

METRO DENVER | INDUSTRIAL

Q4 2018

Accelerating success.

2018: A Year to Remember for Denver's Industrial Sector

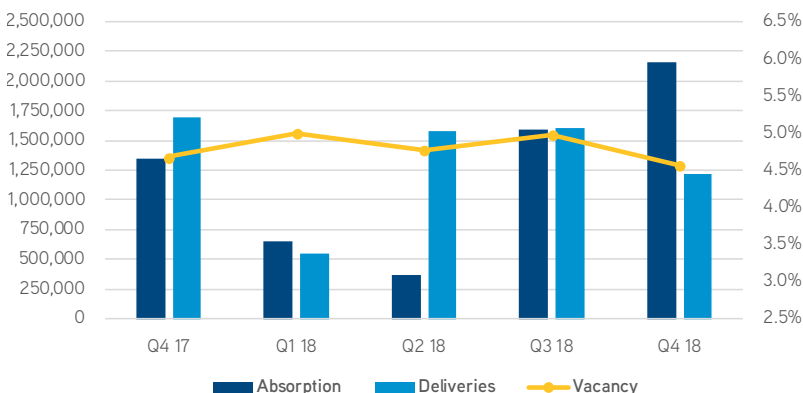
Market Overview

Denver's industrial sector finished 2018 just like it began – on a high note. Strong positive net absorption, record-breaking investment activity, and continued development are all indications of Metro Denver's strong industrial sector. Investment activity totaled more than \$1.3 billion during 2018, the highest annual total on record, as the market experienced an increased appetite from institutional buyers looking to invest in Denver's industrial asset class. While some economists are predicting a market correction, many commercial real estate professionals in Denver are enthusiastic about the upcoming year, and expect the market to continue on its current trajectory. Denver's population growth, diversified economy, and regional location remain fundamental in the overall attraction to the region. Therefore, expect demand for Denver's largest commercial real estate sector to persist throughout 2019.

Highlighted Trends

- > Metro deliveries totaled more than 1.2 million square feet during the fourth quarter.
- > 12 out of 15 submarkets realized positive net absorption during the fourth quarter.
- > Fourth quarter industrial investment activity totaled approximately \$311 million with an average sales price per square foot of \$100.
- > The November unemployment rate in Metro Denver currently sits at 3.3 percent – national unemployment is 3.7 percent.
- > The December 2018 Manufacturing ISM Report on Business stated that economic activity in the manufacturing sector expanded and grew for the 116th consecutive month, with a slight decrease in the PMI of 5.2 percentage points since November 2018.

Denver Industrial Market Q4 2017–Q4 2018



Market Indicators

Relative to prior period	Q4 2018	Projected Q1 2019
Vacancy	↓	↔
Net Absorption	+	+
Deliveries	↓	↑
Rental Rate	↑	↔

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

Denver Metro Summary Statistics

	Q4 2017	Q4 2018
Vacancy Rate	4.7%	4.6%
Absorption YTD	4,231,389	4,779,127
Deliveries YTD	4,894,266	4,953,656
Under Construction	4,017,394	4,959,361
Asking Rents/SF	\$8.76	\$8.95
Total SF	263,998,843	268,929,267

Fourth quarter positive net absorption totaled approximately 2.1 million square feet.

Absorption

Industrial absorption increased significantly compared to the previous quarter, with the fourth quarter total tallying more than 2.1 million square feet; this brings total absorption for 2018 to nearly 4.78 million square feet. 12 of 15 submarkets posted positive absorption during the quarter, with Denver's Northeast submarket recording the highest total of approximately one million square feet being absorbed. The Northeast submarket's absorption activity was driven almost entirely by the occupancy of approximately one million square feet at 18875 East Bromley Lane by Sears. Sears had been occupying approximately 300,000 square feet of the building, but recently took occupancy of the remaining space during the fourth quarter. However, due to the uncertainty surrounding a potential Sears bankruptcy, it is unclear as to how long they will occupy the entirety of the building. Additional tenant move-ins during the fourth quarter included Sturgeon Electric moving into their 102,848-square-foot space at 4250 Oneida Street. Amazon also moved into 80,000 square feet at Encompass Business Park in Centennial.

