

PHOENIX OFFICE MARKET



OVERVIEW

PHOENIX'S VACANCY INCREASES TO 18.7%

Net Absorption Negative (855,245) SF in the Quarter

The Phoenix Office market ended the fourth quarter 2008 with a vacancy rate of 18.7%. The vacancy rate was up over the previous quarter, with net absorption totaling negative (855,245) square feet in the fourth quarter. Vacant sublease space decreased in the quarter, ending the quarter at 1,642,676 square feet. Rental rates ended the fourth quarter at \$25.49, a decrease over the previous quarter. A total of 36 buildings delivered to the market in the quarter totaling 1,303,486 square feet, with 3,799,258 square feet still under construction at the end of the quarter.

Absorption

Net absorption for the overall Phoenix office market was negative (855,245) square feet in the fourth quarter 2008. That compares to negative (236,925) square feet in the third quarter 2008, negative (25,434) square feet in the second quarter 2008, and positive 87,784 square feet in the first quarter 2008.

The Class-A office market recorded net absorption of negative (236,182) square feet in the fourth quarter 2008, compared to negative (267,295) square feet in the third quarter 2008, positive 4,949 in the second quarter 2008, and negative (224,696) in the first quarter 2008.

The Class-B office market recorded net absorption of negative (561,336) square feet in the fourth quarter 2008, compared to positive 63,667 square feet in the third quarter 2008, positive 5,870 in the second quarter 2008, and positive 534,201 in the first quarter 2008.

The Class-C office market recorded net absorption of negative (57,727) square feet in the fourth quarter 2008 compared to

negative (33,297) square feet in the third quarter 2008, negative (36,253) in the second quarter 2008, and negative (221,721) in the first quarter 2008.

Net absorption for Phoenix's central business district was positive 2,103 square feet in the fourth quarter 2008. That compares to positive 41 square feet in the third quarter 2008, negative (17,560) in the second quarter 2008, and negative (37,597) in the first quarter 2008.

Net absorption for the suburban markets was negative (857,348) square feet in the fourth quarter 2008. That compares to negative (236,966) square feet in third quarter 2008, negative (7,874) in the second quarter 2008, and positive 125,381 in the first quarter 2008.

Vacancy

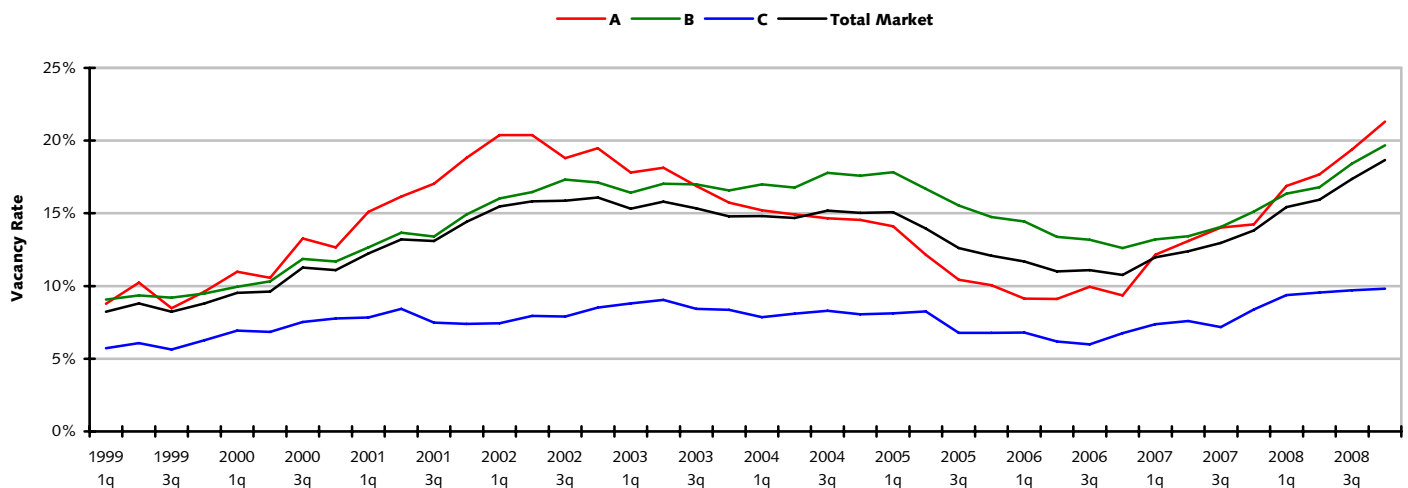
The office vacancy rate in the Phoenix market area increased to 18.7% at the end of the fourth quarter 2008. The vacancy rate was 17.4% at the end of the third quarter 2008, 16.3% at the end of the second quarter 2008, and 15.4% at the end of the first quarter 2008.

