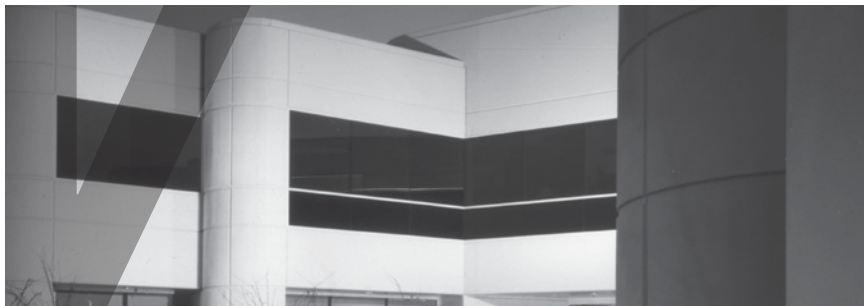




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Office Market Report

Compared to last quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Market Highlights

- ◆ **Encouraging Numbers** - The numbers this quarter appear to be encouraging for the first time since 2007 — a sign that recovery could be on the horizon. Availability exhibited a slight increase, vacancy dropped, and net absorption posted positive absorption. With regards to sales transactions, the ask-bid gap seems to be narrowing, evident from the drop in asking prices. While these are positive indications, stability will need to be sustained in following quarters to be considered recovery.
- ◆ **Absorption** - Net absorption for the county posted a positive 172,522 square feet for the second quarter of 2010, giving the office market a total of 3,351 square feet of positive absorption for the first half of 2010.
- ◆ **Transaction Activity** - Leasing activity checked in at 1.25 million square feet this quarter, mainly a result of short-term deals coupled with lease renegotiations. Details of the largest transactions can be found on the back page of this report.
- ◆ **Construction** - Total space under construction checked in at 490,752 square feet this quarter. The slowdown in construction has and will ease the upward pressure on vacancy going forward.
- ◆ **Unemployment** - The unemployment rate in Phoenix-Mesa-Glendale Metropolitan was 8.7% in May 2010, up from a revised 8.4% in April 2010 and above the year ago estimate of 8.7%. This compares with an unadjusted unemployment rate of 9.6% for Arizona and 9.7% for the nation during the same period.
- ◆ **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 22.39%, an increase over last year's rate of 20.97% and nearly equal to last quarter's figure of 22.50%. The Airport market posted the lowest rate in the county, coming in at 17.37%.
- ◆ **Overall** - We are beginning to see a decrease in the amount of available space being added per quarter. Positive absorption is the big story, and with few new deliveries in the pipeline to put more upward pressure on vacancies, the market is beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin 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 to increase 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 begins in the second half of 2010. Once job creation turns positive and consumer confidence stabilizes, the Office market will regain equilibrium.
- ◆ **Availability** - Direct/sublease space being marketed was at 24.96% this quarter, an increase of only 0.04% when compared to last quarter and only a 0.02% increase from the second quarter of last year.
- ◆ **Lease Rates** - The average asking Full-Service Gross (FSG) lease rate per square foot per month in Phoenix was \$1.86 — a 8.82% decrease over last year's rate of \$2.04 and four cents lower than last quarter's rate. The record high rate of \$2.19 was established in the first quarter of 2008. Class A rates for the county are averaging \$2.10 FSG, with East Phoenix noting the highest asking rates, averaging \$1.97 FSG.

