



## Industrial Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

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### Market Highlights

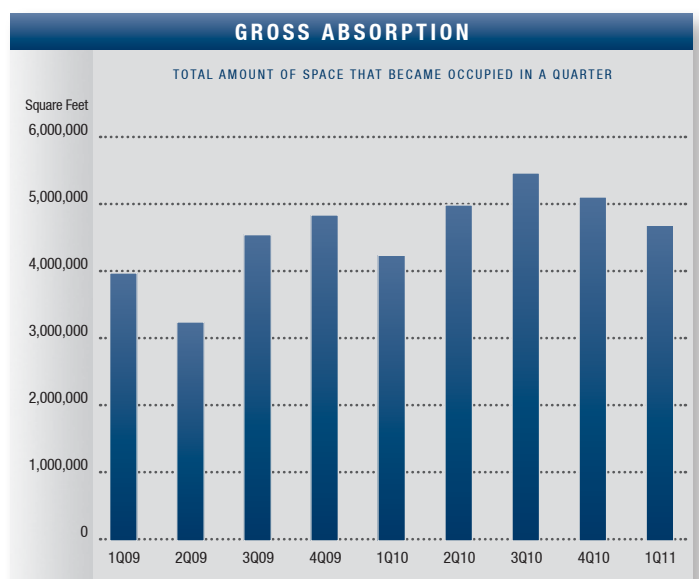
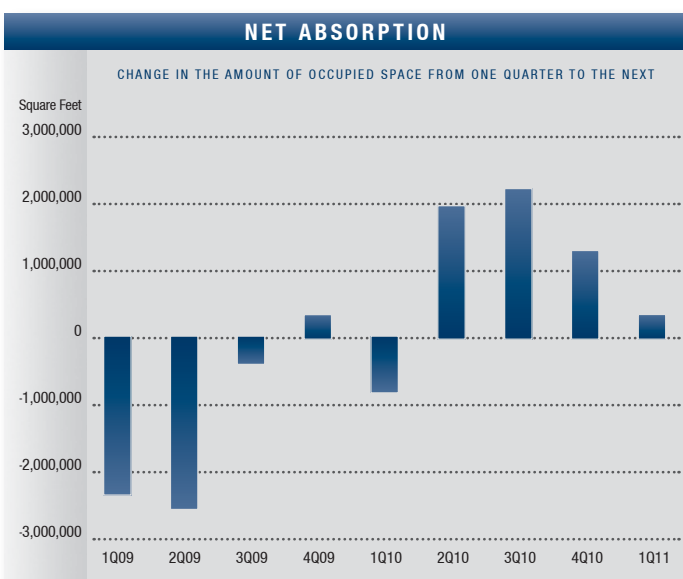
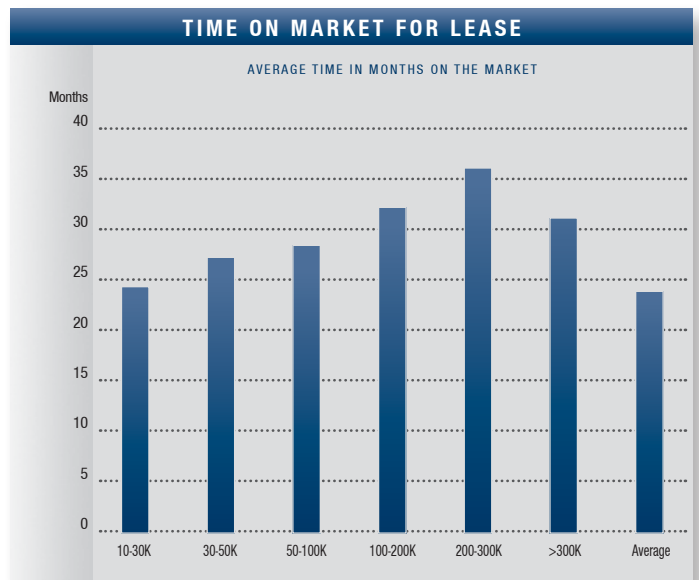
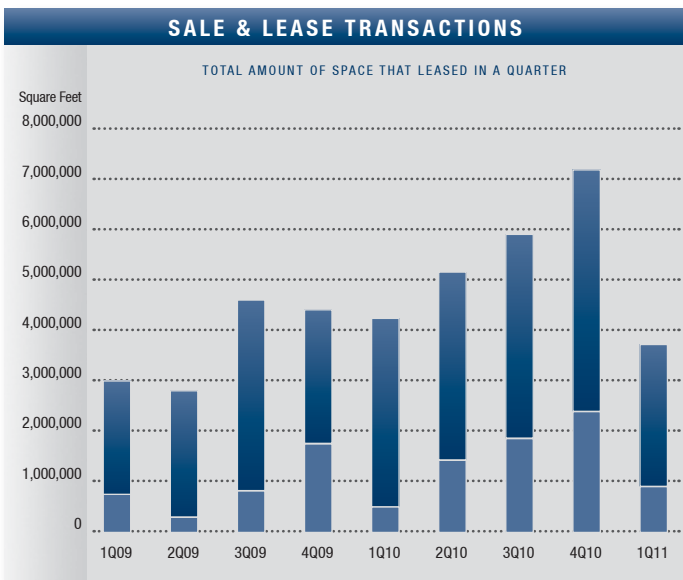
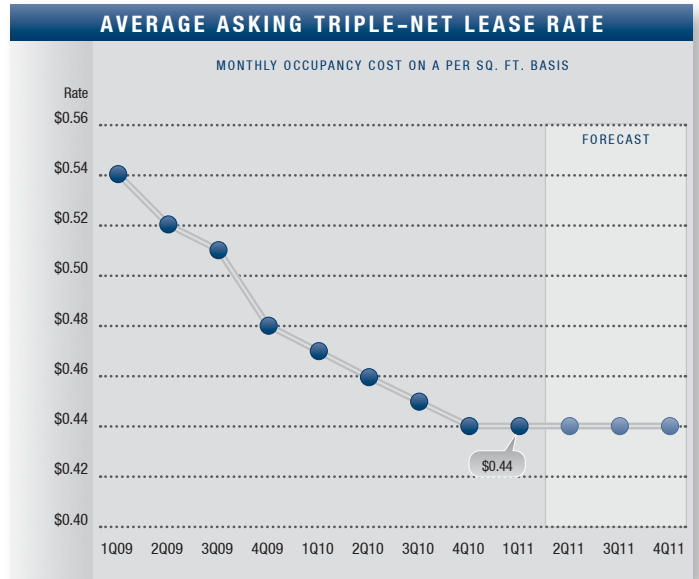
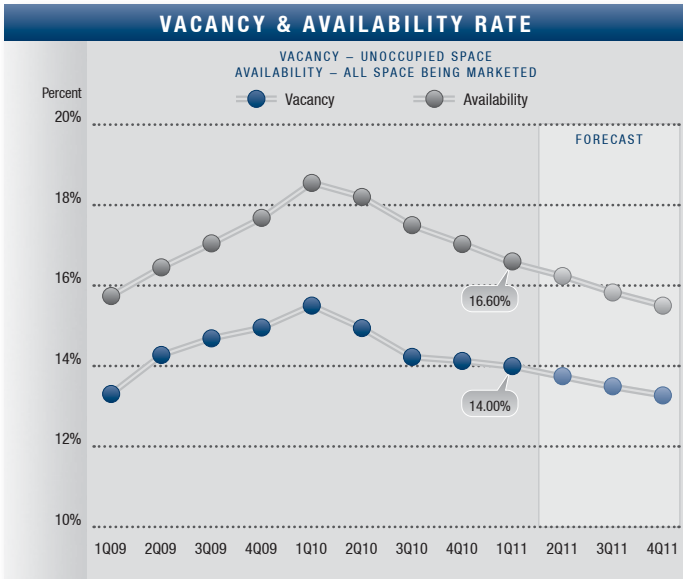
- **Encouraging Numbers** - The Phoenix industrial market conveyed more promise of stabilization in the first quarter of 2011. Availability continued its descent from its peak in the first quarter of 2010, vacancy rates trended downward, and net absorption was positive for four consecutive quarters. Demand picked up, with Labor Day marking the beginning of a renewed interest in sales transactions, and tenants began signing longer lease commitments. While these are positive indications, stability and job growth will need to be sustained in coming quarters to be considered recovery.
- **Construction** - There was only 160,000 square feet of industrial construction underway in the first quarter of 2011. Scarce financing and low demand have essentially halted industrial development.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 14.00% – lower than the 2010's fourth quarter figure of 14.10% and a significant drop from the year-ago rate of 15.5%. The Northeast market posted the lowest rate in the county at 10.36%.
- **Availability** - Direct/sublease space being marketed was 16.6% at the end of the first quarter 2011, a decrease of 10.32% when compared to the 18.51% seen in the same quarter of 2010.
- **Lease Rates** - The average asking-triple net lease rate was \$.44 cents per square foot per month in the first quarter, the same as the previous quarter and six cents lower than 2010's fourth quarter rate. The record high for asking lease rates, \$.59, was recorded in the first quarter of 2007.
- **Absorption** - The Phoenix industrial market posted 369,035 square feet of positive absorption in the beginning

