

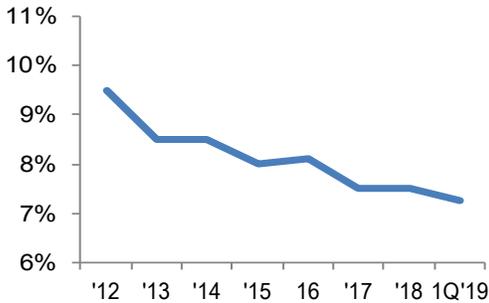
Investment Market Report • 1st Quarter 2019

Colorado Springs, CO

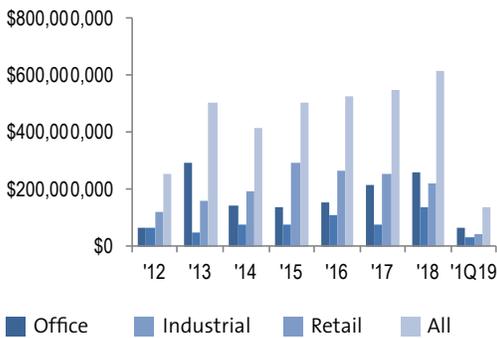


Average Capitalization Rates

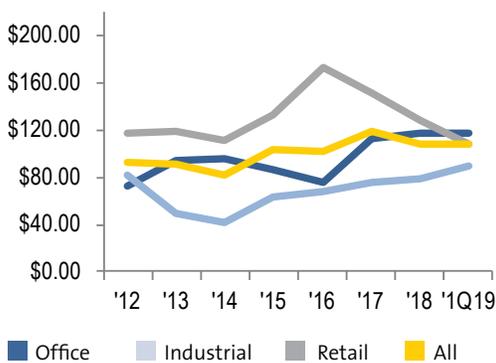
Closed Sales



Property Sales Volume



Average Price Per Square Foot



Source: CoStar

Investment activity in Colorado Springs remains strong as investors focus on smaller markets with a growing economy, low unemployment and opportunities for higher returns.

Industrial and multifamily are the preferred assets for many investors due to strong improvement in rents and rising values in each of these asset classes. Industrial sales are likely to remain a target for acquisition in 2019 as e-commerce sales have boosted the demand for more warehouse and distribution facilities. Newer properties with long-term credit leases command the highest prices. Etkin Johnson recently sold their portfolio of 19 industrial properties in Colorado for \$247.5 million setting a record for the largest industrial portfolio sold in terms of both total square feet and price. 5001-5025 Centennial Boulevard, an 82,800 sf building, was part of the portfolio sale. The portfolio was acquired by Berkley Partners from California.

Challenges for affordable housing, especially with millennials, continues to drive demand for apartments. The Overlook at Interquest, a 265-unit apartment community, recently set a new record of \$251,894 per unit. The complex, built in 2018, was 80% occupied at time of sale and was acquired by a California investor. Investors are challenged to find reasonable returns on properties in some of the major markets such as Denver. This has created an influx of regional and national investors to the Colorado Springs market where they perceive there is an opportunity for higher returns as compared with some of the major markets.

Economists predict a good balance between the prospect of gradually rising interest rates combined with a moderate slowing of the economy in 2019. Although many investors are adopting a more cautious approach to underwriting, the availability of capital for acquisitions and moderate increases in interest rates will keep deal flow strong.

The office market fundamentals are improving, however, most of the focus in acquisitions has been to acquire older, well located properties and stabilize tenancy with new improvements. Woodmen Corporate Center was acquired in 2017 by a local

KEY TRANSACTIONS

*Transaction Represented by Quantum Commercial

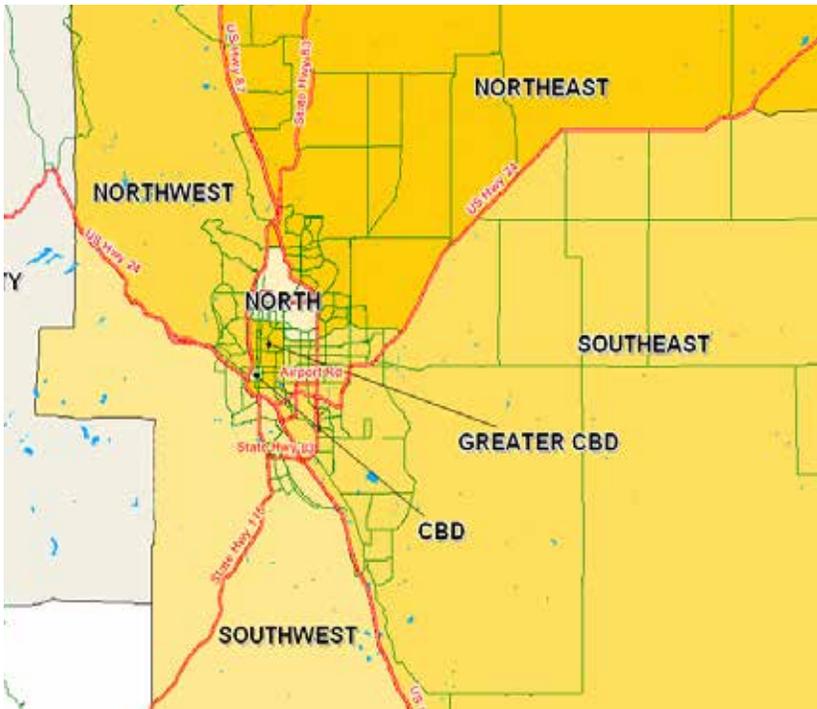
<p>MIQ Woodmen LLC purchased 107,590 SF at Woodmen Corporate Center 7150 Campus Drive from DCP Woodmen LLC \$13,650,000</p>	<p>116 Mott St Realty Corp purchased 39,483 SF at Chapel Hills Business Ctr II 1935 Jamboree Drive from 1935 Jamboree LLC \$4,250,000</p>	<p>Ogilvie Properties, Inc. purchased 104,439 SF at Tech Center VI 5575 Tech Center Drive from Pace Properties Incorporated \$15,115,000</p>
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developer for approximately \$44.61 psf. The building was recently sold for \$126.87 psf and was reported to be 81% occupied at the time of sale. Rental rates for office space still do not justify new speculative construction. The majority of activity has been to acquire existing properties and reposition them with major renovations to attract tenants.

Store closings will continue as e-commerce impacts the retail market; however, there is a trend to adapt vacant or underutilized properties for new uses. The area surrounding the Citadel Mall has been designated as an Opportunity Zone to stimulate investments. We will likely see properties such as Babies-R-U's and Toys-R-U's repurposed for new uses.

Forecast

- The availability of capital for acquisitions and moderate increases in interest rates will keep deal flow strong in the first half of 2019.
- Industrial will remain one of the preferred asset classes with continuing improvement in rents and rising values.
- Demand will remain high for multifamily assets. Rents continue to grow and occupancies are holding steady.
- The current economic growth cycle is one of the longest on record. Investors are cautious about a potential downturn in late 2019 or 2020.



Quantum Commercial Group Real Estate Advisors

Mary Frances Cowan, CCIM
719.228.3606
mcowan@quantumcommercial.com

Michael Palmer, SIOR
719.228.3626
mpalmer@quantumcommercial.com

Dale Stamp
719.228.3601
dstamp@quantumcommercial.com

Andrew Oyler
719.228.3601
aoyler@quantumcommercial.com

Russell Stroud, CCIM
719.228.3619
rstroud@quantumcommercial.com

Taylor Stamp
719.228.3623
tstamp@quantumcommercial.com

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. Released 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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