THE DEER VALLEY AIRPARK 2020 REPORT

Colliers Classic
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Chris Keeley

The Deer Valley Airpark 2020 Report

The first annual Deer Valley Airpark 2020 Report is a compilation of real estate information that is informative to anyone doing business in and around the Deer Valley Airpark. In our direct contact with building owners, landlords, tenants and investors, all expressed the need for accurate information about the real estate market. We have taken the last six months to gather up-to-date and accurate information about the Deer Valley Airpark. It has been a pleasure to meet many of the business men and women that make up the Deer Valley Airpark community. We look forward to continuing doing business together and hope that you will look to The Deer Valley Airpark Team to handle your real estate needs.

Significant Events That Helped Shape Deer Valley Airpark

1. Large Employers. Honeywell was one of the first large employers to enter into the Deer Valley marketplace in the late 60’s while American Express and USAA were the latest significant employers to move into the market, creating momentum in the Airpark.

2. The Valley Freeway System. The Freeway system brought Loop 101 directly through the Deer Valley employment base connecting it to the Scottsdale Airpark, the newly established base of Arrowhead, and the future sports mecca in Glendale. The connection of Loop 101 to I-17 brought a flurry of activity and commerce to the area.

3. Anthem. Del Webb developed Anthem, the masterplanned community, as the north end-cap of Maricopa County. This major financial commitment by Del Webb has drawn additional masterplanned communities in between the Deer Valley Employment Base and Anthem.

When Honeywell moved into the Deer Valley Airpark in the late 60’s, at that time it was predominately heavy industrial such as automotive, junk yards, trailer parks, outside storage, sand and gravel pits, and many small cottage industry companies. The City of Phoenix saw this as a heavy industrial area. That image has slowly but surely changed with the massive amount of new office and mixed use development.

The Report

The Deer Valley Airpark 2020 Report contains a general overview of the Airpark (size, boundaries, zoning), building information (square footage, pricing, vacancy), businesses (types and employment base) and land information (availability, pricing), as well as some historical reflection and future projections. We will make an approximation of what we think the Deer Valley Airpark will look like in the year 2020. It is currently as follows:

BUILDINGS

<table>
<thead>
<tr>
<th>Type</th>
<th>Buildings</th>
<th>Square Feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>38</td>
<td>2,492,368 ±</td>
</tr>
<tr>
<td>Office</td>
<td>51</td>
<td>5,665,558 ±</td>
</tr>
<tr>
<td>Industrial</td>
<td>399</td>
<td>6,400,526 ±</td>
</tr>
<tr>
<td>Total</td>
<td>488</td>
<td>14,558,452 ±</td>
</tr>
</tbody>
</table>

A great majority of the buildings in the Deer Valley Airpark are owner occupied office/warehouse. However, as you can see from the numbers, there are some large office buildings in Deer Valley with a high employment base. (The average size of an office building in the airpark is 109,232 ± square feet. The average size of an industrial building is 16,041 ± square feet.)
MAJOR COMPANIES:

Axiom
AERO Automatic Sprinkler
Aerotech Labs
American Express
Arizona Republic
Bell Concrete
Best Western Headquarters
Catalina Roofing
CIGNA
Colonial Penn Insurance
Cox Communications
CS Companies
Deer Valley Airport
Deer Valley Lumber
Deer Valley Schools
Epic Landscape Construction
Farmers Insurance
Gruber Industries
Hintze Company
Honeywell
Hurley Dedicated Services
Jet Products
Knox Box
Lucent
Markham Contracting
Pauley Construction
PETsMART Corporate Headquarters
RDB Construction
Safeway
Take Charge America
USAA
Vulcan Materials
Wells Fargo

PERCENTAGE OF AIRPARK

Retail: 17%
Office: 39%
Industrial: 44%

Even though a high percent of the number of buildings in Deer Valley Airpark are industrial, the employment base and square footage is split almost equally between industrial and office. This fact alone demonstrates the transition Deer Valley Airpark has made in the last ten years. We can anticipate this trend to continue with more high profile companies joining the ranks in Deer Valley over the next decade.

