

# METRO DENVER | INDUSTRIAL

Q3 2018

Accelerating success.

## YTD Industrial Investment Activity Reaches \$1 Billion

### Market Overview

Industrial investment activity has topped more than \$1 billion during 2018, marking the highest year-to-date total on record. Boosted by two significant portfolio sales during the first quarter of the year, momentum persisted throughout the second and third quarters, as investor appetite for newly constructed, fully-leased warehouse/distribution assets remain strong despite on-going cap rate compression. As population growth fuels employment expansion throughout Metro Denver, the development pipeline is abundant with nearly 4.9 million square feet currently under construction. Sustained positive absorption, as experienced over the past four years in the industrial market, has developers feeling optimistic when bringing a new project out of the ground. The next 24 months should be no different as demand has kept pace with new supply.

### Highlighted Trends

- › Metro deliveries totaled approximately 1.6 million square feet during Q3.
- › 10 out of 15 submarkets realized positive net absorption.
- › Third quarter industrial investment activity totaled approximately \$251 million with an average sales price per square foot of \$107.
- › Unemployment rate in Metro Denver currently sits at 3.3 percent – national unemployment is 3.7 percent.
- › The September 2018 Manufacturing ISM Report on Business stated that economic activity in the manufacturing sector expanded and grew for the 113th consecutive month, with a slight decrease in the PMI of 1.5 percentage points since August 2018.

### Market Indicators

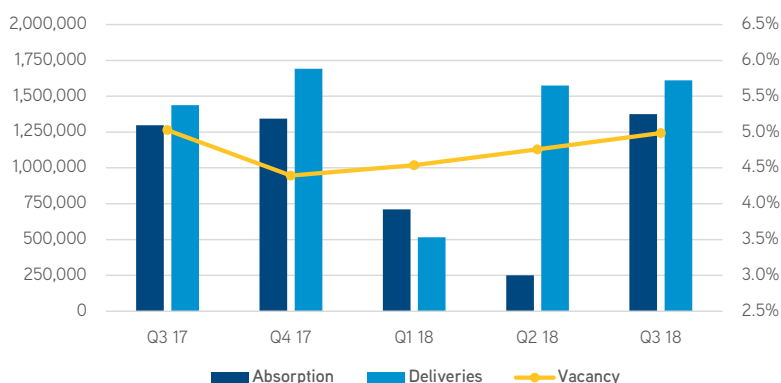
Relative to prior period	Q3 2018	Projected Q4 2018
Vacancy	↑	↔
Net Absorption	+	+
Deliveries	↑	↓
Rental Rate	↑	↔

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

### Denver Metro Summary Statistics

	Q3 2017	Q3 2018
Vacancy Rate	5.0%	5.0%
Absorption YTD	2,888,090	2,337,053
Deliveries YTD	3,203,363	3,700,380
Under Construction	4,001,246	4,891,468
Asking Rents/SF	\$8.45	\$8.93
Total SF	263,093,721	267,992,601

### Denver Industrial Market Q3 2017–Q3 2018



Third quarter positive net absorption totaled approximately 1.37 million square feet.

## Absorption

Third quarter industrial absorption increased significantly compared to the previous quarter total, as 10 of 15 submarkets posted positive absorption. More than 1.37 million square feet was absorbed during the quarter, bringing the mid-year total to more than 2.3 million square feet. Absorption activity was driven by the delivery and occupancy of Amazon's 855,000-square-foot robotics fulfillment center in Thornton, at Interstate 25 and 144th Avenue in the North submarket. Additional tenant move-ins during the third quarter included Paragon 28, which took occupancy of 106,000 square feet in the Southeast submarket, and National Tire & Wheel moved into 89,000 square feet in the Northwest submarket. Significant move-ins such as these, show a diversity in demand and absorption in Denver's various submarkets.

## Vacancy

Overall industrial vacancy increased slightly quarter-over-quarter to 5.0 percent, as some new deliveries hit the market with no pre-leasing. However, the 20-basis point increase is not a cause for concern as positive absorption continues to be strong in submarkets where development is most prominent. Of the more than 16 million square feet that has been delivered to the market since 2015, overall occupancy of those buildings is approximately 80 percent. Although some speculative developments have delivered vacant, leasing velocity suggests vacancy will be short-lived, as many national credit tenants continue to look at Metro Denver to establish a foothold in a fundamentally strong market experiencing sustained growth.

