

Quick Stats

	Change from last		
	1Q14	Yr.	4Q13
Vacancy	20.84%	▲	▲
Lease Rates psf/yr	\$13.04	▲	▲
Net Absorption*	(165,128)	▼	▼

Hot Topics

- Investment activity remains strong as investors seek yield in Colorado Springs.
- Colorado Springs Commercial growing Industrial, Retail and Support teams, increasing market share.
- Medical market continues to consolidate close to Central and Northeast campuses.
- City for Champions (www.cityforchampions.com), an effort to significantly impact the economic vitality of the City, is completing the process of City review and funding.

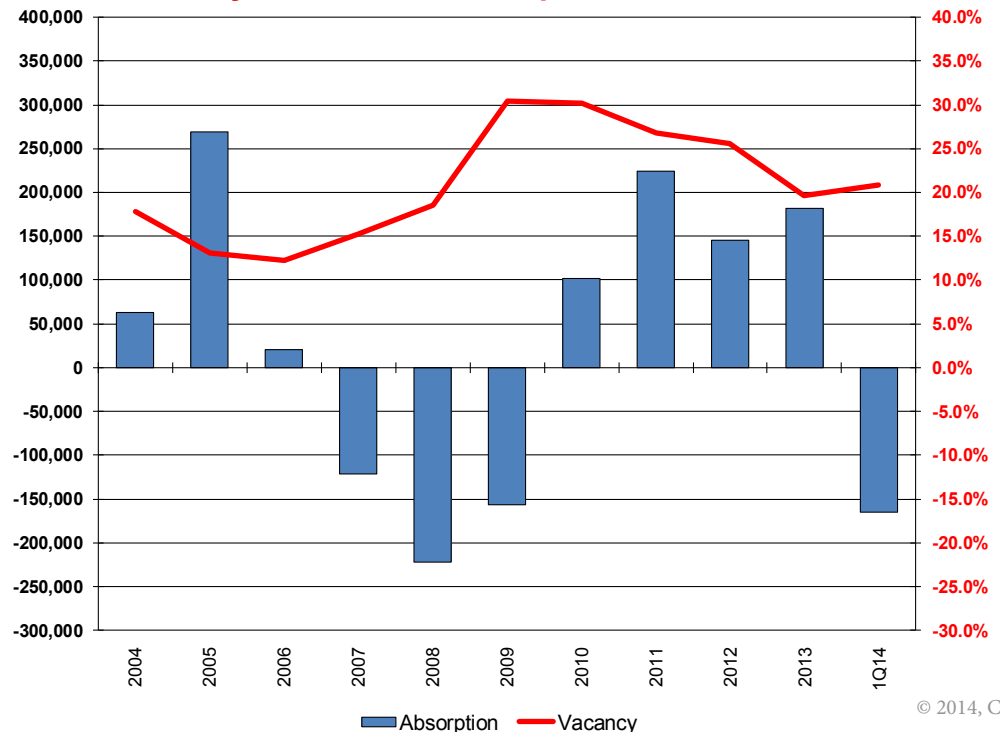
Class A/B Office Market Overview

The Colorado Springs Office Market ended 2013 on a strong note with several large sales, including Tech Center II \$17,725,000, Fed Ex \$30,500,000 and the COPT Portfolio \$134,500,000. Total 2013 investor sales totaled in excess of \$161,000,000, making it the strongest year of institutional sales recorded. With these transactions came new investors to Colorado Springs looking to be on the front end of an improving economy. The combination of new perspectives and objectives in the market that comes with new ownership, combined with a steadily (albeit slowly) improving local economy, has set up 2014 and beyond to be strong years for the local office market.

Despite the increased optimism and improved tenant activity in the market, the 1st Quarter 2014 numbers showed negative absorption in all three (3) of the Colorado Springs submarkets: North I-25 (89,165), Airport Area (59,413) and CBD (16,532). On the surface this counters our claims of an improving market place. However, there were two (2) main factors to the negative absorption in 1st Q 2014 and we believe these to be anomalies that will be corrected by positive absorption in the quarterly numbers to come. First, several of the vacancies that posted in the 1st Q 2014 are tenants that have not been occupying or underutilizing their space for many months and it just so happens that their leases expired in the 1st Q of 2014. Secondly, while there is a large amount (in terms of sf) of space that came available this past quarter, four (4) spaces account for over 122,000 sf. This includes two blocks of space at the NorthCreek complex of 34,000 and 41,000 sf, 43,000 sf in Patriot Interquest II (vacated by a tenant who bought their own building in Colorado Springs) and 46,000 sf in a building owned and occupied by SAIC in the Airport area. While these are large blocks of space, they will only be available for tenants that are 25,000 sf and larger. With an approximate average size tenant in the office market closer to 5,000 sf, the majority of the office buildings did not feel the pinch that such numbers would indicate. In other words, the typical result of increased product to market causing downward pressure on lease rates will not likely effect the overall market greatly, but will continue to show a rate disparity between Landlord's competing for the 25,000+ sf tenants vs. those in the 10,000 sf and less range.

