



## Industrial Market Report

Compared to last quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

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### Market Highlights

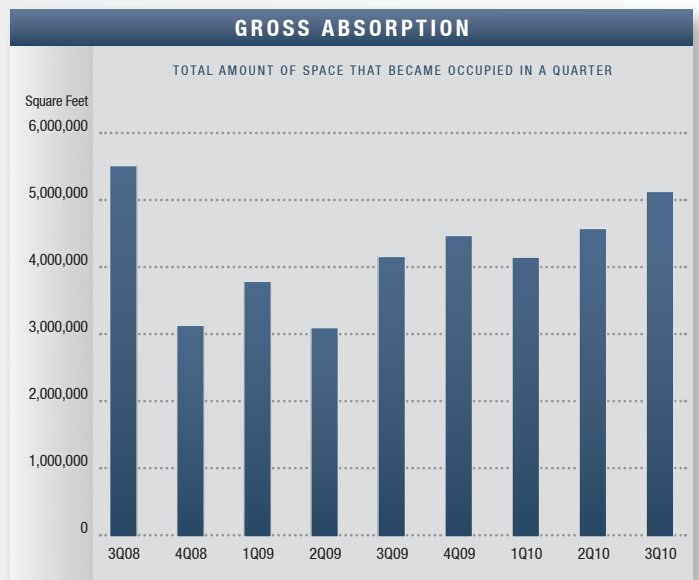
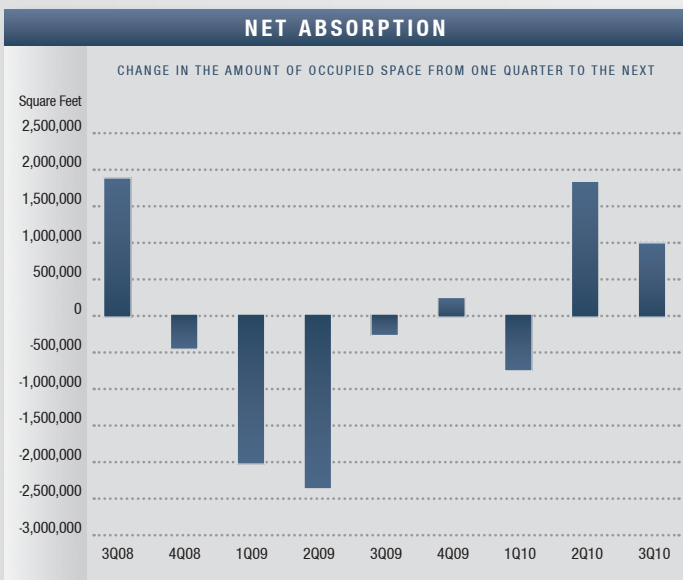
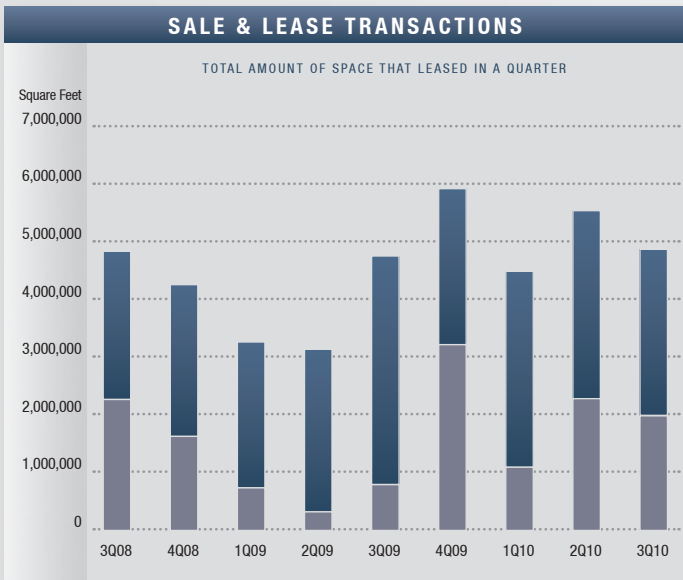
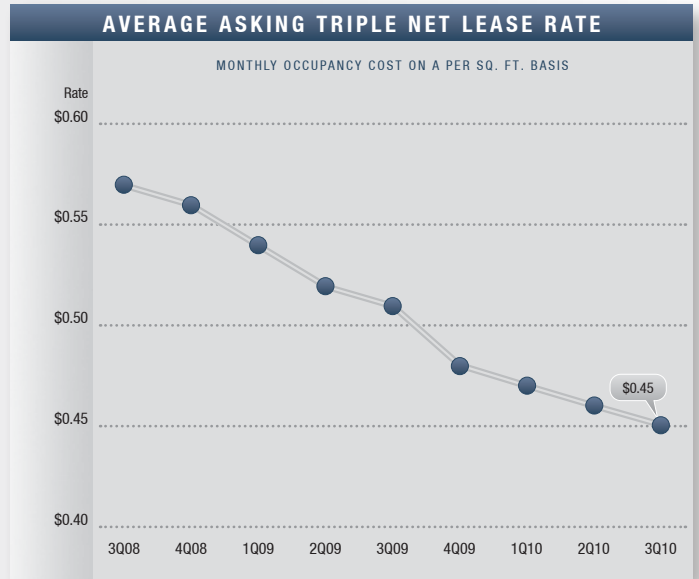
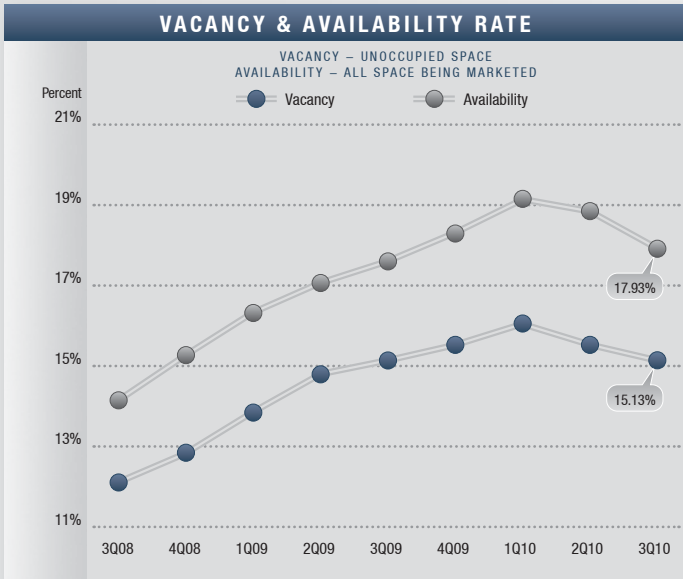
- **Bottoming Out?** – The Phoenix Industrial Market displayed more promises of stabilization this quarter. This quarter, availability continued to descend from its peak during the first quarter of this year, vacancy rates are decreasing, and net absorption was positive for two consecutive quarters. With regard to sales transactions, the ask-bid gap seems to be narrowing, as evidenced by the continued drop in asking prices and increased interest from users and investors. While these are positive indications, stability and job growth will need to be sustained in following quarters to be considered recovery.
- **Construction** – Currently, there is 310,061 square feet of industrial construction underway. Scarce financing and low demand have essentially halted industrial development.
- **Vacancy** – Direct/sublease space (unoccupied) finished the quarter at 15.13% — nearly the same as a year-ago's rate of 15.14% and lower than last quarter's figure of 15.51%. The Northeast market posted the lowest rate in the county at 10.75%.
- **Availability** – Direct/sublease space being marketed was 17.93% this quarter, an increase of 1.88% compared to the 17.60% we saw this same quarter last year.
- **Lease Rates** – The average asking triple net lease rate was \$.45 cents per square foot per month this quarter, one cent lower than last quarter and six cents lower than last year's third quarter rate. The record high for asking lease rates, \$.59, was recorded in the first quarter of 2007.
- **Absorption** – The county posted 999,771 square feet of positive absorption for the third quarter of 2010, giving the industrial market a total of 2,238,836

