Research &
Forecast Report

METRO DENVER | INDUSTRIAL
Q3 2019

Colliers INTERNATIONAL
Accelerating success.

Wave of New Deliveries Bring Welcome Relief to Supply Constrained Market

Market Overview

The winning streak continued during the third quarter as developers delivered over 2.7 million SF of new product to the Denver industrial market. While this pushed vacancy rates up 60 basis points, to 5.3%, the additional supply was welcomed with open arms by tenants as the competition for available space remained high.

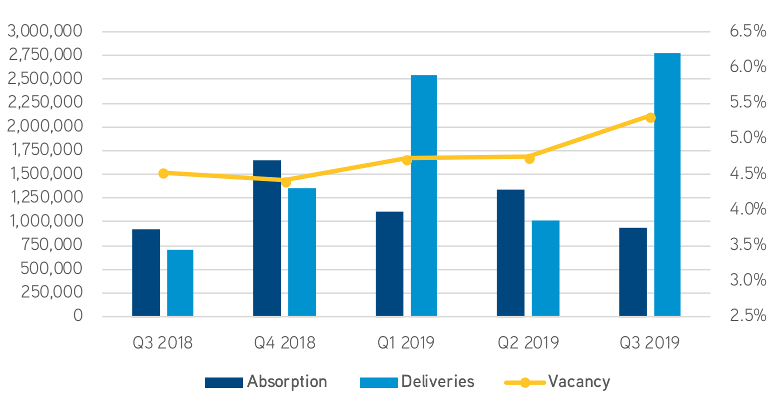
The movement towards E-commerce continues to fan the flames of competition for any company currently looking for space, whether they are involved in e-commerce or not, and this trend does not appear to be ending anytime soon. The U.S. Census Bureau reported in late August that U.S. retail e-commerce sales on an adjusted basis for the second quarter of 2019 totaled $146.2 billion, an increase of 4.2% from the first quarter of 2019 and accounted for 10.7% of total retail sales.

Three of the top 10 leases signed during the quarter are directly attributed to the rise in e-commerce. Amazon leased 122,807 SF in Loveland, Wal-Mart inked a 91,997 SF lease along I-76 in Brighton and Wayfair took 75,869 SF along the eastern I-70 corridor in Denver.

Highlighted Trends

- Strong demand continued to apply upward pressure on lease rates, as the average NNN rate finished the quarter at $9.45, a 3.8% increase over last quarter.
- Sealy Mattress signed the biggest lease of the year to date, taking 289,113 SF at Tower Business Center.
- Indeed's October salary report indicates that the average warehouse workers wage is $14.71/hour, 16% higher than the national average and that employees have averaged $5,000/yr. in overtime pay.

Denver Industrial Market Q3 2018–Q3 2019



Market Indicators
Relative to prior period

	Q3 2019	Projected Q4 2019
Vacancy	↑	↓
Net Absorption	+	+
Deliveries	↑	↓
Rental Rate	↑	↑

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

Denver Metro Summary Statistics

	Q3 2018	Q4 2019
Vacancy Rate	4.5%	5.3%
Absorption YTD	1,828,488	3,369,682
Deliveries YTD	3,161,159	6,354,879
Under Construction	4,509,535	4,738,876
Asking Rents/SF	$8.76	$9.45
Total SF	267,219,189	274,902,697

*Source: CoStar

Over 6.3 million SF of new product has been delivered to the market year-to-date.

Absorption

The market was 60,000 SF shy of making it four straight quarters with over 1 million SF absorbed. Nevertheless, the market has averaged nearly 1.2 million SF of absorption each quarter over the past five quarters. Southern Glazers Wine and Spirits moved into their new 353,300 SF facility off of Picadilly Road and Safilo, an eyewear manufacturer, moved into their 309,962 SF at Prologis Park 70. The fourth quarter is shaping up to look strong as well as several tenants, like Sealy and the Allen Company are expected to take occupancy on their big spaces.

