

Lease Rates Continue to Climb, Complementing Steady Absorption

Market Overview

Demand for industrial space remains strong into 2015. In the first quarter, Metro Denver observed positive net absorption of 915,032 square feet; a healthy increase, yet not matching pace with a robust first quarter in 2014 which reported positive net absorption of 1,564,679 square feet. Continued occupancy gains in Metro Denver have compressed the overall vacancy rates to 4.0 percent – a decline of 120 basis points year-over-year. Lack of supply in the market has asserted pressure on rentals rates, with the market turning to favor landlords, as rental rates have increased to \$6.47 and \$10.13 per square foot (NNN) for industrial and flex space, respectively. These rates reflect an average rate increase of 7.5 percent from last quarter, highlighting strong tenant demand.

Strong market fundamentals have continued to bolster Metro Denver's construction industry. Across all submarkets, over 1,120,000 square feet is under construction. The majority of all construction remains in the East Montbello/I-70 submarket, with prominent players such as The Pauls Corporation, Prologis, and United Properties involved.

Highlighted Trends

- › Economic activity in the manufacturing sector expanded in March for the 27th consecutive month, and the overall economy grew for the 70th consecutive month, according to the Manufacturing ISM Report on Business.
- › Denver Unemployment Rate remains 100 basis points below the national average at 4.5 percent.
- › The overall industrial vacancy rate hits a record low of 4.0 percent across all asset classes in Metro Denver.
- › Investment sales of industrial product type indicate an average of \$76.45 per square foot over 55 transactions.

Market Indicators

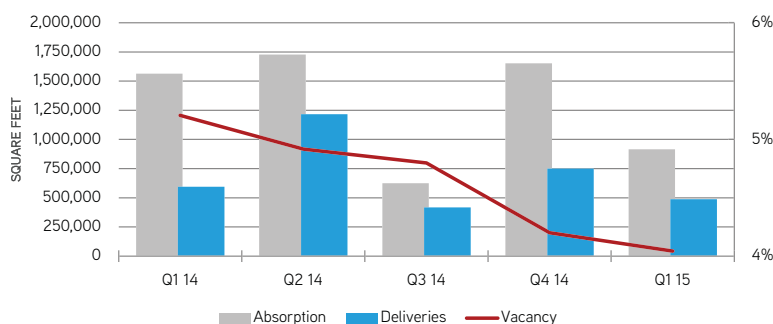
Relative to prior period	Q1 2015	Projected Q2 2015
VACANCY	↓	↓
NET ABSORPTION	+	+
DELIVERIES	↑	↑
RENTAL RATE	↑	↑

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

Denver Metro Summary Statistics

	Q1 2014	Q1 2015
Vacancy Rate	5.2%	4.0%
Absorption YTD	1,564,679	915,032
Deliveries YTD	594,913	488,347
Under Construction	855,271	1,120,704
Asking Rents/SF	\$6.01	\$7.17

Denver Industrial Market Q1 2014 – Q1 2015



The first quarter brought 915,032 square feet of positive net absorption throughout the Metro Denver industrial market, compressing the overall vacancy rate to 4.0 percent.

Absorption

In the first quarter 2015, Metro Denver totaled net positive absorption of 915,032 square feet. Of this, approximately 70 percent, or 628,621 square feet of absorption, represented Industrial property types, with the remaining 30 percent comprising Flex property types. The premier industrial submarket in Metro Denver remains East I-70/Montbello, which contributed 60 percent, or 547,155 square feet of total absorption during the first quarter 2015. Of the 15 submarkets that comprise Metro Denver's industrial market, 10 posted positive net absorption, while the remaining five experienced negative net absorption.

