

## Office Market Report

Compared to the Previous Quarter:

Vacancy



Net Absorption



Lease Rates



Transactions



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### Market Highlights

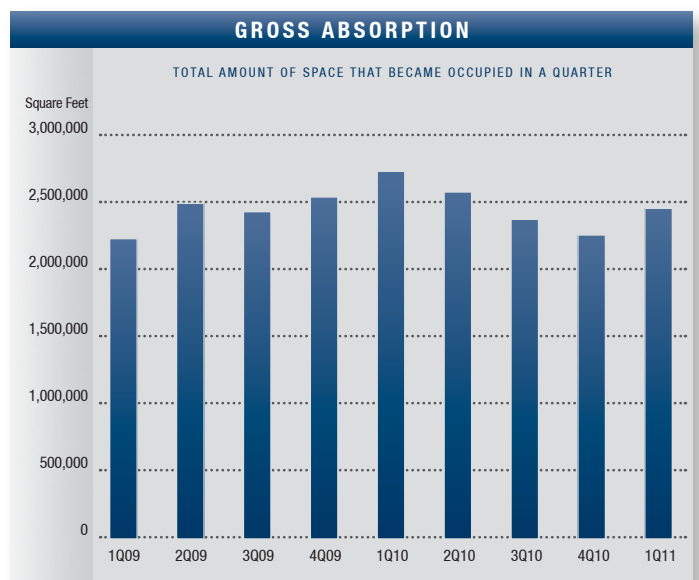
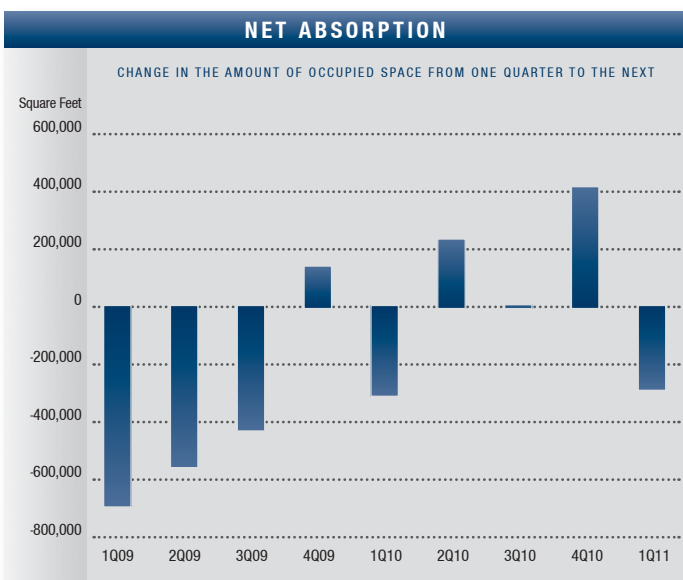
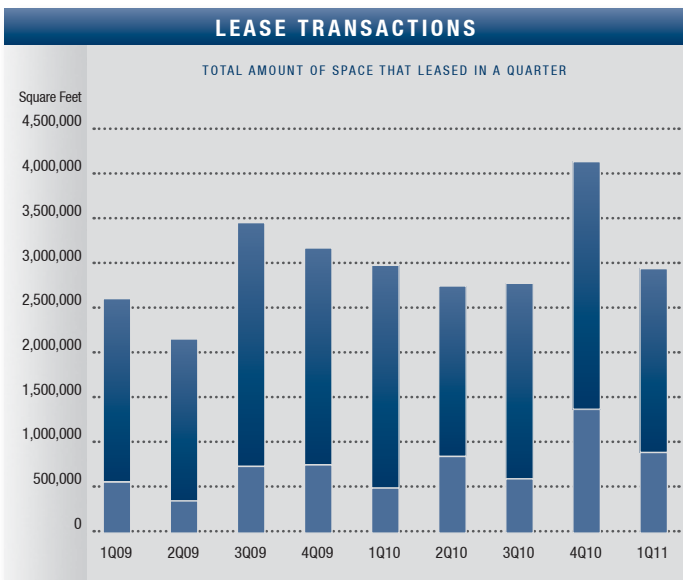
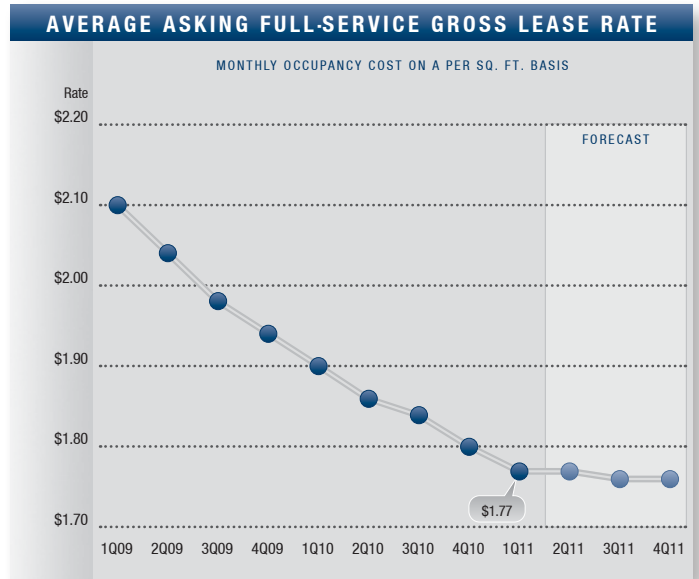
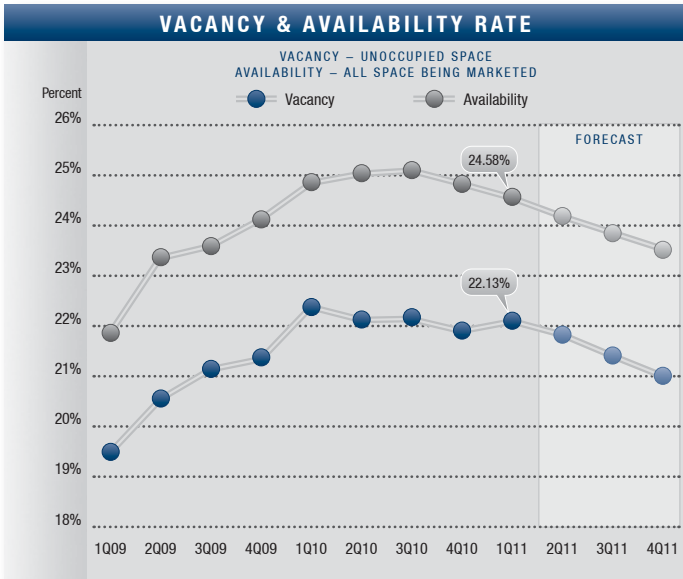
- **Encouraging Numbers** - 2011's first quarter numbers were encouraging – a sign that recovery could be on the horizon. Availability exhibited a slight decrease in the first quarter of 2011, and net absorption posted a small amount of negative absorption for the quarter. Demand picked up, with Labor Day marking the beginning of a renewed interest in sales transactions, and tenants began signing longer lease commitments. While these are positive indications, stability and job growth will need to be sustained in coming quarters to be considered recovery.
- **Construction** - Total space under construction checked in at 860,072 square feet in the first quarter. The slowdown in construction has and will ease the upward pressure on vacancy going forward.
- **Vacancy** - Direct/sublease space (unoccupied) finished the first quarter at 22.13%, a decrease from 2010's first quarter rate of 22.34% but a slight increase over the previous quarter's figure of 21.91%. The Airport market posted the lowest rate in the county, coming in at 17.24%.
- **Availability** - Direct/sublease space being marketed was at 24.58% at the end of the first quarter 2011, a decrease of 25 basis points when compared to the prior quarter and a 1.25% decrease from the year-ago figure of 24.89%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in Phoenix was \$1.77 – a 6.84% decrease over 2010's first quarter rate of \$1.90 and three cents lower than 2010's fourth quarter rate. The record high rate of \$2.19 was established in the first quarter of 2008. Class A rates for the county averaged \$2.04 FSG, with the highest figures in East Phoenix where they averaged \$1.89 FSG.
- **Absorption** - The Phoenix office market posted 283,907 square feet of negative net absorption in first quarter of

