MarketView
Second Quarter 2021

CUSHMAN & WAKEFIELD | Colorado Springs Commercial

QUICK STATS

	2Q21	1Q21	2Q20
Vacancy	12.41%	▲	▲
Lease Rates	$17.10	▲	▲
Net Absorption	(65,951)	▼	▼

HOT TOPICS

- *Several downtown multi-family projects are underway with approximately 600 new apartment units currently under construction and more planned*
- *Colorado Springs' unemployment rate fell from 6.4% in April to 5.8% in May*
- *Building permits for single-family home construction are up over 18% from the same period last year*
- *The construction of the 3,400-seat Robson Arena is being finalized and is set to open this fall, in time for Colorado College's first hockey game*
- *Weidner Field, downtown's new multi-use, 8,000-seat stadium and home to Colorado Springs Switchbacks FC, opened in late May and has already hosted multiple games and concerts*

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CLASS A/B OFFICE MARKET OVERVIEW

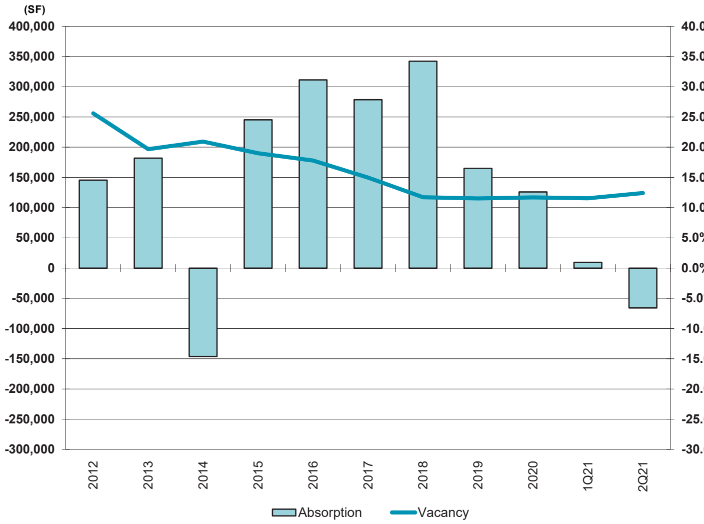
The first half of 2021 in the Colorado Springs Office leasing and sales markets has been nothing short of exciting. In January the horizon was extremely uncertain and the indecisiveness in the market place was pervasive. There were some sale transactions but, in most cases, underwriting was conservative by most groups and the buyer pools were mostly those historically familiar with the Colorado Springs market. That said, the smaller tenants (5,000 square feet and under) in almost every sector remained active in their space needs.

By June, the overall 'feel' of the market is significantly different in several ways. First, Colorado Springs has maintained tremendous momentum in the past 36 months with rapid population growth, a shift to a younger demographic, the construction of thousands of apartments both in the CBD and suburbs and the completion of city-changing projects such as The U.S. Olympic & Paralympic Museum and Weidner Field, to name a few. In short, Colorado Springs seems to be truly 'on the map' for national investors and users like it never has been historically. The capital interested in investing in the City seems to increase daily and with a number of high-quality assets coming to market in the second half of the year, we anticipate very active 3rd and 4th quarters.

A second shift in the market in recent months has been a number of larger spaces (greater than 30,000 square feet) coming on the market, either as direct space or sublease space, as corporate users continue to define what the new-normal work environment will be. This has caused the overall vacancy rate to increase from 11.69% at year-end 2020 to 12.41% YTD 2021, with an increase in vacancy anticipated throughout the rest of the year. While on the surface this seems like the market is going in the wrong direction, based upon all of the interactions we have had with many of the major employers and companies, we anticipate this to be a temporary market shift and with limited supply of quality assets in the market and the general (and evolving) sentiment that most companies will be near or above pre-COVID-19 occupancy levels by the 1st quarter of 2022.

The overall market has a very positive outlook as we forecast into the next 12 months with anticipated continued rent growth and increasing demand in a market that has not been over-built.

