



MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

UP



Deliveries

DOWN



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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 second quarter of 2014, posting 259,224 square feet of positive net absorption, giving 2014 a great first half. Both availability and vacancy maintained their downward trends, while lease rates continued to climb. 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 under 2.0 million square feet in the second quarter, with the highest concentration in the East Valley submarket.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 18.58%, a decrease from 2014's first quarter rate of 18.72% and down 9.14% from 2013's second quarter rate of 20.45%. The Airport Area submarket posted the lowest rate in the metro, coming in at 14.62%.
- **Availability** - Direct/sublease space being marketed was at 20.50% at the end the second quarter of 2014, a decrease of 95 basis points when compared to the prior year's rate of 21.45%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per year in Phoenix was \$21.12 in the second quarter of 2014, an increase of 12 cents from the first quarter's rate of \$21.00. The record high rate of \$25.86 was established in the last quarter of 2007. Class A rates for the county averaged \$24.36, while Downtown Phoenix had the highest average rate of all submarkets, at \$25.56.
- **Absorption** - The Phoenix office market posted 259,224 square feet of positive net absorption in the second quarter, marking the thirteenth consecutive quarter of positive absorption and giving the market a total of 7,166,823 square feet since the second quarter of 2011.
- **Transaction Activity** - Leasing activity checked in at just under 1.6 million square feet in the second quarter of 2014, a slight decrease from the previous quarter's figure. Sales activity posted 2.6 million square feet this quarter, up almost 200,000 square feet from last quarter, but down compared to 2.8 million the same quarter last year. This statistic can have some lag time in being reported, so look for second quarter figures to end up somewhat higher. 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 6.8% in May 2014, a decrease from January 2014's rate of 7.6%. Sectors with strong job growth included transportation, construction, financial activities, and education/health services. 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, May added 25,410 nonfarm jobs: 1,180 in construction and 3,850 in the education & health services sector. The number of jobs has increased in the first half of 2014 and we anticipate this trend continuing for the remainder of 2014.
- **Overall** - We are continuing to see a decrease in the amount of available space on the market. As we progress further into 2014, positive absorption should continue, 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

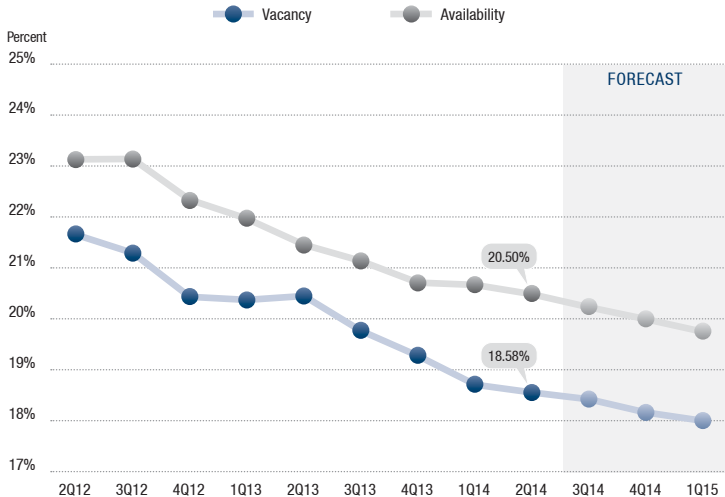
- **Construction** - With a favorable business climate spurring demographic growth in the Phoenix area, we expect it to only be a matter of time before development resumes. With 20 million square feet on the slate as being planned, we will see an influx of new product in the next year or so. In the meantime, limited construction should ease vacancy rates and further allow demand to catch up to supply.
- **Employment** - We anticipate a 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, construction, and education & health services to lead the way in employment growth.
- **Lease Rates** - Expect average asking lease rates to increase by another 2%–4% by the end of 2015.
- **Vacancy** - We anticipate the vacancy rate continuing its descent in the coming quarters, dropping by around 60 basis points, to around 18.00% by the end of the first quarter of 2015.

