



Flex / R&D Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

Deliveries

DOWN

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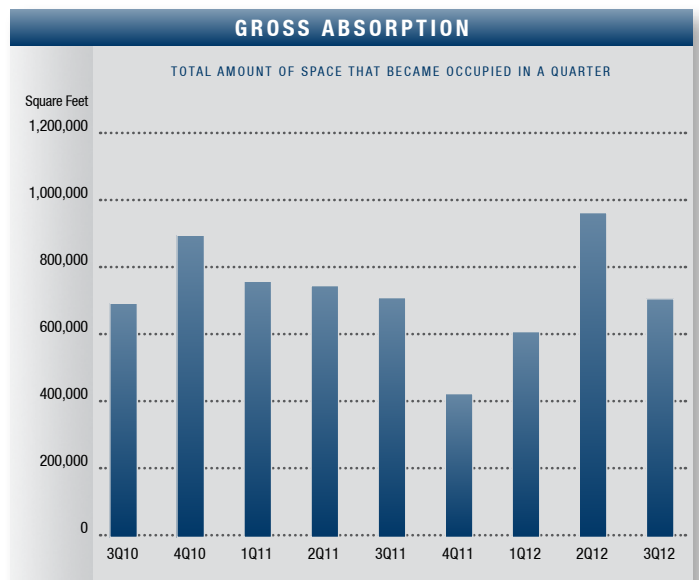
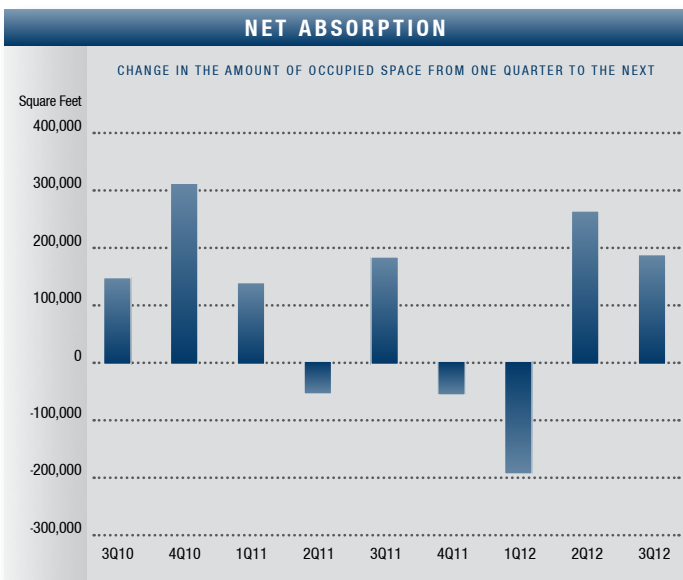
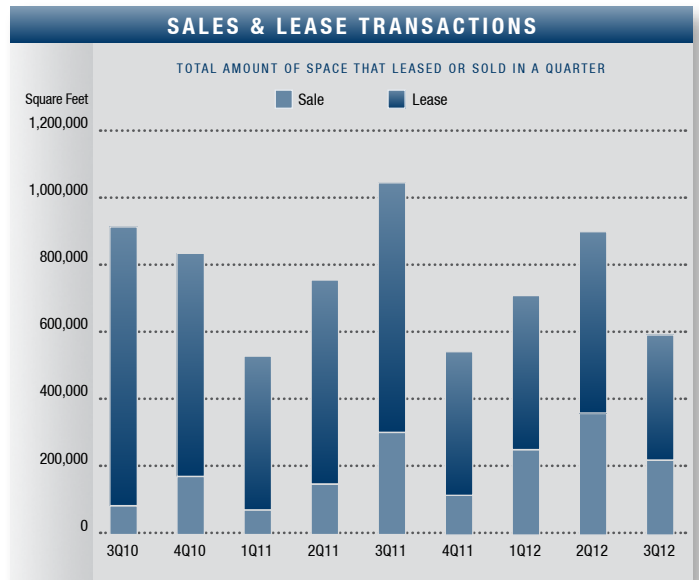
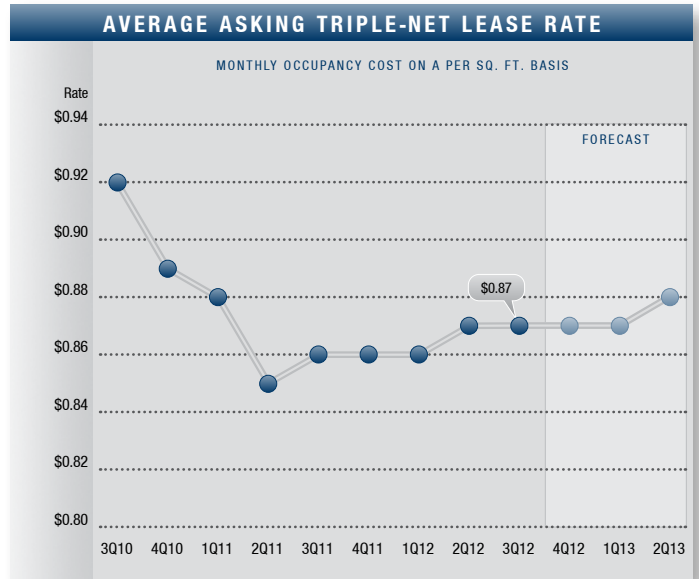
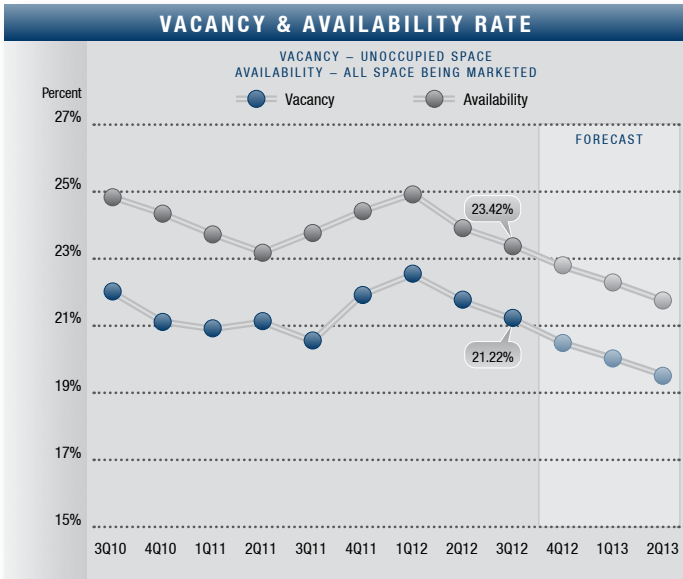
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Market Highlights

