



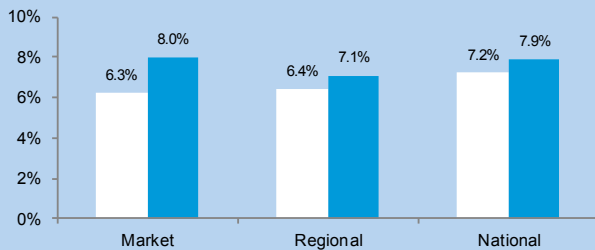
# 2014 MID-YEAR VIEWPOINT

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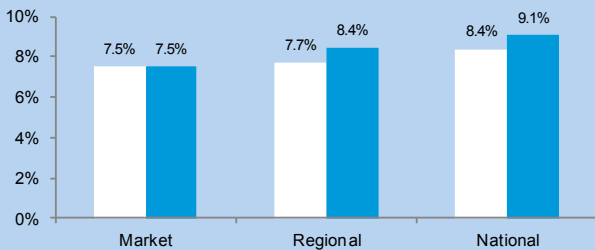
Phoenix, AZ | Industrial

## Industrial Snapshot

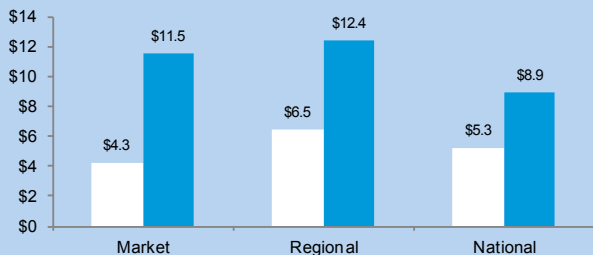
### GOING IN CAP RATES (%)



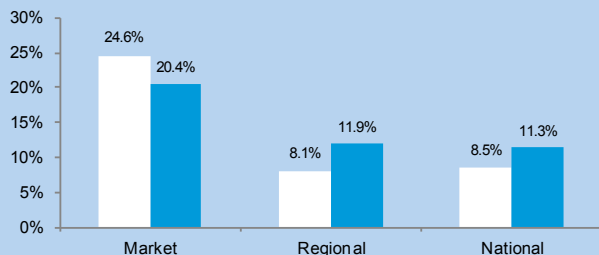
### DISCOUNT RATES (%)



### MARKET RENT (\$/SF)



### VACANCY RATE (%)



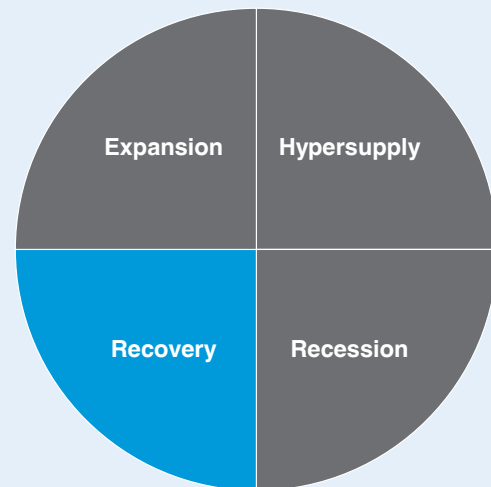
#### Legend

Industrial Class A    Flex Industrial

## Market Commentary

The industrial market's performance indicators in the Phoenix MSA has been relatively static through the first half of 2014. The southwest portion of the metropolitan Phoenix market, along the Interstate 10 and Loop 303 corridors, is a desirable area because it is within five hours driving time of San Bernadino County (Inland Empire) and Los Angeles.

### MARKET CYCLE



#### Market Cycle: Recovery Stage 3

- Decreasing vacancy rates
- Low new construction
- Moderate absorption
- Low/moderate employment growth
- Neg/low rental rate growth

This proximity creates an opportunity for California employers to relocate to the less regulated and less expensive Arizona. The high level of demand seen in 2011 and 2012 in the southwest metropolitan area has leveled out as the major players have either leased or built space over the past 24 months.



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### PHOENIX FORECASTS

Categories	Industrial Class A	Flex Industrial
Going In Cap Rate	Increase 25-49 bps	Increase 25-49 bps
Discount Rate	Increase 50-74 bps	Increase 50-74 bps
Market Rent Change (%)	2.00%	2.00%
Expense Change (%)	2.50%	2.50%
Absorption (SF)	4,000,000	375,000
Construction (SF)	6,000,000	
Tenant Improvement (\$/SF)	\$2	\$5
Years to Balance	4	4

### CHANGE IN VALUE

Time	Industrial Class A	Flex Industrial
Previous 36 Months	Increase 2% - 3.9%	Increase 2% - 3.9%
Previous 12 Months	Remain Steady - no change	Remain Steady - no change
Future 12 Months	Remain Steady - no change	Remain Steady - no change
Future 36 Months	Increase 2% - 3.9%	Increase 2% - 3.9%

### TOP SEVEN CAP RATE FACTORS

- 1 Risk premium of private real estate
- 2 Supply/demand
- 3 Property income growth
- 4 National economic conditions/GDP growth
- 5 Availability of financing
- 6 Interest rates
- 7 Local economy, job growth, unemployment

### About IRR

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### Market Commentary (continued)

At the present time, there is about 12 million square feet of vacant space in the southwest market, up 33% over the past 12 months. In Chandler, Arizona, Intel completed a one million plus square foot building for the manufacturing of computer processors used in desktop computers. However, that market has declined and the Intel facility is vacant as the electronics giant figures out how to re-task the property.

