



SIERRA

COMMERCIAL REAL ESTATE, INC.

A CB RICHARD ELLIS AFFILIATE

MARKET VIEW

COLORADO SPRINGS RETAIL & INDUSTRIAL

FIRST QUARTER 2004

Sierra Commercial Real Estate, Inc.

www.sierracre.com

- INNOVATIVE Research & Data Bases
- INNOVATIVE Affiliations & Relationships
- INNOVATIVE Intellectual Capital
- INNOVATIVE Marketing & Sales Tools

WHERE THE BUCK CONTINUES TO STOP

INNOVATIVE: *Ahead of the times; advanced methods; a forward-looking corporation.*

Trying to define in a simple phrase Sierra Commercial Real Estate, Inc.'s activity, growth and progress over the past year was a little more challenging than originally anticipated. After considering numerous words and expressions, the thought process kept returning to all of the innovation and advancement that has transpired in such a short period of time.

During the first quarter of '04, clients and customers will be seeing Sierra's new reporting methods and sub-market designations our research and marketing team have created for the Colorado Springs office market. For the first time, these clients will have access to information that is relevant to the Colorado Springs marketplace in 2004. Industrial and retail reporting will be following this same format in the second and third quarters of this year.

In January, Sierra Commercial Real Estate, Inc. and CB Richard Ellis announced the formation of an alliance between the two groups, creating unparalleled access for Sierra to the industry's largest and most knowledgeable professional real estate services firm. This affiliation strengthens Sierra's already strong intellectual capital, research base and marketing tools used to assist clients in making the most informed real estate decisions all across Southern Colorado. With an intimate knowledge of virtually every major market in the world, CB Richard Ellis can now add Colorado Springs to that list. Putting our clients first, enabling them to make the most informed decisions, being creative in our work and delivering top results are all qualities Sierra and CB Richard Ellis not only share in common but live by on a daily basis.

We would like to take this opportunity to once again thank all of our clients and customers for their continued support. You have our ongoing **"commitment"** to continue finding **"innovative"** ways to assist in accomplishing your real estate goals.

David R. Delich, President - Sierra Commercial Real Estate, Inc.

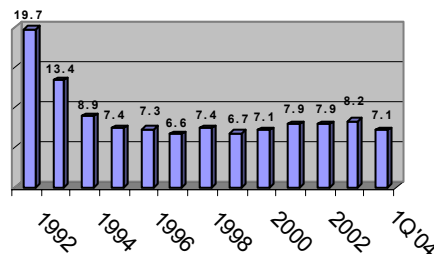
RETAIL REVIEW

These are exciting times for the resilient Colorado Springs retail market. Since new rooftops have traditionally driven retail development, the 1,000 plus building permits issued in the first quarter indicates continued growth for this market segment. In spite of slow new job creation, along with the substantial number of layoffs experienced over the last few years, retail growth marches on. Data for the first quarter of 2004 shows a decline in vacancies to 7.1 percent from year end 2003 which was 8.2%. If you take sublease space into account, the vacancy rate increases to 7.4%. Shopping center rents increased by 1% in the first quarter to an average of \$12.45 per square foot NNN. Although negative absorption is usually the trend in the first quarter, this year the market has experienced a modest gain of over 53,000 SF following leasing activity of approximately 250,000 SF. Preliminary data for the first quarter indicates that thirteen properties have sold for an average price of \$64.89 per square foot. Local retail sales continue to be healthy after reaching approximately \$10 billion in 2003.

Developers continue to follow the new rooftops to the North and Northeast. The most significant new retail development ready for '04 occupancy is the Monument Marketplace.

Located on Interstate 25 at Baptist Road, this development offers a dominant freeway presence to the west and the future Jackson Creek Parkway to the east. This large project is over 88 acres encompassing approximately 693,000 square feet of retail, restaurant and service tenants. Currently anchored by Home Depot, this center will accommodate additional anchors and big box tenants, freestanding pad users and a variety of inline uses. Additional announcements for development in this area will occur in '04 in what has become El Paso County's fastest growing area.

