



Industrial Market Report

Compared to 2011:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

Deliveries

UP

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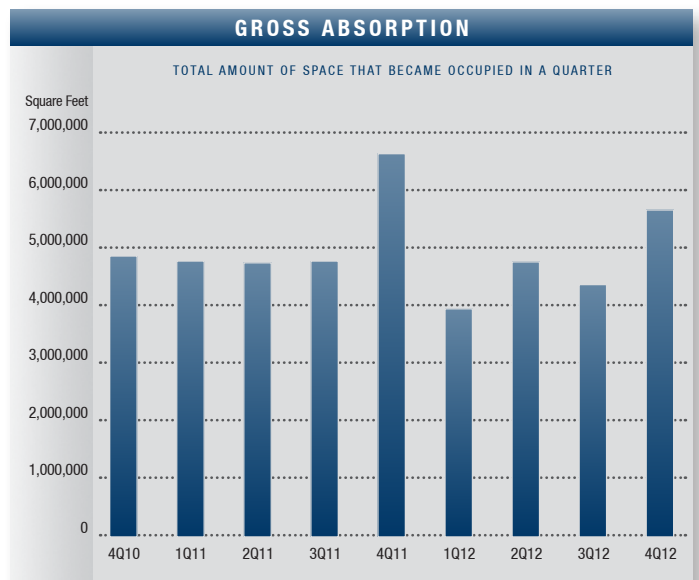
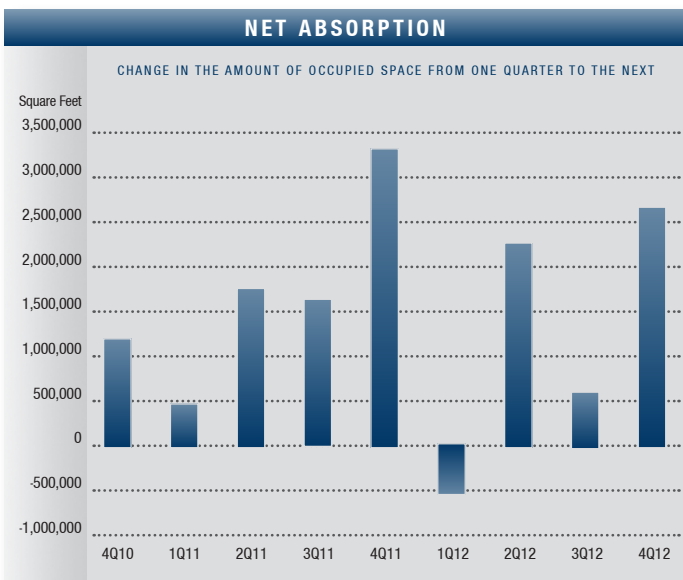
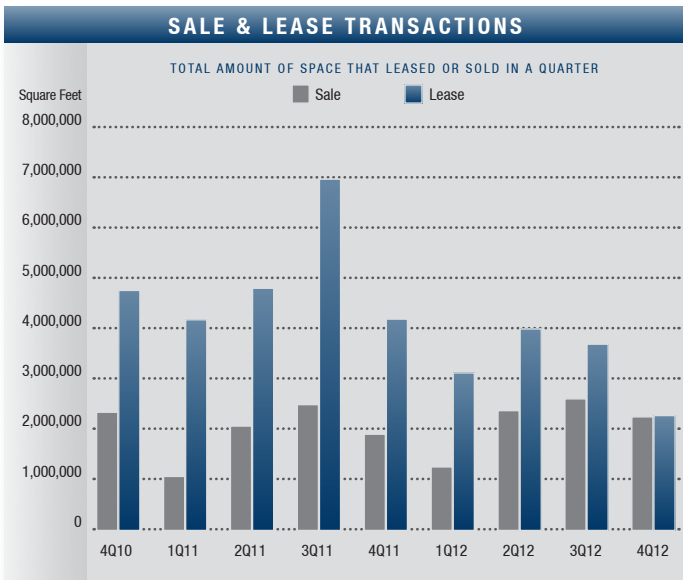
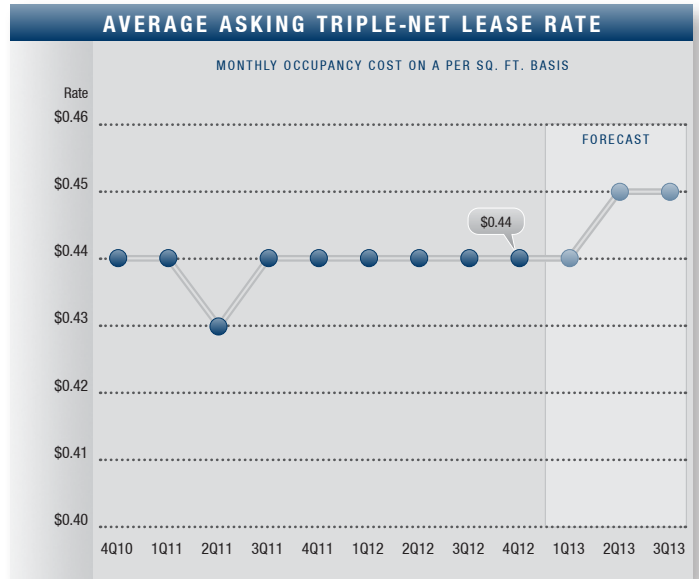
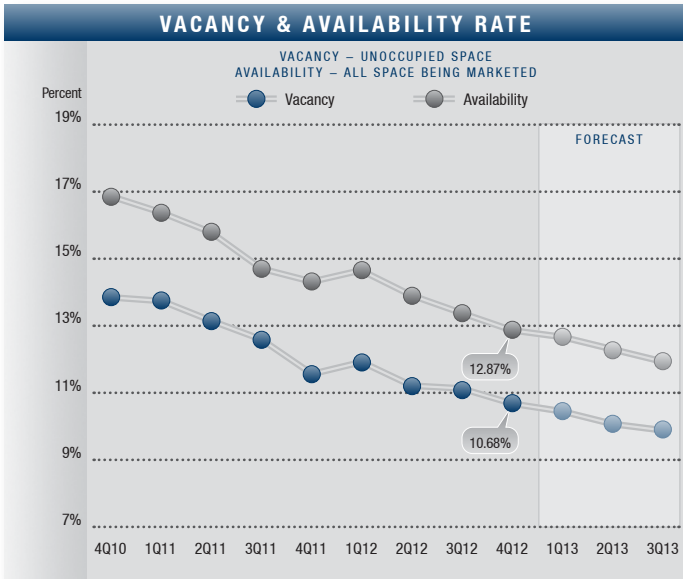
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Market Highlights

