

## MARKET CHANGE

*Compared to Previous Quarter:*

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates

DOWN



Transactions

DOWN



Deliveries



FLAT

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VOIT Real Estate Services

## HIGHLIGHTS

- **Steady Growth** - The Flex R&D market started off posting 39,624 square feet of negative net absorption, giving the market a total of over 1.3 million square feet of positive absorption for the last three years. Availability continued its downward trend while vacancy increased slightly and lease rates decreased from the previous quarter.
- **Construction** - There was 297,000 square feet under construction 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. However, in the months to come the supply should heat up rapidly, with nearly 3.2 million square feet of Flex R&D space planned in the Phoenix Metro Area.
- **Vacancy** - Direct sublease space (unoccupied) finished the first quarter at 17.67%, an increase from the previous quarter's rate of 17.55%. The Northeast market posted the lowest rate in the market, at 13.32%, while the Northwest had the highest rate, at 20.28%.
- **Availability** - Direct sublease space being marketed was 19.71% at the end of the first quarter, a decrease from the 21.74% in the previous quarter but an even bigger decrease when compared to the 22.16% seen in the first quarter of 2014.
- **Lease Rates** - The average asking triple-net lease rate was \$.95 per square foot per month in the first quarter of 2015, three cents lower than the previous quarter and one cent higher than 2014's first quarter rate. This quarter, the highest average asking rate of \$1.19 was recorded in the Southeast submarket.
- **Absorption** - The Phoenix Flex R&D market posted 39,624 square feet of negative absorption in the first quarter, giving the market almost 1.2 million square feet of positive absorption over the last ten quarters.
- **Transaction Activity** - Leasing activity checked in at 280,221 square feet for the Phoenix Flex R&D market in the first quarter of 2015, a decrease from 2014's fourth quarter figure of 950,227 square feet. Sales activity came in at 109,743 square feet this quarter, a decrease compared to last quarter's figure of 331,058. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher on the next report. 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 5.8% in January 2015, a decrease from January 2014's rate of 6.8%. Sectors with strong job growth included professional and business services, retail trade, health care and manufacturing. Phoenix has created a new niche for itself in high tech manufacturing. Phoenix's projected total annual employment growth will be among the strongest in the nation. According to Arizona Department of Administration, February 2015 added 2,000 professional and business services jobs, 5,900 in leisure and hospitality, 1,400 in health care and 1,300 in manufacturing. The largest job gain was in government adding 15,800 jobs. The number of jobs has increased in 2014 and we anticipate this trend continuing through 2015.
- **Overall** - The Phoenix Flex R&D market appears to be stabilizing as we are seeing vacancy have a small hiccup and start to trend upward compared to last year, due to some new construction. The market has seen positive absorption figures for 8 of the last 12 quarters. Lease rates increased in the first quarter, up seven cents from the beginning of 2013. While the market appears to be heading in a good direction, speculative development has caused a slight bump in the road, so job creation will need to continue in order to drive the demand needed to sustain growth in the Phoenix Flex R&D market this year.

## FORECAST

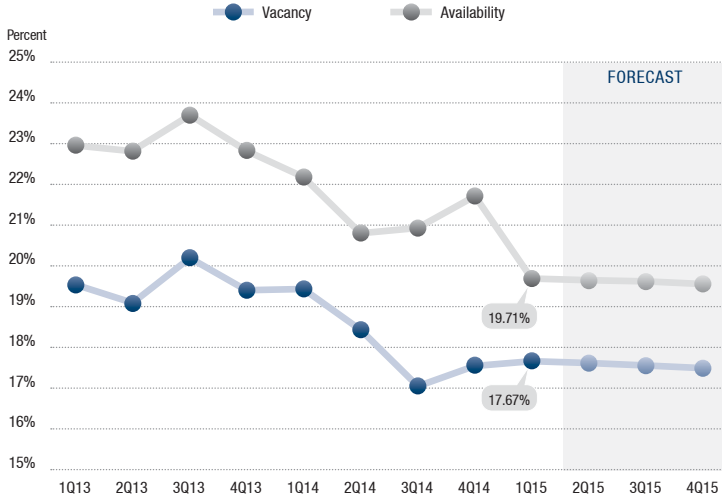
- **Construction** - With a favorable business climate spurring demographic growth, the Phoenix market is one of the fastest growing in the country. Developers are planning an influx of new properties, with just over 3.2 million square feet planned in the metro area. In the meantime, limited construction should ease vacancy rates and further allow demand to catch up to supply.
- **Employment** - We anticipate 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, and education & health services to lead the way in employment growth, along with the new sector of high tech manufacturing, with large companies opening plants and factories.
- **Lease Rates** - Expect average asking lease rates to increase by 3% to 5% over the next four quarters.
- **Vacancy** - We anticipate vacancy rates continuing to descend in coming quarters, to around 17.50%, by the end of fourth quarter of 2015.

