

Office Market Report

Compared to 2009:

Vacancy



Net Absorption



Lease Rates



Transactions



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Market Highlights

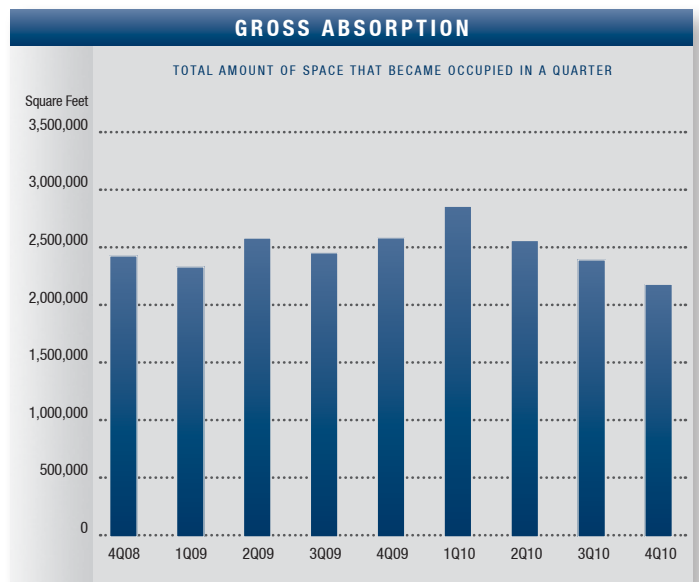
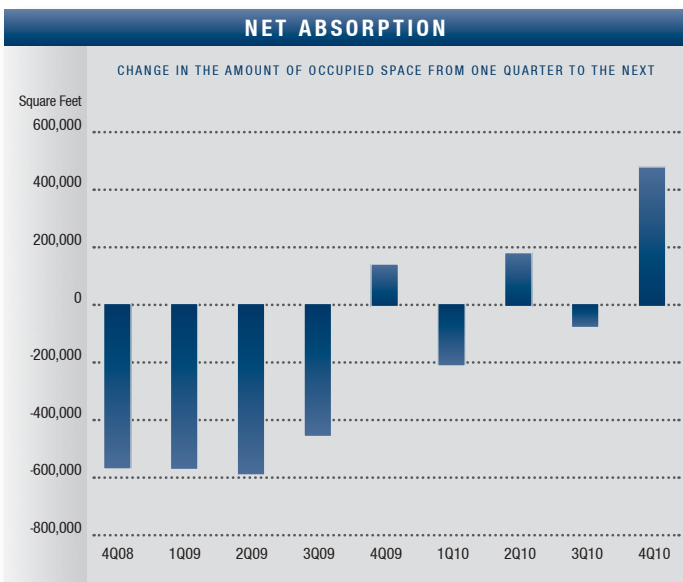
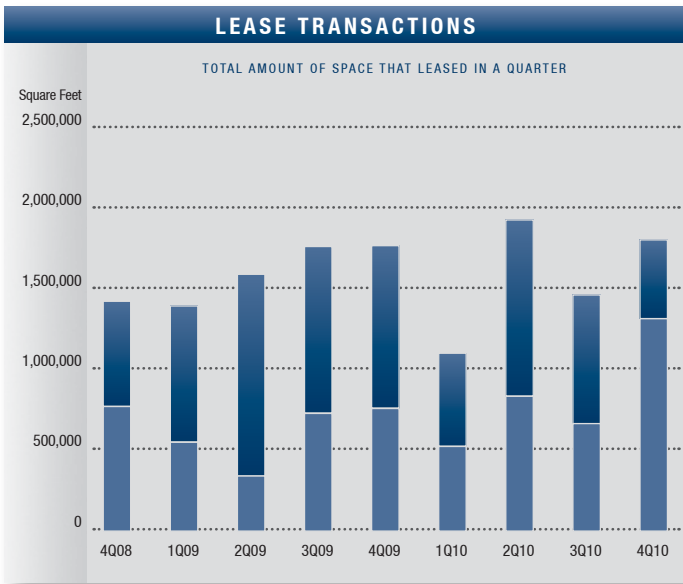
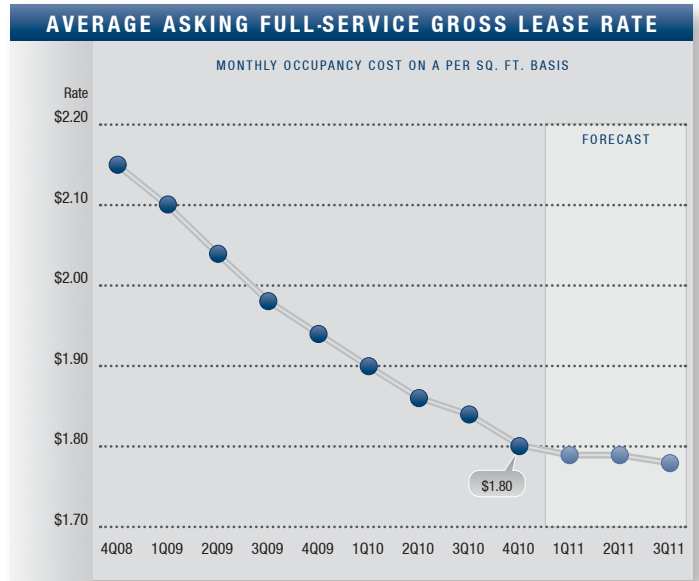
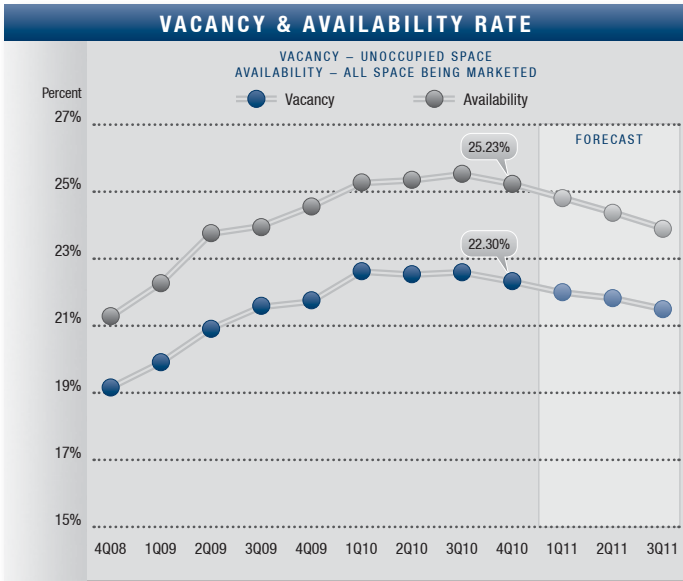
- Encouraging Numbers** - The numbers this quarter appear to be encouraging — a sign that recovery could be on the horizon. Availability and vacancy exhibited a slight decrease in the last quarter of 2010, and net absorption posted a small amount of positive absorption for the year. Demand has picked up, with Labor Day marking the beginning of a renewed interest in sales transactions and tenants are 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 718,728 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 year at 22.30%, an increase over last year's rate of 21.77% and lower than last quarter's figure of 22.64%. The Airport market posted the lowest rate in the county, coming in at 16.28%.
- Availability** - Direct/sublease space being marketed was at 25.23% at the end of 2010, a decrease of 30 basis points when compared to last quarter and only a 2.77% increase from 2009's figure of 24.55%.
- Lease Rates** - The average asking Full Service Gross (FSG) lease rate per square foot per month in Phoenix was \$1.80 — a 7.22% decrease over 2009's rate of \$1.94 and four 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 \$2.04 FSG, with East Phoenix noting the highest asking rates, averaging \$1.89 FSG.
- Absorption** - Net absorption for the county posted 476,683 square feet of positive absorption for fourth quarter of