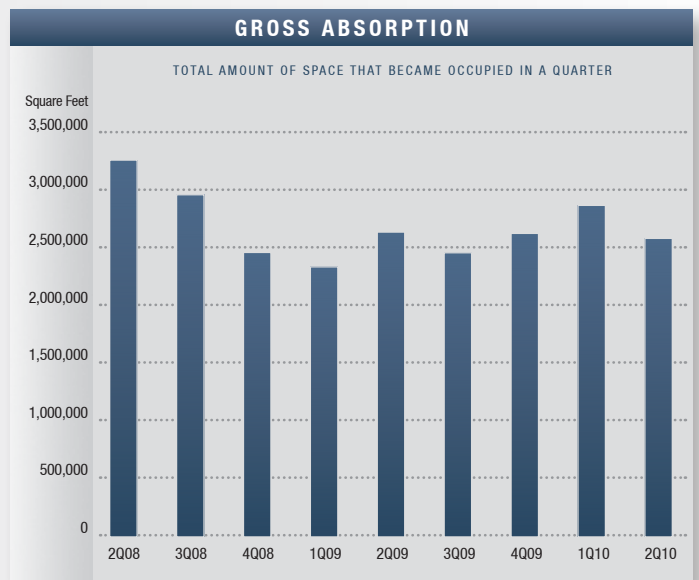
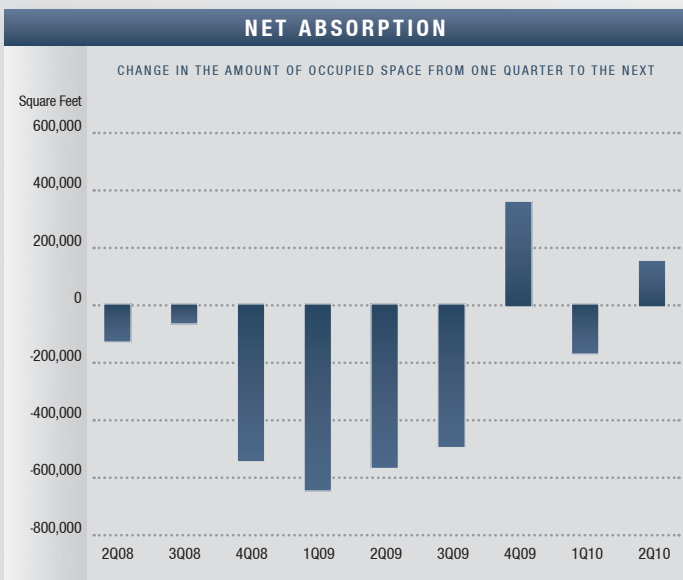
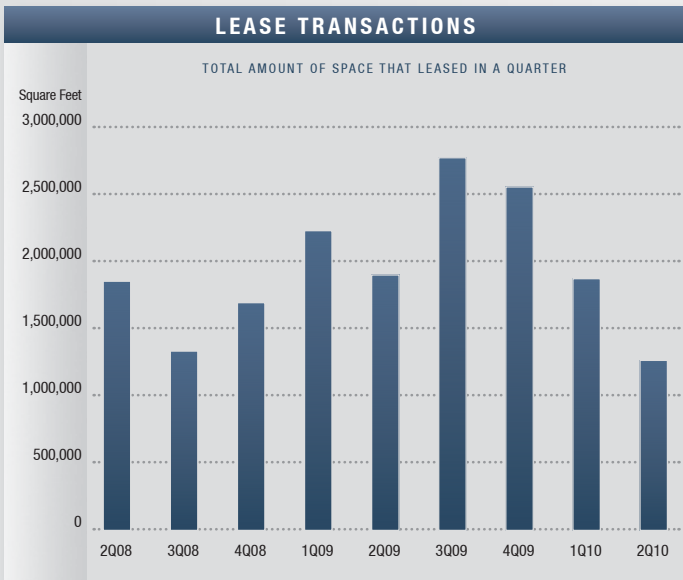
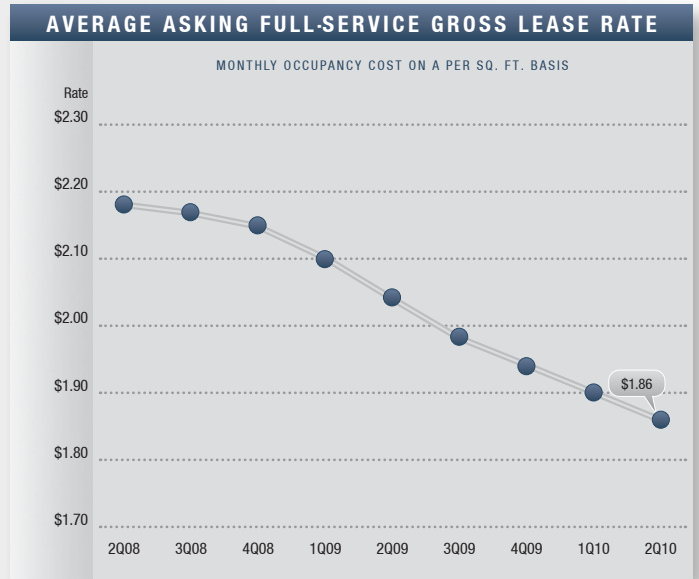
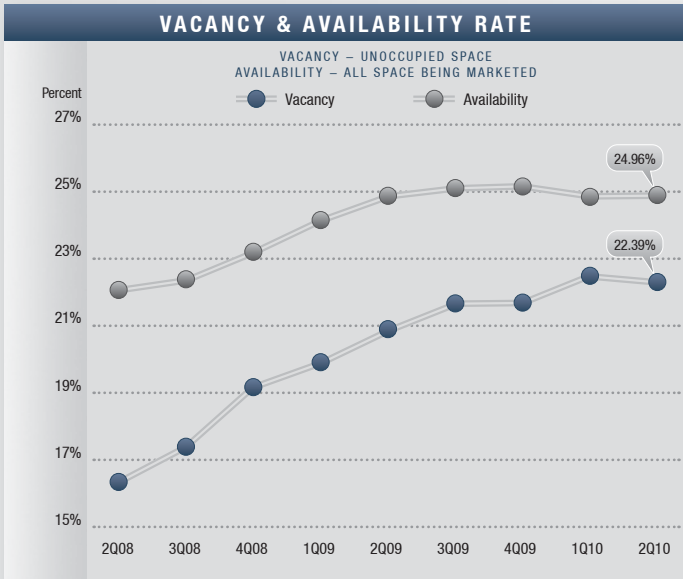
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OFFICE MARKET OVERVIEW

