



Q1
2015

MARKET
REPORT

PHOENIX
OFFICE

Phoenix Office Market Overview

As the overall economy continues improving, the Phoenix office sector is experiencing strong momentum in a variety of different measurements. Office construction, sales velocity and rents are all on the rise; however leasing activity remains muted.

The Valley is flooded with tenants in the market touring buildings and assessing future options. *Site Selection* magazine recently reported that Phoenix topped all other Pacific and Mountain region cities such as Los Angeles, San Francisco, Seattle, Denver and Salt Lake City in the number of firms choosing what city to relocate to. This is the confidence metric the industry has been searching for. Companies that had remained on hold for the past few years are now hiring and assessing the need for additional space or an improvement in the quality of their space by leaning toward higher-end product.

Another major bright spot in the office sector is construction as it continues to rise in key submarkets such as Chandler, Tempe and the Airport area. With low interest rates and easing financing requirements, some companies are choosing to build rather than lease existing space. This rising figure indicates confidence in the market as developers fill gaps with much sought-after product. Some larger

firms are opting to develop their own projects in order to secure the exact space and location they desire.

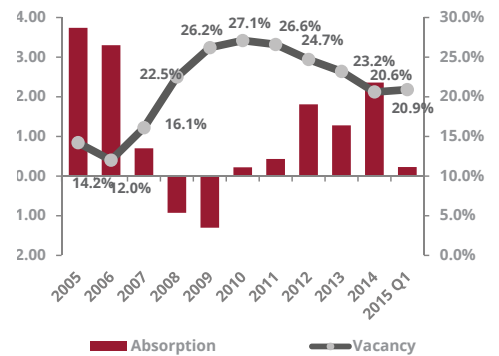
Leasing activity remains slow due to several factors such as office space job growth remains slow in some sectors and the desire to buy vs. lease. The number of months it takes to lease space in the Valley is at its highest level in over 10 years. The Phoenix market has an abundance of high-quality product available that, when sentiment changes, will facilitate an immediate uptake of vacant space.

Vacancy saw a 30-basis point retreat this quarter up to 20.9% even while there was modest net absorption of 241,665 SF. This abnormality is due to the delivery of nearly 400,000 SF of new inventory, two-thirds of which was vacant. With the onslaught of new projects being developed and added to market inventory, vacancy rates will drop more slowly over the next year. The office sector is on a more solid foundation than at any time since mid-2008, but still has a ways to go from the boom days of 2006.

New construction remains strong. As of Q1 2015, new construction posted over 4 million SF of space. Four-fifths of the total is for built-to-suit projects; Notably over 2M SF of space for State Farm's Marina Heights project under way in Tempe.

Absorption/Vacancy

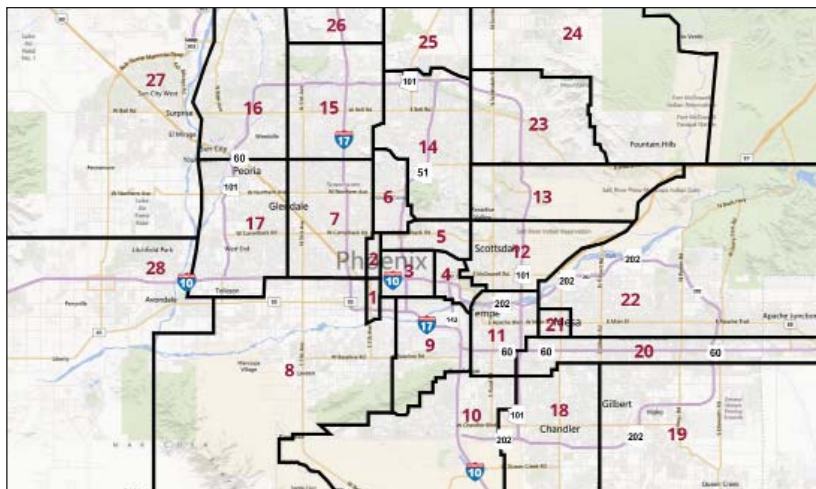
in SF, 2005-2015



Sales activity remains very strong with key assets changing hands at record price per square foot. High-quality Class A space has broken through the \$300 per SF mark. Camelback Esplanade III at 2415 E. Camelback Rd., in Phoenix sold this quarter for \$74,300,000 or \$340.41 per SF. The largest transaction of the quarter is the sale of the University of Phoenix headquarters at 4025 S. Riverpoint Pkwy., in Phoenix for \$183 million or \$305.17 per SF. The three-building, 599,664 SF deal was sold to EPIC, LLC of New York. The seller was American Realty capital Properties REIT. The space is leased by University of Phoenix.

