



Industrial Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

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Market Highlights

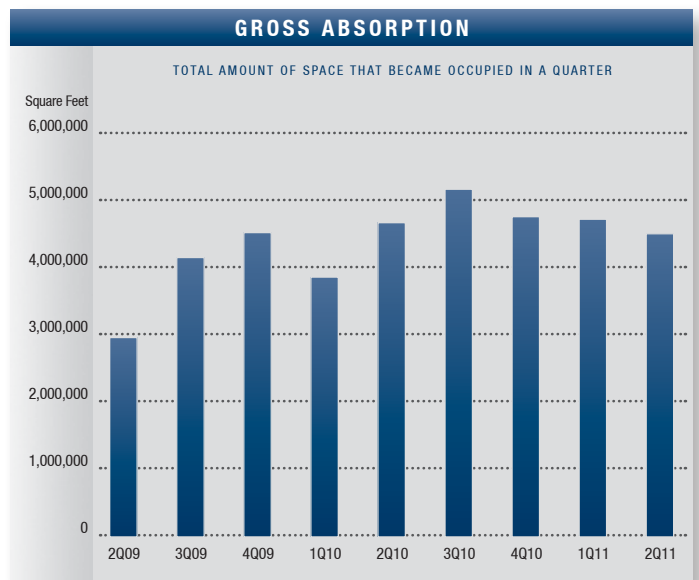
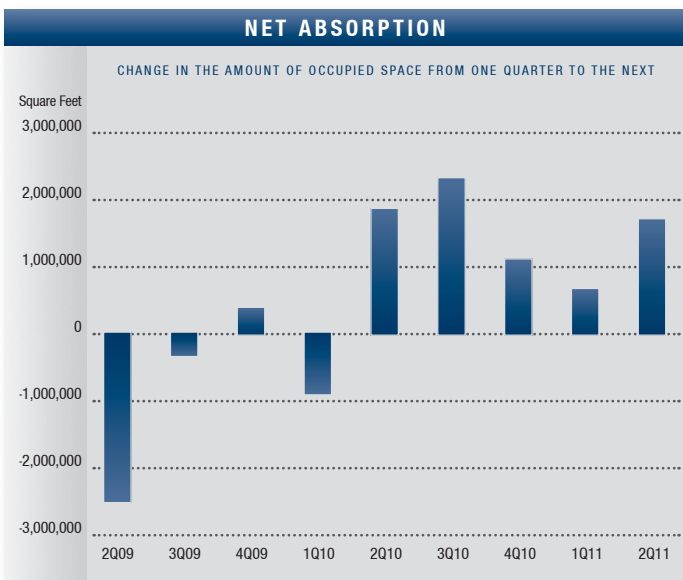
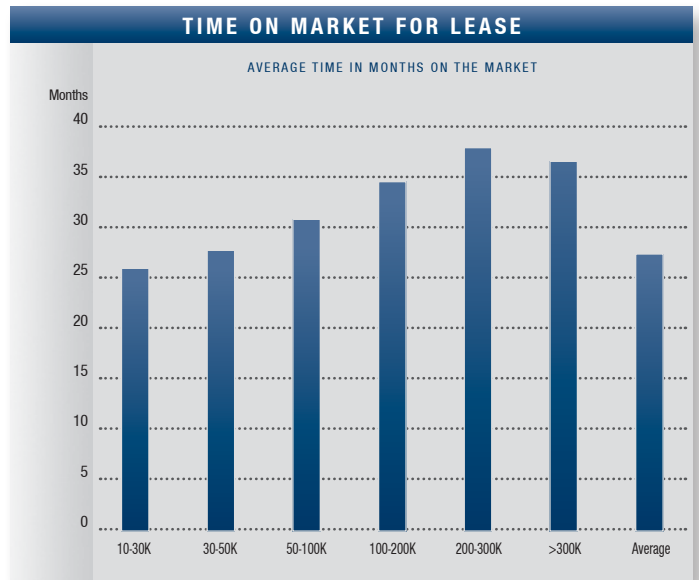
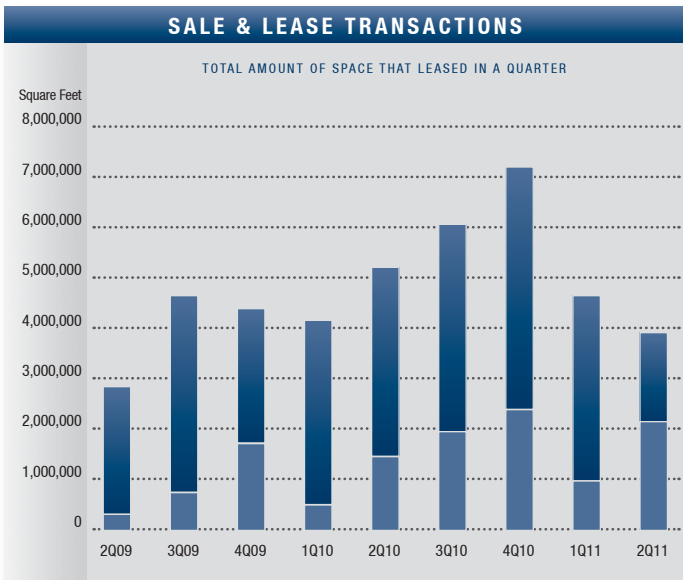
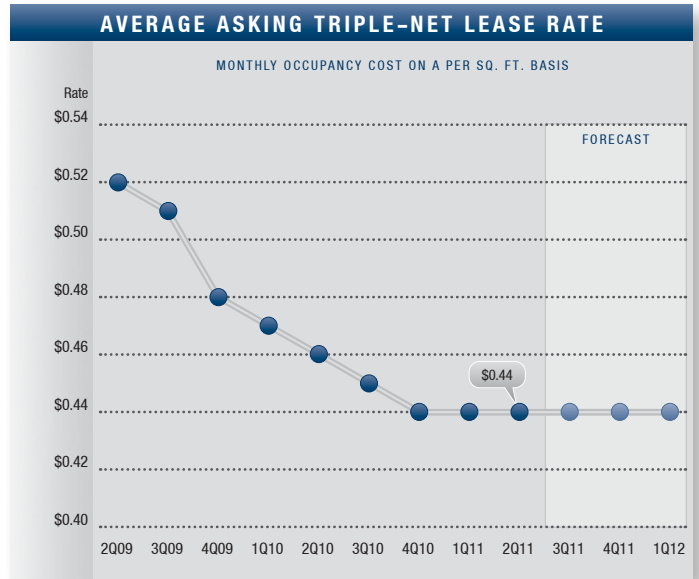
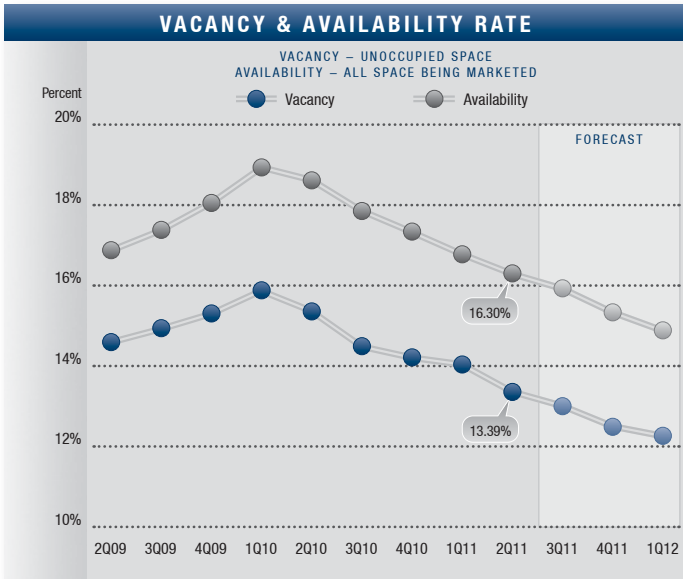
- Steady Growth** - The Phoenix industrial market conveyed more promise of stabilization in the second quarter of 2011. Availability continued its descent from its peak in the first quarter of 2010, vacancy rates trended downward, and net absorption was positive the fifth consecutive quarter. Demand 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 166,000 square feet of industrial construction underway in the second quarter of 2011. Scarce financing and low demand have essentially halted industrial development.
- Vacancy** - Direct/sublease space (unoccupied) continued its six-quarter trend downward, finishing the second quarter at 13.39% — lower than the previous quarter's 14.04% and a significant drop of nearly 13% from the year-ago rate of 15.34%. The Northeast market posted the lowest rate in the county at 9.36%.
- Availability** - Direct/sublease space being marketed was 16.3% at the end of the second quarter 2011, a decrease of 12.37% when compared to the 18.6% seen in the same quarter of 2010.
- Lease Rates** - The average asking-triple net lease rate was \$.44 cents per square foot per month for the third consecutive quarter, indicating stability. The record high for asking lease rates, \$.59, was recorded in the first quarter of 2007.
- Absorption** - The Phoenix industrial market posted 1.7 million square feet of positive absorption in the second

