

Denver's Retail Remains Healthy Despite Another National Store Closure

Market Overview

Denver's retail sector experienced substantial negative absorption during the second quarter recording more than -325,000 square feet. The negative absorption stems almost entirely from the closure of seven metro Toys 'R' Us locations totaling nearly 318,000 square feet. Although the amount of space flooding the market at one time is significant, it is not unusual in today's retail climate. Big box retailers continue to close brick and mortar locations as the traditional retail model adapts to the growing dominance of e-commerce. Despite increased vacancy and negative absorption, asking rates increased quarter-over-quarter, and approximately 8.3 percent year-over-year. Construction activity reached a 12-month high with more than 1.2 million square feet under development, signaling a healthy market overall.

Investment activity in the Metro Denver retail sector totaled approximately \$247 million during the second quarter, as 43 properties transacted. The most significant transaction of the quarter was the purchase of Thorncreek Crossing in Thornton by The Kroenke Group. The nine-property portfolio sold for approximately \$45 million, or \$230/SF, respectively.

HIGHLIGHTED ECONOMIC TRENDS

Investment Sales

**\$247
MILLION**

Retail investment activity during the second quarter 2018 totaled approximately **\$247 million**, across **43 sales**.

Local Employment Growth

2.3%

The Bureau of Labor Statistics reported an **unemployment rate of 2.3 percent** for Metro Denver during **May 2018**. The **national unemployment rate is 3.8 percent**.

Market Indicators

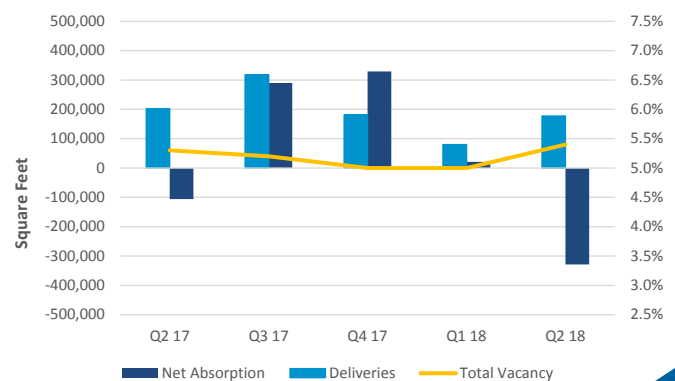
Relative to prior period	Q2 2018	Projected Q3 2018
Vacancy	↑	↓
Net Absorption	—	+
Deliveries	↑	↑
Rental Rate	↑	—

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

Denver Metro Summary Statistics

	Q2 2018	Q2 2017
Vacancy Rate	5.4%	5.3%
Net Absorption YTD	(305,077)	90,679
SF Under Construction	1,258,054	1,080,172
Asking Rents/SF	\$17.72	\$16.36

Denver Retail Market Q2 2017 – Q2 2018



Shopping Center Overview

The overall shopping center vacancy rate increased 50 basis points compared to the previous quarter, and currently sits at 6.4 percent. Negative absorption was realized in shopping center property types due to Toys 'R' Us vacancies. Average triple net rents across all shopping centers increased once again to \$16.21/SF – an 8.1 percent increase year-over-year.

Shopping centers throughout the metro will experience variable absorption and vacancy for the foreseeable future as the retail sector continues to shed underperforming traditional big box retailers. In the short term, fitness and entertainment users, along with a few growing “e-tailers” and well-positioned discount stores, will continue to fill some of the vacated spaces; however, some will undoubtedly sit empty until a plan is devised to utilize the space or to redevelop the parcel.

Denver Metro Shopping Center Statistics

Center Type	Vacancy Q2 2018	Vacancy Q1 2018	Vacancy Q4 2017	Vacancy Q3 2017
Strip	6.1%	5.5%	5.3%	5.3%
Neighborhood	6.2%	6.2%	5.9%	7.4%
Community	8.4%	8.6%	8.1%	6.7%
Power/Regional	5.3%	5.3%	5.7%	6.7%
Malls (Super Regional)	1.9%	1.5%	1.9%	2.2%
All Shopping Centers	6.4%	5.9%	5.8%	6.1%

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

Q2 2018 Notable Transactions

Retail - Sales Activity

PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
Thorncreek Crossing	Northeast	\$45,000,000	195,743	\$230	The Kroenke Group	Ginsburg Development Companies
Broomfield Marketplace	Northwest	\$21,750,000	115,374	\$189	TA Realty	CBRE Global Investors
The Shops at Vallagio	Southeast	\$12,200,000	42,750	\$285	Dr. May Lee Tong	ValStone Partners

Retail - Leasing Activity

PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME
Bromley Plaza	Northeast	26,114	New	Dollar Tree
1523 Market Street	Downtown	12,500	New	Miami VibeZ
Southlands	Southeast	10,790	New	Broyhill Home Collections

Retail - Triple Net Investment

PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	CAP RATE	BUYER	SELLER
Gateway Academy*	Northwest, South, Southeast & Southwest	\$12,217,782	51,600	\$237	8.05%	Charter Stone Capital	The Atrium Development, Inc.
Golden Town Center	West	\$1,030,000	3,666	\$281	5.60%	Dixie S. Burbidge	Gary L. Edmunds

*Portfolio

New Openings, Relocations, Expansions & Closures

Old Navy to open 60 stores this year, driving Gap's growth

The discounted apparel brand, Old Navy, will add 60 stores across North America in 2018, increasing its total to more than 1,000 U.S. locations. In addition to opening new locations, Old Navy will also be remodeling 150 locations. Old Navy is owned by Gap, which also owns the flagship Gap brand, Banana Republic and Athleta. In addition to expanding its Old Navy brand, Gap called for roughly 200 Gap and Banana Republic stores to close by 2020 as a part of their growth strategy.

