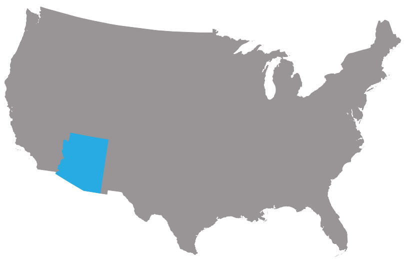
PHOENIX | ARIZONA

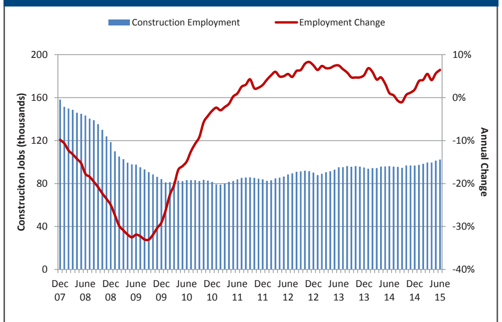
RESEARCH & FORECAST REPORT



MARKET INDICATORS

	1H-15	1H-14
LAND SALES	↓	↓
LAND PRICES	↓	↑
RESIDENTIAL SALES	↓	↓
SINGLE-FAMILY PERMITS	↑	↑
MULTIFAMILY PERMITS	↓	↑
CONSTRUCTION EMPLOYMENT	↑	↑

PHOENIX CONSTRUCTION EMPLOYMENT



Land Sales Slow, but Single-Family Permitting is on the Rise

Sales activity for land parcels in Greater Phoenix slowed during the first half of this year. This is expected to be a short-term disruption in activity however, as housing starts and commercial construction are both slowly gaining momentum. The strength of the housing market will be the primary driver of land sales activity, as parcels intended for residential uses generally account for at least half of the transaction volume in a given year. After several years of extreme volatility, the local housing market has stabilized and the outlook is strengthening. In addition, local population growth and employment expansion are both outpacing the national rate of growth, stimulating demand for housing in Greater Phoenix. One drag on land sales and new development could be the construction workforce, which contracted severely during the recession and has been slow to bounce back. Developers looking to meet anticipated demand for commercial and/or residential spaces may encounter challenges hiring a sufficient number of qualified contractors and laborers.

RESIDENTIAL MARKET OVERVIEW

The Greater Phoenix residential market continued to stabilize during the first half of this year, with prices steadying, distressed properties playing a reduced role and activity outpacing year-earlier levels. Demand for single-family homes is expected to continue to slowly gain momentum, as population growth accelerates, credit issues that plagued many former homeowners get resolved and mortgage financing remains affordable. While mortgage rates remain low, qualifying for financing remains one of the most significant impediments to home sales. While many existing owners can often qualify for financing, the current down payment and income requirements are making it difficult for renters to transition into home ownership.

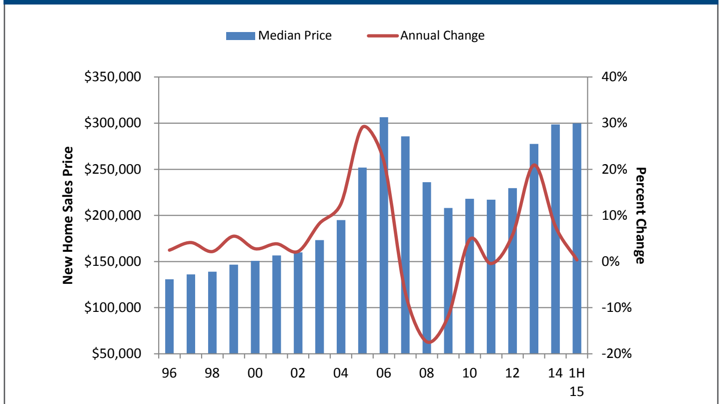
Home prices in Phoenix are generally trending higher, but the pace of gains has lagged the national rate of growth among the largest markets in the country. Phoenix ranked 14th in the 20-market Standard & Poor's Case-Shiller home price index as of June 2015, with an average price gain of 4.1 percent, compared to a 5.0 percent increase for the top-20 markets. The index shows a fairly stable market nationally, with each of the 20 markets showing year-over-year price gains of at least 1 percent, and only one market showing an annual increase of more than 10 percent.

