

# The Real State



The real state of the Greater Phoenix commercial real estate market.

May, 2013



## Sprightly Spring

Our commercial market has proven to have a spring in its step. April sales were 30% higher than the same period one year ago. Average price per SF has remained relatively steady over the last two years for most product types, with the exception of multi-family (with pricing reaching its highest that we've seen in 5 years in Q1 2013). Business confidence remains healthy with 51% of product under 8,000 SF being purchased by owner-occupants.

Notices of Trustee's Sale have been declining since mid 2010 (now similar to late 2008 levels). 2013 foreclosure levels are 55% lower than 2012 levels.

There are currently 6,275 active sale listings (comprising just over 36.5 million SF) and just under 21 million available SF for lease on the market in Maricopa County.

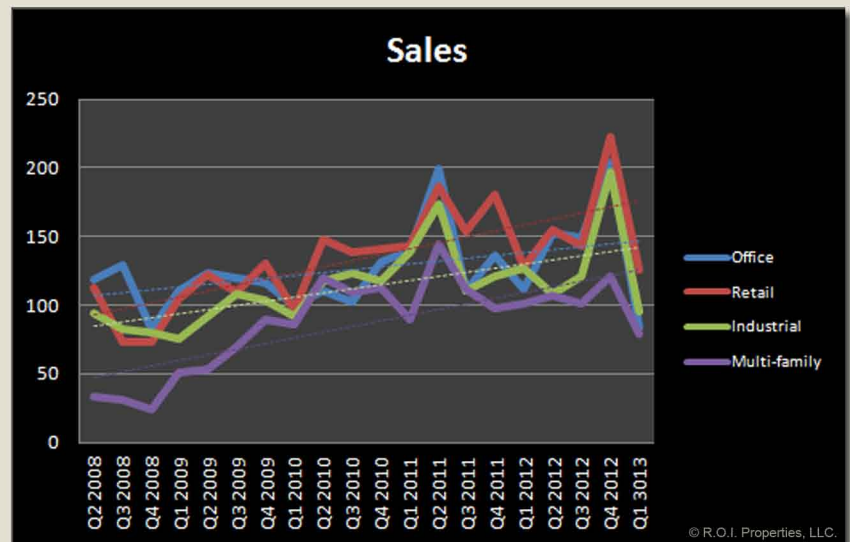
Available space (including vacant, shadow and sublease) averages 16% for Industrial, 23% for Office, 17% for Retail, and 7% for Multi-family.

Retail sales (totaling 126 in Q1 2013) have been increasing overall since Q4 2008. There were 73 completed sales in April.

Office sales have been increasing since Q3 2011. Q1 2013 sales totaled 84. There were 65 completed sales in April.

Multi-family sales have remained at a high level since Q2 2010. Q1 2013 sales totaled 79. There were 35 completed sales in April.

Industrial sales have steadily increased since Q1 2009 (now 25% more than Q1 2009). Q1 2013 totaled 95. There were 42 completed sales in April.



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Data compiled from CoStar.

Understanding the ins and outs of both the commercial and residential real estate markets is essential in preparing for the next phase in the market. At R.O.I. Properties, we enhance the value of real estate assets to maximize return on investment.

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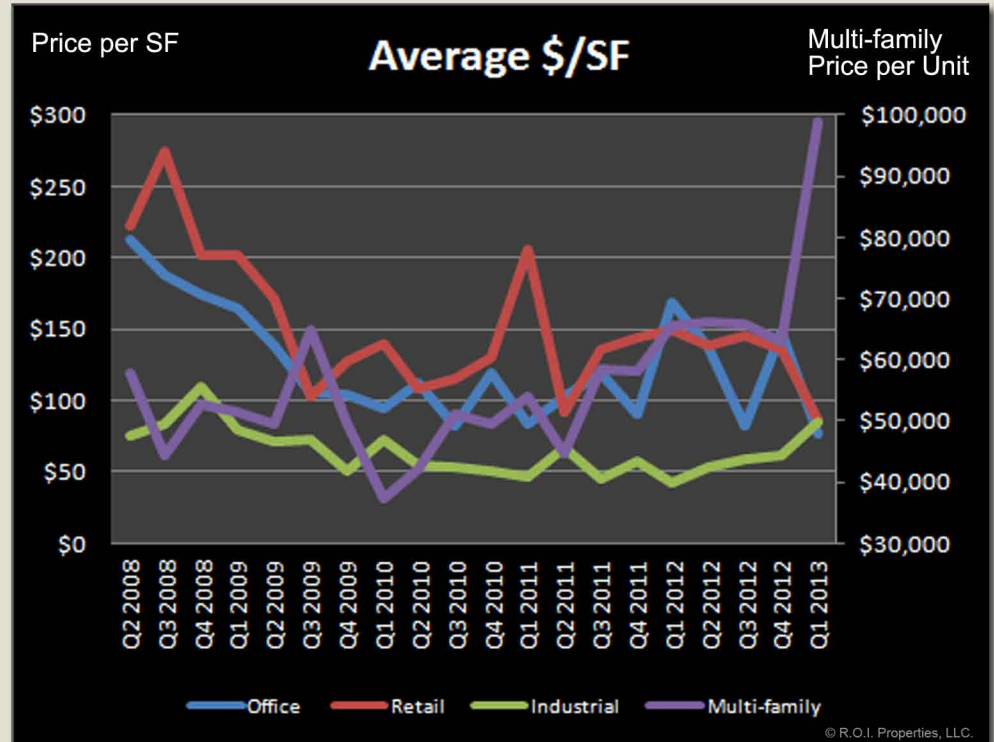
## Average Sales Price Per Square Foot

