LEE & ASSOCIATES®
COMMERCIAL REAL ESTATE SERVICES

PHOENIX OFFICE MARKET REPORT Q1 2013

Q1 TRENDS AT A GLANCE

Absorption
125,322 SF

Vacancy
-20 basis points to 23.8%

Average Rent
$20.05/SF, down 1.5%

Under Construction
68,867 SF

New Supply Delivered
0 SF

Sales Transactions
$49.7 million

Average Sales PSF
$62.46 PSF

Lease Activity
1,295,296 SF

Unemployment Rate

PHX Metro:	6.7%
Arizona:	7.7%
U.S.:	7.7%

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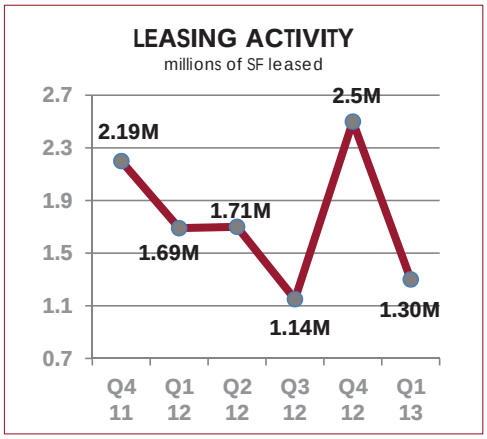
Office Strives to Regain Traction After Strong Year-end Showing

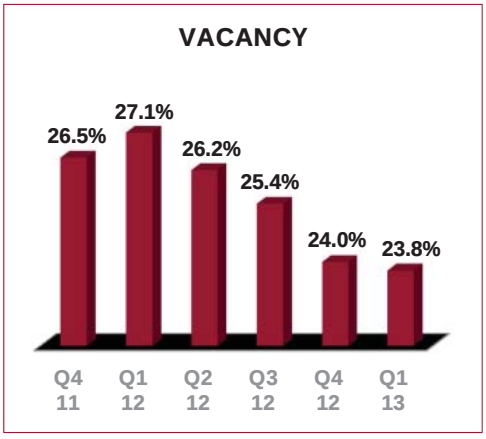
The Phoenix office market has been making steady gains during the past two quarters and was the last commercial real estate sector to rise from the Great Recession. Continuation at that pace into 2013 was expected by many experts. Although the Phoenix office sector is still posting some positive data, both demand for space and the lack of office sector jobs (due in part to lingering concerns about the economy such as the government sequester), have slowed considerably.

On a positive note, vacancy is down and absorption is up for four straight quarters. Office product is back on a more healthy footing as foreclosures and short-sales have become an increasingly smaller percentage of the overall market. Additionally, the Phoenix economy is growing again due mostly to the rebounding housing market.

Conversely, office leasing activity is at its lowest level since Q2 2009 as market forces seemingly conspire against the office sector. Just when the news appears positive, a government-created sequester begins which will result in across the board cuts to government agencies and directly impacts the need for office space. The effect of the sequester is expected to multiply as the year progresses as government offices and providers to the government scale back.

Asking rental rates are down in 17 of 28 Valley office submarkets, compared with only 9 in the last quarter. Sales transactions are down 50% and are only one-tenth the dollar value of last quarter. Typically, there is a rush to complete deals by year end which in turn short-changes the first quarter of the following year. However, the first quarter drop this year was considerable. As for specific building types, medical office continues to flourish as other property types are still lagging.





