LEE & ASSOCIATES®
COMMERCIAL REAL ESTATE SERVICES

PHOENIX OFFICE MARKET REPORT Q313

Q3 TRENDS AT A GLANCE

Absorption
538,151 SF

Vacancy
Down 20 basis pts. to 23.5%

Average Asking Rent
$20.60

Under Construction
107,069 SF

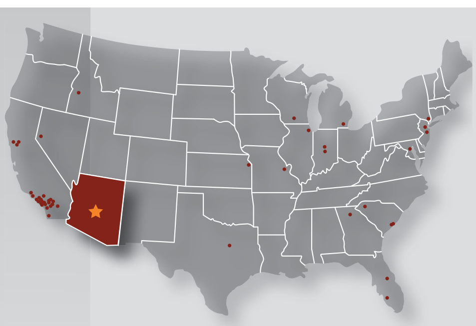
New Supply Delivered
68,867 SF

Sales Transactions
$295.6 million

Average Sales PSF
$145.00 PSF

Lease Activity
1,614,432 SF

Unemployment Rate
PHX Metro: Up 6.9%
Arizona: Up 8.3%
U.S.: Down 7.3%



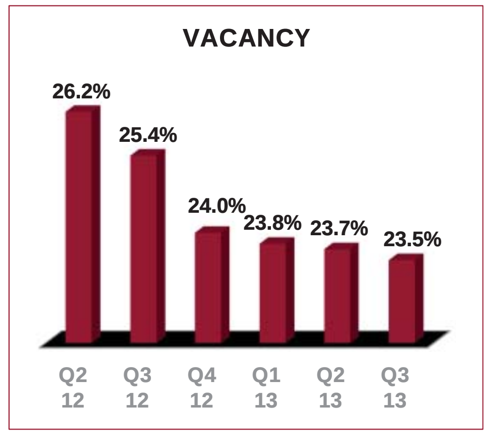
Lee & Associates Arizona is part of the 48 office Lee national network.

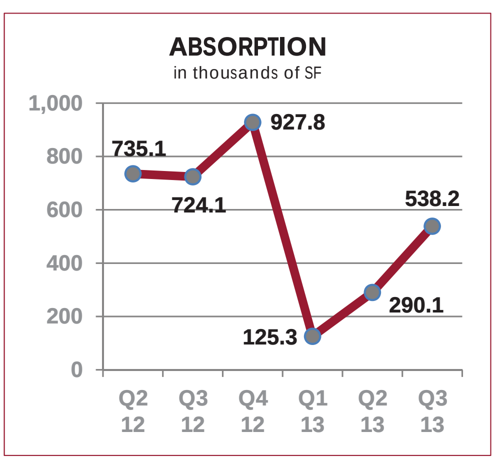
Valley Office Sector Begins Climb From Bottom, Outlook Brightens

It's been quite a year for the Phoenix office market. The sector has had 5 quarters of decreasing vacancies while absorbing over 2.6 million SF of space. With vacancies mired in the 20% range, the market still has a long way to go. What's unique currently is that it took 7 years prior to this current run to absorb as much as it has in just the past 5 quarters. If this trend continues, long-struggling properties could see increased occupancy and developers may begin to whisper of future projects.

Another important sign for the sector is the velocity of investment sales. Investors are keen on this market again and predict a wave of leasing opportunities coming in the next several years. As a result, new owners are putting a lot of money back into their assets. Many properties throughout the Valley are undergoing face lifts of every sort from revised and upgraded lobbies, landscaping and parking. Many Class A properties are positioning themselves within their submarket to best compete with an expected increase in leasing demand that has been forecasted for 2014-2015. If that forecast holds true, new construction could be proposed in tight submarkets such as Downtown Phoenix and Tempe.