Target to open first small-format store in downtown Denver in July

Target will open its first Colorado small-format store in July 2018. Located on the 16th Street Mall at 1600 California Street, this Target location occupies 28,000 square feet on the top two levels of the California Mall building. There are currently 25 Target stores in metro Denver with some larger than 100,000 square feet.

Sears to close 72 more stores

Sears Holdings announced in May that they plan to close 72 unprofitable Sears and Kmart stores throughout the country – that includes one Kmart store in Arvada along West 58th Avenue that will close in September. Sears noted a 30 percent decline in sales during the past quarter as a breaking point, after nearly six straight years of declining sales numbers. Sears has closed nearly 1,200 stores in the past five years.

Development News

Denver Premium Outlets to Open in Q3

The Denver Premium Outlet Mall in Thornton is scheduled for completion and set to open in September of this year, according to the developer, Simon Property Outlets. The developer of the \$134 million, 94-acre premium outlet center recently announced what retailers will be located at the 330,000-square-foot mall, including Kate Spade New York, Michael Kors, Guess, Nike, Under Armour, and Sketchers, to name a few.

Revitalization of Former Mile High Greyhound Park on Track to Begin Q2 2019

In June 2018, plans were approved for the former site of the Mile High Greyhound Park in Commerce City to become a new mixed-use development combining retail, residential and civic space. The Commerce City Urban Renewal Authority purchased the 65-acre site in 2011 to ensure its redevelopment was beneficial to the community and helped strengthen the local economy. At full build-out, this mixed-use development could create 1,454 permanent employees and generate \$65.4 million in income on an annual basis. REGen, LLC is the master developer for the Mile High Greyhound Urban Renewal Plan and construction is scheduled to begin in the second quarter of 2019.

9th & Colorado Mixed-Use Project Announces First Retail Tenants

The first retailers have been signed for the 9th & Colorado Development, which hit the halfway point of the project's redevelopment in April 2018. 9th & Colorado is a 26-acre mixed-use development at the site of the former University of Colorado Health Sciences Center in Denver. The project will ultimately be comprised of approximately two million square feet of new improvements. Co-developers Continuum Partners and CIM Group announced that Hopdoddy Burger Bar, Zoe's Kitchen, Postino WineCafe, Chase Bank and Bellco Credit Union have signed retail leases that span three of the 12-block project in addition to a 10-screen AMC® location.



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	249	10,198,491	5.9%	0.3%	6.2%	5.5%	16,016	(73,724)	(38,935)	-	-	120,000	\$18.16
BOULDER	248	8,559,967	5.5%	0.3%	5.8%	5.1%	43,941	(56,682)	(83,337)	-	30,000	-	\$20.94
CENTRAL	452	13,374,283	3.4%	0.0%	3.4%	3.9%	30,941	(21,353)	(43,439)	-	-	315,468	\$19.36
COLORADO BLVD/CHERRY CREEK	109	4,716,088	3.8%	0.0%	3.8%	2.9%	17,963	(43,117)	(57,583)	-	-	-	\$31.99
DOWNTOWN	76	2,436,014	1.8%	1.0%	2.8%	3.0%	13,692	1,846	11,606	-	-	88,500	\$27.26
NORTHEAST	286	11,376,769	6.7%	0.0%	6.7%	6.2%	45,708	(55,875)	(57,661)	10,000	10,000	416,733	\$16.56
NORTHWEST	443	20,065,827	6.9%	0.1%	7.0%	6.6%	123,707	29,551	83,056	124,564	124,564	232,980	\$14.51
SOUTH	330	15,216,307	4.7%	0.7%	5.4%	5.1%	39,119	(45,759)	(203,665)	-	-	-	\$18.52
SOUTHEAST	311	12,424,280	3.8%	0.6%	4.4%	4.8%	121,152	66,563	102,088	12,500	12,500	39,114	\$19.95
SOUTHWEST	192	8,965,910	4.5%	0.6%	5.1%	4.2%	6,438	(77,215)	(501)	-	-	-	\$13.50
WEST	481	17,178,045	5.0%	0.3%	5.3%	4.8%	40,141	(50,029)	(16,706)	30,401	80,401	45,259	\$16.91
MARKET TOTAL													
Total	3,177	124,511,981	5.1%	0.3%	5.4%	5.1%	498,818	(325,794)	(305,077)	177,465	257,465	1,258,054	\$17.72
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q2 18	3,177	124,511,981	5.1%	0.3%	5.4%	5.1%	498,818	(325,794)	(305,077)	177,465	257,465	1,258,054	\$17.72
Q1 18	3,173	124,366,052	4.8%	0.3%	5.1%	5.0%	898,589	20,717	20,717	80,000	80,000	1,040,806	\$17.15
Q4 17	3,175	124,409,692	4.8%	0.3%	5.0%	5.2%	767,209	329,177	709,321	162,660	925,585	1,085,913	\$17.11
Q3 17	3,169	124,228,282	4.7%	0.5%	5.2%	5.3%	784,245	289,465	380,144	307,550	762,925	1,139,110	\$17.05
Q2 17	3,160	123,964,933	4.8%	0.6%	5.3%	5.2%	898,308	(105,738)	90,679	201,140	455,375	1,080,172	\$16.36

