

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates



UP

Transactions

DOWN



Deliveries

FLAT



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VOIT Real Estate Services

HIGHLIGHTS

- **Market Status** - The Phoenix Flex/R&D market got off to a slow start for 2014, posting 203,000 square feet of negative net absorption in the first quarter and giving the market a net total of almost 600,000 square feet of positive absorption for the last eight quarters. Vacancy increased, while availability ticked down slightly, continuing its downward trend. We expect that the negative absorption and small increase in vacancy are merely bumps in the road to overall growth.
- **Construction** - There was 154,067 square feet reported under construction, located in Northwest Tempe in the Southeast submarket, at the close of the first quarter. The slowdown in construction has eased and will continue to ease the upward pressure on vacancy and the downward pressure on lease rates.
- **Vacancy** - Up 59 basis points from the previous quarter, direct/sublease space (unoccupied) finished the first quarter at 20.30%, an increase from the previous year's rate of 19.88%. The Northeast market posted the lowest rate in the market, at 17.39%, while the Southwest had the highest rate, at 26.30%. Overall, the market saw a 2.11% increase in vacancy from the first quarter of 2013 to the first quarter of 2014.
- **Availability** - Direct/sublease space being marketed was 23.23% during the first quarter, a drop from the 23.49% in the previous quarter but a slight increase when compared to the 23.12% seen in the first quarter of 2013.
- **Lease Rates** - The average asking triple-net lease rate was \$.94 per square foot per month in the first quarter of 2014, two cents higher than the previous quarter's rate and up six cents compared to the previous year's rate, an increase of 6.82% in asking lease rents since the first quarter of 2013. The highest average asking rate of \$1.04 was recorded in the Northwest submarket.
- **Absorption** - The Phoenix Flex/R&D market posted 202,831 square feet of negative absorption in the first quarter, giving the market almost 600,000 square feet over the last eight quarters.
- **Transaction Activity** - Leasing activity checked in at 386,706 square feet for the Phoenix Flex/R&D market in the first quarter of 2014, a decrease from 2013's fourth quarter figure of 847,647 square feet. Sales activity came in at 495,689 square feet, starting the 2014 year off in the right direction with a slight increase compared to the same quarter last year. This statistic can have some lag time in being reported, so look for first quarter figures to end up somewhat higher. 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 7.3% in February 2014, a slight decrease from January 2014's rate of 7.5%. Sectors with strong job growth included transportation, construction, financial activities and education/health services. According to Arizona Department of Administration, February added 25,480 nonfarm jobs including 1,260 in construction and 3,828 in the education & health services sector. Over 2013, the number of jobs increased; we anticipate this trend continuing in 2014.
- **Overall** - We are seeing overall stabilization in the percentage of vacant and available space. The market has seen positive absorption figures 11 of the last 16 quarters. Lease rates increased two cents in the first quarter, up nine cents from the end of 2012. While the market appears to be generally heading in a good direction, 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.

FORECAST

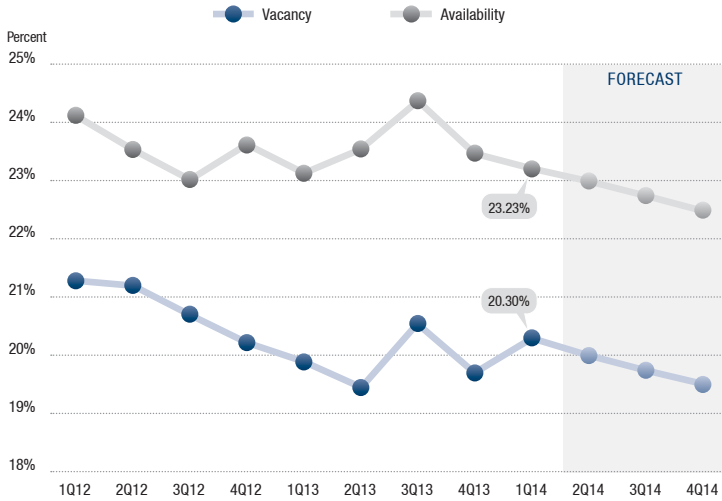
- **Construction** - With a favorable business climate spurring demographic growth in the Phoenix area, we expect it to only be a matter of time before development starts back up again. In the meantime, limited construction should ease vacancy rates and further allow demand to catch up to supply.
- **Employment** - We anticipate a job growth of around 2.6%, or 59,000 jobs, in the Phoenix Metropolitan area over the year. Look for industries like professional & business services, construction, and education & health services to lead the way in employment growth.
- **Lease Rates** - Expect average asking lease rates to increase by another 3%-5% by 2015.
- **Vacancy** - We anticipate vacancy rates continuing to descend in coming quarters, dropping by 80 basis points, to around 19.5%, by the end of 2014.

