

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

UP



Deliveries

FLAT



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VOIT Real Estate Services

HIGHLIGHTS

- **Market Status** - Phoenix Flex/R&D activity has increased from the first half of 2014, posting 524,514 square feet of positive net absorption in the third quarter, giving the market a net total of just over 1.1 million square feet of positive absorption for the last eight quarters. Vacancy continued its downward trend, while availability increased slightly from the previous quarter. We expect the vacancies to fill due to broad-based demand in the market, and developers to continue to build for the remainder of 2014, continuing the path of growth in this strong warehouse market.
- **Construction** - There was 153,768 square feet under construction in Tempe East and Chandler submarkets at the close of the third quarter. The slowdown in construction has eased and will continue to ease the upward pressure on vacancy. However, in the months to come the supply should heat up rapidly, with nearly 2.0 million square feet of Flex/R&D space planned in the Phoenix Metro Area.
- **Vacancy** - Down about 156 basis points from the previous quarter, direct/sublease space (unoccupied) finished the third quarter at 17.77%, a decrease from the previous year's rate of 20.43%. The Northeast market posted the lowest rate in the market, at 14.97%, while the Southwest had the highest rate, at 21.83%.
- **Availability** - Direct/sublease space being marketed was 22.11% during the third quarter, a slight increase from the 21.75% in the previous quarter and a decrease when compared to the 24.24% seen in the third quarter of 2013.
- **Lease Rates** - The average asking triple-net lease rate was \$.96 per square foot per month in the third quarter of 2014, with a two cent increase from the previous quarter's rate, and up three cents from the previous year's rate. This quarter, the highest average asking rate of \$1.03 was recorded in the Northwest submarket.
- **Absorption** - The Phoenix Flex/R&D market posted 524,514 square feet of positive absorption in the third quarter, giving the market almost 1.1 million square feet of positive absorption over the last eight quarters.
- **Transaction Activity** - Leasing activity checked in at 407,780 square feet for the Phoenix Flex/R&D market in the third quarter of 2014, a decrease from 2013's third quarter figure of 539,315 square feet. Sales activity came in at 1,195,012 square feet this quarter, an increase compared to last quarter's figure of 442,401. This statistic can have some lag time in being reported, so look for third quarter 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** - The Phoenix Flex/R&D market appears to be stabilizing as we are seeing vacancy trending downward compared to last quarter. The market has seen positive absorption figures for 8 of the last 10 quarters. Lease rates increased in the third quarter, up eleven cents from the end of 2012. While the market appears to be heading in a good direction, speculative development has caused a slight bump in the road, so job creation will need to continue in order to drive the demand needed to sustain growth in the Phoenix Flex/R&D market.

FORECAST

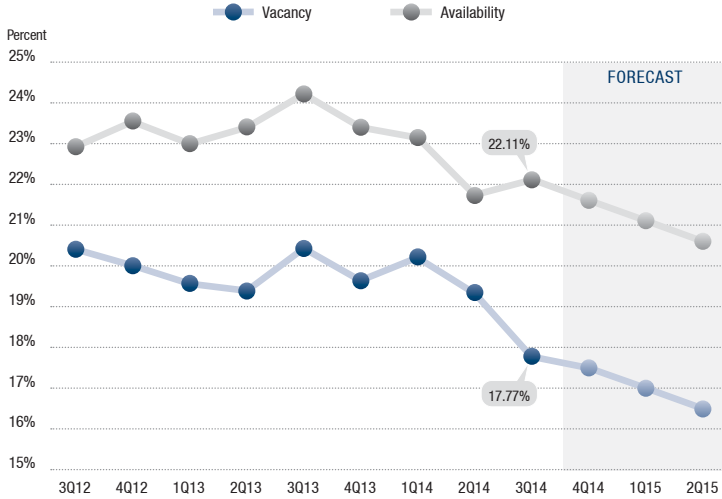
- **Construction** - With a favorable business climate spurring demographic growth, the Phoenix market is one of the fastest growing in the country. Developers are planning an influx of new properties, with almost 2.0 million planned in the metro area. In the meantime, limited construction should ease vacancy rates and further allow demand to catch up to supply.
- **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, and the new sector of high tech manufacturing, with large companies opening plants and factories.
- **Lease Rates** - Expect average asking lease rates to increase by another 3% to 5% over the next four quarters.
- **Vacancy** - We anticipate vacancy rates continuing to descend in coming quarters, dropping by 130 basis points, to around 16.50%, by the end of second quarter of 2015.

