

Quick Stats

	1Q13	Change from last	
		Yr.	4Q12
Vacancy	20.57%	▼	▼
Lease Rates psf/yr	\$12.77	▼	▼
Net Absorption*	85,329	▼	▲

Hot Topics

- The Space Foundation reported the global space economy grew 6.7% from 2011 to over \$304 billion annually.
- 1st Quarter 2013 single family building permits issued was up over 20% from 1st Quarter 2012.
- Unemployment rate drops to 8.5% - the lowest in four years.
- Investment sales market of Class A office property on the rise.
- Colorado Springs ranked 14th fastest growing in projected household growth.



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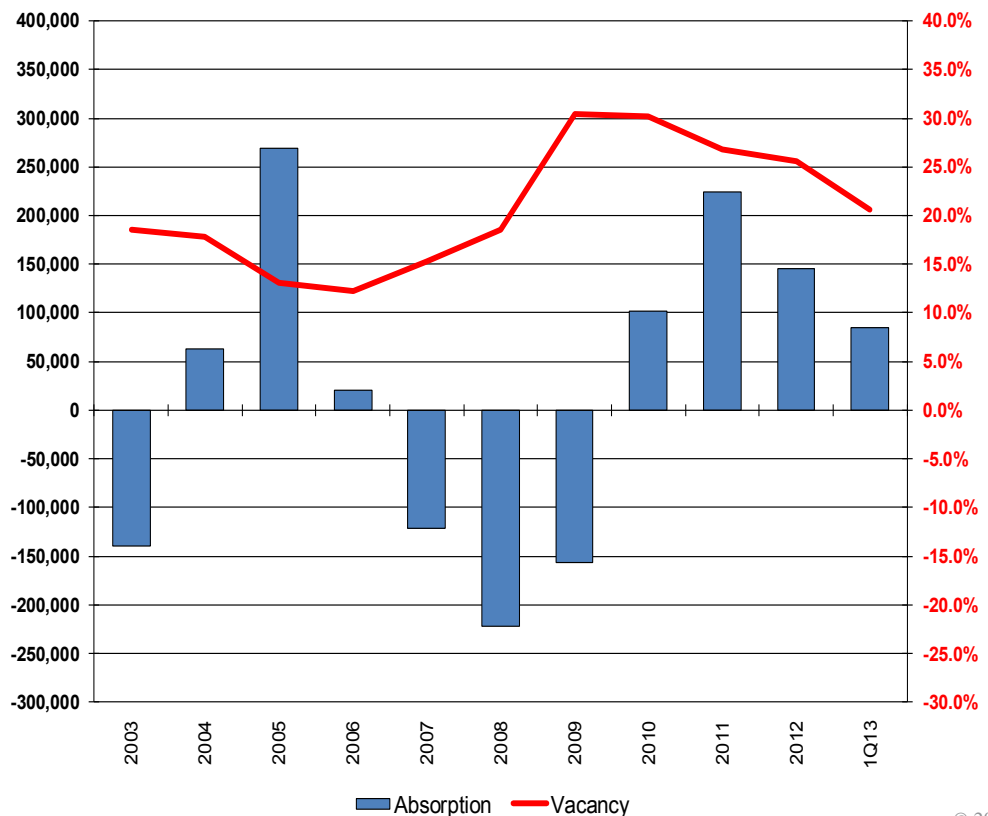
Class A/B Office Market Overview

Lease activity in the first quarter of 2013 was strong, and yielded over 85,000 square feet of positive absorption – the strongest quarterly absorption figure the market has experienced in several years. This helped contribute to a significant reduction in vacancy rates (it is important to note that our database of properties was updated to include Class-A properties not previously noted, and we omitted certain properties that no longer meet the Class-A standards of the market). Lease rates remained soft, however we are seeing signs of strengthening, and tenants are willing to pay higher rates to be in the higher quality product. Despite concern over the effects of sequestration, we anticipate the market to continue to tighten and the private sector employment grow and require more space.

Investment activity has begun to ramp up, with value-add buyer's seeking opportunities acquiring properties significantly below replacement costs. Other stabilized assets are coming to market and will get the attention of a nationwide audience of groups seeking to acquire properties in markets, like Colorado Spring's, that have been slower to rebound from the national economic down-turn of 2008.

Overall we look to 2013 to be a year where the Colorado Springs' commercial real estate market reaches a more healthy equilibrium, with positive absorption, lower vacancy, and strengthening lease rates.