Vacancy

Although the overall vacancy rate increased 60 basis points during the quarter to 5.3%, which is attributed to the 2.7 million SF that was delivered this quarter, the market continues to remain extremely tight. Areas like the West, Southwest and South-Central submarkets are even tighter with vacancy rates ranging between 1-6% - 2.8%. Space for large distribution users (200,000+ SF) is extremely limited as there are less than a dozen options to choose from and that includes those that are under construction. While more new space is on the way next quarter, in all likelihood, vacancy rates will hover around 5.5% by year-end.

Deliveries & Construction

2,775,805 SF was delivered to the market during the quarter, this on the heels of 3.5 million SF that was delivered during the first half of 2019. With rising vacancy rates and another 4.7 million SF under construction, one might conclude that the market is becoming over-built. However, even if these buildings were delivered to the market with zero preleasing, the overall vacancy rate would still be below 7%. Currently, 33% of the 4.7 million SF is already preleased, and with nearly half of the total space not projected to be delivered until the second and third quarter of 2020, the market has plenty of runway to lease additional space.

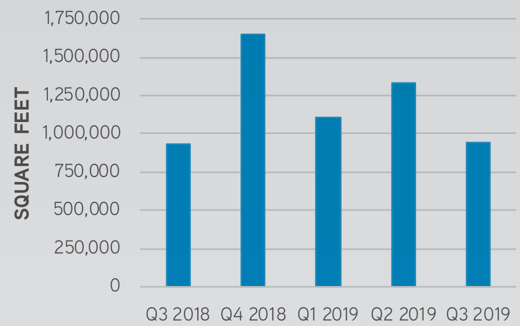
Rental Rates

Overall lease rates increased to $9.45/SF on a NNN basis, an increase of 3.8% from the previous quarter. Since 2012, overall lease rates in the metro area have increased 69.3%. However, if you look at warehouse/distribution buildings only, that number jumps to 93.9% during the same time span. While strong rent appreciation in the central corridor has captured the headlines over the past few years, the eastern I-70 corridor, Denver's largest and most recognizable submarket, has begun flirting with $6.00 rates for its larger (100,000+ SF) leases.

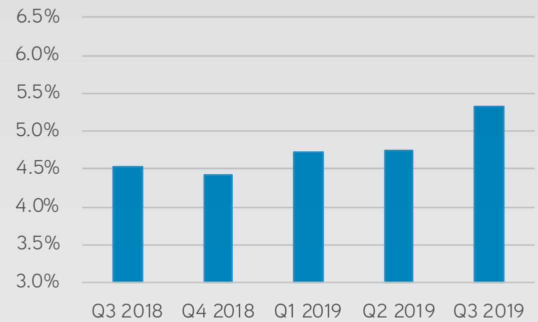
Sales Activity

As expected, sales volume retreated from last quarter's $373.7 million that featured Blackstone's acquisition of GLPs portfolio. Nevertheless, with a sales volume of $299.6 million, that placed the quarter as the 9th highest quarter over the last decade and almost on par with the five-year average of $300.8 million. Notable transactions were LaSalle Investment's $45.25 Million ($183/SF) acquisition of the Centercore Distribution portfolio, a two-building, 249,228 SF facility located at 5725 & 5775 Broadway in the Central submarket and NewStreet Properties purchase of a 112,966 SF manufacturing facility located at 6144 N Panasonic Way in the E. I-70 submarket for $22 million ($195/SF). The NNN sale sold at a reported 5.6% CAP rate.