- Stability** - The Phoenix flex/R&D market conveyed indications of stabilization in the third quarter of 2012. Both Vacancy and availability continued its downward trend, and net absorption saw positive growth of over 186,000 square feet. While these are positive indications, stability and job growth will be needed in coming quarters to continue to bolster a recovery.
- Construction** - There was 456,700 square feet of flex/R&D construction underway at the end of the third quarter, well below the market's peak in the second half of 2007. Most of this construction occurred in the Southeast and Airport area submarkets.
- Vacancy** - Direct/sublease space (unoccupied) decreased to 21.22% compared to 2012's second quarter rate of 21.78%, but exhibited a slight increase compared to 2011's third quarter rate of 20.57%. The Airport area market posted the lowest rate in the county at 14.69%.
- Availability** - Direct/sublease space being marketed was 23.42% at the end the third quarter, a slight decrease when compared to the 23.78% rate of the same quarter of 2011.
- Lease Rates** - The average asking-triple net lease rate was \$.87 cents per square foot per month for the third quarter, the same as the previous quarter's rate and one cent higher than 2011's third quarter's rate, indicating stability. The highest asking lease rate of \$1.33 was recorded in the Scottsdale/Salt River submarket.
- Absorption** - The Phoenix industrial market posted 186,840 square feet of positive absorption in the third quarter of 2012, producing a total of over 450,000 square feet of positive absorption over the last two consecutive quarters.
- Transaction Activity** - Leasing activity checked in at 368,000 square feet for the Phoenix Flex/R&D market in third quarter 2012, a drop from 2011's second quarter figure of 741,000 square feet. Sales activity showed an decrease from the previous quarter, posting 217,000 square feet of activity as compared to the second quarter's 357,000 square feet and was slightly less than the previous year's third quarter. 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 health decrease from January rate of 7.9%. Sectors with strong job growth include trade, transportation, and utilities, driven by retail trade; and professional and business services, largely in the administrative and support services area. In addition, the beleaguered construction industry has made substantial strides over the past 12 months with the addition of 4,500 jobs, and the financial activities sector has also gained traction, aided by JPMorgan Chase's addition of 1,100 to local staff.
- Overall** - We are seeing a continued decrease in available and vacancy space, and a subsequent increase in net occupancy, which is helping asking lease rates to slow their fall and remain flat. We are forecasting and anticipate that lease rates will begin to rise during the second 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.

