



Commercial Real Estate Focus

Facilities for all types of businesses may be found in Colorado Springs. From Class A high-rise offices with fabulous views of Pikes Peak, to state-of-the-art manufacturing facilities, to well-located warehouse space, the Pikes Peak region offers the full spectrum of commercial space and sites.

Industrial Market

The Colorado Springs industrial market has begun 2010 with much needed activity. At the end of the first quarter, 115,503 square feet of positive absorption has been recorded, along with 409,135 square feet of leasing. Vacancy rates have decreased for the first time since the recession began to 11.74%. As the industrial market deteriorated during the past decade, average asking lease rates had been steadily falling as well. The first quarter of 2010 marked the first time in several years that lease rates have shown signs of stabilization, currently averaging \$6.33/SF/NNN.

Office/Warehouse and Manufacturing/Assembly properties have shown the strongest activity so far in 2010. Over 300,000 square feet of leasing activity, or 75% of total market leasing activity, has occurred in these two product types and accounted for over 220,000 square feet of absorption during the first quarter. With an abundance of quality manufacturing and office/warehouse space available (over 1.9 million square feet) and lower average lease rates when compared to other use types as well as to other competitive cities, these properties are positioned to lead the industrial market during the recovery.

Investment activity is also slowly returning to the industrial market during 2010. During the recession, many distressed industrial properties went through foreclosure as tenants were hard to find and loans were heavily scrutinized. As average sales prices and sales activity dropped significantly in the past two years, many bargain hunters have been successful acquiring these properties from lenders or from cash strapped owners. If these new owners are creative and aggressive, their properties will be well positioned as industrial users return to the market.

Source: Sierra Commercial Real Estate, Inc – MarketView, First Quarter 2010



Office Market

During the first quarter of 2010, the Colorado Springs metro office market experienced relatively healthy leasing activity of 357,883 square feet, while net absorption recorded negative 18,063 square feet. Vacancy rates in the office market rose to 18.79%, primarily due to over 500,000 square feet of office space at the former Intel facility on Garden of the Gods Road returning to the active market. The increase in vacancy rates continues to push average asking lease rates downward, to a current level of \$11.46/SF/NNN. This is down from the all-time high average of \$12.19/SF/NNN at the end of 2008.

Similarly, the Class A office market continues to experience higher vacancy rates, currently at 26.12%, negative absorption of 36,165 square feet, and decreasing average asking lease rates of \$12.97/SF/NNN. However, the negative momentum in both the metro and the Class A markets is beginning to slow as the national and local economies begin to demonstrate some signs of life. Several larger leasing and sales transactions occurred during the last three months, including an 80,000 square foot lease by Everest College at the former Intel facility, now called Corporate Ridge.

With the conclusion of the current wave of speculative Class A construction and the introduction of Corporate Ridge, the spike in new office supply has come to a close. With the employment market expected to gradually improve in the coming months and little to no new office development, expanding companies will begin to slowly absorb the five million square feet of available office product in the market. Vacancy rates will begin to stabilize and lower; however, 10% vacancy rates and better will have a timeline of several years to accomplish.

Source: Sierra Commercial Real Estate, Inc – MarketView, First Quarter 2010



Retail Market

The Colorado Springs retail market ended the first quarter of 2010 with strong absorption of 290,829 square feet, comprised almost entirely of the new Lowe's Home Improvement and Kohl's stores that opened in the University Village shopping center on North Nevada Avenue. The vacancy rate for the metro market increased slightly to 11.75% as a modest amount of new vacant product was brought online during the quarter. Average asking lease rates in the retail market continue to remain relatively stable compared to the office and industrial markets, currently averaging \$13.81/SF/NNN.

While the positive absorption is certainly welcome, the overall condition of the retail market is still very fragile. Without the two previously mentioned transactions, the retail market would have recorded flat absorption and near record low lease activity levels. Increased economic activity and an improved lending and capital environment are necessary for the smaller and mid-size retailer to return to the market and boost leasing activity. Until this occurs, the local retail market is heavily reliant on national big box chains for absorption gains.

