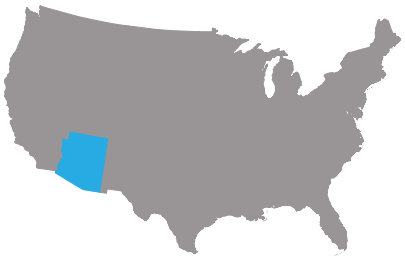
PHOENIX | ARIZONA

RESEARCH & FORECAST REPORT

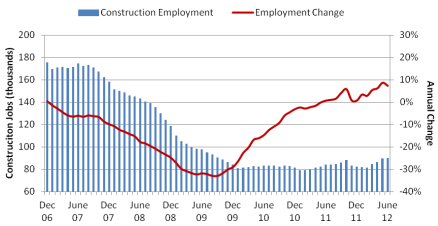
Colliers INTERNATIONAL



MARKET INDICATORS

	1H-12	1H-11
LAND SALES	↑	↓
LAND PRICES	↑	↓
RESIDENTIAL SALES	↑	↑
SINGLE-FAMILY PERMITS	↑	↑
MULTIFAMILY PERMITS	↓	↓
CONSTRUCTION EMPLOYMENT	↑	↑

PHOENIX CONSTRUCTION EMPLOYMENT



Housing Rebound Fueling Land Acquisition Activity

With home prices rebounding and commercial property fundamentals stabilizing, land acquisitions for residential and commercial purposes are accelerating. The rise in single-family home prices in Greater Phoenix has been the strongest of any large market in the country over the past year, which, combined with a minimal supply of for-sale inventory, is driving homebuilders to step up activity and acquire land parcels for future development now that projects pencil more easily. In addition to a strengthening for-sale housing market, apartment property fundamentals have been improving for more than two years, and developers continue to seek locations for multifamily development.

The recovery among commercial properties has been less robust than that of the local housing market, but improvements are being registered among the major property segments and land sales activity and prices for commercial and industrial uses are pushing higher. This trend is likely to continue, but a straight-line acceleration in deal flow is unlikely. While a few industrial buildings will be delivered in the Southwest Valley, current rents are not yet sufficient to support a wave of speculative development. Rather, land sales and development will be more closely tied to build-to-suit projects. Aside from industrial buildings, both the office and retail markets continue to have elevated vacancy rates, weighing on new development and the sale of land sites for these uses.

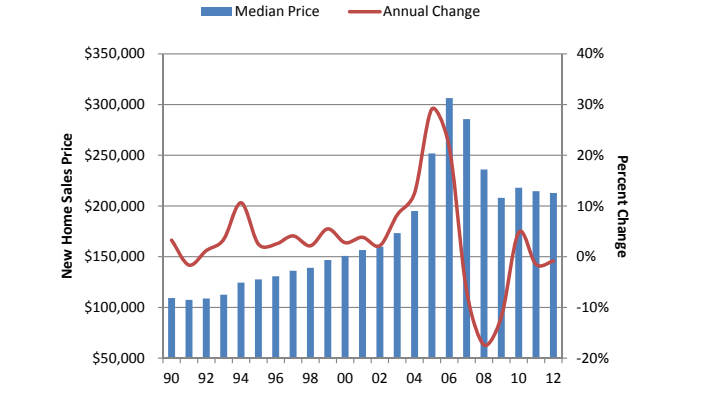
RESIDENTIAL MARKET OVERVIEW

Following a multi-year period where the Phoenix single-family housing market was among the hardest-hit in the country, clear signs of a recovery emerged in the first half of 2012. The Phoenix market led the 20-market Case-Shiller home price index with year-over-year growth at 11.5 percent through May. Local data sources show a more dynamic increase in pricing through the first half of the year, with both Arizona State University and Arizona MLS showing year-over-year price increases of nearly 30 percent through June.

