

The Greater Scottsdale Airpark 2010 REPORT

December 2009



JIM KEELEY, SIOR, CCIM
Founding Partner
Scottsdale Office



▶ LOCATION

The "Greater Scottsdale Airpark" Boundaries:

North: Loop 101 Pima Freeway
South: Thunderbird Road
West: 64th Street
East: 96th Street
(between the CAP Canal & Bell Road)

▶ ZONING

Commercial Office; Light Industry; Hotel;
Commercial Retail

▶ SIZE

±3,100 Acres
±28,962,889 SF of Buildings

▶ CURRENTLY DEVELOPED

±2,950 Acres

▶ NUMBER OF COMPANIES

±2,576

▶ BUSINESS CATEGORIES

±130
(i.e., accountants, auto, publishing, stock brokers, etc.)

▶ NUMBER OF EMPLOYEES

±48,000

▶ NUMBER OF BUILDINGS - 889 (Including hotels)

Building Usage	Square Feet	Percentage
Office	10,608,247	37%
Industrial	9,058,936	31%
Hangar	575,000	2%
Retail	6,288,500	22%
Hotel	2,432,206	8%
Total	28,962,889	

The Greater Scottsdale Airpark 2010 Report

- ▶ Tick Tock, Tick Tock
- ▶ How Did We Get Here?
- ▶ Thank Goodness For Low Interest Rates
- ▶ How Do You Weather The Storm?
- ▶ Landlords Drool And Tenants Rule
- ▶ Be Nice To Your Lender
- ▶ What Can We Expect 2010 To 2012?

We have been privileged to address you with this report since 1989. As I reflected back on the previous 20 years, I realized that nothing has remained the same...and yet this real estate cycle seems eerily similar to 1999.

We begin with TICK TOCK, TICK TOCK.

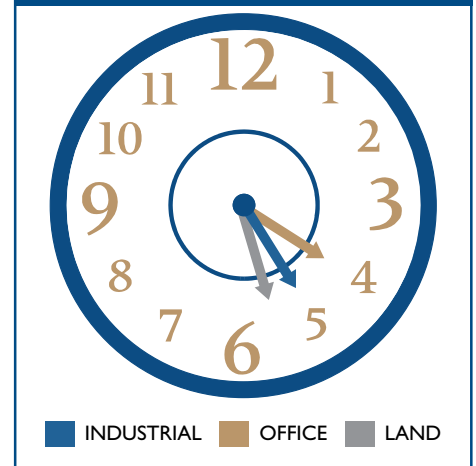
The clock on the right depicts where we feel the market is. Midnight represents the high point of the real estate cycle. For us in the Scottsdale Airpark, midnight was June 2007, the height of our "heyday." 6 a.m. represents the bottom of the real estate cycle. Given my example, in a perfect world you want to sell at midnight and buy at 6 a.m.

So why doesn't that work? Because it is nearly impossible to judge the bottom—6 a.m.—until it has passed. As the market nears the bottom, you may be competing with one or two buyers for a particular property but after we truly reach 6 a.m., you are more likely to compete with 20 or so other buyers for the same property.

Ideally, you could argue that the safest time to buy is between 4:30 a.m. to 7:30 a.m. That way you nearly catch the bottom or you buy just as the market recovers.

So where are we today on the clock? The three main commercial areas that we follow in our firm are: office, office/warehouse (industrial), and land. We would say the office market is at 4 a.m., the industrial market at 5 a.m. and land at 5:30 a.m. While owner/users are slowly buying up properties due to attractive deals and record 6 percent loans, the majority of investors are still sitting on the sidelines. They say they don't want to catch a falling knife—meaning that the market is still going down.

▶ FIGURE I



**COLLIERS
INTERNATIONAL**

HOW DID WE GET HERE?

In 2006 the Scottsdale Airpark reached 50,000 employees—a record. In 2006 we had the largest increase in the office buildings built in a single year. This translated to over 1.6 million square feet of new space. Also in 2006, the furniture showroom market added 300,000 square feet of new space.

During the midnight heyday, office rents hit \$32 to \$35 per square foot. Many of these buildings had freeway or other major visibility or close location to services. The first half of 2007 was much the same as 2006. Excitement was in the air. We had some of the highest sales per square foot in office, industrial, and retail. 2008 arrived and suddenly job losses became rampant. Office vacancies began to rise due to a combination of too much product on the market, companies downsizing, or companies tied to financial services or residential construction.

The whole world turned upside down in the fourth quarter of 2008 with the meltdown of Wall Street, the United Kingdom, China and Europe. Confidence was lost. We were rapidly heading toward 6 a.m.

