PHOENIX Business Journal

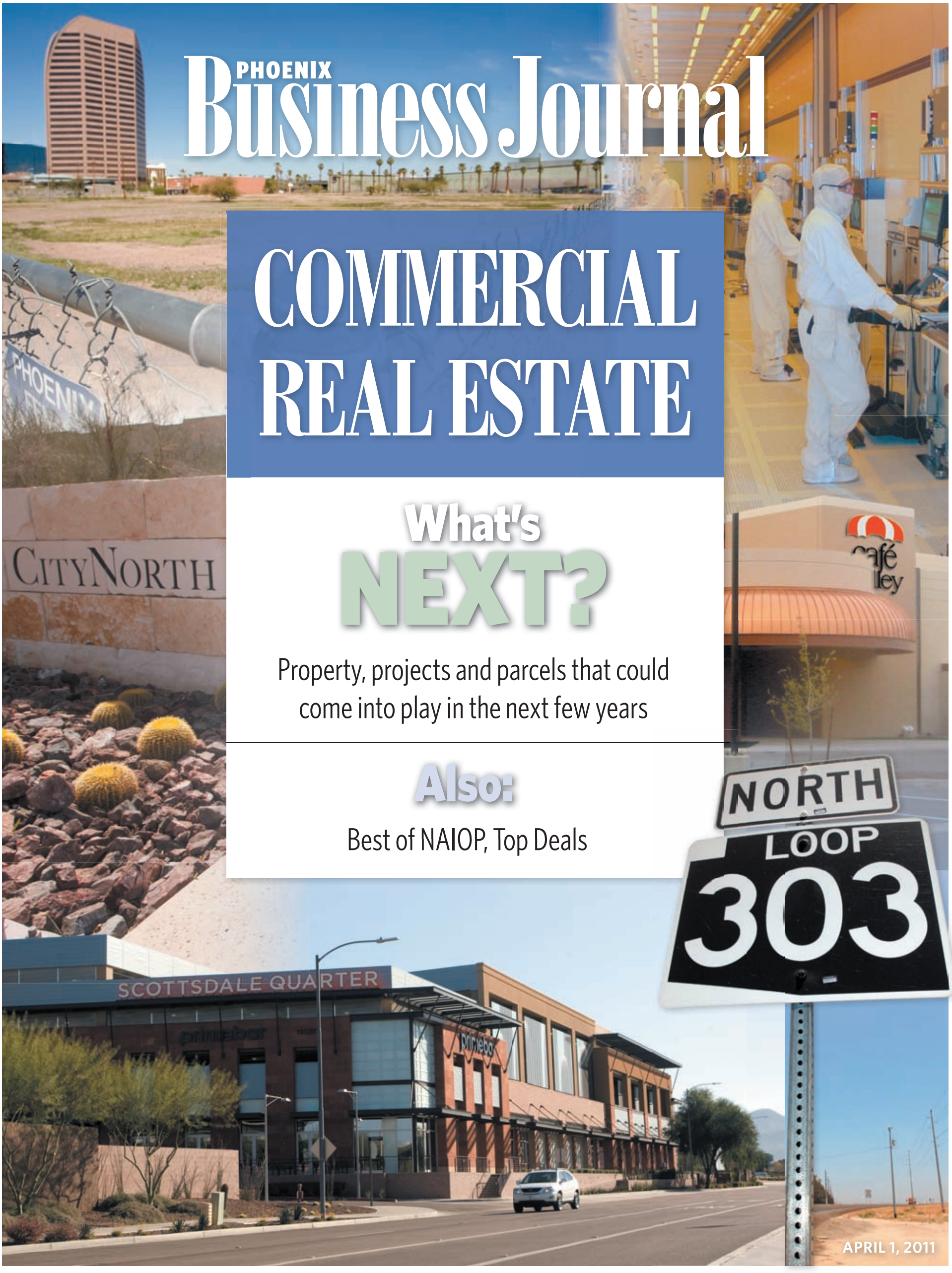
COMMERCIAL REAL ESTATE

What's NEXT?

Property, projects and parcels that could come into play in the next few years

Also:

Best of NAIOP, Top Deals



APRIL 1, 2011

COMMERCIAL REAL ESTATE 2011

Much of the commercial real estate market in Phoenix remains plagued by vacancies, empty lots and a lack of action — but city officials and brokers see signs of improvement. That's why we're asking: What's next? Our reporters and contributors asked that question across the Valley, starting with the Central Corridor and its many vacant parcels passed by light rail riders daily.

As usual, our special section also looks at the winners of the annual Best of NAIOP awards and reviews some of last year's top deals.


Central Corridor
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Musical Instrument Museum
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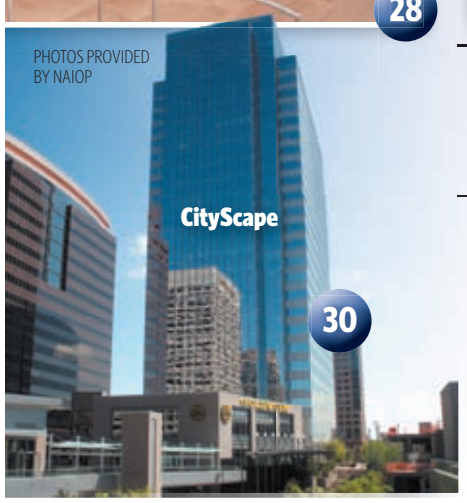
PHOTOS PROVIDED BY NAIOP
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Scottsdale Quarter
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Rendering of Intel's planned fab in Chandler
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RENDERING PROVIDED BY INTEL CORP.

