



## Industrial Market Report

Compared to 2009:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

UP

### Market Highlights

- **Are we there yet?** - The Phoenix industrial market displayed more promises of stabilization in the fourth quarter of 2010. Availability continued its descent from the peak seen in the first quarter of 2010, vacancy rates trended downward, and net absorption was positive for the last three quarters of 2010. Demand picked up, with Labor Day marking the beginning of a renewed interest in sales transactions, and tenants began signing longer lease commitments. While these are positive indications, stability and job growth will need to be sustained in coming quarters to be considered recovery.
- **Construction** - There was only 38,597 square feet of industrial construction underway in the fourth quarter of 2010. Scarce financing and low demand have essentially halted industrial development.
- **Vacancy** - Direct/sublease space (unoccupied) finished the year at 14.38% — lower than the third quarter's figure of 14.72% and a significant drop from 2009's rate of 15.48%. The Northeast market posted the lowest rate in the county at 10.36%.
- **Availability** - Direct/sublease space being marketed was 17.52% at the end of 2010, a decrease of 3.95% compared to the 18.24% we saw at the end of 2009.
- **Lease Rates** - The average asking triple net lease rate was \$.44 cents per square foot per month for 2010, one cent lower than previous quarter and four cents lower than 2009's rate. The record high for asking lease rates, \$.59, was recorded in the first quarter of 2007.
- **Absorption** - The Phoenix industrial market posted 4,360,821 square feet of positive absorption for 2010,

erasing most of the 4,556,709 square feet of negative absorption from 2009.

- **Transaction Activity** - Leasing activity came in at 12.2 million square feet for 2010. This is an increase over 2009's 11.7 million square feet of leasing activity. Sales activity showed a significant increase since 2009, posting 5.9 million square feet of activity as compared to 2009's 3.3 million. 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 8.5% in November 2010, the same as from a revised 8.5% in October 2010 and higher than the 2009 estimate of 8.3%. This compares with an unadjusted unemployment rate of 9.4% for Arizona and 9.3% for the nation during the same period.
- **Overall** - We are beginning to see a decrease in the amount of available space being added to the market per quarter. Positive absorption is the big story, and with few new deliveries in the pipeline to drive vacancy up, the market is beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders continue to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, relocation funds and tenant improvement allowances should continue to increase to motivate tenants to quick action. We should also see an increase in leasing activity as many short-term deals come up for renewal and as job creation begins going into 2011. Once employment turns positive and consumer confidence stabilizes, the industrial market will regain equilibrium.

