

METRO DENVER | INDUSTRIAL

Q3 2015

Despite Slowing Absorption, Tenant Demand for Small Space Continues to Decrease Vacancy

Market Overview

The Metro Denver industrial market's steadily increasing absorption slowed slightly during the third quarter of 2015. Net absorption totaled a positive 413,536 square feet, which is less than half of the second quarter 2015 net absorption of 891,174 square feet. As tenants with smaller space requirements scramble for space, the market continues to tighten with vacancy falling to 3.7 percent. This decrease in vacancy represents a 110-basis-point change year-over-year from the third quarter 2014, when vacancy was 4.8 percent. Rental rates are continuing to increase across all product types on a quarterly basis, with the metro average reaching \$7.51 per square foot, up \$0.20 from last quarter. This represents a \$1.09 per square foot increase year-over-year, as a \$6.42 per square foot average was posted in the third quarter 2014. Currently, there are seven buildings under construction, totaling 1,467,786 square feet.

Highlighted Trends

- > The unemployment rate is down to 3.6 percent with 19 percent of Metro Denver companies looking to hire within the next two quarters.
- > National economic activity in the manufacturing sector expanded in June for the 33rd consecutive month and the overall economy grew for the 76th consecutive month, according to the *September 2015 Manufacturing ISM Report on Business*.
- > Positive net absorption was realized in 9 of 15 submarkets in the third quarter of 2015.
- > Metro industrial sales activity during the second quarter totaled \$188.7 million throughout 24 transactions with an average price of \$77 per square foot.

Market Indicators

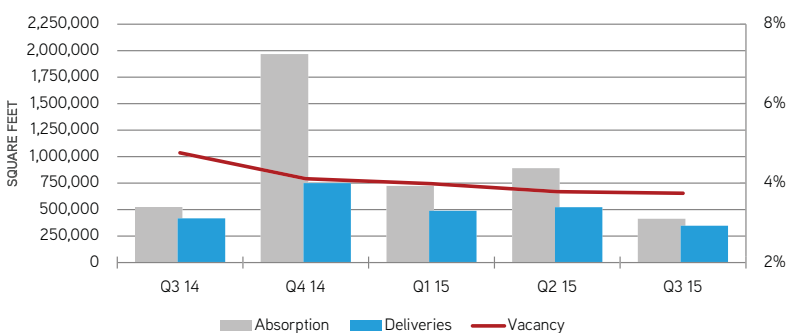
Relative to prior period	Q3 2015	Projected Q4 2015
VACANCY	↓	↓
NET ABSORPTION	+	+
DELIVERIES	↑	↑
RENTAL RATE	↑	↑

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

Denver Metro Summary Statistics

	Q3 2014	Q3 2015
Vacancy Rate	4.8%	3.7%
Absorption YTD	3,698,367	2,027,318
Deliveries YTD	2,229,113	1,357,727
Under Construction	1,810,965	1,467,786
Asking Rents/SF	\$6.42	\$7.51
Total SF	218,927,229	220,774,289

Denver Industrial Market Q3 2014 – Q3 2015



The third quarter posted 413,536 square feet of positive net absorption throughout the Metro industrial market, compressing the overall vacancy rate to 3.7 percent.

Absorption

The third quarter brought 413,536 square feet of positive net absorption throughout the Denver industrial market. Comparably, this is 111,074 square feet less than the third quarter 2014, when net absorption totaled 524,610 square feet. Industrial properties, excluding flex properties, accounted for a positive 483,527 square feet of demand; while flex properties showed a negative 69,991 square feet of net absorption during the quarter. Seven of fifteen submarkets experienced negative or no change in flex net absorption in the third quarter. The East I-70/Montbello submarket continues to see the strongest industrial absorption numbers. In terms of product, the Southeast submarket continues to see the most activity with 88,937 square feet of absorption in the third quarter 2015.

