

METRO DENVER | INDUSTRIAL

Q4 2016

New Deliveries Abound as Metro Investment Activity Surges

Market Overview

The industrial market experienced a surge in institutional buyer activity in 2016 compared to 2015, particularly during the fourth quarter, as intense interest in the Metro Denver sector remains apparent. Benefiting from the geographic distribution of capital, the metro area has realized a significant increase in construction activity and new product being delivered over the past year. With elevated investor confidence in the region, asking rental rates continue to reach historic levels as much of the newly available space drives up average asking rates. Occupiers looking for space in the Rocky Mountain's regional hub are willing to pay a premium in order to gain a foothold on an already well-established industrial market poised for sustained growth.

Highlighted Trends

- › Metro deliveries totaled nearly 4.7 million square feet during 2016
- › 9 out of 15 submarkets realized positive net absorption during 2016.
- › Fourth quarter industrial sales activity totaled \$344.5 million across 22 transactions with an average sales price of \$93 per square foot.
- › Unemployment rates in Metro Denver decreased to 2.6 percent – national unemployment at 4.6 percent.
- › Nationwide cost of construction continues to rise in the fourth quarter; an increase of 4.9% year-over-year according to the Turner Construction Cost Index.
- › The December 2016 Manufacturing ISM Report on Business stated that the manufacturing industry has grown consistently over the past year, with an increase in the PMI of 6.5 percentage points since the beginning of the year.

Market Indicators

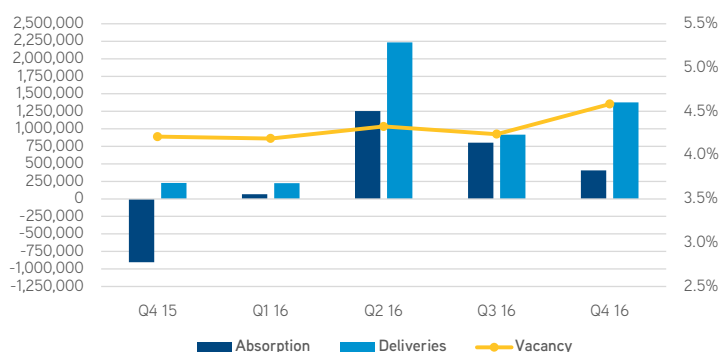
Relative to prior period	Q4 2016	Projected Q1 2017
Vacancy	↑	↓
Net Absorption	+	+
Deliveries	↑	↓
Rental Rate	↑	↑

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

Denver Metro Summary Statistics

	Q4 2015	Q4 2016
Vacancy Rate	4.2%	4.6%
Absorption YTD	568,989	2,532,804
Deliveries YTD	1,639,939	4,682,186
Under Construction	3,041,067	3,620,525
Asking Rents/SF	\$7.75	\$7.95
Total SF	221,282,334	224,801,200

Denver Industrial Market Q4 2015 – Q4 2016



Fourth quarter positive net absorption totaled approximately 406,000 square feet, bringing total year-to-date absorption to more than 2.5 million square feet.

Absorption

Fourth quarter absorption in the Metro Denver sector finished strong, as 11 of 15 submarkets recorded positive net absorption during the quarter. Over 2.5 million square feet was absorbed during 2016 with approximately 406,000 square feet absorbed during the fourth quarter. Leasing activity decreased significantly as 2016 came to a close, as several large deals remain in the pipeline. Additionally, with asking rental rates increasing, occupiers looking to upgrade or expand from their current space are waiting for new product that is best suited for their needs.

Vacancy

Prior to the fourth quarter, overall metro vacancy had hovered between 4.2 and 4.3 percent since the end of 2015, but increased slightly to 4.6 percent at the end of 2016. With the substantial volume of new construction that is completed and delivered to the metro inventory, fluctuation in vacancy is expected considering the amount of speculative construction underway. It is anticipated that 2017 will likely experience a surge of leasing activity placing downward pressure on overall vacancy.

Deliveries & Construction

Deliveries increased quarter-over-quarter as over 1.26 million square feet of inventory was delivered. Along with record-setting rental rates, Metro Denver also experienced a record number of deliveries in 2016 with over 4.6 million square feet introduced. The East I-70/Montbello submarket added just under 3 million square feet of new product to its inventory with over 1 million square feet still in the pipeline set for delivery in the coming year. Overall construction totals more than 3.6 million square feet with the majority concentrated throughout Denver's East I-70/Montbello, and North submarkets.