Class-A projects reported a vacancy rate of 21.3% at the end of the fourth quarter 2008, 19.4% at the end of the third quarter 2008, 17.7% at the end of the second quarter 2008, and 16.9% at the end of the first quarter 2008.

Class-B projects reported a vacancy rate of 19.7% at the end of the fourth quarter 2008, 18.4% at the end of the third quarter 2008, 16.8% at the end of the second quarter 2008, and 16.3% at the end of the first quarter 2008.

Class-C projects reported a vacancy rate of 9.8% at the end

VACANCY RATES BY CLASS 1999-2008



Source: CoStar Property®

of the fourth quarter 2008, 9.7% at the end of third quarter 2008, 9.5% at the end of the second quarter 2008, and 9.4% at the end of the first quarter 2008.

The overall vacancy rate in Phoenix's central business district at the end of the fourth quarter 2008 remained unchanged at 13.2% from the previous three quarters.

The vacancy rate in the suburban markets increased to 19.6% in the fourth quarter 2008. The vacancy rate was 18.1% at the end of the third quarter 2008, 16.4% at the end of the second quarter 2008, and 15.8% at the end of the first quarter 2008.

Largest Lease Signings

The largest lease signings occurring in 2008 included: the 132,070-square-foot lease signed by Avnet, Inc. at 8700 S Price Rd. in the Airport Area market; the 96,000-square-foot deal signed by Pulte Homes at 16767 N Perimeter Dr. in the Scottsdale market; and the 80,000-square-foot lease signed by Squire, Sanders & Dempsey at 1 E Washington St. in the Central Corridor market.

Sublease Vacancy

The amount of vacant sublease space in the Phoenix market decreased to 1,642,676 square feet by the end of the fourth quarter 2008, from 1,711,308 square feet at the end of the third quarter 2008. There was 1,418,729 square feet vacant at the end of the second quarter 2008 and 1,423,363 square feet at the end of the first quarter 2008.

Phoenix's Class-A projects reported vacant sublease space of 879,222 square feet at the end of fourth quarter 2008, down from the 879,866 square feet reported at the end of the third quarter 2008. There were 676,472 square feet of sublease space vacant at the end of the second quarter 2008, and 687,825 square feet at the end of the first quarter 2008.

Class-B projects reported vacant sublease space of 738,744 square feet at the end of the fourth quarter 2008, down from the

817,523 square feet reported at the end of the third quarter 2008. At the end of the second quarter 2008 there were 726,122 square feet, and at the end of the first quarter 2008 there were 721,002 square feet vacant.

Class-C projects reported increased vacant sublease space from the third quarter 2008 to the fourth quarter 2008. Sublease vacancy went from 13,919 square feet to 24,710 square feet during that time. There was 16,135 square feet at the end of the second quarter 2008, and 14,536 square feet at the end of the first quarter 2008.

Sublease vacancy in Phoenix's central business district stood at 144,764 square feet at the end of the fourth quarter 2008. It was 136,159 square feet at the end of the third quarter 2008, 170,701 square feet at the end of the second quarter 2008, and 167,078 square feet at the end of the first quarter 2008.

Sublease vacancy in the suburban markets ended the fourth quarter 2008 at 1,497,912 square feet. At the end of the third quarter 2008 sublease vacancy was 1,575,149 square feet, was 1,248,028 square feet at the end of the second quarter 2008, and was 1,256,285 square feet at the end of the first quarter 2008.

