

THE LIGHTRAILCONNECT MARKET REPORT

SECOND QUARTER 2011

Light Rail Corridor

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



Q2 2011 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.

Copyright 2011 Light Rail Advisors, LLC. All Rights Reserved. Information contained in this report is believed to be correct but is not guaranteed. The following sources were used to gather data and information for this report: ARMLS and CoStar. If you would like more information about real estate research in the light rail corridor or have any questions please visit our site at www.LightRailConnect.com or email us at report@lightrailconnect.com.

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 Q2 within a quarter-mile radius of the light rail stations. This is flat from the number of 13 homes that sold in Q1 of this year. The market activity has jumped dramatically all over the Phoenix metro area the last quarter. The **Average Sale Price** dropped slightly to \$97,389- down from \$102,206 in the previous quarter; the average size of 1,405 SF calculates an average price of \$69.99/SF. **Average Time on Market** for homes sold was 97 days. The most expensive house sold in Q2 2011 was located near the Thomas/Central Station at 50 W Windsor in Phoenix. Sales Price was \$192,000 for 2 bedrooms, 2 bathrooms and 1,395 square feet, built in 1940. Of these 14 Single family detached homes 7 were bank owned, none were traditional sales and 7 were short sales.

The 2nd quarter reported **62 condo/loft** sales. This is a change in the number of sales over the last 3 consecutive quarters (down from 91 in Q1/11, flat from 61 condo sales in Q4). The average sales price reported \$144,044 (\$112.04/SF). The average unit size was 1,241 SF and the time on market was 121 days for these sold units. The highest selling condo was a penthouse suite at 1 Lexington Ave. It sold for \$646,000 and has 1,815 SF, 2 bedrooms and 2.5 bathrooms. Seven condos sold at Lexington Place, seven condo sales recorded at The Landmark as well as at the Regency House. Five sales were at Tapestry on Central, and three condo sales recorded at Portland Place.

Of these 62 condo/loft sales, 25 were traditional, 32 were lender owned, and 5 were short sales. In this condo market we are reporting that a majority of sales are bank owned.

At the end of the 2nd quarter there were approximately 46 condo/loft units for sale; so, with an absorption rate of 15 condos per month, that calculates to a 3-month supply on the market. Some condos have been pulled off the market and converted to apartment rentals decreasing the supply.



1 Lexington Ave, Phx



Portland Place on W Portland, Phx



Tapestry at 2302 N Central, Phx

In **Tempe**, 10 **SFD houses** sold in Q2 with an average price of \$92,280 and an average price of \$67.69/SF. Average time on market was 63 days. These numbers were lower than last quarter where the average home sold for \$124,480 (\$78.36/SF) was 1,547 SF in size and dwelled 87 days on market.

Two condos sold with the average sales price of \$190,625, up from the previous average of \$132,667. The average cost was \$157.07/SF and the average condo size was 1,273 square feet. The average time to sale for these homes dropped to 18 days. Tempe's top condo sale for Q2

near the rail was on the 3rd floor of the Hayden Square Condominiums, located at 154 W 5th St. This unit sold for \$201,250; it has 3 bedrooms, 2 bathrooms and reports 1,273 SF. Both units sold were traditional sales. Tempe currently has 6 condos for sale.

Mesa reported 2 **SFD houses** sold near the only current Mesa Station (Sycamore & Main St.) with an average sales price of \$54,500 and 1,274 square feet. Mesa currently has no condo complex near the only station.

Multi Family

Apartments within .25 miles of a light rail station recorded five sales in the quarter. Maricopa County purchased Campaign Place from HUD in a foreclosure sale. These units are subsidized.

