

MarketView

Fourth Quarter 2020



CUSHMAN &
WAKEFIELD

Colorado Springs
Commercial

QUICK STATS

	Year-End 2020	4Q19	3Q20
Vacancy	11.69%	▲	▲
Lease Rates	\$16.87	▲	■
Net Absorption	126,018	▼	▼

HOT TOPICS

- For the third year in a row, Colorado's economy ranked first among U.S. states, according to the U.S. News & World Report
- In 2020 5,068 building permits were issued for the construction of single-family homes in El Paso County, an increase of over 27% over 2019 and the most since 2005.
- The El Paso County Unemployment Rate was 6.0% in November, down from 12.2% at the height of the pandemic in April and up from the 3.1% rate in November 2019.
- Significant new apartment complexes completed and planned for the Downtown market, continuing the revitalization of the city marked by the new U.S. Olympic & Paralympic Museum, completion of the Switchbacks' outdoor stadium and overall gentrification of the city's southwest side.



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CLASS A/B OFFICE MARKET OVERVIEW

2020 began with tremendous momentum. Market conditions continued to exhibit the positive trends of the prior decade and things felt extremely upbeat. We confidently forecasted an upcoming period that would see significant change for the city, including a transformed downtown and revitalized economy fueled by the announcement of U.S. Space Command calling the city home for a 6-year commitment. Like much of the country, business slowed considerably in late winter and spring, with "remote" becoming the norm for both schools and the workplace. While some office requirements were put on hold, many forged ahead and were consummated, and by early summer things felt as they were returning to normal. Activity within the leasing market picked up, building sales got back on track, and many returned back to work, if only for a few hours or days per week. The notion of NOT needing office space was generally dismissed, even while the idea of working from home gained traction as a more long lasting trend. Ultimately we see most companies retaining office space, while providing their employees the latitude to work remotely. But company culture, hiring and retention, and productivity are all significantly enhanced by a great office environment, and we do not anticipate companies shedding office space in a substantive manner.

Despite the effects of COVID-19, much of the rest of the economy soldiered on. Construction, both residentially and commercially, continued at a feverish pace. Amazon's commitment to the construction of its 4-million-square-foot distribution center, and other ancillary office requirements, remained on track. The U.S. Olympic & Paralympic Museum was completed and opened with great reviews. Multiple downtown hotels, while in an industry deeply affected by COVID-19, pressed on with construction. Significant new apartment complexes were announced for both downtown and throughout the city, and the annexation of Banning Lewis Ranch into Colorado Springs continues and will assist in meeting the voracious appetite of home buyers. Hospitals continue to expand their campuses and add new facilities and the overall local economy continues to surge. Perhaps most important is how smaller cities like Colorado Springs are gaining traction in attracting firms, and the area remains an attractive alternative to both young and old to migrate to. While COVID-19 has tempered our optimism, the fundamentals all remain in place and solid, and we remain optimistic the future is very bright for the local economy and growth of Colorado Springs.

CLASS A/B VACANCY VS NET ABSORPTION



CLASS A/B OFFICE STATISTICS

Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
NORTH I-25 CORRIDOR:							
4th Quarter 2020	4,366,829	658,909	86,772	15.09%	(2,579)	\$16.77	\$8.57
YTD 2020					26,614		
AIRPORT (SOUTHEAST) AREA:							
4th Quarter 2020	1,404,317	125,290	13,386	8.92%	2,965	\$17.03	\$7.89
YTD 2020					90,593		
CENTRAL BUSINESS DISTRICT:							
4th Quarter 2020	1,994,054	123,252	38,414	6.18%	(11,897)	\$16.93	\$9.37
YTD 2020					8,811		
TOTAL CLASS A MARKET:							
TOTALS FOR 4th Q 2020	7,765,200	907,451	138,572	11.69%	(11,511)	\$16.87	\$8.65
TOTALS YTD 2020					126,018		



