



Executive Overview

It may come as a surprise to many, but there have been a considerable number of office building's trading hands in the Colorado Springs market over the past 18-24 months. Many of the properties were being marketed for lease, and ended up being purchased at a considerable discount to replacement costs, by owner –users. In all of these transactions, the space being vacated by the owner-user was much smaller than the “new” building and in most cases was a significant upgrade in quality. The net result of these transactions has been to take large blocks of vacancy off the market, thereby assisting in bringing the vacancy levels down and limiting options for future requirements.

Beginning with El Paso County's purchase of a 300,000 square foot office building located along Garden of the Gods Boulevard, (part of the former Intel Campus), owner-users in the Colorado Spring's market have been able to find purchase options below replacement costs which have lowered their occupancy costs over the next 5-10 years. Other groups who have pursued this option and purchased their own building for prices ranging from \$35-\$85 PSF have included the Space Foundation for 45,000; USA Volleyball for 30,000; Pikes Peak Library District for 113,000 square feet; Braxton Technologies for 100,000; Undisclosed Purchaser as of 4/12 for 63,000 sf; and Pikes Peak Hospice for 40,000 square feet. This represents approximately 700,000 square feet of space that was formerly being marketed for lease, now removed from the market vacancy and generally occupied by users that were able to substantially improve the overall quality of their office environment. Close to another 500,000 square feet is currently under contract and should transfer ownership my mid-year to more owner occupiers, taking an additional chunk out of the market vacancy and limiting options for those tenants in the market to lease space.

In addition to the owner-users purchasing properties, we are beginning to see the traditional institutional offerings come to market. Today these include Tech Center I at 111,00 square feet; Pikes Peak Research Park at 83,000 square feet; The Presidio Building at 82,000 square feet; Center City Plaza at 39,388 square feet and 19 North Tejon Street at 40,000 square feet. Tech Center VI, a 104,000 square foot office property in the Colorado Spring's Tech Center recently went back to the lender, and we can expect that to come to market soon. The motivation of the current owners is varied, but in general most see this as a good time to sell with the bottom of the market behind us and they are selling upside. Recent sales include Pine Creek in Briargate (\$9,025,000 or \$108.74 PSF), and Corporate Centre at Woodmen and I-25. These were purchased by groups who believe the market is going to get considerably better over the next 3-5 years and they are positioning themselves to take advantage of the improvement. With new ownership generally comes an increase in the building's lease rates and decreased concessions, as the new entities believe the market can support the higher rates, and they have the patience to wait for deals that a previous owner may not have had.

The net result of removing over 1 million square feet of office properties from the market vacancy, along with new owners to the market, and 24 months of positive absorption, will be a decrease in market vacancy, and increase in market lease rates, and more building owners looking to sell as the market tightens up.

QUICK STATS – Class “A” Market

Vacancy: 26.80%
Lease Rates: \$12.87 NNN
Net Absorption YTD: 52,205 square feet

2011 OFFICE MARKET OUTLOOK

Vacancy: Net Absorption:
Lease Rate: Lease Activity:



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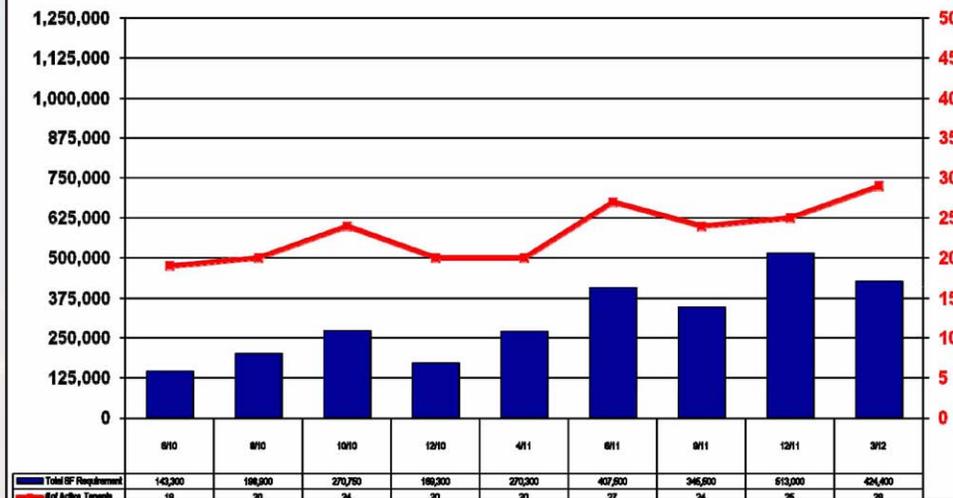
MARKET STATISTICS

