

MARKETBEAT

Denver, Colorado

Retail Q4 2017



DENVER RETAIL

National Economic Indicators

	Q4 16	Q4 17	12-Month Forecast
GDP Growth	1.8%	2.3%*	▲
CPI Growth	1.8%	2.0%*	▲
Consumer Spending Growth	2.8%	2.6%*	▼
Retail Sales Growth	3.7%	3.9%*	▲

*Q3 Values
Based on Moody's baseline estimates

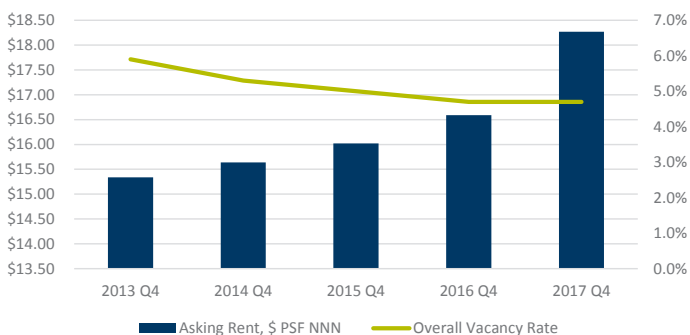
Regional Economic Indicators

	Q4 16	Q4 17	12-Month Forecast
Household Income	\$148,188	\$152,923	▲
Population Growth (Ths)	2,862.17	2,899.70	▲
Unemployment	3.0%	2.6%	■

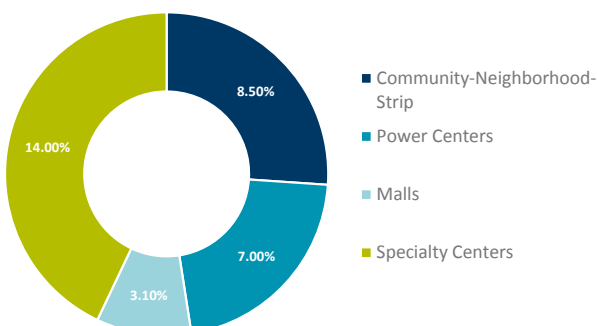
Market Indicators (Overall, All Classes)

	Q4 16	Q4 17	12-Month Forecast
Overall Vacancy	4.7%	4.7%	■
Net Absorption	506,842	691,045	▼
Under Construction	1,276,307	1,326,718	▼
Average Asking Rent	\$16.59	\$18.27	▲

Rental Rate vs. Overall Vacancy



Availability by Type



Economic Overview

The Denver economy closed out 2017 as one of the strongest in the country, boasting an unemployment rate of just 2.6%. Although this is 20 basis points (bps) higher than last quarter, it is 40 bps lower than this time last year and represents the fourteenth lowest unemployment rate of any metro area in the country. Denver added 24,300 non-farm jobs in 2017 through November and estimates project almost twice as many will be added in 2018. We expect unemployment to remain low as Denver is poised for another year of growth in 2018.

Retail Market Overview

The Denver retail market remained tight this quarter with an overall vacancy rate of 4.7%, representing a 20 bps decrease from last quarter and the tenth consecutive quarter of overall vacancy, at or below 5%. This consistently low vacancy rate has been the major driver behind an average direct triple net rental rate increase of 10.1% year-over-year to \$18.27 per square foot (psf). Leasing activity remained relatively low again this quarter at 870,286 square feet (sf). 2017 reported the lowest yearly total since 2010, with 3,851,496 sf leased throughout the year. Net absorption however was the strongest since Q3 2011 at +691,045, due primarily to a large number of tenants taking occupancy from leases signed in prior quarters. Most notably, Vasa Fitness moved into 60,000 sf and 53,000 sf at 1955 S Sheridan Blvd and 8200 S Quebec St respectively and Chuze Fitness occupied 54,000 sf at 2223 S Monaco Pkwy.

Denver's Cherry Creek submarket reported the highest direct triple net rates this quarter at \$30.20 psf coupled with the lowest vacancy at 2.3%. This rental rate represents a 13.5% increase quarter-over-quarter and a 10.9% increase year-over-year. With such low vacancy and only 30,000 sf of retail space under construction, 27,000 of which is located on the ground floors of multi-family and office projects and 7,000 of which is already pre-leased, these rental rates will likely remain the highest of any submarket into 2018. Cherry Creek Shopping Center, which represents nearly 20% of the submarket at just over a million sf, is expected to announce their plans for the newly-vacated Safeway space in early 2018. Options have ranged from a new large tenant taking the entire box, a subdivision of the space for multiple smaller tenants, or even Macy's relocating within the mall, allowing for multi-family or a hotel.

