The LightRailConnect Market Report

2010 Q4 Year End

Light Rail Corridor

Phoenix - Tempe - Mesa

(.25 miles radius from light rail stations)

LIGHT RAIL CONNECT.COM

Q4 2010 Light Rail Market Report

Metro Phoenix (Phoenix-Tempe-Mesa)

Scope and Overview

This report analyzes results of real estate activity within a quarter-mile of each light rail station in the Phoenix-Tempe-Mesa corridor, also known as 'Transit Oriented Development' or TOD.

The Phoenix-Tempe-Mesa metro **light rail corridor** is comprised of an initial 28 Stations, extends 20 miles in length and was built at a construction cost of $1.4 Billion. Service began for the public in December 2008. Currently two extensions are planned, both approximately 3 miles in length that will extend the line in each direction. The first project is in Phoenix at the North end, and the second extending the South end to downtown Mesa. The Phoenix extension will be paid for by the City of Phoenix and is currently on hold due to City budget issues; the Mesa extension is proceeding forward and will be paid for by a combination of Federal funds and Proposition 400 half-cent sales tax money.

Definition and Terms

Light Rail Corridor: The area measured by a 0.25 mile radius from a light rail station. Planned track extensions in Mesa and Phoenix are not included until the tracks are built and in service.
Net Absorption: The net change in occupied space over a given period of time.
Submarkets: This report provides information on the three submarkets in Phoenix, Tempe and Mesa in the light rail corridor.
Vacancy Rate: A measurement expressed as a percentage of the total amount of physically vacant space divided by the total amount of existing inventory. 'Under construction space' generally is not included in vacancy calculations.
Vacant Space: Space that is not currently occupied by a tenant, regardless of any lease obligation that may be on the space.
Rental Rates: The annual costs of occupancy for a particular space quoted on a per square foot basis.
Class A: A classification used to describe buildings that generally qualify as extremely desirable investment-grade properties and command the highest rents or sale prices compared to other buildings in the same market.
Class B: A classification used to describe buildings that generally qualify as a more speculative investment, and as such, command lower rents or sale prices compared to Class A properties.
Class C: A classification used to describe buildings that generally qualify as no-frills, older buildings that offer basic space and command lower rents or sale prices compared to other buildings in the same market.

Residential Housing

Phoenix reported 14 **single family detached** (SFD) homes sold in Q4 within a quarter-mile radius of the light rail stations. This is a decrease from 22 homes that sold in Q3 of this year. The **Median Price** was $59,900 and the **Average Sale Price** was $102,206; the average size of 1,446 SF calculates to an average price of $70.81/SF. **Average Time on Market** for homes sold was 121 days. The most expensive house sold in Q4 2010 was located near the McDowell/Central Station at 124 W. Almeria Rd, Phoenix. Sales Price was $240,000 with 3 bedrooms, 2 bathrooms and 1,637 square feet, built in 1930. The 4th quarter reported **61 condo** sales, up from 55 condo sales in Q3, with an average price of $105,436 ($101.03/SF). The average unit size was 991 SF and the time on market was 104 days for these sold units. The highest selling condo price was on the 10th floor of the Lexington Condos, located at 1 East Lexington Ave. It sold for $490,600 and has 1,933 SF, 3 bedrooms and 3 bathrooms. There were 9 sales in the Lexington Condos with prices ranging from $141,700 to $490,600. These units boast a loft style with ceilings nearly 12 feet high and a floor to ceiling window line.

Of these 75 single family detached and condo sales, 29 were traditional, 29 were lender owned, and 17 were short sales.

124 W Almeria

1 East Lexington

120 E Rio Salado

In **Tempe**, 9 **SFD houses** sold in Q4 with an average price of $92,589 for an average price of $73.71/SF. Average time on market for these homes was 102 days. Six condos sold with the average sales price of $121,258 in the quarter. The average cost was $130.80/SF and the average condo size was 911 square feet. The average time to sale for these homes was 76 days. Tempe's top condo sale for Q4 near the rail was on the 4th floor of the Edgewater Condos, located at 120 E. Rio Salado. This unit sold for $178,800; it has 1 bedroom, 1.5 bathrooms and reports 1,166 SF.

