

Phoenix 1Q14 Office Snapshot

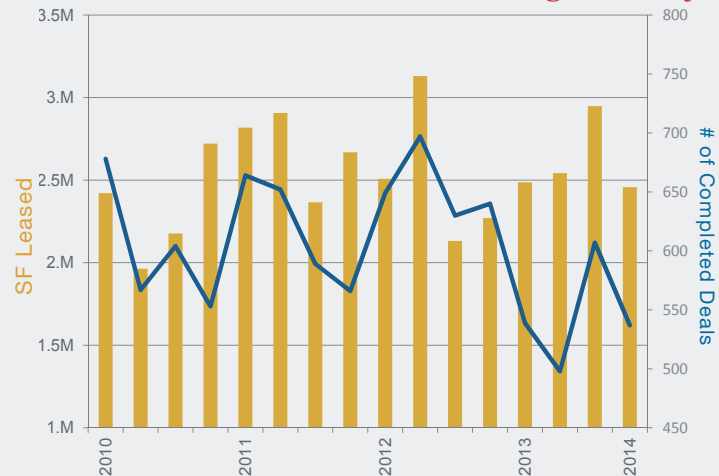
The Metro Phoenix office sector continues to improve as the New Year gets underway. With vacancy rates continuing to decline and rental rates steadily increasing, the outlook is positive for a stable 2014 for the sector as it transitions out of the recession. New product deliveries and construction also increased in the first quarter of the year, with 272,710 SF being delivered and over 1.9 million SF in the pipeline.

Vacancy rates for the first quarter of 2014 dropped significantly, coming in at 18.7% overall, down from 19.4% at the end of 2013. Vacancy has seen great strides in the last year; in Q1 2013 the vacancy rate sat at 20.5% overall for the office sector. Vacancies also seem to be leveling between product types; when tenants could no longer afford their high-end spaces, vacancy rates increased dramatically for Class A space, and then began to readjust as those products became more affordable in the last two years and tenants were able to upgrade. At the beginning of 2011, the difference in vacancy percentage between Class A and Class C was hovering around 8%, while now they are almost identical. This will begin to level the playing field for all product types instead of the focused activity in higher end space.

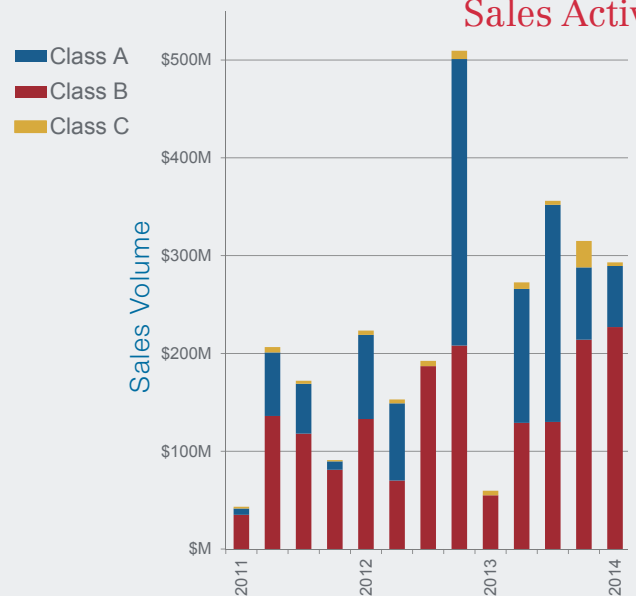
Rental rates have also continued to improve. The average rental rate for the first quarter of 2014 was \$20.62, up a dollar from Q1 2013 when the rate was \$19.62. While still not as high as the average rates seen in 2007/2008, when rates hovered around \$25, this marks the highest rate seen in 10 straight quarters. Rental rates can be expected to increase as vacancy rates also continue to improve.



Leasing Activity



Sales Activity



Economic Trends



Q1 Office Market Trends



Phoenix 1Q14 Office Snapshot

Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
CLASS A	41,099,714 SF	7,479,459 SF	18.2%	363,969 SF	-	1,564,690 SF	\$23.67 FSG
CLASS B	82,577,175 SF	15,801,647 SF	19.1%	468,060 SF	272,710	370,830 SF	\$19.60 FSG
CLASS C	12,356,323 SF	2,208,208 SF	17.9%	(82,977) SF	-	-	\$15.16 FSG
TOTAL	136,033,212 SF	25,489,314 SF	18.7%	749,052 SF	272,710	1,935,520 SF	\$20.62 FSG
Q4 2013	136,064,087 SF	26,376,471 SF	19.4%	675,185 SF	-	1,087,400 SF	\$20.42 FSG
Q1 2013	136,046,848 SF	27,882,742 SF	20.5%	32,368 SF	38,729 SF	537,730 SF	\$19.62 FSG