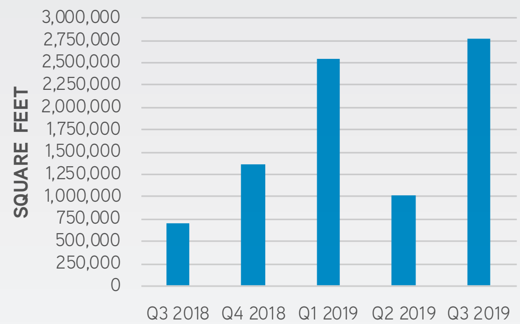
Absorption



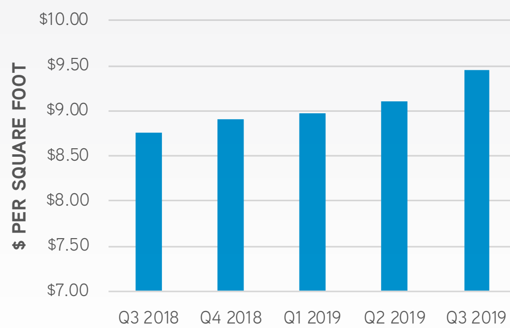
Vacancy



Deliveries



Rental Rates



Recent Transactions

Industrial – Denver - Sales Activity

PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
5775 and 5725 Broadway	Northwest	$45,250,000	249,228	$182	LaSalle Investment Management	Huntington Industrial Partners
6144 N. Panasonic Way	East I-70/ Montbello	$22,000,000	112,966	$195	NewStreet Properties LLC	Westfield Company
11575 Main St.	Broomfield	$15,700,000	103,565	$152	Michael W. Evans	Krauz Enterprises GP
8447 Highfield Pkwy.	Southeast	$13,100,000	92,000	$142	Public Employees Retirement Association	Confluent Development

Industrial – Denver - Leasing Activity

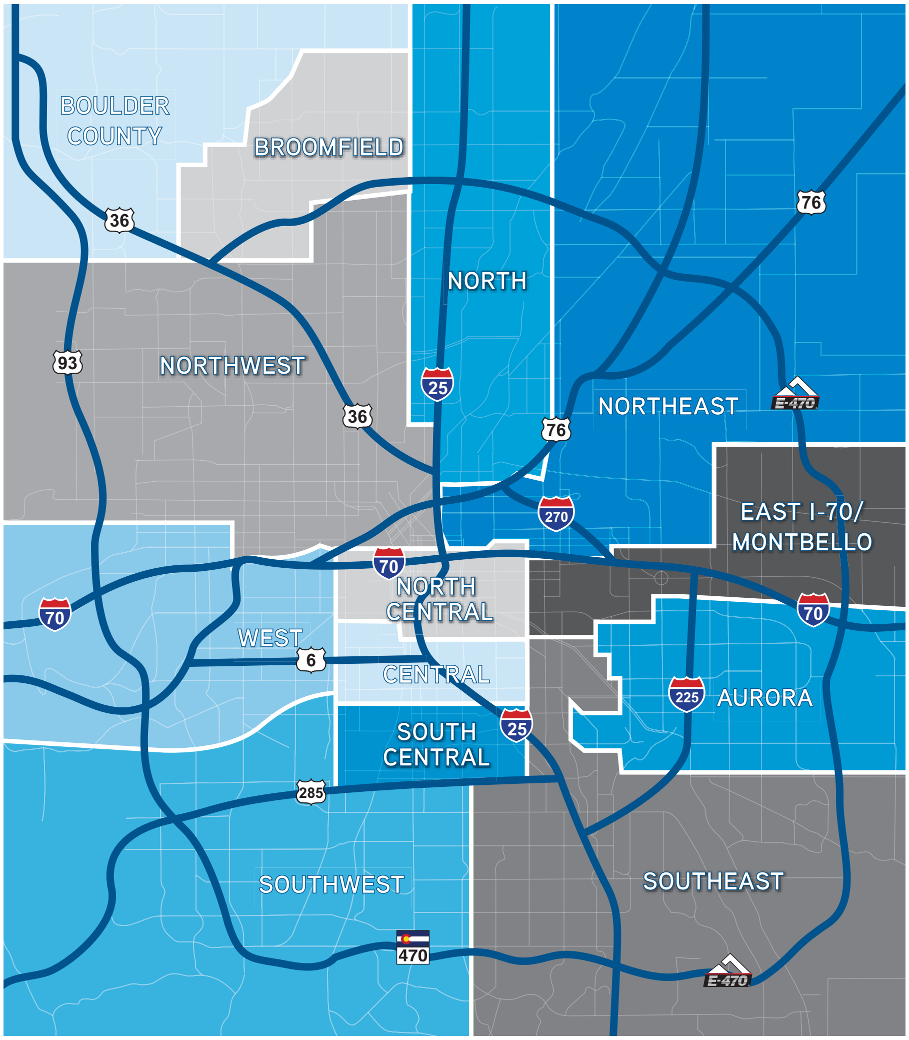
PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME
18701 E. 38th Ave.	East I-70/Montbello	289,113	New	Sealy Mattress
4650 Steele St.	North Central	110,562	New	City and County of Denver
11380 Reed Way	Broomfield	107,455	New	MKS Instruments
3503 N. Windsor Dr.	East I-70/Montbello	85,253	New	Steelcase