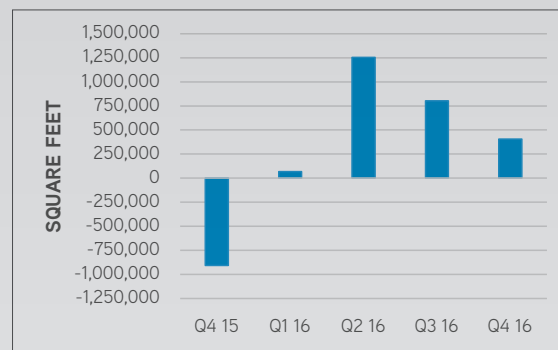
Rental Rates

Overall asking rental rates remained above \$7.90 per square foot for three out of four quarters during 2016. Throughout the year, with the exception of the third quarter, asking rates ascended to historic levels. With a record number of new inventory being delivered to the market, overall asking rates are reaching the \$8.00 per square foot mark for the first time, as premium space becomes more prevalent and landlords seek to capitalize on robust demand.

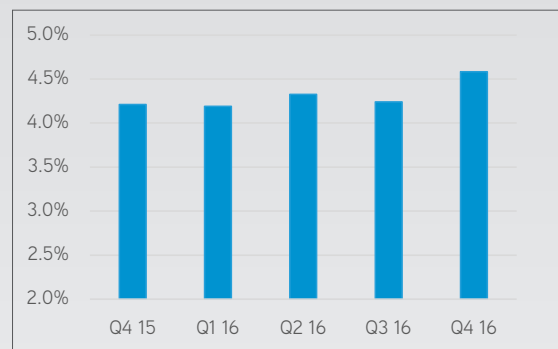
Sales Activity

There were 22 transactions in the Metro Denver industrial market during the fourth quarter totaling \$344.5 million in sales volume – the highest quarterly total for the year and of the last 15 years. The average price per square foot was \$93 per square foot. The largest transaction of the quarter consisted of two Metro Denver buildings from LBA Realty's \$1.2 billion portfolio – the Denver portion of the deal totaled \$69.6 million, with a price per square foot of approximately \$122. Other notable transactions included the 692,000-square-foot, six building campus that was purchased by AstraZeneca in Longmont for \$64.5 million, or \$93 per square foot, and the 270,000-square-foot, build-to-suit, KeHe Food distribution facility at 2200 North Himalaya Road in Aurora. The \$31.9 million transaction traded hands at \$118 per square foot.