The Fundamentals

The office sector posted a 23.8% vacancy rate, down 20-basis points from last quarter. Net absorption was down from last quarter's impressive showing but still managed a respectable 125,322 SF. In fact; it is the highest absorption total for a first quarter since Q1 2007. The Camelback Corridor posted the highest absorption at 146,168 SF, while the Scottsdale Airpark produced the most negative absorption at 165,416 SF. Construction activity remains low with only one 68,867 SF, Class A building under development by the Douglas Allred Company

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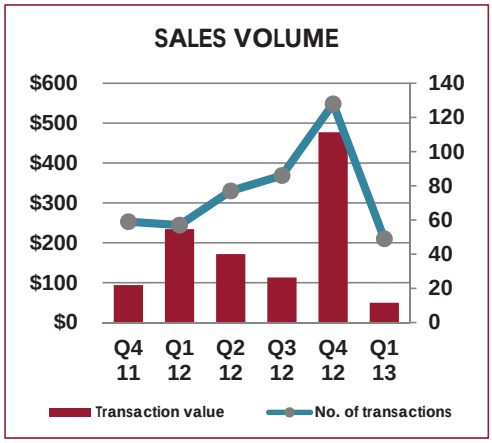
at 1340 S. Spectrum Blvd., Chandler.

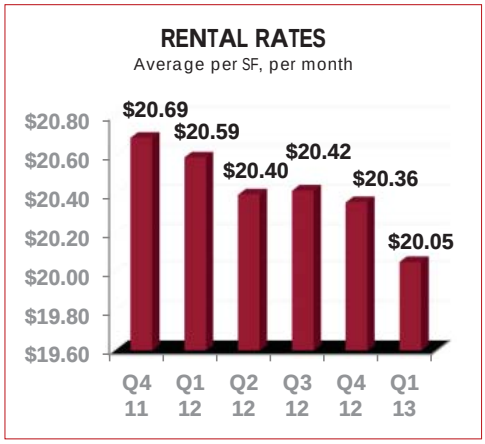
Because of continued limited new construction activity, there were no properties delivered to market this quarter. However, speculation that several high-rise properties will begin construction within the year in a few tight Class A submarkets such as Downtown Phoenix and Tempe. Rental rates showed a much larger drop this quarter losing 1.5% from last quarter. Overall average asking rental rates settled at $20.05 PSF.

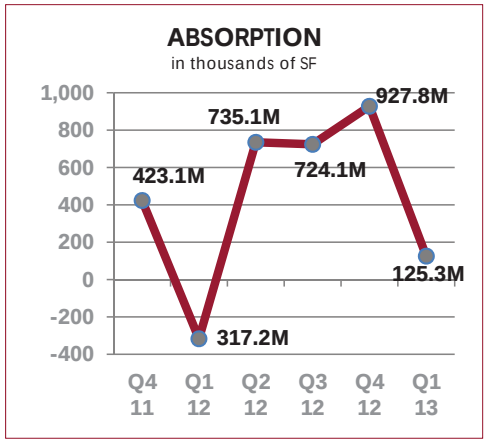
The largest lease transaction this quarter was at Metro Tech Center, 8900 N. 22nd Ave., Phoenix as Vangent, Inc. renewed their 124,552 SF lease. The largest single sales transaction for the quarter was the Presson Corp. purchase of the 14-building Scottsdale Executive Plaza, 6220 E. Thomas Rd., Scottsdale for $6,250,000. Price per square foot was calculated at $38.89. Sales activity at $49.7M is at the lowest level since Q3 2010. REIT's were the number one buyer type in the market at 49.4% this quarter compared with only 4.3% last quarter. Regional and national individual investors were the leading buyers in Q4 2012.

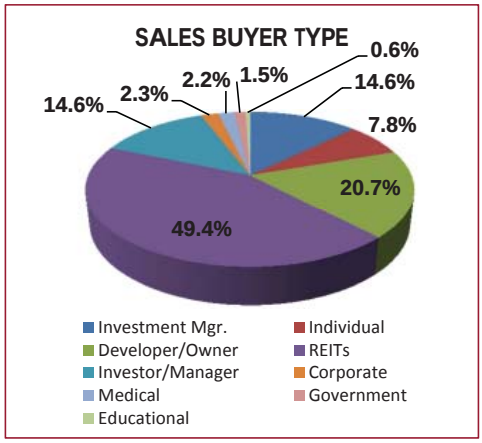


Overview

Players in the Valley office sector remain cautious and look to 2014-2015 as the real recovery period for the market. Still, there are many bargains to be had, attractive lease options to be signed and signature properties to be purchased. As in the past, the Valley economy will rise again, adding to the consternation of our tendency toward boom and bust cycles in this market. We're not booming yet in the office sector, but that may come sometime in the next few years.







