

In  
the know



With Love,  
From Cavan

Twenty-one packages were sent to the troops for Christmas; and more will be sent for Valentine's Day, complete with cards, chocolates and show-stopping limericks written by a Cavan staffer's second-grade son and his classmates.

For ways you can help support our troops go to [www.americasupportsyou.com](http://www.americasupportsyou.com).

## CAVAN SURPRISES MARINES IN AFGHANISTAN WITH HOLIDAY GIFTS

When new Cavan employee Cindy Johnson shared with co-workers that her husband is serving his third term in the U.S. Military in Afghanistan, it didn't take long for staffers to set about doing what they could to help Gunnery Sergeant Edwin Johnson and his fellow Marines feel a touch of home in their far-away post.

Gifts were purchased by employees and collected at the Cavan offices, where "packing parties" were held to organize and address 22 packages to the Marines of the 25th Signal Battalion. In the packages were hard-to-get snacks, toiletries, clothing items, books, games and other treats—all intended to brighten the days of the men and women whose job it is to protect the American Embassy in the Green Zone in Kabul, Afghanistan.

With the help of the U.S. Postal Service (in the form of our receptionist's hard-working husband), the boxes were shipped in time for Thanksgiving, and by wonderful coincidence arrived at Camp Eggers one day before the celebration of the 231st birthday of the Marine Corps.

Emotions ran high the morning that Edwin surprised Cavan staff during a company meeting when he presented the gathering with an American flag that flew over Camp Eggers and two medals honoring Cavan's support of the troops. He described the setting in which the Marines live day-to-day, telling of encounters with IEDs so frequent that they've become "routine," and recalling the thwarting of an Embassy attack by a suicide bomber dressed as a woman, his words creating mental pictures that come only from someone who's been there.

Following his brief leave, Edwin returned to Kabul, and has since been deployed to Kuwait. We send our hopes and prayers that he and his comrades will all come home safe and soon.



Above: Tom Kell, Cavan CEO and Cavan Employee, Cindy Johnson  
Below: Cavan staffers pause for a photo after a "packing party"



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Times and Your Money  
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In  
this issue

Raintree Corporate  
Center IV Construction  
has Begun

Platte Airpark Sale and  
Colorado Springs Real  
Estate Market Update

Greater Phoenix  
Commercial Real Estate  
Poised for Continued  
Growth

Cavan Surprises Marines  
in Afganistan with  
Holiday Gifts

## POPULATION AND EMPLOYMENT GROWTH IN YAVAPAI COUNTY TRENDING POSITIVELY FOR GRANITE DELLS

Rapid population growth continues to boost future growth prospects in Yavapai County. Over the past two decades, the population in Yavapai County has expanded at an annualized pace of about 4% compared to just 1% for the nation. Very strong in-migration can be credited with much of this fast-paced growth. In addition to attracting relocating workers from neighboring Arizona counties, Yavapai County has become a popular relocation destination for southern California retirees.

Yavapai County's attraction as a migration destination stems from its low living costs, especially compared to neighboring high-cost Maricopa County, its favorable quality of life and attractive environment, and its proximity to the Phoenix metro area. As a result of the quickly expanding population,

Yavapai County's labor force has also grown swiftly, providing a large supply of ready labor for local businesses.

Employment growth has remained positive over the last few years and is maintaining its momentum. This growth has been sustained even as jobless rates remain remarkably low. In the near term, Yavapai County will continue to expand and rapid population growth will continue to drive the retail and real estate industries, and fuel new construction projects. Healthy consumer credit conditions will supply near-term consumer spending on goods and services. In the long term, strong positive migration trends will continue to fuel economic growth. As a result, Yavapai County will outperform the nation over the forecast horizon.



Aerial of Granite Dells Property

In  
the know

*Raintree Corporate  
Center III  
sees first tenant*

The first tenant moved into the newly finished 167,000 square foot Raintree Corporate Center III (RC3) as 2006 concluded. More tenants are slated to move in as we begin the new year and their built-to-suit suites are completed. The property management team has been working hard to lease up RC3 and spark interest for Raintree Corporate Center IV.

## RAINTREE CORPORATE CENTER IV CONSTRUCTION HAS BEGUN

The construction crew has begun pouring the concrete foundation and erecting building columns for Raintree Corporate Center IV. Completion of the project is anticipated in late 2007. While heavy commercial construction frequently causes delays, our diligent construction managers do a great job keeping Cavan projects on track so the buildings will be available for tenancy on time and on budget.

The Greater Phoenix economy slowed toward the end of 2006 following its peak in 2005, according to the Arizona Blue Chip Economic Panel. It remains strong, however, both in absolute terms and relative to other metro areas. According to an October 2006 report by the U.S. Bureau of Labor Statistics, the unemployment rate in Arizona was at 3.9% - better than neighboring states and higher than Utah, Idaho, Wyoming, and Montana only among the western states.

