



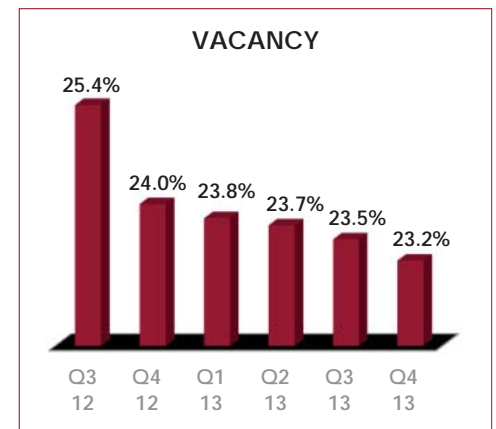
Q4 TRENDS AT A GLANCE

- **Absorption**
506,386 SF
- **Vacancy**
Down 30-basis points to 23.2%
- **Average Asking Rent**
\$20.66
- **Under Construction**
642,823 SF
- **New Supply Delivered**
None
- **Sales Transactions**
\$277.3 million
- **Average Sales PSF**
\$104.57 PSF
- **Lease Activity**
1.60M SF
- Unemployment Rate**
PHX Metro: Up - 6.8%
Arizona: No change - 7.8%
U.S.: Down - 6.7%

Steady Pace Fuels Confidence in Phoenix Office Market

The Valley office market continued its modest resurgence during the fourth quarter and is expected to make greater progress in 2014. The year began with vacancy at 80-basis points higher than at year end, seven straight quarters of positive net absorption and steady, if not stellar leasing activity. Major projects were announced including State Farm's new regional corporate campus and USA Place, both in Downtown Tempe. New construction has increased considerably from Q1 2013 which consisted of a lone flex office space under construction in Chandler.

The return of a more reliable economic picture including a growing GDP, a higher employment rate and a resolution to Washington gridlock on budget issues has instilled modest confidence with investors. With banks more willing to lend again, owners are able to invest in updating their properties to better compete as an increase in rental rates is expected

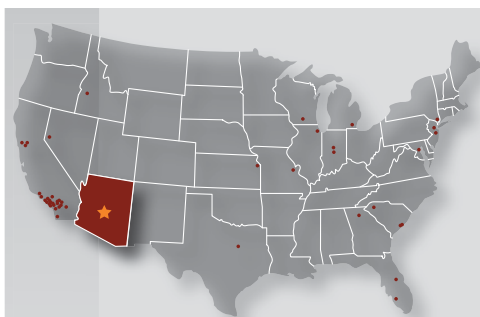


during 2014. Lending for new projects, which had been dormant for a long time, has begun to take shape with mostly build-to-suits and some spec projects with a marquee tenant in tow.

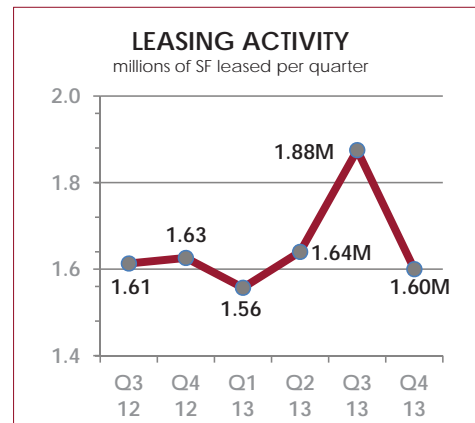
The Fundamentals

The Phoenix office market concluded 2013 by posting a Q4 vacancy rate of 23.2%, a modest 30-basis point drop from Q3. Vacancy rates have not been this low since Q1 2009 when the recession hit bottom. Since that time, except for a few quarters where there was a minor retreat, the Phoenix office market has progressed steadily and consistently without the wild swings found in other sectors.

Net absorption for the quarter posted a positive 506,386 SF. This is slightly below last quarter; however, posting a positive 1.28M SF for the year. The Camelback Corridor showed the



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highest absorption this quarter with the 44th Street Corridor having the most negative absorption for the quarter.

Buildings under construction totaled 642,823 SF and included several build-to-suit projects such as General Motors at 170,000 SF and GoDaddy at 150,001 SF to the latest phase of Skysong (III) at 145,000 SF and the all spec Allred Park Place Central, Building 4 at 100,622 SF. There were no building completions added to market inventory this quarter and only 246,999 SF for the year.

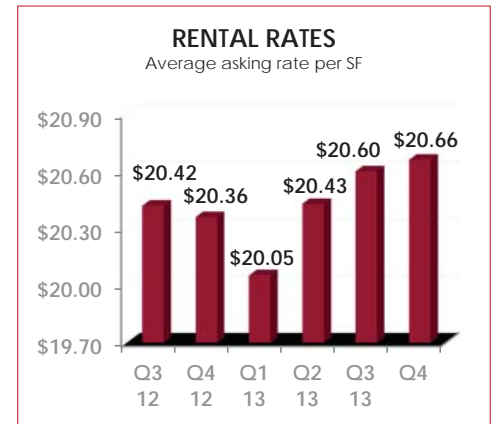
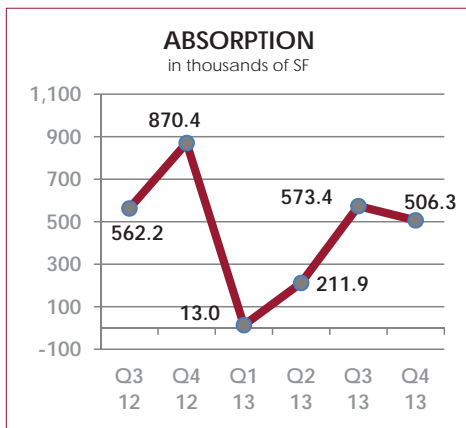
Rental rates continued to inch up and posted an average asking rate of \$20.66 per SF, a 0.3% increase over last quarter. Average rental rates are now back to what they were in Q4 2011.

Lease activity ended the quarter at 1.6M SF. Activity has remained very consistent in number of deals transacted each quarter for some time. However, lease size has consistently decreased due to corporate downsizing. As the economy improves, this trend is expected to improve somewhat, while many feel these changes could be permanent as business learns to live with less space. The largest lease transaction for the quarter was for Matric Absence Management which leased 68,554 SF at Desert Canyon Corporate Campus, 2421 W. Peoria Ave. in Phoenix.

Sales activity was lower this quarter posting \$277M compared with a revised \$390M sold last quarter. The largest sales transaction of the quarter was the \$57.5M sale of 100 E. University Dr. in Tempe. Brookfield Property Group was the seller while JP Morgan Chase was the buyer.

Outlook

The inevitable rise in the Phoenix office sector was expected; however, it still has a long way to go to break through to a sub-20% vacancy rate. With an increased level of activity and minimal building, the market inventory will tighten at a quicker pace. Many commercial real estate experts have pointed to a resurgent Phoenix office market with the same conviction as they pronounced its demise just a few years back. The answer is most likely somewhere in-between. That's a good place to be considering where this sector was a few short years ago.



Q4 2013 TOP LEASES

Property Name	Address	Tenant Name	Class	Submarket	Square Feet	Type
Desert Canyon Corp. Campus	2421 W. Peoria Ave., Phoenix	Matric Absence Mgmt.	A	Northwest	68,554	Move in
Phoenix Plaza, Tower II	2929 N. Central Ave., Phoenix	Abeinsa EPC	A	Midtown	55,926	Move in
City Square, 3838 Tower	3838 N. Central Ave., Phoenix	AZ Dept. of Transportation	B	Midtown	51,222	Move in
Camelback Esplanade	2525 E. Camelback Rd., Phoenix	Tiffany & Bosco, P.A.	A	Camelback	42,787	Move in
Allred Park Place Central, Bldg 2	1333 S. Spectrum Blvd., Chandler	INSYS Therapeutics	A	Chandler	34,945	Move in
Kierland II	16260 N. 71st St., Scottsdale	41st Parameter	A	Scottsdale Airport	32,141	Move in
Former Phx Memorial Hospital	1201 S. 7th Ave., Phoenix	Maricopa Integrated	B	Downtown	27,085	Renewal
U.S. Bank Center	101 N. 1st Ave., Phoenix	Jacobs Engineering Group	A	Downtown	26,490	Move in

Q4 2013 TOP SALES

Property Address	Buyer	Seller	Class	Sales Price	Square Feet	PSF
100 E. University Dr., Tempe	JP Morgan Chase Bank, NA	Brookfield Property Group	B	\$57,500,000	334,914	\$171.69
8667-8701 E. Hartford Dr., Scottsdale*	Desert Troon Cos., Inc.	CW Capital Asset Mgmt., LLC	A	\$26,000,000	230,000	\$113.04
8700 S. Price Rd., Tempe	CPA-Global, LLC	Piedmont Office Realty Trust	A	\$21,500,000	132,070	\$162.79
7424-7436 E. Stetson Dr., Scottsdale*	Alliance Residential Co.	Triyar Companies, LLC	B	\$18,500,000	89,700	\$202.57
645 E. Missouri Ave., Phoenix	ICIC Commercial Investments	For 1031 Missouri, LLC	A	\$16,000,000	187,446	\$73.63
4222 E. Thomas Rd., Phoenix	MIG Real Estate, LLC	Phoenix Seminary	B	\$10,555,000	89,835	\$117.49
1221-1313 E. Osborn Rd., Phoenix	Hyperion Fund	Aetna Health Insurance, Co.	B	\$8,500,000	89,214	\$95.28
1511 N. Project Dr., Tempe	SRP	Altier Credit Union	B	\$7,800,000	61,807	\$126.20

*Allocated office building from multiple mixed-property sales transaction

Submarkets	Total Inventory	Vacancy		Net Absorption		Under Construction	Building Completions		Asking FS Rate	Change from Q3
		Total SF	Q4 2013	Q4 2013	YTD 2013		Q4 2013	YTD 2013		
1. Downtown Phoenix	6,784,994	1,098,168	16.2%	11,841	19,601	-	-	-	\$25.20	-2.5%
2. Midtown Phoenix	9,685,549	2,761,884	28.5%	(8,738)	(69,344)	-	-	-	\$19.66	1.4%
3. East Phoenix	1,528,649	331,720	21.7%	19,434	28,623	-	-	-	\$14.95	0.3%
4. 44th St. Corridor	4,868,743	727,609	14.9%	(57,865)	(13,062)	-	-	139,403	\$20.66	-1.8%
5. Camelback Corridor	8,029,637	1,863,298	23.2%	112,486	445,994	-	-	-	\$23.83	1.5%
6. Piastewa Corridor	2,085,690	529,712	25.4%	(4,055)	45,304	-	-	-	\$17.28	-0.1%
7. Northwest Phoenix	5,093,911	1,490,124	29.3%	45,588	(95,475)	-	-	-	\$16.97	-2.2%
8. Southwest Phoenix	849,733	300,414	35.4%	(13,556)	(34,314)	-	-	38,729	\$19.71	0.3%
9. Airport Area	5,208,476	1,120,779	21.5%	75,384	(34,989)	-	-	-	\$19.11	0.6%
10. South Tempe/Ahwatukee	2,799,394	776,336	27.7%	29,799	78,438	217,001	-	-	\$20.43	0.4%
11. Tempe	2,482,686	303,348	12.2%	42,856	172,562	-	-	-	\$18.89	-3.3%
12. Scottsdale South	3,727,414	587,868	15.8%	84,982	123,463	145,000	-	-	\$21.40	0.4%
13. Central Scottsdale	4,998,062	1,009,330	20.2%	19,163	110,609	-	-	-	\$21.65	0.2%
14. Paradise Valley	2,159,505	596,250	27.6%	4,038	31,860	-	-	-	\$21.03	0.1%
15. Deer Valley Airport	3,954,054	1,067,840	27.0%	17,618	206,963	-	-	-	\$19.12	0.1%
16. Arrowhead	798,021	230,409	28.9%	9,372	17,823	-	-	-	\$20.24	0.1%
17. Glendale	1,351,405	355,635	26.3%	63,288	91,785	-	-	-	\$21.48	-1.2%
18. Chandler	2,247,971	461,887	20.5%	6,035	(24,324)	280,822	-	68,867	\$21.82	-0.2%
19. Gateway Airport/Loop 202	504,974	199,742	39.6%	14,815	86,476	-	-	-	\$22.45	-0.7%
20. Superstition Corridor	2,111,942	640,797	30.3%	14,875	23,044	-	-	-	\$17.61	-2.2%
21. Mesa Downtown	360,601	33,630	9.3%	1,480	58,368	-	-	-	\$17.11	0.0%
22. Mesa East	68,424	20,927	30.6%	1,050	(1,512)	-	-	-	\$15.53	0.2%
23. Scottsdale Airpark	8,050,424	1,907,350	23.7%	14,683	(11,400)	-	-	-	\$23.29	2.1%
24. N. Scottsdale/Carefree	347,086	198,359	57.1%	197	6,924	-	-	-	\$21.69	0.3%
25. N. Phoenix/Cave Creek	13,607	5,041	37.0%	0	0	-	-	-	\$12.00	0.0%
26. North I-17	150,936	82,130	54.4%	0	0	-	-	-	\$19.33	0.0%
27. Loop 303/Surprise	410,806	96,932	23.6%	5,328	20,092	-	-	-	\$22.30	-2.4%
28. West I-10	571,660	82,209	14.4%	(3,712)	3,026	-	-	-	\$21.92	-3.2%
Phoenix Metro Total	81,244,354	18,879,728	23.2%	506,386	1,286,535	642,823	-	246,999	\$20.66	0.3%

By Building Type

Metro Class A	33,778,388	7,577,951	22.4%	86,188	413,528	462,623	-	208,270	\$23.58	0.4%
Metro Class B	44,298,897	10,591,471	23.9%	347,082	861,756	180,200	-	38,729	\$18.75	0.0%
Metro Class C	3,167,069	710,306	22.4%	73,116	11,251	-	-	-	\$16.22	-2.2%
Phoenix Metro Total	81,244,354	18,879,728	23.2%	506,386	1,286,535	642,823	-	246,999	\$20.66	0.3%

