

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

FLAT



Transactions

DOWN



Deliveries

FLAT



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HIGHLIGHTS

- **Market Status** - Phoenix Flex/R&D activity has increased from the first quarter of 2014, posting 286,616 square feet of positive net absorption in the second quarter and giving the market a net total of almost 740,000 square feet of positive absorption for the last eight quarters. Vacancy and availability both decreased, continuing their downward trends. We expect the vacant spaces to be filled due to broad-based demand in the market, and developers to build rapidly in last half of 2014, continuing the path of growth in this strong warehouse market.
- **Construction** - There was 153,768 square feet reported under construction, located in Tempe East and Chandler submarkets, at the close of the second 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 2.0 million square feet of Flex/R&D space planned in the Phoenix Metro Area.
- **Vacancy** - Down about 85 basis points from the previous quarter, direct/sublease space (unoccupied) finished the second quarter at 19.49%, a slight increase from the previous year's rate of 19.42%. The Northeast market posted the lowest rate in the market, at 16.94%, while the Southwest had the highest rate, at 24.05%.
- **Availability** - Direct/sublease space being marketed was 21.87% during the second quarter, a drop from the 23.12% in the previous quarter and a larger decrease when compared to the 23.37% seen in the second quarter of 2013.
- **Lease Rates** - The average asking triple-net lease rate was \$.94 per square foot per month in the second quarter of 2014, with no change from the previous quarter's rate, but up four cents from the previous year's rate. This quarter, the highest average asking rate of \$1.03 was recorded in the Southwest submarket.
- **Absorption** - The Phoenix Flex/R&D market posted 286,616 square feet of positive absorption in the second quarter, giving

the market almost 740,000 square feet of positive absorption over the last eight quarters.

- **Transaction Activity** - Leasing activity checked in at 602,000 square feet for the Phoenix Flex/R&D market in the second quarter of 2014, a decrease from 2013's second quarter figure of 687,000 square feet. Sales activity came in at 572,000 square feet this quarter, an increase compared to last quarter's figure of 390,000. This statistic can have some lag time in being reported, so look for second 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 6.8% in May 2014, a decrease from January 2014's rate of 7.6%. Sectors with strong job growth included transportation, construction, financial activities, and education/health services. 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, May added 25,410 nonfarm jobs: 1,180 in construction and 3,850 in the education & health services sector. The number of jobs has increased in the first half of 2014 and we anticipate this trend continuing for the remainder of 2014.
- **Overall** - The Phoenix Flex/R&D market appears to be stabilizing, as we are seeing vacancy and availability trending downward compared to last quarter. The market has seen positive absorption figures for 11 of the last 17 quarters. Lease rates remained stable in the second quarter, up nine cents from the end of 2012. 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.

FORECAST

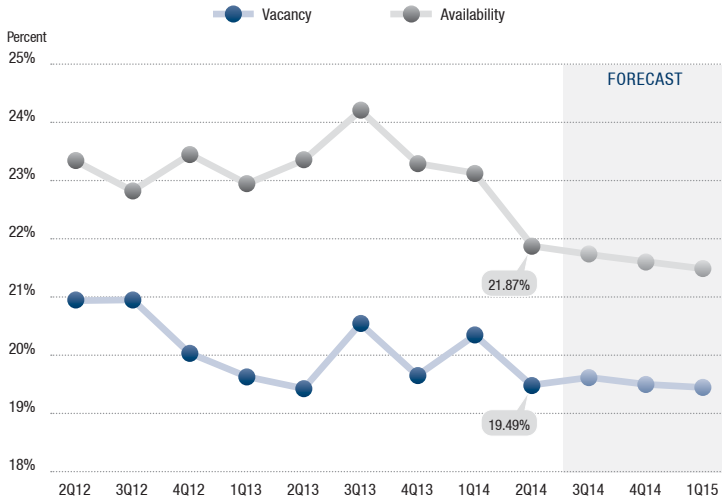
- **Construction** - With a favorable business climate spurring demographic growth, the Phoenix market is one of the fastest growing in the country. Developers are planning an influx of new properties, with almost 2.0 million planned in the metro area. In the meantime, limited construction should ease 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, construction, and education & health services to lead the way in employment growth, and the new sector of high tech manufacturing, with large companies opening plants and factories.
- **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 59 basis points, to around 18.90% by the end of 2014.

