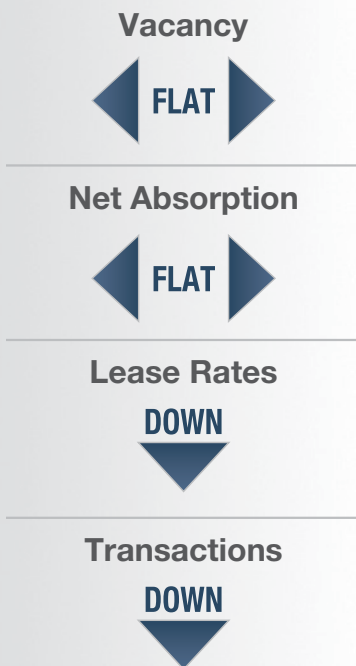


Office Market Report

Compared to last quarter:



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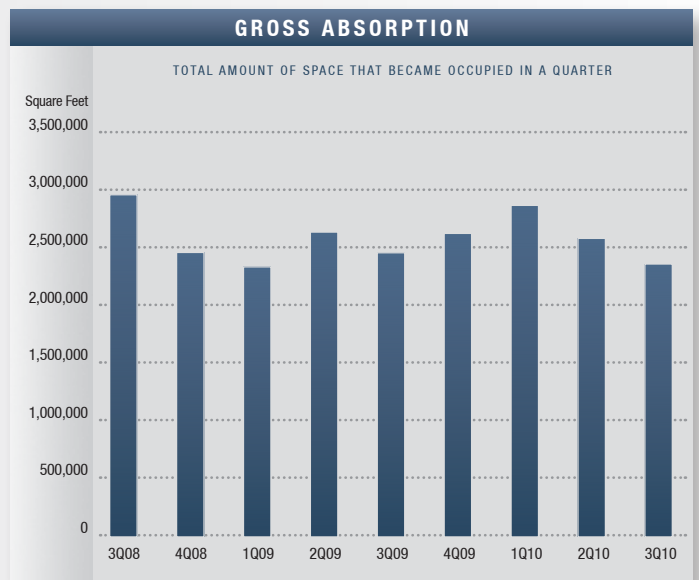
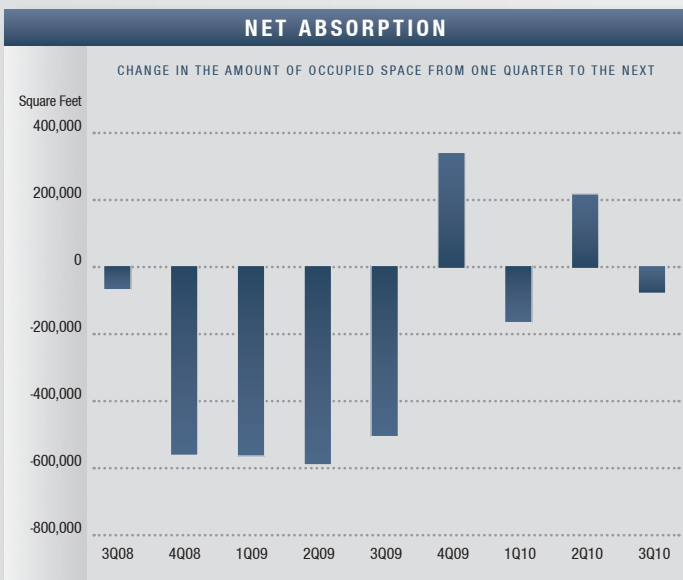
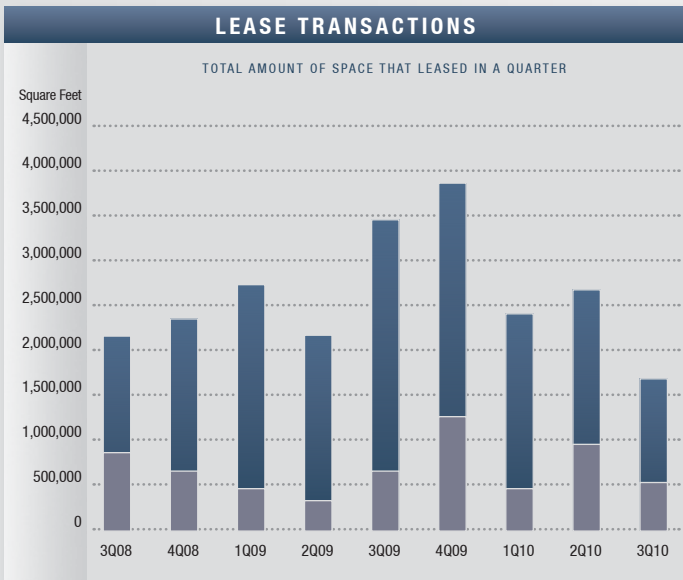
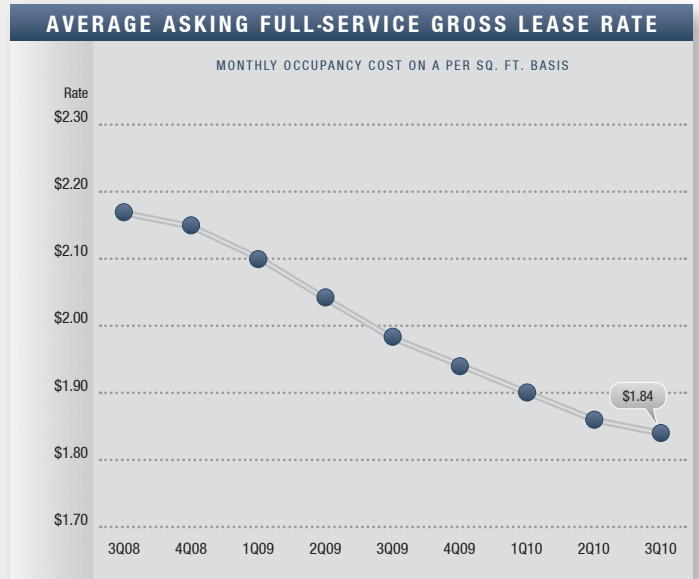
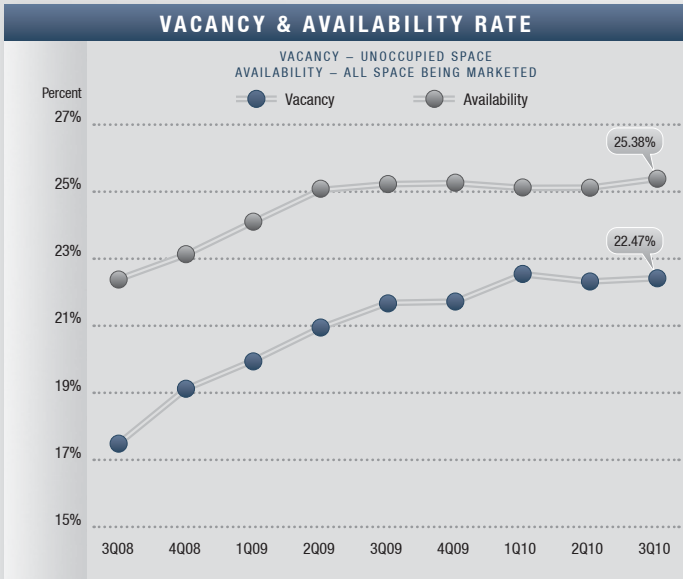
Prepared by:
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Market Highlights