Deliveries during Q4 2017 totaled 253,571 sf with the Northwest submarket delivering approximately 114,000 sf. Orchard Park Place was the largest delivery of the quarter at 100,000 SF and delivered at 100% leased. Another noteworthy delivery was the completion of the new Flagship Whole Foods at 1777 Wewatta Street. More than 1.3 million square feet (msf) remains under construction between 54 projects across the

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metro area, with the majority residing in the Central, Northeast and Northwest submarkets. The projects remaining under construction are headlined by the Denver Premium Outlets, slated to deliver 330,000 sf of retail space to the Northeast submarket at the northeast corner of I-25 & 136th Avenue in Q4 2018. It will be interesting to see if the outlets spur further development in the immediate vicinity with Top Golf abandoning plans for the land directly across 136th Avenue following citizen-leveled lawsuits against the city of Thornton. Top Golf is now planning another site in Thornton, slightly further north along I-25. With the abundance of growth and construction in the area, the Northeast and Northwest should continue to see the bulk of the new retail construction projects that break ground during 2018.

Among the most notable leases signed this quarter was Lucky's Market's first location in Denver, leasing 25,000 sf in the new Boulevard One development at Lowry Blvd & Quebec St. Other notable leases included Planet Fitness' 23,200 sf lease at 7621-7685 88th Ave in Westminster and Locavore's 18,405 sf new lease at the former Save-a-Lot at 2630 W 38th St in Denver. The largest sale of the quarter, both in terms of square footage and sale price, was The Shops at Greenwood Village, a 209,953 sf shopping center that changed hands between Uhlmann and Broad Street Ventures for \$24.3M.

Speculation has swirled around whether Denver has a restaurant bubble that is about to burst as the area continues to be inundated with new restaurants. In an over-saturated market, newcomers without unique concepts have struggled. However, those that have brought innovative and different ideas continue to do well and many of the restaurants that have failed have been back-filled by other restaurateurs eager to differentiate themselves. An alternative option that has been growing in popularity, most notably for smaller and locally-sourced concepts, has been food halls which have been popping up around Denver with increasing frequency. Food halls offer options from different food concept vendors with a common eating area, and are often coupled with small bar concepts and retail. Cushman and Wakefield will continue to monitor the restaurant bubble into 2018 as the market becomes increasingly saturated and it would not be surprising to see an increase in food halls as they continue to grow in popularity.

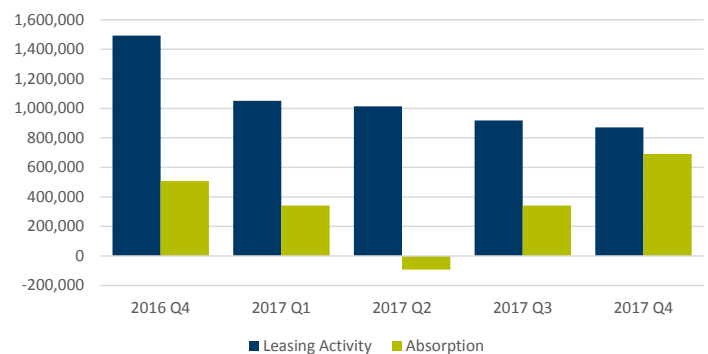
As e-commerce has exploded over the last two decades, punctuated by a new online Black Friday sales record over \$5 billion, some economists have predicted the impending death of brick and mortar stores. However, brick and mortars that have embraced an online presence have done well and some exclusively online brands have mulled physical locations in certain areas. Ordering online and picking up in-store as opposed to home delivery saves both the company and consumer on shipping costs and allows consumers to receive

their packages quicker. 50% of online shoppers plan to use in-store pickup this year and 56% of consumers stated a nearby physical store was important to them when buying online. Over the next several years, we expect to continue to see thousands of stores closing across the country and many more downsizing, but e-commerce is not destroying brick and mortars, just demanding that they revolutionize the way they operate.