square feet of positive absorption for the first three quarters of 2010.

- **Transaction Activity** – Leasing activity came in this quarter at 2.8 million square feet. This year-over-year decrease can be attributed to a slow summer season coupled with the upcoming election concerns. Sales activity showed a decrease since last quarter, posting 2 million square feet of activity as compared to last quarter's 2.3 million. 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 9.1% in August 2010, the same as a revised 9.1% in July 2010 and the same as a year-ago estimate of 9.1%. This compares with an unadjusted unemployment rate of 9.7% for Arizona and 9.5% for the nation during the same period.
- **Overall** – We are beginning to see a decrease in the amount of available space being added per quarter. Positive absorption is the big story, and with few new deliveries in the pipeline to drive vacancy up, the market is beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances should continue to increase 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 begins going into 2011. Once employment turns positive and consumer confidence stabilizes, the industrial market will regain equilibrium.

### INDUSTRIAL MARKET OVERVIEW

	3Q2010	2Q2010	3Q2009	% CHANGE vs. 3Q2009
Vacancy Rate	15.13%	15.51%	15.14%	(0.07%)
Availability Rate	17.93%	18.85%	17.60%	1.88%
Average Asking Lease Rate	\$0.45	\$0.46	\$0.51	(11.76%)
Sale & Lease Transactions	4,782,727	5,466,342	4,662,775	2.57%
Gross Absorption	5,189,447	4,547,512	4,208,161	23.32%
Net Absorption	999,771	1,812,759	(257,869)	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 3Q2010	Square Feet Available	Availability Rate 3Q2010	Average Asking Lease Rate	Net Absorption 3Q2010	Net Absorption 2010	Gross Absorption 3Q2010	Gross Absorption 2010
<b>Airport Area</b>													
North Airport	296	10,889,974	0	268,096	1,484,520	13.63%	1,989,745	18.27%	\$0.49	(57,092)	(22,538)	154,017	446,096
South Airport North of Roeser	325	11,072,018	0	17,560	1,558,146	14.07%	1,990,965	17.98%	\$0.56	62,201	182,818	306,168	697,522
South Airport South of Roeser	120	3,961,767	0	0	770,383	19.45%	936,092	23.63%	\$0.52	(122,900)	(139,386)	30,983	132,199
SC North of Roeser	367	14,068,518	0	0	2,033,054	14.45%	2,425,171	17.24%	\$0.43	(136,647)	(319,133)	51,302	259,618
SC South of Roeser	49	1,502,817	0	0	101,033	6.72%	131,033	8.72%	\$0.39	10,375	27,511	15,144	56,113
<b>Airport Area Total</b>	<b>1,157</b>	<b>41,495,094</b>	<b>0</b>	<b>285,656</b>	<b>5,947,136</b>	<b>14.33%</b>	<b>7,473,006</b>	<b>18.01%</b>	<b>\$0.48</b>	<b>(244,063)</b>	<b>(270,728)</b>	<b>557,614</b>	<b>1,591,548</b>
<b>Northeast</b>													
Central Phoenix	112	4,124,202	0	0	213,794	5.18%	193,648	4.70%	\$0.61	(2,230)	26,096	23,177	134,103
Scottsdale Airpark	252	5,258,427	0	0	960,373	18.26%	1,162,714	22.11%	\$0.72	(17,346)	(162,536)	147,881	371,085
Scottsdale/Salt River	88	4,497,654	0	0	318,265	7.08%	382,246	8.50%	\$0.85	24,031	73,532	45,994	190,144
