

Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

DOWN

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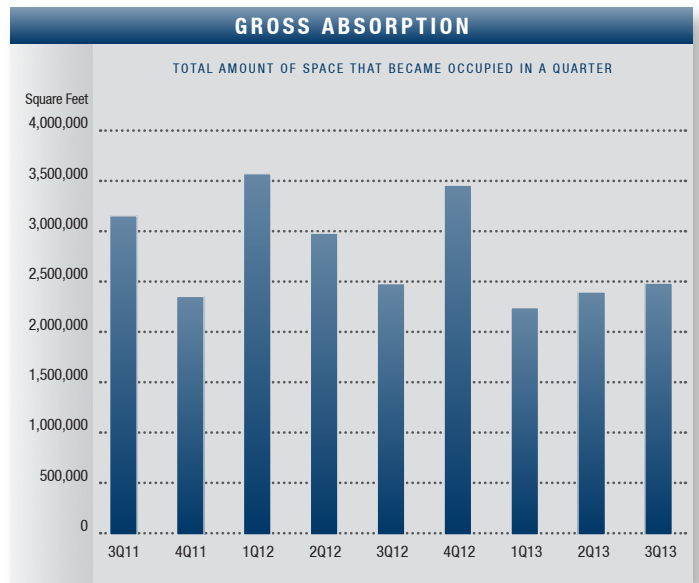
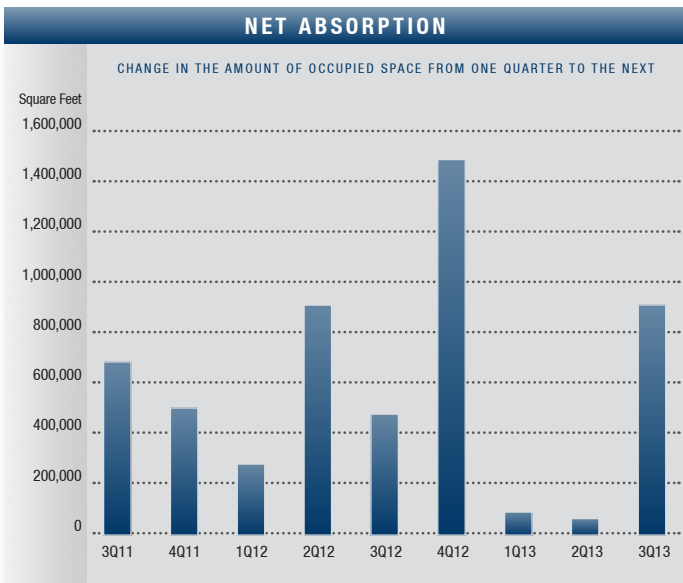
