

QUICK STATS

	4Q22	3Q22	4Q21
Vacancy	11.87%	▲	▼
Lease Rates	\$17.63	▲	▲
Net Absorption	73,091	▼	▲

HOT TOPICS

- Colorado's unemployment rate continued to drop in 2022. The state's rate was 3.3% in December from 3.6% in April and below the national average of 3.5%.
- The combined dollar assessment of building permits pulled by homebuilders, general contractors and subcontractors for residential and commercial construction totaled \$3.81 billion in 2022, a 4% decrease over 2021. 2022 is the second best year on record for overall construction spending.
- The median home price in Colorado Springs was \$465,000 in October, still up 4.3% on a year-over-year basis, and home sales totaled 1,100, down by one-third on a year-over-year basis and the biggest percentage decline in roughly 25 years. Even though home sales have fallen, prices have continued to rise over the past few months.
- The construction of St. Francis Hospital-Interquest, Colorado Springs' newest hospital, continues to progress. The exterior is almost complete, and workers are finishing 72 rooms on the 2nd and 3rd floors and 10 operating rooms on the 4th floor. The \$170-million hospital is targeting to open in July and employ 400 people.



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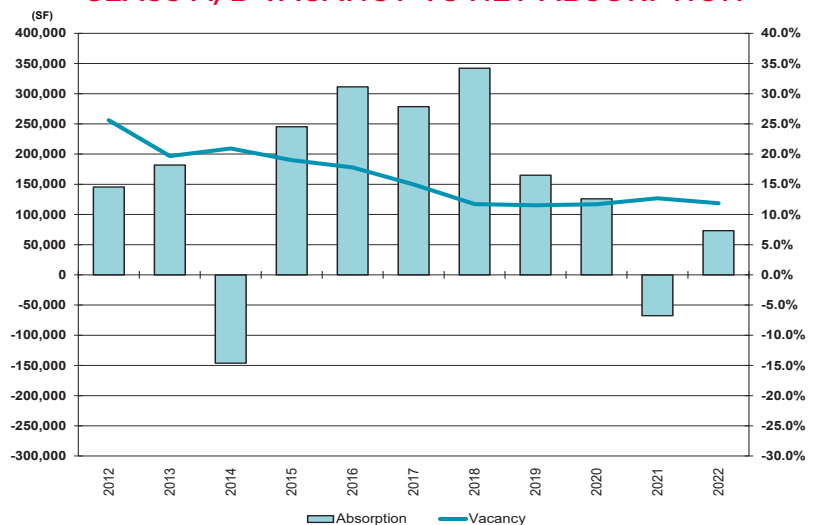
CLASS A/B OFFICE MARKET OVERVIEW

At the end of 2021 we declared "We do not anticipate any meaningful changes to the market statistically in 2022, but we do foresee a great deal of activity occurring in the market throughout the year."

With 2021 having been a better year than expected, despite the disruption of COVID-19, 2022 did end up to be a year of mild fallout but healthy overall leasing activity. We had some larger users, particularly in the customer support/call center industry, vacate bigger blocks (30,000-50,000 square feet) while the DOD world remained extremely active, as did smaller tenants seeking less than 5,000 square feet. Many spaces were quickly backfilled to help 2022 post an overall year-end vacancy rate of 11.87% with 73,000 square feet of positive absorption; as compared to 2021, where vacancy rates ticked up to 12.68% and absorption was a negative 67,500 square feet. The one constant has been the continued escalation of lease rates which averaged \$17.63 PSF; however, the truest class-A properties are now generally completing transaction with starting rates above \$20.00 PSF, and in some cases approaching \$25.00 PSF. Due to higher tenant improvement costs, these are generally associated with terms of 5 years or longer. Operating expenses, as well, are on the rise and average \$9.02 PSF; we anticipate these will increase significantly over the next 12-18 months as the properties are reassessed for taxes and most all other expenses increase disproportionately due to higher than normal inflation. We are anticipating robust lease activity through the first half of 2023 and tenants beginning to look at build-to-suit options as quality office space becomes more limited, especially for blocks in excess of 50,000 square feet.

Fundamentally Colorado Springs continues to fair well, with apartment construction, retail, and industrial all showing very positive signs for 2023. New office construction, albeit on a limited basis, is forthcoming. Higher interest rates will have a dampening effect on new announcements during the first half of 2023, but with the overall health of the market we would expect the second half of the year to provide for some exciting plans and the overall growth of our city.

