

Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

FLAT

Deliveries

DOWN

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Market Highlights

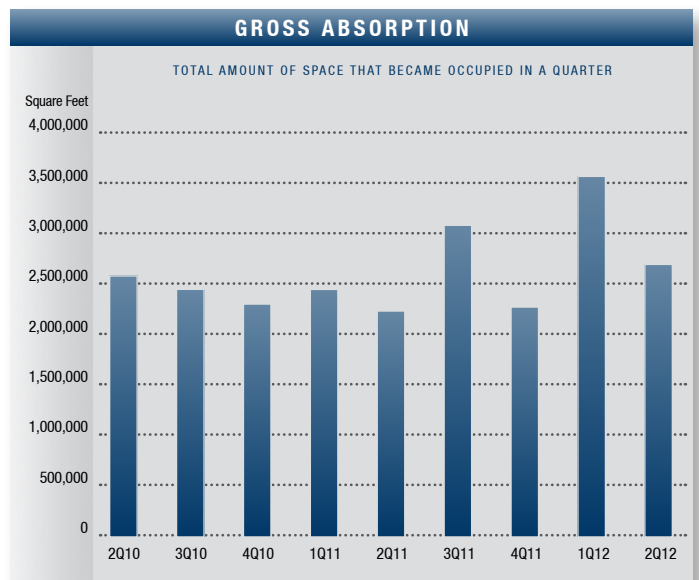
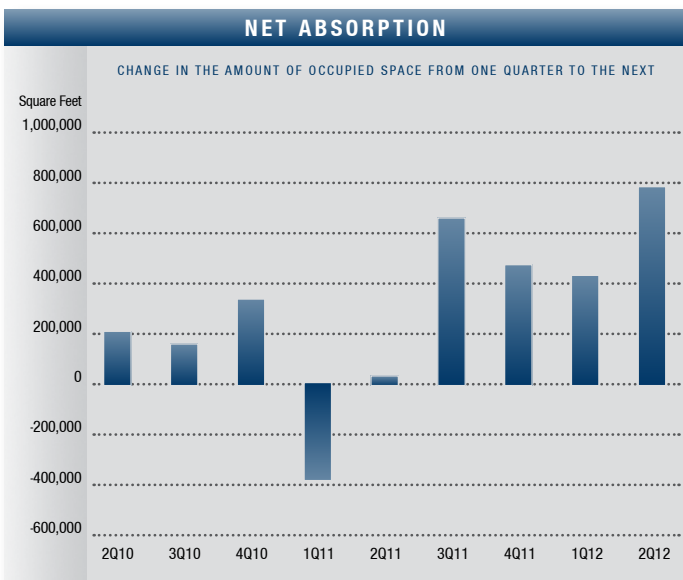
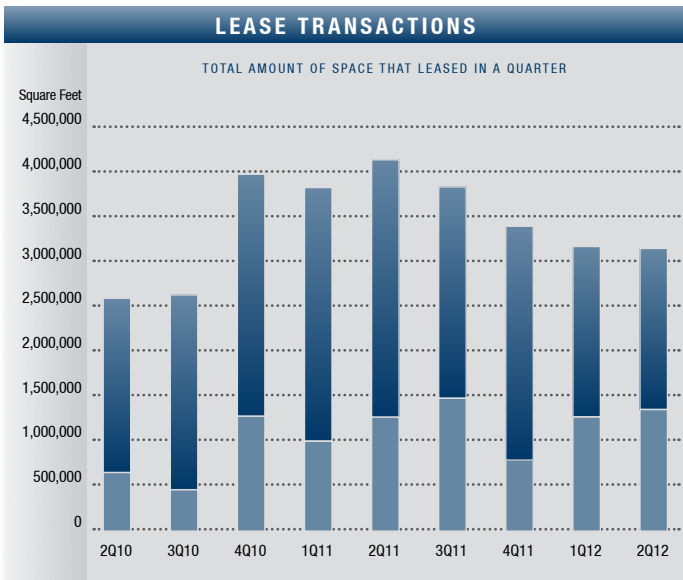
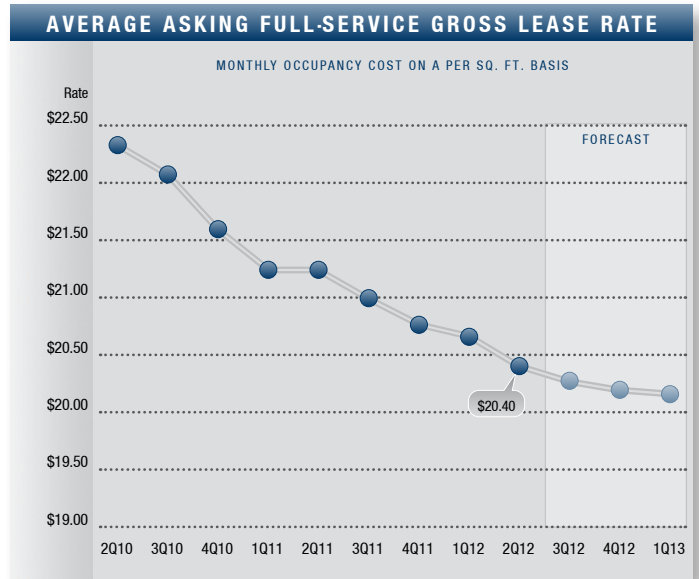
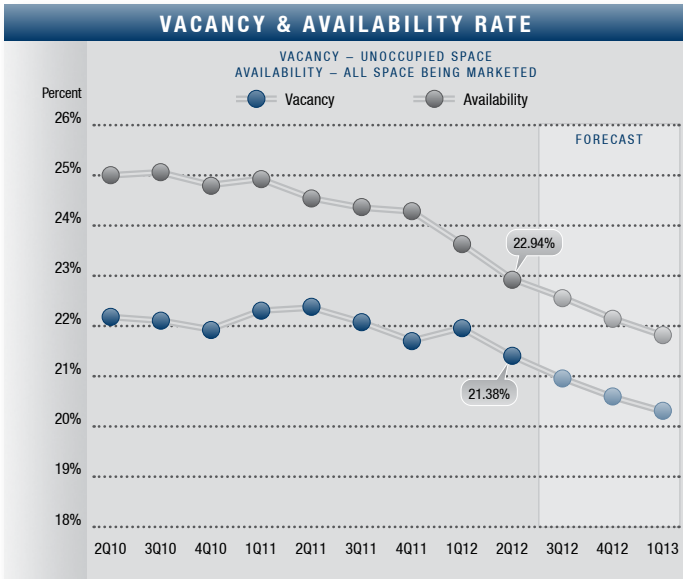
- Continued Patience** - The Phoenix office market continued to convey signs of recovery in the second quarter of 2012. Availability and vacancy both decreased compared to the previous quarter, which is likely to have a positive affect on net absorption in the future. Demand picked up in the second quarter, 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.
- Construction** - Total space under construction checked in at 373,638 square feet in the second 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 21.38%, a decrease from the first quarter's rate of 21.95% and down a whole percentage point from the previous year's second quarter rate of 22.38%. The downtown south submarket posted the lowest rate in the county, coming in at 14.18%.
- Availability** - Direct/sublease space being marketed was at 22.94% at the end of the second quarter, a decrease when compared to the prior quarter's rate of 23.67% and 2011's second quarter rate of 24.55%.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per year in Phoenix was \$20.40 — a decrease of 26 cents from first quarter 2012's rate of \$20.66. The record high rate of \$25.86 was established in the last quarter of 2007. Class A rates for the county averaged \$23.40 FSG, with the highest figures in the downtown south submarket where they averaged \$24.21 FSG.
- Absorption** - The Phoenix office market posted 779,628 square feet of positive net absorption in the second