Though some ups and downs, Retail \$/SF has remained at a fairly steady level of \$131/SF since Q3 2009, but is currently seeing an average sales price per SF of \$87, due to a recent high volume of lower end, unanchored strip center deals.

Except for a jump in Q1 2012, Office average sales price per SF has also been hovering around \$109/SF since Q3 2009. Q1 2013 average \$/SF is \$76. Current deals reflect a relatively equal mix of single-tenant/condo and multi-tenant product.

Industrial average sales price per SF has remained fairly steady since Q4 2009 around \$58/SF, and is currently at \$86 for Q1 2013. This is likely due to a large number of institutional-grade properties that have recently sold, taking the PSF price higher.

Multi-family average sales price per unit has been increasing dramatically since Q2 2010, currently at \$98,773/unit, due to a high volume of large, institutional-grade deals.



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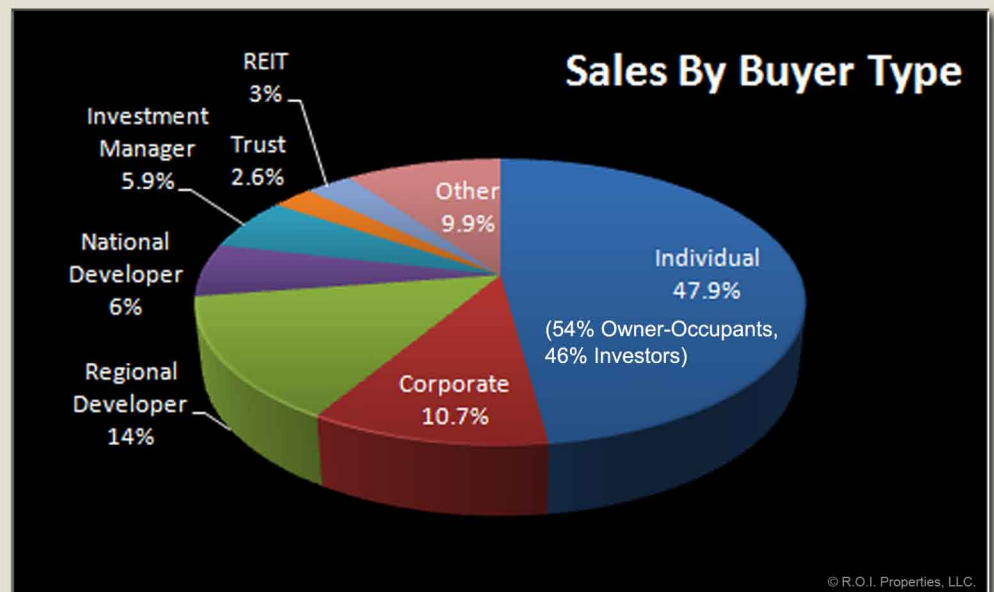
Data compiled from CoStar.

## Buyer Composition

This chart reflects sales by buyer type for Retail, Office, Industrial, and Multi-family in Maricopa County over the prior 6 months.

Private individuals (comprised of 54% owner-occupants and 46% investors) remain the most active buyer base, with 47.9% of all transactions, followed by Regional Developers at 14%, Corporate buyers at 10.7%, National Developers at 6%, Investment Managers at 5.9%, Trusts at 2.6%, REITs at 3%, and Other buyers at 9.9%.

For product up to 8,000 SF, Private Individuals also remain the most active buyer base with 68.1% of all transactions (51% owner-occupants and 49% investors).



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## Owner Occupied Sales By Product Type

Looking at typical owner-user product (8,000 SF and less - office, retail and industrial) allows us to see patterns in owner-occupied buying patterns over time. From this we are able to see trends in business owner confidence, productivity, and profitability.

Around Q4 2008 the market experienced a drastic drop in sales for these three product types up to 8,000 SF. This lasted through Q3 2010. During this time, many investors pulled out of the market, which resulted in a gain in owner-occupied transaction percentage share in the graph below (even though the number of owner-occupied transactions remained steady).

