



MARKET CHANGE

Compared to 2013:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

UP



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HIGHLIGHTS

- **Poised for Growth** - The Phoenix office market continued to convey strong signs of recovery in the fourth quarter of 2014, posting over one million square feet of positive net absorption, making it the sixth straight quarter of positive absorption for a total of 4.6 million square feet. Both availability and vacancy maintained their downward trends, while occupancy costs continued to climb. While all of these are positive indications, continued job growth in the valley will be needed to further relieve pressure on vacancy and sustain growth.
- **Construction** - Total space under construction checked in at just over 2.9 million square feet in the fourth quarter, with the highest concentration in the East Valley submarket. In 2014, 1.1 million square feet of new office space was delivered.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 17.79%, a decrease from 2014's third quarter rate of 18.37% and down 7.82% from 2013's fourth quarter rate of 19.30%. The East Valley submarket posted the lowest rate in the metro, coming in at 14.72%.
- **Availability** - Direct/sublease space being marketed was at 20.66% at the end the fourth quarter of 2014, a decrease of 9 basis points when compared to the prior year's rate of 20.75%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per year in Phoenix was \$21.48 in the fourth quarter of 2014, an increase of twelve cents from the third quarter's rate of \$21.36. The record high rate of \$25.86 was established in the last quarter of 2007. Class A rates for the county averaged \$24.72, while Downtown Phoenix had the highest average rate of all submarkets at \$25.68.
- **Absorption** - The Phoenix office market posted 1,048,905 square feet of positive net absorption in the fourth quarter, marking the sixth consecutive quarter of positive absorption and giving the market a total of 8.9 million square feet since the second quarter of 2011.
- **Transaction Activity** - Leasing activity checked in at just under 1.4 million square feet in the fourth quarter of 2014, a decrease from the previous quarter's figure of 2.2 million square feet. Sales activity came in just above the previous year's rate, recording over 11.1 million square feet for 2014 compared to 2013's 10.1 million square feet of sales transactions. This statistic can have some lag time in being reported, so look for fourth quarter figures to end up somewhat higher on the next report.
- **Unemployment** - The unemployment rate in the Phoenix-Mesa-Glendale Metropolitan area was 5.9% in November 2014, a decrease from January 2014's rate of 6.8%. Sectors with strong job growth included professional and business services, retail trade, health care and manufacturing. Phoenix has created a new niche for itself in high tech manufacturing. Phoenix's projected total annual employment growth will be among the strongest in the nation. According to Arizona Department of Administration, November added 86,000 professional and business services jobs, 50,000 in retail trade, 59,000 in health care and 28,000 in manufacturing. The number of jobs has increased in 2014 and we anticipate this trend continuing into 2015.
- **Overall** - We are continuing to see a decrease in the amount of available space on the market and increases in occupancy costs. Positive absorption should continue through 2015, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market should further improve. The Phoenix area is poised for growth however, cautious optimism still prevails as job creation will need to continue in order to drive the demand needed to sustain growth in the Phoenix Office market.

FORECAST

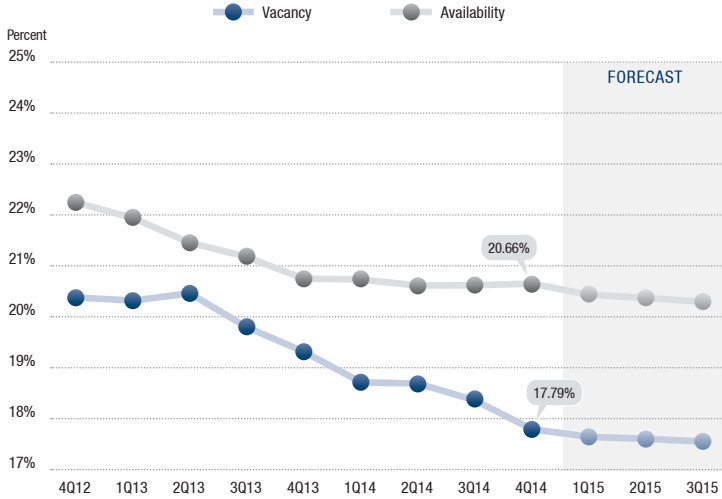
- **Construction** - With a favorable business climate spurring demographic growth in the Phoenix area, we expect it to only be a matter of time before development resumes. With 20 million square feet on the slate as being planned, we will see an influx of new product in the next year or so. In the meantime, limited construction should ease vacancy rates and allow demand to further catch up to supply.
- **Employment** - We anticipate job growth of around 2.6%, or 59,000 jobs, in the Phoenix Metropolitan area over the year. Look for industries like professional & business services, and education & health services to lead the way in employment growth.
- **Lease Rates** - Expect average asking lease rates to increase by another 3% to 5% over the next four quarters.
- **Vacancy** - We anticipate the vacancy rate continuing its descent in the coming quarters, dropping by around 30 basis points, to below 17.55%, by the end of the third quarter of 2015.

