

## MARKET CHANGE

*Compared to Previous Quarter:*

**Vacancy**

**DOWN**



**Net Absorption**

**POSITIVE**



**Lease Rates**

**UP**



**Transactions**

**DOWN**



**Deliveries**

**UP**



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VOIT Real Estate Services

## HIGHLIGHTS

- **Steady Growth** - The Flex/R&D market had a good second quarter by posting 260,000 square feet of positive net absorption, giving the market a total of over 1.6 million square feet of positive absorption for the last three years. Vacancy and availability continued their downward trends while lease rates increased from the previous quarter.
- **Construction** - There was only 23,200 square feet under construction 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 3.3 million square feet of Flex/R&D space planned in the Phoenix Metro Area.
- **Vacancy** - Direct/sublease space (unoccupied) finished the second quarter at 18.09%, a slight decrease from the previous quarter's rate of 18.13%. The Northeast market posted the lowest rate in the market, at 13.28%, while the Northwest had the highest rate, at 19.30%.
- **Availability** - Direct/sublease space being marketed was 19.21% at the end of the second quarter, a decrease from the 19.86% in the previous quarter but an even bigger decrease when compared to the 20.90% seen in the second quarter of 2014.
- **Lease Rates** - The average asking triple-net lease rate was \$.97 per square foot per month in the second quarter of 2015, two cents higher than the previous quarter and three cents higher than 2014's second quarter rate. This quarter, the highest average asking rate of \$1.06 was recorded in the Southeast submarket.
- **Absorption** - The Phoenix Flex/R&D market posted 259,189 square feet of positive absorption in the second quarter, giving the market almost 1.6 million square feet of positive absorption over the last twelve quarters.
- **Transaction Activity** - Leasing activity checked in at 512,604 square feet for the Phoenix Flex/R&D market in the second quarter of 2015, a decrease from last quarter's figure of 990,675 square feet. Sales activity came in at 738,139 square feet this quarter, an increase compared to last quarter's figure of 399,796. 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 4.9% in April 2015, a decrease from January 2015's rate of 5.8%. Sectors with strong job growth included education & health services, professional and business services, and leisure & hospitality. 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, year over year job growth added 16,700 education & health services jobs, 16,000 professional & business services jobs, and 13,600 in leisure and hospitality jobs. The number of jobs has increased by 64,000 jobs 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 and availability rates decrease. The market has seen positive absorption figures for 8 of the last 12 quarters. Lease rates increased in the second quarter, up nine 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

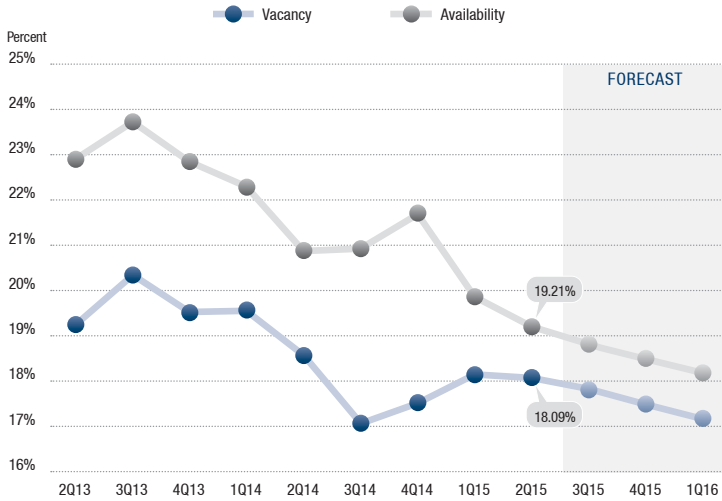
- **Construction** - With a favorable business climate spurring demographic growth, the Phoenix market is one of the fastest growing in the country. Developers are planning an influx of new properties, with just under 3.3 million square feet planned in the metro area. In the meantime, limited construction 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 first quarter of 2016.

