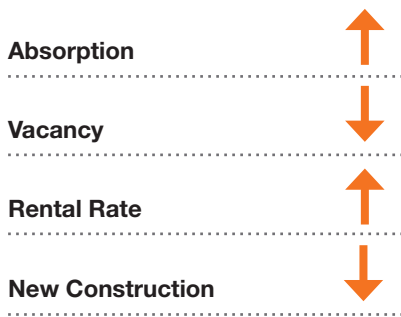


Phoenix Office

Market Forecast

Trends



Notable Transactions

HealthPort
444 N 44th Street
44th St Corridor
55,000 s.f. leased

Carlisle Companies, Inc.
13610 N Black Canyon Freeway
Scottsdale Airpark
45,919 s.f. leased

Peckham, Inc.
13450 N Black Canyon Highway
Deer Valley/Airport
40,400 s.f. leased

Venture Employment Services
2600 W Geronimo Place
Chandler
22,067 s.f. leased

JDA Software Group, Inc.
14400 N 87th Street
Scottsdale Airpark
21,009 s.f. leased

The Phoenix office real estate market started the year with strong leasing activity, high net absorption, and rising rental rates. Office vacancy remained steady at 17.2%, despite over half a million square feet of positive net absorption and over 1.5 million square feet of leasing activity this quarter. The strong local economy and job creation should drive real estate market growth for many quarters to come. The Phoenix unemployment rate sits at 5.0%, a significant decrease from the 5.7% recorded in December.

The overall office vacancy level of 17.2% represents the strongest start to a year since 2008. Submarkets in Phoenix with the highest vacancy rates include North Scottsdale/Carefree at 40.2%, North I-17 at 26.3%, and Northwest Phoenix at 23.7%. Submarkets with the least vacant space include Mesa downtown at 8.9%, Scottsdale South at 11.0%, and Pinal County at 11.2%. Direct net absorption of 517,000 square feet is a good indication of a healthy market. Several submarkets recorded negative absorption, the worst of which was South Tempe/Ahwatukee with -92,000 square feet, the result of several tenants relocating out of the market. The first quarter saw close to one million square feet of new construction delivered. Another two million square feet of office product is currently under construction, of which 1.6 million square feet is Class A space and the remaining 300,000 square feet is Class B.

