



SECOND QUARTER 2015 PHOENIX OFFICE

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

UP



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Prepared by:

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

Jennifer Farino
Market Research Analyst
e-mail: jfarino@voitco.com

VOIT Real Estate Services

HIGHLIGHTS

- **Poised for Growth** - The Phoenix office market continued to convey strong signs of recovery in the second quarter of 2015, posting over 490,000 square feet of positive net absorption, making it the eighth straight quarter of positive absorption for a total of 5.4 million square feet. Vacancy and availability maintained their downward trends from the previous quarter, as lease rates continue to increase. 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 almost 4.2 million square feet in the second quarter, with the highest concentration in the East Valley submarket. In 2014, 1.6 million square feet of new office space was delivered to the market.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 17.92%, a slight decrease from the previous quarter's rate of 17.97% and down 3.76% from 2014's second quarter rate of 18.62%. The Airport submarket posted the lowest rate in the metro, coming in at 14.45%.
- **Availability** - Direct/sublease space being marketed was at 20.39% at the end of the second quarter of 2015, a decrease of 25 basis points when compared to the prior year's rate of 20.64%. The West Phoenix submarket posted the lowest rate in the metro, coming in at 18.29%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per year in Phoenix was \$22.14 in the second quarter of 2015, an increase of thirty cents from the first quarter's rate of \$21.84. The record high rate of \$25.86 was established in the last quarter of 2007. Class A rates for the county averaged \$25.67, while Camelback Corridor had the highest average rate of all submarkets at \$26.66.
- **Absorption** - The Phoenix office market posted 490,165 square feet of positive net absorption in the second quarter,

marking the eighth consecutive quarter of positive absorption and giving the market a total of 9.8 million square feet since the second quarter of 2011.

- **Transaction Activity** - Leasing activity checked in at just under 2.2 million square feet in the second quarter of 2015, an increase from the previous quarter's figure of 1.97 million square feet. Sales activity came in below the previous quarter's rate, recording over 3.5 million square feet for second quarter of 2015 compared to first quarter of 2015 at 4.5 million square feet of sales transactions. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher on the next report.
- **Unemployment** - The unemployment rate in the Phoenix-Mesa-Glendale Metropolitan area was 4.9% in April 2015, a decrease from January 2015's rate of 5.8%. Sectors with strong job growth included education & health services, professional and business services, and leisure & hospitality. 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, year over year job growth added 16,700 education & health services jobs, 16,000 professional & business services jobs, and 13,600 in leisure and hospitality jobs. The number of jobs has increased by 64,000 jobs in 2014 and we anticipate this trend continuing through 2015.
- **Overall** - We are continuing to see a decrease in the amount of vacant and available space on the market and an increase in occupancy costs. Positive absorption should continue through the rest of 2015, although new deliveries in the pipeline may apply upward pressure on vacancy. 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

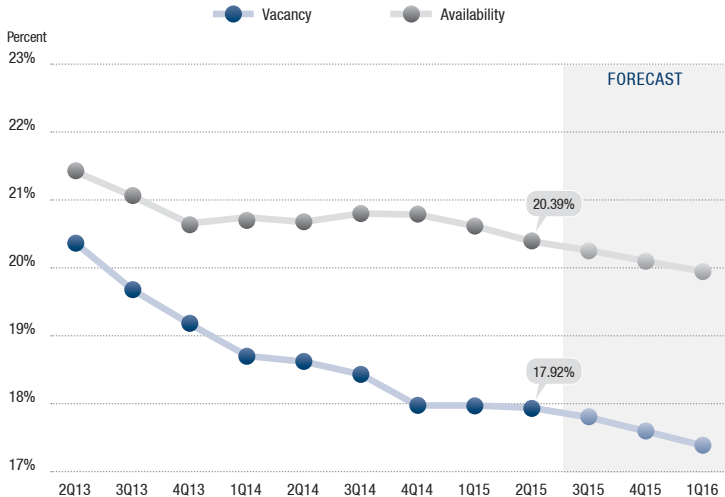
- **Construction** - With a favorable business climate spurring demographic growth in the Phoenix area, we expect it to only be a matter of time before development resumes. With 19.9 million square feet on the slate as being planned, we will see an influx of new product in the next year or so. In the meantime, limited construction should ease vacancy rates and allow demand to further catch up to supply.
- **Employment** - We anticipate 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, and education & health services to lead the way in employment growth.
- **Lease Rates** - Expect average asking lease rates to increase by another 3% to 5% over the next four quarters.
- **Vacancy** - We anticipate the vacancy rate continuing its descent in the coming quarters, dropping by around 16 basis points, to below 17.40%, by the end of the first quarter of 2016.

