



Retail Market Report

Compared to 2011:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

UP

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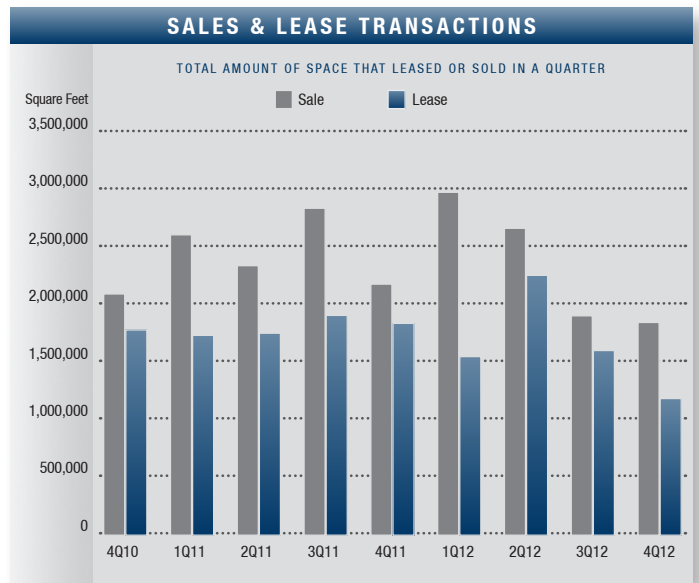
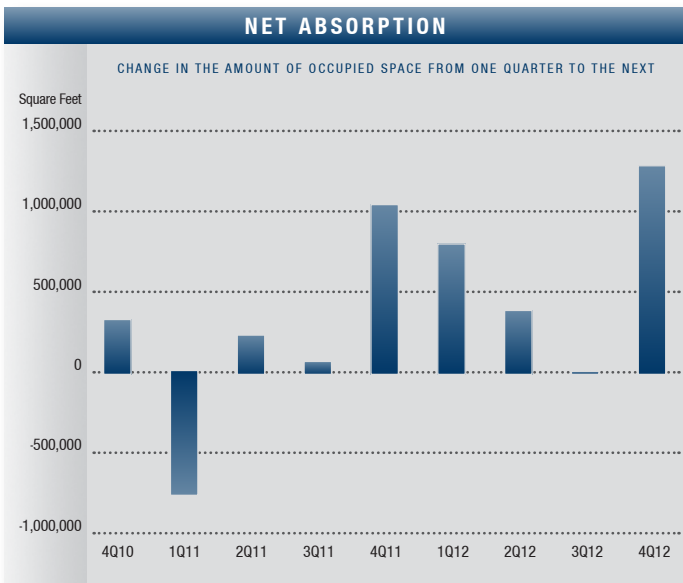
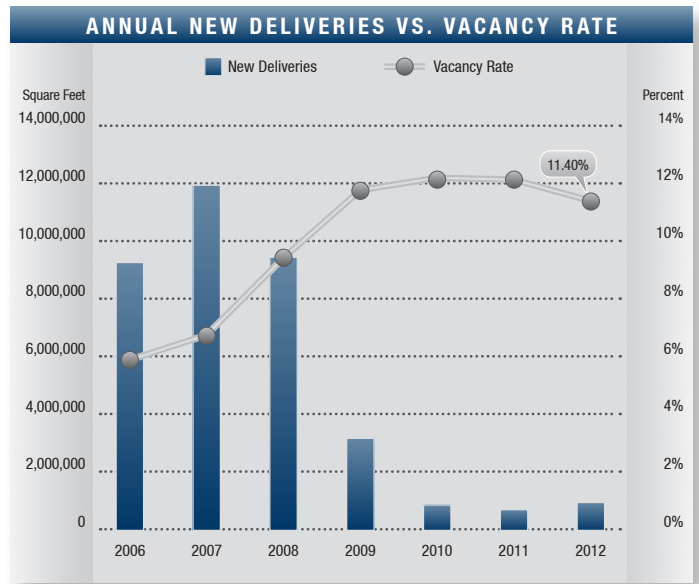
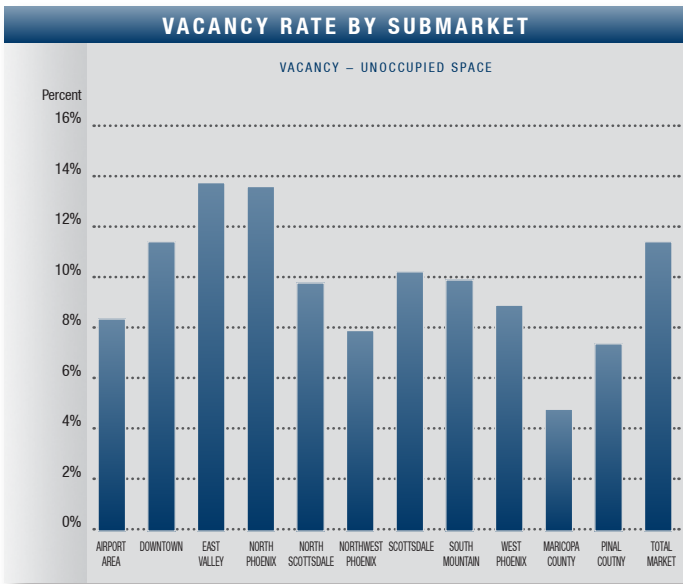
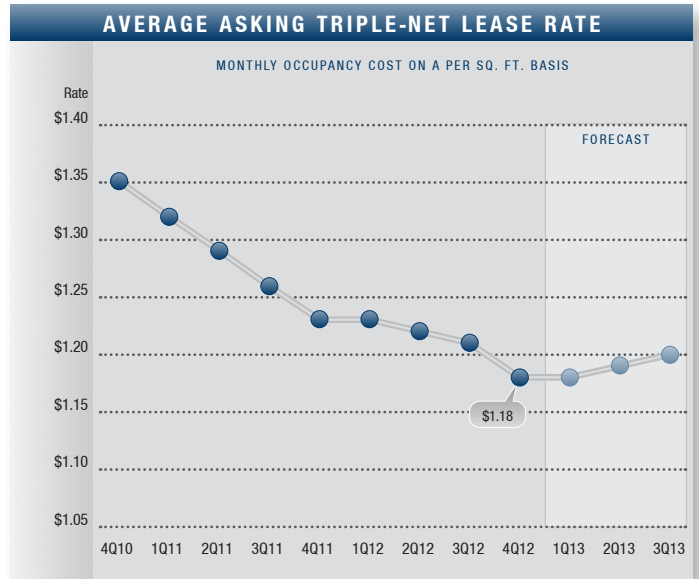
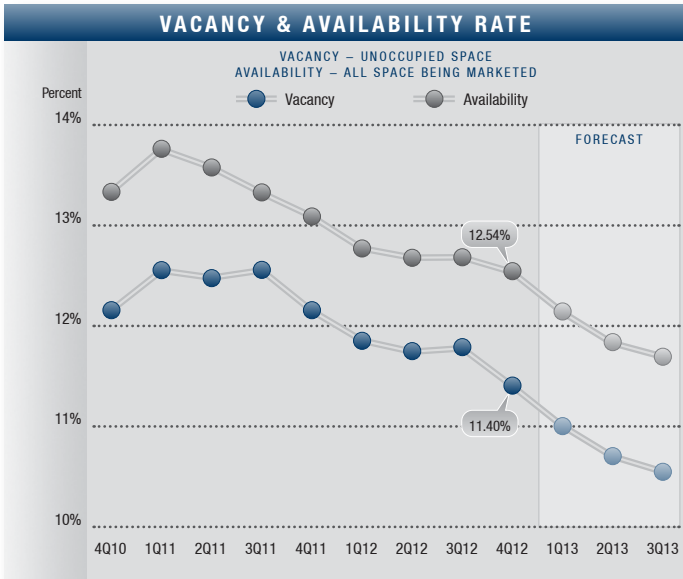
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Market Highlights

