

METRO DENVER | INDUSTRIAL

Q2 2016

Robust Industrial Market Keeps on Rolling

Market Overview

The Denver industrial market experienced the delivery of over 1.85 million square feet during the second quarter – the largest single-quarter delivery of the past 15 years. Coupled with positive net absorption of over 1.1 million square feet, the market continues to flourish as rents have justified new construction. As Denver continues to evolve, much of its growth can be attributed to Denver’s long-held position as the transportation and logistics hub of the Rocky Mountain Region and the ongoing expansion of our commuter rail infrastructure. This growth has attracted companies like Amazon to the market and also has Wal-Mart considering a larger distribution presence. As the metro area reaps the rewards from its dedication to improving our infrastructure, the industrial sector has prospered, and is anticipated to remain strong, while solidifying its position as the major hub of the Rocky Mountain Region.

Highlighted Trends

- › Metro deliveries totaled 1.85 million square feet during the quarter – highest single-quarter total in 15 years.
- › 10 out of 15 Submarkets realized positive net absorption during the second quarter.
- › Metro industrial sales activity totaled \$218.5 million across 25 transactions with an average sales price of \$90 per square foot.
- › Unemployment rates in Metro Denver remain at 3.3 percent, continuing the trend of being at least 100 basis points below the national average.
- › Nationwide cost of construction continues to rise in the second quarter; an increase of 4.8% year-over-year according to the Turner Construction Cost Index.
- › The June 2016 Manufacturing ISM Report on Business stated that the manufacturing industry has grown consistently for the past four months while the overall economy has grown for the past 85 months.

Market Indicators

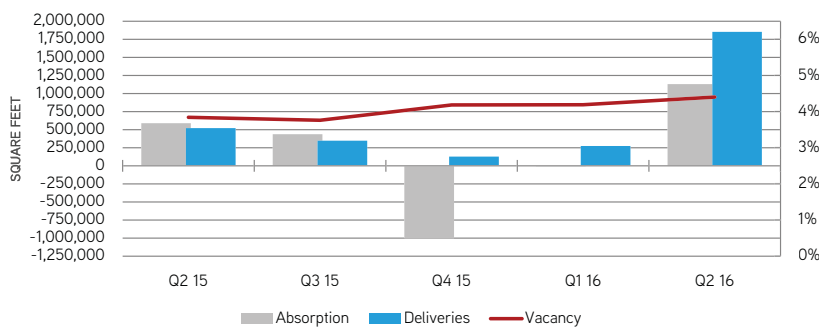
Relative to prior period	Q2 2016	Projected Q3 2016
Vacancy	↑	↓
Net Absorption	+	+
Deliveries	↑	↑
Rental Rate	-	↑

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

Denver Metro Summary Statistics

	Q2 2015	Q2 2016
Vacancy Rate	3.8%	4.4%
Absorption YTD	1,306,544	1,118,529
Deliveries YTD	1,119,390	2,119,268
Under Construction	2,232,247	3,662,873
Asking Rents/SF	\$7.33	\$7.93
Total SF	221,416,326	223,296,782

Denver Industrial Market Q2 2015 – Q2 2016



Second quarter positive net absorption totaled approximately 1,118,000 square feet.

Absorption

10 of 15 Submarkets recorded positive net absorption during the quarter, totaling over 1.1 million square feet. The East I-70/Montbello Submarket continues to be the dominant industrial Submarket recording the highest positive net absorption of 787,000 square feet – flex space absorbed nearly 17,000 square feet. On the other end of the scale, the West Submarket recorded just over 110,000 square feet of negative net absorption.

Vacancy

The current vacancy rate for the overall Metro Denver industrial market is 4.4 percent, which has increased 60 basis points year-over-year. Much of this growth in vacancy can be attributed to new deliveries to the market and the remaining 1.3 million square feet of space vacated by Kmart. The lowest vacancy rate for the second quarter of 2016 was recorded in the Central Submarket at 1.8 percent, just 10 basis points higher than the West Submarket rate, which was the lowest in the market during the previous quarter. Overall in the market, flex space has a much higher vacancy than industrial specific product with rates of 7.8 percent and 4.0 percent, respectively.

