Commercial Real Estate Brokers' Survey

On September 17, 2013, a group of the Valley's most successful brokers were brought together by The W. P. Carey School of Business and the Center for Real Estate Theory and Practice to provide meaningful, insightful, and relevant input on the commercial real estate market in Phoenix. These brokers came from a variety of sectors and specializations as well as a cross section of the many brokerage houses in the Valley.

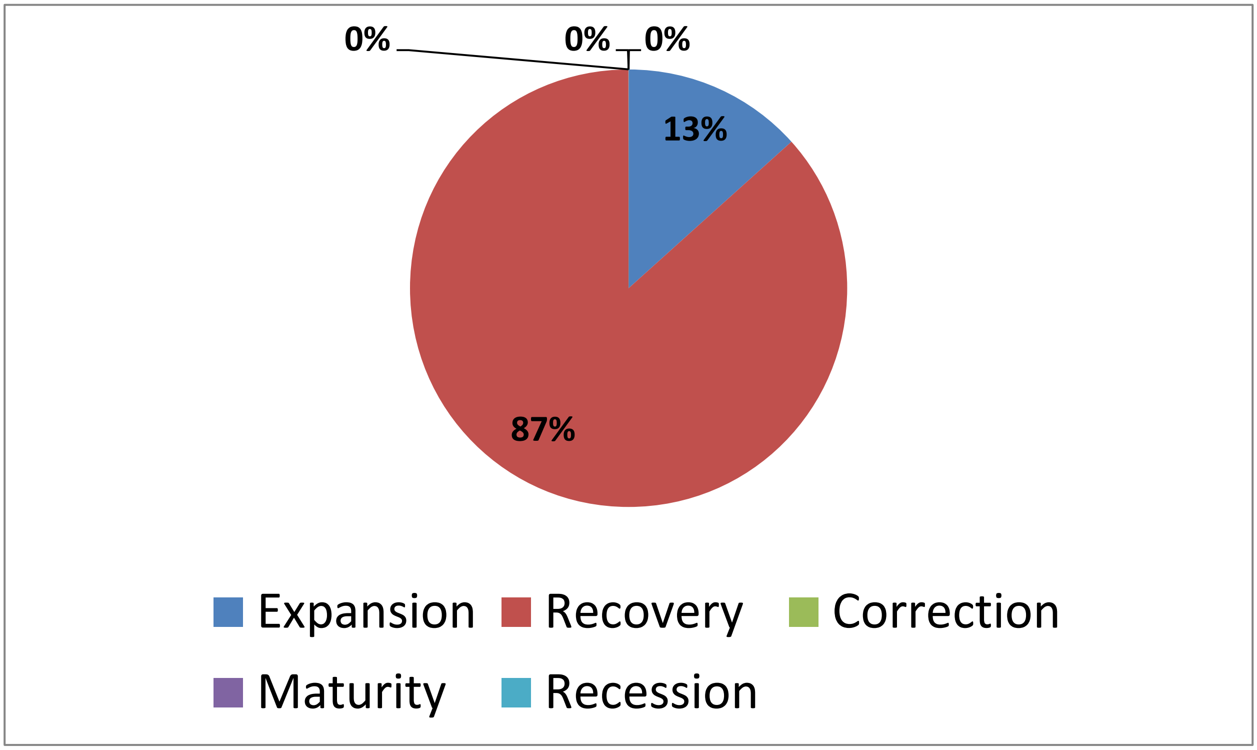
The purpose of this Forum was to seek consensus on forward looking key indicators of the commercial real estate market in the Phoenix metropolitan area. The Forum was conducted as an open discussion facilitated by **Pete Bolton**, Managing Director of Newmark Grubb Knight Frank (NGKF) and it was centered around what is truly happening "on the street" in terms of commercial real estate. The intention of this gathering was to detect current trends, discover similarities and differences among various sectors and submarkets, and document anecdotal evidence, opinions and insights of the group. As the facilitator Pete Bolton said, "Nobody knows this market better than the brokers, period, the end."

This discussion was the first in a series of Forums that The Center for Real Estate Theory and Practice will hold quarterly in order to track the perceptions, insights, and trends in the Phoenix commercial real estate market.

At the end of each session, a consensus report will be generated and available on the W. P. Carey School of Business website (http://wpcarey.asu.edu/finance/real-estate/market-reports.cfm). Each quarterly session will build on the previous one and the information gathered will be synthesized chronologically.

This is the first report of the Commercial Real Estate Broker Survey which addresses what the panelists believe will happen in the 4th quarter 2013 timeframe. The following charts indicate the answers to the associated questions asked of the panel. Following each chart are comments made by panelists in response to the question asked. The responses are anonymous and no quote is attributable to any one person. Reading the comments will give readers a sense of what these important players in the commercial markets are thinking. Readers should note that the comments are those of the brokers and are as close as possible to being verbatim. This is not a refined analysis of market conditions.

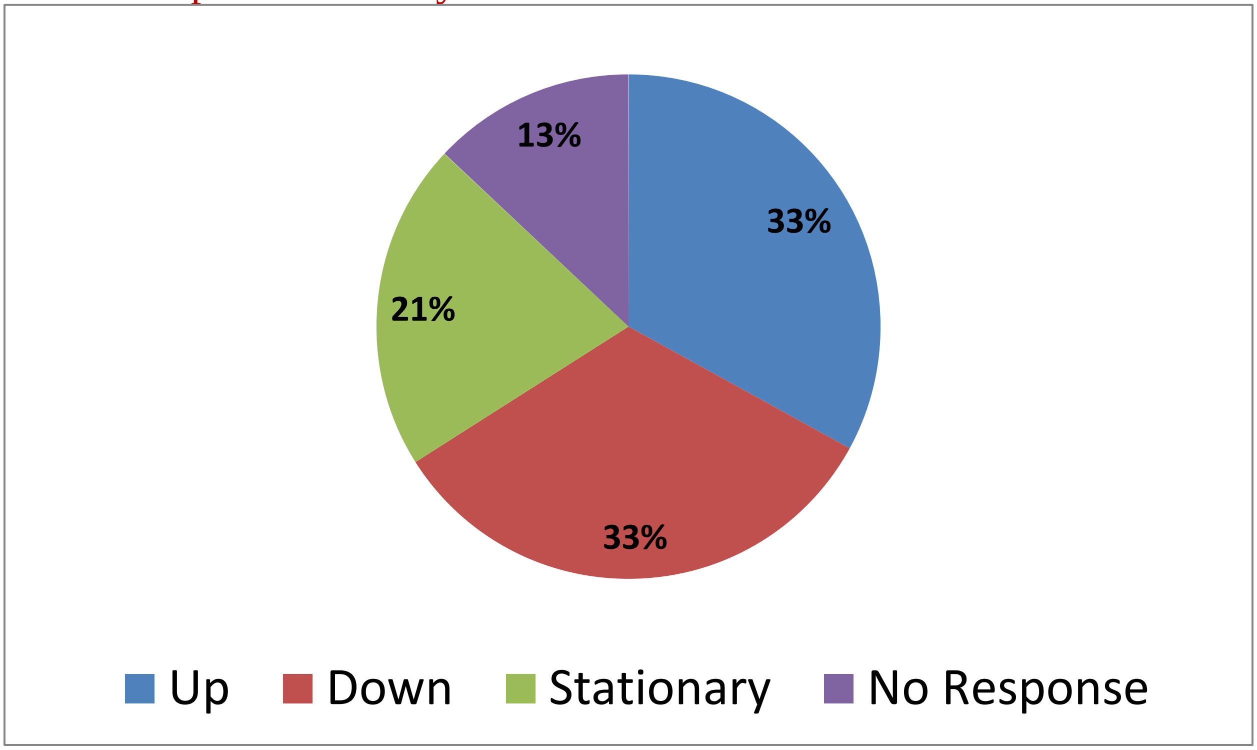
Where are we in the cycle?



- It's fascinating that 88 percent said we're in a recovery and yet rents are going down.
- There is a lot of uncertainty and over cautiousness. I'm all for a sustained gradual ascent in the economy, but this is very anemic.
- Is there anything wrong with a very slow recovery? We're not used to that in Arizona.
- Look at where we've come from on a relative basis. In 2005, we were number one in job growth nationally, and we went from number one to number 49. In 2008 and 2009, we lost 230,000 jobs. That's a lot of jobs lost. You think there weren't brokers looking to jump out of windows? We were, but we've clawed our way back through that.
- Clearly, I think we're in recovery. It's just relative.
- How would you define recovery?
  - I would say positive job growth and positive net absorption in almost all sectors.
- But you still can't have a good market at 21 or 22 percent vacancy. You can't have rent growth. There are certain sectors- certain cores that are having rent growth, but look at overall market vacancy, anywhere you look; it's 22 to 25 percent, so you can't have rent growth.
- When you talk about rent growth, it's all on the fringe. The only buildings that have gotten any lift in rent are in the Scottsdale Quarter where they're doing their last deal or Hayden Ferry where they're doing their last deal.
- It's all on the margin. It's occurring on those last couple available spaces where they're driving rent up. Otherwise, I'm not seeing anybody able to drive rent.
- We're chewing through vacancy though because we have job growth and we have absorption.
- When you talk to a developer, they'll say they're looking for land sites.
- Two years ago, if you tried to bring a land site to a developer or talk to them, they would literally kick you out of their office or hang up on you. They're listening now.
- I think a lot of our issues still exist, some of which are self-inflicted within our state and our market, but I think the majority of our issues are really macroeconomics.

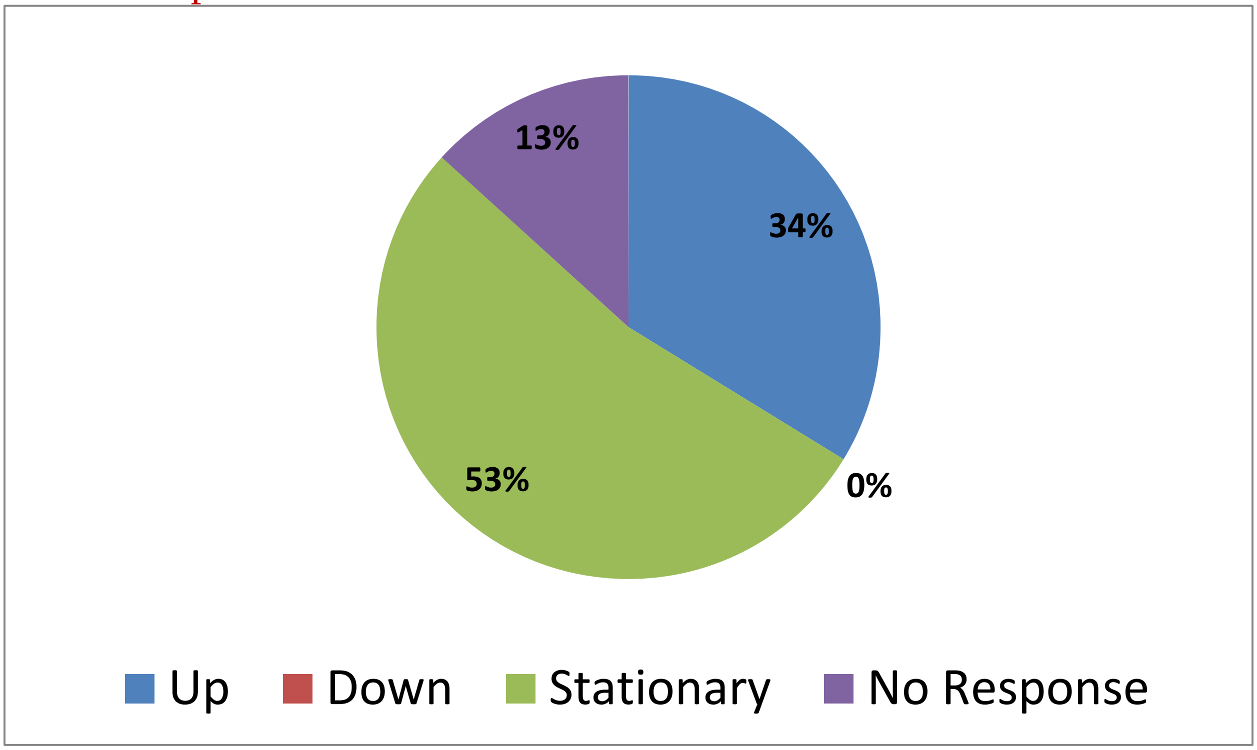
- I think if you talk to any CFO, he or she is asking themselves, what is the impact of 2014 when the Frank-Dodd financial regulatory legislation comes into implementation? 2015 with Obamacare? You look at Europe. They still have the flu, economic flu. China's on a bubble. I think there's a lot of uncertainty and lack of clarity.
- You talk about your segments being in restraint, there's absolutely no restraint in home building right now. It's out of control.
- It's frightening how fast things are going—these guys are paying $300,000 an acre now for residential land in some parts of town. Builders are holding back inventory just because they either don't want to run out of product, or they want to wait for the prices that they think are going to go up even more. What I see is that—because I've been through these cycles before and I've been around so long -- is that usually retail follows right behind home building and it doesn't seem to be happening that way now. I'm seeing all this land getting churned up, but it's not being followed by shopping centers like it used to be.
- I think the market has peaked. It is just not showing up in the numbers yet, because the investors have really slowed down their purchases recently. I think they don't want to end up with vacancies. The prices have gone up dramatically. The thing that has been very fast is the price recovery, but the construction has not really moved very much.
- Everybody thinks the housing market's just going gangbusters, and it's really just the land sales that are doing well. The home builders aren't necessarily doing well, except for a few small pockets like Chandler, Gilbert, and Peoria.
- The home builders are doing well from a pricing point of view, but not from a unit count.
- Yeah. Finished lot inventory is all but gone. They're well on their way to developing and have been for almost two years now…a year and a half, anyway, at least in the premier submarkets. We're at peak values in Chandler and below replacement cost in parts of Pinal County. It's not as rosy as everybody thinks. The land market is going nuts.
- The consensus is that we are still basically in recovery, but we're going slowly. Real slowly. We're not used to slow.

