

Quick Stats

	2Q14	Yr.	1Q14
Vacancy	20.97%	▲	▲
Lease Rates psf/yr	\$13.45	▲	▲
Net Absorption*	6,617	▼	▼

Hot Topics

- Investment activity remains strong as investors seek yield in Colorado Springs.
- Cushman & Wakefield/Colorado Springs Commercial growing Industrial, Retail and Support teams, increasing market share.
- Medical market activity remains stagnant, proximity to hospital campuses remains important.
- City for Champions (www.cityforchampions.com), an effort to significantly impact the economic vitality of the City, is completing the process of City review and funding.
- New construction in CBD drives up vacancy rate.
- Lease rates begin to escalate for the first time in many years.



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Class A/B Office Market Overview

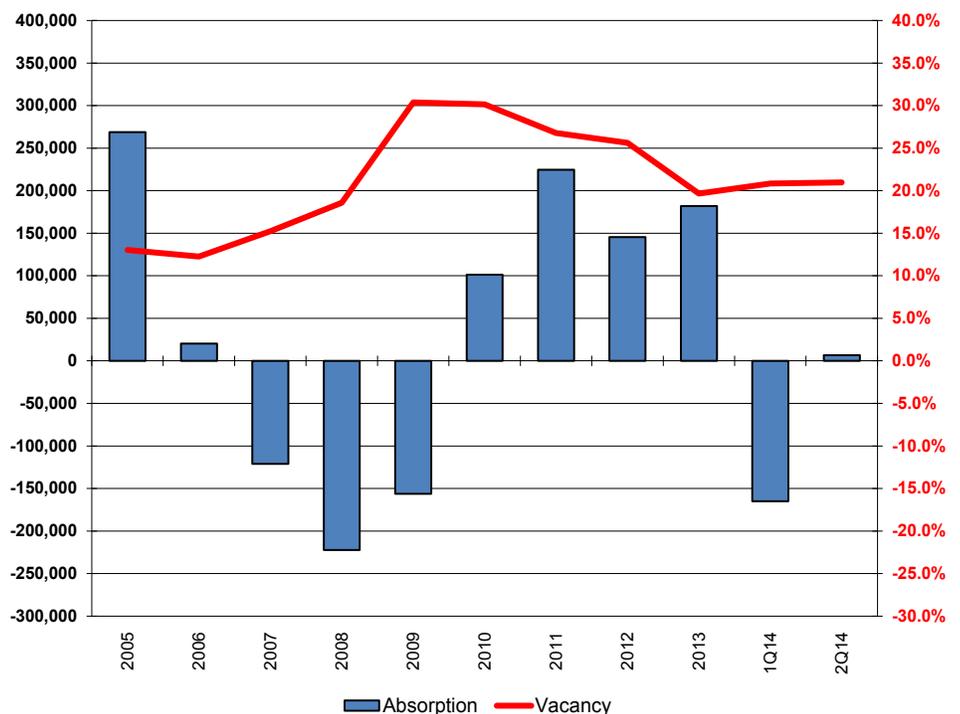
As we enter the 2nd half of 2014 and have finalized our YTD leasing, absorption, average rental rates, trends, etc., we have taken the opportunity to pause and re-look at the story behind these numbers.

As is evident in the statistics and hard data below, the Office Market in all three submarkets (CBD, Airport Area, North I-25 corridor) remains flat. While we have not seen any major regression to the market, we also have seen little forward progress for many buildings in absorbing the vacancies in the market. For the past 24 months we have been forecasting modest but steady improvement in the market and, generally speaking, this has been the case (with the higher quality and newer assets leading the pack). Additionally, we forecasted that the momentum of forward progress would increase and we would see upward pressure on lease rates and an increased sense of urgency in the market as it gained momentum (this was anticipated by mid-2014). Now that we are here, it is apparent both through hard data and on the overall "feel" of the market that we are in for more of the same through the rest of the year.

The market is poised for a strong recovery as it is not overbuilt and the difference between replacement cost and current market rents is still significant enough to prevent any speculative development. Furthermore, many of the older/ antiquated buildings have either been repurposed or had ownership changes with groups that have spent the necessary dollars to reinvigorate them in the market. However, the elephant in the room is the lack of new jobs, and companies relocating to Colorado Springs.

As a city, Colorado Springs is on the front end of a Renaissance of sorts with key leading factors such as the University of Colorado Health taking over Memorial Hospital (formerly City owned), the Strong Mayor System implemented in 2010, and the City for Champions project initiating both CBD and suburban development. These projects and momentum, coupled with the strong military and defense backbone to the market, have the city will positioned for the future and for job growth - but we are not there yet. Our belief is that patience and a steady measured approach toward the Office Market from an owner's perspective will be key throughout 2014 and into 2015.

