

# Greater Phoenix

Industrial Market Report | Fourth Quarter 2008



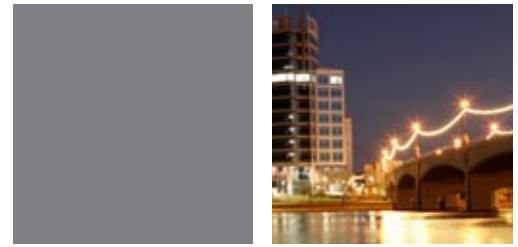
**NAI** Horizon

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## TRENDS:

From 4Q 2007    From 3Q 2008

Vacancy Rate



Net Absorption



Construction



Asking Rents



NAI Global provides access to these useful resources and more, please visit [www.naiglobal.com](http://www.naiglobal.com).

*Global Market Report*

*National Logistics Review*

*International Property Guide*

*NAI Global Property Prices and Trends*

## Economic Outlook:

The slowing economy and continuing constriction of lending have brought new construction to a standstill. Financial institutions remain in turmoil and return to growth probably will not appear until at least late 2009 and most likely 2010.

The availability of distressed properties will bring opportunities to well capitalized investors allowing them to take advantage of reduced pricing not seen in the Phoenix market for several years. This opportunity will continue to gain momentum throughout 2009. As the world's markets begin to stabilize and consumer spending increases the demand for industrial space will follow.

## Industrial Overview:

After the glimmer of positive net absorption of 149,154 square feet in the third quarter the fourth quarter dipped dramatically with an overall negative net absorption of (1,300,394) square feet bringing the 2008 year end absorption rate to negative (2,747,892). The only submarket to post a year end positive net absorption was the Southwest sub market. The Southwest submarket has the highest vacancy rate and the most available space at over 13 million square feet. Companies seeking our cheaper space are finding refuge in this market with low average rates of \$5.26 per square foot. In addition, two large users, Amazon.com and HD Supply, completed transactions resulting in absorption of almost 700,000 square feet.

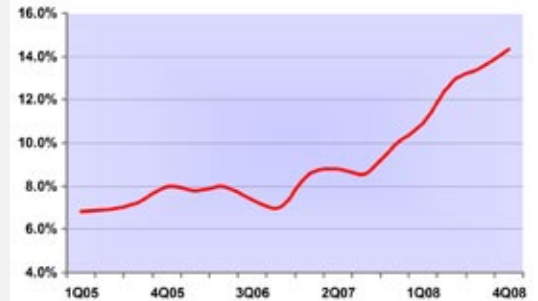
Vacancy rates rose again this quarter to 14.3% up 0.8% from last quarter. Flex projects reported a vacancy rate of 17.5% at the end of the fourth quarter, up from 17.2% last quarter. The warehouse sector reported a vacancy rate of 13.9% at the end of the fourth quarter up from 13.1% in the third quarter.

Vacant sublease space is up to 1,484,792 square feet at the end of the fourth quarter from 1,230,750 square feet in the third.

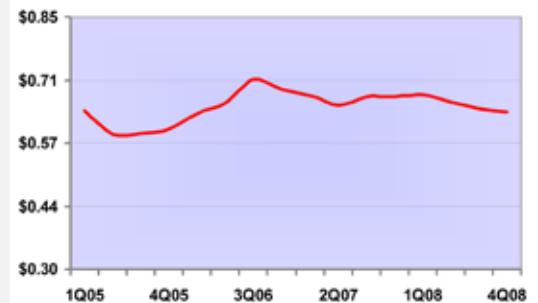
Average Industrial quoted lease rates in the Phoenix market were down only slightly over the last quarter \$7.73 per square foot down from \$7.80 per square foot at the end of the third quarter but have declined by \$.38 per square foot (4.6%) since fourth quarter 2007. Warehouse rates increased by a penny to \$7.03 in the fourth quarter. Flex rates ended at \$13.32 per square foot at the end of the fourth quarter down from \$14.16 per square foot last quarter.

