

INVESTMENT MARKET REPORT

Greater Phoenix Year in Review 2017 Office & Retail

Presented to you by:

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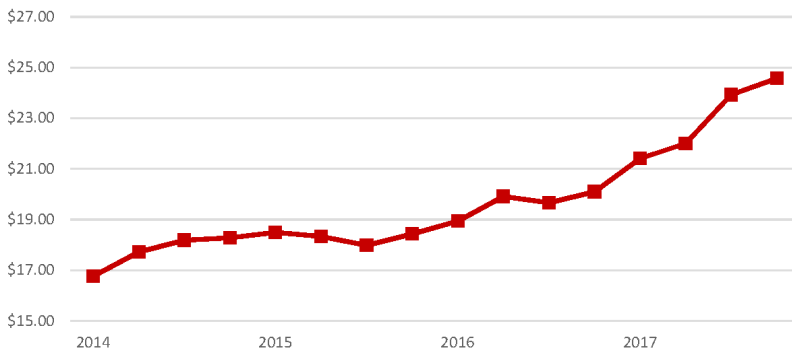
Office

Overview

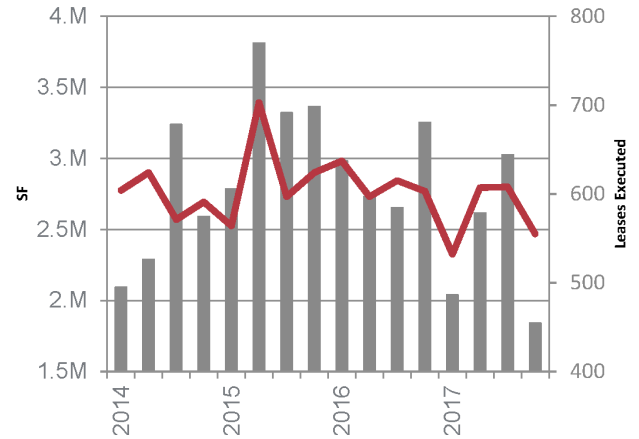
The Phoenix office market ended the year in a steady fashion. Although the office market in Phoenix has had fluctuation throughout the past few years, we continue to see decreasing vacancy rates and increasing rental rates. Phoenix saw office vacancy rates decline throughout the year from 15.3% at the end of the first quarter to 14.7% to close out the year. The average asking rental rate at the end of 2017 was \$24.57 for all classes of office properties. Average rates were calculated at \$23.92 at the end of the third quarter, representing a 2.7% increase in just the last quarter of the year. The Camelback Corridor (250,406 SF), South Scottsdale (410,556 SF), and the Superstition Corridor (98,435 SF) submarkets led the valley in total net absorption through 2017. Office sales also remained strong through the 2017 year, the best numbers were reported from Class B properties with \$929,150,00 in transaction value consisting of 272 individual transactions. Owners of class B office space are, however, feeling the pressure to re-invest into their properties to remain fresh and competitive in the market.

	From Last Year	Current
Vacancy Rate	↓	14.5%
Net Absorption	↑	2.1 MSF
Average Asking Rates	↑	\$24.52/SF