of 2011, producing a total of 5.75 million square feet of positive absorption over the past four quarters.

- **Transaction Activity** - Leasing activity checked in at 2.8 million square feet for the Phoenix industrial market in the first quarter of 2011, a decrease from 2010's 3.7 million square feet of leasing activity. Sales activity showed a significant increase since the first quarter of 2010, posting 860,000 square feet of activity as compared to the 480,000 square feet of the previous year. Details of the largest transactions can be found on the back page of this report.
- **Unemployment** - The unemployment rate in the Phoenix-Mesa-Glendale Metropolitan area was 8.8% in February 2011, down from a revised 9.3% in January 2011 and lower than the 2010 estimate of 9.2%. This compares with an unadjusted unemployment rate of 9.6% for Arizona and 9.5% for the nation during the same period.
- **Overall** - We are beginning to see a decrease in the amount of available space being added to the market per quarter. Positive absorption is the big story, and with few new deliveries in the pipeline to drive up vacancy, the market is beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders continue to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, relocation funds and tenant improvement allowances should continue to motivate tenants to quick action. We should also see an increase in leasing activity as many short-term deals come up for renewal and as job creation continues in 2011. As unemployment rates drop and consumer confidence stabilizes, the industrial market will continue to regain equilibrium.

### INDUSTRIAL MARKET OVERVIEW

|                           | 1Q2011    | 4Q2010    | 1Q2010    | % Change vs. 1Q2010 |
|---------------------------|-----------|-----------|-----------|---------------------|
| Vacancy Rate              | 14.00%    | 14.10%    | 15.50%    | (9.68%)             |
| Availability Rate         | 16.60%    | 17.03%    | 18.51%    | (10.32%)            |
| Average Asking Lease Rate | \$0.44    | \$0.44    | \$0.47    | (6.38%)             |
| Sale & Lease Transactions | 3,668,893 | 7,116,403 | 4,172,996 | (12.08%)            |
| Gross Absorption          | 4,392,193 | 5,087,258 | 4,248,771 | 3.38%               |
| Net Absorption            | 369,035   | 1,271,791 | (836,187) | N/A                 |



