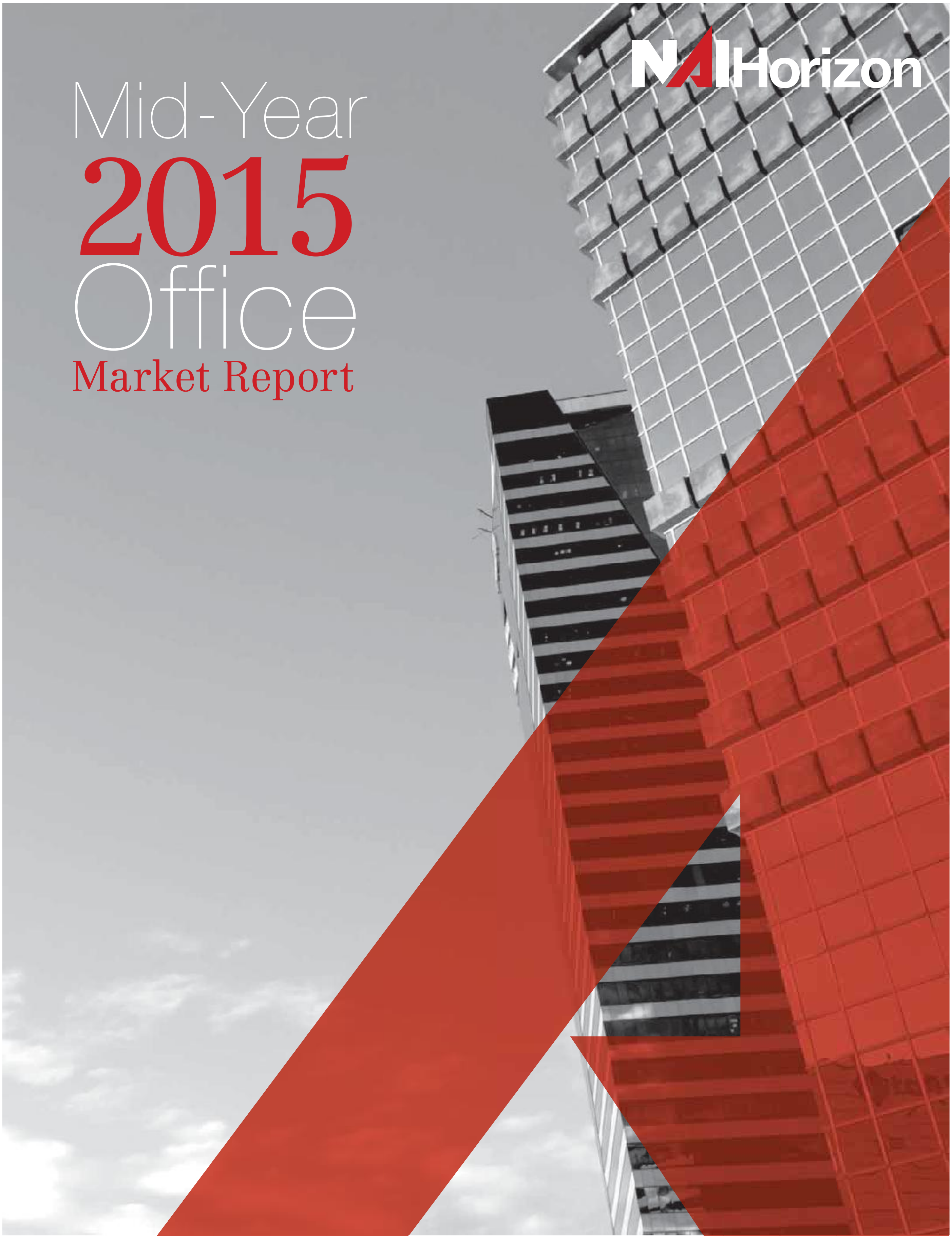


Mid-Year 2015 Office Market Report

NAI Horizon

www.naihorizon.com | 602 955 4000

PHOENIX, ARIZONA

The Market

2Q15 Office

The Phoenix Metro office market ended the second quarter of 2015 on a positive note, rounding out a stable first half of the year. Net absorption saw an uptick this quarter, along with rental rates that continue to increase. With unemployment in the Valley continuing to head in the right direction, down to 4.5% in May 2015 compared to 5.8% in May 2014, the office market has been positively affected as desks are once again being filled. Total nonfarm employment in the Phoenix Metro is up 3% from May 2014 to May 2015, and total nonfarm employment in Arizona is back to the pre-recession levels seen in 2007.