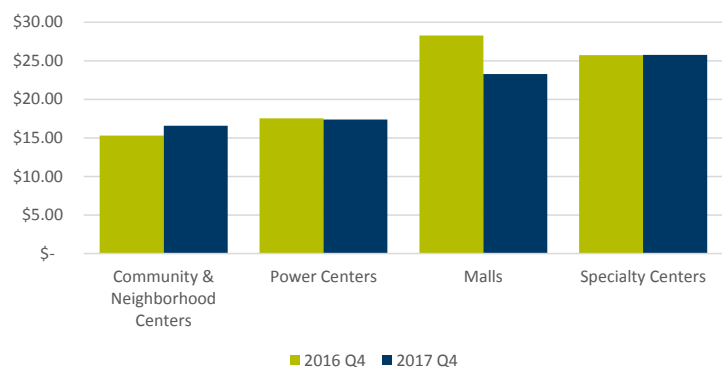
Outlook

- Rental rates, which finally plateaued from Q3 to Q4 2017 after rising 24% from the end of 2012 to Q3 2017, will rise at a much slower rate as they have reached the highest in over a decade.
- Leasing activity should rebound next year following a slow 2017 as the entirety of the over 1.3 msf remaining under construction is expected to deliver in 2018 and will likely lease quickly in a market with such low vacancy.
- While the Denver metro will continue to attract retail developers, it will be interesting to see if the Green Roof Initiative pushes larger projects from its area of effect, Denver City & County, to outlying areas.

Leasing Activity and Absorption



Average Asking Rate (Annual NNN)



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SUBMARKET	TOTAL BUILDINGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	OVERALL VACANCY RATE	CURRENT ABSORPTION	YTD NET ABSORPTION	UNDER CONSTRUCTION	AVERAGE ASKING RENT
Aurora	703	12,126,203	36,504	616,632	5.4%	47,342	153,882	0	\$14.73
Boulder/Longmont	1,298	16,843,861	48,217	835,518	5.2%	(46,043)	(156,879)	8,250	\$19.37
Central	2,337	21,049,461	8,014	711,037	3.4%	173,311	244,868	282,209	\$20.28
Colorado Blvd/ Cherry Creek	321	5,596,799	8,541	119,447	2.3%	2,673	106,543	3,000	\$30.19
Downtown	230	3,204,116	10,890	110,404	3.8%	128,519	152,246	0	\$24.73
Northeast	1,040	14,359,395	10,481	748,886	5.3%	(13,324)	142,615	395,189	\$16.49
Northwest	1,392	23,807,684	18,000	1,471,477	6.3%	353,319	585,904	343,527	\$14.87
South/Southeast	1,718	33,019,042	155,856	1,306,155	4.4%	58,441	(10,781)	110,947	\$20.24
West/Southwest	2,788	34,323,520	71,830	1,373,948	4.2%	(13,193)	(2,642)	183,596	\$16.65
DENVER TOTALS	11,827	164,330,081	368,333	7,293,504	4.7%	691,045	1,215,756	1,326,718	\$19.73

*Rental rates reflect gross asking \$psf/year

Under Construction Q4 2017

PROJECT	SF	OWNER	ESTIMATED COMPLETION	SUBMARKET
Denver Premium Outlets	330,000	Simon Property Group	Q4 2018	Northeast
9th & Colorado	235,000	Continuum Partners	Q1 2018	Central
Vista Highlands	185,200	N/A	Q1 2018	Northwest
King Soopers - 9175 Indiana St	127,000	N/A	Q1 2018	Northwest
Vasa Fitness - 1955 S Sheridan Blvd	60,660	Hawkins Development LLC	Q1 2018	West

Key Lease Transactions Q4 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Lowry Blvd & S Quebec St	25,000	Lucky's Market	Direct	Cherry Creek
7621-7685 88th Ave	23,200	Planet Fitness	Direct	Northwest
2630 W 38th St	18,405	Locavore	Direct	West
7705-7735 Wadsworth Blvd	17,667	Christy Sports	Direct	Northwest
3811-3879 E 120th Ave	16,100	Genesis Community Church	Direct	Northwest

