Brokers Forum Report

October 5, 2016

Forecast for October 2016 – March 2017

The Center for Real Estate Theory and Practice

ARIZONA STATE UNIVERSITY
ASU Commercial Brokers Forum Survey
Forecast for October 2016 – March 2017

Introduction

“Work hard. And have patience. Because no matter who you are, you're going to get hurt in your career and you have to be patient to get through the injuries.”
Randy Johnson

I think Randy Johnsons’ quote sums up where the metro commercial real estate market has been and where it is now and how we should be dealing with the current and projected conditions. We were beat-up, we are working hard, and we need to be patient. This is not the economic recovery we hoped for and as a result, adjustments in approach and attitude are needed. What the results of the current survey show is hard work and patience. In previous reports of survey results, we said that this is a slow and steady recovery and the results of the current survey show that trend continuing. A little uncertainty remains and appears to be heightened as evidenced by the response to the question “In what direction is the metro Phoenix market moving?” For 2 years 100% of respondents said “up”. The current survey shows 88% believe the market is moving in an upward direction. Couple that response with response to the question “Where are we in the cycle?” where only 52% of respondents believed the market was in an expansion mode. It is pretty clear that uncertainty and a cautious attitude of respondents remains. We have a lot of work to do.

When the results of the survey were discussed at the Forum, the participants continued to express confidence in the market when discussing long term outlook but there is a lack of absolute, unconditional confidence in the short term. Growth continues, projects are getting done and we continue to make progress as a metro area but in very specific product types and sub-markets. When discussing the market and survey results with Forum members, it is impossible to make categorical observations unless it is prefaced with “It depends.” In fact, Forum members refer not to just sub-markets but to micro-markets – areas within sub-markets. This is as good an indication of the state of market as any –a very granular analysis is needed to understand potential for any given product in any given sub-market. We are certainly not over building and possibly we are in equilibrium – developing only what is needed to keep the market stable. This was the case with the last Forum. When you look at the trends, and read the comments of Forum members, the conclusion is clear that we are on pretty solid ground but outside factors are making it difficult for metro Phoenix to expand at a more robust rate and that is creating uncertainty about the next six months. Concerns still exist and the geography of the expansion is still not uniform – some products and submarkets are doing much better than others, and demand needed to push opportunity for expansion to all submarkets is not certain and so we have been slower to recover.

Background

The Forum has now been held for 3 consecutive years (eight separate surveys). It was first held in October 2013. This report includes results of a survey conducted in late September 2016 and a
discussion with Forum members held on October 5, 2016 about those survey results. The Forum is composed of 15 of the Valley’s most successful commercial real estate brokers representing all major product types, brought together by the W. P. Carey School of Business and the Center for Real Estate Theory and Practice with the assistance of Pete Bolton, Managing Director of Newmark, Grubb, Knight, Frank. The purpose of the Forum is to provide meaningful, insightful and relevant input on the commercial real estate market in Phoenix. The Forum members came from a variety of sectors and specializations as well as a cross section of the many brokerage houses in the Valley. The Center for Real Estate Theory and Practice conducts the survey and brings together the Forum every six (6) months to discuss and track the perceptions, insights and trends in the Phoenix commercial real estate market.

Previously, only Forum members were surveyed and the discussion was with those surveyed. We wanted to expand the survey to get more respondents and thus more reliable results. For this report the survey was sent to more than 400+ commercial brokers and sales agents working in the metro Phoenix market. The results of this report represent response of 116 of those who were asked to complete the survey. The Forum members met and discussed those survey results.

The purpose of this forum is not only to seek informed opinion but to hopefully achieve consensus on forward-looking key indicators of the commercial real estate market in the Phoenix metropolitan area. The Forum is an open discussion about the survey results and what is happening “on the street” in commercial real estate. The combination of the survey results and the discussion with Forum members is used to detect current trends, discover similarities and differences among various sectors and submarkets and document anecdotal evidence, opinions and insights. This report is a summary of their opinions. Each session builds on previous surveys and the information gathered is synthesized chronologically to provide an indication of trends.

This is the eighth report of the Commercial Real Estate Broker Survey which addresses what the panelists believe will happen between October 2016 and March 2017. The following charts indicate the survey results and the Forum discussion. What you will see in this report are survey results and some key comments about the results by Forum members. The responses are anonymous. This is done so the panel members feel comfortable providing unbridled opinions. 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.