Of these 15 sales in Tempe, 2 were traditional, 7 were bank owned, and 6 were short sales.

Mesa reported 4 **SFD homes** sold near the only current Mesa Station (Sycamore & Main St.) with an average sales price of $74,900 and an average home size of 1,468 square feet.

Multi Family

Light Rail Apartments showed an increase in activity from the fourth quarter. Of the six sales reported, one was lender owned and one a short sale.

Light Rail Apartments Sold in Q4				
Property Address	**Units**	**City**	**Sale Date**	**Sale Price**
1010-1044 E Orange St	148	Tempe	10/12/2010	$4,800,000
1919 W Colter	57	Phoenix	10/26/2010	$900,000
336 E Willetta St	18	Phoenix	12/21/2010	$860,000
635 N 4th Ave	18	Phoenix	10/8/2010	$356,000
35 N May St	12	Mesa	12/22/2010	$230,000
502 E Mariposa St	9	Phoenix	12/30/2010	$225,000

Land

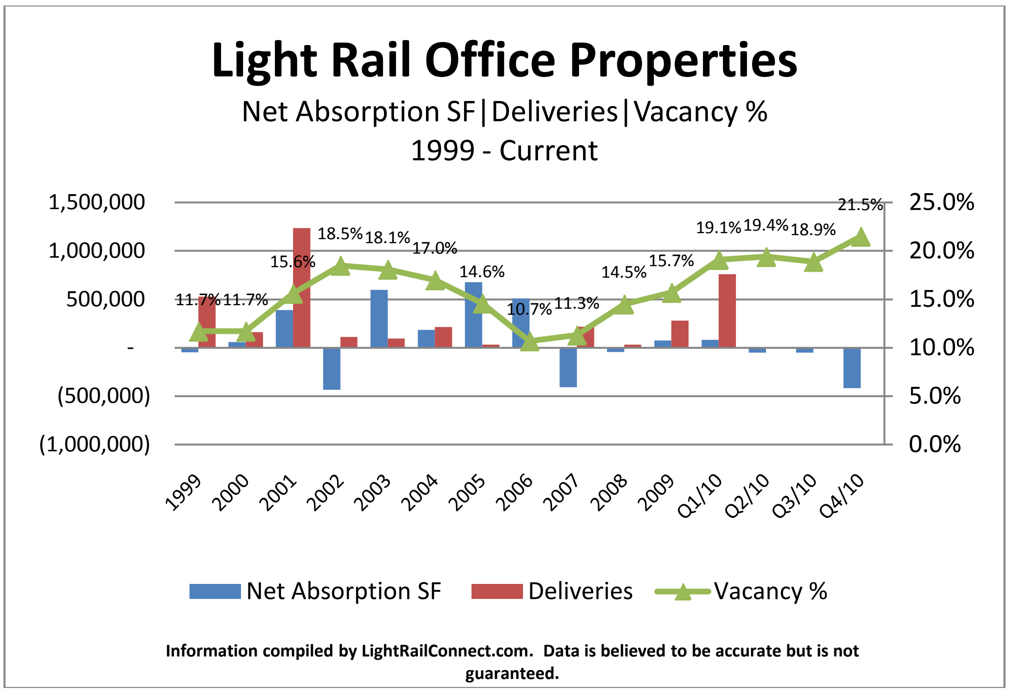
One **land** sale was recorded in the light rail corridor in Q4 within a quarter mile of a station. Q3 recorded two sales, Q2 three sales, zero in Q1, and 2 transactions recorded in Q4/2009. In this quarter, Orpheum Partners, LLC purchased two parcels at 114 West Adams in Phoenix for $1 million ($38.08/SF) with a proposed hold for investment.

