

METRO DENVER | INDUSTRIAL

Q1 2016

Increased Construction Levels to Satiated Tenant Demand in Select Submarkets

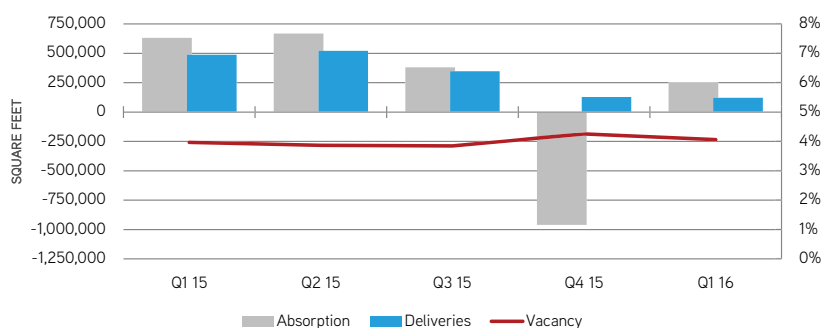
Market Overview

With many of the market fundamentals showing sustained, healthy growth, the first quarter of 2016 was more of the same for the Metro Denver Industrial Market. The educated workforce, growing population, and desirable lifestyle has allowed for economic growth that is reflected in the overall strength of the market. With the first quarter experiencing 254,183 square feet of positive absorption, the vacancy rate has decreased to 4.1 percent. Since the first quarter 2015, vacancy has hovered in the 3.8 percent - 4.3 percent range, which appears to be equilibrium in the current state of the market. However, these levels could be set to increase with nearly four million square feet of construction underway in two of the most institutionally-owned submarkets; East I-70/Montbello and Northeast. Pricing remains strong, indicating landlords' optimism in the market with the average asking rates up to \$7.37 per square foot, NNN, for industrial and \$9.91 per square foot, NNN for flex. The resulting overall asking rate for the first quarter was \$7.98 per square foot, NNN, up 10 percent from the first quarter 2015.

Highlighted Trends

- After 52 straight months of job gains in Colorado, the unemployment rate is at its lowest level since March 2001 at 3.0 percent.
- National economic activity in the manufacturing sector expanded in March for the first time in the last six months, while the overall economy grew for the 82nd consecutive month, according to the March 2016 Manufacturing ISM Report on Business.
- Positive net absorption was realized in 9 of 15 submarkets during the first quarter.
- Metro industrial sales activity during the second quarter totaled \$160.2 million throughout 16 transactions with an average price of \$89 per square foot and average capitalization rate of 7.39 percent.
- Construction activity is increasing with 4,838,062 square feet currently being built.

Denver Industrial Market Q1 2015 – Q1 2016



Market Indicators

Relative to prior period	Q1 2016	Projected Q2 2016
Vacancy	↓	↓
Net Absorption	+	+
Deliveries	↓	↑
Rental Rate	↑	↑

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

Denver Metro Summary Statistics

	Q1 2015	Q1 2016
Vacancy Rate	4.0%	4.1%
Absorption YTD	630,773	254,183
Deliveries YTD	488,347	120,785
Under Construction	2,232,247	4,838,062
Asking Rents/SF	\$7.18	\$7.98
Total SF	220,648,299	221,212,606

First quarter absorption bounced back with positive net absorption of nearly 255,000 square feet after the previous fourth quarter posted high negative net absorption due predominately to a large single-tenant vacancy.

Absorption

Positive net absorption was realized in 9 of 15 submarkets totaling 254,183 square feet overall. With the flex market relatively stable with absorption, all of the positive gains were seen in the industrial property type. The most square feet absorbed by any submarket was Longmont, with 106,570 square feet. The East I-70/Montbello submarket posted the second highest absorption total during the quarter with 92,724 square feet. This submarket has the largest concentration of industrial product in Denver and has the largest institutional presence and best access to the most prominent interstates. Conversely, the South Central submarket had negative 86,509 square feet of absorption. Often with the lowest vacancy rate in Denver, the negative absorption was largely due to two tenants moving to the Southeast submarket; Novelty Lighting and JR Butler.