quarter of 2011, producing a total of 7.7 million square feet of positive absorption over the past five quarters.

- Transaction Activity** - Leasing activity checked in at 1.7 million square feet for the Phoenix industrial market in the second quarter of 2011, a decrease from 2010's 3.8 million square feet of leasing activity. Sales activity showed a significant increase since the second quarter of 2010, posting 2.1 million square feet of activity as compared to the 1.4 million 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% in May 2011, down from a revised 8.1% in April 2011 and lower than the 2010 estimate of 8.9%. This compares with an unadjusted unemployment rate of 9.1% for Arizona and 8.7% for the nation during the same period.
- Overall** - We are continuing 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

| | 2Q2011 | 1Q2011 | 2Q2010 | % Change vs. 2Q2010 |
|---------------------------|-----------|-----------|-----------|---------------------|
| Total Vacancy Rate | 13.39% | 14.04% | 15.34% | (12.71%) |
| Availability Rate | 16.30% | 16.76% | 18.60% | (12.37%) |
| Average Asking Lease Rate | \$0.44 | \$0.44 | \$0.46 | (4.35%) |
| Sale & Lease Transactions | 3,798,452 | 4,623,547 | 5,230,954 | (27.39%) |
| Gross Absorption | 4,482,699 | 4,700,530 | 4,629,211 | (3.16%) |
| Net Absorption | 1,706,278 | 657,958 | 1,857,993 | 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 2Q2011 | Square Feet Available | Availability Rate 2Q2011 | Average Asking Lease Rate | Net Absorption 2Q2011 | Net Absorption 2011 | Gross Absorption 2Q2011 | Gross Absorption 2011 |
| Airport Area | | | | | | | | | | | | | |
| North Airport | 295 | 10,729,838 | 0 | 61,536 | 1,641,607 | 15.30% | 2,063,208 | 19.23% | \$0.42 | (34,040) | (116,279) | 81,371 | 210,660 |
| South Airport North of Roeser | 320 | 10,781,303 | 0 | 17,560 | 1,589,749 | 14.75% | 2,162,901 | 20.06% | \$0.41 | 33,849 | (44,807) | 210,289 | 564,723 |
| South Airport South of Roeser | 120 | 3,966,218 | 0 | 0 | 544,904 | 13.74% | 679,104 | 17.12% | \$0.57 | 122,290 | 231,477 | 174,012 | 319,617 |
| SC North of Roeser | 361 | 13,981,785 | 0 | 0 | 1,900,633 | 13.59% | 2,278,478 | 16.30% | \$0.42 | 25,946 | (95,412) | 207,058 | 472,112 |
| SC South of Roeser | 51 | 1,476,439 | 0 | 0 | 94,600 | 6.41% | 155,704 | 10.55% | \$0.53 | 8,082 | 10,182 | 25,082 | 27,182 |
| Airport Area Total | 1,147 | 40,935,583 | 0 | 79,096 | 5,771,493 | 14.10% | 7,339,395 | 17.93% | \$0.44 | 156,127 | (14,839) | 697,812 | 1,594,294 |
| Northeast | | | | | | | | | | | | | |
| Central Phoenix | 114 | 4,154,563 | 0 | 0 | 166,758 | 4.01% | 184,555 | 4.44% | \$0.59 | 2,090 | 752 | 15,218 | 27,488 |
