

CAVAN®
Real Estate Investments

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Introducing Avondale Gateway Center



Cavan successfully completed acquisition of two parcels which together comprise the approximately 115-acre Avondale Gateway Center. This project is to be developed as a mixed-use development similar to the Raintree Corporate Center in Scottsdale, but on a larger scale. The parcel is located on Interstate 10 between 115th Avenue/Avondale Boulevard and 107th Avenue in Avondale, Arizona. The site includes a 29-acre parcel with Planned Area Development (PAD) zoning already in place, and 85 acres of Agriculture (AG) land to be zoned to complement the present PAD zoning.

The initial phase of the project currently calls for a combination of office, retail and residential components. While rezoning and entitlement are in process, Cavan will look to develop a multi-story office building on a parcel that is presently suitably zoned and entitled.

Infrastructure installation (roads and utilities) on the 85-acre parcel will take place in Phase 2, and the third phase will include working with retail developers on approximately 20 acres in the retail/commercial component of the site along the 107th Avenue frontage.

The final phase calls for development of the remaining parcels into a high-density portfolio office property.

Information on the Avondale market is included in this issue of the FYI.

The equity offering for this project was received with great enthusiasm by Cavan's investor partners with nearly \$12 million of the possible \$35 million offering subscribed for in the first month alone. More information can be obtained by calling the Cavan offices at 480-627-7000.

Cavan Opportunity Fund Fully Capitalized

During the spring of 2007, the Cavan Opportunity Fund capital was increased from \$30 million to \$40 million to complete the acquisition of the Glendale/303 parcel. Current updates on the properties included in the Cavan Opportunity Fund:

Prescott Valley Crossing

ADOT is nearing completion of the construction plans to replace the existing SR 169 Agua Fria River bridge located on the southeast corner of the Prescott Valley Crossing project. A new five-lane bridge will replace the existing two-lane bridge currently located there to accommodate the forecasted increase in traffic along SR 169. Also, within Prescott Valley's new five-year economic development strategic plan, one of the town's top priorities is to enrich Prescott Valley residents' quality of life by widening and improving SR 69.

In the second quarter 2007, The Cavan Opportunity Fund acquired a 50% interest in a two-acre property contiguous to the Prescott Valley Crossing parcel. Title to the property was obtained at no additional cost through a Quiet Title right within the purchase of the Green parcel in January of 2007. This addition will provide more frontage on State Route 69 adjoining the northwest portion of the property, which will increase the value of the overall assemblage. A conceptual site plan, based on current plans, is included below.

Flagstaff Healthpark

A Concept Plan Submittal has been presented to the City of Flagstaff Planning Department for review for the construction of a site access road through the project connecting San Francisco Street on the west with Turquoise Avenue on the east. Approval of this roadway is the pre-cursor to the submittal of a Minor Land Division to break up the property into four separate parcels.

Multiple parties are showing interest in the Flagstaff Healthpark and an offer has been received on a portion of the property zoned for residential use. We believe we have reached agreement on all major deal points and are awaiting a contract from the buyer. As we move forward with the project, we will continue to entertain offers on all portions of the property.

McMillan Mesa Village (Flagstaff)

Infrastructure construction plans for the project are under final review by the City of Flagstaff engineering staff and should be approved soon. The plans are currently out to contractors for preliminary bids on proposed construction.

An internal project land exchange with the City of Flagstaff has been approved by the Flagstaff City Council and is currently in escrow. The land exchange with the City is an even acre-for-acre

article continued on facing page



Prescott Valley Crossing Conceptual Site Plan (subject to change) based on current C2-PAD zoning



Flagstaff Health Park property - site of proposed access road through the property

exchange which will benefit both the City and Cavan Opportunity Fund. Closing on this exchange is expected within 60 days.

Multiple parties are showing interest in McMillan Mesa Village and negotiations are in process on a portion of the property zoned for High-Density Residential use. There have also been discussions with potential buyers of the single-family residential lots located at the south end of the project. As we move forward with the project, we will continue to entertain offers on all portions of the property.

Glendale/303

Cavan successfully acquired two adjoining West Valley parcels totaling approximately 140 acres at the northwest corner of Glendale Avenue and the future Loop 303. The two parcels, 74 acres and 66 acres, are each presently zoned AG (Agriculture) and will be rezoned as PAD (Planned Area Development) mixed-use. This project will be developed as a master-planned develop-

ment. The development cycle is anticipated to require two years or more, since additional time will be necessary for the site to be annexed into the City of Glendale.

Raintree Corporate Center: Seeing Opportunity in Current Scottsdale Market

Raintree Corporate Center I (RCCI) experienced a recent increase in vacancy due to downturns in the mortgage market. Tenants in the residential mortgage industry vacated approximately 16,000 square feet of building space, and another downsized by 4,502 square feet, resulting in a current occupancy rate of 84%. The majority of this space was comprised of older leases with below market rental rates which allows us to re-market this space at more advantageous terms. Property management is vigorously marketing the vacant space and expects to have a significant portion of the space occupied by first quarter of 2008 or earlier.

The most recently completed of the Raintree Corporate Center buildings, RCC3, is currently 40% leased with a continued high level of interest from potential tenants. Architectural drawings for the second phase of Cavan Professional Suites have been submitted to the City of Scottsdale for permits, and marketing will begin in September. The suites, scheduled to open in February, will complete the second floor of RCC3.