Significant Lease Transactions

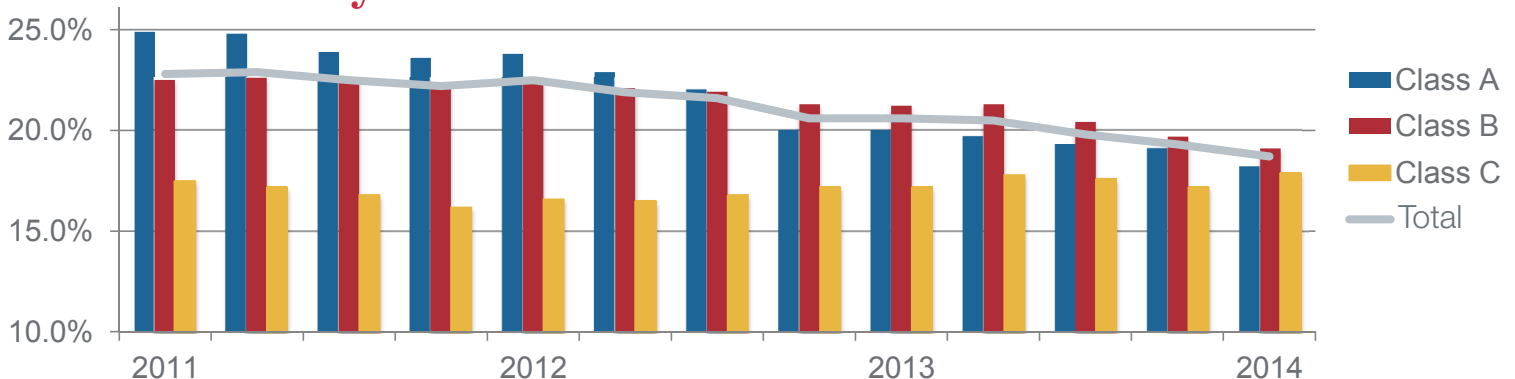
Property	Address	Tenant	Size	Class	Type
Pima Office Pavillion	8465 N Pima Rd, Scottsdale	Rural Metro	90,000 SF	A	Move In
Liberty Center at Rio Salado	1850 W Rio Salado Pkwy, Tempe	Wageworks, Inc	76,162	A	Move In
ABC Medical Software	4441 E McDowell Rd, Phoenix	Practice Max	18,000 SF	B	Renewal

Significant Sale Transactions

Property	Address	Buyer	Sale Date	Size	Class	Price
The Plaza at Squaw Peak	Multiple, Phoenix	Starwood Capital Group	01/24/2014	427,432 SF	B	\$34.6M*
Tempe Town Centre	20 E University Dr. Tempe	YAM Management	01/14/2014	21,737 SF	B	\$5.25M
Midtowne Business Center II	201 E Indianola Ave, Phoenix	Basis Schools Inc	02/19/2014	97,145 SF	B	\$5.0M

*Part of a 36 property portfolio sale (includes 7500 N Dreamy Draw Dr, 7600 N 16th St & 7600 N 15th St)

