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Commercial Real Estate Market Report

COLORADO SPRINGS

OFFICE
Q3 2017

Economic Overview

According to the Bureau of Labor Statistics, the unemployment rate decreased 0.9 percentage points from 3.9% in July 2016 to 3.0% in July 2017. The unemployment rate decreased due to more people finding jobs compares favorably to the US rate of 4.6%. The Colorado Springs statistical area nonfarm job creation was up 1.8% totaling 4,900 jobs over the past year. Office using jobs (information, professional and business services and financial activities) had a decrease of 1,000 jobs during the past year.

Market Overview

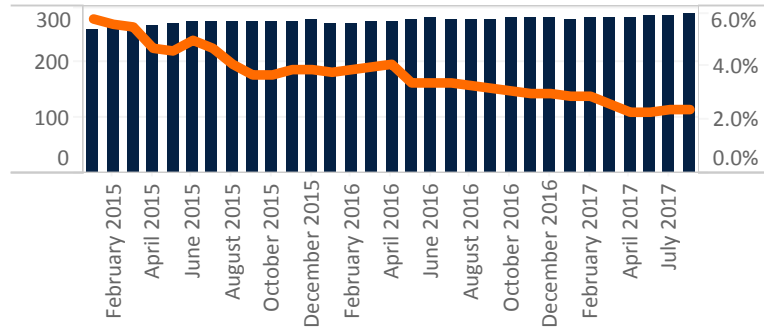
The Colorado Springs office market recorded negative 149,791 square feet (sf) of absorption during 3Q 2017. Absorption was down substantially from the positive 100,288 sf that was recorded during 3Q 2016. The 3Q 2017 total vacancy rate has increased 1.3 percentage points to 11.1% from the 3Q 2016 rate of 9.8%. Direct vacancy rates have also increased from 9.6% to 11.1% during the same time frame. Weighted average rent growth continued to improve during 3Q 2017 especially in Class A properties in the Northeast, Northwest and Tri-Lakes areas. Weighted average asking rates in all classes increased \$0.54 recording \$18.65 per square foot (psf) at the close of 3Q 2017 compared to \$18.11 psf at the close of 3Q 2016.

Market Highlights

Leasing and sales activity were moderate in all class types throughout the region in 3Q 2017. There are several active tenants looking in the market, however, it is taking longer to get deals signed. The largest block of space leased to a single tenant during 3Q 2017 was 4,912 sf, with the majority of leasing activity being in smaller spaces. Healthcare related businesses, tech firms, defense contractors and financial lenders experienced increased activity during 3Q 2017. Landlords were not as generous with concessions and prospective tenants were having to splitting the cost of tenant improvements versus the landlord paying for all of the improvement costs. Rental rates remain high and are expected to remain steady into 2018. The North submarket is very active but finding viable buildings to lease is becoming more and more difficult. Many tenants who used to look at single story Flex and R&D type buildings are now wanting multi-story Class A buildings which has added to the dilemma.

Colorado Springs Employment

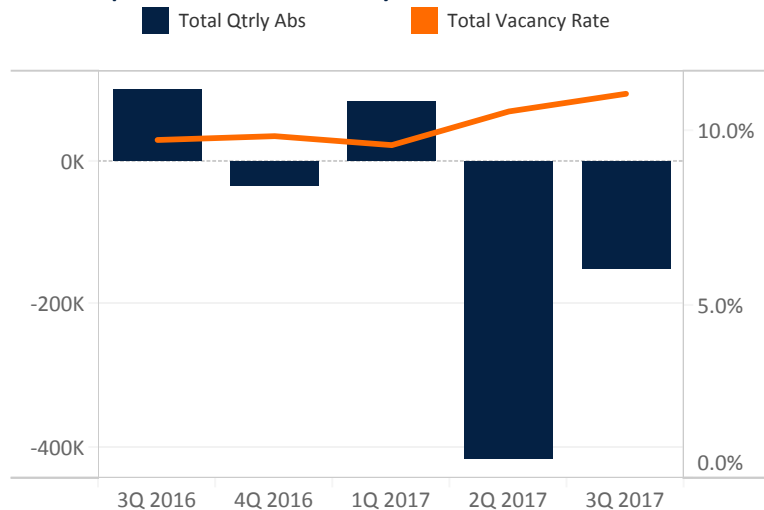
Source: BLS



Market Recap

Inventory (sf)	28,661,446
# of Bldgs	1,052
Qrtly Abs (sf)	-149,791
Total Avail Rate	13.7%
Total Vacancy Rate	11.1%
U/C Inventory (sf)	0
Delivered (sf)	0
Weighted Average Asking Rate (FSG)	\$18.65

Absorption and Vacancy Rate



Overview by Class (Total)

Class	Inventory (sf)	Available (sf)	Vacant (sf)	Total	Qrtly Abs (sf)	YTD Net Abs (sf)
A	9,447,369	1,743,596	1,545,966	16.4%	-66,719	-293,092
B	14,996,582	1,706,958	1,319,049	8.8%	-52,953	67,592
C	4,217,495	465,299	314,000	7.4%	-30,119	-31,772
Overall	28,661,446	3,915,853	3,179,015	11.1%	-149,791	-257,272

Overview by Market (Total)

