



OFFICE

QUICK STATS

Current Quarter

Direct Vacancy	14.4%
Overall Vacancy	15.5%
Lease Rate FSG	\$26.64
Gross Absorption	3,561,425 SF
Under Construction	1,273,216 SF

MARKET TRENDS

Change from Last	Quarter	Year
Overall Vacancy	↓	↓
Rental Rates	↔	↑
Gross Absorption	↑	↑
Under Construction	↓	↓

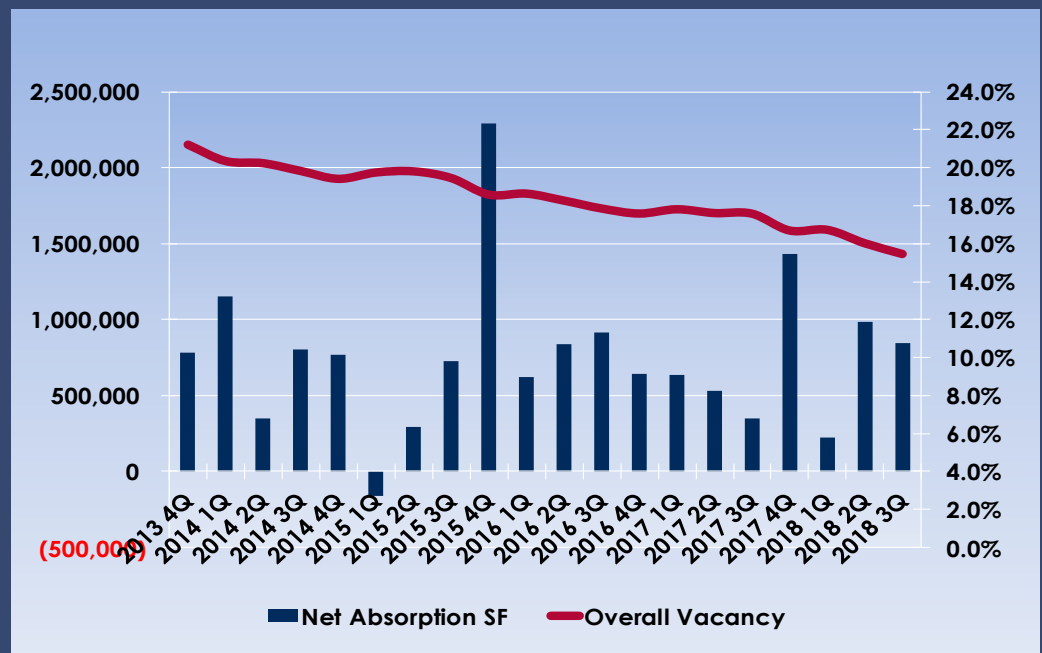
ECONOMIC STATS

	Current Month	Previous Year
	Sep. '18	Sep. '17
Unemployment Rate (MSA)	4.2%	4.2%
Change in # Of Jobs (MSA)	+9,900	+69,100
% Change for Jobs (MSA)	+0.5%	+3.8%

