

METRO DENVER | INDUSTRIAL

Q1 2017

Investment Activity Retains Momentum from 2016

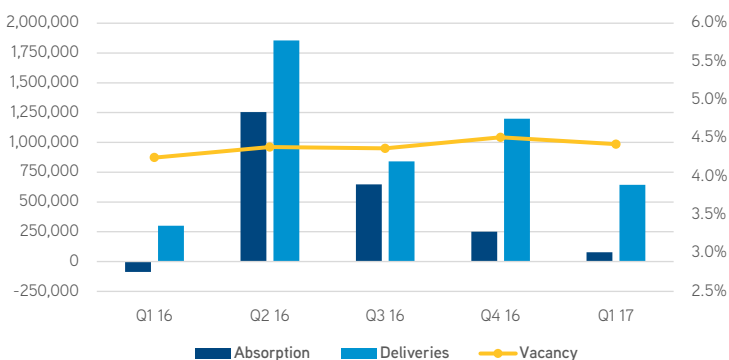
Market Overview

Positive net absorption persisted during the first quarter despite multiple large, single-tenant vacancies and continued construction. The metro has continued to experience increasing land prices and construction costs; however this does not appear to be negatively affecting momentum in the region. After a surge in institutional investor activity during the previous year, and a promising start to 2017, downward pressure, although minimal, on capitalization rates remains, further preserving Denver's industrial sector as one of the most sought-after markets in the country. Large requirements have become more common place throughout the market with e-commerce and food and beverage distribution occupiers necessitating demand for these larger spaces. Significant commitments made by Amazon, with its one-million-square-foot fulfillment center, and Wal-Mart's land purchase for future development of what is likely a similar facility, suggest these retail giants will lead the way for speedy delivery of products ordered online. Denver's population is forecast to increase by more than 50,000 people each year for the next ten years, and with a seemingly ever-increasing population reliant on e-commerce, Denver will surely prime the charge for distribution in the Rocky Mountain region.

Highlighted Trends

- › Metro deliveries were down during Q1 and totaled approximately 644,000 square feet.
- › 10 out of 15 submarkets realized positive net absorption during Q1.
- › First quarter industrial sales activity totaled approximately \$300 million across 15 transactions with an average sales price of \$124 per square foot.
- › Unemployment rates in Metro Denver decreased to 3.2 percent – national unemployment at 4.7 percent.
- › Nationwide cost of construction experienced an increase of 5.0 percent year-over-year, according to the Q1 2017 Turner Construction Cost Index.
- › The March 2017 Manufacturing ISM Report on Business stated that economic activity in the manufacturing sector expanded and grew for the 94th consecutive month, with an increase in the PMI of 1.2 percentage points since the beginning of the year.

Denver Industrial Market Q1 2016 – Q1 2017



Market Indicators

Relative to prior period	Q1 2017	Projected Q2 2017
Vacancy	↓	↔
Net Absorption	+	+
Deliveries	↑	↑
Rental Rate	↑	↔

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

Denver Metro Summary Statistics

	Q1 2016	Q1 2017
Vacancy Rate	4.2%	4.4%
Absorption YTD	(87,548)	77,503
Deliveries YTD	300,475	643,892
Under Construction	3,419,347	4,963,520
Asking Rents/SF	\$7.92	\$7.77
Total SF	221,750,706	225,407,410

First quarter positive net absorption totaled approximately 77,500 square feet.

Absorption

First quarter absorption in Metro Denver reached just over 77,500 square feet of positive net absorption as ten of the metro's 15 submarkets recorded positive net absorption during the quarter, despite the Northwest and North Central submarkets experiencing large, single-tenant vacancies from Flower's Baking Co., and the departure of Caljan America from the Denver market. However, with an industrial market as robust as Denver's, large vacancies are able to go relatively unnoticed in the overall absorption category.

Vacancy

Overall metro vacancy remained relatively unchanged from the previous quarter and remained under the 4.5 percent mark for nearly a year. Even with nearly five million square feet under construction, vacancy will remain in the 4 to 5 percent range, as much of the new construction has been pre-leased. Leasing activity slowed during the first quarter as several deals that were on track to close in early 2017, closed by the end of 2016.