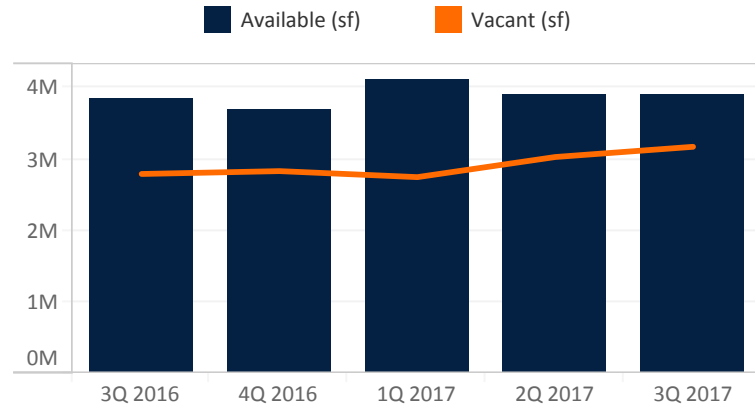
Market Name	Class	Inventory (sf)	Available (sf)	Vacant (sf)	Total	Qrtly Abs (sf)	YTD Net Abs (sf)
CBD	A	1,299,730	179,726	136,075	10.5%	-9,479	-28,778
	B	1,755,826	106,573	89,675	5.1%	-9,552	3,894
	C	583,230	60,256	58,496	10.0%	0	571
	Subtotal	3,638,786	346,555	284,246	7.8%	-19,031	-24,313
Central	A	480,840	93,690	42,674	8.9%	-241	2,873
	B	2,345,072	391,393	312,635	13.3%	-45,235	13,677
	C	658,887	64,736	62,262	9.4%	-1,656	4,821
	Subtotal	3,484,799	549,819	417,571	12.0%	-47,132	21,371
East	A	71,500	0	0	0.0%	0	1,335
	B	91,741	9,530	9,530	10.4%	-8,000	-8,000
	C	43,263	0	0	0.0%	0	0
	Subtotal	206,504	9,530	9,530	4.6%	-8,000	-6,665
Ftn/ Scrty/ Wdfld	B	123,069	0	10,300	8.4%	0	1,700
	C	18,130	0	10,400	57.4%	0	0
	Subtotal	141,199	0	20,700	14.7%	0	1,700
Grtr Dwtm	A	328,769	27,092	30,225	9.2%	1,677	10,375
	B	2,184,054	272,428	231,353	10.6%	3,393	10,146
	C	856,998	45,886	47,697	5.6%	14,329	-8,014
	Subtotal	3,369,821	345,406	309,275	9.2%	19,399	12,507
Northeast	A	3,346,495	357,425	296,055	8.8%	-41,229	19,890
	B	2,568,961	220,687	227,178	8.8%	8,144	31,058
	C	672,994	83,669	54,669	8.1%	-42,672	-48,159
	Subtotal	6,588,450	661,781	577,902	8.8%	-75,757	2,789
Northwest	A	2,656,492	836,913	803,951	30.3%	-2,187	-378,844
	B	3,150,613	358,159	122,903	3.9%	-278	-12,142
	C	655,599	17,794	21,446	3.3%	0	12,470
	Subtotal	6,462,704	1,212,866	948,300	14.7%	-2,465	-378,516
Southeast	A	1,030,814	216,389	216,389	21.0%	-14,000	50,086
	B	1,282,709	242,015	207,346	16.2%	0	4,824
	C	237,096	145,406	22,151	9.3%	0	1,690
	Subtotal	2,550,619	603,810	445,886	17.5%	-14,000	56,600
Southwest	A	195,224	20,060	18,134	9.3%	-1,260	19,370
	B	911,508	35,036	37,209	4.1%	-1,425	4,150
	Subtotal	1,355,091	79,225	73,043	5.4%	-2,685	27,020
Overall		28,661,446	3,915,853	3,179,015	11.1%	-149,791	-257,272

Overview by Market (Total) Cont'd

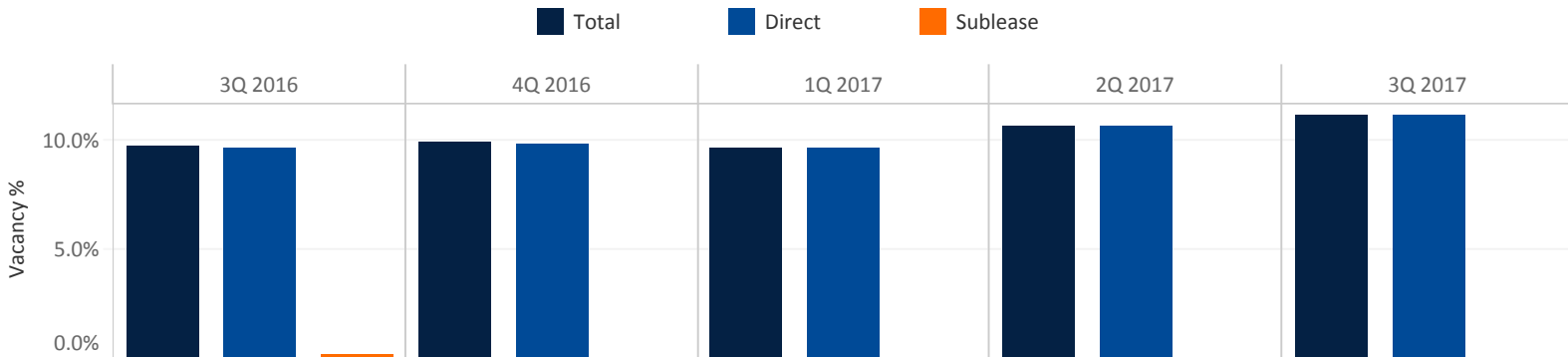
Market Name	Class	Inventory (sf)	Available (sf)	Vacant (sf)	Vacancy Rate	Qrtly Abs (sf)	YTD Net Abs (sf)
Southwest	C	248,359	24,129	17,700	7.1%	0	3,500
	Subtotal	1,355,091	79,225	73,043	5.4%	-2,685	27,020
Tllr Cty / WdInd Pk	A	37,505	12,301	2,463	6.6%	0	10,601
	B	66,255	11,102	11,102	16.8%	0	0
	C	17,173	12,777	12,777	74.4%	0	0
	Subtotal	120,933	36,180	26,342	21.8%	0	10,601
Tri-Lakes	B	228,346	22,175	22,775	10.0%	0	3,406
	C	57,636	720	720	1.2%	-120	1,530
	Subtotal	285,982	22,895	23,495	8.2%	-120	4,936
W Side/ Mntu	B	288,428	37,860	37,043	12.8%	0	14,879
	C	168,130	9,926	5,682	3.4%	0	-181
	Subtotal	456,558	47,786	42,725	9.4%	0	14,698
Overall		28,661,446	3,915,853	3,179,015	11.1%	-149,791	-257,272

