

Quick Stats

	Change from last		
	2Q18	Yr.	1Q18
Vacancy	12.52%	▼	▼
Lease Rates Psf/yr	\$14.56	▲	▲
Net Absorption	131,896	▲	▲

Hot Topics

- Colorado Springs ranks second best place to live in the U.S.
- Colorado Springs named 8th best housing market for 2018
- Colorado Springs area unemployment rate fell to 3.1% in May, lowest level in a year
- More hotels are on the horizon for Colorado Springs; 20 projects with more than 2,200 rooms are in process
- Southwest downtown redevelopment plan is moving forward with \$2B in changes over the next two decades
- Colorado Springs Airport awarded \$7.3M for expansion



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Class A/B Office Market Overview

The Colorado Springs office market has had a very strong start to 2018. We have commented many times over the past five years in previous versions of this newsletter that there is a big shift in the market that is coming and the results in the market metrics will be significant due to the fact that the market has not been overbuilt. That time has finally come and we are in the front-end of a very strong leasing market.

The overall lease activity in each of the three major submarkets (North I-25 Corridor, Airport Area and CBD) is as strong as we have seen it in over a decade. There is solid demand across the market for quality space due in most part to companies expanding locally and an unquestionable increase in business for companies in all business sectors.

The fact that we have not seen a speculative office building constructed since 2008 in the City is intersecting with the increase demand for space and causing a fairly dramatic shift in lease rates. While the market average “asking rates” have increased from \$13.99 psf NNN (4Q 2017) to \$14.56 psf NNN (Q2 2018), the actual impact on the market in the true strike price of new lease deals is much greater. By way of example, and is evidenced in many of the historical lease comps prior to the first half of 2018, most leases would be inked \$1.00 psf or more below the actual asking price. Almost universally, we have seen the leases completed in the first half of the year to be at or very close to the asking price as well as decreased TI packages and reduced tenant concessions, such as free rent.

Tenant demand in the market has mostly been driven by expanding companies as we have not yet seen the announcement of a new major employer to Colorado Springs, but with the overall net increase in migration to the city and the overall paradigm shift of employers chasing talent (versus the ‘old model’ of the other way around) we anticipate seeing some new names being added to the local business directory in the coming months as well as continued growth from companies benefiting from the local economy and workforce.

As we look to the second half of the year, all indications are toward a tighter and tighter market that will continue to drive pricing in all three submarkets. Given this outlook and the shortage of quality office space that is available in the market, we expect a far more dynamic and landlord-favored leasing environment than we have seen historically.

Market Statistics

COLORADO SPRINGS CLASS A OFFICE STATISTICS 2nd QUARTER 2018							
	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
NORTH I-25 CORRIDOR:							
2 nd Q 2018	4,464,608	543,214	110,387	12.17%	101,857	\$14.28	\$8.03
YTD 2018					166,355		
AIRPORT (SOUTHEAST) AREA:							
2 nd Q 2018	1,491,894	269,761	0	18.08%	29,352	\$14.06	\$7.63
YTD 2018					22,839		
CENTRAL BUSINESS DISTRICT:							
2 nd Q 2018	1,994,054	182,261	11,453	9.14%	687	\$15.55	\$8.61
YTD 2018					31,272		
TOTAL CLASS A MARKET							
TOTALS FOR 2 nd Q 2018	7,950,556	995,236	121,840	12.52%	131,896	\$14.56	\$8.08
TOTALS YTD 2018					220,466		

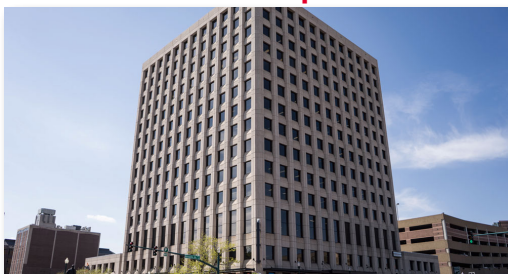
OVERALL VACANCY RATE: 12.52%

AVAILABILITY RATE (includes sublease space): 14.05%

Significant Transactions

BUILDING NAME	ADDRESS	TENANT	SQUARE FEET	QTR
LEASE TRANSACTIONS				
Patriot at Interquest III	9950 Federal Drive	Western Digital	42,487	1 st
ArrowsWest	4435-4455 Arrowswest Drive	Tek Experts	41,015	1 st
Briargate Tech	2375 Telstar Drive	Children's Hospital	27,000	2 nd
Patriot at Interquest III	9950 Federal Drive	Data Direct Networks	22,150	1 st
Briargate Office Center	1755 Telstar Drive	The LOGS Group	14,262	1 st
BUILDING NAME	ADDRESS	SALE PRICE	INVESTOR/ USER	QTR
SALE TRANSACTIONS				
Briargate Business Campus	1650 Telstar Drive	\$23,160,200/\$192.86 psf	Investment	2 nd
Four Gateway Plaza	444 E Pikes Peak Avenue	\$3,750,000/\$169.35 psf	Investment	1 st
US Bank Building	3505 Austin Bluffs Parkway	\$3,000,000/\$86.56 psf	Investment	2 nd
National American University	5125 N Academy Boulevard	\$2,375,000/\$107.87 psf	Investment	2 nd

