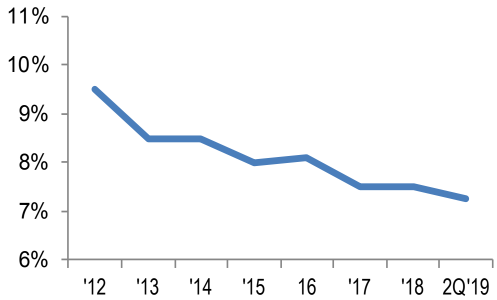
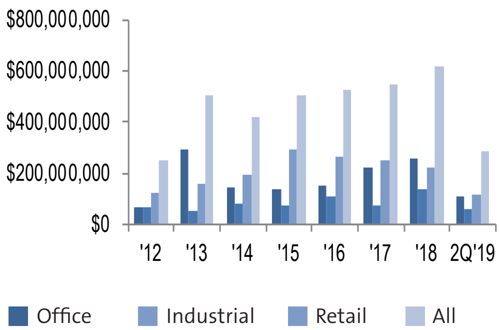
Investment Market Report • 2nd Quarter 2019
Colorado Springs, CO

Quantum Commercial Group Inc

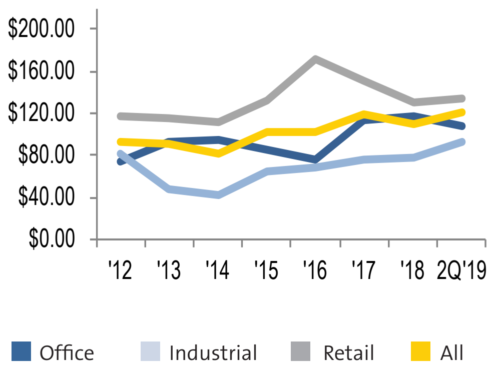
Average Capitalization Rates
Closed Sales



Property Sales Volume



Average Price Per Square Foot



Source: CoStar

There is no slowdown of investor interest in Colorado Springs. Multiple offers from investors are the norm for well located, Class A and B properties.

There is strong investor demand in all property types. Leasing fundamentals in the office market are sound as office vacancy falls below 10% for the first time in a decade. The absence of new construction and rising demand has forced industrial rents upward. Retail rents for new construction are upwards of $30.00 psf and multifamily vacancies are holding steady at 6%.

Developers have been wary of testing the market for new development in Colorado Springs. Office inventory cumulatively expanded by less than 0.5% between 2013 and 2018. With the absence of new product, absorption in the office market has been the strongest since 2013. Investors capitalized on this trend in the past few years by acquiring well located office buildings at competitive prices and then upgrading the buildings to attract new tenants. We are now seeing many of these properties being sold with substantial profits to the sellers.

Although there is some concern that we are in the longest ever sustained economic growth cycle, household formation remains strong and vacancy rates in multifamily remain at historic low levels. This is fueling the need for additional apartment units. Rent growth in Colorado Springs has been some of the strongest in the nation with average annual increases of almost 7%. Multi-family investors continue to target Colorado Springs for acquisitions resulting in record setting sales for both volume and price per unit. Cap rates have been in the sub 6% range for both well located, newer projects and older projects with upside potential.

Market cap rates for industrial sales remain at an average of approximately 7% subject to location, age of property, term of leases and credit of tenants. There has been little new industrial construction with the exception of the industrial development on Zeppelin Road and a few smaller warehouse projects primarily in the airport area. Several new developments are planned in the near future in the Monument area and SE market.

KEY TRANSACTIONS

* Transaction Represented by Quantum Commercial Group

Robert Blaha	**Carpet Planet**	**Killin Land Company, LLLP**
purchased	purchased	purchased
51,770 SF	19,500 SF	30,759 SF
at	at	at
Patriot Park V	3675 Citadel Drive S	Pikes Peak Research I
745 Space Center Drive	from	5385 Mark Dabling Blvd
from	Henry Traub Trust	from
Crescent Real Estate Equities LLC	$1,400,000	Randall Realty & Investment Co
$9,150,000		$5,000,000
	*Quantum Transaction	

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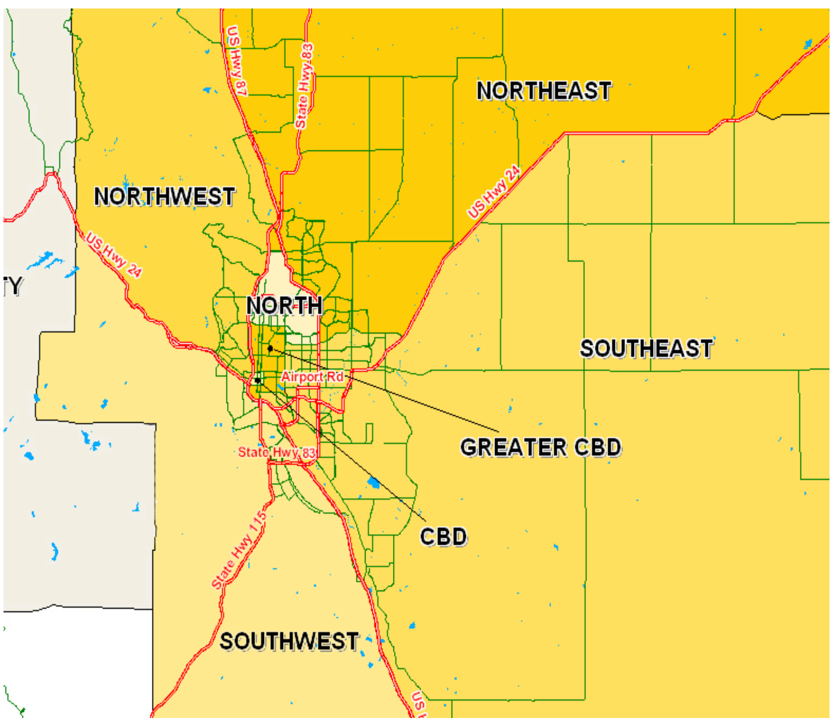
Market rents for new industrial properties are typically north of $10.00 NNN primarily due to land values and rising construction costs. Both users and investors continue to look for opportunities to acquire warehouse properties with a shortage of inventory driving prices upward.

Explosive retail development continues in the northeast area with new construction primarily in the Interquest and Northgate areas. Newer, well located properties with long-term credit tenants continue to trade at sub 6% cap rates.

Interest rates are expected to fall as much as 0.75% basis points through the end of 2019, further fueling investor interest in acquiring real estate while the cost of capital remains historically low. There continues to be some concern of a recession in the next 18 to 24 months. We will see investor interest in commercial real estate remain very high throughout 2019 and into 2020.

Forecast

- The availability of capital for acquisitions and the prospect of lower interest rates will keep deal flow strong for the remainder of 2019.
- Industrial and multifamily remain the preferred asset classes for many regional and national investment groups.
- Capitalization rates will continue to hold steady or decline for newer, well located assets with low vacancies and strong rental demand.
- The current economic growth cycle is one of the longest on record. Investors are cautious about a potential downturn in 2020.



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INVESTMENT TERMS AND DEFINITIONS

Capitalization Rate: Ratio between Net Operating Income (NOI) produced by an asset and it's 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.