

Industrial Market Trends Phoenix

Grubb & Ellis|BRE Commercial, LLC Research

First Quarter 2009



Occupancy Levels Tumble Downward

Executive Summary

The first quarter 2009 saw occupancy levels plummet nearly 1.8 million square feet. The recent construction boom and new existing buildings seem to be fairing well when compared to older buildings as the vast majority of the new leasing activity occurred in more modern buildings aged 2000 and newer. The majority of move-outs occurred in buildings built in the 1990s and older. This leasing activity indicates tenants are moving to new high quality buildings which offer efficiencies, convenience and affordable lease rates. Overall the industrial market is performing very poorly as the current quarter negative net absorption is nearly equal to the entire year of 2008. All of last year the market experienced a net decline in occupancy of roughly 2.2 million square feet.

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Despite seeing decent leasing activity in relatively new buildings the vacancy rates continue to far exceed normal levels due to overbuilding. The current overall vacancy rate is 13.9 percent, which is approaching the all time high recorded vacancy rate of 14.6 percent set in 1993. The first indications of overbuilding began to show in 2007 when almost 10 million square feet was delivered with only 4 million square feet absorbed. Last year the supply disparity grew even more with an additional eleven million square feet delivered. Currently there is only 1.5 million square feet under construction, which demonstrates a sharp decline in construction activity. The bulk of the remaining supply will deliver in 2009 and it is unlikely that construction levels will increase for the next few years.

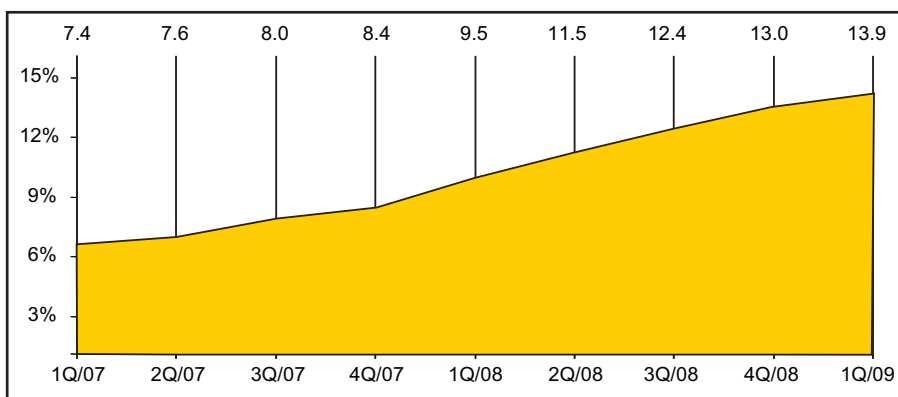
Monthly asking rental rates have softened considerably, the current overall asking rate is \$0.59. One year ago the average asking rental rate was \$0.66. With the abundance of inventory and near record vacancies, asking rental rates will continue to soften in 2009. Concessions and other recent leasing incentive have done little to increase demand.

Phoenix Industrial Market Trends

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Industrial Vacancy Rate*

* All Product Types

Industrial Market Trends First Quarter 2009

The first quarter negative net absorption was near the full year record set in 2008.



Grubb & Ellis | BRE Commercial, LLC is marketing the Broadway 101 Commerce Park, a 52 acre master planned business park, located on Broadway Road, just east of Loop 101 in Mesa. The eleven building project has ±800,000 square feet of of ce/retail, showroom, manufacturing, warehouse, and distribution space available for lease. Developed by Lincoln Property Company & Reef.

Market Overview

The bulk of new completions were in the Chandler submarket, where the overall vacancy rate is up to 13.7 percent. The submarkets with the most square feet under construction are Southwest Phoenix followed by North Glendale, with 1,267,110 and 86,696 square feet respectively. Under construction is down sharply from the previous quarter and will remain relatively flat as vacancies rise and the market begins to bottom out.