OVERVIEW

	3Q14	2Q14	3Q13	% of Change vs. 3Q13
Vacancy Rate	17.77%	19.33%	20.43%	(13.02%)
Availability Rate	22.11%	21.75%	24.24%	(8.79%)
Average Asking Lease Rate	\$0.96	\$0.94	\$0.93	3.23%
Sale & Lease Transactions	1,602,792	1,147,348	1,437,284	11.52%
Gross Absorption	861,100	845,982	652,950	31.88%
Net Absorption	524,514	306,828	(161,265)	N/A

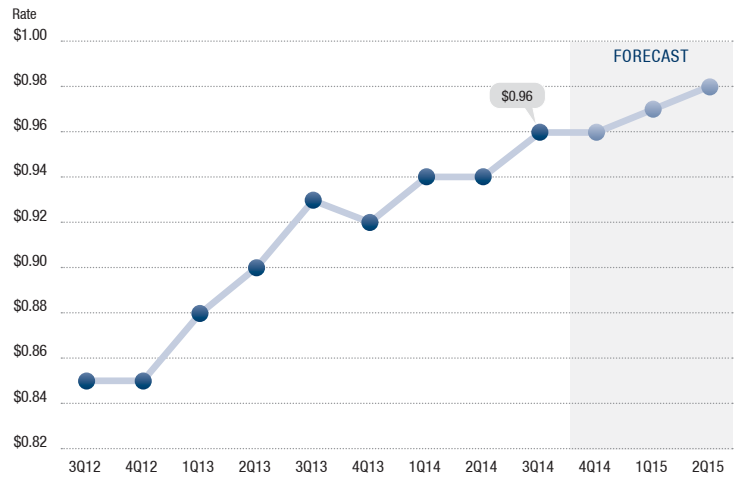
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



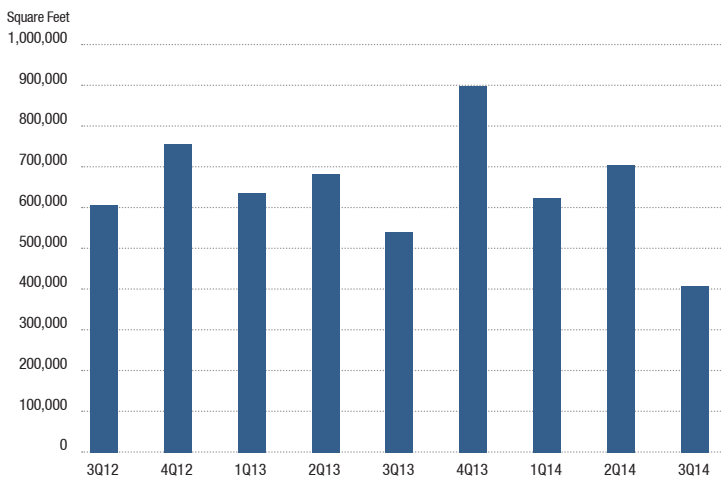
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



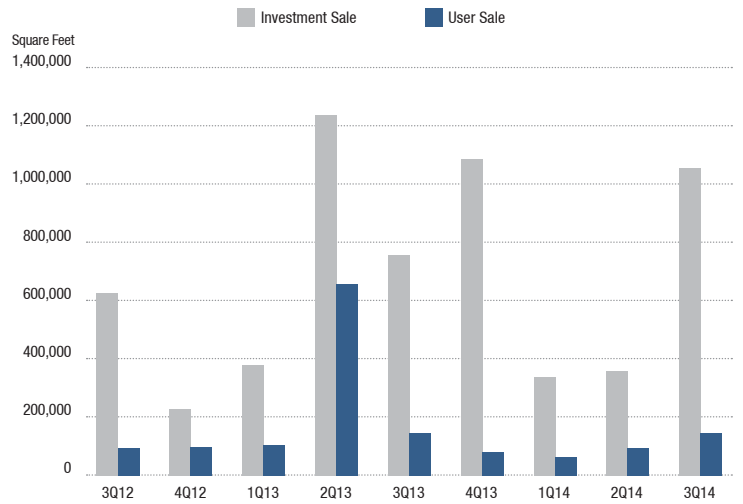
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



