

THE LIGHTRAILCONNECT MARKET REPORT

THIRD QUARTER 2010

Light Rail Corridor

Phoenix - Tempe - Mesa
(.25 miles radius from light rail stations)



Q3 2010 Light Rail Market Report

Metro Phoenix (Phoenix, Tempe, Mesa)

Scope: This report comprises real estate activity within a quarter-mile of each light rail station, also known as ‘Transit Oriented Development’ or TOD.

The Phoenix Metro **light rail corridor** is comprised of 28 Stations and extends 20 miles in length. Service began in December 2008 at a cost of approx. \$1.4 Billion. There are currently two extensions planned, both approximately 3 miles in length that will extend the length of 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.

Residential Housing

Phoenix reported 25 **single family detached** (SFD) homes sold in Q3 within a quarter-mile radius of the light rail stations. This is a decrease from 29 homes that sold in Q2 of this year. The **Median Price** was \$80,000 and the **Average Sale Price** was \$130,173; the average size of 1,497 SF calculates to an average price of \$80.07/SF. **Average Time on Market** for homes sold was 96 days. The most expensive house sold in Q3 2010 was located near the Camelback/Central Station at 21 East Orange Dr, Phoenix. Sales Price was \$550,000 with 4 bedrooms, 2 bathrooms and 2,840 square feet. The third quarter reported **55 condo** sales, down from 79 condo sales in Q2, with an average price of \$104,754 (\$82.66/SF). The average unit size was 1,092 SF and the time on market was 132 days for these sold units. The highest selling condo price was on the 5th floor of the Portland Place Condos, located at 208 W. Portland St. It sold for \$675,000 and has 2,829 SF, 2 bedrooms and 2.5 bathrooms (*This same size model sold for over \$1.2 million in 2007*). The Portland Place Condos are consistently among the highest-priced condos sold in the Phoenix Metro area.

Of these 80 single family detached and condo sales, 22 were traditional, 35 were bank owned, and 23 were short sales.



21 East Orange



Portland Place Condos



MillStone Townhomes

In **Tempe**, 10 **SFD houses** sold in Q3 with an average price of \$90,900 for an average price of \$75.07/SF. Average time on market for these homes was 89 days. Eight **condos** sold with the average sales price of \$125,312 in the quarter. The average cost was \$113.98/SF and the average condo size was 1,094 square feet. The average time to sale for these homes was 80 days. Tempe's top condo sale for Q3 near the rail was at MillStone, located at 330 S. Farmer Ave. This unit sold for \$204,500; it has 3 bedrooms and 3 bathrooms and reports as 1,565 SF.

Of these 18 sales in Tempe, 9 were traditional, 6 were bank owned, and 3 were short sales.

Mesa reported 4 **SFD homes** sold near the only current Mesa Station (Sycamore & Main St.) with an average sales price of \$75,000 and an average home size of 1,441 square feet.

Note: In comparison to the larger market, the average Q3 sale price for homes in the Metro Phoenix area was down from the Q2 at \$166,750 and a median sales price of \$119,500. The average sales price of homes has declined each of the last four months.

Multi Family

Light Rail Apartments showed a decrease in sales in the third quarter. Three apartment complexes sold in Q3 2010, as opposed to 7 sales in Q2. It should be noted that these were not traditional sales, all three were listed as "Non-Arms Length" transactions.

Light Rail Apartments Sold in Q3						
Address	units	Sq Ft	City	Price	\$/unit	Conditions
4140 N. Central	414	356,484 SF	Phoenix	\$30,000,000	\$72,464	Non-Arms Length
10 W. Minnezona	131	136,765 SF	Phoenix	\$15,000,000	\$114,504	Non-Arms Length
137 E. Coronado Rd	43	27,255 SF	Phoenix	\$1,050,000	\$24,419	Non-Arms Length