There are several proposed build-to-suit developments that will feature much-needed large blocks of space for those looking to occupy highly-visible projects such as the much talked about State Farm project at Tempe Town Lake. The trend to build projects such as this provide tenants and developers more building opportunities throughout the Valley, compared with high rise buildings that are limited to Downtown and Midtown Phoenix. High rises are also harder to build and finance and have increased logistical issues. However, there could be a few mid-and high rises proposals in the Phoenix market in the next 24 months.





continued from Page 1

The Fundamentals

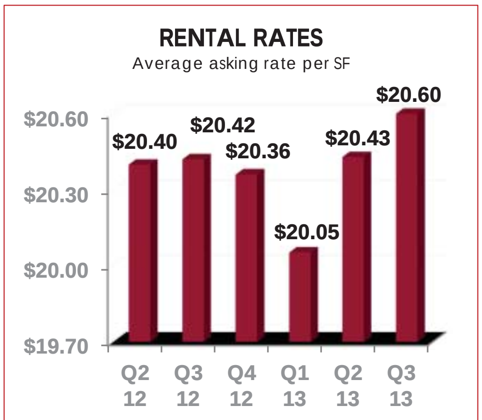
The Phoenix office market continues to post positive absorption for the quarter at 538,151 SF. This reflects a 20 basis point drop in vacancy from last quarter to 23.5% and a year-to-date total of 720,485 SF. The long struggling Midtown Phoenix submarket and Scottsdale Airpark both showed strong absorption this quarter among larger submarkets. For the year, the Camelback Corridor and Deer Valley Airport are both having a strong year.

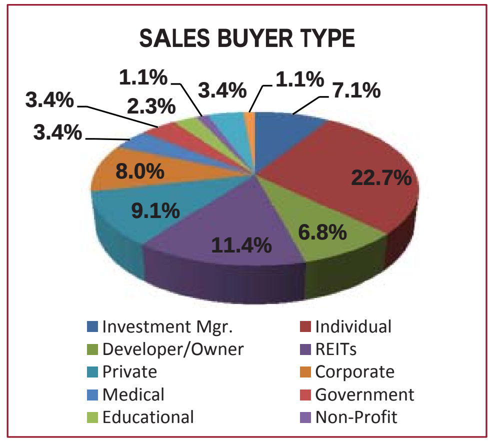
Asking rental rates moderated this quarter and are off stronger gains made last quarter. Still, rates are hovering at 2005 levels and have a long road to go to return to peak levels. Rate concessions are still in play as landlords try to renew leases and lure new tenants with attractive lease deals. It may be a year before many concessions begin to ease.

There are currently two projects in Chandler under construction. General Motors is building a 170,000 SF high-tech facility while Allred is constructing a 100,622 SF spec-building at Park Place. There was one 68,867 SF building brought to completion in Q3.

The largest lease for the quarter was for State Farm Insurance. They signed for 166,217 SF at 2118 E. Elliot Dr. in the Discovery Business Campus in Tempe. They also leased another 133,044 SF in the same office park which makes for a combined 299,261 SF signed this quarter. Occupancy begins Q1 2014.

In the largest office sales transaction for the quarter, Oaktree Capital Management purchased the Galleria Corporate Centre at 4343 N. Scottsdale Rd., Scottsdale from Helm Equities for $68.6M. The 442,132 SF property posted at $155.16 per square foot (PSF) rate.





Outlook

The office market is poised to make gains as certain sectors tighten. Owners are prepping their properties in anticipation of expected growth in 2014. Tenants will continue their move to quality while rates are at bargain prices; however, as vacancies shift downward, rates may firm up. The Phoenix office sector is back on track to outperform the past 5 years and it couldn't have come soon enough.

