

2017 Keeps the Retailers Rolling

Market Overview

Metro Denver's retail sector started 2017 off on a strong note, boasting increased rental rates, positive absorption, over one million square feet of retail space under construction, and lower vacancy rates than any quarter of 2016. Although the retail sector is working out challenges due to the ever-evolving e-commerce market, high in-migration mixed with low unemployment rates have helped build a healthy consumer base willing and able to support the retail sector in Denver.

Net absorption during the first quarter 2017 came in just under a positive 100,000 square feet. The largest single absorption during the first quarter was the move in of Mercedes-Benz into their newly built dealership in the Colorado Boulevard/Cherry Creek Submarket, totaling over 70,000 square feet. Average rental rates for retail space have increased by \$1.06 per square foot, year-over-year, marking a new rental rate high for the past five years. With an abundance of retail space currently under construction, vacancy rates below 5 percent and high rental rates, 2017 is shaping up to be a strong year for the retail sector as long as retailers continue to figure out ways to curb the burdens put on the industry by e-commerce.

HIGHLIGHTED ECONOMIC TRENDS

Investment Sales

**\$100
MILLION**

Retail investment activity during the first quarter of 2017 totaled just over **\$100 million**, across **16 sales**. The establishment "My Brother's Bar" sold for the **highest price** per square foot at nearly **\$749 per square foot**.

Local Employment Growth

3.2% 

The Bureau of Labor Statistics projected an **unemployment rate of 3.2 percent** for Metro Denver during **February 2017**, up slightly from the previous year's unemployment of 3.1 percent in February 2016. The Metro Denver unemployment rate is **150 basis points below** the **national unemployment rate of 4.7 percent**.

Market Indicators

Relative to prior period

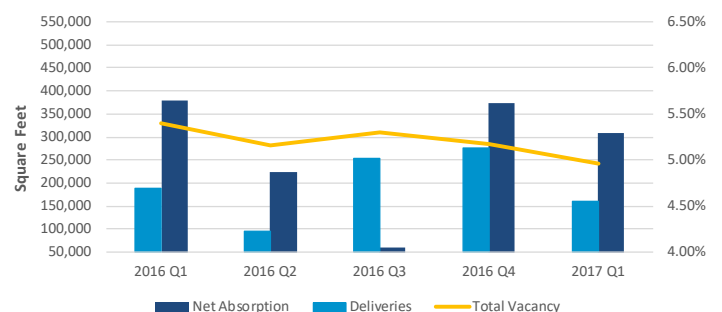
	Q1 2017	Projected Q2 2017
Vacancy	↓	↔
Net Absorption	—	+
Deliveries	↓	↑
Rental Rate	↓	↑

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

Denver Metro Summary Statistics

	Q1 2017	Q1 2016
Vacancy Rate	4.9%	5.4%
Net Absorption YTD	96,054	378,474
SF Under Construction	1,018,409	863,294
Asking Rents/SF	\$16.36	\$15.30

Denver Retail Market Q1 2016 – Q1 2017



Shopping Center Overview

Shopping center vacancy rates remained stable during the first quarter, increasing by one basis point to 6 percent. Power centers and regional malls had a lower demand during the first quarter with vacancy increasing by 80 basis points to 5.9 percent. Demand for community centers was up with a vacancy rate decreasing by 50 basis points to 6.5 percent.

Average triple net rents across all shopping centers grew during the first quarter, reaching \$14.26 per square foot increasing by thirteen-cents from the previous quarter. There have been no deliveries of shopping center space in 2017, but there are currently two projects underway which will deliver nearly 100,000 square feet of space. Total net absorption across all shopping center types was just under negative 43,000 square feet. The largest negative absorption was Gander Mountain leaving their 65,000-square-foot big box store.

Denver Metro Shopping Center Statistics

Center Type	Vacancy Q1 2017	Vacancy Q4 2016	Vacancy Q3 2016	Vacancy Q2 2016
Strip	7.1%	6.7%	6.2%	6.4%
Neighborhood	7.0%	7.0%	7.8%	7.6%
Community	6.5%	7.0%	7.3%	7.7%
Power/Regional	5.9%	5.1%	5.2%	3.2%
Malls (Super Regional)	2.3%	2.2%	2.1%	3.9%
All Shopping Centers	6.0%	5.9%	6.3%	6.2%

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

Q1 2017 Notable Transactions

Retail - Sales Activity

PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
Lone Tree Commons - 7600 E Park Meadows Drive	South	\$11,125,000	45,036	\$247	The Kroenke Group	Roseben Inc.
Fairway Plaza - 8200 S Colorado Boulevard	South	\$9,975,000	110,984	\$90	Bridge33 Capital	LNR Parnters
Lakewood City Center - 650 S Wadsworth Boulevard	West	\$8,400,000	46,534	\$181	Erik Swanson	ML Commercial Props Inc.

