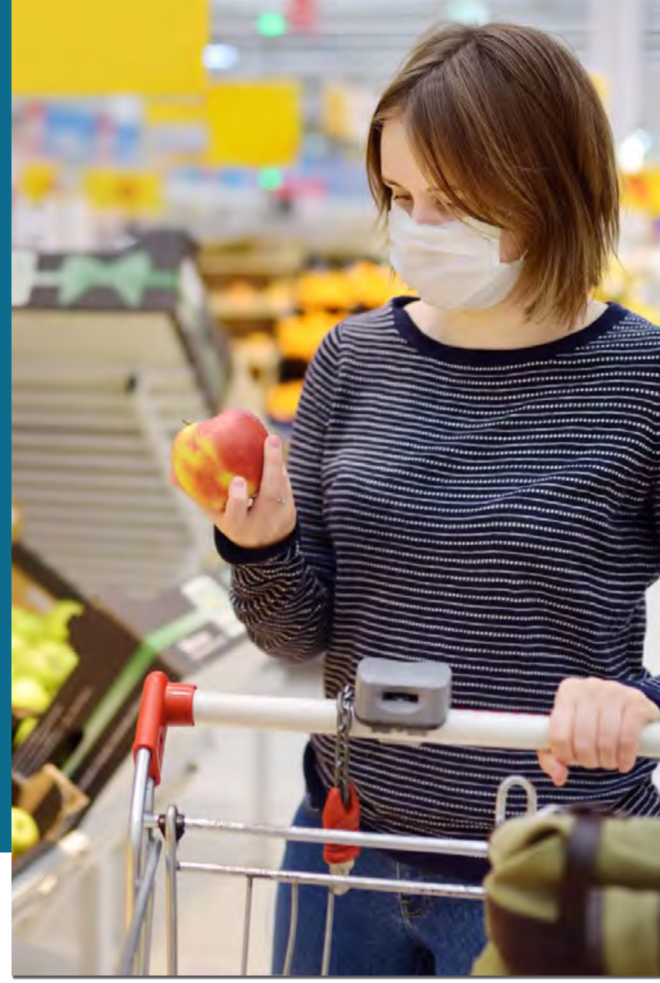
DENVER INVESTMENT SALES TEAM
Q1 2020

RETAIL
REPORT



DENVER OVERVIEW

CAN COLORADO'S ECONOMY WITHSTAND THE PANDEMIC?

Colorado's economy is well-suited to withstand economic headwinds, due to its high population growth rate, strong tourism and diverse business sector. Denver's population has been booming and is still expected to reach 3.3 million people this year. The city is experiencing widespread attention for its high-tech employment concentration, dense millennial population and highly educated workforce. Denver is consistently one of the fastest growing metro areas nationwide, growing by 20% over the last decade.

DENVER METRO	2019 POPULATION	CHANGE 2010-2019	% CHANGE 2010-2019
	3,231,918	667,102	27%

The Denver economy remains robust, as seen by the 53,000 new jobs created in 2019. This surge is largely due to tax cuts, labor force entrants and economic growth. This represents a 2.1% increase in non-farm employment from Q4 2018, year-over-year. Denver's unemployment rate increased to 2.8% in March 2020, from its low of 2.3% in December 2019. This was still one of the lowest unemployment rates in the country, compared to the U.S. unemployment rate of 4.4%.

However, any positive economic outlook has been put in jeopardy as all statistical benchmarks or economic indicators prior to the spread of COVID-19 are now nearly irrelevant. Denver was placed under a 'Stay at Home' order as of March 24th to slow the spread of COVID-19. These temporary restrictions will have significant ripple effects throughout 2020 and beyond. The consumer-economy has been brought to a screeching halt by quarantine measures, greatly impacting retailers.

