

The Real State

A Snapshot of the Greater Phoenix Commercial Real Estate Market



July 2015

Key performance indicators in the Phoenix metro area suggest that the market is continuing to improve. Employer expansion in the Valley is supporting improvement throughout various commercial real estate sectors. Despite a slow start to the year, with a negative GDP, consumer spending and business spending are both expected to pick up through the remainder of 2015. Phoenix has mostly recovered from the recession; according to the latest Brookings Mountain Monitor, however, Phoenix may be touting strong economic growth among the nation, but lags at number 8 of 10 metros in the West for momentum. Over the next few years, Phoenix will need to become competitive and invest in its economic growth to make a more sustainable foundation.

Office

According to the Greater Phoenix Blue Chip Panel, office vacancy is expected to continue improving, declining by 240 basis points in 2015 to 18.7%. As tenant demand for office space ticks up this year, increased space is being absorbed in the Valley. Developers are finally picking up the pace with new office property development, most of which lies in the Southeast Valley.

GREATER PHOENIX REAL ESTATE CONSENSUS FORECAST OFFICE (Millions of Square Feet)						
2015			2016			
	Spec Construction	Vacancy (Year End %)	Absorption	Spec Construction	Vacancy (Year End %)	Absorption
Arizona Public Service	1.87	17.5%	2.81	2.43	16.5%	3.65
CBRE	1.50	18.0%	2.70	1.00	16.0%	2.50
Colliers International*	2.80	17.3%	3.20	2.20	16.1%	3.50
Cushman & Wakefield	1.30	19.8%	2.10	1.00	19.3%	2.00
DTZ**	1.80	18.6%	2.60	1.20	17.2%	2.80
Elliott D. Pollack & Co.	1.00	19.0%	2.50	1.50	17.4%	2.50
Lee & Associates	1.50	20.1%	1.80	1.50	19.2%	2.20
ROI Properties	1.00	19.0%	2.50	1.25	18.8%	2.60
CONSENSUS	1.60	18.7%	2.53	1.51	17.6%	2.72
<i>Actuals From CBRE:</i>						
2014 Actuals	0.73	21.1%	1.97			
2013 Actuals	0.21	22.4%	1.71			
* ALL SPACE OVER 10,000 SQ. FT. ** ALL SPACE OVER 20,000 SQ. FT.						

Industrial

GREATER PHOENIX REAL ESTATE CONSENSUS FORECAST INDUSTRIAL (Millions of Square Feet)						
2015			2016			
	Spec Construction	Vacancy (Year End %)	Absorption	Spec Construction	Vacancy (Year End %)	Absorption
CBRE*	2.70	10.5%	5.20	3.00	9.0%	5.40
Colliers International**	4.50	11.6%	5.00	3.00	10.7%	5.30
Cushman & Wakefield	2.40	11.6%	5.10	7.20	11.0%	4.90
DTZ**	4.00	11.0%	5.20	3.20	10.2%	5.40
Lee & Associates**	3.20	11.7%	3.50	2.50	10.9%	4.00
ROI Properties	2.50	11.0%	4.00	2.00	9.8%	4.10
CONSENSUS-TOTAL SPACE	3.22	11.2%	4.67	3.48	10.3%	4.85
<i>Actuals From CBRE:</i>						
2014 Actuals	2.13	11.0%	6.21			
2013 Actuals	3.91	11.4%	8.78			
* ALL SPACE OVER 5,000 SQ. FT. ** ALL SPACE OVER 10,000 SQ. FT.						

The increase in new industrial development is preventing vacancy rates from improving in 2015. The Greater Phoenix Blue Chip Panel forecasts an uptick in vacancy of 20 bps to 11.2% in 2015. Industrial users are expected to absorb a respectable 4.7 million s.f. in 2015, a departure from absorption levels in previous years (8.8 million s.f. in 2013 and 6.2 million s.f. in 2014).

Retail

Looking forward to a strengthening retail sales climate in 2015, retailers will expand to answer an increase in demand. The Southeast Valley, which boasts plenty of new single-family development, is also reporting the most new shopping centers being developed in the Valley. According to The Greater Phoenix Blue Chip Panel, new development is expected to finish out 2015 with just over 600,000 s.f. of new space, much of which is already pre-leased. Vacancy is expected to decrease by 30 bps to 9.3% in 2015 and another 80 bps by 2016.

