



FIRST QUARTER 2015 PHOENIX OFFICE

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to Previous Quarter:

Vacancy



UP

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 strong signs of recovery in the first quarter of 2015, posting over 186,000 square feet of positive net absorption, making it the seventh straight quarter of positive absorption for a total of 5.0 million square feet. Availability maintained its downward trend, and vacancy increased slightly from the previous quarter. While these are positive indications, continued job growth in the valley will be needed to further relieve pressure on vacancy and sustain growth.
- **Construction** - Total space under construction checked in at just over 4.2 million square feet in the first quarter, with the highest concentration in the East Valley submarket. In 2014, 1.4 million square feet of new office space was delivered to the market.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 17.86%, a slight increase from 2014's fourth quarter rate of 17.82% and down 4.75% from 2014's first quarter rate of 18.75%. The Airport Area submarket posted the lowest rate in the metro, coming in at 14.47%.
- **Availability** - Direct/sublease space being marketed was at 20.58% at the end the first quarter of 2015, a decrease of 17 basis points when compared to the prior year's rate of 20.75%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per year in Phoenix was \$21.84 in the first quarter of 2015, an increase of thirty six cents from the fourth quarter's rate of \$21.48. The record high rate of \$25.86 was established in the last quarter of 2007. Class A rates for the county averaged \$25.08, while Camelback Corridor had the highest average rate of all submarkets at \$25.92.
- **Absorption** - The Phoenix office market posted 186,840 square feet of positive net absorption in the first quarter, marking the seventh consecutive quarter of positive absorption

and giving the market a total of 9.2 million square feet since the second quarter of 2011.

- **Transaction Activity** - Leasing activity checked in at just under 1.6 million square feet in the first quarter of 2015, a decrease from the previous quarter's figure of 2.4 million square feet. Sales activity came in below the previous quarter's rate, recording over 3.95 million square feet for first quarter of 2015 compared to fourth quarter of 2014 at 4.25 million square feet of sales transactions. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher on the next report.
- **Unemployment** - The unemployment rate in the Phoenix-Mesa-Glendale Metropolitan area was 5.8% in January 2015, a decrease from January 2014's rate of 6.8%. Sectors with strong job growth included professional and business services, retail trade, health care and manufacturing. Phoenix has created a new niche for itself in high tech manufacturing. Phoenix's projected total annual employment growth will be among the strongest in the nation. According to Arizona Department of Administration, February 2015 added 2,000 professional and business services jobs, 5,900 in leisure and hospitality, 1,400 in health care and 1,300 in manufacturing. The largest job gain was in government adding 15,800 jobs. The number of jobs has increased in 2014 and we anticipate this trend continuing through 2015.
- **Overall** - We are continuing to see a decrease in the amount of available space on the market and increases in occupancy costs. Positive absorption should continue through the rest of 2015, 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 Office market.

FORECAST

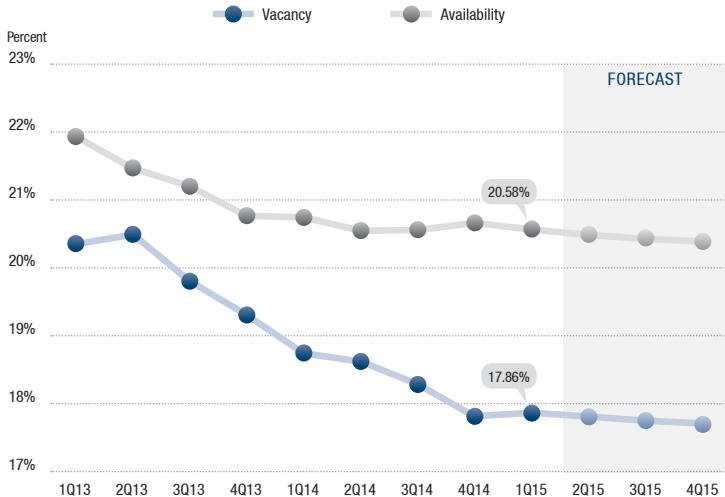
- **Construction** - With a favorable business climate spurring demographic growth in the Phoenix area, we expect it to only be a matter of time before development resumes. With 20.2 million square feet on the slate as being planned, we will see an influx of new product in the next year or so. In the meantime, limited construction should ease vacancy rates and allow demand to further catch up to supply.
- **Employment** - We anticipate job growth of around 2.6%, or 59,000 jobs, in the Phoenix Metropolitan area over the year. Look for industries like professional & business services, and education & health services to lead the way in employment growth.
- **Lease Rates** - Expect average asking lease rates to increase by another 3% to 5% over the next four quarters.
- **Vacancy** - We anticipate the vacancy rate continuing its descent in the coming quarters, dropping by around 16 basis points, to below 17.70%, by the end of the fourth quarter of 2015.