Vacancy

Overall industrial vacancy decreased quarter-over-quarter to 4.6 percent, due in part to the large block of distribution space filled by Sears in the Northeast submarket. Overall industrial vacancy has remained steady and within an 80-basis-point margin, approximately 4.2 to 5.0 percent, since the first quarter of 2015. Since that time, the industrial sector has experienced significant development and demand that has kept pace with the newly delivered space. Vacancy will likely remain stable during 2019, and remain near the 5.0 percent mark.

Deliveries & Construction

Deliveries of industrial and flex properties totaled more than 1.2 million square feet during the fourth quarter – bringing the 2018 annual total to approximately five million square feet. The largest delivery of the quarter came from the completion of the 540,843-square-foot warehouse facility known as Nexus at DIA. The building was completed in December and its largest tenant, Haier Appliances, began moving into their 351,834-square-foot space in early January with full occupancy anticipated by the end of February with the balance of the building available for lease. Development of industrial properties remains strong, with approximately 4.9 million square feet, or 1.8 percent of the inventory total, currently under construction throughout the metro. Development continues to thrive in the East I-70/Montbello submarket with approximately 2.5 million square feet of new product currently under construction.

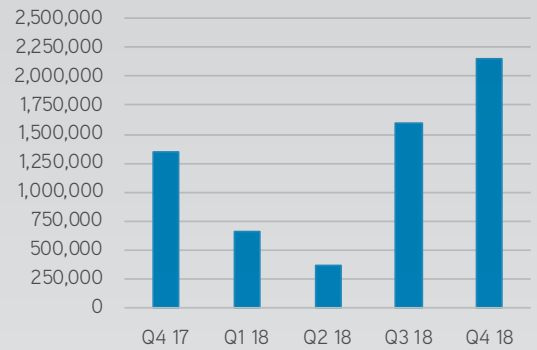
Rental Rates

The combined overall average asking rental rate for metro's industrial-flex properties is \$8.95/SF – this includes flex buildings where more than 50 percent of a building is improved with office space. The overall average rate also includes all industrial-type properties, such as warehouse, flex, R&D, and manufacturing and distribution. Average asking rates for warehouse/distribution properties, including manufacturing, is \$8.15/SF. Flex properties had an average asking rate of \$12.09/SF. Industrial warehouse space with higher clear heights, like a majority of property types in Denver's East I-70/Montbello submarket, are experiencing average asking rental rates of \$6.30/SF – down slightly from the first half of the year. The industrial market will continue to see demand throughout 2019, but with nearly five million square feet set to deliver to the market over the next 18 months, rents are anticipated to stabilize.

