

PHOENIX INDUSTRIAL MARKET



OVERVIEW

PHOENIX'S VACANCY INCREASES TO 16.7%

Net Absorption Negative (857,858) SF in the Quarter

The Phoenix Industrial market ended the third quarter 2009 with a vacancy rate of 16.7%. The vacancy rate was up over the previous quarter, with net absorption totaling negative (857,858) square feet in the third quarter. Vacant sublease space increased in the quarter, ending the quarter at 2,404,958 square feet. Rental rates ended the third quarter at \$6.90, a decrease over the previous quarter. A total of seven buildings delivered to the market in the quarter totaling 423,381 square feet, with 2,217,512 square feet still under construction at the end of the quarter.

Absorption

Net absorption for the overall Phoenix Industrial market was negative (857,858) square feet in the third quarter 2009. That compares to negative (3,203,657) square feet in the second quarter 2009, negative (1,998,875) square feet in the first quarter 2009, and negative (1,166,773) square feet in the fourth quarter 2008.

The Flex building market recorded net absorption of negative (470,024) square feet in the third quarter 2009, compared to negative (290,173) square feet in the second quarter 2009, positive 81,397 in the first quarter 2009, and negative (252,396) in the fourth quarter 2008.

The Warehouse building market recorded net absorption of negative (387,834) square feet in the third quarter 2009 compared to negative (2,913,484) square feet in the second quarter 2009, negative (2,080,272) in the first quarter 2009, and negative (914,377) in the fourth quarter 2008.

Vacancy

The Industrial vacancy rate in the Phoenix market area

increased to 16.7% at the end of the third quarter 2009. The vacancy rate was 16.3% at the end of the second quarter 2009, 15.2% at the end of the first quarter 2009, and 14.3% at the end of the fourth quarter 2008.

Flex projects reported a vacancy rate of 20.5% at the end of the third quarter 2009, 18.9% at the end of the second quarter 2009, 18.0% at the end of the first quarter 2009, and 17.2% at the end of the fourth quarter 2008.

Warehouse projects reported a vacancy rate of 16.2% at the end of the third quarter 2009, 16.0% at the end of second quarter 2009, 14.7% at the end of the first quarter 2009, and 13.9% at the end of the fourth quarter 2008.

Largest Lease Signings

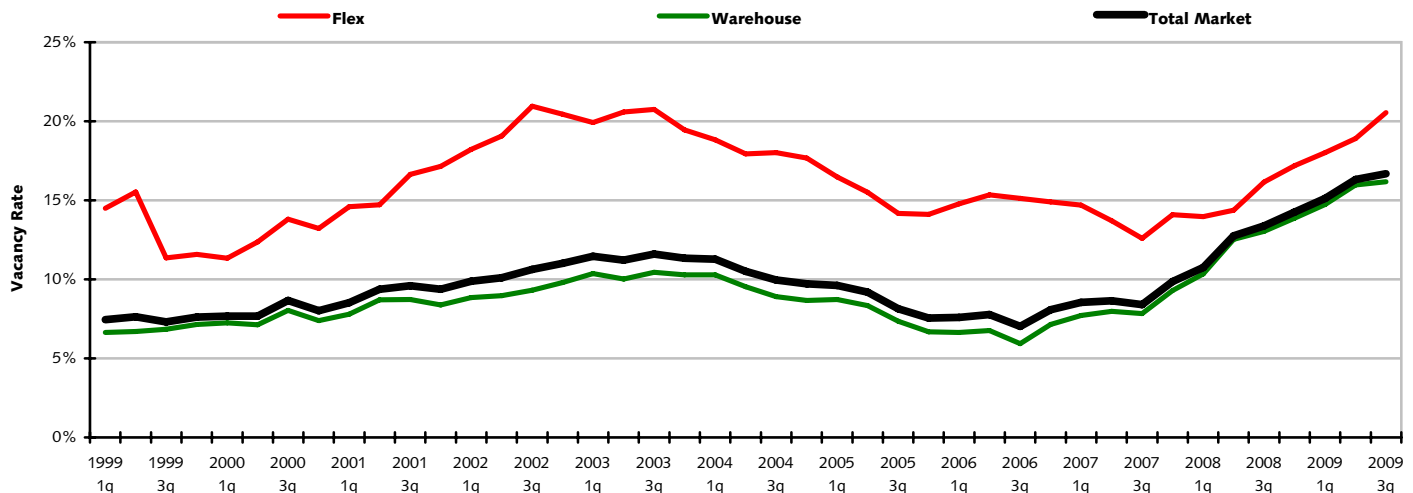
The largest lease signings occurring in 2009 included: the 203,372-square-foot lease signed by PJ Food Service, Inc. at 859 S 86th Ave in the Southwest market; the 168,165-square-foot deal signed by Office Depot Business Services Division at 602 S 63rd Ave in the Southwest market; and the 125,410-square-foot lease signed by The Dump Furniture Outlet at 6655 S Kyrene Rd in the Southeast market.

Sublease Vacancy

The amount of vacant sublease space in the Phoenix market increased to 2,404,958 square feet by the end of the third quarter 2009, from 2,385,454 square feet at the end of the second quarter 2009. There was 2,276,216 square feet vacant at the end of the first quarter 2009 and 1,647,313 square feet at the end of the fourth quarter 2008.

