

Office Market Report

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption



NEGATIVE

Lease Rates



DOWN

Transactions



DOWN

Deliveries



UP

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Prepared by:

Jerry J. Holdner, Jr. — Lic.#01145748

Vice President of Market Research

e-mail: jholdner@voitco.com

Jon Rappa — Lic.#SA636968000

Market Research Analyst

e-mail: jrappa@voitco.com

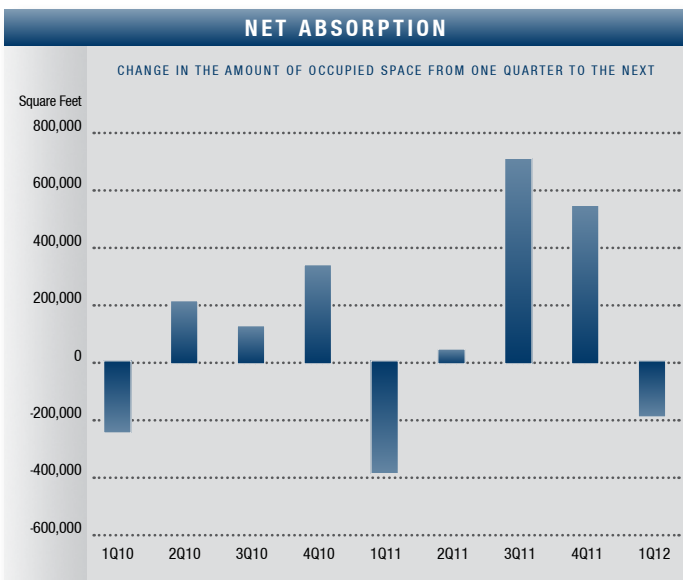
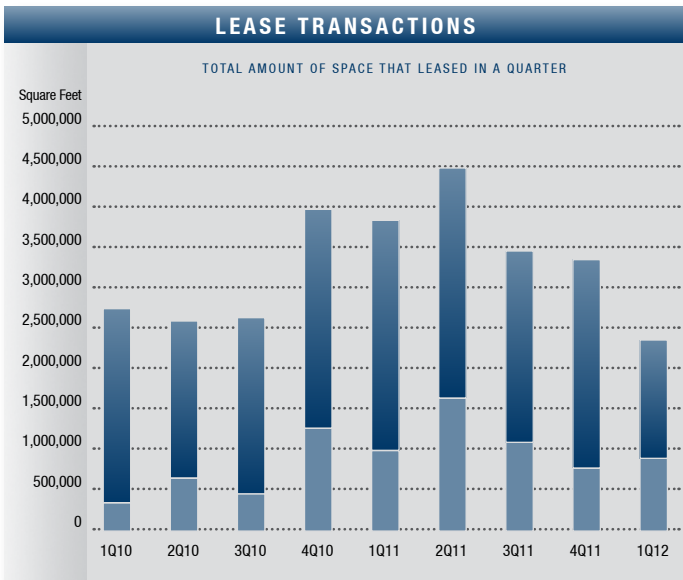
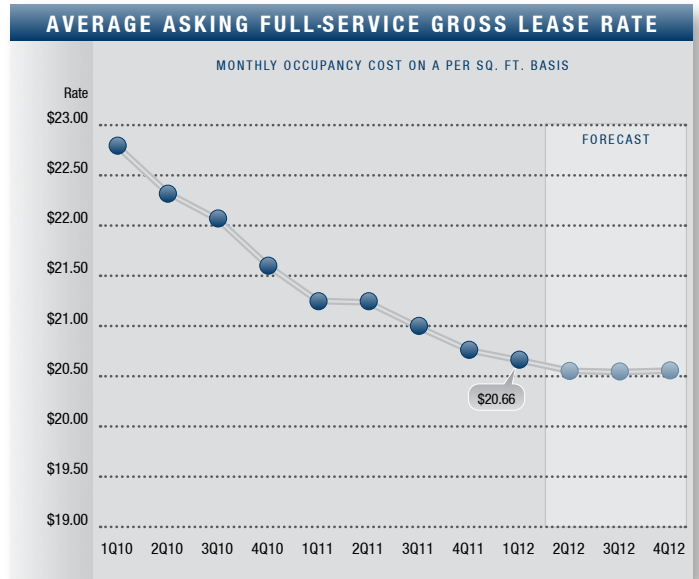
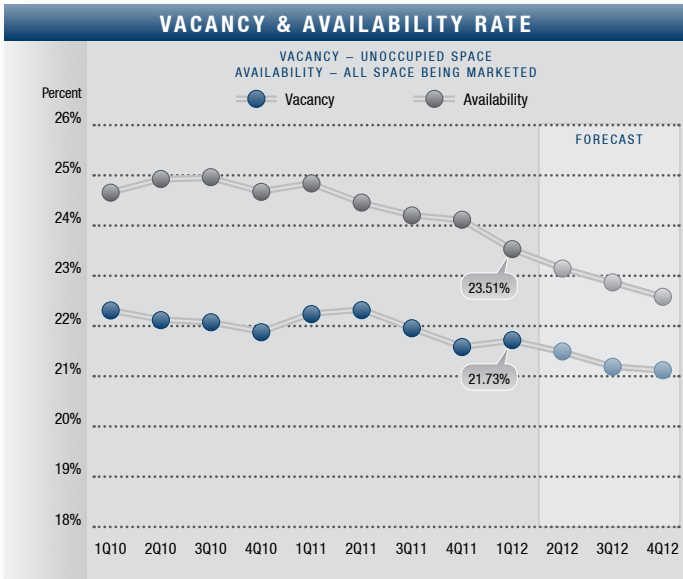
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Market Highlights

