

Mid-Year
2016
Office
Market Report

2Q16 Office

The Metro Phoenix office market ended the second quarter of 2016 on a high note with absorption and rental rates up and vacancy rates continuing to tighten.

Brokers are seeing increased confidence in the market as buyers and landlords are investing in their buildings or in new builds. And the mentality is changing. Instead of landlords working to maintain the status quo or buyers simply looking for a good deal, higher rates are demanding the features that tenants desire. This includes modern, creative workspaces and live/work/play urban/pedestrian environments. Rental rates are reflecting this shift. In some key areas rents have increased more than 20% in just one year, with plans for further increases.

The vacancy rate for the Metro Phoenix market ended Q2 at 16.2%, down from 17.3% at the beginning of 2016. In Q2 of 2015, the vacancy rate rose to 18.2%. After a record year of new deliveries in 2015, vacancy has caught up and the deluge of new space is being filled.

Class B space has seen the biggest drop in vacancy in the past year, falling to 17.3% from 19.1% in Q2

of 2015. Class B space has also seen significant improvements in rent in the past year. In Q2 of 2015 average rental rates sat at \$20.19 and ended Q2 of 2016 at \$21.48.

Class C space has also seen a rental rate increase from \$15.47 in Q2 of 2015 to \$16.68 this quarter. Vacancy also closed from 16.8% mid-year 2015 to 15.6% in Q2 of 2016. Class A space had previously seen the biggest decreases in vacancy, but seems to have tightened over the past year as prices have continued to rise, stabilizing Class A space and making Class B space more appealing.

Economic Trends

▲ Consumer Price Index
Up 1.0% over last 12 months, nat'l

▼ 30-Year Fixed Mortgage
Down from Jan-3.87%, now 3.44%

■ Phoenix Metro Unemployment
4.7% in Jan 2016 and now, dipped to 4.5% in Feb/March

Office Market Trends

▼ Vacancy Rate
Down from 1Q16 to 2Q16, at 16.2%

▲ Net Absorption
Q2- 1.14M SF, more than double Q1

▲ Average Asking Rates
\$23.14/SF in Q2 from \$22.82/SF

Metro Phoenix Q2 2016

OFFICE MARKET

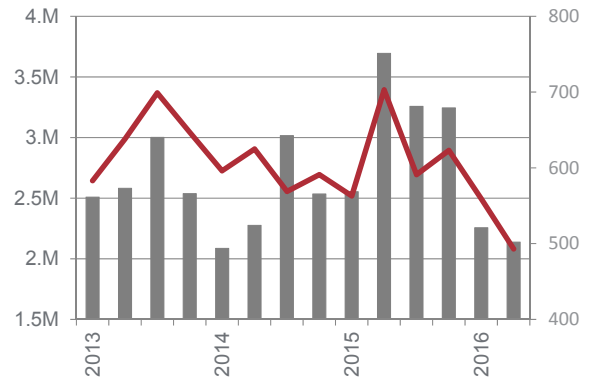


Net absorption more than doubled from Q1 to Q2 this year, up from 517,683 SF to 1,146,762 SF. The Tempe submarket was responsible for a whopping 554,037 SF of this, in large part due to the Marina Heights project for State Farm which will continue to be delivered into 2017. The Scottsdale Airpark, Chandler, and Central Scottsdale submarkets also showed impressive absorption numbers this quarter, each coming in with more than 100,000 SF in Q2.

While not on the same pace as 2015, sales volume remained strong in the first half of 2016, totaling \$887 million, slightly down from the \$1.3 billion sold in the first half of 2015. As of the second quarter, Class A space was averaging a sale price of \$207.09 PSF, Class B space was at \$151.81, and Class C space averaged \$110.29. After an impressive second half of 2015 in terms of leasing activity, transactions slowed slightly in the first half of this year but are on pace with the previous year. So far 415,480 SF has been leased this year in 75 transactions.

