



MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

UP



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VOIT Real Estate Services

HIGHLIGHTS

- **Poised for Growth** - The Phoenix office market continued to convey signs of recovery in the first quarter of 2014, posting 716,237 square feet of positive net absorption, giving 2014 a great start. Both availability and vacancy maintained their downward trends, while lease rates continued to climb. 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 just under 1.8 million square feet in the first quarter, with the highest concentration in the East Valley submarket.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 18.82%, a decrease from 2013's fourth quarter rate of 19.19% and down 7.38% from 2013's first quarter rate of 20.32%. The East Valley submarket posted the lowest rate in the metro, coming in at 15.37%.
- **Availability** - Direct/sublease space being marketed was at 20.69% at the end of the first quarter of 2014, a decrease of 131 basis points when compared to the prior year's rate of 22.00%, a decrease of 5.95%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per year in Phoenix was \$21.00 in the first quarter of 2014, an increase of 24 cents from the fourth quarter's 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 \$24.12 FSG, while Downtown Phoenix had the highest average rate of all submarkets, at \$25.20 FSG.
- **Absorption** - The Phoenix office market posted 716,237 square feet of positive net absorption in the first quarter, marking the twelfth consecutive quarter of positive absorption and giving the market a total of 6,920,560 square feet since the second quarter of 2011.
- **Transaction Activity** - Leasing activity checked in at just over 1.1 million square feet in the first quarter of 2014, a decrease from the previous quarter's figure. Sales activity was down about 1.4 million square feet from the previous quarter but up compared to the first quarter of 2013, posting 2 million square feet compared to 1.1 million in the previous year. This statistic can have some lag time in being reported, so look for first quarter figures to end up somewhat higher. 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 7.3% in February 2014, a slight decrease from January 2014's rate of 7.5%. Sectors with strong job growth included transportation, construction, financial activities, and education/health services. According to Arizona Department of Administration, February added 25,480 nonfarm jobs including 1,260 in construction and 3,828 in the education and health services sector. Over 2013, the number of jobs increased; we anticipate this trend continuing in 2014.
- **Overall** - We are continuing to see a decrease in the amount available space on the market. As we progress into 2014, positive absorption should continue, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market should further improve. The Phoenix area is poised for growth; however, cautious optimism still prevails, as job creation will need to continue in order to drive the demand needed to sustain growth in the Phoenix industrial market.

FORECAST

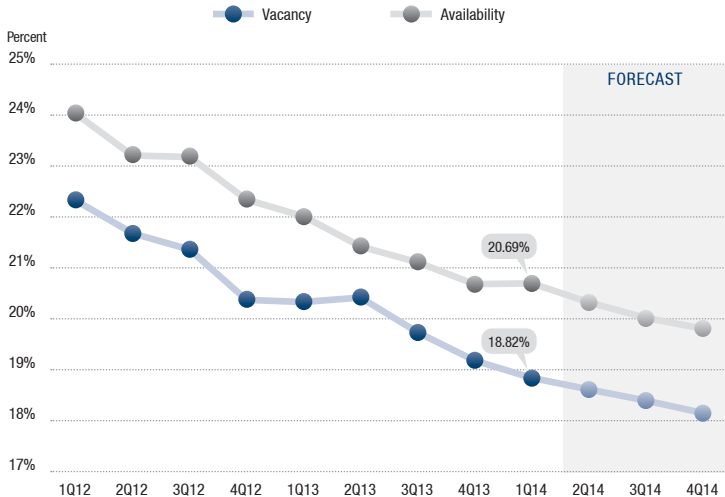
- **Construction** - With a favorable business climate spurring demographic growth in the Phoenix area, we expect it to only be a matter of time before development starts back up again. In the meantime, limited construction should ease vacancy rates and further allow demand to catch up to supply.
- **Employment** - We anticipate a job growth of around 2.6%, or 59,00 jobs, in the Phoenix Metropolitan area over the year. Look for industries like professional & business services, construction, and education & health services to lead the way in employment growth.
- **Lease Rates** - Expect average asking lease rates to increase by another 1%–2% by the end of 2015.
- **Vacancy** - We anticipate the vacancy rate continuing its descent in the coming quarters, dropping by 70 basis points, to around 18.15%, by the end of 2015.

