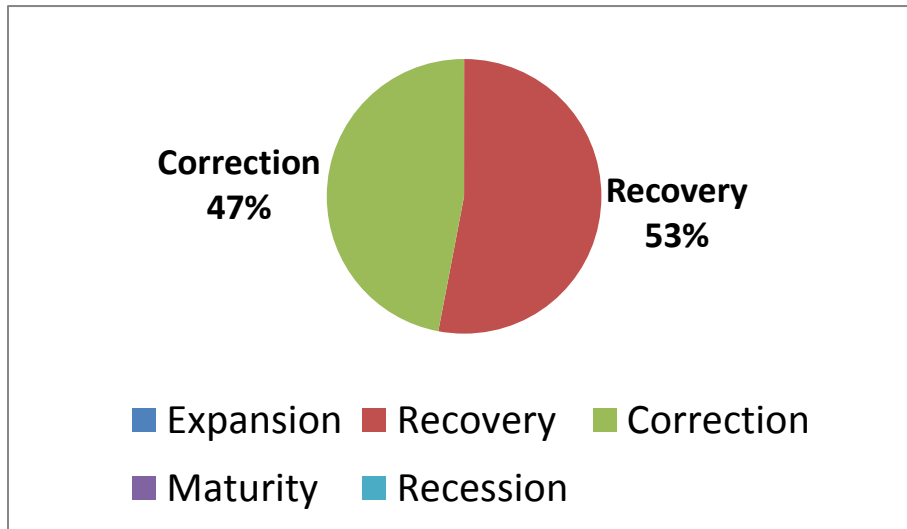


ASU Commercial Brokers Survey
2nd Quarter 2014
March 18, 2014

Most data we read about is backward looking – it reflects things that happened months ago and it does not tell us what is likely to happen. That data is symptomatic of the market dynamics. The brokers are closest to the market; they see and hear about market activity. Capturing this forward looking perspective is the purpose of this survey. A market is not numbers, it is the combined behavior of thousands of people responding to information, misinformation and whim – it is the brokers who see and hear this behavior.

Where are we in the Cycle?

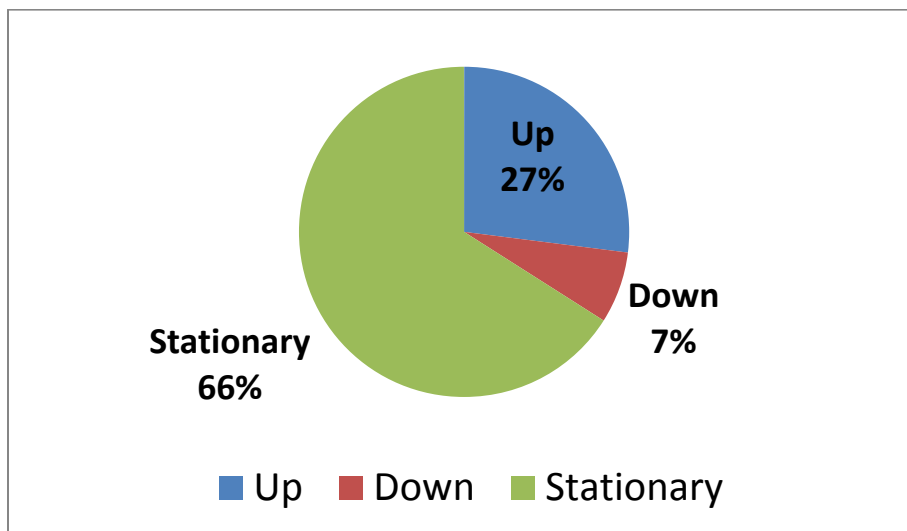
There was a significant change in the panel's opinion of where we are in the cycle. Previously there was consensus that this market was in recovery. However, given current market conditions the panel was fairly evenly split between recovery and correction indicating uncertainty and concern.



- We're not necessarily in a great growth mode, but we have not taken a bunch of steps backward and fallen.
- Population growth and wage growth are the two things that we really need to drive this economy along. Job growth without significant wage growth doesn't help much at all; it doesn't help people buy houses.

In what direction is the Metro Phoenix Market moving?

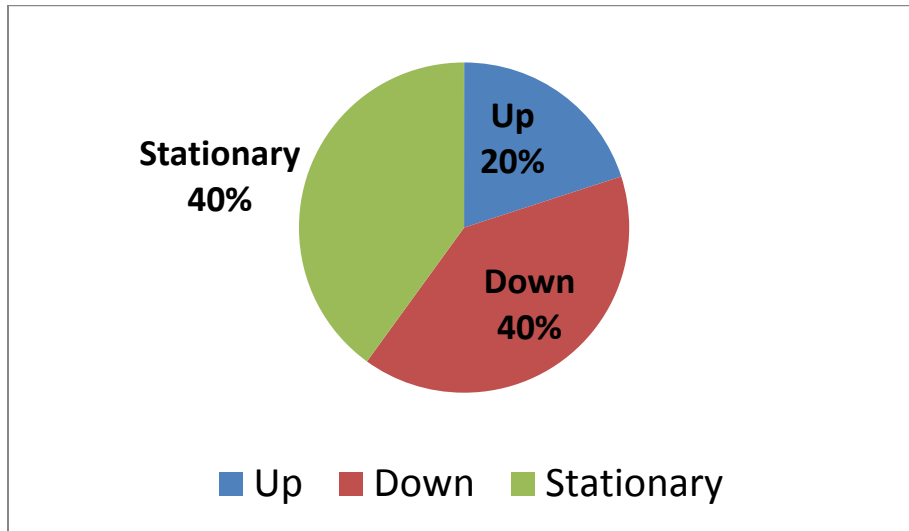
The panel shifted from strongly believing the market was on an upward trend to a majority believing we are stationary.



- There's some bad news out there. I just don't think people are really talking about it all that much. I think maybe we are tired of the bad news.

Where are Apartment Vacancy Rates headed in the next three months?

