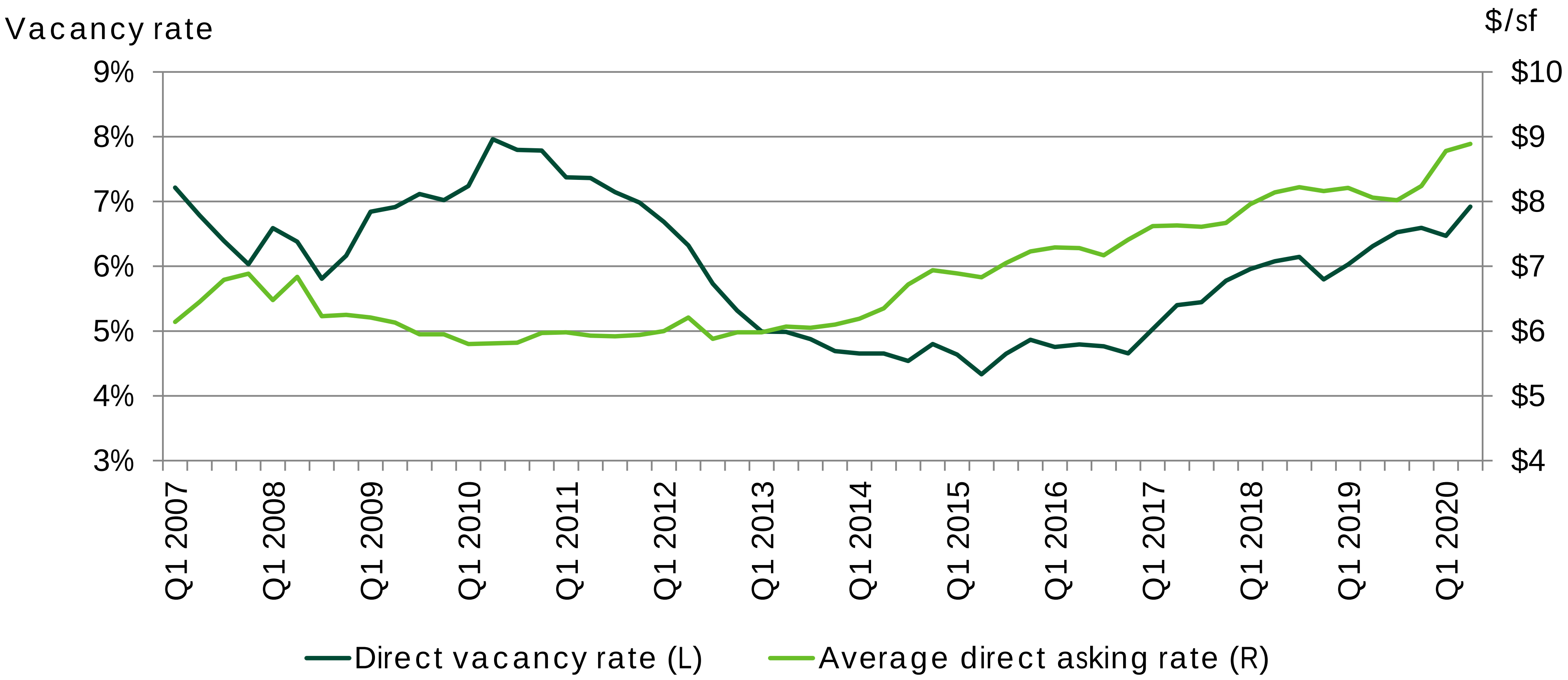
Industrial Presentation
Jim Bolt, CBRE

INDUSTRIAL SALES TRENDS



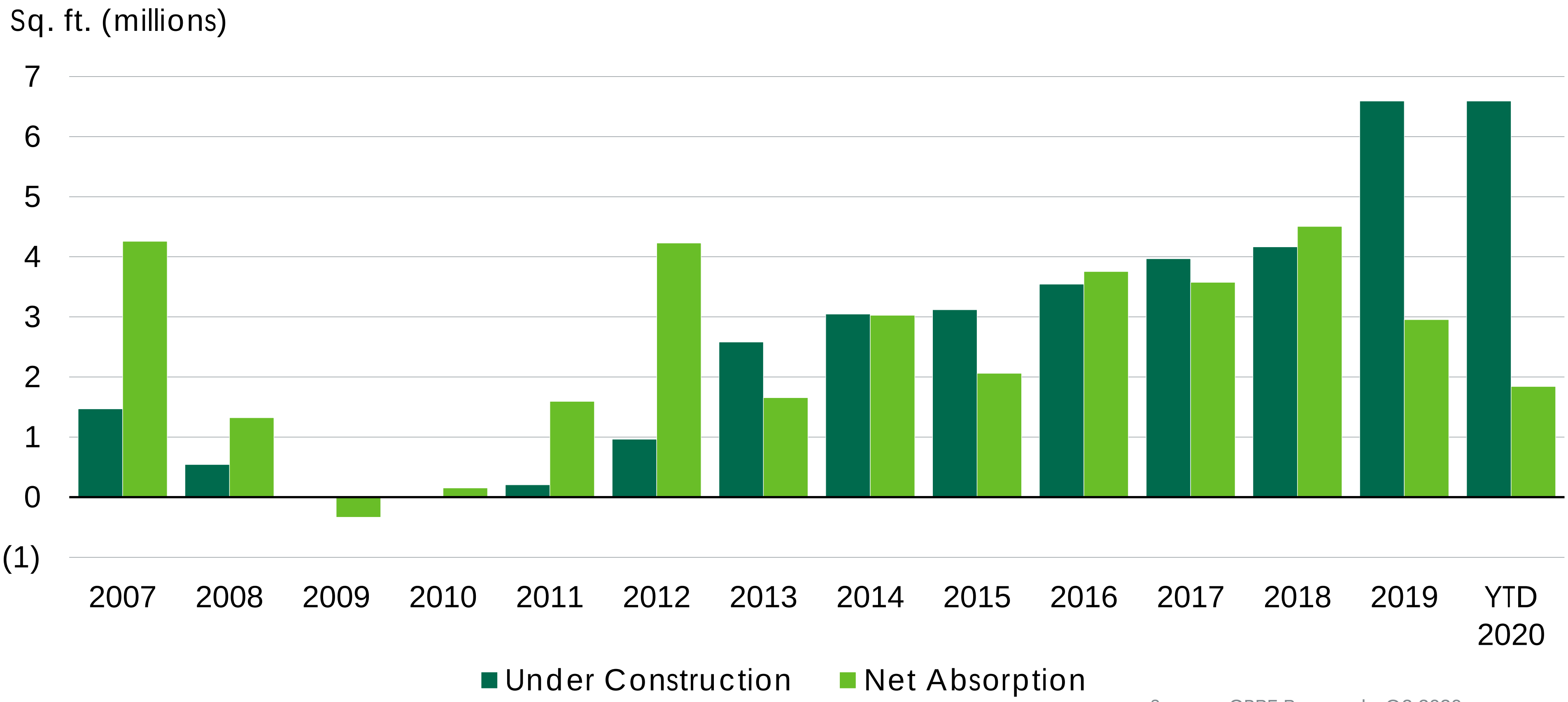
Source: Real Capital Analytics, June 2020.

LEASING TRENDS



Source: CBRE Research, Q2 2020.

LEASING TRENDS



Source: CBRE Research, Q2 2020.