OVERVIEW

	2014	2013	2012	% of Change vs. 2013
Total Vacancy Rate	17.79%	19.30%	20.36%	(7.82%)
Availability Rate	20.66%	20.75%	22.25%	(0.43%)
Average Asking Lease Rate	\$21.48	\$20.76	\$20.40	3.47%
Sale & Lease Transactions	18,501,117	20,728,219	17,112,329	(10.74%)
Gross Absorption	9,696,219	9,568,458	12,520,629	1.34%
Net Absorption	2,913,637	1,654,990	3,193,516	N/A

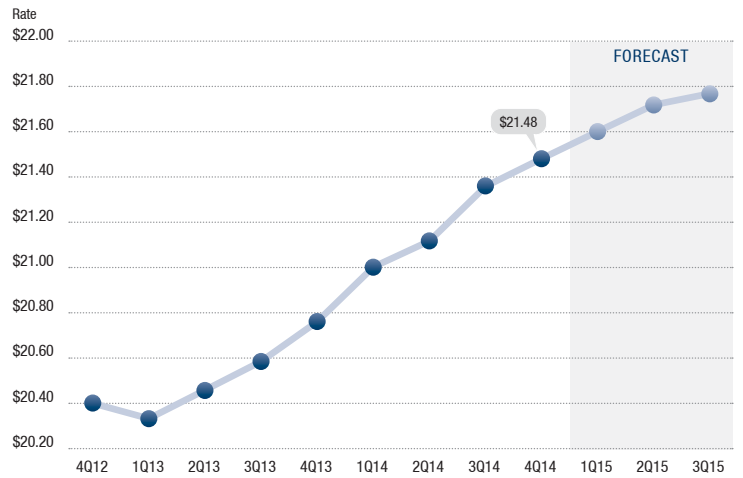
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



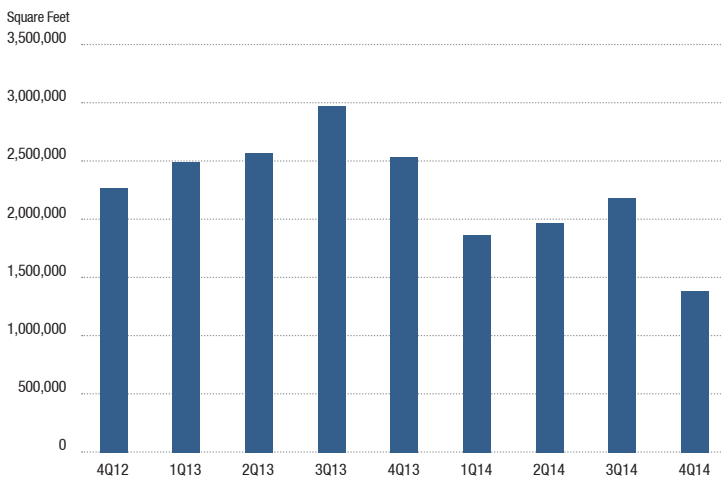
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