Deliveries & Construction

The industrial market delivered nine new buildings to the market totaling over 1.8 million square feet – the highest single-quarter delivery since the first quarter of 2000. These new deliveries were highly anticipated, with approximately 43 percent of the new space being pre-leased before completion. Construction across the market remains strong with 15 buildings underway, which when completed, will bring more than 3.6 million square feet to the market. The East I-70/Montbello Submarket is leading the change for metro industrial construction with more than 2,000,000 square feet currently under construction. With over 900,000 square feet delivered in the second quarter, the East I-70/Montbello is showing sustained growth. This new construction mainly comes from large, high-cube industrial product running across the I-70 Corridor.

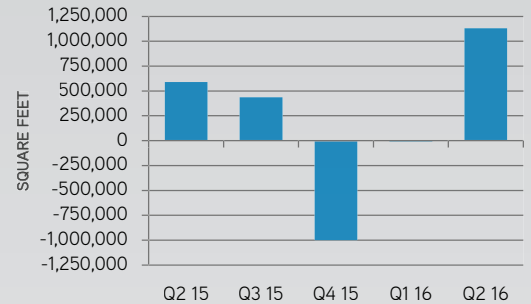
Rental Rates

The market remains favorable to landlords as the average asking rental rate was relatively unchanged from the previous quarter at \$7.93 per square foot. The East I-70/Montbello Submarket maintained its status as the most desirable Submarket following the nearly 1,000,000 square feet of new deliveries. This popular Submarket continues to be resupplied with new product, pushing asking rental rates upward. Flex rental rates in the Southeast Submarket have continued to climb each quarter for the past two years.

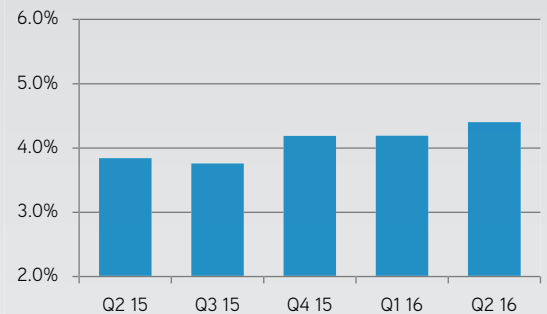
Sales Activity

There were 25 transactions in the Metro Denver industrial market during the second quarter totaling \$218.5 million in sales volume. The average price per square foot was \$90 per square foot. The largest transaction of industrial/flex space in the last decade in Colorado occurred in May 2016 with an Englewood flex portfolio sold by Hines REIT to a joint venture between Griffin Partners and Investcorp. The portfolio consisted of 10 flex buildings in Arapahoe Business Park I and II, as well as 345 Inverness Drive South, which sold for a total of \$78.5 million. Other notable second quarter sales include the 214,116 square foot 6th Avenue Business Park, which sold for \$24 million, and 5501 Peoria Street, a 228,376 square foot warehouse distribution building that sold for \$21.3 million.

