



Flex / R&D Market Report

Compared to the Previous Quarter:

Vacancy



Net Absorption



Lease Rates



Transactions



Deliveries



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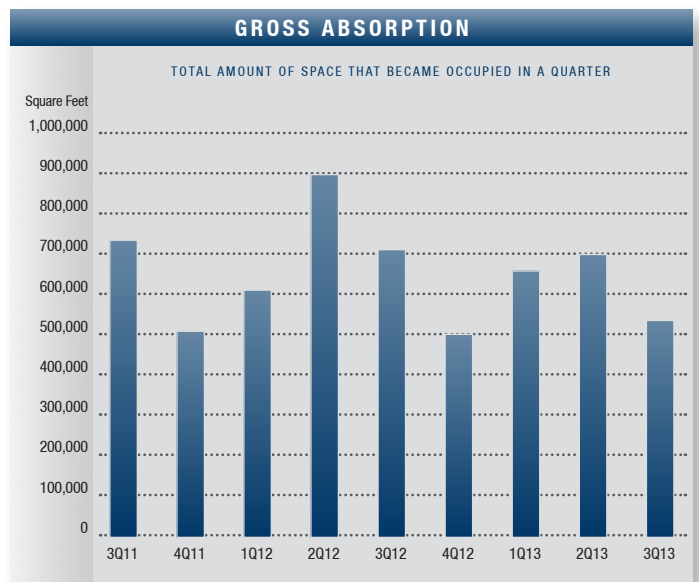
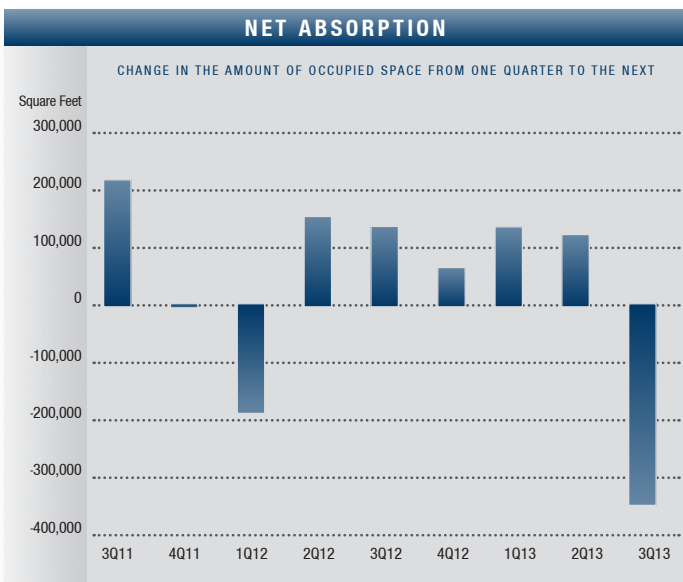
