Quick Stats

	1Q14	Change from last Yr.	Change from last 4Q13
Availability	9.0%	▲	▼
Lease Rates psf/yr	$6.51	▶	▶
Net Absorption	249,569	▲	▶

Hot Topics

- Veteran brokers Aaron Horn and David Bacon join Colorado Springs Commercial's Industrial Team.
- CSEC acquires 123,500 SF flex property at 4405-4451 N Chestnut Street for $6,750,000.
- Samtec acquires 62,000 SF industrial facility at 1440 N Newport Road for $3,050,000.
- LKQ leases 28,800 SF of office/ warehouse space at 1735 Jet Stream Drive.
- Bal Seal opens $45 million, 155,000 SF manufacturing plant at 1350 Bellprat View in north Colorado Springs.

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Industrial Market Overview

The industrial market in Colorado Springs continues to rebound with basic principles of supply and demand at work, but dwindling supply of quality industrial space could cause a spike in lease rates and sale prices and spur speculative development.

Total leasing activity for Q1 2014 came in at only 140,000 SF, off from roughly 250,000 SF in Q1 2013 (1,070,653 SF of positive absorption was recorded in all of 2013). Q1 2014 posted a healthy positive absorption showing of 249,569 SF. However, Bal Seal opened a new 155,000 SF manufacturing plant in Q1, so that owner-occupied single user property was responsible for the lion's share of the positive absorption. Taking that anomaly out of the equation shows positive absorption of only 94,569 SF on 33 reported leases.

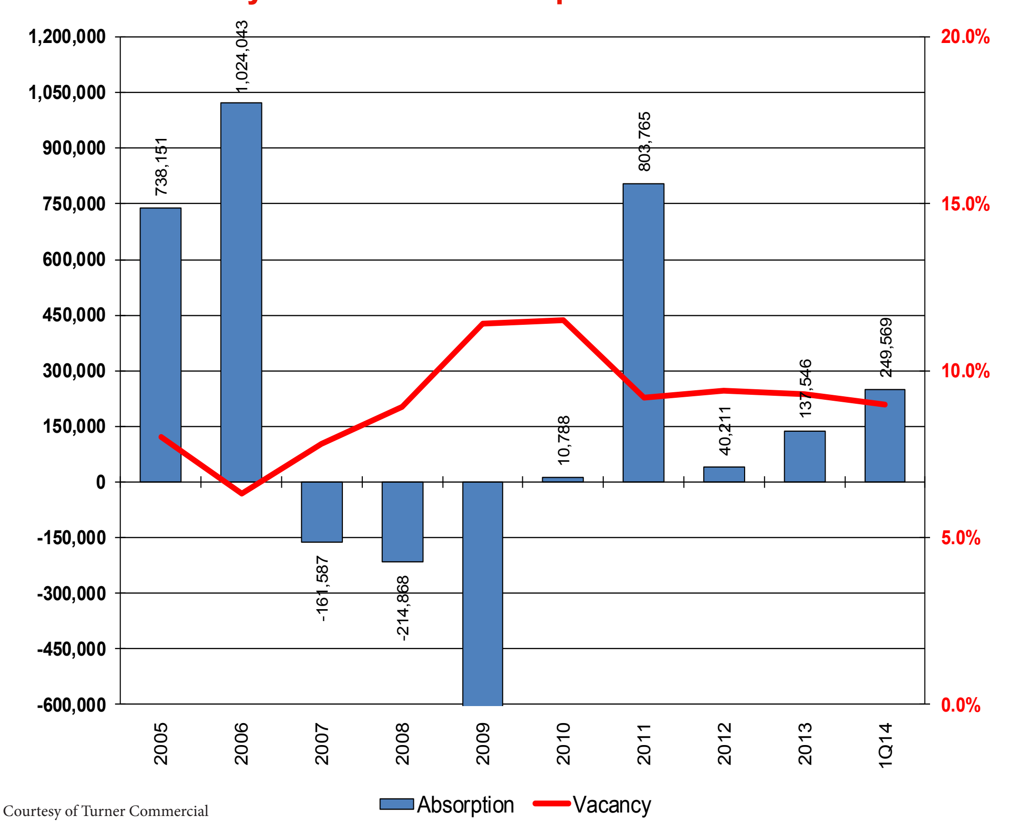
While the overall availability rate has declined slightly from 9.3% at the end of 2013 to 9.0% in Q1 2014, Colorado Springs still has over 3 million square feet of available industrial space. 57% of all the available space exists in buildings of 50,000 SF or less, which gives a clear indication of big progress that's still needed before the market can be considered in full recovery. The loss of over 50% of all local manufacturing jobs since 2001 and the lagging recovery of jobs lost during the Great Recession continue to be a cause for concern of the market's overall strength.

In spite of overall market and employment conditions, there are several segments of the market that are at or near equilibrium. Quality office/warehouse space above 15,000 SF with high ceilings, high pile fire sprinkler systems and both dock high and drive in loading doors is nearly nonexistent here. Lease rates for this product type have remained at historic lows and therefore have not prompted speculative construction. However, it is our belief that the market should see speculative construction in this product type in the immediate term unless a large amount of this space is given back through negative absorption.

Another positive sign is linked to the ongoing attractive cost and supply of capital, which has pushed a large number of industrial users into buying their own facilities. This has driven up the price of certain quality facilities 50% or more from prices seen only 18-24 months ago.