Class A/B Vacancy Rate VS Net Absorption



Market Statistics

COLORADO SPRINGS CLASS A OFFICE STATISTICS 2ND QUARTER 2014							
Office Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
NORTH I-25 CORRIDOR							
2ND Q 2014	5,631,808	1,179,291	168,966	20.94%	101,667	\$12.21	\$7.48
YTD 2014					12,502		
Airport (SOUTHEAST) AREA							
2ND Q 2014	1,569,594	442,868	74,074	28.22%	(31,923)	\$12.87	\$7.28
YTD 2014					(91,354)		
CENTRAL BUSINESS							
2ND Q 2014	1,805,365	266,239	0	14.75%	(63,127)	\$15.26	\$8.46
YTD 2014					(79,659)		
TOTAL CLASS A MARKET							
TOTALS FOR 2ND Q 2014	9,006,767	1,888,398	243,040	20.97%	6,617	\$13.45	\$7.74
TOTALS YTD 2014					(158,511)		

OVERALL VACANCY RATE: 20.97%; AVAILABILITY RATE (includes sublease space): 23.66%

Significant Transactions

BUILDING NAME	ADDRESS	TENANT	SQUARE FEET	QTR
LEASE TRANSACTIONS				
Union Medical Center	1644 Medical Center Point	Urological Associates	13,500	2nd 2014
Northcare Medical	6071 E Woodmen Rd	Academy Women's Health	17,500	2nd 2014
Patriot Park I	985 Space Center Dr	AI Solutions	3,500	2nd 2014
Palmer Center	2 N Cascade Ave	Insurance Tech	60,000	2nd 2014
Palmer Center	90 S Cascade Ave	Wells Fargo	45,000	2nd 2014
Briargate Tech Center	8415 Explorer Dr	Front Range	17,000	2nd 2014
Interquest Office Campus	10285 Federal Dr	Synthes	13,000	2nd 2014
BUILDING NAME	ADDRESS	SALE PRICE	INVESTOR/USER	QTR
SALE TRANSACTIONS				
Parkmoor Village	3535 Parkmoor Village Drive	\$24,500,000	Investor	2nd 2014
630 Southpointe	630 Southpointe Court	\$3,200,000	Investor	2nd 2014

Featured Office Properties



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

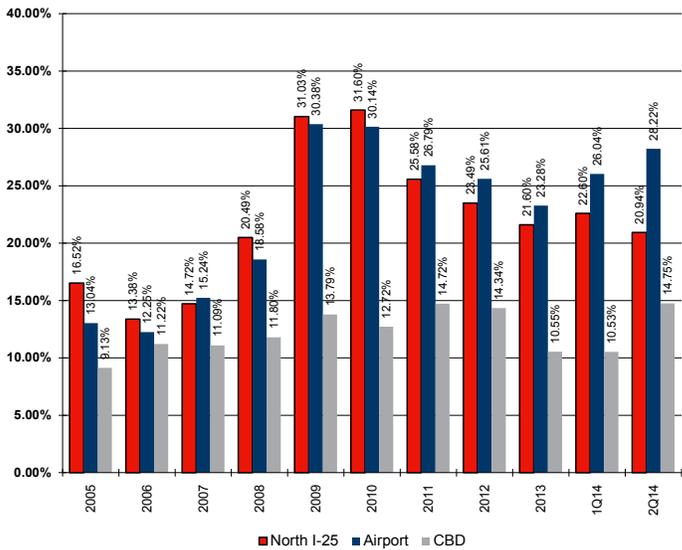


Patriot Interquest II
9925 Federal Drive
42,000+/- SF For Lease



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

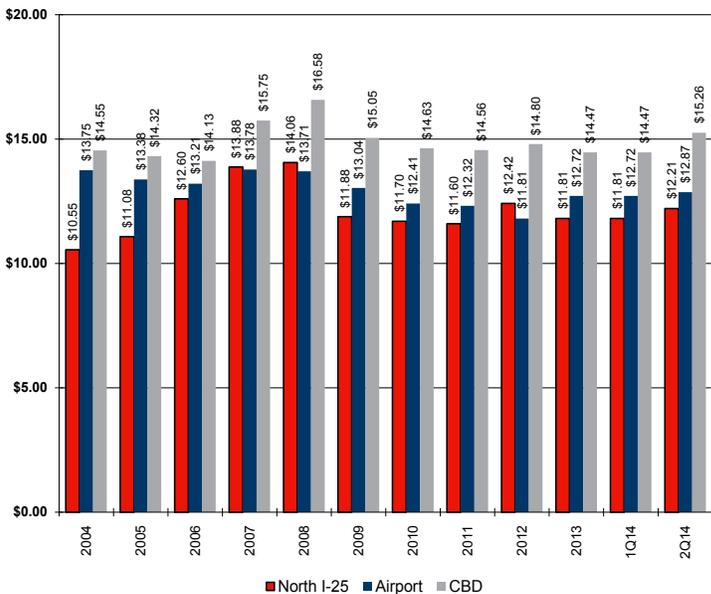
Class A/B Vacancy



VACANCY

Vacancy rates are down in the North I-25 submarket, which is the city's largest and most dynamic at 5.6 million square feet. However, the Airport submarket saw a modest uptick and the CBD market was up considerably - primarily due to 70,000 square feet of vacancy coming on-line at Colorado Square and two modestly sized properties currently being constructed.

