

MARKETBEAT

Denver, Colorado

Retail Q2 2019



DENVER RETAIL

National Economic Indicators

| | Q2 2018 | Q2 2019 | 12-Month Forecast |
|--------------------------|---------|---------|-------------------|
| GDP Growth | 2.9% | 2.6% | ▼ |
| CPI Growth | 2.7% | 1.8% | ▲ |
| Consumer Spending Growth | 4.7% | 4.5% | ▼ |
| Retail Sales Growth | 5.6% | 3.3% | ▼ |

Q2 2019 data are based on latest available data. Growth rates are year-over-year. Forecast by Cushman & Wakefield

Regional Economic Indicators

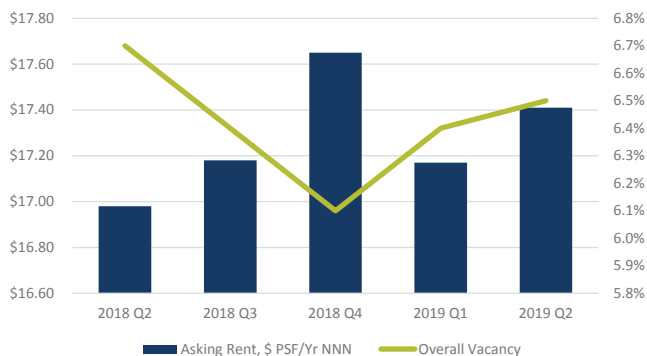
| | Q2 2018 | Q2 2019 | 12-Month Forecast |
|-------------------------|----------|----------|-------------------|
| Household Income | \$79,500 | \$81,900 | ▲ |
| Population Growth (YOY) | 1.4% | 1.4% | ▼ |
| Unemployment | 3.0% | 3.3% | ▼ |

Source: BLS, BOC, Moody's Analytics

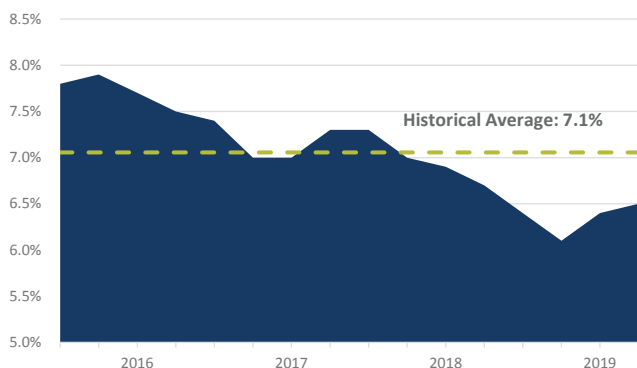
Market Indicators (Overall, All Classes)

| | Q2 2018 | Q2 2019 | 12-Month Forecast |
|---------------------------|---------|---------|-------------------|
| Overall Vacancy | 6.7% | 6.5% | ■ |
| Net Absorption | 185,916 | -31,274 | ▲ |
| Under Construction | 331,544 | 326,608 | ■ |
| Average Asking Rent (NNN) | \$16.98 | \$17.41 | ■ |

Rental Rate vs. Overall Vacancy



Historical Vacancy



Economic Overview

Denver was ranked by US News & World Report as the second-best place to live in the country during the second quarter 2019 and is consistently named among the strongest economies in the nation. The Denver metro added 28,000 new nonfarm jobs during the first half of the year according to the Metro Denver EDC; a strong figure, but a slowdown compared to the 41,000 jobs added during the same period of 2018. Despite slowing job growth, Denver unemployment closed the second quarter 2019 at 3.3%, a figure that continues to outpace the national average of 3.6%.

Considering the several billion dollars invested in major active and pending infrastructure projects, a booming construction pipeline, and investors continuing to trade properties at a rapid pace, the future remains bright for the Denver economy as the premier location in the Rocky Mountain region.

Retail Market Overview

Vacancy in retail product across the Denver metro area remained relatively flat during the second quarter 2019, closing at 6.5% on an overall basis. This figure represented a 10 basis-point (bps) increase from the first quarter 2019, but a 20 bps decrease from the 6.7% recorded one year ago. Overall vacancy has not surpassed 8.0% since the second quarter 2015 and rental rates have approached record highs as a result. Overall rental rates ended the second quarter 2019 at \$17.41 per square foot (psf) on a triple net (NNN) basis. This figure represented a 1.4% increase from the first quarter 2019 and a 2.5% increase year-over-year from when rents closed the second quarter 2018 at \$16.98 psf NNN. Expect rate growth to fluctuate quarterly, but remain mostly flat over the next several quarters as vacancy remains tight and rental rates hover near all-time highs across the market.

