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DENVER RETAIL INSIGHTS

The Mile High Shopping Experience

CBRE RESEARCH

JUNE 2016

EXECUTIVE SUMMARY

Denver's retail market is riding the demographic and economic wave, which is creating an opportunistic environment for all retail stakeholders.

With the strong performance of Denver's retail market, landlords and investors are intent on better understanding and capturing trade area demand as well as harnessing market-wide trends. At the same time, retailers are eager to embrace new opportunities and identify optimal real estate solutions that align with the region's expanding consumer base.

This report provides insight into Denver's retail landscape, the Denver consumer base and the latest trends taking over the market. Key findings include:

Top Market for Demographic & Economic Growth

- Denver's 9.6% population growth since 2010 – 2.5 times the national rate of growth
- Denver's above-average rate of job growth resulting in the addition of nearly 160,000 new jobs in three years
- Expanding median household income – increasing 15.6% since 2010 to $68,274

Retail Real Estate Perspective

- Second-highest absorption levels compared to peer markets
- 140% increase in retail investment sale price per sq. ft. since 2012 for the sharpest gain among peer markets
- Record investment activity volume as of Q1 2016 on a four-quarter rolling basis to $1.9 billion

Denver Retail Trade Areas Overview

Widely recognized as Denver's luxury retail scene, Cherry Creek achieves the highest rents in the region. As of Q1 2016, asking lease rates in Cherry Creek averaged $36.20 per sq. ft. NNN but can reach as high as $70 per sq. ft - compared to $50 per sq. ft. in downtown Denver and $35 per sq. ft. in Park Meadows on the high end. The strength in market fundamentals is driven by demand for premium space and supported by increasingly dense mixed-use development. With a full development pipeline focused on bringing luxury to consumers and residents, Cherry Creek will continue to be Denver's "high street."

Trend Spotlight: The Marketplace Concept

The marketplace concept is reviving consumers and retailers alike in urban infill locations. The formerly underutilized industrial buildings are now vibrant and often catalytic developments that stimulate more commercial development.

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INTRODUCTION

The retail market's recovery in Denver has lagged other commercial sectors recently ... that is up until now. Unprecedented job gains combined with game-changing population growth have aligned for several years of fundamental strengthening, innovative retail solutions, an emphasis on placemaking and ground-breaking new projects. Partly due to minimal new supply, well-located premium retail space is in high demand both in the urban core and in suburban markets.

As tenants and landlords strive to adapt to the ever-changing needs of the consumer base, this report provides insight into Denver's retail landscape, the Denver consumer base and the latest trends taking over the market.

TOP MARKET FOR DEMOGRAPHIC & ECONOMIC GROWTH

Growing Consumer Base

Denver's population has grown 9.6% since 2010 compared to 3.9% national growth. This explosive growth pushed the Denver market (including Boulder) past the 3.0 million mark and into the top 20 for both metropolitan areas and cities (Denver). Denver ranks 12th for the largest population gain over the 2010-2015 period with a 271,000-person increase. Among the fast-growing southwest markets, Denver ranks third for population growth (2010-2015).

Figure 1: Denver is a Top Market for Demographic Growth

	Population				Median Household Income			
U.S. Markets	2015 Population (millions)	2010-2015 % Change	Avg. Annual % Change	2010-2015 Change	Median HH Income (Q4 2014)	Rank (Q4 2014)	Growth (2010 to 2014)	Growth Rank (2010 to 2014)*
Denver	**3.1**	**9.6%**	**1.9%**	**272,900**	**$68,274**	**14**	**15.6%**	**3**
Austin	2.0	16.0%	3.2%	275,700	$64,639	16	14.7%	5
Chicago	7.4	1.2%	0.2%	85,900	$61,873	19	7.8%	29
Dallas	4.7	10.7%	2.1%	456,100	$60,945	22	7.6%	30
Phoenix	4.6	8.3%	1.7%	349,900	$53,944	35	6.5%	37
Los Angeles	10.2	3.6%	0.7%	357,800	$56,402	32	5.2%	44
Salt Lake City	1.2	7.0%	1.4%	76,200	$63,559	n/a	11.3%	n/a
U.S.	320.2	3.9%	0.8%	12,110,000	$54,562	n/a	8.9%	n/a

Source: Moody's Analytics, 2016.
Note: Rank given among the 50 largest markets. *Table sorted in descending order of median household income growth.

Lifestyle and job opportunities are the primary drivers behind impressive net migration. Capital investments such as the nearly complete metro-wide light and commuter rail project have also strengthened the region's competitive position and added in attracting households.

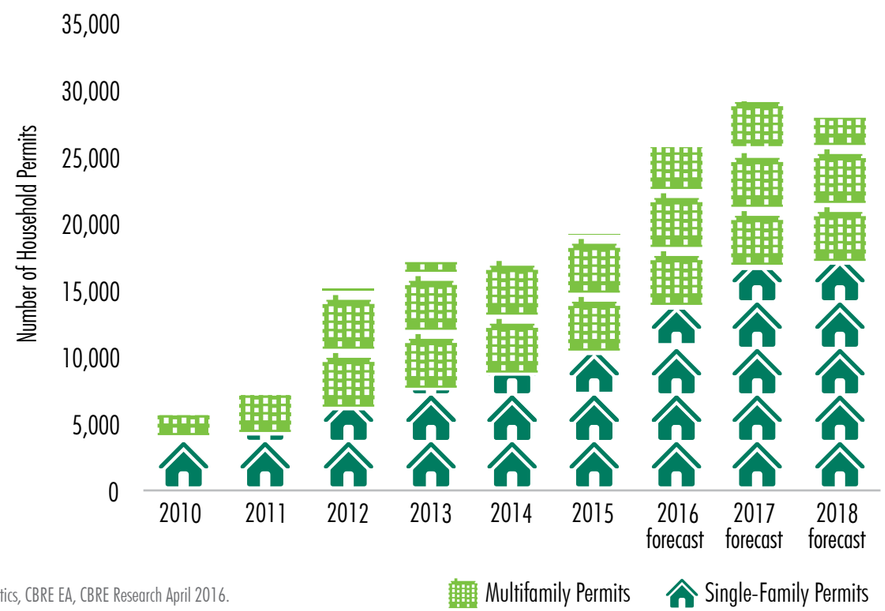
Millennials and baby boomers have fueled record net migration to Denver in the current economic cycle. According to the Brookings Institute, Denver ranked second for net migration of millennials and fifth for net migration of baby boomers among the nation's largest metropolitan regions[1]. The top five states for net migration into Colorado since 2012 are California, New York, Illinois, Texas, and New Mexico.