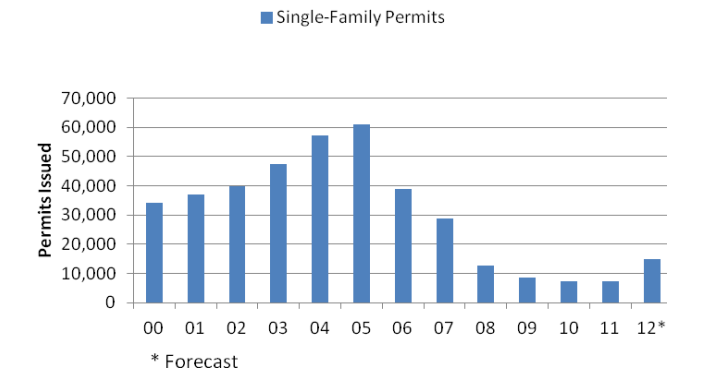
Home sales in the first half of 2012 lagged year-earlier levels by approximately 10 percent, due in large part to a decline in inventory listed for sale and a drop in the number of foreclosures. The drop in foreclosure activity was significant, with the number of homes going back to the bank down more than 50 percent year over year in each of the first six months of 2012. With fewer deeply discounted properties moving through the pipeline, investors seeking to allocate capital into the housing market have been forced to increase offers to close deals. In addition, the properties that were at the lowest end of the pricing spectrum have already transacted in many cases and, by and large, are not re-entering the market.

The housing pricing data confirms the prevailing nature of the local housing market—specifically, that pricing trends in Greater Phoenix remain far more mercurial than those of much of the rest of the country. Despite the volatility that included annual price increases of as much as 50 percent during

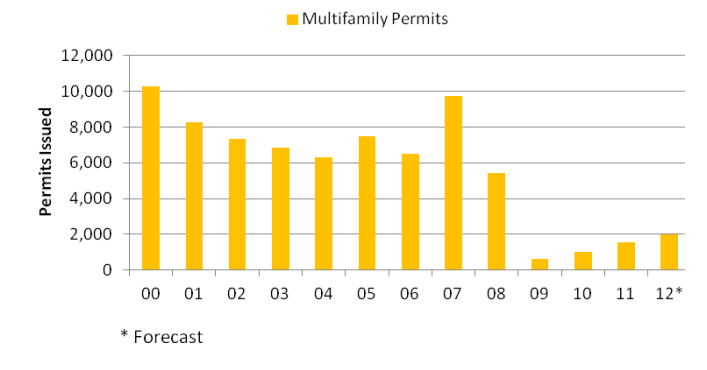
HOME PRICING TRENDS



PERMIT ACTIVITY > SINGLE-FAMILY PERMITS



PERMIT ACTIVITY > MULTIFAMILY PERMITS



the run-up and annual declines of nearly 40 percent during the downturn, the median price recorded in the first half of this year is similar to levels achieved nearly a decade ago.

PERMITTING OVERVIEW

After reaching a near standstill during the recession, housing permitting activity accelerated in the second half of 2011. This trend continued in the first six months of this year, as fundamentals exhibited sustained improvement, bolstering market sentiment.

Permitting activity has been most robust for single-family buildings, with the number of permits pulled in the first half of 2012 only slightly lagging activity levels for all of last year. The pace of issuance spiked during the second quarter, with home builders seeing an increase in demand from buyers that was driven by rising prices and limited availability of resale homes. Nearly 3,800 single-family permits were issued in the second quarter, a 51 percent increase from the first quarter and an 83 percent spike from the same period, one year earlier. By year end, the number of single-family permits issued is expected to total 15,000, exceeding the combined total from 2010 and 2011.

The comparatively early recovery in the apartment market fueled an acceleration in multifamily permit issuance in the second half of 2011. Developers did not match that same pace in the first six months of this year, pulling permits for approximately 950 multifamily units, but by year end, a total of 2,000 to 2,500 multifamily permits should be issued, a 40 percent increase from 2011 levels and double the number of multifamily permits pulled in 2010.

