

Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

DOWN

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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

VOIT Real Estate Services — Lic.#C0638277000

Market Highlights

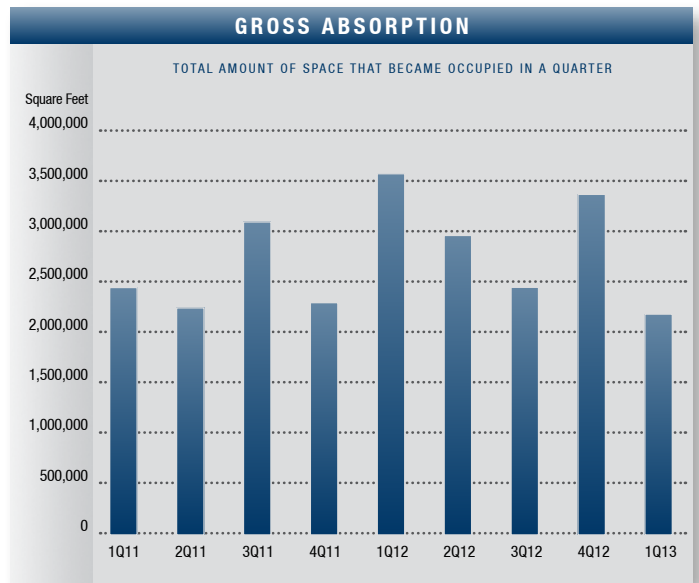
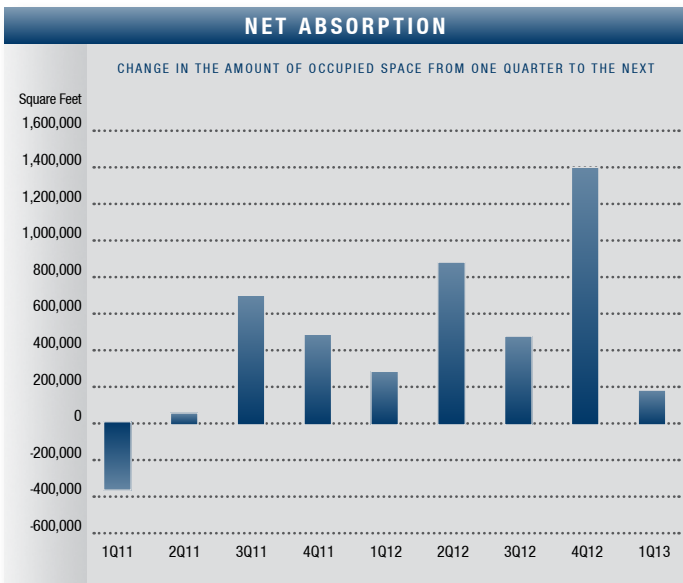
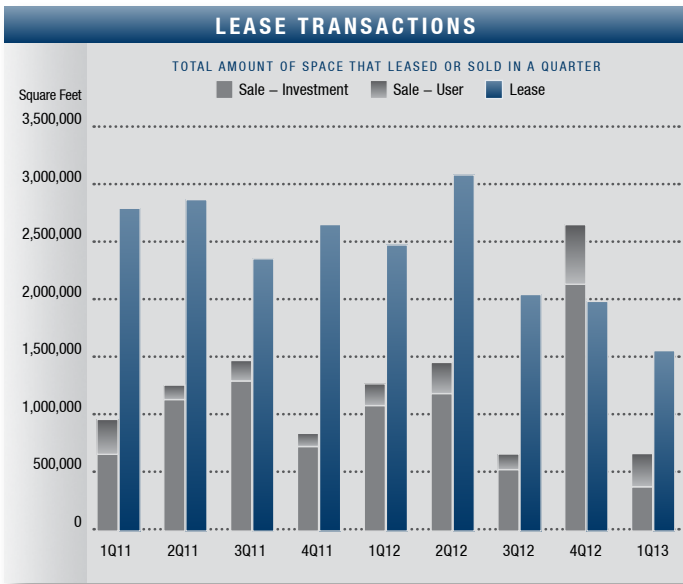
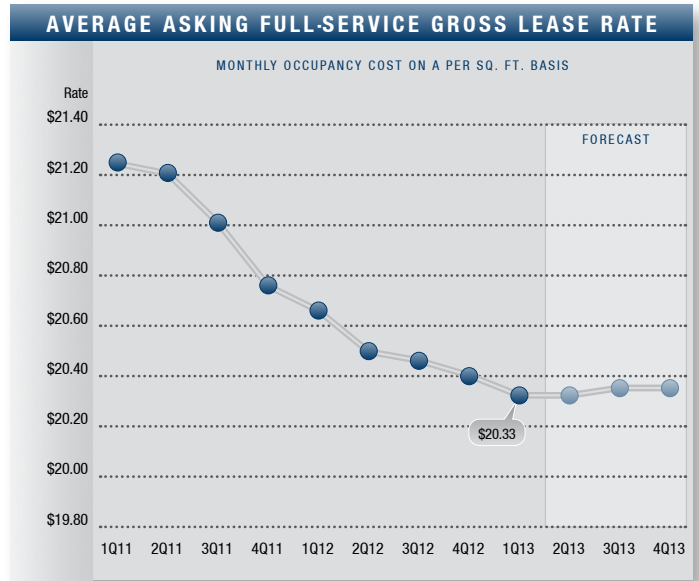
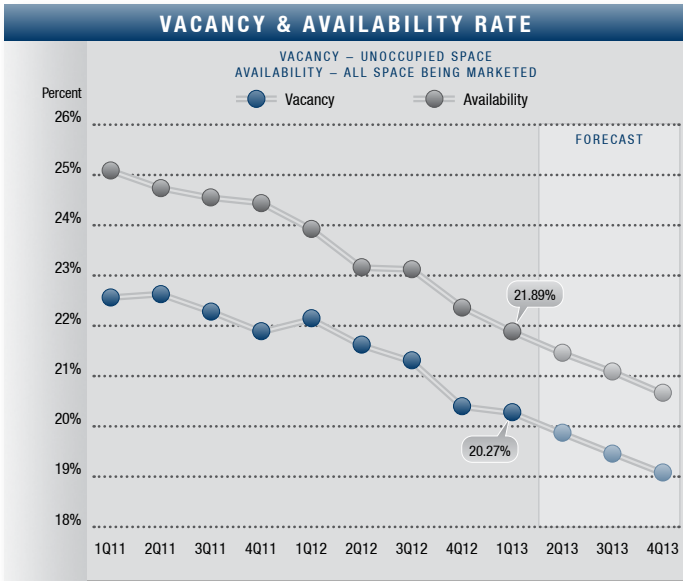
- Poised for Growth** - The Phoenix office market continued to convey signs of recovery in the first quarter of 2013. Availability and vacancy both decreased from the previous quarter, which is likely to have a positive affect on net absorption in the future. Demand fell in the first quarter compared to the previous quarter, but historically speaking, the fall is not uncharacteristic for first quarter performance compared to the previous years' fourth quarters. While these are positive indications, continued job growth in the valley will be needed to further release pressure on vacancy and sustain growth.
- Construction** - Total space under construction checked in at 256,270 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 20.27%, a modest decrease from the fourth quarter's rate of 20.39% and down almost two percentage points from the previous year's first quarter rate of 22.19%. The Downtown submarket posted the lowest rate in the county, coming in at 13.34%.
- Availability** - Direct/sublease space being marketed was at 21.89% at the end of the first quarter, a decrease of one half of a percentage point when compared to the prior quarter's rate of 22.36% and down more than two percentage points from 2012's first quarter rate of 23.97%.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per year in Phoenix was \$20.33 in the first quarter of 2013 — a decrease of only 7 cents from the fourth quarter's rate of \$20.40. The record high rate of \$25.86 was established in the last quarter of 2007. Class A rates for the county averaged \$23.26 FSG, with the highest figures in the Downtown submarket where they averaged \$24.59 FSG.
- Absorption** - The Phoenix office market posted 177,292 square feet of positive net absorption in the first quarter,

marking the eighth consecutive quarter of positive absorption, totaling 4,444,427 square feet.