OVERVIEW

	2Q15	1Q15	2Q14	% of Change vs. 2Q14
Total Vacancy Rate	17.92%	17.97%	18.62%	(3.76%)
Availability Rate	20.39%	20.61%	20.64%	(1.21%)
Average Asking Lease Rate	\$22.14	\$21.84	\$21.12	4.83%
Sale & Lease Transactions	5,660,943	6,463,854	5,483,072	3.24%
Gross Absorption	2,564,666	2,104,003	2,658,845	(3.54%)
Net Absorption	490,165	147,262	537,422	N/A

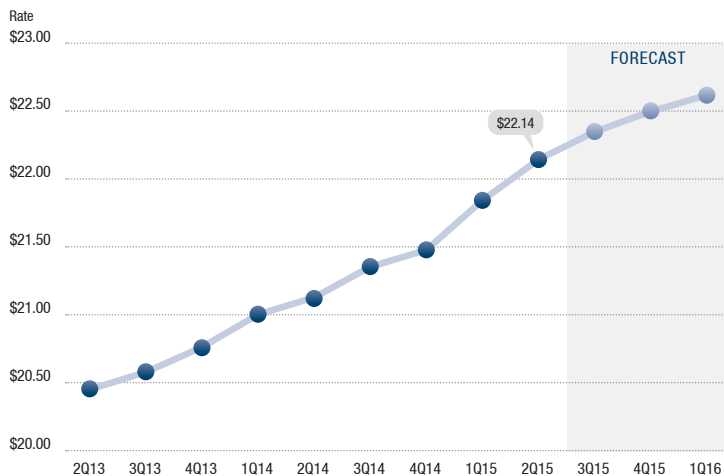
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



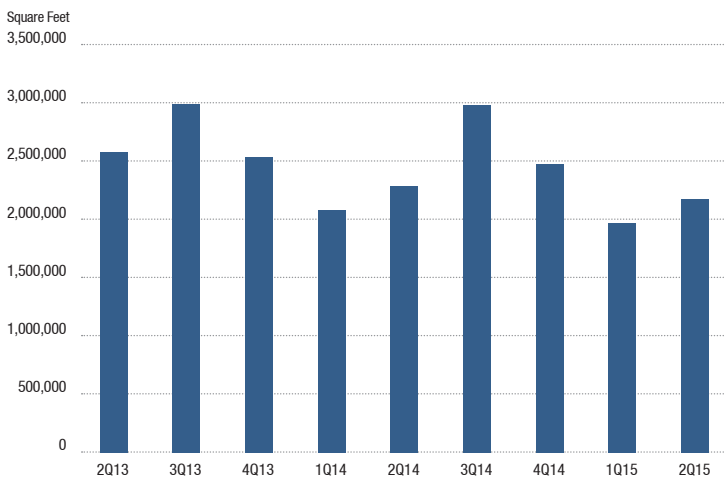
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



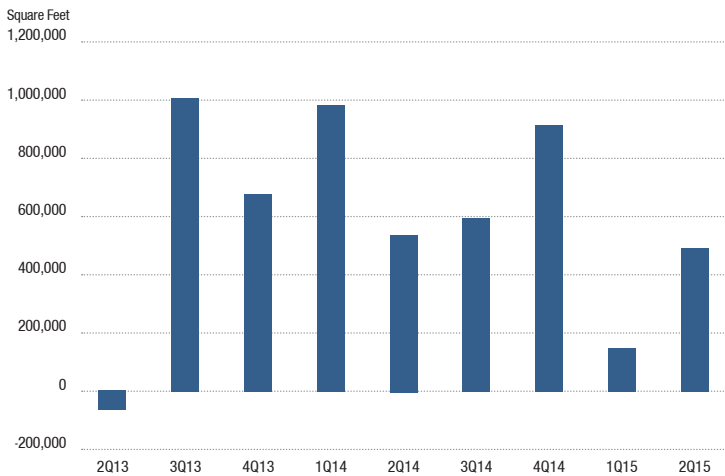
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



