

Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

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Market Highlights

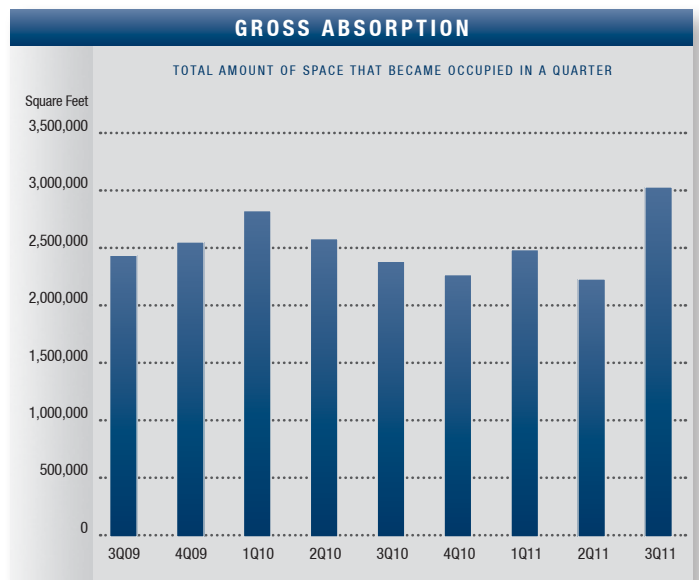
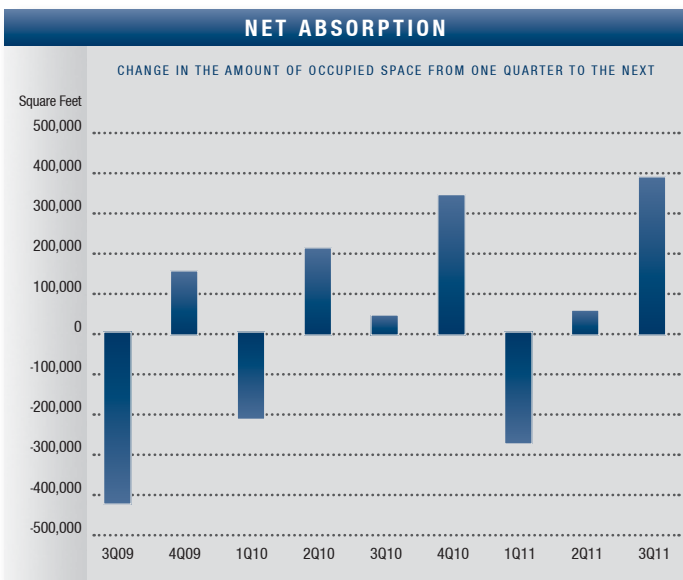
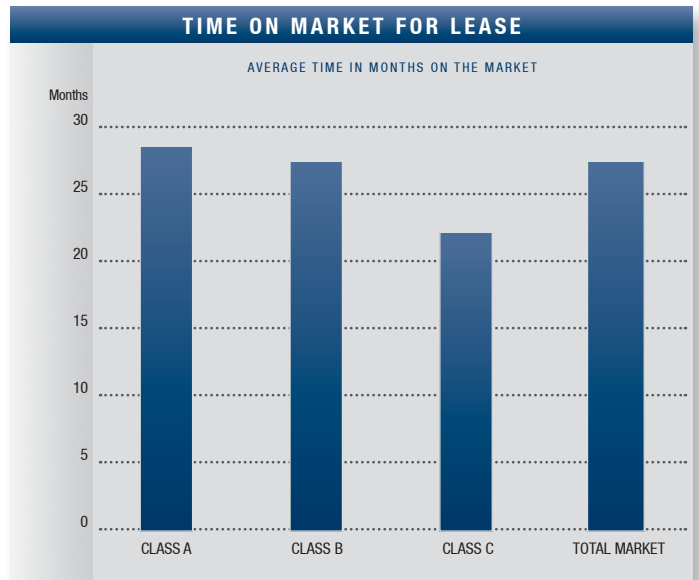
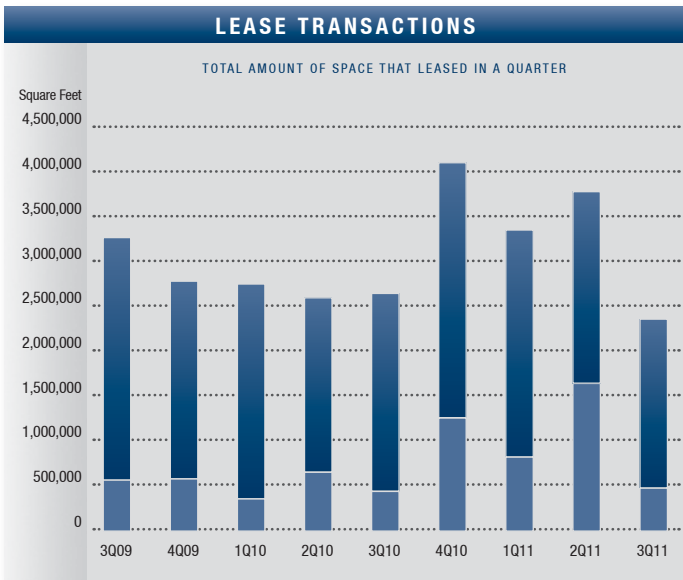
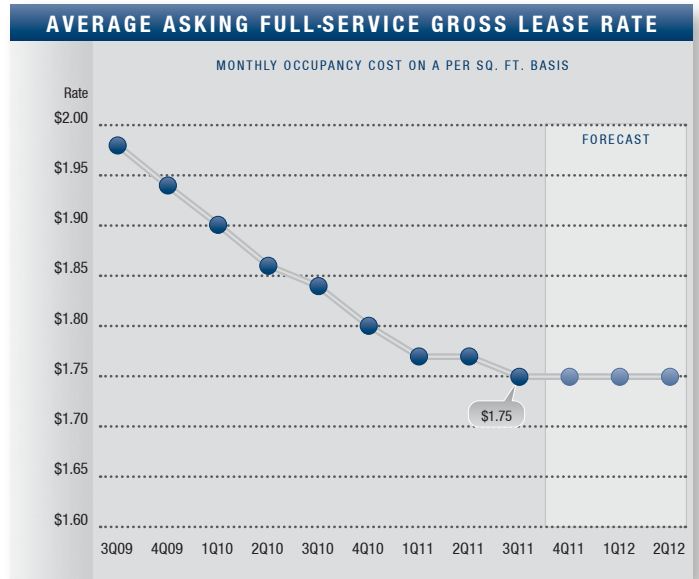
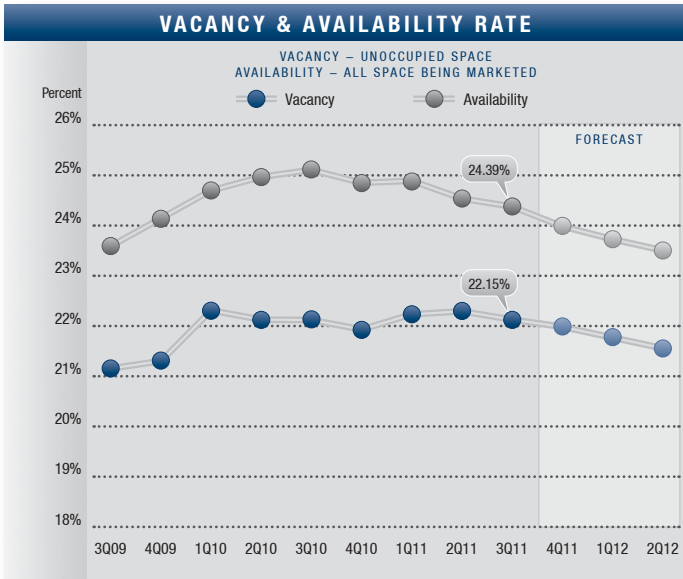
- **Encouraging Numbers** - 2011's third quarter numbers were encouraging — a sign that recovery could be on the horizon. Availability exhibited a slight decrease in the quarter, and net absorption posted a positive number. Demand picked up, with Labor Day of 2010 marking the beginning of a renewed interest in sales transactions, and tenants began signing longer lease commitments. While these are positive indications, stability and job growth will need to be sustained in coming quarters to be considered recovery.
- **Construction** - Total space under construction checked in at 388,327 square feet in the first quarter. The slowdown in 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 first quarter at 22.15%, a slight decrease from 2010's third quarter rate of 22.16% as well as from the previous quarter's figure of 22.30%. The Airport market posted the lowest rate in the county, coming in at 19.01%.
- **Availability** - Direct/sublease space being marketed was at 24.39% at the end of the third quarter 2011, a decrease of only 17 basis points when compared to the prior quarter and a 2.91% decrease from year-ago figure of 25.12%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in Phoenix was \$1.75 — a 4.89% decrease from 2010's third quarter rate of \$1.84 and two cents lower than 2011's second quarter's rate. The record high rate of \$2.19 was established in the first quarter of 2008. Class A rates for the county averaged \$2.00 FSG, with the highest figures in West Phoenix where they averaged \$1.97 FSG.
- **Absorption** - The Phoenix office market posted 388,679 square feet of positive net absorption in third quarter of

