



## Net Absorption Soars

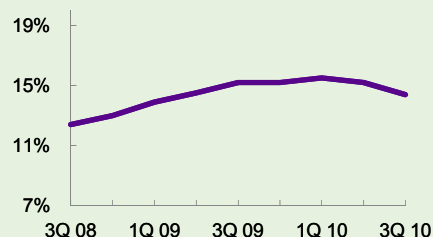
Demand for space in the metro Phoenix industrial market continued to improve during the third quarter 2010. The Valley posted overall net absorption of 2,157,929 square feet, the largest gain in more than four years. The strong performance is due in large part to Amazon expanding their current operations and occupying 1,207,021 million square feet of warehouse/distribution space in the Southwest submarket. This one lease helped the Southwest submarket outperform all submarkets with over 2 million square feet of positive net absorption. Despite the large overall increase in net absorption, 9 of the 17 submarkets experienced a loss of occupied space. The West Central Phoenix submarket posted the largest decline, 91,299 square feet. The bulk of net absorption was large tenant/owner occupants that are new to the market and existing companies expanding into space that is an upgrade to their current location, known as "flight to quality". Many of these large users have been renewable energy companies and their suppliers

that have relocated to Arizona due to the Renewable Energy Tax Incentive Program.

The overall vacancy rate fell for the second straight quarter, declining 80 basis points to finish at 14.4 percent. Industrial vacancy rates have stabilized and should slowly decline as demand continues to improve. New construction activity is lackluster with only 355,950 square feet of build-to-suit projects under construction in the Southwest and Chandler submarkets. Asking rental rates remained relatively unchanged during the third quarter and are expected to remain stable for the next 12 months. Leasing and owner/user sales will improve gradually as businesses start to add jobs. With Arizona posting some of the lowest operational costs in the West, industrial users will continue to look at metro Phoenix as a viable market to expand, relocate or open a new business. These factors should improve tenant and owner occupant demand bringing some relief to the industrial sector.

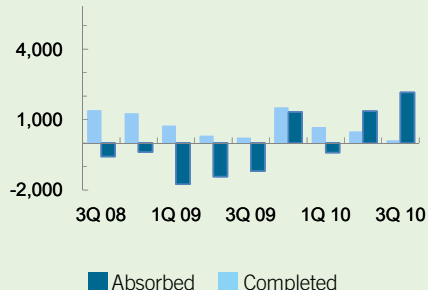
### Vacancy Rate

Quarterly



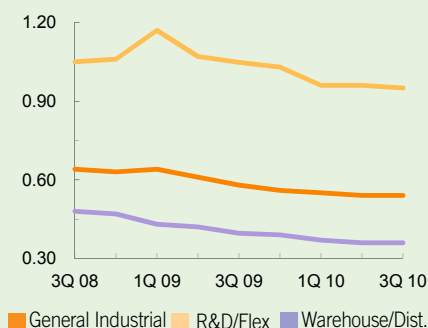
### Completions vs. Absorption

Quarterly (in Thousands of SF)



