

Economic Overview

According to the Bureau of Labor Statistics, the unemployment rate rose .01 percentage points from 3.8% in January 2016 to 3.7% in January 2017. The unemployment rate decreased due to less people looking for work and compares favorably to Colorado (5.5%) and lower than the US (5.1%). The Colorado Springs statistical area nonfarm job creation was up 3.1% totaling 8,500 jobs over the past year. Office using jobs (information, professional and business services and financial activities) added 1,100 jobs during the past year.

Market Overview

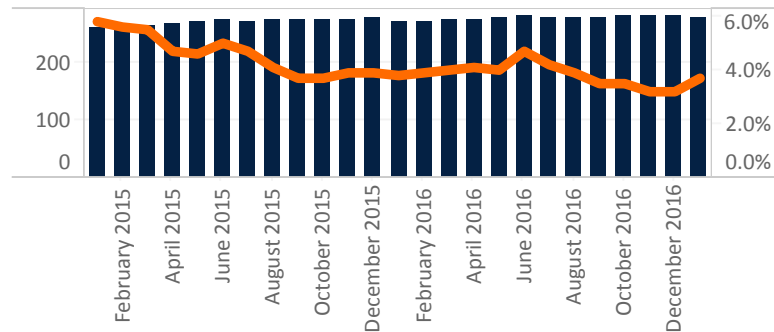
The Colorado Springs office market recorded positive 22,444 square feet (sf) of absorption during 1Q 2017. Absorption was up from the negative 28,787 sf that was recorded during 4Q 2016. The 1Q 2017 total vacancy rate has remained consistent with the 4Q 2016 rate at 10.02%. Direct vacancy rates have also remained consistent at 10.2% during the same time frame. Weighted average rent growth continued to improve during 1Q 2017 especially in Class A properties in the CBD, Northeast and Southwest parts of the region. Weighted average asking rents in all classes increased 3.3% recording \$18.81 per square foot (psf) at the close of 1Q 2017 compared to \$18.20 psf at the close of 4Q 2016.

Market Highlights

Leasing and sales activity were sluggish in all class types throughout the region in 1Q 2017. The largest block of space leased to a single tenant was 13,757 square feet (sf), with the majority of leasing activity being in smaller spaces. Tenant activity for those looking to lease space in the market was also off to a slow pace at the beginning of the year, especially when compared to the activity level in 4Q 2016. A majority of activity during 1Q 2017 was health care related businesses, financial tech firms, Department of Defense contractors and financial lenders. There are several submarkets throughout the region where rental rates have begun to show moderate decreases. Rental rates in Downtown, however, are on the rise and tenant activity is gaining momentum.

Colorado Springs Employment

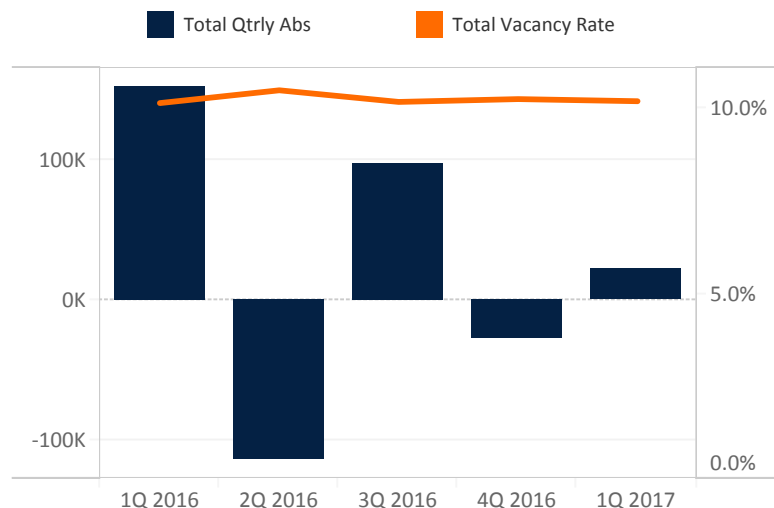
Source: BLS



Market Recap

| | |
|------------------------------------|------------|
| Inventory (sf) | 29,704,886 |
| # of Bldgs | 1,057 |
| Qrtly Abs (sf) | 22,444 |
| Total Avail Rate | 14.6% |
| Total Vacancy Rate | 10.2% |
| U/C Inventory (sf) | 16,206 |
| Delivered (sf) | 10,000 |
| Weighted Average Asking Rate (FSG) | \$18.81 |

Absorption and Vacancy Rate



Overview by Class (Total)

| Class | Inventory (sf) | Available (sf) | Vacant (sf) | Total | Qrtly Abs (sf) | YTD Net Abs (sf) |
|---------|----------------|----------------|-------------|-------|----------------|------------------|
| A | 9,690,881 | 1,920,463 | 1,215,294 | 12.5% | 4,985 | 4,985 |
| B | 15,659,690 | 1,943,840 | 1,501,451 | 9.6% | 32,606 | 32,606 |
| C | 4,354,315 | 487,293 | 310,896 | 7.1% | -15,147 | -15,147 |
| Overall | 29,704,886 | 4,351,596 | 3,027,641 | 10.2% | 22,444 | 22,444 |

Overview by Market (Total)