Office Vacancy Rates



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

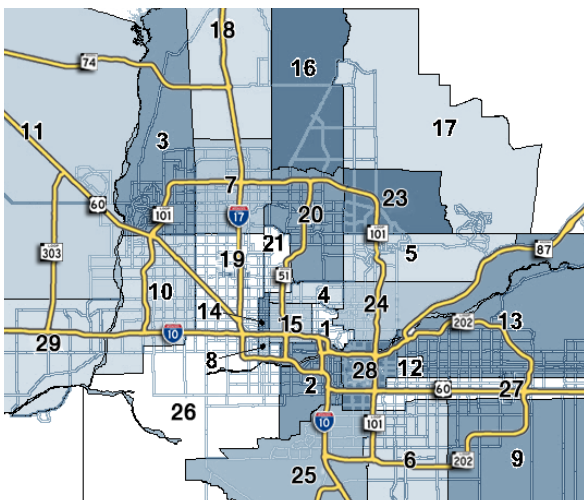
Phoenix 1Q14 Office Submarkets

1Q14 Office

▼ Down from Q4 2013
▲ Up from Q4 2013
— No change from Q4 2013

Submarket	RBA (SF)	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Avg. Rental Rate (FS)
44th Street Corridor	5,693,953 ▼	769,843 ▼	13.5% ▼	685 ▲	-	-	\$20.51 ▲
Airport Area	9,845,639 ▼	1,534,470 ▼	15.6% ▼	(68,616) ▼	-	154,067 ▲	\$19.02 ▲
Arrowhead	2,560,800 ▼	521,937 ▼	20.4% ▼	(2,234) ▼	-	-	\$21.96 ▼
Camelback Corridor	8,777,584 ▼	2,076,282 ▲	23.7% ▲	(20,762) ▼	-	-	\$24.10 ▲
Central Scottsdale	7,231,930 ▼	1,284,046 ▼	17.8% ▼	30,133 ▲	-	-	\$21.70 ▲
Chandler	5,949,589 ▲	868,848 ▼	14.6% ▼	27,010 ▲	-	404,452 ▼	\$22.27 ▲
Deer Valley/Airport	10,214,141 ▲	1,950,870 ▲	19.1% ▼	30,227 ▼	-	-	\$20.45 ▼
Downtown	9,102,717 ▲	1,419,505 ▲	15.6% ▲	38,716 ▲	155,000 ▲	-	\$24.00 ▼
Gateway Airport/Loop 202	1,120,785 ▲	303,389 ▲	27.1% ▼	10,199 ▼	-	- ▼	\$23.53 ▲
Glendale	2,331,479 ▲	574,204 ▼	24.6% ▼	2,409 ▼	-	-	\$23.10 ▲
Loop 303/ Surprise	1,363,432 ▲	289,244 ▲	21.2% ▲	5,863 ▲	-	-	\$23.21 ▼
Mesa Downtown	940,076 —	121,295 ▼	12.9% ▼	732 ▼	-	-	\$14.13 ▲
Mesa East	1,869,275 ▲	284,116 ▼	15.2% ▼	12,008 ▲	-	-	\$15.78 —
Midtown	12,189,500 ▼	3,031,004 ▼	24.9% ▼	29,075 ▲	-	-	\$19.59 ▲
Midtown/Central Phoenix	3,846,993 ▼	631,319 ▲	16.4% ▲	72,076 ▲	117,710 ▲	-	\$17.29 ▲
N Phoenix/Cave Creek	68,926 —	29,463 ▼	42.7% ▼	2,037 ▲	-	-	\$21.19 ▼
N Scottsdale / Carefree	1,167,658 —	494,544 ▲	42.4% ▲	(2,693) ▼	-	-	\$21.35 ▼
North I-17	461,818 ▼	122,938 ▼	26.6% ▼	2,368 ▲	-	-	\$21.66 ▲
Northwest Phoenix	8,254,400 ▼	2,069,740 ▼	25.1% ▼	107,142 ▲	-	-	\$15.98 ▼
Paradise Valley	3,749,520 ▼	828,527 ▼	22.1% —	19,153 ▲	-	-	\$21.43 ▲
Piestewa Peak Corridor	2,941,960 ▲	567,413 ▲	19.3% ▼	(5,277) ▼	-	-	\$17.85 ▲
Pinal County	720,278 ▲	78,683 ▲	10.9% ▲	(7,913) ▲	-	-	\$18.77 —
Scottsdale Airpark	11,695,894 ▲	2,040,454 ▼	17.4% ▼	263,992 ▲	-	-	\$23.32 ▲
Scottsdale South	4,959,621 ▼	632,432 ▼	12.8% ▼	(46,765) ▼	- ▼	145,000 ▲	\$21.74 ▲
South Tempe / Ahwatukee	5,362,243 ▲	896,257 ▼	16.7% ▼	198,931 ▲	- ▼	217,001 ▲	\$19.93 ▼
Southwest Phoenix	2,173,413 ▼	333,827 ▼	15.4% ▼	6,770 ▼	-	-	\$18.45 ▼
Superstition Corridor	4,578,818 ▲	958,541 ▼	20.9% ▼	27,022 ▼	-	-	\$18.04 ▲
Tempe	5,405,539 ▼	585,129 ▼	10.8% ▼	20,647 ▼	-	1,015,000 ▲	\$20.15 ▼
West I-10	1,455,231 ▼	190,994 ▲	13.1% ▲	(3,883) ▼	-	-	\$21.50 ▼

Phoenix Office Submarkets



- 44th St 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
- 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
- Southwest Phoenix
- Superstition Corridor
- Tempe
- West I-10