The Colorado Boulevard/Cherry Creek submarket continued to demand the highest rental rates of any submarket across the metro area, closing the second quarter 2019 at an average of \$23.68 psf NNN while some spaces in the submarket approach \$60.00 psf NNN. Despite representing the fourth consecutive quarter of rental rate decline and a decrease of 9.5% from the first quarter 2019, this figure still surpasses the next-most expensive submarket, Boulder/Longmont, by \$2.71 psf NNN. High rental rates are largely the result of North Cherry Creek's high foot traffic and fine retailers that cater to the affluent, but have also been driven up by consistently low vacancy, which has not eclipsed 5.1% since 2014. Despite a 10 bps increase during the second quarter 2019, overall vacancy in the submarket remains extremely tight at 3.9% on an overall basis. This low vacancy is even more noteworthy considering the Colorado Boulevard/Cherry Creek submarket is a fraction of most other submarkets in terms of retail square footage. With minimal product under construction in the area, expect overall vacancy to remain low and rental rates to rise once again as demand continues to outpace supply within the Colorado Boulevard/Cherry Creek submarket.

Leasing activity in retail product across the metro area continued to be slow as the second quarter 2019 recorded just

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shy of 516,100 square feet (sf) of activity. The 992,200 sf leased so far this year is the lowest figure through the first two quarters of a year since 2010. The largest lease of the quarter was Vasa Fitness' 56,000-sf lease at 15200 E Colfax Avenue as they continue to expand their presence in the Denver area. The second largest lease of the quarter was another fitness user, Aspire Fitness, as they leased 37,900 sf at 7150 Leetsdale Drive. Another notable lease for the quarter was Empower High School's 28,300-sf space at City Center Marketplace. Overall net absorption has been similarly slow as the second quarter recorded -31,300 sf. This brought the total for the first two quarters of 2019 to -197,300 sf, the lowest figure through the first two quarters of a year on record.

The largest sale of the second quarter 2019 in terms of price was Happy Canyon Shopping Center in Denver. GDA Real Estate Services sold the 95%-leased 99,100-sf center to Bellray Holdings for \$24.2M. Another notable sale, and the largest of the quarter in terms of square feet was Centennial Shopping Center at 5050-5070 Federal Boulevard. Cobblestone Investors sold this 113,600-sf, 93%-leased center to Brixmor Property Group for \$17.9M. Arvada Connection rounded out the top sales for the second quarter 2019. The 57,700-sf center changed hands between Walton Street Capital and Armstrong Capital Development for \$17.5M and was 95% leased at the time of sale. Also worth noting was the sale of the Safeway at 560 Corona Street, which Albertson's sold to Fortress Investment Group for \$13.4M as part of a large

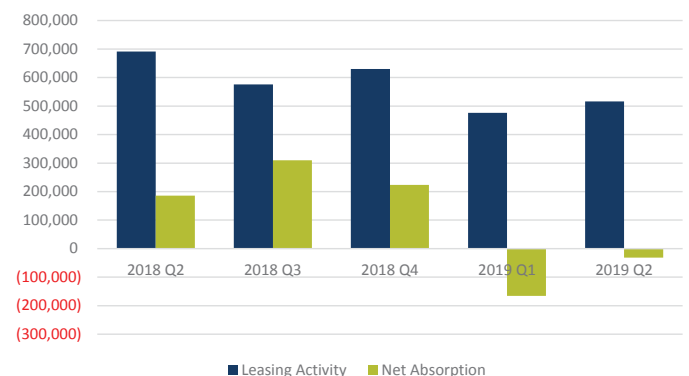
sale-leaseback portfolio that included locations across the country.

Eleven projects delivered just over 106,300 sf of new retail space to the Denver metro area during the second quarter 2019. The largest of these projects was Pine Bluffs Plaza which delivered 38,300 sf across four buildings that were collectively 65.1% preleased upon delivery. The largest single building to deliver during the second quarter 2019 was a new 22,000-sf Planet Fitness at The Belleview Connection in Englewood. Another notable delivery was the 11,100-sf Prestige Preschool Academy at the Shops at Beeler Park. More than 326,600 sf of retail product remains under construction across the Denver metro area. The largest of these projects is The Point at Nine Mile Station which will deliver 21,800 sf of shop space in addition to a 78,500-sf King Soopers and is expected during the third quarter 2019. Another noteworthy project is the Citadel on Colfax which will deliver 57,900 sf of retail to the SEC of Sable Blvd and E Colfax Ave by the end of 2019. This is a large project and will also include over 200 multifamily units and a 68,200-sf hotel. Nearly 40,600 sf remains under construction at the Vista Highlands in Broomfield which is expected to deliver during the third quarter 2019. Rounding out the largest projects currently under construction is the remainder of the aforementioned Shops at Beeler Park as the remaining 38,500 sf is expected to deliver by the end of the second quarter 2020.

