



KING & ASSOCIATES INC.
Market, Feasibility And Economic Analysis For The Real Estate Industry

ALLISON VALLEY METROPOLITAN DISTRICT No. 1 MARKET ANALYSIS

PREPARED FOR:
ALLISON VALLEY METROPOLITAN DISTRICT No. 1

PREPARED BY:
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EXECUTIVE
SUMMARY

Summary

- Planned development in Allison Valley Metropolitan District No. 1 includes approximately 780,000 square feet of office and retail space along with 280 apartment units and 120 townhomes.
- From 2016 - 2030, positive demographic growth is projected in Colorado Springs as well as the trade areas.
- Employment has increased steadily in the metro Colorado Springs area since 2010 and continued job growth is forecast at a rate of 2.1% annually through 2025.
- The office and retail commercial market segments along with the apartment and townhome markets in Colorado Springs have registered positive performance over the past several years.

Commercial (Retail and Office) Market Trends and Forecasts

- The commercial retail and office market segments in Colorado Springs and the trade area have posted positive performance over the past several years.
- The Colorado Springs retail market is characterized by very low vacancies (5.7% Q3 - 2016), steady lease rates (\$12 per square foot - Q3 2016) and strong demand (average absorption of 490,000 square feet per year since 2010).
- The Colorado Springs office market has also registered positive gains over the last several years with a third quarter (2016) vacancy rate of 11.2%, lease rates averaging \$16.41 per square foot and average demand of 298,000 square feet annually since 2010.
- The trade area retail market is highlighted by low vacancies (current rate of just 4.6%), an average lease rate of \$15.07 per square foot (higher than Colorado Springs) and strong demand (128,000 square feet absorbed through third quarter of 2016).
- The trade area's office market has a current vacancy rate of 10.6% (Q3 2016), absorption has averaged 183,000 square feet per year over the past three years and lease rates have held steady in the \$17 to \$18 per square foot range since 2013.

Apartment and Townhome Market Trends and Forecast

- There are nearly 48,000 apartment units in Colorado Springs.
- The current vacancy rate stands at just 4%, rental rates have increased by an average of 6.1% annually over the past five years and nearly 600 new units per year have been constructed since 2011.
- Townhome building permits in Colorado Springs have averaged nearly 190 units annually since 2011 and current year (2016) building activity is on pace to equal 284 units.
- The apartment vacancy rate in the trade area is currently 4.4% (Q3 2016) and lease rates have increased by an average of 6% per year since 2011.
- Trade area apartment demand is forecast to range from 255 to 330 units per year - approximately 1.5 to 2 apartment projects annually - through 2030.
- Trade area townhome demand is projected to equal 170 to 210 units per year during the 2016 through 2030 forecast period.

Project Assessment

- Retail and office space as well as apartments and townhomes are planned for development in the District over the ten-year period that extends from 2018 through 2027.
- The District has an excellent location that is near major transportation routes (I-25, North Powers Boulevard and Voyager Parkway) as well as employment centers in the northern Colorado Springs metro area.
- The northern portion of the Colorado Springs metro area has been growing rapidly over the last several years and is a desired location for both new residents and businesses.
- There has been just 46,000 square feet of new office space constructed in the trade area since 2013 and retail development has totaled under 200,000 square feet per year during the same period.
- Commercial development that has recently occurred in the trade has been below annual office (320 - 370,000 square feet) and retail (280 - 345,000) demand rates forecast in the trade area.
- The apartment market in Colorado Springs has registered strong performance during the past several years and vacancy and lease rate trends indicate exceedingly positive market performance in the trade area.
- Projected market share rates for development planned in the District (Retail - 7% to 8%, Office - 15% to 17%, Apartments - 8% to 9% and Townhomes - 6% to 7%) are viewed as reasonable based on market trends and forecast demand rates.
- King & Associates, Inc. finds the absorption forecast for Allison Valley Metropolitan District No. 1 to be reasonable given review and assessment of Colorado Springs and trade area real estate market conditions.

PURPOSE & SCOPE

King & Associates, Inc. has been retained by Allison Valley Metropolitan District No. 1, which is located in Colorado Springs, Colorado, to assess the feasibility of commercial and residential development planned in the District.

Commercial (retail and office) and residential (apartments and townhomes) development planned in Allison Valley Metropolitan District No. 1 has been measured against current and anticipated real estate market conditions within the Colorado Springs metropolitan area as well as the project trade area. Real estate demand and supply factors have been reviewed and include among others: demographic trends and forecasts as well as residential and commercial market performance trends (vacancy and lease rates, absorption and new construction).

DEVELOPMENT PROGRAM

The project developer has outlined a development schedule for Allison Valley Metropolitan District No. 1 that totals 779,724 square feet of commercial space and 400 residential units. Specifically, commercial development planned in the District includes 544,500 square feet of office, 235,224 square feet of retail space, 280 rental apartments and 120 townhomes. The District anticipates absorption of the commercial space and residential units to occur over a ten-year period from 2018 through 2027. Average absorption over the development period equals nearly 78,000 square feet of retail and office space along with 40 residential units per year. The following table details the development schedule for the District.