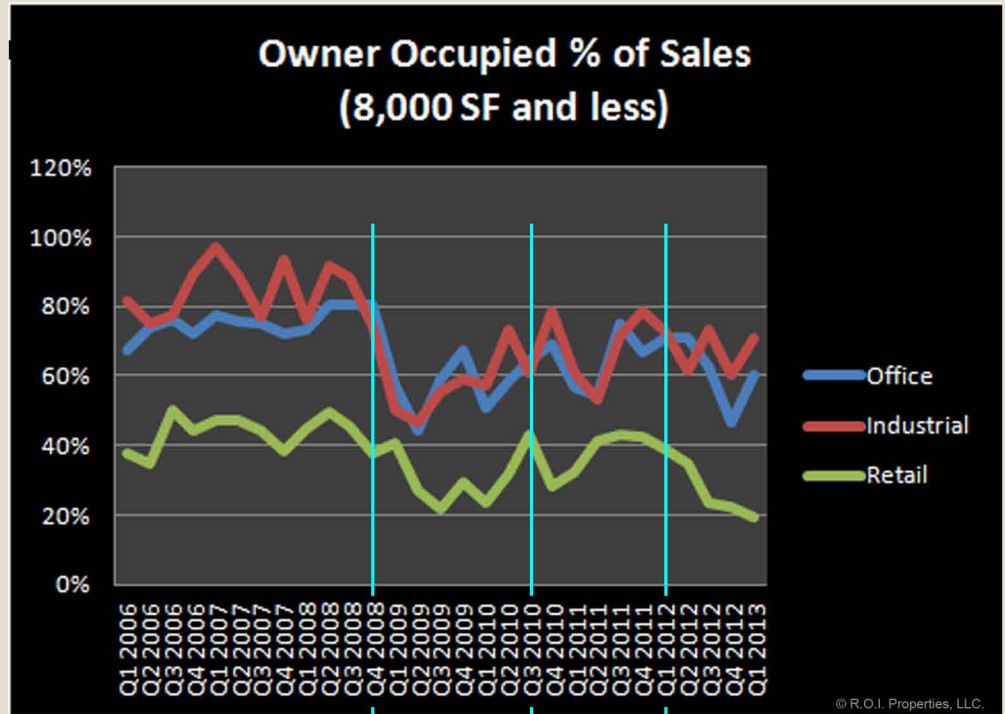
In Q4 2010 more owner-occupants began to buy, indicating an increase in business confidence. In the graph below you will see what appears to be a decline starting in Q1 2012. Owner-occupant buying has continued to increase in 2012 and 2013, but investors came back, gaining market share. We believe part of this influx of investors into the 8,000 SF and less product is due to an overflow from unsuccessful investment strategies in the fevered and ultra-competitive residential market.

These are positive indications that business confidence has returned, and both owner-occupants and investors believe we have hit the bottom of the market and are lifting off.

**Office:** 60% of Office transactions up to 8,000 SF in Q1 2013 were owner-occupied. In April 40% were owner-occupied (75% for office condos).

**Retail:** 19% of Retail transactions up to 8,000 SF in Q1 2013 were owner-occupied. In April 27% were owner-occupied.

**Industrial:** 71% of Industrial transactions up to 8,000 SF in Q1 2013 were owner-occupied. In April 43% were owner-occupied.



Transactions drop by 40%

Same low level of owner-occupant buying, decrease in investor buying

Owner-occupant buying increases

Owner-occupant buying continues to increase, investor buying dramatically increases

Data compiled from CoStar.

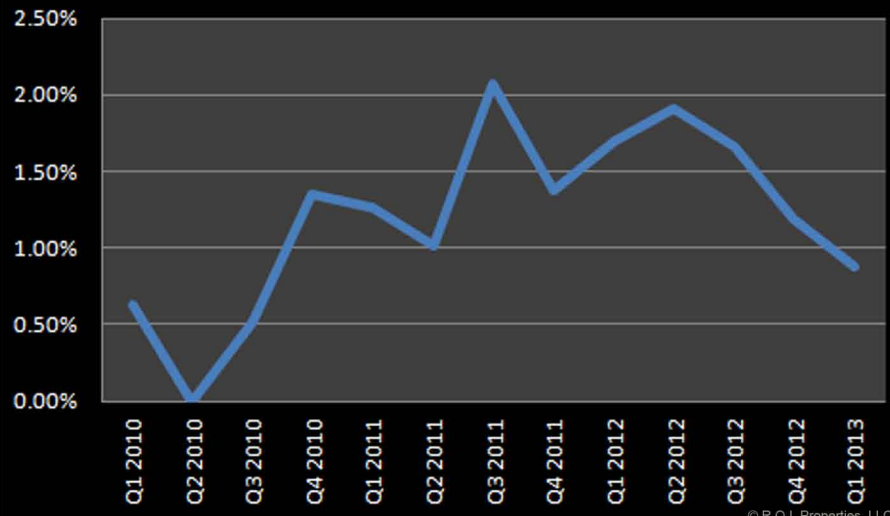
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## 1031 Exchanges

In Q1 2013, 0.88% of total sales were 1031 exchanges (a 30% decrease from Q1 2011). We believe we will see 1031 exchanges increase through the year as property investors/owners look for further ways to defer taxable income.