2010, giving the office market a total of 372,547 square feet of positive absorption for 2010.

- Transaction Activity** - Leasing activity checked in at 2.98 million square feet for 2010, mainly a result of short-term deals coupled with lease renegotiations. Sales activity showed an increase since 2009, posting 3.29 million square feet of activity in 2010 as compared to 2009's 2.32 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 8.5% in November 2010, the same as from a revised 8.5% in October 2010 and higher than a year ago estimate of 8.3%. This compares with an unadjusted unemployment rate of 9.4% for Arizona and 9.3% 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 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 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

	2010	2009	2008	% CHANGE vs. 2009
Vacancy Rate	22.30%	21.77%	19.13%	2.43%
Availability Rate	25.23%	24.55%	21.28%	2.77%
Average Asking Lease Rate	\$1.80	\$1.94	\$2.15	(7.22%)
Sale & Lease Transactions	6,269,602	6,475,025	7,309,569	(3.17%)
Gross Absorption	9,991,186	9,938,228	12,457,174	0.53%
Net Absorption	372,547	(1,457,591)	(296,749)	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 4Q2010	Square Feet Available	Availability Rate 4Q2010	Average Asking Lease Rate	Net Absorption 4Q2010	Net Absorption 2010	Gross Absorption 4Q2010	Gross Absorption 2010
Airport Area													
Airport Area	143	8,779,154	439,070	0	1,092,881	12.45%	1,493,912	17.02%	\$1.66	61,960	172,077	114,748	532,479
South Tempe/Ahwatukee	111	4,538,420	0	98,286	1,074,663	23.68%	1,611,079	35.50%	\$1.78	21,942	4,110	77,647	327,909
Airport Total	254	13,317,574	439,070	98,286	2,167,544	16.28%	3,104,991	23.31%	\$1.71	83,902	176,187	192,395	860,388
Central Corridor													
Downtown North	146	11,825,359	0	482,188	2,593,618	21.93%	2,960,046	25.03%	\$1.64	(83,490)	(346,066)	112,574	557,463
Downtown South	76	8,551,687	0	0	1,830,912	21.41%	2,139,519	25.02%	\$2.14	63,302	105,693	107,071	671,260
Central Corridor Total	222	20,377,046	0	482,188	4,424,530	21.71%	5,099,565	25.03%	\$1.82	(20,188)	(240,373)	219,645	1,228,723
East Phoenix													
44th Street Corridor	77	5,561,039	0	0	1,156,499	20.80%	1,306,139	23.49%	\$1.79	59,242	39,170	112,861	340,293
Camelback Corridor	136	8,945,436	0	0	2,623,958	29.33%	3,048,800	34.08%	\$2.03	17,127	(196,497)	172,576	895,355
Midtown/Central Phoenix	122	3,456,722	0	449,400	589,478	17.05%	752,150	21.76%	\$1.23	16,650	(8,989)	41,460	179,456
East Phoenix Total	335	17,963,197	0	449,400	4,369,935	24.33%	5,107,089	28.43%	\$1.89	93,019	(166,316)	326,897	1,415,104
East Valley													
Chandler	137	5,329,816	45,900	3,480,922	1,035,216	19.42%	1,031,941	19.36%	\$1.82	243,842	257,835	289,501	668,846
Gateway Airport/Loop 202	44	1,214,663	16,500	683,533	440,389	36.26%	444,865	36.62%	\$2.03	66,417	132,977	76,527	159,324
Mesa Downtown	32	789,724	0	0	147,603	18.69%	159,604	20.21%	\$1.20	17,357	25,187	18,289	48,564