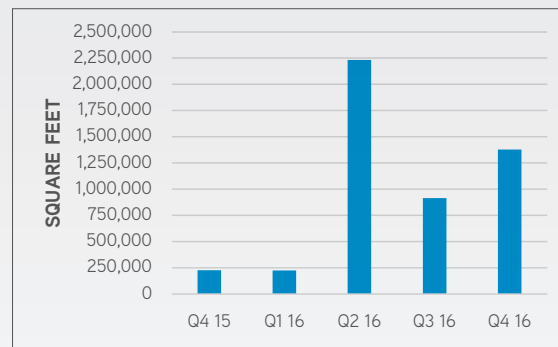
Absorption



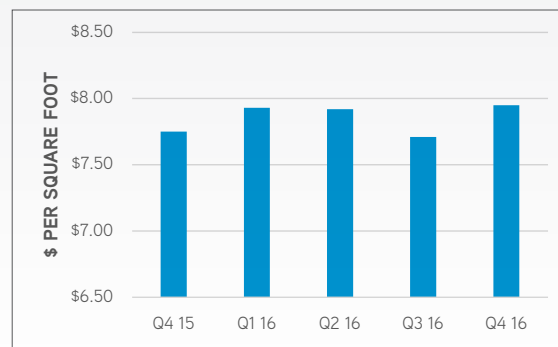
Vacancy



Deliveries



Rental Rates



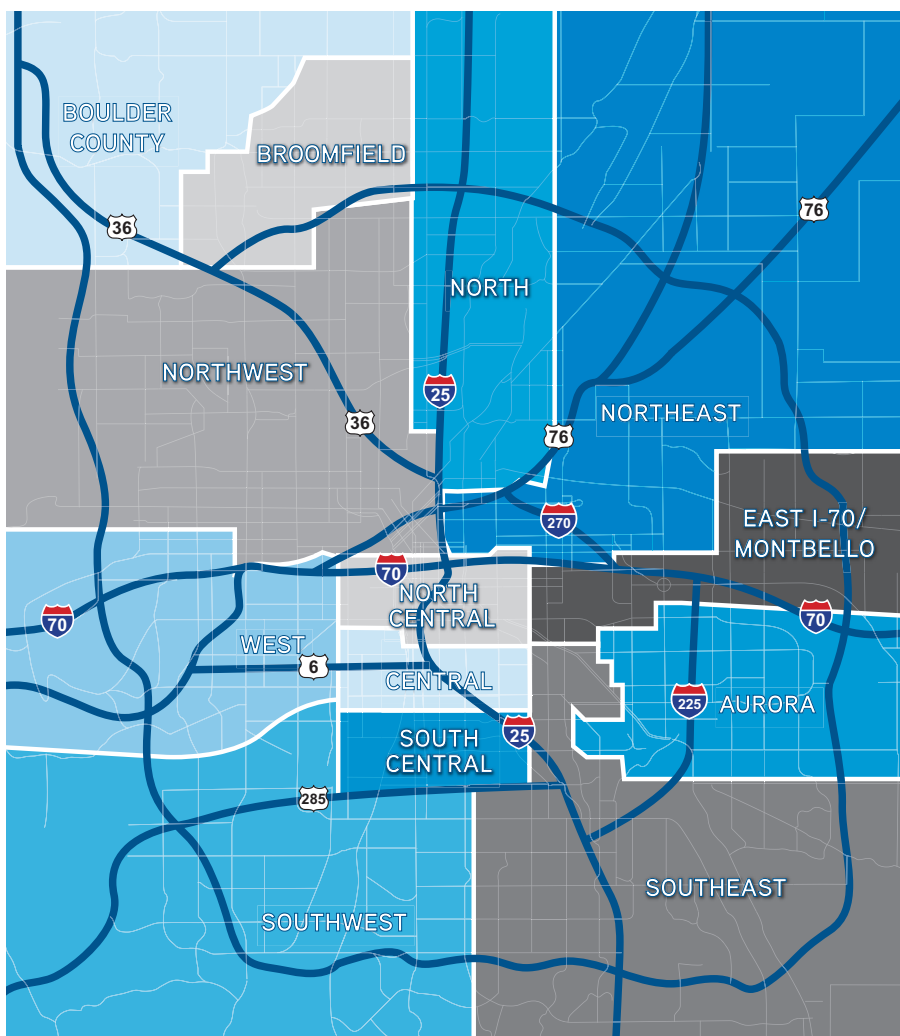
Recent Transactions

Industrial – Denver - Sales Activity						
PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
LBA Portfolio (2 of 51)	North Central	\$69,609,717	571,191	\$122	The Blackstone Group	LBA Realty
4000 Nelson Road	Longmont	\$64,500,000	692,000	\$93	AztraZeneca	Amgen
2200 N. Himalaya Road	East I-70/Montbello	\$31,900,000	270,000	\$118	TA Realty	Scannall Properties

Industrial – Denver - Leasing Activity					
PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME	
3700 N. Windsor Drive	East I-70/Montbello	341,000	Renewal	Niagara Bottling	
601 E. 64th Avenue	Northeast	117,000	New	DSI	
10875 E. 40th Avenue	East I-70/Montbello	110,054	New	Mountain Man Delivery Corp.	