Where are Apartment Vacancy Rates headed in the next three months?



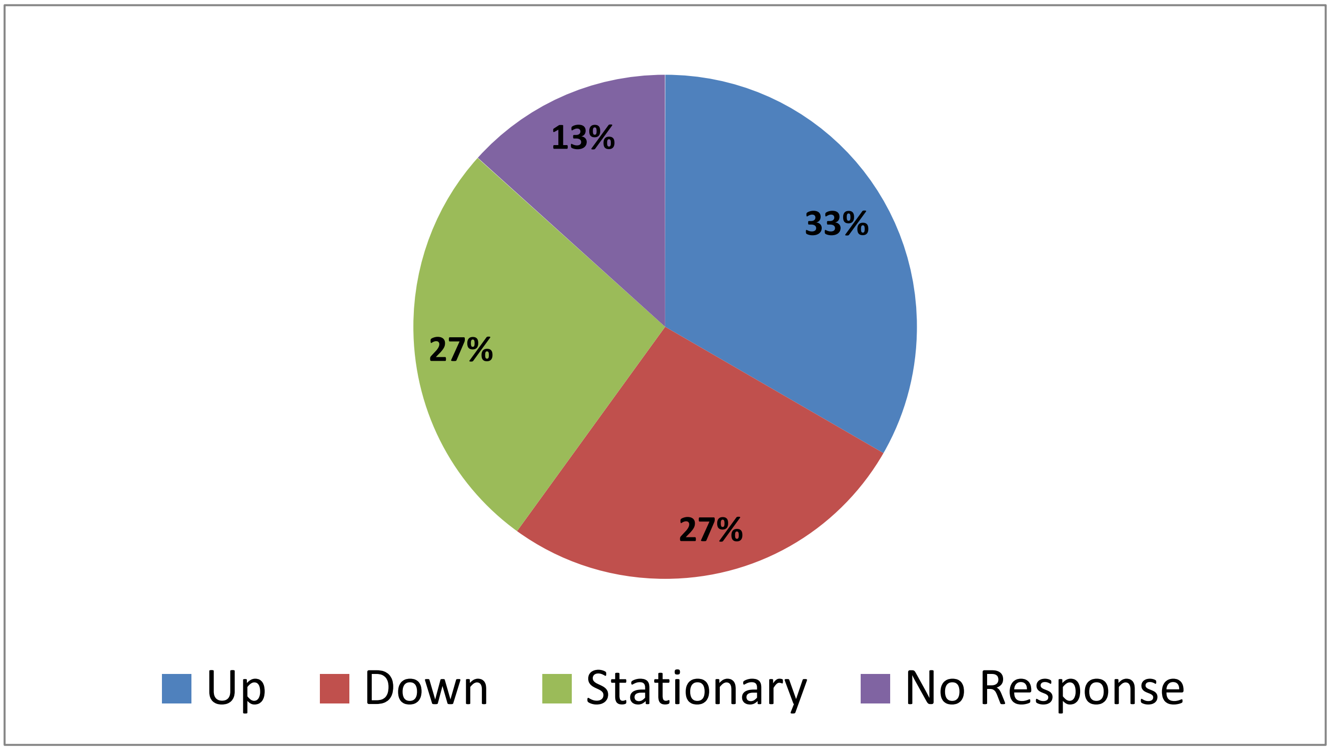
- We have home builders now whose primary marketing focus is on apartments. The game plan for some is to send out thousands of flyers a week to apartment buildings to pull renters out. They don't offer a price sheet. They offer a $620.00 payment.
- Part of that thought is that people who have been in the penalty box are going to come out of their apartments now because they have credit and can actually buy a home.
- It's an interesting dynamic, because we have a ton of apartments coming on the market which says vacancy rates are going to go up, and then we got a lot of people who are coming out of the one or and two-year "penalty box" who are supposedly going to absorb those new housing units.
- We also have 200,000-225,000 rental homes on the market; this says to me that there is a correlation between renting an apartment and the level or quality of the job market. There is still a lot of underemployment or unemployment.
- Still, a lot of people, who maybe could afford to get a home and are out of the penalty box, are not quite sure what the right move is to make. There's so much negative stuff in the media about it being a false recovery. They do not want to buy at the wrong time like last time.
- If a guy doesn't think his house is going to go up in value, why would he buy it? It's cheaper to rent and less hassle. If it's not going to go up in value you might as well rent.
- I don't know how much effect that has on the commercial world. Truthfully, if anybody has any comments on that, I've really never been in any meetings where someone says, I'm worried about the vacancy rates in apartments, other than absorbing land. That would be about it.
- I love the density.

Where are Apartment Rents headed in the next three months?



- No discernible comments.

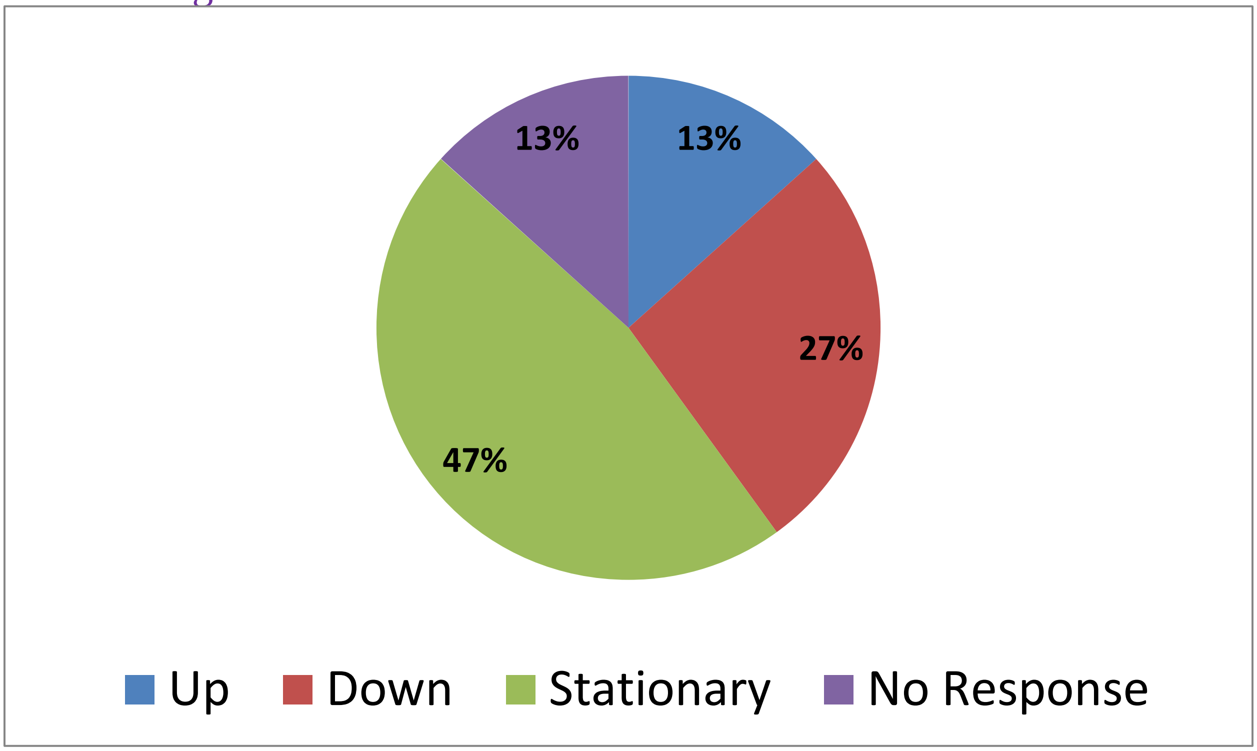
Where are Big Box Industrial Vacancy Rates headed in the next three months?



- We're at a plateau right now and I anticipate it plateauing through the end of the year, so stationary is probably as relevant a term as any. It's a demand issue right now, specifically, a lack of demand. Over the last year, we had two transactions consummated, at least on an existing big box basis. In 2010, we probably had 15 or 16 of those transactions.
- In the larger, bigger boxes, there is a robust amount of new construction for design-build projects, a good ten to 12 larger corporate design-builds that have been announced over the last 18 to 24 months.
- Why are they looking to build their own buildings when there is brand new existing, state-of-the-art product?
  - Because it is primarily very specialized use, like food and beverage, or it is scale. T.J. Maxx is a 1.6 million square foot, fully air conditioned facility, so it's specialized facilities.
- Right now, we're about six million feet available for building over 250,000 feet. It's good to be a tenant.
- What do you attribute the lack of demand to, lack of job growth?
  - Macroeconomics. The CFO is really the true rock star in our world because the CEO follows the CFO's lead in many of these decisions. I just think there's an extreme level of caution right now nationally and globally. There is a lack of clarity. Again, this legislation that's coming down the pike in 2014 with Frank-Dodd and then Obamacare in 2015 and sequestration. It is just easier right now to renew for a year or two or three.
- We've got a great story to tell in Phoenix, i.e. right-to-work state, low natural disaster, four and a half million person marketplace sandwiched in between Mexico (which believe it or not, is an asset, not a negative) and Texas and California. Great story, but I think right now there is too much uncertainty.
- If two or three deals land by the end of the year, and I know there's a lot of them circling, people might have a very different perception come the first quarter of 2014.