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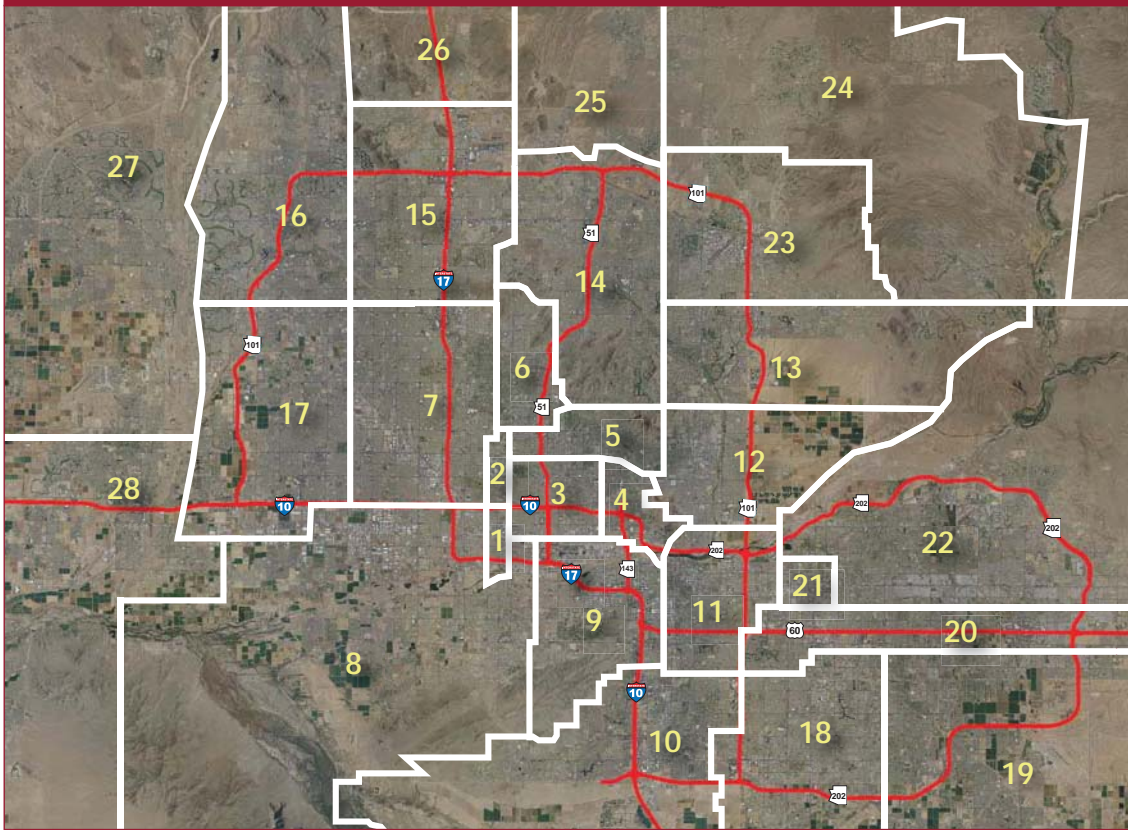
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The Lee & Associates Phoenix Office Market Report compiles relevant market data by using a third-party database for the proprietary analysis of over 1,200 office investment properties above 10,000 SF in the Phoenix Metropolitan Area.

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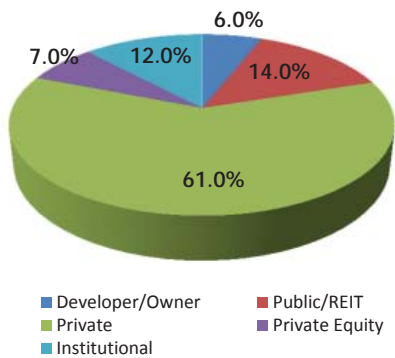
Market report analysis by:
Matt DePinto, Senior Research Analyst

PHOENIX OFFICE SUBMARKETS



1. Downtown Phoenix
2. Midtown Phoenix
3. East Phoenix
4. 44th St. Corridor
5. Camelback Corridor
6. 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 Airpark
24. N. Scottsdale/Carefree
25. N. Phoenix/Cave Creek
26. North I-17
27. Loop 303/Surprise
28. West I-10

SALES BUYER TYPE



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- Valuation of Buildings and Other Improvements

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- Comparing Alternative Proposals
- Purchase vs. Lease Analysis

Site Search

- Site Selection Criteria
- Development & Analysis

Sale-Leaseback

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- Private Investors

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- REO & Distressed-Asset Valuation & Sales

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