Palmer McAllister

An independently owned and operated member of the CUSHMAN & WAKEFIELD® ALLIANCE

COLORADO SPRINGS OFFICE OVERVIEW

FIRST QUARTER 2010

Executive Overview

The Colorado Spring's Class A office market is comprised of approximately 10.1 million square feet in three distinct submarkets. As of the 1st Quarter 2010, the overall size of the market has grown due to the addition of the former Intel facility on Garden of the Gods Road, which effectively added 486,723 square feet of competitive space to the market. Since mid 2008, all three submarkets have seen increasing vacancy, decreasing lease activity and absorption, and downward pressure on lease rates. At the end of the 1st Quarter 2010, the overall vacancy of the Class A market sits at 33.46%, up from 18.58% in the 4th Quarter 2008, with year-to-date absorption of negative 18,690 square feet. Lease rates have continued their downward slide and now average $13.21 psf, NNN, down from $14.78 in the 4th Quarter 2008. It is important to note, however, that the lease rate numbers contained herein are "asking rates" and are not wholly reflective of the "transaction rates" which we are seeing 10% to 20% lower and inclusive of concessions such as free rent, moving allowances, and healthy TI packages. The majority of activity in the market for the past 12 to 18 months has been tenants already in the market looking to take advantage of depressed lease rates and/or upgrade quality, image and location for comparable dollars. An exception to this is a 70,000 square foot lease to Corinthian College, which is new to town and planning to employ 600 people. All indicators point to "more of the same" for the next two quarters of 2010.

North I-25 Corridor

Of the three submarkets, the North I-25 Corridor is the largest and most diverse totaling approximately 6.7 million square feet. Corporate users tend to gravitate to this suburban market as it offers larger floor plate buildings, higher parking ratios, and proximity to a large employee base in both Colorado Springs and Denver. This market has historically seen the largest fluctuations in vacancies and rental rates, and this is being realized in today's market conditions. Vacancy rates have bumped up to 33.46% (due in most part to the addition of the former Intel space), and there was a slight uptick in absorption of 10,834 square feet in the 1st Quarter. Quoted lease rates have softened and now average $12.00 NNN per RSF - down from $14.06 a year ago. The health of this market will trend with the national economy and we predict the market will remain anemic with limited leasing activity and absorption in the first half of 2010, and will begin to gradually gain strength in the second half of the year.

Central Business District

At 1.8 million square feet the Central Business District is historically the most stable of the three submarkets. Six towers of approximately 15 floors each comprise the majority of the market, with the balance made up of smaller three to six story properties. Vacancy rates have increased over the last year from 11.8% in the 1st Quarter 2009 to 14.05%. The CBD experienced minor negative absorption year-to-date of 3,788 square feet and is the only submarket in Colorado Springs with stability. Despite the slight up-tick in vacancy, the overall market remains healthy, and with the majority of vacancies being in the 1,000 to 3,000 square foot range, we do not anticipate a significant change in vacancy through the end of 2010. Rates too will remain stable, with those tenants renewing taking advantage of rates some 15% less than their outgoing rate. With employment growth in the overall Colorado Springs market, we will slowly see the CBD market regain occupancy and in a linear progression.

Airport / Southeast Area

Home to many Department of Defense contractors the airport submarket, with proximity to both Peterson and Schriever Air Force Bases, totals approximately 1.5 million square feet. While this has historically been a stable market with very limited vacancy rates, the dynamics have changed as companies have sought a "flight to quality" and pursued build to suit and owner occupied alternatives. This has resulted in large blocks of vacancies in older, mid 1980's properties with second and third generation space. The result is a staggering vacancy rated now exceeding 48%! Lease rates, buoyed by new construction fueled by the flight to quality, average $13.34 NNN per rentable square foot. However, many properties will complete a transaction in the $10.00 to $11.00 range. Negative absorption continued in this submarket in the 1st Quarter with an additional negative 25,736 square feet coming on line and we don't see anything occurring to reverse this slide in 2010.

QUICK STATS – Class "A" Market

Vacancy:	33.46%
Lease Rates:	$13.21 NNN
Net Absorption:	(18,690) square feet

2009 OFFICE MARKET OUTLOOK

Vacancy:	↖	Lease Rate:	↘
Net Absorption:	↘	Lease Activity:	↘

MARKET STATISTICS

COLORADO SPRINGS
CLASS-A OFFICE STATISTICS
1ST QUARTER 2010

Office Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
NORTH I-25 CORRIDOR:							
1ST Q 2010	6,754,353	2,373,904	97,993	35.14%	10,834	$12.00	$7.62
YTD 2010					10,834		
AIRPORT (SOUTHEAST) AREA:							
1ST Q 2010	1,551,371	755,636	0	48.71%	(25,736)	$13.03	$7.03
YTD 2010					(25,736)		
CENTRAL BUSINESS DISTRICT:							
1ST Q 2010	1,803,132	253,335	16,318	14.05%	(3,788)	$14.59	$8.18
YTD 2010					(3,788)		
TOTAL CLASS A MARKET							
TOTALS FOR 1ST Q 2010	10,108,856	3,382,875	114,311	33.46%	(18,690)	$13.21	$7.61
TOTALS YTD 2010	10,108,856	3,382,875	114,311	33.46%	(18,690)	$13.21	$7.61

OVERALL - VACANCY RATE: 33.46%; AVAILABILITY RATE (includes sublease space): 34.59%

