

Year End  
**2015**  
Office  
Market Report

# 4Q15 Office

The final quarter of 2015 was a strong showing for the Phoenix office market. Finishing the year on a high note, the market showed positive progress in every indicator, with absorption and deliveries at an all-year high, trampling Q4 2014 numbers at an astounding rate. Total net absorption for the fourth quarter was over 2 million, the highest that the Phoenix office market has seen in over 10 years. This is especially impressive considering that new deliveries of space to the market were almost double that of last year, and was the largest year of new space since 2008. Tenant demand is surging thanks to a growing economy and population, bringing more jobs to the Valley with anticipation of even more growth in 2016.

Thanks to the market uptick, rental rates have continued to increase, although at a slow, steady pace. The first quarter of 2015 started off with rates at \$21.55/SF, and ended the year at \$22.46/SF. These are the highest rates seen since 2009, and should continue to trend upward as vacancy continues to decline. The Camelback Corridor submarket continued to bring in the highest average rental rates at \$27.61/SF, while the Mesa Downtown and Mesa East submarkets garnered the lowest average rates at \$14.64/SF and \$17.98/SF respectively.

Vacancy rates also continued in the right direction in 2015. The fourth quarter ended with an overall vacancy rate of 19.6%, down from 20.6% at the beginning of the year. The vacancy rate for the Phoenix office sector hasn't dropped below 20% since 2008 and saw rates close to 23% in 2011, so while still above the historical average, steady improvements have been made and will likely continue into 2016. Overall, Class B space continues to have the highest vacancy rate at 18.5%, while Class A space has continued to tighten dramatically in the last few years, dropping from 20% in 2013 to 15.3% at the end of 2015.

The largest sale transaction of the quarter was a collection of four buildings consisting of 966,000 SF of office and street-level retail space in the Camelback Esplanade complex which sold for \$279 million, or about \$289 per SF. The buyer, LBA Realty, is expected to complete a repositioning of the property to open up the retail space and create outdoor common areas. The largest lease transaction this quarter was 206,333 SF in Glendale to AAA Arizona at 5353 W Bell Rd.

## Q4 Office Market Trends



Sustained job growth combined with an expanding economy has proved 2015 to be a favorable year for the commercial real estate market, indicating that the US Economy is gaining traction and continuing its recovery. Nationally, property prices are positioned to advance as inventory continues to shrink. National vacancy rates in all sectors besides multi-family have seen a continuous decline this year. The industrial sector has led this trend with vacancy decreasing by 1.4 percent, commercial and retail followed posting reductions of .8 and 1.3 percent respectfully, while multifamily rates saw an increase of 1.2 percent. Economically speaking, 2016 should be another productive year with US markets remaining healthy. Confidence in GDP growth is expected to hold steadfast through 2017, even with increasing capital market volatility extending from global economic uncertainty.

2015 saw an increase in the Fed's key interest rate, signaling the end of Quantitative Easing. Low interest rates of the past few years have been aimed to increase the federal government's ability to borrow money cheaply, enticing it from raising taxes or reducing spending to cover expenses, actions that would lead to economic contraction. Without these rock bottom interest rates one of the biggest uncertainties facing the US and abroad has been how the market will evolve without them. Luckily, according to Dr. Peter Linneman, Chief Economist of NAI Global, "there is no believable economic transmission mechanism from QE to economic growth". Further he explains that "Interest rates must rise to market levels for the economy to boom".


The Phoenix metro economy has out preformed the national average for the fourth straight year, expanding at a growth rate of 2.7 percent, above the national rate of 2.0 percent. This growth has translated into higher gains in personal income and retail sales, a trend that will continue at least through next year. Gains have not been spread out evenly though, Sectors in mining, manufacturing, construction and government have all seen negative job growth. But, these losses have been offset by the robust employment gains in the financial, healthcare and service sectors.


During 2015, the Phoenix industrial and office sectors- saw positive movement in net absorption, vacancy and rental rates. While the retail sector did not see much change in the way of absorption, it did witness much forward looking action in vacancy and rental rates. The most significant activity this quarter has been the upsurge of absorption, where the office sector posted over 2,000,000/SF in Q4, the biggest single quarter gain in more than a decade. Industrial also had a solid showing in the same category, coming in at over 3,000,000/SF in Q4. Further, rental rates have risen across the board this year, with the office sector leading the market seeing rates rise from \$19.91/SF in Q4 2014 to \$20.79/SF in Q4 2015. Retail rates have taken a nice hike as well, going from \$13.88/SF to \$14.34/SF.

While showing improvement in every other indicator mentioned, the industrial sector showed the least amount of change in rates, seeing numbers go from \$6.19/SF to \$6.52/SF. If all factors remain steady, and the market maintains pace, 2016 should be another strong year for the Phoenix commercial market.