Vacancy

The overall vacancy rate decreased in the third quarter to 3.7 percent, down 10 basis points from the previous quarter rate of 3.8 percent. With the aforementioned demand for smaller space, the leasing velocity has slowed due to a lack of supply. Year-over-year vacancy decreased 110 basis points from the second quarter 2014, when vacancy averaged 4.8 percent. With vacancy appearing to stabilize in the 3.7-4.1 percent range the past four quarters, the continued increasing rental rates indicate persistent demand. The Northeast boasts the lowest vacancy rate at 0.8 percent, while the Northwest flex submarket reported vacancy as low as 3.7 percent in the third quarter 2015. The overall Metro market vacancy averages were 3.0 percent for industrial and 11.1 percent for flex in the third quarter 2015.

Deliveries & Construction

347,840 square feet of new industrial product was delivered to the Metro market in the third quarter, marking 1,206,715 square feet delivered in the East I-70/Montbello submarket this year to date. At the end of the third quarter, a total of 1,467,786 square feet is currently under construction throughout seven buildings. The East I-70/Montbello and Northeast submarkets are seeing the most development throughout the Metro, accounting for 96 percent of current construction.

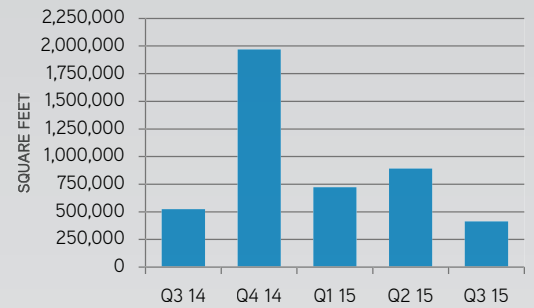
Rental Rates

During the third quarter, overall asking rental rates increased to \$7.51 per square foot, triple net – up from the second quarter average of \$7.31 per square foot. In an increasingly tight market, actual leasing rates are drawing closer than ever to asking rents, and deals have become longer-term, with fewer concessions. Aside from Boulder, the Southeast submarket continues to see the highest rates, averaging a \$9.55 per square foot rate.

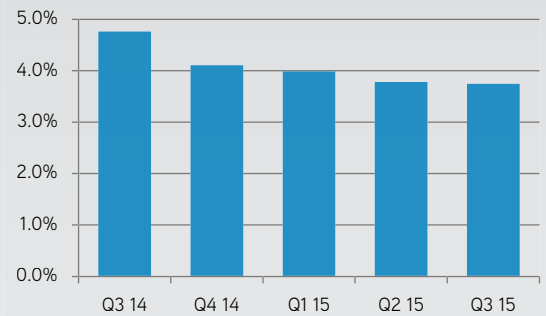
Sales Activity

Sales activity in the third quarter was highlighted by the sale of the Colorado Trade Center closing at a price of \$42,895,000 (\$60.60 per square foot). With a surplus of capital looking to be placed in the market, investors are stretching their yield requirements to close deals. There were 24 transactions in the Metro during the third quarter, totaling \$188.7 in sales volume, an average of \$77 per square foot, and had an average capitalization rate of 7.27 percent. Despite fewer transactions than the second quarter, the third quarter experienced continued cap rate compression.