OVERVIEW

	2Q14	1Q14	2Q13	% of Change vs. 2Q13
Vacancy Rate	18.58%	18.72%	20.45%	(9.14%)
Availability Rate	20.50%	20.68%	21.45%	(4.43%)
Average Asking Lease Rate	\$21.12	\$21.00	\$20.46	3.23%
Sale & Lease Transactions	4,229,885	4,051,131	5,399,900	(21.67%)
Gross Absorption	2,185,085	2,649,079	2,373,957	(7.96%)
Net Absorption	259,224	852,455	54,357	N/A

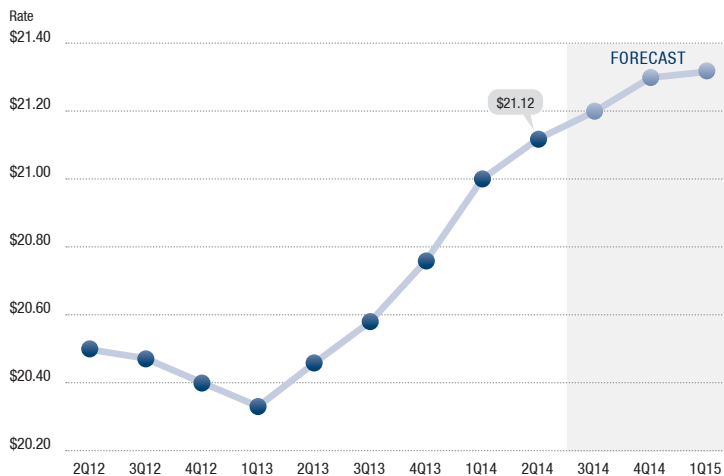
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



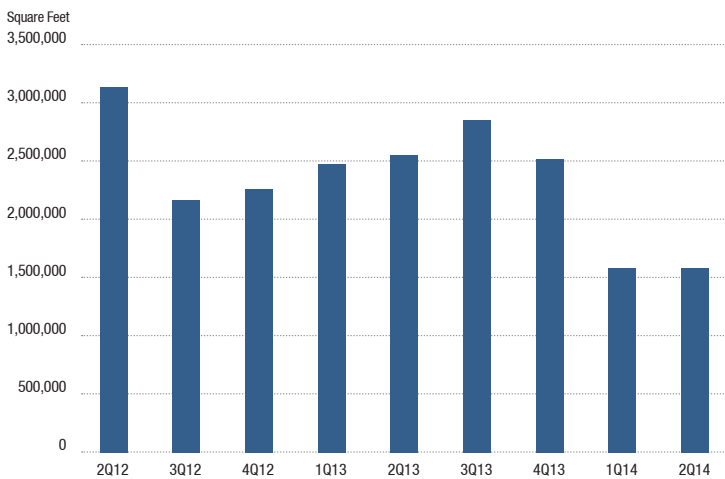
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



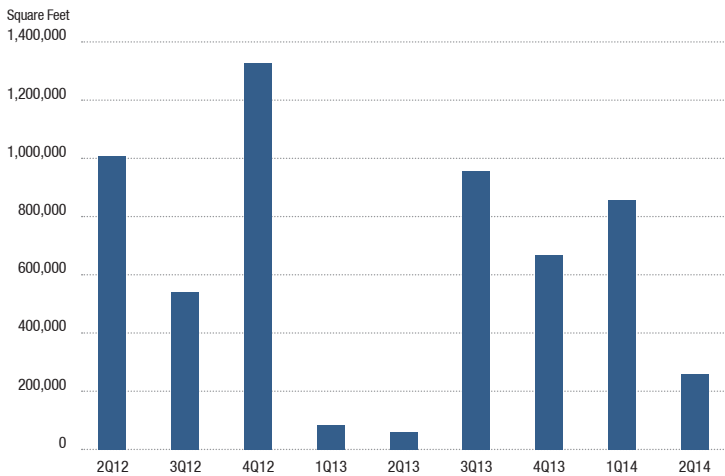
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