It is clear from the results of this edition of the Forum that those who know this market best are still feeling slightly uncertain about where we are but remain confident the metro area will continue to expand in the long term. Uncertainty about the next six months remains in the back of our Forum members minds. So, if there is a pattern, it is continued uncertainty and concern about continued significant expansion of the market. In our last report we asked the rhetorical question: “Will the uncertainty in the federal government have a negative impact on the market?” and suggested that if it does, it will not be profound, rather it would be a slight pause. I think we can say, based on most recent survey results and comments by Forum members that the market hasn’t fully paused but is shuffling along. Most all economic fundamentals suggest continued recovery and growth – but still only in certain micro-markets in certain submarkets.
Many of the same systemic problems that have persisted for the past several years still exist to some degree in some submarkets - attracting more high-wage earning jobs, construction labor shortages are still a problem but construction hiring is increasing, tight lending is still making anything other than institutional grade borrowing tough and continues to keep a governor on new construction. They all wished for more activity in most segments, but see the progress. How we are growing is different from before the recession and continues to reflect a maturing metro development pattern. We want a faster, more robust expansion. We hope for more and faster growth. We are known for being a “boom and bust” market. Maybe what’s happening is we are growing up and this is a more sustainable pattern.

These are the forward-looking opinions of the professionals who are in the market every day and know it best. These survey results are their opinions based upon their experience.

Mark Stapp  
Executive Director, Master of Real Estate Development  
Director, Center for Real Estate Theory and Practice  
Fred E. Taylor Professor of Real Estate
Below are consensus statements made by the panel and charts that show responses to questions asked of the Forum members. For most questions, Forum members could choose “Up”, “Down” or “Stationary”. For simplicity sake, we chose to only show % of respondents selecting “Up” but believe this adequately show trends.

**THE MARKET OVERALL**

**CONSENSUS STATEMENTS on the overall market in Metro Phoenix:**

- We are seeing expansion, but we are not seeing like we used to see it.
- The last time we all got together, we were at 71% who saw the cycle in expansion mode, and now with a far larger population, we have dropped to 52 percent, so half of us think we are in an expansion, and the rest of us think we are going in a different direction.
- In our world, the job skills have totally changed; it is not just call center jobs anymore. It is financial services for IT, cybersecurity, risk mitigation. There are a lot of those businesses looking at Phoenix right now. There are specific skills needed in the marketplace today, and so corporate clients are looking to where those skills can be found.
- You might be able to develop a customer service center in some place like McAllen, TX, but you are not going to get the employee talent pool there that you need. We have labor available from ASU, U of A, NAU and Grand Canyon University. Phoenix has a big advantage right now with the number of graduates it produces and the people required to fill and sustain the labor needs of these target companies.
- Expansion is happening here and it is going to continue for at least a couple more years.
- Generally, the sentiment is that we have been out of the recession since at least 2011. Everyone is looking at what is going to happen a little bit later in this decade, like 2018. We are probably going to go into another slight recession, but nothing like we have been in before.
Where are we in the cycle?

In what direction is the metro Phoenix market moving?
Will the number of people who have stopped working or stopped looking for work affect commercial real estate markets?

![ABSOLUTELY Chart]

Are local economic development programs and the real estate markets aligned?

![YES Chart]
Is uncertainty in the federal government affecting the commercial real estate market and hindering our local growth potential?

How will changes in Federal regulations related to commercial real estate lending affect the market over the next 6 months?
Where are interest rates for commercial loans headed in the next six months?

Where are investor returns headed in the next six months?
Has cap rate compression helped effect gains in core real estate values over the past six months (April 2016 – September 2016)?

Will cap rate compression continue in the next 6 months (October 2016 – March 2017)?
What is the overall feeling about the metro Phoenix commercial real estate market?

