



MARKET CHANGE

Compared to 2013:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

UP



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HIGHLIGHTS

- **Steady Growth** - The Flex/R&D market had a decent 2014, posting almost 600,000 square feet of positive net absorption, giving the market a total of over 1.3 million square feet of positive absorption for the last three years. Both vacancy and availability continued their downward trend and lease rates continued to increase.
- **Construction** - There was 60,000 square feet under construction in the Chandler submarket at the close of the fourth quarter. The slowdown in construction has eased and will continue to ease the upward pressure on vacancy. However, in the months to come the supply should heat up rapidly, with nearly 2.3 million square feet of Flex/R&D space planned in the Phoenix Metro Area.
- **Vacancy** - Direct/sublease space (unoccupied) finished the fourth quarter at 17.85%, a decrease from the previous year's rate of 19.45%. The Northeast market posted the lowest rate in the market, at 13.70%, while the Northwest had the highest rate, at 20.88%.
- **Availability** - Direct/sublease space being marketed was 22.02% during the fourth quarter, a slight increase from the 21.32% in the previous quarter but a decrease when compared to the 22.86% seen in the fourth quarter of 2013.
- **Lease Rates** - The average asking triple-net lease rate was \$.98 per square foot per month in the fourth quarter of 2014, four cents higher than the previous quarter and eight cents higher than 2013's fourth quarter rate. This quarter, the highest average asking rate of \$1.05 was recorded in the Southeast submarket.
- **Absorption** - The Phoenix Flex/R&D market posted 125,700 square feet of negative absorption in the fourth quarter, giving the market almost 1.4 million square feet of positive absorption over the last ten quarters.
- **Transaction Activity** - Leasing activity checked in at 247,686 square feet for the Phoenix Flex/R&D market in the fourth quarter of 2014, a decrease from 2013's fourth quarter figure of 905,942 square feet. Sales activity came in at 318,594 square feet this quarter, a decrease compared to last quarter's figure of 1,198,695. This statistic can have some lag time in being reported, so look for fourth quarter figures to end up somewhat higher on the next report. 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 5.9% in November 2014, a decrease from January 2014's rate of 6.8%. Sectors with strong job growth included professional and business services, retail trade, health care and manufacturing. Phoenix has created a new niche for itself in high tech manufacturing. Phoenix's projected total annual employment growth will be among the strongest in the nation. According to Arizona Department of Administration, November added 86,000 professional and business services jobs, 50,000 in retail trade, 59,000 in health care and 28,000 in manufacturing. The number of jobs has increased in 2014 and we anticipate this trend continuing into 2015.
- **Overall** - The Phoenix Flex/R&D market appears to be stabilizing as we are seeing vacancy trending downward compared to last year. The market has seen positive absorption figures for 8 of the last 11 quarters. Lease rates increased in the fourth quarter, up thirteen cents from the end of 2012. While the market appears to be heading in a good direction, speculative development has caused a slight bump in the road, so job creation will need to continue in order to drive the demand needed to sustain growth in the Phoenix Flex/R&D market in the new year.

FORECAST

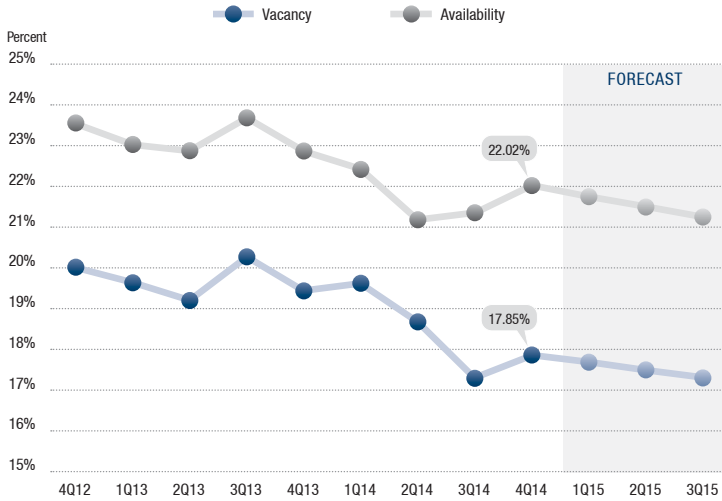
- **Construction** - With a favorable business climate spurring demographic growth, the Phoenix market is one of the fastest growing in the country. Developers are planning an influx of new properties, with just over 2.3 million square feet planned in the metro area. In the meantime, limited construction should ease vacancy rates and further allow demand to catch up to supply.
- **Employment** - We anticipate job growth of around 2.6%, or 59,000 jobs, in the Phoenix Metropolitan area over the year. Look for industries like professional & business services, and education & health services to lead the way in employment growth, along with the new sector of high tech manufacturing, with large companies opening plants and factories.
- **Lease Rates** - Expect average asking lease rates to increase by another 3% to 5% over the next four quarters.
- **Vacancy** - We anticipate vacancy rates continuing to descend in coming quarters, to around 17.30%, by the end of third quarter of 2015.