CLASS A/B VACANCY VS NET ABSORPTION



CLASS A/B OFFICE STATISTICS

Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
NORTH I-25 CORRIDOR:							
4th Quarter 2022	4,366,829	612,696	292,005	14.03%	24,990	\$17.58	\$9.03
2022					173,311		
AIRPORT (SOUTHEAST) AREA:							
4th Quarter 2022	1,404,317	121,053	31,938	8.62%	(1,421)	\$18.41	\$7.93
2022					(17,628)		
CENTRAL BUSINESS DISTRICT:							
4th Quarter 2022	1,994,054	187,823	7,640	9.42%	(26,083)	\$17.13	\$9.81
2022					(82,592)		
TOTAL CLASS A MARKET:							
TOTALS FOR 4th Q 2022	7,765,200	921,572	331,583	11.87%	(2,514)	\$17.63	\$9.02
TOTALS 2022					73,091		

 **11.87%**
Direct Vacancy Rate

 **16.14%**
Overall Vacancy Rate

SIGNIFICANT TRANSACTIONS

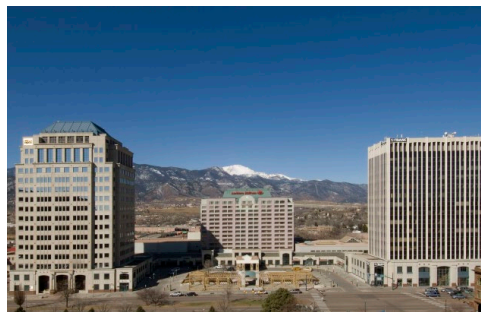
BUILDING NAME	ADDRESS	TENANT	SQ FT	QTR
LEASE TRANSACTIONS				
1055 Newport	1055 N Newport Rd	Peraton	31,190	4th
Interquest I	9945 Federal Drive	Spectranetics	20,000	3rd
Briargate Office Center	1755 Telstar Drive	Boecore	17,608	4th
Interquest II	9925 Federal Drive	Colorado Springs Surgicenter	15,115	4th
1055 Newport	1055 N Newport Rd	Serco	14,361	4th
North Creek II	5755 Mark Dabling Boulevard	Wilson & Company	8,500	4th
Corporate Pointe	1975 Research Parkway	ClearChoice Management	7,569	3rd
1150 Kelly Johnson	1150 Kelly Johnson Boulevard	ACSI	6,580	3rd
Woodmen Medical Plaza	7435 Sisters Grove	Rocky Mountain Infusion	6,012	3rd
North Creek II	5755 Mark Dabling Boulevard	STV, Inc.	4,309	4th

BUILDING NAME	ADDRESS	SALE PRICE/PER SF	SALE TYPE	QTR
SALE TRANSACTIONS				
Epic One	10807 New Allegiance Drive	\$31,720,000/\$217.11	Investor	4th
Patriot Park VII	565 Space Center Drive	\$23,000,000/\$255.82	Investor	4th
Powers Office Park	9348 Grand Cordera Pky (condo)	\$6,500,000/\$419.46	User	4th
Junior Achievement	1 Education Way	\$5,600,000/\$160.66	User	3rd
Las Piedras Office Campus	12295-12325 Oracle Blvd (condo)	\$4,835,000/\$234.03	User	4th

FEATURED OFFICE PROPERTIES



EPIC ONE
10807 New Allegiance Drive
1,398-9,707 RSF
Class A Office with high-end finishes

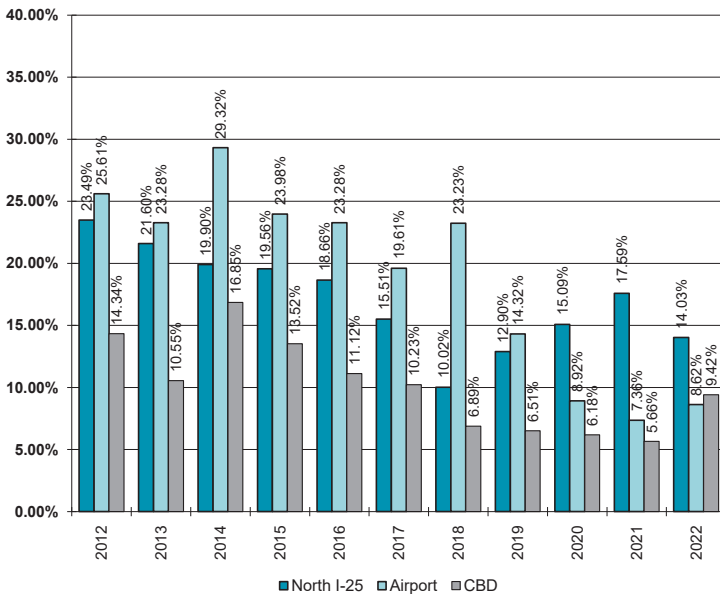


PALMER CENTER
2 N & 90 S Cascade Avenue
924-30,000 RSF
Largest contiguous space in Downtown