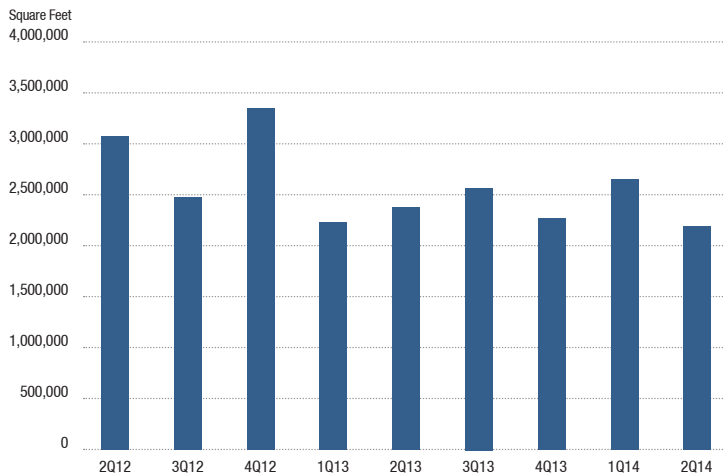
NET ABSORPTION

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 2Q2014	Square Feet Available	Availability Rate 2Q2014	Average Asking Lease Rate	Net Absorption 2Q2014	Net Absorption 2014	Gross Absorption 2Q2014	Gross Absorption 2014
Airport Area													
Airport Area	149	9,787,468	154,067	725,139	1,469,733	15.02%	1,610,869	16.46%	\$19.92	5,164	(18,452)	111,866	218,918
South Tempe/Ahwatukee	122	5,370,939	327,001	1,050,000	746,279	13.89%	989,940	18.43%	\$21.24	141,519	353,524	196,717	458,355
Airport Total	271	15,158,407	481,068	1,775,139	2,216,012	14.62%	2,600,809	17.16%	\$20.40	146,683	335,072	308,583	677,273
Central Corridor													
Midtown	151	12,162,292	0	478,488	2,964,729	24.38%	3,145,838	25.87%	\$19.92	62,566	91,641	211,073	365,809
Downtown	66	8,959,952	0	498,770	1,329,294	14.84%	1,516,453	16.92%	\$25.56	(66,688)	(27,973)	61,843	205,710
Central Corridor Total	217	21,122,244	0	977,258	4,294,023	20.33%	4,662,291	22.07%	\$21.36	(4,122)	63,668	272,916	571,519
East Phoenix													
44th Street Corridor	81	5,685,192	0	0	757,067	13.32%	949,314	16.70%	\$21.48	12,776	13,461	82,345	136,896
Camelback Corridor	132	8,764,539	0	0	2,012,434	22.96%	2,313,105	26.39%	\$24.84	47,959	27,197	170,104	301,322
Midtown/Central Phoenix	132	3,862,353	0	0	599,713	15.53%	680,608	17.62%	\$15.60	31,606	103,682	57,805	196,577
East Phoenix Total	345	18,312,084	0	0	3,369,214	18.40%	3,943,027	21.53%	\$23.04	92,341	144,340	310,254	634,795
East Valley													
Chandler	141	6,050,617	331,135	9,145,465	980,321	16.20%	1,014,037	16.76%	\$22.44	28,833	55,843	101,357	179,975
Gateway Airport/Loop 202	44	1,142,726	0	836,365	304,862	26.68%	285,983	25.03%	\$23.04	7,772	17,971	15,298	33,891
Mesa Downtown	36	939,017	0	0	130,186	13.86%	126,802	13.50%	\$14.88	(8,891)	(8,159)	1,753	4,353
Mesa East	70	1,872,141	0	10,156	282,710	15.10%	288,104	15.39%	\$12.24	(1,594)	10,414	12,464	42,706
Superstition Corridor	146	4,523,260	0	425,200	886,288	19.59%	959,577	21.21%	\$17.64	2,692	29,714	56,470	134,925
Tempe	125	5,385,928	1,015,000	1,727,935	562,243	10.44%	674,385	12.52%	\$17.28	22,886	43,533	93,188	190,087
East Valley Total	562	19,913,689	1,346,135	12,145,121	3,146,610	15.80%	3,348,888	16.82%	\$18.60	51,698	149,316	280,530	585,937
Northwest Phoenix													
Arrowhead	101	2,515,839	25,000	190,289	481,014	19.12%	505,190	20.08%	\$19.56	40,923	38,689	75,903	124,632