OVERVIEW

	2014	2013	2012	% of Change vs. 2013
Total Vacancy Rate	17.85%	19.45%	20.08%	(8.23%)
Availability Rate	22.02%	22.86%	23.55%	(3.67%)
Average Asking Lease Rate	\$0.98	\$0.92	\$0.85	6.52%
Sale & Lease Transactions	4,424,364	7,138,738	3,940,389	(38.02%)
Gross Absorption	2,706,940	2,645,403	2,644,359	2.33%
Net Absorption	597,431	396,676	300,014	N/A

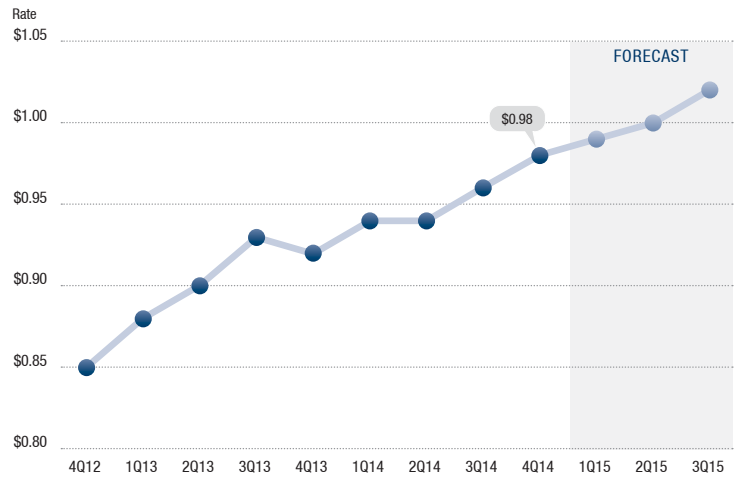
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



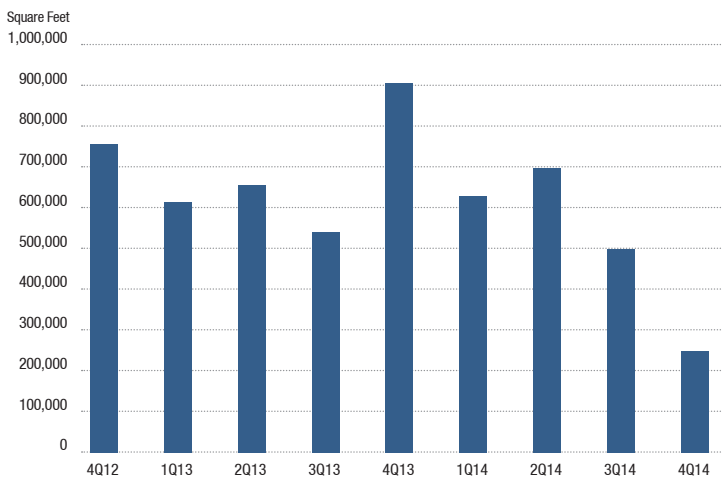
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