Mesa East	79	2,292,975	0	235,828	396,266	17.28%	430,334	18.77%	\$1.83	(12,616)	(12,596)	14,998	69,588
Superstition Corridor	154	5,074,450	0	851,509	1,215,977	23.96%	1,270,282	25.03%	\$1.52	13,992	128,998	90,287	437,280
Tempe	111	4,482,600	0	312,000	1,028,259	22.94%	1,027,435	22.92%	\$1.85	9,582	(61,718)	66,202	449,246
East Valley Total	557	19,184,228	62,400	5,563,792	4,263,710	22.23%	4,364,461	22.75%	\$1.74	338,574	470,683	555,804	1,832,848
Northwest Phoenix													
Arrowhead	98	2,501,520	0	366,988	525,155	20.99%	519,605	20.77%	\$1.80	8,573	3,471	41,981	195,947
Deer Valley/Airport	144	10,046,421	210,202	1,605,949	2,126,198	21.16%	2,469,707	24.58%	\$1.77	31,412	(186,239)	99,377	396,647
Northwest Phoenix	176	6,994,057	0	21,290	1,619,474	23.16%	1,791,001	25.61%	\$1.53	(154,025)	(200,840)	47,523	399,445
Northwest Phoenix Total	418	19,541,998	210,202	1,994,227	4,270,827	21.85%	4,780,313	24.46%	\$1.65	(114,040)	(383,608)	188,881	992,039
Paradise Valley													
Paradise Valley	96	3,900,899	0	190,000	942,241	24.15%	1,011,783	25.94%	\$1.93	35,806	24,094	89,728	321,822
Piestewa Peak Corridor	69	2,925,383	0	105,600	533,567	18.24%	661,425	22.61%	\$1.50	(731)	(67,672)	23,505	150,791
Paradise Valley Total	165	6,826,282	0	295,600	1,475,808	21.62%	1,673,208	24.51%	\$1.74	35,075	(43,578)	113,233	472,613
Scottsdale													
Central Scottsdale	181	7,751,037	0	438,900	1,893,413	24.43%	2,110,127	27.22%	\$1.86	(37,805)	(145,080)	55,967	438,704
Scottsdale Airpark	309	12,742,936	0	466,290	3,381,379	26.54%	3,607,969	28.31%	\$1.91	102,051	467,083	311,234	1,624,431
Scottsdale South	135	5,578,187	0	209,778	1,213,754	21.76%	1,361,948	24.42%	\$1.70	(57,494)	8,523	108,867	569,517
Scottsdale Total	625	26,072,160	0	1,114,968	6,488,546	24.89%	7,080,044	27.16%	\$1.86	6,752	330,526	476,068	2,632,652
West Phoenix													
Glendale	43	2,084,389	0	380,443	708,658	34.00%	759,888	36.46%	\$2.08	51,983	179,134	66,465	231,167
Loop 303/Surprise	43	1,091,523	0	383,223	349,780	32.05%	339,764	31.13%	\$2.12	(13,588)	14,044	7,010	93,212
Southwest Phoenix	88	3,112,279	0	109,921	463,161	14.88%	508,810	16.35%	\$1.33	9,404	51,102	15,342	149,935
West I-10	49	1,412,471	7,056	301,224	226,312	16.02%	227,635	16.12%	\$1.77	5,790	(15,254)	23,102	82,505
West Phoenix Total	223	7,700,662	7,056	1,174,811	1,747,911	22.70%	1,836,097	23.84%	\$1.87	53,589	229,026	111,919	556,819
Phoenix Total	2,799	130,983,147	718,728	11,173,272	29,208,811	22.30%	33,045,768	25.23%	\$1.80	476,683	372,547	2,184,842	9,991,186
Class A	261	41,802,485	439,070	3,372,801	10,422,169	24.93%	11,467,348	27.43%	\$2.04	412,993	592,567	875,616	3,716,271
Class B	1,945	76,857,285	279,658	7,800,471	16,779,912	21.83%	19,321,129	25.14%	\$1.61	153,690	(15,018)	1,193,899	5,628,124
Class C	593	12,323,377	0	0	2,006,730	16.28%	2,257,291	18.32%	\$1.14	(90,000)	(205,002)	115,327	646,791
Class Total	2,799	130,983,147	718,728	11,173,272	29,208,811	22.30%	33,045,768	25.23%	\$1.80	476,683	372,547	2,184,842	9,991,186

