



Peak Performance

Colorado Springs Bi-Annual Market Report

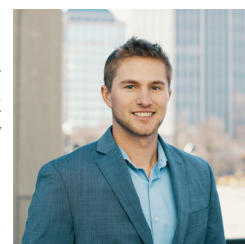
First Half of 2025 Review

2025/2026 Performance and Outlook:

In the first half of 2025, the commercial real estate market in Colorado Springs remains resilient but slowing a bit amid fluctuating national trends. The **Office Sector** experienced a slowdown in demand as tenants continue with a wait and see approach to the new administration and their impacts on the overall markets. Tenant activity is driven by a mix of local businesses relocating, tech firms right sizing and upgrading facilities, and some demand from the Department of Defense (DOD) tenants. Smaller office tenants are right sizing by 20% to 40% with a some leaving the market altogether as tenants seem to be making longer term facilities decisions after the Covid watch and wait period that has lasted for the past couple of years. The office market is expected to remain bifurcated, 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. The 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 a couple of notable sales possible into 2026. Additionally, with the passing of the "Big Beautiful Bill" we expect to see Department of Defense (DOD) companies pick up demand for space as contracts and government money becomes more available. The **Industrial Sector** remains one of the region's best-performing in 2025—characterized by low vacancy, resilient rental growth, strong investor demand, and sectoral momentum from logistics, manufacturing, and technology. New development has decreased and is more selective while investors and tenants gravitate toward modern distribution and flex spaces close to transportation corridors and key employment centers. Absorption has slowed for the time being but is expected to pick up in the coming months. The **Retail Sector** in Colorado Springs remains one of the strongest commercial property sectors in the region, benefiting from low vacancies, resilient tenant demand, and continued investment interest with limited new development. Retail remains location specific and tied to the growth areas of Colorado Springs. The **Multifamily Sector** market is moderating but fundamentally solid. Recent oversupply has eased due to sharply reduced construction starts, while strong population and job growth underpin continued demand. As the pipeline empties and absorption remains healthy, market conditions are expected to tighten, supporting a resumption of rent growth into 2026. The 2025/2026 outlook for the **Capital Market's Sector** is influenced by a large supply of available capital looking for a limited supply of investments with solid fundamentals and returns leading to moderate investment activity. Institutions and private investors continue to pursue Colorado Springs commercial real estate, particularly industrial and retail assets, bolstered by a local economy. The Capital Markets are constrained by persistent high interest rates and lack of attractive investment products. We expect to see heightened activity if interest rates and lending standards ease.



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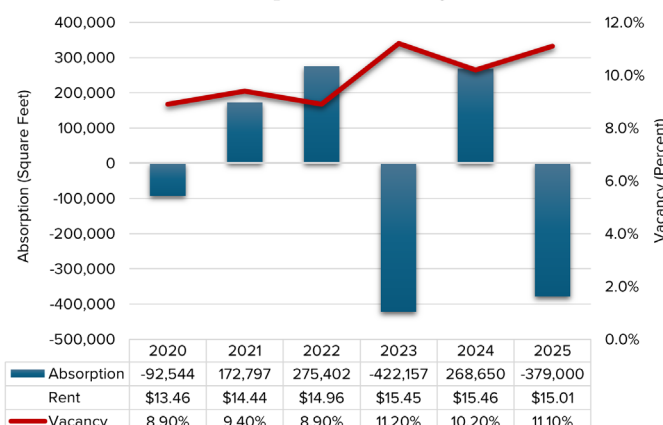
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Office Market: 30,868,720 SF

The overall market vacancy rate rose from 10.20% to 11.10%. Although we saw a rise in vacancy, Colorado Springs remains a more active market than most given that most large markets in the U.S. continue to see a much larger net loss in occupied space. We feel that vacancy rates will likely continue to trend "neutral" to slightly "lower" in the coming quarters as tenants settle into their new "right sized" space requirements. Office space absorption totaled a net negative of 379,000 SF over the past 12 months, which is an indication of the government delaying the large amount of funding expected to come into this market. We expect absorption to start to rebound going into the 2nd half of 2025 as government funding of contracts is likely to increase now that the election is in the rear-view mirror. Office lease rates dropped to an average of \$15.01 PSF, NNN from \$15.46 PSF, NNN as a reflection of the rise in vacancy. We expect lease rates to