## OVERVIEW

	2Q15	1Q15	2Q14	% of Change vs. 2Q14
Total Vacancy Rate	18.09%	18.13%	18.56%	(2.53%)
Availability Rate	19.21%	19.86%	20.90%	(8.09%)
Average Asking Lease Rate	\$0.97	\$0.95	\$0.94	3.19%
Sale & Lease Transactions	1,250,743	1,390,471	1,087,889	14.97%
Gross Absorption	770,589	367,575	855,410	(9.92%)
Net Absorption	259,189	(203,985)	341,196	N/A

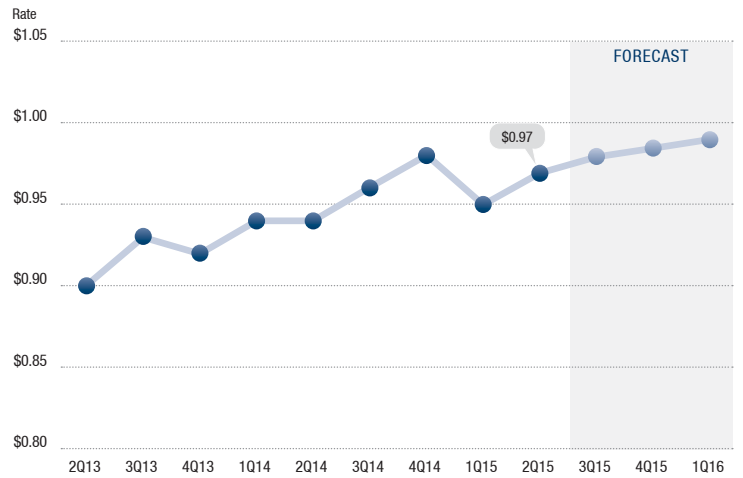
## VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



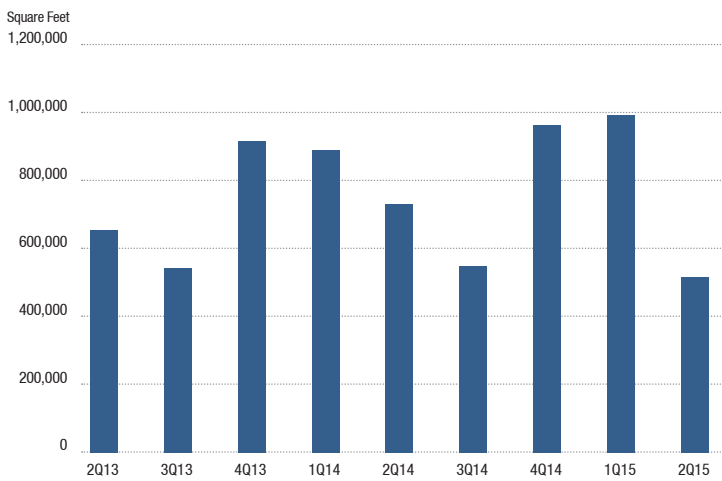
## AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



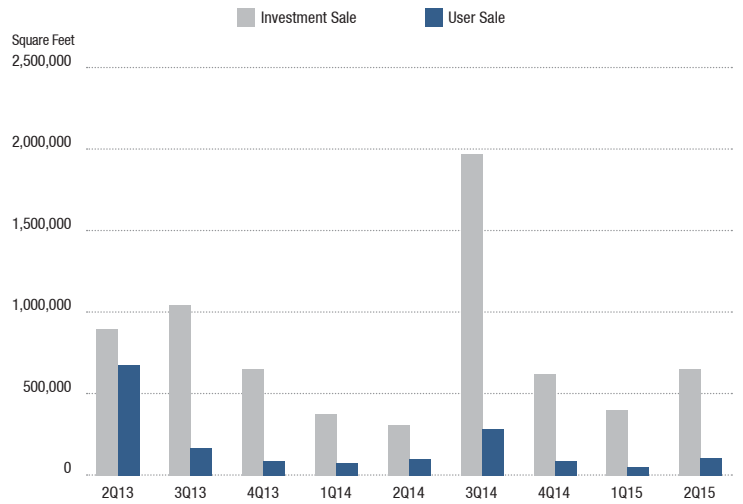
## LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



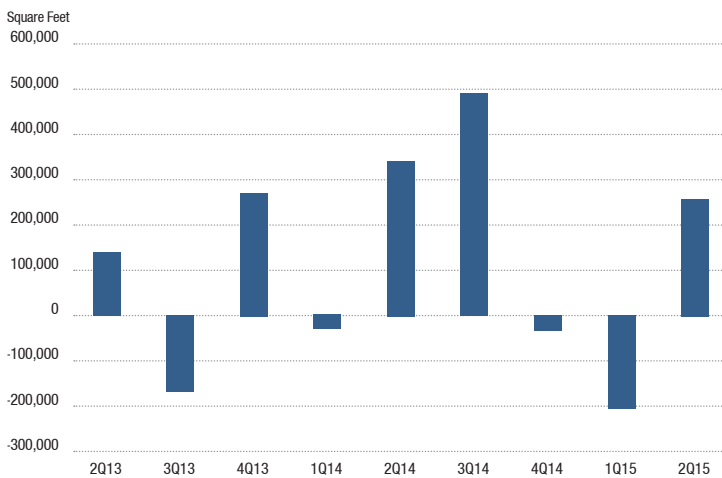
## SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



