

## Office Market Report

Compared to 2011:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

UP

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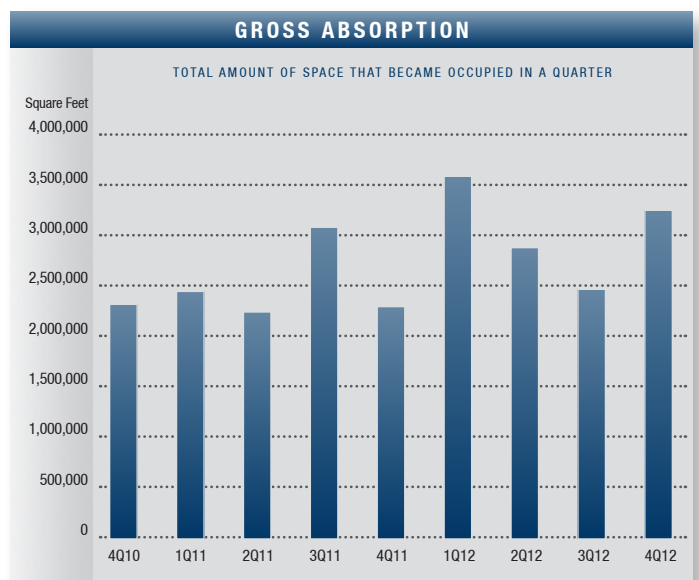
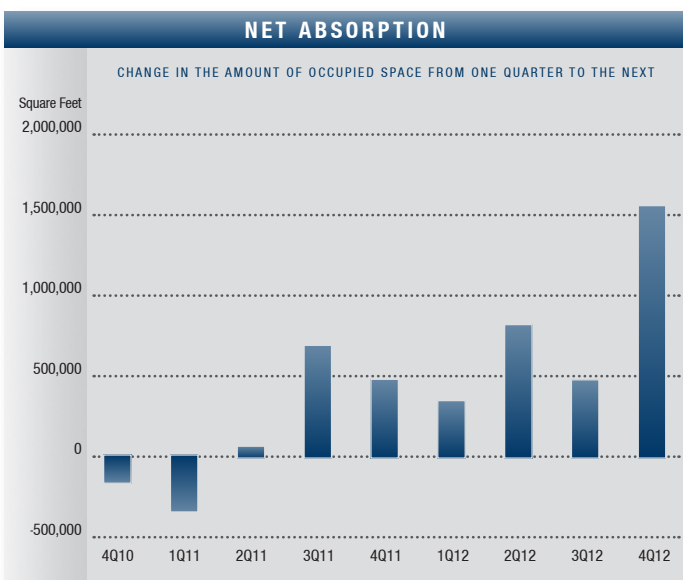
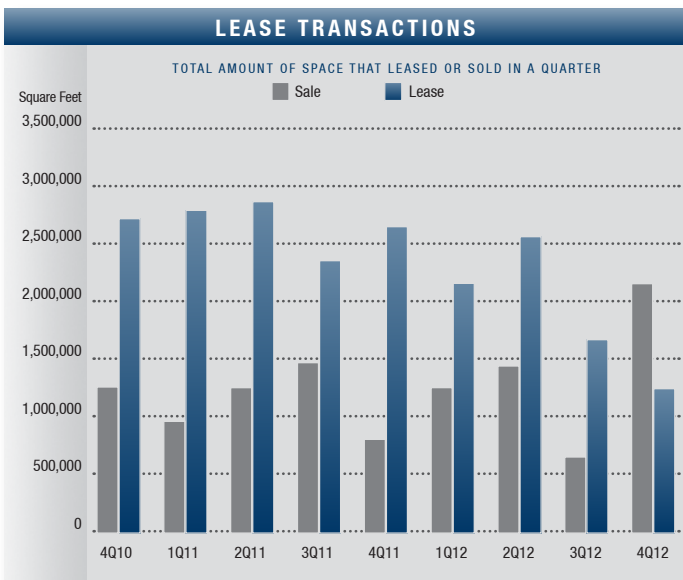
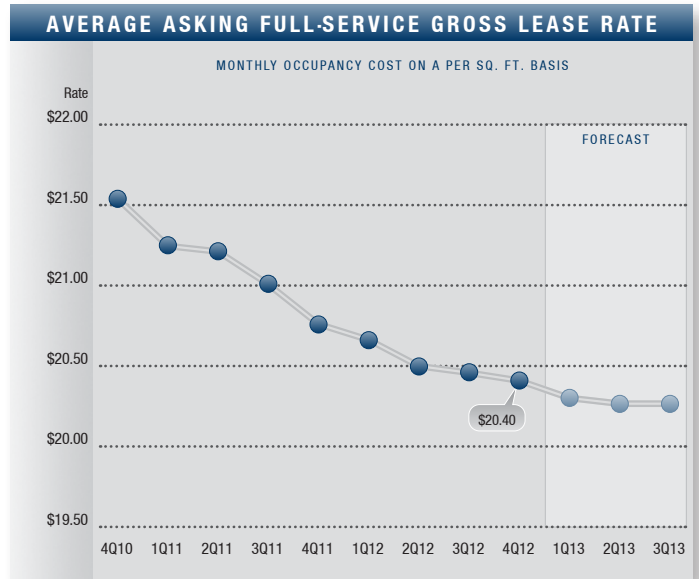
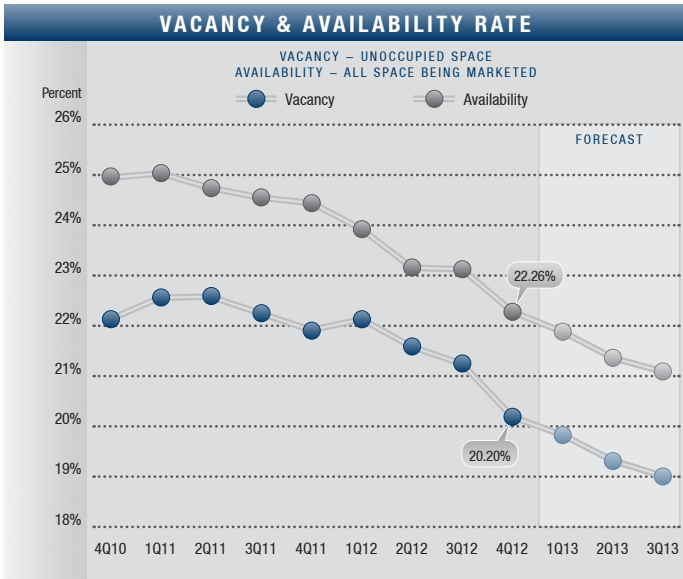
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### Market Highlights