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
2201 & 2231 E. Camelback Rd.	Camelback	A	337,450	\$154.10	DW Capital Partners, LLC	Transwestern Investment Company
222 S. Mill Ave.	Tempe	A	259,171	\$135.05	Vulcan, Inc.	US Bancorp
4722 & 4742 N. 24th St.	Camelback	A	327,511	\$83.20	McCarthy Cook	TIAA-CREF
7878 N. 16th St.	Piestewa Peak	B	176,718	\$117.42	Rosemont Realty	Buchanan Street Partners
3333 & 3335 N. Central Ave.	Downtown North	B	95,558	\$212.44	Velocity US Properties, Inc.	The Hamstra Group, Inc.
2420 W. Baseline Rd.	Airport	B	105,000	\$190.48	Ricerca Biosciences, LLC	MDS Pharma Services, Inc.

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
41240 S. Price Rd.	Chandler	A	188,730	June 1st	eBay, Inc.	The Delta Corporation
4425 E. Cotton Center Blvd.	Airport	B	165,000	December 16th	United Healthcare	Liberty Property Trust
2512 W. Dunlap Ave.	Northwest Phoenix	A	135,114	December 29th	Cognizant	Northridge Capital
2444 W. Las Palmaritas Dr. – Renewal	Northwest Phoenix	B	126,084	March 1st	Blue Cross/Blue Shield of Arizona	Northridge Capital
25600 N. Norterra Pky.	Deer Valley/Airport	A	116,325	November 1st	CIGNA Corporation	USAA Real Estate Estate Company
25500 N. Norterra Pky.	Deer Valley/Airport	A	116,325	November 1st	CIGNA Corporation	USAA Real Estate Estate Company

Product Type

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