

MARKETBEAT

Industrial Snapshot Q4 2015

Denver, Colorado



DENVER INDUSTRIAL

Economic Indicators

	Q4 14	Q4 15	12-Month Forecast
Denver Employment	1.44M	1.45M	▲
Denver Unemployment	4.0%	3.1%	▼
U.S. Unemployment	5.6%	5.0%	▼

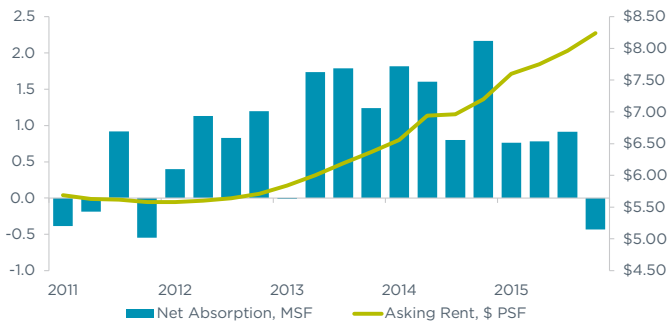
Market Indicators (Overall, All Product Types)

	2014	2015	12-Month Forecast
Overall Vacancy	4.3%	4.2%	■
Net Absorption	2,165,103	(434,124)	▲
Under Construction	1,635,211	3,591,560	▲
Average Asking Rent (Whse)	\$6.08	\$7.15	▲
Average Asking Rent* (Flex)	\$9.89	\$10.62	▲

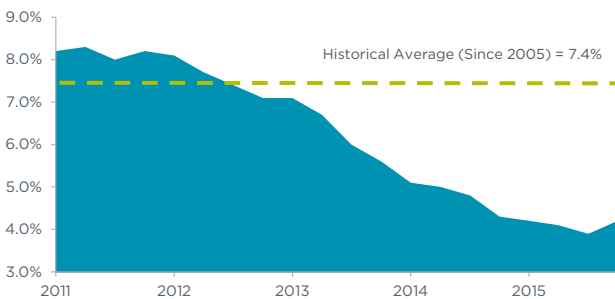
*Rental rates reflect net asking \$psf/year

Overall Net Absorption/Asking Rent

4Q Trailing Average



Overall Vacancy



Economic Overview

As we close the fourth quarter of 2015, Denver's economy remains strong, with many fundamental indicators still sitting in positive light. Most recent statistics show that unemployment continues to fall, down to an astounding 3.1%, while employment is still expanding. A diverse and vibrant economy has helped keep Denver booming, even with concern of falling oil prices, which has had a negative impact in other areas of the country. In fact, according to a 2015 ranking by Forbes, Denver ranks number one in the country for best places for businesses and careers. With a high median household income, a relatively low cost of living compared to other major metro areas, and a desirable location at the foot of the Rocky Mountains, Denver continues to be an attractive place to which people and companies are relocating. These are just a few of the factors that have helped maintain the growth trajectory of Denver's economy. In the year ending on July 1, 2015, nearly 101,000 residents moved to Colorado. The only other state with a higher growth rate was North Dakota.

Market Overview

The Denver industrial market continues to set records in some major indicators, but seems to be slowing in others, giving us the first evidence that we may be reaching a peak in the market. While market rents continued to increase in all sub-markets and every product class, market-wide vacancy for warehouse product actually increased .05% in the fourth quarter, representing the first uptick in vacancy since 2011. This is a pattern that we may continue to see from time to time over the next few quarters, with vacancy still sitting at an incredibly tight 4.2% and landlords continuing to push rents. The average asking rate for warehouse space is \$7.15 NNN per square foot (PSF), up \$1.07 PSF, or 15% from the same period of 2014. This rate is also up \$0.22 PSF from the third quarter of 2015 despite more than 400,000 SF of negative absorption over the same period. With strong demand coupled with limited space options, landlords have been successful in increasing lease rates while reducing concession packages by limiting tenant improvements and rent abatement.