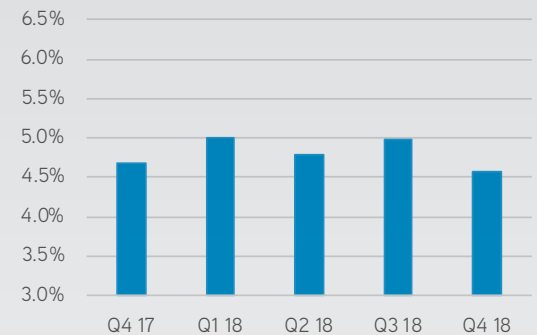
Sales Activity

Fourth quarter industrial investment activity totaled approximately \$311 million, with an average of \$100/SF, bringing Denver's 2018 industrial investment total to more than \$1.3 billion – the highest annual total on record. The industrial market also witnessed several other significant properties trade hands; however these buildings were acquired through the purchase of DCT Industrial by Prologis and were not figured in Colliers' annual total. The largest transaction of the fourth quarter was 18875 East Bromley Lane, a 1.3-million-square-foot warehouse/distribution building, which sold for \$40.75 million, or \$31/SF. The building was only partially occupied by Sears at the time of the sale, contributing to the lower sales price per square foot. Other notable sales during the quarter included the former 45-acre site of Rocky Mountain Prestress, an industrial manufacturing facility that was purchased for redevelopment. The proposed redevelopment, purchased by Westfield Company, Inc., will be comprised of a 1.3-million-square-foot industrial park. Gulftech International, Inc., an owner-user, also purchased a 71,000-square-foot flex building in Centennial for \$16.1 million, or \$226/SF from United Properties.

