



Retail Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

Deliveries

UP

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Market Highlights

- Encouraging Numbers** - The Phoenix retail market continued moving on the path towards recovery in the second quarter of 2012. Both vacancy and availability exhibited decreases, while lease rates held steady. The market also posted over 729,500 square feet of positive absorption, marking the fifth consecutive quarter of positive absorption. While these are positive indications, continued stability and job growth will be needed in coming quarters to further recovery.
- Construction** - There was only 486,246 square feet of retail construction underway at the end of second quarter 2012. Look for this to increase in the coming quarters as multiple high-profile projects break ground this year.
- Vacancy** - Direct/sublease space (unoccupied) finished the second quarter at 11.75%, marking the third quarter in a row of decreasing vacancy rates in the valley. The lowest vacancy rates were found in the Northwest Phoenix submarket, at 8.54%, respectively.
- Availability** - Direct/sublease space finished the second quarter at 12.79%, 10 basis points lower than the previous quarter and a decrease of 6.44% when compared to the prior year's second quarter rate of 13.67%.
- Lease Rates** - The average asking triple-net lease rate per month per square foot in Phoenix was at \$1.22 for second quarter of 2012. It appears as vacancy has come down, rates have stabilized. Look for rates to remain steady and to increase incrementally in some submarkets in coming quarters, as consumer spending increases.
- Absorption** - The Phoenix retail market posted 729,570 square feet of positive net absorption in 2Q12, giving the market a total of 2.6 million square feet of positive absorption over the last five quarters.
- Transaction Activity** - Leasing activity checked in at 1.42 million square feet, relatively unchanged from the previous quarter's figure of 1.43 million square feet. Sales fell in the second quarter of 2012, posting 2.1 million square feet compared to 2.9 million in the previous quarter. 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 continuing to see a decrease in the amount of available space being added per quarter, as well as some compression of cap rates for investment sales. Positive absorption is the big story, and with few new deliveries in the pipeline to apply 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, relocation funds and tenant improvement allowances should continue in order to motivate tenants to immediate action. We should see an increase in leasing activity as many short-term deals come up for renewal and as job creation continues in 2012. As unemployment rates drop and consumer confidence stabilizes, the retail market will regain equilibrium.

Prepared by:

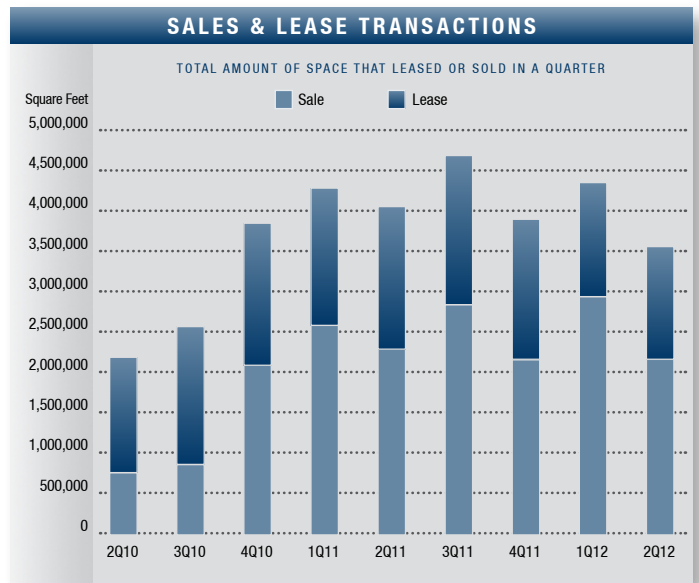
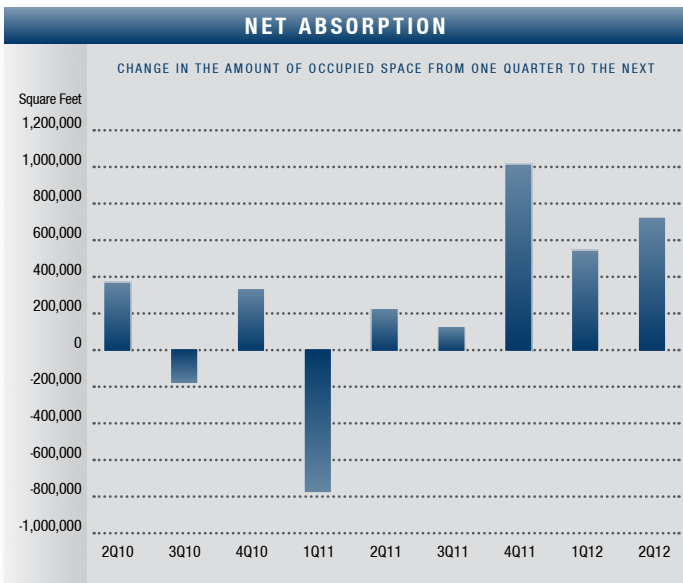
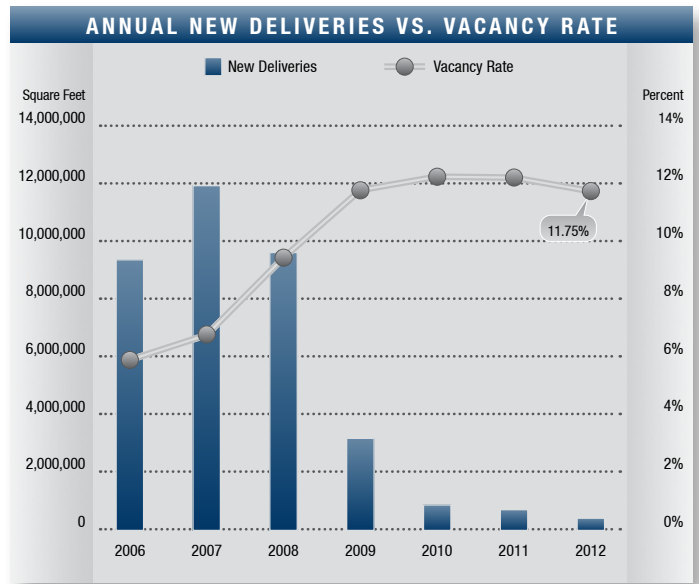
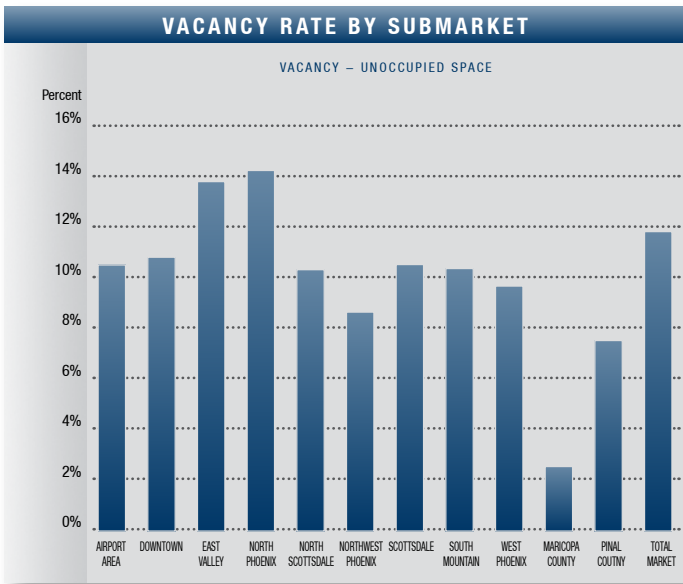