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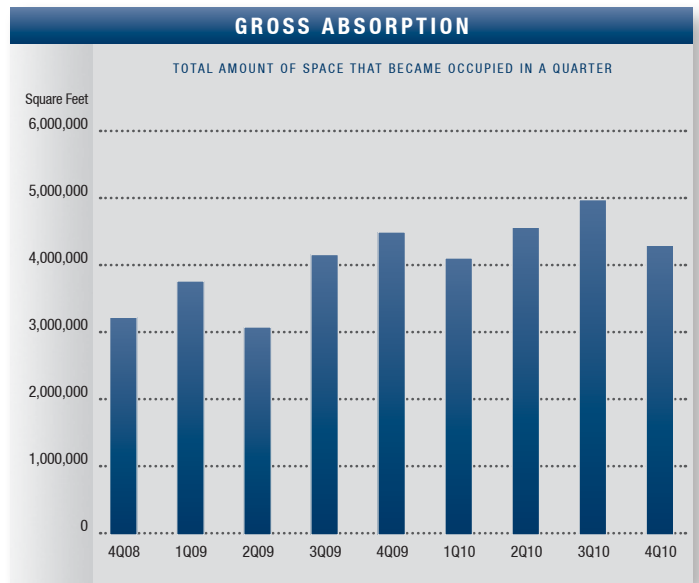
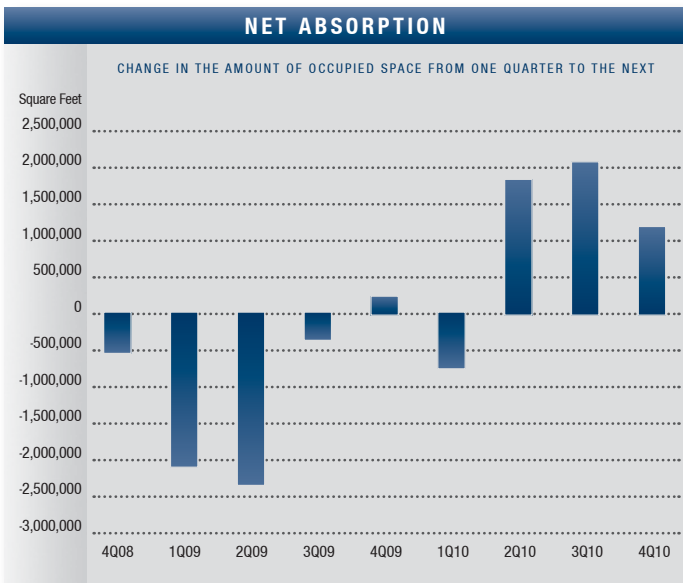
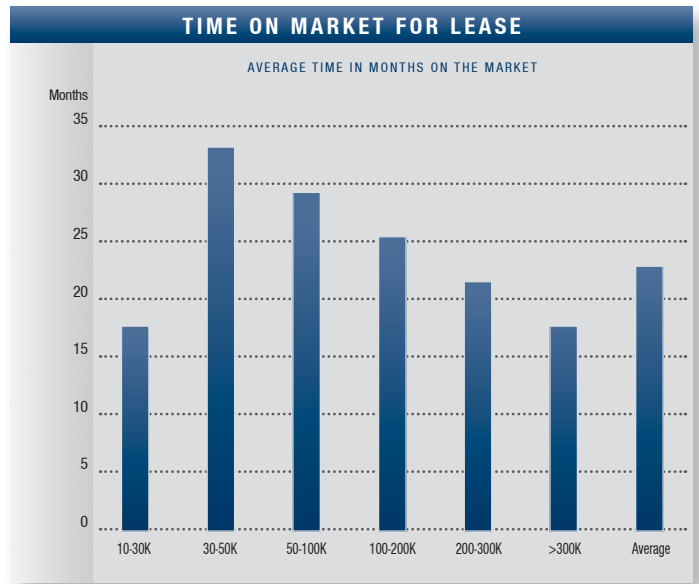