Q2 2020 I&L FIGURES – EXECUTIVE SUMMARY

Industrial market posts solid fundamentals despite covid-19

Availability Rate	Vacancy Rate	Net Asking Rent	YTD Net Absorption	Completions
7.6%	4.7%	$7.96 PSF	54.2 MSF	116.8 MSF

Arrows indicate change from previous year.

- DESPITE THE COVID-19-INDUCED ECONOMIC DOWNTURN, THE INDUSTRIAL MARKET IS ON SOLID GROUND WITH LOW VACANCY RATES, RECORD-HIGH ASKING RENTS AND POSITIVE NET ABSORPTION.
- THE PANDEMIC INCREASED E-COMMERCE'S SHARE OF TOTAL RETAIL SALES, THEREBY INCREASING THE DEMAND FOR WAREHOUSE AND DISTRIBUTION SPACE. NET ABSORPTION OF 19.2 MILLION SQ. FT. IN Q2 PUSHED THE YEAR-TO-DATE TOTAL TO 54.2 MILLION SQ. FT.
- INDUSTRIAL DEMAND IS HIGHEST FOR WAREHOUSE AND DISTRIBUTION SPACE, YEAR-TO-DATE ABSORPTION OF WHICH TOTALS NEARLY 70 MILLION SQ. FT. ONLY 4% LOWER THAN THIS TIME LAST YEAR.
- TRIPLE-NET ASKING RENTS CONTINUE TO RISE, FINISHING MIDYEAR AT $7.96 PER SQ. FT. —6.3% HIGHER THAN THIS TIME LAST YEAR. WAREHOUSE/DISTRIBUTION RENTS ROSE 5.6% YEAR-OVER-YEAR TO AN AVERAGE OF $6.68 PER SQ. FT. THESE RATES ARE ALL-TIME HIGHS.

3PLS REMAIN THE TOP OCCUPIER BUT E-COMMERCE JUST BEHIND

YTD Transactions 100,000 SF and Above

	SF Transacted	Market Share
Third Party Logistics	58,129,260	28.7%
E-Commerce Only	52,331,464	25.9%
General Retail & Wholesale	36,393,022	18.0%
Food & Beverage	18,058,884	8.9%
Manufacturing	15,381,698	7.6%
Medical	8,709,215	4.3%
Building Materials & Construction	6,852,367	3.4%
Automobiles, Tires, & Parts	6,440,692	3.2%
Total	202,296,602	

Includes new leases, user sales, and renewals.
Source: CBRE Research.

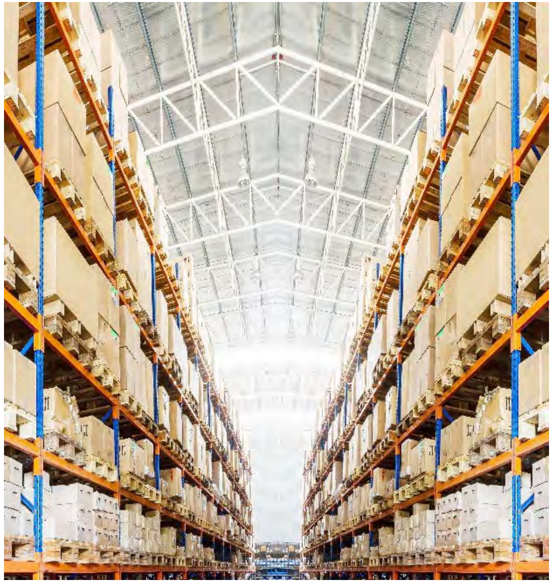
Top Occupiers

Occupier Name	SF Transacted
Amazon	41,873,226
Geodis	3,669,117
FedEx	2,821,607
XPO Logistics	2,617,648
Home Depot	2,428,921
Target	2,018,446
Walmart	1,574,665
Medline	1,400,000
Ball Corporation	1,378,568
Nestle Purina	1,356,694

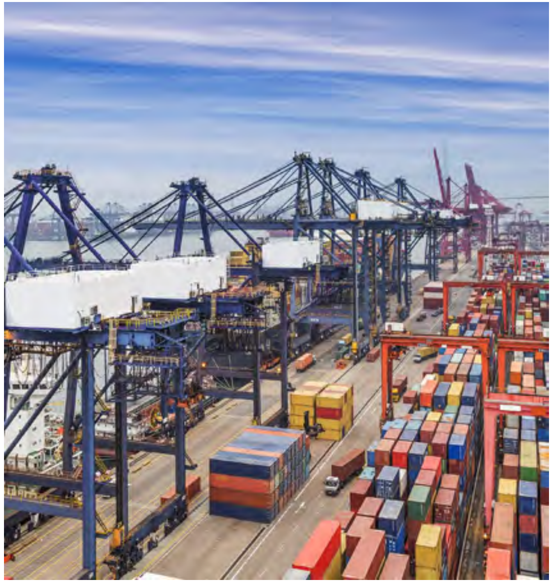
Includes new leases, user sales, and renewals.
Source: CBRE Research.

LONG TERM OUTLOOK

E-Commerce – $1 Bil of e-commerce sales = 1.25 MSF of industrial demand. 2 BSF of new product projected to be needed over next 10 years. Reverse Logistics could be major demand driver for class B space.



Safety Stock – 5% increase in business inventories requires 400 to 500 MSF of warehouse space. Traditional distribution centers in economic rent markets will be the most in-demand for safety stock storage.



Supply Chain Diversification – Will continue but the jury is still out on the scope. Vietnam and Mexico will be top beneficiaries and will increase demand for industrial space in the Southeast and Central U.S.

JIM BOLT

VICE CHAIRMAN, CBRE

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Shane Ozment, Newmark Knight Frank

NKF Metro Denver 2020 Market Outlook

Shane Ozment

Vice Chairman
Newmark Knight Frank

Rents, Concessions, Delinquencies

Overall Market: Rents were up ~2.5% YoY, driven by Q3 & Q4 2019.

Downtown: Rent reductions of $50-$250 on new leases and renewals. Concessions of 1-2 months, some free parking, and the waiving of other numerous fees.

DTC: No rent reductions. Concessions up to 1 month on Class A product.

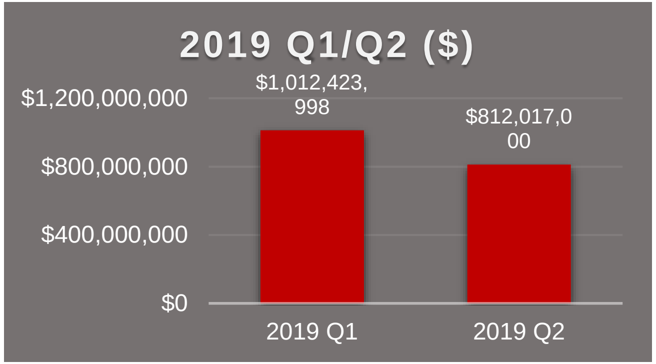
Urban: No rent reductions. Concessions up to 6 weeks.

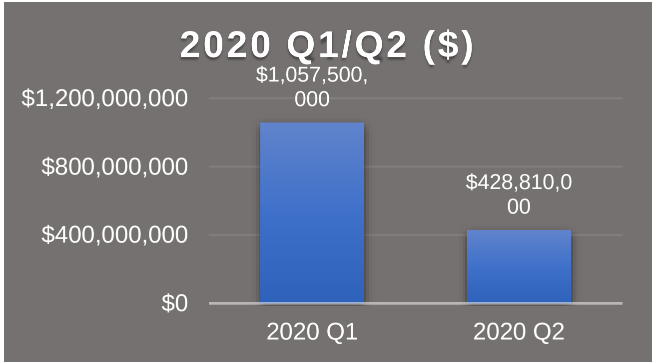
Suburban: No rent reductions. Minimal concessions on stabilized product. We will see slight rent increases in the Fall. Concessions up to 1 month on communities in lease-up.