Land

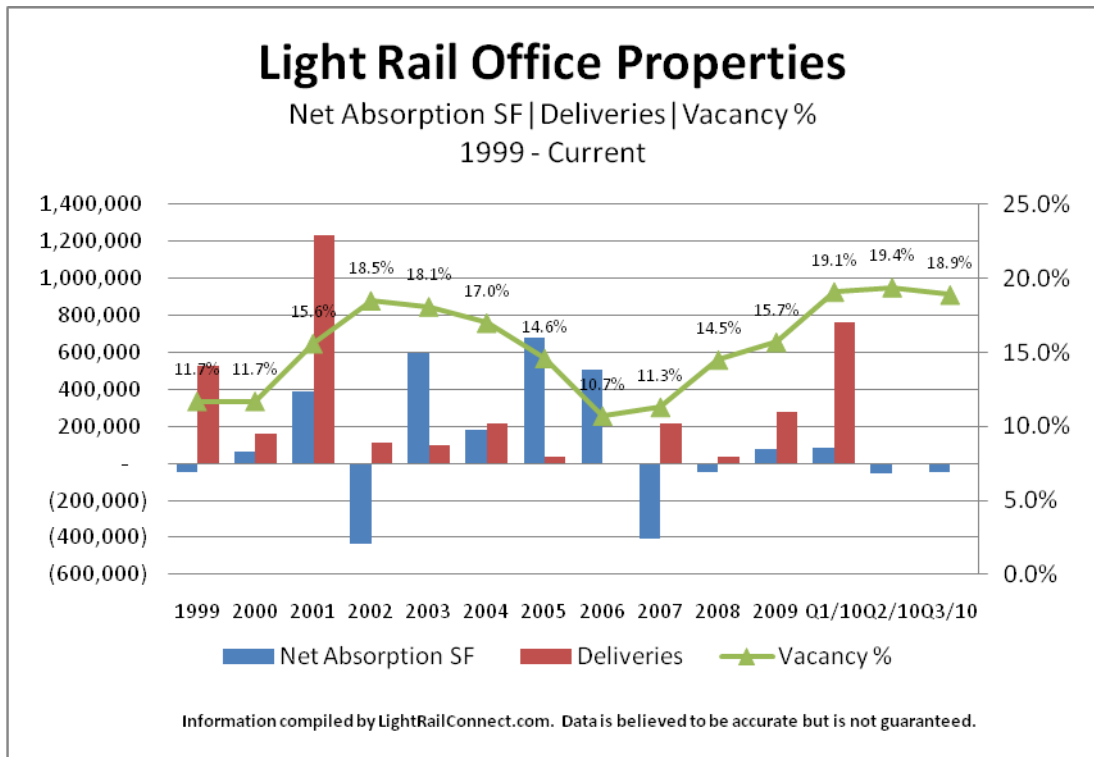
Two land sales were recorded in the light rail corridor in Q3 within a quarter mile of a station. Q2 recorded 3 sales, zero in Q1, and 2 transactions recorded in Q4/2009. In this quarter, the City of Phoenix was a buyer on a non-disclosed purchase price on a parcel sold by the Portland Group; however, the County assessed price was \$21.66/SF. The sale price on the second parcel was \$21.91/SF and has a proposed parking lot use. Both of the sales occurred in Phoenix.

Light Rail Land Sold in Q3					
Location	Lot Size	Sale Price	\$/SF	Sale Date	
NW Bethany Home & 19th, Phoenix	0.23 AC	219,302	21.91	8/11/2010	
NW Portland & Central Ave, Phoenix	0.87 AC	n/a	n/a	8/04/2010	

In the third quarter we are reporting 23 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.