Vacancy

In the current market, it appears the 4.1 percent vacancy rate is close to equilibrium. It has maintained similar levels for approximately one year, yet with large volumes of new construction on the horizon, it is likely to increase. With the West submarket at 1.2 percent, it is currently the lowest vacancy in Metro Denver, while Longmont has the highest at 17.7 percent. With generally more tenant requirements in industrial product type, it reflects a market vacancy of 3.4 percent for low office finish product versus the 10.7 percent rate for flex. With many tenants seeking smaller (10,000-30,000) space, new construction projects with the ability to reconfigure to those smaller sizes should assist with demand.

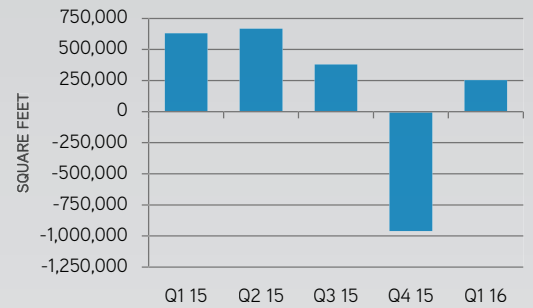
Deliveries & Construction

As is characteristic of winter months and the first quarter, deliveries were minimal; totaling 120,785 square feet over four buildings. However, construction activity has heightened, with several existing developments building out their next phase and new sites identified and concrete poured. Currently, there are 31 buildings under construction totaling 4,838,062 square feet. Only 212,120 square feet of new construction activity is flex, occurring in the West and Southwest submarkets. The rest of the construction is predominately in the Northeast and East I-70/Montbello submarkets with large, high-cube industrial product running the majority of the I-70 corridor. KeHe is awaiting completion of a 270,000 square foot, build-to-suit, with the majority of the remaining construction spec.

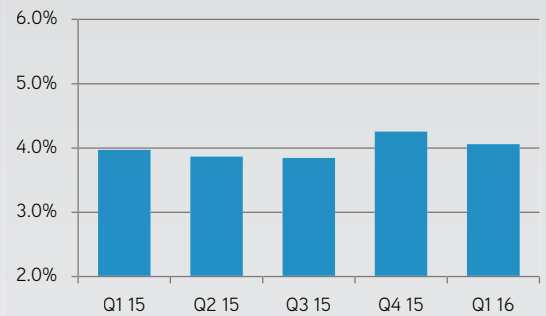
Rental Rates

Despite a general stabilization in vacancy, continued growth has been seen across both building types in terms of average asking rental rates. At \$7.98 per square foot, NNN, Denver is at an all-time high with this pricing seemingly justified by the low vacancy. With many large projects expected to deliver in the second and third quarter, it will be very telling to see how asking rates adjust and if existing space must lower their expectations to draw from the newer more appealing product. The Southeast remains the largest flex market also commanding the highest average asking rates at \$11.08 per square foot (outside of Boulder). The East I-70/Montbello submarket will be a strong indication if there is any tenant pushback in the coming quarters on pricing. For true industrial space average asking rates are \$6.22 per square foot and most new construction should be well above that.

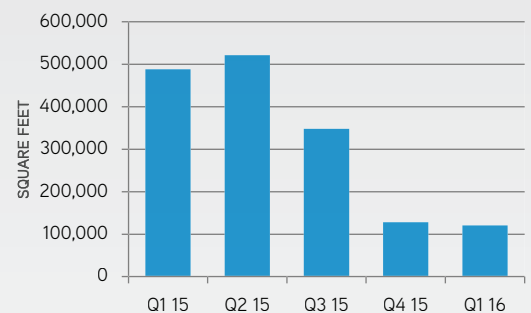
Absorption



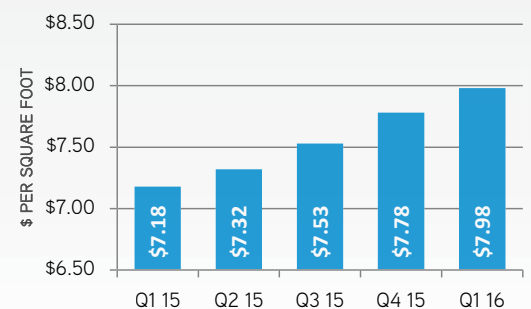
Vacancy



Deliveries



Rental Rates



Sales Activity

There were 16 transactions in the Metro Denver industrial market during the first quarter 2016, totaling \$160.2 million in sales volume, an average of \$89 per square foot with an average capitalization rate of 7.39 percent. The largest volume transaction in the first quarter was Warehouse Central for \$24,000,000 (\$73.65 per square foot). Currently, a large influx of investors are looking to place capital within the market and their yield requirements are becoming less stringent. However, there is a supply demand imbalance with few well-leased, low office finish, assets available for sale. On the user side, inventory is increasing, yet still maintains an incredibly competitive market.

