



2010 FORECAST REPORT

**Cassidy
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Commercial

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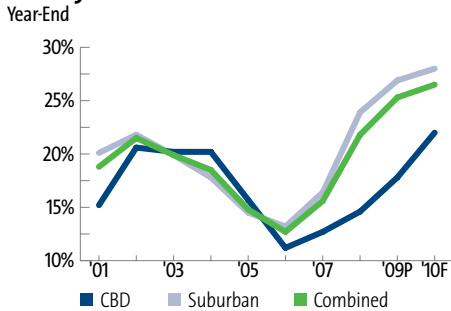
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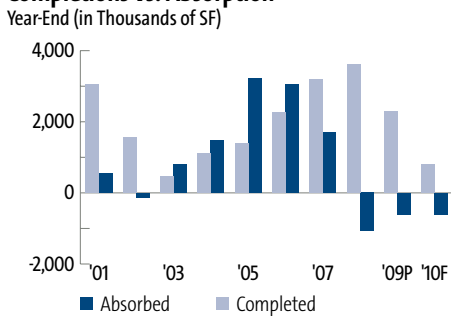
Phoenix Office

Vacancy Rate



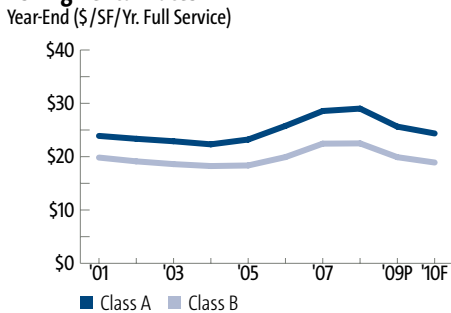
Source: Cassidy Turley BRE Commercial

Completions vs. Absorption



Source: Cassidy Turley BRE Commercial

Asking Rental Rates



Source: Cassidy Turley BRE Commercial

Vacancy rates will increase, albeit at a slower rate than 2009. Expect rental rates to decline as new ownership groups undercut already low rental rates.

The construction boom of this cycle began in 2005 and since then almost 12 million square feet has been delivered. By the end of 2010 the total will be over 13.5 million square feet. Since 2006, the vacancy rate has more than doubled. With so much vacant space available, it is likely the market will experience a long cessation of construction activity similar to the period following the late 1980s construction boom. Vacancy rates are expected to rise throughout 2010, as the remaining projects under construction are scheduled to be completed, and a weak recovery with projections for limited job growth are expected.

The financial crisis which began in late 2007 is showing signs of easing. The housing market has hit bottom in many markets and prices are starting to increase. The stock market has rallied from the March low's to positive territory year-to-date. The uncertainty that gripped the market in 2009 is easing and businesses should start to take advantage of attractive lease opportunities.

Owners facing intense competition for tenants are focusing on renewing existing tenants early and signing new deals at aggressive rents. Downward pressure on rental rates will continue as

distressed properties begin to trade. The reduced investment basis of these properties will allow deep leasing discounts and concessions. Distressed properties in many cases will have large amounts of versatile space, new tenant improvements and the capacity to undercut already low market rates.

Office landlords face a realization of declining property values, rental rate reductions and negative net absorption. These factors made it critical to retaining tenants and marked 2009 as the year of renewals. Class A space is expected to fare better in 2010 as rental rates drop and tenants seek discounted high-end space. The Central Business District is expected to fare better than the suburban markets, with some stabilization of rental rates, due mainly to the oversupply of vacant office space in the suburban office market.

Despite the actions of the federal government, the job forecast remains weak through the first half of 2010; however, the second half of the year may see some strengthening. While job growth is not expected until late 2010, a few specialty industries, including healthcare, technology, and sustainable energy, have shown signs of recovery.

