



## Industrial Market Report

Compared to the Previous Quarter:



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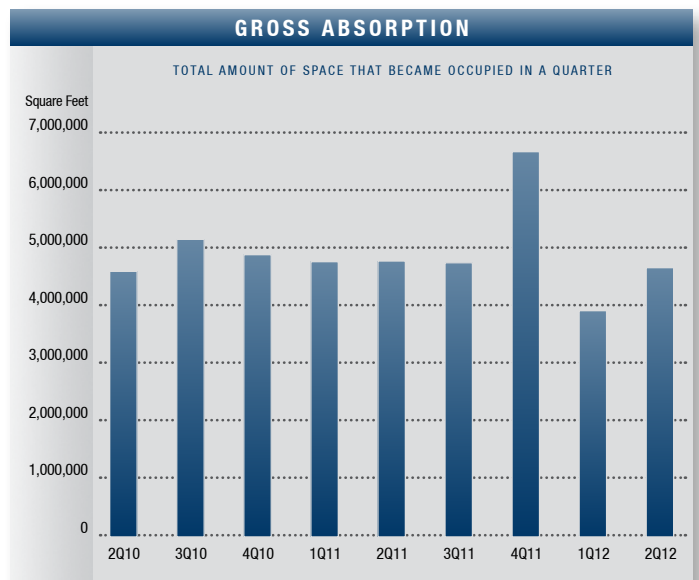
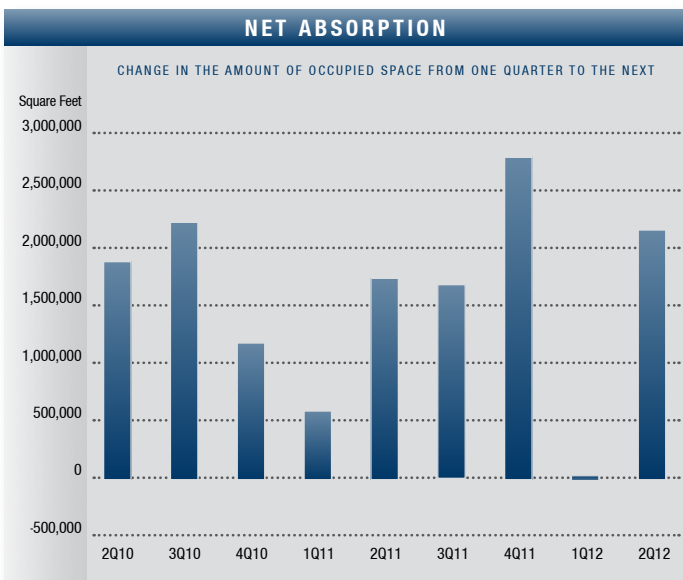
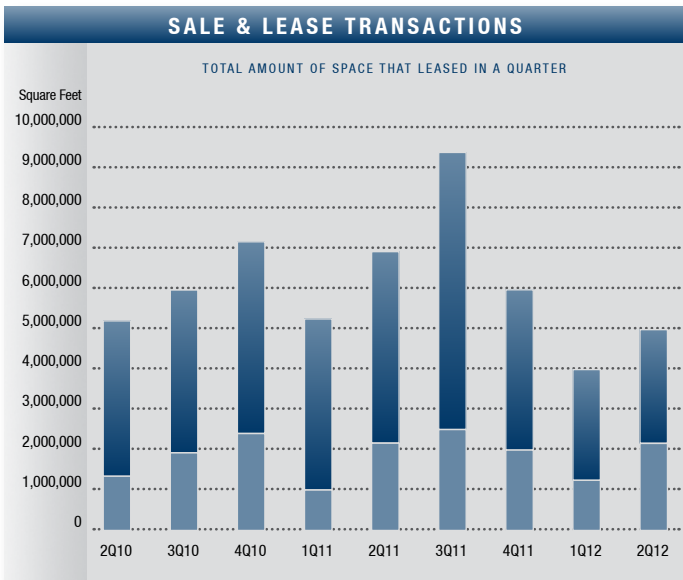
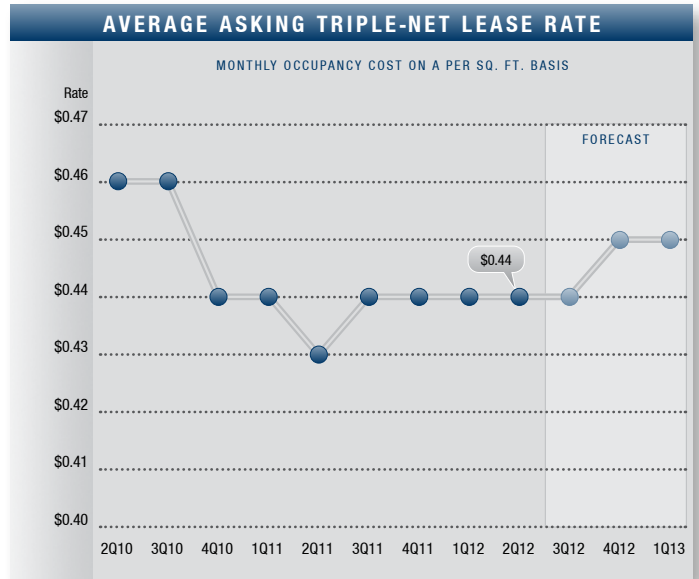
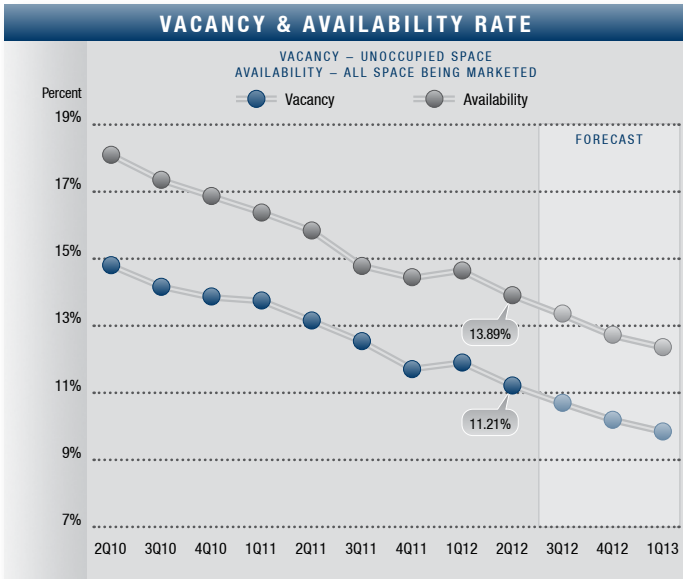
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### Market Highlights

- Stability** - The Phoenix industrial market conveyed more promise of stabilization in the second quarter of 2012. Both vacancy and availability continued their downward trend and displayed double-digit percentage drops compared to the second quarter of 2011, and net absorption saw positive growth of over 2.1 million square feet. Demand picked up compared to the previous quarter, nearly doubling the amount of square feet sold. While these are positive indications, stability and job growth will be needed in coming quarters to continue to bolster a recovery.
- Construction** - There was 2,880,000 square feet of industrial construction underway at the end of the second quarter, bringing construction back to the levels seen in the first half of 2009 but still lower than those seen during the market's peak in the second half of 2007. Most of this construction occurred in the Southeast submarket.
- Vacancy** - Direct/sublease space (unoccupied) decreased to 11.21% compared to 2012's first quarter rate of 11.90%, and a significant drop of almost 15% from 2011's second quarter. The Northeast market posted the lowest rate in the county at 7.59%. These rates are the lowest seen since the third quarter of 2008.
- Availability** - Direct/sublease space being marketed was 13.89% at the end the second quarter, a significant decrease when compared to the 15.83% rate of the same quarter of 2011 and the lowest rate seen in the last 3 years.
- Lease Rates** - The average asking-triple net lease rate was \$.44 cents per square foot per month for the second quarter, the same as the previous quarter's rate and one cent higher than 2011's second quarter's rate, indicating stability. The record high for asking lease rates, \$.59, was recorded in the first quarter of 2007.
- Absorption** - The Phoenix industrial market posted 2,148,256 square feet of positive absorption in the second quarter of 2012, producing a total of over 14 million square feet of positive absorption over nine consecutive quarters.