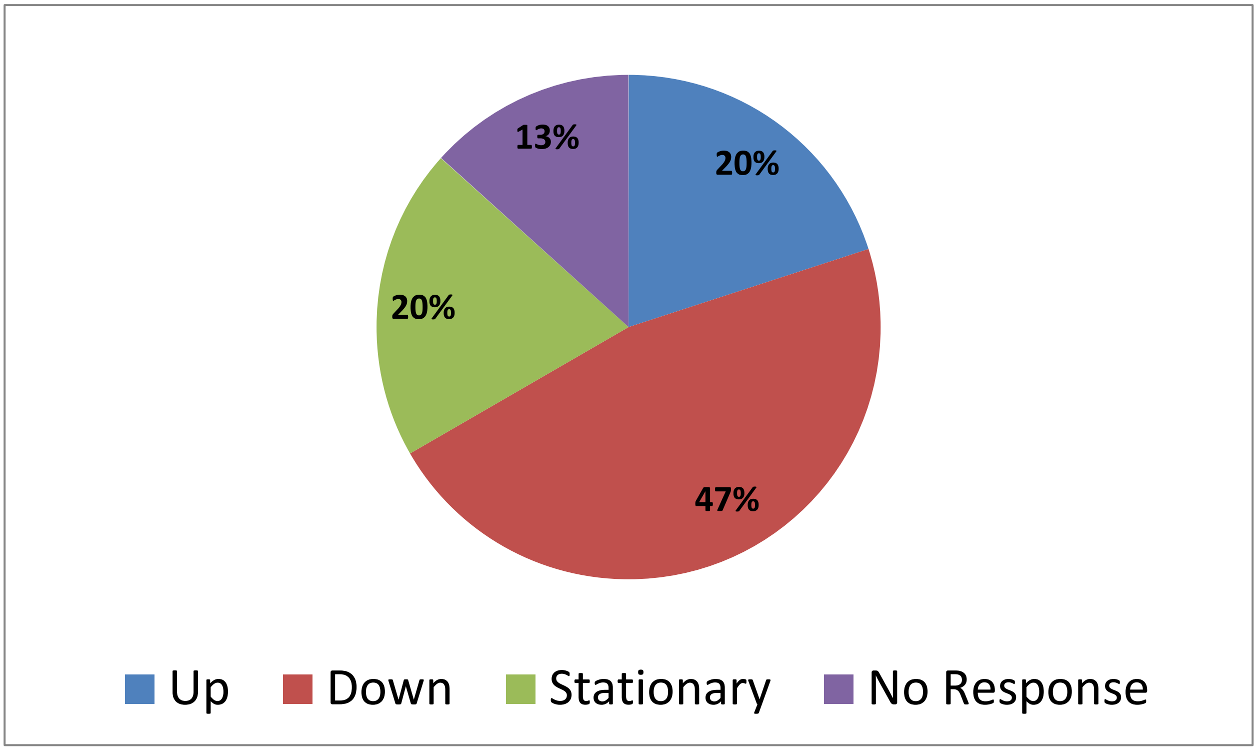
- With the scale of these transactions, you can move the needle rapidly on the vacancy. My concern is we've been sitting this way with a lethargic demand. Only two deals over 250,000 feet in existing larger spaces done over the last 12 to 18 months.

Where are Big Box Industrial Rents headed in the next three months?



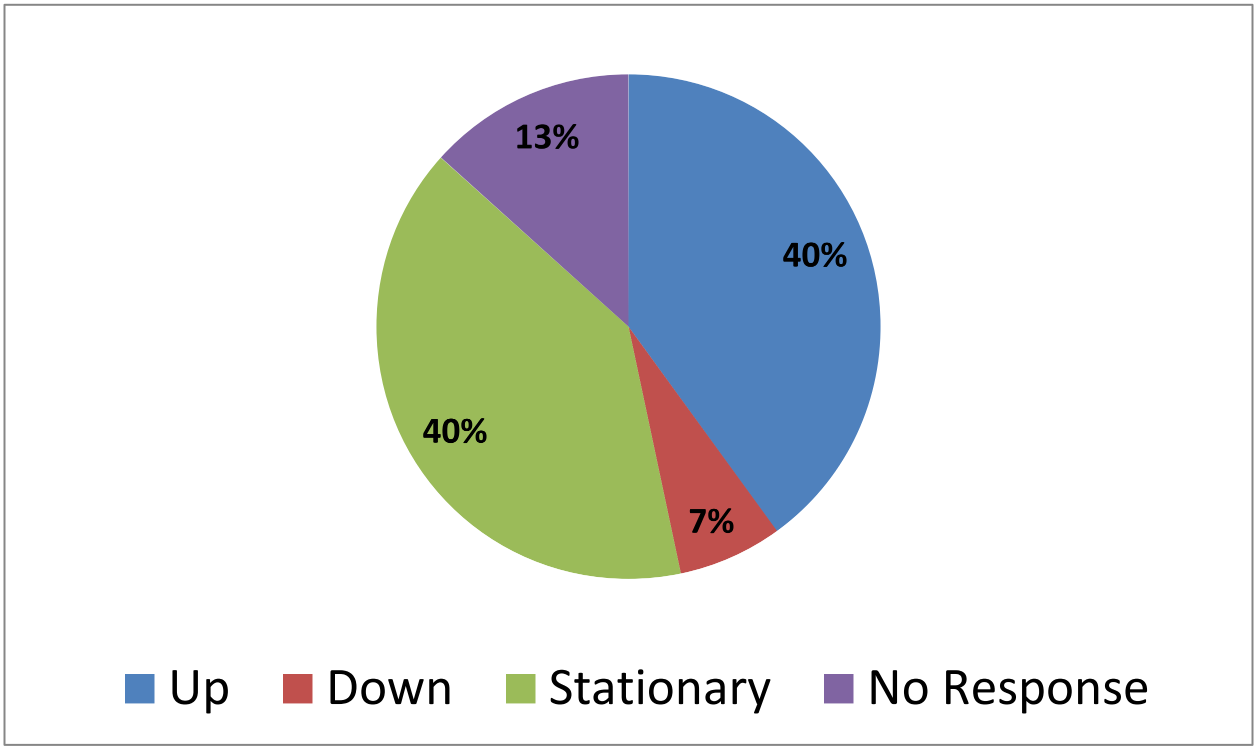
- Flat to marginally down.

Where are Multi-Tenant (under 15K square feet) Industrial Vacancy Rates headed in the next three months?



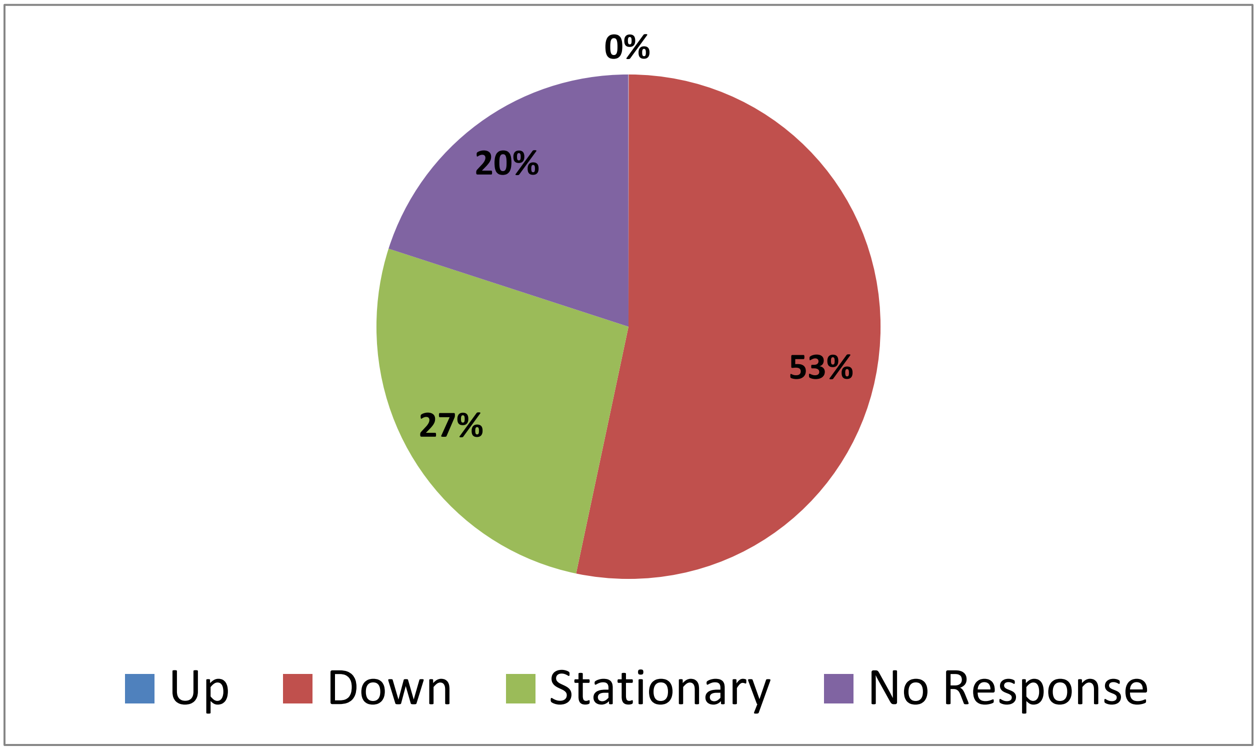
- The small to mid-size general industrial users are back, which is good to see.
- This is somewhat tied to housing. I'd say the southeast valley is probably a year to two ahead of the southwest valley.
- There are a number of corporations that have picked the Valley for their brand new state-of-the-art regional distribution centers or a manufacturing plant. Subzero for instance, expanded in Phoenix. 60 percent of their worldwide product is built out of Goodyear.
- Of course, that generates all the subcontractors who take the medium space, 15,000 to 50,000 square foot multi-tenant deals.

Where are Multi-Tenant (under 15K square feet) Industrial Rents headed in the next three months?



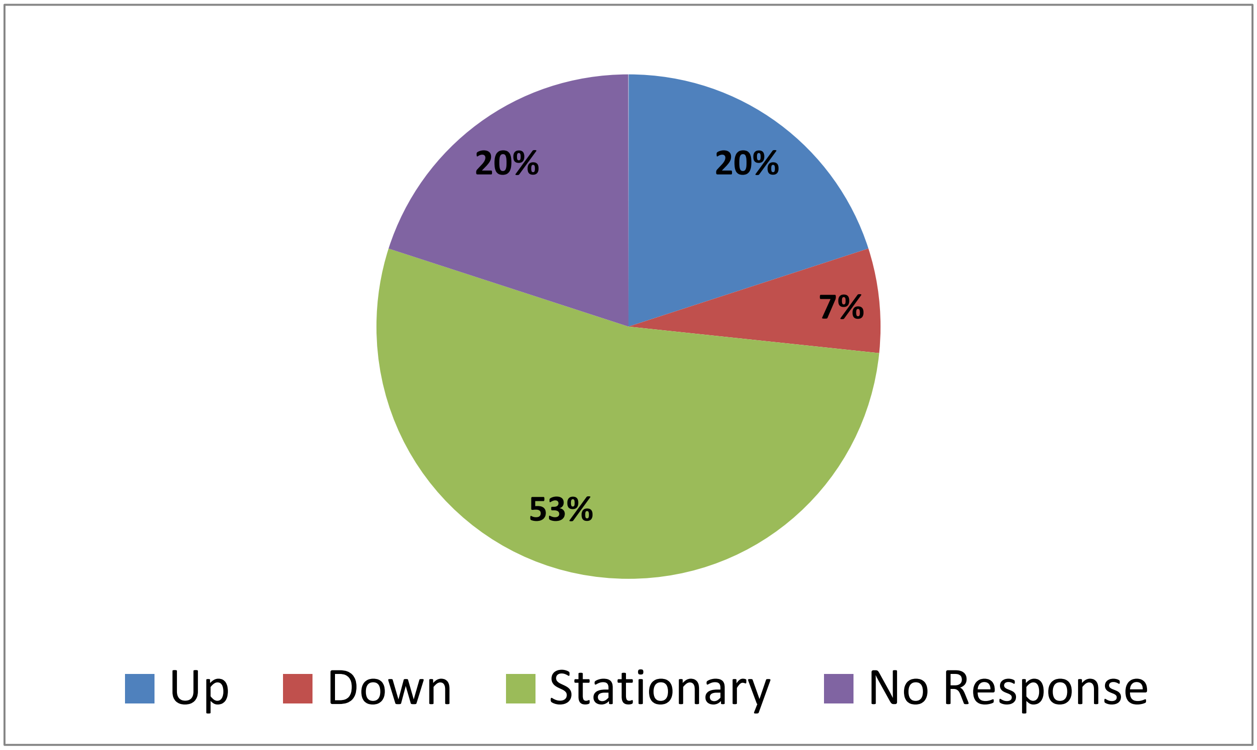
- These are the Mom and Pop's that come back first, and these people came back early in 2010. They were six-month leases or year leases. Landlords just wanted to back anything. Didn't matter if you had credit. If you could fill out the lease form and give them a security deposit, you had a lease. Those people have now expanded to 5,000 to 10,000 square feet. A lot of them have 24 months left on their lease or less.
- These will be the companies that will jump to 25,000 to 50,000-square feet where I think there is a bulk amount of space. Give that slide another 18 to 24 months, and you can probably put that to 15,000 to 50,000 square feet and you'll have a different discussion.

Where are General Industrial (over 15K square feet) Vacancy Rates headed in the next three months?