Allison Valley Metropolitan District No. 1
Development Program and Schedule

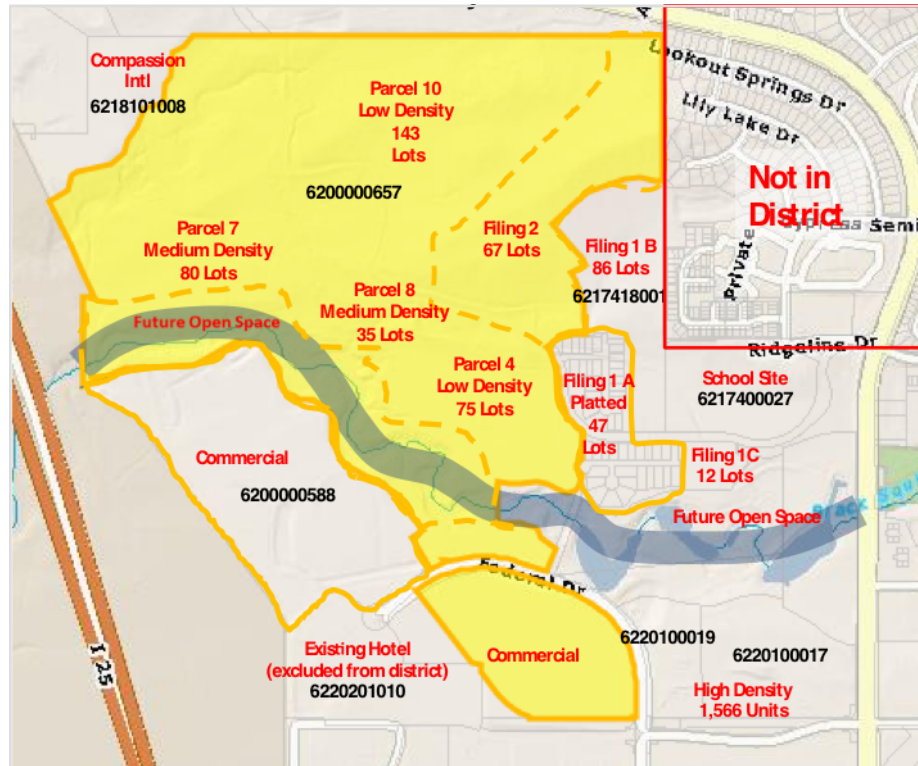
Type / Year	Commercial		Residential	
	Office	Retail	Apts	TH
2018	0	0	140	30
2019	54,450	0	140	30
2020	54,450	0	0	30
2021	108,900	39,204	0	30
2022	54,450	39,204	0	
2023	54,450	39,204	0	
2024	0	78,408	0	
2025	54,450	39,204	0	
2026	108,900		0	
2027	54,450		0	
Total	544,500	235,224	280	120

Source: Allison Valley Metropolitan District No. 1.

DEVELOPMENT
AREA

Allison Valley Metropolitan District No. 1 is located east of I-25, between Northgate Boulevard and Interquest Parkway. The project developer has provided the following map that depicts the location of parcels and filings in the District.

Allison Valley Metropolitan District No. 1
District Boundary and Parcel Map



Source: Allison Valley Metropolitan District No. 1.

PROJECT TRADE
AREAS

A trade area has been identified to analyze market supply and demand factors that relate to forecast absorption in Allison Valley Metropolitan District No. 1. The trade area, that extends within a 20-minute driving distance of the District, has been determined as the primary geographic area from which the majority of employees, customers and clients of businesses that are anticipated to locate in planned retail and office space constructed in Allison Valley Metro District No. 1 (District) currently reside. The trade area also includes the primary area from which the majority of tenants of planned apartments and townhomes in the District currently reside.

Allison Valley Metropolitan District No. 1 - Trade Area Market



Source: King & Associates, Inc.
Note: Trade area boundary is approximate as depicted on the map.

DEMOGRAPHICS

Demographic trends & forecasts are presented for the Colorado Springs metro area as well as the trade area; including population, households and average household size information. Demographic trends and forecasts, particularly those relating to households, provide a basis for forecasting future housing and retail demand.

Colorado Springs Demographics

Population

- Population in Colorado Springs was nearly 517,000 in 2000 and increased to 627,232 in 2010.
- Current population (2015) in the metro area is estimated at 675,227.
- Since 2010, population has increased by an average of 9,599 residents per year, reflecting a 1.49% annual growth rate.
- Population is forecast to reach 844,191 residents by 2030, increasing by 11,264 per year and reflecting growth of 1.5% annually.

Households

- The number of households in Colorado Springs equaled 193,259 in 2000, 237,851 in 2010 and the current (2015) number of households equals approximately 259,000.
- From 2010 to 2015, households in Colorado Springs increased by 4,246 per year, reflecting a 1.72% average annual growth rate.
- The number of households is projected to increase by 4,806 per year by 2030, with total households reaching 331,168 and equaling a 1.65% average annual growth rate.

Household Size

- From 2000 to 2015, average household in Colorado Springs fell from 2.61 to 2.56 and is forecast to decreased to 2.54 by 2030.
- The following table presents demographic trends and forecasts for Colorado Springs from 2000 through 2030.

Colorado Springs – Demographic Trends & Forecasts

Year	2000	2010	2015	2030
Population	516,929	627,232	675,227	844,191
Households	193,259	237,851	259,082	331,168
Household Size	2.61	2.56	2.56	2.54
<u>Annual Change</u>		<u>2000-10</u>	<u>2010-15</u>	<u>2016-30</u>
Population				
Numeric		11,030	9,599	11,264
Percent		1.95%	1.49%	1.50%
Households				
Numeric		4,459	4,246	4,806
Percent		2.10%	1.72%	1.65%

Source: ESRI, King & Associates, Inc.

Trade Area Demographics

Population

- Population in the trade area was approximately 300,000 in 2000 and increased to 359,401 in 2010.
- Current population (2015) in the trade area is estimated at 379,339.
- Since 2010, population has increased by an average of 3,988 residents per year, reflecting a 1.1% annual growth rate.
- Trade area population is forecast to reach 457,039 by 2030, increasing by 5,180 residents per year and reflecting an average annual growth rate of 1.25%.

Households

- The number of households in the trade area increased from 111,902 in 2000 to 139,394 in 2010.
- From 2010 to 2015, trade area households increased to 148,252, reflecting growth of 1,772 households per year and a corresponding growth rate of 1.24% annually.
- The number of households in the trade area is projected to reach 179,946 by 2030, equaling growth of 2,113 households per year and a corresponding 1.3% average annual growth rate.

Household Size

- The average household size in the trade area decreased from 2.51 to 2.50 from 2010 to 2015.
- Average household size in the trade area is forecast to decrease to 2.48 by 2030.
- The following table presents demographic trends and forecasts for the trade area from 2000 through 2030.

Trade Area - Demographic Trends & Forecast

Year	2000	2010	2015	2030
Population	294,440	359,401	379,339	457,039
Households	111,902	139,394	148,252	179,946
Household Size	2.56	2.51	2.50	2.48
Annual Change		<u>2000-10</u>	<u>2010-15</u>	<u>2016-30</u>
Numeric				
Population		6,496	3,988	5,180
Households		2,749	1,772	2,113
Percent				
Population		2.01%	1.09%	1.25%
Households		2.22%	1.24%	1.30%

Source: ESRI, King & Associates, Inc.

