

# Banner Year for Metro Retail Sector

## Market Overview

Metro Denver's retail sector ended 2016 performing well on all market metrics. Fourth quarter metrics reported the lowest vacancy rate, highest quarterly absorption, and the highest quarterly deliveries of the year. With historically low unemployment and a seemingly ever-increasing population, market conditions have been rife with opportunity for Denver's retail market. Similar to all other commercial real estate sectors, the success of the retail market is based on the same factor – a thriving economy. As the metro continues to add an abundance of well-paying jobs, consumer confidence and spending increases.

Net absorption for 2016 was just over 1.2 million square feet, a 60 percent increase from 2015 year-end absorption. Average rental rates for retail space have increased by \$0.45 per square foot, year-over-year. The 2016 year-end vacancy was 5.1 percent, a 60-basis point decrease year-over-year. With vacancy rates low, and healthy absorption, rental rates have continued to rise in 2016, but are still below pre-recession levels, which indicates there may still be room for rental rate increases in the year to come.

## HIGHLIGHTED ECONOMIC TRENDS

### Investment Sales

**\$1.35  
BILLION**

Retail investment activity during the fourth quarter totaled just over **\$252 million**, across **18 sales**, bringing the 2016 **retail investment sales** total to nearly **\$1.35 billion**.

### Local Employment Growth

**2.6%** ↓

In **November 2016**, the Bureau of Labor Statistics indicated the projected **unemployment rate** for the **Metro Denver** area at **2.6 percent**, a 50-basis point drop year-over-year. The **Metro Denver unemployment rate** is **200 basis points** below than the **national unemployment rate** of **4.6 percent**.

#### Market Indicators

Relative to prior period

Q4 2016

Projected  
Q1 2017

Vacancy



Net Absorption



Deliveries



Rental Rate

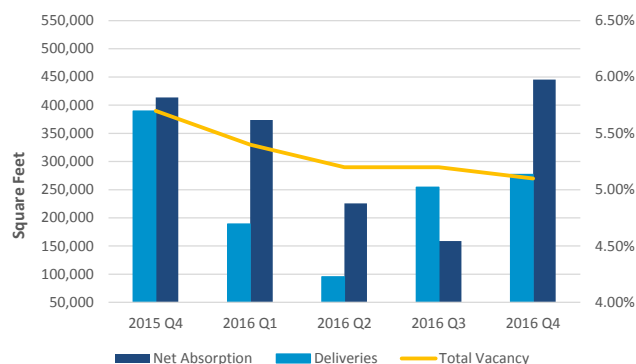


\*Arrows compare current quarter to the previous quarter's historically adjusted figures

#### Denver Metro Summary Statistics

|                       | Q4 2016   | Q4 2015 |
|-----------------------|-----------|---------|
| Vacancy Rate          | 5.1%      | 5.7%    |
| Net Absorption YTD    | 1,203,505 | 901,469 |
| SF Under Construction | 690,295   | 613,445 |
| Asking Rents/SF       | \$15.56   | \$15.11 |

### Denver Retail Market Q4 2015 – Q4 2016



## Shopping Center Overview

Vacancy rates in shopping centers continued to decline during the fourth quarter, marking a year-over-year decline of 80 basis points, and a new record low vacancy rate for shopping centers in the metro in the past decade. Vacancy in all center types, with the exception of strip malls decreased. Strip mall vacancy increased by 50 basis points to 7.3 percent. Demand for neighborhood centers was high as vacancy decreased by 80 basis points during the fourth quarter to 7.3 percent. Super regional malls continue to perform well and boast a record-low vacancy rate of 1.9 percent, a 200-basis point decrease year-over-year.

Average triple net rents across all shopping center types grew in the fourth quarter reaching \$14.11 per square foot, triple net, a 4-cent increase year-over-year. There have been three deliveries of shopping center product during 2016, totaling 88,750 square feet, and there is currently one building under construction, which will bring an additional 58,000 square feet.

### Denver Metro Shopping Center Statistics

| Center Type                 | Vacancy Q4 2016 | Vacancy Q3 2016 | Vacancy Q2 2016 | Vacancy Q4 2015 |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|
| Strip                       | 7.3%            | 6.8%            | 7.0%            | 6.9%            |
| Neighborhood                | 7.3%            | 8.1%            | 7.9%            | 8.3%            |
| Community                   | 7.2%            | 7.3%            | 7.7%            | 8.9%            |
| Power/Regional              | 4.6%            | 4.7%            | 3.0%            | 2.6%            |
| Malls (Super Regional)      | 1.9%            | 2.1%            | 3.9%            | 3.9%            |
| <b>All Shopping Centers</b> | <b>5.9%</b>     | <b>6.2%</b>     | <b>6.3%</b>     | <b>6.7%</b>     |

