

Quick Stats

	3Q13	Yr.	2Q13
Vacancy	19.98%	▼	▼
Lease Rates psf/yr	\$12.96	▲	▼
Net Absorption*	85,233	▼	▲

Hot Topics

- CBD vacancy rates in single digits for first time in 7 years.
- Investment sale activity shows significant increase.
- University of Colorado at Colorado Springs continues campus expansion and student growth.
- Medical market continues to consolidate close to Central and Northeast campuses.
- City for Champions (www.cityforchampions.com), an effort to significantly impact the economic vitality of the City, is in full swing with direction before year end.



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Class A/B Office Market Overview

The overall office market in Colorado Springs continues to improve at a steady, measured rate. Overall, lease activity is improving and the market is tightening slowly. Evidence of this increasing improvement to the market is the fact that in the 3rd Quarter of 2013 all three (3) major Colorado Springs Office Submarkets registered positive absorption. This is the first quarter since late 2007 in which each submarket has registered solid lease activity and positive absorption. YTD positive absorption is 155,336 square feet and while this is not setting historical records, it is a healthy indicator.

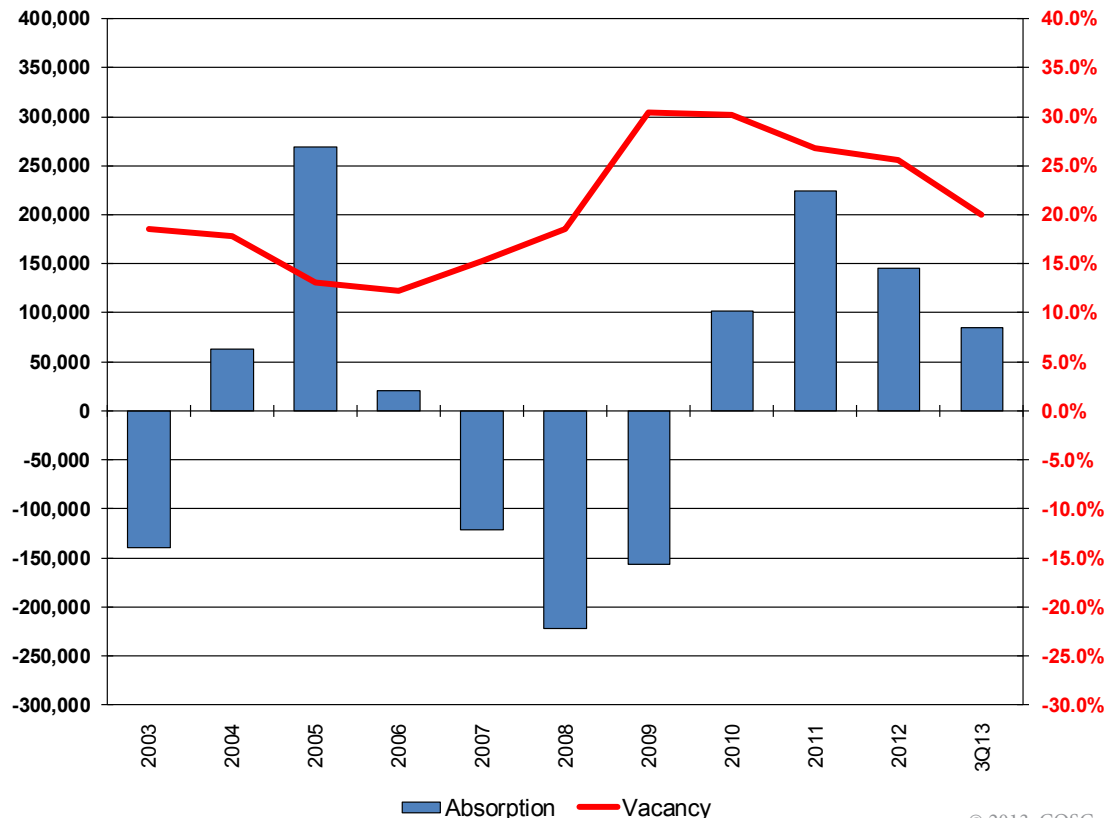
The North I-25 Corridor saw a series of smaller (>10,000 SF) transactions in the third quarter and that submarket continues to see improvement (most notable in the newer/higher quality assets). The overall vacancy rate of 21.80% is somewhat artificially inflated due to a handful of large blocks of space (50,000+ SF), as well as 2-3 buildings that have suffered from strained ownership/management over the past several years and have become non-competitive in the market for the majority of credit tenants seeking quality space with a stable ownership. Without those assets in the submarket numbers, the adjusted multi-tenant vacancy is in the low teens, and showing modest improvement on a quarterly basis.