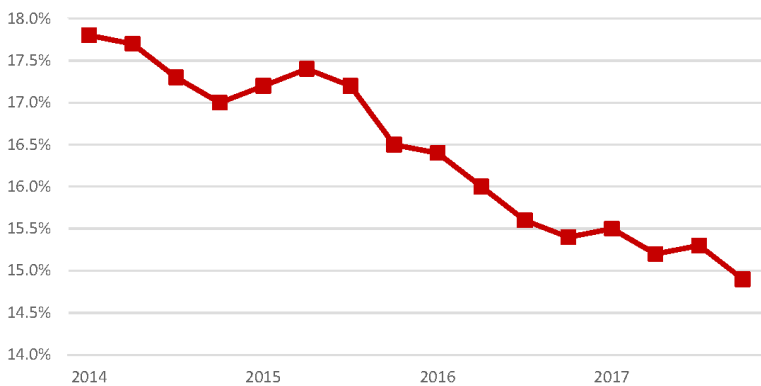
Rental Rates Average Asking/SF



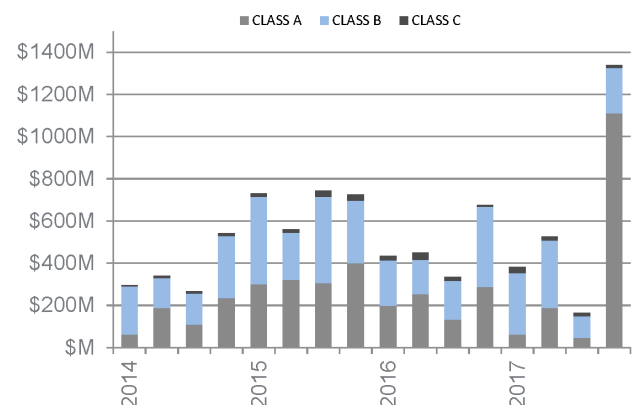
Leasing Activity



Vacancy Rates



Sales Activity



12-Month Consumer Price Index **↑ 1.8%**

30-Year Fixed Mortgage **↑ 4.2%**

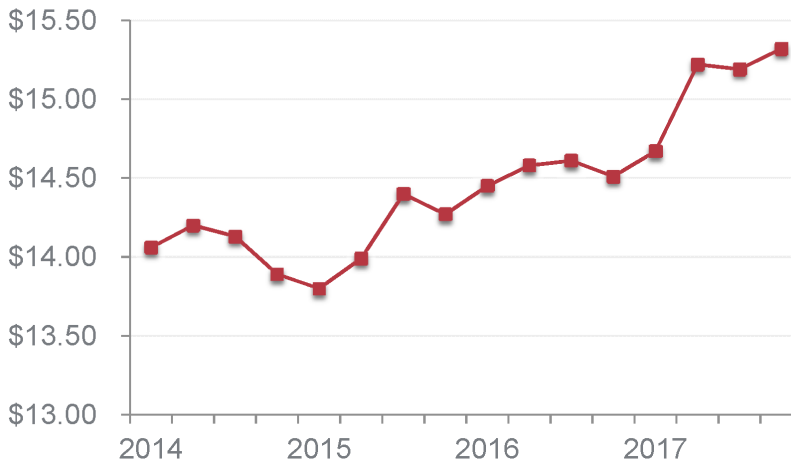
Phoenix Metro Unemployment **↓ 3.7%**

Retail

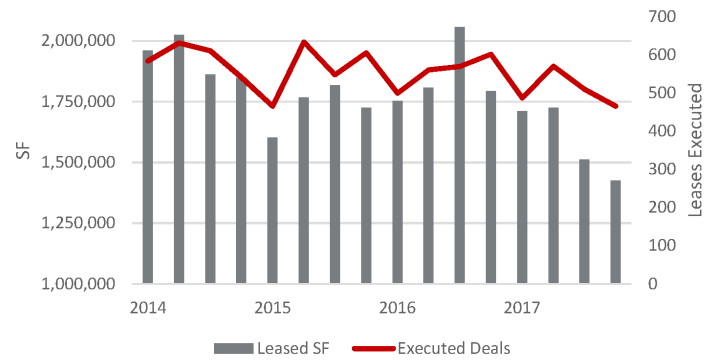
	From Last Year	Current
Vacancy Rate	↓	7.7%
Net Absorption	↑	3.6 MSF
Average Asking Rates	↑	\$17.42/SF

The Phoenix retail market also ended the year on a strong note. Vacancy sustained its steady decline from 8.6% in the beginning of the first quarter, down to 7.8% at the close of 2017. Although we have seen daunting threats to large big box retailers in 2017, Phoenix remained a strong market for most retail properties, owners, and tenants. The trend for investment seems to be gravitating towards grocery-anchored centers and service related neighborhood centers. Average retail rental rates continued their push into the \$15 per square foot region, ending the year at \$15.31. This was an increase from \$14.65 per square foot at the end of the first quarter of 2017, representing a total of 4.3% increase over the last year. On the sales side, retail properties over 50,000 square feet tallied 41 transactions with an average of over \$100 per square foot value and 6.8% cap rate.

