



Industrial Market Report

Compared to the Previous Quarter:



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Market Highlights

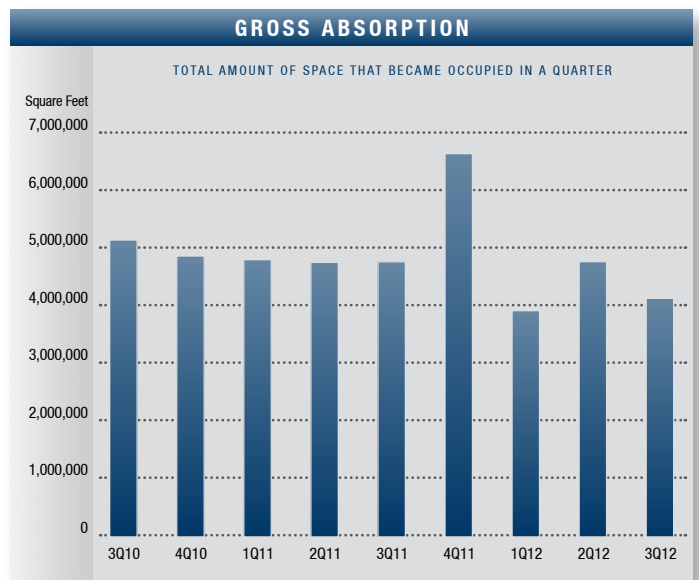
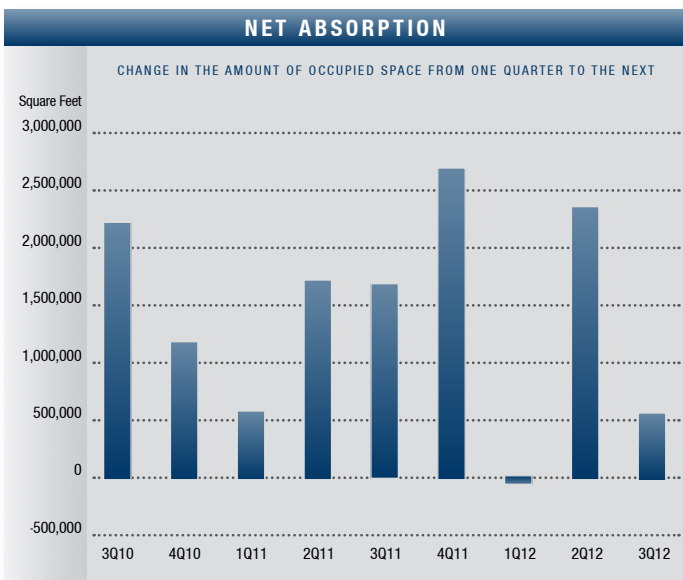
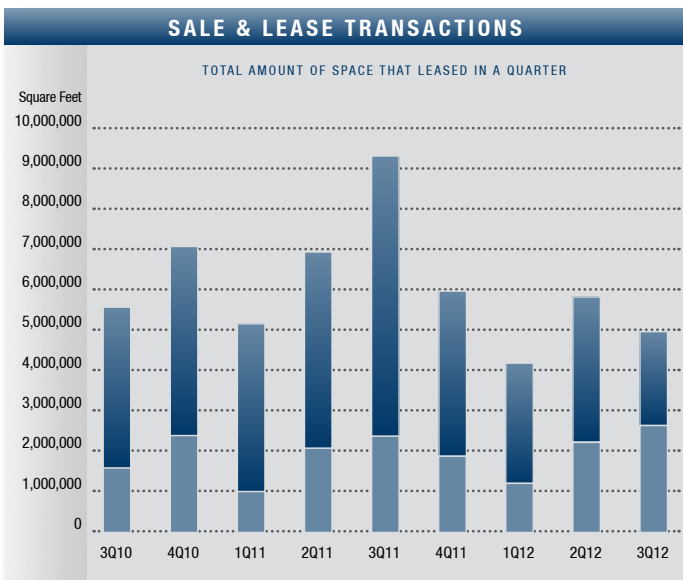
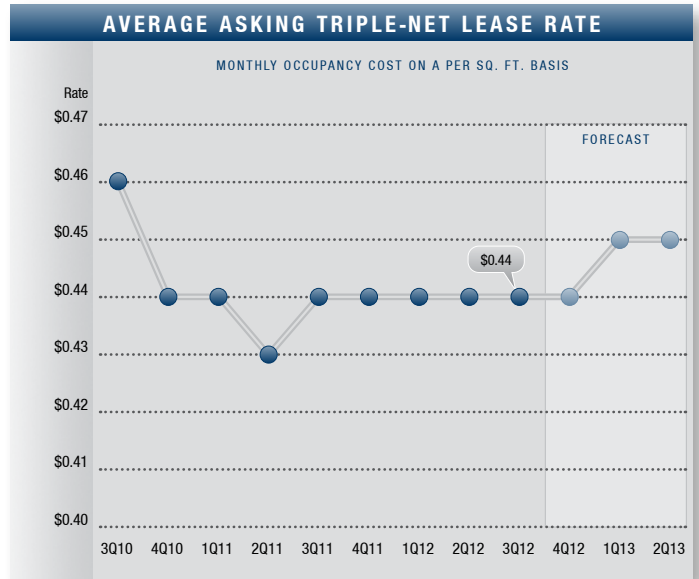
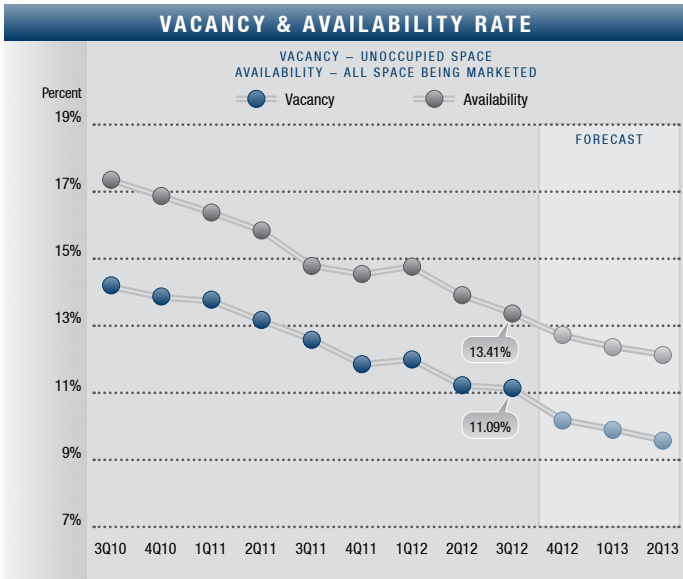
- Stability** - The Phoenix industrial market conveyed more promise of stabilization in the third quarter of 2012. Both vacancy and availability continued their downward trend and displayed near double-digit percentage drops compared to the third quarter of 2011, and net absorption saw positive growth of over half a million square feet. Demand stayed healthy with almost 5 million square feet sold or leased in the third quarter. While these are positive indications, stability and job growth will be needed in coming quarters to continue to bolster a recovery.
- Construction** - There was 3,751,000 square feet of industrial construction underway at the end of the third quarter, an encouraging sign, but still below construction levels 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 11.09% from 2012's second quarter rate of 11.24% and displayed a significant drop of almost 12% from 2011's third quarter, making these the lowest rates seen since the third quarter of 2008. The Northeast market posted the lowest rate in the county at 7.06%.
- Availability** - Direct/sublease space being marketed was 13.41% at the end the third quarter, a significant decrease when compared to the 14.80% 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 third quarter, the same as the previous quarter's rate and equal to 2011's third 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 551,006 square feet of positive absorption in the third

