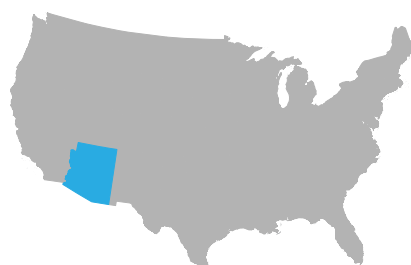


RESEARCH & FORECAST REPORT



Job Gains Stabilizing Office Market but Further Gains Needed for Absorption Spike

MARKET INDICATORS

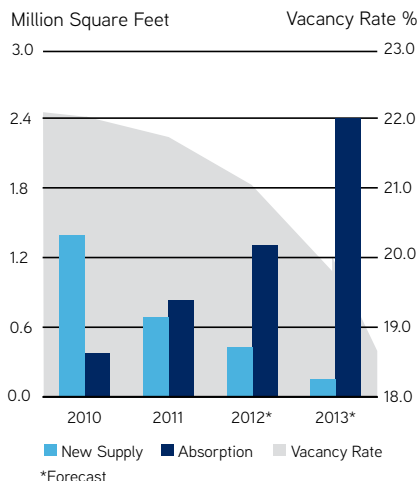
	2012 Q3	2011 Q3
VACANCY	↓	↓
NET ABSORPTION	↓	↑
CONSTRUCTION	↓	↑
RENTAL RATE	↓	↓

EMPLOYMENT 3Q EMPLOYMENT TRENDS*

TOTAL NONFARM PHOENIX METRO	↑	↑
OFFICE-USING PHOENIX METRO	↑	↓
TOTAL NONFARM U.S.	↑	↑
OFFICE-USING U.S.	↓	↑

*Bureau of Labor Statistics

NEW SUPPLY, ABSORPTION & VACANCY RATES



THE BROADER VIEW

Employment growth in Greater Phoenix is far outpacing the national rate, providing a base for stabilizing office fundamentals. Positive net absorption is being recorded, particularly in the region's Class A suburban properties. Vacancy remains elevated however, as many tenants continue to occupy under-utilized space that they committed to prior to the recession and businesses seek ways to become increasingly efficient in their space utilization when signing new leases. As a result, net absorption is expected to bounce back more slowly than during previous recoveries, but the demand driver of employment growth will be a force as the economy strengthens.

CURRENT CONDITIONS

Conditions in the Greater Phoenix office market improved at a measured pace during the third quarter. Net absorption totaled 463,000 square feet with approximately 60 percent of the submarkets in the metro showing positive net absorption. While the amount of occupied space is not increasing at a rapid enough pace to significantly drive down vacancy, absorption has been positive in eight of the past 10 quarters, and net tenant move-ins have been strongest in the most recent quarters. A similar pattern was recorded in the initial quarters following the last downturn in 2001-2002; this ultimately gave way to more robust tenant demand as employment and economic growth accelerated.

The Phoenix office market has gained momentum during the past six quarters, with net absorption totaling 2.1 million square feet. Net absorption in local Class A buildings has exceeded 1.4 million square feet over that period, including 352,000 square feet during the past three months. While tenants are expected to continue to seek spaces in the market's best properties, the pace of absorption in the Class A segment will likely slow as there are fewer options today than in past quarters. This shortage of spaces is unlikely to fuel spec development in the near term, however, as current rents are not yet high enough to support the costs associated with new construction.

Thus far in 2012, tenant move-ins have been concentrated in the East Valley suburbs, with Tempe, Chandler and Scottsdale recording the strongest net absorption. In the third quarter alone, combined net absorption in the three Scottsdale submarkets reached nearly 215,000 square feet, or more than 45 percent of the total for the Phoenix metro. The Tempe submarket has been the site of some of the largest recent tenant move-ins; Mitel Networks, Allstate and Silicon Valley Bank combined to take more than 205,000 square feet in the submarket during the third quarter.