- Poised for Growth** - The Phoenix office market continued to convey signs of a strong recovery in the fourth quarter of 2012. Availability and vacancy both decreased from the previous quarter, which is likely to have a positive affect on net absorption in the future. Demand remained healthy in the fourth quarter. 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 375,482 square feet in the fourth 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 20.20%, a dramatic decrease from the third quarter's rate of 21.25% and down more than a whole percentage point from the previous year's fourth quarter rate of 21.89%. The Downtown submarket posted the lowest rate in the county, coming in at 14.16%.
- Availability** - Direct/sublease space being marketed was at 22.26% at the end of the fourth quarter, a healthy decrease when compared to the prior quarter's rate of 23.14% and 2011's fourth quarter rate of 24.46%.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per year in Phoenix was \$20.40 in the last quarter of 2012 — a decrease of only 7 cents from the third quarter's rate of \$20.47. The record high rate of \$25.86 was established in the last quarter of 2007. Class A rates for the county averaged \$23.34 FSG, with the highest figures in downtown submarket where they averaged \$24.25 FSG.
- Absorption** - The Phoenix office market posted 1,555,262 square feet of positive net absorption in the fourth quarter, giving the office market a total of nearly 3.2 million square feet of positive absorption over the last four quarters.
- Transaction Activity** - Leasing activity checked in at just over 1.2 million square feet in the fourth quarter of 2012, a slight decrease from the previous quarter. Sales activity exploded in the fourth quarter, posting over 2 million square feet of activity, the most seen since the third quarter of 2007. 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 6.9% in October 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. According to PPR, office-using employment in Phoenix is forecasted to grow by a cumulative 16% over the next four years, adding around 75,000 jobs, poising Phoenix to be one of the fastest growing office markets in the country.
- Overall** - We are seeing continued decreases in both vacancy and availability as well as substantial positive absorption. With little under construction and few new deliveries in the pipeline, demand is slowly beginning to catch up with supply. Lease rates are beginning to slow their rate of decent, an indication that they may be nearing a bottom. We expect rates to begin increasing in 2014. We foresee a continued increase in investment activity in the coming quarters as lenders continue to dispose of distressed assets. As unemployment rates continue to drop, the office market will continue strengthen.