OVERVIEW

	2Q14	1Q14	2Q13	% of Change vs. 2Q13
Vacancy Rate	19.49%	20.34%	19.42%	0.36%
Availability Rate	21.87%	23.12%	23.37%	(6.42%)
Average Asking Lease Rate	\$0.94	\$0.94	\$0.90	4.44%
Sale & Lease Transactions	1,173,972	923,779	2,576,323	(54.43%)
Gross Absorption	830,820	501,201	718,762	15.59%
Net Absorption	286,616	(230,449)	68,495	N/A

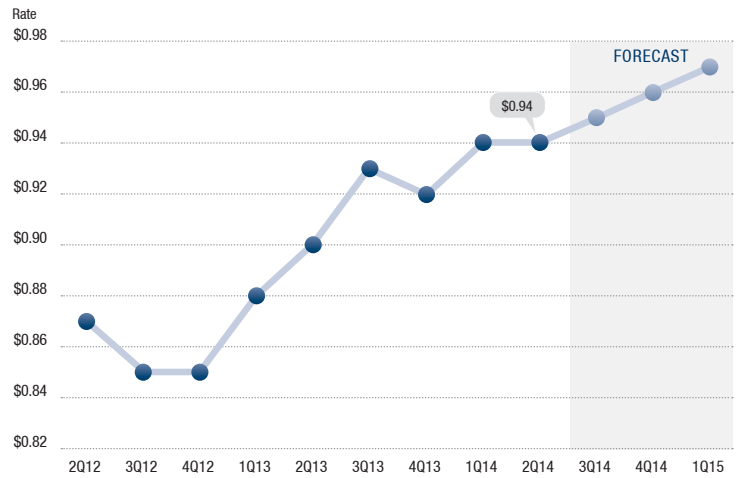
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



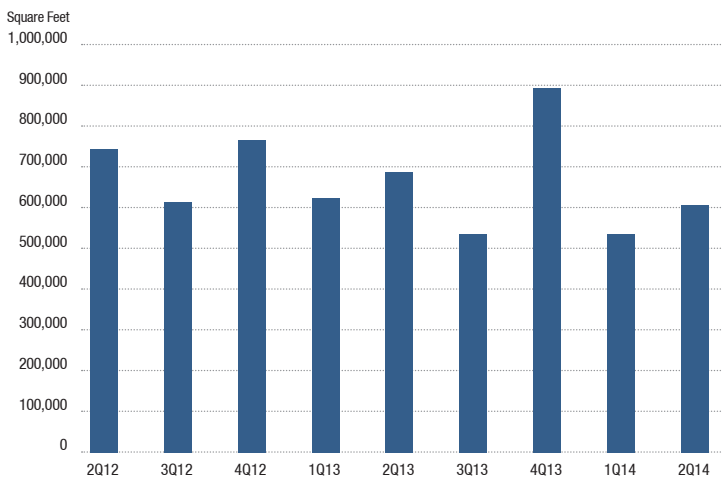
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



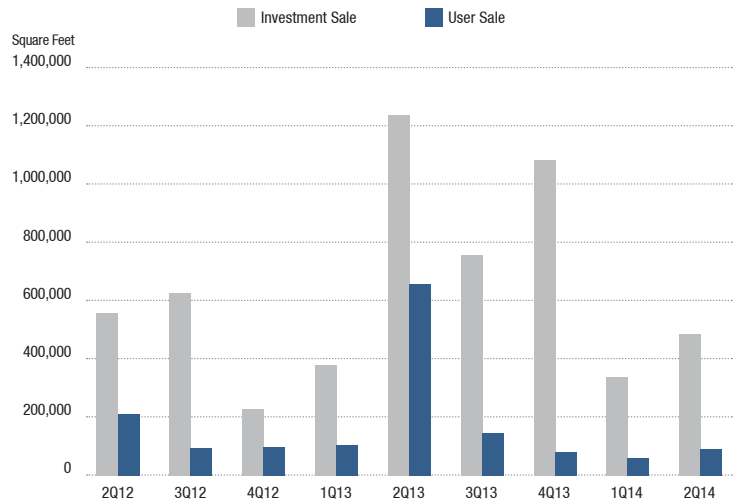
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