As we move through 2014 we anticipate continued gradual improvement in the vacancy numbers, upward pressure on lease rates and increased leasing volume and activity.

Class A/B Vacancy Rate VS Net Absorption



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Market Statistics

COLORADO SPRINGS CLASS A OFFICE STATISTICS 1ST QUARTER 2014							
Office Submarket	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
NORTH I-25 CORRIDOR							
1ST Q 2014	5,664,178	1,280,276	168,966	22.60%	(89,165)	\$11.78	\$7.47
YTD 2014					(89,165)		
Airport (SOUTHEAST) AREA							
1ST Q 2014	1,569,594	408,655	74,074	26.04%	(59,431)	\$12.57	\$7.28
YTD 2014					(59,431)		
CENTRAL BUSINESS							
1ST Q 2014	1,760,363	185,373	0	10.53%	(16,532)	\$14.79	\$8.49
YTD 2014					(16,532)		
TOTAL CLASS A MARKET							
TOTALS FOR 1ST Q 2014	8,994,135	1,874,304	243,040	20.84%	(165,128)	\$13.04	\$7.75
TOTALS YTD 2014					(165,128)		

OVERALL VACANCY RATE: 20.84%; AVAILABILITY RATE (includes sublease space): 23.54%

Significant Transactions

BUILDING NAME	ADDRESS	TENANT	SQUARE FEET	QTR
LEASE TRANSACTIONS				
Corporate Center at Briargate	2060 Briargate Pkwy	HDR Engineering	19,315	1st 2014
Northcare at St. Francis	6071 E Woodmen Rd	Academy Women's Healthcare	15,153	1st 2014
Patriot Interquest II	9950 Federal Dr	Xiotech	35,361	1st 2014
Corporate Center at Briargate	2060 Briargate Pkwy	CA, Inc.	7,807	1st 2014
Patriot Park I	985 Space Center Dr	Cosmic	6,062	1st 2014
Briargate Tech Center	8415 Explorer Dr	Front Range	17,000	1st 2014
Briargate Office Center	1755 Telstar Dr	BAE	6,200	1st 2014
Briargate Office Center	1755 Telstar Dr	Teledyne Brown	2,500	1st 2014
SALE TRANSACTIONS				
Platte Airpark	480 Wooten Rd	\$14,350,000.00	Investor	1st 2014
Springs Business Park	4405-4455 N Chestnut St	\$6,750,000.00	Investor	1st 2014

