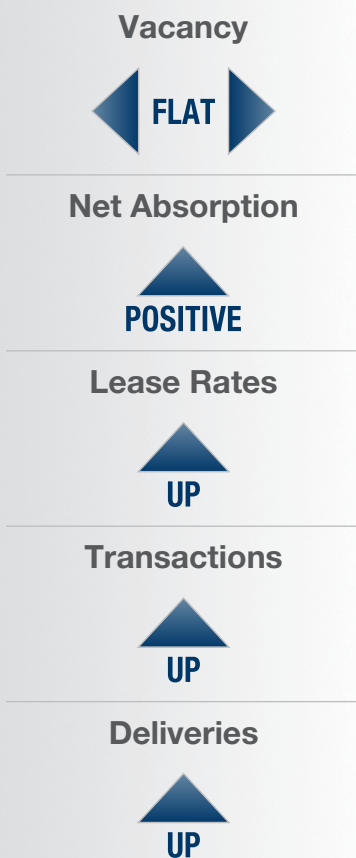


Office Market Report

Compared to the Previous Quarter:



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Market Highlights

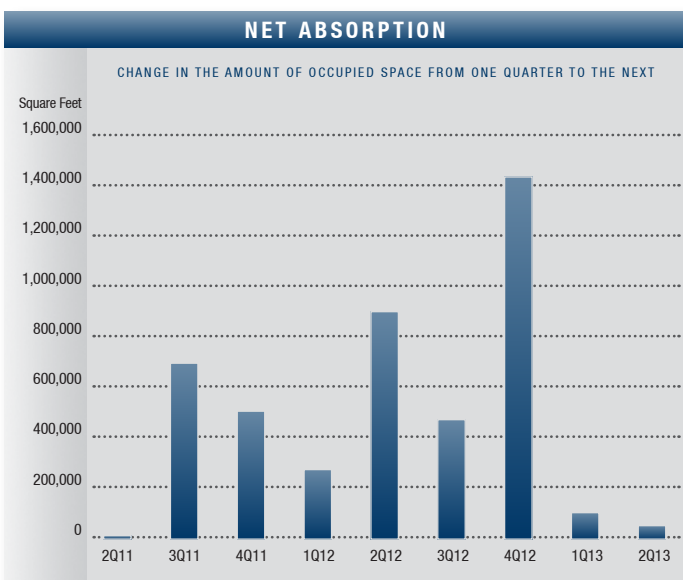
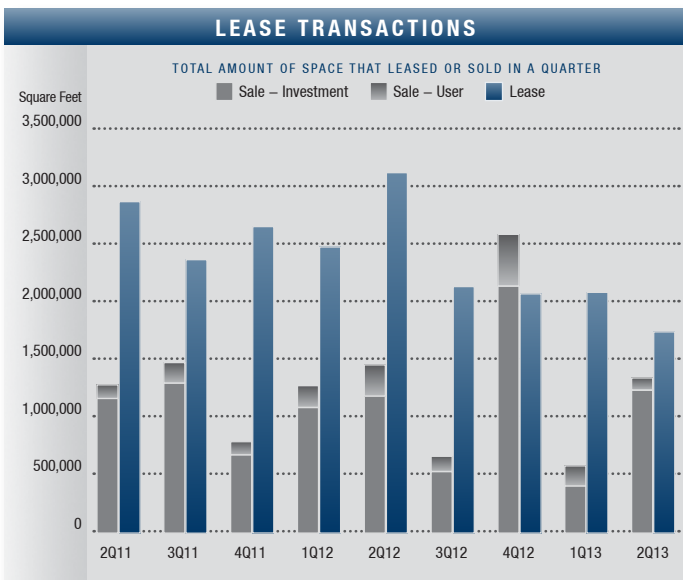
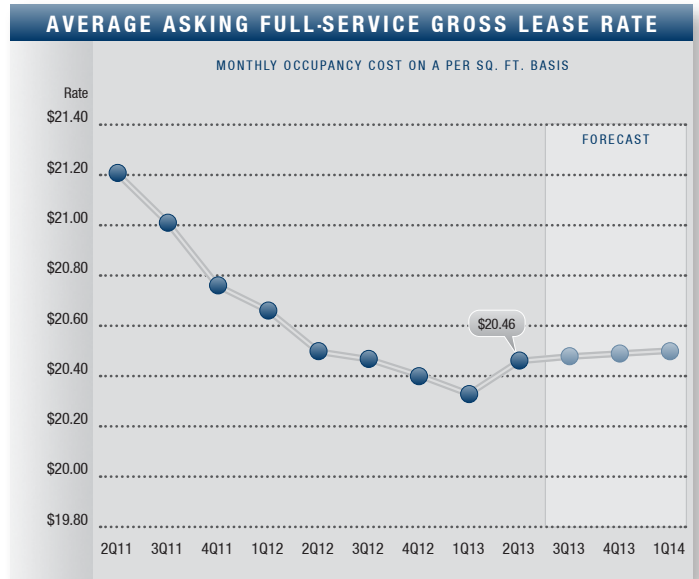
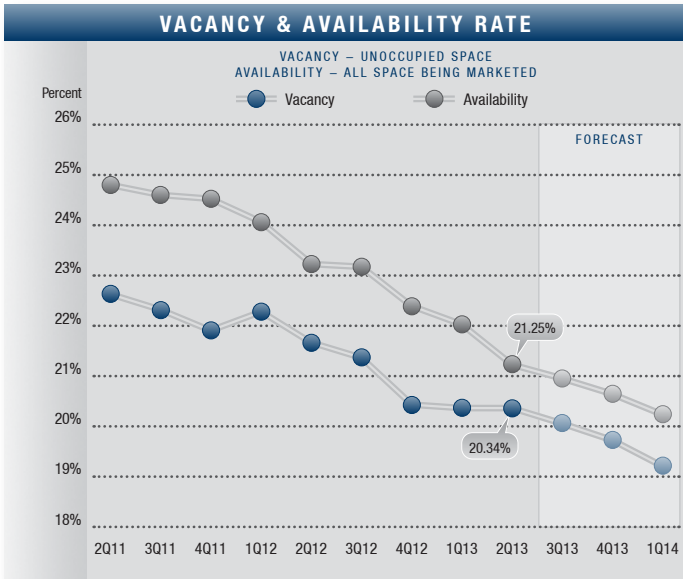
- Poised for Growth** - The Phoenix office market continued to convey signs of recovery in the second quarter of 2013. Availability and vacancy both decreased from the previous quarter, which is likely to have a positive affect on net absorption in the future. Demand increased in the second quarter compared to the previous quarter. 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 68,867 square feet in the second quarter concentrated all in Chandler submarket. 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 20.34%, a very slight decrease from the first quarter's rate of 20.36% and down 6.18% from the previous year's first quarter rate of 21.68%. The 44th Street submarket posted the lowest rate in the county, coming in at 11.28%.
- Availability** - Direct/sublease space being marketed was at 21.25% at the end of the second quarter, a decrease of 76 basis points when compared to the prior quarter's rate of 22.01% and down more than 8.5% from 2012's second quarter rate of 23.24%.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per year in Phoenix was \$20.46 in the second quarter of 2013 — an increase of 13 cents from the first quarter's rate of \$20.33. The record high rate of \$25.86 was established in the last quarter of 2007. Class A rates for the county averaged \$23.24 FSG, with the highest figures in the Downtown submarket where they averaged \$24.24 FSG.
- Absorption** - The Phoenix office market posted 44,841 square feet of positive net absorption in the second

quarter, marking the ninth consecutive quarter of positive absorption, totaling 4,377,740 square feet.