Recent Transactions

Industrial – Denver - Sales Activity						
PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
Warehouse Central	Central	\$24,000,000	325,858	\$73.65	Stockbridge Capital Group	Thackeray Partners
Arapahoe Service Center 1	Southeast	\$15,600,000	144,341	\$108.08	Kumar Family Trust	SVN Equities
Garrison Business Park II	West	\$7,462,500	49,183	\$151.73	Charles A Miller & Ian M Gill	Pathfinder Partners

Industrial – Denver - Leasing Activity					
PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME	
Enterprise Park	East I-70/Montbello	80,782	New	Dealer Tire	
Concord Business Park	Southeast	33,000	New	Bel Shower Door	
Bryant Street Quad	Central	12,672	New	Exquisite Kitchen Designs	

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	25	581,501	0.0%	0.0%	0.0%	0.0%	-	-	-	-	-	-	N/A
Flex	13	556,239	15.2%	1.1%	16.3%	16.6%	5,000	1,850	1,850	-	-	-	\$8.49
Total	38	1,137,740	7.4%	0.5%	8.0%	8.1%	5,000	1,850	1,850	-	-	-	\$8.49

BOULDER

Industrial	152	5,640,358	3.6%	0.0%	3.6%	4.3%	33,598	39,122	39,122	-	-	-	\$11.91
Flex	66	2,422,618	7.9%	1.2%	9.1%	11.0%	57,740	23,355	23,355	-	-	-	\$14.19
Total	218	8,062,976	4.9%	0.4%	5.3%	6.4%	91,338	62,477	62,477	-	-	-	\$12.95

BROOMFIELD

Industrial	68	3,051,273	4.5%	0.0%	4.5%	5.5%	5,883	30,276	30,276	-	-	120,581	\$5.87
Flex	10	221,565	0.0%	0.0%	0.0%	9.9%	-	22,024	22,024	-	-	-	\$10.50
Total	78	3,272,838	4.2%	0.0%	4.2%	5.8%	5,883	52,300	52,300	-	-	-	\$5.96

CENTRAL

Industrial	303	10,577,624	1.9%	0.5%	2.4%	2.2%	81,301	(23,714)	(23,714)	-	-	-	\$6.48
Flex	5	102,740	0.0%	0.0%	0.0%	0.0%	-	-	-	-	-	-	N/A
Total	308	10,680,364	1.9%	0.5%	2.4%	2.2%	81,301	(23,714)	(23,714)	-	-	-	\$6.48

EAST I-70/MONTBELLO

Industrial	1,032	71,638,328	2.9%	0.6%	3.5%	3.6%	654,517	105,224	105,224	-	-	2,868,836	\$6.22
Flex	27	1,041,924	3.0%	0.0%	3.0%	1.8%	12,500	(12,500)	(12,500)	-	-	-	\$8.97
Total	1,059	72,680,252	2.9%	0.6%	3.5%	3.9%	667,017	92,724	92,724	-	-	-	\$6.25

LONGMONT

Industrial	84	2,910,045	3.9%	0.0%	3.9%	6.8%	5,412	82,464	82,464	-	-	-	\$7.13
Flex	29	2,112,164	31.6%	0.0%	31.6%	32.8%	24,106	24,106	24,106	-	-	-	\$9.31
Total	113	5,022,209	15.6%	0.0%	15.6%	17.7%	29,518	106,570	106,570	-	-	-	\$8.40

NORTH CENTRAL

Industrial	426	16,726,227	2.1%	0.1%	2.2%	3.4%	68,306	(50,507)	(50,507)	-	-	-	\$8.31
Flex	13	354,738	8.3%	0.0%	8.3%	1.5%	24,000	(24,000)	(24,000)	-	-	-	\$7.22
Total	439	17,080,965	2.2%	0.1%	2.3%	3.4%	92,306	(74,507)	(74,507)	-	-	-	\$8.19

