

## Office Market Report

Compared to 2010:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

UP

Deliveries

DOWN

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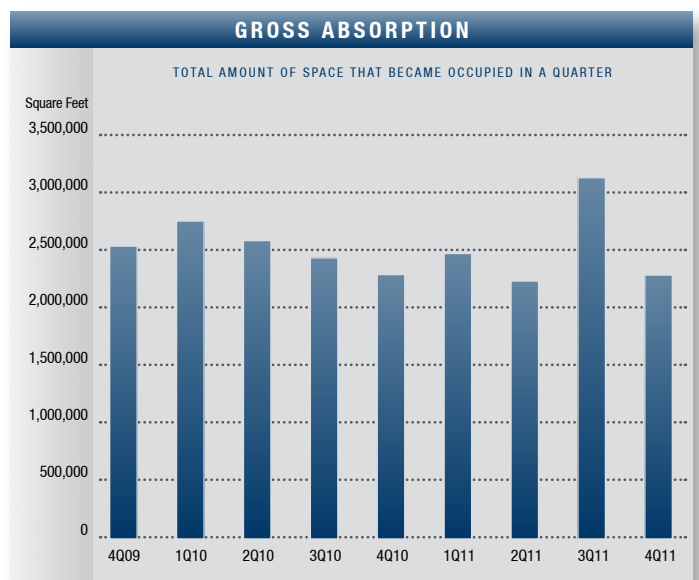
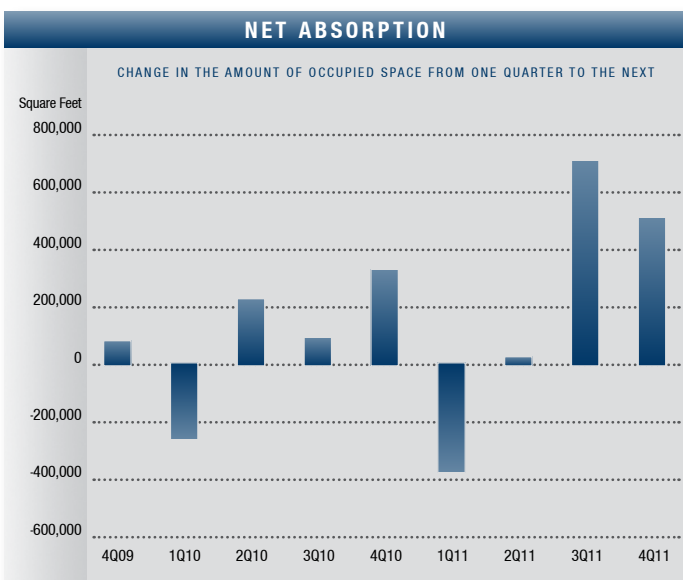
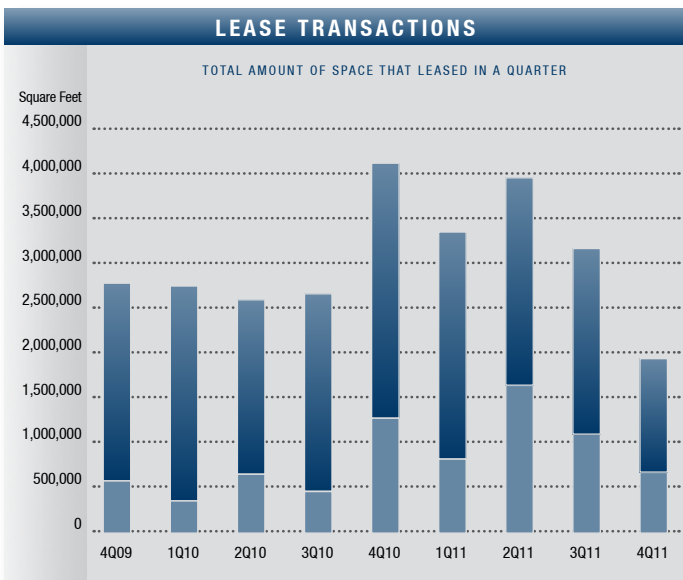
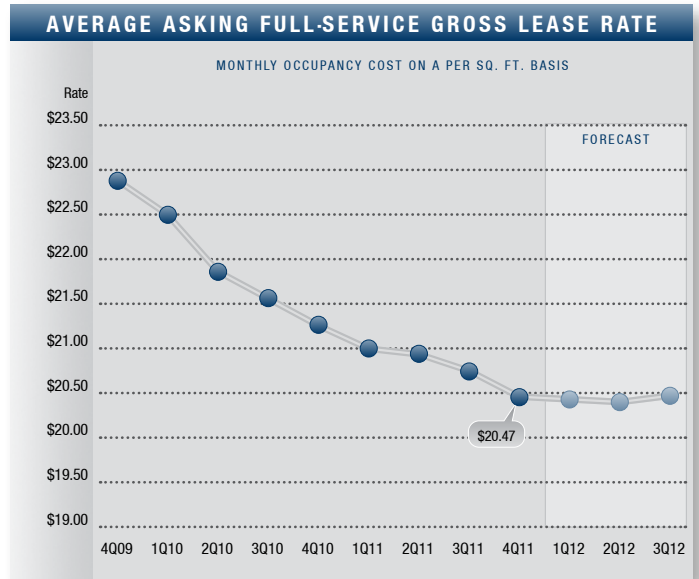
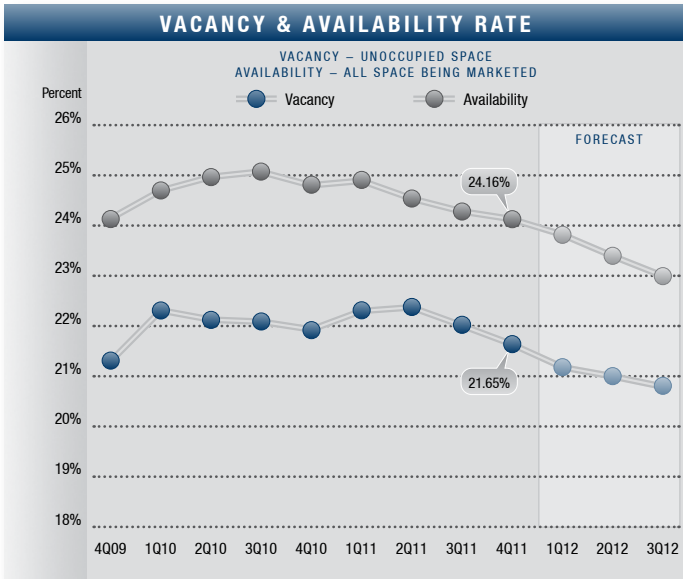
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### Market Highlights