Light Rail Apartments Sold 2Q 2011						
Property Address	Name	City	units	Sales Price	Price/unit	Sale Date
4140 N Central Ave	Station on Central	Phx	414	\$36,500,000	\$88,164	5/03/2011
1701 E Don Carlos	Cabana on McClintock	Phx	181	\$6,400,000	\$35,359	4/18/2011
1825 E Don Carlos	Arizona Sun Apts	Tempe	14	\$289,000	\$20,643	4/27/2011
209 W Jackson	Campaign Place	Phx	300	\$2,549,957	\$8,500	7/01/2011
1041 S Mariana		Tempe	7	\$260,000	\$37,143	5/19/2011

Land

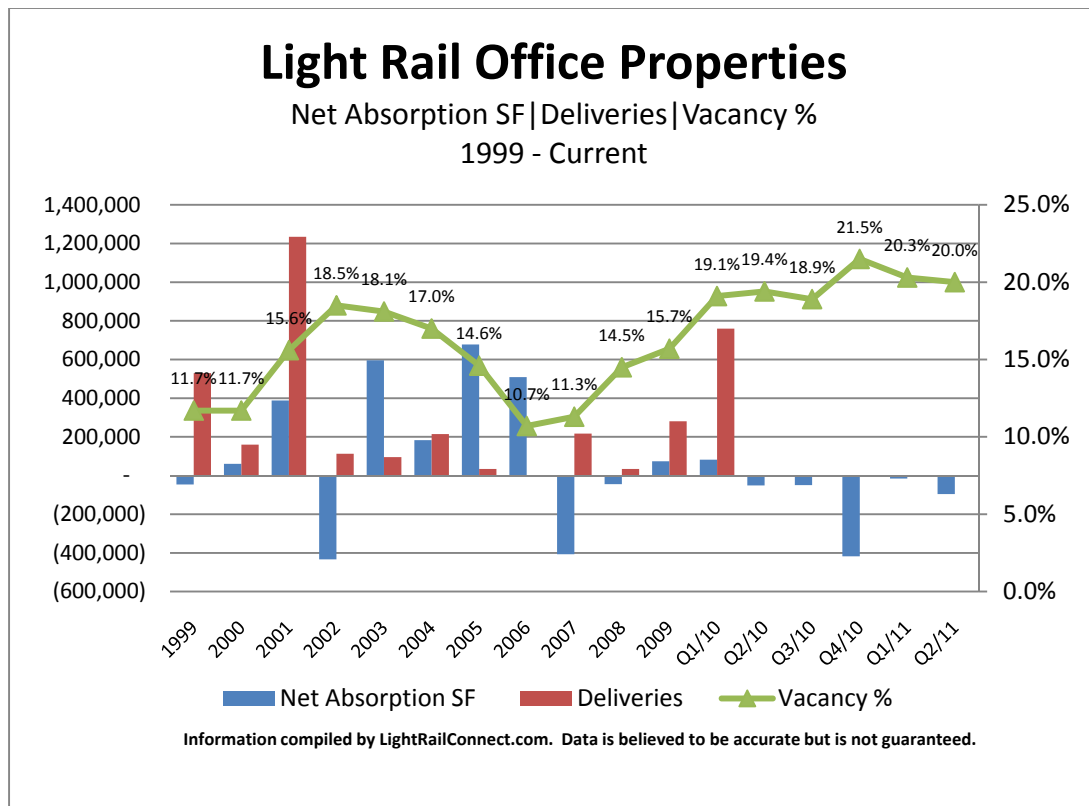
Six land sales were recorded in the light rail corridor in Q2 within a quarter mile of a station. Q1/11 had six sales, Q4/10 one sale, Q3/10 two sales, and three in Q2/2010. Of the six transactions this quarter, four were cash sales. The two parcels at SW Garfield and SE Roosevelt have an intended mixed use project with a 329-unit apartment complex and retail space. Construction is planned for Q2/12. The property at SWC E McDowell will be used to expand school/classroom for the Arizona School for the Arts. An existing paved parking lot is the continued use for SE Palm Lane. The parcel at NE Pierce St has an intended commercial/office use. And finally, the parcel at 813 N 1st St reports an intended commercial use.

