SIERRA
COMMERCIAL REAL ESTATE, INC

Colorado Springs MARKET OUTLOOK 2011

Sierra Commercial Real Estate

102 S. Tejon Street, Suite 750

Colorado Springs, Colorado 80903

T. 719.955.2000

F. 719.955.2019

www.sierracre.com

Formed in June of 2003, Sierra Commercial Real Estate, Inc. is comprised of 11 of the premier commercial brokers in Colorado Springs, with over 180 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*

If it weren't for bad luck, I wouldn't have any luck at all!

This age old adage seems appropriate for the three years we have just experienced in the Colorado Springs commercial real estate market, with a slight adjustment in the verbiage to state, "*if it weren't for bad news, there wouldn't be any news at all!*"

Week after week and month after month, the real estate industry, along with everyone else, has been pounded by one troubling piece of news after another. From declining jobs to higher unemployment, from distress in financial institutions and Wall Street abuse to rampant foreclosures in both commercial and residential product, to runaway debt at the local, state and national levels, the entire economy has taken a body blow that will take years from which to recover. The good news is it appears the negative slide has been halted and a more positive trend has begun to unfold heading into 2011. The increased success and continuance of this positive trend will depend a great deal on our federal government and its ability to stop spending, reduce debt, keep costs for business low and essentially get out of the way. In spite of the results from this past November's election, this is probably more easily said than done given the size and scope of our federal and state bureaucracies.

On the regional front, jobs and the housing market continue to drive the train. Housing starts in 2010 have improved, totaling approximately 1,400 at year end compared to 1,105 for 2009, but still remain significantly below the 4,000 to 5,000 starts traditionally seen in the Pikes Peak region. Foreclosure filings were also on the decline in 2010 and should finish the year at around 4,800 notices compared with nearly 5,500 in 2009. This number should continue to moderate going forward due to zero percent mortgages written early in the decade having now been mostly reset along with an improving job market on the horizon.

The good news is it appears the negative slide has been halted and a more positive trend has begun to unfold heading into 2011.

Job growth continues to be the number one challenge in the commercial markets and without a strong trend upwards, vacancy rates will continue to be high, absorption will continue to be low and rental rates will continue to remain flat. Unemployment has risen at the state and local levels from 2009 and currently stands at 8.0% and 8.7% respectively. These numbers are twice what they were in 2007.

In spite of the many ills facing our nation, the Pikes Peak region and the state of Colorado are in a much healthier place than the majority of the country and are positioned to take advantage of an economic recovery when it comes. The available labor pool is educated and talented, we have available commercial product but are not overly built and extended and we still offer one of the most desirable places to live, work, and play on the planet.

Now that 2011 is immediately before us, it is once again important to remember that we have been here before, although not to this extent, and with a determined work ethic and strong fundamentals, we will not only survive, but will prosper in the coming years. Our team of seasoned and talented professionals at the Sierra Companies will continue to work diligently on behalf of our clients and customers and thank each and every one of you once again for your ongoing support and trust in us.

The Colorado Springs office market totals 28 million square feet at year end 2010. Little product has been constructed during the previous twelve months due to the job market having stalled and contracted as a result of the past three year economic malaise.

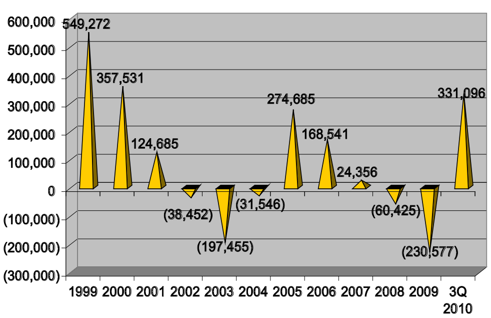
The unoccupied segment of the office market (vacancy) appears to have bottomed out. The current vacancy rate is approximately 17.5%, a nominal increase statistically, about 50 basis points, from year end 2009. It is anticipated that a decline in vacancy will occur in 2011 in the Class A submarkets (North I-25, Central Business District and Southeast). Currently the entire office market has 4.8 million square feet of unoccupied space and will require approximately an additional 17,000 new jobs to reach stabilized occupancy of 90%.

The largest office submarkets in Colorado Springs are, in descending order: North I-25 (12 million square feet); Southeast (4.3 million square feet); Central Business District ("CBD") (3.4 million square feet).