Delinquencies: Between 2%-6% on average. Lowest delinquencies are in Class A communities. Highest delinquencies are in 1970s product.

Source: Greystar Property Management, NGKF Research

Metro Denver Sales Volume





	2019 Q1	2019 Q2	2020 Q1	2020 Q2
Volume ($)	$1,012,423,998	$812,017,000	$1,057,500,000	$428,810,000
Transactions	14	8	15	5
Units	4,123	2,641	4,737	1,642

*represents 100+ unit Metro Denver sales

Source: NGKF Research, Apartment Insights

Current Debt Market

Are Freddie and Fannie in trouble?

- Fannie Mae - 1.25% (271) of loans are in forbearance.
  - Seniors and Student Housing loans represent bulk of Fannie's loans in forbearance.

- Freddie Mac - 5% (1,189) loans are in forbearance.
  - 75% of all Freddie forbearance loans are SBL's (Small Balance Loans) which is $7.5M or less. Seniors and Student Housing make of 20% of total loans.

- New York, Texas, Florida, Georgia, and California have the highest rate of loans in forbearance. Colorado is extremely low.

Current Debt Market

Where are multifamily rates today?

- Fannie Mae - All in fixed rates, full leverage conventional loan, 10 years with 5 years of I/O - **2.78%-3.09%**

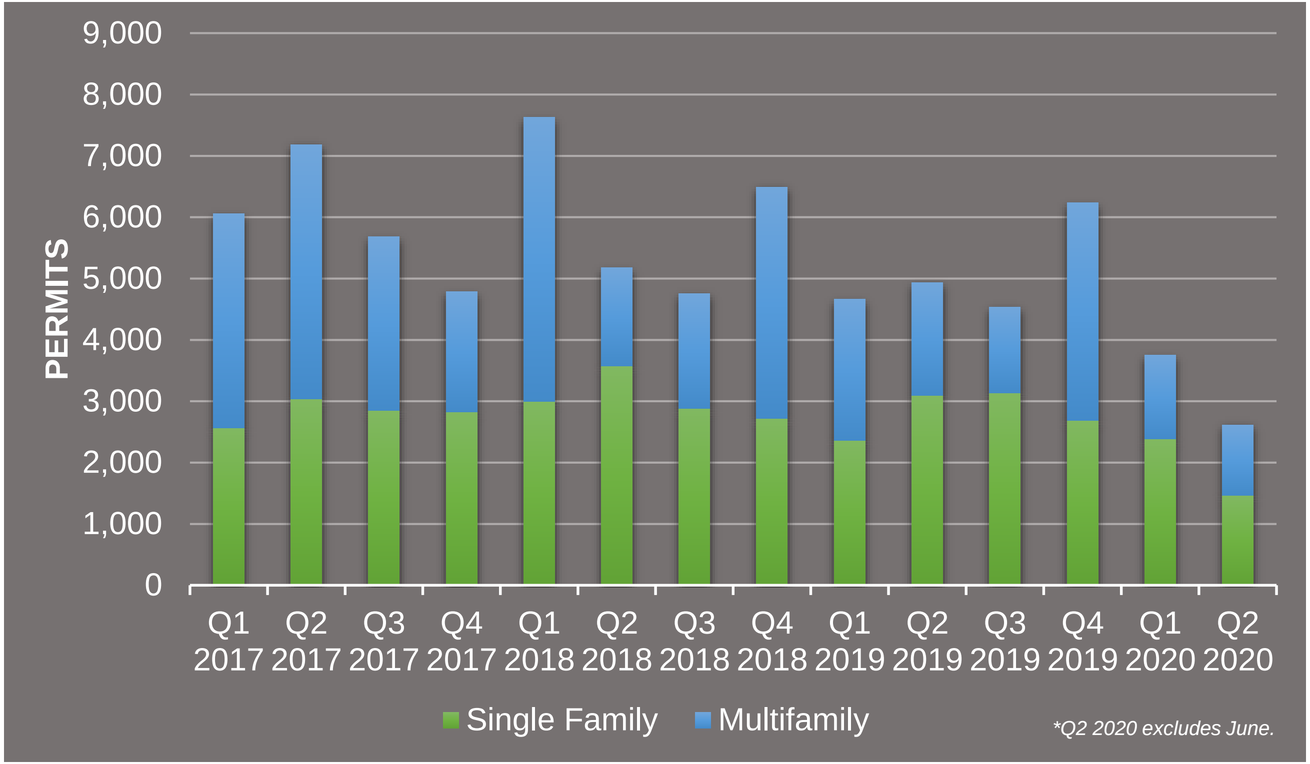
- Freddie Mac - All in fixed rates, full leverage conventional loan, 10 years with 5 years of I/O - **2.94%-3.09%**

- Still requiring reserves for Principal and Interest, Taxes, Insurance and replacement reserves. No P/I before Covid.

- Today, taxes, insurance and replacement reserves are back to pre-covid amounts which are fairly insignificant to the loan.

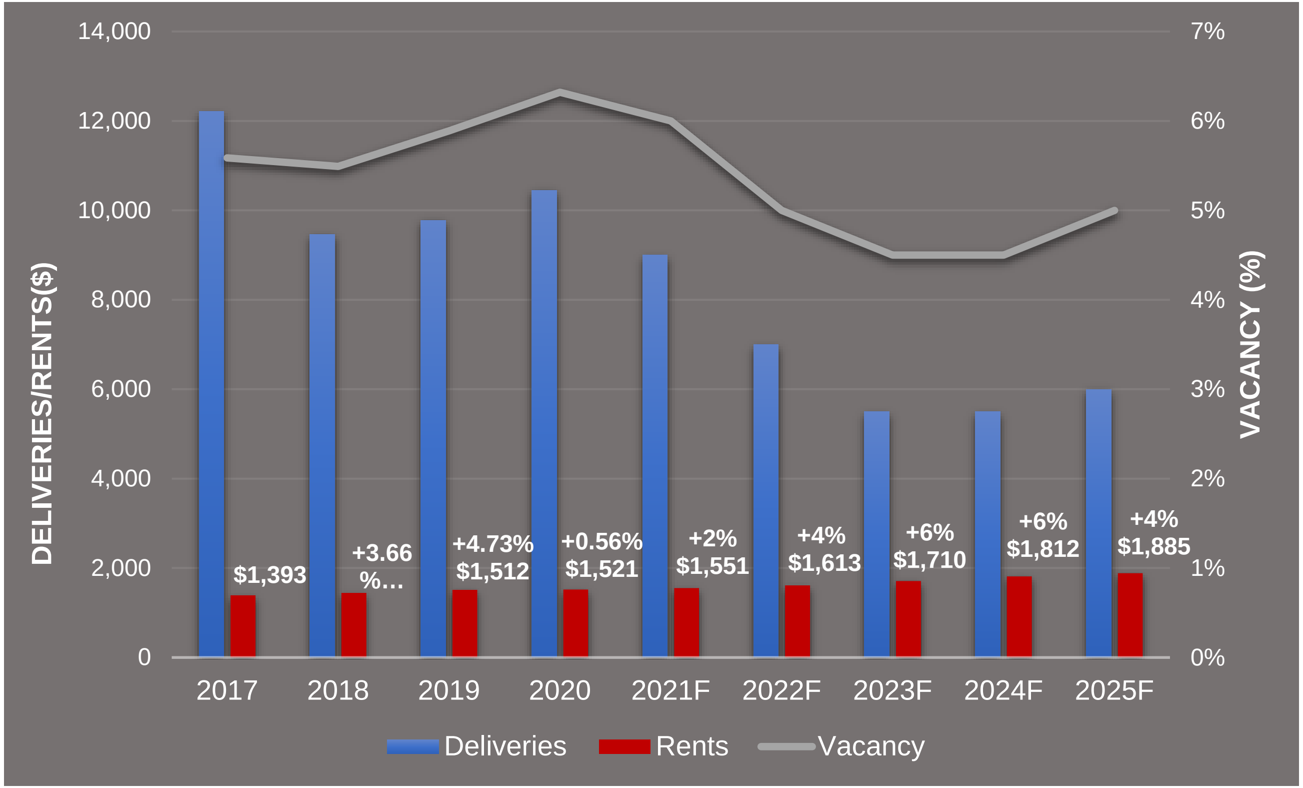
- Life Company - 2.60%-3.0% range. Lenders remain conservative on underwriting parameters, leverage, and I/O only.

