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MarketView

Colorado Springs Industrial

www.coscommercial.com

Fourth Quarter 2014

Quick Stats

		Change from last	
	4Q14	Yr.	2Q14
Availability	9.9%	▲	▲
Lease Rates psf/yr	$6.47	▶	▶
Net Absorption	-66,813	▼	▼

Hot Topics

- Downward trend in Availability Rate and upward trend in rates and prices continue
- Quality industrial space remains scarce, but no spec construction on the horizon
- Colorado Springs Commercial grows its industrial, retail and support teams and increases market share
- City For Champions (www.cityforchampions.com), a crucial economic vitality measure, is progressing through review and funding details
- Investment activity remains strong due to cap rate compression in larger markets

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Industrial Market Overview

2014 showed ongoing signs of positive trends on the surface. The Availability Rate declined for the second straight year following a slight increase at the end of 2012, but has largely been on a downward trend since 2010. Even so, over 3 million square feet of space remains vacant.

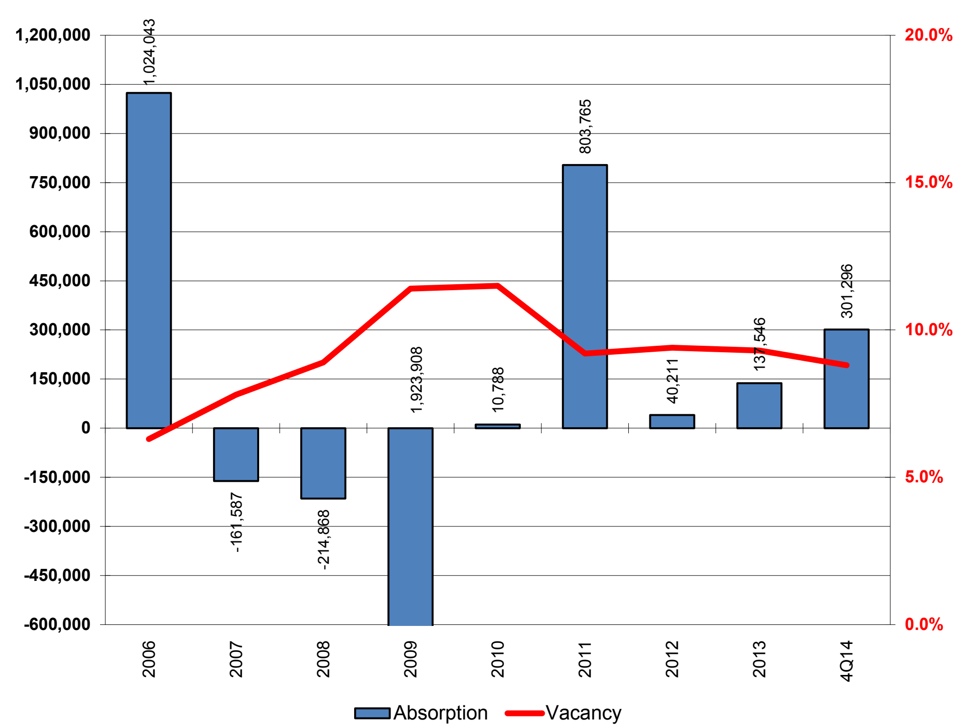
Total leasing activity for 2014 came in at over 649,000 square feet (SF), whereas 1,070,000 SF was recorded in 2013. Even so, the 649,000 SF of total activity ended up representing roughly 301,000 SF of positive absorption, which is well above the 2013 absorption. 2014 was a year of smaller deals altogether, but those deals resulted in some noticeable growth that brought about the lowest year-end vacancy rate this market has seen since 2008.

In spite of these positive trends, it is our opinion that the market continues to be a long way from equilibrium. As an example, average absorption gains totaled around 800,000 SF per year prior to the downturn. The 2014 showing was 40% of those “healthy market” absorption gains. Another eye opening example: since 2005 the Denver industrial market has experienced over 37,000,000 SF of positive absorption, while Colorado Springs has only recorded around 830,000 SF, or less than 3% of Denver’s figures.

The primary reason for this disparity, in our opinion, is the lack of meaningful replacement of high quality jobs that have been lost since the early 2000’s. Former manufacturing, production, R&D and clean room space has been absorbed by adaptive reuses that don’t provide nearly the same economic impact, and on top of that they remove quality properties form a market that could otherwise provide an ultimate higher and better use. To counteract this trend, the local public and private sectors are working both independently and in collaboration to revamp economic development and vitality measures (City For Champions, incubator space, discussions on inventive packages, etc.) in an effort to attract and retain high quality jobs. We are in full support of these measures and while they don’t cause overnight changes, we are hopeful that many positive changes are in process.