	2Q2010	1Q2010	2Q2009	% CHANGE vs. 2Q2009
Vacancy Rate	22.39%	22.50%	20.97%	6.77%
Availability Rate	24.96%	24.92%	24.94%	0.08%
Average Asking Lease Rate	\$1.86	\$1.90	\$2.04	(8.82%)
Lease Transactions	1,255,339	1,887,714	2,898,547	(56.69%)
Gross Absorption	2,565,348	2,872,577	2,626,514	(2.33%)
Net Absorption	172,522	(169,171)	(562,063)	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 2Q2010	Total Availability 2Q2010	Availability Rate 2Q2010	Average Asking Lease Rate	Net Absorption 2Q2010	Net Absorption 2010	Gross Absorption 2Q2010	Gross Absorption 2010
Airport Area													
Airport Area	143	8,754,898	439,070	250,531	1,120,716	12.80%	1,492,138	17.04%	\$1.68	(1,072)	144,138	62,849	269,899
South Tempe/Ahwatukee	108	4,291,611	0	98,286	1,145,475	26.69%	1,515,946	35.32%	\$1.79	(16,425)	(66,702)	50,666	130,792
Airport Total	251	13,046,509	439,070	348,817	2,266,191	17.37%	3,008,084	23.06%	\$1.73	(17,497)	77,436	113,515	400,691
Central Corridor													
Downtown North	147	11,835,208	0	478,488	2,386,390	20.16%	2,690,922	22.74%	\$1.66	(13,010)	(135,090)	156,866	303,410
Downtown South	75	8,487,556	0	0	1,764,267	20.79%	2,051,998	24.18%	\$2.30	(59,176)	87,890	325,980	486,190
Central Corridor Total	222	20,322,764	0	478,488	4,150,657	20.42%	4,742,920	23.34%	\$1.92	(72,186)	(47,200)	482,846	789,600
East Phoenix													
44th Street Corridor	78	5,422,889	0	0	1,289,444	23.78%	1,402,532	25.86%	\$1.80	(71,220)	(61,778)	47,011	151,652
Camelback Corridor	134	8,890,672	0	0	2,560,432	28.80%	2,875,788	32.35%	\$2.13	(69,958)	(211,069)	206,168	446,220
Midtown/Central Phoenix	122	3,451,711	0	330,200	618,062	17.91%	738,978	21.41%	\$1.31	(40,357)	(37,573)	40,058	80,319
East Phoenix Total	334	17,765,272	0	330,200	4,467,938	25.15%	5,017,298	28.24%	\$1.97	(181,535)	(310,420)	293,237	678,191
East Valley													
Chandler	129	5,079,919	35,182	2,749,602	1,173,323	23.10%	1,281,514	25.23%	\$2.04	110,137	69,406	148,804	242,031
Gateway Airport/Loop 202	42	1,133,232	16,500	804,561	463,695	40.92%	465,725	41.10%	\$1.98	11,284	28,240	18,331	39,296
Mesa Downtown	32	784,475	0	0	187,043	23.84%	175,970	22.43%	\$1.19	(13,491)	(14,253)	2,616	4,754
Mesa East	81	2,320,672	0	107,756	377,188	16.25%	400,770	17.27%	\$1.89	10,240	6,482	16,293	31,424
Superstition Corridor	155	5,178,733	0	1,042,523	1,304,424	25.19%	1,370,434	26.46%	\$1.59	61,194	88,788	117,543	248,998
Tempe	110	4,440,770	0	695,000	1,032,050	23.24%	1,149,067	25.88%	\$1.98	16,676	(43,421)	65,703	295,790
East Valley Total	549	18,937,801	51,682	5,399,442	4,537,723	23.96%	4,843,480	25.58%	\$1.87	196,040	135,242	369,290	862,293