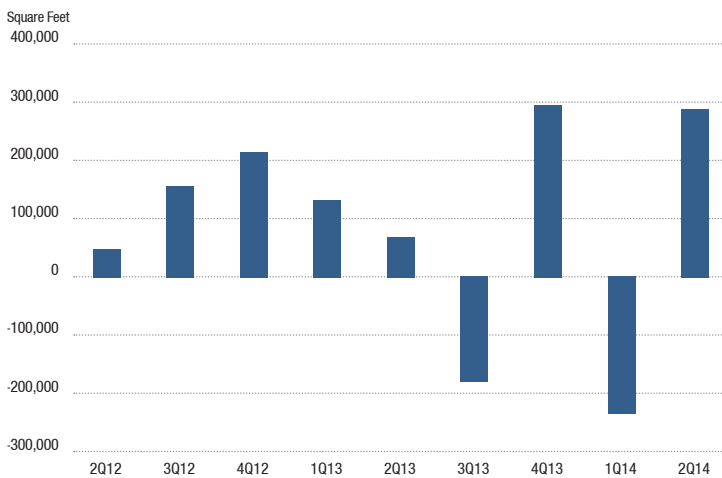
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



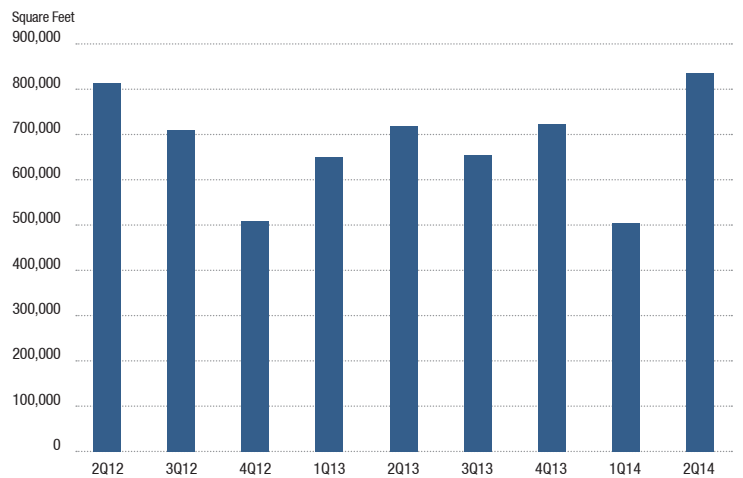
NET ABSORPTION

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 2Q2014	Square Feet Available	Availability Rate 2Q2014	Average Asking Lease Rate	Net Absorption 2Q2014	Net Absorption 2014	Gross Absorption 2Q2014	Gross Absorption 2014
Airport Area													
North Airport	44	1,710,113	0	0	309,880	18.12%	436,155	25.50%	\$0.86	32,360	60,961	40,425	71,482
South Airport North of Roeser	58	2,419,258	0	0	485,370	20.06%	524,401	21.68%	\$1.02	(18,586)	(175,539)	22,759	63,053
South Airport South of Roeser	10	123,480	0	0	7,568	6.13%	23,483	19.02%	\$0.00	0	(7,568)	0	0
SC North of Roeser	40	970,390	0	0	130,418	13.44%	185,260	19.09%	\$1.00	0	0	0	0
SC South of Roeser	4	28,076	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Airport Area Total	156	5,251,317	0	0	933,236	17.77%	1,169,299	22.27%	\$0.93	13,774	(122,146)	63,184	134,535
Northeast													
Central Phoenix	54	983,840	0	0	128,050	13.02%	121,473	12.35%	\$0.60	8,454	18,597	27,217	48,062
Scottsdale Airport	102	2,453,967	0	0	543,691	22.16%	592,080	24.13%	\$0.85	9,315	(11,259)	63,728	113,677
Scottsdale / Salt River	69	1,816,327	0	299,320	218,235	12.02%	387,339	21.33%	\$1.01	(22,501)	(23,268)	20,299	41,089
Northeast Total	225	5,254,134	0	299,320	889,976	16.94%	1,100,892	20.95%	\$0.88	(4,732)	(15,930)	111,244	202,828
Northwest													
Deer Valley / Pinnacle Park	90	3,614,102	0	16,500	839,506	23.23%	891,520	24.67%	\$1.13	43,871	72,732	56,637	91,323
Glendale	12	411,114	0	100,000	94,929	23.09%	106,370	25.87%	\$0.69	4,000	2,447	4,000	25,623
Grand Avenue	22	153,377	0	0	6,836	4.46%	14,736	9.61%	\$0.61	(264)	(264)	2,898	2,898
North Glendale / Sun City	25	481,450	0	22,000	90,867	18.87%	87,094	18.09%	\$0.66	22,552	64,100	39,003	89,353
North Black Canyon	65	1,328,680	0	0	290,139	21.84%	349,592	26.31%	\$0.55	10,700	23,725	31,840	59,110
West Phoenix North of Thomas Rd.	40	711,391	0	0	53,550	7.53%	62,562	8.79%	\$0.41	(7,038)	(301)	6,000	18,906
West Phoenix South of Thomas Rd.	9	95,951	0	0	10,701	11.15%	26,949	28.09%	\$0.00	0	0	0	0
Northwest Total	263	6,796,065	0	138,500	1,386,528	20.40%	1,538,823	22.64%	\$1.03	73,821	162,439	140,378	287,213