Light Rail Land Sold in Q2						
Location	Lot Size	Sale Price	\$/SF	Sale Date	Conditions	
SW Garfield St & 4 th St, Phoenix	0.96 AC	1,018,096	24.35	6/10/2011	Lender Owned	
SE Roosevelt St & 3 rd St, Phoenix	1.92 AC	2,067,042	24.72	6/10/2011	Lender Owned	
E McDowell & N 3 rd St, Phx	1.14 AC	1,750,000	35.12	5/06/2011		
SE Palm Ln & 1 st Ave, Phoenix	1.94 AC	1,368,421	16.19	5/20/2011		
NE Pierce St & 3 rd St, Phoenix	0.80 AC	1,000,000	28.59	6/17/2011		

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.

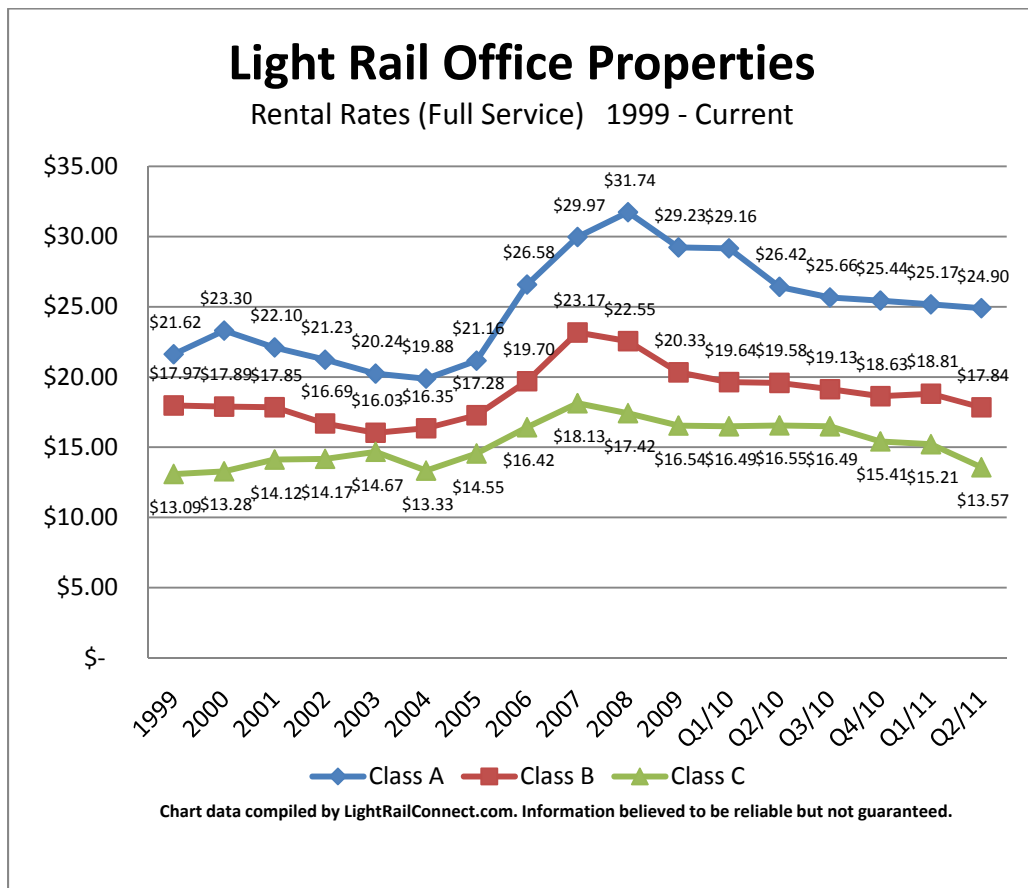
Office Market

The light rail corridor office **market vacancy** was flat at 20.0% in the 2nd quarter of 2011. This compares to 20.3% 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 20.7%. Tempe produced a more favorable vacancy rate decrease from 16.3% in Q1/2011 to 15.7% in the current quarter. The lowest of the submarkets is Mesa (which does not represent much office space) at a flat 9.7%. The vacancy rate in the light rail corridor is less than the metropolitan Phoenix area which reported 21.2% vacant space.



