

METRO DENVER | INDUSTRIAL

Q2 2018

Confidence Remains High in Denver's Industrial Market

Market Overview

A slight increase in vacancy and a minor decrease in net absorption has not slowed confidence in Denver's industrial sector. Investment activity totaled approximately \$352 million during the second quarter bringing the year-to-date total to \$827 million – a 62 percent increase from the 2017 mid-year total. Healthy absorption and controlled construction activity continue to be indicators of Denver's well performing industrial sector. Approximately 1 million square feet have been absorbed and 4.6 million square feet of construction activity is underway in 2018. With an estimated 4.9 million square feet anticipated to break ground within the next 12 to 18 months, the industrial market shows no signs of slowing.

Highlighted Trends

- › Metro deliveries totaled approximately 1.6 million square feet during Q2.
- › 5 out of 15 submarkets realized positive net absorption.
- › Second quarter industrial investment activity totaled approximately \$352 million with an average sales price per square foot of \$117.
- › Unemployment rate in Metro Denver currently sits at 2.3 percent – national unemployment is 3.8 percent.
- › The June 2018 Manufacturing ISM Report on Business stated that economic activity in the manufacturing sector expanded and grew for the 110th consecutive month, with a slight decrease in the PMI of 1.5 percentage points since May 2018.

Market Indicators

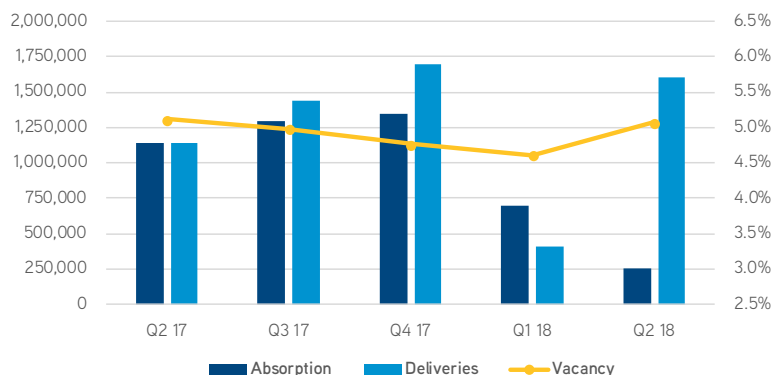
Relative to prior period	Q2 2018	Projected Q3 2018
Vacancy	↑	↔
Net Absorption	+	+
Deliveries	↑	↓
Rental Rate	↑	↔

*Arrows compare current quarter to the previous quarter's historically adjusted figures

Denver Metro Summary Statistics

	Q2 2017	Q2 2018
Vacancy Rate	5.1%	5.1%
Absorption YTD	1,590,464	949,449
Deliveries YTD	1,765,223	2,013,774
Under Construction	3,372,643	4,668,700
Asking Rents/SF	\$8.29	\$8.89
Total SF	261,637,060	266,687,066

Denver Industrial Market Q2 2017 – Q2 2018



Second quarter positive net absorption totaled approximately 250,500 square feet.

Absorption

Industrial absorption continued during the second quarter, as 5 of 15 submarkets posted positive absorption. Approximately 250,500 square feet was absorbed during the quarter, bringing the mid-year total to nearly 950,000 square feet. Denver's industrial sector continues to experience positive absorption quarter-over-quarter with ever-present demand, especially for new product along the metro's major arterial roadways. The second half of 2018 will see the delivery and occupancy of Amazon's 855,000 square foot fulfillment center along Interstate 25 in Thornton. The Boulder, Broomfield, and East I-70/Montbello submarkets experienced the largest absorption numbers during the quarter.

Vacancy

Overall industrial vacancy increased compared to the previous quarter and sits at 5.1 percent. The biggest contributing factor to the 50-basis-point jump quarter-over-quarter was the delivery of Building 15 at the Majestic Commercenter in Aurora in the East I-70/Montbello submarket – the largest speculative building ever delivered in Denver. The 701,900-square-foot distribution center delivered vacant. Vacancy for Denver's industrial sector remains relatively steady; however is anticipated to experience slight variations from quarter-to-quarter over the next 18 months as new speculative developments deliver. Demand continues to loom large throughout Denver's industrial sector, as many large occupiers have their sights set on establishing a large presence in the market.