The Denver consumer base between ages 18 and 34 years represents 23% of the metro area population compared to baby boomers aged 55 to 74 years that account for 20% of the total.

[1] William H Frey analysis of American Community Survey 3 Year Data (2007-2009, 2010-2012).

Homebuilders and apartment developers are striving to meet the needs of the growing population. Even so, demand has exceeded supply, and the cost of both rental apartments and single-family homes has risen significantly in recent years.

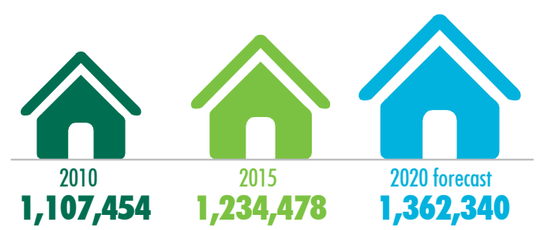
Figure 2: Denver Residential Supply Surging to Meet Population Growth



Source: Moody's Analytics, CBRE EA, CBRE Research April 2016.

The wealth effect from rising home prices may be encouraging Denver consumers to shop. Existing single-family home prices have increased 44% in five years[2]. Low inventory levels of for-sale product on the market in combination with modest new development activity will continue to push sale prices and home values. On the other hand, lease-up of the 26,000 apartment units delivered in the past five years has directly supported household goods retailers. Denver's housing market recovery is widespread, but the recovery is pronounced in urban areas – including *urban suburban* areas.

Figure 3: Denver Households on the Rise



Source: Colorado Department of Local Affairs, May 2016.

[2] Colorado Comps LLC, Denver Metro Association of Realtors, REColorado, February 2016.

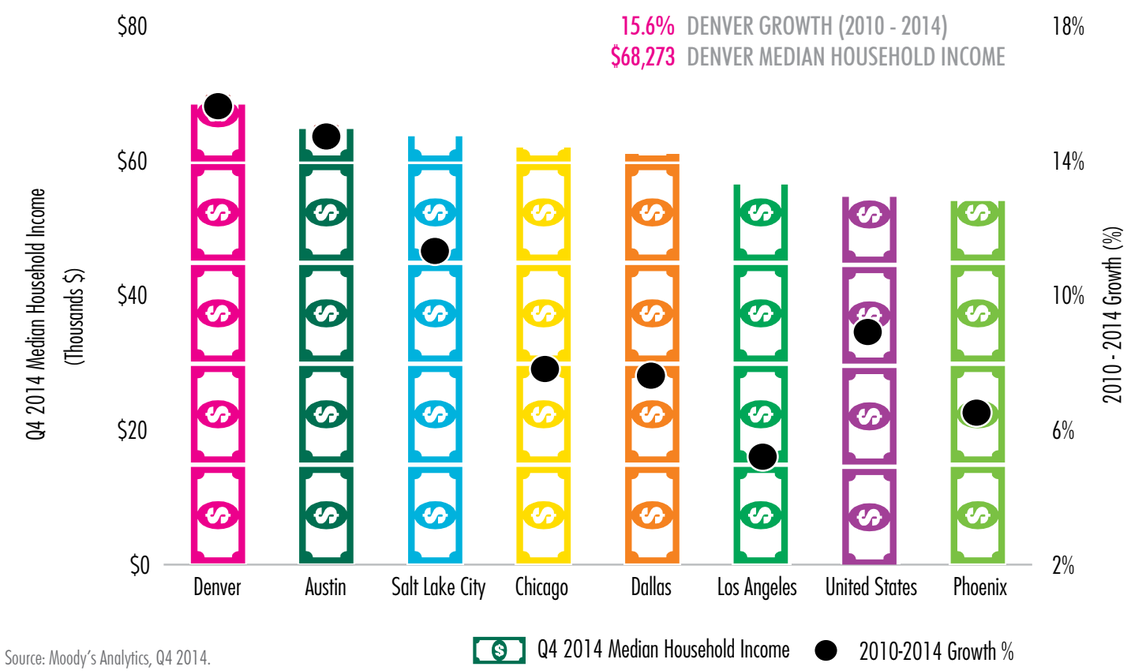
Notable Employment & Income Gains

The Denver market added more than 222,500 jobs since the recession ended for an annual average gain of 44,500 jobs. Underscoring the region's economic prowess, more than 50,000 jobs have been added each year since 2013, which well exceeds the historic average. In fact, the only other consecutive period that job growth exceeded 50,000 was 1999-2000. Denver's rate of job growth has also exceeded the U.S. every year since the most recent recession – posting 3.5% gain in 2015. Unemployment in Denver continues to hover around 3.0% - well-below the U.S.'s 5.1% unemployment.

Job growth supports overall retail sales activity in the region, but there is a more direct connection to the retail sector. According to the University of Colorado, one of every 10 jobs in Colorado occur in the retail sector. Further, healthcare, professional and business services, technology, financial activities, leisure and hospitality and construction are some of the fastest-growing industries for new jobs.

Job growth boosted household income levels and retail activity in recent years – particularly high-paying energy, technology and healthcare jobs. The median household income in Denver increased 15.6% to $68,274 since 2010 or 3.9% annually on average, which is the third-fastest rate of increase among the 50 largest markets (San Francisco and San Jose reported sharper increases). As of Q4 2014, Denver has the 14th-highest median household income. According to projections from Moody's Analytics, median household income will exceed $72,000 by year end 2016. Luxury retail in Denver has historically been limited but higher-end retailers are taking note of Denver's income growth and seeking out premium locations such as Cherry Creek.

