CUSHMAN & WAKEFIELD® | Palmer McAllister
INDEPENDENTLY OWNED AND OPERATED

COLORADO SPRINGS OFFICE OVERVIEW — THIRD QUARTER 2010

Executive Overview

The Colorado Spring's Class A office market is comprised of approximately 10.2 million square feet in three distinct submarkets; North I-25 Corridor, Central Business District and Airport Area. 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 3rd Quarter 2010, the overall vacancy of the Class A market sits at 32.24%. For the first time in the past 30 months, all three submarkets registered positive absorption. While it was a modest 38,097 square feet, it is evidence of the predictions we had made that while we did not anticipate huge gains in 2010, we did foresee the market would bottom out and gradually regain momentum. Lease rates have continued their downward slide and now average $13.00 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 15% 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 18 to 24 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. All indicators point to "more of the same" for the balance of the year in the leasing market.

North I-25 Corridor

Of the three submarkets, the North I-25 Corridor is the largest and most diverse totaling approximately 6.6 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. Tenants in this submarket range from 1,000 to 100,000 square feet. 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 hovered in the 30% range, and there was a slight uptick in absorption of 12,032 square feet in the 3rd Quarter. Quoted lease rates have softened and now average $12.07 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 throughout 2010.

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 13.92% in 3rd Quarter 2010. The CBD experienced minimal absorption year-to-date of 9,940 square feet and while the gain is modest, the CBD has continued to be the most stable submarket throughout the downturn and we anticipate that to continue as the overall market rebounds.

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. Over the past 3 years this submarket has struggled due in some part to "flight to quality" by many of the major tenants, which has lead to a staggering current vacancy of 44%. Lease rates have declined to $12.50 psf from $13.04 psf at the end of 2009. Many properties will complete a transaction in the $10.00 to $11.00 range or even significantly less in many situations. This decrease in asking rates is a reaction to continued quarterly negative absorption however, it is important to note that for the <u>first time in the past 9 quarters the Airport has registered positive absorption</u> due solely to the lease up of a fully vacant 65,000 sf building to the US Army.

QUICK STATS – Class "A" Market

Vacancy: 30.27%
Lease Rates: $13.00 NNN
Net Absorption YTD: 81,494 square feet

2010 OFFICE MARKET OUTLOOK

Vacancy:	↘	Lease Rate:	→
Net Absorption:	↗	Lease Activity:	→

MARKET STATISTICS

COLORADO SPRINGS
CLASS-A OFFICE STATISTICS
3RD QUARTER 2010

Office Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
NORTH I-25 CORRIDOR:							
3RD Q 2010	6,631,353	2,085,810	78,475	31.45%	12,032	$12.07	$7.65
YTD 2010					33,516		
AIRPORT (SOUTHEAST) AREA:							
3RD Q 2010	1,551,371	689,635	0	44.45%	67,576	$12.50	$7.12
YTD 2010					38,039		
CENTRAL BUSINESS DISTRICT:							
3RD Q 2010	1,803,132	247,328	16,318	13.72%	7,803	$14.44	$8.29
YTD 2010					9,940		
TOTAL CLASS A MARKET							
TOTALS FOR 3RD Q 2010	9,985,856	3,022,773	94,793	30.27%	87,411	$13.00	$7.69
TOTALS YTD 2010					81,494		

OVERALL - VACANCY RATE: 30.27%; AVAILABILITY RATE (includes sublease space): 31.22%

VACANCY	LEASE RATES	ABSORPTION

SIGNIFICANT TRANSACTIONS

SIGNIFICANT LEASE TRANSACTIONS - 3RD Q 2010

BUILDING NAME	ADDRESS	TENANT	SQUARE FEET	LEASE/SALE
NORTH I-25				
Former Intel Building	1675 Garden of the Gods Road	El Paso County	290,000	$25MM/Sale
Corporate Center at Briargate	2060 Briargate Parkway	Linquest	26,134	Lease
Corporate Pointe	1975 Research Parkway	Wyle	6,142	Lease
Tech I	5450 Tech Center Drive	ISS	13,500	Lease
UMB Building	5825 Delmonico Drive	USA Triathlon	14,800	Lease
CBD				
Wells Fargo Tower	90 South Cascade Avenue	Holme Roberts & Owen	15,061	Lease
Alamo Corporate Center	102 South Tejon Street	Data 102	10,000	Lease
1st Bank Building	2 North Cascade Avenue	University of Phoenix	15,620	Lease
AIRPORT AREA				
NG Campus	1555 North Newport	US Army	65,000	Lease

THE INSIDE TRACK

"It's the economy, stupid."

As 2011 looms on the horizon it's clear the turn-around in the Colorado Springs' commercial real estate market, which we had all hoped to occur in 2010, will be delayed for at least another year. Fundamental to the turnaround will be a healthy economy and, as is true in many markets, most important will be employment and income growth. Today's 8.9% unemployment rate for El Paso County is showing a mild uptick for the year, and while it trails the national average, there are no indicators to point to a reduction in the near term. As such we are not predicting any meaningful positive absorption in our office market for the remainder of 2010. Building owners who do benefit from lease activity and positive absorption are likely doing so at the cost of others.

During 2010 we have seen a number of facilities bring space to the market to lease after downsizing operations. This includes Verizon, Focus on the Family, Lexis-Nexus, Quantum, and Ford Motor Credit. Helping to offset lost jobs have been those firms who have located operations here. These include Corinthian College and ACS/Xerox, both with customer support/call centers operations. While these are not the high paying jobs lost by many during the tech bubble, they have helped limit the increase in our overall unemployment numbers, but have not helped the housing market.

Residential foreclosures are down from their peak in 2009, but remain at historically high levels; and housing sales are off by over 40% from their high in 2005. Apartment complexes, however, have benefitted and vacancy levels have dropped 50% since the start of 2009. Meaningful long-term employment opportunities that are well paying will help turn this around.

Today's high vacancy rates, and the lower rental rates that are their by-product, will only be reversed when we see recovery of the national economy. Colorado Springs, aided by a well educated population and a lower cost to do business, should be at the forefront of the recovery as companies will see expansion in or to Colorado Springs as a smart business decision.

ABOUT PALMER MCALLISTER/CUSHMAN & WAKEFIELD

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

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, allows our brokers to serve their clients exceptionally.

Greg Phaneuf
Principal

Peter Scoville
Principal

Gary Hollenbeck
Principal

FEATURED PROPERTIES

Palmer Center
2 North and 90 South Cascade Avenue
41,472 SF For Lease (divisible)

Medical Pavilion at Briargate
4105-4125 Briargate Parkway
148,000 SF For Lease (divisible)

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

Corporate Center at Briargate
2060 Briargate Parkway
12,580 SF For Lease (divisible)

Lexington Center
7899 Lexington Drive
37,599 SF For Lease (divisible)

Plaza at Northgate
555 Middle Creek Parkway
38,429 SF For Lease (divisible)