Key Leasing Transactions

2009

Lessee	Lessor	Property	Submarket	Size (SF)
First Solar Inc.	Chesnut Properties *	350 W Washington St.	Tempe	77,378
General Services Administration Public Buildings Service	ARI CentralLP/ Danari Central LLC *	2600 N Central Ave.	Downtown North	58,554
Carlson Wagonlit Travel Inc.	3200 N Central Ave LLC *	3200 N Central Ave. ^R	Downtown North	33,204
IAA College	Pecos-Windmill N.W. LLC	1140 S Priest Dr.	Airport Area	31,389
Concord Servicing Corp.	Anderson Highland- Wolff Highland Park *	4725 N Scottsdale Rd. ^R	Scottsdale South	26,956

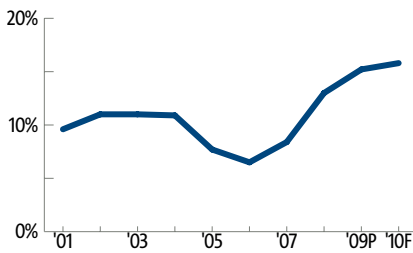
(R) = Renewal (S) = Sublease * Indicates Transaction Represented by Cassidy Turley BRE Commercial

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Phoenix Industrial

Vacancy Rate

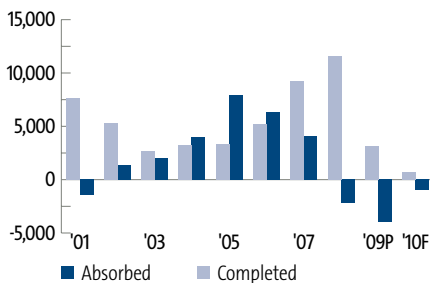
All Product Types, Year-End



Source: Cassidy Turley BRE Commercial

Completions vs. Absorption

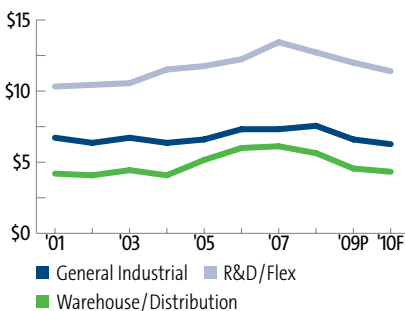
Year-End (in Thousands of SF)



Source: Cassidy Turley BRE Commercial

Asking Rental Rates

Year-End (\$/SF/Yr. Triple Net)



Source: Cassidy Turley BRE Commercial

The Phoenix industrial market will encounter record-breaking vacancy rates in 2010, nearing 15 percent, as 2009 had the greatest decline in occupied space in market history.

Thirty million square feet—that is the amount of new industrial space that has been added to the Phoenix market since 2006. In 2009, there was approximately 1.5 million square feet delivered. There will be another 2.2 million square feet delivered in 2010, representing the end of new construction in Phoenix for the next two to three years. Even with the end of the construction, the excess supply could take up to five years to be filled based on historical net absorption figures.

With a rise in vacancy rates and a drop in rental rates, landlords were faced with new objectives in 2009. Their focus shifted from filling vacant space to working with tenants to renew existing leases, ensuring that tenants would remain in their facilities for the next two to five years. The goal was to avoid incremental vacancies, knowing that once empty, a space would most likely remain so for 18 to 24 months due to the lack of new tenants in the market. Tenant improvements, credits, cash and even reduced-coupon lease rates became routine parts of lease negotiations. Some tenants took advantage of market conditions and upgraded from Class B to Class A facilities, still bettering their financial conditions.

Industrial owners faced the realization of declining property values in 2009. Properties were repriced based on current

market conditions. With the new prices in hand, distressed owners reached out to the investment community trying to convince them of the perceived value of purchasing buildings in order to avoid foreclosures. In 2010, there will be an increase in foreclosures as lenders start to take back commercial assets.

The end of 2009 showed some signs of life as the volume of tenant leases signed in the fourth quarter was greater than Phoenix experienced in all of 2008. The oversupply of industrial properties will continue to push rental rates down. Realizing the significant cost savings of locking into lower lease rates or purchasing repriced properties, several corporate users should make commitments in 2010. While overall job growth is not expected until the end of 2010, a few specialty industries, including design/specialty, sustainable energy, aerospace and technology/specialty logistics companies have shown signs of recovery. The infill submarkets should start to recover quicker – with some stabilization of rental rates – due mainly to the oversupply of vacant industrial space in the suburban submarkets.