Rental Rates

The average quoted asking rental rate for available office space, all classes, was \$25.49 per square foot per year at the end of the fourth quarter 2008 in the Phoenix market area. This represented a 1.1% decrease in quoted rental rates from the end of the third quarter 2008, when rents were reported at \$25.78 per square foot.

The average quoted rate within the Class-A sector was \$29.06 at the end of the fourth quarter 2008, while Class-B rates stood at \$24.04, and Class-C rates at \$18.71. At the end of the third quarter 2008, Class-A rates were \$29.44 per square foot, Class-B rates were \$24.35, and Class-C rates were \$19.10.

The average quoted asking rental rate in Phoenix's CBD was \$26.63 at the end of the fourth quarter 2008, and \$25.33 in the suburban markets. In the third quarter 2008, quoted rates were \$26.68 in the CBD and \$25.64 in the suburbs.

Deliveries and Construction

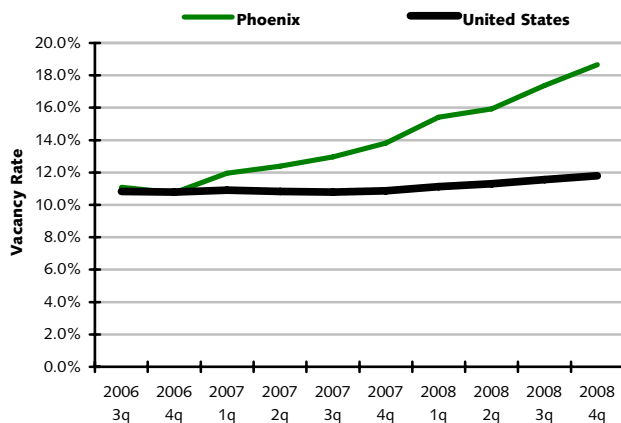
During the fourth quarter 2008, 36 buildings totaling 1,303,486 square feet were completed in the Phoenix market area. This compares to 123 buildings totaling 2,208,506 square feet that were completed in the third quarter 2008, 25 buildings totaling 903,327 square feet completed in the second quarter 2008, and 2,757,346 square feet in 79 buildings completed in the first quarter 2008.

There were 3,799,258 square feet of office space under construction at the end of the fourth quarter 2008.

Some of the notable 2008 deliveries include: Dial Corporate Headquarters, a 348,000-square-foot facility that delivered in fourth quarter 2008 and is now 100% occupied, and University of Phoenix, a 300,000-square-foot building that delivered in first quarter 2008 and is now 100% occupied.

U.S. VACANCY COMPARISON

Past 10 Quarters



Source: CoStar Property*

PHOENIX OFFICE MARKET



OVERVIEW

The largest projects underway at the end of fourth quarter 2008 were CityScape, a 550,000-square-foot building with 26% of its space pre-leased, and One Central Park East, a 480,000-square-foot facility that is 0% pre-leased.

Inventory

Total office inventory in the Phoenix market area amounted to 147,097,432 square feet in 7,371 buildings as of the end of the fourth quarter 2008. The Class-A office sector consisted of 41,659,169 square feet in 272 projects. There were 3,954 Class-B buildings totaling 83,461,428 square feet, and the Class-C sector consisted of 21,976,835 square feet in 3,145 buildings. Within the Office market there were 930 owner-occupied buildings accounting for 15,589,330 square feet of office space.

Sales Activity

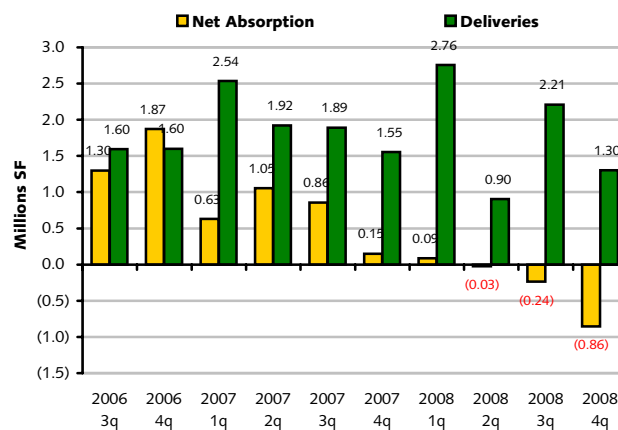
Tallying office building sales of 15,000 square feet or larger, Phoenix office sales figures fell during the third quarter 2008 in terms of dollar volume compared to the second quarter of 2008.