OVERVIEW

| | 1Q14 | 4Q13 | 1Q13 | % of Change vs. 1Q13 |
|---------------------------|-----------|-----------|-----------|----------------------|
| Vacancy Rate | 20.30% | 19.71% | 19.88% | 2.11% |
| Availability Rate | 23.23% | 23.49% | 23.12% | 0.48% |
| Average Asking Lease Rate | \$0.94 | \$0.92 | \$0.88 | 6.82% |
| Sale & Lease Transactions | 882,393 | 2,014,446 | 1,096,901 | (19.56%) |
| Gross Absorption | 472,595 | 724,120 | 641,939 | (26.38%) |
| Net Absorption | (202,831) | 283,101 | 120,607 | N/A |

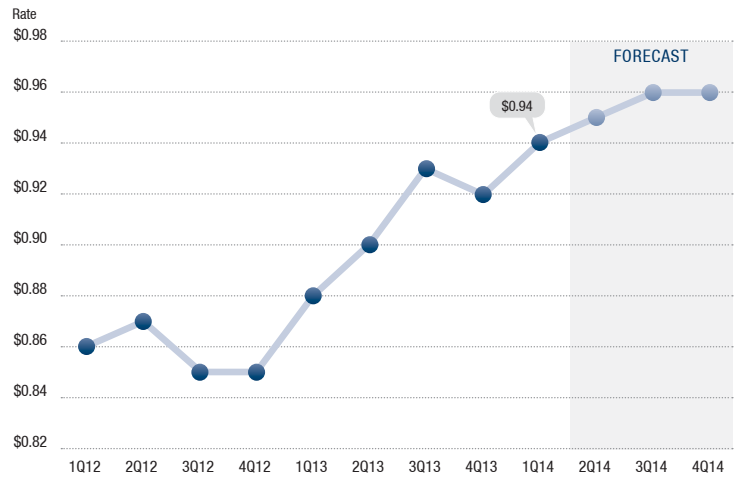
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



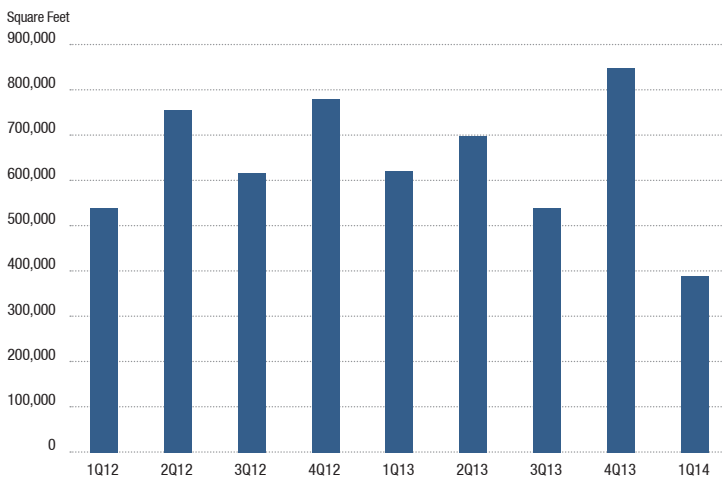
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