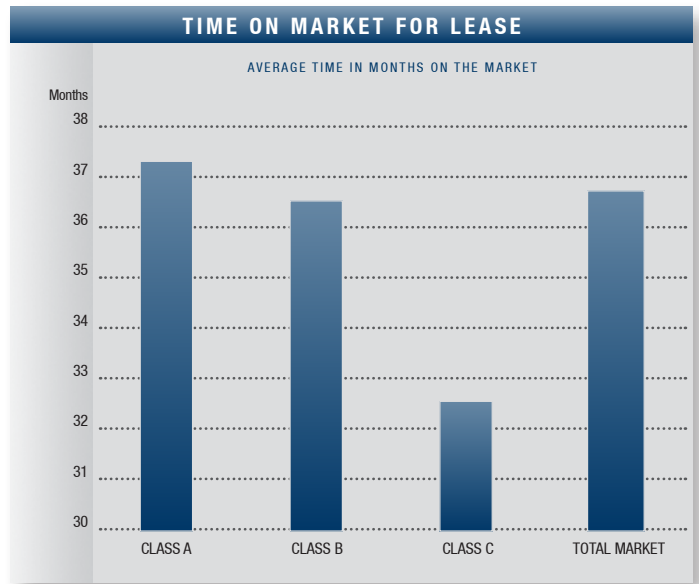
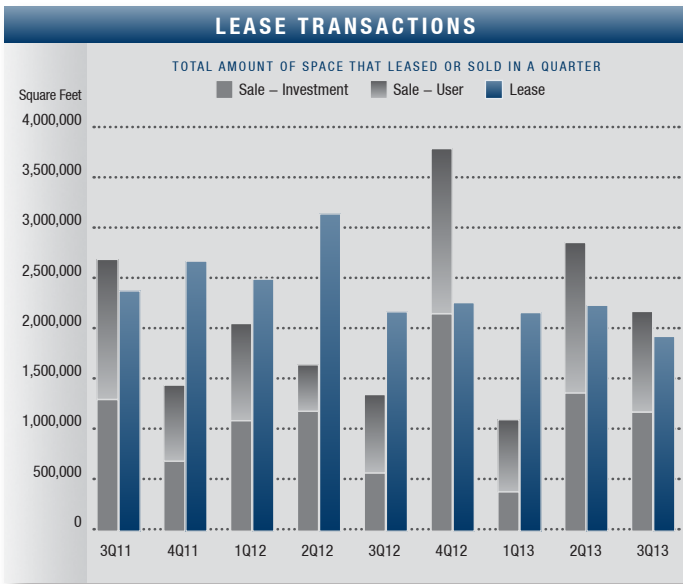
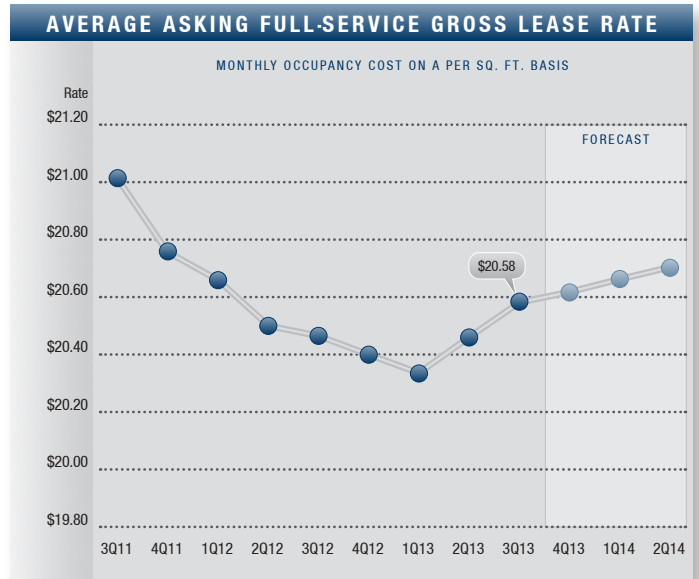
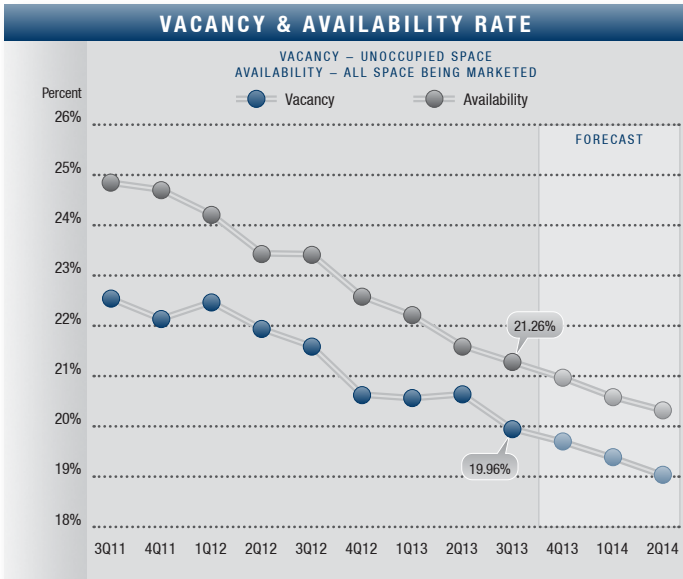
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Market Highlights

