

# THE LIGHTRAILCONNECT MARKET REPORT

FIRST QUARTER 2011

Light Rail Corridor

Phoenix - Tempe - Mesa  
(.25 miles radius from light rail stations)



# Q1 2011 Light Rail Market Report

## Metro Phoenix (Phoenix-Tempe-Mesa)

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### Scope and Overview

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This report analyzes results of real estate activity within a quarter-mile of each light rail station in the Phoenix-Tempe-Mesa corridor, also known as 'Transit Oriented Development' or TOD.

The Phoenix-Tempe-Mesa metro **light rail corridor** is comprised of an initial 28 Stations, extends 20 miles in length and was built at a construction cost of \$1.4 Billion. Service began for the public in December 2008. Currently two extensions are planned, both approximately 3 miles in length that will extend the line in each direction. The first project is in Phoenix at the North end, and the second extending the South end to downtown Mesa. The Phoenix extension will be paid for by the City of Phoenix and is currently on hold due to City budget issues; the Mesa extension is proceeding forward and will be paid for by a combination of Federal funds and Proposition 400 half-cent sales tax money.

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### Definition and Terms

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**Light Rail Corridor:** The area measured by a 0.25 mile radius from a light rail station. Planned track extensions in Mesa and Phoenix are not included until the tracks are built and in service.

**Net Absorption:** The net change in occupied space over a given period of time.

**Submarkets:** This report provides information on the three submarkets in Phoenix, Tempe and Mesa in the light rail corridor.

**Vacancy Rate:** A measurement expressed as a percentage of the total amount of physically vacant space divided by the total amount of existing inventory. 'Under construction space' generally is not included in vacancy calculations.

**Vacant Space:** Space that is not currently occupied by a tenant, regardless of any lease obligation that may be on the space.

**Rental Rates:** The annual costs of occupancy for a particular space quoted on a per square foot basis.

**Class A:** A classification used to describe buildings that generally qualify as extremely desirable investment-grade properties and command the highest rents or sale prices compared to other buildings in the same market.

**Class B:** A classification used to describe buildings that generally qualify as a more speculative investment, and as such, command lower rents or sale prices compared to Class A properties.

**Class C:** A classification used to describe buildings that generally qualify as no-frills, older buildings that offer basic space and command lower rents or sale prices compared to other buildings in the same market.

## Residential Housing

**Phoenix** reported 13 **single family detached** (SFD) homes sold in Q1 within a quarter-mile radius of the light rail stations. This is a slight decrease from 14 homes that sold in Q4 of last year, however price of homes sold were higher. The **Median Price** was \$160,000 up from \$59,900 and the **Average Sale Price** was \$182,154, up from \$102,206 from the previous quarter; the average size of 1,611 SF calculates to an average price of \$110.18/SF. **Average Time on Market** for homes sold was 49 days. The most expensive house sold in Q1 2011 was located near the McDowell/Central Station at 93 W Lynwood St Phoenix. Sales Price was \$451,000 with 4 bedrooms, 3.5 bathrooms and 2,586 square feet, built in 1925. Of these 13 Single family detached homes 5 were bank owned, 7 were traditional sales and 1 was a short sale.

The 1st quarter reported **91 condo** sales. This is an increase in the number of sales over the last 3 consecutive quarters (up from 61 condo sales in Q4 and 51 condo sales in Q3). The average sales price reported \$105,149 (\$94.79/SF). The average unit size was 1,065 SF and the time on market was 107 days for these sold units. The highest selling condo price was on the 3rd floor of the Portland Place Condos, located at 208 W Portland St. It sold for \$315,000 and has 1,592 SF, 2 bedrooms and 2 bathrooms. There were 5 sales in the Portland Place Condos with prices ranging from \$154,500 to \$315,000.

Of these 91 condo sales, 31 were traditional, 46 were lender owned, and 14 were short sales. In this condo market we are reporting that a majority of sales were bank owned properties. At the end of the 1<sup>st</sup> quarter there were approximately 90 condo units for sale; so, with an absorption rate of 30 condos per month, that calculates to a 3 month supply of condos on the market. Some condos have been pulled off the market and converted to apartment rentals decreasing the supply.



93 W LYNWOOD St Phx



208 W Portland, Phx



21 E 6th St, Tempe

In **Tempe**, 6 **SFD houses** sold in Q1 with an average price of \$97,483 and an average price of \$75.08/SF. Average time on market for these homes was 23 days. These numbers were very similar to last quarter except the time on market dropped substantially.