Light Rail Land Sold in Q4				
Location	Lot Size	Sale Price	$/SF	Sale Date
114 West Adams, Phoenix	0.60 AC	1,000,000	38.08	12/13/2010

In the fourth quarter we are reporting 11 **land** parcels for sale within a quarter mile of the 28 light rail stations. The largest two parcels are listed at the Sycamore & Main Street Station in Mesa for $12-$16 per square foot, with the land size at 6.85 and 6.08 acres respectively.

Office Market

The light rail corridor office **market vacancy** increased to 21.5% in the fourth quarter of 2010. This compares to 18.9% for the previous quarter's vacancy rate. Vacancy rates in the light rail corridor have been on a steady increase since 2005 when the market experienced a drop. Before then, the vacancy rate had decreased to 17% for 2004. The highest vacancy rates for all light rail corridor submarkets can be found in Phoenix at 22%. The lowest of the submarkets is Mesa (which does not represent much office space) at 17.9%. The vacancy rate in the light rail corridor is less than the metropolitan Phoenix area which reported 21.3% vacant space.

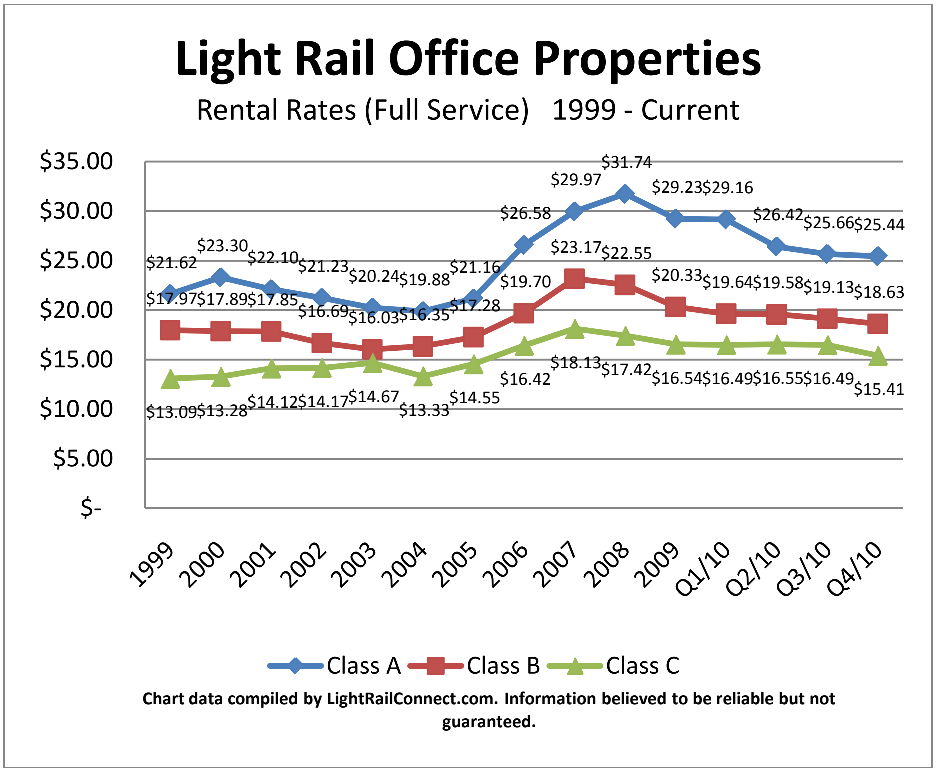


Net Absorption for the light rail corridor was negative (417,443) square feet for the fourth quarter of 2010. Net absorption in the third quarter of 2010 totaled a negative (49,779) square feet.