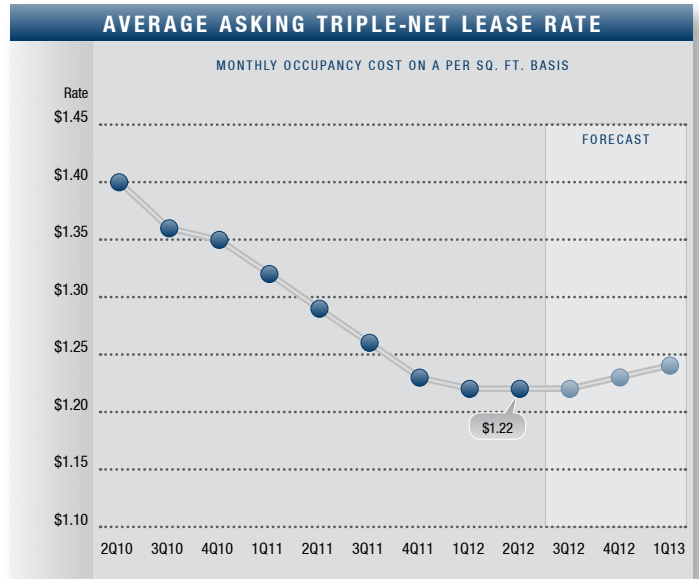
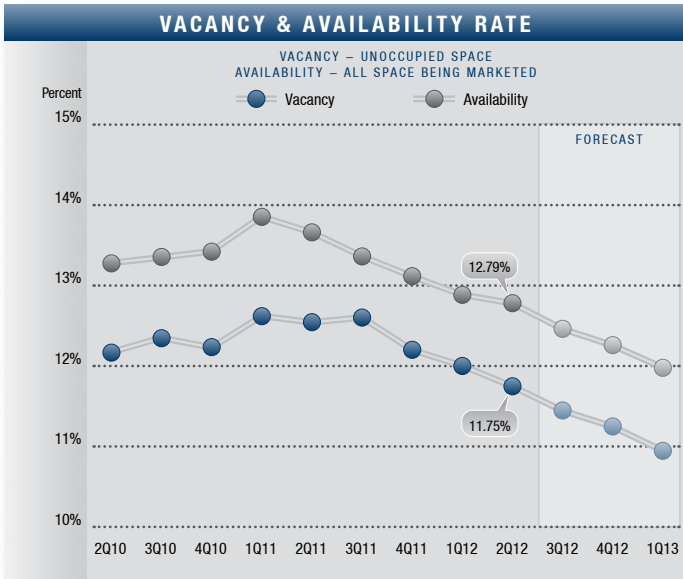
Jerry J. Holdner, Jr. — Lic.#01145748
 Vice President of Market Research
 e-mail: jholdner@voitco.com