Six condos sold with the average sales price of \$132,667 up from the previous average of \$121,258. The average cost was \$150.75/SF and the average condo size was 857 square feet. The average time to sale for these homes was 60 days. Tempe's top condo sale for Q1 near the rail was on the 3<sup>rd</sup> floor of the Orchid House Condos, located at 21 E 6th St. This unit sold for \$300,000; it has 1 bedroom, 1 bathroom and reports 882 SF.

Of these 12 sales in Tempe, 4 were traditional and 8 were bank owned.

**Mesa** reported 1 **SFD house** sold near the only current Mesa Station (Sycamore & Main St.) with a sales price of \$74,900 and 1,794 square feet.

## Multi Family

Light Rail Apartments there were four recorded sales of light rail apartments. All four sales this quarter occurred in February.

Light Rail Apartments Sold 1Q 2011						
Property Address	Name	City	units	Sales Price	Price/unit	Sale Date
111 W. 6th St (2 properties)	Centerpoint Towers	Tempe	na	\$30,000,000	na	2/18/2011
2125 W. Campbell Ave	Cypress Woods	Phx	61	\$1,275,000	\$20,902	2/25/2011
1942-2014 W. Berridge Ln	Beverly Palms	Phx	34	\$580,000	\$17,059	2/15/2011
2148 E. Polk St.	Polk Street Apts	Phx	16	\$125,000	\$7,813	2/15/2011

## Land

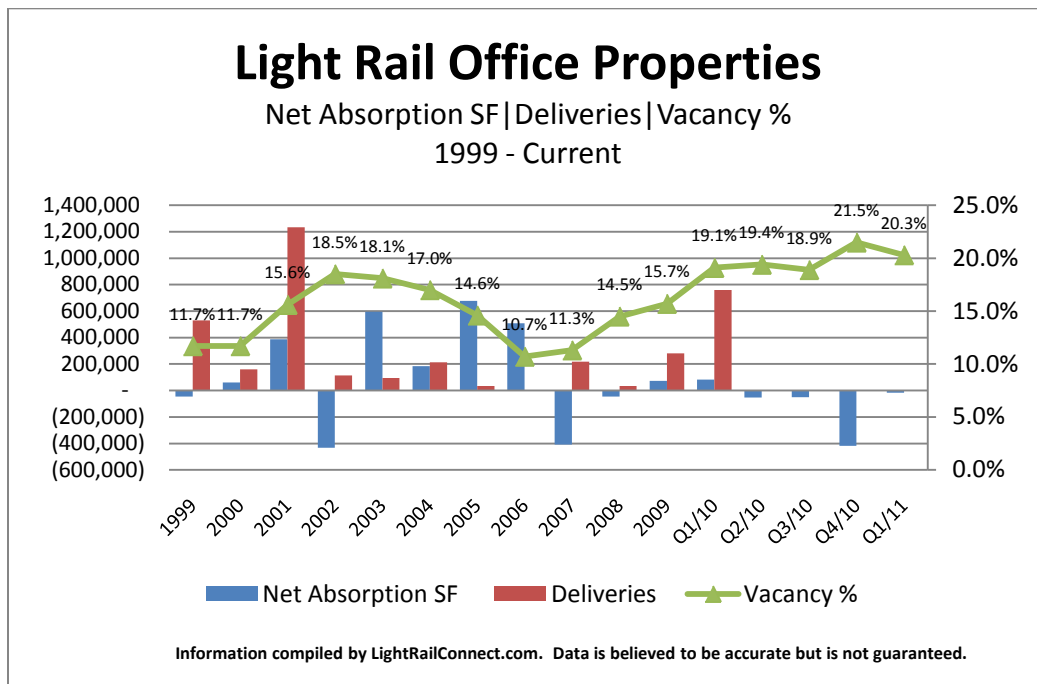
Six land sales were recorded in the light rail corridor in Q1 within a quarter mile of a station. Q4 recorded one sale, Q3 two sales, and three in Q2/2010. Of the six transactions this quarter, four were foreclosure sales, and all were cash sales. Centerpoint Land, LLC purchased 2.76 acres with a proposed Mixed Use for \$7.28/SF. Cml-az One Llc purchased parcels at 1200 E Washington Street for \$16.24/SF with a proposed use for Apartment Units, MultiFamily, Office. CML-AZ West Camelback, LLC recorded a purchase of 3.96 acres at a price of \$4.06/SF with a proposed 'Commercial' use. Other transactions did not specify the proposed use.