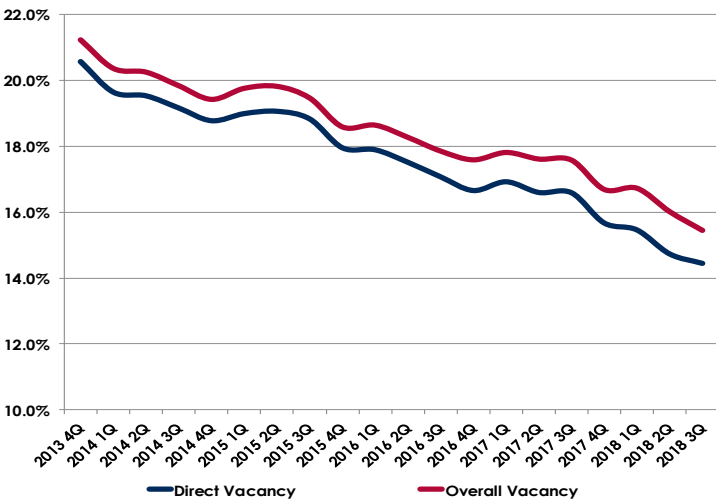
SUMMARY & OUTLOOK

The Phoenix office market witnessed vacancy rates decrease during the quarter, moving from 16.0% to 15.5%. Average annual rents increased 2.3%, year over year, moving from \$26.03 FSG to \$26.64 FSG. Gross absorption finished the quarter with 3.6 million square feet of activity, while net absorption finished with a gain of 848,000 square feet of occupied space. Under construction activity moved lower during the quarter with 1.3 million square feet currently underway, as the market has delivered 638,000 square feet of new space for the year. Overall demand for office space continues to see solid growth and has recorded positive net absorption in nineteen of the past twenty quarters, totaling 15.0 million square feet of occupied space gains. The labor market continues to perform well, as the unemployment rate remained at 4.2%, year over year, adding 69,100 new jobs (+3.8%). The University of Arizona is forecasting annualized employment growth of 3.1% for 2018 and 2.9% for 2019. The market remains relatively balanced with vacancy trending lower, and average asking rents trending near current inflation rates. Activity in the investment and sale market for office buildings in the greater Phoenix market remains strong, as median sale prices are up 62% (\$170 PSF) since bottoming out in 2012 (\$105 PSF), but still remain below its pre-recession high by 22% (\$217 PSF). The capital markets remain solid, but with the Fed continuing to raise interest rates at a measured pace, we do expect overall price growth and demand to cool in the coming year. The Phoenix office market fundamentals remain strong as we move into the final quarter of 2018. We expect vacancy to continue trending lower, with rents expected to increase another 3% to 5% for most submarkets in the coming year.

VACANCY & NET ABSORPTION

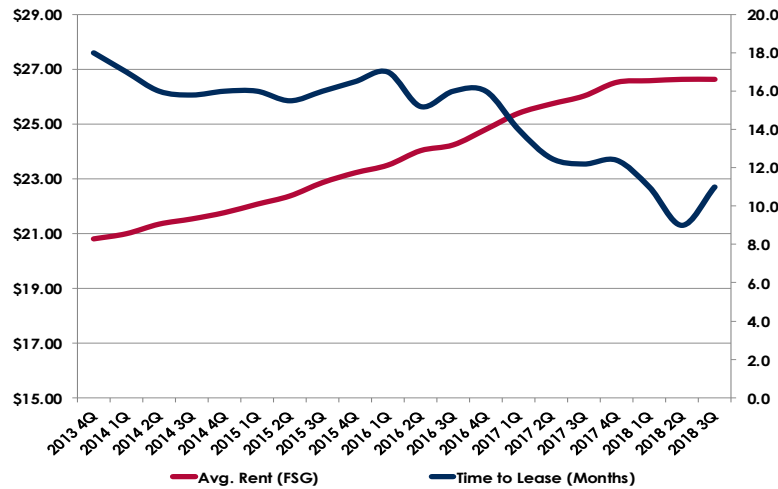


VACANCY



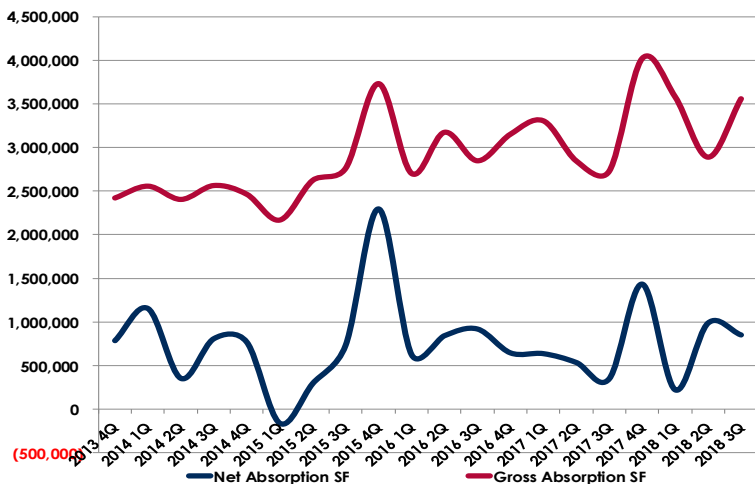
Overall vacancy rates (including sublease space) decreased during the quarter, moving from 16.0% to 15.5%. Of the nine submarkets within the Phoenix market, the East Valley submarket ended the quarter with the lowest total vacancy of 11.2%, followed by Pinal County at 11.8%, West Phoenix at 13.1%, Scottsdale at 14.8%, East Phoenix at 16.2%, NW Phoenix at 17.0%, the Central Corridor at 17.3%, the Airport at 18.1%, and North Phoenix finishing at 19.8%. Since the third quarter of 2017, overall vacancy has decreased from 17.6% to 15.5%, and remains at its lowest level in more than a decade.

