



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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Market Highlights

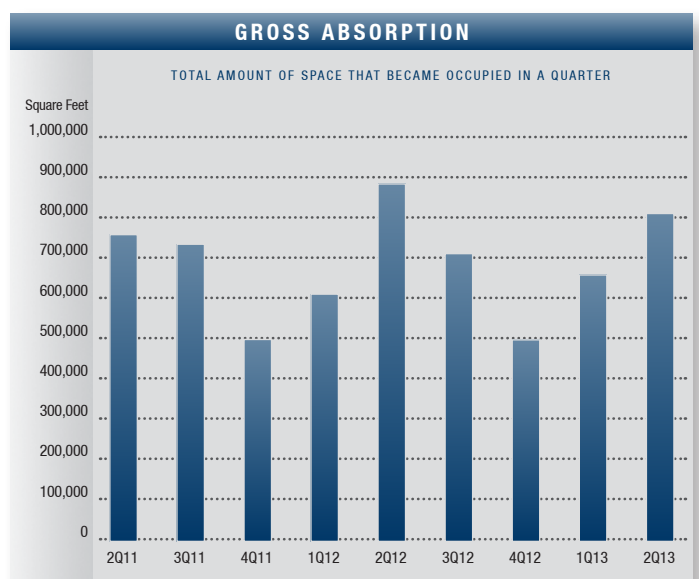
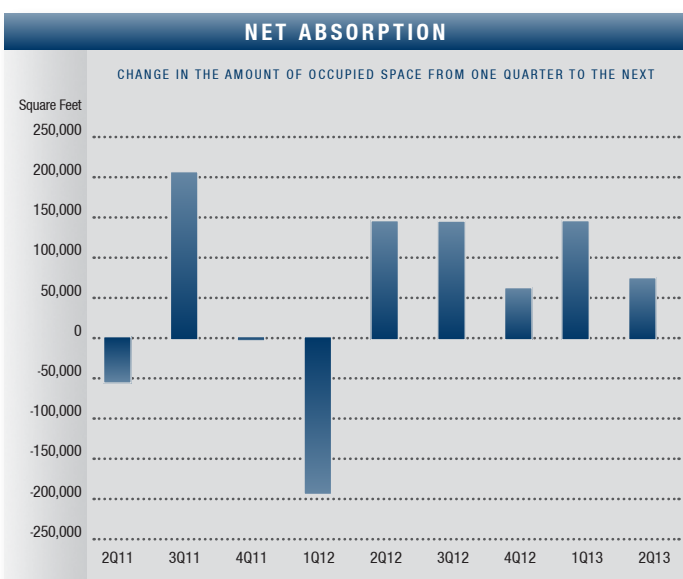
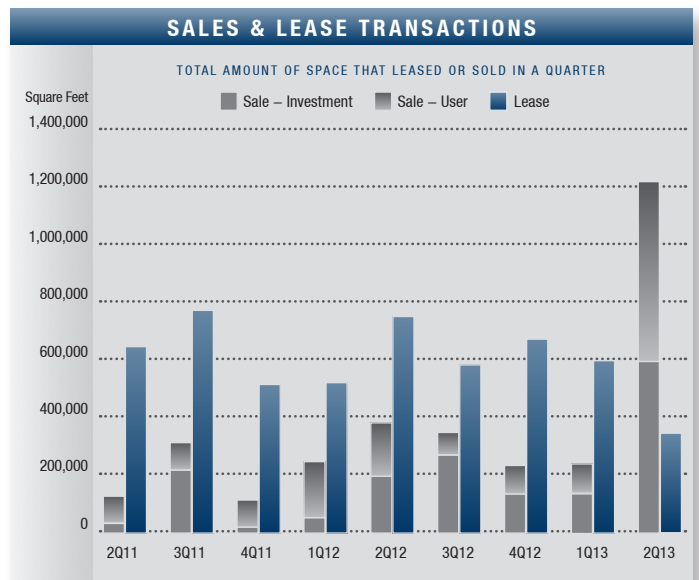
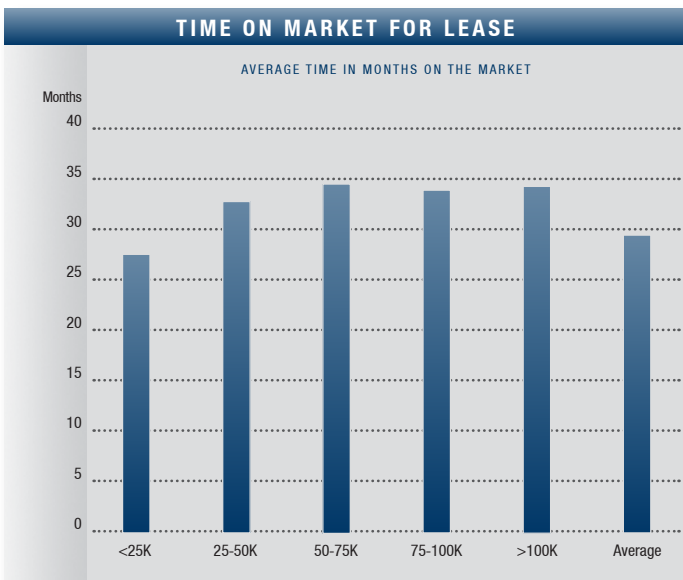
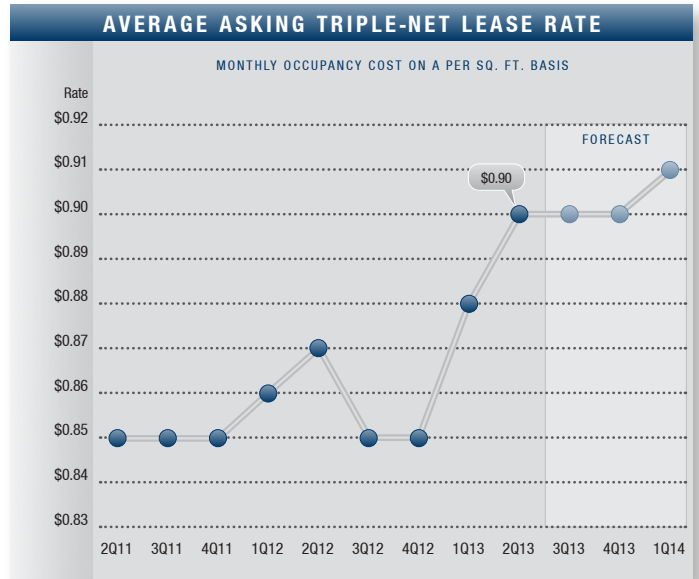
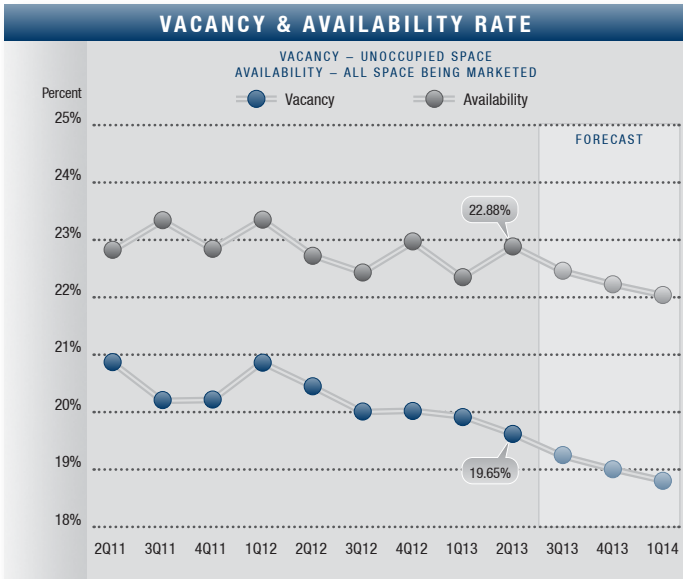
- **Stability** - The Phoenix flex/R&D market conveyed indications of continued stabilization in the second quarter of 2013. Both vacancy and availability decreased from the previous quarter, and net absorption posted a positive figure of 73,534 square feet in the second quarter. While these are indications 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 second 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 decrease to 19.65% from the previous quarter's rate of 19.89%. The Airport Area market posted the lowest rate in the county at 15.29%.
