

Q1 2014

PHOENIX OFFICE

MARKET REPORT

726,707 SF

NET ABSORPTION-UP

22.1%

VACANCY-DOWN

876,700 SF

LEASING ACTIVITY-DOWN

1,945,720 SF

UNDER CONSTRUCTION-UP

117,710 SF

NEW SUPPLY DELIVERED-UP

\$20.85 SF

AVERAGE FS ASKING RENT-UP

\$132.79 SF

AVERAGE SALES PER SF-UP

\$328.5M

TOTAL SALES TRANSACTIONS-UP

MARKET HIGHLIGHTS

The Phoenix Office Market continues to make steady gains in 2014 with absorption, construction and rental rates all moving in a positive direction. Increased sales activity is also driving prices higher and certain submarkets like Chandler are reaping the benefits. The Valley office sector still has some hurdles to maneuver but is poised to shake off the high, 20-plus percent vacancy that has plagued it since 2008. As the office climate has improved over the past year, new projects, build-to-suit projects have risen mostly in the Chandler and Tempe submarkets. A few new spec projects have taken hold in the past year and more are planned as investors are now confident that these new projects will find the right tenant looking for state-of-the-art projects.

Vacancy for the Valley office sector has improved to 22.1%, down 110-basis points from the end of 2013. This has translated to a rise in net absorption of 726,707 SF. The Scottsdale Airpark submarket saw the most absorption for the quarter at 215,280 SF, followed by the South Tempe/Ahwatukee submarket which posted a 179,942 SF increase over last quarter.

Under construction activity has improved to 1,945,720 SF in 12 projects. The only new delivery was the 117,710 SF Leslie's Pool

headquarters building in East Phoenix.

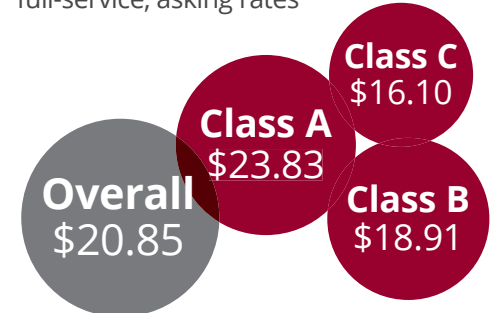
Lease activity in Q1 was less robust than expected, settling at 876,700 SF for this quarter. With all of the growing lease activity observed in 2013, this is a step back. Current lease activity indicates future positive absorption levels once the space is finally occupied. This could be a one quarter anomaly or could prove to be a trend as the second quarter numbers play out.

Asking rental rates have increased from \$20.66 FS (full-service) to \$20.85 FS this quarter, nearly a 1% increase. There were only eight submarkets with negative rate growth compared with eleven in Q4 2013. The highest overall rental rates were observed in Downtown Phoenix (\$25.04 PSF) and the Camelback Corridor (\$24.42 PSF). The largest lease transaction for the quarter was the Rural Metro lease for 90,000 SF at Pima Office Pavilion, Building 2 at 8465 N. Pima Rd. in Scottsdale.

Sales activity increased to \$328.5M in total sales transactions this quarter. Average price PSF was recorded at \$132.80. The largest sales transaction for the quarter was the Southwest Value Partners purchase of the \$51.7M, 463,658 SF office buildings at Continuum Business & Technology Park in Chandler.

RENTAL RATES

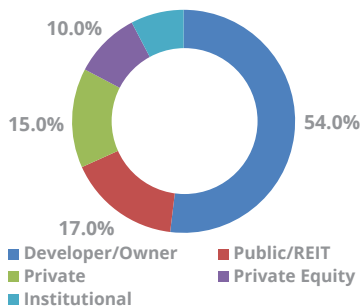
full-service, asking rates



Over the past year, the Phoenix office sector has made strides and should build upon those successes as this year rolls on and into 2015. This environment is providing investors the confidence they need to build, for landlords to demand higher rents and for tenants to commit to more space. After a devastating run during the Great Recession, the sector was struggling to keep its head above water. Now, with submarkets like Chandler, South Tempe/Ahwatukee and the Scottsdale Airpark driving the market, this momentum has already begun to affect the entire market, and hopefully, the rest of the sector will follow suit.

