



Retail Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

DOWN

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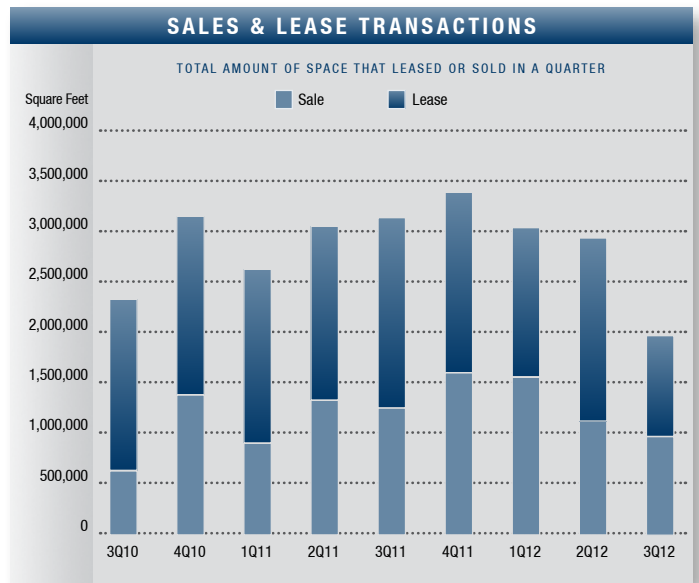
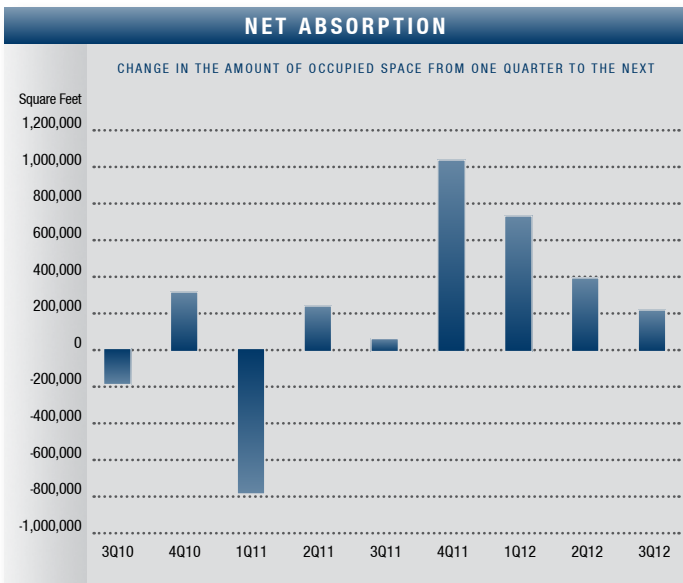
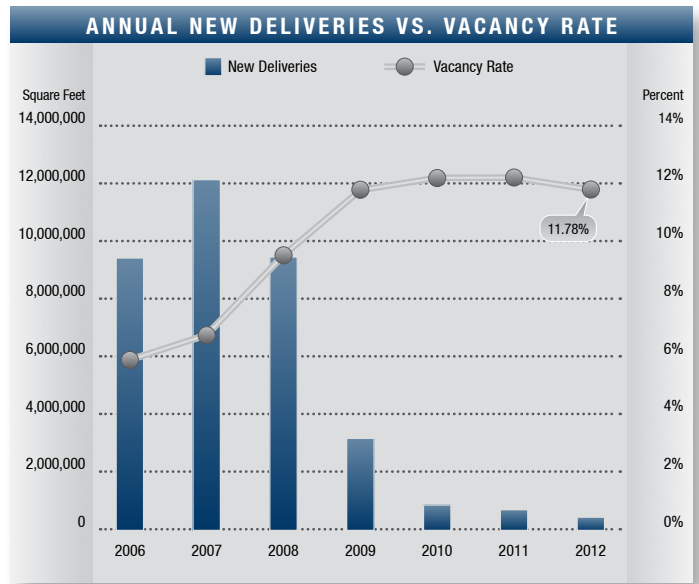
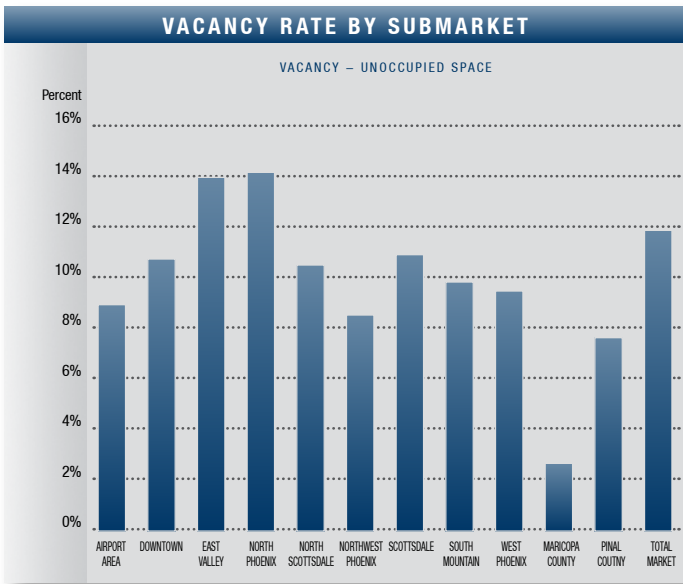
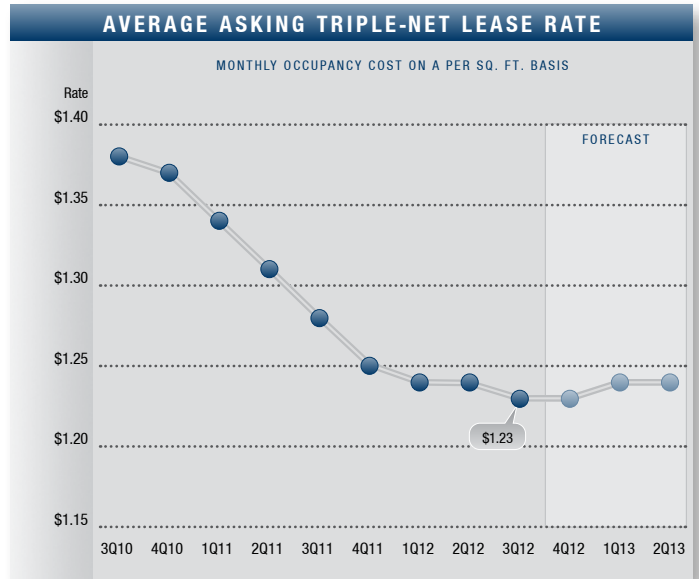
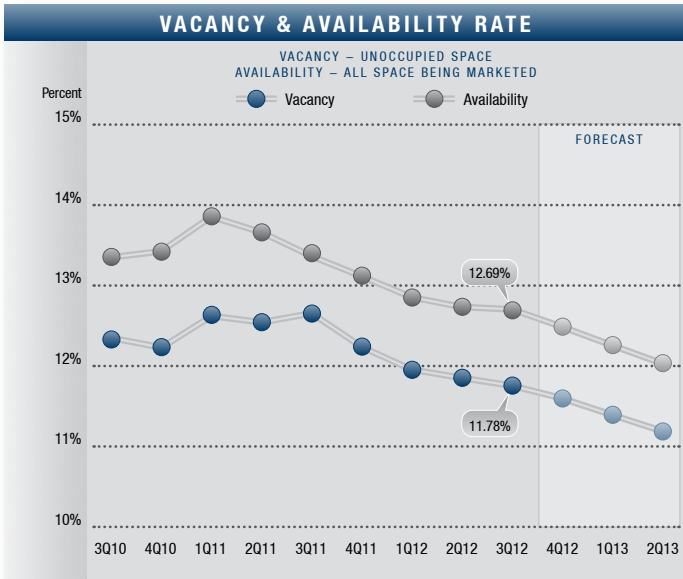
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Market Highlights

