

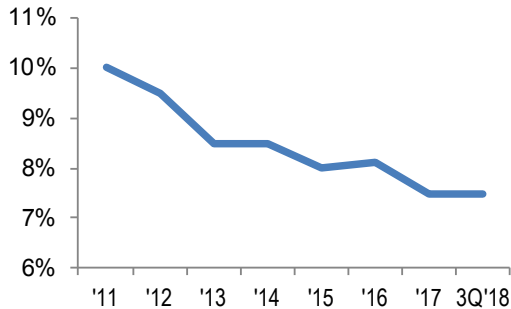
# Investment Market Report • 3rd Quarter 2018

## Colorado Springs, CO



### Average Capitalization Rates

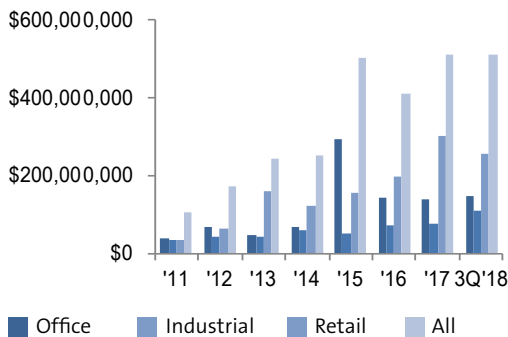
Closed Sales



## Investors are attracted to Colorado Springs for its strong economic base, growing economy and higher yields as compared to major markets.

Demand for commercial real estate is strong, fueled by job growth, a strong economy and the early benefits of the new tax law. The population of Colorado Springs grew by 11% in the past seven years. Forecasts are that Colorado Springs will have 1 million residents by 2043. The current and future market dynamics continue to draw investors to the Colorado Springs market looking for higher yields when compared with major markets.

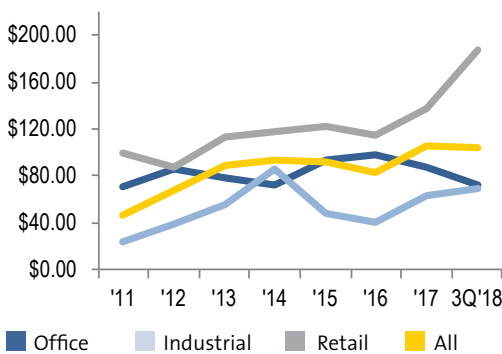
### Property Sales Volume



Multi-family investors are focused on smaller markets where the unemployment rate is low and the economy is growing. Vacancy rates in Colorado Springs are still at record lows and rents are continuing to escalate. Many investors are focused on well located, older properties, a trend we are seeing in Colorado Springs. Union Heights, a 220-unit apartment project built in 1984, was sold in the 3rd quarter to Priderock Capital Partners, LLC from West Palm Beach, FL. Griffis /Blessing purchased the property in 2015 for \$22,000,000 and completed extensive upgrades. The property was sold to Priderock in August 2018 for \$35,000,000

### Price Per Square Foot

Stabilized Class A & B Assets



Industrial assets are on the short list of property types for many investors. 2570 Zeppelin Road, a new 131,040 sf warehouse located in the SE market, recently sold to an investor from Nevada for \$111.42 psf. The property was completed in early 2018 and was 100% leased to two tenants at the time of sale. Reported cap rate was less than 6%. Colorado Springs is seeing several new industrial projects planned or under construction to meet the limited supply of available space for users. Newer industrial buildings typically have higher ceilings, sprinklers, and good proximity to major thoroughfares.

The office market has shown improvement in absorption but rental rates still do not justify new construction. Several older, well located office buildings have been acquired with the focus on upgrading the asset or repositioning it with alternative uses. Several of these properties have been upgraded, stabilized and resold to investors in the past 24 months particularly in the I-25 corridor and N Academy area.