Key Sale Transactions Q4 2017

PROPERTY	SF	SELLER/BUYER	PRICE	SUBMARKET
9620 E Arapahoe Rd	209,953	Uhlmann/Broad Street Ventures	\$24,300,000	Southeast
3333 S Tamarac Dr	68,534	DDR/ACF Property Management	\$20,000,000	Central
18607 Green Valley Ranch Blvd	100,750	GDC Properties/Highpoint Capital	\$13,400,000	Northeast
8141 E Arapahoe Rd	49,032	United Development Co/Realty Income Corp	\$11,000,000	Southeast
5745 New Abbey Ln	41,203	Alberta Development Partners/Orris Family	\$10,700,000	Southeast

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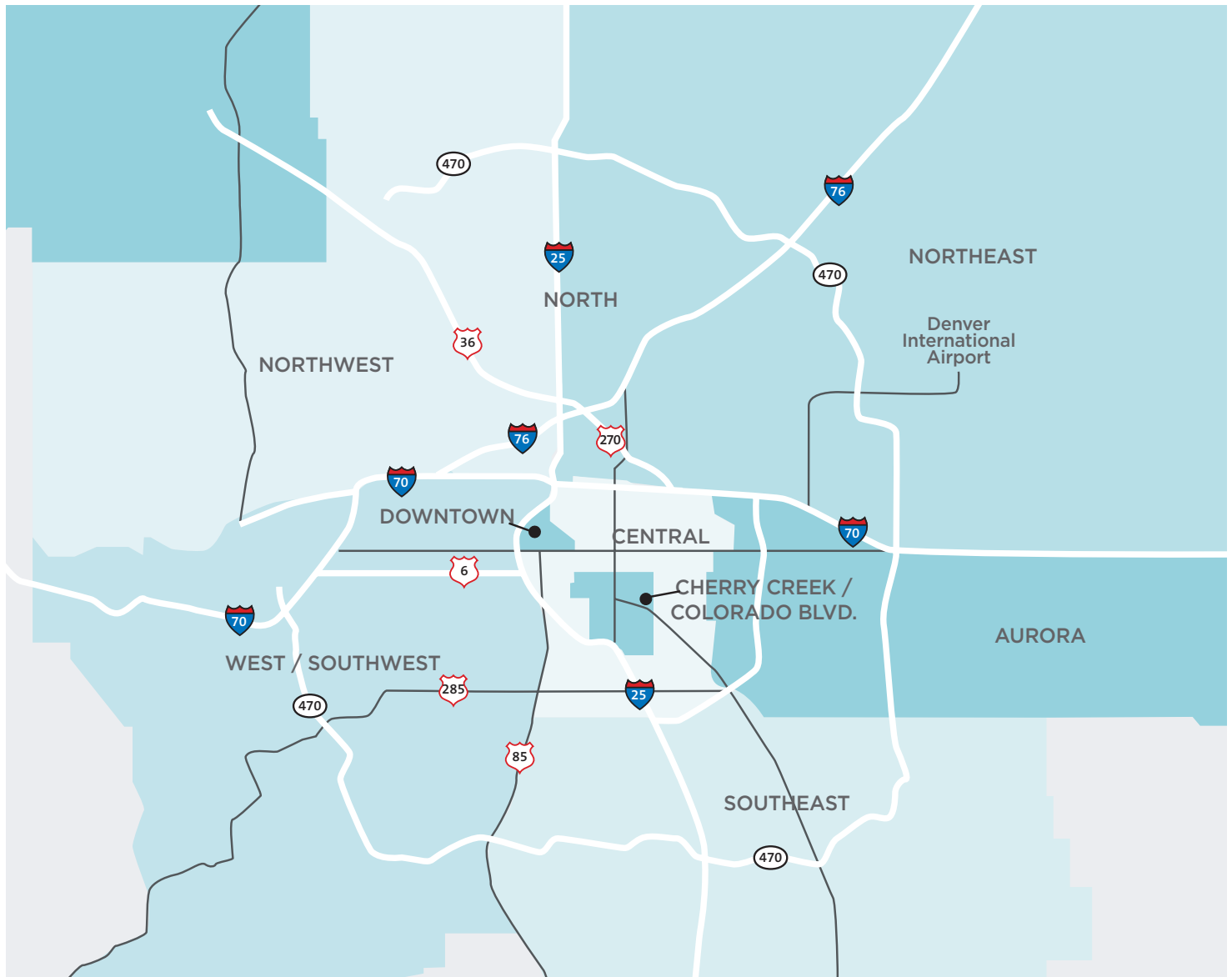
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RETAIL SUBMARKETS

DENVER, COLORADO



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