



## Q2 TRENDS AT A GLANCE

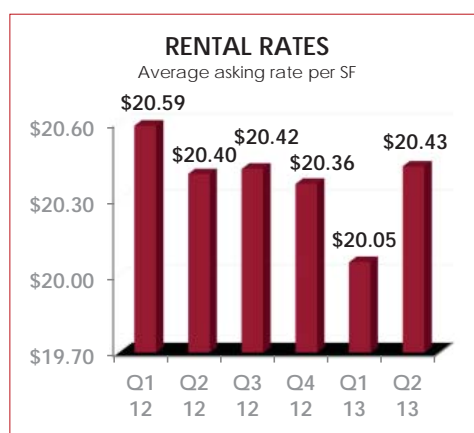
➔	<b>Absorption</b> 290,166 SF
➔	<b>Vacancy</b> Down 10 basis points to 23.7%
➔	<b>Average Asking Rent</b> Up 1.9% to \$20.43/SF
↔	<b>Under Construction</b> 68,867 SF
➔	<b>New Supply Delivered</b> 139,403 SF
➔	<b>Sales Transactions</b> \$227 million
➔	<b>Average Sales PSF</b> \$94.49 PSF
➔	<b>Lease Activity</b> 1,311,358 SF
	<b>Unemployment Rate</b>
	PHX Metro: Down 6.2%
	Arizona: Up 7.8%
	U.S.: Down 7.6%

## Office Sector Optimism Growing, High-Profile Projects on Horizon

There is new optimism in the office market as the sector is exhibiting positive vacancy, absorption, rental rates and sales velocity. Office had been the slowest commercial sector to recover and is finally showing signs of accelerated growth.

Though vacancy rates remain historically high, there has been a steady trend downward over the past year by over 400 basis points. With only four properties added to the inventory in the past 18 months, stronger than expected absorption has been chipping away at vacancy rates. As a result, many have predicted that the office sector will be hitting on all cylinders in 2014-2015.

Overbuilding worries from the past decade have been revived with construction talk again. This time experts believe that the new projects will be developed in submarkets that are lacking quality, Class A product with large contiguous blocks of space. To this point, several

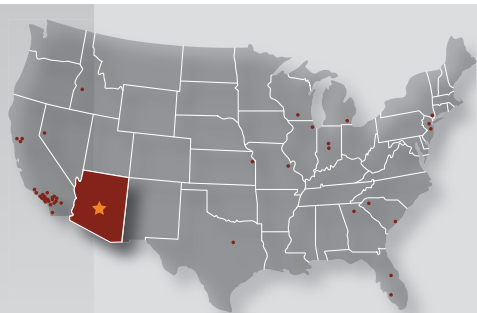
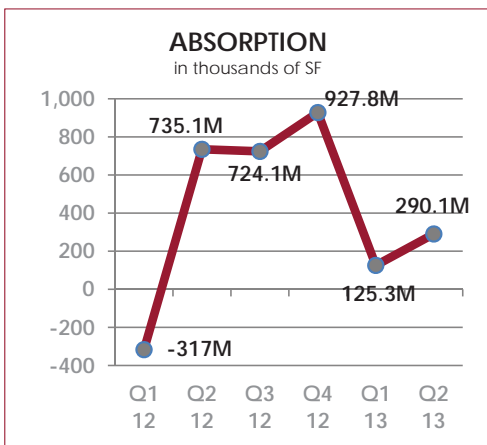


large projects have been proposed in both Phoenix and Tempe downtowns.

The Ryan Companies and Sunbelt Holdings announced they will develop a 2 million SF mixed-use project estimated to cost \$600 million at Tempe Town Lake called Marina Heights. It will also house the new regional headquarters for State Farm Insurance as well as office, retail and recreational spaces. Additionally, the Hayden Ferry Lakeside development adjacent to Marina Heights, is planning a new, 260,000 SF office tower to join the other two towers. Other submarkets with stronger Class A absorption over the past year such as Downtown Phoenix, have also garnered interest with developers who are in initial planning stages for several high rise buildings, including one by Barron Collier & Co.