Despite the down market, 2 of the 17 submarkets showed improvement over the previous quarter in terms of occupancy levels, Black Canyon and Southwest Phoenix. Of the 17 industrial submarkets, 14 showed double digit vacancy rates. The lowest vacancy rates continued to occur in the West Central and Grand Avenue submarkets, with 7.7 and 8.3 percent respectively. The most significant vacancy rate change occurred in the Scottsdale submarket, where the vacancy rate jumped from 7.9 to 12.0 percent. Despite the down market, R&D/flex vacancy for the overall market decreased 200 basis points from the fourth quarter 2008, which contrasts the trend of all other property types. The greatest change in vacant space occurred in the incubator property type, which increased 180 basis points.

The submarkets with the highest absorption totals were once again Chandler with 290,046 and Southwest Phoenix with 288,986 square feet respectively. The Southwest submarket has the potential to show abnormally large absorption totals due to the majority of industrial properties being warehouse/distribution. The submarkets which lost the most space in the first quarter have been Grand Ave and Sky Harbor Airport, with negative 351,788 and 698,708 square feet respectively. With the exception of R&D/flex and incubator space, all property types in the Grand Ave submarket have suffered an overall loss of space while all property types in the Sky Harbor Airport submarket have lost occupied space. Of the 17 Industrial submarkets, thirteen have experienced a net loss of space in the first quarter of 2009.

Opportunity and Challenges

The biggest challenge facing the industrial market is declining occupancy. In addition to the millions of square feet delivered over the last few years tenants are consolidating or closing and the vacancy rate is far above normal. The near record vacancy rates are not sustainable but it appears high vacancy will remain for the rest of the year. Aggressive renewal options and discounted new deals are being offered for short terms only. For tenants who are looking to lease it will be difficult to negotiate a long term discounted space. Landlords believe the market will rebound in 24-36 months and they are operating with a strategy to maintain ownership.

Forecast

The meager employment forecast for 2009 does not bode well for demand. Even with excellent leasing opportunities, the net absorption forecast is projected to be negative. The first quarter negative net absorption was near the full year record set in 2008. While the slowdown in construction will help level off the rising vacancy rate the market will probably exceed 14 percent vacancy by year end. With the current trends some distressed properties will be taken back by lenders. Opportunity to acquire numerous distressed assets remains to be seen, however it is likely to begin this year.

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Industrial Market Trends First Quarter 2009