Deliveries & Construction

As the weather and construction conditions improved, deliveries more than doubled during the second quarter compared to the first quarter, as approximately 1.6 million square feet of new inventory was added to the market. The largest delivery during the quarter was the 701,900-square-foot Building 15 at Majestic Commercenter in the East I-70/Montbello submarket. Building 15 is a speculative distribution building which delivered vacant with no pre-leasing. Currently, there is approximately 4.6 million square feet of industrial product under construction throughout the metro. Industrial development along the north Interstate 25 corridor has increased with ProLogis' Park Central three-building development. Totalling approximately 630,000 square feet, this new warehouse space will offer asking rental rates of \$6.50 to \$8.75/SF – significantly higher than similar developments in East I-70/Montbello, such as Majestic Commercenter, where asking rates range from \$5-\$6/SF. The difference in asking rates is attributed to location, and showcases the demand for centrally located warehouse space in infill locations. Another 4.9 million square feet is anticipated to break ground within the next 12 to 18 months – further evidence of Denver's strong industrial sector.

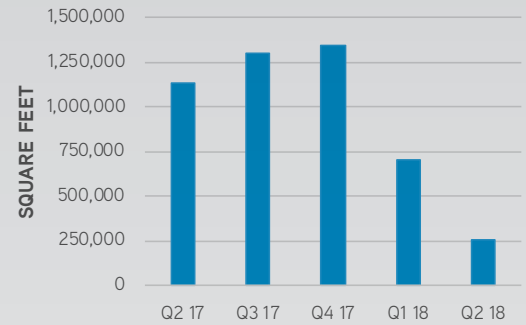
Rental Rates

The combined overall average asking rental rate for metro's industrial-flex properties is \$8.89/SF. It should be noted the combined overall average rental rate includes flex buildings, where more than 50 percent of a building is improved with office space. The overall average rate includes all industrial-type properties, such as warehouse, flex, R&D, and manufacturing and distribution. The overall average asking rate for warehouse/distribution properties, including manufacturing, is \$8.11/SF. Flex properties had an average asking rate of \$12.54/SF. True industrial warehouse/distribution space, like a majority of property types in Denver's East I-70/Montbello, are experiencing average asking rental rates of \$6.36/SF. Upward pressure continues to push quarterly average asking rental rates higher for both warehouse/distribution and flex properties, as demand for newly developed space is delivered to the market.

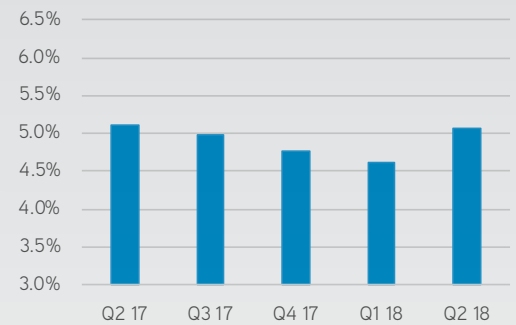
Sales Activity

Industrial investment activity totaled approximately \$352 million, with an average of \$117/SF, bringing Denver's industrial year-to-date investment activity total to more than \$827 million. Denver's largest industrial transaction of the second quarter was the sale of HUB 25. The four-property, 421,499-square-foot industrial warehouse portfolio at Interstate 25 and East 64th Avenue, sold for \$74 million, or approximately \$176/SF. Other notable sales during the quarter included the Boulder County Business Center in Longmont, a flex/R&D building, which sold for \$68 million, or \$123/SF, and the Denver Urban Business Center, which sold for \$33.35 million, or approximately \$101/SF.

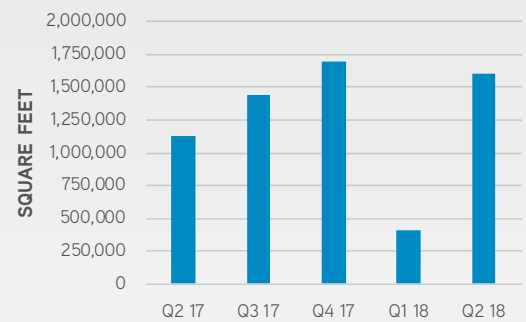
Absorption



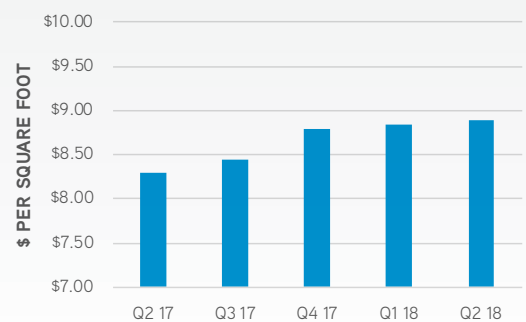
Vacancy



Deliveries



Rental Rates



Recent Transactions

Industrial – Denver - Sales Activity

PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
Hub 25	Northeast	\$74,000,000	421,499	\$176	JP Morgan	Westfield Company
Boulder County Business Center	Boulder County	\$68,500,000	556,410	\$123	Lakestar Properties	Equity Commonwealth
Denver Urban Business Center	Central	\$33,350,000	329,450	\$101	Forum Real Estate Group	Triumph Real Estate

