

Quick Stats

	2Q16	Yr.	1Q16
Vacancy	20.08%	▼	▲
Lease Rates psf/yr	\$13.48	▲	▲
Net Absorption*	(20,656)	▲	▼

Hot Topics

- Colorado Springs ranked 5th best place to live by US News and World Report
- Redevelopment of South Nevada under way and construction of US Olympic Museum scheduled for a 2018 delivery
- Frontier Airlines expands direct flights out of Colorado Springs Airport
- Construction of multi-family developments in CBD to add over 350 units
- Residential homes sales continue at a robust pace with average sales price exceeding \$290,000 for new homes and Pikes Peak Regional Building Department issued 1,781 permits for new construction of single-family homes
- Interquest's Colorado Crossing under contract with plans to complete project and develop the 150 acre site



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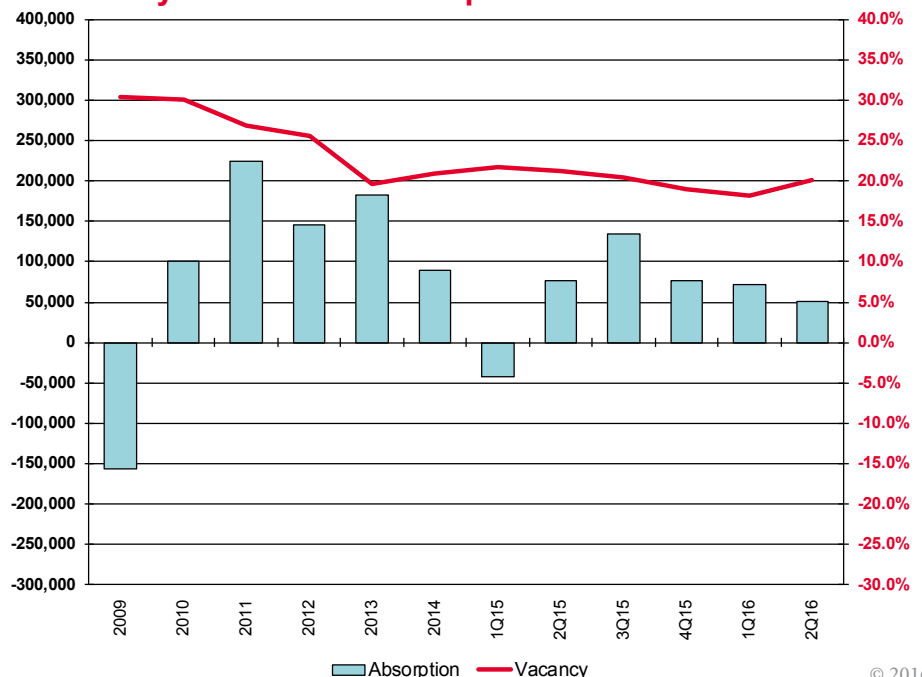
Class A/B Office Market Overview

Despite the statistics, which show a slight increase in the total market vacancy from the beginning of 2016, the market is experiencing robust activity and lease rates are increasing. We expect the year to end with significant positive absorption, reduced vacancy rates, and a healthy increase in lease rates.

With overall vacancy rates hovering just above 20% there remains plenty of space to lease up before we see the market tighten and the prospect of new construction. That being said, the amount of quality office space available is quickly diminishing and lease rates in the higher quality buildings and more desirable areas are increasing. Additionally, landlords are holding the line on improvement allowances, no longer offering an open check book to “turnkey” improvements; and items such as rent abatement and moving allowances are typically reserved for those buildings experiencing above average vacancy. With overall activity in the market being strong, and with a more limited supply of space in the higher quality properties, prospective tenants don’t have as many alternatives and many are having to take space in older, mid 1980’s generation properties. While many of these properties have undergone improvements to bring them up-to-date with more modern buildings, we see a growing need for new construction to occur to deliver the quality of space corporate America is requiring, and with lease rates increasing the cost of new construction can be supported. We anticipate seeing new construction begin in the latter part of 2017 with delivery in late 2018. In the interim, vacancy rates will reduce and lease rates will continue to escalate.

Supporting a healthy office market is a healthy local economy, and all indicators point to improved conditions. Unemployment in El Paso county continues to be below the national average and currently sits at 4%. The average price of home ownership continues to increase, now exceeding \$290,000; and new building permits for residential homes are on track to reach close to 4,000 by year-end. Colorado Springs continues to see expansion of our hospital systems, with both Penrose and Memorial both expanding their campuses and Children’s Hospital Colorado planning a 290,000 square foot building in Briargate adjacent to Memorial North. Infrastructure improvements, like the new I-25 and Highway 24 Interchange, are occurring throughout the city and redevelopment of blighted areas is beginning to occur, most notably along Nevada Avenue south of I-25. The gentrification of downtown is being fueled by the addition of over 350 apartment units and the development plans of the US Olympic Museum and the surrounding area. UCCS’s growth only adds to the overall vitality of the city and provides a growing city with an educated workforce. Colorado Springs will have a different look and feel in the next 10 years and we are at the forefront of it all.

