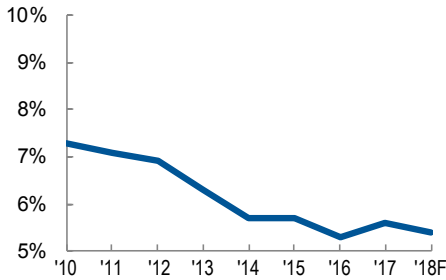


Retail

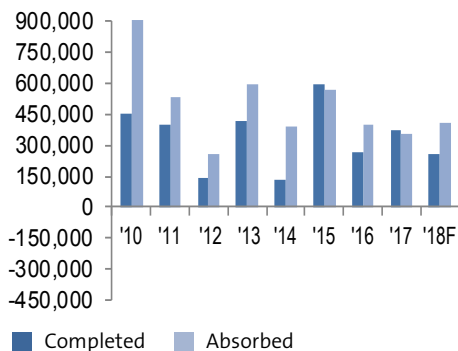
Vacancy Rates

Year-End



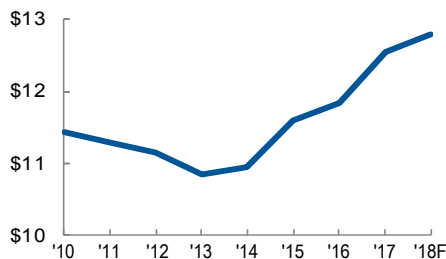
Completions vs. Absorption

Year-End



Asking Rental Rates

Year-End (\$/SF/Yr. Full Service)



Source: CoStar

Growth in population will be the saving grace of the Retail Market in Colorado Springs in 2018.

Stagnating after the recession beginning in 2008, retail has come back to life in Colorado Springs. Although the brick and mortar worries of retail nationally and globally are worrisome here as well, availability of land for expansion has breathed new life into the market locally. As millennials move out of the overpriced Denver market to live here while they work north, new home construction and the turning of existing entry level homes has brought back retail on a local level. “Real” Retail to service neighborhoods, to supplant what is purchased at Amazon or elsewhere on line, is growing. As Harvard Business Review reported, “The retailers left standing are those that figure out how to treat disruption as business-as-usual in an industry accustomed to slow, strategic planning.”

Because of growth, some retail parameters look good and will probably continue to do so in 2018. Delivery of twenty-three new retail buildings to the market in 2017 has expanded the market by 374,905 RSF. Absorption, likewise in the positive zone, was 355,071. Three new buildings are scheduled for delivery at this point in 2018, anticipated to bring an additional 257,300 RSF to market. During 2018, vacancy is anticipated to be variable, ranging from 5.9% at the beginning of the year to 5.5% by year end. All in all, most deliveries will be built-to-suit, not speculative.

Average market base rent, in decline from \$12.26 PRSF in 2009 until finally again breaking the \$12.00 mark in

2017, will continue to wander in the \$12 - \$13 PRSF range throughout 2018. It will begin the year at \$12.54 and is projected to end around \$12.79 PRSF. The question will be if local retail can sustain the sales-per-square-foot required to cover their brick and mortar overhead. On Colorado Springs side is the relatively inelastic demand for retail provided by five military bases (accounting for 40% of retail demand) and growing universities, first and foremost being the University of Colorado in Colorado Springs. If more defense contracts are let, the DOD contractors present in the market will help solidify demand. Recreational tourism, always a backbone of demand in Colorado, will do its part to sustain local sales. Surprisingly, the local Bass Pro Shop tops the state in sales of fishing tackle, showing the diversity of demand here in tourism.

Developers are just beginning to understand that construction has diluted and will continue to dilute the sales per square foot that previously made brick and mortar retail such a great success story. Although 2018 should be a stable year for the Retail Market here, new construction coupled with online sales are the Achilles Heels of the Retail Industry today.

Key Transactions 2017

Lessee/Buyer	Lessor/Seller	Property	Submarket	Size (SF)
S Maryland Estates	DPC Development Companies	5821-5945 N Academy Blvd	North	103,446
S Alexandria Dubinkina	Peak Commercial Properties	2727 N Cascade Ave	North	37,867
S Kelly Lu	Michael & Karen Bullock	1425 S Murray Blvd	East	56,284

* Transaction Represented by QCG S=Sale L=Lease