Industrial Market Submarket Breakout Phoenix First Quarter 2009

By Submarket* (All Property Types)	Total SF	Vacant SF	Vacant %	Net Absorption		Under Construction	Asking Rent
				Current Qtr.	Year-to-date		
Black Canyon							
General Industrial	2,084,843	143,633	6.9%	(16,576)	(16,576)	-	\$0.62
Incubator	1,381,523	249,113	18.0%	5,659	5,659	-	\$0.80
R&D/Flex	595,581	63,278	10.6%	-	-	-	\$1.47
Warehouse/Distribution	704,826	29,402	4.2%	38,705	38,705	-	\$0.96
Subtotal	4,766,773	485,426	10.2%	27,788	27,788	-	\$0.85
Central Phoenix							
General Industrial	1,840,013	178,620	9.7%	6,060	6,060	-	\$1.13
Incubator	159,539	18,130	11.4%	(2,792)	(2,792)	-	\$0.64
R&D/Flex	129,220	12,000	9.3%	(3,838)	(3,838)	-	\$0.97
Warehouse/Distribution	664,059	44,013	6.6%	(4,609)	(4,609)	-	\$0.72
Subtotal	2,792,831	252,763	9.1%	(5,179)	(5,179)	-	\$1.04
Chandler							
General Industrial	10,760,789	1,097,135	10.2%	(12,898)	(12,898)	-	\$0.75
Incubator	1,365,582	169,050	12.4%	(5,329)	(5,329)	-	\$0.63
R&D/Flex	2,458,835	679,534	27.6%	269,262	269,262	70,000	\$1.06
Warehouse/Distribution	4,814,659	717,444	14.9%	39,011	39,011	-	\$0.78
Subtotal	19,399,865	2,663,163	13.7%	290,046	290,046	70,000	\$0.82
Deer Valley							
General Industrial	6,896,552	681,336	9.9%	(141,593)	(141,593)	-	\$0.64
Incubator	1,630,542	243,860	15.0%	(20,925)	(20,925)	-	\$0.65
R&D/Flex	3,190,559	368,289	11.5%	(23)	(23)	68,569	\$1.04
Warehouse/Distribution	1,507,793	105,137	7.0%	9,246	9,246	-	\$0.77
Subtotal	13,225,446	1,398,622	10.6%	(153,295)	(153,295)	68,569	\$0.78
East Mesa							
General Industrial	1,789,824	604,771	33.8%	-	-	47,621	\$0.65
Incubator	228,064	19,584	8.6%	(9,032)	(9,032)	-	\$0.88
R&D/Flex	747,423	109,324	14.6%	15,147	15,147	-	\$0.88
Warehouse/Distribution	1,185,966	298,731	25.2%	(22,422)	(22,422)	20,206	\$0.72
Subtotal	3,951,277	1,032,410	26.1%	(16,307)	(16,307)	67,827	\$0.70
Gilbert							
General Industrial	1,559,248	316,876	20.3%	(49,076)	(49,076)	-	\$0.48
Incubator	1,278,914	210,966	16.5%	(25,387)	(25,387)	-	\$0.59
R&D/Flex	416,194	9,329	2.2%	13,347	13,347	-	\$1.00
Warehouse/Distribution	1,908,237	148,432	7.8%	(60,949)	(60,949)	-	\$0.54
Subtotal	5,162,593	685,603	13.3%	(122,065)	(122,065)	-	\$0.54
Glendale							
General Industrial	406,651	116,968	28.8%	(22,000)	(22,000)	-	\$1.09
Incubator	186,837	20,150	10.8%	-	-	-	\$0.60
R&D/Flex	294,000	80,209	27.3%	(3,958)	(3,958)	-	\$1.11
Warehouse/Distribution	1,745,669	1,142,352	65.4%	-	-	-	\$0.31
Subtotal	2,633,157	1,359,679	51.6%	(25,958)	(25,958)	-	\$0.42
Grand Ave							
General Industrial	7,714,693	600,202	7.8%	(186,500)	(186,500)	-	\$0.38
Incubator	2,900,091	412,661	14.2%	5,209	5,209	-	\$0.44
R&D/Flex	14,460	3,000	20.7%	4,600	4,600	-	\$0.33
Warehouse/Distribution	9,482,253	646,524	6.8%	(175,097)	(175,097)	-	\$0.22
Subtotal	20,111,497	1,662,387	8.3%	(351,788)	(351,788)	-	\$0.32
North Glendale							
General Industrial	2,101,953	900,065	42.8%	(25,287)	(25,287)	22,000	\$0.83
Incubator	216,630	26,538	12.3%	8,822	8,822	-	\$0.73
R&D/Flex	74,924	-	-	-	-	-	-
Warehouse/Distribution	466,587	153,152	32.8%	(6,839)	(6,839)	64,696	\$0.36
Subtotal	2,860,094	1,079,755	37.8%	(23,304)	(23,304)	86,696	\$0.75
Pinal							
General Industrial	1,094,980	36,430	3.3%	-	-	-	\$0.40
Incubator	59,570	14,000	23.5%	-	-	-	\$0.35
Warehouse/Distribution	2,441,564	378,993	15.5%	-	-	-	\$0.32
Subtotal	3,596,114	429,423	11.9%	-	-	-	\$0.34
Scottsdale							
General Industrial	2,412,516	194,239	8.1%	(94,308)	(94,308)	-	\$1.07
Incubator	634,860	109,325	17.2%	(2,094)	(2,094)	-	\$1.02
R&D/Flex	1,136,021	187,401	16.5%	(71,175)	(71,175)	-	\$1.05
Warehouse/Distribution	359,851	54,220	15.1%	(29,699)	(29,699)	-	\$1.26
Subtotal	4,543,248	545,185	12.0%	(197,276)	(197,276)	-	\$1.06