Industrial – Denver - Leasing Activity

PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME
5775 Broadway	Northwest	88,649	New	National Tire & Wheel
20901 East 32nd Parkway	East I-70/Montbello	50,000	New	Veritiv
435-495 East 62nd Avenue	Northeast	49,343	New	RJ Schinner

Industrial Overview

EXISTING PROPERTIES			VACANCY				ACTIVITY	ABSORPTION		CONSTRUCTION			RENTS
SUBMARKET/CLASS	BLDGS	TOTAL INVENTORY SF	DIRECT VACANCY RATE	SUBLEASE VACANCY RATE	VACANCY RATE CURRENT	VACANCY RATE PRIOR QTR	LEASING ACTIVITY SF	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	DELIVERIES CURRENT QTR SF	DELIVERIES YTD SF	UNDER CONSTRUCTION SF	AVG RENTAL RATE (NNN)

AURORA

Industrial	28	636,125	4.6%	0.0%	4.6%	0.0%	-	-	0	29,539	29,539	-	N/A
Flex	44	1,567,774	10.3%	0.0%	10.3%	9.7%	-	(9,498)	5,578	-	-	-	\$7.64
Total	72	2,203,899	8.7%	0.0%	8.7%	7.0%	-	(9,498)	5,578	29,539	29,539	-	\$7.64

BOULDER

Industrial	281	10,540,241	4.4%	1.2%	5.6%	6.5%	70,824	151,831	224,138	41,600	41,600	174,150	\$10.18
Flex	222	9,665,431	6.1%	0.8%	6.9%	6.0%	107,859	36,362	20,337	-	-	-	\$14.50
Total	503	20,205,672	5.2%	1.0%	6.2%	6.3%	178,683	188,193	244,475	41,600	41,600	174,150	\$12.33

BROOMFIELD

Industrial	77	3,360,615	5.6%	0.0%	5.6%	2.3%	62,145	36,098	34,228	152,761	152,761	247,596	\$9.46
Flex	30	1,085,361	9.8%	1.1%	10.8%	6.3%	12,889	75,326	56,115	133,122	133,122	-	\$11.40
Total	107	4,445,976	6.7%	0.3%	6.9%	3.2%	75,034	111,424	90,343	285,883	285,883	247,596	\$9.92