On the cover: Clockwise from top right, Intel's announcement to build a $5 billion manufacturing facility in the East Valley is spurring interest in nearby real estate; find out why Cafe Valley Bakery is the Talk of the Town; much of the upcoming action on the west side will border Loop 303; Scottsdale Quarter will be a generator in that city; projects such as CityNorth in the Desert Ridge area of Phoenix could be the first to rebound; and what's up with all those empty lots along the Central Corridor.


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Walgreens
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CREDITS

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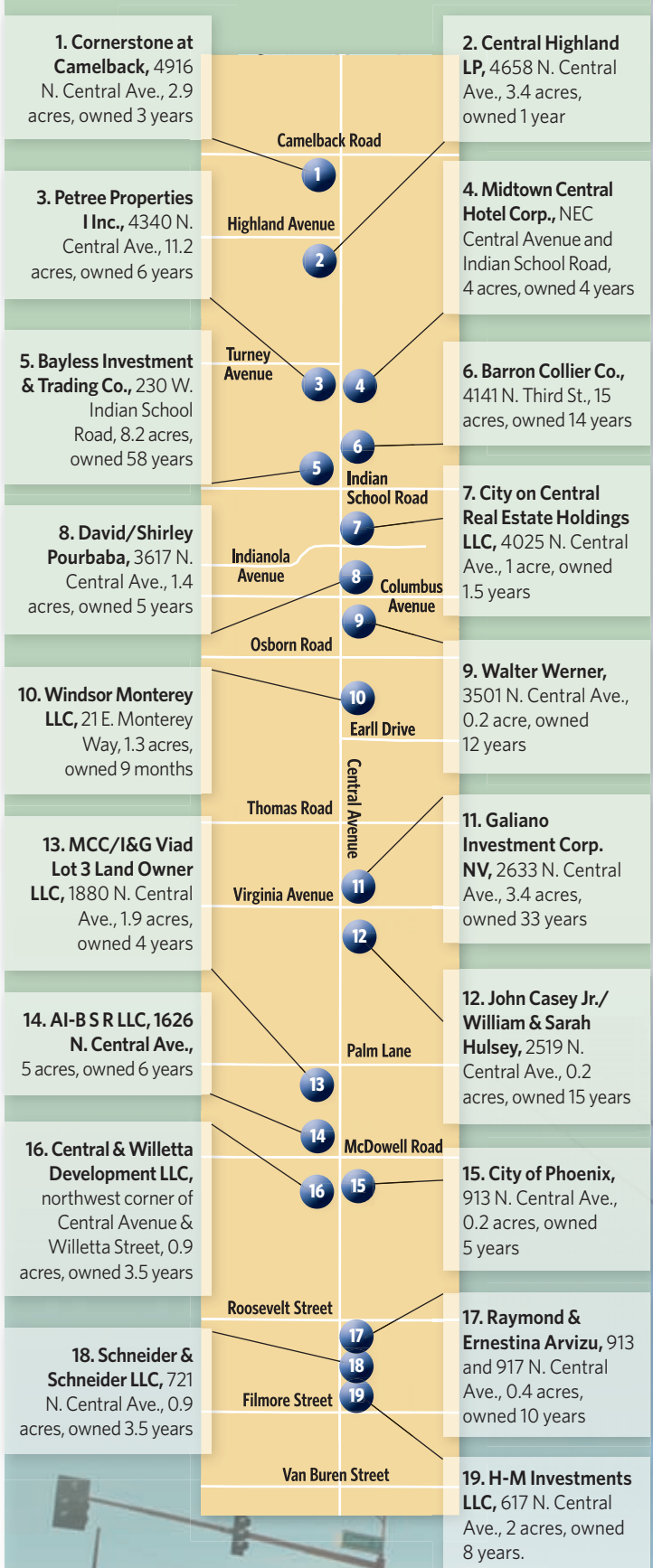
What's NEXT? Central Corridor

CENTRAL CORRIDOR VACANT LOTS

Source: Grubb & Ellis, Phoenix



1. Cornerstone at Camelback, 4916 N. Central Ave., 2.9 acres, owned 3 years

2. Central Highland LP, 4658 N. Central Ave., 3.4 acres, owned 1 year

3. Petree Properties I Inc., 4340 N. Central Ave., 11.2 acres, owned 6 years

4. Midtown Central Hotel Corp., NEC Central Avenue and Indian School Road, 4 acres, owned 4 years

5. Bayless Investment & Trading Co., 230 W. Indian School Road, 8.2 acres, owned 58 years

6. Barron Collier Co., 4141 N. Third St., 15 acres, owned 14 years

7. City on Central Real Estate Holdings LLC, 4025 N. Central Ave., 1 acre, owned 1.5 years

8. David/Shirley Pourbaba, 3617 N. Central Ave., 1.4 acres, owned 5 years

9. Walter Werner, 3501 N. Central Ave., 0.2 acre, owned 12 years

10. Windsor Monterey LLC, 21 E. Monterey Way, 1.3 acres, owned 9 months

11. Galiano Investment Corp. NV, 2633 N. Central Ave., 3.4 acres, owned 33 years

12. John Casey Jr./ William & Sarah Hulsey, 2519 N. Central Ave., 0.2 acres, owned 15 years

13. MCC/I&G Viad Lot 3 Land Owner LLC, 1880 N. Central Ave., 1.9 acres, owned 4 years

14. AI-B S R LLC, 1626 N. Central Ave., 5 acres, owned 6 years

15. City of Phoenix, 913 N. Central Ave., 0.2 acres, owned 5 years

16. Central & Willetta Development LLC, northwest corner of Central Avenue & Willetta Street, 0.9 acres, owned 3.5 years

17. Raymond & Ernestina Arvizu, 913 and 917 N. Central Ave., 0.4 acres, owned 10 years

18. Schneider & Schneider LLC, 721 N. Central Ave., 0.9 acres, owned 3.5 years

19. H-M Investments LLC, 617 N. Central Ave., 2 acres, owned 8 years.

The hitch and possibilities for vacant spots along Central Avenue

BY JAN BUCHHOLZ | Phoenix Business Journal

The drive along Central Avenue northward from downtown Phoenix is usually a pleasant one, with plenty of variety to satisfy the senses.

