



## Flex / R&D Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

UP

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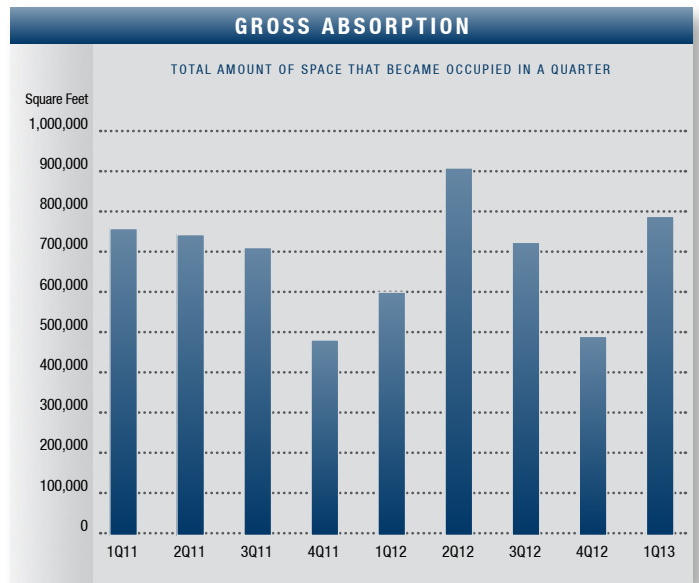
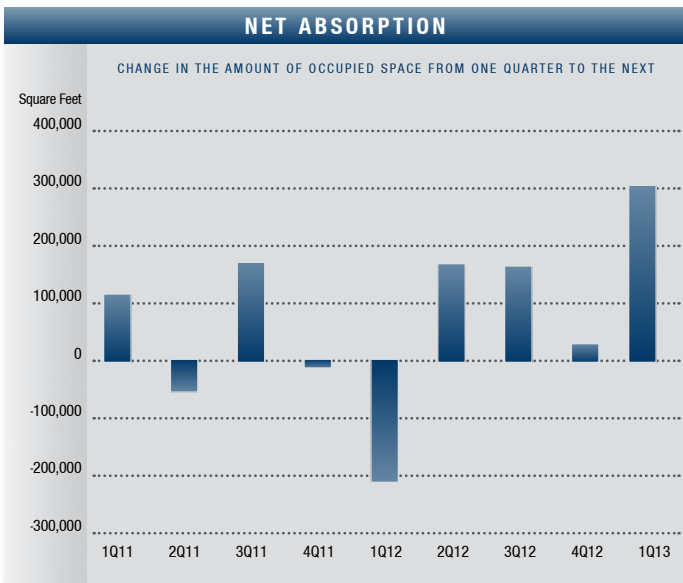