BUYER TYPE

Q1 14 SALES



TOP UNDER CONSTRUCTION PROJECTS

as of Q1 2014

Project	Major Tenant(s)	Building SF	Delivery
Marina Heights, Tempe	State Farm	1,015,000 SF	Q3 2015
Chandler Freeway Crossing II, Chandler	GM IT Tech Center	170,000 SF	Q3 2014
Liberty Center, Tempe	Wageworks*	155,000 SF	Q3 2014
Ryan at ASU Research Park, Tempe	GoDaddy	150,001 SF	Q4 2014
Skysong 3, Scottsdale	ASU*, WebFilings*	145,000 SF	Q2 2014
The Reserve at San Tan, Chandler	Spec.	105,830 SF	Q4 2014
Allred Park Place Central, Chandler	Spec.	100,622 SF	Q3 2014
400 N. Juniper Dr., Tempe	Garmin	67,000 SF	Q2 2014
Alliance Bank, Chandler	Alliance Bank	28,000 SF	Q2 2014

*Tenants not occupying entire SF.

ECONOMIC INDICATORS

as of Q1 2014

Unemployment

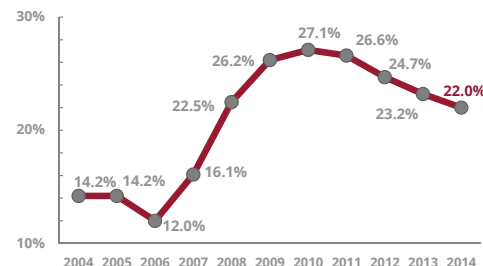
U.S.	Up to 6.7%
Arizona	Down to 7.3%
Phoenix Metro	Up to 6.7%

U.S. Consumer Price Index (CPI)	Up 0.1%
AZ Single Housing Permits	Down 0.4%

Source: Bureau of Labor Statistics, Arizona Dept. of Economic Security, Eller College of Management, University of Arizona