- **Availability** - Direct/sublease space being marketed was 22.88% at the end the second quarter, a relatively modest increase of just over 0.66% when compared to the 22.73% rate of the same quarter of 2012.
- **Lease Rates** - The average asking triple-net lease rate was \$.90 per square foot per month in the second quarter of 2013, two cent higher than the previous quarter's rate and up three cents compared to the previous year's rate, indicating stability. The highest asking lease rate of \$1.12 was recorded in the Deer Valley area.
- **Absorption** - The Phoenix flex/R&D market posted 73,534 square feet of positive absorption in the beginning of the year, marking the fifth consecutive

quarter of positive absorption and giving the market a total of 568,092 square feet since the second quarter of 2012.

- **Transaction Activity** - Leasing activity checked in at 339,557 square feet for the Phoenix flex/R&D market in the second quarter of 2013, a drop from 2013's first quarter figure of 566,825 square feet. Sales activity exploded, posting 1,210,849 square feet of activity as compared to the first quarter's 228,890 square feet. Both lease and sale activity remained relatively equal to the amount posted in the second 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 6.6% in April 2013, a healthy decrease from January 2013's rate of 6.8%. 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

	2Q13	1Q13	2Q12	% of Change vs. 2Q12
Total Vacancy Rate	19.65%	19.89%	20.44%	(3.86%)
Availability Rate	22.88%	22.33%	22.73%	0.66%
Average Asking Lease Rate	\$0.90	\$0.88	\$0.87	3.45%
Sale & Lease Transactions	1,550,406	795,715	1,118,674	38.59%
Gross Absorption	819,671	652,292	882,775	(7.15%)
Net Absorption	73,534	145,308	145,298	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 2Q2013	Square Feet Available	Availability Rate 2Q2013	Average Asking Lease Rate	Net Absorption 2Q2013	Net Absorption 2013	Gross Absorption 2Q2013	Gross Absorption 2013
Airport Area													
North Airport	42	1,546,441	0	0	318,097	20.57%	468,596	30.30%	\$0.65	0	(1,594)	0	17,782
South Airport North of Roeser	57	2,374,837	0	50,000	290,468	12.23%	430,639	18.13%	\$0.99	(2,009)	(4,073)	35,402	40,348
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	39	963,190	155,000	0	160,181	16.63%	203,925	21.17%	\$0.61	0	15,848	0	15,848
SC South of Roeser	4	28,076	0	0	0	0.00%	0	0.00%	\$0.68	0	0	0	0