Retail - Leasing Activity

PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME
Corners at Wheat Ridge - 3795 Wadsworth Boulevard	West	35,000	New	N/A
Brookhill Town Center - 6735-6795 W 88th Avenue	Northwest	25,130	New	Guiry's Paint
Greenbriar Plaza - 7041-7071 N Pecos Street	Northwest	11,345	New	Turn II Bingo

Retail - Triple Net Investment

PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	CAP RATE	BUYER	SELLER
Gander Mountain - 18420 Cottonwood Drive	Southeast	\$12,531,699	57,677	\$217	6.6%	Ahmad Ghaderi	Guggenheim Partners
Nobel-Merryhill Child Care - 8502 Park Meadows Drive	South	\$3,880,000	11,090	\$350	7.4%	Paul Rivera	Bernard S. Lynn Jr.
Lincoln Meadows Urgent Care - 9932 S Twenty Mile Road	Southeast	\$2,593,000	5,450	\$476	6.2%	Kaplan Rick M & Kathleen S	Retail Investment Group, LLC

New Openings, Relocations, Expansions & Closures

Out with the Old and In with the New... Whole Foods

Whole Foods is scrapping a location in the Capitol Hill neighborhood to make way for their new Union Station location. This fall the Capitol Hill location will close to coincide with the projected opening of the Whole Foods near 17th and Wewatta. Current employees have hinted that the old Capitol Hill location may be converted into a Whole Food 365 which will carry the same groceries in a smaller store at a lower price.

Using Physical Space to Support your Digital Business

Can an e-commerce company benefit from renting out brick-and-mortar stores? Bonobos, a web-based clothing brand, believes so and has taken action by opening up their first Colorado brick-and-mortar store in Cherry Creek. Bonobos has more than thirty physical locations, which it calls “guideshops”, which serve the purpose of allowing customers to try on clothing in person before placing an online order which will ship directly to their house. This is not the first company to try this technique. E-commerce giant, Amazon, has brick-and-mortar stores that allow customers to get hands-on experience with Amazon branded devices, such as Kindle. Companies open physical locations hoping to curb any doubts consumers may have about the products.

The Continued Demise of Big Box Sporting Goods Retailers

Add Gander Mountain, a large outdoor sporting retailer, to the list of failing big box companies. Gander Mountain filed for bankruptcy during March 2017. The business will go to auction and company leaders are hoping to close the sale by mid-2017 after an estimated 32 of 162 stores are closed to fund the remaining stores. Similar to the Sports Authority bankruptcy, Gander Mountain cites online competition as the reason for their demise. The internet continues to be a plague for many retailers that are unable or unwilling to adapt. Gander Mountain filed for bankruptcy a month after the metro’s largest triple net investment sale of the first quarter, the Parker Gander Mountain store, which has fifteen years on its lease. This is Gander Mountain’s first and only Colorado location.

Development News

Walmart, Retail Giants New Non-Retail Space

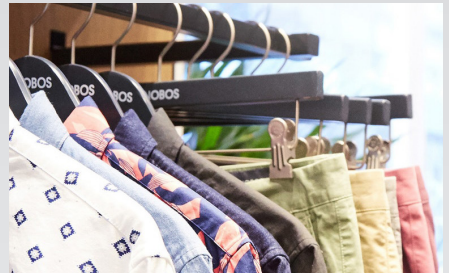
Walmart purchased 169 acres in the Porteos, mixed use development site near Denver International Airport. Although Walmart is no stranger to Colorado, don’t expect to walk in to this site to shop for cheap deals. Walmart plans to use this site as an e-commerce fulfillment center. The company understands the need for a competitive e-commerce division and wants to make sure they are balancing their traditional retail model with online sales.