Construction by Market

Total Available and Vacant



Vacancy Rate



Overview by Class (Direct)

Class	Inventory (sf)	Avail (sf)	Vacant (sf)	Vacancy Rate	Qtrly Abs (sf)	YTD Net Abs (sf)
A	9,447,369	1,687,755	1,543,666	16.3%	-64,419	-239,571
B	14,996,582	1,615,793	1,319,049	8.8%	-52,953	111,463
C	4,217,495	434,484	312,185	7.4%	-28,304	-5,471
Overall	28,661,446	3,738,032	3,174,900	11.1%	-145,676	-133,579

Overview by Class (Sublease)

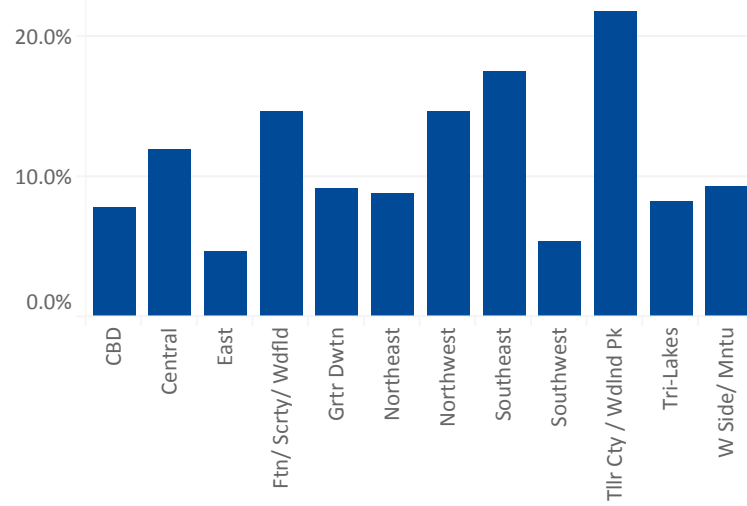
Class	Inventory (sf)	Avail (sf)	Vacant (sf)	Vacancy Rate	Qtrly Abs (sf)	YTD Net Abs (sf)
A	9,447,369	55,841	2,300	0.0%	-2,300	-53,521
B	14,996,582	91,165	0	0.0%	0	-43,871
C	4,217,495	30,815	1,815	0.0%	-1,815	-26,301
Overall	28,661,446	177,821	4,115	0.0%	-4,115	-123,693