Industrial sales velocity was slightly down in the fourth quarter, with 104 transactions compared to the third quarter number of 113 transactions, a result not due to a lack of

MARKETBEAT

Industrial Snapshot Q4 2015

Denver, Colorado



demand in the market, but a lack of supply. Although volume and velocity are down from the previous quarter, average prices set a new all-time high of \$95.50 PSF after leveling out over the previous three quarters. With historic high pricing becoming the new norm, look for more sellers to enter the market place to cash in.

Investment demand continues to be red hot, as local and out of State investors consider Denver as one of the best markets to place capital. 2015 will go down as the second biggest year in terms of volume ever, with over \$530 million in industrial investment property transactions, proving that more owners are quickly becoming sellers in order to cash in on peak pricing. The average cap rate for industrial property investment sales in Denver is 7.2% for the trailing twelve months. Yet compared to the national average of 6.9%, it appears that there is still runway for cap rate compression, especially given the rising rental rate environment and the overwhelming push by investors to place money in Denver. The largest industrial investment sale of the quarter was the 244,028 SF (15) property portfolio sale in Englewood from Greenfield Partners to MIG for \$27,750,000.

Despite the fact that construction costs are at historic highs, industrial developments totaling 3,591,560 SF are currently underway in the metro area. During this current expansion cycle, demand has always outpaced new deliveries, as developers have been cautious to avoid overbuilding, even with historically high demand. However, last quarter saw the first negative absorption in 18 quarters. This was partly due to

the 1.3 million square foot former Kmart distribution center in Brighton coming back to the market. With much needed new projects breaking ground in infill locations we may see a slight uptick in the overall vacancy rate, but nothing that will throw the market off. Even with preleasing activity slowing in comparison to 2015, there is roughly 10 million square feet of requirements actively seeking space. Thus, most projects should lease up unless their proforma lease rates are unrealistic.

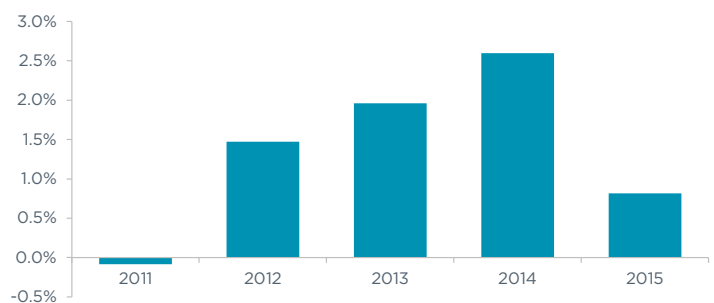
With this industrial real estate cycle being historical on so many levels - from record pricing and lease rates, to historically low vacancy rates and massive demand from users - the question often asked is "How long will it last?" As companies continue to focus on the revenue side of the balance sheet and consumer confidence remains strong, look for this market cycle to stay in position for the foreseeable future. A significant downturn in this market would require so many factors to take place simultaneously in order for the vacancy to simply get back to a historical average of 7.4%, and only then would we start to see a recognizable fall off in pricing and lease rates. However, don't forget the stagnation that the market realized back in 2008-2010, where many companies and investors contracted or sat tight to wait out the downturn, resulting in a significant fall off in transactions. As we approach the later innings of this cycle a similar pattern may be on the horizon should we see the economy turn down. That being said, this cycle has created many "new norms" relative to pricing expectations and average lease rates. Gone are the days of \$45 PSF average industrial sales and \$2.75 PSF lease rates. The market has recalibrated and expectations have changed.

Outlook

- Low vacancy, steady demand and high construction costs will continue to put upward pressure on rents, though rent increases will not have the explosive growth of 2015.
- Investor demand will remain strong, further compressing cap rates and enticing more owners to sell.
- With limited quality space options, more companies will turn towards build-to-suit construction to satisfy space requirements.
- With a diverse economy and central location Denver should be relatively insulated from a significant downturn in the economy.

