



# SIERRA

COMMERCIAL REAL ESTATE, INC

A CB RICHARD ELLIS AFFILIATE

## Colorado Springs MARKET OUTLOOK 2005



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Formed in June of 2003, Sierra Commercial Real Estate, Inc., a CB Richard Ellis affiliate, is comprised of 11 of the premier commercial brokers in Colorado Springs, with over 150 years of combined experience in the specialties of office, industrial, retail, land, investment and advisory services. The combined resources of the Sierra group create the largest, most experienced and only full-service commercial real estate company in Colorado Springs. Sierra is recognized as the area's leading commercial services firm, achieving this status through consistent growth, performance and the ability to integrate its primary business line of brokerage services with asset management.

### A VIEW FROM THE TOP OF PIKES PEAK

— David R. Delich, *President*

Once again it is time to step back and take a look down from the "Peak" and observe the unique and wonderful city we have the opportunity to live and work in. At the end of 2003, we projected that 2004 would be the turning point in our marketplace after three-and-one-half years of difficult economic and market conditions. That has certainly proven to be the case with a myriad of economic indicators showing very positive trends. On the job front, approximately 6,400 new jobs have been created since January in the metro area. This number is tempered somewhat by continuing consolidation from a limited number of sectors. Manufacturing is still trying to find its footing, and a second deployment of nearly 8,000 troops from Fort Carson to Iraq has slowed some areas of the service sector. The Colorado Springs Economic Development Corporation assisted clients in creating approximately 2,000 of these new jobs with an average expected income of over \$53,000. When all factors are considered, it appears that the net job growth in the metro area will be approximately 2,500 for 2004. Housing starts in El Paso County will eclipse previous highs by moving past the 5,000 level in 2004. In addition, the sale of single family homes will surpass 11,000, shattering the short-lived 2003 record of 10,204.

Now that the 2004 election year shenanigans are also behind us, expect more positive movement in 2005. Low interest rates, a steadily growing job market and economic recovery locally, statewide and nationally, will contribute to this trend. Unemployment statewide will be at 5% or just below. Job growth should end up at approximately 2%, elevating the state employment numbers to comparable levels reached in early 2001. The Colorado Springs metro area should track right along with the State of Colorado estimates.

Expect continued tightening for 2005 in all sectors on the real estate front. Positive absorption will happen for the first time since 2001 in the Class "A" office market. Continuing demand for the best properties will help strengthen lease rates and lower vacancies. New build-to-suit opportunities will occur in both the Department of Defense arena as well as in the service sector.

Retail construction will continue to flourish based on sustained strength in single family development. The majority of retail growth will be located in the north and northeast parts of El Paso County.

Continued job growth uncertainty in the manufacturing sector will lead to ongoing instability in the industrial market. A dramatic improvement is unlikely to occur in 2005 for this product type, but the industrial market may provide some of 2005's best opportunities for the savvy investor.

As 2005 begins, I am more optimistic than ever before about our great city, state, professional team and our CBRE affiliation. We look forward to continuing to provide our clients with the market expertise and innovative resources necessary to compete successfully in today's dynamic real estate market.

*The Colorado Springs  
Economic Development  
Corporation assisted clients  
in creating approximately  
2,000 new jobs with an  
average expected income  
of over \$53,000.*

# OFFICE PROPERTIES | Colorado Springs

Market conditions reflect a year-end vacancy rate of approximately 11% for the entire Colorado Springs office market, an increase from the 9.1% reported at year-end 2003. This change is primarily the result of Sierra Commercial Real Estate changing the metro market database during the first quarter of 2004. Year-end 2003 to year-end 2004 comparison of the previous database used in Colorado Springs would show little change. In addition, the Class "A" market has shown an increase in vacancy from the previous year due to approximately 225,000 square feet of sublease space reverting back to landlord direct vacancy, along with Progressive Insurance vacating 188,000 square feet to consolidate into their 300,000 square foot campus and MCI-WorldCom returning to landlords approximately 250,000 square feet through bankruptcy proceedings and contraction. The effect of these events within the Class "A" market segment has resulted in vacancy rates continuing to remain at over 20% for Class "A" product, with the North I-25 Class "A" corridor reporting a vacancy rate of approximately 28%. As such, negative absorption continues to be documented in 2004 within the Class "A" segment.