- Encouraging Numbers** - The Phoenix retail market continued moving on the path towards recovery in the fourth quarter of 2012. Both vacancy and availability exhibited decreases compared to both the previous quarter and the previous year. The Phoenix market also posted over 1,280,000 square feet of positive absorption in the fourth quarter, giving 2012 over 2,400,000 square feet of positive absorption and making it the seventh consecutive quarter of the positive streak. While these are encouraging indications, continued stability and job growth will be needed in coming quarters to further recovery.
- Absorption** - The Phoenix retail market posted 1,285,077 square feet of positive net absorption in the fourth quarter of 2012, giving the market a total of 2.47 million square feet of positive absorption for the year compared to the 549,624 square feet seen in 2011.
- Transaction Activity** - Leasing activity checked in at 1 million square feet, a decrease from the previous quarter's figure of 1.5 million square feet. Sales remained relatively unchanged in the fourth quarter of 2012, posting 1.83 million square feet compared to 1.89 million in the previous quarter. Details of the largest transactions can be found on the back page of this report.
- Construction** - There was 449,041 square feet of retail construction underway at the end of fourth quarter 2012. The lack of new construction should ease upward pressure on vacancy in the coming quarters.
- Unemployment** - Employment, as of the fourth quarter of 2012, has grown by more than 4% from recessionary lows, outpacing the U.S average by 150 basis points. As a result the local unemployment rate has fallen below the nation benchmark. The Labor market rebound has become broad-based with nearly every sector adding net new jobs thus far in the recovery period. The education and health services sectors had the most substantial employment additions.
- Vacancy** - Vacancies have now started to recede as metro Phoenix continues to add jobs. Direct/sublease space (unoccupied) finished the third quarter at 11.40%, a healthy drop from the previous year's rate of 12.16%. The lowest vacancy rate was found in the Northwest Phoenix submarket, at 8.40%, respectively. With the relatively slow pace of new construction, vacancy should continue to correct over the next two years.
- 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.
- Availability** - Direct/sublease space finished the third quarter at 12.54%, 15 basis points lower than the previous quarter and a drop of 4.2% when compared to the prior year's fourth quarter rate of 13.09%.
- Lease Rates** - The average asking triple-net lease rate per month per square foot in Phoenix was at \$1.18 for the fourth quarter of 2012, only a modest decrease from the previous quarter. As vacancy rates have dropped, average lease rates have begun to stabilize. Look for rates to remain steady and to increase incrementally in some submarkets in coming quarters, as consumer spending increases.