## Deliveries & Construction

Deliveries of industrial and flex properties totaled more than 1.6 million square feet during the third quarter – slightly more than the second quarter total of 1.57 million square feet. The largest delivery of the quarter came from the completion of Amazon's 855,000-square-foot robotics fulfillment center in the North submarket – Amazon's second built-to-suit (BTS) fulfillment center delivered to the market in the last two years. Under construction development remains plentiful, as approximately 4.9 million square feet, or 1.8 percent of the inventory total, is currently under construction throughout the metro. The East I-70/Montbello and Northeast submarkets continue to be where a majority of new construction projects are underway. These two submarkets contribute nearly 3.6 million square feet of total construction inventory. Warehouse/distribution development accounts for nearly 90 percent of construction projects underway, and has been the main property type contributing to Denver's industrial growth. Although land has remained relatively affordable throughout Denver's growth phase, demand for developable land is becoming more intense, placing upward pressure on the cost of land. As a result, BTS projects have become more prominent recently as lease rates for such projects have become more favorable compared to speculative development projects.

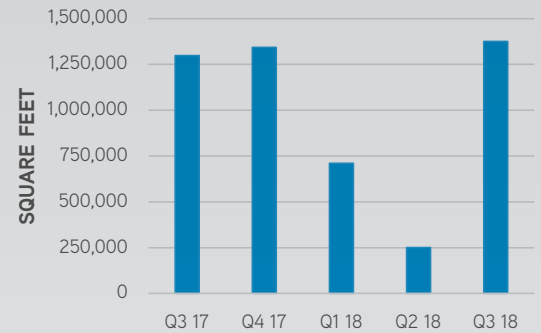
## Rental Rates

The combined overall average asking rental rate for metro's industrial-flex properties is \$8.93/SF – this 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. Average asking rates for warehouse/distribution properties, including manufacturing, is \$8.01/SF. Flex properties had an average asking rate of \$12.14/SF. Industrial warehouse space with higher clear heights, like a majority of property types in Denver's East I-70/Montbello, are experiencing average asking rental rates of \$6.41/SF. Average asking rental rates continue to increase for both warehouse/distribution and flex properties, as demand for these property types – particularly new product – remains high.

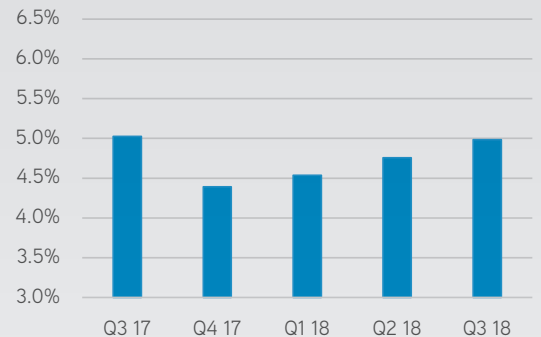
## Sales Activity

Third quarter industrial investment activity totaled approximately \$251 million, with an average of \$107/SF, bringing Denver's industrial year-to-date investment total to more than \$1 billion – the highest year-to-date total on record. Investment activity increased this year, as the market has seen several significant portfolio sales and high-cost data center properties trade hands. The largest third quarter transaction was the sale of a research and development, flex building located in Boulder. The 150,000-square-foot facility sold for \$52 million, or \$350/SF, and is primarily leased to Array BioPharma, Inc. Other notable sales during the quarter include Central 62, a 124,000-square-foot, newly constructed industrial warehouse building along Interstate 25 that sold for \$21.3 million, or \$172/SF, and the Diagonal Tech Center in Longmont, a two-building flex campus, sold for \$19.6 million, or \$160/SF.