Class A/B Vacancy Rate VS Net Absorption



Market Statistics

COLORADO SPRINGS CLASS A OFFICE STATISTICS 1ST QUARTER 2013							
Office Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
NORTH I-25 CORRIDOR							
1ST Q 2013	5,734,989	1,281,156	36,089	21.99%	53,985	\$11.91	\$7.75
YTD 2013					53,985		
Airport (SOUTHEAST) AREA							
1ST Q 2013	1,482,017	354,336	38,000	23.91%	12,492	\$11.81	\$7.43
YTD 2013					12,492		
CENTRAL BUSINESS							
1ST Q 2013	1,803,132	239,522	31,585	14.34%	18,852	\$14.59	\$8.26
YTD 2013					18,852		
TOTAL CLASS A MARKET							
TOTALS FOR 1ST Q 2013	9,020,138	1,855,014	105,674	20.57%	85,329	\$12.77	\$7.81
TOTALS YTD 2013					85,329		

OVERALL - VACANCY RATE: 20.58%; AVAILABILITY RATE (includes sublease space): 21.74%

Significant Transactions

BUILDING NAME	ADDRESS	TENANT	SQUARE FEET	QTR
LEASE TRANSACTIONS				
Briargate Tech East	2375 Telstar Drive	Lockheed Martin Corporation	21,162	1st 2013
Palmer Center Atrium	2 South Cascade Avenue	Colorado Springs Health Partners	40,427	1st 2013
Epic One	10807 New Allegiance	WH Pacific	8,500	1st 2013
Briargate Office	175 Telstar Drive	LOGS	8,500	1st 2013
California Casualty	1650 Telstar Drive	Sorenson Communications	23,000	1st 2013
Verizon	2424 Garden of the Gods Rd.	Xerox	50,000	1st 2013
Briargate Medical Pavilion	4125 Briargate Parkway	Children's Hospital	22,000	1st 2013
Palmer Center	2 North Cascade Avenue	Colorado Springs Health Partners	15,620	1st 2013
SALE TRANSACTIONS				
Lexington Center	7899 Lexington Drive	\$1,950,000 or \$25.90/SF	Investor	2nd 2013
Tech Center I	5450 Tech Center Drive	\$11,000,000 or \$104.85/SF	Investor	4th 2012
Presidio	1155 Kelly Johnson Blvd.	7,275,000 or \$87.56/SF	Investor	4th 2012
Center City Plaza	455 East Pikes Peak	\$5,050,000 or \$128.00/SF	Investor	1st 2013

Featured Office Properties



Palmer Center
2 N & 90 S Cascade Avenue
924 to 15,000 SF For Lease

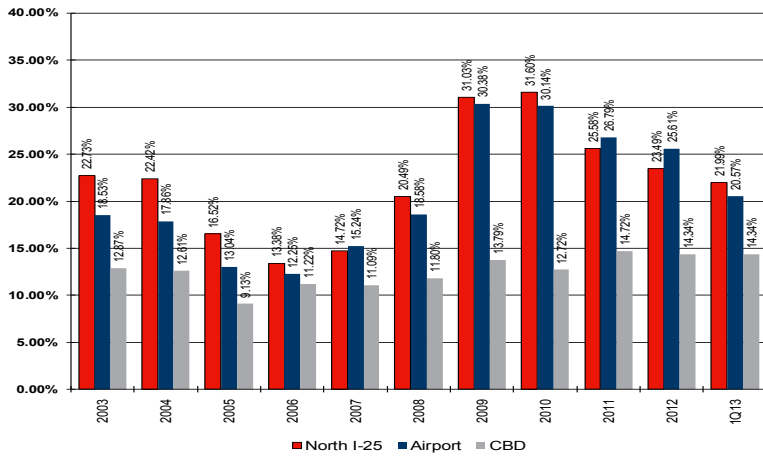


Quantum
10285 Federal Drive
70,000 SF For Lease (divisible)

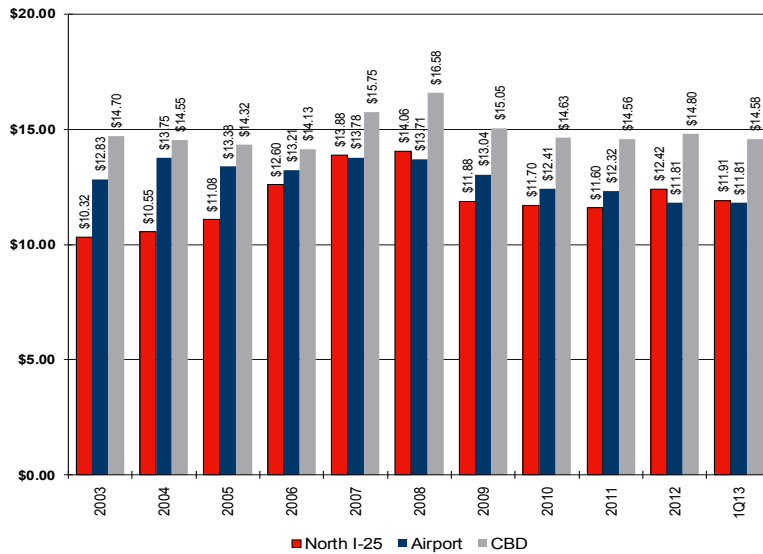


Atrium at Northpointe
6005 Delmonico Drive
24,882 SF For Lease (divisible)

