

2020  
VISION

## Forecasting the future

Let us point you in the right direction -  
There are signs everywhere if you know where to look.



## OFFICE PROPERTIES | OWNER/USER BUILDINGS

Micro-Area-Partnerships (MAPS)

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## FAST FACTS

### ► CENTRAL PHOENIX

Boundaries:

North:	Northern Avenue
South:	Washington Street
East:	48th Street
West:	19th Avenue

### ► OFFICE BUILDING INVENTORY 5,000 to 25,000 SF

<b>2008</b> Existing Buildings:	660
<b>2020</b> Projected Buildings:	677

### ► ESTIMATED BREAKDOWN OF CONSTRUCTION COSTS\*

	2008	2020
Land:	\$ 60	\$130
Shell Construction Cost:	\$110	\$156
Tenant Improvements:	\$ 75	\$110
<b>Total:</b>	<b>\$245</b>	<b>\$396</b>

\* per building square foot

*Owner/User means using your rent payment to purchase a building for **your** retirement portfolio, instead of someone else's.*

## ARE YOU EXEMPT FROM THE 2008 RECESSION?

For some, a recession is a cause for concern. However, for many, it is an opportunity to acquire a quality property at a reduced price. Professional service providers, such as attorneys, CPAs, and doctors, are in the enviable position of being able to take advantage of the current downturn in the Phoenix real estate market—and increase their incomes and portfolios in the process. These business owners should adopt a “seize-the-day” attitude and capitalize on the market pullback that occurred during the last six months of 2007 and is expected to continue through much of 2008. The pullback will not last, and real estate values should begin to increase in late 2008 and early 2009.

## THIS IS NOT THE RED ZONE

While some areas have been designated as “red zones” due to the high rate of residential foreclosures anticipated in 2008 and 2009, central Phoenix is not one of them. In fact, this area is expected to have one of the lowest foreclosure rates in the Valley. Additionally, well-educated professionals will continue to move into this area because of its convenient location, which offers easy access to the outlying cities, and its proximity to sports and entertainment venues. Couple this with some of the recent projects in downtown Phoenix, including ASU’s satellite campus, TGen, the developing METRO light rail system, and a proposed teaching hospital, and you have an area that is poised to withstand this correctional market. As such, some of the most stable real estate investments available today are the freestanding, owner-occupied office properties in central Phoenix. Opportunities abound for the single-tenant professional who wants to trade rent expenses for ownership of their own building and for those investors who would like to house tenants in properties that historically experience the lowest vacancy rates in the area.

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## REHAB AND REUSE

The supply of freestanding buildings in central Phoenix consists primarily of properties that are more than 20 years old. Over the next 10 years these buildings will need to be rehabilitated and remodeled. This makes a market pullback the perfect time to purchase. Not only does it give the owner more dollars for updating, it also offers the opportunity to have a modernized building ready for lease or purchase when the market turns around. Of course, current owners need to make informed decisions as to which improvements and remodeling projects will give them more “bang for their buck.”

## GREEN IMPROVEMENTS FOR EXISTING BUILDINGS

- Green commercial interiors
  - Low Volatile Organic Compounds\* (VOC) carpet
  - Low VOC paint
  - Recycled or renewable materials, including carpet, office furniture and flooring
- Improved energy efficiency (updating old equipment)
- Shading on windows
- More open floor plans that let in natural lighting
- Desert landscaping, using less water
- Low-flush toilets

\*VOC refers to harmful fumes from products made with organic content, such as paints and carpet.

The smartest improvements are those that anticipate both market trends and buyer mindset. Today, that means making properties more environmentally friendly. This can be as simple as starting a recycling program or installing skylights. Cities are emphasizing the importance of being environmentally aware and are offering incentives to building owners to make such improvements. Many people who choose to live an urban lifestyle are environmentally conscious and place great value on properties consistent with that attitude. Since properties that incorporate "green" attributes will command higher values in the future, this is a good time to consult with an expert and determine the most efficient and effective elements to incorporate into the rehabilitation and upgrade of your investment.