2011, giving the market an average of 92,000 square feet of positive absorption per quarter over the last four quarters.

- **Transaction Activity** - Leasing activity checked in at just over two million square feet for the first quarter of 2011, mainly a result of short-term deals coupled with lease renegotiations. Sales activity showed an increase over the first quarter of 2010, posting 893,458 square feet of activity as compared to 2010's 490,001 square feet. Details of the largest transactions can be found on the back page of this report.
- **Unemployment** - The unemployment rate in the Phoenix-Mesa-Glendale Metropolitan area was 8.8% in February 2011, down from a revised 9.3% in January 2011 and lower than the 2010 estimate of 9.2%. This compares with an unadjusted unemployment rate of 9.6% for Arizona and 9.5% for the nation during the same period.
- **Overall** - We are beginning to see a decrease in the amount of available space being added per quarter. Absorption is the big story, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market is beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders continue to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances should continue in order to incentivize tenants to act immediately. We should also see an increase in leasing activity as many short-term deals come up for renewal and as job creation continues in 2011. As unemployment rates drop and consumer confidence stabilizes, the office market will continue to regain equilibrium.

### OFFICE MARKET OVERVIEW

	1Q2011	4Q2010	1Q2010	% Change vs. 1Q2010
Vacancy Rate	22.13%	21.91%	22.34%	(0.94%)
Availability Rate	24.58%	24.83%	24.89%	(1.25%)
Average Asking Lease Rate	\$1.77	\$1.80	\$1.90	(6.84%)
Sale & Lease Transactions	2,914,418	4,110,681	2,968,898	(1.84%)
Gross Absorption	2,454,487	2,245,032	2,724,447	(9.91%)
Net Absorption	(283,907)	417,429	(304,412)	N/A