Deliveries & Construction

Deliveries decreased quarter-over-quarter with nearly 644,000 square feet of inventory delivered to the market during the first quarter. The East I-70/Montbello submarket bests all other submarkets for total square feet under construction with multiple 500,000-square-foot-plus projects underway – most notably Amazon's one-million-square-foot fulfillment center. Overall construction totals more than 4.9 million square feet with additional projects of more than one million square feet scheduled to break ground in the coming months.

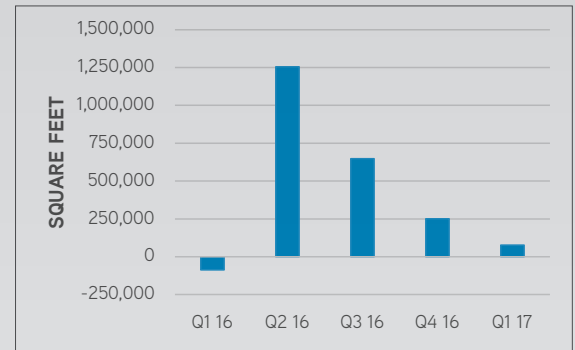
Rental Rates

Overall asking rental rates decreased slightly from the previous quarter to \$7.77 per square foot – down \$0.17 per square foot. Although, overall asking rates are down compared to 2016, rates will likely remain above current levels as new, speculative product comes online and demand for such space remains high. Rental rates fluctuated throughout the region, as approximately half of metro submarkets experienced increasing rents and half experienced decreasing rates.

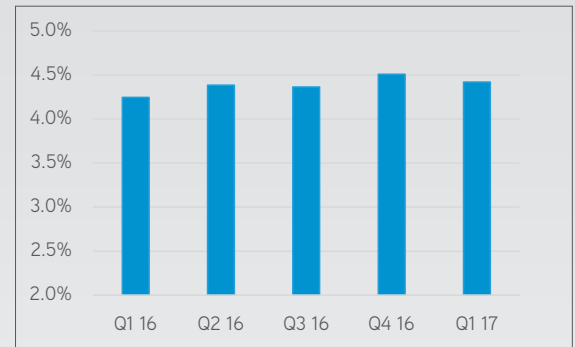
Sales Activity

There were 15 transactions in the Metro Denver industrial market during the first quarter totaling approximately \$300 million in sales volume – the second highest first quarter total of the last 15 years. The average price per square foot of first quarter transactions was \$124 per square foot. It should be noted the higher than normal price per square foot can be attributed to Crescent Realty's purchase of a 17-property flex portfolio in Boulder. This was the largest transaction of the quarter totaling approximately \$148 million, or \$208 per square foot. The 423,000-square-foot Airways Business Center in Aurora also sold during the first quarter \$36.4 million, or \$86 per square foot.

