

# METRO DENVER | INDUSTRIAL

## Q2 2015

# Strong Market Fundamentals Maintain the “Landlord’s Market”

## Market Overview

The Metro Denver Industrial market continued its sustained growth during second quarter 2015 with nearly 948,000 square feet of positive net absorption. Building off a strong first quarter that absorbed approximately 738,000 square feet, all of the key fundamentals suggest a market favoring the landlord. This leasing velocity has compressed the overall vacancy rate to 3.8 percent, continuing to highlight demand that is slightly outpacing supply. Rental rates are continuing to increase across all product types on a quarterly basis, with the Denver Metro average reaching \$7.31 per square foot, up \$0.15 from the last quarter. This reflects a nearly \$1.00 per square foot increase year-over-year when the second quarter 2014 posted a \$6.33 per square foot average.

## Highlighted Trends

- › The unemployment rate is down to 4.1 percent with 23 percent of Metro Denver companies looking to hire.
- › National economic activity in the manufacturing sector expanded in June for the 30th consecutive month and the overall economy grew for the 73rd consecutive month, according to the June 2015 Manufacturing ISM Report on Business.
- › Tempered by stagnant new construction rental rates, development remains below pre-recession levels.
- › Positive net absorption was realized in 11 of 15 submarkets in the second quarter.
- › Metro industrial sales activity during the second quarter totaled \$144 million throughout 50 transactions with an average price of \$72 per square foot.

### Market Indicators

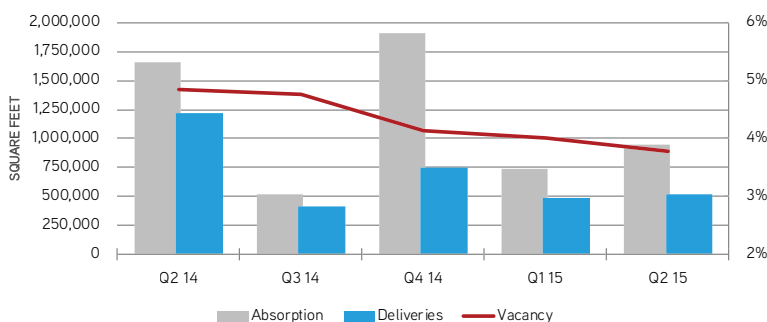
Relative to prior period	Q2 2015	Projected Q3 2015
VACANCY	↓	↓
NET ABSORPTION	+	+
DELIVERIES	↑	↑
RENTAL RATE	↑	↑

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

### Denver Metro Summary Statistics

	Q2 2014	Q2 2015
Vacancy Rate	4.8%	3.8%
Absorption YTD	2,397,175	1,685,418
Deliveries YTD	1,811,715	989,887
Under Construction	855,271	928,377
Asking Rents/SF	\$6.33	\$7.31
Total SF	218,343,577	220,227,659

## Denver Industrial Market Q2 2014 – Q2 2015



The second quarter posted nearly 948,000 square feet of positive net absorption throughout the Metro industrial market, compressing the overall vacancy rate to 3.8 percent.

## Absorption

Sustained positive net absorption has been the hallmark of Denver's measured recovery from the recession. It was the second quarter five years prior (2010) in which Denver last posted negative absorption numbers. In keeping with this steady growth, the second quarter 2015 tallied 947,922 square feet of positive absorption. This was not quite the robust activity of the second quarter 2014 that saw 1,659,679 square feet of absorption. As previous trends suggest, the East I-70/Montbello submarket continues to see the strongest absorption numbers for industrial product. In terms of flex buildings, the Southeast submarket continues to see the most activity with 40,313 square feet of absorption.

## Vacancy

The overall vacancy rate decreased in the second quarter to 3.8 percent, down 20 basis points from the previous quarter rate of 4.0 percent. Year-over-year, vacancy decreased 130 basis points from the second quarter 2014, when vacancy averaged 5.1 percent. With the direct vacancy rate decreasing to an almost unprecedented 3.3 percent, it provides some insight as to why landlords have been able to raise rates and continue a healthy pace of absorption. Most notably of the large industrial submarkets, the Northeast vacancy rate sits at 0.9 percent, while a flex submarket like the West market, has seen vacancy as low as 2.9 percent.

