

Hoff & Leigh's Weekend Market Report

Hoff & Leigh, Inc.

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All Market Average Office Building Sale Price PSF = \$102.81 (UP 0.61 from last week)

We are currently tracking 83 office buildings for sale.
This is 789,600 square feet, which represents a total market value of \$81,182,414.

All Market Average Industrial Building Sale Price PSF = \$100.61 (UP 0.03 from last week)

We are currently tracking 61 industrial buildings for sale.
This is 772,903 square feet, which represents a total market value of \$77,763,156.

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Tim's Market Report

“If you don't mind my saying so, there's not a man alive who could hope to measure up to that blend of Paul Bunyan, Saint Pat and Noah Webster you've concocted for yourself out of your stubborn Irish imagination. . .”

The Widow Paroo
From “The Music Man”

As I sit here reviewing the inventory of office buildings for sale, (looking for deals), I've got to confess that unless you're an owner-user, the “pickins-are-pretty- slim”. In fact, as I study the list and look at zip code and pricing data, it becomes clear that one of the problems we have in Colorado Springs is that most of our inventory seems pretty beat up. Many of the small office buildings (for example) that are for sale were constructed in the early 1980's and have seen better days. Most are functionally and aesthetically obsolete.

I have a good example, and unfortunately for me, it's a property I own on North Circle Drive. I had it fully leased for 5 years. The property was a cash cow - Moo! Moo! (And, yes; “Dang, I was smart back in the day!”) It not only threw-off milk, it threw-off chocolate milk! When the tenant vacated, (they outgrew the space), I was faced with the same dilemma many building owners will face . . . “to fix or not to fix? That is the

question!” I decided to take my own medicine, (which I always do, and which is why my buildings are 100% leased), and did what I’d tell a 3rd party building owner to do; I fixed. So, at some great cost I totally remodeled the building “on spec”.

Over the years, I’ve developed and refined “Tim Leigh’s Theory of Commercial Building Occupancy”. It says “most small business owners no longer want a large number of private offices in their leased space; they want light, airy and open space and fewer private offices”. They want “cool space”. They want the acclaimed Colorado lifestyle. They want it at play and they want it at work. They want environment over function. Imagine why Starbuck’s works. It’s not about the coffee.

To remake Circle Drive “cool”, we removed walls and created new, open-space. We installed glass side-lights; new light fixtures; carpet, tile and blended-in as much of the existing infrastructure to create a modern, yet “retro-feel” as we could. (And, by the way, I would be happy to showcase this property and these ideas - just call me at 719-337-9551). I brought the building into the new millennium aesthetically and technologically and now it’s ready for re-tenanting and possible sale and likely, at a premium to the market.

My point is that until Mr. Market understands that he must do what I’ve done, he will languish and grow continuously more tired and weary. The predictions are for a summer swoon – for local real estate markets to get rough again. There are folks claiming that the housing spurt will burst when the 1st time home buyer’s credit expires and as the very large inventory of phantom housing stock (bank owned and not statistically accounted for) is placed on the market for sale. To combat this predicted general decline I’m advising my building owner clients to position their property, not as generic, but as “uniquely desirable” property. For many, that will be a tall and costly order; for others it’s “out of the game, Bob!”

Want more pain? There is enough vacant space in Colorado Springs right now that it will take 25,000 new employees to fill it. Basic laws of supply and demand dictate that, without new employers and attendant new employees to occupy space, lease rates will continue to fall. If lease rates fall and if operating costs rise (which is how the game works), equity disappears and you can make some pretty accurate assumptions about value, pricing and pending foreclosure actions. There will be blood. There will be a summer of discontent.

I was a highway man. Along the coach roads I did ride; with my sword and pistol by my side.

Many a young maid lost her baubles to my trade; many a soldier shed his lifeblood on my blade;

The bastards hung me in the spring of twenty-five, but I am still alive . . .

We used to look at pricing scenarios where rents increased and with effective management you could operate small commercial buildings for profit. But, during the past decade of irrational exuberance, we all paid too much. Now, there is mass

deleveraging taking place and to my point, as this occurs, if the deleveraged property is “not cool” it will depreciate further, pulling the market down and down and down.

I was a dam builder across the river deep and wide, where steel and water did collide;

A place called Boulder on the wild Colorado; I slipped and fell into the wet concrete below.

And they buried me in that great tomb that knows no sound; but I am still around . . .

I'll always be around . . . and around . . . and around . . . and around.

And, as we'll all be around and around, rest assured, there's nothing new under the sun.

For example, as we wrestle with the problem of homelessness, (and let's be honest, fighting 1st impressions is as large a part of this issue as how to help those folks), recall back to 1871. When Queen Palmer first arrived in Colorado Springs the story goes, “she was depressed by El Paso County's scraggly graveyard which looked as though it belonged to Colorado Springs and was the 1st thing hopeful immigrants saw on incoming trains. It had 300 graves which seemed a great many for a town 3 months old.”

Or consider medicinal cures . . . In 1874, Colorado Springs, (a “dry-city” which meant that it was illegal to drink inside the city limits), had “twice as many drug stores as were needed to meet the demand for drugs.” Hmm . . . That sounds vaguely familiar. Their main business was selling whiskey – for medicinal purposes, of course. By law, each druggist was the judge of medicinal purpose. Naturally, if a customer said that he was ill because he needed a drink, the druggist was legally bound (because he was a druggist) to provide the “medicinal cure”, even if – or perhaps especially if - the patient staggered up to the “medicinal purpose counter” suffering from delirium tremens.

And there was the story about “The Spiritual Wheel” at the southeast corner of Pikes Peak and Tejon. At the corner was a fine piece of real estate; uniquely positioned to take advantage of the market opportunity created by the new “medicinal cures” industry. It was a storeroom with nothing in-it except a hole in the wall containing a partitioned tray turning on a wheel. If someone wanted a drink, he'd place a coin on the tray, the wheel turned and a jigger of whiskey miraculously appeared on the tray where the coin had been. What a country!

I fly a starship across the Universe divide; and when I reach the other side
I'll find a place to rest my spirit if I can; perhaps I may become a highway man
again;

Or I may simply be a single drop of rain, but I will remain
And I'll be back again, and again, and again and again.

Nothing ever changes and the real estate market will recover and we'll be back again . . .
and again . . . and again.

Make it an interesting week.

Tim Leigh

Tim Leigh
Hoff & Leigh Commercial Real Estate