The CBD at year-end stands at 13% vacancy and the Southeast/Airport is approximately 23% vacant. The Southeast market is dependent on Department of Defense ("DOD") users, and federal dollars to expand contracts with these companies has been limited due to the wars in Iraq and Afghanistan. The North I-25 submarket is the most representative snapshot regarding the local economy, and the projection made last year about this submarket returning to positive absorption by the third quarter 2010 did occur.

Analyzing Class A product within these three submarkets is critical to understanding past and future trends. As seen in the graph below, this product type typically reflects growth when positive absorption occurs as in 2010 and conversely identifies a troubled market when negative absorption is evident as in 2008 and 2009.

Class A Absorption



Current trends in the metro office market are as follows:

• Asking rents remain flat in Class A and B space on the north-end. Average asking rents are in the $13.00/SF/NNN range. The single story office market will continue to put pressure on the multi-story office market until significant absorption has occurred.

• Competition for tenants among owners of both shell and second generation buildings remains intense and the landlord's desire and financial ability to fund higher tenant finish requirements has become critical in this process.

• Tenant finish allowances for second generation space run $10.00 to $20.00 per square foot. Shell space can easily require $45.00 per square foot and higher.

In addition, building sales on office product remain well below traditional sales levels of approximately 90 buildings per year with only 35 properties sold in 2010. Most of these purchases were owner/user acquisitions (20 purchases). However, investment sales should return to the market as the economy improves.

Outlook for 2011

Overall there is cautious optimism for 2011 although the road back will require a long period of reconstruction. After considering that the worst fears in the marketplace were realized in 2008 and 2009, it is natural to think expectations going into 2011 will improve. There is support for this due to modest gains in absorption made in 2010. Two thousand eleven should bring continued incremental improvement in the office market, with pessimism in future performance beginning to diminish.

OFFICE GROUP

Kenton R. Mau
Senior Managing Director

Lonnie Wagner
Managing Director

Brian Wagner
Managing Director

Randy Miller
Managing Director

Mark G. O'Donnell, Jr.
Director

Nicola Myers-Murty
Broker Associate

Significant Office Transactions in 2010

- Corporate Ridge: 289,255 square foot office building at 1675 Garden of the Gods Rd. sold to El Paso County for $22 million
- Premiere Global Services, Inc: Leased 87,731 square feet at 2424 Garden of the Gods Rd.
- Everest College: Leased 80,000 square feet at 1575 Garden of the Gods Rd.
- Woodmen Office Campus II: 78,778 square foot office building at 7450 Campus Dr. sold for $10.8 million

OFFICE	Change from Year-end '09 to Year-end '10	Projected change by Year-end '11
Vacancy	↗	↘
Net Absorption	↗	↔
Lease Rates	↘	↗
Construction Activity	↘	↔

INDUSTRIAL PROPERTIES | Colorado Springs

The industrial market in Colorado Springs has posted positive gains in 2010 compared to the previous few years. Vacancy rates have dropped from 11.79% at the end of 2009 to a current rate of 11.50%. While this decline in vacancy may not seem overly significant, positive absorption of over 386,000 square feet has been recorded for the year, in sharp contrast to the loss of over one million square feet of industrial occupancy during the last two years. Average asking lease rates in the industrial market continue to hover near decade lows, currently averaging $6.10/SF/NNN. As occupancy gains continue, the downward pressure on lease rates will ease, and rates will begin to recover.

One explanation for the buoyancy of the industrial market during the last year is that the industrial market has been underperforming compared to the retail and office markets for the better part of the last decade. Industrial properties are not as highly leveraged as the rest of the commercial markets, and therefore have not experienced foreclosure to the same extent as retail and office product. An analysis of commercial foreclosures during 2010 in El Paso County finds that only 13% of commercial foreclosures occurred in improved industrial property, compared to 28% for improved office property, 33% for improved retail property, and 23% for unimproved land. Industrial loan delinquency also appears to be easing. A national study conducted by Trepp, LLC found that through October, only 6.27% of industrial loans are currently over 30 days delinquent, and this number has been declining for the past two months. This is lower than both retail and office properties. While much of the talk during the last two years has been “waiting for the other shoe to drop”, as in a wave of commercial foreclosures following the residential foreclosure spike, thus far the prediction has produced little fruit. It is still too early to claim victory over foreclosure fears, but the data does indicate that the threat is easing, especially in the industrial market.