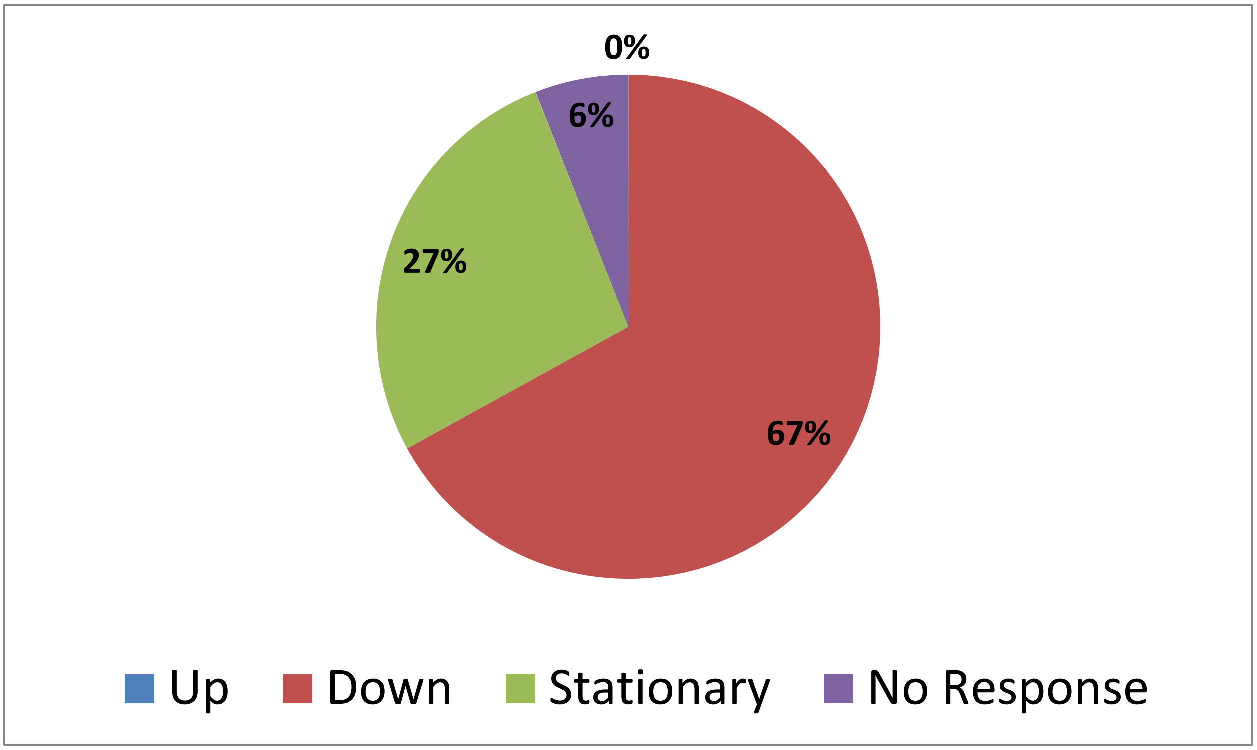
- The owner-user segment of the market has been on fire for 2 years – That is somebody who owns a freestanding industrial building and is growing out of it, which is very, very encouraging in our marketplace. That's the foundation of the industrial market - the owner user. They got a little manufacturing shop and a broker goes in and cold calls them. The guy says, yeah, I'm thinking about moving to a 35,000 square foot space from a 20,000. So, the broker finds them the 35,000 square foot space. The owner buys that building. He sells the building they're coming out of. He gets a double hit. That has been very successful. So, how's that still going?
    - It's tending to go well, and it's going to continue to be that way because interest rates are still low and people are fearful. They're at capacity. They're stepping on each other's toes.
    - Steel guys are on fire. They're out doing builder suits. Especially with rail, because you can't find it. When you are in 20,000 square feet and the less you have to touch a product, the better, and then you will need 50,000 square feet. By taking on that amount of space, if you can find it and given where the debt is, you might increase your overhead 10 to15 percent. Great. Let's roll the dice. Because if you don't get it, you're sitting dead in the water two years from now and it's going to cost you a lot more money as a company.
- There are rail service sites, but they are difficult to find. If you've got time and the budget to build, but a lot of the rail in existing buildings are old world design. The major rail companies that serve Phoenix really want fewer customers, not more. They're not interested in your business if you have three or four rail cars a month. They're looking for a couple hundred to several hundred a year. Rail is less than five percent of our market activity, in my opinion.

Where are General Industrial (over 15K square feet) Rents headed in the next three months?



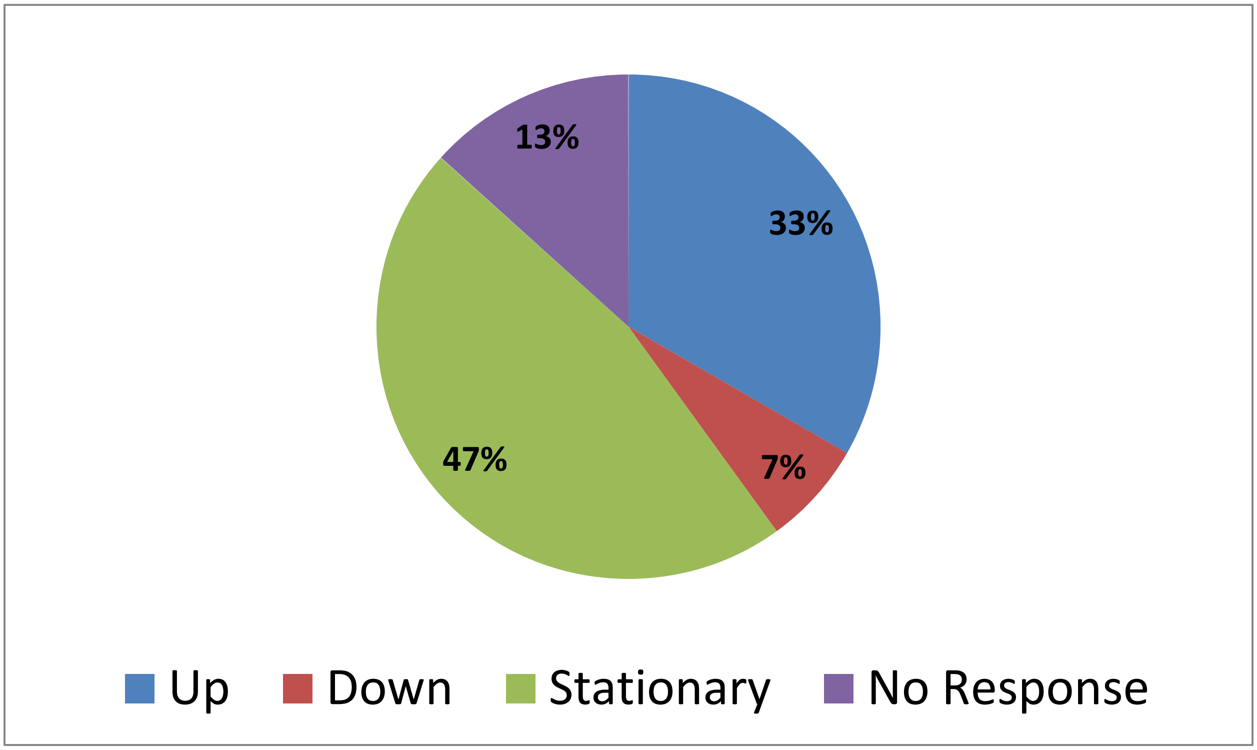
- The only comment I would say on this is that really, thanks to the recovery in the small to mid-size general industrial, we had positive net absorption through the first six months of this year. Without it, we would have been negative by 600,000 feet.
- Without the net absorption in lease up and some small building sales through the first six months of the year, the overall industrial market would have been negative.
- Yeah. Because of the activity in the smaller to mid-size market, we finished the first six months at roughly a positive 600,000 feet, plus or minus.
- You can't find an industrial building for sale. When you do, the rates they are paying are what we used to call stupid money.
- The institutions for big box, like in the inland empire, they're high fours, low fives on cap rates. Stuff here, I think we're seeing mid fives to low sixes.
- It depends on your rate - with a below market rate right now on a 400,000-foot building, that'll sell at a five cap because it's below market. If your rate is at market, you're probably in the high six to seven cap rate.
- So anything stabilized is going to get a lot of activity. You're going to have multiple offers. You're going to do well pricing-wise for your owner.

Where are Office Vacancy Rates headed in the next three months?



- I think you're going to see vacancy rates go down a little. Our year-to-date overall net absorption right now is about 300,000. If you look in North Scottsdale alone, there's about 350,000 to 370,000 square feet of net absorption. I think you're going to see some positive movement.
- If I had to guess, we're probably somewhere around a million square feet net absorption again this year, due to State Farm and some other things. You have State Farm that's eating up space all over the market with a bunch of leases rolling in 2016. You have Wells Fargo Home Mortgage coming up in 2016. That's another 230,000 square feet down in Tempe. You have a lot of leases rolling in 2015 and 2016 - those spaces we know are going to be back on the market. I think vacancy rates will be going down this year again.
- Yeah, I'd say the same. Vacancies are trending down, but not quickly. It's kind of a slow, steady grind.

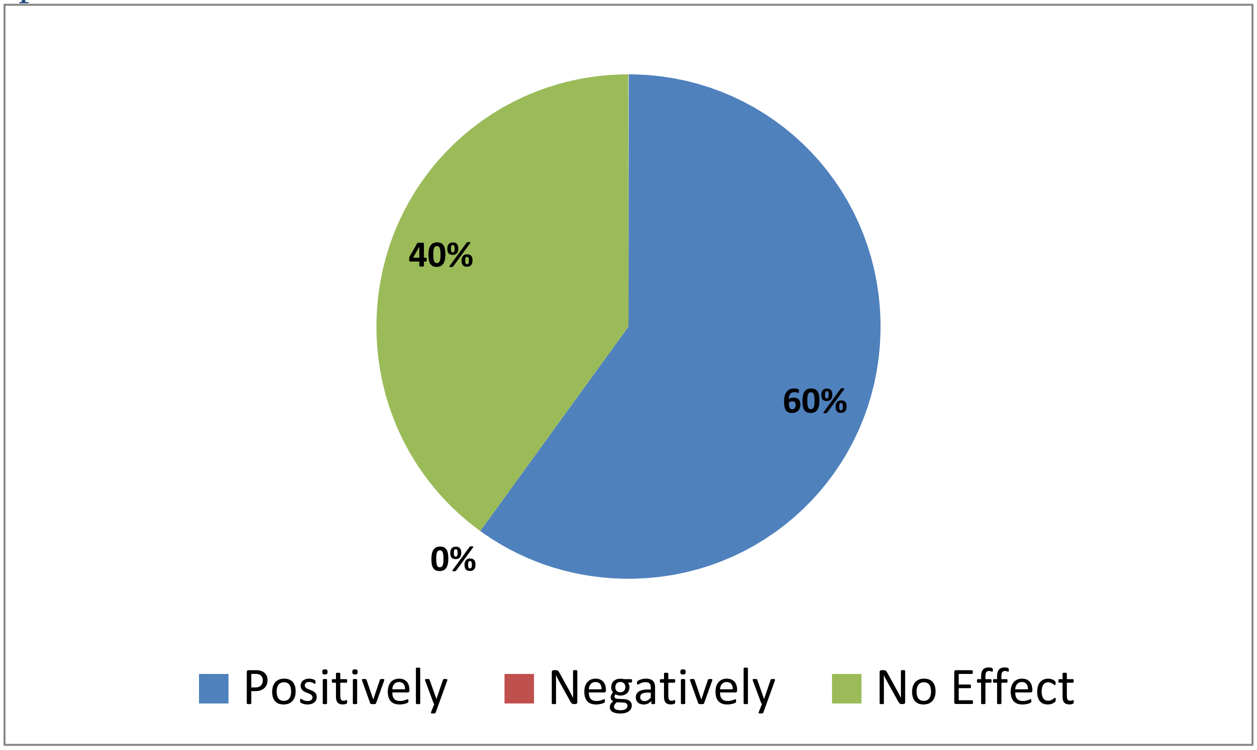
Where are Office Rents headed on the next three months?