The palm tree-lined streetscape is punctuated with glass-clad skyscrapers filled most work days with office personnel, about 60,000 by some counts. Historic buildings on both sides of the boulevard between Van Buren Street and Camelback Road lend an element of the past. Boutique businesses, including quaint restaurants, have sprouted up. New condo projects, along with several older high-rises, add a residential element.

The Burton Barr Library, Phoenix Art Museum and Heard Museum weave a strong cultural component into the landscape. Metro light rail zips north- and southbound, creating dynamic motion.

But something is amiss. It's those desolate vacant lots that interrupt the street scene and stop the visual momentum dead in its tracks.

CENTRAL CONUNDRUM

So if we're looking at what's next in the Phoenix commercial real estate market, especially in such a vibrant corridor, that's one of the big questions.

Kimber Lanning, executive director of Local First Arizona, says the empty properties are not a random occurrence. For starters, taxes are far lower for vacant land, so many landowners have torn down buildings to qualify for the better rates.

In addition, demolition permits have been cheap in Phoenix for many years — just $75 — while the creative reuse of older buildings has been expensive and difficult, Lanning said.

Taking tax incentives away would make it less attractive to level a site, Lanning said. Another idea she mentioned is radical, but has been successful in other cities.

In certain designated districts where there are vacant lots, the landowners are required to schedule a cultural event every year, forcing them to install landscaping and lighting. The idea is to deincentivize vacant lots and put a damper on investment flipping.


Lanning

At least part of the problem along Central rests with land-use policies dating back to the 1960s and '70s, said Carol Johnson, planning manager for the city of Phoenix. The entire Central Corridor from downtown to Camelback Road was designated for high-rise development.

"It had a chilling effect," Johnson said — in two different but equally harmful ways.

First, land values increased exponentially along the high-rise designated stretch. The idea behind that was the greater building heights justified a higher price tag for all of the land in the area.

Developers that had more modest plans to fill in spaces suddenly couldn't afford to do so because of the artificially inflated land prices.

PEDESTRIAN-FRIENDLY TONE LOST

The high-rise district also "leaked" development that could have created critical mass downtown. Instead, high-rises were thinly stretched along a long stretch of road. The result was a pedestrian-unfriendly environment from downtown to uptown.

CONTINUED ON PAGE 19

One of the more prominent vacant lots along Central Avenue is this 5-acre parcel at McDowell Road, which is now on the market.

JIM POULIN | PHOENIX BUSINESS JOURNAL

What's NEXT? Phoenix


Deer Valley Airport

Biltmore Fashion Park

JIM POULIN PHOTOS | PHOENIX BUSINESS JOURNAL

Corey Hawley, a broker with CB Richard Ellis, thinks northern areas of Phoenix, such as Deer Valley and Desert Ridge, are likely to rebound from the recession sooner than other parts of town.

Development remains at a standstill; N. Phoenix could rebound first

BY CHRISTINE HARVEY
Phoenix Business Journal

Commercial real estate construction remains at a standstill in North Phoenix and the Camelback Corridor as the market slowly recovers and landlords look to fill an oversupply of space. And while central Phoenix could be among the first areas to pop, development there is likely to be slow for several years.

That follows a trend across the Phoenix metro area, with vacancy rates remaining high in office, retail and industrial markets. The latter seems the most stable.

Retail vacancies at year end ranged from 8.3 percent in the South Mountain area to 14.5 percent in North Phoenix, according to Colliers International's latest report.

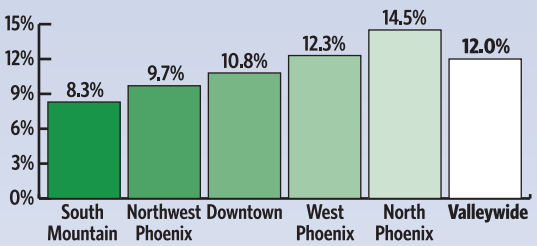
The Camelback Corridor had the highest rate of office vacancies, climbing from 24.6 percent in 2009 to 28.1 percent. However, the report noted that tenant demand for office space will accelerate as the market begins to recover.

Corey Hawley, a real estate broker with CB Richard Ellis, said the Deer Valley and Desert Ridge areas of North Phoenix will rebound more quickly than other areas of

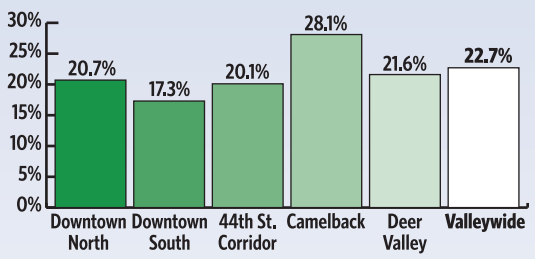
SEE **WHAT'S NEXT PHOENIX** | 22

PHOENIX SUBMARKET VACANCIES

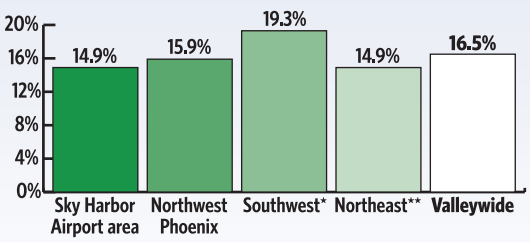
Retail vacancy rate as of fourth-quarter 2010:



Office vacancy rate as of fourth-quarter 2010:



Industrial vacancy rate as of fourth-quarter 2010:



* Includes Goodyear and Tolleson ** Includes Scottsdale

Source: Colliers International

What's NEXT? Scottsdale


Scottsdale Airpark


Perimeter Center


Kierland Commons

No new construction yet, but experts foresee upgrades, more leasing

BY VICTORIA PELHAM
Phoenix Business Journal

The next few years could bring new leases and upgrades for existing properties in Scottsdale as vacancy rates decline, but it is unlikely new properties will be built.

