

## Quick Stats

	Change from last		
	2Q19	Yr.	1Q19
Vacancy	13.38%	▲	▼
Lease Rates	\$15.75	▲	▲
Net Absorption	67,489	▼	▲

## Hot Topics

- Downtown saw the addition of 241 new apartments, lofts and other residences in 2018, the largest single-year output for the area. 577 building permits (an estimated value of \$119M) and 29 land-use permits for 20 projects were also issued.
- Colorado Springs unemployment rate fell to 3.7% in May, down from 3.9% in April and is expected to have one of the nation's top job markets in the third quarter
- Colorado Springs Airport was recognized as the 2019 *Colorado Airport of the Year* and has had a 40% growth in its air service in the last 3 years
- A Defense Department policy bill that will bring nearly \$150M to the Pikes Peak region for military construction passed the Senate. The plan includes a 3.1% pay raise for the region's 40k active-duty troops.
- New 259-room Marriott hotel in the 400 block of South Tejon breaks ground
- The newly completed Children's Hospital Colorado in Colorado Springs is going through a phased opening this summer, with a ribbon cutting in July



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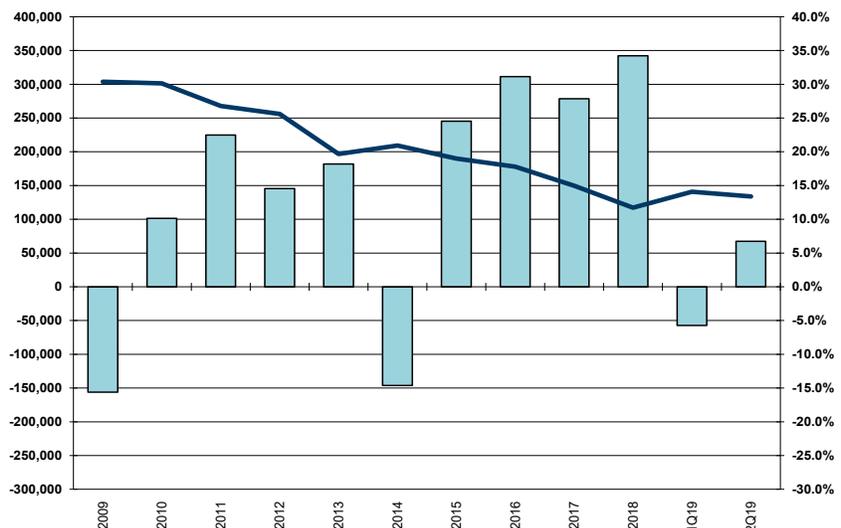
## Class A/B Office Market Overview

After a flurry of lease activity and a year that posted close to 350,000 square feet of positive absorption for 2018, the Class A office market seems to have taken a pause for the first half of 2019. The market exhibited very modest absorption for the first half of the year, slightly over 10,000 square feet, which was eroded by the airport submarket which registered negative absorption of approximately 13,500 square feet. Skewing the absorption numbers a bit is lease activity on space that had yet to be vacated, or register in the overall absorption figures; and lease activity on sublease space, which is up 30,000 square feet during the first half of 2019 to roughly 194,000 square feet in total! Overall, lease activity and interest feels healthy and the general optimism in the market continues, translating into escalating lease rates that are up \$1.00 per square foot in the first half of 2019. Active deals in the market should materialize into a solid second half of the year, so we are cautiously optimistic for a continued strengthening of the market and further increases in lease rates.

The vast majority of office properties are well stabilized and have limited quality space, which is what is fueling the increase in lease rates. However a handful of properties, in particular some of the larger campus-like settings and single story flex-type buildings, are carrying big blocks of vacancy – in excess of 30,000 square feet. Much of this space doesn't subdivide well and will be leased to single tenants – which will take time and continue to elevate our vacancy figures. That being said, there is a fair amount of activity with larger requirements, specifically those in the Department of Defense/government contract line of work, that are extremely active in the market and with the ability to very quickly have a significant impact on the overall market vacancy. This will have the most impact on the airport submarket, which at a modest 1.4 million square feet of total space is our smallest submarket, but will also spill over to the North I-25 market as well. We are further seeing interest in owner/user groups that will likely further remove some of the larger blocks of vacancy from the overall market. One aspect of the market that is surprisingly soft is that of single-story, flex-type product. Traditionally this type of product leased up quickly, and at a modest, \$2.00-\$3.00 per square foot, discount to its multi-story alternatives. Today we are seeing the gap in the \$5.00-\$7.00 per square foot range, and even the best located single-story product in the North I-25 Corridor is registering higher than market vacancy; Briargate's half-million square feet of single-story office product currently registers a vacancy rate of approximately 32%. With more limited larger block options to consider we anticipate the single-story product to garner more attention, but for those tenants that do fit and are willing to consider single-story options, attractive deals remain.

