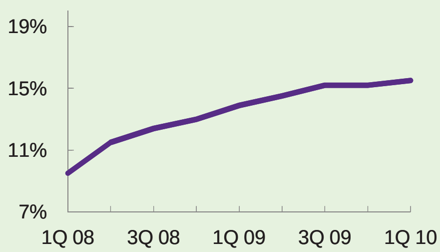
Cassidy Turley / BRE Commercial

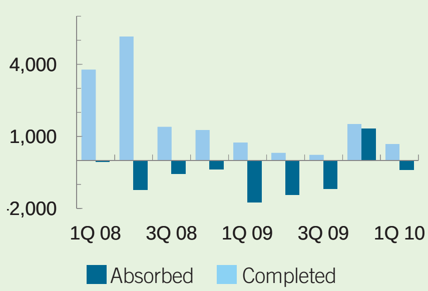
Industrial Market Trends / First Quarter 2010

Phoenix, Arizona

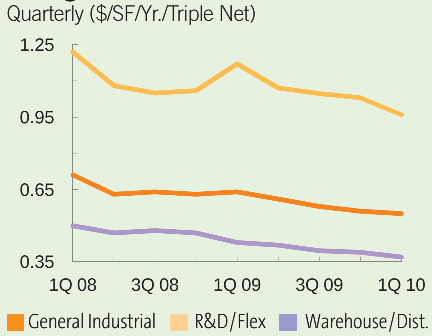
Vacancy Rate
Quarterly



Completions vs. Absorption
Quarterly (in Thousands of SF)



Asking Rental Rates
Quarterly ($/SF/Yr./Triple Net)



Signs of Recovery

The first quarter saw occupancy levels fall nearly 400,000 square feet as vacancy rates continue to rise. The Deer Valley submarket saw the largest decline in occupied space for the first quarter posting negative 506,000 square feet. This large loss of space is due to Honeywell vacating roughly 550,000 square feet at 2500 W. Union Hills Drive. The negative net absorption in the first quarter was the smallest decline in occupied space in the last five quarters. Despite the down market, 9 out of 17 submarkets showed improvement in terms of occupancy; Gilbert posted the largest net absorption of 140,000 square feet. The overall vacancy rate increased 30 basis points finishing at an all time high of 15.5 percent. Asking rental rates continue to soften, a dynamic which will be further enhanced as new ownership groups begin to stabilize their assets. These groups will have a lower investment basis and will primarily compete by offering strong leasing incentives and desirable space. Tenants in the market have an abundance of space to choose from at bargain pricing. In fact, asking rental rates have declined to 2004 levels, allowing tenants who are renewing or expanding to dramatically reduce their occupancy costs. It is apparent that it will be a tenant controlled market through this year.

Despite rising vacancies and continued loss of occupied space there are positive signs in the market. The Phoenix industrial market has seen increased activity from food and beverage companies and renewable energy companies as they look to expand in Metro Phoenix. Many renewable energy companies have relocated or are expected to relocate to Arizona due to the Renewable Energy Tax Incentive Program. This new industry is expected to bring high paying jobs and absorb some of the excess supply of Industrial space in Phoenix. Expect to see improving net absorption statistics throughout the year as these companies begin to materialize. In addition, many economic indicators are improving and job growth is expected to slowly improve in 2010 and 2011. These positive signs should bring some relief to landlords who have weathered the recession.

FORECAST

- Net absorption is expected to be positive in 2010, a significant improvement from the previous two years.
- Expect asking rental rates to continue to soften if distressed assets trade.
- Vacancy rates are likely to peak in 2010.

Cassidy Turley BRE Commercial
2375 E. Camelback Road, Suite 300, Phoenix, AZ
www.brephoenix.com