Vacancy

Strong absorption gains in a market with limited supply continue to drive down the vacancy rate throughout the Metro Denver Industrial market. The steady decline in vacancy has left Metro Denver at an all-time low vacancy rate of 4.0 percent. Of the larger industrial submarkets in the region, the Northeast submarket, consisting of 15,332,628 square feet of warehouse space, has a vacancy rate of 1.2 percent. The market has seen an influx of demand with competitive rates in comparison to the other large submarkets. The various flex submarkets have seen characteristic volatility; however, the East I-70/Montbello submarket has remained a strong performer. With the vacancy rate remaining at 2.3 percent (no change from previous quarter), it is among the lowest vacancy rates and most steady submarkets in Metro Denver. Vacancy rates along the Interstate 25 and Interstate 70 remain low in the Central Denver, South Central Denver and Aurora submarkets, where vacancy rates stand at 1.9 percent, 1.6 percent, and 1.4 percent, respectively. As a result of such a strained supply, the Metro Denver industrial real estate market has become a landlords market.

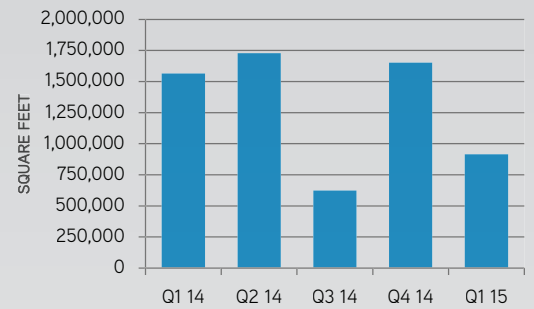
Deliveries & Construction

The tightening market has spurred the need for more development with a number of large projects slated for 2015 completion. Demand is warranted by speculative warehouse space experiencing pre-leasing on some projects. The Enterprise Business Center in Stapleton totals 466,540 square feet; a speculative warehouse project that has seen 88,575 square feet pre-leased. Momentum has slowed in the first quarter compared to the previous quarter in terms of deliveries. Three buildings totaling 580,308 square feet were delivered in the first quarter, which is a significant addition to the metro market, although still below deliveries from the previous fourth quarter total of 1,019,229 square feet. Outside of the robust East I-70/Montbello market, Boulder had the largest, single delivery with a 95,922 square feet build-to-suit at 4910 Nautilus for Avery Brewing Company. This new facility indicates the growing presence of large owner-users in the market.

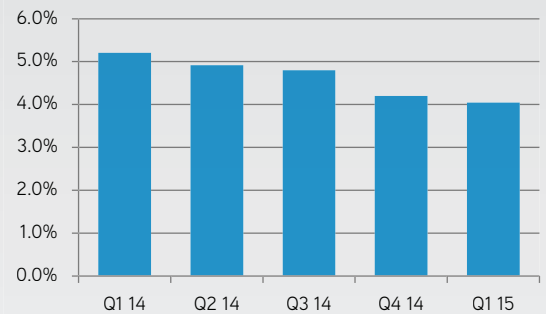
Rental Rates

Landlords continue to see the benefits of increasing rates throughout all industrial submarkets. Asking rents are up \$1.16 per square foot year-over-year, which now currently stands at \$7.17 per square foot at the end of first quarter 2015. The average quoted rate within the Flex sector was \$10.13 per square foot, while warehouse rates stood at \$6.47 per square foot. Outside of Boulder, the highest quoted rates remain in the Southeast submarket at \$9.38 per square foot.

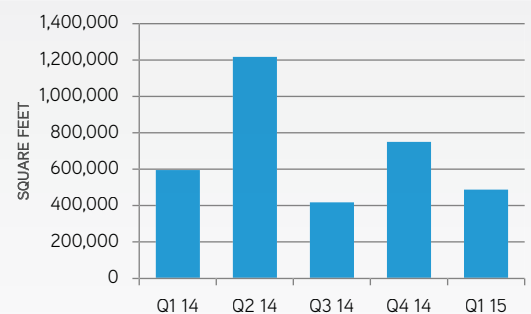
Absorption



Vacancy



Deliveries



Sales Activity

In the first quarter 2015, 55 transactions indicated an average sale price per square foot of \$76.45. Industrial properties are continuing to see the largest decline in cap rates of any product type nationwide, and flex properties are experiencing the strongest growth in sales volume. Higher yield strategies are in effect, with investors looking to chase higher cap rates in secondary and tertiary markets balanced with the increasing appetite for value-add deals. Metro Denver ranks 13th in the top 15 markets for the highest industrial sales volume in the country.