The recession has had a significant impact on industrial building sales, however. Sales activity continues to be at historic lows, with only 15 arms length transactions of industrial buildings occurring through October. Average sales prices have continued to decline as well, dropping each year from a level of $75.98/SF in 2006 to a current average of $60.18/SF in 2010.

Significant Industrial Transactions in 2010

- El Paso County: Purchased 289,255 square foot former Intel building at 1675 Garden of the Gods Rd. for $22 million
- Ideal Colorado Real Estate, LLC: Purchased 194,879 square foot Western Forge manufacturing facility at 4607 Forge Rd. for $6.7 million
- Wal-Mart: Signed 80,000 square foot lease in the former TRW building at 3650 N. Nevada Ave.
- Harrison Business Park, LLC: Purchased 66,560 square foot warehouse facility at 2840 Janitell Rd. for $2.12 million

INDUSTRIAL	Change from Year-end ’09 to Year-end ’10	Projected change by Year-end ’11
Vacancy	↘	↘
Net Absorption	↗	↔
Lease Rates	↘	↔
Construction Activity	↘	↔

Outlook for 2011

Barring any significant decline in the national economy, the local industrial market should see continued incremental gains during 2011. Average asking lease rates have appeared to bottom out, indicating landlords feel improved conditions are on the horizon. Gains in manufacturing jobs nationally have begun to occur in the last several months. If this trend continues, expect industrial companies to begin expanding locally.

While the office and retail sectors have a significant number of properties returning to lenders, this has been of minimal impact with industrial product. As the nation climbs out of recession, this is one less hurdle that the industrial market will have to overcome in order to resume growth. Sales of industrial buildings, however, will be slow to recover, as cash and capital are scarce and lenders are still wary. Expect minimal gains from 2010 in sales activity during 2011. Lease rates will remain flat as landlords continue to offer incentives such as free rent as a substitute for lower rates.

INDUSTRIAL GROUP

David L. Bacon
Managing Director

Aaron L. Horn
Broker Associate

The Colorado Springs retail market remained relatively flat during 2010, despite several significant large gains in occupancy during the first quarter. While absorption in the retail market will finish the year a positive 400,000 square feet, vacancy rates remain stubbornly high, near 11.5%. The majority of the absorption occurred at University Village, where Kohl's, Lowe's Home Improvement, and other small to mid-size retailers opened during early 2010. Modest occupancy gains in several other areas, including Interquest and the North Academy corridor have also contributed to the positive absorption.

Continuing the trend from 2009, new retail development has been virtually nonexistent throughout 2010 due to a lack of pre-leasing. This absence of speculative development has kept the vacancy rate in the retail market from escalating dramatically during the last two years. As economic conditions related to the retail market have improved towards the end of 2010, i.e., year-over-year sales tax revenues increasing and expectations that national seasonal hiring will top 600,000 for the first time since 2007, developers will begin to keep a sharp eye on future opportunities in the market. As retailers expand and local vacancy rates drop and stabilize below 10%, new development projects will slowly return.

The advent of e-commerce in the retail sector is beginning to play a more significant role in the brick and mortar world of retail commercial real estate. At the beginning of the last decade, only 0.6% of all retail sales were performed online. This number has grown steadily to a current rate of 4.1% according to the U.S. Census Bureau. While 4.1% may seem a relatively small percentage, if these sales were converted into brick and mortar sales, the Colorado Springs retail market would experience significant absorption of additional retail space. If retail e-commerce continues to grow on a linear course, over 10% of all retail sales will be done online by 2027. This competing option for the consumer is something that the retail real estate market will have to contend with going forward.

RETAIL:	Change from Year-end '09 to Year-end '10	Projected change by Year-end '11
Vacancy	↗	↘
Net Absorption	↗	↔
Lease Rates	↘	↔
Construction Activity	↘	↗

Significant Retail Transactions in 2010

- Lowe's Home Improvement: Opened 169,112 square foot retail store at 4880 N. Nevada Ave.
- Tinseltown: 90,278 square foot movie theater sold at 1545 Cheyenne Mountain Blvd. for $15.25 million
- Kohl's: Opened 89,911 square foot retail store at 4910 N. Nevada Ave.
- Cisco Plaza: 42,145 square foot shopping center at 2312 E. Platte Ave. sold for $900,000
- Old Navy: Leased 14,825 square feet in the Market at Chapel Hills East at 7625 N. Academy Blvd.