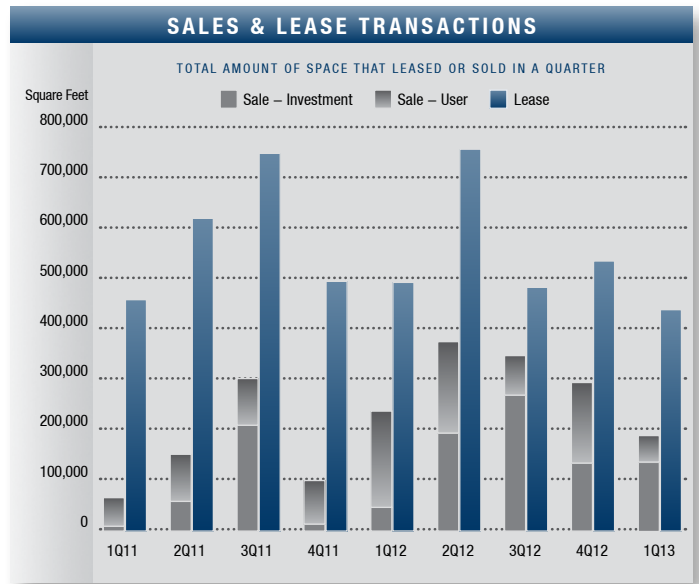
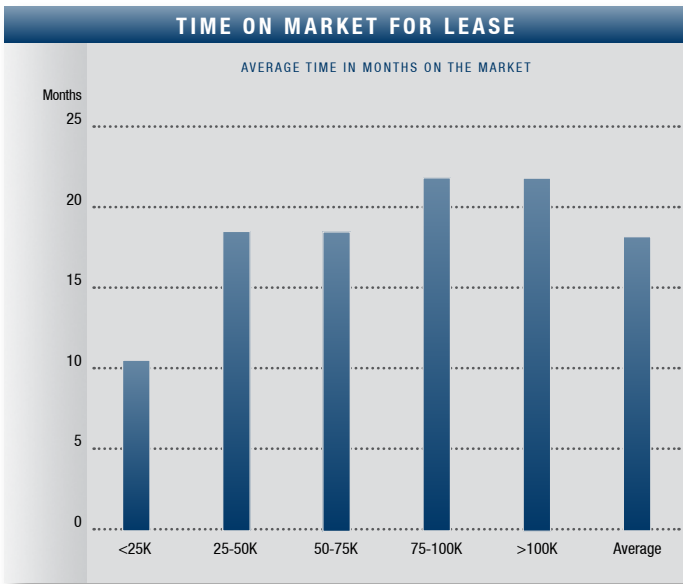
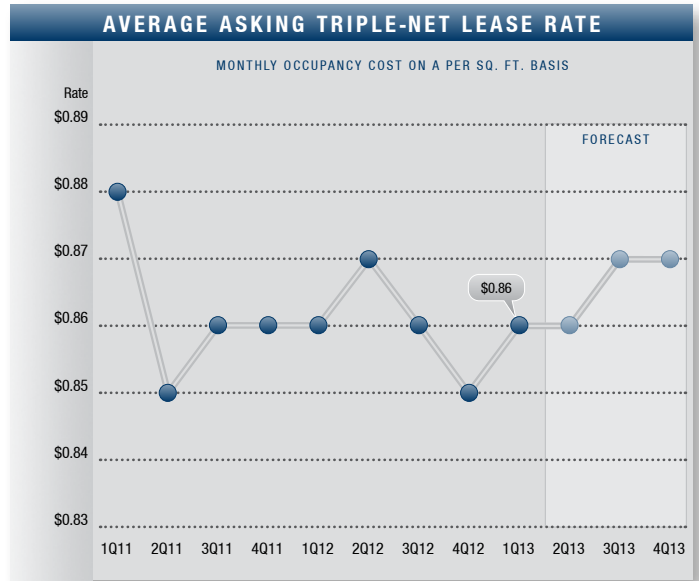
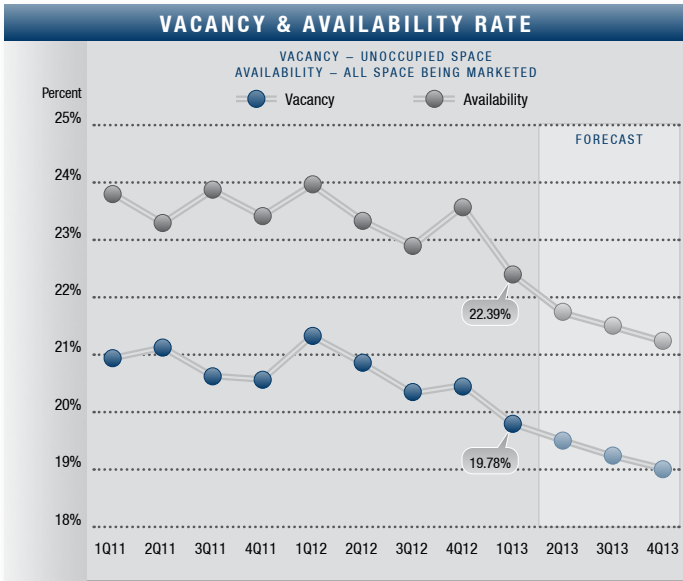
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### Market Highlights

