

Quick Stats

	Change from last		
	4Q16	Yr.	3Q16
Vacancy	17.80%	▼	▼
Lease Rates psf/yr	\$13.63	▲	▲
Net Absorption*	118,586	▲	▼

Hot Topics

- Investment sale activity is heating up, with more expected for 2017
- Lease rates on the rise, vacancy down, and improving activity
- DOD activity forecast to improve with the new administration
- Unemployment in El Paso County is 3.2%, down .7% from a year ago and below the national average of 5.6%, but higher than the state average of 2.8%
- Single-family home sales set record totaling over 15,000, a 16% increase over 2015. Property values increasing, with a median sale price of \$255,000



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Class A/B Office Market Overview

2016 concluded with positive absorption of 311,429 square feet to yield an overall vacancy rate of 17.80%. In comparison, 2015 year-end numbers reflected 245,365 square feet of absorption and an overall vacancy rate of 19.01%. For the first time in four years the market realized a healthy reduction in overall vacancy, which had hovered in the 19%-20% range for the prior three years. The momentum carrying over into 2017 suggests we will see strong lease activity and positive absorption for at least the first half of the year; and lease rates are reflecting the demand.

A missing component not accurately reflected in the absorption numbers is “lease activity.” For the first time in many years 2016 experienced lease activity on space before it was vacated. A few noteworthy situations where leases were consummated on space before the prior tenant’s leases were up included Booz Allen Hamilton’s lease at 565 Space Center Drive for 52,000 square feet and Western Digital leasing 35,000 square feet in Interquest; total lease activity of new transactions, not renewals, exceeded absorption by approximately 135,000 square feet. This is further evidence of the overall health of the market, as well as the diminishing supply of high-quality available space. A great deal of the available, or vacant, space in today’s market is weighted toward older generation buildings and those properties with big blocks of vacant space, which means more limited quality options for tenant’s seeking space in the market. Lease rates continue to increase and at a more rapid pace, with a 2016 year-end average rate of \$13.63 psf/year (NNN) – up from \$13.35 psf in 2015. For tenant’s seeking space in traditional multi-story Class A office buildings, they can expect rates to be much higher, with suburban product demanding as high as \$17.00 psf/year (NNN) and CBD product exceeding \$20.00 psf/year (NNN). Additionally and equally as important are the costs of constructing tenant improvements, which have escalated significantly. No longer can a tenant expect a landlord to “turnkey” work, and many tenants will need to subsidize the costs to improve their new space.

One segment of the market that remains soft are those buildings with large blocks, above 50,000 square feet, of vacancy. These buildings skew the overall statistics, driving up overall vacancy rates and keeping average lease rates low. These campus settings do, however, appeal to high count employers and are important to keep keeping Colorado Springs an attractive site for new employers.

Overall the city is in a positive place, with existing hospital campuses expanding and new campuses being added – including the recently completed 86,000 square foot Colorado General Hospital and Children’s Hospital 300,000 square foot campus in Briargate. Land sales have been extremely strong, and multi-family housing developments are popping up throughout the city. Sales of single family homes posted their best year ever in 2016, up over 16% from 2015 which was a record year. Downtown Colorado Springs is seeing significant activity with apartment development, and is adding over 350 units being delivered later this year; this will fuel retail growth and bolster an already healthy office market, where vacancy rates are at 11.12%. The airport submarket, with its proximity to Peterson AFB has traditionally been a hub of department of defense users, and this market has seen a steady decline in vacancy to 23.28% after hovering in the low 30% range for many years. The new administration will likely have a positive impact in this area and we expect lease activity to be strong in the second half of 2017.

All indicators point to a steady improvement in the local market and this will fuel construction of new Class A office product which we would expect to see come on-line in 2018, approximately 10 years from our last construction cycle.