Pinal County													
Pinal County	8	60,732	0	0	4,840	7.97%	12,840	21.14%	\$0.00	(1,100)	(1,100)	0	0
Pinal County Total	8	60,732	0	0	4,840	7.97%	12,840	21.14%	\$0.00	(1,100)	(1,100)	0	0
Southeast													
Chandler Airport	10	672,039	0	461,380	327,711	48.76%	330,319	49.15%	\$1.23	29,112	26,093	29,112	42,859
Chandler	70	3,456,749	81,768	550,000	759,845	21.98%	842,910	24.38%	\$0.95	24,272	(6,913)	92,342	108,695
Chandler North / Gilbert	99	2,428,493	0	147,080	608,015	25.04%	558,990	23.02%	\$0.68	73,781	67,245	107,764	162,875
Falcon Fld / Apache Junction	28	452,706	0	0	120,477	26.61%	120,477	26.61%	\$0.65	1,249	(9,092)	2,799	15,429
Mesa	39	420,820	0	0	38,767	9.21%	50,717	12.05%	\$0.00	(8,272)	(6,272)	0	2,000
Tempe East	39	876,990	72,000	312,000	157,225	17.93%	144,862	16.52%	\$1.00	3,565	(841)	3,565	9,274
Tempe Northwest	74	2,628,801	0	0	314,112	11.95%	308,092	11.72%	\$0.95	(4,267)	(38,389)	178,360	193,190
Tempe Southwest	91	4,107,842	0	0	717,467	17.47%	881,755	21.47%	\$1.02	49,191	(82,666)	63,573	80,501
Southeast Total	450	15,044,440	153,768	1,470,460	3,043,619	20.23%	3,238,122	21.52%	\$0.93	168,631	(50,835)	477,515	614,823
Southwest													
Goodyear	10	196,019	0	0	3,000	1.53%	31,578	16.11%	\$0.45	10,808	40,579	10,808	40,579
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	431,834	0	0	84,245	19.51%	56,247	13.03%	\$1.00	25,414	37,160	27,691	46,043
Southwest Total	34	1,234,516	0	0	296,884	24.05%	297,464	24.10%	\$0.55	36,222	83,739	38,499	92,622
Phoenix Total	1,136	33,641,204	153,768	1,908,280	6,555,083	19.49%	7,357,440	21.87%	\$0.94	286,616	56,167	830,820	1,332,021
1-24,999	742	8,715,066	0	65,085	1,261,358	14.47%	1,490,382	17.10%	\$0.85	42,803	143,250	193,283	445,337
25,000-49,999	226	7,772,051	0	301,620	1,405,073	18.08%	1,663,475	21.40%	\$0.84	90,858	143,572	262,809	476,742
50,000-74,999	73	4,429,670	72,000	50,000	904,394	20.42%	1,128,333	25.47%	\$0.74	131,046	77,899	189,275	221,091
75,000-99,999	40	3,424,057	81,768	325,000	867,822	25.34%	693,820	20.26%	\$101.00	12,083	(37,414)	146,690	146,690
100,000+	55	9,300,360	0	1,166,575	2,116,436	22.76%	2,381,430	25.61%	\$1.13	9,826	(271,140)	38,763	42,161
Phoenix Total	1,136	33,641,204	153,768	1,908,280	6,555,083	19.49%	7,357,440	21.87%	\$0.94	286,616	56,167	830,820	1,332,021