Top 5 Office Construction Projects

Project	Address	Major Tenant(s)	Building SF	Delivery
Marina Heights (5)	300 Rio Salado Pkwy., Tempe	State Farm	2,108,000 SF	Q4 2015
Ocotillo Corporate Campus (2)	2700 S. Price Rd., Chandler	Wells Fargo	501,967 SF	Q2 2015
Rivulon (2)	155-175 E. Rivulon Blvd., Gilbert	Isagenix	275,000 SF	Q3 2015
Hayden Ferry Lakeside III	40 E. Rio Salado Pkwy, Tempe	Not disclosed	264,235 SF	Q4 2015
Mach One (2)	200 E. Yeager Dr., Chandler	Spec.	200,000 SF	Q1 2016



Phoenix Office Submarket Map

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. 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 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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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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Phoenix Office Submarket Data

Office Submarkets	Total Inventory	Vacancy Rate		Net Absorption		Under Construction	Building Completions		Asking FS Rate	Change from Q4
		Total SF	Q1 2015	Q1 2015	YTD 2015		Q1 2015	YTD2014		
1. Downtown Phoenix	6,799,915	992,023	14.6%	(140)	(140)	-	-	-	\$25.41	0.6%
2. Midtown Phoenix	9,627,202	2,677,260	27.8%	(87,190)	(87,190)	-	-	-	\$20.26	1.2%
3. East Phoenix	1,644,001	307,203	18.7%	12,779	12,779	-	-	-	\$15.93	2.4%
4. 44th St. Corridor	4,619,842	613,545	13.3%	57,535	57,535	-	-	-	\$22.74	0.6%
5. Camelback Corridor	7,963,942	1,705,411	21.4%	228	228	-	-	-	\$25.45	2.2%
6. Piastewa Corridor	2,089,674	538,672	25.8%	(98)	(98)	-	-	-	\$17.68	0.0%
7. Northwest Phoenix	4,994,433	1,370,992	27.5%	33,499	33,499	-	-	-	\$16.75	1.2%
8. Southwest Phoenix	831,382	266,680	32.1%	-	-	-	-	-	\$20.62	0.6%
9. Airport Area	5,305,337	1,171,938	22.1%	42,460	42,460	252,027	-	-	\$20.80	-0.2%
10. South Tempe/Ahwatukee	2,931,500	473,652	16.2%	51,523	51,523	-	96,649	96,649	\$22.00	3.7%
11. Tempe	2,479,784	274,571	11.1%	15,695	15,695	2,372,235	-	-	\$19.55	1.4%
12. Scottsdale South	3,620,144	432,807	12.0%	(26,760)	(26,760)	-	-	-	\$23.70	2.6%
13. Central Scottsdale	4,993,300	821,035	16.4%	(27,131)	(27,131)	70,000	-	-	\$23.16	3.0%
14. Paradise Valley	2,141,328	552,629	25.8%	34,116	34,116	-	-	-	\$22.99	-3.0%
15. Deer Valley Airport	3,962,195	1,059,442	26.7%	61,921	61,921	-	-	-	\$20.13	0.1%
16. Arrowhead	798,786	189,995	23.8%	8,892	8,892	-	-	-	\$21.07	-0.2%
17. Glendale	1,349,158	315,077	23.4%	8,523	8,523	-	-	-	\$20.85	-0.3%
18. Chandler	2,707,999	506,977	21.0%	16,739	16,739	1,478,725	294,145	294,145	\$24.06	3.2%
19. Gateway Airport/Loop 202	489,850	568,068	33.5%	5,707	5,707	-	-	-	\$24.18	0.3%
20. Superstition Corridor	1,947,122	514,910	26.4%	(20,743)	(20,743)	100,000	-	-	\$18.72	0.7%
21. Mesa Downtown	360,601	16,492	4.6%	24,290	24,290	-	-	-	\$19.41	2.2%
22. Mesa East	87,984	11,571	13.2%	1,025	1,025	-	-	-	\$17.58	0.0%
23. Scottsdale Airpark	8,082,878	1,602,472	19.8%	27,451	27,451	169,189	-	-	\$24.73	1.0%
24. N. Scottsdale/Carefree	347,086	194,755	56.1%	2,513	2,513	-	-	-	\$21.96	1.0%
25. N. Phoenix/Cave Creek	13,607	3,374	24.8%	-	-	-	-	-	\$12.00	0.0%
26. North I-17	150,909	87,020	57.7%	(1,487)	(1,487)	-	-	-	\$20.54	5.6%
27. Loop 303/Surprise	410,900	105,009	25.6%	(4,219)	(4,219)	-	-	-	\$21.58	-0.8%
28. West I-10	570,783	80,585	14.1%	(81)	(81)	-	-	-	\$21.33	0.1%
Phoenix Metro Total	81,321,642	17,066,729	20.9%	237,047	237,047	4,442,176	390,794	390,794	\$21.76	1.3%