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	639,281	0.2%	0.0%	0.2%	0.0%	-	(1,500)	38,039	-	-	25,000	$10.87
Flex	47	1,907,646	7.3%	0.1%	7.4%	6.6%	31,583	7,104	45,461	50,000	50,000	50,000	$7.85
Total	**75**	**2,546,927**	**5.5%**	**0.1%**	**5.6%**	**4.9%**	**31,583**	**5,604**	**83,500**	**50,000**	**50,000**	**75,000**	**$8.02**
BOULDER													
Industrial	283	10,264,860	5.2%	0.9%	6.1%	6.8%	94,704	73,085	203,828	-	-	299,261	$11.06
Flex	225	9,959,076	3.6%	0.9%	4.5%	4.2%	42,790	(27,258)	(46,432)	-	31,000	-	$15.51
Total	**508**	**20,223,936**	**4.4%**	**0.9%**	**5.3%**	**5.5%**	**137,494**	**45,827**	**157,396**	**-**	**31,000**	**299,261**	**$13.09**
BROOMFIELD													
Industrial	79	3,637,770	11.7%	0.0%	11.7%	8.0%	120,368	(37,167)	(24,601)	-	247,331	35,000	$9.53
Flex	30	1,086,526	7.2%	0.2%	7.4%	8.3%	18,258	10,272	(6,314)	-	-	152,761	$12.42
Total	**109**	**4,724,296**	**10.7%**	**0.0%**	**10.7%**	**8.1%**	**138,626**	**(26,895)**	**(30,915)**	**-**	**247,331**	**187,761**	**$9.93**
CENTRAL													
Industrial	303	10,869,925	4.6%	0.0%	4.6%	4.0%	55,677	(66,571)	(47,902)	-	30,000	30,000	$9.72
Flex	10	289,417	0.0%	0.0%	0.0%	0.0%	-	14,457	0	-	-	-	$8.50
Total	**313**	**11,159,342**	**4.5%**	**0.0%**	**4.5%**	**3.9%**	**55,677**	**(52,114)**	**(47,902)**	**-**	**30,000**	**30,000**	**$9.67**
EAST I-70/MONTBELLO													
Industrial	1,086	81,958,246	6.6%	0.5%	7.1%	6.1%	715,441	984,655	1,398,596	2,091,976	2,787,622	2,931,672	$6.25
Flex	66	2,228,412	4.6%	0.0%	4.6%	3.9%	20,602	(15,490)	(32,209)	-	-	117,000	$15.37
Total	**1,152**	**84,186,658**	**6.6%**	**0.4%**	**7.0%**	**6.0%**	**736,043**	**969,165**	**1,366,387**	**2,091,976**	**2,787,622**	**3,048,672**	**$6.51**

