

Quick Stats

	4Q13	Yr.	3Q13
Vacancy	19.67%	▼	▼
Lease Rates psf/yr	\$13.00	▲	▲
Net Absorption*	26,561	▲	▲

Hot Topics

- Investment sale activity shows significant increase with the following notable sales:
 - Patriot Equities purchased 15 building portfolio for \$134 Million (\$115/SF).
 - Tech Center II \$17,725,000 (\$121.22/SF)
 - FedEx \$30,500,000 (\$195.75/SF)
- 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, received funding approval for \$120 Million.
- City unemployment rate drops to 7.3%.
- 559 Single-family building permits were pulled in 4thQ2013.



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Class A/B Office Market Overview

"It's Getting Better All The Time"

The Colorado Spring's Class A/B office market is comprised of approximately 9 million square feet in three distinct submarkets; North I-25 Corridor, Central Business District and Airport Area. The second quarter of 2010 marked the statistical low in the market, and since then we have been on a very slow path of recovery with the market posting modest gains in absorption which have had a cumulative effect of bringing us to the front door of a healthy market!

As of the 4th Quarter 2013, the overall vacancy of the Class-A market sits at 19.67%; this is compared with 25.61% 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 2014. A more interesting and accurate depiction of the market occurs when you remove inferior properties (ones that carry an elevated level of vacancy even under the best market conditions) and those with blocks of vacancy that are not divisible below 35,000 sf. This yields an adjusted vacancy of approximately 15%.

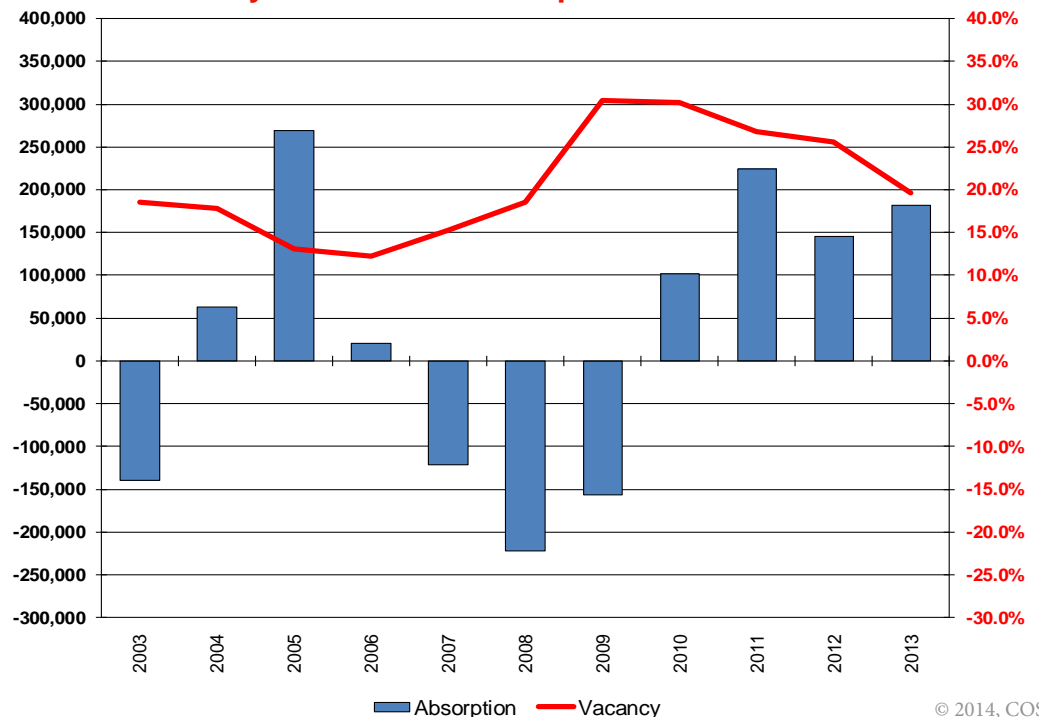
For year-end 2013 the overall market registered a healthy 153,061 square feet of positive absorption, compared with 145,462 for year-end 2012 and 224,717 for year-end 2011. We now have three years of positive absorption, and we expect this trend to continue in 2014. The cumulative effect of this positive absorption will be reduced vacancy rates and higher lease rates.