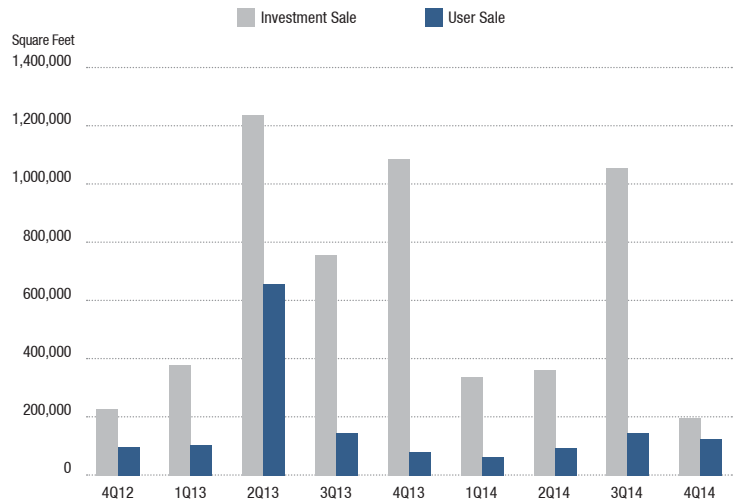
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



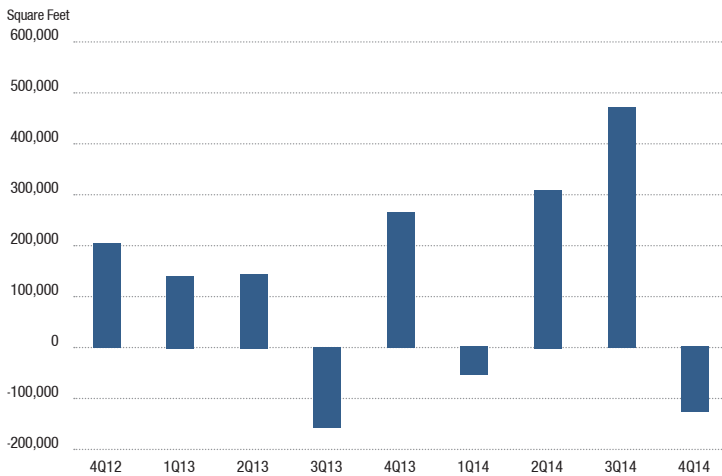
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



