



## Flex / R&D Market Report

Compared to 2011:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

UP

Deliveries

DOWN

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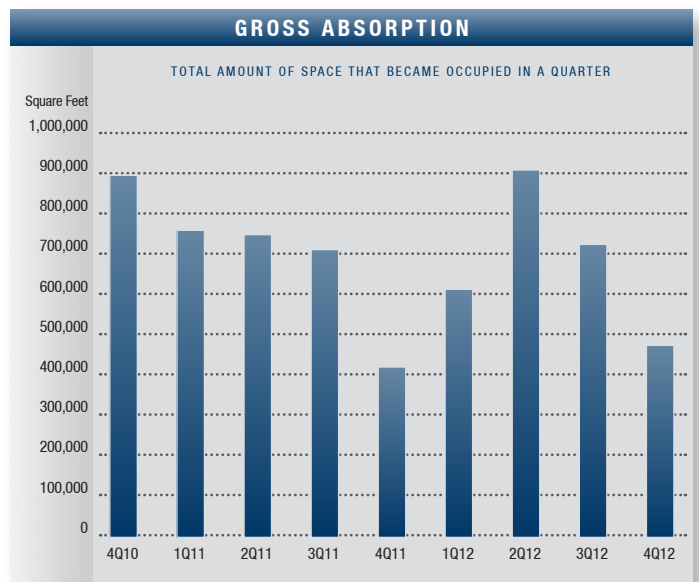
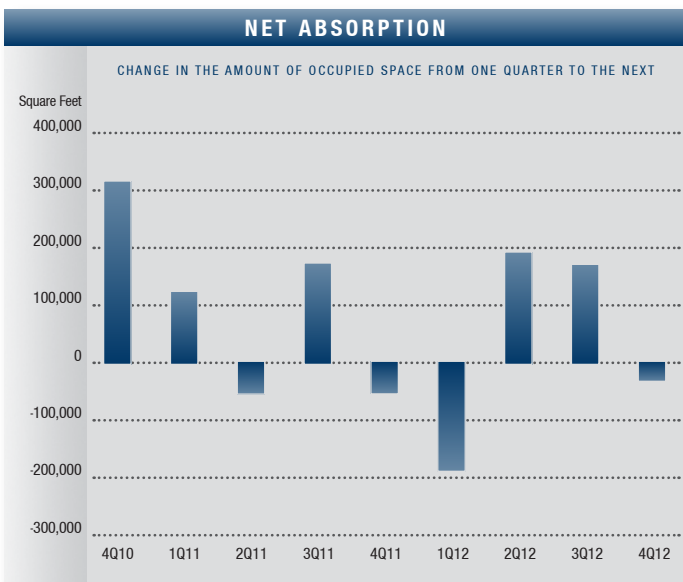
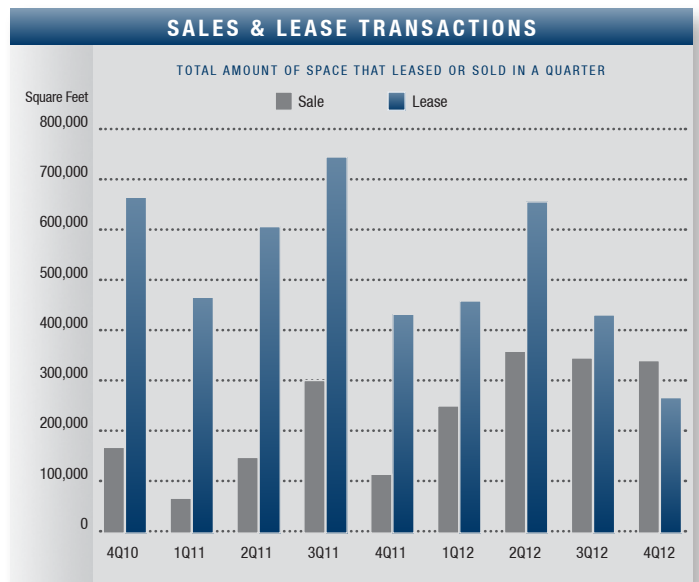
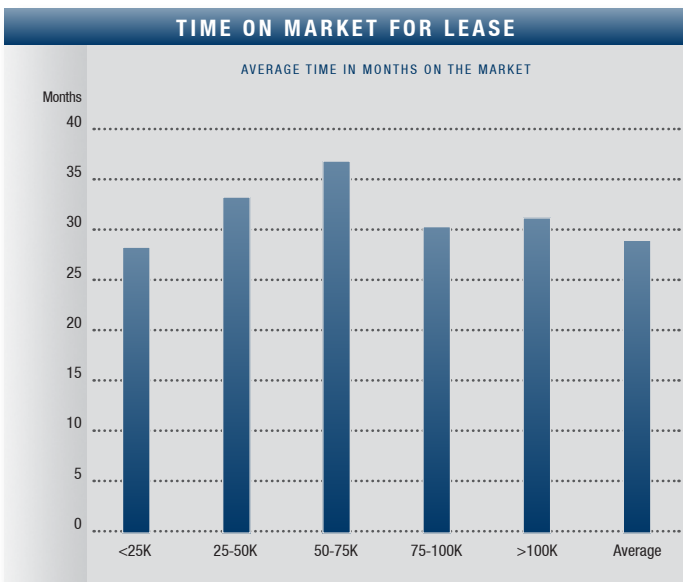
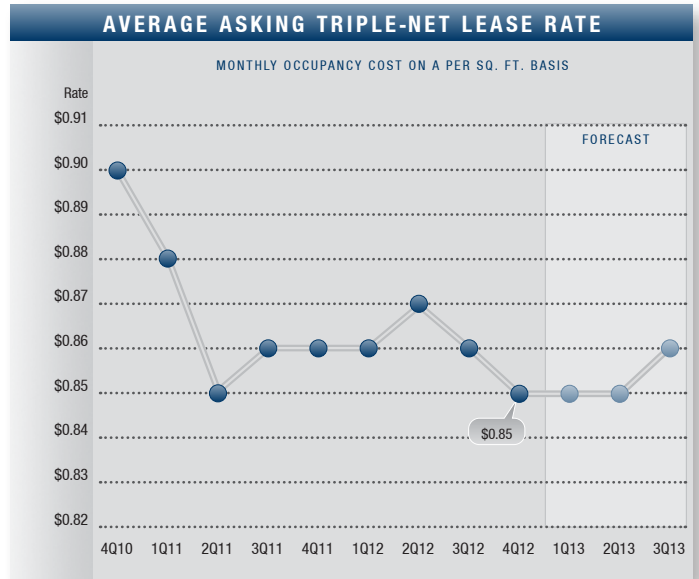
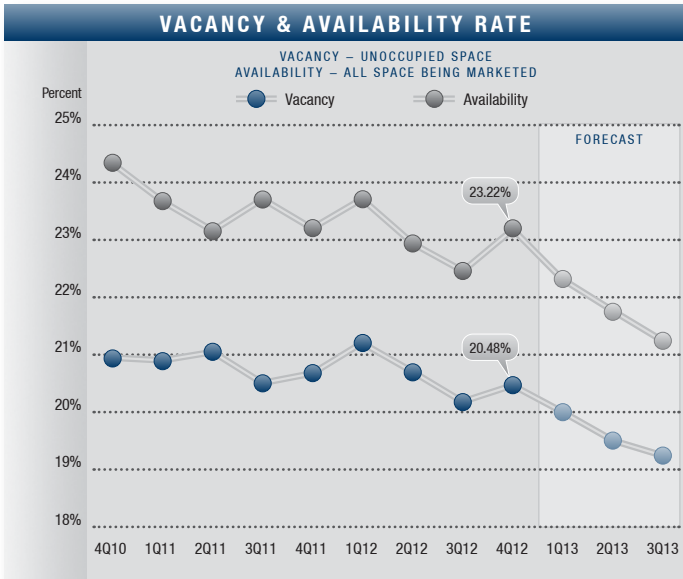
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### Market Highlights

