



## Industrial Market Report

Compared to 2012:

Vacancy



UP

Net Absorption



POSITIVE

Lease Rates



DOWN

Transactions



DOWN

Deliveries



UP

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### Market Highlights

- Stability** - The Phoenix industrial market conveyed more promise of stabilization in the fourth quarter of 2013, after a somewhat rough third quarter. Both vacancy and availability dropped slightly from the previous quarters, though vacancy was up 4.3% and availability was flat compared 2012. The market returned in the fourth quarter with a strong positive absorption figure of 2.3 million after two nearly flat quarters. The average asking lease rate for the fourth quarter was unchanged from the previous quarter and down just one cent from 2012. While these are overall positive indications, stability and job growth will be needed in coming year for the market to continue on the path to recovery.
- Absorption** - The Phoenix industrial market posted 2.3 million square feet of positive absorption in the fourth quarter, producing a total of 3.6 million square feet of positive absorption for 2013 and nearly 16 million square feet over the past three years.
- Transaction Activity** - Leasing activity checked in at 2.4 million square feet for the Phoenix industrial market in the last quarter 2013, a decrease when compared to 2013's third quarter figure of 3.2 million square feet. Sales activity increased compared the previous quarter, posting 3.9 million square feet of activity as compared to the third quarter's 2.8 million square feet. 2013 totaled 11.3 million square feet sold compared to 12.9 million square feet in 2012. 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 7.8% in November 2013, a slight increase from January 2013's rate of 7.2%. Sectors with strong job growth included transportation, information driven by transportation, and financial activities. According to Arizona Department of Administration, November added 47,500 nonfarm jobs — 2,600 in government and 1,600 in the education and health services sector. Over the year 2013, the number of jobs has increase; we anticipate this trend continuing in 2014.
- Overall** - We are seeing an overall gradual decrease in the amount vacant and available space in the Phoenix industrial market. Absorption is continuing to improve, posting a positive 3.6 million square feet for 2013. If new construction remains minimal to avoid applying upward pressure on vacancy, the market should continue to stabilize in 2014. We anticipate that as vacancy and availability drop, lease rates will continue to stabilize and rise. 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.
- Construction** - There was 4,217,281 square feet of industrial construction underway at the end of the fourth 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 Southeast submarket, and the remaining construction occurred in the Northwest and Southwest submarkets.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 11.83%, a slight decrease from the previous quarter but a increase from 2012's fourth quarter rate of 11.34%, making these some of the lowest rates seen since the first quarter of 2008. The Northeast submarket posted the lowest rate in the market at 7.99%.
- Availability** - Direct/sublease space being marketed was 13.84% at the end the fourth quarter, nearly flat when compared to the previous year's rate of 13.86%.
- Lease Rates** - The average asking-triple net lease rate was \$.43 per square foot per month for the fourth quarter, unchanged from the previous quarter and a decrease of only one cent compared to 2012's annual rate, an indication that lease rates are still stabilizing. The record high for asking lease rates, \$.59, was recorded in the first quarter of 2008.

