



Flex / R&D Market Report

Compared to 2012:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

UP



Deliveries

UP



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Prepared by:

Jerry J. Holdner, Jr. — Lic.#01145748
Vice President of Market Research
e-mail: jholdner@voitco.com

Jennifer Farino
Market Research Analyst
e-mail: jfarino@voitco.com

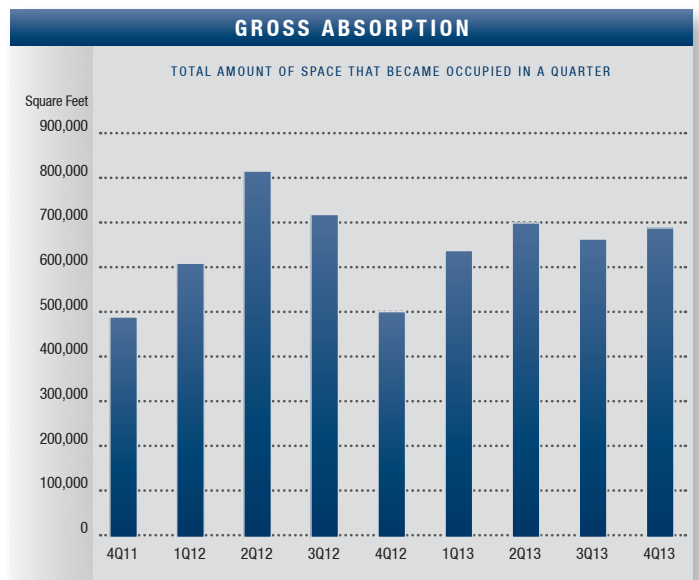
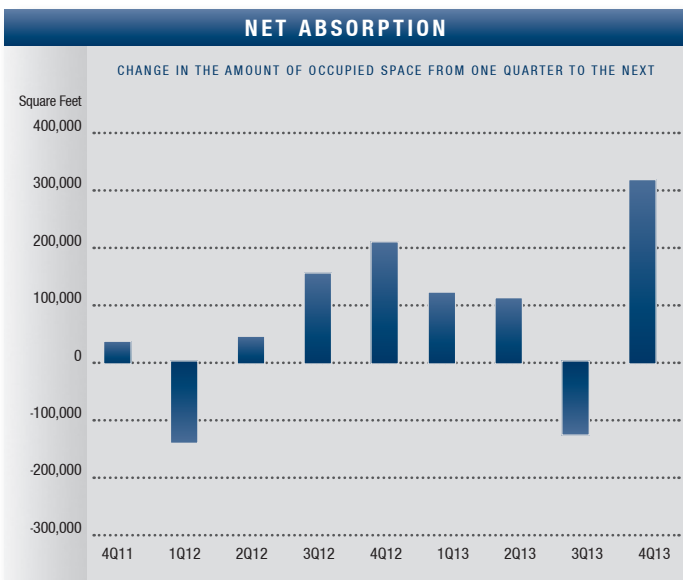
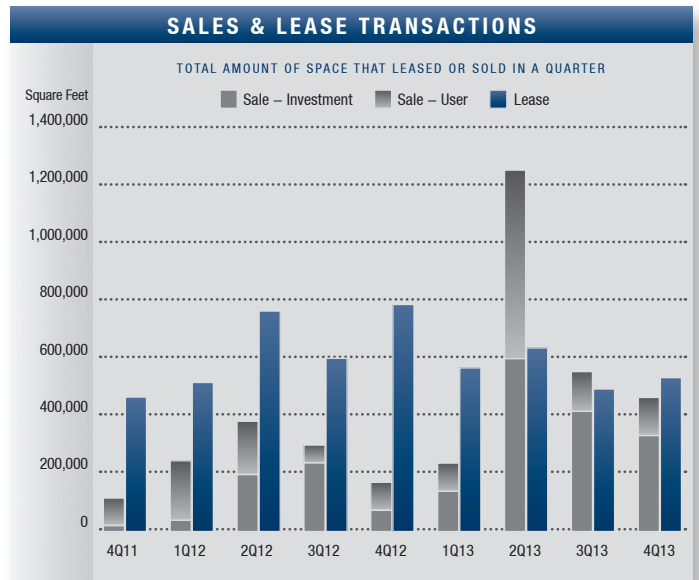
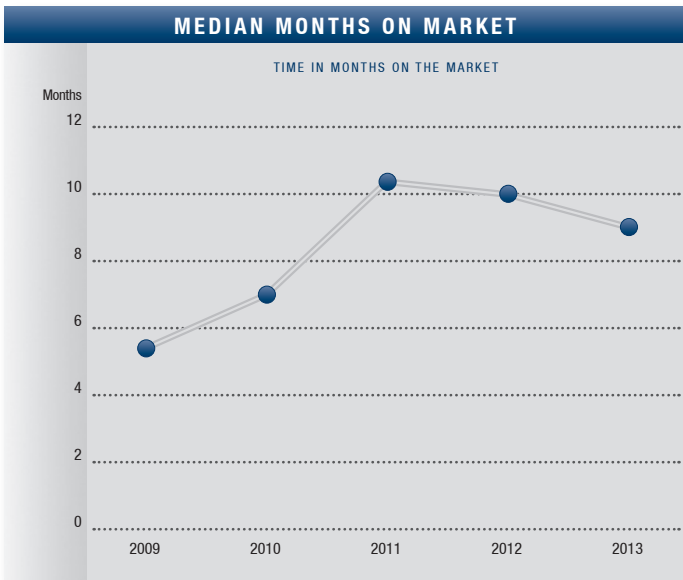
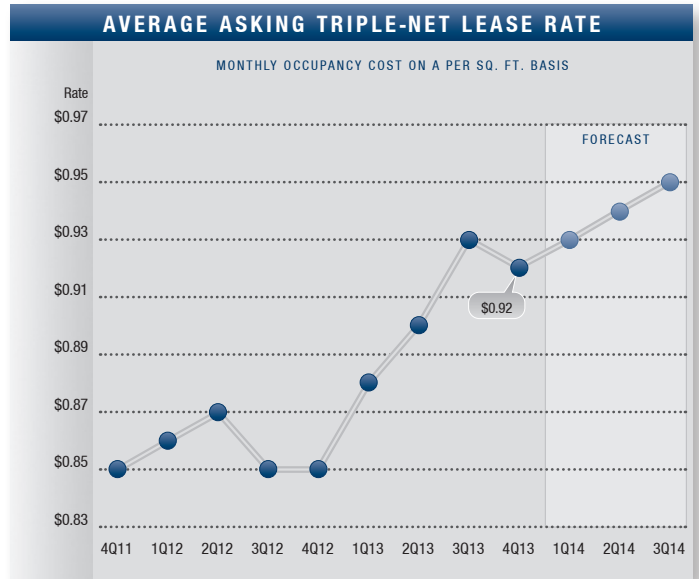
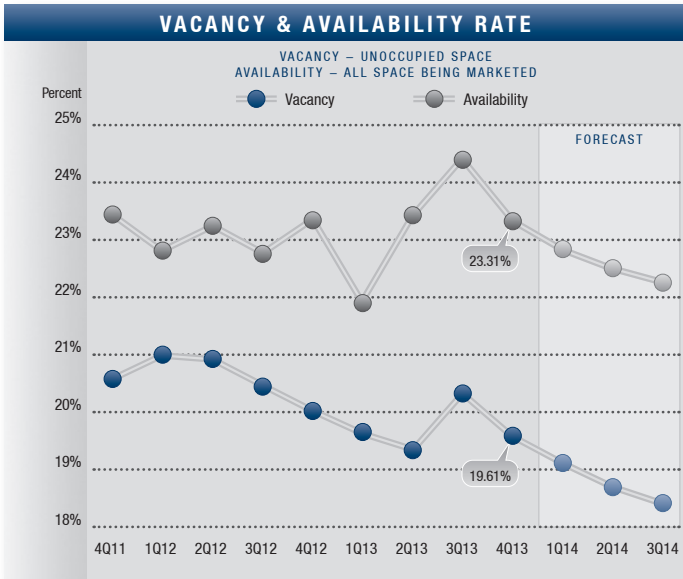
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Market Highlights

