

EXECUTIVE SUMMARY

ACTION ITEM: Approval of a 10-Year Lease Agreement with Paramount Partners L.L.C.

ISSUE: Northern Arizona University requests Board approval to enter into a 10-year lease agreement with Paramount Partners L.L.C., an Arizona limited liability company, for 39,950 square feet of space located in the Arizona Business Park in Phoenix.

PROJECT BACKGROUND:

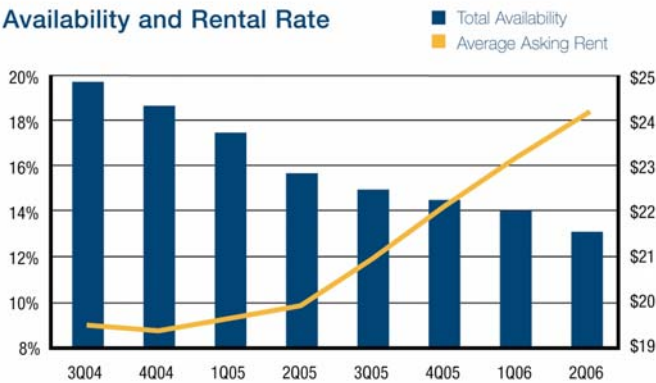
- The proposed lease location is on the west side of I-17 between Bell and Greenway Roads; I-17 is the busiest interstate in Phoenix. Signage will be clearly visible from I-17 to the north, south and east. The building is located in the Arizona Business Park with a concentration of entry, mid-level and executive employees who would be a ready market for Northern Arizona University's bachelor and masters programs. The building has 7.2 parking spaces per 1000 square feet which is higher than standard office or commercial space. Students in classrooms require more parking spaces than typical office facilities.
- The terms of the lease include a 10 year renewable lease with the option to purchase. Lease includes a \$400,000 tenant improvement allowance. The rentable space is 39,950 square feet at \$14.50 NNN per square foot in the Arizona Business Park located at 15601 N. 28th Avenue in Phoenix. The lease contains a 2.8% inflation factor for annual rent increases per square foot. The attached market study confirms the valuation of the space.
- Northern Arizona University's mission and strategic direction include providing access to higher education throughout the State of Arizona. NAU maintains campuses throughout Arizona that offer numerous alternatives to the traditional learning experience including evening, weekend and accelerated classes.
- The proposed allied health program initiatives will require dedicated space statewide, including Maricopa County. These programs will include a variety of disciplines currently offered by NAU, as well as others that could be added to the NAU program portfolio, in particular programs not currently offered in Arizona by a public university. These allied health programs will be aligned to complement the offerings of the University of Arizona and Arizona State University.
- Faculty, academic, student services, grant-funded and administrative staff will be relocated from the current leased spaces on 3rd Street in Phoenix and from the Paradise Valley Community College campus. All University functions in the 3rd Street offices would be moved, and all but some advising staff/faculty would be moved off the Paradise Valley Community College campus. Paradise Valley Community College has been urging the University to find other leased space so they can use the freed space to meet increasing student enrollments on their campus.
- Several of the University's Maricopa County Community College partners have expressed interest in offering classes in the lease location. Bachelor completion programs where the community college offers the first two years and the University provides the last two years of the degree work well in a single facility.

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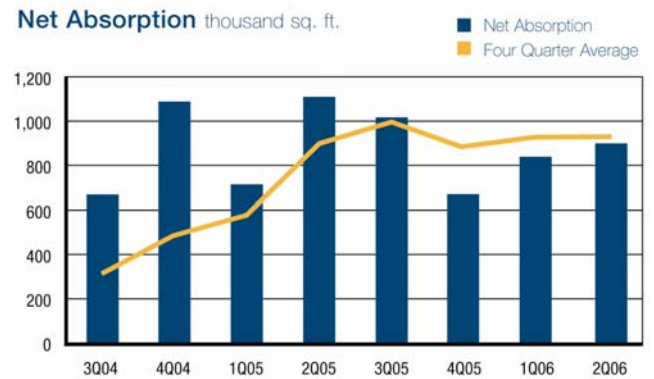
Metro Phoenix: Midyear 2006 Office Market Overview

Job growth in the valley is expected to jump 5.5% for 2006, and with a current unemployment rate of 3.7%, the Arizona economy remains strong. The Phoenix market should continue to see lower availability rates, higher construction levels and increasing rental rates due to variables such as new tenants moving to the Valley as well as existing tenants expanding into new space. The Phoenix market is expected to deliver roughly 3.2 million sq. ft. in 2006, despite the expectation that construction costs are expected to rise 1.5% per month for the next 12 months.

Availability and Rental Rate



Net Absorption thousand sq. ft.



For the purpose of this Overview all rental rates are quoted on a full service basis.

Phoenix Statistical Summary

Submarket	Total Inventory	Under Construction	New Deliveries	Total Availability	Net Absorption 2nd Quarter	Net Absorption Year-to-Date	Average Asking Rent
Central Market	28,738,348	40,000	-	13.3%	269,372	885,400	\$22.88
Northeast Market	14,890,266	1,804,661	404,921	10.4%	456,752	691,678	\$27.61
Southeast Market	10,371,603	655,495	87,000	12.4%	185,275	205,481	\$23.51
West Market	9,363,909	957,882	84,600	18.6%	-7,521.00	-44,160	\$22.20
Total	63,364,126	3,458,038	576,521	13.2%	903,878	1,738,399	\$24.15

This report includes all multi-tenant, Class A, B and C office properties 10,000 sq. ft. or larger, excluding condo and medical office facilities and those properties owned and occupied by a government agency.

