

INVESTMENT MARKET REBOUNDS

After three years of a stagnant investment sales market, commercial real estate investors are once again active in Colorado Springs. Transaction volume is increasing due to an improving economy, easing debt markets and higher investor confidence. Current active buyer profiles include Public and private REITs, Private Equity/High Net Worth Individuals, Owner/Users and Pension Funds. In the past six months we have seen activity in each of the subsets of investment sales including core assets, owner/user properties, single tenant/stabilized assets and value add transactions.

Core Assets: The sale of the NorthCare Medical Office building located on the Penrose St. Francis Hospital Campus recently sold to HealthCare Realty Trust, a publicly held REIT. The 83,825 sq. ft. NorthCare building sold for \$ 19,500,000 (\$ 232.63 psf). Due to its long term leases and limited vacancy, this core asset was able to command a very high price per square foot. We anticipate more opportunities in this asset class in the following parameters: •Multi-tenant buildings 85% to 95% leased •5 or more years remaining on each lease •As is Cap rates range from 7.5% to 8.5% •REIT's are looking unleveraged •IRR's of 9.5% to 10.5% .

Owner/User Sale: A recent local example is the sale of the former 100,000 sq ft. ITT building to Goodwill Industries. This 50% office and 50% warehouse building located in the Garden of the Gods business corridor is approx. 12 yrs old. The original cost to construct the building was \$ 8,000,000 (\$80.00 psf) and it sold in March 2011 for \$ 5,300,000 (\$ 53.00 psf). We anticipate that there will be several other opportunities in the months to come in the owner/user market as current owners have written down the value of the real estate and the delta between a strike price and replacement cost has grown to the point where many users that may not have considered owning real estate in the past are beginning to enter the market. The other major driver in the sector is the softening of the capital markets and we are now seeing extremely favorable loans, which are anticipated to hold steady for at least the next two quarters; •25-30% down •25-30 year amortizations •Fixed terms of 5-10 years •Interest rates 5.5%-6.5%.

Single Tenant/Stabilized Assets: In February 2011, Midnight Sun Capital Management, LLC, an out of state, privately held investment group, purchased the 69,000 sq. ft. T-Mobile building for \$11,280,000 (\$161.00 psf). This asset had 10+ years on the term at the time of sale and is strategically located in Briargate Business Campus. Single Tenant/Stabilized Assets will continue to be highly sought after in the market place because of the reduced short term risk factor for the investor. The tenant's credit rating, lease rate, and lease term (10 to 15 years) are the key factors that determine the price per sq ft. and expected IRR. Lenders look for 25% to 35% down and will provide 20 to 25 year fully amortizing loan at 5.5 % to 6.5% interest rate, for these types of transactions. Expected leveraged IRR's range from 12 % to 15 % and unleveraged IRR's 9% to 12%.

Value Added Properties: For the most part, this asset class has been extremely inactive in most part due to lenders' inability to underwrite the asset and investors' inability to develop a proforma that has merit in an anemic leasing market. However, this is starting to change as the appetite for high risk/high return is coming back. The purchase of the 1.6 million sq. ft. former Intel Campus is an outstanding example. This property was purchased for \$15,100,000 (\$9.34 psf) by IRG out of California. Within 12 months, one of the stand alone office buildings on the campus comprised of 295,000 sq. ft. was sold to El Paso County for \$22,300,000 (\$75.59 psf). Additionally, IRG did a lease with Corinthian Colleges for 70,000 sq. ft. for a 10 year lease term. Investors that are interested in these types of opportunities are beginning to return to our market and are forced to be creative in their understanding of the local market, value added underwriting ability, access to capital and development of a successful exit strategy.

The combination of our professionals, their understanding of the local investment market, and financial modeling capabilities make us uniquely qualified to assist in the purchase or sale of commercial real estate in the Colorado Springs market.