OFFICE MARKET

CONSENSUS STATEMENTS:
- If you need 100,000 square feet office space with parking at 6 stalls per 1,000 SF of building, there are 37 options south of the airport right, and that is new construction. That is conversion from industrial to office space. Very competitive.
- I think the strategy needs to start changing a little bit, land the deal, maybe ratchet down the euphoria from an expectation of high teen net rents to something more realistic in the $14 to $15 range. No one has done that yet, but I think that is coming. There is tenant demand, but there are so many options that rate expectations are going to need to be adjusted downward.
- We are going to see vacancy rates increase slightly with all the new product that has come online. There is a great deal of construction taking place right now, and there may not be the momentum to backfill a lot of it immediatly. The market is good, but there is a lot coming online right now.
- We are all about micro markets right now. Example, Tempe is a hot market, but there are certain parts of Tempe that are just on fire, and certain parts of Tempe that will never lease. There are certain parts of North Central Avenue that are absolutely on fire, and there are certain parts that will never lease.
- We are seeing a large number of companies from urban California into Phoenix.
• The movement from CA is mostly coming out of the Bay area. They love Phoenix. They love the labor force here because it is educated, and because they do not have to compete against Google or Facebook where they are losing employees right and left when they stay in the Bay area. They are coming here needing 8,000 square feet with capacity to go to 30,000 square feet. We have to negotiate the option to expand, with the potential to go to 30,000 square feet within three years.
• We are going see a whole lot of companies continuing to flow over here because our environment is more conducive to their bottom lines.
• In San Francisco, rents are $85 per square foot, and they come to Camelback Corridor and take 40,000 square feet in a building and they are willing to pay $32 per square foot. It is a deal. They think, wow, what a savings we have.
• Downtown LA is the same as San Francisco. Rents are $60, $80 bucks a square foot now.
• It is always a tenant's market in Phoenix, Arizona.
• We need to grow organically. We are growing externally, which is just phenomenal. We have companies moving from other areas of the country.
• There continues to be a lack of consumer confidence, the 5,000 to 10,000 square foot mom and pop regional companies, that really benefit the rent roll, do not believe the economy is back, so business expansion is slow due to a lack of confidence.

Where are office vacancy rates headed in the next six months?
Where are Class A office vacancy rates headed in the next six months?

Where are Class B office vacancy rates headed in the next six months?
Where are Class C office vacancy rates headed in the next six months?

Where are office rents headed in the next six months?
Where are Class A office rents headed in the next six months?

Where are Class B office rents headed in the next six months?
Where are Class C office rents headed in the next six months?

Is this a tenant or landlord office market?
Will we see more Office Spec Development in the next 6 months?

70%

How will the amount of available shadow space change in the next 6 months?

INCREASE

27%
INDUSTRIAL MARKET

CONSENSUS STATEMENTS:

• Industrial is still very, very strong, and part of that is rollover cost. It is a safer area to invest in than office. Industrial is perceived as less risky. Office will kill you. Office is a timing game.
• We talked about industrial in Phoenix as it relates to jobs. We are seeing quite a bit more expansion locally from companies that are coming in from out of town, especially from California with the minimum wage issue.
• A lot of our industry is impacted by blue collar jobs and the more that other states are raising the minimum wage, the more we benefit from that.
• We absorbed three million square feet in the first two quarters, so we were very hot and heavy last quarter, and we are due to be just as bullish in the third quarter according to some of the speculative numbers.
• Historically, we have always been a boom and bust economy, and it has always been brought on by housing, as everyone knows. This time, we are recovering without housing and with a lot of manufacturing, which is great.
• I think the general consensus is that we have a longer runway than most other markets in terms of industrial. Our recovery is going to hopefully be longer and stronger, but having said all that, there certainly is plenty of space still available. You know that the market is not great when the broker incentive e-mails are popping up again.
• We have to coach our developer clients all the time that, 10 percent vacancy is actually pretty good. If you are from California and you are used to 4 or 5 percent vacancy, you are not going see that here. Ten percent is when people build.
• I believe in the last two years along the 303, all the manufacturing facilities that are being built are build to suits, not spec. I find that very interesting. I do not think we have ever seen so many manufacturing and distribution manufacturing companies come into this area and build these big facilities. That tells us a lot about California and the inland empire.
• I would say rail is back. There will be four or five rail deals that get done this year for the first time in a while.
• We finally started to see some good absorption here in the last 12 to 18 months. We have seen quite a few big deals get done. We still have 13 buildings over 200,000 feet that are sitting vacant and are ready to go. I do not understand why someone builds another one, but they have the money, and so they do it.
• I think the demand has come up quite a bit, and we are actually seeing deals get done. We had six in the second quarter over 250,000 square feet. That is a pretty big number.
• They can always get out of it, right? If a developer builds a building for $42 a square foot, he can sell it to an institutional buyer for $48. He puts a tenant in there, caps it and sells it for $65. As long as you build the right institutional type product, you can always get out of it.
• In retail, you start negotiating, and you figure out there is going to be a little give here and there. Industrial buyers must have patient money because they do not give on anything. It makes me think that whoever is developing these buildings has enough cash. They are patient, and can just wait for the right people to come along.

Where are big box industrial vacancy rates headed in the next six months?

Where are big box industrial rents headed in the next six months?
Is this a tenant or landlord industrial market?

