



MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

DOWN



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VOIT Real Estate Services

HIGHLIGHTS

- **Stability** - The Phoenix industrial market continued to show promise of stabilization in the third quarter of 2014. Both vacancy and availability dropped from the previous quarter. Both trends have been relatively flat for the past couple of years. Net absorption posted positively just over 620,000 square feet during the third quarter, giving the market a total of over 13.2 million square feet of positive absorption over the last two years.
- **Construction** - There was 3,057,517 square feet of industrial construction underway at the end of the third quarter, an encouraging sign but still below levels seen during the market's peak in the second half of 2007. Most of this construction occurred in the Southwest and Airport submarkets in buildings above 300,000 square feet; the remaining construction occurred in the Northwest and Southeast submarkets.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 11.46%, a decrease of 24 basis points from the previous quarter and almost 1% decrease from 2013's third quarter rate of 12.36%. The Northeast submarket posted the lowest rate in the market at 7.12%.
- **Availability** - Direct/sublease space being marketed was 13.88% at the end of the third quarter, a slight increase of 10 basis points when compared to the previous year's rate of 13.78%. The Northwest submarket presented the lowest availability rate in the market at 9.59%.
- **Lease Rates** - The average asking-triple net lease rate was \$.44 per square foot per month for the third quarter, an increase of one cent from the previous quarter and an increase of one cent compared to 2013's third quarter rate. This indicates that lease rates are continuing to even out and we are forecasting that occupancy costs will increase going forward. The record high for asking lease rates, \$0.59, was recorded in the first quarter of 2008.
- **Absorption** - The Phoenix industrial market posted 620,441 square feet of positive absorption in the third quarter and just over 20 million square feet over the past three years. The Southeast submarket experienced almost 345,000 square feet of the positive absorption in the third quarter of 2014.
- **Transaction Activity** - Leasing activity checked in at 1.6 million square feet for the Phoenix industrial market in the third quarter of 2014, a decrease when compared to 2014's second quarter figure of 2.97 million square feet. Sales activity also decreased compared to the previous quarter, posting 2.6 million square feet of activity as compared to the second quarter's 3.0 million square feet. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher. 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 6.3% in July 2014, a decrease from January 2014's rate of 6.8%. Sectors with strong job growth included transportation, construction, financial activities, and education/health services. 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, July added 14,300 nonfarm jobs: 300 in construction and 4,400 in the education & health services sector. The number of jobs has increased in the first half of 2014 and we anticipate this trend continuing for the remainder of 2014.
- **Overall** - We are seeing vacancy and availability stabilize in the Phoenix industrial market as new space gets delivered. While absorption due to demand has been positive, we anticipate rent growth remaining minimal until the percentage of vacant space in the market begins declining again. The Phoenix area is poised for growth however, 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.

FORECAST

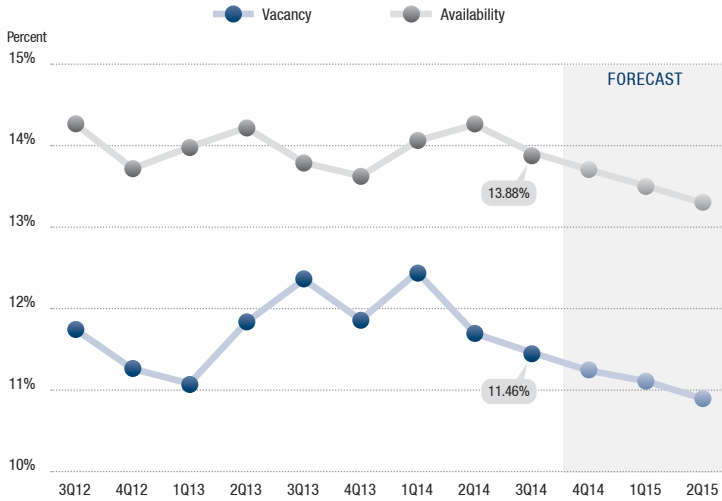
- **Construction** - With a favorable business climate spurring demographic growth in the Phoenix area, we expect it to be a matter of time before development really picks up again. In the meantime, relatively moderate construction levels should help keep vacancy rates stable.
- **Employment** - We anticipate 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, construction, and education & health services to lead the way in employment growth.
- **Lease Rates** - Expect average asking lease rates to increase by around 1% to 3% over the next four quarters.
- **Vacancy** - We anticipate vacancy rates to descend again in coming quarters, dropping by 50 basis points, to below 11.0%, by the end of the second quarter of 2015.