Featured Office Properties



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

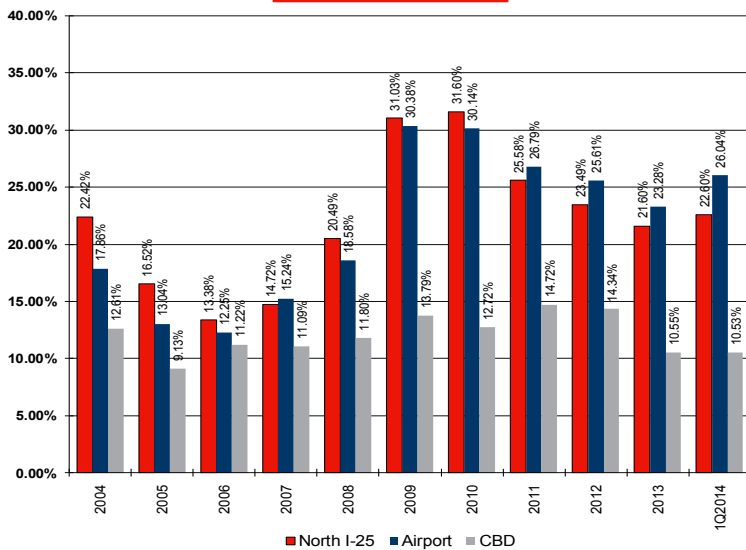


Patriot Interquest II
9925 Federal Drive
42,000+/- SF For Lease

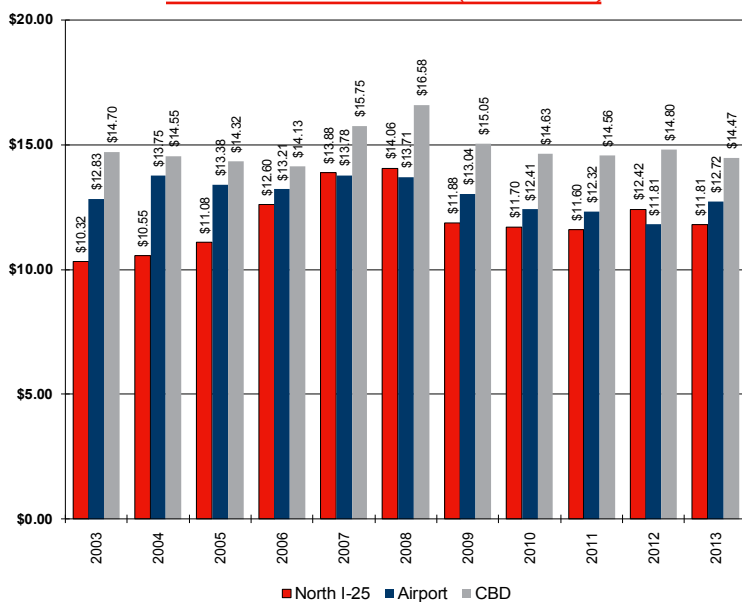


Patriot Park VII
565 Space Center Drive
49,512 SF For Lease (divisible)

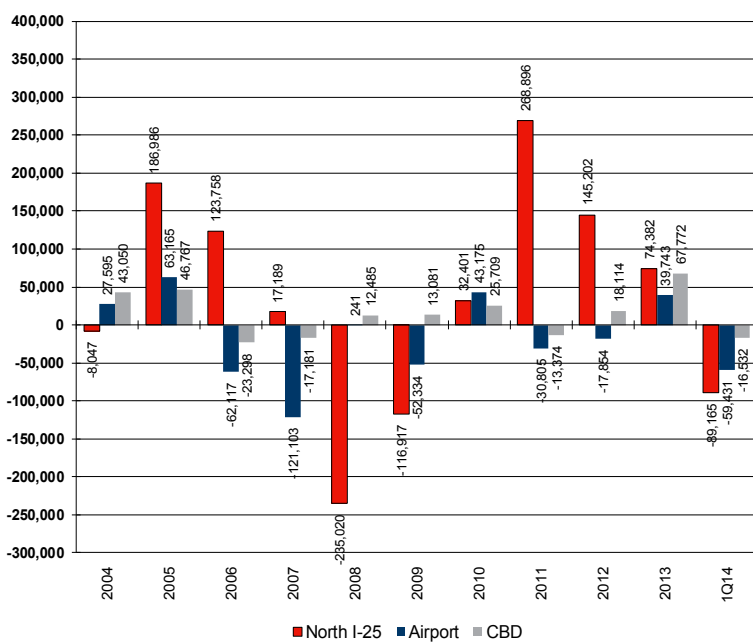
Class A/B Vacancy



Class A/B Lease Rates (NNN/PSF)



Class A/B Absorption (\$F)



VACANCY

Vacancy rates across the city's three submarkets are down significantly since the bottom in 2009, with the Airport market experiencing a particularly significant drop. The overall drop illustrates the health of the market and a positive indicator of future activity and likely growth of lease rates. The North I-25 market continues to make steady, if modest, improvements with the smaller tenants, as does the CBD, which will post some higher numbers in the second half of 2014. Overall activity in the market suggests the trend for lower vacancy will continue into 2014.

LEASE RATES (NNN, Annual, Per RSF)

Lease rates have ticked up only slightly in the first quarter despite the overall market seeing very positive lease activity and posting positive absorption - driving vacancy rates down. The stagnant lease rates are due to some specific properties carrying large blocks of vacancy, and a number of older/obsolete properties which have not increased their quoted rates. That being said we have seen some areas of town, including 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 significantly through 2014.

ABSORPTION

Absorption is the key indicator to the market. As was detailed in the Office Market Overview, the first quarter negative absorption at first glance raises some concerns. However, while the numbers are not going in the direction the rest of the market is, we believe this to be a brief 'step backward' that is not reflective of the market trend projected in 2014, 2015 and 2016.