FLEX / R & D MARKET OVERVIEW

	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Total Vacancy Rate	21.22%	21.78%	20.57%	3.16%
Availability Rate	23.42%	23.96%	23.78%	(1.51%)
Average Asking Lease Rate	\$0.87	\$0.87	\$0.86	1.16%
Sale & Lease Transactions	585,887	895,277	1,041,189	(43.73%)
Gross Absorption	700,859	958,154	708,200	(1.04%)
Net Absorption	186,840	266,779	181,058	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 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
Airport Area													
North Airport	42	1,425,671	0	120,000	335,443	23.53%	366,767	25.73%	\$0.74	22,235	56,804	25,597	101,842
South Airport North of Roeser	58	2,473,966	80,000	50,000	218,924	8.85%	306,391	12.38%	\$0.90	1,640	(8,682)	18,726	69,205
South Airport South of Roeser	8	100,665	0	0	0	0.00%	0	0.00%	\$0.89	0	0	0	0
SC North of Roeser	37	949,454	155,000	0	176,908	18.63%	206,916	21.79%	\$0.67	(37,332)	(50,359)	0	9,174
SC South of Roeser	4	28,076	0	0	0	0.00%	0	0.00%	\$0.68	0	0	0	0
Airport Area Total	149	4,977,832	235,000	170,000	731,275	14.69%	880,074	17.68%	\$0.76	(13,457)	(2,237)	44,323	180,221
Northeast													
Central Phoenix	51	844,005	0	0	114,276	13.54%	118,643	14.06%	\$0.61	18,804	27,418	20,963	74,520
Scottsdale Airport	102	2,529,017	0	0	622,781	24.63%	624,008	24.67%	\$0.81	(7,665)	24,536	45,112	163,617
Scottsdale / Salt River	68	1,891,372	0	0	381,687	20.18%	417,115	22.05%	\$1.33	3,046	(96,903)	41,955	111,676
Northeast Total	221	5,264,394	0	0	1,118,744	21.25%	1,159,766	22.03%	\$0.90	14,185	(44,949)	108,030	349,813
Northwest													
Deer Valley / Pinnacle Park	86	3,467,575	0	139,700	1,011,716	29.18%	1,135,991	32.76%	\$0.84	55,606	135,669	110,556	303,847
Glendale	12	411,761	0	100,000	78,788	19.13%	89,932	21.84%	\$0.63	(2,558)	3,513	13,572	26,126
Grand Avenue	22	218,673	0	0	25,542	11.68%	20,397	9.33%	\$0.76	(8,150)	2,996	0	19,296
North Glendale / Sun City	22	443,150	0	72,000	143,971	32.49%	143,971	32.49%	\$0.70	(3,751)	(21,129)	111	44,260
North Black Canyon	52	1,068,839	0	0	323,439	30.26%	268,178	25.09%	\$0.73	13,763	(10,492)	23,303	41,991
West Phoenix North of Thomas Rd.	42	739,795	0	0	52,960	7.16%	45,760	6.19%	\$0.40	28,979	105,806	47,201	147,615
West Phoenix South of Thomas Rd.	10	109,755	0	0	10,602	9.66%	24,328	22.17%	\$0.40	0	16,426	0	20,980
Northwest Total	246	6,459,548	0	311,700	1,647,018	25.50%	1,728,557	26.76%	\$0.80	83,889	232,789	194,743	604,115
Pinal County													
Pinal County	8	60,732	0	0	2,240	3.69%	2,240	3.69%	\$0.67	1,140	1,140	0	0
Pinal County Total	8	60,732	0	0	2,240	3.69%	2,240	3.69%	\$0.67	(1,140)	(1,140)	0	0
Southeast													
Chandler Airport	10	669,472	0	800,060	124,470	18.59%	119,197	17.80%	\$0.94	17,536	17,240	17,536	24,751
Chandler	66	3,337,769	221,700	884,567	1,109,634	33.24%	1,173,045	35.14%	\$0.55	(55,312)	69,373	73,656	273,759
Chandler North / Gilbert	99	2,540,106	0	28,826	580,600	22.86%	638,114	25.12%	\$0.90	(27,732)	(19,479)	21,533	203,182
Falcon Fld / Apache Junction	25	435,281	0	0	141,306	32.46%	142,506	32.74%	\$0.63	1,200	56,517	1,200	58,038
Mesa	37	344,637	0	0	25,010	7.26%	36,960	10.72%	\$0.69	0	(8,314)	0	4,726
Tempe East	41	991,286	0	390,414	161,648	16.31%	177,151	17.87%	\$0.69	4,803	(11,274)	7,598	17,331
Tempe Northwest	70	2,385,052	0	0	386,445	16.20%	549,511	23.04%	\$1.00	(11,810)	(158,858)	17,400	115,375
Tempe Southwest	90	4,240,649	0	0	557,960	13.16%	705,699	16.64%	\$0.79	83,583	60,397	118,838	298,940
Southeast Total	438	14,944,252	221,700	2,103,867	3,087,073	20.66%	3,542,183	23.70%	\$0.97	12,268	5,602	257,761	996,102
Southwest													
Goodyear	13	317,148	0	31,250	58,097	18.32%	77,675	24.49%	\$0.51	96,002	68,943	96,002	121,112
Southwest North of Buckeye Rd.	9	267,669	0	0	0	0.00%	0	0.00%	\$0.78	0	2,000	0	2,000
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	80,728	159,871	37.05%	142,507	33.02%	\$0.65	(4,907)	3,725	0	9,367
Southwest Total	38	1,357,127	0	111,978	428,407	31.57%	430,621	31.73%	\$0.73	91,095	74,668	96,002	132,479
Phoenix Total	1,100	33,063,885	456,700	2,697,545	7,014,757	21.22%	7,743,441	23.42%	\$0.87	186,840	264,733	700,859	2,262,730
1-24,999	717	8,470,458	0	272,376	1,334,567	15.76%	1,585,566	18.72%	\$1.21	50,389	124,599	214,862	728,281
25,000-49,999	216	7,460,536	26,600	398,258	1,755,398	23.53%	1,997,165	26.77%	\$0.73	53,385	193,778	263,381	736,454
50,000-74,999	75	4,541,635	65,100	650,922	1,159,519	25.53%	1,115,434	24.56%	\$0.95	65,334	90,333	99,658	413,554
75,000-99,999	42	3,590,231	80,000	351,414	746,734	20.80%	845,732	23.56%	\$0.89	(1,895)	(64,964)	94,446	294,694
100,000+	50	9,001,025	285,000	1,024,575	2,018,539	22.43%	2,199,544	24.44%	\$0.96	19,627	(79,013)	28,512	89,747
Phoenix Total	1,100	33,063,885	456,700	2,697,545	7,014,757	21.22%	7,743,441	23.42%	\$0.87	186,840	264,733	700,859	2,262,730