|                                  | INVENTORY        |                          |                   |                     | VACANCY & LEASE RATES |                     |                       |                          |                           | ABSORPTION            |                     |                         |                       |
|----------------------------------|------------------|--------------------------|-------------------|---------------------|-----------------------|---------------------|-----------------------|--------------------------|---------------------------|-----------------------|---------------------|-------------------------|-----------------------|
|                                  | Number of Bldgs. | Net Rentable Square Feet | Square Feet U / C | Square Feet Planned | Square Feet Vacant    | Vacancy Rate 1Q2011 | Square Feet Available | Availability Rate 1Q2011 | Average Asking Lease Rate | Net Absorption 1Q2011 | Net Absorption 2011 | Gross Absorption 1Q2011 | Gross Absorption 2011 |
| <b>Airport Area</b>              |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| North Airport                    | 295              | 10,708,466               | 0                 | 61,536              | 1,607,567             | 15.01%              | 2,052,646             | 19.17%                   | \$0.42                    | (82,239)              | (82,239)            | 129,289                 | 129,289               |
| South Airport North of Roeser    | 319              | 10,735,598               | 0                 | 17,560              | 1,644,721             | 15.32%              | 1,925,994             | 17.94%                   | \$0.49                    | 13,901                | 13,901              | 354,434                 | 354,434               |
| South Airport South of Roeser    | 120              | 3,966,218                | 0                 | 0                   | 667,194               | 16.82%              | 720,272               | 18.16%                   | \$0.53                    | 109,187               | 109,187             | 145,605                 | 145,605               |
| SC North of Roeser               | 363              | 14,013,607               | 0                 | 0                   | 1,935,579             | 13.81%              | 2,338,716             | 16.69%                   | \$0.42                    | (47,259)              | (47,259)            | 175,054                 | 175,054               |
| SC South of Roeser               | 50               | 1,459,439                | 0                 | 0                   | 102,682               | 7.04%               | 182,136               | 12.48%                   | \$0.53                    | 2,100                 | 2,100               | 2,100                   | 2,100                 |
| <b>Airport Area Total</b>        | <b>1,147</b>     | <b>40,883,328</b>        | <b>0</b>          | <b>79,096</b>       | <b>5,957,743</b>      | <b>14.57%</b>       | <b>7,219,764</b>      | <b>17.66%</b>            | <b>\$0.45</b>             | <b>(4,310)</b>        | <b>(4,310)</b>      | <b>806,482</b>          | <b>806,482</b>        |
| <b>Northeast</b>                 |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Central Phoenix                  | 114              | 4,178,360                | 0                 | 0                   | 168,848               | 4.04%               | 180,121               | 4.31%                    | \$0.59                    | (1,338)               | (1,338)             | 12,270                  | 12,270                |
| Scottsdale Airpark               | 255              | 5,358,861                | 0                 | 0                   | 951,339               | 17.75%              | 1,064,028             | 19.86%                   | \$0.66                    | 25,610                | 25,610              | 166,673                 | 166,673               |
| Scottsdale/Salt River            | 94               | 4,672,823                | 0                 | 0                   | 337,323               | 7.22%               | 389,946               | 8.34%                    | \$0.81                    | 3,505                 | 3,505               | 23,855                  | 23,855                |
| <b>Northeast Total</b>           | <b>463</b>       | <b>14,210,044</b>        | <b>0</b>          | <b>0</b>            | <b>1,457,510</b>      | <b>10.26%</b>       | <b>1,634,095</b>      | <b>11.50%</b>            | <b>\$0.69</b>             | <b>27,777</b>         | <b>27,777</b>       | <b>202,798</b>          | <b>202,798</b>        |
| <b>Northwest</b>                 |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Deer Valley/Pinnacle Park        | 421              | 13,415,072               | 0                 | 351,626             | 1,877,033             | 13.99%              | 2,280,794             | 17.00%                   | \$0.68                    | (57,163)              | (57,163)            | 191,936                 | 191,936               |
| Glendale                         | 75               | 4,232,457                | 126,000           | 1,953,980           | 758,350               | 17.92%              | 470,563               | 11.12%                   | \$0.54                    | 29,977                | 29,977              | 37,917                  | 37,917                |