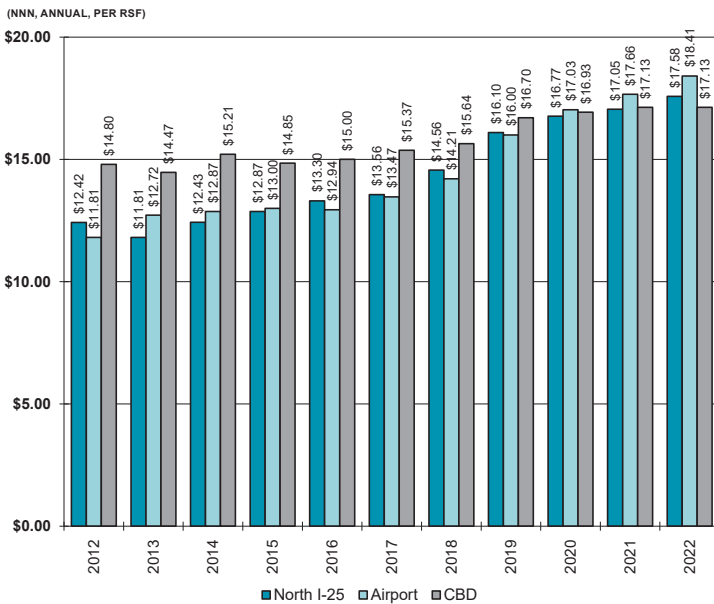
CENTENNIAL TECHNOLOGY CENTER
4920 Centennial Boulevard
59,970 SF for sale
Stand alone single-story owner/user sale

CLASS A/B VACANCY



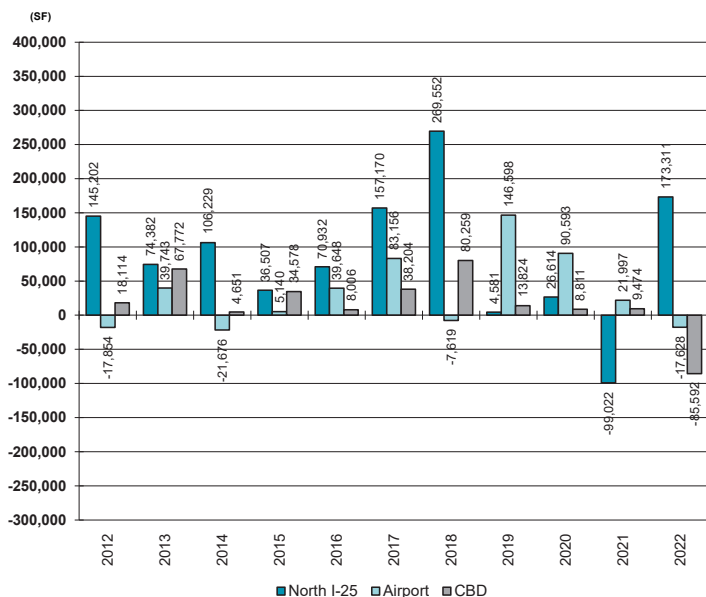
Vacancy rates remained stable this past year, down slightly from 2021 year-end of 12.68% to 11.87% for 2022. Over the past three years vacancy has averaged 12.08%. While some larger blocks have hit the market, lease activity has been strong and space is quickly getting leased back up with both small and larger tenant requirements. The CBD and Airport submarkets saw vacancy rates up over year end 2021 to post in at 9.42% and 8.62% respectively; while the North I-25 market was down significantly from 17.59% to 14.03%. All markets are tight for space and lease rates are beginning to justify new construction, which has been limited in scope to MOB and single-story offerings in the Airport market. Despite the higher rates these properties command interest has been strong and 2023 will see strong lease activity.

CLASS A/B LEASE RATES



Average asking rates have climbed in both the Airport and North I-25 markets and held steady in the CBD, with overall average asking rates of \$17.63 PSF, up from \$17.20 PSF for year end 2021. We expect the increases to continue with a very limited supply of space and the addition of new construction. Larger blocks of space in the CBD and North I-25 market, specifically in single-story buildings, will likely cause rates to remain flat through the first half of 2023 as landlords take a more wait-and-see approach on any further fallout from COVID-19. But smaller blocks in the nicest office properties are commanding increases as demand for higher quality space is strong. With construction costs escalating, tenants now need to consider longer terms or amortizing tenant improvement costs in order to cover the cost of build-out.