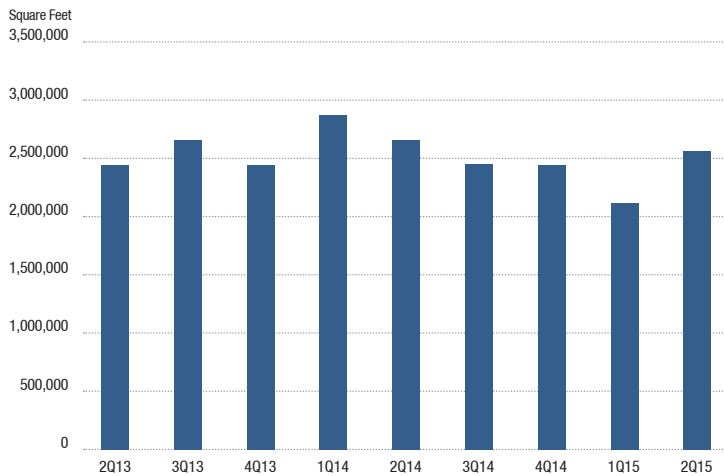
NET ABSORPTION

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 2Q2015	Square Feet Available	Availability Rate 2Q2015	Average Asking Lease Rate	Net Absorption 2Q2015	Net Absorption 2015	Gross Absorption 2Q2015	Gross Absorption 2015
Airport Area													
Airport Area	153	9,868,452	252,027	756,139	1,522,736	15.43%	1,882,309	19.07%	\$20.96	74,947	122,661	152,446	223,269
South Tempe/Ahwatukee	125	5,655,515	240,000	1,170,000	721,125	12.75%	972,038	17.19%	\$21.62	(27,728)	95,501	115,174	291,494
Airport Total	278	15,523,967	492,027	1,926,139	2,243,861	14.45%	2,854,347	18.39%	\$21.21	47,219	218,162	267,620	514,763
Central Corridor													
Midtown	153	12,192,459	0	478,488	2,915,586	23.91%	2,795,672	22.93%	\$20.54	84,424	20,331	291,871	368,011
Downtown	65	9,069,250	0	155,000	1,189,766	13.12%	1,478,071	16.30%	\$26.06	(1,639)	20,964	197,544	276,934
Central Corridor Total	218	21,261,709	0	633,488	4,105,352	19.31%	4,273,743	20.10%	\$22.13	82,785	41,295	489,415	644,945
East Phoenix													
44th Street Corridor	81	5,704,556	0	0	640,681	11.23%	1,279,183	22.42%	\$23.48	28,362	73,325	56,005	142,420
Camelback Corridor	132	8,746,014	0	0	1,856,489	21.23%	2,099,656	24.01%	\$26.66	11,732	10,761	127,785	265,488
Midtown/Central Phoenix	131	3,792,846	0	0	619,671	16.34%	682,852	18.00%	\$16.14	(537)	(32,330)	41,658	137,025
East Phoenix Total	344	18,243,416	0	0	3,116,841	17.08%	4,061,691	22.26%	\$24.53	39,557	51,756	225,448	544,933
East Valley													
Chandler	186	7,657,795	954,412	9,478,673	1,406,500	18.37%	1,419,041	18.53%	\$24.14	128,028	18,374	308,449	429,911
Gateway Airport/Loop 202	46	1,168,472	0	1,270,869	269,705	23.08%	282,890	24.21%	\$24.01	(7,618)	(1,015)	7,658	21,779
Mesa Downtown	36	941,257	0	0	107,667	11.44%	129,681	13.78%	\$14.48	6,959	32,892	10,596	42,749
Mesa East	70	1,903,077	0	10,887	274,471	14.42%	270,627	14.22%	\$12.80	(1,514)	343	20,072	30,181
Superstition Corridor	149	4,743,778	0	373,200	1,174,383	24.76%	1,259,920	26.56%	\$17.93	(368)	(76,898)	93,005	149,283
Tempe	127	5,588,704	2,451,235	525,000	738,313	13.21%	779,217	13.94%	\$18.04	5,190	2,198	76,106	143,714
East Valley Total	614	22,003,083	3,405,647	11,658,629	3,971,039	18.05%	4,141,376	18.82%	\$19.47	130,677	(24,106)	515,886	817,617
Northwest Phoenix													
Arrowhead	104	2,569,666	0	173,538	443,793	17.27%	475,629	18.51%	\$19.90	19,487	7,169	64,702	88,808