## Deliveries & Construction

The second quarter brought about the delivery of over 520,000 square feet of new industrial product to the Metro Area market. At the end of the second quarter, a total of 928,377 square feet is currently under construction. The East I-70/Montbello submarket is seeing the most development of any other submarket throughout the Metro with over 86 percent of current construction located in the submarket. All 928,377 square feet of industrial product currently under construction is expected to be complete during the second half of 2015.

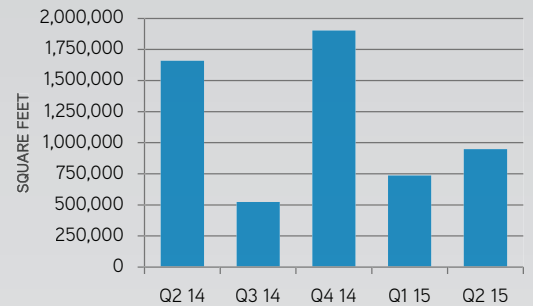
## Rental Rates

Overall asking rental rates increased during the second quarter to \$7.31 per square foot, triple net—up from the first quarter average of \$7.18 per square foot. With such a tight market, the difference between asking rates and the actual leasing rates is shrinking. In addition, deals have been trending towards longer-terms, less tenant improvements, and less abatement. With average asking rates averaging \$9.86 per square foot in the Southwest for industrial space, a multitude of submarkets experienced rate increases with continued absorption. In the flex submarkets, Boulder still sets the high benchmark at \$13.94 per square foot.

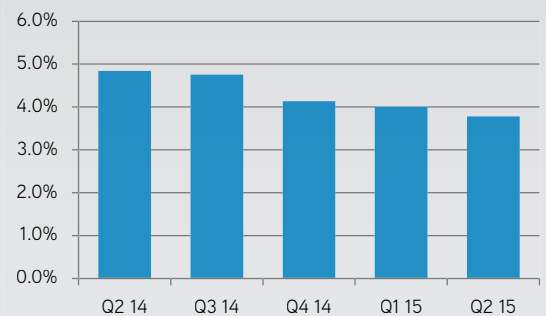
## Sales Activity

Sales activity in the second quarter was highlighted by the sale of Iliff Business Park closing at \$12,200,000. The property was approximately 95 percent occupied with a 7.25 percent cap rate. Highlighting increasing price per square foot sensitivity, this transaction substantiates continued cap rate compression, driven by a surplus of equity in the market. Investors are keeping a close eye on the ten-year treasury rate with creative financing allowing many deals to close. Demand for industrial product continues to strengthen, with an increasing appetite for value-add opportunities. Overall, total transactions for the Metro Area reached 50 transactions totaling \$144,000,000 in sales volume.

