

THE LIGHTRAILCONNECT MARKET REPORT

THIRD QUARTER 2011

Light Rail Corridor

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



Q3 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.

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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 24 **single family detached** (SFD) homes sold in Q3 within a quarter-mile radius of the light rail stations. This is up almost double from the number of 14 homes that sold in Q2 of this year. The market activity has jumped dramatically all over the Phoenix metro area the last quarter. The **Average Sale Price** increased slightly to \$131,092: down from \$97,389 in the previous quarter; the average size of 1,349 SF calculates an average price of \$85/SF. **Average Time on Market** for homes sold was 84 days. The most expensive house sold in Q3 2011 was located near the Encanto/Central Ave Station at 55 E Hoover Ave in Phoenix. Sales Price was \$503,400 for 3 bedrooms, 3 bathrooms and 2,600 square feet, built in 1924 in the Ashland Place Historic District. Of these 24 single family detached homes 13 were bank owned, none were traditional sales and 6 were short sales.

The 3rd quarter reported **59 condo/loft** sales. This is a change in the number of sales over the last 3 consecutive quarters (down from 62 in Q2/11, 91 in Q1/11, flat from 61 condo sales in Q4). The average sales price reported \$150,527 (\$111/SF). The average unit size was 1,275 SF and the time on market was 111 days for these sold units. The highest selling condo was a tie: a penthouse suite at 1 Lexington Ave that sold for \$520,000 and has 1,973 SF, 2 bedrooms and 3 bathrooms; the other sale for \$520,000 is located at 208 W Portland St, and is 2 bedroom, 2.5 bath and 2,829 SF. Ten condos sold at The Landmark, seven condo sales recorded at Portland Place, and six at the Regency House, and five each at Lexington as well as Pierson West.

Of these 59 condo/loft sales, 22 were traditional, 24 were lender owned, and 13 were short sales. In this condo market we are reporting that a majority of sales are bank owned.

At the end of the 3rd quarter there were 48 condo/loft units for sale; so, with an absorption rate of 20 condos per month, that calculates to a 2.5 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



Landmark at 4750 N Central, Phx

In **Tempe**, 11 **SFD houses** sold in Q3 with an average price of \$90,491 and an average price of \$78.14/SF. Average time on market was 78 days. These numbers were slightly lower than last quarter where the average home sold for \$92,280 (\$60/SF) was 1,547 SF in size and dwelled 87 days on market.

Five condos sold with the average sales price of \$135,780, up from the previous average of \$190,625. The average cost was \$113/SF and the average condo size was 1,289 square feet. The average time to sale for these homes dropped to 65 days. Tempe's top condo sale for Q3 near the light rail was at 303 S Farmer Ave. This unit sold for \$205,000; it has 3 bedrooms, 3 bathrooms and reports 1,565 SF. Four units sold were traditional sales. Tempe currently has 7 condos for sale.

Mesa reported no **SFD houses** sold near the only current Mesa Station (Sycamore & Main St.) Mesa currently has no condo complex near the only station. Plans are underway to extend the Mesa light rail line an additional 3.1 miles east to Mesa Drive over the next few years.

Multi Family

Apartments within .25 miles of a light rail station recorded only three sales in the quarter.

Light Rail Apartments Sold in Q3/11						
Property Address	Name	City	units	Sales Price	Price/unit	Sale Date
910 E Lemon	University Place	Tempe	36	\$1,343,284	\$37,313	7/29/2011
1835 E Don Carlos	na	Tempe	39	\$1,020,000	\$26,154	08/29/2011
5026 N 17 th Ave	Pasadena Palms	Phoenix	14	\$350,000	\$25,000	7/21/2011

