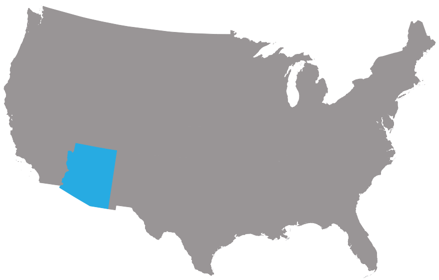
COLLIERS INTERNATIONAL | PHOENIX

RESEARCH & FORECAST REPORT



Vacancy Ticks Lower to Close 2014

THE BROADER VIEW

The Greater Phoenix retail market improved in 2014, but at a more gradual pace than was originally forecast. While the local population is expanding and employers are adding workers, retailers have been expanding at a fairly conservative pace to this point in the cycle. One reason for this caution is the slow pace of new home construction. Developers have been slow to bring new units to the market, and much of the new housing is coming online at infill locations where there are existing retail options already in place. This trend is also true for multifamily construction, which has been on the rise in amenity-rich areas such as Chandler, South Scottsdale and Tempe. Looking ahead, the greatest boost to the local retail climate could be falling gas prices, which ended 2014 more than 40 percent lower than one year earlier. If similar savings were to continue, there could be as much as $1 billion in increased disposable income for Greater Phoenix consumers.

CURRENT CONDITIONS

Retailer expansion continued at a modest pace with net absorption totaling approximately 713,000 square feet in the fourth quarter. While tenant demand was positive and surged in the second half of the year, total net absorption of 1.8 million square feet was down approximately 25 percent from 2013 levels. Net absorption has been positive in 13 of the past 14 quarters, however, highlighting the gradual expansion trend in the Greater Phoenix retail market. In the East Valley submarket, net absorption has been healthy, totaling nearly 660,000 square feet over the past six months, but vacancy remains elevated at 11.8 percent. It will take continued expansion, as well as repurposing of some outdated facilities, to make a significant dent in the overall vacancy rate.

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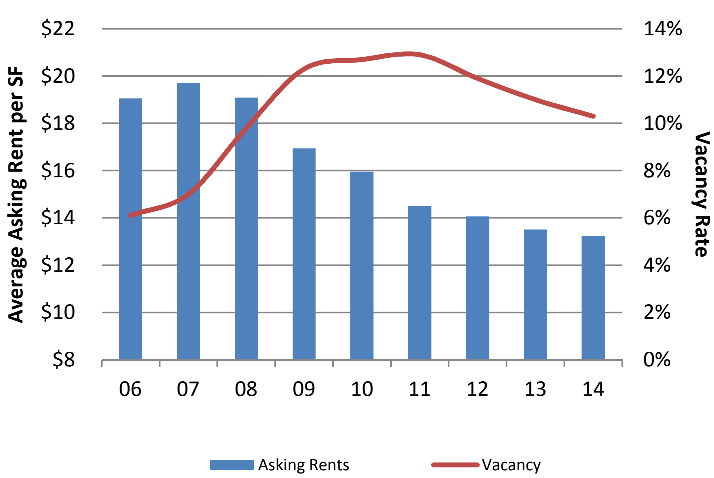
MARKET INDICATORS

	2014 Q4	2013 Q4
VACANCY	↓	↓
COMPLETIONS	↑	↑
NET ABSORPTION	↑	↑
RENTS	↓	↓
CAP RATES	↓	↑

SUBMARKET VACANCY RANK

SUBMARKET	4Q 2014	4Q 2013
Northwest Phoenix	6.6%	7.4%
North Scottsdale	6.8%	7.2%
Scottsdale	7.2%	9.0%
West Valley	7.3%	8.4%
South Mountain	7.7%	7.2%
Airport Area	9.5%	7.2%
East Valley	11.8%	12.3%
North Phoenix	13.7%	15.5%
Downtown Phoenix	16.7%	13.7%