## 1031 Exchange % of Total Sales



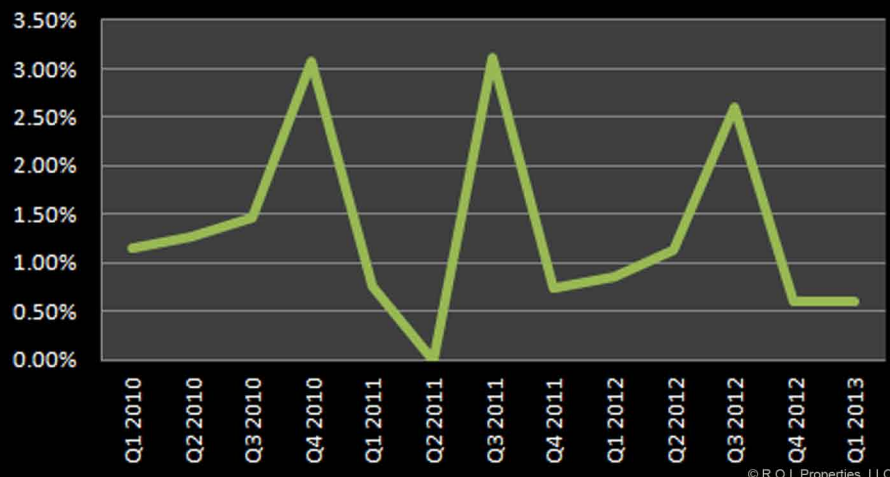
Data compiled from CoStar.

## Sale Leasebacks

Since the beginning of last year, many residential investors have been priced out of the market. Some have begun to focus on owner-occupied residential investments vs. fix and flips. Others have shifted to multi-family and other commercial product. And, some investors are now focused on commercial sale leasebacks.

This has led to opportunities for business owners, interested in staying in their current properties, in the form of sale leasebacks. Whether short sale leasebacks or equity-based sale leasebacks, business owners can take advantage of eliminating or reducing debt and infusing capital into their operating business.

## Sale Leaseback % of Sales 8,000 SF and Smaller



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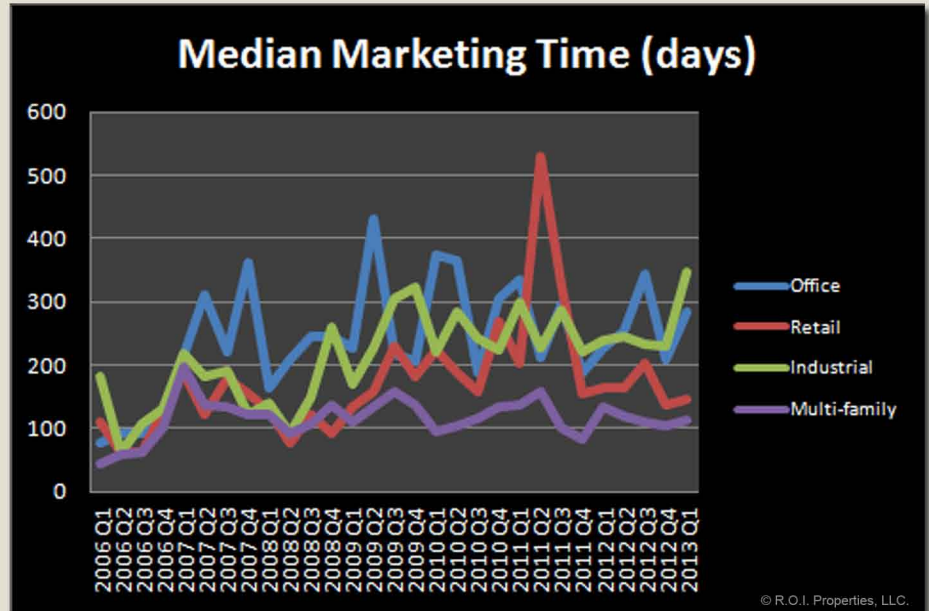


## Median Marketing Time

Median marketing time has increased across all product types since the peak of the market in 2006. On average, product in 2006 was selling in 61 days. Currently, median marketing times are averaging 223 days (2.6 times longer).

