

Slow start for Denver's Retail Sector

Market Overview

After recording net absorption of more than 546,000 square feet during the previous quarter, Metro Denver's retail sector experienced approximately 27,000 square feet of negative absorption. The South submarket experienced the most significant of this quarter's negative absorption, as several big box retailers vacated their space. Overall average asking rental rates increased approximately 7.3 percent year-over-year; however asking rates have remained relatively stagnant increasing only \$0.04/sf since mid-2017. Vacancy has remained under 5.8 percent since Q4 2015, and is currently 5.0 percent.

Investment activity in the Metro Denver retail sector totaled approximately \$277 million during the first quarter, as 22 properties transacted. The most significant transaction of the quarter was the purchase of the Southland's Mall in Aurora by M & J Wilkow. The property sold for approximately \$142 million, or \$184/sf, respectively.

HIGHLIGHTED ECONOMIC TRENDS

Investment Sales

**\$277
MILLION**

Retail investment activity during the first quarter 2018 totaled approximately **\$277 million**, across **22 sales**.

Local Employment Growth

3.1%

The Bureau of Labor Statistics reported an **unemployment rate of 3.1 percent** for Metro Denver during **February 2018**. The **national unemployment rate is 4.1 percent**.

Market Indicators

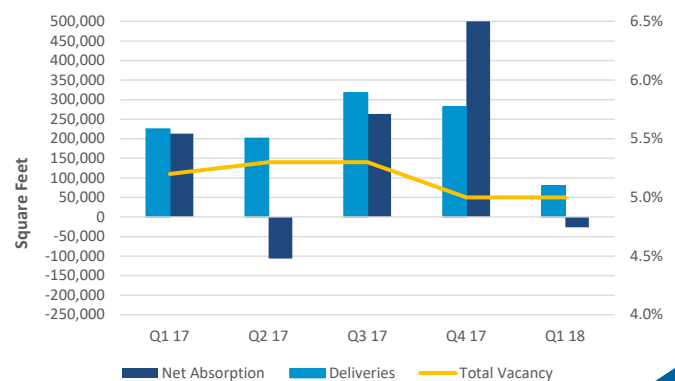
Relative to prior period	Q1 2018	Projected Q2 2018
Vacancy		
Net Absorption		
Deliveries		
Rental Rate		

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

Denver Metro Summary Statistics

	Q1 2018	Q1 2017
Vacancy Rate	5.0%	5.2%
Net Absorption YTD	(27,002)	213,349
SF Under Construction	1,040,806	1,018,409
Asking Rents/SF	\$17.15	\$15.98

Denver Retail Market Q1 2017 – Q1 2018



Shopping Center Overview

The overall shopping center vacancy rate remained unchanged compared to the previous quarter, and currently sits at 5.8 percent. Positive net absorption for all shopping centers during the first quarter totaled approximately 26,700 square feet. Average triple net rents across all shopping centers increased once again during the first quarter to \$15.41/sf.

As the retail sector, particularly shopping centers, continues to evolve with ever-increasing e-commerce dominance, adaptive reuse of these property types will be the focus for retail investors and occupiers looking for in-fill locations. Immediate reuse of department stores and other anchor tenant buildings will likely be filled by fitness centers and entertainment concepts, as well as traditional light distribution centers or office uses.

Denver Metro Shopping Center Statistics

Center Type	Vacancy Q1 2018	Vacancy Q4 2017	Vacancy Q3 2017	Vacancy Q1 2017
Strip	6.1%	6.1%	8.2%	7.1%
Neighborhood	6.6%	6.4%	7.9%	7.7%
Community	8.1%	7.8%	7.4%	6.5%
Power/Regional	5.1%	5.3%	5.8%	6.0%
Malls (Super Regional)	1.4%	1.9%	2.1%	2.3%
All Shopping Centers	5.8%	5.8%	6.4%	6.1%

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

Q1 2018 Notable Transactions

Retail - Sales Activity

PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
Southland's Mall	Aurora	\$141,995,000	772,161	\$184	M & J Wilkow, Ltd.	Northwood Investors
SouthGlenn Macy's	South	\$10,000,000	163,626	\$61	Alberta Development Partners	Macy's, Inc.
Abilene Market Shopping Center	Aurora	\$9,900,000	55,613	\$178	Sung Yun Back	Blue Sky Management

Retail - Leasing Activity

PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME
Westfield Village Shopping Center	Northwest	61,680	New	Hobby Lobby
18420 Cottonwood Drive	Southeast	57,539	New	Gander Outdoors
Arapahoe Crossings	Southeast	40,674	New	Burlington Coat Factory

Retail - Triple Net Investment

PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	CAP RATE	BUYER	SELLER
Walgreen's 6011 Dexter Street	Northeast	\$5,250,000	14,490	\$362	6.2%	Shawky W. Mikhail	Patricia Draper & Michael Hamer
Starbucks 11703 E. Arapahoe Road	Northwest	\$2,740,000	2,022	\$1,355	4.9%	Jon Rodrigue	Confluent Development

New Openings, Relocations, Expansions & Closures

King Soopers parent Kroger agrees to sell 762 convenience stores in \$2.15 billion deal

Kroger, the parent company of Colorado grocery chains King Soopers and City Market, has reached a deal to sell its convenience stores for \$2.15 billion. The 170 convenience store locations operate throughout Colorado and Wyoming under the Loaf 'N Jug brand. Kroger reached a deal with EG Group, a Blackburn, England-based operator of convenience stores in Europe. This transaction will allow EG Group to operate approximately 4,400 convenience store locations, and will be their first retail entry into the United States.

