

Market Reports Colorado Springs
Quantum Commercial Group Research
3rd Quarter 2020



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The Colorado Springs Industrial market remains a hot commodity through the 3rd quarter 2020.

The Colorado Springs Industrial market continues to be in high demand with very little supply through the third quarter 2020. We have seen some changes in vacancy rates and overall net absorption, which has been expected due to the effects of the Pandemic, but all signs are showing that the Industrial market remains positive.

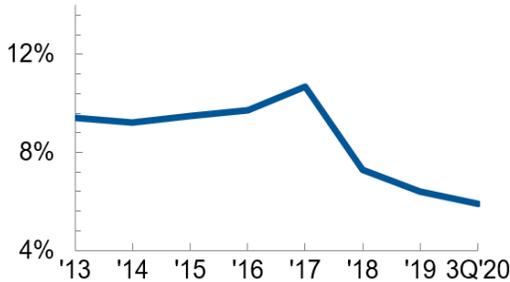
The overall Industrial vacancy rate increased to 5.9% end of the third quarter 2020, which is an increase from 5.3% at the end of the second quarter. The Flex sector vacancy rate spiked by nearly 2% and now lands at 14.5% at the end of the second quarter 2020. We believe this spike is largely due from Flex product that was utilized as either Office or Retail, which has had more of an impact from the pandemic. The Warehouse sector remains at a very low vacancy rate 3.8% though the third quarter 2020.

The Colorado Springs Industrial market recorded negative 280,712 square feet of net absorption in the third quarter 2020. We have expected to see this trend of negative absorption because of the effects of the Pandemic and anticipate more users and companies to downsize or vacate space through the remainder of 2020.

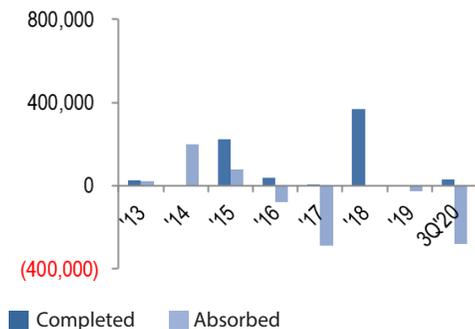
The average asking rental rates for the Industrial market continues to rise through the third quarter 2020 to \$9.39 per square foot (NNN). The Flex sector was recorded at \$11.39 per square foot (NNN), and the Warehouse sector was recorded at \$7.93 per square foot (NNN) at the end of the third quarter 2020, both nominal increases over the second quarter 2020.

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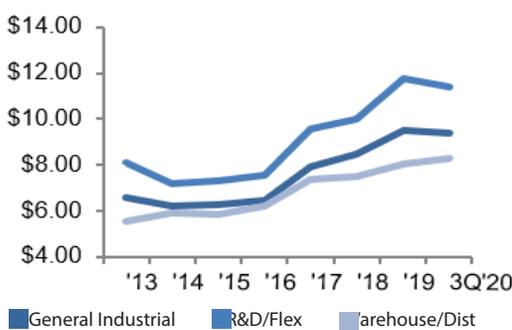
Vacancy Rates
 Year-to-Date



Absorption
 Year-to-Date



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



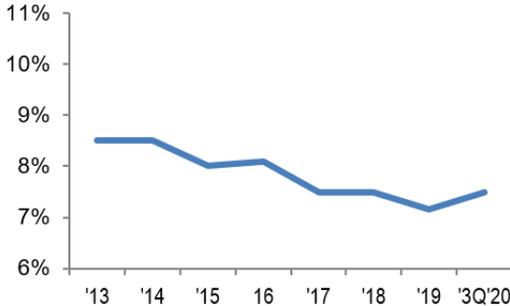
Source: CoStar

KEY TRANSACTIONS

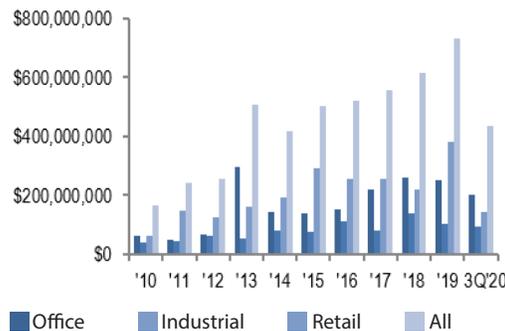
*Transaction Represented by Quantum Commercial Group

<p>The Steve Charron Separate Property Trust purchased 14,000 SF at 7006 Space Village Ave Colorado Springs, CO from Colorado Springs Land Assoc \$2,100,000.00</p>	<p>SLEKA, LLC purchased 12,303 SF at 4625 Town Center Dr Colorado Springs, CO from RD SM Colorado Property, LLC \$1,833,000.00</p>	<p>WPL leased 25,176 SF at 4235 N. Nevada Colorado Springs, CO North Submarket</p>
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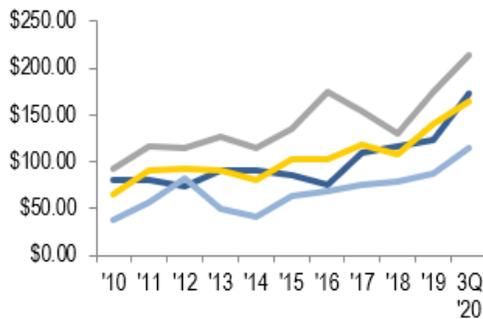
Average Capitalization Rates
 Closed Sales



Property Sales Volume



Average Price Per Square Foot



Source: CoStar

Investors continue to look for well-located properties in Colorado Springs. Low interest rates and availability of capital for acquisitions will ensure the investment market remains strong.

