



The Knowledge Report

Phoenix Office Market Reports Sustained Activity During Fourth Quarter 2007

While national economic conditions have caused concern in the last several months, Arizona remains well above the average in economic growth activity. Total population inflow was 197,400 during 2006, with 2007 levels expected at 131,000. Job growth has also been brisk with revised figures showing 66,300 new jobs created in 2007 and another 39,200 projected for 2008. Due to this activity, the outlook for Arizona and the metro Phoenix area remains positive with forecasts calling for a slower rate of growth than what was experienced over the last several years. Highlights in the local economy during 2007 were a strong commercial real estate market and growing business sectors such as Wholesale Trade, and Professional and Business Services. The only stressed area of the metro Phoenix economy, the housing market, is projected to rebound in late 2008 or 2009 according to the Greater Phoenix Blue Chip Panel.

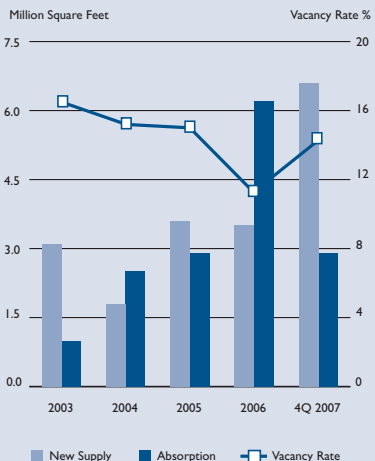
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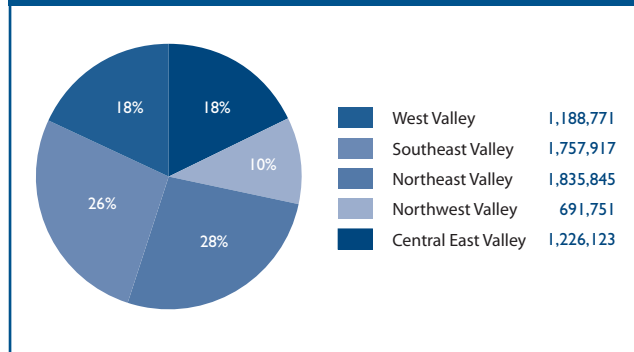
MARKET INDICATORS

	2006 Q4	2007 Q4
VACANCY	↓	↑
NET ABSORPTION	↑	↓
CONSTRUCTION	↓	↑
RENTAL RATE	↑	↓

NEW SUPPLY, ABSORPTION & VACANCY RATES

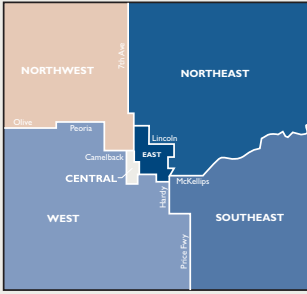


UNDER CONSTRUCTION SQUARE FOOTAGE BY SUBMARKET



This chart illustrates what market areas are supporting the most under construction office development activity





Absorption activity for the metro Phoenix office market at the end of fourth quarter totaled 2.88 million square feet (msf). Year-to-date construction deliveries totaled 6.62 msf, while under construction projects totaled 7.27 msf.

The economic base in metro Phoenix is extremely diverse. Recent industries driving the majority of activity is as follows; High-tech (semiconductors), Aerospace, Advanced Business Services, Transportation, Distribution & Wholesale Trade, Tourism and Retirement & Second Home. The three major factors currently influencing the decision to move to metro Phoenix include employment opportunity, affordable housing, and cost of living.

Year-end net absorption activity totaled 2.88 million square feet (msf), with 568,157 sf reported in the fourth quarter. The markets recording the most activity during 2007 were the Northwest Valley at 1.23 msf and the Southeast Valley at 701,369 sf. Projections for 2008 indicate positive absorption activity will continue,

albeit at a lesser pace than was experienced during 2007. Several of the larger lease transactions during the fourth quarter included the 107,849 sf lease by the IRS at 4041 N. Central Avenue. Also of note was the 58,000 sf lease by Dex Media at the Loop 101 Business Center.

Office vacancy rates fluctuated somewhat during 2007 with the fourth quarter direct rate posting 13.2%, up from 12.7% seen during third quarter. Sublease space in the market increased slightly during the quarter reporting 1.42 msf, up from the 1.08 msf during third quarter. High levels of new construction activity and slightly decreasing absorption volume are expected to cause vacancy rates to increase incrementally over the next several quarters.

continued on page 4

SALE & LEASE ACTIVITY

SALE ACTIVITY

PROPERTY ADDRESS	SALE DATE	SALE PRICE	SIZE SQ FT	SALE PRICE SQ FT	CLASS
Renaissance Square	11/15/07	\$272,900,000	962,087	\$283.65	A
Scottsdale Executive Office Pk	11/1/07	\$54,000,000	251,588	\$214.64	B
Luhrs Building	10/12/07	\$28,000,000	146,664	\$190.91	B
The Art Institute	11/5/07	\$22,150,000	92,103	\$240.49	B