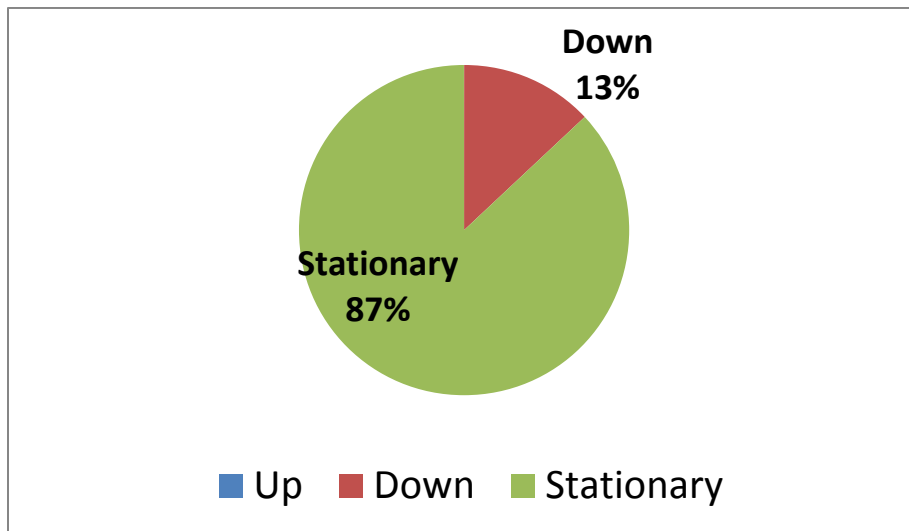
The panel opinion shifted to a feeling that vacancy rates are going down. This was a significant change from last quarter when only 10% thought they would go down.



- The population growth is starting to come back, but household growth is negligible. The population is growing, but they are sharing space.
- Particularly the millennials, they are tending far more than any other generation to rent, and when they rent, they bring all the roommates in as well.
- Vacancy rates are going to continue to go down, but pushing rents is going to be a challenge, except for the A's and the B pluses, but B minuses and Cs are really struggling because wage growth is not increasing, and cost of living is going up as well as inflation. It's really squeezing the lower demographic out of the rental pool.
- The first time home buyers have been shut out of the marketplace and are being relegated to rentals now.

Where are Apartment Rents headed in the next three months?

The majority of panel members believe that apartment rents will be stationary reflecting an increase in supply.

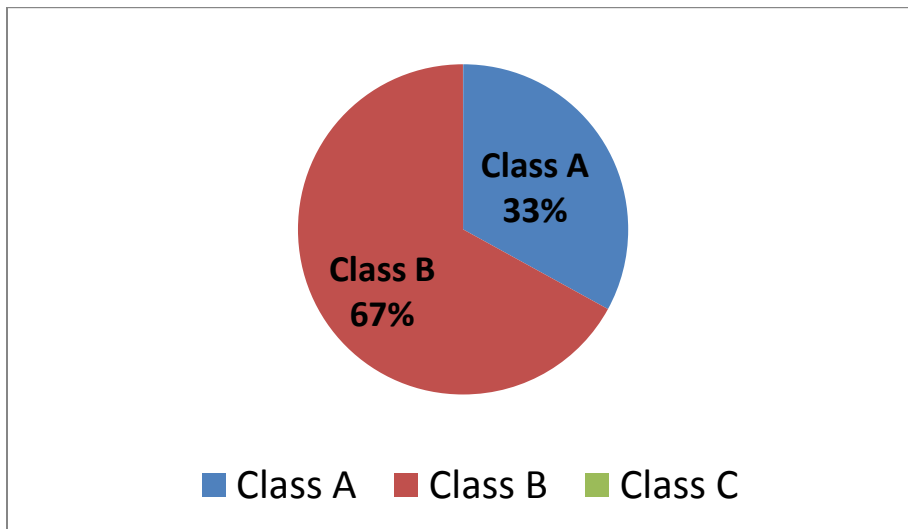


- The market went from 14.9 percent in the fourth quarter 2009 to where we are now at 7.25 percent. For rent growth to traditionally happen in this market, the rents need to be at five percent or lower, and we are still not there.

- With all the competition entering the marketplace, the A's will not be able to grow rents, the two bedrooms and the three bedrooms are going to lease up and command the rent, but the studios and ones are going to struggle.

Which Multifamily property class will realize the greatest rent growth in the next three months?

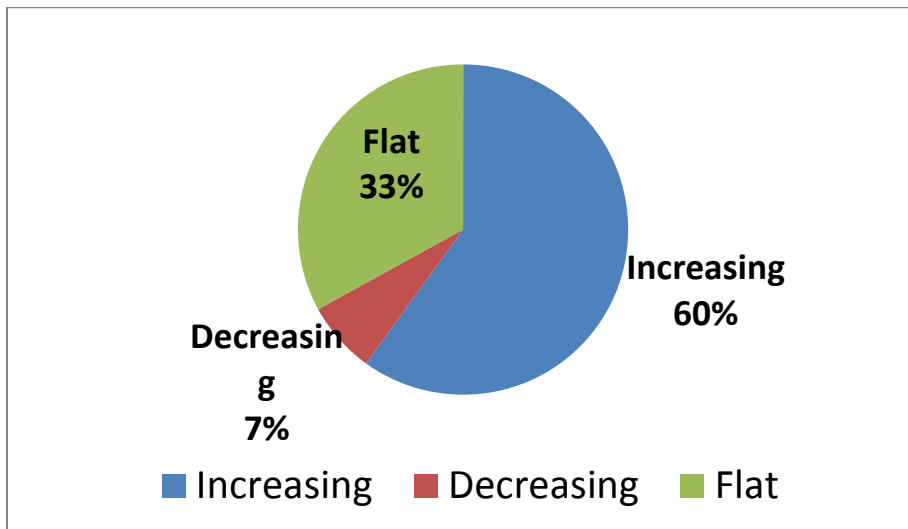
The majority of the panel believed that class B apartments will likely see the greatest increase in rents mostly due to the fact we have reached the elastic limit on rents at the class A level.



- Class A buildings always feed an insatiable appetite for investors. There's just a lot of very low cost to capital investors out there who want that coupon, but it is good for Class B projects for all the same reasons.

What is the level of interest for the Multifamily investor and lender?

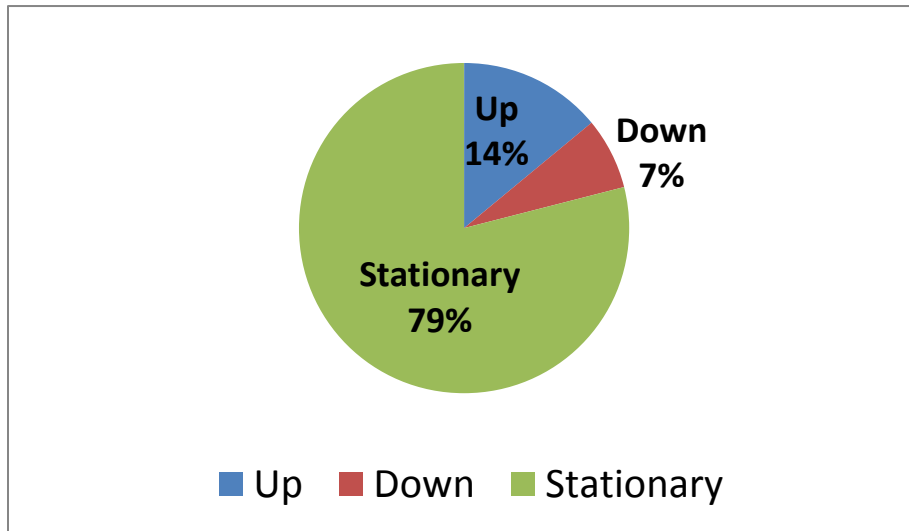
The panel had a significant shift in opinion with 33% believing that investor and lender interest in apartments will increase. This is a change from last quarter when no panel member thought there would be an increase in interest.