EMPLOYMENT

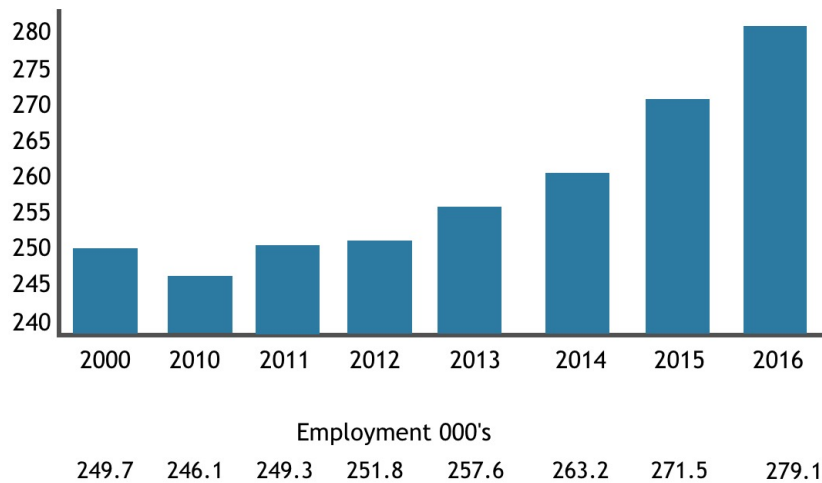
Employment trends in the Colorado Springs, MSA have been reviewed over the past several years. This includes overall employment levels, job growth and unemployment rates. Employment trends and forecasts are both indicators of commercial and residential real estate demand.

Employment Trends

Over the past five years, average annual employment levels have increased steadily in the Colorado Springs, MSA., with particularly strong growth during the past three years. In 2010, average annual employment totaled 246,100 and has increased to 271,500 through 2015. During the 2010 through 2015 period, 5,100 jobs have been added each year in the Colorado Springs, MSA, representing an average annual growth rate of 2%.

Employment has increased markedly in the region through October of the current year (2016). As of October, 3,600 new jobs have been added in the Colorado Springs, MSA, comparing current (October) employment in 2016 (279,100) with same period employment in 2015 (275,500). The following graphic presents employment trend data for the Colorado Springs, MSA.

Colorado Springs, MSA – Employment Trends (in 000's)

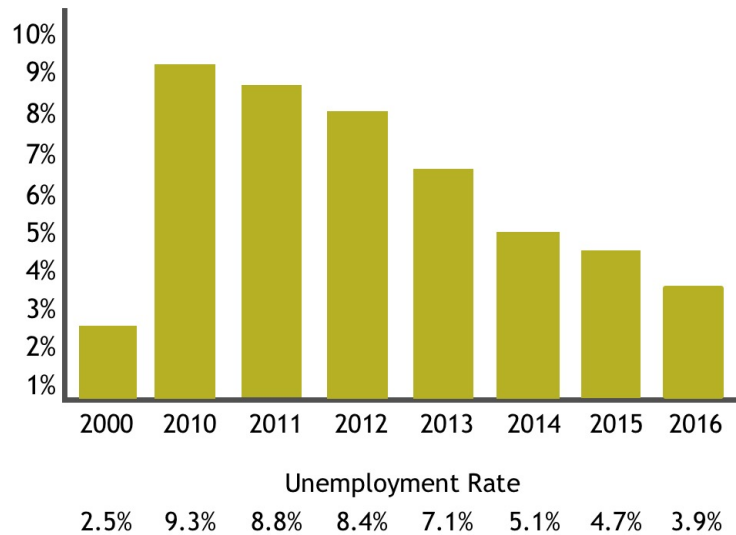


Source: Colorado Division of Labor, King & Associates, Inc.

Unemployment Trends

The unemployment rate in the Colorado Springs, MSA, has declined steadily over the past several years. In 2010, unemployment was 9.3% and dropped to 5.1% at the end of 2014. During 2015, the unemployment rate dipped further to a year-end level of 4.7% and the current (October 2016) unemployment rate stands at 3.9%. The following graphic presents unemployment trend data for the Colorado Springs, MSA.

Colorado Springs, MSA - Unemployment Trends



Source: Colorado Division of Labor, King & Associates, Inc.

Employment Forecasts

The Colorado Division of Labor and Employment regularly completes employment forecasts for counties and statistical areas in the State of Colorado. The most recent forecast for the Colorado Springs, MSA extends from 2015 through 2025, during which time employment is projected to increase from approximately 280,000 to 338,000. During the ten-year forecast period, employment is projected to increase by 6,684 per year or by a rate of 2.1% annually. The following table presents forecast employment for the Colorado Springs, MSA from 2015 to 2025.

Colorado Springs – Employment Trends & Forecasts

Year	2015	2025
State of Colorado - Employment forecast		
Employment	288,999	355,835
<i>Annual change</i>		
Numeric		6,684
Percent		2.10%

Source: Colorado Division of Labor, King & Associates, Inc.
Note: The forecast reflects total employment, which is higher than wage and salary employment data presented in the previous table.

COMMERCIAL,
APARTMENT AND
TOWHNAME
MARKET TRENDS

This section of the report discusses commercial market supply and demand trends for the Colorado Springs retail and office markets. Additionally, market supply and demand trends pertaining to the residential (apartment and townhome) market are also presented. Information presented focuses on vacancies, lease rates, absorption and new building / project construction.

Retail Market Trends

- The Colorado Springs retail market includes 41 million square feet of leasable space.
- Since 2010, the retail market in Colorado Springs has improved steadily and current performance measures indicate extremely strong market conditions.
- The retail vacancy rate has declined steadily from 7.5% at the end of 2010 to 5.7% at year-end 2015.
- As of third quarter 2016, the retail vacancy rate remained at 5.7%.
- Year-to-year trends have been mixed but overall, lease rates have increased from an average of \$11.50 per square foot at year-end 2010 to \$12 per square foot as of third quarter 2016.
- Absorption measures the change in occupied space between two periods of time and is considered the primary measure of demand.
- Absorption in the Colorado Springs retail market has averaged 543,000 square feet annually from 2010 through 2015.
- During the past five years, the amount of retail space absorbed has varied from a high of 925,000 square feet in 2010 to a low of 250,000 square feet in 2012.
- In 2015, 445,000 square feet of retail space was absorbed in Colorado Springs and positive demand has continued through the third quarter of 2016 with absorption totaling 194,000 square feet.
- The amount of new retail space constructed in Colorado Springs has averaged 379,000 square feet annually from 2010 through Q3 2016.
- During this period, construction was highest in 2013 at 420,00 square feet and 100,000 square feet was constructed in 2012.
- In 2015, construction totaled 400,000 square feet and 307,000 square feet has been constructed through the third quarter of 2016.
- The following table details Colorado Springs retail market trends.

