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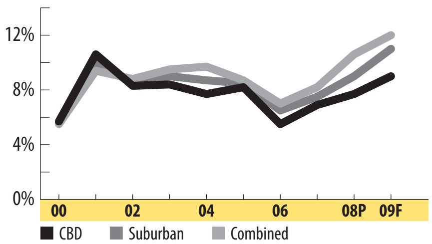
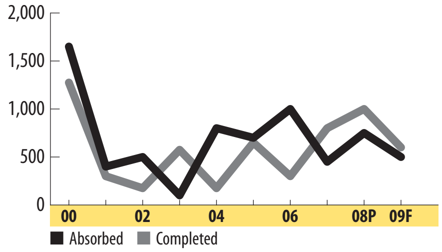
We experienced a steady amount of leasing activity in 2008. However, as a result of the current economic crisis, there is now a wait & see attitude moving into 2009. Companies are waiting to see how the economic crisis will play out locally.

Vacancy Rates
Year-End



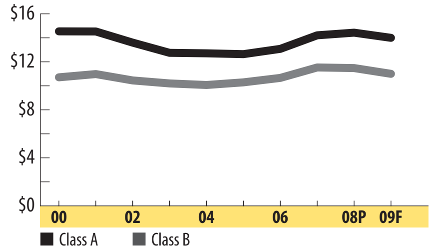
Source: Grubb & Ellis

Absorption vs. Completions
Year-End (in Thousand SF)



Source: Grubb & Ellis

Asking Rental Rates
Year-End ($/SF/Yr. NNN)



Source: Grubb & Ellis

During 2008 the office leasing market remained steady. Most new construction occurred within the defense industry and medical buildings supporting the new Memorial and St. Francis hospitals. Unfortunately, there also were some setbacks with the downsizing of large users such as Verizon, Agilent and Honeywell.

The defense industry continued to expand and lease space primarily in the southeast market. At Patriot Park, Corporate Office Properties Trust (COPT) leased 103,000 square feet to ITT and is now under construction with a 90,000 square foot speculative office building.

In InterQuest, COPT is completing three new speculative office buildings totaling 278,000 SF (significant pre-lease tenants include Plasmon and Lockheed) along with a new mixed-use development that includes 100,000 square feet of new office.

The Briargate area also experienced a number of new office buildings such as Powers Office Park, Promontory, Briargate Medical Pavilion, the Memorial North and NorthCare totaling about 480,000 square feet. Most of these buildings are geared towards medical users.

The Central Business District (CBD) has remained relatively quiet with some positive signs such as the renovation of the former Design Center Building into the new corporate USOC headquarters with the potential of more Olympic groups relocating to the CBD. On the other hand, Colorado Interstate Gas might vacate 200,000 square feet in the CBD which would slow down any new development and increase the vacancy rate in the near future.

For 2009, we anticipate a number of tenants will continue to downsize and/or ask landlords to discount rents in order to minimize costs. As vacancy rates increase, including more sublease space, we anticipate landlords lowering rates and offering more incentives to keep existing tenants. There will also be more creative incentives and increased efforts to lure new tenants from other buildings.

Recently, vacancies have increased due to home builders, residential real estate, title and mortgage companies downsizing or leaving Colorado Springs altogether.

Historically, the defense industry has played a vital role in the local economy, often acting as a cushion in a slow market. However, with the potential of a new administration, funding for defense could decrease and result in a softer office market.

Most new buildings currently under construction will be completed; however, market driven slowdowns may delay some anticipated completion dates. No speculative construction will start in 2009 without signifi-

Key Leasing Transactions
2008

Lessee	Lessor	Property	Submarket	Lease Size (SF)
USOC	LandCo	Redevelopment	CBD	120,000
ITT	COPT	Patriot Park	Southeast	103,000
Configuresoft	Woodmen Office Compus II, IV	Woodmen II	North I-25	48,000
Plasmon	COPT	Hybrid II	North I-25	46,000
Lockheed	COPT	Epic at Interquest	Interquest	40,000

COLORADO SPRINGS
Industrial

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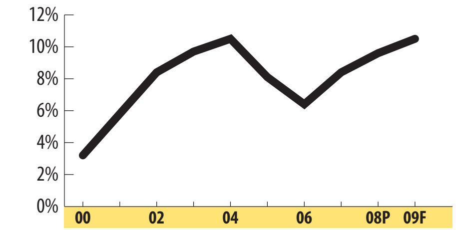
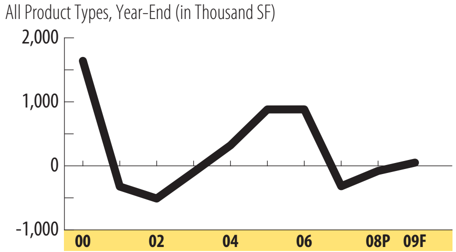
Leasing activity was higher than average, driving increased absorption in 2008. Limited new construction will prevent additional supply and will help to keep lease rates stable.

