

Mid Year Market Review

After a soft first quarter that provided little improvement over year-end 2010 vacancy and lease rates, and an increase in negative absorption, the second quarter of 2011 gives us some cause to celebrate. Most importantly, all three submarkets posted positive absorption totaling 73,175 square feet. This offset the negative first quarter numbers we reported and yields a YTD figure of 53,625 square feet of positive absorption. The byproduct of this positive absorption is a reduction in vacancy rates, most notably in the North I-25 submarket which saw close to a 2.5% reduction in overall vacancy, as well as the CBD market where vacancy dropped by over 1%. Modest figures overall but some properties, specifically those well located in either the Briargate Business Campus or the CBD, are beginning to increase lease rates and other properties are holding firm with their advertised rates. While there are still properties willing to negotiate and offer very attractive terms to large credit-worthy tenants, we are starting to see lease rates bottom out and rebound.

By Sub-Markets




The Central Business District registered 21,859 square feet of positive absorption in the second quarter and is the healthiest of the three submarkets with an overall vacancy rate of 12.01%. With very limited large blocks of space, tenant's seeking space in excess of 9,000 square feet will have limited options and little room to negotiate. The overall vacancy is comprised of spaces less than 5,000 square feet. We anticipate the health of this market to continue and for lease rates to begin to escalate in the second half of the year.

The North I-25 submarket, which is our largest and most diverse, registered 48,567 square feet of positive absorption in the second quarter yielding 52,274 year-to-date. Vacancy rates dropped to 28.66% and market-wide lease rates softened modestly. However, quality product in the master planned business parks, specifically Briargate Business Campus, have begun to see lease rates escalate and the market tighten. Provided demand continues we should see lease activity expand to older product along the interstate and with that an increase in lease rates market wide by year end.

The Airport submarket, for the first time in three years, registered positive absorption totaling 2,749 square feet for the second quarter. Overall the market continues to languish with YTD negative absorption of close to 15,000 square feet and a vacancy rate of 45%. This market has a long way to go to get healthy, and one quarter of good news over a three year period leaves us cautious as to predicting when the market will finally turn.

QUICK STATS – Class “A” Market

Vacancy: 28.20%
Lease Rates: \$12.84 NNN
Net Absorption YTD: 53,625 square feet

2011 OFFICE MARKET OUTLOOKVacancy: Net Absorption: Lease Rate: Lease Activity: **BROKERAGE SERVICES:**

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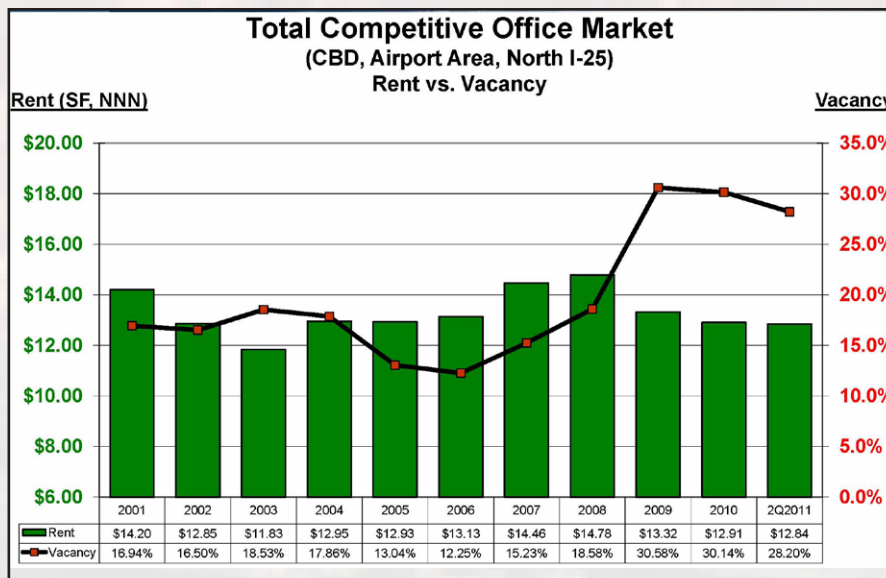
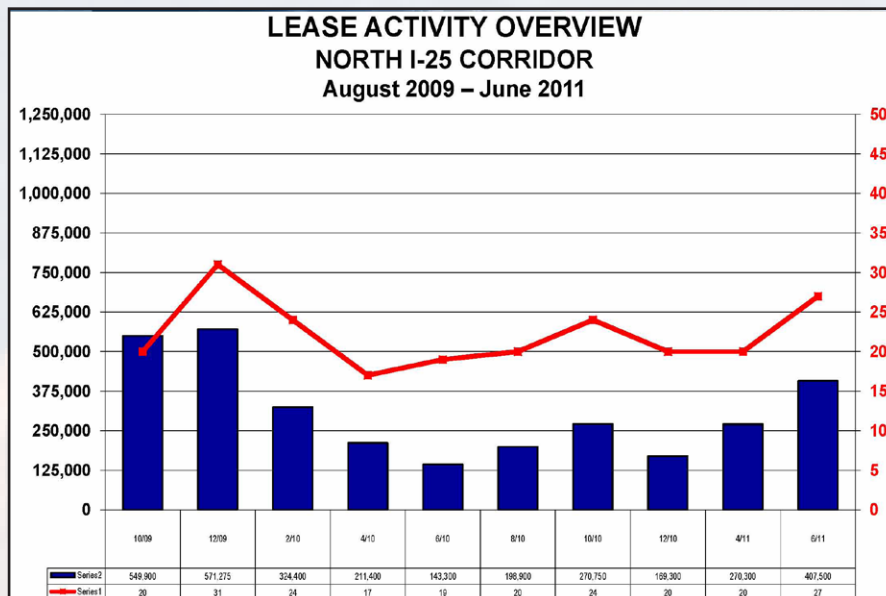
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MARKET STATISTICS