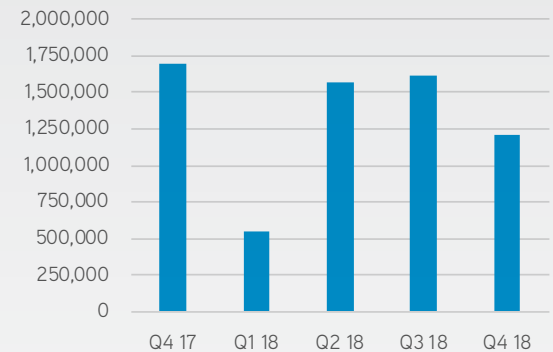
Absorption



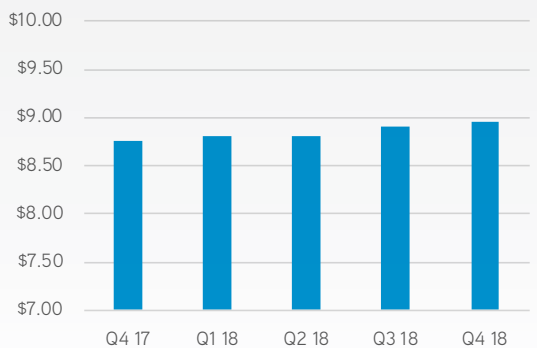
Vacancy



Deliveries



Rental Rates



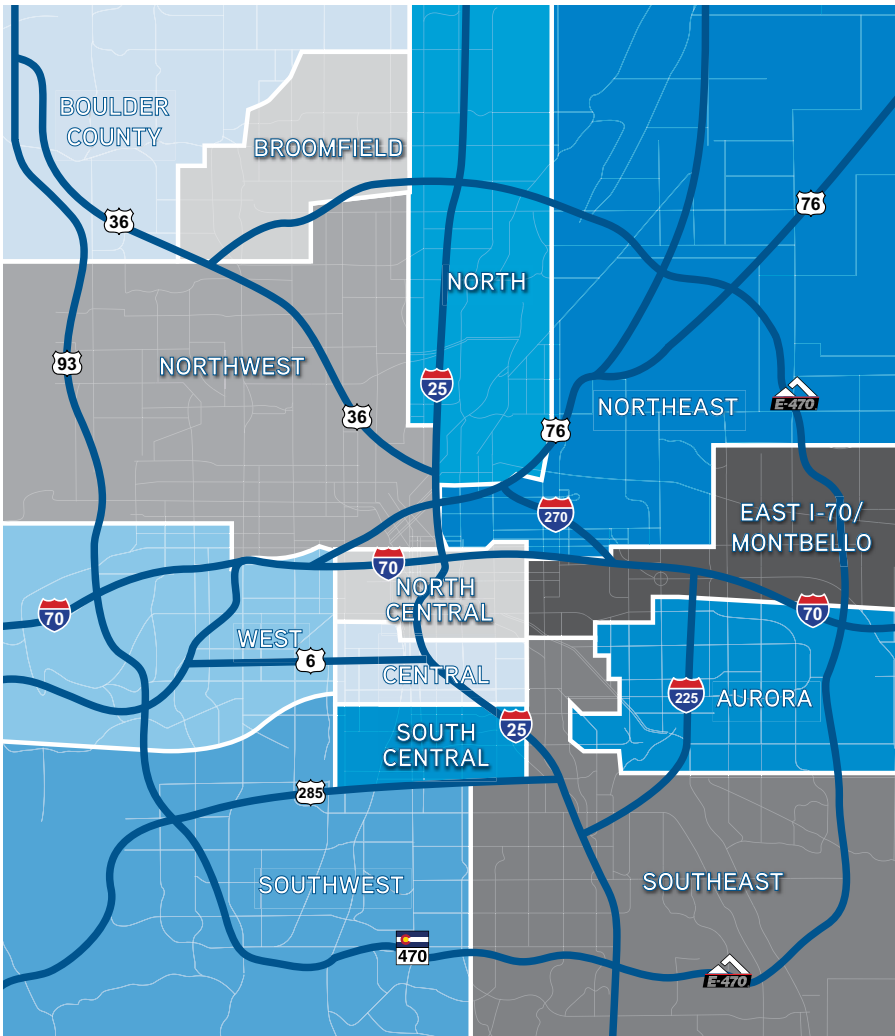
Recent Transactions

Industrial – Denver - Sales Activity						
PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
18875 East Bromley Lane	Northeast	\$40,750,000	1,305,700	\$31	WLA Investments/ Starboard Realty Services	Third Millenium Group
5751 Pecos Street (Redevelopment)	Northwest	\$40,712,100	1,958,764 (land SF)	\$21 (Land)	Westfield Company, Inc.	Rocky Mountain Prestress
12900 East Smith Road	East I-70/ Montbello	\$28,000,000	290,147	\$97	Clarion Partners	Brookwood Capital Partners
7305 South Joliet Street	Southeast	\$16,100,001	71,173	\$226	Gulftech International, Inc.	United Properties

Industrial – Denver - Leasing Activity				
PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME
19700 East 23rd Avenue	East I-70/Montbello	147,747	New	Bunzl
14200 East Moncrieff Place	East I-70/Montbello	82,127	New	Fuelco Energy
14402 East 33rd Place	East I-70/Montbello	50,050	New	Motion & Flow Control Products

Industrial Overview													
EXISTING PROPERTIES			VACANCY				ACTIVITY	ABSORPTION		CONSTRUCTION			RENTS
SUBMARKET/ CLASS	BLDGS	TOTAL INVENTORY SF	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	29	657,018	4.5%	0.0%	4.5%	5.0%	3,065	3,065	0	-	29,539	-	\$9.97