- Poised for Growth** - The Phoenix office market continued to convey signs of recovery in the third quarter of 2013, posting just over 900,000 square feet of positive net absorption and giving the market a total of over one million square feet of absorption for the year. Both availability and vacancy continued their downward trends, while lease rates began to trend upward. While these are positive indications, continued job growth in the valley will be needed to further release pressure on vacancy and sustain growth.
- Construction** - Total space under construction checked in at 107,069 square feet in the third quarter, concentrated all in Chandler submarket. The limited office construction has eased 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 19.96%, a decrease from the second quarter's rate of 20.63% and down 7.51% from the previous year's third quarter rate of 21.58%. The East Valley submarket posted the lowest rate in the county, coming in at 17.06%.
- Availability** - Direct/sublease space being marketed was at 21.26% at the end of the third quarter, a decrease of 31 basis points when compared to the prior quarter's rate of 21.57% and down nearly 9.2% from 2012's third quarter rate of 23.41%.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per year in Phoenix was \$20.58 in the third quarter of 2013 — an increase of 12 cents from the second quarter's rate of \$20.46. The record high rate of \$25.86 was established in the last quarter of 2007. Class A rates for the county averaged \$23.50 FSG, while the Camelback Corridor area had the highest average rate of all submarkets, at \$24.20 FSG.
- Absorption** - The Phoenix office market posted 901,778 square feet of positive net absorption in the third quarter, marking the tenth consecutive quarter of positive absorption, totaling 5,326,173 square feet.
- Transaction Activity** - Leasing activity checked in at just over 1.9 million square feet in the third quarter of 2013, a decrease from the previous quarter. Sales activity was up, posting 2.2 million square feet of activity in the third quarter of 2013 compared to the same quarter of last years figure of 1.3 million 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 8.3% in August 2013, an increase from January 2013's rate of 8.0%. Sectors with strong job growth included transportation, information driven by transportation, and financial activities. According to Arizona Department of Administration, August added 39,800 nonfarm jobs—32,000 in government and 8,000 in the education and health services sector.
- Overall** - We are seeing continued decreases in both vacancy and availability as well as substantial positive absorption. With little under construction and extremely few new deliveries in the pipeline, demand is slowly beginning to catch up with supply. Lease rates have begun to increase, an indication that the market is strengthening. We expect rates to continue to gradually increase in the foreseeable future. As unemployment rates continue to drop, the office market will continue strengthen.