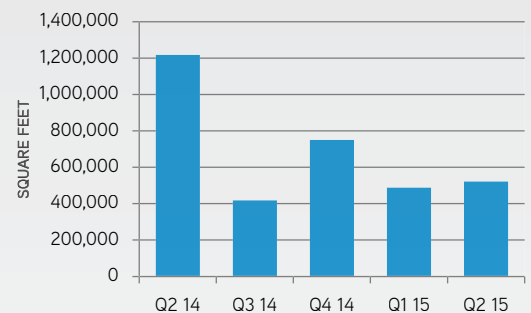
## Absorption



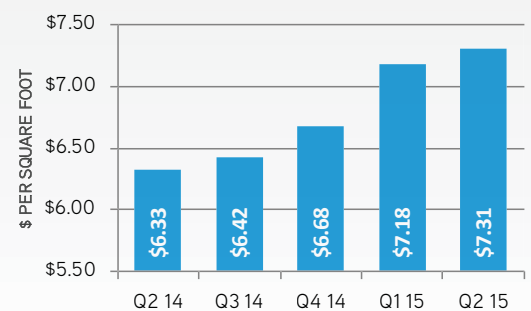
## Vacancy



## Deliveries



## Rental Rates



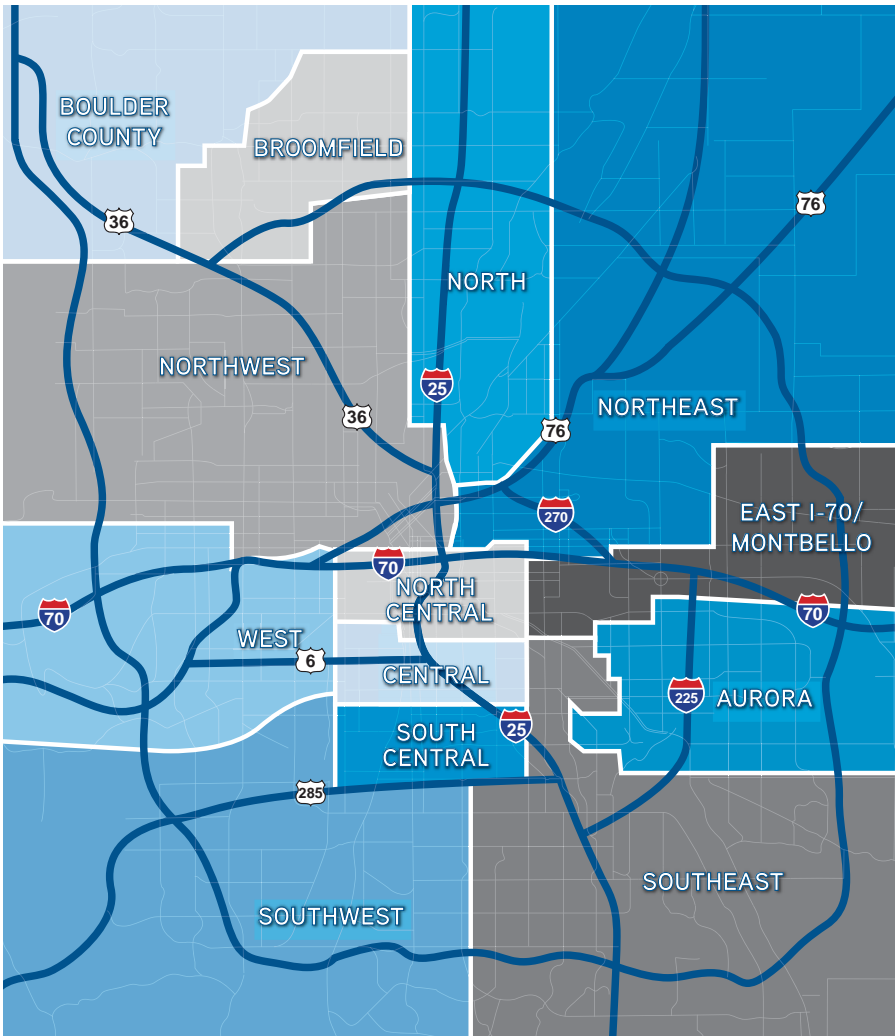
## Recent Transactions

Industrial – Denver - Sales Activity						
PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
Iliff Business Park	Southeast	\$12,200,000	130,748	\$93.31	MIG	Trigate Capital
1201 W. Mansfield Avenue	Southwest	\$9,721,500	191,009	\$50.90	Northstar Commercial Partners	Drake Real Estate Services
Huron Business Center	North	\$7,530,000	78,187	\$96.31	Cedarbridge Apartments LLC	James Blair Properties

Industrial – Denver - Leasing Activity				
PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME
10000 E. 56th Avenue	East I-70/Montbello	131,399	New	Pet Supply
500 W. 53rd Place	Northwest	112,563	Renewal	Metech Recycling
8100 Southpark Way	Southwest	31,873	New	Aspen Seating

