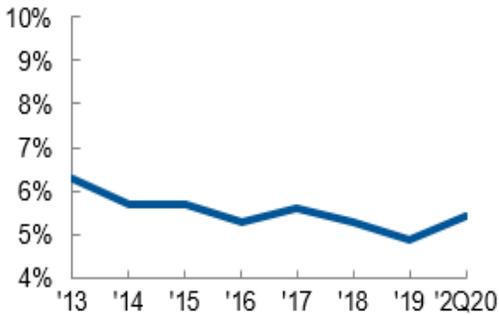


Market Reports Colorado Springs
Quantum Commercial Group Research
2nd Quarter 2020



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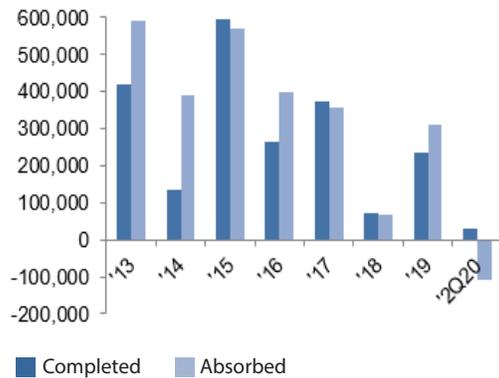
Vacancy Rates



The pandemic has caused unparalleled challenges to the retail industry during the first half of 2020, the enduring consequences of which remain to be seen.

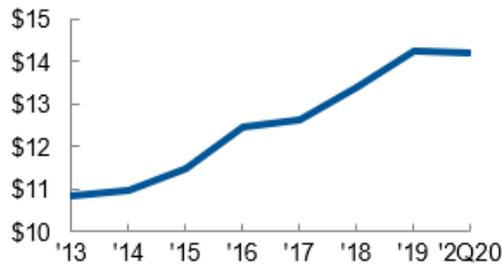
Prior to the pandemic, brick and mortar real estate was doing very well in Colorado Springs. The year started out 2020 as it left 2019, with healthy lease and sale markets. Employment growth at the end of 2019 had outperformed the nation for the seventh straight year. But by the end of Q2 2020, job growth in Colorado Springs was down 8%, versus 12.1% for the nation. So while unemployment at the end of 2019 was 3% in Colorado Springs, it was 3.9% at the end of Q1 2020 and 10.5% at the end of Q2 2020. Combine this with most retail being closed, and we have a six month period with very few retail transactions upon which to draw to reach conclusions regarding market health. Forecasters show a dip in all metrics before a healthy market is achieved.

Completions vs. Absorption
 (SF Year-to-Date)



The question then becomes, will pent up demand be a driver to return 'real' retail to health? From healthy sales, retail spending virtually collapsed through March and April, with spending dropping 33%. Federal stimulus and unemployment helped some shoppers return to stores and restaurants as they opened up, but the continued threat of the virus has caused many states to close some stores and restaurants again. Many large chains, such as Costco, Walmart, Kroger and Best Buy are now mandating masks for shoppers, with limited people allowed to be in any store at a time. Fear and these restrictions keep sales from rebounding, keeping people tied to the internet to shop. Only time will tell at this point what timing a full recovery will have.

Asking Rental Rates
 (\$/SF/Yr. NNN)



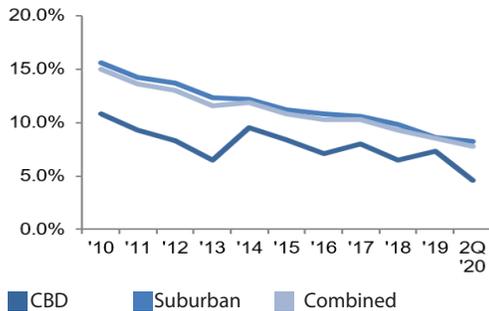
Source: CoStar

KEY TRANSACTIONS

*Transaction Represented by Quantum Commercial Group

Drake Real Estate Service LLC Purchased 22,265 SF at 1323 Motor City Drive from Nate Winterfield	Fervent Church Leased 18,439 SF at 3315-3541 N. Academy Blvd	Colorado Education Group LLC Leased 10,688 SF at 611 N. Royer St.
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Vacancy Rates

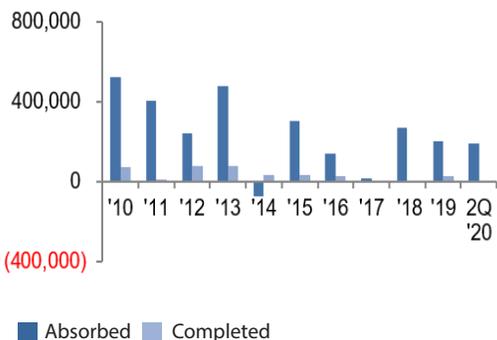


An office market that came out strong in the first quarter of 2020 has slowed in the second quarter.

Absorption

Net absorption for the overall Colorado Springs office market was negative 26,435 square feet in the second quarter compared to a very strong showing of positive 216,676 square feet in the first quarter. For comparison, the net absorption for all of 2019 was positive 203,097 square feet. The decline can most likely be attributed to the Coronavirus pandemic. Most of the major effects of the pandemic were not felt until the tail end of the first quarter and sustained through the second quarter.