Deer Valley/Airport	136	10,731,515	46,942	1,237,452	1,793,505	16.71%	1,915,128	17.85%	\$21.50	129,569	148,108	162,495	342,965
Northwest Phoenix	236	8,615,000	0	123,500	2,310,610	26.82%	2,722,110	31.60%	\$14.57	(100,288)	(69,592)	116,950	227,364
Northwest Phoenix Total	476	21,916,181	46,942	1,534,490	4,547,908	20.75%	5,112,867	23.33%	\$18.47	48,768	85,685	344,147	659,137
Paradise Valley													
Paradise Valley	96	3,831,758	0	266,000	727,965	19.00%	833,264	21.75%	\$22.08	37,496	86,604	95,488	263,667
Piestewa Peak Corridor	71	2,960,223	0	0	597,075	20.17%	626,960	21.18%	\$18.08	(2,965)	(2,319)	13,929	50,454
Paradise Valley Total	167	6,791,981	0	266,000	1,325,040	19.51%	1,460,224	21.50%	\$19.98	34,531	84,285	109,417	314,121
Scottsdale													
Central Scottsdale	163	7,260,148	70,000	971,900	1,215,144	16.74%	1,582,349	21.79%	\$23.52	(18,624)	(45,151)	94,993	204,811
Scottsdale Airpark	310	12,946,518	169,189	650,012	2,423,344	18.72%	2,739,053	21.16%	\$25.36	46,417	145,717	264,993	549,433
Scottsdale South	126	5,216,815	0	522,500	593,220	11.37%	680,535	13.05%	\$24.41	13,547	(10,199)	126,532	220,213
Scottsdale Total	599	25,423,481	239,189	2,144,412	4,231,708	16.64%	5,001,937	19.67%	\$24.50	41,340	90,367	486,518	974,457
West Phoenix													
Glendale	48	2,383,727	0	1,402,000	585,136	24.55%	604,326	25.35%	\$21.74	47,319	62,536	90,896	125,888
Loop 303/Surprise	49	1,414,420	0	120,000	261,042	18.46%	284,514	20.12%	\$23.86	5,160	5,065	13,932	27,329
Southwest Phoenix	45	2,201,727	0	0	301,509	13.69%	310,309	14.09%	\$20.78	0	0	0	0
West I-10	53	1,488,333	0	222,803	162,071	10.89%	170,706	11.47%	\$22.40	12,809	22,382	21,387	45,479
West Phoenix Total	195	7,488,207	0	1,744,803	1,309,758	17.49%	1,369,855	18.29%	\$21.45	65,288	89,983	126,215	198,696
Phoenix Total	2,891	138,652,025	4,183,805	19,907,961	24,851,507	17.92%	28,276,040	20.39%	\$22.14	490,165	637,427	2,564,666	4,668,669
Class A	270	42,947,793	3,846,163	7,062,486	6,962,500	16.21%	8,216,767	19.13%	\$25.67	319,827	471,290	890,381	1,557,366
Class B	2,031	83,465,530	337,642	12,845,475	15,813,331	18.95%	17,746,378	21.26%	\$19.68	220,370	228,766	1,528,099	2,853,071
Class C	590	12,238,702	0	0	2,075,676	16.96%	2,312,895	18.90%	\$14.36	(50,032)	(62,629)	146,186	258,232
Class Total	2,891	138,652,025	4,183,805	19,907,961	24,851,507	17.92%	28,276,040	20.39%	\$22.14	490,165	637,427	2,564,666	4,668,669

