

Metro Phoenix Q3 2016

OFFICE SNAPSHOT



VACANCY

- The office vacancy rate for the Phoenix Metro market continued to fall in Q3 2016 to 16.5%. This is down from the first quarter of 2016 that ended at 17.3%.
- Class A and Class C vacancy rates continued to compete for the lowest vacancy rate, with 15.4% and 15.1% respectively.
- Class B space posted the highest vacancy rate at 18.3%.

ASKING RENTAL RATES

- The average rental rate increased this quarter, up to \$23.46/SF from \$22.80/SF at the end of Q1.
- Over the past four quarters, the average rental rate has increased 6.5%. In the third quarter of 2015 the average rate sat at \$22.03/SF.
- The Camelback Corridor submarket brought in the highest average office rental rates at \$29.61/SF, with the South Scottsdale submarket just behind at \$28.78/SF.

NET ABSORPTION

- Net absorption decreased slightly since Q2, but still approached 1MSF. Class A space saw the largest square footage absorbed at 777,055 SF.
- The Tempe submarket absorbed as much square footage as all other submarkets in the Valley combined, with 588,681 SF.

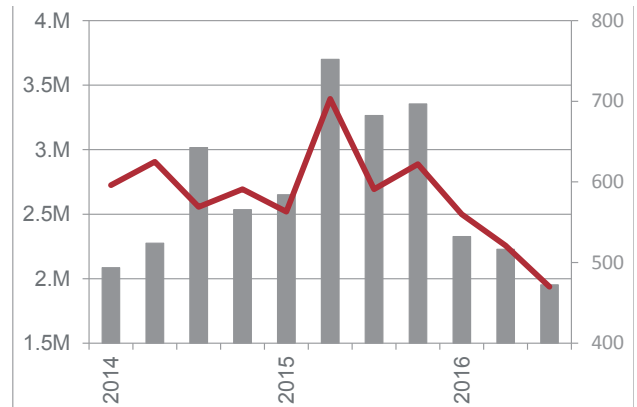
CONSTRUCTION

- More than 1.9 MSF of new development was under construction at the end of 3Q 2016.
- Close to half a million square feet of new space was delivered to the market this quarter, bringing the 2016 total to 1.8 MSF.

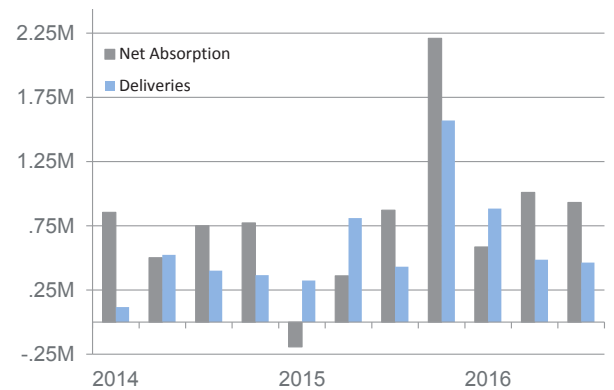
ACTIVITY

- Q3 2016 reported a sales volume of \$43.5M, bringing the total of the first three quarters of the year to \$185M.
- The average sale price per SF began the year at \$135.20, and ended this quarter up significantly at \$182.28.

Leasing Activity



Absorption & Deliveries Activity



Economic Trends

▲ Consumer Price Index
Up 1.1% over last 12 months, nat'l

▼ 30-Year Fixed Mortgage (National)
Down from June-3.57%, Sep 3.46%

▼ Phoenix Metro Unemployment
Down from 5.3% end of Q2, Aug- 5%

Office Market Trends

▼ Vacancy Rate
Down from 16.9% in Q2 to 16.5% in Q3

▬ Net Absorption
little change from Q2 to Q3, down 70k

▲ Average Asking Rates
Up from Q2 to \$23.46 in Q3

Metro Phoenix Snapshot

Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
CLASS A	47,524,623 SF	7,321,905 SF	15.4%	777,055 SF	370,000 SF	1,086,718 SF	\$28.04/SF
CLASS B	85,100,178 SF	15,548,359 SF	18.3%	140,241 SF	93,114 SF	897,112 SF	\$21.81/SF
CLASS C	15,524,686 SF	1,895,523 SF	15.1%	14,562 SF	-	-	\$16.87/SF
TOTAL	146,227,302 SF	24,142,341 SF	16.5%	931,858 SF	463,114 SF	1,983,830 SF	\$23.46/SF
Q2 2016	145,792,782 SF	24,639,679 SF	16.9%	1,009,476 SF	485,159 SF	2,066,270 SF	\$23.14/SF
Q1 2016	145,307,623 SF	25,163,996 SF	17.3%	585,299 SF	884,477 SF	2,232,330 SF	\$22.80/SF