Scottsdale's market could bottom out in 2011 with the help of lower purchase prices, said commercial broker Jim Keeley, founding partner of Colliers International's Scottsdale office. As the state and nation emerge from the depths of the recession, market activity should resurface through reinvestment and new ownership, he said.


Keeley

"The new owners (are) buying some of these buildings cheap enough that they'll make new capital investments to bring these buildings up to date with new building modifications ... and that will bring new tenants," Keeley said.

Those sales will include bank-owned properties that went through foreclosure during the recession. Such sites represent about 30 percent of the commercial property in the metro area, Keeley said.

Raintree Corporate Center, Perimeter Center, Scottsdale Quarter and Scottsdale Airpark are among the sites that are ripe for activity, as lease rates have dropped and 50,000- to 100,000-square-foot blocks of space are available.

Scottsdale's vacancy rate jumped from 8 percent in 2006 to 30 percent in 2010, but it's dropping again, Keeley said. Loop 101, completed several years ago, continues to drive activity along its route.

But it could take about three or four years to fill excess space, repeating a cycle seen about 20 years ago, Keeley said. This means new construction in Scottsdale most likely will start about that far down the road.

"We're going to see a new mix of companies growing, businesses growing and tenants coming to fill the empty buildings," he said. "I don't think we'll se a lot of new construction in the next two to three years."

An infrastructure project due to start in 18 to 24 months involves an adjustment to traffic flow around Scottsdale Airpark. Raintree Drive will be extended to Scottsdale Road to improve freeway access.

However, there is some scarcity of premier space in the Airpark and in nearby Kierland Commons, said Pat Devine, first vice president of CB Richard Ellis. This is partly a result of companies taking advantage of attractive rates, with University Technical Institute and others moving their corporate headquarters to Scottsdale.


Devine

"Even through the downturn in our market, Scottsdale continued to post very healthy absorption numbers, and I would expect that Scottsdale will continue to lead the overall commercial office market out of this downturn," Devine said.

He also is optimistic that vacancy rates will decline through 2012, but not dramatically.

"Markets really come back 3,000 to 4,000 feet at a time, as opposed to 80,000 feet at a time," Devine said. "I think you'll see a return to health in smaller increments."

He, too, believes there won't be much construction in the next few years.

"There's still a lot of supply to get through," he said, adding that developers probably are watching the vacancy rate, preparing to pull the trigger at some point in the future.

Most of the deals will come from companies with a long-term vision for growth, not just those looking for a one-time expansion, said Harold Stewart, economic vitality general manager of the city of Scottsdale.

"The marketplace is pretty open in terms of what could happen," he said, adding that investment strategies will influence what happens in the next few years.

Construction is unlikely, but there will be some cases in which companies want to build their own space, Stewart said.

Brokers are looking to make the properties financially viable and fill the spaces. Many are considering options such as incentives, rate reductions and rent rebates.

But there is interest in Scottsdale from out-of-state companies with high growth potential, Stewart said — many of them technology-based.

"We're seeing an increase in interest and activity for real estate, and it'll take some time to see how much of that turns into actual tenants in place," he said.

Connect with **Victoria Pelham** at vpelham@bizjournals.com.

JIM POULIN PHOTOS | PHOENIX BUSINESS JOURNAL

Best of NAIOP

ANNUAL AWARDS PROGRAM HONORS INDIVIDUALS, PROJECTS

The Arizona Chapter of NAIOP presented awards in 22 commercial real estate categories on March 31 at the Phoenician Resort.

NAIOP also honored an individual for Lifetime Achievement and a project as "Talk of the Town."

New categories this year were NAIOP Firm of the Year, Rookie Broker of the Year, Economic Project of the Year and Transaction of the Year. Fifty-seven nominations were received, and most of the winners were selected by a panel of judges.

Freelance writer Linda Obele helped write summaries of the winning individuals and projects. Except where noted otherwise, photos in this section were provided by NAIOP.

NAIOP has more than 15,000 members representing developers, owners and related professionals in office, industrial and mixed-use real estate in North America. With more than 500 members, the Arizona Chapter is one of the 10 largest in the nation.

For more: www.naiopaz.org.

NAIOP AWARDS JUDGES:

- **Richard Hubbard**, Valley Partnership
- **Don Keuth**, Phoenix Community Alliance
- **Mark Stapp**, Arizona State University Master of Real Estate Development program
- **Brad Smidt**, Greater Phoenix Economic Council
- **Debra Sydenham**, Urban Land Institute
- **Meyer Turken**, Turken Industrial Properties

ECONOMIC PROJECT OF THE YEAR: **Musical Instrument Museum**

The Musical Instrument Museum contains instruments from 200 countries and territories worldwide and runs on the manpower of 125 staff members and more than 100 volunteers.