LAND SALES

Led by a recovery in the local housing market, land sales activity gained momentum rapidly in the first six months of 2012. The number of land acquisitions closed in the first half of this year surged 59 percent from the same period in 2011 and reached the highest six-month total in the metro area since the second half of 2007.

Land intended for residential use accounted for nearly 70 percent of transactions recorded during the first half of 2012, similar to one year ago, but up from when the local housing market was still in free fall. In 2009, for example, transactions for land parcels intended for residential use accounted for less than 55 percent of all deals closed, even at a time when there was almost no momentum for commercial development.

SIGNIFICANT SALES ACTIVITY FIRST AND SECOND QUARTER 2012

SIGNIFICANT LAND TRANSACTION

SALE DATE	LOCATION	CITY	SALE PRICE	SIZE (ACRES)	SIZE (SF)	PRICE/SF	PROPOSED USE
Jun 2012	SE Thompson Peak Pky & Scottsdale Rd	Scottsdale	$16,600,000	13.65	594,776	$27.91	Multifamily
Feb 2012	5000 N Portales Pl	Scottsdale	$13,877,500	9.70	422,531	$32.84	Multifamily
May 2012	SE Williams Field Rd & Lindsay Rd	Gilbert	$13,000,000	88.85	3,870,393	$3.36	Single-Family
May 2012	NE Sun Valley Pky & Thomas Rd	Buckeye	$7,400,000	2,380.95	103,714,238	$0.07	Single-Family, Hold for Development
May 2012	SW US 60 & Pierpoint	Mesa	$6,289,485	22.21	967,606	$6.50	Healthcare
Mar 2012	NW Val Vista Dr & Pecos Rd	Gilbert	$4,000,000	15.48	674,308	$5.93	Multifamily
Jun 2012	8788 E McDowell Rd	Scottsdale	$1,800,000	5.37	234,021	$7.69	Retail

Transaction activity for commercial space is accelerating as well, spiking more than 75 percent in the first half 2012 compared to one year earlier, while land intended to be developed into industrial space traded near 2011 levels in the first six months of this year. While pricing varies significantly based on location, zoning, degree of improvement needed and proposed use, the overall trend is that prices bottomed in 2011 and have begun to push higher. The median price for all land transactions in the first half was up approximately 80 percent from 2011 levels, with prices for specific intended uses pushing up between 50 and 85 percent.

COMMERCIAL PROPERTY OVERVIEW

During the first half of the year, tenant demand for all types of commercial real estate in the Greater Phoenix market improved, resulting in declining vacancy rates and strengthening market sentiment. With the market stabilizing, developers are piecing together strategies to meet future demand in anticipation of accelerating local economic growth. This activity of positioning in advance of future demand, coupled with prices that remain well below peak levels even after recent gains, is driving land acquisitions.

The property type that is furthest along in the recovery is the multifamily segment, where the vacancy rate ended the first half at 8.6 percent, the sixth consecutive quarter where the rate was below the 10 percent threshold that has historically signaled market equilibrium. Developers have responded to strengthening fundamentals and an active investment market by acquiring land for multifamily projects and breaking ground. Projects totaling more than 3,200 units are currently under way, with projects located primarily in infill locations or suburban areas such as Deer Valley or Southeast Valley cities such as Tempe, Chandler and Gilbert.

More than 14 million square feet of net absorption of industrial space has been recorded in the Phoenix market since early 2010, including nearly 8.2 million square feet in the Southwest Valley. Much of this absorption has been driven by big-box users, which has resulted in a severe decline in the number of available spaces of 200,000 square feet and larger. With tenants still looking to secure large blocks of space and limited options in the market, developers are moving new projects into the pipeline. Current rents may not yet justify more than a few speculative developments, but land intended for build-to-suit industrial properties will continue to change hands in the second half of this year.

