2020 VISION

Forecasting the future

Let us point you in the right direction -

There are signs everywhere if you know where to look.

MARCUS **MUIRHEAD**
Associate Vice President
602.222.5176
marcus.muirhead@colliers.com

COLLIERS INTERNATIONAL

PRIVATE CAPITAL ADVISORS | OFFICE PROPERTIES
Micro-Area-Partnerships (MAPS)

Our *Knowledge* is your Property

2020 VISION

FAST FACTS

CENTRAL PHOENIX MARKET

Boundaries:

West:	7th Street
East:	56th Street
South:	McDowell Road
North:	Glendale Avenue/Lincoln Drive

MARKET SNAPSHOT OF MULTI-TENANT BUILDINGS*

Building Size Range:	10,000 to 100,000 sf
Number of Buildings:	224
Rentable Square Feet:	6.75 million
Average Vacancy:	13%
Average Rental Rate:	$22

as of 2006 (Figure 3)

INVESTMENT DOLLARS **FOCUSED ON THE CORE**

Over the past several years, there has been a major influx of capital invested in the Central Phoenix area. The number of buildings sold and the average price per square foot has increased dramatically, while cap rates have continued to decline. In 2001 cap rates averaged 10 percent. As interest rates hit their lowest point in 40 years and a large influx of investment capital left the stock market and migrated into real estate, there was continued downward pressure on cap rates. In 2006 they reached their lowest point of 7 percent.

In-state investors have made up the largest portion of investment capital in the Central Phoenix market over the past several years.

WHO'S BUYING

From 1999-2006, Arizona investors accounted for approximately 57 percent all building transactions, followed by California investors at 27 percent. Most of the buyers have been private capital groups, consisting of individuals, family trusts or small partnerships. There were a few Real Estate Investments Trusts (REITs) and larger private partners who acquired buildings between 10,000 to 100,000 square feet, but the lion's share of building purchases belonged to private investors.

FIGURE 1: OFFICE BUILDING SALES ACTIVITY 10,000 TO 100,000 SF

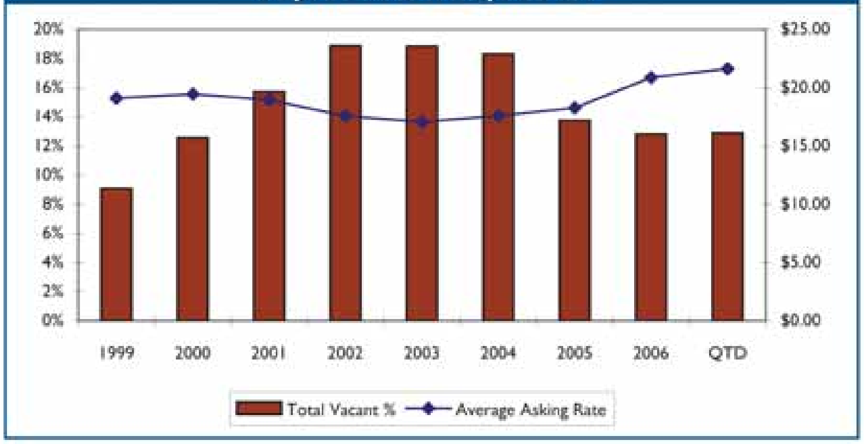
Sources: CoStar

RATES **UP...**VACANCIES **DOWN**

Current market conditions in all building classes are extremely healthy. Rental rates have been trending upwards and vacancies have been declining steadily since 2004. This trend will continue and we will see increases in property values, yet at a slower rate than has occurred in the past three years. Cap rates will continue to remain in the low to mid 7 percent range for the next several years. Increased property values will be the direct result of improved buildings operations. As existing leases expire, landlords will have the opportunity to renew or sign new leases at higher rates, thus improving the overall cash flow of the property.