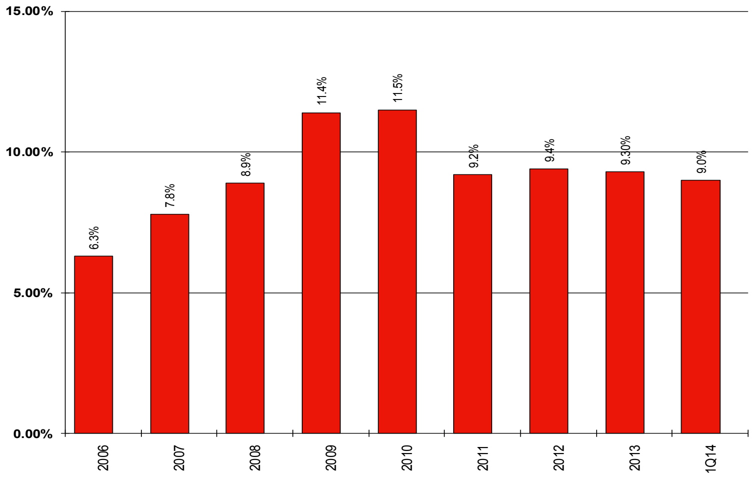
In sum, the market needs to see substantial gains beforel full recovery can be experienced, but the dwindling supply of quality facilities should continue to push lease rates and prices up to levels that haven't been seen since before the downturn, which could help the lower quality space gain absorption through bargain opportunities it will offer.

Industrial Vacancy Rate VS Net Absorption



Courtesy of Turner Commercial

Availability

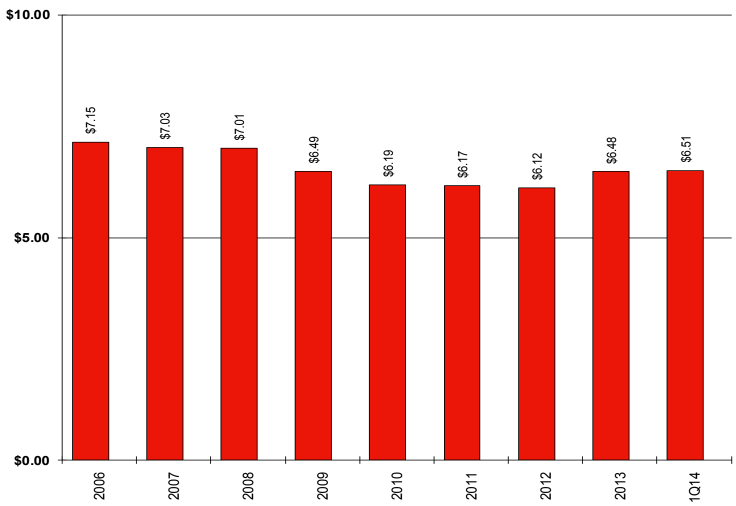


Courtesy of Turner Commercial

AVAILABILITY

The availability rate has fallen from 9.3% at the end of 2013 to 9.0% at the end of Q1 2014. There continues to be roughly 300,000 SF of occupied sublease space that is considered available within that 9.0% rate. Removing that space would drop the effective rate to 8.1%. The market hasn't seen any substantial gains in total occupancy since 2010-2011.

Lease Rates (NNN/PSF)

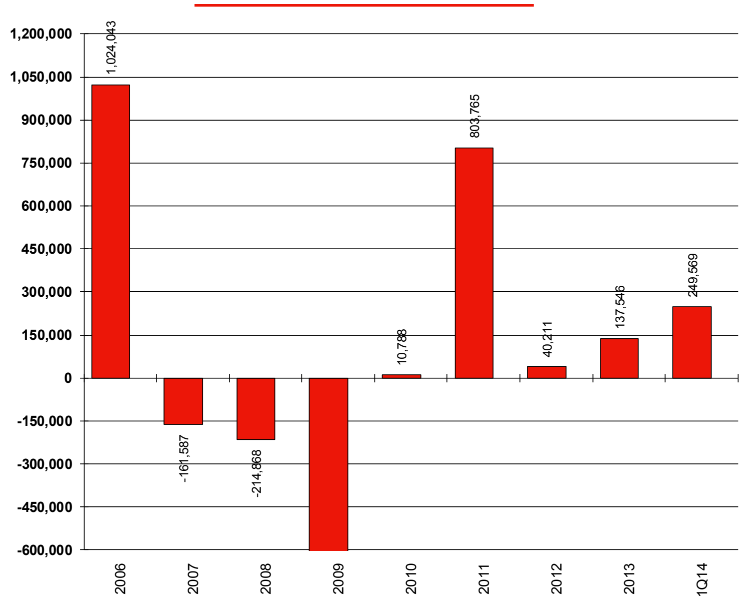


Courtesy of Turner Commercial

LEASE RATES (NNN, Annual, Per RSF)

While asking lease rates have remained relatively flat over the past decade, the availability rate has varied considerably over the same term. In the above availability graph, the vacancy rate nearly doubled from the low to high point, yet lease rates only fell less than 15% during the same period. Deals often continue to get signed at levels well below posted rates, but as mentioned previously in this report, actual lease rates are on the rise.

Absorption (SF)



Courtesy of Turner Commercial

ABSORPTION

Q1 absorption is on track with the levels seen in 2013, but roughly 60% of the Q1 2014 absorption was attributable to the new 155,000 SF manufacturing plant that was opened by Bal Seal in February. Prior to the downturn, the market would experience upwards of 800,000 SF of positive absorption each year, which is what the market experienced in 2011. Since then, the market has only absorbed 411,000 SF. High wage job growth continues to be the key that will unlock absorption gains that the market has been missing.