2011, giving the market an average of 113,000 square feet of positive absorption per quarter over the last five quarters.

- **Transaction Activity** - Leasing activity checked in at just over 1.86 million square feet for the third quarter of 2011, mainly a result of short-term deals coupled with lease renegotiations. Sales activity showed an increase over the third quarter of 2010, posting 468,000 square feet of activity as compared to 2010's 408,000 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 8.4% in August 2011, down from a revised 8.7% in July 2011 and lower than the 2010 estimate of 9.4%. This compares with an unadjusted unemployment rate of 9.3% for Arizona and 9.1% for the nation during the same period.
- **Overall** - We are beginning to see a decrease in the amount of available space. 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, reduced parking fees, relocation funds and tenant improvement allowances should continue in order 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 continues in 2011. As unemployment rates drop and consumer confidence stabilizes, the office market will continue to regain equilibrium.

OFFICE MARKET OVERVIEW

	3Q2011	2Q2011	3Q2010	% Change vs. 3Q2010
Vacancy Rate	22.15%	22.30%	22.16%	(0.05%)
Availability Rate	24.39%	24.56%	25.12%	(2.91%)
Average Asking Lease Rate	\$1.75	\$1.77	\$1.84	(4.89%)
Sale & Lease Transactions	2,336,359	3,771,626	2,626,111	(11.03%)
Gross Absorption	3,000,260	2,210,862	2,496,523	20.18%
Net Absorption	388,679	57,136	(274,211)	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 3Q2011	Square Feet Available	Availability Rate 3Q2011	Average Asking Lease Rate	Net Absorption 3Q2011	Net Absorption 2011	Gross Absorption 3Q2011	Gross Absorption 2011
Airport Area													
Airport Area	144	9,117,603	0	0	1,412,879	15.50%	1,623,267	17.80%	\$1.61	286,279	144,147	586,141	807,870
South Tempe/Ahwatukee	111	4,630,666	0	73,800	1,200,277	25.92%	1,306,614	28.22%	\$1.71	67,182	(137,134)	102,899	310,021
Airport Total	255	13,748,269	0	73,800	2,613,156	19.01%	2,929,881	21.31%	\$1.65	353,461	7,013	689,040	1,117,891
Central Corridor													
Downtown North	152	12,184,009	0	478,488	2,860,081	23.47%	3,634,821	29.83%	\$1.64	(239,404)	(314,682)	86,061	339,859
Downtown South	67	8,331,109	0	0	1,296,470	15.56%	1,590,623	19.09%	\$2.04	359,029	410,495	378,815	858,490
Central Corridor Total	219	20,515,118	0	478,488	4,156,551	20.26%	5,225,444	25.47%	\$1.74	119,625	95,813	464,876	1,198,349
East Phoenix													
44th Street Corridor	81	5,672,468	0	0	1,117,110	19.69%	1,504,388	26.52%	\$1.73	641	67,118	97,958	432,770
Camelback Corridor	135	8,907,500	0	0	2,875,930	32.29%	2,944,728	33.06%	\$2.01	(253,618)	(221,447)	131,430	598,829
Midtown/Central Phoenix	129	3,682,163	71,250	443,200	673,705	18.30%	755,257	20.51%	\$1.29	(17,199)	(71,798)	34,256	136,841
East Phoenix Total	345	18,262,131	71,250	443,200	4,666,745	25.55%	5,204,373	28.50%	\$1.87	(270,176)	(226,127)	263,644	1,168,440
East Valley													
Chandler	133	5,185,299	0	3,100,346	1,042,843	20.11%	970,070	18.71%	\$1.88	35,494	151,090	56,233	326,073