- I think they're going to stay flat. People are trying to push, but it's hard pushing unless you have a building like Hayden Ferry or something up in the Scottsdale Quarter where you're leasing your last space and you can just say, "I'm not going to lease it unless I get x amount." For most of the buildings, if you still have vacancy to deal with, there's more pressure to get the vacancy leased than there is to push rents right now.
- It is very submarket-specific and the submarkets are all over the board.
- I think they're going to stay flat. It is submarket-driven. It's building-driven where you have some momentum and you're getting a few leases done and now you want that last space. You're going to push rents. You're maybe trying to position your building to put on the market, so you're going to be pushing your rents. It's a little bit of a game. For the most part, I think they're going to stay stationary. You look in Deer Valley, West Valley; it's still really slow out there. Midtown is just in the toilet.
- Downtown Scottsdale, downtown Tempe…those core markets are doing well. Chandler and the Southeast Valley are also doing well, but again, it's all submarket driven. North Scottsdale's starting to pick up. North Scottsdale's been really slow over the last 18 to 24 months. They're finally starting to get some leasing done there.
- If somebody were to build a new office building, what kind of floor plate do they build nowadays?
    - Ten-foot ceiling height is kind of the new thing. A lot of buildings are nine. The new Hayden Ferry is ten. One of the architects I talked to said ten-foot is the new nine. Not that there's much of that out there yet, but that's what's being designed into the new buildings. The live, work, play thing and being able to bike is big. The community space is a big thing in office now. I think we'll see some of that in the developments, but we're out in front of that a little bit.

- That USA place in downtown Tempe will have a lot of that. Hayden Ferry obviously has some components of that based on where it's positioned. When some of those big deals hit, all of a sudden, like when State Farm comes in and gobbles up half a million feet. It changes your numbers, but it's only a few deals that changed the numbers.

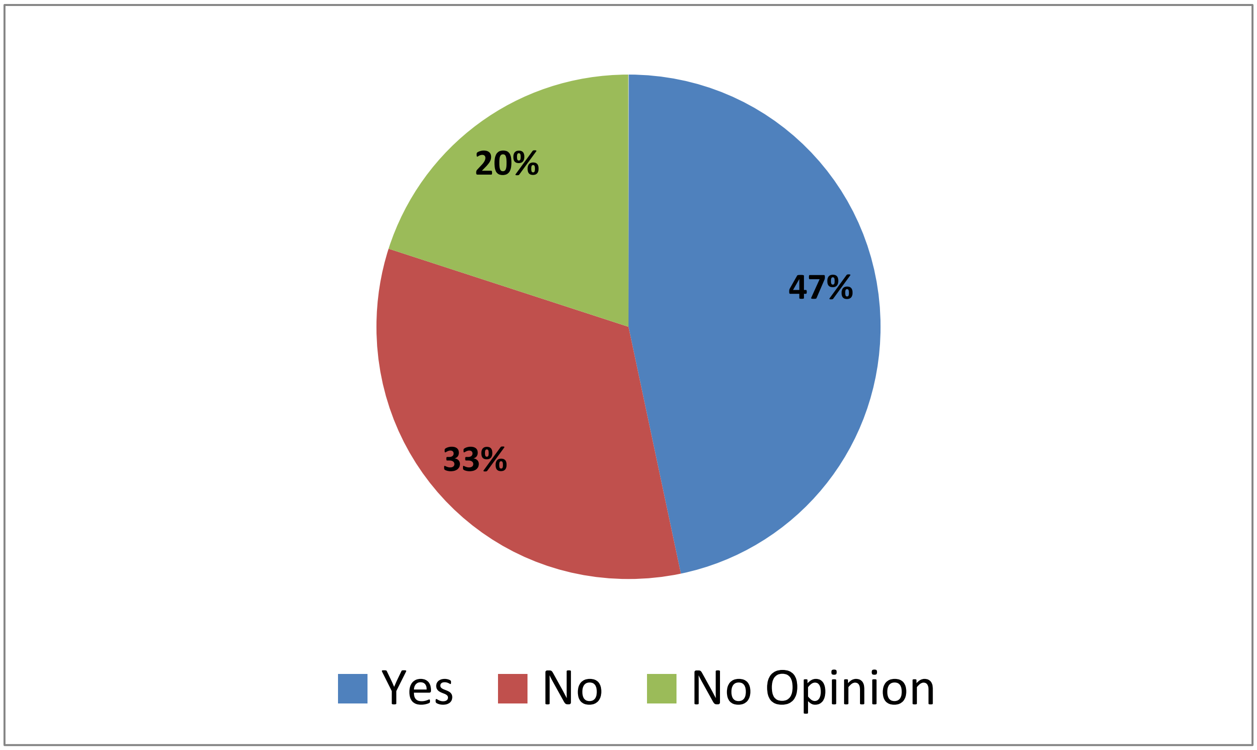
How do you see Medical Office users affecting the absorption of traditional office space in the next three months?



- The future of health care was dramatically changed with passage of Obamacare, only it is going to take us about six or seven years to actually see it. What you're seeing in some of the trends is that we're going back to physicians becoming employed in large systems. Banner has hired, depending on who you talk to, between 1,000 and 1,600 doctors directly and they plan on doubling that. If you assume they end up with 2,800 physicians that means they've hired 15 to 20 percent of all the doctors. That's huge.
- My sense is that the private practice is done, especially in primary care. There's no way you can be a solo doctor anymore and survive with the way the system is evolving. The coordinated care concept means you've got to be part of this larger thing. It's hard to be part of that larger thing if you're just one guy over here doing it your way and the rest of the system is doing it a different way. You have to conform or become a concierge doctor or just get out of it all together and become a cash only provider and try to survive that way, and you'll see some of that.
- The floor plate has to change. You have to have lots of doctors in one space, very well-designed, as little paper as possible, as much patient area as possible. You will see doctors in cubes making their patient phone calls off to the side, but no more offices for doctors, which they don't want to hear.
- If you think parking requirements are high today, when you get to that kind of a volume process, your parking requirement is going to have parking ratios of 5.5 to 6/1,000 square feet of building minimum. Now, back to that question, when you ask are doctors affecting occupancy of traditional office space, how many traditional office buildings out there that have more than 5/1000 parking ratio?

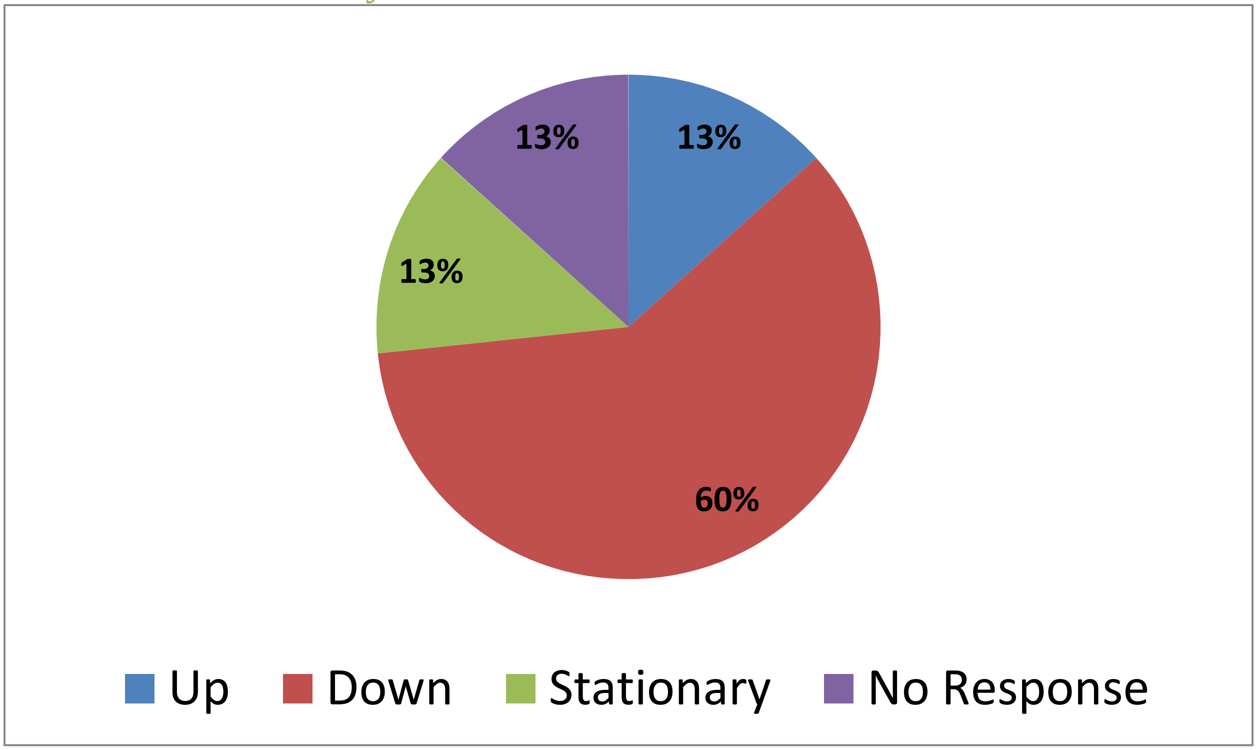
    - Very few. If you don't have the parking, you don't have a medical building. If you don't have the plumbing, you don't a medical building. If you don't have the right electrical power, you don't have a medical building. I don't see a lot of medical migration into traditional office. There are exceptions, and I've done those, but I'd say it's going to be few and far between.
- Retail guys - how are the doctors affecting the boxes in retail space because there's plenty of parking in those empty retail spaces?
    - I had a day care user, made a lot of sense. Did the medical out in front of it. The feedback I got is that it has to be existing building. But, to go find a guy that will come in to occupy a space and do the TI and finish out is nearly impossible. To retrofit a space, I think, is cost-prohibitive, so it's a Catch-22.
- Health care loves retail and there is a huge synergy there. If you build a brand new building today from the ground up and you put in a $50.00 or $60.00 TI allowance and you try to find somebody who's willing to write a ten-year lease to support that, you're at least at 22 triple net, 24 triple net for that to happen. The rents aren't there yet, so why would a doctor or a practice agree to pay that when they could go find maybe some less desirable retail space and take an existing rent and extract a little bit of money out of the landlord, not much in retail, and then build on that and end up at an effective rate that—maybe 15 triple net, 16 triple net. That's huge.
- Fast Med did a bunch of leases. Fast Meds are doing conversions. We're looking at—doing restaurant buildings where you take a 6,000-square foot building, you do a Fast Med with Five Guys. That's what we're seeing. Then from the dental side, we got Perfect Teeth, Pac Dental, and some other guys coming in to take advantage of these out-parcel end caps where no one else can pay the rent. They're paying $20 - $34 dollar rents.
- What are the average TI costs for a—if there is such an animal?
    - From a shell, depending on what the shell condition is, the number we were working with until about a year ago was about $55 or $60, and it's quickly moving up. I'm starting to see $70.
- Usually landlords were putting up $50.00 with $40.00 in TI, but they're paying another 50 bucks on top of that.

Do you see Medical Office uses helping traditional office owners/investors increase their pro formas?



- From my perspective, investors don't necessarily like to see a traditional office building peppered with medical use because it presents all kinds of issues, and usually, it indicates that it's a tough sledding office environment, so they have to make some concessions that otherwise we wouldn't have to make. I think it has helped the traditional office.
- It may fill space, but the investment in the TI is offset by an increase in rent.
- When the market's so bad though and you're a landlord, you're like, all right, whatever. Give me a warm body that can fog a mirror.
- A traditional office buyer is going to look at that space and say, when that lease comes up and they leave, I've got to demo all that and start over. How much additional value are you going to get in that rent anyway?

Where are Retail Vacancy Rates headed in the next three months?

