



**Executive Overview**

The Colorado Spring’s Class A office market is comprised of approximately 10 million square feet in three distinct submarkets; North I-25 Corridor, Central Business District and Airport Area. The second quarter of 2010 marked the statistical low in the market, and over the last thirty months we have been on a very slow path of recovery with the market posting modest gains in absorption which have had a cumulative effect of bringing us to the front door of a healthy market!

As of the 4th Quarter 2012, the overall vacancy of the Class-A market sits at 25.61%; this is compared with 26.79% for the same period last year, and down significantly from its high at the end of the first quarter 2010 of 33.46%. Current market activity suggests this trend will continue through the first half of 2012. A more interesting and accurate depiction of the market occurs when you remove inferior properties (ones that carry an elevated level of vacancy even under the best market conditions) and those with blocks of vacancy that are not divisible below 35,000 sf. This yields an adjusted vacancy of approximately 18%.

For year end 2012 the overall market registered 145,462 square feet of positive absorption (the vast majority of which was in the North I-25 submarket), compared with 224,717 for year-end 2011 and 101,285 square feet for year-end 2010. We now have three years of positive absorption, and we expect this trend to continue in 2013. The cumulative effect of this positive absorption will be reduced vacancy rates and higher lease rates.

The average for quoted lease rates fell in 2012 to \$12.78 NNN. This is down modestly from \$12.83 for year-end 2011, which was down from \$12.91 NNN for year-end 2010. These numbers don’t tell the full story, however, as many owners have seen their properties begin to lease-up and stabilize; the result is a reduction in concessions such as free rent and moving allowances, and limits on tenant allowances for build-out. At those properties with vacancy rates below 15% we have seen an escalation in lease rates.

As we began 2012 we forecast a year of modest recovery, and the year end statistics do suggest that occurred. The CBD market remains the healthiest, registering over 18,000 square feet of positive absorption and with a vacancy rate of 14.34%. Lease rates are healthy and we will continue to see this market tighten in 2013. If you’re a tenant seeking space in the CBD do not expect to find any “great deals!” The North I-25 market posted another year of steady gains with 145,000 square feet of positive absorption and a reduction in overall vacancy to close the year at 23.49%. With the adjusted vacancy closer to 18% tenant’s will pay higher lease rates and may have to contribute funds to build-out their space. The Airport submarket continues to languish with vacancy rates in excess of 45% and close to 18,000 square feet of negative absorption. Again, amongst those better quality properties the vacancy is much lower, although tenants continue to have many options with favorable economics. For 2013 we forecast a continued recovery, with the big news being lease rates, which we anticipate increasing for the first time since 2008 - and at a significant pace.

**QUICK STATS – Class “A” Market**

Vacancy: 25.61%  
Lease Rates: \$12.78 NNN  
Net Absorption YTD: 145,462 square feet

**2012 OFFICE MARKET OUTLOOK**

Vacancy:  Net Absorption:   
Lease Rate:  Lease Activity: 



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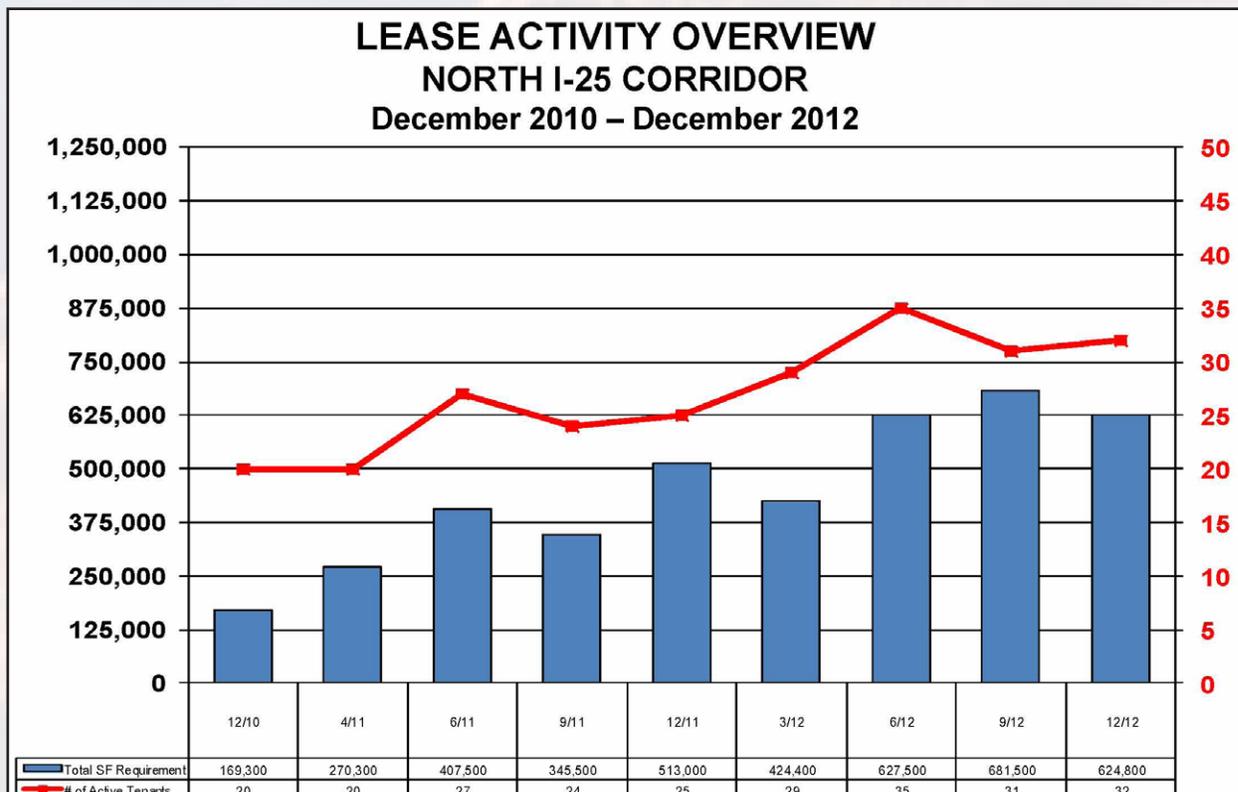