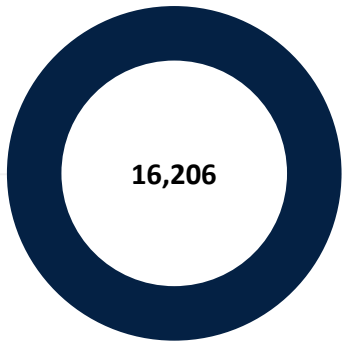
| Market Name | Class | Inventory (sf) | Available (sf) | Vacant (sf) | Total | Qrtly Abs (sf) | YTD Net Abs (sf) |
|---------------------|-------|----------------|----------------|-------------|-------|----------------|------------------|
| CBD | A | 1,097,770 | 151,524 | 102,342 | 9.3% | -9,729 | -9,729 |
| | B | 1,957,192 | 113,026 | 99,296 | 5.1% | 8,363 | 8,363 |
| | C | 583,230 | 93,803 | 59,785 | 10.3% | -718 | -718 |
| Central | A | 480,840 | 79,433 | 46,178 | 9.6% | -631 | -631 |
| | B | 2,321,671 | 395,549 | 308,702 | 13.3% | -1,696 | -1,696 |
| | C | 717,944 | 48,456 | 47,053 | 6.6% | 3,548 | 3,548 |
| East | A | 36,000 | 0 | 0 | 0.0% | 0 | 0 |
| | B | 91,741 | 1,530 | 1,530 | 1.7% | 0 | 0 |
| | C | 43,263 | 0 | 0 | 0.0% | 0 | 0 |
| Falcon | C | 3,566 | 0 | 0 | 0.0% | 0 | 0 |
| Ftn/ Scrty/ Wdflld | B | 123,069 | 10,300 | 10,300 | 8.4% | 1,700 | 1,700 |
| | C | 18,130 | 10,400 | 10,400 | 57.4% | 0 | 0 |
| Grtr Dwtm | A | 328,769 | 31,763 | 31,896 | 9.7% | 8,704 | 8,704 |
| | B | 2,209,478 | 278,603 | 229,822 | 10.4% | 11,677 | 11,677 |
| | C | 873,048 | 74,669 | 52,590 | 6.0% | -12,907 | -12,907 |
| Northeast | A | 3,223,444 | 291,997 | 214,191 | 6.6% | 24,220 | 24,220 |
| | B | 2,732,883 | 304,491 | 297,849 | 10.9% | 10,811 | 10,811 |
| | C | 672,994 | 7,669 | 7,669 | 1.1% | -1,159 | -1,159 |
| Northwest | A | 3,169,427 | 873,985 | 423,567 | 13.4% | -28,590 | -28,590 |
| | B | 3,448,662 | 396,948 | 225,523 | 6.5% | -10,302 | -10,302 |
| | C | 695,269 | 46,759 | 43,811 | 6.3% | -2,011 | -2,011 |
| Southeast | A | 1,121,902 | 472,618 | 348,021 | 31.0% | 9,542 | 9,542 |
| | B | 1,282,709 | 335,943 | 212,486 | 16.6% | -316 | -316 |
| | C | 259,215 | 154,901 | 44,196 | 17.0% | 1,764 | 1,764 |
| Southwest | A | 195,224 | 18,380 | 36,035 | 18.5% | 1,469 | 1,469 |
| | B | 911,508 | 28,796 | 36,020 | 4.0% | 5,339 | 5,339 |
| | C | 244,793 | 24,345 | 24,345 | 9.9% | -3,145 | -3,145 |
| Tlir Cty / WdInd Pk | A | 37,505 | 763 | 13,064 | 34.8% | 0 | 0 |
| | B | 66,255 | 11,102 | 11,102 | 16.8% | 0 | 0 |
| | C | 17,173 | 12,777 | 12,777 | 74.4% | 0 | 0 |
| Overall | | 29,704,886 | 4,351,596 | 3,027,641 | 10.2% | 22,444 | 22,444 |

Overview by Market (Total) Cont'd

| Market Name | Class | Inventory (sf) | Available (sf) | Vacant (sf) | Vacancy Rate | Qrtly Abs (sf) | YTD Net Abs (sf) |
|--------------|-------|----------------|----------------|-------------|--------------|----------------|------------------|
| Tri-Lakes | B | 228,346 | 22,521 | 19,129 | 8.4% | 7,052 | 7,052 |
| | C | 57,636 | 2,769 | 2,769 | 4.8% | -519 | -519 |
| W Side/ Mntu | B | 286,176 | 45,031 | 49,692 | 17.4% | -22 | -22 |
| | C | 168,054 | 10,745 | 5,501 | 3.3% | 0 | 0 |
| Overall | | 29,704,886 | 4,351,596 | 3,027,641 | 10.2% | 22,444 | 22,444 |

