

### Quick Stats

	2Q13	Change from last	
		Yr.	1Q13
Vacancy	20.89%	▼	▼
Lease Rates psf/yr	\$13.08	▲	▲
Net Absorption*	(7,774)	▼	►

### Hot Topics

- City of Colorado Springs works toward \$82MM downtown revitalization project.
- Ft. Carson continues to benefit from Army restructuring.
- Kinder Morgan signs 20 year lease for 150,000+ SF in CBD.
- Investment sale activity up.

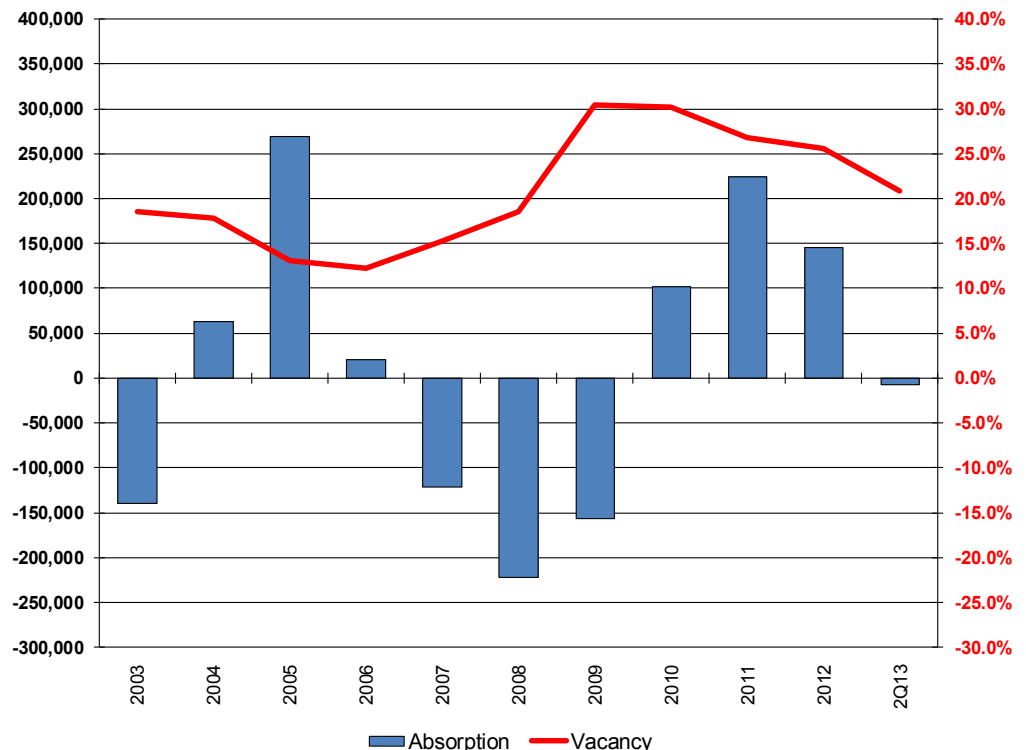
### Class A/B Office Market Overview

Lease activity in the second quarter of 2013 tapered slightly from the first quarter and yielded YTD 70,103 square feet of positive absorption. While we saw a slight dip in absorption for the quarter (attributable to the give back of one 34,000 square foot block of space), the overall activity and velocity in the market remains healthy. Lease rates remained soft, however we are seeing signs of strengthening, and tenants are willing to pay higher rates to be in the higher quality product. Despite concern over the effects of sequestration, we anticipate the market to continue to tighten and the private sector employment to grow and require more space.

Investment activity has begun to ramp up, with six transactions since the start of the year. While many of these have been distressed sales (or priced very low), the positive result is a clearing of the market to new, well capitalized investors in Colorado Springs. Other stabilized assets are coming to market and will get the attention of a nationwide audience of groups seeking to acquire properties in markets, like Colorado Springs, that have been slower to rebound from the national economic down-turn of 2008.

Overall we look to 2013 to be a year where the Colorado Springs' commercial real estate market reaches a more healthy equilibrium, with positive absorption, lower vacancy, and strengthening lease rates.