Land

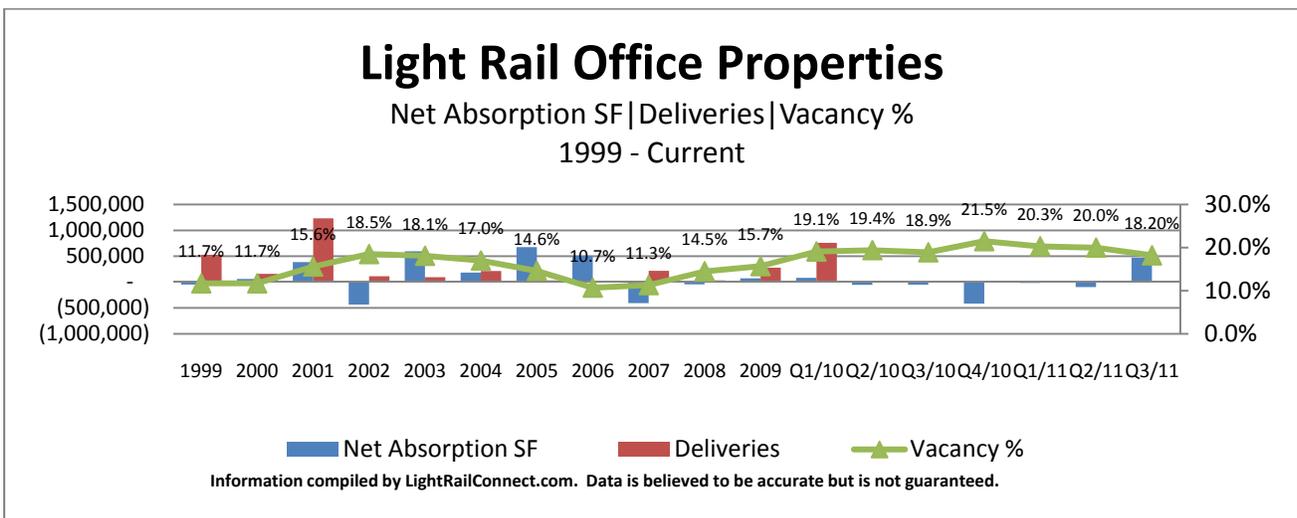
Three land sales were recorded in the light rail corridor in Q3 within a quarter mile of a station. Prior to this in Q2/11: six sales; Q1/11 also had six sales; Q4/10 one sale. The buyer for the SE Earll property intends to develop a 3-story, 95,000 SF medical building for Cigna. Next, the property at SE Stadium Dr is intended for 200 campus housing units and 24,000 SF of retail. Finally, the parcel at 1000 E Apache is planned to be called Retreat@ Apache and is intended for 124 units of high-end student housing with commercial space.

Light Rail Land Sold in Q3/11						
Location	Lot Size	Sale Price	\$/SF	Sale Date	Conditions	
SE Earll Dr & 3 rd St, Phoenix	8.28 ac	\$8,050,000	\$22.32	8/17/2011	bankruptcy sale	
SE Stadium Dr & College Av, Tempe	1.62 ac	\$4,750,000	\$67.47	7/01/2011	none	
1000 E Apache Bl, Tempe	1.8 ac	\$2,500,000	\$31.86	8/11/2011		

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** decreased to 18.2% in the 3rd quarter of 2011. This compares to 20.0% 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 18.7%. Tempe produced a slight favorable vacancy rate decrease from 15.7% in Q2/2011 to 15.4% in the current quarter. The lowest of the submarkets is Mesa (which does not represent much office space) at a slight increase to 11.2%. The vacancy rate in the light rail corridor is less than the metropolitan Phoenix area which reported 21.1% vacant space.



Net Absorption in the light rail corridor was positive 473,327 square feet for the third quarter of 2011. Net absorption in the second quarter of 2011 totaled a negative (95,551) square feet.

The Phoenix city submarket reported that absorption for the third quarter totaled positive 376,162 square feet; Tempe reported positive absorption of 96,191 SF, and Mesa reported near zero absorption this quarter of 974 SF. The entire metro Phoenix area reported a net absorption of positive 882,680 square feet in the third quarter. That result compares to a negative (147,813) square feet in the second quarter 2011, and a negative (316,262) square feet in the first quarter 2011.