Industrial 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)
<b>AURORA</b>													
Industrial	24	566,391	0.0%	0.0%	0.0%	0.0%	-	-	-	-	-	-	\$6.97
Flex	13	556,239	2.7%	0.0%	2.7%	1.4%	-	(7,250)	6,841	-	-	-	\$7.00
<b>Total</b>	<b>37</b>	<b>1,122,630</b>	<b>1.3%</b>	<b>0.0%</b>	<b>1.3%</b>	<b>0.7%</b>	<b>-</b>	<b>(7,250)</b>	<b>6,841</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$6.98</b>
<b>BOULDER</b>													
Industrial	153	5,093,339	3.6%	0.2%	3.8%	3.7%	60,091	(4,964)	(50,160)	-	-	-	\$9.46
Flex	67	2,448,375	8.1%	0.4%	8.5%	9.3%	43,356	18,569	98,233	-	95,922	-	\$13.94
<b>Total</b>	<b>220</b>	<b>7,541,714</b>	<b>5.1%</b>	<b>0.3%</b>	<b>5.3%</b>	<b>5.5%</b>	<b>103,447</b>	<b>13,605</b>	<b>48,073</b>	<b>-</b>	<b>95,922</b>	<b>-</b>	<b>\$11.86</b>
<b>BROOMFIELD</b>													
Industrial	68	3,048,118	4.8%	0.4%	5.2%	5.9%	2,168	22,680	60,304	-	-	-	\$5.43
Flex	10	221,565	11.3%	0.0%	11.3%	11.3%	-	-	(3,080)	-	-	-	\$9.82
<b>Total</b>	<b>78</b>	<b>3,269,683</b>	<b>5.3%</b>	<b>0.3%</b>	<b>5.6%</b>	<b>6.3%</b>	<b>2,168</b>	<b>22,680</b>	<b>57,224</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$5.54</b>
<b>CENTRAL</b>													
Industrial	303	10,660,711	1.4%	0.3%	1.7%	2.6%	12,304	94,438	(21,473)	-	-	-	\$6.42
Flex	5	102,740	0.0%	0.0%	0.0%	0.0%	-	-	-	-	-	-	N/A
<b>Total</b>	<b>308</b>	<b>10,763,451</b>	<b>1.4%</b>	<b>0.3%</b>	<b>1.7%</b>	<b>2.6%</b>	<b>12,304</b>	<b>94,438</b>	<b>(21,473)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$6.42</b>
<b>EAST I-70/MONTBELLO</b>													
Industrial	1,031	71,388,644	3.4%	0.6%	4.0%	3.8%	609,865	285,007	828,064	466,540	858,965	800,240	\$7.80
Flex	27	1,041,932	2.6%	0.0%	2.6%	2.3%	6,540	(3,205)	(3,205)	-	-	-	\$6.01
<b>Total</b>	<b>1,058</b>	<b>72,430,576</b>	<b>3.4%</b>	<b>0.6%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>616,405</b>	<b>281,802</b>	<b>824,859</b>	<b>466,540</b>	<b>858,965</b>	<b>800,240</b>	<b>\$6.02</b>