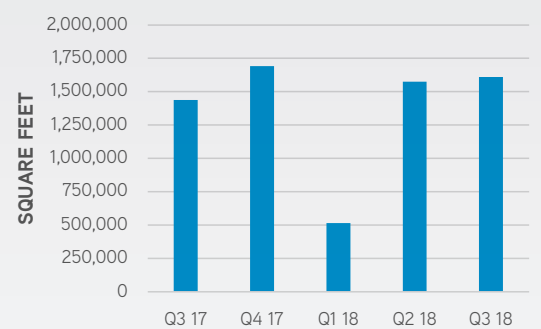
## Absorption



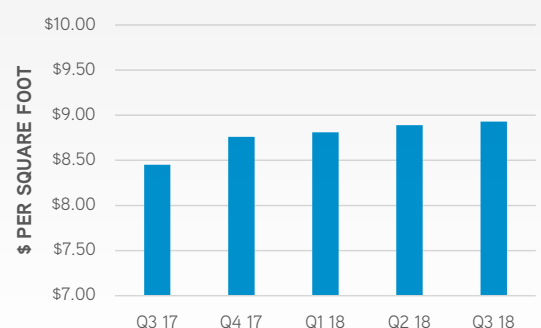
## Vacancy



## Deliveries



## Rental Rates



## Recent Transactions

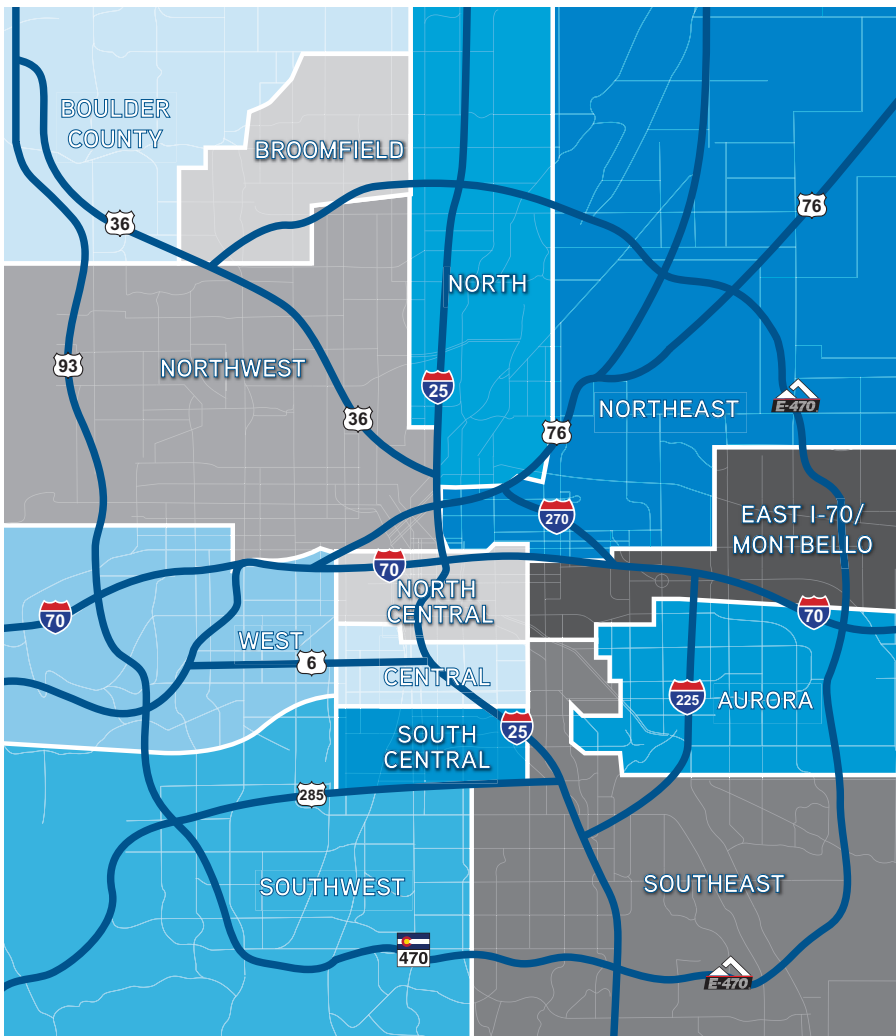
Industrial – Denver - Sales Activity						
PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
3200 Walnut Street	Boulder	\$52,300,000	149,556	\$350	Tritower Financial Group	Biomed Realty
435–495 East 62nd Avenue	Northeast	\$21,325,000	124,000	\$172	JP Morgan	RREEF Property Trust
1625–1751 South Fordham Street	Longmont	\$19,670,400	123,200	\$160	Jakobson Properties	Balfour Pacific
8375 Highfield Parkway	Southeast	\$17,500,000	114,475	\$153	Polycone Corp.	Gordon Holdings, Inc.

