COLORADO SPRINGS OFFICE MARKET — THIRD QUARTER 2011

Market in Transition

The Colorado Springs office market has generally followed the national market which has been fairly consistent with 10 year cycle phases. This is certainly true for Colorado Springs over the last three cycles, which saw significant new construction of Class-A office properties in the mid 80's, late 90's, and our last phase where the bulk of new construction came on-line between 2005 and 2008. Since 2008 we have experienced a precipitous decline in market conditions. What fueled the last wave of construction was low vacancy rates, which dropped to 12.25% for year-end 2006, and escalating lease rates, which reached $14.78 NNN for year-end 2008. Even with the new construction the market in 2008 posted an overall vacancy rate of 18.58%. By mid 2010 the market vacancy reached its peak at 33.46%; lease rates dropped steadily through 2010 but have bottomed out at their current average of $12.84 NNN.

We now appear to be in the Transition Period, where vacancy rates have started to drop from their high in mid 2010 of 33.46% and now register 27.45%. This reduction was the result of positive absorption for both year-end 2010 of 101,285 square feet; and year-to-date 2011 of 156,937 square feet. Lease rates vary widely as owners react to the changing fortunes of their individual assets.

As we approach 2012 is it far-fetched to think we could see the start of new construction in 3 years? It would depend on which submarket. With the CBD averaging vacancy of only 13.26 % and with limited blocks of space available over 10,000 square feet, it certainly is conceivable lease rates will escalate from their current market high's of $18.00 - $19.00 NNN and new construction can be underwritten. The north end market has a substantial amount of large vacancies (30,000 square feet and up), however multi-story and multi-tenant office buildings in the 450 acre Briargate Business Campus now average vacancy rates of less than 18%, and the Colorado Springs Tech Center, including surrounding office buildings, has a vacancy rate of 16.1%. So the overall health of the market for institutional quality assets is much better than the overall numbers would infer. The Airport submarket will continue to experience high vacancy rates and we do not see that market turning for some time.

Should market conditions continue to improve not only will there be significant investment opportunities of existing buildings, but new construction will be coming to market in 3-4 years.

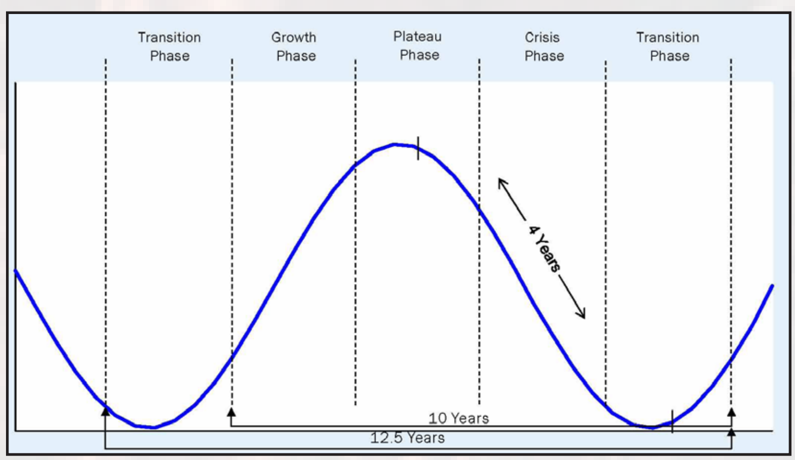
QUICK STATS – Class "A" Market

Vacancy: 27.45%
Lease Rates: $12.84 NNN
Net Absorption YTD: 156,937 square feet

2011 OFFICE MARKET OUTLOOK

Vacancy:
Net Absorption:
Lease Rate:
Lease Activity:

REAL ESTATE CYCLE PHASES



Source: CEL & Associates, Inc.

BROKERAGE SERVICES:

Greg Phaneuf
Principal
gphaneuf@palmer-mcallister.com

Peter Scoville
Principal
pscoville@palmer-mcallister.com

Gary Hollenbeck
Principal
ghollenbeck@palmer-mcallister.com

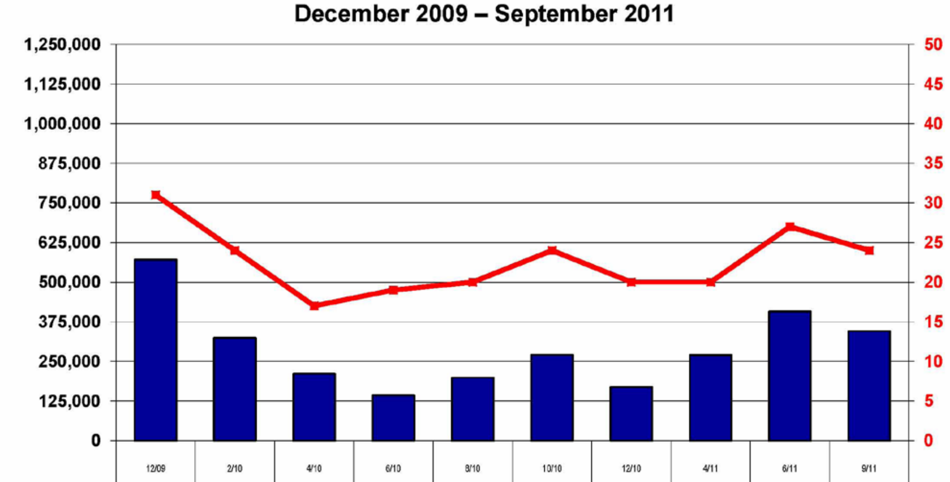
MARKET STATISTICS

COLORADO SPRINGS
CLASS-A OFFICE STATISTICS
3RD QUARTER 2011

Office Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
NORTH I-25 CORRIDOR:							
3RD Q 2011	6,503,823	1,767,557	53,996	27.18%	109,159	$11.64	$7.74
YTD 2011					161,433		
AIRPORT (SOUTHEAST) AREA:							
3RD Q 2011	1,551,490	699,305	0	45.07%	(2,687)	$12.32	$7.13
YTD 2011					(17,314)		
CENTRAL BUSINESS DISTRICT:							
3RD Q 2011	1,803,132	239,156	9,500	13.26%	(3,160)	$14.56	$8.31
YTD 2011					12,818		
TOTAL CLASS A MARKET							
TOTALS FOR 3RD Q 2011	9,858,445	2,706,018	63,496	27.45%	103,312	$12.84	$7.73
TOTALS YTD 2011					156,937		

OVERALL - VACANCY RATE: 27.45%; AVAILABILITY RATE (includes sublease space): 28.09%

LEASE ACTIVITY OVERVIEW
NORTH I-25 CORRIDOR
December 2009 – September 2011



	12/09	2/10	4/10	6/10	8/10	10/10	12/10	4/11	6/11	9/11
Total SF Requirement	571,275	324,400	211,400	143,300	198,900	270,750	169,300	270,300	407,500	345,500
# of Active Tenants	31	24	17	19	20	24	20	20	27	24

SIGNIFICANT TRANSACTIONS

SIGNIFICANT SALE/LEASE TRANSACTIONS

BUILDING NAME	ADDRESS	TENANT/BUYER	SQUARE FEET	LEASE/ SALE
SALE TRANSACTIONS				
United States Space Foundation	310 South 14th Street	Rocky Mountain Health Care	17,457	$851,935
Chase Building	6 North Tejon Street	Braxton	129,743	$5,800,000
LEASE TRANSACTIONS				
Corporate Pointe	1975 Research Parkway	Radiant Blue	10,850	Lease
Garden Gateway Plaza	1357 Garden of the Gods Rd.	Aeroflex Colorado Springs	25,540	Lease
Corporate Center at Briargate	2060 Briargate Parkway	Stewart Title	3,327	Lease
Chapel Hills Atrium	1125 Kelly Johnson Blvd.	iMortgage	4,303	Lease
Front Range Building	1150 Kelly Johnson Blvd.	American Heritage Title	4,211	Lease

FEATURED PROPERTIES

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

Medical Center at Penrose
2222 North Nevada Avenue
30,000 SF For Lease (divisible)

Plaza at Northgate
555 Middle Creek Parkway
41,232 SF For Lease (divisible)

UMB Bank Building
5825 Delmonico Drive
12,328 SF For Lease (divisible)

Medical Pavilion at Briargate
4105 & 4125 Briargate Parkway
82,319 SF For Lease (divisible)

Verizon
2424 Garden of the Gods Road
105,000 SF For Lease (divisible)

MEDICAL OFFICE MARKET

3RD QUARTER 2011							
	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Average Lease Rate	NNN Exp.
Colorado Springs MOB Market	1,525,733	377,485	2,292	24.86%	(4,356)	$16.50	$8.88
OVERALL - VACANCY RATE: 24.86%; AVAILABILITY RATE (includes sublease space): 25.02%							

During the 3rd Quarter of 2011 there was not a great deal of new lease or sale activity in the medical market. Despite the lack of recently "inked" transactions, there has been a good amount of background work including tours, lease proposals, financial underwriting, etc. throughout the 3rd Quarter. Of course, this activity is not apparent in a glance at the hard numbers, but is important in gauging the overall feel and health of the market. However, as we noted in our 2nd Quarter newsletter, late 2010 and early 2011 saw a great deal of new medical activity including:

- Colorado Springs Health Partner's lease of 65,000 SF at Union Medical Campus
- Healthcare Realty Trust's acquisition of the 85,000 SF Northcare at St. Francis MOB
- The 55,000 SF lease by The Children's Hospital at the Medial Pavilion at Briargate
- The new leases at Medical Center at Penrose, including:
  - Colorado Springs Neurological for 16,000 SF
  - Penrose Hospital for 20,000 SF
  - Springs Rehabilitation for 4,700 SF

Lease rates for medical office buildings generally range from $17.00-$21.00 per rentable square foot on new construct6ion, and $14.50-$16.50 for second generation properties. 3rd Quarter 2011 numbers show an average asking lease rate of $16.32 per square foot and negative absorption of 5,296 square feet, mainly attributable to the 14,000 SF that Rocky Mountain Cancer Center vacated at Pavilion Medical Center on Fontanero Street.

As we look toward the end of 2011, the obvious unknown in the Colorado Springs Medical Market is what becomes of Memorial Hospital. The RFP to lease and operate Memorial has been sent to five very different providers, including HCA Healthcare, Banner Health Centers, University of Colorado/Poudre Valley Health System, Centura and Memorial's current leadership structure. While the outcome of the process is unpredictable at this point, the momentum of determining a long-term solution for Memorial has greatly increased and by early 2012 the direction should be clear. Undoubtly, securing Memorial's position will have a significant impact on the MOB market as the doctor groups firm up their affiliations.

Medical Center at
Penrose Hospital

Medical Pavilion
at Briargate

NorthCare
at St. Francis