While not as outstanding as the second half of 2015, the first half of 2016 shows signs of continued strength and growth in the Metro Phoenix office sector. As the job market continues to gain momentum in the Valley, demand will remain strong for office space and contribute to increasing rental rates. With interest rates falling in the first half of 2016 and likely to remain low throughout the year, buyers will continue to be active in the growing Phoenix market, contributing to a solid 2016.

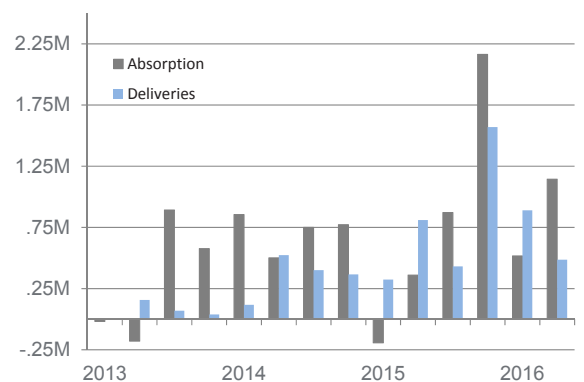
Leasing Activity



Sales Activity



Absorption & Deliveries



Metro Phoenix Snapshot

Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
CLASS A	46,950,693 SF	7,623,676 SF	15.5%	521,764 SF	459,959 SF	1,306,718 SF	\$27.65/SF
CLASS B	85,559,697 SF	14,93,796 SF	16.7%	581,568 SF	25,200 SF	446,865 SF	\$21.48/SF
CLASS C	12,464,100 SF	1,938,728 SF	15.3%	43,426 SF	-	-	\$16.68/SF
TOTAL	145,974,490 SF	24,494,200 SF	16.2%	1,146,762 SF	1,146,762 SF	1,753,583 SF	\$23.14/SF
Q1 2016	145,489,331 SF	25,155,803 SF	16.7%	517,683 SF	517,683 SF	2,084,426 SF	\$22.82/SF
Q4 2015	144,705,442 SF	24,889,597 SF	16.7%	2,165,385 SF	2,165,385 SF	2,468,822 SF	\$22.40/SF

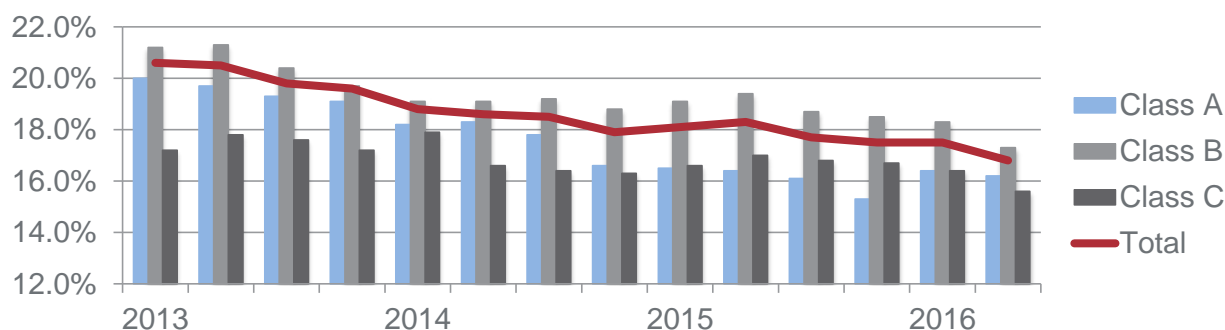
Significant Lease Transactions

	Address	Tenant	Size	Class	Type
San Tan Corporate Center I	3200 W Ray Rd, Chandler	Toyota Financial Services	133,317 SF	A	Renewal
Pinnacle in Kierland Bldg III	14636 N Scottsdale Rd, Scottsdale	Bank of America	93,348 SF	A	Move In
Discovery Business Campus	2160 E Elliot Rd, Tempe	Northern Trust	75,000 SF	A	Move In