Breaking down the retail market geographically, the north side of Colorado Springs, as well as Monument and Falcon, continue to experience the healthiest conditions. As seen in the graph below, virtually all positive absorption in the last five years in the market has been in the Northwest, Northeast, Monument, and Falcon submarkets. This trend is likely to continue as homebuilding rebounds, primarily on the northeast side of town. The influx of troops at Fort Carson will also help the Southeast submarket see improved activity, after being sluggish for several years.

Source: Sierra Commercial Real Estate, Inc – MarketView, First Quarter 2010



Current Market Conditions

Market Highlights

We have a great deal more to be optimistic about in the Pikes Peak Region than in many sections of the country. Compared to unemployment statistics and declining real estate values in areas such as Arizona, Nevada, Southern California, Texas, Florida and the Great Lakes States, El Paso County looks like a thriving marketplace.

Industrial Space

In 2009, the 30 million square foot local industrial market struggled to withstand the pressures of the national recession and continued manufacturing job losses. Prior to the economic downturn, the industrial sector had been realizing incremental gains in occupancy. Landlords were adjusting product to offset job losses in manufacturing by readapting space to appeal to broader tenant uses. However, the onset of the recession was too great a factor for even the most creative landlords to overcome during the last half of 2008 and all of 2009, seeing industrial vacancy reach over 12%. More than 650,000 square feet of industrial space has been vacated during 2009, driving up vacancy rates to 12.08%, compared to 10.47% at the end of 2008. The increase in available space and lack of a new tenant pool have forced landlords to cut asking rental rates to a current average of \$6.30/SF/NNN, down over \$0.50/SF for the year.

While rent reduction places cash flow stress on owners, the decline should help attract new industrial employers to Colorado Springs. Compared to cities that regularly compete with Colorado Springs for new employers, local industrial rental rates have dropped at a faster rate. As industrial users look to move or expand when the recovery begins, Colorado Springs will be more attractive based on real estate affordability and availability.

The investment market for local industrial property has also dropped significantly, as potential buyers take a "wait and see" approach. Those buyers who wish to move forward will encounter greater financing obstacles and risks. From a peak of 87 industrial sales in 2007, the market is on pace for only 24 industrial sales in 2009, a decline of over 70%. The lack of buyers has forced down asking prices to a current level of \$51.71/SF, compared to an average of \$86.17/SF during 2007. As foreclosures start to affect the industrial investment market even further, increasing property values are unlikely during 2010.

The outlook is not all negative, however. While the national recession grabs all the headlines, local conditions indicate a slight recovery that will undoubtedly help the industrial market. Residential housing permits, while still down significantly compared to 2005-2006 levels, are beginning to tick upwards. With continued momentum, construction suppliers and other industrial users will begin to enter the market and expand to help fill the three million plus square feet of available industrial space.

Source: Sierra Commercial Real Estate, Inc – Colorado Springs Market Outlook 2010



Office Market

The Colorado Springs office market totals 28 million square feet at the end of 2009, which reflects a nominal increase from year end 2008. This increase in supply has primarily appeared in the North I-25 corridor. The vacancy rate posted for the overall market is currently 17% vs. 14% registered for the same period a year earlier.

The most important story in the office market is developing in the Class A segment which is occupied by the county's largest employers. There are three Class A submarkets in Colorado Springs: North I-25, Southeast, and the Central Business District. In terms of size and employment, the North I-25 market is by far the largest, being three times the size of the other two.

This breakdown reveals an 8% vacancy rate in existing multi-story buildings as adjusted above. The largest block of available space is at the California Casualty building, with approximately 47,000 rentable square feet. After that, contiguous blocks in the 20,000 square foot range are the next largest spaces available. The new developments of COPT and HRT have large contiguous blocks of space but are in a shell condition. The largest floor plate in these "shell" buildings is approximately 35,000 rentable square feet.

