

Brokers Forum Report

March 22, 2018

Forecast for April 2018 – September 2018

The Center for Real Estate Theory and Practice



ASU Commercial Brokers Forum Survey Forecast for April 2018 – September 2018

Introduction

It is change, continuing change, inevitable change that is the dominant factor in society today. No sensible decision can be made any longer without taking into account not only the world as it is, but the world as it will be.

Isaac Asimov

There may be change but it's not a big change. One interpretation of the survey results is this evolution, a gradual change moving the metro Phoenix commercial real estate market from simple to a more complex form. There is still uncertainty with national and global issues which may impact markets but for at least the next six (6) months the market seems to be moving carefully forward. Ninety Eight (98%) of Respondents believe metro Phoenix market was moving in an upward direction. One Respondent stated *"I think it is indicative of the market though. People are comfortable, but they are still not jumping in with two feet. There is still a little reservation"*. This comment is reflected in the survey results. When asked the question, Where Are We In The Cycle, the number of respondents saying Expansion stayed about the same (67% to 69%) but the number who said Recovery more than doubled from 9% to 19% and the number saying Maturity dropped almost in half (21% down to 11%). But, when asked specifically about the direction of Metro Phoenix, the number of respondents saying "Up" rose to 98% from 90%. So people feel good but realize the recovery is still underway. Some of this may be related to continued uncertainty about policy. When asked "How will changes in Federal Regulations related to commercial real estate lending affect the market of the next 6 months" the number of respondents saying "Negatively" continued to rise to 30%, up from 24%. As was the case in the previous report, when you look at all of the survey results it is pretty clear that some uncertainty and a cautious attitude among Respondents remains, but the type of growth we have indicates solid economic fundamentals are keeping the commercial brokerage community feeling positive.

The comments made by participants at the Forum align with the survey results and shed a little light on them. Forum members continued to express confidence in the market when considering the long term outlook, but there is a lack of absolute, unconditional confidence in the short term. One issue is labor. Lack of qualified labor is hurting expansion. Labor and cost increases continue to be a drag on the market. Growth continues, there is some focused speculative development but most new development in the commercial market is user driven. There is not much concern about overbuilding. Supply continues to be matching demand. The recovery continues to move to sub-markets previously unaffected by the recovery. This is as good an indication of the state of the market as any but a very granular analysis is still needed to understand potential for any given product in any given sub-market.

The vast majority of Respondents believe interest rates will rise (85%) and an increased number (33% up from 22%) believe investor returns will decrease if only slightly, which is an indication that investors have been accommodating interest rate increases into their returns. The question now is how long before rates have a more profound impact on returns. This is reflected in response

to the question “Will Cap Rate Compression continue of the next 6 months” the number of respondents saying “Yes” rose to 54% from 48%. Concerns still exist about the market but when asked “What is your overall feeling about the Metro Phoenix commercial real estate market, 98% of respondents answered “*Optimistic*”.

Background

The Forum has now been held for 4 ½ consecutive years (ten separate surveys). It was first held in October 2013. This report includes results of a survey conducted in the first 2 weeks of April 2018 and a discussion with The Commercial Real Estate Brokers Forum members held on April 17, 2018 about those survey results. The survey was sent to over 920 commercial real estate sales persons and brokers from all segments of the commercial real estate market relating to all commercial product types. More than 228 responded*. This report presents the survey results and comments made by members of The Commercial Real Estate Brokers Forum. The Forum is composed of 15 of the Valley’s most successful commercial real estate brokers representing all major product types, brought together by the W. P. Carey School of Business and the Center for Real Estate Theory and Practice with the assistance of Pete Bolton of the Pete Bolton Company and one of the most respected people in commercial brokerage. The purpose of the Forum is to provide meaningful, insightful and relevant input on the commercial real estate market in Phoenix. The Forum members come from a variety of sectors and specializations as well as a cross-section of the many brokerage houses in the Valley. The Center for Real Estate Theory and Practice conducts the survey and brings together the Forum every six (6) months to discuss and track the perceptions, insights and trends in the Phoenix commercial real estate market. The comments presented in this report are those made by Forum members during a meeting to discuss the survey results.