- Stability** - The Phoenix industrial market conveyed more promise of stabilization in the final months of 2012. Both vacancy and availability continued their downward trend and displayed near double-digit percentage drops compared to 2011, and net absorption saw positive growth of nearly 5 million square feet for the year. Demand stayed healthy with over 21 million square feet sold or leased in 2012. While these are positive indications, stability and job growth will be needed in coming quarters to continue to bolster a recovery.
- Absorption** - The Phoenix industrial market posted 2,659,548 square feet of positive absorption in the fourth quarter of 2012, producing a total of over 17 million square feet of positive absorption over 11 consecutive quarters.
- Transaction Activity** - Leasing activity checked in at 2.24 million square feet for the Phoenix industrial market in fourth quarter 2012, a drop from 2011's fourth quarter figure of 4.1 million square feet. Sales activity remained relatively flat compared the previous quarter, posting 2.2 million square feet of activity as compared to the second quarter's 2.4 million square feet. 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 6.9% in October 2012, a healthy decrease from the January rate of 7.9%. Sectors with strong job growth include trade, transportation, utilities driven by retail trade, and professional and business services — largely in the administrative and support services area. In addition, the beleaguered construction industry made substantial strides over the past 12 months, with the addition of 4,500 jobs, while the financial activities sector gained traction, aided by JPMorgan Chase's addition of 1,100 to local staff.
- Overall** - We are seeing a continued decrease in available and vacant space and a subsequent increase in net occupancy, which is contributing to stability in asking lease rates. We anticipate that lease rates will begin to rise during the first 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.
- Construction** - There was 5,348,704 square feet of industrial construction underway at the end of the fourth quarter, an encouraging sign, but still below construction levels seen during the market's peak in the second half of 2007. Most of this construction occurred in the Southwest submarket.
- Vacancy** - Direct/sublease space (unoccupied) decreased to 10.68% from 2012's third quarter rate of 11.03% and displayed a significant drop of 7.5% from 2012's rate, making this the lowest rates seen since the first quarter of 2008. The Northeast market posted the lowest rate in the county at 6.74%.
- Availability** - Direct/sublease space being marketed was 12.87% at the end of the fourth quarter, a significant decrease when compared to the 14.30% rate of the same quarter of 2011 and the lowest rate seen in the last 4 years.
- Lease Rates** - The average asking-triple net lease rate was \$.44 cents per square foot per month for the fourth quarter, the same as the previous quarter's rate and equal to 2011's fourth quarter's rate, indicating stability. The record high for asking lease rates, \$.59, was recorded in the first quarter of 2007.