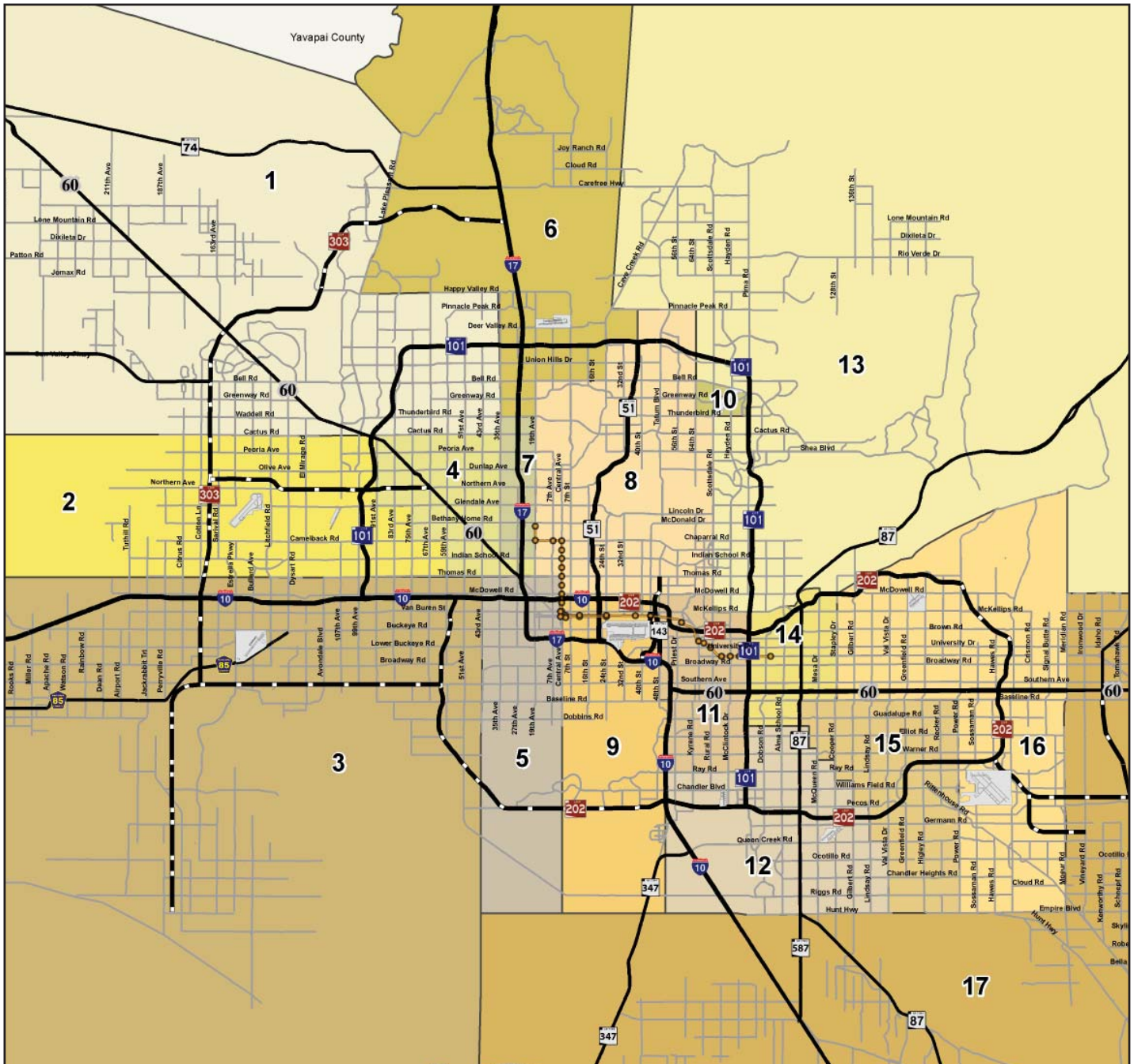
Industrial Market Trends First Quarter 2009