- Continued Patience** - The Phoenix office market continued to convey signs of recovery in the first quarter of 2012, despite exhibiting a slight uptick in vacancy, caused by new inventory being delivered, and a small amount of negative net absorption. Availability decreased compared to the previous quarter, which is likely to have a positive affect on net absorption in the future. Demand picked up in 2011, and tenants began signing longer lease commitments. While these are positive indications, continued job growth in the valley will be needed to further release pressure on vacancy and sustain a recovery.
- Absorption** - The Phoenix office market posted 185,149 square feet of negative net absorption in the first quarter, giving the office market a total of 1.4 million square feet of positive absorption over the last eight quarters.
- Transaction Activity** - Leasing activity checked in at just over 1.44 million square feet in the first quarter of 2012. Sales activity displayed an increase over the fourth quarter 2011, posting 890,537 square feet of activity as compared to 762,402 square feet. The increase in activity is, in part, a result of the sale of the Hayden Ferry Office Building on Tempe Town Lake which sold in February. 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 7.8% in February 2012, a slight decrease from January and a significant drop from last February's rate of 9.0%. This increase may be accounted for by unemployed workers, previously discourage by economic conditions and limited prospects, re-entering the labor pool in search of a job.
- Overall** - We are beginning to see a decrease in the amount of available space. With few new deliveries in the pipeline to apply additional 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 2012. As unemployment rates drop and consumer confidence stabilizes, the office market will continue to regain equilibrium.
- Construction** - Total space under construction checked in at 257,779 square feet in the first quarter. The limited office construction has and will ease the upward pressure on vacancy and the downward pressure on lease rates going forward.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 21.73%, a slight increase from 2011's fourth quarter rate of 21.59% and lower than the previous year's rate of 22.25%. The Downtown South submarket posted the lowest rate in the county, coming in at 14.50%.
- Availability** - Direct/sublease space being marketed was at 23.51% at the end of the first quarter, a decrease when compared to the prior quarter's rate of 24.11% and 2011's first quarter rate of 24.83%.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per year in Phoenix was \$20.66 — a decrease of 10 cents from 2011's fourth quarter rate of \$20.76. The record high rate of \$25.86 was established in the last quarter of 2007. Class A rates for the county averaged \$23.63 FSG, with the highest figures in East Phoenix where they averaged \$22.21 FSG.