One objective of the Forum is to seek informed opinion and to hopefully achieve consensus on forward-looking key indicators of the commercial real estate market in the Phoenix metropolitan area. The Forum is an open discussion about the survey results and what is happening “on the street” in commercial real estate. The combination of the survey results and the discussion with Forum members, is used to detect current trends, discover similarities and differences among various sectors and submarkets and document anecdotal evidence, opinions and insights. This report is a summary of their opinions. Each session builds on previous surveys and the information gathered is synthesized chronologically to provide an indication of trends.

The following charts indicate the survey results of all Respondents and the comments are those of Forum members made during discussion of the survey results. The responses are anonymous. This is done so that Forum members feel comfortable providing unbridled opinions. Reading the comments will give readers a sense of what these important players in the commercial markets are thinking. Readers should note that the comments are those of the brokers and are as close as possible to being verbatim. This is not a refined analysis of market conditions.

It is clear from the results of this edition of the Forum that those who know this market best are feeling slightly more certain about where we are heading and remain confident the metro area will continue to expand at least for the next six (6) months. Cautious optimism remains the norm.

These are the forward-looking opinions of the professionals who are in the market every day and know it best. These survey results are their opinions based upon their experience.

Mark Stapp
Executive Director, Master of Real Estate Development
Director, Center for Real Estate Theory and Practice
Fred E. Taylor Professor of Real Estate

* Some Respondents only answered questions to their specific product type such as Industrial or Retail, while others answered questions about all of the product types. All Respondents answered questions about the Market Overall.

Below are consensus statements made by the panel and charts that show responses to survey questions asked of the Forum members. As noted earlier, the survey went out to 850 commercial real estate sales persons and brokers.

THE MARKET OVERALL

STATEMENTS on the overall market in Metro Phoenix:

- I think the dip in the expansion category around 10/16 was simply people's reaction to the uncertainty surrounding the election and what a circus that was. Then people began to feel better about things again, but we are still not quite as optimistic.
- The good news is we are going in the right direction again and we just keep going up in terms of where we are in the cycle.
- 2015 was a great year, it has been a much flatter increase and that shows up in the attitude about the cycle.
- Our whole sector just continues to expand, almost more organically than anything else.
- If there was too much uncertainty in the market it would have gone down and then back up to the same levels and it hasn't - it is slow steady increases.
- 98 percent say the Phoenix Metro market is moving up. That is great news.
- We are at 4.1 percent unemployment, correct? That is below full employment. I saw that 623,000 jobs are available in America that have not been filled and they can't fill them. If people aren't working it is because they don't want to work.
- Labor is very hard to find. I think the big discussion point will always go back to labor. The labor market is getting so old, and if you look at the statistics there are many fewer young electricians, plumbers, etc.
- School debt is rising so quickly and labor pay rates increasing so much that people are going to stop attending school. They are going to be an apprentice. It is going to take another five years to fix this gap. I think that people have stopped looking for work. There are jobs, but the jobs that are available are trades jobs and we don't have enough trades people.
- I think some of it is accessibility to those jobs, the ability to get to them. The ability to move from one market to another market. There are still issues because of affordability, the ability to sell something in one place and move to another place is a problem. We are still seeing mobility issues between metropolitan areas.
- The problem is that if you can find labor, it costs a lot more. You are going to wait a lot longer, so everything will slow down and is slowing down.
- The labor shortage is keeping a governor on what the single-family guys are doing. They would be building way more if labor wasn't an issue. Costs are going up on every job they bid, and they can't put stuff on the ground fast enough. They are months behind on every project because of labor issues.
- I feel like the wage gap is still maybe pulling people away from Arizona.

- Everybody has a labor issue, it is not just an Arizona problem. Denver is crazy.
- We need to see the impact of Opportunity Zones, we are not sure they are going to help.
- Impact fees must be reassessed every five year. They are coming up for everybody, so we'll see what happens.
- We have a new Fed Chair. They have already raised rates. They have already signaled that they are going to continue to raise rates. I don't think that is a big surprise.
- I don't really think Cap rates are going to go any lower. I mean, as interest rates go up cap rates can't continue to compress.
- I don't think they will follow incrementally though, but I agree. I just know there is still a tremendous amount of capital out there.

