

PHOENIX OFFICE MARKET



OVERVIEW

PHOENIX'S VACANCY INCREASES TO 21.3% Net Absorption Negative (577,760) SF in the Quarter

The Phoenix Office market ended the third quarter 2009 with a vacancy rate of 21.3%. The vacancy rate was up over the previous quarter, with net absorption totaling negative (577,760) square feet in the third quarter. Vacant sublease space increased in the quarter, ending the quarter at 1,760,543 square feet. Rental rates ended the third quarter at \$23.61, a decrease over the previous quarter. A total of 11 buildings delivered to the market in the quarter totaling 615,240 square feet, with 2,034,097 square feet still under construction at the end of the quarter.

Absorption

Net absorption for the overall Phoenix office market was negative (577,760) square feet in the third quarter 2009. That compares to negative (924,102) square feet in the second quarter 2009, negative (758,233) square feet in the first quarter 2009, and negative (731,493) square feet in the fourth quarter 2008.

The Class-A office market recorded net absorption of negative (200,613) square feet in the third quarter 2009, compared to positive 67,777 square feet in the second quarter 2009, negative (173,897) in the first quarter 2009, and negative (54,927) in the fourth quarter 2008.

The Class-B office market recorded net absorption of negative (277,167) square feet in the third quarter 2009, compared to negative (816,887) square feet in the second quarter 2009, negative (430,670) in the first quarter 2009, and negative (604,944) in the fourth quarter 2008.

The Class-C office market recorded net absorption of negative (99,980) square feet in the third quarter 2009 compared to

negative (174,992) square feet in the second quarter 2009, negative (153,666) in the first quarter 2009, and negative (71,622) in the fourth quarter 2008.

Net absorption for Phoenix's central business district was negative (160,825) square feet in the third quarter 2009. That compares to negative (453,647) square feet in the second quarter 2009, negative (189,469) in the first quarter 2009, and negative (10,122) in the fourth quarter 2008.

Net absorption for the suburban markets was negative (416,935) square feet in the third quarter 2009. That compares to negative (470,455) square feet in second quarter 2009, negative (568,764) in the first quarter 2009, and negative (721,371) in the fourth quarter 2008.

Vacancy

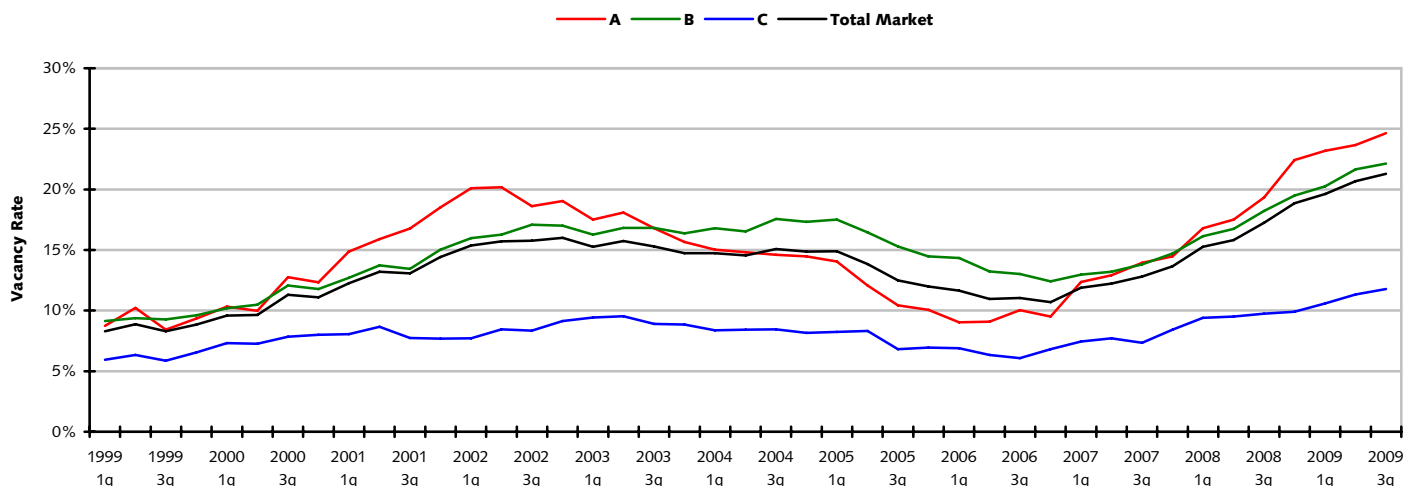
The office vacancy rate in the Phoenix market area increased to 21.3% at the end of the third quarter 2009. The vacancy rate was 20.7% at the end of the second quarter 2009, 19.7% at the end of the first quarter 2009, and 18.9% at the end of the fourth quarter 2008.