Will we see considerable Spec Development in the industrial market over the next 6 months?
RETAIL MARKET

CONSENSUS STATEMENTS:

- Going back to the investment part of the discussion a little bit, there is hardly any small decent retail product because of the Mom and Pops coming out of trades.
- There is almost no new construction; there are about eight new shopping centers with actual Sprouts or Fry's as tenants. Safeway is actually going to be doing a new deal, which was a surprise, but they are not building as many square feet of shops, and it is expensive.
- There is just nobody to fill the space anymore because everything that we have now is either health and wellness, restaurants, or medical.
- Even if you are on Scottsdale Road—even with that, you are losing tenants almost immediately because somebody who is not serving liquor cannot pay $42.00 a foot triple net and make it. That was a real lesson to be learned as far as how far you can stretch because everybody gets all caught up in the energy, and they think, I have to be there. Then they can't make any money.
- One thing that is happening this year that has not really happened in the past in the retail category is that the retailers are out trying to hire now for Christmas, and this is really early for them to try to be hiring now. They think there is going be a shortage in the labor pool, so it is the part time labor pool that they are after, so that is why they are going after it earlier.
- We have so many retail bankruptcies, and now it is really starting to happen in the food business as well. There has been six food restaurant bankruptcies filed in the last ten days, and there is going be more, so vacancy rates are going to go up.
- Restaurants are the ones that have been driving the rents. But, there are only so many pizza places, so many hamburger joints that can survive.
- Sports Chalet is gone. Sports Authority is gone. Golfsmith has filed bankruptcy. Dick's is going be the winner in that category. They bid on 31 stores throughout the country, only one of which is here in Arizona.
- There are 243 spaces available over 10,000 square feet, somewhere in that range. It never gets better. It is like two steps forward, one step back.
- One of the big problems with owners dealing with some of this vacant space is the underlying CC&Rs that exist for shopping centers where alternative uses are not allowed without the approval of the other major tenants. The negotiations can be tough.
Where are retail vacancy rates headed in the next six months?

Where are retail — anchored center rents headed in the next six months?
Where are retail - unanchored center rents headed in the next six months?

![Chart showing rental trends](chart1.png)

Where are retail — big box (over 25K square feet) rents headed in the next 6 months?

![Chart showing rental trends](chart2.png)
Is this a tenant or landlord retail market?

Will we see an increase/decrease in Big Box Absorption over the next 6 months?
MULTIFAMILY MARKET

CONSENSUS STATEMENTS:

- Class A rents continue to climb and go up at a steady trajectory.
- From the end of 2015 to second quarter 2016, rents jumped 12 percent on the A’s, almost $130.00 per unit per month.
- It seems like there is still an insatiable demand for Class A product. The Class B product is seeing a little bit less increase at 8 percent jump, and the Class C product is still lagging in the marketplace at about 6 percent jump in rents over the last eight, nine months.
- Construction has continued to pace about 5,000 to 6,000 units a year. Right now as we speak, we have just over 9,000 units coming out of the ground. Phoenix has seen the greatest number of developer of properties, 69 in the last five years, followed by Tempe.
- In our office we rank brokers every month to identify the top 15 brokers in the company. For the last two years, it has been multifamily, multifamily, multifamily, multifamily.
- I think that we are still very strong in multifamily. This quarter has been a little quieter than the fourth quarter of last year, and that is because the market flooded last year in the fourth quarter, so I think everybody learned a lesson. Although it is a little quieter than last quarter, there is still a huge amount of activity. I am not feeling the pullback.
- Inventory blew up in May and June. We had 120 listings in the marketplace. It has come down to 84. One thing that has been interesting, in the fourth quarter right after Labor Day, we usually see a big push to get product to go on market, and we have only seen 10 or 11 listings hit the market in the last three weeks. Inventory is starting to contract a little bit, and we are not seeing as many sellers go to market. I think a lot of owners are saying, hey, I think there is still more runway in multifamily, and I am going to hunker down and raise rent some more and add value. Debt is still cheap. There is still an abundance of buyers.
- Rents just keep moving up. They will just keep raising the rent, so you are going have vacancy.
- We have been adding apartments, but it is in very specific places. Those are downtown Phoenix, Tempe, south Scottsdale, and then you have activity going more north Scottsdale, and then you have activity on 16th Street and 7th Street, and that is it. They are all building in one spot. There are speckles in Chandler. We are starting to see some planned west of 17, but there has been nothing west of 17.
- I think the development feels really healthy, but I also think there is saturation in certain pockets that is going take some time to deal with, and those guys just need to ride it out. Those sub-markets will see vacancy, and we will see a little bit of a concession offered renters in these areas. There are different product types, urban podium style, which we have not built before.
• I think Tempe is going to see some softness, maybe south Scottsdale, but central—downtown Phoenix, Central Corridor, you cannot build enough units, there is so much demand in that market.
• The availability of skilled labor is definitely a concern. There is a 12 acre site under contract in Flagstaff, they are going to ship all the labor up there from Phoenix because there is not enough in Flagstaff.
• The real problem with this is, if you are building something out of the city, Maricopa County, you literally have to pay the workers to go there. You have to pay for their gas to go up and come back. "Then they will show up?" "No, not necessarily." If they have a different offer from somebody, even though they told you they would go there, they do not show up. They stay somewhere else.
• Which multifamily property class will realize the greatest rent growth in the next six months? If anybody can figure this out, give me a holler.
• I do not know if you guys have noticed, but we have tried to get a TI bid now. They are ridiculous. For medical, $90 a square foot for basic, basic medical. It is because the subs are charging through the nose because they can not get enough subs, and so everything is going up. The landlords are freaking. The tenants are freaking.
• The cost of construction is crazy. I can't remember the guy I was talking to the other day, but he said that, he was out on one of their sites, and he asked for the head masonry guy to come over to ask why is he having problems with his crew? The head of the crew came over and he was 62 years old, and the average age of his crew was in the 40s.
• The average age of plumbers right now, is 47 or something like that – there is a shortage and those we have are on older side.