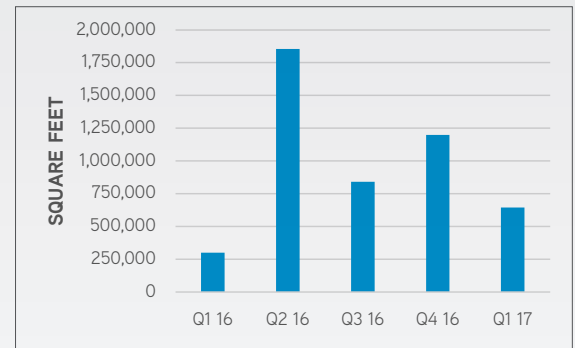
Absorption



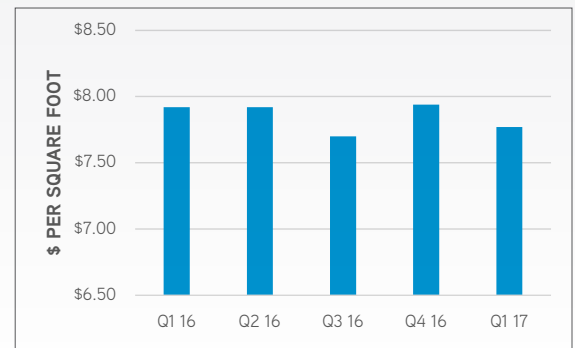
Vacancy



Deliveries



Rental Rates



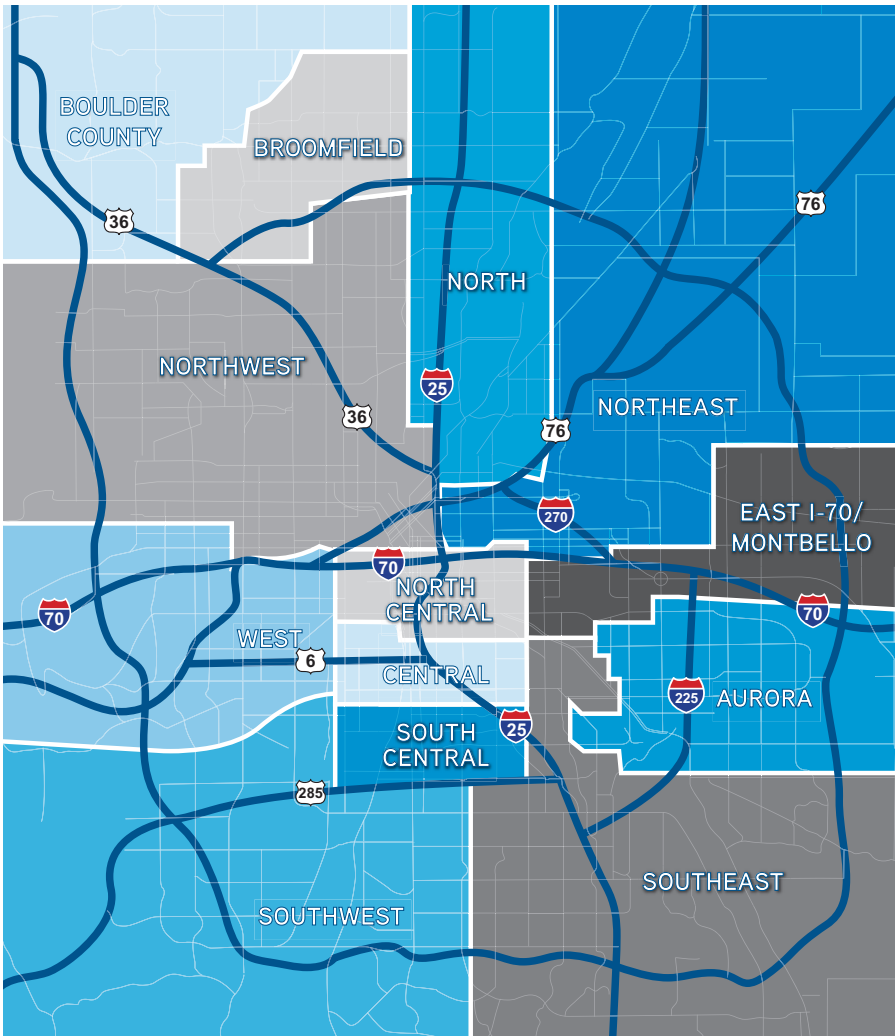
Recent Transactions

Industrial – Denver - Sales Activity						
PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
Goff Capital Partners Portfolio	Boulder	\$148,000,000	711,538	\$208	Crescent Realty	Goff Capital Partners
Airways Business Center	Aurora	\$36,425,000	423,000	\$86	IPT	Pacifica RE Group
Mountain West Business Park	Denver	\$26,400,000	208,418	\$127	Manchester Capital Management	Bow River Capital Partners

Industrial – Denver - Leasing Activity					
PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME	
19500 E. 23rd Avenue	East I-70/Montbello	357,500	New	UPS	
4250 Oneida Street	Northeast	245,340	New	Summit Warehouse & Logistics	
20001 E. 32nd Parkway	East I-70/Montbello	215,000	New	Undisclosed	