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
75 W. Baseline Rd. – 7 Properties	Chandler N/ Gilbert	122,191	\$68.34	Presson Corporations	RREEF America REIT II, Corp. VW
3411 E. Harbour Dr. – 4 Properties	North Airport	108,033	\$53.40	Turner Real Estate Investments	Jupiter Holdings, LLC
7143 E. Southern Ave. – 3 Properties	Falcon Fld/Apache Junction	94,847	\$61.15	Holualoa Arizona, Inc.	The Koll Company
16000 N. 80th St. – 2 Properties	Scottsdale Airpark	49,539	\$78.63	Del Mar Partnership	Turner Development Corporation
2225 W. Mountain View Rd.	North Black Canyon	28,360	\$38.08	Zimmerman Properties, Inc.	Terry Sims

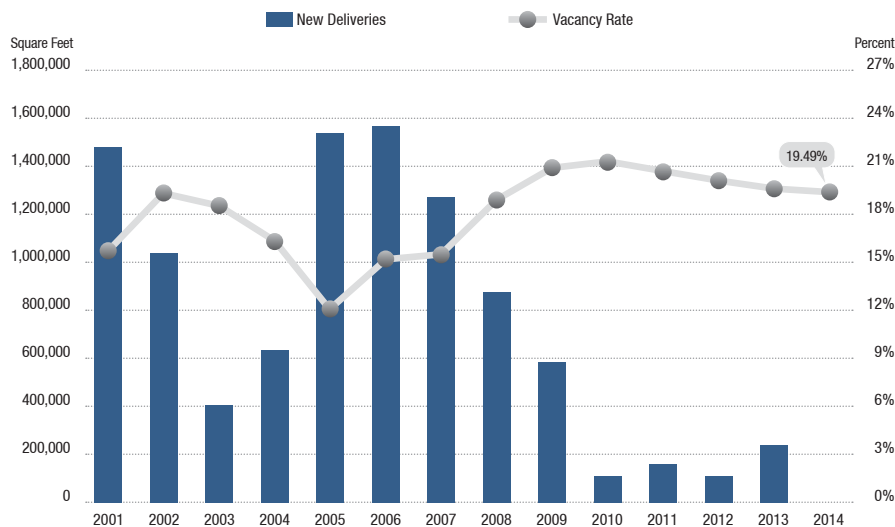
Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
Rio West Business Park – 3 buildings, Renewal	Tempe Northwest	204,109	Apr-14	U.S. Airways	The Wolff Company
4832 E. McDowell Rd.	Central Phoenix	34,440	May-14	Logisticare Solutions, LLC	Vwp McDowell, LLC
19621 N. 23rd Ave.	Deer Valley/Pinnacle Peak	18,932	Jun-14	Vision Graphics	Pri Deer Valley, LLC
15820 N. 28th Ave. Bldg. D	Deer Valley/Pinnacle Peak	17,324	Apr-14	Triwest Healthcare	CW Capital Asset Management, LLC
420 S. Smith Rd.	Tempe East	16,843	Apr-14	Clever Investor	Ground Zero, 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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