

Demand for Smaller Space Driving Retail Performance

Market Overview

Metro Denver's retail market continued to show signs of an increasingly healthy sector during the third quarter, as year-to-date absorption sits at nearly three times what it was one year ago. Overall vacancy was relatively unaffected by the sudden vacancy of all metro Sports Authority locations, as there was no change quarter-over-quarter and remains at all-time lows. Third quarter absorption totaled nearly 339,000 square feet as demand for space in the 2,000-square-foot size range remains robust. Vacancy remained unchanged at 5.1 percent, while the average asking rental rate decreased slightly from the previous quarter averaging \$15.47 per square foot, triple net. Asking rental rates are up 4.7 percent year-over-year. Deliveries of new retail product increased during the third quarter, with 10 new buildings totaling over 250,000 square feet of space. Currently, there are 26 construction projects throughout the metro which will bring nearly 1.3 million square feet of new retail product to the market.

Persistent net in-migration aided by a healthy job market is one of the main driving factors attributed to the success of the retail market and the overall positive outlook for the metro area. With an abundance of available high-paying employment opportunities, consumer confidence appears to be at an all-time high and that is reflected in the retail sector and the overall metro economy. Although metrics may be slowing compared to the past three years, leasing activity is performing above pre-recession levels.

HIGHLIGHTED ECONOMIC TRENDS

Investment Sales

**\$133
MILLION**

Retail investment activity during the third quarter consisted of 28 sales that totaled just over \$133 million.

Local Employment Growth

3.2% ↓

In **August 2016**, the Bureau of Labor Statistics indicated the projected **unemployment rate** for the **Metro Denver** area at **3.2 percent** - down 20 basis points year-over-year. The **Metro Denver unemployment rate** is **170 basis points** below than the **national unemployment rate** of **4.9 percent**.

Market Indicators

Relative to prior period

Q3 2016

Projected
Q4 2016

Vacancy



Net Absorption



Deliveries



Rental Rate



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

Denver Metro Summary Statistics

Q3 2016

Q3 2015

Vacancy Rate

5.1%

5.8%

Net Absorption YTD

1,000,359

494,267

SF Under Construction

1,285,260

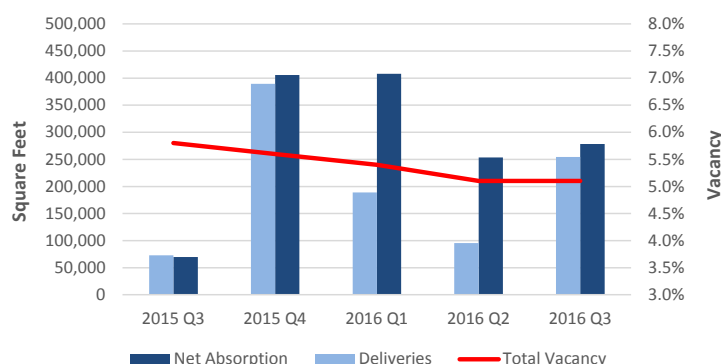
861,956

Asking Rents/SF

\$15.47

\$14.77

Denver Retail Market Q3 2015 – Q3 2016



Shopping Center Overview

Shopping Center activity continued to grow during the third quarter with vacancy rates decreasing to 6.0 percent – the lowest vacancy rate in a decade. Down 20 basis points from the previous quarter and down 70 basis points year-over-year, shopping center vacancy is benefitting from the demand for 2,000 square foot spaces throughout the metro and positive net absorption of over 213,000 square feet during the third quarter.

Average triple net rents across all shopping center continue to grow reaching \$13.93, triple net – an increase of \$0.41 per square foot year-over-year. Vacancy rates in Super Regional Malls recorded the lowest vacancy rate, at 1.9 percent, a decrease of 170 basis points, year-over-year. Two deliveries of shopping center product were made during the third quarter, totaling 56,750 square feet. 90,000 square feet are currently under construction which will help fill the high demand for shopping center space.

