

Office Market Report

Compared to 2012:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

UP

Deliveries

DOWN

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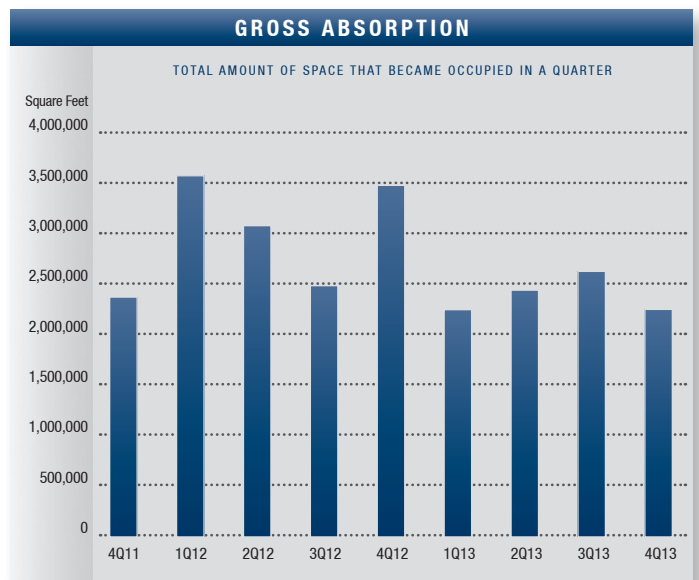
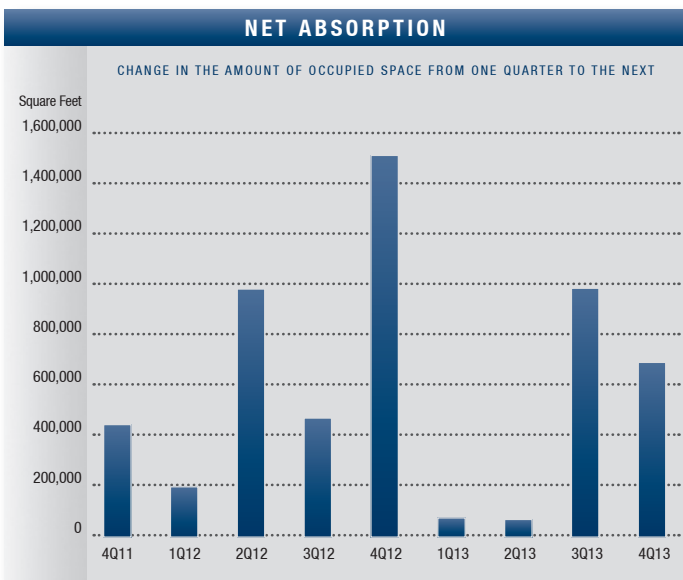