Direct Vacancy Rates

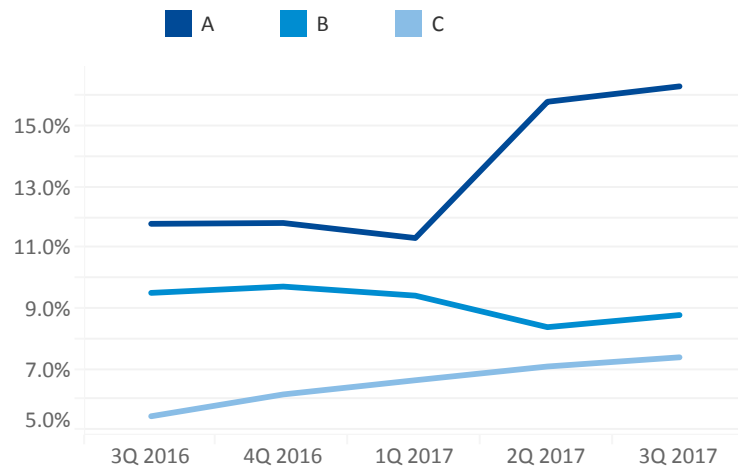
By Market and Class

Market Name	Class	Quarter Year				
		3Q 2016	4Q 2016	1Q 2017	2Q 2017	3Q 2017
CBD	A	9.3%	8.4%	9.4%	9.7%	10.5%
	B	6.7%	5.5%	5.1%	4.6%	5.1%
	C	7.4%	9.1%	9.2%	10.0%	10.0%
	Subtotal	7.6%	7.0%	7.1%	7.3%	7.8%
Central	A	7.7%	9.2%	10.4%	11.1%	8.9%
	B	13.9%	13.1%	13.2%	11.2%	13.3%
	C	6.9%	6.9%	6.9%	8.8%	9.2%
	Subtotal	11.6%	11.3%	11.7%	10.7%	11.9%
East	A	3.3%	1.9%	0.0%	0.0%	0.0%
	B	1.7%	1.7%	1.7%	1.7%	10.4%
	C	0.0%	0.0%	0.0%	0.0%	0.0%
	Subtotal	1.9%	1.4%	0.7%	0.7%	4.6%
Ftn/ Scrtly/ Wdflld	B	9.8%	9.8%	8.4%	8.4%	8.4%
	C	57.4%	57.4%	57.4%	57.4%	57.4%
	Subtotal	15.9%	15.9%	14.7%	14.7%	14.7%
Grtr Dwtm	A	12.4%	12.3%	9.7%	9.7%	9.2%
	B	9.9%	10.9%	10.4%	10.7%	10.6%
	C	4.5%	4.6%	6.1%	7.4%	5.6%
	Subtotal	8.8%	9.5%	9.3%	9.8%	9.2%
Northeast	A	7.8%	7.4%	6.7%	7.8%	8.8%
	B	10.3%	11.2%	10.6%	8.5%	8.8%
	C	1.0%	1.0%	1.1%	1.8%	8.1%
	Subtotal	8.1%	8.3%	7.7%	7.5%	8.7%
Northwest	A	14.5%	13.0%	14.2%	31.8%	30.3%
	B	5.7%	6.2%	6.1%	4.7%	3.9%
	C	6.0%	6.0%	6.3%	5.9%	3.3%
	Subtotal	8.9%	8.6%	9.0%	14.8%	14.7%
Southeast	A	20.5%	25.9%	20.7%	19.6%	21.0%
	B	15.5%	16.5%	16.6%	16.2%	16.2%
	C	9.6%	10.1%	9.3%	9.3%	9.3%
	Subtotal	17.0%	19.7%	17.5%	16.9%	17.5%
Southwest	A	21.4%	21.0%	18.6%	8.6%	9.3%
	B	4.7%	4.5%	4.0%	3.9%	4.1%
	C	0.5%	8.5%	10.4%	7.1%	7.1%
	Subtotal	6.1%	7.4%	7.2%	5.2%	5.4%
Tllr Cty / WdInd Pk	A	34.8%	34.8%	34.8%	6.6%	6.6%
	B	16.8%	16.8%	16.8%	16.8%	16.8%
	C	74.4%	74.4%	74.4%	74.4%	74.4%
	Subtotal	30.5%	30.5%	30.5%	21.8%	21.8%
Tri-Lakes	B	11.7%	11.5%	9.1%	10.0%	10.0%
	C	0.4%	3.9%	4.8%	1.0%	1.2%
	Subtotal	9.4%	9.9%	8.2%	8.2%	8.2%
W Side/ Mntu	B	16.7%	17.4%	17.4%	12.8%	12.8%
	C	4.5%	3.3%	3.3%	3.4%	3.4%
	Subtotal	12.2%	12.1%	12.1%	9.4%	9.4%
Overall		9.6%	9.8%	9.6%	10.6%	11.1%

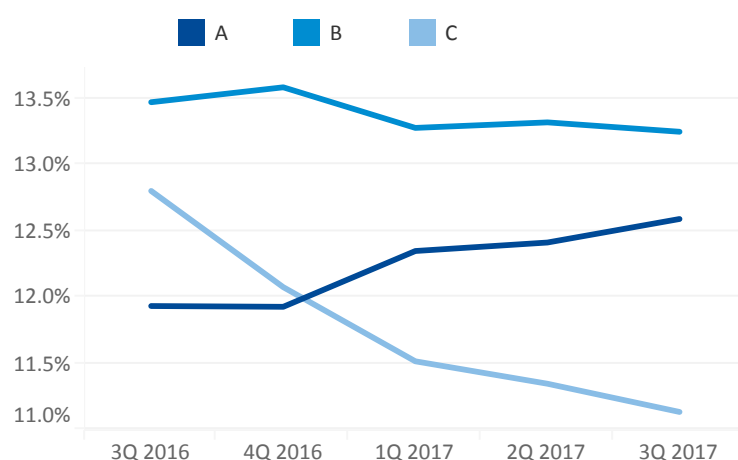
By Market



Colorado Springs by Class



National by Class

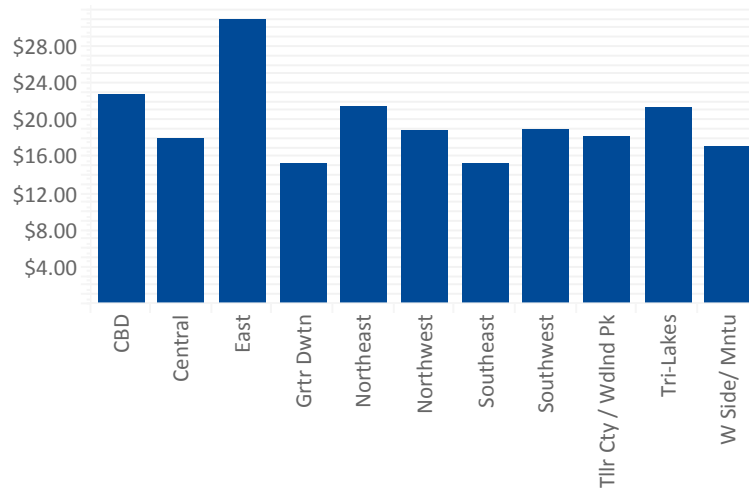


Direct Weighted Average Asking Rates (FSG)