Medical Market Statistics

1ST QUARTER 2014							
	Total Bldg. SF	Available SF	Sublease Space	Vacancy Rate	Absorption	Lease Rate	NNN Exp.
Colorado Springs MOB Market	1,644,899	263,709	2,164	15.84%	0	\$16.02	\$9.00

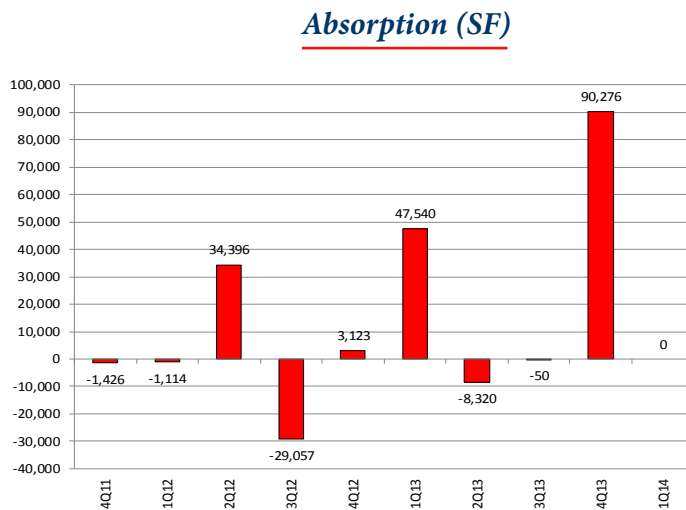
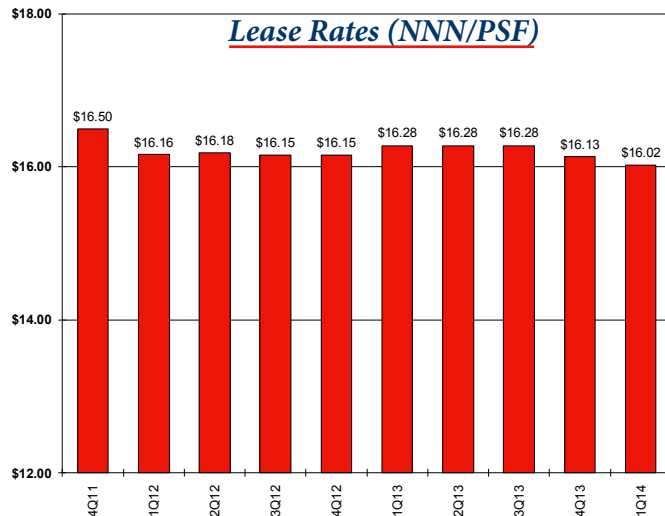
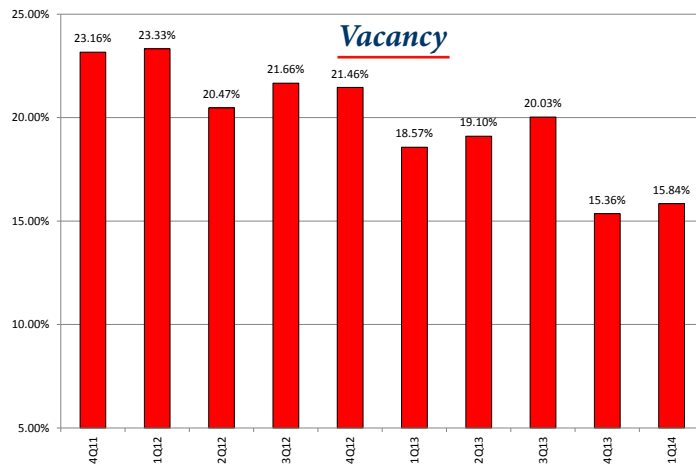
OVERALL - VACANCY RATE: 15.84%; AVAILABILITY RATE (includes sublease space): 15.97%

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 three (3) years the Colorado Springs Medical Market has seen its fair share of transition (not to mention the effect the economy has had on all sectors). The effect of the transition of Memorial Hospital to the UCH system, the growth of local organizations like Colorado Springs Health Partners ("CHSP"), the relocation of the three (3) largest orthopaedic groups in town, Children's Hospital opening with a large presence in the market for the first time, and the overriding uncertainty of the effect of "Obamacare" have made for a very unsettled time in the market. As we have started 2014, it is becoming evident that some of the dust has settled and as we look forward, our projection throughout 2014 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.

Lease activity was very light to start out the year, but we forecast increased activity as 2014 continues, particularly with some of the smaller practices looking to upgrade image and quality of space.



Featured Medical Properties



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



Northcare at St. Francis
6071 East Woodmen Road
19,397 SF For Lease (divisible)

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