

Q3 2014

PHOENIX OFFICE

MARKET REPORT

798,563 SF

POSITIVE NET ABSORPTION ↑

21.6%

VACANCY ↓

1,190,460 SF

LEASING ACTIVITY ↓

2,255,470 SF

UNDER CONSTRUCTION ↑

574,262 SF

NEW SUPPLY DELIVERED ↑

\$21.29 SF

AVERAGE FS ASKING RENT ↑

\$114.79 SF

AVERAGE SALES PER SF ↓

\$203.2M

TOTAL SALES TRANSACTIONS ↓

MARKET HIGHLIGHTS

The Phoenix office market ended the third quarter in a very strong position. After a bold first quarter and a less than stellar second quarter, the sector is heading toward the end of the year with sustainable momentum moving into 2015. Economic conditions including a growing GDP and higher employment, are translating to increased market activity and growth in the office sector.

The Valley's office market is humming with build-to-suit construction projects, mostly in the East Valley. In Downtown Tempe, tower cranes dot Tempe Town Lake. The biggest project of them all, State Farm's Marina Heights, is currently under construction of its first phase that includes two mid-rises totaling over 1 million SF. Additional phases will bring the project to over 2M SF and will become the largest office project in Arizona. In addition to Marina Heights, Hayden Ferry Lakeside is under construction with a 10-story, 250,000 SF building on Tempe Town Lake. This is the third and final phase of this office project.

Another very active submarket is Chandler. This sector is becoming a first choice for tech companies and many are locating along the Loop 101/202 Corridor. There have been many land sales over the

past year with new office projects planned. With 700,000 SF of current construction activity and nearly 300,000 SF delivered so far in 2014, this sector continues to see strong momentum going forward.

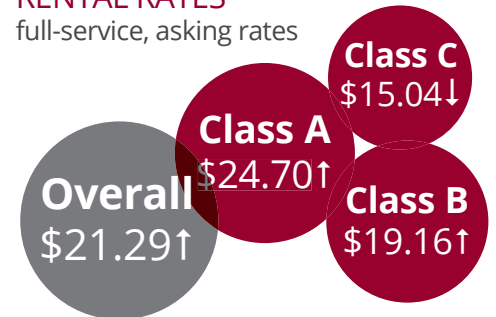
Absorption continues in positive territory and is up substantially over Q2. Net absorption posted a 798,563 SF gain. Year-to-date, net absorption stands at 1.8M SF. Lease activity remains strong as a steady stream of tenants are in the market looking for quality space. Certain sectors are providing challenges with availability, forcing tenants to consider other options. Overall market vacancy has dropped an additional 20-basis points to 21.6%, the lowest level since Q3 2008 at the beginning of the Great Recession. Since then, over 6.5M SF of office space has been added to the Phoenix office inventory.

Full-service asking rents remain below historic levels, but are increasing modestly each quarter. In Q3, lease rates increased overall by 1.3%, with Class A rents rising the most by 3.2%.

Construction activity remains strong, especially in Tempe and Chandler. A total of 2.25M SF of office space is currently under construction in the Valley. Three projects

RENTAL RATES

full-service, asking rates



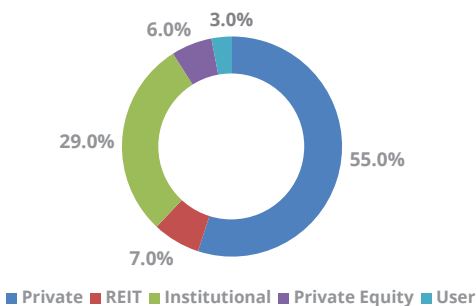
totaling 574,262 SF were delivered to inventory this quarter.

In the largest lease transaction this quarter, Concentrix Corp. leased 101,803 SF at Fountainhead Office Plaza in Tempe. The largest sales transaction in Q3 was Washington Alliance Capital's purchase of the 53,314 SF offices for the U.S. Immigration Service at 1330 S. 16th St. for \$17.6M or \$330.12 per SF.