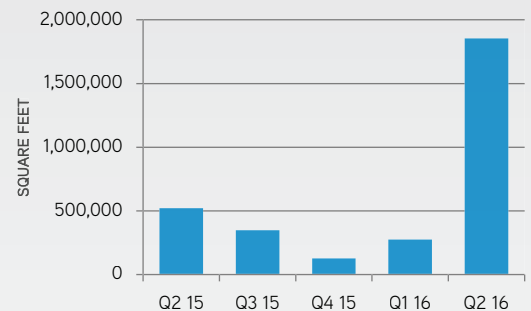
Absorption



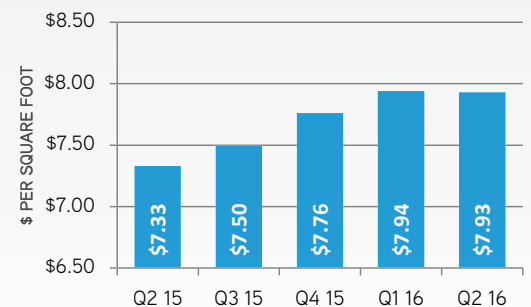
Vacancy



Deliveries



Rental Rates



Recent Transactions

Industrial – Denver - Sales Activity						
PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
Hines REIT Portfolio	Centennial	\$78,500,000	428,946	\$183.01	Investcorp and Griffin Partners (JV)	Hines REIT
5501 Peoria Street	East I-70/Montbello	\$21,300,000	228,376	\$93.27	Industrial Property Trust	Furniture Row Co.
9950 E. 40th Avenue	East I-70/Montbello	\$19,000,000	96,265	\$197.37	Breckner River Development	United Properties

Industrial – Denver - Leasing Activity				
PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME
3900 Nome Street	East I-70/Montbello	228,038	New	Iron Mountain
9911-9931 E. 47th Avenue	East I-70/Montbello	112,464	New	Wal-Mart
5503 Havana Street	East I-70/Montbello	79,677	New	Williams-Sonoma

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	18.6%	1.1%	19.7%	16.3%	-	(19,082)	(17,232)	-	-	-	\$8.89
Total	38	1,137,740	9.1%	0.5%	9.6%	8.0%	-	(19,082)	(17,232)	-	-	-	\$8.89
BOULDER													
Industrial	152	5,640,358	3.2%	0.0%	3.2%	3.6%	41,678	21,466	63,368	-	-	-	\$12.62
Flex	67	2,433,535	8.7%	0.9%	9.6%	11.3%	205,617	40,596	70,666	-	10,190	-	\$15.91
Total	219	8,073,893	4.9%	0.3%	5.1%	5.9%	247,295	62,062	134,034	-	-	-	\$13.90
BROOMFIELD													
Industrial	67	2,990,957	3.9%	0.0%	3.9%	4.2%	28,900	7,400	25,563	-	-	120,581	\$5.91
Flex	10	221,565	0.0%	0.0%	0.0%	0.0%	-	-	22,024	-	-	-	\$10.50
Total	77	3,212,522	3.6%	0.0%	3.6%	3.9%	28,900	7,400	47,587	-	-	-	\$6.02
CENTRAL													
Industrial	304	10,573,370	1.5%	0.4%	1.9%	2.2%	21,633	39,147	7,186	-	-	-	\$7.09
Flex	5	102,740	0.0%	0.0%	0.0%	0.0%	-	-	-	-	-	-	N/A
Total	309	10,676,110	1.5%	0.3%	1.8%	2.2%	21,633	39,147	7,186	-	-	-	\$7.09
EAST I-70/MONTBELLO													
Industrial	1,034	72,495,797	3.3%	0.5%	3.7%	3.7%	1,053,095	787,303	839,127	907,991	1,070,991	2,000,323	\$6.16
Flex	30	1,284,871	3.8%	0.0%	3.8%	2.5%	2,705	(16,890)	(29,390)	-	-	-	\$8.97
Total	1,064	73,780,668	3.3%	0.4%	3.7%	3.6%	1,055,800	770,413	809,737	907,991	907,991	-	\$6.18

LONGMONT

Industrial	83	2,881,576	2.8%	0.0%	2.8%	3.2%	4,128	12,699	95,163	-	-	-	\$8.07
Flex	29	2,112,164	32.3%	0.0%	32.3%	31.6%	51,916	(14,618)	9,488	-	-	-	\$9.53
Total	112	4,993,740	15.3%	0.0%	15.3%	15.3%	56,044	(1,919)	104,651	-	-	-	\$9.05

NORTH CENTRAL

Industrial	420	16,597,235	2.3%	0.1%	2.4%	3.0%	102,130	(57,779)	(260,988)	-	-	-	\$8.32
Flex	13	354,738	0.4%	0.0%	0.4%	8.3%	5,636	27,896	3,896	-	-	-	\$8.33
Total	433	16,951,973	2.3%	0.1%	2.4%	3.1%	107,766	(29,883)	(257,092)	-	-	-	\$8.32