## Economic Trends

 **Consumer Price Index**  
Up .5% year over year as of 11/15

 **30-Year Fixed Mortgage**  
3.65% National Average, down from 3.5% 01/15

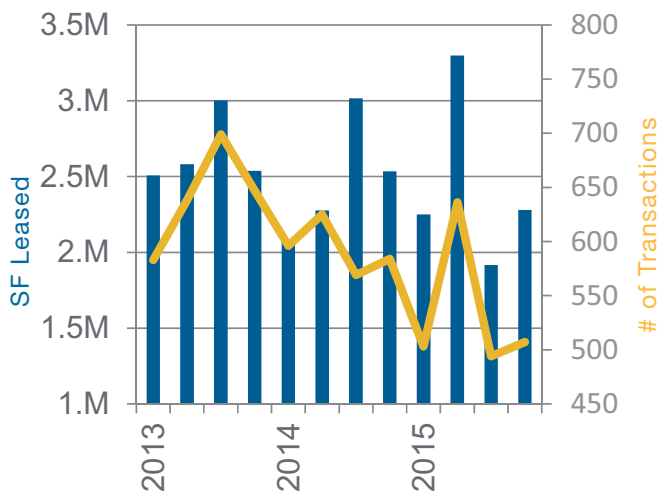
 **Phoenix Metro Unemployment**  
MSA, 11/15- 5% down from 5.6% 11/14

# Phoenix Overview

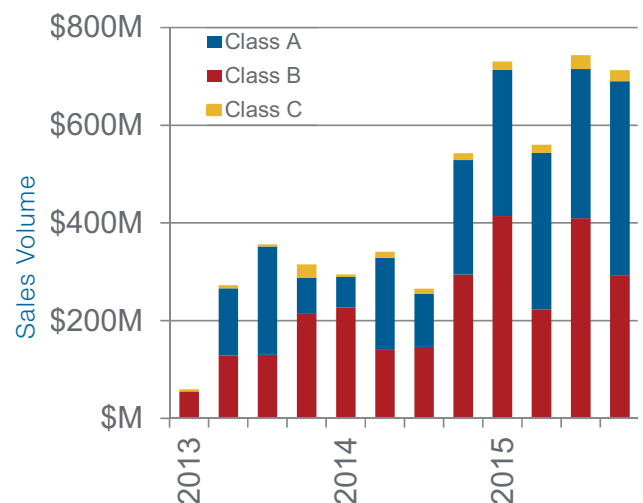
## 4Q15 Office

	Total RBA	Total Vacant SF	Total Vacant %	Total Net Absorption	RBA Delivered	RBA Under Const.	Average Rental Rate
Class A	44,731,757	6,829,983	15.30%	1,494,034	1,321,376	2,289,921	\$26.62
Class B	84,286,118	15,589,788	18.50%	476,330	220,450	383,809	\$20.92
Class C	12,173,730	2,037,982	16.70%	41,456	-	-	\$16.07
<b>Total</b>	<b>141,191,605</b>	<b>24,457,753</b>	<b>17.30%</b>	<b>2,011,820</b>	<b>1,541,826</b>	<b>2,673,730</b>	<b>\$22.46</b>
Total 3Q15	139,669,779	24,947,747	17.90%	841,152	420,250	4,050,556	\$22.12
Total 2Q15	139,249,529	25,368,649	18.20%	522,324	625,335	4,174,935	\$21.80
Total 1Q15	138,646,751	25,298,149	18.20%	53,122	323,761	4,566,411	\$21.55