INDUSTRIAL MARKET OVERVIEW

	2012	2011	2010	% of Change vs. 2011
Total Vacancy Rate	10.68%	11.55%	13.83%	(7.53%)
Availability Rate	12.87%	14.30%	16.81%	(10.00%)
Average Asking Lease Rate	\$0.44	\$0.44	\$0.44	0.00%
Sale & Lease Transactions	21,301,526	27,442,539	22,124,393	(22.38%)
Gross Absorption	18,655,472	20,888,024	18,219,919	(10.69%)
Net Absorption	4,972,149	7,162,999	4,442,194	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 4Q2012	Square Feet Available	Availability Rate 4Q2012	Average Asking Lease Rate	Net Absorption 4Q2012	Net Absorption 2012	Gross Absorption 4Q2012	Gross Absorption 2012
Airport Area													
North Airport	294	11,295,070	0	12,000	1,845,096	16.34%	2,038,466	18.05%	\$0.49	11,534	(107,549)	236,206	620,859
South Airport North of Roeser	313	10,318,616	30,000	32,000	1,105,368	10.71%	1,316,383	12.76%	\$0.44	60,255	427,029	200,708	921,716
South Airport South of Roeser	122	4,068,288	0	0	578,171	14.21%	809,993	19.91%	\$0.50	3,206	(99,263)	42,855	127,430
SC North of Salt River	365	13,753,111	0	0	1,726,625	12.55%	1,906,026	13.86%	\$0.48	(117,848)	243,120	68,910	627,967
SC South of Salt River	55	1,642,724	0	0	54,193	3.30%	104,490	6.36%	\$0.39	0	11,068	0	23,800
General Industrial	298	12,339,615	0	32,000	1,355,976	10.99%	1,790,326	14.51%	\$0.52	(20,690)	(19,118)	125,341	986,855
Warehouse / Distribution	851	28,738,194	30,000	12,000	3,953,477	13.76%	4,385,032	15.26%	\$0.46	(22,163)	493,523	423,338	1,334,917
Airport Area Total	1,149	41,077,809	30,000	44,000	5,309,453	12.93%	6,175,358	15.03%	\$0.48	(42,853)	474,405	548,679	2,321,772
Northeast													
Central Phoenix	123	4,612,741	0	20,000	85,799	1.86%	88,161	1.91%	\$0.59	(7,898)	34,628	19,375	96,312
Scottsdale Airpark	253	5,415,946	0	0	674,957	12.46%	827,486	15.28%	\$0.71	11,474	128,257	152,599	521,301
Scottsdale / Salt River	98	4,900,746	0	50,000	245,704	5.01%	394,402	8.05%	\$0.73	32,547	(10,237)	73,076	128,705
General Industrial	169	8,443,535	0	50,000	274,444	3.25%	300,141	3.55%	\$0.68	(6,381)	42,676	29,263	370,160
Warehouse / Distribution	305	6,485,898	0	20,000	732,016	11.29%	1,009,908	15.57%	\$0.72	42,504	109,972	215,787	376,158
Northeast Total	474	14,929,433	0	70,000	1,006,460	6.74%	1,310,049	8.77%	\$0.71	36,123	152,648	245,050	746,318
Northwest													
Deer Valley / Pinnacle Park	417	12,901,640	0	114,840	1,087,848	8.43%	1,440,065	11.16%	\$0.63	(15,556)	451,745	188,867	1,090,427
Glendale	98	6,340,199	764,000	3,369,215	446,229	7.04%	613,322	9.67%	\$0.53	601,633	678,594	619,048	753,399