The vacancy rate for the Phoenix Metro market ended Q2 at 18.3%, remaining relatively even for the last three quarters. The flattening in vacancy can mainly be attributed to the increase in new office space deliveries; in the past 6 quarters, over 2.5 million SF have been delivered to the Phoenix market, compared to the previous 6 quarters when just 413,000 SF was delivered. While tenant demand still remains strong, it has yet to outpace the quickly growing new deliveries in prime submarkets such as Tempe and Chandler.

Class A space has seen the biggest drop in vacancy in the last year, falling to 16.4% from 18.1% in Q2 of 2014. Class A space has also seen dramatic improvements in rent in the past year; in Q2 of 2014 average rental rates sat at $24.08 and ended Q2 of this year at $25.85. The vacancy rate for Class B properties has remained mostly flat in the last 6 quarters, hovering just around 19.4%. The average rental rate for Class B space has increased to $20.33 this quarter, up from $19.78 seen in Q2 of 2014.

Net absorption improved in Q2 from a slow Q1, up to 387,049 SF absorbed from just 57,162 SF in Q1. The Chandler submarket saw the highest absorption with 266,457 SF, mainly due to a fully occupied new delivery on the Wells Fargo Chandler campus. The Northwest Phoenix submarket and the Airport Area submarket took the hardest hits this quarter, both with negative net absorptions over 100,000 SF.

Sales volume dropped slightly in Q2 compared to Q1, but continues to increase over the last 5 years. For the first half of 2015, $1.29 billion was sold in the Phoenix office market, compared to the first half of 2014 when the total came in at $722 million. Leasing activity increased from Q1 to Q2, with 665 deals totaling 2.58 million SF being transacted.

Q2 Office Market Trends

- ▲ Vacancy Rate
- ▲ Net Absorption
- ▲ Average Asking Rates

Phoenix 2Q15
Office Snapshot

2Q15
Office

Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
CLASS A	43,091,762 SF	7,079,474 SF	16.4%	358,880 SF	361,027 SF	3,600,136 SF	$25.85 FSG
CLASS B	83,905,635 SF	16,294,131 SF	19.4%	76,811 SF	273,135 SF	337,642 SF	$20.33 FSG
CLASS C	12,225,761 SF	2,041,480 SF	17.0%	(48,642) SF	-	-	$15.41 FSG
TOTAL	139,223,158 SF	25,447,891 SF	18.3%	387,049 SF	634,162 SF	3,937,778 SF	$21.80 FSG
Q1 2015	138,603,637 SF	25,215,241 SF	18.2%	57,162 SF	297,761 SF	4,421,940 SF	$21.56 FSG
Q4 2014	138,356,290 SF	25,025,056 SF	18.1%	901,618 SF	365,182 SF	3,633,059 SF	$21.32 FSG

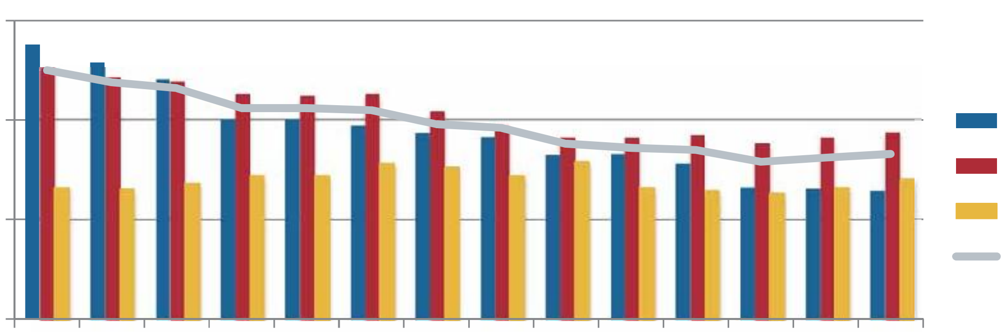
Significant Lease Transactions

Property	Address	Tenant	Size	Class	Type
Tower I & II - Phoenix Plaza	2901-2929 N Central Ave, Phoenix	Banner Health	261,267 SF	A	Move-In
Hayden Ferry Lakeside III	40 E Rio Salado Pky, Tempe	Zenefits	162,808 SF	A	Move-In
Allred Park Place Central - Bldg 4	1450 S Spectrum Blvd, Chandler	Infusionsoft	100,622 SF	A	Move-In

Significant Sale Transactions

Property	Address	Buyer	Sale Date	Size	Class	Price
One North Central	1 N Central Ave, Phoenix	Parallel Capital Partners, inc	6/19/2015	410,053 SF	A	$93.75M
Biltmore Commerce Center	3200 E Camelback, Phoenix	Lincoln Property Company	4/17/2015	259,730 SF	A	$58M
River Corporate Center	8075 S River Pkwy	Bruce Karsh	4/29/2015	133,225 SF	B	$24.6M

Office Vacancy Rates



The Of ce Market is a compilation that includes Class A, Class B, and Class C buildings with at least 10,000 SF of space. Medical of ce buildings are included. Some information contained herein has been obtained from third party sources deemed reliable but has not been independently veri ed 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 speci c comparison to previously issued reports.