RENTAL RATES & TIME ON THE MARKET



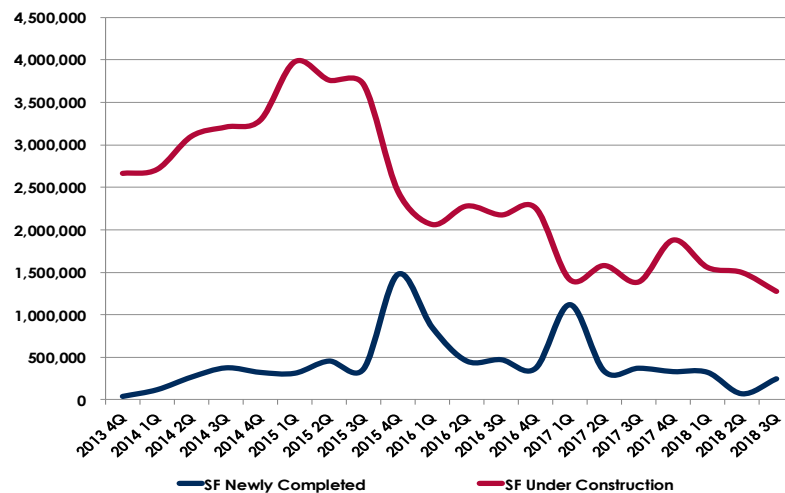
Average annual asking rates increased 2.3%, year over year, moving from \$26.03 FSG to \$26.64 FSG. Of the nine submarkets within the Phoenix market, the Scottsdale submarket ended the quarter with the highest average asking rate of \$30.50 FSG, followed by East Valley (\$30.19 FSG), East Phoenix (\$29.57 FSG), West Phoenix (\$26.49 FSG), Central Corridor (\$26.31 FSG), North Phoenix (\$25.51 FSG), the Airport (\$24.02 FSG), NW Phoenix (\$21.05 FSG), and Pinal County finishing at \$21.00 FSG. Average annual asking rates were unchanged from previous quarter, holding at \$26.64 FSG.

ABSORPTION



Gross absorption totaled 3.6 million square feet during the quarter, up 23% compared to the previous quarter, and higher by 31% compared to a year ago. Net absorption finished the quarter with a gain of 848,000 square feet and has gained more than 2.0 million square feet for the year. In 2017, the market gained 2.9 million square feet, after gaining 3.0 million square feet during 2016, +3.2 million square feet in 2015, and +3.1 million square feet in 2014. Overall demand remains strong, as the market has recorded positive net absorption in nineteen of the past twenty quarters, totaling 15.0 million square feet. We expect to see similar growth levels as we move into the final quarter of 2018.