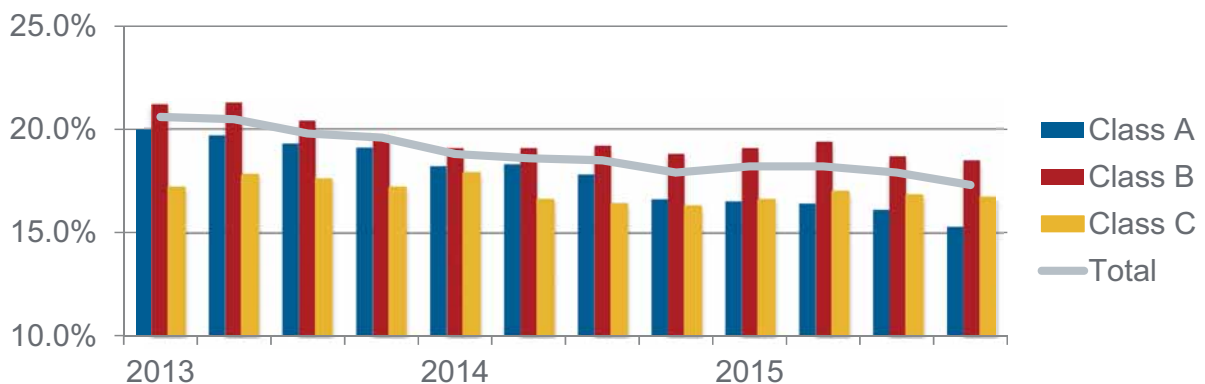
### Leasing Activity



### Sales Activity



### 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 Submarkets

4Q15  
Office

Type	Total RBA	Direct Vacant SF	Sublet Vacant SF	Total Vacant SF	Direct Vacant %	Sublet Vacant %	Total Vacant %	Total Net Absorption	RBA Delivered	RBA Under Const.	Average Rental Rate (FS)
<b>44th Street Corridor</b>											
Class A	1,713,560	204,486	-	204,486	11.90%	0.00%	11.90%	372	-	-	\$26.02
Class B	1,612,251	207,310	-	207,310	12.90%	0.00%	12.90%	14,062	-	25,200	\$18.25
Class C	346,158	26,499	23,530	50,029	7.70%	6.80%	14.50%	(26,866)	-	-	\$15.04
<b>Total</b>	<b>3,671,969</b>	<b>438,295</b>	<b>23,530</b>	<b>461,825</b>	<b>11.9%</b>	<b>0.6%</b>	<b>12.6%</b>	<b>(12,432)</b>	<b>-</b>	<b>25,200</b>	<b>\$23.05</b>
<b>Airport Area</b>											
Class A	1,677,407	245,390	-	245,390	14.60%	0.00%	14.60%	135,250	96,000	-	\$24.34
Class B	7,699,159	1,406,548	38,566	1,445,114	18.30%	0.50%	18.80%	(56,249)	-	235,000	\$21.85
Class C	448,672	56,832	-	56,832	12.70%	0.00%	12.70%	3,461	-	-	\$15.30
<b>Total</b>	<b>9,825,238</b>	<b>1,708,770</b>	<b>38,566</b>	<b>1,747,336</b>	<b>17.4%</b>	<b>0.4%</b>	<b>17.8%</b>	<b>82,462</b>	<b>96,000</b>	<b>235,000</b>	<b>\$22.05</b>
<b>Arrowhead</b>											
Class A	80,849	-	-	-	-	-	-	-	-	-	-
Class B	2,251,138	340,915	6,607	347,522	15.10%	0.30%	15.40%	24,106	-	60,000	\$23.08
Class C	264,314	49,178	-	49,178	18.60%	0.00%	18.60%	8,235	-	-	\$18.99
<b>Total</b>	<b>2,596,301</b>	<b>390,093</b>	<b>6,607</b>	<b>396,700</b>	<b>15.0%</b>	<b>0.3%</b>	<b>15.3%</b>	<b>32,341</b>	<b>-</b>	<b>60,000</b>	<b>\$22.47</b>
<b>Camelback Corridor</b>											
Class A	4,742,162	965,679	38,152	1,003,831	20.40%	0.80%	21.20%	16,321	-	-	\$31.72
Class B	3,613,998	728,003	16,753	744,756	20.10%	0.50%	20.60%	(29,211)	-	-	\$21.81
Class C	360,414	52,298	-	52,298	14.50%	0.00%	14.50%	(3,904)	-	-	\$16.18
<b>Total</b>	<b>8,716,574</b>	<b>1,745,980</b>	<b>54,905</b>	<b>1,800,885</b>	<b>20.0%</b>	<b>0.6%</b>	<b>20.7%</b>	<b>(16,794)</b>	<b>-</b>	<b>-</b>	<b>\$27.61</b>
<b>Central Scottsdale</b>											
Class A	2,386,023	397,128	11,105	408,233	16.60%	0.50%	17.10%	62,242	70,000	-	\$25.01
Class B	4,782,345	720,653	23,486	744,139	15.10%	0.50%	15.60%	(70)	-	-	\$21.95
Class C	138,921	10,128	-	10,128	7.30%	0.00%	7.30%	(2,545)	-	-	\$22.72
<b>Total</b>	<b>7,307,289</b>	<b>1,127,909</b>	<b>34,591</b>	<b>1,162,500</b>	<b>15.4%</b>	<b>0.5%</b>	<b>15.9%</b>	<b>59,627</b>	<b>70,000</b>	<b>-</b>	<b>\$22.87</b>
<b>Chandler</b>											
Class A	2,304,733	227,684	9,312	236,996	9.90%	0.40%	10.30%	151,381	150,000	291,712	\$27.77
Class B	5,017,831	1,102,440	26,212	1,128,652	22.00%	0.50%	22.50%	14,091	92,450	23,859	\$22.40
Class C	204,291	31,886	-	31,886	15.60%	0.00%	15.60%	1,830	-	-	\$19.32
<b>Total</b>	<b>7,526,855</b>	<b>1,361,990</b>	<b>35,524</b>	<b>1,397,514</b>	<b>18.1%</b>	<b>0.5%</b>	<b>18.6%</b>	<b>167,302</b>	<b>242,450</b>	<b>315,571</b>	<b>\$24.30</b>
<b>Deer Valley/Airport</b>											