As some Class B and C properties become functionally obsolete in the next few years, we can expect to see approximately 15 percent to 20 percent of the existing inventory renovated (Figure 4, on back page). This infusion of capital will directly impact the overall operation and cash flow of the property, thus driving prices upward.

FIGURE 2: OFFICE BUILDING VACANCY AND RENTAL RATE TRENDS 10,000 TO 100,000 SF



Sources: CoStar

MARCUS MUIRHEAD
Associate Vice President
Private Capital Advisors
Office Properties
602.222.5176
marcus.muirhead@colliers.com

KEY AREAS TO WATCH

There are two major development projects in the Central Phoenix area to watch over the next couple years, as their success will have a direct impact of potential future development in the area.

CAMELSQUARE AT 44TH STREET

This mixed-use development project at the northwest corner of 44th Street and Camelback Road is currently being proposed by M3 Companies. Initial plans on the site call for a mix of single-family homes, luxury condos, a boutique hotel, a medical office park, restaurants and retail shops. In 2020 this site will be a bustling hub of activity, further enhancing the attractiveness and appeal of the Camelback Corridor and Arcadia area. Late night coffee shops, eateries and specialty book stores, mixed with residential units and office workspaces will create an exciting and unique live, work and play environment presently being sought by many in the community.

BILTMORE FASHION PARK

Located on 30-acres at the northeast corner of 24th Street and Camelback Road, the Biltmore Fashion Park recently underwent Phase I of a redevelopment project. The center presently has 60 retailers and restaurants encompassing approximately 610,000 square feet. Phase II of the redevelopment, which will commence in late 2007, calls for two 15-story towers to be erected on the northeast section of the property. Preliminary plans call for mix of residential, hotel or office components.

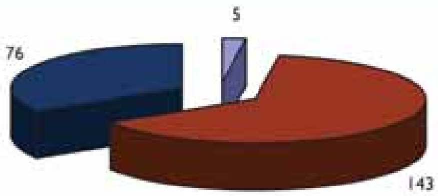
To date, the neighborhood communities have rallied to keep any high-density development projects limited to the intersection of 24th Street and Camelback Road. If developers are able to achieve increased height variances along the Camelback Road corridor, it is probable that many of the existing two and three-story office buildings constructed in the 1980s could be redeveloped into mid-rise structures, with mixed-use components including office, retail and residential units.

24TH AT CAMELBACK II

The only office building now under construction is the recently announced 24th at Camelback II, being developed by Houston-based developer Hines. The 11-story structure is located just west of the southwest corner of 24th Street and Camelback Road. The project will contain approximately 300,000 square feet with rental rates starting at $40 to $44 per sf. Construction is set for completion by the fall of 2008.

(continued on back page)