Construction continues to show the permeating effects of a slowing economy. At the end of the fourth quarter the pipeline of construction is just 2,176,502 square feet, down from over 10 million square feet in 2007. Just over one million square feet was completed and delivered in the fourth quarter of 2008. New construction is expected to continue to slow with little or no new construction anticipated in 2009 and continuing until the oversupply of space is absorbed and vacancy rates near the 10% level

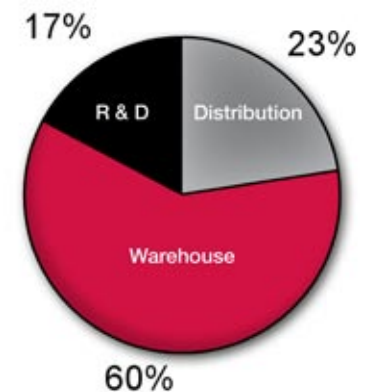
Historical Industrial Vacancy Rate (%)



Avg. Historical Asking Rental Rate

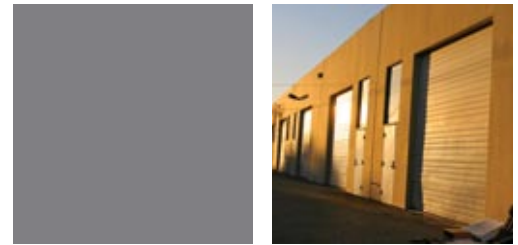


Industrial Inventory by Use



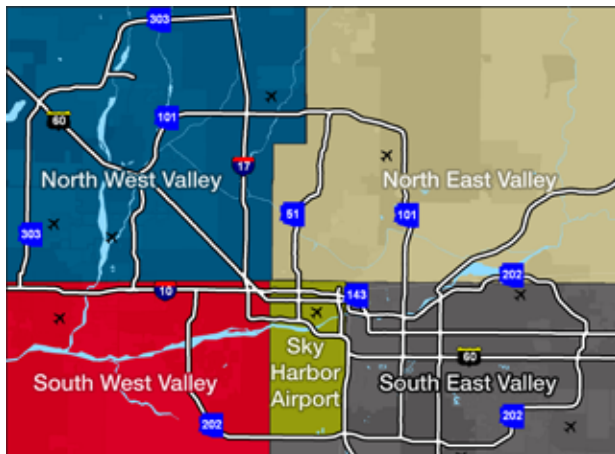
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SUBMARKET	TOTAL RBA (SF)	TOTAL AVAIL. (SF)	VACANCY RATE	TOTAL NET ABSORPTION (SF)	AVERAGE LEASE RATE (\$/SF/MO)	UNDER CONSTRUCTION
North West Valley	54,171,640	7,154,060	13.21%	(1,098,081)	\$0.69	214,865
South West Valley	73,276,637	13,325,225	18.18%	844,248	\$0.44	1,352,110
Sky Harbor Airport	49,901,489	5,767,619	11.56%	(1,051,559)	\$0.70	0
North East Valley	16,200,035	2,034,426	12.56%	(63,843)	\$1.14	217,908
South East Valley	84,747,039	11,566,242	13.65%	(1,378,657)	\$0.78	609,527
<b>Totals</b>	<b>278,296,840</b>	<b>39,847,572</b>	<b>14.32%</b>	<b>(2,747,892)</b>	<b>\$0.64</b>	<b>2,394,410</b>

*Includes multi-tenant, single tenant and owner occupied industrial inventory.*



## Greater Phoenix Industrial Sub-Market Map

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*Some of the information contained herein has been obtained from third party sources deemed reliable, but it has not been independently verified NAI Horizon. NAI Horizon makes no warranties or representations as to the completeness or accuracy thereof. NAI Horizon makes no guarantee about projections, opinions, assumptions or estimates.*

### *NAI Global's Capital Markets Update*

Dr. Peter Linneman, PhD; Chief Economist, NAI Global; Principal, Linneman Associates

"People are looking to move to the 'bright side' of the country, finding areas in the Sun Belt that are warm, dry locations with considerable sun and little snow," said Dr. Peter Linneman. "As young workers seek new opportunities in the South and West, a slow and fundamental shift will occur as grandparents, looking to be close to their families, follow, and businesses reorganize to serve a changing population."

"As the population begins to shift, business will shift with it, driving new construction and infrastructure across the South and West," said Linneman. "As real household incomes increase, tomorrow's typical consumer will be searching for new gadgets, more travel and greater access to healthcare, creating new opportunities for business; access to major air hubs with international connectivity will become increasingly relevant and high-quality medical facilities will emerge throughout the Sun Belt."

*Contact us for a copy of the NAI Global's Capital Markets Update*





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