Flex	44	1,567,774	10.2%	0.1%	10.3%	9.0%	38,730	12,623	10,586	-	-	50,000	\$7.84
Total	73	2,224,792	8.5%	0.0%	8.6%	7.8%	41,795	15,688	10,586	-	29,539	50,000	\$7.94
BOULDER													
Industrial	284	10,409,965	5.9%	1.8%	7.7%	7.4%	65,360	(15,884)	205,981	20,000	235,750	215,075	\$10.43
Flex	223	9,753,870	3.6%	0.3%	3.9%	5.0%	99,144	232,295	427,819	131,818	131,818	-	\$14.38
Total	507	20,163,835	4.8%	1.1%	5.9%	6.2%	164,504	216,411	633,800	151,818	367,568	215,075	\$12.07
BROOMFIELD													
Industrial	78	3,400,457	7.2%	0.0%	7.2%	7.3%	17,225	3,658	86,408	-	260,216	139,876	\$10.17
Flex	30	1,085,361	8.5%	0.0%	8.5%	11.3%	20,718	30,980	82,024	-	133,122	152,761	\$10.90
Total	108	4,485,818	7.5%	0.0%	7.5%	8.3%	37,943	34,638	168,432	-	393,338	292,637	\$10.32
CENTRAL													
Industrial	305	10,832,566	3.8%	0.0%	3.8%	4.8%	44,145	111,427	61,583	-	-	-	\$9.17
Flex	11	333,417	2.6%	0.0%	2.6%	6.1%	1,603	11,866	(45,551)	-	-	-	\$9.50
Total	316	11,165,983	3.7%	0.0%	3.7%	4.8%	45,748	123,293	16,032	-	-	-	\$9.55
EAST I-70/MONTBELLO													
Industrial	1,075	79,701,201	5.5%	0.3%	5.7%	5.8%	781,346	307,154	736,032	-	1,137,776	2,494,982	\$6.31
Flex	62	1,973,297	2.9%	0.0%	2.9%	3.0%	3,490	54,147	26,223	-	53,400	157,500	\$9.05
Total	1,074	81,674,498	5.4%	0.2%	5.7%	5.7%	784,836	361,301	762,255	-	1,191,176	2,652,482	\$6.56