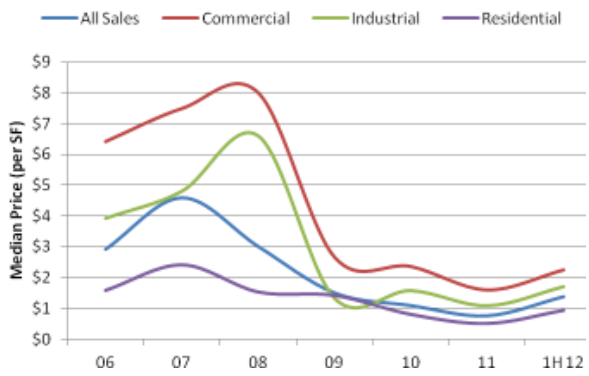
In contrast to the local multifamily and industrial markets, net absorption of office and retail space has been slow to bounce back and vacancies have yet to retreat significantly. Office vacancy ended the first half at 21.7 percent and has remained between 20 and 23 percent for the past three years. Retail vacancy has been mired in a similar trend, remaining stuck above 12 percent since 2009 and ending the first half at 12.2 percent. Most land transactions for these intended uses have been to hold for future investment, although some parcels have traded that will be developed into buildings for the rapidly expanding health sector.

CASE-SHILLER HOUSING INDEX

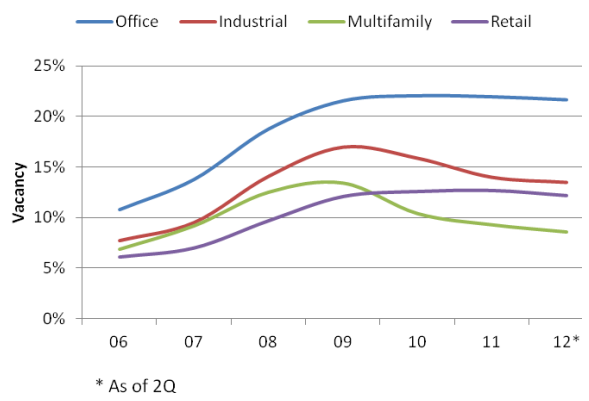
METRO AREA	MAY 2012 VALUE*	MONTHLY CHANGE	ANNUAL CHANGE
Phoenix	**111.92**	**2.7%**	**11.5%**
Minneapolis	113.47	3.1%	4.7%
Dallas	118.6	1.9%	3.8%
Denver	128.48	2.1%	3.7%
Miami	143.35	1.4%	3.4%
Washington, D.C.	185.55	2.5%	2.8%
Tampa	130.26	2.0%	2.5%
Charlotte	112.84	1.0%	0.9%
Detroit	66.1	0.4%	0.6%
San Francisco	135.28	3.9%	0.6%
Seattle	137.37	2.6%	0.6%
Portland	135.09	2.6%	0.4%
Boston	150.67	2.4%	-0.1%
Cleveland	99.17	2.4%	-0.1%
San Diego	153.06	0.9%	-1.1%
Los Angeles	165.76	2.2%	-2.0%
New York	160.4	1.4%	-2.8%
Chicago	108.62	4.5%	-3.0%
Las Vegas	92.55	1.9%	-3.2%
Atlanta	87.85	4.0%	-14.5%

Source: Standard & Poor's * Index Value based on Jan 2000 data as 100 for each Metro Area