| Grand Avenue                     | 297              | 13,389,769               | 0                 | 545,090             | 1,061,838             | 7.93%               | 1,558,170             | 11.64%                   | \$0.35                    | 93,119                | 93,119              | 133,344                 | 133,344               |
| North Glendale/Sun City          | 94               | 4,231,381                | 0                 | 89,714              | 769,377               | 18.18%              | 829,990               | 19.62%                   | \$0.48                    | 64,174                | 64,174              | 88,682                  | 88,682                |
| North Black Canyon               | 126              | 3,527,083                | 0                 | 0                   | 295,543               | 8.38%               | 367,630               | 10.42%                   | \$0.29                    | 43,739                | 43,739              | 104,322                 | 104,322               |
| West Phoenix North of Thomas Rd. | 259              | 6,839,091                | 0                 | 0                   | 758,902               | 11.10%              | 909,054               | 13.29%                   | \$0.38                    | 3,685                 | 3,685               | 73,285                  | 73,285                |
| West Phoenix South of Thomas Rd. | 223              | 6,246,224                | 0                 | 0                   | 563,934               | 9.03%               | 633,283               | 10.14%                   | \$0.44                    | 29,399                | 29,399              | 62,217                  | 62,217                |
| <b>Northwest Total</b>           | <b>1,495</b>     | <b>51,881,077</b>        | <b>126,000</b>    | <b>2,940,410</b>    | <b>6,084,977</b>      | <b>11.73%</b>       | <b>7,049,484</b>      | <b>13.59%</b>            | <b>\$0.56</b>             | <b>206,930</b>        | <b>206,930</b>      | <b>691,703</b>          | <b>691,703</b>        |
| <b>Pinal County</b>              |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Pinal County                     | 123              | 7,004,254                | 0                 | 739,500             | 547,018               | 7.81%               | 663,513               | 9.47%                    | \$0.31                    | 69,515                | 69,515              | 91,015                  | 91,015                |
| <b>Pinal County Total</b>        | <b>123</b>       | <b>7,004,254</b>         | <b>0</b>          | <b>739,500</b>      | <b>547,018</b>        | <b>7.81%</b>        | <b>663,513</b>        | <b>9.47%</b>             | <b>\$0.31</b>             | <b>69,515</b>         | <b>69,515</b>       | <b>91,015</b>           | <b>91,015</b>         |
| <b>Southeast</b>                 |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Chandler Airport                 | 43               | 1,490,603                | 0                 | 731,921             | 383,995               | 25.76%              | 377,574               | 25.33%                   | \$0.59                    | 20,387                | 20,387              | 28,094                  | 28,094                |
| Chandler                         | 260              | 15,019,864               | 0                 | 1,016,534           | 1,597,204             | 10.63%              | 1,889,073             | 12.58%                   | \$0.62                    | 42,656                | 42,656              | 156,291                 | 156,291               |
| Chandler North/Gilbert           | 437              | 13,494,586               | 40,000            | 1,652,996           | 2,574,266             | 19.08%              | 3,141,273             | 23.28%                   | \$0.52                    | 84,970                | 84,970              | 245,166                 | 245,166               |
| Falcon Fld/Apache Junction       | 109              | 4,723,231                | 0                 | 0                   | 442,931               | 9.38%               | 539,559               | 11.42%                   | \$0.51                    | (83,653)              | (83,653)            | 44,389                  | 44,389                |
| Mesa                             | 192              | 6,265,815                | 0                 | 271,142             | 1,096,914             | 17.51%              | 1,227,019             | 19.58%                   | \$0.61                    | 8,858                 | 8,858               | 228,932                 | 228,932               |
| Tempe East                       | 188              | 5,422,680                | 0                 | 0                   | 498,104               | 9.19%               | 738,898               | 13.63%                   | \$0.58                    | (24,300)              | (24,300)            | 100,706                 | 100,706               |
| Tempe Northwest                  | 226              | 8,506,974                | 0                 | 0                   | 819,911               | 9.64%               | 1,754,234             | 20.62%                   | \$0.53                    | (35,479)              | (35,479)            | 79,311                  | 79,311                |