Sales prices for new homes in the Greater Phoenix market have leveled off during the past 18 months. The median new home sales price during the first half of 2015 was approximately $300,000, nearly identical to the median price for new homes in 2014. This follows a sharp rise in new home prices from 2012-2014.

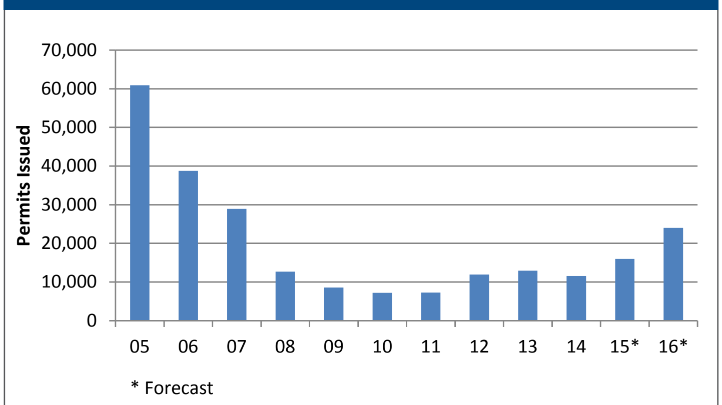
PERMITTING OVERVIEW

Permitting activity in Greater Phoenix changed course in the first half of this year, with the single-family market picking up and multifamily issuance slowing. This followed a three-year period where multifamily permitting accelerated rapidly while single-family permitting was stuck in neutral.

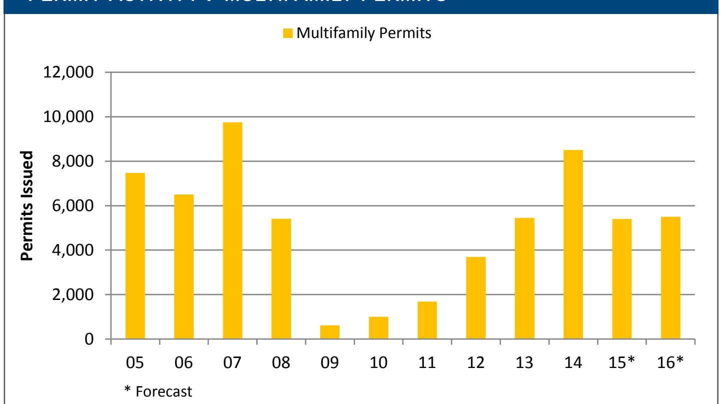
HOME PRICING TRENDS > NEW HOMES



PERMIT ACTIVITY > SINGLE-FAMILY PERMITS



PERMIT ACTIVITY > MULTIFAMILY PERMITS



More than 8,400 single-family permits were issued in the first half of this year, a 33 percent increase over the same period in 2014. Developers are forecast to pull approximately 16,000 single-family permits for the full year, which would be the highest annual total since 2007. From 2010-2014, an average of 10,300 single-family permits were pulled per year.

In contrast to the single-family market, multifamily permitting slowed considerably in the first half of this year. Multifamily permitting topped 8,500 units in 2014, representing a 56 percent annual increase and reaching a six-year high. The pace has slowed by approximately 50 percent to this point in 2015, and the forecast total for this year is expected to check in fairly close to the long-term market average.

LAND SALES

Land sales slowed during the first half of 2015, lagging the pace recorded in the second half of 2014 by 19 percent. When compared to the first half of last year, transaction activity was down approximately 6 percent, with the most significant declines being recorded in land acquired for commercial uses.

Pricing dipped during the first half of this year, with the median for all transactions reaching $2.84 per square foot. This marked a 10 percent drop from the 2014 median price for land sales. Despite the recent retreat, the prevailing long-term trend is of rising prices. Current prices are considerably higher than during recent cyclical lows; as recently as 2012, the median price was less than $2 per square foot and in 2011, the median price dipped below $1 per square foot.

The median price in sales for land intended for residential uses dipped to $2.10 per square foot in the first half of this year, compared to a median price of $3.03 per square foot in 2014. While 2013 and 2014 were years where a significant share of land sales for residential uses were located in infill locations, a greater share of the parcels that have changed hands thus far in 2015 have been in outlying areas. This has resulted in a lower median price, but also a return to more normalized conditions in the Greater Phoenix land market.