11.69%
Direct Vacancy Rate



13.47%
Overall Vacancy Rate

SIGNIFICANT TRANSACTIONS

BUILDING NAME	ADDRESS	TENANT	SQ FT	QTR
LEASE TRANSACTIONS				
Interquest Office	10125 Federal Dr	Northrop Grumman	99,359	3rd
Newport Centre One	1670 N Newport Rd	GSA	36,911	3rd
Patriot Park VII	565 Space Center Dr	Northrop Grumman	33,931	3rd
Aerospace Tech Center I	1795 Jet Wing Dr	Aperio Global	19,092	3rd
Patriot Park VII	565 Space Center Dr	ExoAnalytic Solutions	18,934	4th
Wells Fargo Tower	90 S Cascade Ave	Bank of America	9,828	4th
Powers Professional I	6140 Tutt Blvd	OptumCare Colorado	9,740	4th
Briargate Tech	8415 Explorer Dr	By Your Side Autism Therapy	9,364	4th
Aerotech R&D	1925 Aerotech Dr	GSA	8,732	3rd
Union Medical Campus	1625 Medical Center Pt	Colorado Institute of Sports Medicine	7,446	4th
BUILDING NAME	ADDRESS	SALE PRICE/PER SF	SALE TYPE	QTR
SALE TRANSACTIONS				
Patriot Park VI	655 Space Center Dr	\$24,250,000/\$233.24	Investor	4th
Newport Centre One	1670 N Newport Rd	\$11,000,000/\$162.63	Investor	4th
Powers Professional I	6140 Tutt Blvd	\$8,925,000/\$251.03	Investor	4th
Tech Center V	5475 Tech Center Dr	\$7,900,000/\$146.56	Investor	3rd
Centerpointe Plaza	5731-5759 N Academy Blvd	\$6,250,000/\$202.64	Investor	3rd
Printers Park Medical	155 Printers Pkwy	\$4,845,000/\$161.39	Investor	4th
4194 Royal Pine	4194 Royal Pine Dr	\$3,850,000/\$281.70	User	4th