| Tempe Southwest                  | 436              | 18,170,054               | 0                 | 476,000             | 1,730,442             | 9.52%               | 2,571,608             | 14.15%                   | \$0.46                    | 2,404                 | 2,404               | 347,952                 | 347,952               |
| <b>Southeast Total</b>           | <b>1,891</b>     | <b>73,093,807</b>        | <b>40,000</b>     | <b>4,148,593</b>    | <b>9,143,767</b>      | <b>12.51%</b>       | <b>12,239,238</b>     | <b>16.74%</b>            | <b>\$0.54</b>             | <b>15,843</b>         | <b>15,843</b>       | <b>1,230,841</b>        | <b>1,230,841</b>      |
| <b>Southwest</b>                 |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Goodyear                         | 88               | 8,200,721                | 0                 | 4,606,800           | 2,367,172             | 28.87%              | 1,759,558             | 21.46%                   | \$0.42                    | (81,889)              | (81,889)            | 276,977                 | 276,977               |
| Southwest North of Buckeye Rd.   | 537              | 30,092,363               | 0                 | 243,400             | 3,833,269             | 12.74%              | 5,391,917             | 17.92%                   | \$0.29                    | 127,477               | 127,477             | 613,437                 | 613,437               |
| Southwest South of Buckeye Rd.   | 186              | 13,254,226               | 0                 | 20,132              | 1,712,133             | 12.92%              | 1,854,144             | 13.99%                   | \$0.31                    | 216,342               | 216,342             | 270,102                 | 270,102               |
| Tolleson                         | 170              | 26,575,542               | 0                 | 547,466             | 6,031,413             | 22.70%              | 6,198,009             | 23.32%                   | \$0.32                    | (208,650)             | (208,650)           | 208,838                 | 208,838               |
| <b>Southwest Total</b>           | <b>981</b>       | <b>78,122,852</b>        | <b>0</b>          | <b>5,417,798</b>    | <b>13,943,987</b>     | <b>17.85%</b>       | <b>15,203,628</b>     | <b>19.46%</b>            | <b>\$0.32</b>             | <b>53,280</b>         | <b>53,280</b>       | <b>1,369,354</b>        | <b>1,369,354</b>      |
| <b>Phoenix Total</b>             | <b>6,100</b>     | <b>265,195,362</b>       | <b>166,000</b>    | <b>13,325,397</b>   | <b>37,135,002</b>     | <b>14.00%</b>       | <b>44,009,722</b>     | <b>16.60%</b>            | <b>\$0.44</b>             | <b>369,035</b>        | <b>369,035</b>      | <b>4,392,193</b>        | <b>4,392,193</b>      |
| 10,000 – 29,999                  | 3,788            | 64,250,028               | 0                 | 1,015,193           | 8,381,947             | 13.05%              | 10,279,163            | 16.00%                   | \$0.54                    | (96,215)              | (96,215)            | 1,297,449               | 1,297,449             |
| 30,000 – 49,999                  | 1,023            | 39,037,934               | 40,000            | 692,189             | 5,813,937             | 14.89%              | 7,396,822             | 18.95%                   | \$0.48                    | 295,784               | 295,784             | 731,463                 | 731,463               |
| 50,000 – 99,999                  | 816              | 56,194,682               | 126,000           | 735,989             | 6,632,074             | 11.80%              | 8,366,070             | 14.89%                   | \$0.46                    | 308,439               | 308,439             | 839,775                 | 839,775               |
| 100,000 – 199,999                | 312              | 41,228,393               | 0                 | 1,506,488           | 6,757,164             | 16.39%              | 8,552,797             | 20.74%                   | \$0.41                    | (559,858)             | (559,858)           | 409,317                 | 409,317               |
| 200,000 – 299,999                | 82               | 19,711,683               | 0                 | 734,073             | 2,060,095             | 10.45%              | 2,811,358             | 14.26%                   | \$0.32                    | 145,861               | 145,861             | 574,307                 | 574,307               |
| 300,000+                         | 79               | 44,772,642               | 0                 | 8,641,465           | 7,489,785             | 16.73%              | 6,603,512             | 14.75%                   | \$0.38                    | 275,024               | 275,024             | 539,882                 | 539,882               |
| <b>Total</b>                     | <b>6,100</b>     | <b>265,195,362</b>       | <b>166,000</b>    | <b>13,325,397</b>   | <b>37,135,002</b>     | <b>14.00%</b>       | <b>44,009,722</b>     | <b>16.60%</b>            | <b>\$0.44</b>             | <b>369,035</b>        | <b>369,035</b>      | <b>4,392,193</b>        | <b>4,392,193</b>      |