Colorado Springs – Retail Market Trends (000's)

Year	2010	2011	2012	2013	2014	2015	2016
Vacancy Rates	7.5%	7.1%	6.9%	6.3%	5.8%	5.7%	5.7%
Absorption	925	590	250	590	320	445	194
Lease rate	\$11.50	\$11.40	\$11.20	\$10.90	\$11.00	\$11.50	\$12.00
Inventory				40,000	40,176	40,309	40,661
Construction	450	400	100	420	100	400	307

Source: Quantum Commercial Group Inc., Costar, King & Associates, Inc.
Note: 2016 data as of third quarter.

Office Market Trends

- The Colorado Springs office market includes 28.7 million square feet of leasable space and market performance trends have been mixed since 2010.
- The office vacancy rate has declined steadily, dropping from 15.4% at the end of 2010 to 11.6% at year-end 2015.
- As of third quarter 2016, the office vacancy rate declined to 11.2%.
- Lease rates have decreased over the past several years from an average of \$17.46 per square foot at the end of 2010 to \$17.17 per square foot at year-end 2015.
- As of third quarter 2016, office lease rates averaged \$16.41 per square foot, dropping from a 4th quarter average of \$17.17 per square foot in 2015.
- Annual absorption in the Colorado Springs office market has averaged 325,000 square feet per year from 2010 through 2015.
- Since 2010 absorption has ranged from a high of 627,000 square feet in 2010 to a negative absorption of -18,000 square feet in 2014.
- In 2015, 195,000 square feet of office space was absorbed in Colorado Springs and demand remained positive through the third quarter of 2016 with absorption totaling 65,000 square feet.
- Office space constructed in Colorado Springs has averaged just 54,000 square feet annually from 2010 through 2015.
- During this period, construction peaked in 2012 with completion of 134,000 square feet of office space.
- This compares with construction of just 11,000 square feet of space in 2011.
- In 2015, 33,000 square feet of office space was completed and 22,000 square feet of space has been constructed through the third quarter of 2016.
- The following table details Colorado Springs office market trends.

Colorado Springs – Office Market Trends (000's)

Year	2010	2011	2012	2013	2014	2015	2016
Vacancy Rate	15.4%	13.7%	13.3%	12.0%	12.2%	11.6%	11.2%
Absorption	627	481	240	424	-18	195	65
Lease rate	\$17.46	\$17.37	\$17.22	\$16.96	\$17.02	\$17.17	\$16.41
Inventory	28,137	28,148	28,279	28,349	28,382	28,406	28,727
Construction	30	11	134	70	46	33	22

Source: Quantum Commercial Group Inc., King & Associates, Inc.
Note: 2016 data as of third quarter.

Apartment Market Trends

- Comparable with most cities in the State of Colorado, the Colorado Springs apartment market has registered very strong performance during the past several years.
- As of third quarter of 2016 there were 47,626 rental apartment units in the Colorado Springs market area, with market conditions characterized by falling vacancies, increasing rental rates, strong demand and new project construction.
- Apartment vacancies have declined steadily the past several years, dropping from 7.2% at year-end of 2010 to 5.0% at the end of 2015.
- Apartment vacancy rates have continued to decrease and stood at just 4% as of third quarter 2016.
- Rental rates have increased substantially during the past five years in Colorado Springs, rising from a year-end average of \$738 per unit in 2010 to \$942 per unit at the end of 2015 and reflecting an average increase of 5% annually.
- Rental rates have continued to increase during the current year, reaching an average of \$1,025 per unit in the third quarter of 2016 and reflecting an increase of nearly 9% from year-end rental rates (\$942) in 2015.
- Apartment unit absorption (demand) in Colorado Springs has averaged 726 units per year from 2010 through 2015.
- During this period, demand (absorption) was highest in 2014 with absorption of 1,528 units and lowest in 2013 when 136 units were absorbed.
- Absorption has totaled 970 units through third quarter of 2016.
- New apartment construction in Colorado Springs has been very strong during the past several years with building permits averaging 567 units per year from 2010 through 2015.
- New project development has continued during the current year with 419 apartment permits issued through November of 2016.
- The following table details Colorado Springs apartment market trends.

Colorado Springs – Apartment Market Trends

Year	2010	2011	2012	2013	2014	2015	2016
Vacancy Rates	7.2%	6.7%	7.1%	7.1%	5.3%	5.0%	4.0%
Absorption	641	350	870	136	1,528	831	970
Rental Rate	\$738	\$775	\$841	\$850	\$932	\$942	\$1,025
Inventory	44,344	44,442	45,114	45,742	46,458	47,211	47,626
Building Permits	84	647	575	544	915	639	419
New units	47	98	672	628	716	753	1,305

Source: Apartment Association of Southern Colorado, King & Associates, Inc.
Notes:

1. The number of new units reflects completed, rentable units that have been added in the market area and is a different measurement from building permits.
2. Note: 2016 data as of third quarter.

Townhome Building Trends

- As with overall housing conditions in Colorado Springs, the market for newly constructed townhomes dropped sharply due the recession and housing market crash that lasted from 2008 through 2010.
- As the residential housing market has recovered, development of new townhomes has lagged the strong pace of new construction within the single-family detached and apartment market segments.
- However, new townhome construction has increased in Colorado Springs since 2014.
- From 2011 - 2015, the number of townhome building permits issued in Colorado Springs has averaged 188 units per year.
- In 2015, building permits increased to 198 units and through November of the current year (2016), the number of townhome permits has totaled 260 units.
- Current year permits are on pace to equal 284 units throughout 2016, which represents a 51% increase from the average number of permits issued in Colorado Springs since 2011.
- The following table presents townhome building permit trends for Colorado Springs from 2011 through November of 2016.

Colorado Springs - Townhome Building Permit Trend

Year	2011	2012	2013	2014	2015	2016	Average
Townhomes	174	192	201	175	198	260	188

Source: Pikes Peak Regional Building Department.
Note: 2016 data through November.