- Transaction Activity** - Leasing activity checked in at just over 1.7 million square feet in the second quarter of 2013, a decrease from the previous quarter. Sales activity took off, checking in at 1.3 million square feet, marking one of the better quarters since emerging from the recession. 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 6.6% in April 2013, a healthy decrease from January 2013's rate of 6.8%. 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 made substantial strides over the past 12 months with the addition of 4,500 jobs, while the financial activities sector gained traction, aided by Wells Fargo's addition of 1,000 to local staff. According to PPR, office — using employment in Phoenix is forecasted to grow by a cumulative 16% over the next four years, adding around 75,000 jobs, poising Phoenix to be one of the fastest growing office markets in the country.
- Overall** - We are seeing continued decreases in both vacancy and availability as well as substantial positive absorption. With little under construction and few new deliveries in the pipeline, demand is slowly beginning to catch up with supply. Lease rates are beginning to slow their rate of decent, an indication that they may be nearing a bottom. We expect rates to begin increasing in 2014. We foresee a continued increase in investment activity in the coming quarters as lenders continue to dispose of distressed assets. As unemployment rates continue to drop, the office market will continue strengthen.

OFFICE MARKET OVERVIEW

	2Q13	1Q12	2Q13	% of Change vs. 2Q12
Total Vacancy Rate	20.34%	20.36%	21.68%	(6.18%)
Availability Rate	21.25%	22.01%	23.24%	(8.56%)
Average Asking Lease Rate	\$20.46	\$20.33	\$20.50	(0.20%)
Sale & Lease Transactions	3,053,757	2,624,800	4,547,621	(32.85%)
Gross Absorption	2,313,804	2,181,459	2,961,750	(21.88%)
Net Absorption	44,841	98,098	896,318	(95.00%)