Jon Rappa — Lic.#SA636968000
 Market Research Analyst
 e-mail: jrappa@voitco.com

VOIT Real Estate Services — Lic.#C0638277000

RETAIL MARKET OVERVIEW

	2Q12	1Q12	2Q11	% of Change vs. 2Q11
Total Vacancy Rate	11.75%	12.00%	12.54%	(6.30%)
Availability Rate	12.79%	12.89%	13.67%	(6.44%)
Average Asking Lease Rate	\$1.22	\$1.22	\$1.29	(5.43%)
Sale & Lease Transactions	3,553,929	4,338,900	4,039,172	(12.01%)
Gross Absorption	2,692,380	2,547,517	2,764,198	(2.60%)
Net Absorption	729,570	545,523	221,817	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 202012	Square Feet Available	Availability Rate 202012	Average Asking Lease Rate	Net Absorption 202012	Net Absorption 2012	Gross Absorption 202012	Gross Absorption 2012
Airport Area													
Airport Area	397	3,781,915	0	558,875	384,905	10.18%	444,682	11.76%	\$1.09	(7,756)	6,411	45,425	81,100
South Tempe/Ahwatukee	206	1,490,891	0	0	167,648	11.24%	105,279	7.06%	\$1.09	3,013	10,351	7,213	25,355
Airport Total	603	5,272,806	0	558,875	552,553	10.48%	549,961	10.43%	\$1.09	(4,743)	16,762	52,638	106,455
Downtown Phoenix													
Downtown Phoenix	668	7,005,015	22,000	91,765	752,055	10.74%	916,566	13.08%	\$1.15	(22,650)	(46,590)	83,758	162,082
Central Corridor Total	668	7,005,015	22,000	91,765	752,055	10.74%	916,566	13.08%	\$1.15	(22,650)	(46,655)	83,758	162,082
East Valley													
Chandler	741	16,625,767	10,000	610,698	2,143,234	12.89%	2,336,153	14.05%	\$1.19	9,411	5,433	180,001	435,226
Gateway Airport	105	2,714,647	0	407,744	201,726	7.43%	208,608	7.68%	\$1.34	6,782	(24,130)	16,232	23,682
Gilbert	631	12,973,463	5,000	2,121,757	1,457,131	11.23%	1,494,158	11.52%	\$1.20	37,835	27,067	93,044	248,697
Queen Creek	49	1,362,406	0	86,647	84,458	6.20%	92,258	6.77%	\$1.68	3,905	3,092	3,905	16,062
Red Mountain/Mesa	1,584	28,897,652	0	1,040,049	5,149,397	17.82%	5,563,103	19.25%	\$1.12	164,105	180,468	539,727	804,899
Tempe	423	8,700,922	0	274,269	742,200	8.53%	780,516	8.97%	\$1.20	23,147	47,694	83,812	177,658
East Valley	3,533	71,274,857	15,000	4,541,164	9,778,146	13.72%	10,474,796	14.70%	\$1.16	245,185	239,624	916,721	1,706,224
North Phoenix													
East Phoenix	639	8,262,556	0	26,600	1,056,309	12.78%	1,145,490	13.86%	\$1.16	(27,371)	16,870	59,263	166,487
Glendale	705	10,300,198	328,000	274,944	1,321,529	12.83%	1,386,504	13.46%	\$1.36	23,285	14,213	77,899	172,850
N. Phoenix/I-17	762	15,955,070	6,000	20,750	2,482,149	15.56%	2,876,649	18.03%	\$0.94	(7,373)	68,072	203,679	357,842
Sun City	196	2,974,423	0	87,133	447,047	15.03%	450,243	15.14%	\$1.08	35,506	44,573	84,425	130,990
North Phoenix	2,302	37,492,247	334,000	409,427	5,307,034	14.16%	5,858,886	15.63%	\$1.12	24,047	143,728	425,266	828,169
North Scottsdale													
Carefree	121	1,634,883	0	10,800	210,191	12.86%	220,101	13.46%	\$1.77	(11,691)	(7,246)	5,142	24,792
Fountain Hills	71	656,048	0	85,265	78,600	11.98%	84,757	12.92%	\$1.09	2,977	5,455	8,893	16,313
North Scottsdale	502	14,826,436	32,592	1,232,482	1,458,435	9.84%	1,679,282	11.33%	\$1.42	49,182	77,601	154,401	353,834
North Scottsdale	694	17,117,367	32,592	1,328,547	1,747,226	10.21%	1,984,140	11.59%	\$1.46	40,468	75,810	168,436	394,939
Northwest Phoenix													
Anthem	106	2,548,412	0	91,100	170,255	6.68%	174,036	6.83%	\$1.52	9,523	34,823	13,940	47,839
Central Peoria/ Arrowhead	405	9,970,820	0	166,948	846,940	8.49%	977,005	9.80%	\$1.33	197,428	226,174	270,618	418,354
Deer Valley	124	2,035,299	0	39,534	206,431	10.14%	227,250	11.17%	\$2.10	22,302	65,130	31,136	76,964