FEATURED OFFICE PROPERTIES



COLORADO SQUARE

2 North Nevada Avenue
559-13,908 RSF

Best amenity package in Downtown



ONE GATEWAY PLAZA

1330 Inverness Drive
2,030-18,931 RSF

\$500k+ in ongoing Capital Improvements

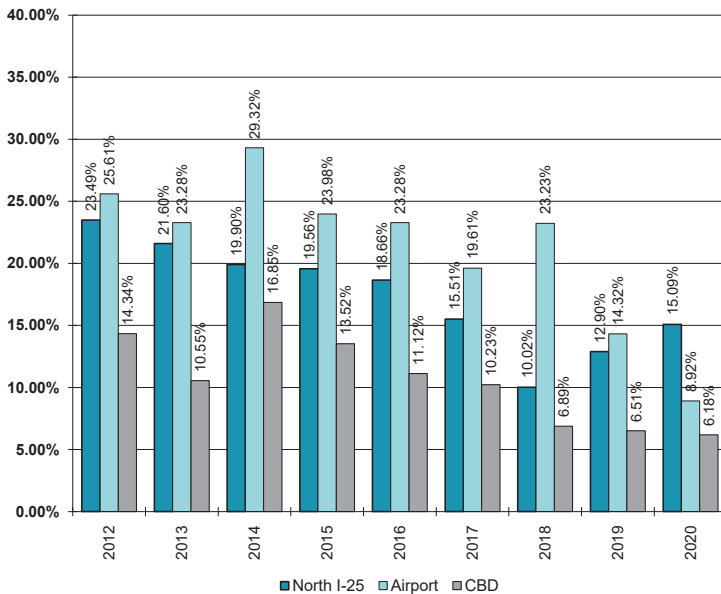


CORPORATE POINTE

1975 Research Parkway
1,560-21,500 RSF

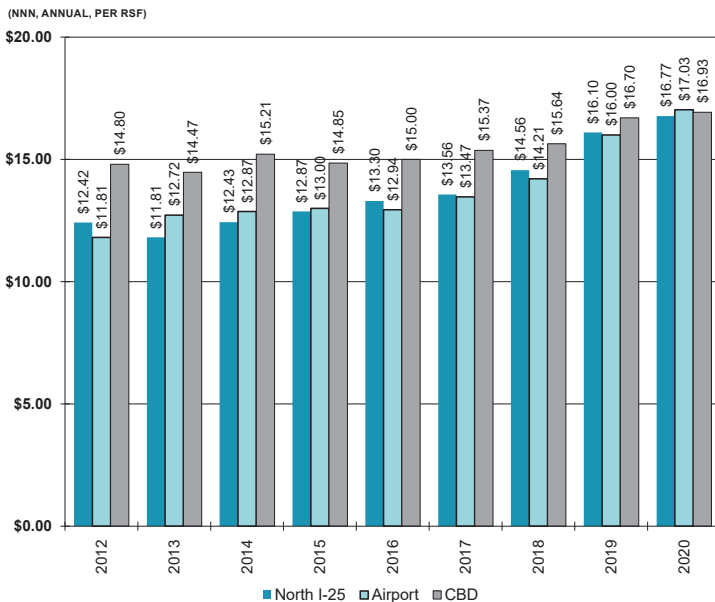
In the heart of Briargate Business Campus

CLASS A/B VACANCY



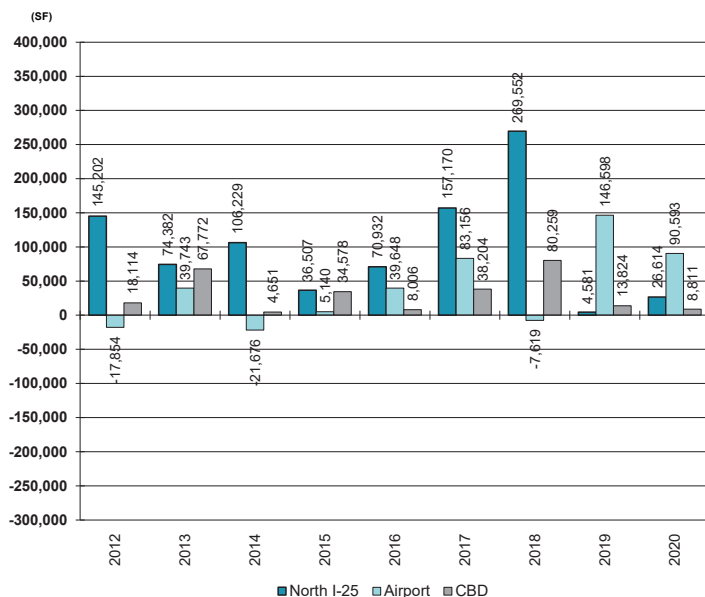
Vacancy rates remained stable in 2020, rising only slightly from 2019 year-end of 11.52% to 11.65% for 2020. The increase occurred in the 4th quarter as some larger blocks of space came on-line and eroded at the gains from the previous three quarters. The North I-25 market noted the largest swing, with vacancy rates rising from 12.9% year end 2019 to 15.09% for year end 2020; and the airport submarket, fueled by activity from DOD contractors, dropped almost 6% to end the year at 8.92%. Both the airport and CBD submarkets are extremely tight for space and new construction is being contemplated, with a number of projects being marketed for pre-leasing.

CLASS A/B LEASE RATES



Lease rates continue to escalate throughout the market, and most notably in the Airport submarket where asking rates are up over \$1.00 per square foot in 2020. 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 in 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



With the exception of the Airport submarket, which posted over 90,000 square feet of positive absorption for 2020, the other markets suffered from negative absorption, albeit modest. This occurred primarily in the 4th quarter with some larger blocks of space being brought on line, compounded by modest lease activity. Some of this was expected consolidation, and others, like Oracle's 75,0000 square feet offering, may be attributed to a remote work environment. We do not anticipate this trend to continue, and anticipate positive absorption in 2021 – in particular in the CBD and Airport submarkets where interest remains strong amongst tenant's seeking new space and in general a stable base of tenancy.