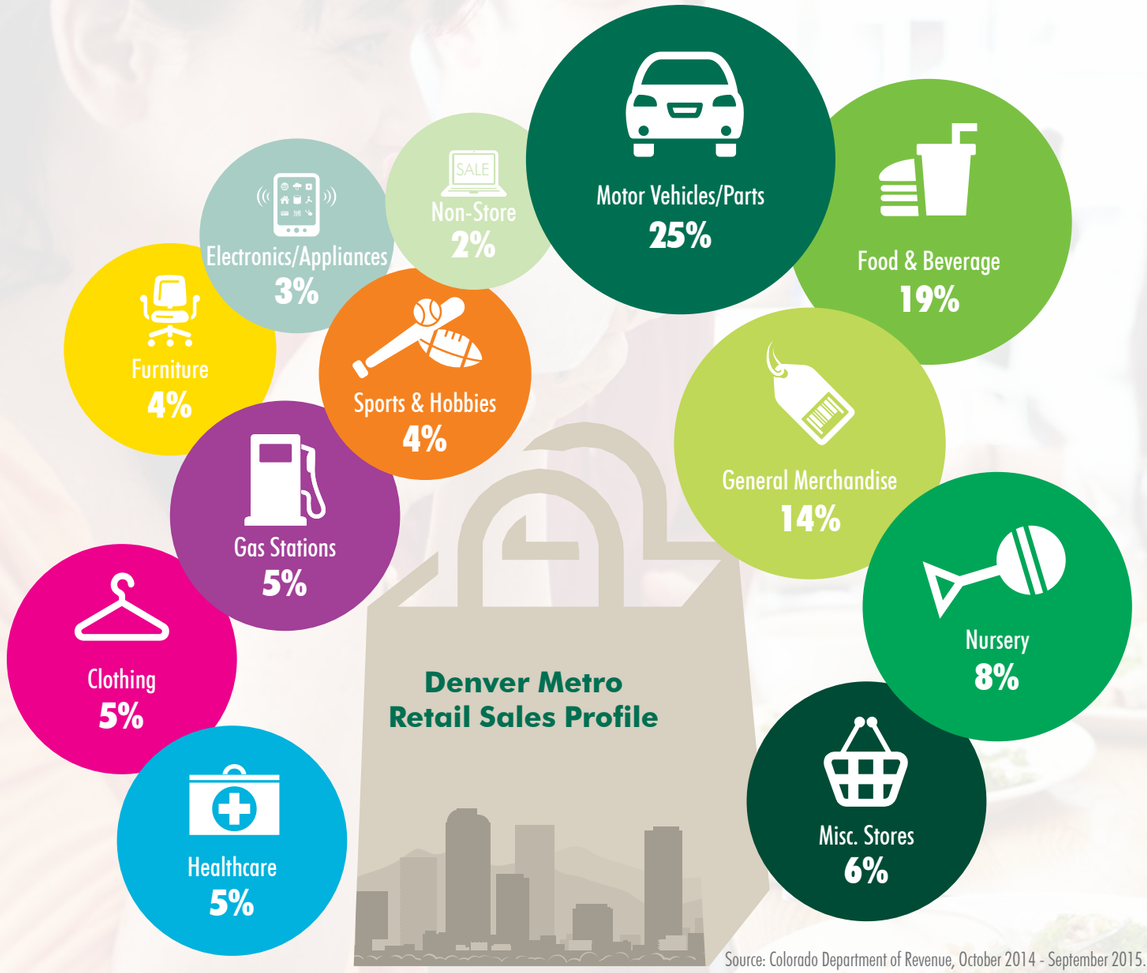
Figure 4: Median Household Income Growth Across Peer Markets



Source: Moody's Analytics, Q4 2014.

Retail sales activity in Denver has posted year-over-year gains since 2010. Total retail trade surpassed $32.7 billion over the 12-month period October 2014-September 2015. Motor vehicles, food and beverage and general merchandise are the dominating segments – accounting for over half of total volume[3]. The food and beverage category is seeing strong growth specifically within the fast casual/QSR restaurant segment.

Figure 5: Denver Metro Retail Sales Profile (October 2014 - September 2015)



Source: Colorado Department of Revenue, October 2014 - September 2015.

[3]Colorado Department of Revenue, September 2015.

MEET THE DENVER CONSUMER

HIGHLY EDUCATED

Denver ranks
4th in the nation for higher education attainment
with 42.1% of the population having obtained
a bachelor's degree or higher

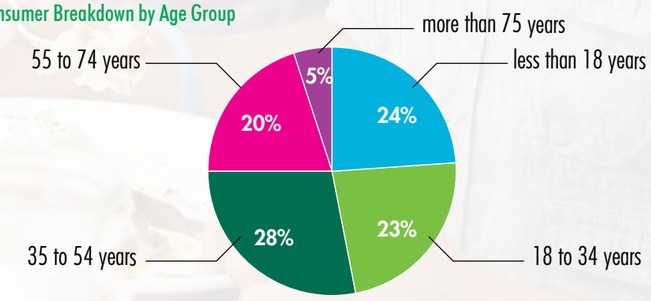
AFFLUENT

Denver's median household income of $68,274
exceeds the national median household income
of $54,562 (Q4 2014)[2]

YOUNG

The average age in Denver
is 36.1 years
compared to 37.7 nationally
(U.S., 2014)

Consumer Breakdown by Age Group



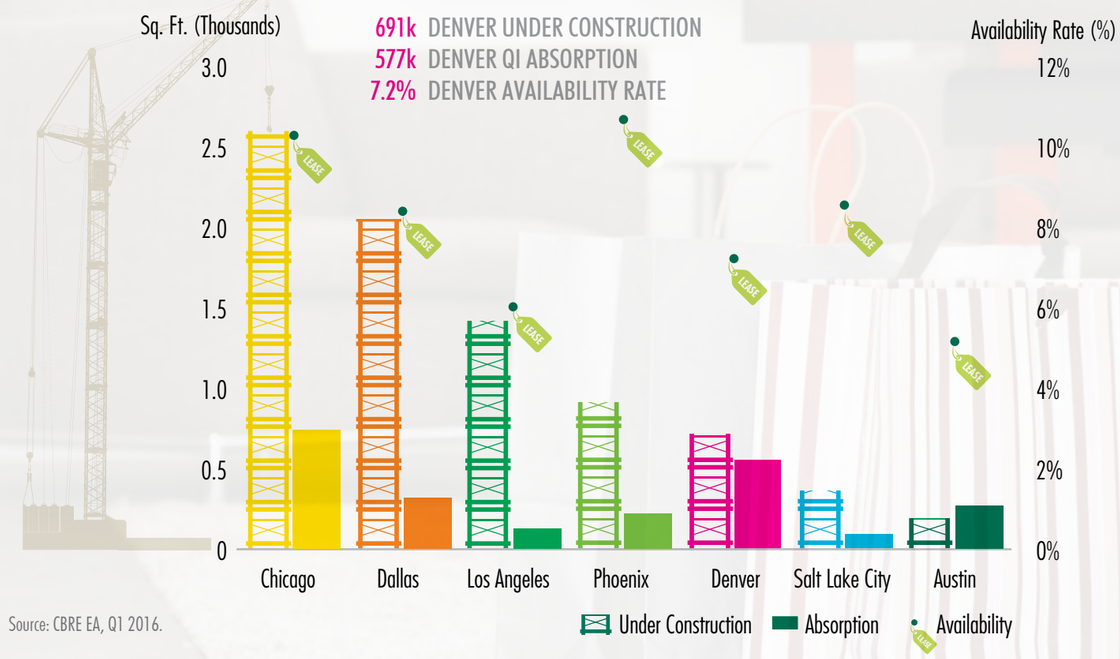
Source: Nielsen, U.S. Census Bureau, American Community Survey, 2016.