- Transaction Activity** - Leasing activity checked in at just over 1.5 million square feet in the first quarter of 2013, a slight decrease from the previous quarter. Sales activity cooled off, checking in at 652,389 square feet, after experiencing one of the best quarters since the third quarter of 2007. 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 6.8% in January 2013, a healthy decrease from January 2012's rate of 7.9%. Sectors with strong job growth included trade, transportation, utilities driven by retail trade, and professional and business services — largely in the administrative and support services area. In addition, the beleaguered construction industry made substantial strides over the past 12 months with the addition of 4,500 jobs, while the financial activities sector gained traction, aided by Wells Fargo's addition of 1,000 to local staff. According to PPR, office-using employment in Phoenix is forecasted to grow by a cumulative 16% over the next four years, adding around 75,000 jobs, poising Phoenix to be one of the fastest growing office markets in the country.
- Overall** - We are seeing continued decreases in both vacancy and availability as well as substantial positive absorption. With little under construction and few new deliveries in the pipeline, demand is slowly beginning to catch up with supply. Lease rates are beginning to slow their rate of decent, an indication that they may be nearing a bottom. We expect rates to begin increasing in 2014. We foresee a continued increase in investment activity in the coming quarters as lenders continue to dispose of distressed assets. As unemployment rates continue to drop, the office market will continue strengthen.

OFFICE MARKET OVERVIEW

	1Q13	4Q12	1Q12	% of Change vs. 1Q12
Total Vacancy Rate	20.27%	20.39%	22.19%	(8.65%)
Availability Rate	21.89%	22.36%	23.97%	(8.68%)
Average Asking Lease Rate	\$20.33	\$20.40	\$20.66	(1.60%)
Sale & Lease Transactions	2,197,380	4,629,423	3,732,316	(41.13%)
Gross Absorption	2,179,903	3,360,977	3,567,470	(38.89%)
Net Absorption	177,292	1,395,723	278,235	(36.28%)