OVERVIEW

	3Q14	2Q14	3Q13	% of Change vs. 3Q13
Vacancy Rate	11.46%	11.70%	12.36%	(7.28%)
Availability Rate	13.88%	14.26%	13.78%	0.73%
Average Asking Lease Rate	\$0.44	\$0.43	\$0.43	2.33%
Sale & Lease Transactions	4,220,697	6,044,270	6,957,606	(39.34%)
Gross Absorption	3,179,535	6,212,463	3,510,913	(9.44%)
Net Absorption	620,441	3,981,885	491,079	N/A

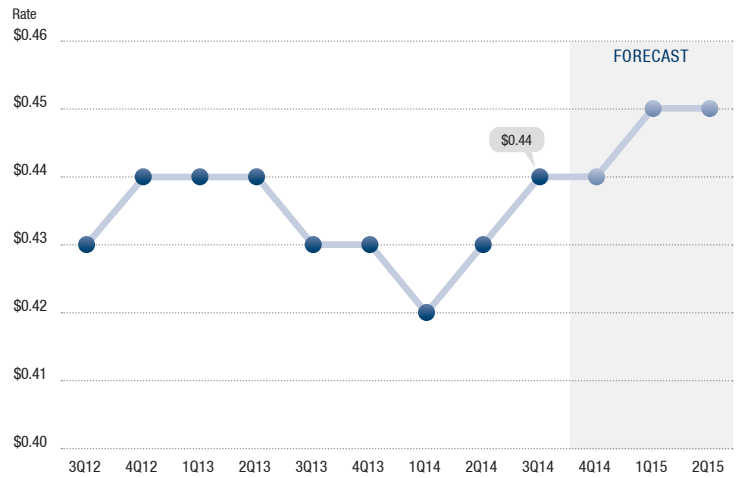
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



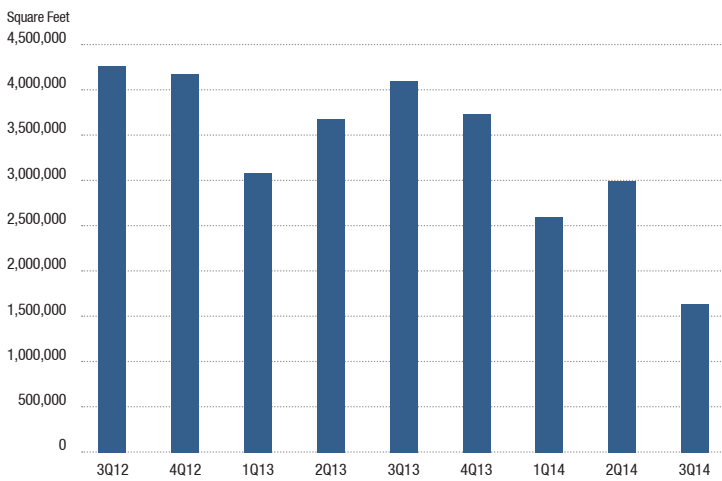
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



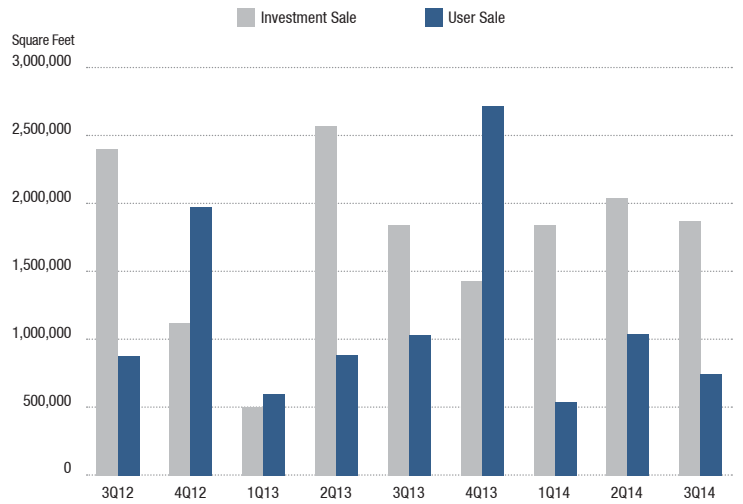
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



