

Healthy Retail Sector Awaits Sports Authority Vacancies

Market Overview

The Metro Denver retail market, which is generally overshadowed by office and industrial sectors, continued to demonstrate healthy metrics during the second quarter. Due in part to sustained in-migration and the availability of high-paying jobs, consumer confidence is apparent and plays a significant role in the vitality of the retail market. However, the metro retail market will likely experience an escalation in vacancy during the second half of 2016 as the market awaits the closure of 21 Sports Authority locations totaling approximately 720,000 square feet. With these store closures, the retail sector will likely experience an uptick in overall vacancy. The few stores with desirable locations will likely be absorbed quickly; however, those with inferior locations are anticipated to remain vacant, making the growing trend of dark “big-box” retail locations a noticeable reality in the Denver market.

Second quarter absorption totaled over 242,000 square feet as vacancy decreased by 30 basis points to 5.1 percent, while the average asking rental rate increased again, averaging \$15.62 per square foot, triple net - up 4.1 percent year-over-year. Currently, there are 22 construction projects throughout the metro which will bring approximately 725,000 square feet of new retail product to the market. Deliveries of new retail space throughout the market totaled just over 95,000 square feet – down from first quarter deliveries of 214,000 square feet. Since the beginning of 2014, Metro Denver retail deliveries have averaged just over 186,000 square feet per quarter.

HIGHLIGHTED ECONOMIC TRENDS

Investment Sales

**\$235
MILLION**

Retail investment activity during the second quarter consisted of 37 sales that totaled nearly \$235 million.

Local Employment Growth

3.3%

In May 2016, the Bureau of Labor Statistics indicated the projected unemployment rate for the Metro Denver area at 3.3 percent, down 40 basis points year-over-year. The Metro Denver unemployment rate is 120 basis points below than the national unemployment rate of 4.5 percent.

Market Indicators

Relative to prior period

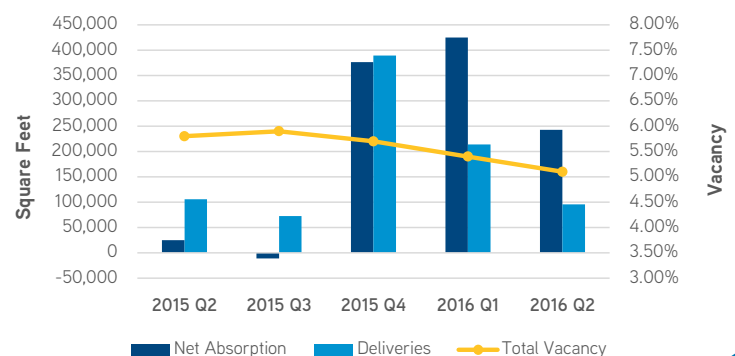
	Q2 2016	Projected Q3 2016
Vacancy	↓	↑
Net Absorption	↓	↓
Deliveries	↓	↑
Rental Rate	↑	↑

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

Denver Metro Summary Statistics

	Q2 2016	Q2 2015
Vacancy Rate	5.1%	5.8%
Net Absorption YTD	667,945	227,995
SF Under Construction	725,615	714,023
Asking Rents/SF	\$15.55	\$14.91

Denver Retail Market Q2 2015 – Q2 2016



Shopping Center Overview

Shopping Center activity continued to grow during the quarter with vacancy rates decreasing to a new four-quarter low of 6.3 percent – down 20 basis points from the previous quarter. Most notably, in the strip mall sector, vacancy rates decreased by 210 basis points from the first quarter. This is due to a 20,000-square-foot tenant leasing space in at the Del Mar Plaza in Aurora.

Average triple net rents across all shopping centers continue to grow, reaching \$14.41, triple net – an increase of \$0.74 year-over-year, while overall shopping center vacancy has reached 6.3 percent – the lowest vacancy rate in a decade.

