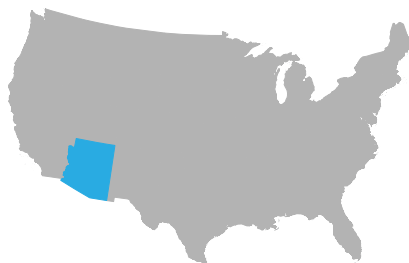


RESEARCH & FORECAST REPORT



First Spec Projects Break Ground in 3Q, More on the Way

THE BROADER VIEW

The Greater Phoenix industrial market has been firmly entrenched in recovery mode for more than two full years, and further improvement is likely in the coming quarters. The initial stages of the market rebound were led by national-credit tenants aggressively leasing and occupying large blocks of space. These transactions have slowed in recent quarters, although not due to a steep drop in tenant demand, but rather as a result of a lack of available supply. This supply constraint will be remedied in the coming quarters as spec construction is underway and additional projects are slated to break ground before the end of the year. Future tenant demand should be supported by a strengthening local labor market and a rebound in housing. Employment growth in Greater Phoenix has been double the national rate over the past 12 months, and current forecasts call for more robust gains from 2013-2015. The local housing market is also on the mend, with prices rising by more than 16 percent in the past year. Strengthening home prices are driving greater permit issuance, construction employment gains and housing starts, which should fuel demand for industrial space as homebuilding volume accelerates.

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MARKET INDICATORS

	2012 Q3	2011 Q3
VACANCY	↓	↓
NET ABSORPTION	↓	↑
CONSTRUCTION	↓	↓
RENTAL RATE	↑	↓

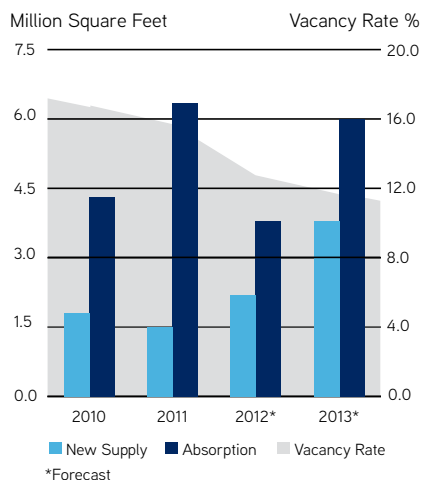
KEY MARKET INDICATORS

3Q ECONOMIC TRENDS*

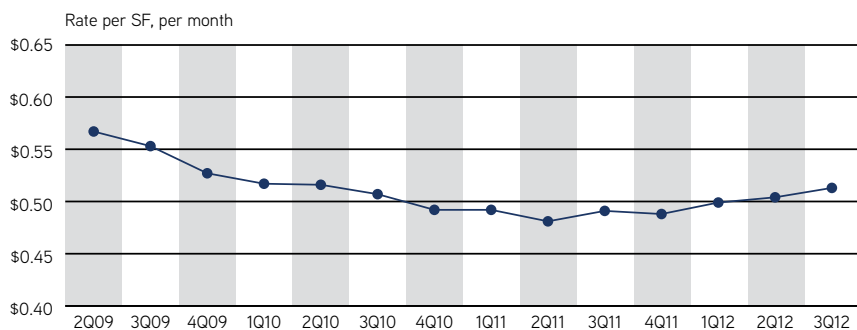
	2012 Q3	2011 Q3
PHOENIX METRO EMPLOYMENT	↑	↑
U.S. EMPLOYMENT	↑	↑

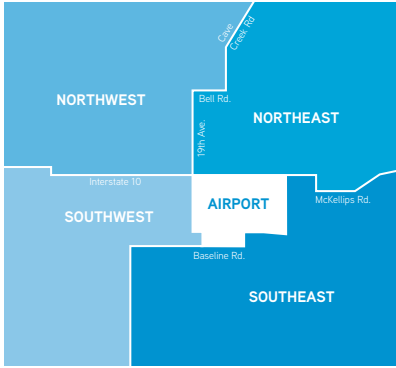
* Sources: Bureau of Labor Statistics

NEW SUPPLY, ABSORPTION & VACANCY RATES: PAST 4 YEARS



OVERALL RENTAL RATES





While this year’s transaction activity has outpaced 2011 levels, pricing for the bulk of the buildings changing hands has remained fairly flat. Year to date, the median price for all transactions is \$52 per square foot, a slight increase from the \$50 per square foot recorded in 2011. Cap rates have averaged in the low-8 percent range for most stabilized investment properties thus far in 2012, although a few high-profile transactions have closed with much lower cap rates.

