COLORADO SPRINGS OFFICE MARKET — FOURTH QUARTER 2011

Executive Overview

The Colorado Spring's Class A office market is comprised of approximately 10 million square feet in three distinct submarkets; North I-25 Corridor, Central Business District and Airport Area. Beginning in mid 2008, all three submarkets began experiencing an increase in vacancy rates, limited lease activity, negative absorption, and an erosion of lease rates that lasted through mid 2010. Over the last eighteen months the market has started to slowly recover.

As of the 4th Quarter 2011, the overall vacancy of the Class-A market sits at 26.79%; this is compared with 30.14% for the same period last year, and down significantly from its high at the end of the first quarter 2010 of 33.46%. Current market activity suggests this trend will continue through the first half of 2012. Sales activity by owner/users will further assist in removing long standing vacancy. Over the past year we saw owner/users purchase the 130,000 square feet Chase Bank Building in the CBD, USA Volleyball purchase the 30,000 square foot Sinton Office Building and the Pikes Peak Library District go under contract for an 112,000 square foot office building in Briargate.

For year end 2011 the overall market registered 224,717 square feet of positive absorption, compared with 101,285 square feet for year-end 2010 and negative (156,170) for year-end 2009. We now have an eighteen month trend of positive absorption, and we expect this trend to continue which will result in lower vacancy rates and ultimately we expect this to have a positive influence on lease rates in 2012.

Lease rates continued to fall through 2011 and now average $12.83 NNN. This is down modestly from $12.91 for year-end 2010, which was down from $13.32 NNN for year-end 2009. Lease rates tend to be lagging indicators of the overall health of the market. Evidence of this can be seen when we look at year end 2008 where average lease rates remained high, despite an increase in the vacancy rate to over 20% and an astounding (288,690) square feet of negative absorption. This negative absorption drove vacancy rates higher and with limited velocity for tenant's seeking space landlords competed by offering ever lower lease rates and other incentives, including rent abatement and moving allowances. With the reduction in vacancy rates and with continued absorption, we anticipate lease rates to begin increasing in the second half of 2012. Already we are seeing stabilized properties begin to increase their rates, and reduce landlord concessions such as tenant improvement allowances and free rent periods.

QUICK STATS – Class "A" Market

Vacancy: 26.79%
Lease Rates: $12.83 NNN
Net Absorption YTD: 224,717 square feet

2011 OFFICE MARKET OUTLOOK

Vacancy:
Net Absorption:
Lease Rate:
Lease Activity:

As we began 2011 we cautiously forecast a year of modest recovery, and the year end statistics do suggest that occurred. The CBD market remains the healthiest, despite having registered over 13,000 square feet of negative absorption and with a vacancy rate up slightly to 14.72%. This market has limited blocks of large vacancy and we anticipate lease rates rebounding in the first half of the year. The North I-25 market posted the strongest year-over-year performance, with close to 270,000 square feet of positive absorption and a reduction in overall vacancy of 6% to close the year at 25.5%. The Airport submarket continues to languish with vacancy rates in excess of 45% and close to 31,000 square feet of negative absorption. Our forecast for 2012 is for the market to continue its slow recovery, but the net result of this occurring over a 24-30 month period will result in 2012 closing out the year with the market achieving a healthy equilibrium.

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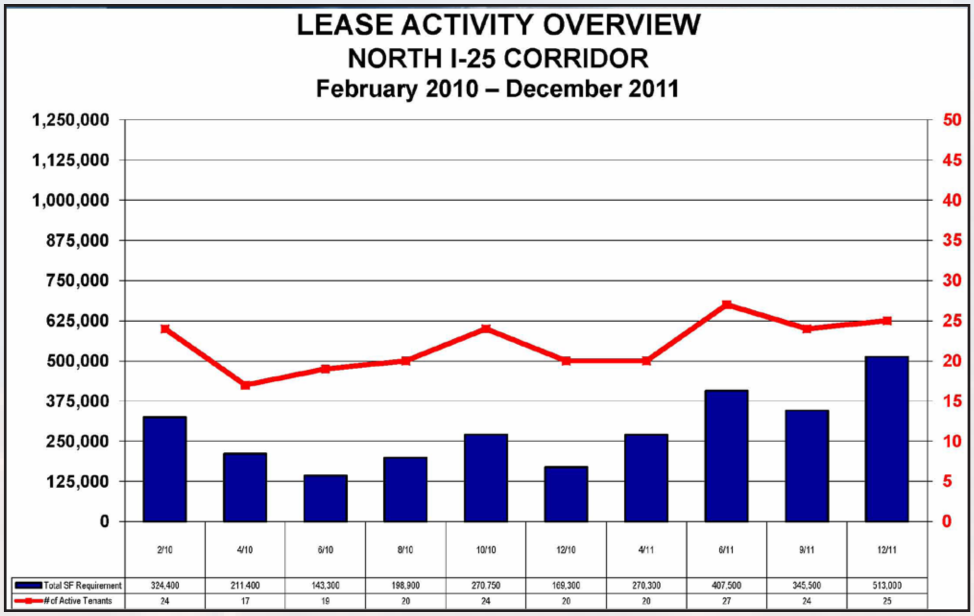
MARKET STATISTICS