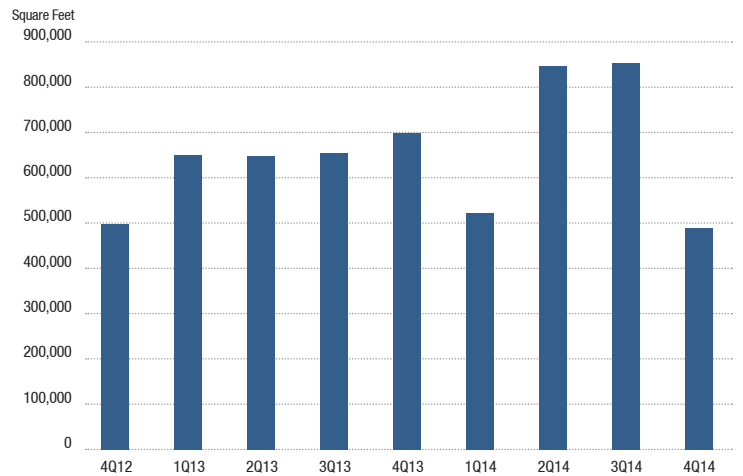
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q42014	Square Feet Available	Availability Rate Q42014	Average Asking Lease Rate	Net Absorption Q42014	Net Absorption 2014	Gross Absorption Q42014	Gross Absorption 2014
Airport Area													
North Airport	44	1,718,028	0	0	314,008	18.28%	455,109	26.49%	\$0.86	9,219	56,833	9,219	80,701
South Airport North of Roeser	58	2,418,206	0	0	404,541	16.73%	632,638	26.16%	\$0.88	(7,956)	(94,710)	14,206	185,649
South Airport South of Roeser	10	123,480	0	0	7,568	6.13%	23,483	19.02%	\$0.00	0	(7,568)	0	0
SC North of Roeser	40	828,924	0	245,000	118,605	14.31%	164,142	19.80%	\$1.00	(2,237)	12,413	15,521	30,171
SC South of Roeser	4	28,076	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Airport Area Total	156	5,116,714	0	245,000	844,722	16.51%	1,275,372	24.93%	\$0.89	(974)	(33,032)	38,946	296,521
Northeast													
Central Phoenix	54	946,275	0	0	60,949	6.44%	66,608	7.04%	\$0.52	33,015	73,725	33,015	95,248
Scottsdale Airport	108	2,466,251	0	0	487,866	19.78%	589,990	23.92%	\$0.87	(12,817)	14,999	68,809	267,552
Scottsdale / Salt River	69	1,816,427	0	55,000	167,500	9.22%	336,043	18.50%	\$0.93	31,179	27,467	63,720	146,071
Northeast Total	231	5,228,953	0	55,000	716,315	13.70%	992,641	18.98%	\$0.87	51,377	116,191	165,544	508,871
Northwest													
Deer Valley / Pinnacle Park	85	3,466,423	0	16,500	807,191	23.29%	914,951	26.39%	\$1.13	(225)	49,414	11,545	141,914
Glendale	11	358,779	0	100,000	67,085	18.70%	82,610	23.03%	\$0.62	4,702	16,732	4,702	39,908
Grand Avenue	22	153,377	0	139,571	7,966	5.19%	19,586	12.77%	\$0.62	324	(1,394)	1,530	6,134
North Glendale / Sun City	26	492,504	0	22,000	88,617	17.99%	81,648	16.58%	\$0.68	(5,396)	66,350	7,648	116,556
North Black Canyon	67	1,343,369	0	0	323,083	24.05%	365,369	27.20%	\$0.55	(12,645)	18,051	17,306	95,935
West Phoenix North of Thomas Rd.	39	688,191	0	0	72,943	10.60%	81,956	11.91%	\$0.43	(9,327)	(19,694)	11,065	34,163
West Phoenix South of Thomas Rd.	9	95,951	0	0	10,701	11.15%	26,949	28.09%	\$0.00	0	0	0	0
Northwest Total	259	6,598,594	0	278,071	1,377,586	20.88%	1,573,069	23.84%	\$1.02	(22,567)	129,459	53,796	434,610
Pinal County													
Pinal County	9	74,172	0	0	6,860	9.25%	6,860	9.25%	\$0.00	1,100	(3,120)	9,100	9,100
Pinal County Total	9	74,172	0	0	6,860	9.25%	6,860	9.25%	\$0.00	1,100	(3,120)	9,100	9,100
Southeast													
Chandler Airport	10	672,039	0	490,275	323,367	48.12%	325,975	48.51%	\$1.22	(6,417)	30,437	0	53,620
Chandler	73	3,571,376	60,000	550,000	836,883	23.43%	898,568	25.16%	\$0.95	(15,569)	(11,381)	46,382	235,244
Chandler North / Gilbert	98	2,422,835	0	333,080	517,739	21.37%	439,754	18.15%	\$1.03	(19,857)	157,521	65,654	379,280
Falcon Fld / Apache Junction	29	465,866	0	0	95,884	20.58%	95,884	20.58%	\$0.63	(2,050)	19,323	1,100	49,194
Mesa	41	437,770	0	0	17,362	3.97%	29,312	6.70%	\$0.67	10,705	15,133	10,705	23,705
Tempe East	39	879,522	0	384,000	148,244	16.86%	144,929	16.48%	\$0.00	(6,777)	8,140	11,634	43,960
Tempe Northwest	72	2,441,627	0	0	264,414	10.83%	369,752	15.14%	\$1.00	(1,319)	(26,406)	12,731	237,678
Tempe Southwest	92	3,920,298	0	0	511,336	13.04%	870,334	22.20%	\$1.16	(114,670)	82,669	69,864	309,260
Southeast Total	454	14,811,333	60,000	1,757,355	2,715,229	18.33%	3,174,508	21.43%	\$1.05	(155,954)	275,436	218,070	1,331,941
Southwest													
Goodyear	10	196,019	0	0	0	0.00%	23,620	12.05%	\$0.45	0	43,579	0	43,579
Southwest North of Buckeye Rd.	9	267,669	0	0	0	0.00%	0	0.00%	\$0.00	0	6,000	0	6,000
Southwest South of Buckeye Rd.	6	338,994	0	0	209,639	61.84%	209,639	61.84%	\$0.00	0	0	0	0
Tolleson	9	582,572	0	0	58,487	10.04%	58,487	10.04%	\$0.62	1,318	62,918	2,277	79,318
Southwest Total	34	1,385,254	0	0	268,126	19.36%	291,746	21.06%	\$0.57	1,318	112,497	2,277	128,897
Phoenix Total	1,143	33,215,020	60,000	2,335,426	5,928,838	17.85%	7,314,196	22.02%	\$0.98	(125,700)	597,431	487,733	2,709,940
1-24,999	755	8,767,149	0	185,151	1,062,663	12.12%	1,388,747	15.84%	\$0.86	62,113	333,113	217,159	921,468
25,000-49,999	224	7,681,085	0	255,700	1,365,909	17.78%	1,621,248	21.11%	\$0.81	14,629	177,192	140,949	841,739
50,000-74,999	72	4,388,303	60,000	240,000	924,725	21.07%	1,017,159	23.18%	\$0.83	(121,831)	(11,540)	66,542	381,643
75,000-99,999	39	3,338,791	0	243,000	700,593	20.98%	800,952	23.99%	\$1.00	(75,068)	193,218	0	438,400
100,000+	53	9,039,692	0	1,411,575	1,874,948	20.74%	2,486,090	27.50%	\$1.16	(5,543)	(94,552)	63,083	126,690
Phoenix Total	1,143	33,215,020	60,000	2,335,426	5,928,838	17.85%	7,314,196	22.02%	\$0.98	(125,700)	597,431	487,733	2,709,940