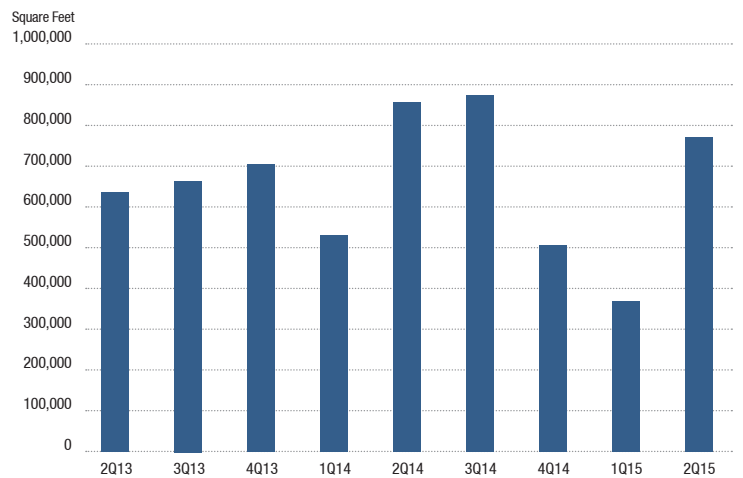
## NET ABSORPTION

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 2Q2015	Square Feet Available	Availability Rate 2Q2015	Average Asking Lease Rate	Net Absorption 2Q2015	Net Absorption 2015	Gross Absorption 2Q2015	Gross Absorption 2015
<b>Airport Area</b>													
North Airport	46	1,753,192	0	0	314,159	17.92%	494,107	28.18%	\$0.84	17,826	11,835	19,280	28,874
South Airport North of Roeser	58	2,418,208	0	0	463,876	19.18%	582,208	24.08%	\$0.92	(58,776)	(59,335)	2,968	30,003
South Airport South of Roeser	10	123,480	0	0	15,915	12.89%	15,915	12.89%	\$0.00	(15,915)	(8,347)	0	7,568
SC North of Roeser	40	850,645	0	245,000	146,065	17.17%	188,852	22.20%	\$1.20	6,032	6,032	6,032	6,032
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>158</b>	<b>5,173,601</b>	<b>0</b>	<b>245,000</b>	<b>940,015</b>	<b>18.17%</b>	<b>1,281,082</b>	<b>24.76%</b>	<b>\$0.98</b>	<b>(50,833)</b>	<b>(49,815)</b>	<b>28,280</b>	<b>72,477</b>
<b>Northeast</b>													
Central Phoenix	56	961,448	23,200	0	67,039	6.97%	65,912	6.86%	\$0.00	11,406	(6,090)	25,418	29,408
Scottsdale Airport	111	2,464,295	0	0	423,839	17.20%	548,564	22.26%	\$0.94	31,630	(4,820)	62,949	84,955
Scottsdale / Salt River	69	1,819,276	0	55,000	205,606	11.30%	213,625	11.74%	\$0.96	(51,765)	(49,530)	85,806	91,528
<b>Northeast Total</b>	<b>236</b>	<b>5,245,019</b>	<b>23,200</b>	<b>55,000</b>	<b>696,484</b>	<b>13.28%</b>	<b>828,101</b>	<b>15.79%</b>	<b>\$0.94</b>	<b>(8,729)</b>	<b>(60,440)</b>	<b>174,173</b>	<b>205,891</b>
<b>Northwest</b>													
Deer Valley / Pinnacle Park	86	3,475,750	0	16,500	762,868	21.95%	332,094	9.55%	\$0.96	29,454	44,323	42,196	61,313
Glendale	11	320,339	0	100,000	53,147	16.59%	65,447	20.43%	\$0.52	0	(6,133)	0	0
Grand Avenue	22	153,377	0	139,571	6,760	4.41%	9,765	6.37%	\$0.00	0	1,206	1,266	6,192
North Glendale / Sun City	25	481,450	0	22,000	88,146	18.31%	88,146	18.31%	\$0.66	6,300	471	8,095	15,064
North Black Canyon	66	1,336,390	0	0	322,467	24.13%	393,552	29.45%	\$0.79	6,384	(8,384)	11,304	40,689
West Phoenix North of Thomas Rd.	40	755,181	0	0	31,245	4.14%	55,239	7.31%	\$0.00	23,226	41,698	31,329	56,356
West Phoenix South of Thomas Rd.	8	85,751	0	0	10,701	12.48%	10,701	12.48%	\$0.00	0	0	0	0
<b>Northwest Total</b>	<b>258</b>	<b>6,608,238</b>	<b>0</b>	<b>278,071</b>	<b>1,275,334</b>	<b>19.30%</b>	<b>954,944</b>	<b>14.45%</b>	<b>\$0.82</b>	<b>65,364</b>	<b>73,181</b>	<b>94,190</b>	<b>179,614</b>
<b>Pinal County</b>													
Pinal County	10	97,347	0	192,000	10,680	10.97%	7,640	7.85%	\$0.00	3,060	2,280	3,060	4,160