Industrial Market Submarket Breakout Phoenix First Quarter 2009

By Submarket* (All Property Types)	Total SF	Vacant SF	Vacant %	Net Absorption		Under Construction	Asking Rent
				Current Qtr.	Year-to-date		
Scottsdale Airpark							
General Industrial	1,840,829	313,543	17.0%	(80,193)	(80,193)	-	\$0.94
Incubator	3,306,013	542,539	16.4%	(34,380)	(34,380)	-	\$1.03
R&D/Flex	995,450	51,697	5.2%	(1,896)	(1,896)	-	\$3.36
Warehouse/Distribution	1,313,665	203,631	15.5%	(33,446)	(33,446)	-	\$0.91
Subtotal	7,455,957	1,111,410	14.9%	(149,915)	(149,915)	-	\$1.19
Sky Harbor Airport							
General Industrial	18,118,203	1,638,091	9.0%	(399,454)	(399,454)	-	\$0.66
Incubator	4,177,606	491,433	11.8%	(140,428)	(140,428)	-	\$0.64
R&D/Flex	6,402,635	1,014,939	15.9%	(46,752)	(46,752)	-	\$1.20
Warehouse/Distribution	15,861,643	1,563,308	9.9%	(112,074)	(112,074)	-	\$0.47
Subtotal	44,560,087	4,707,771	10.6%	(698,708)	(698,708)	-	\$0.70
Southwest Phoenix							
General Industrial	9,493,196	1,344,322	14.2%	(37,895)	(37,895)	-	\$0.45
Incubator	1,731,283	171,062	9.9%	(28,933)	(28,933)	-	\$0.42
R&D/Flex	266,966	192,329	72.0%	16,280	16,280	-	\$1.16
Warehouse/Distribution	46,725,970	10,377,345	22.2%	339,534	339,534	1,267,110	\$0.39
Subtotal	58,217,415	12,085,058	20.8%	288,986	288,986	1,267,110	\$0.41
Tempe							
General Industrial	14,705,303	925,955	6.3%	(155,390)	(155,390)	-	\$0.68
Incubator	7,526,091	1,035,316	13.8%	(153,528)	(153,528)	-	\$0.61
R&D/Flex	6,773,685	818,867	12.1%	473,945	473,945	-	\$1.12
Warehouse/Distribution	12,262,381	1,482,456	12.1%	(241,516)	(241,516)	-	\$0.52
Subtotal	41,267,460	4,262,594	10.3%	(76,489)	(76,489)	-	\$0.72
West Central Phoenix							
General Industrial	12,219,913	767,091	6.3%	(104,391)	(104,391)	-	\$0.47
Incubator	2,088,305	268,330	12.8%	(120,972)	(120,972)	-	\$0.38
R&D/Flex	82,183	-	-	-	-	-	-
Warehouse/Distribution	13,208,480	1,098,345	8.3%	(96,016)	(96,016)	-	\$0.40
Subtotal	27,598,881	2,133,766	7.7%	(321,379)	(321,379)	-	\$0.42
West Mesa							
General Industrial	2,549,725	564,668	22.1%	(38,107)	(38,107)	-	\$0.69
Incubator	2,026,215	330,900	16.3%	(45,101)	(45,101)	-	\$0.55
R&D/Flex	119,135	53,311	44.7%	(935)	(935)	-	\$0.77
Warehouse/Distribution	2,715,366	629,102	23.2%	(136,750)	(136,750)	-	\$0.59
Subtotal	7,410,441	1,577,981	21.3%	(220,893)	(220,893)	-	\$0.63
By Type (All Submarkets)							
General Industrial	97,589,231	10,423,945	10.7%	(1,357,608)	(1,357,608)	69,621	\$0.64
Incubator	30,897,665	4,332,957	14.0%	(569,211)	(569,211)	-	\$0.65
R&D/Flex	23,697,271	3,643,507	15.4%	664,004	664,004	138,569	\$1.17
Warehouse/Distribution	117,368,969	19,072,587	16.3%	(492,921)	(492,921)	1,352,012	\$0.43
Total	269,553,136	37,472,996	13.9%	(1,755,736)	(1,755,736)	1,560,202	\$0.59