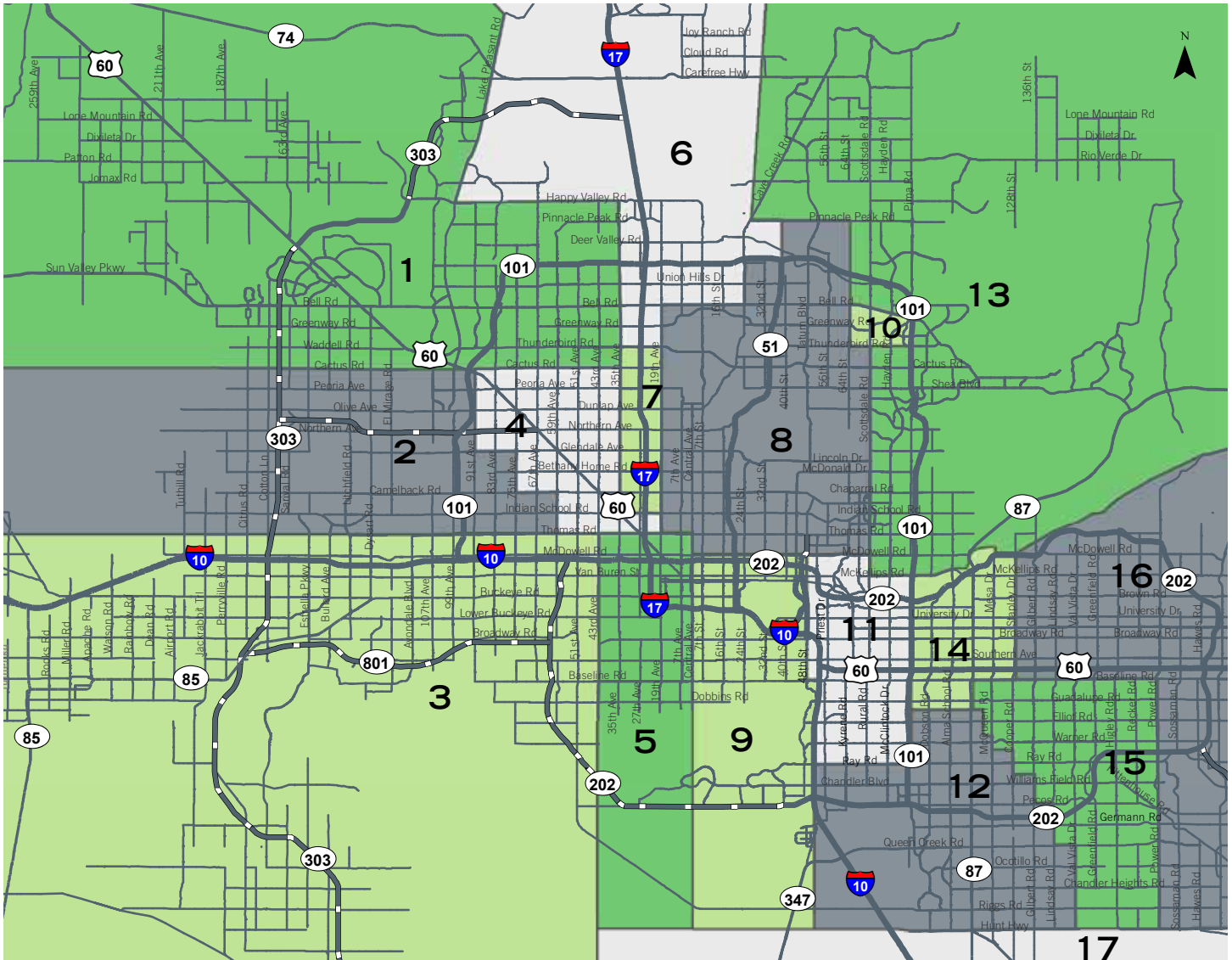
### Asking Rental Rates

Quarterly (\$/SF/Yr./Triple Net)



## FORECAST

- Net absorption is expected to be positive during the fourth quarter 2010 and 2011.
- Asking rental rates are near the bottom and will remain flat for the next 12 months.
- Vacancy rates have peaked and will continue to decline, albeit slightly.



- |                        |                       |               |
|------------------------|-----------------------|---------------|
| 1 North Glendale       | 7 Black Canyon        | 13 Scottsdale |
| 2 Glendale             | 8 Central Phoenix     | 14 West Mesa  |
| 3 Southwest Phoenix    | 9 Sky Harbor Airport  | 15 Gilbert    |
| 4 Grand Avenue         | 10 Scottsdale Airpark | 16 East Mesa  |
| 5 West Central Phoenix | 11 Tempe              | 17 Pinal      |
| 6 Deer Valley          | 12 Chandler           |               |