- Encouraging Numbers** – The numbers this quarter appear to be encouraging — a sign that recovery could be on the horizon. Availability and vacancy exhibited a slight increase, vacancy dropped, and net absorption posted a small amount of negative absorption. With regard to sales transactions, the ask-bid gap seems to be narrowing, as evidenced by the drop in asking prices. While these are positive indications, stability will need to be sustained in following quarters to be considered recovery.
- Construction** – Total space under construction checked in at 508,352 square feet this quarter. The slowdown in construction has and will ease the upward pressure on vacancy going forward.
- Vacancy** – Direct/sublease space (unoccupied) finished the quarter at 22.47%, an increase over last year's rate of 21.68% and nearly equal to last quarter's figure of 22.38%. The Airport market posted the lowest rate in the county, coming in at 17.08%.
- Availability** – Direct/sublease space being marketed was at 25.38% this quarter, an increase of only 26 basis points when compared to last quarter and only a 0.55% increase from the third quarter of last year.
- Lease Rates** – The average asking Full-Service Gross (FSG) lease rate per square foot per month in Phoenix was \$1.84 — a 7.07% decrease over last year's rate of \$1.98 and two cents lower than last quarter's rate. The record high rate of \$2.19 was established in the first quarter of 2008. Class A rates for the county are averaging \$2.10 FSG, with East Phoenix noting the highest asking rates, averaging \$1.94 FSG.
- Absorption** – Net absorption for the county posted a negative 76,619 square feet for the third quarter of 2010, giving the office market a total of 27,608 square feet of negative absorption for the first three quarters of 2010.
- Transaction Activity** – Leasing activity checked in at 1.1 million square feet this quarter, mainly a result of short-term deals coupled with lease renegotiations. Sales activity showed a decrease since last quarter, posting 534,082 square feet of activity as compared to last quarter's 981,730 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 9.1% in August 2010, the same as a revised 9.1% in July 2010 and the same as a year-ago estimate of 9.1%. This compares with an unadjusted unemployment rate of 9.7% for Arizona and 9.5% for the nation during the same period.
- Overall** – We are beginning to see a decrease in the amount of available space being added per quarter. Absorption is the big story, and with few new deliveries in the pipeline to put more upward pressure on vacancies, the market is beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin 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 to increase to incentivize tenants to act immediately. We should also see an increase in leasing activity as many short-term deals come up for renewal and as job creation begins going into 2011. Once employment turns positive and consumer confidence stabilizes, the office market will regain equilibrium.