Denver Metro Shopping Center Statistics

Center Type	Vacancy Q3 2016	Vacancy Q2 2016	Vacancy Q1 2016	Vacancy Q4 2015
Strip	5.8%	6.0%	6.9%	6.6%
Neighborhood	7.1%	6.8%	7.5%	7.6%
Community	6.5%	6.9%	7.9%	8.8%
Power/Regional	3.7%	2.9%	2.6%	2.6%
Malls (Super Regional)	1.9%	3.9%	3.9%	3.6%
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*

Q3 2016 Notable Transactions

Retail - Sales Activity

PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
Lowry Town Center 200 Quebec St.	Central	\$27,000,000	76,739	\$352	Weingarten Realty	GDC Properties
Bradburn Village 4450 & 4451 Main St.	Northwest	\$20,813,100	50,916	\$409	The Kroenke Group	Continuum Properties
Serenity Ridge Market Place 25791 E. Smoky Hill Rd.	Aurora	\$10,255,600	23,801	\$431	CNW-Serenity Smoky Hill 1 LLC	Evergreen DevCo

Retail - Leasing Activity

PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME
550 E. 102nd Ave.	Northeast	45,000	New	Chuze Fitness
15550 E. 6th Ave.	Aurora	25,950	New	Aman STEAM Academy
6601 W. Colfax Ave.	West	24,000	New	Ross Dress For Less

Retail - Triple Net Investment

PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	CAP RATE	BUYER	SELLER
1965 W. 38th Ave. - Bank of the West	West	\$3,783,809	3,067	\$1,234	5.25%	Michael J. Swartz Trust	Quadrant Properties
3601 Quebec St. - Chick-Fil-A	Central	\$3,000,000	4,876	\$615	4.17%	Young Park	Rene Cervantes & Maria Del Rosario Cervantes
23850 E. Smoky Hill Rd. - Sherwin Williams	Aurora	\$2,625,000	4,500	\$583	5.23%	Bogomilsky Family	Wall Development Group

New Openings, Relocations, Expansions & Closures

Beverage Production Making an Impact on Commercial Real Estate

Historically, the beverage production industry, both alcoholic and non-alcoholic, was located in manufacturing and industrial space. Consumer demand is driving a different way producers interact with their patrons. The new trend is building a retail space within the beverage production facility to improve the way consumers interact with the company. Beverage production companies are seeking out larger spaces to keep their production up to par while still having room to host guests and sell product directly in their space.

Denver Wins Retail Job Training Grant

Denver is one of ten cities to win a grant from the Chicago Cook Workforce Partnership, which amounted to \$422,652. The grant will fund a process to create and implement a new model of career services specific to retail which will then be studied by around 550 Workforce Development Boards in the US. The added benefit of this study is that it will support growth of entry-level and middle-level jobs in Denver's significant retail economy.

Southlands Mall Celebrates its 10th Anniversary and Thriving Business

Southlands Mall will be celebrating its 10th anniversary in October 2016 and a decade in business is not all there is to celebrate. The general manager of Southlands stated that 2016 has been the best sales year by far, with total retail sales already in the hundreds of millions before the busy holiday season. The population growth is a driving factor of this trend, with a 36 percent growth within a three-mile radius from Southlands during 2009 to 2015.

Bass Pro Shops Buys Cabela's

Bass Pro Shops, a privately held retailer of hunting, fishing, camping, and related outdoor recreation products recently announced they will purchase Cabela's, a competing retailer of similar products, for \$4.5 billion. Bass Pro Shop executives say the purchase will not be completed until 2017. Until then, both chains will continue to operate independently. At this time, it is unknown how Cabela's stores will operate in the future.

Development News

Gander Mountain's Grand Opening

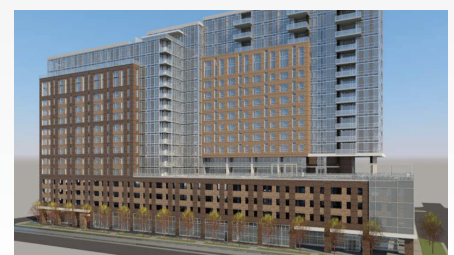
Gander Mountain, an outdoor recreation retailer, held the grand opening of its new 57,677-square-foot retail space in Parker, CO in September. This large new development was lured into Parker with the use of a tax-incentive agreement worth approximately \$700,000. The town of Parker is hoping that this investment will not only bring jobs to the community, but also a new inflow of revenue from outside of the town.

The Source Uses its Neighboring Resource

The Source, a highly-successful marketplace concept in RiNo is underway on expanding the 25,000-square-foot space into adjacent parcel next door. The foundations have been laid for the addition of a 19,000-square-foot market hall, a 100-room hotel, and 300 parking spaces in a structured garage. This innovative new expansion was envisioned by Zeppelin Development and will be completed by late 2017.