### The Fundamentals

The office market posted a 23.7% vacancy rate, down only 10 basis points, but still moving in the right direction. In fact, office vacancy is now at its



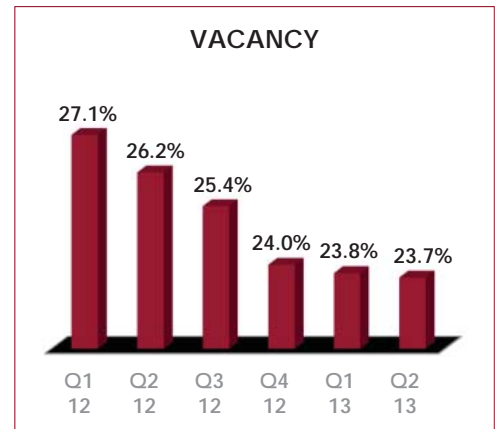
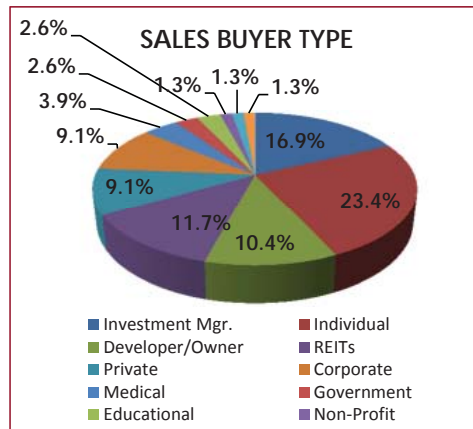
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lowest level since Q1 2009. Absorption has risen by 290,166 SF this quarter, more than double last quarter's total. However, since Q1 2009 absorption has only risen by 1.42 million.

One building was delivered to market this quarter. Aetna Insurance leased 139,403 SF at Liberty Cotton Center, 4500 E. Cotton Center Blvd. in Phoenix. The 68,867 SF building at 1340 S. Spectrum Blvd. in Chandler is the only office building under construction in the Phoenix market again this quarter.

Rental rates rose by nearly 2% to \$20.43 per square foot from last quarter and posted its highest level since Q1 2012. Lease activity is up by total number of transactions this period, but down in overall SF by nearly 200,000 SF. The largest lease transaction signed this quarter was for General Motors taking 169,998 SF at the still proposed Chandler Freeway Crossing II, 2800 W. Geronimo Pl., Chandler. Move in is expected in April 2014.



Sales volume increased dramatically this quarter to \$227 million in total transactions compared with only \$49.7 million last quarter. The number of transactions also increased from 52 to 93. The largest sales transaction for the quarter was the JDM Partners, LLC purchase of the five-building State Farm Insurance property at 2900 S. Sunland Dr in Tempe. The sale/leaseback transaction was for \$73,000,000 consisting of four office and one flex industrial building. The 333,437 SF office portion of the sale was allocated at \$66,097,690. Price per square foot

was calculated at \$218.93.

**Overview**

The Phoenix office sector is enjoying rockstar status as of late with talk of bold, new projects and a rebounding of the local and U.S. economy. Compared with other markets, some have come to the conclusion that the Phoenix office market doesn't have too much to be excited about; but then again, they didn't experience what happened here a few years ago. Being bullish on this sector is not something to be taken lightly. The future is looking good.

**Q2 2013 TOP LEASES**

Property Name	Address	Tenant Name	Class	Submarket	Square Feet	Type
Chandler Freeway Crossing II	2800 W. Geronimo Pl., Chandler	General Motors	B	Chandler	169,998	New
Continuum Business & Tech Park	2501 S. Price Rd., Chandler	OnTrac	A	Chandler	60,276	New
Collier Center	201 E. Washington St., Phoenix	Lewis & Roca	A	Downtown	55,642	New
Hayden Ferry Lakeside II	60 E. Rio Salado Pkwy., Tempe	Lifelock, Inc.	A	Tempe	51,204	Renewal
Viad Corporate Center	1850 N. Central Ave., Phoenix	Dickinson Wright, PLLC	A	Midtown	50,119	New
Westgate-East Building	6770 N. Sunrise Blvd., Glendale	Terminix	B	Glendale	33,632	New
Hayden Ferry Lakeside II	60 E. Rio Salado Pkwy., Tempe	Lifelock, Inc.	A	Tempe	22,910	New
Crossroads of Tempe	309 W. Elliot, Tempe	CGI Technology	B	S. Tempe/Ahwatukee	22,674	New