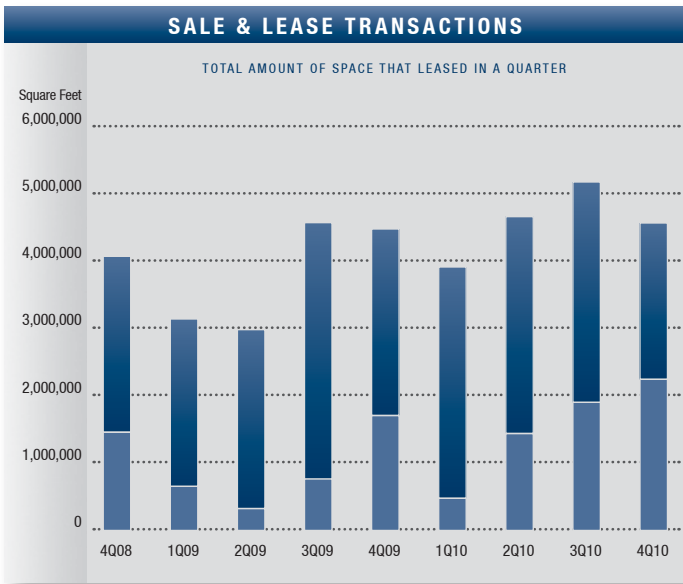
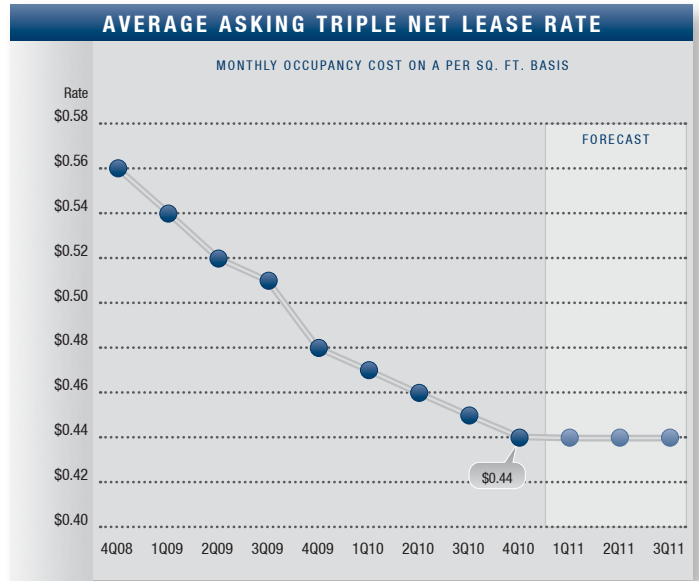
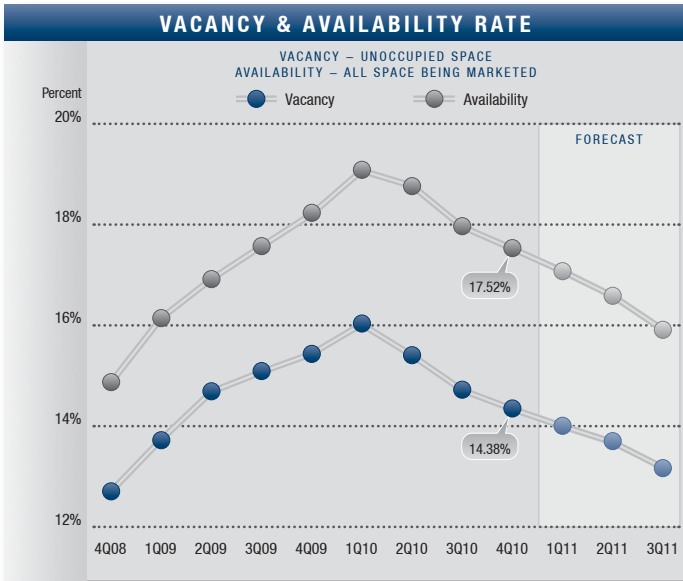
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### INDUSTRIAL MARKET OVERVIEW