OVERVIEW

	1Q15	4Q14	1Q14	% of Change vs. 1Q14
Total Vacancy Rate	17.86%	17.82%	18.75%	(4.75%)
Availability Rate	20.58%	20.66%	20.75%	(0.82%)
Average Asking Lease Rate	\$21.84	\$21.48	\$21.00	4.00%
Sale & Lease Transactions	5,520,744	6,627,779	4,502,941	22.60%
Gross Absorption	1,998,643	2,417,057	2,715,958	(26.41%)
Net Absorption	186,840	938,698	851,914	N/A

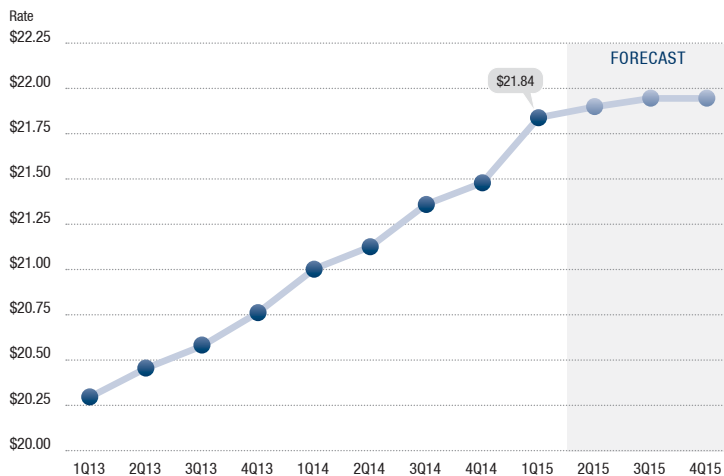
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



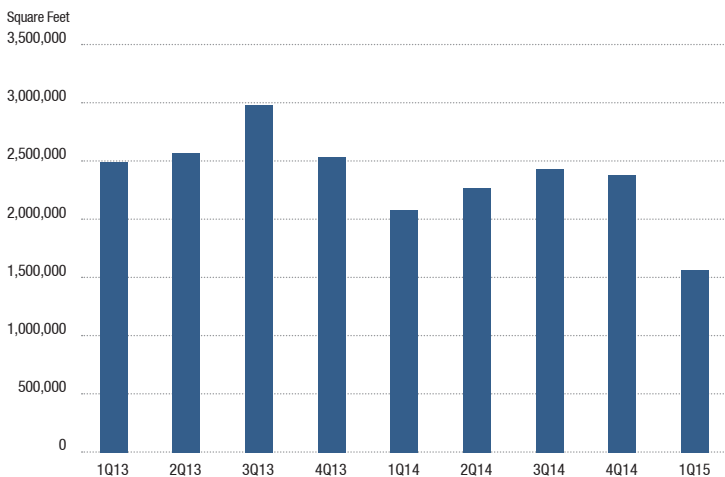
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