Denver Metro Shopping Center Statistics

Center Type	Vacancy Q2 2016	Vacancy Q1 2016	Vacancy Q4 2015	Vacancy Q3 2015
Strip	6.4%	8.5%	6.6%	5.5%
Neighborhood	7.4%	7.5%	7.8%	8.0%
Community	8.3%	9.3%	9.8%	9.4%
Power/Regional	2.6%	2.2%	2.8%	2.7%
Malls (Super Regional)	3.9%	4.0%	3.9%	4.0%
All Shopping Centers	6.3%	6.5%	6.7%	6.7%

**Vacancy is based off of a 10,000 SF minimum search criteria for retail overall and no minimum for shopping centers*

Q2 2016 Notable Transactions

Retail - Sales Activity

PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
Indiana Market Place	Northwest	\$4,088,333	14,738	\$277	Larry & Terri Chaney Family Trust	Sabal Financial Group
Iliff Village Shopping Center	Aurora	\$4,300,000	19,825	\$217	Davood Manshadi	Michele Bodner
Cherry Creek Promenade	Colorado Boulevard & Cherry Creek	\$10,900,000	31,500	\$346	Home Silk Properties	Donald Oberndorf & A Barry Hirschfeld

Retail - Leasing Activity

PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME
12200 E. Cornell Avenue	Aurora	78,000	New	King Soopers
Thornton Plaza	Northeast	56,563	New	Big R
500 16th Street	Downtown	34,583	New	Lucky Strike Lanes

Retail - Triple Net Investment

PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	CAP RATE	BUYER	SELLER
Red Lobster	Aurora	\$3,574,000	7,000	\$511	5.85%	Princeton Investments	Spirit Realty Capital
Natural Grocers	Northwest	\$7,130,400	15,000	\$475	5.75%	Montt Wheat Ridge, LLC	Equity Ventures Inc.
Tires Plus	Southeast	\$3,200,000	6,970	\$459	6.90%	Roddimeyer III, LLC	Robert & Gretchen Osterberg Trust

New Openings, Relocations, Expansions & Closures

A-Line Making Future Hot Spots

With the completion of the new A-Line rail in April 2016, new possibilities are beginning to emerge in all real estate sectors along the route. Real estate along the A Line will become highly desirable due to the fact that these once inaccessible pieces of land will become hot spots as more people move nearby looking to utilize the rail into and out of the city.

Sports Authority Closes All Locations

During the second quarter, Sports Authority announced they will be closing all of their locations once they liquidate their remaining inventory. A bankruptcy auction in June 2016 ended with Dick's Sporting Goods, Sports Authority's main competitor, purchasing the intellectual property of Sports Authority as well as the leases to 31 Sports Authority stores nationwide. The transaction is still pending the decision of a bankruptcy judge. Sports Direct International Plc. has also submitted a bid, which will serve as a respectable back-up.

Wal-Mart No Longer Anchor in Wheat Ridge Development

Quadrant Properties LLC notified the city of Wheat Ridge in July that Wal-Mart Neighborhood Market, the original anchor tenant of a new development in Wheat Ridge, would no longer be wanting the anchor space. Wal-Mart's public affairs director was quoted, "In alignment with our long-term strategic goals, we made a business decision not to pursue plans to build a store," but stated that Wal-Mart still had a commitment to the city of Wheat Ridge if they could find a suitable site. Mixed emotions are felt in the city, with some looking forward to a convenient and affordable store, while groups such as "Keep Wheat Ridge Local" want to live up their namesake.

Development News

9th and Colorado Redevelopment

Demolition is finally complete after a little over a year has passed since it began on the site of the former University of Colorado Health Science Center campus. The new development will consist of two million square feet of real estate, with 40,000 square feet making up ground floor retail and the remainder hosting Block 7, a 275-unit residential building.

Denver Economic Development Launches "Retail Attraction Program"

A project by the Office of Economic Development (OED) looks to strengthen the metro retail market by providing an incentive pool, initially funded with \$200,000 that hopes to attract "first-in-market" retailers. The OED believes this will help fill in the gaps of retail where consumer's needs are not being met.