- Transaction Activity** - Leasing activity checked in at 2.9 million square feet for the Phoenix industrial market in second quarter 2012, a rather dramatic drop from 2011's second quarter figure of 4.7 million square feet. Sales activity showed an increase from the previous quarter, posting 2 million square feet of activity as compared to the first quarter's 1.2 million square feet and was nearly identical to the previous year's second quarter. 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 7.2% in May 2012, a health decrease from January rate of 7.9%. Sectors with strong job growth include trade, transportation, and utilities, and professional and business services, largely in the administrative and support services area. In addition, the beleaguered construction industry has made substantial strides over the past 12 months with the addition of 4,500 jobs, and the financial activities sector has also gained traction, aided by JPMorgan Chase's addition of 1,100 to local staff.
- Overall** - We are seeing a continued decrease in available and vacancy space, and a subsequent increase in net occupancy, which is contributing to an increase in asking lease rates. We are forecasting that lease rates will begin to rise during the second half of 2012. While this is certainly a positive, cautious optimism still prevails, as job creation will need to continue in order to drive the demand needed to sustain growth in the Phoenix industrial market.

### INDUSTRIAL MARKET OVERVIEW

	2Q12	1Q12	2Q11	% of Change vs. 2Q11
Total Vacancy Rate	11.21%	11.90%	13.12%	(14.56%)
Availability Rate	13.89%	14.67%	15.83%	(12.26%)
Average Asking Lease Rate	\$0.44	\$0.44	\$0.43	2.33%
Sale & Lease Transactions	4,944,262	3,908,261	6,869,040	(28.02%)
Gross Absorption	4,619,625	3,888,025	4,753,610	(2.82%)
Net Absorption	2,148,256	(2,435)	1,713,678	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 2Q2012	Square Feet Available	Availability Rate 2Q2012	Average Asking Lease Rate	Net Absorption 2Q2012	Net Absorption 2012	Gross Absorption 2Q2012	Gross Absorption 2012
<b>Airport Area</b>													
North Airport	296	10,820,688	0	12,000	1,831,978	16.93%	1,948,110	18.00%	\$0.47	37,244	(30,056)	121,413	235,857
South Airport North of Roeser	314	10,333,439	0	30,000	1,349,348	13.06%	1,566,228	15.16%	\$0.40	(14,125)	210,155	126,115	433,990
South Airport South of Roeser	121	4,038,551	0	0	445,585	11.03%	564,384	13.97%	\$0.60	9,106	3,306	22,776	56,376
SC North of Roeser	363	13,850,635	0	0	1,834,766	13.25%	2,019,041	14.58%	\$0.42	148,590	297,970	191,609	369,570
SC South of Roeser	53	1,616,333	0	0	69,343	4.29%	119,640	7.40%	\$0.39	(9,438)	(5,882)	0	22,000
<b>Airport Area Total</b>	<b>1,147</b>	<b>40,659,646</b>	<b>0</b>	<b>42,000</b>	<b>5,531,020</b>	<b>13.60%</b>	<b>6,217,403</b>	<b>15.29%</b>	<b>\$0.45</b>	<b>171,377</b>	<b>475,493</b>	<b>461,913</b>	<b>1,117,793</b>
<b>Northeast</b>													
Central Phoenix	121	4,563,672	0	20,000	94,031	2.06%	96,821	2.12%	\$0.56	25,138	26,396	35,705	52,457
Scottsdale Airpark	252	5,401,007	0	0	758,230	14.04%	856,035	15.85%	\$0.66	48,455	40,964	129,606	220,269