Market Numbers

Vacancy

- Slightly increased from 18.2% to 18.3% in Q2 2015
- Class A properties reported the lowest vacancy rate in the Valley at 16.4%
- Class B properties reported the highest vacancy rate in the Valley at 19.4%

Rental Rates

- Rates continued to increase in 2015 with Q2 ending at an average rate of $20.80, up from $21.56 in Q1
- Class C space saw a significant increase from $15.08 in Q1 to $15.41 in Q2
- Class A space also saw a significant increase from $25.38 in Q1 to $25.84 in Q2

New Construction

- Ending Q2 2015, there were 3,937,778 SF of new office buildings wereunder construction
- 634,162 SF of office space was delivered in Q4 2014

Net Absorption

- In Q2 2015, 387,049 SF were absorbed in the Phoenix Metro Office Market. This is an increase from a slow Q1 when just 57,162 SF was absorbed.

Economic Trends

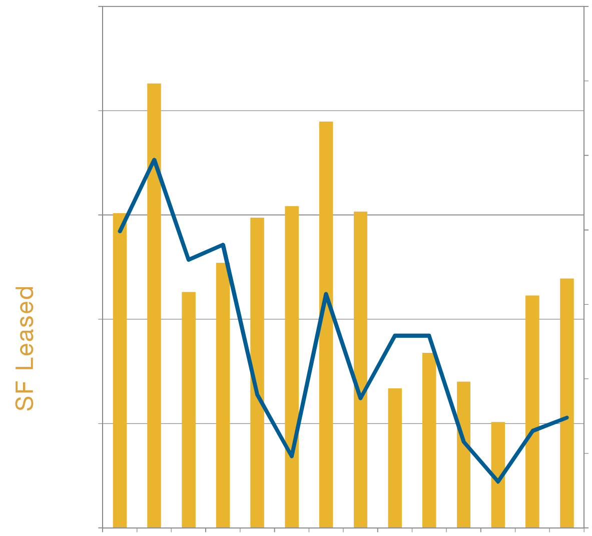
Consumer Price Index
Up .5% in May, no change since 05/14

30-Year Fixed Mortgage
4.2% National Average, down from 3.98%01/15

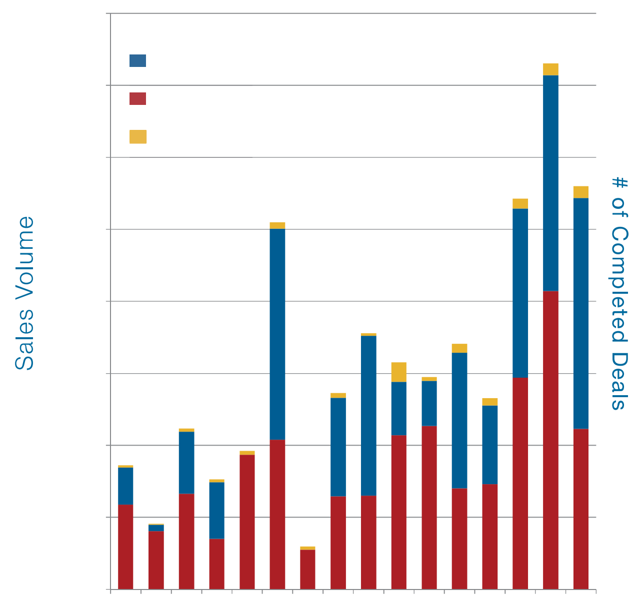
Phoenix Metro Unemployment
MSA, 05/15- 4.6% down from 5.8% 01/15

Mid-Year 2015

Leasing Activity



Sales Activity



NAI Horizon Featured Transactions

4320 E Presidio St, Suite 101
Mesa, AZ 85215

Sale Price: $674,000
Size: 6,164 SF
Sold: March 2015

2111 E Pecos Rd
Chandler, AZ 85225

Sale Price: $542,532
Size: 5,293 SF
Sold: April 2015

3310-3404 W Cheryl Dr
Phoenix, AZ 85051

Size: 11,414 SF
Leased: April 2015

3300 N Central Ave, Suite 1520
Phoenix, AZ 85012

Size: 3,209 SF
Leased: June 2015,
Tenant Rep: DHE Engineering LLC

8130 E Cactus, Suite 510
Tempe, AZ 85281

Size: 2,701 SF
Leased: May 2015

naihorizonblog.com
Want to recieve all of our Phoenix and Tucson Market Reports? Subscribe to our blog! Stay up to date on the latest market reports, transactions and industry news from NAI Horizon on our blog. Simply subscribe via email to receive updates sent directly to your inbox.