New employment growth will be needed to shrink vacancy in second generation multi-story buildings, as well as the oversupplied single story and newly developed shell product. The entire north end will need 5,000 new jobs to reach stabilized occupancy. In the 1990's, local employment growth was 5-6% per year for a good part of the decade and we saw employment increases of 8,000-13,000 new Significant Office Transactions in 2009 jobs annually. This is not to imply that it will happen in 2010, but this growth has occurred in the past and it will occur again.

Due to the current economic climate, investment and land sales are virtually non-existent in the office sector and will remain at this level until further recovery is experienced.

As the economy rebounds, however, new development will be key in the resurgence of the office market, and future land development will be crucial. Currently, there are nearly 49,000 acres of vacant land within the city limits of Colorado Springs out of a total of 126,000 acres. Twenty-six percent of this land, or nearly 13,000 acres, is zoned for commercial use, while 42% is zoned for residential and 11% agriculture. Because of the importance of high quality developable land in the coming years, Sierra Commercial Real Estate is now tracking all vacant land within the county to assist clients with future development needs.

Source: Sierra Commercial Real Estate, Inc – Colorado Springs Market Outlook 2009



The table below represents approximate costs (in \$/sq. foot) of industrial, office, and retail space, as well as the cost of vacant land.

Industrial	
Warehouse	\$5.51-6.50/psf/NNN
Manufacturing	\$5.20-5.80/psf/NNN
Office Showroom	\$6.50-7.88/psf/NNN
R&D Flex Space	\$9.25-11.32/psf/NNN
Office Rates	
Class A Office Space	\$12.80-18.00/psf/NNN
Class B Office Space	\$9.00-13.00/psf/NNN
Retail	
New Big Box	\$10.00-20.00/psf/NNN
Grocery-anchored Center (Existing building)	\$12.29-16.00/psf/NNN
Grocery-anchored Center (New construction)	\$20.00-30.00/psf/NNN
Land Pad Site	\$12.00-25.00/psf
Large Development Parcel	\$3.00-7.00/psf

NNN=triple net (net of taxes, insurance and operating costs)
psf=per square foot

Sierra Commercial Real Estate, Inc., 1st Quarter 2010



Business Parks

On the North side of Colorado Spring, three business parks, Northgate Corporate Village, Briargate Business Campus, and InterQuest, are setting a new standard for business site selection.

Northgate Corporate Village is a 1,200-acre, master planned, mixed-use community that offers its residents to live and work creatively. It is situated along the East side of the Interstate 25 -just opposite of the U.S. Air Force Academy and has the area's most dramatic views of Pikes Peak, the Front range, and the Academy. Northgate was developed so that corporate campuses, office sites, commercial parcels, residential areas, as well as parks and open spaces flow into one another. Northgate Corporate Village is in close proximity and within easy access to Denver, Denver Tech Center, and DIA.

Briargate Business Campus provides fast, convenient access to wherever you need to be-to customers, suppliers, distributors, headquarters, and branches. The campus is located on a hillside just East of Interstate 25, showcasing Class-A buildings. Its own interchange and wide, tree-lined parkways make getting in and out of the campus fast and easy. The trip between Briargate Business Campus and South Denver is just 45-minutes long. The Colorado Springs Airport is just 20 short minutes away from the campus.

InterQuest is an advanced technological and business environment that lies adjacent to the U.S. Air Force Academy and provides an unparalleled setting for leading-edge businesses. It is located in a place where future expansion can easily be accommodated, where buildings blend harmoniously into their surrounding, and where the opportunity exists to insure and enhance employee satisfaction and well-being. InterQuest also provides support facilities and infrastructure that include a major hotel, conference center, retail shopping mall, restaurants, health club, and a community activities and cultural center.