Lennar Plans Multifamily with Retail Development in Five Points

Lennar acquired half of a city block at 21st and Welton Street, with the goal of creating an eighteen-story multifamily tower with 4,000 square feet of ground-floor retail. With 329 residential units taking up over 345,000 square feet of living space, the ground-level retail space will be functional and productive for the tenants above.



Retail 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	247	10,135,278	5.7%	0.4%	6.1%	7.7%	144,986	18,811	20,890	-	25,000	17,950	\$12.70
BOULDER	182	6,104,201	2.1%	0.0%	2.1%	2.2%	31,108	5,656	18,776	-	-	37,736	\$22.62
CENTRAL	444	13,336,633	4.6%	0.1%	4.7%	5.1%	116,204	61,006	3,233	-	-	122,625	\$15.50
COLORADO BLVD/CHERRY CREEK	104	4,438,623	1.4%	0.2%	1.7%	1.9%	6,086	9,853	43,315	-	25,473	87,715	\$23.09
DOWNTOWN	74	2,355,289	5.7%	0.0%	5.7%	5.7%	57,312	1,852	12,463	-	-	68,000	\$23.59
NORTHEAST	305	12,363,025	6.0%	0.0%	6.0%	5.4%	75,313	(70,574)	(8,839)	-	12,500	23,166	\$16.25
NORTHWEST	490	21,318,161	7.4%	0.0%	7.4%	8.1%	60,094	156,140	231,573	25,200	88,400	134,468	\$13.29
SOUTH	329	15,371,440	3.8%	0.4%	4.2%	3.8%	37,988	(34,621)	49,979	46,548	112,768	55,000	\$18.42
SOUTHEAST	297	12,094,765	3.6%	0.1%	3.7%	3.2%	94,837	(37,012)	12,923	23,801	23,801	110,364	\$18.48
SOUTHWEST	189	9,072,732	6.7%	0.6%	7.3%	7.3%	51,103	394	49,732	-	-	-	\$15.74
WEST	468	16,955,842	4.2%	0.0%	4.2%	4.9%	120,418	131,202	233,900	-	21,594	68,668	\$13.44
MARKET TOTAL													
	3,129	123,545,989	5.0%	0.2%	5.1%	5.4%	795,449	242,707	667,945	95,549	309,536	725,692	\$15.62
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q2 16	3,129	123,545,989	5.0%	0.2%	5.1%	5.4%	795,449	242,707	667,945	95,549	309,536	725,692	\$15.62
Q1 16	3,131	123,623,074	5.2%	0.2%	5.4%	5.7%	528,203	425,238	425,238	213,987	213,987	737,741	\$15.35
Q4 15	3,124	123,530,297	5.5%	0.2%	5.7%	5.9%	934,228	376,612	593,648	389,454	883,721	694,369	\$15.11
Q3 15	3,121	123,379,168	5.7%	0.2%	5.9%	5.8%	1,030,206	(10,959)	217,036	72,648	494,267	861,864	\$14.77
Q2 15	3,120	123,347,955	5.6%	0.3%	5.8%	5.8%	876,070	25,089	227,995	94,626	421,619	714,023	\$15.01

The information contained in this report was provided by sources deemed to be reliable, however, no guarantee is made as to the accuracy or reliability. As new, corrected or updated information is obtained, it is incorporated into both current and historical data, which may invalidate comparison to previously issued reports.