Industrial – Denver - Leasing Activity				
PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME
22655 East 19th Avenue	East I-70/Montbello	309,000	New	Safilo
14445 Grasslands Drive	Southeast	106,000	New	Paragon 28
4250 Oneida Street	Northeast	103,000	New	Sturgeon Electric

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)
<b>AURORA</b>													
Industrial	29	657,018	5.0%	0.0%	5.0%	4.5%	-	(3,065)	(3,065)	-	29,539	-	\$9.88
Flex	44	1,567,774	9.9%	0.0%	9.9%	10.3%	2,705	6,855	17,341	-	-	50,000	\$7.72
<b>Total</b>	<b>73</b>	<b>2,224,792</b>	<b>8.4%</b>	<b>0.0%</b>	<b>8.4%</b>	<b>8.6%</b>	<b>2,705</b>	<b>3,790</b>	<b>14,276</b>	<b>-</b>	<b>29,539</b>	<b>50,000</b>	<b>\$7.82</b>
<b>BOULDER</b>													
Industrial	283	10,705,155	5.6%	1.6%	7.2%	5.6%	95,122	(4,473)	219,665	136,610	178,210	108,889	\$9.60
Flex	222	9,666,338	4.6%	0.5%	5.1%	6.9%	95,920	170,641	190,978	-	-	92,929	\$14.94
<b>Total</b>	<b>505</b>	<b>20,371,493</b>	<b>5.1%</b>	<b>1.1%</b>	<b>6.2%</b>	<b>6.2%</b>	<b>191,042</b>	<b>166,168</b>	<b>410,643</b>	<b>136,610</b>	<b>178,210</b>	<b>201,818</b>	<b>\$12.25</b>
<b>BROOMFIELD</b>													
Industrial	77	3,358,037	8.0%	0.0%	8.0%	4.9%	2,500	(4,408)	61,320	107,455	260,216	139,876	\$10.11
Flex	30	1,085,361	10.3%	1.1%	11.3%	10.8%	31,024	(5,071)	51,044	-	133,122	150,000	\$11.01
<b>Total</b>	<b>107</b>	<b>4,443,398</b>	<b>8.6%</b>	<b>0.3%</b>	<b>8.8%</b>	<b>6.4%</b>	<b>33,524</b>	<b>(9,479)</b>	<b>112,364</b>	<b>107,455</b>	<b>393,338</b>	<b>289,876</b>	<b>\$10.40</b>
<b>CENTRAL</b>													
Industrial	306	10,853,242	4.7%	0.2%	4.9%	3.9%	36,759	(103,390)	(60,644)	-	-	-	\$8.20
Flex	11	333,417	6.1%	0.0%	6.1%	12.7%	-	(10,190)	(57,417)	-	-	-	\$9.50
<b>Total</b>	<b>317</b>	<b>11,186,659</b>	<b>4.7%</b>	<b>0.2%</b>	<b>4.9%</b>	<b>4.2%</b>	<b>36,759</b>	<b>(113,580)</b>	<b>(118,061)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$9.00</b>
<b>EAST I-70/MONTBELLO</b>													
Industrial	1,076	79,812,326	5.8%	0.4%	6.2%	6.2%	1,103,865	289,492	348,126	267,847	1,137,776	1,868,622	\$6.22
Flex	61	1,919,897	3.0%	0.0%	3.0%	1.8%	19,362	(23,914)	(27,924)	53,400	53,400	210,900	\$9.00
<b>Total</b>	<b>1,074</b>	<b>81,732,223</b>	<b>5.7%</b>	<b>0.4%</b>	<b>6.1%</b>	<b>6.1%</b>	<b>1,123,227</b>	<b>265,578</b>	<b>320,202</b>	<b>321,247</b>	<b>1,191,176</b>	<b>2,079,522</b>	<b>\$6.45</b>