Albertson's plans to buy Rite-Aid to head off Amazon threat

Albertson's announced plans in February 2018 to buy Rite-Aid, a drugstore chain, in an attempt to outmaneuver online competitors like Amazon, as consolidation makes its way through the grocery industry. Privately-held Albertson's operates grocers under its own name as well as more than a dozen other banners including Safeway, Acme, and United Supermarkets. Under the original deal terms, Albertson's would own roughly 71 percent of the new group, with Rite-Aid shareholders holding the remainder. However, as of April 2018, the merger has been met with backlash from shareholders, and appears to be heading towards a renegotiating of terms.

Toys 'R' Us to close all stores

Toys 'R' Us announced in March that it plans to sell or close all of its 735 stores throughout the United States. After 70 years in business, the e-commerce dominance exuded over the past decade ultimately led to its demise, as specialty retailers have fallen by the wayside. Toys 'R' Us filed for bankruptcy in September 2017 hoping to shed debt of nearly \$5 billion and reinvest in its stores. The store hasn't made a full year profit since 2012 and has lost nearly \$2.5 billion since that time.

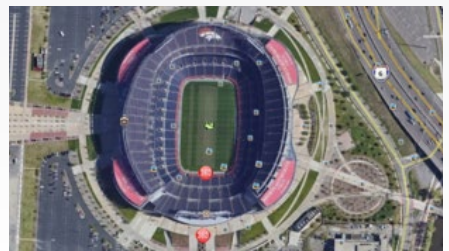
Development News

Music hall to be developed

The Mission Ballroom is a planned music hall that will anchor a new 14-acre mixed-use development between 40th & 43rd Avenue along Brighton Boulevard in Denver. AEG Presents Rocky Mountain, the live entertainment division of Los Angeles-based AEG, will partner with Westfield Company to develop the 60,000-square-foot development. The project is scheduled for completion in summer 2019.

Mixed-use development planned south of Mile High stadium

A major mixed-use development consisting of residential and commercial buildings has been proposed for the south parking areas of Mile High stadium. The project was announced by the Denver Office of Community Planning and Development in March, and would likely create hundreds of housing units and multiple mixed-use buildings in an area that has long-served as stadium parking for events held at Mile High Stadium. As of the end of Q1, there are no concrete or official plans to move forward, as the planning process is anticipated to last 12 months.



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	10,186,268	5.4%	0.3%	5.7%	6.2%	32,489	34,789	34,789	-	-	120,000	\$14.01
BOULDER	250	8,614,181	4.9%	0.3%	5.2%	4.5%	92,504	(27,342)	(27,342)	30,000	30,000	-	\$21.21
CENTRAL	452	13,809,680	3.5%	0.0%	3.5%	3.3%	39,500	(34,135)	(34,135)	-	-	22,200	\$19.84
COLORADO BLVD/CHERRY CREEK	110	4,755,688	2.8%	0.0%	2.9%	2.5%	-	(14,466)	(14,466)	-	-	-	\$28.78
DOWNTOWN	74	2,397,726	2.6%	0.4%	3.0%	3.5%	5,251	10,775	10,775	-	-	-	\$26.68
NORTHEAST	285	11,395,540	5.1%	0.0%	5.1%	5.0%	19,163	(12,586)	(12,586)	-	-	386,753	\$16.06
NORTHWEST	443	19,784,038	6.5%	0.1%	6.6%	6.9%	208,327	53,505	53,505	-	-	379,980	\$14.61
SOUTH	331	15,393,884	4.5%	0.7%	5.2%	4.2%	58,434	(157,906)	(157,906)	-	-	-	\$17.95
SOUTHEAST	309	12,482,771	4.4%	0.5%	5.0%	5.1%	136,263	10,327	10,327	-	-	51,614	\$20.31
SOUTHWEST	192	8,967,159	3.8%	0.4%	4.2%	6.0%	19,255	76,714	76,714	-	-	-	\$13.49
WEST	479	17,048,002	4.7%	0.2%	4.9%	4.9%	24,903	33,323	33,323	50,000	50,000	80,259	\$16.00
MARKET TOTAL													
Total	3,173	124,834,937	4.7%	0.3%	5.0%	5.1%	636,089	(27,002)	(27,002)	80,000	80,000	1,040,806	\$17.15
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q1 18	3,173	124,834,937	4.7%	0.3%	5.0%	5.1%	636,089	(27,002)	(27,002)	80,000	80,000	1,040,806	\$17.15
Q4 17	3,175	124,878,577	4.8%	0.3%	5.1%	5.3%	695,495	556,530	929,968	262,660	1,025,585	1,085,913	\$17.11
Q3 17	3,168	124,597,167	4.8%	0.5%	5.3%	5.3%	768,903	266,287	373,438	307,550	762,925	1,139,110	\$17.11
Q2 17	3,159	124,333,818	4.8%	0.5%	5.3%	5.2%	907,343	(106,198)	107,151	201,140	455,375	1,080,172	\$16.42
Q1 17	3,152	124,267,272	4.8%	0.4%	5.2%	5.4%	890,479	213,349	213,349	254,235	254,235	1,018,409	\$15.98

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.