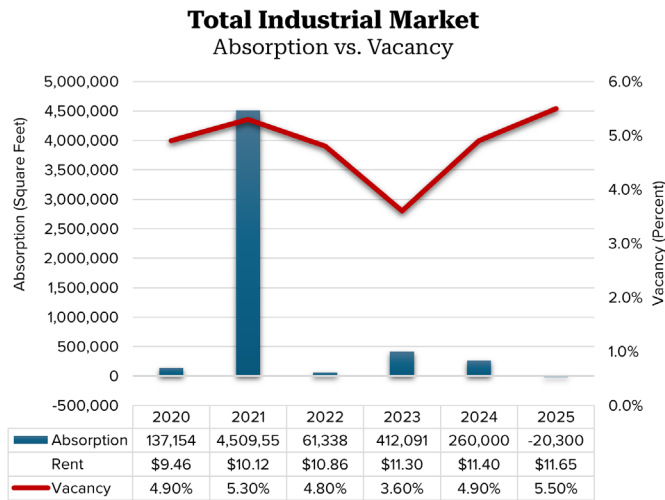
Total Office Market Absorption vs. Vacancy



remain steady going into 2026. The one area that is pushing the average lease rates down is the large floor plate vacancies. We expect to see large concession packages for some of the larger floor plate facilities as large tenants are few and far between and over 1 million SF of large floor plate availability on the market. Sales volume has increased by \$125.9 MM from this time last year in 2024. This increase in sales volume is more in line with the 10-year average. A couple of large office users made large purchases of vacant facilities which drove sales volume. Sales volume of office space will likely increase into 2026 as some larger distressed properties will sell, and Class A building owners will seek to take advantage of pent-up demand for well-located and mostly leased quality investment product.

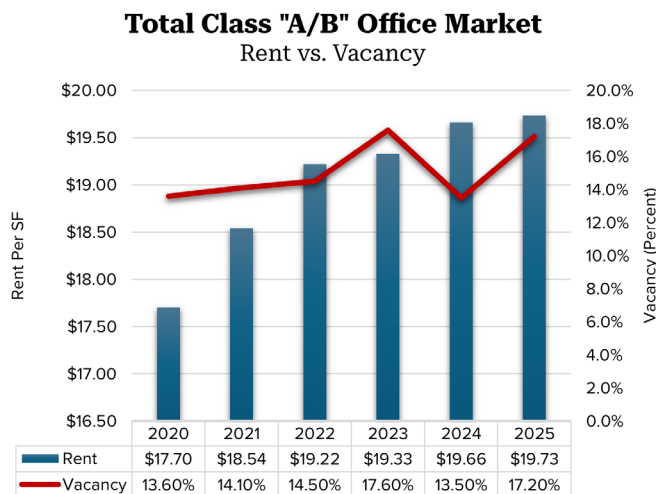
Industrial Market: 42,467,092 SF

The industrial market's overall vacancy rate is currently at 5.5%, up from 4.9% in 2024. As predicted, the vacancy rate has stabilized within a narrow range. Industrial space absorption is tepid with negative absorption of 20,300 SF. The lack of absorption demonstrates that the industrial market has slowed due to demand slowing as well as new construction being added to the market. Currently there is 710,000 sf of new product under construction. We expect any additional new construction of industrial space to be very limited and mostly reliant on developers securing pre-leases of at least 50% for any new space built. Industrial rental rates which stand at \$11.65 PSF, NNN will level out as new construction slows. Industrial sales volume totaled \$168 MM with the average sale price for industrial facilities at \$120 per square foot. Demand for industrial properties is expected to remain strong and outpace other real estate sectors in 2025, 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 is showing some weaknesses due to lackluster demand. Now that the new pro-business bill has passed, we expect to see demand pick up in the 2nd half of the year. Demand from smaller tenants continues to be the driver for activity across all three competitive submarkets. The Class A/B market shows the same characteristics as the overall office market in that occupancy is concentrated in office buildings that accommodate smaller tenancies while large floor plate buildings struggle to find tenants looking for larger floor plates. The vacancy rate showed volatility as it jumped to 17.2%, a 3.7% increase year over year. We are beginning to see smaller tenants' right size which is adding to the overall vacancy in the market. 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. Average lease rates increased by \$0.07 per square foot to \$19.73 PSF, 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.



2025/2026 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 to 1 yr Forecast
(I) ➔

Vacancy Rates

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

(O) ➔ 6 Mos to 1 yr Forecast
(I) ➔

Rental Rates

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

(O) ➔ 6 Mos to 1 yr Forecast
(I) ➔

Investment Sales

activity will be steady and opportunistic due to the price differential between Sellers' and Buyers' expectations. It will take more time for activity to pick up and dependent upon a lowering of interest rates.

(O) ➔ 6 Mos to 1 yr Forecast
(I) ➔

***Definition of Absorption:**

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