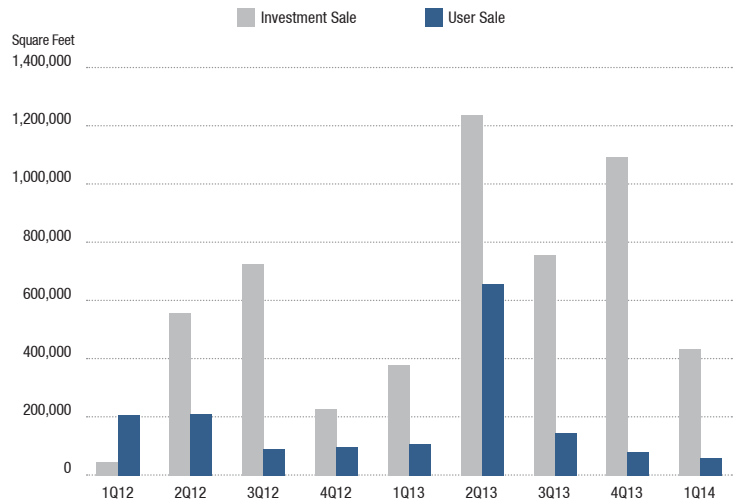
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



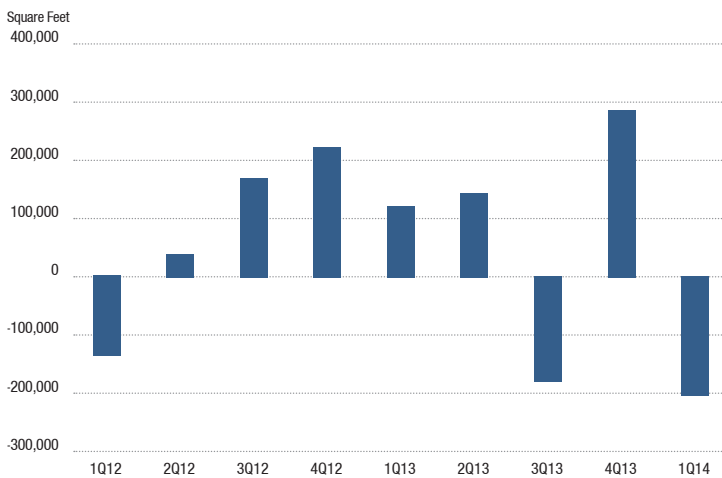
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



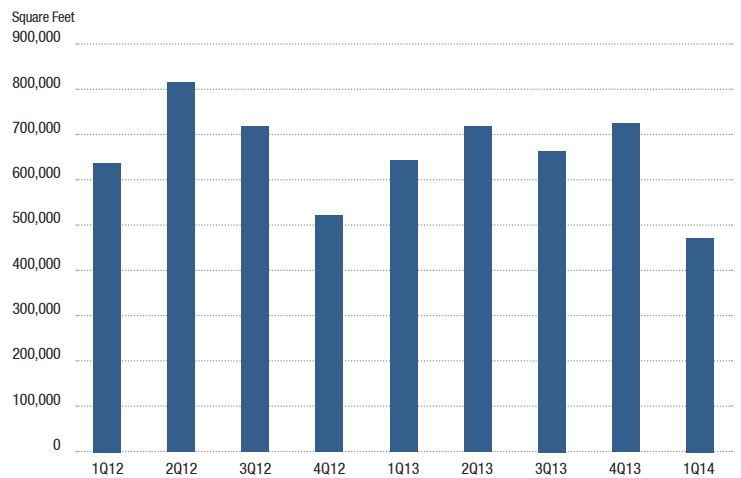
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