Deer Valley/Airport	130	10,214,996	0	1,749,545	1,983,345	19.42%	2,026,965	19.84%	\$20.28	(32,475)	33,868	113,011	231,829
Northwest Phoenix	239	8,719,823	0	0	2,247,699	25.78%	2,544,406	29.18%	\$16.20	(52,857)	45,653	120,693	416,738
Northwest Phoenix Total	470	21,450,658	25,000	1,939,834	4,712,058	21.97%	5,076,561	23.67%	\$17.52	(44,409)	118,210	309,607	773,199
Paradise Valley													
Paradise Valley	95	3,821,219	0	221,316	853,346	22.33%	835,437	21.86%	\$22.08	4,644	25,834	75,053	137,552
Piestewa Peak Corridor	70	2,941,960	0	0	595,857	20.25%	641,321	21.80%	\$17.76	(28,444)	(33,721)	33,764	80,051
Paradise Valley Total	165	6,763,179	0	221,316	1,449,203	21.43%	1,476,758	21.84%	\$19.92	(23,800)	(7,887)	108,817	262,603
Scottsdale													
Central Scottsdale	163	7,232,748	0	863,900	1,218,048	16.84%	1,495,698	20.68%	\$21.24	62,951	96,131	220,513	390,180
Scottsdale Airpark	309	12,832,820	0	677,572	2,586,013	20.15%	2,948,007	22.97%	\$24.48	4,115	279,483	209,260	687,141
Scottsdale South	121	4,982,321	145,000	145,000	761,056	15.28%	726,815	14.59%	\$21.72	(44,156)	(90,921)	110,603	179,083
Scottsdale Total	593	25,047,889	145,000	1,686,472	4,565,117	18.23%	5,170,520	20.64%	\$23.16	22,910	284,693	540,376	1,256,404
West Phoenix													
Glendale	47	2,331,479	0	756,000	568,115	24.37%	611,017	26.21%	\$23.28	6,089	8,498	16,845	24,279
Loop 303/Surprise	47	1,363,432	0	100,000	290,301	21.29%	313,111	22.96%	\$23.52	(1,057)	4,806	11,418	33,967
Southwest Phoenix	44	2,148,413	0	0	303,118	14.11%	311,918	14.52%	\$20.76	5,709	12,479	5,709	14,009
West I-10	50	1,455,231	0	238,428	183,812	12.63%	178,695	12.28%	\$22.92	7,182	3,299	20,030	45,179
West Phoenix Total	188	7,298,555	0	1,094,428	1,345,346	18.43%	1,414,741	19.38%	\$22.44	17,923	29,082	54,002	117,434
Phoenix Total	2,811	135,066,705	1,997,203	19,839,568	25,097,583	18.58%	27,693,595	20.50%	\$21.12	259,224	1,116,494	2,185,085	9,419,398
Class A	252	41,198,137	1,464,068	7,229,376	7,560,800	18.35%	8,542,419	20.73%	\$24.36	41,133	420,450	643,733	1,588,781
Class B	1,983	81,778,735	533,135	12,610,192	15,516,673	18.97%	16,974,107	20.76%	\$19.08	104,628	591,682	1,269,997	2,844,552
Class C	576	12,089,833	0	0	2,020,110	16.71%	2,177,069	18.01%	\$13.56	113,463	104,362	271,355	400,831
Class Total	2,811	135,066,705	1,997,203	19,839,568	25,097,583	18.58%	27,693,595	20.50%	\$21.12	259,224	1,116,494	2,185,085	9,419,398