Key Leasing Transactions

2009

Lessee	Lessor	Property	Submarket	Size (SF)
Peyton's Phoenix	MIRef Riverside LLC *	4302 W Buckeye Rd. ^R	Southwest	151,305
Ashley Furniture	Banner West Corp. *	3555 W Washington St. ^R	West Central	116,470
US Greenfiber LLC	RPH Industrial LLC	601 S 55th Ave.	Southwest	100,000
PCT International Inc.	Prop/RREEF *	2260 W Broadway Rd.	West Mesa	97,554
Reylon	DCT *	1402 S 40th Ave. ^R	West Central	71,903

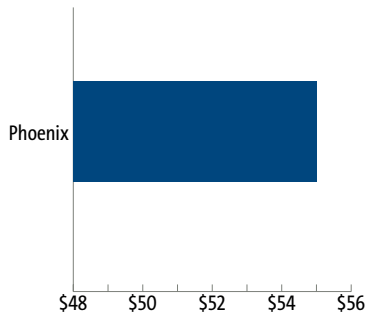
(R) = Renewal (S) = Sublease * Indicates Transaction Represented by Cassidy Turley BRE Commercial

Source: Cassidy Turley BRE Commercial

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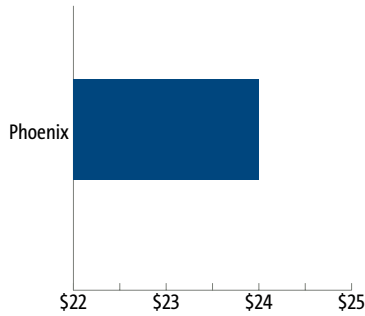
Phoenix Retail

Median Household Income 2009 (in Thousands)



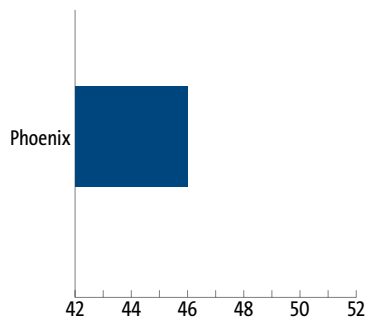
Source: Claritas

Typical Rent In-line Shop Space, 2009 (\$/SF/Mo. Triple Net)



Source: Cassidy Turley BRE Commercial

Retail Square Feet Per Capita 2009



Source: Cassidy Turley BRE Commercial

Tenants Expanding or Downsizing 2009

Expanding/New to Market	Downsizing
Fresh & Easy	Bashas'
Fry's	Hollywood Video
Goodwill	Bally's
Dollar Tree	Blockbuster
LA Fitness	Starbucks

Source: Cassidy Turley BRE Commercial

Most national retailers have put Arizona expansion plans on indefinite hold as they wait until the economic forecast for the area improves.

Four straight quarters of negative absorption brought Phoenix retail market expansion plans to a halt. During 2009, the market lost more than 1 million square feet of retail tenants. Expectations are for more closures during the first quarter of 2010 as retailers who hung on through the holiday season shut their doors. The economic downturn had a major impact on retailers as Metro Phoenix struggled with an unemployment rate over 8 percent and a continued decline in consumer spending.

Retail construction that exceeded 8 million square feet in 2007 will be nearly nonexistent in 2010, with less than 500,000 square feet of space expected to be under construction. The end of new construction will not be enough to stop retail vacancy from reaching new record levels. At the end of 2009, retail vacancy exceeded 11 percent and should continue to grow through the first half of 2010. By late 2010, the economy should start to see some positive shifts as experts predict job growth during the third and fourth quarters. While some positive shifts in the economy are expected, vacancies will continue to climb with expectations of reaching 12 percent. The closure of big-box retailers had a major impact on vacancy. Nearly 200 big-box retailers, including Circuit City, Linens 'n Things, Mervyn's and Arizona-based Bashas'/ AJ's Fine Food/ Food City, account for over 5 million square feet of the current vacant space.