## OVERVIEW

	1Q15	4Q14	1Q14	% of Change vs. 1Q14
Total Vacancy Rate	17.67%	17.55%	19.47%	(9.24%)
Availability Rate	19.71%	21.74%	22.16%	(11.06%)
Average Asking Lease Rate	\$0.95	\$0.98	\$0.94	1.06%
Sale & Lease Transactions	389,694	1,281,285	1,278,405	(69.52%)
Gross Absorption	350,045	503,423	531,640	(34.16%)
Net Absorption	(39,624)	(56,175)	(22,413)	N/A

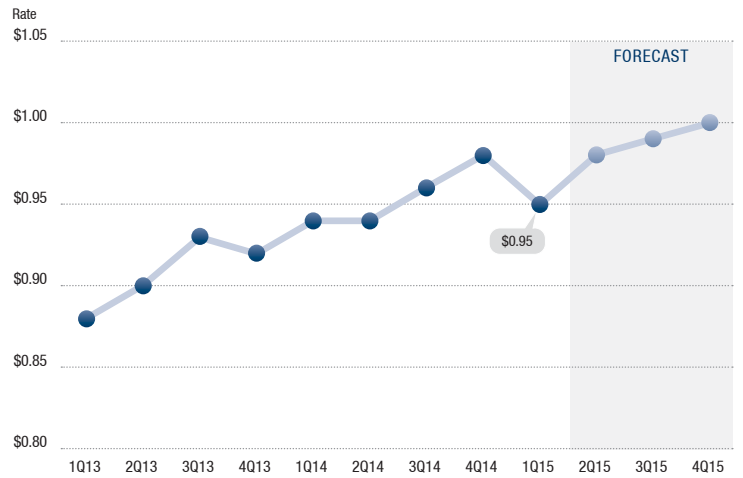
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



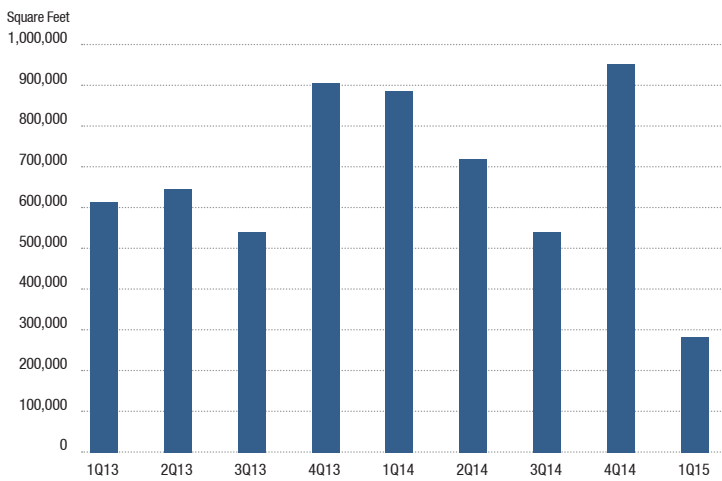
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



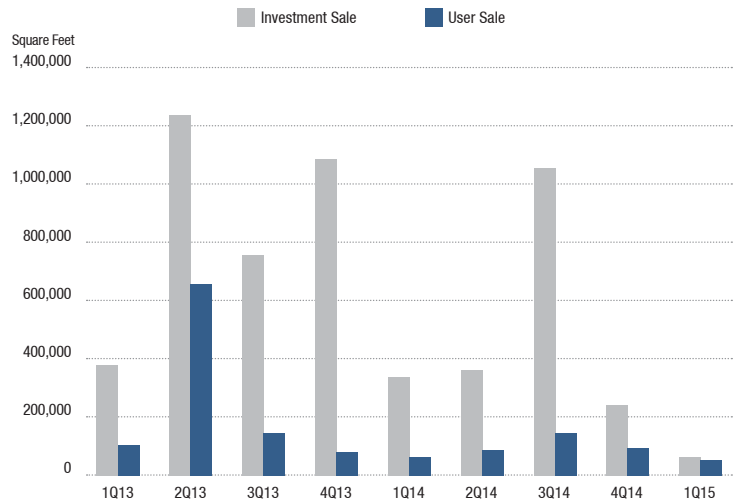
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



