



Peak Performance

Colorado Springs Bi-Annual Market Report

First Half of 2024 Review

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Paul and Michael Palmer are pleased to announce their new affiliation with Olive Real Estate Group, Inc., the top commercial real estate firm in Southern Colorado!

2024/2025 Performance and Outlook:

In the first half of 2024, the commercial real estate market in Colorado Springs demonstrated notable resilience amid fluctuating national trends. The **Office Sector** saw a steady demand, driven by a mix of local businesses expanding, tech firms setting up regional offices, and a growing demand from the Department of Defense (DOD). Vacancy rates remained stable, though slightly elevated, as some companies continued hybrid work models. The office market is expected to remain divided, with large tenants (40,000 SF and above) becoming increasingly rare. These large tenants have reduced their space requirements by 40% to 60%, leading to a heightened demand for smaller office spaces. Meanwhile, smaller tenants are also downsizing by 20% to 40%. This trend has kept the market stable for smaller, multi-tenant buildings, while large office spaces remain largely vacant with minimal demand. Some large vacant buildings that cannot be economically reconfigured for smaller tenants are likely to face fire sale conditions, with notable sales expected in the second half of the year and into 2025. Additionally, many Department of Defense (DOD) companies are likely to delay decisions until after the election year, as their 2025 budgets are still uncertain. The **Industrial Sector** experienced growth, bolstered by the rise in e-commerce and logistics, leading to increased leasing activity and rising rental rates. The industrial market is expected to experience a moderate slowdown compared to the rapid growth of previous years, primarily due to macroeconomic conditions. Despite this, vacancy rates are anticipated to remain stable, and rental rates will continue to see gradual increases. The level of new construction will stay limited, but demand for industrial space will persist as tenants seek to upgrade and optimize their facilities. While growth will not match the unprecedented pace of recent years, the market is projected to remain steady throughout the remainder of 2024 and into 2025. The **Retail Sector** saw a mixed performance; while some areas thrived due to increased consumer spending and new retail openings, others struggled with a shift towards online shopping and changing consumer preferences. The **Multifamily Sector** remained strong, with high occupancy rates and rising rents, reflecting ongoing population growth and demand for housing correlated to the high amount of government spending in the city. The outlook for the **Capital Market's Sector** shows there is substantial capital ready to be invested in discounted and distressed commercial real estate. Although transactions have been limited, major equity firms are preparing for \$2 trillion in commercial mortgage loans set to mature in the coming 2 years, with a significant portion related to large office properties. We anticipate that capital markets will remain subdued throughout 2024 but expect to see some properties sold at very competitive prices as we move into 2025. Overall, while challenges persisted, the market showed adaptability and potential, positioning itself well for future growth as economic conditions evolve. With uncertainty of an election year combined with interest rates, we expect to see more of a "wait and see" approach leading us into the second half of the year.

Office Market: 30,868,720 SF

The overall market vacancy rate dropped from 11.20% to 10.20%. Colorado Springs remains a more active market than most given that most large markets in the U.S. continue a net loss in occupied space for the year. While we are not completely sure of the near-term course of the Colorado Springs office market, we feel that vacancy rates will likely trend "neutral" in the coming quarters as tenants right size their space requirements. Office space absorption totaled a net positive of 268,650 SF which is an indication the large amount of government funding coming into this market. We expect absorption to be flat going into 2025 as government funding of contracts are likely to stall until after the election. Office lease rates held at an average of \$15.46 psf NNN as most buildings have been able to hold their lease rate structures. We expect lease rates to remain steady going into 2025.

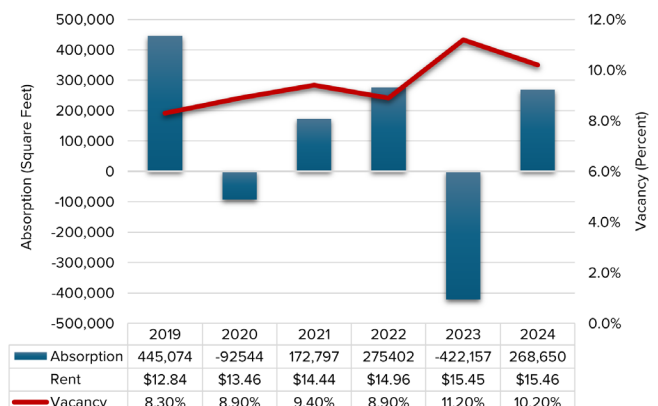


Michael Payne Palmer



Paul Palmer

Total Office Market Absorption vs. Vacancy



The one area that will see lease rates decline coupled with aggressive concession packages will be the large floorplate vacancies. This will be driven by limited leasing velocity by large tenants, 40,000+ SF and space supply of over 1 million SF of large floor plate availability on the market. Sales volume in 2024 thus far has been \$32,200,000 which is on track to being far below the ten year average. The sales volume of office space will likely continue to stay flat into 2025. Department of Defense will continue to be a strong economic driver which will help keep the office market more stable than other major markets throughout the U.S.