RETAIL MARKET OVERVIEW

	2012	2011	2010	% of Change vs. 2011
Total Vacancy Rate	11.40%	12.16%	12.16%	(6.25%)
Availability Rate	12.54%	13.09%	13.34%	(4.20%)
Average Asking Lease Rate	\$1.18	\$1.23	\$1.35	(4.07%)
Sale & Lease Transactions	15,868,174	17,017,215	10,564,259	(6.75%)
Gross Absorption	9,996,280	10,115,289	9,994,068	(1.18%)
Net Absorption	2,470,940	549,624	(248,292)	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
Airport Area													
Airport Area	412	3,940,081	0	558,875	361,569	9.18%	353,834	8.98%	\$1.20	31,371	38,901	50,452	163,368
South Tempe/Ahwatukee	218	1,467,436	0	20,000	87,758	5.98%	109,292	7.45%	\$1.09	5,742	20,659	24,185	56,741
Airport Total	630	5,407,517	0	578,875	449,327	8.31%	463,126	8.56%	\$1.18	37,113	59,560	74,637	220,109
Downtown Phoenix													
Downtown Phoenix	708	7,122,391	55,000	17,520	811,690	11.40%	978,800	13.74%	\$1.08	(10,564)	(48,407)	132,818	349,871
Central Corridor Total	708	7,122,391	55,000	17,520	811,690	11.40%	978,800	13.74%	\$1.08	(10,564)	(48,407)	132,818	349,871
East Valley													
Chandler	747	16,536,748	0	333,892	2,352,135	14.22%	2,307,156	13.95%	\$1.13	72,330	(165,487)	230,649	797,772
Gateway Airport	107	2,642,678	0	235,454	199,133	7.54%	204,595	7.74%	\$1.25	(2,983)	(13,143)	4,556	46,818
Gilbert	646	12,685,002	9,500	1,275,898	1,363,825	10.75%	1,375,786	10.85%	\$1.24	85,889	150,156	109,423	477,938
Queen Creek	54	1,399,736	0	134,873	116,434	8.32%	116,434	8.32%	\$1.65	900	(25,884)	11,300	30,362
Red Mountain / Mesa	1,645	28,903,314	0	1,033,942	5,022,552	17.38%	5,605,777	19.39%	\$1.06	104,627	348,647	351,530	1,427,681
Tempe	427	8,629,090	8,142	269,200	657,075	7.61%	751,378	8.71%	\$1.22	27,205	69,191	69,622	301,670
East Valley	3,626	70,796,568	17,642	3,283,259	9,711,154	13.72%	10,361,126	14.64%	\$1.12	287,968	363,480	777,080	3,082,241
North Phoenix													
East Phoenix	672	8,552,438	0	5,000	1,005,797	11.76%	1,294,518	15.14%	\$1.10	48,331	111,853	166,052	460,885
Glendale	729	10,726,480	0	196,822	1,209,172	11.27%	1,277,793	11.91%	\$0.97	326,324	364,570	434,833	695,745
N. Phoenix / I-17	800	16,233,585	0	26,972	2,573,425	15.85%	3,140,176	19.34%	\$0.93	37,924	61,464	295,862	775,680
Sun City	207	3,039,318	0	91,633	441,890	14.54%	437,120	14.38%	\$1.15	15,190	46,432	20,648	167,989
North Phoenix	2,408	38,551,821	0	320,427	5,230,284	13.57%	6,149,607	15.95%	\$1.00	427,769	584,319	917,395	2,100,299
North Scottsdale													
Carefree	129	1,747,533	0	14,700	230,376	13.18%	246,595	14.11%	\$1.85	5,299	(18,331)	17,072	59,940
Fountain Hills	79	684,352	0	0	73,101	10.68%	75,130	10.98%	\$1.07	22,928	12,805	28,133	53,174
North Scottsdale	512	15,076,664	16,399	1,205,467	1,402,404	9.30%	1,480,396	9.82%	\$1.33	74,819	165,171	147,054	677,873
North Scottsdale	720	17,508,549	16,399	1,220,167	1,705,881	9.74%	1,802,121	10.29%	\$1.40	103,046	159,645	192,259	790,987
Northwest Phoenix													
Anthem	111	2,587,400	0	28,500	178,466	6.90%	181,325	7.01%	\$1.46	(988)	29,912	16,771	73,279
Central Peoria/Arrowhead	415	9,950,199	0	169,850	763,413	7.67%	911,303	9.16%	\$1.27	53,539	319,537	86,495	580,891
Deer Valley	125	2,042,355	0	39,534	220,610	10.80%	221,929	10.87%	\$2.10	(1,542)	50,951	12,654	92,311
Surprise	260	4,772,093	0	1,255,117	364,555	7.64%	399,441	8.37%	\$1.41	51,910	44,772	83,940	215,079
Northwest Phoenix	911	19,352,047	0	1,493,001	1,527,044	7.89%	1,713,998	8.86%	\$1.42	102,919	445,172	199,860	961,560
