COLLIERS INTERNATIONAL | PHOENIX

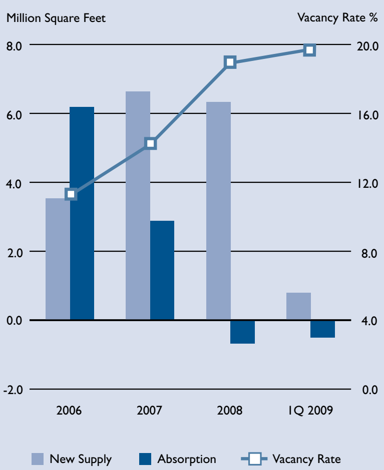
The Knowledge Report

OFFICE | FIRST QUARTER | 2009

MARKET INDICATORS

	2009 Q1	2008 Q1
VACANCY	↑	↑
NET ABSORPTION	↓	↓
CONSTRUCTION	↓	↑
RENTAL RATE	↓	↑

NEW SUPPLY, ABSORPTION & VACANCY RATES



Office Sector Still Hampered by Scant Lending, Rising Vacancies

While there are encouraging signs that the U.S. economy as a whole is beginning to feel the effects of a strong federal response to the financial crisis, commercial real estate is faced with a set of challenges that do not hinge on the daily rise and fall of the stock market. The year ahead, regardless of the broader upswings, is still expected to remain a time where lending remains tight, transaction volume is low and the amount of distressed commercial office properties will continue to rise.

For office property investors with access to private capital, there's no time like the present to secure quality assets at rock-bottom prices. That trend should continue through most, if not all, of 2009. On the leasing side, office rent concessions and tenant-driven deals are the norm. Tenants know that they hold the negotiating edge, and continue to press aggressively. Owners often feel compelled to keep vacancies at a minimum by negotiating short-term leases with concessions that may keep them in the game until the economy switches course.

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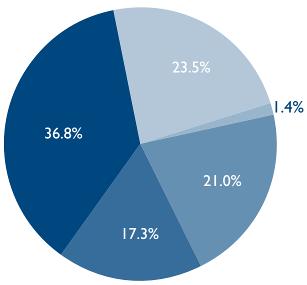
UNDER CONSTRUCTION SQUARE FOOTAGE BY SUBMARKET



Downtown CBD	1,030,000
Central East Valley	484,264
Northeast	587,502
Northwest	40,000
Southeast	656,485

KEY MARKET INDICATORS

Unemployment[1]		
Phoenix Metro	6.7%	↑
Arizona	7.4%	↑
U.S.	8.1%	↑
Consumer Price Index[2]	0.4%	↑
30-year Fixed Mortgage[3]	4.85%	↓

[1] *Arizona Department of Commerce, February 09*
[2] *Bureau of Labor Statistics, March 09*
[3] *Freddie Mac Primary Mortgage Market Survey, March 09*

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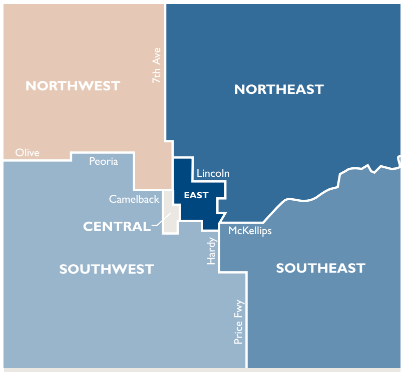

First Quarter absorption numbers, while down significantly from last quarter, still posted a negative 497,720 square feet (sf). Overall vacancy rates are up again to 19.9%, from last quarter's 19.1%. Construction activity is down for the fourth straight quarter with 2.8 million square feet (msf), while an additional 13.4 msf is still classified as proposed, although many projects may not be viable given current economic conditions.

With the U.S. economy as it is today, relying on previous downturns as an indicator of the future market is proving to be elusive. That is why those who recognize the intangibles of a particular market can better react to actual conditions on the ground. In Phoenix, decades of relentless growth fueled by low housing prices made us one of the first metro areas in the country to feel the savage effects of the housing bubble collapse. The vast inventory of existing houses that remain on the market as well as fewer permits for new homes, may keep that key indicator suppressed for some time. Home resales are showing an up tick as buyers take advantage of post-bubble bargains. A recent report from Elliot Pollack & Company, an economic and real estate consulting firm cites some reasons for hope. The underlying dynamics of Arizona economics have remained relatively stable and should begin a slow recovery in the second quarter of 2009. As consumer confidence returns, so too will the confidence of lessors and buyers of office space.