- Encouraging Numbers** - 2011's numbers were encouraging—a sign that recovery could be on the horizon. Vacancy and availability exhibited slight decreases in 2011. Demand slightly picked up compared to 2010, 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 401,230 square feet in the fourth 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 year at 21.65%, a decrease from 2010's fourth quarter rate of 21.90% as well as from the previous quarter's figure of 22.02%. The Airport market posted the lowest rate in the county, coming in at 17.67%.
- Availability** - Direct/sublease space being marketed was at 24.16% at the end of 2011, a slight decrease when compared to the prior years rate of 24.78%.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per year in Phoenix was \$20.47—a decrease from 2010's fourth quarter rate of \$21.28 and twenty seven cents lower than 2011's third quarter's rate. The record high rate of \$25.86 was established in the last quarter of 2007. Class A rates for the county averaged \$23.37 FSG, with the highest figures in East Phoenix where they averaged \$22.34 FSG.
- Absorption** - The Phoenix office market posted 503,688 square feet of positive net absorption in fourth quarter, giving 2011 a total of 859,930 square feet of positive net absorption—over double 2010's total of 402,408 square feet.
- Transaction Activity** - Leasing activity checked in at just over 8.19 million square feet for 2011, mainly a result of short-term deals coupled with lease renegotiations. Sales activity showed a significant increase over 2010, posting 4,139,525 square feet of activity as compared to 2010's 2,623,694 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 7.7% in November 2011, down from a revised 8.1% in October 2011. This compares with an unadjusted unemployment rate of 8.7% for Arizona and 8.2% 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 2012. As unemployment rates drop and consumer confidence stabilizes, the office market will continue to regain equilibrium.