NORTH

Industrial	139	5,951,120	3.0%	0.0%	3.0%	2.8%	41,750	(8,710)	(8,710)	-	-	117,680	\$7.77
Flex	12	487,911	9.4%	0.0%	9.4%	8.5%	26,648	(4,387)	(4,387)	-	-	-	\$9.95
Total	151	6,439,031	3.5%	0.0%	3.5%	3.3%	68,398	(13,097)	(13,097)	-	-	-	\$8.06

NORTHEAST

Industrial	370	15,478,230	8.4%	0.1%	8.5%	8.6%	11,180	62,260	62,260	61,870	61,870	1,250,150	\$10.02
Flex	13	473,188	2.4%	0.0%	2.4%	1.8%	-	(2,706)	(2,706)	-	-	-	\$10.33
Total	383	15,951,418	8.2%	0.1%	8.4%	8.4%	11,180	59,554	59,554	61,870	61,870	-	\$10.03

NORTHWEST

Industrial	320	12,087,132	3.7%	1.0%	4.7%	4.8%	156,034	10,487	10,487	-	-	-	\$7.26
Flex	68	2,339,802	5.5%	0.0%	5.5%	3.8%	25,752	(41,255)	(41,255)	18,500	18,500	-	\$10.90
Total	388	14,426,934	4.0%	0.8%	4.9%	4.6%	181,786	(30,768)	(30,768)	18,500	18,500	-	\$8.24

SOUTH CENTRAL

Industrial	401	11,044,095	2.0%	0.0%	2.0%	1.2%	22,990	(86,509)	(86,509)	-	-	-	\$7.74
Flex	12	364,846	0.0%	0.0%	0.0%	0.0%	-	-	0	-	-	-	\$6.95
Total	413	11,408,941	2.0%	0.0%	2.0%	1.2%	22,990	(86,509)	(86,509)	-	-	-	\$7.71

SOUTHEAST

Industrial	218	8,755,900	3.2%	0.0%	3.2%	3.6%	14,204	41,476	41,476	-	-	268,695	\$8.45
Flex	167	5,897,259	8.7%	0.5%	9.3%	9.3%	74,805	4,714	4,714	-	-	-	\$11.08
Total	385	14,653,159	5.4%	0.2%	5.6%	5.9%	89,009	46,190	46,190	-	-	-	\$10.05

SOUTHWEST

Industrial	176	5,552,482	1.0%	0.1%	1.1%	1.7%	24,728	33,966	33,966	-	-	-	\$9.74
Flex	51	1,755,882	2.0%	0.0%	2.0%	1.9%	3,000	(1,251)	(1,251)	-	-	101,600	\$9.35
Total	227	7,308,364	1.2%	0.1%	1.3%	1.7%	27,728	32,715	32,715	-	-	-	\$9.64

WELD COUNTY

Industrial	176	5,552,482	1.0%	0.1%	1.1%	1.7%	24,728	33,966	33,966	-	-	-	\$9.74
Flex	51	1,755,882	2.0%	0.0%	2.0%	1.9%	3,000	(1,251)	(1,251)	-	-	101,600	\$9.35
Total	227	7,308,364	1.2%	0.1%	1.3%	1.7%	27,728	32,715	32,715	-	-	-	\$9.64