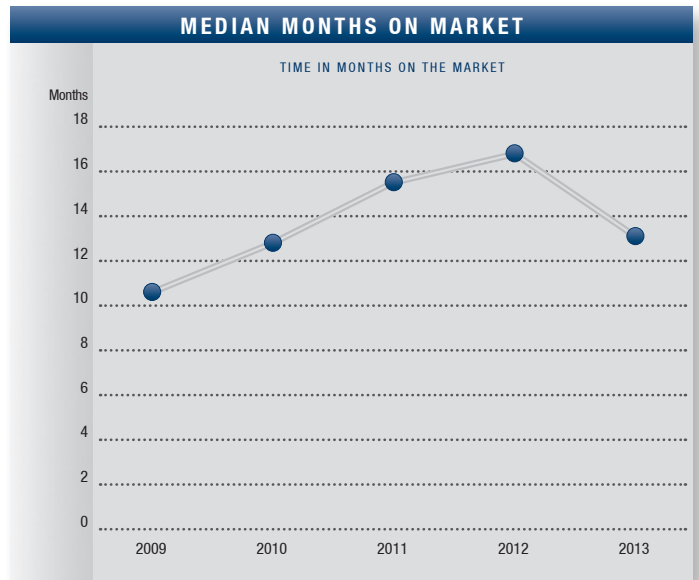
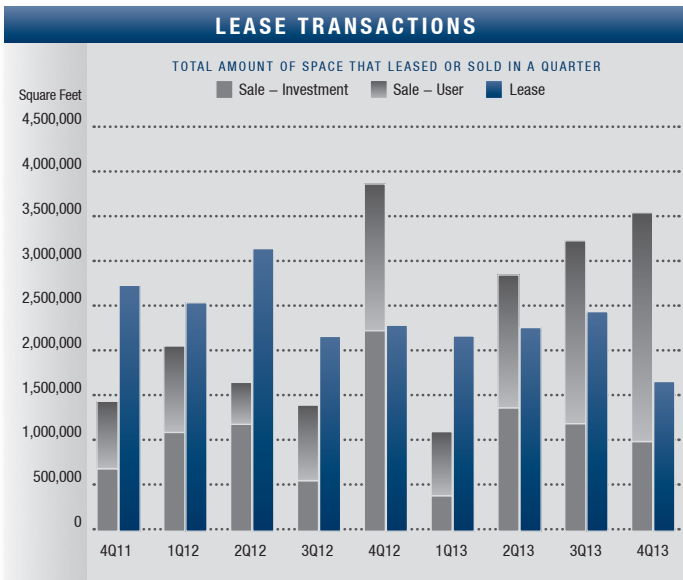
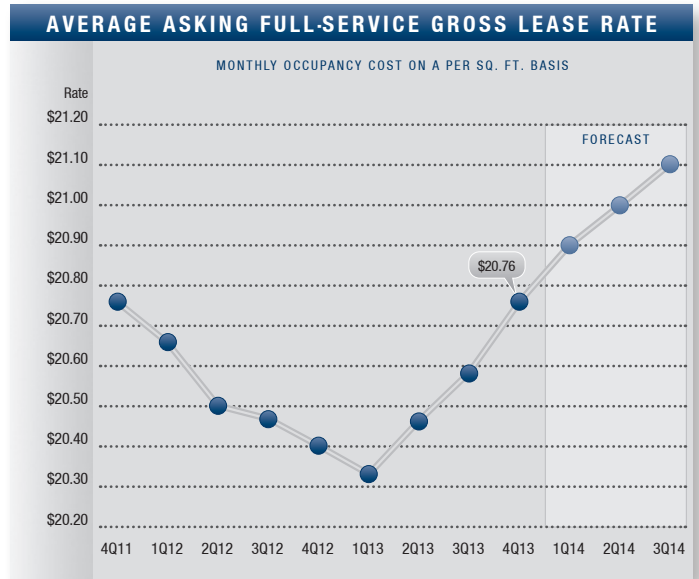
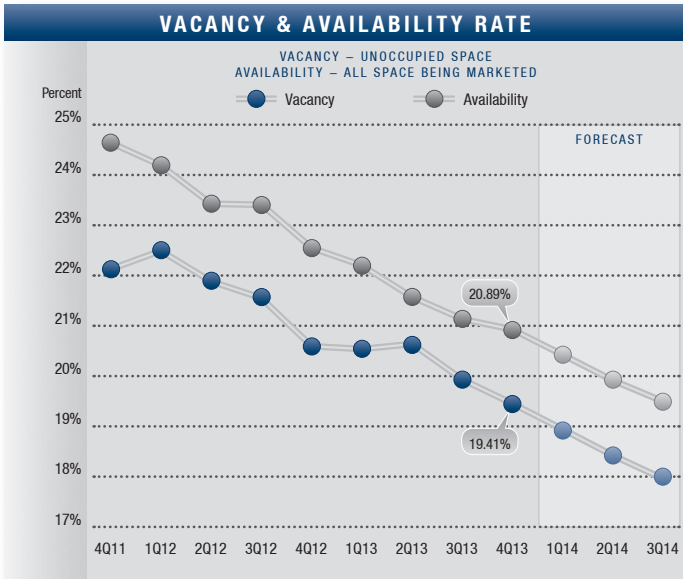
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Market Highlights