Where are we in the cycle?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Expansion	13%	47%	8%	58%	90%	71%	52%	59%	67%	69%	
Recovery	87%	53%	92%	33%	10%	29%	22%	22%	9%	19%	
Correction	0%	0%	0%	9%	0%	0%	3%	7%	3%	2%	
Maturity	0%	0%	0%	0%	0%	0%	22%	12%	21%	11%	
Recession	0%	0%	0%	0%	0%	0%	1%	0%	0%	0%	

In what direction is the metro Phoenix market moving?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up	33%	27%	84%	100%	100%	100%	88%	92%	90%	98%	
Down	33%	7%	8%	0%	0%	0%	1%	1%	0%	2%	
Stationary	34%	66%	8%	0%	0%	0%	11%	7%	10%	0%	

Will the number of people who have stopped working or stopped looking for work affect commercial real estate markets?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Absolutely	20%	87%	92%	36%	27%	29%	43%	41%	25%	24%	
Not At All	0%	13%	8%	9%	64%	64%	25%	42%	50%	56%	
Not Yet, But It Will	80%	0%	0%	55%	9%	7%	32%	17%	25%	20%	

Are local economic development programs and the real estate markets aligned?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Yes							38%	46%	62%	56%	
No							11%	11%	3%	11%	
Not Yet, but Improving							51%	43%	35%	33%	

Is uncertainty in the federal government affecting the commercial real estate market and hindering our local growth potential?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Yes		100%	100%	83%	82%	71%	57%	37%	46%	43%	
No		0%	0%	17%	18%	29%	43%	63%	54%	57%	

How will changes in Federal regulations related to commercial real estate lending affect the market over the next 6 months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Positively							6%	56%	31%	35%	
Negatively							53%	18%	24%	30%	
No Change							41%	26%	45%	35%	

Where are interest rates for commercial loans headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up	93%	0%	25%	18%	45%	36%	48%	81%	52%	85%	
Down	7%	21%	0%	0%	0%	0%	1%	1%	2%	2%	
Stationary	0%	79%	75%	82%	55%	64%	51%	18%	46%	13%	

Where are investor returns headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up	20%	7%	0%	6%	55%	36%	26%	19%	21%	20%	
Down	47%	14%	8%	13%	9%	14%	23%	29%	22%	33%	
Stationary	33%	79%	92%	81%	36%	50%	51%	52%	57%	46%	

Has cap rate compression helped effect gains in core real estate values over the past six months (October 2017 – April 2018)?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Yes	60%	80%	100%	100%	100%	86%	86%	75%	75%	76%	
No	20%	20%	0%	0%	0%	14%	14%	25%	25%	24%	
No Opinion	20%										

Will cap rate compression continue in the next 6 months (October 2017 – April 2018)?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Yes	53%	21%	50%	73%	55%	50%	45%	48%	48%	54%	
No	47%	79%	50%	27%	45%	50%	55%	52%	52%	46%	

What is the overall feeling about the metro Phoenix commercial real estate market?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Optimistic		100%	100%	100%	100%	100%	94%	97%	98%	98%	
Pessimistic		0%	0%	0%	0%	0%	6%	3%	2%	2%	

OFFICE MARKET

STATEMENTS on the OFFICE Market:

- We are starting to see some spec build-out, so we're going to be adding space. My opinion might change six months from now, but right now I think we are going to continue to see vacancy going down.
- The Camelback quarter is at negative absorption. There is a new building that just signed a co-working space, \$39/sq. ft. taking about 40,000 feet. They say it is the only deal they will do under \$40, but that's the only deal they've done.
- There is a new building coming on line in Tempe and there is some new planned product which has not hit the inventory yet.
- I don't know who would take a Class C space in today's market unless you were going to get it completely renovated.
- Landlords in the B buildings have made their space really nice. People can move from a C to a B and really provide a different environment for their employees.
- Fundamentally the biggest challenge in the office market right now is tenant improvement costs. It is starting to get difficult in Class A buildings just to pencil, which is an argument that rates are going to go up in order for some of these buildings to even be able to do tenant improvements.
- In medical office, the tenant improvements are up to \$90 - \$100 bucks a square foot.