Q1 2013 TOP LEASES

Property Name	Address	Tenant Name	Class	Submarket	Square Feet	Type
Metro Tech Center	8900 N. 22nd Ave., Phoenix	Vangent, Inc.	A	Northwest Phoenix	124,552	Renewal
Raintree Corporate Center	8800 E. Raintree Dr., Scottsdale	Meritage Homes	A	Scottsdale Airpark	53,569	Move in
Arizona Business Park	15451 N. 28th Ave., Phoenix	Northern Arizona Univ.	B	Deer Valley Airport	40,355	Move in
Papago Spectrum	1225 W. Washington St., Phoenix	Union Bank	A	Airport Area	41,670	Move in
Mesa Corporate Center	1001 W. Southern Ave., Mesa	Allstate Insurance	B	Superstition Corridor	33,560	Move in
Camelback Lakes Corp. Center	2850 E. Camelback Rd., Phoenix	BBVA Compass	A	Camelback Corridor	29,792	Renewal
The Reserve at San Tan	335 E. Germann Rd., Gilbert	Veterans Administration	B	Chandler	24,324	Move in
4600 E. Washington St.	4600 E. Washington St., Phoenix	Cox Media	A	44th Street Corridor	23,354	Move in

Q1 2013 TOP SALES

Property Address	Buyer	Seller	Class	Sales Price	Square Feet	PSF
6220 E. Thomas Rd., Scottsdale	Presson Corp.	The Muller Co.	B	$6,250,000	160,693	$38.89
755 E. McDowell Rd., Phoenix	Banner Health	Zeitlin Family Partnership	B	$6,169,742	93,411	$66.05
2400 W. Dunlap Ave., Phoenix	Cresent RE Investments	The Muller Co.	B	$5,725,000	108,451	$52.79
5365 N. 99th Ave., Glendale	Titanium RE Advisors	Regent Properties	B	$4,300,000	17,099	$239.78
16454 N. 28th Ave., Phoenix	Sequioa School LLC	Crown West Realty, LLC	B	$3,549,825	26,625	$133.33
1900 S. Price Rd., Chandler	Digital Realty Trust, Inc.	Amkor Technology	B	$2,937,883*	41,590	$70.64
2400 N. Central Ave., Phoenix	Gabor Larant Architects, Inc.	Wells Fargo Bank, NA	B	$2,430,116	50,063	$65.12
5040 N. 15th Ave., Phoenix	Centum Health Properties	RJ Camelback Med. Plaza	B	$2,825,000	45,936	$61.50

*Multi-property sale reflects exclusion of industrial property and land parcel portion of transaction.