The incredibly complicated project, which included rezoning challenges and installation of a unique Indian teak sandstone exterior, was delivered in 39 months — on time and on budget — thanks to collaboration between the contractor, architect, subcontractors, museum staff, city of Phoenix employees and more than 1,000 tradespeople.

Ulrich

Developer: Bob Ulrich

Exterior architect/designer: RSP Architects

Interior architect/designer: RSP Architects

General contractor: Ryan Cos. US Inc.

Tenant improvement general contractor: Ryan Cos. US Inc.

TALK OF THE TOWN, INDUSTRIAL BUILD-TO-SUIT OF THE YEAR: **Cafe Valley Bakery**

Cafe Valley Bakery, winner in the Industrial Build to Suit category, also is this year's Talk of the Town — the project voted most popular among nearly 300 NAIOP members polled by the *Phoenix Business Journal*.

Not too far behind was Scottsdale Quarter, the Mixed-Use Development of the Year (see page 15).

Cafe Valley, located at 7000 W. Buckeye Road, made news for being one of the biggest lease deals of 2010 and for its economic impact and stylish design. The lease, announced early in the year, is creating jobs at a time when many businesses continue to lay people off.

Cafe Valley provides baked goods including muffins, cakes and croissants to club stores, restaurants, and grocery and convenience stores across the country.

The company had outgrown its facility at 5320 W. Buckeye Road, where it had about 375 workers. The new complex will have room for 550.

Scottsdale Quarter, located east of Scottsdale Road across from Kierland Commons, continues to make headlines with many first-in-market stores, such as iPic Entertainment's luxury cinemas and Diane's Beachwear.

Cafe Valley Bakery marked one of the largest lease deals of the year when it took over this facility at 7000 W. Buckeye Road in Phoenix.

Cafe Valley Bakery's new 285,950-square-foot build-to-suit stands out for its stylish copper-canopy entry, cutting-edge technology and energy-efficient operations.

It is being lauded as a financial shot in the arm in a challenging economy. The $20.4 million construction contract was among the largest private job-generating development deals in the Valley, and it was key to carrying Sun State Builders' overhead last year.

In addition to creating hundreds of construction jobs, the bakery will employ 550 people at capacity.

Jim Chamberlain
Chamberlain Development LLC

Developer: Chamberlain Development LLC

Exterior architects/designers: Balmer Architectural Group and Winton Architects

Interior architects/designers: Balmer Architectural Group and Winton Architects

General contractor: Sun State Builders Inc.

Tenant improvement general contractor: Sun State Builders

Best of NAIOP

CONTINUED FROM PAGE 29

GENERAL CONTRACTOR OF THE YEAR: Ryan Cos. US Inc.

In 2010, Ryan's Southwest regional office constructed nearly 2.3 million square feet in projects ranging from a government office building to a high school sports complex.

Key projects on its list were the Musical Instrument Museum in Scottsdale, expected to attract 250,000 to 500,000 guests each year; and the WL Gore corporate campus. Gore's first phase includes two manufacturing buildings, the campus central plant and a parking structure on 45 acres.

ALSO NOMINATED:
Sundt Construction


W.L. Gore's corporate campus

DEVELOPER OF THE YEAR: RED Development LLC

RED Development LLC considers its work on CityScape in downtown Phoenix among its most notable projects in 2010.

From site acquisition to grand opening, RED brought the urban mixed-use office and retail development to life during an incredibly difficult real estate market. According to the company's executives, CityScape's office and retail spaces are 95 percent and 96 percent leased, respectively.

By this fall, all 200,000 square feet of retail space will be open to the public.

ALSO NOMINATED:
Ryan Cos. US Inc.


CityScape aerial view


CityScape tower

ARCHITECT OF THE YEAR: SmithGroup

Established in 1853, SmithGroup is one of the longest continuously operating architecture and engineering firms in the United States. Its Phoenix office employs 118 people.

In 2010, SmithGroup's Phoenix office designed and contracted 439,936 square feet of office and industrial projects, including:

- Gammage and Burnham's office relocation within the Renaissance Square One building in Phoenix.
- Chandler City Hall, featuring administrative offices, a public television studio, council chambers, a parking structure and surrounding site improvements.
- The Power-One solar inverter manufacturing plant in Phoenix.


Gammage and Burnham's new office


Chandler City Hall

INTERIOR DESIGN ARCHITECT OF THE YEAR: Phoenix Design One

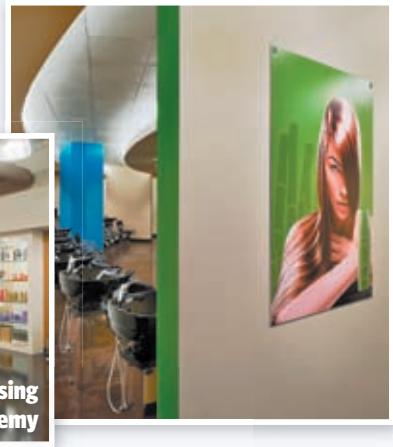
For more than a quarter-century, Phoenix Design One has been producing creative yet practical design solutions for its clients.

With four designers on staff certified in Leadership in Energy and Environmental Design and six certified by the National Council for Interior Design Qualification, the company regularly incorporates green elements into its designs.

In 2010, the Brillare Hairdressing Academy at the hip Scottsdale Quarter mixed-use development received the enviro treatment from Phoenix Design One, as designers expertly wove green materials throughout the project's 10,350-square-foot layout.

ALSO NOMINATED:
Ware Malcomb

Brillare Hairdressing Academy



TENANT IMPROVEMENT CONTRACTOR OF THE YEAR: Wespac Construction

Wespac contributed more than 1.2 million square feet of tenant improvement projects to the market in 2010.