Median marketing time in Q1 2013 was 285 days for office product (versus 61 days in 2006), 348 days for industrial product (versus 61 in 2006), 146 days for retail product (versus 61 in 2006), and 113 days for multi-family product (versus 43 in 2006).

However, many deals don't make it to market, as many buyers are acquiring notes or buying assets "off market."



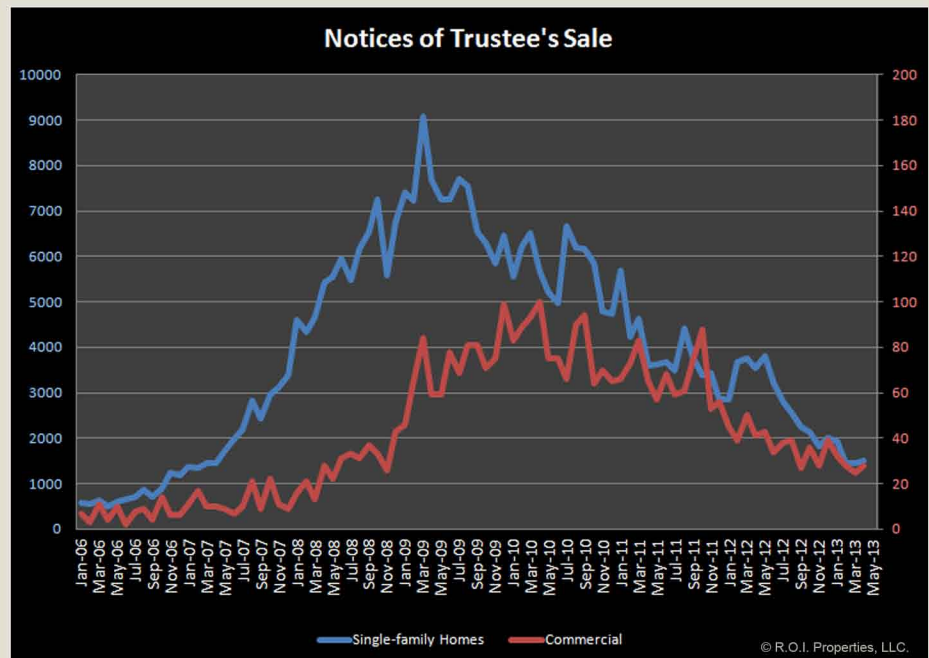
Data compiled from CoStar.

## Notices of Trustee's Sale

Commercial Notices of Trustee's Sale have been decreasing since mid 2010, and are now similar to late 2008 levels, with an increase from March of 12%.

Office had the highest number of Notices of Trustee's Sale (majority below \$500K), followed by Retail (majority above \$2M), Industrial (majority below \$1M), and Multi-family (majority below \$500K and above \$2M).

Since 2006, single-family home Notices of Trustee's Sale increased dramatically to over 9,000 per month at the beginning of 2009. Current levels are now similar to mid 2007, at 1,509.



Data compiled from Ion Data Express.

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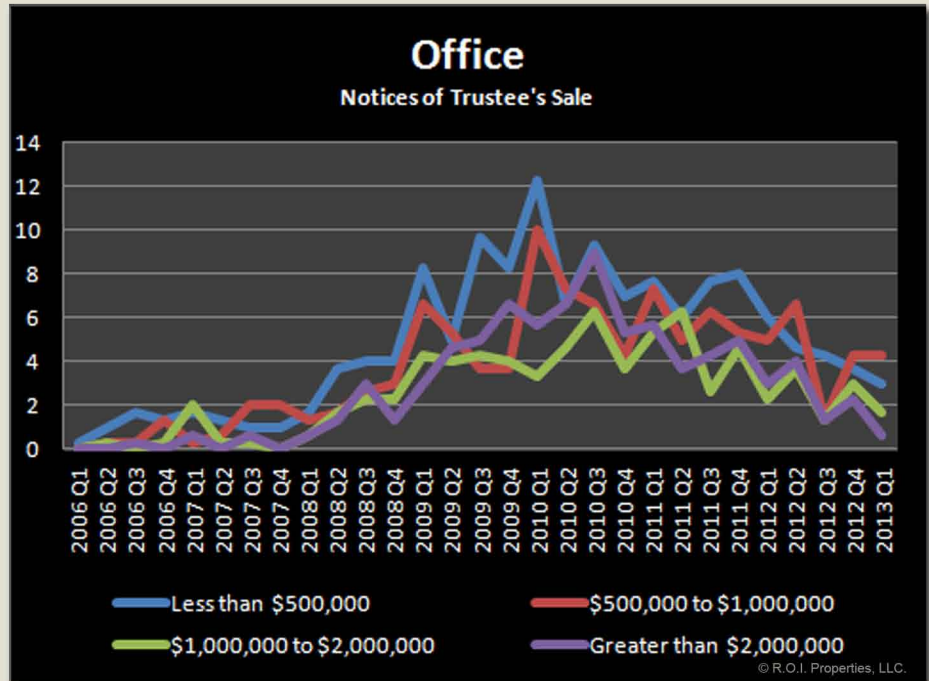
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## Office

Average monthly Notices of Trustee's Sale levels for Office, for Q1 2013, are now comparable to early 2008 for those with debt levels under \$500K. Those with debt levels of \$500K-\$1M are comparable to mid 2010. Those with debt levels of \$1M-\$2M are now comparable to mid 2008 levels. And those with debt levels of above \$2M are now comparable to early 2008 levels.