CLASS A/B VACANCY VS NET ABSORPTION



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CLASS A/B OFFICE STATISTICS

Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
NORTH I-25 CORRIDOR:							
2nd Quarter 2021	4,366,829	710,835	125,463	16.28%	(58,929)	$16.96	$8.88
YTD 2021					(51,925)		
AIRPORT (SOUTHEAST) AREA:							
2nd Quarter 2021	1,404,317	117,684	29,636	8.38%	(777)	$17.53	$7.88
YTD 2021					7,629		
CENTRAL BUSINESS DISTRICT:							
2nd Quarter 2021	1,994,054	135,391	38,414	6.79%	(6,245)	$17.03	$9.53
YTD 2021					(12,139)		
TOTAL CLASS A MARKET:							
TOTALS FOR 2nd Q 2021	7,765,200	963,910	193,513	12.41%	(65,951)	$17.10	$8.85
TOTALS YTD 2021					(56,435)		

12.41%
Direct Vacancy Rate

14.91%
Overall Vacancy Rate

SIGNIFICANT TRANSACTIONS

BUILDING NAME	ADDRESS	TENANT	SQ FT	QTR
LEASE TRANSACTIONS				
Garden Gateway Plaza	1365 Garden of the Gods Rd	GSA	18,083	1st
Briargate Tech	2375 Telstar Dr	Axellio	14,302	2nd
Epic One	10807 New Allegiance Dr	Penguin Random House	13,940	2nd
Epic One	10807 New Allegiance Dr	Applied Defense Solutions	11,653	2nd
Newport Centre One	1670 N Newport Rd	Sierra Nevada Corporation	10,290	2nd
Briargate Office Center	1755 Telstar Dr	Land Title Guarantee	7,657	1st
One Gateway Plaza	1330 Inverness Dr	Behavioral Health Practice	4,796	1st
Chapel Hills Atrium	1125 Kelly Johnson Blvd	M-E Engineers	4,075	1st
Corporate Centre	6760 Corporate Dr	Haas Vision Center	3,847	1st
Northcare at St. Francis	6071 E Woodmen Rd	Mountain View Vision	3,778	1st

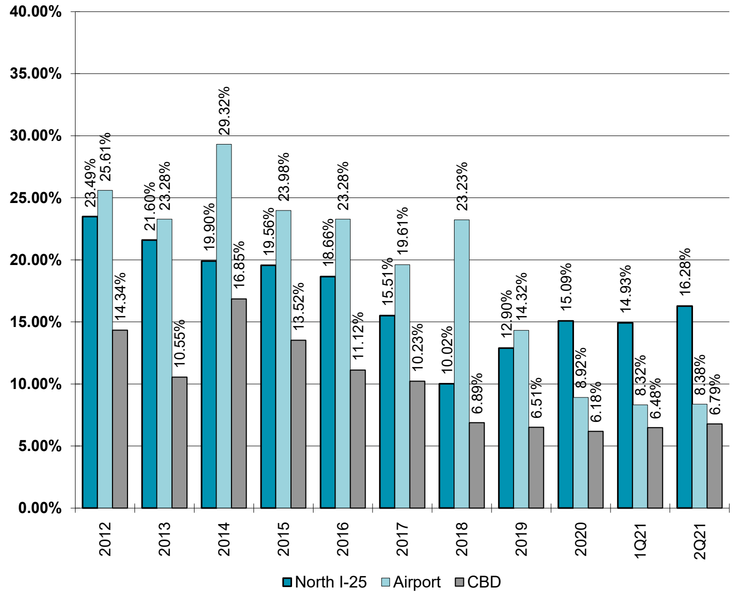
BUILDING NAME	ADDRESS	SALE PRICE/PER SF	SALE TYPE	QTR
SALE TRANSACTIONS				
North Creek	5725, 5755, 5775 Mark Dabling	$45,650,000/$143.18	Investor	1st
12515 Academy Ridge	12515 Academy Ridge View	$43,500,000/$282.82	Investor	1st
Garden Gateway Plaza	1355-1365 Garden of the Gods	$13,280,473/$97.35	Investor	1st
1230 Tenderfoot	1230 Tenderfoot Hill Rd	$7,200,000/$261.72	Investor	2nd
Academy Corporate Center	5225 N Academy Blvd	$6,550,000/$148.00	Investor	2nd
Office Club	1880 Office Club Pt	$4,800,000/$156.65	User	1st

FEATURED OFFICE PROPERTIES

PALMER CENTER
2 N & 90 S Cascade Ave
974-8,826 RSF
Join Wells Fargo, root9B, Bluestaq