FIGURE 3: BUILDING CLASS SNAPSHOT - 2006*

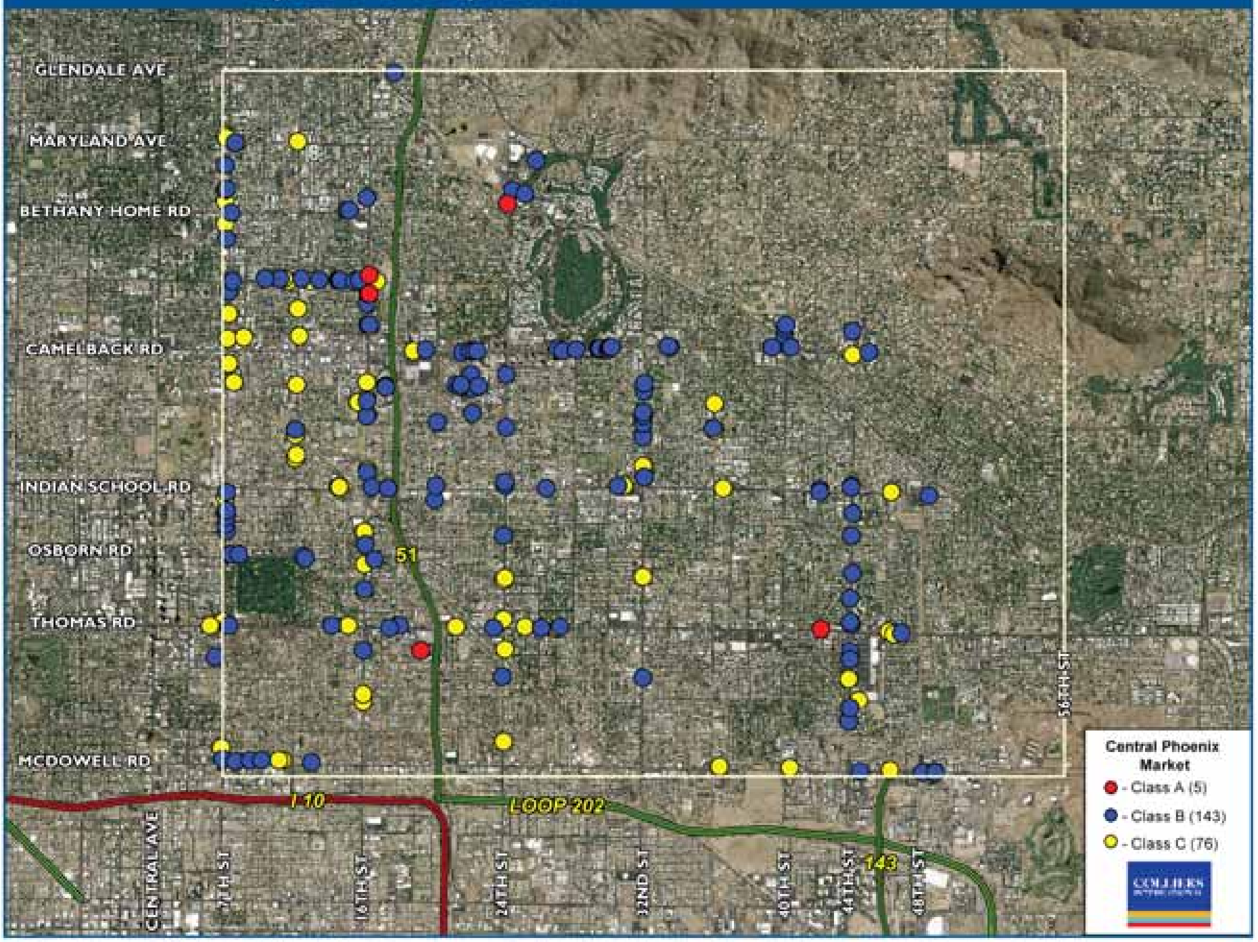


*Central Phoenix - 10,000 to 100,000 SF

Building Class	Total RBA	Avg Vacancy	Avg Rental Rate
Class A	417,064	3.0%	$25.86
Class B	4,828,452	15.4%	$22.15
Class C	1,510,647	7.6%	$16.64
Total	6,756,163	12.9%	$21.63

If developers are able to achieve increased height variances along the Camelback Road corridor, it is probable that many of the existing two and three-story office buildings constructed in the 1980s could be redeveloped into mid-rise structures, with mixed-use components including office, retail and residential units.

FIGURE 4: 2006 BUILDING CLASS SNAPSHOT - CENTRAL PHOENIX 10,000 TO 100,000 SF



Source: Colliers International | CoStar

15-20% OF THE CLASS C BUILDINGS WILL BECOME CLASS B BY THE YEAR 2020.

2390 E. Camelback Rd, Suite 100
Phoenix, Arizona 85016
Phone: 602.222.5000
www.colliers.com/phoenix

14080 N. Northsight Blvd.
Scottsdale, Arizona 85260
Phone: 480.596.9000
www.colliers.com/scottsdale

MIKE **FITZ-GERALD**
Managing Director
602.222.5038
mike.fitz-gerald@colliers.com

COLLIERS INTERNATIONAL

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