At quarter's end, Phoenix office absorption, while down significantly from last quarter, still posted a negative 497,720 square feet (sf). The Northwest Valley sector showed the most absorption for the quarter at 90,475 sf, followed closely by the Southwest Valley at 82,858 sf. Deliveries were down significantly from last quarter at 795,308 sf. The rate of new supply is slowing as a result of decreased demand and heightened vacancy rates. Construction activity is down for the fourth straight quarter with 2.8 million square feet (msf) of new space delivered, while 13.4 msf of office space is still classified as proposed. Many believe a percentage of these projects will not be viable given current economic conditions.

Overall vacancy rates rose to 19.9%, from last quarter's 19.1%. The Central Business District continues to boast the

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SALE & LEASE ACTIVITY

SALE ACTIVITY

PROPERTY ADDRESS	SUBMARKET	SALES DATE	SALE PRICE	SIZE SQ FT	PRICE SQ FT	CLASS
111 W. Monroe Street, Phoenix	CBD	2-4-09	$36,400,000	244,651	$148.78	B
4561 E. McDowell Road, Phoenix	Central East	1-2-09	$7,200,000	41,556	$173.00	C
1114 S. Higley Road, Mesa	Southwest	1-30-09	$6,815,000	16,034	$425.03	B
890 W. Elliot Road, Gilbert	Southeast	1-15-09	$6,450,000	50,499	$127.73	B
15750 N. Northsight Drive, Scottsdale	Northeast	3-11-09	$4,200,000	16,420	$255.79	B

LEASE ACTIVITY

BUILDING NAME	SUBMARKET	TENANT	SIZE SQ FT	CLASS
9000 E. Pima Center Parkway, Scottsdale	Northeast	First American Title Insurance Co.	93,753	A
2600 N. Central Avenue, Phoenix	CBD	Bureau of Indian Affairs	56,580	B
1501 E. Buckeye Road, Phoenix	Airport	U.S. Citizenship and Immigration	50,000	B
6811 E. Mayo Boulevard, Phoenix	Northeast	Axway Inc.	38,109	A
7720 N. 16th Street, Phoenix	Central East	Bonneville International Corp.	30,690	A