Class A	3,722,067	193,682	-	193,682	5.20%	0.00%	5.20%	36,662	46,952	149,209	\$25.13
Class B	6,920,264	1,558,219	32,551	1,590,770	22.50%	0.50%	23.00%	17,137	-	-	\$21.19
Class C	223,516	63,066	145	63,211	28.20%	0.10%	28.30%	685	-	-	\$21.45
<b>Total</b>	<b>10,865,847</b>	<b>1,814,967</b>	<b>32,696</b>	<b>1,847,663</b>	<b>16.7%</b>	<b>0.3%</b>	<b>17.0%</b>	<b>54,484</b>	<b>46,952</b>	<b>149,209</b>	<b>\$22.09</b>
<b>Downtown</b>											
Class A	5,059,088	714,066	102,734	816,800	14.10%	2.00%	16.10%	53,663	-	-	\$27.39
Class B	3,216,094	311,414	-	311,414	9.70%	0.00%	9.70%	(1,596)	-	-	\$22.32
Class C	747,596	121,909	-	121,909	16.30%	0.00%	16.30%	(9,999)	-	-	\$19.36
<b>Total</b>	<b>9,022,778</b>	<b>1,147,389</b>	<b>102,734</b>	<b>1,250,123</b>	<b>12.7%</b>	<b>1.1%</b>	<b>13.9%</b>	<b>42,068</b>	<b>-</b>	<b>-</b>	<b>\$25.51</b>
<b>Gateway Airport/Loop 202</b>											
Class A	46,732	12,394	-	12,394	26.50%	0.00%	26.50%	95	-	-	\$27.36
Class B	1,159,767	208,665	4,219	212,884	18.00%	0.40%	18.40%	21,746	-	-	\$24.36
Class C	33,232	4,231	-	4,231	12.70%	0.00%	12.70%	-	-	-	\$19.20
<b>Total</b>	<b>1,239,731</b>	<b>225,290</b>	<b>4,219</b>	<b>229,509</b>	<b>18.2%</b>	<b>0.3%</b>	<b>18.5%</b>	<b>21,841</b>	<b>-</b>	<b>-</b>	<b>\$24.38</b>
<b>Glendale</b>											
Class A	521,061	73,358	-	73,358	14.10%	0.00%	14.10%	2,442	-	-	\$27.20
Class B	1,395,102	414,512	-	414,512	29.70%	0.00%	29.70%	7,117	-	-	\$22.81
Class C	424,158	41,199	-	41,199	9.70%	0.00%	9.70%	-	-	-	\$13.59
<b>Total</b>	<b>2,340,321</b>	<b>529,069</b>	<b>-</b>	<b>529,069</b>	<b>22.6%</b>	<b>0.0%</b>	<b>22.6%</b>	<b>9,559</b>	<b>-</b>	<b>-</b>	<b>\$22.70</b>
<b>Loop 303/Surprise</b>											
Class B	1,337,921	243,632	-	243,632	18.20%	0.00%	18.20%	4,130	-	-	\$23.36
Class C	76,499	1,886	-	1,886	2.50%	0.00%	2.50%	-	-	-	\$21.00
<b>Total</b>	<b>1,414,420</b>	<b>245,518</b>	<b>-</b>	<b>245,518</b>	<b>17.4%</b>	<b>0.0%</b>	<b>17.4%</b>	<b>4,130</b>	<b>-</b>	<b>-</b>	<b>\$23.35</b>
<b>Mesa Downtown</b>											
Class B	675,900	30,601	-	30,601	4.50%	0.00%	4.50%	584	-	-	\$16.54
Class C	265,357	71,336	-	71,336	26.90%	0.00%	26.90%	323	-	-	\$13.36
<b>Total</b>	<b>941,257</b>	<b>101,937</b>	<b>-</b>	<b>101,937</b>	<b>10.8%</b>	<b>0.0%</b>	<b>10.8%</b>	<b>907</b>	<b>-</b>	<b>-</b>	<b>\$14.64</b>
<b>Mesa East</b>											
Class B	1,265,778	122,622	-	122,622	9.70%	0.00%	9.70%	(1,372)	-	-	\$19.28
Class C	647,884	129,728	6,875	136,603	20.00%	1.10%	21.10%	2,484	-	-	\$16.86
<b>Total</b>	<b>1,913,662</b>	<b>252,350</b>	<b>6,875</b>	<b>259,225</b>	<b>13.2%</b>	<b>0.4%</b>	<b>13.6%</b>	<b>1,112</b>	<b>-</b>	<b>-</b>	<b>\$17.98</b>
<b>Midtown</b>											
Class A	4,583,107	1,042,173	26,614	1,068,787	22.70%	0.60%	23.30%	282,007	-	-	\$23.07
Class B	6,581,846	1,386,796	31,966	1,418,762	21.10%	0.50%	21.60%	(12,828)	-	-	\$19.55
Class C	1,067,926	135,150	0	135,150	12.70%	0.00%	12.70%	5,091	-	-	\$15.92
<b>Total</b>	<b>12,232,879</b>	<b>2,544,740</b>	<b>58,580</b>	<b>2,622,699</b>	<b>21.0%</b>	<b>0.5%</b>	<b>21.4%</b>	<b>274,270</b>	<b>-</b>	<b>-</b>	<b>\$20.98</b>