Multifamily

GREATER PHOENIX REAL ESTATE CONSENSUS FORECAST RETAIL (Millions of Square Feet)						
2015				2016		
	Spec Construction	Vacancy (Year End %)	Absorption	Spec Construction	Vacancy (Year End %)	Absorption
Arizona Public Service	1.69	9.2%	3.63	2.09	8.2%	4.03
CBRE	0.15	9.0%	1.70	0.75	8.5%	2.20
Colliers International	0.83	9.2%	2.40	1.00	8.0%	3.00
Cushman & Wakefield	0.30	9.3%	3.20	0.24	8.7%	3.60
DTZ	0.20	9.6%	1.40	0.40	8.8%	1.60
ROI Properties	0.50	9.2%	1.75	0.43	8.5%	2.00
CONSENSUS	0.61	9.3%	2.35	0.82	8.5%	2.74
<i>Actuals From CBRE:</i>						
2014 Actuals	0.00	9.6%	1.49			
2013 Actuals	0.00	10.2%	1.58			

GREATER PHOENIX REAL ESTATE CONSENSUS FORECAST RESIDENTIAL								
2015					2016			
	Single-family Permits	Multi-family Permits	Apt. Vacancy (Q4 %)	Apt. Absorp.	Single-family Permits	Multi-family Permits	Apt. Vacancy (Q4 %)	Apt. Absorp.
Arizona Public Service	17,400	6,600	7.5%	5,818	22,000	8,000	7.0%	9,088
ASU - Realty Studies	14,500	7,500	N/A	N/A	19,000	7,200	N/A	N/A
Belfiore Real Estate Consulting	14,200	N/A	N/A	N/A	17,800	N/A	N/A	N/A
CBRE	13,000	8,200	5.6%	3,300	17,000	9,200	6.5%	4,200
Colliers International	16,000	5,400	6.3%	6,000	24,000	6,000	6.0%	5,500
CRA LLC	14,500	8,000	6.5%	7,000	18,850	8,000	6.0%	8,500
Cushman & Wakefield	10,300	9,000	5.1%	6,500	19,900	8,800	5.4%	5,250
DTZ	15,000	5,000	6.1%	4,000	16,000	6,000	6.6%	5,000
Elliott D. Pollack & Co.	14,500	8,000	6.2%	6,000	17,500	8,000	6.0%	7,500
Griffin Consulting	14,700	7,500	6.6%	5,800	19,000	7,200	6.7%	5,450
ROI Properties	13,000	8,500	5.6%	4,500	15,500	3,000	5.5%	2,000
Southwest Growth Partners	15,500	6,000	6.9%	6,200	18,800	5,500	7.6%	5,800
U of A, Eller College	12,184	9,614	N/A	N/A	15,040	9,920	N/A	N/A
CONSENSUS	14,214	7,443	6.2%	5,512	18,492	7,235	6.3%	5,829
<i>Actuals From Phoenix Housing Market Letter and CBRE:</i>								
2014 Actuals	10,840	4,470	7.6%	3,980				
2013 Actuals	12,785	2,978	8.4%	2,669				

According to The Greater Phoenix Blue Chip Panel, demand for multifamily property will continue through 2015. Population growth in the Valley isn't letting up anytime soon. The number of multifamily permits is forecast to increase by 67% to 7,443 permits in 2015 and will remain strong, exceeding 7,000 permits in 2016 as well. Absorption will remain positive, with renters occupying more than 11,000 units throughout 2015 and 2016.

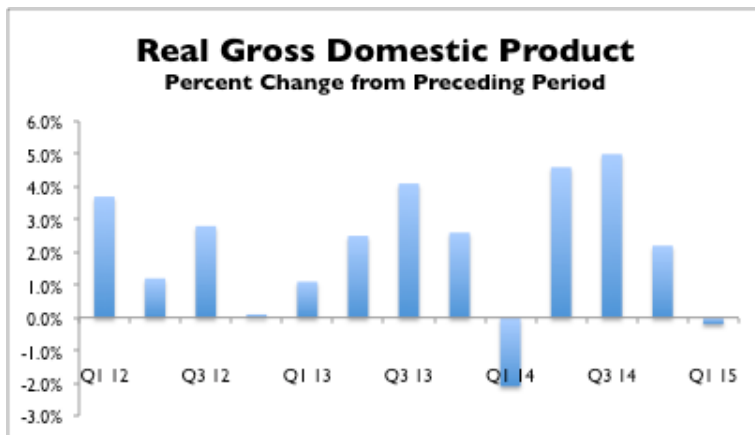
Residential Real Estate Snapshot

Single-family home permit activity in the Phoenix metro area showed an increase in activity from the previous month. Buyer demand is coming back after a rather subdued year and a half. The Greater Phoenix Blue Chip Consensus estimates an increase from 10,840 permits in 2014 to more than 14,000 permits by the end of 2015, and an increase to almost 18,500 in 2016.

	June '14	June '15
Permits (Maricopa Cty)*	903	1,355
Home Sales	7,219	8,674
Median \$	\$195,000	\$214,900
Active Listings (SFH)	23,115	18,703

Source: *U.S. Census, ARMLS (May 2015)

Real GDP



According to Kiplinger, real gross domestic product is expected to gain 2.5% in 2015, after rebounding from weather-related declines at the start of the year.

Real gross domestic product—the value of the production of goods and services in the United States, adjusted for price changes—decreased at an annual rate of 0.2 percent in the first quarter of 2015, according to the "third" estimate released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 2.2 percent.