**Q2 2013 TOP SALES**

Property Address	Buyer	Seller	Class	Sales Price	Square Feet	PSF
2700 S. Sunland Dr., Tempe, AZ (5)	JDM Partners, LLC	State Farm Insurance*	B	\$66,097,690**	333,437	\$218.93
5355 E. High St., Phoenix (8)	ScanlanKemperBard Cos.	Capmark Financial, Inc.	A	\$64,029,011***	451,269	\$141.88
25600 N. Norterra Pkwy., Phoenix (2)	Griffin Capital Essential Asset REIT	USAA Real Estate Co.	A	\$54,500,000	232,648	\$234.26
111 W. Rio Salado Pkwy., Tempe	Parkway Properties, Inc.	Carey REIT II, Inc.	A	\$41,765,000	225,000	\$248.99
20414 N. 27th Ave., Phoenix	Talia Jevan Properties, Inc.	Winthrop Financial Assoc.	A	\$20,500,000	81,875	\$250.38
1702 E. Highland Ave., Phoenix	Griffin Partners	Parkway Fountains, LLC	B	\$9,300,000	80,465	\$139.54
6402 E. Superst. Sprgs. Blvd., Mesa	Meyer Farms LLC	Daryl A. Wolfswinkel	B	\$7,100,000	53,823	\$131.91
1220 S. Higley Rd., Mesa	Campus Professional Plaza, LLC	Higley Medical Properties	B	\$5,940,000	18,872	\$314.75

( ) No. of buildings      \*Sale Leaseback      \*\*State Farm transaction was \$73M which included 4 office and 1 flex building. The flex building was removed from the totals listed above  
\*\*\*CityNorth portfolio sold for \$67M which included 7 office and 1 multifamily building. The multifamily building was removed from the totals above.

Submarkets	Total Inventory	Vacancy		Net Absorption		Under Construction	Building Completions		Asking FS Rate	Change from Q1
		Total SF	Q2 2013	Q2 2013	YTD 2013		Q2 2013	YTD 2013		
1. Downtown Phoenix	6,907,319	1,074,455	15.6%	15,162	11,239	-	-	-	\$24.61	0.9%
2. Midtown Phoenix	9,736,559	2,901,675	29.8%	(21,659)	(202,124)	-	-	-	\$19.41	-0.5%
3. East Phoenix	1,557,403	338,317	21.7%	5,320	22,026	-	-	-	\$14.98	0.0%
4. 44th St. Corridor	4,844,331	668,895	13.8%	21,123	45,310	-	-	-	\$21.39	1.8%
5. Camelback Corridor	8,024,434	2,001,429	24.9%	109,149	285,726	-	-	-	\$22.95	-0.9%
6. Piestewa Corridor	2,085,334	557,169	26.7%	13,861	17,847	-	-	-	\$17.34	1.7%
7. Northwest Phoenix	5,118,043	1,540,233	30.1%	(143,767)	(112,802)	-	-	-	\$17.05	2.2%
8. Southwest Phoenix	883,183	276,277	31.3%	-	(10,177)	-	-	-	\$19.39	-0.5%
9. Airport Area	5,208,476	1,165,064	22.4%	(5,294)	(9,296)	-	139,403	139,403	\$20.54	1.7%
10. South Tempe/Ahwatukee	2,810,475	821,212	29.2%	27,574	33,562	-	-	-	\$19.99	9.5%
11. Tempe	2,491,544	387,995	15.6%	17,029	87,915	-	-	-	\$18.47	4.2%
12. Scottsdale South	3,818,961	690,026	18.1%	46,785	52,546	-	-	-	\$21.10	0.6%
13. Central Scottsdale	4,998,062	1,044,092	20.9%	56,974	23,366	-	-	-	\$21.79	0.0%
14. Paradise Valley	2,188,015	570,157	26.1%	36,431	57,953	-	-	-	\$20.99	2.5%
15. Deer Valley Airport	3,953,840	1,165,712	29.5%	54,968	109,091	-	-	-	\$19.22	9.4%
16. Arrowhead	798,021	242,198	30.3%	162	6,034	-	-	-	\$20.46	6.2%
17. Glendale	1,368,205	421,715	30.8%	17,488	23,897	-	-	-	\$22.19	14.9%
18. Chandler	2,202,423	421,144	19.2%	(35,053)	(47,999)	68,867	-	-	\$21.87	1.9%
19. Gateway Airport/Loop 202	504,974	256,705	50.8%	4,310	40,929	-	-	-	\$22.66	1.3%
20. Superstition Corridor	2,109,667	683,350	32.4%	12,984	19,509	-	-	-	\$18.14	3.4%
21. Mesa Downtown	360,601	35,110	9.7%	47,375	47,375	-	-	-	\$17.14	-5.0%
22. Mesa East	68,424	19,415	28.4%	-	-	-	-	-	\$15.37	0.0%
23. Scottsdale Airpark	8,075,351	2,079,278	25.7%	(2,968)	(213,677)	-	-	-	\$22.56	1.6%
24. N. Scottsdale/Carefree	346,705	203,380	58.7%	(1,767)	1,903	-	-	-	\$21.58	3.0%
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	0.0%
27. Loop 303/Surprise	410,806	98,810	24.1%	16,900	18,214	-	-	-	\$23.04	3.0%
28. West I-10	585,615	84,405	14.4%	(2,921)	10,830	-	-	-	\$21.15	-0.1%
Phoenix Metro	81,621,314	19,835,389	23.7%	290,166	319,197	-	139,403	139,403	\$20.43	1.9%