The Phoenix office market continues to rebuild and reposition itself as a strengthening economy brings new opportunities for growth. The sector is becoming stronger with new fundamentals in place that will guide the market forward.

BUYER TYPE

Q3 14 SALES



TOP UNDER CONSTRUCTION PROJECTS

as of Q3 2014

Project	Major Tenant(s)	Building SF	Delivery
Marina Heights, Tempe	State Farm	1,015,000 SF	Q3 2015
2700 S. Price Rd., Chandler (2)	Wells Fargo	410,000 SF	Q2 2015
Hayden Ferry Lakeside III, Tempe	Not disclosed	264,235 SF	Q4 2015
Scottsdale Quarter, Scottsdale	Not disclosed	169,189 SF	Q4 2015
Liberty Center, Tempe (2)	Wageworks*	310,094 SF	Q4 2014
Chandler 202, Chandler	Not disclosed	133,135 SF	Q1 2015
Ryan at ASU Research Park	Amkor	110,000 SF	Q1 2015
The Reserve at San Tan, Chandler	Spec.	105,830 SF	Q4 2014

*Tenants not occupying entire SF.

ECONOMIC INDICATORS

as of Q3 2014

Unemployment

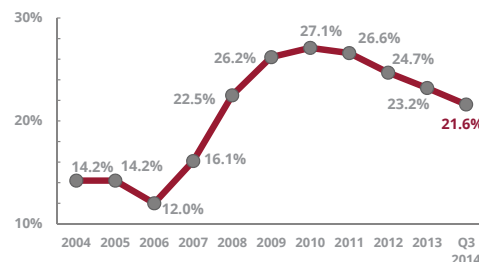
U.S. Down to 5.9%
 Arizona Up to 7.0%
 Phoenix Metro Up to 6.3%

U.S. Consumer Price Index (CPI) Down 0.2%
 Gross Domestic Product (GDP) Up 4.6%

Source: Bureau of Labor Statistics, Arizona Dept. of Economic Security, Eller College of Management, University of Arizona