Sales activity for land designated for industrial uses declined 11 percent from the second half of last year to the first half of 2015, following a drop in activity from 2013 to 2014. Some of this reduced velocity is attributable to a vacancy rate in industrial properties that has proven slow to improve. Development of industrial buildings peaked in 2014, and more modest construction is likely for at least the remainder of this year. While build-to-suit projects are still coming through the development pipeline, spec construction has declined as leasing has not matched forecast volumes. Prices for industrial land have pushed higher even as activity has slowed. The median price in land transactions for industrial projects rose 10 percent in the first half of 2015, reaching $2.44 per square foot. The high-end of the pricing spectrum has been in the East Valley, where the median price for industrial land reached $4.18 per square foot during the first half of this year.

SIGNIFICANT SALES ACTIVITY THIRD AND FOURTH QUARTER 2014

SIGNIFICANT LAND TRANSACTION

SALE DATE	LOCATION	CITY	SALE PRICE	SIZE (ACRES)	SIZE (SF)	PRICE/SF	PROPOSED USE
April 2015	NWC 91st Ave & Deer Valley Rd	Peoria	$17,276,000	81.91	3,567,934	$4.84	Single-Family Homes
March 2015	N Eagle Ridge Dr & Hawkeye	Fountain Hills	$15,860,000	75.00	3,267,000	$4.85	Single-Family Homes
March 2015	E Empire Blvd	Queen Creek	$15,785,000	205.00	8,929,800	$1.77	Single-Family Homes
Jan 2015	NEC Virginia St & Greenfield Rd	Mesa	$5,500,000	19.59	853,340	$6.45	Industrial
Feb 2015	Loop 202 & Cooper Rd	Chandler	$5,372,185	19.03	828,847	$6.48	Commercial
Feb 2015	Aspera Blvd & 75th Ave	Glendale	$4,704,408	13.48	587,189	$8.01	Multifamily Units

Land sales for commercial projects dropped by nearly 35 percent from the second half of last year to the first half of 2015. This is despite the improvement in most commercial property types, where vacancies are tightening and rents are pushing higher, particularly in the office segment. The drop in activity could turn out to be a short-term lull, because sales velocity has gained momentum in the early stages of the second half of this year. While fewer land parcels sold in the first six months of 2015, prices remained stable. The median price for land parcels intended for commercial uses was $3.98 per square foot in the first half of the year, within 1 percent of the 2014 median price.

COMMERCIAL PROPERTY OVERVIEW

The Greater Phoenix commercial real estate market continued to improve in the first half of 2015, with vacancy tightening and rents generally ticking higher. Development trends are mixed, however, with office and multifamily construction ramping up due to robust absorption in these segments, while industrial and retail development is largely limited to build-to-suit projects.

Resumed population growth is fueling demand for the local multifamily market. Renters have moved into a net of nearly 6,000 units in the past 12 months, and the local vacancy rate has dipped 80 basis points to 6.1 percent. This is the second-lowest quarterly vacancy rate recorded in the Greater Phoenix multifamily market in the past 10 years and these tight vacancy conditions are fueling rent growth and new development. Asking rents have spiked by 5.7 percent in the past 12 months, including a 3.8 percent rise in the first half of this year. With vacancies and rents on the rise, construction activity is ramping up. Projects totaling more than 7,000 units were under way at midyear 2015.

The Greater Phoenix office market continues to improve, and developers are responding to the strengthening conditions by ramping up construction activity. Projects totaling approximately 4.5 million square feet are under way, including approximately 1.5 million square feet of spec space. Office vacancy ended the second quarter at 17.9 percent, 80 basis points lower than one year earlier. The rate dipped below 20 percent in the second half of 2013 and has been gradually improving in the subsequent quarters. Vacancy in the Class A segment has dipped to 16.4 percent, compared to early 2010 when Class A vacancy topped 26 percent. Office asking rents have been pushing higher as well, having advanced in each of the past nine quarters.