Q3 2013 TOP LEASES

Property Name	Address	Tenant Name	Class	Submarket	Square Feet	Type
Discovery Business Campus	2118 E. Elliot Dr., Tempe	State Farm	B	S. Tempe/Ahwatukee	166,217	New
Raintree Corp. Center, Phase II	15111 N. Pima Rd., Scottsdale	Vanguard	A	Scottsdale Airpark	135,847	New
Discovery Business Campus	2104 E. Elliot Rd., Tempe	State Farm	C	S. Tempe/Ahwatukee	133,044	New
Park Place, Bldg 5	1340 S. Spectrum Blvd., Chandler	Infusionsoft	A	Chandler	68,867	New
2455 S. 7th St., Phoenix	2455 S. 7th St., Phoenix	AZ Dept. of Econ. Sec.	C	Southwest Phoenix	38,739	New
Henkel Corporate Center	19001 N. Scottsdale Rd., Scottsdale	GPS Insight	A	Scottsdale Airpark	33,796	New
Take Charge America HQ	20620 N. 19th Ave., Phoenix	Progrexion	B	Deer Valley/Airport	32,736	New
Pima Northgate	14000 N. Pima Rd., Scottsdale	LoanDepot.com	A	Scottsdale Airpark	25,219	New

Q3 2013 TOP SALES

Property Address	Buyer	Seller	Class	Sales Price	Square Feet	PSF
4343 N. Scottsdale Rd., Scottsdale	Oaktree Capital Mgmt., L.P.	Helm Equities	B	$68,600,000	442,132	$155.16
3200 E. Camelback Rd., Phoenix	DPC Dev. Cos., Bridge Invest.	Muller Co.	A	$42,773,000	258,348	$165.56
6811 E.Mayo Blvd., Phoenix	Artis REIT	Miller Global Properties	A	$38,600,000	156,629	$246.44
16430 N. Scottsdale Rd., Scottsdale	Hines Co.	Cornerstone RE Advisors	A	$29,300,000	175,441	$167.01
2141-2151 E. Broadway Rd., Tempe*	GLL RE Partners, Inc.	LaSalle Investment Mgmt.	A	$27,100,000	164,126	$165.12
2149 W. Dunlap Ave., Phoenix	Cole Corp. Income Trust, Inc.	LBA Realty	B	$23,030,000	111,957	$205.70
Phoenix Medical Bldgs. MOB Portfolio	CNL Healthcare Properties, Inc.	Montecito Medical Invest.	B	15,654,864*	73,666*	$212.50
14646 N. Kierland Blvd., Scottsdale	Waitt Co.	DPC Development Cos.	A	$15,250,000	78,905	$193.27

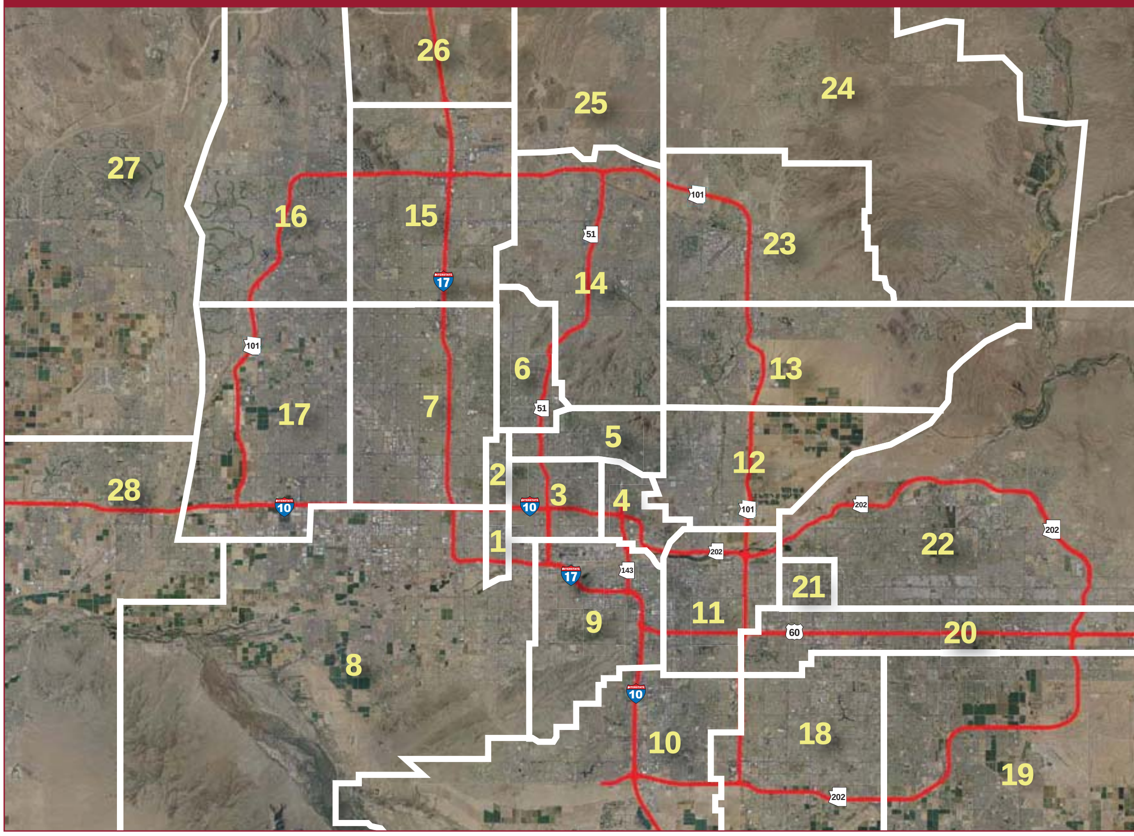
*Price and SF allocated to specific office properties within portfolio