OFFICE MARKET OVERVIEW

	1Q12	4Q11	1Q11	% of Change vs. 1Q2011
Total Vacancy Rate	21.73%	21.59%	22.25%	(2.34%)
Availability Rate	23.51%	24.11%	24.83%	(2.49%)
Average Asking Lease Rate	\$20.66	\$20.76	\$21.24	(2.73%)
Sale & Lease Transactions	2,337,111	3,335,675	3,807,622	(38.62%)
Gross Absorption	2,767,871	2,323,015	2,444,055	13.25%
Net Absorption	(185,149)	549,324	(386,951)	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 1Q2012	Square Feet Available	Availability Rate 1Q2012	Average Asking Lease Rate	Net Absorption 1Q2012	Net Absorption 2012	Gross Absorption 1Q2012	Gross Absorption 2012
Airport Area													
Airport Area	146	9,759,778	0	0	1,518,531	15.56%	1,683,782	17.25%	\$18.56	(282,848)	(282,848)	90,606	90,606
South Tempe/Ahwatukee	114	5,014,260	0	73,800	1,163,870	23.21%	1,335,782	26.64%	\$19.65	114,235	114,235	173,028	173,028
Airport Total	260	14,774,038	0	73,800	2,682,401	18.16%	3,019,564	20.44%	\$18.96	(168,613)	(168,613)	263,634	263,634
Central Corridor													
Downtown North	151	12,165,988	0	478,488	3,173,818	26.09%	3,719,862	30.58%	\$19.51	(301,046)	(301,046)	192,275	192,275
Downtown South	67	9,072,026	0	0	1,315,272	14.50%	1,370,785	15.11%	\$24.58	(36,043)	(36,043)	44,021	44,021
Central Corridor Total	218	21,238,014	0	478,488	4,489,090	21.14%	5,090,647	23.97%	\$20.68	(337,089)	(337,089)	236,296	236,296
East Phoenix													
44th Street Corridor	81	5,674,609	0	0	1,131,144	19.93%	1,452,206	25.59%	\$20.84	28,163	28,163	162,168	162,168
Camelback Corridor	135	8,903,862	0	0	2,555,727	28.70%	2,647,573	29.74%	\$24.16	151,162	151,162	407,758	407,758
Midtown/Central Phoenix	129	3,667,013	71,250	443,200	653,315	17.82%	768,251	20.95%	\$14.50	(18,008)	(18,008)	31,473	31,473
East Phoenix Total	345	18,245,484	71,250	443,200	4,340,186	23.79%	4,868,030	26.68%	\$22.21	161,317	161,317	601,399	601,399
East Valley													
Chandler	133	5,187,732	0	3,674,566	924,426	17.82%	940,013	18.12%	\$22.80	(1,409)	(1,409)	47,453	47,453
Gateway Airport/Loop 202	42	1,124,560	16,500	395,245	400,267	35.59%	399,027	35.48%	\$23.23	24,841	24,841	31,540	31,540
Mesa Downtown	36	839,174	114,412	0	179,549	21.40%	197,225	23.50%	\$15.07	(7,445)	(7,445)	22,669	22,669
Mesa East	69	1,865,152	0	10,156	272,069	14.59%	314,139	16.84%	\$12.96	4,767	4,767	18,122	18,122
Superstition Corridor	143	4,600,210	0	471,248	1,083,216	23.55%	1,123,099	24.41%	\$18.34	(49,976)	(49,976)	77,926	77,926
Tempe	123	5,327,492	0	353,000	1,100,748	20.66%	1,028,261	19.30%	\$20.69	27,052	27,052	95,160	95,160
East Valley Total	546	18,944,320	130,912	4,904,215	3,960,275	20.90%	4,001,764	21.12%	\$20.09	(2,170)	(2,170)	292,870	292,870
Northwest Phoenix													
Arrowhead	103	2,570,646	21,569	108,342	530,934	20.65%	545,875	21.23%	\$19.54	8,420	8,420	48,329	48,329
Deer Valley/Airport	129	10,242,778	0	1,091,559	2,002,403	19.55%	2,173,147	21.22%	\$19.77	328,472	328,472	405,270	405,270
Northwest Phoenix	229	8,472,501	0	0	2,120,399	25.03%	2,332,090	27.53%	\$16.98	(129,803)	(129,803)	108,949	108,949
Northwest Phoenix Total	461	21,285,925	21,569	1,199,901	4,653,736	21.86%	5,051,112	23.73%	\$18.16	207,089	207,089	562,548	562,548
Paradise Valley													
Paradise Valley	94	3,885,394	0	138,000	1,002,752	25.81%	1,069,736	27.53%	\$20.28	(17,677)	(17,677)	66,678	66,678
Piestewa Peak Corridor	70	2,952,720	0	105,600	683,070	23.13%	785,699	26.61%	\$17.81	(42,939)	(42,939)	33,254	33,254
Paradise Valley Total	164	6,838,114	0	243,600	1,685,822	24.65%	1,855,435	27.13%	\$19.05	(60,616)	(60,616)	99,932	99,932
Scottsdale													
Central Scottsdale	173	7,558,386	0	887,900	1,711,201	22.64%	1,684,990	22.29%	\$21.22	(35,562)	(35,562)	127,155	127,155
Scottsdale Airpark	254	11,517,956	0	446,141	2,610,246	22.66%	2,944,170	25.56%	\$22.93	48,832	48,832	340,526	340,526
Scottsdale South	131	5,399,876	0	189,778	1,088,829	20.16%	1,085,717	20.11%	\$21.36	(41,482)	(41,482)	161,842	161,842
Scottsdale Total	558	24,476,218	0	1,523,819	5,410,276	22.10%	5,714,877	23.35%	\$22.15	(28,212)	(28,212)	629,523	629,523
West Phoenix													
Glendale	46	2,291,855	0	236,927	780,451	34.05%	733,593	32.01%	\$20.92	41,754	41,754	54,340	54,340
Loop 303/Surprise	45	1,141,532	34,048	214,201	305,799	26.79%	336,599	29.49%	\$23.59	4,693	4,693	10,969	10,969
Southwest Phoenix	40	1,937,667	0	82,784	290,370	14.99%	299,170	15.44%	\$24.05	(10,647)	(10,647)	0	0
West I-10	51	1,460,198	0	258,279	223,829	15.33%	216,448	14.82%	\$21.37	7,345	7,345	16,360	16,360
West Phoenix Total	182	6,831,252	34,048	792,191	1,600,449	23.43%	1,585,810	23.21%	\$22.08	43,145	43,145	81,669	81,669
Phoenix Total	2,734	132,633,365	257,779	9,659,214	28,822,235	21.73%	31,187,239	23.51%	\$20.66	(185,149)	(185,149)	2,767,871	2,767,871
Class Breakdown													
Class A	247	40,543,551	0	3,724,368	9,336,601	23.03%	10,221,763	25.21%	\$23.63	118,901	118,901	1,023,509	1,023,509
Class B	1,906	79,810,559	257,779	5,934,846	17,488,055	21.91%	18,644,713	23.36%	\$18.69	(270,875)	(270,875)	1,542,074	1,542,074
Class C	581	12,279,255	0	0	1,997,579	16.27%	2,320,763	18.90%	\$12.91	(33,175)	(33,175)	202,288	202,288
Class Total	2,734	132,633,365	257,779	9,659,214	28,822,235	21.73%	31,187,239	23.51%	\$20.66	(185,149)	(185,149)	2,767,871	2,767,871