Significant Sale Transactions

	Address	Date	Size	Class	Price
Corporate Center @ Kierland	14635 N Kierland Blvd, Scottsdale	06/17/2016	107,846 SF	A	\$24.35M (\$225.78/SF)
5055 E Washington	Phoenix	06/01/2016	51,810 SF	A	\$11.75M (\$226.79/SF)
Forum North 44	3033 N 44th St, Phoenix	06/16/2016	100,314 SF	B	\$11M (109.66/SF)

Office Vacancy Rates



Submarket Snapshot

2Q16
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)
44th Street Corridor											
Class A	1,713,560	367,162	-	367,162	21.40%	-	21.40%	(139,516)	-	-	\$26.70
Class B	1,636,636	178,026	17,998	196,024	10.70%	1.1%	11.80%	49,017	25,200	-	\$18.45
Class C	346,850	18,337	23,535	41,872	5.30%	6.80%	12.10%	2,842	-	-	\$14.60
Total	3,696,995	563,525	41,533	605,058	15.2%	1.1%	16.3%	(87,769)	25,200	-	\$23.71
Airport Area											
Class A	1,894,985	489,606	-	489,606	25.80%	-	25.80%	(24,539)	-	135,663	\$24.80
Class B	8,091,348	1,440,305	40,413	1,480,718	17.80%	0.50%	18.30%	(27,784)	-	-	\$22.09
Class C	523,672	58,484	-	58,484	11.20%	-	11.20%	(1,974)	-	-	\$14.97
Total	10,510,005	1,988,395	40,413	2,028,808	18.9%	0.4%	19.3%	(54,297)	-	135,663	\$22.50
Arrowhead											
Class A	80,849	-	-	-	-	-	-	-	-	-	\$26.88
Class B	2,338,902	301,415	5,688	307,103	12.90%	0.20%	13.10%	31,116	-	35,500	\$23.31
Class C	264,314	65,156	-	65,156	24.70%	-	24.70%	(15,226)	-	-	\$21.47
Total	2,684,065	366,571	5,688	372,259	13.7%	0.2%	13.9%	15,890	-	35,500	\$23.01
Camelback Corridor											
Class A	4,754,823	937,818	93,818	1,031,636	19.70%	2.00%	21.70%	(16,884)	-	-	\$33.12
Class B	3,775,315	678,871	23,815	702,686	18.00%	0.60%	18.60%	11,028	-	-	\$22.97
Class C	388,548	49,612	-	49,612	12.80%	-	12.80%	24,848	-	-	\$15.31
Total	8,918,686	1,666,301	117,633	1,783,934	18.7%	1.3%	20.0%	18,992	-	-	\$29.53
Central Scottsdale											
Class A	2,386,023	327,537	26,945	354,482	13.70%	1.10%	14.90%	(-1998)	-	-	\$25.72
Class B	4,923,381	640,206	21,389	661,595	13.00%	0.40%	13.40%	117,975	-	-	\$22.33
Class C	124,738	6,757	-	6,757	5.40%	-	5.40%	491	-	-	\$22.10
Total	7,434,142	974,500	48,334	1,022,834	13.10%	0.70%	13.80%	116,468	-	-	\$23.66
Chandler											
Class A	2,514,733	462,801	-	462,801	18.40%	-	18.40%	18,734	-	-	\$27.87
Class B	5,221,113	1,010,022	28,573	1,038,595	19.30%	0.50%	19.90%	126,500	-	80,114	\$22.45
Class C	204,291	33,718	-	33,718	16.50%	-	16.50%	(-1760)	-	-	\$17.51
Total	7,940,137	1,506,541	28,573	1,535,114	19.00%	0.40%	19.30%	143,474	-	80,114	\$23.69
Deer Valley/Airport											
Class A	3,871,276	303,232	-	303,232	7.80%	-	7.80%	47,588	149,209	-	\$26.46