CONSTRUCTION ACTIVITY

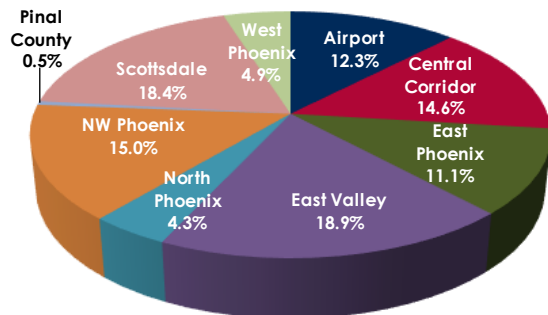


Under construction activity edged lower during the quarter, with 1.3 million square feet of space currently underway, as the market has delivered 638,000 square feet of new space for the year. The market delivered 2.2 million square feet of new space in 2017, after adding 2.1 million square feet during 2016. In 2015, the market delivered 2.6 million square feet after adding 1.1 million square feet during 2014. During the past five years, the market has averaged 1.7 million square feet of new construction, annually. Among the space currently under construction, only 17% of the new space has been pre-leased or is already committed.

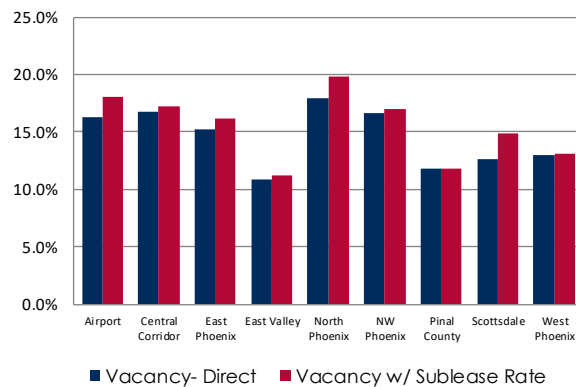
MARKET SNAPSHOT

SUBMARKETS	Total Inventory Square Footage	Direct Vacant Square Footage	Direct Vacancy Rate	Total Vacant w/ Sublet Square Footage	Total Vacant w/ Sublet Rate
Airport	16,059,687	2,605,732	16.2%	2,904,666	18.1%
Central Corridor	18,980,202	3,173,069	16.7%	3,274,475	17.3%
East Phoenix	14,448,833	2,200,616	15.2%	2,334,842	16.2%
East Valley	24,649,601	2,667,655	10.8%	2,752,423	11.2%
North Phoenix	5,533,268	993,157	17.9%	1,097,547	19.8%
NW Phoenix	19,536,121	3,239,996	16.6%	3,315,296	17.0%
Pinal County	658,111	77,508	11.8%	77,508	11.8%
Scottsdale	23,929,319	3,022,473	12.6%	3,544,001	14.8%
West Phoenix	6,399,086	830,485	13.0%	836,382	13.1%
Phoenix Totals	130,194,228	18,810,691	14.4%	20,137,140	15.5%