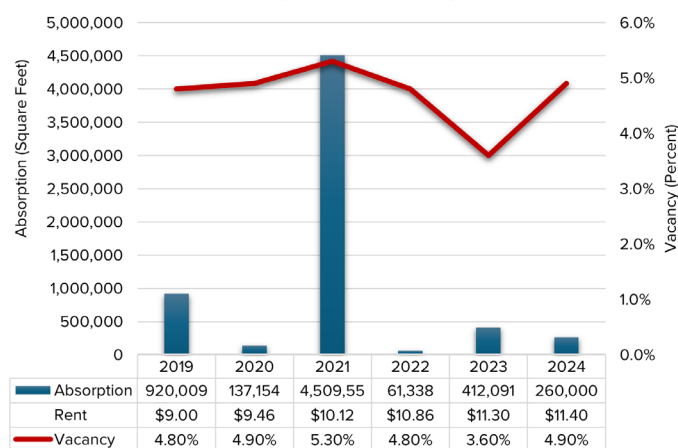
Industrial Market: 42,467,092 SF

The industrial market's overall vacancy rate is currently at 4.9%, up from 3.6% in 2023. This sector continues to lead all real estate markets, driven by e-commerce growth, heightened demand for distribution centers, and upstream supply chain challenges. As predicted, the vacancy rate has stabilized within a narrow range due to new construction meeting market demand. Despite the addition of new space, industrial space absorption remains positive at 260,000 SF. We anticipate that absorption will keep increasing as more new spaces are completed. High demand for newly built industrial space is fueling rent increases, with rental rates rising by 10 cents to \$11.40 per square foot NNN in the first half of 2024. We expect rental rates to level off as we get closer to 2025. Preleasing new facilities is a prevalent trend in Colorado Springs as industrial demand continues to grow. Logistics facilities are the most sought-after sector, with the average sale price for industrial facilities at \$135 per square foot. Demand for industrial properties is expected to remain high and outpace other real estate sectors in 2024, though inflation and interest rates may temper some of this demand. Industrial space in Colorado Springs remains relatively affordable compared to other markets, suggesting ongoing positive trends.

Class "A/B" Competitive Office Market:

The Class A/B office sector has shown notable resilience in the post-COVID market. Demand from smaller tenants is driving activity across all three competitive submarkets, providing stability. However, larger tenants are still rare, creating a challenge for buildings with large floor plates. The market is becoming divided between large and small space buildings, with the northern submarket facing the most concern. Vacancy rate's showed improvement due to strong small tenant demand which ended the year at 13.5%, a 4.1% decrease from the beginning of the year. Without significant large tenant activity, large floorplate vacancies will struggle to absorb space and will be forced to become more competitive with lease rates, TI's and concessions. We expect the vacancy rate to slowly rise in the latter half of 2024 into 2025, indicating a more competitive market than currently anticipated. Average lease rates increased by \$0.33 per square foot to \$19.66 per square foot NNN in the first two quarters, and rates are likely to stabilize around this level. Speculative new construction remains absent, and investment sales are expected to be limited and opportunistic due to a gap between buyer and seller pricing expectations and rising debt costs. The competitive office market is bifurcated and will continue to experience weaknesses in large tenant demand, while smaller tenants continue to drive activity in buildings with smaller multi-tenant spaces for lease.

Total Industrial Market
Absorption vs. Vacancy



Total Class "A/B" Office Market
Rent vs. Vacancy



2024/2025 Market Forecast

(O) Office Market
(I) Industrial Market

Absorption

depends on the sector. Office absorption will likely be negative and industrial will continue to rise as new space is completed.

(O) ➔ 6 Mos
(I) ➔ to 1 yr
Forecast

Vacancy Rates

will vary. Office vacancy rates will likely decrease as tenants decrease their space requirements and industrial vacancy rates will flatten out with high resilient demand.

(O) ➔ 6 Mos
(I) ➔ to 1 yr
Forecast

Rental Rates

will start to decrease for office space and will slightly increase for industrial space.

(O) ➔ 6 Mos
(I) ➔ to 1 yr
Forecast

Investment Sales

activity will slow due to rising interest rates and the price differential between Sellers' and Buyers' expectations. It will take more time for activity to pick up.

(O) ➔ 6 Mos
(I) ➔ to 1 yr
Forecast

***Definition of Absorption:**

The net gain (positive) or loss (negative) of occupied space in the market.