<b>Northeast Total</b>	<b>452</b>	<b>13,880,283</b>	<b>0</b>	<b>0</b>	<b>1,492,432</b>	<b>10.75%</b>	<b>1,738,608</b>	<b>12.53%</b>	<b>\$0.74</b>	<b>4,455</b>	<b>(62,908)</b>	<b>217,052</b>	<b>695,332</b>
<b>Northwest</b>													
Deer Valley/Pinnacle Park	417	13,467,570	24,111	367,397	1,752,311	13.01%	2,364,684	17.56%	\$0.68	2,493	(489,332)	182,806	782,255
Glendale	72	4,175,037	0	1,823,980	793,235	19.00%	952,473	22.81%	\$0.40	34,453	110,305	55,959	178,502
Grand Avenue	295	13,332,122	0	545,090	1,228,483	9.21%	1,717,433	12.88%	\$0.34	21,170	51,671	118,628	361,984
North Glendale/Sun City	95	4,426,753	0	89,714	879,795	20.81%	956,803	22.64%	\$0.49	52,094	106,146	102,536	275,637
North Black Canyon	126	3,481,218	0	0	406,842	11.69%	425,727	12.23%	\$0.37	(15,796)	(44,494)	32,698	113,285
West Phoenix North of Thomas Rd.	261	6,865,157	0	0	762,465	11.11%	922,734	13.44%	\$0.31	(57,372)	(17,420)	42,995	320,602
West Phoenix South of Thomas Rd.	222	6,195,171	0	0	587,639	9.49%	753,682	12.17%	\$0.44	13,489	35,480	78,156	249,734
<b>Northwest Total</b>	<b>1,488</b>	<b>51,743,028</b>	<b>24,111</b>	<b>2,826,181</b>	<b>6,410,770</b>	<b>12.39%</b>	<b>8,093,536</b>	<b>15.64%</b>	<b>\$0.53</b>	<b>50,531</b>	<b>(247,644)</b>	<b>613,778</b>	<b>2,281,999</b>
<b>Pinal County</b>													
Pinal County	86	4,689,065	0	720,000	665,100	14.18%	834,607	17.80%	\$0.33	(4,217)	104,845	23,060	171,541
<b>Pinal County Total</b>	<b>86</b>	<b>4,689,065</b>	<b>0</b>	<b>720,000</b>	<b>665,100</b>	<b>14.18%</b>	<b>834,607</b>	<b>17.80%</b>	<b>\$0.33</b>	<b>(4,217)</b>	<b>104,845</b>	<b>23,060</b>	<b>171,541</b>
<b>Southeast</b>													
Chandler Airport	42	1,467,123	0	764,821	435,378	29.68%	402,357	27.42%	\$0.63	72,000	127,509	72,000	145,531
Chandler	260	14,996,575	0	16,534	1,575,648	10.51%	2,266,965	15.12%	\$0.64	105,084	69,862	174,131	527,122
Chandler North/Gilbert	437	13,781,592	0	674,572	2,724,073	19.77%	3,253,642	23.61%	\$0.55	105,410	198,440	256,951	752,806
Falcon Fld/Apache Junction	107	4,697,447	0	0	325,442	6.93%	465,912	9.92%	\$0.58	167,672	262,767	215,889	372,713
Mesa	192	6,258,320	0	0	1,091,367	17.44%	1,316,232	21.03%	\$0.63	(117,558)	104,809	190,878	586,961
Tempe East	194	5,383,061	0	0	446,678	8.30%	703,905	13.08%	\$0.59	12,647	7,208	112,664	245,741
Tempe Northwest	227	8,837,553	0	0	685,536	7.76%	1,785,688	20.21%	\$0.48	(1,959)	73,333	133,374	400,342
Tempe Southwest	435	18,041,996	0	476,000	1,944,291	10.78%	2,502,426	13.87%	\$0.46	202,748	337,889	439,035	1,186,110
<b>Southeast Total</b>	<b>1,894</b>	<b>73,463,667</b>	<b>0</b>	<b>1,931,927</b>	<b>9,228,413</b>	<b>12.56%</b>	<b>12,697,127</b>	<b>17.28%</b>	<b>\$0.56</b>	<b>546,044</b>	<b>1,181,817</b>	<b>1,594,922</b>	<b>4,217,326</b>
<b>Southwest</b>													
Goodyear	87	8,157,830	0	5,200,800	2,228,562	27.32%	1,862,398	22.83%	\$0.41	(67,739)	(77,148)	33,068	189,187
Southwest North of Buckeye Rd.	534	30,273,319	0	243,400	5,160,366	17.05%	5,935,663	19.61%	\$0.30	38,172	(138,582)	192,828	986,843
Southwest South of Buckeye Rd.	185	13,252,026	0	20,132	2,942,466	22.20%	1,871,801	14.12%	\$0.33	74,486	217,059	1,281,507	1,624,248