2009 began much the same and is how we got here. Disbelief and fear in the marketplace and the realization that vacancies were rising weekly, instead of stabilizing, became a dreadful thought. Just another way we got here. Unfortunately 2009 is nearly over and 2010 does not look any brighter for landlords or landowners.

THANK GOODNESS FOR LOW INTEREST RATES!

As you probably know, the lending policies became more aggressive during our midnight heyday. Buyers were able to borrow more money, although there was a requirement for equity in projects. Low interest rates, often 2 percent to 4 percent, allowed buyers to have greater purchasing power. These low interest rates have allowed many owners to maintain their projects even as vacancies rose.

Recently banks have implemented new minimum interest rate floor levels, which is not a good thing for the market place. Inevitably it will make the banks more profitable, although now does not seem to be an appropriate time.

HOW DO YOU WEATHER THE STORM?

Adjust to the environment as it changes. Be in tune with the marketplace and move to the bottom before it gets there. Watching and waiting most likely will cause you to miss deals, both leasing and buying.

Now is the time to stay on top of your properties and maintain contact with your tenants. Do not let your buildings deteriorate with landscaping or repairs. Keep your tenants happy and treat them with respect. Make the property presentable to prospective new tenants. Listen to input from your brokers, read the paper and make the best deal you can. A wise old real estate professional told me, “Something is better than an empty building.”

Have a financial bridge plan in place for the next 18 months, which will allow you to keep making debt service on your projects.

If you are an investor, “jump in”—these hard assets are up to 50 percent off our midnight prices. At that kind of buy, these investments will prevail as inflations kicks in within the next three to five years.

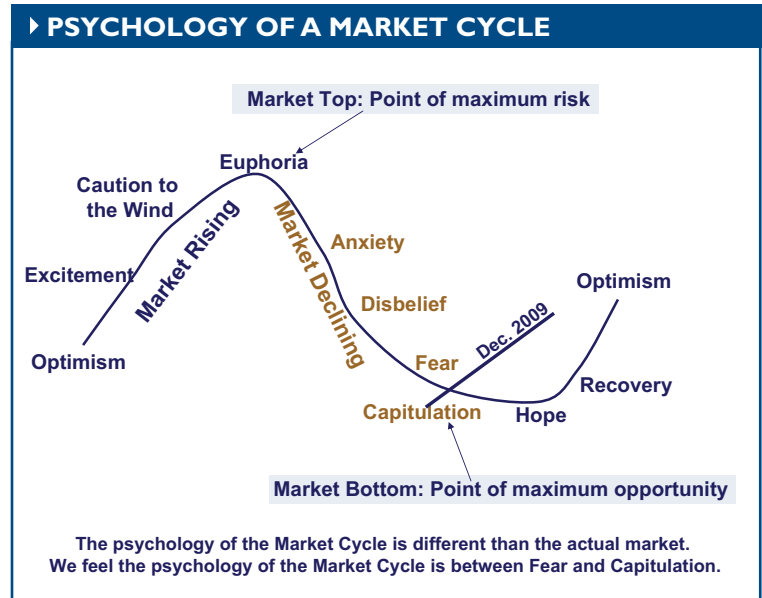
LANDLORDS DROOL AND TENANTS RULE

Landlords should be doing anything they possibly can to keep their current tenants and to attract new ones. We are seeing not only lower rental rates, but extended lease terms at more favorable rates or additional tenant

improvements. Some landlords are offering more attractive amortization of tenant improvements, caps on controllable expenses, or moving costs.

Tenants rule as they have many building choices. The only caution is a greed factor that causes a tenant to negotiate too hard and miss a deal. Our advice for tenants is to know the marketplace and negotiate in good faith. You do not have to get the last crumb in order to have made a good decision. Oftentimes we have seen tenants lose out by continuing to negotiate, while a new tenant comes along and takes the space.

Landlords should be aware of the Scottsdale Airpark employment base versus Chandler Airpark and the Price Corridor. These emerging areas will prove to be major competition in this next cycle.



BE NICE TO YOUR LENDER

Communicate, negotiate, and send that check every month. Lenders are human beings—they have bosses who have even bigger bosses. The thing that infuriates lenders most often is a lack of communication and then a borrower is in major trouble, even going dark. Call your lender often and tell him what is going on, what you are doing, what you are hearing in the marketplace, and that you want to be there at the end of the day. Negotiate with your lenders, perhaps asking them to extend loan terms, lower interest rates for a specific amount of time, and contribute to a win-win situation for all involved as much as possible. Most importantly, write that check every month. Lenders are forced to do anything to collect a loan when it is due; however, when they have received a borrower's checks every month, they tend to renegotiate...if nothing else, to keep the loan alive.

WHAT DO WE EXPECT 2010–2012?