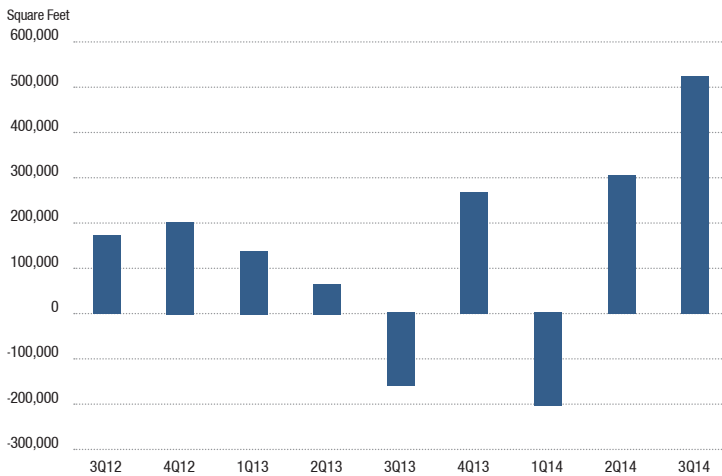
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



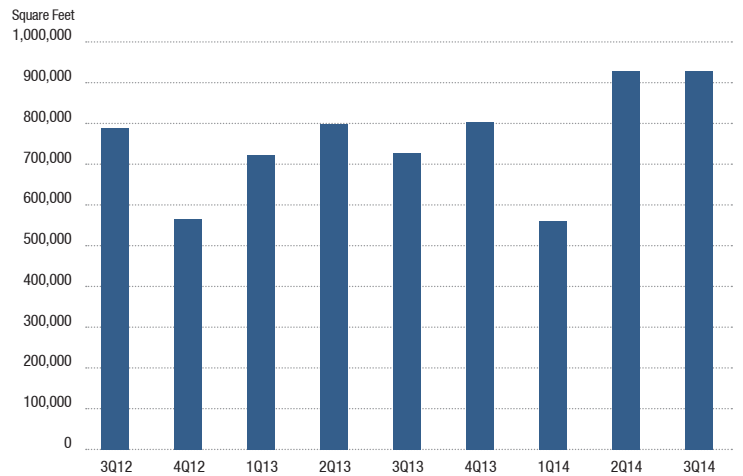
NET ABSORPTION

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	44	1,718,028	0	0	323,227	18.81%	457,709	26.64%	\$0.86	(13,347)	47,614	0	71,482
South Airport North of Roeser	58	2,418,206	0	0	396,585	16.40%	462,275	19.12%	\$0.88	78,095	(86,754)	108,390	171,443
South Airport South of Roeser	10	123,480	0	0	7,568	6.13%	23,483	19.02%	\$0.00	0	(7,568)	0	0
SC North of Roeser	41	914,092	0	0	116,368	12.73%	177,362	19.40%	\$1.00	14,550	14,650	14,550	14,650
SC South of Roeser	4	28,076	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Airport Area Total	157	5,201,882	0	0	843,748	16.22%	1,120,829	21.55%	\$0.89	79,298	(32,058)	122,940	257,575
Northeast													
Central Phoenix	55	988,775	0	0	111,449	11.27%	98,028	9.91%	\$0.60	16,601	35,198	18,236	66,298
Scottsdale Airpark	109	2,501,557	0	0	486,285	19.44%	572,011	22.87%	\$0.86	42,792	39,102	79,501	202,778
Scottsdale / Salt River	70	1,830,327	0	55,000	198,679	10.85%	337,715	18.45%	\$1.01	15,163	(1,716)	34,604	86,713
Northeast Total	234	5,320,659	0	55,000	796,413	14.97%	1,007,754	18.94%	\$0.88	74,556	72,584	132,341	355,789
Northwest													
Deer Valley / Pinnacle Park	89	3,585,502	0	16,500	830,536	23.16%	910,870	25.40%	\$1.13	26,210	98,942	56,370	147,693
Glendale	11	358,779	0	100,000	71,787	20.01%	81,042	22.59%	\$0.69	9,583	12,030	9,583	35,206
Grand Avenue	22	153,377	0	139,571	8,290	5.40%	16,190	10.56%	\$0.62	(1,454)	(1,718)	1,706	4,604
North Glendale / Sun City	25	481,450	0	22,000	94,573	19.64%	94,573	19.64%	\$0.67	(3,706)	60,394	3,783	93,136
North Black Canyon	66	1,331,080	0	0	283,168	21.27%	334,555	25.13%	\$0.56	6,971	30,696	19,519	78,629
West Phoenix North of Thomas Rd.	40	711,391	0	0	63,616	8.94%	55,724	7.83%	\$0.42	(10,066)	(10,367)	4,192	23,098
West Phoenix South of Thomas Rd.	9	95,951	0	0	10,701	11.15%	26,949	28.09%	\$0.00	0	0	0	0
Northwest Total	262	6,717,530	0	278,071	1,362,671	20.29%	1,519,903	22.63%	\$1.03	27,538	189,977	95,153	382,366
Pinal County													
Pinal County	9	74,172	0	0	7,960	10.73%	15,960	21.52%	\$0.00	0	(4,220)	0	0
Pinal County Total	9	74,172	0	0	7,960	10.73%	15,960	21.52%	\$0.00	0	(4,220)	0	0