Scottsdale													
Central Scottsdale	810	15,630,397	0	9,500	1,565,842	10.02%	1,544,170	9.88%	\$1.91	127,617	294,764	209,027	799,082
South Scottsdale	378	3,986,500	0	4,540	429,604	10.78%	518,655	13.01%	\$1.16	31,221	39,887	74,130	196,625
Scottsdale	1,188	19,616,897	0	14,040	1,995,446	10.17%	2,062,825	10.52%	\$1.73	158,838	334,651	283,157	995,707
South Mountain													
Ahwatukee Foothills	161	3,218,260	0	0	292,754	9.10%	348,072	10.82%	\$1.41	(1,888)	16,178	11,042	127,449
Laveen	57	1,355,323	0	632,761	188,361	13.90%	207,835	15.33%	\$1.26	3,445	28,192	6,363	57,156
South Mountain	84	1,634,127	360,000	4,500	130,880	8.01%	142,120	8.70%	\$1.16	(3,834)	3,947	5,622	36,795
South Mountain	302	6,207,710	360,000	637,261	611,995	9.86%	698,027	11.24%	\$1.34	(2,277)	48,317	23,027	221,400
West Phoenix													
Goodyear	192	3,237,138	0	411,070	413,475	12.77%	444,047	13.72%	\$1.18	10,102	94,728	23,062	180,838
Loop 101 / I-10	126	2,553,158	0	616,033	215,476	8.44%	198,671	7.78%	\$1.60	23,251	(10,373)	25,618	77,105
N. Goodyear / Litchfield	179	4,418,443	0	589,128	301,736	6.83%	320,881	7.26%	\$1.39	36,686	221,765	39,374	285,098
North Buckeye	3	92,042	0	0	0	0.00%	0	0.00%	\$1.04	0	0	0	0
South Buckeye	73	1,169,766	0	109,160	100,028	8.55%	101,278	8.66%	\$1.04	(12,614)	(15,106)	3,300	11,909
Tolleson	214	2,341,065	0	164,947	237,729	10.15%	248,395	10.61%	\$1.03	27,225	29,009	31,575	86,811
West Phoenix / Maryville	448	8,280,352	0	71,511	683,650	8.26%	742,454	8.97%	\$0.86	66,817	135,337	97,665	309,954
West Phoenix	1,235	22,091,964	0	1,961,849	1,952,094	8.84%	2,055,726	9.31%	\$1.13	151,467	455,360	220,594	951,715
Maricopa County													
NE Outlying	2	36,891	0	0	0	0.00%	0	0.00%	\$1.02	0	0	0	0
W Outlying	83	588,700	0	0	29,621	5.03%	48,052	8.16%	\$1.02	(6,950)	(7,580)	0	12,551
Maricopa County	85	625,591	0	0	29,621	4.73%	48,052	7.68%	\$1.02	(6,950)	(7,580)	0	12,551
Pinal County													
Apache Junction	122	1,563,477	0	84,380	95,676	6.12%	118,076	7.55%	\$0.78	(1,516)	5,378	2,300	31,129
Outlying Pinal County	740	8,217,721	0	3,686,455	619,956	7.54%	767,430	9.34%	\$0.94	37,264	71,045	61,562	278,711
Pinal County	862	9,781,198	0	3,770,835	715,632	7.32%	885,506	9.05%	\$0.91	35,748	76,423	63,862	309,840
Phoenix Total	12,675	217,062,253	449,041	13,297,234	24,740,168	11.40%	27,218,914	12.54%	\$1.18	1,285,077	2,470,940	2,884,689	9,996,280
Malls	340	25,726,035	0	4,609,992	2,227,118	8.66%	2,745,747	10.67%	\$1.52	(58,735)	100,146	70,637	198,981
Power Centers	476	20,338,263	0	2,881,887	1,600,532	7.87%	1,528,529	7.52%	\$1.72	41,719	(61,436)	105,895	591,152
Community Centers	1,019	34,479,181	55,000	1,608,272	4,722,222	13.70%	5,006,416	14.52%	\$1.13	414,358	1,071,111	590,631	2,043,326
Neighborhood Centers	2,249	55,951,688	9,500	2,157,168	9,177,148	16.40%	9,492,579	16.97%	\$1.14	268,883	501,025	860,580	2,960,215
Strip Centers	1,139	13,390,707	24,541	579,127	2,424,876	18.11%	2,544,621	19.00%	\$1.16	129,475	139,531	296,123	1,058,226
Specialty Centers	130	4,588,493	360,000	1,460,788	413,390	9.01%	414,193	9.03%	\$1.75	324,199	326,122	347,165	404,693
General Retail	7,322	62,587,886	0	0	4,174,882	6.67%	5,486,829	8.77%	\$1.19	165,178	394,441	613,658	2,739,687
Phoenix Total	12,675	217,062,253	449,041	13,297,234	24,740,168	11.40%	27,218,914	12.54%	\$1.18	1,285,077	2,470,940	2,884,689	9,996,280