In the third quarter, 13 office transactions closed with a total volume of \$115,206,210. The 13 buildings totaled 776,722 square feet and the average price per square foot equated to \$148.32 per square foot. That compares to 13 transactions totaling \$142,461,342 in the second quarter 2008. The total square footage in the second quarter was 647,788 square feet for an average price per square foot of \$219.92.

Total office building sales activity in 2008 was down compared to 2007. In the first nine months of 2008, the market saw 47 office sales transactions with a total volume of \$817,725,782. The price per square foot averaged \$233.93. In the same first nine months of 2007, the market posted 125 transactions with a total

ABSORPTION & DELIVERIES

Past 10 Quarters



Source: CoStar Property*

volume of \$2,392,757,496. The price per square foot averaged \$200.17.

Cap rates have been higher in 2008, averaging 7.05% compared to the same period in 2007 when they averaged 6.78%.

One of the largest transactions that has occurred within the last four quarters in the Phoenix market is the sale of PSCU Financial Services building in Phoenix. This 97,372 square foot office building sold for \$25,400,000, or \$260.86 per square foot. The property sold on 09/29/2008.

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TERMS & DEFINITIONS

Availability Rate: The ratio of available space to total rentable space, calculated by dividing the total available square feet by the total rentable square feet.

Available Space: The total amount of space that is currently being marketed as available for lease in a given time period. It includes any space that is available, regardless of whether the space is vacant, occupied, available for sublease, or available at a future date.

Build-to-Suit: A term describing a particular property, developed specifically for a certain tenant to occupy, with structural features, systems, or improvement work designed specifically for the needs of that tenant. A build-to-suit can be leased or owned by the tenant. In a leased build-to-suit, a tenant will usually have a long term lease on the space.

Buyer: The individual, group, company, or entity that has purchased a commercial real estate asset.

Cap Rate: Short for capitalization rate. The Cap Rate is a calculation that reflects the relationship between one year's net operating income and the current market value of a particular property. The Cap Rate is calculated by dividing the annual net operating income by the sales price (or asking sales price).

CBD: Abbreviation for Central Business District. (See also: Central Business District)

Central Business District: The designations of Central Business District (CBD) and Suburban refer to a particular geographic area within a metropolitan statistical area (MSA) describing the level of real estate development found there. The CBD is characterized by a high density, well organized core within the largest city of a given MSA.

Class A: A classification used to describe buildings that generally qualify as extremely desirable investment-grade properties and command the highest rents or sale prices compared to other buildings in the same market. Such buildings are well located and provide efficient tenant layouts as well as high quality, and in some buildings, one-of-a-kind floor plans. They can be an architectural or historical landmark designed by prominent architects. These buildings contain a modern mechanical system, and have above-average maintenance and management as well as the best quality materials and workmanship in their trim and interior fittings. They are generally the most attractive and eagerly sought by investors willing to pay a premium for quality.

Class B: A classification used to describe buildings that generally qualify as a more speculative investment, and as such, command lower rents or sale prices compared to Class A properties. Such buildings offer utilitarian space without special attractions, and have ordinary design, if new or fairly new; good to excellent design if an older non-landmark building. These buildings typically have average to good maintenance, management and tenants. They are less appealing to tenants than Class A properties, and may be deficient in a number of respects including floor plans, condition and facilities. They lack prestige and must depend chiefly on a lower price to attract tenants and investors.

Class C: A classification used to describe buildings that generally qualify as no-frills, older buildings that offer basic space and command lower rents or sale prices compared to other buildings in the same market. Such buildings typically have below-average maintenance and management, and could have mixed or low tenant prestige, inferior elevators, and/or mechanical/electrical systems. These buildings lack prestige and must depend chiefly on a lower price to attract tenants and investors.

Construction Starts: Buildings that began construction during a specific period of time. (See also: Deliveries)

Contiguous Blocks of Space: Space within a building that is, or is able to be joined together into a single contiguous space.