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	96	3,013,836	5.1%	0.0%	5.1%	3.9%	131,582	(36,112)	70,496	-	128,100	128,100	$10.94
Flex	46	2,590,589	27.6%	1.2%	28.8%	26.5%	26,492	(58,673)	(57,772)	-	-	-	$12.85
Total	**142**	**5,604,425**	**15.5%**	**0.5%**	**16.1%**	**14.4%**	**158,074**	**(94,785)**	**12,724**	**-**	**128,100**	**128,100**	**$12.09**
NORTH CENTRAL													
Industrial	425	16,792,714	4.1%	0.0%	4.1%	3.8%	259,870	(10,864)	(25,204)	47,918	47,918	-	$9.92
Flex	22	704,878	2.1%	0.0%	2.1%	2.7%	-	3,723	7,050	-	-	-	$15.44
Total	**447**	**17,497,592**	**4.0%**	**0.0%**	**4.0%**	**3.8%**	**259,870**	**(7,141)**	**(18,154)**	**47,918**	**47,918**	**-**	**$10.06**
NORTH													
Industrial	164	7,860,642	4.6%	0.1%	4.7%	5.0%	23,894	53,876	132,714	30,000	60,000	400,605	$8.84
Flex	42	1,776,605	16.2%	1.1%	17.3%	15.2%	3,565	(36,647)	(5,208)	-	30,000		$14.23
Total	**206**	**9,637,247**	**6.7%**	**0.3%**	**7.0%**	**6.9%**	**27,459**	**17,229**	**127,506**	**30,000**	**90,000**	**400,605**	**$9.43**
NORTHEAST													
Industrial	435	19,936,592	5.2%	0.4%	5.6%	5.4%	84,192	(26,354)	580,584	31,285	1,467,745	11,925	$10.39
Flex	35	1,012,260	1.3%	0.0%	1.3%	1.7%	3,067	4,575	18,345	-	-	-	$13.34
Total	**470**	**20,948,852**	**5.0%**	**0.4%**	**5.4%**	**5.2%**	**87,259**	**(21,779)**	**598,929**	**31,285**	**1,467,745**	**11,925**	**$10.62**
NORTHWEST													
Industrial	295	11,691,447	3.8%	0.4%	4.3%	4.3%	112,688	10,322	51,833	-	145,000		$8.57
Flex	81	1,972,467	4.9%	0.2%	5.2%	3.8%	15,587	(26,458)	(3,346)	-	15,104		$10.57
Total	**376**	**13,663,914**	**4.0%**	**0.4%**	**4.4%**	**4.3%**	**128,275**	**(16,136)**	**48,487**	**-**	**160,104**	**-**	**$9.01**
SOUTH CENTRAL													
Industrial	405	10,728,395	1.7%	0.0%	1.7%	1.7%	54,271	(1,303)	(52,441)	-	-	-	$8.86
Flex	28	625,112	7.7%	0.0%	7.7%	9.7%	3,500	12,060	(11,226)	-	-	-	$12.82
Total	**433**	**11,353,507**	**2.1%**	**0.0%**	**2.1%**	**2.2%**	**57,771**	**10,757**	**(63,667)**	**-**	**-**	**-**	**$9.16**
SOUTHEAST													
Industrial	250	10,648,782	6.9%	0.5%	7.4%	3.5%	62,563	18,195	263,816	451,126	557,054	293,152	$10.20
Flex	257	8,845,476	3.2%	0.6%	3.8%	4.7%	70,910	86,566	110,859	12,000	25,000	-	$11.54
Total	**507**	**19,494,258**	**5.2%**	**0.5%**	**5.8%**	**4.0%**	**133,473**	**104,761**	**374,675**	**463,126**	**582,054**	**293,152**	**$10.77**
SOUTHWEST													
Industrial	189	5,957,403	1.0%	0.7%	1.7%	1.5%	13,404	(13,175)	(15,950)	-	-	-	$9.32
Flex	113	3,937,944	4.4%	0.0%	4.4%	5.3%	14,513	36,057	64,482	-	-	50,000	$10.69
Total	**302**	**9,895,347**	**2.3%**	**0.4%**	**2.8%**	**3.0%**	**27,917**	**22,882**	**48,532**	**-**	**-**	**50,000**	**$10.38**
WELD COUNTY													
Industrial	503	19,545,256	1.5%	0.1%	1.6%	1.4%	71,850	34,000	538,737	61,500	512,625	136,400	$10.96
Flex	66	2,283,265	8.2%	0.2%	8.4%	6.0%	4,400	(54,616)	(42,681)	-	-	30,000	$10.52
Total	**569**	**21,828,521**	**2.2%**	**0.1%**	**2.3%**	**1.9%**	**76,250**	**(20,616)**	**496,056**	**61,500**	**512,625**	**166,400**	**$10.88**
WEST													
Industrial	248	14,723,711	1.2%	0.1%	1.3%	1.7%	54,528	11,731	108,500	-	116,000	48,000	$9.99
Flex	115	7,414,164	1.8%	0.3%	2.1%	2.0%	26,627	(4,638)	107,628	-	104,380	-	$11.84
Total	**363**	**22,137,875**	**1.4%**	**0.2%**	**1.6%**	**1.8%**	**81,155**	**7,093**	**216,128**	**-**	**220,380**	**48,000**	**$10.73**
MARKET TOTAL													
Industrial	4,789	228,268,860	4.8%	0.3%	5.2%	4.5%	1,855,032	992,818	3,221,045	2,713,805	6,099,395	4,339,115	$8.14
Flex	1,183	46,633,837	5.7%	0.5%	6.1%	5.9%	281,894	(48,966)	148,637	62,000	255,484	399,761	$12.29
Total	**5,972**	**274,902,697**	**5.0%**	**0.3%**	**5.3%**	**4.7%**	**2,136,926**	**943,852**	**3,369,682**	**2,775,805**	**6,354,879**	**4,738,876**	**$9.45**
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q3 2019	5,972	274,902,697	5.0%	0.3%	5.3%	4.7%	2,136,926	943,852	3,369,682	2,775,805	6,354,879	4,738,876	$9.45
Q2 2019	5,955	272,248,248	4.5%	0.3%	4.7%	4.7%	2,264,391	1,332,948	2,441,337	1,009,484	3,549,274	4,959,361	$9.10
Q1 2019	5,940	270,802,204	4.5%	0.2%	4.7%	4.4%	2,628,557	1,108,389	1,108,389	2,539,790	2,539,790	4,891,468	$8.97
Q4 2018	5,926	268,824,429	4.2%	0.2%	4.4%	4.5%	3,489,626	1,646,078	3,474,566	1,359,393	4,520,552	4,668,700	$8.91
Q3 2018	5,916	267,219,189	4.3%	0.2%	4.5%	4.5%	3,012,694	927,692	1,828,488	697,854	3,161,159	4,509,535	$8.76

