



The medical office market in Colorado Springs continues to see a moderate level of lease activity with approximately 20,000 square feet of new leases signed in the first half of 2005. In spite of this activity we have seen negative absorption of (22,000) square feet in the first half of 2005, as the focus for many providers has been to upgrade their space to newer buildings with onsite amenities. Lease rates have increased from the end of 2004 to \$11.75. Vacancy rates are up slightly from 2004 to 9.44% and are expected to stabilize this year.

occupy the space for an extended term. There are currently projects built or proposed in nearly all of the sub-markets, and to date in 2005 we have seen approximately 35,000 square feet of office condo sales.

With the growing demand for investment property across the nation we are also seeing some of the larger Class A medical buildings being placed on the market for sale. These include Union Medical Campus, The Centre for Health, and The Community Doctors Building. These buildings are priced with capitalization rates in the 8.0% to 9.0% range, and have been well received in the market. The demand for these properties presents an excellent opportunity for property owners who are considering selling.

One of the more intriguing trends emerging in the market place is the activity in building sales. Many providers are seeking to take advantage of low interest rates to purchase real estate for their own use and as an investment. This increased demand for property has spurred the development of several office condominium projects. These projects allow buyers to purchase relatively small spaces, including some as small as 1,000 square feet, in a newly constructed well planned project. This concept is well suited for providers that have a long term horizon for their practice and plan to

Construction activity should increase over the next twelve to eighteen months as the new hospital buildings and related medical office buildings are completed. The construction of the above mentioned office condominium projects will also contribute to the increased construction activity.

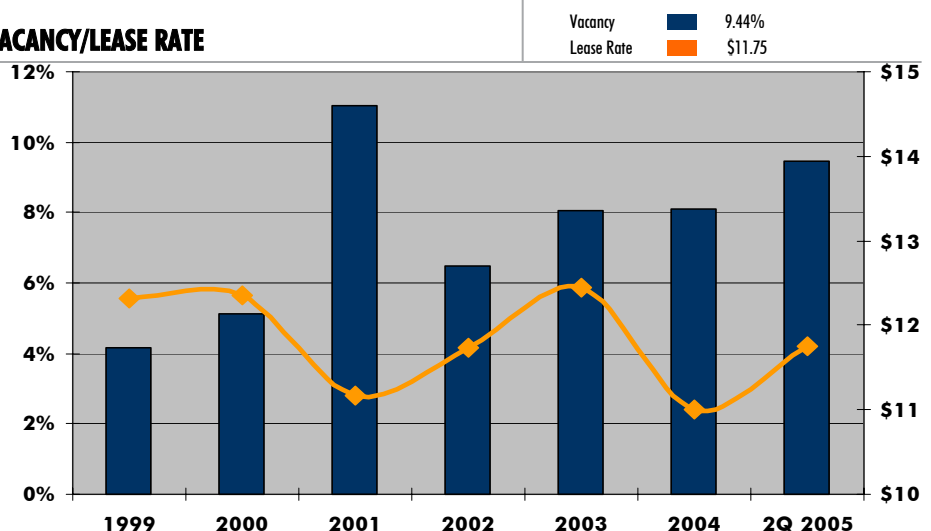
QUICK STATS

	Current	Change from last	
		Yr.	Qtr.
Vacancy	9.44%	▲	▲
Lease Rates	\$11.75	▲	▲
YTD Absorption	(22,022)	▲	▲