### INDUSTRIAL MARKET OVERVIEW

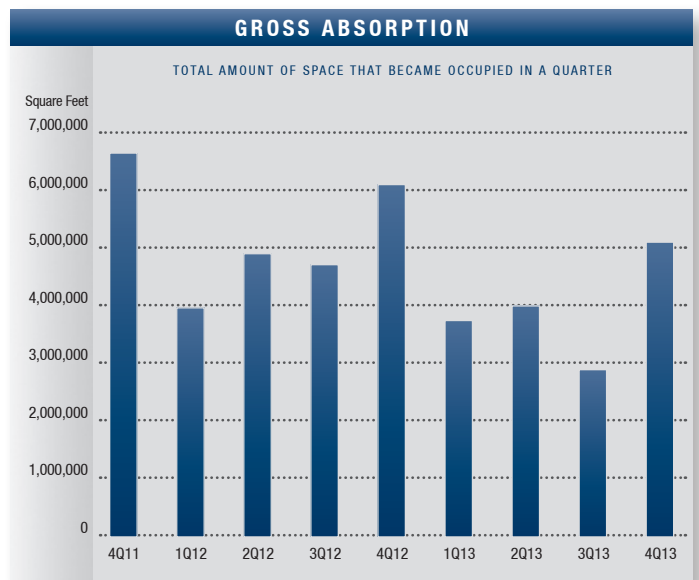
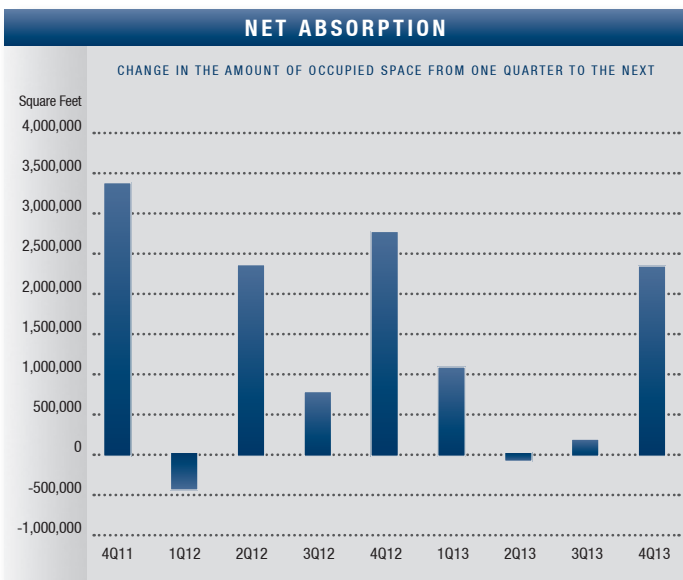
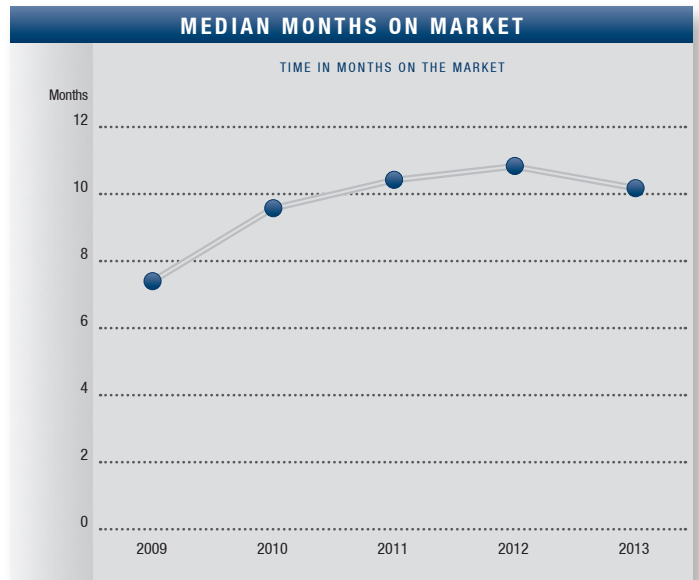
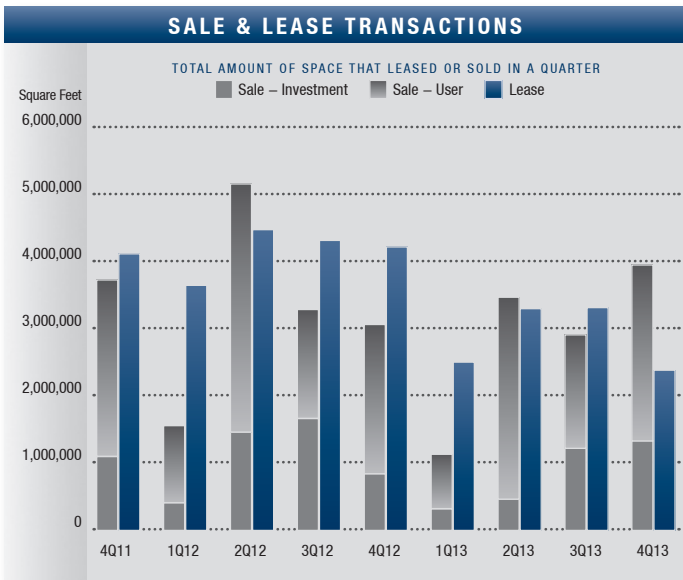
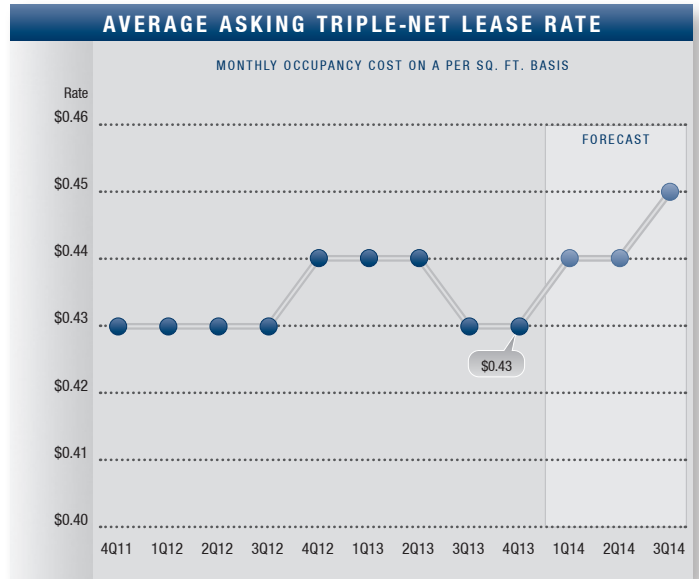
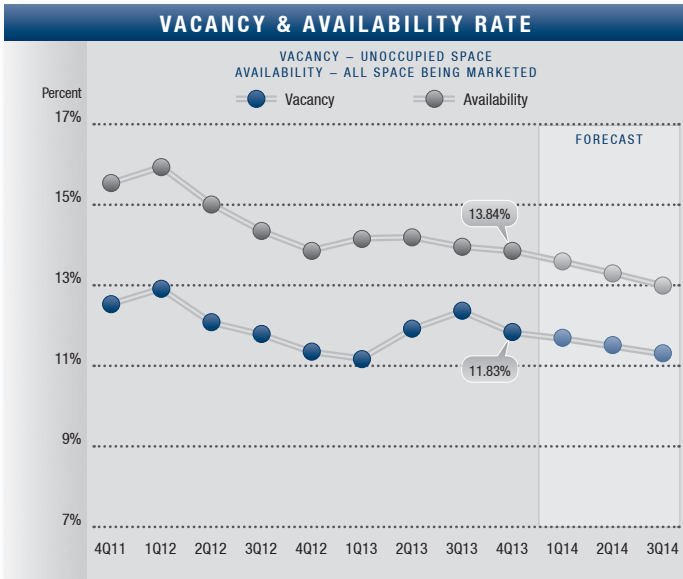
	2013	2012	2011	% of Change vs. 2012
Total Vacancy Rate	11.83%	11.34%	12.53%	4.32%
Availability Rate	13.84%	13.86%	15.53%	(0.14%)
Average Asking Lease Rate	\$0.43	\$0.44	\$0.43	(2.27%)
Sale & Lease Transactions	22,711,092	29,486,170	31,121,656	(22.98%)
Gross Absorption	15,688,414	19,576,316	20,375,399	(19.86%)
Net Absorption	3,556,183	5,481,708	6,940,298	N/A

