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MarketView

Colorado Springs Industrial

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Second Quarter 2015

Quick Stats

	2Q15	Change from last Yr.	Change from last 1Q15
Availability	8.0%	▼	▼
Lease Rates psf/yr	$6.93	▲	▲
Net Absorption	291,924	▲	▲

Hot Topics

- FedEx breaks ground on 27 acre, 225,000 SF fulfillment center in the southeast submarket.
- Sierra Completions plans $88 million facility and 2,000+ jobs at the airport.
- Colorado Springs Airport seeks master developer for 900 acre mixed use business park.
- Availability continues steady decline. Rates and prices on the rise but with no foreseeable speculative construction.

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Industrial Market Overview

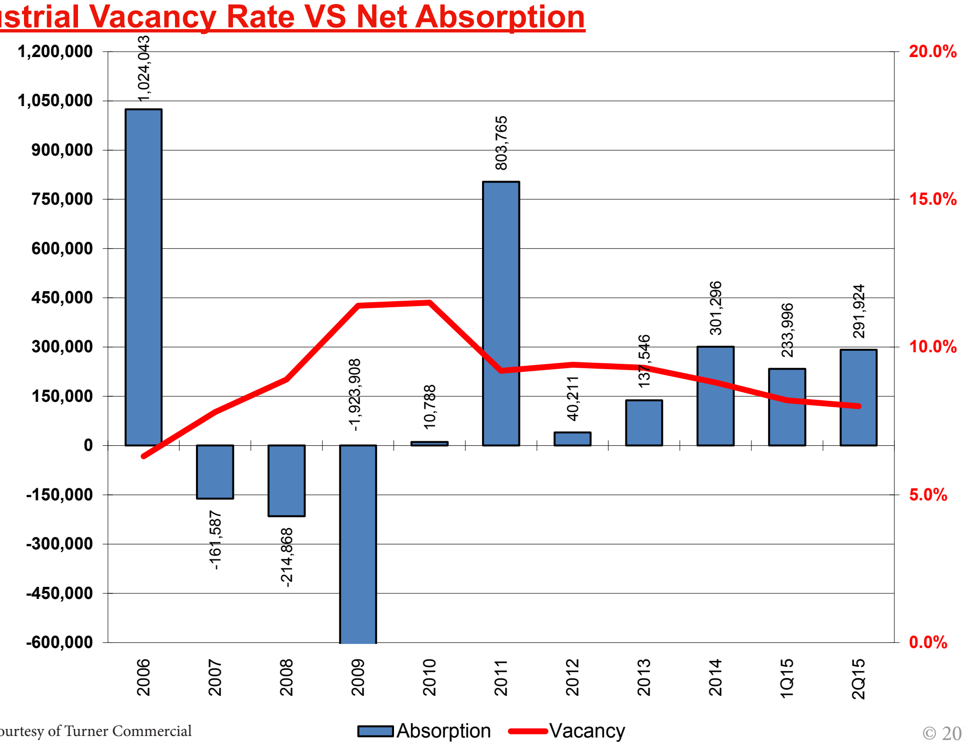
The statistics for the first half of 2015 have shown continued and steady improvement with declines in the availability rate (down to 8% mid year from 8.8% EOY 2014) while average asking rents are approaching the $7.00 level for the first time since the modern day high of $7.15 recorded at the end of 2006. On the surface this should seem very encouraging, but there's more to the story.

The majority in the uptick of asking rates can be attributed to buildings with more than 100,000 SF available and buildings with less than 25,000 SF available. The smaller buildings just mentioned have an availability rate of under 4% which represents around 515,000 SF of rentable area and asking rents anywhere between the high $6.00 level and low $7.00 level. The larger floor plates make up over 960,000 SF which is a big chunk of the overall availability with asking rents that float between $7.75 and $9.50. Combining those market segments together with the rest of the availabilities skews the overall average considerably and is evidence why many deals completed continue to be well below the overall market averages that are reported.

The market is still absent any speculative construction which shows that our local economy is either missing a piece of the basic real estate cycle (oversupply, recession, recovery, expansion), or there are outside forces that are causing a road block in the cycle. It is our opinion that the adaptation of former highly specialized manufacturing, assembly and R&D properties into uses that provide far fewer and lower paying jobs (like call centers, expo centers, indoor recreation, etc.) has prevented the recovery cycle from reaching the expansion or speculative construction phase.

Quality jobs continue to be the holy grail of economic recovery in the Colorado Springs area. Sierra Completions plans to bring more than 2,000 jobs to the region and will soon be getting underway on a nearly $100 million facility for the retrofitting of airplanes. A majority of these jobs are high paying and provide large amounts of disposable income that translates into the purchase of homes, cars, consumer goods, investments and other notable items. That in turn supports the service jobs selling the homes, cars, consumer goods, investments and the like, but those jobs and transactions also provide the local government more funds to maintain roads, bridges and storm sewer infrastructure (among other things) by generating income taxes as well as sales and property taxes. It is our hope that Sierra Completions will be the first of many similar announcements in the months and years ahead as the Colorado Springs leadership continues to work to reinvent itself as a business and growth friendly community.

