

## Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

Deliveries

FLAT

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### Market Highlights

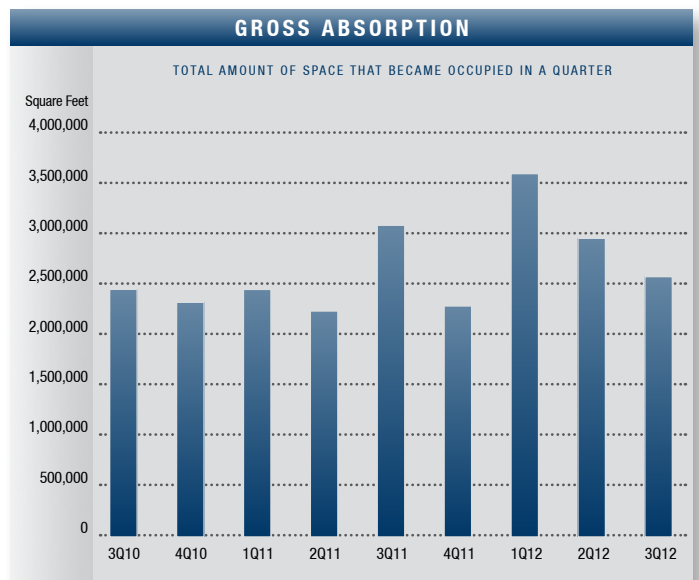
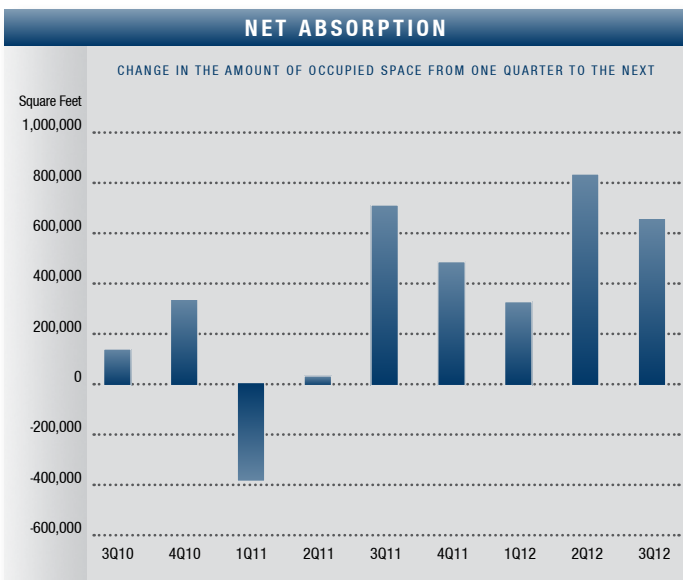
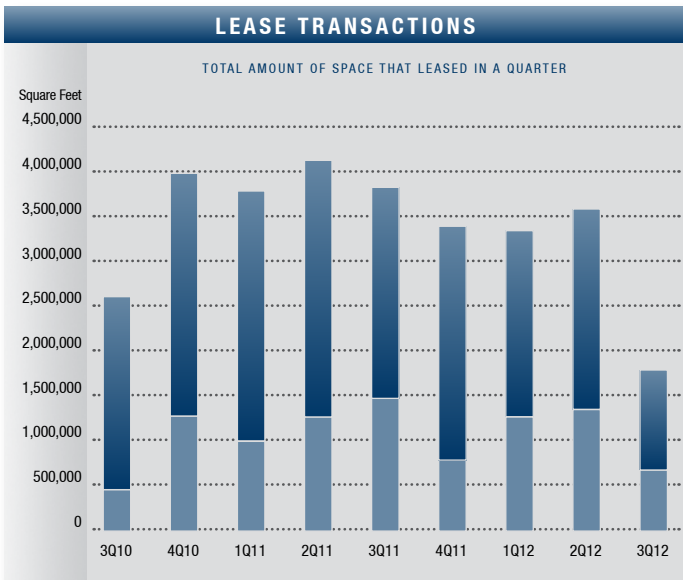
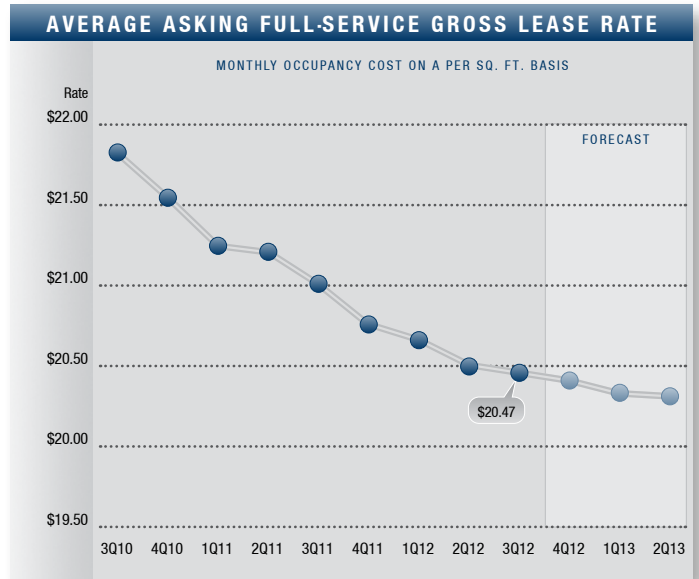
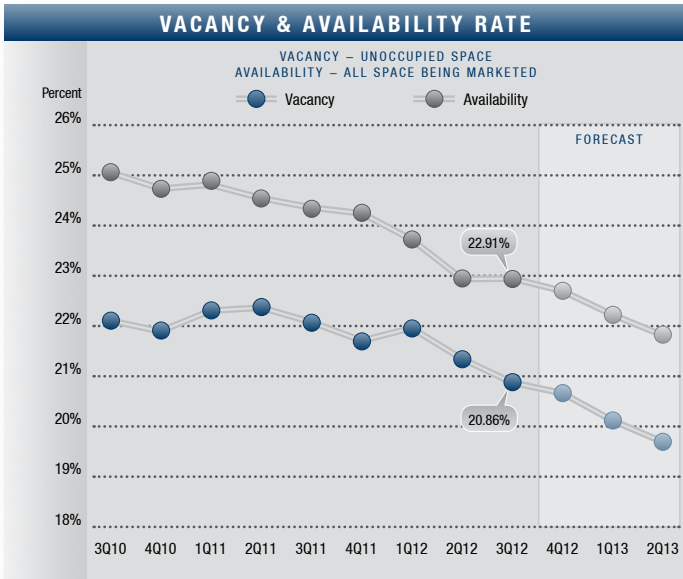
- Continued Patience** - The Phoenix office market continued to convey signs of recovery in the third quarter of 2012. Availability and vacancy both decreased compared to the previous quarter, which is likely to have a positive affect on net absorption in the future. Demand remained healthy in the third quarter, and tenants began signing longer lease commitments. While these are positive indications, continued job growth in the valley will be needed to further release pressure on vacancy and sustain a recovery.
- Construction** - Total space under construction checked in at 374,390 square feet in the third quarter. 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 20.86%, a decrease from the second quarter's rate of 21.36% and down more than a whole percentage point from the previous year's third quarter rate of 22.03%. The Downtown submarket posted the lowest rate in the county, coming in at 14.05%.
- Availability** - Direct / sublease space being marketed was at 22.91% at the end of the third quarter, a slight decrease when compared to the prior quarter's rate of 22.93% and 2011's third quarter rate of 24.33%.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per year in Phoenix was \$20.47 — a decrease of only 3 cents from second quarter 2012's rate of \$20.50. The record high rate of \$25.86 was established in the last quarter of 2007. Class A rates for the county averaged \$23.26 FSG, with the highest figures in downtown submarket where they averaged \$24.23 FSG.
- Absorption** - The Phoenix office market posted 653,893 square feet of positive net absorption in the third quarter,