- Stability** - The Phoenix flex/R&D market conveyed indications of continued stabilization in first quarter of 2013. Both vacancy and availability decreased from the previous quarter, and net absorption posted a positive figure of 301,065 square feet in the first quarter. While these are indications that the market is moving in a good direction, stability and job growth will be needed in coming quarters to continue to bolster this recovery.
- Construction** - There was 246,700 square feet of flex/R&D construction underway at the end of the first quarter, well below the market's peak in the second half of 2007. All of this construction occurred in the Southeast and Airport Area submarkets.
- Vacancy** - Direct/sublease space (unoccupied) exhibited a healthy decrease to 19.78% from the previous quarter's rate of 20.45%. The Airport Area market posted the lowest rate in the county at 15.75%.
- Availability** - Direct/sublease space being marketed was 22.39% at the end the first quarter, a relatively modest decline of just over 6.5% when compared to the 23.97% rate of the same quarter of 2012.
- Lease Rates** - The average asking triple-net lease rate was \$.86 per square foot per month in the first quarter of 2013, one cent higher than the previous quarter's rate and flat compared to the previous year's rate, indicating stability. The highest asking lease rate of \$1.10 was recorded in the Deer Valley area.
- Absorption** - The Phoenix flex/R&D market posted 301,065 square feet of positive absorption in the first quarter of 2013, marking the fourth consecutive quarter of positive absorption and giving the market a total of 659,417 square feet since the second quarter of 2012.
- Transaction Activity** - Leasing activity checked in at 431,531 square feet for the Phoenix flex/R&D market in the first quarter of 2013, a drop from 2012's fourth quarter figure of 529,284 square feet. Sales activity dropped, posting 182,095 square feet of activity as compared to the fourth quarter's 284,347 square feet. Both lease and sale activity remained relatively equal to the amount posted in the first quarter of 2012. 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 6.8% in January 2013, a healthy decrease from January 2012's rate of 7.9%. Sectors with strong job growth include trade, transportation, utilities driven by retail trade, and professional and business services (largely in the administrative and support services area). In addition, the beleaguered construction industry made substantial strides over the past 12 months, with the addition of 6,000 jobs, while the financial activities sector also gained traction, aided by Wells Fargo's addition of 1,000 to local staff.
- Overall** - We are seeing a continued decrease in available and vacant space and a subsequent increase in net occupancy, which is helping asking lease rates to stabilize and begin to increase. We anticipate that lease rates will continue to gradually rise during the second half of 2013. While these are certainly positives, cautious optimism still prevails, as job creation will need to continue in order to drive the demand needed to sustain growth in the Phoenix flex/R&D market.