VACANCY ↑ **LEASE RATES** ↓ **ABSORPTION** ↓

SIGNIFICANT TRANSACTIONS

SIGNIFICANT LEASE TRANSACTIONS - 1ST Q 2010

BUILDING NAME	ADDRESS	TENANT	SQUARE FEET	SUBMARKET
Epic I	10807 New Allegiance	Albert Vein Institute	13,228	North I-25
Briargate Office	1755 Telstar Drive	Solers	4,288	North I-25
Briargate Office	1755 Telstar Drive	Sorenson	6,636	North I-25
Corporate Pointe	1975 Research Parkway	Kaiser	21,500	North I-25
Corporate Pointe	1975 Research Parkway	Nolte	9,992	North I-25
Chapel Hills Atrium	1125 Kelly Johnson Blvd.	USFalcon	4,162	North I-25
NorthCreek II	5755 Mark Dabling Blvd.	Qshift	3,500	North I-25
North Pointe Atrium	6005 Delmonico Drive	Rockrimmon Vision	4,362	North I-25
Corporate Ridge	1575/1675 Garden of the Gods	Corinthian College	70,000	North I-25
Briargate Tech	2375 Telstar Drive	Near Space Systems	6,400	North I-25
Tech Center II	5555 Tech Center Drive	USADA	16,272	North I-25
Palmer Center Atrium	2 South Cascade Avenue	CSHP	27,512	CBD

THE INSIDE TRACK

With vacancy rates approaching 35% and a severely diminished velocity of transactions or "deals in the market" the overall outlook for the next nine to twelve months appears bleak. However, one must not need to completely dismiss reality to have some optimism.

Over the past fifteen months the Colorado Spring's market has seen vacancy rates almost double! This has been due in large part to big blocks of space being added that appeal to a very specific user and skew the overall vacancy rates. An example is the former Intel facility which added 500,000 square feet of space to the market in the first quarter of 2010. This property alone increased overall vacancy in the North I-25 market by approximately 7.5%! Similar examples include Verizon which brought 300,000 square feet to market in their Garden of the Gods campus; and Focus on the Family which is marketing 50,000 square feet in their Briargate facility. The number of properties suitable for users seeking in excess of 30,000 square feet has grown substantially and this segment of the market has been most adversely affected. Historically the large blocks of quality space have leased up quickly as Colorado Spring's will become an option for those companies completing multi-city searches to relocate or expand operations. However the number of current vacancies in excess of 30,000 are at historical highs. There is activity, which include a 90,000 square foot lease at the former Verizon Campus, and a 70,000 square foot lease at the former Intel facility. However, these large blocks will continue to inflate our overall vacancy levels and we anticipate it will be 3-4 years to lease up much of this space and have a return to stabilized occupancy.

Properties appealing to the 2,000 – 10,000 square foot tenant have remained relatively healthy and stable, and the overall vacancy of this product is less than 20%. The Central Business District, which has assets generally comprised of smaller tenants occupying less than 10,000 square feet, is experiencing a vacancy rate of 14% and illustrates the general health of the market. Quality multi-tenanted properties in desirable locations like the Central Business District, Colorado Springs' Tech Center, and Briargate Business Campus have seen enough lease activity to ward off despair and we do not see this segment of the market getting worse. It also tends to be the first to mark a comeback and we anticipate 2010 will see vacancy rates drop and lease rates increase for these properties.

In conclusion, 2010 will mark the turn-around for quality Class A properties in desirable locations and specifically for those with vacancies less than 10,000 square feet. For lower quality assets in less desirable locations, or those with big blocks of vacancy that can't be subdivided, 2010 will require patience and a creative approach to incentivize tenants and it will likely be well into 2011 that we begin to see this market stabilize.

ABOUT PALMER MCALLISTER/CUSHMAN & WAKEFIELD

Palmer McAllister\Cushman & Wakefield is Colorado Springs' most active and successful office brokerage company.

Starting in 2009, Palmer McAllister became a member of the Cushman & Wakefield Alliance program, which allows the company to be independently owned and operated, while benefiting from all of the resources of an operation with over 15,000 employees in 220+ worldwide locations.

Dedicated exclusively to commercial real estate services, Palmer McAllister is comprised of three principals/brokers, and a professional support staff who possess a genuine commitment and unsurpassed knowledge of the industry.

Areas of specialization and expertise include office, industrial, retail and investment brokerage services; financial analysis, planning & development consulting and asset management.

The combination of superior local knowledge and extensive experience, combined with the international reach and state-of-the-art resources and relationships provided through Cushman & Wakefield, allow our brokers to serve their clients exceptionally.

Greg Phaneuf
Principal

Peter Scoville
Principal

Gary Hollenbeck
Principal

FEATURED PROPERTIES

Medical Pavilion at Briargate
4125 Briargate Parkway
85,000 SF For Lease (divisible)

Corporate Center at Briargate
2060 Briargate Parkway
22,758 SF For Lease (divisible)

Palmer Center
2 North & 90 South Cascade Avenue
49,005 SF For Lease (divisible)

Oracle
12320 Oracle Road
19,791 SF For Lease (divisible & with FF&E)

Chapel Hills Atrium
1125 Kelly Johnson Blvd.
15,379 SF For Lease (divisible)

Briargate Office
1755 Telstar Drive
15,032 SF For Lease (divisible)
12,096 SF for Sublease