giving the office market a total of 2.3 million square feet of positive absorption over the last five quarters.

- Transaction Activity** - Leasing activity checked in at just over 1.1 million square feet in the third quarter of 2012, a slight decrease from the previous quarter. Sales activity dropped considerably compared to second quarter 2012, posting 658,635 square feet of activity in the third quarter as compared to 1,140,153 square feet in the second quarter. 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 7.4% in August 2012, a healthy decrease from January's rate of 7.9%. 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 JPMorgan Chase's addition of 1,100 to local staff.
- Overall** - We are beginning to see a decrease in the amount of available space. With few new deliveries in the pipeline to apply additional 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. As unemployment rates drop and consumer confidence stabilizes, the office market will continue to regain equilibrium.

### OFFICE MARKET OVERVIEW

	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Total Vacancy Rate	20.86%	21.36%	22.03%	(5.31%)
Availability Rate	22.91%	22.93%	24.33%	(5.84%)
Average Asking Lease Rate	\$20.47	\$20.50	\$21.02	(2.62%)
Sale & Lease Transactions	1,788,862	3,681,245	3,810,028	(53.05%)
Gross Absorption	2,566,958	2,946,585	3,079,458	(16.64%)
Net Absorption	653,893	830,963	708,391	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 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
<b>Airport Area</b>													
Airport Area	146	9,744,122	0	533,847	1,471,730	15.10%	1,742,747	17.89%	\$19.01	(46,020)	(225,047)	66,611	407,911
South Tempe/Ahwatukee	112	4,982,078	0	1,362,000	1,085,399	21.79%	1,305,510	26.20%	\$19.89	(4,129)	195,741	42,372	411,351
<b>Airport Total</b>	<b>258</b>	<b>14,726,200</b>	<b>0</b>	<b>1,895,847</b>	<b>2,557,129</b>	<b>17.36%</b>	<b>3,048,257</b>	<b>20.70%</b>	<b>\$19.29</b>	<b>(50,149)</b>	<b>(29,306)</b>	<b>108,983</b>	<b>819,262</b>
<b>Central Corridor</b>													
Downtown North	153	12,276,002	95,000	478,488	3,089,537	25.17%	3,543,400	28.86%	\$19.64	82,804	(183,824)	229,854	722,513
Downtown South	65	8,905,970	0	343,770	1,251,117	14.05%	1,384,145	15.54%	\$24.23	(490)	671,367	95,967	847,722
<b>Central Corridor Total</b>	<b>218</b>	<b>21,181,972</b>	<b>95,000</b>	<b>822,258</b>	<b>4,340,654</b>	<b>20.49%</b>	<b>4,927,545</b>	<b>23.26%</b>	<b>\$20.63</b>	<b>82,314</b>	<b>487,543</b>	<b>325,821</b>	<b>1,570,235</b>
<b>East Phoenix</b>													
44th Street Corridor	82	5,759,134	0	0	954,843	16.58%	973,847	16.91%	\$19.76	130,155	257,360	400,772	868,392
Camelback Corridor	135	8,914,046	0	0	2,539,252	28.49%	2,641,923	29.64%	\$23.63	5,474	228,675	169,468	793,371
Midtown/Central Phoenix	128	3,695,767	0	400,000	581,189	15.73%	767,923	20.78%	\$14.98	2,363	58,519	37,483	246,977
<b>East Phoenix Total</b>	<b>345</b>	<b>18,368,947</b>	<b>0</b>	<b>400,000</b>	<b>4,075,284</b>	<b>22.19%</b>	<b>4,383,693</b>	<b>23.86%</b>	<b>\$21.79</b>	<b>137,992</b>	<b>544,554</b>	<b>607,723</b>	<b>1,908,740</b>
<b>East Valley</b>													
Chandler	133	5,195,342	92,109	4,435,703	870,781	16.76%	690,878	13.30%	\$21.89	6,195	52,236	37,983	152,659
Gateway Airport/Loop 202	40	1,075,461	51,300	384,365	364,615	33.90%	370,514	34.45%	\$23.37	(11,245)	18,701	6,421	49,950
Mesa Downtown	36	838,153	114,412	0	197,446	23.56%	184,920	22.06%	\$14.74	(11,640)	(25,342)	0	22,669
Mesa East	69	1,840,885	0	10,156	245,260	13.32%	284,711	15.47%	\$14.65	9,259	12,223	37,471	71,580
