

THE GREATER SCOTTSDALE AIRPARK 2010 REPORT

Colliers Classic

December, 2002

Jim Keeley, SIOR, CCIM



LOCATION:

The "Greater Scottsdale Airpark" Boundaries:

North Boundary: Loop 101 Pima Freeway
South Boundary: Thunderbird Road
East Boundary: 90th Street (between Raintree and the CAP Canal)
96th Street (between the CAP Canal and Bell Rd)
West Boundary: 70th Street

ZONING:

Commercial Office; Light Industry;
Commercial Retail

SIZE:

Approximately 2,900 ± Acres *

CURRENTLY DEVELOPED:

Approximately 2,600 ± Acres

NUMBER OF COMPANIES:

Approximately 2,198 ± (December 2002)

NUMBER OF EMPLOYEES:

Approximately 41,265 ± (December 2002)

TOTAL SQUARE FOOTAGE:

Total Square Footage:
Approximately 17,356,120 ± Square Feet

* Prior to 1997, the Scottsdale Airpark was reported to be 2,000 acres. The increased size is due to the McDowell Mountain Business Park area that is now being developed with new construction of roads and infrastructure.

Business Cycle: How is it impacting the Scottsdale Airpark?

According to a report released on November 26, 2001 by the Business Cycle Dating Committee of the National Bureau of Economic Research, the U.S. economy entered into a recession in March 2001. This prestigious, private, not-for-profit organization was founded in 1920 and has been publishing data and analysis of U.S. business cycles ever since.

This recession was felt about that same time in the Scottsdale Airpark and most area brokers knew we were in it before September 11, 2001. As discussed in this article, there are positive signs, and as well as negative indicators, to be aware of.

We published the first 2010 Report in December 1989, and each year thereafter. We accumulate data on where the Airpark is at year-end and what we think it will look like in the year 2010. The following summarizes this year's observations.

Supply and Demand

Land

Private Development began in the Scottsdale Airpark approximately 30 years ago. When we first published this report in 1989, we did a study indicating there would be a 25 year supply of land left. We were wrong. Land was consumed dramatically in the '90s and currently there is a shrinking supply of readily available sites on which to build buildings regardless of size.

The few remaining sites left in the Northsight area, the McDowell Mountain Ranch Business Park and various others throughout the Airpark have pushed the land prices up considerably in the last three years. Land prices now are in the \$13 to \$20 per square foot range. This lack of supply has caused the employment base in the Airpark to seek out other areas. Since the Loop 101 Freeway has been completed, there have been new projects in the Pinnacle Peak area, Grayhawk area, the State Land properties along the Freeway and the Salt River Pima Indian community that is south of the Airpark.

The State Land and Salt River Pima Indian community land will provide a large supply of land and have a major impact for employment in the future, once the land lease technicalities are resolved.

Buildings

You'll note from the enclosed tables that the supply of existing space in buildings has increased and our vacancies are approaching 13%, which we have not seen since 1992. The largest oversupply is in office buildings, where we have seen rental rates decrease in the last 12 months by 10% to 15%. The office / warehouse market has also had an increase in vacancies, which has resulted in rental rates that have decreased by 8% to 10%. Obviously, the amount of construction has been reduced due the current high vacancies.

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MAJOR COMPANIES:

Air Services International
Airpark Chrysler / Jeep
Allied Waste
Best Western Thunderbird Suites
Cahners In-Stat Group
Carlos O'Briens
Colliers Classic Commercial Real Estate
Continental Promotion Group
Corporate Jets, Inc.
Costco
Cox Cable of Scottsdale
D.H.L. Worldwide Express
Danny's Family Star Mart
Dial Corporate Headquarters
Dial Tech. R & D
Dillon Precision Industries
Discount Tire Company, Inc.
Ed Moses Dodge
Fairmont Scottsdale Princess
Farmers Insurance
General Electric / FFCA
General Mills
Giant Industries
Go Daddy Software
Golden Genesis
GTCCO CalComp Input Technologies Division
Harley Davidson
Home Depot
Homestore.com
IKON
Interface, Inc.
JADO
JDA Software
Knowledge Net
Kroy, Inc.
KYOCERA
La Petite Academy
Legend Cadillac
Linthicum Constructors
Lou Grubb Ford
Lou Sabb GMC
Lowe's Home Improvement Warehouse
Maxwell
MCS
Metris Company
Nautilus Insurance Co.
Pacesetter
Pegasus Solutions
Peter Piper Corporate Headquarters
Phase 2 Solutions
Pinnacle Nissan
Prudential Insurance
Qwest
ReMax
Rental Service Corp.
Right Toyota
Robb & Stucky
Ryland Homes
Saturn of Scottsdale
Schumacher European, Ltd. (Mercedes-Benz)
Scottsdale Honda
SonicAir
State Farm Insurance
Sun Genesis Systems
The Tech Group / Tech Poulson
Thomasville Home Furnishings
U.S. Postal Service
U-Haul
Unison Health Care
USF Bestway
Van Chevrolet/GEO
VanGuard
Wave Imaging Network Offset Separations
Westin Kierland Resort
Wilson Electric Co.
XYRON
XYTERRA

Interest Rate Impact

The Federal Reserve cut interest rates 11 times during 2001. Most research has determined that the maximum impact of this monetary stimulus is felt in the real side (as opposed to the financial side) of the economy after two and a half years. This means that we will be enjoying the beneficial effects of these lower interest rates well into 2004. These low interest rates have resulted in many companies buying their own smaller buildings. We have seen a large number of office condominiums being built and sold to smaller companies. The low interest rates will allow companies to own for the same costs as it would be to lease.