# Phoenix Submarkets

Type	Total RBA	Direct Vacant SF	Sublet Vacant SF	Total Vacant SF	Direct Vacant %	Sublet Vacant %	Total Vacant %	Total Net Absorption	RBA Delivered	RBA Under Const.	Average Rental Rate (FS)
<b>Midtown/Central Phoenix</b>											
Class B	2,845,038	317,662	26,538	344,200	11.20%	0.90%	12.10%	6,512	-	-	\$19.24
Class C	947,929	169,038	-	169,038	17.80%	0.00%	17.80%	11,531	-	-	\$14.09
<b>Total</b>	<b>3,792,967</b>	<b>486,700</b>	<b>26,538</b>	<b>513,238</b>	<b>12.8%</b>	<b>0.7%</b>	<b>13.5%</b>	<b>18,043</b>	-	-	<b>\$18.09</b>
<b>N Phoenix/Cave Creek</b>											
Class B	68,926	22,183	0	22,183	32.20%	0.00%	32.20%	-	-	-	\$21.85
<b>Total</b>	<b>68,926</b>	<b>22,183</b>	<b>0</b>	<b>22,183</b>	<b>32.20%</b>	<b>0.00%</b>	<b>32.20%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$21.85</b>
<b>N Scottsdale / Carefree</b>											
Class B	1,034,299	439,600	-	439,600	42.50%	0.00%	42.50%	(7,557)	-	-	\$21.81
Class C	96,441	7,541	-	7,541	7.80%	0.00%	7.80%	1,000	-	-	\$16.73
<b>Total</b>	<b>1,130,740</b>	<b>447,141</b>	<b>-</b>	<b>447,141</b>	<b>39.5%</b>	<b>0.0%</b>	<b>39.5%</b>	<b>(6,557)</b>	<b>-</b>	<b>-</b>	<b>\$21.62</b>
<b>North I-17</b>											
Class B	461,818	119,917	-	119,917	26.00%	0.00%	26.00%	(1,658)	-	-	\$21.34
<b>Total</b>	<b>461,818</b>	<b>119,917</b>	<b>-</b>	<b>119,917</b>	<b>26.0%</b>	<b>0.0%</b>	<b>26.0%</b>	<b>(1,658)</b>	<b>-</b>	<b>-</b>	<b>\$21.34</b>
<b>Northwest Phoenix</b>											
Class A	1,319,120	164,478	-	164,478	12.50%	0.00%	12.50%	8,332	-	-	\$21.78
Class B	4,934,199	1,369,560	1,969	1,371,529	27.80%	0.00%	27.80%	149,086	-	-	\$17.21
Class C	1,981,683	489,627	2,942	492,569	24.70%	0.10%	24.90%	(3,105)	-	-	\$14.13
<b>Total</b>	<b>8,225,002</b>	<b>2,023,665</b>	<b>4,911</b>	<b>2,028,576</b>	<b>24.6%</b>	<b>0.1%</b>	<b>24.6%</b>	<b>154,313</b>	<b>-</b>	<b>-</b>	<b>\$17.40</b>
<b>Paradise Valley</b>											
Class A	1,531,604	244,964	64,406	309,370	16.00%	4.20%	20.20%	18,388	-	-	\$25.43
Class B	1,861,652	276,243	15,876	292,119	14.80%	0.90%	15.70%	(11,730)	-	-	\$21.15
Class C	371,412	52,043	0	52	14.00%	0.00%	14.00%	20,642	-	-	\$15.50
<b>Total</b>	<b>3,764,668</b>	<b>573,250</b>	<b>80,282</b>	<b>653,532</b>	<b>15.2%</b>	<b>2.1%</b>	<b>17.4%</b>	<b>27,300</b>	<b>-</b>	<b>-</b>	<b>\$22.52</b>
<b>Piestewa Peak Corridor</b>											
Class A	409,370	16,170	484	16,654	3.90%	0.10%	4.10%	(5,526)	-	-	\$23.42
Class B	2,185,638	524,795	8,691	533,486	24.00%	0.40%	24.40%	19,048	-	-	\$18.59
Class C	348,713	16,046	-	16,046	4.60%	0.00%	4.60%	19,193	-	-	\$18.29
<b>Total</b>	<b>2,943,721</b>	<b>557,011</b>	<b>9,175</b>	<b>566,186</b>	<b>18.9%</b>	<b>0.3%</b>	<b>19.2%</b>	<b>32,715</b>	<b>-</b>	<b>-</b>	<b>\$18.76</b>
<b>Pinal County</b>											
Class B	535,166	78,841	-	78,841	14.30%	0.00%	14.30%	11,844	-	-	\$19.34
Class C	175,567	1,750	-	1,750	1.00%	0.00%	1.00%	2,800	-	-	-
<b>Total</b>	<b>726,733</b>	<b>80,591</b>	<b>-</b>	<b>80,591</b>	<b>11.1%</b>	<b>0.0%</b>	<b>11.1%</b>	<b>14,644</b>	<b>-</b>	<b>-</b>	<b>\$19.34</b>