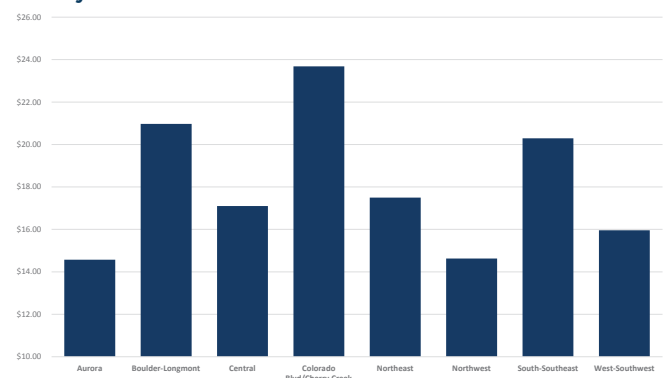
Outlook

- Rental rates will remain high, but expect flatter growth compared to that seen over the past several years as they have reached record highs.
- eCommerce continues to disrupt the retail landscape as companies will need to implement innovative strategies to compete with online retailers. Expect companies to increasingly incorporate technology for efficiency, increasingly focused ads, and an overall more streamlined and enjoyable customer experience.
- Experiential retail is the future as stores need to create a reason for shoppers to come in as opposed to doing all their shopping online. Expect bankruptcies and store closings to remain in the headlines for the foreseeable future until only those that have embraced an online presence or innovative in-store experience remain.
- Many malls, mostly Class C product, will continue to fail and face redevelopment or repurposing over the next several years. Retailers will need to establish a niche, be it product, experience, or value, in order to continue to grow.

Leasing Activity and Absorption



Rents by Submarket



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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 | 283 | 6,204,652 | 0 | 441,282 | 7.1% | (30,328) | (44,318) | 158,164 | \$14.57 |
| Boulder/Longmont | 344 | 7,677,913 | 61,693 | 537,570 | 7.8% | (33,761) | (27,384) | 7,500 | \$20.97 |
| Central | 345 | 6,401,767 | 1,680 | 273,126 | 4.3% | 3,246 | (68,087) | 0 | \$17.10 |
| Colorado Blvd/Cherry Creek | 78 | 1,880,511 | 1,666 | 70,968 | 3.9% | (457) | 6,877 | 0 | \$23.68 |
| Downtown | 8 | 246,409 | 0 | 630 | 0.3% | (630) | (630) | 0 | - |
| Northeast | 276 | 5,630,625 | 1,981 | 425,891 | 7.6% | 37,534 | 61,596 | 103,666 | \$17.50 |
| Northwest | 547 | 11,365,180 | 0 | 745,044 | 6.6% | (3,061) | (62,613) | 47,693 | \$14.63 |
| South/Southeast | 734 | 15,576,096 | 158,175 | 956,036 | 7.2% | (30,755) | (35,252) | 9,585 | \$20.29 |
| West/Southwest | 638 | 13,021,777 | 3,400 | 774,156 | 6.0% | 26,938 | (27,448) | 0 | \$15.96 |
| DENVER TOTALS | 3,253 | 68,004,930 | 228,595 | 4,224,703 | 6.5% | (31,274) | (197,259) | 326,608 | \$17.41 |

*Rental rates reflect NNN asking \$psf/year

Under Construction Q2 2019

| PROJECT | SF | OWNER | ESTIMATED COMPLETION | SUBMARKET |
|----------------------------------|---------|-------------------------------|----------------------|-----------|
| The Point at Nine Mile Station | 100,300 | Koelbel & Company | Q3 2019 | Aurora |
| The Citadel on Colfax | 57,900 | Northstar Commercial Partners | Q3/Q4 2019 | Aurora |
| Vista Highlands | 40,600 | Eisenberg Company | Q3 2019 | Northwest |
| Shops at Beeler Park (Bldgs C-G) | 38,500 | Evergreen Development Company | Q1/Q2 2019 | Northeast |
| Brighton Commons | 16,200 | Lonestar Development Partners | Q1 2020 | Northeast |