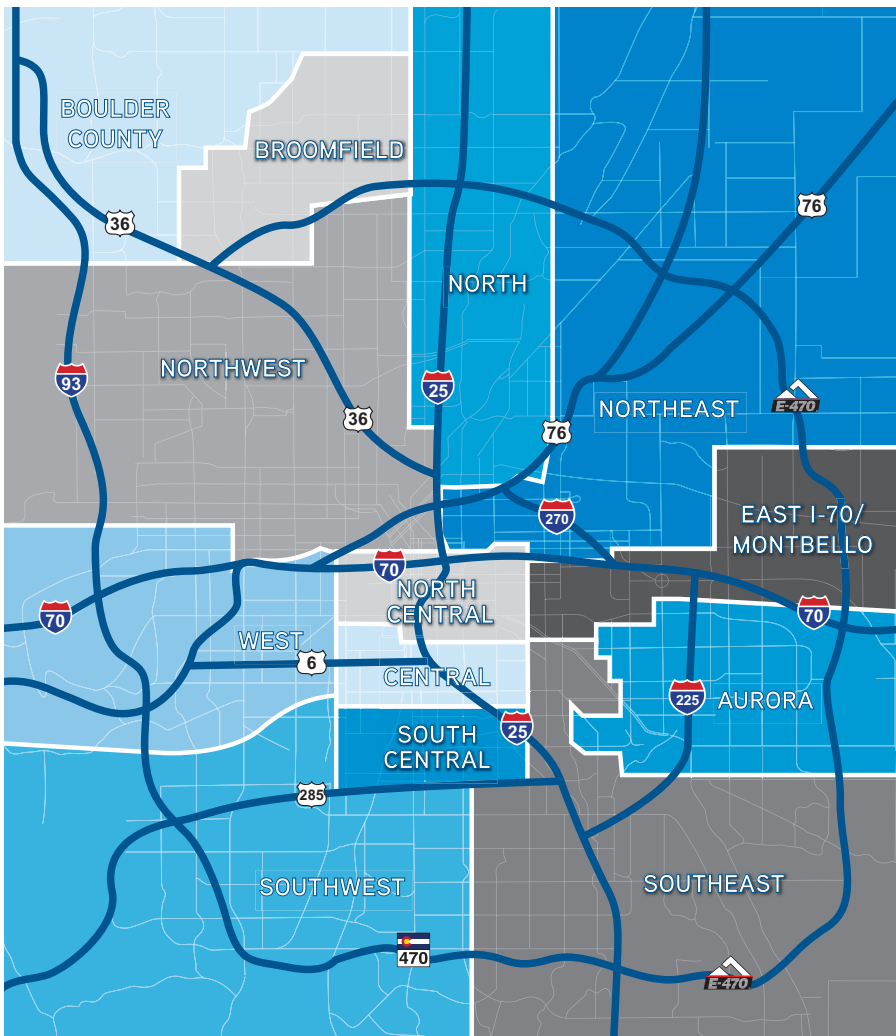
CENTRAL

Industrial	306	10,622,668	3.9%	0.1%	4.0%	4.0%	4,433	2,916	42,746	-	-	-	\$8.13
Flex	13	381,759	2.7%	0.0%	2.7%	1.5%	-	(4,553)	(10,185)	-	-	-	\$9.50
Total	319	11,004,427	3.9%	0.1%	4.0%	4.0%	4,433	(1,637)	32,561	-	-	-	\$8.74

EAST I-70/MONTBELLO

Industrial	1,073	79,514,234	5.4%	0.5%	5.9%	5.1%	601,531	182,761	256,374	701,900	869,929	1,111,100	\$6.36
Flex	63	1,948,573	3.2%	0.0%	3.2%	11.9%	14,250	5,670	(4,010)	-	-	95,900	\$9.00
Total	1,074	81,462,807	5.4%	0.5%	5.8%	5.2%	615,781	188,431	252,364	701,900	869,929	1,207,000	\$7.06