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# MARKET STATISTICS

COLORADO SPRINGS CLASS-A OFFICE STATISTICS 4TH QUARTER 2012							
Office Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
<b>NORTH I-25 CORRIDOR:</b>							
4TH Q 2012	5,924,836	1,367,492	54,553	23.49%	67,328	\$12.42	\$7.54
YTD 2012					145,202		
<b>AIRPORT (SOUTHEAST) AREA:</b>							
4TH Q 2012	1,586,690	743,539	20,723	46.86%	(33,275)	\$11.81	\$7.21
YTD 2012					(17,854)		
<b>CENTRAL BUSINESS DISTRICT:</b>							
4TH Q 2012	1,803,132	258,541	33,534	14.34%	(15,779)	\$14.80	\$8.20
YTD 2012					18,114		
<b>TOTAL CLASS A MARKET</b>							
TOTALS FOR 4TH Q 2012	9,314,658	2,369,572	108,810	25.44%	18,274	\$13.01	\$7.65
TOTALS YTD 2012					145,462		
OVERALL - VACANCY RATE: 25.61%; AVAILABILITY RATE (includes sublease space): 26.73%							



# FEATURED PROPERTIES



Garden Gateway Plaza  
1365 Garden of the Gods Road  
17,729 SF For Lease (divisible)



Academy Point Office Center  
1030-1050 South Academy Blvd.  
13,309 SF For Lease (divisible)



Corporate Center at Briargate  
2060 Briargate Parkway  
8,161 SF For Lease (divisible)



Quantum  
10285 Federal Drive  
70,000 SF For Lease (divisible)



Briargate Tech Center  
2375 Research Parkway & 8415 Explorer Drive  
23,742 SF For Lease (divisible)



Briargate Office Center  
1755 Telstar Drive  
33,406 SF For Lease (divisible)

## 2012 SIGNIFICANT TRANSACTIONS

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BUILDING NAME	ADDRESS	TENANT	SQUARE FEET	QTR 2012
<b>LEASE TRANSACTIONS</b>				
Briargate Medical Pavilion	4105 Briargate Parkway	Front Range Orthopedics	29,484	2nd
Chapel Hills Atrium	1125 Kelly Johnson Blvd.	CareCore National	21,679	2nd
Epic One	10807 New Allegiance Dr.	Akima	12,332	4th
Northcreek II	5755 Mark Dabling Blvd.	PMC	15,500	1st
Platte Airpark	440 Wooten	Boeing	37,800	2nd
Plaza at Northgate	555 Middle Creek Parkway	HMO	29,146	1st
Interquest Hybrid I & II	9925-9945 Federal Drive	United Healthcare	39,448	4th
Interquest Hybrid I & II	9925-9945 Federal Drive	Spectranetics	20,000	4th
BUILDING NAME	ADDRESS	SALE PRICE	INVESTOR/USER	QTR 2012
<b>SALE TRANSACTIONS</b>				
Tech Center I	5450 Tech Center Dr.	\$11,000,000	Investor	4th
Presidio	1155 Kelly Johnson Blvd.	\$7,275,000	Investor	4th
Plaza at Northgate	555 Middle Creek Parkway	\$15,750,000	User/Invest	2nd
Promontory (CCOE)	2446 Research Parkway	\$2,840,000	User	4th

## MEDICAL OFFICE MARKET

4TH QUARTER 2012							
	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Average Lease Rate	NNN Exp.
Colorado Springs MOB Market	1,587,417	340,716	52,199	21.46%	3,123	\$16.15	\$8.83
<b>OVERALL - VACANCY RATE: 21.46%; AVAILABILITY RATE (includes sublease space): 24.75%</b>							

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. 4th Quarter 2012 numbers show an average asking lease rate of \$16.15 per square foot and positive absorption of 3,123 square feet.

As we look into 2013, we forecast the medical market continues its stabilization and expect to see vacancy rates decrease as the newer first generation buildings constructed on or near the Memorial and Penrose Campuses fill up with tenants expanding in the northern part of town. While the year end absorption numbers are modest, with the activity that has yet to be registered in the market, we anticipate the first 2 quarters of 2013 to show some significant decreases in vacancy. The theme that we have seen in 2012 and anticipate continuing is a 'flight to quality' both on and near the major hospital campuses. Lease activity in 2012 has already lead to positive absorption and we expect that trend to continue into 2013.