- It is huge, as the lenders I've been talking to for the last 60 days are all saying; their allocations are up by 25 percent this year for multi-family, so it'll be interesting to see.

Where are Big Box Industrial Vacancy Rates headed in the next three months?

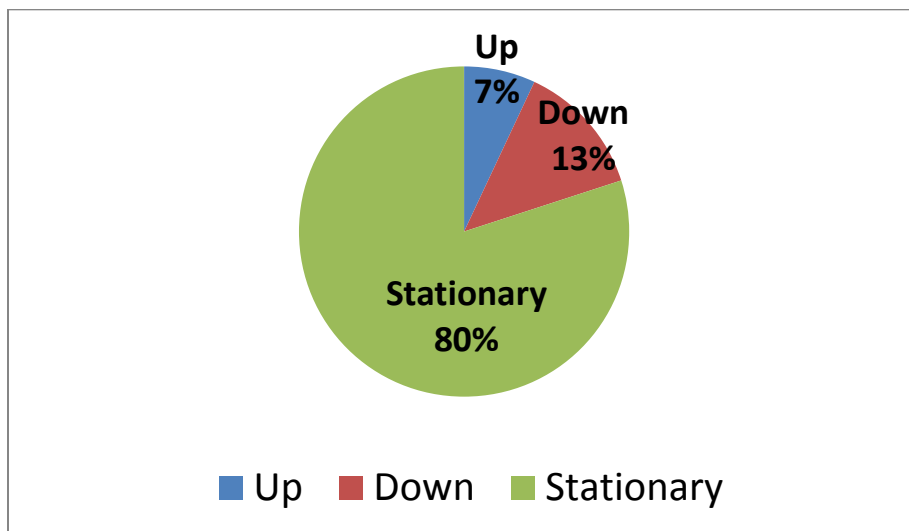
The vast majority of the panel believes vacancy will remain essentially unchanged. This is a change from last quarter when the panel was split between rates going up, down or remaining stationary. The biggest change is that fewer panel members believed the rates were going down.



- There is no new inventory coming online, there has not been any in the past 13 to 15 months.
- The activity has basically dried up in this sector, the big box and e-commerce distribution sector has been quiet since the beginning of 2013.
- The majority of the industrial vacancy is in distribution.
- There was a slew of activity back in 2008 and 2009, when there were seven, eight million square feet of big box, and we fell off a cliff. Then in 2010, 2011, and 2012, we absorbed every one of those buildings that had been built, with the exception of one.
- It was an anomaly in that you had all this vacancy that was absorbed, but it was in a very small number of deals.

Where are Big Box Industrial Rents headed in the next three months?

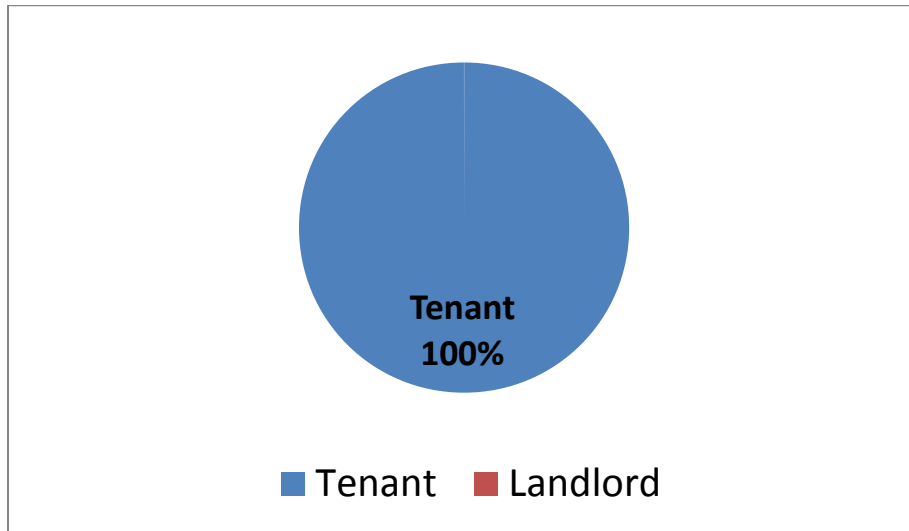
The opinion about rents remained essentially unchanged but with a very slight shift toward rents going up.



- They are going to stay flat, and/or some of these parties may get a little anxious and decide that they are going to get the next guy so they may come down a little on rates because they do not want to sit on a building any longer. It could get a little more competitive.

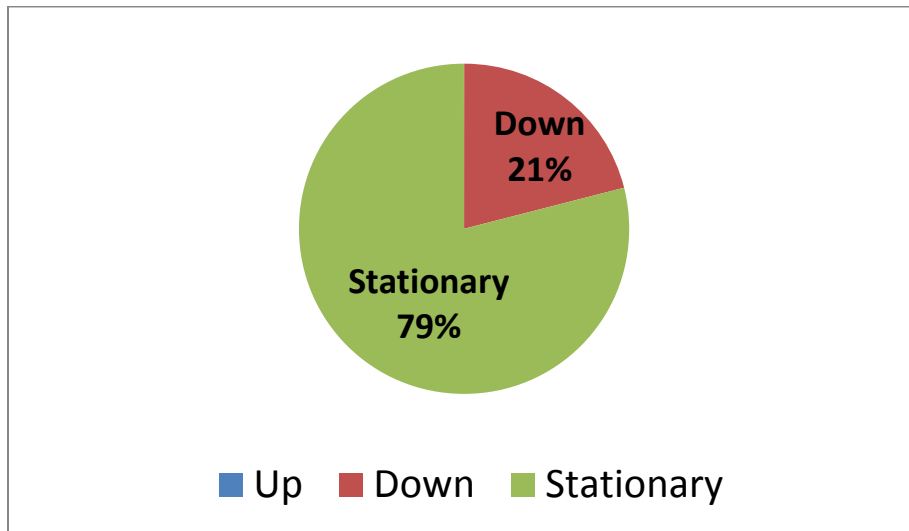
Is this a Tenant or Landlord Industrial market?