Submarkets	Total Inventory	Vacancy Total SF	Vacancy Q3 2013	Net Absorption Q3 2013	Net Absorption YTD 2013	Under Construction	Building Completions Q3 2013	Building Completions YTD 2013	Asking FS Rate	Change from Q3
1. Downtown Phoenix	6,777,676	1,044,752	15.4%	35,669	7,766	-	-	-	$25.84	0.9%
2. Midtown Phoenix	9,686,843	2,754,238	28.4%	141,518	(60,606)	-	-	-	$19.38	-0.2%
3. East Phoenix	1,529,197	332,154	21.5%	9,163	31,189	-	-	-	$14.90	-0.5%
4. 44th St. Corridor	4,844,949	669,744	13.8%	(849)	44,461	-	-	-	$21.04	-1.6%
5. Camelback Corridor	8,025,431	1,992,487	24.8%	31,090	316,816	-	-	-	$23.48	2.3%
6. Piestewa Corridor	2,085,334	525,657	25.2%	31,512	49,359	-	-	-	$17.29	-0.2%
7. Northwest Phoenix	5,094,856	1,549,465	30.4%	20,985	(141,063)	-	-	-	$17.35	-0.2%
8. Southwest Phoenix	811,004	286,858	35.4%	(10,581)	(20,758)	-	-	-	$19.65	1.3%
9. Airport Area	5,208,476	1,196,163	23.0%	(31,099)	(40,395)	-	-	139,403	$19.00	-0.2%
10. South Tempe/Ahwatukee	2,802,093	913,226	32.6%	(92,014)	(58,452)	-	-	-	$20.34	1.8%
11. Tempe	2,493,186	354,537	14.2%	30,821	121,373	-	-	-	$19.48	5.5%
12. Scottsdale South	3,792,863	663,353	17.5%	26,673	47,978	-	-	-	$21.31	1.4%
13. Central Scottsdale	4,998,062	1,028,493	20.6%	66,539	57,838	-	-	-	$21.61	-0.8%
14. Paradise Valley	2,158,445	565,619	26.2%	7,711	62,491	-	-	-	$21.04	0.2%
15. Deer Valley Airport	3,953,822	1,070,252	27.1%	95,460	204,551	-	-	-	$19.11	-0.5%
16. Arrowhead	798,021	239,781	30.0%	2,417	8,451	-	-	-	$20.21	-1.2%
17. Glendale	1,363,705	418,923	30.7%	1,960	25,857	-	-	-	$21.74	-2.0%
18. Chandler	2,202,423	405,504	18.4%	17,640	(30,359)	107,069	68,867	-	$21.86	-0.4%
19. Gateway Airport/Loop 202	504,974	210,822	41.7%	20,943	61,872	-	-	-	$22.61	-0.2%
20. Superstition Corridor	2,110,567	663,472	31.4%	19,878	369	-	-	-	$18.00	-2.2%
21. Mesa Downtown	360,601	35,110	9.7%	0	47,375	-	-	-	$17.11	-0.8%
22. Mesa East	68,424	21,977	32.1%	(2,562)	(2,562)	-	-	-	$15.50	0.8%
23. Scottsdale Airpark	8,048,953	1,941,371	24.1%	112,995	(26,083)	-	-	-	$22.78	1.0%
24. N. Scottsdale/Carefree	346,705	198,556	57.3%	4,824	7,973	-	-	-	$21.62	0.2%
25. N. Phoenix/Cave Creek	13,607	5,041	26.6%	0	0	-	-	-	$12.00	0.0%
26. North I-17	150,936	82,130	54.4%	0	0	-	-	-	$19.33	-0.9%
27. Loop 303/Surprise	410,806	102,260	24.9%	(3,450)	14,764	-	-	-	$22.85	-0.8%
28. West I-10	571,241	78,497	13.7%	908	6,738	-	-	-	$22.65	7.1%
Phoenix Metro Total	**81,213,200**	**19,150,442**	**23.5%**	**538,151**	**720,485**	**107,069**	**-**	**139,403**	**$20.63**	**0.8%**
By Building Type										
Metro Class A	33,719,370	7,574,370	22.5%	178,746	346,238	107,069	68,867	208,270	$23.48	1.3%
Metro Class B	44,316,082	10,813,834	24.8%	366,172	422,754	-	-	-	$18.75	0.2%
Metro Class C	3,177,748	762,238	24.2%	(6,767)	(48,507)	-	-	-	$16.55	3.7%
Phoenix Metro Total	**81,213,200**	**19,150,442**	**23.5%**	**538,151**	**720,485**	**107,069**	**68,867**	**208,270**	**$20.60**	**0.8%**