COLORADO SPRINGS CLASS-A OFFICE STATISTICS 1ST QUARTER 2012

Office Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
NORTH I-25 CORRIDOR:							
1ST Q 2012	6,423,689	1,638,858	65,093	25.51%	34,785	\$11.68	\$7.61
YTD 2012					34,785		
AIRPORT (SOUTHEAST) AREA:							
1ST Q 2012	1,508,990	719,562	0	47.68%	(7,286)	\$12.19	\$7.12
YTD 2012					(7,286)		
CENTRAL BUSINESS DISTRICT:							
1ST Q 2012	1,803,132	251,214	29,299	13.93%	24,706	\$14.75	\$8.20
YTD 2012					24,706		
TOTAL CLASS A MARKET							
TOTALS FOR 1ST Q 2012	9,735,811	2,609,634	94,392	26.80%	52,205	\$12.87	\$7.64
TOTALS YTD 2012					52,205		

OVERALL - VACANCY RATE: 26.80%; AVAILABILITY RATE (includes sublease space): 27.77%

LEASE ACTIVITY OVERVIEW NORTH I-25 CORRIDOR June 2010 – March 2012



SIGNIFICANT TRANSACTIONS

SIGNIFICANT SALE/LEASE TRANSACTIONS

BUILDING NAME	ADDRESS	TENANT/BUYER	SQUARE FEET	LEASE/SALE
SALE TRANSACTIONS				
Owner/User	1175 Chapel Hills Drive	Pikes Peak Library District	112,883	\$3,750,000
Owner/User	265 Parkside Drive	Advanced Gynecology	12,591	\$1,190,000
Owner/User	10035 Federal Drive	Elope, Inc.	44,967	\$2,400,000
Sam's Club	1850 East Woodmen Road	Cole SC Colorado Springs	128,065	\$17,300,000
LEASE TRANSACTIONS				
1st Bank Building	2 North Cascade Avenue	Northwest Mutual	13,221	Lease
Briargate Office Center	1755 Telstar Drive	Regus	11,748	Lease
Patriot Park VII	565 Space Center Drive	Delta Solutions	9,500	Lease
NorthCreek II	5755 Mark Dabling Blvd.	PMC	15,500	Lease
Tech Center VI	5575 Tech Center Drive	ISS	11,442	Lease

FEATURED PROPERTIES



Oracle
12320 Oracle Road
35,591 SF For Lease (divisible)



Northpointe Atrium
6005 Delmonico Drive
11,050 SF For Lease (divisible)



Briargate Tech
2375 Research & 8415 Explorer
79,072 SF For Lease (divisible)



Colorado Square
2 North Nevada Avenue
1,979 SF For Lease



Corporate Pointe
1975 Research Parkway
35,253 SF For Lease (divisible)



Verizon
2424 Garden of the Gods Road
105,000 SF For Lease (divisible)

MEDICAL OFFICE MARKET

1ST QUARTER 2012							
	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Average Lease Rate	NNN Exp.
Colorado Springs MOB Market	1,525,733	355,919	2,292	23.33%	(1,114)	\$16.16	\$8.88
OVERALL - VACANCY RATE: 23.33%; AVAILABILITY RATE (includes sublease space): 23.48%							

The Colorado Springs MOB market has started out 2012 with significant activity. While the national medical market has and will continue to be affected by the overall health insurance payee/payor issues facing the country and many medical practices are taking a guarded approach to the future, we are seeing signs of stabilization locally as many users are active in the market and looking to secure space and be operational before year end 2012.

As of April 2012, the likely outcome of the “Memorial Issue” (as we outlined in detail in 2011 year end report) is a long term lease to the University of Colorado Health System. While this is still subject to City Council and ultimately citizen vote (anticipated in late 2012), this is the recommendation to City Council of the appointed “Task Force” and the one that most feel will be approved. As the potential outcome of this uncertainty has continued to stabilize, we have seen a direct correlation to an increase in active prospects in the market.

Lease rates for medical office buildings generally range from \$17.00-\$21.00 per rentable square foot on new construction, and \$14.50-\$16.50 for second generation properties. 1st Quarter 2012 numbers show an average asking lease rate of \$16.16 per square foot and negative absorption of 1,114 square feet, mainly attributable to the vacancy at Northcare at St. Francis that was created when Penrose vacated a 5,673 rentable square foot lab space. Generally speaking, while there were some large transactions in 2011, most were lateral moves in terms of total square footage leased.

As we look into the balance of 2012, we forecast the medical market stabilizes and expect to see vacancy rates decrease as the newer first generation buildings constructed on or near the Memorial and Penrose Campuses fill up with tenants expanding in the northern part of town. Currently there are approximately 10 users active in the market totalling in excess of 100,000 square feet in new lease activity, which we anticipate will land before the end of the year. The YTD lease negotiation activity in 2012 is pointing toward positive absorption later in the year. While we don't anticipate the sentiment of uncertainty to change in 2012, there will be increased demand for space and limited speculative product that will be left available by late 2012.



Union Medical
Campus



Medical Pavilion
at Briargate



NorthCare
at St. Francis