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	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2013	Square Feet Available	Availability Rate 4Q2013	Average Asking Lease Rate	Net Absorption 4Q2013	Net Absorption 2013	Gross Absorption 4Q2013	Gross Absorption 2013
<b>Airport Area</b>													
North Airport	283	10,522,315	0	12,000	1,699,562	16.15%	2,190,152	20.81%	\$0.47	28,649	172,724	40,030	449,121
South Airport North of Roeser	318	10,603,821	0	955,226	881,993	8.32%	1,057,896	9.98%	\$0.43	26,120	222,884	163,630	667,645
South Airport South of Roeser	120	3,983,350	0	303,000	521,777	13.10%	644,625	16.18%	\$0.49	43,997	70,604	48,403	310,736
SC North of Salt River	361	13,616,231	0	369,200	1,433,027	10.52%	1,585,280	11.64%	\$0.48	126,117	134,919	163,356	662,429
SC South of Salt River	54	1,586,747	0	0	69,889	4.40%	131,597	8.29%	\$0.44	6,051	(15,696)	6,051	16,824
General Industrial	281	11,092,296	0	32,000	1,546,649	13.94%	2,113,955	19.06%	\$0.52	7,701	13,502	42,286	325,641
Warehouse / Distribution	855	29,220,168	0	1,607,426	3,059,599	10.47%	3,495,595	11.96%	\$0.45	223,233	571,933	379,184	1,781,114
<b>Airport Area Total</b>	<b>1,136</b>	<b>40,312,464</b>	<b>0</b>	<b>1,639,426</b>	<b>4,606,248</b>	<b>11.43%</b>	<b>5,609,550</b>	<b>13.92%</b>	<b>\$0.47</b>	<b>230,934</b>	<b>585,435</b>	<b>421,470</b>	<b>2,106,755</b>
<b>Northeast</b>													
Central Phoenix	84	2,403,219	0	0	200,095	8.33%	253,074	10.53%	\$0.50	(126,168)	(107,316)	22,018	74,062
Scottsdale Airpark	226	4,381,926	0	0	391,998	8.95%	548,504	12.52%	\$0.86	31,758	208,680	100,050	543,693
Scottsdale / Salt River	80	3,785,816	0	85,422	252,294	6.66%	840,822	22.21%	\$0.77	2,287	(1,290)	20,090	258,333
General Industrial	93	4,191,037	0	85,422	152,002	3.63%	608,509	14.52%	\$0.68	10,932	90,763	35,141	189,158
Warehouse / Distribution	297	6,379,924	0	0	692,385	10.85%	1,033,891	16.21%	\$0.71	(103,055)	9,311	107,017	686,930
<b>Northeast Total</b>	<b>390</b>	<b>10,570,961</b>	<b>0</b>	<b>85,422</b>	<b>844,387</b>	<b>7.99%</b>	<b>1,642,400</b>	<b>15.54%</b>	<b>\$0.84</b>	<b>(92,123)</b>	<b>100,074</b>	<b>142,158</b>	<b>876,088</b>
<b>Northwest</b>													
Deer Valley / Pinnacle Park	387	11,165,708	289,475	114,840	682,731	6.11%	889,921	7.97%	\$0.66	68,356	333,267	255,384	1,067,577
Glendale	74	5,023,764	0	3,307,777	797,307	15.87%	864,535	17.21%	\$0.44	(1,600)	201,948	54,689	323,462
Grand Avenue	267	11,406,736	0	546,090	827,335	7.25%	1,027,674	9.01%	\$0.37	145,157	324,237	172,654	558,257
North Glendale / Sun City	67	2,512,298	0	12,960	415,304	16.53%	444,904	17.71%	\$0.60	31,564	133,054	39,106	193,240
North Black Canyon	103	2,851,719	0	0	160,188	5.62%	297,374	10.43%	\$0.45	1,801	193,098	16,144	263,993
West Phoenix North of Thomas Road	247	6,426,903	0	0	401,278	6.24%	587,986	9.15%	\$0.22	36,023	129,523	72,126	347,923
West Phoenix South of Thomas Road	216	6,314,095	0	0	409,435	6.48%	590,724	9.36%	\$0.55	6,677	(13,534)	33,973	297,383
General Industrial	365	12,988,679	0	1,619,234	719,478	5.54%	1,074,106	8.27%	\$0.57	191,581	458,038	265,210	265,210
