

MARKETBEAT INDUSTRIAL SNAPSHOT



DENVER, CO

A Cushman & Wakefield Research Publication

Q2 2015



ECONOMIC OVERVIEW

The Denver economy is among the most robust in the country recording a 3.4% increase in GDP over the last 12-month period. Non-farm employment increased 2.3% with the addition of 30,075 jobs. The construction sector had the largest gains over the same time frame increasing employment by 7.0% or 5,000 additions to payrolls. Oil and natural gas prices remained low through mid-year, resulting in the natural resources sector shedding nearly 1,500 positions since year-end 2014.

VACANCY AND RENTAL TRENDS

Continued demand from distribution and construction-related firms translated into large leases and diminished space. As a result, overall vacancy dropped 50 basis points (bps) to end the quarter at 3.7%. The Northeast submarket vacancy reached an historic low of 3.2%, a year-over-year 40-bp decrease. The Northwest submarket vacancy increased 10 bps due to the nearly 1.9 msf added to inventory during the last 12-month period. Year-to-date absorption in the Northwest surpassed the total absorption of 2014 and will likely increase due to the large amount of flex space available in the region.

As oil and natural gas (ONG) prices remained at historic lows, firms pulled back on exploration and decreased payrolls. Hiring slowed in corresponding sectors to the ONG market, such as manufacturing and engineering, though quarter-over-quarter payroll numbers increased.

New and existing firms competed for space as economic production increased in the metro. Market conditions favored landlords, who increased weighted direct net rental rates over the last four quarters by 8.7% to \$7.47 per square foot per year (psf/yr). The Northeast submarket's 17.3% growth in net rental rates over the same time period ended the year at \$5.30 psf/yr. The second largest jump in rents occurred in the Northwest market, increasing 7.1% to \$9.38 psf/yr.

CONSTRUCTION ACTIVITY

Strong demand and growing fundamentals garnered the attention of developers in the metro. In first half of 2015, nearly 1.2 msf of industrial space completed with 56.0% leased. Currently, the pipeline for 2015 has 1.2 msf under construction with several large projects breaking ground in the next quarters, the majority of which will be in the Northeast market. Two new large multi-building projects, Crossroads Commerce Park (642,781 total sf) and Eastpark 70 (354,900 sf) will break ground this late summer and deliver much needed speculative space in spring 2016.

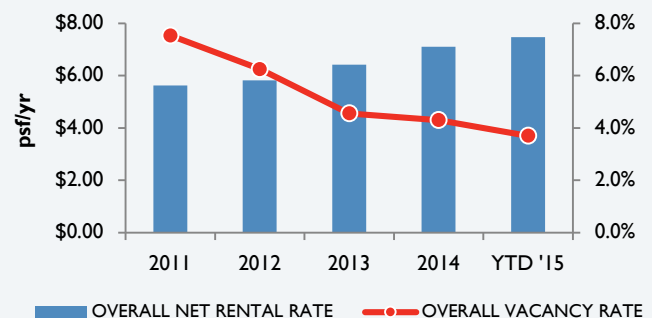
OUTLOOK

Denver metro's building permits increased 5.4% year to date and consumer confidence increased 24.6% over the same time frame, resulting in increased production and inventories by industrial space occupiers to meet the added demand. Continued demand from construction, consumer goods, and manufacturing sectors will quickly absorb vacant space from the ONG sector. The recent slowdown in activity from the cannabis market will be a short-term hiccup, as activity returns in 2016. Nearly 1.05 msf of speculative space will be completed by mid-year 2016, providing quality space for class A tenants. Pre-leasing activity will be a leading indicator to the overall strength of the market. Rental rates will edge higher in key areas along major transportation corridors and vacancy will remain stable as new projects come online with limited availabilities.

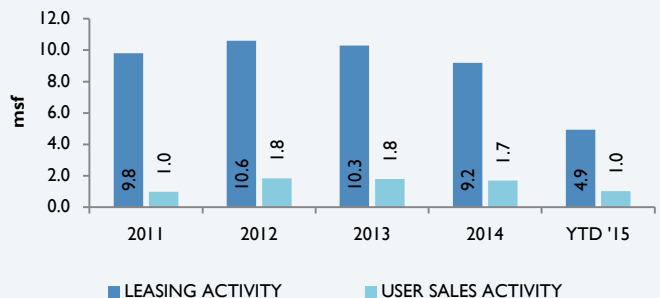
STATS ON THE GO

	Q2 2014	Q2 2015	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	4.2%	3.7%	-50 bps	▼
Direct Asking Rents (psf/yr)	\$6.87	\$7.47	8.7%	▲
YTD Leasing Activity (sf)	4,451,139	4,940,726	11.0%	◀▶