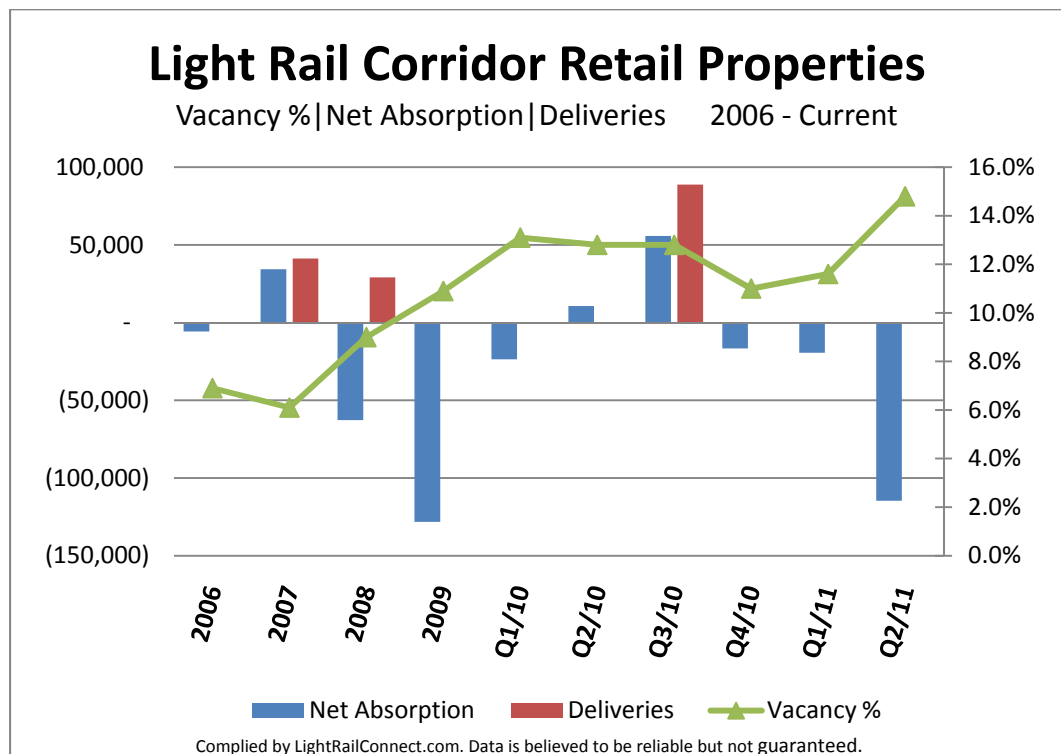
Net Absorption in the light rail corridor was negative (95,551) square feet for the second quarter of 2011. Net absorption in the first quarter of 2011 totaled a negative (15,394) square feet. The Phoenix City submarket reported that absorption for the first quarter totaled negative (91,004) square feet; Tempe reported a slight negative absorption of (4,547) SF, and Mesa reported zero absorption this quarter. The entire metro Phoenix area reported a net absorption of positive 320,438 square feet in the second quarter. That compares to a negative (242,980) square feet in the first quarter 2011, and a positive 545,960 square feet in the fourth quarter 2010.

Office lease rates in the light rail corridor, which have steadily decreased since 2008, decreased again slightly in the second quarter of 2011 to an average rate of \$24.90/SF, Class A full service, compared to the average rate in Q1 of \$25.17/SF full service. Class B overall rates were reported down at \$17.84/SF, as well as Class C at \$13.57/SF. The lowest rates within 0.25 miles from the light rail stations in the first quarter were found in the Mesa submarket at a flat \$10.81/SF. In comparison, the average rental rate for Class A Office in the metro Phoenix area was at \$24.09/SF, while the average overall rental rate reported in at \$20.95/SF for all classes, flat from \$20.99/SF in the fourth quarter.



Retail Market

The Light Rail Corridor **retail market vacancy rate** in the second quarter of 2011 increased to 14.8%, up from 11.6% in Q1, up from 11% in Q4 and 12.8% in the third quarter of 2010. This is still an increase from 2009 year end vacancy rate of 10.9%. The highest retail vacancy rate was reported in the Phoenix submarket at 20.7%. The metro Phoenix area retail vacancy rate was flat in Q2 at 12.2% from 12.4% in Q1/2011, up from 12% in Q4/2010.