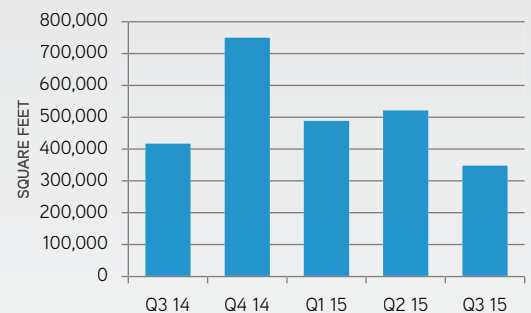
Absorption



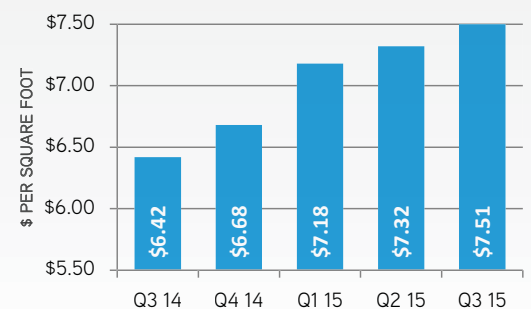
Vacancy



Deliveries



Rental Rates



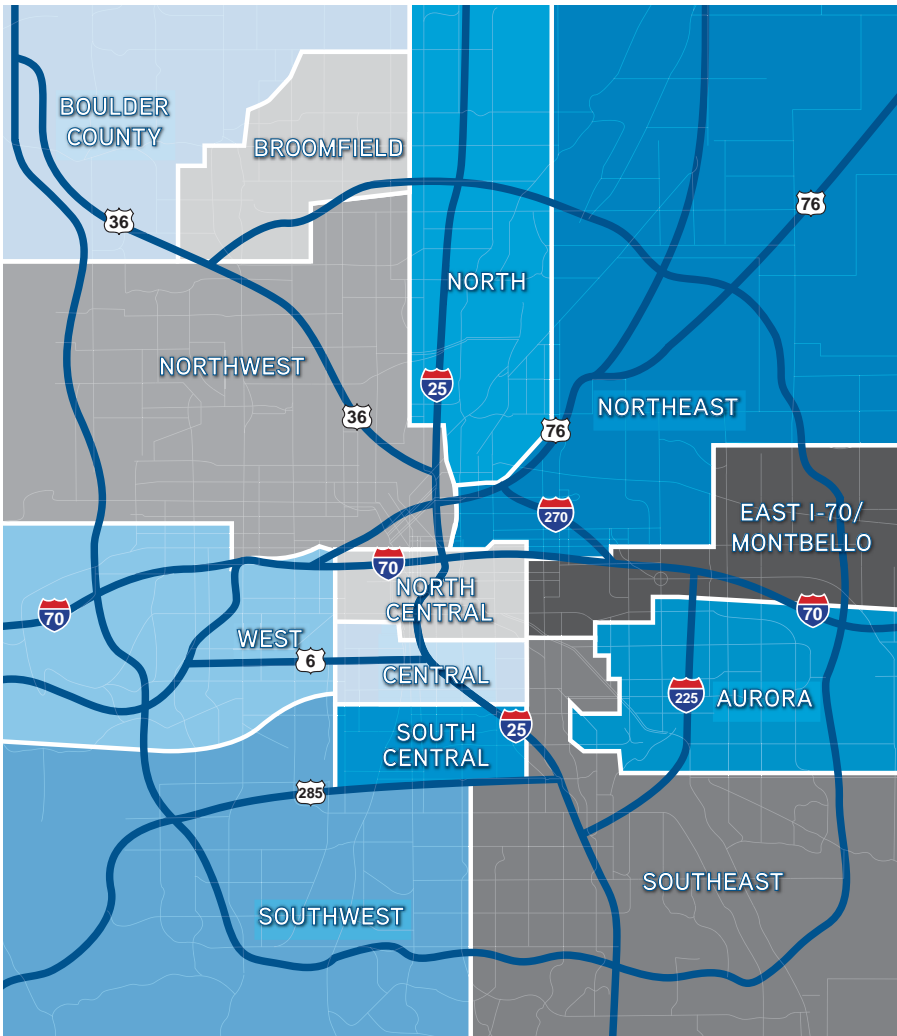
Recent Transactions

Industrial – Denver - Sales Activity						
PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
Colorado Trade Center	Northwest	\$42,895,000	707,866	\$60.60	Conscience Bay Company	Bannock Street Center Lp.
Valley Business Center	South Central	\$17,185,000	203,361	\$84.50	Mountain West Industrial Properties	Invesco Advisors
Beverage Distributors Co.	East I-70/Montbello	\$11,000,000	286,698	\$38.37	Beverage Distributors	LBA Realty

Industrial – Denver - Leasing Activity					
PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME	
9410 E. 40th Ave.	East I-70/Montbello	503,000	New	Beverage Distributors	
701 Osage St.	South Central	66,014	New	Ryder Logistics	
6675 S. Kenton St.	Southeast	24,787	New	NTT	