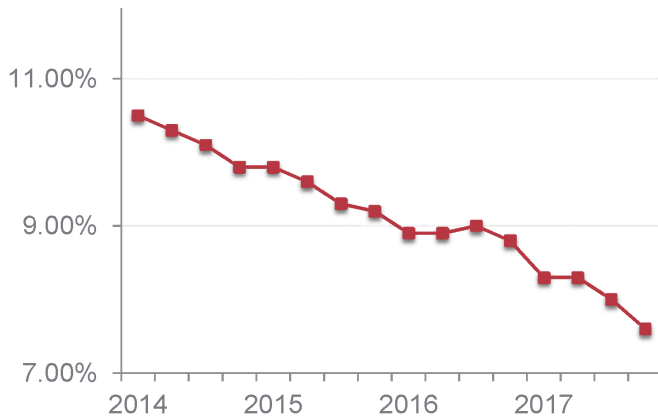
Rental Rates Average Asking/SF



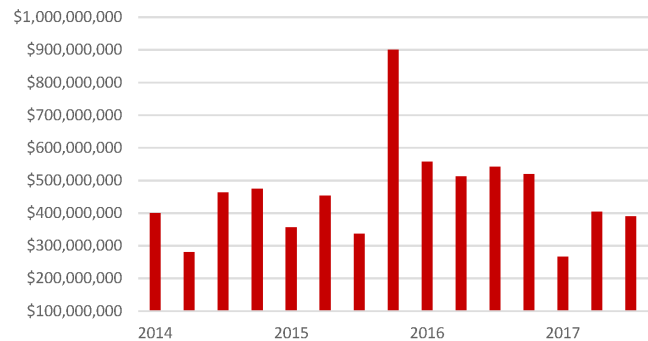
Leasing Activity



Vacancy Rates



Sales Activity



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Phoenix Overview

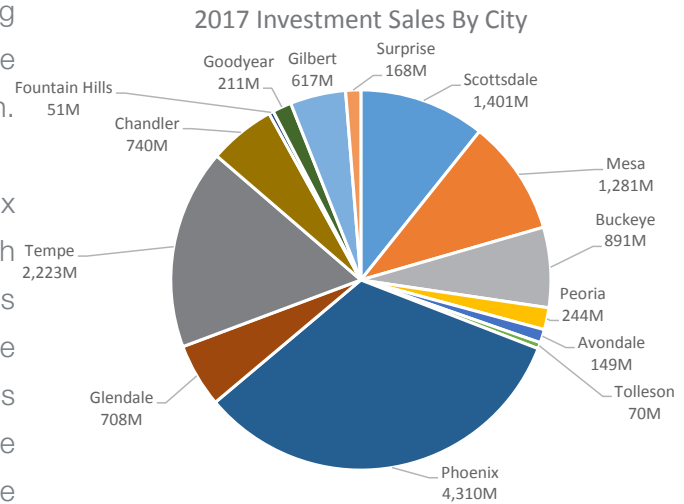
Volume of investment sales in 2017 for office and retail in the Metro Phoenix area increased and cap rates were lower than what was seen in 2016. Since the office and retail leasing market was strong during the 2017 year, we saw an increase in the number of transactions and value per transaction.

Retail and office investment properties over 50,000 SF in the Phoenix Metro area totaled \$2.1 billion in 2017, just topping 2016 which totaled \$2.02 billion. The average cap rate on these transactions was 7.3%, and the average price per square foot was \$217. Office properties (any size) in the Phoenix Metro area had a total sales volume of \$2.44 billion, up from \$2.08 billion in 2016. The average price per square foot also jumped to \$223 from \$164 in 2016. The average cap rate decreased from 7.6% in 2016 to 7.3% at the end of 2017.

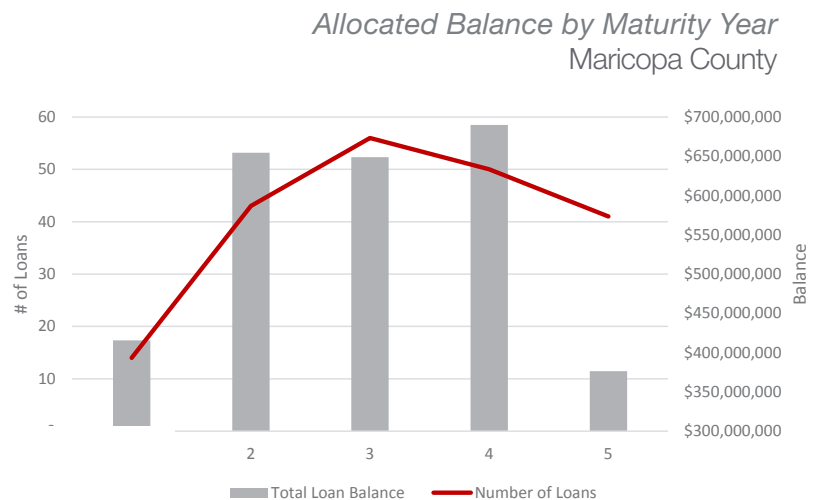
Phoenix retail property investment sales (any size) dipped in 2017 to \$706M, down from \$1.2B in 2016. The average cap rate increased from 6.72% to 6.79%, while average sale price per square foot fell from \$180/SF to \$155/SF.

We continue to see a number of large income properties facing loan maturity dates as we enter 2018. Phoenix has an overall delinquency rate of just over 5% and we will see a combination of foreclosures, workouts, and refinancing as we move through the 2018 year.