LEASE RATES (Through 2004), NNN

<table>
<thead>
<tr>
<th></th>
<th>Per Square Foot /Annually</th>
<th>Per Square Foot/Monthly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail (Average):</td>
<td>$23.00 NNN</td>
<td>$1.92 NNN</td>
</tr>
<tr>
<td>Office (Average):</td>
<td>$15.00 NNN</td>
<td>$1.25 NNN</td>
</tr>
<tr>
<td>Industrial (Average):</td>
<td>$8.75 NNN</td>
<td>$0.75 NNN</td>
</tr>
</tbody>
</table>

As vacancy rates go down, lease rates go up. The last year has seen gradual increases in lease rates. As demand increases and land prices continue to escalate, tenants and landlords can anticipate increasing lease rates over the next twelve months.

VACANCY PERCENTAGE

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>&gt; 1.0%</td>
<td>&gt; 1.0%</td>
<td>&gt; 1.0%</td>
</tr>
<tr>
<td>Office</td>
<td>9.6%</td>
<td>14.0%</td>
<td>24.0%</td>
</tr>
<tr>
<td>Industrial</td>
<td>7.9%</td>
<td>8.8%</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

Although there has been steady development of single and multi-tenant properties, the demand for space continues to outdistance development. Deer Valley currently enjoys a great balance between development and demand and we expect decreasing vacancy percentages in the next twelve months, even though there are many new developments coming online in 2005.

EMPLOYMENT

<table>
<thead>
<tr>
<th></th>
<th># Employees</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>1,796</td>
<td>4%</td>
</tr>
<tr>
<td>Office</td>
<td>26,910</td>
<td>69%</td>
</tr>
<tr>
<td>Industrial</td>
<td>10,585</td>
<td>27%</td>
</tr>
<tr>
<td>Total</td>
<td>39,291</td>
<td></td>
</tr>
</tbody>
</table>

Deer Valley Airpark has a few large employers in the office market (American Express, Honeywell and Cox Communications to name a few). If not for these major employers, the Airpark would be fairly evenly split between office and industrial employees. Retail employment generally lags behind commercial and residential development and we expect some significant retail development over the next year to support the increase of residential and commercial growth in the area.
**LAND**

1 ± - 15 ± acre parcels $9.50 - $13.00 per square foot

15 ± acre parcels $7.00 - $9.00 per square foot

Frontage parcels $12.00 and up per square foot

The entire valley is seeing land values skyrocketing and the Deer Valley land market is no different. With the new homes being constructed north of Happy Valley Road along I-17, the continued development of USAA’s campus, ADOT’s widening project and the City of Phoenix’s street improvements, the Deer Valley market is becoming more defined every day. Average land prices for larger unimproved parcels, 15 ± acres and larger, are reaching $8.00 per square foot (PSF). Developers are buying the larger parcels and developing them into fully improved lots, which are now averaging around $10.50 PSF.

The owner/user is the business owner who is buying a fully improved lot, constructing a building and occupying it for his or her own use. These owner/users are one reason the land prices are increasing so quickly. The fact that banks are still aggressively lending at attractive rates and business owners are so busy servicing the valley’s growth, owners can afford to pay the extra few dollars per square foot and they are.

We don’t expect to see the development slow in the market for at least the next year. The Federal Reserve will continue to increase interest rates over the next few years. The effect of these increases will likely create a slowing of the owner/user development and in increased shift toward the leasing market.

*Note: All numbers used in this report are approximate*

**TRENDS**

Land prices have seen significant increases in the last twelve months. Smaller parcels of land, 1 to 10 acre parcels, were selling in the $8.00 to $10.00 per square foot range in January 2004 and currently have increased to $9.50 to $13.00 per square foot for general industrial land.

New construction that was selling for $105 per square foot in January 2004 has increased to $120 to $125 per square foot for office/warehouse space.