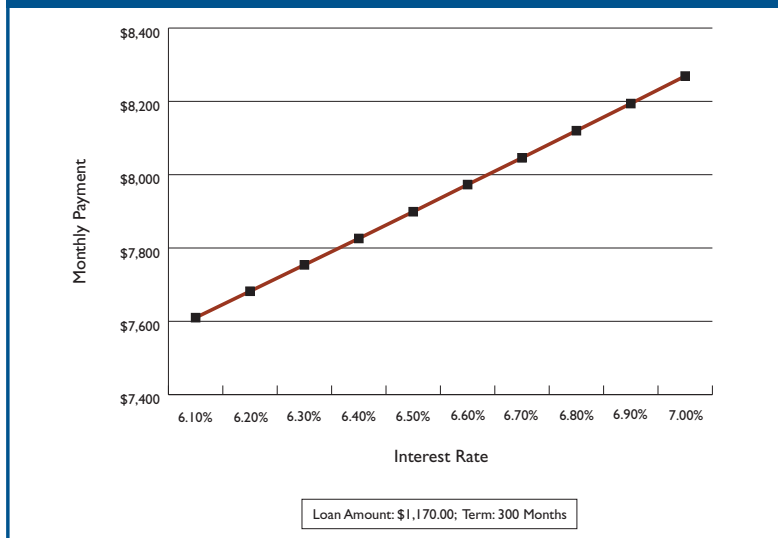
## MOVE OVER—YOU'RE STANDING IN MY SPOT

Location—location—location. According to the Maricopa Association of Governments, the population in Metro Phoenix is expected to be more than 5.2 million by 2020. As happens in most major metropolitan areas, the central Phoenix core is attracting people who want an urban lifestyle—one where they can work, play, and live without spending hours in the car. We are already seeing this materialize with the development of a number of high-rise condominiums in downtown Phoenix.

As these developments fill up over the next five to 10 years, the need for professional and retail services will follow, including insurance companies, attorneys, accountants, medical professionals, office services, shopping, dry cleaning and childcare. These services will require office and retail space and cause an increase in demand for central Phoenix commercial real estate, driving land and building values upward.

More good news for this area is that the completion of the METRO light rail system is scheduled for late 2008. Properties located along the light rail route and, more particularly, near a rail station could see even greater increases in values, as occurred in Dallas and Portland along their light rail lines.

► **FIGURE 1: IMPACT OF INTEREST RATE INCREASES ON MONTHLY PAYMENT**



Source: Colliers International

Note: Long-term interest rates are projected to rise over the next few years. On a typical \$2 million loan, each 0.5 percent increase equals an additional \$467 per month.

## WHEN SHOULD I INVEST?

Seize the day! Today's lower prices won't last. Long-term values for owner-occupied real estate in central Phoenix are expected to stay strong, driven by inflation, increasing construction costs, and a continued lack of quality properties. **A building acquisition loan is some of the least expensive money a business can borrow.** Today's low rates can be fixed for up to 20 years, offering an owner control of occupancy costs for the long term. Business owners should seriously consider converting rent expenses into ownership or upgrading to ownership with leasing opportunities. Either way, market conditions are aligned in such a way that now is the perfect time to create a golden parachute for retirement in the next 10 to 15 years.

► (continued on back page)



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*"Having a Central Phoenix location was important for our business. We believe sustainable infill development is crucial for Phoenix, so we took a classic Phoenix property and created an energy efficient environment, which both reduced our operating costs and made the office a place where people love to spend time and flourish creatively."*

*Paul Hoskin  
Hoskin-Ryan, Consultants, Inc.*

## ▶ EXAMPLE: COST AND ROI OF OWNING VS. LEASING

### ASSUMPTIONS

- ▶ Operating expenses would be the same in both cases
- ▶ Holding period is 10 years
- ▶ Building size is 5,000 square feet

### LEASING

Initial NNN Lease Rate (NNN = plus all operating expenses)	\$13.00
Annual Increases	\$1.00
Total Leasing Costs	\$875,000
Cash, Stocks & Other Equity Owned by Buyer	\$132,904
· Average Annual Increase in Value of Cash, Stocks & Other Equity	8%
· Estimated Value Increase During Holding Period	\$440,781
Potential Equity Build-Up from Leasing an Office by 2018	\$0
Gain on Investment Value	\$307,877
<b>Return on Investment = \$307,877 ÷ \$132,904 =</b>	<b>232%</b>

### OWNING

Purchase Price, including Tenant Improvements	\$1,300,000
Down Payment	\$130,000
Interest Rate	6.10%
Loan Amount	\$1,170,000
Loan Term in Months	300
Monthly Payment	\$7,610
Annual Payment (same as NNN rental)	\$91,320
Total Loan Costs	\$913,201
Building Appreciation Rate*	3%
Estimated Future Building Value at the End of the Holding Period	\$2,877,025
Less Loan Balance at the End of the Holding Period	\$1,538,213
Less Selling Costs	\$201,392
Net Proceeds from Sale	\$1,137,420
Plus Occupancy Cost Savings (Total Leasing Less Total Debt)	(\$38,201)
Potential Equity Build-Up by 2018	\$1,099,219
Gain on Investment Value	\$969,219
<b>Return on Investment = \$969,219 ÷ \$130,000 =</b>	<b>746%</b>

\*Average annual appreciation since 1998 has been 9%.

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