Office lease rates in the light rail corridor, which have steadily decreased since 2008, decreased again slightly in the third quarter of 2011 to an average rate of \$23.57/SF, Class A full service, compared to the average rate in Q2 of \$24.90/SF full service. Class B overall rates were reported up to \$18.55/SF, as well as Class C flat at \$13.47/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 \$23.80/SF, while the average overall rental rate reported in at \$20.63/SF for all classes, near flat from \$20.95/SF in the second quarter.

Light Rail Office Properties

Rental Rates (Full Service) 1999 - Current

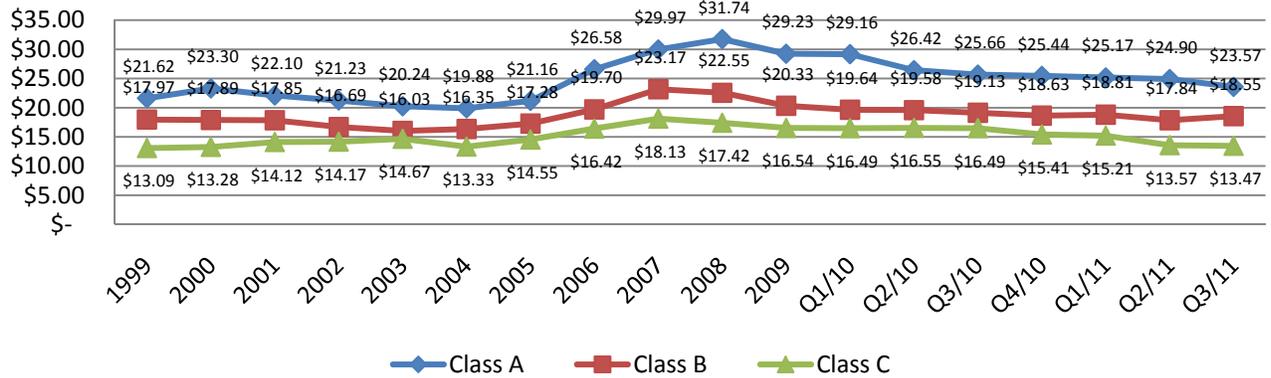


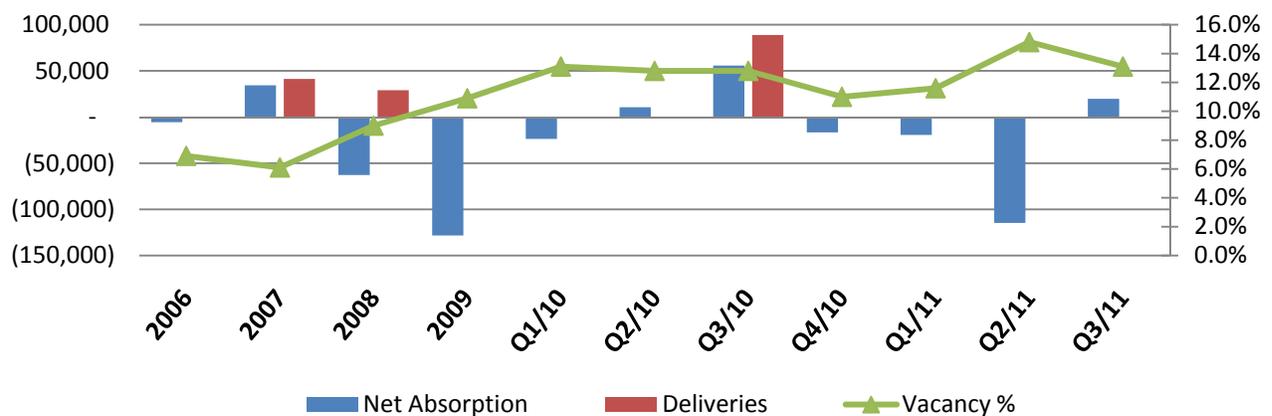
Chart data compiled by LightRailConnect.com. Information believed to be reliable but not guaranteed.