Warehouse / Distribution	996	32,712,544	289,475	2,362,433	2,974,100	9.09%	3,629,012	11.09%	\$0.51	96,397	843,555	378,866	2,120,674
<b>Northwest Total</b>	<b>1,361</b>	<b>45,701,223</b>	<b>289,475</b>	<b>3,981,667</b>	<b>3,693,578</b>	<b>8.08%</b>	<b>4,703,118</b>	<b>10.29%</b>	<b>\$0.49</b>	<b>287,978</b>	<b>1,301,593</b>	<b>644,076</b>	<b>3,051,835</b>
<b>Pinal County</b>													
Pinal County	124	6,753,931	0	51,786	560,866	8.30%	801,147	11.86%	\$0.34	15,099	38,950	16,912	257,496
General Industrial	61	3,812,088	0	32,286	180,560	4.74%	275,378	7.22%	\$0.32	(1,813)	30,587	0	195,508
Warehouse / Distribution	63	2,941,843	0	19,500	380,306	12.93%	525,769	17.87%	\$0.33	16,912	8,363	16,912	61,988
<b>Pinal County Total</b>	<b>124</b>	<b>6,753,931</b>	<b>0</b>	<b>51,786</b>	<b>560,866</b>	<b>8.30%</b>	<b>801,147</b>	<b>11.86%</b>	<b>\$0.34</b>	<b>15,099</b>	<b>38,950</b>	<b>16,912</b>	<b>257,496</b>
<b>Southeast</b>													
Chandler Airport	37	1,383,072	0	1,567,471	127,956	9.25%	133,828	9.68%	\$0.60	15,272	14,747	35,365	62,891
Chandler	227	14,190,488	2,430,757	100,000	1,099,369	7.75%	1,081,368	7.62%	\$0.55	50,258	317,920	184,957	742,074
Chandler North / Gilbert	429	13,977,721	0	1,185,508	3,059,101	21.89%	2,016,261	14.42%	\$0.54	(416,946)	(968)	276,349	1,174,667
Falcon Fld / Apache Junction	95	3,640,171	0	0	260,001	7.14%	331,577	9.11%	\$0.55	(16,005)	78,054	48,650	199,331
Mesa	178	5,727,756	0	10,000	595,674	10.40%	800,170	13.97%	\$0.59	40,382	50,650	67,436	288,556
Tempe East	170	4,630,289	0	0	311,503	6.73%	544,581	11.76%	\$0.55	(12,728)	38,840	73,830	391,771
Tempe Northwest	220	7,947,205	0	208,000	1,278,532	16.09%	1,509,668	19.00%	\$0.46	118,085	(361,802)	191,542	471,380
Tempe Southwest	425	17,719,834	0	160,000	1,806,970	10.20%	2,286,421	12.90%	\$0.47	259,381	300,299	432,321	1,205,706
General Industrial	460	26,705,034	2,304,506	580,607	3,431,843	12.85%	2,597,102	9.73%	\$0.63	(451,962)	(269,584)	357,156	1,254,222
Warehouse / Distribution	1,321	42,511,502	126,251	2,650,372	5,107,263	12.01%	6,106,772	14.36%	\$0.52	489,661	705,324	953,294	3,282,154
<b>Southeast Total</b>	<b>1,781</b>	<b>69,216,536</b>	<b>2,430,757</b>	<b>3,230,979</b>	<b>8,539,106</b>	<b>12.34%</b>	<b>8,703,874</b>	<b>12.57%</b>	<b>\$0.51</b>	<b>37,699</b>	<b>437,740</b>	<b>1,310,450</b>	<b>4,536,376</b>
<b>Southwest</b>													
Goodyear	85	8,617,809	0	12,290,623	1,606,249	18.64%	1,649,128	19.14%	\$0.37	447,679	479,502	467,621	843,353
Southwest North of Buckeye Road	528	30,723,927	0	935,882	3,712,772	12.08%	4,934,835	16.06%	\$0.35	197,104	(148,860)	558,199	1,488,224
Southwest South of Buckeye Road	186	15,361,644	0	673,800	3,211,820	20.91%	3,398,033	22.12%	\$0.34	1,099,066	871,454	1,391,840	1,756,407
Tolleson	175	28,386,407	1,497,049	2,700,357	3,480,778	12.26%	3,956,638	13.94%	\$0.36	114,858	(109,705)	114,858	771,880
General Industrial	252	14,122,043	0	8,532,747	2,269,595	16.07%	2,466,012	17.46%	\$0.35	107,491	246,876	157,480	561,582
Warehouse / Distribution	722	68,967,744	1,497,049	8,067,915	9,742,024	14.13%	11,472,622	16.63%	\$0.35	1,751,216	845,515	2,375,038	4,298,282