Scottsdale / Salt River	97	4,727,489	0	50,000	263,543	5.57%	386,845	8.18%	\$0.84	(1,758)	(33,876)	20,377	44,579
<b>Northeast Total</b>	<b>470</b>	<b>14,692,168</b>	<b>0</b>	<b>70,000</b>	<b>1,115,804</b>	<b>7.59%</b>	<b>1,339,701</b>	<b>9.12%</b>	<b>\$0.68</b>	<b>71,835</b>	<b>33,484</b>	<b>185,688</b>	<b>317,305</b>
<b>Northwest</b>													
Deer Valley / Pinnacle Park	420	12,966,386	0	212,177	1,197,468	9.24%	1,675,264	12.92%	\$0.61	44,041	309,625	215,874	667,698
Glendale	95	5,618,146	600,000	1,983,615	296,790	5.28%	637,286	11.34%	\$0.54	59,622	75,417	68,072	102,364
Grand Avenue	307	13,782,639	0	546,090	1,141,061	8.28%	1,463,130	10.62%	\$0.35	72,774	150,539	109,617	287,293
North Glendale / Sun City	92	4,074,129	0	69,241	696,786	17.10%	730,515	17.93%	\$0.51	47,302	39,691	130,622	141,740
North Black Canyon	123	3,607,876	0	0	207,492	5.75%	463,169	12.84%	\$0.49	(537)	118,663	15,978	162,341
West Phoenix North of Thomas Rd.	258	6,766,714	0	0	717,611	10.61%	831,459	12.29%	\$0.20	32,437	(60,975)	87,969	156,071
West Phoenix South of Thomas Rd.	223	6,447,907	0	0	535,094	8.30%	629,434	9.76%	\$0.28	(22,807)	(56,276)	78,826	135,343
<b>Northwest Total</b>	<b>1,518</b>	<b>53,263,797</b>	<b>600,000</b>	<b>2,811,123</b>	<b>4,792,302</b>	<b>9.00%</b>	<b>6,430,257</b>	<b>12.07%</b>	<b>\$0.50</b>	<b>232,832</b>	<b>576,684</b>	<b>706,958</b>	<b>1,652,850</b>
<b>Pinal County</b>													
Pinal County	133	7,367,794	0	739,500	583,686	7.92%	753,552	10.23%	\$0.31	0	(92,886)	0	33,753
<b>Pinal County Total</b>	<b>133</b>	<b>7,367,794</b>	<b>0</b>	<b>739,500</b>	<b>583,686</b>	<b>7.92%</b>	<b>753,552</b>	<b>10.23%</b>	<b>\$0.31</b>	<b>0</b>	<b>(92,886)</b>	<b>0</b>	<b>33,753</b>
<b>Southeast</b>													
Chandler Airport	47	2,002,602	0	756,721	167,480	8.36%	204,273	10.20%	\$0.66	43,249	44,778	49,249	59,365
Chandler	261	15,235,882	1,000,000	366,534	1,266,661	8.31%	1,757,630	11.54%	\$0.65	75,999	4,061	122,803	196,205
Chandler North / Gilbert	454	14,533,314	1,200,000	793,838	2,362,241	16.25%	2,697,908	18.56%	\$0.51	336,298	337,303	424,769	629,608
Falcon Fld / Apache Junction	120	5,220,131	0	0	361,344	6.92%	495,055	9.48%	\$0.61	20,483	40,507	78,535	128,388
Mesa	206	7,160,682	0	772,789	10,799	10.79%	806,626	11.26%	\$0.62	19,335	288,793	71,641	485,459
Tempe East	187	5,643,136	0	0	447,352	7.93%	628,949	11.15%	\$0.83	(10,134)	(16,672)	66,983	141,214
Tempe Northwest	230	8,686,459	0	0	1,258,338	14.49%	1,866,819	21.49%	\$0.59	86,449	(211,298)	149,668	221,929
Tempe Southwest	435	18,150,692	0	476,000	1,639,818	9.03%	2,161,980	11.91%	\$0.44	60,405	77,276	270,494	499,390
<b>Southeast Total</b>	<b>1,940</b>	<b>76,632,898</b>	<b>2,200,000</b>	<b>2,393,093</b>	<b>8,276,023</b>	<b>10.80%</b>	<b>10,619,240</b>	<b>13.86%</b>	<b>\$0.55</b>	<b>632,084</b>	<b>564,748</b>	<b>1,234,142</b>	<b>2,361,558</b>
<b>Southwest</b>													
Goodyear	93	8,535,490	0	9,325,894	1,751,654	20.52%	1,825,710	21.39%	\$0.42	37,015	36,969	43,177	53,745
Southwest North of Buckeye Rd.	540	30,438,932	0	835,400	3,625,150	11.91%	4,204,872	13.81%	\$0.30	9,922	(205,443)	719,946	1,152,216