- Stability** - The Phoenix flex/R&D market conveyed indications of stabilization in 2012. Both vacancy and availability decreased overall compared to 2011, and net absorption saw positive growth of 140,567 square feet for the year. While these are positive indications, stability and job growth will be needed in coming quarters to continue to bolster a recovery.
  - Construction** - There was 376,700 square feet of flex/R&D construction underway at the end of the fourth quarter, well below the market's peak in the second half of 2007. All of this construction occurred in the Southeast and Airport area submarkets.
  - Vacancy** - Direct/sublease space (unoccupied) exhibited a modest decrease to 20.48% from 2011's fourth quarter rate of 20.66%, but exhibited a slight increase compared to 2012's third quarter rate of 20.18%. The Airport area market posted the lowest rate in the county at 15.89%.
  - Availability** - Direct/sublease space being marketed was 23.22% at the end of the fourth quarter, relatively flat when compared to the 23.23% rate of the same quarter of 2011.
  - Lease Rates** - The average asking-triple net lease rate was \$.85 per square foot per month for the fourth quarter, once cent lower than the previous quarter's rate and previous year's rate, indicating stability. The highest asking lease rate of \$1.18 was recorded in the Scottsdale/Salt River submarket.
  - Absorption** - The Phoenix industrial market posted 33,346 square feet of negative absorption in the fourth quarter of 2012. Despite the negative figure in the last
- quarter, the market produced a total of 140,567 square feet of positive absorption for 2012.
- Transaction Activity** - Leasing activity checked in at 263,000 square feet for the Phoenix Flex/R&D market in fourth quarter 2012, a drop from 2012's third quarter figure of 426,000 square feet. Sales activity has remained relatively unchanged, posting 337,000 square feet of activity as compared to the third quarter's 342,000 square feet. Overall 2012's sale and lease transactions outpaced 2011's by 7.96%. 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 January's rate of 7.9%. Sectors with strong job growth include trade, transportation, and utilities, driven by retail trade; and professional and business services, largely in the administrative and support services area. In addition, the beleaguered construction industry has made substantial strides over the past 12 months, with the addition of 4,500 jobs, and the financial activities sector has also 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 helping asking lease rates to slow their fall and stabilize. We anticipate that lease rates will begin to rise during the second 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.