Industrial Net Absorption

PERCENTAGE OF INVENTORY



MARKETBEAT

Industrial Snapshot Q4 2015

Denver, Colorado



SUBMARKET	TOTAL BUILDINGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	CURRENT ABSORPTION	YTD NET ABSORPTION	UNDER CONSTRUCTION	AVERAGE ASKING RENT WAREHOUSE*	AVERAGE ASKING RENT FLEX*
Boulder	712	21,405,036	539,334	1,293,540	8.6%	87,291	(4,739)	35,000	\$9.31	\$11.39
Central	2,564	47,423,745	63,793	778,802	1.8%	23,269	22,185	0	\$7.68	\$9.20
North	261	8,182,097	0	555,079	6.8%	29,396	680,755	51,875	\$7.09	\$9.76
Northeast	2,090	94,374,862	1,845,986	2,239,453	4.3%	(990,125)	117,224	2,927,623	\$6.55	\$9.81
Northwest	825	22,563,184	13,260	1,084,661	4.9%	(7,965)	314,282	377,202	\$6.07	\$10.88
Southeast	877	23,297,161	18,454	1,309,721	5.7%	225,690	362,800	127,052	\$8.07	\$10.31
Southwest	528	10,800,793	4,000	272,785	2.6%	103,468	371,470	33,500	\$9.58	\$10.34
West	521	19,895,919	5,575	385,626	2.0%	94,852	160,352	39,308	\$7.24	\$10.12
TOTAL	8,378	247,942,797	2,490,402	7,919,667	4.2%	(434,124)	2,024,329	3,591,560	\$7.15	\$10.62

*Rental rates reflect asking \$psf/year

FLEX = Flex Space HT = High Tech/Flex MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

Under Construction 4Q 2015

PROJECT	SF	DEVELOPER	COMPLETION DATE	SUBMARKET
Crossroads Commerce Park (4 Buildings)	704,651	Trammell Crow Company	Q2 2016	Central
Majestic Commerce Center	452,400	Majestic Realty	Q2 2016	Northeast
Eastpark 70 (2 Buildings)	436,833	Consolidated Investments	Q3 2016	Northeast
12900 E. Smith Rd.	290,132	Brookwood Capital Partners	Q3 2016	Northeast
Stapleton Business Center North	251,591	Prologis	Q2 2016	Northeast
Central 62	124,024	Corum	Q3 2016	Central
Colorado Technology Center	120,877	Etkin Johnson	Q3 2016	Northwest
Highfield Business Park	98,875	Confluent	Q3 2016	Southeast

Key Lease Transactions 4Q 2015

PROPERTY	SF	TENANT	PROPERTY TYPE	SUBMARKET
19755 E. 35th Dr.	200,000	Anheuser-Busch	Expansion/Extension	Northeast
390 E. 55th Ave.	127,480	American Tire Distributors	New Lease	Northeast
18250 E. 40th Ave.	97,656	MS International	New Lease	Northeast
14700 E. 38th Ave.	70,080	Universal Forest Products	New Lease	Northeast
24210 E. 19th Ave.	67,772	Bridgestone	New Lease	Northeast
13450 E. Smith Rd.	61,873	Landsberg Orora	New Lease	Northeast
2100 31st St.	49,404	City of Denver	New Lease	Central

Key Sale Transactions 4Q 2015

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
7330 S. Alton Way (16 Properties)	241,504	Greenfield Partners/MIG	\$27,750,000	Southeast
11525 Main St.	92,800	Columbia Colorado Main Industrial LLC/GI Partners	\$17,500,000	Northwest
1350 S. Public Rd.	89,360	Rocky Mountain Instrument Co./Zaragon Holdings, Inc.	\$13,000,000	Northwest
6899 Winchester Cir. (3 Properties)	113,790	Sovereign Capital Management Group, Inc./Carr Gottstein Properties	\$11,550,000	Northwest