Class A/B Vacancy Rate VS Net Absorption



Market Statistics

COLORADO SPRINGS CLASS A OFFICE STATISTICS 2ND QUARTER 2016							
Office Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
NORTH I-25 CORRIDOR:							
2ND Q 2016	5,786,845	1,208,576	81,290	20.88%	(28,299)	\$13.06	\$7.54
YTD 2016					16,463		
AIRPORT (SOUTHEAST) AREA:							
2ND Q 2016	1,491,894	394,692	10,236	26.46%	3,138	\$12.99	\$7.35
YTD 2016					8,193		
CENTRAL BUSINESS DISTRICT:							
2ND Q 2016	1,935,879	246,901	4,450	12.75%	4,505	\$14.95	\$8.36
YTD 2016					26,429		
TOTAL CLASS A MARKET							
TOTALS FOR 2ND Q 2016	9,214,618	1,850,169	95,976	20.08%	(20,656)	\$13.48	\$7.68
TOTALS YTD 2016					51,085		

OVERALL VACANCY RATE: 20.08%

AVAILABILITY RATE (includes sublease space): 21.12%

Significant Transactions

BUILDING NAME	ADDRESS	TENANT	SQUARE FEET	QTR
LEASE TRANSACTIONS				
Epic I	10807 New Allegiance Dr	Penguin Random House	13,347	2nd 2016
Northcare at St. Francis	6071 E Woodmen Rd	Pikes Peak Urology	10,669	1st 2016
Patriot Park VII	565 Space Center Dr	ExoAnalytic Solutions	8,517	1st 2016
Briargate Office Center	1755 Telstar Dr	Land Title Guarantee Company	5,790	2nd 2016
Briargate Office Center	1755 Telstar Dr	Sorenson Communications	5,163	2nd 2016
Union Medical	1625/1633 Medical Center Pt	Healthcare Partners Colorado	4,334	1st 2016
Chapel Hills Atrium	1125 Kelly Johnson Blvd	Fairway Independent Mortgage	4,303	2nd 2016
BUILDING NAME	ADDRESS	SALE PRICE	INVESTOR/ USER	QTR
SALE TRANSACTIONS				
1050-1090 N Newport Rd	1050-1090 N Newport Rd	\$8,235,000	Investor	1st 2016
One Gateway Plaza	1330 Inverness Dr	\$7,785,000	Investor	2nd 2016
9910 Federal Dr	9910 Federal Dr	\$6,175,000	Investor	1st 2016
Academy Corporate Center	5225 N Academy Blvd	\$5,450,000	Investor	2nd 2016

Featured Office Properties



Palmer Center
2 N & 90 S Cascade Ave
924 to 10,069 SF For Lease

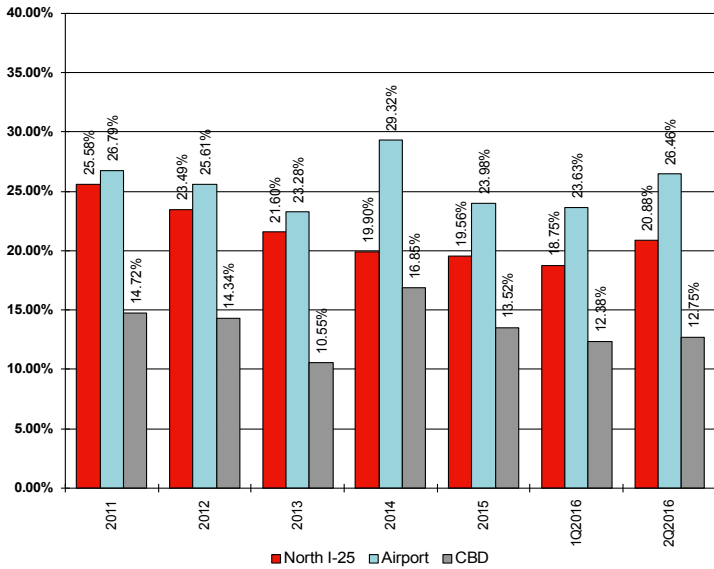


Patriot Park I
985 Space Center Drive
2,012 to 15,491 SF For Lease



Briargate Tech
2375 Telstar Dr & 8415 Explorer Dr
Up to 47,696 (full building) SF
For Lease