There has been a dramatic increase in owner/user sales with strong interest from local and regional buyers. With historic low interest rates, the cost of ownership is becoming more cost effective when compared to long-term leases. The low interest rates, availability of capital and scarcity of properties is driving prices higher. Buyers are willing to pay a premium for well-located properties meeting their requirements. Tech V, a 54,174 square foot office building located in the Colorado Springs Tech Center, recently sold for \$7.9 million to a local company with plans to occupy space in the property when it becomes available. Built in 1984, the property was almost 100% occupied at the time of sale. Amenities at the building include visibility from I-25, building signage and views of Pikes Peak.

Office and industrial assets are seeing increases in sale prices for well-located properties with low vacancy. Retail continues to suffer from the effects of COVID with increases in vacancy especially among restaurants. The retail investment market is centered primarily on long-term stabilized assets with credit tenants who can weather the pandemic. Look for retail assets with high vacancy to be redeveloped and repurposed for alternative users.

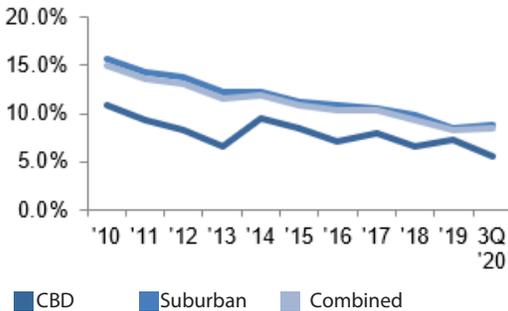
Colorado Springs has one of the most robust apartment markets in the nation. Development projects for multi-family continue to move forward with a new 360-unit multifamily project planned for the intersection of Tutt Boulevard and Powerwood. Mountain View Capital purchased Volta at Voyager, a 200-unit, Class A apartment project completed in January 2020. Sale price was \$52,000,000, \$263,000 per unit. Occupancy at the time of sale was 95%.

KEY TRANSACTIONS

* Transaction Represented by Quantum Commercial Group

<p>*Ramshorn Investments, Inc. purchased 53,901 SF Tech V 5475 Tech Center Drive Colorado Springs CO 80919 from Tech V, LLC Office \$7,900,000 (\$146.57 psf)</p>	<p>*Aeroplaza Therapy LLC purchased 14,637 SF 2005 Aeroplaza Drive Colorado Springs, CO 80916 from Parkman B Living Trust Office/Flex \$1,612,500 (\$110.17 psf)</p>	<p>*Notour Properties, LLC purchased 5,030 SF 10 E Pikes Peak Avenue Colorado Springs, CO 80903 from DBLK2, LLC Retail/Office \$725,000 (\$144.14 psf)</p>
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Vacancy Rates



The Colorado Springs office market is showing resiliency amid the pandemic.

Absorption

After a strong first quarter showing of positive 233,000 square feet of net absorption for the overall Colorado Springs office market, second and third quarter net absorption has been slightly negative (negative 25,000 and 24,000 square feet respectively). The result is a year-to-date net absorption of 184,000 square feet. For comparison, the net absorption for all of 2019 was positive 206,000 square feet. The slowing can be attributed to the coronavirus pandemic. Leasing of smaller office spaces of 5,000 square feet and under seem to be less affected than the larger corporate blocks of space.

Vacancy

The office vacancy rate in the Colorado Springs market area jumped up almost a full point in the third quarter from 7.6% to 8.4%. This increase can be mostly attributed to the delivery of 237,000 square feet of new office space (by far the biggest delivery of new office space since the recession of 2008). Though it was a large increase for the quarter, it is only up slightly from the end of 2019 when vacancy was 8.3%.

Rental Rates

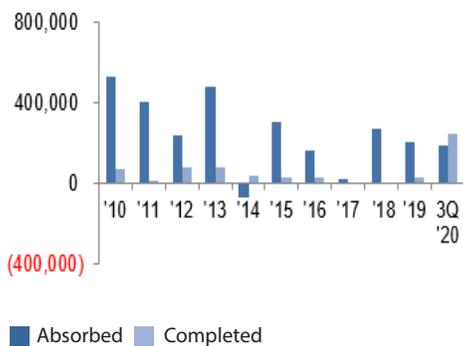
Asking rental rates continue to trend up and seem largely unaffected by the slowing in absorption over the past two quarters. Some pockets of the office market have seen larger gains in rental rates than others. Class A office in the northeast and northwest markets have experienced the largest increases in asking rates over the past few years. It remains to be seen what, if any, effect the pandemic will have on these trends moving forward.