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2011	Square Feet Available	Availability Rate 1Q2011	Average Asking Lease Rate	Net Absorption 1Q2011	Net Absorption 2011	Gross Absorption 1Q2011	Gross Absorption 2011
<b>Airport Area</b>													
Airport Area	142	8,679,784	439,070	0	1,117,996	12.88%	1,497,824	17.26%	\$1.65	(7,375)	(7,375)	138,075	138,075
South Tempe/Ahwatukee	112	4,651,286	0	73,800	1,180,173	25.37%	1,449,006	31.15%	\$1.75	(99,010)	(99,010)	105,854	105,854
<b>Airport Total</b>	<b>254</b>	<b>13,331,070</b>	<b>439,070</b>	<b>73,800</b>	<b>2,298,169</b>	<b>17.24%</b>	<b>2,946,830</b>	<b>22.10%</b>	<b>\$1.69</b>	<b>(106,385)</b>	<b>(106,385)</b>	<b>243,929</b>	<b>243,929</b>
<b>Central Corridor</b>													
Downtown North	154	12,236,900	0	478,488	2,633,065	21.52%	3,298,830	26.96%	\$1.64	(69,879)	(69,879)	118,639	118,639
Downtown South	67	8,246,162	0	0	1,836,217	22.27%	1,903,427	23.08%	\$2.05	(110,358)	(110,358)	72,032	72,032
<b>Central Corridor Total</b>	<b>221</b>	<b>20,483,062</b>	<b>0</b>	<b>478,488</b>	<b>4,469,282</b>	<b>21.82%</b>	<b>5,202,257</b>	<b>25.40%</b>	<b>\$1.77</b>	<b>(180,237)</b>	<b>(180,237)</b>	<b>190,671</b>	<b>190,671</b>
<b>East Phoenix</b>													
44th Street Corridor	79	5,622,907	0	0	1,050,298	18.68%	1,215,796	21.62%	\$1.77	118,412	118,412	292,836	292,836
Camelback Corridor	135	8,881,955	0	0	2,631,508	29.63%	2,928,809	32.97%	\$1.97	37,697	37,697	258,480	258,480
Midtown/Central Phoenix	125	3,550,995	0	443,200	653,189	18.39%	748,369	21.07%	\$1.24	(51,282)	(51,282)	67,580	67,580
<b>East Phoenix Total</b>	<b>339</b>	<b>18,055,857</b>	<b>0</b>	<b>443,200</b>	<b>4,334,995</b>	<b>24.01%</b>	<b>4,892,974</b>	<b>27.10%</b>	<b>\$1.85</b>	<b>104,827</b>	<b>104,827</b>	<b>618,896</b>	<b>618,896</b>
<b>East Valley</b>													
Chandler	132	5,073,987	194,300	3,390,580	907,461	17.88%	1,001,600	19.74%	\$1.84	99,584	99,584	182,094	182,094
Gateway Airport/Loop 202	43	1,203,262	16,500	602,377	446,507	37.11%	455,466	37.85%	\$2.05	(1,218)	(1,218)	30,917	30,917
Mesa Downtown	32	778,667	0	0	161,769	20.78%	173,530	22.29%	\$1.08	(14,166)	(14,166)	4,060	4,060
Mesa East	78	2,281,388	0	200,958	414,567	18.17%	445,106	19.51%	\$1.78	(18,301)	(18,301)	1,871	1,871
Superstition Corridor	149	4,998,011	0	769,780	1,152,307	23.06%	1,219,284	24.40%	\$1.54	12,445	12,445	84,657	84,657
Tempe	112	4,497,444	0	312,000	949,002	21.10%	1,002,743	22.30%	\$1.83	84,893	84,893	175,771	175,771
<b>East Valley Total</b>	<b>546</b>	<b>18,832,759</b>	<b>210,800</b>	<b>5,275,695</b>	<b>4,031,613</b>	<b>21.41%</b>	<b>4,297,729</b>	<b>22.82%</b>	<b>\$1.75</b>	<b>163,237</b>	<b>163,237</b>	<b>479,370</b>	<b>479,370</b>
<b>Northwest Phoenix</b>													
Arrowhead	98	2,502,916	0	118,687	529,735	21.16%	542,947	21.69%	\$1.72	(6,972)	(6,972)	28,852	28,852
Deer Valley/Airport	128	9,736,854	210,202	1,501,127	1,982,943	20.37%	2,091,857	21.48%	\$1.73	(199,162)	(199,162)	115,215	115,215