- Poised for Growth** - The Phoenix office market continued to convey signs of recovery in the fourth quarter of 2013, posting nearly 683,000 square feet of positive net absorption and giving the market a total of almost 1.8 million square feet of absorption for 2013. Both availability and vacancy maintained their downward trends, while lease rates continued to climb. While these are positive indications, continued job growth in the valley will be needed to further release pressure on vacancy and sustain growth.
- Absorption** - The Phoenix office market posted 682,516 square feet of positive net absorption in the fourth quarter, giving the market a total of 1,788,881 square feet of positive absorption for 2013. This marked the eleventh consecutive quarter of positive absorption, totaling 6,065,159 square feet since the second quarter of 2011.
- Transaction Activity** - Leasing activity checked in at just over 1.6 million square feet in the fourth quarter of 2013, a decrease from the previous quarter. Leasing activity for the year checked in at 8.5 million square feet, down from 2012's figure of 10 million square feet. Sales activity was up about 300,000 square feet from the previous quarter but down compared to 2012, posting 3.5 million square feet at the end of 2013 compared to 3.9 million at the end of 2012. 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 7.8% in November 2013, a slight increase from January 2013's rate of 7.2%. Sectors with strong job growth included transportation, information driven by transportation, and financial activities. According to Arizona Department of Administration, November added 47,500 nonfarm jobs — 2,600 in government and 1,600 in the education and health services sector. Over the year 2013, the number of jobs has increase; we anticipate this trend continuing in 2014.
- 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.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 19.41%, a decrease from the third quarter's rate of 19.91% and down 5.64% from 2012's rate of 20.57%. The East Valley submarket posted the lowest rate in the county, coming in at 16.33%.
- Availability** - Direct/sublease space being marketed was at 20.89% at the end of 2013, a decrease of 164 basis points when compared to the prior year's rate of 22.53%, a decrease of 7.28%.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per year in Phoenix was \$20.76 in the fourth quarter of 2013 — an increase of 18 cents from the third quarter's rate of \$20.58. The record high rate of \$25.86 was established in the last quarter of 2007. Class A rates for the county averaged \$23.88 FSG, while downtown Phoenix had the highest average rate of all submarkets, at \$25.44 FSG.