Industrial Overview													
EXISTING PROPERTIES			VACANCY				ACTIVITY	ABSORPTION		CONSTRUCTION			RENTS
SUBMARKET/CLASS	BLDGS	TOTAL INVENTORY SF	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	0.2%	0.0%	0.2%	0.0%	-	(1,000)	(1,000)	-	-	-	N/A
Flex	13	556,239	15.7%	1.1%	16.8%	19.7%	-	16,180	(1,052)	-	-	-	\$8.89
Total	38	1,137,740	7.8%	0.5%	8.3%	9.6%	-	15,180	(2,052)	-	-	-	\$8.89
BOULDER													
Industrial	151	5,638,098	2.6%	0.0%	2.6%	2.8%	45,928	8,611	95,397	-	-	-	\$13.07
Flex	67	2,433,535	4.7%	0.0%	4.7%	5.3%	60,776	14,133	190,529	-	-	-	\$17.04
Total	218	8,071,633	3.3%	0.0%	3.3%	3.5%	106,694	22,744	285,926	-	-	-	\$14.98
BROOMFIELD													
Industrial	67	2,990,957	3.0%	0.0%	3.0%	3.0%	900	1,412	53,516	-	211,030	-	\$6.74
Flex	10	221,565	0.0%	0.0%	0.0%	0.0%	8,073	-	22,024	-	-	-	\$10.50
Total	77	3,212,522	2.8%	0.0%	2.8%	2.8%	8,973	1,414	75,137	-	211,030	-	\$6.99
CENTRAL													
Industrial	305	10,601,953	1.2%	0.4%	1.6%	2.2%	115,969	69,143	56,516	-	-	-	\$7.18
Flex	5	102,740	0.0%	0.0%	0.0%	0.0%	-	-	-	-	-	-	\$9.00
Total	310	10,704,693	1.2%	0.3%	1.6%	2.2%	115,969	69,143	56,516	-	-	-	\$7.27
EAST I-70/MONTBELLO													
Industrial	1,042	74,362,994	4.1%	0.8%	4.9%	3.8%	531,653	43,544	1,508,687	885,147	2,993,676	1,068,693	\$5.92
Flex	28	1,086,324	2.8%	0.1%	2.9%	2.9%	-	280	(12,659)	-	-	-	\$8.97
Total	1,070	75,449,318	4.1%	0.7%	4.9%	3.8%	531,653	43,824	1,496,028	885,147	2,993,676	1,068,693	\$5.94

