

METRO DENVER | INDUSTRIAL

Q1 2018

Denver's Industrial Investment Activity Surges in Early 2018

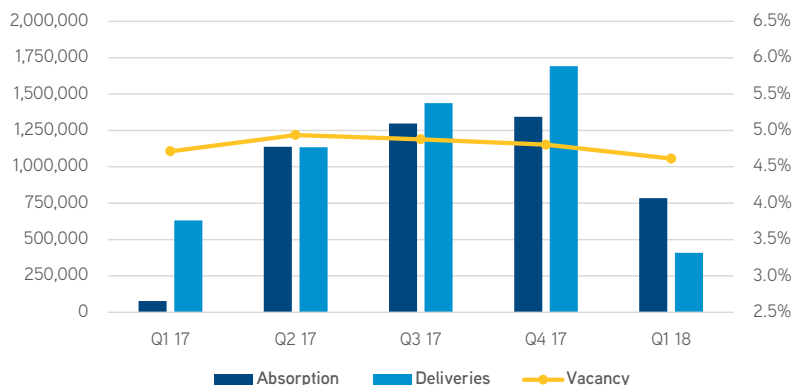
Market Overview

Denver's industrial sector posted impressive numbers during the first quarter of 2018. The 242 million-square-foot sector experienced more than 785,000 square feet of positive net absorption, and more than \$475 million in investment activity – a 52 percent increase over the Q1 2017 investment total. Institutional investors boosted investment activity during the quarter as two portfolio transactions closed during the month of March, one of which was the largest industrial investment deal ever in Denver. As investment activity persists throughout the region, development, both speculative and build-to-suit, is extensive, especially for space suitable to distribution, fulfillment, and last-mile occupiers looking for a location at the Gateway to the West.

Highlighted Trends

- › Metro deliveries totaled approximately 410,000 square feet during Q1.
- › 12 of 15 submarkets realized positive net absorption.
- › First quarter industrial investment activity totaled more than \$475 million with an average sales price per square foot of \$110.
- › Unemployment rate in Metro Denver currently sits at 3.1 percent – national unemployment is 4.1 percent.
- › The March 2018 Manufacturing ISM Report on Business stated that economic activity in the manufacturing sector expanded and grew for the 107th consecutive month, with a slight decrease in the PMI of 1.5 percentage points since February 2018.

Denver Industrial Market Q1 2017 – Q1 2018



Market Indicators

Relative to prior period	Q1 2018	Projected Q2 2018
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 2018
Vacancy Rate	4.7%	4.6%
Absorption YTD	77,503	785,242
Deliveries YTD	630,692	409,382
Under Construction	4,963,520	4,509,535
Asking Rents/SF	\$7.88	\$8.42
Total SF	237,329,570	241,963,843

First quarter positive net absorption totaled more than 785,000 square feet.

Absorption

The Metro Denver industrial sector has begun 2018 on a strong note posting more than 785,000 square feet of positive net absorption, as 12 of 15 submarkets realized positive numbers during the first quarter. Even as the industrial sector adds new inventory, that added inventory is met with ubiquitous demand and consistent absorption. The Northeast, Southeast, and Boulder submarkets experienced the largest absorption numbers during the quarter as tenants such as Graybar, Olympic Metals, and Keystone Group, Inc. took occupancy of their respective buildings.

Vacancy

Overall industrial vacancy fell slightly compared to the previous quarter and sits at 4.6 percent. Vacancy remains steady marking the 17th consecutive quarter vacancy was reported below 5 percent. Demand for industrial product throughout the metro area is unwavering as much of the new supply is absorbed upon completion, or shortly thereafter. Of the more than 12.4 million square feet of industrial inventory that has been delivered since 2015, more than 85 percent is currently occupied.

Deliveries & Construction

As construction lulled during the winter months, deliveries slowed compared to the previous quarter, as approximately 410,000 square feet of new inventory was added to the market. The largest delivery during the first quarter was the 168,000-square-foot, class A, Summit Distribution Center in the East I-70/Montbello submarket, a speculative building which delivered vacant with no pre-leasing. Currently, there is approximately 4.5 million square feet of industrial product under construction throughout the metro. A majority of current construction projects are speculative development, with approximately 30 percent of that space pre-leased. However, with demand for new industrial space seemingly never ending in the metro area, available speculative space is anticipated to be leased by year's end.