OFFICE MARKET OVERVIEW

	2013	2012	2011	% of Change vs. 2012
Vacancy Rate	19.41%	20.57%	22.12%	(5.64%)
Availability Rate	20.89%	22.53%	24.64%	(7.28%)
Average Asking Lease Rate	\$20.76	\$20.46	\$20.76	1.47%
Sale & Lease Transactions	19,133,311	18,962,869	22,087,263	0.90%
Gross Absorption	9,419,398	12,589,247	10,333,860	(25.18%)
Net Absorption	1,788,881	3,138,922	774,251	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 4Q2013	Square Feet Available	Availability Rate 4Q2013	Average Asking Lease Rate	Net Absorption 4Q2013	Net Absorption 2013	Gross Absorption 4Q2013	Gross Absorption 2013
Airport Area													
Airport Area	148	9,856,763	0	345,444	1,573,602	15.96%	1,725,328	17.50%	\$19.44	127,443	1,959	196,173	545,228
South Tempe/Ahwatukee	118	5,364,700	217,001	1,046,000	1,095,188	20.41%	1,004,104	18.72%	\$21.36	13,747	115,791	119,711	521,489
Airport Total	266	15,221,463	217,001	1,391,444	2,668,790	17.53%	2,729,432	17.93%	\$19.92	141,190	117,750	315,884	1,066,717
Central Corridor													
Downtown North	154	12,286,961	0	478,488	3,153,523	25.67%	3,336,975	27.16%	\$20.76	(6,358)	(63,941)	84,211	672,255
Downtown South	66	8,948,128	155,000	343,770	1,301,647	14.55%	1,534,367	17.15%	\$25.44	13,946	(855)	98,062	224,490
Central Corridor Total	220	21,235,089	155,000	822,258	4,455,170	20.98%	4,871,342	22.94%	\$21.12	7,588	(64,796)	182,273	896,745
East Phoenix													
44th Street Corridor	80	5,679,896	0	0	769,684	13.55%	874,257	15.39%	\$21.10	(58,021)	(3,468)	30,862	239,507
Camelback Corridor	135	8,844,998	0	0	2,023,265	22.87%	2,148,995	24.30%	\$24.36	106,312	436,304	231,311	956,700
Midtown/Central Phoenix	130	3,726,298	0	117,710	603,129	16.19%	661,023	17.74%	\$15.48	(5,022)	(7,832)	73,318	213,709
East Phoenix Total	345	18,251,192	0	117,710	3,396,078	18.61%	3,684,275	20.19%	\$22.48	43,269	425,004	335,491	1,409,916
East Valley													
Chandler	142	5,922,560	298,622	5,691,878	896,487	15.14%	865,075	14.61%	\$21.12	10,933	177,573	79,094	590,470
Gateway Airport/Loop 202	44	1,143,215	11,445	614,920	316,102	27.65%	315,968	27.64%	\$23.52	14,219	94,051	22,109	121,690
Mesa Downtown	36	940,076	0	0	122,027	12.98%	139,931	14.89%	\$14.76	8,955	108,211	8,955	118,444
Mesa East	70	1,859,133	0	10,156	306,661	16.49%	326,019	17.54%	\$12.24	8,405	(55,745)	25,625	53,662
Superstition Corridor	144	4,570,047	0	291,448	976,384	21.36%	1,103,373	24.14%	\$17.16	33,158	36,906	65,058	246,259
Tempe	125	5,316,834	0	2,739,612	607,456	11.43%	666,668	12.54%	\$17.52	47,634	245,514	125,856	545,370
East Valley Total	561	19,751,865	310,067	9,348,014	3,225,117	16.33%	3,417,034	17.30%	\$18.00	123,304	606,510	326,697	1,675,895
Northwest Phoenix													
Arrowhead	103	2,568,952	0	144,731	528,664	20.58%	561,418	21.85%	\$19.68	11,281	(10,661)	48,973	215,415
Deer Valley/Airport	126	10,083,230	0	1,570,659	1,939,623	19.24%	1,984,943	19.69%	\$20.04	44,591	218,036	102,727	563,598
Northwest Phoenix	240	8,738,569	0	250,000	2,368,949	27.11%	2,594,147	29.69%	\$16.81	18,274	(42,676)	96,229	693,818
Northwest Phoenix Total	469	21,390,751	0	1,965,390	4,837,236	22.61%	5,140,508	24.03%	\$18.02	74,146	164,699	247,929	1,472,831
Paradise Valley													
Paradise Valley	95	3,859,092	0	221,316	870,845	22.57%	902,369	23.38%	\$19.56	17,213	50,662	76,191	274,411
Piestewa Peak Corridor	68	2,913,184	0	0	562,914	19.32%	640,001	21.97%	\$17.40	9,868	56,355	48,670	210,958
Paradise Valley Total	163	6,772,276	0	221,316	1,433,759	21.17%	1,542,370	22.77%	\$19.20	27,081	107,017	124,861	485,369
Scottsdale													
Central Scottsdale	165	7,254,255	0	887,900	1,321,134	18.21%	1,534,300	21.15%	\$21.12	8,144	39,712	159,889	592,618
Scottsdale Airpark	312	12,858,308	0	508,383	2,798,269	21.76%	2,955,431	22.98%	\$23.88	48,704	26,761	217,528	986,353
Scottsdale South	122	5,138,577	145,000	14,500	704,281	13.71%	870,146	16.93%	\$21.48	110,557	162,865	162,923	458,803
Scottsdale Total	599	25,251,140	145,000	1,410,783	4,823,684	19.10%	5,359,877	21.23%	\$22.68	167,405	229,338	540,340	2,037,774
West Phoenix													
Glendale	47	2,328,165	0	712,000	581,735	24.99%	619,261	26.60%	\$23.16	69,590	95,561	80,443	121,224
Loop 303/Surprise	46	1,323,334	0	90,000	278,207	21.02%	305,708	23.10%	\$23.04	(5,448)	15,314	11,555	45,560
Southwest Phoenix	45	2,176,915	0	0	344,099	15.81%	362,983	16.67%	\$20.64	25,853	67,706	39,409	105,356
West I-10	51	1,468,708	0	268,428	187,111	12.74%	210,034	14.30%	\$23.28	8,538	24,778	30,865	102,011
West Phoenix Total	189	7,297,122	0	1,070,428	1,391,152	19.06%	1,497,986	20.53%	\$22.32	98,533	203,359	162,272	374,151
Phoenix Total	2,812	135,170,898	827,068	16,347,343	26,230,986	19.41%	28,242,824	20.89%	\$20.76	682,516	1,788,881	2,235,747	9,419,398
Class A	251	40,937,842	260,623	6,979,994	7,844,534	19.16%	8,428,423	20.59%	\$23.88	73,682	504,369	507,337	2,683,940
Class B	1,978	82,043,164	566,445	9,367,349	16,266,700	19.83%	17,691,937	21.56%	\$18.96	517,943	1,310,946	1,459,347	6,019,350
Class C	583	12,189,892	0	0	2,119,752	17.39%	2,122,464	17.41%	\$13.32	90,891	(26,434)	269,063	716,108
Phoenix Total	2,812	135,170,898	827,068	16,347,343	26,230,986	19.41%	28,242,824	20.89%	\$20.76	682,516	1,788,881	2,235,747	9,419,398