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
4809 E. Thistle Landing Dr.	Chandler	101,006	\$66.58	Everest Holdings, LLC	Plumwood Corporation
17800 N. Perimeter Dr.	Scottsdale/Salt River	49,469	\$66.71	Scottsdale Investment Management	California Bank & Trust
650-676 N. 137th Ave.	Goodyear	78,767	\$25.01	Cancer Treatment Research	Stearns Bank
3835-3887 N. 28th Ave.	W. Phoenix	62,780	\$25.88	Terros, Inc.	3828-3880 N. 27th Avenue, LLC
2175 W. Pecos Rd.	Chandler	72,500	\$16.00	RRS & Company	M3 Engineering & Technology Corporation

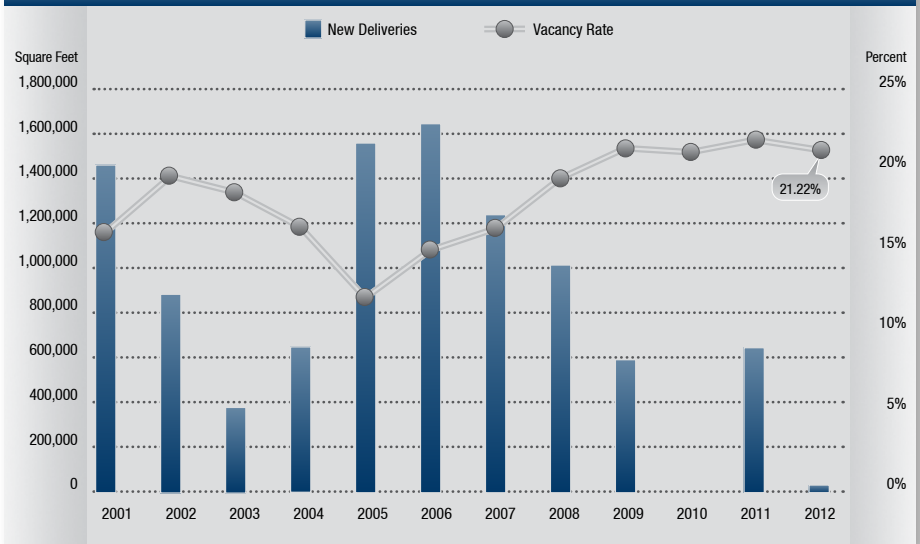
Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2650 W. Geronimo Pl.	Chandler	55,600	Aug-12	ASML, US, Inc.	Chandler Freeway Crossing, LLC
7340 S. Kyrene Rd.	Tempe	31,860	Jul-12	United Recovery Systems	INVESCO
650 N. 99th Ave.	Tolleson	17,364	Sep-12	N/A	Carlson Real Estate Services, LLC
8300 E. Raintree Dr.	Scottsdale Airpark	15,678	Aug-12	Market Development Partners	8300 E. Raintree Drive Holdings, LLC
10220 S. 51st St.	Chandler	15,627	Aug-12	Teikoku Taping Systems	Kachina 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.

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