<b>Pinal County Total</b>	<b>10</b>	<b>97,347</b>	<b>0</b>	<b>192,000</b>	<b>10,680</b>	<b>10.97%</b>	<b>7,640</b>	<b>7.85%</b>	<b>\$0.00</b>	<b>3,060</b>	<b>2,280</b>	<b>3,060</b>	<b>4,160</b>
<b>Southeast</b>													
Chandler Airport	10	675,257	0	547,438	318,448	47.16%	334,852	49.59%	\$1.23	(4,106)	4,919	6,375	15,400
Chandler	72	3,650,237	0	950,000	783,947	21.48%	854,904	23.42%	\$0.97	79,025	83,844	117,201	149,143
Chandler North / Gilbert	100	2,481,184	0	882,242	503,431	20.29%	499,528	20.13%	\$1.08	10,145	(29,766)	33,403	78,279
Falcon Fld / Apache Junction	31	491,866	0	0	90,234	18.35%	90,234	18.35%	\$0.63	18,520	16,899	21,299	24,399
Mesa	40	423,156	0	0	20,192	4.77%	23,392	5.53%	\$0.67	1,630	(4,397)	1,630	1,630
Tempe East	41	954,959	0	147,000	145,758	15.26%	148,993	15.60%	\$0.00	254,537	260,622	266,085	277,816
Tempe Northwest	73	2,455,533	0	0	356,069	14.50%	266,395	10.85%	\$1.01	(23,069)	(91,655)	6,281	71,512
Tempe Southwest	92	3,924,641	0	0	662,839	16.89%	866,827	22.09%	\$1.14	(85,589)	(151,503)	16,468	53,898
<b>Southeast Total</b>	<b>459</b>	<b>15,056,833</b>	<b>0</b>	<b>2,526,680</b>	<b>2,880,918</b>	<b>19.13%</b>	<b>3,085,125</b>	<b>20.49%</b>	<b>\$1.06</b>	<b>251,093</b>	<b>88,963</b>	<b>468,742</b>	<b>672,077</b>
<b>Southwest</b>													
Goodyear	10	196,019	0	0	2,910	1.48%	26,530	13.53%	\$0.45	(2,910)	(2,910)	0	0
Southwest North of Buckeye Rd.	9	267,669	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
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	54,542	9.36%	54,542	9.36%	\$0.62	2,144	3,945	2,144	3,945
<b>Southwest Total</b>	<b>34</b>	<b>1,385,254</b>	<b>0</b>	<b>0</b>	<b>267,091</b>	<b>19.28%</b>	<b>290,711</b>	<b>20.99%</b>	<b>\$0.57</b>	<b>(766)</b>	<b>1,035</b>	<b>2,144</b>	<b>3,945</b>
<b>Phoenix Total</b>	<b>1,155</b>	<b>33,566,292</b>	<b>23,200</b>	<b>3,296,751</b>	<b>6,070,522</b>	<b>18.09%</b>	<b>6,447,603</b>	<b>19.21%</b>	<b>\$0.97</b>	<b>259,189</b>	<b>55,204</b>	<b>770,589</b>	<b>1,138,164</b>
1-24,999	764	8,929,958	23,200	245,951	1,091,463	12.22%	1,442,894	16.16%	\$0.88	23,577	(22,991)	187,415	335,884
25,000-49,999	225	7,717,059	0	378,663	1,361,094	17.64%	1,606,174	20.81%	\$0.90	51,438	62,901	206,435	328,036
50,000-74,999	74	4,492,580	0	563,362	901,927	20.08%	874,383	19.46%	\$0.93	(45,103)	(25,567)	76,462	123,262
75,000-99,999	39	3,343,003	0	342,200	626,840	18.75%	789,631	23.62%	\$1.04	0	18,111	0	45,705
100,000+	53	9,083,692	0	1,766,575	2,089,198	23.00%	1,734,521	19.09%	\$1.13	229,277	22,750	300,277	305,277
<b>Phoenix Total</b>	<b>1,155</b>	<b>33,566,292</b>	<b>23,200</b>	<b>3,296,751</b>	<b>6,070,522</b>	<b>18.09%</b>	<b>6,447,603</b>	<b>19.21%</b>	<b>\$0.97</b>	<b>259,189</b>	<b>55,204</b>	<b>770,589</b>	<b>1,138,164</b>