The average for quoted lease rates increased in 2013 to \$13.00 NNN from \$12.78 NNN at year-end 2012. These numbers don't tell the full story, however, as many owners have seen their properties begin to lease-up and stabilize; the result is a reduction in concessions such as free rent and moving allowances, and limits on tenant allowances for build-out. At those properties with vacancy rates below 15% we have seen an escalation in lease rates.

As we began 2013 we forecast a year of increasing recovery, and the year-end statistics do suggest that occurred. The CBD market, for the first time since the construction of Plaza South, has some pending vacancy with Colorado Square bringing 70,000 square feet online in early 2014. However, we don't anticipate this to adversely affect lease rates.

The anticipated impact of the City For Champions on the downtown will bring additional energy and demand to the CBD. The effects of sequestration appear to have not adversely affected Colorado Springs, and the Airport Market continues to slowly improve. Overall, we anticipate 2014 to be a very good year and make steady gains.

Class A/B Vacancy Rate VS Net Absorption



Market Statistics

COLORADO SPRINGS CLASS A OFFICE STATISTICS 4TH QUARTER 2013							
Office Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
NORTH I-25 CORRIDOR							
4TH Q 2013	5,734,989	1,238,899	24,102	21.60%	13,291	\$11.81	\$7.69
YTD 2013					74,382		
Airport (SOUTHEAST) AREA							
4TH Q 2013	1,482,017	344,985	74,074	23.28%	28,836	\$12.72	\$7.30
YTD 2013					39,743		
CENTRAL BUSINESS							
4TH Q 2013	1,803,132	190,191	11,344	10.55%	(15,566)	\$14.47	\$8.50
YTD 2013					67,772		
TOTAL CLASS A MARKET							
TOTALS FOR 4TH Q 2013	9,020,138	1,744,075	109,520	19.67%	26,561	\$13.00	\$7.83
TOTALS YTD 2013					181,897		

OVERALL VACANCY RATE: 19.67%; AVAILABILITY RATE (includes sublease space): 20.88%

Significant Transactions

BUILDING NAME	ADDRESS	TENANT	SQUARE FEET	QTR
LEASE TRANSACTIONS				
Corporate Pointe	1975 Research Parkway	HGST	7,000	4th 2013
Wells Fargo Tower	90 S. Cascade Ave.	UBS	10,500	4th 2013
Wells Fargo Tower	90 S. Cascade Ave.	MetLife	9,500	4th 2013
Patriot Interquest I	9945 Federal Dr.	United Healthcare	20,000	4th 2013
SALE TRANSACTIONS				
Tech Center II	5555 Tech Center Dr.	\$17,725,000 (\$122/SF)	Investor	4th 2013
COPT Portfolio	Numerous	\$134,000,000 (\$115/SF)	Investor	4th 2013
FedEx Building	380 Spectrum Loop	\$30,500,000 (\$196/SF)	Investor	4th 2013
UMB Building	5825 Delmonico	\$6,918,000 (\$173/SF)	User	4th 2013