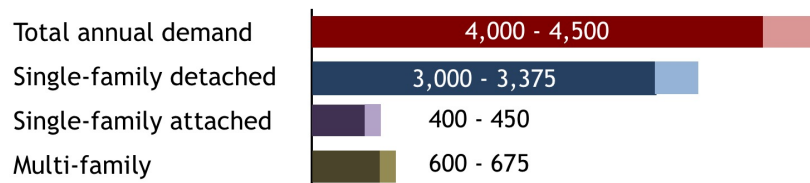
Colorado Springs
COMMERCIAL AND
APARTMENT
DEMAND FORECASTS

Residential (apartment and townhome) and commercial (retail and office) demand forecasts for Colorado Springs have been completed from 2015 through 2030. The apartment and townhome demand projection is based on forecast household growth while retail and office demand forecasts have been completed using two methods that consider demand trends as well as household and employment growth in the region.

Residential (Apartment and Townhome) Demand

- Housing demand has been forecast based on the assumption that each new household in the region will create equivalent demand for new housing units.
- Previously, demographic trends and forecasts were presented for Colorado Springs and growth equaling approximately 4,800 households per year was projected in the region from 2015 through 2030.
- Assuming that each new household formed will create equivalent demand for new housing units, demand is projected to equal 4,800 units annually in the Colorado Springs metro area.
- However, King & Associates, Inc. has adjusted the housing demand forecast downward to 4,000 to 4,500 units per year to compare more closely with recent building permit trends.
- In addition to overall demand, segmented demand has been projected based on single-family detached, attached and multi-family unit types.
- Apartment demand is projected to range from 600 to 675 units per year with the demand for townhomes equaling 400 to 450 units annually through 2030.
- The demand allocation is based on previously presented building permit trend averages over the past several years as well as characteristics of housing stock in the region.
- Colorado Springs annual housing demand from 2015 through 2030 is presented in the following table.

Colorado Springs
Overall and Segmented Annual Housing Unit Demand



Source: King & Associates, Inc.

Commercial Demand

Retail Demand

- Two methods have been used to forecast retail demand in Colorado Springs and include recent demand trends (absorption) along with household growth projections.
- The demand forecast for Colorado Springs serves as a method to assess and forecast retail demand in the trade area.

Demand trends forecast method

- Demand trends (retail absorption trends) in Colorado Springs provide one method to forecast retail demand.
- Since 2010, retail absorption (demand) has varied in Colorado Springs, ranging from 250,000 square feet in 2012 to 925,000 square feet in 2010.
- Since 2010, retail absorption in Colorado Springs has averaged 491,000 square feet per year and indicates future demand.

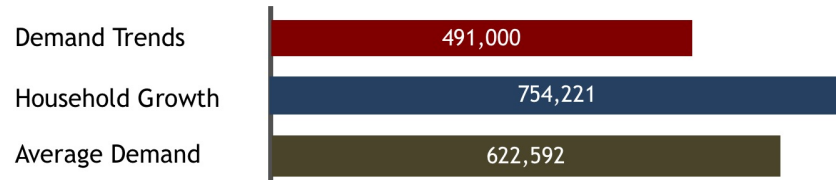
Household growth forecast method

- Household growth is the second method used to forecast retail demand.
- Using this forecast method, the number of households in Colorado Springs and the supply of retail space are used to calculate a demand rate per household.
- Household growth is then multiplied by the demand rate to forecast retail demand.
- There were approximately 41 million square feet of retail space in Colorado Springs at year-end 2015 and 259,000 households.
- The retail demand rate for Colorado Springs is calculated by dividing retail supply (41 million square feet) by households (259,000), which results in a demand rate of 157 square feet of retail space per household.
- During the next fifteen-year period (2016 – 2030), Colorado Springs household growth is forecast to average 4,806 per year.
- Using these variables, retail demand is projected at approximately 755,000 square feet annually, calculated by multiplying yearly household growth by the demand generation rate.

Retail Demand Summary

- Based on absorption trends, Colorado Springs retail demand is projected to equal 491,000 square feet annually.
- The second forecast method, based on household growth, results in projected annual retail demand of approximately 755,000 square feet.
- An average of the two methods is presented in the following chart, with retail demand equaling nearly 623,000 square feet per year.
- The following graphic depicts retail demand forecasts for Colorado Springs

Colorado Springs – Retail Demand Forecast (annual square feet)



Source: King & Associates, Inc.

Office Demand

- Two forecast methods have also been used to forecast office demand and include recent demand trends (absorption) and employment growth.

Demand trends forecast method

- Demand trends (office absorption trends) have been used as the first method to forecast office demand.
- Since 2010, office absorption (demand) has ranged from negative -18,000 square feet in 2014 to 627,000 square feet in 2010, with average absorption of 298,000 square feet per year.

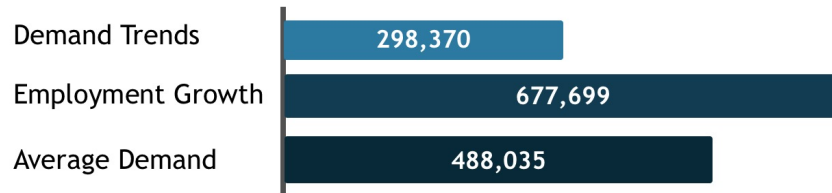
Employment growth forecast method

- Employment growth is the second method used to forecast office demand.
- Currently, office inventory in Colorado Springs totals 28.3 million square feet and employment stands at 273,300.
- The office demand generation rate for Colorado Springs is calculated by dividing office supply (28.3 million square feet) by employment (273,300), resulting in demand of 104 square feet of office space per employee.
- During the next ten-year period (2016 – 2025), Colorado Springs employment growth is forecast to equal 6,684 per year (assuming continuation of employment growth at projected rates through 2030), resulting in forecast office demand of approximately 678,000 square feet annually.

Office Demand Summary

- Based on absorption trends, Colorado Springs office demand is projected to equal approximately 298,000 square feet annually.
- The second forecast method, based on employment growth, results in projected annual demand of approximately 678,000 square feet.
- An average of the two methods is presented in the following table to approximate Colorado Springs office demand of nearly 488,000 square feet per year.
- The following graphic depicts office demand forecasts for Colorado Springs

Colorado Springs – Office Demand Forecast (annual square feet)



Source: King & Associates, Inc.

TRADE AREA
APARTMENT AND
COMMERCIAL
MARKET TRENDS

This section presents commercial (office and retail) and apartment market trend information for the trade area. As with the previous report section that addressed metro-wide trends, information involving vacancies, lease rates, absorption and new building / project construction is presented.

