

Construction No Longer Too Costly with Stabilized Vacancy and Increasing Rents

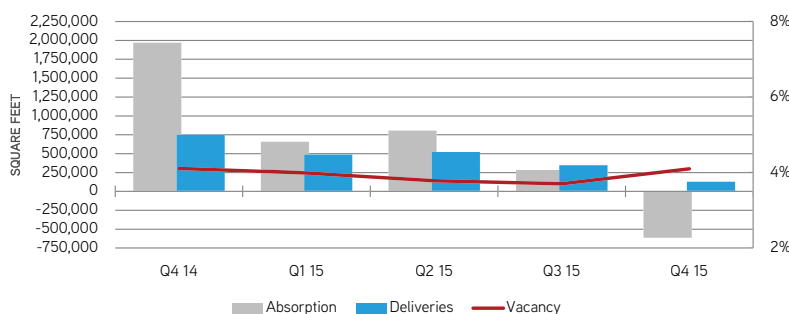
Market Overview

The Metro Denver industrial market experienced negative absorption for the first time in ten quarters during the fourth quarter of 2015. Net absorption totaled negative 606,152 square feet due to K-Mart vacating their 1,305,700-square-foot building at 18875 East Bromley Lane in the DIA Industrial Submarket. Negative absorption for the quarter is no cause for concern, as net absorption without the K-Mart vacancy would have reported nearly 700,000 square feet of positive net absorption. Rental rates are continuing to increase across all product types on a quarterly basis despite the increase in vacancy, indicating the optimism of landlords in the marketplace. The metro average rental rate increased to \$7.81 per square foot, up \$0.30 per square foot from last quarter. Year-over-year, this represents a 17 percent or a \$1.13 per square foot increase. Currently, there are 15 projects under construction throughout the metro market, for a total of 2,606,384 square feet. Two buildings were delivered for a total of 127,959 square feet during the fourth quarter.

Highlighted Trends

- > The unemployment rate is down to 3.2 percent with 23 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 36th consecutive month and the overall economy grew for the 78th consecutive month, according to the December 2015 Manufacturing ISM Report on Business.
- > Positive net absorption was realized in 10 of 15 submarkets in the fourth quarter.
- > Metro industrial sales activity during the second quarter totaled \$268.8 million throughout 36 transactions with an average price of \$82.00 per square foot and average capitalization rate of 7.25 percent.

Denver Industrial Market Q4 2014 – Q4 2015



Market Indicators	Q4 2015	Projected Q1 2016
Relative to prior period		
Vacancy	↓	↓
Net Absorption	+	+
Deliveries	↑	↑
Rental Rate	↑	↑

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

Denver Metro Summary Statistics	Q4 2014	Q4 2015
Vacancy Rate	4.1%	4.1%
Absorption YTD	5,667,305	1,133,657
Deliveries YTD	2,979,004	1,485,596
Under Construction	2,232,247	2,606,384
Asking Rents/SF	\$6.68	\$7.81
Total SF	219,492,738	220,331,210

The fourth quarter posted 606,152 square feet of negative net absorption throughout the Metro industrial market. Without the K-Mart vacancy, the market would have posted approximately 700,000 square feet of positive net absorption.

Absorption

The fourth quarter brought 606,152 square feet of negative net absorption throughout the industrial market. However it should be noted that this is due to the vacancy of a large distribution center occupied by a single tenant. K-Mart vacated their 1,305,770-square-foot property near DIA. Without this vacancy, the industrial market would have experienced positive net absorption of 700,000 square feet for the quarter. During 2015, the Denver industrial market experienced nearly 1,169,000 square feet of positive net absorption, with ten of fifteen submarkets experiencing positive net absorption in the fourth quarter. The East I-70/Montbello submarket continues to see the strongest industrial absorption numbers with positive 215,324 square feet in the fourth quarter, followed by the North submarket with positive 177,703. The East I-70/Montbello and the Southeast submarkets performed the strongest in 2015, accounting for a combined positive 1,915,000 square feet of net absorption during the past four quarters.