Surprise	254	4,584,387	2,985	1,324,277	410,024	8.94%	426,563	9.30%	\$1.47	(32,361)	(802)	60,025	98,049
Northwest Phoenix	889	19,138,918	2,985	1,621,859	1,633,650	8.54%	1,804,854	9.43%	\$1.47	196,892	325,325	375,719	641,206
Scottsdale													
Central Scottsdale	781	15,462,709	60,969	294,366	1,641,714	10.62%	1,657,504	10.72%	\$1.95	45,332	145,017	146,146	414,208
South Scottsdale	377	3,980,145	0	0	394,436	9.91%	484,139	12.16%	\$1.27	46,192	41,455	62,354	101,918
Scottsdale	1,158	19,442,854	60,969	294,366	2,036,150	10.47%	2,141,643	11.02%	\$1.78	91,524	186,472	208,500	516,126
South Mountain													
Ahwatukee Foothills	163	3,218,593	0	0	328,569	10.21%	310,966	9.66%	\$1.40	(18,887)	(19,637)	34,470	61,821
Laveen	61	1,444,401	0	619,577	198,026	13.71%	197,869	13.70%	\$1.19	(2,265)	17,840	9,941	40,944
South Mountain	81	1,641,566	0	0	122,832	7.48%	149,431	9.10%	\$1.24	4,895	11,495	12,434	25,124
South Mountain	305	6,304,560	0	619,577	649,427	10.30%	658,266	10.44%	\$1.31	(16,257)	9,698	56,845	127,889
West Phoenix													
Goodyear	182	3,238,142	0	377,621	429,714	13.27%	435,785	13.46%	\$1.19	48,045	86,286	66,655	124,656
Loop 101/ I-10	118	2,482,159	0	575,714	246,941	9.95%	260,705	10.50%	\$1.25	(30,464)	(31,660)	8,023	22,485
N. Goodyear/ Litchfield	178	4,368,598	0	1,137,508	341,728	7.82%	358,787	8.21%	\$1.65	159,727	155,099	179,109	202,222
North Buckeye	3	92,042	0	0	0	0.00%	0	0.00%	\$1.18	0	0	0	0
South Buckeye	67	1,182,961	0	276,140	98,313	8.31%	98,313	8.31%	\$1.39	391	6,609	1,391	7,609
Tolleson	201	2,385,449	0	210,142	238,047	9.98%	242,035	10.15%	\$0.98	(17,106)	(4,047)	5,100	36,574
West Phoenix/ Maryville	420	8,214,273	0	66,501	752,347	9.16%	875,453	10.66%	\$0.91	14,567	61,440	68,079	152,368
West Phoenix	1,169	21,963,624	0	2,643,626	2,107,090	9.59%	2,271,078	10.34%	\$1.20	175,160	273,727	328,357	545,914
Maricopa County													
NE Outlying	2	36,891	0	0	0	0.00%	0	0.00%	\$0.92	0	0	0	0
W Outlying	69	528,518	0	0	13,990	2.65%	29,921	5.66%	\$0.92	500	3,751	500	6,001
Maricopa County	71	565,409	0	0	13,990	2.47%	29,921	5.29%	\$0.92	500	3,751	500	6,001
Pinal County													
Apache Junction	117	1,544,335	0	89,630	97,719	6.33%	118,409	7.67%	\$0.88	(15,630)	235	2,060	17,925
Outlying Pinal County	720	8,098,620	18,700	4,299,544	622,685	7.69%	708,560	8.75%	\$1.01	15,074	44,616	73,580	186,967
Pinal County	837	9,642,955	18,700	4,389,174	720,404	7.47%	826,969	8.58%	\$0.98	(556)	44,851	75,640	204,892
Phoenix Total	12,229	215,220,612	486,246	16,498,380	25,297,725	11.75%	27,517,080	12.79%	\$1.22	729,570	1,275,093	2,692,380	5,239,897
Malls	283	23,403,371	6,100	5,015,692	2,056,767	8.79%	2,542,956	10.87%	\$1.56	(20,167)	127,510	49,212	336,635
Power Centers	474	20,448,791	0	2,879,487	1,639,950	8.02%	1,923,169	9.40%	\$1.59	(87,294)	(39,417)	66,795	237,082
Community Centers	1,000	34,712,803	54,869	1,868,672	4,978,659	14.34%	5,180,563	14.92%	\$1.18	592,002	677,145	952,249	1,266,618
Neighborhood Centers	2,206	56,155,783	0	2,362,591	9,303,583	16.57%	9,536,168	16.98%	\$1.17	89,466	258,790	697,732	1,549,124
Strip Centers	1,099	13,684,622	360,592	1,241,888	2,493,280	18.22%	2,553,204	18.66%	\$1.15	(25,945)	(57,428)	228,731	462,757
Specialty Centers	169	5,424,706	0	1,249,988	564,448	10.41%	569,452	10.50%	\$2.56	(11,394)	51,620	21,794	111,747
General Retail	6,998	61,390,536	64,685	1,880,062	4,261,038	6.94%	5,211,568	8.49%	\$1.24	192,902	256,873	675,867	1,275,934
Phoenix Total	12,229	215,220,612	486,246	16,498,380	25,297,725	11.75%	27,517,080	12.79%	\$1.22	729,570	1,275,093	2,692,380	5,239,897