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	10,153,793	6.8%	0.8%	7.6%	6.0%	117,166	(143,815)	(145,525)	17,950	17,950	-	\$14.64
BOULDER	183	6,075,533	2.0%	0.0%	2.0%	2.1%	4,715	7,802	26,578	-	-	25,236	\$21.79
CENTRAL	445	13,606,573	3.8%	1.0%	4.7%	4.6%	35,332	(17,898)	(14,365)	-	-	122,625	\$16.61
COLORADO BLVD/CHERRY CREEK	105	4,478,469	1.6%	0.1%	1.7%	1.6%	7,600	13,414	56,729	15,840	41,313	128,382	\$25.29
DOWNTOWN	74	2,355,289	4.1%	0.0%	4.1%	4.0%	27,973	(636)	22,959	-	-	85,805	\$24.78
NORTHEAST	307	12,342,729	5.4%	0.0%	5.5%	6.0%	70,897	67,824	58,985	-	12,500	78,666	\$14.86
NORTHWEST	495	21,453,704	7.9%	0.0%	7.9%	7.4%	60,411	(76,517)	163,156	22,654	111,054	609,468	\$13.61
SOUTH	331	15,438,283	3.7%	0.4%	4.1%	4.4%	124,755	93,248	143,227	55,000	167,748	-	\$16.70
SOUTHEAST	301	12,270,506	3.7%	0.1%	3.8%	3.7%	50,680	69,870	79,368	86,240	110,041	61,400	\$18.11
SOUTHWEST	188	9,076,409	3.5%	0.6%	4.1%	7.3%	95,835	287,536	337,268	-	-	-	\$15.68
WEST	470	16,939,486	4.1%	0.0%	4.1%	4.0%	54,192	38,079	271,979	56,750	78,344	173,678	\$13.35
MARKET TOTAL													
Q3 2016	3,146	124,190,774	4.7%	0.3%	5.0%	5.1%	649,556	338,907	1,000,359	254,434	538,950	1,285,260	\$15.47
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q2 16	3,146	124,190,774	4.7%	0.3%	5.0%	5.1%	649,556	338,907	1,000,359	254,434	538,950	1,285,260	\$15.47
Q1 16	3,136	123,936,340	4.9%	0.2%	5.1%	5.1%	801,353	253,514	661,452	95,549	284,536	917,879	\$15.61
Q4 15	3,138	123,013,425	5.2%	0.2%	5.4%	5.4%	535,543	407,938	407,938	188,987	188,987	897,262	\$15.35
Q3 15	3,132	123,945,648	5.5%	0.2%	5.6%	5.6%	984,453	405,210	730,167	389,546	883,813	663,445	\$15.11
Q2 15	3,128	123,761,349	5.6%	0.2%	5.8%	5.8%	1,168,000	69,891	324,957	72,648	494,267	861,956	\$14.77

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

ranked
the **#1**
Place
to Live in America

-Business Insider, 2016

Denver

ranked

#1

on the

"Best Places for

Business & Careers"

list for the second-straight year

-Forbes, 2016



Denver

is ranked the

third hottest
residential
real estate market
in the U.S.