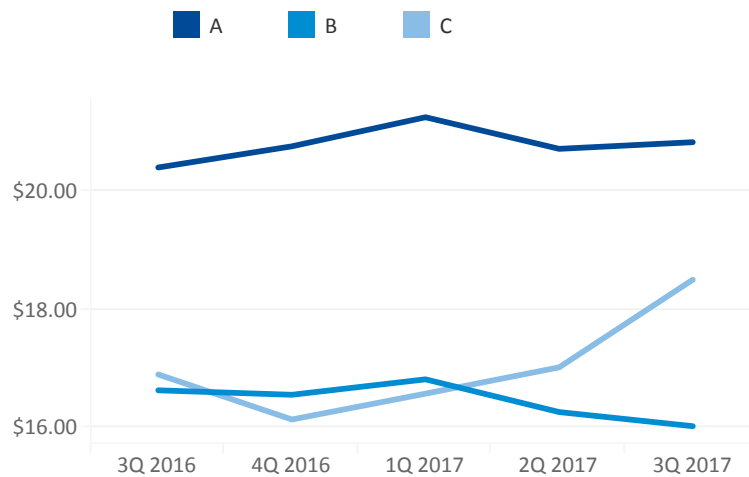
By Market and Class

Market Name	Class	Quarter Year				
		3Q 2016	4Q 2016	1Q 2017	2Q 2017	3Q 2017
CBD	A	\$25.62	\$25.82	\$26.74	\$26.34	\$26.36
	B	\$22.90	\$22.84	\$22.94	\$21.59	\$21.80
	C	\$16.00	\$16.72	\$17.16	\$17.16	\$17.16
	Subtotal	\$22.80	\$22.72	\$23.39	\$22.93	\$22.74
Central	A	\$22.00	\$26.08	\$26.11	\$25.26	\$22.16
	B	\$14.78	\$14.97	\$15.53	\$15.69	\$15.51
	C	\$14.59	\$11.74	\$12.13	\$12.11	\$26.62
	Subtotal	\$15.18	\$17.15	\$17.74	\$18.33	\$17.99
East	A	\$25.80	-	-	-	-
	B	-	-	-	-	\$30.84
	C	-	-	-	-	-
	Subtotal	\$25.80	-	-	-	\$30.84
Ftn/ Scrty/ Wdfld	B	\$16.96	\$16.96	\$16.25	-	-
	C	\$15.38	\$15.38	\$15.38	-	-
	Subtotal	\$16.23	\$16.23	\$15.81	-	-
Grtr Dwtm	A	\$20.81	\$22.79	\$20.73	\$20.08	\$20.04
	B	\$13.87	\$14.01	\$14.18	\$13.96	\$13.91
	C	\$20.29	\$20.39	\$19.98	\$19.75	\$21.15
	Subtotal	\$15.32	\$15.48	\$15.52	\$15.17	\$15.21
Northeast	A	\$22.02	\$22.44	\$23.19	\$21.75	\$22.81
	B	\$19.05	\$18.87	\$19.28	\$19.76	\$19.80
	C	\$17.41	\$16.90	\$14.31	\$15.57	\$15.57
	Subtotal	\$20.42	\$20.49	\$21.07	\$20.87	\$21.49
Northwest	A	\$19.21	\$19.04	\$18.90	\$19.45	\$19.83
	B	\$18.57	\$19.02	\$18.79	\$17.46	\$15.41
	C	\$16.27	\$13.69	\$13.62	\$19.60	\$19.60
	Subtotal	\$18.87	\$18.85	\$18.67	\$19.03	\$18.77
Southeast	A	\$18.64	\$17.32	\$17.42	\$17.89	\$18.28
	B	\$13.06	\$12.67	\$13.27	\$11.11	\$11.27
	C	\$10.99	\$11.61	\$11.48	\$11.48	\$11.30
	Subtotal	\$16.26	\$14.82	\$15.25	\$14.91	\$15.21
Southwest	A	\$16.34	\$15.35	\$18.83	\$18.73	\$18.69
	B	\$16.60	\$16.38	\$15.61	\$15.54	\$16.39
	C	\$18.92	\$18.92	\$18.92	\$22.04	\$22.27
	Subtotal	\$16.98	\$16.63	\$17.58	\$18.19	\$18.94
Tllr Cty / WdlnD Pk	A	\$30.45	\$30.45	\$30.45	\$30.45	-
	B	\$17.70	\$17.70	\$17.70	\$17.70	\$17.70
	C	\$18.45	\$18.45	\$18.45	\$18.45	\$18.45
	Subtotal	\$18.48	\$18.48	\$18.48	\$18.48	\$18.10
Tri-Lakes	B	\$14.77	\$18.68	\$19.37	\$20.22	\$20.87
	C	-	-	-	\$20.00	\$26.67
	Subtotal	\$14.77	\$18.68	\$19.37	\$20.21	\$21.28
W Side/ Mntu	B	\$17.36	\$16.81	\$17.11	\$17.11	\$17.11
	C	\$14.02	\$15.03	\$16.67	\$16.81	\$16.81
	Subtotal	\$16.72	\$16.41	\$17.00	\$17.04	\$17.04
Overall		\$18.11	\$18.09	\$18.49	\$18.64	\$18.65