OFFICE MARKET OVERVIEW

	3Q2010	2Q2010	3Q2009	% CHANGE vs. 3Q2009
Vacancy Rate	22.47%	22.38%	21.68%	3.64%
Availability Rate	25.38%	25.12%	25.24%	0.55%
Average Asking Lease Rate	\$1.84	\$1.86	\$1.98	(7.07%)
Sale & Lease Transactions	1,679,592	2,667,992	3,444,483	(51.24%)
Gross Absorption	2,345,911	2,580,960	2,446,532	(4.11%)
Net Absorption	(76,619)	211,407	(500,557)	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 3Q2010	Square Feet Available	Availability Rate 3Q2010	Average Asking Lease Rate	Net Absorption 3Q2010	Net Absorption 2010	Gross Absorption 3Q2010	Gross Absorption 2010
Airport Area													
Airport Area	143	8,756,660	439,070	200,000	1,154,841	13.19%	1,592,068	18.18%	\$1.66	(29,590)	110,117	146,852	417,731
South Tempe/Ahwatukee	109	4,415,633	0	98,286	1,095,421	24.81%	1,625,648	36.82%	\$1.77	50,869	(16,648)	112,720	243,512
Airport Total	252	13,172,293	439,070	298,286	2,250,262	17.08%	3,217,716	24.43%	\$1.71	21,279	93,469	259,572	661,243
Central Corridor													
Downtown North	146	11,824,296	0	478,488	2,506,798	21.20%	2,906,622	24.58%	\$1.66	(118,226)	(259,246)	145,227	444,889
Downtown South	76	8,583,413	0	0	1,807,032	21.05%	2,231,984	26.00%	\$2.26	(37,902)	86,946	114,640	610,167
Central Corridor Total	222	20,407,709	0	478,488	4,313,830	21.14%	5,138,606	25.18%	\$1.89	(156,128)	(172,300)	259,867	1,055,056
East Phoenix													
44th Street Corridor	76	5,276,895	0	0	1,215,802	23.04%	1,278,495	24.23%	\$1.81	31,026	(29,233)	73,298	227,132
Camelback Corridor	133	8,893,474	0	0	2,591,722	29.14%	3,060,464	34.41%	\$2.09	(77,477)	(243,607)	252,789	704,534
Midtown/Central Phoenix	122	3,455,842	0	313,200	603,593	17.47%	749,795	21.70%	\$1.26	16,197	(23,104)	58,200	137,321
East Phoenix Total	331	17,626,211	0	313,200	4,411,117	25.03%	5,088,754	28.87%	\$1.94	(30,254)	(295,944)	384,287	1,068,987
East Valley													
Chandler	133	5,072,885	35,182	3,591,810	1,243,912	24.52%	1,163,062	22.93%	\$1.92	(44,350)	25,056	140,421	382,452
Gateway Airport/Loop 202	43	1,179,663	16,500	762,377	473,307	40.12%	475,336	40.29%	\$1.98	38,788	65,059	43,501	82,797
Mesa Downtown	32	784,475	0	0	170,886	21.78%	167,060	21.30%	\$1.18	17,003	1,904	22,359	27,257
Mesa East	80	2,306,826	0	107,756	383,650	16.63%	423,768	18.37%	\$1.85	(6,462)	20	23,166	54,590
Superstition Corridor	154	5,091,269	0	827,873	1,279,900	25.14%	1,341,314	26.35%	\$1.59	17,087	105,875	92,308	341,306
Tempe	110	4,440,794	0	695,000	1,014,053	22.83%	1,076,174	24.23%	\$1.92	21,059	(25,424)	87,273	383,593
East Valley Total	552	18,875,912	51,682	5,984,816	4,565,708	24.19%	4,646,714	24.62%	\$1.81	43,125	172,490	409,028	1,271,995