MARKETBEAT

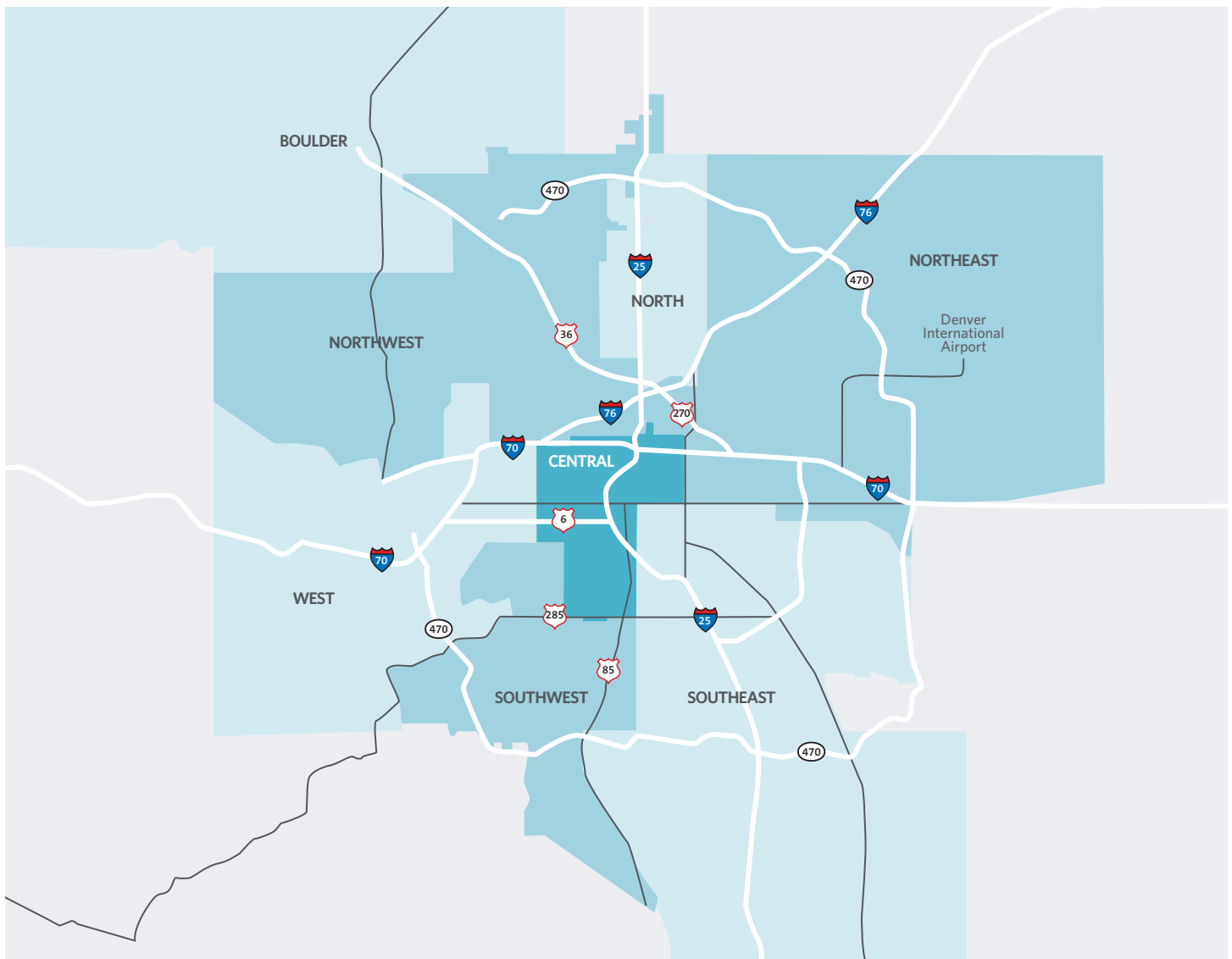
Industrial Snapshot Q4 2015

Denver, Colorado



INDUSTRIAL SUBMARKETS

DENVER, COLORADO



About Cushman & Wakefield

Cushman & Wakefield is a leading global real estate services firm that helps clients transform the way people work, shop, and live. The firm's 43,000 employees in more than 60 countries provide deep local and global insights that create significant value for occupiers and investors around the world. Cushman & Wakefield is among the largest commercial real estate services firms with revenue of \$5 billion across core services of agency leasing, asset services, capital markets, facility services (C&W Services), global occupier services, investment & asset management (DTZ Investors), project & development services, tenant representation, and valuation & advisory. To learn more, visit www.cushmanwakefield.com or follow @Cushwake on Twitter.

Andrea Jones

Vice President
Marketing & Research
1515 Arapahoe Street
Suite 1200
Tel: +1 303 312 4256
Fax: +1 303 534 8270
andrea.jones@cushwake.com

Copyright © 2016 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources considered to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.