While net absorption has been trending positive, rents continue to creep lower in response to a vacancy rate that is 21.4 percent metrowide and above 20 percent in a majority of submarkets. Metrowide asking rents declined to \$20.19 per square foot in the third quarter, continuing a trend of falling rents that has

Continued on back page

OFFICE MARKET

EXISTING PROPERTIES			DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER	AVG. RENT
CLASS	BLDGS.	TOTAL INVENTORY SF	SF	RATE	SF	RATE	SF	Q3-12	Q3-11	CURRENT PERIOD	YTD	CURRENT PERIOD	YTD	CONSTR. SF	RATE (FS)
CENTRAL BUSINESS DISTRICT															
Downtown North															
A	14	4,568,414	1,197,859	26.2%	50,063	1.1%	1,247,922	27.3%	24.7%	(30,920)	(50,764)	-	-	-	\$21.51
B	92	6,710,813	1,697,403	25.3%	47,719	0.7%	1,745,122	26.0%	24.1%	93,149	(163,371)	-	-	-	\$18.35
C	47	996,695	96,353	9.7%	1,146	0.1%	97,499	9.8%	14.8%	19,569	29,305	-	-	-	\$13.47
Total	153	12,275,922	2,991,615	24.4%	98,928	0.8%	3,090,543	25.2%	23.6%	81,798	(184,830)	-	-	-	\$19.56
Downtown South															
A	11	4,891,206	597,767	12.2%	54,839	1.1%	652,606	13.3%	13.7%	21,520	3,000	-	-	-	\$25.58
B	25	2,289,224	440,492	19.2%	2,237	0.1%	442,729	19.3%	17.0%	(15,013)	(53,759)	-	-	-	\$20.88
C	22	580,298	161,177	27.8%	-	0.0%	161,177	27.8%	31.4%	880	21,731	-	-	-	\$13.04
Total	58	7,760,728	1,199,436	15.5%	57,076	0.7%	1,256,512	16.3%	16.0%	7,387	(29,028)	-	-	-	\$23.19
SUBURBAN															
44th St. Corridor															
A	19	3,003,254	645,046	21.5%	22,900	0.8%	667,946	22.2%	24.2%	(43,929)	85,875	-	-	-	\$22.61
B	44	2,107,269	288,136	13.7%	18,524	0.9%	306,660	14.6%	15.4%	34,484	27,290	-	-	-	\$18.01
C	19	648,611	122,885	18.9%	-	0.0%	122,885	18.9%	15.8%	(3,048)	1,547	-	-	-	\$14.86
Total	82	5,759,134	1,056,067	18.3%	41,424	0.7%	1,097,491	19.1%	20.0%	(12,493)	114,712	-	-	-	\$20.36
Airport Area															
A	9	1,278,654	124,827	9.8%	171,112	13.4%	295,939	23.1%	31.9%	(23,453)	89,064	-	-	139,403	\$22.76
B	117	8,014,636	1,072,440	13.4%	37,922	0.5%	1,110,362	13.9%	11.9%	(10,407)	(296,031)	-	-	-	\$17.58
C	20	450,832	75,107	16.7%	-	0.0%	75,107	16.7%	10.7%	(21,838)	(27,758)	-	-	-	\$13.25
Total	146	9,744,122	1,272,374	13.1%	209,034	2.1%	1,481,408	15.2%	14.5%	(55,698)	(234,725)	-	-	139,403	\$18.43
Arrowhead															
A	1	80,849	6,900	8.5%	-	0.0%	6,900	8.5%	10.3%	-	1,400	-	-	-	\$20.00
B	85	2,179,706	460,310	21.1%	10,083	0.5%	470,393	21.6%	19.1%	(54,404)	(31,133)	-	-	21,569	\$21.89
C	14	270,868	48,084	17.8%	-	0.0%	48,084	17.8%	19.2%	(770)	(1,177)	-	-	-	\$19.01
Total	100	2,531,423	515,294	20.4%	10,083	0.4%	525,377	20.8%	18.8%	(55,174)	(30,910)	-	-	21,569	\$21.53
Camelback Corridor															
A	24	4,578,683	1,369,893	29.9%	76,792	1.7%	1,446,685	31.6%	35.2%	24,235	139,627	-	-	-	\$25.42
B	86	3,881,687	977,120	25.2%	50,150	1.3%	1,027,270	26.5%	29.0%	(20,964)	86,481	-	-	-	\$19.49
C	25	453,676	66,513	14.7%	-	0.0%	66,513	14.7%	15.0%	987	1,351	-	-	-	\$13.22