LONGMONT													
Industrial	81	2,865,437	7.1%	0.0%	7.1%	4.8%	39,152	(67,377)	(67,377)	-	-	-	\$6.66
Flex	28	2,064,260	10.8%	22.3%	33.1%	34.4%	1,307	27,248	45,863	-	-	-	\$8.75
<b>Total</b>	<b>109</b>	<b>4,929,697</b>	<b>8.7%</b>	<b>9.4%</b>	<b>18.0%</b>	<b>17.3%</b>	<b>40,459</b>	<b>(40,129)</b>	<b>(21,514)</b>	-	-	-	<b>\$7.76</b>
NORTH CENTRAL													
Industrial	433	16,906,135	2.1%	0.0%	2.1%	2.4%	53,313	(3,535)	21,227	-	-	-	\$6.49
Flex	13	354,738	6.9%	0.0%	6.9%	1.1%	20,437	(20,437)	(18,437)	-	-	-	\$8.11
<b>Total</b>	<b>446</b>	<b>17,260,873</b>	<b>2.2%</b>	<b>0.0%</b>	<b>2.2%</b>	<b>2.6%</b>	<b>73,750</b>	<b>(23,972)</b>	<b>2,790</b>	-	-	-	<b>\$6.74</b>
NORTH													
Industrial	138	5,924,595	6.3%	0.0%	6.3%	11.2%	309,033	292,212	512,169	-	-	-	\$6.48
Flex	12	487,911	3.7%	0.0%	3.7%	3.7%	-	-	2,208	-	-	-	\$8.71
<b>Total</b>	<b>150</b>	<b>6,412,506</b>	<b>6.1%</b>	<b>0.0%</b>	<b>6.1%</b>	<b>8.9%</b>	<b>309,033</b>	<b>292,212</b>	<b>514,377</b>	-	-	-	<b>\$6.68</b>
NORTHEAST													
Industrial	364	15,342,628	0.9%	0.0%	0.9%	1.2%	7,233	48,514	(15,332)	-	-	-	\$6.86
Flex	13	473,188	0.5%	0.0%	0.5%	1.5%	-	4,700	4,350	-	-	-	\$10.04
<b>Total</b>	<b>377</b>	<b>15,815,816</b>	<b>0.8%</b>	<b>0.0%</b>	<b>0.8%</b>	<b>0.8%</b>	<b>7,233</b>	<b>53,214</b>	<b>(10,982)</b>	-	-	-	<b>\$7.05</b>
NORTHWEST													
Industrial	319	11,983,362	3.6%	0.0%	3.6%	4.9%	35,255	153,409	32,254	-	-	59,137	\$6.23
Flex	68	2,339,343	4.5%	0.0%	4.5%	4.8%	8,369	5,269	69,660	-	-	-	\$10.56
<b>Total</b>	<b>387</b>	<b>14,322,705</b>	<b>3.8%</b>	<b>0.0%</b>	<b>3.8%</b>	<b>4.0%</b>	<b>43,624</b>	<b>158,678</b>	<b>101,914</b>	-	-	<b>59,137</b>	<b>\$7.10</b>
SOUTH CENTRAL													
Industrial	401	11,052,977	1.4%	0.0%	1.4%	1.6%	43,066	13,070	(41,961)	-	-	-	\$6.88
Flex	12	364,846	0.0%	0.0%	0.0%	0.0%	-	-	1,500	-	-	-	\$6.95
<b>Total</b>	<b>413</b>	<b>11,417,823</b>	<b>1.4%</b>	<b>0.0%</b>	<b>1.4%</b>	<b>1.0%</b>	<b>43,066</b>	<b>13,070</b>	<b>(40,461)</b>	-	-	-	<b>\$6.88</b>
SOUTHEAST													
Industrial	219	8,807,236	5.7%	0.0%	5.7%	4.6%	75,537	(59,113)	4,377	35,000	35,000	-	\$8.52
Flex	166	5,900,829	9.0%	0.0%	9.0%	9.7%	84,674	40,313	96,236	-	-	-	\$10.31
<b>Total</b>	<b>385</b>	<b>14,708,065</b>	<b>7.0%</b>	<b>0.0%</b>	<b>7.0%</b>	<b>6.6%</b>	<b>160,211</b>	<b>(18,800)</b>	<b>100,613</b>	<b>35,000</b>	<b>35,000</b>	-	<b>\$9.47</b>
SOUTHWEST													
Industrial	172	5,417,989	2.2%	0.1%	2.3%	2.4%	4,552	5,088	8,388	-	-	-	\$9.86
Flex	51	1,755,882	5.2%	0.0%	5.2%	6.7%	37,796	26,037	37,701	-	-	69,000	\$8.15