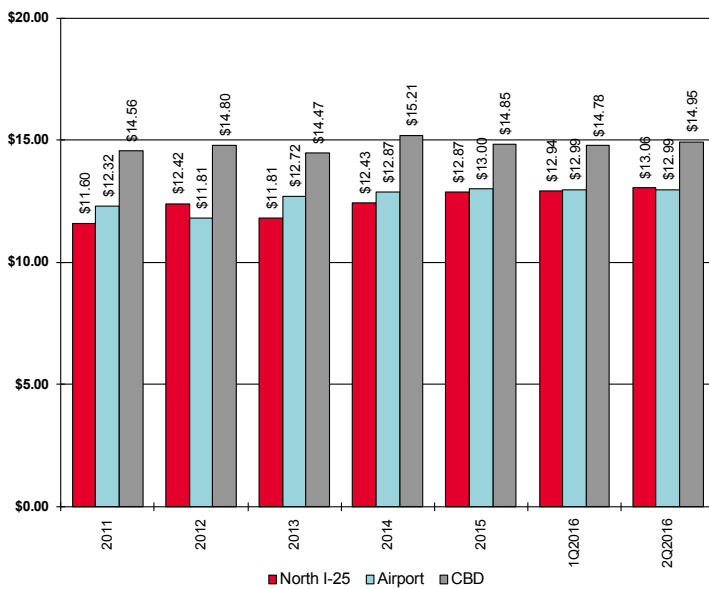
Class A/B Vacancy



VACANCY

Vacancy rates have increased slightly in the first half of the year, primarily due to just a few buildings having lost or downsized larger tenants. The majority of multi-tenant buildings have seen either no change or a reduced vacancy rate and current activity suggest the vacancy rate will drop in 2016. The market will continue to see decreasing vacancy but until we have new companies relocating or starting up in Colorado Springs our vacancy will continue to decrease modestly.

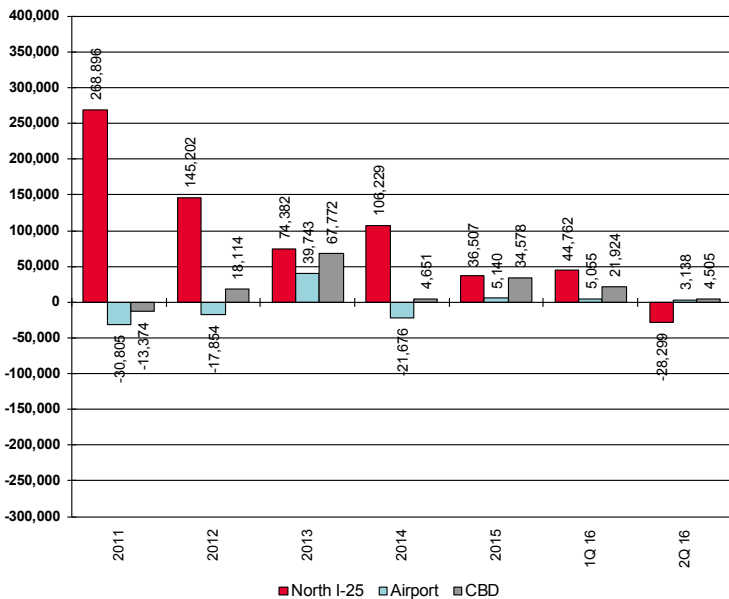
Class A/B Lease Rates (NNN/PSE)



LEASE RATES (NNN, Annual, Per RSF)

With the overall improving market, we have started to see select properties begin to push lease rates up and hold the line in negotiations. Older, mid-80's generation buildings continue to pull the average down, but a number of them are starting to increase with the improving market. We anticipate the overall average to increase through the end of the year at a healthy pace.

Class A/B Absorption (SF)



ABSORPTION

Absorption has been positive year to date, but we experienced a negative second quarter. The reason behind this is, that while overall leasing activity has seen a positive increase, there have been a few properties that have lost or downsized large tenants and it has eroded the positive lease-up many properties are experiencing. We expect this to be a short-term situation and the market to post healthy absorption year-end.