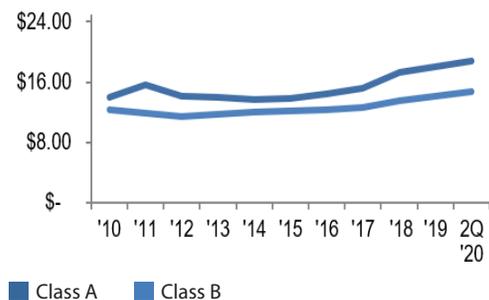
Completions vs. Absorption
 (SF Year-to-Date)



Vacancy

The office vacancy rate in the Colorado Springs market area was up slightly in the second quarter at 7.8% compared to 7.7% at the end of the first quarter. This is still down significantly from 8.5% at the end of the fourth quarter of 2019.

Asking Rental Rates
 (\$/SF/Yr. NNN)



Rental Rates

The average quoted asking rental rate for Class A office space was up slightly for the quarter to \$18.76 per square foot per year NNN at the end of the second quarter. This is up from \$18.28 NNN at the end of the first quarter and \$18.09 NNN and the end of the fourth quarter 2019. Likewise, the average quoted asking rental rate for Class B office space was up slightly to \$14.70 NNN at the end of the second quarter compared to \$14.50 NNN at the end of the first quarter and \$14.10 NNN at the end of the fourth quarter 2019. It remains to be seen what effect the Coronavirus will have on asking rates moving forward.

Overview

As evidenced in the numbers above, office leasing has slowed in the second quarter due largely to the Coronavirus pandemic. We expect continued slowing until we see a marked improvement in the battle against the virus.

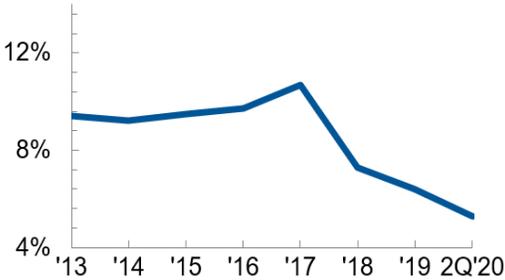
Source: CoStar

KEY TRANSACTIONS

*Transaction Represented by Quantum Commercial Group

<p>FirstSource Solutions USA LLC leased 42,959 SF at 5725 Mark Dabling Blvd. Colorado Springs, CO in the Northwest market</p>	<p>Mantech Space Systems leased 30,000 SF at 1535 Vapor Trl. Colorado Springs, CO in the Southeast market</p>	<p>Progressive Insurance leased 18,089 SF at 12710 Voyager Pkwy. Colorado Springs, CO in the Northeast market</p>
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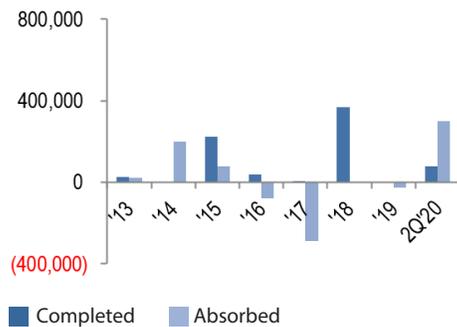
Vacancy Rates
Year-to-Date



Despite the pandemic, the Colorado Springs Industrial market has yet to see a significant impact.

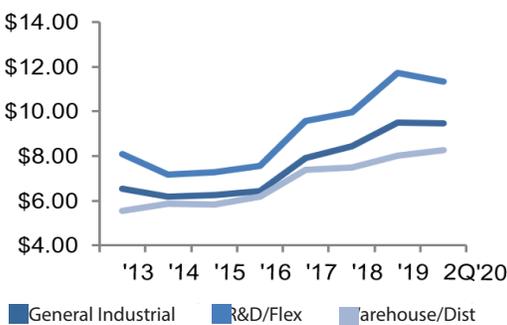
The Colorado Springs Industrial market does not appear to have been visibly impacted by the COVID-19 pandemic though the first half of 2020, although we do anticipate a delay in seeing effects of the pandemic. Most Industrial uses have been deemed “essential” during the “Stay at Home” time period, so it is expected that the Industrial market may remain relatively positive.

Absorption
Year-to-Date



The overall Industrial vacancy rate was recorded at 5.3% at the end of the second quarter 2020, which represents a drop from 5.9% at the end of the year 2019. The Flex sector has seen little change though the first and second quarter 2020 and was recorded at a vacancy rate of 12.4% at the end of the second quarter 2020. This is in comparison to the warehouse sector that continues its very low trend and is now down to 3.6% though the second quarter 2020. The Colorado Springs Industrial market recorded positive 300,000 square feet of overall net absorption in the first quarter 2020 and saw negative 4,557 square feet of absorption in the second quarter 2020. We believe this dramatic change in net absorption from the first quarter to the second quarter is directly related to the pandemic. We can expect this data point to be skewed over the next few months with many industrial businesses not making any changes with spaces during the time of the pandemic.