The Phoenix City submarket reported that absorption for the fourth quarter totaled negative (412,845) square feet; Tempe reported negative absorption of (2,798), and Mesa reported negative (1,800) square feet. The entire metro Phoenix area reported a net absorption of positive 651,167 square feet in the fourth quarter. That compares to a negative (77,701) square feet in the third quarter 2010, and a positive 290,663 square feet in the second quarter 2010.

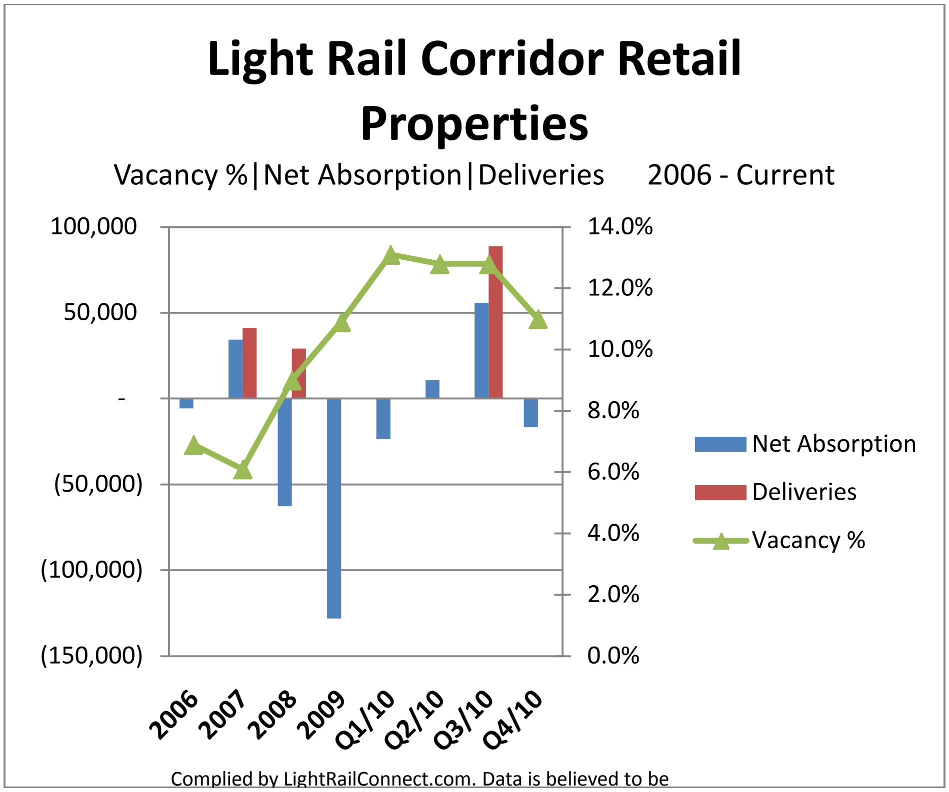
Office lease rates in the light rail corridor, which have steadily decreased since 2008, decreased again in the fourth quarter of 2010 to an average rate of $25.44/SF, Class A full service, compared to the average rate in Q3 of $25.66/SF full service. The lowest rates within 0.25 miles from the light rail stations in the third quarter were found in the Mesa submarket at a flat

$10.80/SF. In comparison, the average rental rate for all classes in the metro Phoenix area was at $21.38/SF.