The Metropolitan Phoenix office market continued its strong performance in the fourth quarter of 2006, ending the year with 606,634 square feet being absorbed in the fourth quarter alone. In annual terms, 3.2 million square feet was absorbed in 2006 as compared to 3.1 million square feet in 2005. More than half of the absorption took place in the Class A market, to which the Raintree buildings belong.

Approximately 4.1 million square feet of office product was under construction in the Valley at the end of 2006 as compared to 2.9 million square feet at the end of 2005. Most of the construction has been and continues to be concentrated in the Scottsdale Airpark area where the Raintree buildings are located.

The Metropolitan Phoenix office market remains a landlord's market as the vacancy rate maintains stability and the tenant demand continues to be strong. The vacancy rate for Class A space was 10.3% for Scottsdale, which is below the national average of 11.9%. The full service average asking lease rates edged up in Scottsdale to \$28.09 per square foot in the fourth quarter 2006 from \$27.51 in the third quarter. Higher labor and land costs combined with increased operating expenses and tenant demand have pushed the rental rates to record highs.

The Arizona economy, increasingly reflecting the national economy in terms of composition and external forces, is expected to slow in 2007, due in part to a declining housing market with builders trying to reduce their inventory. The office market, however, as forecasted by the Arizona Blue Chip Economic Panel, will grow even stronger in 2007. With more people moving to Arizona and more businesses relocating in the state, more office products will be required.



## SALE OF PLATTE AIRPARK CENTER UNDERWAY; COLORADO SPRINGS REAL ESTATE MARKET UPDATE

In accordance with Cavan's strategic plan for this property, management has moved forward with the sale of Platte Airpark Center. The sale price has been accepted by a buyer and the due diligence process is underway. Escrow is expected to close by the third quarter 2007.

Platte Airpark has performed well, generating a strong return for its investors since construction was completed and the doors opened to tenants in 2002. The class "A" property has consistently achieved full occupancy with a list of Fortune 500 tenants, a clear testament to its investment grade status. Cavan management expects that the property, under new ownership, will continue to perform well in the coming years.

Colorado Springs' economy continued to show its strength in recovery and jobs generation throughout 2006. Nearly 5,000 new jobs were created, with a net gain, after consolidation and contraction of the market, of roughly 3,000

positions. The Colorado Springs Economic Development Corporation assisted clients in helping to create approximately 2,000 of those new jobs, with an average wage of nearly \$45,000 per year. Recently, PRC, a provider of outsourced customer management to Fortune 500 clients, announced its plan to fill 550 new jobs at all levels including management and technology team members for its new 96,000 square foot operation center in Colorado Springs. The overall office market for year-end 2006 saw a nominal drop in vacancy rates to 10.26% from 11% compared to year-end 2005. Class "A" office statistics point to an overall vacancy rate of 14.5% for 2006 as compared to 17.01% for 2005. Along with improved occupancy rates, net rents for new product developed in 2007 are expected to run in the \$17.00 to \$20.00 per square foot range. The future for this office market looks extremely bright in 2007 and the trend continues to shift towards a landlord market.



## GREATER PHOENIX COMMERCIAL REAL ESTATE POISED FOR CONTINUED GROWTH

As the pre-development team continues to work with the City of Prescott Valley and Flagstaff to advance Cavan project plans, the focus has also included potential local acquisitions. Collected market data continues to provide strong support for the properties in Phoenix which the Cavan Opportunity Fund currently has under contract. Economists predict a superior year for the Greater Phoenix commercial real estate market. In 2007, it is anticipated that investors will continue to direct funds into the area, rents will grow in all major sectors, and more buildings will be constructed while vacancies will remain stable. Many factors are driving our current real estate market, primary among them are population and job growth.

The Valley has been the choice of many companies that find it more business-friendly than other regions. Just a six-hour drive from the ports of California, where products can be distributed rapidly to global markets, the Valley's close proximity also affords residents the opportunity to weekend on the coast without boarding a plane. Location and weather are expected to continue to attract future Arizonans to our growing community.

As 2006 ended, job growth in the nation exceeded expectations of most economic forecasts, including that of economist Steven Weiting of Citigroup. As a result, millions of square feet of office space were absorbed throughout the U.S., and submarkets got a healthy boost from the strong job creation. As the population of Phoenix maintains a steady growth rate of 3.3%, outpacing the national rate in recent years, local job growth has comparably outperformed job growth nationally. During the year, nearly 100,000 new jobs were created in Arizona, the fourth highest of any state.

Due to the increases in population and employment, office rents are rising and vacancy rates are falling. As construction of commercial office buildings continues at a brisk pace, it is believed there is still a shortage of available space. Although this underdevelopment could hamper Arizona's ability to attract companies that wish to move in quickly, our pre-development team sees this condition as an opportunity to target specific areas with the highest potential value in the Phoenix real estate market.