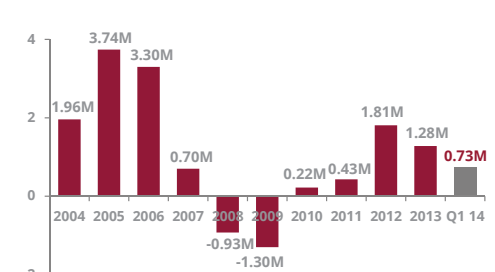
VACANCY

percentage, 2004-2014



ABSORPTION

in SF, 2004-2014



OFFICE SUBMARKET DATA

Office Submarkets	Total Inventory	Vacancy Rate		Net Absorption		Under Construction	Building Completions		Asking FS Rate	Change from Q4
		Total SF	Q1 2014	Q1 2014	YTD 2014		Q1 2014	YTD 2014		
1. Downtown Phoenix	6,785,114	1,055,172	15.6%	42,996	42,996	-	-	-	\$25.04	-0.6%
2. Midtown Phoenix	9,588,088	2,601,524	27.1%	63,215	63,215	-	-	-	\$19.87	1.1%
3. East Phoenix	1,646,543	354,622	21.5%	94,808	94,808	-	117,710	117,710	\$15.39	2.9%
4. 44th St. Corridor	4,869,744	710,027	14.6%	17,582	17,582	-	-	-	\$20.81	0.7%
5. Camelback Corridor	7,985,714	1,921,116	24.1%	(17,966)	(17,966)	-	-	-	\$24.42	2.0%
6. Piastewa Corridor	2,085,690	525,661	25.2%	(3,835)	(3,835)	-	-	-	\$17.30	0.1%
7. Northwest Phoenix	5,054,268	1,426,581	28.2%	14,649	14,649	-	-	-	\$16.63	-2.0%
8. Southwest Phoenix	846,231	290,142	34.3%	6,770	6,770	-	-	-	\$19.62	-0.5%
9. Airport Area	5,142,707	1,050,140	20.4%	(37,109)	(37,109)	154,067	-	-	\$18.94	-0.9%
10. South Tempe/Ahwatukee	2,773,011	596,394	21.5%	179,942	179,942	217,001	-	-	\$20.41	-0.1%
11. Tempe	2,482,014	282,376	11.4%	20,972	20,972	1,015,000	-	-	\$17.53	-7.2%
12. Scottsdale South	3,613,179	499,545	13.8%	(25,911)	(25,911)	145,000	-	-	\$21.66	1.2%
13. Central Scottsdale	4,985,966	940,919	18.9%	68,411	68,411	-	-	-	\$21.79	0.6%
14. Paradise Valley	2,159,247	578,964	26.8%	17,286	17,286	-	-	-	\$21.12	0.4%
15. Deer Valley Airport	3,954,026	1,068,733	27.0%	(893)	(893)	-	-	-	\$19.11	0.0%
16. Arrowhead	798,021	215,025	26.9%	15,384	15,384	-	-	-	\$20.36	0.6%
17. Glendale	1,351,405	356,884	26.4%	(1,249)	(1,249)	-	-	-	\$21.51	0.1%
18. Chandler	2,233,571	431,797	19.3%	30,090	30,090	414,652	-	-	\$22.12	1.4%
19. Gateway Airport/Loop 202	489,850	194,840	39.8%	(4,265)	(4,265)	-	-	-	\$24.24	8.0%
20. Superstition Corridor	2,016,851	516,003	25.6%	30,737	30,737	-	-	-	\$17.75	0.8%
21. Mesa Downtown	360,601	31,630	8.8%	2,000	2,000	-	-	-	\$17.12	0.0%
22. Mesa East	87,984	19,527	22.2%	1,400	1,400	-	-	-	\$15.59	0.4%
23. Scottsdale Airpark	8,037,992	1,692,070	21.1%	215,280	215,280	-	-	-	\$23.60	1.3%
24. N. Scottsdale/Carefree	347,086	197,739	57.0%	620	620	-	-	-	\$21.67	-0.1%
25. N. Phoenix/Cave Creek	13,607	5,041	37.0%	-	-	-	-	-	\$12.00	0.0%
26. North I-17	150,909	82,130	54.4%	-	-	-	-	-	\$19.47	0.7%
27. Loop 303/Surprise	410,900	109,507	26.7%	4,325	4,325	-	-	-	\$21.63	1.5%
28. West I-10	570,783	90,741	15.9%	(8,532)	(8,532)	-	-	-	\$21.78	-0.6%
Phoenix Metro Total	80,841,102	17,844,850	22.0%	726,707	726,707	1,945,720	117,710	117,710	\$20.85	0.9%
By Building Type										
Class A	33,830,287	7,263,688	21.5%	330,691	330,691	1,564,690	-	-	\$23.83	1.1%
Class B	43,907,872	9,837,232	22.4%	427,538	427,538	381,030	117,710	117,710	\$18.91	0.8%
Class C	3,102,943	743,930	23.9%	(31,522)	(31,522)	-	-	-	\$16.10	-0.7%
Building Type Total	80,841,102	17,844,850	22.1%	726,707	726,707	1,945,720	117,710	117,710	\$20.85	0.9%