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RETAIL LEASING METRICS

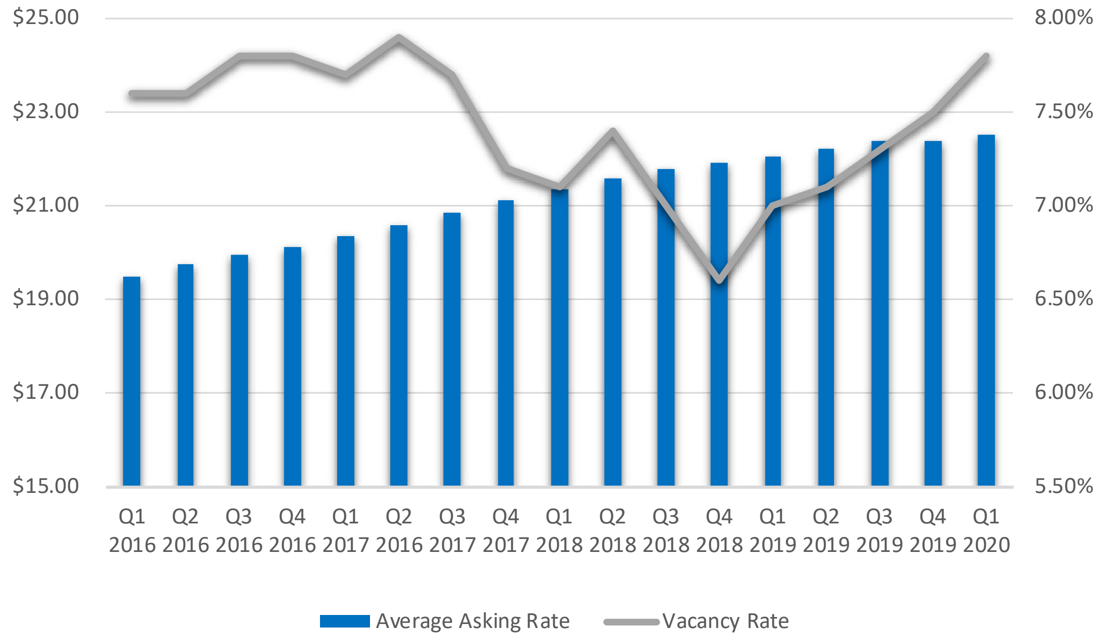
Retail vacancy rates rose to 7.8% in the Denver Metro Area during Q1 2020 from 7.5% at the end of 2019. This increase in vacancy was reflected across most major retail product types. Lifestyle Centers recorded a decrease in overall vacancy, representing growing attraction to experiential and public entertainment amenities. Overall market rental rates continued their upward momentum, rising to $22.50 to begin 2020.

Leasing activity closed out the year strongly with over 787,900 square feet leased during Q4 2019, bringing the yearly total to over 3.2 million square feet. This represented a substantial square footage surge from 2018's figures. Q1 2020 added another 630,000 square feet of leasing activity. Fitness spaces led the largest renewals in 2019 with 24 Hour Fitness and Crunch dominating deal flow.

Noteworthy deliveries included the final portion of Phase One of The Point at Nine Mile Station. This King Soopers anchored development delivered 103,900 square feet, with Phase Two set to break ground in late 2020. Over 20 notable retail tenants have signed leases at the multi-year project titled 9+CO, a 26-acre mixed-use development at Colorado Boulevard and 9th Avenue. McGregor Square is a nearly 700,000 sf mixed-use development (75,500 sf of retail) in the heart of lower downtown, a dramatic counterpart to the Colorado Rockies' ballpark that is expected to deliver in late 2021.

THE POINT AT NINE MILE STATION

RENTAL RATE VS. OVERALL VACANCY



RETAIL INVESTMENT OVERVIEW

In Q4 2019, investment volume exceeded $215.0M, bringing the 2019 total over $1.2B. This billion-dollar milestone has been accomplished for the last five years. Q1 2020 began strong, adding over $100.0M in sales volume during the first 75 days. However, the coronavirus has put most investment sales transactions on hold while economic uncertainty and changes in the lending environment iron themselves out. For investment activity to resume we need consumers to reemerge from quarantine, governments to allow businesses to reopen, capital markets to calm and provide predictable liquidity, and stabilized occupancies and rental rates to become widely established. There is substantial liquidity and restrained demand within the equity portion of the market. Furthermore, buying demand is prepared for distressed assets if/when they present themselves.