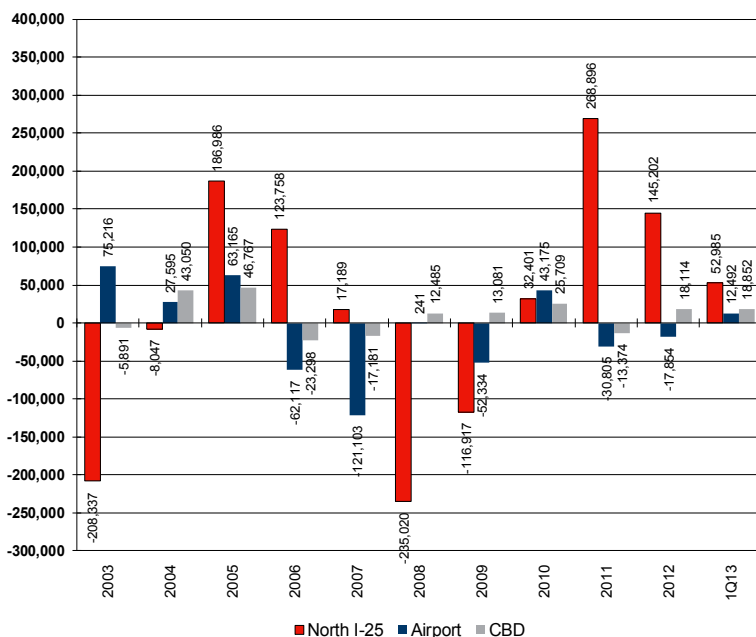
Class A/B Vacancy



Class A/B Lease Rates (NNN/PSF)



Class A/B Absorption (SF)



VACANCY

Vacancy rates across the city are down, the airport market noticed a particularly significant drop, this in part was due to removing obsolete buildings from the database and including some newer construction properties that are 100% leased. This adjustment more accurately reflects the health of the market and the competitive subset for the class-A market. The CBD market remained healthy, but lease activity has been anemic. The North I-25 market vacancy dropped 2% in the 1st quarter, and we anticipate the market tightening further through 2013.

LEASE RATES (NNN, Annual, Per RSF)

Lease rates remain low despite the overall market seeing lease activity up, posting positive absorption and driving vacancy down. This in part is due to a number of properties carrying large blocks of vacancy as a result of the national economic downturn that began in 2008, which have not increased their quoted rates. That being said we have seen some areas of town, like Briargate Business Campus, as well as high quality properties, begin to command higher lease rates and experience positive lease up. With the diminishing supply of high quality space, demand will shift to older product and we anticipate lease rates to escalate through-out the remainder of 2013.

ABSORPTION

Absorption is the key indicator to the market, and the healthy first quarter of positive absorption the city experienced is very encouraging. The result is a reduced vacancy rate and upward pressure on lease rates. Current activity in the market with pending transactions would indicate we will continue to see positive absorption in the upcoming quarters, especially in the North I-25 submarket where we expect some large blocks of space to be leased up in 2013. The CBD market has seen limited positive absorption but, relative to the overall size, the activity is encouraging. The Airport market also posted positive lease absorption.

Medical Market Statistics

1ST QUARTER 2013							
	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
Colorado Springs MOB Market	1,587,417	294,853	53,667	18.57%	47,540	\$16.28	\$8.89

OVERALL - VACANCY RATE: 18.57%; AVAILABILITY RATE (includes sublease space): 21.96%

Medical Office Market Overview

The medical office market consists of three major areas in town: The CBD (location of both Penrose Main Hospital and Memorial Hospital), the Union/Fillmore Medical Campuses and the northern market centered around the Memorial North Hospital and St. Francis Hospital.

Over the past 10 years, on the heels of the construction of both the Memorial North and St. Francis hospitals (designed to serve the long term residential growth of the City northward), there has been significant growth in the MOB market. Projects such as Healthcare Realty Trust's two (2) 85,000 SF speculative MOB across from Memorial North (now 90+% leased) serve as examples of the shift in the medical market toward the north end of town in higher quality Class A MOB's. While the net result of this activity has resulted in increasing rental rates, decreased overall vacancy and positive absorption in the market, it will leave many 2nd and 3rd generation spaces available in the market.

Our projection in 2013 is to continue to see the trend of practices locating their primary offices in the northern part of town either on or near the hospital campuses and in many cases maintaining or opening a smaller "satellite" office in the CBD or more centralized part of town. We anticipate rates to increase and the vacancy to drop, particularly in the higher quality, well located assets.

Featured Medical Properties



Briargate Medical Pavilion
4105 & 4125 Briargate Parkway
19,083 SF For Lease (divisible)



Northcare at St. Francis
6071 East Woodmen Road
11,956 SF For Lease (divisible)

