Contact: Robin Vitols (602) 810-4120 or robinvitols@me.com

CLASS A OFFICE PROJECTS IN HIGH DEMAND AS PHOENIX OFFICE MARKET LEASING OUTPACES LAST YEAR

PHOENIX, AZ (August 4, 2015) – Leasing activity is up 31.3 percent year over year in Metro Phoenix and large blocks of Class A office space are nearly sold out, according to Cushman & Wakefield of Arizona,

http://flyers.cushmanwakefield.com/flyers/Phoenix_Americas_MarketBeat_Office_Q22015.pdf

"Demand for office space in Phoenix has returned and the East Valley continues to be the beneficiary," says Jerry Noble, Market Leader of Cushman & Wakefield of Arizona, Inc. "Newer properties within amenity-rich submarkets are most appealing to companies new to the Phoenix marketplace. The North Tempe and Old Town Scottsdale markets are leading in terms of demand, but are out of office space. Tenants now are considering many Loop 101 and South Loop 202 alternatives."

Valley wide, healthy leasing activity will lead to great absorption the second half of the year. North Phoenix led the market in direct net absorption for second quarter with 153,576 square feet. That market signed some new deals during the quarter, including Travellers Indemnity for approximately 31,000 square feet at Desert Ridge and Navitus for approximately 22,000 square feet at City North. The 44thStreet/East Phoenix submarket also had impressive direct net absorption with 107,149 square feet. "The 44thStreet/East Valley market is benefitting from an abundance of overflow demand for Tempe and East Valley submarkets," says Noble. "Tenants requiring sizable suites are beginning to experience diminished choice in those markets and the adjacent area of 44th St/East Phoenix is an appealing alternative."

Approximately 3,970,787 square feet of new office space is under construction throughout the Valley. This figure includes the massive Marina Heights property being built for State Farm. "Hayden Ferry III and Scottsdale Quarter are underway and we anticipate they will be fully committed to tenants prior to completion."

As was the case in 1Q 2015, all of the new construction is located in Scottsdale, the

Southeast Valley and Tempe. Year-to-date, approximately 770,196 square feet of new office space has been completed. “We are fortunate that demand for space is meeting the pace of construction, so these new deliveries have not adversely impacted our vacancy rates,” says Noble. “In the East Valley, the developers are leasing space as quickly as they can build it. “

Leasing activity once again was strong in the Southeast Valley. Infusionsoft signed a long-term lease for 100,622 SF at Allred Park Place Central, a Class A office building at 1450 S. Spectrum Blvd., in Chandler. At Mesa Financial Plaza, 1201 S. Alma School Rd., the Arizona Department of Child Safety signed a lease for 46,401 SF at the Class A tower.

“Demand for Class A space is definitely outpacing the desire for Classes B and C,” says Noble. “During second quarter, approximately 42 percent of our leasing took place in Class A properties.” Direct vacancy is currently is 16.0 percent n Class A buildings throughout the Valley, while Class B vacancy sits at 25.0 percent. Direct vacancy of all office product types was posted at 20.9 percent at mid-year, which is about the same as three months ago.

“The current and future trend of office leasing will focus on amenity-rich environments located in areas of strong labor pools. Southeast Valley communities certainly meet the needs of strong labor. Mill Avenue, Old Town Scottsdale, North Scottsdale, Downtown and Camelback Corridor all offer pedestrian-friendly environments with appealing retail, restaurants, housing, etc.”

The Midtown submarket experienced a unique surge in leasing during second quarter. Dignity Health and Banner Health both leased significant amounts of space in the area. In addition, the Arizona Department of Child Safety leased more than 100,000 square feet in the area. “These three entities leased more than 400,000 square feet in Midtown last quarter, providing a much-needed infusion of activity to the area. These leases will help to drop vacancy statistics by year-end, but we do not see this as an on-going trend in leasing for the area. Midtown’s abundance of Class B properties with limited parking creates a challenge for tenants.”

Rental rates in Metro Phoenix increased slightly in 2Q 2015 as again the demand and supply equation moves toward equilibrium. Direct average asking rental rates increased during second quarter 2015 from $21.32 per square foot per year to $21.54. “We are experiencing pricing power in our Class A product. Upward pressure on rates in the Class A sector is strong,” says Noble. “Top asking rents of $35-40 can be found in our stronger submarkets. We expect Class B properties to see lift in rental rates due to the overall market improvement.”

“Clearly our summers are challenging in terms of leasing activity,” says Noble. “As kids

get back to school the market will pick back up. We expect a strong end of the year run, making this one of our stronger years in this recovery."

About Cushman & Wakefield

Cushman & Wakefield advises and represents clients on all aspects of property occupancy and investment. Founded in 1917, it has 259 offices in 60 countries, employing more than 16,000 professionals. It offers a complete range of services to its occupier and investor clients for all property types, including leasing, sales and acquisitions, equity, debt and structured finance, corporate finance and investment banking, appraisal, consulting, corporate services, and property, facilities, project and risk management. To learn more, click HERE.

###