OVERVIEW

	1Q14	4Q13	1Q13	% of Change vs. 1Q13
Vacancy Rate	18.82%	19.19%	20.32%	(7.38%)
Availability Rate	20.69%	20.67%	22.00%	(5.95%)
Average Asking Lease Rate	\$21.00	\$20.76	\$20.33	3.30%
Sale & Lease Transactions	3,171,770	5,925,856	3,568,516	(11.12%)
Gross Absorption	2,535,521	2,300,073	2,232,591	13.57%
Net Absorption	716,237	742,142	82,887	N/A

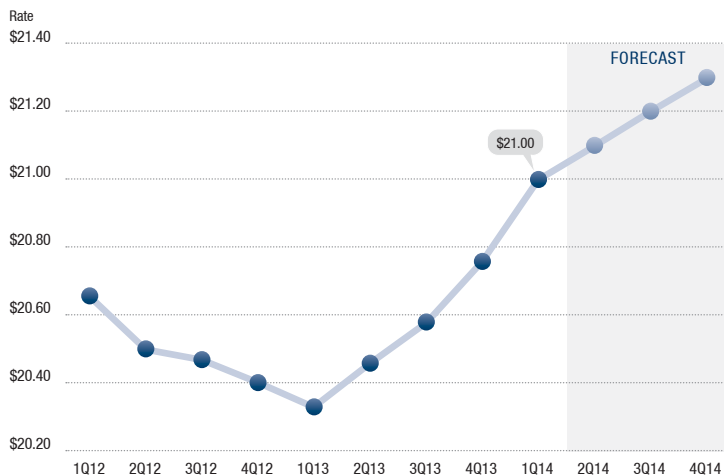
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



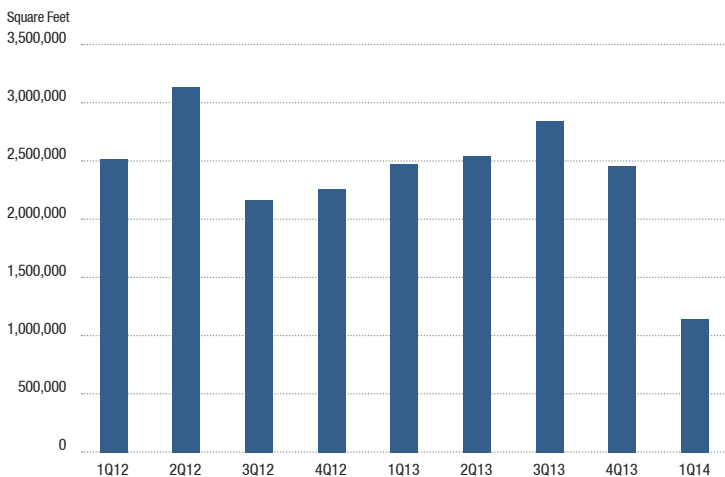
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



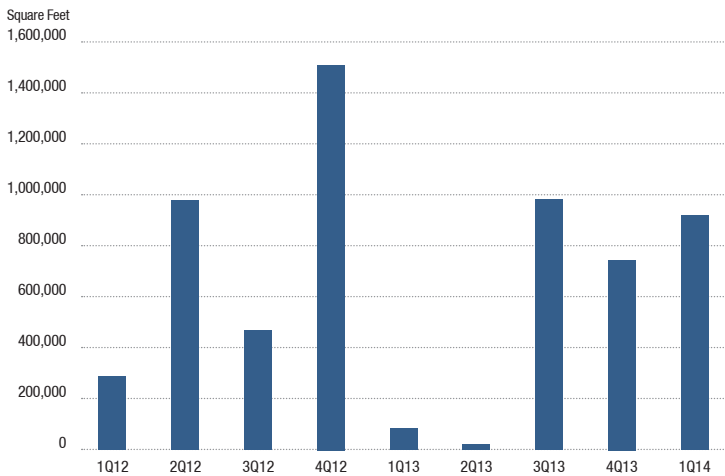
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