COLORADO SPRINGS
CLASS-A OFFICE STATISTICS
4TH QUARTER 2011

Office Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
NORTH I-25 CORRIDOR:							
4TH Q 2011	6,503,823	1,663,664	63,193	25.58%	104,463	$11.60	$7.74
YTD 2011					268,896		
AIRPORT (SOUTHEAST) AREA:							
4TH Q 2011	1,551,490	712,276	0	45.91%	(13,491)	$12.32	$7.13
YTD 2011					(30,805)		
CENTRAL BUSINESS DISTRICT:							
4TH Q 2011	1,803,132	265,448	0	14.72%	(26,292)	$14.56	$8.29
YTD 2011					(13,374)		
TOTAL CLASS A MARKET							
TOTALS FOR 4TH Q 2011	9,858,445	2,641,388	63,193	26.79%	64,680	$12.83	$7.72
TOTALS YTD 2011					224,717		

OVERALL - VACANCY RATE: 26.79%; AVAILABILITY RATE (includes sublease space): 27.43%



SIGNIFICANT TRANSACTIONS

SIGNIFICANT SALE/LEASE TRANSACTIONS				
BUILDING NAME	**ADDRESS**	**TENANT/BUYER**	**SQUARE FEET**	**LEASE/ SALE**
SALE TRANSACTIONS				
Nortec	4065 Sinton Road	USA Volleyball	30,000	$2,700,000
Pine Creek Village	9475 Briar Village Point	Real Capital Solutions	83,357	$9,025,000
First United Bank of Colorado	1310 United Heights	Xledger Properties	23,557	$2,305,000
ITT Building	2550 Tenderfoot Hill St.	Pikes Peak Hospice	42,500	$2,997,500
LEASE TRANSACTIONS				
Citadel Terrace	725 Citadel Drive	Lockheed Martin	22,500	Lease
PrimeCenter at Briargate	2315-2355 Briargate Parkway	URS	22,883	Lease
UMB Bank	5825 Delmonico Drive	Herman Group	3,875	Lease
Verizon Campus	2424 Garden of the Gods	ACS	18,000	Lease
Medical Pavilion at Briargate	4105 Briargate Parkway	Hanger Prosthetics	1,515	Lease

FEATURED PROPERTIES

Oracle
12320 Oracle Road
35,591 SF For Lease (divisible)

Promontory at Briargate
2430-2446 Research Parkway
43,743 SF For Sale (divisible)

Palmer Center
90 S. - 2 N. Cascade Avenue
34,690 SF For Lease (divisible)

Northcare at St. Francis
6071 East Woodmen Road
6,283 SF For Lease (divisible)

Medical Pavilion at Briargate
4105 & 4125 Briargate Parkway
82,319 SF For Lease (divisible)

Verizon
2424 Garden of the Gods Road
105,000 SF For Lease (divisible)

MEDICAL OFFICE MARKET

4TH QUARTER 2011							
	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Average Lease Rate	NNN Exp.
Colorado Springs MOB Market	1,525,733	353,302	2,292	23.16%	(1,426)	$16.50	$8.88
OVERALL - VACANCY RATE: 23.16%; AVAILABILITY RATE (includes sublease space): 23.31%							

The Colorado Springs MOB market in 2011 can best be summarized as being in a state of transition. The national medical market has and will continue to be affected by the overall health insurance issues facing the country, as many medical practices are taking a guarded approach to the future. However, despite this uncertainty, healthcare REIT's and private equity groups generally have been aggressive with acquisitions and have had solid performance with their existing portfolios. This has held true throughout 2011 in Colorado Springs as well.

In addition to the national complexity facing all healthcare providers, Colorado Springs has spent 2011 sorting out who will be the owner/lessee of (the currently City controlled) Memorial Hospital. While the result of this would not directly affect the MOB market (through new space immediately coming on line), it has caused delay in many of the practitioner's decision making process given the complexity of which "team" to align with (both from location proximity as well as in practice). As of late December 2011, the likely outcome of the "Memorial Issue" is a long term lease to the University of Colorado Health System. While this is still subject to City Counsel and ultimately citizen vote (anticipated in late 2012), this is the recommendation to City Counsel of the appointed "Task Force" and the one that most feel will be approved.

Despite a transitional year, there were several pivotal deals in 2011 including:

- Colorado Springs Health Partner's lease of 65,000 SF at Union Medical Campus
- Healthcare Realty Trust's acquisition of the 85,000 SF Northcare at St. Francis MOB
- The 55,000 SF lease by The Children's Hospital at the Medical Pavilion at Briargate
- The new leases at Medical Center at Penrose, including:
  - Colorado Springs Neurological for 16,000 SF
  - Penrose Hospital for 20,000 SF

Lease rates for medical office buildings generally range from $17.00-$21.00 per rentable square foot on new construction, and $14.50-$16.50 for second generation properties. 4th Quarter 2011 numbers show an average asking lease rate of $16.50 per square foot and negative absorption of 1,426 square feet, mainly attributable to the 14,000 SF that Rocky Mountain Cancer Center vacated at Pavilion Medical Center on Fontanero Street. Generally speaking, while there were some large transactions in 2011, most were lateral moves in terms of total square footage leased.

As we look into 2012, we forecast the medical market stabilizes and expect to see vacancy rates decrease as the newer first generation buildings constructed on or near the Memorial and Penrose Campuses fill up with tenants expanding in the northern part of town. While we don't anticipate the sentiment of uncertainty to change in 2012, there will be increased demand for space and limited speculative product that will be left available by late 2012.

Union Medical
Campus

Medical Pavilion
at Briargate

NorthCare
at St. Francis