We believe the vacancy rate will level off by the first quarter 2010, due to no new construction since 2008. With no new space being added to the marketplace, the existing space will begin to be absorbed. Also we predict a modest growth cycle in many companies. In certain industries we have already seen that happen.

2010 will be the year of the deal for sales. Many of the sellers will be bank REO properties. There will also be a fair number of land sales on short sales at discounted asking prices.

In closing here are our radical ideas for the future: Run the light rail straight up Scottsdale Road to the Airpark and Loop 101 or along the Loop 101 freeway from Tempe. The major reason to do either would be access for employees. The second idea would be to allow multifamily zoning throughout the Scottsdale Airpark, which would provide affordable housing to employees and offer an alternative use to many buildings that are currently obsolete. Multifamily zoning could also bring 24/7 activities to the Greater Scottsdale Airpark, rather than just business hours' traffic.

SCOTTSDALE AIRPARK TOTAL SQUARE FOOTAGE

Existing Buildings:	28,962,889
Buildings Under Construction / Started in 2009:	0
Total Square Footage	28,962,889

THE GREATER SCOTTSDALE AIRPARK GROWTH

June 1981 - December 2009

DATE	SQUARE FEET	VACANCY	NUMBER OF EMPLOYEES	NUMBER OF BUSINESSES
Jun. 1981	1,580,611	13.9%	±3,320	268
Jun. 1982	1,720,210	10.1%	±3,680	289
Jun. 1983	1,900,188	6.1%	±4,038	316
Jan. 1984	2,288,439	10.9%	±4,504	383
Jun. 1984	2,587,000	10.5%	±5,320	460
Jan. 1985	2,683,394	11.8%	±5,345	480
Jul. 1985	3,206,670	17.3%	±5,500	517
Jan. 1986	3,673,589	18.7%	±5,861	534
Jan. 1987	4,419,226	19.4%	±8,661	733
Aug. 1987	4,811,007	19.0%	±8,912	841
Aug. 1988	4,881,979	16.0%	±9,802	957
Aug. 1989	5,234,493	17.2%	±10,355	930
Aug. 1990	5,396,211	14.3%	±10,120	943
Aug. 1991	5,868,194	14.2%	±10,654	1,082
Aug. 1992	6,141,078	12.6%	±11,345	1,076
Nov. 1993	6,146,866	6.7%	±13,402	1,237
Sep. 1994	6,569,987	3.5%	±13,846	1,257
Sep. 1995	6,932,228	2.3%	±14,132	1,332
Dec. 1996	8,126,066	3.1%	±17,275	1,477
Dec. 1997	9,697,203	3.2%	±19,837	1,624
Dec. 1998	11,085,954	4.1%	±25,891	1,708
Dec. 1999	14,626,300	6.0%	±30,344	1,807
Dec. 2000	15,657,920	7.6%	±31,992	1,868
Dec. 2001	16,282,920	9.8%	±33,015	1,907
Dec. 2002	17,356,120	12.9%	±41,265	2,198
Dec. 2003	18,562,463	11.9%	±44,815	2,288
Dec. 2004	20,553,975	11.5%	±47,218	2,397
Dec. 2005	21,403,975	9.9%	±48,634	2,481
Dec. 2006	22,350,975	9.7%	±50,450	2,554
Dec. 2007	28,454,277	12.9%	±52,500	2,774
Dec. 2008	28,852,256	15.1%	±52,000	2,800
Dec. 2009	28,942,406	29.0%	±48,000	2,576

MAJOR COMPANIES

Air Services International
 Airpark Chrysler / Jeep
 Allied Waste
 APL Container Transportation Services
 Ashley Furniture
 Best Western
 Biltmore Bank
 Cahners In-Stat Group
 Chase Bank
 Colliers International
 Corporate Jets, Inc.
 Costco
 Cox Cable of Scottsdale
 Danny's Family Businesses
 Dial Corporate Headquarters
 Dillon Precision Industries
 Discount Tire Company, Inc.
 Ed Moses Dodge
 Fairmont Scottsdale Princess
 Farmers Insurance
 General Electric / FFCA
 General Mills
 Go Daddy Software
 Go Video
 GTCO CalComp Input Technologies Division
 Hacienda Harley Davidson
 Home Depot
 IKON
 Interface, Inc.
 JDA Software
 Knowledge Net
 Kohl's Department Store
 KYOCERA Solar
 La Petite Academy
 Legends Cadillac
 Lowes Home Improvement Warehouse
 Metris Company
 Mobility Electronics
 Nautilus Insurance Co.
 Pegasus Solutions
 Peter Piper Corporate Headquarters
 Phase 2 Solutions
 Pinnacle Nissan
 Power Ford
 Prudential Insurance
 Pulte Homes
 Qwest
 ReMax
 Rental Service Corp.
 Right Toyota
 Robb & Stucky
 Schumacher European, Ltd. (Mercedes-Benz)
 Scottsdale Honda
 SonicAir
 State Farm Insurance
 Target
 The Tech Group / Tech Poulson
 Thomasville Home Furnishings
 Trader Joes
 Trivita
 U.S. Postal Service
 U-Haul
 Unison Health Care
 Van Chevrolet
 VanGuard
 Wal-Mart Supercenter
 Westin Kierland Resort