Office Market Inventory

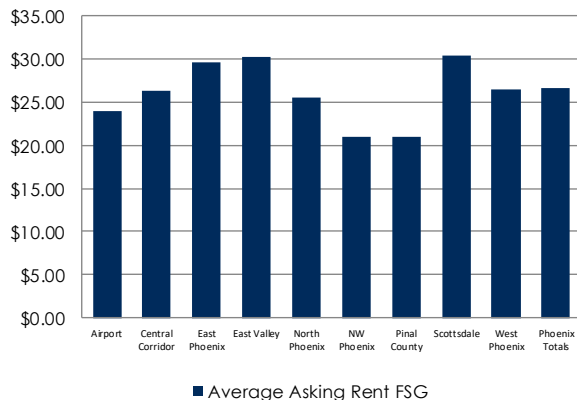


Office Vacancy Rates

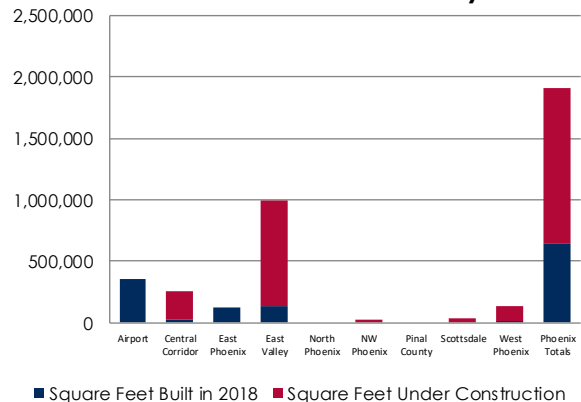


SUBMARKETS	Average Asking Rent FSG	Low-High Asking Rent Range FSG	Square Feet Built in 2018	Square Feet Under Construction	Gross Absorption Square Feet Current Quarter
Airport	\$24.02	\$12.00-\$48.00	353,307	0	1,004,923
Central Corridor	\$26.31	\$12.00-\$38.50	26,134	228,402	309,501
East Phoenix	\$29.57	\$10.00-\$44.00	118,500	0	255,960
East Valley	\$30.19	\$11.00-\$50.00	129,600	860,379	575,581
North Phoenix	\$25.51	\$11.50-\$40.00	0	0	143,495
NW Phoenix	\$21.05	\$10.00-\$34.00	0	22,700	615,331
Pinal County	\$21.00	\$14.00-\$27.00	0	0	2,000
Scottsdale	\$30.50	\$10.00-\$50.00	0	36,735	531,560
West Phoenix	\$26.49	\$10.00-\$38.00	10,000	125,000	123,074
Phoenix Totals	\$26.64	\$10.00-\$50.00	637,541	1,273,216	3,561,425

Office Rental Rates



New Construction Activity



PHOENIX OFFICE BUILDING SALE TREND ANALYSIS

TOTAL SALES TRANSACTIONS										
Market	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018-3Q
Class A	2	11	14	15	16	35	35	33	31	25
Class B	197	176	194	311	304	360	487	427	471	462
Class C	66	68	81	102	139	215	229	242	275	234
Totals	265	255	289	428	459	610	751	702	777	721

TOTAL TRANSACTION DOLLAR VALUE (MILLIONS)										
Bldg. SF	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018-3Q
Class A	\$14.9	\$170.8	\$394.8	\$506.7	\$411.7	\$759.8	\$1,227.1	\$519.9	\$1,346.3	\$678.7
Class B	\$219.8	\$171.1	\$316.5	\$494.8	\$496.1	\$723.0	\$1,301.4	\$772.2	\$961.2	\$835.7
Class C	\$31.4	\$32.1	\$29.4	\$47.5	\$59.2	\$75.3	\$160.7	\$119.7	\$147.7	\$102.0
Totals	\$266.1	\$374.0	\$740.7	\$1,049.0	\$967.0	\$1,558.1	\$2,689.2	\$1,411.7	\$2,455.2	\$1,616.4

TOTAL SQUARE FEET SOLD										
Bldg. SF	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018-3Q
Class A	144,143	1,437,285	2,410,239	2,167,244	1,946,011	3,944,407	5,670,234	2,785,338	4,712,544	3,303,381
Class B	1,718,661	1,486,559	3,754,422	4,242,871	4,527,463	6,409,426	8,398,593	5,843,333	6,573,114	6,552,555
Class C	294,237	336,960	339,982	532,063	817,707	1,054,170	1,677,208	1,461,817	1,744,885	1,289,646
Totals	2,157,041	3,260,804	6,504,643	6,942,178	7,291,181	11,408,003	15,746,035	10,090,488	13,030,543	11,145,582

AVERAGE PRICE / SF										
Bldg. SF	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018-3Q
Class A	\$103.20	\$117.56	\$167.42	\$233.79	\$217.99	\$196.61	\$216.41	\$198.53	\$328.71	\$214.13
Class B	\$140.38	\$125.58	\$110.86	\$133.77	\$114.90	\$122.87	\$166.24	\$149.53	\$167.94	\$160.80
Class C	\$123.24	\$98.70	\$90.11	\$94.80	\$79.10	\$89.34	\$97.07	\$97.71	\$112.16	\$122.76
Averages	\$135.43	\$119.09	\$133.89	\$164.75	\$139.21	\$147.11	\$178.04	\$156.87	\$220.47	\$175.74