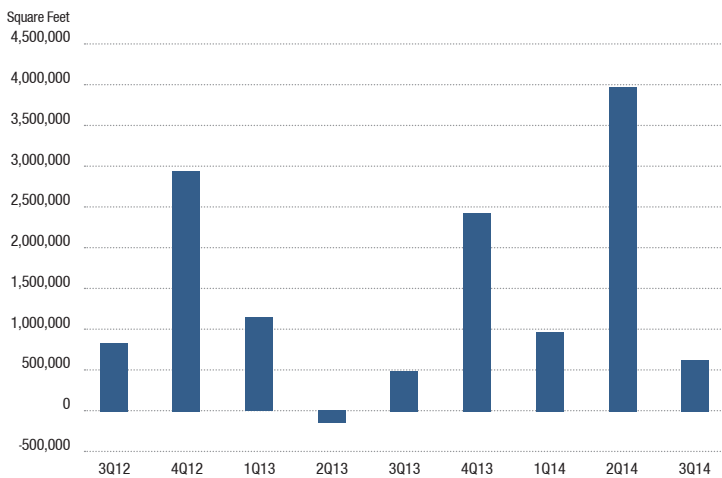
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



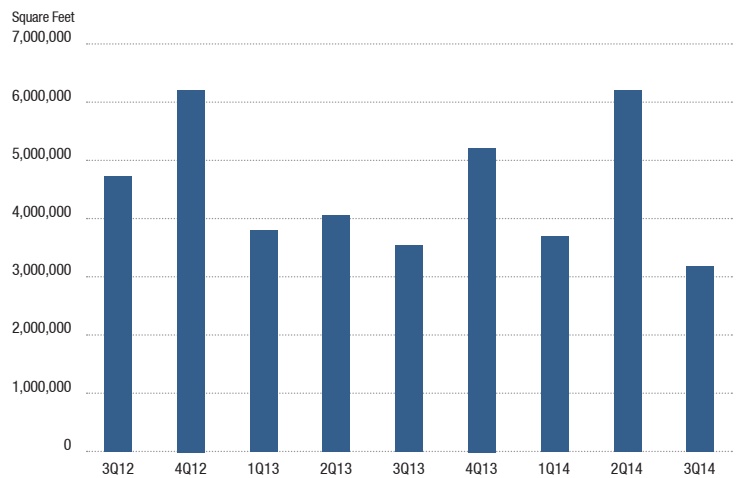
NET ABSORPTION

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 3Q2014	Square Feet Available	Availability Rate 3Q2014	Average Asking Lease Rate	Net Absorption 3Q2014	Net Absorption 2014	Gross Absorption 3Q2014	Gross Absorption 2014
Airport Area													
North Airport	283	10,357,804	62,880	12,000	1,783,159	17.22%	1,937,742	18.71%	\$0.53	6,897	(88,480)	61,715	408,411
South Airport North of Roeser	320	10,633,715	631,669	492,564	704,093	6.62%	952,905	8.96%	\$0.48	101,724	175,354	165,030	452,039
South Airport South of Roeser	119	3,973,949	0	390,288	228,918	5.76%	360,936	9.08%	\$0.50	147,217	292,859	186,287	382,366
SC North of Salt River	359	13,657,317	0	0	1,406,046	10.30%	1,610,124	11.79%	\$0.51	(74,361)	(16,896)	89,072	464,588
SC South of Salt River	56	1,646,569	0	0	71,711	4.36%	246,919	15.00%	\$0.37	(1,822)	(1,822)	0	0
General Industrial	284	11,202,285	62,880	63,488	1,535,703	13.71%	1,946,361	17.37%	\$0.57	128,139	149,598	165,479	499,141
Warehouse / Distribution	853	29,067,069	631,669	831,364	2,658,224	9.15%	3,162,265	10.88%	\$0.47	51,516	211,417	336,625	1,208,263
Airport Area Total	1,137	40,269,354	694,549	894,852	4,193,927	10.41%	5,108,626	12.69%	\$0.51	179,655	361,015	502,104	1,707,404
Northeast													
Central Phoenix	82	2,283,754	0	0	88,031	3.85%	136,298	5.97%	\$0.00	(9,051)	18,396	11,102	66,765
Scottsdale Airpark	222	4,324,309	0	0	300,132	6.94%	378,096	8.74%	\$0.90	39,487	77,172	57,193	224,721
Scottsdale / Salt River	78	3,670,777	0	85,422	343,336	9.35%	598,374	16.30%	\$0.96	(17,370)	(1,079)	49,808	137,457
General Industrial	90	4,125,867	0	85,422	83,166	2.02%	371,427	9.00%	\$0.92	6,652	28,121	8,322	51,133
Warehouse / Distribution	292	6,152,973	0	0	648,333	10.54%	741,341	12.05%	\$0.85	6,414	66,368	109,781	377,810
Northeast Total	382	10,278,840	0	85,422	731,499	7.12%	1,112,768	10.83%	\$0.92	13,066	94,489	118,103	428,943
Northwest													
Deer Valley / Pinnacle Park	403	11,534,846	70,521	307,693	892,677	7.74%	1,163,047	10.08%	\$0.64	48,815	61,903	167,454	489,273
Glendale	75	5,053,925	600,000	3,307,777	763,613	15.11%	886,985	17.55%	\$0.44	3,303	50,153	17,622	104,167
Grand Avenue	270	11,475,893	146,000	525,192	789,757	6.88%	926,132	8.07%	\$0.39	58,100	39,592	138,829	404,690