Where are apartment vacancy rates headed in the next six months?
Where are Class A apartment vacancy rates headed in the next six months?

Where are Class B apartment vacancy rates headed in the next six months?
Where are Class C apartment vacancy rates headed in the next six months?

Where are apartment rents headed in the next six months?
Where are Class A apartment rents headed in the next six months?

Where are Class B apartment rents headed in the next six months?
Where are Class C apartment rents headed in the next six months?

Which multifamily property class will realize the greatest rent growth over the next six months (October 2015 – March 2016)?
Have apartment rents for newly constructed projects reached their peak given the current market conditions?

Will the availability of labor be an issue in the development of apartment projects over the next 6 months?
How much has the cost of materials impacted rental rates?

![Significantly Impact Graph]

**Significantly**

- 29%

10/2016

Will apartment affordability be a concern over the next 6 months?

![Yes Graph]

**Yes**

- 57%

10/2016
LAND/HOUSING MARKET

CONSENSUS STATEMENTS:

- We have always said Phoenix, in a healthy economy, is going be at 30 to 35,000 permits. We now say 25 to 30,000 permits is healthy, and that is because of the plethora of multifamily product and more demand along transportation corridors.
- We are becoming denser.
- Last year, we did 14,500 permits. This year, we are expecting to be at 17,000, 18,000 permits. We are hoping, what is forecasted, all the third party analysts are saying it is going be 19, 20 next year, 22 the following year. It looks like we have a trajectory.
- There is still a lot of risk on the home builder side however. They complain about margin. They are saying that there is no margin out there. All their executives from New York and CEOs locally, all the home building divisions have turned into brokers. They do not have as much authority anymore, so they go up to New York, and they get a lot of pushback when they want to get a deal approved. They are not acquiring large tracts of ground. They are not acquiring as many lots. They are staying very tight within a max two year window - year and a half to two year window. They are not buying too far out in front because they can't predict the market that far out with confidence.
- Southeast Valley, if you look at top 20 home builders, majority of that is mid to high $200,000.00 to low to mid $400,000.00 price point, majority of all the sales. Southeast Valley was very strong. We are seeing Northwest Valley, very strong. Peoria, Surprise are also strong.
- We will see strong land sales this year. It is going be comprised of a lot of larger land deals, $20 to $100 million transactions.
- Labor is a very strong factor. Normally a single family production home takes four to five months to build. In one community in Southeast Valley it is taking eight months for construction completion, and it takes about a month and a half to two months to get it to the design center. There is a lot of pent up demand on that side. I think Phoenix housing will do better.
- Resale appreciation, maybe not as strong moving forward. We are still going to grow, but we will start seeing that shift towards new construction, new homes, and growth on pricing. We are starting to see them—they can start raising prices again slowly. On the macro level, I think if there is a recession, it is going be more concentrated to student loans, credit card loans, auto loans as the issue. A lot of people are refinancing their houses, taking the cash and paying off credit cards, and that is just a habit that's getting built up.
- We are at 62 percent now on individuals that actually own homes. We were at 65 percent. That is a big percentage change when you look at 300 million people in the country.
• Inventory levels right now are about three month supply on the resale side. Historically, we should be six month supply very tight. I don't know if we will ever hit six month supply just because of all the rentals. I think now, we're just going average three to five months, even if we come back on the resell.
• We are delivering what we have demand for right now.
• On the new home side, we talked to the home builders, and they were saying they probably have a 30 to 40 percent who are boomerang buyers that were foreclosed on, so they're coming back. Age wise for multifamily, it's not just young people. You got a lot of people who had divorces. A lot of people want to downsize.
• You see a lot of people migrate here. It is more diverse employment instead of the ten percent construction jobs. Now we are at probably six percent construction jobs, but that also speaks to the labor shortage. At least we're more diverse and not just relying on housing.
• Higher density homes were built for millennials and people that have a lot of younger workers with a lot of money, and they're getting all baby boomers. It is so funny. They want to be in downtown Scottsdale near all the bars.