Total	135	8,914,046	2,413,526	27.1%	126,942	1.4%	2,540,468	28.5%	31.5%	4,258	227,459	-	-	-	\$22.86
Chandler															
A	8	1,254,790	239,634	19.1%	-	0.0%	239,634	19.1%	19.8%	-	-	-	-	92,109	\$24.95
B	112	3,648,083	563,380	15.4%	37,653	1.0%	601,033	16.5%	20.1%	7,136	47,234	-	-	-	\$20.93
C	12	188,166	30,635	16.3%	-	0.0%	30,635	16.3%	33.1%	(1,462)	4,481	-	-	-	\$14.31
Total	132	5,091,039	833,649	16.4%	37,653	0.7%	871,302	17.1%	20.5%	5,674	51,715	-	-	92,109	\$21.59
Deer Valley Airport															
A	20	3,384,603	292,181	8.6%	30,164	0.9%	322,345	9.5%	6.6%	22,234	(72,748)	-	-	-	\$20.64
B	99	6,635,270	1,709,380	25.8%	91,531	1.4%	1,800,911	27.1%	28.6%	(103,360)	228,303	-	210,202	-	\$20.06
C	10	215,190	60,526	28.1%	-	0.0%	60,526	28.1%	26.1%	(5,046)	(4,810)	-	-	-	\$17.14
Total	129	10,235,063	2,062,087	20.1%	121,695	1.2%	2,183,782	21.3%	21.1%	(86,172)	150,745	-	210,202	-	\$20.09
Gateway Airport/Loop 202*															
A	0	-	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
B	38	993,740	352,627	35.5%	-	0.0%	352,627	35.5%	40.1%	(11,245)	18,701	-	-	-	\$22.76
C	0	-	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
Total	38	993,740	352,627	39.6%	-	0.0%	352,627	39.6%	42.0%	(11,245)	18,701	-	-	-	\$22.76
Glendale															
A	5	522,494	166,659	31.9%	-	0.0%	166,659	31.9%	47.7%	2,582	80,817	-	-	-	\$26.64
B	27	1,406,973	472,601	33.6%	5,476	0.4%	478,077	34.0%	34.2%	(2,450)	45,439	-	-	-	\$22.65
C	12	372,178	59,982	16.1%	-	0.0%	59,982	16.1%	16.0%	-	-	-	-	-	\$13.99
Total	44	2,301,645	699,242	30.4%	5,476	0.2%	704,718	30.6%	34.3%	132	126,256	-	-	-	\$23.44
Loop 303/Surprise															
A	0	-	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
B	35	928,831	293,428	31.6%	2,167	0.2%	295,595	31.8%	33.0%	4,245	14,897	-	-	-	\$23.32
C	5	128,914	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
Total	40	1,057,745	293,428	27.7%	2,167	0.2%	295,595	27.9%	28.9%	4,245	14,897	-	-	-	\$23.32
Mesa Downtown															
A	0	-	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
B	20	583,572	103,219	17.7%	8,832	1.5%	112,051	19.2%	21.8%	(9,662)	(1,219)	-	-	114,412	\$16.66
C	16	254,581	85,395	33.5%	-	0.0%	85,395	33.5%	22.2%	(1,978)	(24,123)	-	-	-	\$12.84
Total	36	838,153	188,614	22.5%	8,832	1.1%	197,446	23.6%	21.9%	(11,640)	(25,342)	-	-	114,412	\$14.74
Mesa East															
A	0	-	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
B	41	1,249,433	123,196	9.9%	-	0.0%	123,196	9.9%	9.9%	4,961	6,763	-	-	-	\$16.67
C	28	591,452	117,010	19.8%	5,054	0.9%	122,064	20.6%	21.6%	4,298	5,460	-	-	-	\$13.37
Total	69	1,840,885	240,206	13.0%	5,054	0.3%	245,260	13.3%	13.7%	9,259	12,223	-	-	-	\$15.32
Midtown/Central Phoenix															
A	0	-	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
B	80	2,763,795	390,649	14.1%	14,910	0.5%	405,559	14.7%	15.7%	2,768	62,551	-	40,000	-	\$17.42
C	48	931,972	175,630	18.8%	-	0.0%	175,630	18.8%	19.0%	(405)	(4,032)	-	-	-	\$12.47
Total	128	3,695,767	566,279	15.3%	14,910	0.4%	581,189	15.7%	16.5%	2,363	58,519	-	40,000	-	\$16.41