Vacancy

With K-Mart vacating their space in the Northeast, the overall vacancy rate in Metro Denver increased to 4.1 percent during the fourth quarter – up 40 basis points from the previous quarter’s rate of 3.7 percent. The slight increase in metro vacancy due to the large, single-tenant vacancy indicates the continued vitality of Denver’s industrial market. Vacancy has stabilized in the 3.7-4.1 percent range during the past five quarters with rental rates steadily increasing, which would suggest the optimism held by landlords throughout the metro. The South Central submarket currently boasts the lowest combined industrial and flex vacancy rate at 1.2 percent and zero percent, respectively. The overall metro market vacancy averages were 3.4 percent for industrial and 10.6 percent for flex in the fourth quarter, with the average overall vacancy in Metro Denver being 3.88 percent during 2015.

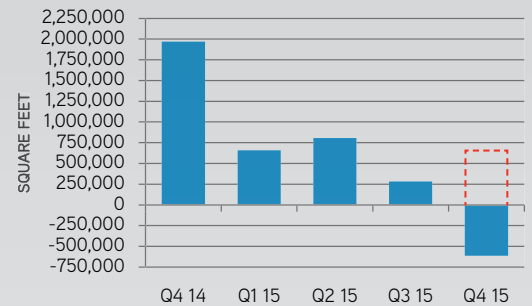
Deliveries & Construction

The fourth quarter delivered nearly 128,000 square feet of industrial product, with 68,822 square feet delivered in the North Central submarket and 59,137 square feet delivered in the Northwest submarket. Overall, the East I-70/Montbello submarket experienced the most deliveries during 2015 with over 1,206,000 square feet, with another 1,717,970 square feet currently under construction. At the end of 2015, a total of 2,606,384 square feet was under construction throughout twelve buildings. The East I-70/Montbello and Northeast submarkets are seeing the most development throughout the Metro, accounting for 99 percent of current construction.

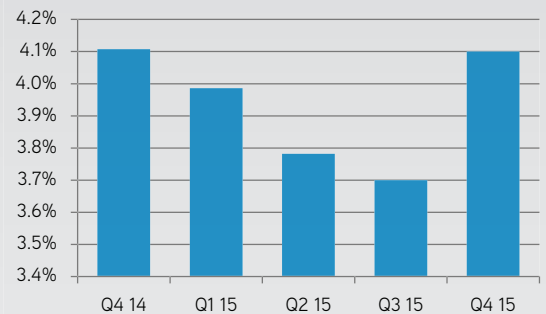
Rental Rates

During the fourth quarter, overall asking rental rates increased to \$7.81 per square foot, triple net – up from the third quarter average of \$7.51 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 \$9.96 per square foot rate. Throughout 2015, there was an average increase in quarter-to-quarter rental rates of 4 percent and a year-over-year increase of 17 percent from the fourth quarter in 2014.

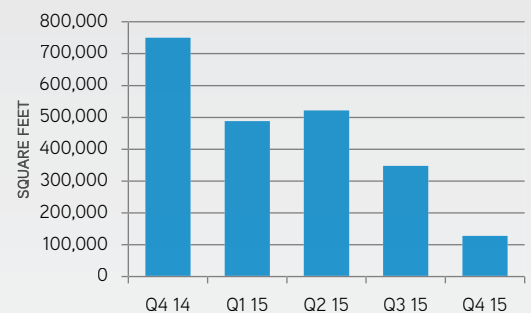
Absorption



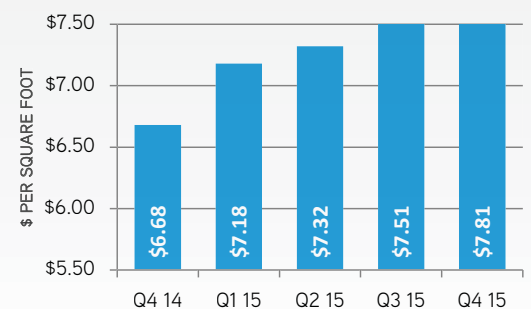
Vacancy



Deliveries



Rental Rates



Sales Activity

There were 36 transactions in the Metro Denver Industrial market during the fourth quarter 2015, totaling \$268.8 million in sales volume, an average of \$82 per square foot with an average capitalization rate of 7.25 percent. The largest volume transaction in the fourth quarter was the fifteen-building portfolio sale of Dry Creek Business Park for \$27,750,000 (\$113.72 per square foot). Currently, a large influx of investors are looking to place their capital within the market and their yield requirements are becoming less stringent. Capitalization rates are continuing to compress, leaving less room for gain on a buyer's hold.