### FLEX / R & D MARKET OVERVIEW

	1Q13	4Q12	1Q12	% of Change vs. 1Q12
Total Vacancy Rate	19.78%	20.45%	21.30%	(7.14%)
Availability Rate	22.39%	23.53%	23.97%	(6.59%)
Average Asking Lease Rate	\$0.86	\$0.85	\$0.86	0.00%
Sale & Lease Transactions	613,626	813,631	717,222	(14.44%)
Gross Absorption	784,117	487,954	593,276	32.17%
Net Absorption	301,065	26,537	(211,983)	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 1Q2013	Square Feet Available	Availability Rate 1Q2013	Average Asking Lease Rate	Net Absorption 1Q2013	Net Absorption 2012	Gross Absorption 1Q2013	Gross Absorption 2012
<b>Airport Area</b>													
North Airport	41	1,416,159	0	0	309,827	21.88%	358,851	25.34%	\$0.63	6,676	64,638	17,782	112,198
South Airport North of Roeser	57	2,373,037	0	50,000	284,379	11.98%	387,882	16.35%	\$1.05	2,016	(10,301)	4,946	71,132
South Airport South of Roeser	9	116,580	0	0	0	0.00%	15,915	13.65%	\$0.89	0	0	0	0
SC North of Roeser	38	956,554	155,000	0	176,029	18.40%	197,289	20.62%	\$0.61	0	(48,930)	0	31,603
SC South of Roeser	4	28,076	0	0	0	0.00%	0	0.00%	\$0.68	0	0	0	0
<b>Airport Area Total</b>	<b>149</b>	<b>4,890,406</b>	<b>155,000</b>	<b>50,000</b>	<b>770,235</b>	<b>15.75%</b>	<b>959,937</b>	<b>19.63%</b>	<b>\$0.82</b>	<b>8,692</b>	<b>5,407</b>	<b>22,728</b>	<b>214,933</b>
<b>Northeast</b>													
Central Phoenix	50	840,540	0	0	111,500	13.27%	112,177	13.35%	\$0.50	1,961	25,229	10,661	82,761
Scottsdale Airport	102	2,478,361	0	0	553,965	22.35%	537,176	21.67%	\$0.85	20,051	62,744	82,469	239,126
Scottsdale / Salt River	70	1,923,529	0	0	413,461	21.49%	568,494	29.55%	\$0.99	(33,213)	(80,447)	19,444	151,136
<b>Northeast Total</b>	<b>222</b>	<b>5,242,430</b>	<b>0</b>	<b>0</b>	<b>1,078,926</b>	<b>20.58%</b>	<b>1,217,847</b>	<b>23.23%</b>	<b>\$0.88</b>	<b>(11,201)</b>	<b>7,526</b>	<b>112,574</b>	<b>473,023</b>
<b>Northwest</b>													
Deer Valley / Pinnacle Park	88	3,540,608	0	139,700	994,857	28.10%	1,091,134	30.82%	\$1.10	73,876	20,882	101,921	288,555
Glendale	12	411,114	0	100,000	93,702	22.79%	113,603	27.63%	\$0.68	(12,740)	1,339	6,483	39,778
Grand Avenue	22	219,021	0	0	6,532	2.98%	23,660	10.80%	\$0.76	10,860	11,146	11,400	27,446
North Glendale / Sun City	21	435,150	0	72,000	126,845	29.15%	116,663	26.81%	\$0.73	12,101	(16,104)	23,803	56,347
North Black Canyon	51	1,045,099	0	0	266,452	25.50%	245,569	23.50%	\$0.74	18,864	(27,975)	32,334	52,698
West Phoenix North of Thomas Rd.	42	739,995	0	0	81,372	11.00%	74,352	10.05%	\$0.46	(31,585)	108,979	4,725	149,588
West Phoenix South of Thomas Rd.	10	109,755	0	0	20,181	18.39%	33,907	30.89%	\$0.45	(9,579)	16,426	0	20,980
<b>Northwest Total</b>	<b>246</b>	<b>6,500,742</b>	<b>0</b>	<b>311,700</b>	<b>1,589,941</b>	<b>24.46%</b>	<b>1,698,888</b>	<b>26.13%</b>	<b>\$1.01</b>	<b>61,797</b>	<b>114,693</b>	<b>180,666</b>	<b>635,392</b>
<b>Pinal County</b>													