Despite maintaining a busy work schedule and showcasing its talents on high-profile projects for United Food Bank and Power-One, the company found time for participation in 15 industry organizations and donated numerous volunteer service hours on committees and boards to support the industry.

Wespac continues to give back to the community at large through its McDowell Mountain Music Festival, which supports local family-based charities.

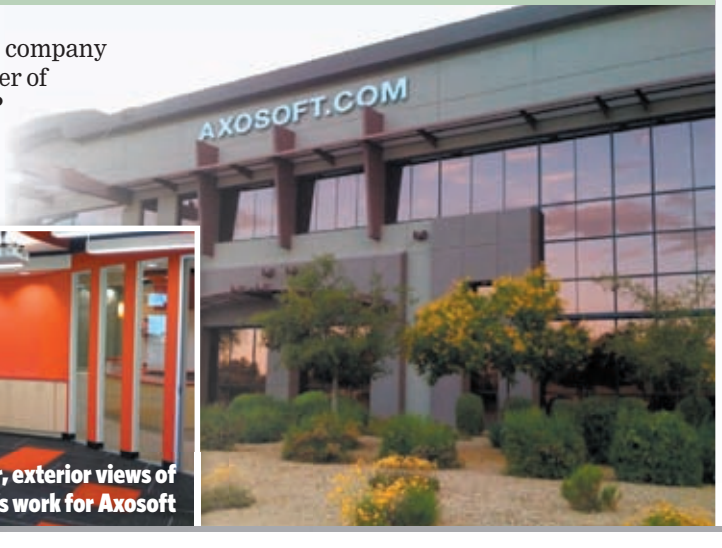
ALSO NOMINATED:
Jokake Construction
Willmeng Construction Inc.


Power-One tenant impovements

FIRM OF THE YEAR: Willmeng Construction Inc.

Willmeng Construction is the type of company every group hopes to have as a member of its organization. Since joining NAIOP in 2007, the company and its employees have worked tirelessly on the front lines and behind the scenes to support the group in numerous ways.

In addition to recruiting new members, encouraging existing membership renewals and securing event sponsorships, Willmeng Construction provides the industry with construction support to help members make deals.




Interior, exterior views of Willmeng's work for Axosoft

Best of NAIOP

CONTINUED FROM PAGE 31

REDEVELOPMENT OF THE YEAR/OFFICE OR INDUSTRIAL: Dunn Edwards paint manufacturing facility, Phoenix

Dunn Edwards' new paint manufacturing facility saves the company money as it consolidated several of the organization's former manufacturing/distribution locations into a single redeveloped spec building in Phoenix.

The company also economized by using market forces to its advantage. The existing building and land, as well as the construction, were procured during a time of historically low costs. Dunn Edwards used $30 million in tax-free bond allocations from the state of Arizona to purchase the property and subsequent improvements.

Developer: Duke Realty
Interior architect/designer: Deutsch Architecture Group
Tenant improvement general contractor: Layton Construction

ALSO NOMINATED:

3900 CAMELBACK CENTER
Developer: Ryan Cos. US Inc.
Exterior architect/designer: PHArchitecture
Interior architect/designer: Davis, Form Design Studio and ADM Group
General contractor: Ryan Cos. US Inc.
Tenant improvement general contractor: Ryan Cos. US Inc.

OFFICE TENANT IMPROVEMENT OF THE YEAR (TIE): Ames Construction/Southwest Region, Humana

When Ames Construction's Southwest division consolidated two Valley office locations to improve operations, it needed a work space where departments could share support areas, yet maintain separation.

The design team delivered with a 25,000-square-foot buildout that promotes unity among departments, but allows for division where needed. The work environment presents a modernized corporate identity to clients and employees. It is designed for a five-year growth program to maximize flexibility.

Ames Construction interior

Developer: Ames Construction/Southwest region
Exterior architect/designer: Butler Design Group
Interior architect/designer: Butler Design Group
General contractor: D.L. Withers Construction
Tenant improvement general contractor: D.L. Withers Construction

ALSO NOMINATED:

AXOSOFT HEADQUARTERS
Owner: Axosoft
Interior architect/designer: Evolution Design Inc.
Tenant improvement general contractor: Willmeng Construction Inc.

GAMMAGE AND BURNHAM PLC
Interior architect/designer: SmithGroup
Tenant improvement general contractor: Sigma Contracting

BRILLARE HAIRDRESSING ACADEMY
Interior architect/designer: Phoenix Design One
Tenant improvement general contractor: SAB

POLSINELLI SHUGHART OFFICES AT CITYSCAPE
Developer: RED Development LLC
Interior architect/designer: Gensler
Tenant improvement general contractor: Weitz Co.

Humana's move to an ailing multitenant office building in Glendale turned this project into a fully occupied, single-tenant build-to-suit that created a tremendous upside for the building owner.

Working together, the team relocated the building's two existing tenants — who occupied only 10 percent of the 103,000-square-foot structure — to a nearby complex and modified the shell to Humana's specifications, all with a quick turnaround. The project's success enabled the building owner to sell the property to a real estate investment trust following Humana's occupancy.

Humana interior

Developer: Shea Properties
Exterior architect/designer: Butler Design Group
Interior architect/designer: Butler Design Group
General contractor: Wespac Construction
Tenant improvement general contractor: Ryan Cos. US Inc.

INDUSTRIAL TENANT IMPROVEMENT OF THE YEAR: Amazon Fulfillment Center

Racing against the clock to be ready in time for peak holiday season, the Renaissance Cos. and a cast of supporting individuals completed a 1.4 million-square-foot renovation project at the Amazon.com fulfillment center in Goodyear in record time: just 13 weeks.