By Building Type

Class A	34,881,841	6,940,340	19.8%	148,264	148,264	4,098,328	-	-	\$24.81	1.6%
Class B	43,558,669	9,652,851	22.1%	71,681	71,681	343,848	390,020	390,020	\$19.78	0.9%
Class C	2,881,133	473,538	16.4%	17,102	17,102	-	-	-	\$14.99	-1.3%
Building Type Total	81,321,643	17,066,729	20.9%	237,047	237,047	4,442,176	390,020	390,020	\$21.76	1.3%

Q1 2015 Top Office Leases

Property Name	Address	Tenant Name	Class	Submarket	Lease SF	Type
Phoenix Corporate Tower	3003 N. Central Ave., Phoenix	State of AZ-DCS	B	Midtown	112,323	New
Papago Buttes Corporate Center	1500 N. Priest Dr., Tempe	Endurance Int'l Group	A	44th St. Corridor	67,000	New
Corporate Center	14635 N. Kierland Blvd., Scottsdale	American Express	A	Scottsdale Airpark	46,634	New
Collier Center	201 E. Washington St., Phoenix	Uber Technologies, Inc.	A	Downtown	41,570	New
Chandler Forum	1975 S. Price Rd., Chandler	GM Financial	B	Chandler	21,850	New

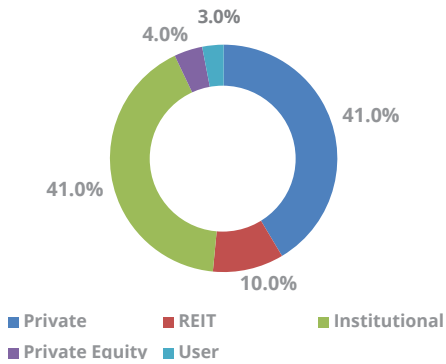
Q1 2015 Top Office Sales

Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
4025 S. Riverpoint, Phoenix (3)	EPIC, LLC	American Realty Capital	A	\$183,000,000	599,664	\$305.17
2201 E. Camelback Rd., Phoenix (2)	KBS REIT, Inc.	Angelo, Gordon & Co.	A	\$85,100,000	333,284	\$255.34
2415 E. Camelback Rd., Phoenix	Crown Holdings Capital, LLC	AEW Capital Management	A	\$74,300,000	218,266	\$340.41
1501 W. Fountainhead Pky., Tempe (5)	Cypress Office Properties	Principal Financial Group	A, B	\$71,500,000	476,079	\$150.19
16427 N. Scottsdale Rd., Scottsdale (2)	Lincoln Property Co.	Excel Trust, Inc.	A	\$65,000,000	256,175	\$253.73

() No. of buildings included in sale.

Office Buyer Type

Q1 15 Sales



Economic Indicators

as of Q1 2015

Unemployment

U.S.	Steady at 5.5%
Arizona	Down to 6.6%
Phoenix Metro	Down to 5.9%

U.S. Consumer Price Index (CPI)	Up 0.4%
Gross Domestic Product (GDP)	Up 2.2%

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

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