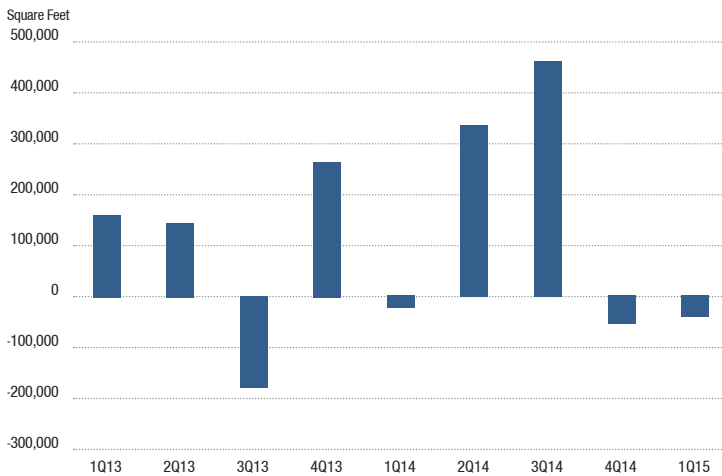
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



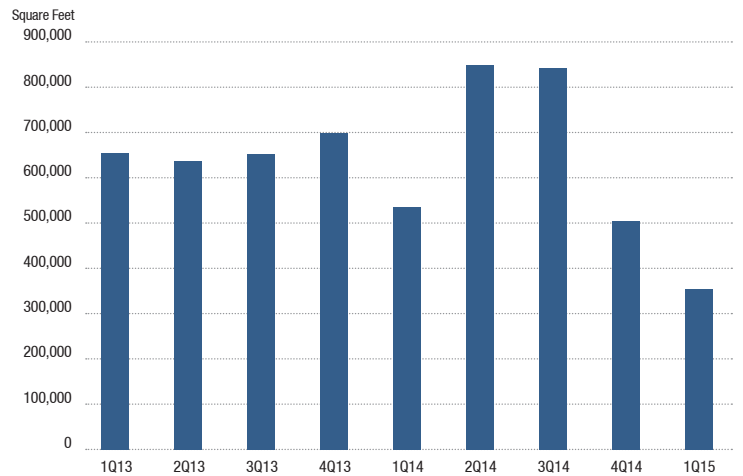
NET ABSORPTION

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 1Q2015	Square Feet Available	Availability Rate 1Q2015	Average Asking Lease Rate	Net Absorption 1Q2015	Net Absorption 2014	Gross Absorption 1Q2015	Gross Absorption 2014
<b>Airport Area</b>													
North Airport	44	1,718,029	0	0	323,932	18.85%	496,133	28.88%	\$0.85	(9,924)	56,833	5,661	80,701
South Airport North of Roeser	58	2,418,206	0	0	405,100	16.75%	627,764	25.96%	\$0.93	(559)	(94,710)	27,035	185,649
South Airport South of Roeser	10	123,480	0	0	0	0.00%	15,915	12.89%	\$0.00	7,568	(7,568)	7,568	0
SC North of Roeser	40	861,903	0	245,000	167,105	19.39%	212,642	24.67%	\$1.20	0	12,413	0	14,650
SC South of Roeser	4	28,076	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
<b>Airport Area Total</b>	<b>156</b>	<b>5,149,694</b>	<b>0</b>	<b>245,000</b>	<b>896,137</b>	<b>17.40%</b>	<b>1,352,454</b>	<b>26.26%</b>	<b>\$0.99</b>	<b>(2,915)</b>	<b>(33,032)</b>	<b>40,264</b>	<b>281,000</b>
<b>Northeast</b>													
Central Phoenix	55	953,375	0	0	78,445	8.23%	72,584	7.61%	\$0.52	(17,496)	73,725	3,990	95,248
Scottsdale Airport	107	2,392,946	0	0	452,982	18.93%	520,908	21.77%	\$0.91	(30,500)	14,999	22,006	267,552
Scottsdale / Salt River	68	1,797,827	0	55,000	153,841	8.56%	284,853	15.84%	\$0.90	2,235	27,467	5,722	146,071
<b>Northeast Total</b>	<b>230</b>	<b>5,144,148</b>	<b>0</b>	<b>55,000</b>	<b>685,268</b>	<b>13.32%</b>	<b>878,345</b>	<b>17.07%</b>	<b>\$0.89</b>	<b>(45,761)</b>	<b>116,191</b>	<b>31,718</b>	<b>508,871</b>
<b>Northwest</b>													
Deer Valley / Pinnacle Park	85	3,464,553	0	16,500	792,322	22.87%	348,684	10.06%	\$0.86	14,869	49,414	19,117	141,914
Glendale	10	279,789	0	100,000	43,909	15.69%	59,314	21.20%	\$0.55	0	16,732	0	89,908
Grand Avenue	22	153,377	0	139,571	6,760	4.41%	14,660	9.56%	\$0.00	1,206	(1,394)	4,926	6,134
North Glendale / Sun City	26	492,504	0	22,000	94,446	19.18%	94,446	19.18%	\$0.66	(5,829)	66,350	6,969	116,556
North Black Canyon	66	1,334,369	0	0	328,851	24.64%	377,273	28.27%	\$0.80	(14,768)	18,051	29,385	95,935
West Phoenix North of Thomas Rd.	40	755,181	0	0	54,471	7.21%	66,131	8.76%	\$0.00	18,472	(19,694)	25,027	34,163
West Phoenix South of Thomas Rd.	8	85,751	0	0	10,701	12.48%	16,749	19.53%	\$0.00	0	0	0	0
<b>Northwest Total</b>	<b>257</b>	<b>6,565,524</b>	<b>0</b>	<b>278,071</b>	<b>1,331,460</b>	<b>20.28%</b>	<b>977,257</b>	<b>14.88%</b>	<b>\$0.78</b>	<b>13,950</b>	<b>129,459</b>	<b>85,424</b>	<b>484,610</b>
<b>Pinal County</b>													
Pinal County	9	74,172	0	192,000	7,640	10.30%	7,640	10.30%	\$0.00	(780)	(3,120)	1,100	9,100