RETAIL REAL ESTATE PERSPECTIVE

Denver's slower-to-recover retail market compared to other commercial property sectors is now improving at a fast clip. Average asking lease rates are increasing broadly across the Denver market while vacancy steadily declines. The convergence of a growing consumer base and moderate new supply is central to the sector's fundamental improvement during recent quarters. E-commerce is a headwind to demand for brick-and-mortar space but not yet strong enough to stymie fundamental improvement.

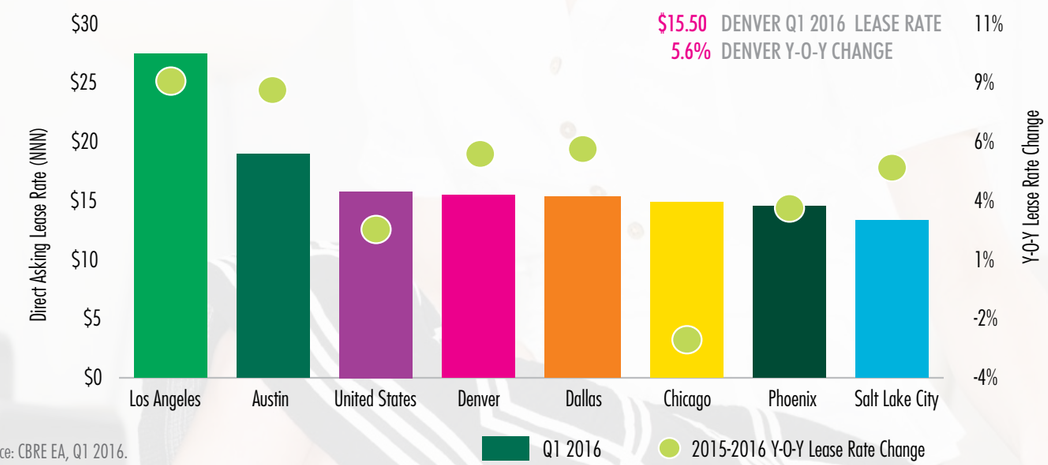
The Denver retail market is well-balanced considering new supply and demand amongst peer markets. As of Q1 2016, Denver ranks fifth among peer markets in construction activity by sq. ft.—ahead of only Salt Lake City and Austin—although construction activity is increasing. Denver ranks second in Q1 2016 net absorption by sq. ft.—trailing only Chicago. As a result, Denver has the third-lowest availability rate compared to its peers and a moderate overall average direct asking lease rate.

Figure 6: Denver's Well-Balanced Fundamentals



Source: CBRE EA, Q1 2016.

Figure 7: Retail Lease Rates



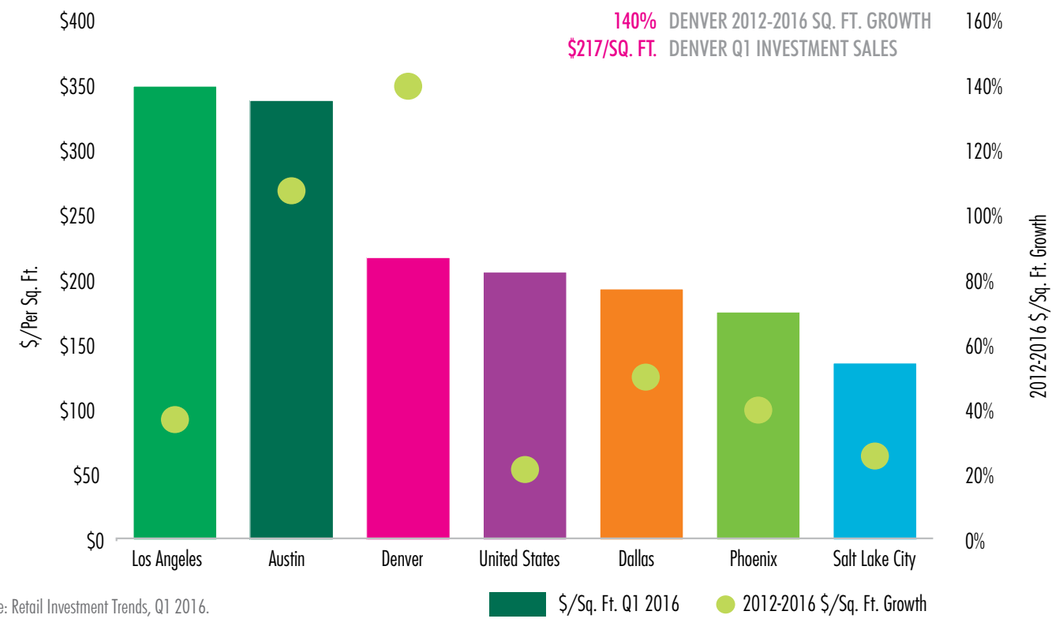
Source: CBRE EA, Q1 2016.

Figure 8: Select Denver Construction Projects

Project	City	Size (Sq. Ft.)	Project Type	Est. Completion Year
King Soopers	Denver	58,000	Neighborhood Center	2016
Gander Mountain	Parker	57,600	Freestanding	2016
Colorado Center	Denver	50,000	Community Center	2016
2800 Walnut St	Denver	48,123	Mixed Use	2016
King Soopers	Erie	88,968	Neighborhood Center	2017
Z Block/Dairy Block	Denver	39,167	Mixed Use	2017
Pivot Denver Retail	Denver	68,000	Mixed Use	2018

Source: CBRE Research, Q1 2016.