The multimillion-dollar project took a 1.2 million-square foot shell and added a 230,000-square-foot structural mezzanine, 40,000 square feet of LEED silver-certified office space, upgraded electrical systems and air-conditioned warehouse space. Truck courts also were reconfigured into additional parking. It took 800 craftsmen working two 10-hour shifts, six days a week, to accomplish the task.

Developer: KTR Capital Partners
Exterior architect/designer: Deutsch Architecture Group
Interior architect/designer: Ford & Associates Architects Inc.
General contractor: The Renaissance Cos.
Tenant improvement general contractor: The Renaissance Cos.

ALSO NOMINATED:

PCT Channel Master, Willmeng Construction Inc.
Power-One, Wespac Construction

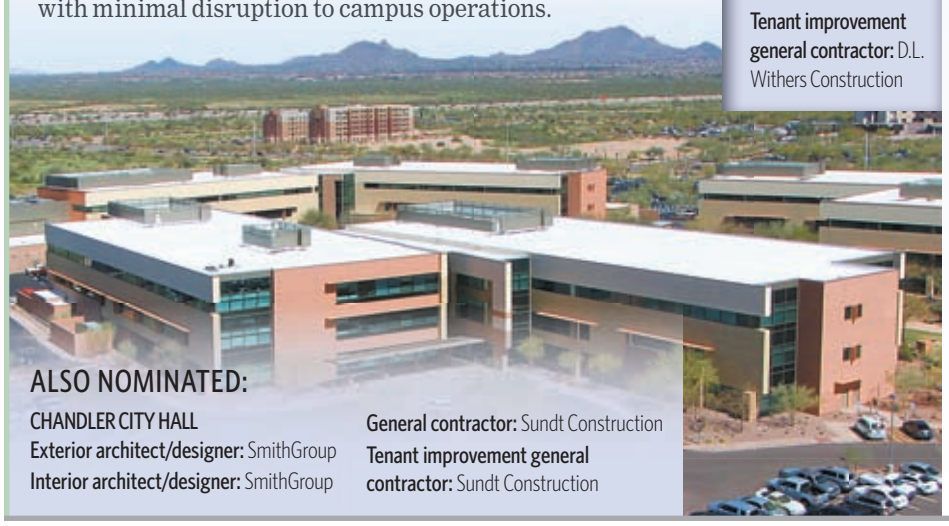
JIM POULIN | PHOENIX BUSINESS JOURNAL

OFFICE BUILT TO SUIT OF THE YEAR: American Express Desert Ridge Campus, Office Building No. 2

Office Building No. 2 is the second phase of American Express Co.'s' 560,000-square-foot development at Desert Ridge. Plans for the 191,631-square-foot expansion were drafted in 2000, which required an update to reflect current code requirements and the company's new workplace design standards.

Working closely with American Express and CB Richard Ellis project management personnel, Trammell Crow Co. delivered the finished project under budget, ahead of schedule and with minimal disruption to campus operations.

Developer: Trammell Crow Co.
Exterior architect/designer: RSP Architects
Interior architect/designer: Gensler
General contractor: D.L. Withers Construction
Tenant improvement general contractor: D.L. Withers Construction



ALSO NOMINATED:

CHANDLER CITY HALL
Exterior architect/designer: SmithGroup
Interior architect/designer: SmithGroup
General contractor: Sundt Construction
Tenant improvement general contractor: Sundt Construction

MEDICAL OFFICE DEVELOPMENT OF THE YEAR: Mercy Medical Commmons

Irgens Health Care Facilities Group worked closely with Mercy Medical Commons' four preleased tenants to create a project that is a win-win for all stakeholders.

The bi-level, 46,431-square-foot complex boasts increased floor-to-floor heights and electrical service capacity. It also incorporates many green building features and was the first structure to be built and occupied in the town of Gilbert's Improvement District 20.

Developer: Irgens Health Care Facilities Group, a division of Irgens Development Partners LLC
Exterior architect/designer: Architectural Nexus
Interior architect/designer: HLA Business Interiors
General contractor: Okland Construction
Tenant improvement general contractor: Jokake Construction

ALSO NOMINATED:

BANNER GATEWAY MEDICAL PAVILION
Developer: Banner Health
Exterior architect/designer: Butler Design Group
Interior architect/designer: Butler Design Group
General contractor: DPR Construction
Tenant improvement general contractor: DPR Construction

Commercial sales expected to gain momentum in stages


Pete O'Neil

Transaction activity in the metropolitan Phoenix commercial real estate market will gain momentum in 2011 as the economy continues to recover and property fundamentals strengthen.

Sales velocity likely will accelerate in phases. Property types that post the strongest and most rapid recoveries, including multifamily and industrial assets, are expected to attract the greatest investment activity in 2011.

The makeup of the buyer pool likely will shift somewhat, with users playing a less prominent role in 2011 and traditional investors increasing their presence as operating conditions firm up.

Investment levels ranged from minimal to modest in 2010, with the exception of multifamily properties.

The outlook is brightening in 2011, as many investors perceive that the market is at or near bottom and many lenders, which have seen their balance sheets strengthen in recent quarters, are making capital more readily available.

INDUSTRIAL DEMAND HEALTHY

Industrial properties recorded robust tenant absorption in 2010, particularly in the second half of the year.

Tenant demand for industrial space is expected to remain healthy in 2011, which will lead to tightening vacancy rates, stabilization of rents and more predictable property revenue streams.

These trends likely will translate into a surge in investment sales compared with 2010, when industrial acquisitions were driven by owner-user activity.

RETAIL HINGES ON TENANTS

The outlook for investment trends among retail properties is varied and largely dependent on the health of each property's tenants.