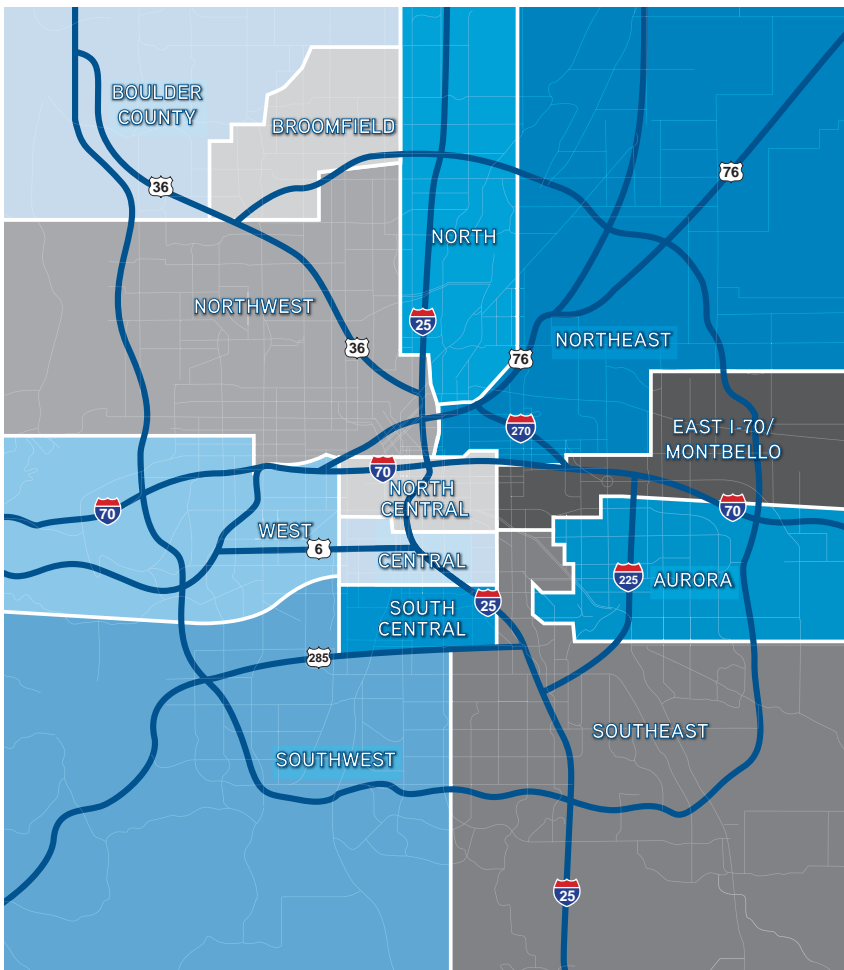
Recent Transactions

Industrial – Denver - Sales Activity						
PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
Airport Distribution Center	East I-70/Montbello - Aurora	\$46,600,000	691,200	\$67.42	DCT Industrial	Pauls Corp. Realty
6446 S. Kenton	Southeast	\$11,800,000	79,000	\$149.37	NetREIT	Torchlight
Verizon Business Center	Southeast	\$18,400,000	106,000	\$173.58	Lum Yip Kee	Mountain View Properties

Industrial – Denver - Leasing Activity				
PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME
11700 E. 47th Avenue	East I-70/Montbello	136,400	Expansion	Nestle Waters
701 Osage Street	Central	107,111	New	HD Supply White Cap
16100 Table Mountain Parkway	West	13,200	New	Epilog Laser