Landlords will face more challenges as they experience a reduced demand for space, a slowdown or decline in rents and growing demands from tenants

for rental concessions and shorter lease terms. In exchange for temporary rental concessions some owners will secure extended lease terms. There has been some limited activity by price-conscious retailers, such as Goodwill, Savers, Dollar Tree and Big Lots, who are seeing business grow in the current economy.

Asking rental rates have fallen more than \$6 per square foot triple net since 2006. The direct average rental rates are expected to fall below \$17 per square foot triple net in 2010. Landlords will focus on tenant retention and work with lease restructuring requests.

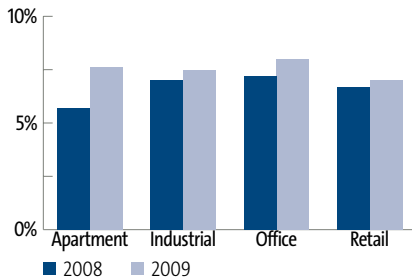
Population growth in Metro Phoenix has consistently been strong, creating a foundation for future development in the market. Projections for population growth in 2010 are 1.8 percent. The housing market continues to correct itself as excess inventories of resale homes are being steadily reduced and are reaching normal market conditions. Additionally, housing permits are slowly picking up, mortgage rates are at historic lows and home prices have fallen to levels that are attracting buyers back into the market. The core housing areas of Phoenix Metro have strengthened, unlike the fringes of the Valley region, which remain weak.

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Phoenix Investment

Average Capitalization Rates

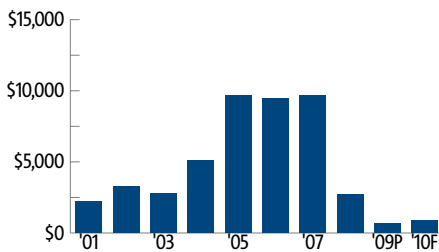
Closed Sales



Source: Real Capital Analytics, Cassidy Turley BRE Commercial

Property Sales Volume

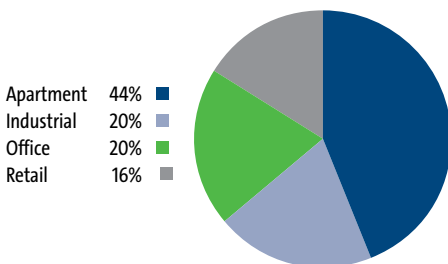
(in Millions)



Source: Real Capital Analytics, Cassidy Turley BRE Commercial

Sales by Property Type

2009



Source: Real Capital Analytics

Key Investment Transactions

2009

Buyer	Seller	Property Type	Property Name	Size (SF)	Sale Price (Millions)
Investment Property Assoc.	TIAA-CREF	Multifamily	San Melia Apartments	493,824	\$47.8
ConAm Management	iStar Financial	Multifamily	La Privada at Scottsdale Ranch	417,843	\$32.0
Pacifica Real Estate	A & B Property	Industrial	Southbank II Phase 2	120,800	\$20.1
Pacifica Real Estate	Principle Financial	Office	Union Hills Office Plaza	142,773	\$18.7
Ace Property Management	Macerich	Retail	Wal-Mart Center	171,323	\$18.1

Source: CoStar

Capitalization rates increase as financing has become scarce. As distressed assets begin to trade, expect prices to bottom out in the second half 2010.

Throughout 2009, the real estate capital markets experienced severe turmoil with lenders and owners struggling to survive through the economic downturn. The debt markets have been exceptionally challenging for buyers pursuing financing for acquisitions. Loan qualification standards are tough, characterized by lower loan-to-value ratios, strict underwriting and strong creditworthiness of both the asset and investor. The total of all investment transactions for 2009 was in line with the previous year. Sales are expected to increase 20 to 25 percent in 2010 as distressed assets begin to trade. The bulk of the sales transactions in 2010 will consist of distressed assets, where owners or lenders are highly motivated to sell.

