

Phoenix, Arizona

Tenant's Guide ■ North American Markets ■ Fourth Quarter 2009

Overview

The Phoenix market continued its trend towards the tenant carrying the advantage into the 4th quarter of 2009. The net absorption increased dramatically to a positive level during the 3rd quarter in comparison to the previous quarter. In addition to the current demand deficit, landlords are also competing with a vast amount of sublease space. They are aggressively pursuing tenants for the short term as landlords believe the market will rebound in the short term. That being said, they will not overextend their rents to below market rates which will extend past the recovery movement. Continued economic uncertainty has increased corporate downsizing and corporate "hold" strategies, resulting in increased vacancies and decreased rental rates. A total of six buildings were delivered to the market in the quarter, totaling 491,355 SF, with 1,573,465 SF still under construction.

Market Trends

- Net absorption for the market was positive 466,372 SF.
- Vacancy rates have remained unchanged at 21.2% from the previous quarter.
- Sublease vacancy space has decreased to 1,499,067 SF down from the previous quarter.
- Average rental rates for office space decreased 2.4% from the previous quarter to \$23.05/SF.
- There were six buildings delivered to the market in the 4th quarter compared to 11 buildings in the 3rd quarter.
- Overall office square footage inventory of 151,677,722 SF.

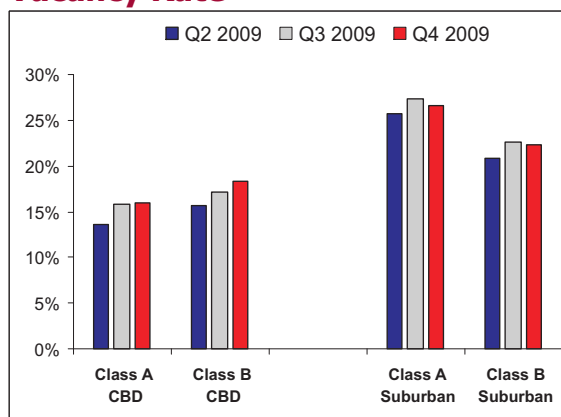
Tenant's Perspective

The Phoenix market continues to present ample opportunities for tenants to decrease occupancy costs due to the reduced rental rates, rent abatement, favorable lease terms, and tenant improvement dollars. These landlord concessions are compelling to tenants looking for flexible lease terms and those who are looking to capitalize on the recent economic factors. From the tenant's perspective, the current low cost direct lease opportunities still resemble the available sublease space.

Major Transactions

Tenant/Buyer	Size	Type	Lease/Sale
Snell & Wilmer LLP	206,421	Office	Lease
PJ Food Service, Inc.	203,372	Industrial	Lease
Office Depot	168,165	Industrial	Lease
Pro Em	158,750	Industrial	Lease
American Tire Distributors	125,643	Industrial	Lease
The Dump Furniture Outlet	125,410	Industrial	Lease
Olympian Worldwide	116,538	Industrial	Lease
University of Phoenix	111,349	Industrial	Lease
JP Morgan	107,732	Office	Lease
Humana	106,508	Office	Lease

Vacancy Rate



Average Rental Rates

	Q2 2009	Q3 2009	Q4 2009
CBD			
Class A Office	\$30.41	\$29.38	\$28.31
Class B Office	\$21.69	\$20.52	\$20.36
Suburban			
Class A Office	\$27.88	\$26.67	\$26.85
Class B Office	\$23.85	\$22.24	\$21.90

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