North Glendale / Sun City	68	2,501,184	0	0	245,178	9.80%	298,512	11.93%	\$0.61	87,540	148,487	91,843	195,197
North Black Canyon	102	2,818,964	0	0	130,667	4.64%	176,795	6.27%	\$0.61	35,202	43,939	50,366	109,142
West Phoenix North of Thomas Road	248	6,444,197	0	0	353,855	5.49%	477,633	7.41%	\$0.26	10,686	42,813	56,548	300,173
West Phoenix South of Thomas Road	215	6,302,314	0	0	340,889	5.41%	493,556	7.83%	\$0.40	3,668	44,992	45,615	203,882
General Industrial	368	13,052,991	146,000	1,823,293	743,818	5.70%	1,003,826	7.69%	\$0.50	48,992	(59,516)	156,360	328,786
Warehouse / Distribution	1,013	33,078,332	670,521	2,317,369	2,772,818	8.38%	3,418,834	10.34%	\$0.51	198,322	491,395	411,917	1,477,738
Northwest Total	1,381	46,131,323	816,521	4,140,662	3,516,636	7.62%	4,422,660	9.59%	\$0.51	247,314	431,879	568,277	1,806,524
Pinal County													
Pinal County	131	6,965,219	0	31,786	594,643	8.54%	842,504	12.10%	\$0.33	(29,624)	(20,494)	40,859	52,959
General Industrial	63	3,903,922	0	12,286	147,360	3.77%	242,178	6.20%	\$0.33	33,200	33,200	32,000	32,000
Warehouse / Distribution	68	3,061,297	0	19,500	447,283	14.61%	600,326	19.61%	\$0.33	(62,824)	(53,694)	8,859	20,959
Pinal County Total	131	6,965,219	0	31,786	594,643	8.54%	842,504	12.10%	\$0.33	(29,624)	(20,494)	40,859	52,959
Southeast													
Chandler Airport	37	1,383,072	374,320	1,198,707	56,904	4.11%	98,718	7.14%	\$0.55	29,623	71,052	29,623	83,120
Chandler	227	16,511,437	327,043	60,000	3,059,951	18.53%	3,303,153	20.01%	\$0.63	(28,585)	389,685	123,405	732,533
Chandler North / Gilbert	436	14,888,939	0	2,918,411	1,679,217	11.28%	2,127,223	14.29%	\$0.57	(55,976)	1,389,333	253,202	1,922,047
Falcon Fld / Apache Junction	96	3,669,987	0	197,378	218,338	5.95%	298,746	8.14%	\$0.58	34,964	41,663	52,341	137,984
Mesa	180	5,801,955	0	221,055	540,677	9.32%	781,268	13.47%	\$0.63	55,021	61,252	103,171	220,847
Tempe East	170	4,686,285	0	50,000	422,448	9.01%	339,577	7.25%	\$0.57	(4,025)	9,508	79,014	253,582
Tempe Northwest	218	7,902,580	0	215,000	1,329,636	16.83%	1,382,970	17.50%	\$0.45	(17,085)	14,903	40,242	298,866
Tempe Southwest	423	17,672,341	0	160,000	1,487,953	8.42%	1,910,345	10.81%	\$0.51	331,502	347,094	433,928	871,545
General Industrial	467	29,255,333	37,110	3,431,938	4,445,835	15.20%	4,957,093	16.94%	\$0.57	(21,840)	1,459,992	226,511	2,100,077
Warehouse / Distribution	1,320	43,261,263	664,253	1,588,613	4,349,289	10.05%	5,285,087	12.22%	\$0.54	367,279	864,498	888,415	2,420,447