Since the beginning of the recession, rental rates have declined and vacancy rates have increased – closing in on record-high vacancies that have not been seen since the early 1990s. The construction boom of this cycle began earlier this decade and is winding down, as new ground breakings are down considerably from the peak of the market. The market likely will experience a long cessation of construction activity similar to the period following the late 1980s. With lower effective rental rates, rising vacancy and an abundance of space available, there will be value reductions on closed sales in 2010. Analyzing

valuations and capitalization rates has presented a challenge for buyers and sellers due to limited activity. However, in some cases, particularly with distressed sales, prices could decrease as much as 50 to 70 percent in value.

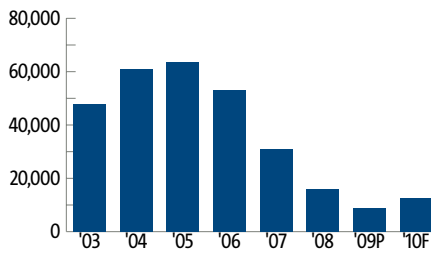
Asset prices are expected to bottom in the second half of 2010 as distressed properties begin to trade. Many assets are not expected to trade, as banks will be reluctant to take over properties. With a lack of financing available, most transactions will be mostly cash or all-cash deals. This will also contribute to upward pressure on capitalization rates.

Phoenix is currently viewed as one of the most distressed markets in the nation. The reality of rapid negative changes also holds true for recovery. Historically, the Metro Phoenix economy has rebounded much faster than the national economy. In previous cycles for office and industrial product, negative absorption years were extremely rare. As prices fall, Metro Phoenix will be one of the cheapest markets in the nation, giving investors and users an opportunity to purchase quality assets at heavily discounted prices.

Phoenix Land

Annual Housing Permits

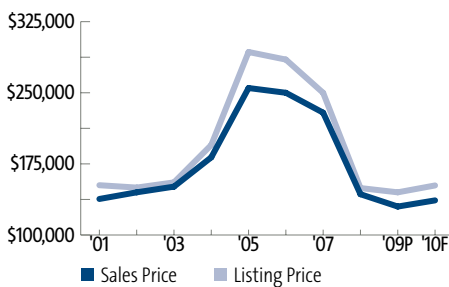
Metro/Phoenix Submarket



Source: The Arizona Republic

Median Sales Price vs. Median List Price

Metro/Phoenix Submarket



Source: The Information Market per the Cromfort Report

Housing has hit bottom, as supply currently on the market is reaching normal levels. Resale home sales and prices are slowly rising as the recovery approaches.

The primary land transactions in 2009 were distressed transactions and finished lots for detached single-family homes, purchased at significant discounts by investors and homebuilders. Many homebuilders and investors have reentered the market, taking advantage of low lot prices. Most indicators show that the housing market has hit bottom and has begun a slow recovery.

The key to the recovery in the land market is the continuing acknowledgment by owners, lenders and the FDIC that land values are substantially lower than they were at the height of the housing bubble. The \$8,000 first-time homebuyer tax credit has helped reduce inventories and stabilize prices for entry-level homes.

The median listing and sales prices for homes have started to stabilize, but foreclosures and distressed assets are still a problem, adding to the excess supply and keeping downward pressure on home prices.

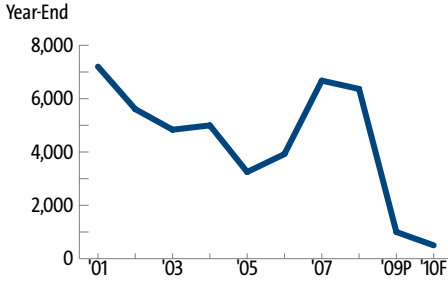
The housing market led the country into the recession and now that it has bottomed, housing is expected to lead the country to an economic recovery. With improvement in the housing market, the land market is also showing signs of improving. Excess inventories of resale homes are being steadily reduced and are reaching normal market levels,

housing permits are slowly picking up, mortgage rates are at historic lows and home prices have fallen to levels that are attracting buyers back into the market. The core areas of Phoenix Metro have strengthened, but the fringes of the valley are still weak. Activity in the residential land market is expected to increase in 2010 as investors and homebuilders are purchasing finished lots and once again shopping for raw land.