quarter, giving the office market a total of 2.3 million square feet of positive absorption over the last four quarters.

- Transaction Activity** - Leasing activity checked in at just over 1.8 million square feet in the second quarter of 2012, a slight decrease from the previous quarter. Sales activity displayed a slight increase over the first quarter 2012, posting 1,327,329 square feet of activity in the second quarter as compared to 1,243,527 square feet. 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 7.2% in May 2012, a healthy decrease from January'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 has made substantial strides over the past 12 months with the addition of 4,500 jobs, and the financial activities sector has also gained traction, aided by JPMorgan Chase's addition of 1,100 to local staff.
- 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. As unemployment rates drop and consumer confidence stabilizes, the office market will continue to regain equilibrium.

OFFICE MARKET OVERVIEW

	2Q12	1Q12	2Q11	% of Change vs. 2Q11
Total Vacancy Rate	21.38%	21.95%	22.38%	(4.47%)
Availability Rate	22.94%	23.67%	24.55%	(3.08%)
Average Asking Lease Rate	\$20.40	\$20.66	\$21.24	(3.95%)
Sale & Lease Transactions	3,132,299	3,156,433	4,115,514	(23.89%)
Gross Absorption	2,698,537	3,569,995	2,212,550	21.97%
Net Absorption	779,628	424,052	30,224	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 2Q2012	Square Feet Available	Availability Rate 2Q2012	Average Asking Lease Rate	Net Absorption 2Q2012	Net Absorption 2012	Gross Absorption 2Q2012	Gross Absorption 2012
Airport Area													
Airport Area	145	9,723,659	0	384,000	1,427,859	14.68%	1,605,349	16.51%	\$18.10	74,318	(192,176)	223,969	326,959
South Tempe/Ahwatukee	114	5,011,267	0	1,362,000	1,081,270	21.58%	1,349,702	26.93%	\$19.76	96,010	199,870	195,951	368,979
Airport Total	259	14,734,926	0	1,746,000	2,509,129	17.03%	2,955,051	20.05%	\$18.70	170,328	7,694	419,920	695,938
Central Corridor													
Downtown North	152	12,259,109	95,000	478,488	3,171,491	25.87%	3,596,467	29.34%	\$19.51	101,315	(221,776)	239,539	431,814
Downtown South	65	8,905,970	0	329,994	1,262,949	14.18%	1,336,686	15.01%	\$24.21	578	659,535	11,734	751,755
Central Corridor Total	217	21,165,079	95,000	808,482	4,434,440	20.95%	4,933,153	23.31%	\$20.51	101,893	437,759	251,273	1,183,569
East Phoenix													
44th Street Corridor	82	5,759,134	0	0	1,072,748	18.63%	1,290,391	22.41%	\$20.57	126,149	139,459	160,175	327,620
Camelback Corridor	135	8,912,596	0	0	2,503,824	28.09%	2,652,694	29.76%	\$24.03	60,420	226,956	192,691	612,555
Midtown/Central Phoenix	128	3,697,365	0	443,200	570,985	15.44%	791,998	21.42%	\$14.53	122,822	101,822	179,400	212,196
East Phoenix Total	345	18,369,095	0	443,200	4,147,557	22.58%	4,735,083	25.78%	\$22.02	309,391	468,237	532,266	1,152,371
East Valley													
Chandler	133	5,187,732	92,109	4,446,649	878,203	16.93%	716,866	13.82%	\$21.46	43,762	44,814	57,385	104,838
Gateway Airport/Loop 202	42	1,124,560	16,500	384,365	392,818	34.93%	397,301	35.33%	\$23.33	8,786	32,290	14,333	45,873