<b>Pinal County Total</b>	<b>9</b>	<b>74,172</b>	<b>0</b>	<b>192,000</b>	<b>7,640</b>	<b>10.30%</b>	<b>7,640</b>	<b>10.30%</b>	<b>\$0.00</b>	<b>(780)</b>	<b>(3,120)</b>	<b>1,100</b>	<b>9,100</b>
<b>Southeast</b>													
Chandler Airport	11	679,039	0	490,275	314,342	46.29%	316,950	46.68%	\$1.19	9,025	30,437	9,025	53,620
Chandler	73	3,477,565	60,000	950,000	761,738	21.90%	834,753	24.00%	\$0.97	17,866	(11,381)	35,442	235,244
Chandler North / Gilbert	98	2,367,824	0	847,242	513,576	21.69%	416,516	17.59%	\$1.02	(39,911)	157,521	44,876	361,140
Falcon Fld / Apache Junction	31	491,866	0	0	108,754	22.11%	103,255	20.99%	\$0.63	(1,621)	19,323	3,100	52,750
Mesa	40	423,156	0	0	21,822	5.16%	29,532	6.98%	\$0.67	(6,027)	15,133	0	19,500
Tempe East	40	900,659	237,000	147,000	163,295	18.13%	145,117	16.11%	\$0.00	6,085	8,140	11,731	44,057
Tempe Northwest	73	2,455,533	0	0	221,651	9.03%	418,937	17.06%	\$1.01	42,763	(26,406)	65,231	237,678
Tempe Southwest	92	3,923,998	0	0	545,435	13.90%	740,695	18.88%	\$1.15	(34,099)	82,669	20,333	309,260
<b>Southeast Total</b>	<b>458</b>	<b>14,719,640</b>	<b>297,000</b>	<b>2,434,517</b>	<b>2,650,613</b>	<b>18.01%</b>	<b>3,005,755</b>	<b>20.42%</b>	<b>\$1.05</b>	<b>(5,919)</b>	<b>275,436</b>	<b>189,738</b>	<b>1,313,249</b>
<b>Southwest</b>													
Goodyear	10	196,019	0	0	0	0.00%	23,620	12.05%	\$0.45	0	43,579	0	43,579
Southwest North of Buckeye Rd.	9	267,669	0	0	0	0.00%	0	0.00%	\$0.00	0	6,000	0	6,000
Southwest South of Buckeye Rd.	6	338,994	0	0	209,639	61.84%	209,639	61.84%	\$0.00	0	0	0	0
Tolleson	9	582,572	0	0	56,686	9.73%	56,686	9.73%	\$0.62	1,801	62,918	1,801	79,318
<b>Southwest Total</b>	<b>34</b>	<b>1,385,254</b>	<b>0</b>	<b>0</b>	<b>266,325</b>	<b>19.23%</b>	<b>289,945</b>	<b>20.93%</b>	<b>\$0.57</b>	<b>1,801</b>	<b>112,497</b>	<b>1,801</b>	<b>128,897</b>
<b>Phoenix Total</b>	<b>1,144</b>	<b>33,038,432</b>	<b>297,000</b>	<b>3,204,588</b>	<b>5,837,443</b>	<b>17.67%</b>	<b>6,511,396</b>	<b>19.71%</b>	<b>\$0.95</b>	<b>(39,624)</b>	<b>597,431</b>	<b>350,045</b>	<b>2,725,727</b>
1-24,999	757	8,789,820	0	245,951	1,101,901	12.54%	1,380,416	15.70%	\$0.81	(38,080)	333,113	130,939	905,298
25,000-49,999	225	7,721,600	0	286,500	1,396,494	18.09%	1,646,608	21.32%	\$0.86	24,396	177,192	121,601	841,739
50,000-74,999	72	4,369,744	60,000	563,362	796,824	18.24%	866,336	19.83%	\$0.94	19,536	(11,540)	46,800	413,503
75,000-99,999	38	3,246,668	0	342,200	659,306	20.31%	736,276	22.68%	\$1.04	18,111	193,218	45,705	438,400
100,000+	52	8,910,600	237,000	1,766,575	1,882,918	21.13%	1,881,760	21.12%	\$1.11	(63,587)	(94,552)	5,000	126,787
<b>Phoenix Total</b>	<b>1,144</b>	<b>33,038,432</b>	<b>297,000</b>	<b>3,204,588</b>	<b>5,837,443</b>	<b>17.67%</b>	<b>6,511,396</b>	<b>19.71%</b>	<b>\$0.95</b>	<b>(39,624)</b>	<b>597,431</b>	<b>350,045</b>	<b>2,725,727</b>