RETAIL PORTS: WEATHERING THE CORONAVIRUS STORM

ESSENTIAL RETAILERS THRIVING & HIRING

Retailers focused on daily essentials and supply chain products such as grocers, pharmacies, home improvement, automotive, and banks are some of the industry's resilient segments. Stores such as CVS, Walmart, Costco, Dollar Tree, King Soopers and Amazon are hiring to meet the immediate demand changes born from the pandemic. Hundreds of thousands of jobs for delivery drivers, sales associates, cashiers and distribution workers are needed. Walmart also finds itself in a position of strength during times of quarantine. They are demonstrating the importance of the last mile logistics as 90% of the U.S. population lives within 10 miles of a Walmart. Walmart can uniquely reach American households, particularly those in rural areas. The importance of this proximity may become magnified in times ahead.

UNPARALLELED GROCERY DEMAND

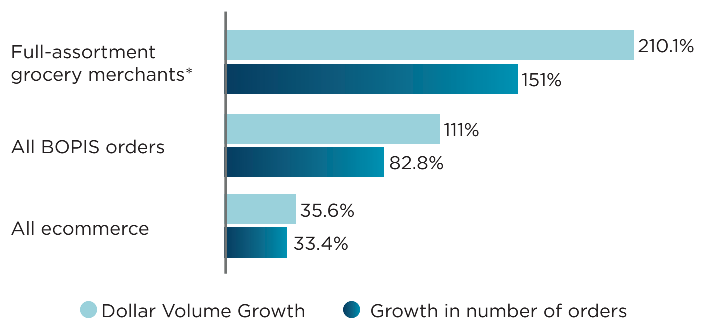
Grocers have experienced an increase in sales due to more consumers cooking at home, and many stocking up to avoid multiple trips. Kroger informed its suppliers that demand has increased 30% across all products in recent weeks, (for reference, the company's sales increased 2% in all of 2019).

Grocers are innovating and consumers are adapting in the wake of the coronavirus crisis by adopting online technology, delivery platforms and contactless pick-up. Target's curbside pick-up has increased 50%, Walmart delivery 100% and Amazon Prime services are experiencing record demand. Cashier-less payments have streamlined efficiency and avoided unnecessary person-to-person contact. Kroger is currently investing hundreds of millions to increase online operations ranging from autonomous grocery deliveries to implementing Instacart at over 2,000 locations.

GROCERY ORDERS & BOPIS* SURGE

(*Buy Online Pick-up In Store)

Increase in ecommerce sales March 12 - March 15



*These merchants include Amazon.com Inc.'s Amazon Fresh service, Instacart Inc., Walmart Inc.'s Walmart To Go service, Kroger Co. and others.

Source: Rakuten Intelligence, 2020

RESTAURANT ADAPTATION

The restaurant sector has suffered from enforced closures, but these businesses are fighting back with 'dark kitchens,' food takeaway services and delivery methods. Dark/Ghost/Virtual kitchens are commercial establishments with no physical restaurant dining space. Instead, these kitchens are designed to produce food that can only be ordered through a mobile app. Restaurants are experiencing lower occupancy costs, rent, and labor costs from a scaled-back footprint and staff. These kitchens may be "dark," but they are offering a bright spot for many in the restaurant industry during this incredibly challenging time. Door Dash, UberEATS, Grub hub and delivery chains are providing essential services to quarantined customers. These services offer a valuable lifeline to the food & beverage industry as it tries to recoup business. Consumer behavior is difficult to predict moving forward, but many of these efficiencies are likely to continue long past the restrictions imposed from the coronavirus.

