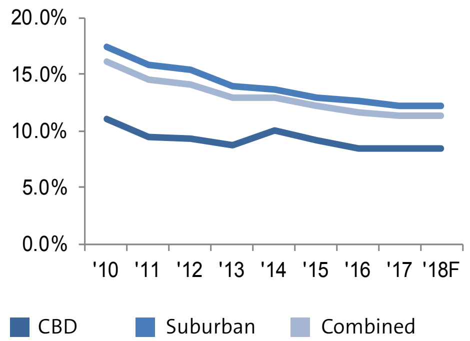
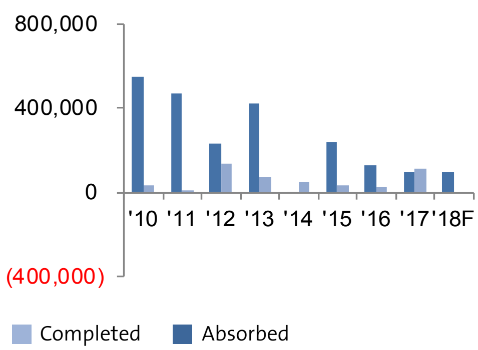
Office

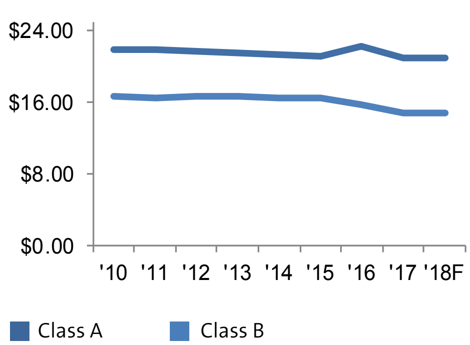
Vacancy Rates
Year-End



Completions vs. Absorption
Year-End



Asking Rental Rates
Year-End ($/SF/Yr. Full Service)



Source: CoStar

The Colorado Springs office market will continue to absorb vacant space, but at a slowed pace.

Office absorption in 2017 was the second lowest (after 2014 which was slightly negative) since the market began its recovery in 2010 following several years of negative absorption brought on by the recession. This seems to follow a trend over the last several years since the recovery of slowing progress in office absorption. Part of the slowing is likely due to the fact that Colorado Springs has had an unemployment rate that went from 4.1% in 2015 to 2.5% in mid-2017 (Source: The Gazette). This is well below what is normally considered “full employment” (generally defined as 5% unemployment), the point at which you usually start seeing inflationary pressure as employers compete for a limited pool of workers. In the office market, increases in employment are what drive absorption of additional space. As the pool of available workers dwindles, it is hard to fill more office space.

In addition to the above, trends in office have also made its use more efficient. Companies occupy less space per person. “Collaborative” work spaces have become popular among the younger workers in the market. These spaces feature open concept work areas and common amenities instead of private offices. “Co-working” spaces have also become popular where people from different organizations share work space and amenities. This trend is enabled by companies becoming more virtual in nature, with employees of an organization able to work, communicate and collaborate from remote locations utilizing new technologies.

As of the fourth quarter 2017, one new project was scheduled to deliver 109,800 SF of office to the market by year-end 2017. Victory Ridge (previously known as Colorado Crossing) is the northeast mixed-use development that stalled out mid-construction during the recession. It sat idle for many years until it was recently purchased by a Denver investment group which is completing development of the project. This will be the first large scale delivery of speculative (not preleased) office product to the market since the recession.

The Colorado Springs residential market is seeing an influx of people from Denver who work in Denver and the surrounding areas but find the cost of housing in that area to be too high. Colorado Springs is very affordable by comparison. While this is helping the residential, retail, and possibly the industrial markets in Colorado Springs, the benefit to office is currently negligible because these new residents still mostly office in Denver. However, it is possible to see a future in which these residents, as they have families and begin to prefer a suburban, rather than urban, lifestyle, increasingly decide to avoid the commute to Denver and begin officing in Colorado Springs. That could be the beginning of a shift in the Colorado Springs office market that would boost both absorption and lease rates in the years to come. Until that shift happens, we forecast a continuing trend of slow but steady absorption of both new and existing office space in the years to come.

Key Transactions 2017

	Lessee/Buyer	Lessor/Seller	Property	Submarket	Size (SF)
L	Premier Global Services	GOTG, LLC	2424 Garden of the Gods Rd	Northwest	75,000
L	Northrop Grumman Systems Corp	CV Patriot Springs 3535 LLC	3535 Northrop Grumman Pt	Southeast	124,305
S	The Resource Exchange	JBS Family Enterprises LLLP	6385 Corporate Drive	North	65,814

* Transaction Represented by QCG S=Sale L=Lease