Market Statistics

COLORADO SPRINGS CLASS A OFFICE STATISTICS 4 th QUARTER 2016							
Office Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
NORTH I-25 CORRIDOR:							
4 th Q 2016	5,514,075	1,029,162	73,158	18.66%	70,932	\$13.30	\$7.48
YTD 2016					182,315		
AIRPORT (SOUTHEAST) AREA:							
4 th Q 2016	1,491,894	347,278	43,945	23.28%	39,648	\$12.94	\$7.25
YTD 2016					65,959		
CENTRAL BUSINESS DISTRICT:							
4 th Q 2016	1,935,879	215,254	8,350	11.12%	8,006	\$15.00	\$8.58
YTD 2016					63,155		
TOTAL CLASS A MARKET							
TOTALS FOR 4 th Q 2016	8,941,848	1,591,694	125,453	17.80%	118,586	\$13.63	\$7.67
TOTALS YTD 2016					311,429		

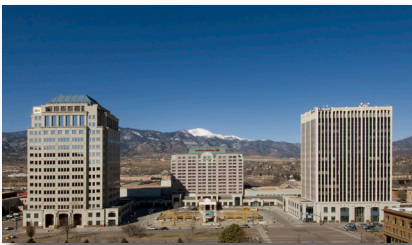
OVERALL VACANCY RATE: 17.80%

AVAILABILITY RATE (includes sublease space): 19.20%

Significant Transactions

BUILDING NAME	ADDRESS	TENANT	SQUARE FEET	QTR
LEASE TRANSACTIONS				
Patriot Park V	565 Space Center Drive	Booz Allen Hamilton	50,000	3 rd
Patriot at Interquest II	9925 Federal Drive	DirectStream	24,000	3 rd
Patriot at Interquest III	9950 Federal Drive	Western Digital	35,000	4 th
Briargate Tech	2375 Telstar Drive	XIO	14,000	4 th
Tech Center VI	5575 Tech Center Drive	CACI	21,000	3 rd
Briargate Research	2075 Research Parkway	AirMagnet	35,000	4 th
Garden of the Gods Business Park	2424 Garden of the Gods Road	PGi	75,000	4 th
SALE TRANSACTIONS				
BUILDING NAME	ADDRESS	SALE PRICE	INVESTOR/ USER	QTR
Verizon Campus	2424 Garden of the Gods Road	\$31,000,000 / \$42 psf	Investor	3 rd
Research Corporate Center	8610 Explorer Drive	\$17,500,000 / \$177 psf	Investor	4 th
Front Range Building	1150 Kelly Johnson Boulevard	\$4,900,000 / \$106 psf	User	4 th
Pine Creek Village	9475 Briar Village Point	\$13,500,000 / \$143 psf	Investor	4 th

Featured Office Properties



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

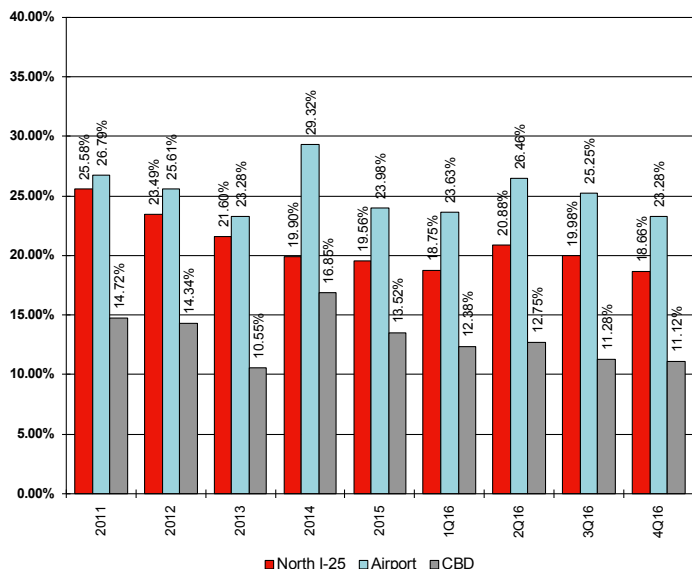


Patriot Park I
985 Space Center Drive
2,012 to 15,491 SF For Lease



Garden of the Gods Business Park
2424 Garden of the Gods Road
15,000-200,000± SF For Lease