Northwest Phoenix													
Arrowhead	98	2,497,520	0	298,687	521,167	20.87%	530,768	21.25%	\$1.82	(58,164)	(46,705)	31,207	117,633
Deer Valley/Airport	145	10,114,405	0	1,726,127	2,142,731	21.18%	2,332,357	23.06%	\$1.82	(33,129)	(201,042)	74,738	323,705
Northwest Phoenix	176	7,039,816	0	0	1,458,631	20.72%	1,578,435	22.42%	\$1.50	(8,027)	(39,997)	86,633	343,963
Northwest Phoenix Total	419	19,651,741	0	2,024,814	4,122,529	20.98%	4,441,560	22.60%	\$1.65	(99,320)	(287,744)	192,578	785,301
Paradise Valley													
Paradise Valley	97	3,923,927	0	190,000	972,186	24.78%	1,002,982	25.56%	\$1.95	438	(5,851)	61,698	231,528
Piestewa Peak Corridor	69	2,918,121	0	105,600	535,734	18.36%	644,800	22.10%	\$1.53	(43,174)	(69,839)	43,469	127,286
Paradise Valley Total	166	6,842,048	0	295,600	1,507,920	22.04%	1,647,782	24.08%	\$1.76	(42,736)	(75,690)	105,167	358,814
Scottsdale													
Central Scottsdale	183	7,768,376	0	437,900	1,851,487	23.83%	2,060,585	26.53%	\$1.89	(42,940)	(103,154)	78,879	382,737
Scottsdale Airpark	312	12,791,597	17,600	536,290	3,341,842	26.13%	3,679,829	28.77%	\$1.95	87,556	389,394	348,521	1,313,215
Scottsdale South	134	5,570,253	0	209,778	1,151,781	20.68%	1,328,515	23.85%	\$1.71	83,599	70,496	187,682	457,809
Scottsdale Total	629	26,130,226	17,600	1,183,968	6,345,110	24.28%	7,068,929	27.05%	\$1.89	128,215	356,736	615,082	2,153,761
West Phoenix													
Glendale	43	2,088,447	0	622,677	762,641	36.52%	747,419	35.79%	\$2.10	12,887	125,151	16,953	164,702
Loop 303/Surprise	43	1,091,523	0	204,201	336,192	30.80%	355,879	32.60%	\$2.08	15,285	27,632	37,406	86,202
Southwest Phoenix	90	3,148,279	0	70,740	467,465	14.85%	514,149	16.33%	\$1.34	19,043	46,798	45,061	134,593
West I-10	49	1,412,471	0	263,779	229,264	16.23%	235,341	16.66%	\$1.89	11,985	(18,206)	20,910	59,403
West Phoenix Total	225	7,740,720	0	1,161,397	1,795,562	23.20%	1,852,788	23.94%	\$1.90	59,200	181,375	120,330	444,900
Phoenix Total	2,796	130,446,860	508,352	11,740,569	29,312,038	22.47%	33,102,849	25.38%	\$1.84	(76,619)	(27,608)	2,345,911	7,800,057
Class A	258	41,697,650	439,070	4,344,531	10,497,951	25.18%	11,456,856	27.48%	\$2.10	144,998	330,232	800,888	2,899,004
Class B	1,941	76,578,658	69,282	7,396,038	16,887,593	22.05%	19,304,601	25.21%	\$1.64	(240,508)	(219,742)	1,355,739	4,381,814
Class C	597	12,170,552	0	0	1,926,494	15.83%	2,341,392	19.24%	\$1.13	18,891	(138,098)	189,284	519,239
Class Total	2,796	130,446,860	508,352	11,740,569	29,312,038	22.47%	33,102,849	25.38%	\$1.84	(76,619)	(27,608)	2,345,911	7,800,057