EXISTING PROPERTIES			VACANCY				ACTIVITY	ABSORPTION		CONSTRUCTION			RENTS
SUBMARKET/CLASS	BLDGS	TOTAL INVENTORY SF	DIRECT VACANCY RATE	SUBLEASE VACANCY RATE	VACANCY RATE CURRENT	VACANCY RATE PRIOR QTR	LEASING ACTIVITY SF	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	DELIVERIES CURRENT QTR SF	DELIVERIES YTD SF	UNDER CONSTRUCTION SF	AVG RENTAL RATE (NNN)
LONGMONT													
Industrial	93	2,890,747	2.1%	0.0%	2.1%	2.7%	12,340	18,985	11,705	-	-	-	\$9.50
Flex	48	2,674,927	27.9%	0.7%	28.6%	24.4%	4,637	(108,809)	(165,700)	-	-	-	\$12.90
Total	141	5,565,674	14.5%	0.3%	14.8%	13.1%	16,977	(89,824)	(153,995)	-	-	-	\$11.88
NORTH CENTRAL													
Industrial	428	16,693,680	5.1%	0.3%	5.4%	4.4%	31,311	(115,511)	(89,351)	60,000	60,000	-	\$8.13
Flex	23	757,174	3.2%	0.0%	3.2%	1.5%	-	(13,200)	(18,555)	-	-	-	\$11.50
Total	451	17,450,854	5.0%	0.3%	5.3%	4.3%	31,311	(128,711)	(107,906)	60,000	60,000	-	\$8.49
NORTH													
Industrial	157	6,653,989	3.6%	0.0%	3.6%	2.6%	66,111	4,929	35,118	325,470	325,470	855,000	\$8.86
Flex	40	1,730,055	3.0%	0.4%	3.4%	3.1%	6,205	(28,615)	(17,443)	30,000	30,000	-	\$10.81
Total	197	8,384,044	3.5%	0.1%	3.6%	2.5%	72,316	(23,686)	17,675	355,470	355,470	855,000	\$9.15
NORTHEAST													
Industrial	425	18,503,778	7.5%	0.0%	7.5%	7.4%	85,729	(28,266)	286,200	-	39,425	1,522,172	\$10.04
Flex	34	992,260	8.5%	0.0%	8.5%	9.0%	-	4,843	10,143	-	-	-	\$12.48
Total	459	19,496,038	7.6%	0.0%	7.6%	7.5%	85,729	(23,423)	296,343	-	39,425	1,522,172	\$10.23
NORTHWEST													
Industrial	290	11,315,085	5.6%	0.1%	5.8%	5.3%	163,885	(57,245)	(38,598)	-	79,698	-	\$8.86
Flex	82	1,983,334	6.0%	0.0%	6.0%	8.3%	24,796	44,985	22,362	-	33,600	-	\$10.89
Total	372	13,298,419	5.7%	0.1%	5.8%	5.7%	188,681	(12,260)	(16,236)	-	113,298	-	\$9.60
SOUTH CENTRAL													
Industrial	399	10,866,395	2.9%	0.1%	3.0%	2.6%	58,812	(42,418)	(61,023)	-	-	-	\$8.09
Flex	26	674,388	4.5%	0.7%	5.3%	6.2%	26,230	6,230	22,946	-	-	-	\$9.69
Total	425	11,540,783	3.0%	0.1%	3.1%	2.8%	85,042	(36,188)	(38,077)	-	-	-	\$8.19
SOUTHEAST													
Industrial	241	9,812,278	3.6%	0.0%	3.6%	3.1%	122,669	(42,121)	103,289	-	62,000	305,202	\$9.45
Flex	257	8,869,354	5.2%	0.4%	5.6%	5.0%	151,738	(49,034)	22,830	-	-	-	\$11.52
Total	498	18,681,632	4.3%	0.2%	4.6%	4.0%	274,407	(91,155)	126,119	-	62,000	305,202	\$10.42
SOUTHWEST													
Industrial	186	5,844,801	0.8%	0.0%	0.8%	0.5%	6,000	(14,040)	(553)	-	-	-	\$9.32
Flex	116	3,756,882	6.0%	0.2%	6.2%	6.4%	44,274	9,491	9,633	-	-	-	\$10.02
Total	302	9,601,683	2.8%	0.1%	2.9%	2.8%	50,274	(4,549)	9,080	-	-	-	\$9.77
WELD COUNTY													
Industrial	483	18,650,014	1.5%	0.0%	1.5%	1.1%	44,171	(45,436)	(5,977)	-	26,630	357,580	\$11.11
Flex	62	2,221,656	5.1%	0.0%	5.1%	5.1%	6,217	180,756	246,988	130,000	130,000	-	\$9.25
Total	545	20,871,670	1.8%	0.0%	1.9%	1.5%	50,388	135,320	241,011	130,000	156,630	357,580	\$10.63
WEST													
Industrial	240	15,148,593	1.3%	0.0%	1.4%	1.7%	45,357	46,563	(60,657)	-	-	-	\$8.59
Flex	115	7,324,895	2.9%	0.0%	2.9%	3.0%	64,767	1,453	10,771	-	-	-	\$12.23
Total	355	22,473,488	1.8%	0.0%	1.9%	2.1%	110,124	48,016	(49,886)	-	-	-	\$10.26
MARKET TOTAL													
Industrial	4,707	221,053,243	4.4%	0.3%	4.7%	4.2%	1,375,318	99,046	737,639	1,311,270	1,687,052	4,572,800	\$8.11
Flex	1,175	45,633,823	6.6%	0.4%	6.9%	6.7%	463,862	151,407	211,810	293,122	326,722	95,900	\$12.54
Total	5,882	266,687,066	4.8%	0.3%	5.1%	4.6%	1,839,180	250,453	949,449	1,604,392	2,013,774	4,668,700	\$8.89
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q2 18	5,882	266,687,066	4.8%	0.3%	5.1%	4.6%	1,839,180	250,453	949,449	1,604,392	2,013,774	4,668,700	\$8.89
Q1 18	5,866	265,102,463	4.3%	0.3%	4.6%	4.8%	2,988,263	698,996	698,996	409,382	409,382	4,509,535	\$8.84
Q4 17	5,859	264,745,101	4.6%	0.1%	4.8%	5.0%	3,298,710	1,343,299	4,231,389	1,690,903	4,894,266	4,017,394	\$8.79
Q3 17	5,845	262,822,369	4.7%	0.3%	5.0%	5.1%	3,353,504	1,297,626	2,888,090	1,438,140	3,203,363	4,001,246	\$8.45
Q2 17	5,840	261,637,060	4.8%	0.3%	5.1%	4.9%	4,998,520	1,137,218	1,590,464	1,134,531	1,765,223	3,372,643	\$8.29



413 offices in
69 countries on
6 continents

United States: **145**
Canada: **28**
Latin America: **23**
Asia Pacific: **86**
EMEA: **131**

\$2.7
billion in
annual revenue

2.0
billion square feet
under management

15,400
professionals
and staff

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