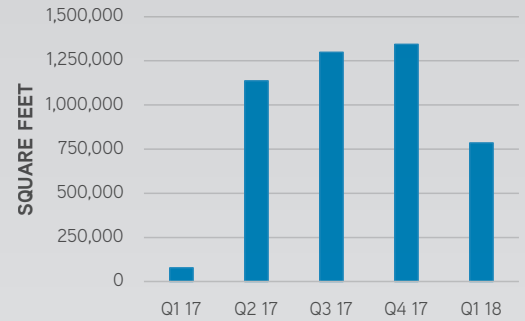
Rental Rates

The combined overall average asking rental rate for metro's industrial-flex properties is \$8.42/SF. The overall average rate includes all industrial-type properties, such as warehouse, flex, R&D, and manufacturing and distribution. The overall average asking rate for warehouse/distribution properties is \$7.95/SF, while flex properties had an average asking rate of \$11.30/SF. New deliveries, coupled with increasing construction costs and demand, continue to push average asking rates higher. Denver's largest industrial submarket, East I-70/Montbello, a submarket predominately made up of warehouse/distribution properties is experiencing average asking rental rates of \$6.36/SF.

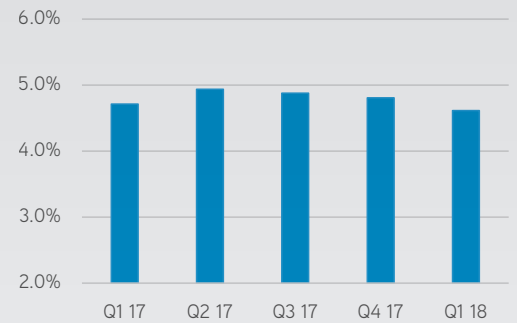
Sales Activity

Industrial investment activity totaled approximately \$475 million, with an average of \$110/SF, as Metro Denver was a party to two significant industrial portfolio sales during the quarter. A total of 50 properties traded hands led by the Paul's Corporation portfolio sale. Purchased by Clarion Partners, the portfolio included 14 properties throughout the metro area totaling more than 1.9 million square feet with an allocated value of more than \$206 million. This was the largest industrial investment deal ever in Denver. In what may be the largest acquisition of the year nationally, The Blackstone Group acquired the Canyon Industrial Portfolio from Cabot Properties for \$1.8 billion. The portfolio consisted of 146 last-mile industrial properties throughout seven states, with seven Metro Denver properties totaling more than 1 million square feet transacting. Denver's allocated value from this portfolio sale was approximately \$116 million, or \$108/SF.