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)
<b>LONGMONT</b>													
Industrial	94	2,901,947	3.1%	0.0%	3.1%	2.1%	10,600	(20,103)	(8,398)	-	-	33,000	\$11.00
Flex	48	2,674,927	27.5%	0.7%	28.2%	28.6%	68,237	9,884	(160,453)	-	-	-	\$12.88
<b>Total</b>	<b>142</b>	<b>5,576,874</b>	<b>14.8%</b>	<b>0.3%</b>	<b>15.2%</b>	<b>14.8%</b>	<b>78,837</b>	<b>(10,219)</b>	<b>(168,851)</b>	<b>-</b>	<b>-</b>	<b>33,000</b>	<b>\$12.30</b>
<b>NORTH CENTRAL</b>													
Industrial	424	16,515,509	5.1%	0.3%	5.4%	4.7%	98,764	(127,151)	(105,082)	-	60,000	-	\$8.93
Flex	23	757,174	4.4%	0.0%	4.4%	3.2%	8,000	(9,345)	(27,900)	-	-	-	\$12.50
<b>Total</b>	<b>447</b>	<b>17,272,683</b>	<b>5.1%</b>	<b>0.3%</b>	<b>5.4%</b>	<b>4.6%</b>	<b>106,764</b>	<b>(136,496)</b>	<b>(132,982)</b>	<b>-</b>	<b>60,000</b>	<b>-</b>	<b>\$9.13</b>
<b>NORTH</b>													
Industrial	161	6,974,865	7.8%	0.0%	7.8%	3.6%	16,870	881,566	916,684	855,000	1,255,470	-	\$8.87
Flex	40	1,730,055	19.3%	0.4%	19.7%	20.1%	25,213	7,097	18,269	-	31,270	30,000	\$12.15
<b>Total</b>	<b>201</b>	<b>8,704,920</b>	<b>10.1%</b>	<b>0.1%</b>	<b>10.1%</b>	<b>7.0%</b>	<b>42,083</b>	<b>888,663</b>	<b>934,953</b>	<b>855,000</b>	<b>1,286,740</b>	<b>30,000</b>	<b>\$9.38</b>
<b>NORTHEAST</b>													
Industrial	427	18,422,927	1.4%	0.0%	1.4%	1.2%	110,426	(23,888)	283,432	27,500	66,925	1,494,672	\$7.56
Flex	35	1,012,260	6.5%	0.0%	6.5%	9.1%	1,015	26,118	37,061	-	-	-	\$11.78
<b>Total</b>	<b>462</b>	<b>19,435,187</b>	<b>1.7%</b>	<b>0.0%</b>	<b>1.7%</b>	<b>1.6%</b>	<b>111,441</b>	<b>2,230</b>	<b>320,493</b>	<b>27,500</b>	<b>66,925</b>	<b>1,494,672</b>	<b>\$7.91</b>
<b>NORTHWEST</b>													
Industrial	290	11,391,238	4.1%	0.1%	4.2%	5.8%	69,462	178,105	139,207	-	79,698	-	\$8.74
Flex	80	1,949,933	2.9%	0.0%	2.9%	5.8%	28,134	56,419	80,138	-	33,600	-	\$10.39
<b>Total</b>	<b>370</b>	<b>13,341,171</b>	<b>3.9%</b>	<b>0.1%</b>	<b>4.0%</b>	<b>5.8%</b>	<b>97,596</b>	<b>234,524</b>	<b>219,345</b>	<b>-</b>	<b>113,298</b>	<b>-</b>	<b>\$9.20</b>
<b>SOUTH CENTRAL</b>													
Industrial	401	10,899,737	2.5%	0.0%	2.5%	3.0%	96,728	55,407	(5,616)	-	-	-	\$8.45
Flex	26	664,521	2.3%	0.0%	2.3%	5.4%	5,315	20,206	43,152	-	-	-	\$9.69
<b>Total</b>	<b>427</b>	<b>11,564,258</b>	<b>2.5%</b>	<b>0.0%</b>	<b>2.5%</b>	<b>3.1%</b>	<b>102,043</b>	<b>75,613</b>	<b>37,536</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$8.52</b>
<b>SOUTHEAST</b>													
Industrial	243	9,929,111	5.7%	0.0%	5.7%	3.6%	174,433	(10,494)	86,598	92,000	154,000	213,202	\$9.50
Flex	255	8,785,726	4.5%	0.4%	4.8%	5.3%	76,808	36,293	107,983	-	-	27,378	\$11.34
<b>Total</b>	<b>498</b>	<b>18,714,837</b>	<b>5.1%</b>	<b>0.2%</b>	<b>5.3%</b>	<b>4.4%</b>	<b>251,241</b>	<b>25,799</b>	<b>194,581</b>	<b>92,000</b>	<b>154,000</b>	<b>240,580</b>	<b>\$10.34</b>
<b>SOUTHWEST</b>													
Industrial	188	5,940,841	1.1%	0.0%	1.1%	1.4%	94,140	19,293	18,740	-	-	-	\$10.80
