



QUICK STATS

	Current	Change from last	
		Yr.	Qtr.
Vacancy	9.4%	↑	↑
Lease Rates	\$10.30	↓	↓
Construction	\$48.9M	↓	↑

* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

HOT TOPICS

- I-25 Interchange at Rockrimmon Blvd to be rebuilt
- Sales receipts skyrocket with troops returning from Iraq
- City Council gives support to downtown convention center
- MCI continues to downsize locally

OFFICE/MEDICAL REVIEW

The Colorado Springs Medical & Professional office market has been historically very stable in terms of vacancy and lease rates. The stability in this market is due to the high investment in tenant improvements, and the predictable growth patterns for most practitioners. These traits make medical properties ideal for investors seeking passive income opportunities.

Leasing activity in this market has been shaped by two forces over the past twelve to eighteen months. The first is the construction of new Class A ambulatory surgery centers. These projects were developed by Memorial Hospital, Penrose-St. Francis, and Healthsouth, and they offer practitioners the opportunity to office and perform procedures at the same location. This concept has been well received and these projects for the most part are fully occupied. The second cause is the availability of low interest rates which has led many physicians and dentists to purchase real estate for their own business use. As a result of this activity we expect that lease rates will decrease and vacancy rates will rise for older Class B medical properties. Rates in new developments will increase slightly, but with higher Tenant Improvement allowances being provided.

The major hospital providers have focused their growth in the Northeast quadrant of Colorado Springs. Memorial Hospital, has at the time of this report, closed into escrow on an 82-acre site at the intersection of Briargate, Union and Powers Boulevards. The site has been acquired for the development of a hospital campus to service the growing needs of northern Colorado Springs. The development will include an acute care hospital (scheduled to open by December 2006) and ancillary medical uses with medical office buildings to house private physician practices. Penrose-St. Francis purchased 45 acres of land at the corner of Woodmen Road & Powers Boulevard for an acute care and medical office building campus. This development may be on hold as reported by a local newspaper due to a number of development plan issues and indecision as to the scope of services to be provided.

The activity in the central market has been strong with Colorado Springs Health Partners continuing to expand their presence in the market. Memorial Hospital and Penrose both continue major expansions on their main hospital campuses.

MEDICAL OFFICE STATISTICS

Total Medical Sq Ft	2,223,820
Vacancy Rate	10.99%
Vacancy with Sublease	11.33%
Average Lease Rate	\$14.10
Operating Expenses*	\$5.06

*Operating expenses may or may not include utilities and interior janitorial services.





MARKET OUTLOOK

The general trend in the office market has been one of continued activity within the market place, which should register statistically during the last half of the year. The increased lease activity, especially in the larger transactions, is a good indication for this market place.

As reported in the first quarter, there were a number of transactions at or near the 100,000 square foot level looking seriously at Colorado Springs. One of these transactions has been executed and California Automobile Association of America has signed a lease in excess of 80,000 square feet at NorthCreek III. Another property on the north end is under letter of intent for 80,000 square feet and we look forward to being able to publicize this transaction in our next edition. Again, due to some consolidation within the

market place, specifically the Progressive Insurance transaction (300,000+ square feet), additional vacancy of approximately 190,000 square feet has been put on the market. In addition, the second quarter brought some bad news with two announcements:

1. Cheap Tickets is closing its Colorado Springs office (25,000 square feet).
2. MCI is closing its call center at Tiffany Square (110,000 square feet).

It is anticipated that these call center spaces will re-lease quickly, particularly the Cheap Tickets space. Again, with this second quarter report, it is anticipated that the market will exhibit positive absorption by year end, in spite of this short term setback.

TOP COLORADO SPRINGS LEASE TRANSACTIONS

Size (SF)	Tenant	Address
109,678	California State Automobile Association	5775 Mark Dabling Blvd.
14,369	Dex Media, Inc.	5725 Mark Dabling Blvd.
18,725	Penn Mutual Life Insurance Company	1755 Telstar Drive

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