Phoenix Submarkets

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											
Airport Area											
Arrowhead											
Camelback Corridor											
Central Scottsdale											
Chandler											
Deer Valley/Airport											
Downtown											
Gateway Airport/Loop 202											
Glendale											
Loop 303/Surprise											
Mesa Downtown											
Mesa East											
Midtown											

Phoenix
Submarkets

Q2 2015

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)
Midtown/Central Phoenix											
N Phoenix/Cave Creek											
N Scottsdale / Carefree											
North I-17											
Northwest Phoenix											
Paradise Valley											
Piestewa Peak Corridor											
Pinal County											
Scottsdale Airpark											
Scottsdale South											
South Tempe / Ahwatukee											
Southwest Phoenix											
Superstition Corridor											
Tempe											
West I-10											

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

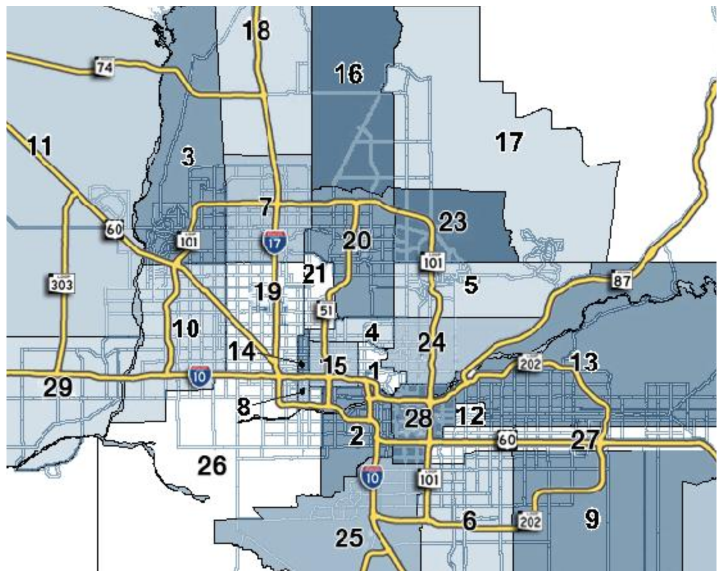
The status of a building that is in the process of being developed, assembled, built or constructed. A building is considered to be under construction after it has begun construction and until it receives a certificate of occupancy.

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

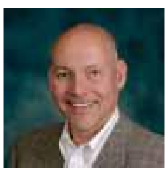
We are here.
Phoenix

@naihorizon
naihorizonblog.com
facebook.com/NAIHorizon

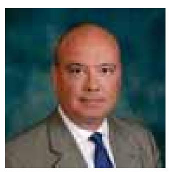
NAI Horizon knows commercial real estate. With over 25 years in the Valley, NAI Horizon's extensive market insight allows us to match client needs with the right solutions. NAI Global member firms span the U.S. and 54 other countries, with more than 375 offices and more than 6,700 local market experts 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.

www.naihorizon.com

Office Specialists



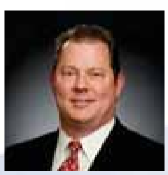
Thomas Bean, CCIM
Vice President
thomas.bean@naihorizon.com



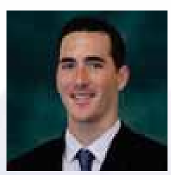
Troy Giammarco
Vice President
troy.giammarco@naihorizon.com

Laurel Lewis
Senior Vice President
laurel.lewis@naihorizon.com

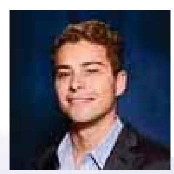
Barbara Lloyd, CCIM
Senior Vice President
barbara.lloyd@naihorizon.



Lane Neville
Senior Vice President
lane.neville@naihorizon.com



Nathan Pancrazi
Office Specialist
nathan.pancrazi@naihorizon.com



Andrew Veatch
Office Specialist
andrew.veatch@naihorizon.com

Mid-Year 2014 Office Market Report

REPORT PREPARED BY:

Marissa Russo
Marketing & Research/GIS Manager
marissa.russo@naihorizon.com

Jonathan Collins
Research/GIS
jonathan.collins@naihorizon.com

NAI Horizon
2944 N 44th Street, Suite 200
Phoenix, Arizona 85018
tel +1 602 955 4000
www.naihorizon.com