Light Rail Land Sold in Q1						
Location	Lot Size	Sale Price	\$/SF	Sale Date	Conditions	
1200 E Washington St, Phoenix	0.54 AC	380,000	16.24	01/04/2011	foreclosure	
2424 E Monroe St, Phoenix	0.17 AC	12,500	1.69	01/06/2011	regular sale	
1707 W Camelback Rd, Phoenix	3.96 AC	700,000	4.06	02/08/2011	foreclosure	
NE University Dr & Ash Ave, Tempe	2.76 AC	875,000	7.28	02/18/2011	Centerpoint	
848 N 1 <sup>st</sup> Ave, Phoenix	0.71 AC	948,000	30.62	02/24/2011	foreclosure	
SE Portland St & 3 <sup>rd</sup> St, Phoenix	1.53 AC	800,000	12.03	03/09/2011	foreclosure	

In the first quarter 2011 we are reporting 11 **land** parcels for sale within a quarter mile of the 28 light rail stations. The largest two parcels are listed at the Sycamore & Main Street Station in Mesa for \$12-\$16 per square foot, with the land size at 6.85 and 6.08 acres respectively.

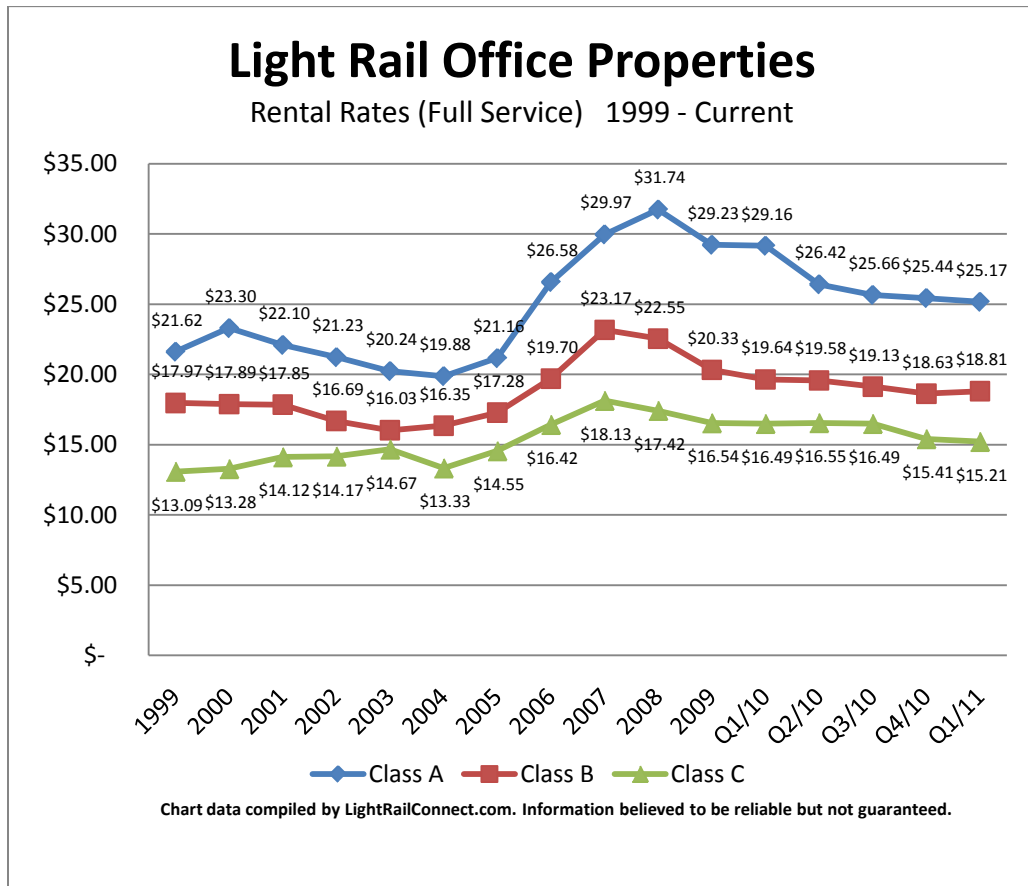
## Office Market

The light rail corridor office **market vacancy** decreased to 20.3% in the first quarter of 2011. This compares to 21.5% for the previous quarter's vacancy rate. Vacancy rates in the light rail corridor have been on a steady increase since 2005 when the market experienced a drop. Before then, the vacancy rate had decreased to 17% for 2004. The highest vacancy rates for all light rail corridor submarkets can be found in Phoenix at 20.9%. Tempe produced a more favorable vacancy rate decrease from 18.5% in Q4/2010 to 16.3% in the current quarter. The lowest of the submarkets is Mesa (which does not represent much office space) at a flat 17.9%. The vacancy rate in the light rail corridor is less than the metropolitan Phoenix area which reported 21.3% vacant space.