Southwest South of Buckeye Rd.	189	13,610,816	0	2,906,115	1,943,958	14.28%	2,473,868	18.18%	\$0.30	138,995	143,496	236,465	256,465
Tolleson	179	27,609,600	80,000	1,291,033	2,949,812	10.68%	4,037,335	14.62%	\$0.35	854,196	613,276	1,031,336	1,561,965
<b>Southwest Total</b>	<b>1,001</b>	<b>80,194,838</b>	<b>80,000</b>	<b>14,358,442</b>	<b>10,270,574</b>	<b>12.81%</b>	<b>12,541,785</b>	<b>15.64%</b>	<b>\$0.33</b>	<b>1,040,128</b>	<b>588,298</b>	<b>2,030,924</b>	<b>3,024,391</b>
<b>Phoenix Total</b>	<b>6,209</b>	<b>272,811,141</b>	<b>2,880,000</b>	<b>20,414,158</b>	<b>30,569,409</b>	<b>11.21%</b>	<b>37,901,938</b>	<b>13.89%</b>	<b>\$0.44</b>	<b>2,148,256</b>	<b>2,145,821</b>	<b>4,619,625</b>	<b>8,507,650</b>
10,000-29,999	3,808	64,653,848	0	870,682	7,561,296	11.70%	9,236,553	14.29%	\$0.51	416,632	530,209	1,254,686	2,534,637
30,000-49,999	1,059	40,532,615	0	744,283	5,115,548	12.62%	6,155,134	15.19%	\$0.48	239,173	206,246	722,752	1,189,737
50,000-99,999	842	57,935,776	80,000	874,689	6,614,926	11.42%	8,046,575	13.89%	\$0.46	109,549	(132,820)	658,720	1,258,134
100,000-199,999	336	44,257,691	0	2,122,203	6,054,736	13.68%	7,776,101	17.57%	\$0.43	343,534	468,114	389,569	881,234
200,000-299,999	85	20,405,800	0	732,031	2,804,070	13.74%	3,181,073	15.59%	\$0.35	200,306	(150,525)	298,536	562,611
300,000+	79	45,025,411	2,800,000	15,070,270	2,418,833	5.37%	3,506,502	7.79%	\$0.30	839,062	1,224,597	1,295,362	2,081,297
<b>Phoenix Total</b>	<b>6,209</b>	<b>272,811,141</b>	<b>2,880,000</b>	<b>20,414,158</b>	<b>30,569,409</b>	<b>11.21%</b>	<b>37,901,938</b>	<b>13.89%</b>	<b>\$0.44</b>	<b>2,148,256</b>	<b>2,145,821</b>	<b>4,619,625</b>	<b>8,507,650</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
4750-5050 W. Mohave St. – 2 Properties	S. of Buckeye Rd.	1,583,781	\$83.13	Industrial Income Trust	KTR Capital Partners, LP
2115 S. 11th Ave.	N. of Salt River	336,665	\$77.53	Cornerstone real Estate Advisers	Lincoln Property Company
405 N. 75th Ave.	Tolleson	407,203	\$60.23	Crow Holdings	BlackRock, Inc.
8591 W. Washington St. – 2 Properties	Tolleson	403,321	\$42.22	Liberty Property Trust	E & V Investments, LLC
9704 W. Roosevelt St.	Tolleson	302,640	\$50.09	Industrial Income Trust	Prologis
125 N. 67th Ave.	N. of Buckeye Rd.	170,625	\$42.00	KBP Realty Advisors	Richard Black

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
435 S. 59th Ave.	N. of Buckeye Rd.	358,830	May-12	Total Warehouse, Inc.	Berendo Property
2225 S. 75th Ave.	Tolleson	155,794	May-12	Consolidated Grain & Barge Company	Clarion Partners
4570 W. Lower Buckeye Rd.	S. of Buckeye Rd.	108,195	May-12	Ulta Salon & Cosmetics, Inc.	Duke Realty Corporation
4137 W. Adams St.	N. of Buckeye Rd.	56,817	Jun-12	Events Rents, LLC	First Industrial Realty Trust
3717 W. Washington Ave.	N. of Buckeye Rd.	46,266	Jun-12	N/A	Johnson Grove Partnership
7815 S. Hardy Dr.	Tempe Southwest	38,656	Jun-12	JFC International, Inc.	Trans Pacific Development
2160 W. Broadway Rd.	Mesa	38,157	Jun-12	Mitel Networks	RREEF America

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