OFFICE MARKET

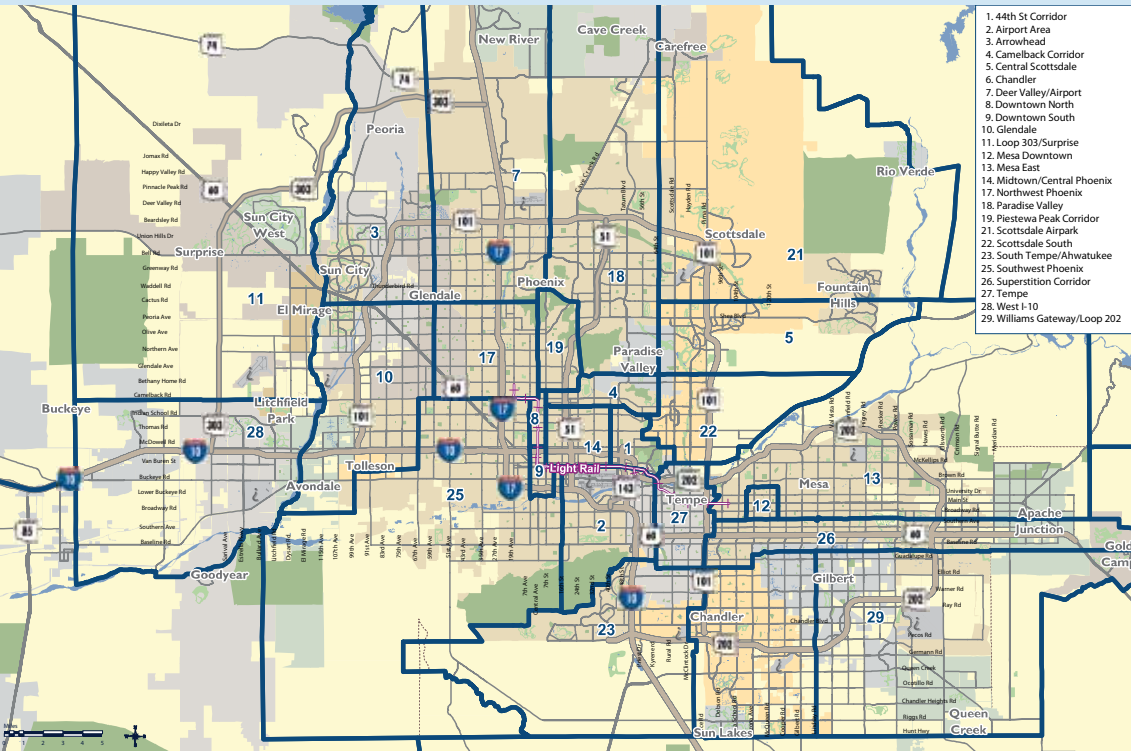
CLASS	EXISTING PROPERTIES		DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER CONSTR. SF	AVG. RENT RATE (FS)
	BLDGS.	TOTAL INVENTORY SF	SF	RATE	SF	RATE	SF	Q3-12	Q3-11	CURRENT PERIOD	YTD	CURRENT PERIOD	YTD		
Northwest Phoenix															
A	10	1,318,210	295,917	22.4%	-	0.0%	295,917	22.4%	14.2%	(3,120)	(102,365)	-	-	-	\$20.83
B	118	5,056,115	1,385,266	27.4%	12,186	0.2%	1,397,452	27.6%	26.6%	(1,894)	(31,436)	-	-	-	\$15.33
C	99	2,070,329	503,614	24.3%	353	0.1%	503,967	24.3%	22.5%	(18,006)	(67,798)	-	-	-	\$13.00
Total	227	8,444,654	2,184,797	25.9%	12,539	0.1%	2,197,336	26.0%	23.7%	(23,020)	(201,599)	-	-	-	\$16.05
Paradise Valley															
A	13	1,470,552	420,912	28.6%	24,424	1.7%	445,336	30.3%	33.4%	46,543	21,453	-	-	-	\$22.22
B	55	1,963,581	430,887	21.9%	5,016	0.3%	435,903	22.2%	22.1%	12,783	19,271	-	-	-	\$20.41
C	25	436,503	71,268	16.3%	360	0.1%	71,628	16.4%	13.4%	3,613	(8,516)	-	-	-	\$14.68
Total	93	3,870,636	923,067	23.8%	29,800	0.8%	952,867	24.6%	25.4%	62,939	32,208	-	-	-	\$20.92
Piestewa Peak Corridor															
A	3	409,394	17,284	4.2%	-	0.0%	17,284	4.2%	16.5%	-	42,490	-	-	-	\$21.00
B	45	2,187,112	578,402	26.4%	9,799	0.4%	588,201	26.9%	21.0%	(8,431)	(41,586)	-	-	-	\$17.80
C	20	315,145	24,964	7.9%	-	0.0%	24,964	7.9%	10.9%	2,704	8,778	-	-	-	\$13.95
Total	68	2,911,651	620,650	21.3%	9,799	0.3%	630,449	21.7%	19.3%	(5,727)	9,682	-	-	-	\$17.73
Scottsdale Airpark															
A	52	6,155,991	1,470,158	23.9%	130,334	2.1%	1,600,492	26.0%	27.8%	15,200	29,219	-	-	-	\$23.33
B	188	5,098,913	844,065	16.6%	8,198	0.2%	852,263	16.7%	19.8%	18,930	124,781	-	-	-	\$20.47