Notices for Office peaked in August of 2010 at 38. April levels totaled 12 (a 68% decrease): 6 for those less than \$500K, 3 for those between \$500K-\$1M, 1 for those between \$1M-\$2M, and 2 for those above \$2M.

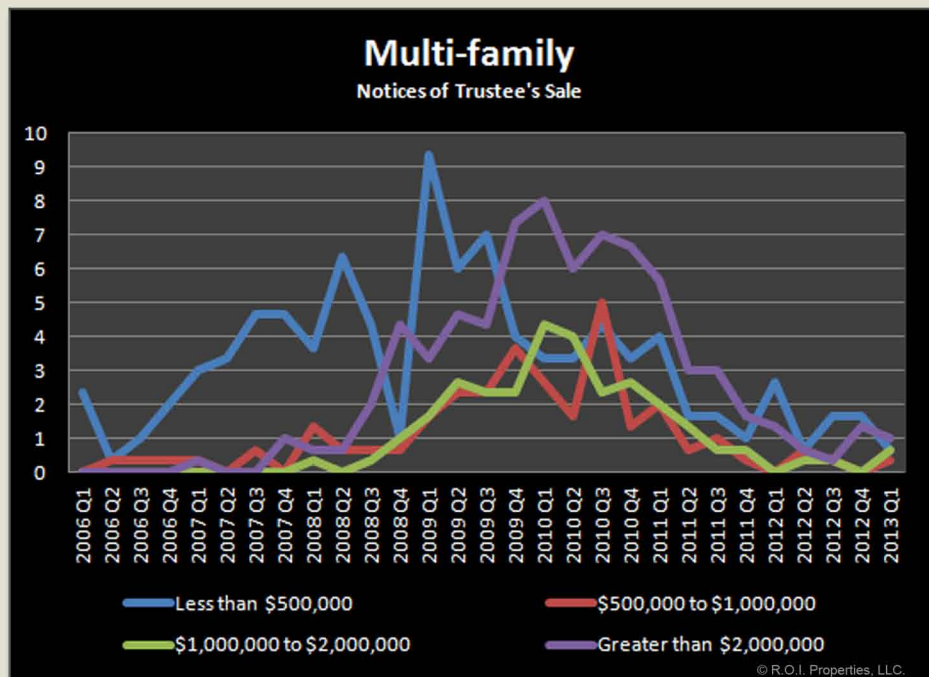


Data compiled from Ion Data Express.

## Multi-family

Average monthly Notices of Trustee's Sale levels for Multi-family, for Q1 2013, are now comparable to late 2008 for those with debt levels under \$500K. Those with debt levels of \$500K-\$1M are comparable to late 2008. Those with debt levels of \$1M-\$2M are now comparable to late 2008. And those with debt levels above \$2M are now comparable to mid 2008.

Notices for Multi-family peaked in March of 2009 at 28. April levels totaled 2 (a 93% decrease): 1 for those less than \$500K, none for those between \$500K-\$1M, none for those between \$1M-\$2M, and 1 for those above \$2M.



Data compiled from Ion Data Express.