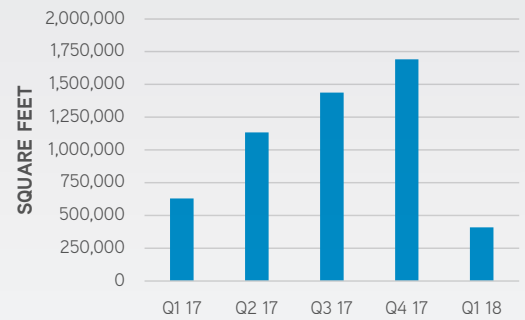
Absorption



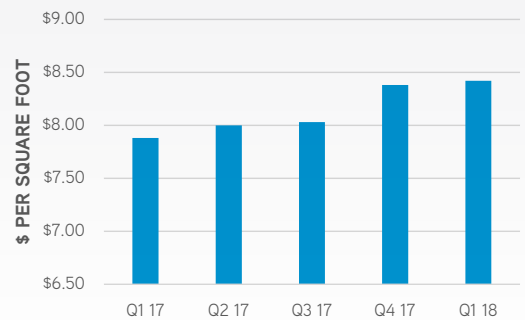
Vacancy



Deliveries



Rental Rates



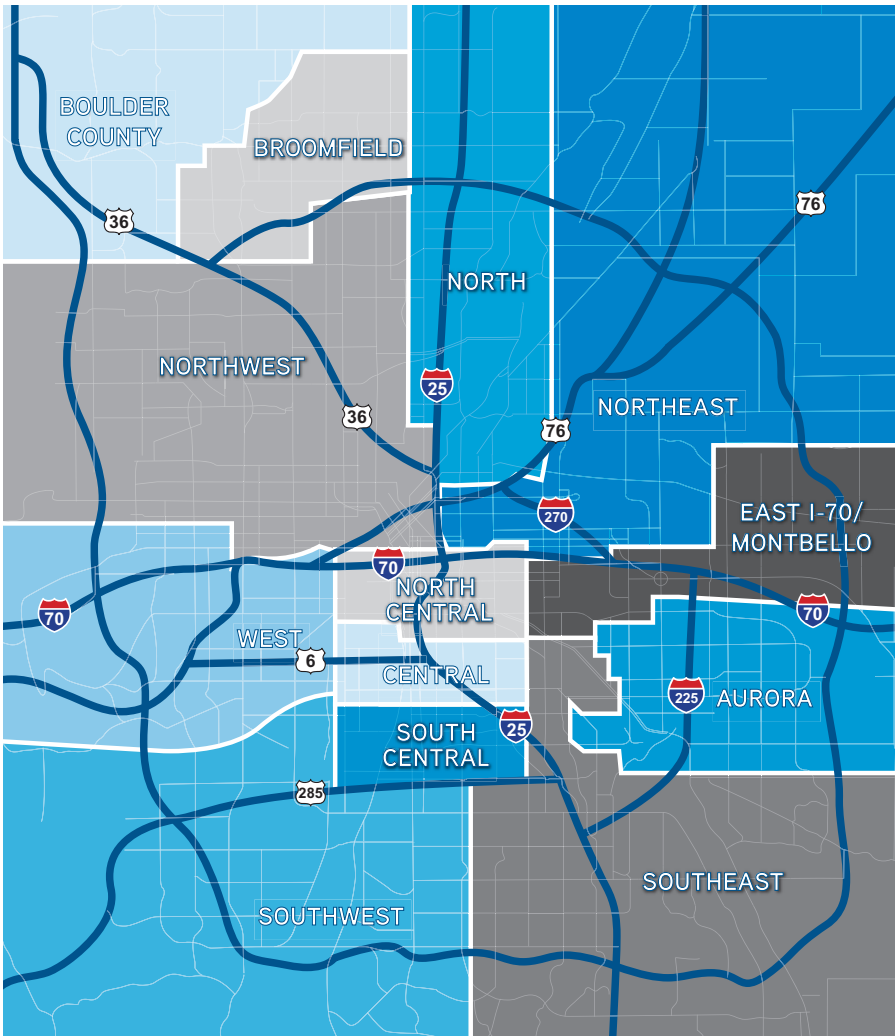
Recent Transactions

Industrial – Denver - Sales Activity						
PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
Paul's Corporation Portfolio	East I-70/Montbello	\$206,147,800	1,934,927	\$107	Clarion Partners	Paul's Corporation
Canyon Industrial Portfolio	East I-70/Montbello & South Central	\$116,000,000	1,071,480	\$108	Blackstone	Cabot Properties, Inc.
14 Inverness Drive East	Southeast	\$21,000,000	215,268	\$98	BKM Capital Partners	Global Pacific Properties

Industrial – Denver - Leasing Activity					
PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME	
16200 Table Mountain Parkway	West	227,500	Renewal	Rocky Mountain Bottling Company	
20101 E. 36th Drive	East I-70/Montbello	139,121	New	Lanter Delivery Systems	
5501 Peoria Street	East I-70/Montbello	135,546	Renewal	Premier Eurocase	