	2010	2009	2008	% CHANGE vs. 2009
Vacancy Rate	14.38%	15.48%	12.73%	(7.11%)
Availability Rate	17.52%	18.24%	14.84%	(3.95%)
Average Asking Lease Rate	\$0.44	\$0.48	\$0.56	(8.33%)
Sale & Lease Transactions	18,119,700	15,048,272	17,759,389	20.41%
Gross Absorption	17,893,776	15,460,476	19,293,318	15.74%
Net Absorption	4,360,821	(4,556,709)	34,906	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 4Q2010	Square Feet Available	Availability Rate 4Q2010	Average Asking Lease Rate	Net Absorption 4Q2010	Net Absorption 2010	Gross Absorption 4Q2010	Gross Absorption 2010
<b>Airport Area</b>													
North Airport	297	10,849,066	0	61,536	1,479,743	13.64%	2,071,814	19.10%	\$0.45	(18,173)	(9,279)	243,142	697,220
South Airport North of Roeser	325	11,071,556	0	17,560	1,607,640	14.52%	2,130,628	19.24%	\$0.48	9,456	180,419	199,256	954,573
South Airport South of Roeser	120	3,966,217	0	0	776,381	19.57%	876,289	22.09%	\$0.53	(1,598)	(8,701)	25,300	157,499
SC North of Roeser	364	14,025,360	0	0	1,968,379	14.03%	2,454,195	17.50%	\$0.41	(4,388)	(251,458)	99,498	424,116
SC South of Roeser	50	1,521,123	0	0	102,682	6.75%	151,786	9.98%	\$0.53	(1,649)	25,862	13,144	69,866
<b>Airport Area Total</b>	<b>1,156</b>	<b>41,433,322</b>	<b>0</b>	<b>79,096</b>	<b>5,934,825</b>	<b>14.32%</b>	<b>7,684,712</b>	<b>18.55%</b>	<b>\$0.45</b>	<b>(16,352)</b>	<b>(63,157)</b>	<b>580,340</b>	<b>2,303,274</b>
<b>Northeast</b>													
Central Phoenix	112	4,138,917	0	0	167,510	4.05%	174,060	4.21%	\$0.60	33,746	59,842	42,306	176,409
Scottsdale Airpark	252	5,241,372	0	0	941,333	17.96%	1,153,841	22.01%	\$0.69	25,090	(136,796)	117,712	483,801
Scottsdale/Salt River	90	4,586,445	0	0	338,628	7.38%	428,233	9.34%	\$0.70	(10,137)	59,869	27,370	223,017
<b>Northeast Total</b>	<b>454</b>	<b>13,966,734</b>	<b>0</b>	<b>0</b>	<b>1,447,471</b>	<b>10.36%</b>	<b>1,756,134</b>	<b>12.57%</b>	<b>\$0.69</b>	<b>48,699</b>	<b>(17,085)</b>	<b>187,388</b>	<b>883,227</b>
<b>Northwest</b>													
Deer Valley/Pinnacle Park	418	13,484,451	24,111	292,230	1,810,573	13.43%	2,397,763	17.78%	\$0.68	(22,852)	(527,394)	159,009	941,264
Glendale	76	4,257,004	0	1,823,980	797,630	18.74%	515,657	12.11%	\$0.55	(4,395)	140,510	15,182	228,284
Grand Avenue	294	13,362,321	0	545,090	1,042,813	7.80%	1,466,992	10.98%	\$0.36	173,312	180,826	252,181	588,367
North Glendale/Sun City	92	4,128,769	0	89,714	788,651	19.10%	857,484	20.77%	\$0.48	103,041	169,834	122,322	348,381
North Black Canyon	126	3,523,763	0	0	357,782	10.15%	414,712	11.77%	\$0.36	48,932	4,038	64,158	177,443
West Phoenix North of Thomas Rd.	260	6,839,157	0	0	761,837	11.14%	892,260	13.05%	\$0.40	4,398	14,708	69,197	391,799
West Phoenix South of Thomas Rd.	223	6,244,799	0	0	594,476	9.52%	779,629	12.48%	\$0.44	10,163	(1,357)	94,154	313,888
<b>Northwest Total</b>	<b>1,489</b>	<b>51,840,264</b>	<b>24,111</b>	<b>2,751,014</b>	<b>6,153,762</b>	<b>11.87%</b>	<b>7,324,497</b>	<b>14.13%</b>	<b>\$0.56</b>	<b>312,599</b>	<b>(18,835)</b>	<b>776,203</b>	<b>2,989,426</b>
<b>Pinal County</b>													
Pinal County	122	6,901,169	0	739,500	616,533	8.93%	736,258	10.67%	\$0.34	33,767	141,812	39,392	215,133