Second generation building sales have also seen an upsurge in purchase prices with rates ranging between $60 to $100 per square foot, subject to conditions and amenities, and we anticipate continued increases in sales prices and lease rates in the Deer Valley market throughout 2005.

**CONDOS**

Office condos have become very popular over the last five to seven years. In the last few years, industrial condos have also become very popular, and the Deer Valley Airpark has seen a major influx of industrial warehouse condo sales in the past twelve months. The attractive interest rates and smaller condo sizes (2,500 ± to 5,000 ± square feet) have made the market very appealing to many business owners who were previously only in the lease market. More condos are scheduled to be developed and available in 2005 and we anticipate a continuation of very high interest and activity in this market.
WHAT WILL THE DEER VALLEY AIRPARK LOOK LIKE IN 2020?
Many real estate professionals compare the Deer Valley Airpark to the Scottsdale Airpark of the past.

Land prices and building prices in the Deer Valley Airpark are very similar to those numbers in the Scottsdale Airpark of about ten years ago. Many business professionals, at the time, felt that Scottsdale Airpark had peaked; very few could have guessed the continued growth and inflation of the last ten years. We predict that in the year 2020 many will look back at Deer Valley Airpark and have similar feelings of surprise and shock at the growth and inflation of the park.

Because of companies like Honeywell, American Express, Wells Fargo, Best Western, Cox Communication, USAA and Arizona Republic establishing locations in the Deer Valley Airpark, we expect many other businesses to follow. Because of that and the 41,000 ± residential units planned or under construction between Happy Valley Road and Anthem and the increase in the employment base, a certain amount of synergy has been created that has set in motion an exceptional amount of growth.

According to the Arizona Republic, the Deer Valley Airport has been ranked as the twenty-third busiest airport in the country (measured by the amount of landings and take-offs). Because of this we feel the Deer Valley Airpark will continue to have a great influence in this area.

In 2020 we expect 29,000,000 ± square feet of buildings to be developed and 76,000 ± employees. Loop 303 will be as busy as the Loop 101 and I-17, and from Anthem to Loop 101 there will be flourishing neighborhoods with immense commerce. The Loop 303 will only make the Deer Valley Airpark more attractive to large employers who look for easy freeway access and shorter commutes to attract high quality employees.

The Deer Valley Airpark Team
Bob Lundstedt, Senior Vice President
23 years of commercial real estate experience. Bob has focused his efforts exclusively in the I-17 Corridor, Bob has represented tenants, users, investors, and landlords for land, office, and industrial properties with a total transaction value in excess of $1 Billion.

Chris Keeley, Marketing Associate
8 years of commercial real estate experience. Chris began working in the Tucson real estate market in 1996, specializing in the industrial/office market. He is currently producing the Deer Valley Airpark 2020 Report, which is an overview of the current status of the Deer Valley real estate market.

Jerry Hillery, Marketing Associate
6 years of commercial real estate experience. Jerry currently represents over 100 acres of land and lots for sale in the Deer Valley Market comprising approximately 70% of the land market. In addition, he represents over 200,000 square feet of product for sale or lease in the I-17/Loop 101 corridor.

Darren Tappen, Marketing Associate
6 years of general contractor/commercial real estate experience. Darren focuses on expanding land markets as well as financial analysis on new and existing developments.

Ruth Darby, Marketing Associate
5 years of commercial real estate experience. Ruth specializes in marketing land, office and industrial properties and National Account Portfolio Management. She focuses on the planning and implementing of marketing strategies for each listing project and servicing the listing between the client and prospective buyers and tenants.
A special thanks to Colliers Classic brokers for their input, and in particular, Ruth Darby, for her help.

Jim Keeley, SIOR, CCIM, founded Classic Real Estate Corporation, now known as Colliers Classic, in 1983. The firm conducts the majority of its commercial brokerage business within the Scottsdale Airpark and has concluded over 3,250 transactions and $1,125,625,300 of business. Colliers Classic is located at 7845 E. Redfield Road, Suite 100; Scottsdale, Arizona 85260; Phone 480.596.9000; Fax 480.948.0502; www.colliers.com.

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