Grand Avenue	308	13,812,579	0	546,090	1,122,948	8.13%	1,315,031	9.52%	\$0.39	(99,383)	193,391	152,145	602,788
North Glendale / Sun City	92	4,075,237	0	69,241	560,419	13.75%	586,950	14.40%	\$0.53	52,433	202,886	104,456	345,563
North Black Canyon	123	3,609,821	0	0	379,416	10.51%	362,310	10.04%	\$0.42	(145,307)	(53,261)	22,915	211,066
West Phoenix North of Thomas Road	257	6,733,558	0	0	580,271	8.62%	652,779	9.69%	\$0.16	233,435	76,098	247,553	410,172
West Phoenix South of Thomas Road	223	6,675,216	0	0	420,201	6.29%	530,877	7.95%	\$0.27	43,700	87,212	86,218	324,297
General Industrial	507	21,237,923	164,000	1,725,515	1,195,536	5.63%	1,486,895	7.00%	\$0.57	(4,583)	223,193	75,405	651,072
Warehouse / Distribution	1,011	32,910,327	600,000	2,373,871	3,401,796	10.34%	4,014,439	12.20%	\$0.49	675,538	1,413,472	1,345,797	3,086,640
Northwest Total	1,518	54,148,250	764,000	4,099,386	4,597,332	8.49%	5,501,334	10.16%	\$0.50	670,955	1,636,665	1,421,202	3,737,712
Pinal County													
Pinal County	138	7,441,940	0	739,500	472,114	6.34%	640,462	8.61%	\$0.33	94,162	25,286	134,992	208,245
General Industrial	78	4,521,790	0	20,000	104,122	2.30%	218,048	4.82%	\$0.32	13,440	(20,607)	13,440	34,940
Warehouse / Distribution	60	2,920,150	0	719,500	367,992	12.60%	422,414	14.47%	\$0.33	80,722	45,893	121,552	173,305
Pinal County Total	138	7,441,940	0	739,500	472,114	6.34%	640,462	8.61%	\$0.33	94,162	25,286	134,992	208,245
Southeast													
Chandler Airport	47	2,004,002	0	1,332,921	142,703	7.12%	189,496	9.46%	\$0.69	30,687	69,555	32,600	104,000
Chandler	261	15,306,909	1,635,000	116,534	1,169,946	7.64%	1,606,982	10.50%	\$0.65	86,782	100,776	131,286	494,062
Chandler North / Gilbert	460	16,037,313	0	1,101,515	3,017,783	18.82%	3,134,571	19.55%	\$0.52	713,486	1,013,436	828,764	1,766,686
Falcon Fld / Apache Junction	124	5,349,786	0	0	434,726	8.13%	463,388	8.66%	\$0.59	(31,278)	53,585	60,919	246,514
Mesa	206	7,138,787	0	0	632,145	8.86%	806,653	11.30%	\$0.61	116,983	429,437	148,629	758,048
Tempe East	187	5,643,136	0	0	462,318	8.19%	522,128	9.25%	\$0.85	44,791	52,294	66,289	282,395
Tempe Northwest	231	8,704,399	0	0	973,171	11.18%	1,135,949	13.05%	\$0.63	173,779	13,869	280,331	734,708
Tempe Southwest	437	18,165,625	316,000	160,000	1,585,263	8.73%	2,142,071	11.79%	\$0.43	38,587	141,831	393,930	1,210,150
General Industrial	631	36,151,504	1,635,000	382,494	2,900,601	8.02%	3,325,032	9.20%	\$0.63	777,978	533,132	901,963	1,551,908