NORTH

Industrial	141	6,011,145	3.0%	0.0%	3.0%	3.9%	22,495	75,407	66,697	21,875	21,875	58,840	\$7.81
Flex	12	487,911	5.6%	0.0%	5.6%	9.4%	18,600	18,415	14,028	-	-	-	\$9.80
Total	153	6,499,056	3.2%	0.0%	3.2%	4.3%	41,095	93,822	80,725	21,875	21,875	-	\$8.06

NORTHEAST

Industrial	373	16,217,456	12.2%	0.0%	12.2%	8.5%	111,712	8,806	60,816	672,128	723,998	842,189	\$9.20
Flex	13	473,188	2.6%	0.0%	2.6%	2.4%	-	(1,000)	(3,706)	-	-	-	\$10.75
Total	386	16,690,644	12.0%	0.0%	12.0%	8.3%	111,712	7,806	57,110	672,128	672,128	-	\$9.25

NORTHWEST

Industrial	319	12,306,826	4.4%	0.1%	4.5%	4.7%	40,541	226,949	237,436	210,125	210,125	-	\$7.31
Flex	68	2,339,802	4.8%	0.0%	4.8%	5.5%	12,422	16,174	(25,081)	-	-	-	\$10.86
Total	387	14,646,628	4.4%	0.1%	4.6%	4.9%	52,963	243,123	212,355	210,125	210,125	-	\$8.30

SOUTH CENTRAL

Industrial	401	11,017,502	2.7%	0.0%	2.7%	2.1%	80,247	(58,057)	(144,566)	-	-	-	\$7.97
Flex	12	364,846	0.0%	0.0%	0.0%	0.0%	-	-	0	-	-	-	N/A
Total	413	11,382,348	2.6%	0.0%	2.6%	2.1%	80,247	(58,057)	(144,566)	-	-	-	\$7.97

SOUTHEAST

Industrial	218	8,755,900	2.8%	0.0%	2.8%	3.1%	109,897	22,339	63,665	-	-	428,820	\$8.49
Flex	169	6,004,151	8.5%	0.2%	8.8%	9.1%	130,590	20,499	21,056	-	-	-	\$11.21
Total	387	14,760,051	5.2%	0.1%	5.2%	5.6%	240,487	42,838	84,721	-	-	-	\$10.10

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	394	16,161,325	1.9%	0.0%	1.9%	2.4%	23,982	120,532	59,938	41,674	51,674	-	\$9.08
Flex	24	1,111,524	33.9%	0.0%	33.9%	33.8%	0	(671)	(2,781)	-	-	-	\$6.21
Total	418	17,272,849	4.0%	0.0%	4.0%	4.4%	23,982	119,861	57,157	41,674	41,674	-	\$7.42