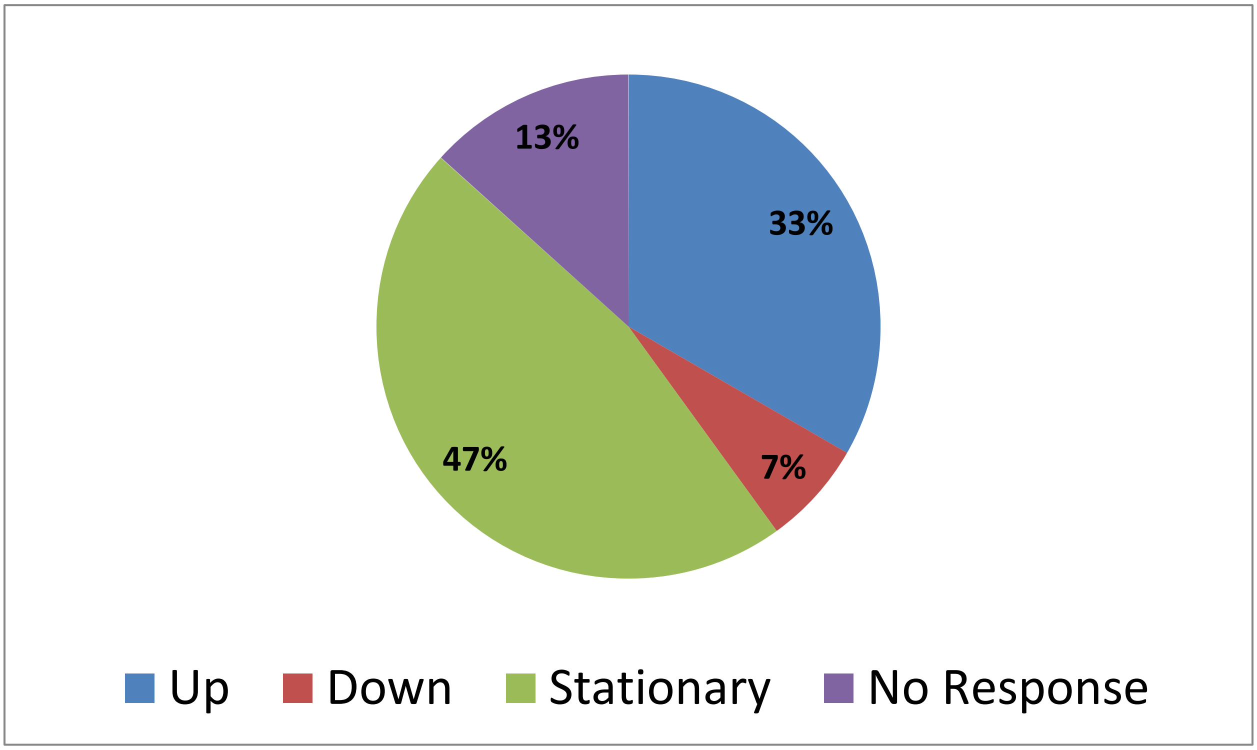


- They're going down right now. We're down 4.8 percent. Rents are going up. We're starting to see rents back in the $40.00 to $50.00 in North Scottsdale.
- What are the nets? Seven bucks?
  - They're actually only six bucks. The rents in Scottsdale are definitely going up. The rents are low in places like Mesa and Glendale. Those are kind of the C properties. All the A properties are probably back up in those $30.00 rents again.
- What's the market vacancy overall? About 10.2?
  - Somewhere in there. It was a lot of the unanchored strip stuff that everybody got in the game with and threw that up. That was the stuff that was dying and the stuff that wasn't maintained and was falling apart. It went back to the bank and there are weeds growing, all that stuff had to be worked through and brought back in to control. The right real estate - the pads, the redevelopment stuff, and the prices - really didn't change at all. The terms didn't get any easier. Those users, the new guys that came in, all the hamburger users, the Raising Canes, the Chick-Fil-A's and all the pad user guys who picked up their fees - they stepped in when the banks couldn't.
- Retail investors started buying these pads and getting into these corners that you've never seen before, like 44th and Camelback. All these crazy things that have reverted over to pad users. The great real estate, the infill real estate really didn't go down much. It was the outskirt stuff that didn't move at all and the banks really just didn't even hammer the owners because they didn't want to back out on the folks yet. That was kind of quiet and it sat there. It's the real C stuff that just sat out there and really got mistreated with the weather and the maintenance that drove everything down.
- Wait a minute. Isn't it counterintuitive when we have lower migration, we have a lower number of homes being built, we have the jobless rate or unemployment rate going up instead of going down, and retail vacancy is going down. What's going on?
  - If you don't know how to cook, you still don't know how to cook. You just shop down. Instead of going to P.F. Changs, you go to the Chinese place around the corner; you don't

go to William's Sonoma and buy a bunch of pots and pans. That kind of ideology still happens. You still go to the dry cleaner. You just don't go as much. You get pushed down out of Prestige Cleaners and you go down to the cleaner on the corner that gives you the smoking deal. That's more the Mom and Pop feel. That goes from nail salons to dog groomers to every small Mom and Pop guy that fills the center.

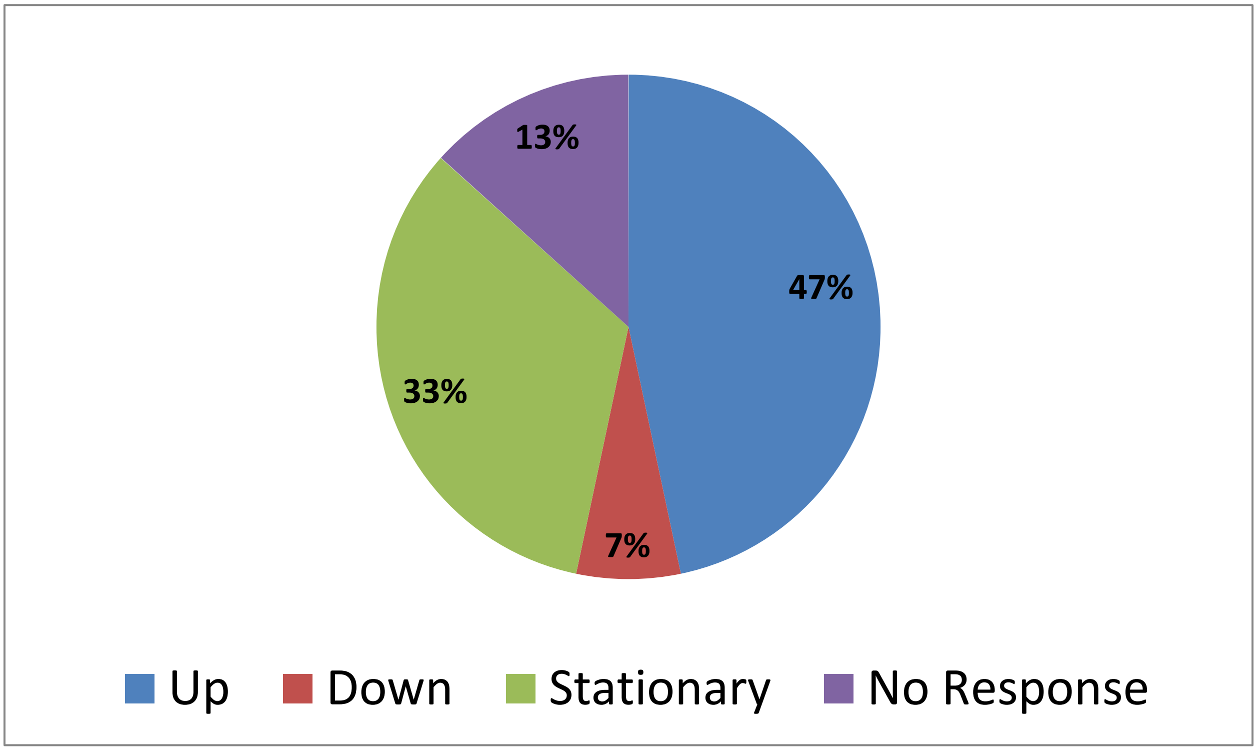
- The grocery store market with the whole Basha thing was just horrible, bad press and made everybody not feel good. Then we get the lift of WinCo coming in. That was a false start, but now they're here and they're opening stores. That feels better. Basha just named a new president, so that feels better. A smart guy. People still have to buy their groceries and do their deal. The Sprouts and the Whole Foods have come into the market because they're taking advantage of the vacancy. Town and Country, they would have never been able to touch that before, but now, they're happy to have them.
- Are you seeing more activity in infill than the perimeter? Absolutely.

Where are Retail Mall Rents headed in the next three months?



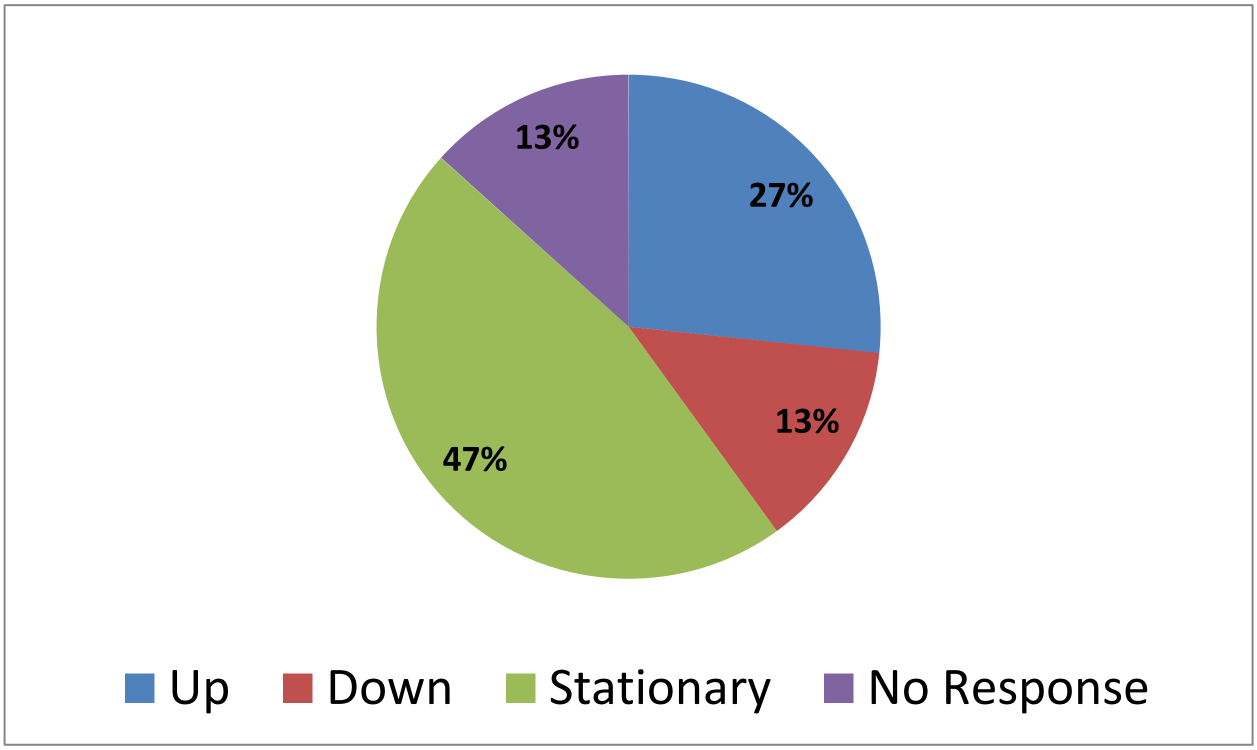
- Do we care?

Where are Retail - Anchored Center Rents headed in the next three months?