Metro Denver Building Permits: Single Family & Multifamily



Source: NGKF Research, SOCDS Building Permits Database

Construction: Deliveries, Rents & Vacancy



Source: NGKF Research, Apartment Insights, NGKF Metro Denver Construction Report

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Jordan Robbins, JLL

Market Fundamentals

Denver MSA Population (2019)
2,988,896

Average Rent PSF
$1.74

Population % Growth (2019)
1.59%

Average Occupancy
93.6%

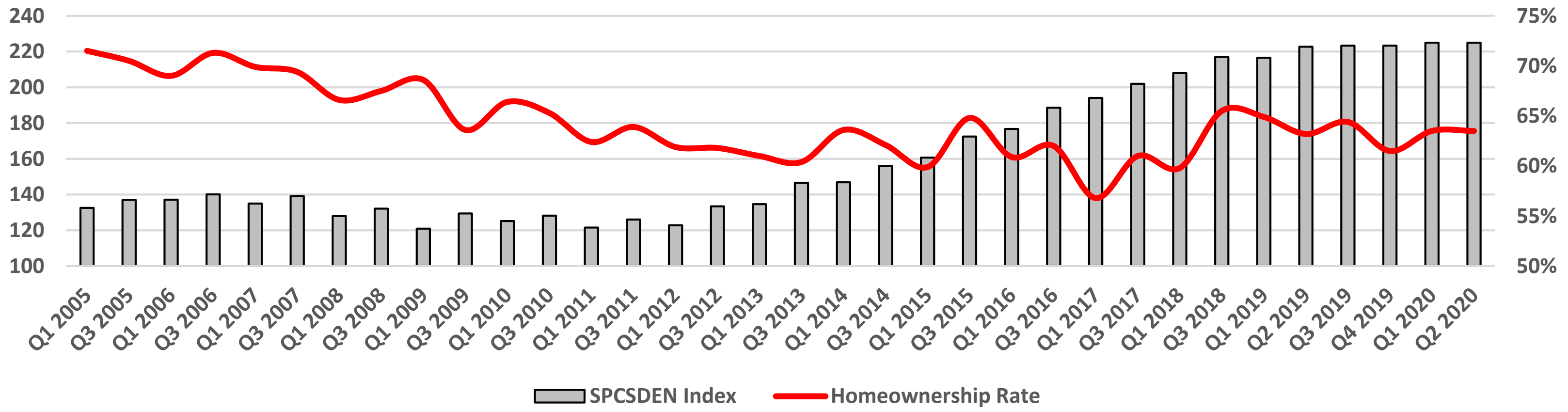
Unemployment Rate
10.4%

Average Year Built
1996

Average Rent
$1,512

Trailing Four Quarter Absorption
7,151

Increased Housing Costs Impacting Homeownership Rates



**The SPCSDEN Index Shows the Growth of $100 Invested into a Single Family Homes Since 1997*

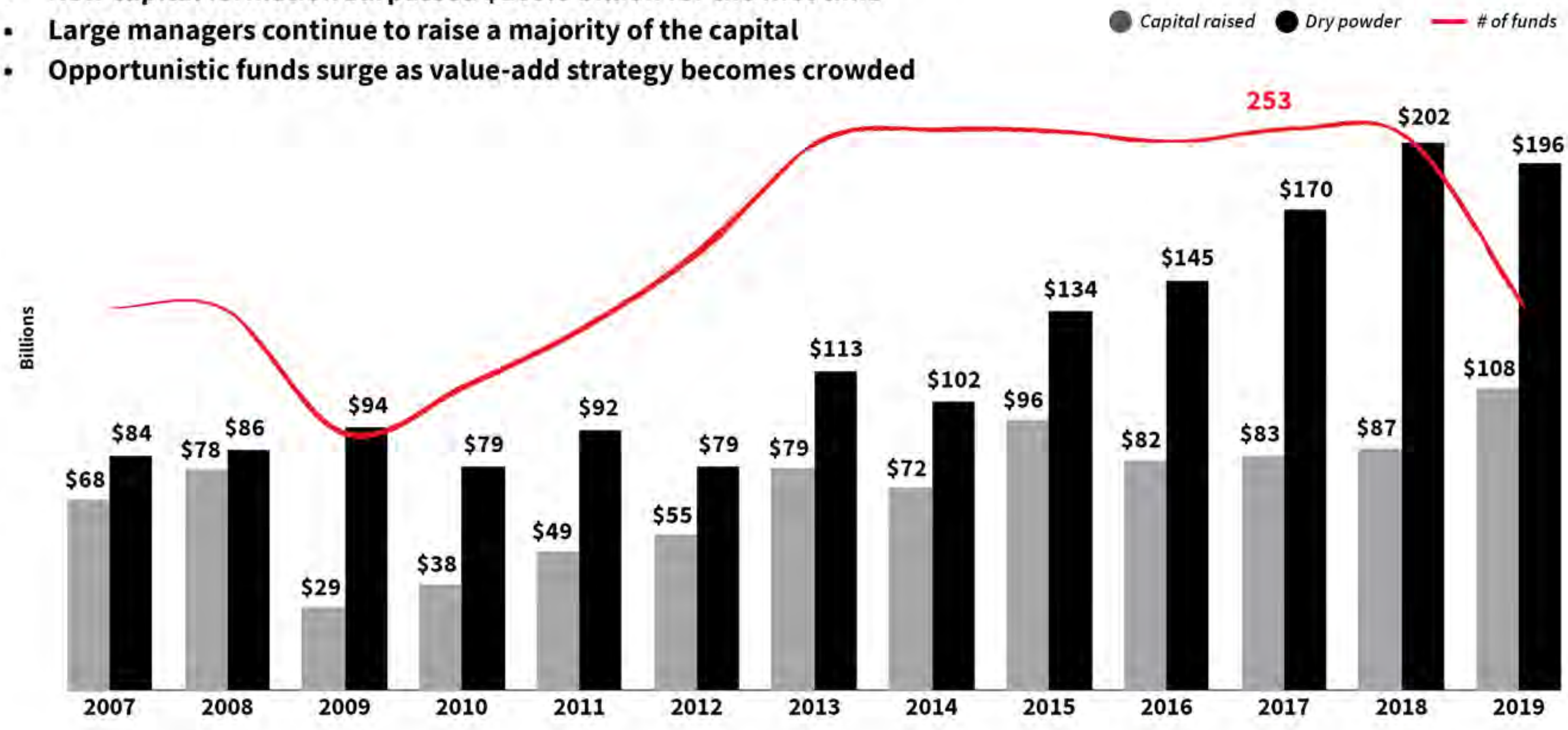
Source: S&P CoreLogic Case-Shiller Index, US Census

- Median home prices in Metro Denver are currently $465K and expected to remain level throughout 2020, indicating another year of affordability crisis for buyers.