Existing Properties			Direct Vacancy		Sublease Vacancy		Total Vacancy			Net Absorption - Sq Ft		New Supply - Sq Ft		U/C & Proposed - Sq Ft		Avg Rent
Class	Bldgs	Total Inventory Sq Ft	Sq Ft	Rate	Sq Ft	Rate	Sq Ft	Q1-09	Q1-08	Current Period	YTD	Current Period	YTD	Under Const	Proposed	Rate
DOWNTOWN (CENTRAL BUSINESS DISTRICT)																
A	29	9,546,577	1,158,627	12.1%	123,793	1.3%	1,282,420	13.4%	12.3%	(59,501)	(59,501)	-	-	1,030,000	1,028,488	$30.40
B	114	8,782,855	1,360,431	15.5%	32,892	0.4%	1,393,323	15.9%	15.3%	(69,740)	(69,740)	-	-	-	-	$21.48
C	74	1,642,325	236,350	14.4%	8,435	0.5%	244,785	14.9%	15.5%	(31,709)	(31,709)	-	-	-	-	$17.48
Total	**217**	**19,971,757**	**2,755,408**	**13.8%**	**165,120**	**0.8%**	**2,920,528**	**14.6%**	**13.8%**	**(160,950)**	**(160,950)**	**-**	**-**	**1,030,000**	**1,028,488**	**$26.18**
SUBURBAN																
CENTRAL EAST VALLEY																
A	49	8,068,292	1,892,063	23.5%	177,276	2.2%	2,069,339	25.6%	14.3%	(107,839)	(107,839)	-	-	484,264	270,000	$30.42
B	245	9,956,122	1,509,564	15.2%	129,702	1.3%	1,639,266	16.5%	14.9%	(105,825)	(105,825)	-	-	-	85,346	$21.67
C	109	2,255,421	336,047	14.9%	0	14.9%	336,047	14.9%	12.4%	(58,981)	(58,981)	-	-	-	-	$19.01
Total	**403**	**20,279,835**	**3,737,674**	**18.4%**	**306,978**	**1.5%**	**4,044,652**	**19.9%**	**14.4%**	**(272,645)**	**(272,645)**	**-**	**-**	**484,264**	**355,346**	**$26.42**
NORTHWEST VALLEY																
A	42	5,814,106	631,655	10.9%	111,711	1.9%	743,366	12.8%	12.6%	(2,419)	(2,419)	-	-	-	360,000	$23.74
B	310	12,591,813	2,781,938	22.1%	113,621	0.9%	2,895,559	23.0%	21.2%	107,646	107,646	76,921	76,921	40,000	1,664,342	$22.77
C	98	1,910,257	205,278	10.7%	4,760	0.2%	210,038	11.0%	12.9%	(14,752)	(14,752)	-	-	-	-	$16.61
Total	**450**	**20,316,176**	**3,618,871**	**17.8%**	**230,092**	**1.1%**	**3,848,963**	**18.9%**	**17.7%**	**90,475**	**90,475**	**76,921**	**76,921**	**40,000**	**2,024,342**	**$22.54**
NORTHEAST VALLEY																
A	95	11,270,971	3,008,188	26.7%	515,478	4.6%	3,523,666	31.3%	25.4%	(76,285)	(76,285)	332,151	332,151	587,502	805,469	$26.94
B	509	15,622,674	2,705,122	17.3%	181,691	1.2%	2,886,813	18.5%	14.5%	(64,697)	(64,697)	61,682	61,682	-	1,309,711	$25.51
C	106	1,929,741	227,316	11.8%	7,648	0.4%	234,964	12.2%	13.4%	12,832	12,832	-	-	-	-	$21.36
Total	**710**	**28,823,386**	**5,940,626**	**20.6%**	**704,817**	**2.4%**	**6,645,443**	**23.1%**	**18.6%**	**(128,150)**	**(128,150)**	**393,833**	**393,833**	**587,502**	**2,115,180**	**$25.93**
SOUTHEAST VALLEY																
A	38	4,717,290	1,230,093	26.1%	23,490	0.5%	1,253,583	26.6%	20.5%	(11,887)	(11,887)	160,975	160,975	360,885	1,984,935	$27.68
B	475	14,913,858	3,151,356	21.1%	283,420	1.9%	3,434,776	23.0%	15.2%	(107,082)	(107,082)	98,614	98,614	295,600	4,181,725	$22.97
C	118	2,118,284	252,383	11.9%	2,075	0.1%	254,458	12.0%	10.3%	9,661	9,661	-	-	-	-	$16.10
Total	**631**	**21,749,432**	**4,633,832**	**21.3%**	**308,985**	**1.4%**	**4,942,817**	**22.7%**	**15.9%**	**(109,308)**	**(109,308)**	**259,589**	**259,589**	**656,485**	**6,166,660**	**$23.80**
SOUTHWEST VALLEY																
A	21	2,788,913	791,665	28.4%	26,657	1.0%	818,322	29.3%	29.2%	67,418	67,418	-	-	-	400,000	$26.22
B	198	10,057,303	1,585,491	15.8%	46,158	0.5%	1,631,649	16.2%	13.4%	25,821	25,821	64,965	64,965	-	1,335,572	$20.37
C	89	1,988,738	167,909	8.4%	0	0.0%	167,909	8.4%	10.0%	(10,381)	(10,381)	-	-	-	-	$15.66
Total	**308**	**14,834,954**	**2,545,065**	**17.2%**	**72,815**	**0.5%**	**2,617,880**	**17.6%**	**16.2%**	**82,858**	**82,858**	**64,965**	**64,965**	**-**	**1,735,572**	**$21.51**
GRAND TOTALS																
A	274	42,206,149	8,712,291	20.6%	978,405	2.3%	9,690,696	23.0%	18.1%	(190,513)	(190,513)	493,126	493,126	2,462,651	4,848,892	$28.17
B	1,851	71,924,625	13,093,902	18.2%	787,484	1.1%	13,881,386	19.3%	15.8%	(213,877)	(213,877)	302,182	302,182	335,600	8,576,696	$22.81
C	594	11,844,766	1,425,283	12.0%	22,918	0.2%	1,448,201	12.2%	12.3%	(93,330)	(93,330)	0	0	0	-	$17.77
Total	**2,719**	**125,975,540**	**23,231,476**	**18.4%**	**1,788,807**	**1.4%**	**25,020,283**	**19.9%**	**16.2%**	**(497,720)**	**(497,720)**	**795,308**	**795,308**	**2,798,251**	**13,425,588**	**$24.72**
QUARTERLY COMPARISON AND TOTALS																
2009 1Q	2,719	125,975,540	23,231,476	18.4%	1,788,807	1.4%	25,020,283	19.9%	16.2%	(497,720)	(497,720)	795,308	795,308	2,798,251	13,425,588	$24.72
2008 4Q	2,676	124,846,352	22,206,018	17.8%	1,631,024	1.3%	23,837,042	19.1%	14.1%	(1,058,681)	(678,762)	1,216,581	6,329,271	3,600,752	14,064,314	$25.54
2008 3Q	2,646	123,836,054	20,095,657	16.2%	1,595,980	1.3%	21,691,637	17.5%	13.4%	(212,475)	30,184	1,667,084	5,001,707	5,904,389	13,070,440	$25.85
2008 2Q	2,597	122,377,817	18,636,785	15.2%	1,495,773	1.2%	20,132,558	16.5%	12.6%	(155,628)	242,659	822,046	3,334,623	6,468,661	13,242,488	$26.33
2008 1Q	2,585	121,611,771	17,715,111	14.6%	1,475,932	1.2%	19,191,043	15.8%	12.2%	398,287	398,287	2,512,577	2,512,577	5,735,549	13,284,485	$26.25

