



The Colorado Springs medical office market has been active in the third quarter of 2005. We have seen total lease activity in excess of 70,000 square feet, with vacancy rates increasing slightly to 10.52%. To date, there has been absorption of (12,900) square feet. The leading contributor to this trend is the completion of several new medical office buildings in the third quarter. New construction this year is approximately 95,000 square feet. It is likely that some of the older medical office buildings will see a change of use from medical to general office as empty spaces are filled.

seen the impact of the hurricanes in the Gulf Coast on local construction costs, but the result will undoubtedly be an increase of the costs in materials and wages.

The market for investment quality medical buildings continues to be strong. Increasing prices and diminishing inventory in major markets have driven investors' interest in Colorado Springs. We expect that nearly \$38 million in Class A medical properties will close in the fourth quarter of this year. We have not seen an abundance of investment quality properties priced in the \$500,000 to \$2,000,000 range, however, we believe there is a strong interest in the market for properties in this range.

The interest in ownership vs. leasing continues to be strong in the market place, and does not seem to have been impacted by changes in interest rates. Going into 2006 there will be new office condominium developments throughout Colorado Springs with the majority of the projects serving medical users. With a diminishing inventory of suitable land available for new development, we expect more users will turn to condominiums as an alternative. We believe this will result in the average size of condominium purchases to increase as larger groups look to this product. We have not yet

Looming on the horizon is the completion of the two new hospitals in the Northeast submarket. We anticipate that once completed these hospitals will attract a new wave of medical office construction, both on and surrounding the hospital campuses. This new construction will continue to pull providers out of existing older buildings, increasing the vacancy rates of these buildings.

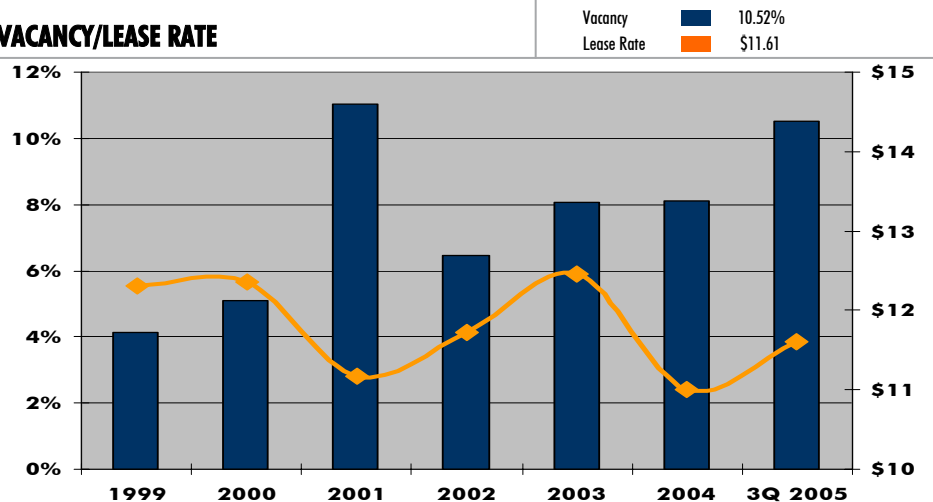
**QUICK STATS**

	Current	Change from last	
		Yr.	Qtr.
Vacancy	10.52%	▲	▲
Lease Rates	\$11.61	▲	▲
YTD Absorption	(12,861)	▲	▲

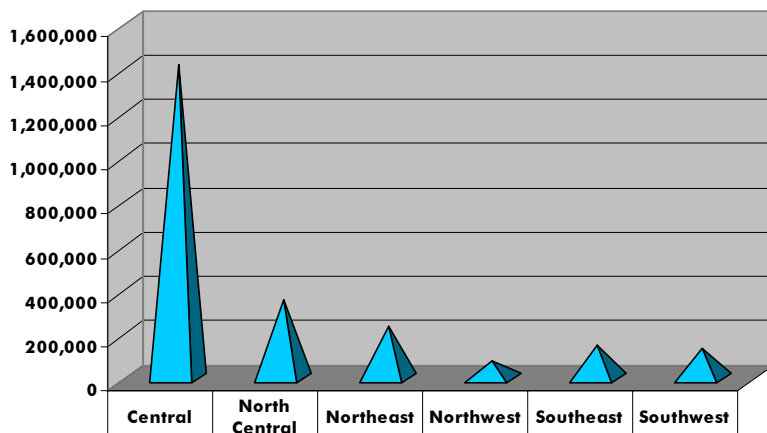
**HOT TOPICS**

- 12,000 additional troops to relocate to Fort Carson due to nationwide base closures and relocations.
- Banning Lewis Ranch "open for business" with 500 housing units coming on board in 2006.
- Phase One of \$150 million COSMIX I-25 improvements produces expanded Woodmen/I-25 interchange. Work begins on Nevada and Rockrimmon area.
- Referendum C & D gives voters a chance to modify Tabor Law.

**VACANCY/LEASE RATE**



## MEDICAL MARKET DISTRIBUTION



SF in Medical Submarkets	Central	North Central	Northeast	Northwest	Southeast	Southwest
Percentage of Market	60%	15%	9.8%	3.3%	6.4%	5.5%

### 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 that have begun construction as evidenced by site excavation or foundation work.

#### AVAILABLE SQUARE FEET

Available Building Area that 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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