OFFICE MARKET OVERVIEW

	3Q13	2Q12	3Q13	% of Change vs. 3Q12
Total Vacancy Rate	19.96%	20.63%	21.58%	(7.51%)
Availability Rate	21.26%	21.57%	23.41%	(9.18%)
Average Asking Lease Rate	\$20.58	\$20.46	\$20.47	0.54%
Sale & Lease Transactions	4,056,265	5,059,505	3,495,441	16.04%
Gross Absorption	2,482,473	2,397,780	2,481,376	0.04%
Net Absorption	901,778	51,887	464,331	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 3Q2013	Square Feet Available	Availability Rate 3Q2013	Average Asking Lease Rate	Net Absorption 3Q2013	Net Absorption 2013	Gross Absorption 3Q2013	Gross Absorption 2013
Airport Area													
Airport Area	149	9,872,763	0	569,444	1,730,296	17.53%	1,827,160	18.51%	\$19.25	(64,915)	(154,735)	41,767	348,552
South Tempe/Ahwatukee	114	5,048,656	0	1,256,001	1,066,468	21.12%	822,360	16.29%	\$19.87	82,911	119,212	132,312	410,418
Airport Total	263	14,921,419	0	1,825,445	2,796,764	18.74%	2,649,520	17.76%	\$19.40	17,996	(35,523)	174,079	758,970
Central Corridor													
Downtown North	154	12,287,387	0	478,488	3,182,691	25.90%	3,382,933	27.53%	\$17.00	123,938	(86,098)	289,442	583,671
Downtown South	66	8,940,810	0	359,770	1,250,524	13.99%	1,449,717	16.21%	\$18.50	29,597	(14,989)	57,178	126,240
Central Corridor Total	220	21,228,197	0	838,258	4,433,215	20.88%	4,832,650	22.77%	\$20.55	153,535	(101,087)	346,620	709,911
East Phoenix													
44th Street Corridor	80	5,656,102	0	0	710,000	12.55%	920,108	16.27%	\$21.10	(1,689)	56,216	32,269	208,645
Camelback Corridor	135	8,840,792	0	0	2,165,636	24.50%	2,216,786	25.07%	\$24.20	16,668	293,944	130,523	683,817
Midtown/Central Phoenix	131	3,742,812	0	117,710	568,346	15.18%	652,695	17.44%	\$15.44	(6,182)	12,736	43,121	139,431
East Phoenix Total	346	18,239,706	0	117,710	3,443,982	18.88%	3,789,589	20.78%	\$22.49	8,797	362,896	205,913	1,031,893
East Valley													
Chandler	142	5,928,811	107,069	6,164,180	900,049	15.18%	952,339	16.06%	\$21.65	234,403	196,963	307,925	448,119
Gateway Airport/Loop 202	44	1,145,489	0	626,365	326,159	28.47%	324,811	28.36%	\$23.19	16,791	74,457	25,185	94,175
Mesa Downtown	36	940,076	0	0	130,262	13.86%	148,166	15.76%	\$14.53	45,425	99,976	51,045	109,489
Mesa East	70	1,860,996	0	10,156	316,066	16.98%	336,623	18.09%	\$12.13	(6,394)	(65,150)	6,354	26,037
Superstition Corridor	144	4,574,873	0	291,448	1,024,235	22.39%	1,149,703	25.13%	\$17.40	(17,017)	(10,945)	94,084	244,333
Tempe	126	5,327,708	0	2,706,662	677,561	12.72%	778,790	14.62%	\$19.31	(10,802)	175,409	102,721	414,482
East Valley Total	562	19,777,953	107,069	9,798,811	3,374,332	17.06%	3,690,432	18.66%	\$18.63	262,406	470,710	587,314	1,336,635
Northwest Phoenix													
Arrowhead	103	2,568,952	0	144,731	539,945	21.02%	565,335	22.01%	\$19.58	10,683	(21,942)	51,990	166,442
Deer Valley/Airport	144	10,657,032	0	1,577,197	2,161,619	20.28%	2,175,677	20.42%	\$20.04	207,400	197,455	254,242	464,571
Northwest Phoenix	225	8,298,459	0	250,000	2,269,726	27.35%	2,542,736	30.64%	\$16.81	33,926	(70,770)	108,736	589,641
Northwest Phoenix Total	472	21,524,443	0	1,971,928	4,971,290	23.10%	5,283,748	24.55%	\$18.02	252,009	104,743	414,968	1,220,654
Paradise Valley													
Paradise Valley	94	3,843,499	0	90,000	846,233	22.02%	913,238	23.76%	\$20.99	8,961	70,574	38,633	195,668
Piestewa Peak Corridor	68	2,912,828	0	0	572,910	19.67%	625,029	21.46%	\$17.40	30,530	46,359	68,888	162,288
Paradise Valley Total	162	6,756,327	0	90,000	1,419,143	21.00%	1,538,267	22.77%	\$19.27	39,491	116,933	107,521	357,956
Scottsdale													
Central Scottsdale	165	7,254,255	0	887,900	1,326,922	18.29%	1,594,629	21.98%	\$21.17	45,470	33,924	179,773	429,343
Scottsdale Airpark	309	12,732,257	0	508,383	2,848,036	22.37%	2,872,323	22.56%	\$23.20	116,623	(70,411)	323,275	763,392
Scottsdale South	124	5,167,184	0	300,000	817,843	15.83%	874,512	16.92%	\$21.49	6,065	49,303	116,833	301,964
Scottsdale Total	598	25,153,696	0	1,696,283	4,992,801	19.85%	5,341,464	21.24%	\$22.35	168,158	12,816	619,881	1,494,699
West Phoenix													
Glendale	47	2,342,465	0	443,250	651,325	27.81%	661,173	28.23%	\$23.13	7,469	25,971	7,469	40,781
Loop 303/Surprise	46	1,323,334	0	121,276	272,759	20.61%	308,954	23.35%	\$23.02	2,019	20,762	5,469	35,005
Southwest Phoenix	43	2,065,265	0	24,408	353,452	17.11%	349,427	16.92%	\$20.58	(10,572)	35,653	45	58,547
West I-10	50	1,436,393	0	279,404	186,405	12.98%	211,550	14.73%	\$21.97	470	18,763	13,194	70,225
West Phoenix Total	186	7,167,457	0	868,338	1,463,941	20.42%	1,531,104	21.36%	\$22.20	(614)	101,149	26,177	204,558
Phoenix Total	2,809	134,769,198	107,069	17,206,773	26,895,468	19.96%	28,656,774	21.26%	\$20.58	901,778	1,032,637	2,482,473	7,115,276
Class A	250	40,876,635	107,069	7,161,567	7,910,615	19.35%	8,790,690	21.51%	\$23.50	132,019	369,421	489,616	2,142,674
Class B	1,977	81,799,350	0	10,045,206	16,831,876	20.58%	17,716,446	21.66%	\$18.83	774,676	774,027	1,863,113	4,574,679
Class C	582	12,093,213	0	0	2,152,977	17.80%	2,149,638	17.78%	\$13.06	(4,917)	(110,811)	129,744	397,923
Phoenix Total	2,809	134,769,198	107,069	17,206,773	26,895,468	19.96%	28,656,774	21.26%	\$20.58	901,778	1,032,637	2,482,473	7,115,276