<b>Scottsdale Airpark</b>											
Class A	6,549,779	1,173,401	57,243	1,287,278	18.80%	0.90%	19.70%	82,315	169,189	-	\$27.39
Class B	5,263,372	626,642	9,750	636,392	11.90%	0.20%	12.10%	89,552	-	39,750	\$22.61
Class C	147,413	16,795	0	16,795	11.40%	0.00%	11.40%	2,289	-	-	\$13.37
<b>Total</b>	<b>11,960,564</b>	<b>1,873,472</b>	<b>66,993</b>	<b>1,940,465</b>	<b>15.7%</b>	<b>0.6%</b>	<b>16.2%</b>	<b>174,156</b>	<b>169,189</b>	<b>39,750</b>	<b>\$25.47</b>
<b>Scottsdale South</b>											
Class A	1,987,459	126,297	2,269	128,566	6.40%	0.10%	6.50%	23,793	-	145,000	\$29.58
Class B	2,595,542	282,628	4,700	287,328	10.90%	0.20%	11.10%	(14,266)	-	-	\$23.16
Class C	634,257	134,390	-	134,390	21.20%	0.30%	21.20%	(7,150)	-	-	\$18.79
<b>Total</b>	<b>5,217,258</b>	<b>543,315</b>	<b>6,969</b>	<b>550,284</b>	<b>10.4%</b>	<b>0.1%</b>	<b>10.5%</b>	<b>2,377</b>	<b>-</b>	<b>145,000</b>	<b>\$25.78</b>
<b>South Tempe / Ahwatukee</b>											
Class A	776,323	103,430	-	103,430	12.90%	0.00%	12.90%	75,000	150,000	-	\$24.51
Class B	5,026,304	729,909	44,309	774,218	14.50%	0.90%	15.40%	(1,212)	-	-	\$21.18
Class C	380,322	28,042	-	28,042	7.40%	0.00%	7.40%	663	-	-	\$21.26
<b>Total</b>	<b>6,182,949</b>	<b>861,381</b>	<b>44,309</b>	<b>905,690</b>	<b>13.9%</b>	<b>0.7%</b>	<b>14.6%</b>	<b>74,451</b>	<b>150,000</b>	<b>-</b>	<b>\$21.28</b>
<b>Southwest Phoenix</b>											
Class A	757,809	194,499	-	194,499	25.70%	0.00%	25.70%	-	-	-	\$23.00
Class B	1,034,667	46,749	-	46,749	4.50%	0.00%	4.50%	-	-	-	\$20.10
Class C	455,811	80,561	-	80,561	17.70%	0.00%	17.70%	4,700	-	-	\$14.26
<b>Total</b>	<b>2,248,287</b>	<b>321,809</b>	<b>-</b>	<b>321,809</b>	<b>14.3%</b>	<b>0.0%</b>	<b>14.3%</b>	<b>4,700</b>	<b>-</b>	<b>-</b>	<b>\$20.99</b>
<b>Superstition Corridor</b>											
Class A	670,140	178,489	-	178,489	26.60%	0.00%	26.60%	(3,259)	-	-	\$23.08
Class B	3,639,998	757,992	46,377	804,369	20.80%	1.30%	22.10%	104,489	-	-	\$18.81
Class C	414,524	75,638	-	75,638	18.20%	0.00%	18.20%	5,707	-	-	\$14.62
<b>Total</b>	<b>4,724,662</b>	<b>1,012,119</b>	<b>46,377</b>	<b>1,058,496</b>	<b>21.4%</b>	<b>1.0%</b>	<b>22.4%</b>	<b>106,937</b>	<b>-</b>	<b>-</b>	<b>\$19.30</b>
<b>Tempe</b>											
Class A	3,893,364	156,127	27,135	183,262	4.00%	0.30%	4.30%	554,556	639,235	1,704,000	\$27.26
Class B	4,068,229	751,087	-	751,087	18.50%	-	18.50%	128,616	108,000	-	\$22.08
Class C	831,669	110,261	-	110,261	13.30%	-	13.30%	2,758	-	-	\$16.60
<b>Total</b>	<b>8,793,262</b>	<b>1,017,475</b>	<b>27,135</b>	<b>1,044,610</b>	<b>11.6%</b>	<b>0.3%</b>	<b>11.9%</b>	<b>685,930</b>	<b>747,235</b>	<b>1,704,000</b>	<b>\$23.22</b>
<b>West I-10</b>											
Class B	1,185,976	115,529	9,551	130,757	9.70%	0.70%	10.40%	73	-	-	\$23.54
Class C	139,051	27,452	-	27,452	19.70%	0.00%	19.70%	3,519	-	-	\$12.97
<b>Total</b>	<b>1,324,927</b>	<b>142,981</b>	<b>9,551</b>	<b>152,532</b>	<b>10.8%</b>	<b>0.7%</b>	<b>11.5%</b>	<b>3,592</b>	<b>-</b>	<b>-</b>	<b>\$22.57</b>