Pinal County	8	60,732	0	0	2,240	3.69%	2,240	3.69%	\$0.67	0	1,140	0	0
<b>Pinal County Total</b>	<b>8</b>	<b>60,732</b>	<b>0</b>	<b>0</b>	<b>2,240</b>	<b>3.69%</b>	<b>2,240</b>	<b>3.69%</b>	<b>\$0.67</b>	<b>0</b>	<b>(1,140)</b>	<b>0</b>	<b>0</b>
<b>Southeast</b>													
Chandler Airport	10	669,472	0	800,060	117,078	17.49%	136,807	20.44%	\$0.95	(6,158)	30,790	5,169	38,301
Chandler	61	2,879,340	91,700	884,567	549,148	19.07%	589,718	20.48%	\$0.97	175,716	87,441	212,619	317,012
Chandler North / Gilbert	100	2,540,885	0	28,826	594,331	23.39%	616,028	24.24%	\$0.91	(12,902)	(4,065)	33,966	282,090
Falcon Fld / Apache Junction	25	409,093	0	0	131,981	32.26%	131,981	32.26%	\$0.68	9,704	41,695	9,704	50,846
Mesa	39	412,013	0	0	31,908	7.74%	35,108	8.52%	\$0.72	(15,078)	(134)	0	23,906
Tempe East	41	991,265	0	390,414	154,744	15.61%	163,415	16.49%	\$0.69	16,534	(20,904)	21,710	22,270
Tempe Northwest	72	2,571,114	0	0	321,255	12.49%	484,065	18.83%	\$0.92	75,364	(126,603)	147,148	160,199
Tempe Southwest	89	4,075,763	0	0	725,877	17.81%	863,486	21.19%	\$0.87	(4,387)	(103,133)	31,998	320,472
<b>Southeast Total</b>	<b>437</b>	<b>14,548,945</b>	<b>91,700</b>	<b>2,103,867</b>	<b>2,626,322</b>	<b>18.05%</b>	<b>3,020,608</b>	<b>20.76%</b>	<b>\$0.90</b>	<b>238,793</b>	<b>(94,913)</b>	<b>462,314</b>	<b>1,215,096</b>
<b>Southwest</b>													
Goodyear	12	302,618	0	15,625	33,655	11.12%	53,233	17.59%	\$0.45	(1,960)	82,260	0	134,449
Southwest North of Buckeye Rd.	9	267,669	0	0	0	0.00%	0	0.00%	\$0.80	0	2,000	0	2,000
Southwest South of Buckeye Rd.	7	340,754	0	0	210,439	61.76%	210,439	61.76%	\$0.80	0	0	0	0
Tolleson	9	431,556	0	0	133,918	31.03%	133,918	31.03%	\$0.65	4,944	24,734	5,835	30,376
<b>Southwest Total</b>	<b>37</b>	<b>1,342,597</b>	<b>0</b>	<b>15,625</b>	<b>378,012</b>	<b>28.16%</b>	<b>397,590</b>	<b>29.61%</b>	<b>\$0.73</b>	<b>2,984</b>	<b>108,994</b>	<b>5,835</b>	<b>166,825</b>
<b>Phoenix Total</b>	<b>1,099</b>	<b>32,585,852</b>	<b>246,700</b>	<b>2,481,192</b>	<b>6,445,676</b>	<b>19.78%</b>	<b>7,297,110</b>	<b>22.39%</b>	<b>\$0.86</b>	<b>301,065</b>	<b>140,567</b>	<b>784,117</b>	<b>2,705,269</b>
1-24,999	717	8,437,293	0	176,023	1,299,119	15.40%	1,587,659	18.82%	\$0.72	(15,323)	196,921	156,678	1,000,426
25,000-49,999	216	7,468,542	26,600	398,258	1,752,913	23.47%	1,946,874	26.07%	\$0.73	104,617	91,610	255,096	869,791
50,000-74,999	72	4,382,872	65,100	650,922	1,015,344	23.17%	1,152,684	26.30%	\$0.95	(4,219)	106,278	115,451	423,376
75,000-99,999	42	3,579,938	0	351,414	818,514	22.86%	959,831	26.81%	\$0.95	(16,755)	(39,989)	0	319,669
100,000+	52	8,717,207	155,000	904,575	1,559,786	17.89%	1,650,062	18.93%	\$1.08	232,745	(214,253)	256,892	92,007
<b>Phoenix Total</b>	<b>1,099</b>	<b>32,585,852</b>	<b>246,700</b>	<b>2,481,192</b>	<b>6,445,676</b>	<b>19.78%</b>	<b>7,297,110</b>	<b>22.39%</b>	<b>\$0.86</b>	<b>301,065</b>	<b>140,567</b>	<b>784,117</b>	<b>2,705,269</b>