Flex	115	3,949,301	5.2%	0.0%	5.2%	4.9%	10,900	(13,526)	(3,893)	-	-	-	\$10.17
<b>Total</b>	<b>303</b>	<b>9,890,142</b>	<b>2.7%</b>	<b>0.0%</b>	<b>2.7%</b>	<b>2.8%</b>	<b>105,040</b>	<b>5,767</b>	<b>14,847</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$10.34</b>
<b>WELD COUNTY</b>													
Industrial	488	18,787,891	2.2%	0.1%	2.4%	1.7%	58,060	(132,991)	(138,338)	37,580	64,210	404,000	\$11.03
Flex	62	2,221,656	5.3%	0.0%	5.3%	5.1%	14,975	(3,933)	243,055	-	130,000	-	\$9.10
<b>Total</b>	<b>550</b>	<b>21,009,547</b>	<b>2.6%</b>	<b>0.1%</b>	<b>2.7%</b>	<b>2.0%</b>	<b>73,035</b>	<b>(136,924)</b>	<b>104,717</b>	<b>37,580</b>	<b>194,210</b>	<b>404,000</b>	<b>\$10.75</b>
<b>WEST</b>													
Industrial	241	15,197,183	1.0%	0.1%	1.1%	1.3%	58,121	65,656	14,019	32,944	32,944	68,000	\$8.75
Flex	115	7,327,234	2.2%	0.0%	2.3%	2.9%	62,419	48,200	58,971	-	-	-	\$12.23
<b>Total</b>	<b>356</b>	<b>22,524,417</b>	<b>1.4%</b>	<b>0.1%</b>	<b>1.5%</b>	<b>1.8%</b>	<b>120,540</b>	<b>113,856</b>	<b>72,990</b>	<b>32,944</b>	<b>32,944</b>	<b>68,000</b>	<b>\$10.37</b>
<b>MARKET TOTAL</b>													
Industrial	4,728	222,347,027	4.4%	0.3%	4.6%	4.2%	2,025,850	1,059,556	1,766,648	1,556,936	3,318,988	4,330,261	\$8.01
Flex	1,167	45,645,574	6.4%	0.3%	6.7%	7.4%	450,027	315,734	570,405	53,400	381,392	561,207	\$12.14
<b>Total</b>	<b>5,895</b>	<b>267,992,601</b>	<b>4.7%</b>	<b>0.3%</b>	<b>5.0%</b>	<b>4.8%</b>	<b>2,475,877</b>	<b>1,375,290</b>	<b>2,337,053</b>	<b>1,610,336</b>	<b>3,700,380</b>	<b>4,891,468</b>	<b>\$8.93</b>
<b>DENVER MARKET QUARTERLY COMPARISON AND TOTALS</b>													
Q3 18	5,895	267,992,601	4.7%	0.3%	5.0%	4.8%	2,475,877	1,375,290	2,337,053	1,610,336	3,700,380	4,891,468	\$8.93
Q2 18	5,881	266,940,535	4.5%	0.3%	4.8%	4.5%	2,259,910	250,453	961,763	1,574,392	2,090,044	4,668,700	\$8.89
Q1 18	5,865	265,324,342	4.3%	0.3%	4.5%	5.0%	4,175,592	711,310	711,310	515,652	515,652	4,509,535	\$8.81
Q4 17	5,859	265,016,453	4.2%	0.1%	4.4%	5.0%	3,307,105	1,343,299	4,231,389	1,690,903	4,894,266	4,017,394	\$8.76
Q3 17	5,845	263,093,721	4.7%	0.3%	5.0%	5.1%	3,337,135	1,297,626	2,888,090	1,438,140	3,203,363	4,001,246	\$8.45





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**69** countries on  
**6** continents

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### FOR MORE INFORMATION

**Brad Calbert, ULI, NAIOP**  
President | Denver  
+1 303 283 4566  
[brad.calbert@colliers.com](mailto:brad.calbert@colliers.com)

### RESEARCHERS:

**Tyson Price**  
Research Director | Denver  
+1 303 283 4561  
[tyson.price@colliers.com](mailto:tyson.price@colliers.com)

**Claire Anhalt**  
Research Analyst | Denver  
+1 720 833 4628  
[claire.anhalt@colliers.com](mailto:claire.anhalt@colliers.com)

Colliers International | Denver  
4643 South Ulster Street, Suite 1000  
+1 303 745 5800  
[colliers.com/denver](http://colliers.com/denver)

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