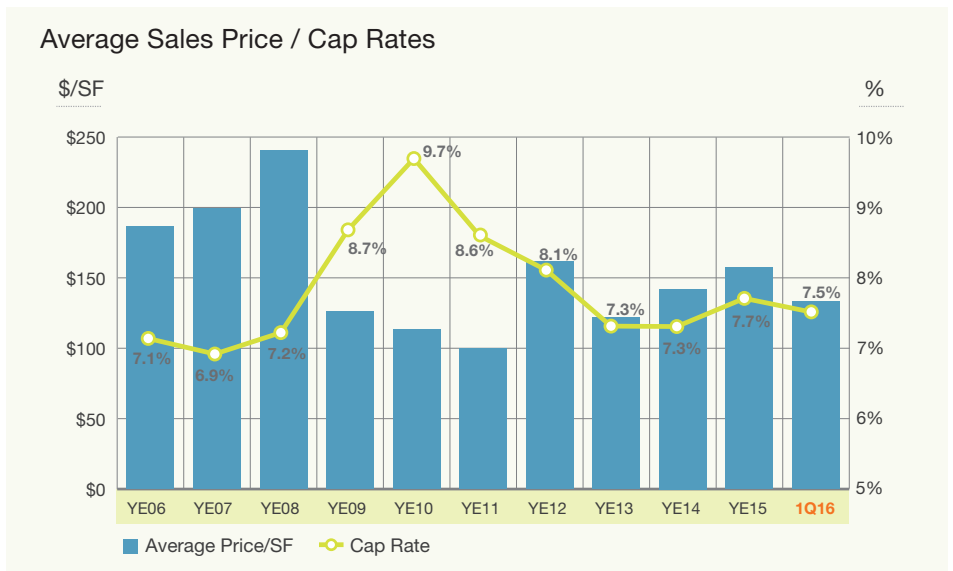
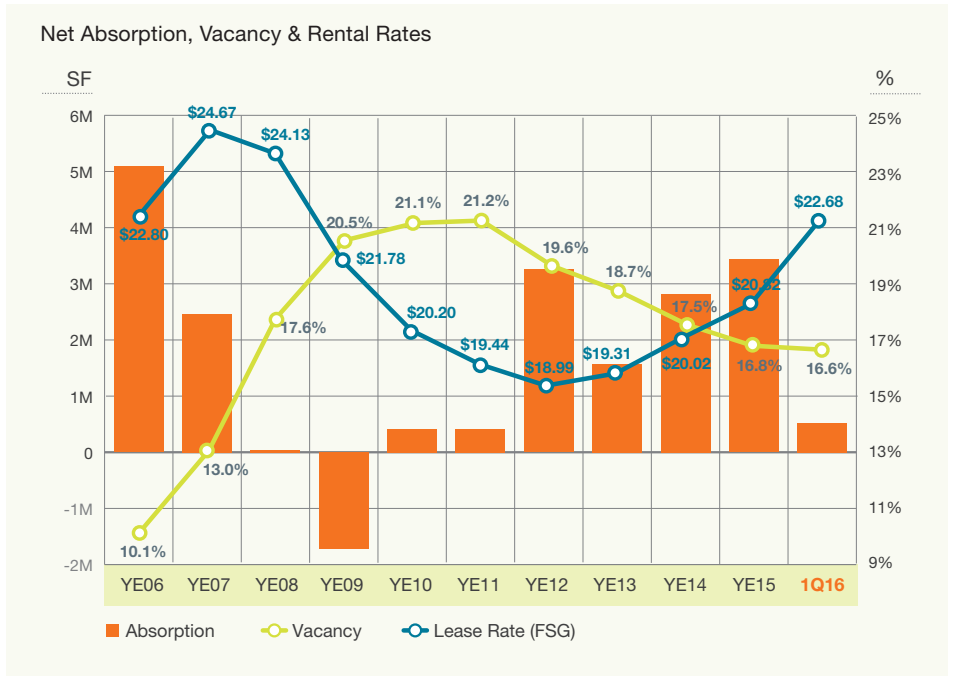
Market-wide asking rental rates for office properties increased for the 13th consecutive quarter, to \$22.68 per square foot on a full-service basis, with Class A office going for \$27.36 per square foot. This represents a 5.0% increase in rates from first quarter 2015. Asking rates remain highest in the Camelback Corridor, where they average \$28.44 per square foot and are growing steadily each quarter.

→ Continued, page 2

By contrast, the lowest rates are found in the Mesa downtown submarket, which reported an average asking rent of \$14.64 per square foot

Investment sales trends were off to a slow start for the year, mirroring the national trend. The average sale price in the first quarter for office investment assets was \$133 per square foot, down from \$148 per square foot in the fourth quarter. Cap rates slightly increased from 7.45% in the fourth quarter to 7.48% in the first quarter. Total dollar volume for office asset sales was \$364 million from 41 transactions.