Figure 9: Retail Investment Trends



Source: Retail Investment Trends, Q1 2016.

Strong retail market fundamentals have attracted local and national investors to the market. Denver experienced the sharpest increase in investment sale price per sq. ft. from 2012 to today amongst peer markets—increasing 140% to $217 per sq. ft. On a rolling four-quarter basis, Denver hit record volume of $1.9 billion in retail investment activity as of Q1 2016.

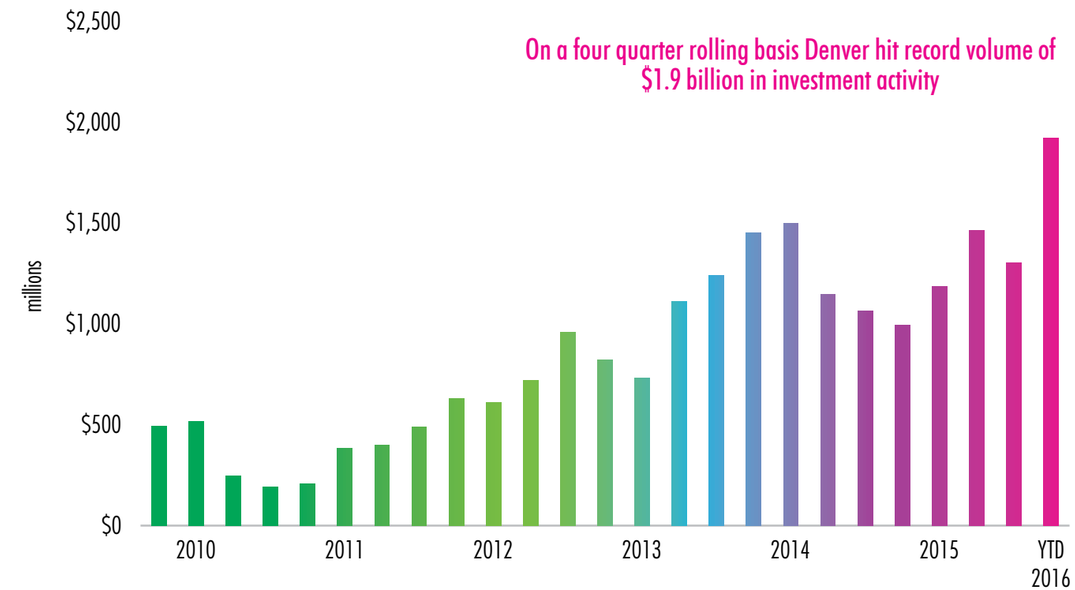
Notable retail transactions over the past four quarters include:

Figure 10: Significant Investments Last Four Quarters

Property Name	Property City	Sale Date	Sale Price (millions)
Flatiron Crossing*	Broomfield	Jan-16	$331.1
Belmar Center	Lakewood	Sep-15	$253.5
Clayton Lane	Denver	Jan-16	$169.6
Denver Pavilions*	Denver	Jul-15	$132.0
Arvada Marketplace	Arvada	Aug-15	$54.9
Fairfield Commons	Denver	Feb-16	$34.3
Cherry Creek Square	Denver	Oct-15	$22.0
Boulevard Center II	Denver	Jan-16	$19.7
29th Street Mall*	Boulder	Jan-16	$19.3

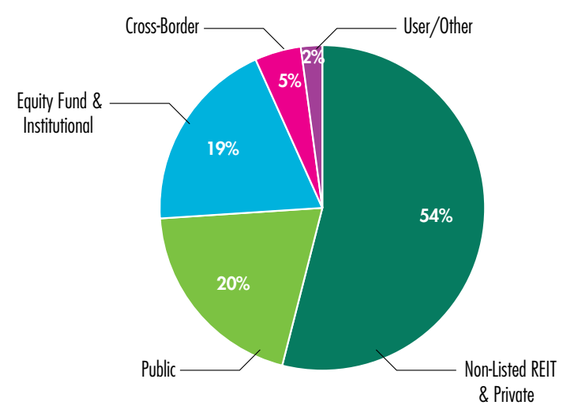
Note: *Recapitalization.
Source: CBRE Research Real Capital Analytics, Q1 2016.

Figure 11: Investment Sales Rolling Four Quarter Volume



Source: Real Capital Analytics, Q1 2016.

Figure 12: Investment Sales Rolling Four Quarter Volume



Source: Real Capital Analytics, Q1 2016.

Top Buyers (prior 24 months)				
Rank	Buyer	Location	Acq $ (mil)	# Props
1	Heitman	Chicago, IL	380.8	2
2	Starwood Capital Group	Greenwich, CT	209.9	1
4	Invesco RE/ OliverMcMillan	Atlanta, GA	169.6	1
3	InvenTrust	Oak Brook, IL	161.6	3
5	DDR/Blackstone	San Diego, CA	137.8	2

Top Sellers (prior 24 months)				
Rank	Buyer	Location	Disp $ (mil)	# Props
1	Macerich	Santa Monica, CA	380.8	2
2	Continuum Partners/ Southern Ute Indian Tribe	Denver, CO	209.9	1
3	AmCap Inc./ Hart Realty Advisors	Stamford, CT	169.6	1
4	VEREIT	Phoenix, AZ	150.8	3
5	Gart Properties	Denver, CO	138.8	3

Source: Real Capital Analytics, Q1 2016.

DENVER RETAIL TRADE AREAS OVERVIEW

Cherry Creek - Denver's High Street

Cherry Creek embodies luxury retail and embraces both mixed-use and density. With a 26.1% increase in average asking lease rate per sq. ft. since 2010 and tight vacancy rate of 1.6%, Cherry Creek is one of the fastest growing and most successful retail destinations in Denver and home to the region's highest retail rents. New and significant office, hotel and multifamily developments have transformed the area over the past decade yet it remains walkable and pedestrian friendly. Cherry Creek draws consumers from across the region and is the primary retail destination for luxury shoppers.

Figure 14: Cherry Creek Development Activity

Development Type:	Office Sq. Ft.	Retail Sq. Ft. (Market Size: 2.3M sq. ft.)	Hotel Rooms	Multifamily Units
Recently Completed (2015 - Present):	230,000	189,000	196	803
Under Construction:	-	10,800	520	468
Planned/Proposed:	198,000	68,000	-	701

Source: CBRE Research, Q1 2016.