OVERALL RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



DENVER, CO

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	YTD USER SALES ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT NET ABSORPTION	YTD OVERALL NET ABSORPTION	DIRECT WEIGHTED AVERAGE NET RENTAL RATE			
									HT	MF	OS	W/D
Northwest I-25 Corridor	12,481,385	7.5%	813,636	0	0	0	541,448	541,448	N/A	\$8.25	\$7.82	\$6.89
West	15,752,103	1.5%	107,885	0	0	29,015	95,970	91,045	\$8.48	N/A	\$9.78	\$4.56
Northwest Central	7,600,173	2.0%	53,135	0	0	0	(12,585)	(12,585)	N/A	N/A	\$9.39	\$7.02
Broomfield/Boulder	26,078,325	5.5%	631,791	0	0	176,701	307,692	407,730	\$12.95	\$8.14	\$13.00	\$8.47
NORTHWEST	61,911,986	4.4%	1,606,447	0	0	205,716	932,525	1,027,638	\$11.57	\$8.18	\$10.85	\$7.17
Central I-70 Corridor	24,025,019	1.9%	444,156	0	0	0	223,110	223,110	N/A	\$8.52	\$5.93	\$5.53
I-70 East	55,605,336	4.7%	1,625,781	0	1,049,540	861,607	916,766	967,818	N/A	N/A	\$7.72	\$4.83
Northeast I-25 Corridor	6,489,527	1.8%	115,526	0	0	0	76,361	100,861	N/A	N/A	\$8.29	\$7.27
Northeast Central	16,814,598	1.2%	100,010	0	0	0	37,490	37,490	N/A	\$4.45	\$7.19	\$6.92
Brighton	3,907,243	0.3%	70,000	0	70,000	0	0	0	N/A	N/A	N/A	\$5.20
NORTHEAST	106,841,723	3.2%	2,355,473	0	1,119,540	861,607	1,253,727	1,329,279	N/A	\$5.88	\$7.51	\$5.07
Central Business District	21,820,904	2.8%	159,710	0	80,000	0	38,139	38,139	N/A	\$5.00	\$10.15	\$5.89
CENTRAL	21,820,904	2.8%	159,710	0	80,000	0	38,139	38,139	N/A	\$5.00	\$10.15	\$5.89
Southeast Central	5,159,366	6.1%	139,085	0	0	0	43,582	43,582	\$8.75	\$5.33	\$7.97	\$6.05
Southeast Suburban	16,188,992	6.5%	487,508	0	0	124,190	234,056	234,056	\$9.79	N/A	\$10.37	\$8.40
SOUTHEAST	21,348,358	6.4%	626,593	0	0	124,190	277,638	277,638	\$9.25	\$5.33	\$9.89	\$8.05
Southwest Central	12,039,351	1.2%	91,602	0	0	0	(1,632)	(1,632)	N/A	\$6.50	\$7.29	\$7.58
Southwest Englewood	11,654,800	3.6%	43,939	0	0	0	19,165	19,165	N/A	\$5.50	\$9.03	\$4.87
Lakewood	3,459,985	6.6%	56,962	0	0	0	(26,161)	(26,161)	N/A	\$5.46	\$6.24	\$7.24
SOUTHWEST	27,154,136	2.9%	192,503	0	0	0	(8,628)	(8,628)	N/A	\$5.51	\$7.94	\$6.76
TOTALS	239,077,107	3.7%	4,940,726	0	1,199,540	1,191,513	2,493,401	2,664,066	\$10.65	\$7.36	\$9.85	\$5.75

* RENTAL RATES REFLECT ASKING \$PSF/YEAR HT= HIGH TECH MF = MANUFACTURING OS = OFFICE SERVICE W/D = WAREHOUSE/DISTRIBUTION

MARKET HIGHLIGHTS

SIGNIFICANT 2Q 2015 LEASE TRANSACTIONS				
	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
3700 Windsor Drive, Aurora	I-70 East	Fresca Foods	Warehouse/Distribution	158,000
1150 West 120 th Avenue, Westminster	NW I-25 Corridor	Frictionless World	Manufacturing	150,681
10000 East 56 th Avenue, Denver	I-70 East	Animal Pet Supply, Co.	Warehouse/Distribution	130,905
SIGNIFICANT 2Q 2015 SALE TRANSACTIONS				
	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
321 West 84 th Avenue, Thornton	NW I-25 Corridor	Appliance Factory Outlet	\$16,020,000 / \$47.30	338,657
1201 West Mansfield Avenue, Englewood	SW Englewood	Drake Real Estate Services, Inc.	\$9,721,500 / \$47.58	204,336
13050 East Smith Road, Aurora	I-70 East	Plus Investment Company	\$8,825,000 / \$87.38	101,000
SIGNIFICANT 2Q 2015 CONSTRUCTION COMPLETIONS				
	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
10050 East 40 th Avenue, Denver	I-70 East	Priority Wire & Cable	Q2 2015	469,675 / 18.8%
1900 Taylor Ave, Englewood	Broomfield/Boulder	Fenix Outdoor Supply	Q2 2015	136,701 / 100.0%
SIGNIFICANT PROJECTS UNDER CONSTRUCTION				
	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
18250 East 40 th Avenue, Denver	I-70 East	Speculative	Q3 2015	347,840 / 0.0%
19799 East 36 th Avenue, Denver	I-70 East	Speculative	Q1 2016	452,400 / 0.0%
5501 Havana Street, Denver	I-70 East	Speculative	Q1 2016	249,300 / 0.0%

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS