NAI Horizon

Metro Phoenix
Office Snapshot

Q3 2015 was an impressive showing for the Phoenix office market, a sector that has seen its fortunes rise and fall since the beginning of the decade. While vacancy rates across the valley remain high compared to other markets with similar job growth and economic make-up, select submarkets have fared extremely well and most of the market has seen a growing improvement in vacancy. Bolstered by having a strong talent base and aggressive economic development, Tempe has seen its vacancy rates plummet all while shouldering nearly half of the office product set to deliver in Q4. Other submarkets like Chandler have seen increasing activity as well, mainly because like Tempe they are able to adapt to the needs of the current market better, as they have not been bogged down with what has become the Achilles heel for most of the sector; obsolete product left over from the pre-rescission building boom failing to meet the needs of the current market.

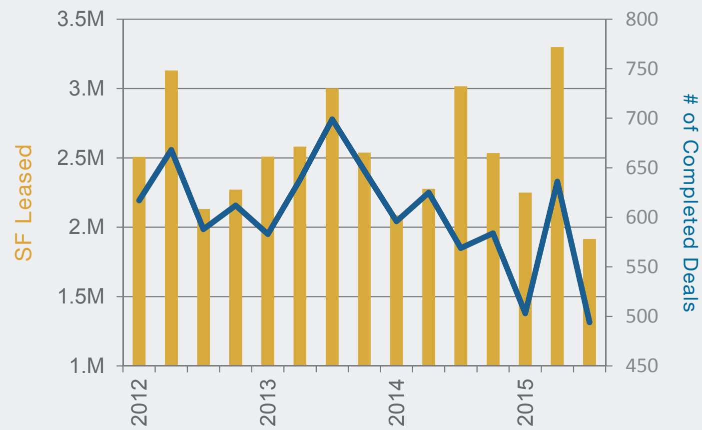
Q3 has posted the highest absorption in three years and all indicators point to Q4 being even more of a market equalizer. Thus, if the market as a whole can be nimble enough to capitalize on the increasing percentage of office sector jobs, particularly those hailing from the tech sector (Phoenix is currently tied with San Francisco for tech job growth at a two-year growth rate of 42.7% according to the U.S Bureau of Labor Statistics), we can expect vacancies to continue to decrease and absorption to increase across the board.

Average asking rental rates have also echoed the sustained positive growth of the sector, coming in at $22.11/SF, almost up $1.00 from the previous year. Q3 has seen multiple areas of the valley see a steep rise in rates; average asking rates have jumped almost 10% in Southwest Phoenix from Q2 and top dollar submarkets like Scottsdale South and Camelback Corridor are seeing a healthy resurgence in price.

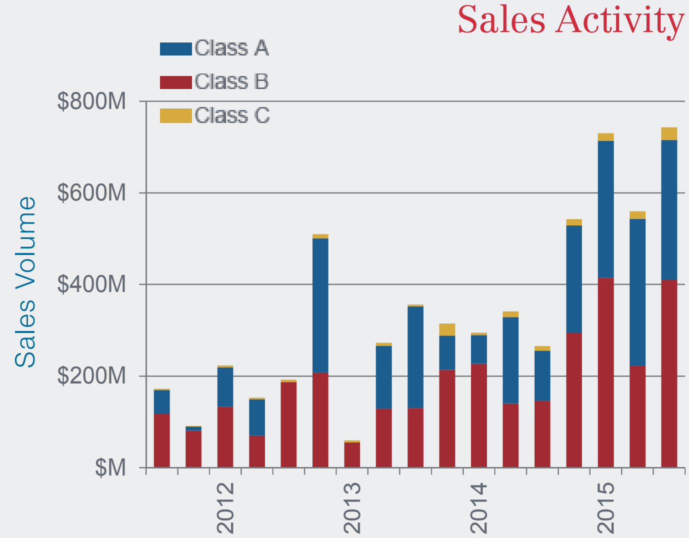
Q3 sales volume, while lower than 2Q, still came in strong at a little over $500 million. Buildings over 500,000/SF have warranted the highest price per square foot at $246.63/SF, almost double what the rest of the market garnered at $160.92/SF.

Construction remained in brute force in Q3, pushing to deliver over 1.2 million square feet in Q4. With construction in high gear, the market will benefit greatly from the fresh product to entice more high profile tenants to Phoenix.

Leasing Activity



Sales Activity



Economic Trends

Consumer Price Index
Up 0.2% over last 12 months

30-Year Fixed Mortgage
3.65% National Average, down from 4.1% in July

Phoenix Metro Unemployment
Arizona, 08/15- 5.8% down from 6.1% in July

Q3 Office Market Trends

Vacancy Rate

Net Absorption

Average Asking Rates

Metro Phoenix Office Snapshot

Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
CLASS A	43,474,143 SF	6,998,177 SF	16.1%	478,657 SF	330,000 SF	3,419,345 SF	$26.45 FSG
CLASS B	84,043,278 SF	15,699,831SF	18.7%	472,784 SF	90,250 SF	542,392 SF	$20.57 FSG
CLASS C	12,412,006 SF	2,042,446 SF	16.8%	36,240 SF	-	-	$15.44 FSG
TOTAL	139,659,427 SF	24,740,454 SF	17.7%	987,681 SF	420,250 SF	3,961,737 SF	$22.11 FSG
Q2 2015	139,239,177 SF	25,307,885 SF	18.2%	507,183 SF	361,027 SF	4,151,066 SF	$21.82 FSG
Q1 2015	138,637,526 SF	25,213,417SF	18.2%	72,746 SF	-	4,575,228 SF	$21.58 FSG

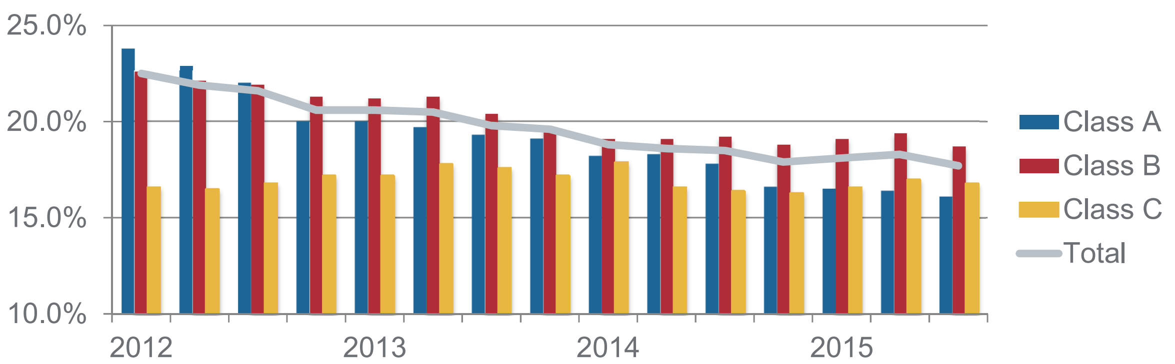
Significant Lease Transactions

Property	Address	Tenant	Size	Class	Type
827 West Grove	827 West Grove, Mesa	QBE Americas, Inc.	69,561 SF	B	Move In
Two Renaissance Square	40 N Central Ave, Phoenix	Jones, Skelton & Hochuli, PLC	59,392 SF	A	Move In
Phase III - Block M	15059 N Scottsdale Rd, Scottsdale	JDA Software	55,530 SF	A	Move In

Significant Sale Transactions

Property	Address	Buyer	Sale Date	Size	Class	Price
North Mountain Integrated Medical Services	9250 N 3rd St, Phoenix	Physicians Realty Trust	09/01/2015	121,976 SF	A	$51.7M
Raintree Corporate Center Phase III	8800 E Raintree Dr, Scottsdale	Equus Capital Partners, Ltd	09/14/2015	163,179 SF	A	$36.7M
Palm Valley Medical Office Building	13555 W McDowell Rd, Goodyear	Physicians Realty Trust	08/21/2015	101,241 SF	B	$35.2M

Office Vacancy Rates



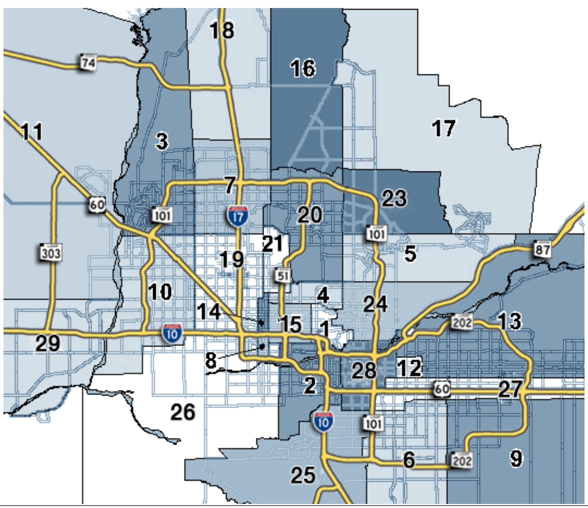
The Office Market is a compilation that includes Class A, Class B, and Class C buildings with at least 10,000 SF of space. Medical office buildings are included. Some information contained herein has been obtained from third party sources deemed reliable but has not been independently verified by NAI Horizon. NAI Horizon makes no warranties or representations as to the completeness or accuracy thereof. NAI Horizon makes no guarantee about projections, opinions, assumptions or estimates. Occasionally corrected or updated information becomes available for both current and historical data thereby invalidating specific comparison to previously issued reports.