The decrease in real GDP in the first quarter primarily reflected negative contributions from exports, nonresidential fixed investment, and state and local government spending that were partly offset by positive contributions from personal consumption expenditures (PCE), private inventory investment, and residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.—

Bureau of Economic Analysis

Arizona Economic Forecast 2015

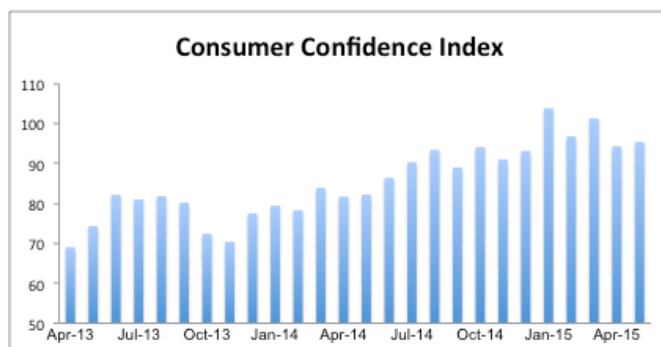
2015 Forecast					
Annual Percent Change 2015 from 2014					
	Population	Personal Income	Residential Permits	Wage & Salary Empl.	Retail Sales
Blue Chip Consensus	1.5%	4.2%	14.3%	2.3%	4.6%

Source: Western Blue Chip, W.P. Carey School of Business, ASU (July 1, 2015)

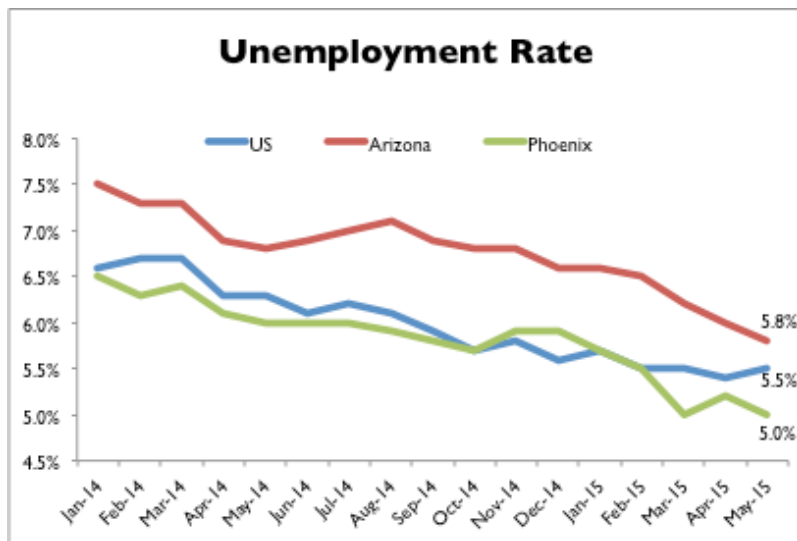
Consumer Confidence

The Conference Board Consumer Confidence Index® increased in May to 95.4, up from 94.3 in April. The index is up from last year at the same time from 81.7.

According to the Conference Board, "Consumer confidence improved modestly in May, after declining sharply in April. After a three-month slide, the Present Situation Index increased, propelled by a more positive assessment of the labor market. Expectations, however, were relatively flat following a steep decline in April. While current conditions in the second quarter appear to be improving, consumers still remain cautious about the short-term outlook." — *The Conference Board*



Employment



Arizona Initial Unemployment Claims	
May '14	21,606
May '15	19,120
YOY Change	-13%

In May, Arizona unemployment improved to 6.0% from 5.8% the previous month. At 5%, Phoenix unemployment is well below the national average of 5.5%. Employment in the Phoenix metro rose by more than 55,000 new positions on a year-over-year basis, while experiencing seasonal losses of 4,900 positions from the previous month. On an over-the-year basis, the greatest job growth was experienced in Education and Health (+13,000), followed by Professional and Business Services. Financial Activities employers added (+5,100), Retail Trade (+5,300), Leisure and Hospitality (+5,800), and Construction (+5,500).

—Arizona Department of Administration

According to Kiplinger, downward revisions to April and May job-growth numbers provide a dash of caution, indicating that the labor market is not close to overheating. National unemployment is expected to finish 2015 at 5.1%.

Phoenix Metro Employment Growth

	May-15	YOY	% YOY
Trade, Transportation, Util.	367,900	7,400	2.1%
Prof. & Bus. Services	317,700	11,800	3.9%
Education & Health	279,900	13,000	4.9%
Government	235,400	4,000	1.7%
Leisure & Hospitality	207,000	5,800	2.9%
Financial Activities	166,400	5,100	3.2%
Manufacturing	116,900	-1,600	-1.4%
Construction	101,400	5,500	5.7%
Other Services	68,200	4,000	6.2%
Information	35,200	200	0.6%
Mining	3,400	0	0.0%
Total Non Farm	1,899,400	55,200	3.0%