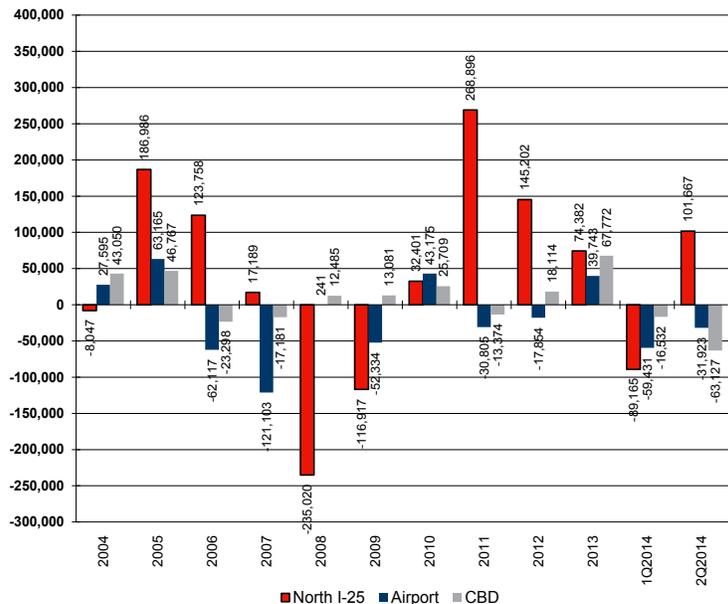
Class A/B Lease Rates (NNN/PSF)



LEASE RATES (NNN, Annual, Per RSF)

Lease rates have begun to escalate in the second quarter in a meaningful way as new building owners, and old, look to take advantage of a slowly improving market. Higher quality properties are seeing the greatest increase as they generally represent the lowest vacancy, but across the board rates are increasing and we anticipate the trend to continue.

Class A/B Absorption (SF)



ABSORPTION

Absorption is the key indicator to the market. As was detailed in the Office Market Overview, the second quarter negative absorption at first glance raises some concerns. However, while the overall numbers are modest, the negative absorption rates in the CBD and Airport market should reflect a short-term occurrence and positive absorption should return in the second half of 2014.

Medical Market Statistics

2ND QUARTER 2014							
	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
Colorado Springs MOB Market	1,644,899	248,897	0	14.95%	15,887	\$16.02	\$9.00

OVERALL - VACANCY RATE: 14.95%; AVAILABILITY RATE (includes sublease space): 14.95%

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 three (3) years the Colorado Springs Medical Market has seen its fair share of transition (not to mention the effect the economy has had on all sectors). The effect of the transition of Memorial Hospital to the UCH system, the growth of local organizations like Colorado Springs Health Partners ("CHSP"), the relocation of the three (3) largest orthopaedic groups in town, Children's Hospital opening with a large presence in the market for the first time, and the overriding uncertainty of the effect of "Obamacare" have made for a very unsettled time in the market.

The above Medical Market Summary has been more or less the same for the past 36 months. The reality of this market is that due to the above listed factors, the Colorado Springs Medical Market experienced a major shift and realignment over the past few years and now that the 'dust has settled' there has been limited activity in the market. Our forecast for the next several quarters is for the trend toward absorption of the newer/higher quality assets to increase with modest but steady increase on rental rates as the space availability decreases. Conversely, the older product will continue to struggle to compete and this is expected to result in decreased rental rates and reduction in values.

Featured Medical Properties



Union Medical Center
1625 Medical Center Pt
18,171 SF (divisible) & 914 SF

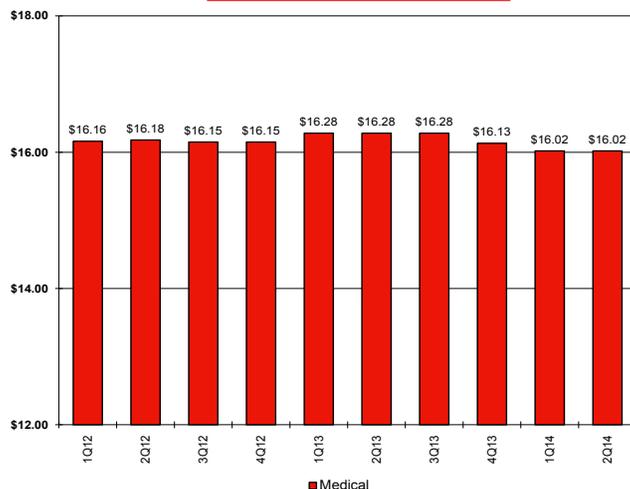


Northcare at St. Francis
6071 East Woodmen Road
19,397 SF For Lease (divisible)

Vacancy



Lease Rates (NNN/PSF)



Absorption (SF)