With lower vacancy rates and escalating lease rates, discussions about new construction are being realistically evaluated. Traditionally, we would have seen much of this to occur on the north end of the city, but with limited sites available in Briargate and Interquest, and with the evolving dynamics to the city's Central Business District, which include the addition of some 500 apartment units and more planned, coupled with the CBD's 6% vacancy rate for office product, downtown is likely where we will see the first spec office construction since 2008!

## Class A/B Vacancy Rate VS Net Absorption



## Market Statistics

COLORADO SPRINGS CLASS A OFFICE STATISTICS 2 <sup>nd</sup> QUARTER 2019							
	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
<b>NORTH I-25 CORRIDOR:</b>							
2 <sup>nd</sup> Q 2019	4,397,548	559,948	182,152	12.73%	43,030	\$15.74	\$8.32
YTD 2019					6,450		
<b>AIRPORT (SOUTHEAST) AREA:</b>							
2 <sup>nd</sup> Q 2019	1,404,317	360,265	3,272	25.65%	9,271	\$15.00	\$7.59
YTD 2019					(13,591)		
<b>CENTRAL BUSINESS DISTRICT:</b>							
2 <sup>nd</sup> Q 2019	1,994,054	123,237	8,164	6.18%	15,188	\$16.38	\$8.81
YTD 2019					17,333		
<b>TOTAL CLASS A MARKET</b>							
TOTALS FOR 2 <sup>nd</sup> Q 2019	7,795,919	1,043,450	193,588	13.38%	67,489	\$15.75	\$8.30
TOTALS YTD 2019					10,192		

**OVERALL VACANCY RATE: 13.38%**

**AVAILABILITY RATE (includes sublease space): 15.87%**

## Significant Transactions

BUILDING NAME	ADDRESS	TENANT	SQUARE FEET	QTR
<b>LEASE TRANSACTIONS</b>				
2424	2424 Garden of the Gods Rd	Clover Networks	15,801	1 <sup>st</sup>
Colorado Square	2 N Nevada Ave	Vladimir Jones	11,364	2 <sup>nd</sup>
Corporate Pointe	1975 Research Pkwy	Skin Cancer & Dermatology Center	10,807	1 <sup>st</sup>
Interquest II	9925 Federal Dr	Ascend Clinical	10,066	1 <sup>st</sup>
Epic One	10807 New Allegiance Dr	WOW!	9,778	1 <sup>st</sup>
Corporate Pointe	1975 Research Pkwy	American Heritage Title	5,430	1 <sup>st</sup>
Colorado Square	2 N Nevada Ave	EST	4,557	2 <sup>nd</sup>

BUILDING NAME	ADDRESS	SALE PRICE	INVESTOR/ USER	QTR
<b>SALE TRANSACTIONS</b>				
Woodmen Corporate Center	7150 Campus Dr	\$13,650,000/\$126.87 psf	Investor	1 <sup>st</sup>
Tech Center VI	5575 Tech Center Dr	\$12,115,000/\$116.00 psf	Investor	1 <sup>st</sup>
Patriot Park V	745 Space Center Dr	\$9,150,000/\$176.74 psf	Investor	2 <sup>nd</sup>