Superstition Corridor	143	4,537,368	0	531,348	1,080,848	23.82%	1,184,691	26.11%	\$18.29	93,428	(43,418)	137,427	268,957
Tempe	123	5,232,214	0	378,000	823,042	15.73%	927,280	17.72%	\$19.04	243,320	304,758	305,496	504,477
<b>East Valley Total</b>	<b>544</b>	<b>18,719,423</b>	<b>257,821</b>	<b>5,739,572</b>	<b>3,581,992</b>	<b>19.14%</b>	<b>3,642,994</b>	<b>19.46%</b>	<b>\$19.02</b>	<b>329,317</b>	<b>319,158</b>	<b>524,798</b>	<b>1,070,292</b>
<b>Northwest Phoenix</b>													
Arrowhead	100	2,531,423	21,569	144,719	530,161	20.94%	574,923	22.71%	\$19.41	(59,958)	(35,694)	27,204	107,164
Deer Valley/Airport	129	10,235,063	0	1,191,559	2,182,489	21.32%	2,298,740	22.46%	\$19.50	(84,879)	152,038	75,298	794,768
Northwest Phoenix	229	8,639,518	0	0	2,196,582	25.42%	2,667,361	30.87%	\$17.52	(22,266)	(200,845)	76,862	285,816
<b>Northwest Phoenix Total</b>	<b>458</b>	<b>21,406,004</b>	<b>21,569</b>	<b>1,336,278</b>	<b>4,909,232</b>	<b>22.93%</b>	<b>5,541,024</b>	<b>25.89%</b>	<b>\$18.32</b>	<b>(167,103)</b>	<b>(84,501)</b>	<b>179,364</b>	<b>1,187,748</b>
<b>Paradise Valley</b>													
Paradise Valley	93	3,870,636	0	148,000	953,425	24.63%	995,283	25.71%	\$20.47	55,155	31,650	94,198	238,325
Piestewa Peak Corridor	68	2,911,651	0	105,600	630,449	21.65%	726,712	24.96%	\$17.54	(5,727)	9,682	32,759	201,753
<b>Paradise Valley Total</b>	<b>161</b>	<b>6,782,287</b>	<b>0</b>	<b>253,600</b>	<b>1,583,874</b>	<b>23.35%</b>	<b>1,721,995</b>	<b>25.39%</b>	<b>\$19.03</b>	<b>49,428</b>	<b>41,332</b>	<b>126,957</b>	<b>440,078</b>
<b>Scottsdale</b>													
Central Scottsdale	170	7,375,073	0	887,900	1,498,910	20.32%	1,648,354	22.35%	\$21.01	157,981	184,391	219,359	495,719
Scottsdale Airpark	254	11,492,488	0	471,276	2,465,236	21.45%	2,793,702	24.31%	\$22.86	42,192	162,704	266,694	865,243
Scottsdale South	129	5,366,787	0	329,778	983,038	18.32%	989,687	18.44%	\$20.99	44,429	43,800	124,077	465,190
<b>Scottsdale Total</b>	<b>553</b>	<b>24,234,348</b>	<b>0</b>	<b>1,688,954</b>	<b>4,947,184</b>	<b>20.41%</b>	<b>5,431,743</b>	<b>22.41%</b>	<b>\$21.99</b>	<b>244,602</b>	<b>390,895</b>	<b>610,130</b>	<b>1,826,152</b>
<b>West Phoenix</b>													
Glendale	44	2,301,645	0	336,927	704,718	30.62%	692,213	30.07%	\$22.95	132	126,256	5,608	146,289
Loop 303/Surprise	45	1,155,393	0	203,776	307,737	26.63%	336,480	29.12%	\$22.92	26,151	36,803	37,146	69,458
Southwest Phoenix	41	2,007,277	0	46,652	364,037	18.14%	348,540	17.36%	\$20.49	(596)	(38,450)	0	0
West I-10	50	1,411,055	0	281,779	219,363	15.55%	236,664	16.77%	\$22.19	1,805	11,811	40,428	70,503
<b>West Phoenix Total</b>	<b>180</b>	<b>6,875,370</b>	<b>0</b>	<b>869,134</b>	<b>1,595,855</b>	<b>23.21%</b>	<b>1,613,897</b>	<b>23.47%</b>	<b>\$22.10</b>	<b>27,492</b>	<b>136,420</b>	<b>83,182</b>	<b>286,250</b>
<b>Phoenix Total</b>	<b>2,717</b>	<b>132,294,551</b>	<b>374,390</b>	<b>13,005,643</b>	<b>27,591,204</b>	<b>20.86%</b>	<b>30,311,148</b>	<b>22.91%</b>	<b>\$20.47</b>	<b>653,893</b>	<b>1,806,095</b>	<b>2,566,958</b>	<b>9,108,757</b>
Class A	248	40,590,977	92,109	4,728,970	8,800,610	21.68%	9,457,774	23.30%	\$23.26	491,636	834,053	1,172,692	3,291,465
Class B	1,895	79,669,271	282,281	8,276,673	16,750,137	21.02%	18,359,167	23.04%	\$14.41	145,751	1,039,281	1,250,650	5,336,984
Class C	574	12,034,303	0	0	2,040,457	16.96%	2,494,207	20.73%	\$12.65	16,506	(67,239)	143,616	480,308
<b>Phoenix Total</b>	<b>2,717</b>	<b>132,294,551</b>	<b>374,390</b>	<b>13,005,643</b>	<b>27,591,204</b>	<b>20.86%</b>	<b>30,311,148</b>	<b>22.91%</b>	<b>\$20.47</b>	<b>653,893</b>	<b>1,806,095</b>	<b>2,566,958</b>	<b>9,108,757</b>