- TIs are being tacked on to the rents, so the rent isn't really reflecting the rent. It is reflecting the construction costs.
- On shadow space you have to tear it out and then you have to rebuild it, so it is like you are doubling your basis
- The TIs are costing just as much in a C building as they do in a B building or even potentially in an A building.
- The base rent starts lower. If you are amortizing on top of that you will start to see the B and the C benefit because you can still get a 10 percent delta on your rent because you are starting at a lower base rent.
- Why go to a C space? The only reason you would is because it has some phenomenal access or sitting in a specific area that you have to be in. The price is going to be the same as an A space by the time you get done with construction.
- In the industrial Southeast Valley, some of the areas in Chandler, or along the I-10 corridor in Ahwatukee are seeing office requirements in traditional industrial space and more flex-type buildings because it is going to be less expensive for them to occupy as long as they can accommodate parking.
- That is usually the first question they ask - what is your parking? If they can meet parking they will consider going into more of a nicer, newer industrial building with a heavier build-out because it is less expensive.
- Often the flex space owners are not going to give anything on the TIs because the office space is useless once the tenant moves out, and they are going to have to demo it anyway.
- They will always have a restoration clause. They will always amortize. Usually there is some sort of higher security deposit or letter of credit that will be required. They won't do it if it's a start-up co-working space, but they will do it if it is an established company that is going to sign a longer-term lease.
- There is a lot of new construction planned, but not necessarily delivered. They will reach 80 percent of the pre-leasing and then it just sits there. There is need in a lot of the markets in the Southwest Valley and the Southeast Valley for new medical buildings.
- Medical office is driven in pockets. In the high-growth areas we are in dire need of medical space. Then you look at the inner-city areas where it is just going to sit empty for quite a while. It's almost like retail in some areas.
- For some doctors, you can just point them to retail because they can get the hard corner, have their name all over the building with great visibility and they can buy the building.
- The medical users are going to go more into retail space because medical office is taking too long to build and it is very expensive to do the TIs.
- There is parking already in your retail strip centers. The location's right there. It's perfect.

Where are office vacancy rates headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up	0%	0%	18%	0%	9%	0%	5%	0%	3%	5%	
Down	67%	21%	73%	73%	64%	79%	75%	84%	82%	75%	
Stationary	27%	79%	9%	27%	27%	21%	20%	16%	15%	20%	
No Response	6%										

Where are Class A office vacancy rates headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up							14%	4%	13%	9%	
Down							65%	77%	67%	74%	
Stationary							21%	19%	20%	16%	

Where are Class B office vacancy rates headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up							14%	2%	10%	5%	
Down							68%	82%	72%	75%	
Stationary							18%	16%	18%	20%	

Where are Class C office vacancy rates headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up							20%	22%	33%	21%	
Down							30%	29%	15%	29%	
Stationary							50%	49%	52%	50%	

Where are office rents headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up	33%	15%	42%	75%	82%	71%	72%	78%	85%	84%	
Down	7%	0%	16%	0%	0%	0%	0%	0%	3%	0%	
Stationary	47%	85%	42%	25%	18%	29%	28%	22%	12%	16%	
No Response	13%										

Where are Class A office rents headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up							80%	83%	77%	84%	
Down							0%	0%	0%	0%	
Stationary							20%	17%	23%	16%	

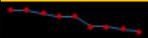
Where are Class B office rents headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up							68%	77%	77%	77%	
Down							4%	4%	3%	0%	
Stationary							28%	19%	20%	23%	

Where are Class C office rents headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up							25%	29%	18%	40%	
Down							16%	8%	10%	16%	
Stationary							59%	63%	72%	44%	

Is this a tenant or landlord office market?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Tenant		93%	92%	82%	70%	71%	38%	37%	30%	20%	
Landlord		7%	8%	18%	30%	29%	62%	63%	70%	80%	

Will we see more Office Spec Development in the next 6 months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Yes							70%	70%	77%	75%	
No							30%	30%	23%	25%	

How will the amount of available shadow space change in the next 6 months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Increase							27%	22%	31%	25%	
Decrease							39%	37%	26%	23%	
No Change							34%	41%	43%	52%	

INDUSTRIAL MARKET

STATEMENTS on the INDUSTRIAL Market:

- The biggest challenge in the big-box market is that there is so much land still available, and there is so much land that is developer controlled. You can put a building up in 8 months.
- For 250,000 feet and up, there are 13 building options that are either existing or under construction. That is a lot of available space and that does not include the 20 other developers who own land and are building. They just keep building them.
- I don't know that vacancy rates are going to go up unless they continue to build more and more spec without the absorption. Obviously they are going to continue to build spec, but we seem to be absorbing it.
- It seems like build-to-suits are those pre-leased options right now. In the Southeast Valley we are seeing the average square footage of an industrial user go up quite a bit. A lot of that is new construction driven by build-to-suit activities. I definitely think that vacancy rates are going to continue to compress.
- Most of the huge chunks of 500 to a million square foot buildings are being built in the Southwest Valley - Goodyear and up the 303.
- The opening of the southbound 202 Route will be good for the industrial market. It is great because you can get employees and management who are living in Ahwatukee but have warehouse-type businesses and have been making the trek all the way around. I think it will help southwest Phoenix because business will be more willing to go there now.
- The decision makers who live in Ahwatukee are going to be more likely to go that direction.
- I also think the extension helps the Southeast Valley because now it opens up almost another distribution area you will be able to zip around the mountain and drive an extra 10 minutes or 20 minutes, and you're that much closer to your next stop if you're going east on the 10. It has to help.
- Land prices were always considerably more expensive in the Southeast Valley than the Southwest Valley, but they are likely the same now.
- Five to six bucks, is what they are getting in the Southeast Valley. I think that will go even lower. I don't think there is going to be as big of a delta between southwest Phoenix and southeast.
- The executives who live in the Southwest Valley have a hard time finding workers out there. I think that the completion of the 202 will allow people who are coming into downtown or Tempe or coming over from Mesa or Chandler to have a way more efficient commute.

- The 202 freeway will help traffic a lot especially in central Phoenix because all the trucks that are bypassing the city will just go around South Mountain. That will really free up traffic congestion in downtown. All the residential stuff down there is darn near all in escrow.
- Big-box industrial rents are going up because it costs more to fixturize the space. They are going up because the quality of the employer is higher now. These are value-add companies. It is not just the low-tech operation anymore. Therefore they are spending more on the box so costs go up and accordingly the rates are going to climb in order to get the required returns.
- There are buildings that have been sitting vacant for 3-4 years in the Southeast Valley. I don't see those as a landlord market. The issue is obsolescence – buildings don't work for owners.
- It is pocket driven and size driven. If you are in the bread and butter 30,000 to 50,000 square foot space and you just want to be in a distribution building in Southeast Valley you have to go way out east into the Chandler Air Park or along the 60 to find something. You can't find anything in Tempe right now. There's nothing in the Broadway Industrial Park.
- Inventory along the I-10 is mostly getting absorbed. If you're looking for more of an infill space that is the average size - it is hard to find. If you are looking for a little older freestanding building in Southeast Valley, you can take your pick.

Where are big box industrial vacancy rates headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up	33%	14%	0%	0%	0%	21%	14%	10%	17%	30%	
Down	27%	7%	58%	36%	40%	58%	50%	71%	63%	41%	
Stationary	27%	79%	42%	64%	60%	21%	36%	19%	20%	30%	
No Response	13%										

Where are big box industrial rents headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up	13%	7%	9%	0%	0%	36%	27%	48%	54%	54%	
Down	27%	13%	36%	8%	30%	7%	5%	7%	0%	0%	
Stationary	47%	80%	55%	92%	70%	57%	68%	45%	46%	46%	
No Response	13%										

Is this a tenant or landlord industrial market?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Tenant		100%	83%	73%	64%	57%	82%	48%	67%	37%	
Landlord		0%	17%	27%	36%	43%	18%	52%	33%	63%	

Will we see considerable Spec Development in the industrial market over the next 6 months?

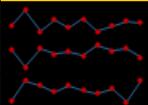
	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Yes							32%	63%	46%	89%	
No							68%	37%	54%	11%	

RETAIL MARKET

STATEMENTS on the RETAIL Market:

- Vacancy rates are going up because of all the bankruptcies in retail big boxes,
- The Toys R Us bankruptcy is going to bring three million square feet into play in the valley, and they're good locations too.
- Who's occupying? The same type of user or is it shifting? - it is specialty uses like fitness centers, furniture users, floor covering stores. They are also dividing the spaces up.
- One issue in converting space is use clauses which have restrictions from all the other tenants in the center. You have to go to them to get approval, and everybody has their hand out. It is not easy at all to convert big box space that has been vacated.
- We are just trying to reinvent ourselves. A lot of entertainment and food uses. The big thing right now is food halls.
- You can only do that in the San Francisco's, the Chicago's. I mean, you can't do it everywhere, and I really question whether Phoenix can get it done.
- Philadelphia, Los Angeles have some really terrific food halls, but it's hard to manufacture one here. There's a little one in Desoto Market in Downtown Phoenix. I don't know if you can go much bigger here yet.
- I guess at the end of the day we are going to have a lot more vacancy. A lot of the traditional retail uses are not expanding like they've expanded before. There is also a lot of downsizing.
- So Aldi's is another competitor that has a lot of private label and inexpensive products. It only requires a small footprint—23,000 square feet or so.

Where are retail vacancy rates headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up	13%	50%	0%	27%	9%	29%	0%	13%	24%	21%	
Down	61%	7%	64%	46%	55%	42%	75%	56%	64%	36%	
Stationary	13%	43%	36%	27%	36%	29%	25%	31%	12%	43%	
No Response	13%										

Where are retail — anchored center rents headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up	47%	20%	42%	45%	80%	64%	50%	48%	36%	38%	
Down	7%	20%	16%	0%	10%	0%	0%	11%	7%	17%	
Stationary	33%	60%	42%	55%	10%	36%	50%	41%	57%	45%	
No Response	13%										

Where are retail - unanchored center rents headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up	27%	18%	0%	9%	28%	36%	0%	27%	33%	34%	
Down	13%	0%	42%	55%	36%	7%	25%	19%	31%	30%	
Stationary	47%	82%	58%	36%	36%	57%	75%	54%	36%	36%	
No Response	13%										

Where are retail — big box (over 25K square feet) rents headed in the next 6 months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up	13%	8%	0%	0%	10%	21%	50%	14%	5%	9%	
Down	7%	46%	25%	70%	60%	29%	25%	30%	45%	47%	
Stationary	67%	46%	75%	30%	30%	50%	25%	56%	50%	45%	
No Response	13%										

Is this a tenant or landlord retail market?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Tenant		100%	100%	100%	80%	79%	75%	44%	48%	55%	
Landlord		0%	0%	0%	20%	21%	25%	56%	52%	45%	

Will we see an increase/decrease in Big Box Absorption over the next 6 months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Increase							50%	49%	33%	34%	
Decrease							25%	24%	23%	34%	
No Change							25%	27%	44%	32%	

MULTIFAMILY MARKET

STATEMENTS on the MULTIFAMILY Market:

- Vacancy rates seem to be holding steady. I don't think there is going to be a big increase unless you are focusing on certain spots. Downtown Phoenix and Tempe are in dogfights right now because everyone built the same product at the same time. It will absorb but will require concessions and time. There are about four spots that have vacancy issues, but the rest of the market feels pretty healthy as far as absorption and the number of units being built. Everybody built urban this cycle. They are starting to build some suburban now.
- We are starting to see some construction for the first time on the west side. I think we're pretty healthy. Rents are moving up quickly. I think that that is another reason you might see a little dip on vacancy. Overall I think we're pretty steady.
- I think right now we have been 95 percent flat for the last 2 years in this marketplace. We have actually brought almost 30,000 units to the market since 2010.
- Right now there are 21,000 units under construction. The 21,000 is scheduled for '18, '19 and '20 deliveries. Right now there are 36 buildings in lease-up, about 7,300 units.
- It's not that they won't do well. They eventually will do well. It is just that everybody built at the same time, so you're in a battle for leasing.
- Along the lake in Tempe, Kierland area, then along 7th Street and 16th Street, there is a lot of building up and down those areas right now. Those are the areas where everybody is building at the same time. Mostly because construction costs have been rising so quickly and so much that you have to build where you can get that kind of rent. It's really slowed everything down for building in the suburbs because the rent increase is not as strong yet in the suburbs, but they are catching up quickly.
- At the same time there is blood in the market because the concessions are so big in certain sub-markets.
- The suburbs are littered with the guys doing the 12 to 13 density. I mean, darn near every multifamily site has one of those guys on it now.
- We also seem to have a supply shortage in the single family.
- Any little pocket where you can build a small project is going to get picked up.
- There is almost no ceiling right now in B and C product.
- The same thing happened in Texas, they were getting seven percent rate growth. I thought I would never see it here, and yet here we are.
- They keep doing these capital improvements and renovations of B and C product at such high levels of renovations that it starts to really compete with the A product.
- The high-tech job growth has been tremendous. I'm seeing employment numbers rise. As wages rise they can pay more.