### FLEX / R & D MARKET OVERVIEW

	2012	2011	2010	% of Change vs. 2011
Vacancy Rate	20.48%	20.66%	20.95%	(0.87%)
Availability Rate	23.22%	23.23%	24.31%	(0.04%)
Average Asking Lease Rate	\$0.85	\$0.86	\$0.90	(1.16%)
Sale & Lease Transactions	3,084,671	2,857,239	3,012,811	7.96%
Gross Absorption	2,705,269	2,626,787	3,652,904	2.99%
Net Absorption	140,567	192,736	82,939	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
<b>Airport Area</b>													
North Airport	42	1,425,671	0	0	327,609	22.98%	376,633	26.42%	\$0.72	7,834	64,638	10,356	112,198
South Airport North of Roeser	58	2,548,443	0	50,000	300,543	11.79%	429,186	16.84%	\$1.04	(1,619)	(10,301)	1,927	71,132
South Airport South of Roeser	8	100,665	0	0	0	0.00%	0	0.00%	\$0.89	0	0	0	0
SC North of Roeser	38	956,554	155,000	0	176,029	18.40%	213,137	22.28%	\$0.58	1,429	(48,930)	22,429	31,603
SC South of Roeser	4	28,076	0	0	0	0.00%	0	0.00%	\$0.68	0	0	0	0
<b>Airport Area Total</b>	<b>150</b>	<b>5,059,409</b>	<b>155,000</b>	<b>50,000</b>	<b>804,181</b>	<b>15.89%</b>	<b>1,018,956</b>	<b>20.14%</b>	<b>\$0.83</b>	<b>7,644</b>	<b>5,407</b>	<b>34,712</b>	<b>214,933</b>
<b>Northeast</b>													
Central Phoenix	51	865,192	0	0	113,461	13.11%	116,504	13.47%	\$0.50	(2,189)	25,229	8,241	82,761
Scottsdale Airpark	103	2,534,513	0	0	580,342	22.90%	610,852	24.10%	\$0.82	48,031	62,744	75,509	239,126
Scottsdale / Salt River	69	1,899,576	0	0	380,248	20.02%	483,428	25.45%	\$1.18	16,456	(80,447)	39,460	151,136
<b>Northeast Total</b>	<b>223</b>	<b>5,299,281</b>	<b>0</b>	<b>0</b>	<b>1,074,051</b>	<b>20.27%</b>	<b>1,210,784</b>	<b>22.85%</b>	<b>\$0.89</b>	<b>62,298</b>	<b>7,526</b>	<b>123,210</b>	<b>473,023</b>
<b>Northwest</b>													
Deer Valley / Pinnacle Park	85	3,389,885	0	139,700	1,080,516	31.87%	1,186,555	35.00%	\$0.86	(36,843)	20,882	30,758	288,555
Glendale	12	411,761	0	100,000	80,962	19.66%	97,758	23.74%	\$0.68	(2,174)	1,339	13,652	39,778
Grand Avenue	22	218,673	0	0	17,392	7.95%	17,392	7.95%	\$0.76	8,150	11,146	8,150	27,446
North Glendale / Sun City	21	435,150	0	72,000	138,946	31.93%	126,853	29.15%	\$0.71	5,025	(16,104)	12,087	56,347
North Black Canyon	51	1,045,099	0	0	340,922	32.62%	264,866	25.34%	\$0.75	(17,483)	(27,975)	10,707	52,698
West Phoenix North of Thomas Rd.	42	739,795	0	0	49,787	6.73%	49,787	6.73%	\$0.40	(4,027)	108,979	1,973	149,588
West Phoenix South of Thomas Rd.	10	109,755	0	0	10,602	9.66%	24,328	22.17%	\$0.40	0	16,426	0	20,980
<b>Northwest Total</b>	<b>243</b>	<b>6,350,118</b>	<b>0</b>	<b>311,700</b>	<b>1,719,127</b>	<b>27.07%</b>	<b>1,767,539</b>	<b>27.83%</b>	<b>\$0.82</b>	<b>(47,352)</b>	<b>114,693</b>	<b>77,327</b>	<b>635,392</b>
<b>Pinal County</b>													
Pinal County	8	60,732	0	0	2,240	3.69%	2,240	3.69%	\$0.67	0	1,140	0	0