- The delta between ownership costs and rent in Denver narrowed slightly in 2019 –but with ownership costs standing 49% higher than net rents, Denver’s rent vs. own gap remains one of the widest nationally.

Elevated US dry powder, record fundraising

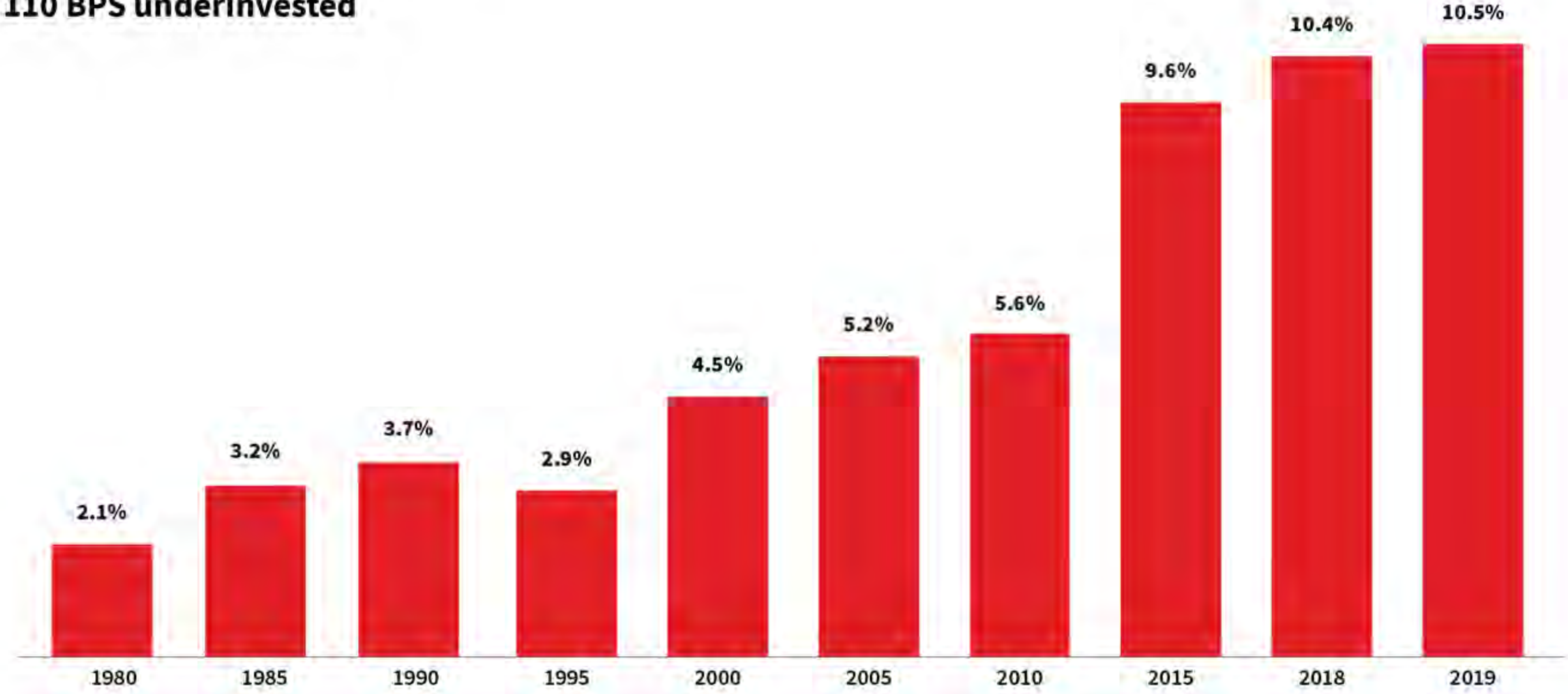
- **New capital formation surpassed $100.0 billion for the first time**
- **Large managers continue to raise a majority of the capital**
- **Opportunistic funds surge as value-add strategy becomes crowded**



Source: JLL Research, Preqin (data as of January 2020)

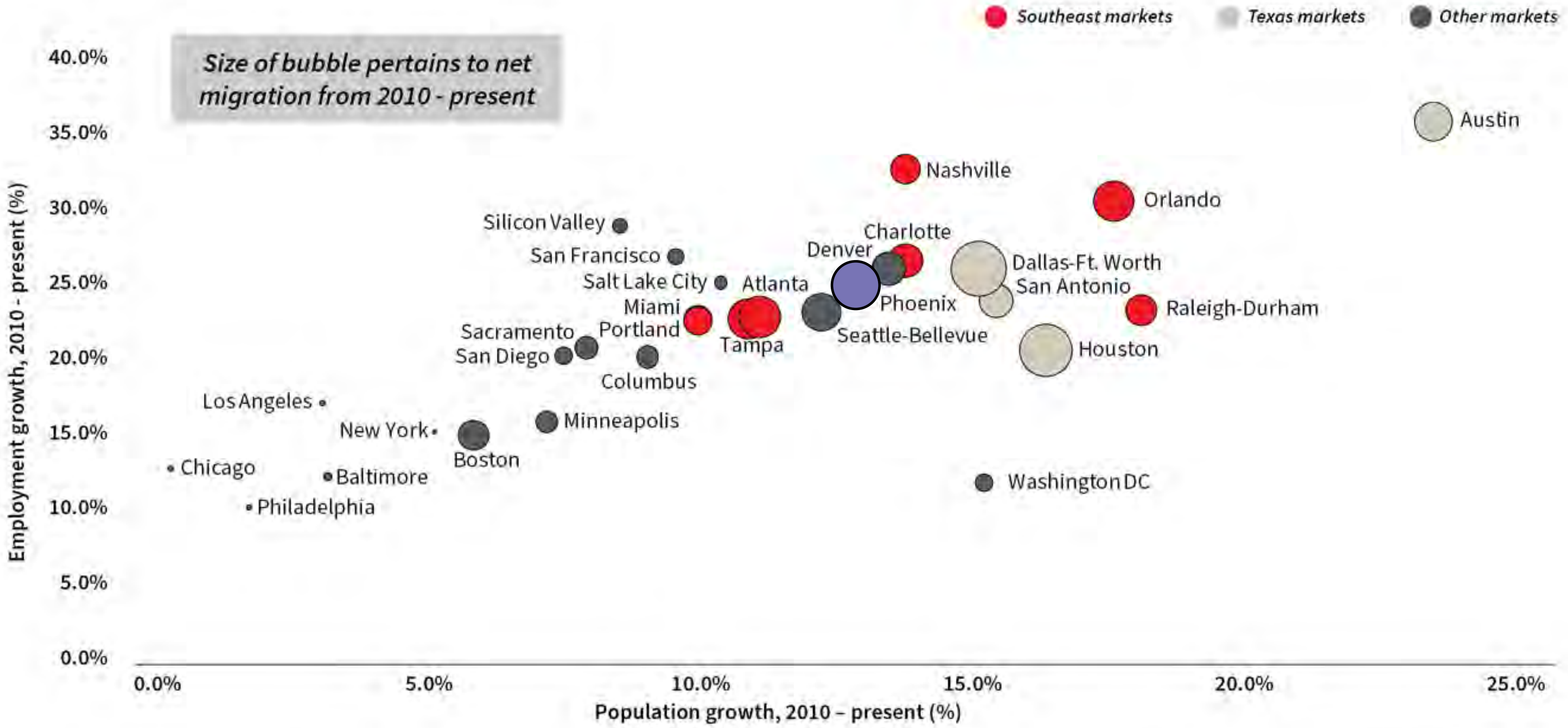
Institutional target allocations continue increasing