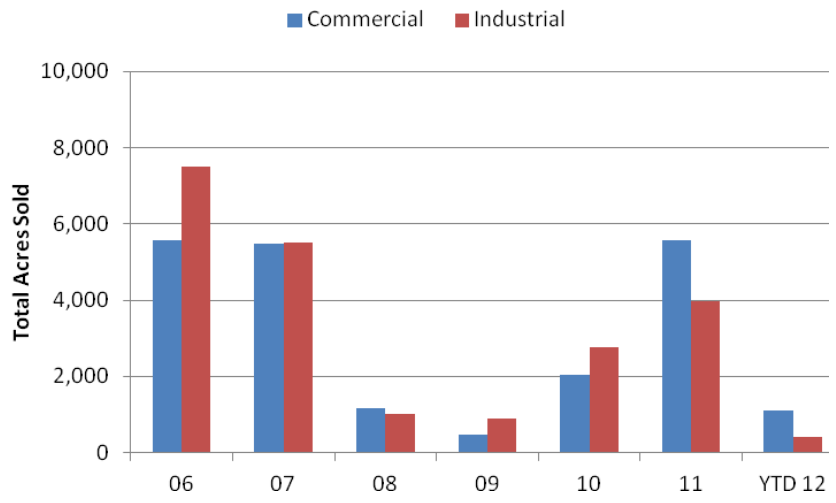
LAND SALES PRICES



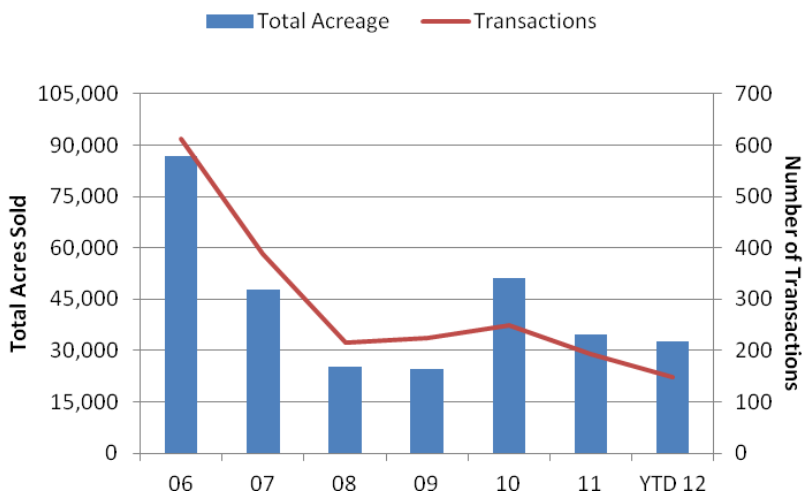
VACANCY RATES



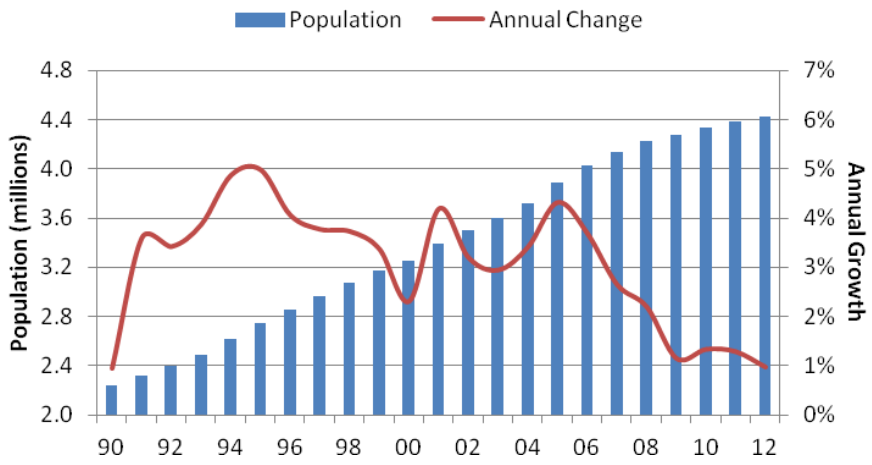
LAND SALES TRENDS



RESIDENTIAL LAND SALES



PHOENIX POPULATION



522 offices in 62 countries on 6 continents

United States: 147
Canada: 37
Latin America: 19
Asia Pacific: 201
EMEA: 118

- $1.8 billion in annual revenue
- 1.25 billion square feet under management
- 12,300 professionals worldwide

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