<b>Southwest Total</b>	<b>974</b>	<b>83,089,787</b>	<b>1,497,049</b>	<b>16,600,662</b>	<b>12,011,619</b>	<b>14.46%</b>	<b>13,938,634</b>	<b>16.78%</b>	<b>\$0.35</b>	<b>1,858,707</b>	<b>1,092,391</b>	<b>2,532,518</b>	<b>4,859,864</b>
General Industrial Total	1,513	72,944,299	4,217,281	10,882,296	8,300,127	11.38%	9,135,062	12.52%	\$0.50	(136,070)	572,182	824,273	3,424,572
Warehouse / Distribution Total	4,253	182,898,730	0	14,707,646	21,955,677	12.00%	26,263,661	14.36%	\$0.41	2,474,364	2,993,101	4,243,311	12,263,842
<b>Phoenix Total</b>	<b>5,766</b>	<b>255,843,029</b>	<b>4,217,281</b>	<b>25,589,942</b>	<b>30,255,804</b>	<b>11.83%</b>	<b>35,398,723</b>	<b>13.84%</b>	<b>\$0.43</b>	<b>2,338,294</b>	<b>3,556,183</b>	<b>5,067,584</b>	<b>15,688,414</b>
10,000-29,999	3,714	62,823,526	120,619	824,216	5,737,031	9.13%	7,577,125	12.06%	\$0.54	524,963	1,087,179	1,249,568	5,134,655
30,000-49,999	939	35,698,351	0	1,139,143	3,892,835	10.90%	4,888,255	13.69%	\$0.50	277,698	540,036	660,699	2,391,684
50,000-99,999	652	44,913,009	0	1,541,929	5,180,685	11.53%	6,300,652	14.03%	\$0.44	451,301	1,033,303	907,112	2,771,258
100,000-199,999	294	39,473,935	0	3,794,501	5,743,794	14.55%	7,007,748	17.75%	\$0.41	69,270	425,661	326,814	2,030,094
200,000-299,999	82	19,941,706	285,000	2,207,498	1,994,132	10.00%	2,200,444	11.03%	\$0.35	188,636	251,442	221,116	621,517
300,000+	92	52,992,502	3,642,806	15,129,511	7,707,327	14.54%	7,424,499	14.01%	\$0.35	826,426	218,562	1,702,275	2,739,206
<b>Phoenix Total</b>	<b>5,766</b>	<b>255,843,029</b>	<b>4,217,281</b>	<b>25,589,942</b>	<b>30,255,804</b>	<b>11.83%</b>	<b>35,398,723</b>	<b>13.84%</b>	<b>\$0.43</b>	<b>2,338,294</b>	<b>3,556,183</b>	<b>5,067,584</b>	<b>15,688,414</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 Per SF	Buyer	Seller
3740 S. Signal Butte Rd.	Chandler North/Gilbert	1,328,075	\$81.02	Apple, Inc.	First Solar, Inc.
6825 W. Buckeye Rd. – 2 Properties	Tolleson	761,138	\$64.76	Industrial Income Trust, Inc.	Principal Real Estate Investors, LLC
110 N. 127th Ave.	Goodyear	603,863	\$65.66	Lake Washington Partners	Clarion Partners
563 S. 63rd Ave.	Southwest North of Buckeye Rd.	593,600	\$47.00	Liberty Property Trust	Seefried Industrial Properties, Inc.
7200 W. Buckeye Rd.	Tolleson	400,000	\$65.63	UBS Realty Investors, LLC	Sealy & Company
1005-1017 W. Alameda Dr.	Tempe Southwest	308,038	–	DCT Industrial Trust	Prologis

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2950 S. Litchfield Rd.	Goodyear	418,200	Oct-13	First Solar	Sun Life Insurance Company of Canada
402 N. 44th Ave.	Southwest North of Buckeye Rd.	221,116	Aug-13	Marathon Equipment	Prologis Logistics Services Incorporated
625 S. 27th Ave.	Southwest North of Buckeye Rd.	179,254	May-13	Special Distribution Phoenix, LLC	Lincoln Industrial, LLC
7102 W. Roosevelt St.	Tolleson	153,600	Jun-13	Summit Warehouse & Logistics, LLC	First Industrial
3941 W. Mohave St.	Southwest South of Buckeye Rd.	144,000	Aug-13	Furniture Wholesalers	Homaz
6850 W. Morelos Pl.	Chandler	126,251	Oct-13	Arizona Nutritional Supplements	Eastgroup Properties

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