Retail Market Trends

- The trade area retail market includes 22 million square feet of leasable space and accounts for 54% of total retail space in Colorado Springs.
- Since 2013, positive performance has been registered within the trade area’s retail market segment, highlighted by decreasing vacancies, increasing lease rates and strong demand (absorption).
- The retail vacancy rate has declined steadily during the past several years, dropping from 5.1% at the end of 2013 to 4.6% as of third quarter 2016.
- Lease rates in the trade have been trending upward from 2013 through the third quarter of 2016.
- The average lease rate in the trade area has increased from \$12.84 per square foot at year-end 2013 to \$15.07 per square foot at the end of the third quarter of 2016.
- Absorption in the trade area has averaged 200,000 square feet annually from 2013 through Q3 2016.
- Since 2013, the amount of retail space absorbed has varied from a high of 510,000 square feet in 2013 to a low of 112,000 square feet in 2014.
- Demand has been strong in 2016 with absorption equaling 128,000 square feet through the third quarter of the current year.
- The amount of new retail space constructed in trade area has averaged approximately 175,000 square feet annually from 2013 through Q3 2016.
- During this period, construction was highest in 2013 at 259,00 square feet and lowest in 2014 with 77,000 square feet constructed.
- Through third quarter of 2016, 169,000 square feet of retail space has been constructed in the trade area.
- The following table details trade area retail market trends.

Trade Area Retail Market Trends (000’s)

Year	2013	2014	2015	2016
Vacancy Rates	5.1%	4.9%	4.4%	4.6%
Absorption	510	112	n/a	128
Lease rate	\$12.84	\$13.04	\$13.25	\$15.07
Inventory	21,600	21,500	22,000	22,100
Construction	259	77	159	169

Source: Quantum Commercial Group Inc., Costar and King & Associates, Inc.
None: 2016 data as of third quarter.

Office Market Trends

- The trade area’s office market includes nearly 22 million square feet of leasable space and accounts for nearly 80% of all office space in the Colorado Springs metro area.
- Since 2013, trade area office market trends have generally registered positive performance with decreasing vacancies, varied lease rates and steady demand (except in 2014 with negative demand).
- The trade area office vacancy rate has declined from 11.8% at the end of 2013 to a current rate of 10.6% at the end of quarter 2016.
- Lease rates in the trade area have varied over the past few years but overall have declined from an average of \$17.65 per square foot at the end of 2013 to \$16.94 per square foot in 2015.
- However, lease rates have increased through third quarter of 2016, increasing from \$16.94 per square foot as of mid-year 2015 to a current level (Q3 2016) of \$17.13 per square foot.
- Trade area absorption has averaged 183,000 square feet per year from 2013 through Q3 2016.
- Since 2013, absorption has ranged from a high of 518,000 square feet in 2013 to negative demand of -128,000 square feet in 2014.
- Demand (absorption) has been positive through the third quarter of 2016, with trade area office absorption totaling 104,000 square feet.
- Approximately 150,000 square feet of office space has been constructed since 2013 and the trade area has accounted for all new office space constructed in Colorado Springs since 2013.
- No office space has been constructed in the trade area during 2016.
- The following table details trade area office market trends.

Trade Area Office Market Trends (000’s)

Year	2013	2014	2015	2016
Vacancy Rates	11.8%	11.7%	11.4%	10.6%
Absorption	518	-128	191	104
Lease rate	\$17.65	\$17.60	\$16.94	\$17.13
Inventory	21,500	21,600	21,600	21,900
Construction	47	61	41	0

Source: Quantum Commercial Group Inc., Costar and King & Associates, Inc.
Note: 2016 data as of third quarter, 2015 data as of mid-year.

Apartment Market Trends

- The apartment market trade area consists of the Northwest, Northeast and Far Northeast submarket areas.
- Vacancy and average rental rate trends are presented for the trade area, with submarket data unavailable for number of units (inventory) and absorption.
- Average vacancy rates in the trade area have remained low over the past several years and overall have trended downward.
- From 2011 through third quarter 2016, the average vacancy rate in the trade area has declined from 6.2% to 4.4%.
- Vacancy rates are lowest in the Far Northeast portion of the trade area and currently stand at just 3.8%.
- The Northwest portion of the trade area has the highest vacancy rate at a current (Q3 2016) level of 5.1%.
- Aside from trends in 2012, average rental rates in the trade area have increased steadily.
- The average rental rate in the trade area has increased from \$821 per unit in 2011 to a current (Q3 2016) rate of \$1,083 per unit.
- This reflects an increase of 6% per year.
- The Northwest portion of the trade area currently (Q3 2016) has the highest average rental rates at \$1,136 per unit compared with rental rates in the Northeast area at \$998 per unit.
- The following table details trade area apartment market trends.

Trade Area Apartment Market Trends

Year	2011	2012	2013	2014	2015	2016
Vacancy rates						
Northwest	6.8%	4.2%	5.1%	5.6%	5.5%	5.1%
Northeast	5.3%	5.6%	5.2%	3.9%	3.6%	4.2%
Far Northeast	6.5%	6.6%	13.0%	6.0%	8.0%	3.8%
Average	6.2%	5.5%	7.8%	5.2%	5.7%	4.4%
Rental rate						
Northwest	\$820	\$841	\$850	\$932	\$1,081	\$1,136
Northeast	\$743	\$721	\$760	\$851	\$857	\$998
Far Northeast	\$900	\$880	\$917	\$956	\$1,039	\$1,116
Average	\$821	\$814	\$842	\$913	\$992	\$1,083

Source: Apartment Association of Southern Colorado, King & Associates, Inc.
Note: 2016 data as of third quarter.

TRADE AREA
APARTMENT AND
COMMERCIAL DEMAND
FORECASTS

This section of the report provides commercial and apartment demand forecasts for the trade area that extend from 2016 through 2030. The forecasts address demand for retail and office space as well as multi-family apartment demand.

Retail Demand

- Trade area retail demand has been forecast based on a market share (capture rate) methodology that assumes the trade area will account for a percentage of forecast Colorado Springs retail demand (as previously detailed).
- The trade area currently accounts for 45% of retail inventory in the Colorado Springs metropolitan area and has accounted for 55% of retail absorption since 2013.
- These trends suggest the trade area will capture approximately 45% to 55% of forecast retail demand in Colorado Springs during the 2016 – 2030 period.
- Based on a 45% to 55% market share range, trade area retail demand is forecast at approximately 280,000 to 350,000 square feet per year (calculated by multiplying forecast annual Colorado Springs retail demand of 622,592 square feet by the projected 45% - 55% trade area market share rate).
- The following table presents the trade area retail demand forecast.