<b>Pinal County Total</b>	<b>8</b>	<b>60,732</b>	<b>0</b>	<b>0</b>	<b>2,240</b>	<b>3.69%</b>	<b>2,240</b>	<b>3.69%</b>	<b>\$0.67</b>	<b>0</b>	<b>(1,140)</b>	<b>0</b>	<b>0</b>
<b>Southeast</b>													
Chandler Airport	10	669,472	0	800,060	110,920	16.57%	135,920	20.30%	\$0.94	13,550	30,790	13,550	38,301
Chandler	64	2,810,514	221,700	884,567	579,566	20.62%	606,634	21.58%	\$1.01	36,570	87,441	43,253	317,012
Chandler North / Gilbert	100	2,556,795	0	28,826	581,429	22.74%	640,431	25.05%	\$0.90	(2,997)	(4,065)	56,296	282,090
Falcon Fld / Apache Junction	24	407,293	0	0	139,885	34.35%	139,885	34.35%	\$0.63	(3,651)	41,695	3,979	50,846
Mesa	39	412,013	0	0	16,830	4.08%	35,108	8.52%	\$0.72	8,180	(134)	19,180	23,906
Tempe East	41	991,286	0	390,414	171,278	17.28%	188,200	18.99%	\$0.69	(9,505)	(20,904)	4,939	22,270
Tempe Northwest	71	2,392,581	0	0	361,719	15.12%	519,262	21.70%	\$0.96	26,166	(126,603)	37,295	160,199
Tempe Southwest	89	4,183,985	0	0	721,490	17.24%	887,808	21.22%	\$0.87	(162,310)	(103,133)	21,532	320,472
<b>Southeast Total</b>	<b>438</b>	<b>14,423,939</b>	<b>221,700</b>	<b>2,103,867</b>	<b>2,683,117</b>	<b>18.60%</b>	<b>3,153,248</b>	<b>21.86%</b>	<b>\$0.91</b>	<b>(93,997)</b>	<b>(94,913)</b>	<b>200,024</b>	<b>1,215,096</b>
<b>Southwest</b>													
Goodyear	12	302,618	0	31,250	31,695	10.47%	51,273	16.94%	\$0.45	17,052	82,260	17,072	134,449
Southwest North of Buckeye Rd.	9	267,669	0	0	0	0.00%	0	0.00%	\$0.80	0	2,000	0	2,000
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	80,728	138,862	32.18%	138,862	32.18%	\$0.65	21,009	24,734	21,009	30,376
<b>Southwest Total</b>	<b>37</b>	<b>1,342,597</b>	<b>0</b>	<b>111,978</b>	<b>380,996</b>	<b>28.38%</b>	<b>400,574</b>	<b>29.84%</b>	<b>\$0.73</b>	<b>38,061</b>	<b>108,994</b>	<b>38,081</b>	<b>166,825</b>
<b>Phoenix Total</b>	<b>1,099</b>	<b>32,536,076</b>	<b>376,700</b>	<b>2,577,545</b>	<b>6,663,712</b>	<b>20.48%</b>	<b>7,553,341</b>	<b>23.22%</b>	<b>\$0.85</b>	<b>(33,346)</b>	<b>140,567</b>	<b>473,354</b>	<b>2,705,269</b>
1-24,999	719	8,505,801	0	272,376	1,293,779	15.21%	1,565,791	18.41%	\$0.72	53,035	196,921	234,923	1,000,436
25,000-49,999	216	7,485,654	26,600	398,258	1,878,453	25.09%	2,158,304	28.83%	\$0.74	(36,969)	91,610	139,194	869,791
50,000-74,999	72	4,387,728	65,100	650,922	1,047,942	23.88%	1,058,838	24.13%	\$0.99	60,853	106,278	72,002	423,376
75,000-99,999	43	3,670,231	0	351,414	801,759	21.84%	998,967	27.22%	\$0.95	24,975	(39,989)	24,975	319,669
100,000+	49	8,486,662	285,000	904,575	1,641,779	19.35%	1,771,441	20.87%	\$0.89	(135,240)	(214,253)	2,260	92,007
<b>Phoenix Total</b>	<b>1,099</b>	<b>32,536,076</b>	<b>376,700</b>	<b>2,577,545</b>	<b>6,663,712</b>	<b>20.48%</b>	<b>7,553,341</b>	<b>23.22%</b>	<b>\$0.85</b>	<b>(33,346)</b>	<b>140,567</b>	<b>473,354</b>	<b>2,705,279</b>