### Class A/B Vacancy Rate VS Net Absorption



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## Market Statistics

COLORADO SPRINGS CLASS A OFFICE STATISTICS 2ND QUARTER 2013							
Office Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
<b>NORTH I-25 CORRIDOR</b>							
2ND Q 2013	5,734,989	1,287,063	36,089	22.44%	(29,828)	\$11.87	\$7.74
YTD 2013					24,157		
<b>Airport (SOUTHEAST) AREA</b>							
2ND Q 2013	1,482,017	375,949	59,325	25.37%	3,518	\$12.72	\$7.43
YTD 2013					8,558		
<b>CENTRAL BUSINESS</b>							
2ND Q 2013	1,803,132	220,886	31,585	12.25%	18,536	\$14.67	\$8.45
YTD 2013					37,388		
<b>TOTAL CLASS A MARKET</b>							
TOTALS FOR 2ND Q 2013	9,020,138	1,883,898	126,999	20.89%	(7,774)	\$13.08	\$7.88
TOTALS YTD 2013					70,103		

**OVERALL - VACANCY RATE: 20.89%; AVAILABILITY RATE (includes sublease space): 22.29%**

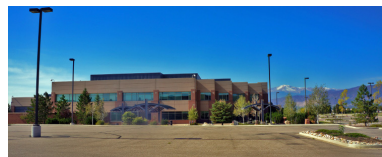
## Significant Transactions

BUILDING NAME	ADDRESS	TENANT	SQUARE FEET	QTR
<b>LEASE TRANSACTIONS</b>				
Northcreek I	5725 Mark Dabling Blvd	First Source	40,000	2
Northcreek II	5755 Mark Dabling Blvd	DEA	15,000	2
Verizon	2424 Garden of the Gods Rd	Xerox	50,000	2
Colorado Square	2 North Nevada Ave	Kinder Morgan	150,000	2
Oracle	12320 Oracle Blvd	Media News	10,300	2
Epic I	10807 New Allegiance Dr	Walgreens	5,200	2
BUILDING NAME	ADDRESS	SALE PRICE	INVESTOR/USER	QTR
<b>SALE TRANSACTIONS</b>				
Lexington Center	7899 Lexington Drive	\$1,950,000 or \$25.90/SF	Investor	2nd 2013
Ford Motor Credit	9910 Federal Drive	\$11,000,000 or \$65.87/SF	Investor	2nd 2013
Pikes Peak Research	5475 Mark Dabling Blvd	\$3,100,000 or \$36.52/SF	Investor	2nd 2013
Center City Plaza	455 East Pikes Peak	\$5,050,000 or \$137.49/SF	Investor	1st 2013

## Featured Office Properties



Palmer Center  
2 N & 90 S Cascade Avenue  
924 to 15,000 SF For Lease

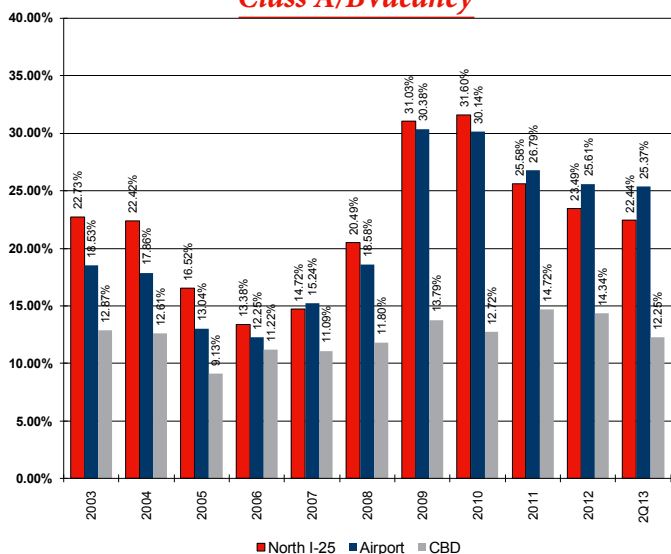


Quantum  
10285 Federal Drive  
90,000 SF For Lease (divisible)



Oracle  
12320 Oracle Road  
62,368 SF For Lease (divisible)