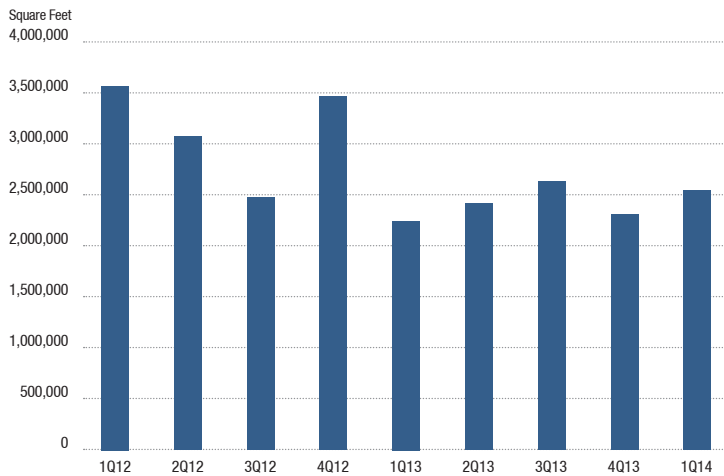
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2014	Square Feet Available	Availability Rate 1Q2014	Average Asking Lease Rate	Net Absorption 1Q2014	Net Absorption 2013	Gross Absorption 1Q2014	Gross Absorption 2013
Airport Area													
Airport Area	149	9,866,945	0	635,000	1,579,470	16.01%	1,707,114	17.30%	\$19.92	(5,868)	1,959	111,878	545,228
South Tempe/Ahwatukee	119	5,379,157	217,001	1,296,000	896,034	16.66%	945,024	17.57%	\$20.40	199,154	115,791	248,564	521,489
Airport Total	268	15,246,102	217,001	1,931,000	2,475,504	16.24%	2,652,138	17.40%	\$20.04	193,286	117,750	360,442	1,066,717
Central Corridor													
Midtown	153	12,189,500	0	478,488	2,998,168	24.60%	3,159,327	25.92%	\$19.80	61,911	(63,941)	156,619	672,255
Downtown	67	9,102,717	0	343,770	1,419,505	15.59%	1,671,928	18.37%	\$25.20	38,716	(855)	131,387	224,490
Central Corridor Total	220	21,292,217	0	822,258	4,417,673	20.75%	4,831,255	22.69%	\$21.24	100,627	(64,796)	288,006	896,745
East Phoenix													
44th Street Corridor	81	5,693,953	0	0	769,843	13.52%	953,843	16.75%	\$21.00	685	(3,468)	54,551	239,507
Camelback Corridor	132	8,777,584	0	0	2,083,510	23.74%	2,300,509	26.21%	\$24.96	(60,245)	436,304	115,202	956,700
Midtown/Central Phoenix	131	3,846,993	0	0	631,319	16.41%	726,020	18.87%	\$15.60	72,076	(7,832)	138,772	213,709
East Phoenix Total	344	18,318,530	0	0	3,484,672	19.02%	3,980,372	21.73%	\$22.92	12,516	425,004	308,525	1,409,916
East Valley													
Chandler	141	5,963,989	404,452	6,867,952	868,848	14.57%	845,847	14.18%	\$20.76	27,010	177,573	78,618	590,470
Gateway Airport/Loop 202	43	1,120,785	0	626,365	303,389	27.07%	306,788	27.37%	\$23.28	10,199	94,051	18,462	121,690
Mesa Downtown	36	940,076	0	0	121,295	12.90%	139,199	14.81%	\$14.64	732	108,211	2,600	118,444
Mesa East	70	1,869,275	0	10,156	283,416	15.16%	301,611	16.14%	\$12.24	12,708	(55,745)	30,242	53,662
Superstition Corridor	145	4,509,499	0	425,200	884,216	19.61%	1,017,816	22.57%	\$17.52	31,786	36,906	82,023	246,259
Tempe	126	5,398,650	1,015,000	1,724,612	581,568	10.77%	699,649	12.96%	\$17.28	24,208	245,514	96,964	545,370
East Valley Total	561	19,802,274	1,419,452	9,654,285	3,042,732	15.37%	3,310,910	16.72%	\$18.00	106,643	606,510	308,909	1,675,895
Northwest Phoenix													
Arrowhead	101	2,546,891	0	185,289	514,311	20.19%	528,981	20.77%	\$19.44	3,835	(10,661)	46,308	215,415