Mesa Downtown	36	838,153	114,412	0	185,806	22.17%	159,620	19.04%	\$14.82	(6,257)	(13,702)	0	22,669
Mesa East	70	1,877,152	0	10,156	266,979	14.22%	309,549	16.49%	\$13.07	6,382	9,857	15,716	33,838
Superstition Corridor	144	4,616,569	0	471,248	1,169,414	25.33%	1,168,256	25.31%	\$18.27	(53,290)	(132,874)	48,568	126,494
Tempe	123	5,248,418	0	378,000	1,060,159	20.20%	980,281	18.68%	\$19.38	42,008	67,641	101,764	198,981
East Valley Total	548	18,892,584	223,021	5,690,418	3,953,379	20.93%	3,731,873	19.75%	\$19.07	41,391	8,026	237,766	532,693
Northwest Phoenix													
Arrowhead	102	2,557,065	21,569	124,719	500,194	19.56%	530,820	20.76%	\$19.49	14,929	24,309	30,716	80,005
Deer Valley/Airport	130	10,254,706	0	1,191,559	2,069,967	20.19%	2,198,960	21.44%	\$19.63	(53,484)	264,560	259,533	719,470
Northwest Phoenix	227	8,438,042	0	0	2,175,697	25.78%	2,587,261	30.66%	\$17.23	(51,513)	(183,681)	93,628	206,941
Northwest Phoenix Total	459	21,249,813	21,569	1,316,278	4,745,858	22.33%	5,317,041	25.02%	\$18.19	(90,068)	105,188	383,877	1,006,416
Paradise Valley													
Paradise Valley	93	3,869,931	0	138,000	1,008,638	26.06%	1,005,710	25.99%	\$20.24	3,699	(23,563)	77,310	144,127
Piestewa Peak Corridor	69	2,938,729	0	105,600	639,722	21.77%	710,401	24.17%	\$17.72	43,348	409	135,740	168,994
Paradise Valley Total	162	6,808,660	0	243,600	1,648,360	24.21%	1,716,111	25.20%	\$19.02	47,047	(23,154)	213,050	313,121
Scottsdale													
Central Scottsdale	173	7,541,257	0	887,900	1,669,768	22.14%	1,637,343	21.71%	\$21.03	19,338	13,533	149,205	276,360
Scottsdale Airpark	252	11,462,924	0	466,365	2,530,789	22.08%	2,725,274	23.77%	\$22.93	43,126	108,831	229,863	583,691
Scottsdale South	131	5,411,350	0	334,778	1,062,383	19.63%	1,000,537	18.49%	\$21.08	62,018	(15,036)	160,729	322,116
Scottsdale Total	556	24,415,531	0	1,689,043	5,262,940	21.56%	5,363,154	21.97%	\$22.05	124,482	107,328	539,797	1,182,167
West Phoenix													
Glendale	46	2,291,855	0	336,927	707,049	30.85%	680,994	29.71%	\$20.85	73,402	115,156	86,341	140,681
Loop 303/Surprise	45	1,138,345	34,048	214,201	305,198	26.81%	336,690	29.58%	\$23.61	601	5,294	20,532	31,501
Southwest Phoenix	42	2,055,658	0	82,784	411,822	20.03%	420,622	20.46%	\$19.89	(1,500)	(37,854)	0	0
West I-10	51	1,460,198	0	251,779	221,168	15.15%	220,853	15.12%	\$21.70	2,661	10,006	13,715	30,075
West Phoenix Total	184	6,946,056	34,048	885,691	1,645,237	23.69%	1,659,159	23.89%	\$20.68	75,164	92,602	120,588	202,257
Phoenix Total	2,730	132,581,744	373,638	12,822,712	28,346,900	21.38%	30,410,625	22.94%	\$20.40	779,628	1,203,680	2,698,537	6,268,532
Class A	245	40,380,502	92,109	4,580,791	9,069,550	22.46%	9,562,260	23.68%	\$23.40	259,285	383,979	932,078	1,963,596
Class B	1,909	80,153,058	281,529	8,241,921	17,231,586	21.50%	18,407,716	22.97%	\$18.38	506,966	859,641	1,638,874	3,970,024
Class C	576	12,048,184	0	0	2,045,764	16.98%	2,440,649	20.26%	\$12.87	13,377	(39,940)	127,585	334,912
Phoenix Total	2,730	132,581,744	373,638	12,822,712	28,346,900	21.38%	30,410,625	22.94%	\$20.40	779,628	1,203,680	2,698,537	6,268,532