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)
AURORA													
Industrial	24	566,391	0.0%	0.0%	0.0%	0.0%	-	-	-	-	-	-	N/A
Flex	13	556,239	5.8%	0.0%	5.8%	2.7%	5,000	(17,235)	(10,394)	-	-	-	\$8.43
Total	37	1,122,630	2.9%	0.0%	2.9%	0.7%	5,000	(17,235)	(10,394)	-	-	-	\$8.43
BOULDER													
Industrial	153	5,265,722	3.4%	0.2%	3.6%	3.7%	21,006	6,508	(43,652)	-	-	-	\$11.96
Flex	67	2,448,375	9.4%	1.3%	10.8%	11.0%	55,367	5,718	75,840	-	95,922	-	\$13.40
Total	220	7,714,097	5.3%	0.6%	5.9%	5.5%	76,373	12,226	32,188	-	95,922	-	\$12.84
BROOMFIELD													
Industrial	68	3,048,118	4.6%	0.4%	4.9%	5.2%	21,759	7,785	68,089	-	-	-	\$6.03
Flex	10	221,565	9.9%	0.0%	9.9%	11.3%	3,080	3,080	0	-	-	-	\$10.50
Total	78	3,269,683	4.9%	0.3%	5.3%	6.3%	24,839	10,865	68,089	-	-	-	\$6.09
CENTRAL													
Industrial	304	10,677,751	1.9%	0.3%	2.2%	1.7%	85,342	(49,560)	(71,033)	-	-	-	\$6.63
Flex	5	102,740	0.0%	0.0%	0.0%	0.0%	-	-	-	-	-	-	N/A
Total	309	10,780,491	1.8%	0.3%	2.2%	2.6%	85,342	(49,560)	(71,033)	-	-	-	\$6.63
EAST I-70/MONTBELLO													
Industrial	1,031	71,692,207	3.3%	0.6%	3.9%	3.9%	1,196,408	358,581	1,143,407	347,840	1,206,715	846,181	\$6.33
Flex	27	1,041,924	1.8%	0.0%	1.8%	2.6%	0	8,450	5,245	-	-	-	\$11.74
Total	1,058	72,734,131	3.3%	0.6%	3.9%	4.0%	1,196,408	367,031	1,148,652	347,840	1,206,715	846,181	\$6.34