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	579,714	0.6%	0.0%	0.6%	0.2%	2,875	(2,625)	(2,625)	-	-	-	N/A
Flex	13	554,998	17.5%	1.1%	18.6%	16.9%	10,400	(9,648)	(9,648)	-	-	-	\$9.77
Total	38	1,134,712	8.9%	0.5%	9.4%	8.3%	13,275	(12,273)	(12,273)	-	-	-	\$9.77
BOULDER													
Industrial	153	5,685,022	2.2%	0.0%	2.2%	2.6%	65,725	25,663	25,663	-	-	-	\$13.50
Flex	67	2,433,535	4.7%	0.0%	4.7%	4.7%	3,514	(1,449)	(1,449)	-	-	-	\$17.57
Total	220	8,118,557	2.9%	0.0%	2.9%	3.2%	69,239	24,214	24,214	-	-	-	\$15.40
BROOMFIELD													
Industrial	67	2,990,957	0.9%	0.0%	0.9%	3.0%	8,350	63,234	63,234	-	-	-	\$6.75
Flex	10	221,565	0.0%	0.0%	0.0%	0.0%	-	-	0	-	-	-	\$10.50
Total	77	3,212,522	0.8%	0.0%	0.8%	2.8%	8,350	63,234	63,234	-	-	-	\$7.01
CENTRAL													
Industrial	305	10,554,843	3.5%	0.9%	4.3%	4.9%	34,073	66,903	66,903	-	-	-	\$7.78
Flex	6	168,491	0.0%	0.0%	0.0%	0.0%	-	-	-	-	-	-	\$9.00
Total	311	10,723,334	3.4%	0.8%	4.2%	4.9%	34,073	66,903	66,903	-	-	-	\$7.82
EAST I-70/MONTBELLO													
Industrial	1,043	74,419,155	3.3%	0.9%	4.1%	4.2%	1,426,920	110,000	110,000	66,000	66,000	3,066,794	\$5.62
Flex	28	1,086,324	4.0%	0.4%	4.4%	2.9%	22,684	(15,960)	(15,960)	-	-	-	\$13.33
Total	1,071	75,505,479	3.3%	0.9%	4.2%	4.2%	1,449,604	94,040	94,040	66,000	66,000	3,066,794	\$5.62