Class B	6,929,718	1,470,732	59,830	1,530,562	21.20%	0.90%	22.10%	62,734	-	-	\$21.79
Class C	223,516	78,531	145	78,676	35.10%	0.10%	35.20%	(-12,466)	-	-	\$21.42
Total	11,024,510	1,852,495	59,975	1,912,470	16.80%	0.50%	17.30%	97,856	149,209	-	\$22.62
Downtown											
Class A	5,059,088	664,956	121,316	786,272	13.10%	2.40%	15.50%	13,283	-	-	\$27.36
Class B	3,869,515	294,889	3,509	298,398	7.60%	0.10%	7.70%	7,102	-	-	\$23.86
Class C	977,246	107,389	-	107,389	11.00%	-	11.00%	14,520	-	-	\$23.80
Total	9,905,849	1,067,234	124,825	1,192,059	10.80%	1.30%	12.00%	34,905	-	-	\$26.39
Gateway Airport/Loop 202											
Class A	46,732	12,394	-	12,394	26.50%	-	26.50%	-	-	-	\$27.36
Class B	1,161,677	183,675	2,099	185,774	15.80%	0.20%	16.00%	16,350	-	-	\$24.55
Class C	33,232	-	-	-	-	-	-	4,231	-	-	\$19.20
Total	1,241,641	196,069	2,099	198,168	15.80%	0.20%	16.00%	20,581	-	-	\$24.63
Glendale											
Class A	521,061	60,433	-	60,433	11.60%	-	11.60%	10,610	-	-	\$27.24
Class B	1,511,252	393,516	1,294	394,810	26.00%	0.10%	26.10%	7,365	-	-	\$22.26
Class C	424,158	41,199	-	41,199	9.70%	-	9.70%	-	-	-	\$14.39
Total	2,456,471	495,148	1,294	496,442	20.20%	0.10%	20.20%	17,975	-	75,895	\$22.65
Loop 303/Surprise											
Class B	1,323,112	238,024	6,178	244,202	18.00%	0.50%	18.50%	903	-	-	\$23.98
Class C	76,499	-	-	-	-	-	-	1,886	-	-	\$21.00
Total	1,790,047	238,024	6,178	244,202	13.30%	0.30%	13.60%	2,789	-	-	\$23.96
Mesa Downtown											
Class B	675,900	29,881	-	29,881	4.40%	-	4.40%	-	-	-	\$16.33
Class C	265,357	61,554	-	61,554	23.20%	-	23.20%	(-7,384)	-	-	\$15.28
Total	941,257	91,435	-	91,435	9.70%	-	9.70%	(-7,384)	-	-	\$15.81
Mesa East											
Class B	1,265,778	123,122	-	123,122	9.70%	-	9.70%	(-2,748)	-	-	\$18.29
Class C	676,699	126,087	4,275	130,362	18.60%	0.60%	19.30%	(-2,914)	-	-	\$15.17
Total	1,942,477	249,209	4,275	253,484	12.80%	0.20%	13.00%	(-5,662)	-	-	\$16.82
Midtown											
Class A	4,575,999	1,080,862	21,315	1,102,177	23.60%	0.50%	24.10%	(-15,431)	-	-	\$23.34
Class B	6,537,985	1,312,346	40,597	1,352,943	20.10%	0.60%	20.70%	(-6,746)	-	-	\$19.92
Class C	1,032,626	115,511	2,112	117,623	11.20%	0.20%	11.40%	23,553	-	-	\$15.27
Total	12,146,610	2,508,719	64,024	2,572,743	20.70%	0.50%	21.20%	1,376	-	-	\$21.12
Midtown/Central Phoenix											
Class B	2,872,791	300,227	25,438	325,665	10.50%	0.90%	11.30%	14,534	-	-	\$19.69
Class C	947,929	156,268	-	156,268	16.50%	-	16.50%	3,598	-	-	\$13.42
Total	3,820,720	456,495	25,438	481,933	11.90%	0.70%	12.60%	18,132	-	-	\$17.80