Industrial Overview													
EXISTING PROPERTIES			VACANCY				ACTIVITY	ABSORPTION		CONSTRUCTION			RENTS
SUBMARKET/CLASS	BLDGS	TOTAL INVENTORY SQ FT	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	154	5,121,434	2.6%	0.1%	2.7%	2.2%	6,669	(23,116)	(23,116)	-	-	-	\$9.92
Flex	67	2,448,375	8.3%	1.2%	9.5%	9.2%	24,322	79,664	79,664	95,922	95,922	-	\$13.57
Total	221	7,569,809	4.4%	0.5%	4.9%	4.4%	30,991	56,548	56,548	95,922	95,922	-	\$12.31
BROOMFIELD													
Industrial	67	3,036,999	5.9%	0.0%	5.9%	7.2%	51,483	37,624	37,624	-	-	-	\$5.27
Flex	11	242,657	10.3%	0.0%	10.3%	9.1%	-	(3,080)	(3,080)	-	-	-	\$9.82
Total	78	3,279,656	6.3%	0.0%	6.3%	7.3%	51,483	34,544	34,544	-	-	-	\$5.34
CENTRAL													
Industrial	302	10,660,386	2.2%	0.8%	3.0%	1.9%	107,111	(115,911)	(115,911)	-	-	-	\$6.87
Flex	5	102,740	0.0%	0.0%	0.0%	0.0%	-	-	-	-	-	-	N/A
Total	307	10,763,126	2.2%	0.8%	3.0%	1.9%	107,111	(115,911)	(115,911)	-	-	-	\$6.87
EAST I-70/MONTBELLO													
Industrial	1,028	70,789,183	3.3%	0.5%	3.8%	4.1%	933,420	547,155	547,155	392,425	392,425	1,071,277	\$5.92
Flex	27	1,041,932	2.3%	0.0%	2.3%	2.3%	-	-	-	-	-	-	\$7.50
Total	1,055	71,831,115	3.3%	0.5%	3.8%	4.0%	933,420	547,155	547,155	392,425	392,425	1,071,277	\$5.92