Recent Transactions

Industrial – Denver - Sales Activity						
PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
Dry Creek Business Park	Southeast C-470 Industrial	\$27,750,000	240,885	\$115.20	MIG	Greenfield Partners
106 Laser Street	Northwest Industrial	\$13,000,000	89,359	\$145.48	Zaragon Holdings, Inc	Rocky Mountain Instrument Company
Gunbarrel Technical Center	Boulder Industrial	\$11,600,000	114,286	\$101.50	Carr Gottstein Properties	Sovereign Capital Management Group, Inc

Industrial – Denver - Leasing Activity					
PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME	
4185 Salazar Way	Weld County Industrial	200,053	NNN	OtterBox	
18250 E. 40th Avenue	SW DIA/Pena Blvd Industrial	97,656	NNN	MS International	
14700 E. 38th Avenue	SW DIA/Pena Blvd Industrial	70,080	NNN	Universal Forest Products	

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	14.4%	2.2%	16.6%	5.8%	-	(60,459)	(70,853)	-	-	-	\$7.69
Total	37	1,122,630	7.2%	1.1%	8.2%	2.9%	-	(60,459)	(70,853)	-	-	-	\$7.69
BOULDER													
Industrial	153	5,265,929	3.9%	0.8%	4.6%	4.3%	41,407	(17,985)	(99,900)	-	-	-	\$12.61
Flex	67	2,448,375	8.4%	1.5%	10.0%	11.0%	30,106	24,672	96,012	-	95,922	-	\$14.33
Total	220	7,714,304	5.3%	1.0%	6.3%	6.4%	71,513	6,687	(3,888)	-	95,922	-	\$13.55
BROOMFIELD													
Industrial	68	2,881,415	5.4%	0.4%	5.8%	4.9%	44,745	(16,316)	51,773	-	-	-	\$6.20
Flex	10	221,565	9.9%	0.0%	9.9%	9.9%	12,000	-	0	-	-	-	\$10.50
Total	78	3,102,980	5.7%	0.4%	6.1%	5.3%	56,745	(16,316)	51,773	-	-	-	\$6.25
CENTRAL													
Industrial	303	10,395,736	1.4%	0.4%	1.8%	2.2%	22,115	44,864	(22,478)	-	-	-	\$6.84
Flex	5	102,740	0.0%	0.0%	0.0%	0.0%	-	-	-	-	-	-	N/A
Total	308	10,498,476	1.4%	0.4%	1.8%	2.2%	22,115	44,864	(22,478)	-	-	-	\$6.84

EAST I-70/MONTBELLO

Industrial	1,032	71,714,642	2.9%	0.7%	3.6%	3.9%	620,255	215,324	1,294,252	-	1,206,715	1,717,971	\$6.23
Flex	27	1,041,924	1.8%	0.0%	1.8%	1.8%	3,350	0	5,245	-	-	-	\$10.82
Total	1,059	72,756,566	2.9%	0.7%	3.6%	3.9%	623,605	215,324	1,299,497	-	1,206,715	1,717,971	\$6.24

LONGMONT

Industrial	83	2,898,045	6.8%	0.0%	6.8%	7.1%	2,359	8,425	(58,697)	-	-	-	\$7.06
Flex	28	2,064,260	11.2%	22.3%	33.5%	35.3%	17,168	36,845	36,684	-	-	-	\$9.23
Total	111	4,962,305	8.6%	9.3%	17.9%	17.3%	19,527	45,270	(22,013)	-	-	-	\$8.36

NORTH CENTRAL

Industrial	428	16,764,181	1.8%	0.1%	1.9%	2.0%	91,388	15,394	14,571	68,822	68,822	-	\$7.88
Flex	13	354,738	1.5%	0.0%	1.5%	6.9%	0	(1,590)	410	-	-	-	\$7.22
Total	441	17,118,919	1.8%	0.1%	1.9%	2.6%	91,388	13,804	14,981	68,822	68,822	-	\$7.81

NORTH

Industrial	138	5,924,593	2.9%	0.0%	2.9%	6.2%	12,145	200,181	715,437	-	-	-	\$6.89
Flex	12	487,911	8.5%	0.0%	8.5%	3.9%	-	(22,478)	(21,157)	-	-	-	\$9.13
Total	150	6,412,504	3.3%	0.0%	3.3%	6.1%	12,145	177,703	694,280	-	-	-	\$7.38