Greg Phaneuf
Principal



Peter Scoville
Principal



Gary Hollenbeck
Principal

MARKET STATISTICS

COLORADO SPRINGS CLASS-A OFFICE STATISTICS 1ST QUARTER 2011

Office Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
NORTH I-25 CORRIDOR:							
1ST Q 2011	6,503,823	1,964,070	56,567	30.20%	3,707	\$11.78	\$7.54
AIRPORT (SOUTHEAST) AREA:							
1ST Q 2011	1,551,490	702,027	0	45.25%	(17,376)	\$12.41	\$7.04
CENTRAL BUSINESS DISTRICT:							
1ST Q 2011	1,803,132	234,849	16,318	13.02%	(5,881)	\$14.63	\$8.29
TOTAL CLASS A MARKET							
TOTALS 2011	9,858,445	2,900,946	72,885	29.43%	(19,550)	\$12.94	\$7.62

OVERALL - VACANCY RATE: 29.43%; AVAILABILITY RATE (includes sublease space): 30.17%

QUICK STATS – Class “A” Market

Vacancy: 29.43%
Lease Rates: \$12.94 NNN
Net Absorption YTD: (19,550) square feet

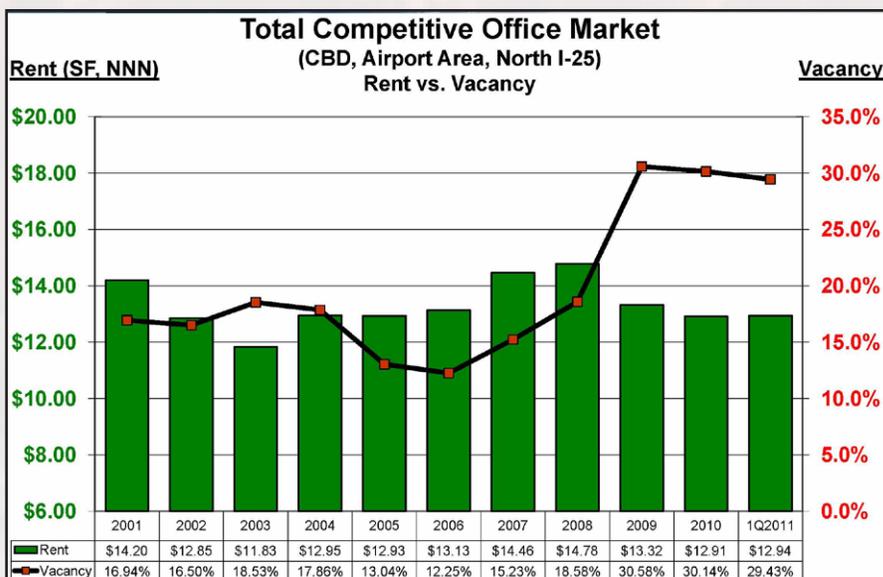
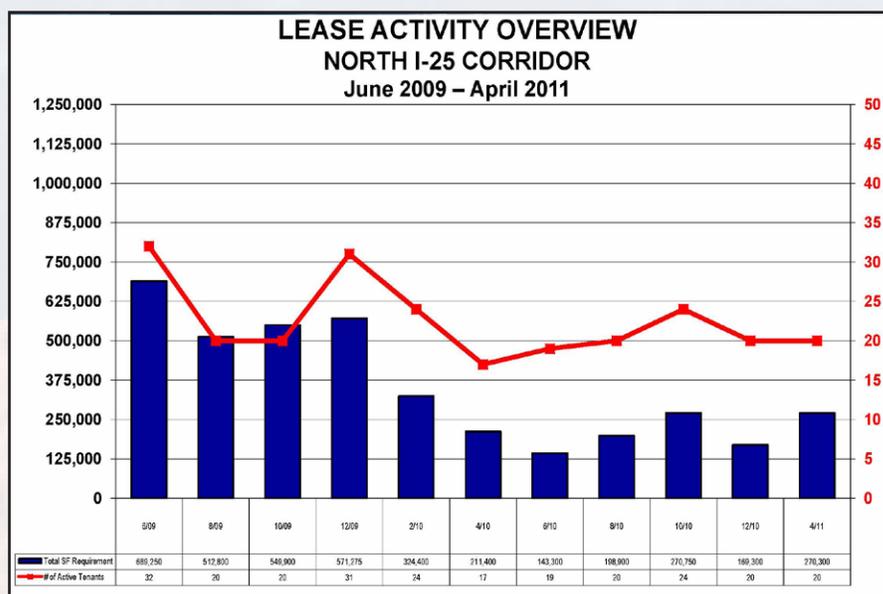
2011 OFFICE MARKET OUTLOOK