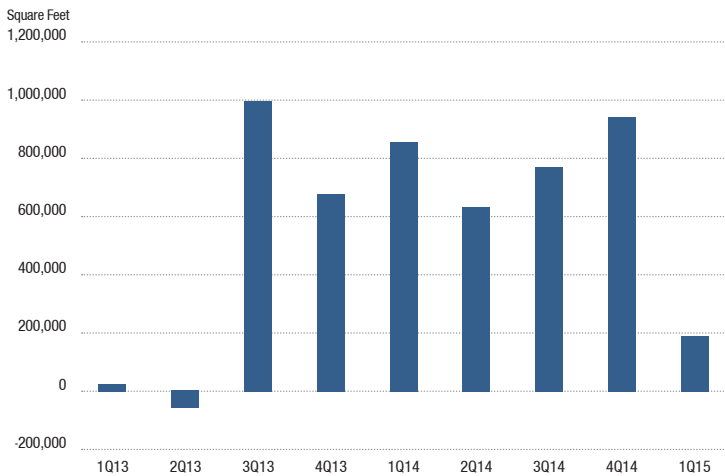
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



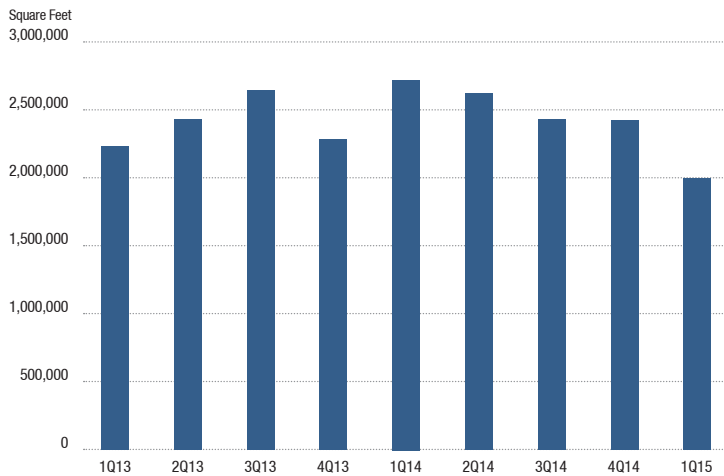
NET ABSORPTION

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 1Q2015	Square Feet Available	Availability Rate 1Q2015	Average Asking Lease Rate	Net Absorption 1Q2015	Net Absorption 2014	Gross Absorption 1Q2015	Gross Absorption 2014
Airport Area													
Airport Area	153	10,027,663	252,027	556,139	1,533,631	15.29%	2,031,338	20.26%	\$20.64	48,217	22,650	70,823	501,745
South Tempe/Ahwatukee	125	5,658,173	0	1,410,000	736,363	13.01%	972,826	17.19%	\$21.84	80,263	645,057	159,694	951,166
Airport Total	278	15,685,836	252,027	1,966,139	2,269,994	14.47%	3,004,164	19.15%	\$21.00	128,480	667,707	230,517	1,452,911
Central Corridor													
Midtown	152	12,194,349	0	478,488	3,047,621	24.99%	3,175,260	26.04%	\$20.28	(56,516)	89,881	75,835	531,509
Downtown	65	9,538,624	0	498,770	1,329,220	13.94%	1,400,407	14.68%	\$25.56	23,233	(67,764)	79,390	244,143
Central Corridor Total	217	21,732,973	0	977,258	4,376,841	20.14%	4,575,667	21.05%	\$21.60	(33,283)	22,117	155,225	775,652
East Phoenix													
44th Street Corridor	81	5,699,857	0	0	675,308	11.85%	1,177,336	20.66%	\$22.68	53,161	20,486	94,558	266,927
Camelback Corridor	133	8,755,706	0	0	1,883,657	21.51%	2,237,107	25.55%	\$25.92	(407)	120,057	136,267	565,252
Midtown/Central Phoenix	130	3,758,595	0	0	580,728	15.45%	692,521	18.42%	\$16.44	(1,974)	135,005	94,920	273,862
East Phoenix Total	344	18,214,158	0	0	3,139,693	17.24%	4,106,964	22.55%	\$24.12	50,780	275,548	325,745	1,106,041
East Valley													
Chandler	147	6,519,297	1,092,802	9,644,965	1,111,223	17.05%	1,221,995	18.74%	\$24.84	(123,423)	325,017	107,693	559,227
Gateway Airport/Loop 202	44	1,142,726	0	1,240,869	262,087	22.94%	272,878	23.88%	\$23.76	6,603	54,143	14,121	89,459
Mesa Downtown	37	950,113	0	0	114,626	12.06%	115,374	12.14%	\$11.04	25,933	(14,532)	32,153	17,467
Mesa East	70	1,903,077	0	10,886	272,535	14.32%	277,099	14.56%	\$15.96	2,279	18,310	10,109	76,650
Superstition Corridor	147	4,592,099	100,000	290,200	1,009,444	21.98%	1,115,914	24.30%	\$19.80	(51,959)	84,363	49,990	346,846
Tempe	126	5,405,681	2,372,235	653,000	574,092	10.62%	630,811	11.67%	\$18.60	(4,238)	40,664	65,962	390,360
East Valley Total	571	20,512,993	3,565,037	11,839,920	3,344,007	16.30%	3,634,071	17.72%	\$19.80	(144,805)	507,965	280,028	1,480,009
Northwest Phoenix													