### OFFICE MARKET OVERVIEW

	2011	2010	2009	% of Change vs. 2010
Vacancy Rate	21.65%	21.90%	21.34%	(1.14%)
Availability Rate	24.16%	24.78%	24.14%	(2.50%)
Average Asking Lease Rate	\$20.47	\$21.28	\$22.89	(3.81%)
Sale & Lease Transactions	12,330,296	12,059,992	10,372,929	2.24%
Gross Absorption	10,079,244	10,038,882	9,553,812	0.40%
Net Absorption	859,930	402,408	(1,647,107)	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 4Q2011	Square Feet Available	Availability Rate 4Q2011	Average Asking Lease Rate	Net Absorption 4Q2011	Net Absorption 2011	Gross Absorption 4Q2011	Gross Absorption 2011
<b>Airport Area</b>													
Airport Area	144	9,500,926	0	0	1,242,519	13.08%	1,645,862	17.32%	\$19.11	157,602	317,257	232,579	1,040,304
South Tempe/Ahwatukee	112	4,757,686	0	73,800	1,277,114	26.84%	1,228,008	25.81%	\$12.00	10,100	(214,071)	84,330	394,351
<b>Airport Total</b>	<b>256</b>	<b>14,258,612</b>	<b>0</b>	<b>73,800</b>	<b>2,519,633</b>	<b>17.67%</b>	<b>2,873,870</b>	<b>20.16%</b>	<b>\$19.40</b>	<b>167,702</b>	<b>103,186</b>	<b>316,909</b>	<b>1,434,655</b>
<b>Central Corridor</b>													
Downtown North	151	12,162,242	0	478,488	2,926,643	24.06%	3,641,611	29.94%	\$19.41	(66,563)	(274,415)	178,407	518,267
Downtown South	66	8,316,101	0	0	1,279,229	15.38%	1,431,753	17.22%	\$24.38	17,241	503,683	83,194	987,631
<b>Central Corridor Total</b>	<b>217</b>	<b>20,478,343</b>	<b>0</b>	<b>478,488</b>	<b>4,205,872</b>	<b>20.54%</b>	<b>5,073,364</b>	<b>24.77%</b>	<b>\$20.63</b>	<b>(49,322)</b>	<b>229,268</b>	<b>261,601</b>	<b>1,505,898</b>
<b>East Phoenix</b>													
44th Street Corridor	81	5,674,295	0	0	1,137,067	20.04%	1,533,161	27.02%	\$20.81	(24,838)	61,306	24,308	474,602
Camelback Corridor	136	8,918,792	0	0	2,708,824	30.37%	2,872,980	32.21%	\$24.20	69,806	(114,833)	249,982	854,345
Midtown/Central Phoenix	130	3,697,363	71,250	443,200	672,032	18.18%	775,977	20.99%	\$14.61	1,673	(67,825)	50,622	189,863
<b>East Phoenix Total</b>	<b>347</b>	<b>18,290,450</b>	<b>71,250</b>	<b>443,200</b>	<b>4,517,923</b>	<b>24.70%</b>	<b>5,182,118</b>	<b>28.33%</b>	<b>\$22.34</b>	<b>46,641</b>	<b>(121,352)</b>	<b>324,912</b>	<b>1,518,810</b>
<b>East Valley</b>													
Chandler	133	5,187,732	0	3,523,846	923,617	17.80%	925,284	17.84%	\$22.66	119,226	270,316	151,196	477,269
Gateway Airport/Loop 202	42	1,124,560	16,500	406,125	425,108	37.80%	417,108	37.09%	\$23.90	27,615	30,129	27,615	88,620
Mesa Downtown	35	828,934	0	0	171,664	20.71%	213,252	25.73%	\$14.05	11,911	(1,695)	16,723	23,423
Mesa East	70	1,876,861	0	10,156	289,525	15.43%	310,378	16.54%	\$13.57	12,782	(15,751)	18,151	51,515
Superstition Corridor	143	4,600,191	0	471,248	1,033,240	22.46%	1,117,597	24.29%	\$18.48	(7,037)	76,219	92,177	398,688
Tempe	123	5,275,815	69,230	108,000	1,109,469	21.03%	1,140,173	21.61%	\$21.04	14,791	110,543	54,127	415,174
<b>East Valley Total</b>	<b>546</b>	<b>18,894,093</b>	<b>85,730</b>	<b>4,519,375</b>	<b>3,952,623</b>	<b>20.92%</b>	<b>4,123,792</b>	<b>21.83%</b>	<b>\$14.60</b>	<b>179,288</b>	<b>469,761</b>	<b>359,989</b>	<b>1,454,689</b>
<b>Northwest Phoenix</b>													