AVERAGE RENT AND VACANCY



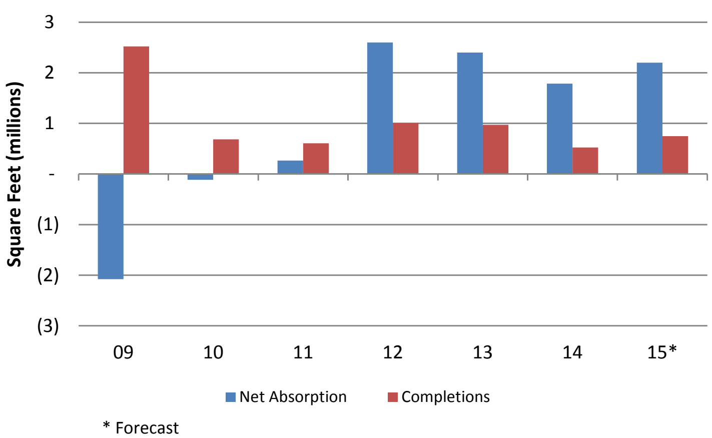
Metrowide vacancy dipped 20 basis points in the fourth quarter, ending the year at 10.3 percent. Since the end of 2013, vacancy has improved by 70 basis points and the rate is at its lowest point since late 2008. Vacancy is declining gradually throughout much of Greater Phoenix, with the Scottsdale and Northwest Phoenix submarkets recording the most rapid improvement. Net absorption in Northwest Phoenix topped 220,000 square feet in 2014, driving the vacancy rate 80 basis points lower to 6.6 percent.

After stabilizing for much of 2014, rents dipped slightly to close the year. Average asking rents retreated 2.1 percent in 2014 to $13.23 per square foot. While the prevailing trend is one of rents in decline, there have been a few exceptions. Average asking rents ticked higher in the East Valley and Downtown Phoenix in 2014, and gained more than 3 percent in the Northwest Valley. As the economy strengthens and store sales increase, there could be room for more widespread rent gains in the coming quarters.

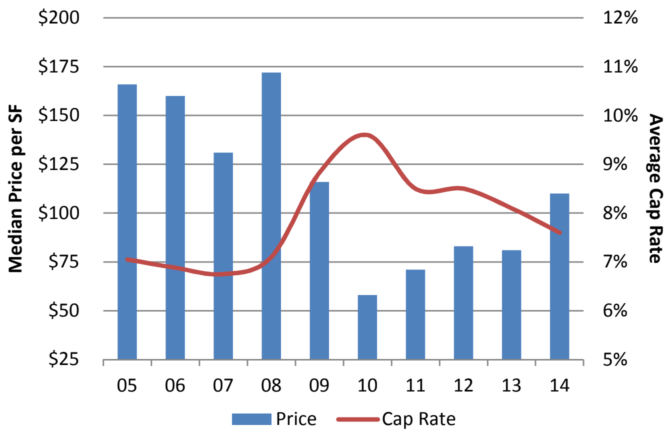
After spiking in the third quarter, sales of shopping centers slowed by more than 30 percent in the final three months of the year. Despite the late-year decline in sales velocity, the number of properties that changed hands in 2014 rose approximately 3 percent from 2013 levels. Since spiking in 2011, annual transaction activity of shopping centers has slowly crept higher.

While the number of shopping centers sold in the fourth quarter dipped, prices continued to trend higher. The median price in transactions in the fourth quarter was $114 per square foot, 7 percent higher than the median price in the third quarter. For the year, the median price reached $110 per square foot, a 37 percent rise from the 2013 median price. Cap rates have compressed as prices have pushed higher, averaging in the mid-7 percent range, approximately 50 basis points lower than in 2013.

SUPPLY AND DEMAND



SHOPPING CENTER SALES TRENDS



485 offices in 63 countries on 6 continents

United States: 146
Canada: 44
Latin America: 25
Asia Pacific: 186
EMEA: 84

- $2.1 billion USD in annual revenue
- 1.46 billion square feet under management
- 15,800 professionals worldwide

(Based on 2013 results)

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