Deer Valley/Airport	129	10,198,089	0	1,573,552	1,953,186	19.15%	2,107,249	20.66%	\$20.16	27,911	218,036	116,502	563,598
Northwest Phoenix	239	8,716,218	0	250,000	2,227,711	25.56%	2,482,556	28.48%	\$16.20	74,477	(42,676)	260,551	693,818
Northwest Phoenix Total	469	21,461,198	0	2,008,841	4,695,208	21.88%	5,118,786	23.85%	\$17.64	106,223	164,699	423,361	1,472,831
Paradise Valley													
Paradise Valley	95	3,818,446	0	221,316	859,545	22.51%	881,622	23.09%	\$21.24	19,635	50,662	62,219	274,411
Piestewa Peak Corridor	70	2,941,960	0	0	566,679	19.26%	594,632	20.21%	\$17.40	(4,543)	56,355	45,521	210,958
Paradise Valley Total	165	6,760,406	0	221,316	1,426,224	21.10%	1,476,254	21.84%	\$19.44	15,092	107,017	107,740	485,369
Scottsdale													
Central Scottsdale	164	7,242,713	0	887,900	1,254,997	17.33%	1,457,453	20.12%	\$21.24	59,182	39,712	148,011	592,618
Scottsdale Airpark	311	12,863,552	0	508,383	2,593,052	20.16%	2,931,786	22.79%	\$24.36	203,245	26,761	468,892	986,353
Scottsdale South	121	4,959,621	145,000	145,000	666,875	13.45%	739,538	14.91%	\$21.72	(81,208)	162,865	58,983	458,803
Scottsdale Total	596	25,065,886	145,000	1,541,283	4,514,924	18.01%	5,128,777	20.46%	\$23.04	181,219	229,338	675,886	2,037,774
West Phoenix													
Glendale	47	2,331,479	0	712,000	574,204	24.63%	621,912	26.67%	\$23.28	2,409	95,561	7,434	121,224
Loop 303/Surprise	47	1,363,432	0	90,000	289,244	21.21%	312,456	22.92%	\$23.52	5,863	15,314	22,549	45,560
Southwest Phoenix	45	2,173,413	0	0	333,827	15.36%	336,918	15.50%	\$20.76	6,770	67,706	8,300	105,356
West I-10	50	1,456,108	0	268,428	201,522	13.84%	211,370	14.52%	\$23.64	(14,411)	24,778	24,369	102,011
West Phoenix Total	189	7,324,432	0	1,070,428	1,398,797	19.10%	1,482,656	20.24%	\$22.44	631	203,359	62,652	374,151
Phoenix Total	2,812	135,271,045	1,781,453	17,249,411	25,455,734	18.82%	27,981,148	20.69%	\$21.00	716,237	1,788,881	2,535,521	9,419,398
Class A	252	41,089,894	1,410,623	6,514,994	7,509,406	18.28%	8,447,695	20.56%	\$24.12	294,170	504,369	906,591	2,683,940
Class B	1,981	82,037,272	370,830	10,734,417	15,803,009	19.26%	17,370,781	21.17%	\$18.96	455,379	1,310,946	1,504,968	6,019,350
Class C	579	12,143,879	0	0	2,143,319	17.65%	2,162,672	17.81%	\$13.32	(33,312)	(26,434)	123,962	716,108
Class Total	2,812	135,271,045	1,781,453	17,249,411	25,455,734	18.82%	27,981,148	20.69%	\$21.00	716,237	1,788,881	2,535,521	9,419,398