The local industrial market is in a bit of an oversupply, which is slowing development of new buildings. While the long-term average is under 10 percent, industrial vacancy ended the first half of this year at 12.1 percent, and the rate has ranged between 11.8 percent and 13.2 percent since the beginning of 2013. Deliveries will slow to approximately 4.5 million square feet in 2015, following the completion of more than 7 million square feet in 2014. At this point in the cycle, developers are increasingly focused on build-to-suit projects.

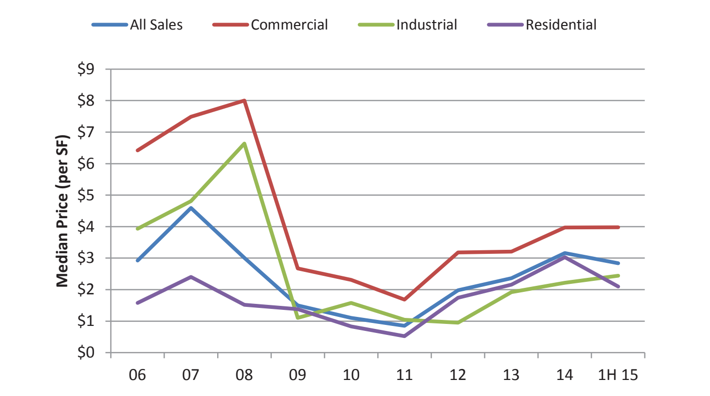
The Greater Phoenix retail market has been slow to bounce back. Vacancy ended the first half at 10 percent, a 70 basis point improvement from one year ago, but still well above the long-term average. The vacancy rate is elevated in part because of the numerous vacant big-box spaces that have been slow to lease. This overhang in supply is stalling new development, which has been largely limited to small build-to-suit projects and a few outlet centers in recent years.

CASE-SHILLER HOUSING INDEX

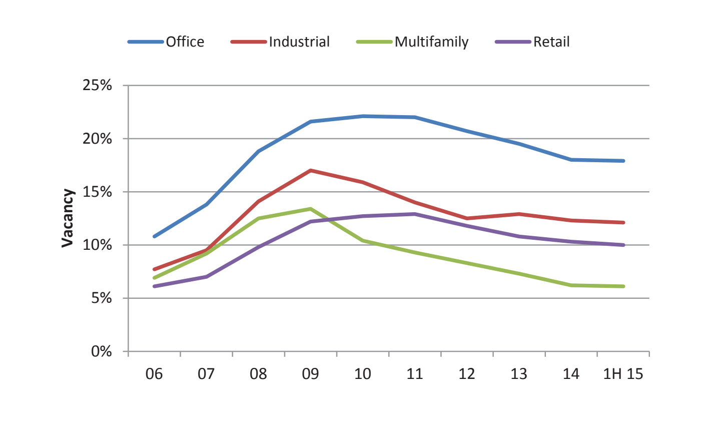
METRO AREA	DECEMBER 2014 VALUE*	MONTHLY CHANGE	ANNUAL CHANGE
Denver	170.09	1.3%	10.2%
San Francisco	214.53	0.4%	9.5%
Dallas	151.59	0.9%	8.2%
Portland	182.14	1.5%	7.8%
Miami	200.66	0.3%	7.7%
Seattle	182.48	1.1%	7.4%
Los Angeles	237.54	0.9%	6.3%
Las Vegas	143.30	0.8%	6.1%
Detroit	102.87	1.8%	5.7%
Atlanta	124.86	1.3%	5.4%
Tampa	169.81	0.3%	5.4%
Charlotte	134.32	0.6%	5.2%
San Diego	212.40	0.3%	4.6%
Phoenix	**152.91**	**0.9%**	**4.1%**
Minneapolis	146.06	1.2%	3.4%
Boston	182.04	1.5%	3.3%
Cleveland	109.63	1.5%	2.8%
New York	179.98	1.2%	2.8%
Washington	213.61	1.1%	1.6%
Chicago	131.72	0.7%	1.4%

Source: Standard & Poor's * Index Value based on Jan 2000 data as 100 for each Metro Area