LEASE ACTIVITY

BUILDING NAME	SUBMARKET	TENANT	SIZE SQ FT	CLASS
4041 N Central Ave	CBD	IRS	107,849	B
Loop 101 Business Center	Northeast	Dex Media, Inc	58,000	A
Rio West Business Park	Southeast	US Airways	57,000	B
Chapparral Business Center IV	Northeast	Move Inc.	46,182	A

Existing Properties			Direct Vacancy		Sublease Vacancy		Total Vacancy			Net Absorption - Sq Ft		New Supply - Sq Ft		U/C & Proposed - Sq Ft		Average Rent
Class	Bldgs	Total Inventory Sq Ft	Sq Ft	Rate	Sq Ft	Rate	Sq Ft	Q4-07	Q4-06	Current Period	YTD	Current Period	YTD	Under Constr	Proposed	Rate

DOWNTOWN

DOWNTOWN TOTAL

A	28	9,465,429	940,005	9.9%	90,954	1.0%	1,030,959	10.9%	8.1%	(10,530)	(107,523)	-	150,000	570,845	1,221,613	\$26.31
B	111	7,923,094	1,177,356	14.9%	84,044	1.1%	1,261,400	15.9%	12.6%	(24,411)	(59,134)	-	-	-	-	\$22.65
C	76	1,687,527	210,690	12.5%	3,421	0.2%	214,111	12.7%	7.5%	(37,156)	(21,487)	-	-	-	-	\$19.54
Total	215	19,076,050	2,328,051	12.2%	178,419	0.9%	2,506,470	13.1%	9.9%	(72,097)	(188,144)	-	150,000	570,845	1,221,613	\$23.84

SUBURBAN

CENTRAL EAST VALLEY

A	60	9,038,488	1,100,569	12.2%	129,104	1.4%	1,229,673	13.6%	11.3%	(200,616)	(33,228)	-	96,000	1,085,449	501,000	\$30.17
B	329	15,840,070	1,764,483	11.1%	163,800	1.0%	1,928,283	12.2%	12.7%	348,432	101,318	325,012	461,200	140,674	128,946	\$22.64
C	124	2,467,919	196,837	8.0%	4,170	0.2%	201,007	8.1%	7.9%	(24,155)	63,103	-	-	-	-	\$15.63
Total	513	27,346,477	3,061,889	11.2%	297,074	1.1%	3,358,963	12.3%	11.8%	123,661	131,193	325,012	557,200	1,226,123	629,946	\$26.74

NORTHWEST VALLEY

A	43	6,016,388	504,627	8.4%	74,584	1.2%	579,211	9.6%	6.5%	81,990	221,795	-	365,797	60,000	679,500	\$24.40
B	275	11,166,692	2,219,327	19.9%	55,809	0.5%	2,275,136	20.4%	18.0%	(106,520)	103,094	65,248	346,417	631,751	1,366,518	\$22.03
C	95	1,902,756	156,977	8.2%	8,740	0.5%	165,717	8.7%	7.0%	(18,880)	197,996	-	-	-	-	\$18.21
Total	413	19,085,836	2,880,931	15.1%	139,133	0.7%	3,020,064	15.8%	13.3%	(43,410)	522,885	65,248	712,214	691,751	2,046,018	\$22.32

NORTHEAST VALLEY

A	85	9,685,025	1,957,214	20.2%	356,151	3.7%	2,313,365	23.9%	12.2%	3,785	259,387	478,211	1,687,352	1,454,026	1,277,449	\$30.56
B	453	14,366,474	1,744,617	12.1%	199,676	1.4%	1,944,293	13.5%	11.2%	276,951	728,333	256,847	764,553	381,819	331,541	\$27.40
C	103	1,907,201	216,718	11.4%	5,558	0.3%	222,276	11.7%	8.7%	(24,898)	242,878	-	-	-	-	\$21.94
Total	641	25,958,700	3,918,549	15.1%	561,385	2.2%	4,479,934	17.3%	11.3%	255,838	1,230,598	735,058	2,451,905	1,835,845	1,608,990	\$28.72

SOUTHEAST VALLEY

A	41	4,757,402	748,287	15.7%	35,374	0.7%	783,661	16.5%	7.5%	183,867	308,948	-	778,400	540,265	2,081,533	\$28.55
B	401	13,206,645	1,795,154	13.6%	81,938	0.6%	1,877,092	14.2%	9.8%	98,346	467,347	467,074	968,283	1,217,652	3,029,192	\$24.54
C	122	2,269,152	191,028	8.4%	2,058	0.1%	193,086	8.5%	6.1%	(35,572)	(74,926)	-	-	-	-	\$19.35
Total	564	20,233,199	2,734,469	13.5%	119,370	0.6%	2,853,839	14.1%	8.8%	246,641	701,369	467,074	1,746,683	1,757,917	5,110,725	\$25.29