## Featured Office Properties



Interquest Office  
10125 Federal Dr  
191,181 SF For Lease

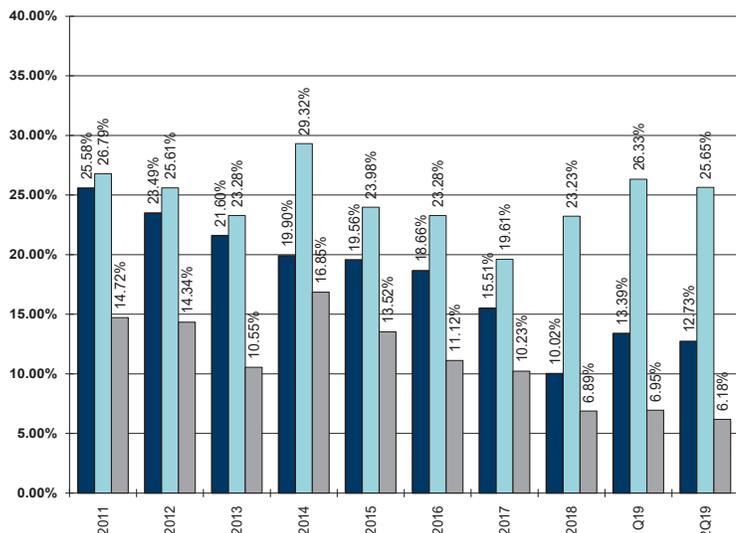


Patriot Park VI  
655 Space Center Dr  
103,970 SF For Lease



Briargate Research  
2025 & 2075 Research Pkwy  
53,183 SF For Lease

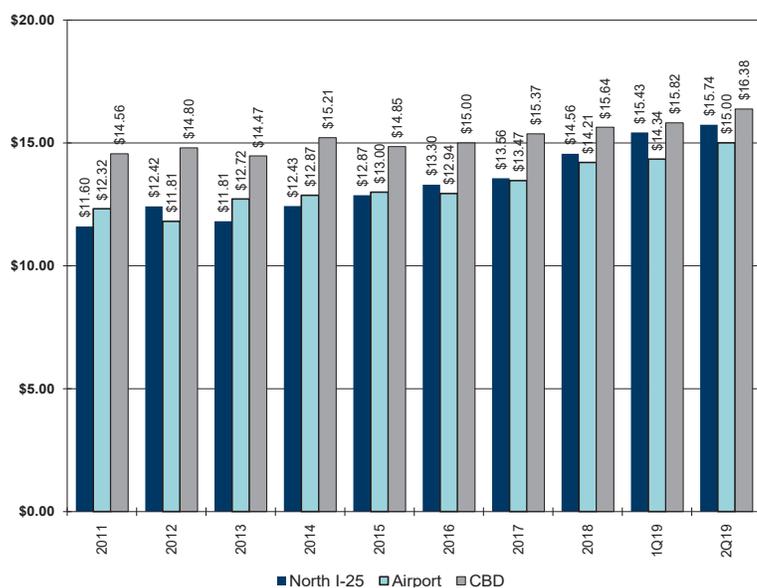
### Class A/B Vacancy



### VACANCY

Vacancy rates ticked up slightly in the first half of 2019 from \$11.71 for year end 2018 to \$13.38. Generally this is attributable to modest lease activity in the first half of the year and some larger blocks being vacated by companies closing their Colorado Springs facilities. Larger blocks continue to inflate the vacancy rate beyond what most the majority of properties are experiencing, but activity with larger users suggest some of the larger blocks may be absorbed in the second half of the year. Such activity would leave vacancy of less than 10%, which is historically when the market sees new construction to add inventory. The last new speculative office building was constructed in 2008, and historically we have seen new inventory added in roughly 10-year cycles.

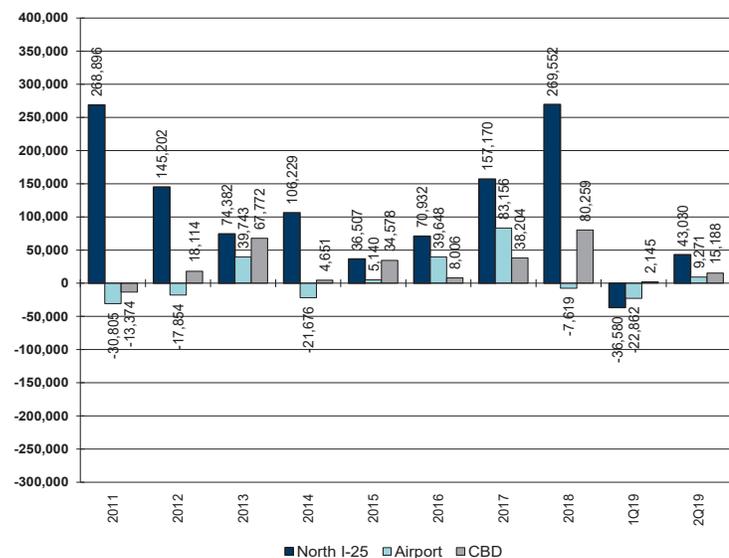
### Class A/B Lease Rates (NNN/PSF)



### LEASE RATES (NNN, Annual, Per RSF)

Lease rates continue to escalate, with the highest-end Class A properties in the CBD achieving \$21.00 and \$20.00 per square foot in the North I-25 market. Lower Class A properties, many of which are receiving upgrades to take them out of the 1980's, are also increasing asking rates and achieving \$15.00-\$17.00 per square foot. We fully anticipate this trend to continue through the year as quality inventory becomes depleted and tenants vie for limited options. It is anticipated new construction would command lease rates in the \$23.00-\$24.00 per square foot range, and we are quickly approaching the threshold needed to underwrite the addition of new inventory to the office market.