Source: CoStar

### KEY TRANSACTIONS

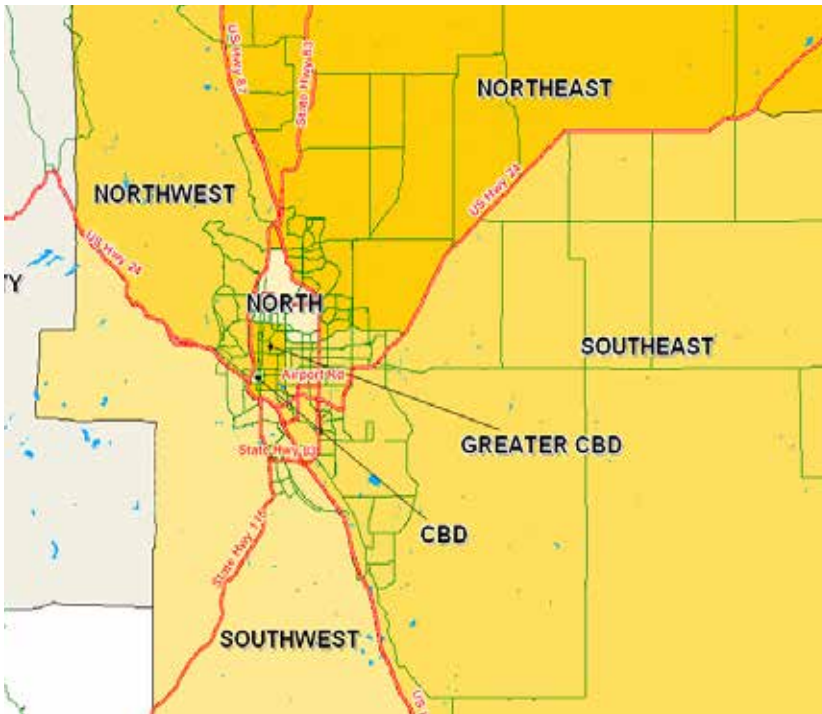
\* Transaction Represented by Quantum Commercial

<p><b>Flywheel Capital</b> purchased 284,166 SF at Quantum Buildings 10125-10295 Federal Drive from Guggenheim Partners, LLC \$27,900,000</p>	<p><b>SE Partners, LLC</b> purchased 113,203 SF at One Gateway Plaza 1330 Inverness Drive from Westside Investment Partners, Inc. \$11,750,000</p>	<p><b>McDonald Land Holdings</b> purchased 131,040 SF at 2570 Zeppelin Road from Scannell Properties \$14,600,000</p>
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Rising interest rates could compress yields; however, the deal flow and capital markets remain strong. The competition among investors for properties with attractive returns has kept cap rates low. Investors are still willing to pay top prices in exchange for credit tenants and longer-term leases.

### Forecast

- Colorado Springs is well positioned to attract investors with its strong economic base, growing economy and low unemployment.
- Investors will continue to search for assets in smaller markets in search of better pricing and higher yields.
- Demand remains very high in Colorado Springs for well located multi-family investments. There is little concern that supply will overwhelm demand in the foreseeable future. Job growth and population growth will continue to drive demand for apartments.



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### INVESTMENT TERMS AND DEFINITIONS

**Capitalization Rate:** Ratio between Net Operating Income (NOI) produced by an asset and its capital cost.

**Net Operating Income:** Cash flow received after cash expenses are subtracted from the revenues of the investment.

**REO (Real Estate Owned):** Property owned by lender.

**Occupancy:** Occupancy rate is calculated by the

number of physically occupied unfurnished units in stabilized properties, divided by the total inventory in such properties. Preleased units are not included in the occupancy calculation.

**Net Absorption:** The net change in physically occupied units over a period of time.

**ROI:** Return on Investment.

\* Quantum Commercial Group Inc. (QCG) & CoStar may revise reported quarterly and final year-end figures.

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