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
111 W. Rio Salado Pkwy.	Tempe	A	225,000	\$248.89	Parkway Properties, Inc.	Carey REIT II, Inc.
4425 W. Olive Ave.	Northwest Phoenix	B	209,174	\$17.93	Harpreet Kaur	CW Capital Asset Management, LLC
3030 N. Central Ave.	Midtown	B	189,868	\$77.95	Omninet Capital	The Randall Group, LLC
645 E. Missouri Ave.	Midtown	A	187,446	\$73.63	ICIC Commercial Investments 3, LLC	For 1031 Missouri, LLC
16430 N. Scottsdale Rd.	Scottsdale Airpark	A	175,441	\$167.01	Pacific Coast Capital Partners, LLC	Cornerstone Real Estate Advisors, Inc.

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
2501 S. Price Rd.	Chandler	B	148,530	Feb-13	Nationstar Mortgage	CCI B Chandler II, 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
8900 N. 22nd Ave.	Northwest Phoenix	A	124,552	Mar-13	Vangent, Inc.	General Elec Cr Equities
2700 S. Sunland Dr.	Airport Area	B	74,647	May-13	State Farm	Jdm li Tempe Oc, 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.

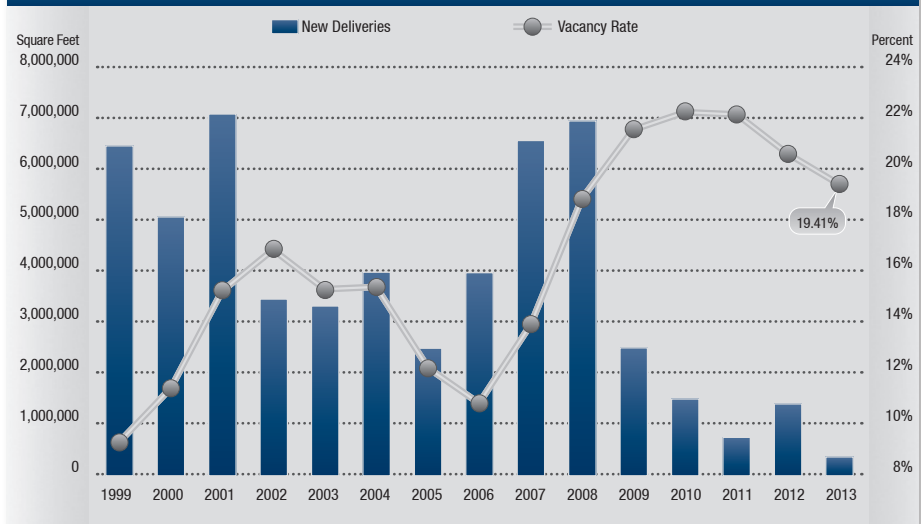
CLASS B

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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