This remained unchanged with a consensus that it is still a tenant market.



Where are Office Vacancy Rates headed in the next three months?

The panel had a very significant shift in opinion about office rents with 79% believing vacancy rates remaining stationary.



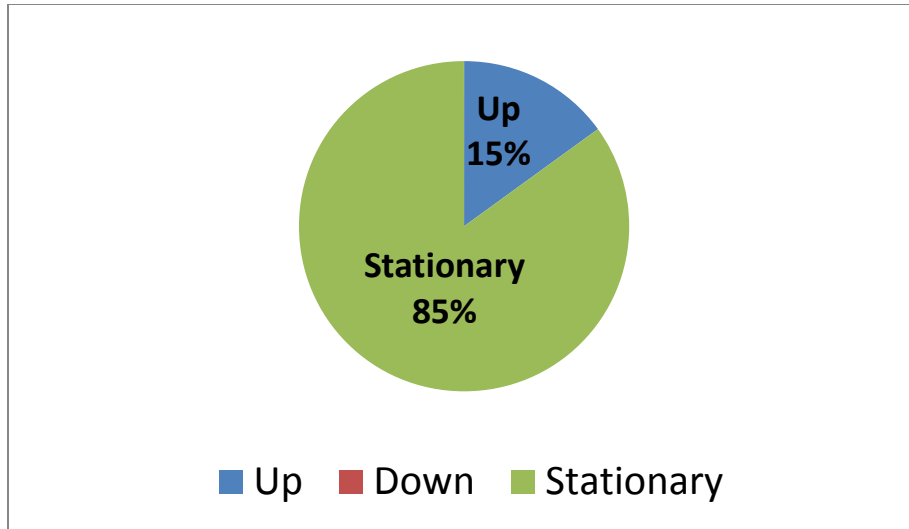
- There are some big deals out there that have been floating around for a while, but we have also lost momentum.
- There are a lot of big corporate users that are taking a really long time to get any deals done. There is no question that it is submarket driven.
- Downtown Tempe seems to be the hottest market right now.
- In a year, this will look different, the vacancy will be down. It may not be down five percent, but it'll be down two percent.
- Pure office space at 20,000 square feet and below cannot be found. If you compare market to market, Scottsdale as a whole would appear to be much lower overall if you removed north Scottsdale because there is a bulk of space on the market in north Scottsdale. The same thing cannot be found in the east valley. They are pretty consistently lower and going down. We just cannot find it because nobody is built anything, and the small

business owner is feeling more confident and they want more space, but they don't want to go into a large building.

- Capital is ahead of the fundamentals, it is believing that the same story will prevail like it always has. It is just going to be a slower churn. We're not chewing through as much vacancy annually as we have in the past.

Where are Office Rents headed in the next three months?

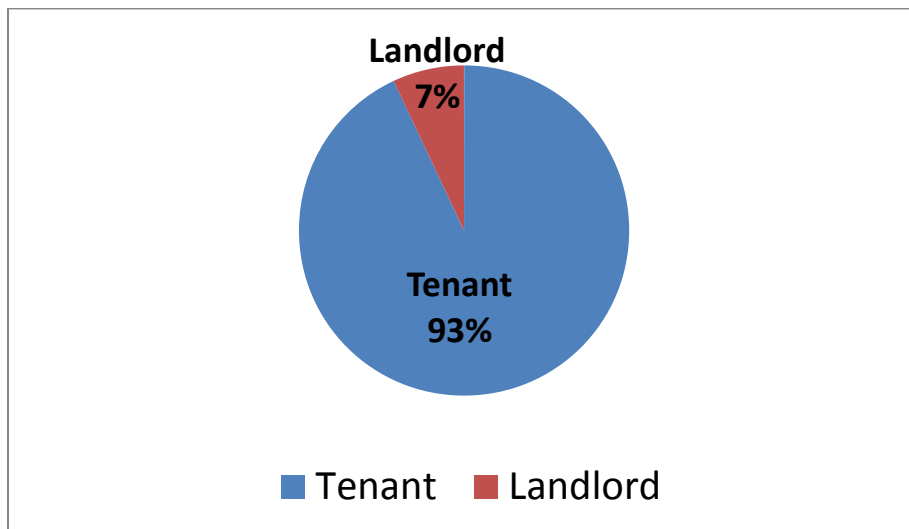
The panel continues a trend of opinion shift toward rents remaining stationary.



- We are starting to see rent growth when you look into these buildings that get to 85-90 percent leased.
- If you balance it all out to the overall market, rents are going stay flat for the next quarter, however we will see some rent growth towards the end of this year.

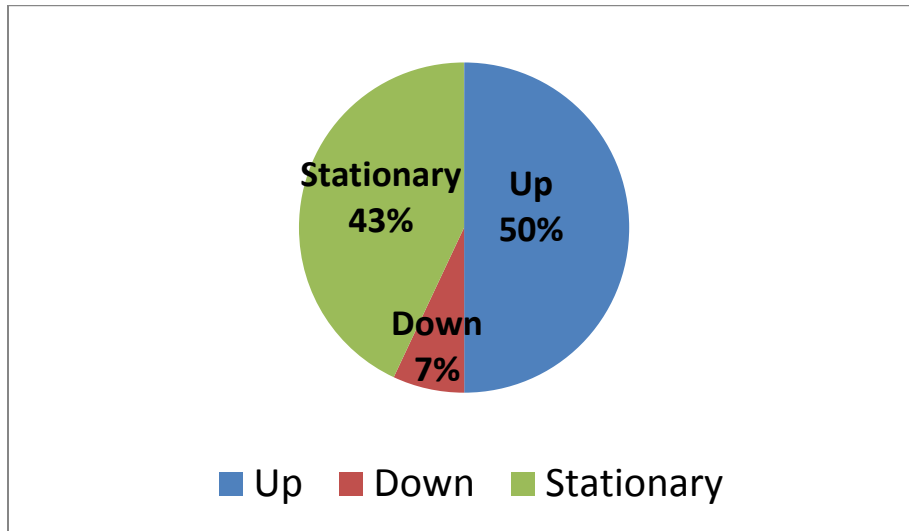
Is this a Tenant or Landlord Office market?

There was almost near consensus that this is tenant market for office but a very slight shift toward a belief it is becoming a landlord market.



Where are Retail Vacancy Rates headed in the next three months?