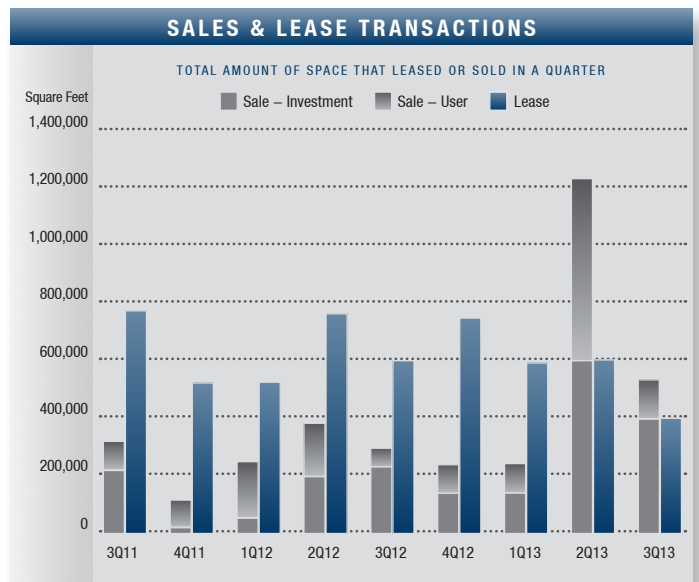
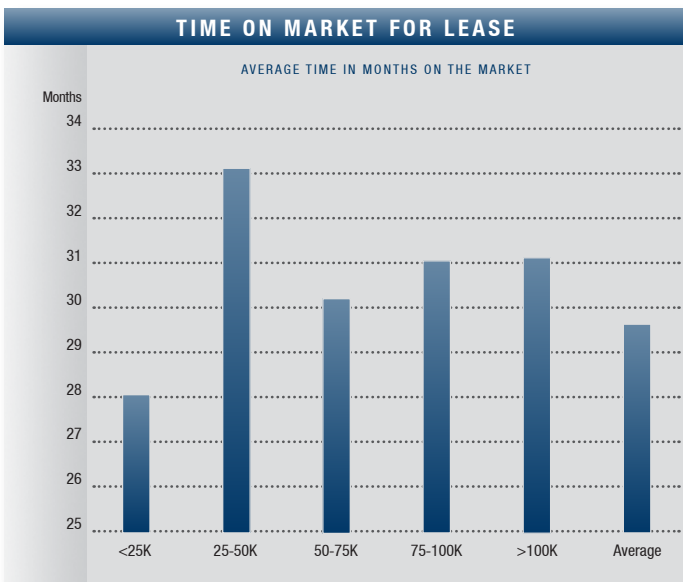
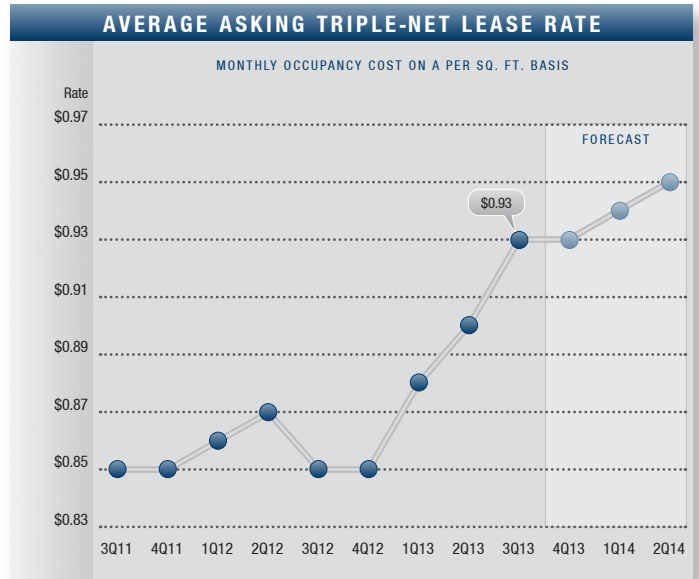
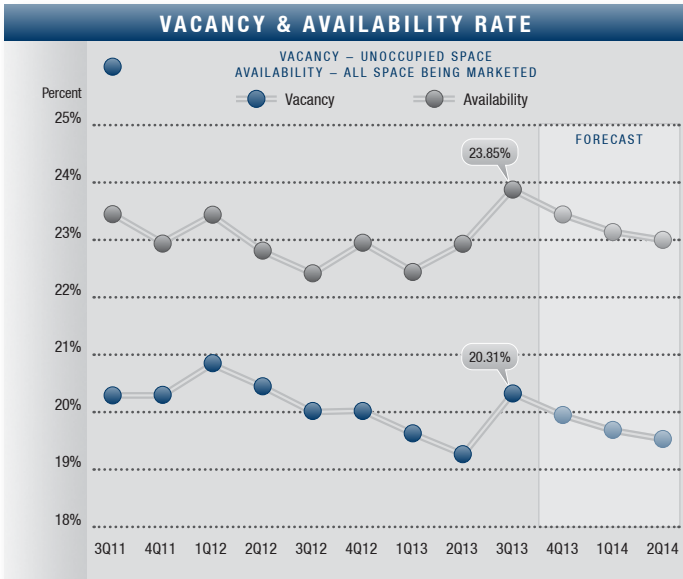
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Market Highlights