EXISTING PROPERTIES			VACANCY				ACTIVITY	ABSORPTION		CONSTRUCTION			RENTS
SUBMARKET/ CLASS	BLDGS	TOTAL INVENTORY SF	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)
LONGMONT													
Industrial	95	2,920,947	2.6%	0.7%	3.3%	3.1%	43,825	(5,511)	(13,309)	-	-	73,000	\$11.50
Flex	47	2,651,436	25.2%	0.7%	25.9%	28.2%	2,400	61,384	(92,469)	-	-	-	\$12.92
Total	142	5,572,383	13.4%	0.7%	14.1%	15.1%	46,225	55,873	(105,778)	-	-	73,000	\$12.40
NORTH CENTRAL													
Industrial	423	16,569,136	3.9%	0.1%	4.0%	4.7%	35,639	111,422	59,679	-	60,000	30,202	\$9.18
Flex	23	757,174	4.1%	0.0%	4.1%	4.4%	-	2,274	(25,626)	-	-	-	\$13.00
Total	446	17,326,310	3.9%	0.1%	4.0%	4.7%	35,639	113,696	34,053	-	60,000	30,202	\$9.46
NORTH													
Industrial	163	7,780,641	6.1%	0.0%	6.1%	7.8%	93,389	68,061	984,745	-	1,255,470	-	\$8.87
Flex	40	1,729,817	3.0%	0.9%	4.0%	3.0%	32,784	(16,010)	(5,334)	-	31,270	30,000	\$13.15
Total	203	9,510,458	5.5%	0.2%	5.7%	6.9%	126,173	52,051	979,411	-	1,286,740	30,000	\$9.30
NORTHEAST													
Industrial	430	19,428,983	3.6%	0.0%	3.6%	8.7%	70,295	1,035,087	1,367,862	865,513	932,438	629,289	\$8.03
Flex	35	1,012,260	3.1%	0.0%	3.1%	6.5%	9,600	34,649	71,710	-	-	-	\$13.00
Total	465	20,441,243	3.6%	0.0%	3.6%	1.4%	79,895	1,069,736	1,439,572	865,513	932,438	629,289	\$8.51
NORTHWEST													
Industrial	290	11,401,581	4.2%	0.3%	4.5%	4.2%	165,663	(42,609)	99,672	-	79,698	-	\$9.55
Flex	79	1,923,858	4.1%	0.0%	4.1%	3.0%	36,730	(21,768)	58,370	-	33,600	-	\$10.33
Total	369	13,325,439	4.2%	0.3%	4.5%	4.0%	202,393	(64,377)	158,042	-	113,298	-	\$9.75
SOUTH CENTRAL													
Industrial	402	10,703,438	1.5%	0.1%	1.6%	2.4%	79,328	84,185	89,769	-	-	-	\$8.16
Flex	28	630,596	5.9%	0.0%	5.9%	2.5%	4,500	(21,607)	22,945	-	-	-	\$9.61
Total	430	11,334,034	1.8%	0.1%	1.9%	2.4%	83,828	62,578	112,714	-	-	-	\$8.28
SOUTHEAST													
Industrial	245	10,015,636	3.4%	0.4%	3.9%	5.1%	103,559	158,568	268,785	177,030	331,030	514,676	\$9.73
Flex	255	8,788,866	4.6%	0.3%	4.9%	5.0%	84,171	3,733	111,716	-	-	-	\$11.20
Total	500	18,804,502	4.0%	0.4%	4.3%	5.1%	187,730	162,301	380,501	177,030	331,030	514,676	\$10.45
SOUTHWEST													
Industrial	190	5,959,748	1.4%	0.0%	1.4%	0.9%	7,900	(27,676)	(8,136)	-	-	-	\$10.15
Flex	114	3,933,418	6.4%	0.0%	6.4%	5.3%	18,501	(45,954)	(49,847)	-	-	-	\$10.12
Total	304	9,893,166	3.4%	0.0%	3.4%	2.7%	26,401	(73,630)	(57,983)	-	-	-	\$10.12
WELD COUNTY													
Industrial	491	18,897,111	1.8%	0.2%	2.1%	2.2%	59,000	36,637	(64,701)	21,375	85,585	404,000	\$10.68
Flex	63	2,185,800	6.2%	0.0%	6.2%	5.4%	9,027	(5,262)	203,639	-	130,000	-	\$10.50
Total	554	21,082,911	2.3%	0.2%	2.5%	2.5%	68,027	31,375	138,938	21,375	215,585	404,000	\$10.66
WEST													
Industrial	241	14,596,661	1.1%	0.1%	1.2%	0.9%	58,763	(52,181)	3,495	-	32,944	68,000	\$8.48
Flex	115	7,327,234	1.6%	0.0%	1.7%	2.3%	20,423	46,086	105,057	-	-	-	\$11.82
Total	356	21,923,895	1.3%	0.1%	1.4%	1.3%	79,186	(6,095)	108,552	-	32,944	68,000	\$9.62
MARKET TOTAL													
Industrial	4,741	223,275,089	4.1%	0.3%	4.4%	5.0%	1,628,502	1,775,403	3,877,865	1,083,918	4,440,446	4,569,100	\$8.23
Flex	1,169	45,654,178	5.4%	0.2%	5.6%	6.0%	381,821	379,436	901,262	131,818	513,210	390,261	\$12.09
Total	5,910	268,929,267	4.3%	0.3%	4.6%	5.0%	2,010,323	2,154,839	4,779,127	1,215,736	4,953,656	4,959,361	\$8.95
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q4 18	5,910	268,929,267	4.3%	0.3%	4.6%	5.0%	2,010,323	2,154,839	4,779,127	1,215,736	4,953,656	4,959,361	\$8.95
Q3 18	5,899	267,551,455	4.8%	0.2%	5.0%	4.8%	2,736,772	1,596,635	2,624,288	1,610,336	3,737,920	4,891,468	\$8.91
Q2 18	5,886	265,888,778	4.5%	0.3%	4.8%	5.0%	2,528,137	372,588	1,027,653	1,574,392	2,127,584	4,668,700	\$8.81
Q1 18	5,870	264,306,732	4.7%	0.3%	5.0%	4.7%	3,447,054	655,065	655,065	553,192	553,192	4,509,535	\$8.80
Q4 17	5,864	263,998,843	4.5%	0.1%	4.7%	4.8%	3,369,407	1,343,299	4,231,389	1,690,903	4,894,266	4,017,394	\$8.76



413 offices in
69 countries on
6 continents

United States: **145**
Canada: **28**
Latin America: **23**
Asia Pacific: **86**
EMEA: **131**

\$2.7
billion in
annual revenue

2.0
billion square feet
under management

15,400
professionals
and staff

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