MEDICAL OFFICE MARKET STATISTICS

4TH QUARTER 2020

TOTAL BLDG SF	AVAILABLE SF	SUBLEASE SPACE	VACANCY RATE	YTD ABSORPTION	LEASE RATE	NNN EXP.
1,720,998	186,698	2,289	10.85%	15,409 SF	\$19.10	\$10.09

 **10.85%**
Direct Vacancy Rate

 **10.98%**
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.

FEATURED MEDICAL PROPERTIES



POWERS PROFESSIONAL CENTER

6140 & 6160 Tutt Blvd
1,796-2,420 SF

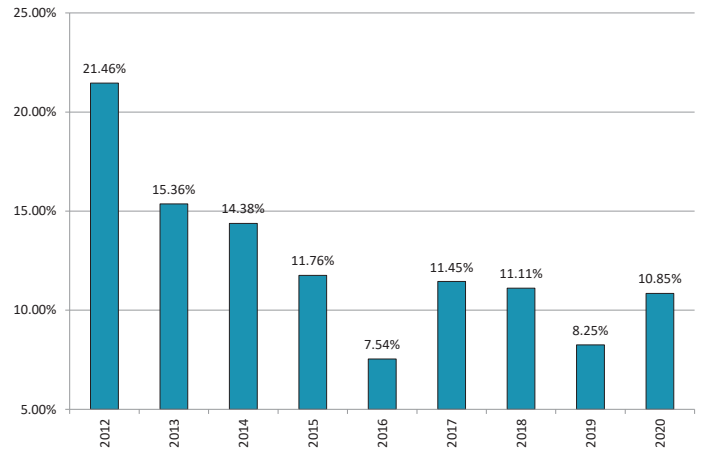
High quality finishes, Class-A MOB



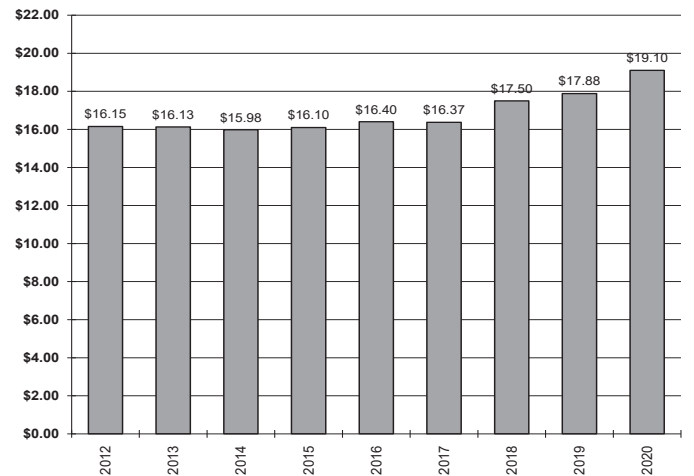
UNION MEDICAL CAMPUS

1625 Medical Center Pt
1,367-10,637 SF
New ownership

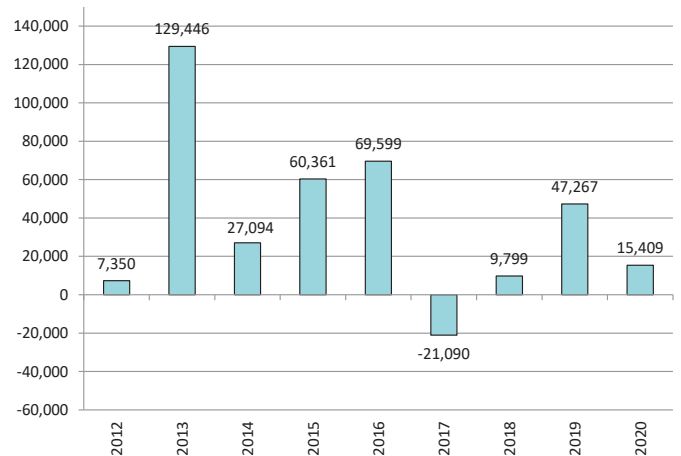
VACANCY



LEASE RATES



ABSORPTION



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