Data Source: CoStar



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1st Quarter 2016 Phoenix Office Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Available Rate	QTR Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	YTD Construction Completions	QTR Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
Airport Area	9,967,948	16.5%	0.4%	16.9%	19.2%	37,325	37,325	0	0	49,823	49,823	\$22.56
South Tempe/Ahwatukee	6,197,298	15.4%	0.7%	16.1%	23.5%	(92,035)	(92,035)	0	0	56,989	56,989	\$21.60
Airport	16,165,246	16.1%	0.5%	16.6%	20.8%	(54,710)	(54,710)	0	0	106,812	106,812	\$22.20
Downtown	8,969,288	11.8%	1.4%	13.2%	15.3%	36,375	36,375	0	0	34,337	34,337	\$26.88
Midtown	12,168,441	20.2%	0.5%	20.7%	22.4%	86,069	86,069	0	0	86,733	86,733	\$21.12
Central Corridor	21,137,729	16.7%	0.9%	17.5%	19.4%	122,444	122,444	0	0	121,070	121,070	\$22.56
44th Street Corridor	3,672,610	11.9%	0.6%	12.6%	16.9%	(8,317)	(8,317)	25,200	0	149,189	149,189	\$23.64
Camelback Corridor	8,914,457	19.5%	0.9%	20.4%	24.1%	17,895	17,895	0	0	66,740	66,740	\$28.44
Midtown/Central Phoenix	3,803,275	12.6%	0.7%	13.3%	17.0%	9,094	9,094	0	0	29,762	29,762	\$17.88
East Phoenix	16,390,342	16.2%	0.8%	17.0%	20.9%	18,672	18,672	25,200	0	245,691	245,691	\$25.44
Chandler	7,807,242	21.0%	0.3%	21.3%	19.1%	(51,986)	(51,986)	80,114	233,859	183,367	183,367	\$24.24
Gateway Airport/Loop 202	1,241,641	17.3%	0.3%	17.6%	19.3%	10,760	10,760	0	0	21,944	21,944	\$24.36
Mesa Downtown	941,257	8.9%	0.0%	8.9%	12.8%	17,886	17,886	0	0	1,423	1,423	\$14.64
Mesa East	1,914,022	12.4%	0.4%	12.8%	13.9%	15,053	15,053	0	0	6,728	6,728	\$17.64
Superstition Corridor	4,724,662	17.5%	1.0%	18.5%	20.3%	183,592	183,592	0	0	75,128	75,128	\$19.32
Tempe	8,797,713	11.3%	0.0%	11.3%	18.4%	29,639	29,639	1,447,055	620,000	49,694	49,694	\$23.88
East Valley	25,426,537	15.7%	0.3%	16.0%	18.5%	204,944	204,944	1,527,169	853,859	338,284	338,284	\$22.44
N Phoenix/Cave Creek	68,926	20.3%	0.0%	20.3%	20.3%	8,171	8,171	0	0	0	0	\$20.64
Paradise Valley	3,762,330	15.0%	1.9%	16.8%	19.8%	25,814	25,814	0	0	50,539	50,539	\$22.44
Piestewa Peak Corridor	2,943,990	18.6%	0.3%	18.9%	20.0%	10,875	10,875	0	0	25,383	25,383	\$18.84
North Phoenix	6,775,246	16.6%	1.2%	17.8%	19.9%	44,860	44,860	0	0	75,922	75,922	\$20.76
Arrowhead	2,657,093	14.3%	0.3%	14.6%	17.8%	70,521	70,521	0	60,000	36,886	36,886	\$22.80
Deer Valley/Airport	10,864,136	16.7%	0.4%	17.1%	17.0%	4,870	4,870	149,209	0	144,083	144,083	\$22.08
North I-17	482,318	26.3%	0.0%	26.3%	32.8%	(559)	(559)	0	0	1,628	1,628	\$23.40
Northwest Phoenix	8,216,412	23.7%	0.1%	23.7%	28.8%	126,034	126,034	0	0	84,568	84,568	\$17.28
Northwest Phoenix	22,219,959	19.2%	0.3%	19.5%	21.8%	200,866	200,866	149,209	60,000	267,165	267,165	\$19.68
Pinal County	726,733	11.2%	0.0%	11.2%	12.8%	(960)	(960)	0	0	0	0	\$18.96
Central Scottsdale	7,293,268	14.7%	0.6%	15.3%	14.8%	28,423	28,423	0	0	62,104	62,104	\$23.16
N Scottsdale/Carefree	1,114,717	40.2%	0.0%	40.2%	39.8%	(2,503)	(2,503)	0	0	13,266	13,266	\$21.36
Scottsdale Airpark	11,958,427	16.2%	0.5%	16.7%	14.8%	(43,885)	(43,885)	39,750	0	176,564	176,564	\$25.80
Scottsdale South	5,229,258	11.0%	1.3%	12.3%	11.1%	(29,705)	(29,705)	145,000	0	92,717	92,717	\$25.32
Scottsdale	25,595,670	15.7%	0.7%	16.4%	15.1%	(47,670)	(47,670)	184,750	0	344,651	344,651	\$24.60
Glendale	2,432,130	22.7%	0.0%	22.7%	21.6%	38,076	38,076	86,000	59,895	7,341	7,341	\$22.80
Loop 303/Surprise	1,410,298	17.3%	0.0%	17.3%	18.8%	983	983	0	0	8,637	8,637	\$23.52
Southwest Phoenix	2,248,287	14.2%	0.0%	14.2%	12.5%	1,539	1,539	0	0	26,522	26,522	\$20.40
West I-10	1,324,927	11.7%	0.4%	12.1%	13.3%	(11,598)	(11,598)	0	0	9,507	9,507	\$24.12
West Phoenix	7,415,642	17.1%	0.1%	17.2%	16.8%	29,000	29,000	86,000	59,895	52,007	52,007	\$22.44
Phoenix Total	141,853,104	16.6%	0.6%	17.2%	19.5%	517,446	517,446	1,972,328	973,754	1,551,602	1,551,602	\$22.68