| Scottsdale Airpark | 252 | 5,271,640 | 0 | 0 | 863,252 | 16.38% | 995,954 | 18.89% | \$0.69 | 81,059 | 106,669 | 229,581 | 396,254 |
| Scottsdale/Salt River | 95 | 4,683,326 | 0 | 0 | 290,068 | 6.19% | 568,758 | 12.14% | \$0.78 | 44,883 | 48,246 | 72,210 | 95,923 |
| Northeast Total | 461 | 14,109,529 | 0 | 0 | 1,320,078 | 9.36% | 1,749,267 | 12.40% | \$0.71 | 128,032 | 155,667 | 317,009 | 519,665 |
| Northwest | | | | | | | | | | | | | |
| Deer Valley/Pinnacle Park | 422 | 13,428,265 | 0 | 351,626 | 1,872,701 | 13.95% | 2,381,355 | 17.73% | \$0.68 | 34,291 | 147,108 | 191,840 | 609,776 |
| Glendale | 77 | 4,241,808 | 126,000 | 1,953,980 | 784,780 | 18.50% | 517,772 | 12.21% | \$0.55 | (15,430) | 2,144 | 27,680 | 53,194 |
| Grand Avenue | 296 | 13,407,256 | 0 | 545,090 | 1,066,503 | 7.95% | 1,608,293 | 12.00% | \$0.32 | (4,333) | 79,570 | 81,002 | 214,346 |
| North Glendale/Sun City | 95 | 4,245,735 | 0 | 89,714 | 786,908 | 18.53% | 843,253 | 19.86% | \$0.48 | (7,031) | 57,343 | 35,048 | 123,930 |
| North Black Canyon | 126 | 3,551,183 | 0 | 0 | 327,839 | 9.23% | 384,792 | 10.84% | \$0.29 | (32,296) | (15,947) | 45,994 | 150,316 |
| West Phoenix North of Thomas Rd. | 260 | 6,867,781 | 0 | 0 | 729,293 | 10.62% | 844,889 | 12.30% | \$0.34 | 33,109 | 36,794 | 131,368 | 204,653 |
| West Phoenix South of Thomas Rd. | 223 | 6,246,424 | 0 | 0 | 546,089 | 8.74% | 632,532 | 10.13% | \$0.48 | 17,845 | 43,644 | 67,044 | 125,661 |
| Northwest Total | 1,499 | 51,988,452 | 126,000 | 2,940,410 | 6,114,113 | 11.76% | 7,212,886 | 13.87% | \$0.56 | 26,155 | 350,656 | 579,976 | 1,481,876 |
| Pinal County | | | | | | | | | | | | | |
| Pinal County | 126 | 7,096,373 | 0 | 739,500 | 580,333 | 8.18% | 665,332 | 9.38% | \$0.31 | 4,885 | 84,200 | 41,160 | 133,175 |
| Pinal County Total | 126 | 7,096,373 | 0 | 739,500 | 580,333 | 8.18% | 665,332 | 9.38% | \$0.31 | 4,885 | 84,200 | 41,160 | 133,175 |
| Southeast | | | | | | | | | | | | | |
| Chandler Airport | 45 | 1,513,403 | 0 | 731,921 | 383,774 | 25.36% | 397,374 | 26.26% | \$0.59 | 221 | 20,608 | 27,121 | 55,215 |
| Chandler | 259 | 14,949,691 | 0 | 1,016,534 | 1,304,338 | 8.72% | 1,462,052 | 9.78% | \$0.67 | 292,866 | 335,522 | 361,086 | 517,377 |
| Chandler North/Gilbert | 438 | 13,719,135 | 40,000 | 1,652,996 | 2,567,486 | 18.71% | 3,061,143 | 22.31% | \$0.51 | 65,283 | 91,750 | 205,519 | 450,685 |
| Falcon Fld/Apache Junction | 110 | 4,764,973 | 0 | 0 | 413,869 | 8.69% | 516,888 | 10.85% | \$0.51 | 38,062 | 23,441 | 94,684 | 139,073 |