Figure 15: Cherry Creek Rent

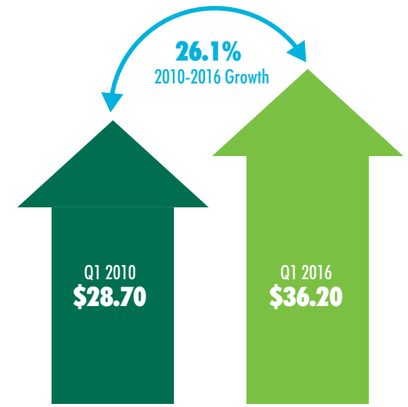


Figure 16: Cherry Creek Vacancy

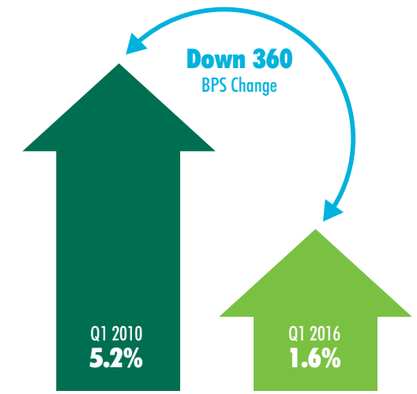


Figure 17: Cherry Creek Rent Growth by Property Type

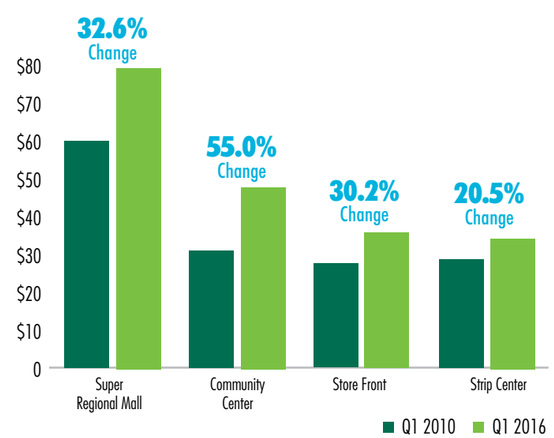
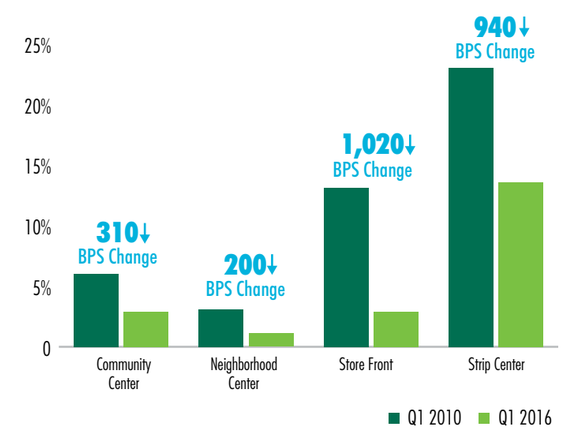


Figure 18: Cherry Creek Vacancy by Property Type



Note: Lease rates are expressed as triple net.
Source: CBRE Research, Q1 2016.

Park Meadows – Destination Suburban Retail

Park Meadows is an expansive retail destination serving the south portion of the Denver market as well as patrons from outside the metro ring in Castle Rock or as far away as Colorado Springs. Park Meadows complements the high-income communities surrounding the southeast office market centered on the Denver Tech Center. The trade area is light-rail served and nestled among business parks and residential neighborhoods. A diverse mixture are present within the trade area, although furniture stores are prevalent. While development activity has been modest in recent years, 586,500 sq. ft. of Class A office space and 300 multifamily units are planned for the future.

Figure 19: Park Meadows Development Activity

Development Type:	Office Sq. Ft.	Retail Sq. Ft. (Market Size: 4.9M sq. ft.)	Hotel Rooms	Multifamily Units
Recently Completed (2015 - Present):	-	5,000	-	-
Under Construction:	-	-	-	267
Planned/Proposed:	586,505	88,400	-	300

Source: CBRE Research, Q1 2016.

Figure 20: Park Meadows Rent

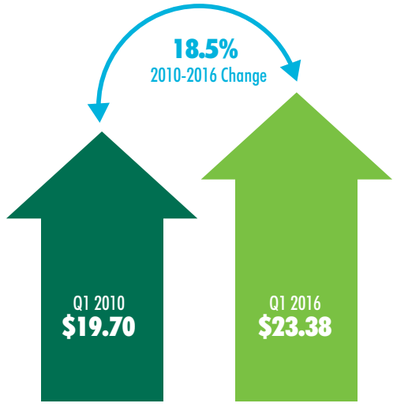


Figure 21: Park Meadows Vacancy

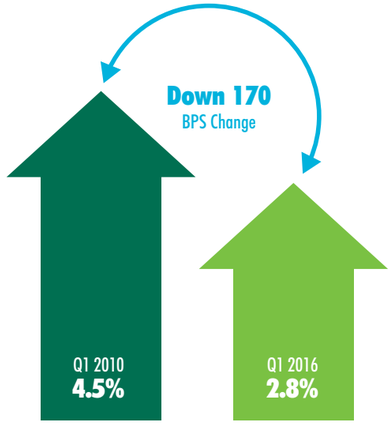
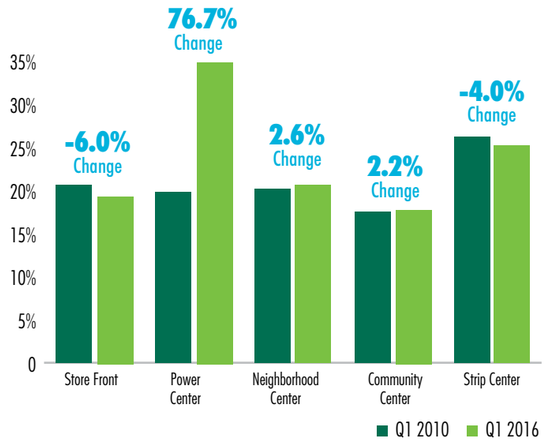
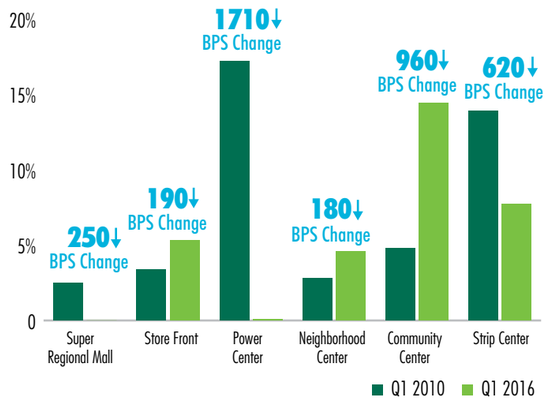


Figure 22: Park Meadows Growth by Property Type



Note: Lease rates are expressed as triple net.
Source: CBRE Research, Q1 2016.