Mercedes Makes Moves Near the Competition

In January 2017, Mercedes completed its new dealership located in the Colorado Boulevard/Cherry Creek Submarket and moved in shortly after. This new, 71,875-square-foot facility sits in the center of a shopping district with retailers such as Whole Foods, Starbucks, and the Home Depot. This new location is just a seven-minute walk to a BMW dealership on the south side of the shopping district. BMW and Mercedes-Benz were two of the most profitable car makers in 2016.

The Citadel on Colfax

Aurora has a new development under construction called the Citadel, which is located on Colfax Avenue and Sable Boulevard. This development will offer retail, restaurant, multifamily housing, medical offices, nursing, a dog park, and plenty of open space. The target market for this development is veterans. The Citadel hopes to provide a variety of resources to empower and support veterans with affordable housing and medical medical care. This will be the first low-income veteran housing project in Aurora and may be awarded some tax credits. With the Veterans Affairs Hospital opening in January 2018, and this project estimating completion in August 2017, Aurora is making moves to benefit its veterans.



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	248	10,171,462	7.1%	0.4%	7.4%	7.5%	33,999	1,370	1,370	-	-	40,000	\$14.79
BOULDER	183	6,031,916	2.7%	0.5%	3.2%	2.7%	12,164	(12,744)	(12,744)	-	-	87,588	\$22.61
CENTRAL	444	13,669,436	3.3%	0.9%	4.2%	4.1%	86,063	(2,640)	(2,640)	14,625	14,625	332,600	\$19.17
COLORADO BLVD/CHERRY CREEK	108	4,617,641	2.9%	0.0%	2.9%	3.3%	10,378	87,479	87,479	71,875	71,875	-	\$24.40
DOWNTOWN	76	3,006,572	4.2%	0.1%	4.2%	4.4%	5,990	6,416	6,416	-	-	102,258	\$25.31
NORTHEAST	313	12,564,695	4.9%	0.0%	4.9%	5.0%	50,721	15,420	15,420	22,666	22,666	109,921	\$16.65
NORTHWEST	496	21,482,621	6.6%	0.6%	7.2%	7.3%	129,098	30,675	30,675	15,500	15,500	183,332	\$13.32
SOUTH	329	15,386,666	3.6%	0.4%	4.0%	4.3%	16,223	57,909	57,909	-	-	-	\$16.77
SOUTHEAST	303	12,341,361	4.1%	0.0%	4.2%	4.1%	67,674	(11,346)	(11,346)	-	-	10,000	\$18.96
SOUTHWEST	193	9,090,797	4.7%	1.0%	5.7%	6.9%	79,352	(49,241)	(49,241)	-	-	-	\$16.17
WEST	470	16,897,835	3.7%	0.0%	3.7%	4.4%	27,108	(27,244)	(27,244)	35,668	35,668	152,710	\$13.86
MARKET TOTAL													
Q1 2017	3,163	125,261,002	4.6%	0.4%	5.0%	5.2%	518,770	96,054	96,054	160,334	160,334	1,018,409	\$16.36
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q1 17	3,163	125,261,002	4.6%	0.4%	5.0%	5.2%	518,770	96,054	96,054	160,334	160,334	1,018,409	\$16.36
Q4 16	3,163	125,412,142	4.8%	0.3%	5.2%	5.3%	978,345	373,500	1,036,537	276,847	815,817	938,985	\$15.56
Q3 16	3,159	125,178,300	5.0%	0.3%	5.3%	5.2%	1,199,145	60,058	663,037	254,434	538,970	913,232	\$15.40
Q2 16	3,150	124,937,125	5.0%	0.2%	5.2%	5.4%	982,203	224,505	602,979	95,549	284,536	895,851	\$15.55
Q1 16	3,152	125,014,210	5.2%	0.2%	5.4%	5.7%	632,944	378,474	378,474	188,987	188,987	863,294	\$15.30

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

Metro Denver
is in the
Nation's top 20
lowest
metropolitan area
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