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
15448-15704 N. Pima Rd. – 5 Properties	N. Scottsdale	248,451	\$187.16	Sonora Village Investors, LLC	Westwood Financial Corporation
24720-24760 Lake Pleasant Rd. – 8 Properties	Peoria/Arrowhead	179,557	\$232.52	Excel Trust, Inc.	Kornwasser Shopping Ctr. Properties
2510-2720 W. Chandler Blvd. – 11 Properties	Chandler	364,135	\$170.27	Cole RE Invst./RED Development	The Macerich Company
19420 N. 59th Ave. – 13 Properties	Peoria/Arrowhead	161,105	\$169.45	Citadelle Center, LLC	West Coast Capital Partners
6166 N. Scottsdale Rd.	C. Scottsdale	93,706	\$97.65	RED Development	The Macerich Company
1100-1150 W. Southern Ave. – 5 Properties	Red Mountain/Mesa	151,818	\$57.63	Hinkson Company	Kimco Realty Corporation

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
801 E. Bell Rd.	East Phoenix	51,200	Jun 1, 2012	Hobby Lobby	PDG America properties, LLC
6085 W. Chandler Blvd.	Chandler	44,468	May 10, 2012	N/A	AZ Partners Retail Group, LLC
2957 W. Bell Rd.	I-17 Corridor	32,250	Apr 20, 2012	Gateway Community College	AZ Partners Retail Group, LLC
100 W. Southern Ave.	Red Mountain/Mesa	30,000	Apr 4, 2012	Big Lots	Hinkson Company
13764 W. Bell Rd.	N. Peoria	28,017	May15, 2012	Stein Mart	Clarion Partners
876 N. Abalone Dr.	Gilbert	25,713	May 17, 2012	Caliber Collision	National Retail Properties, LP

SUBMARKETS

AIRPORT AREA

Airport Area, South Tempe, Ahwatukee

DOWNTOWN PHOENIX

Downtown Phoenix

EAST VALLEY

Chandler, Gateway Airport, Gilbert, Queen Creek, Red Mountain, Mesa, Tempe

NORTH PHOENIX

East Phoenix, Glendale, North Phoenix/I-17, Sun City

NORTH SCOTTSDALE

Carefree, Fountain Hills, North Scottsdale

NORTHWEST PHOENIX

Anthem, Central Peoria, Arrowhead, Deer Valley, Surprise

SCOTTSDALE

Central Scottsdale, South Scottsdale

SOUTH MOUNTAIN

Ahwatukee Foothills, Laveen, South Mountain

WEST PHOENIX

Goodyear, Loop 101/I-10, North Goodyear, Litchfield, North Buckeye, South Buckeye, Tolleson, West Phoenix, Maryville

MARICOPA COUNTY

Northeast Outlying, West Outlying

PINAL COUNTY

Apache Junction, Outlying Pinal County

Please Contact Us for Further Information

Anaheim, CA
714.978.7880

Commerce, CA
323.201.4494

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Las Vegas, NV
702.734.4500

Newport Beach, CA
949.644.8648

Phoenix, AZ
602.952.8648

Reno, NV
775.309.0782

Sacramento, CA
916.772.8648

San Diego, CA
858.453.0505



REAL ESTATE SERVICES

101 Shipyard Way
Newport Beach, CA 92663

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