| Mesa | 193 | 6,283,120 | 0 | 271,142 | 903,777 | 14.38% | 1,095,825 | 17.44% | \$0.61 | 169,392 | 211,995 | 268,716 | 497,648 |
| Tempe East | 187 | 5,411,876 | 0 | 0 | 402,464 | 7.44% | 698,495 | 12.91% | \$0.65 | 83,178 | 71,340 | 117,334 | 218,040 |
| Tempe Northwest | 226 | 8,507,208 | 0 | 0 | 885,018 | 10.40% | 1,878,656 | 22.08% | \$0.52 | (18,494) | (45,686) | 118,904 | 199,897 |
| Tempe Southwest | 434 | 18,152,097 | 0 | 476,000 | 1,592,826 | 8.77% | 2,449,533 | 13.49% | \$0.44 | 115,816 | 95,232 | 400,679 | 754,231 |
| Southeast Total | 1,892 | 73,301,503 | 40,000 | 4,148,593 | 8,453,552 | 11.53% | 11,559,966 | 15.77% | \$0.54 | 746,324 | 804,202 | 1,594,043 | 2,832,166 |
| Southwest | | | | | | | | | | | | | |
| Goodyear | 88 | 8,200,721 | 0 | 4,606,800 | 1,939,365 | 23.65% | 1,562,992 | 19.06% | \$0.42 | 165,727 | 370,918 | 181,992 | 458,969 |
| Southwest North of Buckeye Rd. | 536 | 30,105,303 | 0 | 243,400 | 3,682,633 | 12.23% | 5,038,549 | 16.74% | \$0.29 | 150,476 | 214,113 | 365,475 | 978,912 |
| Southwest South of Buckeye Rd. | 188 | 13,377,383 | 0 | 20,132 | 2,061,706 | 15.41% | 2,184,590 | 16.33% | \$0.31 | (82,907) | 74,953 | 28,680 | 298,782 |
| Tolleson | 171 | 26,755,461 | 0 | 547,466 | 5,683,504 | 21.24% | 6,014,328 | 22.48% | \$0.32 | 411,459 | 324,366 | 676,552 | 885,390 |
| Southwest Total | 983 | 78,438,868 | 0 | 5,417,798 | 13,367,208 | 17.04% | 14,800,459 | 18.87% | \$0.32 | 644,755 | 984,350 | 1,252,699 | 2,622,053 |
| Phoenix Total | 6,108 | 265,870,308 | 166,000 | 13,325,397 | 35,606,777 | 13.39% | 43,327,305 | 16.30% | \$0.44 | 1,706,278 | 2,364,236 | 4,482,699 | 9,183,229 |
| 10,000-29,999 | 3,793 | 64,362,391 | 0 | 1,015,193 | 8,313,207 | 12.92% | 10,289,452 | 15.99% | \$0.53 | 72,032 | 64,708 | 1,292,997 | 2,588,986 |
| 30,000-49,999 | 1,020 | 38,906,357 | 40,000 | 692,189 | 5,583,598 | 14.35% | 7,012,943 | 18.03% | \$0.47 | 235,452 | 368,819 | 727,089 | 1,451,749 |
| 50,000-99,999 | 819 | 56,373,521 | 126,000 | 735,989 | 6,441,949 | 11.43% | 8,437,708 | 14.97% | \$0.46 | 387,827 | 566,875 | 1,044,675 | 1,975,050 |
| 100,000-199,999 | 314 | 41,545,016 | 0 | 1,506,488 | 6,335,282 | 15.25% | 8,359,410 | 20.12% | \$0.41 | 421,722 | 54,024 | 647,101 | 1,282,418 |
| 200,000-299,999 | 83 | 19,942,509 | 0 | 734,073 | 2,217,767 | 11.12% | 2,937,538 | 14.73% | \$0.32 | 76,514 | 343,932 | 76,514 | 650,821 |
| 300,000+ | 79 | 44,740,514 | 0 | 8,641,465 | 6,714,974 | 15.01% | 6,290,254 | 14.06% | \$0.39 | 512,731 | 965,878 | 694,323 | 1,234,205 |
| Total | 6,108 | 265,870,308 | 166,000 | 13,325,397 | 35,606,777 | 13.39% | 43,327,305 | 16.30% | \$0.44 | 1,706,278 | 2,364,236 | 4,482,699 | 9,183,229 |