In spite of these factors, there are numerous bright spots in the metro market, including over 500,000 square feet of positive absorption for year-end 2004. Out-of-state relocation has begun to occur, with the most notable transaction being California State Automobile Association's 110,000 square foot lease along

the I-25 corridor. In addition, Lockheed Martin leased 70,000 square feet of expansion space in northeast Colorado Springs. Department of Defense contractors, tied into Northern Command and Homeland Security, also continue to expand and bring new high-paying jobs to the market.

## 2004 Revisited

- Approximately 1,000,000 SF of office flex and Class "A" properties sold with prices ranging from \$60.60 to \$152.62 per SF.
- Low interest rates helped landlords through the difficult 2001-2004 recession, as projected.
- Mixed bag in 2004 job growth due to election year uncertainty.
- 2004 was a pivotal year for the Colorado Springs office market and in hindsight will signify the beginning of economic recovery in this product segment.

## Significant Office Transactions in 2004

- 35,595 SF – Seagate Technology LLC
- 27,512 SF – Colorado Springs Health Partners
- 109,678 SF – California State Automobile Association
- 70,000 SF – Lockheed Martin
- 18,725 SF – Penn Mutual

## Outlook for 2005

- Northern Command, in charge of Homeland Security, will continue to establish their headquarters in Colorado Springs, bringing additional primary jobs.
- The reassignment of approximately 3,000 soldiers to Fort Carson will be a positive impact on the local economy.
- Demand for additional space will increase among existing tenants within the market, reversing the contraction trend of the past three years.
- Reduced vacancy rates, along with fewer options in quality buildings, will increase rental rates. Landlord concessions will continue to diminish.

- Positive absorption should be reported in the Class "A" market segment for the first time since 2001.
- The post-election period should signify stability and steady growth in all market categories.
- Vacancy rates decline for the first time since 2001.
- Medical market remains strong with development of two new multi-bed hospital facilities.
- Migration slows from Class "B" product to "A" product due to tightening market.
- Large single-story "A" product rebounds in 2005 with significant absorption occurring.
- Sublease space diminishes and becomes a non-factor in the marketplace.

## OFFICE GROUP

**Kenton R. Mau**  
Senior Managing Director

**Randy Miller**  
Managing Director

**Greg Phaneuf**  
Director

**Brian Wagner**  
Director

OFFICE	Change from Year-end '03 to Year-end '04	Projected change by Year-end '05
Vacancy		
Net Absorption		
Lease Rates		
Construction Activity		

# INDUSTRIAL PROPERTIES | Colorado Springs

In 2004, the 31 million square foot industrial market displayed a lack of user demand by setting near record high vacancy rates of 11.4%; 12% with sublease space included. Negative absorption continued, and asking lease rates remained static compared to year-end 2003. The most significant impact has been in light manufacturing and flex-tech product reflecting corporate downsizing from soft high-tech markets with companies moving their manufacturing operations offshore.

The addition of available inventory in new industrial and distribution space continued in the eastern submarkets near the airport. Absorption of this product was negligible during 2004. The strongest segment of the industrial market continued to be owner/user buildings ranging from 2,000 SF to 10,000 SF on one- to three-acre lots.

## Significant Industrial Transactions in 2004

- James Irwin Charter Schools purchased and occupied the former Sanmina/SCI manufacturing facility of 152,000 SF on 45 acres.
- Former Ampex manufacturing facility will be reconfigured for use as multi-tenant office space designed to attract aerospace/ defense tenants.
- Kaiger LLC purchased the former RBM building at 3755 Mark Dabbling Blvd. for \$3,150,000. The building will be used for sale and distribution of the company's product line.
- 93 acres of industrial land surrounding the Schlage Lock manufacturing plant with frontage on Drennan Road and Hancock Expressway was sold to Classic Homes for \$2,925,000. It will be rezoned for residential development.
- 1610 Garden of the Gods Road, a 102,500 SF former Rock Shox manufacturing building, sold to Hexokee, LLP for \$6,450,000 as a speculative lease or sale property.
- 3250 Astrozon Blvd., an 87,180 SF warehouse owned by Stock Building Supply, Inc., sold for \$3,700,000.