- Encouraging Numbers** - The Phoenix retail market continued moving on the path towards recovery in the third quarter of 2012. Both vacancy and availability exhibited decreases, while lease rates held steady. The market also posted over 212,000 square feet of positive absorption, marking the sixth consecutive quarter of positive absorption. While these are positive indications, continued stability and job growth will be needed in coming quarters to further recovery.
- Transaction Activity** - Leasing activity checked in at 1 million square feet, a decrease from the previous quarter's figure of 1.8 million square feet. Sales remained relatively unchanged in the third quarter of 2012, posting 1 million square feet compared to 1.1 million in the previous 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 continuing to see a decrease in the amount of available space being added per quarter, as well as some compression of cap rates for investment sales. Positive 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, relocation funds and tenant improvement allowances should continue in order to motivate tenants to immediate action. We should see an increase in leasing activity as many short-term deals come up for renewal and as job creation continues in 2012. As unemployment rates drop and consumer confidence stabilizes, the retail market will regain equilibrium.
- Vacancy** - Direct/sublease space (unoccupied) finished the third quarter at 11.78%, marking the fourth quarter in a row of decreasing vacancy rates in the valley. The lowest vacancy rates were found in the Northwest Phoenix submarket, at 8.40%, respectively.
- Construction** - There was 909,478 square feet of retail construction underway at the end of third quarter 2012. Look for this to increase in the coming quarters as multiple high-profile projects break ground this year.
- Availability** - Direct/sublease space finished the third quarter at 12.69%, 5 basis points lower than the previous quarter and a decrease of 5.3% when compared to the prior year's third quarter rate of 13.40%.
- Lease Rates** - The average asking triple-net lease rate per month per square foot in Phoenix was at \$1.23 for the third quarter of 2012. It appears as vacancy has come down, rates have stabilized. Look for rates to remain steady and to increase incrementally in some submarkets in coming quarters, as consumer spending increases.
- Absorption** - The Phoenix retail market posted 212,049 square feet of positive net absorption in third quarter 2012, giving the market a total of 2.6 million square feet of positive absorption over the last six quarters.