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2013	Square Feet Available	Availability Rate 2Q2013	Average Asking Lease Rate	Net Absorption 2Q2013	Net Absorption 2013	Gross Absorption 2Q2013	Gross Absorption 2013
Airport Area													
Airport Area	150	9,898,597	0	569,444	1,669,382	16.86%	1,836,334	18.55%	\$19.28	(24,986)	(93,821)	232,318	303,048
South Tempe/Ahwatukee	114	5,052,852	0	1,398,001	1,153,405	22.83%	1,155,492	22.87%	\$20.14	(17,365)	32,275	182,900	278,106
Airport Total	264	14,951,449	0	1,967,445	2,822,787	18.88%	2,991,826	20.01%	\$19.50	(42,351)	(61,546)	415,218	581,154
Central Corridor													
Downtown North	154	12,336,710	0	478,488	3,306,629	26.80%	3,349,748	27.15%	\$19.33	(25,793)	(210,036)	215,887	294,229
Downtown South	65	8,903,109	0	359,770	1,274,973	14.32%	1,381,363	15.52%	\$24.24	(9,043)	(11,410)	59,746	78,439
Central Corridor Total	219	21,239,819	0	838,258	4,581,602	21.57%	4,731,111	22.27%	\$20.38	(34,836)	(221,446)	275,633	372,668
East Phoenix													
44th Street Corridor	82	5,677,042	0	0	640,311	11.28%	805,909	14.20%	\$20.20	34,684	78,985	69,130	154,704
Camelback Corridor	135	8,942,092	0	0	2,182,304	24.40%	2,284,635	25.55%	\$23.53	113,448	273,676	253,386	549,694
Midtown/Central Phoenix	131	3,745,036	0	114,792	562,164	15.01%	618,766	16.52%	\$15.73	8,429	16,678	60,352	94,070
East Phoenix Total	348	18,364,170	0	114,792	3,384,779	18.43%	3,709,310	20.20%	\$21.96	156,561	369,339	382,868	798,468
East Valley													
Chandler	143	6,049,752	68,867	6,135,082	1,131,888	18.71%	922,448	15.25%	\$21.69	(439)	(34,876)	96,300	137,630
Gateway Airport/Loop 202	43	1,134,983	0	626,365	367,890	32.41%	352,699	31.08%	\$23.47	11,015	57,666	19,017	68,990
Mesa Downtown	36	947,425	0	0	173,697	18.33%	153,414	16.19%	\$14.41	51,763	56,541	53,666	58,444
Mesa East	70	1,859,196	0	10,156	298,364	16.05%	317,399	17.07%	\$12.60	(33,357)	(47,448)	8,647	19,683
Superstition Corridor	144	4,573,128	0	271,348	1,007,218	22.02%	1,155,826	25.27%	\$17.81	(6,082)	6,072	72,806	150,249
Tempe	125	5,267,197	0	598,662	658,084	12.49%	700,634	13.30%	\$19.23	46,058	183,086	101,493	308,636
East Valley Total	561	19,831,681	68,867	7,641,613	3,637,141	18.34%	3,602,420	18.16%	\$18.66	68,958	221,041	351,929	743,632
Northwest Phoenix													
Arrowhead	102	2,545,411	0	119,731	543,228	21.34%	577,635	22.69%	\$19.51	(20,340)	(32,025)	55,048	114,352
Deer Valley/Airport	128	10,234,663	0	1,713,735	2,291,703	22.39%	2,152,338	21.03%	\$20.17	(66,188)	(14,890)	110,395	208,829
Northwest Phoenix	227	8,395,975	0	250,000	2,307,823	27.49%	2,392,975	28.50%	\$16.60	(179,111)	(108,867)	71,148	480,905
Northwest Phoenix Total	457	21,176,049	0	2,083,466	5,142,754	24.29%	5,122,948	24.19%	\$18.02	(265,639)	(155,782)	236,591	804,086
Paradise Valley													
Paradise Valley	91	3,789,623	0	100,000	825,358	21.78%	912,771	24.09%	\$21.13	20,890	59,415	83,450	164,139
Piestewa Peak Corridor	67	2,901,651	0	0	602,140	20.75%	655,040	22.57%	\$17.44	4,958	12,046	43,969	93,400
Paradise Valley Total	158	6,691,274	0	100,000	1,427,498	21.33%	1,567,811	23.43%	\$19.36	25,848	71,461	127,419	257,539
Scottsdale													
Central Scottsdale	169	7,357,765	0	887,900	1,417,519	19.27%	1,619,543	22.01%	\$20.83	36,942	(11,546)	130,756	249,570
Scottsdale Airpark	255	11,543,411	0	445,135	2,456,862	21.28%	2,623,175	22.72%	\$23.18	(19,335)	(179,403)	216,143	367,414
Scottsdale South	128	5,316,147	0	300,000	818,883	15.40%	860,378	16.18%	\$21.06	67,076	60,687	96,638	196,080
Scottsdale Total	552	24,217,323	0	1,633,035	4,693,264	19.38%	5,103,096	21.07%	\$22.23	84,683	(130,262)	443,537	813,064
West Phoenix													
Glendale	47	2,346,965	0	368,250	659,626	28.11%	668,643	28.49%	\$23.27	18,505	18,502	20,138	33,312
Loop 303/Surprise	45	1,160,285	0	121,276	274,778	23.68%	309,565	26.68%	\$23.02	18,477	18,743	25,770	29,536
Southwest Phoenix	41	2,053,409	0	24,408	342,880	16.70%	351,680	17.13%	\$20.36	2,000	(5,404)	2,000	4,773
West I-10	52	1,461,031	0	279,404	186,875	12.79%	204,561	14.00%	\$22.01	12,635	18,293	32,701	57,031
West Phoenix Total	185	7,021,690	0	793,338	1,464,159	20.85%	1,534,449	21.85%	\$22.11	51,617	50,134	80,609	124,652
Phoenix Total	2,744	133,493,455	68,867	15,171,947	27,153,984	20.34%	28,362,971	21.25%	\$20.46	44,841	142,939	2,313,804	4,495,263
Class A	251	40,962,337	68,867	4,943,343	8,085,020	19.74%	8,673,830	21.18%	\$23.24	204,610	225,173	832,202	1,665,395
Class B	1,913	80,414,507	0	10,228,604	16,872,036	20.98%	17,349,726	21.58%	\$18.70	(83,158)	39,434	1,345,489	2,569,873
Class C	580	12,116,611	0	0	2,196,928	18.13%	2,339,415	19.31%	\$12.99	(76,611)	(121,668)	136,113	259,995
Phoenix Total	2,744	133,493,455	68,867	15,171,947	27,153,984	20.34%	28,362,971	21.25%	\$20.46	44,841	142,939	2,313,804	4,495,263