COLORADO SPRINGS CLASS-A OFFICE STATISTICS 2ND QUARTER 2011

Office Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
NORTH I-25 CORRIDOR:							
2ND Q 2011	6,503,823	1,865,581	36,567	28.66%	48,567	\$11.60	\$7.49
YTD 2011					52,274		
AIRPORT (SOUTHEAST) AREA:							
2ND Q 2011	1,551,490	698,337	0	45.01%	2,749	\$12.30	\$7.10
YTD 2011					(14,627)		
CENTRAL BUSINESS DISTRICT:							
2ND Q 2011	1,803,132	216,609	9,833	12.01%	21,859	\$14.63	\$8.23
YTD 2011					15,978		
TOTAL CLASS A MARKET							
TOTALS FOR 2ND Q 2011	9,858,445	2,780,527	46,400	28.20%	73,175	\$12.84	\$7.61
TOTALS YTD 2011					53,625		

OVERALL - VACANCY RATE: 28.20%; AVAILABILITY RATE (includes sublease space): 28.68%



MEDICAL OFFICE MARKET

Coming off a strong finish in 2010 that included Colorado Spring's Health Partner's lease of 65,000 square feet at the Union Medical Campus and Healthcare Realty Trust's acquisition of the 85,000 square foot Northcare at St. Francis MOB on the Penrose North Campus, the medical office market has exhibited signs of a good start in 2011. Most notable is the 55,000 sf lease by The Children's Hospital at the Medical Pavilion at Briargate which will establish a significant presence here for The Children's Hospital and one that they plan on expanding on. Construction of the 72,000 square foot Medical Centre at Penrose got underway in the first quarter of 2011, and they have signed leases with Colorado Spring's Neurological for 16,000 sf; Penrose Hospital for 20,000 sf; and Springs Rehab for 4,700 sf. Activity in all of the first generation product located on or near the hospital campuses remains strong and is anticipated to accelerate further.

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. Second Quarter 2011 numbers show an average asking lease rate of \$16.56 per square foot and nominal positive absorption of 942 square feet (most of which is the 45,000 sf Childrens Hospital deal). Tenant improvement allowances generally range from \$6.00-\$10.00 per rentable square foot per year of lease term, and many owner's are still offering base rent abatement as an additional concession. We anticipate the market to be healthy for the balance of 2011, with strong lease activity and lease rates to strengthen as the year progresses.



Medical Centre at Penrose Hospital



Medical Pavilion at Briargate



NorthCare at St. Francis

COLORADO SPRINGS MEDICAL OFFICE STATISTICS 2ND QUARTER 2011

	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
City Wide MOB Market	1,434,689	338,324	2,292	23.58%	942	\$16.56	\$8.94

OVERALL - VACANCY RATE: 23.58%; AVAILABILITY RATE (includes sublease space): 23.74%

SIGNIFICANT TRANSACTIONS

SIGNIFICANT SALE/LEASE TRANSACTIONS

BUILDING NAME	ADDRESS	TENANT/BUYER	SQUARE FEET	LEASE/SALE
SALE TRANSACTIONS				
Powerwood Subdivision (land)	NEC Woodmen & Sisters Grove	Abba Eye Care	36,154	\$433,848
Chapel Hills Mall	1710 Briargate Blvd.	Coyote Management, LP	616,259	\$71,500,000
Office/Flex	4310-4390 Arrowswest Dr.	Kasha, LLC	39,110	\$2,250,000
Apartments	2101 Delta Drive	Whitney Young Investors	161,652	\$6,400,000
Office/Warehouse	1460 Garden of the Gods Rd.	El Pomar/Goodwill	100,000	\$5,350,000
Research Plaza	5490 Powers Center Pt.	RPS Investment LLC	16,000	\$3,100,000
Land	6910 Templeton Gap Rd.	American Furniture Whse	1,453,162	\$8,292,563
LEASE TRANSACTIONS				
Briargate Research Center	2075 Research Parkway	Fluke Networks	34,575	Lease
Briargate Office	1755 Telstar Drive	Shape Technologies	2,429	Lease
Briargate Office	1755 Telstar Drive	Residential Mortgage of CO	3,443	Lease
Corporate Pointe	1975 Research Parkway	Seamos Marketing, Inc.	3,002	Lease
Corporate Center at Briargate	2060 Briargate Parkway	Stewart Title	3,327	Lease
Medical Center at Penrose	2222 North Nevada	Springs Rehabilitation	4,470	Lease
Palmer Center	2 South Cascade Ave	Insurance Technologies	43,000	Lease

FEATURED PROPERTIES



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



Medical Center at Penrose
2222 North Nevada Avenue
12,861 SF For Lease (divisible)



Corporate Pointe
1975 Research Parkway
29,181 SF For Lease (divisible)



Nor'Tec
4065 Sinton Road
30,134 SF For Sale or Lease



UMB Bank Building
5825 Delmonico Drive
11,546 SF For Lesae (divisible)



Verizon
2424 Garden of the Gods Road
325,000 SF For Lease (divisible)