2017 Investment Sales by City All Property Types



MSA Name	Delinquent Loans		
	%	Balance	#
New York-Newark-Jersey City	1.26	105,519,689,840	4,601
Los Angeles-Long Beach- Anaheim	0.9	43,988,106,873	3,737
Washington-Arlington-Alexandria	8.21	30,345,912,958	1,157
Dallas-Fort Worth-Arlington	1.56	26,083,193,847	2,024
Houston-The Woodlands	1.56	23,171,856,266	1,786
Chicago-Naperville-Elgin	4.13	22,777,973,352	1,694
Atlanta-Sandy Springs-Roswell	2.36	19,206,182,245	1,463
Miami-Fort Lauderdale-West Palm	0.77	17,015,578,821	948
San Francisco-Oakland-Hayward	0.28	16,692,568,788	985
Philadelphia-Camden-Wilmington	3.78	14,627,755,988	900
Denver-Aurora-Lakewood	1.16	14,001,519,683	866
Las Vegas-Henderson-Paradise	4.37	13,512,300,894	591
Phoenix-Mesa-Scottsdale	5.16	13,111,748,578	1,005
Seattle-Tacoma-Bellevue	0.42	13,018,703,659	1,035



Investment Transactions

Buildings Over 50,000 SF

2017 Significant Transactions

300-600 E Rio Salado Pkwy
Marina Heights - State Farm Buildings
Tempe, AZ 85281



Class A Office Buildings, 2,024,139 SF Sold on 12/07/17 for \$930,000,000 (\$459.45 PSF)
Buyer: JDM Partners
Seller: Ryan Companies US, Inc.

14175 W Indian School Rd
Palm Valley Marketplace
Goodyear, AZ 85395



Retail Neighborhood Center, 107,633 SF Sold on 05/31/17 for \$22,450,000 (\$208.58 PSF)
Buyer: Sterling Organization
Seller: Public Employees Retirement/Regency Centers Corporation

20225 N Scottsdale Rd
Discount Tire Headquarters
Scottsdale, AZ 85255



Class A Office Building, 157,566 SF Sold on 05/18/17 for \$40,180,000 (\$255 PSF)
Buyer: Discount Tire
Seller: Holualoa Companies

3220 N Scottsdale Rd
Luxor of Scottsdale
Scottsdale, AZ 85255



Retail Auto Dealership, 29,388 SF Sold on 05/18/17 for \$16,500,000 (\$561.45 PSF)
Buyer: The Carlyle Group
Seller: David L. Chapman Separate Property Trust

Office

Retail

	From 2016	2017
Transactions	↑	72
Average Price PSF	↑	\$251 PSF
Highest Price PSF 2016	↑	\$459.45 PSF
Cap Rate	↓	7.6%

	From 2016	2017
Transactions	↑	41
Average Price PSF	↑	\$168 PSF
Highest Price PSF 2016	↓	\$251.04 PSF
Cap Rate	↓	6.8%

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\$275 Million+ Sold

In Investment Properties



30+

Land Properties Totaling
Over \$25 Million



30+

Retail Properties Totaling
Over \$155 Million



20+

Office Properties Totaling
Over \$76 Million



10+

Industrial Properties Totaling
Over \$7 Million



2

Other Investment Properties Totaling
Over \$15 Million



Southgate Center II

336 & 340 E Baseline Rd, Phoenix

Sale Price: **\$3,400,000**

Size: ±95,154 SF

Sold: December 2017



Hamstra Square

1020-1080 E Pecos Rd, Chandler

Sale Price: **\$7,100,000**

Size: ±81,148 SF

Sold: August 2017



Pointe Business Park

7227 N 16th St, Phoenix

Sale Price: **\$8,400,000**

Size: ±103,672 SF

Sold: January 2017



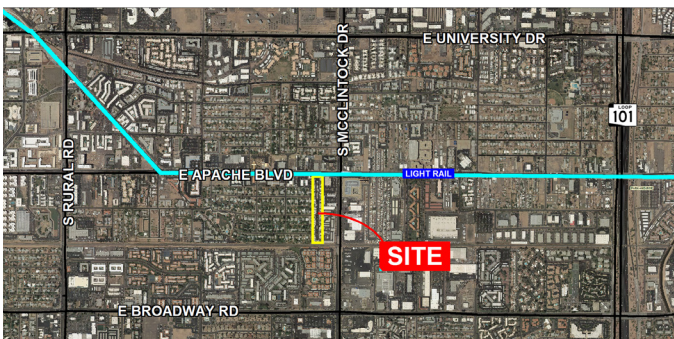
2005 N Dobson

2005 N Dobson Rd, Chandler

Sale Price: **\$4,444,000**

Size: ±11,946 SF

Sold: July 2017



Modernette Mobile Home Park

1707 E Apache Blvd, Tempe

Sale Price: **\$4,050,000**

Size: ±209,088 SF

Sold: July 2017



Shops at Kohl's

4645 E Chandler Blvd, Phoenix

Sale Price: **\$2,700,000**

Size: ±11,400 SF

Sold: June 2017

Realizing Potential, Delivering Results.

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