Prepared by:
Zach Aulick Research Analyst
602-468-8521 • zaulick@brephoenix.com

Jerad Silver Research Analyst
602-468-8571 • jsilver@brephoenix.com

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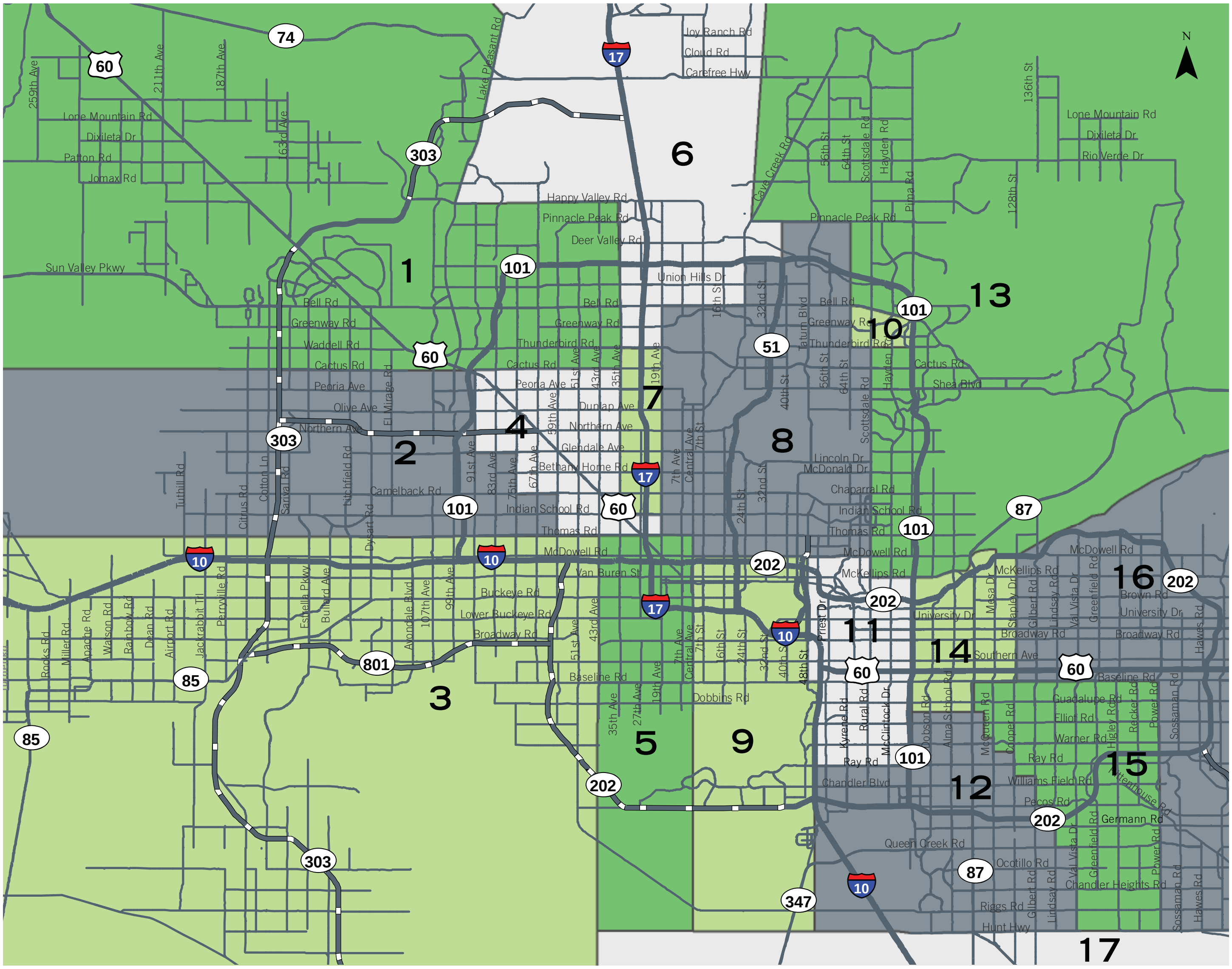

1 North Glendale
2 Glendale
3 Southwest Phoenix
4 Grand Avenue
5 West Central Phoenix
6 Deer Valley
7 Black Canyon
8 Central Phoenix
9 Sky Harbor Airport
10 Scottsdale Airpark
11 Tempe
12 Chandler
13 Scottsdale
14 West Mesa
15 Gilbert
16 East Mesa
17 Pinal