Lower interest rates have also brought build-to-suit projects in the office / warehouse arena, particularly in the area of Loop 101 and south of Bell Road.

The interest rates have helped maintain the strong foundation of the 2000 ± companies in the Airpark.

Key Indicators

There is a mixed signal here. This year the Airpark saw two buildings being torn down and ready for new construction along Scottsdale Road and 73rd Street. Previously, the only other building torn down in the Airpark was an old hangar. This is a positive indicator of industry confidence in the area.

The Airpark has added several new large companies, including DHL Worldwide Express taking 110,000 square feet with 350 ± employees and Pegasus Solutions bringing almost 600 employees. You'll note from the enclosed tables that the number of employees has increased dramatically in the last 12 months. That appears to be the result of new retail and restaurants that have opened up. These businesses employ greater numbers of employees than the office or office / warehouse buildings.

Because of higher vacancies and subleases, tenants are able to negotiate their leases more aggressively. The lower rental rates will begin drawing more tenants to the Airpark, similar to what happened in the early 1990s. We expect to see a downward trend in vacancies in the next 12 months, with considerable shrinking of supply by March, 2004.

Bottom Line

Many local economists feel as though the recession is over. The stock market has driven many people out of the stock market into the real estate arena, creating a demand for investors seeking out real estate investments. There will be some opportunities in 2003, yet the market will remain relatively flat throughout 2003 with an up cycle beginning the second quarter, 2004.

Our predictions for what the Airpark will look like in 2010 are as follows: There should be approximately 3,000 companies occupying over 25,000,000 square feet of space and employing approximately 50,000 employees.

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TOTAL SQUARE FOOTAGE:

Existing Buildings:	16,837,342
Buildings Under Construction:	<u>518,778</u>
Total Square Footage:	17,356,120

THE "GREATER SCOTTSDALE AIRPARK" GROWTH

June 1981 – December 2002

Date	Square Feet	Vacancy	Number of Employees	Number of Businesses
Jun. 1981	1,580,611	13.9%	3,320	268
Jun. 1982	1,720,210	10.1%	3,680	289
Jun. 1983	1,900,188	6.1%	4,038	316
Jan. 1984	2,288,439	10.9%	4,504	383
Jun. 1984	2,587,000	10.5%	5,320	460
Jan. 1985	2,683,394	11.8%	5,345	480
Jul. 1985	3,206,670	17.3%	5,500	517
Jan. 1986	3,673,589	18.7%	5,861	534
Jan. 1987	4,419,226	19.4%	8,661	733
Aug. 1987	4,811,007	19.0%	8,912	841
Aug. 1988	4,881,979	16.0%	9,802	957
Aug. 1989	5,234,493	17.2%	10,355	930
Aug. 1990	5,396,211	14.3%	10,120	943
Aug. 1991	5,868,194	14.2%	10,654	1,082
Aug. 1992	6,141,078	12.6%	11,345	1,076
Nov. 1993	6,146,866	6.7%	13,402	1,237
Sep. 1994	6,569,987	3.5%	13,846	1,257
Sep. 1995	6,932,228	2.3%	14,132	1,332
Dec. 1996	8,126,066 *	3.1% *	17,275 *	1,477 *
Dec. 1997	9,697,203 *	3.2% *	19,837 *	1,624 *
Dec. 1998	11,085,954 *	4.1% *	25,891 *	1,708 *
Dec. 1999	14,626,300 *	6.0% *	30,344 *	1,807 *
Dec. 2000	15,657,920 *	7.6% *	31,992 *	1,868 *
Dec. 2001	16,282,920 *	9.8% *	33,015 *	1,907 *
Dec. 2002	17,356,120 *	12.9% *	41,265 *	2,198 *

* These numbers reflect the "Greater Scottsdale Airpark"