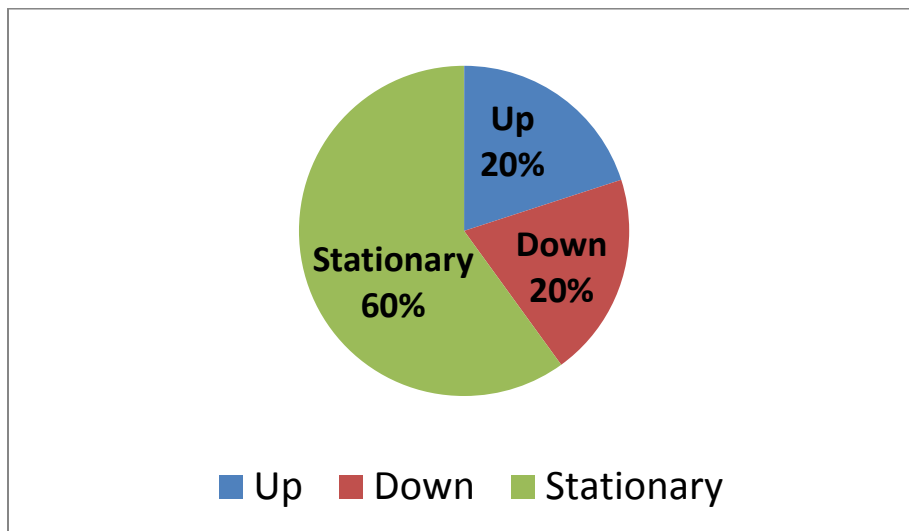
The panel shifted its opinion toward vacancy rates to retail beginning to go up which was a significant change from last quarter.



- It depends on the submarket. It depends on about 4,000 things.
- If it is an A or B product, it is fully leased with three different proposals for anything vacant. If it is a C or D product, you can't give it away.
- Vacancy rates are going up. Retailers are trying to figure out how to compete with e-commerce.
- There is a melding now of the Internet with the bricks and mortar, and part of that is the good news.

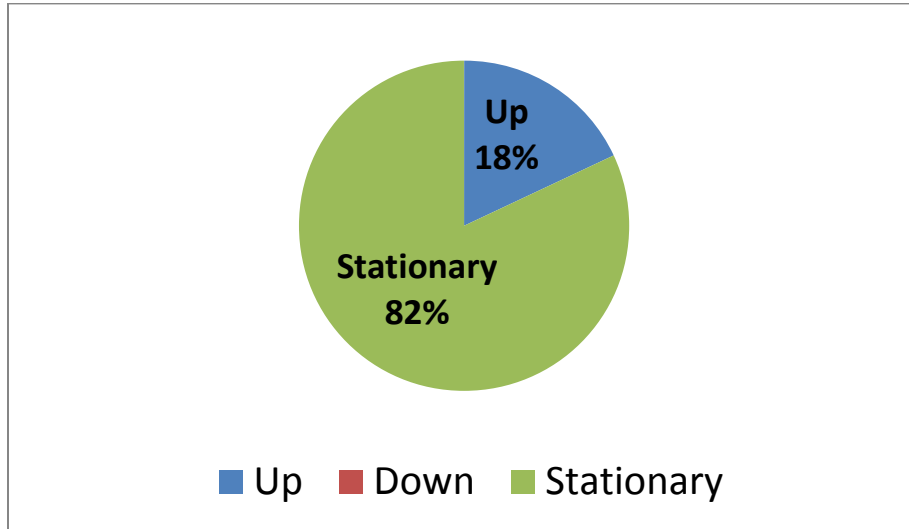
Where are Retail - Anchored Center Rents headed in the next three months?

The panel shifted this segment being stationary but there was some opinion it was trending downward.



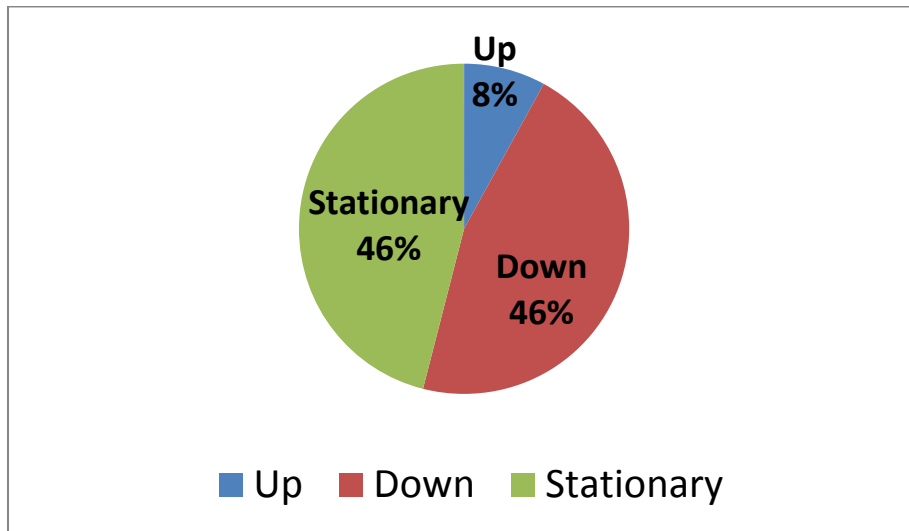
Where are Retail - Unanchored Center Rents headed in the next three months?

The panel continued its shift toward and opinion that unanchored retail was stationary.



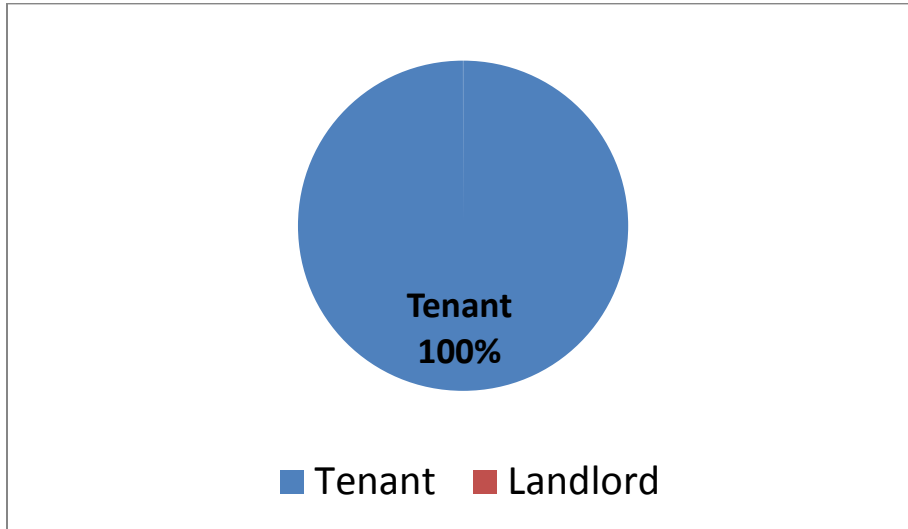
Where are Retail - Big Box (over 25K square feet) Rents headed in the next three months?

