



A REAL ESTATE SERVICES CO.

METROPOLITAN PHOENIX EAST VALLEY DISTRIBUTION MARKET STUDY FIRST QUARTER 2009

EAST VALLEY DISTRIBUTION Q1 2009 SUMAMRY

Total Buildings in Study	115
Total SF	11,669,119 SF
Available SF	1,840,789 SF
Vacancy	15.9%
Occupied SF	9,808,586 SF
YTD Absorption SF	(523,944)
QTD Absorption SF	(381,411)

MARKET KEY NOTES

- Vacancy shelf life based on the last 10 year average absorption: **10 years**
- Vacancy shelf life based on projected absorption: **6 years**
- Time to reach equilibrium assuming no new construction: **3 Years**
- Time until upward pressure on rents: **4 years**

PRESENTED TO YOU BY:

Curtis Brown
480.362.9501
cbrown@rossbrown.com

Rick Collins
480.362.9503
rcollins@rossbrown.com

Rebecca Fowler
480.362.9520
rfowler@rossbrown.com

MARKET REPORT

Looking back at our Q1 2008 East Valley Distribution report we find the following commentary:

"The current vacancy rate of 11.1% and the sheer number of choices available to prospective lessees will likely result in short term reduction in lease rates. We should have positive absorption for the balance of 2008 resulting in a slight increase in occupied space...by year end. If that continues...landlords will have pricing power sometime around mid-2010. Until then it's time to play some defense".

This prognostication was remarkably "on track" with slightly positive absorption in the 2nd and 3rd Qtr. until disaster struck in Q4. The economic downturn, credit crunch, and confusing reaction by the Fed and our political leadership curtailed expectations across all industry sectors resulting in record negative net absorption in the last quarter of 2008 that continued unabated through Q1 2009 and into today. In fact, nearly all the positive absorption of the last 3 years has been wiped out with the EVD market's occupied SF now at 2006 levels.

Availability has risen to nearly 16% of total inventory and now stands at over 1.8 million SF, the highest on record. 2009 YTD Absorption was hugely negative at minus 523,000 SF, but that figure includes two (2) 150,000 SF+ sub-lease availabilities that are still technically occupied. But before we start belittling the dismal performance of this small sub-market, lets' look at the overall Phoenix MSA performance. The overall Phoenix Industrial market posted **negative net industrial absorption** for the last 6 quarters of around **5 million SF**. Over the same time period the market **added approximately 15 million SF of new inventory**. So the spread between occupied space and total inventory widened by about 20 million SF in 18 months sending the vacancy rate soaring from 8% to 15%.

To put that in perspective, if the market proceeds, from this point forward, to absorb space at a pace equal to the 1997-2007 10 year average it will take over 4.5 years just to close that 20 MSF gap, assuming no new construction for the entire 4.5 years. If you believe, as many do, that future absorption (at least in the near term) will be woefully short of this robust 10 year average, then the 4.5 year estimate should be lengthened accordingly. We can quibble about the precise level of near and long term future absorption, but suffice it to say you would need to be a true wild eyed optimist to suggest that this level of over supply will be soaked up in time to avert serious rent degradation.

Adding additional cold water to an already sopping wet camp fire is what I call the "Under Utilization Effect". We coined this phrase after walking into enough 40,000 SF industrial buildings only to find the tenant using about 30,000 SF. That tenant, hypothetically won't need more space until his business grows by over 33%. We think this phenomenon could be fairly widespread throughout the property markets and as it simply does not show up in the vacancy and availability numbers, could serve to understate the true nature of the over supply.

Now that all the property/asset managers and owners have opened up a vein and slipped in semi-consciousness due to severe blood loss, I'll finish with a ray of sunshine and a glimmer of hope. Remember, if the market is 15% vacant that means it is still 85% occupied. And somewhere in the mix (actually in quite a few places) there are properties that have far more vacancy than 15% due to poor management, inappropriate pricing, bad location, or functional obsolescence (or some combination thereof). So if you recognize your strengths and weaknesses, price your space appropriately, and take care of your customers you should beat the average, attain better occupancy, and live to fight another day.

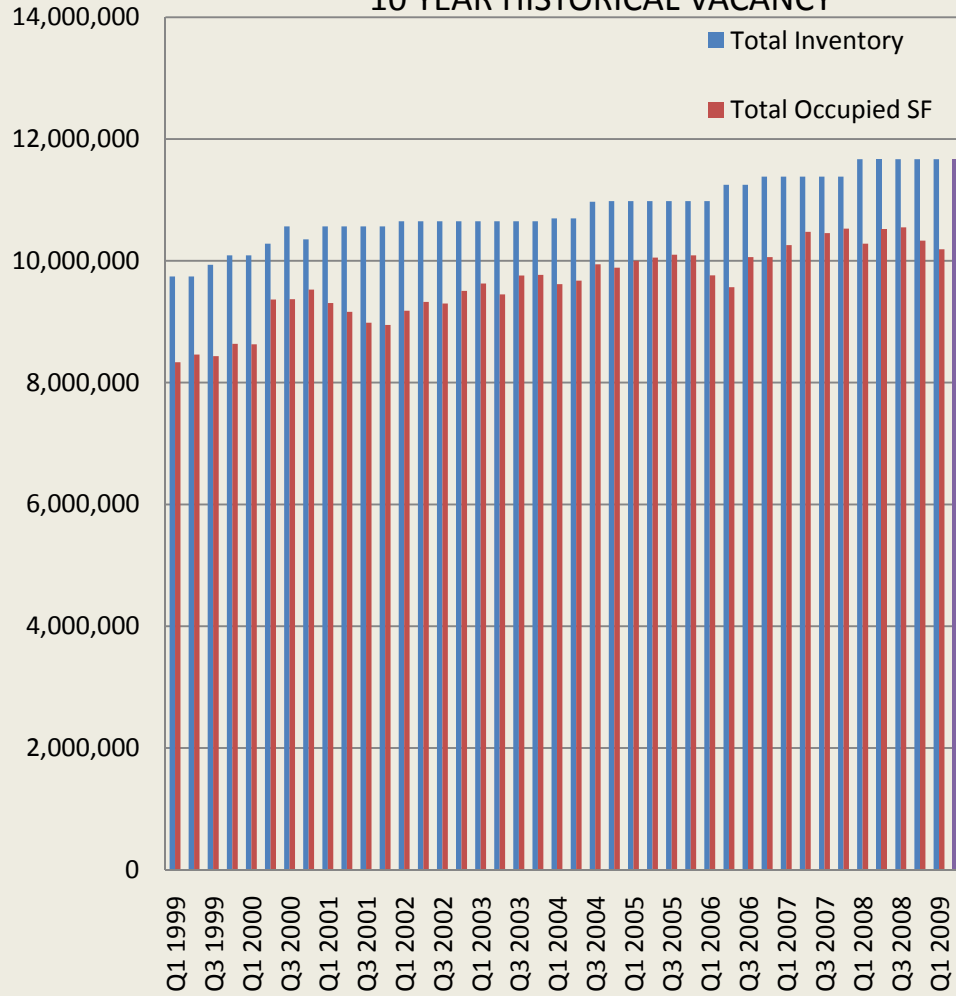


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MARKET METRICS

10 YEAR HISTORICAL VACANCY



10 YEAR HISTORICAL NET ABSORPTION