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
7689 E. Pinnacle Peak Rd. – 2 Properties	N. Scottsdale	B	140,275	\$54.89	Peaks Corporate Park, LLC	Armed Forces Bank N.A.
1490 S. Price Rd.	Chandler	B	67,248	\$110.78	Global CRES	Mammoth Equities
7425 E. Shea Blvd.	C. Scottsdale	B	42,439	\$153.16	Irgens Development Partners	Frontline Real Estate Partners
1820 E. Ray Rd.	Chandler	B	26,720	\$185.25	Granite Peak Dev, LLC	First Interstate Bank
5656 S. Power Rd.	Gateway/Airport	B	17,384	\$258.28	Little San Juan Ranch, LLC	J.R. McDowell Real Estate, Inc.
1940 & 1950 S. Country Club Dr.	Superstitions Corridor	B	40,125	\$99.44	United Realty MTA, LLC	CWCapital Asset Management

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
444 N. 44th St.	44th St. Corridor	A	138,240	Aug-12	State Farm Insurance	LBA Realty
3200 E. Camelback Rd.	Camelback Corridor	A	29,388	Aug-12	Miller / Russell & Associates	The Muller Company
16404 N. Black Canyon Hwy.	Deer Valley / Airport	B	25,678	Sep-12	Teletech Service Corporation	Pacific Office Properties Trust
8701 E. Hartford Dr.	Scottsdale Airpark	A	24,408	Aug-12	NCU	CWCapital Asset Management
163 N. Dobson Rd.	Tempe	B	24,000	Aug-12	N/A	Islandia Mesa, LLC
4451 E. Oak St.	44th St. Corridor	C	22,240	Aug-12	Avesis	Vasant Abhyankar

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.

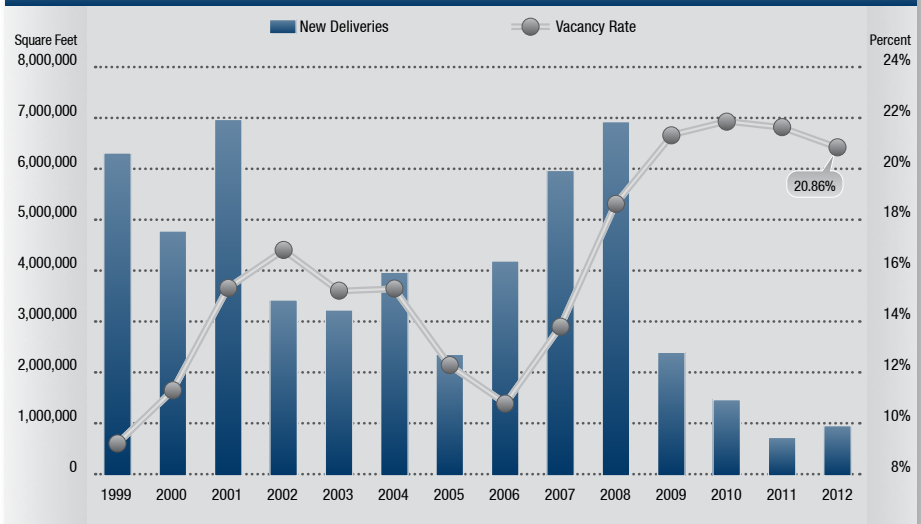
CLASS B

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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