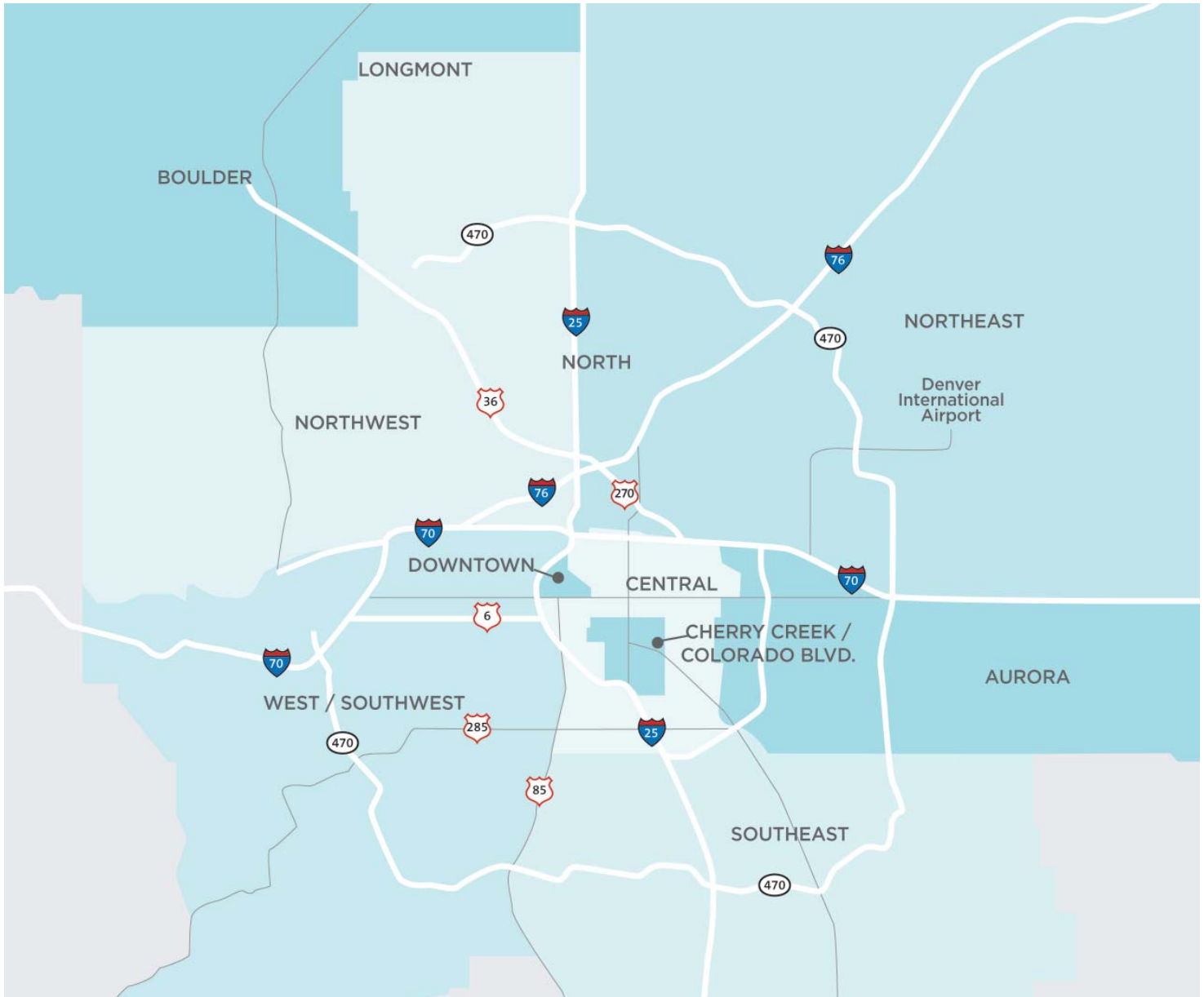
Key Lease Transactions Q2 2019

| PROPERTY | SF | TENANT | TRANSACTION TYPE | SUBMARKET |
|-------------------------------|--------|---------------------|------------------|-----------------|
| 15200 East Colfax Avenue | 56,000 | Vasa Fitness | Direct | Aurora |
| 7150 Leedsdale Drive | 37,900 | Aspire Fitness | Direct | Central |
| 406-482 South Chambers Road | 28,300 | Empower High School | Direct | Aurora |
| 12455 East Mississippi Avenue | 20,000 | Undisclosed | Direct | Aurora |
| 6840 South Kenton Street | 14,300 | City Bank | Direct | South/Southeast |

Key Sale Transactions Q2 2019

| PROPERTY | SF | SELLER/BUYER | PRICE | SUBMARKET |
|------------------------------|---------|---|--------------|----------------------|
| Centennial Shopping Center | 113,600 | Cobblestone Investors/Brixmor Property Group | \$17,900,000 | West/Southwest |
| Happy Canyon Shopping Center | 99,100 | GDA Real Estate Services/Bellray Holdings | \$24,200,000 | Central |
| Arvada Connection | 57,700 | Walton Street Capital/ Armstrong Capital Development | \$17,500,000 | Northwest |
| 560 Corona Street | 49,300 | Albertsons Companies/Fortress Investment Group | \$13,368,900 | Central |
| St. Vrain Centre | 45,800 | Macy Development Co/The Kroenke Group | \$12,250,000 | Boulder/ Longmont |

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