| | INVENTORY | | | | VACANCY & LEASE RATES | | | | | ABSORPTION | | | |
|----------------------------------|------------------|--------------------------|-------------------|---------------------|-----------------------|---------------------|-----------------------|--------------------------|---------------------------|-----------------------|---------------------|-------------------------|-----------------------|
| | Number of Bldgs. | Net Rentable Square Feet | Square Feet U / C | Square Feet Planned | Square Feet Vacant | Vacancy Rate 1Q2014 | Square Feet Available | Availability Rate 1Q2014 | Average Asking Lease Rate | Net Absorption 1Q2014 | Net Absorption 2013 | Gross Absorption 1Q2014 | Gross Absorption 2013 |
| Airport Area | | | | | | | | | | | | | |
| North Airport | 46 | 1,745,251 | 0 | 0 | 432,090 | 24.76% | 484,691 | 27.77% | \$0.73 | 22,801 | (95,598) | 22,876 | 58,187 |
| South Airport North of Roeser | 58 | 2,419,258 | 0 | 0 | 466,784 | 19.29% | 595,414 | 24.61% | \$1.02 | (156,953) | 3,683 | 40,294 | 90,278 |
| South Airport South of Roeser | 10 | 123,480 | 0 | 0 | 7,568 | 6.13% | 23,483 | 19.02% | \$0.00 | (7,568) | 0 | 0 | 0 |
| SC North of Roeser | 40 | 970,390 | 0 | 0 | 130,418 | 13.44% | 185,260 | 19.09% | \$0.97 | 0 | 14,392 | 0 | 27,398 |
| SC South of Roeser | 4 | 28,076 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 0 | 0 | 0 | 0 |
| Airport Area Total | 158 | 5,286,455 | 0 | 0 | 1,036,860 | 19.61% | 1,288,848 | 24.38% | \$0.83 | (141,720) | (77,523) | 63,170 | 175,863 |
| Northeast | | | | | | | | | | | | | |
| Central Phoenix | 52 | 967,613 | 0 | 0 | 136,504 | 14.11% | 115,566 | 11.94% | \$0.58 | 10,143 | (16,461) | 20,845 | 20,822 |
| Scottsdale Airport | 102 | 2,454,229 | 0 | 0 | 558,433 | 22.75% | 635,360 | 25.89% | \$0.84 | (20,574) | 53,874 | 49,949 | 289,694 |
| Scottsdale / Salt River | 69 | 1,820,070 | 0 | 299,320 | 216,710 | 11.91% | 406,248 | 22.32% | \$1.05 | (767) | 60,374 | 17,696 | 288,682 |
| Northeast Total | 223 | 5,241,912 | 0 | 299,320 | 911,647 | 17.39% | 1,157,174 | 22.08% | \$0.87 | (11,198) | 97,787 | 88,490 | 599,198 |
| Northwest | | | | | | | | | | | | | |
| Deer Valley / Pinnacle Park | 92 | 3,638,926 | 0 | 82,500 | 817,288 | 22.46% | 932,634 | 25.63% | \$1.13 | 29,303 | 247,121 | 32,228 | 434,141 |
| Glendale | 12 | 411,114 | 0 | 100,000 | 75,753 | 18.43% | 77,903 | 18.95% | \$0.74 | 21,623 | 382 | 21,623 | 12,300 |
| Grand Avenue | 22 | 153,377 | 0 | 0 | 6,572 | 4.28% | 16,104 | 10.50% | \$0.00 | 0 | 4,552 | 0 | 12,860 |
| North Glendale / Sun City | 25 | 481,341 | 0 | 72,000 | 113,419 | 23.56% | 105,919 | 22.00% | \$0.66 | 41,548 | 14,560 | 50,350 | 39,427 |
| North Black Canyon | 64 | 1,299,130 | 0 | 0 | 292,839 | 22.54% | 355,092 | 27.33% | \$0.80 | 21,025 | 4,243 | 27,270 | 124,024 |
| West Phoenix North of Thomas Rd. | 40 | 711,391 | 0 | 0 | 46,512 | 6.54% | 86,616 | 12.18% | \$0.00 | 6,737 | (15,760) | 12,906 | 60,968 |
| West Phoenix South of Thomas Rd. | 9 | 95,951 | 0 | 0 | 10,701 | 11.15% | 16,749 | 17.46% | \$0.00 | 0 | (99) | 0 | 14,402 |
| Northwest Total | 264 | 6,791,230 | 0 | 254,500 | 1,363,084 | 20.07% | 1,591,017 | 23.43% | \$1.04 | 120,236 | 254,999 | 144,377 | 698,122 |