### By Building Type

Metro Class A	33,771,779	7,758,661	23.0%	182,620	184,108	68,867	139,403	139,403	\$23.17	0.2%
Metro Class B	44,563,332	11,314,547	25.5%	115,964	176,829	-	-	-	\$18.71	3.0%
Metro Class C	3,286,203	762,181	23.2%	(8,418)	(41,740)	-	-	-	\$14.39	1.5%
Phoenix Metro	81,621,314	19,835,389	23.7%	290,166	319,197	68,867	139,403	139,403	\$20.43	1.9%

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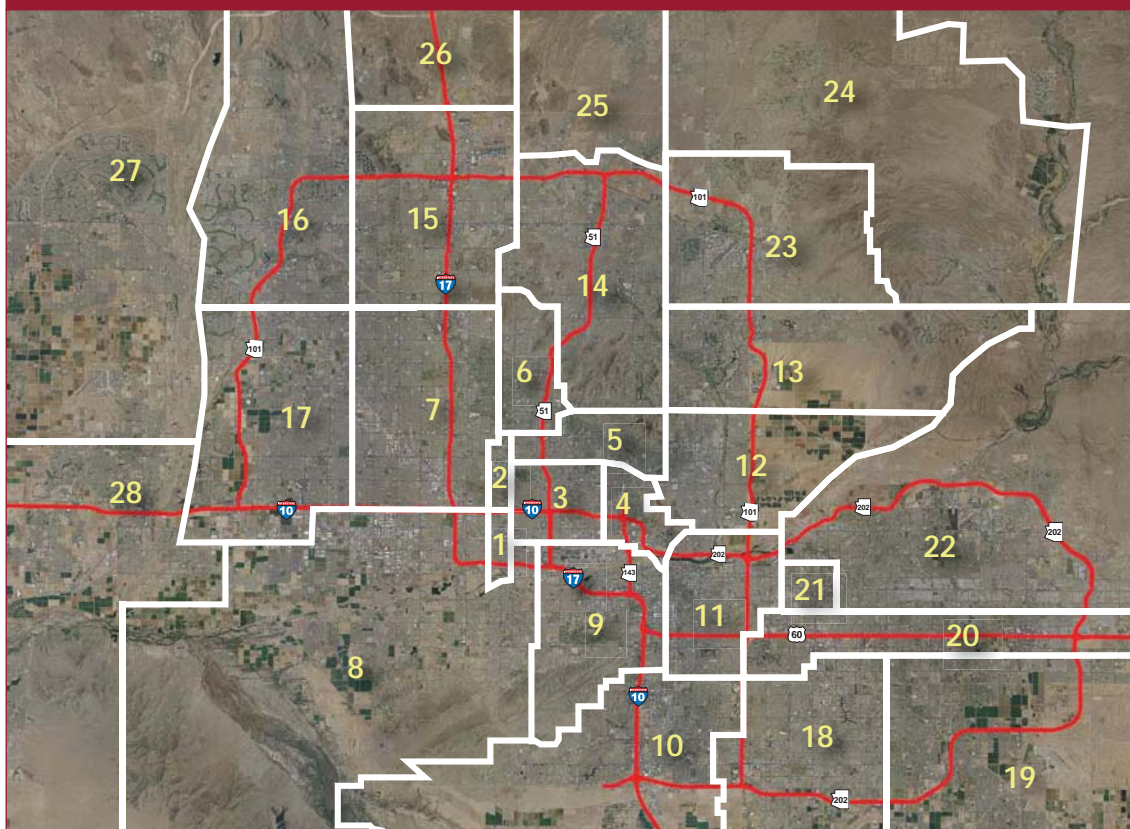
Office Market statistics are compiled using a select criteria by Lee & Associates that encompasses a select database of over 1,200 office investment properties above 10,000 SF in the Phoenix Metropolitan Area.

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**Report prepared by:**  
Matt DePinto, Senior Research Analyst



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. S. 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 Airport
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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