C	14	232,175	19,797	8.5%	-	0.0%	19,797	8.5%	12.9%	746	1,388	-	-	-	\$11.21
Total	254	11,487,079	2,334,020	20.3%	138,532	1.2%	2,472,552	21.5%	23.9%	34,876	155,388	-	-	-	\$22.27
Scottsdale Central															
A	22	2,312,714	489,533	21.2%	20,530	0.9%	510,063	22.1%	26.5%	3,855	59,415	-	-	-	\$23.39
B	137	4,916,296	987,291	20.1%	10,829	0.2%	998,120	20.3%	21.9%	140,145	60,252	-	-	-	\$20.69
C	11	146,063	9,982	6.8%	-	0.0%	9,982	6.8%	4.9%	(5,274)	(2,407)	-	-	-	\$17.50
Total	170	7,375,073	1,486,806	20.2%	31,359	0.4%	1,518,165	20.6%	23.0%	138,726	117,260	-	-	-	\$21.58
Scottsdale South															
A	11	1,632,577	255,426	15.6%	41,239	2.5%	296,665	18.2%	21.6%	17,500	9,133	-	-	-	\$23.44
B	79	2,939,308	589,510	20.1%	11,644	0.4%	601,154	20.5%	23.7%	18,182	18,288	-	-	-	\$19.86
C	39	794,902	88,571	11.1%	-	0.0%	88,571	11.1%	15.4%	5,395	13,027	-	-	-	\$17.47
Total	129	5,366,787	933,507	17.4%	52,883	1.0%	986,390	18.4%	21.8%	41,077	40,448	-	-	-	\$20.77
South Tempe/Ahwatukee															
A	4	481,819	69,505	14.4%	-	0.0%	69,505	14.4%	17.7%	2,073	5,281	-	-	-	\$23.77
B	97	4,088,751	962,506	23.5%	-	0.0%	962,506	23.5%	28.5%	5,638	205,629	-	-	-	\$19.54
C	11	411,508	52,824	12.8%	-	0.0%	52,824	12.8%	9.3%	-	(14,605)	-	-	-	\$19.18
Total	112	4,982,078	1,084,835	21.8%	-	0.0%	1,084,835	21.8%	25.9%	7,711	196,305	-	-	-	\$19.67
Southwest Phoenix															
A	2	234,773	188,093	80.1%	-	0.0%	188,093	80.1%	80.1%	-	-	-	-	-	\$21.00
B	17	531,387	53,450	10.1%	-	0.0%	53,450	10.1%	10.3%	(596)	(569)	-	-	-	\$18.63
C	13	231,354	66,945	28.9%	23,707	10.2%	90,652	39.2%	22.8%	-	(37,854)	-	-	-	\$13.98