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

## Q4 2016 Notable Transactions

### Retail - Sales Activity

| PROPERTY                           | SUBMARKET | SALES PRICE  | SIZE SF | PRICE PSF | BUYER             | SELLER         |
|------------------------------------|-----------|--------------|---------|-----------|-------------------|----------------|
| Aspen Grove                        | Southwest | \$82,000,000 | 278,751 | \$294     | Gerrity Group     | DDR            |
| Arapahoe Marketplace               | South     | \$68,745,000 | 192,000 | \$358     | Clarion Partners  | Loja Group LLC |
| Westwoods Shopping Center Phase II | Northwest | \$18,849,000 | 83,120  | \$227     | The Kroenke Group | Halston Mikail |

### Retail - Leasing Activity

| PROPERTY                    | SUBMARKET                   | LEASED SF | LEASE TYPE | TENANT NAME                   |
|-----------------------------|-----------------------------|-----------|------------|-------------------------------|
| 2223-2253 S. Monaco Parkway | Central                     | 55,669    | New        | Chuze Fitness                 |
| 4300 E. Alameda Boulevard   | Colorado Blvd./Cherry Creek | 44,997    | New        | Bed Bath & Beyond             |
| 3201-3263 Walnut Street     | Platte River                | 38,804    | New        | Movement Climbing and Fitness |

### Retail - Triple Net Investment

| PROPERTY   | SUBMARKET | SALES PRICE | SIZE SF | PRICE PSF | CAP RATE | BUYER            | SELLER                       |
|--|-----------|-------------|---------|-----------|----------|------------------|------------------------------|
| 4175 Wildcat Reserve Parkway - Walgreens         | South     | \$6,584,070 | 14,748  | \$446     | 5.7%     | Arnon Neiss      | James E Rubnitz              |
| 309 N. US Hwy 287 - Walgreens                    | Northwest | \$4,680,600 | 15,120  | \$310     | 6.3%     | Richard S Viveen | Cole Real Estate Investments |
| 1550 S. Parker Road - Wallaby's Liquor Warehouse | Central   | \$4,499,999 | 14,823  | \$304     | 7.3%     | Michael J Swartz | Wallaby's Liquor Warehouse   |

## New Openings, Relocations, Expansions & Closures

### Amazon Opens Pop-up Concept in Colorado

Park Meadows Mall in Lone Tree now hosts Amazon's only Colorado Pop-up location. The Amazon Pop-up concept allows consumers to get hands on experience with all Amazon devices, such as Echo, Fire Tablets, Kindle, and Fire TV. The Pop-up gives consumers the opportunity to try out and purchase Amazon devices with the help of an expert.

### Walgreens Will Sell 865 Rite Aid Stores to Avoid Antitrust Laws

Walgreen's next step to achieving their \$9.4 billion merger with Rite Aid will be figuring out how to sell 865 stores after receiving pressure from antitrust regulators. The likely buyer is Fred's, Inc. – a Memphis-based pharmacy chain which has recently been closing stores. The sale could be a win-win for both companies, as Walgreens would be able to proceed with the merger, and Fred's would acquire prime retail locations in an effort to expand their brand.

### Macy's Closing

In August, Macy's announced it would be closing 100 of its 730 stores around the U.S. Most recently, Macy's released the locations of 68 stores that would be closing. At this time there are no known Colorado locations on the list of closures. Approximately 30 additional locations are to be closed as leases expire or sale transactions are completed.

### Prop 300 – a New Use for Retail Space

In November, Denver voters approved a first-of-its-kind law to allow the use of marijuana in public spaces. Initiative 300 will create a four-year test program to allow businesses, such as coffee shops, restaurants, yoga studios and more to seek permits allowing patrons to bring their own marijuana and consume it on the premises. The main issue this initiative seeks to solve is that tourists come to the state to experience the retail marijuana market, but have nowhere to consume the product legally. Exactly how this initiative will be play out is still being decided as the City creates a task force to both study the impact of public consumption of marijuana and how it will be regulated.

## Development News

### Broncos \$351 Million 'Entertainment District' in the Works

Denver was on the list of cities to receive the "Choice Neighborhoods" grant from the US Department of Housing and Urban Development. This project, located in the northern area of the Sun Valley neighborhood, will include retail, commercial, and residential developments. Although the Broncos do admit that this project is in preliminary stages, they did state that they fully support the enhancement of the area around the stadium.

### Swedish Furniture Giant Looking to Expand

IKEA is in negotiations with the City of Broomfield to open a new location on a 123-acre parcel near the I-25 and 168th Avenue. The Broomfield mayor believes it will be a catalyst for other businesses in area. The new IKEA location is anticipated to employ 250 people once opened.