Have land prices reached their peak?

![Graph showing land prices reaching their peak with a yes response.](image)
Have homebuilders stopped buying land?

Are homebuilders backing out of land deals?
Is the tight inventory for homes on the market affecting the commercial side at all?

Will the difficulty for buyers to qualify and get financing have a great impact on homebuilding over the next 6 months?
What will have the greatest impact on homebuilding over the next 6 months?

**ALL OF THE ABOVE: LAND PRICES, LABOR COSTS, AND MATERIAL COSTS**

- 67%

**INVESTMENT MARKET**

**CONSENSUS STATEMENTS:**
- All the Tier One cities are kicking butt, and have been kicking butt for two years, maybe longer, depending on the city. And then there is the rest of the United States Phoenix included.
- Our clients want to be in big metro areas because they want to invest in the bigger operation centers so they can scale their labor force from entry level all the way up and have career mobility. Phoenix is one of those metro areas.
- You are starting to see the pressures. I think employment is getting very competitive in Phoenix (we’ve already seen it in Dallas). You are starting to hear employers say, "We're having a hard time hiring." You are going start seeing that in Phoenix too.
- From the downturn in '09, there was the migration of corporate clients going to tier one cities. It was like flight to safety.
- Right now, the investment market is definitely “choppy”.
- Cap rate - if a building is leased, could be anywhere from the mid fives to the mid sixes, depending on the length of the leases. Most building sales are around six cap, but some of them are dipping into the fives for really competitive product. For the rest of the market, the buyers are what I call skittish. They are starting to get concerned. They hear that maybe the other markets have peaked. Does that mean that Phoenix is going stop going up as well? They have seen some rents rising even though we still have quite a bit of vacancy.
• You have some of the investors feeling like maybe the market is mature or maturing, and maybe now is not the time to get in – don’t buy at the top. We are seeing lots of deals where you used to have 15, 20 offers now you're lucky if you get 3 to 5 offers. There are not as many people looking at the deals here.

• Lots of deals have blown up in escrow for one reason or another. It is just a different market than it was 12 months ago.

• Yet there is still billions of dollars sitting on the sideline, waiting to get into real estate.

• The old adage applies - the FUD factor—fear, uncertainty, and doubt. People are discounting everything based this mentality. If that mentality goes away we've stabilized.

• If we get through the election and things aren't so bad in Europe – it is going be a whole different world again. It will take off. Until that stuff gets out of the market, uncertainty will pervail.

• For multifamily, there is insatiable demand. You are finding markets in southern California and even the Pacific rim where the cap rates and pricing have gotten stupidly low.

• The demand is still going be huge for the smaller deals where people are searching for yield and look for the $2 to $5 million size deals. I think there is less demand, fewer players. If anything, I think the demand for that that product going down at the moment. That can change if the market is stabilized.

• I still think the foreign investors prefer the major Tier 1 markets like San Francisco, New York. We will just get a trace of those foreign dollars. It is not a big push.

• In multifamily, we are definitely seeing the buyers from tier one markets looking into tier two. I even got guys that were only looking in Phoenix as a Tier 2 city and there are some now saying that it's too high, and they're going into tier three markets. We are definitely seeing movement by big investors.

Will the flow of investment capital into the Phoenix market over the next 6 months?

[Chart indicating 29% increase]
Where is the capital investment emphasis heading to over the next 6 months?

TIER I MARKETS

100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%

63%

10/2016