Shopping Center Vacancy Rates



Source: TCR - Turner Commercial Research



INDUSTRIAL MARKET

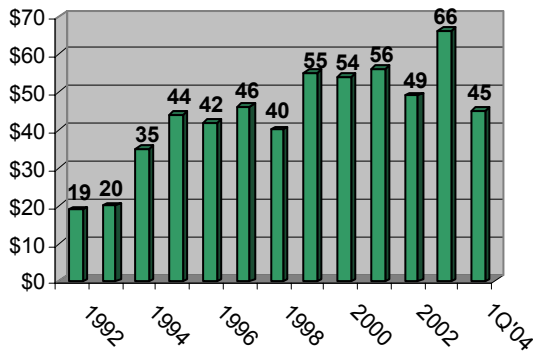
The trend in the first quarter of 2004 indicates a slight improvement for the industrial market in Colorado Springs. Reports from the high tech sector suggest plans for increased hiring as national, regional and local economic conditions improve. The industrial market is not expected to show a significant resurgence of job growth, but a slight turnaround in employment is being viewed as very positive based on the market's performance over the previous twelve quarters. An indicator of the negative effect job losses have had on the local industrial market was

identified in the 1st quarter '04 for industrial building asking prices. The current average asking sales rate is \$45.43 per square foot, versus 2003's overall average of \$66.46 per square foot reflecting a 31.6% decline. Tracking this number for the remaining three quarters of the year should provide a good indication of the industrial market's progress in 2004.

Small to midsize companies continue to create the most leasing activity and the remaining months of '04 will con-

tinue in this fashion. Local developers are confident in this trend and are committing to developing new sites. New development activity will be primarily in the eastern submarkets of Colorado Springs. The growth of industrial development in the eastern submarket is due to available, competitively priced land. The cost to develop industrial parcels continues to rise due to higher costs for street and utility infrastructure. Attractive owner/developer financing is the driving force in creating demand in this market segment.

Industrial Building Sales Average Price Per Square Foot



Source: El Paso County Public Records

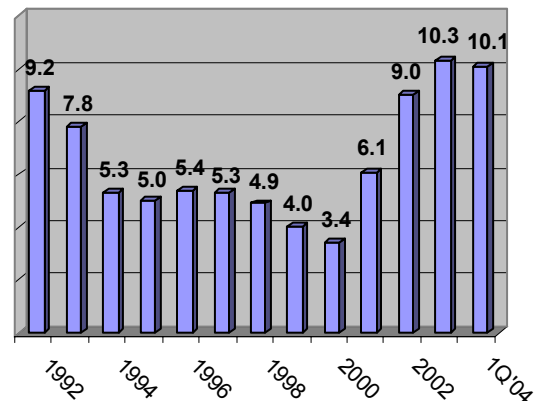
MARKET HIGHLIGHTS

- City of Colorado Springs announces plans for the airport industrial park consisting of city owned land leases for larger users.
- Ace Hardware will construct a 225,000 SF expansion to their existing regional distribution center adding 35 new jobs.
- The Design Center purchased a 33,892 SF industrial building at 750 Garden of the Gods Road for a change of use to high end furniture show room.
- A Phoenix developer purchased Centennial Tech, a 50,000 SF multi-tenant industrial building to convert into industrial condo units.

MARKET OUTLOOK

- The 10.1% vacancy rate is expected to remain flat through the second quarter.
- Absorption for 1st quarter 2004 indicates a reversal of the past year's negative trend with a gain of 316,840 SF. After three consecutive years of losses, this gain is a positive recovery sign and absorption should continue in this direction.
- Lease rates will continue to be depressed in all product types until late 2004 when the effects of job growth will have a positive influence on the market.
- The demand for small industrial owner/user lots will continue, and pricing for these lots will be in the \$2.75/SF to \$3.50/SF range.
- Space unoccupied but leased by companies (shadow space), will begin to be absorbed as job growth continues.

Industrial Buildings Vacancy Rates



Source: TCR-Turner Commercial Research



Sierra Commercial Real Estate, Inc., a CB Richard Ellis Affiliate

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