Tolleson	169	26,173,651	285,950	806,972	5,744,042	21.95%	6,679,892	25.52%	\$0.35	602,102	1,532,125	675,618	2,025,214
<b>Southwest Total</b>	<b>975</b>	<b>77,856,826</b>	<b>285,950</b>	<b>6,271,304</b>	<b>16,075,436</b>	<b>20.65%</b>	<b>16,349,754</b>	<b>21.00%</b>	<b>\$0.34</b>	<b>647,021</b>	<b>1,533,454</b>	<b>2,183,021</b>	<b>4,825,492</b>
<b>Phoenix Total</b>	<b>6,052</b>	<b>263,127,963</b>	<b>310,061</b>	<b>12,035,068</b>	<b>39,819,287</b>	<b>15.13%</b>	<b>47,186,638</b>	<b>17.93%</b>	<b>\$0.45</b>	<b>999,771</b>	<b>2,238,836</b>	<b>5,189,447</b>	<b>13,783,238</b>
10,000 – 29,999	3,747	63,349,782	24,111	1,015,557	8,275,356	13.06%	10,514,103	16.60%	\$0.57	247,444	902,137	1,730,573	4,856,189
30,000 – 49,999	1,024	39,026,849	0	732,126	6,135,108	15.72%	7,641,937	19.58%	\$0.50	44,854	179,699	671,536	2,002,049
50,000 – 99,999	812	55,986,692	0	970,552	7,197,793	12.86%	9,229,167	16.48%	\$0.48	30,601	230,726	563,494	2,243,257
100,000 – 199,999	309	40,895,552	0	1,607,991	6,250,593	15.28%	8,102,153	19.81%	\$0.43	100,160	(76,545)	327,278	1,468,350
200,000 – 299,999	79	18,807,673	285,950	473,377	2,336,680	12.42%	2,686,309	14.28%	\$0.33	307,700	488,935	336,030	660,496
300,000+	81	45,061,415	0	7,235,465	9,623,757	21.36%	9,012,969	20.00%	\$0.37	269,012	513,884	1,560,536	2,552,897
<b>Total</b>	<b>6,052</b>	<b>263,127,963</b>	<b>310,061</b>	<b>12,035,068</b>	<b>39,819,287</b>	<b>15.13%</b>	<b>47,186,638</b>	<b>17.93%</b>	<b>\$0.45</b>	<b>999,771</b>	<b>2,238,836</b>	<b>5,189,447</b>	<b>13,783,238</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	Tenant	Owner
9081 W. Washington St.	Tolleson	466,694	\$30,445,247	Cole Real Estate Investments	USAA Real Estate Company
275 S. 67th St.	Southwest North of Buckeye Road	251,668	\$10,025,000	Niagra Bottling, LLC	Five Star Development
4739 W. Jefferson St.	Southwest North of Buckeye Road	160,146	\$6,085,000	M&M Industries, Inc.	DCT Industrial Trust
3433 E. Wood St.	South Airport North of Roeser	45,199	\$4,600,000	Arizona Emergency Products	Jay D. Donkersloot
4502 W. Monterosa St.	Grand Avenue	124,394	\$4,500,000	Suntree, LLC	NutraCea, Inc.
810 S. McClintock Rd.	Tempe East	51,856	\$4,300,000	Jody Humber	Tempe Storage Company, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4750-5050 W. Mohave St.	Southwest South of Buckeye Road	1,207,021	August-10	Amazon.com, Inc.	KTR Capital Partners / Tratt Properties, LLC
4739 W. Jefferson St.	Southwest North of Buckeye Road	160,146	September-10	M&M Plastics	M&M Industries, Inc.
2300 S. 51st Ave.	Southwest South of Buckeye Road	128,500	August-10	Fairway Distribution Company	Pacifica Real Estate Group, LLC
4502 W. Monterosa St.	Grand Avenue	124,394	September-10	Suntree, LLC	Suntree, LLC
4949 W. Buckeye Rd.	Southwest South of Buckeye Road	94,080	September-10	Downlite	Globe Corporation
4035 W. Adams St.	Southwest North of Buckeye Road	74,529	July-10	Sun Coatings	Gardner-Gibson, Inc.

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