Total	32	997,514	308,488	30.9%	23,707	2.4%	332,195	33.3%	29.6%	(596)	(38,423)	-	-	-	\$18.74
Superstition Corridor															
A	5	671,991	248,333	37.0%	-	0.0%	248,333	37.0%	39.3%	68,254	47,977	-	-	-	\$21.32
B	116	3,479,844	785,935	22.6%	-	0.0%	785,935	22.6%	20.6%	20,208	(85,777)	-	-	-	\$17.26
C	22	385,533	56,372	14.6%	-	0.0%	56,372	14.6%	12.5%	(4,826)	(15,410)	-	-	-	\$10.48
Total	143	4,537,368	1,090,640	24.0%	-	0.0%	1,090,640	24.0%	22.7%	83,636	(53,210)	-	-	-	\$18.07
Tempe															
A	11	1,655,566	222,197	13.4%	7,053	0.4%	229,250	13.8%	31.6%	230,405	293,250	-	-	-	\$22.69
B	81	3,006,210	528,226	17.6%	5,810	0.2%	534,036	17.8%	18.3%	12,644	7,977	-	-	-	\$18.20
C	31	570,438	61,936	10.9%	-	0.0%	61,936	10.9%	11.4%	(1,909)	1,351	-	-	-	\$14.97
Total	123	5,232,214	812,359	15.5%	12,863	0.2%	825,222	15.8%	21.8%	241,140	302,578	-	-	-	\$19.44
West I-10															
A	0	-	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
B	42	1,238,505	213,609	17.2%	2,100	0.2%	215,709	17.4%	17.7%	1,090	8,366	-	-	-	\$22.12
C	7	195,391	5,754	2.9%	-	0.0%	5,754	2.9%	3.1%	(1,385)	1,345	-	-	-	\$15.00
Total	49	1,433,896	219,363	15.3%	2,100	0.1%	221,463	15.4%	15.7%	(295)	9,711	-	-	-	\$21.89
GRAND TOTAL															
A	244	39,906,534	8,318,124	20.8%	629,450	1.6%	8,947,574	22.4%	24.5%	352,979	682,124	0	0	231,512	\$23.16
B	1,876	77,899,054	16,303,528	20.9%	392,786	0.4%	16,696,314	21.4%	21.9%	137,937	277,342	0	250,202	135,981	\$19.13
C	570	11,872,774	2,061,324	17.4%	30,620	0.3%	2,091,944	17.6%	17.5%	(27,755)	(118,726)	0	0	0	\$14.51
Total	2,690	129,678,362	26,682,976	20.6%	1,052,856	0.8%	27,735,832	21.4%	22.3%	463,161	840,740	-	250,202	367,493	\$20.19