The forecast for 2015 is a mixed bag. It is likely that upward absorption and lease rate/pricing trends will continue, which will further limit the supply of quality industrial space. But without any foreseeable speculative development our market might be in the difficult position of not being able to fulfill immediate requirements. Those requirements and their associated jobs could ultimately be lost to other markets where space is readily available to occupy. Building owners can now be justified in being very selective of the deals they pursue.

Industrial Vacancy Rate VS Net Absorption

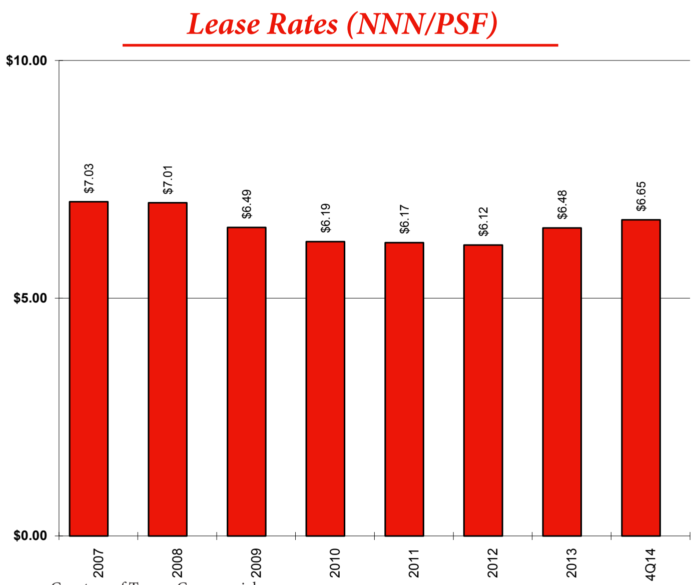


Courtesy of Turner Commercial

Courtesy of Turner Commercial

AVAILABILITY

The availability rate has decreased to 8.8%, from 9.2% at the end of 2013 and 9.0% at the middle of 2014. These slight improvements have been ongoing and will likely continue to occur as older, lower quality space continues to be priced to move. The chart to the left shows that the market has been stagnant for going on 4 years now.

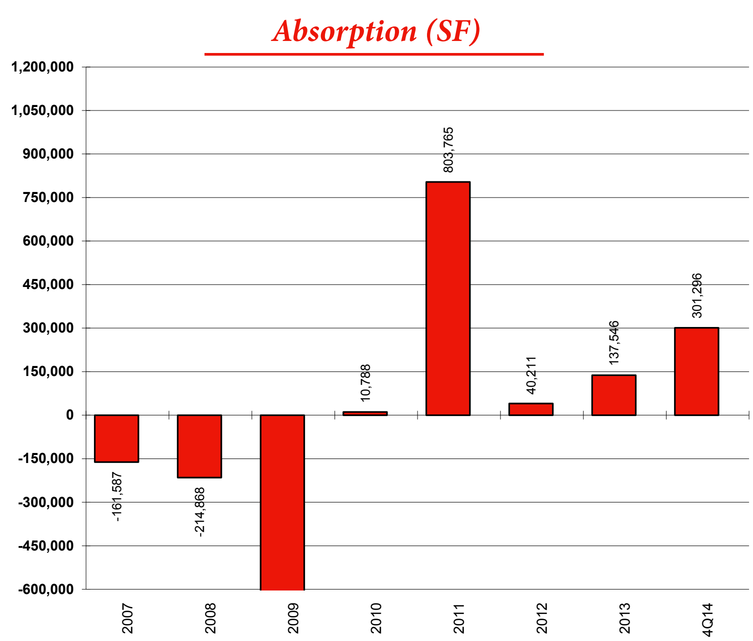


Courtesy of Turner Commercial

LEASE RATES

(NNN, Annual, Per RSF)

Asking lease rates continue to hold relatively flat, with the increase in 2014 at roughly 2.6%. Even so, asking lease rates and the rates at which deals are struck have and continue to vary greatly, except in higher quality properties wherein availability is scarce. In spite of the lack of supply of quality space, rates still haven't risen to a level to spur speculative development.



Courtesy of Turner Commercial

ABSORPTION

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

Positive absorption trends have been experienced year over year since 2010, in what would be best described as a "baby step" manner. Quality job attraction and retention are the keys to getting this market back on track.