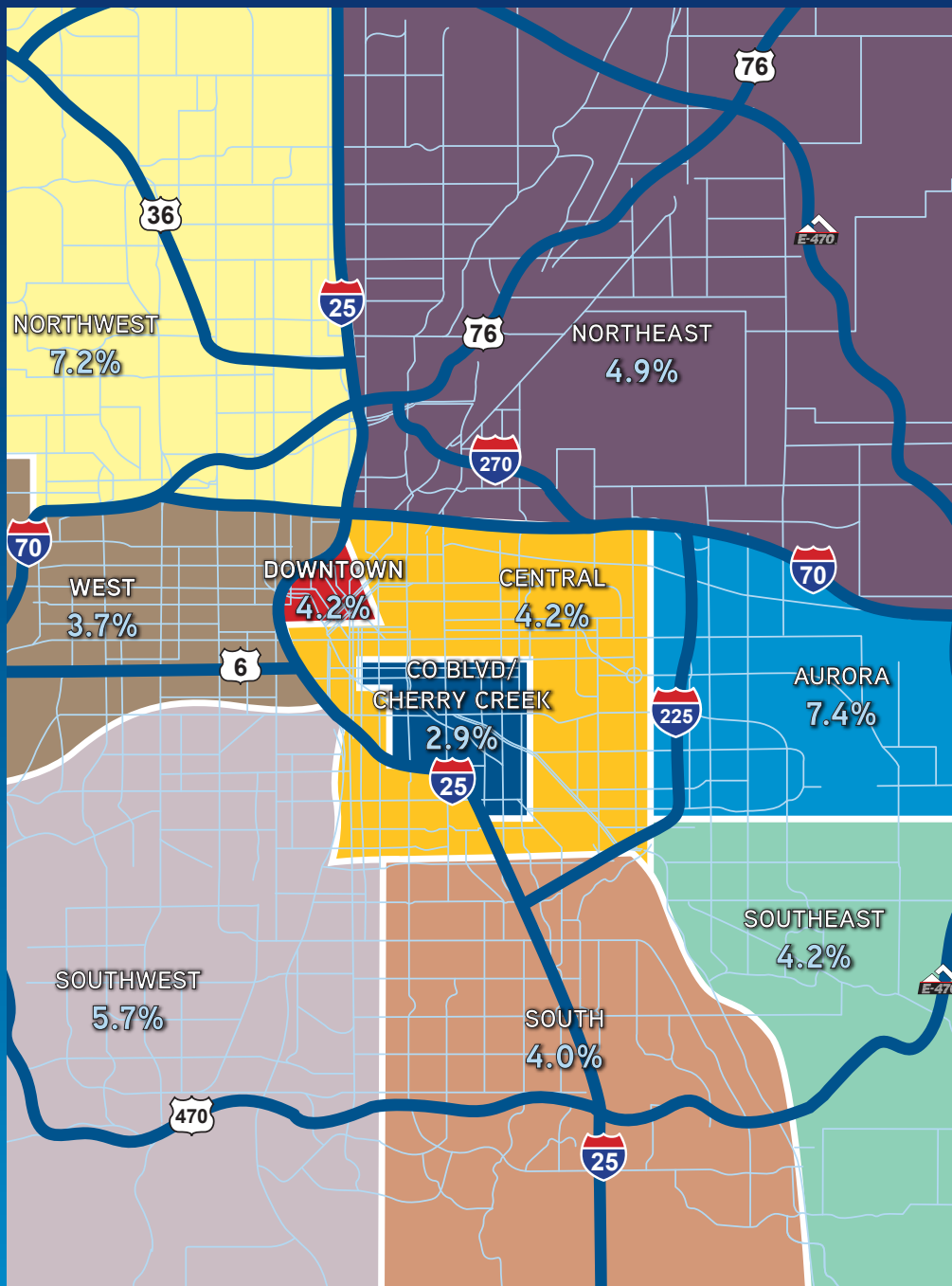
U.S. Census Bureau, 2015

Colorado is the
3rd
Best State
for Business

-CNBC, 2016



Vacancy by Submarket



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

About Colliers International

Colliers International is a global leader in commercial real estate services, with more than 16,000 professionals operating out of 554 offices in 66 countries. A subsidiary of FirstService Corporation, Colliers International delivers a full range of services to real estate occupiers, owners and investors worldwide, including global corporate solutions, brokerage, property and asset management, hotel investment sales and consulting, valuation, consulting and appraisal services, mortgage banking and insightful research. Colliers International has been recognized and ranked by the International Association of Outsourcing Professionals' Global Outsourcing 100 for 10 consecutive years, more than any other real estate services firm.

colliers.com

Copyright © 2016 Colliers International.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.



Accelerating success.