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	28	636,125	4.6%	0.0%	4.6%	4.6%	-	-	0	-	-	-	N/A
Flex	14	573,485	7.2%	0.0%	7.2%	9.8%	5,000	15,076	15,076	-	-	-	\$6.35
Total	42	1,209,610	5.9%	0.0%	5.9%	7.1%	5,000	15,076	15,076	-	-	-	\$6.35
BOULDER													
Industrial	278	10,469,618	5.2%	1.4%	6.5%	7.4%	86,779	88,394	88,394	-	-	174,150	\$9.99
Flex	111	5,066,887	5.3%	0.5%	5.8%	6.2%	92,588	23,406	23,406	-	-	-	\$14.27
Total	389	15,536,505	5.2%	1.1%	6.3%	7.0%	179,367	111,800	111,800	-	-	174,150	\$11.44
BROOMFIELD													
Industrial	76	3,207,854	2.3%	0.0%	2.3%	2.2%	9,288	(1,870)	(1,870)	-	-	400,357	\$9.49
Flex	12	377,939	0.0%	0.0%	0.0%	0.0%	5,600	-	0	-	-	-	\$10.99
Total	88	3,585,793	2.0%	0.0%	2.0%	2.0%	14,888	(1,870)	(1,870)	-	-	400,357	\$9.61
CENTRAL													
Industrial	307	10,609,529	4.0%	0.1%	4.0%	4.5%	47,827	51,887	51,887	-	-	-	\$7.52
Flex	6	168,491	0.0%	0.0%	0.0%	0.0%	-	-	-	-	-	-	\$9.50
Total	313	10,778,020	3.9%	0.1%	4.0%	4.5%	47,827	51,887	51,887	-	-	-	\$7.54
EAST I-70/MONTBELLO													
Industrial	1,069	78,334,153	4.7%	0.3%	5.0%	4.9%	1,352,649	73,613	73,613	168,029	168,029	947,847	\$6.36
Flex	27	1,041,924	2.9%	0.4%	3.3%	2.3%	3,600	(9,680)	(9,680)	-	-	53,400	\$9.00
Total	1,074	79,376,077	4.7%	0.3%	4.9%	4.8%	1,356,249	63,933	63,933	168,029	168,029	1,001,247	\$6.37