2019 actual allocation: 9.4%
110 BPS underinvested



Source: Hodes Weill, Cornell University, NAIOP, Credit Suisse

Capital is following population and employment growth



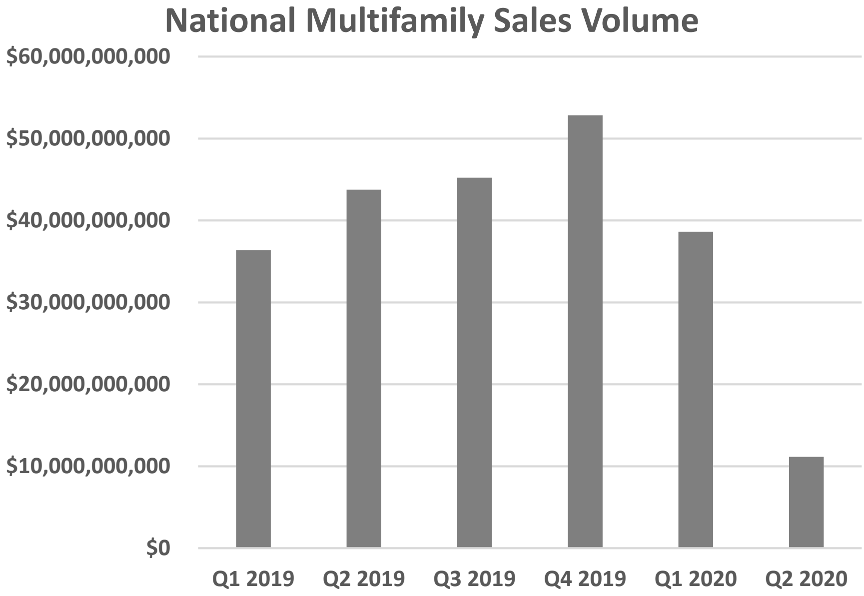
Sources: JLL Research, Moody's Analytics, Bureau of Labor Statistics

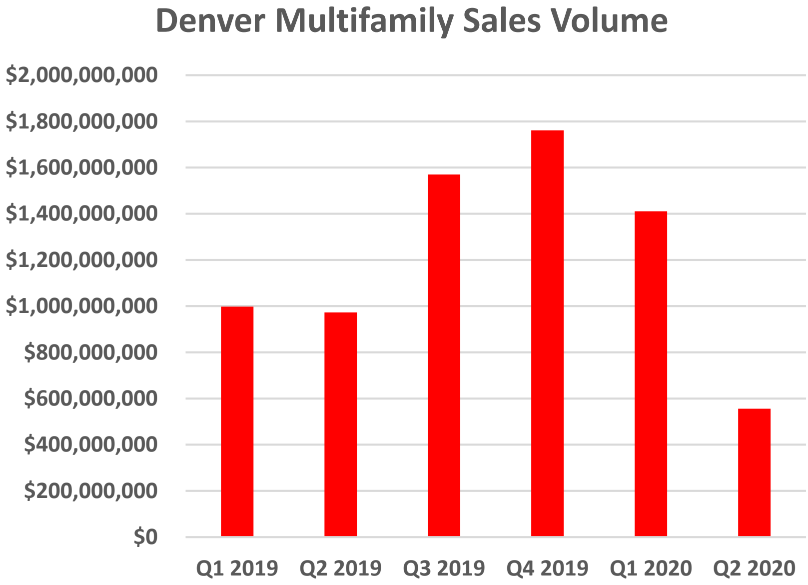
Market liquidity

2014	2018	2019	Market	Sales Volume ($m)	YOY
1	1	1	New York	$31,170	-27.1%
2	2	2	Los Angeles	$22,133	-10.2%
5	5	3	Washington, D.C.	$18,758	-8.1%
9	8	4	Seattle-Bellevue	$18,650	30.0%
3	4	5	Dallas-Ft. Worth	$17,679	-15.3%
6	6	6	Atlanta	$14,727	-12.4%
7	10	7	Boston	$13,391	12.2%
12	9	8	Phoenix	$13,163	4.3%
4	3	9	Chicago	$12,494	-41.5%
8	7	10	Houston	$10,627	-30.6%
11	11	11	Denver	$9,565	-17.7%
16	20	12	Austin	$8,796	47.1%
10	21	13	San Francisco	$8,666	48.6%
21	12	14	Inland Empire	$7,705	-6.4%
13	14	15	Silicon Valley	$7,628	-0.9%
18	17	16	Oakland-East Bay	$7,433	13.3%
20	19	17	Charlotte	$6,978	16.0%
14	15	18	Philadelphia	$6,501	-5.3%
17	16	19	Orange County	$6,381	-5.2%
15	13	20	San Diego	$6,334	-17.7%
32	24	21	Las Vegas	$5,818	4.9%
24	22	22	Raleigh-Durham	$5,599	-3.2%
19	18	23	Northern New Jersey	$5,511	-13.7%
23	26	24	Tampa	$5,356	-3.0%
28	27	25	Portland	$4,915	-0.4%

Source: JLL Research, Real Capital Analytics (transactions over $5 million, includes entity level transactions), Includes: Industrial (includes Flex-R&D), Office, Multi-housing, Seniors Housing and Retail, Excludes: Refinance, Recap

Multi-Family Sales Volume





Source: Real Capital Analytics (<$5mm Transactions)

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Land Presentation
Eric Roth, CBRE

CBRE

DENVER LAND

NAIOP MID-YEAR PRESENTATION

ERIC ROTH
Senior Vice President
+1 720.528.6322
eric.roth@cbre.com

RESIDENTIAL LAND

MULTIFAMILY "APARTMENTS"

- Development demand remains in-tact
- Construction debt remains scarce today from the big money center banks, but developers are hopeful that will thaw and are targeting regional banks
- Garden / low cost basis product in high demand, especially in established suburban communities
- Significant interest in development of single family for rent communities

HOME BUILDERS

- Interest remains, but smaller take downs and less development risk on transactions with softer deal terms
- Suburbs are in high demand from home buyers
- Attached products (townhome & duplex) are very strong, but limited interest in condo development

INDUSTRIAL LAND

- Demand remains in-tact from developers of larger product
- Distribution requirements very active
- Limited development opportunities remain

OFFICE LAND

- Tepid demand for new project pursuits
- Numerous projects put on hold and owners hope to capitalize on lower construction costs when the market returns
- BTS will be the main near-term driver of new pursuits

HOSPITALITY LAND

- Tepid demand for new project pursuits and will be slow to come back
- Equity in the space is more likely to wait for distressed opportunities vs. capitalize new development projects

RETAIL LAND

- Limited activity with pad users in the market
- Anchor activity to remain very limited
- Most owners of large format retail properties continue to consider redevelopment opportunities to include other uses (apartments)
- What uses will the municipalities allow?