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
7700 W. Arrowhead Towne Center Dr.	C. Peoria/Arrowhead	749,501	\$578.56	The Macerich Company	GGP, Inc.
1400-1474 N. Cooper Rd.	Red Mountain/Mesa	701,311	\$173.64	SyWest Development	Donahue Schriber Commercial RE
4609-4735 E. Ray Rd.	S. Tempe/Ahwatukee	669,975	\$105.92	DDR Corporation	DRA Advisors, LLC
2703-2817 S. Market St.	Gilbert	285,000	\$192.21	Cole REIT	The Macerich Company
15448-15704 N. Pima Rd.	N. Scottsdale	248,451	\$187.46	RD Advisors	Westwood Financial Corporation
24720-24760 Lake Pleasant Rd.	C. Peoria/Arrowhead	179,557	\$232.52	Excel Trust, Inc.	Kornwasser Shopping Center Properties

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
4531 E. Thomas Rd.	Airport Area	51,642	Dec-12	Burlington Coat Factory	Fry Investments
801 E. Bell Rd.	E. Phoenix	51,200	Jun-12	Hobby Lobby	PDG America Properties
3130 E. Thomas Rd.	Airport Area	50,000	Sep-12	Goodwill	Saia Family, LP
9175 E. Indian Bend Rd.	C. Scottsdale	50,000	Dec-12	Burlington Coat Factory	Di Rito Partners, Inc.
4844 S. Val Vista Dr.	Gilbert	48,573	Jun-12	Emblem Entertainment	Pacific West Development

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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