Asking Rental Rates
Year-to-Date (\$/SF/Yr. Full Service)



The average asking rental rates for the Industrial market has increased just slightly from \$9.17 per square foot (NNN) at the end of the year 2019 to \$9.48 per square foot (NNN) at the end of the second quarter 2020. The Flex sector has had nominal change from the end of the year 2019 and was recorded at \$11.35 per square foot (NNN) at the end of the second quarter 2020. The Warehouse sector, however, continues to rise and was recorded at \$8.26 per square foot (NNN) at the end of the second quarter 2020.

Continued on pg 2

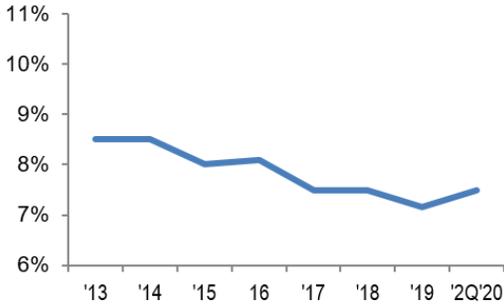
Source: CoStar

KEY TRANSACTIONS

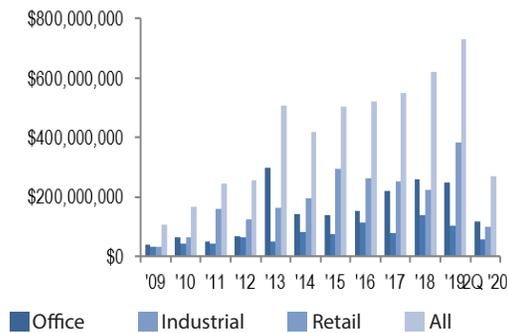
*Transaction Represented by Quantum Commercial Group

<p>Kaman Acquisition USA, Inc. purchased 154,816 SF at 1350 Bellprat View Colorado Springs, CO from 19650 Pauling LLC \$17,000,000.00</p>	<p>Zeppelin Road Holdings LLC purchased 99,960 SF 2640 Zeppelin Rd Colorado Springs, CO from Scannell Properties 332 LLC \$14,600,000.00</p>	<p>AAA Platte Self Storage leased 147,600 SF at 4510 Edison Ave. Colorado Springs, CO Southeast Submarket</p>
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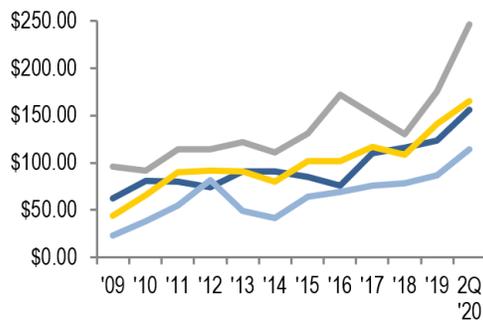
Average Capitalization Rates
 Closed Sales



Property Sales Volume



Average Price Per Square Foot



Source: CoStar

Although the Coronavirus is sparking caution among investors, historic low interest rates, availability of capital and relatively attractive yields will continue to sustain investment activity.

Although there is uncertainty of the long-term effects of COVID-19, many investors are taking advantage of historic low interest rates and moving forward with acquisitions, especially owner/users. Other “value add” buyers are taking a “wait and see” attitude to evaluate the effects of COVID -19 on commercial real estate. Hotel and older retail centers are forecast to be the assets hardest hit by COVID-19 resulting in future distressed pricing. The office market hinges on companies embracing teleworking and reconfiguring traditional office space that will allow more social distancing. Industrial properties will remain one of the preferred assets for acquisition, especially distribution properties with long-term credit leases. Medical office buildings will also be a preferred asset class. The buyer pool remains active for stabilized MOB’s.

Colorado Springs is projected to rebound more quickly than many other markets. Strong market fundamentals in the 4th quarter of 2019 and early 2020 bode well for Colorado Springs with predictions that our area will bounce back quickly when the economy starts to improve. Employment growth in Colorado Springs outperformed the national average for the past seven years. Multifamily rents saw a 10% increase in 2019 as well as record setting sales. Investors will continue to evaluate opportunities in Colorado Springs for acquisition of both stabilized assets with long term leases and assets with vacancy issues that create upside potential. Expect to see transaction volume slow in the 3rd and 4th quarters of 2020 and then rebound as the economy starts to stabilize.

KEY TRANSACTIONS

* Transaction Represented by Quantum Commercial Group

MB Real Estate Service, Inc. purchased 149,428 SF Union Medical Campus 1625, 1633, 1644 Medical Center Pt Colorado Springs CO 80907 from RAIT Financial Trust Medical Office Portfolio \$33,625,000 (\$225.02 psf)	*HR Assets, LLC purchased 35,544 SF 6160 Tutt Blvd Colorado Springs, CO 809203 from HF Holdings Colorado, LLC Office \$8,240,000 (\$231.83 psf)	Nearon Enterprises purchased 99,960 SF 2640 Zepplin Rd Colorado Springs, CO 80916 from Scannell Properties Industrial - Distribution \$14,600,000 (\$146.06 psf)
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