As 2010 unfolds and modest improvement in the overall national economy occurs, we expect the velocity of commercial land transactions in Arizona to show a commensurate increase. The last 24 months have seen deterioration of leasing and absorption for commercial space, meaning very little activity on commercial land sites. As banks have taken properties back from owners who bought primarily between 2005 and 2007, we have seen significant depreciation in values for these properties. Given anticipated economic improvement in 2010 and a return to positive absorption, anticipate looking back to see a floor in pricing for commercial land in the second half of 2009 and the first half of 2010. Modest improvement will return by the second half of 2010, and "typical" Arizona land speculation should resume in 2011 and beyond.

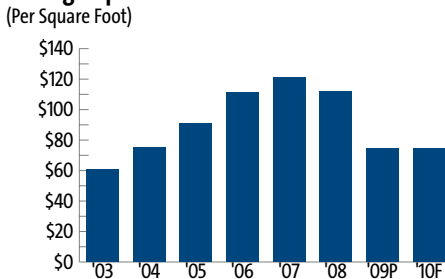
Phoenix Multi Housing

Historical Construction



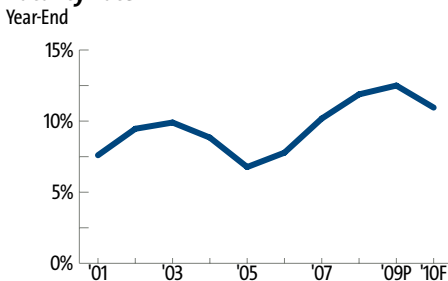
Source: Arizona State University

Average Apartment Prices



Source: CoStar

Vacancy Rate



Source: RealData, Inc.

Expectations of job growth in the second half of 2010 will help apartment vacancies start to move downward.

At the end of 2009, the overall apartment vacancy was above 12 percent, double where it was just four years ago. It appears that 2009 was the bottom of the market, as vacancy rates look to drop slightly in 2010 to 11 percent. Metro Phoenix will not see substantial drops in vacancy rates until there is a shift from job loss to job growth. The Black Canyon and West Central Phoenix submarkets had the highest vacancy rates in 2009, both exceeding 20 percent, while the Central City/Sky Harbor, Tempe, North Scottsdale and Ahwatukee Foothills submarkets were the strongest with vacancy rates under 10 percent.

There was an upswing in transaction volume from 2008 to 2009. In 2009, there were approximately 30 transactions, compared to 17 in 2008. The increase in sales may be attributed to the drop in the overall prices, which fell 30 to 50 percent from 2008. The decline in average sales price per square foot should continue in 2010 as the average price per square foot should fall another 10 to 20 percent. Owners saw property values drop in 2009, with properties that were purchased or refinanced between 2004 and 2007 realizing the biggest drop in value. The predicament for these owners was that their properties were valued well below what most paid for them and less than the current debt they owed. Depending on the lender, some have

been willing to work with debtors while others continue to move forward with the foreclosure process. The increase in the number of foreclosed properties should result in more sales in 2010.

With tight capital markets and lending nearly nonexistent, private-equity buyers are at the front of the line to purchase the foreclosed and distressed properties.

Absorption of apartments in Metro Phoenix was the one area that posted positive numbers for all of 2009. This may be in part to owners willing to give additional concessions to renters as they worked to compete against the rental housing market. A drop in average rental rates has driven an increase in the number of renters. Owners have traded higher rents for the ability to fill more units.

The continued drop in construction permits for apartments will ease the gap between supply and demand for units in 2010. In 2009, there were only 1,000 permits issued and that number should be cut in half in 2010 as less than 500 permits are expected to be issued.

Select Multi Housing Sales Transactions

2009

Property Name	Type	Submarket	Price (millions)	# Units
San Melia	Garden	Ahwatukee Foothills	\$47.8	488
La Privada at Scottsdale Ranch	Garden	North Scottsdale/Fountain Hills	\$32.0	350
Indigo Palms	Garden	East Central Phoenix	\$30.0	432
San Tropez	Garden	South Scottsdale	\$29.0	316
Sage Stone at Arrowhead	Garden	Deer Valley/N Peoria	\$23.2	308

Source: CoStar, RealData, Inc.

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