## Outlook for 2005

- Asking lease rates will continue to decline until facilities larger than 20,000 SF begin to show positive absorption in late 2005.
- The trend of converting large vacant single-use, flex-tech and light manufacturing facilities to smaller multi-tenant space for alternative uses will continue as landlords realize the need to attract alternative opportunities.
- After a brief recovery, Colorado's microchip/wafer-fab industry will return to a period of uncertainty in 2005 due to increased offshore competition.
- Niche manufacturing of specialized products will continue to slowly absorb some of the existing vacant space.
- New construction will consist of smaller owner/ user buildings creating demand for new one- to three-acre platted lots as the existing supply is depleted. Asking prices for land will continue to rise into the \$3.00- \$4.00 per SF range.
- A continued high level of interest by aerospace/defense related companies will lead to speculative land and building purchases in east Colorado Springs, near Peterson and Schriever Air Force Bases.
- Chef's Catalog, Inc. will move its corporate headquarters, call center, shipping and receiving into 105,000 SF, creating 150 new jobs.

## INDUSTRIAL GROUP

**Michal L. McDowell**  
Managing Director

**David L. Bacon**  
Managing Director

**Stephen G. Bach**  
Senior Managing Director

**Michael Helwege**  
Director

INDUSTRIAL	Change from Year-end '03 to Year-end '04	Projected change by Year-end '05
Vacancy	↑	↔
Net Absorption	↔	↑
Lease Rates	↔	↑
Construction Activity	↔	↑



# RETAIL PROPERTIES | Colorado Springs



## Significant Retail Transactions in 2004

- 42,024 SF – Bedrosians/Linens 'N Things
- 45,000 SF – Best Buy
- 20,000 SF – Office Max
- 50,000 SF – Gordmans
- 22,000 SF – Staples
- 31,081 SF – Oro Blanco Plaza
- 35,870 SF – Joann Fabrics
- 8,000 SF – Rock Bottom Brewery

## Outlook for 2005

Continuing growth is expected for the Colorado Springs retail market in 2005. Vacancy will display a downward trend and lease rates should remain stable. Absorption will improve over the previous two years. New retail development in the north and northeast submarkets will continue to lead the way; major announcements for expansion from some of the country's top retailers are a foregone conclusion. Expect Wal-Mart, Super Target, Lowe's, Costco, Kohl's, Gordmans and others to go public with their planned growth in early 2005. The most dynamic areas of El Paso County (North Powers Blvd., Briargate, Interquest and Monument) will see the major action in '05. Expect two or three grocer-anchored centers to be announced and started in these same submarkets during the first half of the year.

2004 market conditions reflect increasing lease rates despite slightly increasing vacancy levels. Pushing all time highs, the average vacancy rate increased from 8.5% in 2003 to 9.42% in 2004. New construction activity in the north and northeast corridors, along with steady leasing activity in many other parts of Colorado Springs, has led to positive absorption of approximately 200,000 SF for '04. The absorption figure is down slightly from year-end 2003. The driving force behind this year's rise in retail construction activity has been the increasing number of housing starts in El Paso County, which reached 4,747 by October 2004. The number of permits issued in 2003 was 4,834. This construction activity is supported by robust consumer spending, resulting in the need to provide additional well-located retail in these fast growing areas in north and northeast El Paso County.

A significant change in the retail sector involves redefining the retail submarkets by Sierra Commercial Real Estate, Inc. For the past 20 years, retail buildings have been divided into eight submarkets. Sierra Commercial Real Estate, Inc. has established 11 new submarkets that more accurately define the unique retail trade areas which have evolved due to changing growth patterns. In addition, anchored shopping centers will be closely monitored and separately reported for trends specific to this dominant product type.