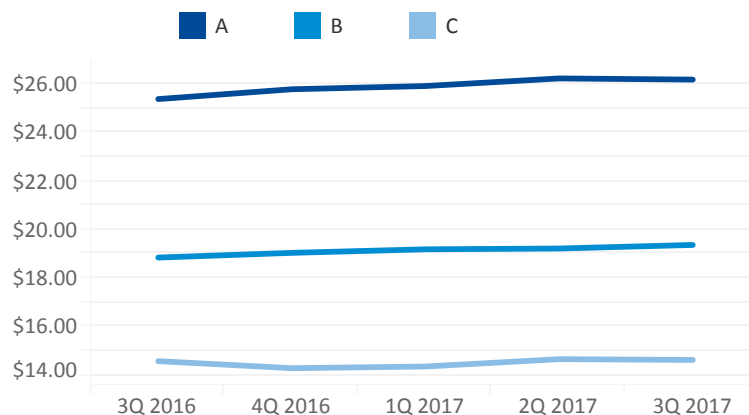
By Market



Colorado Springs by Class

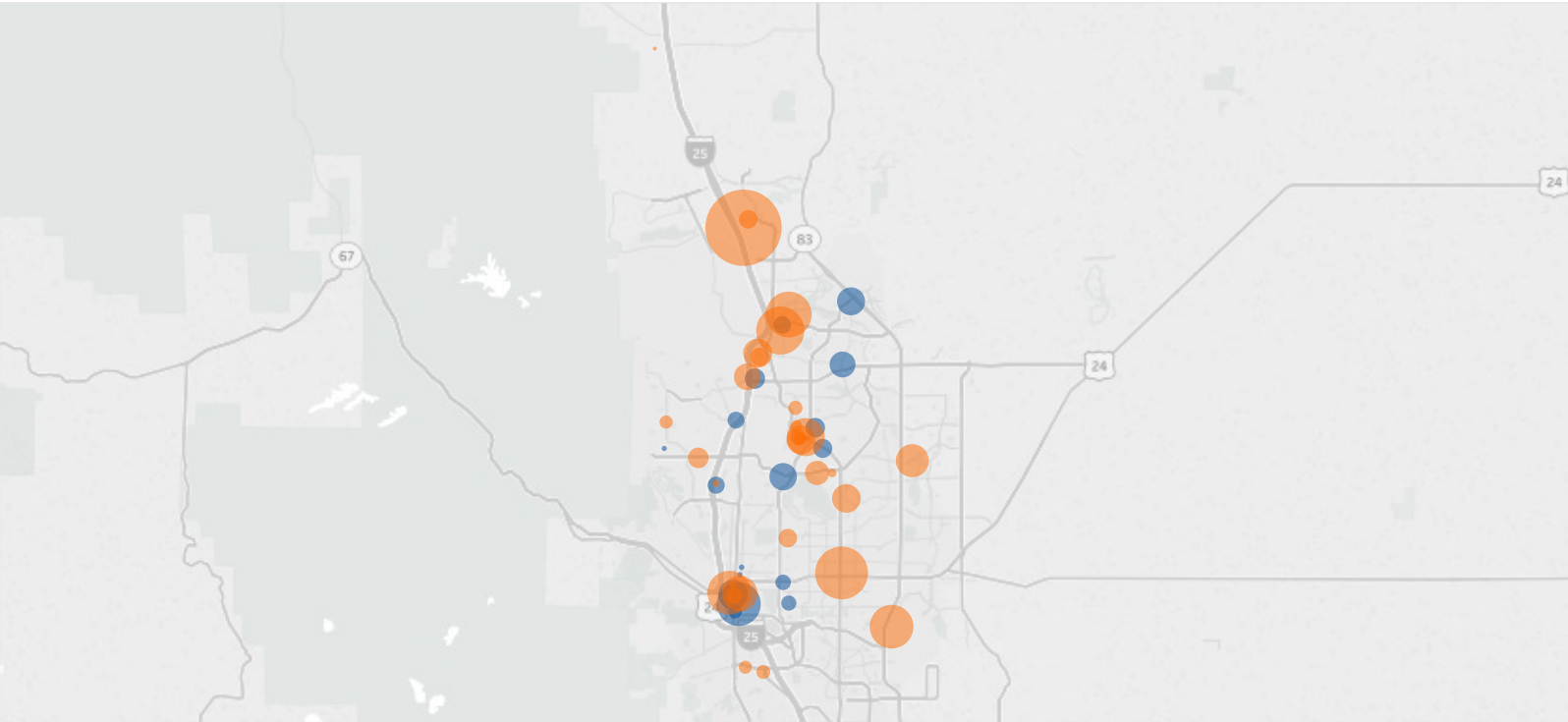


National by Class



Absorption Map

■ Negative
 ■ Positive



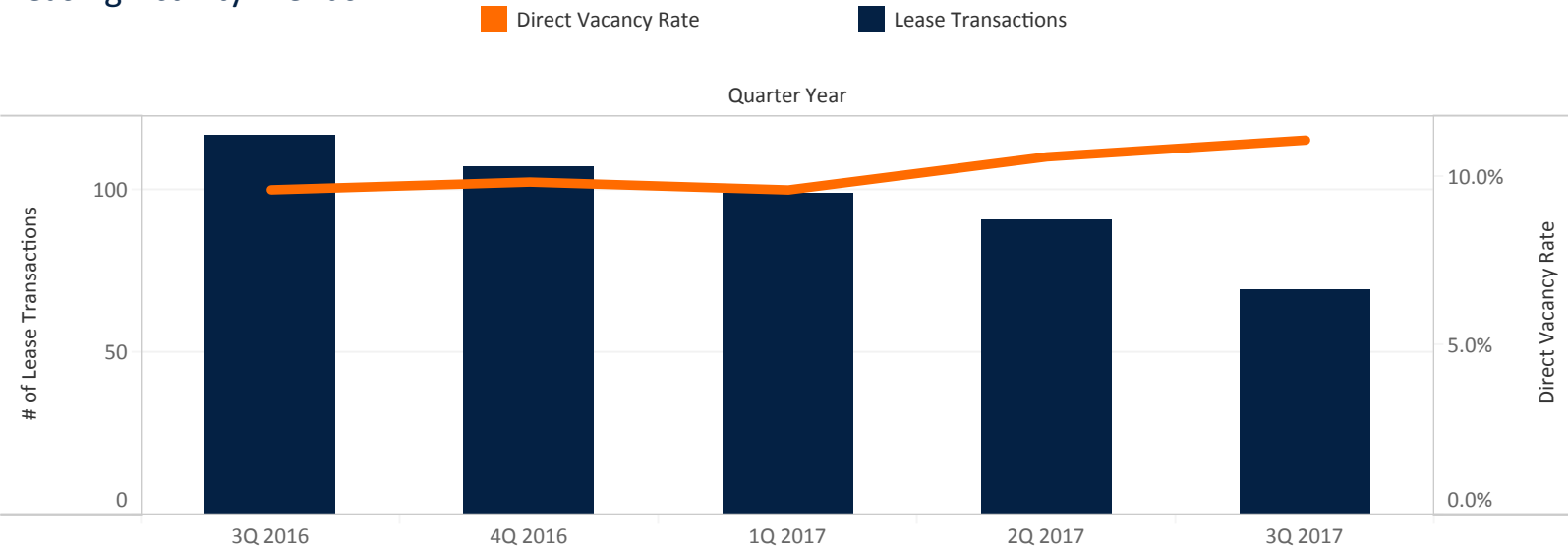
Largest Positives (Direct)