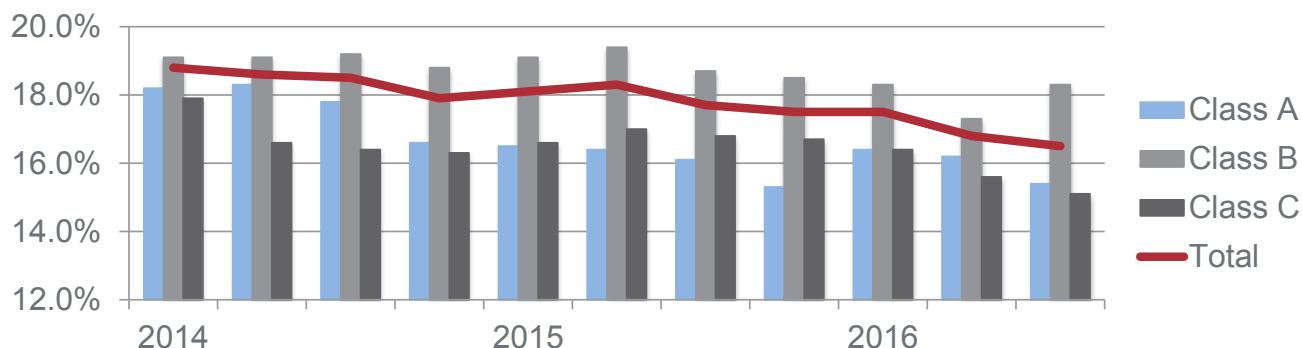
Significant Lease Transactions

	Address	Tenant	Size	Class	Type
Esplanade IV	2575 E Camelback, Phoenix	-	73,080 SF	A	Move In
Papago Buttes Corporate Plaza	1500 N Priest Dr, Tempe	Union Bank	72,715 SF	A	Move In
Continuum Business & Technology Park	2501 S Price Rd, Chandler	OnTrac	42,394 SF	B	Move In

Significant Sale Transactions

	Address	Date	Size	Class	Price
Four Gateway	444 N 44th St, Phoenix	9/8/2016	138,240 SF	A	\$40.4M
Centrica	1550 W Southern Ave, Mesa	7/29/2016	116,982 SF	B	\$30M
Westmount Place	3010 N 2nd St, Phoenix	8/29/2016	57,915SF	B	\$14M

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.

Submarket Snapshot

3Q16
Office

- ▼ Down from previous quarter
- ▲ Up from previous quarter
- No change from previous quarter