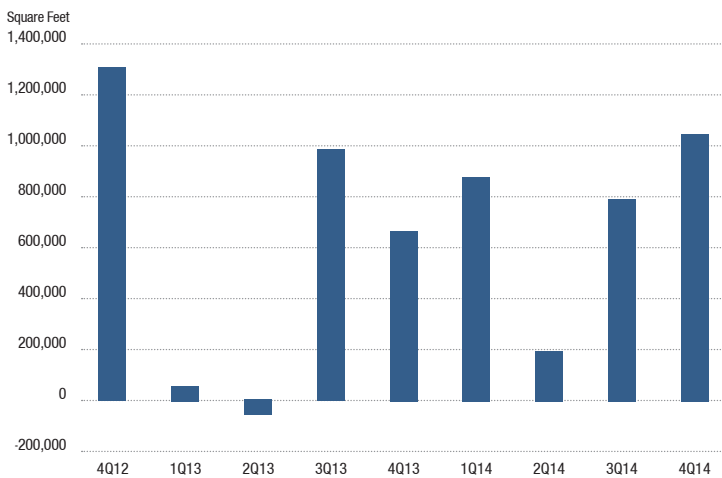
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



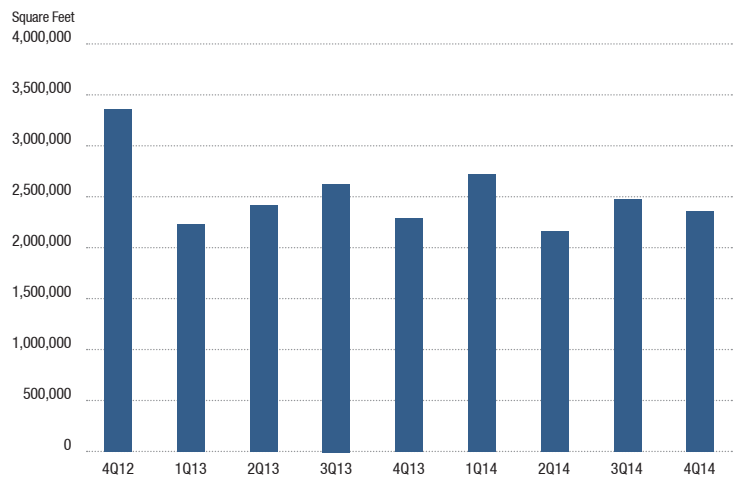
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2014	Square Feet Available	Availability Rate 4Q2014	Average Asking Lease Rate	Net Absorption 4Q2014	Net Absorption 2014	Gross Absorption 4Q2014	Gross Absorption 2014
Airport Area													
Airport Area	154	10,074,883	156,027	622,139	1,626,848	16.15%	2,038,011	20.23%	\$20.64	167,879	22,650	236,622	501,745
South Tempe/Ahwatukee	125	5,639,645	110,000	1,050,000	725,396	12.86%	1,029,806	18.26%	\$21.60	154,469	645,057	273,210	950,572
Airport Total	279	15,714,528	266,027	1,672,139	2,352,244	14.97%	3,067,817	19.52%	\$21.00	322,348	667,707	509,832	1,452,317
Central Corridor													
Midtown	151	12,182,003	0	478,488	2,987,905	24.53%	3,258,145	26.75%	\$20.04	54,153	89,881	115,186	531,509
Downtown	67	9,596,228	0	498,770	1,354,403	14.11%	1,507,226	15.71%	\$25.68	(2,096)	(67,764)	30,709	244,143
Central Corridor Total	218	21,778,231	0	977,258	4,342,308	19.94%	4,765,371	21.88%	\$21.36	52,057	22,117	145,895	775,652
East Phoenix													
44th Street Corridor	81	5,698,764	0	0	750,042	13.16%	1,212,726	21.28%	\$22.32	(27,690)	20,486	48,005	255,765
Camelback Corridor	132	8,745,032	0	0	1,906,453	21.80%	2,269,534	25.95%	\$25.56	59,804	120,057	136,161	558,164
Midtown/Central Phoenix	132	3,857,983	0	0	602,649	15.62%	727,118	18.85%	\$16.08	10,275	135,005	28,982	273,263
East Phoenix Total	345	18,301,779	0	0	3,259,144	17.81%	4,209,378	23.00%	\$23.64	42,389	275,548	213,148	1,087,192
East Valley													
Chandler	142	6,216,479	1,074,214	9,167,013	820,633	13.20%	1,036,673	16.68%	\$23.52	37,249	325,017	86,492	531,227
Gateway Airport/Loop 202	44	1,142,726	0	1,244,869	268,690	23.51%	277,523	24.29%	\$22.32	5,565	54,143	20,028	89,459
Mesa Downtown	37	950,113	0	0	140,559	14.79%	121,501	12.79%	\$14.28	(11,442)	(14,532)	2,470	17,467
Mesa East	70	1,903,077	0	10,156	274,814	14.44%	293,790	15.44%	\$12.12	9,396	18,310	18,099	76,650
Superstition Corridor	147	4,598,173	100,000	325,200	904,300	19.67%	1,060,583	23.07%	\$19.80	18,926	84,363	52,820	346,846
Tempe	125	5,388,753	1,279,235	1,748,000	565,112	10.49%	626,730	11.63%	\$18.60	36,228	40,664	120,317	386,155
East Valley Total	565	20,199,321	2,453,449	12,495,238	2,974,108	14.72%	3,416,800	16.92%	\$19.20	95,922	507,965	300,226	1,447,804
Northwest Phoenix													