The panel was pretty evenly divided between down and stationary on its opinion of which direction rents were going.



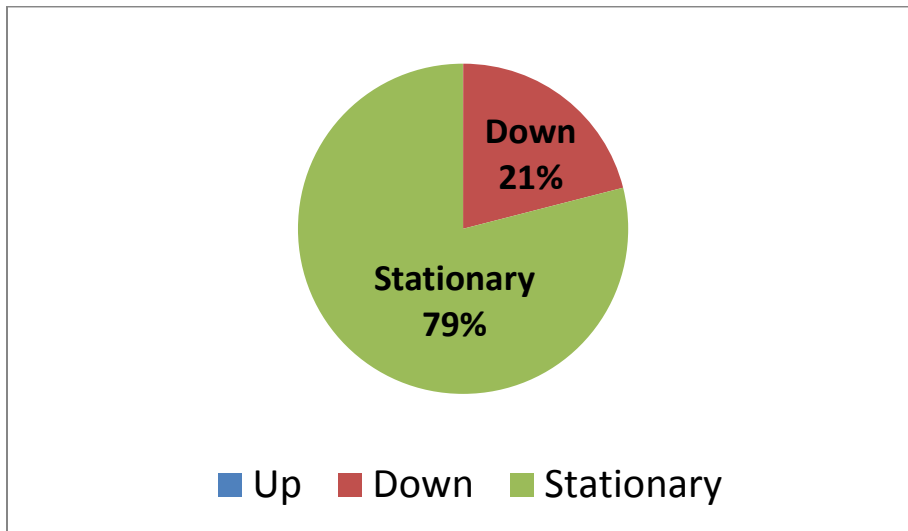
Is this a Tenant or Landlord Retail market?

This was unchanged with a consensus that it is still a tenant market.



Where are Interest Rates for commercial loans headed in the next three months?

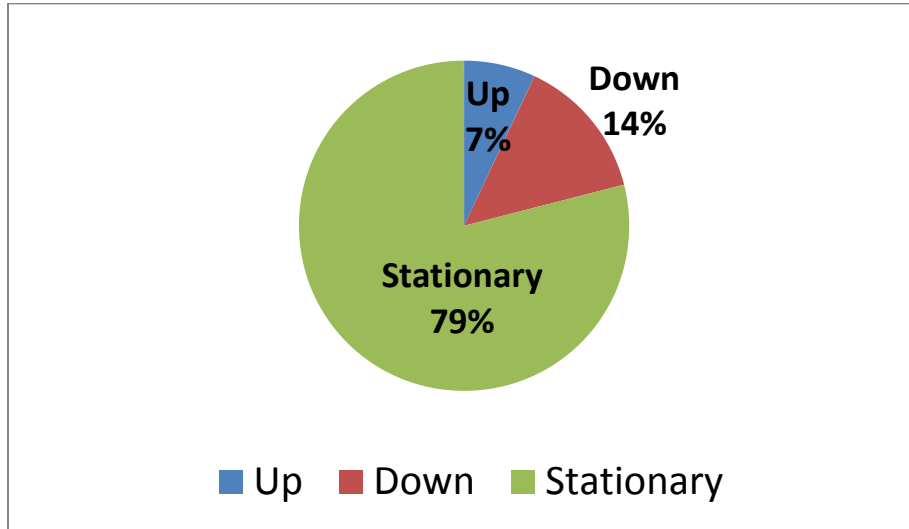
There was shift from near consensus that rates will remain stationary toward an opinion they would begin to go down.



- At least for the next two quarters, I'd say flat to down.

Where are Investor Returns headed in the next three months?

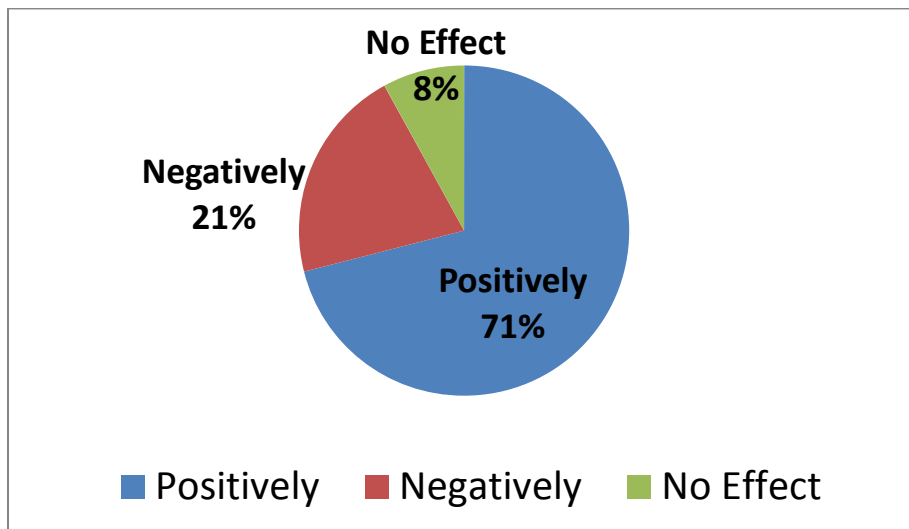
The panel's opinion continued a trend toward believing that investor returns would be stationary.



- If you are a single tenant net lease, there is a whole new (in the last ten years) segment of the market that feels like it is prolific with investors. Everybody wants long term net lease.

How do you see Medical Office users affecting the absorption of office space in the next three months?

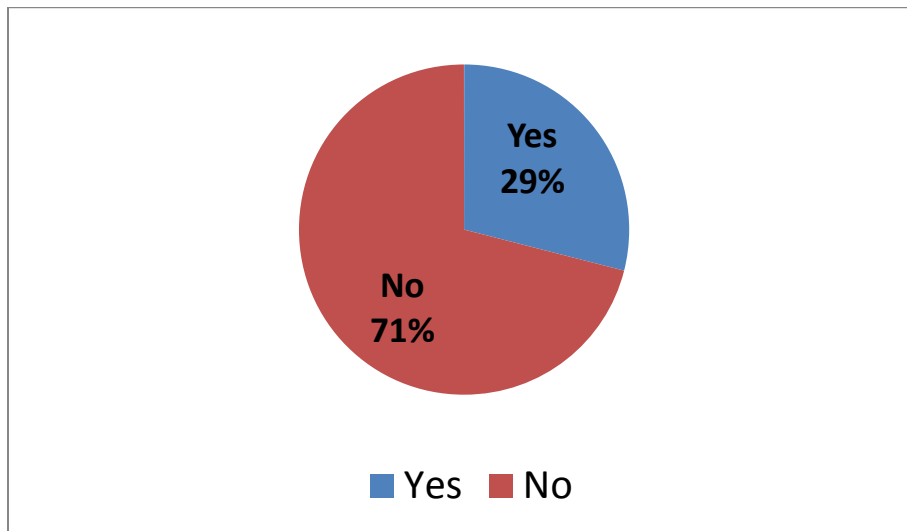
There was a shift back toward an opinion that this segment of the market has a positive effect on overall office space use.