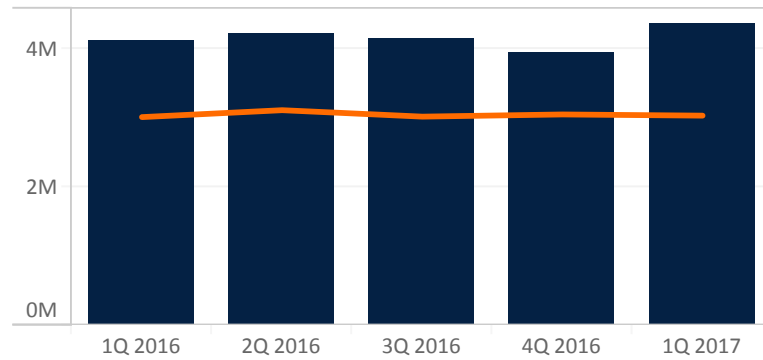
Construction by Market

Rank
■ Northeast



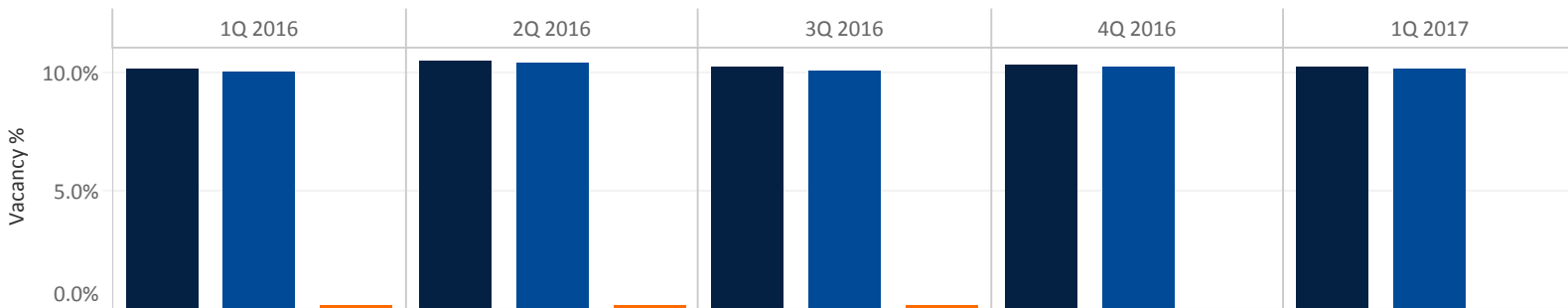
Total Available and Vacant

■ Available (sf) ■ Vacant (sf)



Vacancy Rate

■ Total ■ Direct ■ Sublease



Overview by Class (Direct)

| Class | Inventory (sf) | Avail (sf) | Vacant (sf) | Vacancy Rate | Qtrly Abs (sf) | YTD Net Abs (sf) |
|---------|----------------|------------|-------------|--------------|----------------|------------------|
| A | 9,690,881 | 1,689,878 | 1,210,349 | 12.5% | 6,160 | 6,160 |
| B | 15,659,690 | 1,827,590 | 1,501,451 | 9.6% | 32,606 | 36,106 |
| C | 4,354,315 | 481,293 | 304,896 | 7.0% | -15,147 | -3,981 |
| Overall | 29,704,886 | 3,998,761 | 3,016,696 | 10.2% | 23,619 | 38,285 |

Overview by Class (Sublease)

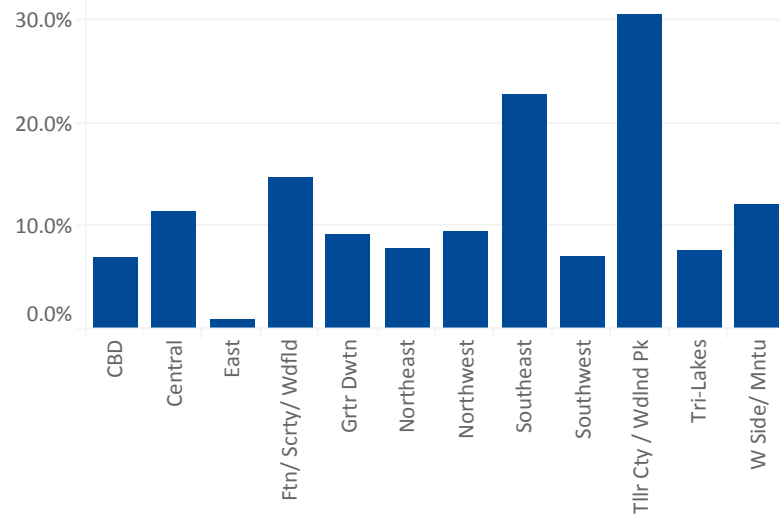
| Class | Inventory (sf) | Avail (sf) | Vacant (sf) | Vacancy Rate | Qtrly Abs (sf) | YTD Net Abs (sf) |
|---------|----------------|------------|-------------|--------------|----------------|------------------|
| A | 9,690,881 | 230,585 | 4,945 | 0.1% | -1,175 | -1,175 |
| B | 15,659,690 | 116,250 | 0 | 0.0% | 0 | -3,500 |
| C | 4,354,315 | 6,000 | 6,000 | 0.1% | 0 | -11,166 |
| Overall | 29,704,886 | 352,835 | 10,945 | 0.0% | -1,175 | -15,841 |