Deliveries: Buildings that complete construction during a specified period of time. In order for space to be considered delivered, a certificate of occupancy must have been issued for the property.

Delivery Date: The date a building completes construction and receives a certificate of occupancy.

Developer: The company, entity or individual that transforms raw land to improved property by use of labor, capital and entrepreneurial efforts.

Direct Space: Space that is being offered for lease directly from the landlord or owner of a building, as opposed to space being offered in a building by another tenant (or broker of a tenant) trying to sublet a space that has already been leased.

Existing Inventory: The square footage of buildings that have received a certificate of occupancy and are able to be occupied by tenants. It does not include space in buildings that are either planned, under construction or under renovation.

Flex Building: A type of building designed to be versatile, which may be used in combination with office (corporate headquarters), research and development, quasi-retail sales, and including but not limited to industrial, warehouse, and distribution uses. A typical flex building will be one or two stories with at least half of the rentable area being used as office space, have ceiling heights of 16 feet or less, and have some type of drive-in door, even though the door may be glassed in or sealed off.

Full Service Rental Rate: Rental rates that include all operating expenses such as utilities, electricity, janitorial services, taxes and insurance.

Gross Absorption: The total change in occupied space over a given period of time, counting space that is occupied but not space that is vacated by tenants. Gross absorption differs from leasing Activity, which is the sum of all space leased over a certain period of time. Unless otherwise noted Gross Absorption includes direct and sublease space.

Growth in Inventory: The change in size of the existing square footage in a given area over a given period of time, generally due to the construction of new buildings.

Industrial Building: A type of building adapted for such uses as the assemblage, processing, and/or manufacturing of products from raw materials or fabricated parts. Additional uses include warehousing, distribution, and maintenance facilities. The primary purpose of the space is for storing, producing, assembling, or distributing product.

Landlord Rep: (Landlord Representative) In a typical lease transaction between an owner/landlord and tenant, the broker that represents the interests of the owner/landlord is referred to as the Landlord Rep.

Leased Space: All the space that has a financial lease obligation. It includes all leased space, regardless of whether the space is currently occupied by a tenant. Leased space also includes space being offered for sublease.

Leasing Activity: The volume of square footage that is committed to and signed under a lease obligation for a specific building or market in a given period of time. It includes direct leases, subleases and renewals of existing leases. It also includes any pre-leasing activity in planned, under construction, or under renovation buildings.

Market: Geographic boundaries that serve to delineate core areas that are competitive with each other and constitute a generally accepted primary competitive set of areas. Markets are building-type specific, and are non-overlapping contiguous geographic designations having a cumulative sum that matches the boundaries of the entire Region (See also: Region). Markets can be further subdivided into Submarkets. (See also: Submarkets)

Multi-Tenant: Buildings that house more than one tenant at a given time. Usually, multi-tenant buildings were designed and built to accommodate many different floor plans and designs for different tenant needs. (See also: Tenancy).

Net Absorption: The net change in occupied space over a given period of time. Unless otherwise noted Net Absorption includes direct and sublease space.

Net Rental Rate: A rental rate that excludes certain expenses that a tenant could incur in occupying office space. Such expenses are expected to be paid directly by the tenant and may include janitorial costs, electricity, utilities, taxes, insurance and other related costs.

New Space: Sometimes called first generation space, refers to space that has never been occupied and/or leased by a tenant.

Occupied Space: Space that is physically occupied by a tenant. It does not include leased space that is not currently occupied by a tenant.

Office Building: A type of commercial building used exclusively or primarily for office use (business), as opposed to manufacturing, warehousing, or other uses. Office buildings may sometimes have other associated uses within part of the building, i.e., retail sales, financial, or restaurant, usually on the ground floor.

Owner: The company, entity, or individual that holds title on a given building or property.

Planned/Proposed: The status of a building that has been announced for future development but not yet started construction.

Released Space: The amount of space in a building that has been leased prior to its construction completion date, or certificate of occupancy date.

Price/SF: Calculated by dividing the price of a building (either sales price or asking sales price) by the Rentable Building Area (RBA).