WEST VALLEY

A	18	2,397,239	325,387	13.6%	3,217	0.1%	328,604	13.7%	6.6%	(170,755)	(259,231)	-	334,280	533,464	1,050,825	\$27.16
B	166	8,427,205	967,460	11.5%	102,619	1.2%	1,070,079	12.7%	9.1%	212,524	699,411	379,862	673,719	655,307	2,246,598	\$23.24
C	87	1,933,528	165,750	8.6%	0	0.0%	165,750	8.6%	7.3%	15,755	43,080	-	-	-	-	\$16.65
Total	271	12,757,972	1,458,597	11.4%	105,836	0.8%	1,564,433	12.3%	8.4%	57,524	483,260	379,862	1,007,999	1,188,771	3,297,423	\$25.90

GRAND TOTALS

A	275	41,359,971	5,576,089	13.5%	689,384	1.7%	6,265,473	15.1%	10.4%	(112,259)	390,148	478,211	3,411,829	4,244,049	6,811,920	\$28.12
B	1,735	70,930,180	9,668,397	13.6%	687,886	1.0%	10,356,283	14.6%	13.7%	805,322	2,040,369	1,494,043	3,214,172	3,027,203	7,102,795	\$23.29
C	607	12,168,083	1,138,000	9.4%	23,947	0.2%	1,161,947	9.5%	8.5%	(124,906)	450,644	-	-	-	-	\$19.42
Total	2,617	124,458,234	16,382,486	13.2%	1,401,217	1.1%	17,783,703	14.3%	12.0%	568,157	2,881,161	1,972,254	6,626,001	7,271,252	13,914,715	\$24.97

QUARTERLY COMPARISON AND TOTALS

Q407	2,617	124,458,234	16,382,486	13.2%	1,401,217	1.1%	17,783,703	14.3%	13.6%	568,157	2,881,161	1,972,254	6,626,001	7,271,252	13,914,715	\$24.97
Q307	2,345	114,737,156	14,545,806	12.7%	1,088,613	0.9%	15,634,419	13.6%	13.2%	665,647	1,827,248	2,023,917	4,656,557	6,437,472	12,894,420	\$25.70
Q207	2,353	113,214,588	14,035,867	12.4%	911,386	0.8%	14,947,253	13.2%	12.7%	442,693	1,161,601	1,024,936	2,632,640	6,513,234	6,201,324	\$25.44
Q107	2,323	111,926,849	13,195,148	11.8%	1,054,819	0.9%	14,249,967	12.7%	11.3%	718,908	718,908	954,198	954,198	7,829,106	10,521,654	\$24.97
Q406	2,302	110,183,102	11,475,588	10.4%	980,027	0.9%	12,455,615	11.3%	11.7%	1,695,334	6,185,590	930,340	3,526,591	6,937,452	9,407,223	\$24.41

As stated above, new construction activity was substantial during 2007. Deliveries totaled 6.62 msf at year-end, which nearly doubled the 3.52 msf seen in 2006. Under construction projects totaled 7.27 msf during the fourth quarter, the highest level seen in several years. The market also posted 13.9 msf of actively planned buildings, indicating the pipeline of new construction projects will not run out anytime soon.

Asking rental rates have stabilized somewhat during the fourth quarter. The average rate posted \$24.97 per square foot (psf) down slightly from \$25.70 psf during third quarter. Rental rate projections indicate stabilized rates over the next several quarters. Absorption along with construction activity during the next several quarters will determine if rates remain the same or start to decrease slightly during 2008.

Office sales activity in the metro Phoenix office market remained strong through the end of fourth quarter. Total sales volume posted \$769 million, with the average price per square foot posting \$191.14 psf. The average cap rate reported 6.8%, remaining relatively stable. In the largest investment transaction of the fourth quarter, Renaissance Square was sold to Hines-Sumisei US Core Office Fund LP for \$272.9 million. The price per square foot for this transaction was calculated at \$283.65 psf.

The metro Phoenix office market is projected to experience moderate growth throughout 2008. While market demand is expected to be slightly less than what was experienced in prior years, continued high levels of job creation and population inflow will continue to drive activity forward.

COLLIERS INTERNATIONAL

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ON 6 CONTINENTS

Americas	129
USA	95
Canada	17
Latin America	17
Asia Pacific	53
Europe, Middle East and Africa	85

672.9 million square feet under management

10,171 professionals

3,823 active agents/brokers

CONTACT INFORMATION

PHOENIX

Mike Fitz-Gerald
Managing Director

2390 East Camelback Road
Suite 100
Phoenix, AZ 85016

Tel: 602-222-5000
Fax: 602-222-5001

SCOTTSDALE

Jim Keeley
Partner

14080 N. Northsight Blvd.
Scottsdale, AZ 85260

Tel: 480-596-9000
Fax: 480-948-0502

Stewart W. Park

Regional Research Manager
stewart.park@colliers.com

2390 E. Camelback Rd, Suite 100
Phoenix, AZ 85016
Tel: 602-222-5000

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