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2013	Square Feet Available	Availability Rate 1Q2013	Average Asking Lease Rate	Net Absorption 1Q2013	Net Absorption 2012	Gross Absorption 1Q2013	Gross Absorption 2012
Airport Area													
Airport Area	147	9,822,230	139,403	394,444	1,505,393	15.33%	1,725,032	17.56%	\$18.73	(69,235)	(179,755)	70,330	605,351
South Tempe/Ahwatukee	114	5,052,893	0	1,362,000	1,134,790	22.46%	1,223,295	24.21%	\$20.16	50,890	244,704	95,206	478,540
Airport Total	261	14,875,123	139,403	1,756,444	2,640,183	17.75%	2,948,327	19.82%	\$19.16	(18,345)	64,949	165,536	1,083,891
Central Corridor													
Downtown North	154	12,337,097	0	478,488	3,138,923	25.44%	3,255,352	26.39%	\$19.43	(44,243)	(91,680)	78,342	910,148
Downtown South	64	8,883,470	0	343,770	1,263,721	14.23%	1,415,439	15.93%	\$24.59	(2,367)	661,130	18,693	876,168
Central Corridor Total	218	21,220,567	0	822,258	4,402,644	20.75%	4,670,791	22.01%	\$20.57	(46,610)	569,450	97,035	1,786,316
East Phoenix													
44th Street Corridor	83	5,772,228	0	0	725,448	12.57%	957,478	16.59%	\$19.55	29,953	414,871	88,514	1,137,053
Camelback Corridor	134	8,934,786	0	0	2,327,485	26.05%	2,391,669	26.77%	\$23.48	136,853	314,088	294,107	1,081,981
Midtown/Central Phoenix	131	3,746,503	0	0	573,414	15.31%	657,771	17.56%	\$15.61	5,428	55,361	30,897	287,482
East Phoenix Total	348	18,453,517	0	0	3,626,347	19.65%	4,006,918	21.71%	\$21.73	172,234	784,320	413,518	2,506,516
East Valley													
Chandler	143	5,945,318	68,867	4,436,078	1,200,686	20.20%	1,194,667	20.09%	\$21.68	(34,237)	365,077	41,230	529,433
Gateway Airport/Loop 202	42	1,123,758	0	384,365	361,215	32.14%	370,192	32.94%	\$23.40	46,651	21,785	49,973	72,166
Mesa Downtown	37	951,897	0	0	231,950	24.37%	174,664	18.35%	\$14.70	3,948	(15,050)	4,778	45,661
Mesa East	70	1,858,837	0	10,156	264,007	14.20%	302,723	16.29%	\$13.16	(13,091)	6,567	11,036	88,111
Superstition Corridor	144	4,554,974	0	271,348	1,029,330	22.60%	1,139,408	25.01%	\$17.64	(21,306)	(9,078)	77,443	364,088
Tempe	124	5,276,939	0	387,196	703,970	13.34%	746,432	14.15%	\$18.89	137,200	303,988	207,143	617,598
East Valley Total	560	19,711,723	68,867	5,489,143	3,791,158	19.23%	3,928,086	19.93%	\$18.57	119,165	673,289	391,603	1,717,057
Northwest Phoenix													
Arrowhead	102	2,564,854	0	119,719	553,722	21.59%	604,097	23.55%	\$19.40	(11,685)	(21,303)	59,304	161,679
Deer Valley/Airport	129	10,241,673	0	1,171,452	2,127,437	20.77%	2,194,864	21.43%	\$19.84	45,326	171,088	98,434	881,152
Northwest Phoenix	228	8,461,174	0	250,000	2,098,162	24.80%	2,306,515	27.26%	\$16.71	56,141	(101,672)	385,601	491,200
Northwest Phoenix Total	459	21,267,701	0	1,541,171	4,779,321	22.47%	5,105,476	24.01%	\$18.09	89,782	48,113	543,339	1,534,031
Paradise Valley													
Paradise Valley	91	3,809,544	0	148,000	853,303	22.40%	894,618	23.48%	\$20.82	32,356	63,454	80,689	318,411
Piestewa Peak Corridor	67	2,901,651	0	105,600	602,436	20.76%	712,815	24.57%	\$17.53	15,633	22,062	51,252	279,446
Paradise Valley Total	158	6,711,195	0	253,600	1,455,739	21.69%	1,607,433	23.95%	\$19.00	47,989	85,516	131,941	597,857
Scottsdale													
Central Scottsdale	170	7,372,194	0	887,900	1,471,608	19.96%	1,678,610	22.77%	\$20.80	(24,643)	266,400	139,310	676,390
Scottsdale Airpark	253	11,449,009	0	454,276	2,467,522	21.55%	2,696,307	23.55%	\$22.69	(160,911)	341,810	149,136	1,242,318
Scottsdale South	128	5,320,586	0	300,000	884,456	16.62%	927,538	17.43%	\$21.07	(4,886)	129,740	99,442	604,019
Scottsdale Total	551	24,141,789	0	1,642,176	4,823,586	19.98%	5,302,455	21.96%	\$21.90	(190,440)	737,950	387,888	2,522,727
West Phoenix													
Glendale	46	2,326,052	0	381,927	678,131	29.15%	703,723	30.25%	\$22.56	(3)	146,714	13,174	188,522
Loop 303/Surprise	45	1,160,031	0	121,276	293,255	25.28%	335,080	28.89%	\$23.53	266	42,329	3,766	86,418
Southwest Phoenix	40	1,995,233	0	24,408	344,880	17.29%	353,680	17.73%	\$20.30	(7,404)	(14,153)	2,773	24,297
West I-10	53	1,467,281	48,000	233,779	186,510	12.71%	219,297	14.95%	\$22.12	10,658	48,905	29,330	112,305
West Phoenix Total	184	6,948,597	48,000	761,390	1,502,776	21.63%	1,611,780	23.20%	\$21.80	3,517	223,795	49,043	411,542
Phoenix Total	2,739	133,330,212	256,270	12,266,182	27,021,754	20.27%	29,181,266	21.89%	\$20.33	177,292	3,187,382	2,179,903	12,159,937
Class A	250	40,869,828	208,270	4,259,896	8,187,432	20.03%	8,915,629	21.81%	\$23.26	23,361	1,533,546	857,065	4,547,264
Class B	1,913	80,365,768	48,000	8,006,286	16,722,769	20.81%	18,001,308	22.40%	\$18.54	211,716	1,680,124	1,226,149	6,915,292
Class C	576	12,094,616	0	0	2,111,553	17.46%	2,264,329	18.72%	\$12.88	(57,785)	(26,288)	96,689	697,381
Phoenix Total	2,739	133,330,212	256,270	12,266,182	27,021,754	20.27%	29,181,266	21.89%	\$20.33	177,292	3,187,382	2,179,903	12,159,937