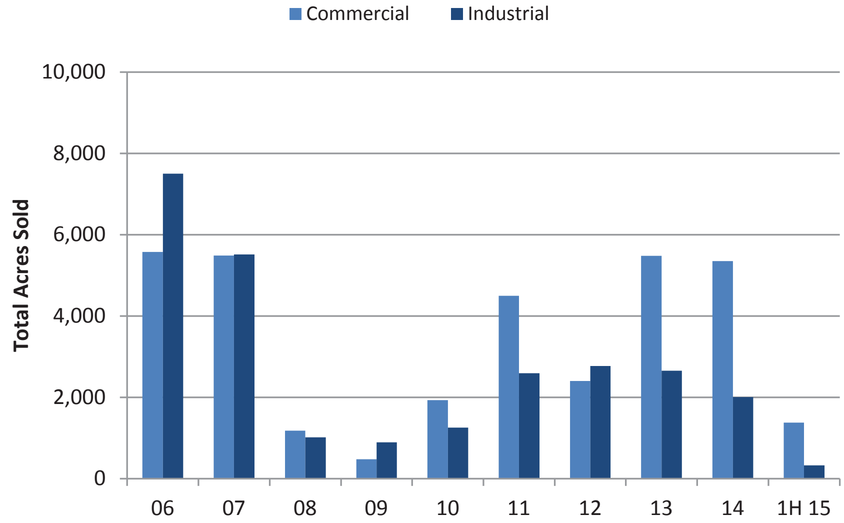
LAND SALES PRICES



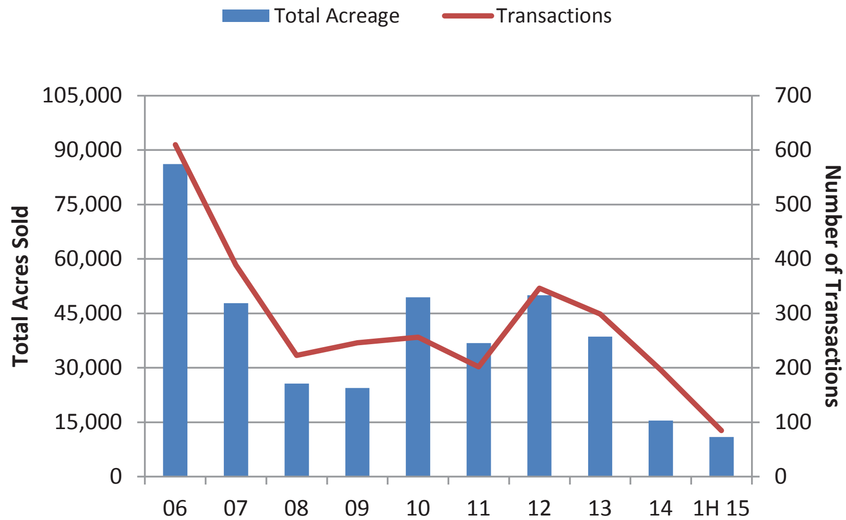
COMMERCIAL VACANCY RATES



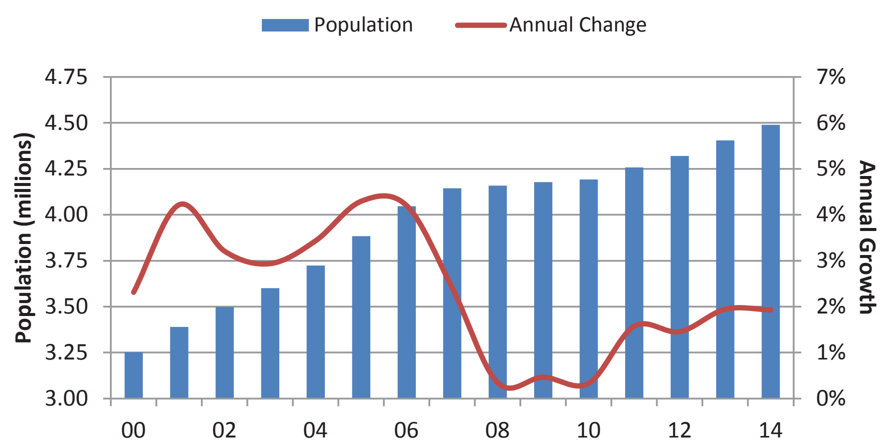
LAND SALES TRENDS



RESIDENTIAL LAND SALES



PHOENIX POPULATION



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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