Property Name	Significant Transactions	Market Name	Class	
418 S Weber St	Casa of the Pike Peak Region Inc.	Grtr Dwtn	C	14,119
Alamo Corporate Center	El Paso County of GAL ; Colorado Springs Legal Copy	CBD	A	6,470
4194 Royal Pine Dr	Envoy Financial	Northeast	B	5,742
1837 Austin Bluffs Pkwy	Patrick Collins	Central	B	5,517
7560 Rangewood Dr	Smiles Dentistry	Northeast	B	4,912
Woodmen Corporate Center	Leidos	Northwest	A	3,059
5527 N Union Blvd	REI	Central	B	2,845
4740 Flintridge Dr	JT Accounting Solutions	Central	C	2,659

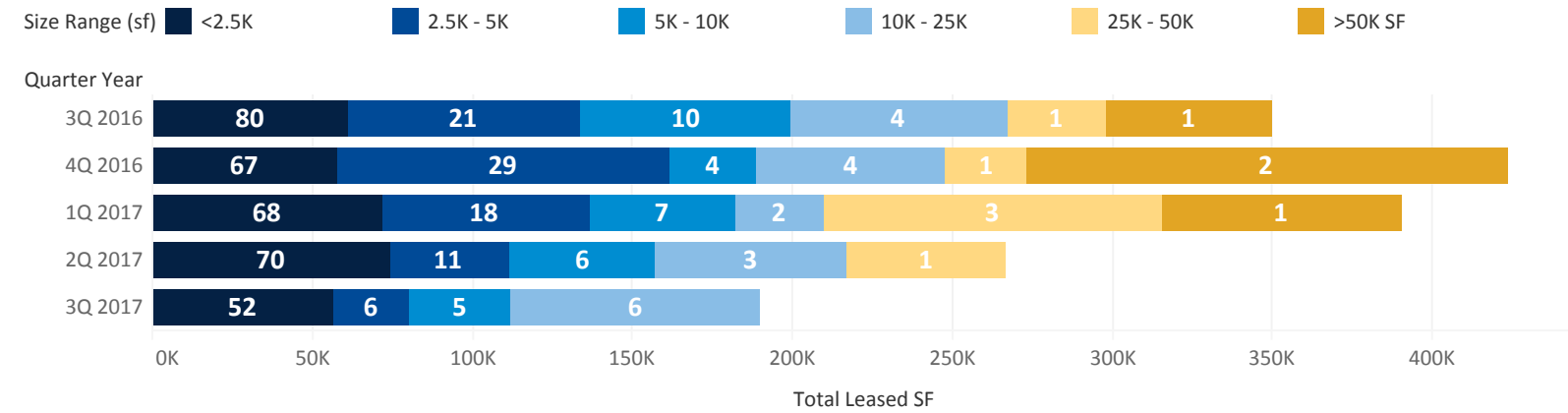
Largest Negatives (Direct)

Property Name	Significant Transactions	Market Name	Class	
555 Middle Creek Pkwy	Compassion	Northeast	C	-42,672
685 Citadel Dr E	Several small executive suite offices	Central	B	-20,478
Corporate Center	Nolte Verticle 5 ; HGST	Northeast	A	-16,972
Corporate Center at Briargate	HDR Colorado Springs	Northeast	A	-15,437
Wells Fargo Tower	The FBB Group	CBD	A	-14,059
1055 N Newport Rd	Serco Corporation	Southeast	A	-14,000
5350 Tomah Dr	Sand Creek Chiropractic ; Accident & Injury Recovery Center	Central	B	-10,609
102 S Weber St	Guardian ; Litem Office	CBD	B	-9,257

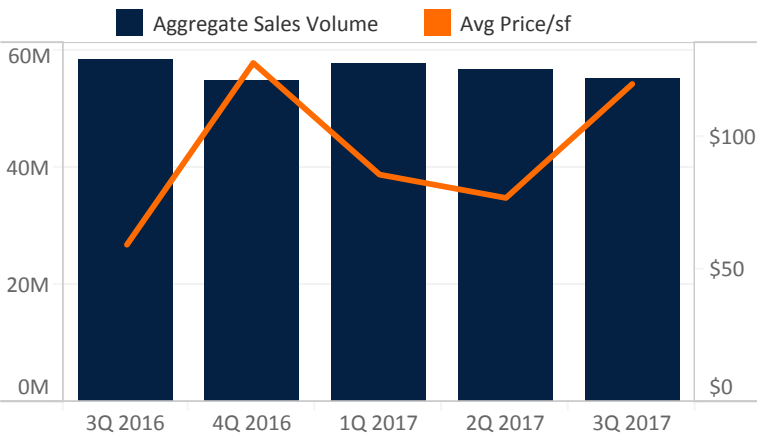
Leasing Activity Trends



Leasing Activity (# of New Deals)