Gateway Airport/Loop 202	42	1,163,130	16,500	406,125	445,823	38.33%	438,216	37.68%	\$2.02	184	3,014	14,068	61,005
Mesa Downtown	34	801,115	0	0	177,075	22.10%	209,869	26.20%	\$1.20	(3,990)	(12,206)	0	6,700
Mesa East	70	1,864,720	21,145	10,156	262,510	14.08%	285,242	15.30%	\$1.04	6,389	(25,301)	11,527	33,364
Superstition Corridor	143	4,599,992	0	471,248	1,025,981	22.30%	1,079,640	23.47%	\$1.53	91,920	98,478	165,578	305,923
Tempe	124	5,309,869	69,230	108,000	1,116,109	21.02%	1,172,121	22.07%	\$1.78	27,866	117,586	79,611	359,917
East Valley Total	546	18,924,125	106,875	4,095,875	4,070,341	21.51%	4,155,158	21.96%	\$1.71	157,863	332,661	327,017	1,092,982
Northwest Phoenix													
Arrowhead	103	2,584,972	0	118,687	540,566	20.91%	573,841	22.20%	\$1.68	(5,569)	(9,298)	44,530	106,668
Deer Valley/Airport	128	9,873,801	210,202	1,451,559	1,947,145	19.72%	2,096,382	21.23%	\$1.70	23,361	(153,135)	229,717	407,098
Northwest Phoenix	224	8,387,188	0	0	1,999,428	23.84%	2,213,908	26.40%	\$1.41	(45,137)	(26,691)	204,898	559,507
Northwest Phoenix Total	455	20,845,961	210,202	1,570,246	4,487,139	21.53%	4,884,131	23.43%	\$1.53	(27,345)	(189,124)	479,145	1,073,273
Paradise Valley													
Paradise Valley	94	3,887,291	0	138,000	983,892	25.31%	1,030,117	26.50%	\$1.86	(25,656)	(73,537)	55,264	154,005
Piestewa Peak Corridor	70	2,938,470	0	105,600	577,403	19.65%	700,028	23.82%	\$1.50	692	(52,126)	62,835	132,497
Paradise Valley Total	164	6,825,761	0	243,600	1,561,295	22.87%	1,730,145	25.35%	\$1.69	(24,964)	(125,663)	118,099	286,502
Scottsdale													
Central Scottsdale	177	7,690,622	0	437,900	1,786,524	23.23%	1,856,655	24.14%	\$1.79	64,241	79,162	204,877	448,683
Scottsdale Airpark	251	11,093,401	0	534,990	2,721,056	24.53%	2,925,446	26.37%	\$1.94	124,239	212,989	292,026	843,368
Scottsdale South	132	5,420,488	0	209,778	1,188,440	21.92%	1,269,651	23.42%	\$1.71	(50,768)	15,584	90,279	285,157
Scottsdale Total	560	24,204,511	0	1,182,668	5,696,020	23.53%	6,051,752	25.00%	\$1.85	137,712	307,735	587,182	1,577,208
West Phoenix													
Glendale	45	2,181,121	0	278,927	747,731	34.28%	680,137	31.18%	\$1.96	(45,179)	(39,074)	4,248	33,740
Loop 303/Surprise	45	1,141,532	0	249,601	306,104	26.82%	338,452	29.65%	\$2.13	26,152	52,708	26,330	81,657
Southwest Phoenix	41	1,947,339	0	82,784	268,999	13.81%	277,799	14.27%	\$2.00	(34,481)	(38,425)	0	3,450
West I-10	49	1,415,269	0	258,279	220,513	15.58%	229,446	16.21%	\$1.75	(3,989)	(5,913)	40,679	74,153
West Phoenix Total	180	6,685,261	0	869,591	1,543,347	23.09%	1,525,834	22.82%	\$1.97	(57,497)	(30,704)	71,257	193,000
Phoenix Total	2,724	130,011,137	388,327	8,957,468	28,794,594	22.15%	31,706,718	24.39%	\$1.75	388,679	171,604	3,000,260	7,707,645
Class A	248	40,450,057	0	3,193,808	9,709,558	24.00%	10,548,864	26.08%	\$2.00	451,373	719,648	1,560,595	3,380,935
Class B	1,889	77,241,245	388,327	5,763,660	17,013,589	22.03%	18,757,941	24.28%	\$1.60	(181,374)	(533,307)	1,210,429	3,829,329
Class C	587	12,319,835	0	0	2,071,447	16.81%	2,399,913	19.48%	\$1.11	118,680	(14,737)	229,236	497,381
Class Total	2,724	130,011,137	388,327	8,957,468	28,794,594	22.15%	31,706,718	24.39%	\$1.75	388,679	171,604	3,000,260	7,707,645