Northwest Phoenix													
Arrowhead	96	2,482,597	0	319,351	469,507	18.91%	477,429	19.23%	\$1.80	(22,331)	(10,695)	39,573	86,952
Deer Valley/Airport	144	10,112,368	0	1,681,126	2,099,882	20.77%	2,319,435	22.94%	\$1.81	(41,918)	(165,693)	107,159	248,967
Northwest Phoenix	176	7,037,617	0	30,000	1,430,403	20.33%	1,551,318	22.04%	\$1.50	(34,944)	(11,769)	82,405	257,330
Northwest Phoenix Total	416	19,632,582	0	2,030,477	3,999,792	20.37%	4,348,182	22.15%	\$1.66	(99,193)	(188,157)	229,137	593,249
Paradise Valley													
Paradise Valley	98	3,938,199	0	190,000	973,679	24.72%	1,010,944	25.67%	\$1.98	9,787	(7,344)	76,593	169,830
Piestewa Peak Corridor	69	2,918,121	0	105,600	492,560	16.88%	644,431	22.08%	\$1.52	(2,334)	(26,665)	54,033	83,817
Paradise Valley Total	167	6,856,320	0	295,600	1,466,239	21.39%	1,655,375	24.14%	\$1.77	7,453	(34,009)	130,626	253,647
Scottsdale													
Central Scottsdale	183	7,765,379	0	458,900	1,812,937	23.35%	1,998,836	25.74%	\$1.90	(19,385)	(64,604)	167,945	300,118
Scottsdale Airpark	311	12,872,113	0	551,345	3,436,589	26.70%	3,821,850	29.69%	\$1.97	239,424	294,112	414,321	942,555
Scottsdale South	134	5,555,545	0	209,778	1,229,050	22.12%	1,269,456	22.85%	\$1.71	21,064	(6,773)	160,499	269,458
Scottsdale Total	628	26,193,037	0	1,220,023	6,478,576	24.73%	7,090,142	27.07%	\$1.90	241,103	222,735	742,765	1,512,131
West Phoenix													
Glendale	43	2,088,447	0	562,677	775,528	37.13%	758,396	36.31%	\$2.12	120,666	112,264	130,760	147,749
Loop 303/Surprise	42	1,066,883	0	121,701	347,602	32.58%	343,554	32.20%	\$2.05	(4,456)	16,222	25,018	48,796
Southwest Phoenix	89	3,129,250	0	70,740	479,508	15.32%	526,417	16.82%	\$1.39	770	26,855	21,786	88,632
West I-10	50	1,440,821	0	514,779	241,249	16.74%	234,042	16.24%	\$2.01	(18,643)	(30,191)	26,368	38,493
West Phoenix Total	224	7,725,401	0	1,269,897	1,843,887	23.87%	1,862,409	24.11%	\$1.93	98,337	125,150	203,932	323,670
Phoenix Total	2,791	130,479,686	490,752	11,372,944	29,211,003	22.39%	32,567,890	24.96%	\$1.86	172,522	(19,223)	2,565,348	5,413,472
Class A	280	43,836,540	439,070	3,892,531	11,000,064	25.09%	12,260,210	27.97%	\$2.10	(103,258)	202,953	1,211,637	2,144,181
Class B	1,909	74,318,136	51,682	7,480,413	16,259,634	21.88%	17,970,547	24.18%	\$1.65	295,399	(71,727)	1,232,866	2,932,796
Class C	602	12,325,010	0	0	1,951,305	15.83%	2,337,133	18.96%	\$1.17	(19,619)	(150,449)	120,845	336,495
Class Total	2,791	130,479,686	490,752	11,372,944	29,211,003	22.39%	32,567,890	24.96%	\$1.86	172,522	(19,223)	2,565,348	5,413,472