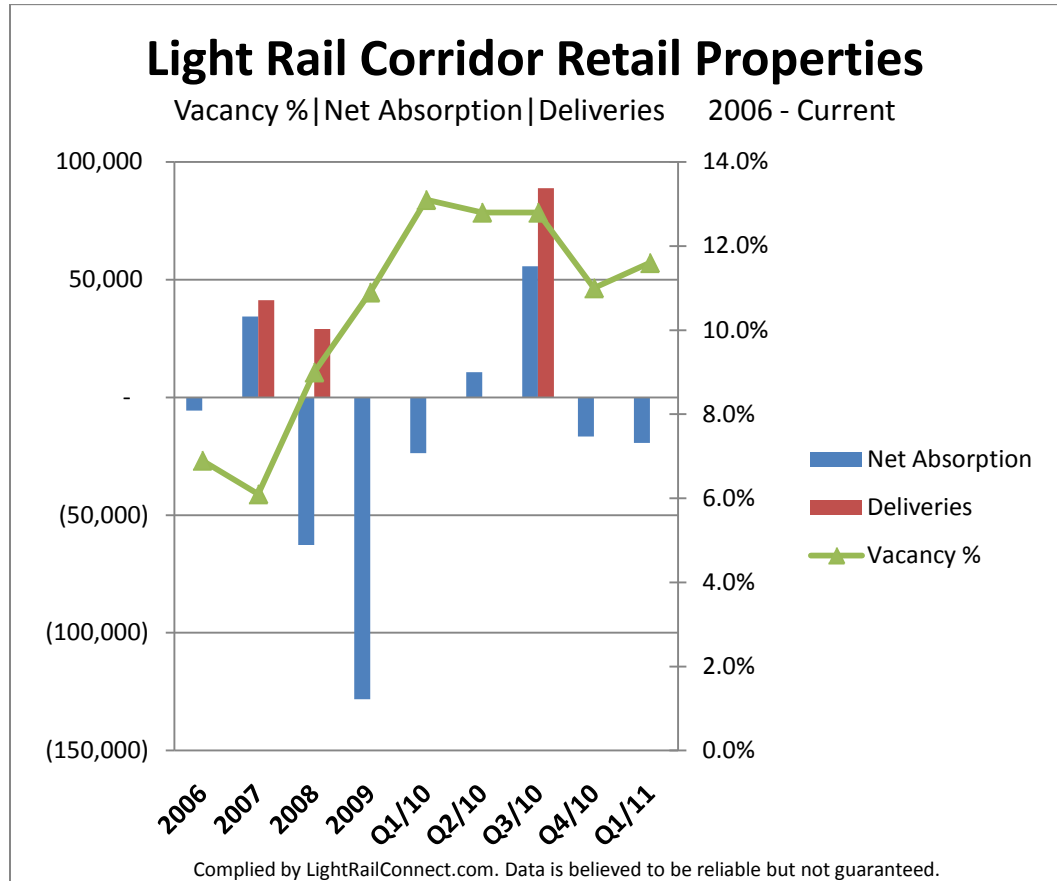
**Net Absorption** in the light rail corridor was negative (15,394) square feet for the first quarter of 2011. Net absorption in the fourth quarter of 2010 totaled a negative (417,443) square feet. The Phoenix City submarket reported that absorption for the first quarter totaled negative (16,222) square feet; Tempe reported a slight positive absorption of 828 SF, and Mesa reported zero absorption this quarter. The entire metro Phoenix area reported a net absorption of negative (252,043) square feet in the first quarter. That compares to a positive 597,542 square feet in the fourth quarter 2010, and a negative (15,787) square feet in the third quarter 2010.

**Office lease rates** in the light rail corridor, which have steadily decreased since 2008, decreased again slightly in the first quarter of 2011 to an average rate of \$25.17/SF, Class A full service, compared to the average rate in Q4 of \$25.44/SF full service. Class B overall rates were reported relatively flat at \$18.81/SF, as well as Class C at \$15.21/SF. The lowest rates within 0.25 miles from the light rail stations in the first quarter were found in the Mesa submarket at a flat \$10.80/SF. In comparison, the average rental rate for Class A Office in the metro Phoenix area was at \$24.04/SF, while the average overall rental rate reported in at \$21.00/SF for all classes, slightly lower than \$21.46/SF in the fourth quarter.