### OFFICE MARKET OVERVIEW

	2012	2011	2010	% of Change vs. 2011
Vacancy Rate	20.20%	21.89%	22.16%	(7.72%)
Availability Rate	22.26%	24.46%	24.99%	(8.99%)
Average Asking Lease Rate	\$20.40	\$20.76	\$21.54	(1.73%)
Sale & Lease Transactions	13,055,102	15,128,510	11,816,924	(13.71%)
Gross Absorption	12,159,937	10,032,196	10,023,858	21.21%
Net Absorption	3,187,382	889,264	(102,327)	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 4Q2012	Square Feet Available	Availability Rate 4Q2012	Average Asking Lease Rate	Net Absorption 4Q2012	Net Absorption 2012	Gross Absorption 4Q2012	Gross Absorption 2012
<b>Airport Area</b>													
Airport Area	147	9,819,238	139,403	394,444	1,443,138	14.70%	1,682,835	17.14%	\$18.47	49,692	(179,755)	197,140	605,351
South Tempe/Ahwatukee	114	5,047,624	0	1,362,000	1,036,436	20.53%	1,356,161	26.87%	\$20.34	46,963	244,704	67,189	478,540
<b>Airport Total</b>	<b>261</b>	<b>14,866,862</b>	<b>139,403</b>	<b>1,756,444</b>	<b>2,479,574</b>	<b>16.68%</b>	<b>3,038,996</b>	<b>20.44%</b>	<b>\$19.04</b>	<b>96,655</b>	<b>64,949</b>	<b>264,329</b>	<b>1,083,891</b>
<b>Central Corridor</b>													
Downtown North	155	12,443,304	0	478,488	3,087,693	24.81%	3,192,745	25.66%	\$19.49	33,876	(91,680)	241,249	910,148
Downtown South	65	8,905,970	0	343,770	1,261,354	14.16%	1,356,614	15.23%	\$24.25	(10,237)	661,130	28,446	876,168
<b>Central Corridor Total</b>	<b>220</b>	<b>21,349,274</b>	<b>0</b>	<b>822,258</b>	<b>4,349,047</b>	<b>20.37%</b>	<b>4,549,359</b>	<b>21.31%</b>	<b>\$20.60</b>	<b>23,639</b>	<b>569,450</b>	<b>269,695</b>	<b>1,786,316</b>
<b>East Phoenix</b>													
44th Street Corridor	83	5,769,394	0	0	748,618	12.98%	860,066	14.91%	\$19.47	306,026	414,871	369,557	1,137,053
Camelback Corridor	135	8,924,871	0	0	2,467,938	27.65%	2,477,108	27.76%	\$23.53	73,231	314,088	272,763	1,081,981
Midtown/Central Phoenix	128	3,695,767	0	270,000	584,347	15.81%	698,346	18.90%	\$15.55	(9,674)	55,361	40,505	287,482
<b>East Phoenix Total</b>	<b>346</b>	<b>18,390,032</b>	<b>0</b>	<b>270,000</b>	<b>3,800,903</b>	<b>20.67%</b>	<b>4,035,520</b>	<b>21.94%</b>	<b>\$21.78</b>	<b>369,583</b>	<b>784,320</b>	<b>682,825</b>	<b>2,506,516</b>
<b>East Valley</b>													
Chandler	136	5,831,874	68,867	4,420,286	1,166,449	20.00%	1,199,267	20.56%	\$22.00	311,843	365,077	375,474	529,433
Gateway Airport/Loop 202	41	1,091,673	34,800	384,365	378,031	34.63%	384,838	35.25%	\$23.37	3,084	21,785	22,216	72,166
Mesa Downtown	36	837,485	114,412	0	187,154	22.35%	194,772	23.26%	\$14.76	9,174	(15,050)	21,874	45,661
Mesa East	69	1,841,311	0	10,156	250,916	13.63%	286,610	15.57%	\$13.24	(5,656)	6,567	16,531	88,111
Superstition Corridor	143	4,536,232	0	271,348	997,219	21.98%	1,190,105	26.24%	\$17.81	50,757	(9,078)	124,109	364,088
Tempe	123	5,232,214	0	378,000	823,812	15.74%	882,993	16.88%	\$18.92	22,730	303,988	113,642	617,598
<b>East Valley Total</b>	<b>548</b>	<b>19,370,789</b>	<b>218,079</b>	<b>5,464,155</b>	<b>3,803,581</b>	<b>19.64%</b>	<b>4,138,585</b>	<b>21.37%</b>	<b>\$18.80</b>	<b>391,932</b>	<b>673,289</b>	<b>673,846</b>	<b>1,717,057</b>
<b>Northwest Phoenix</b>													
Arrowhead	102	2,565,373	0	144,719	542,037	21.13%	575,546	22.44%	\$19.32	(5,545)	(21,303)	37,294	161,679
Deer Valley/Airport	129	10,234,040	0	1,191,559	2,163,439	21.14%	2,339,519	22.86%	\$19.89	46,566	171,088	86,384	881,152
Northwest Phoenix	228	8,469,204	0	0	2,097,409	24.77%	2,454,390	28.98%	\$17.28	91,862	(101,672)	199,245	491,200