<b>Pinal County Total</b>	<b>122</b>	<b>6,901,169</b>	<b>0</b>	<b>739,500</b>	<b>616,533</b>	<b>8.93%</b>	<b>736,258</b>	<b>10.67%</b>	<b>\$0.34</b>	<b>33,767</b>	<b>141,812</b>	<b>39,392</b>	<b>215,133</b>
<b>Southeast</b>													
Chandler Airport	42	1,469,903	0	749,751	396,682	26.99%	357,874	24.35%	\$0.58	38,696	166,205	47,864	193,395
Chandler	260	14,994,534	0	16,534	1,640,974	10.94%	2,040,050	13.61%	\$0.62	255	69,536	174,549	706,246
Chandler North/Gilbert	436	13,515,753	0	674,572	2,672,269	19.77%	3,283,854	24.30%	\$0.53	48,871	201,776	204,423	909,704
Falcon Fld/Apache Junction	107	4,702,487	0	0	357,378	7.60%	433,100	9.21%	\$0.54	19,524	172,225	68,770	363,767
Mesa	192	6,265,552	0	0	1,108,473	17.69%	1,318,466	21.04%	\$0.65	(13,344)	27,703	67,232	594,193
Tempe East	191	5,435,485	0	0	464,431	8.54%	736,906	13.56%	\$0.58	(8,233)	6,775	52,614	306,755
Tempe Northwest	225	8,258,564	14,486	0	801,812	9.71%	2,035,654	24.65%	\$0.46	(170,833)	(99,143)	146,549	548,825
Tempe Southwest	436	18,136,953	0	476,000	1,736,040	9.57%	2,325,927	12.82%	\$0.46	347,683	555,381	599,259	1,674,106
<b>Southeast Total</b>	<b>1,889</b>	<b>72,779,231</b>	<b>14,486</b>	<b>1,916,857</b>	<b>9,178,059</b>	<b>12.61%</b>	<b>12,531,831</b>	<b>17.22%</b>	<b>\$0.55</b>	<b>262,619</b>	<b>1,100,458</b>	<b>1,361,260</b>	<b>5,296,991</b>
<b>Southwest</b>													
Goodyear	89	8,282,258	0	4,606,800	2,285,283	27.59%	1,870,749	22.59%	\$0.40	(17,306)	(107,169)	16,549	205,736
Southwest North of Buckeye Rd.	534	30,075,663	0	243,400	4,598,405	15.29%	6,334,798	21.06%	\$0.29	616,178	498,379	829,589	1,876,577
Southwest South of Buckeye Rd.	186	13,261,426	0	20,132	2,056,975	15.51%	1,956,201	14.75%	\$0.31	(315,130)	1,107,850	28,900	1,654,548
Tolleson	170	26,462,812	0	806,972	5,830,590	22.03%	6,241,254	23.58%	\$0.33	274,120	1,718,568	455,998	2,468,864
<b>Southwest Total</b>	<b>979</b>	<b>78,082,159</b>	<b>0</b>	<b>5,677,304</b>	<b>14,771,253</b>	<b>18.92%</b>	<b>16,403,002</b>	<b>21.01%</b>	<b>\$0.33</b>	<b>557,862</b>	<b>3,217,628</b>	<b>1,331,036</b>	<b>6,205,725</b>
<b>Phoenix Total</b>	<b>6,089</b>	<b>265,002,879</b>	<b>38,597</b>	<b>11,163,771</b>	<b>38,101,903</b>	<b>14.38%</b>	<b>46,436,434</b>	<b>17.52%</b>	<b>\$0.44</b>	<b>1,199,194</b>	<b>4,360,821</b>	<b>4,275,619</b>	<b>17,893,776</b>
10,000 – 29,999	3,773	63,970,610	38,597	1,019,987	8,257,525	12.91%	10,492,782	16.40%	\$0.55	183,009	947,156	1,247,400	5,844,706
30,000 – 49,999	1,026	39,154,693	0	656,959	6,113,758	15.61%	7,649,093	19.54%	\$0.48	104,753	172,985	642,927	2,598,526
50,000 – 99,999	819	56,408,830	0	882,272	6,868,792	12.18%	8,900,730	15.78%	\$0.47	296,330	544,059	818,372	3,128,655
100,000 – 199,999	310	41,061,037	0	1,489,711	6,274,093	15.28%	8,251,550	20.10%	\$0.42	150,753	32,150	889,548	2,366,124
200,000 – 299,999	81	19,408,871	0	473,377	2,205,956	11.37%	3,019,923	15.56%	\$0.32	491,392	905,609	677,372	1,337,868
300,000+	80	44,998,838	0	6,641,465	8,381,779	18.63%	8,122,356	18.05%	\$0.39	(27,043)	1,758,862	0	2,617,897
<b>Total</b>	<b>6,089</b>	<b>265,002,879</b>	<b>38,597</b>	<b>11,163,771</b>	<b>38,101,903</b>	<b>14.38%</b>	<b>46,436,434</b>	<b>17.52%</b>	<b>\$0.44</b>	<b>1,199,194</b>	<b>4,360,821</b>	<b>4,275,619</b>	<b>17,893,776</b>