Trade Area – Retail Demand Forecast

Market share rate methodology	45% to 55%	
Trade area projected market share rate		
Colorado Springs retail demand projection	622,592	
	<u>@45%</u>	<u>@55%</u>
Annual trade area retail demand	280,166	342,426

Source: King & Associates, Inc.

Office Demand

- Trade area office demand has been forecast using the same method as the the retail demand forecast.
- The trade area currently accounts for 65% of office inventory in the Colorado Springs metropolitan area and has accounted for 75% of office demand (absorption) since 2010.
- These trends suggest the trade area will capture approximately 65% to 75% of forecast office demand in Colorado Springs during the 2016 – 2030 period.
- Using the 65% to 75% market share range, trade area office demand is forecast at approximately 320,000 to 370,000 square feet per year (calculated by multiplying forecast annual Colorado Springs office

demand of 488,035 square feet by the projected 65% - 75% trade area market share rate).

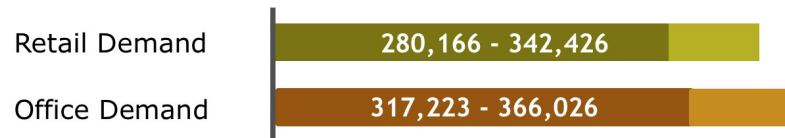
- The following table details the trade area office demand forecast and the graphic depicts projected retail and office demand.

Trade Area – Office Demand Forecast

Market share rate methodology		
Trade area projected market share rate	65% to 75%	
Colorado Springs office demand projection	488,035	
	@65%	@75%
Annual trade area retail demand	317,223	366,026

Source: King & Associates, Inc.

Trade Area - Annual Office and Retail Demand Forecas



Source: King & Associates, Inc.

Note: Demand forecast reflects annual square feet.

Apartment Demand

- Apartment demand has been forecast using household growth projections in the trade area.
- As presented, the number of households in the trade area is forecast to increase by 2,113 per year and household growth ranging from 2,000 to 2,300 units per year has been used to forecast apartment demand from 2016 through 2030.
- Assuming each new household generates equivalent housing unit demand, the number of new households in the trade area will approximate annual household growth.
- It is also assumed that apartments will comprise 15% of overall housing demand in the trade area, similar to recent building trends in the Colorado Springs metro area.
- Using these assumptions, trade area apartment demand is projected to equal 300 to 345 units per year during the forecast period.
- The following table and graphic detail trade area apartment demand.

Trade Area Apartment Demand Forecast

Trade area household growth		2,113
Trade area housing demand range	2,000	2,300
Apartment share of demand		15%
Apartment units demanded	300	345

Source: King & Associates, Inc.

Townhome Demand

- Townhome demand has been forecast using household growth projections in the trade area, the same as forecast apartment demand.
- Trade area household growth is forecast at 2,000 to 2,300 units per year and it is assumed that townhomes will comprise 10% of overall housing demand in the trade area, similar to recent building trends in the Colorado Springs metro area.
- Using these assumptions, trade area townhome demand is projected to equal 170 to 210 units per year during the forecast period.
- The following table details trade area townhome demand.

Trade Area Townhome Demand Forecast

Trade area household growth		2,113
Trade area housing demand range	2,000	2,300
Townhome share of demand		10%
Townhomes demanded	170	210

Source: King & Associates, Inc.

ABSORPTION ASSESSMENT

This section of the report addresses the timing and intensity of commercial and residential development (absorption) that is planned within the District. Capture rates have been calculated and are presented in relation to categorized demand forecasts in the trade area.

- An absorption forecast has been provided by the District that includes 779,724 square feet of commercial space, 280 apartment units and 120 townhomes
- The absorption forecast extends over a ten-year period from 2018 through 2027, with average absorption equaling approximately 54,000 square feet of office space, 24,000 square feet of retail space, 28 apartment units and 12 townhomes units per year.
- The District's absorption forecast has been reviewed and compared with commercial and residential demand forecasts that were presented for the trade area and are summarized as follows:
 - Retail - 280,000 to 350,000 square feet per year.
 - Office - 320,000 to 370,000 square feet annually.
 - Apartments - 300 to 345 units per year.
 - Townhomes - 170 to 210 units per year.
- Annual absorption has been compared with corresponding demand forecasts to assess the timing and intensity of development planned in the District during the 2018 through 2027 forecast period.
- The relationship between planned development and forecast demand results in a capture rate, which is the percentage share of development planned in the District in relation to categorized forecast demand.
 - Retail space planned in the District (23,522 sq. ft. per year) accounts for just 7% - 8% of corresponding retail demand (280,000 to 350,000 sq. ft. annually) forecast in the trade area.
 - Planned office space (54,450 sq. ft. per year) accounts for 15% - 17% of forecast demand (320,000 to 370,000 sq. ft. annually) in the trade area.
 - Apartments planned in the District (28 units per year) comprise 8% - 9% of forecast trade area demand (255 to 330 units per year).
 - Townhomes planned in the District (28 units per year) equal 6% - 7% of forecast trade area demand (85 to 105 units per year).
- The amount of retail development planned in the District is small (6% - 8% capture rate) in relation to forecast demand in the trade area.
- Office development in the District accounts for a higher share (approximately 15% - 17% capture rate) of forecast trade area demand, but is believed reasonable based on development attributes in the District and trade area (location, access, character of surrounding development, etc.).
- Apartment and townhome development planned in the District account for a small share (apartments 8% - 9% and townhomes 6% - 7% capture rates) of forecast trade area demand and the capture rates are reasonable due to the high demand for rental apartments and increasing demand for townhomes in the trade area as well as Colorado Springs.
- The following table presents capture rates for development planned in the District.

Allison Valley Metropolitan District No. 1 - Capture Rates

Retail		
Allison Valley planned development		23,522
Trade area demand range	280,166	342,426
Capture rate	7%	8%
Office		
Allison Valley planned development		54,450
Trade area demand range	317,223	366,026
Capture rate	15%	17%
Apartments		
Allison Valley planned development		28
Trade area demand range	300	345
Capture rate	8%	9%
Townhomes		
Allison Valley planned development		12
Trade area demand range	170	210
Capture rate	6%	7%

Source: King & Associates, Inc.