Vacancy Rates
All Product Types, Year-End



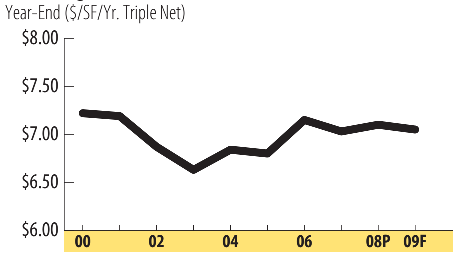
Source: Grubb & Ellis

Absorption
All Product Types, Year-End (in Thousand SF)



Source: Grubb & Ellis

Asking Rental Rates
Year-End ($/SF/Yr. Triple Net)



Source: Grubb & Ellis

Growth of existing local businesses has contributed to a relatively strong year with leasing activity of 875,000 square feet. Over the past decade, only four other years experienced more industrial leasing activity – 1999/2000 and 2005/2006. However, overall absorption remains negative, though improved over the same period a year ago. We anticipate 2009 to be a year of rebuilding with absorption improving.

Notable 2008 transactions include the 45,000 square foot R & D/flex lease by Plasmon, Inc.; a manufacturing lease by Diamond Wire Technology; and a warehouse lease by both Tech for Less and Guardian Building Products. Each of the previous leases is an example of an existing business expanding its footprint in Colorado Springs. Government contractors supporting Peterson AFB, Shriever AFB, NORAD and Homeland Defense have also contributed to the leasing activity figures this year and we anticipate additional leasing activity from this category into 2009 and beyond.

As was the case last year, several large floorplate properties remain vacant including the Intel Plant, Vitesse Semiconductor, SCI Plant, Kroger Warehouse and the former Digital Equipment Facility. These properties account for the majority of the overall 9.6 percent vacancy rate. Despite these large floorplate vacancies, the actual vacancy rate for properties under 25,000 square feet is at a low 6 percent. As demand continues for the smaller space, we anticipate a drop in the vacancy rate for properties under 25,000 square feet and a corresponding increase in lease rates. At that point, demand will outpace supply thereby necessitating new construction.

With uncertainty in the national and local economies, coupled with skyrocketing building costs, speculative construction has been nearly non-existent in the market. Only deep-pocket investors with significant pre-leasing are building at this time.

Building sales, on a price per square foot basis, have dropped to $65 per square foot from an all time high of $79 per square foot reported just a year ago. We attribute this reduction partially due to the economy; however, of the 75 industrial buildings that sold in 2008, many were older, less costly Class B and Class C properties which caused the average price per square foot to trend lower.

We anticipate 2009 to be a year of moderate organic growth with moderate to strong leasing activity. Opportunities for investors to intuitively develop pre-leased, multi-tenant spec properties in the growing north and east submarket are expected.

Key Leasing Transactions
2008

Lessee	Lessor	Property	Submarket	Lease Size (SF)
Plasmon	COPT	Hybrid 2	North	45,000
Diamond Wire Technology	Comcor	Current Facility	Fillmore	110,000
Tech For Less	Centennial Realty	5090 Centennial Blvd	Northwest	60,000
Trussway	Baetis Properties	Former Buck Stove	Fountain	45,000
Christ Church	Murphy	2188 Executive Cir	South	31,000

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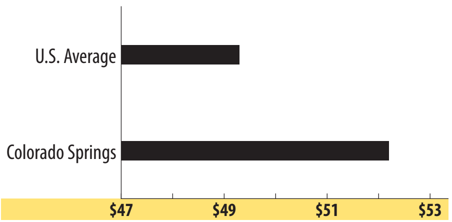
During 2009 retailers in the market will remain cautious at best. Vacancies will head north, stopping short of recession levels due to construction slowdowns. Expect further adjustments to lease rates, sales prices and cap rates.

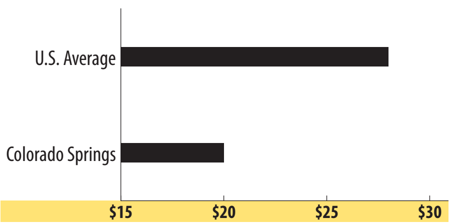
Median Household Income

2008 (in Thousands)



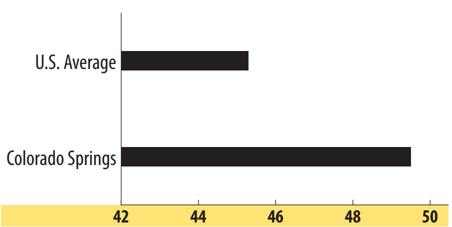
Typical Rent

Inline Shop Space, 2008 ($/SF/Yr. Triple Net)



Retail Square Feet Per Capita

2008



Tenants Expanding or Downsizing

2009

New to Market or Expanding	Downsizing
Costco	Blockbuster
Lowes	Circuit City
Kohls	CompUSA

For the first half of 2009, slower leasing activity and uncertainty about overall market health will put pressure on landlords to keep their existing tenants versus recycling tenants. A new generation of significantly discounted properties will put even more pressure on landlords to avoid increased vacancies. If confidence is not restored, more retailers will be forced to close stores and cut-back expansion plans. However, Costco, Lowes, and Kohls are among the top retailers who seem to defy the trend. As a number of retail developments continue their scheduled course, these large retailers and others are keeping their commitments to earlier announcements.