RETAIL MARKET OVERVIEW

	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Total Vacancy Rate	11.78%	11.85%	12.64%	(6.80%)
Availability Rate	12.69%	12.74%	13.40%	(5.30%)
Average Asking Lease Rate	\$1.23	\$1.24	\$1.28	(3.91%)
Sale & Lease Transactions	1,959,869	2,922,303	3,128,230	(37.35%)
Gross Absorption	1,722,997	2,604,439	2,370,716	(27.32%)
Net Absorption	212,049	396,502	58,485	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
Airport Area													
Airport Area	404	3,894,812	0	558,875	386,156	9.91%	472,426	12.13%	\$1.10	(5,275)	9,060	17,098	103,316
South Tempe/Ahwatukee	212	1,516,077	0	7,400	93,389	6.16%	104,683	6.90%	\$1.20	75,267	86,110	76,394	103,249
Airport Total	616	5,410,889	0	566,275	479,545	8.86%	577,109	10.67%	\$1.12	69,992	95,170	93,492	206,565
Downtown Phoenix													
Downtown Phoenix	688	6,958,456	92,245	23,050	740,435	10.64%	909,847	13.08%	\$1.13	(2,935)	(25,697)	30,648	215,861
Central Corridor Total	688	6,958,456	92,245	23,050	740,435	10.64%	909,847	13.08%	\$1.13	(2,935)	(25,697)	30,648	215,861
East Valley													
Chandler	745	16,568,342	0	602,398	2,426,222	14.64%	2,340,626	14.13%	\$1.15	(107,136)	(238,260)	120,631	557,950
Gateway Airport	108	2,647,954	0	425,744	195,584	7.39%	197,084	7.44%	\$1.22	9,536	(9,594)	17,598	41,280
Gilbert	643	12,872,446	9,500	2,133,746	1,426,479	11.08%	1,437,863	11.17%	\$1.24	34,061	86,202	110,770	387,950
Queen Creek	53	1,388,336	0	103,897	117,241	8.44%	110,741	7.98%	\$1.53	(32,783)	(26,691)	0	19,062
Red Mountain / Mesa	1,641	28,931,180	0	1,064,649	5,085,970	17.58%	5,572,486	19.26%	\$1.12	175,076	281,029	375,090	1,083,676
Tempe	428	8,649,277	0	274,442	668,715	7.73%	723,907	8.37%	\$1.21	27,560	53,851	79,636	228,094
East Valley	3,618	71,057,535	9,500	4,604,876	9,920,211	13.96%	10,382,707	14.61%	\$1.16	106,314	146,537	703,725	2,318,012
North Phoenix													
East Phoenix	656	8,331,460	0	26,600	1,010,477	12.13%	1,182,963	14.20%	\$1.17	47,336	69,302	113,501	290,498
Glendale	721	10,500,712	328,000	286,944	1,303,679	12.42%	1,392,079	13.26%	\$1.33	6,075	42,463	69,685	257,535
N. Phoenix / I-17	788	16,204,741	17,501	13,650	2,573,351	15.88%	2,907,352	17.94%	\$0.94	(38,013)	41,140	84,231	455,173
Sun City	203	3,026,310	0	87,133	459,500	15.18%	450,640	14.89%	\$1.15	(7,283)	33,020	15,451	147,341
North Phoenix	2,368	38,063,223	345,501	414,327	5,347,007	14.05%	5,933,034	15.59%	\$1.11	8,115	185,925	282,868	1,150,547
North Scottsdale													
Carefree	126	1,692,994	0	30,972	230,878	13.64%	243,191	14.36%	\$1.88	(20,687)	(22,733)	9,373	39,365
Fountain Hills	75	665,702	0	85,265	98,573	14.81%	81,517	12.25%	\$1.07	(12,664)	(13,518)	1,608	18,921
North Scottsdale	507	15,040,444	31,941	1,224,012	1,495,414	9.94%	1,553,109	10.33%	\$1.35	36,779	40,622	102,540	484,947
North Scottsdale	708	17,399,140	31,941	1,340,249	1,824,865	10.49%	1,877,817	10.79%	\$1.40	3,428	4,371	113,521	543,233
Northwest Phoenix													
Anthem	109	2,562,147	0	97,100	170,983	6.67%	172,498	6.73%	\$1.43	772	35,795	6,769	56,308
Central Peoria/Arrowhead	413	9,957,592	0	172,948	818,184	8.22%	943,157	9.47%	\$1.26	28,519	264,266	68,479	491,791
Deer Valley	125	2,042,355	0	39,534	219,068	10.73%	234,380	11.48%	\$2.10	(11,079)	52,493	2,693	79,657
Surprise	260	4,775,793	0	1,321,257	415,465	8.70%	395,832	8.29%	\$1.47	(2,456)	(1,658)	31,475	131,124
Northwest Phoenix	907	19,337,887	0	1,630,839	1,623,700	8.40%	1,745,867	9.03%	\$1.42	15,756	350,896	109,416	758,880