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 Per SF	Buyer	Seller
111 W. Rio Salado Pkwy.	Tempe	A	225,000	\$248.89	Parkway Properties	Carey REIT II, Inc.
20414 N. 27th Ave.	Deer Valley	A	81,875	\$250.38	Talia Jevan Properties, Inc.	Winthrop Financial Associates
Parkway Fountains	Camelback Corridor	B	80,465	\$115.58	Griffin Partners Parkway, LLC	Parkway Fountains, LLC
6402 E. Superstition Springs Blvd.	Superstition Corridor	B	53,823	\$131.91	Meyer Farms, LLC	Westwind Holdings, LLC
1220 S. Higley Rd.	Superstition Corridor	B	18,872	\$314.75	Campus Professional Plaza, LLC	Higley Medical Properties
2222 S. Dobson Rd. – 11 properties	Superstition Corridor	B	96,925	\$60.36	TSA Group USA, Ltd.	Mainsprings Capital Group

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
2700 S. Sunland Dr.	Airport Area	B	74,647	May-13	State Farm Insurance	JDM Partners, LLC
2501 S. Price Rd.	Chandler	B	60,276	Apr-13	N/A	Capital Commercial Investments
201 E. Washington St.	Downtown	A	55,642	Apr-13	N/A	Collier Center PT, LLC
60 E. Rio Salado Pkwy.	Tempe	B	51,204	May-13	LifeLock, Inc.	Parkway Properties
80 E. Rio Salado Pkwy.	Tempe	A	22,990	Apr-13	N/A	Parkway Properties
14624 N. Scottsdale Rd.	Scottsdale Airpark	A	20,164	May-13	Heckmann Corporation	CT Corporation System

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.

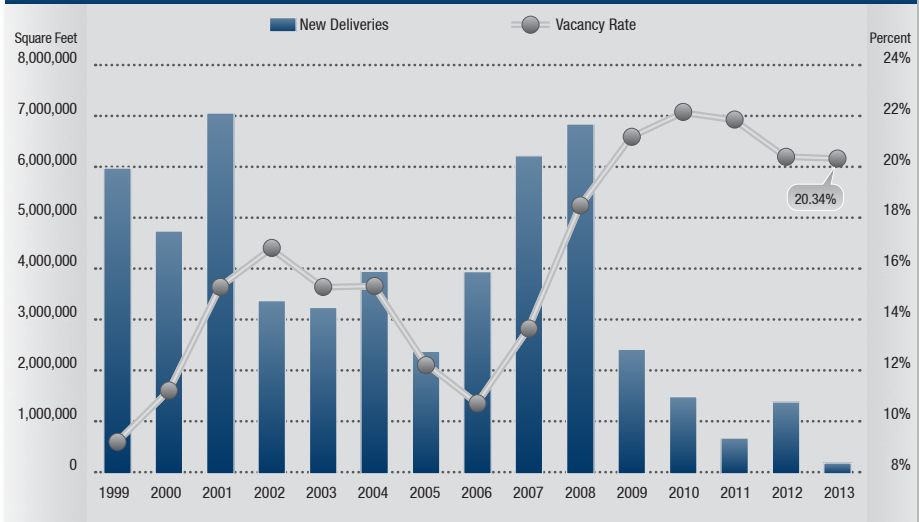
CLASS B

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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