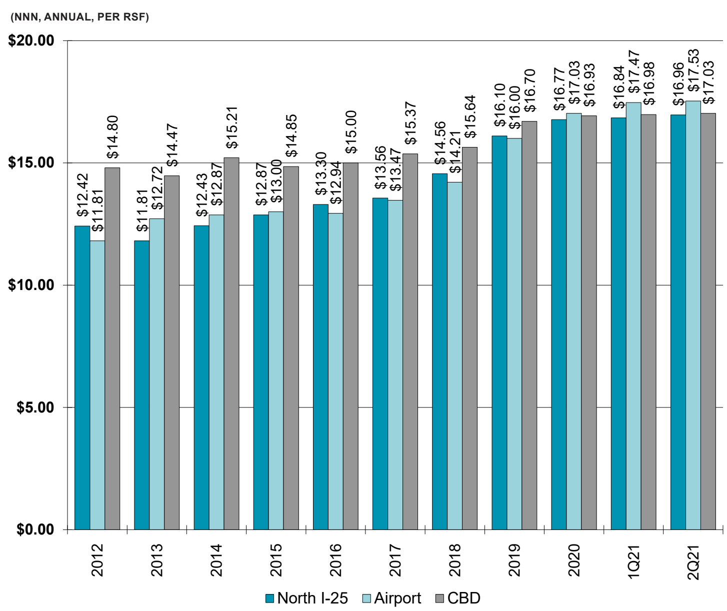
NORTH CREEK
5725, 5755, & 5775 Mark Dabling Blvd
1,696-15,600 RSF
New ownership. Fitness center and cafe.

PATRIOT PARK VII
565 Space Center Dr
2,236-15,154 RSF
Easy access to Peterson AFB



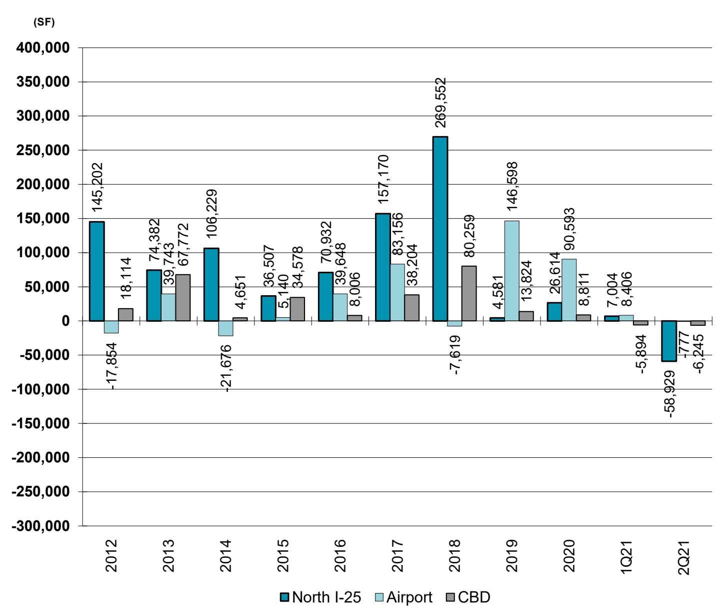
CLASS A/B VACANCY

Vacancy rates for the first half of the year posted at 12.41%. This represents a modest increase over year-end 2020 of 11.69%; and 2019 year-end of 11.52%. The increase in 2021 can be generally attributed to three tenants in the North I-25 submarket who vacated a total of 70,000 square feet. The North I-25 market noted the largest swing, with vacancy rates rising from 15.09% for year end 2020 to 16.28% YTD; and both the airport and CBD submarkets remained fairly steady but noting a very minor increase. We do anticipate additional space being vacated in the second half of the year. Leasing activity, particular in the sub 5,000 square foot range remains healthy; however, larger requirements remain limited, although we anticipate those to pick up in the latter part of the year. Overall, the market remains tight and we forecast this slight increase in vacancy rates to be short-lived.



CLASS A/B LEASE RATES

Lease rates continue to escalate throughout the market, and despite the slight increase in vacancy rates we do not expect that to stop. Perhaps more significant is that Landlords are holding to their asking rates and providing reduced concessions in the form of tenant improvements, and base rental abatement is offered more sparingly. While some deals remain to be had, primarily in single-story product in the North I-25 submarket, we anticipate lease rates to hold steady or escalate throughout the balance of 2021; and with a significant delta between rates for existing product versus new construction, there remains room for significant growth in rates over the coming years.



CLASS A/B ABSORPTION

All submarkets posted negative absorption in the first half of 2021, albeit it was the North I-25 market that bore the brunt of this with approximately 52,000 square feet of negative absorption. Both the Airport and CBD submarkets had minimal negative figures, and overall the market remains healthy. COVID-19 clearly had an impact on new requirements in the market, and so while you expect some inherent churn in tenancy, there was no activity to take the place of those spaces vacated. With things getting back to normal, and September generally seen as an outside date for getting employees back into the office, we do not anticipate this trend to continue and forecast 2022 to reflect some very healthy positive figures.