WEST

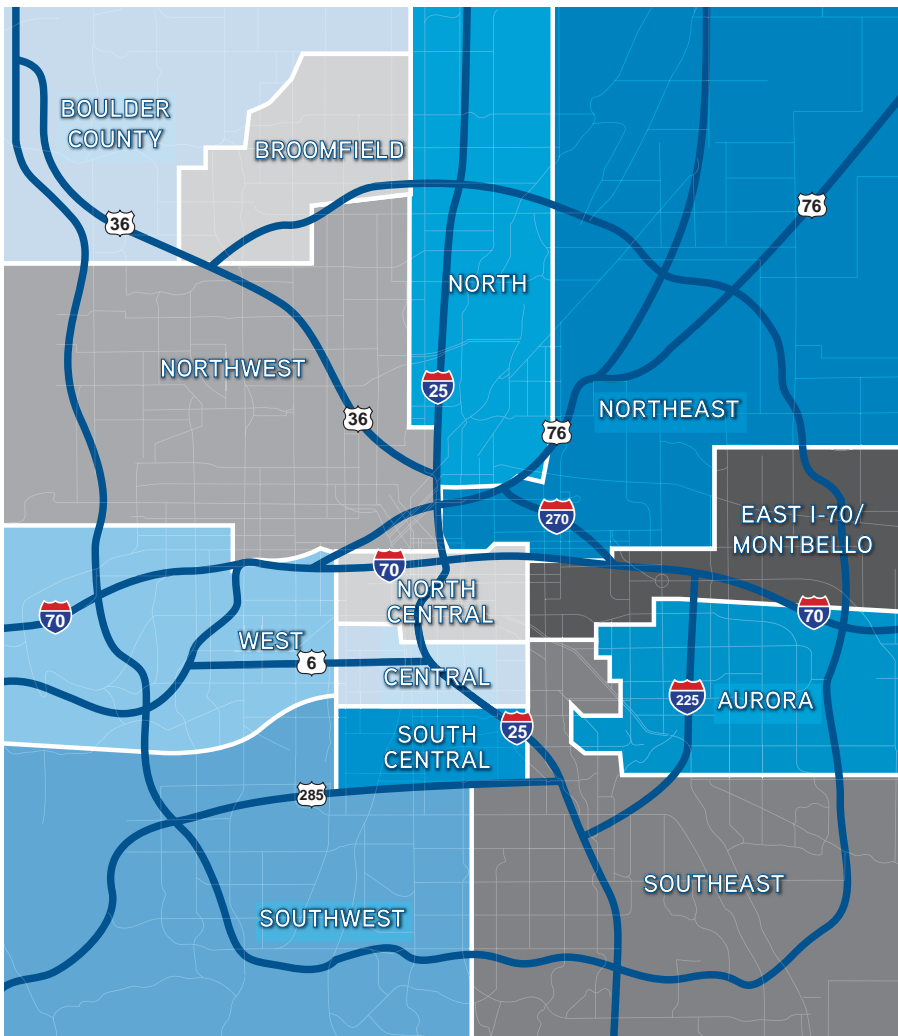
Industrial	216	14,067,191	1.7%	0.0%	1.7%	0.9%	17,213	(103,063)	(36,234)	-	30,415	-	\$6.97
Flex	50	1,842,495	3.8%	0.0%	3.8%	3.4%	7,925	(7,013)	2,085	-	-	110,520	\$8.77
Total	266	15,909,686	1.9%	0.0%	1.9%	1.2%	25,138	(110,076)	(34,149)	-	-	-	\$7.35

MARKET TOTAL

Industrial	4,323	201,850,651	3.5%	0.2%	3.7%	3.5%	1,659,851	1,090,576	1,098,564	1,853,793	2,109,078	3,450,753	\$8.19
Flex	566	21,446,131	10.4%	0.2%	10.6%	10.8%	465,091	38,933	19,965	-	10,190	212,120	\$9.95
Total	4,889	223,296,782	4.2%	0.2%	4.4%	4.2%	2,124,942	1,129,509	1,118,529	1,853,793	2,119,268	3,662,873	\$7.93

DENVER MARKET QUARTERLY COMPARISON AND TOTALS

Q1 16	4,889	223,296,782	4.2%	0.2%	4.4%	4.4%	2,124,942	1,129,509	1,118,529	1,853,793	2,119,268	3,662,873	\$7.93
Q4 15	4,886	221,627,711	3.9%	0.3%	4.2%	4.2%	2,798,091	(10,980)	(10,980)	275,475	275,475	2,606,384	\$7.94
Q3 15	4,885	221,627,879	3.7%	0.5%	4.2%	4.2%	3,402,365	(999,527)	743,756	127,959	1,595,189	1,957,884	\$7.76
Q2 15	4,888	221,685,822	4.7%	0.5%	3.8%	3.8%	2,749,094	436,739	1,743,283	347,840	1,467,230	1,797,566	\$7.50
Q1 15	4,888	221,416,326	5.3%	0.5%	3.8%	3.8%	3,639,195	589,409	1,306,544	521,413	1,119,390	2,232,247	\$7.33



554 offices in
66 countries on
6 continents

United States: **153**
Canada: **34**
Latin America: **24**
Asia Pacific: **231**
EMEA: **112**

\$2.5
billion in
annual revenue

2.0
billion square feet
under management

16,000
professionals
and staff

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