Overview

Although we have seen slowing absorption, the Colorado Springs office market is showing resiliency against the headwinds caused by the pandemic. If strides can be taken to curtail the virus, we predict a strong office market in the years to come.

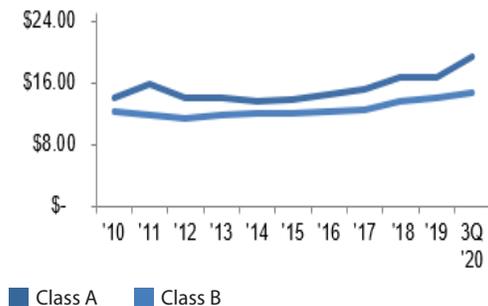
Completions vs. Absorption

(SF Year-to-Date)



Asking Rental Rates

(\$/SF/Yr. NNN)



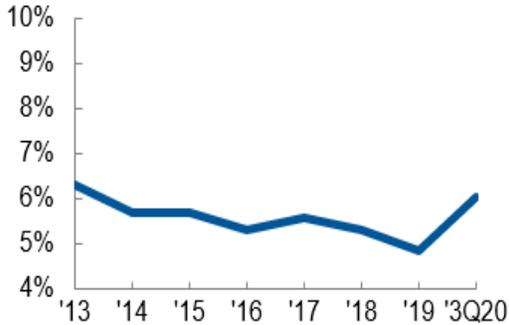
Source: CoStar

KEY TRANSACTIONS

*Transaction Represented by Quantum Commercial Group

<p>Northrup Grumman Systems leased 99,359 SF at 10125 Federal Drive Colorado Springs, CO in the Northeast market</p>	<p>Aperio Global LLC leased 22,439 SF at 1795 Jet Wing Drive Colorado Springs, CO in the Southeast market</p>	<p>General Services Administration lease renewal 36,911 SF at 1670 N. Newport Road Colorado Springs, CO in the Southeast market</p>
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Vacancy Rates



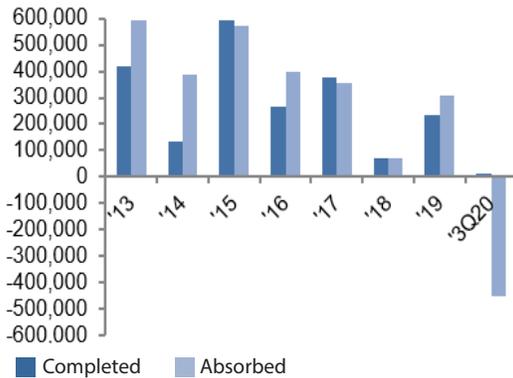
Although the Pandemic has taken a toll on retail in Colorado Springs, apparently the stable and diverse labor market has created demand for new retail leases.

Some might almost call this a Landlord's market in certain pricing categories. However, overall absorption continues to be negative, as it has been through 2020, with 450,000 SF vacated in Q3 alone. In the 2nd Quarter of 2020, vacancy rose to 5.4%, and it took another leap to 6.06% in the 3rd Quarter. Limited operating hours, customers concerned about shopping in person, restaurants having limited seating and hours, all contributed to the fallout of some retail operations, unfortunately. As a comparison, heading into 2020, overall market retail vacancy was 4.86%.

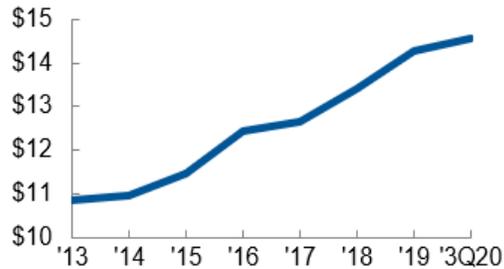
Population migration from Denver to Colorado Springs has spurred construction in the NE and downtown markets in recent years. Although retail rates trend 30% lower in El Paso County versus the Denver market typically, and construction has been considered an essential business during lockdowns, the pace of new construction has slowed tremendously due to unsure future demand. Some sectors of the population for example, university students, which normally are considered to have inelastic demand, have suffered with classes being virtual. Leisure and hospitality market segments were down 15.81% in Q3, contributing to decreasing demand for retail. Military and DOD demand continue to expand, but may not right now be the driving force to new retail construction.

Overall market leasing rates have been relatively stable. At the end of 2019, the rate was \$14.27 NNN. By the end of the 2nd Quarter of 2020, the market average rental rate had fallen to \$14.19 NNN per square foot per annum. The 3rd quarter of 2020 ended with an average rate of \$14.55 NNN. This seems to reflect that segment of the retail market that is older construction, but for which it is a Landlord's market. A good sign heading into the end of the year.

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



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



Source: CoStar

KEY TRANSACTIONS

*Transaction Represented by Quantum Commercial Group

<p>Recreational Equipment Inc. Purchased 17,920 SF at 1238 E. Woodmen Rd. from High Plains Commercial Group LLLP (Q1 2020)</p>	<p>Colorado Appliances Leased 16,508 SF at Market Square</p>	<p>Atomic Cowboy Leased 9,217 SF at 528 S. Tejon St.</p>
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