#1

for best cities
to be a
homeowner in
the U.S.

-SmartAsset, 2017



#2
best place
to live in
America

-U.S. News, 2017



#2

for most
recession-recovered
large cities

-WalletHub, 2017

#2

for best cities for
job seekers

-NerdWallet, 2017



**DENVER
RANKINGS**

#4

best place
to retire
in America

-Bankrate/Gallup-Sharecare, 2017



#7

best cities
for foodies

-SmartAsset, 2017



#7

for healthiest
U.S. cities

-American Fitness Index, 2017

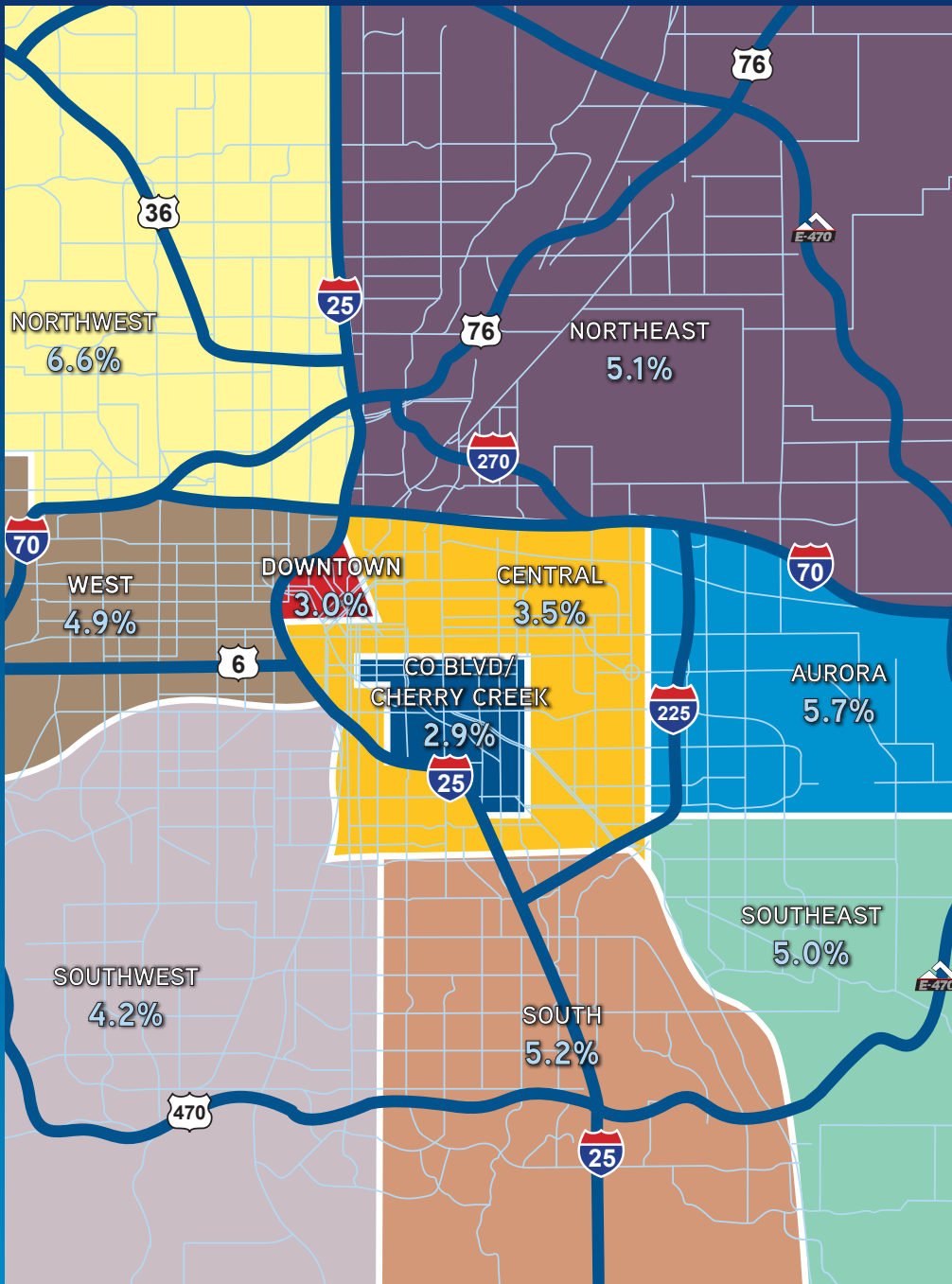


Metro Denver
unemployment rate
has remained at or
below 3.6 percent
since August 2015

-Bureau of Labor Statistics



Vacancy by Submarket



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