This survey consists of properties 25,000 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

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
1240 S. Price Rd.	Chandler	A	188,730	June-10	eBay, Inc.	The Delta Corporation
1330 W. Southern Ave.	Airport	B	50,000	May-10	iQor, Inc.	Wisterok, LLC
275 E. Germann Rd.	Chandler	B	32,228	April-10	N/A	Orsett Properties, Ltd.
2 N. Central Ave.	Downtown S.	A	31,200	June-10	Gammage & Burnham, PLC	Hines One Renaissance Square, LP
2141 E. Highland Ave.	Camelback	B	26,485	May-10	Brookline College	TIAA-CREF
350 W. Washington St.	44th St. Corridor	A	25,135	May-10	Parsons Brinckerhoff FPM Co.	Chesnut Properties, LLC
14000 N. Pima Rd.	Scottsdale Airpark	A	23,320	June-10	N/A	ASB Capital Management, LLC
14850 N. Scottsdale Rd.	Scottsdale Airpark	A	23,000	May-10	Clark Hill	Furst Properties, LLC
1150 E. University Dr.	Tempe	B	22,551	April-10	Nationwide Credit, Inc.	St. Paul Fire & Marine Ins. Company
100 W. University Dr.	Tempe	B	21,706	June-10	JP Morgan Chase	Brookfield Properties Management, 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.

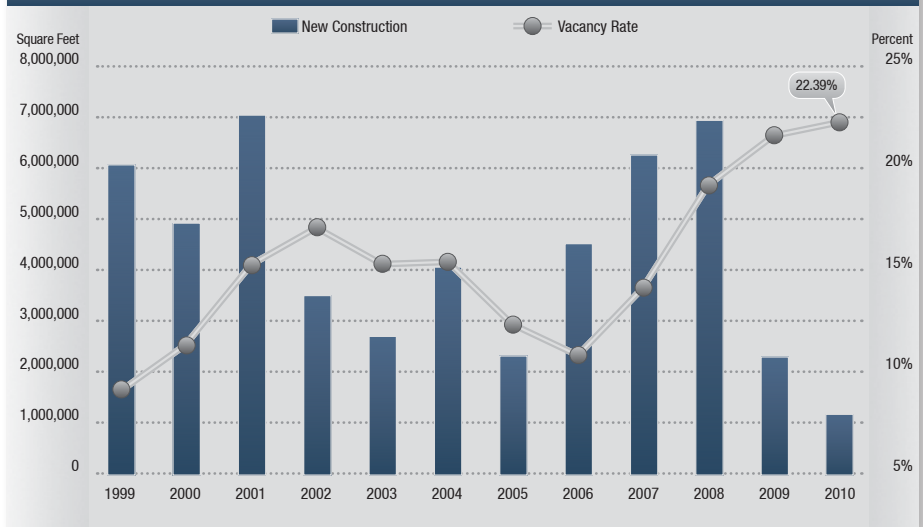
CLASS B

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.

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