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By Submarket	Total SF	Vacant SF	Total Vacancy %	Net Absorption Current	Net Absorption Year To Date	Under Construction	Weighted Avg. Asking Rent
<b>Black Canyon</b>							
General Industrial	2,075,643	277,446	13.4%	(59,689)	(57,053)		\$0.51
Incubator	1,381,523	284,341	20.6%	(1,364)	(30,526)		\$0.49
R&D/Flex	595,581	149,734	25.1%	9,100	(88,151)		\$1.08
Warehouse/Distribution	704,826	41,705	5.9%	(15,381)	(14,307)		\$0.65
<b>Central Phoenix</b>							
General Industrial	1,840,013	234,506	12.7%	(14,305)	(5,280)		\$0.64
Incubator	159,539	33,186	20.8%	(3,476)	(7,656)		\$0.52
R&D/Flex	129,220	30,226	23.4%	(2,793)	(9,952)		\$0.65
Warehouse/Distribution	664,059	23,914	3.6%	15,950	42,719		\$0.56
<b>Chandler</b>							
General Industrial	10,760,789	1,375,337	12.8%	115,286	98,585		\$0.83
Incubator	1,365,582	217,004	15.9%	25,857	14,518		\$0.46
R&D/Flex	2,528,835	578,353	22.9%	95,126	148,930	70,000	\$1.01
Warehouse/Distribution	4,814,659	866,056	18.0%	(117,200)	(81,479)		\$0.57
<b>Deer Valley</b>							
General Industrial	6,869,694	641,781	9.3%	41,009	19,810		\$0.48
Incubator	1,630,542	230,441	14.1%	11,227	65,719		\$0.56
R&D/Flex	3,377,265	1,260,976	37.3%	(27,908)	(657,389)		\$0.98
Warehouse/Distribution	1,541,295	84,920	5.5%	(5,667)	75,472		\$0.58
<b>East Mesa</b>							
General Industrial	1,848,276	668,671	36.2%	(274)	51,908		\$0.57
Incubator	228,064	25,910	11.4%	(548)	(7,071)		\$1.16
R&D/Flex	747,423	170,670	22.8%	(13,136)	(70,202)		\$0.78
Warehouse/Distribution	1,206,172	275,486	22.8%	10,006	14,487		\$0.63
<b>Gilbert</b>							
General Industrial	1,559,248	274,791	17.6%	(8,206)	72,620		\$0.68
Incubator	1,278,914	164,278	12.8%	9,766	69,895		\$0.50
R&D/Flex	354,025	41,200	11.6%	(41,200)	(41,200)		\$0.75
Warehouse/Distribution	1,923,692	248,215	12.9%	(33,566)	28,548		\$0.44
<b>Glendale</b>							
General Industrial	406,651	91,065	22.4%	26,339	35,743		\$0.76
Incubator	186,837	46,500	24.9%	(4,940)	(21,410)		\$0.56
R&D/Flex	294,000	79,338	27.0%	(179)	21,117		\$0.69
Warehouse/Distribution	1,745,669	447,006	25.6%	-	76,356		\$0.29
<b>Grand Ave</b>							
General Industrial	7,714,693	745,079	9.7%	(56,493)	(40,175)		\$0.27
Incubator	2,888,091	393,699	13.6%	(51,603)	(2,840)		\$0.31
R&D/Flex	14,460	-	0.0%	-	3,000		-
Warehouse/Distribution	9,482,253	881,014	9.3%	105,438	38,142		\$0.20
<b>North Glendale</b>							
General Industrial	2,101,953	789,548	37.6%	76,820	144,565		\$0.59
Incubator	216,630	22,766	10.5%	3,040	8,395		\$0.78
R&D/Flex	74,924	-	0.0%	-	-		-
Warehouse/Distribution	466,587	146,101	31.3%	(556)	12,438		\$0.38
<b>Scottsdale Airport</b>							
General Industrial	1,819,969	326,318	17.9%	9,614	(3,711)		\$0.73
Incubator	3,267,913	628,155	19.2%	(43,502)	(37,885)		\$0.84
R&D/Flex	995,450	126,734	12.7%	(16,438)	(3,950)		\$1.03
Warehouse/Distribution	1,313,665	210,275	16.0%	(15,349)	(41,337)		\$0.89
<b>Scottsdale</b>							
General Industrial	2,412,516	155,021	6.4%	(8,000)	68,473		\$0.85
Incubator	634,860	99,020	15.6%	13,214	27,093		\$0.84
R&D/Flex	1,136,021	211,736	18.6%	(8,220)	(67,726)		\$0.97
Warehouse/Distribution	359,851	51,210	14.2%	8,187	39,589		\$0.85
<b>Sky Harbor Airport</b>							
General Industrial	18,203,020	1,779,627	9.8%	(48,276)	(72,796)		\$0.42
Incubator	4,164,541	584,431	14.0%	5,521	67,058		\$0.46
R&D/Flex	6,402,635	1,048,261	16.4%	(12,326)	114,539		\$0.83
Warehouse/Distribution	15,848,693	1,858,087	11.7%	3,794	(285,267)		\$0.39
<b>Southwest Phoenix</b>							
General Industrial	9,845,168	1,818,814	18.5%	(10,856)	(49,347)	285,950	\$0.40
Incubator	1,731,283	198,391	11.5%	(5,815)	(65,196)		\$0.36
R&D/Flex	266,966	194,087	72.7%	-	-		\$1.07
Warehouse/Distribution	49,438,483	9,652,328	19.5%	2,026,218	3,010,934		\$0.31
<b>Tempe</b>							
General Industrial	14,705,303	1,144,263	7.8%	35,630	168,505		\$0.67
Incubator	7,526,091	1,268,805	16.9%	(17,745)	(53,534)		\$0.48
R&D/Flex	6,773,685	739,432	10.9%	80,043	16,022		\$1.06
Warehouse/Distribution	12,114,165	982,212	8.1%	186,182	299,835		\$0.42
<b>West Central Phoenix</b>							
General Industrial	12,121,099	933,309	7.7%	(107,360)	(19,341)		\$0.38
Incubator	2,088,305	291,295	13.9%	26,481	8,516		\$0.23
R&D/Flex	82,183	11,075	13.5%	(11,075)	(11,075)		\$0.35
Warehouse/Distribution	13,178,480	1,211,947	9.2%	655	(110,696)		\$0.30
<b>West Mesa</b>							
General Industrial	2,549,725	490,335	19.2%	(24,714)	(71,260)		\$0.62
Incubator	2,026,215	315,003	15.5%	34,940	89,152		\$0.42
R&D/Flex	119,135	53,215	44.7%	4,714	5,736		\$0.66
Warehouse/Distribution	2,715,366	606,048	22.3%	(13,396)	30,008		\$0.44