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	1.6%	0.0%	1.6%	1.5%	0	(1,650)	(1,650)	-	-	-	\$8.81
Flex	28	2,012,416	4.2%	0.0%	4.2%	29.6%	27,205	48,645	48,645	-	-	-	\$9.83
Total	109	4,601,874	2.7%	0.0%	2.7%	13.8%	27,205	46,995	46,995	-	-	-	\$9.40
NORTH CENTRAL													
Industrial	420	16,625,879	3.6%	0.0%	3.6%	2.8%	14,485	(91,420)	(91,420)	-	-	-	\$7.86
Flex	12	344,075	0.3%	0.0%	0.3%	0.0%	0	(1,100)	(1,100)	-	-	-	\$13.08
Total	432	16,969,954	3.6%	0.0%	3.6%	2.7%	14,485	(92,520)	(92,520)	-	-	-	\$8.08
NORTH													
Industrial	145	6,176,403	3.8%	0.0%	3.8%	4.5%	7,256	38,708	38,708	-	-	688,721	\$6.60
Flex	12	487,911	1.3%	0.0%	1.3%	0.7%	7,358	(3,175)	(3,175)	-	-	-	\$9.78
Total	157	6,664,314	3.7%	0.0%	3.7%	4.2%	14,614	35,533	35,533	-	-	688,721	\$6.99
NORTHEAST													
Industrial	380	16,624,721	11.7%	0.0%	11.7%	11.2%	37,490	18,594	18,594	304,499	304,499	553,350	\$9.33
Flex	13	473,188	6.3%	0.0%	6.3%	2.6%	5,974	(17,464)	(17,464)	-	-	-	\$13.00
Total	393	17,097,909	11.6%	0.0%	11.6%	11.0%	43,464	1,130	1,130	304,499	304,499	553,350	\$9.38
NORTHWEST													
Industrial	319	12,326,424	5.0%	0.0%	5.0%	3.2%	96,125	(219,187)	(219,187)	-	-	359,505	\$8.67
Flex	69	2,423,005	8.7%	0.4%	9.0%	4.2%	58,847	(30,445)	(30,445)	83,291	83,291	-	\$11.47
Total	388	14,749,429	5.6%	0.1%	5.7%	3.4%	154,972	(249,632)	(249,632)	83,291	83,291	359,505	\$9.69
SOUTH CENTRAL													
Industrial	398	10,990,563	2.0%	0.0%	2.0%	2.0%	51,241	9,233	9,233	-	-	-	\$7.95
Flex	13	381,967	2.8%	0.0%	2.8%	2.8%	-	0	0	-	-	-	\$9.62
Total	411	11,372,530	2.0%	0.0%	2.0%	2.0%	51,241	9,233	9,233	-	-	-	\$8.02
SOUTHEAST													
Industrial	217	8,808,120	2.8%	0.0%	2.8%	2.5%	33,430	(29,346)	(29,346)	63,550	63,550	63,550	\$7.98
Flex	163	5,624,533	10.2%	0.0%	10.2%	12.3%	65,048	105,974	105,974	113,352	113,352	-	\$11.98
Total	380	14,432,653	5.7%	0.0%	5.7%	6.3%	98,478	76,628	76,628	176,902	176,902	63,550	\$10.14
SOUTHWEST													
Industrial	176	5,699,233	0.8%	1.7%	2.5%	2.1%	10,200	(24,791)	(24,791)	-	-	-	\$8.34
Flex	51	1,758,326	7.9%	0.0%	7.9%	7.3%	11,524	(10,353)	(10,353)	-	-	-	\$9.48
Total	227	7,457,559	2.5%	1.3%	3.8%	3.3%	21,724	(35,144)	(35,144)	-	-	-	\$9.04
WELD COUNTY													
Industrial	400	16,309,092	1.6%	0.0%	1.6%	1.2%	37,350	(78,020)	(78,020)	-	-	130,000	\$8.31
Flex	23	1,099,524	37.5%	0.0%	37.5%	37.7%	7,741	1,742	1,742	-	-	-	\$6.24
Total	423	17,408,616	3.9%	0.0%	3.9%	3.5%	45,091	(76,278)	(76,278)	-	-	130,000	\$7.48
WEST													
Industrial	218	14,102,273	1.1%	0.0%	1.2%	2.0%	39,108	119,366	119,366	-	-	-	\$7.86
Flex	51	1,855,695	2.2%	0.0%	2.2%	1.9%	9,991	6,074	6,074	13,200	13,200	101,600	\$10.54
Total	269	15,957,968	1.2%	0.0%	1.3%	2.0%	49,099	125,440	125,440	13,200	13,200	101,600	\$8.36
MARKET TOTAL													
Industrial	4,347	204,481,857	3.6%	0.4%	4.0%	3.9%	1,864,628	4,662	4,662	434,049	434,049	4,861,920	\$7.08
Flex	559	20,925,553	8.4%	0.1%	8.5%	10.7%	230,286	72,841	72,841	209,843	209,843	101,600	\$10.85
Total	4,906	225,407,410	4.0%	0.4%	4.4%	4.5%	2,094,914	77,503	77,503	643,892	643,892	4,963,520	\$7.77
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q1 17	4,906	225,407,410	4.0%	0.4%	4.4%	4.5%	2,094,914	77,503	77,503	643,892	643,892	4,963,520	\$7.77
Q4 16	4,901	224,615,239	4.2%	0.3%	4.5%	4.4%	4,545,323	250,696	2,064,671	1,198,283	4,194,806	3,620,525	\$7.94
Q3 16	4,896	224,013,893	4.1%	0.3%	4.4%	4.4%	3,648,611	647,408	1,813,975	841,350	2,996,523	3,574,357	\$7.70
Q2 16	4,892	223,379,413	4.2%	0.2%	4.4%	4.2%	4,026,785	1,254,115	1,166,567	1,854,698	2,155,173	2,894,424	\$7.92
Q1 16	4,890	221,750,706	4.0%	0.3%	4.2%	4.2%	3,726,048	(87,548)	(87,548)	300,475	300,475	3,419,347	\$7.92



396 offices in
68 countries on
6 continents

United States: **153**
Canada: **29**
Latin America: **24**
Asia Pacific: **79**
EMEA: **111**

\$2.6
billion in
annual revenue

2.0
billion square feet
under management

15,000
professionals
and staff

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FOR MORE INFORMATION

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

RESEARCHERS:

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

Colliers International | Denver
4643 South Ulster Street, Suite 1000
+1 303 745 5800
colliers.com/denver

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