Featured Office Properties



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

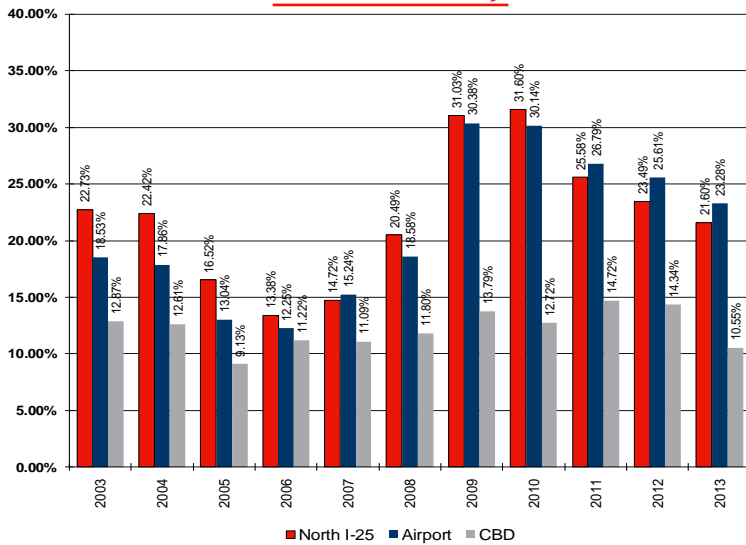


Patriot Interquest II
9925 Federal Drive
42,000+/- SF For Lease

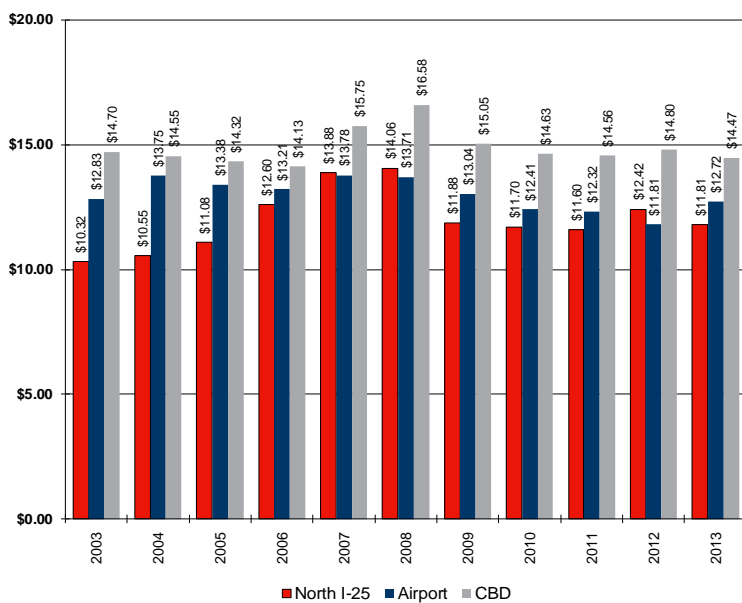


Patriot Park VII
565 Space Center Drive
49,512 SF For Lease (divisible)

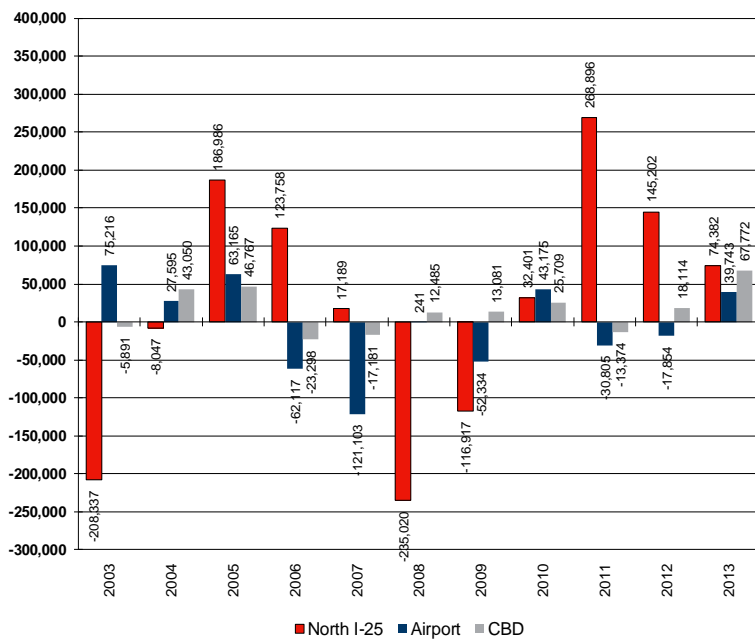
Class A/B Vacancy



Class A/B Lease Rates (NNN/PSE)



Class A/B Absorption (SF)



VACANCY

Vacancy rates across the city's three submarkets are down significantly, with the Airport market experiencing a particularly significant drop. The overall drop illustrates the health of the market and a positive indicator of future activity and likely growth of lease rates. The North I-25 market continues to make steady, if modest, improvements, as does the CBD, which will post some higher numbers in the first half of 2014 due to a 70,000 square foot vacancy coming to market. Overall activity in the market suggests the trend for lower vacancy will continue into 2014.

LEASE RATES (NNN, Annual, Per RSF)

Lease rates have ticked up only slightly in the fourth quarter despite the overall market seeing very positive lease activity 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 significantly through 2014.