### 9th and Colorado Project

Construction has begun on Continuum Partners' 26-acre, mixed-use development after completing demolition of the former CU Hospital Campus. The finished project is expected to consist of approximately two million square feet containing 250,000-300,000 square feet of retail, 1,100 residential units, and approximately 200,000 square feet of office space. Currently, only the first residential project has broken ground, but over the coming years this development will give 9th and Colorado a much needed facelift.



| 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   | 10,163,796            | 6.5%                | 0.8%                  | 7.2%                 | 7.6%                   | 39,559              | 34,584                        | (98,846)              | -                         | 17,950            | -                     | \$12.83               |
| BOULDER                                       | 183   | 6,044,516             | 2.2%                | 0.5%                  | 2.7%                 | 2.0%                   | 31,724              | (42,791)                      | (16,213)              | -                         | -                 | 25,236                | \$20.39               |
| CENTRAL                                       | 445   | 13,577,828            | 3.3%                | 0.9%                  | 4.2%                 | 4.9%                   | 150,875             | 79,350                        | 53,735                | -                         | -                 | 87,225                | \$18.69               |
| COLORADO BLVD/CHERRY CREEK                    | 106   | 4,534,976             | 3.4%                | 0.1%                  | 3.5%                 | 2.4%                   | 57,965              | 2,476                         | 21,853                | 56,507                    | 97,820            | 71,875                | \$24.72               |
| DOWNTOWN                                      | 74    | 2,355,289             | 5.2%                | 0.0%                  | 5.2%                 | 4.1%                   | 21,571              | (26,440)                      | (3,481)               | -                         | -                 | 85,805                | \$24.89               |
| NORTHEAST                                     | 312   | 12,424,683            | 4.8%                | 0.0%                  | 4.9%                 | 5.6%                   | 41,154              | 118,682                       | 177,667               | 32,000                    | 44,500            | 46,666                | \$14.62               |
| NORTHWEST                                     | 496   | 21,594,121            | 7.7%                | 0.0%                  | 7.7%                 | 7.9%                   | 78,988              | 159,543                       | 307,699               | 136,940                   | 248,014           | 178,500               | \$13.08               |
| SOUTH   | 330   | 15,372,232            | 3.9%                | 0.4%                  | 4.3%                 | 4.5%                   | 56,883              | 32,768                        | 115,391               | -                         | 167,748           | -                     | \$17.05               |
| SOUTHEAST                                     | 304   | 12,342,320            | 3.7%                | 0.1%                  | 3.7%                 | 3.8%                   | 38,868              | 56,060                        | 122,169               | 51,400                    | 161,441           | 21,310                | \$17.82               |
| SOUTHWEST                                     | 189   | 9,108,199             | 4.0%                | 1.0%                  | 5.0%                 | 5.4%                   | 32,578              | 32,359                        | 252,693               | -                         | -                 | -                     | \$15.53               |
| WEST  | 469   | 16,907,482            | 4.1%                | 0.0%                  | 4.1%                 | 4.1%                   | 63,643              | (1,141)                       | 270,838               | -                         | 78,344            | 173,678               | \$13.74               |
| MARKET TOTAL                                  |       |                       |                     |                       |                      |                        |                     |                               |                       |                           |                   |                       |                       |
| Q4 2016                                       | 3,155 | 124,425,442           | 4.7%                | 0.3%                  | 5.1%                 | 5.2%                   | 613,808             | 445,450                       | 1,203,505             | 276,847                   | 815,817           | 690,295               | \$15.56               |
| DENVER MARKET QUARTERLY COMPARISON AND TOTALS |       |                       |                     |                       |                      |                        |                     |                               |                       |                           |                   |                       |                       |
| Q4 16   | 3,155 | 124,425,442           | 4.7%                | 0.3%                  | 5.1%                 | 5.2%                   | 613,808             | 445,450                       | 1,203,505             | 276,847                   | 815,817           | 690,295               | \$15.56               |
| Q3 16   | 3,149 | 124,164,145           | 4.9%                | 0.3%                  | 5.2%                 | 5.2%                   | 1,006,589           | 158,952                       | 758,055               | 254,434                   | 538,970           | 913,232               | \$15.40               |
| Q2 16   | 3,140 | 123,922,970           | 5.0%                | 0.2%                  | 5.2%                 | 5.4%                   | 913,276             | 225,555                       | 599,103               | 95,549                    | 284,536           | 895,851               | \$15.55               |
| Q1 16   | 3,142 | 124,000,055           | 5.2%                | 0.2%                  | 5.4%                 | 5.7%                   | 539,590             | 373,548                       | 373,548               | 188,987                   | 188,987           | 863,294               | \$15.30               |
| Q4 15   | 3,136 | 123,932,278           | 5.5%                | 0.2%                  | 5.7%                 | 5.8%                   | 994,893             | 413,610                       | 752,672               | 389,546                   | 901,469           | 613,445               | \$15.11               |