Submarkets	Total Inventory	Vacancy		Net Absorption		Under Construction	Building Completions		Asking FS Rate	Change from Q3
		Total SF	Q1 2013	Q1 2013	YTD 2013		Q1 2013	YTD 2013		
1. Downtown Phoenix	6,907,319	1,104,278	16.0%	(3,923)	(3,923)	-	-	-	$24.39	-0.5%
2. Midtown Phoenix	9,736,559	2,222,265	28.0%	(40,465)	(40,465)	-	-	-	$19.51	-0.8%
3. East Phoenix	1,541,973	343,637	22.3%	16,706	16,706	-	-	-	$14.99	1.2%
4. 44th St. Corridor	4,849,845	676,263	13.9%	27,127	27,127	-	-	-	$21.02	1.7%
5. Camelback Corridor	8,031,857	3,054,848	26.8%	146,168	146,168	-	-	-	$23.15	0.6%
6. Piestewa Corridor	2,085,334	571,030	27.4%	3,986	3,986	-	-	-	$17.05	-2.2%
7. Northwest Phoenix	5,136,154	1,133,107	26.0%	36,906	36,906	-	-	-	$16.68	-1.6%
8. Southwest Phoenix	883,183	276,277	31.3%	(10,177)	(10,177)	-	-	-	$19.49	0.2%
9. Airport Area	5,069,073	1,020,367	20.1%	(4,002)	(4,002)	-	-	-	$18.82	1.8%
10. South Tempe/Ahwatukee	2,810,475	848,786	30.2%	5,988	5,988	-	-	-	$18.25	-8.6%
11. Tempe	2,492,808	405,024	16.2%	70,886	70,886	-	-	-	$17.72	-1.2%
12. Scottsdale South	3,816,486	736,811	19.3%	5,761	5,761	-	-	-	$20.98	-1.2%
13. Central Scottsdale	4,998,062	1,119,939	22.4%	(33,608)	(33,608)	-	-	-	$21.79	0.1%
14. Paradise Valley	2,193,416	587,712	27.3%	28,626	28,626	-	-	-	$20.48	-0.4%
15. Deer Valley Airport	3,951,912	1,110,680	30.9%	54,123	54,123	-	-	-	$17.61	-8.7%
16. Arrowhead	798,021	245,690	30.8%	5,872	5,872	-	-	-	$19.26	-5.2%
17. Glendale	1,368,672	439,203	32.1%	6,409	6,409	-	-	-	$19.31	-13.2%
18. Chandler	2,206,025	405,200	18.4%	(12,946)	(12,946)	68,867	-	-	$21.46	-1.9%
19. Gateway Airport /Loop 202	504,974	261,015	51.7%	36,619	36,619	-	-	-	$22.36	0.1%
20. Superstition Corridor	2,109,897	731,894	34.7%	(68,053)	(68,053)	-	-	-	$17.55	-2.8%
21. Mesa Downtown	355,073	82,485	23.2%	-	-	-	-	-	$18.05	0.0%
22. Mesa East	68,424	19,415	28.4%	-	-	-	-	-	$15.37	0.0%
23. Scottsdale Airpark	8,079,313	1,550,626	26.1%	(165,416)	(165,416)	-	-	-	$22.23	-0.5%
24. N. Scottsdale/Carefree	354,518	207,016	58.4%	3,670	3,670	-	-	-	$20.95	-0.6%
25. N. Phoenix/Cave Creek	13,607	5,041	37.0%	-	-	-	-	-	$12.00	0.0%
26. North I-17	150,936	82,130	54.4%	-	-	-	-	-	$15.80	-18.6%
27. Loop 303/Surprise	410,552	115,710	28.2%	1,314	1,314	-	-	-	$22.39	-0.7%
28. West I-10	585,491	81,484	13.9%	13,751	13,751	-	-	-	$21.18	4.9%
Phoenix Metro	**81,547,388**	**19,333,816**	**23.8%**	**125,322**	**125,322**	**68,867**	**-**	**-**	**$20.05**	**-1.5%**
By Building Type										
Metro Class A	33,672,560	7,831,549	23.3%	(14,099)	(14,099)	68,867	-	-	$23.06	-0.3%
Metro Class B	44,551,286	10,748,504	25.4%	172,743	172,743	-	-	-	$18.14	-2.3%
Metro Class C	3,323,542	753,763	22.6%	(33,322)	(33,322)	-	-	-	$14.17	-4.6%
Phoenix Metro	**81,547,388**	**19,333,816**	**23.8%**	**125,322**	**125,322**	**68,867**	**-**	**-**	**$20.05**	**-1.5%**

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Industrial market statistics are compiled using a third-party database for the analysis of over 8,700 distribution, flex, manufacturing and warehouse buildings in the Phoenix Metropolitan Area.