<b>Northwest Phoenix Total</b>	<b>459</b>	<b>21,268,617</b>	<b>0</b>	<b>1,336,278</b>	<b>4,802,885</b>	<b>22.58%</b>	<b>5,369,455</b>	<b>25.25%</b>	<b>\$18.41</b>	<b>132,883</b>	<b>48,113</b>	<b>322,923</b>	<b>1,534,031</b>
<b>Paradise Valley</b>													
Paradise Valley	92	3,844,636	0	148,000	895,835	23.30%	958,174	24.92%	\$20.71	40,074	63,454	87,275	318,411
Piestewa Peak Corridor	68	2,911,651	0	105,600	618,069	21.23%	731,621	25.13%	\$17.46	10,840	22,062	76,153	279,446
<b>Paradise Valley Total</b>	<b>160</b>	<b>6,756,287</b>	<b>0</b>	<b>253,600</b>	<b>1,513,904</b>	<b>22.41%</b>	<b>1,689,795</b>	<b>25.01%</b>	<b>\$19.11</b>	<b>50,914</b>	<b>85,516</b>	<b>163,428</b>	<b>597,857</b>
<b>Scottsdale</b>													
Central Scottsdale	170	7,372,457	0	887,900	1,423,278	19.31%	1,591,019	21.58%	\$20.94	77,780	266,400	180,195	676,390
Scottsdale Airpark	254	11,483,682	0	471,276	2,289,284	19.94%	2,657,869	23.14%	\$22.74	244,283	341,810	427,508	1,242,318
Scottsdale South	128	5,322,817	0	329,778	891,520	16.75%	934,325	17.55%	\$21.22	85,007	129,740	140,129	604,019
<b>Scottsdale Total</b>	<b>552</b>	<b>24,178,956</b>	<b>0</b>	<b>1,688,954</b>	<b>4,604,082</b>	<b>19.04%</b>	<b>5,183,213</b>	<b>21.44%</b>	<b>\$21.98</b>	<b>407,070</b>	<b>737,950</b>	<b>747,832</b>	<b>2,522,727</b>
<b>West Phoenix</b>													
Glendale	45	2,330,931	0	336,927	684,260	29.36%	716,447	30.74%	\$23.00	20,458	146,714	42,233	188,522
Loop 303/Surprise	45	1,160,031	0	121,276	302,211	26.05%	337,976	29.14%	\$22.83	5,526	42,329	16,960	86,418
Southwest Phoenix	42	2,019,892	0	24,408	337,476	16.71%	346,276	17.14%	\$20.46	24,297	(14,153)	24,297	24,297
West I-10	52	1,452,742	18,000	263,779	211,418	14.55%	236,558	16.28%	\$21.87	32,305	48,905	36,343	112,305
<b>West Phoenix Total</b>	<b>184</b>	<b>6,963,596</b>	<b>18,000</b>	<b>746,390</b>	<b>1,535,365</b>	<b>22.05%</b>	<b>1,637,257</b>	<b>23.51%</b>	<b>\$22.08</b>	<b>82,586</b>	<b>223,795</b>	<b>119,833</b>	<b>411,542</b>
<b>Phoenix Total</b>	<b>2,730</b>	<b>133,144,413</b>	<b>375,482</b>	<b>12,338,079</b>	<b>26,889,341</b>	<b>20.20%</b>	<b>29,642,180</b>	<b>22.26%</b>	<b>\$20.40</b>	<b>1,555,262</b>	<b>3,187,382</b>	<b>3,244,711</b>	<b>12,159,937</b>
Class A	249	40,679,201	208,270	4,520,700	8,192,308	20.14%	8,880,156	21.83%	\$23.34	874,999	1,533,546	1,434,364	4,547,264
Class B	1,903	80,321,261	167,212	7,817,379	16,755,923	20.86%	18,400,190	22.91%	\$18.57	582,563	1,680,124	1,595,142	6,915,292
Class C	578	12,143,951	0	0	1,941,110	15.98%	2,361,834	19.45%	\$12.74	97,700	(26,288)	215,205	697,381
<b>Phoenix Total</b>	<b>2,730</b>	<b>133,144,413</b>	<b>375,482</b>	<b>12,338,079</b>	<b>26,889,341</b>	<b>20.20%</b>	<b>29,642,180</b>	<b>22.26%</b>	<b>\$20.40</b>	<b>1,555,262</b>	<b>3,187,382</b>	<b>3,244,711</b>	<b>12,159,937</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 Per SF	Buyer	Seller
60 E. Rio Salado Pkwy.	Tempe	A	299,540	\$287.11	PKY Fund II, LLC	Sumitomo Corporation of America
2375 E. Camelback Rd.	Camelback Corridor	A	301,909	\$281.54	Hines	GLL Real Estate Partners
16220 N. Scottsdale Rd.	Scottsdale Airpark	A	258,312	\$305.83	Artis Real Estate Investment Trust	Clarion Partners
21711 N. 7th St.	Deer Valley	B	210,202	\$356.80	Artis Real Estate Investment Trust	Ryan Companies US, Inc.
222 S. Mill Ave.	Tempe	A	259,365	\$254.85	Parkway Properties, Inc.	Vulcan, Inc.
16435 N. Scottsdale Rd.	Scottsdale Airpark	A	252,176	\$222.07	Excel Trust, Inc.	Levine Investments, LP