Direct Vacancy Rates

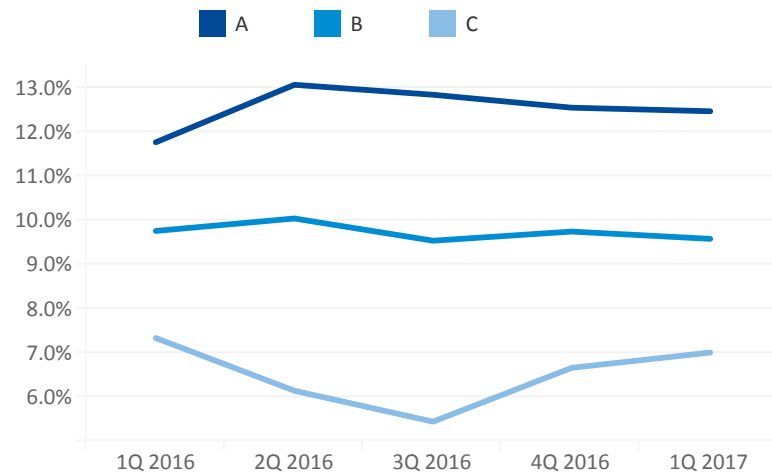
By Market and Class

| Market Name | Class | Quarter Year | | | | |
|---------------------|-------|--------------|---------|---------|---------|---------|
| | | 1Q 2016 | 2Q 2016 | 3Q 2016 | 4Q 2016 | 1Q 2017 |
| CBD | A | 10.4% | 9.9% | 9.3% | 8.4% | 9.1% |
| | B | 7.1% | 7.1% | 6.7% | 5.5% | 5.1% |
| | C | 7.1% | 6.7% | 7.4% | 9.1% | 9.2% |
| Central | A | 8.9% | 8.9% | 7.7% | 9.2% | 9.6% |
| | B | 13.2% | 13.1% | 14.0% | 13.2% | 13.3% |
| | C | 10.5% | 7.1% | 7.1% | 7.0% | 6.6% |
| East | A | 10.5% | 0.0% | 0.0% | 0.0% | 0.0% |
| | B | 0.0% | 0.0% | 1.7% | 1.7% | 1.7% |
| | C | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Falcon | C | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Ftn/ Scrty/ Wdfld | B | 9.8% | 9.8% | 9.8% | 9.8% | 8.4% |
| | C | 57.4% | 57.4% | 57.4% | 57.4% | 57.4% |
| Grtr Dwtm | A | 12.7% | 12.7% | 12.4% | 12.3% | 9.7% |
| | B | 11.1% | 10.7% | 9.9% | 10.9% | 10.4% |
| | C | 5.3% | 5.9% | 4.4% | 4.5% | 6.0% |
| Northeast | A | 8.0% | 7.2% | 7.7% | 7.3% | 6.6% |
| | B | 10.3% | 11.1% | 10.3% | 11.2% | 10.9% |
| | C | 4.4% | 4.2% | 1.0% | 1.0% | 1.1% |
| Northwest | A | 12.9% | 13.2% | 13.6% | 12.5% | 13.4% |
| | B | 6.4% | 6.3% | 5.7% | 6.2% | 6.5% |
| | C | 8.3% | 6.9% | 6.0% | 6.0% | 6.3% |
| Southeast | A | 19.6% | 31.8% | 29.7% | 31.9% | 31.0% |
| | B | 12.5% | 15.7% | 15.5% | 16.5% | 16.6% |
| | C | 7.8% | 8.8% | 8.8% | 17.7% | 17.0% |
| Southwest | A | 21.4% | 21.4% | 21.4% | 21.0% | 18.5% |
| | B | 5.9% | 5.2% | 4.7% | 4.5% | 4.0% |
| | C | 10.9% | 0.5% | 0.5% | 8.7% | 9.9% |
| Tlir Cty / WdInd Pk | A | 0.0% | 34.8% | 34.8% | 34.8% | 34.8% |
| | B | 17.1% | 16.8% | 16.8% | 16.8% | 16.8% |
| | C | 74.4% | 74.4% | 74.4% | 74.4% | 74.4% |
| Tri-Lakes | B | 15.5% | 14.6% | 11.7% | 11.5% | 8.4% |
| | C | 0.2% | 0.0% | 0.4% | 3.9% | 4.8% |
| W Side/ Mntu | B | 21.7% | 22.1% | 16.7% | 17.4% | 17.4% |
| | C | 3.8% | 4.5% | 4.5% | 3.3% | 3.3% |
| Overall | | 10.0% | 10.3% | 10.0% | 10.2% | 10.2% |

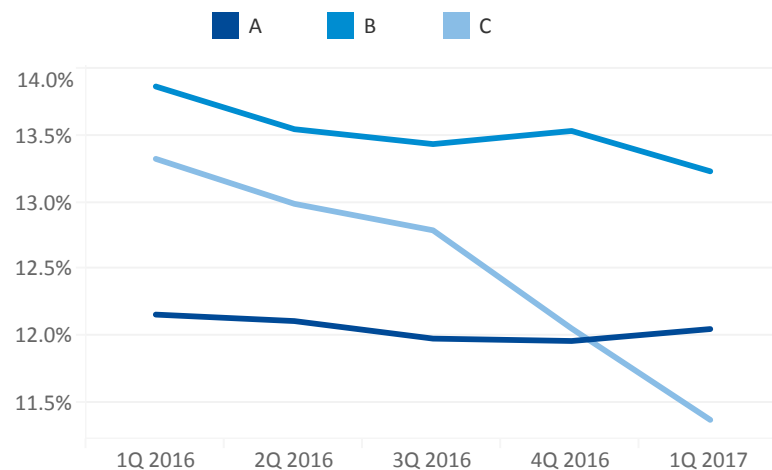
By Market



Colorado Springs by Class



National by Class

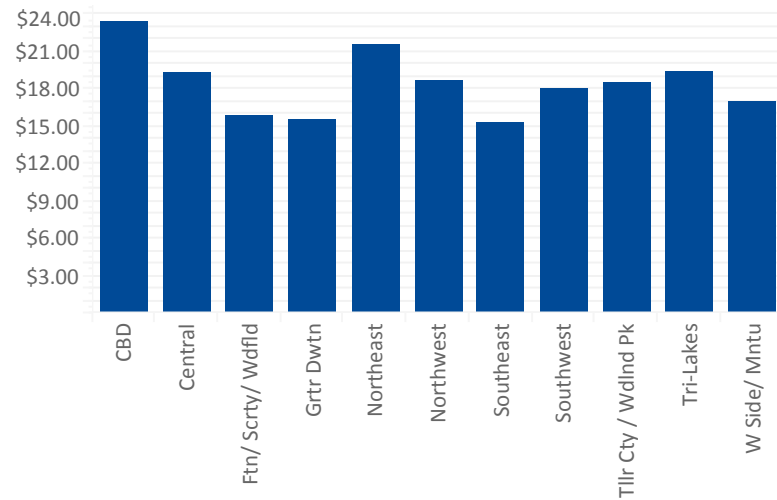


Direct Weighted Average Asking Rates (FSG)