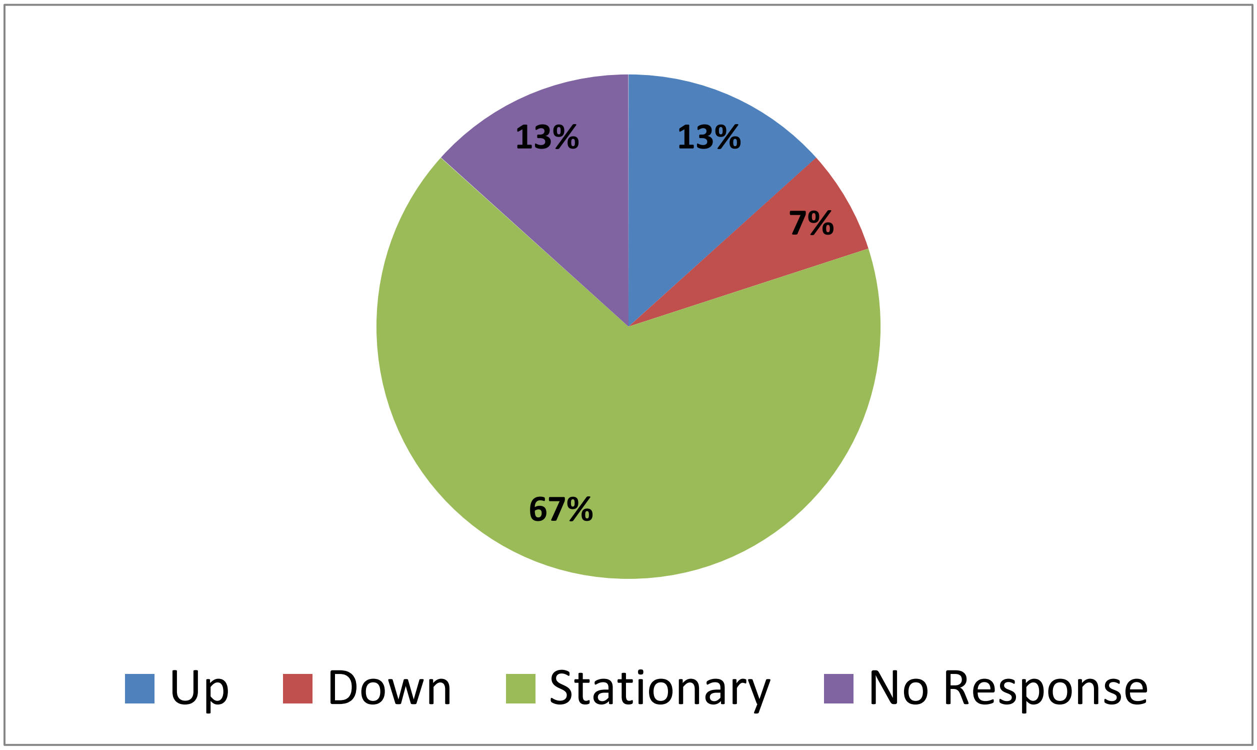
- Retail anchor depends on where it's located, right? Because like was said earlier, Scottsdale is on fire.

Where are Retail - Un-Anchored Center Rents headed in the next three months?



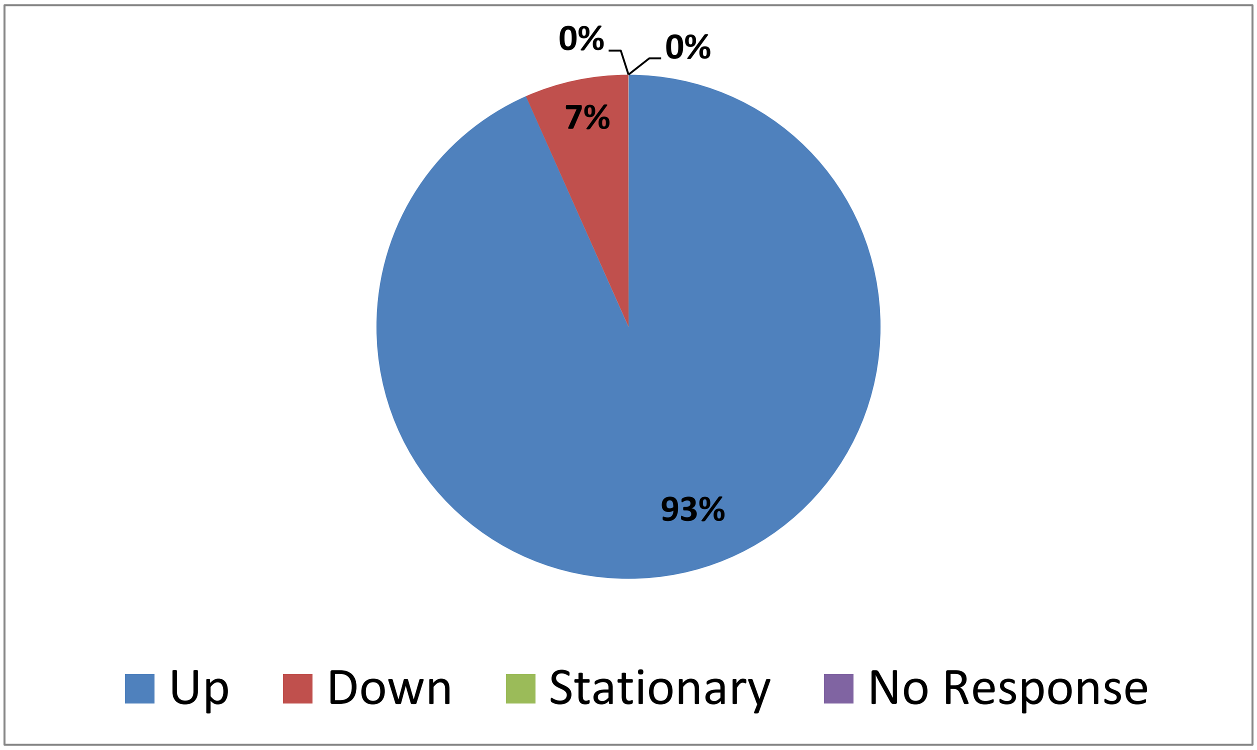
- Everybody's moving to the anchored stuff; out-parcel stuff, so they need to be redeveloped.
- It needs to be redeveloped. A lot of that stuff needs to be scraped and redeveloped.
- We got a lower basis now, so we can offer the lower rents.

Where are Retail - Big Box (over 25K square feet) Rents headed in the next three months?



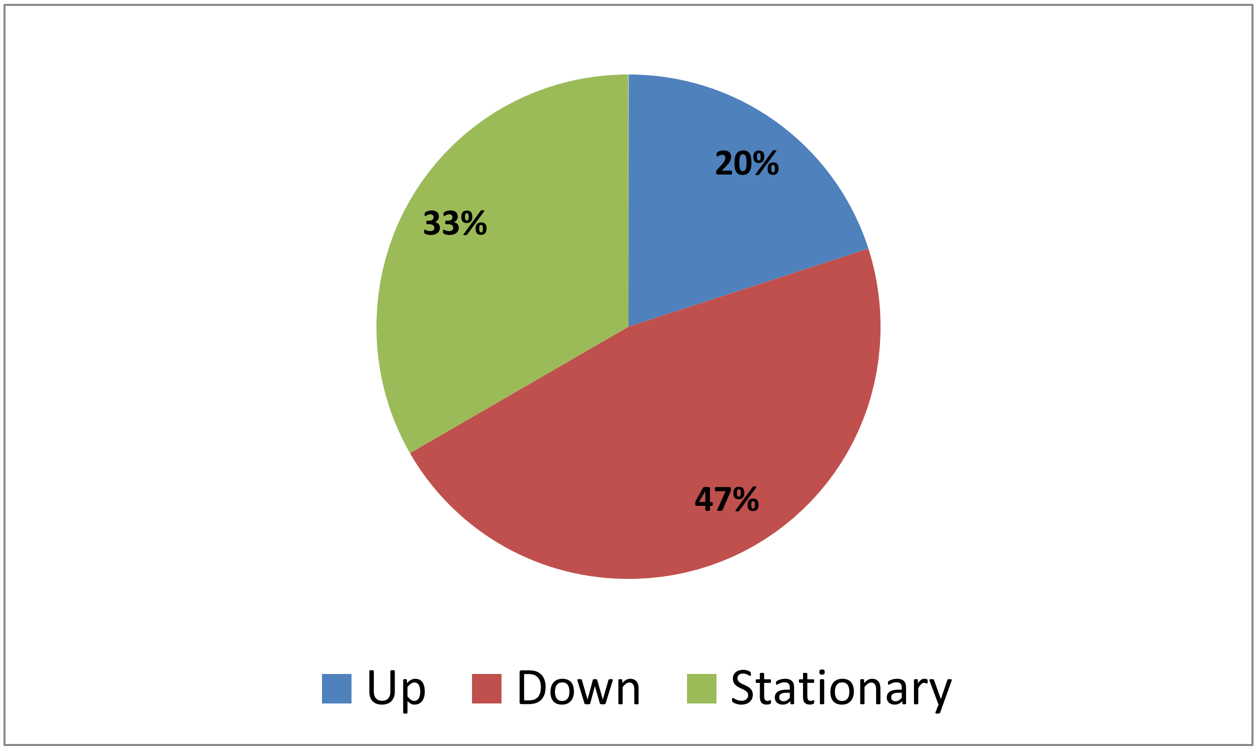
- It's a big question mark where all the anchors go. Who's going to be the next Best Buy and who's going to step into that kind of arena? Who's going to compete with online stuff? I hate to say that. We've been talking about it since I've been in the business, but realistically, do you need bigger stores or more of them? Is there a lot more space available now that you can use at 10,000 feet that you used to need 25,000 to do?
- Do you really need to go in and showcase your wares so everybody else can go buy them online and then try to compete with a nontraditional retail use and still pay employees, cam charges, maintenance, blah-blah-blah, or do they just come in and look at your stuff and then go and buy it online? That's the real question.

Where are Interest Rates for commercial loans headed in the next three months?



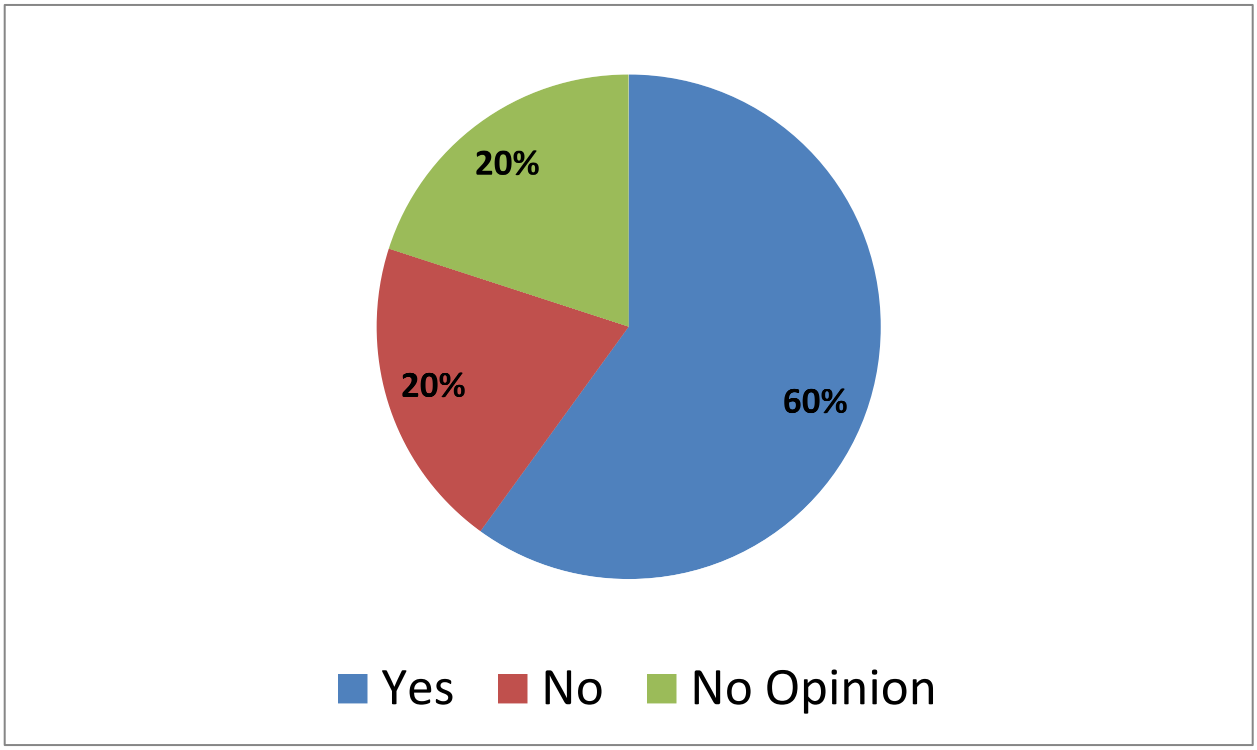
- Are they going up? Yeah, absolutely
- 12 weeks ago, we saw the comments about the whole notion of the Fed tampering with interest rates. I think if you look at the long-term average, the ten-year historical average is five percent. The 50-year average is five percent.

Where are Investor Returns headed in the next three months?