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GREATER SCOTTSDALE AIRPARK HOTELS AND RESORTS

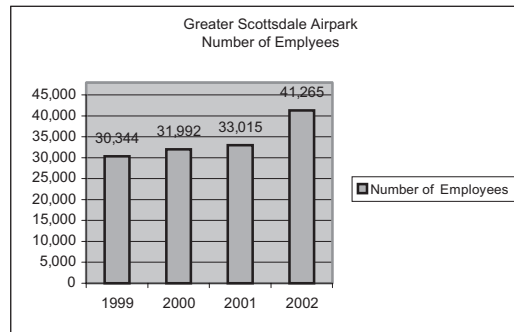
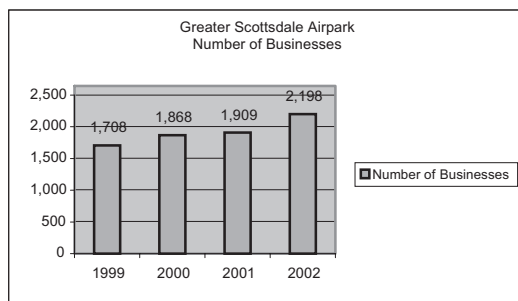
Name	Employees	Rooms	Size SF
Best Western Scottsdale Airpark Suites	25	120	72,392
Courtyard by Marriott	53	153	82,179
Extended Stay America	15	120	41,902
Fairfield Inn Marriott	30	132	44,508
Fairmont Scottsdale Princess	1,200	650	600,000
Hampton Inn Suites	30	123	83,688
Scottsdale Marriott at McDowell Mountain	153	270	270,000
Sleep Inn	25	108	42,000
SpringHill Suites Marriott	35	123	64,392
Westin Kierland	<u>500</u>	<u>735</u>	<u>700,000</u>
TOTAL	2,066	2,534	2,001,061

Quick Facts About the "Greater Scottsdale Airpark"

	1999	2000	2001	2002	12-Month
	<u>Total</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>	<u>Change</u>
Number of Businesses	1,708	1,868	1,909	2,198	15.13%
Number of Employees	30,344	31,992	33,015	41,265	24.98%
Number of Buildings	566	612	625	687	9.92%
Total Square Footage	14,626,300	15,657,920	16,282,920	17,356,120	6.59%

Breakdown of Existing Buildings (Square Feet)

	Office/Whse	%	Office	%	Hangar	%	Retail	%	Total	%
Occupied	6,453,973	86%	4,331,520	81%	575,099	98%	3,296,380	97%	14,656,973	86.1%
Vacant	<u>1,050,647</u>	14%	<u>1,016,036</u>	19%	<u>11,737</u>	2%	<u>101,950</u>	3%	<u>2,180,369</u>	12.9%
Total	7,504,620	45%	5,347,556	32%	586,836	3%	3,398,330	20%	16,837,342	100%



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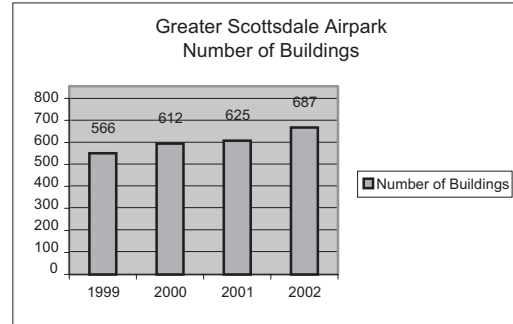
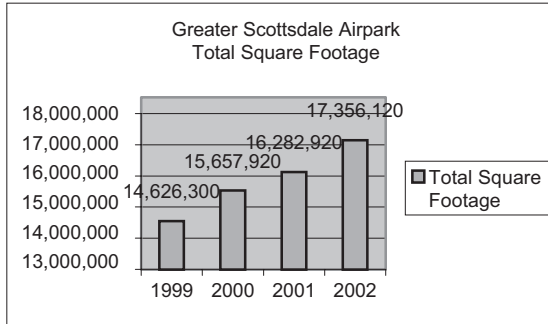
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Companies with 150 employees and above: The actual names of companies have been omitted for privacy purposes.

Company	# Employees
Hotel	1,200
Financial Service	1,150
Financial Service	1,000
Consumer Product	800
Telemarketing/Internet Sales	700
Computer Software	600
Telemarketing/Internet Sales	500
Hotel	500
Consumer Product	475
Computer Software	400
Consumer Product Retail	350
Shipping/Packaging	350
Shipping/Packaging	350
Waste Management	300
Telemarketing/Internet Sales	300
Marketing/Advertising	300
Security	260
Consumer Product Wholesale	249
Automobile Dealership	245
Automobile Dealership	230
Consumer Product Retail	230
Automobile Dealership	225
Newspaper	200
Restaurant/Night Club	200
Consumer Product Retail	180
Construction/Development	180
Computer Software	180
Restaurant	180
Consumer Product Retail	160
Consumer Health Product	150

A special thanks to Colliers Classic brokers for their input and in particular, Ed Hadley for his tremendous gathering of data by going door-to-door throughout all your businesses in the Airpark.

Jim Keeley, SIOR, CCIM, founded Classic Real Estate Corporation, now known as Colliers Classic, in 1983.

The firm conducts the majority of its commercial brokerage business within the Scottsdale Airpark and has conducted over 2,845 transactions and \$825,594,702 of business.

Colliers Classic is located at 7845 E. Redfield Road, Suite 100; Scottsdale, Arizona 85260; Phone 480.569.9000; www.colliersmm.com

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