Outlook for 2011

The local retail real estate market is poised for measured growth during 2011, but is dependent on improvement in the local and national economy along with increased consumer confidence. While 2010 was buoyed by several big box openings in the first part of the year, 2011 lacks any positive large gains. Rather, absorption in 2011 will be marked by an increase of small to mid-size retailers emerging and expanding in the market. New construction will also be minimal, helping existing space get absorbed before significant new supply is added. Large development projects, like those in the Interquest area and the Copper Ridge development at Northgate will add little, if any, product to the market in 2011 and into 2012.

Expect the majority of new tenants to locate "in-line" at newer anchored centers like University Village Colorado, InterQuest Marketplace, Monument Marketplace, and others as recent success in these centers suggests adequate demographics for retailers to survive and thrive.

RETAIL GROUP

Mark M. Useman
Senior Managing Director

Lori Ondrick
Broker Associate

The land development market in Colorado Springs has continued to struggle under the weight of an underperforming economy throughout 2010. With very little residential and commercial construction occurring, there is little need in the market today to develop additional land resources anywhere near the pace that was seen earlier in the decade. Following the trend seen in 2009, commercial and residential land sales for 2010 are on pace to fall below the 300 acre mark for the second consecutive year. Similarly, the total value of these sales is on course to be around $35 million at year's end, which is comparable to sales in 2009. Figures this low have not been seen in over a generation.

With activity at historic lows, it is no surprise that several developers in the region with highly leveraged projects have gone through financial difficulty, including multiple bankruptcies. Banning Lewis Ranch LLC, which owns 21,000 acres on the east side of Colorado Springs, filed for bankruptcy protection during October. The project, which is expected to develop over 75,000 homes and multiple retail and office parks, has thus far only sold about 700 residential lots. Similarly, SRKO Family Limited Partnership, developer of Colorado Crossing at Interquest and Highway 83, filed for bankruptcy earlier in the year. The 153-acre multi-use project sits partially built and unattended as a testimony to the effect of the recession.

The weak demand for land development is two-pronged. From the commercial segment, lackluster absorption and high vacancy in office, industrial, and retail properties must reverse course before new development becomes necessary. With current vacancy levels and occupancy gain trends over the past decade, it is estimated that there are multiple years of absorption that must occur. Construction costs versus current rental rates are also keeping new development to a minimum. The lack of new residential construction is also depressing the land development market. Through November, only 1,304 single family housing permits have been issued in the Colorado Springs metro area. While this is an improvement over the 1,105 permits issued during all of 2009, it is well below normal housing starts of 4,000 - 5,000 per year.

Outlook for 2011

The Colorado Springs land development market has seen some of the best of times and the worst of times during the previous decade. While the last two years have certainly been difficult for growth, savvy developers have learned from the challenges and will be better poised when growth resumes. Colorado Springs has a strong geographical advantage compared to many markets in the country. People want to be here. While much of the country struggles with stale or declining population growth, Colorado Springs continues to grow at a relatively healthy pace. In time, the market will require additional land for our growing population to work, live, and play. The challenge is in determining where equilibrium lies and when it is time to resume development.

LAND & ADVISORY SERVICES

Dale D. Wheeler
Managing Director

ASSET SERVICES | Colorado Springs

Property Management's Ever Changing Role

The evolving economic environment in commercial real estate has caused the traditional roles and responsibilities between asset management and property management to coalesce. Asset managers and owners/lenders are more involved today with managing the day-to-day operations of their assets than ever before. This can include being involved in decisions affecting the property's physical condition as well as engaging in tenant selection. In contrast, property managers are becoming more involved in the financial strategies of the buildings and find themselves participating well beyond the monthly reporting of normal operating costs.

As lenders' involvement in managing their financial risk grows, property information is required in a more direct and unfiltered way to the lender. As a result, managers must be intimately familiar with all aspects of the financial side of properties they are managing. Owners and lenders are requiring more thorough and frequent financial reporting. Reforecasting numbers is happening more often than quarterly as lenders/receivers and owners must examine more closely the bottom line at shorter intervals. In some cases, lenders are bringing in special servicing groups to dispose of problem loans or assets and alternative accounting requirements are often required. It is critical that experienced professionals and accountants make up the property management team.