MEDICAL OFFICE MARKET STATISTICS

2nd QUARTER 2021

TOTAL BLDG SF	AVAILABLE SF	SUBLEASE SPACE	VACANCY RATE	YTD ABSORPTION	LEASE RATE	NNN EXP.
1,715,361	190,745	0	11.12%	(4,047) SF	$19.58	$10.35

11.12%
Direct Vacancy Rate

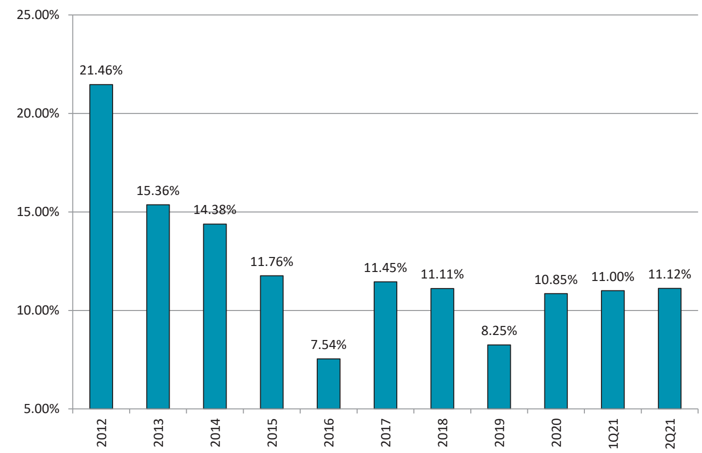
11.12%
Overall Vacancy Rate

MEDICAL OFFICE MARKET OVERVIEW

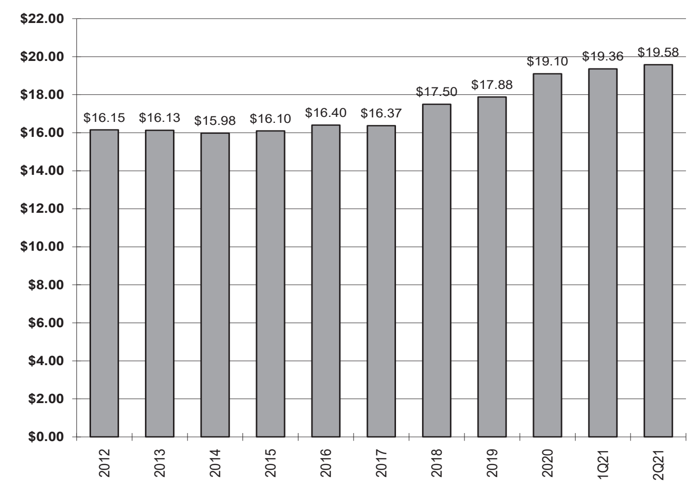
The medical office market has remained very strong through all of 2020, despite a very uncertain time in the general economy and healthcare. With the last speculative construction being almost 12 years ago in 2008/2009, the existing MOB market has remained very tight with sub-9% vacancy rates for the last several years. With the steady improvement in the market (pre-COVID-19), we are seeing multiple projects that are ready to break ground on a speculative basis with 30%-60% prelease requirements. These projects are what attribute to the slight increase in vacancy for 2021. Given the market demand, we expect many of these projects to do very well in their lease-up despite the fact that the costs will likely be 30% higher than current market.

In addition to a vibrant leasing market, the appetite for quality medical investments has remained strong from both the medical REITs as well as private capital investors and we anticipate that to continue throughout 2021.

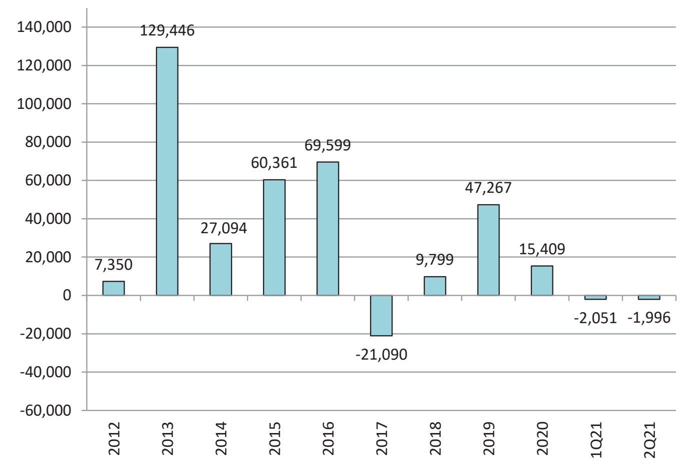
VACANCY



LEASE RATES



ABSORPTION



FEATURED MEDICAL PROPERTIES

1230 TENDERFOOT
1230 Tenderfoot Hill Rd
1,221 SF
New ownership, minutes to Downtown

NORTHCARE AT ST. FRANCIS
6071 E Woodmen Rd
2,620-5,708 RSF
Sky bridge to Penrose St. Francis Hospital

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