- Market Status** - In the final quarter of 2013, Phoenix flex/R&D market came back from an unfortunate third quarter, displaying significant positive net absorption and a decent drop in vacancy and availability. The market posted over 320,000 square feet of positive net absorption for 2013 compared to 270,000 in 2012. Despite a fluctuation in the third quarter of 2013, the market appears to be moving in an overall positive direction. However, stability and job growth will be needed to continue to bolster a recovery in this market in 2014.
- Absorption** - The Phoenix flex/R&D market posted 317,314 square feet of positive absorption in the fourth quarter, giving the market a total of 323,277 square feet for the year and just over positive 732,000 square feet over the last seven quarters.
- Transaction Activity** - Leasing activity checked in at 521,052 square feet for the Phoenix flex/R&D market in the fourth quarter of 2013, a decrease from 2012's fourth quarter figure of 777,860 square feet. Sales activity came in at 131,023 square feet, producing a total of 2.5 million square feet sold in 2013 compared to 1 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 increased; we anticipate this trend continuing in 2014.
- Overall** - We are seeing an overall continued decrease in the amount of vacant and available space. The market has seen positive absorption figures 12 of the last 15 quarters. Though lease rates dropped one cent in the fourth quarter, overall they are steadily increasing. We anticipate that lease rates will continue to gradually rise in the foreseeable future. While these are positive indications, cautious optimism still prevails, as job creation will need to continue in order to drive the demand needed to sustain growth in the Phoenix flex/R&D market.
- Construction** - There was nothing reported under construction and nothing delivered in the flex/R&D market at the close of the fourth quarter. This halt in new construction should help to alleviate upward pressure on vacancy and downward pressure on lease rates.
- Vacancy** - Direct/sublease space (unoccupied) exhibited a decrease to 19.61% from the previous quarter's rate of 20.57%. The Airport Area market posted the lowest rate in the market, at 16.65%, while the Southwest had the highest rate, at 29.83%. Overall, the market saw around a 2% drop in vacancy from 2012 to 2013.
- Availability** - Direct/sublease space being marketed was 23.31% at the end the fourth quarter, a drop from the 24.38% of the previous quarter but essentially equal to the 23.34% seen in the fourth quarter of 2012.
- Lease Rates** - The average asking triple-net lease rate was \$0.92 per square foot per month in the fourth quarter of 2013, one cent lower than the previous quarter's rate but up seven cents compared to the previous year's rate, indicating overall stability and growth in asking lease rents. The highest average asking rate of \$1.03 was recorded in the Northwest submarket.