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 Per SF	Buyer	Seller
6220 E. Thomas Rd.	Scottsdale South	B	160,693	\$38.89	Presson Corporation	The Muller Company
755 E. McDowell	Midtown	B	93,411	\$66.05	Banner Health	Zeitlin Family Partnership
2121 W. Chandler Blvd.	Chandler	B	41,009	\$112.46	Irgens	Armstrong Development
2400 W. Dunlap Ave.	NW Phoenix	B	108,451	\$52.79	Cavan Real Estate Investments	The Muller Company
5365 N. 99th Ave.	Glendale	B	17,099	\$239.78	Titanium Real Estate Advisors	Regents Properties, Inc.
16454 N. 28th Ave.	Deer Valley	B	26,625	\$133.33	Sequoia Schools	Crown West Realty, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
8900 N. 22nd Ave.	NW Phoenix	A	124,552	Mar-13	Vangent, Inc.	BCL, Inc.
8800 E. Raintree Dr.	Scottsdale Airpark	A	53,569	Jan-13	Meritage Homes	SFI Raintree-Scottsdale, LLC
1225 W. Washington St.	Airport Area	A	41,670	Jan-13	Union Bank	GLL Real Estate Partners, LLC
15451 N. 28th Ave.	Deer Valley	B	40,355	Jan-13	Northern Arizona University	Crown West Realty, LLC
18444 N. 25th Ave.	Deer Valley	B	35,857	Mar-13	N/A	G2 Capital
2850 E. Camelback Rd.	Camelback Corridor	B	29,792	Jan-13	BBVA Compass	The Koll Company

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.

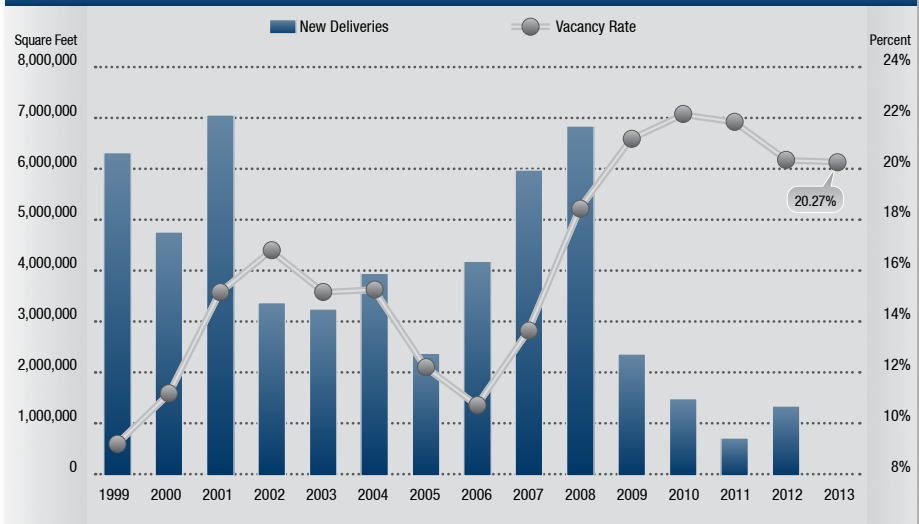
CLASS B

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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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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