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS OF 2014

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
615 N. 48th St.	Tempe Northwest	652,856	\$191.47	Carter Validus Mission Critical REIT, Inc.	10 Capital, LLC
1665 W. Alameda Dr.	Tempe Southwest	236,742	\$58.42	Wentworth Property Company, LLC	FNB Fountainhead, LLC
615 S. River Dr.	Tempe East	193,000	\$59.15	EverWest Real Estate Partners, LLC	Jabil Circuit, Inc.
6150 W. Chandler Blvd. – 2 Properties	Chandler	130,678	\$84.94	Montana Avenue Capital, LLC	LIT Millenium, Inc.
145 S. 79th St.	Chandler	129,187	\$74.31	ViaWest Properties, LLC	Capital Commercial Investments, Inc.
3411 E. Harbour Dr. – 4 Properties	North Airport	108,033	\$53.40	Turner Real Estate Investments	Jupiter Holdings, LLC

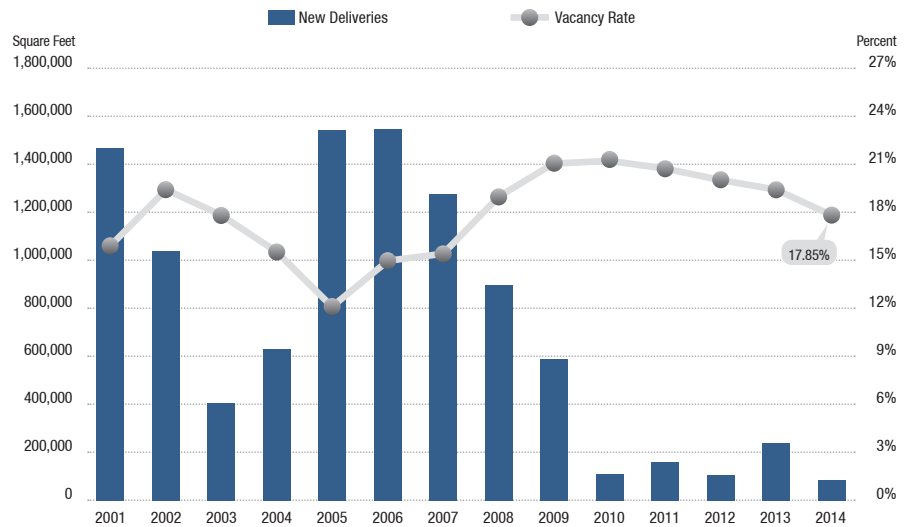
Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
875 W. Elliot Rd.	Tempe Southwest	43,671	Oct-14	Transperfect	Everest Holdings, LLC
1315 W. Drivers Way	Tempe Southwest	23,653	Sep-14	Rosendin Electric	Watt Properties, Inc.
1325 N. Fiesta Blvd.	Candler N/Gilbert	19,245	Jan-14	THR Property Management, LP	CampusLogic
19621 N. 23rd Dr.	Deer Valley/Pinnacle Peak	18,932	Jun-14	Vision Graphics	Phoenix Rising Investments, LLC
3011 S. 52nd St.	Tempe Southwest	18,330	Jan-14	EdgeConnex	Merit Partners, Inc.

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



Please Contact Us for Further Information

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