Northwest Phoenix	222	8,276,994	0	0	1,944,270	23.49%	2,092,420	25.28%	\$1.42	19,848	19,848	142,036	142,036
<b>Northwest Phoenix Total</b>	<b>448</b>	<b>20,516,764</b>	<b>210,202</b>	<b>1,619,814</b>	<b>4,456,948</b>	<b>21.72%</b>	<b>4,727,224</b>	<b>23.04%</b>	<b>\$1.56</b>	<b>(186,286)</b>	<b>(186,286)</b>	<b>286,103</b>	<b>286,103</b>
<b>Paradise Valley</b>													
Paradise Valley	91	3,820,040	0	190,000	926,887	24.26%	973,039	25.47%	\$1.89	(29,509)	(29,509)	67,467	67,467
Piestewa Peak Corridor	69	2,926,002	0	105,600	561,653	19.20%	640,032	21.87%	\$1.51	(36,376)	(36,376)	25,906	25,906
<b>Paradise Valley Total</b>	<b>160</b>	<b>6,746,042</b>	<b>0</b>	<b>295,600</b>	<b>1,488,540</b>	<b>22.07%</b>	<b>1,613,071</b>	<b>23.91%</b>	<b>\$1.72</b>	<b>(65,885)</b>	<b>(65,885)</b>	<b>93,373</b>	<b>93,373</b>
<b>Scottsdale</b>													
Central Scottsdale	181	7,754,472	0	437,900	1,889,083	24.36%	2,007,365	25.89%	\$1.84	8,930	8,930	117,134	117,134
Scottsdale Airpark	257	11,605,333	0	483,290	3,011,169	25.95%	3,174,144	27.35%	\$1.93	(45,234)	(45,234)	274,646	274,646
Scottsdale South	133	5,503,194	0	209,778	1,157,335	21.03%	1,345,078	24.44%	\$1.71	35,844	35,844	109,865	109,865
<b>Scottsdale Total</b>	<b>571</b>	<b>24,862,999</b>	<b>0</b>	<b>1,130,968</b>	<b>6,057,587</b>	<b>24.36%</b>	<b>6,526,587</b>	<b>26.25%</b>	<b>\$1.86</b>	<b>(460)</b>	<b>(460)</b>	<b>501,645</b>	<b>501,645</b>
<b>West Phoenix</b>													
Glendale	46	2,191,513	0	296,927	720,080	32.86%	807,063	36.83%	\$1.97	(11,422)	(11,422)	4,900	4,900
Loop 303/Surprise	43	1,100,208	0	239,601	345,822	31.43%	334,493	30.40%	\$2.12	1,417	1,417	18,750	18,750
Southwest Phoenix	39	1,884,668	0	70,740	213,618	11.33%	222,418	11.80%	\$2.02	1,056	1,056	1,250	1,250
West I-10	48	1,375,269	0	264,779	218,369	15.88%	226,049	16.44%	\$1.84	(3,769)	(3,769)	15,600	15,600
<b>West Phoenix Total</b>	<b>176</b>	<b>6,551,658</b>	<b>0</b>	<b>872,047</b>	<b>1,497,889</b>	<b>22.86%</b>	<b>1,590,023</b>	<b>24.27%</b>	<b>\$1.98</b>	<b>(12,718)</b>	<b>(12,718)</b>	<b>40,500</b>	<b>40,500</b>
<b>Phoenix Total</b>	<b>2,715</b>	<b>129,380,211</b>	<b>860,072</b>	<b>10,189,612</b>	<b>28,635,023</b>	<b>22.13%</b>	<b>31,796,695</b>	<b>24.58%</b>	<b>\$1.77</b>	<b>(283,907)</b>	<b>(283,907)</b>	<b>2,454,487</b>	<b>2,454,487</b>
Class A	261	41,738,738	439,070	3,408,201	10,359,372	24.82%	11,113,232	26.63%	\$2.02	123,993	123,993	904,219	904,219
Class B	1,867	75,345,754	421,002	6,781,411	16,142,570	21.42%	18,379,739	24.39%	\$1.59	(265,001)	(265,001)	1,438,598	1,438,598
Class C	587	12,295,719	0	0	2,133,081	17.35%	2,303,724	18.74%	\$1.12	(142,899)	(142,899)	111,670	111,670
<b>Class Total</b>	<b>2,715</b>	<b>129,380,211</b>	<b>860,072</b>	<b>10,189,612</b>	<b>28,635,023</b>	<b>22.13%</b>	<b>31,796,695</b>	<b>24.58%</b>	<b>\$1.77</b>	<b>(283,907)</b>	<b>(283,907)</b>	<b>2,454,487</b>	<b>2,454,487</b>