Arrowhead	103	2,550,714	0	155,538	457,910	17.95%	473,723	18.57%	\$19.56	22,718	85,093	57,367	255,859
Deer Valley/Airport	133	10,318,403	0	1,619,545	1,894,891	18.36%	1,912,577	18.54%	\$21.12	3,709	187,153	87,074	556,368
Northwest Phoenix	240	8,698,359	0	113,500	2,309,425	26.55%	2,710,873	31.17%	\$16.68	80,251	17,714	168,880	731,817
Northwest Phoenix Total	476	21,567,476	0	1,888,583	4,662,226	21.62%	5,097,173	23.63%	\$18.00	106,678	289,960	313,321	1,544,044
Paradise Valley													
Paradise Valley	96	3,830,753	0	206,000	765,342	19.98%	777,982	20.31%	\$22.44	55,412	113,184	98,920	307,260
Piestewa Peak Corridor	71	2,958,907	0	0	586,252	19.81%	659,045	22.27%	\$17.76	(18,206)	(22,816)	24,230	153,161
Paradise Valley Total	167	6,789,660	0	206,000	1,351,594	19.91%	1,437,027	21.16%	\$19.92	37,206	90,368	123,150	460,421
Scottsdale													
Central Scottsdale	164	7,261,753	0	863,900	1,004,534	13.83%	1,348,922	18.58%	\$21.96	86,663	309,645	158,236	768,374
Scottsdale Airpark	312	12,964,188	169,189	610,262	2,508,226	19.35%	2,924,676	22.56%	\$24.60	107,633	451,765	280,569	1,243,849
Scottsdale South	122	5,087,704	26,900	265,000	606,456	11.92%	654,192	12.86%	\$23.64	122,992	223,679	199,705	625,219
Scottsdale Total	598	25,313,645	196,089	1,739,162	4,119,216	16.27%	4,927,790	19.47%	\$23.64	317,288	985,089	638,510	2,637,442
West Phoenix													
Glendale	47	2,329,232	0	696,000	570,276	24.48%	601,094	25.81%	\$23.40	24,506	6,337	29,651	65,985
Loop 303/Surprise	47	1,363,495	0	120,000	266,107	19.52%	293,621	21.53%	\$23.52	18,290	29,000	23,507	68,267
Southwest Phoenix	45	2,201,727	0	0	301,509	13.69%	310,309	14.09%	\$20.76	2,181	33,788	25,888	62,945
West I-10	52	1,475,209	0	222,803	184,453	12.50%	181,818	12.32%	\$22.20	30,040	5,758	32,135	94,150
West Phoenix Total	191	7,369,663	0	1,038,803	1,322,345	17.94%	1,386,842	18.82%	\$22.44	75,017	74,883	111,181	291,347
Phoenix Total	2,839	137,034,303	2,915,565	20,017,183	24,383,185	17.79%	28,308,198	20.66%	\$21.48	1,048,905	2,913,637	2,355,263	9,696,219
Class A	260	42,491,895	2,231,418	7,352,468	7,034,923	16.56%	8,588,102	20.21%	\$24.72	607,029	1,457,716	860,711	3,180,239
Class B	2,002	82,320,132	684,147	12,664,715	15,346,287	18.64%	17,482,131	21.24%	\$19.32	423,164	1,304,234	1,324,094	5,740,584
Class C	577	12,222,276	0	0	2,001,975	16.38%	2,237,965	18.31%	\$14.04	18,712	151,687	170,458	775,396
Class Total	2,839	137,034,303	2,915,565	20,017,183	24,383,185	17.79%	28,308,198	20.66%	\$21.48	1,048,905	2,913,637	2,355,263	9,696,219