Beyond property specific information, it is important that the management team have access to pertinent market data in order to first inform lenders and owners about market conditions and second, to support recommendations made with respect to the property's capital requirements for lease up and/or renovation. Managers will continue to have a greater role in providing direction to owners and lenders as to what is driving the market that directly impacts their assets.

Current economic conditions have created a market with high risk assets driving up increased involvement by the parties in most or all financial decisions. Property management professionals in today's market environment must be experienced, talented and multi-faceted. Managers and accounting staff need to know more about the financial side of the equation than ever before and require innovative tools and resources to achieve this. Today's real estate manager now runs the gamut of responsibilities relating to a specific property's finances as well as to traditional operating issues.

ASSET SERVICES

Tamara Begley
Director, Asset Services

SIERRA COMMERCIAL PROFESSIONALS

OFFICE BROKERAGE SERVICES

Kenton R. Mau **
Senior Managing Director
719.955.2013
kmau@sierracre.com

Randy Miller
Managing Director
719.955.2015
rmiller@sierracre.com

Lonnie Wagner
Managing Director
719.955.2031
lwagner@sierracre.com

Brian Wagner
Managing Director
719.955.2016
bwagner@sierracre.com

Mark G. O'Donnell, Jr.
Director
719.955.2017
modonnell@sierracre.com

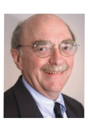
Nicola Myers-Murty
Broker Associate
719.955.2021
nmyersmurty@sierracre.com

INDUSTRIAL BROKERAGE SERVICES

David L. Bacon **
Managing Director
719.955.2009
dbacon@sierracre.com

Aaron L. Horn **
Broker Associate
719.955.2020
ahorn@sierracre.com

LAND & ADVISORY SERVICES



Dale D. Wheeler **
Managing Director
719.955.2011
dwheeler@sierracre.com

RETAIL BROKERAGE SERVICES

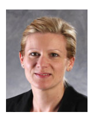
Mark M. Useman **
Senior Managing Director
719.955.2008
museman@sierracre.com

Lori Ondrick
Broker Associate
719.955.2022
londrick@sierracre.com

PROFESSIONAL STAFF

David R. Delich **
President
719.591.6777
719.338.6777 cell

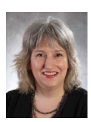
Harry A. Mosco
Chief Financial Officer
719.591.6777
hmosco@sierraprop.com



Amy Peirce
Director, Brokerage Services
719.955.2010
apeirce@sierracre.com

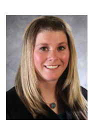
Ben Lowe
Director, Market Research
719.955.2006
blowe@sierracre.com

Melissa Edwards
Executive Assistant
719.955.2007
medwards@sierracre.com



Robin Kleeman
Executive Assistant
719.955.2018
rkleeman@sierracre.com

Niki Latham
Executive Assistant
719.955.2004
nlatham@sierracre.com



Mackenzie O'Berto
Administrative Assistant
719.955.2001
moberto@sierracre.com

ASSET SERVICES GROUP

David R. Delich **
President
719.591.6777
719.338.6777 cell

Harry A. Mosco
Chief Financial Officer
719.591.6777
hmosco@sierraprop.com

Tamara Begley **
Director, Asset Services
719.591.6777
tbegley@sierraprop.com

Libby Luken
Senior Manager, Asset Services
719.277.0473
lluken@sierraprop.com

Georgina Lingle
Senior Manager, Asset Services
719.277.0473
glingle@sierraprop.com

Diane Knight
Senior Property Manager
719.591.6777
dknight@sierraprop.com

Cindy Piesch
Property Manager
719.591.6777
cpiesch@sierraprop.com

Catherine Mosco
Leasing & Client Services Coordinator
719.591.6777
cathmosco@sierraprop.com

Nathalie Bliss
Property Controller
719.591.6777
natbliss@sierraprop.com

**** 2011 Market Outlook Author**

SIERRA
COMMERCIAL REAL ESTATE, INC

102 S. Tejon, Suite 750
Colorado Springs, Colorado 80903
T. 719.955.2000
F. 719.955.2019
www.sierracre.com