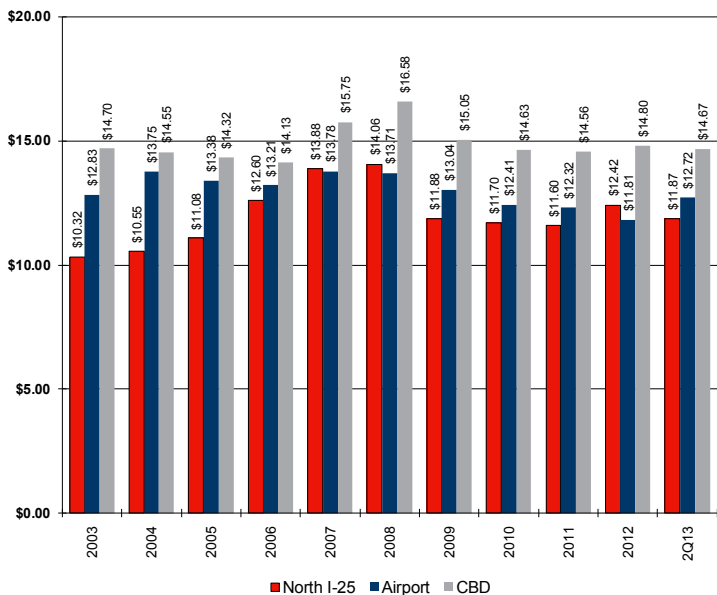
### Class A/B Vacancy



### VACANCY

Vacancy rates across the city are down, the airport market noticed a particularly significant drop, this in part was due to removing obsolete buildings from the database and including some newer construction properties that are 100% leased. This adjustment more accurately reflects the health of the market and the competitive subset for the class-A market. The CBD market remained healthy, but lease activity has been anemic. The North I-25 market vacancy dropped 2% in the 1st quarter, and we anticipate the market tightening further through 2013.

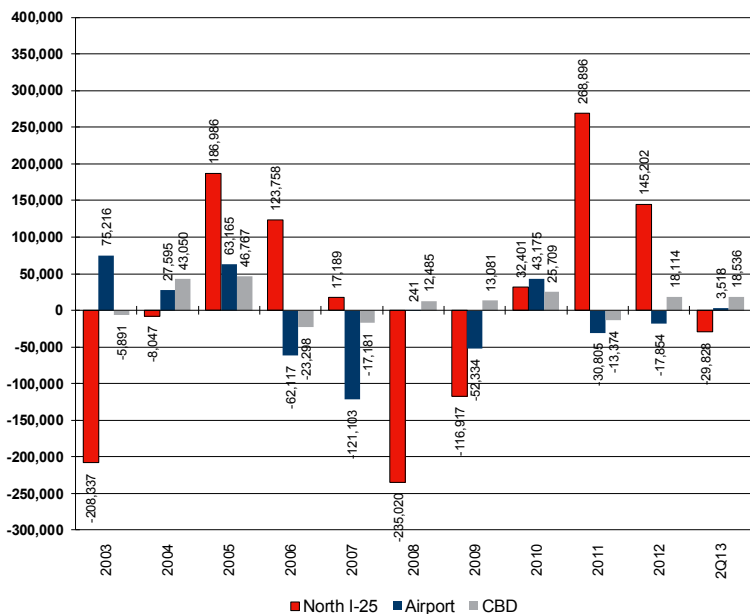
### Class A/B Lease Rates (NNN/PSF)



### LEASE RATES (NNN, Annual, Per RSF)

Lease rates remain low despite the overall market seeing lease activity up, posting positive absorption and driving vacancy down. This in part is due to a number of properties carrying large blocks of vacancy as a result of the national economic downturn that began in 2008, which have not increased their quoted rates. That being said we have seen some areas of town, like Briargate Business Campus, as well as high quality properties, begin to command higher lease rates and experience positive lease up. With the diminishing supply of high quality space, demand will shift to older product and we anticipate lease rates to escalate through-out the remainder of 2013.

### Class A/B Absorption (SF)



### ABSORPTION

Absorption is the key indicator to the market, and the healthy first quarter of positive absorption the city experienced is very encouraging. The result is a reduced vacancy rate and upward pressure on lease rates. Current activity in the market with pending transactions would indicate we will continue to see positive absorption in the upcoming quarters, especially in the North I-25 submarket where we expect some large blocks of space to be leased up by the end of 2013. The CBD market has seen limited positive absorption but, relative to the overall size, the activity is encouraging. The Airport market also posted positive lease absorption.

# Medical Market Statistics

2ND QUARTER 2013							
	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
Colorado Springs MOB Market	1,587,417	303,173	54,874	19.10%	(8,320)	\$16.28	\$8.89

**OVERALL - VACANCY RATE: 19.10%; AVAILABILITY RATE (includes sublease space): 22.56%**

## Medical Office Market Overview

The medical office market consists of three major areas in town: The CBD (location of both Penrose Main Hospital and Memorial Hospital), the Union/Fillmore Medical Campuses and the northern market centered around the Memorial North Hospital and St. Francis Hospital.