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	93	2,890,747	2.7%	0.0%	2.7%	2.5%	22,945	(7,280)	(7,280)	-	-	-	\$8.48
Flex	27	1,992,416	27.3%	0.0%	27.3%	23.6%	4,750	(74,142)	(74,142)	-	-	-	\$12.49
Total	120	4,883,163	12.7%	0.0%	12.7%	11.1%	27,695	(81,422)	(81,422)	-	-	-	\$11.15
NORTH CENTRAL													
Industrial	428	16,643,386	4.9%	0.1%	5.1%	5.2%	27,191	17,679	17,679	-	-	60,000	\$7.74
Flex	15	623,105	0.0%	0.0%	0.0%	0.0%	-	-	0	-	-	-	\$10.91
Total	443	17,266,491	4.8%	0.1%	4.9%	5.1%	27,191	17,679	17,679	-	-	60,000	\$7.86
NORTH													
Industrial	156	6,578,989	3.1%	0.0%	3.1%	3.1%	12,658	(3,811)	(3,811)	-	-	1,285,470	\$9.10
Flex	12	487,911	0.5%	0.0%	0.5%	2.8%	12,852	11,172	11,172	-	-	30,000	\$10.26
Total	168	7,066,900	2.9%	0.0%	3.0%	3.1%	25,510	7,361	7,361	-	-	1,315,470	\$9.11
NORTHEAST													
Industrial	422	18,258,973	7.5%	0.0%	7.5%	9.2%	72,246	314,466	314,466	39,425	39,425	895,529	\$9.77
Flex	15	548,017	10.9%	0.0%	10.9%	11.8%	-	5,300	5,300	-	-	-	\$13.00
Total	437	18,806,990	7.6%	0.0%	7.6%	9.3%	72,246	319,766	319,766	39,425	39,425	895,529	\$9.97
NORTHWEST													
Industrial	287	11,190,065	5.2%	0.0%	5.2%	5.1%	47,630	31,797	31,797	79,698	79,698	-	\$8.51
Flex	39	1,033,050	7.6%	0.0%	7.6%	5.6%	16,930	10,691	10,691	33,600	33,600	-	\$10.02
Total	326	12,223,115	5.4%	0.0%	5.4%	5.2%	64,560	42,488	42,488	113,298	113,298	-	\$8.93
SOUTH CENTRAL													
Industrial	400	10,908,607	2.5%	0.1%	2.6%	2.4%	28,103	(16,005)	(16,005)	-	-	-	\$8.02
Flex	13	381,967	4.1%	0.0%	4.1%	10.1%	27,590	22,960	22,960	-	-	-	\$10.18
Total	413	11,290,574	2.5%	0.1%	2.6%	2.4%	55,693	6,955	6,955	-	-	-	\$8.09
SOUTHEAST													
Industrial	240	9,795,319	4.3%	0.0%	4.3%	5.2%	39,091	145,410	145,410	62,000	62,000	305,202	\$9.39
Flex	161	5,647,795	6.2%	0.3%	6.5%	8.3%	123,997	105,682	105,682	-	-	-	\$11.14
Total	401	15,443,114	5.0%	0.1%	5.1%	6.3%	163,088	251,092	251,092	62,000	62,000	305,202	\$9.96
SOUTHWEST													
Industrial	187	5,864,464	0.5%	0.0%	0.5%	0.7%	4,423	13,487	13,487	-	-	-	\$8.42
Flex	54	1,824,329	10.8%	0.0%	10.8%	10.6%	8,280	(3,720)	(3,720)	-	-	-	\$9.84
Total	241	7,688,793	3.0%	0.0%	3.0%	3.1%	12,703	9,767	9,767	-	-	-	\$9.22
WELD COUNTY													
Industrial	479	18,577,764	0.9%	0.1%	1.1%	1.1%	95,196	43,659	43,659	26,630	26,630	357,580	\$10.94
Flex	25	1,290,774	7.0%	0.0%	7.0%	11.8%	-	63,132	63,132	-	-	-	\$8.85
Total	504	19,868,538	1.3%	0.1%	1.4%	1.8%	95,196	106,791	106,791	26,630	26,630	357,580	\$10.56
WEST													
Industrial	239	15,049,623	1.7%	0.1%	1.8%	1.0%	264,633	(108,087)	(108,087)	-	-	-	\$8.45
Flex	52	1,890,537	3.5%	0.0%	3.5%	2.0%	1,550	(27,974)	(27,974)	-	-	-	\$11.63
Total	291	16,940,160	1.9%	0.1%	2.0%	1.2%	266,183	(136,061)	(136,061)	-	-	-	\$9.09
MARKET TOTAL													
Industrial	4,689	219,015,216	4.1%	0.2%	4.3%	4.5%	2,110,659	643,339	643,339	375,782	375,782	4,426,135	\$7.95
Flex	583	22,948,627	7.6%	0.2%	7.8%	8.2%	302,737	141,903	141,903	33,600	33,600	83,400	\$11.30
Total	5,272	241,963,843	4.4%	0.2%	4.6%	4.8%	2,413,396	785,242	785,242	409,382	409,382	4,509,535	\$8.42
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q1 18	5,272	241,963,843	4.4%	0.2%	4.6%	4.8%	2,413,396	785,242	785,242	409,382	409,382	4,509,535	\$8.42
Q4 17	5,268	241,625,086	4.7%	0.1%	4.8%	4.9%	2,744,291	1,343,299	3,855,646	1,690,903	4,894,266	4,017,394	\$8.38
Q3 17	5,254	239,690,605	4.6%	0.3%	4.9%	4.9%	3,139,113	1,297,626	2,512,347	1,438,140	3,203,363	4,001,246	\$8.03
Q2 17	5,249	238,534,948	4.6%	0.3%	4.9%	4.7%	4,505,618	1,137,218	1,214,721	1,134,531	1,765,223	3,372,643	\$8.00
Q1 17	5,244	237,329,570	4.4%	0.3%	4.7%	4.5%	4,105,700	77,503	77,503	630,692	630,692	4,963,520	\$7.88



413 offices in
69 countries on
6 continents

United States: **145**
Canada: **28**
Latin America: **23**
Asia Pacific: **86**
EMEA: **131**

\$2.7
billion in
annual revenue

2.0
billion square feet
under management

15,400
professionals
and staff

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