FLEX / R&D MARKET OVERVIEW

| | 2013 | 2012 | 2011 | % of Change vs. 2012 |
|---------------------------|-----------|-----------|-----------|----------------------|
| Vacancy Rate | 19.61% | 20.02% | 20.58% | (2.05%) |
| Availability Rate | 23.31% | 23.34% | 23.45% | (0.13%) |
| Average Asking Lease Rate | \$0.92 | \$0.85 | \$0.85 | 8.24% |
| Sale & Lease Transactions | 4,665,583 | 3,685,952 | 2,908,415 | 26.58% |
| Gross Absorption | 2,615,211 | 2,636,252 | 2,775,617 | (0.80%) |
| Net Absorption | 323,277 | 268,880 | 341,249 | 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 4Q2013 | Square Feet Available | Availability Rate 4Q2013 | Average Asking Lease Rate | Net Absorption 4Q2013 | Net Absorption 2013 | Gross Absorption 4Q2013 | Gross Absorption 2013 |
| Airport Area | | | | | | | | | | | | | |
| North Airport | 45 | 1,594,831 | 0 | 0 | 416,701 | 26.13% | 475,868 | 29.84% | \$0.72 | (84,734) | (95,598) | 17,030 | 58,187 |
| South Airport North of Roeser | 59 | 2,387,896 | 0 | 50,000 | 282,712 | 11.84% | 396,188 | 16.59% | \$0.90 | 46,467 | 3,683 | 49,930 | 90,278 |
| South Airport South of Roeser | 9 | 116,580 | 0 | 0 | 0 | 0.00% | 15,915 | 13.65% | \$0.00 | 0 | 0 | 0 | 0 |
| SC North of Roeser | 40 | 970,390 | 0 | 0 | 149,152 | 15.37% | 199,945 | 20.60% | \$0.52 | 0 | 14,392 | 0 | 27,398 |
| 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 | 5,097,773 | 0 | 50,000 | 848,565 | 16.65% | 1,087,916 | 21.34% | \$0.74 | (38,267) | (77,523) | 66,960 | 175,863 |
| Northeast | | | | | | | | | | | | | |
| Central Phoenix | 52 | 967,613 | 0 | 0 | 129,717 | 13.41% | 133,291 | 13.78% | \$0.55 | (6,535) | (16,461) | 0 | 20,822 |
| Scottsdale Airport | 101 | 2,441,657 | 0 | 0 | 534,901 | 21.91% | 591,603 | 24.23% | \$0.88 | 38,570 | 53,874 | 70,449 | 289,694 |
| Scottsdale / Salt River | 69 | 1,820,146 | 0 | 299,320 | 242,007 | 13.30% | 389,983 | 21.43% | \$0.88 | 34,890 | 60,374 | 69,437 | 288,682 |
| Northeast Total | 222 | 5,229,416 | 0 | 299,320 | 906,625 | 17.34% | 1,114,877 | 21.32% | \$0.85 | 66,925 | 97,787 | 139,886 | 599,198 |
| Northwest | | | | | | | | | | | | | |
| Deer Valley / Pinnacle Park | 93 | 3,673,726 | 0 | 82,500 | 844,191 | 22.98% | 957,519 | 26.06% | \$1.13 | 140,436 | 247,121 | 154,109 | 434,141 |
| Glendale | 12 | 411,114 | 0 | 100,000 | 97,376 | 23.69% | 103,526 | 25.18% | \$0.59 | 0 | 382 | 0 | 12,300 |
| Grand Avenue | 22 | 153,377 | 0 | 0 | 6,572 | 4.28% | 16,104 | 10.50% | \$0.00 | 4,008 | 4,552 | 4,008 | 12,860 |
| North Glendale / Sun City | 22 | 438,341 | 0 | 72,000 | 124,386 | 28.38% | 83,736 | 19.10% | \$0.64 | (7,580) | 14,560 | 8,185 | 39,427 |
| North Black Canyon | 64 | 1,302,082 | 0 | 0 | 313,864 | 24.10% | 346,335 | 26.60% | \$0.56 | (3,845) | 4,243 | 10,965 | 124,024 |
| West Phoenix North of Thomas Rd. | 41 | 735,695 | 0 | 0 | 65,547 | 8.91% | 61,601 | 8.37% | \$0.00 | (5,205) | (15,760) | 14,897 | 60,968 |
| West Phoenix South of Thomas Rd. | 9 | 95,951 | 0 | 0 | 10,701 | 11.15% | 16,749 | 17.46% | \$0.00 | 5,000 | (99) | 5,000 | 14,402 |
| Northwest Total | 263 | 6,810,286 | 0 | 254,500 | 1,462,637 | 21.48% | 1,585,570 | 23.28% | \$1.03 | 132,814 | 254,999 | 197,164 | 698,122 |