## Class A

A classification used to describe buildings that generally qualify as extremely desirable, investment-grade properties and command the highest rents or sale prices compared to other buildings in the same market.

## Class B

A classification used to describe buildings that generally qualify as a more speculative investment, and as such, command lower rents or sale prices compared to Class A properties.

## Class C

A classification used to describe buildings that generally qualify as no-frills, older buildings that offer basic space and command lower rents or sale prices compared to other buildings in the same market.

## Deliveries

Buildings that complete construction during a specified period of time. In order for space to be considered delivered, a certificate of occupancy must have been issued for the property.

## Full Service Gross (FSG) Rental Rate

Rental rates that include all operating expenses such as utilities, electricity, janitorial services, taxes and insurance.

## Leasing Activity

The volume of square footage that is committed to and signed under a lease obligation for a specific building or market in a given period of time. It includes direct leases, subleases and renewals of existing leases. It also includes any pre-leasing activity in planned, under construction, or under renovation buildings.

## Net Absorption

The net change in occupied space over a given period of time. Unless otherwise noted, Net Absorption includes direct and sublease space.

## Rentable Building Area (RBA)

The total square footage of a building that can be occupied by, or assigned to a tenant for the purpose of determining a tenant's rental obligation. Generally RBA includes a percentage of common areas including all hallways, main lobbies, bathrooms, and telephone closets.

## Submarkets

Specific geographic boundaries that serve to delineate a core group of buildings that are competitive with each other and constitute a generally accepted primary competitive set, or peer group. Submarkets are building type specific (office, industrial, retail, etc.), with distinct boundaries dependent on different factors relevant to each building type.

## Under Construction

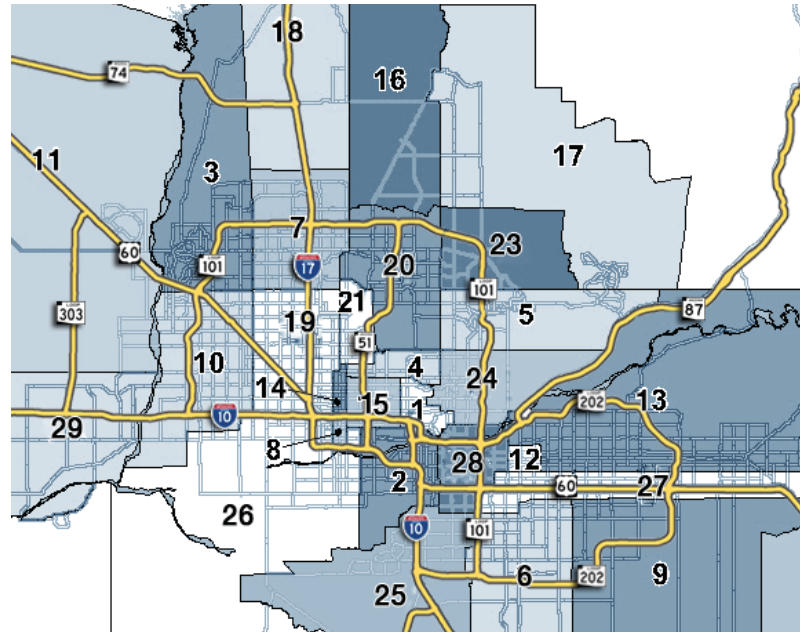
The status of a building that is in the process of being developed, assembled, built or constructed. A building is considered to be under construction after it has begun construction and until it receives a certificate of occupancy.