This survey consists of properties 10,000 square feet and larger in size, representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis.

RECENT TRANSACTIONS

Sale Transactions

Property Address	Submarket	Class	Square Feet	Sale Price PSF	Buyer	Seller
500 N. 5th St. – 4 Properties	Downtown South	A&B	1,061,846	\$128.55	CommonWealth REIT	GGP, Inc.
4025 S. Riverpoint Pky. – 3 Properties	Airport Area	B	599,664	\$283.49	Cole Real Estate Investments	Apollo Group, Inc.
15210 N. Scottsdale Rd. – 16 Properties	Scottsdale	A&B	363,001	\$184.73	The Macerich Company	Woodbine Southwest Corp.
2700 W. Frye Rd.	Chandler	B	183,000	\$30.60	Regent Properties, Inc.	Bank of America NA
3102 N. 56th St.	44th Street Corridor	B	141,784	\$42.67	Great Heart Academies	INCA Capital
6510-6590 N. Scottsdale Rd. – 2 Properties	Central Scottsdale	B	91,328	\$75.55	Covington Asset Management	ORIX Capital Markets, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
4025 S. Riverpoint Pky.	Airport	B	643,104	Mar-11	Apollo Group, Inc.	Cole Real Estate Investments
3102 N. 56th St.	44th Street Corridor	B	141,784	Mar-11	Veritas Preparatory Academy	Great Hearts Academies
3200 W. Ray Rd. – Renewal	South Tempe/Ahwatukee	A	133,317	Feb-11	Lexus Financial Services	Wells Real Estate Funds
15147 N. Scottsdale Rd.	Scottsdale Airpark	A	120,500	Feb-11	Starwood Hotels & Resorts	Glimcher Realty Trust
8501 N. Scottsdale Rd.	Central Scottsdale	A	50,161	Feb-11	N/A	INVESCO
925 E. McDowell Rd.	Midtown/Central Phoenix	B	36,325	Feb-11	Banner Health	Banner Health

Product Type

CLASS A

Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

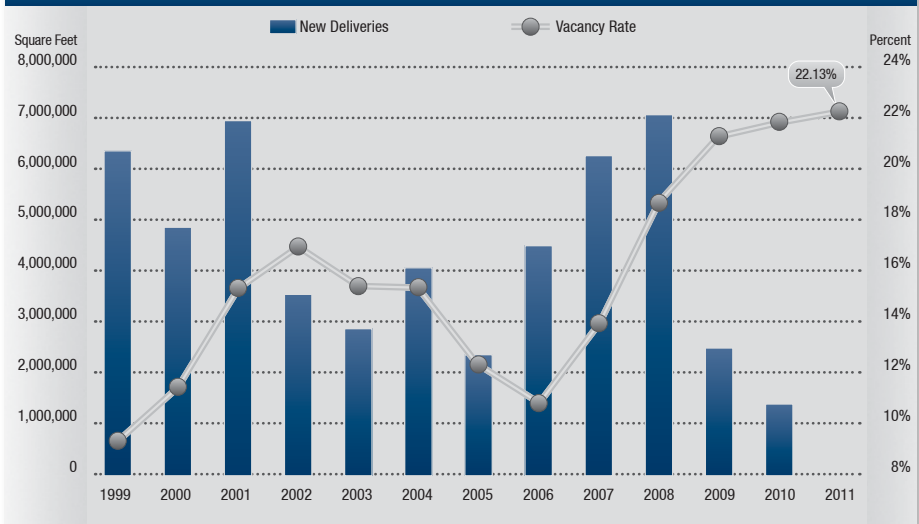
CLASS B

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C

Buildings competing for tenants requiring functional space at rents below the area average.

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