| Pinal County | | | | | | | | | | | | | |
| Pinal County | 8 | 60,732 | 0 | 0 | 3,740 | 6.16% | 3,740 | 6.16% | \$0.00 | (1,500) | (1,500) | 0 | 0 |
| Pinal County Total | 8 | 60,732 | 0 | 0 | 3,740 | 6.16% | 3,740 | 6.16% | \$0.00 | (1,500) | (1,500) | 0 | 0 |
| Southeast | | | | | | | | | | | | | |
| Chandler Airport | 10 | 672,039 | 0 | 604,380 | 353,804 | 52.65% | 349,055 | 51.94% | \$1.17 | 817 | (242,934) | 2,308 | 77,675 |
| Chandler | 69 | 3,333,857 | 0 | 654,067 | 687,188 | 20.61% | 791,337 | 23.74% | \$0.85 | 105,340 | 336,264 | 116,900 | 392,334 |
| Chandler North / Gilbert | 101 | 2,550,762 | 0 | 147,080 | 692,648 | 27.15% | 662,634 | 25.98% | \$0.73 | (7,107) | (80,949) | 19,440 | 166,177 |
| Falcon Fld / Apache Junction | 28 | 449,008 | 0 | 0 | 111,385 | 24.81% | 111,155 | 24.76% | \$0.66 | 27,938 | 43,525 | 27,938 | 46,031 |
| Mesa | 38 | 398,356 | 0 | 0 | 30,600 | 7.68% | 33,800 | 8.48% | \$0.75 | 5,300 | (13,770) | 7,300 | 14,022 |
| Tempe East | 41 | 989,990 | 0 | 75,000 | 159,199 | 16.08% | 165,683 | 16.74% | \$1.00 | 18,698 | (2,591) | 29,782 | 50,790 |
| Tempe Northwest | 73 | 2,611,157 | 0 | 375,000 | 326,112 | 12.49% | 495,354 | 18.97% | \$1.14 | 2,461 | 72,192 | 39,171 | 238,549 |
| Tempe Southwest | 88 | 4,038,732 | 0 | 0 | 604,082 | 14.96% | 1,055,749 | 26.14% | \$0.93 | 3,895 | (42,734) | 36,244 | 131,151 |
| Southeast Total | 448 | 15,043,901 | 0 | 1,855,527 | 2,965,018 | 19.71% | 3,664,767 | 24.36% | \$0.91 | 157,342 | 69,003 | 279,083 | 1,116,729 |
| Southwest | | | | | | | | | | | | | |
| Goodyear | 12 | 302,618 | 0 | 0 | 62,641 | 20.70% | 79,309 | 26.21% | \$0.47 | 0 | (30,946) | 0 | 0 |
| Southwest North of Buckeye Rd. | 9 | 267,754 | 0 | 0 | 6,000 | 2.24% | 6,000 | 2.24% | \$0.00 | 0 | (6,000) | 0 | 0 |
| Southwest South of Buckeye Rd. | 7 | 340,754 | 0 | 0 | 210,439 | 61.76% | 210,439 | 61.76% | \$0.00 | 0 | 0 | 0 | 0 |
| Tolleson | 9 | 431,556 | 0 | 0 | 121,405 | 28.13% | 75,946 | 17.60% | \$0.65 | 0 | 17,457 | 0 | 25,299 |
| Southwest Total | 37 | 1,342,597 | 0 | 0 | 400,485 | 29.83% | 371,694 | 27.68% | \$0.53 | 0 | (19,489) | 0 | 25,299 |
| Phoenix Total | 1,135 | 33,584,705 | 0 | 2,459,347 | 6,587,070 | 19.61% | 7,828,564 | 23.31% | \$0.92 | 317,314 | 323,277 | 683,093 | 2,615,211 |
| 1-24,999 | 740 | 8,722,631 | 0 | 87,152 | 1,358,530 | 15.57% | 1,639,995 | 18.80% | \$0.70 | 59,396 | (17,986) | 262,694 | 814,197 |
| 25,000-49,999 | 227 | 7,795,801 | 0 | 341,620 | 1,637,621 | 21.01% | 1,792,486 | 22.99% | \$0.80 | 146,659 | 294,679 | 233,901 | 955,878 |
| 50,000-74,999 | 73 | 4,432,026 | 0 | 166,000 | 979,228 | 22.09% | 1,206,775 | 27.23% | \$0.70 | 116,387 | 32,042 | 120,912 | 332,960 |
| 75,000-99,999 | 40 | 3,421,883 | 0 | 557,000 | 761,023 | 22.24% | 860,967 | 25.16% | \$1.10 | 22,929 | 15,437 | 30,244 | 69,976 |
| 100,000+ | 55 | 9,212,364 | 0 | 1,307,575 | 1,850,668 | 20.09% | 2,328,341 | 25.27% | \$1.10 | (28,057) | (895) | 35,342 | 442,200 |
| Phoenix Total | 1,135 | 33,584,705 | 0 | 2,459,347 | 6,587,070 | 19.61% | 7,828,564 | 23.31% | \$0.92 | 317,314 | 323,277 | 683,093 | 2,615,211 |