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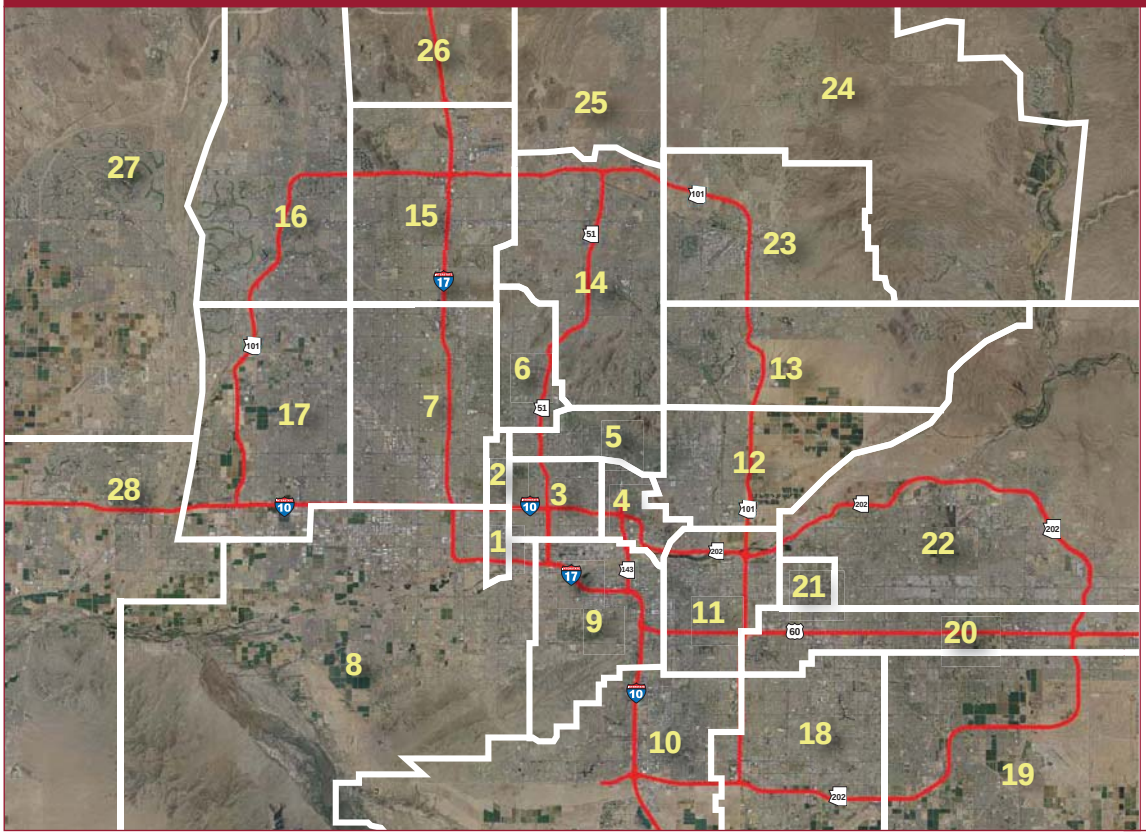
PHOENIX OFFICE MARKET REPORT Q1 2013

PHOENIX OFFICE SUBMARKETS



1. Downtown Phoenix
2. Midtown Phoenix
3. East Phoenix
4. 44th St. Corridor
5. Camelback Corridor
6. Piestewa Corridor
7. Northwest Phoenix
8. Southwest Phoenix
9. Airport Area
10. South Tempe/Ahwatukee
11. Tempe
12. South Scottsdale
13. Central Scottsdale
14. Paradise Valley
15. Deer Valley Airport
16. Arrowhead
17. Glendale
18. Chandler
19. Gateway/Loop 202
20. Superstition Corridor
21. Mesa Downtown
22. Mesa East
23. Scottsdale Airpark
24. N. Scottsdale/Carefree
25. N. Phoenix/Cave Creek
26. North I-17
27. Loop 303/Surprise
28. West I-10

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Report prepared by: Matt DePinto, Senior Research Analyst

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