- We are so insulated from what's going on in the rest of the United States from that standpoint, we just eclipsed \$1,000 a unit average rate across the entire market. But our median income is \$62,000 a year.
- We are still very affordable relatively speaking.
- I think you'll see there is always that small pocket of condo conversion that takes place. It is a short window generally.
- Some of the Class A product, especially the ones that haven't got the rent bump yet, were really built to condo standards.
- Some of the new stuff that came on line in the middle to the end of the recession is now all about location, and they are past the construction defect window.
- I think the B-minus and C are going to grow at a much greater rate than the B and B plus.

Where are apartment vacancy rates headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up	34%	20%	36%	18%	0%	29%	0%	22%	22%	33%	
Down	0%	40%	28%	10%	20%	14%	14%	11%	11%	33%	
Stationary	53%	40%	36%	72%	80%	57%	86%	67%	67%	34%	
No Response	13%										

Where are Class A apartment vacancy rates headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up							29%	67%	56%	42%	
Down							14%	0%	11%	25%	
Stationary							57%	33%	33%	33%	

Where are Class B apartment vacancy rates headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up							14%	11%	22%	0%	
Down							29%	22%	33%	50%	
Stationary							57%	67%	45%	50%	

Where are Class C apartment vacancy rates headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up							14%	11%	22%	0%	
Down							43%	44%	45%	33%	
Stationary							43%	45%	33%	67%	

Where are apartment rents headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up	34%	0%	45%	75%	50%	43%	100%	67%	67%	58%	
Down	0%	13%	0%	8%	0%	7%	0%	0%	0%	8%	
Stationary	53%	87%	55%	17%	50%	50%	0%	33%	33%	33%	
No Response	13%										

Where are Class A apartment rents headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up							29%	33%	11%	25%	
Down							0%	33%	33%	25%	
Stationary							71%	34%	56%	50%	

Where are Class B apartment rents headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up							86%	78%	78%	58%	
Down							0%	0%	0%	8%	
Stationary							14%	22%	22%	33%	

Where are Class C apartment rents headed in the next six months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Up							86%	100%	88%	50%	
Down							14%	0%	12%	8%	
Stationary							0%	0%	0%	42%	

Which multifamily property class will realize the greatest rent growth over the next six months (October 2017 – March 2018)?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Class A		33%	25%	9%	0%	36%	0%	0%	12%	17%	
Class B		67%	67%	58%	0%	57%	71%	33%	44%	58%	
Class C		0%	8%	33%	100%	7%	29%	67%	44%	25%	

Have apartment rents for newly constructed projects reached their peak given the current market conditions?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Yes							57%	78%	75%	33%	
No							43%	22%	25%	67%	

Will the availability of labor be an issue in the development of Apartment projects over the next 6 months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Yes							100%	78%	100%	100%	
No							0%	22%	0%	0%	

How much has the cost of materials impacted rental rates?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Significantly							29%	0%	67%	42%	
Somewhat							57%	78%	33%	58%	
Not At All							14%	22%	0%	0%	

Will apartment affordability be a concern over the next 6 months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Yes							57%	55%	67%	75%	
No							43%	45%	33%	25%	

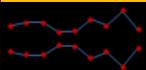
LAND/HOUSING MARKET

STATEMENTS on the LAND/HOUSING Market:

- Builders are backing out of deals for specific reasons, but they go somewhere else instead – they are still buying.
- It's not an economic issue as far as needing the land. They want the land. They just back out of deals for other reasons. Development costs are huge.
- The impact fees for single-family homes seem to be going up. Goodyear has a big one on the table right now. It's not economic development but it's problematic.