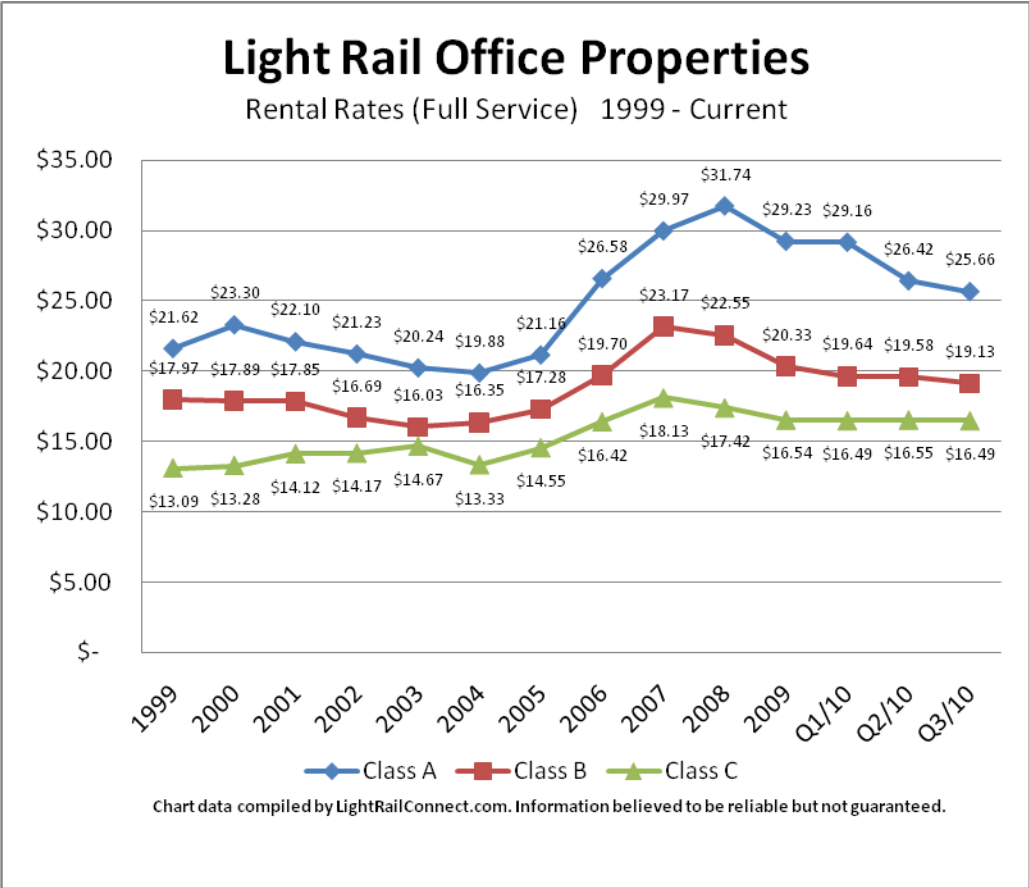
Office Market

The Light Rail Corridor Office **market vacancy** increased to 18.9% in the third quarter of 2010. This compares to 18.6% 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 22.9%. The lowest of the submarkets is Mesa (which does not represent much office space) at 6.6%. The vacancy rate in the Light Rail Corridor is less than the Metropolitan Phoenix area which reported 21.7% vacant space.



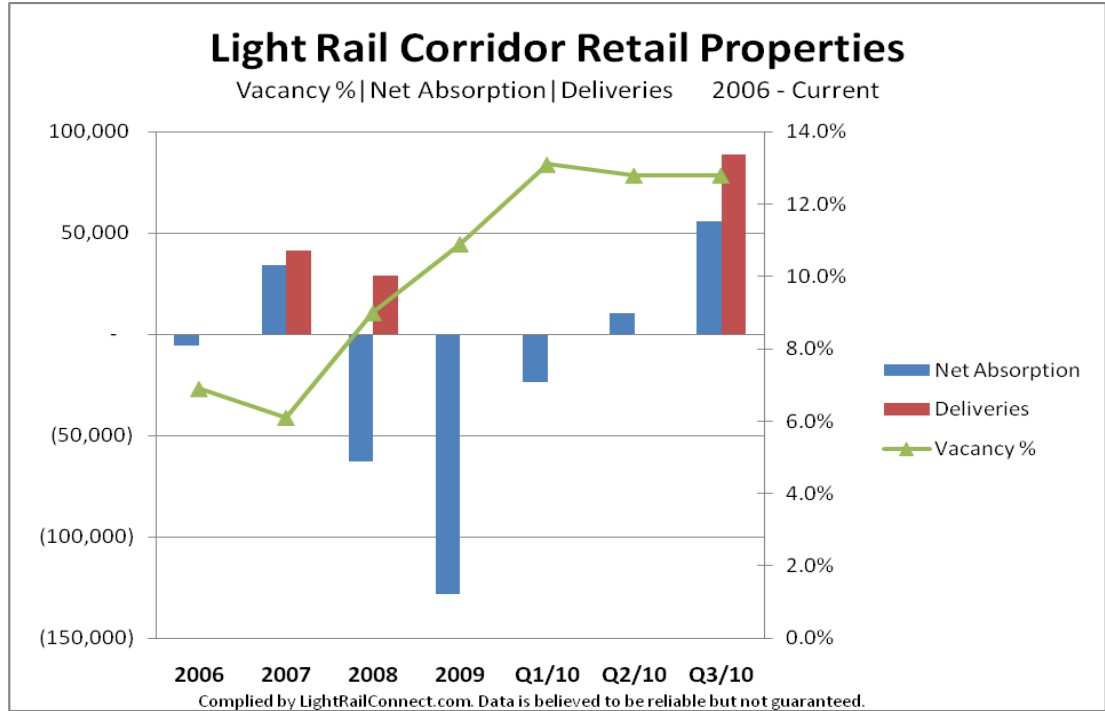
Net Absorption for the Light Rail Corridor was negative (49,779) square feet for the third quarter of 2010. Net Absorption in the second quarter of 2010 totaled a negative (80,267) square feet. The Phoenix City submarket reported that absorption for the third quarter totaled negative (50,562) square feet. Mesa reported positive absorption of 4,787 square feet for the third quarter of 2010. The entire Metro Phoenix area reported a net absorption of negative (77,701) square feet in the third quarter. That trend compares to a positive 290,663 square feet in the second quarter 2010, and a positive 135,095 square feet in the first quarter 2010.

Office lease rates in the Light Rail Corridor, which have steadily decreased since 2008, decreased in the third quarter of 2010 to an average rate of \$25.66/SF, Class A full service, compared to the average rate in Q2 of \$26.42/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 slightly under \$21.49/SF.