Class-A projects reported a vacancy rate of 24.6% at the end of the third quarter 2009, 23.7% at the end of the second quarter 2009, 23.2% at the end of the first quarter 2009, and 22.4% at the end of the fourth quarter 2008.

Class-B projects reported a vacancy rate of 22.1% at the end of the third quarter 2009, 21.7% at the end of the second quarter 2009, 20.2% at the end of the first quarter 2009, and 19.5% at the end of the fourth quarter 2008.

Class-C projects reported a vacancy rate of 11.8% at the

VACANCY RATES BY CLASS 1999-2009



Source: CoStar Property®

end of the third quarter 2009, 11.3% at the end of second quarter 2009, 10.6% at the end of the first quarter 2009, and 9.9% at the end of the fourth quarter 2008.

The overall vacancy rate in Phoenix's central business district at the end of the third quarter 2009 increased to 16.3%. The vacancy rate was 16.2% at the end of the second quarter 2009, 14.1% at the end of the first quarter 2009, and 13.2% at the end of the fourth quarter 2008.

The vacancy rate in the suburban markets increased to 22.1% in the third quarter 2009. The vacancy rate was 21.4% at the end of the second quarter 2009, 20.5% at the end of the first quarter 2009, and 19.8% at the end of the fourth quarter 2008.

Largest Lease Signings

The largest lease signings occurring in 2009 included: the 107,732-square-foot lease signed by JP Morgan Chase at 100 Centerpoint in the East Valley market; the 93,753-square-foot deal signed by First American Title Insurance Company at 9000 E Pima Center Pky in the Scottsdale market; and the 86,000-square-foot lease signed by Apple, Inc. at 2080 W Chandler Blvd in the East Valley market.

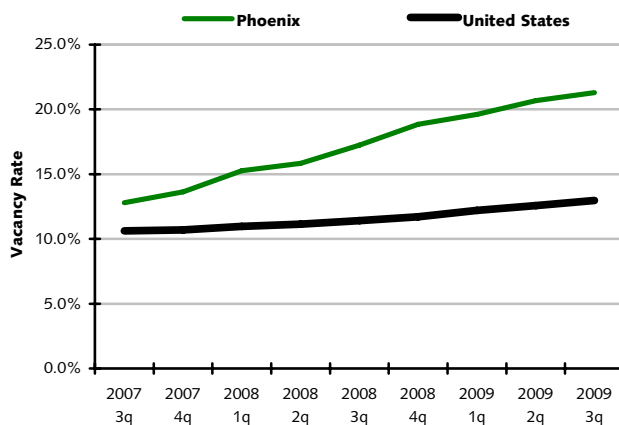
Sublease Vacancy

The amount of vacant sublease space in the Phoenix market increased to 1,760,543 square feet by the end of the third quarter 2009, from 1,625,170 square feet at the end of the second quarter 2009. There was 1,742,221 square feet vacant at the end of the first quarter 2009 and 1,618,569 square feet at the end of the fourth quarter 2008.

Phoenix's Class-A projects reported vacant sublease space of 1,028,533 square feet at the end of third quarter 2009, up from the 927,597 square feet reported at the end of the second quarter 2009. There were 975,661 square feet of sublease space vacant at the end of the first quarter 2009, and 903,863 square feet at the end of the fourth quarter 2008.

U.S. VACANCY COMPARISON

Past 9 Quarters



Source: CoStar Property*

Class-B projects reported vacant sublease space of 679,338 square feet at the end of the third quarter 2009, up from the 638,286 square feet reported at the end of the second quarter 2009. At the end of the first quarter 2009 there were 740,542 square feet, and at the end of the fourth quarter 2008 there were 689,996 square feet vacant.

Class-C projects reported decreased vacant sublease space from the second quarter 2009 to the third quarter 2009. Sublease vacancy went from 59,287 square feet to 52,672 square feet during that time. There was 26,018 square feet at the end of the first quarter 2009, and 24,710 square feet at the end of the fourth quarter 2008.

Sublease vacancy in Phoenix's central business district stood at 168,147 square feet at the end of the third quarter 2009. It was 202,153 square feet at the end of the second quarter 2009, 165,120 square feet at the end of the first quarter 2009, and 144,764 square feet at the end of the fourth quarter 2008.

Sublease vacancy in the suburban markets ended the third quarter 2009 at 1,592,396 square feet. At the end of the second quarter 2009 sublease vacancy was 1,423,017 square feet, was 1,577,101 square feet at the end of the first quarter 2009, and was 1,473,805 square feet at the end of the fourth quarter 2008.