Colorado Springs, for the most part, has had an enormous amount of retail development scattered across the eastern metro border. While major arterials have been the focus for the past several years, the resulting crowded suburban power centers have been a blessing for older centers, which benefit from easy access. Additionally, while three power centers and a lifestyle center in the north Interstate 25 corridor proceed with construction, all wait to see what junior tenants will follow.

Fortunately, a handful of revitalized projects are emerging as a result of consumer pressures. Convenience and personal budgets have instigated the upgrade of neighborhood centers that are poorly designed or less attractive. While several are nearing completion, a few more await approval. These centers do not contain third or fourth outlets for mom-and-pop retailers, but rather new fresh concept retailers whose business model thrives in slow times. Also, in the wings, is a proposed urban redevelopment for South Nevada and Interstate 25. This gateway to Colorado Springs' Central Business District is being positively regarded and should be approved by the end of 2009. Success of the project type has developers jockeying for prime locations for mixed-use projects.

For many, including developers, landlords, and tenants, 2009 will be focused on back-to-basics rules. Colorado Springs will experience growth due to military troop level increases through base realignments. Average lease rates for non-anchored centers will decline, creating affordable entry opportunities for new tenants, and average lease rates for anchored centers will remain unchanged.

COLORADO SPRINGS
Investment and Land

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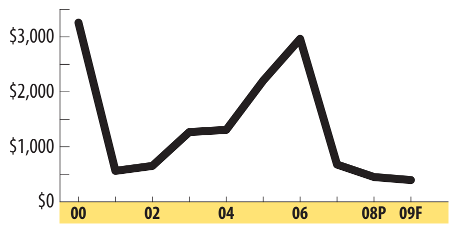
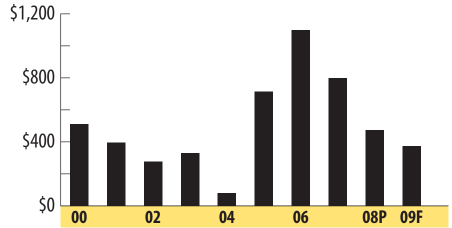
Rents have remained solid and vacancy rates low enabling most property owners to service debt. 2009 will bring fewer buyers, though for investors with cash, there will be opportunities to acquire properties at discounted values.

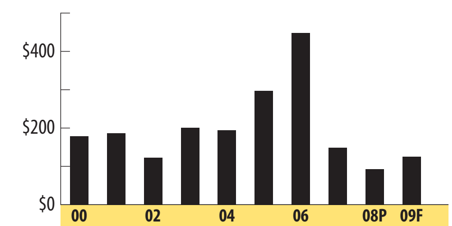
Absorption
Year-End (Thousand SF)



Property Sales Volume
All Commercial (in Millions)



Land Sales Volume
(in Millions)



After record setting years for investments in 2006 and 2007, the economy succumbed to national trends in 2008 that fostered a decline in sales of all types of investment properties. Commercial real estate values have fallen due to more expensive and less available credit and increasing government controls over lenders. However, unlike the early 1990's, the commercial market hasn't suffered years of overbuilding. Defaults on commercial real estate debt remain low. Rents have remained solid and vacancy rates low enabling most property owners to service debt. Landlords with vacancies, however, will have to pay off a portion of the debt or find equity partners to weather the credit crisis.

Investors will seek properties with owners motivated to sell at discounted values. A host of "for sale only" properties including condos, the 1.4 million square foot Intel facility and the pending downsizing of Honeywell, Agilent and Verizon have contributed to the increase in the number of properties available for purchase in Colorado Springs.

Colorado Springs has been less impacted by national economic issues

than many other markets. The defense industry remains strong with defense contractors expanding and consolidating into new build to suit office buildings. Fort Carson is anticipating the arrival in 2009 of approximately 10,200 troops which will give a boost to the local economy through direct and indirect spending.

Forecast

Investors with cash or equity partners will purchase properties in 2009 at favorable prices. Look for overall market values to decline by 15 to 20%. Traditional financing will remain difficult to obtain unless properties are secured with long term credit leases. Land prices will continue to decline offering traditional investors the opportunity to buy vacant land at bargain prices.

Lease rates will decline and vacancies will increase in the office market making future values difficult to underwrite for lenders. High quality office investments such as medical buildings with long term leases will be attractive for qualified investors. Buyers with "opportunity funds" will continue to search for value driven purchases.

The retail market will continue to be impacted due to challenges with the economy and decreased consumer spending. With current national economic conditions, businesses are reluctant to expand, unemployment is on the rise and sales and revenue are down. Older retail centers with increasing vacancies and declining rents will offer upside opportunities in 2009 at below market pricing.

Investment grade industrial product remains scarce in the Colorado Springs market. With the potential decline in interest rates, owner users will continue to look for opportunities to acquire properties at attractive values.