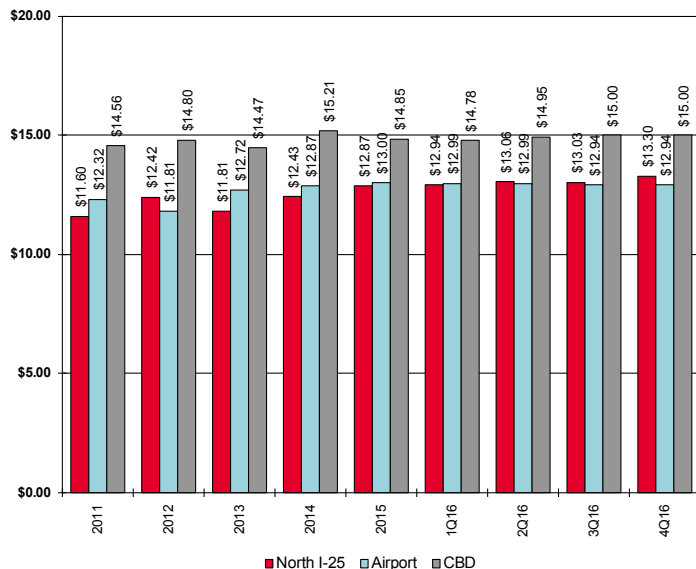
Class A/B Vacancy



VACANCY

Vacancy rates continued to decrease in the second half of the year. Given the market size, one or two 100,000+ users entering the market (which is anticipated in the next 12-18 months) will drive vacancy to single-digit numbers. The majority of multi-tenant buildings have seen either no change or a reduced vacancy rate and current activity suggests the vacancy rate will drop in 2017. 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 at a more modest pace.

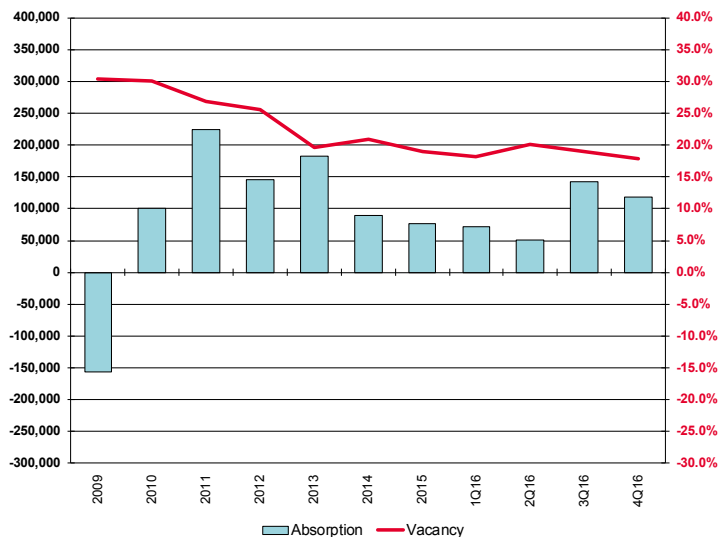
Class A/B Lease Rates (NNN/PSF)



LEASE RATES (NNN, Annual, Per RSF)

With the overall improving market, we have started to see most 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 2017 and with the lack of newly constructed product on the market, the ceiling for 2nd generation space is not yet 'set'.

Class A/B Vacancy Rate VS Net Absorption (SF)



ABSORPTION

Absorption has been positive year to date, and we ended the year with a strong 4th Quarter. As was previously mentioned, the leasing activity (not reflected in absorption numbers) was very strong in the second half of the year and all indicators are toward increased absorption and leasing activity.