Retail Market

The Light Rail Corridor **retail market vacancy rate** in the third quarter of 2011 decreased to 13.1% in Q3; 14.8%, in Q2; up from 11.6% in Q1, and up from 11% in Q4. 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 15.6% and Mesa at 21.1%. The metro Phoenix area retail vacancy rate was flat in Q3 at 12.4%; Q2 at 12.2%; 12.4% in Q1, up from 12% in Q4/2010.

Light Rail Corridor Retail Properties

Vacancy % | Net Absorption | Deliveries 2006 - Current

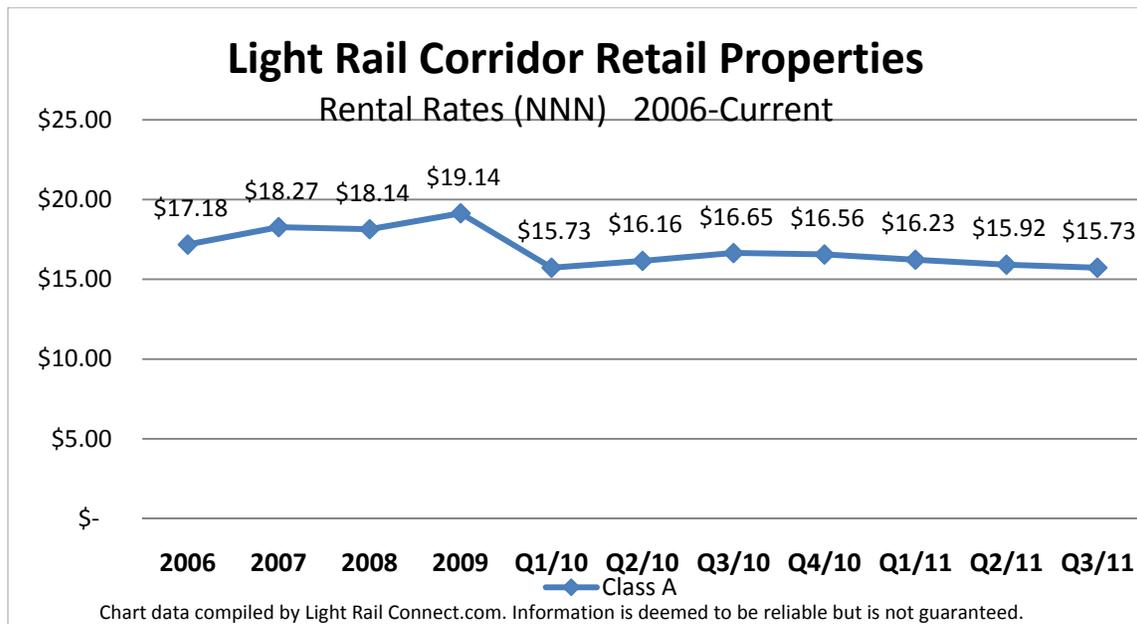


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Absorption for **retail space** in the light rail corridor was positive 19,821 square feet in the third quarter; and negative (14,662) in the second quarter, compared to a negative (19,359) square feet in the first quarter. The Phoenix submarket reported negative absorption of (18,937) square feet in Q3. The Tempe submarket ended with a positive 18,655 SF; Mesa reported 13,496 SF absorption this quarter.

The overall metro Phoenix area market reported positive absorption of 288,887 square feet, which has been in a general negative trend since 2009; overall vacancy rate in the Phoenix metro market in the third quarter was 12.4%, down slightly from 12.5% in Q2/11, and has remained relatively flat over the past year.

A notable Q3/11 retail delivery was CityScape, located at 2 E. Jefferson Street in Phoenix, which delivered 50,000 square feet. 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 \$15.73 in Q3; \$15.92 in Q2; \$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; \$15.40 in Q2/11 and increased slightly to \$16.00 in Q3/11. We expect this trend of rental rates to decrease or be flat at least in the short term.