- Market Status** - In the third quarter of 2013, Phoenix flex/R&D market unfortunately took a step backwards with a large negative net absorption figure and a rise in vacancy. However, prior to this quarter the market had five constitutive quarters with positive net absorption. While, despite fluctuation in the third quarter, the market appears to be moving in an overall positive direction, stability and job growth will be needed in coming quarters to continue to bolster this recovery.
- Absorption** - The Phoenix flex/R&D market posted 348,152 square feet of negative absorption in the third quarter, giving the market a total of negative 91,006 square feet for the year and just over positive 260,000 square feet over the last six quarters.
- Transaction Activity** - Leasing activity checked in at 389,527 square feet for the Phoenix flex/R&D market in the third quarter of 2013, a drop from 2012's third quarter figure of 590,717 square feet. Sales activity increased, posting 524,914 square feet of activity as compared to the third quarter of 2012's 284,442 square feet. Both lease and sale activity decreased when compared to the second quarter of 2013. Details of the largest transactions can be found on the back page of this report.
- Construction** - There was 155,000 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. All of this construction occurred in the Airport Area submarket.
- Unemployment** - The unemployment rate in the Phoenix-Mesa-Glendale Metropolitan area was 8.3% in August 2013, an increase from January 2013's rate of 8.0%. Sectors with strong job growth included transportation, information driven by transportation, and financial activities. According to Arizona Department of Administration, August added 39,800 nonfarm jobs — 32,000 in government and 8,000 in the education and health services sector.
- Vacancy** - Direct/sublease space (unoccupied) exhibited an increase to 20.31% from the previous quarter's rate of 19.25%. The Airport Area market posted the lowest rate in the market at 15.87%, while the Southwest had the highest rate at 29.83%.
- Availability** - Direct/sublease space being marketed was 23.85% at the end the third quarter, an increase of 6.43% when compared to the 22.41% rate of the same quarter of 2012.
- Lease Rates** - The average asking triple-net lease rate was \$.93 per square foot per month in the third quarter of 2013, three cents higher than the previous quarter's rate and up eight cents compared to the previous year's rate, indicating stability. The highest asking lease rate of \$1.03 was recorded in the Northwest area.
- Overall** - While we are seeing bumps and vacant space, asking lease rates continue to increase. We anticipate that lease rates will continue to gradually rise in the foreseeable future. Cautious optimism still prevails, as job creation will need to continue in order to drive the demand needed to sustain growth in the Phoenix flex/R&D market.