Industrial Market Trends First Quarter 2009

Industrial Submarket Map Phoenix First Quarter 2009



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

Industrial Market Snapshot Phoenix First Quarter 2009

By Submarket (All Property Types)	Total SF(1)	Vacant SF(2)	Vacant %	Net Absorption		Under Construction(3)	Asking Rents	
				Current Qtr.	Year-to-date		WH/Dist	R&D/Flex
Black Canyon	4,766,773	485,426	10.2%	27,788	27,788	-	\$0.96	\$1.47
Central Phoenix	2,792,831	252,763	9.1%	(5,179)	(5,179)	-	\$0.72	\$0.97
Chandler	19,399,865	2,663,163	13.7%	290,046	290,046	70,000	\$0.78	\$1.06
Deer Valley	13,225,446	1,398,622	10.6%	(153,295)	(153,295)	68,569	\$0.77	\$1.04
East Mesa	3,951,277	1,032,410	26.1%	(16,307)	(16,307)	67,827	\$0.72	\$0.88
Gilbert	5,162,593	685,603	13.3%	(122,065)	(122,065)	-	\$0.54	\$1.00
Glendale	2,633,157	1,359,679	51.6%	(25,958)	(25,958)	-	\$0.31	\$1.11
Grand Ave	20,111,497	1,662,387	8.3%	(351,788)	(351,788)	-	\$0.22	\$0.33
North Glendale	2,860,094	1,079,755	37.8%	(23,304)	(23,304)	86,696	\$0.36	-
Pinal	3,596,114	429,423	11.9%	-	-	-	\$0.32	-
Scottsdale	4,543,248	545,185	12.0%	(197,276)	(197,276)	-	\$1.26	\$1.05
Scottsdale Airpark	7,455,957	1,111,410	14.9%	(149,915)	(149,915)	-	\$0.91	\$3.36
Sky Harbor Airport	44,560,087	4,707,771	10.6%	(698,708)	(698,708)	-	\$0.47	\$1.20
Southwest Phoenix	58,217,415	12,085,058	20.8%	288,986	288,986	1,267,110	\$0.39	\$1.16
Tempe	41,267,460	4,262,594	10.3%	(76,489)	(76,489)	-	\$0.52	\$1.12
West Central Phoenix	27,598,881	2,133,766	7.7%	(321,379)	(321,379)	-	\$0.40	-
West Mesa	7,410,441	1,577,981	21.3%	(220,893)	(220,893)	-	\$0.59	\$0.77
Totals	269,553,136	37,472,996	13.9%	(1,755,736)	(1,755,736)	1,560,202	\$0.43	\$1.17
By Property Type (All Submarkets)							Asking Rents	
General Industrial	97,589,231	10,423,945	10.7%	(1,357,608)	(1,357,608)	69,621	\$0.64	
Incubator	30,897,665	4,332,957	14.0%	(569,211)	(569,211)	-	\$0.65	
R&D/Flex	23,697,271	3,643,507	15.4%	664,004	664,004	138,569	\$1.17	
Warehouse/Distribution	117,368,969	19,072,587	16.3%	(492,921)	(492,921)	1,352,012	\$0.43	
Totals	269,553,136	37,472,996	13.9%	(1,755,736)	(1,755,736)	1,560,202	\$0.59	

(1) Inventory includes multi-tenant, single-tenant and owner-occupied buildings with at least 10,000 sq. ft.

(2) Vacant space includes both vacant direct and vacant sublease space.

(3) Space under construction includes speculative and build-to-suit for lease projects.

(4) Asking rates are per square foot per year, triple net. Rates for each building are weighted by the amount of available space within the building.

*Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.

Industrial Market Terms and Definitions

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

Construction Type: Speculative ("spec") construction is designed to attract tenants likely to be in the market when the project is leasing. Build-to-suit construction is designed for a specific tenant.

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

Availability: 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 month. 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.

Average Weighted Asking Rent: An average market rent where the asking rent for each building in the market is weighted by the amount of available space in the building.