Submarket Snapshot

2Q16
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)
N Phoenix/Cave Creek											
Class B	68,926	12,861	-	12,861	18.70%	-	18.70%	1,151	-	-	\$20.71
Total	68,926	12,861	-	12,861	18.70%	-	18.70%	1,151	-	-	\$20.71
N Scottsdale / Carefree											
Class B	1,052,452	419,763	-	419,763	39.90%	-	39.90%	24,940	-	-	\$22.45
Class C	96,441	8,338	-	8,338	8.60%	-	8.60%	-1,000	-	-	\$23.24
Total	1,148,893	428,101	-	428,101	37.30%	-	37.30%	23,940	-	-	\$22.46
North I-17											
Class B	482,318	116,242	-	116,242	24.10%	-	24.10%	10,634	-	-	\$22.78
Total	482,318	116,242	-	116,242	24.10%	-	24.10%	10,634	-	-	\$22.78
Northwest Phoenix											
Class A	1,299,261	142,287	-	142,287	11.00%	-	11.00%	103	-	-	\$21.93
Class B	4,934,827	1,299,186	-	1,299,186	26.30%	-	26.30%	-13,249	-	-	\$17.46
Class C	1,997,979	449,264	1,717	450,981	22.50%	0.10%	22.60%	15,542	-	-	\$12.97
Total	8,232,067	1,890,737	1,717	1,892,454	23.00%	-	23.00%	2,396	-	-	\$17.27
Paradise Valley											
Class A	1,532,409	277,289	19,621	296,910	18.10%	1.30%	19.40%	4,326	-	-	\$26.67
Class B	1,864,304	233,672	10,000	243,672	12.50%	0.50%	13.10%	24,501	-	-	\$20.33
Class C	332,658	64,425	-	64,425	19.40%	-	19.40%	2,865	-	-	\$19.54
Total	3,729,371	575,386	29,621	605,007	15.40%	0.80%	16.20%	31,692	-	-	\$23.52
Piestewa Peak Corridor											
Class A	409,370	10,523	6,097	16,620	2.60%	1.50%	4.10%	-	-	-	\$31.87
Class B	2,185,907	475,750	6,065	481,815	21.80%	0.30%	22.00%	37,328	-	-	\$18.92
Class C	348,713	16,222	-	16,222	4.70%	-	4.70%	1,243	-	-	\$18.52
Total	2,943,990	502,495	12,162	514,657	17.10%	0.40%	17.50%	38,571	-	-	\$20.26
Pinal County											
Class B	599,504	66,541	-	66,541	11.10%	-	11.10%	12,300	-	-	\$19.41
Class C	196,167	3,670	-	3,670	1.90%	-	1.90%	-960	-	-	-
Total	795,671	70,211	-	70,211	8.80%	-	8.80%	11,340	-	-	\$19.41
Scottsdale Airpark											
Class A	6,588,147	1,251,783	11,911	1,263,694	19.00%	0.20%	19.20%	99,195	39,750	-	\$28.60
Class B	5,259,863	620,831	-	620,831	11.80%	-	11.80%	53,660	-	-	\$22.69
Class C	146,960	14,260	-	14,260	9.70%	-	9.70%	1,510	-	-	\$13.25
Total	11,994,970	1,886,874	11,911	1,898,785	15.70%	0.10%	15.80%	154,365	39,750	-	\$26.42
Scottsdale South											
Class A	1,987,459	136,619	30,730	167,349	6.90%	1.50%	8.40%	21,095	-	145,000	\$29.53
Class B	2,760,345	299,899	103,387	403,286	10.90%	3.70%	14.60%	-63,703	-	-	\$26.86
Class C	580,823	110,897	-	110,897	19.10%	-	19.10%	642	-	-	\$18.31
Total	5,328,627	547,415	134,117	681,532	10.30%	2.50%	12.80%	-41,966	-	145,000	\$27.54
South Tempe / Ahwatukee											
Class A	776,323	98,758	-	98,758	12.70%	-	12.70%	-533	-	-	\$24.79
Class B	5,128,459	862,137	55,651	917,788	16.80%	1.10%	17.90%	6,851	-	-	\$22.28
Class C	380,322	27,358	-	27,358	7.20%	-	7.20%	8,724	-	-	\$24.30
Total	6,285,104	988,253	55,651	1,043,904	15.70%	0.90%	16.60%	15,042	-	-	\$22.59
Southwest Phoenix											
Class A	1,093,706	193,866	-	193,866	17.70%	-	17.70%	633	-	-	\$23.00
Class B	1,135,716	51,088	-	51,088	4.50%	-	4.50%	12,022	-	-	\$20.73
Class C	455,811	102,121	-	102,121	22.40%	-	22.40%	-21,560	-	-	\$15.10
Total	2,685,233	347,075	-	347,075	12.90%	-	12.90%	-8,905	-	-	\$20.10
Superstition Corridor											
Class A	670,140	164,679	-	164,679	24.60%	-	24.60%	8,532	-	-	\$23.21
Class B	3,622,027	572,738	46,204	618,942	15.80%	1.30%	17.10%	6,056	-	-	\$19.02
Class C	436,608	67,058	-	67,058	15.40%	-	15.40%	11,892	-	-	\$14.68
Total	4,728,775	804,475	46,204	850,679	17.00%	1.00%	18.00%	26,480	-	-	\$19.40
Tempe											
Class A	4,784,364	309,318	-	309,318	6.50%	-	6.50%	496,570	271,000	1,026,055	\$31.63
Class B	4,144,750	665,405	5,184	670,589	16.10%	0.10%	16.20%	64,958	-	255,356	\$23.34
Class C	842,892	93,264	793	94,057	11.10%	0.10%	11.20%	-7,491	-	-	\$17.41
Total	9,772,006	1,067,987	5,977	1,073,964	10.90%	0.10%	11.00%	554,037	271,000	1,281,411	\$26.21
West I-10											
Class B	1,185,876	130,820	6,510	137,330	11.00%	0.50%	11.60%	-5,591	-	-	\$25.07
Class C	139,051	30,671	-	30,671	22.10%	-	22.10%	-2,114	-	-	\$17.98
Total	1,324,927	161,491	6,510	168,001	12.20%	0.50%	12.70%	-7,705	-	-	\$24.52