FLEX / R & D MARKET OVERVIEW

	3Q13	2Q13	3Q12	% of Change vs. 3Q12
Total Vacancy Rate	20.31%	19.25%	20.02%	1.45%
Availability Rate	23.85%	22.93%	22.41%	6.43%
Average Asking Lease Rate	\$0.93	\$0.90	\$0.85	9.41%
Sale & Lease Transactions	914,441	1,844,573	875,159	4.49%
Gross Absorption	529,579	691,371	706,429	(25.03%)
Net Absorption	(348,152)	121,523	136,958	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 3Q2013	Square Feet Available	Availability Rate 3Q2013	Average Asking Lease Rate	Net Absorption 3Q2013	Net Absorption 2013	Gross Absorption 3Q2013	Gross Absorption 2013
Airport Area													
North Airport	45	1,585,611	0	0	331,967	20.94%	484,091	30.53%	\$0.68	20,975	(13,464)	23,375	41,157
South Airport North of Roeser	57	2,374,837	0	50,000	324,487	13.66%	536,757	22.60%	\$1.00	(34,019)	(38,092)	0	40,348
South Airport South of Roeser	9	116,580	0	0	0	0.00%	15,915	13.65%	\$0.00	0	0	0	0
SC North of Roeser	40	970,390	155,000	0	149,152	15.37%	199,945	20.60%	\$0.52	(1,056)	14,392	11,550	27,398
SC South of Roeser	4	28,076	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Airport Area Total	155	5,075,494	155,000	50,000	805,606	15.87%	1,236,708	24.37%	\$0.83	(14,100)	(37,164)	34,925	108,903
Northeast													
Central Phoenix	53	973,137	0	0	128,706	13.23%	137,265	14.11%	\$0.55	(21,049)	(9,926)	3,050	20,822
Scottsdale Airpark	102	2,468,441	0	0	517,322	20.96%	551,695	22.35%	\$0.86	972	56,230	86,169	261,851
Scottsdale / Salt River	70	1,886,741	0	299,320	319,567	16.94%	437,395	23.18%	\$1.09	27,240	38,392	73,507	129,992
Northeast Total	225	5,328,319	0	299,320	965,595	18.12%	1,126,355	21.14%	\$0.90	7,163	84,696	162,726	412,665
Northwest													
Deer Valley / Pinnacle Park	92	3,668,963	0	139,700	984,627	26.84%	988,422	26.94%	\$1.13	45,833	106,685	61,456	280,032
Glendale	12	411,114	0	100,000	80,580	19.60%	97,376	23.69%	\$0.70	973	382	4,078	27,600
Grand Avenue	22	143,329	0	0	10,580	7.38%	20,112	14.03%	\$2.50	(4,048)	544	0	8,852
North Glendale / Sun City	22	438,341	0	72,000	116,806	26.65%	116,806	26.65%	\$0.73	0	22,140	0	31,242
North Black Canyon	64	1,303,476	0	0	310,019	23.78%	338,142	25.94%	\$0.64	49,665	8,088	60,848	113,059
West Phoenix North of Thomas Rd.	41	735,695	0	0	58,562	7.96%	58,562	7.96%	\$0.00	7,665	(8,775)	16,143	46,071
West Phoenix South of Thomas Rd.	9	95,951	0	0	15,701	16.36%	15,701	16.36%	\$0.00	0	(5,099)	0	9,402
Northwest Total	262	6,796,869	0	311,700	1,576,875	23.20%	1,635,121	24.06%	\$1.03	100,088	123,965	142,525	516,258
Pinal County													
Pinal County	8	60,732	0	0	2,240	3.69%	2,240	3.69%	\$0.00	0	0	0	0
Pinal County Total	8	60,732	0	0	2,240	3.69%	2,240	3.69%	\$0.00	0	0	0	0
Southeast													
Chandler Airport	10	672,039	0	800,060	354,621	52.77%	354,621	52.77%	\$1.24	(270,816)	(243,751)	23,751	75,367
Chandler	63	3,139,894	0	760,567	587,261	18.70%	538,209	17.14%	\$0.94	(76,074)	66,777	21,316	252,119
Chandler North / Gilbert	102	2,561,452	0	7,080	676,735	26.42%	704,571	27.51%	\$0.87	(64,665)	(78,536)	73,576	142,325
Falcon Fld / Apache Junction	26	430,635	0	0	139,323	32.35%	139,323	32.35%	\$0.66	1,521	8,845	1,521	11,351
Mesa	38	402,063	0	0	35,900	8.93%	55,097	13.70%	\$0.67	(3,992)	(19,070)	6,722	6,722
Tempe East	41	989,990	0	320,414	169,257	17.10%	168,125	16.98%	\$1.00	(5,997)	(12,649)	4,641	21,008
Tempe Northwest	72	2,581,657	0	375,000	328,573	12.73%	497,815	19.28%	\$1.13	10,446	68,046	24,144	197,693
Tempe Southwest	88	4,072,994	0	0	752,222	18.47%	1,101,673	27.05%	\$0.92	(1,928)	(32,676)	30,610	102,744
Southeast Total	440	14,850,724	0	2,263,121	3,043,892	20.50%	3,559,434	23.97%	\$0.94	(411,505)	(243,014)	186,281	809,329
Southwest													
Goodyear	12	302,618	0	0	62,641	20.70%	82,219	27.17%	\$0.47	(26,076)	(30,946)	0	0
Southwest North of Buckeye Rd.	9	267,669	0	0	6,000	2.24%	6,000	2.24%	\$0.00	(6,000)	(6,000)	0	0
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	0	121,405	28.13%	121,405	28.13%	\$0.67	2,278	17,457	3,122	25,299
Southwest Total	37	1,342,597	0	0	400,485	29.83%	420,063	31.29%	\$0.73	(29,798)	(19,489)	3,122	25,299
Phoenix Total	1,127	33,454,735	155,000	2,924,141	6,794,693	20.31%	7,979,921	23.85%	\$0.93	(348,152)	(91,006)	529,579	1,872,454
1-24,999	734	8,635,597	0	109,652	1,367,179	15.83%	1,666,935	19.30%	\$0.71	(44,805)	(74,112)	185,711	536,373
25,000-49,999	223	7,670,077	0	430,578	1,673,239	21.82%	1,810,946	23.61%	\$0.80	34,708	174,222	258,267	744,152
50,000-74,999	74	4,490,421	0	598,922	1,103,394	24.57%	1,219,507	27.16%	\$0.83	31,589	(80,786)	52,357	214,867
75,000-99,999	42	3,599,772	0	400,414	809,251	22.48%	1,045,591	29.05%	\$1.08	(30,469)	(7,492)	0	39,732
100,000+	54	9,058,868	155,000	1,384,575	1,841,630	20.33%	2,236,942	24.69%	\$1.21	(339,175)	(102,838)	33,244	337,330
Phoenix Total	1,127	33,454,735	155,000	2,924,141	6,794,693	20.31%	7,979,921	23.85%	\$0.93	(348,152)	(91,006)	529,579	1,872,454