Medical Market Statistics

4 th QUARTER 2016							
	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
Colorado Springs MOB Market	1,655,998	124,836	4,600	7.54%	3,168	\$16.40	\$8.83

OVERALL - VACANCY RATE: 7.54%

AVAILABILITY RATE (includes sublease space): 7.82%

Medical Office Market Overview

The Colorado Springs medical office market ended 2016 on a very strong note and is anticipated to see continued increase in overall activity and lease rates. The vacancy graph to the right shows a strong visual image of the 5-year trend. With vacancy now at 7.54%, the market has reached a point where there is a very limited high-quality space available. As a result, we expect to see rates continue to climb through 2017.

However, the continued growth of both local hospital systems (UC Health and Centura), with their focus on acquiring individual practices and bringing them on-campus, will clearly have the effect of slowed speculative development to meet the tight vacancy numbers. As is evidenced by the total of 360,000 sf under construction by UCH and the \$100M, 135,000 sf expansion on the St. Francis campus by Centura, the unprecedented growth of the hospitals will have a cooling effect of third party development. Throughout 2017, we anticipate rate increases and continued strong leasing activity for the higher quality assets.

Featured Medical Properties

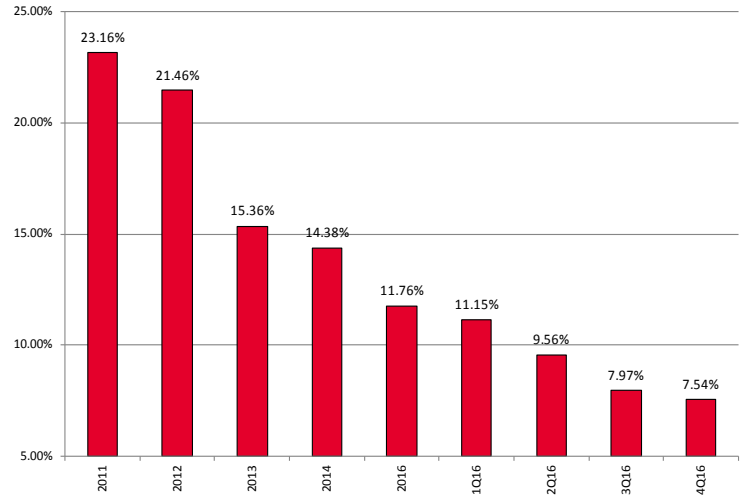


Briargate Medical
4105 Briargate Parkway
1,978 to 13,079 SF For Lease

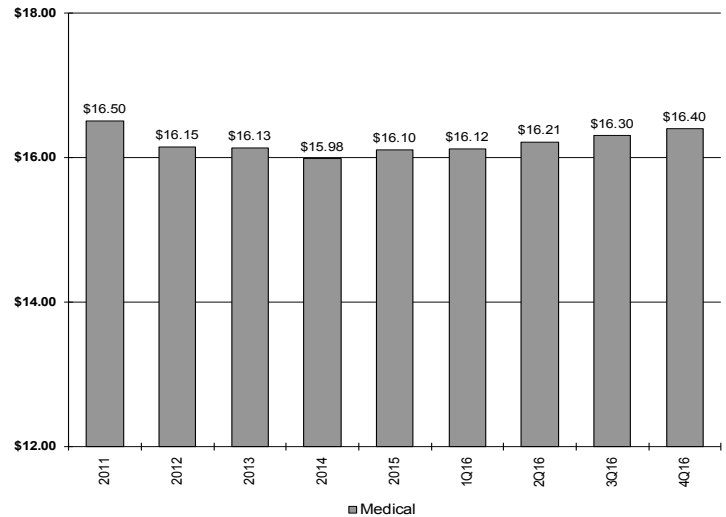


Northcare at St. Francis
6071 East Woodmen Road
1,841 to 5,034 SF For Lease

Vacancy



Lease Rates (NNN/PSF)



Absorption (SF)