The construction of RCC4 is progressing rapidly and the project is scheduled for completion November 1, 2007. The masonry and windows are currently near completion and the landscaping work is well underway. The decorative pavers are installed at the entry, and the circular drive and the planters, sign monuments, curbing and site lighting are all

installed. Paving is scheduled to begin September 19. The sheetrock is complete inside the building and tiling is in progress within the restrooms. The columns for the lobbies are constructed at the contractor's shop and ready for installation.

Although no leases have been finalized for RCC4, two Letters of Intent (LOI) for space that totals 75,000 square feet have been accepted - one for approximately 45,000 square feet on the third floor and a second for roughly 35,000 square feet on the first floor. RCC4's second floor is planned to include 30,000 square feet of space for Cavan Professional Suites, which are scheduled to be completed in February of 2008.



Aerial (facing south) of RCA under construction

Relevant Phoenix Area Real Estate Market Updates

Avondale - West Phoenix Area

An article by Greg Sexton in the August - September 2007 issue of *AZ Business* magazine highlighted growth in the West Valley, that portion of metropolitan Phoenix that includes Glendale, Peoria, Avondale, Sun City, Goodyear, Surprise and Litchfield Park. The headline reads: "Sports, banks, retail, law firms...the West Valley becomes a destination hot spot."

According to Sexton, in addition to attracting true destination sports venues, the area is also enticing large developments that include employment centers, helping the area evolve from a mostly agricultural community to a significant segment of the Phoenix-metro area. California-based CSAA opened a large call center and hired 1,500 people. Coca-Cola also obtained a large facility and hired 90 employees. Downey Savings and Loan relocated its data center to Glendale, and Texas-based PepsiCo invested in a large manufacturing plant in Tolleson.

Several large master-planned communities are located in the area as well, including Verrado at the base of the White Tank Mountains, and Tartesso, tucked between the foothills of the White Tanks and the Hassayampa River.

The West Valley offers a wide variety of activities. Westgate City Center at the Loop 101 and Northern Avenue in Glendale is currently under development and will ultimately feature 6.5 million square feet of retail, restaurant and office space. Sports venues include the University of Phoenix Stadium (home of the NFL Arizona Cardinals) and Jobing.com Arena (home of the NHL Phoenix Coyotes). The Cactus League also brings spring training to the area. The Texas Rangers and Kansas City Royals will practice in Surprise; the Seattle Mariners and San Diego Padres in Peoria; the Cleveland Indians in Goodyear; and the Los Angeles Dodgers and Chicago White Sox in Glendale—all in addition to Phoenix International Raceway's NASCAR events.

Mark Dioguardi, an attorney with Tiffany Bosco says his firm sees great potential in the West Valley and will open an office in Goodyear later this fall. As the area grows, Dioguardi sees busi-

nesses contributing to the community. "We'll be there supporting everything from the local kids playing soccer to the arts and everything in between."

Scottsdale - East Valley

The Arizona and Phoenix metropolitan economies remained healthy in the first and second quarters of 2007, according to reports from Arizona Blue Chip Economic Forecast Panel, which bases its state and regional analyses in part on the unemployment reports of the Arizona Department of Economic Security (DES). The DES reported an unemployment rate of 3.6% in the second quarter of 2007, a drop from 4.1% reported for the first quarter. The unemployment rate for the Phoenix metropolitan area had a similar drop, falling from 3.6% in the first quarter to 2.9% in the second quarter.

While the residential market experiences a slowdown, the multi-family, retail and office markets are expected to remain strong. The Panel estimates up to 3.8 million square feet of office space to be built this year in metropolitan Phoenix compared to 2.2 million square feet in 2006, with a relatively stable overall vacancy rate at approximately 13%. This estimation, however, may be conservative, given the 3.4 million square feet of office space under construction by the end of second quarter, as reported by CB Richard Ellis. More than a third of this activity took place in the Phoenix Sky Harbor and Scottsdale Airpark submarkets. CBRE also reported the quarter's metro Phoenix vacancy of 13%, representing an increase of 1.1% from last quarter. Net absorption was at 379,000 square feet, relatively unchanged from the first quarter. The bulk of the absorption - 245,000 square feet or 65% - was in class A buildings. The second quarter's average lease rates were around \$25.50 per square foot compared to \$25.24 per square foot in the first quarter. The average class A full service lease rate was \$28.12 per square foot. Full service asking lease rates in properties under construction range from \$24.00 to \$36.00 per square foot for class A buildings.

Cavan Employees Continue Efforts to Improve Local Community



Temperatures in the Phoenix area are some of the hottest in the country during the summer months. The intense heat requires people to drink plenty of water to avoid dehydration, creating a serious challenge for the Society of St. Vincent de Paul to meet the needs of the thousands of homeless and working poor in the Metro Phoenix area.

Recognizing that challenge, the employees of Cavan Real Estate Investments helped to ease the burden. Over the course of two weeks, Cavan employees gave a total of \$500.00 to pur-

chase 100 cases of bottled water for donation to St. Vincent de Paul, which provided 3,500 bottles of water that the Society made available for immediate distribution to those who need it most.

Cavan employees continue to be involved in St. Vincent de Paul efforts to provide meals to homeless and working poor individuals. On the second Friday of alternating months, a group of volunteers serve breakfast at St. Vincent de Paul's newest service facility located at 1075 W. Jackson Street in Phoenix. This facility serves breakfast to approximately 300 individuals every morning of the week.



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