Southeast Total	1,787	72,516,596	701,363	5,020,551	8,795,124	12.13%	10,242,180	14.12%	\$0.55	345,439	2,324,490	1,114,926	4,520,524
Southwest													
Goodyear	91	9,211,414	160,000	14,359,468	1,251,485	13.59%	1,409,412	15.30%	\$0.39	10,938	757,196	30,982	909,560
Southwest North of Buckeye Road	532	31,237,745	0	3,598,184	3,741,194	11.98%	5,410,356	17.32%	\$0.37	(119,373)	532,156	432,570	1,631,707
Southwest South of Buckeye Road	187	15,949,277	0	1,306,490	2,803,750	17.58%	3,083,002	19.33%	\$0.36	268,417	519,987	268,417	570,337
Tolleson	179	30,402,822	685,084	7,218,878	4,516,719	14.86%	4,866,268	16.01%	\$0.35	(295,391)	572,099	103,297	1,433,174
General Industrial	260	15,147,232	845,084	10,983,364	2,072,230	13.68%	2,588,704	17.09%	\$0.42	125,759	858,259	276,587	1,229,336
Warehouse / Distribution	729	71,654,026	0	15,499,656	10,240,918	14.29%	12,180,334	17.00%	\$0.36	(261,168)	1,523,179	558,679	3,315,442
Southwest Total	989	86,801,258	845,084	26,483,020	12,313,148	14.19%	14,769,038	17.01%	\$0.37	(135,409)	2,381,438	835,266	4,544,778
General Industrial Total	1,532	76,720,752	1,458,738	18,395,468	9,028,112	11.77%	11,109,589	14.48%	\$0.52	320,902	2,469,654	866,459	4,241,673
Warehouse / Distribution Total	4,275	186,241,838	1,598,779	18,260,825	21,116,865	11.34%	25,388,187	13.63%	\$0.42	299,539	3,103,163	2,313,076	8,819,459
Phoenix Total	5,807	262,962,590	3,057,517	36,656,293	30,144,977	11.46%	36,497,776	13.88%	\$0.44	620,441	5,572,817	3,179,535	13,061,132
10,000-29,999	3,726	63,045,823	66,886	485,426	5,188,525	8.23%	7,007,145	11.11%	\$0.56	282,691	611,861	1,012,547	3,031,578
30,000-49,999	946	35,898,095	113,360	791,992	3,673,865	10.23%	7,563,641	21.07%	\$0.51	166,912	118,749	631,017	1,565,106
50,000-99,999	660	45,475,810	272,531	2,846,272	4,757,424	10.46%	6,148,445	13.52%	\$0.48	304,993	697,023	972,295	2,330,749
100,000-199,999	293	39,482,792	731,109	4,095,685	5,398,773	13.67%	5,937,844	15.04%	\$0.46	7,728	579,184	376,813	1,834,608
200,000-299,999	83	20,229,233	278,547	1,749,751	2,163,933	10.70%	2,719,992	13.45%	\$0.35	(273,160)	278,108	5,103	639,491
300,000 Plus	99	58,830,837	1,595,084	26,687,167	8,962,457	15.23%	7,120,709	12.10%	\$0.35	131,277	3,287,892	181,760	3,659,600
Phoenix Total	5,807	262,962,590	3,057,517	36,656,293	30,144,977	11.46%	36,497,776	13.88%	\$0.44	620,441	5,572,817	3,179,535	13,061,132