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sale Transactions

| Property Address                    | Submarket | Square Feet | Sale Price PSF | Buyer                             | Seller                               |
|-------------------------------------|-----------|-------------|----------------|-----------------------------------|--------------------------------------|
| 560 N. 54th St. – 9 Properties      | Chandler  | 552,370     | \$55.13        | Alliance Commercial Partners, LLC | RREEF America, LLC                   |
| 1610 N. Rosemont St. – 3 Properties | Mesa      | 77,190      | \$48.22        | Hyatt Investments USA, LLP        | Dickinson Financial Corporation      |
| 2655 W. Georgia Ave.                | Phoenix   | 77,631      | \$27.70        | Love International Ministries     | Stapes, Inc.                         |
| 301 N. 45th Ave.                    | Phoenix   | 76,950      | \$29.40        | Mason Properties, Inc.            | Bayfield Development Company, Inc.   |
| 3010 E. Elwood St.                  | Phoenix   | 60,774      | \$52.65        | Essai, Inc.                       | General Electric Capital Corporation |
| 7071 W. Frye Rd.                    | Chandler  | 44,407      | \$55.00        | ArmorWorks                        | DSI Development Specialists          |

Lease Transactions

| Property Address              | Submarket | Square Feet | Transaction Date | Tenant                       | Owner                              |
|-------------------------------|-----------|-------------|------------------|------------------------------|------------------------------------|
| 2950 S. Litchfield Rd.        | Goodyear  | 262,080     | Mar-11           | Mach 1 Global Services, Inc. | Green Thelma                       |
| 402 N. 44th Ave.              | Phoenix   | 221,116     | Jan-11           | i/o Data Centers             | ProLogis                           |
| 17300 W. Broadway Rd.         | Goodyear  | 153,969     | Mar-11           | Schoeller Arca Systems, Inc. | BET Investments, Inc.              |
| 4302 W. Buckeye Rd. – Renewal | Phoenix   | 153,870     | Jan-11           | Humana, Inc.                 | Artis Real Estate Investment Trust |
| 6718 S. Harl Ave. – Renewal   | Tempe     | 84,250      | Feb-11           | Bunzl Distribution           | RREEF America, LLC                 |
| 301 N. 454th Ave.             | Phoenix   | 76,950      | Feb-11           | Taymor Industries, Inc.      | Mason Properties, Inc.             |

Product Type

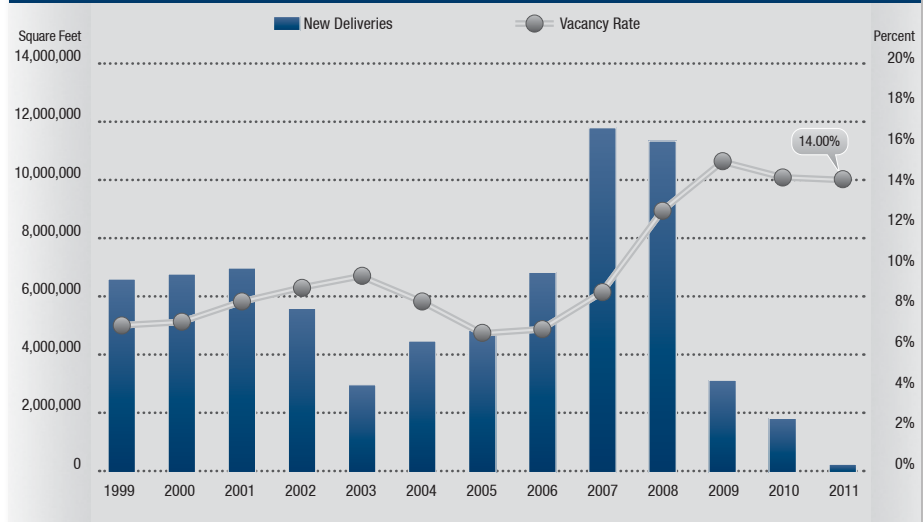
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