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

| Property Address | Submarket | Square Feet | Price Per SF | Buyer | Seller |
|---|-----------------|-------------|--------------|------------------------------------|-----------------------------------|
| 615 N. 48th St. | Tempe North | 530,856 | \$135.63 | JDM II TOC, LLC | State Farm |
| 4340 E. Cotton Center Blvd. – 10 Properties | Airport Area | 447,895 | Undisclosed | Buchanan Street Partners | Carlson Real Estate Services, LLC |
| 1121-1241 W. Warner Rd. | Tempe Southwest | 321,327 | \$124.48 | Warner Business, LLC 1 & 4 | Ccmvmp Wbclv, LLC |
| 1005-1017 W. Alameda Dr. | Tempe Southwest | 308,038 | Undisclosed | DCT Industrial Trust | Prologis |
| 3440 E. University Dr. | North Airport | 130,282 | \$151.59 | Artis Real Estate Investment Trust | Robert Caldwell |

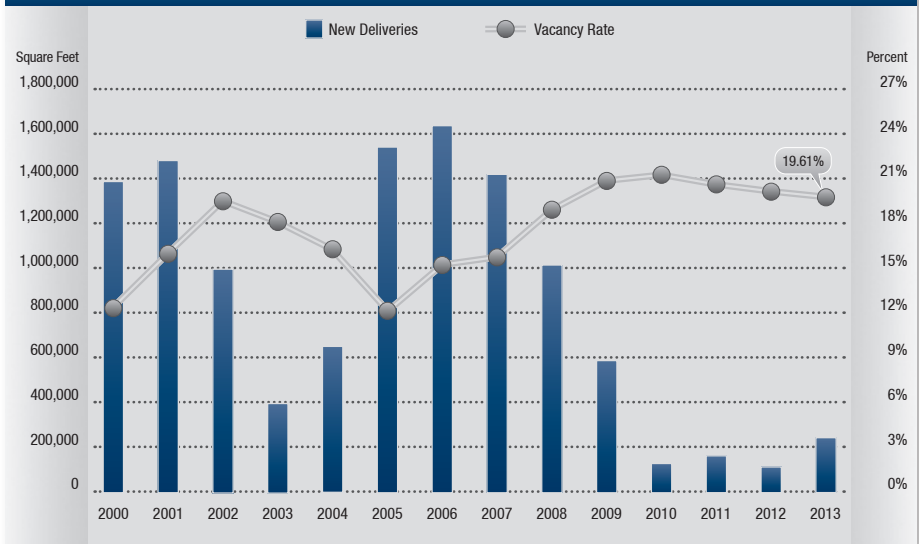
Lease Transactions

| Property Address | Submarket | Square Feet | Transaction Date | Tenant | Owner |
|--------------------------|-------------------------------|-------------|------------------|-----------------|---|
| 1821 W. Rio Salado Pkwy. | Tempe Northwest | 99,607 | Apr-13 | U.S. Airways | City of Tempe |
| 1150 N. Fiesta Blvd. | Chandler North / Gilbert | 83,825 | Dec-13 | Curtiss Wright | Lba Realty Fund Ti-co I, LLC |
| 4025 S. 32nd St. | South Airport North of Roeser | 80,000 | Dec-13 | Undisclosed | Undisclosed |
| 21030 N. 19th Ave. | Deer Valley/Pinnacle Peak | 63,840 | Apr-13 | Asurian, LLC | Aztec 19th Ave, LLC |
| 8860 E. Chaparral Rd. | Scottsdale / Salt River | 54,249 | Jul-13 | Edgenuity, Inc. | Salt River Pima – Maricopa Indian Community |
| 1921 W. Rio Salado Pkwy. | Tempe Northwest | 48,022 | Apr-13 | US Airways | City of Tempe |

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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Commerce, CA
323.558.5400

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Las Vegas, NV
702.734.4500

Newport Beach, CA
949.644.8648

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858.453.0505



REAL ESTATE SERVICES

101 Shipyard Way
Newport Beach, CA 92663

949.644.8648
www.voitco.com
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