BIGGEST CONCERNS FOR THE LAND MARKET

Entitlements / approvals remain a challenge

Residential is best suited be the “anchor” for most big projects, but it’s the toughest to get approved

Attack on metro districts – most suburban development will not work without a district

ERIC ROTH
Senior Vice President
+1 720.528.6322
eric.roth@cbre.com

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Retail Presentation

Matthew DeBartolomeis, CBRE

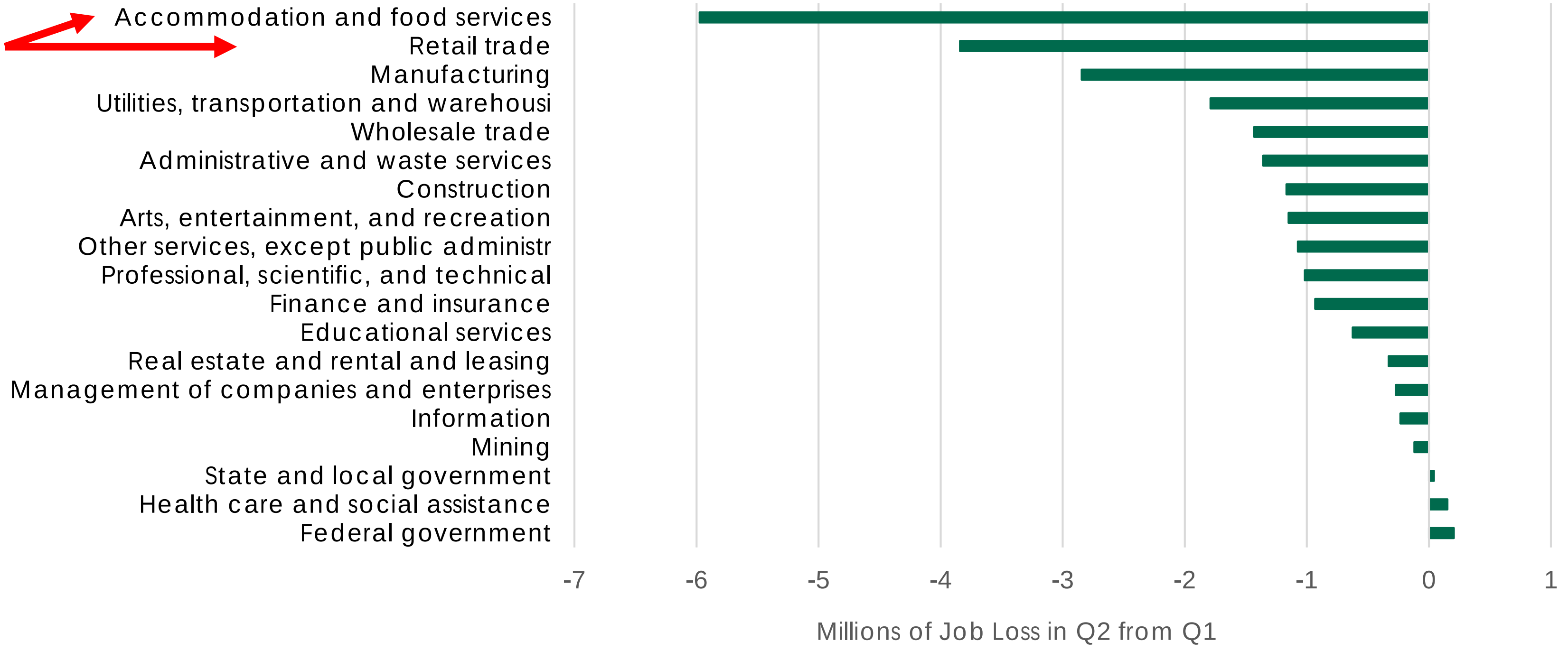
METRO DENVER RETAIL FUNDAMENTALS

	LAST YEAR Q2 2019	LAST QUARTER Q1 2020	CURRENT Q2 2020
Direct Vacancy Rate	7.2%	6.6%	7.1%
Total Availability Rate	8.6%	8.2%	9.0%
Absorption	(38,365)	62,764	(278,000)
Direct Asking Lease Rate ($/sf)	$19.60	$19.92	$20.33
Under Construction	1.5 MSF	1.2 MSF	971,000 sq. ft.
Delivered	166,000 sq. ft.	130,000 sq. ft.	282,000 sq. ft.

Source: CBRE Research, Q2 2020.

Assumed employment Impact by industry

U.S. employment change in Q2 2020



Source: Oxford Economics, May 2020.

us retail sales impacted by covid-19

Steady retail sales recovery

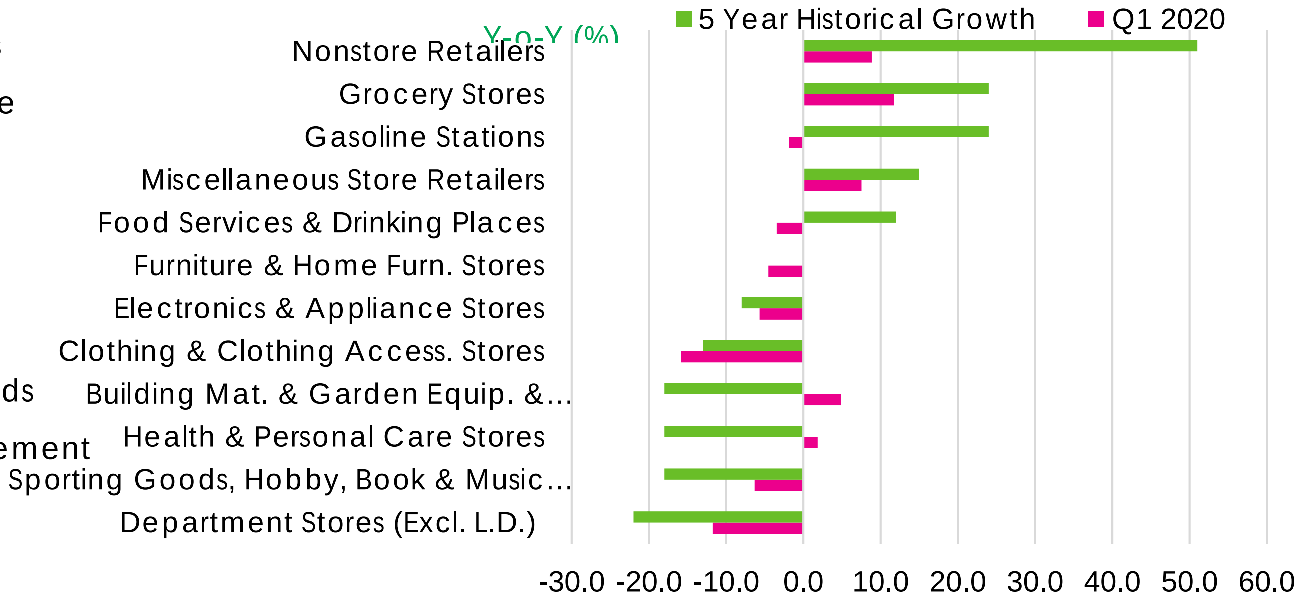
Source: US Census Bureau.