Figure 23: Park Meadows Vacancy by Property Type



Downtown Denver – The Urban Frontier

Downtown Denver is at the forefront of the urban resurgence evidenced by game-changing new development and a multi-model transit center. Thousands of residential units and new retail—particularly grocery and food stores—have evolved downtown into a balanced live-work-play (and shop!) environment. In fact, the downtown residential population has nearly tripled since 2000 to nearly 76,000 people[4]. From the 16th Street Mall and Denver Pavilions to Larimer Square, the trade area has seen 11.1% growth in average asking retail lease rates in five years. Restaurants are a mainstay in the tourism-rich market and household goods retailers are increasingly opening their doors.

Figure 24: Downtown Denver Development Activity

Development Type:	Office Sq. Ft.	Retail Sq. Ft. (Market Size: 2.5M sq. ft.)	Hotel Rooms	Multifamily Units
Recently Completed (2015 - Present):	511,299	76,848	0	962
Under Construction:	1,319,523	128,738	1,055	1,051
Planned/Proposed:	1,220,271	124,754	411	940

Source: CBRE Research, Q1 2016.

[4] "State of Downtown Denver 2016," Downtown Denver Partnership, Inc.

Figure 25: Downtown Denver Rent

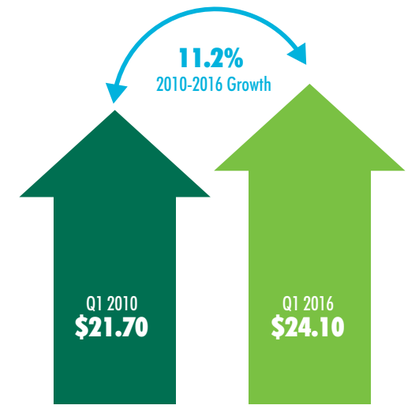


Figure 26: Downtown Denver Vacancy

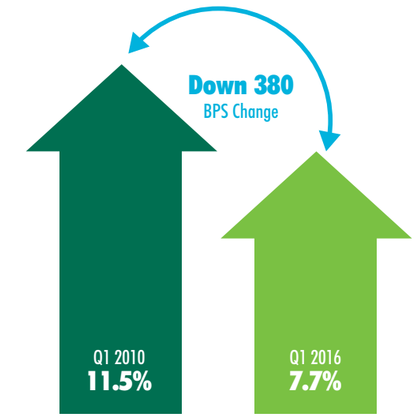


Figure 27: Downtown Denver Rent Growth by Property Type

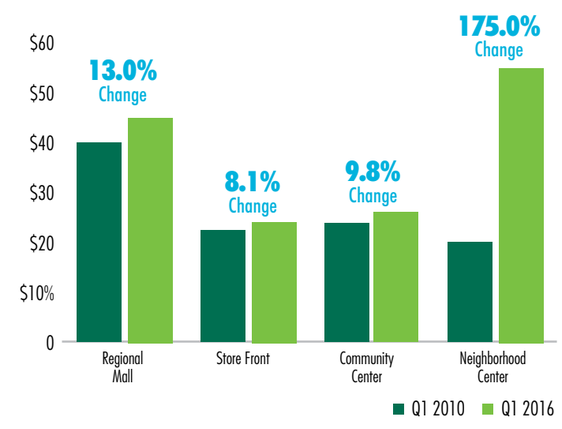
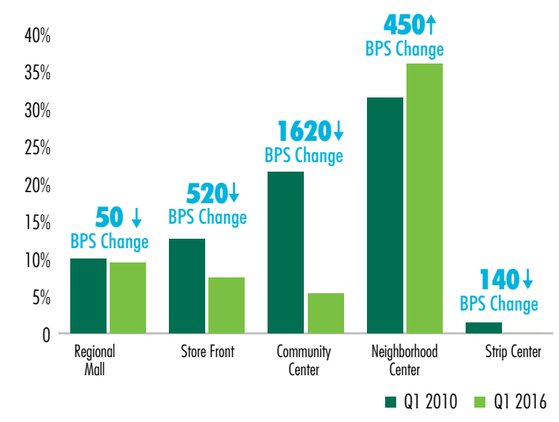