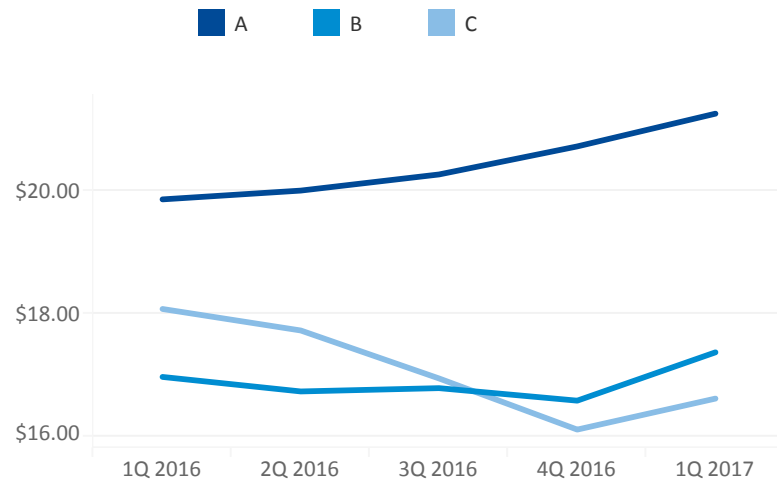
By Market and Class

| Market Name | Class | Quarter Year | | | | |
|---------------------|-------|--------------|---------|---------|---------|---------|
| | | 1Q 2016 | 2Q 2016 | 3Q 2016 | 4Q 2016 | 1Q 2017 |
| CBD | A | \$26.19 | \$26.17 | \$25.62 | \$25.82 | \$26.74 |
| | B | \$23.32 | \$22.81 | \$23.16 | \$23.42 | \$23.23 |
| | C | \$16.82 | \$17.08 | \$16.00 | \$16.72 | \$17.16 |
| Central | A | \$20.64 | \$20.74 | \$22.00 | \$26.08 | \$26.11 |
| | B | \$14.34 | \$14.22 | \$14.86 | \$15.07 | \$17.77 |
| | C | \$15.34 | \$14.90 | \$14.97 | \$12.27 | \$12.21 |
| East | A | \$23.40 | - | - | - | - |
| | B | - | - | - | - | - |
| | C | - | - | - | - | - |
| Falcon | C | - | - | - | - | - |
| Ftn/ Scrty/ Wdfld | B | \$16.96 | \$16.96 | \$16.96 | \$16.96 | \$16.25 |
| | C | \$15.38 | \$15.38 | \$15.38 | \$15.38 | \$15.38 |
| Grtr Dwtm | A | \$20.14 | \$20.91 | \$20.81 | \$22.79 | \$20.73 |
| | B | \$15.93 | \$13.66 | \$13.87 | \$14.01 | \$14.18 |
| | C | \$18.53 | \$18.80 | \$20.51 | \$20.51 | \$21.32 |
| Northeast | A | \$21.13 | \$21.70 | \$22.03 | \$22.44 | \$23.19 |
| | B | \$19.41 | \$19.99 | \$19.83 | \$19.19 | \$20.09 |
| | C | \$21.11 | \$20.34 | \$17.41 | \$16.90 | \$14.31 |
| Northwest | A | \$19.29 | \$19.28 | \$19.30 | \$19.33 | \$18.90 |
| | B | \$17.34 | \$17.36 | \$18.57 | \$19.02 | \$18.85 |
| | C | \$15.17 | \$15.57 | \$16.27 | \$13.69 | \$13.63 |
| Southeast | A | \$18.15 | \$18.32 | \$18.65 | \$17.85 | \$17.42 |
| | B | \$15.17 | \$14.84 | \$13.06 | \$12.67 | \$13.27 |
| | C | \$11.00 | \$10.99 | \$10.99 | \$11.61 | \$11.48 |
| Southwest | A | \$15.87 | \$15.96 | \$16.34 | \$15.35 | \$18.83 |
| | B | \$16.63 | \$17.88 | \$17.19 | \$17.38 | \$16.51 |
| | C | - | - | \$18.92 | \$18.92 | \$18.92 |
| Tlir Cty / WdInd Pk | A | - | \$30.45 | \$30.45 | \$30.45 | \$30.45 |
| | B | \$18.95 | \$17.70 | \$17.70 | \$17.70 | \$17.70 |
| | C | \$18.45 | \$18.45 | \$18.45 | \$18.45 | \$18.45 |
| Tri-Lakes | B | \$16.41 | \$18.05 | \$14.77 | \$18.68 | \$19.37 |
| | C | \$35.82 | - | \$33.60 | \$33.60 | - |
| W Side/ Mntu | B | \$17.50 | \$17.50 | \$17.36 | \$16.81 | \$17.11 |
| | C | \$13.30 | \$14.02 | \$14.02 | \$15.03 | \$16.67 |
| Overall | | \$18.05 | \$17.96 | \$18.21 | \$18.20 | \$18.81 |