## RETAIL GROUP

**Mark M. Useman**  
Senior Managing Director

**Greg D. Kaufman**  
Director

RETAIL	Change from Year-end '03 to Year-end '04	Projected change by Year-end '05
Vacancy	↑	↓
Net Absorption	↓	↑
Lease Rates	↔	↔
Construction Activity	↔	↔



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## LAND INVESTMENT & DEVELOPMENT

### Colorado Springs

In the Colorado Springs market, relatively affordable land opportunities continue to drive our ability to grow. In 2004, residential land once again took the market lead with retail land sales also remaining strong in select markets. The primary reasons for this residential activity despite static or negative job growth continues to be based on three factors: 1) Colorado Springs remains a very desirable place to live, work and play; 2) the ever-increasing time required for entitlements forces builder/developers to keep their "pipeline"



consistently full to avoid being caught without finished product; 3) Colorado Springs is still a very inexpensive place to do business compared to some of its out-of-state competition. Unentitled land prices range from \$10,000 per acre on the low end to \$30,000 per acre at the high end. Finished lots begin at \$25,000 per lot and go up from there. The demand for residential land is particularly strong in submarkets surrounding Ft. Carson in the south, along the Powers Boulevard/Marksheffel corridor in the east, through Briargate, and Tri-Lakes to the north. Large acquisitions by developers continue with the 1,250-acre Lorson Ranch, brokered by Sierra Commercial Real Estate, a CB Richard Ellis affiliate, being the latest.

Land for retail use continues to command record per-square-foot pricing, for both developer opportunities in anchored centers and for end users acquiring pad sites. This is especially evident in the Powers Boulevard corridor on the east side. Land zoned for office or industrial development has had little activity with pricing

#### Outlook for 2005

Looking forward to 2005, it is expected that strong demand for single-family residential land, both raw and entitled, will continue unless stalled by significantly rising interest rates. Demand should also improve for well located multi-family land. Land for the development of office, R & D and industrial product will continue to receive little interest until the existing inventory is absorbed. However, there will continue to be strategic opportunities for patient, visionary investors and developers to acquire larger parcels for mixed-use development.

flat due to the oversupply of existing improved product in these two classifications.

#### LAND & ADVISORY SERVICES

**Dale D. Wheeler**  
Managing Director

## ASSET SERVICES Colorado Springs

Local economic conditions have begun to turn around and a positive recovery has begun. Focus must continue on servicing the needs of customers on both the owner and tenant sides. Exceeding expectations with superior customer service assures owners and tenants that their buildings are being professionally operated. Tenant retention remains paramount; that, coupled with aggressive preventive maintenance of building systems, will maximize value for property owners.

#### Some key areas to pursue during 2005:

- Take a proactive approach in providing preventive maintenance at each property.
- Follow up with tenants after routine maintenance calls have been completed.
- Take a fresh look at amenities provided to tenants at your property. If you have a fitness room, be sure to maintain the exercise equipment and keep it updated. Cafeterias

and building conference rooms should be looked at the same way.

- Keep in touch with day porters and vendors working within your building during the day. They are in contact with your tenants on a daily basis and must maintain the same positive approach the management group does.
- Be proactive in creating an emergency plan and conducting regular fire drills. Greet tenants with a discount coupon at a local popular restaurant or a fresh cookie as they exit the building during a drill and they will not feel inconvenienced.
- During reassessment years, be sure that you have a highly experienced tax consultant in place with knowledge of the local taxing authority.
- Continue to look for hidden cost savings. Most buildings have undergone lighting

retrofits so look elsewhere. Putting frequency drives on the supply fan motors will save dollars spent on electricity and might be one option to explore.

- Keep your owners informed. Just because they haven't contacted you doesn't mean they aren't wondering what is going on at the property. "No news is good news" doesn't necessarily apply here. Take the time to call or send an email to let them know the status of their investment.

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