Warehouse / Distribution	1,322	42,198,453	316,000	2,328,476	5,517,454	13.08%	6,676,206	15.82%	\$0.52	395,839	1,341,651	1,040,785	4,044,655
Southeast Total	1,953	78,349,957	1,951,000	2,710,970	8,418,055	10.74%	10,001,238	12.76%	\$0.55	1,173,817	1,874,783	1,942,748	5,596,563
Southwest													
Goodyear	96	8,684,932	603,863	9,423,331	1,728,215	19.90%	1,986,586	22.87%	\$0.34	72,113	(340,035)	108,161	188,218
Southwest North of Buckeye Road	545	30,690,864	0	1,365,232	3,053,284	9.95%	4,254,088	13.86%	\$0.32	244,635	476,949	592,005	2,492,699
Southwest South of Buckeye Road	191	13,776,475	1,999,841	1,895,303	1,953,859	14.18%	2,469,812	17.93%	\$0.31	19,471	67,508	150,130	488,113
Tolleson	180	27,846,710	0	1,456,633	3,047,924	10.95%	3,315,219	11.91%	\$0.39	391,125	603,940	496,458	2,875,832
General Industrial	303	18,181,939	0	2,521,900	2,919,856	16.06%	3,149,828	17.32%	\$0.35	106,045	(188,433)	365,598	1,042,837
Warehouse / Distribution	709	62,817,042	2,603,704	11,618,599	6,863,426	10.93%	8,875,877	14.13%	\$0.32	621,299	996,795	981,156	5,002,025
Southwest Total	1,012	80,998,981	2,603,704	14,140,499	9,783,282	12.08%	12,025,705	14.85%	\$0.34	727,344	808,362	1,346,754	6,044,862
General Industrial Total	1,986	100,876,306	1,799,000	4,731,909	8,750,535	8.67%	10,270,270	10.18%	\$0.50	865,809	570,843	1,511,010	4,637,772
Warehouse / Distribution Total	4,258	176,070,064	3,549,704	17,072,446	20,836,161	11.83%	25,383,876	14.42%	\$0.43	1,793,739	4,401,306	4,128,415	14,017,700
Phoenix Total	6,244	276,946,370	5,348,704	21,804,355	29,586,696	10.68%	35,654,146	12.87%	\$0.44	2,659,548	4,972,149	5,639,425	18,655,472
10,000-29,999	3,834	65,066,620	0	863,393	6,988,953	10.74%	9,220,240	14.17%	\$0.52	115,190	1,148,478	1,103,810	5,022,703
30,000-49,999	1,059	40,538,824	30,000	1,004,424	4,534,854	11.19%	5,481,413	13.52%	\$0.49	385,569	906,440	1,000,381	2,986,022
50,000-99,999	847	58,401,173	0	990,773	6,169,447	10.56%	7,278,794	12.46%	\$0.46	89,842	560,879	880,620	3,314,449
100,000-199,999	335	44,186,664	480,000	2,803,239	5,959,105	13.49%	6,894,799	15.60%	\$0.41	618,182	754,294	1,094,998	2,279,006
200,000-299,999	86	20,804,018	285,000	1,926,751	2,401,588	11.54%	2,568,875	12.35%	\$0.35	22,611	1,231	108,491	1,520,870
300,000+	83	47,949,071	4,553,704	14,215,775	3,532,749	7.37%	4,210,025	8.78%	\$0.36	1,428,154	1,600,827	1,451,125	3,532,422
Phoenix Total	6,244	276,946,370	5,348,704	21,804,355	29,586,696	10.68%	35,654,146	12.87%	\$0.44	2,659,548	4,972,149	5,639,425	18,655,472