ABSORPTION

Absorption is the key indicator to the market. A healthy fourth quarter of positive absorption, including strong 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 early 2014, especially in the North I-25 and Airport submarkets where we expect some large blocks of space to be leased up. The CBD market will experience negative absorption in early 2014, but the overall impact will be negated by the balance of the market's health.

Medical Market Statistics

4TH QUARTER 2013							
	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
Colorado Springs MOB Market	1,587,417	334,179	54,874	19.10%	(50)	\$16.28	\$8.89

OVERALL - VACANCY RATE: 19.10%; AVAILABILITY RATE (includes sublease space): 122.56%

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. With talk of new construction on the horizon, 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.

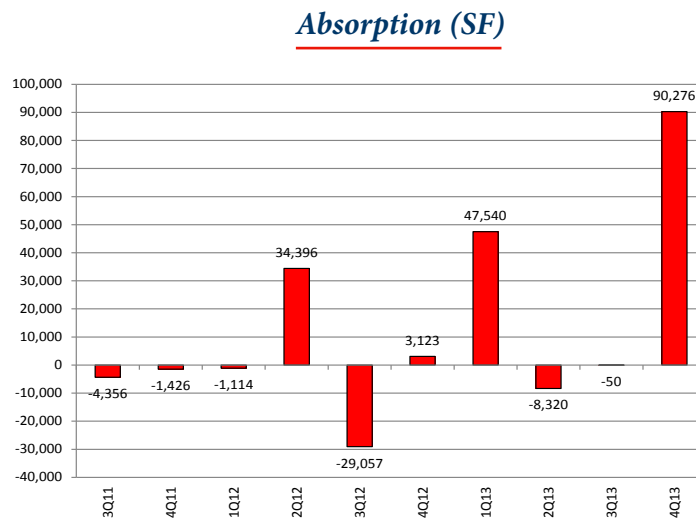
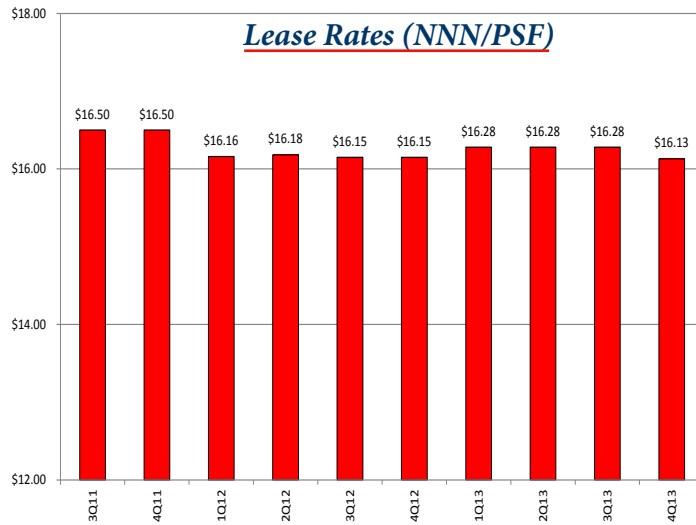
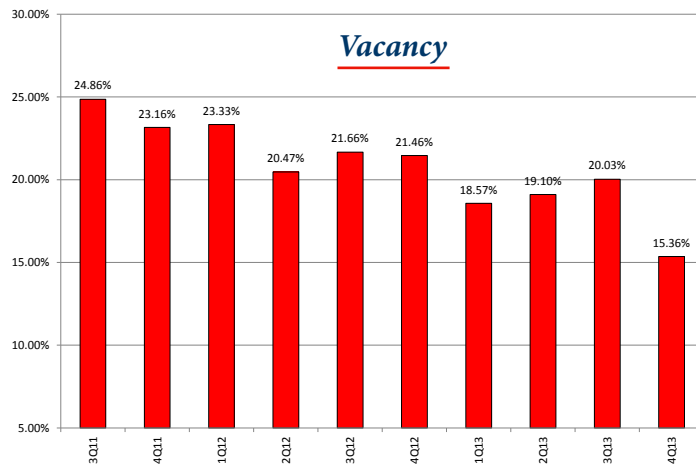
Featured Medical Properties



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



Northcare at St. Francis
6071 East Woodmen Road
19,397 SF For Lease (divisible)



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