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
2851 W. Kathleen Rd.	Deer Valley	102,996	\$185.04	Intravest Development, LLC	Climatec, Inc.
4320 W. Chandler Rd. (5 Properties)	Chandler	135,330	\$84.39	Kootenay Holdings, Ltd.	The General Investment & Development Co.
8615 W. Kelton Ln.	Glendale/Sun City	123,074	\$59.40	Presson Corporation	Birtcher Anderson Realty, LLC
4809 E. Thistle Landing Dr.	Chandler	101,006	\$66.58	Everest Holdings, LLC	Plumwood Corporation
5150 S. 48th St.	N. of Roeser	82,742	\$72.00	JFBB Enterprises, Inc.	Town lake Enterprises, LLC

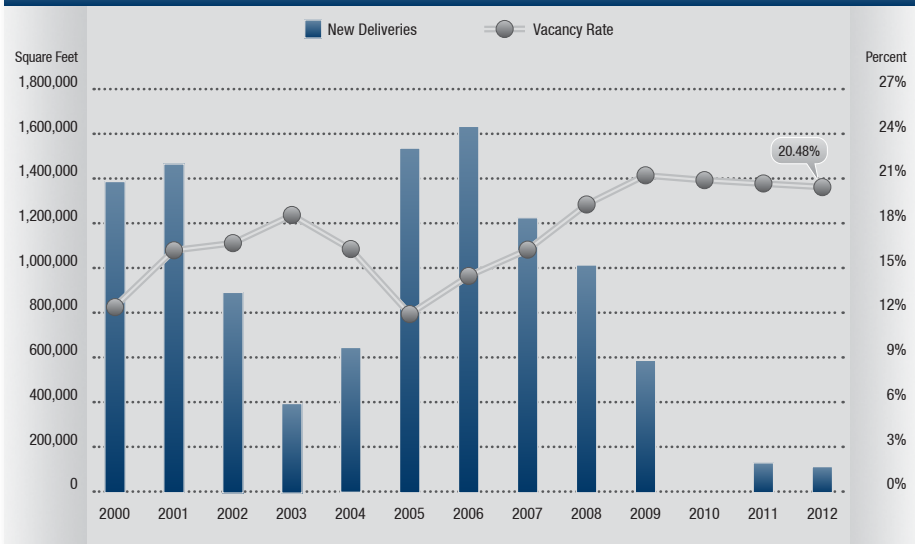
Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2851 W. Kathleen Rd.	Deer Valley	102,996	Apr-12	Climatec, Inc.	Intravest Development, LLC
4601 E. Hilton Ave.	N. Airport	60,000	May-12	Founders Healthcare	LBA Realty
2650 W. Geronimo Pl.	Chandler	55,600	Aug-12	ASML, US, Inc.	Chandler Freeway Crossing, LLC
8060 S. Kyrene Rd.	Tempe Southwest	46,626	May-12	MMI Precision Technology	Biltmore Holdings
4310 E. Cotton Center Blvd.	N. of Roeser	34,950	Feb-12	Freeport-McMoran Copper & Gold, Inc.	Carlson Real Estate

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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