Figure 28: Downtown Denver Vacancy by Property Type

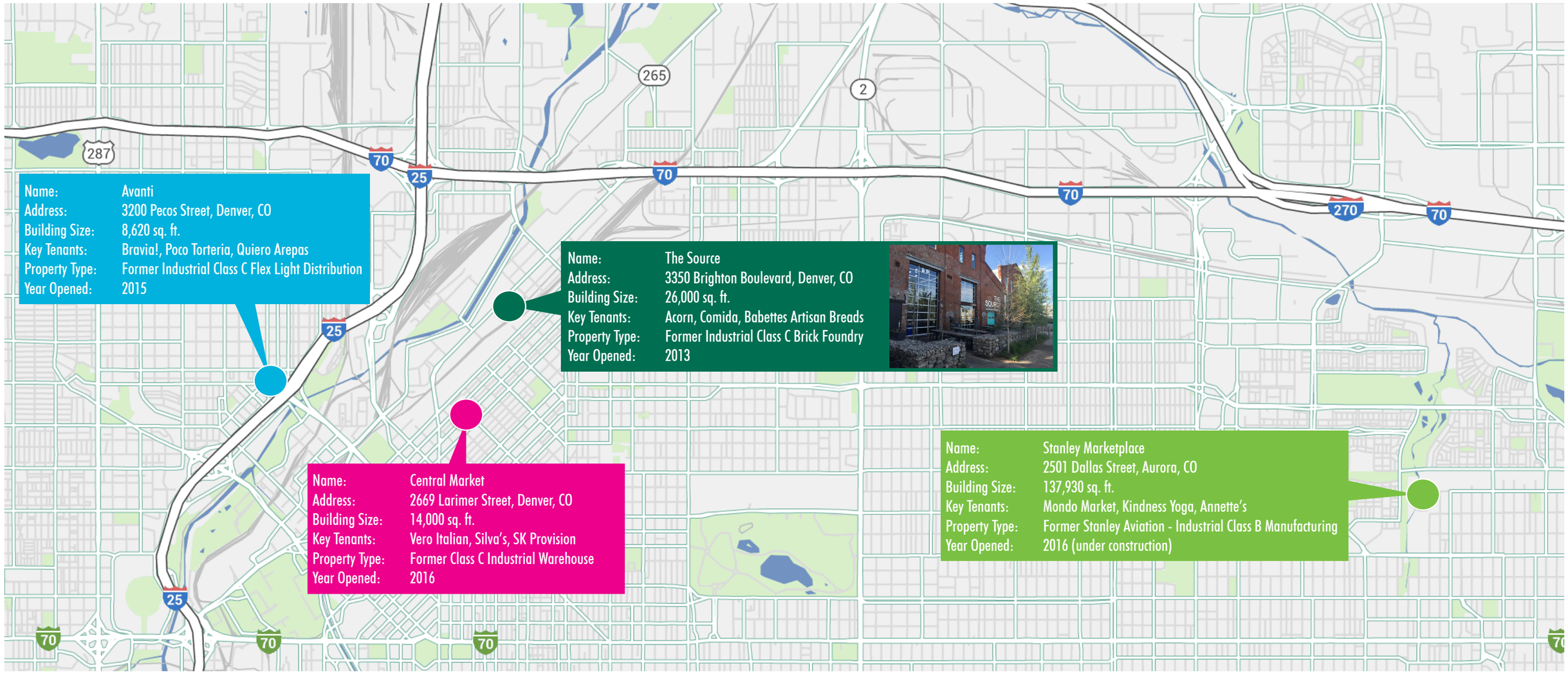


Note: Lease rates are expressed as triple net.
Source: CBRE Research, Q1 2016.

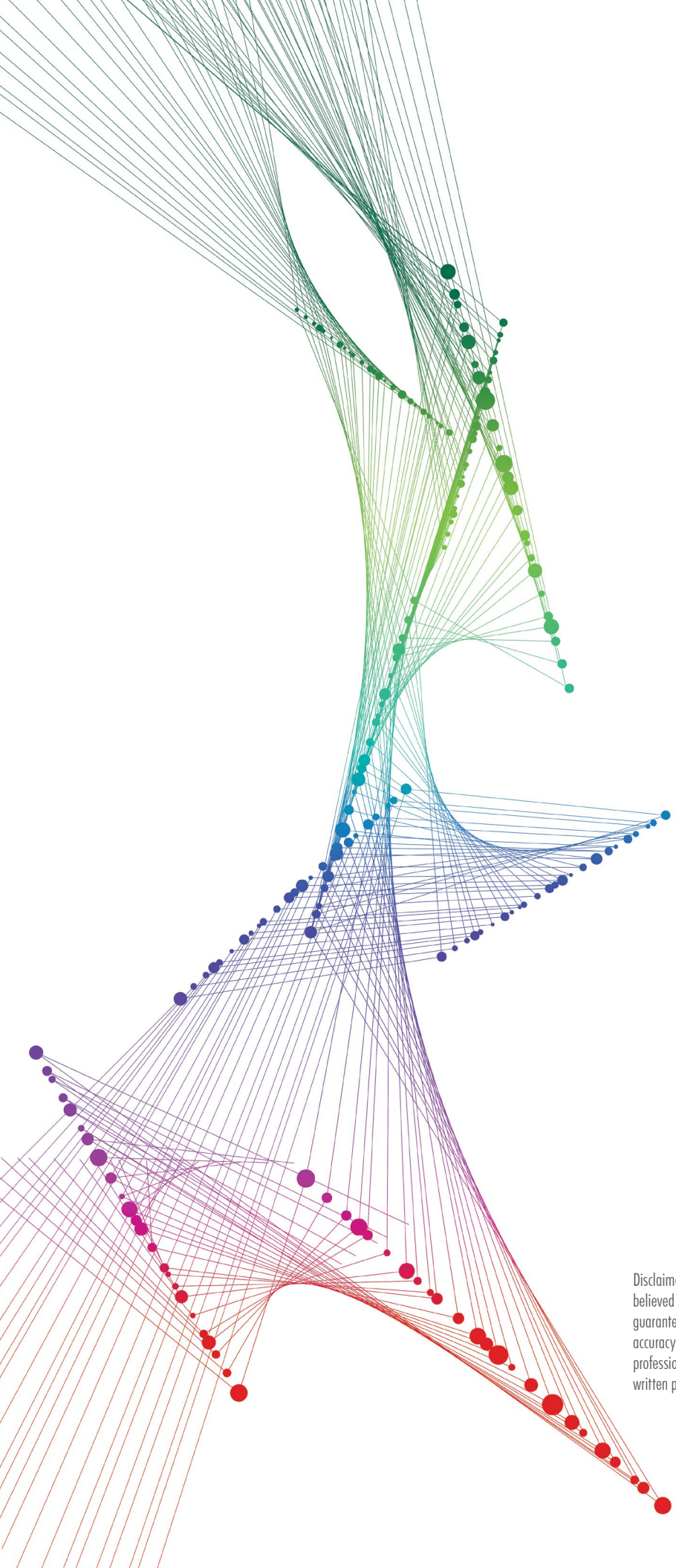
TREND SPOTLIGHT: THE MARKETPLACE CONCEPT

The marketplace phenomenon arrived in Denver in 2013 to much fanfare. The age-old but revived concept ignited a community-centric retail experience that draws consumers of all age groups. Focused on engaging the consumer and featuring local and regional retailers, this concept creates a demand of needing to be "in the experience." Denver marketplaces have attracted local restaurants, brewers, bakers, butchers, grocers and jewelers among other businesses for a one-stop retail experience grounded in authenticity and inspired by entrepreneurship.

Marketplaces in Denver are primarily redeveloped industrial properties in urban infill locations to date. The formerly underutilized and well-located properties are now vibrant, modern retail environments that have also spurred adjacent development. Marketplaces are expected to expand further into suburban neighborhoods and seek adaptive reuse opportunities.



Source: CBRE Research, Q1 2016.



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