The Airport submarket saw some leasing activity last quarter, as well as a couple of tenant consolidations, leaving it with modest absorption of 10,907 SF YTD. Despite the troubles in Washington D.C. and the threat of sequestration, this submarket has not been adversely affected and we anticipate the balance of 2013 and the first half of 2014 to see similar positive market trends.

The CBD had the most notable positive change in the 3rd Quarter, posting 83,338 SF of YTD positive absorption. This helped drive the vacancy rates below the "double digit barrier" where they now sit at 9.7%. The asking lease rates in the CBD remain relatively flat, but the true lease rates (where new leases are actually being signed) shows an increase in rate and decrease in concessions.

As we look to the end of 2013, we anticipate 'more of the same' with modest growth and numbers gradually improving.

Class A/B Vacancy Rate VS Net Absorption



Market Statistics

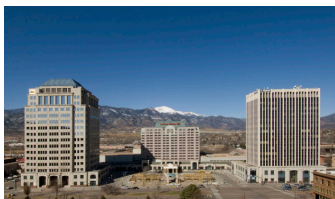
COLORADO SPRINGS CLASS A OFFICE STATISTICS 3RD QUARTER 2013							
Office Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
NORTH I-25 CORRIDOR							
3RD Q 2013	5,734,989	1,250,417	16,753	21.80%	36,934	\$11.84	\$7.73
YTD 2013					61,091		
Airport (SOUTHEAST) AREA							
3RD Q 2013	1,482,017	373,600	59,325	25.21%	2,349	\$12.72	\$7.43
YTD 2013					10,907		
CENTRAL BUSINESS							
3RD Q 2013	1,803,132	176,604	31,585	9.79%	45,950	\$14.33	\$8.48
YTD 2013					83,338		
TOTAL CLASS A MARKET							
TOTALS FOR 3RD Q 2013	9,020,138	1,800,621	107,663	19.96%	85,233	\$12.96	\$7.88
TOTALS YTD 2013					155,336		

OVERALL VACANCY RATE: 19.96%; AVAILABILITY RATE (includes sublease space): 21.16%

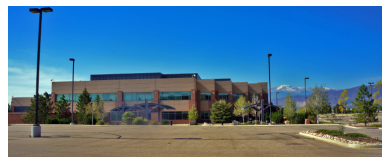
Significant Transactions

BUILDING NAME	ADDRESS	TENANT	SQUARE FEET	QTR
LEASE TRANSACTIONS				
Corporate Pointe	1975 Research Parkway	ASRC	10,164	3rd 2013
Presidio	1155 Kelly Johnson Blvd.	Shadow Mountain Recovery	4,606	3rd 2013
Garden Gateway Plaza	1355 Garden of the Gods Rd.	MGA Home Healthcare	10,300	3rd 2013
Garden of the Gods Business Park	2424 Garden of the Gods Rd.	Xerox	38,000	3rd 2013
Wells Fargo Tower	90 S. Cascade Ave.	Accellos	8,000	3rd 2013
BUILDING NAME	ADDRESS	SALE PRICE	INVESTOR/USER	QTR
SALE TRANSACTIONS				
PrimeCenter at Briargate	536 Chapel Hills Dr.	\$18,773,500 or \$87.10/SF	Investor	3rd 2013
Regency Executive Center	1465 Kelly Johnson Blvd.	\$2,470,000 or \$53.12/SF	Investor	3rd 2013
Cottonwood Square	6455 N. Union Blvd.	\$5,600,000 or \$93.00/SF	Investor	3rd 2013

Featured Office Properties



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

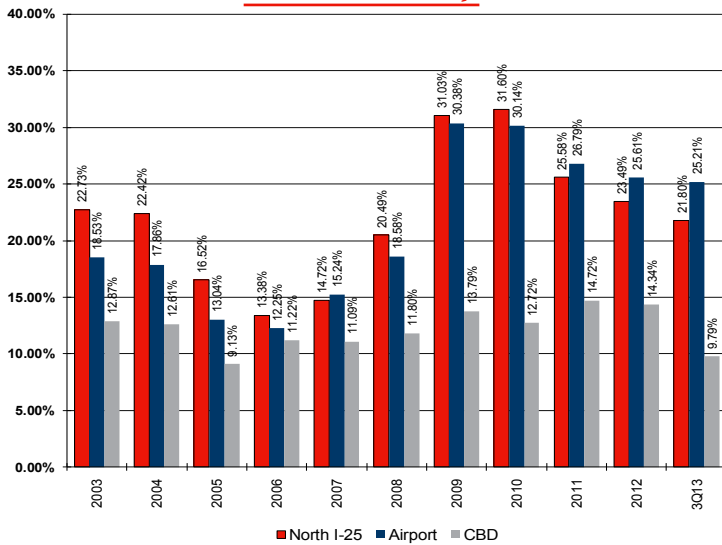


Quantum
10285 Federal Drive
90,000 SF For Lease (divisible)