Lease rates are on a triple-net basis.

**MAJOR TRANSACTIONS**

**Sales Transactions**

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
4625 & 4675 E. Cotton Center Blvd.	S. Airport N. of Roeser	147,627	\$120.91	True North Management Group Crown West Realty	LNR Partners, LLC
2299 W. Obispo Ave.	Gilbert	182,363	\$97.88	Everest Holdings, LLC	First Technology Capital, Inc.
9171-9181 E. Bell Rd. & 16611 N. 91st	Scottsdale/Salt River	63,763	\$164.67	Crown Realty & Development, Inc.	Edward Pike Co.
10024-10230 S. 50th Pl.	Chandler	40,386	\$76.69	Telgian Corporation	Block Real Estate Services, LLC
1911 W. Parkside Ln.	Deer Valley/Pinnacle Pk	32,221	\$102.42	Brewer Enterprises, Inc.	Denali National Trust, LLC

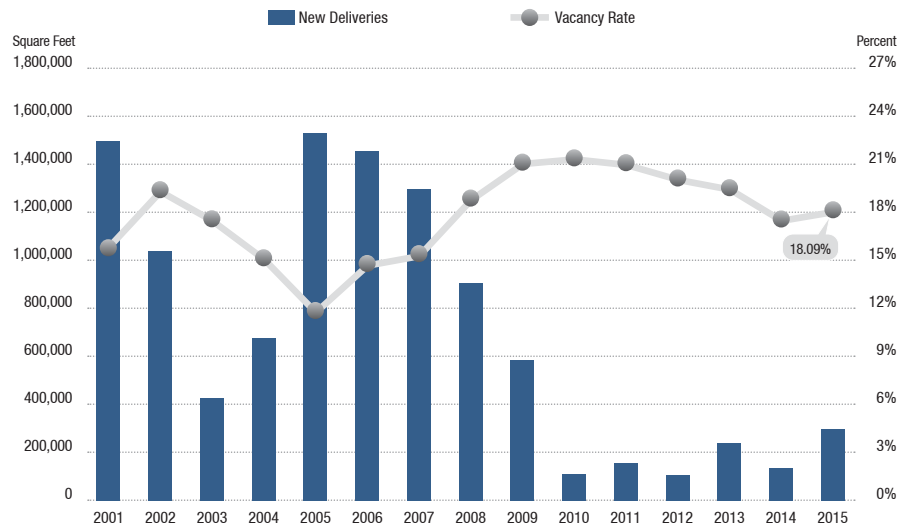
**Lease Transactions**

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1616 W. 17th St.	Tempe Northwest	111,349	Apr-2015	Home Depot	Greenstreet Real Estate Partners, LP
3100 E. Broadway Rd.	S. Airport N. of Roeser	50,267	Apr-2015	Undisclosed	Vatnsdal Investments, LLC
875 W. Elliot Rd.	Tempe Southwest	43,671	Apr-2015	Undisclosed	Walton Street Capital
7406 W. Detroit St. – Renewal	Chandler	30,247	Apr-2015	Daifuku	Biltmore Holdings
8445 E. Hartford Dr. – Renewal	Scottsdale/Salt River	29,996	Apr-2015	Natural Partners, Inc.	CRC Investments, 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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Irvine, CA 949.851.5100	Newport Beach, CA 949.644.8648	Sacramento, CA 916.772.8648	

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