Denver is
RANKED **1st**
FOR
Best Places
to Live



-U.S. News and World Report, 2016

Denver
is one of the
TOP 10
fastest-growing cities
in the Nation

-Forbes, 2015



Metro Denver
RANKED **1st**
for Economic &
Job Growth

-Area Development Magazine, 2015

Denver RANKED
1st Among the
"Best Places
for Business &
Careers" list

-Forbes, 2015



**DENVER
RANKINGS**

Colorado ranked
2nd as
Fastest Growing
State

- U.S. Census Bureau

Colorado Ranked
3rd Lowest State
Unemployment Rate
for March 2016

-U.S. Census Bureau



3rd Best Economy
in the **U.S.**

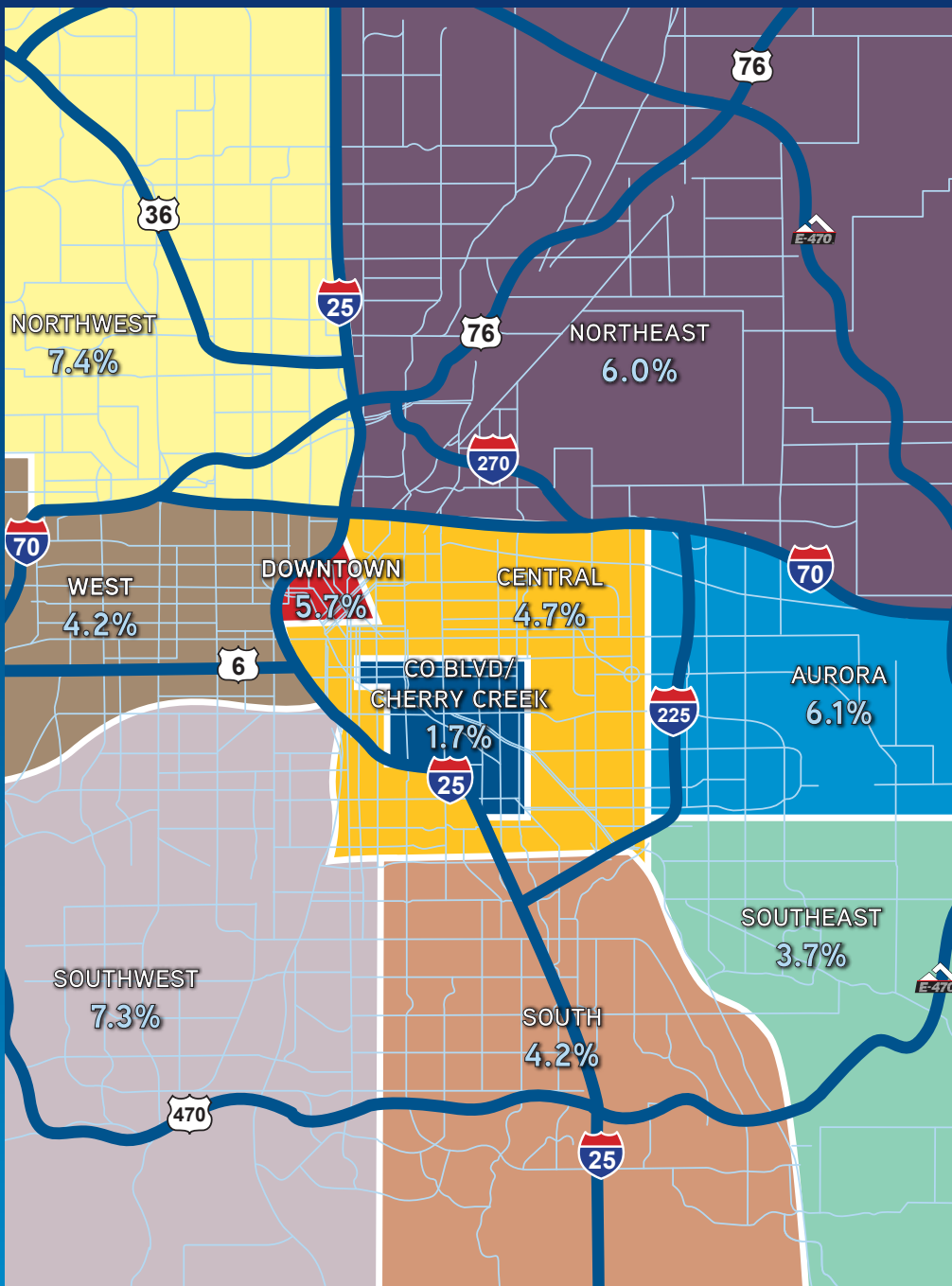
-Business Insider 2015

2nd
Most highly
Educated State

-U.S. Census Bureau



Vacancy by Submarket



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