Most investors will show a preference for quality locations and tenant rosters, while demand likely will remain limited for properties plagued by heightened vacancies, weak sales or noncredit tenants.

Investors will seek healthy yield premiums for most retail assets, with the exception of single-tenant net-leased properties, where capitalization rates crept lower in the second half of 2010 and well-capitalized buyers remain active.

OFFICE INVESTMENT SUBDUED

Investment demand in the local office segment will remain subdued in 2011, with vacancies forecast to hover in the low to mid-20 percent range for the next several quarters. While employers have begun to restaff, this has yet to translate into greater demand for office space, as many tenants are simply backfilling vacant cubicles.

The Class A segment is expected to be the first to stabilize, as tenants continue to upgrade to better space in response to attractive rental terms.

APARTMENTS LEAD THE WAY

A combination of factors will cause the apartment sector to lead the way in local transaction volume again this year.

Multifamily investors moved off the sidelines in 2010, attracted by financing availability, healthy declines in vacancy and a steady stream of deeply discounted real estate-owned assets moving through the market.

While marketwide vacancies and rents will improve in 2011, some assets purchased at or near peak pricing a few years ago will continue to be returned to lenders and listed for sale.

Cap rates for multifamily properties had already begun to creep lower as 2010 came to a close, reflecting improving buyer sentiment and an increasingly competitive bidding climate.

As the employment market continues to gain momentum, the outlook for apartments will improve, particularly if the local housing market remains soft.

IN MOTION, BUT NOT AT PEAK

On the whole, commercial real estate investment should accelerate in 2011 based on an improving economy, strengthening property fundamentals and a deeper pool of active lenders.

Momentum will build as more properties change hands, reducing some of the pricing uncertainty that stymied segments of the market through much of the most recent downturn.

While the outlook for 2011 is decidedly more positive than at any point in the past 24 months, activity will significantly lag the peaks achieved at the height of the market, from 2005-07.

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TOP DEALS 2010 RETAIL SALES

EDITOR'S NOTE: The top sales of 2010 were determined by Colliers International and CoStar Group. This listing was prepared by Pete O'Neil, senior research analyst at Colliers.

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1. ALBERTSONS
Portfolio of 32 stores, including seven in Arizona (three in metro Phoenix)
$266 million, 1.9 million square feet
SELLER: Albertsons, Boise, Idaho
BUYER: Cole Cos., Phoenix
SELLER'S BROKER: Eastdil Secured LLC
BUYER'S BROKER: Christopher Hoffman

2. DESERT VILLAGE
23215-23269 N. Pima Road, Scottsdale
$19.3 million, 122,431 square feet
SELLER: Peter Paulson, Scottsdale
BUYER: Weingarten Realty, Phoenix

3. WALGREENS
15450 N. Tatum Blvd., Phoenix
$7.73 million, 14,832 square feet
SELLER: Jamel Greenway, Phoenix
BUYERS: Paul and Patricia Taylor, Scottsdale
SELLER'S BROKER: Marcus & Millichap

4. FORMER COSTCO STORE
1235 S. Power Road, Mesa
$7.5 million, 139,367 square feet
SELLER: Costco, Issaquah, Wash.
BUYER: WinCo Foods, Boise, Idaho
SELLER'S BROKERS: Greg Laing and Daniel Gardiner, Phoenix Commercial Advisors; and Steve McArthur, Northwest Atlantic Partners
BUYER'S BROKER: Ed Beeh, SRS Real Estate Partners

5. FORMER MERVYN'S STORE
4710 E. Ray Road, Phoenix
$6.5 million, 76,214 square feet
SELLER: Developers Diversified Realty, Beachwood, Ohio
BUYER: Hobby Lobby, Oklahoma City

TOP DEALS 2010 INDUSTRIAL SALES

1. HOME DEPOT DISTRIBUTION
9081 W. Washington St., Tolleson
$30.4 million, 466,694 square feet
SELLER: USAA, San Antonio
BUYER: Cole Cos., Phoenix
SELLER'S BROKER: Jack Fraker, CB Richard Ellis

2. PALM VALLEY 303
4295 N. Cotton Lane, Goodyear
$12.5 million, 440,168 square feet
SELLER: Sunbelt Holdings, Scottsdale
BUYER: Sub-Zero, Madison, Wis.
SELLER'S BROKERS: Joe Porter, Patrick Feeney, Daniel Calihan and Rusty Kennedy, CB Richard Ellis
BUYER'S BROKERS: John Pompay and Anthony Lydon, Cassidy Turley BRE Commercial; Jones Lang LaSalle

3. NIAGARA WATER DISTRIBUTION
275 S. 67th Ave., Phoenix
$10 million, 251,668 square feet
SELLER: Five Star Development, Paradise Valley
BUYER: Niagara Bottling, Ontario, Calif.
SELLER'S BROKERS: Anthony Lydon and Marc Hertzberg, Jones Lang LaSalle
BUYER'S BROKERS: Tom Louer and Paul Earnhart, Lee & Associates

4. PAPAGO INDUSTRIAL PARK
844 N. 47th Ave., Phoenix
$9.67 million, 264,454 square feet
SELLER: Sun State Builders, Tempe
BUYER: BlackRidge Real Estate Group, Denver
SELLER'S BROKERS: Andy Ogan and Allen Lowe, Lee & Associates

5. ESTRELLA BUSINESS PARK
1002 S. 63rd Ave., Phoenix
$8.76 million, 250,157 square feet
SELLER: Clarence Furuya, Honolulu
BUYER: Duke Realty, Indianapolis
SELLER'S BROKERS: Barry Gabel and Mindy North, CB Richard Ellis


Palm Valley 303