Market Update

Examining the current state of retail in Denver

Colorado income-producing retail properties continue to be in high demand among nationwide investors. In 2021, the Mile High City saw $2.3 billion in retail assets trade hands, with out-of-state investors being the most active. These buyers, in addition to local investors, have increased acquisitions in west Denver, where last year's transaction total surpassed the prior two-year span. Among the most desirable subsectors were net lease deals with credit tenants, grocery-anchored shopping centers and well-located/high-visibility unanchored neighborhood centers. It's important to note that metro Denver also saw a large increase in suburban retail as light-rail expansion continues. Prior to 2013, only 10% of the retail inventory was within a mile of a light-rail station as compared with more than 30% now, an increase of 34 million square feet, per CoStar.

Retail properties in Denver saw increased vacancy and rent hits starting at the beginning of the pandemic. Since gathering size constraints were lifted last year, positive absorption has returned to the metro area as well as increased rental rates in most of the suburbs. The short-term spike saw vacancy rates increase 160 basis points when comparing 2018 and the middle of 2021, before receding back to 4.6% in 2022. Both southeastern and northeastern portions of the metro area have led the retail recovery due to strong population increases coming from high-income job growth.

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The Denver central business district has yet to see notable improvement, resulting in lower overall performance across the retail sector. Downtown submarkets have seen rents decrease by more than 10% and vacancy rise by more than 100 basis points since the start of 2020. However, there still is optimism and positive recovery as the CBD is a major office hub. The continued return of in-person activities this year, including both business and pleasure, will positively improve these submarkets as well as the overall retail market. Acquisition escalation also is likely to continue in growing communities such as southeast Denver due to continued expansion of high-income employers entering the market.

U.S. retail core sales (excluding automobiles and gas sales) exceeded $468 billion last month, which is up 6.2% from last year and 24% from the pre-pandemic level. When accounting for inflation, this results in a 1.1% year-over-year increase and a 15.6% increase from before the pandemic, according to the U.S. Census Bureau. This is positive and healthy growth, which was seen across all retail subtypes, from restaurants to essential services. Aided by easing of COVID-19 restrictions, increased foot traffic and adapting retailers, the sector continues to outperform expectations. For the first time in years, retailers plan to open more stores than they close. While the press continues to push the idea of a retail apocalypse and e-commerce crushing brick-and-mortar retail, the fact of the matter is that the retail sector is always evolving and reinventing itself to perform.

Among the most desirable retail property subsectors last year were net lease deals with credit tenants, grocery-anchored shopping centers and well-located/high-visibility unanchored neighborhood centers. Pictured here is Meridian Village in Englewood.

During the health crisis, many retailers permanently closed their doors. However, most of the victims were on the verge of closure even before the pandemic began. Examples of these retailers included those that were being over-leveraged, like Toys "R" Us, which filed for Chapter 11 bankruptcy in 2017; companies being beaten by competitors, which was the case with Kmart, which at one point had 2,400 stores; and companies that failed to reinvent and adapt their business models, like Sears, which also filed for Chapter 11 bankruptcy in 2018. All of these examples are management issues and not inherent retail

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