This survey consists of office 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.

MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
2501 S. Price Rd.	East Valley / Chandler	B	463,658	\$111.61	Southwest Value Partners Ent., LLC	Capital Commercial Inv., Inc.
9200 E. Pima Center Pkwy. – 2 Prop.	Central Scottsdale	A	271,391	\$184.24	Carval Investors	GEM Realty Capital, Inc.
1711 W. Greentree Dr. – 5 Prop.	S. Tempe / Awhatukee	B	219,697	\$134.70	Dornin Investment Group, LLC	Westport Capital Partners, LLC
2625 W. Grandview Rd.	Deer Valley / Airport	B	131,854	\$173.11	Griffin Capital Essential Assets REIT	Najafi Companies
5757 N. Thunderbird Rd.	Deer Valley / Airport	B	86,492	\$179.21	Banner Health	Western America Equities, LLC
1001 W. Southern Ave.	Superstition Corridor	B	106,077	\$124.44	Buchanan Street Partners	Parkway Properties, Inc.

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
8465 N. Pima Rd.	Central Scottsdale	A	90,000	Jan-14	Rural Metro Operating Company	Undisclosed
4441 E. McDowell Rd.	44th St. Corridor	B	18,000	Jan-14	Pratice Max	Don Dan & Dave Smith, LLC
1155 W. Rio Salado Pkwy.	Airport Area	B	17,000	Jan-14	DHL	Undisclosed
5310 E. High St.	Paradise Valley	A	11,766	Jan-14	Leadpoint	City North Associates, LLC
55 N. Arizona Pl.	Chandler	B	10,546	Jan-14	Patent Law Group	Chandler AZ Properties, LLC
15333 N. Pima Rd.	Scottsdale Airpark	A	10,210	Jan-14	Go Big, Inc.	Rcc North, LLC

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.

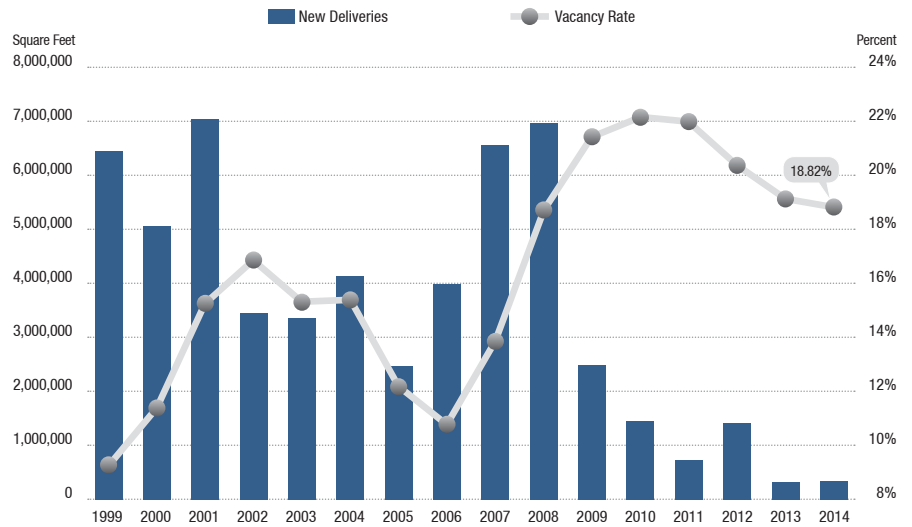
CLASS B

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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