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
1 N. Central Ave.	Downtown	A	410,053	\$228.63	Parallel Capital Partners, Inc.	Mitsubishi Estate New York, Inc.
3202 & 3151 W. Behrend Dr.	Northwest Phoenix	B	513,361	\$178.24	Griffin Capital Essential Asset REIT II, Inc.	Police & Fire Retirement System of Detroit
410, 426 & 432 N. 44th St.	44th Street Corridor	A	433,245	\$174.73	Lowe Enterprise Investors Alecta Real Estate USA	Oaktree Capital Management, LP Pearlmark Real Estate Partners
3200 E Camelback Rd.	Camelback Corridor	A	259,730	\$223.31	Lincoln Property Company Oaktree Capital Management, LP	DPC Development Co.s Bridge Investment Group Partners
8075 S. River Pkwy.	South Tempe /Ahwatukee	B	133,225	\$184.65	Tempe Building, LLC	Piedmont Office Realty Trust, Inc.

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
2901 & 2929 N. Central Ave.	Midtown	A	305,000	May-2015	Banner Health	General Electric Capital Corp.
1450 S. Spectrum Blvd.	Chandler	A	100,622	Jun-2015	Infusionsoft	Douglas Allred Company
2133 W. Peoria Ave.	Northwest Phoenix	B	62,771	May-2015	Progrexion	Sabal Financial Group, LP
1201 S. Alma School Rd.	Superstation Corridor	A	46,555	May-2015	AZ Dept. of Child Safety	Wilson Property Services, Inc.
1850 W. Rio Salado Pky.	Airport Area	A	39,727	May-2015	Undisclosed	City of Tempe

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.

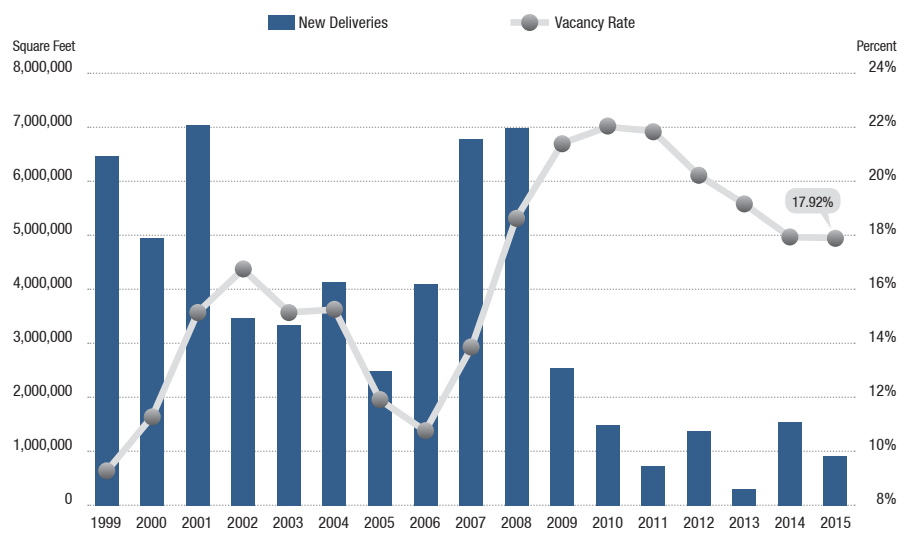
CLASS B

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



Please Contact Us for Further Information

101 Shipyard Way, Newport Beach, CA 92663 949.644.8648 Lic.#01333376 www.voitco.com



Anaheim, CA
714.978.7880

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Las Vegas, NV
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Los Angeles, CA
424.329.7500

Newport Beach, CA
949.644.8648

Phoenix, AZ
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Reno, NV
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Sacramento, CA
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San Diego, CA
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San Jose, CA
408.885.9110