Featured Office Properties



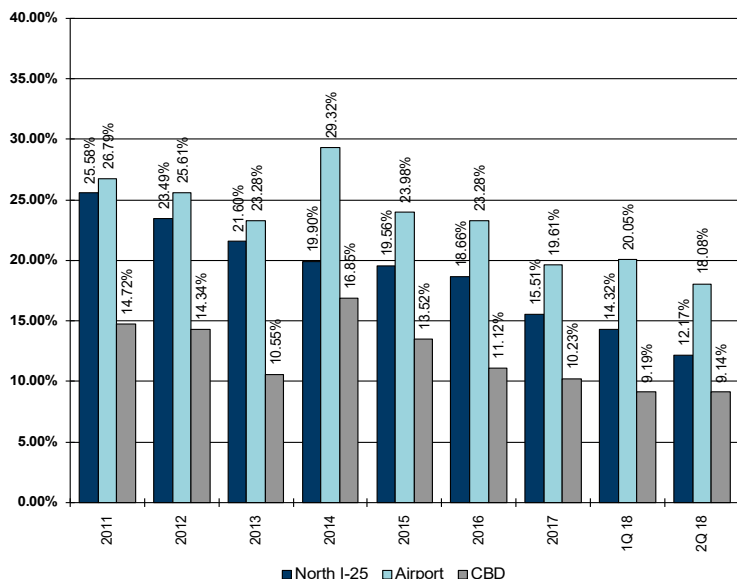
Colorado Square
2 N Nevada Ave.
1,714 to 16,200 SF For Lease



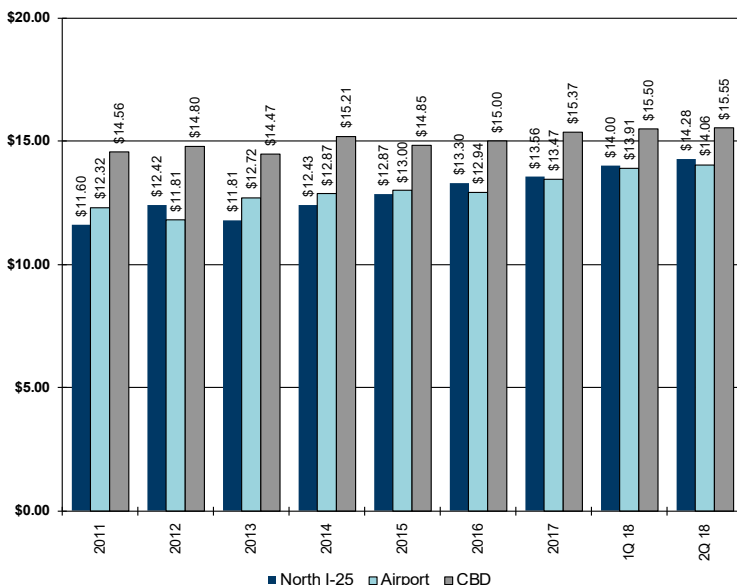
Corporate Pointe
1975 Research Pkwy.
1,581 to 15,617 SF For Lease



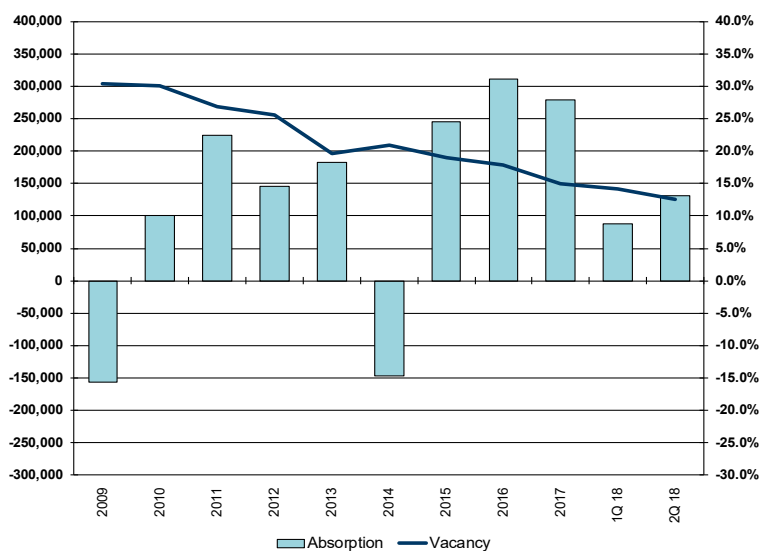
Patriot Park VI
655 Space Center Dr.
Up to 103,970 SF For Lease

Class A/B Vacancy**VACANCY**

Vacancy rates continued to decrease in the first half of the year and in all submarkets. The majority of multi-tenant buildings have seen reduced vacancy, and the level of activity in the market suggests the vacancy rate will continue to drop steadily in the second half of 2018. The CBD has been consistent with modest decreases in vacancy due to the nature of the submarket, but the Airport and North I-25 Corridor submarkets are seeing (and will likely continue to see) strong improvement quarter-over-quarter.