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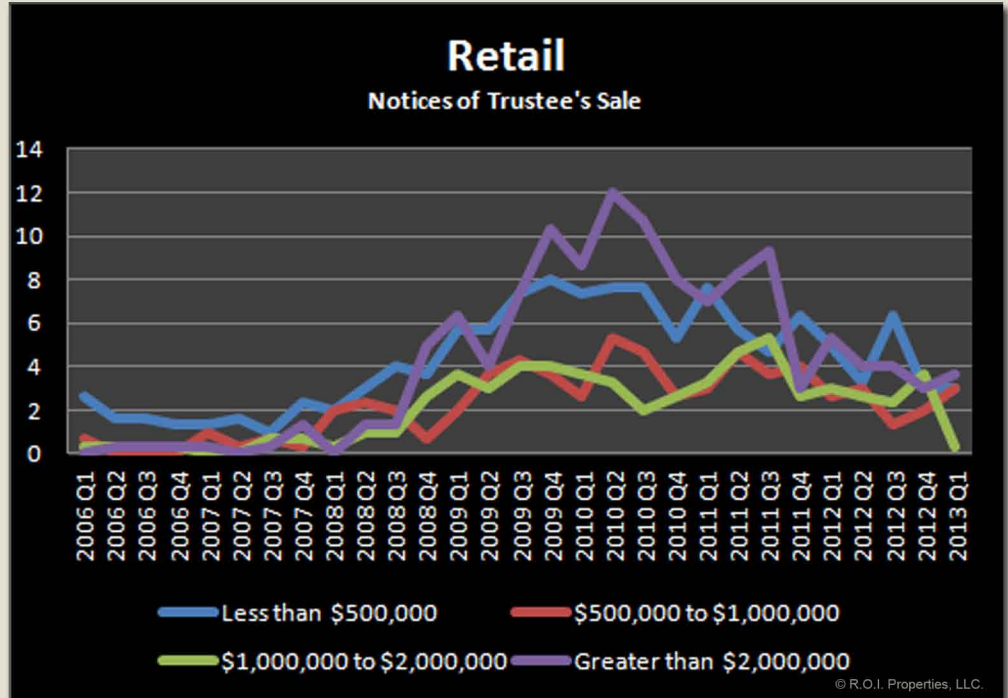
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## Retail

Average monthly Notices of Trustee's Sale levels for Retail, for Q1 2013, are now comparable to mid 2008 for those with debt levels under \$500K. Those with debt levels of \$500K-\$1M are comparable to early 2010. Those with debt levels of \$1M-\$2M are now comparable to early 2008. And those with debt levels above \$2M are now comparable to mid 2009.

Notices for Retail peaked in April of 2010 at 32. April levels totaled 9 (a 72% decrease): 1 for those less than \$500K, 3 for those between \$500K-\$1M, none for those between \$1M-\$2M, and 5 for those above \$2M.

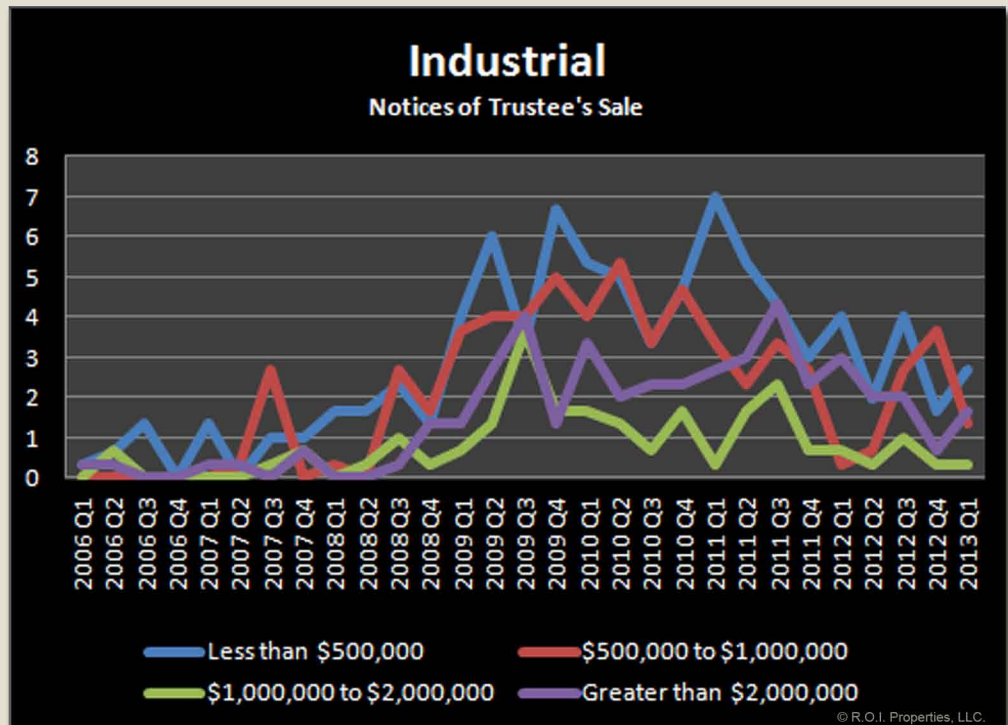


Data compiled from Ion Data Express.

## Industrial

Average monthly Notices of Trustee's Sale for Industrial, for Q1 2013, are now comparable to late 2008 for those with debt levels under \$500K. Those with debt levels of \$500K-\$1M are comparable to late 2008. Those with debt levels of \$1M-\$2M are now comparable to early 2009. And those with debt levels above \$2M are now comparable to late 2009.

Notices for Industrial peaked in August of 2009 at 18. April levels totaled 5 (a 72% decrease): 2 for those less than \$500K, 3 for those between \$500K-\$1M, none for those between \$1M-\$2M, and none for those above \$2M.