- Entitlements are a problem too. They are not backing out because corporate is telling them not to buy in Phoenix.
- The other thing that you need to think about from an industrial standpoint are all of these apartments going up and not as many single family units. When apartment projects get built there are 300 units. It's 300 of the exact same cabinets, the exact same washing machines. Whereas when you build 300 single-family homes that is going to be a lot of different suppliers. That is going to trickle down I think to the industrial side a lot more. I feel like from an industrial standpoint we have a longer runway than everybody else does because single family hasn't quite caught up yet.
- Buyers are qualifying, it's tough but they are qualifying.
- Land prices are going to be an issue. Every homebuilder is complaining most about the labor costs which is just driving up the costs for putting in the improvements and building the houses.

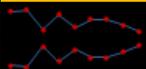
Have land prices reached their peak?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	
Yes		14%	18%	18%	6%	7%	22%	14%	33%	10%	
No		86%	82%	82%	94%	93%	78%	86%	67%	90%	

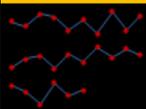
Have homebuilders stopped buying land?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Yes		0%	9%	17%	10%	21%	0%	0%	0%	0%	
No		100%	91%	83%	90%	79%	100%	100%	100%	100%	

Are homebuilders backing out of land deals?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Yes		93%	100%	33%	82%	43%	67%	69%	50%	29%	
No		7%	0%	67%	18%	57%	33%	31%	50%	71%	

Is the tight inventory for homes on the market affecting the commercial side at all?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Yes	40%	33%	50%	45%	27%	42%	22%	54%	27%	48%	
No	13%	40%	50%	10%	55%	29%	78%	46%	73%	52%	
Not Yet, But It Will	40%	27%	0%	45%	18%	29%					
No Response	7%										

Will the difficulty for buyers to qualify and get financing have a great impact on homebuilding over the next 6 months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Yes							33%	64%	28%	19%	
No							67%	36%	72%	81%	

What will have the greatest impact on homebuilding over the next 6 months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
All of the Above							67%	79%	77%	62%	
Land Prices							0%	0%	0%	0%	
Labor Costs							33%	21%	17%	19%	
Material Costs							0%	0%	6%	19%	
All of the Above							67%	79%	77%	62%	

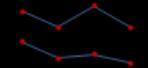
INVESTMENT MARKET

STATEMENTS on the INVESTMENT Market:

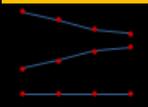
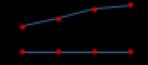
- There was an article out the other day that L.A. has surpassed New York as the number one market in the country and the number one market on the continent. Makes us look good.
- Institutional money for big-box stuff is just ridiculous. That is why everyone builds on spec because they can and then just sell it.
- Some of the better industrial sellers last year were low five cap rates.
- They pro-forma the sale out to 18 months. It's all at 18 months because there are so many institutional buyers waiting to buy the product.
- They do not have to lease them to sell them, they will buy them empty.
- They just get a little bigger hit if it's leased. They will build a spec building as long as it has 32, 36 foot clear ceilings, 150 foot truck docks. Whenever checks the boxes for the investor they buy it.
- Depending on size though they are almost talking themselves into deals.
- From the industrial standpoint Phoenix just always build more. It feels like we never get ahead. Back in 2007 everything was super busy, crazy, and you had to hurry up and get a deal done. It doesn't feel like we're in that.
- I think that's for any specialty we have always overbuilt.
- The only thing greater than the demand is the supply. It looks like it's always going to be that way.

- We consistently continue to absorb more even though we build more, so we're still at least going in the right direction.
- Phoenix has a longer runway than everybody else.
- College towns are going to do really well. College towns that are capitals or close to capitals will do extremely well.
- We are certainly seeing a lot of companies from California looking at Arizona. We are benefiting from that already.
- The brokers in Southern California are struggling because there are no deals. There is no vacancy. That is the beauty of Phoenix. We can always make deals because we always have space. Retail space, apartments, land, industrial, so yeah, come on over. We got plenty of room.

Will the flow of investment capital into the Phoenix market grow over the next 6 months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Increase							29%	60%	46%	67%	
Decrease							6%	0%	8%	0%	
Stay the Same							65%	40%	46%	33%	

Where is the capital investment emphasis heading to over the next 6 months?

	10/13	04/14	10/14	04/15	10/15	04/16	10/16	04/17	10/17	04/18	Trends
Tier 1 Markets							63%	43%	20%	10%	
Tier 2 Markets							37%	57%	80%	90%	
Tier 3 Markets							0%	0%	0%	0%	