Arrowhead	103	2,584,972	0	108,342	549,004	21.24%	567,365	21.95%	\$19.90	(8,438)	(17,736)	41,669	148,337
Deer Valley/Airport	127	9,847,576	210,202	1,451,559	1,935,673	19.66%	2,124,699	21.58%	\$20.02	(5,797)	(158,344)	56,757	442,410
Northwest Phoenix	227	8,406,248	0	0	1,984,836	23.61%	2,350,791	27.96%	\$16.79	24,902	(3,014)	171,006	739,516
<b>Northwest Phoenix Total</b>	<b>457</b>	<b>20,838,796</b>	<b>210,202</b>	<b>1,559,901</b>	<b>4,469,513</b>	<b>21.45%</b>	<b>5,042,855</b>	<b>24.20%</b>	<b>\$18.19</b>	<b>10,667</b>	<b>(179,094)</b>	<b>269,432</b>	<b>1,330,263</b>
<b>Paradise Valley</b>													
Paradise Valley	94	3,885,394	0	138,000	981,275	25.26%	1,071,631	27.58%	\$20.49	2,286	(70,920)	68,529	223,425
Piestewa Peak Corridor	70	2,935,470	0	105,600	640,131	21.81%	729,229	24.84%	\$17.71	(78,701)	(130,827)	36,525	169,022
<b>Paradise Valley Total</b>	<b>164</b>	<b>6,820,864</b>	<b>0</b>	<b>243,600</b>	<b>1,621,406</b>	<b>23.77%</b>	<b>1,800,860</b>	<b>26.40%</b>	<b>\$19.16</b>	<b>(76,415)</b>	<b>(201,747)</b>	<b>105,054</b>	<b>392,447</b>
<b>Scottsdale</b>													
Central Scottsdale	173	7,558,414	0	887,900	1,675,639	22.17%	1,799,113	23.80%	\$21.24	35,132	166,124	121,639	626,715
Scottsdale Airpark	253	11,464,051	0	463,000	2,664,346	23.24%	2,930,894	25.57%	\$23.22	116,030	320,613	286,972	1,080,537
Scottsdale South	132	5,424,980	0	179,778	1,053,446	19.42%	1,173,991	21.64%	\$21.09	138,888	157,422	214,615	502,722
<b>Scottsdale Total</b>	<b>558</b>	<b>24,447,445</b>	<b>0</b>	<b>1,530,678</b>	<b>5,393,431</b>	<b>22.06%</b>	<b>5,903,998</b>	<b>24.15%</b>	<b>\$22.18</b>	<b>290,050</b>	<b>644,159</b>	<b>623,226</b>	<b>2,209,974</b>
<b>West Phoenix</b>													
Glendale	45	2,181,421	0	236,927	804,605	36.88%	737,370	33.80%	\$20.96	(56,874)	(95,948)	1,633	35,373
Loop 303/Surprise	45	1,141,532	34,048	214,201	310,492	27.20%	341,289	29.90%	\$23.67	(4,388)	48,320	10,239	91,896
Southwest Phoenix	41	1,947,841	0	82,784	279,723	14.36%	288,523	14.81%	\$24.05	2,000	(65,049)	2,000	3,250
West I-10	50	1,447,254	0	258,279	231,174	15.97%	226,540	15.65%	\$22.01	(5,661)	28,426	7,836	101,989
<b>West Phoenix Total</b>	<b>181</b>	<b>6,718,048</b>	<b>34,048</b>	<b>792,191</b>	<b>1,625,994</b>	<b>24.20%</b>	<b>1,593,722</b>	<b>23.72%</b>	<b>\$22.21</b>	<b>(64,923)</b>	<b>(84,251)</b>	<b>21,708</b>	<b>232,508</b>
<b>Phoenix Total</b>	<b>2,726</b>	<b>130,746,651</b>	<b>401,230</b>	<b>9,641,233</b>	<b>28,306,395</b>	<b>21.65%</b>	<b>31,594,579</b>	<b>24.16%</b>	<b>\$20.47</b>	<b>503,688</b>	<b>859,930</b>	<b>2,282,831</b>	<b>10,079,244</b>
Class A	248	40,641,265	0	3,676,308	9,539,091	23.47%	10,543,572	25.94%	\$23.37	115,333	917,333	823,208	4,180,569
Class B	1,891	77,819,020	401,230	5,964,925	16,801,534	21.59%	18,784,967	24.14%	\$19.47	256,246	(178,938)	1,249,499	5,180,871
Class C	587	12,286,366	0	0	1,965,770	16.00%	2,266,040	18.44%	\$13.79	132,109	121,535	210,124	717,804
<b>Class Total</b>	<b>2,726</b>	<b>130,746,651</b>	<b>401,230</b>	<b>9,641,233</b>	<b>28,306,395</b>	<b>21.65%</b>	<b>31,594,579</b>	<b>24.16%</b>	<b>\$20.47</b>	<b>503,688</b>	<b>859,930</b>	<b>2,282,831</b>	<b>10,079,244</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.