<b>Total</b>	<b>223</b>	<b>7,173,871</b>	<b>2.9%</b>	<b>0.1%</b>	<b>3.0%</b>	<b>3.6%</b>	<b>42,348</b>	<b>31,125</b>	<b>46,089</b>	-	-	<b>69,000</b>	<b>\$8.34</b>
WELD COUNTY													
Industrial	384	15,951,139	1.7%	0.0%	1.8%	1.8%	13,100	30,441	31,251	20,000	-	-	\$8.63
Flex	24	1,111,524	37.0%	0.0%	37.0%	37.6%	37,900	6,072	6,072	-	-	-	\$7.95
<b>Total</b>	<b>408</b>	<b>17,062,663</b>	<b>4.0%</b>	<b>0.0%</b>	<b>4.1%</b>	<b>7.4%</b>	<b>51,000</b>	<b>36,513</b>	<b>37,323</b>	<b>20,000</b>	-	-	<b>\$8.58</b>
WEST													
Industrial	218	14,142,914	1.3%	0.0%	1.3%	1.7%	16,528	51,056	10,280	-	-	-	\$6.92
Flex	51	1,852,672	2.7%	0.3%	2.9%	2.4%	900	(10,320)	29,465	-	-	-	\$8.97
<b>Total</b>	<b>269</b>	<b>15,995,586</b>	<b>1.5%</b>	<b>0.0%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>52,006</b>	<b>40,736</b>	<b>39,745</b>	-	-	-	<b>\$7.31</b>
MARKET TOTAL													
Industrial	4,308	199,151,615	2.8%	0.3%	3.1%	3.3%	1,281,197	860,926	1,312,011	521,540	893,965	859,377	\$6.66
Flex	560	21,076,044	8.2%	2.3%	10.4%	10.9%	241,279	86,996	373,407	-	95,922	69,000	\$10.10
<b>Total</b>	<b>4,868</b>	<b>220,227,659</b>	<b>3.3%</b>	<b>0.4%</b>	<b>3.8%</b>	<b>4.0%</b>	<b>1,522,476</b>	<b>947,922</b>	<b>1,685,418</b>	<b>521,540</b>	<b>989,887</b>	<b>928,377</b>	<b>\$7.31</b>
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q2 15	4,868	220,227,659	3.3%	0.4%	3.8%	4.0%	1,522,476	947,922	1,685,418	521,540	989,887	928,377	\$7.31
Q1 15	4,865	219,738,210	3.6%	0.4%	4.0%	4.1%	2,574,102	737,496	737,496	488,347	488,347	1,797,566	\$7.18
Q4 14	4,864	219,263,151	4.7%	0.5%	4.1%	4.8%	3,030,640	1,903,511	4,824,626	749,891	2,979,004	2,232,247	\$6.68
Q3 14	4,861	218,697,642	5.3%	0.5%	4.8%	4.8%	3,920,058	523,940	2,921,115	417,398	2,229,113	1,810,965	\$6.42
Q2 14	4,862	218,343,577	6.4%	0.5%	4.8%	5.1%	3,962,459	1,659,679	2,397,175	1,216,802	1,811,715	855,271	\$6.33



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billion in  
annual revenue

**1.7**  
billion square feet  
under management

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### FOR MORE INFORMATION

**Brad Calbert, ULI, NAIOP**  
President | Denver  
+1 303 283 4566  
[brad.calbert@colliers.com](mailto:brad.calbert@colliers.com)

### RESEARCHERS:

**Tyson Price**  
Research Director | Denver  
+1 303 283 4561  
[tyson.price@colliers.com](mailto:tyson.price@colliers.com)

**Nick Rice**  
Research Analyst | Denver  
+1 720 833 4620  
[nick.rice@colliers.com](mailto:nick.rice@colliers.com)

Colliers International | Denver  
4643 South Ulster Street, Suite 1000  
+1 303 745 5800  
[colliers.com/denver](http://colliers.com/denver)

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