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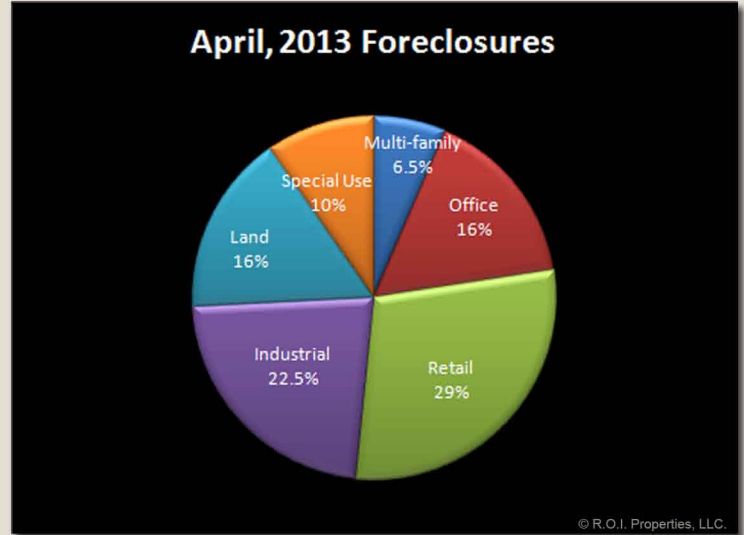
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## Foreclosures

There were 31 total Maricopa County commercial foreclosures in April (a 15% increase from March). The largest amount of foreclosures occurred in Retail at 29% (9), followed by Industrial at 22.5% (7), Office and Land at 16% (5 each), Special Use at 10% (3), and Multi-family at 6.5% (2).



Data compiled from Ion Data Express.

## CMBS Delinquency By State

These top states reflected 58.4% of total national CMBS delinquencies. In terms of delinquent balance, Arizona ranks 9th, but as a percentage of distressed CMBS loans within the state, AZ ranks 3rd, behind Nevada and Georgia.

State	Current Balance	Loan Count	% of CMBS Universe	% of CMBS Delinq.	% of State Exposure
NY Total	\$ 6,545,261,181	142	0.907%	12.553%	7.829%
CA Total	\$ 5,556,723,807	320	0.770%	10.657%	6.283%
FL Total	\$ 3,559,947,834	295	0.493%	6.827%	10.126%
GA Total	\$ 2,964,260,933	186	0.411%	5.685%	17.099%
TX Total	\$ 2,523,933,569	222	0.350%	4.840%	5.425%
IL Total	\$ 2,047,716,763	129	0.284%	3.927%	9.468%
NV Total	\$ 1,961,635,959	123	0.272%	3.762%	19.047%
PA Total	\$ 1,906,445,087	100	0.264%	3.656%	10.518%
<b>AZ Total</b>	<b>\$ 1,722,180,738</b>	<b>127</b>	<b>0.239%</b>	<b>3.303%</b>	<b>12.675%</b>
VA Total	\$ 1,661,067,690	78	0.230%	3.186%	7.466%
<b>Top 10 States</b>	<b>\$ 30,449,173,561</b>	<b>1,722</b>	<b>4.221%</b>	<b>58.396%</b>	

Data compiled from Morningstar.

## CMBS Delinquency By MSA

These top MSAs reflected 40.1% of the total national CMBS delinquencies. Phoenix has the 8th highest delinquency balance of all MSAs, and a total 13% delinquency within its MSA (behind Atlanta, Las Vegas, San Bernadino, and Philadelphia).

MSA	Current Balance	Loan Count	% of CMBS Delinq.	% of total MSA
New York, NY Total	\$ 5,284,868,856	65	10.135%	7.517%
Atlanta, GA Total	\$ 2,775,229,552	147	5.322%	19.835%
Washington, DC Total	\$ 2,053,159,863	63	3.938%	6.594%
Philadelphia, PA Total	\$ 1,837,066,832	78	3.523%	13.170%
Las Vegas, NV Total	\$ 1,729,280,462	106	3.316%	19.175%
Chicago, IL Total	\$ 1,703,491,857	96	3.267%	9.257%
Los Angeles, CA Total	\$ 1,614,388,902	65	3.096%	4.933%
<b>Phoenix, AZ Total</b>	<b>\$ 1,439,732,891</b>	<b>105</b>	<b>2.761%</b>	<b>12.969%</b>
Dallas-Fort Worth, TX Total	\$ 1,363,658,398	77	2.615%	8.106%
Riverside-San Bernardino, CA Total	\$ 1,118,282,699	68	2.145%	18.183%
<b>Top 10 Totals</b>	<b>\$20,919,160,312</b>	<b>870</b>	<b>40.119%</b>	<b>119.741%</b>

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