Southeast													
Chandler Airport	10	672,039	0	441,875	316,950	47.16%	324,065	48.22%	\$1.22	10,761	36,854	10,761	53,620
Chandler	71	3,472,415	81,768	550,000	739,546	21.30%	841,093	24.22%	\$0.95	17,317	4,188	80,167	188,862
Chandler North / Gilbert	97	2,419,538	0	333,080	496,776	20.53%	531,072	21.95%	\$0.74	99,293	178,484	149,701	312,576
Falcon Fld / Apache Junction	28	452,706	0	0	90,012	19.88%	88,912	19.64%	\$0.65	30,465	21,373	32,665	48,094
Mesa	40	429,320	0	0	28,067	6.54%	44,017	10.25%	\$0.00	10,700	4,428	11,000	13,000
Tempe East	39	878,990	72,000	312,000	141,467	16.09%	139,544	15.88%	\$1.00	15,758	14,917	23,052	32,326
Tempe Northwest	74	2,628,801	0	0	303,745	11.55%	488,990	18.60%	\$0.90	13,013	(28,022)	31,757	224,947
Tempe Southwest	90	4,061,671	0	0	566,666	13.95%	1,008,499	24.83%	\$1.09	118,375	57,339	140,565	239,396
Southeast Total	449	15,015,480	153,768	1,636,955	2,683,229	17.87%	3,466,192	23.08%	\$0.97	315,682	289,561	479,668	1,112,821
Southwest													
Goodyear	10	196,019	0	0	0	0.00%	23,620	12.05%	\$0.45	3,000	43,579	3,000	43,579
Southwest North of Buckeye Rd.	9	267,669	0	0	0	0.00%	0	0.00%	\$0.00	0	6,000	0	6,000
Southwest South of Buckeye Rd.	6	338,994	0	0	209,639	61.84%	209,639	61.84%	\$0.00	0	0	0	0
Tolleson	9	431,834	0	0	59,805	13.85%	57,528	13.32%	\$0.62	24,440	61,600	27,998	74,041
Southwest Total	34	1,234,516	0	0	269,444	21.83%	290,787	23.55%	\$0.57	27,440	111,179	30,998	123,620
Phoenix Total	1,145	33,564,239	153,768	1,970,026	5,963,465	17.77%	7,421,425	22.11%	\$0.96	524,514	627,023	861,100	2,232,171
1-24,999	752	8,759,027	0	185,151	1,095,056	12.50%	1,313,308	14.99%	\$0.86	133,836	291,763	263,480	725,395
25,000-49,999	227	7,785,431	0	207,300	1,391,904	17.88%	1,715,284	22.03%	\$0.85	69,739	185,692	212,234	693,118
50,000-74,999	72	4,377,335	72,000	168,000	858,443	19.61%	1,073,377	24.52%	\$0.76	30,292	110,291	94,010	315,101
75,000-99,999	39	3,342,092	81,768	243,000	543,757	16.27%	596,365	17.84%	\$1.01	273,380	268,286	273,380	438,400
100,000+	55	9,300,354	0	1,166,575	2,074,305	22.30%	2,723,091	29.28%	\$1.10	17,267	(229,009)	17,996	60,157
Phoenix Total	1,145	33,564,239	153,768	1,970,026	5,963,465	17.77%	7,421,425	22.11%	\$0.96	524,514	627,023	861,100	2,232,171