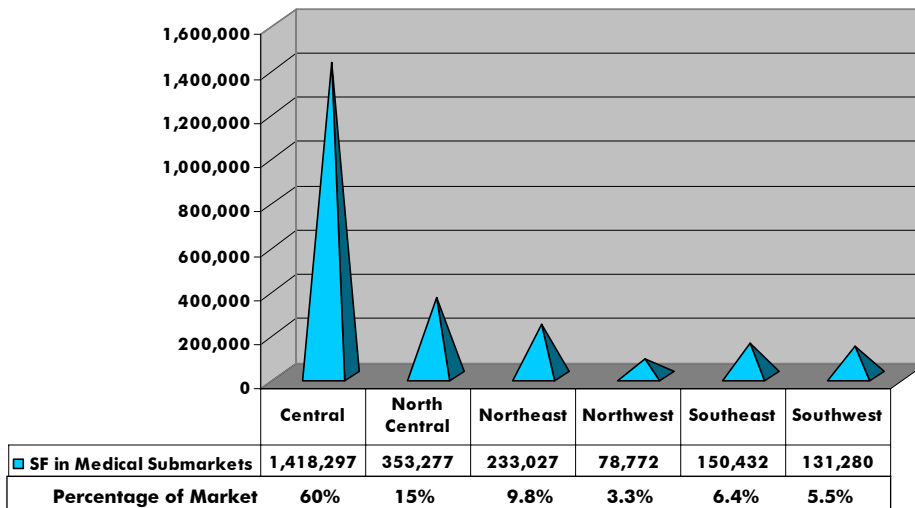
HOT TOPICS

- California State Auto Association adds up to 150 more employees
- Colorado Springs Health Partners leaving downtown 55,000 SF facility to expand in northwest Colorado Springs
- Entegris Inc. expands workforce in Colorado Springs by 40%
- Colorado Springs named one of the top 25 arts destinations by AmericanStyle magazine among cities with populations between 100,000 and 499,999
- Fort Carson plans non-profit military museum on 25 acres
- Citadel Terrace sells for \$11.8M

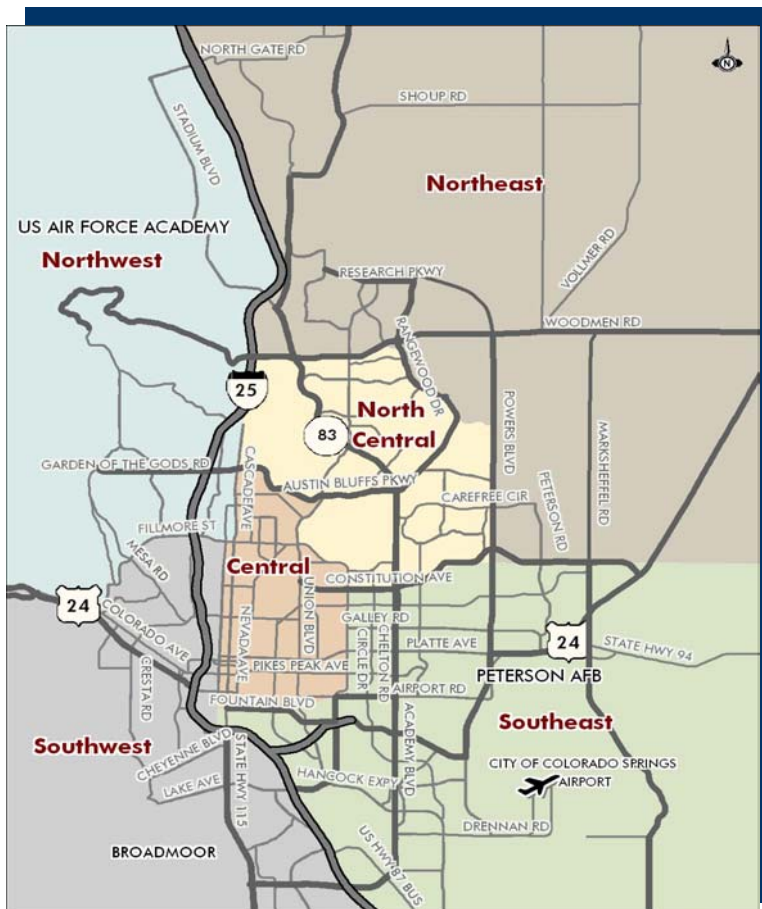
VACANCY/LEASE RATE



MEDICAL MARKET DISTRIBUTION



COLORADO SPRINGS MEDICAL SUBMARKET MAP



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AVERAGE ASKING LEASE RATE

Rate determined by multiplying the asking net lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.

NET LEASES

Includes all lease types whereby the tenant pays an agreed rent plus most, or all, of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.

MARKET COVERAGE

Includes all competitive multi-tenant medical buildings.

NET ABSORPTION

The change in occupied square feet from one period to the next.

NET RENTABLE AREA

The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies, and stairwell areas.

OCCUPIED SQUARE FEET

Building area not considered vacant.

UNDER CONSTRUCTION

Buildings which have begun construction as evidenced by site excavation or foundation work.

AVAILABLE SQUARE FEET

Available Building Area which is either physically vacant or unoccupied, including sublease space.

AVAILABILITY RATE

Available Square Feet divided by the Net Rentable Area. This calculation includes vacant and sublease space and is given as a percentage.

VACANT SQUARE FEET

Existing Building Area which is physically vacant or immediately available and does not include sublease space.

VACANCY RATE

Vacant Building Feet divided by the Net Rentable Area. This calculation is given as a percentage and includes vacant space but does not include sublease space.

NORMALIZATION

Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and Vacancy figures for those buildings have been adjusted in previous quarters.

For more information regarding the Colorado Springs medical market, please contact Sierra Commercial Real Estate, Inc. at:
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