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

RECENT TRANSACTIONS

Sale Transactions

Property Address	Submarket	Square Feet	Sale Price	Tenant	Owner
9081 W. Washington Street	Tolleson	466,694	\$65.24	Cole Real Estate Investments	USAA Real Estate Company
1000 & 1100 E. Ball Road	Deer Valley/Pinnacle Park	545,000	\$36.70	Western Digital Corporation	STMicroelectronics
4295 N. Cotton Lane	Glendale	440,168	\$28.46	Sub-Zero, Inc. / Wolf Appliance, Inc.	Sunbelt Holdings
1721 W Elliot Road	Chandler North/Gilbert	124,200	\$89.42	Orbital Sciences Corporation	General Dynamics Advanced
802 S 51st Avenue	Southwest North of Buckeye Road	95,012	\$113.23	W.P. Carey & Co., LLC	Sloan Brothers
275 S. 67th Street	Southwest North of Buckeye Road	251,668	\$39.83	Niagra Bottling, LLC	Five Star Development

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4750-5050 W. Mohave Street	Southwest South of Buckeye Road	1,207,021	August 2nd	Amazon.com, Inc.	KTR Capital Partners / Tratt Properties, LLC
17300 W. Broadway Road	Goodyear	460,000	April 6th	Tower Automotive	BET Investments, Inc.
2225 S. 75th Avenue	Tolleson	412,405	November 17th	Gap, Inc.	ING Clarion Partners, LLC
8602 W. Buckeye Road	Tolleson	296,829	January 29th	Staples	LBA Realty
275 S. 67th Avenue	Southwest North of Buckeye Road	251,668	May 5th	Niagara Bottling	67th Avenue Properties, LLC
6913 W. Buckeye Road	Tolleson	216,845	March 19th	Philosophy, Inc.	Principal Financial Group, Inc.

Product Type

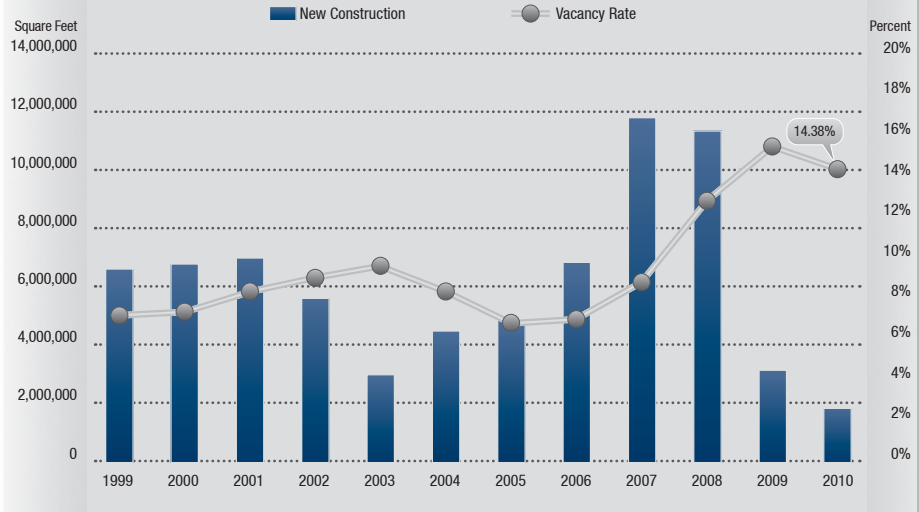
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