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
8313 W. Latham St.	Tolleson	242,863	\$60.08	Cohen Asset Management, Inc.	EG Properties, LLC
5302 W. Buckeye Rd. – 2 Properties	SW N. of Buckeye	219,240	\$55.51	Lincoln Property Company	IDI Gazeley
2050 S. 35th Ave.	SW S. of Buckeye	178,904	\$34.67	The Procter & Gamble Company	TEVA Pharmaceuticals USA, Inc.
317 S. 48th St.	Tempe Northwest	113,827	\$80.02	Road Machinery, LLC	Drivetime Automotive Group, Inc.
3902 E. University Dr. – 5 Properties**	North Airport	109,684	\$84.56	Dunbar Real Estate Investment Management	Morgan Realty Partners
4635 W. McDowell Rd. – 2 Properties	SW N. of Buckeye	99,435	\$61.35	Enright Capital, LTD	MDI Capital, LLC

Lease Transactions

Property Address	City	Square Feet	Transaction Date	Tenant	Owner
4550 W. Watkins St.	SW S. of Buckeye	181,760	Jul-14	OMCO Solar, Inc.	Kansas City Life Insurance Company
5670 S. 32nd St.	S. Airport S. of Roeser	109,060	Sep-14	LKQ Corporation	Conor Commercial Real Estate
3000 S. 24th St.	S. Airport N. of Roeser	50,544	Jul-14	Anixter International, Inc.	Wentworth Property Company, LLC
150 S. Kyrene Rd.	Chandler	50,544	Jul-14	CORT Business Service Corporation	Corporate Holdings II, LLC
6205 S. Arizona Ave.	Chandler Airport	42,000	Sep-14	Barlow Company, Inc.	Twenty Square Holdings, LLC
443 W. Alameda Dr.	Tempe Southwest	35,688	Jul-14	21st Century Healthcare	Prologis

** VRES Deal **

PRODUCT TYPE

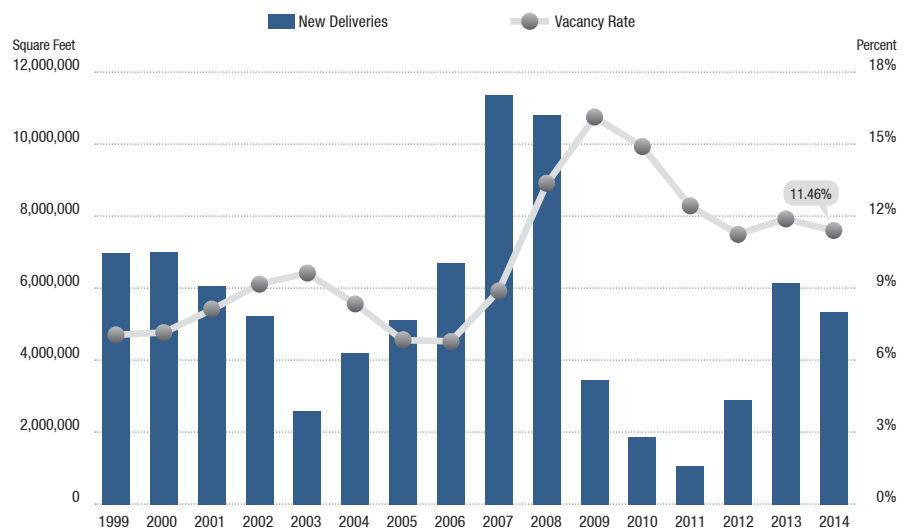
MFG./DIST.

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ANNUAL NEW DELIVERIES VS. VACANCY RATE



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