- There are some medical office users that just don't want to commit to—they don't know what's ahead.
- The medical operators who are also cash physicians are buying like crazy. Their businesses are through the roof.
- The segments of the business that are the most active are alternative medicine, plastic surgery, and surgery centers.

Has Cap Rate Compression helped effect gains in core real estate values over the past three months?

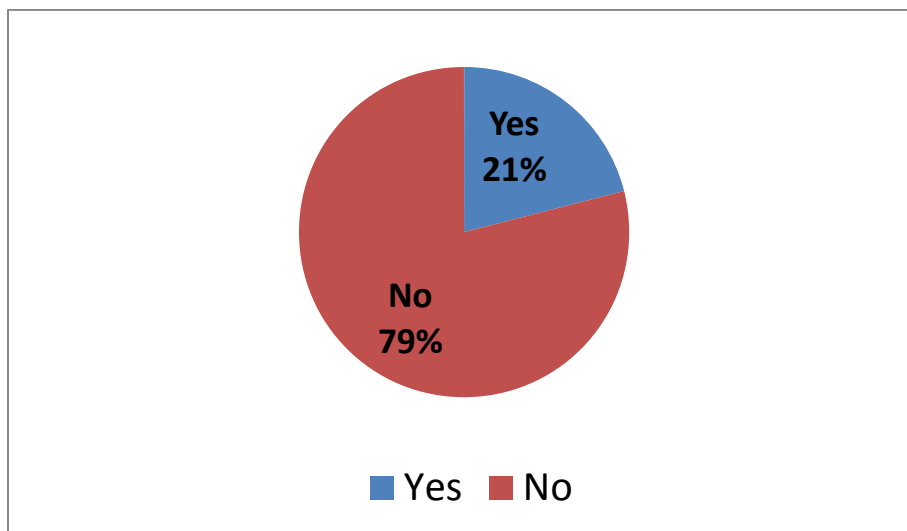
There was a significant shift toward an opinion that cap rate compression was no longer effecting core real estate values.



- The reason for the negative response is because there is this misconception that there is all this core and core plus investment capital out in the market, and there's not. It is nibbling on the edges. Everybody wants value add. They want meat on the bone. The notion that it is really the value add investor that has driven cap rates down a bit is because there are more of them, but in terms of a true core, think about the last core anything that really traded, at least in the office sector.

Will Cap Rate Compression continue in the 2nd Quarter of 2014?

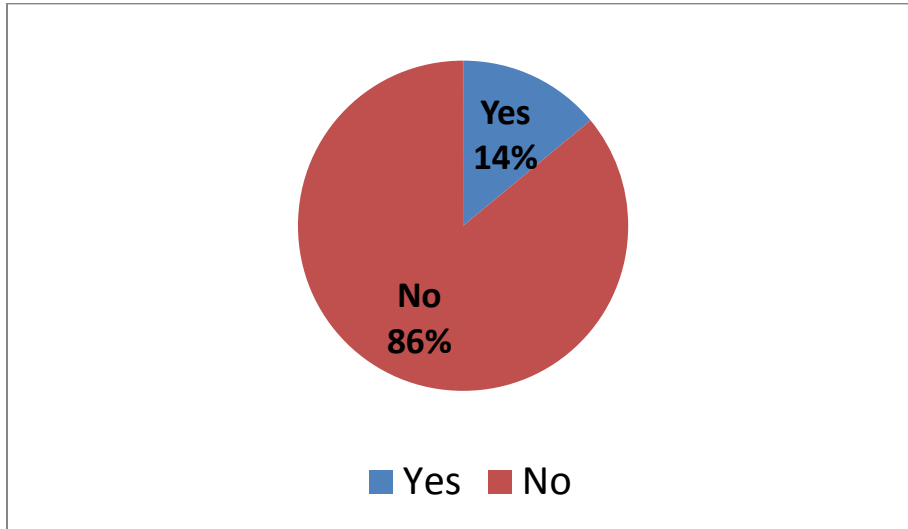
The vast majority of panel members believed that cap rate compression will not continue.



- Until we see interest rates start moving, I don't think you are going to see an appreciable bump in cap rates, and you could probably find as many people who will tell you that they think we are deflationary as will tell you that they think the U.S. is going to be inflationary over the next ten years.

Have land prices reached their peak?

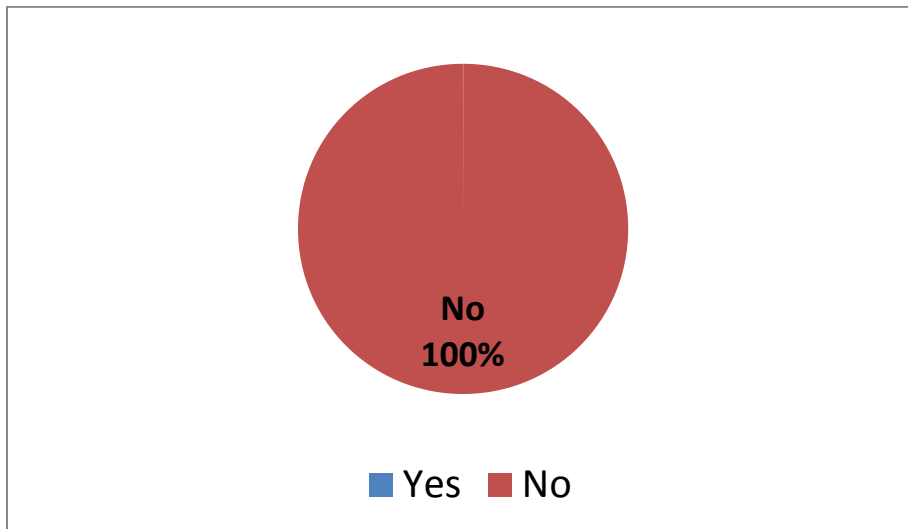
The opinion of the panel remained essentially unchanged in its belief that land prices have not peaked.



- This is submarket specific, no is essentially the answer.

Have homebuilders stopped buying land?