LONGMONT													
Industrial	81	2,865,437	7.1%	0.0%	7.1%	7.1%	39,029	455	(66,922)	-	-	-	\$6.95
Flex	28	2,064,260	13.0%	22.3%	35.3%	34.5%	32,059	(17,224)	(161)	-	-	-	\$8.73
Total	109	4,929,697	9.6%	9.4%	18.9%	17.3%	71,088	(16,769)	(67,083)	-	-	-	\$7.90
NORTH CENTRAL													
Industrial	433	16,892,272	1.7%	0.0%	1.7%	2.1%	73,455	68,659	73,330	-	-	-	\$6.53
Flex	13	354,738	1.1%	0.0%	1.1%	6.9%	0	20,437	2,000	-	-	-	\$6.48
Total	446	17,247,010	1.7%	0.0%	1.7%	2.6%	73,455	89,096	75,330	-	-	-	\$6.52
NORTH													
Industrial	138	5,924,593	6.2%	0.0%	6.2%	6.3%	8,440	3,085	515,256	-	-	-	\$6.79
Flex	12	487,911	3.9%	0.0%	3.9%	3.7%	6,875	(887)	1,321	-	-	-	\$8.71
Total	150	6,412,504	6.1%	0.0%	6.1%	8.9%	15,315	2,198	516,577	-	-	-	\$7.11
NORTHEAST													
Industrial	368	15,416,712	0.8%	0.0%	0.8%	0.9%	8,643	11,726	(3,606)	-	-	562,468	\$7.55
Flex	13	473,188	4.8%	0.0%	4.8%	0.5%	2,400	(20,158)	(15,808)	-	-	-	\$9.69
Total	381	15,889,900	0.9%	0.0%	0.9%	0.8%	11,043	(8,432)	(19,414)	-	-	562,468	\$7.72
NORTHWEST													
Industrial	318	11,963,383	4.3%	0.0%	4.3%	3.6%	101,176	(86,539)	(54,285)	-	-	59,137	\$6.05
Flex	68	2,339,343	3.7%	0.0%	3.7%	4.7%	21,955	23,662	93,322	-	-	-	\$10.16
Total	386	14,302,726	4.2%	0.0%	4.2%	4.0%	123,131	(62,877)	39,037	-	-	59,137	\$6.80
SOUTH CENTRAL													
Industrial	402	11,068,231	1.3%	0.0%	1.3%	1.4%	86,585	19,879	(22,082)	-	-	-	\$7.22
Flex	12	364,846	0.0%	0.0%	0.0%	0.0%	-	-	1,500	-	-	-	\$6.95
Total	414	11,433,077	1.2%	0.0%	1.2%	1.0%	86,585	19,879	(20,582)	-	-	-	\$7.21
SOUTHEAST													
Industrial	219	8,832,129	3.6%	0.0%	3.6%	5.2%	48,485	140,852	180,229	-	35,000	-	\$8.51
Flex	167	5,921,388	9.5%	0.0%	9.5%	9.0%	88,937	(32,644)	63,592	-	-	-	\$10.51
Total	386	14,753,517	6.0%	0.0%	6.0%	6.7%	137,422	108,208	243,821	-	35,000	-	\$9.55
SOUTHWEST													
Industrial	171	5,406,989	1.9%	0.1%	2.0%	2.2%	6,100	9,214	17,602	-	-	-	\$9.42
Flex	51	1,755,882	4.6%	0.0%	4.6%	5.2%	16,111	10,467	48,168	-	-	-	\$8.19
Total	222	7,162,871	2.6%	0.1%	2.6%	3.6%	22,211	19,681	65,770	-	-	-	\$8.53
WELD COUNTY													
Industrial	384	15,978,545	1.8%	0.0%	1.8%	1.8%	16,688	(233)	22,785	-	20,000	-	\$8.59
Flex	24	1,111,524	37.0%	0.0%	37.0%	37.0%	0	(50)	6,022	-	-	-	\$7.95
Total	408	17,090,069	4.1%	0.0%	4.1%	7.4%	16,688	(283)	28,807	-	20,000	-	\$8.55
WEST													
Industrial	215	14,077,114	1.4%	0.0%	1.4%	1.3%	224,649	(6,885)	7,895	-	-	-	\$7.11
Flex	51	1,854,772	4.8%	0.3%	5.1%	2.2%	11,146	(53,607)	(10,342)	-	-	-	\$8.80
Total	266	15,931,886	1.8%	0.0%	1.8%	1.5%	52,006	(60,492)	(2,447)	-	-	-	\$7.46
MARKET TOTAL													
Industrial	4,309	199,675,594	2.7%	0.2%	3.0%	3.0%	1,937,765	483,527	1,767,013	347,840	1,261,715	1,467,786	\$6.92
Flex	561	21,098,695	8.8%	2.4%	11.1%	10.8%	242,930	(69,991)	260,305	-	95,922	0	\$10.06
Total	4,870	220,774,289	3.3%	0.4%	3.7%	3.8%	2,180,695	413,536	2,027,318	347,840	1,357,637	1,467,786	\$7.51
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q3 15	4,870	220,774,289	3.3%	0.4%	3.7%	3.8%	2,180,695	413,536	2,027,318	347,840	1,357,727	1,467,786	\$7.51
Q2 15	4,869	220,426,449	3.3%	0.5%	3.8%	4.0%	2,336,163	891,174	1,613,782	521,540	1,009,887	928,377	\$7.32
Q1 15	4,868	219,967,797	4.7%	0.5%	4.0%	4.1%	2,743,510	722,608	722,608	488,347	488,347	1,797,566	\$7.18
Q4 14	4,867	219,492,738	5.3%	0.5%	4.1%	4.8%	3,067,670	1,968,938	5,667,305	749,891	2,979,004	2,232,247	\$6.68
Q3 14	4,864	218,927,229	6.4%	0.5%	4.8%	4.9%	3,986,480	524,610	3,698,367	417,398	2,229,113	1,810,965	\$6.42



502 offices in
67 countries on
6 continents

United States: **140**
Canada: **31**
Latin America: **24**
Asia Pacific: **199**
EMEA: **108**

\$2.3

billion in
annual revenue

1.7

billion square feet
under management

16,300

professionals
and staff

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