WEST

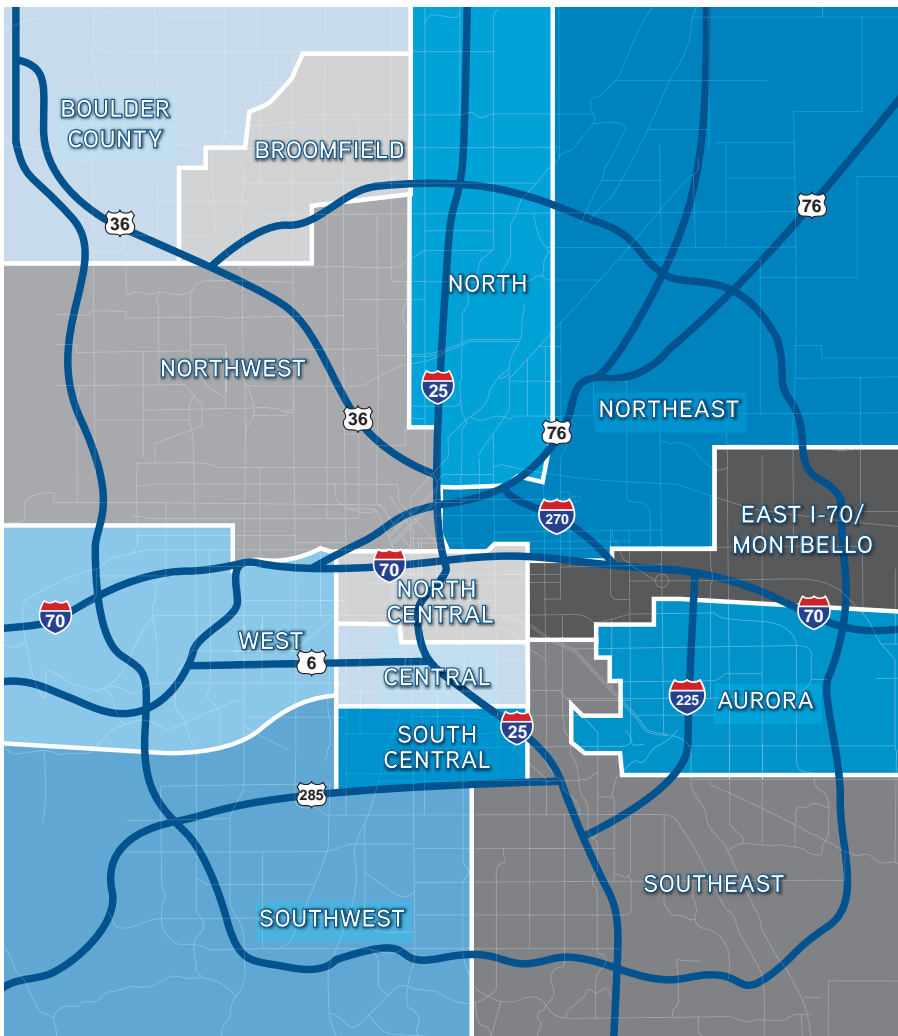
Industrial	218	14,101,342	0.9%	0.0%	0.9%	1.2%	16,400	66,829	66,829	30,415	30,415	-	\$7.12
Flex	50	1,842,495	3.1%	0.3%	3.4%	3.9%	8,258	9,098	9,098	-	-	110,520	\$8.31
Total	268	15,943,837	1.2%	0.0%	1.2%	1.5%	24,658	75,927	75,927	30,415	30,415	-	\$7.40

MARKET TOTAL

Industrial	4,320	200,127,711	3.0%	0.3%	3.4%	3.6%	1,142,022	257,245	257,245	102,285	102,285	4,625,942	\$7.37
Flex	560	21,084,895	10.3%	0.3%	10.7%	10.7%	261,809	(3,062)	(3,062)	18,500	18,500	212,120	\$9.91
Total	4,880	221,212,606	3.7%	0.3%	4.1%	4.3%	1,403,831	254,183	254,183	120,785	120,785	4,838,062	\$7.98

DENVER MARKET QUARTERLY COMPARISON AND TOTALS

Q1 16	4,880	221,212,606	3.7%	0.3%	4.1%	4.3%	1,403,831	254,183	254,183	120,785	120,785	4,838,062	\$7.98
Q4 15	4,881	221,396,721	3.8%	0.5%	4.3%	3.8%	2,596,602	(960,043)	718,139	127,959	1,485,559	2,606,384	\$7.78
Q3 15	4,884	221,454,664	3.4%	0.4%	3.8%	3.9%	2,734,958	379,962	1,678,182	347,840	1,357,600	1,957,884	\$7.53
Q2 15	4,883	221,106,824	4.7%	0.5%	3.9%	4.0%	3,591,283	667,447	1,298,220	521,413	1,009,760	1,797,566	\$7.32
Q1 15	4,882	220,648,299	5.3%	0.5%	4.0%	4.1%	3,630,835	630,773	630,773	488,347	488,347	2,232,247	\$7.18



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

16,300
professionals
and staff

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