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

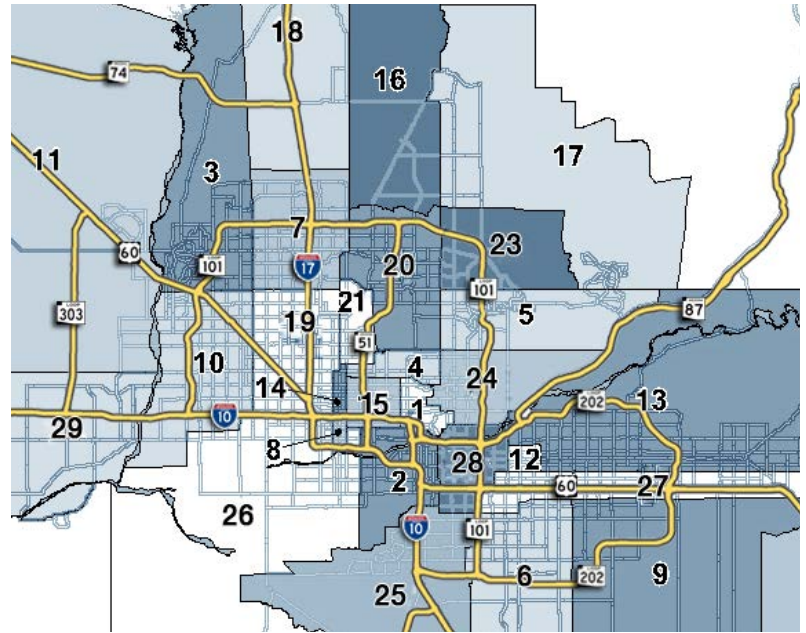
The status of a building that is in the process of being developed, assembled, built or constructed. A building is considered to be under construction after it has begun construction and until it receives a certificate of occupancy.

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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