LARGEST TRANSACTIONS OF 2011

Sale Transactions

Property Address	Submarket	Class	Square Feet	Sale Price PSF	Buyer	Seller
4025 S. Riverpoint Pkwy. – 3 Buildings	Airport	B	599,664	\$283.49	Cole Real Estate Investments	Apollo Group
1625 W. Fountainhead Pkwy. – 2 Buildings	Airport	A	439,070	\$312.02	KBS Realty Advisors	USAA Real Estate Company
19601 N. 27th Ave. – 3 Buildings	Deer Valley	B	365,672	\$280.31	Cole Real Estate Investments	Prudential Real Estate Investors
1850 N. Central Ave.	Midtown	A	482,108	\$116.16	Morgan Stanley & Co.	McCarthy Cook
1820 E. Sky Harbor Cir.	Airport	B	396,179	\$135.04	CBRE Global Investors	Brookfield Real Estate Opportunity Fund
4000 N. Central Ave.	Central Corridor	B	723,908	\$65.75	Angelo, Gordon & Co.	Pacific Office Properties Trust, Inc.

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
4025 S. Riverpoint Pkwy.	Airport	B	643,104	11-Mar	Apollo Group	Cole Real Estate Investments
1 N. Central Ave.	Downtown	A	205,130	11-Apr	Phoenix Law School	Mitsubishi Estate New York, Inc.
3200 W. Ray Rd. – Renewal	South Tempe	A	133,317	11-Feb	Lexus Financial Services	Wells Real Estate Funds
8075 S. River Pkwy.	South Tempe	B	133,225	11-Nov	US Foods	Piedmont Realty Trust
2394 E. Camelback Rd.	Camelback	A	121,000	11-Sep	Fennemore Craig	Florida State Board of Administration
17600 N. Perimeter Dr.	Scottsdale Airpark	A	119,681	11-Aug	Fender Musical Instruments Corp.	The Macerich Company

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.

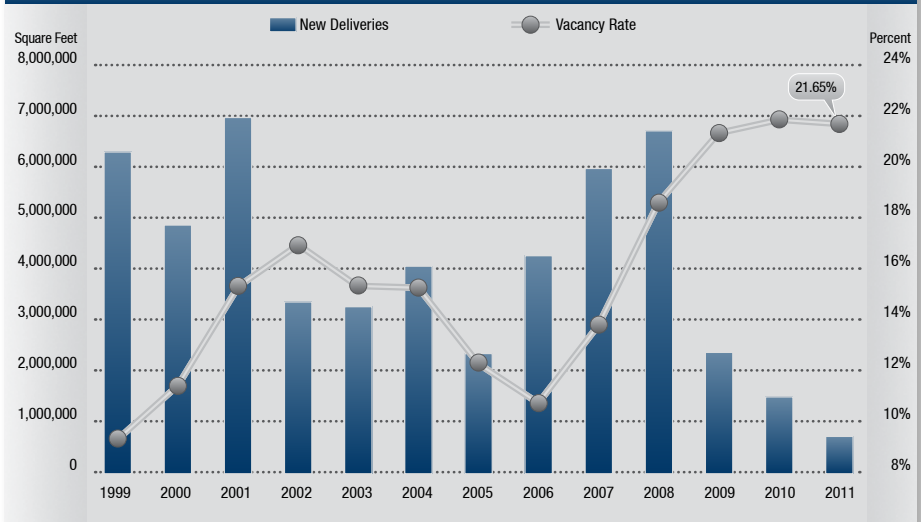
CLASS B

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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