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
875 W. Elliot Rd.	Tempe Southwest	223,392	\$105.20	Everest Holdings, LLC	ARI-Elliot Corporate Center, LLC
3259 E. Harbour Dr. – 2 Properties	N. Airport	42,001	\$77.00	Cass Construction, Inc.	Jupiter Holdings, LLC
7531 E. 2nd St.	Salt River Ind.	13,966	\$157.53	Dean Enterprises	Tom Hopkins International
15640 N. 28th Dr.	Pinnacle Park Ind.	23,772	\$67.86	AZ Endocrinology	CW Capital Asset Management, LLC
919 E. Jefferson St.	SC N. of Salt River	15,000	\$61.17	Michael Stringfellow	Nextiva

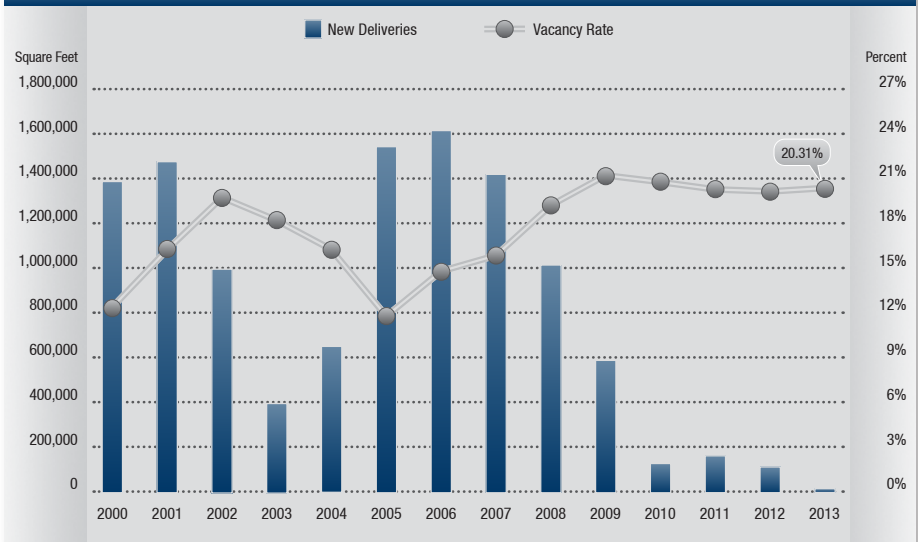
Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
8860 E. Chaparral Rd.	Salt River	54,249	Jul-13	Edgenuity, Inc.	N/A
20401 N. 29th Ave.	Pinnacle Peak	33,244	Jul-13	OSI Collection Services	Air-Northgate Blackhawk Corp Center, LLC
14601-14605 S. 50th St.	Chandler	30,244	Aug-13	Direct TV	Fort X LLC
16641 N. 91st St.	Salt River	24,296	Jul-13	On-Track Tutoring	Wright Brothers Invs II, LLC
555 W. Iron Ave.	Gilbert	23,944	Aug-13	Pearson Education	Murray Thomas

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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