** If you are a major company and we missed placing your name on this list, please contact us and we will correct it for next year.*

GREATER SCOTTSDALE AIRPARK HOTELS AND RESORTS

NAME	ROOMS	SIZE SF
Best Western Scottsdale Airpark Suites	120	72,392
Courtyard by Marriott	153	82,179
Extended Stay America	120	41,902
Fairfield Inn Marriott	132	44,508
Fairmont Scottsdale Princess	651	600,000
Hampton Inn Suites	123	83,688
Scottsdale Marriott at McDowell Mountain	270	270,000
Sleep Inn	108	42,000
SpringHill Suites Marriott	123	64,392
Westin Kierland	735	700,000
Wingate Inn & Suites	114	56,000
Hilton Garden Inn	122	154,775
Residence Inn	120	136,299
Scottsdale Thunderbird Suites	102	84,071
TOTAL	2,854	2,432,206

All figures are approximations.

BUILDING SALES

TYPE	# OF SALES	SALES VOLUME	TOTAL SF	AVG PRICE/SF	HIGH/LOW
2009					
Office	16*	\$37,917,000	308,000	\$123.00	\$285/\$75
Industrial	3	\$8,197,000	65,027	\$126.00	\$196/\$80
Retail	0	N/A	N/A	N/A	N/A
TOTAL	19	\$46,114,000	373,027		

*69% of the office sales in 2009 were for office condos smaller than 8,600 SF

2008

Office	17	\$23,739,375	92,360	\$257.03	\$348/\$157
Industrial	14	\$23,551,319	144,345	\$163.16	\$324/\$118
Retail	5	\$140,955,000	430,106	\$327.72	\$552/\$167
TOTAL	36	\$188,245,694			

2007

Office	43	\$483,929,417	1,918,473	\$266.51	\$497/\$190
Industrial	36	\$77,574,961	561,050	\$192.60	\$278/\$142
Retail	8	\$84,683,168	143,084	\$408.08	\$658/\$223
TOTAL	87	\$576,370,046			

2006

Office	88	\$586,838,589	2,796,648	\$209.84	\$384/\$127
Industrial	46	\$154,699,071	999,128	\$154.83	\$220/\$88
Retail	33	\$376,096,610	1,561,732	\$315.00	\$615/\$195
TOTAL	167	\$1,117,634,270			

LAND SALES

YEAR	# OF LOT SALES	SALES VOLUME	TOTAL/SF	AVG PRICE/SF
2009	0	N/A	N/A	N/A
2008	3	\$7,250,000	193,842	\$37.40
2007	16	\$55,896,182	2,227,873	\$30.93
2006	15	\$104,307,018	4,718,714	\$23.33
2005	12	\$55,203,275	2,549,240	\$21.65



▶ JIM KEELEY, SIOR, CCIM
Founding Partner
Scottsdale Office

COLLIERS INTERNATIONAL

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

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

Jim Keeley, SIOR, CCIM, founded Classic Real Estate Corporation, now known as CC Partners, L.L.C., DBA Colliers International, in 1983. The firm conducts the majority of its commercial brokerage business within the Scottsdale Airpark and the Loop 101 employment base and has concluded over 4,100 transactions and \$2.3 billion of business.

A special thanks to Colliers International brokers for their input and, in particular, Nancy Rossman for her talented editing, Cristiana Zarr for the graphic design, Mary Beth Campbell for copyediting, Matt DePinto for research efforts, and Jamie McClellan for pulling it all together.

This document has been prepared by Colliers International for advertising and general information only. Colliers International makes no guarantees, representations or warranties of any kind, expressed or implied, regarding the information including, but not limited to, warranties of content, accuracy and reliability. Any interested party should undertake their own inquiries as to the accuracy of the information. Colliers International excludes unequivocally all inferred or implied terms, conditions and warranties arising out of this document and excludes all liability for loss and damages arising there from. Colliers International is a worldwide affiliation of independently owned and operated companies. This publication is the copyrighted property of Colliers International and/or its licensor(s). © 2009. All rights reserved.

COLLIERS
INTERNATIONAL