Over the past 10 years, on the heels of the construction of both the Memorial North and St. Francis hospitals (designed to serve the long term residential growth of the City northward), there has been significant growth in the MOB market. Projects such as Healthcare Realty Trust's two (2) 85,000 SF speculative MOB across from Memorial North (now 90+% leased) serve as examples of the shift in the medical market toward the north end of town in higher quality Class A MOB's. While the net result of this activity has resulted in increasing rental rates, decreased overall vacancy and positive absorption in the market, it will leave many 2nd and 3rd generation spaces available in the market.

Our projection in 2013 is to continue to see the trend of practices locating their primary offices in the northern part of town either on or near the hospital campuses and in many cases maintaining or opening a smaller "satellite" office in the CBD or more centralized part of town. We anticipate rates to increase and the vacancy to drop, particularly in the higher quality, well located assets.

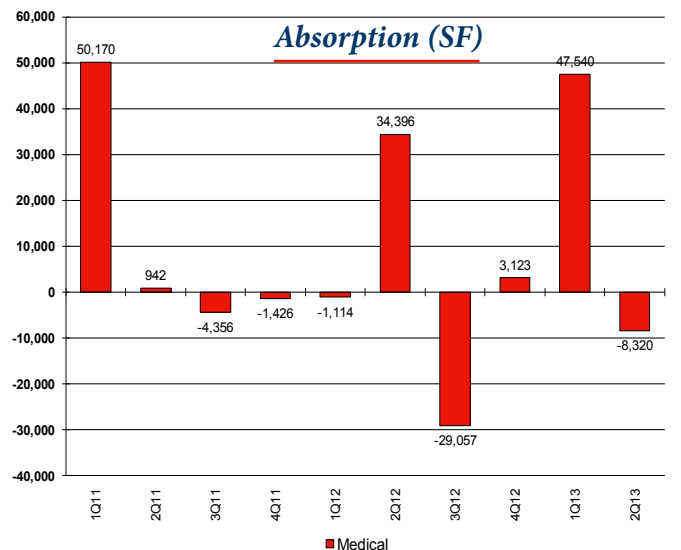
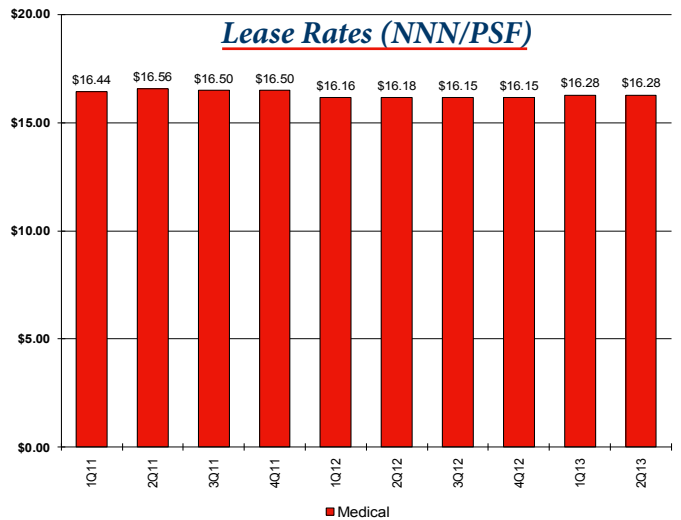
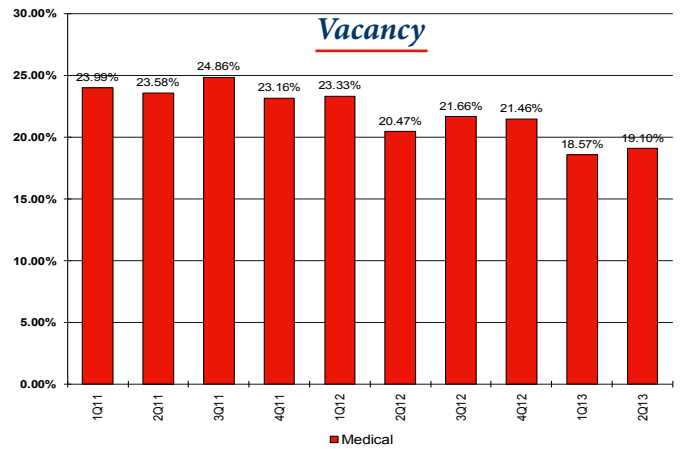
## Featured Medical Properties



**Briargate Medical Pavilion**  
4105 & 4125 Briargate Parkway  
19,083 SF For Lease (divisible)



**Northcare at St. Francis**  
6071 East Woodmen Road  
11,956 SF For Lease (divisible)



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