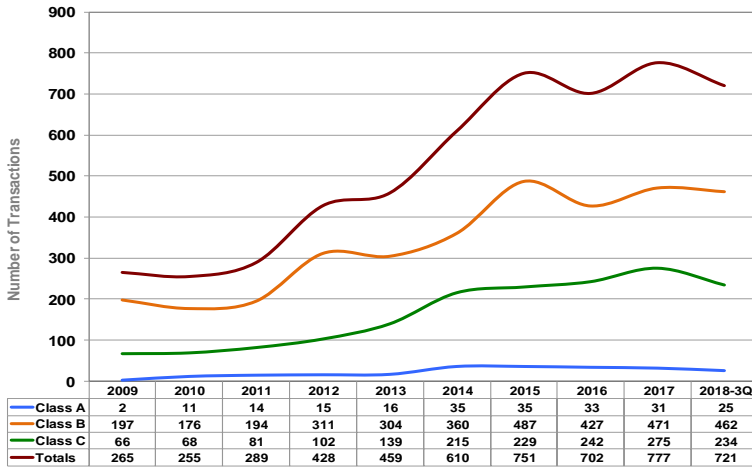
MEDIAN PRICE / SQUARE FOOT										
Bldg. SF	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018-3Q
Class A	\$100.73	\$97.65	\$100.19	\$210.78	\$234.26	\$183.97	\$205.33	\$216.46	\$276.74	\$191.71
Class B	\$181.74	\$133.51	\$112.93	\$105.81	\$110.00	\$130.58	\$145.07	\$152.54	\$163.43	\$185.85
Class C	\$120.00	\$100.65	\$95.22	\$91.27	\$89.79	\$94.02	\$110.86	\$123.30	\$116.72	\$123.69
Median Average	\$166.55	\$118.90	\$106.61	\$105.00	\$107.50	\$120.63	\$135.35	\$144.58	\$153.55	\$170.30

MEDIAN \$ PSF INCREASE										
Bldg. SF	2010	2011	2012	2013	2014	2015	2016	2017	2018-3Q	
Class A	-3.1%	2.6%	110.4%	11.1%	-21.5%	11.6%	5.4%	27.8%	-30.7%	
Class B	-26.5%	-15.4%	-6.3%	4.0%	18.7%	11.1%	5.1%	7.1%	13.7%	
Class C	-16.1%	-5.4%	-4.1%	-1.6%	4.7%	17.9%	11.2%	-5.3%	6.0%	
Totals	-28.6%	-10.3%	-1.5%	2.4%	12.2%	12.2%	6.8%	6.2%	10.9%	