### Class A/B Absorption (SF)



### ABSORPTION

Absorption softened in the first half of the year, but still continued to be positive, with over 67,000 square feet absorbed in the 2nd quarter to lift the market from a negative start to the year. We anticipate a strong second half of the year but the numbers may not reflect the true strength of the market, as leases with new tenants are being completed prior to space being vacated and owner/users in the market are purchasing buildings and contemplating building for their own use. At some point the absorption will soften as vacancy drops and tenants are forced to live within their current space or until the time new construction comes on line.

# Medical Market Statistics

2 <sup>nd</sup> QUARTER 2019							
	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	YTD Absorption	Lease Rate	NNN Exp.
Colorado Springs MOB Market	1,655,998	160,985	2,289	9.72%	22,935	\$17.93	\$9.18

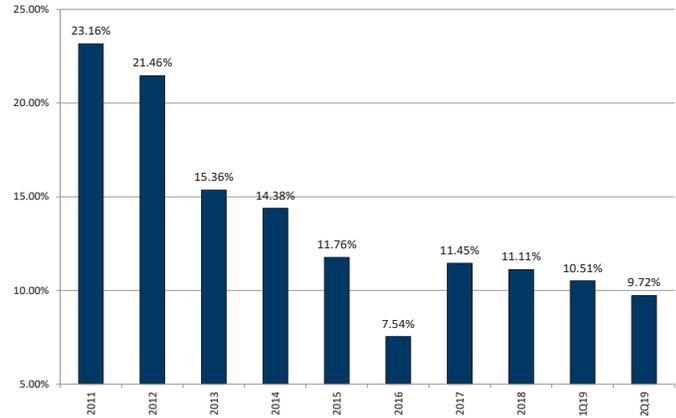
OVERALL - VACANCY RATE: 9.72%

AVAILABILITY RATE (includes sublease space): 9.86%

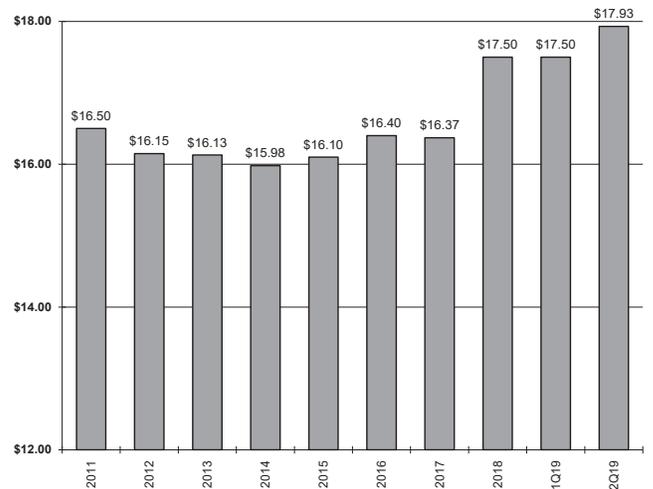
## Medical Office Market Overview

The medical office market has remained very active through the first part of the year. Continuing on the momentum of solid positive absorption and a flight to quality throughout 2018, the vacancy rate has dropped to 9.72% and positive year-to-date absorption of approximately 23,000 square feet. Worth noting is the fact that almost all of the 161,000 square feet of the vacant MOB space is south of Garden of the Gods Road and I-25. The northern market has virtually no available quality medical space and the compression in this submarket has developers kicking off speculative projects for the first time since 2008. There are a number of north Colorado Springs buildings that are anticipated to be under construction before the end of the year, which will be well-received by the tenant market looking for quality, well-located buildings in the growing northern market.

### Vacancy



### Lease Rates (NNN/PSF)



## Featured Medical Properties



Coming soon to St. Francis Campus



Union Medical Campus  
1625-1644 Medical Center Pt.  
1,470-8,366 SF For Lease

### Absorption (SF)