Supply

Construction remains strong

Despite rising construction costs, construction levels grew during the second quarter to nearly 3.5 million sq. ft. currently under construction. Although the Northeast market leads the way with 1.8 million sq. ft. of new product, the West market is starting to gain momentum with 958,000 sq. ft. currently under construction.

Office completions are down as most current construction is slated for a late 2006 or early 2007 delivery. Current quarter completions totaled 576,521 sq. ft. The vast majority of completions, 404,921 sq. ft., occurred in the Northeast market.

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Demand

Phoenix continues near record pace

The Phoenix office market was again strong during the second quarter with absorption exceeding 900,000 sq. ft. The Northwest market had the strongest gain, absorbing 456,752 sq. ft. The West market experienced a slight negative absorption due to Qwest and other tenants leaving 120,000 sq. ft. of Class A space.

All three Scottsdale submarkets experienced strong absorption, led by the Scottsdale Airpark submarket with 204,764 sq. ft. The Scottsdale location has and is continuing to attract major tenants such as Allied Waste and Ryland Group.

Availability

With demand strong, availability declines

For the 14th consecutive quarter, the Phoenix availability has decreased. The overall Phoenix market ended in midyear 2006 at 13.2%. This is the lowest availability rate since year-end 2000.

The Southeast market saw the largest decline from the first quarter, down 1.1% to end at 12.4% overall. This is down four percentage points from midyear 2005. The West market saw an increase of almost a full point from last quarter to finish midyear at 18.6%, primarily due to new construction.

Rental Rates

Rates still increasing to record numbers

The overall Phoenix average rental rate increased from the first quarter, jumping \$0.98 to \$24.15 per sq. ft. This is the highest overall average rental rate Phoenix has ever experienced. With some current lease deals starting in the mid-to high \$30.00 range, Class A average rates have increased 15% since midyear 2005 to \$26.90.

The Northeast market again has the highest average rate of \$26.61, 12.5% higher than the overall Phoenix average. The largest gain in rates, however, occurred in the West market, where the average rental rate increased \$1.51 to end at \$22.20.

Submarket Overview

The subject property, 15601 N. 28th Avenue, is located in the North West Phoenix office market, specifically the Deer Valley submarket. This submarket is comprised of 39 office buildings totaling 2,411,872 rentable square feet. Class "A" comprises 10 buildings totaling 1,133,088 rsf, Class "B" comprises 25 buildings totaling 1,191,052 rsf and Class "C" comprises 4 buildings totaling 87,732 rsf. This submarket has an overall direct vacancy of 358,810 rsf or 14.9%.

New Construction

Currently, there are three (3) buildings under construction totaling 250,000 rsf with an average asking rate of \$24.00 to \$26.00 per square foot.

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Rental Rates

Rental rates in the Deer Valley submarket continue to rise. In the 2nd Quarter of 2004, Class "A" rates ranged from \$20.00 to \$22.00 psf. Today Class "A" rates range from \$23.00 to \$26.00 psf. Class "B" in the 2nd Quarter of 2004 ranged from \$18.00 to \$20.00 psf. Today, those same buildings are asking and getting rates of on the low side \$19.50 psf up to \$25.00 psf on a full service basis.

Competitive Buildings Survey

Please see attached survey

Because the property is currently occupied by the University of Phoenix, it has an existing build out that is unique to that submarket. In most cases, the available space is in shell or 2nd generation condition, which to convert to class room condition would cost in excess of \$40/psf. Most Landlords will contribute between \$5.00 to \$15.00 psf on Tenant Improvement dollars to help a Tenant build out 2nd generation space. That means that the additional TI cost would be borne by the Tenant either by paying a higher rental rate or having to pay the owner the difference at the start of the lease.

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Trammell Crow Company

Building Address	15601 North 28th Avenue Subject Property	2626 West Beryl Avenue	16404 North Black Canyon Hwy	Rose Garden Commerce Center 2411 W. Rose Garden Ln.
Total Size (SF)	39,950	41,886	229,000	68,600
Available Space (SF)	39,950	41,886	152,286	30,000
Lgst Contiguous Avail (SF)	19,975	41,886	152,286	30,000
Typical Floor Plate (SF)	19,975	20,943	114,500	68,600
Sublease Available	0	0	0	0
Quoted Rental Rates	\$15.00 NNN	\$15.00 - \$16.00 NNN	\$14.50 - \$15.50 NNN	\$16.00 NNN
TI Allowance	\$5.00 - \$8.00	\$12.00 - \$15.00	\$12.00 - \$15.00	\$10.00 - \$12.00
Parking Ratio/Rates	7.2:1000 / free	4:1000	6:1000 \$30.00 cov	6:1000 \$30.00 cov
Year Built	1996	1982	1980	1998
Amenities	Existing school Freeway signage	Freeway signage	Freeway signage	Monument signage
Comments:	2-story	2-story	Single story Existing school in place	Space is in wide open condition.