Retail Market

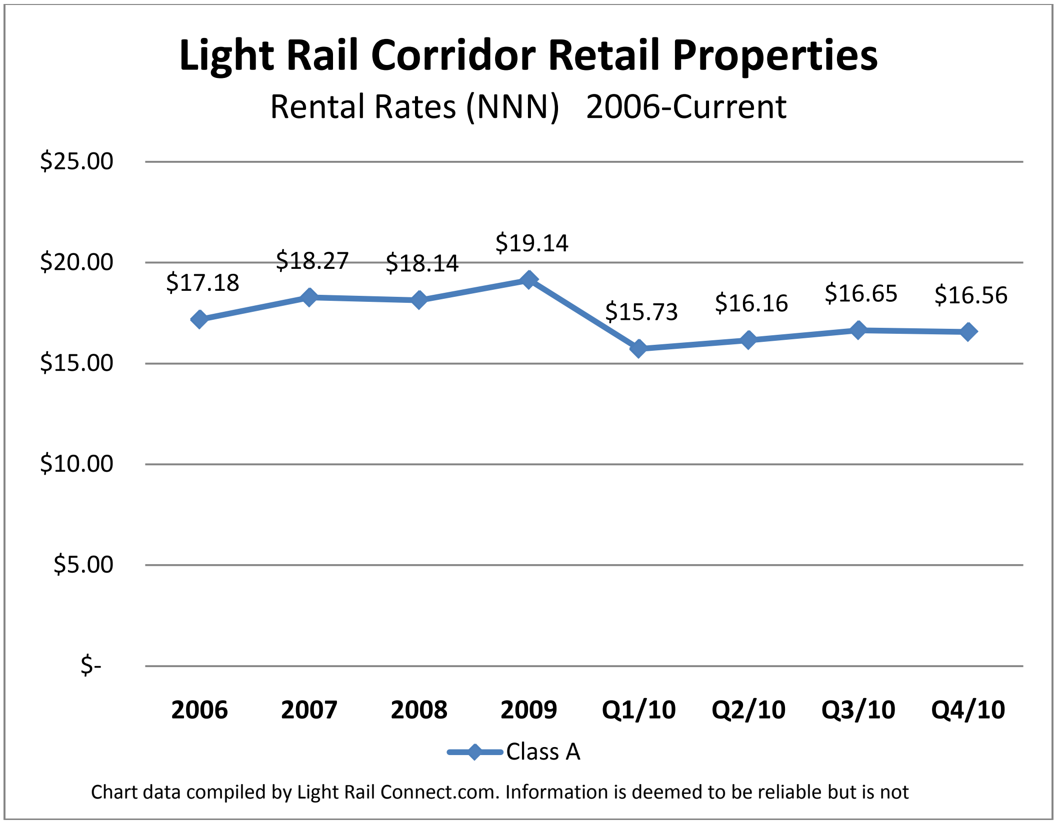
The Light Rail Corridor **retail market vacancy rate** in the fourth quarter of 2010 decreased to 11% from 12.8% in Q3, flat from 12.8% in the second quarter of 2010, and down from 13.1% in Q1. This is still an increase from 2009 year end vacancy rate of 10.9%. The highest retail vacancy rate was reported in the Mesa submarket at 25.8%. The metro Phoenix area retail vacancy rate decreased slightly to 12.1% in Q4 2010, down from 12.4% in Q3.



Absorption for **retail space** in the light rail corridor was negative (16,654) square feet in the fourth quarter, compared to a positive 55,705 square feet in the third quarter. The Phoenix submarket reported negative absorption of (15,747) square feet for the fourth quarter with 11.3% vacancy, while the Tempe submarket ended with 7.1% vacancy and reported positive absorption of 1,207 square feet. Mesa vacancy remained high at 26.8% and reported negative absorption of (2,114) square feet.

The overall metro Phoenix area market reported positive absorption of 563,502 square feet, which had been a negative trend in 2009; overall vacancy rate in the Phoenix metro market in the fourth quarter was 12.3%, down slightly from Q3.

A notable Q4 retail delivery was CityScape, located at 50 E. Jefferson Street in Phoenix, which delivered 9,362 square feet to Oakville Grocery and is 100% occupied. CityScape will provide an additional 50,000 sf of retail space and is scheduled to be delivered in Q2 2011.



Rental rates for retail space in the light rail corridor decreased slightly from $16.65 in Q3 to $16.56 in Q4. Quoted rental rates in the metro Phoenix retail market are down from levels of $16.82 in Q2. We expect this trend of rental rates to decrease or be flat at least in the short term.