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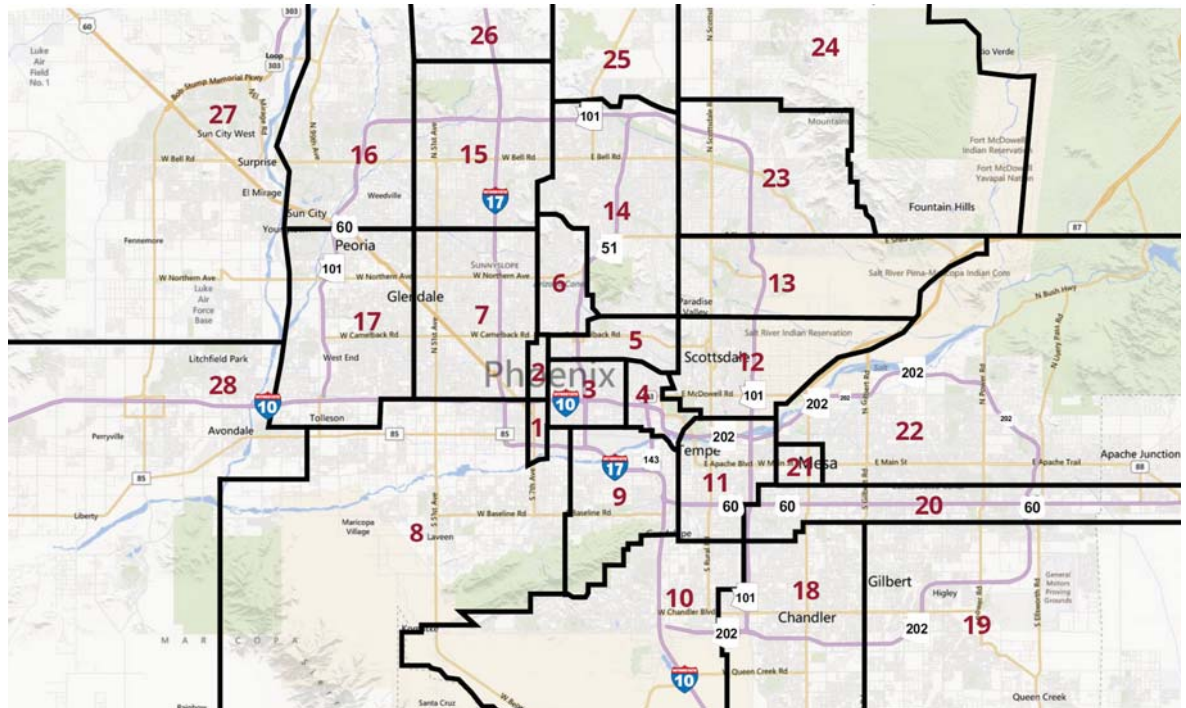
The Lee & Associates Office Market Report compiles relevant market data by using a third-party database for the proprietary analysis of specific office properties above 10,000 SF in the Phoenix Metropolitan Area.

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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. Piastewa Corridor
7. Northwest Phoenix
8. Southwest Phoenix
9. Airport Area
10. S. Tempe/Ahwatukee
11. Tempe
12. Scottsdale South
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



Q1 2014 TOP LEASES

Property Name	Address	Tenant Name	Class	Submarket	Lease SF	Type
Pima Office Pavillion, Bldg. 2	8465 N. Pima Rd., Scottsdale	Rural Metro	A	Central Scottsdale	90,000	New
Liberty Center at Rio Salado	1850 W. Rio Salado Pkwy., Tempe	Wageworks, Inc.	A	Airport Area	76,162	New
4441 E. McDowell Rd.	4441 E. McDowell Rd.	Practice Max	B	44th St. Corridor	18,000	Renewal
Riverside Office Plaza, Bldg. B	1155 W. Rio Salado Pky., Tempe	DHL	B	Airport Area	17,000	New
Airport Tech Center, Bldg. 2	4129 E. Van Buren St., Phoenix	Hot Chalk	B	44th St. Corridor	14,856	New

Q1 2014 TOP SALES

Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
2501 S. Price Rd., Chandler	Southwest Value Partners	Capital Commercial Invest.	B	\$51,750,000	463,658	\$111.61
9200 E. Pima Center Pkwy., Scottsdale**	CarVal Investors	GEM Realty Capital, Inc.	A	\$50,000,000	271,391	\$184.24
2700 W. Frye Rd., Chandler	W.P. Carey & Co., LLC	Regent Properties, Inc.	A	\$43,100,000	183,000	\$235.52
1711-1729 W. Greentree Dr., Tempe**	Dormin Investment Group	Wesport Capital Partners	B	\$24,845,334	164,476	\$151.06
2625 W. Grandview Rd., Phoenix	Griffin Capital Asset REIT	Najafi Companies	B	\$22,825,000	131,854	\$173.11

*Multiple Buildings.

**Four office, one flex building. Office allocated only.

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