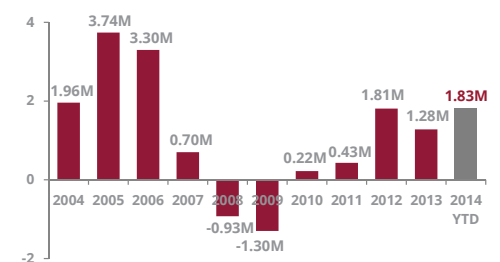
VACANCY

percentage, 2004-2014



ABSORPTION

in SF, 2004-2014



OFFICE SUBMARKET DATA

Office Submarkets	Total Inventory	Vacancy Rate		Net Absorption		Under Construction	Building Completions		Asking FS Rate	Change from Q2
		Total SF	Q3 2014	Q3 2014	YTD 2014		Q3 2014	YTD 2014		
1. Downtown Phoenix	6,807,450	1,150,893	16.9%	(5,495)	(67,407)	-	-	-	\$25.90	1.8%
2. Midtown Phoenix	9,606,915	2,645,791	27.5%	(42,804)	54,342	-	-	-	\$19.93	0.3%
3. East Phoenix	1,645,847	330,141	20.1%	36,826	134,864	-	-	117,710	\$15.45	0.8%
4. 44th St. Corridor	4,612,138	662,818	14.3%	31,712	64,791	-	-	-	\$22.23	6.6%
5. Camelback Corridor	7,975,257	1,813,720	22.7%	30,626	66,044	-	-	-	\$24.57	0.7%
6. Piastewa Corridor	2,085,690	533,763	25.6%	18,222	(11,237)	-	-	-	\$17.64	-0.2%
7. Northwest Phoenix	4,985,851	1,448,873	29.1%	(65,467)	(16,479)	-	-	-	\$16.39	0.0%
8. Southwest Phoenix	821,231	258,710	31.5%	723	13,202	-	-	-	\$20.47	0.0%
9. Airport Area	5,142,707	1,112,559	21.6%	(25,614)	(114,101)	310,094	-	-	\$19.78	1.4%
10. South Tempe/Ahwatukee	2,883,996	423,641	14.7%	131,850	461,956	110,000	259,262	259,262	\$20.83	-0.5%
11. Tempe	2,479,944	288,131	11.6%	(17,378)	15,217	1,279,235	-	-	\$18.64	2.9%
12. Scottsdale South	3,621,155	532,428	14.7%	161,957	304,146	-	145,000	145,000	\$23.21	3.7%
13. Central Scottsdale	4,995,904	723,620	14.5%	148,342	287,830	-	-	-	\$22.37	2.2%
14. Paradise Valley	2,152,084	580,934	27.0%	12,747	22,786	-	-	-	\$22.87	3.4%
15. Deer Valley Airport	3,954,968	1,088,755	27.5%	80,632	(20,915)	-	-	-	\$19.83	4.3%
16. Arrowhead	798,021	197,445	24.7%	(11,774)	32,964	-	-	-	\$21.01	0.5%
17. Glendale	1,349,158	349,539	25.9%	3,000	6,096	-	-	-	\$21.53	0.0%
18. Chandler	2,410,891	475,173	19.7%	226,784	257,336	697,046	170,000	270,622	\$22.83	0.2%
19. Gateway Airport/Loop 202	489,850	177,699	36.3%	11,701	12,876	-	-	-	\$23.92	-0.2%
20. Superstition Corridor	2,015,963	500,822	24.8%	44,641	45,918	-	-	-	\$18.59	1.9%
21. Mesa Downtown	360,601	32,834	9.1%	(1,204)	796	-	-	-	\$19.00	0.0%
22. Mesa East	87,984	12,596	14.3%	5,106	8,331	-	-	-	\$16.61	1.7%
23. Scottsdale Airpark	8,044,983	1,671,201	20.8%	26,360	284,242	169,189	-	-	\$24.20	1.2%
24. N. Scottsdale/Carefree	347,086	204,348	58.9%	(2,730)	(5,989)	-	-	-	\$21.77	0.1%
25. N. Phoenix/Cave Creek	13,607	3,374	24.8%	-	-	-	-	-	\$12.00	0.0%
26. North I-17	150,909	85,533	56.7%	-	(3,403)	-	-	-	\$19.45	0.0%
27. Loop 303/Surprise	410,900	113,987	27.7%	(3,242)	(155)	-	-	-	\$21.74	0.3%
28. West I-10	570,783	85,985	15.1%	3,042	(3,776)	-	-	-	\$21.39	-1.2%
Phoenix Metro Total	80,821,873	17,505,313	21.6%	798,563	1,830,275	2,565,564	574,262	792,594	\$21.29	1.3%
By Building Type										
Class A	34,093,945	7,212,510	21.1%	376,634	826,475	2,168,518	295,001	465,001	\$24.70	3.2%
Class B	43,644,120	9,738,637	22.3%	271,341	761,913	397,046	279,261	327,593	\$19.16	0.3%
Class C	3,083,808	554,166	17.9%	150,588	241,887	-	-	-	\$15.04	-8.8%
Building Type Total	80,821,873	17,505,313	21.6%	798,563	1,830,275	2,565,564	574,262	792,594	\$21.29	1.3%