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

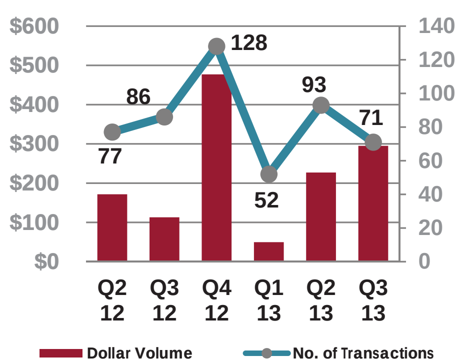
Market report analysis by:
Matt DePinto, Senior Research Analyst

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 Airpark
24. N. Scottsdale/Carefree
25. N. Phoenix/Cave Creek
26. North I-17
27. Loop 303/Surprise
28. West I-10

SALES VOLUME



LOOK TO LEE & ASSOCIATES ARIZONA FOR SOLUTIONS

Contact a Lee & Associates broker who can provide you with the most comprehensive market knowledge and expertise in the business. We specialize in:

Build-to-Suit
- For Lease or For Sale
- Facility Specification
- Bidding & Design Build Construction
- Expansion Planning

Fair Market Value Analysis
- Valuation of Land
- Valuation of Buildings and Other Improvements

Financial Analysis of Alternatives
- Comparing Alternative Proposals
- Purchase vs. Lease Analysis

Site Search
- Site Selection Criteria
- Development & Analysis

Sale-Leaseback
- Institutional Investors
- Private Investors

Disposition of Existing Buildings
- Locally & Nationally
- REO & Distressed-Asset Valuation & Sales

LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

Biltmore Commerce Center
3200 E. Camelback Road, Suite 100
Phoenix, AZ 85018 | 602.956.7777

Follow us on:

ABOUT LEE & ASSOCIATES

Founded in 1979, Lee & Associates is one of the largest commercial real estate services companies in the United States with 48 offices. Our seasoned shareholders and professionals offer comprehensive brokerage and advisory services. We develop customized solutions for all of your real estate needs through our market-to-market knowledge and versatility across all property types. Our unique business model of broker-ownership and extensive experience has helped us become one of the largest and most highly regarded commercial real estate providers in Arizona and the nation.