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
16220 N. Scottsdale Rd.	Scottsdale Airpark	A	258,312	\$305.83	Artis Real Estate Investment Trust	Clarion Partners
6590 N. Scottsdale Rd. – 3 Properties	Central Scottsdale	B/C	85,000	\$120.00	Alliance Residential Company	Covington Asset Management
585 N. Juniper Dr.	Ahwatukee	B	67,561	\$146.53	Held Properties, Inc.	RRS & Company
3550 N. Central Ave.	Midtown	B	280,572	\$22.81	AEW Capital Management	LNR Partners
1600 E. Northern Ave.	Piestewa Peak	B	76,253	\$66.88	Southwest Gas Corporation	Brentwood Northern
2828 N. Central Ave.	Midtown	B	98,490	\$43.15	One Thomas Building, LLC	First Bank & Trust

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
2700 W. Frye Rd.	Chandler	B	183,000	May-12	QBE Insurance Group	Regent Properties, Inc.
4129 E. Van Buren St.	44th St Corridor	A	63,426	Apr-12	Dignity Health	Arden Realty
2510 W. Dunlap Ave.	Northwest Phoenix	A	59,804	May-12	Liberty Mutual Insurance Company	Northridge Capital, LLC
3110 N. Central Ave.	Midtown	B	56,530	May-12	District Medical Group	Pensus Group
225 E. Main St.	Mesa Downtown	B	43,862	Apr-12	Benedictine University	City of Mesa
2625 S. Plaza Dr.	Airport Area	A	30,400	Jun-12	Aerotek	Principal Financial Group

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.

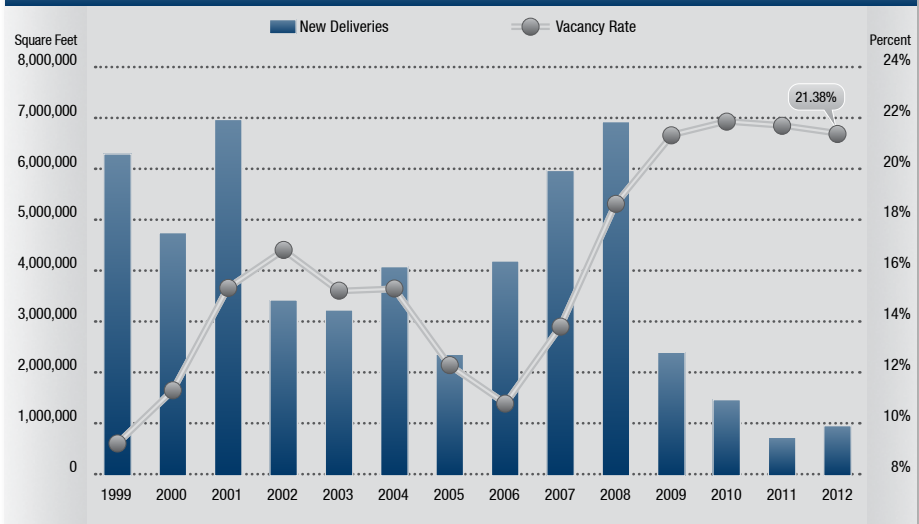
CLASS B

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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