Source: CoStar | Office Properties: 20,000 SF +



400 offices in 68 countries on 6 continents

United States: **109**
Canada: **43**
Latin America: **18**
Asia Pacific: **35**
EMEA: **85**

$3.3
billion in annual revenue

2.0
billion square feet under management

17,300
professionals and staff

About Colliers International

Colliers International Group Inc. (NASDAQ: CIGI; TSX: CIG) is a global leader in commercial real estate services with more than 17,300 professionals operating from 400 offices in 68 countries. With an enterprising culture and significant insider ownership, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide. Services include brokerage, global corporate solutions, investment sales and capital markets, project management and workplace solutions, property and asset management, consulting, valuation and appraisal services, and customized research and thought leadership. Colliers International has been ranked among the top 100 outsourcing firms by the International Association of Outsourcing Professionals' Global Outsourcing for 10 consecutive years, more than any other real estate services firm.

FOR MORE INFORMATION

Brad Calbert, ULI, NAIOP
President | Denver
+1 303 283 4566
brad.calbert@colliers.com

CLIENT SERVICES & ANALYTICS:

Steig Seaward
VP Client Services & Analytics | Denver
+1 303 283 4561
steig.seaward@colliers.com

Matthew Giordano
Research Analyst | Denver
+1 720 833 4638
matthew.giordano@colliers.comv

Colliers International | Denver
4643 South Ulster Street, Suite 1000
+1 303 745 5800
colliers.com/denver

Colliers INTERNATIONAL
Accelerating success.