EXISTING PROPERTIES			VACANCY				ACTIVITY	ABSORPTION		CONSTRUCTION			RENTS
SUBMARKET/ CLASS	BLDGS	TOTAL INVENTORY SF	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)
LONGMONT													
Industrial	81	2,589,458	3.2%	0.0%	3.2%	3.4%	6,101	4,386	91,921	-	-	-	\$8.81
Flex	28	2,012,416	29.4%	0.2%	29.6%	30.2%	-	12,282	82,119	-	-	-	\$9.80
Total	109	4,601,874	14.7%	0.1%	14.8%	15.1%	6,101	16,668	174,040	-	-	-	\$9.37
NORTH CENTRAL													
Industrial	423	16,674,731	2.2%	0.1%	2.3%	2.1%	85,581	(46,785)	(247,791)	120,581	120,581	-	\$8.15
Flex	13	354,775	0.0%	0.0%	0.0%	0.0%	0	0	5,486	-	-	-	\$13.08
Total	436	17,029,506	2.2%	0.1%	2.3%	2.0%	85,581	(46,785)	(242,305)	120,581	120,581	-	\$8.42
NORTH													
Industrial	144	6,136,503	4.5%	0.0%	4.5%	3.4%	20,412	(67,688)	21,787	-	51,150	1,717,731	\$7.12
Flex	12	487,911	0.7%	0.0%	0.7%	1.6%	2,208	4,495	38,203	-	-	-	\$9.72
Total	156	6,624,414	4.2%	0.0%	4.2%	3.3%	22,620	(67,688)	59,990	-	51,150	1,717,731	\$7.28
NORTHEAST													
Industrial	377	16,479,761	11.2%	0.0%	11.2%	11.4%	35,541	219,801	417,147	124,000	857,998	492,499	\$9.09
Flex	13	473,188	2.6%	0.0%	2.6%	2.6%	2,027	0	(3,706)	-	-	-	\$13.00
Total	390	16,952,949	11.0%	0.0%	11.0%	11.1%	37,568	219,801	413,441	124,000	857,998	492,499	\$9.15
NORTHWEST													
Industrial	319	12,254,871	4.0%	0.0%	4.0%	3.4%	127,892	50,813	311,356	137,356	137,356	-	\$7.58
Flex	68	2,339,802	3.9%	0.3%	4.2%	3.9%	18,949	(6,899)	(17,180)	-	-	-	\$11.04
Total	387	14,594,673	4.0%	0.1%	4.1%	3.5%	146,841	43,914	294,176	137,356	137,356	-	\$9.16
SOUTH CENTRAL													
Industrial	399	11,010,147	2.0%	0.0%	2.0%	2.1%	53,013	18,846	(76,086)	-	-	-	\$7.99
Flex	13	381,967	2.8%	0.0%	2.8%	2.7%	-	(537)	(537)	-	-	-	\$9.62
Total	412	11,392,114	2.0%	0.0%	2.0%	2.1%	53,013	18,309	(76,623)	-	-	-	\$8.07
SOUTHEAST													
Industrial	217	8,807,265	2.4%	0.1%	2.5%	2.8%	45,439	401	61,450	-	98,875	127,100	\$8.76
Flex	163	5,637,881	12.2%	0.0%	12.2%	11.0%	94,704	(89,859)	(163,468)	-	101,000	112,902	\$11.72
Total	380	14,445,146	6.2%	0.1%	6.3%	6.0%	140,143	(89,458)	(102,018)	-	199,875	240,002	\$10.58
SOUTHWEST													
Industrial	174	5,511,643	0.4%	0.0%	0.4%	1.0%	7,275	33,213	27,518	-	-	-	\$8.71
Flex	51	1,784,940	2.0%	5.4%	7.4%	8.2%	28,586	14,633	(97,565)	-	-	-	\$9.54
Total	225	7,296,583	0.8%	1.3%	2.1%	2.8%	35,861	47,846	(70,047)	-	-	-	\$9.21
WELD COUNTY													
Industrial	397	16,259,921	1.2%	0.0%	1.2%	1.6%	46,165	106,653	203,121	-	-	-	\$8.01
Flex	23	1,099,524	37.7%	0.0%	37.7%	38.3%	2,068	6,610	3,829	-	-	-	\$6.21
Total	420	17,359,445	3.5%	0.0%	3.5%	3.9%	48,223	113,263	206,950	-	-	-	\$7.20
WEST													
Industrial	217	14,086,095	2.0%	0.0%	2.0%	1.8%	110,226	(31,130)	(73,594)	-	-	-	\$7.91
Flex	50	1,842,495	1.9%	0.0%	1.9%	3.2%	13,724	24,780	37,239	110,520	110,520	101,600	\$8.81
Total	267	15,928,590	2.0%	0.0%	2.0%	2.0%	123,950	(6,350)	(36,355)	110,520	110,520	101,600	\$8.14
MARKET TOTAL													
Industrial	4,338	203,985,898	3.6%	0.3%	3.5%	3.6%	1,232,095	410,220	2,449,542	1,267,084	4,470,666	3,406,023	\$7.23
Flex	557	20,815,302	10.1%	0.6%	10.7%	10.8%	231,105	(3,902)	83,262	110,520	211,520	214,502	\$10.52
Total	4,895	224,801,200	4.2%	0.3%	4.6%	4.2%	1,463,200	406,318	2,532,804	1,377,604	4,682,186	3,620,525	\$7.95
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q4 16	4,895	224,801,200	4.2%	0.3%	4.6%	4.2%	1,463,200	406,318	2,532,804	1,377,604	4,682,186	3,620,525	\$7.95
Q3 16	4,899	223,570,681	4.0%	0.3%	4.2%	4.3%	2,802,816	802,976	2,126,846	915,568	3,374,013	3,574,357	\$7.71
Q2 16	4,885	222,935,873	4.1%	0.2%	4.3%	4.2%	3,084,151	1,255,133	1,323,510	2,233,575	2,458,445	2,894,424	\$7.92
Q1 16	4,883	221,307,166	3.9%	0.3%	4.2%	4.2%	3,135,790	68,377	68,377	224,870	224,870	3,419,347	\$7.93
Q4 15	4,881	221,282,334	3.7%	0.5%	4.2%	3.8%	2,518,947	(904,836)	568,989	226,709	1,693,939	3,041,067	\$7.75



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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