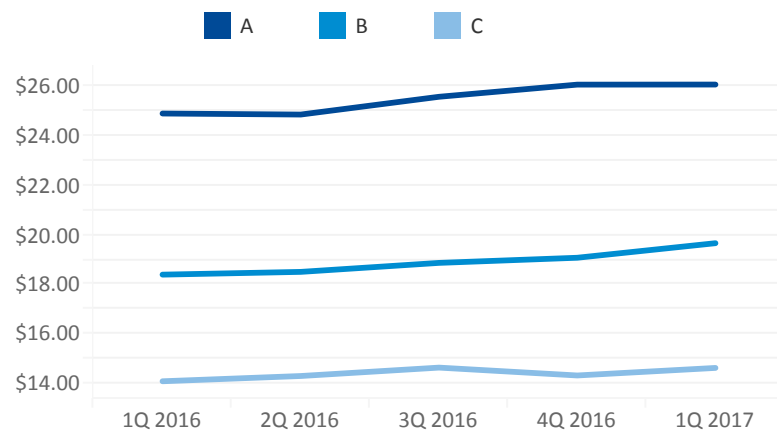
By Market



Colorado Springs by Class

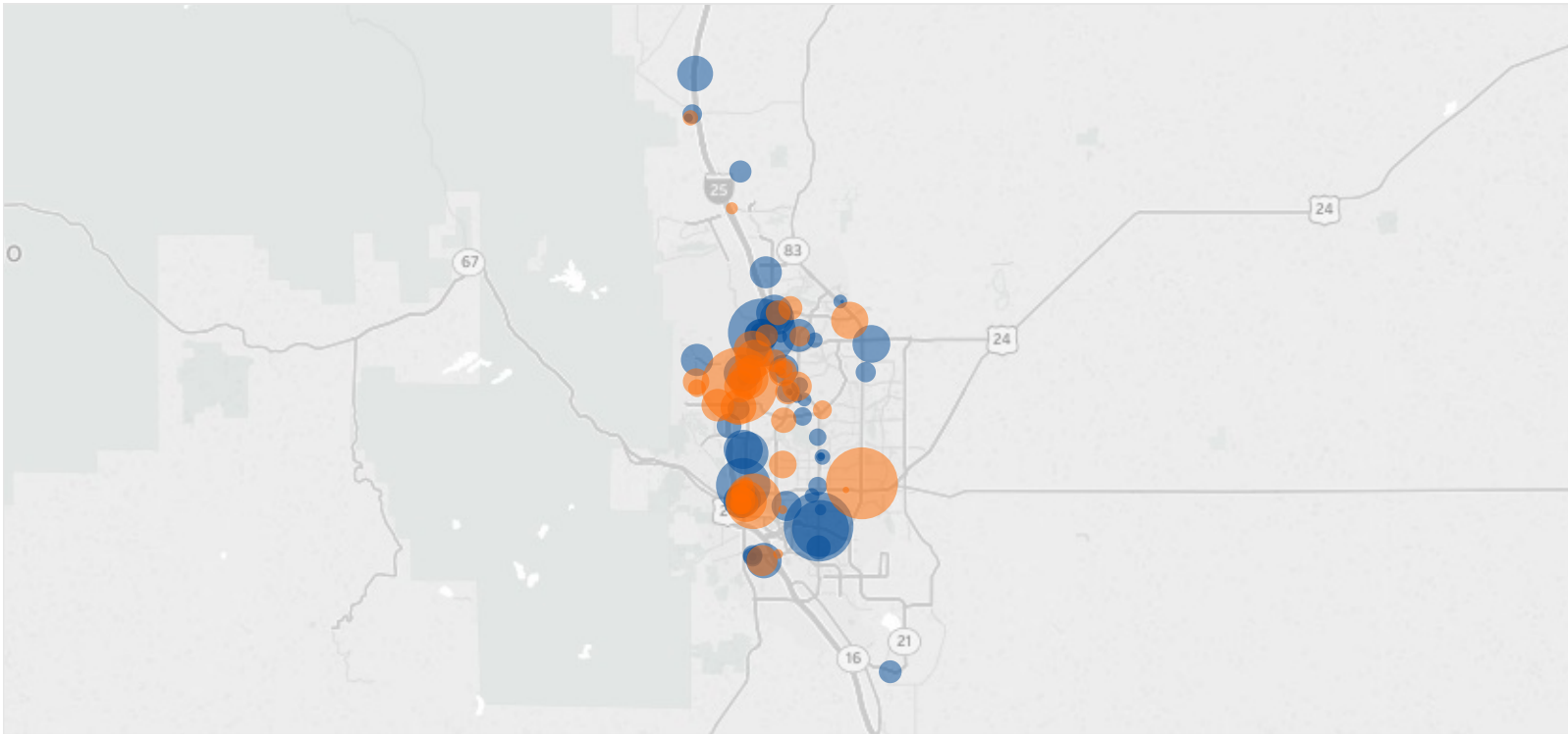


National by Class



Absorption Map

■ Negative
 ■ Positive



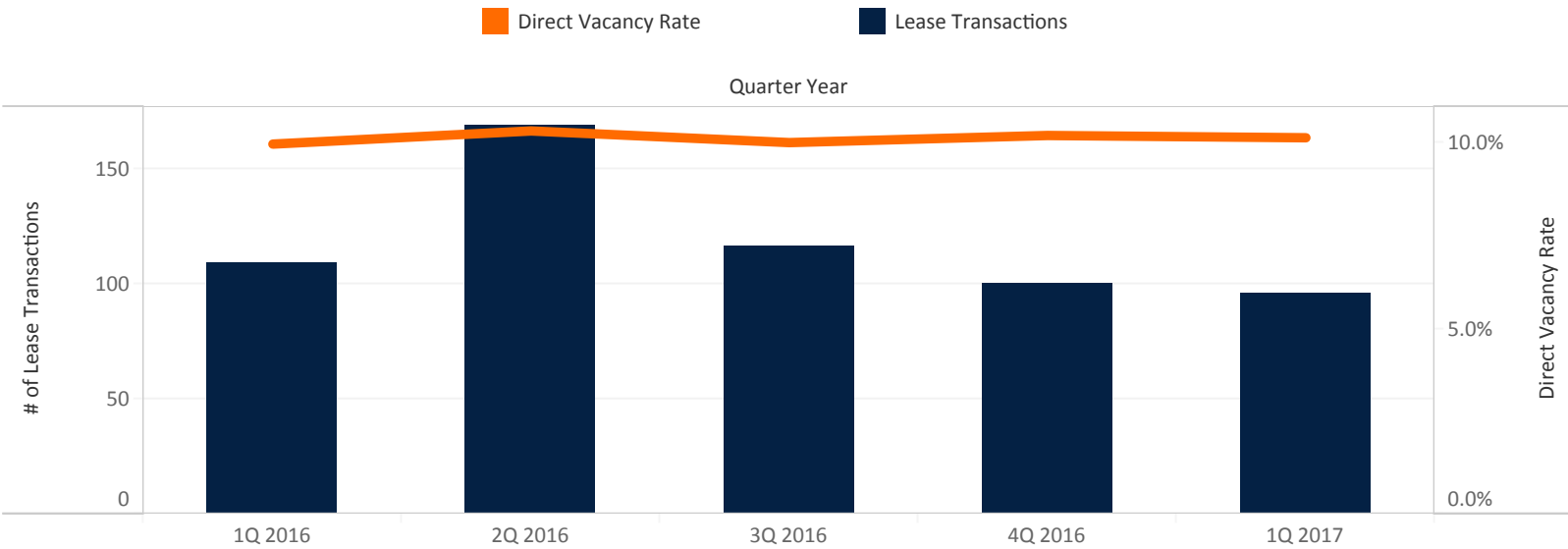
Largest Positives (Direct)

| Property Name | Significant Transactions | Market Name | Class | |
|----------------------------|--------------------------|-------------|-------|--------|
| Academy Point Atrium II | Mitre and AOCE | Southeast | A | 15,820 |
| 1150 Kelly Johnson Blvd | Tech Experts | Northeast | A | 15,134 |