-Realtor.com, 2016

Colorado

is ranked the

TOP CITY
to start a career

-Yahoo! Finance, 2016



DENVER RANKINGS

Denver is the
Fastest Growing
Large City
in America

- U.S. Census Bureau

Colorado
Startups Raised

\$822 million

in Capital during 2015

-BusinessDen, 2016

Colorado is the



**Best State
for Business**

-CNBC, 2016

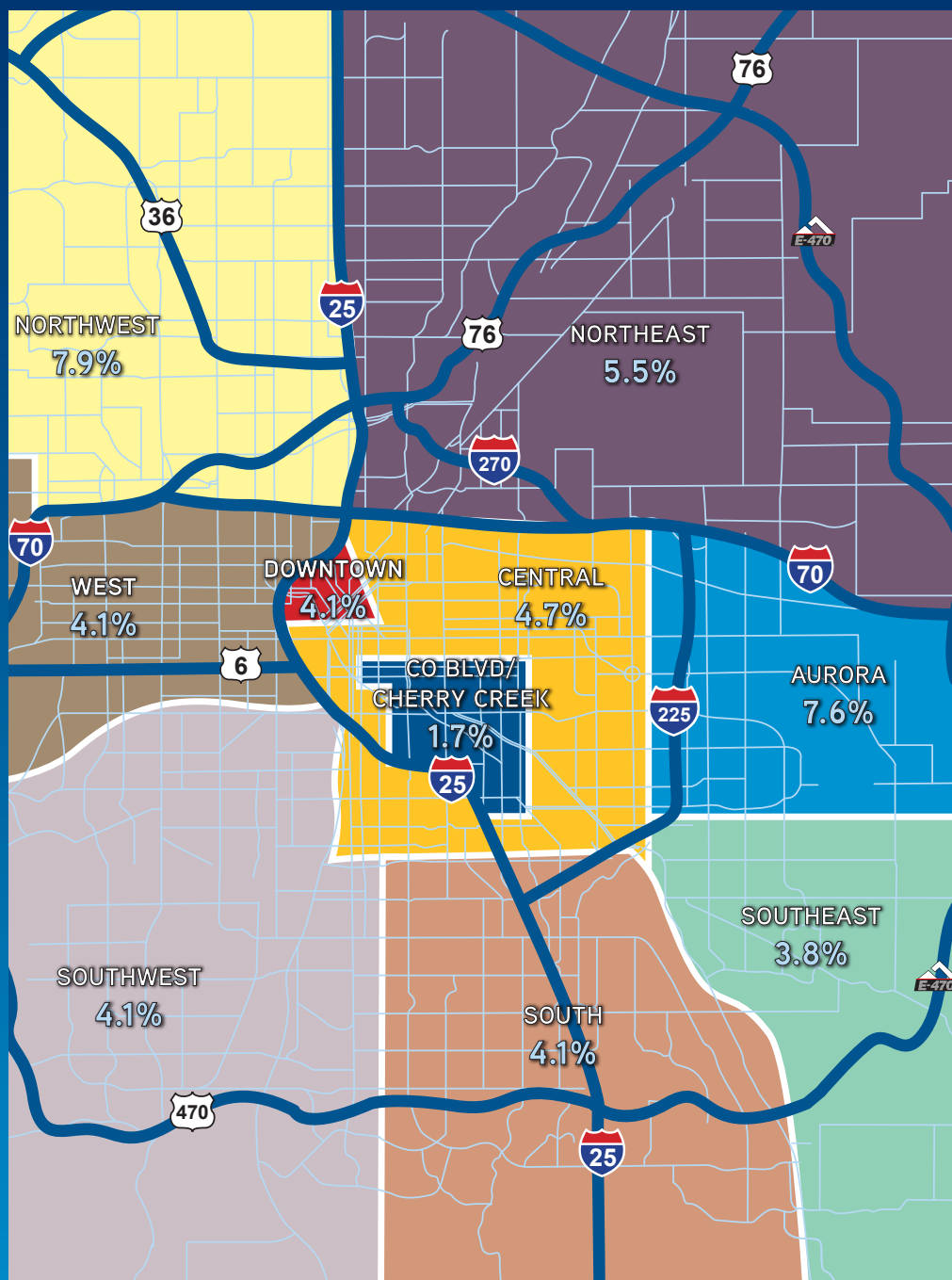
Colorado is the Nation's
Second Most Highly
Educated State

(behind Massachusetts) for
residents with a bachelor's
degree or higher

-U.S. Census Bureau, 2015



Vacancy by Submarket



MANAGING DIRECTOR:

Brad Calbert, ULI, NAIOP
President | Denver
+1 303 283 4566
brad.calbert@colliers.com

REGIONAL AUTHOR:

Tyson Price
Research Director | Denver
+1 303 283 4561
tyson.price@colliers.com

Drew Carlson
Research Analyst | Denver
+1 720 833 4624
drew.carlson@colliers.com

RETAIL TEAM:

Jay Landt
Senior Vice President | Denver
+1 303 283 4569
jay.landt@colliers.com

Jason F. Kinsey
Vice President | Denver
+1 303 283 4598
jason.kinsey@colliers.com

Lisa Vela
Senior Broker | Denver
+1 303 283 4575
lisa.vela@colliers.com

Brady Kinsey
Broker Associate | Denver
+1 720 833 4618
brady.kinsey@colliers.com

Colliers International | Denver
4643 South Ulster Street, Suite 1000
Denver, CO | USA
+1 303 745 5800

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