Rental Rates

The average quoted asking rental rate for available office space, all classes, was \$23.61 per square foot per year at the end of the third quarter 2009 in the Phoenix market area. This represented a 2.6% decrease in quoted rental rates from the end of the second quarter 2009, when rents were reported at \$24.24 per square foot.

The average quoted rate within the Class-A sector was \$26.83 at the end of the third quarter 2009, while Class-B rates stood at \$22.49, and Class-C rates at \$17.37. At the end of the second quarter 2009, Class-A rates were \$27.39 per square foot, Class-B rates were \$23.10, and Class-C rates were \$17.76.

The average quoted asking rental rate in Phoenix's CBD was \$25.05 at the end of the third quarter 2009, and \$23.40 in the suburban markets. In the second quarter 2009, quoted rates were \$25.45 in the CBD and \$24.05 in the suburbs.

Deliveries and Construction

During the third quarter 2009, 11 buildings totaling 615,240 square feet were completed in the Phoenix market area. This compares to 13 buildings totaling 836,036 square feet that were completed in the second quarter 2009, 18 buildings totaling 476,966 square feet completed in the first quarter 2009, and 2,087,433 square feet in 47 buildings completed in the fourth quarter 2008.

There were 2,034,097 square feet of office space under construction at the end of the third quarter 2009.

Some of the notable 2009 deliveries include: 17401 N Holmes Blvd, a 210,214-square-foot facility that delivered in

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third quarter 2009 and is now 0% occupied, and TerraVerde One, a 184,000-square-foot building that delivered in third quarter 2009 and is now 54% occupied.

The largest projects underway at the end of third quarter 2009 were CityScape, a 550,000-square-foot building with 39% of its space pre-leased, and One Central Park East, a 495,000-square-foot facility that is 3% pre-leased.

Inventory

Total office inventory in the Phoenix market area amounted to 151,163,494 square feet in 7,702 buildings as of the end of the third quarter 2009. The Class-A office sector consisted of 42,789,062 square feet in 283 projects. There were 4,138 Class-B buildings totaling 85,788,316 square feet, and the Class-C sector consisted of 22,586,116 square feet in 3,281 buildings. Within the Office market there were 851 owner-occupied buildings accounting for 12,803,272 square feet of office space.

Sales Activity

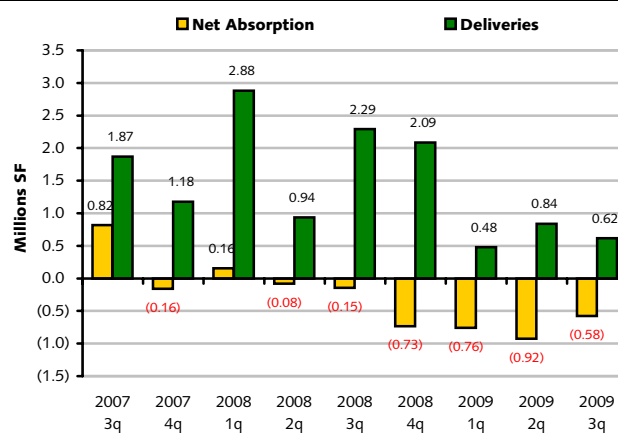
Tallying office building sales of 15,000 square feet or larger, Phoenix office sales figures fell during the second quarter 2009 in terms of dollar volume compared to the first quarter of 2009.

In the second quarter, five office transactions closed with a total volume of \$20,325,000. The five buildings totaled 202,856 square feet and the average price per square foot equated to \$100.19 per square foot. That compares to seven transactions totaling \$29,961,500 in the first quarter 2009. The total square footage in the first quarter was 239,742 square feet for an average price per square foot of \$124.97.

Total office building sales activity in 2009 was down compared to 2008. In the first six months of 2009, the market saw 12 office sales transactions with a total volume of \$50,286,500.

ABSORPTION & DELIVERIES

Past 9 Quarters



Source: CoStar Property*

The price per square foot averaged \$113.62. In the same first six months of 2008, the market posted 33 transactions with a total volume of \$691,043,230. The price per square foot averaged \$259.33.

Cap rates have been higher in 2009, averaging 7.50% compared to the same period in 2008 when they averaged 6.99%.

One of the largest transactions that has occurred within the last four quarters in the Phoenix market is the sale of Union Hills Office Plaza in Phoenix. This 142,773-square-foot office building sold for \$18,750,000, or \$131.33 per square foot. The property sold on 8/26/2009 at a 10.66% cap rate.

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