CURRENT CONDITIONS

The Greater Phoenix industrial market posted positive net absorption of 698,000 square feet in the third quarter, down from more than 2.1 million square feet in the second quarter. The declining availability of large blocks of space is evidenced by reviewing the impact of large tenant moves. The ten largest tenant move-ins during the third quarter totaled approximately 875,000 square feet, compared to more than 1.5 million square feet for the 10 largest moves during the second quarter.

Since vacancy peaked in early 2010, retailers have been leasing large distribution centers, driving average net absorption of more than 1.4 million square feet per quarter. The absorption of large blocks of space has accounted for more than half of the total net absorption in the Phoenix metro area over the past 10 quarters and the

vacancy rate in industrial buildings 200,000 square feet and larger has fallen from approximately 20 percent in early 2010 to less than 10 percent currently. Tenants seeking at least 200,000 square feet of contiguous space have fewer than 10 options in all of Greater Phoenix. While tenants remain active in the market, a lack of new development in recent years is limiting the opportunities to move into large blocks of space.

The decline in availability of large blocks of space is finally prompting the construction of spec buildings. Two spec projects totaling 644,000 square feet broke ground during the third quarter, and as much as 1.5 million square feet of spec development is forecast to begin construction during the fourth quarter. How these buildings lease will serve as a barometer of the health of the market and will influence decisions on the

Continued on back page

SALE & LEASE ACTIVITY

SALE ACTIVITY

PROPERTY ADDRESS	SUBMARKET	SALE DATE	SALE PRICE	SIZE SF.	SALE PRICE SF.	CLASS
800 N 75th Ave., Phoenix	Tolleson	8/7	\$90,290,000	1,267,110	\$71.26	A
4809 E Thistle Landing, Phoenix	Chandler	8/31	\$6,725,000	101,006	\$66.58	B
2626 S 7th St., Phoenix	SC N of Salt River	9/12	\$6,350,000	234,260	\$27.11	B

LEASE ACTIVITY

PROPERTY ADDRESS	SUBMARKET	SIGN DATE	TENANT	SIZE SF.
8602 W Buckeye Rd., Tolleson	Tolleson	August	Communications Test Design	238,450
901 S 86th Ave., Tolleson	Tolleson	August	Medline Industries	135,472
3602 W Washington St., Phoenix	SW N of Buckeye Road	August	Consolidated Terminals & Logistics	104,346

INDUSTRIAL MARKET

BLDG TYPE	EXISTING PROPERTIES	DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER	AVG. RENT
	TOTAL INVENTORY SF	SF	RATE	SF	RATE	SF	Q3-12	Q3-11	CURRENT PERIOD	YTD	CURRENT PERIOD	YTD	CONSTR. SF	RATE
AIRPORT MARKET CLUSTER: North Airport, S Airport N of Roeser, S Airport S of Roeser, SC N of Salt River, SC S of Salt River														
GI	4,423,112	520,537	11.8%	-	0.0%	520,537	11.8%	15.7%	110,539	94,324	-	-	-	\$0.44
WH	24,971,587	3,680,764	14.7%	118,518	0.5%	3,799,282	15.2%	15.1%	(4,627)	360,270	-	20,000	-	\$0.42
MF	8,208,230	665,934	8.1%	181,759	2.2%	847,693	10.3%	13.0%	83,509	178,347	-	-	-	\$0.39
SC/S	1,840,446	118,500	6.4%	-	0.0%	118,500	6.4%	8.2%	14,968	23,504	-	-	-	\$0.52
FX	4,269,169	611,298	14.3%	9,280	0.2%	620,578	14.5%	13.1%	(10,707)	6,299	-	-	235,000	\$0.91
Total	43,712,544	5,597,033	12.8%	309,557	0.7%	5,906,590	13.5%	14.3%	193,682	662,744	0	20,000	235,000	\$0.50

