

Land Market Report • 2nd Quarter 2018

Colorado Springs, CO



Building Permit Activity

| Year | Single Family | All Others | Annual % Change (Single-Family) | Annual % Change (All Types) |
|------------------|---------------|------------|---------------------------------|-----------------------------|
| '07 | 2,135 | 956 | -38.0% | -30.1% |
| '08 | 1,223 | 762 | -42.7% | -35.8% |
| '09 | 1,105 | 232 | -9.65% | -32.6% |
| '10 | 1,404 | 311 | 27.1% | 28.3% |
| '11 | 1,399 | 821 | -.03% | 29.4% |
| '12 | 2,218 | 767 | 59% | 34.5% |
| '13 | 2,693 | 745 | 21.5% | 15.2% |
| '14 | 2,439 | 1,090 | -9.4% | 2.6% |
| '15 | 2,739 | 2,046 | 12.3% | 1.6% |
| '16 | 3,237 | 1,717 | 18.2% | 38.1% |
| '17 | 3,361 | 1,321 | 3.8% | -5.49% |
| 10-Year Avg. | 2,181 | | | |
| Through June '17 | 1,780 | 432 | | |
| Through June '18 | 2,181 | 381 | 22.5% | 15.8% |

Source: El Paso County Regional Building Department, Summit Economics, LLC, Colorado Division of Housing and Apartment Association of Southern Colorado

“Through the 2nd quarter, 2018 has been strong, steady and exceeded expectations. The market has continued to improve over the very successful 2017 market. All indicators point to an excellent 2018 and a good start to 2019.”

2nd Quarter Highlights

- ◆ The most notable trend in the 2018 residential market is the focus on providing for more affordable housing (\$300,000 and less) throughout the market. Home builders are creating new plans and beginning construction of more high-density attached homes (townhomes and duplexes) and introducing higher density detached single family residential homes (6 to 10 units per acre single family homes) to address this need in the market.
- ◆ Demand for new homes remains extremely high but increases in building permits will be limited for the year because the labor shortage for both lot development and home construction continues, thus resulting in continued increases in prices for new and resale homes.
- ◆ Single family building permits at the end of the 2nd quarter increased by 22.5% over the same time-period from January to June in 2017. The number of permits pulled should exceed 4,000 in 2018, which will be the first time since 2006.
- ◆ Apartment rental vacancies remain at approximately 6.3% and lease rates continue to increase. The average rent of \$1,156/per month in June was a new record for Colorado Springs.
- ◆ Industrial land sales are starting to pick-up and are expected to continue to improve because of the lack of available existing industrial space throughout the entire market.

High-density attached and detached single-family homes has been one of the most discussed market segments of the residential market during the past 12 months. This product type is expected to be the most rapidly growing segments

KEY TRANSACTIONS

*Transaction Represented by Quantum Commercial Group

| Buyer | Seller | Property | Amount |
|--|---|---|-------------|
| *Century Communities, (public home builder) | Meadowbrook Crossing, LLC (local land developer) | Fifty seven (57) finished single family lots located on the north side of Highway 24 just west of Marksheffel Road in El Paso County. Purchased fully improved lots at one closing. | \$4,132,500 |
| *Pete Lien & Sons, Inc. (regional contracting company) | Hellman Family Trust | 93 acres of vacant un-zoned land at the corner of Judge Orr Road and Curtis Road in El Paso County. Purchased for contractor use. | \$356,000 |
| *Conexus, LLC (local development company) | Phoenix Bell Associates, LLP. (out-of-state investment group) | The 23.34 acre property is zoned for industrial/commercial use in the Town of Monument located just north of Baptist Road on the west side of I-25. | \$919,634 |

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in the local market for the next 3 years because of the pressure from consumers for dwellings that can be purchased in the \$220,000 to under \$320,000 range. Nearly all of the area's large builders will be introducing smaller, more affordable homes by 2019. Construction defects ordinance reform which is being address, has improved but has not been completely resolved and is still considered a risk by many builders.

Residential land, platted and finished lots remains very tight and is expected to remain that way for the next couple of years. The tight market is a result of entitlement approvals taking a year or more and the labor shortage has extended the lot development process to over 6 months. Land and lot prices continue to rise because of the tight market and this is expected to continue because of the increased demand from home builders trying to keep up with consumer demand for new homes.

The need for apartment land continues to be strong in specific market areas of Colorado Springs with new properties going under contract for new apartment projects with out-of-state developers at market rate prices of \$6.00/sf or more and vacancy rates in the 6% range. The downtown rental market will be a growing segment in the immediate future with new projects under construction and recent announced.

The industrial land market may be the next "best real estate opportunity" in the Colorado Springs/El Paso County real estate market. Demand for modern, functional and updated industrial space has increased during the past 18 months with little to no new product to satisfy the market demand, especially in north Colorado Springs and the north El Paso County market. Lease rates have slowly begun to move up which will ultimately lead to the financial justification for new industrial projects to be built. The office land market has lagged since 2006 and is not expected to show much improvement anytime soon because of the excessive vacancy rates in this market segment.

The Colorado Springs/El Paso County land market continues to be considered one of the best values in Colorado and the western United States, as it has been for the past 36 months. The area continues to attract new home building companies, buyers, investors and developers into the market from other large US markets that have become saturated and over-priced. The local market has proven it is at a sustainable growth rate because the market has yet to hyper-inflate. The 2nd half of 2018 looks to continue its upward trend at a steady pace which is expected to do so for the next couple of years.



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LAND TERMS AND DEFINITIONS

Paper Lot: A paper lot refers to a residential or commercial lot that has received all necessary municipality approvals, (i.e. masterplan, zoning and engineering) to begin installing services (sewer, water and electric) and hardscape (curb, gutter and paving) for finished lots. Typically the platting fees have been paid to the municipality to provide services to the paper lots.

Finished Lot: Typically, a finished lot refers to a residential or commercial lot that has received all necessary municipality approvals and all of the on-site improvements (i.e. curb, gutter, sewer and water stubs, etc.) have been completed for a home to be constructed, sometimes referred

to as "permit ready". The individual or home building company will still be responsible for the final grading of the home and municipality fees that are due when the permit is pulled, (i.e. water and sewer, application fee, etc).

Off-Site Infrastructure: Refers to infrastructure (water, sewer, drainage, curb, gutter and paving, etc.) that may be required by the approving municipality to be constructed "off-site" of the actual parcel as part of approval process for the actual development parcels. This is very typical in many fast growing areas to assist municipalities in sharing costs of infrastructure with the developers of numerous properties that benefit from the improvements.

On-Site Improvements: On-site improvements are the constructed improvements within the boundaries of the property which benefit only that property and include services (i.e. sewer, water and electric, etc.) and hardscape (i.e. curb, gutter and paving, etc.) for finished lots.

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