This survey consists of office 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.

MAJOR TRANSACTIONS OF 2014**Sales Transactions**

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
20410 N. 19th Ave. – 11 Properties	Deer Valley/Airport	A	648,698	\$96.46	Sabal Financial Group, LP	CW Capital Asset Management, LLC
101 N. 1st Ave. – 2 Properties	Downtown	A	520,514	–	Scanlan Kemper Board Companies	Angelo, Gordon & Co.
1501 W. Fountain Pky. – 5 Properties	Airport Area	A	470,172	\$152.07	Cypress Office Properties	Principal Financial
2501 S. Price Rd.	Chandler	B	463,658	\$111.61	Southwest Value Partners Enterprises	Capital Commercial Investments
20022 N. 31st Ave.	Deer Valley/Airport	A	337,439	\$151.14	Griffin Capital Essential Asset REIT	KamAM Group, LLC
2201 E. Camelback Rd. – 2 Properties	Camelback Corridor	A	333,284	\$255.34	KBS REIT III	Angelo, Gordon & Co.

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
2150 E. Warner Rd.	South Tempe/Ahwatukee	B	110,000	Jun-14	Amkor	University & State Colleges of AZ
1150 N. Alma School Rd.	Tempe	B	110,000	Sep-14	American Traffic Solutions	Lauth Property Group
3433 N. Central	Midtown	B	101,876	Feb-14	AZ Department of Economic Security	Phoenix Midtown Center
1601 W. Fountainhead Pky.	Airport Area	A	101,803	Sep-14	Concentrix Corporation	KBS II Fountainhead, LLC
1850 W. Rio Salado Pky.	Airport Area	A	76,162	Mar-14	Wageworkds, Inc.	Unknown
2179 SW Steaman Dr.	Chandler	B	70,000	Jul-14	Crown Castle	MJA Investments, Inc.

PRODUCT TYPE**CLASS A**

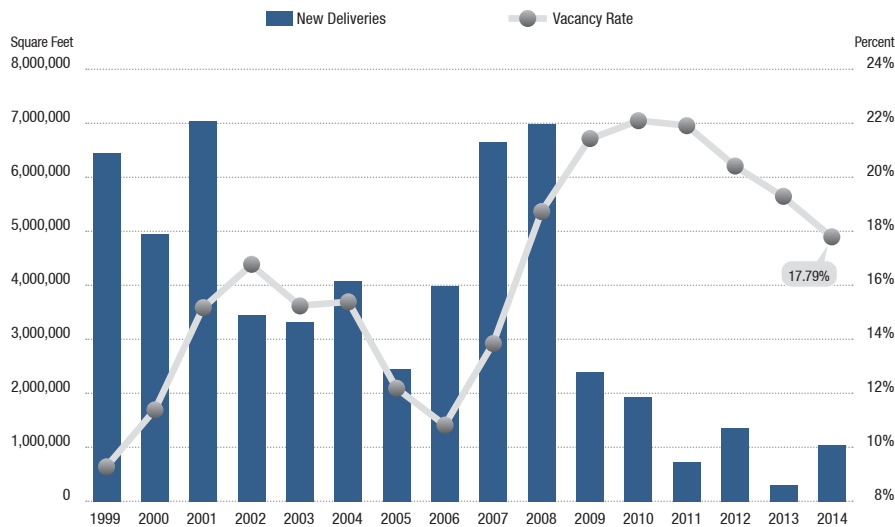
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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**Please Contact Us for Further Information**

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