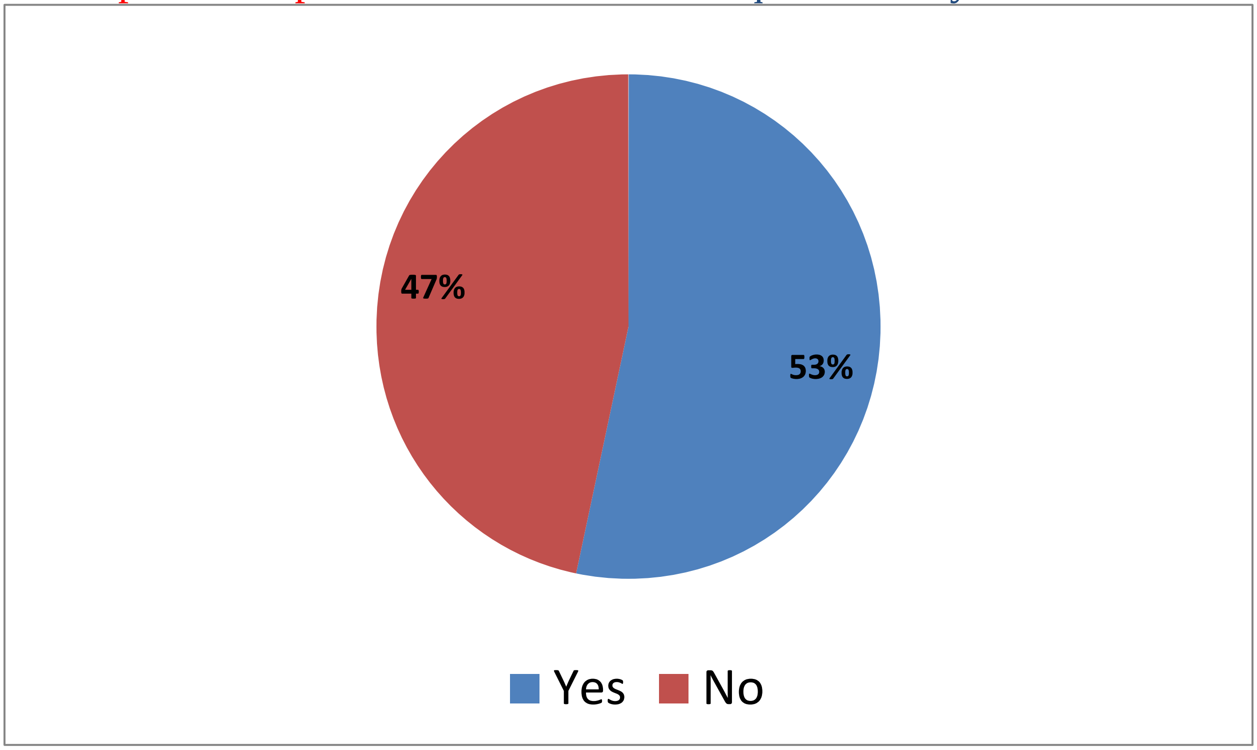
- The big question is whether there is more demand for investment than there is supply of investment product. With any increase in interest rates, will cap rates (Note: A "Cap Rate" is the rate of return on an investment property based on the expected income that the property will generate – the ratio between net operating income and purchase price) remain unchanged?
- I happen to believe that investors demand a certain return, and if their debt cost goes up, then they are going to pay a lower price. Sellers are going to accept a lower price. It depends on the product type and where you are, but I think in the next 90 days, with certain product types and classes, you'll see that standoff between buyer and seller. Sellers will have to blink and accept a lower price.
- The capital is clearly ahead of fundamentals.
- Investors are underwriting rent growth. We are feeding them and they are underwriting rent growth. We do not move a market, but they believe that rent growth is coming.
- The other issue too is that there is a lot of capital seeking a return. Pension funds are averaging one percent or less. A lot of wealthy individuals have money sitting in banks that are making no money. I have buddies all the time asking me to try to find a deal for them —they are making no returns. The question is will that keep yields low because there are no real yields anywhere else? There's a lot of foreign money coming in, especially into the gateway cities.
- We saw a group with foreign money on a tour a week or so ago. There is nowhere for them to put their money. They've been burned on Europe so many times. They don't want to put their money in Europe because they lose it there. They are friendly to America and they like it here.
- The one notion though in terms of the profile of investors is that we're not seeing the true core investor back. Only on a very select basis. It's really the value-add, which means they're looking for returns in the mid-teens, 15 to 17 percent leveraged returns.
- For a true value deal, we'll see 20-plus bidders. On stabilized, it's six or eight.

Has Cap Rate Compression helped effect gains in core real estate values over the past three months?



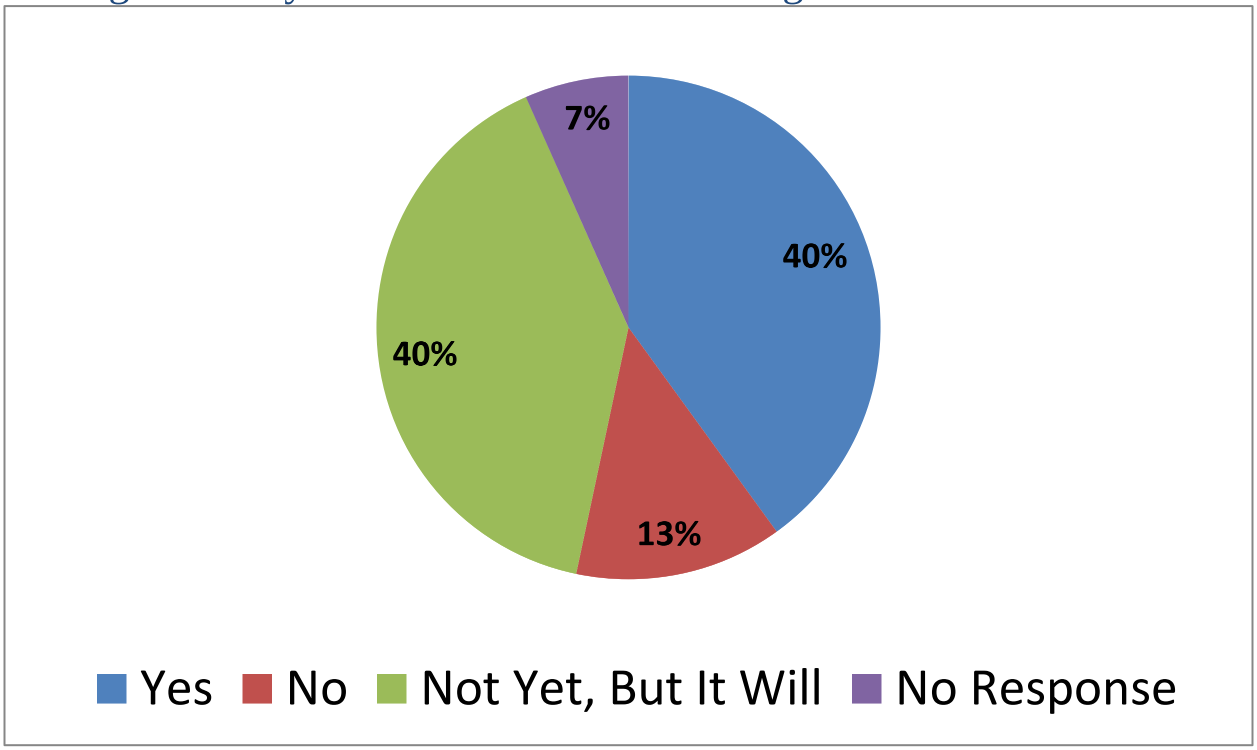
- Cap Rate compression is a big deal especially with interest rates going up, correct?
  - It is a big deal, yes. I think if you are looking at true industrial it is great. Investors want industrial. They want big box. You may see continued marginal cap rate compression, particularly in the Inland Empire. Apartment product is very sensitive to debt. I don't see Cap Rate compression in office. I think office is coming back into favor among investors. Really, it will be the first quarter of 2014 or the first half of next year before we see what happens to yields and returns depending on cost of debt.
- If interest rates don't rise, although it was said that they are going to rise in the fourth quarter, we're okay with cap rates. It will pretty much stay consistent. As soon as interest rates go up, are cap rates going to fall?
  - That's my belief, but there's one school of investors that believe there's so little product and there's so much capital that the supply/demand imbalance will keep cap rates and yields in check.
  - It's all a function of the cost of capital. Whoever has the lowest cost of capital, their equity will win the bid at the end of the day because they can underwrite to a slightly lower returns - this means they can overpay. You look in the Camelback Corridor at $176 per square foot when replacement is easily $350 in a very constrained submarket.

Will Cap Rate Compression continue in the fourth quarter of this year?



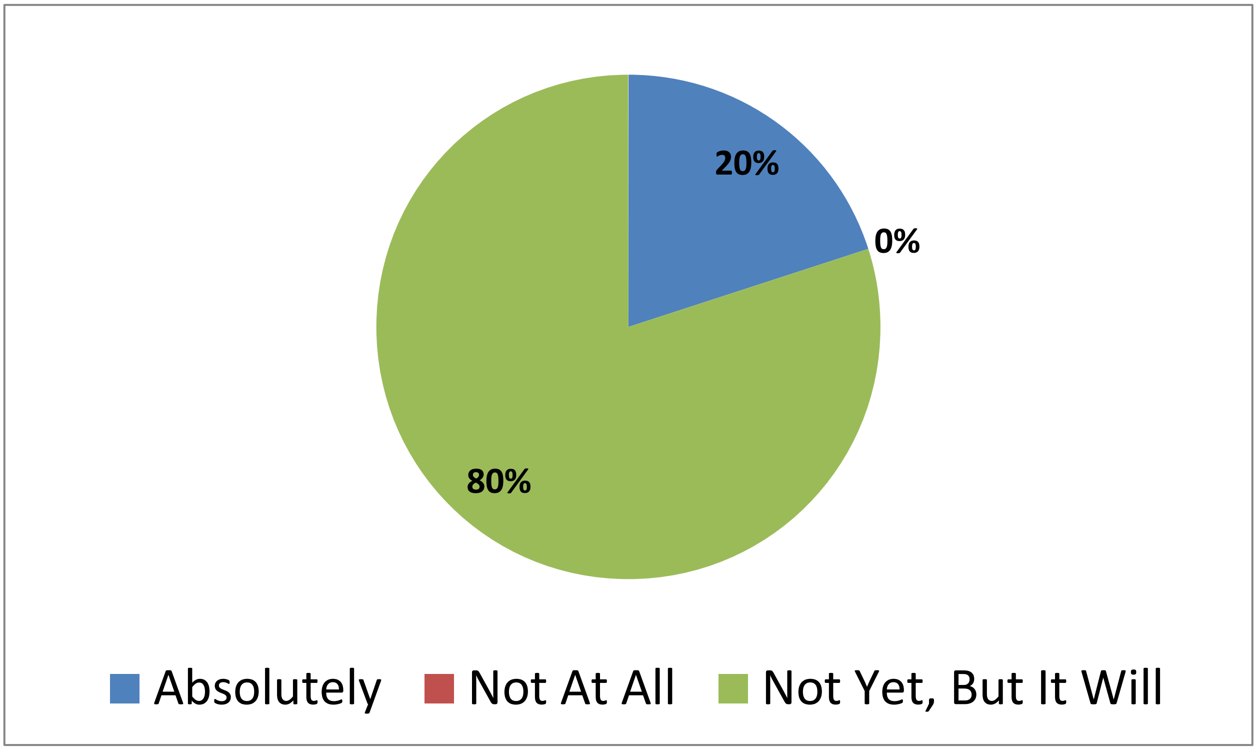
- I think we are starting to see some anecdotal evidence of this starting to benefit commercial, right before the ten-year backed out. Title companies starting to talk about expanding. Once rates moved they almost doubled from where they were.
- As the ten-year rate started to move, all that went out the window. Example is as that Title companies that were going to do longer-term deals went to one-year deals to see what happens. Like we were saying earlier, in industrial real estate because of the uncertainty. I think rates backing up affected commercial real estate. I don't think in the short term it is helping commercial. I think over the next 12 to 24 months, it will, but short term, it will not.

Is the tight inventory for homes on the market affecting the commercial side at all?



- Fourth quarter it will probably not impact commercial, but it will eventually.
- Not yet, but it will. We don't have enough labor pool, actually, here in Phoenix. That's a whole other discussion.

Will the number of people who have stopped working or stopped looking for work affect commercial real estate/industrial/office/retail/multifamily?



- The not yet, but it will. We don't have enough labor pool, actually, here in Phoenix.
- That's a whole other discussion.