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 |
|--|-----------|-------------|----------------|----------------------------------|--|
| 4570 W. Lower Buckeye Rd. – REO Sale | Southwest | 603,910 | \$39.74 | Duke Realty Corporation | Lincoln National Life Insurance Company |
| 7300 W. Detroit St. | Southeast | 196,791 | \$61.75 | Banner Health | Valley Citrus Packing Company |
| 1617 W. Williams Dr. – Bankruptcy Sale | Northwest | 72,812 | \$74.51 | John F. Long Properties | RDB Development, LLC |
| 235 S. 56th St. | Southeast | 105,000 | \$41.67 | Recondition Systems, Inc. | Starr Distribution & Warehousing Company |
| 15525–15679 N. 83rd Way – 4 Properties | Northeast | 67,362 | \$63.80 | Kootenay Holdings, Ltd. | Turner Development Corporation |
| 225 S. Dobson Rd. | Southeast | 152,408 | \$24.93 | John & Leslie Maria Widera Trust | The Krausz Companies, Inc. |

Lease Transactions

| Property Address | Submarket | Square Feet | Transaction Date | Tenant | Owner |
|-----------------------------|-----------|-------------|------------------|---------------------------------------|-------------------------------|
| 800 N. 75th Ave. | Southwest | 1,267,110 | June–11 | Amazon.com | Buzz Oates Enterprises |
| 5328 W. Roosevelt St. | Southwest | 115,671 | April–11 | Factory Moter Parts | Coronado Commerceplex II, LLC |
| 3836 W. Buckeye Rd. | Southwest | 75,000 | June–11 | Closed Loop refining & Recovery, Inc. | D.F. Properties, Inc. |
| 836 E. University Dr. | Northeast | 71,688 | April–11 | DIRTT Environmental Solutions | EastGroup Properties, Inc. |
| 3065 S. 43rd Ave. – Renewal | Southwest | 60,971 | April–11 | Custom Fab | Drew Industries, Inc. |
| 1617 W. Williams Dr. | Northwest | 36,406 | April–11 | West–MEC | John F. Long Properties |

Product Type

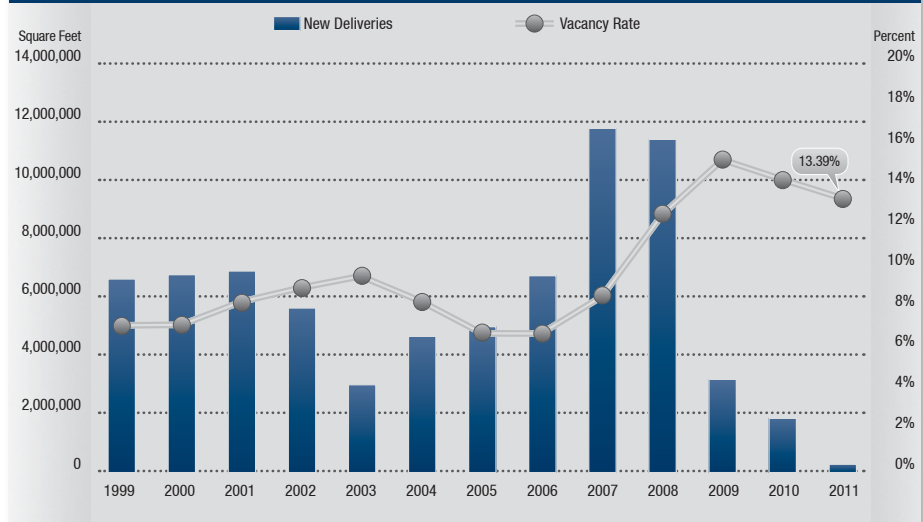
MFG./DIST.

Manufacturing/Distribution/Warehouse facilities with up to 29.9% office space.

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