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
20022 N. 31st Ave.	Deer Valley /Airport	A	337,439	\$151.14	Griffin Capital Essential Asset REIT	Kan Am 20022 North 31st Ave., LLC
2201 E. Camelback Rd. – 2 Properties	Camelback Corridor	A	333,284	\$255.34	KBS Real Estate Investment Trust	Angelo Gordon & Co.
111 W. Monroe St.	Downtown	B	255,556	\$86.09	Rialto Capital Management, LLC	General Electric Credit Equities, Inc.
10001 N. 92nd St. – 2 Properties	Central Scottsdale	A/B	223,131	\$197.87	Equus Capital Partners, LTD	Teachers Retirement System of IL
1661 E. Camelback Rd.	Camelback Corridor	B	178,792	\$139.27	EBF & Associates, LP	Westport Capital Partners, LLC
1840 S. Stapley Dr. – 2 Properties	Superstition Corridor	A	179,281	\$181.28	Buchanan Street Partners	DESCO Southwest

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
1975 S. Price Rd.	Chandler	B	113,171	May-14	Ameri Credit Corp/GM Financial	Piedmont Operating Partnership
2150 E. Warner Rd.	South Tempe/Ahwatukee	B	110,000	Jun-14	Amkor	University & State Collages of AZ
101 N. 1st Ave.	Downtown	A	59,079	Apr-14	Valley Metro	Ag101 North First-21 West Van Buren, LLC
20620 N. 19th Ave.	Deer Valley /Airport	B	33,344	Apr-14	Progrexion	Credit Counselors of America, Inc.
3200 N. Central Ave.	Midtown	A	30,206	May-14	Dignity Health	3200 North Central Venture, LLC
6991 E. Camelback Rd.	Scottsdale South	B	30,093	Jun-14	ZocDoc	Camelback Ep, 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.

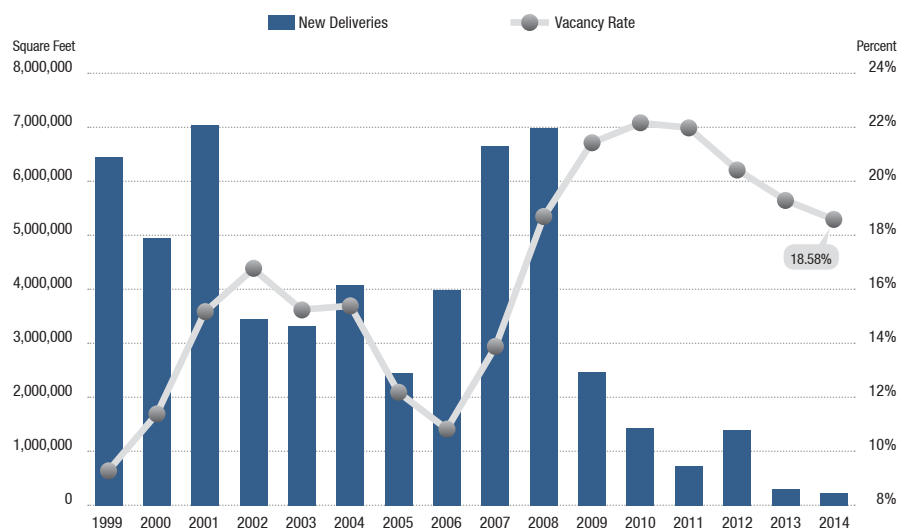
CLASS B

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.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



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