Airport Area Total	151	5,029,124	155,000	50,000	768,746	15.29%	1,119,075	22.25%	\$0.80	(2,009)	10,181	35,402	73,978
Northeast													
Central Phoenix	51	858,314	0	0	106,182	12.37%	111,841	13.03%	\$0.55	5,246	11,123	9,827	17,772
Scottsdale Airpark	101	2,448,515	0	0	528,342	21.58%	588,002	24.01%	\$0.85	20,781	52,625	84,886	177,602
Scottsdale / Salt River	71	1,942,663	0	0	395,394	20.35%	542,262	27.91%	\$1.04	18,067	(15,146)	37,041	56,485
Northeast Total	223	5,249,492	0	0	1,029,918	19.62%	1,242,105	23.66%	\$0.88	44,094	48,602	131,754	251,859
Northwest													
Deer Valley / Pinnacle Park	91	3,616,150	0	139,700	982,600	27.17%	1,054,847	29.17%	\$1.12	(15,084)	58,792	116,655	218,576
Glendale	12	411,114	0	100,000	81,553	19.84%	98,349	23.92%	\$0.69	17,039	(591)	17,039	23,522
Grand Avenue	22	219,021	0	0	6,532	2.98%	14,432	6.59%	\$0.68	0	2,960	3,720	7,220
North Glendale / Sun City	22	438,341	0	72,000	116,806	26.65%	116,806	26.65%	\$0.73	5,116	22,140	7,439	31,242
North Black Canyon	65	1,324,854	0	0	368,609	27.82%	363,320	27.42%	\$0.64	(59,446)	(43,302)	14,184	52,711
West Phoenix North of Thomas Rd.	42	739,995	0	0	65,027	8.79%	70,009	9.46%	\$0.46	16,345	(15,240)	25,203	29,928
West Phoenix South of Thomas Rd.	9	95,951	0	0	15,701	16.36%	15,701	16.36%	\$0.45	4,402	(5,099)	9,402	9,402
Northwest Total	263	6,845,426	0	311,700	1,636,828	23.91%	1,733,464	25.32%	\$1.02	(31,628)	19,660	193,642	372,601
Pinal County													
Pinal County	8	60,732	0	0	2,240	3.69%	2,240	3.69%	\$0.68	0	0	0	0
Pinal County Total	8	60,732	0	0	2,240	3.69%	2,240	3.69%	\$0.68	0	0	0	0
Southeast													
Chandler Airport	10	669,472	0	800,060	86,915	12.98%	99,061	14.80%	\$1.20	30,163	24,005	46,447	51,616
Chandler	64	3,267,536	91,700	760,567	515,597	15.78%	579,192	17.73%	\$0.96	238,642	268,441	284,828	360,603
Chandler North / Gilbert	100	2,540,799	0	7,080	596,800	23.49%	650,906	25.62%	\$0.83	(1,454)	(15,371)	32,578	67,249
Falcon Fld / Apache Junction	25	415,576	0	0	140,844	33.89%	139,323	33.53%	\$0.66	(8,698)	841	126	9,830
Mesa	39	416,922	0	0	31,908	7.65%	52,749	12.65%	\$0.67	0	(15,078)	0	0
Tempe East	40	956,617	0	390,414	159,208	16.64%	165,310	17.28%	\$0.69	(6,864)	(7,688)	12,015	16,367
Tempe Northwest	73	2,593,657	0	485,000	489,902	18.89%	489,308	18.87%	\$0.90	(168,647)	(93,283)	26,401	173,549
Tempe Southwest	90	4,107,344	0	0	751,323	18.29%	1,002,046	24.40%	\$0.88	(27,390)	(31,777)	40,136	72,134