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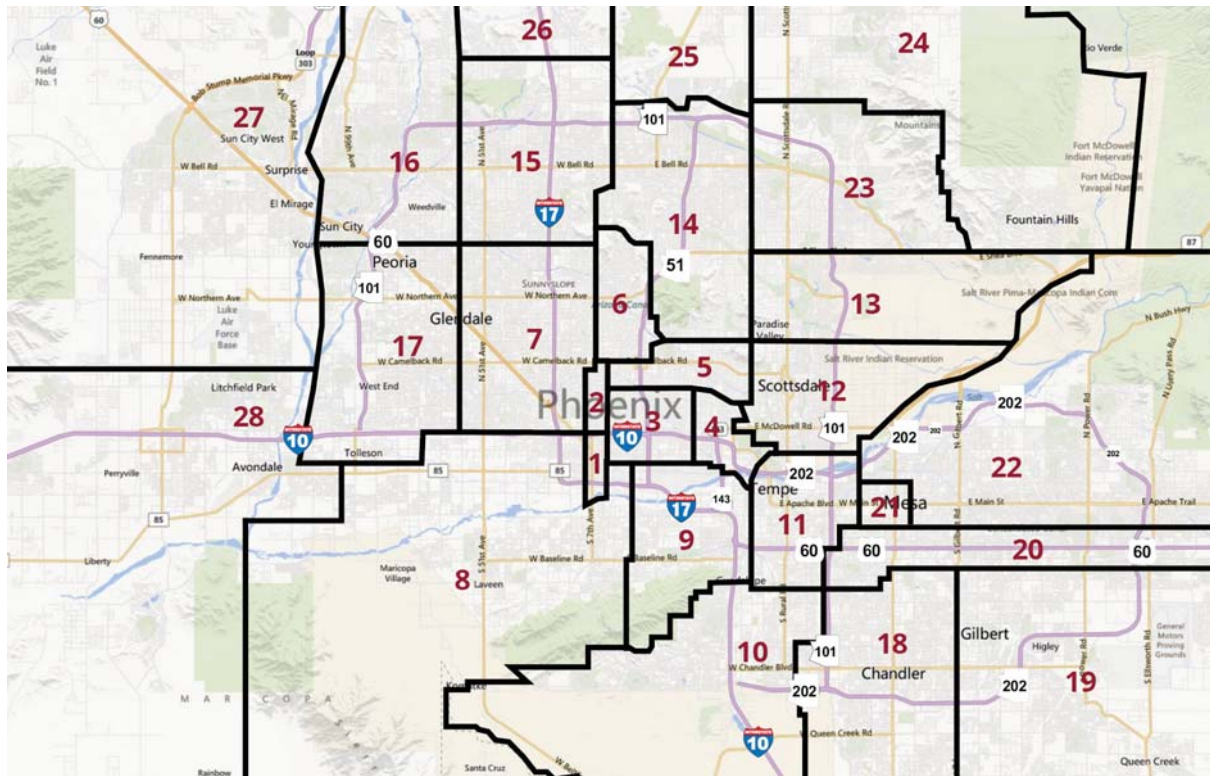
The Lee & Associates Office Market Report compiles relevant market data by using a third-party database for the proprietary analysis of specific office properties above 10,000 SF in the Phoenix Metropolitan Area.

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Market report analysis by:
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PHOENIX OFFICE SUBMARKETS

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



Q3 2014 TOP LEASES

Property Name	Address	Tenant Name	Class	Submarket	Lease SF	Type
Fountainhead Office Plaza	1601 W. Fountainhead Pky., Tempe	Concentrix Corp.	A	Airport Area	101,803	New
Offices on High Street	5455 E. High St., Phoenix	Sprouts Markets	A	Paradise Valley	77,391	New
2700 Corporate Center	2700 W. Frye Rd., Chandler	Apria Healthcare	A	Chandler	65,860	New
East Gateway Center	4646 E. Van Buren St., Phoenix	Mobile Mini	A	44th St. Corridor	50,341	New
Phoenix Gateway Center	410 N. 44th St., Phoenix	Health Choice AZ	A	44th St. Corridor	45,863	Renewal

Q3 2014 TOP SALES

Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
1330 S. 16th St., Phoenix	Washington Alliance Capital	Wilco Strategic Partners	A	\$17,600,000	53,314	\$330.12
585 N. Juniper Dr., Chandler	Palisades Capital Realty Advisors	Held Properties, Inc.	B	\$13,914,000	67,561	\$205.95
15451 N. 28th Ave., Phoenix	Crown West Realty, LLC	Government Prop. Trust	B	\$13,000,000	66,743	\$194.78
11201 N. Tatum Blvd., Phoenix	Highbrook Invest. Advisors	Lone Star Funds	A	\$10,850,000	109,961	\$98.67
10301 N. 92nd St., Scottsdale	Delmastro Eells Construction	ESI Ventures	B	\$7,260,000	74,425	\$97.55

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