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



#3
best place
to live in
America

-U.S. News, 2018



#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

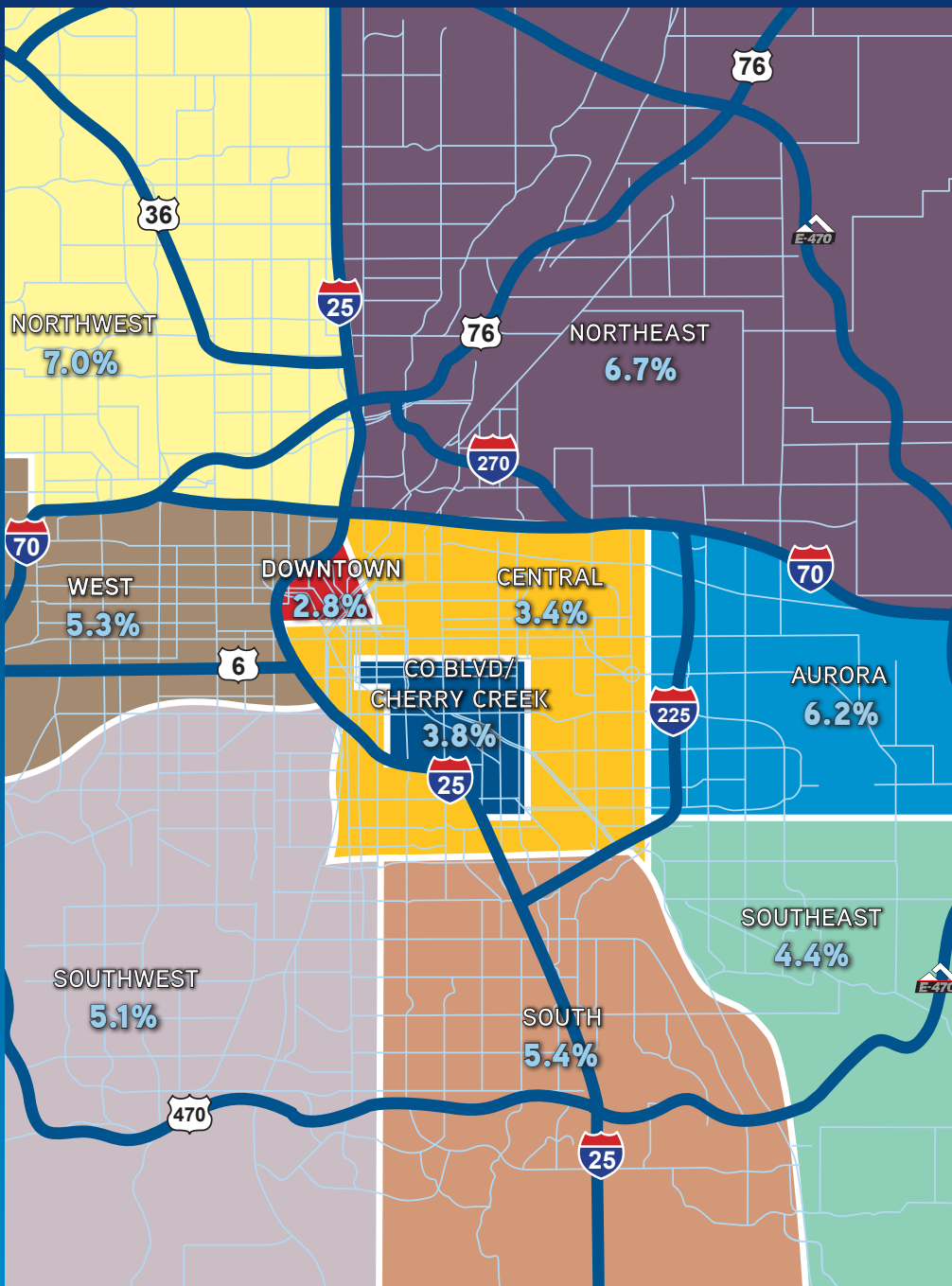


Metro Denver
unemployment rate
has remained at or
below 3.6 percent
since August 2015

-Bureau of Labor Statistics



Vacancy by Submarket



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