Cassidy Turley BRE Commercial

Jerad Silver
Research Analyst
602-468-8571
jsilver@brephoenix.com

Zach Aulick
Research Analyst
602-468-8521
zaulick@brephoenix.com

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By Submarket	Total SF	Vacant SF	Total Vacant %	Net Absorption 1 Qtr. 2010	Under Construction SF	Asking Rent
Black Canyon						
General Industrial	2,075,643	222,257	10.7%	(1,864)	-	$0.46
Incubator	1,381,523	295,349	21.4%	(41,534)	-	$0.59
R&D/Flex	595,581	117,234	19.7%	(55,651)	-	$1.04
Warehouse/Distribution	704,826	26,324	3.7%	1,074	-	$0.65
Chandler						
General Industrial	10,760,789	1,429,974	13.3%	43,948	-	$0.76
Incubator	1,365,582	237,503	17.4%	(5,981)	-	$0.45
R&D/Flex	2,528,835	723,282	28.6%	4,001	-	$1.00
Warehouse/Distribution	4,796,659	729,525	15.2%	37,052	18,000	$0.66
Deer Valley						
General Industrial	6,869,694	704,347	10.3%	(42,756)	-	$0.57
Incubator	1,630,542	275,516	16.9%	17,472	-	$0.65
R&D/Flex	3,377,265	1,161,129	34.4%	(557,542)	-	$0.98
Warehouse/Distribution	1,541,295	83,953	5.4%	76,439	-	$0.61
Gilbert						
General Industrial	1,559,248	286,015	18.3%	61,396	-	$0.51
Incubator	1,278,914	206,725	16.2%	27,448	-	$0.50
R&D/Flex	354,025	-	0.0%	-	-	-
Warehouse/Distribution	1,923,692	223,652	11.6%	53,111	-	$0.44
Grand Ave						
General Industrial	7,714,693	671,116	8.7%	33,788	-	$0.31
Incubator	2,888,091	364,322	12.6%	26,537	-	$0.33
R&D/Flex	14,460	3,000	20.7%	-	-	$0.33
Warehouse/Distribution	9,482,253	984,592	10.4%	(65,436)	-	$0.20
Scottsdale Airpark						
General Industrial	1,819,969	313,691	17.2%	8,916	-	$0.73
Incubator	3,267,913	597,929	18.3%	(7,659)	-	$0.87
R&D/Flex	995,450	103,640	10.4%	19,144	-	$1.08
Warehouse/Distribution	1,313,665	161,920	12.3%	7,018	-	$0.95
Scottsdale						
General Industrial	2,412,516	142,762	5.9%	80,732	-	$0.83
Incubator	634,860	131,640	20.7%	(5,527)	-	$0.99
R&D/Flex	1,136,021	194,108	17.1%	(50,098)	-	$0.93
Warehouse/Distribution	359,851	74,903	20.8%	15,896	-	$0.90
Sky Harbor Airport						
General Industrial	18,097,728	1,624,826	9.0%	(12,694)	105,292	$0.48
Incubator	4,164,541	631,703	15.2%	9,193	-	$0.54
R&D/Flex	6,402,635	1,040,289	16.2%	122,511	-	$0.89
Warehouse/Distribution	15,848,693	1,766,524	11.1%	(193,704)	-	$0.41
Southwest Phoenix						
General Industrial	9,845,168	1,806,504	18.3%	(48,889)	-	$0.40
Incubator	1,731,283	151,953	8.8%	(32,834)	-	$0.35
R&D/Flex	266,966	194,087	72.7%	-	-	$1.11
Warehouse/Distribution	48,971,789	12,175,149	24.9%	21,419	466,500	$0.33
Tempe						
General Industrial	14,705,303	1,283,940	8.7%	8,948	-	$0.66
Incubator	7,526,091	1,212,313	16.1%	6,130	-	$0.53
R&D/Flex	6,773,685	850,763	12.6%	(116,266)	-	$1.04
Warehouse/Distribution	12,114,165	1,165,980	9.6%	116,067	-	$0.47
West Central Phoenix						
General Industrial	12,121,099	833,203	6.9%	80,765	-	$0.31
Incubator	2,088,305	338,025	16.2%	(38,214)	-	$0.23
R&D/Flex	82,183	-	0.0%	-	-	-
Warehouse/Distribution	13,178,480	1,263,347	9.6%	(87,096)	-	$0.36
West Mesa						
General Industrial	2,549,725	417,527	16.4%	1,548	-	$0.66
Incubator	2,026,215	385,516	19.0%	18,639	-	$0.47
R&D/Flex	119,135	63,556	53.3%	(4,605)	-	$0.69
Warehouse/Distribution	2,715,366	657,663	24.2%	(21,607)	-	$0.46

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Black Canyon	4,757,573	661,164	13.9%	(97,975)	-	$0.65	$1.04
Central Phoenix	2,792,831	309,080	11.1%	32,583	-	$0.56	$0.75
Chandler	19,451,865	3,120,284	16.0%	79,020	18,000	$0.66	$1.00
Deer Valley	13,418,796	2,224,945	16.6%	(506,387)	-	$0.61	$0.98
East Mesa	4,029,935	1,105,388	27.4%	24,471	-	$0.67	$0.79
Gilbert	5,115,879	716,392	14.0%	141,955	-	$0.44	-
Glendale	2,633,157	786,942	29.9%	(11,227)	-	$0.34	$0.70
Grand Ave	20,099,497	2,023,030	10.1%	(5,111)	-	$0.20	$0.33
N Glendale	2,860,094	1,094,613	38.3%	29,200	-	$0.39	-
Pinal	3,494,904	466,159	13.3%	9,320	-	$0.32	-
Scottsdale Airpark	7,396,997	1,177,180	15.9%	27,419	-	$0.95	$1.08
Scottsdale	4,543,248	543,413	12.0%	41,003	-	$0.90	$0.93
Sky Harbor Airport	44,513,597	5,063,342	11.4%	(74,694)	105,292	$0.41	$0.89
Southwest Phoenix	60,815,206	14,327,693	23.6%	(60,304)	466,500	$0.33	$1.11
Tempe	41,119,244	4,512,996	11.0%	14,879	-	$0.47	$1.04
West Central Phoenix	27,470,067	2,434,575	8.9%	(44,545)	-	$0.36	-
West Mesa	7,410,441	1,524,262	20.6%	(6,025)	-	$0.46	$0.69
Totals	**271,923,331**	**42,091,458**	**15.5%**	**(406,418)**	**589,792**	**$0.37**	**$0.96**

By Property Type						Asking Rent
General Industrial	97,722,238	11,775,962	12.1%	322,403	105,292	$0.55
Incubator	30,834,500	4,986,552	16.2%	(59,768)	-	$0.54
R&D/Flex	23,891,808	4,693,600	19.6%	(659,821)	-	$0.96
Warehouse/Distribution	119,474,785	20,635,344	17.3%	(9,232)	484,500	$0.37
Totals	**271,923,331**	**42,091,458**	**15.5%**	**(406,418)**	**589,792**	**$0.51**

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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.*