QUARTERLY TOTALS

2012 3Q	2,690	129,678,362	26,682,976	20.6%	1,052,856	0.8%	27,735,832	21.4%	24.5%	463,161	840,740	-	250,202	367,493	\$20.19
2012 2Q	2,690	129,678,362	27,116,874	20.9%	1,074,389	0.8%	28,191,263	21.7%	21.7%	830,963	-	40,000	-	408,438	\$20.20
2012 1Q	2,689	129,638,362	27,682,457	21.4%	1,299,769	1.0%	28,982,226	22.4%	22.4%	(394,911)	-	210,202	-	413,638	\$20.35
2011 4Q	2,688	129,428,160	27,376,979	21.2%	1,008,012	0.8%	28,384,991	21.9%	21.9%	484,987	-	21,145	-	300,750	\$20.46
2011 3Q	2,687	129,407,015	27,722,588	21.4%	1,126,245	0.9%	28,848,833	22.3%	22.3%	708,391	-	313,780	-	287,847	\$20.71

As new, corrected or updated information is obtained, it is incorporated in both current and historical data, which may invalidate comparison to previously issued reports.

*Formerly Williams Gateway/Loop 202.



522 offices in
62 countries on
6 continents

United States: 147
Canada: 37
Latin America: 19
Asia Pacific: 201
EMEA: 118

- \$1.8 billion in annual revenue
- 1.25 billion square feet under management
- Over 12,300 professionals

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persisted for nearly five years. While the pace of rent declines has slowed to the lowest level since turning negative, it will likely take a few more quarters of strengthening absorption and tightening vacancy before rental increases are recorded.

Investment activity during the third quarter was nearly identical to levels from one year earlier, following an increase in the number of properties changing hands in the first half of 2012. Year to date, transaction count is up approximately 10 percent from a year ago. With operating fundamentals stabilizing, investment activity is expected to gain momentum steadily in the coming quarters. Rising activity levels have not yet translated into price increases, with the median price for sales thus far in 2012 at \$77 per square foot. Prices are being driven lower by acquisitions of high-vacancy properties by

owner/users or by investors targeting deeply discounted properties as lease-up opportunities.

IN THE MONTHS AHEAD

With hiring picking up, net absorption of office space gaining momentum and tenants taking large blocks of space, the timing of the development of new competitive space will become more of an issue for the first time in a few years. If trends from earlier recession/recovery cycles repeat, new spec office buildings will begin to enter the development pipeline when metrowide vacancy dips into the 15 to 17 percent range and net absorption approaches 3 million square feet per year. Current forecasts call for these data milestones to be recorded between mid-2014 and early 2015.

OFFICE SALES AND LEASE ACTIVITY

SALE ACTIVITY

PROPERTY ADDRESS	SUBMARKET	SALE DATE	SALE PRICE	SIZE SQ. FT.	SALE PRICE SQ. FT.	CLASS
7669 & 7689 E Pinnacle Peak Rd., Scottsdale	North Scottsdale/Carefree	8/12	\$7,700,000	140,275	\$55	B
1490 S Price Rd., Chandler	Chandler	8/15	\$7,450,000	67,248	\$111	B

LEASE ACTIVITY

BUILDING NAME/ADDRESS	SUBMARKET	LEASE TYPE	TENANT	SIZE SQ. FT.	CLASS
Four Gateway/44 N 44th St	44th Street Corridor	Move in	State Farm Insurance	138,240	A
Black Canyon Corp Center/ 16404 N Black Canyon Hwy	Deer Valley	Move in	Teletech Services	25,678	B
Perimeter Gateway/ 8701 E Hartford Dr	Scottsdale Airport	Move in	NCU	24,408	A

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