NORTHEAST

Industrial	368	15,402,877	8.5%	0.1%	8.6%	0.6%	156,668	(1,236,222)	(1,215,903)	-	-	857,998	\$9.45
Flex	13	473,188	3.8%	0.0%	3.8%	4.8%	11,524	4,800	(11,008)	-	-	-	\$10.21
Total	381	15,876,065	8.4%	0.1%	8.5%	0.7%	168,192	(1,231,422)	(1,226,911)	-	-	857,998	\$9.49

NORTHWEST

Industrial	318	11,961,683	5.0%	0.0%	5.0%	4.2%	88,935	(44,551)	(98,836)	59,137	59,137	-	\$5.88
Flex	68	2,340,057	3.8%	0.0%	3.8%	3.7%	6,034	(1,145)	92,177	-	-	-	\$11.00
Total	386	14,301,740	4.8%	0.0%	4.8%	4.0%	94,969	(45,696)	(6,659)	59,137	59,137	-	\$7.13

SOUTH CENTRAL

Industrial	400	11,018,065	1.2%	0.0%	1.2%	1.3%	21,714	(7,920)	(30,002)	-	-	-	\$7.37
Flex	12	364,846	0.0%	0.0%	0.0%	0.0%	-	-	1,500	-	-	-	\$6.95
Total	412	11,382,911	1.2%	0.0%	1.2%	1.3%	21,714	(7,920)	(28,502)	-	-	-	\$7.35

SOUTHEAST

Industrial	219	8,832,129	3.8%	0.0%	3.8%	5.5%	135,120	68,067	104,776	35,000	35,000	-	\$8.54
Flex	167	5,922,589	8.2%	0.1%	8.3%	9.9%	49,063	91,676	132,155	-	-	-	\$11.01
Total	386	14,754,718	5.6%	0.0%	5.6%	7.3%	184,183	159,743	236,931	35,000	35,000	-	\$9.96

SOUTHWEST

Industrial	174	5,499,271	2.2%	0.1%	2.3%	2.0%	6,449	(16,013)	2,189	-	-	-	\$9.52
Flex	51	1,755,882	1.9%	0.0%	1.9%	4.1%	30,559	38,802	87,710	-	-	-	\$8.92
Total	225	7,255,153	2.1%	0.1%	2.2%	2.5%	37,008	22,789	89,899	-	-	-	\$9.21

WELD COUNTY

Industrial	385	15,996,269	1.6%	0.0%	1.6%	1.7%	203,203	16,106	38,891	-	20,000	-	\$9.31
Flex	24	1,111,524	33.6%	0.0%	33.6%	33.6%	0	0	43,922	-	-	-	\$7.67
Total	409	17,107,793	3.7%	0.0%	3.7%	3.8%	203,203	16,106	82,813	-	20,000	-	\$9.17