Lease rates are on a triple-net basis.

**MAJOR TRANSACTIONS**

**Sales Transactions**

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
114 S. Weber Dr.	Chandler	11,400	\$40.79	Francell 3, LLC	Tigard Investments, Inc. Psp
734 W. Main St.	Mesa	8,750	\$38.29	Firefly Graphics	Classen Asset Management, LLC
2727 W. Baseline Rd. 11 / 1st Floor	Tempe Southwest	3,798	\$72.41	Enrique Cifuentes	CXA-16 Corporation
21 W. Coolidge St.	Central Phx	3,654	\$102.63	Charles M. Jones	Robert & Jennifer Foster
2636 W. Orangewood Ave.	North Black Canyon	2,400	\$72.92	William Anthony	Siddigi Zeeshan

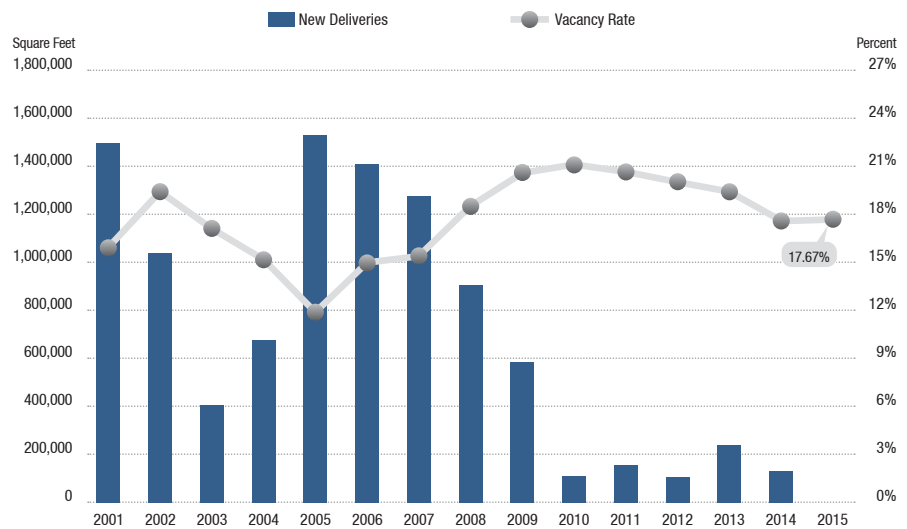
**Lease Transactions**

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4405 E. Baseline Rd.	S. Airport S. of Roeser	4,182	Jan-2015	Parsons Electric	Baseline Foothills, I, II, III, Inc.
2225 W. Pecos Rd.	Chandler	2,770	Jan-2015	Kotings, LLC	Kenneth & Terrie Lynn Sherman

**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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Inland Empire, CA 909.545.8000	Los Angeles, CA 424.329.7500	Reno, NV 775.771.9955	San Jose, CA 408.885.9110
Irvine, CA 949.851.5100	Newport Beach, CA 949.644.8648	Sacramento, CA 916.772.8648	

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

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