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
60 E. Rio Salado Pkwy.	Tempe	A	299,540	\$287.11	Parkway Properties, Inc.	Sumitomo Corporation of America
16435 N. Scottsdale Rd. – 2 Buildings	N. Scottsdale	A	252,176	\$222.07	Excel Trust, Inc.	Levine Investments, LP
4150 N. Drinkwater Blvd. – 2 Buildings	C. Scottsdale	A	230,000	\$148.91	BPG Properties, Ltd.	Lincoln Financial Group
702 W. Jerome Ave.	Superstitions Corridor	B	23,084	\$238.26	GSA Real Estate	Millet Family Trust Properties, Ltd.
1 N. MacDonald Dr.	Mesa Downtown	B	49,888	\$55.12	Omninet Capital	Kevin Rude
3838 E. Van Buren St.	E. Phoenix	B	53,531	\$45.02	Mountain Park Health Center	Van Buren Phoenix, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
9180 E. Via De Ventura	C. Scottsdale	B	80,158	Jan-12	Rancho Solano Private School	Farallon Capital Management
1500 N. Priest Dr.	44th St. Corridor	A	70,000	Feb-12	IPOWER	Papago Buttes Corporate, LLC
80 E. Rio Salado Pkwy.	Tempe	A	49,374	Feb-12	Silicon Valley Bank	Parkway Properties
16610 N. Black Canyon Fwy.	Deer Valley/Airport	B	42,213	Jan-12	TeleTech	JPMCC 2006-LDP6 Black Canyon, LLC
201 N. Central Ave.	Downtown	A	39,186	Mar-12	N/A	Crystal River Capital, Inc.
4343 N. Scottsdale Rd.	C. Scottsdale	B	31,920	Feb-12	N/A	Helm Equities

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.

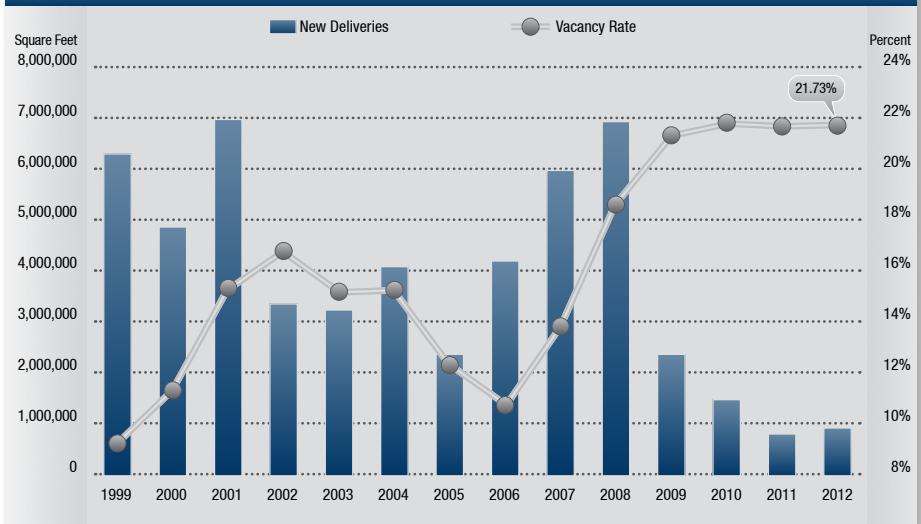
CLASS B

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.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



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775.309.0782

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916.772.8648

San Diego, CA
858.453.0505



REAL ESTATE SERVICES

101 Shipyard Way
Newport Beach, CA 92663

949.644.8648
www.voitco.com
Lic. #01333376

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