Vacancy: ➡

Lease Rate: ➡

Net Absorption: ➡

Lease Activity: ➡



MEDICAL OFFICE MARKET

Coming off a strong finish in 2010 that included Colorado Spring's Health Partner's lease of 65,000 square feet at the Union Medical Campus and Healthcare Realty Trust's acquisition of the 85,000 square foot Northcare at St. Francis MOB on the Penrose North Campus, the medical office market has exhibited signs of a good start in 2011. Most notable is the 45,000 sf lease by The Children's Hospital at the Medical Pavilion at Briargate which will establish a significant presence here for The Children's Hospital and one that they plan on expanding on. Construction of the 72,000 square foot Medical Centre at Penrose got underway in the first quarter of 2011, and they have signed leases with Colorado Spring's Neurological for 16,000 sf; Penrose Hospital for 20,000 sf; and Springs Rehab for 4,700 sf. Activity in all of the first generation product located on or near the hospital campuses remains strong and is anticipated to accelerate further.

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. First Quarter 2011 numbers show an average asking lease rate of \$16.44 per square foot and positive absorption of 50,170 square feet (most of which is the 45,000 sf Childrens Hospital deal). Tenant improvement allowances generally range from \$6.00-\$10.00 per rentable square foot per year of lease term, and many owner's are still offering base rent abatement as an additional concession. We anticipate the market to be healthy for 2011, with strong lease activity and lease rates to strengthen as the year progresses.



Medical Centre at Penrose Hospital



Medical Pavilion at Briargate



NorthCare at St. Francis

COLORADO SPRINGS MEDICAL OFFICE STATISTICS 1ST QUARTER 2011

	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
City Wide MOB Market	1,362,689	326,425	2,292	23.95%	50,170	\$16.44	\$8.98

OVERALL - VACANCY RATE: 23.95%; AVAILABILITY RATE (includes sublease space): 24.12%

SIGNIFICANT TRANSACTIONS

SIGNIFICANT SALE/LEASE TRANSACTIONS

BUILDING NAME	ADDRESS	TENANT/BUYER	SQUARE FEET	LEASE/SALE
SALE TRANSACTIONS				
NorthCare @ St. Francis	6071 East Woodmen Road	Healthcare Realty Trust	83,825	\$19.5M
PrimeCenter/T-Mobile	556 Chapel Hills Drive	Midnight Sun	69,287	\$11.18M
Centennial Commons	4685-4705 Centennial Blvd	SSIC, Inc.	57,640	\$2.6M
Arrowswest	4125 Arrowswest Drive	Space Foundation	45,000	N/A
Intel-GGI	1575 Garden of the Gods	El Paso County	295,333	\$25M
LEASE TRANSACTIONS				
Medical Pavilion at Briargate	4125 Briargate Parkway	Children's Hospital	45,000	Lease
Medical Pavilion at Briargate	4125 Briargate Parkway	University of CO Physicians	4,200	Lease
PrimeCenter at Briargate	526 Chapel Hills Drive	TCA	14,000	Lease
Corporate Pointe	1975 Research Parkway	State Farm	4,000	Lease
Corporate Pointe	1975 Research Parkway	Match Services	3,000	Lease
Research Corporate Centre	8610 Explorer Drive	General Dynamics	7,200	Lease
Front Range Building	1150 Kelly Johnson Blvd	Heritage Title	4,200	Lease
Tech Center VI	5575 Tech Center Drive	ISS	8,700	Lease
Garden Gateway Plaza	1365 Garden of the Gods	State of Colorado	9,500	Lease

FEATURED PROPERTIES



Corporate Point
1975 Research Parkway
29,091 SF For Lease (divisible)



Palmer Center
2 N & 90 S Cascade Avenue
924 to 3,800 SF For Lease



Briargate Tech
2375 Telstar & 8415 Explorer
79,072 SF For Lease (divisible)



Northpointe Atrium
6005 Delmonico Drive
11,050 SF For Lease (divisible)



Space Foundation Building
310 South 14th Street
17,457 SF For Sale



Verizon
2424 Garden of the Gods Road
325,000 SF For Lease (divisible)