Class A/B Lease Rates (NNN/PSF)**LEASE RATES (NNN, Annual, Per RSF)**

The first look at lease rates as depicted in the graph to the left, appears as though there has been very little change over the last many quarters. While asking lease rates have increased overall, they are at a relatively modest rate from a “face rate standpoint”. The reality of the markets, however, are that lease rates continue to increase at a fairly steady rates and we expect to see new market highs in all three submarkets before year-end.

Class A/B Vacancy Rate VS Net Absorption (SF)**ABSORPTION**

Absorption has been strong in the first half of 2018, and we anticipate that to continue throughout the rest of the year. For the first time in many years tenants are having a hard time finding quality space. Additionally, the amount of sublease space is at a 10-year low, indicating lease activity is even stronger than the absorption numbers indicate.

Medical Market Statistics

2 nd QUARTER 2018							
	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
Colorado Springs MOB Market	1,655,998	185,051	0	11.17%	6,023	\$17.36	\$9.08

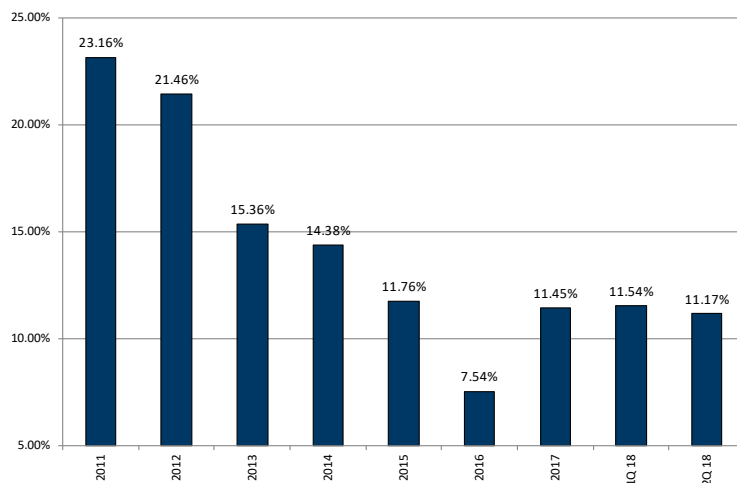
OVERALL - VACANCY RATE: 11.17%

AVAILABILITY RATE (includes sublease space): 11.17%

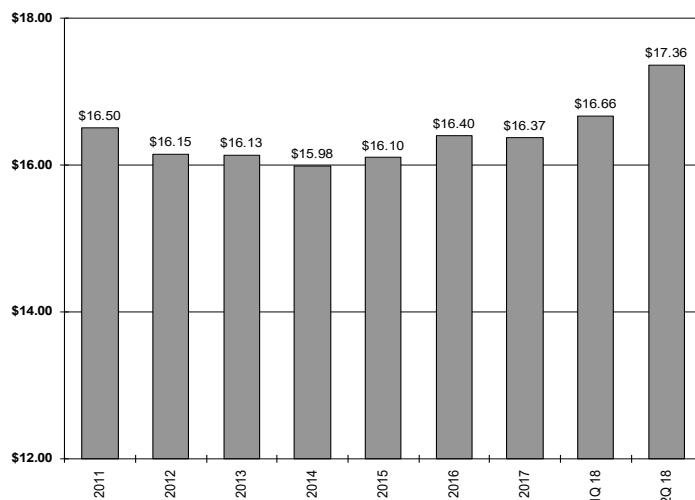
Medical Office Market Overview

The medical office market in Colorado Springs has had a very strong first half of the year and is reaching a point where we will see speculative MOB's coming out of the ground in late 2018 or early 2019, with asking rates in the \$22.00-\$24.00 psf NNN range. The majority of the lease activity and momentum in the market is in the northern part of the city where the new developments and new homes are being constructed. There continues to be a strong demand by private practice groups, the two major hospital systems within the city (UCH and CHI) as well as on the new Children's Hospital Campus and we expect to see this demand continue throughout the rest of the year. Lease rates continue to rise, especially for on-campus MOB's which currently lease at approximately \$25.00 psf NNN. We are finally at the point where new speculative development makes sense and we expect to see the launching of at least two projects announced before year-end.

Vacancy



Lease Rates (NNN/PSF)



Featured Medical Properties



Coming soon to St. Francis Campus



Northcare at St. Francis
6071 East Woodmen Rd.
5,034 SF For Lease

Absorption (SF)