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
2700 W. Frye Rd.	Chandler	A	183,000	May-12	QBE Insurance Group	Regent Properties, Inc.
1500 N. Priest Dr.	44th St. Corridor	A	140,000	Jun-12	State Farm Insurance	Principal Financial Group
444 N. 44th St.	44th St. Corridor	A	138,240	Aug-12	State Farm Insurance	LBA Realty
2510 W. Dunlap Ave.	Northwest Phoenix	A	134,050	May-12	Liberty Mutual Group	Northridge Capital, LLC
432 N. 44th St.	44th St. Corridor	A	105,974	Mar-12	State Farm Insurance	Pearlmark Real Estate Partners
2222 W. Dunlap Ave.	Northwest Phoenix	A	105,000	Sep-12	Matson Logistics	Alexander & Baldwin, Inc.

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.

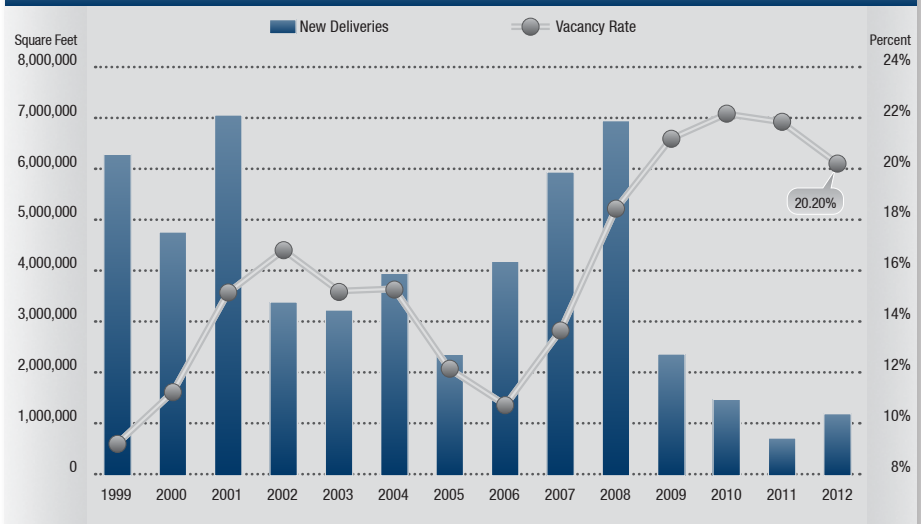
CLASS B

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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