Scottsdale													
Central Scottsdale	800	15,538,148	414,000	306,466	1,659,395	10.68%	1,691,259	10.88%	\$1.96	(1,444)	165,504	138,657	573,452
South Scottsdale	379	4,024,345	0	0	462,741	11.50%	561,880	13.96%	\$1.23	(36,305)	5,150	18,977	120,895
Scottsdale	1,179	19,562,493	414,000	306,466	2,122,136	10.85%	2,253,139	11.52%	\$1.77	(37,749)	170,654	157,634	694,347
South Mountain													
Ahwatukee Foothills	162	3,229,031	0	0	293,481	9.09%	326,366	10.11%	\$1.41	33,094	15,451	51,971	113,792
Laveen	56	1,408,138	3,091	628,343	191,806	13.62%	211,185	15.00%	\$1.26	5,481	24,747	8,749	50,793
South Mountain	82	1,626,787	0	0	125,146	7.69%	146,593	9.01%	\$1.24	(5,274)	9,181	6,049	31,173
South Mountain	300	6,263,956	3,091	628,343	610,433	9.75%	684,144	10.92%	\$1.35	33,301	49,379	66,769	195,758
West Phoenix													
Goodyear	193	3,276,416	0	377,621	449,250	13.71%	493,921	15.08%	\$1.17	(3,595)	86,760	25,200	155,856
Loop 101 / I-10	123	2,534,420	0	502,300	251,601	9.93%	239,859	9.46%	\$1.57	(3,260)	(33,220)	9,032	34,617
N. Goodyear / Litchfield	178	4,414,957	0	1,185,008	305,167	6.91%	335,697	7.60%	\$1.61	19,059	184,409	32,689	245,724
North Buckeye	3	92,042	0	345,925	0	0.00%	0	0.00%	\$1.18	0	0	0	0
South Buckeye	72	1,160,950	0	225,023	87,414	7.53%	88,664	7.64%	\$1.43	(10,101)	(2,992)	0	8,109
Tolleson	209	2,398,499	0	72,301	259,254	10.81%	267,442	11.15%	\$1.02	6,471	2,284	13,062	52,336
West Phoenix / Maryville	438	8,294,673	0	0	745,586	8.99%	778,012	9.38%	\$0.84	14,787	70,201	51,861	210,689
West Phoenix	1,216	22,171,957	0	2,708,178	2,098,272	9.46%	2,203,595	9.94%	\$1.20	23,361	307,442	131,844	707,331
Maricopa County													
NE Outlying	2	36,891	0	0	0	0.00%	0	0.00%	\$1.13	0	0	0	0
W Outlying	81	583,323	0	360,000	15,920	2.73%	31,851	5.46%	\$1.13	(1,930)	6,121	2,250	12,551
Maricopa County	83	620,214	0	360,000	15,920	2.57%	31,851	5.14%	\$1.13	(1,930)	6,121	2,250	12,551
Pinal County													
Apache Junction	121	1,561,577	0	107,511	94,160	6.03%	108,135	6.92%	\$0.80	3,559	6,894	7,804	28,829
Outlying Pinal County	733	8,151,845	13,200	3,932,168	635,703	7.80%	778,864	9.55%	\$0.95	(9,163)	39,098	23,026	215,593
Pinal County	854	9,713,422	13,200	4,039,679	729,863	7.51%	886,999	9.13%	\$0.98	(5,604)	45,992	30,830	244,422
Phoenix Total	12,537	216,559,172	909,478	16,622,282	25,512,387	11.78%	27,486,109	12.69%	\$1.23	212,049	1,336,790	1,722,997	7,047,507
Malls	317	24,648,623	0	5,049,608	2,091,590	8.49%	2,347,610	9.52%	\$1.56	17,723	192,098	68,940	432,825
Power Centers	479	20,525,684	0	2,799,846	1,739,667	8.48%	1,771,759	8.63%	\$1.54	166,257	(127,674)	220,664	466,406
Community Centers	1,020	34,651,989	90,000	1,695,163	5,090,622	14.69%	4,978,540	14.37%	\$1.16	81,477	679,286	247,277	1,378,069
Neighborhood Centers	2,236	55,918,628	0	1,942,495	9,278,822	16.59%	9,492,470	16.98%	\$1.16	(17,405)	284,352	547,918	2,113,484
Strip Centers	1,118	13,205,253	31,941	494,435	2,533,746	19.19%	2,606,469	19.74%	\$1.15	(3,069)	(33,977)	199,837	713,785
Specialty Centers	152	5,510,938	328,000	1,791,399	534,474	9.70%	578,514	10.50%	\$2.23	5,513	31,614	15,376	100,085
General Retail	7,215	62,098,057	459,537	2,849,336	4,243,506	6.83%	5,710,747	9.20%	\$1.24	(38,447)	311,091	422,985	1,842,853
Phoenix Total	12,537	216,559,172	909,478	16,622,282	25,512,387	11.78%	27,486,109	12.69%	\$1.23	212,049	1,336,790	1,722,997	7,047,507