quarter of 2012, producing a total of nearly 14 million square feet of positive absorption over ten consecutive quarters.

- Transaction Activity** - Leasing activity checked in at 2.3 million square feet for the Phoenix industrial market in third quarter 2012, a rather dramatic drop from 2011's third quarter figure of 6.9 million square feet. Sales activity showed an increase from the previous quarter, posting 2.6 million square feet of activity as compared to the second quarter's 2.1 million square feet, and was also slightly higher than the previous year's third quarter figure of 2.3 million square feet. 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 7.4% in August 2012, a healthy decrease from the January rate of 7.9%. 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 4,500 jobs, while the financial activities sector gained traction, aided by JPMorgan Chase's addition of 1,100 to local staff.
- Overall** - We are seeing a continued decrease in available and vacant space and a subsequent increase in net occupancy, which is contributing to an increase in asking lease rates. We anticipate that lease rates will begin to rise during the first half of 2013. 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

	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Total Vacancy Rate	11.09%	11.24%	12.60%	(11.98%)
Availability Rate	13.41%	13.92%	14.80%	(9.39%)
Average Asking Lease Rate	\$0.44	\$0.44	\$0.44	0.00%
Sale & Lease Transactions	4,949,707	5,767,656	9,229,610	(46.37%)
Gross Absorption	4,115,456	4,754,208	4,753,847	(13.43%)
Net Absorption	551,006	2,351,480	1,694,100	N/A



RECENT TRANSACTIONS

Sale Transactions

Property Address	Submarket	Square Feet	Sale Price PSF	Buyer	Seller
800 N. 75th Ave.	Tolleson	1,267,110	\$71.26	Industrial Income Trust	The Buzz Oates Group of Companies
2626 S. 7th St.	N. of Salt River	234,260	\$27.11	Liberty Property Trust	Emerik Properties
4534 N. 44th Ave.	Grand Avenue	100,544	\$54.70	Precise Metal Products, Inc.	44th Avenue, LLC
1635 S. 43rd Ave.	S. of Buckeye Rd.	245,331	\$20.36	Tratt Properties	Western Alliance Bancorporation
1835 E. Warner Rd.	Tempe East	52,200	\$79.50	Hibernia, LLC	U-Stor Warner, LLC
1001 N. Gilbert Rd.	Gilbert	58,340	\$68.56	Business Property Trust	Bar 4 Storage, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
10397 W. Van Buren St.	Tolleson	276,336	Sep-12	States Logistics Services, Inc.	The Blackstone Group
8602 W. Buckeye Rd.	Tolleson	238,450	Aug-12	Communications Test Design, Inc.	LBA Realty
3602 W. Washington St.	N. of Buckeye Rd.	104,346	Jul-12	Consolidated Terminals & Logistics Co.	Lincoln Property Company
9235 S. McKemy St.	Tempe SW	81,200	Sep-12	MTD Products, Inc.	McKemy Holdings, Inc.
14555 N. 82nd St.	Scottsdale Airpark	67,585	Jul-12	Ridgeline Energy Services	GTCO Corporation
4602 E. Hammond Ln.	North Airport	55,122	Jul-12	Preferred Homecare	LBA Realty
8435 N. 90th St.	Scottsdale/Salt River	49,625	Aug-12	N/A	MainSprings Capital Group

Product Type

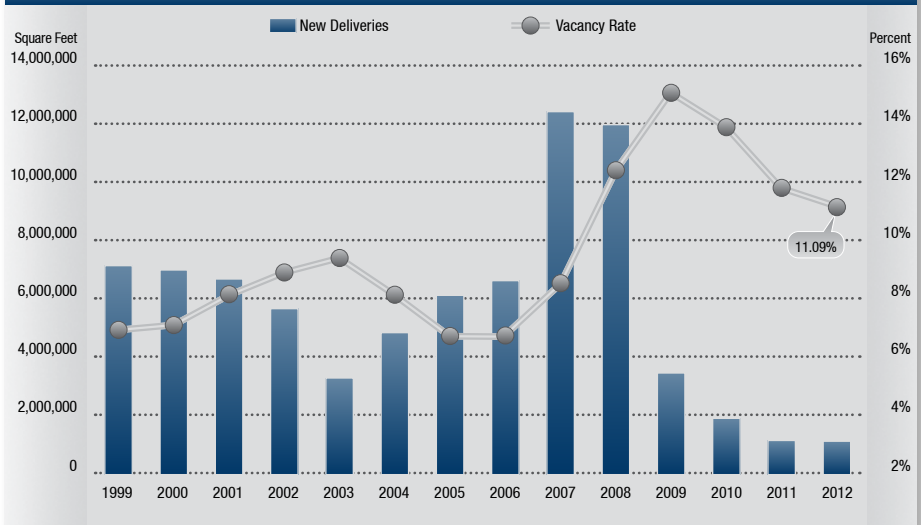
MFG./DIST.

Manufacturing/Distribution/Warehouse facilities with up to 29.9% office space.

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