| One Gateway Plaza | Army Corps of Engineers | Southeast | A | 10,565 |
| 720 N Tejon St | Colorado College | Grtr Dwtm | B | 9,647 |
| Medical Center at Penrose | Undisclosed tenant | Grtr Dwtm | A | 5,990 |
| 2510-2512 N Cascade Ave | Peter J Adasek | Grtr Dwtm | B | 5,000 |
| Tuttle Family Dentistry | Tuttle Family Dentistry | Northeast | B | 4,657 |
| The Atrium at North Pointe | Undisclosed Tenant | Northwest | A | 4,485 |

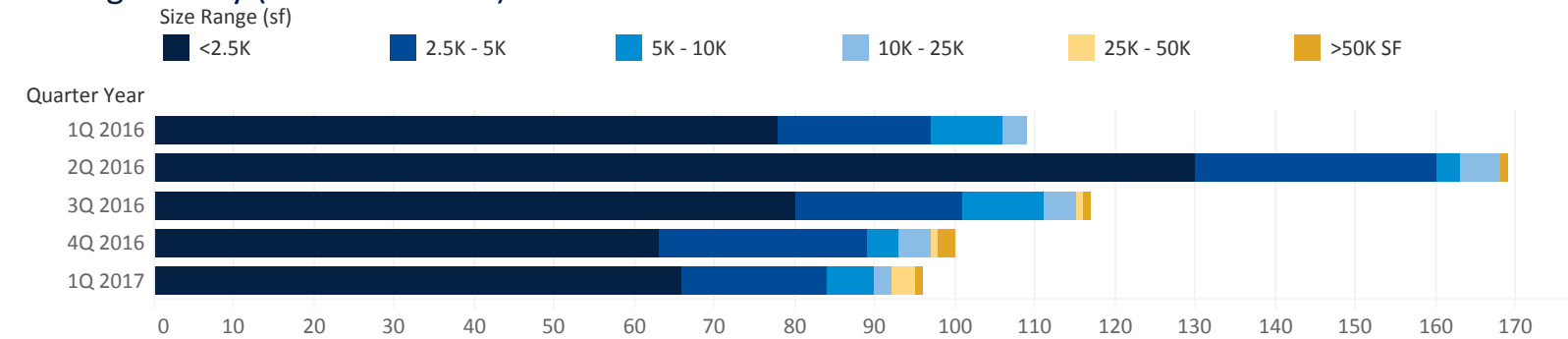
Largest Negatives (Direct)