Note: Information presented reflects annual planned development and demand.

SUMMARY, FINDINGS
& PROJECT
ASSESSMENT

Summary

- Planned development in Allison Valley Metropolitan District No. 1 includes approximately 779,724 square feet of commercial office and retail space along with 280 apartment units and 120 townhomes.
- From 2016 - 2030, positive demographic growth is projected in Colorado Springs as well as the trade area.
 - Colorado Springs - 1.5% annual household growth.
 - Trade area - 1.25% annual household growth.
- Employment has increased steadily in Colorado Springs since 2010 and continued job growth is forecast at a rate of 2.1% annually through 2025.
- Office and retail commercial market segments in Colorado Springs have show positive performance over the past several years.
- Increased townhome development has occurred in Colorado Springs during the past three years and the apartment market has registered strong performance since 2011.

Commercial (Retail and Office) Market Trends and Forecasts

Colorado Springs

Retail Market

- The retail market in Colorado Springs has posted positive performance over the past several years, characterized by very low vacancies, steady lease rates and strong demand.
 - Retail vacancy rates decreased from 7.5% to 5.7% from 2010 through Q3 2016.
 - Average lease rates reached \$12 per square foot as of third quarter of 2016.
 - Demand has averaged 491,000 sq. ft. annually from 2010 through Q3 2016.
- Retail demand is projected to average approximately 625,000 square feet annually through 2030.

Office Market

- The Colorado Springs office market has also registered positive gains over the last several years with declining vacancies, steady lease rates and positive demand (absorption).
 - Office vacancy rates decreased from 15.4% to 11.2% from 2010 through Q3 2016.
 - Average lease rates have stayed within the \$16.50 to \$17.50 per square foot range since 2010.
 - Demand has averaged nearly 300,000 sq. ft. annually from 2010 through Q3 2016.
- Office demand is projected to average nearly 490,000 square feet annually through 2030.

Trade Area

Retail Market

- The trade area retail market has posted strong performance the past several years with low vacancies, increasing average lease rate and strong demand.
- Vacancy rates have dropped from 5.1% in 2013 to 4.6% as of Q3 2016.
- Lease rates have increased from \$12.84 to \$15.07 per square foot from 2013 to Q3 2016.
- Absorption has averaged 200,000 square feet annually since 2013.
- Retail demand in the trade area is projected to range from 280,000 to 350,000 square feet per year.

Office Market

- The trade area office market has also registered positive gains the past several years.
- Vacancy rates have dropped from 11.8% in 2013 to 10.6% as of Q3 2016.
- Lease rates have increased from \$16.94 to \$17.13 per square foot from the end of 2015 to third quarter of 2016.
- Absorption has averaged 183,000 square feet annually since 2013.
- Trade area office demand is projected to range from approximately 320,000 to 370,000 square feet per year.

Townhome and Apartment Market Trends and Forecast

Colorado Springs

- Townhome building permits have averaged nearly 190 units annually since 2011 in Colorado Springs and current year (2016) building activity is on pace to equal 284 units.
- Townhome demand in Colorado Springs is forecast to average 400 - 450 units per year through 2030.
- The apartment market in Colorado Springs has registered exceeding positive performance over the past several years.
- With strong job growth and rising new and existing home prices, rental apartments provide a less expensive housing alternative for Colorado Springs residents.
- The current vacancy rate (Q3 2016) stands at just 4%.
- Rental rates have increased by an average of 6.1% since 2011.
- Absorption (demand) has averaged 789 units per year since (2010 - Q3 2016) and 4,219 new units per year have been added from 2010 through third quarter of 2016.
- Apartment demand in Colorado Springs is forecast to equal 600 to 675 units per year.

Trade Area

- The apartment vacancy rate in the trade area is currently 4.4% (Q3 2016) and lease rates have increased by an average of 6% per year since 2011.
- Trade area apartment demand is forecast to range from 300 to 345 units per year, which is approximately 1.5 to 2 apartment projects annually through 2030.
- Using these assumptions, trade area townhome demand is projected to equal 170 to 210 units per year during the forecast period.

Project Assessment

- The District's developer plans to construct retail, office, apartments and townhomes over the next several years to address demand for new commercial space and residential units in the trade area.
- The trade area has captured a significant share of new commercial (retail and office) space constructed in Colorado Springs in recent years and particularly the past three to five years.
- The trade area is also an attractive location for residents seeking rental apartments and townhomes due to the concentration of employers in the area along with shopping, recreation and community amenities.
- The District has an excellent location that is near major transportation routes (I-25, North Powers Boulevard and Voyager Parkway) as well as employment centers in the northern Colorado Springs metro area.
- There has been just 46,000 square feet of new office space constructed in the trade area since 2013 and retail development has totaled under 200,000 square feet per year during the same period.
- Recent development trends are below annual office (320 - 370,000 square feet) and retail (280 - 350,000 square feet) demand rates forecast in the trade area.
- The apartment market has highlighted the real estate market - both commercial and residential - in Colorado Springs during the past several years and with positive vacancy and lease rate trends in the trade area there is demand for future project construction.
- Projected market share rates for development planned in the District (Retail - 7% to 8%, Office - 15% to 17%, Apartments - 8% to 9% and Townhomes - 6% to 7%) of categorized, projected trade area demand) are comparable to those of larger scale development projects in the region.
- King & Associates, Inc. finds the absorption forecast for Allison Valley Metropolitan District No. 1 to be reasonable given review and assessment of Colorado Springs and trade area real estate market conditions.

DISCLAIMER

King & Associates, Inc. has reviewed real estate market conditions in Colorado Springs and the trade area to assess and forecast absorption and valuation of planned residential development in Allison Valley Metropolitan District No. 1. Readers of this report should understand that real estate market conditions are dynamic and that unforeseen factors can have a negative impact, sometimes materially, on market conditions in the region, trade area and the District. The findings and conclusion put forth within this report are based on information and market conditions as of its date and should not be interpreted as a guarantee of performance within the District. Further, King & Associates, Inc. has based its assessment and conclusions pertaining to projected development plans and actions provided by the District and the project developer. To the degree that development plans in the District change, projected absorption timing and rates may also be impacted as well.