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
615 N. 48th St. – 2 Properties	Tempe Northwest	652,856	\$191.47	Carter Validus Mission Critical	10 Capital Princess, LLC
1665 W. Alameda Dr.	Tempe Southwest	236,742	\$58.42	Wentworth Property Company, LLC	Fnb Fountainhead, LLC
615 S. River Dr.	Tempe East	193,000	\$59.15	EverWest Real Estate Partners, LLC	Jabil Circuit, Inc.
2851 W. Kathleen Rd.	Deer Valley / Pinnacle Peak	102,996	\$209.72	2851 K Mac Go, LLC	Intravest Development, LLC
7307 E. Hampton Ave. – 2 Properties	Chandler N / Gilbert	101,496	\$137.79	Allred Hampton De, LLC	Allegra Development
1800 S. Price Rd.	Chandler	68,443	\$184.83	Cohn Asset Management, Inc.	Abart Properties Corporation

Lease Transactions

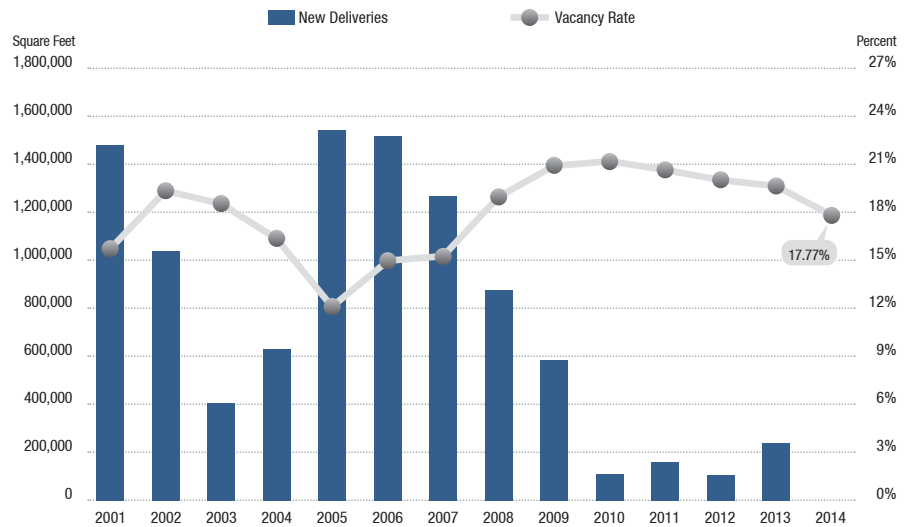
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
15849 N. 7th St.	Scottsdale Airpark	20,145	Jul-14	Charity Benefits Unlimited	Charity Benefit Unlimited
3140 N. Arizona Ave.	Chandler N / Gilbert	11,760	Aug-14	Southwest Network	West Coast Capital Partners
7399 E. Tierra Buena Ln.	Scottsdale Airpark	10,300	Jul-14	Scottsdale School of Fitness	MC Development
1131 W. Warner Rd. **	Tempe Southwest	10,140	Aug-14	Keysight Technologies, Inc.	Warner Business Center I, LLC
7400 W. Detroit St.	Chandler	10,131	Aug-14	Wright Consulting Group	Biltmore Holdings

** VRES Deal **

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.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



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