Arrowhead	102	2,539,512	0	145,538	446,349	17.58%	470,604	18.53%	\$19.58	1,613	85,093	25,437	261,004
Deer Valley/Airport	135	10,733,454	46,971	1,632,628	1,823,093	16.99%	1,889,018	17.60%	\$21.12	73,439	187,153	180,370	556,368
Northwest Phoenix	237	8,613,515	0	113,500	2,289,140	26.58%	2,703,909	31.39%	\$16.80	(2,411)	17,714	78,205	731,817
Northwest Phoenix Total	474	21,886,481	46,971	1,891,666	4,558,582	20.83%	5,063,531	23.14%	\$18.00	72,641	289,960	284,012	1,549,189
Paradise Valley													
Paradise Valley	96	3,830,753	0	251,000	759,574	19.83%	803,764	20.98%	\$22.20	54,995	113,184	167,863	393,440
Piestewa Peak Corridor	71	2,958,344	42,068	0	592,511	20.03%	637,327	21.54%	\$17.76	2,245	(22,816)	36,260	153,161
Paradise Valley Total	167	6,789,097	42,068	251,000	1,352,085	19.92%	1,441,091	21.23%	\$19.58	57,240	90,368	204,123	546,601
Scottsdale													
Central Scottsdale	164	7,262,468	70,000	971,900	1,177,328	16.21%	1,649,555	22.71%	\$23.16	(22,794)	309,645	106,744	768,374
Scottsdale Airpark	311	12,966,367	169,189	610,262	2,446,911	18.87%	2,820,255	21.75%	\$25.08	75,358	451,765	245,769	1,243,849
Scottsdale South	123	5,095,466	26,900	522,500	604,168	11.86%	642,209	12.60%	\$24.12	(22,937)	223,679	91,825	634,760
Scottsdale Total	598	25,324,301	266,089	2,104,662	4,228,407	16.70%	5,112,019	20.19%	\$24.24	29,627	985,089	444,338	2,646,983
West Phoenix													
Glendale	47	2,329,232	55,294	868,000	552,885	23.74%	589,837	25.32%	\$23.40	17,391	6,337	37,166	65,985
Loop 303/Surprise	48	1,403,366	0	120,000	266,202	18.97%	292,783	20.86%	\$23.88	(95)	29,000	13,397	68,267
Southwest Phoenix	45	2,201,727	0	0	301,509	13.69%	310,309	14.09%	\$20.76	0	33,788	0	62,945
West I-10	53	1,487,668	0	222,803	175,589	11.80%	181,511	12.20%	\$22.32	8,864	5,758	24,092	94,150
West Phoenix Total	193	7,421,993	55,294	1,210,803	1,296,185	17.46%	1,374,440	18.52%	\$22.44	26,160	74,883	74,655	291,347
Phoenix Total	2,842	137,567,832	4,227,486	20,241,448	24,565,794	17.86%	28,311,947	20.58%	\$21.84	186,840	2,913,637	1,998,643	9,848,733
Class A	263	43,077,943	3,640,418	6,863,968	7,079,530	16.43%	8,566,631	19.89%	\$25.08	156,193	1,457,716	660,532	3,204,605
Class B	2,003	82,432,379	587,068	13,377,480	15,459,851	18.75%	17,517,702	21.25%	\$19.58	34,075	1,304,234	1,221,937	5,778,012
Class C	576	12,057,510	0	0	2,026,413	16.81%	2,227,614	18.47%	\$14.28	(3,428)	151,687	116,174	866,116
Class Total	2,842	137,567,832	4,227,486	20,241,448	24,565,794	17.86%	28,311,947	20.58%	\$21.84	186,840	2,913,637	1,998,643	9,848,733