| Property Name | Significant Transactions | Market Name | Class | |
|----------------------|--|-------------|-------|---------|
| 5555 Tech Center Dr | InFor Global Solutions | Northwest | A | -18,927 |
| Patriot Park I | Sparta Inc | Southeast | A | -16,843 |
| 555 E Pikes Peak Ave | Iron Horse Pediatrics | Grtr Dwtm | C | -10,048 |
| 24 S Weber St | Nova Home Loans | CBD | A | -5,561 |
| Northcreek III | Undisclosed Tenant | Northwest | B | -5,482 |
| Corporate Centre | Undisclosed Tenant | Northwest | A | -4,849 |
| One Commerce Center | Mountain Peaks Real Estate, Big Fish Marketing and Brookdale Hospice | Northwest | A | -4,647 |
| 8540 Scarborough Dr | RidgeView Optometry and Powers Independent Pharmacy | Northeast | B | -4,511 |

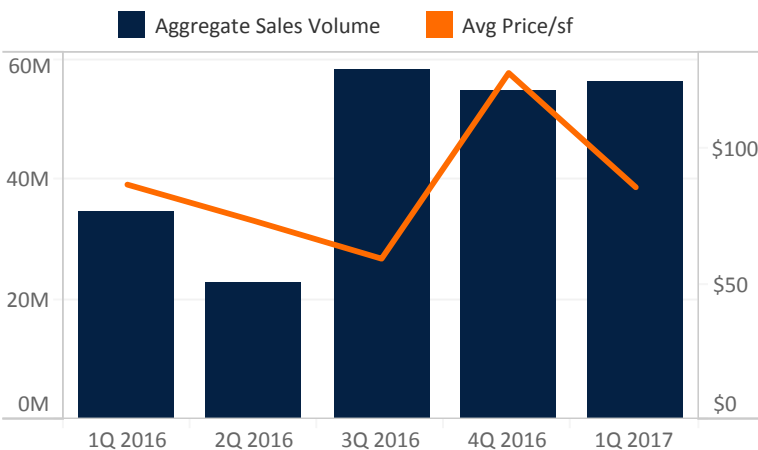
Leasing Activity Trends



Leasing Activity (# of New Deals)



Sales Volume vs. Price/SF



Top Sales

| Property | Sale Date | Buyer | Sale Price |
|--------------------------------------|------------|----------------------------|--------------|
| Tiffany Square | 03/09/2017 | Amerco | \$12,175,000 |
| 1795 Jet Wing Dr | 01/09/2017 | AspenPoint Properties Inc | \$9,450,000 |
| 5540 N Academy Blvd | 01/31/2017 | Niebur Development | \$5,000,000 |
| Mountain Shadows Professional Center | 02/02/2017 | Besherit LLC | \$3,980,000 |
| Las Piedras Office Park | 02/16/2017 | International Students Inc | \$2,850,000 |

Terminology

| Term | Definition |
|------------------------------------|--|
| Class A | Most prestigious buildings competing for premier office users with rents above the market average. Buildings have high quality standard finishes, state of the art systems, exceptional accessibility and a definite market presence. |
| Class B | Buildings competing for a wide range of office users with average market rents. Building finishes are fair to good for the area and systems are adequate, but the property does not compete with Class A product. |
| Class C | Buildings competing for office users requiring functional office space at rates below the market average for the area. |
| Direct Vacant (sf) | The total of the vacant square footage in a building that is being marketed by an agent representing the landlord. |
| Inventory | The total square feet (sf) of all existing single and multi tenant office buildings greater than 5,000 sf, excluding medical, government and owner occupied buildings |
| Net Absorption | The net change in occupancy from quarter to quarter, expressed in square feet. |
| Sublease (sf) | Space that is offered for lease by a current tenant, or his agent, within a property. |
| Total Available (sf) | All of the available leasable space within a building, whether it is occupied or vacant, for direct lease or sublease space. Space can be available but not vacant, for example, if the landlord, or his agent, is marketing space that will be coming available at a future date because a tenant is planning to move |
| Total Vacant (sf) | The total of all of the vacant square footage within a building, including both direct and sublease space. |
| Weighted Average Direct Lease Rent | The weighted average of all direct asking lease rents expressed as a full service/gross rental rate and weighted on total direct available square feet. Non-full service rents (such as NNN) have been grossed up to reflect a full service/gross rate. |

This information has been obtained from sources believed reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to independently confirm its accuracy.

Advisory Board Members

| | | | |
|------------------------------|--------------------|----------------------------|---------------|
| Bearing Commercial Appraisal | Greg Baker | Cushman & Wakefield | Aaron Horn |
| CBRE | Brad Bird | Land Title Guarantee | Ben Lowe |
| | Dan Rodriguez | NAI Highland | Bob Garner |
| | Nicola Myers-Murty | Newmark Grubb Knight Frank | Simon Penner |
| | Whitney Johnson | Quantum Commercial | Susan Beitle |
| Cameron Butcher | Caleb David | Re/Max Commercial | Rob Rolley |
| | | Weichert Commercial | Weldon Shaver |

Xceligent Team

| | | | |
|--------------|--------------------------|-----------------------|----------------|
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| Brad Hauser | Regional VP of Analytics | bhauser@xceligent.com | (281) 782-3944 |
| David Verwer | Regional VP of Sales | dverwer@xceligent.com | (480) 889-4555 |
| Eric Groth | Director of Analytics | egroth@xceligent.com | (916) 494-1386 |