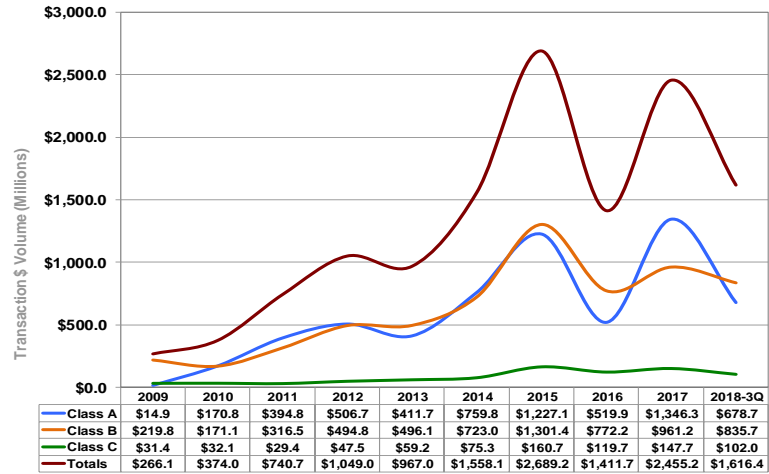


PHOENIX OFFICE BUILDING SALE TREND ANALYSIS

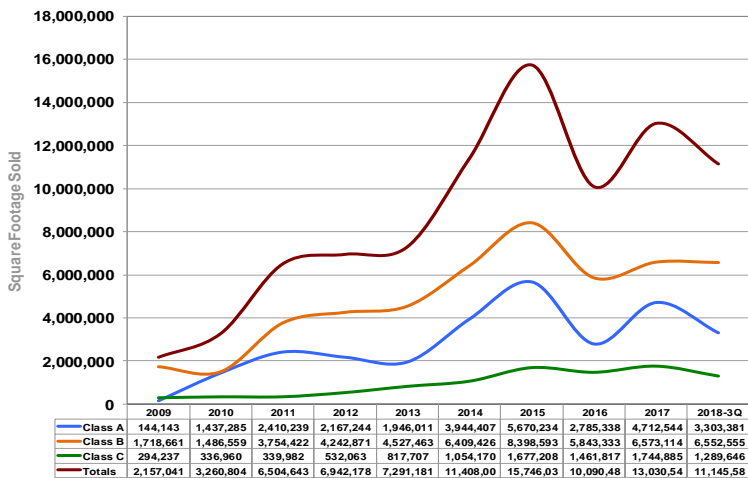
Number of Transactions



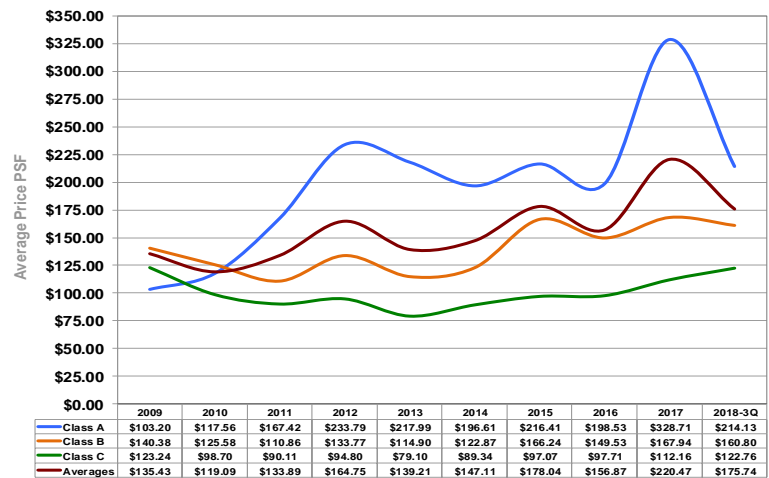
Transaction Volume \$



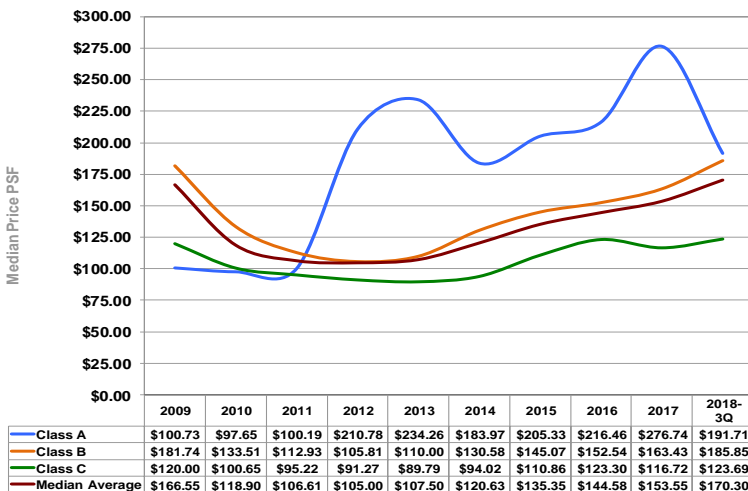
Square Footage Sold



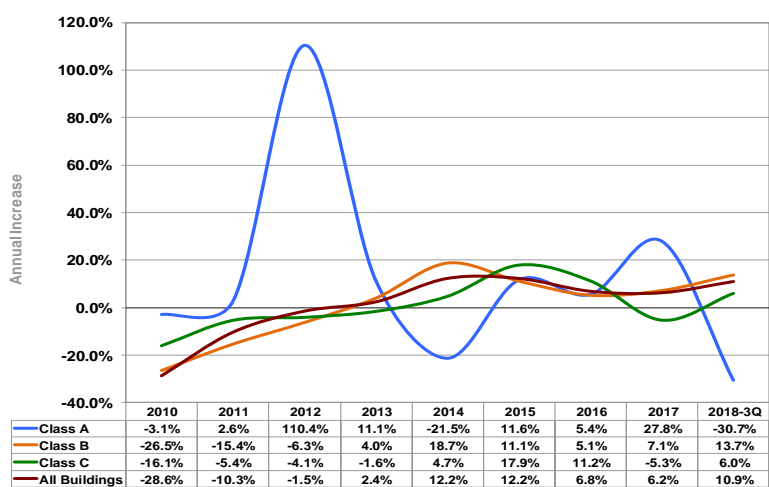
Average Price PSF



Median Price PSF

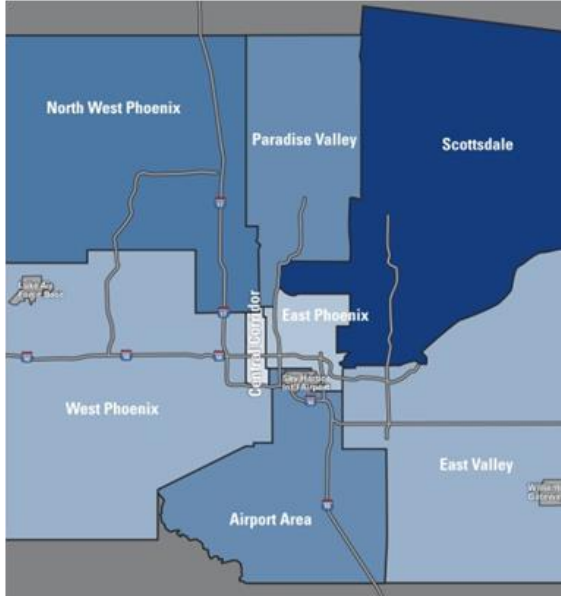


% Change Median Price PSF



MARKET REPORT OVERVIEW

PHOENIX, ARIZONA MARKET MAP



DAUM OFFICES

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The information contained in this report has been obtained from sources deemed reliable and has incorporated fourth-party data which has not been independently verified by DAUM. While we do not doubt its accuracy, DAUM makes no guarantee or warranty as to its completeness or accuracy. Due to the dynamic (constantly changing) database which DAUM uses to compile and analyze markets contained in this report, previously published statistics may vary from the data published in this report. Statistics and data have been revised to reflect changes in the following categories: existing buildings being verified and added to the database, new or revised occupancy information gathered, new construction being added to the inventory, building demolitions and renovations, as well as other factors that would necessitate revisions to the data and the properties surveyed. This methodology allows us to present the most current and up-to-date information, trend analysis and comparative statistics for this report.

METHODOLOGY & TERMINOLOGY

Methodology

Non-owner occupied, office buildings that are 10,000 square feet and greater.

Direct Vacant SF

Space that is vacant and ready for occupancy by a user. The space is being offered for lease or sale directly from the landlord.

Total Vacant W/ Sublet SF

Space that is vacant and ready for occupancy by a user. The space is being offered for lease or sale by the landlord or for sublease by the current tenant.

Direct Vacancy Rate

Total vacant direct space (vacant space for lease or sale from the landlord or owner) divided by the total rentable square footage for existing buildings only.

Vacancy W/ Sublet Rate

Total vacant direct space and sublease space divided by the total rentable square footage for existing buildings only.

Gross Absorption

The total change in occupied space over a given period of time, counting space that is occupied but not space that is vacated by tenants. Gross absorption differs from leasing activity, which is the sum of all space leased over a certain period of time.

Net Absorption

The net change in occupied space over a given period of time, calculated by summing all the positive changes in occupancy (move ins) and subtracting all the negative changes in occupancy (move outs).

Under Construction

Planned buildings for which construction has started but have not yet been granted a Certificate of Occupancy. Planned buildings are not included.

Completed in 2018

New buildings with original construction completed in the year 2018 and granted a Certificate of Occupancy. Renovated buildings are not included.