NORTHEAST MARKET CLUSTER: Central Phoenix, Scottsdale Airpark, Scottsdale/Salt River														
GI	822,978	92,375	11.2%	122,000	14.8%	214,375	26.0%	24.0%	(7,820)	(49,554)	-	-	-	\$0.59
WH	5,602,196	566,896	10.1%	-	0.0%	566,896	10.1%	12.9%	101,684	106,271	-	-	-	\$0.70
MF	2,954,071	128,454	4.3%	-	0.0%	128,454	4.3%	7.1%	4,000	77,112	-	-	-	\$0.60
SC/S	1,113,334	81,160	7.3%	-	0.0%	81,160	7.3%	6.6%	(27,704)	(8,259)	-	-	-	\$0.68
FX	4,671,459	1,017,727	21.8%	11,297	0.2%	1,029,024	22.0%	19.9%	(32,465)	(89,174)	-	-	-	\$0.88
Total	15,164,038	1,886,612	12.4%	133,297	0.9%	2,019,909	13.3%	14.1%	37,695	36,396	-	-	-	\$0.77

NORTHWEST MARKET CLUSTER: Deer Valley/Pinnacle Peak, Glendale, Grand Avenue, N Glendale/Sun City, North Black Canyon, North Outlying, W Phx N of Thomas, W Phx S of Thomas														
GI	4,716,510	369,683	7.8%	37,443	0.8%	407,126	8.6%	8.8%	(2,171)	199,801	-	194,262	600,000	\$0.41
WH	27,962,315	3,135,174	11.2%	-	0.0%	3,135,174	11.2%	13.0%	110,262	507,867	-	19,841	-	\$0.50
MF	9,861,346	852,254	8.6%	-	0.0%	852,254	8.6%	12.0%	158,737	227,923	-	-	-	\$0.47
SC/S	2,300,337	206,573	9.0%	-	0.0%	206,573	9.0%	8.6%	13,830	(22,314)	-	-	-	\$0.57
FX	5,695,369	1,543,371	27.1%	29,550	0.5%	1,572,921	27.6%	30.3%	82,379	130,288	-	-	-	\$0.78
Total	50,535,877	6,107,055	12.1%	66,993	0.1%	6,174,048	12.2%	14.2%	363,037	1,043,565	-	214,103	600,000	\$0.59

SOUTHEAST MARKET CLUSTER: Chandler Airport, Chandler, Chandler N/Gilbert, Falcon Field/Apache Junction, Mesa, Tempe East, Tempe Northwest, Tempe Southwest														
GI	8,835,558	741,521	8.4%	-	8.4%	741,521	8.4%	8.6%	165,952	373,614	-	335,000	316,000	\$0.52
WH	34,951,605	5,230,826	15.0%	209,401	0.6%	5,440,227	15.6%	16.8%	59,862	236,309	-	10,446	-	\$0.50
MF	21,154,100	1,560,044	7.4%	89,800	0.4%	1,649,844	7.8%	6.7%	(195,660)	(92,101)	-	22,724	2,485,000	\$0.59
SC/S	3,183,033	389,742	12.2%	-	0.0%	389,742	12.2%	13.9%	(368)	29,110	-	-	-	\$0.71
FX	13,241,560	2,619,973	19.8%	241,882	1.8%	2,861,855	21.6%	19.4%	44,251	159,689	-	-	-	\$0.92
Total	81,365,856	10,542,106	13.0%	541,083	0.7%	11,083,189	13.6%	13.6%	74,037	706,621	-	368,170	2,801,000	\$0.63

SOUTHWEST MARKET CLUSTER: Goodyear, SW N of Buckeye Road, SW S Buckeye Road, Tolleson, Southwest Outlying														
GI	34,283,647	2,911,531	8.5%	264,190	0.8%	3,175,721	9.3%	16.1%	(415,774)	260,501	-	-	-	\$0.34
WH	31,082,221	4,553,309	14.6%	141,838	0.5%	4,695,147	15.1%	15.9%	196,761	(58,340)	-	-	-	\$0.31
MF	11,289,119	1,892,451	16.8%	458,839	4.1%	2,351,290	20.8%	19.5%	182,205	321,882	-	259,200	-	\$0.32
SC/S	1,540,098	64,819	4.2%	44,220	2.9%	109,039	7.1%	5.6%	(24,020)	(28,325)	80,000	80,000	-	\$0.45
FX	1,325,723	418,774	31.6%	5,833	0.4%	424,607	32.0%	38.8%	91,095	74,668	-	-	-	\$0.74
Total	79,520,808	9,840,884	12.3%	914,920	1.1%	10,755,804	13.4%	16.7%	30,267	570,386	80,000	339,200	-	\$0.34