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
4025 S. Riverpoint Pkwy. – 3 Properties	Airport Area	B	599,664	\$305.17	EPIC, LLC	American Realty Capital Properties, Inc.
1255 W. Washington St. – 3 Properties	Airport Area	B	279,503	\$146.15	Papago Arroyo Associates, LLC	Greenwood & McKenzie Real Estate Inv.
16427 N. Scottsdale – 2 Properties	Scottsdale Airpark	A	256,175	\$253.73	Lincoln Property Company	Excel Trust, Inc.
16260 N. 71st St.	Scottsdale Airpark	B	237,875	\$206.62	LBA Realty	The Prudential Insurance Company
4150 N. Drinkwater Blvd. – 2 Properties	Scottsdale South	A	226,112	\$258.72	Transwestern	Equus Capital Partners, Ltd.
16404 N. Black Canyon Hwy.	Deer Valley / Airport	B	225,920	\$119.95	Second City Capital Partners	Parallel Capital Partners, Inc.

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
3003 N. Central Ave.	Midtown	B	112,323	Feb-2015	State of Arizona – DCS	Colony Capital, LLC
1720 W. Rio Salado Pkwy.	Airport Area	A	96,000	Mar-2015	Drivetime Automotive	City of Tempe
1500 N. Priest Dr.	44th St. Corridor	A	67,000	Feb-2015	Endurance international Group	Principal Financial Group
SE 91st Ave. & W. Thunderbird Rd.	Arrowhead	B	60,000	Mar-2015	Cigna Health	Harbor Vista, LLC
14635 N. Kierland Blvd.	Scottsdale Airpark	A	46,634	Jan-2015	American Express Global Business Travel	The Muller Company
201 E. Washington St.	Downtown	A	41,570	Feb-2015	Uber	General Electric Capital Corp.

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.

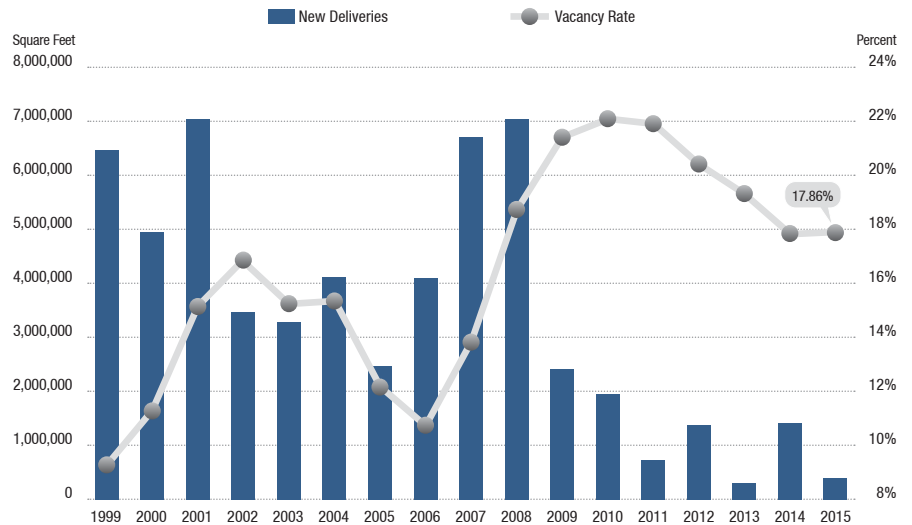
CLASS B

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



Please Contact Us for Further Information

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