lowest vacancy rates at 14.6%, up from 13.8% last quarter. The City of Phoenix's massive infrastructure investment in Downtown Phoenix has created a dynamic environment in spite of the sluggish economy. Signature projects such as the Phoenix Convention Center expansion, a new light rail system, Arizona State University Downtown Campus and other development projects, have positioned the downtown core well. Two office high rises under construction, One Central Park East and Wachovia Tower (a part of the Cityscape multi-use development), will bring over one million square feet of Class A office space to the market.

PHOENIX OFFICE MARKET SUMMARY, ≥10,000 SQ FT, Q109 SALES TRANSACTIONS	
Number of transactions:	23
Total Dollar Volume:	$87.2M
Total Building SF:	814,011
Average Price per SF:	$126.51
Cap Rate:	7.5%

Rental rates have fallen to $24.72 per square foot (psf), down from $25.54 psf at year-end 2008. Downward pressure on rents is expected to remain strong for all of 2009 as high vacancies and lease incentives continue to drive the market.

Notable office leases during the first quarter include First American Title Insurance Company's contract for 93,753 sf of Class A space in Scottsdale and the Bureau of Indian Affairs lease for 56,580 sf of Class B space at 2600 N. Central Avenue in Phoenix.

Phoenix office market activity during the first quarter continues to be slow and is down sharply from first quarter 2008. Total dollar volume was $87.2 million, down from last quarter's $102.3 million. The average price per square foot was down from last quarter to $126.51 per square foot (psf). The average cap rate settled at 7.5%. The largest office transaction of the quarter was for a 244,651 sf, Class B office tower at 111 W. Monroe Street, Phoenix, for $36.4 million. Price per square foot was calculated at $148.78.

IN THE MONTHS AHEAD:

With the Fed's talk of a market bottom in 2009, an injection of government infrastructure spending, the shoring up of the banking industry and lowering income taxes for most moderate wage earners, the expectations for the future economy has been raised. However, the fear of office property foreclosures and rising vacancies could hinder an immediate about-face in the office market. The solid fundamentals of the local economy will return along with a sense that, like the mythical bird from which the city takes its name, the office market will rise once again.

COLLIERS INTERNATIONAL

293 OFFICES IN 61 COUNTRIES ON 6 CONTINENTS

USA	99
Canada	19
Latin America	18
Asia Pacific	62
Europe, Middle East and Africa	95

$2	billion in revenue
$73	billion in transaction value
868	million square feet of property under management
4,525	active agents/brokers
11,000	professionals

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