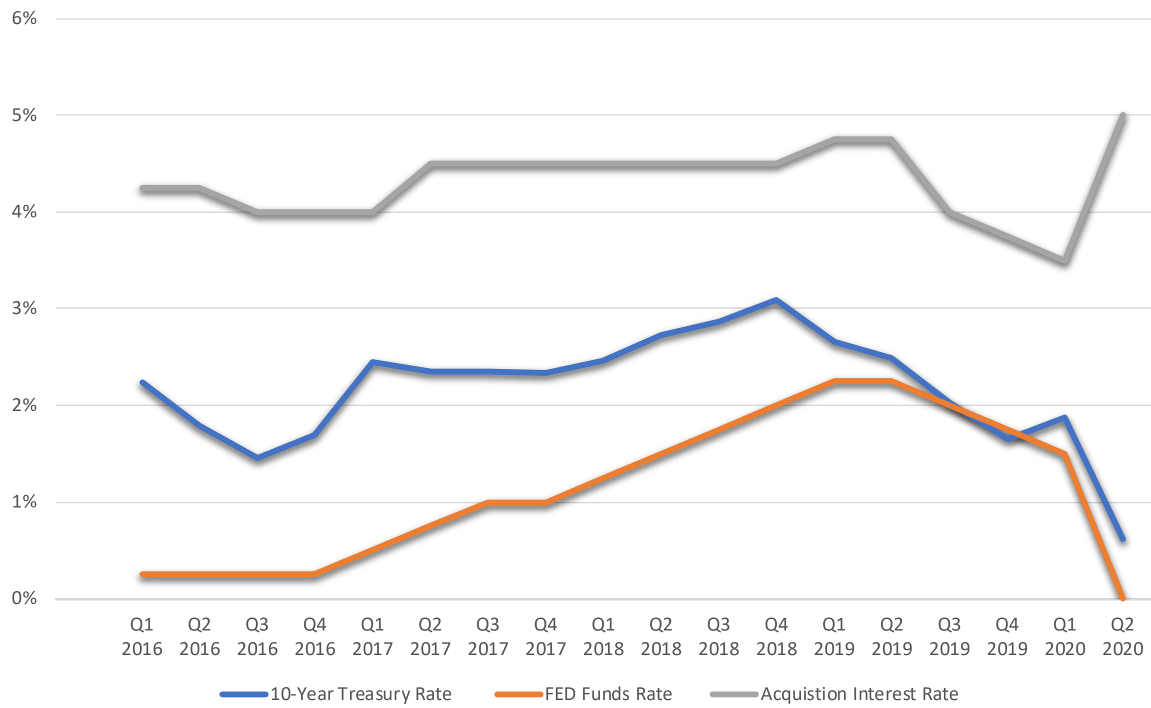
REAL CONSUMER SPENDING

Source: U.S. Bureau of Economic Analysis, Oxford Economics, Consumer Expenditure Survey

DEBT OVERVIEW

Interest rates have fluctuated in 2020 following immense volatility in global equity markets from the coronavirus pandemic. The Federal Reserve has cut its short-term lending rate by a full 1.50% in the last several weeks, setting the world's benchmark lending rate at effectively zero. The FED's purchase of corporate paper added a new source of cheap demand for corporate credit, adding essential liquidity to the consumer-needs industries. The US 10-Yr Treasury sat at 1.92% on January 1, bottomed at 0.40%, and is now hovering in the +/- 0.65% range. Three indicators to watch for inflection in CRE debt markets are LIBOR-Federal funds rate spread, corporate bond spread and issuance, and CMBS secondary market spread and delinquencies. We can expect the Fed to be nimble but difficult to predict as we move forward. The graph below depicts that acquisition rates are currently out of balance and poised to fall substantially when the market settles.

10-YEAR TREASURY VS. FED FUNDS VS. ACQUISITION INTEREST RATES



PROPERTY TAX ANALYSIS

Property tax increases have been a concern for all stakeholders within the commercial real estate markets in recent years. Substantial increases have posed an impediment to net rental rate growth and overall tenant health. Each assessment year, The Hendrickson-Johnson Team analyzes the relationship of sale price to assessor actual values within each reassessment year, in an attempt to properly underwrite and offer predictability in underwriting models. The properties included need to have been sold within the window of analysis leading into the reassessment year. Divided by County, the report details relevant transactions taking place within the window of analysis for reassessment year 2019.

CLICK HERE
TO REQUEST THE PROPERTY TAX ANALYSIS