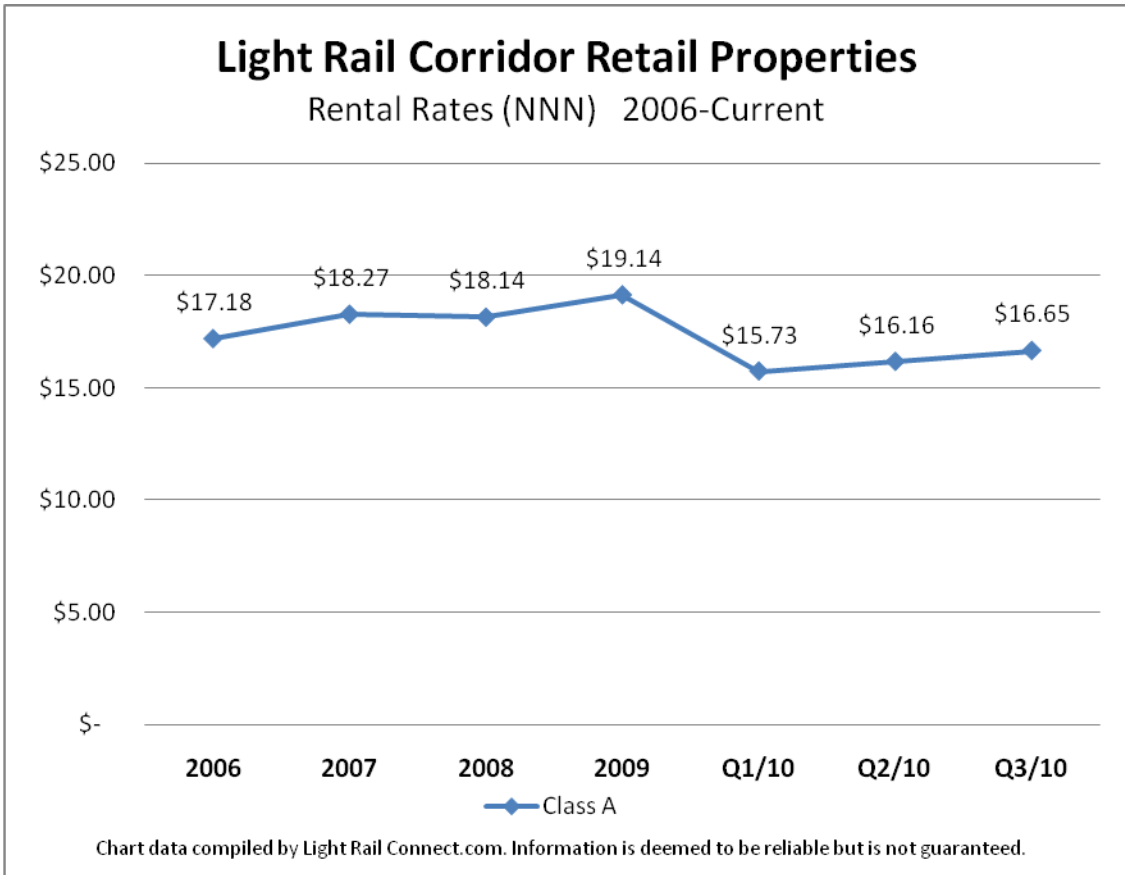
Retail Market

The Light Rail Corridor **retail market vacancy rate** in the third quarter of 2010 remained flat at 12.8% from Q2, and down slightly from 13.1% in the first quarter of 2010. This is an increase from 2009 year end vacancy rate of 10.9%. The highest retail vacancy rate was reported in the Mesa submarket at 26.8%. The Metro Phoenix Area retail vacancy rate increased slightly to 12.4% in Q3 2010, up from 12.2% in Q2.



Absorption for retail space in the Light Rail Corridor was positive 55,705 square feet in the third quarter, compared to a positive 24,282 square feet in the second quarter. The Phoenix submarket reported positive absorption of 63,777 square feet for the third quarter with 13.4% vacancy, while the Tempe submarket ended with 8.5% vacancy and reported positive absorption of 1,046 square feet. Mesa experienced 26.8% vacancy and reported negative (4,647) square foot absorption. The overall Metro Phoenix Area market reported positive absorption of 170,697 square feet, which has been a negative trend in 2009; overall vacancy rate in the Phoenix Metro Market in the fourth quarter was 12.4%, up slightly from Q2.

A notable Q3 retail delivery was CityScape, located at 50 E. Jefferson Street in Phoenix, which delivered 69,462 square feet and is now 93% occupied. The Grand Opening is scheduled for November 4-7.



Rental rates for retail space in the Light Rail Corridor decreased slightly from \$17.19 in Q2 to \$16.65 in Q3. Quoted rental rates in the Metro Phoenix retail market are down from levels of \$16.82 in Q2. We can expect this trend of rental rates to decrease at least in the short term.

Definitions 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.

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