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 Per SF	Buyer	Seller
4750-5050 W. Mohave St.	S. of Buckeye Rd.	1,583,781	\$83.13	Industrial Income Trust	KTR capital Partners
800 N. 75th Ave.	Tolleson	1,267,110	\$71.26	Industrial Income Trust	The Buzz Oates Group
2115 S. 11th Ave.	N. of Salt River	336,665	\$77.53	Cornerstone Real Estate Advisors	Lincoln Property Company
405 N. 75th Ave.	Tolleson	407,203	\$60.23	Crow Holdings	Blackrock, Inc.
8591 W. Washington Rd.	Tolleson	403,321	\$42.22	Liberty Property Trust	E & V Investments, LLC
9704 W. Roosevelt St.	Tolleson	302,640	\$50.10	Industrial Income Trust	Prologis

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
435 S. 59th Ave.	N. of Buckeye Rd.	358,830	May-12	Total Warehousing, Inc.	Berendo Property
10397 W. Van Buren St.	Tolleson	276,336	Sep-12	State Logistics Services, Inc.	The Blackstone Group
7890 W. Lincoln St.	Tolleson	259,200	Feb-12	MiTek USA, Inc.	First Industrial Realty Trust, Inc.
8602 W. Buckeye Rd.	Tolleson	238,450	Aug-12	Communications Test Design, Inc.	LBA Realty
7210 W. Van Buren St.	Tolleson	237,176	May-12	Exel	Wentworth Property Company
2550 N. Nevada St.	Chandler/Gilbert	164,486	Nov-12	i / o Data Center	Globe Corporation
2225 S. 75th Ave.	Tolleson	155,794	May-12	Consolidated Terminals & Logistics Co.	Clarion Partners

Product Type

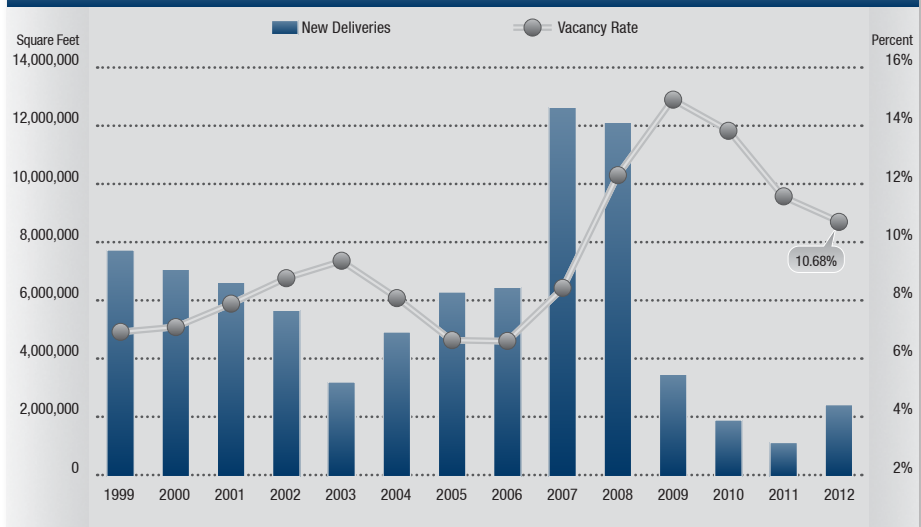
MFG./DIST.

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