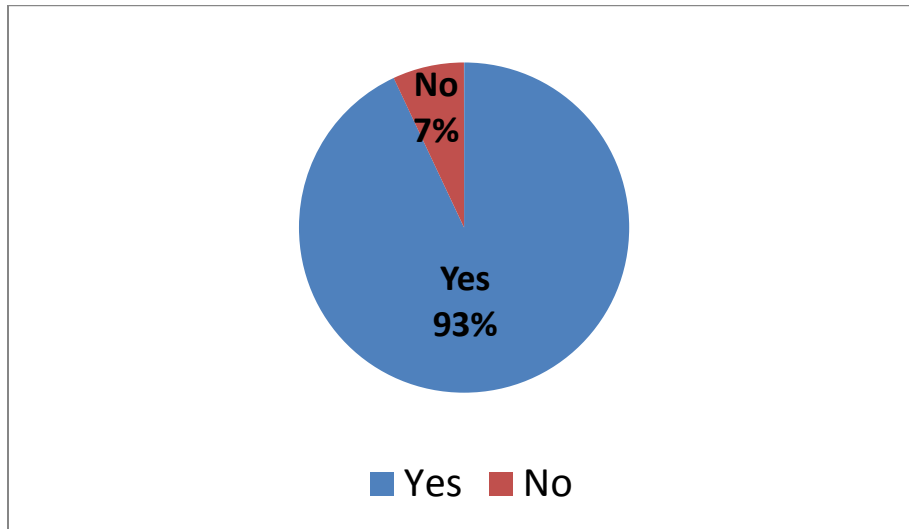
This was unchanged with a consensus that homebuilders have not stopped buying land.



- It has slowed, but it never stops.

Are homebuilders backing out of land deals?

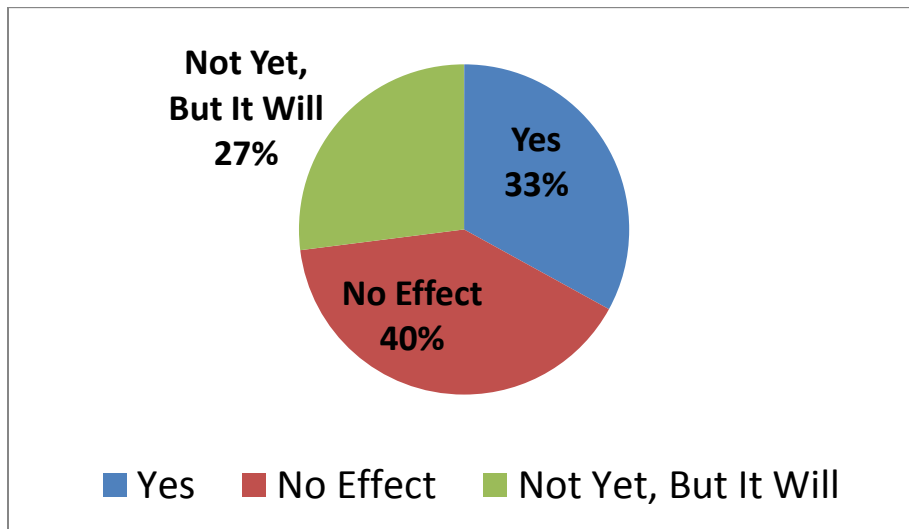
This was unchanged with a consensus that homebuilders, except for a few transactions, were not backing out of deals.



- The answer is no, but they are trading them.
- They're all over the place still trying to buy in most every submarket.
- You've got good bid support, good depth in bidding.

Is the tight inventory for homes on the market affecting the commercial side at all?

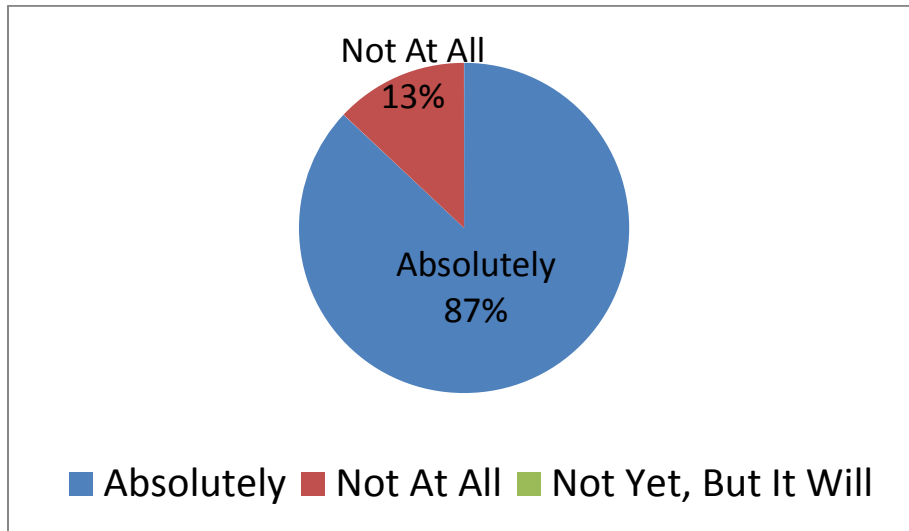
This panel was again split in its opinion which as was unchanged however fewer panel members believed that this will possibly impact the commercial market in the future.



- I don't think it's going to change much for the next quarter is the short answer.

Will the number of people who have stopped working or stopped looking for work affect commercial real estate/industrial/office/retail/multifamily?

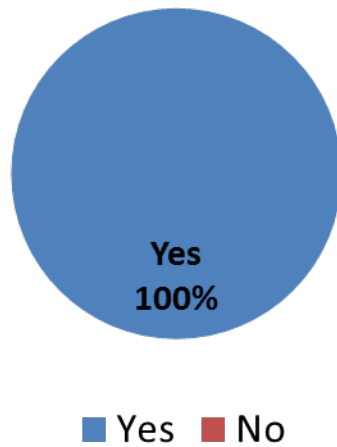
The panel expressed a growing concern about this with a majority believing that unemployment will hurt the commercial markets. This was a significant difference from last quarter when the panel's opinion was fairly evenly split.



- It is hard to know what to believe in terms of job numbers

Is uncertainty in the Federal Government affecting the commercial real estate market and hindering our local growth potential?

This was unchanged with a consensus that the uncertainty with the Federal Government is hurting our growth.



- It is affecting everything.

What is the overall feeling about the Metro Phoenix commercial real estate market?

There was again a consensus of optimism about our commercial real estate market.



■ Optimistic ■ Pessimistic

- The only good news is there is no bad news, which is why we are seeing a number of problems continue in the marketplace, but we all still feel optimistic.
- Metro Phoenix, at the same time all of this recession is going on, is maturing as a place, and we begin seeing concentrations to create cores that this metropolitan area hasn't had before. If there's something positive out of this, it's the fact that the urban form of Phoenix is really starting to take shape as a result of these changes