RETAIL CATEGORY TRENDS

No one escapes short-term impact

- Acceleration of trends
  - ➢ Structural decline
- Reversal of growth
  - ➢ Cyclical decline
- Digitally enabled brands
  - ➢ Content engagement
  - ➢ Ecommerce

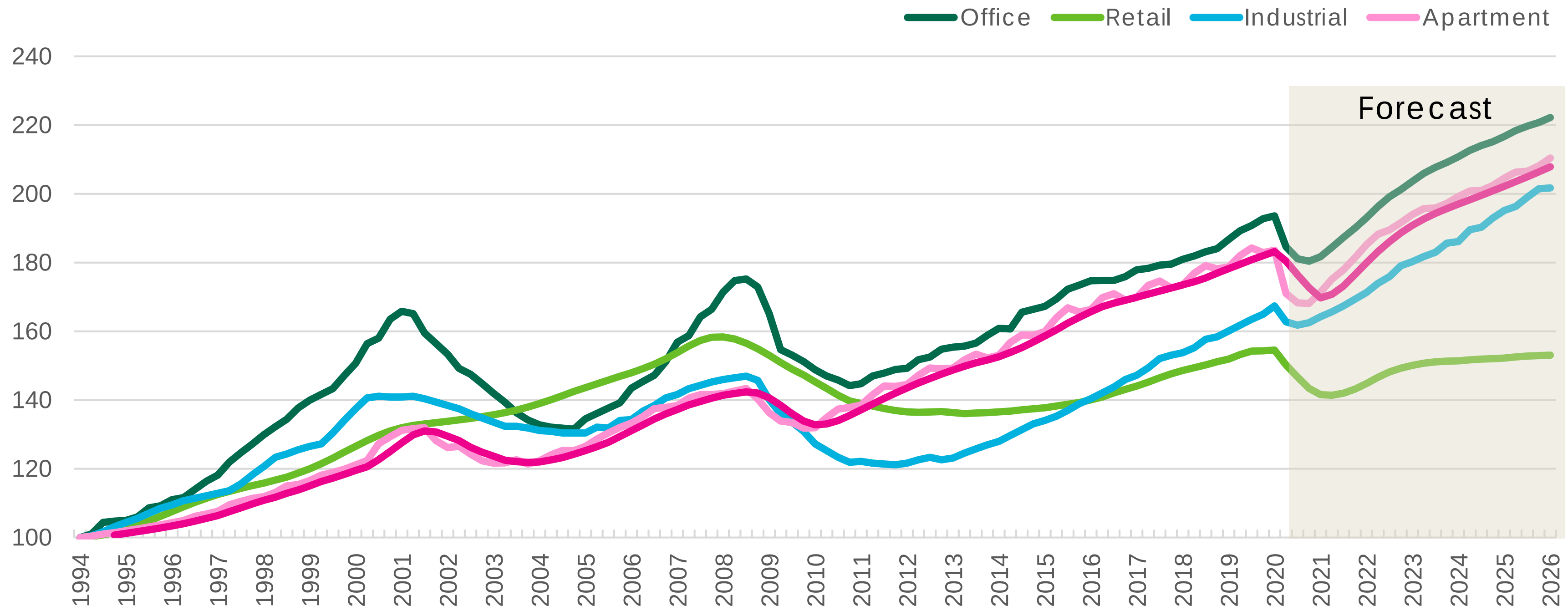
Retail growth by category



Source: CBRE Research, US Census Bureau, Q1 2020.

Retail rents – a very long rebound

Average U.S. rent index by sector



Source: (1994Q1 = 100) CBRE Econometric Advisors, Q1 2020.

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Lee Diamond, CBRE

OFFICE MARKET INSIGHTS/TRENDS/FORECAST

LEE DIAMOND
DOUG BAKKE
TY RITCHIE
TODD PAPAZIAN
MELANIE FONTENOT

Overall Metro Denver Landscape

Q2 represented (84,709 SF) of absorption

- First time in 13 quarters Denver saw negative growth
- Overall Vacancy Rate: 12.1%

Overall sublease space increased 33%

- Total metro wide of 3.4M SF

Overall Lease Rates are $28.81/SF

- Flat compared to Q1

Under Construction: 3.7M SF (up 50% YOY)

Downtown

Average Rate: $35/SF (down 1% compared to Q1)
Direct Vacancy Rate: 14.7% (20.4% total available)
Under Construction: 1.47M SF

Northwest

Average Rate: $27.73/SF (down 2% compared to Q1)
Direct Vacancy Rate: 12.9% (19.1% total available)
Under Construction: 212K SF

Southeast

Average Rate: $26.87/SF (flat compared to Q1)
Direct Vacancy Rate: 12.3% (18.5% total available)
Under Construction: 1.15M SF

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COVID IMPACT ON OUR MARKET

Familiarity with Zoom

- Sudden work at home concept

Many Tenants plans are on hold

- Short Term Renewals
- “ReThink” Productivity without being in the office
- “ReThink” on capital plans vs continue to work at home
- Tenants now beginning to plan their “Re-Entry” process

My Forecast: Many tenants will still realize the need for an office…..

- Will “ReThink” size needs driven by financial savings but will be a balance
- Flight to quality over time (i.e. Class A space will continue to be in demand)
- Overall demand for office space will decrease by 10% in the next 24 months

My Forecast for MARKETS

DOWNTOWN

If 40% of oil/gas space becomes available

If 30% of flexible workspace provider space becomes available

If 20% of technology company space becomes available

20% direct vacancy rate (mid term) &
30% availability rate (short term)

Overall 10% decrease in rates and an increase in concessions

*1 MSF estimated pending vacancy within 12 months due to new construction

NORTHWEST

If there is a domino effect in the market (ie Boulder/ Downtown theory)

If overall demand slows by 10%

15% vacancy rate (mid term) &
22% availability rate (short term)

Overall 5% decrease in rates and an increase in concessions

SOUTHEAST

If overall demand slows by 5%

If there is a continued slow lease up of existing large block space

13% vacancy rate (mid term) &
20% availability rate (short term)

Rates to remain flat, but an increase in concessions

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CBRE

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NAIOP AND BROWNSTEIN HYATT FARBER SCHRECK PRESENTS

MID-YEAR ECONOMIC FORECAST

JULY 21, 2020 | WEBINAR

Office Presentation
Dan McGowan, JLL

MARKET OVERVIEW

DAN McGOWAN

JLL

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IMPACT OF COVID – MARKET CHANGES

Pandemic has brought industry to a halt since mid-March

Energy Industry severe drop has had dramatic impact - especially to the CBD

MOST USERS ARE CURRENTLY FOCUSED ON:

Survivability

Future of Space Needs

Short-term (6-36 months)

- Needs to operate effectively
- WFH positive and negative impacts
- What to do with current space

Long term – (36+ months)

- Business model changes impact RE needs
- Implementation of alternative approaches
  - Hub & Spoke
  - Suburbanization
  - Dedensification

WFH Impact

Technology advancement / increased use
Productivity challenges / actual metrics

KEY QUESTION: What happens to current market conditions when vaccine or reliable therapeutics are readily available and reliable?

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RECOVERY CONSIDERATIONS

Until there are reliable therapeutics and/or a vaccine, disruption will be significant

Energy Industry’s continued space give-back will have long term effect on CBD and other markets

WFH application will continue – question will be at what level and which industries embrace?

How will concern over density / safety impact RE decisions

Will Denver’s industry diversity help or hurt recovery time frames?

KEY CONSIDERATION: Oil prices were at $126 / barrel during 2008’s relatively quick recovery and ~$40 / barrel during 2001’s significantly longer recovery

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