Property Manager: The company and/or person responsible for the day-to-day operations of a building, such as cleaning, trash removal, etc. The property manager also makes sure that the various systems within the building, such as the elevators, HVAC, and electrical systems, are functioning properly.

Quoted Rental Rate: The asking rate per square foot for a particular building or unit of space by a broker or property owner. Quoted rental rates may differ from the actual rates paid by tenants following the negotiation of all terms and conditions in a specific lease.

RBA: Abbreviation for Rentable Building Area. (See also: Rentable Building Area)

Region: Core areas containing a large population nucleus, that together with adjacent communities have a high degree of economic and social integration. Regions are further divided into market areas, called Markets. (See also: Markets)

Relet Space: Sometimes called second generation or direct space, refers to existing space that has previously been occupied by another tenant.

Rentable Building Area: (RBA) The total square footage of a building that can be occupied by, or assigned to a tenant for the purpose of determining a tenant's rental obligation. Generally RBA includes a percentage of common areas including all hallways, main lobbies, bathrooms, and telephone closets.

Rental Rates: The annual costs of occupancy for a particular space quoted on a per square foot basis.

Sales Price: The total dollar amount paid for a particular property at a particular point in time.

Sales Volume: The sum of sales prices for a given group of buildings in a given time period.

Seller: The individual, group, company, or entity that sells a particular commercial real estate asset.

SF: Abbreviation for Square Feet.

Single-Tenant: Buildings that are occupied, or intended to be occupied by a single tenant. (See also: Build-to-suit and Tenancy)

Sublease Space: Space that has been leased by a tenant and is being offered for lease back to the market by the tenant with the lease obligation. Sublease space is sometimes referred to as sublet space.

Submarkets: Specific geographic boundaries that serve to delineate a core group of buildings that are competitive with each other and constitute a generally accepted primary competitive set, or peer group. Submarkets are building type specific (office, industrial, retail, etc.), with distinct boundaries dependent on different factors relevant to each building type. Submarkets are non-overlapping, contiguous geographic designations having a cumulative sum that matches the boundaries of the Market they are located within (See also: Market).

Suburban: The Suburban and Central Business District (CBD) designations refer to a particular geographic area within a metropolitan statistical area (MSA). Suburban is defined as including all office inventory not located in the CBD. (See also: CBD)

Tenancy: A term used to indicate whether or not a building is occupied by multiple tenants (See also: Multi-tenant) or a single tenant. (See also: Single-tenant)

Tenant Rep: Tenant Rep stands for Tenant Representative. In a typical lease transaction between an owner/landlord and tenant, the broker that represents the interests of the tenant is referred to as a Tenant Rep.

Time On Market: A measure of how long a currently available space has been marketed for lease, regardless of whether it is vacant or occupied.

Under Construction: The status of a building that is in the process of being developed, assembled, built or constructed. A building is considered to be under construction after it has begun construction and until it receives a certificate of occupancy.

Vacancy Rate: A measurement expressed as a percentage of the total amount of physically vacant space divided by the total amount of existing inventory. Under construction space generally is not included in vacancy calculations.

Vacant Space: Space that is not currently occupied by a tenant, regardless of any lease obligation that may be on the space. Vacant space could be space that is either available or not available. For example, sublease space that is currently being paid for by a tenant but not occupied by that tenant, would be considered vacant space. Likewise, space that has been leased but not yet occupied because of finish work being done, would also be considered vacant space.

Weighted Average Rental Rate: Rental rates that are calculated by factoring in, or weighting, the square footage associated with each particular rental rate. This has the effect of causing rental rates on larger spaces to affect the average more than that of smaller spaces. The weighted average rental rate is calculated by taking the ratio of the square footage associated with the rental rate on each individual available space to the square footage associated with rental rates on all available spaces, multiplying the rental rate by that ratio, and then adding together all the resulting numbers. Unless specifically specified otherwise, rental rate averages include both Direct and Sublet available spaces.

Year Built: The year in which a building completed construction and was issued a certificate of occupancy.

YTD: Abbreviation for Year-to-Date. Describes statistics that are cumulative from the beginning of a calendar year through whatever time period is being studied.