Industrial Vacancy Rate VS Net Absorption



Courtesy of Turner Commercial

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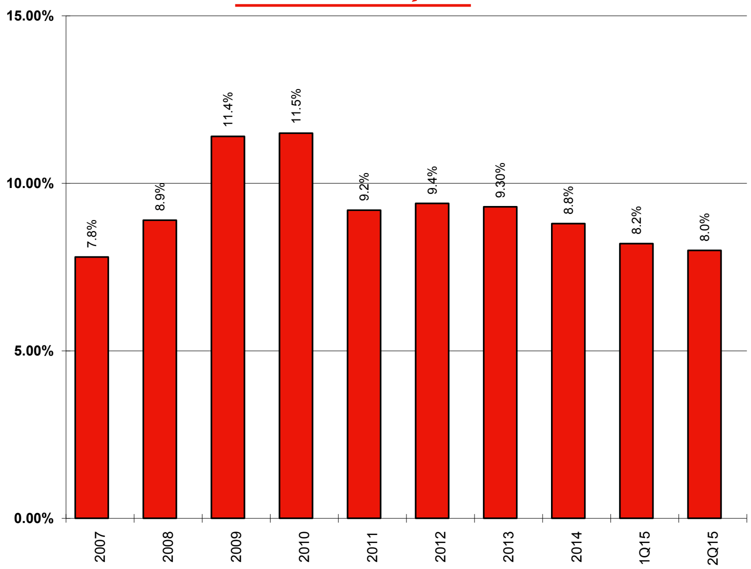
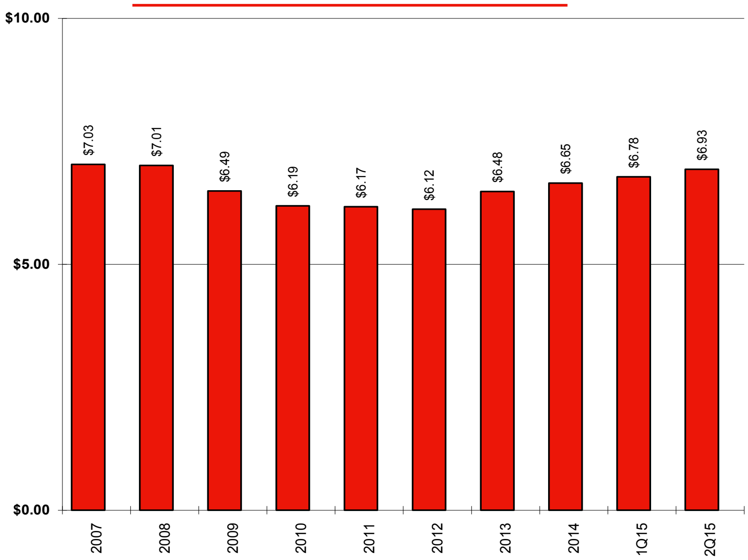
Availability



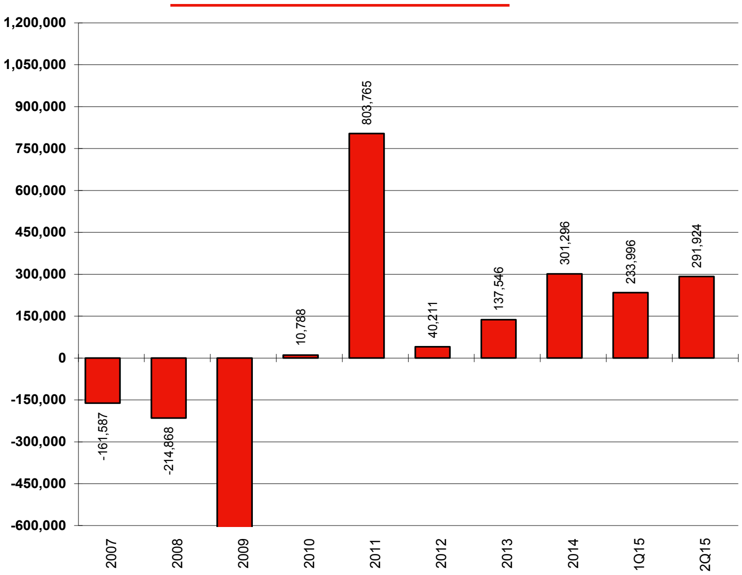
Courtesy of Turner Commercial

Lease Rates (NNN/PSF)



Courtesy of Turner Commercial

Absorption (SF)



Courtesy of Turner Commercial

AVAILABILITY

The availability rate has continued its ongoing decline and ended mid year at 8.0%, representing 2,728,167 square feet of available space. This trend proves ongoing positive absorption and tightening of the overall market, but Colorado Springs still needs considerable primary job growth have any chance at experiencing another boom cycle like what existed in the late 1990's and early 2000's due to the saturation of high paying manufacturing jobs.

LEASE RATES

(NNN, Annual, Per RSF)

Average asking lease rates have been on a relatively flat yet slightly upward trend for several years now and the latest data shows the trend continues, with mid year reporting referencing an average asking rate of $6. The market continues to inch closer and closer to the over $7.00 average rates experienced before the downturn. However, as mentioned in the Overview, much of this uptick can be attributed to the large floor plates that are priced at the top of the market and smaller floor plates that are below equilibrium occupancy and therefore rates in those smaller buildings have increased as much as 35% which has disproportionately increased the overall averages. All that said, deals often continue to be struck well below asking rates.

ABSORPTION

Absorption is defined as the net change in occupied space from one period to the next.

The first half of 2015 posted positive absorption of nearly 292,000 SF, which surpassed the 2014 full year total positive absorption of just over 291,000 SF. This ongoing positive trend should continue, but it should be noted that prior to the most recent downturn and in the manufacturing boom era of the late 1990's and early 2000's, positive absorption totals would hover between 800,000 and 1,000,000 SF or more, so we continue to be well below the mark that signals complete recovery.