Medical Market Statistics

2ND QUARTER 2016							
	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
Colorado Springs MOB Market	1,655,998	158,242	0	9.56%	27,436	\$16.21	\$8.89

OVERALL - VACANCY RATE: 9.56%

AVAILABILITY RATE (includes sublease space): 9.56%

Medical Office Market Overview

The Colorado Springs medical office market has seen its sixth consecutive quarter of positive leasing absorption, bringing the overall vacancy rate to 9.56%. The leasing activity continues to be steady - but not yet what we would categorize as exceptionally active. However, a primary force driving the market to stabilization is the market was not overbuilt during the 2008 downturn and existing construction was of high quality which has seen the majority of lease activity resulting in a decrease in vacancy and increased lease rates, with the average cost per square foot at \$16.21. All indicators are pointing toward rates gradually continuing to increase, vacancy decreasing, and leasing velocity to continue to increase for the foreseeable future. Of particular note, the first half of the year in Colorado saw the announcement of continued growth from both hospital systems, with University of Colorado Health announcing a 130,000 square foot campus to be built next to Memorial North with completion scheduled for mid-2018. Furthermore, CHI (St. Francis/Centura) has announced the addition of St. Francis' campus, which is currently in planning stages with an estimated 2019 delivery. Lastly, Children's Hospital announced that it is expanding its planned 170,000 square foot facility to 280,000 square feet on the city's Northside with construction to start 2016/2017.

Featured Medical Properties

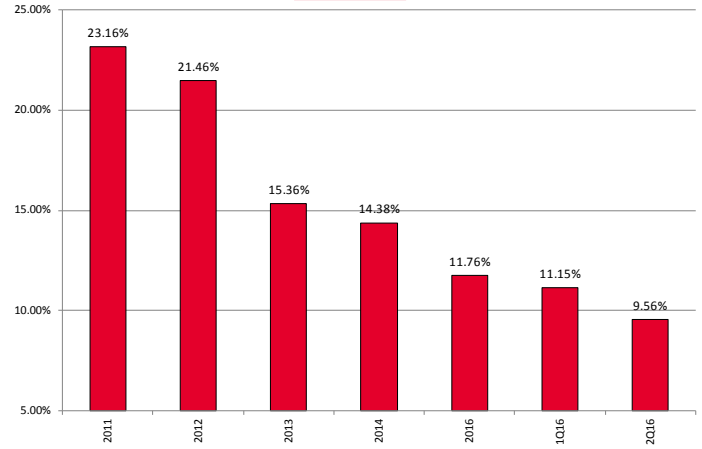


Briargate Medical
4105 Briargate Parkway
1,978 to 13,079 SF For Lease

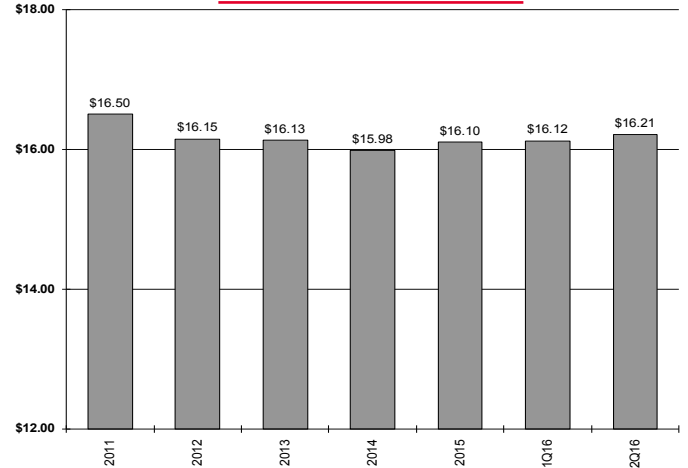


Northcare at St. Francis
6071 East Woodmen Road
1,841 to 3,841 SF For Lease

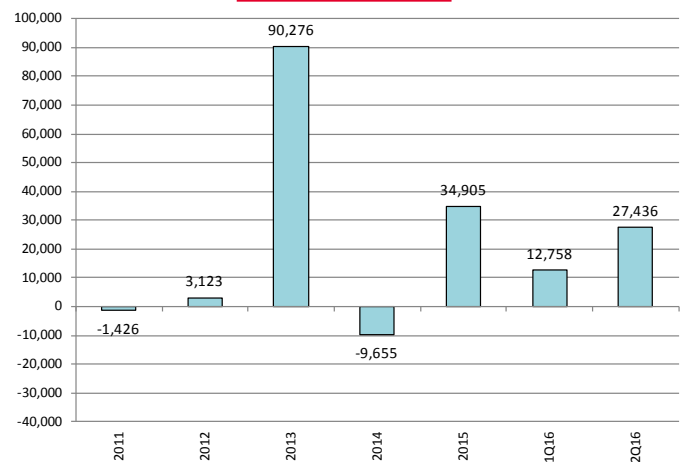
Vacancy



Lease Rates (NNN/PSF)



Absorption (SF)



Colorado Springs Commercial

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