Southeast Total	441	14,967,923	91,700	2,443,121	2,772,497	18.52%	3,177,895	21.23%	\$0.89	55,752	130,090	442,531	751,348
Southwest													
Goodyear	12	302,618	0	0	36,565	12.08%	56,143	18.55%	\$0.45	(2,910)	(4,870)	0	0
Southwest North of Buckeye Rd.	9	267,669	0	0	0	0.00%	0	0.00%	\$0.80	0	0	0	0
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	123,683	28.66%	123,683	28.66%	\$0.65	10,235	15,179	16,342	22,177
Southwest Total	37	1,342,597	0	0	370,687	27.61%	390,265	29.07%	\$0.73	7,325	10,309	16,342	22,177
Phoenix Total	1,123	33,495,294	246,700	2,804,821	6,580,916	19.65%	7,665,044	22.88%	\$0.90	73,534	218,842	819,671	1,471,963
1-24,999	731	8,638,929	0	109,652	1,341,381	15.53%	1,676,868	19.41%	\$0.71	(29,564)	(48,320)	188,559	347,830
25,000-49,999	221	7,600,199	26,600	291,258	1,720,448	22.64%	1,966,161	25.87%	\$0.75	(471)	93,040	237,127	487,805
50,000-74,999	74	4,490,421	65,100	598,922	1,138,243	25.35%	1,251,733	27.88%	\$0.86	(100,148)	(115,585)	47,059	162,510
75,000-99,999	42	3,579,938	0	240,414	878,389	24.54%	933,601	26.08%	\$1.03	(59,875)	(76,630)	39,732	39,732
100,000+	55	9,185,807	155,000	1,564,575	1,502,455	16.36%	1,836,681	19.99%	\$1.08	263,592	366,337	307,194	434,086
Phoenix Total	1,123	33,495,294	246,700	2,804,821	6,580,916	19.65%	7,665,044	22.88%	\$0.90	73,534	218,842	819,671	1,471,963

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
615 N. 48th St.	Tempe N.W.	530,856	\$135.63	i/o Data Centers	CBRE Global Investors
6700 W. Morelos Pl.	Chandler	231,400	\$140.45	Griffen Capital Essential Asset REIT	FORT Properties
3440 E. University Dr.	N. Airport	130,282	\$151.59	Artis Real Estate Investment Trust	Robert Caldwell
8320 S. Hardy Dr.	Tempe S.W.	104,836	\$136.59	JDM Partners, LLC	iStar Financial, Inc.
7410 S. Roosevelt St.	Tempe S.W.	160,313	\$76.10	Everest Holdings, LLC	CW Financial Services

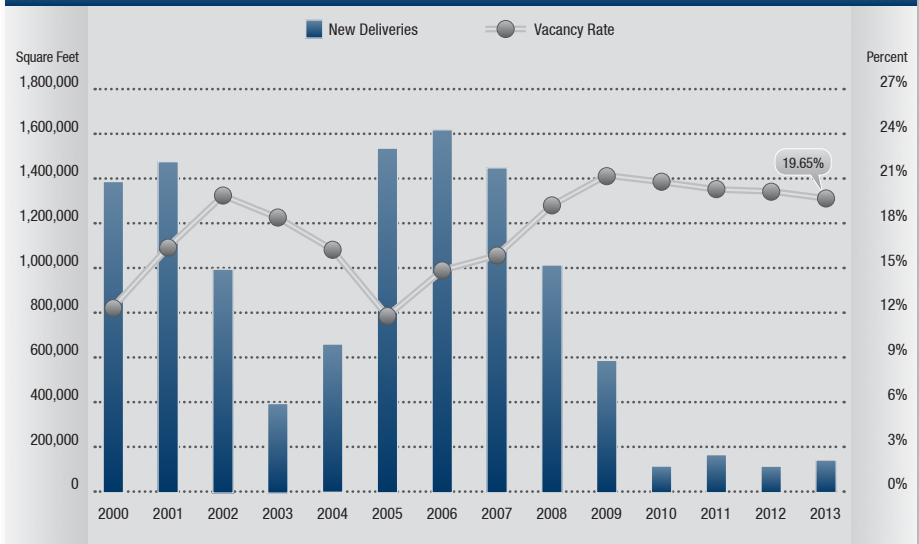
Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
21030 N. 19th Ave.	Deer Valley	63,885	Apr-13	N/A	S.M.D.I. Company
15810 N. 28th Ave.	Deer Valley	26,544	Jun-13	TriWest Healthcare Alliance	CW Capital Asset Management
2299 W. Onispo Ave.	Chandler	23,701	Apr-13	GoDaddy.com, Inc.	First Technology Capital, Inc.
2301 E. Yeager Dr.	Chandler Airport	9,794	May-13	N/A	Mark IV Capital, Inc.
1465 N. Hayden Rd.	Scottsdale	8,675	May-13	N/A	Crown West Realty, 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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