GRAND TOTAL														
GI	53,081,805	4,635,647	8.7%	423,633	0.8%	5,059,280	9.5%	14.3%	(149,274)	878,686	-	529,262	916,000	\$0.40
WH	124,569,924	17,166,969	13.8%	469,757	0.4%	17,636,726	14.2%	15.2%	463,942	1,152,377	-	50,287	-	\$0.42
MF	53,466,866	5,099,137	9.5%	730,398	1.4%	5,829,535	10.9%	11.3%	232,791	713,163	-	281,924	2,485,000	\$0.45
SC/S	9,977,248	860,794	8.6%	44,220	0.4%	905,014	9.1%	9.5%	(23,294)	(6,284)	80,000	80,000	-	\$0.61
FX	29,203,280	6,211,143	21.3%	297,842	1.0%	6,508,985	22.3%	23.0%	174,553	281,770	-	-	235,000	\$0.87
Total	270,299,123	33,973,690	12.6%	1,965,850	0.7%	35,939,540	13.3%	14.7%	698,718	3,019,712	80,000	941,473	3,636,000	\$0.51

QUARTERLY COMPARISON AND TOTALS														
2012 3Q	270,299,123	33,973,690	12.6%	1,965,850	0.7%	35,939,540	13.3%	14.7%	698,718	3,019,712	80,000	941,473	3,636,000	\$0.51
2012 2Q	270,249,672	34,526,810	12.8%	1,951,998	0.7%	36,478,808	13.5%	-	2,131,925	301,924	-	-	3,115,000	\$0.50
2012 1Q	269,947,748	36,717,497	13.6%	1,946,517	0.7%	38,664,014	14.3%	-	189,069	559,549	-	-	3,416,924	\$0.50
2011 4Q	269,388,199	36,160,044	13.4%	1,937,735	0.7%	38,097,779	14.1%	-	2,571,707	1,115,167	-	-	2,802,273	\$0.49
2011 3Q	268,273,032	38,084,911	14.2%	1,469,408	0.5%	39,554,319	14.7%	-	1,830,196	160,000	-	-	3,917,440	\$0.49

As new, corrected or updated information is obtained, it is incorporated in both current and historical data, which may invalidate comparison to previously issued reports.

GI = General Industrial WH = Warehouse MF = Manufacturing SC/S = Service Center/Showroom FX = Flex

timing of future projects entering the development pipeline.

At the submarket level, the Northwest Valley featured the greatest positive net absorption over the past three months, totaling 363,000 square feet. This absorption was driven in large part by a number of move-ins in the 10,000 square foot to 25,000 square foot range, with a mix between leased space and owner/user acquisitions. These moves, coupled with a lack of new development, have driven vacancy in the Northwest Valley down to 12.2 percent, the lowest rate in Greater Phoenix. Outside of the Northwest Valley, vacancy is in the low- to mid-13 percent range and is trending lower.



PHOENIX INDUSTRIAL MARKET SUMMARY ≥ 10,000 SF

Transaction Velocity:	-11%
Total Dollar Volume:	\$180.9 M
Total Building SF:	3,368,408
Median Price per SF:	\$52
Average Cap Rate:	8.3%

Sales activity slowed during the third quarter, following a more than 60 percent spike in transactions in the second quarter. Despite the decline from the preceding three-month period, transaction activity in the third quarter outpaced levels from the same period in 2011, and year to date, deal flow is up 13 percent. While a few large deals closed during the third quarter, the bulk of the transaction activity was concentrated between \$1 million and \$4 million. These transactions were almost evenly mixed between investment and owner/user acquisitions.

IN THE MONTHS AHEAD

Following a nearly three-year period where deliveries were limited to build-to-suit properties, operating conditions have strengthened to the point where developers are now bringing spec industrial buildings to the market. Recent activity levels suggest sufficient pent-up tenant demand for large blocks of new space, which will support absorption and allow vacancy to continue to creep lower as the economy strengthens. Backfilling of older spaces present some challenges, although continued strengthening in the local housing market should drive absorption of some older and smaller spaces. Current forecasts call for vacancy reach 13 percent at the end of this year, with the rate expected to dip below 12 percent by year end 2013.

522 offices in 62 countries on 6 continents

United States: 147
Canada: 37
Latin America: 19
Asia Pacific: 201
EMEA: 118

- \$1.8 billion in annual revenue
- 1.25 billion square feet under management
- Over 12,300 professionals

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