| Pinal County | | | | | | | | | | | | | |
| Pinal County | 8 | 60,732 | 0 | 0 | 3,740 | 6.16% | 11,740 | 19.33% | \$0.00 | 0 | (1,500) | 0 | 0 |
| Pinal County Total | 8 | 60,732 | 0 | 0 | 3,740 | 6.16% | 11,740 | 19.33% | \$0.00 | 0 | (1,500) | 0 | 0 |
| Southeast | | | | | | | | | | | | | |
| Chandler Airport | 10 | 672,039 | 0 | 501,380 | 353,823 | 52.65% | 335,235 | 49.88% | \$1.24 | (3,019) | (242,934) | 13,747 | 77,675 |
| Chandler | 70 | 3,456,749 | 0 | 653,835 | 784,117 | 22.68% | 867,696 | 25.10% | \$0.86 | (31,185) | 336,264 | 14,546 | 392,334 |
| Chandler North / Gilbert | 101 | 2,471,608 | 0 | 147,080 | 691,041 | 27.96% | 645,952 | 26.13% | \$0.68 | (6,536) | (80,949) | 55,111 | 166,177 |
| Falcon Fld / Apache Junction | 28 | 449,008 | 0 | 0 | 118,526 | 26.40% | 120,076 | 26.74% | \$0.65 | (7,141) | 43,525 | 12,630 | 46,031 |
| Mesa | 38 | 398,356 | 0 | 0 | 28,600 | 7.18% | 40,550 | 10.18% | \$0.00 | 2,000 | (13,770) | 2,000 | 14,022 |
| Tempe East | 41 | 989,990 | 0 | 75,000 | 163,605 | 16.53% | 166,540 | 16.82% | \$1.00 | (4,406) | (2,591) | 5,709 | 50,790 |
| Tempe Northwest | 73 | 2,623,151 | 154,067 | 0 | 309,845 | 11.81% | 466,081 | 17.77% | \$1.13 | (35,522) | 72,192 | 13,430 | 238,549 |
| Tempe Southwest | 92 | 4,127,842 | 0 | 0 | 766,658 | 18.57% | 874,827 | 21.19% | \$0.96 | (131,857) | (42,734) | 16,928 | 131,151 |
| Southeast Total | 453 | 15,188,743 | 154,067 | 1,377,295 | 3,216,215 | 21.17% | 3,516,957 | 23.16% | \$0.93 | (217,666) | 69,003 | 134,101 | 1,116,729 |
| Southwest | | | | | | | | | | | | | |
| Goodyear | 12 | 302,618 | 0 | 0 | 32,870 | 10.86% | 46,688 | 15.43% | \$0.45 | 29,771 | (30,946) | 18,105 | 0 |
| Southwest North of Buckeye Rd. | 9 | 267,669 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 6,000 | (6,000) | 6,000 | 0 |
| Southwest South of Buckeye Rd. | 7 | 339,794 | 0 | 0 | 210,439 | 61.93% | 210,439 | 61.93% | \$0.00 | 0 | 0 | 0 | 0 |
| Tolleson | 9 | 431,834 | 0 | 0 | 109,659 | 25.39% | 53,970 | 12.50% | \$0.65 | 11,746 | 17,457 | 18,352 | 25,299 |
| Southwest Total | 37 | 1,341,915 | 0 | 0 | 352,968 | 26.30% | 311,097 | 23.18% | \$0.54 | 47,517 | (19,489) | 42,457 | 25,299 |
| Phoenix Total | 1,143 | 33,910,987 | 154,067 | 1,931,115 | 6,884,514 | 20.30% | 7,876,833 | 23.23% | \$0.94 | (202,831) | 323,277 | 472,595 | 2,615,211 |
| 1-24,999 | 744 | 8,744,517 | 0 | 87,152 | 1,320,230 | 15.10% | 1,592,667 | 18.21% | \$0.81 | 96,889 | (17,986) | 228,349 | 814,197 |
| 25,000-49,999 | 230 | 7,905,858 | 0 | 341,620 | 1,589,035 | 20.10% | 1,869,869 | 23.65% | \$0.82 | 67,144 | 294,679 | 217,269 | 955,878 |
| 50,000-74,999 | 73 | 4,431,572 | 0 | 166,000 | 987,016 | 22.27% | 1,193,529 | 26.93% | \$0.71 | (59,577) | 32,042 | 25,386 | 332,960 |
| 75,000-99,999 | 40 | 3,424,057 | 0 | 406,768 | 859,544 | 25.10% | 822,468 | 24.02% | \$1.15 | (26,321) | 15,437 | 0 | 69,976 |
| 100,000+ | 56 | 9,404,983 | 154,067 | 929,575 | 2,128,689 | 22.63% | 2,398,300 | 25.50% | \$1.11 | (280,966) | (895) | 1,591 | 442,200 |
| Phoenix Total | 1,143 | 33,910,987 | 154,067 | 1,931,115 | 6,884,514 | 20.30% | 7,876,833 | 23.23% | \$0.94 | (202,831) | 323,277 | 472,595 | 2,615,211 |