Submarket	RBA (SF)	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Avg. Rental Rate (FS)
Airport Area	10,388,531 —	2,089,097 ▲	20.1% ▲	(121,968) ▼	- ▼	225,552 —	\$23.19 ▼
Arrowhead	2,684,442 —	385,384 ▲	14.4% ▲	(19,199) ▼	- ▲	35,500 ▼	\$23.07 ▲
Camelback Corridor	8,710,529 ▼	1,628,942 ▼	18.7% ▼	143,154 ▲	- —	- —	\$29.61 ▲
Central Scottsdale	7,425,958 —	1,092,830 ▲	14.7% ▲	(17,198) ▼	- —	- —	\$23.82 ▲
Chandler	8,045,012 ▲	1,522,966 ▼	19.9% ▲	100,428 ▼	80,114 ▼	290,785 ▲	\$24.43 ▲
Deer Valley/Airport	11,022,738 —	1,929,911 ▼	17.5% ▼	14,718 ▼	- —	150,000 —	\$22.87 ▼
Downtown	9,953,374 —	1,188,173 ▼	14.1% ▲	6,786 ▼	- —	122,200 —	\$27.41 ▲
Gateway Airport/Loop 202	1,253,255 —	208,970 ▲	16.7% ▲	(3,536) ▼	- —	28,190 —	\$24.33 ▼
Glendale	2,456,882 —	499,242 ▲	20.3% ▲	(2,800) ▼	- —	78,000 —	\$22.73 ▲
Loop 303/Surprise	1,790,047 —	253,581 ▲	14.2% ▲	(9,379) ▼	- —	- —	\$23.54 ▼
Mesa Downtown	931,228 —	92,437 ▲	9.9% ▲	(2,207) ▲	- —	- —	\$15.49 ▼
Mesa East	1,910,896 —	223,637 ▼	11.7% ▼	8,511 ▲	- —	- —	\$17.47 ▲
Midtown	12,095,966 —	2,610,026 ▼	21.6% ▼	27,999 ▲	- —	- —	\$21.30 ▲
Midtown/Central Phoenix	3,832,560 —	487,231 ▼	12.7% ▼	(30,540) ▼	- —	- —	\$18.36 ▲
N Phoenix/Cave Creek	68,926 —	12,323 ▼	17.9% ▼	538 ▼	- —	- —	\$20.66 ▼
N Scottsdale / Carefree	1,131,752 —	409,416 ▼	36.2% —	104 ▼	- —	- —	\$22.59 ▲
North I-17	482,318 —	111,417 ▼	23.1% ▼	4,824 ▼	- —	- —	\$22.66 ▼
Northwest Phoenix	8,385,489 —	1,883,952 ▲	22.5% ▼	2,347 ▼	- —	- —	\$17.60 ▲
Paradise Valley	3,732,566 ▲	626,160 ▲	16.8% ▲	(8,153) ▼	13,000 —	- —	\$23.41 ▼
Piestewa Peak Corridor	2,916,294 ▼	515,022 ▼	17.7% ▼	(2,490) ▼	- —	- —	\$19.93 ▼
Pinal County	776,789 —	65,314 ▼	8.4% ▼	4,897 ▼	- —	- —	\$19.68 ▲
Scottsdale Airpark	11,972,406 —	1,836,128 ▼	15.1% ▼	60,665 ▼	- ▼	- —	\$26.50 ▲
Scottsdale South	5,240,820 —	628,775 ▼	12.0% ▼	37,403 ▲	- —	145,000 —	\$28.78 ▲
South Tempe / Ahwatukee	6,369,679 —	996,431 ▼	15.6% ▼	47,095 ▲	- ▼	- —	\$22.60 ▲
Southwest Phoenix	2,685,233 —	318,652 ▼	11.9% ▼	28,423 ▲	- —	- —	\$20.10 ▼
Superstition Corridor	4,747,296 —	822,506 ▼	17.3% ▼	32,793 ▲	- —	- —	\$19.48 ▲
Tempe	10,150,059 ▲	936,677 ▼	9.2% ▼	588,681 ▲	370,000 ▲	908,583 ▼	\$26.22 ▲
West I-10	1,341,138 —	159,285 ▼	11.9% ▼	10,516 ▲	- —	- —	\$23.50 ▼

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

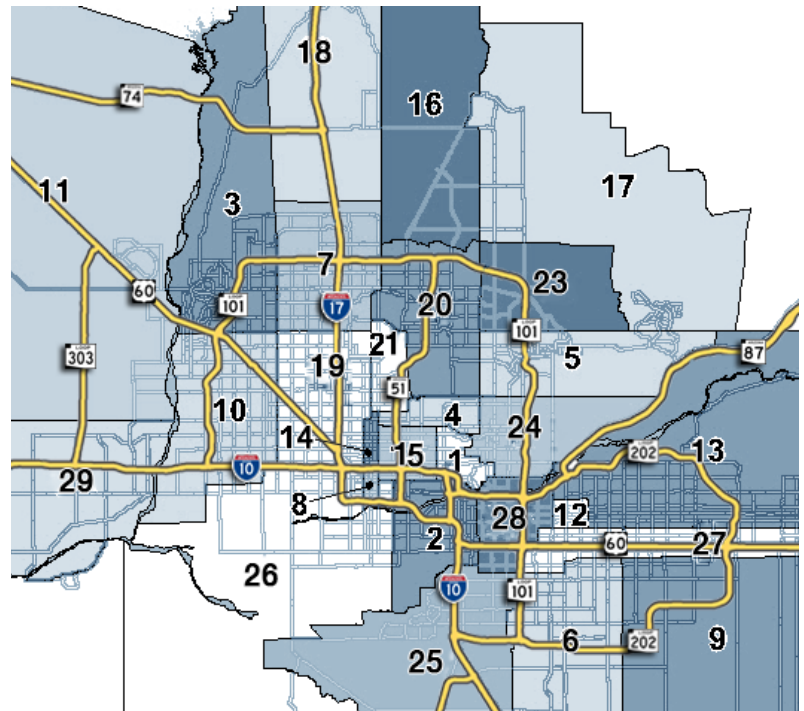
The status of a building that is in the process of being developed, assembled, built or constructed. A building is considered to be under construction after it has begun construction and until it receives a certificate of occupancy.

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 | |