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
4609-4735 E. Ray Rd. – 17 Properties	Ahwatukee Foothills	669,975	\$104.92	DDR Corporation	DRA Advisors, LLC
1758-1854 S. Val Vista Dr. – 8 Properties	Red Mountain/Mesa	307,829	\$164.05	Whitestone REIT	Triple Five Development Corporation
20745-20831 N. Scottsdale Rd.	N. Scottsdale	147,084	\$250.78	Scottsdale Grayhawk Center, LLC	The Pederson Group
13802 N. Scottsdale Rd.	N. Scottsdale	161,997	\$126.85	Holualoa Companies	Greg Williams (receiver)
4848 E. Cactus Rd. – 3 Properties	N. Scottsdale	125,898	\$129.47	Whitestone REIT	Cutler Commercial
320-610 E. Bell Rd. – 5 Properties	N. Phoenix	117,498	\$131.07	Whitestone REIT	Lakha Investments

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3460 W. Chandler Blvd.	Chandler	133,200	Aug-12	N/A	The Macerich Company
7333 W. Thomas Rd.	West Phoenix	34,162	Sep-12	Planet Fitness	Westfall, LLC
4735 E. Ray Rd.	Ahwatukee Foothills	30,000	Aug-12	Sprouts	DDR Corporation
13811 N. Tatum Blvd.	N. Scottsdale	28,280	Sep-12	Wild Oats Markets	Paradise Valley Ace, LLC
1346 W. Southern Ave.	Red Mountain/Mesa	18,646	Aug-12	K-MOMO, Inc.	Glendora Landowners
1522 E. Southern Ave.	Tempe	18,523	Jul-12	Planet Fitness	West Valley Properties, Inc.

SUBMARKETS

AIRPORT AREA

Airport Area, South Tempe, Ahwatukee

DOWNTOWN PHOENIX

Downtown Phoenix

EAST VALLEY

Chandler, Gateway Airport, Gilbert,
Queen Creek, Red Mountain, Mesa, Tempe

NORTH PHOENIX

East Phoenix, Glendale,
North Phoenix/I-17, Sun City

NORTH SCOTTSDALE

Carefree, Fountain Hills,
North Scottsdale

NORTHWEST PHOENIX

Anthem, Central Peoria, Arrowhead,
Deer Valley, Surprise

SCOTTSDALE

Central Scottsdale, South Scottsdale

SOUTH MOUNTAIN

Ahwatukee Foothills, Laveen,
South Mountain

WEST PHOENIX

Goodyear, Loop 101/I-10, North Goodyear,
Litchfield, North Buckeye, South Buckeye,
Tolleson, West Phoenix, Maryville

MARICOPA COUNTY

Northeast Outlying, West Outlying

PINAL COUNTY

Apache Junction,
Outlying Pinal County

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