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## Denver

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



-Business Insider, 2016

## Metro Denver

is in the  
**Nation's** **#20**  
lowest  
unemployment rates



-U.S. Census Bureau, November 2016



**Denver**  
is ranked the  
**third hottest**  
residential  
real estate market  
in the U.S.

-Realtor.com, 2016

## Denver

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, 2016

Colorado  
Startups Raised  
**\$822 million**  
in Capital during 2015

-BusinessDen, 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

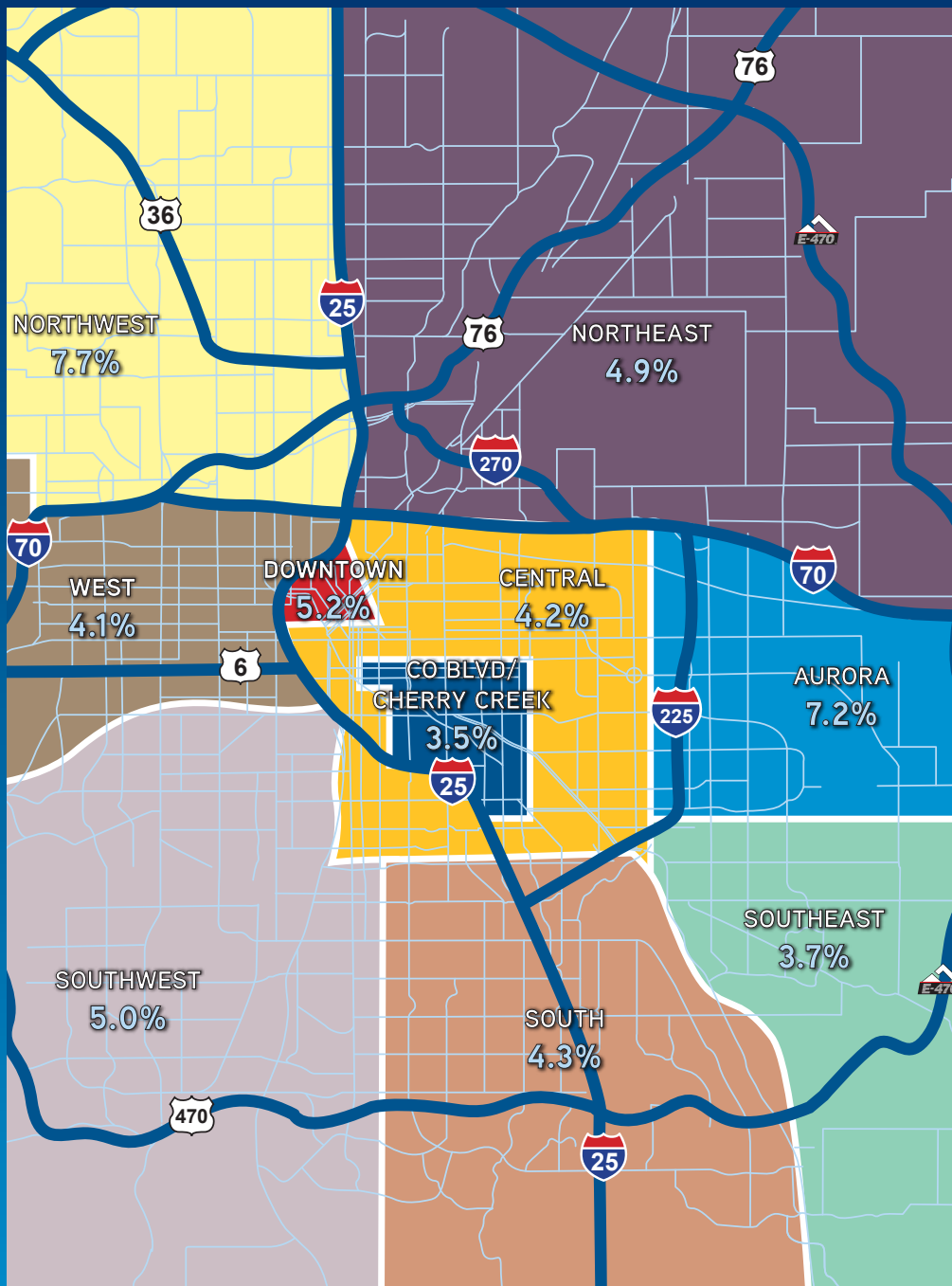
**Colorado** is the  
**3rd**  
**Best State**  
for Business



-CNBC, 2016



## Vacancy by Submarket



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