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 Per SF	Buyer	Seller
3200 E. Camelback Rd.	Camelback Corridor	A	258,348	\$165.56	DPC Development Companies	The Muller Company
6811 E. Mayo Blvd.	Scottsdale Airpark	A	156,629	\$246.44	Artis REIT	Miller Global Properties, LLC
16430 N. Scottsdale Rd.	Scottsdale Airpark	A	175,441	\$167.01	Pacific Coast Capital Partners, LLC	Cornerstone Real Estate Advisors, Inc.
2151 E. Broadway Rd.	East Valley	A	164,126	\$165.12	GLL Real Estate Partners, LLC	LaSalle Investment Management, Inc.
2149 W. Dunlap Ave.	Northwest Phoenix	B	111,957	\$205.70	Cole Corporate Income Trust, Inc.	LBA Realty
14646 N. Kierland Blvd.	Scottsdale Airpark	A	78,905	\$193.27	Waitt Company	DPC Development Companies

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
2118 E. Elliot Rd.	South Tempe	B	166,127	Aug-13	State Farm Insurance	Northwood Investors, LLC
15111 N. Pima Rd.	Scottsdale Airpark	A	135,847	Jul-13	Vanguard	CW Capital Asset Management, LLC
2104 E. Elliot Rd.	South Tempe	C	133,044	Aug-13	State Farm Insurance	Northwood Investors, LLC
1850 N. Central Ave.	Midtown	A	50,119	Jul-13	Dickinson Wright, LLC	McCarthy Cook
19001 N. Scottsdale Rd.	Scottsdale Airpark	A	50,000	Jul-13	GIS Direct	Dial Corporation
2455 S. 7th St.	Southwest Phoenix	B	38,739	Aug-13	Arizona Dept. of Economic Security	Harrison Development, LLC

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.

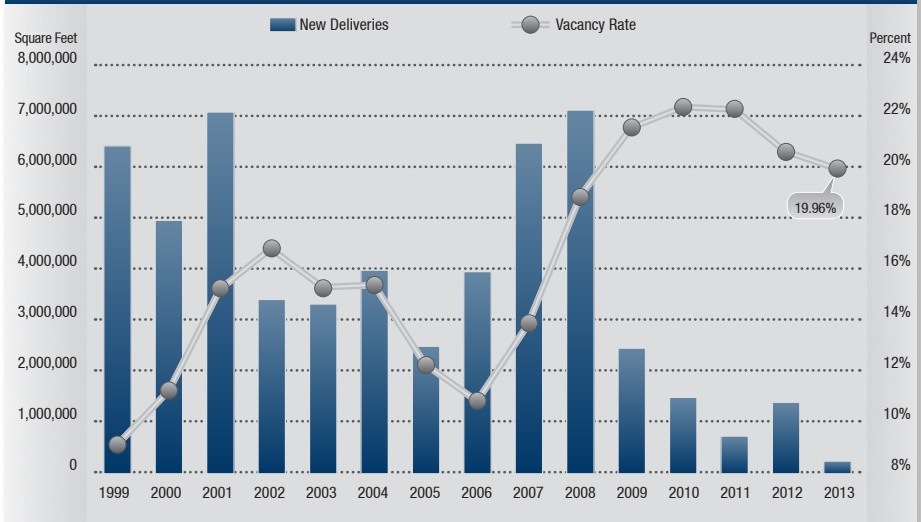
CLASS B

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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702.734.4500

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