By Submarket	Total SF	Vacant SF	Total Vacant %	Net Absorption		Under Construction SF	Asking Rent	
				Current	Year to Date		WH/Dist	R&D/Flex
Black Canyon	4,757,573	753,226	15.8%	(67,334)	(190,037)	-	\$0.65	\$1.08
Central Phoenix	2,792,831	321,832	11.5%	(4,624)	19,831	-	\$0.56	\$0.65
Chandler	19,469,865	3,036,750	15.6%	119,069	180,554	70,000	\$0.57	\$1.01
Deer Valley	13,418,796	2,218,118	16.5%	18,661	(496,388)	-	\$0.58	\$0.98
East Mesa	4,029,935	1,140,737	28.3%	(3,952)	(10,878)	-	\$0.63	\$0.78
Gilbert	5,115,879	728,484	14.2%	(73,206)	129,863	-	\$0.44	\$0.75
Glendale	2,633,157	663,909	25.2%	21,220	111,806	-	\$0.29	\$0.69
Grand Ave	20,099,497	2,019,792	10.0%	(2,658)	(1,873)	-	\$0.20	-
North Glendale	2,860,094	958,415	33.5%	79,304	165,398	-	\$0.38	-
Pinal	3,494,904	489,691	14.0%	(20,672)	(14,212)	-	\$0.32	-
Scottsdale Airpark	7,396,997	1,291,482	17.5%	(65,675)	(86,883)	-	\$0.89	\$1.03
Scottsdale	4,543,248	516,987	11.4%	5,181	67,429	-	\$0.85	\$0.97
Sky Harbor Airport	44,618,889	5,270,406	11.8%	(51,287)	(176,466)	-	\$0.39	\$0.83
Southwest Phoenix	61,281,900	11,863,620	19.4%	2,009,547	2,896,391	285,950	\$0.31	\$1.07
Tempe	41,119,244	4,134,712	10.1%	284,110	430,828	-	\$0.42	\$1.06
West Central Phoenix	27,470,067	2,447,626	8.9%	(91,299)	(132,596)	-	\$0.30	\$0.35
West Mesa	7,410,441	1,464,601	19.8%	1,544	53,636	-	\$0.44	\$0.66
<b>Totals</b>	<b>272,513,317</b>	<b>39,320,388</b>	<b>14.4%</b>	<b>2,157,929</b>	<b>2,946,403</b>	<b>355,950</b>	<b>\$0.36</b>	<b>\$0.95</b>

By Property Type								Asking Rent
General Industrial	97,827,530	11,910,362	12.2%	(68,147)	314,434	285,950		\$0.54
Incubator	30,834,500	4,814,625	15.6%	15,053	136,828	-		\$0.51
R&D/Flex	23,891,808	4,695,037	19.7%	55,708	(640,301)	70,000		\$0.95
Warehouse/Distribution	119,959,479	17,900,364	14.9%	2,155,315	3,135,442	-		\$0.36
<b>Totals</b>	<b>272,513,317</b>	<b>39,320,388</b>	<b>14.4%</b>	<b>2,157,929</b>	<b>2,946,403</b>	<b>355,950</b>		<b>\$0.50</b>

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### Industrial Terms And Definitions

**Inventory:** Industrial inventory includes all multi-tenant, single tenant and owner occupied buildings at least 10,000 square feet.

**Industrial Buildings Classifications:** Industrial buildings are categorized as warehouse/distribution, general industrial, R&D/flex and incubator based on their physical characteristics including percent office build-out, clear height, typical bay depth, typical suite size, type of loading and typical uses.

**Vacancy and Availability:** The vacancy rate is the amount of physically vacant space divided by the

inventory and includes direct and sublease vacant. The availability rate is the amount of space available for lease divided by the inventory.

**Net Absorption:** The net change in physically occupied space over a period of time.

**Asking Rent:** The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country, and dollars per square foot per month in areas of California and selected other markets. Industrial rents are expressed as triple net where all costs

including, but not limited to, real estate taxes, insurance and common area maintenance are borne by the tenant on a pro rata basis. The asking rent for each building in the market is weighed by the amount of available space in the building.

*\* Cassidy Turley BRE Commercial statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.*