Phoenix's Flex projects reported vacant sublease space of 433,881 square feet at the end of third quarter 2009, up from

VACANCY RATES BY BUILDING TYPE 1999-2009



Source: CoStar Property®

the 369,996 square feet reported at the end of the second quarter 2009. There were 421,674 square feet of sublease space vacant at the end of the first quarter 2009, and 345,005 square feet at the end of the fourth quarter 2008.

Warehouse projects reported decreased vacant sublease space from the second quarter 2009 to the third quarter 2009. Sublease vacancy went from 2,015,458 square feet to 1,971,077 square feet during that time. There was 1,854,542 square feet at the end of the first quarter 2009, and 1,302,308 square feet at the end of the fourth quarter 2008.

Rental Rates

The average quoted asking rental rate for available Industrial space was \$6.90 per square foot per year at the end of the third quarter 2009 in the Phoenix market area. This represented a 3.1% decrease in quoted rental rates from the end of the second quarter 2009, when rents were reported at \$7.12 per square foot.

The average quoted rate within the Flex sector was \$12.26 per square foot at the end of the third quarter 2009, while Warehouse rates stood at \$6.31. At the end of the second quarter 2009, Flex rates were \$12.68 per square foot, and Warehouse rates were \$6.50.

Deliveries and Construction

During the third quarter 2009, seven buildings totaling 423,381 square feet were completed in the Phoenix market area. This compares to six buildings totaling 193,323 square feet that were completed in the second quarter 2009, 13 buildings totaling 545,933 square feet completed in the first quarter 2009, and 1,483,161 square feet in 31 buildings completed in the fourth quarter 2008.

There were 2,217,512 square feet of Industrial space under construction at the end of the third quarter 2009.

Some of the notable 2009 deliveries include: Goodyear Two Expansion, a 306,977-square-foot facility that delivered in third

quarter 2009 and is now 100% occupied, and 2701 E Ryan Rd, a 288,000-square-foot building that delivered in first quarter 2009 and is now 100% occupied.

The largest projects underway at the end of third quarter 2009 were Fowler Distribution Center - Bldg 2, a 1,267,110-square-foot building with 0% of its space pre-leased, and Fowler Distribution Center - Bldg 3, a 682,291-square-foot facility that is 0% pre-leased.

Inventory

Total Industrial inventory in the Phoenix market area amounted to 282,803,072 square feet in 9,470 buildings as of the end of the third quarter 2009. The Flex sector consisted of 32,850,502 square feet in 1,092 projects. The Warehouse sector consisted of 249,952,570 square feet in 8,378 buildings. Within the Industrial market there were 1,766 owner-occupied buildings accounting for 65,113,065 square feet of Industrial space.

Sales Activity

Tallying industrial building sales of 15,000 square feet or larger, Phoenix industrial sales figures fell during the second quarter 2009 in terms of dollar volume compared to the first quarter of 2009.

In the second quarter, 12 industrial transactions closed with a total volume of \$28,061,410. The 12 buildings totaled 423,823 square feet and the average price per square foot equated to \$66.21 per square foot. That compares to 10 transactions totaling \$44,788,622 in the first quarter. The total square footage was 484,060 for an average price per square foot of \$92.53.

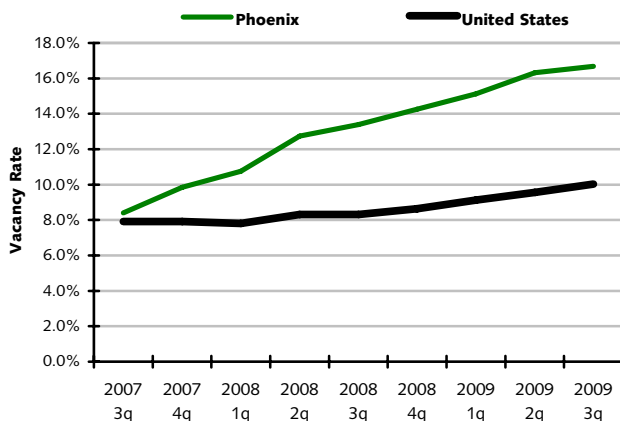
Total year-to-date industrial building sales activity in 2009 is down compared to the previous year. In the first six months of 2009, the market saw 22 industrial sales transactions with a total volume of \$72,850,032. The price per square foot has averaged \$80.24 this year. In the first six months of 2008, the market posted 78 transactions with a total volume of \$549,216,872. The price per square foot averaged \$75.39.

Cap rates have been higher in 2009, averaging 8.39%, compared to the first six months of last year when they averaged 6.93%.

One of the largest transactions that has occurred within the last four quarters in the Phoenix market is the sale of 2501 S Price Rd in Chandler. This 514,149-square-foot industrial building sold for \$18,500,000, or \$35.98 per square foot. This price included a 152-acre site. The property sold on 7/27/2009 and was vacant at time of sale.

U.S. VACANCY COMPARISON

Past 9 Quarters



Source: CoStar Property*

Reports compiled by: Adam Jarrett, CoStar Property® Research Manager; Tom Summers, CoStar COMPS® Research Manager.