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 PSF	Buyer	Seller
1625 W. Fountainhead Pkwy. – 2 Properties	Deer Valley / Airport	A / B	439,070	\$312.02	KBS Realty Advisors	Metro Commercial Properties
19601 N. 27th Ave. – 3 Buildings	Deer Valley / Airport	A / B	365,672	\$280.31	Cole Real Estate Investments	Prudential Real Estate Investors
444 N. 44th St.	44th Street Corridor	A	137,068	\$89.74	LBA Realty	Hannay Investment Properties
6900 E. Camelback Rd.	Scottsdale South	B	119,420	\$84.03	West Coast Capital Partners	C-III Asset Management, LLC
950 & 960 W. Elliot Rd.	South Tempe / Ahwatukee	B	104,300	\$91.08	DPC Development Company	Cushman & Wakefield, Inc.
702 & 706 E. Bell Rd.	Deer Valley / Airport	B	84,790	\$64.87	Omninet Capital	J.E. Robert Companies, Inc.

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
2394 E. Camelback Rd.	East Phoenix	A	121,000	11-Sep	Fennemore Craig	Florida State Board of Administration
17600 N. Perimeter Dr.	Scottsdale	A	119,681	11-Aug	Fender Musical Instruments Corp.	The Macerich Company
2375 E. Camelback Rd. – Renewal	East Phoenix	A	78,286	11-Sep	Greenberg Traug, LLP	FTI Schonbraun McMann Group
8665 E. Hartford Dr.	Scottsdale	A	66,635	11-Sep	AT Security Service, Inc.	Desert Troon Companies
55 N. Arizona Pl.	Chandler	B	64,827	11-Jul	Ports America	Chandler AZ Properties, LLC
1850 N. Central Ave. – Renewal	Midtown	A	39,055	11-Jul	Stinson Morrison Hecker, LLP	Morgan Stanley & Company, 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.

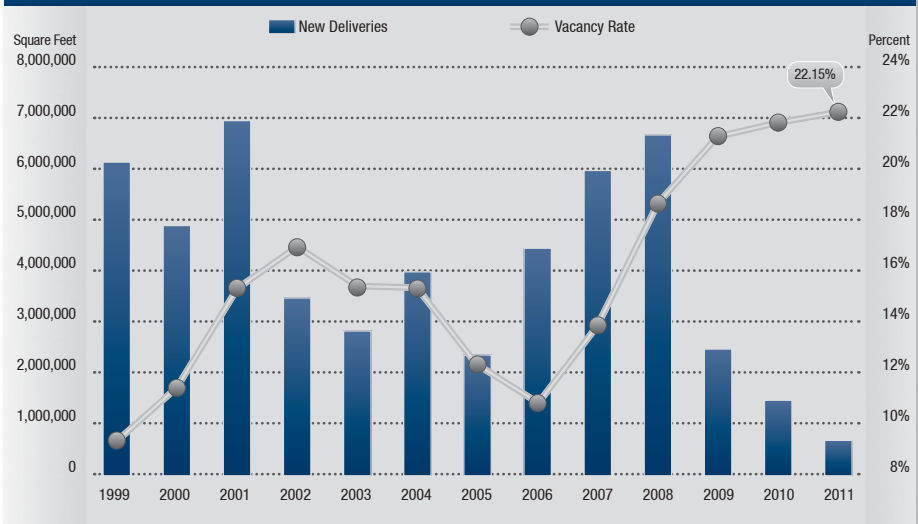
CLASS B

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.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



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