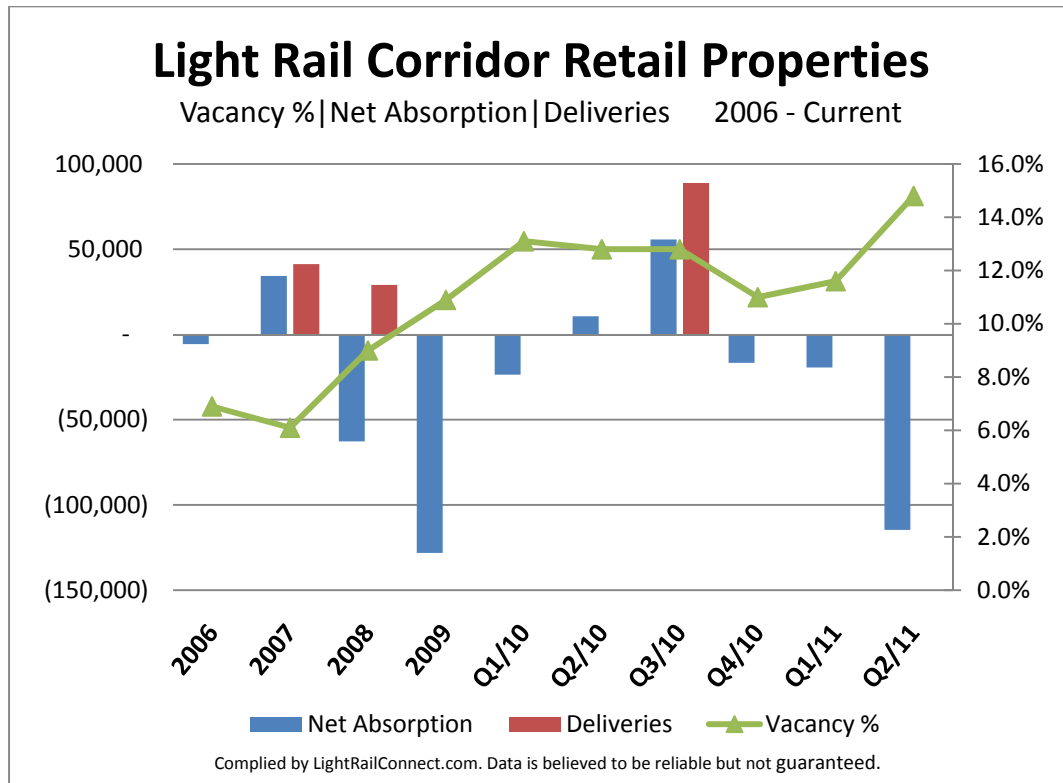


Absorption for retail space in the light rail corridor was negative (114,662) square feet in the second quarter, compared to a negative (19,359) square feet in the first quarter. The Phoenix submarket reported negative absorption of (119,705) square feet for the second quarter with 17.4% vacancy, while the Tempe submarket ended with a flat 7.5% vacancy and reported positive absorption of 5,043 square feet. Mesa vacancy remained high at 27.5% and reported zero absorption this quarter.

The overall metro Phoenix area market reported positive absorption of 412,654 square feet, which had been in a general negative trend since 2009; overall vacancy rate in the Phoenix metro market

in the second quarter was 12.2%, down slightly from 12.4% in Q1/11, but relatively flat over the past year.

A notable Q4 2010 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 that is scheduled to be delivered in Q3 2011. This property is reported at 98% pre-leased; the quoted lease rate is \$35/SF.



Rental rates for retail space in the light rail corridor decreased slightly to \$15.92 in Q2 from \$16.23 in Q1/2011, and \$16.56 in Q4/2010. Quoted rental rates in the metro Phoenix retail market fell down below the \$17.00 level in 2010 to \$16.26 in Q4, \$15.78 in Q1/11 to the current \$15.40 in Q2/11. We expect this trend of rental rates to decrease or be flat at least in the short term.