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

| Property Address | Submarket | Square Feet | Sale Price Per SF | Buyer | Seller |
|---------------------------------|---------------------------|-------------|-------------------|---------------------------------|--------------------------------|
| 2050 E. ASU Cir. – 2 Properties | Tempe East | 113,000 | \$162.83 | W Tempe, LLC (Lisa Worthington) | Rimrock Investors II, LLC |
| 4675 E. Cotton Center Blvd. | S. Airport N. of Roeser | 73,804 | \$134.10 | LNR Property Corporation | Craig K. Williams |
| 2601 W. Broadway Rd. | Tempe Southwest | 44,244 | \$192.12 | El Dorado Holdings | Bixby Land Company |
| 21045 N. 9th Pl. – 4 Properties | Deer Valley/Pinnacle Peak | 68,891 | \$116.79 | Hopewell Development | Turner Development Corporation |
| 9525 E. Doubletree Ranch Rd. | Scottsdale/Salt River | 22,203 | \$83.37 | William J. Kyte | Helix Properties |

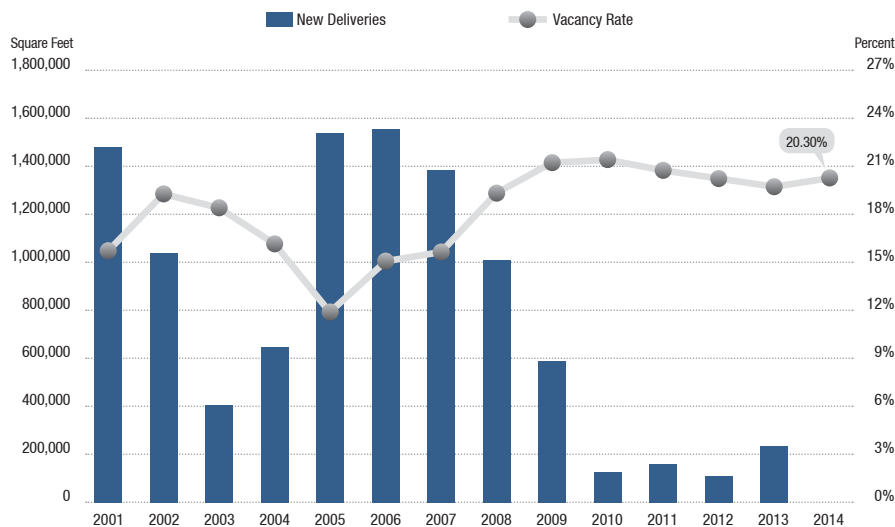
Lease Transactions

| Property Address | Submarket | Square Feet | Transaction Date | Tenant | Owner |
|-------------------------------|---------------------|-------------|------------------|------------------------------|-------------------------|
| 1325 N. Fiesta Blvd. | Chandler N./Gilbert | 19,245 | Jan-14 | THR Property Management | Campus Logic |
| 9831 S. 51st St. | Chandler | 6,708 | Jan-14 | Apex Electrical Sales | G.W. Williams Company |
| 4320 W. Chandler Blvd. | Chandler | 6,306 | Feb-14 | Factory Expo Furniture | Kootenay Holdings, Ltd. |
| 961 N. Eliseo C Felix Jr. Way | Goodyear | 5,760 | Feb-14 | Applied Ballistics Munitions | VJ Properties, Inc. |
| 7835 E. Gelding Dr. | Scottsdale Airpark | 2,300 | Jan-14 | Tullani | EFG Management |

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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