Phoenix 3Q15
Office Submarkets

3Q15
Office

▼ Down from Q2 2015
▲ Up from Q2 2015
— No change from Q2 2015

Submarket	RBA (SF)	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Avg. Rental Rate (FS)
44th Street Corridor	3,668,978 —	449,393 ▼	0 ▲	(10,857) ▼	- —	- —	$22.68 ▲
Airport Area	9,840,116 —	1,599,239 ▲	0 ▼	$221,686.00 ▲	- —	- —	$21.09 ▼
Arrowhead	2,581,666 —	429,057 ▼	16.6% ▼	4,402 ▼	- —	60,000 —	$21.79 ▲
Camelback Corridor	8,718,053 ▼	1,711,127 ▼	20.3% ▼	66,584 ▲	- —	- —	$26.86 ▲
Central Scottsdale	7,262,347 —	1,152,127 ▼	15.9% ▼	80,842 ▲	- —	70,000 —	$22.78 ▲
Chandler	7,256,388 ▼	1,322,366 ▲	18.2% ▲	290,552 ▲	420,250 ▲	534,162 ▼	$23.96 ▲
Deer Valley/Airport	10,768,073 —	1,837,623 ▲	17.1% ▲	(14,704) ▼	- —	196,151 ▲	$21.77 ▲
Downtown	9,022,509 —	1,281,301 ▲	14.2% ▲	(42,000) ▼	- —	- —	$25.17 ▲
Gateway Airport/Loop 202	1,168,472 —	251,350 ▼	21.5% ▼	22,383 ▲	- —	- —	$24.98 ▼
Glendale	2,340,321 —	538,628 ▲	23.0% ▲	(11,539) ▼	- —	- —	$23.13 ▼
Loop 303/Surprise	1,414,420 —	249,648 ▼	17.7% ▼	11,394 ▲	- —	- —	$23.53 ▲
Mesa Downtown	941,257 —	102,844 ▲	10.9% ▼	4,823 ▼	- —	- —	$13.35 ▼
Mesa East	1,903,077 —	260,337 ▼	13.7% ▼	14,134 ▲	- —	- —	$17.63 ▲
Midtown	12,200,423 —	2,887,700 ▼	23.7% ▼	51,811 ▼	- —	- —	$20.47 ▼
Midtown/Central Phoenix	3,789,877 —	536,369 ▲	14.2% ▲	16,765 ▼	- —	- —	$17.99 ▼
N Phoenix/Cave Creek	68,926 —	22,183 ▼	32.2% —	- ▲	- —	- —	$20.55 —
N Scottsdale / Carefree	1,130,740 —	440,584 ▼	39.0% ▼	53,643 ▲	- —	- —	$21.77 ▲
North I-17	461,818 —	118,259 ▼	25.6% ▲	3,779 ▼	- —	- —	$20.86 —
Northwest Phoenix	8,245,136 —	2,165,501 ▼	26.3% ▼	108,186 ▲	- —	- —	$17.26 ▲
Paradise Valley	3,764,635 —	616,123 ▼	18.1% ▼	22,134 ▼	- —	- —	$22.47 ▼
Piestewa Peak Corridor	2,943,721 —	596,091 ▼	20.2% ▼	984 ▲	- —	- —	$18.88 ▲
Pinal County	726,733 —	95,235 ▲	13.1% ▲	(22,983) ▼	- —	- —	$19.62 ▼
Scottsdale Airpark	11,835,089 —	1,966,105 ▼	16.6% ▼	53,204 ▲	- —	169,189 —	$25.17 ▲
Scottsdale South	5,231,457 ▼	552,661 ▲	10.6% ▼	33,963 ▲	- —	—	$23.77 ▲
South Tempe / Ahwatukee	5,998,346 —	808,900 ▼	13.5% ▼	15,805 ▲	- ▼	150,000 —	$21.08 ▲
Southwest Phoenix	2,223,287 —	301,509 —	13.6% —	- —	- —	- —	$21.23 ▲
Superstition Corridor	4,747,680 —	1,177,606 ▼	24.8% ▼	41,731 ▲	- —	- —	$19.27 ▲
Tempe	8,071,680 —	1,008,416 ▲	12.5% ▲	(34,988) ▼	- —	2,451,235 —	$23.68 ▼
West I-10	1,348,927 —	156,124 ▼	11.6% ▼	5,947 ▼	- —	- —	$22.00 ▼



Phoenix Office Submarkets

1. 44th St Corridor
2. Airport Area
3. Arrowhead
4. Camelback Corridor
5. Central Scottsdale
6. Chandler
7. Deer Valley/Airport
8. Downtown
9. Gateway Airport/Loop 202
10. Glendale
11. Loop 303/Surprise
12. Mesa Downtown
13. Mesa East
14. Midtown
15. Midtown/Central Phoenix
16. N Phoenix/Cave Creek
17. N Scottsdale/Carefree
18. North I-17
19. Northwest Phoenix
20. Paradise Valley
21. Piestewa Peak Corridor
22. Pinal County
23. Scottsdale Airpark
24. Scottsdale South
25. South Tempe
26. Southwest Phoenix
27. Superstition Corridor
28. Tempe
29. West I-10