## Vacancy Rate

A measurement expressed as a percentage of the total amount of physically vacant space divided by the total amount of existing inventory space. Under construction space generally is not included in vacancy calculations.

## Vacant Space

Space that is not currently occupied by a tenant, regardless of any lease obligation that may be on the space. Vacant space could be space that is either available or not available.



## PHOENIX OFFICE SUBMARKETS

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

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NAI Horizon knows commercial real estate. With over 25 years in the Valley, NAI Horizon's extensive market insight allows us to match client needs with the right solutions. NAI Global member firms span the U.S. and 54 other countries, with more than 375 offices and more than 6,700 local market experts on the ground. Supported by the central resources of the NAI Global organization, member firms deliver market-leading services locally, and combine their in-market strengths to form a powerful bond of insights and execution for clients with multi-market challenges.

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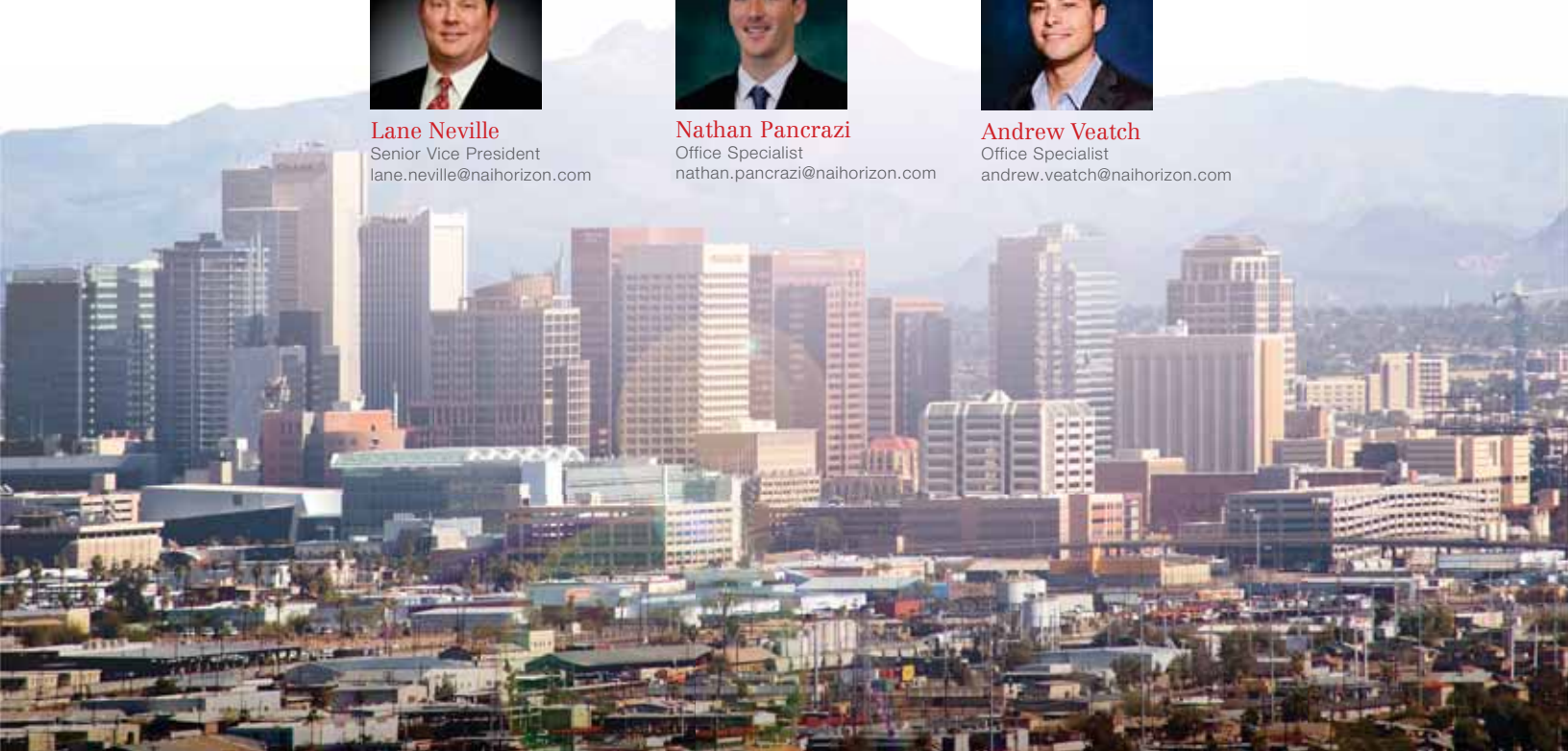
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# Year End 2015 Office Market Report

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