WEST

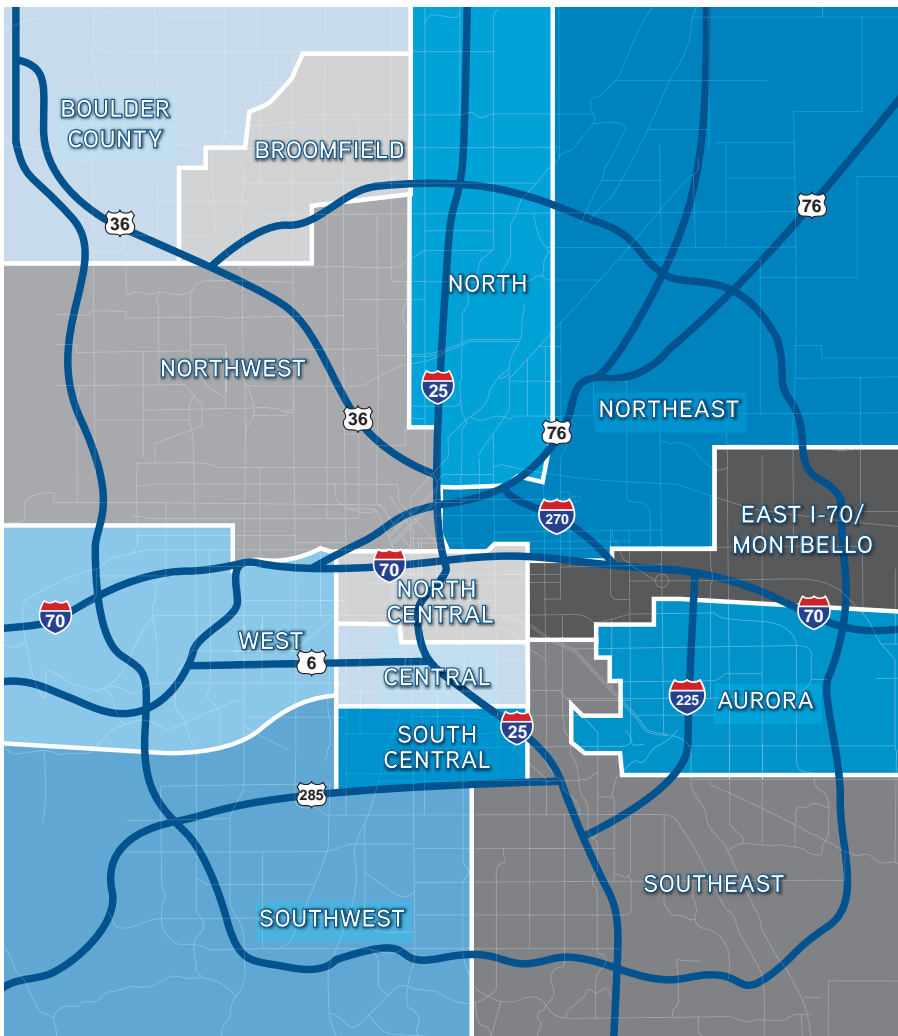
Industrial	218	14,121,642	1.2%	0.0%	1.2%	1.4%	20,716	25,076	32,971	-	-	30,415	\$7.33
Flex	50	1,842,504	3.6%	0.3%	3.9%	5.1%	11,592	21,808	11,816	-	-	-	\$8.78
Total	268	15,964,146	1.5%	0.0%	1.5%	1.8%	32,308	46,884	44,787	-	-	30,415	\$7.71

MARKET TOTAL

Industrial	4,311	199,242,868	3.1%	0.3%	3.4%	3.1%	1,467,219	(745,570)	729,044	162,959	1,389,674	2,606,384	\$7.13
Flex	560	21,088,342	7.9%	2.5%	10.4%	11.1%	171,396	132,931	404,613	-	95,922	0	\$10.47
Total	4,871	220,331,210	3.6%	0.5%	4.1%	3.8%	1,638,615	(612,639)	1,133,657	162,959	1,485,596	2,606,384	\$7.81

DENVER MARKET QUARTERLY COMPARISON AND TOTALS

Q4 15	4,871	220,331,210	3.6%	0.5%	4.1%	3.8%	1,638,615	(612,639)	1,133,657	162,959	1,485,596	2,606,384	\$7.81
Q3 15	4,870	220,774,289	3.3%	0.4%	3.7%	3.8%	2,180,695	283,713	1,746,296	347,840	1,357,727	928,377	\$7.51
Q2 15	4,869	220,426,449	3.3%	0.5%	3.8%	4.0%	2,336,163	805,185	1,462,583	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	657,398	657,398	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



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

About Colliers International

Colliers International is a global leader in commercial real estate services, with more than 16,300 professionals operating out of 502 offices in 67 countries. A subsidiary of FirstService Corporation, Colliers International delivers a full range of services to real estate occupiers, owners and investors worldwide, including global corporate solutions, brokerage, property and asset management, hotel investment sales and consulting, valuation, consulting and appraisal services, mortgage banking and insightful research. Colliers International has been recognized and ranked by the International Association of Outsourcing Professionals' Global Outsourcing 100 for 10 consecutive years, more than any other real estate services firm.

colliers.com

FOR MORE INFORMATION

Brad Calbert, ULI, NAIOP
President | Denver
+1 303 283 4566
brad.calbert@colliers.com

RESEARCHERS:

Tyson Price
Research Director | Denver
+1 303 283 4561
tyson.price@colliers.com

Nick Rice
Research Analyst | Denver
+1 720 833 4620
nick.rice@colliers.com

Colliers International | Denver
4643 South Ulster Street, Suite 1000
+1 303 745 5800
colliers.com/denver

Copyright © 2015 Colliers International.
The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.



Accelerating success.