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
1830-1850 N. 95th Ave.	Glendale	118,353	\$106.84	Viavest Properties, LLC	Carlson Real Estate Services
5150 S. 48th St.	N. of Roser Rd.	82,742	\$108.77	Robert Wells	Pantera Holdings, Inc.
17602 N. Black Canyon Fwy.	Deer Valley	36,350	\$61.90	Desert Breeze Community Church	VJ Properties, Inc.
2220 W. 14th St.	Tempe N.W.	13,124	\$136.78	Delta Scientific	MainSpring Capital Group
3835-3887 N. 28th Ave.	N. of Thomas Rd.	31,390	\$27.94	Iglesia De Jesucristo Minis	Terros, Inc.

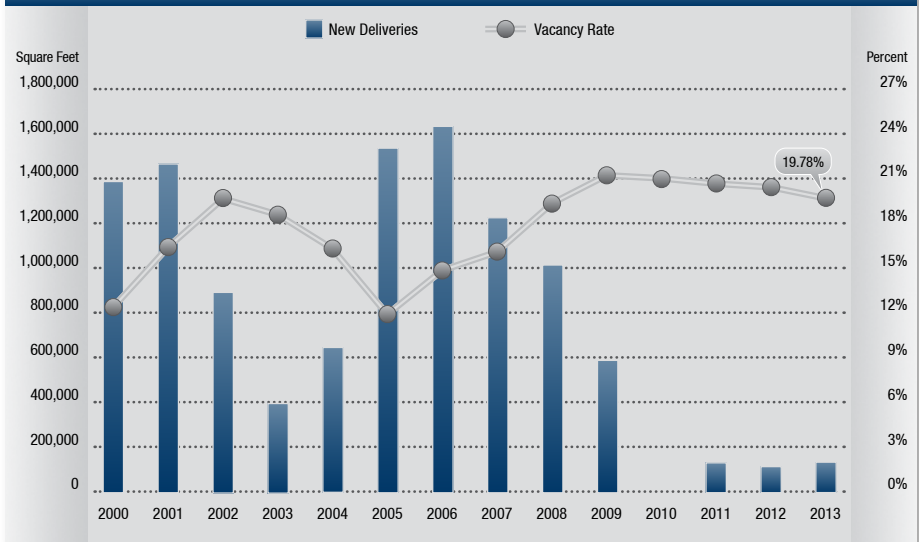
Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
10230 S. 50th Pl.	Chandler	40,586	Mar-13	U.S Foodservice	Block Income Fund I, LP
8800 N. 22nd St.	N. Black Canyon	39,978	Jan-13	Arizona Department of Economic Security	Larson Harold
14000 N. Hayden Rd.	Scottsdale Airpark	33,864	Feb-13	Ingram Micro	iStar Financial, Inc.
7427 E. Hampton Rd.	Chandler/Gilbert	27,852	Feb-13	Norwegian Cruise Lines	Hampton & Mesa, LLC
2401 W. Behrend Dr.	Deer Valley	24,140	Feb-13	N/A	Valley North DH, LLC

Product Type

Flex/Research and Development (R&D) buildings can be one story, one story with a mezzanine, and two story built-out structures with a high ratio of window wall to floor area with lower ceilings. They generally have over 30% built-out office space or laboratory use, with the remaining space being utilized as light manufacturing or warehousing. In addition, the parking ratio must be at least 3 spaces or greater per 1,000 square feet.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



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