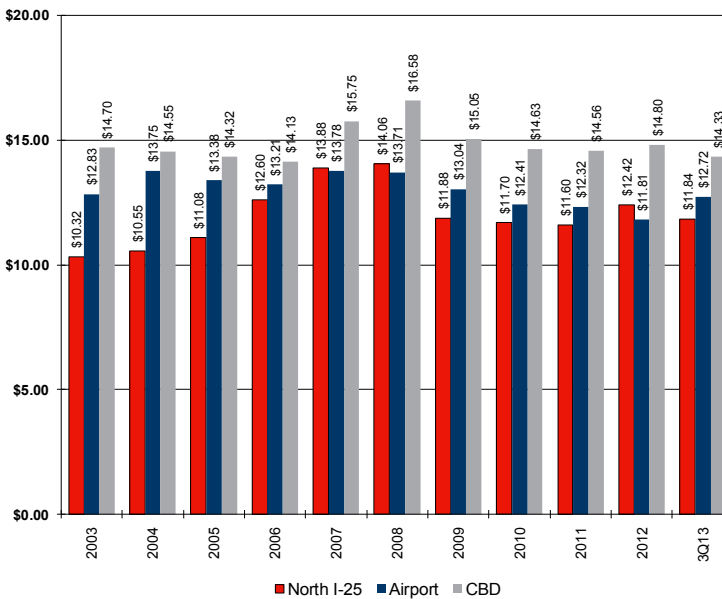


Oracle
12320 Oracle Road
62,368 SF For Lease (divisible)

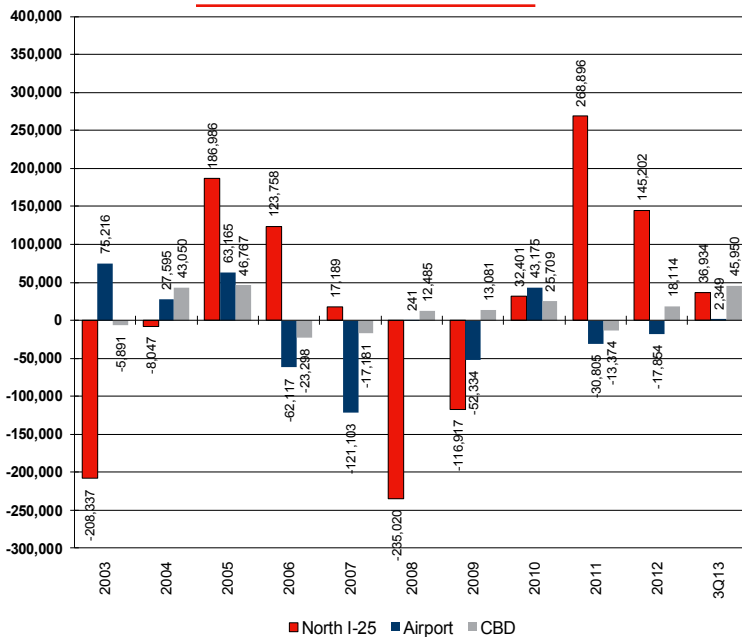
Class A/B Vacancy



Class A/B Lease Rates (NNN/PSF)



Class A/B Absorption (SF)



VACANCY

Vacancy rates across the city are down, with the CBD market experiencing a particularly significant drop of almost 2.5%, illustrating the health of the submarket and a positive indicator of future activity. The North I-25 market continues to make steady, if modest, improvements and the Airport submarket is doing the same. Overall activity in the market suggests the trend for lower vacancy will continue through the 4th quarter.

LEASE RATES (NNN, Annual, Per RSF)

Lease rates remain low despite the overall market seeing lease activity up and posting positive absorption - driving vacancy rates down. The stagnant lease rates are due to some specific properties carrying large blocks of vacancy, and a number of older/obsolete properties which have not increased their quoted rates. That being said we have seen some areas of town, including 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 and into 2014.

ABSORPTION

Absorption is the key indicator to the market. A healthy third quarter of positive absorption, including year-to-date positive absorption, 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 experience robust positive absorption and the activity is encouraging. The Airport market also posted positive lease absorption.

Medical Market Statistics

3RD QUARTER 2013							
	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
Colorado Springs MOB Market	1,668,527	334,179	54,874	20.03%	(50)	\$16.28	\$8.89

OVERALL - VACANCY RATE: 20.03%; AVAILABILITY RATE (includes sublease space): 23.32%

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. The momentum of activity to the properties in close proximity to the major hospital campuses will mean many older MOB's will become obsolete and may be repositioned.

Our projection in 2014 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)