# Retail Market

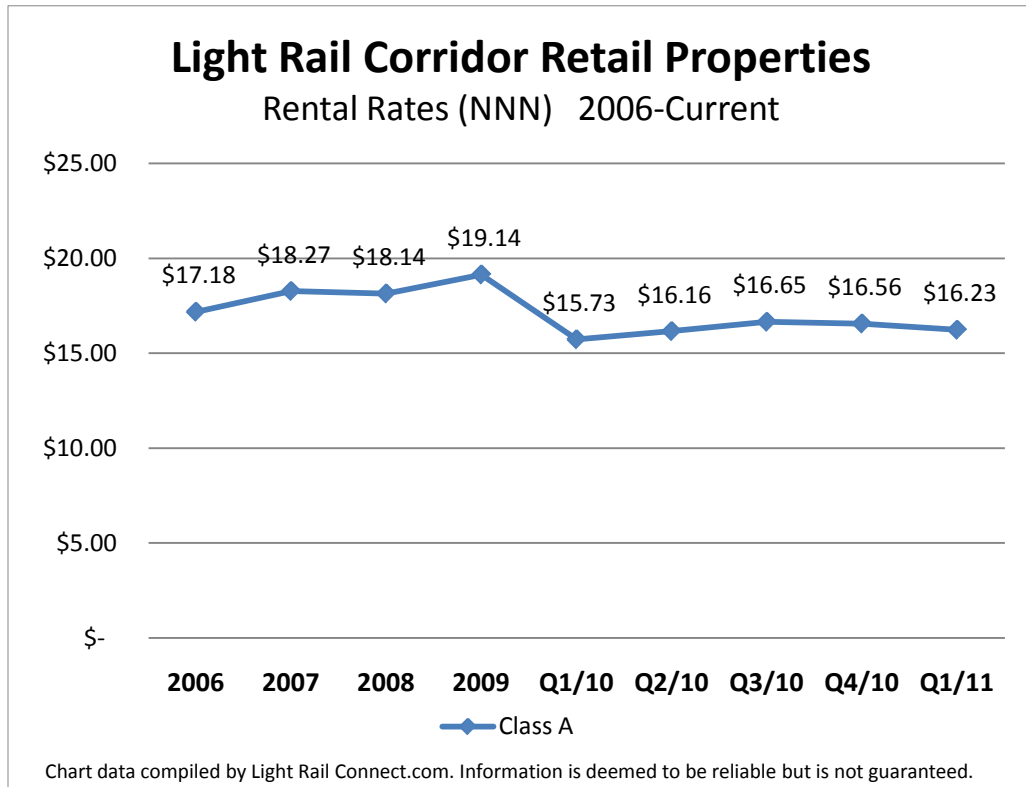
The Light Rail Corridor **retail market vacancy rate** in the first quarter of 2011 increased to 11.6% from 11% in Q4, down from 12.8% in the third quarter of 2010, and flat from 12.8% in Q2/2010. This is still an increase from 2009 year end vacancy rate of 10.9%. The highest retail vacancy rate was reported in the Mesa submarket at 26.1%. The metro Phoenix area retail vacancy rate increased slightly to 12.3% in Q1/2011, up from 12% in Q4/2010.



**Absorption for retail space** in the light rail corridor was negative (19,359) square feet in the first quarter, compared to a negative 16,654 square feet in the fourth quarter. The Phoenix submarket reported negative absorption of (9,323) square feet for the first quarter with 21.1% vacancy, while the Tempe submarket ended with 7.5% vacancy and reported negative absorption of (10,036) square feet. Mesa vacancy remained high at 26.1% and reported zero absorption this quarter.

The overall metro Phoenix area market reported negative absorption of (629,052) square feet, which had been in a general negative trend since 2009; overall vacancy rate in the Phoenix metro market in the first quarter was 12.3%, up slightly from 12% in Q4 2010, but relatively flat over the past year.

A notable Q4 2010 retail delivery was CityScape, located at 50 E. Jefferson Street in Phoenix, which delivered 9,362 square feet to Oakville Grocery and is 100% occupied. CityScape will provide an additional 50,000 SF of retail space that is scheduled to be delivered in Q2 2011.



**Rental rates for retail space** in the light rail corridor decreased slightly from \$16.56 in Q4/2010 to \$16.23 in Q1/2011. Quoted rental rates in the metro Phoenix retail market fell down below the \$17.00 level in 2010 to 16.90 in Q2, \$16.42 in Q3, \$16.26 in Q4, to the current \$15.78 in Q1/2011. We expect this trend of rental rates to decrease or be flat at least in the short term.