LONGMONT													
Industrial	81	2,864,719	4.3%	0.0%	4.3%	4.3%	6,631	-	-	-	-	-	\$6.13
Flex	28	2,064,260	12.1%	22.3%	34.4%	35.3%	8,800	18,615	18,615	-	-	-	\$8.94
Total	109	4,928,979	7.5%	9.4%	16.9%	17.3%	15,431	18,615	18,615	-	-	-	\$7.68
NORTH CENTRAL													
Industrial	438	17,078,181	2.2%	0.0%	2.2%	2.5%	85,259	62,020	62,020	-	-	-	\$6.11
Flex	13	354,738	1.1%	0.0%	1.1%	5.2%	-	2,000	2,000	-	-	14,427	\$9.76
Total	451	17,432,919	2.1%	0.0%	2.1%	2.6%	85,259	64,020	64,020	-	-	14,427	\$6.73
NORTH													
Industrial	137	5,908,225	5.5%	0.0%	5.5%	9.2%	233,637	219,957	219,957	-	-	-	\$6.30
Flex	12	487,911	3.7%	0.0%	3.7%	4.2%	-	2,208	2,208	-	-	-	\$8.60
Total	149	6,396,136	5.4%	0.0%	5.4%	8.9%	233,637	222,165	222,165	-	-	-	\$6.57
NORTHEAST													
Industrial	363	15,332,628	1.1%	0.1%	1.2%	0.8%	51,225	(63,846)	(63,846)	-	-	-	\$6.17
Flex	13	473,188	1.5%	0.0%	1.5%	1.4%	6,750	(350)	(350)	-	-	-	\$8.51
Total	376	15,805,816	1.1%	0.1%	1.2%	0.8%	57,975	(64,196)	(64,196)	-	-	-	\$6.33
NORTHWEST													
Industrial	318	11,971,250	4.2%	0.2%	4.4%	3.3%	164,925	(125,155)	(125,155)	-	-	-	\$6.04
Flex	68	2,339,343	4.8%	0.0%	4.8%	7.5%	36,339	64,391	64,391	-	-	-	\$10.58
Total	386	14,310,593	4.3%	0.1%	4.4%	4.0%	201,264	(60,764)	(60,764)	-	-	-	\$6.96
SOUTH CENTRAL													
Industrial	401	11,024,269	1.6%	0.0%	1.6%	1.1%	77,965	(55,031)	(55,031)	-	-	-	\$6.12
Flex	12	364,846	0.0%	0.0%	0.0%	0.4%	-	1,500	1,500	-	-	-	\$6.95
Total	413	11,389,115	1.5%	0.0%	1.5%	1.0%	77,965	(53,531)	(53,531)	-	-	-	\$6.16
SOUTHEAST													
Industrial	219	8,798,904	4.6%	0.0%	4.6%	4.6%	75,165	63,590	63,590	-	-	35,000	\$8.45
Flex	166	5,900,339	9.7%	0.0%	9.7%	10.6%	100,897	55,923	55,923	-	-	-	\$10.13
Total	385	14,699,243	6.6%	0.0%	6.6%	7.0%	176,062	119,513	119,513	-	-	35,000	\$9.38
SOUTHWEST													
Industrial	172	5,417,989	2.3%	0.1%	2.4%	2.4%	-	3,300	3,300	-	-	-	\$9.60
Flex	51	1,755,882	6.7%	0.0%	6.7%	7.4%	12,100	11,664	11,664	-	-	-	\$8.22
Total	223	7,173,871	3.4%	0.1%	3.4%	3.6%	12,100	14,964	14,964	-	-	-	\$8.39
WELD COUNTY													
Industrial	380	15,889,429	5.2%	0.0%	5.2%	5.2%	7,409	118,810	118,810	-	-	-	\$7.69
Flex	24	1,111,524	37.6%	0.0%	37.6%	37.6%	4,220	-	-	-	-	-	\$7.95
Total	404	17,000,953	7.3%	0.0%	7.3%	7.4%	11,629	118,810	118,810	-	-	-	\$7.70
WEST													
Industrial	218	14,143,298	1.4%	0.0%	1.4%	1.1%	6,139	(40,776)	(40,776)	-	-	-	\$7.00
Flex	51	1,852,693	2.4%	0.0%	2.4%	4.5%	30,920	39,785	39,785	-	-	-	\$9.43
Total	269	15,995,991	1.5%	0.0%	1.5%	1.5%	52,006	(991)	(991)	-	-	-	\$7.30
MARKET TOTAL													
Industrial	4,302	198,603,285	3.1%	0.2%	3.3%	3.4%	1,807,038	628,621	628,621	392,425	392,425	1,106,277	\$6.47
Flex	561	21,096,667	8.5%	2.3%	10.9%	11.9%	228,049	286,411	286,411	95,922	95,922	14,427	\$10.13
Total	4,863	219,699,952	3.6%	0.4%	4.0%	4.2%	2,035,087	915,032	915,032	488,347	488,347	1,120,704	\$7.17
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q1 15	4,863	219,699,952	3.6%	0.4%	4.0%	4.2%	2,035,087	915,032	915,032	488,347	488,347	1,120,704	\$7.17
Q4 14	4,861	219,106,893	3.7%	0.5%	4.2%	4.8%	2,865,597	1,651,900	5,569,097	749,891	2,979,004	1,797,566	\$6.67
Q3 14	4,858	218,612,932	4.7%	0.5%	4.8%	4.9%	3,747,134	624,235	3,917,197	417,398	2,229,113	2,232,247	\$6.41
Q2 14	4,858	218,228,063	5.3%	0.5%	4.9%	5.2%	3,827,236	1,728,283	3,292,962	1,216,802	1,811,715	1,810,965	\$6.33
Q1 14	4,855	217,070,398	6.4%	0.5%	5.2%	5.7%	2,816,201	1,564,679	1,564,679	594,913	594,913	855,271	\$6.01



502 offices in
67 countries on
6 continents

United States: **140**
Canada: **31**
Latin America: **24**
Asia Pacific: **199**
EMEA: **108**

\$2.3
billion in
annual revenue

1.7
billion square feet
under management

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professionals
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