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	Tenant	Owner
5090 N. 40th St.	Camelback Corridor	A	175,186	\$13,250,000	CJK Investments	Transwestern Investment Company
1600 W. Broadway Rd.	Tempe	B	73,777	\$3,700,000	Associated Asset Management	Midland Load Services, Inc.
3719 W. Anthem Wy. – 2 Properties	Deer Valley/Airport		63,449	\$3,500,000	Thornton Construction Company	Wells Fargo Bank
8360 E. Raintree Dr.	Scottsdale Airpark	B	37,462	\$2,825,000	Richard J. & Karen M. MacLeod	Sterling Savings Bank
4021 N. 75th St.	Scottsdale South	B	13,851	\$2,750,000	Economic Vitality Department	Thomas C. & Jane L. Frenkel
9220 E. Raintree Dr.	Scottsdale Airpark	B	11,025	\$2,380,000	Ntl. Cncl. for Prescription Drug Programs	Enterprise Mortgage Corporation
8700 E. Pinnacle Peak Rd.	Scottsdale Airpark	B	28,547	\$2,000,000	Brentwood Capital, Inc.	Helios AMC, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
4801 E. Washington St.	Airport Area	B	89,200	September–10	Megellan Health Services, Inc.	ARI–RM & BC Office Parks, LLC
16220 N. Scottsdale Rd.	Scottsdale	A	78,439	September–10	Universal Technical Institute, Inc.	Scottsdale–Paradise Lane, LLC
222 S. Mill Ave.	Tempe	A	65,219	July–10	Limelight Networks, Inc.	Vulcan, Inc.
2325 E. Camelback Rd.	Camelback Corridor	A	38,000	September–10	AECOM	Hines
2326 E. Camelback Rd.	Camelback Corridor	A	36,439	September–10	Mercer	Hines
2222 E. Highland Ave.	Camelback Corridor	A	33,494	July–10	Arizona Oncology Associates, PC	Health Care REIT, Inc.

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.

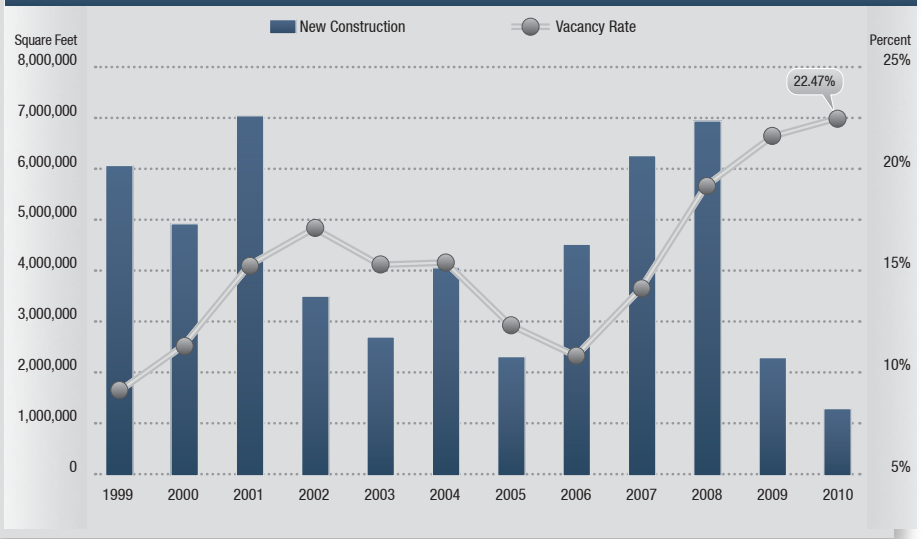
CLASS B

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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