CLASS A/B ABSORPTION



The overall market saw modest positive absorption of 73,091 square feet for year-end 2022, reversing 2021's trend of negative absorption. This was not the case in the CBD and Airport submarkets, which both posted negative absorption, with the CBD realizing a rather significant 82,592 square feet vacated primarily by two large tenants. We anticipate the overall market to register strong positive absorption through the first half of 2023, with both the CBD and North I-25 markets seeing the strongest absorption, as the amount of active prospects seeking space in the first half of 2023 is robust. Lease activity remains strong and with limited new construction we do not forecast any long-term effects created by isolated cases of tenants downsizing or vacating space.

MEDICAL OFFICE MARKET STATISTICS

4th QUARTER 2022

TOTAL BLDG SF	AVAILABLE SF	SUBLEASE SPACE	VACANCY RATE	YTD ABSORPTION	LEASE RATE	NNN EXP.
1,826,859	231,940	8,170	12.70%	-11,716 SF	\$20.22	\$11.24

 **12.70%**
Direct Vacancy Rate

 **13.14%**
Overall Vacancy Rate

MEDICAL OFFICE MARKET OVERVIEW

The medical office market continued to perform well throughout 2022. Two new medical office buildings were delivered in 2022, which led to inventory increasing by year-end. Both buildings were met with strong leasing activity, which is a testament to the built-up demand in the Colorado Springs market. The demand justified that even at higher rental rates (30% higher than current market), the need for space supported the construction of these speculative projects. Medical office buildings on hospital campuses continue to thrive as the hospitals expand and need additional space. The current obstacle the medical office market faces are the costs of tenant improvements. Costs have risen substantially which has limited the ability for tenants to relocate without substantial investment in the improvements. Overall, we expect a healthy medical office market in 2023.

Given the lease rates medical office buildings generate, they remain an attractive investment opportunity. The interest rate environment slowed acquisitions in the second half of 2022, but as interest rates stabilize we expect investment activity will follow.

FEATURED MEDICAL PROPERTIES



WOODMEN MEDICAL PLAZA
7435 Sisters Grove
1,835-32,802 SF

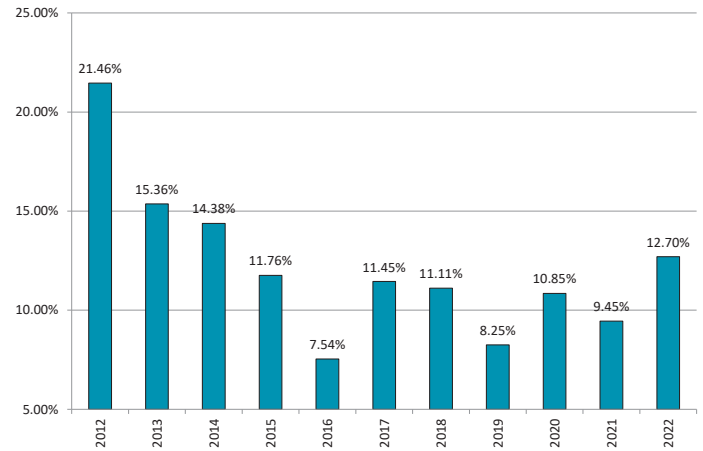
Newly built, Class A, adjacent to Penrose-St. Francis Hospital



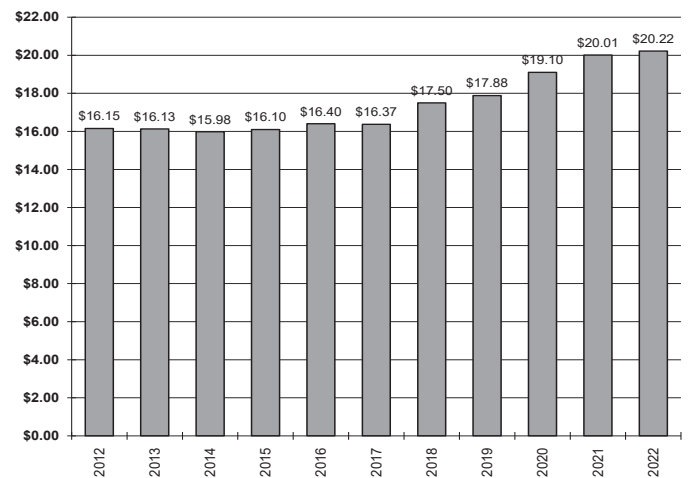
BRIARGATE MEDICAL PAVILION
4105 Briargate Parkway
1,379-28,191 RSF

Across from Memorial North & Children's Hospital

VACANCY



LEASE RATES



ABSORPTION