Sales Volume vs. Price/SF



Top Sales

Property	Sale Date	Buyer	Sale Price
Colorado Square	07/19/2017	Unico Properties	\$34,600,000
6385 Corporate Dr	07/21/2017	The Resource Exchange	\$10,400,000
625 N Cascade Ave	08/08/2017	Curtis A and Kristin D Olson	\$1,840,000
418 S Weber St	08/01/2017	Casa of the Pike Peak Region Inc	\$1,200,000
4020 Palmer Park Blvd	07/10/2017	DocuMart Copies & Printing	\$1,085,000

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

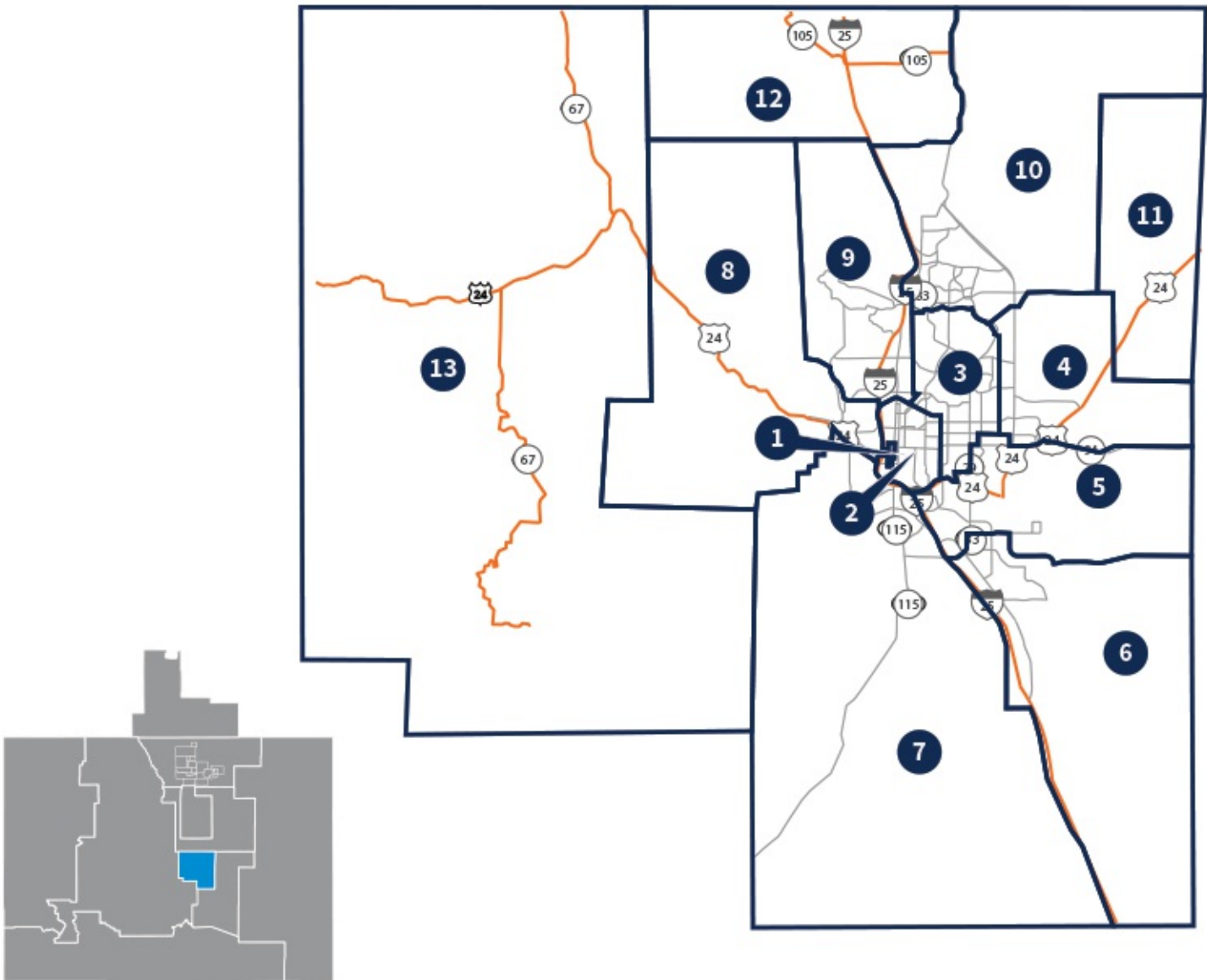
Bearing Commercial Appraisal	Greg Baker	Cushman & Wakefield	Aaron Horn
CBRE	Brad Bird	Land Title Guarantee	Ben Lowe
	Dan Rodriguez	NAI Highland	Bob Garner
	Nicola Myers-Murty		Logan Harrison
	Whitney Johnson	Quantum Commercial	Susan Beitle
Cameron Butcher	Caleb David	Re/Max Commercial	Rob Rolley
		Weichert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

Research Advisory Board Members

CBRE	Michael Kane	Cushman & Wakefield	Gabby Velo
	Sam Dragan		Joseph Trinkle
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- 1 CBD
- 2 Greater Downtown
- 3 Central
- 4 East
- 5 Southeast
- 6 Fountain / Security / Widefield
- 7 Southwest
- 8 West Side / Manitou
- 9 Northwest
- 10 Northeast
- 11 Falcon
- 12 Tri Lakes
- 13 Teller County / Woodland Park