



Phoenix

Q3 2017 / Quarterly Industrial Market Report

Market Facts

- 
12.8%
Flex Vacancy
- 
8.4%
Industrial Vacancy
- 
\$12.89
Flex Average Asking Rate
- 
\$6.23
Industrial Average Asking Rate
- 
\$83
Sales Price/Square Foot
- 
7.3%
Industrial CAP Rate

Market Overview

The Phoenix industrial market grew to 331 million square feet (msf) in the third quarter with the overall vacancy rate dropping to 8.8%, 130 basis points lower than third quarter 2016. Average rental rates increased steadily to \$7.05 per square foot (psf) in the third quarter, up from \$6.76 psf year-over-year. Year-to-date absorption continues to be strongly positive, with 6.7 msf absorbed, of which 2.3 msf was in the third quarter. These strong market fundamentals are not surprising given that since August 2016 Phoenix has gained 59,900 jobs and unemployment fell by 50 basis points. Manufacturing employment increased 2.8% in the past 12 months, while trade, transportation and utilities increased 0.7%.

Top Leases

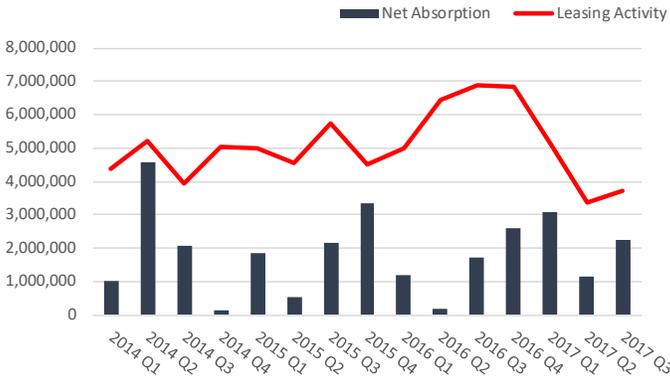
Tenant	Building	Submarket	Square Feet	Type
Amazon	53333 W. Lower Buckeye Rd.	SW South of Buckeye Road	473,209	Distribution
CVS	8585 W. Buckeye Rd.	Tolleson	141,852	Distribution
Aquaflil Carpet Recycling	3555 W. Washington St.	SW North of Buckeye Road	116,890	Warehouse
Modern Industries Areospace	2925 S. Roosevelt St.	Tempe Southwest	101,601	Flex
Bravada Yachts	9310 W. Buckeye Rd.	Tolleson	73,954	Distribution

Top Sales

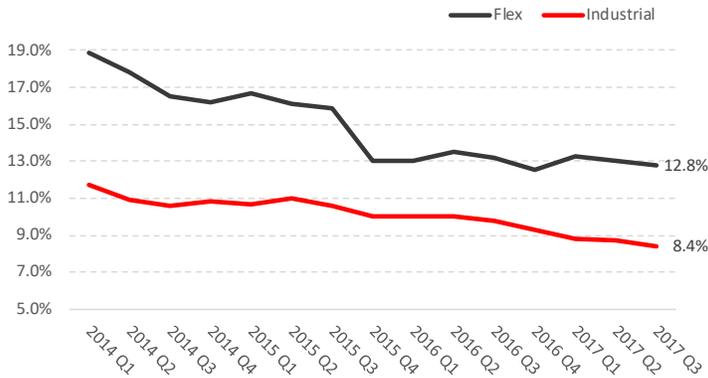
Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
Swire Pacific Holdings Inc.	1850 W. Elliot Rd.	Tempe Southwest	278,966	\$43,532,325	\$76
TA Realty	9160 S. McKemy St.	Tempe Southwest	197,016	\$16,701,629	\$85
Watson Development Company LLC	14647 S. 50th St.	Chandler	134,713	\$16,200,000	\$120
Bailard	7822 S. 46th St.	South Airport South of Roeser	188,142	\$16,100,000	\$86
Nicola Crosby Real Estate Investments	23751 N. 23rd Ave.	Deer Valley/Pinnacle Park	93,700	\$14,175,000	\$151

Market Snapshot

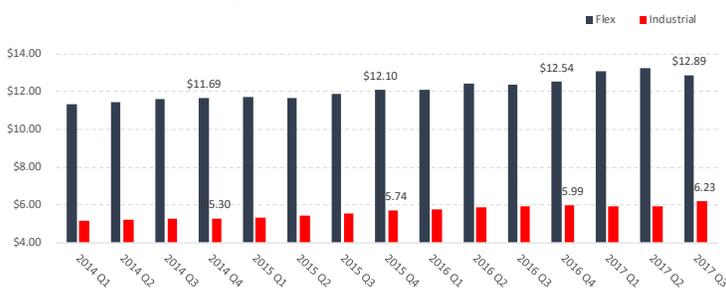
Historical Net Absorption & Leasing Activity



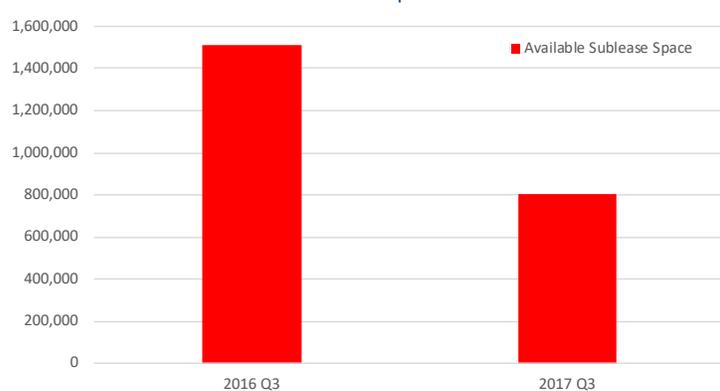
Historical Vacancy



Historical Asking Rental Rate (FSG)



Total Available Sublease Space in the Market



Phoenix's location between southern California ports and eastern destinations, along with reasonably priced commercial land, has led to major speculative and build-to-suit logistic development on the west side of Metro Phoenix. As high-tech companies increasingly flee the high costs of doing business on the West Coast, Phoenix's Flex/R&D sector has experienced historic lows in vacancy and high rents. Intel's Fab facility in Chandler is the company's second largest site in the U.S., with nearly 4 msf and more than 10,000 employees. In the first quarter of 2017, Intel also announced a \$7 billion capital investment plan that will add 3,000 additional jobs. Manufacturing is rebounding in Phoenix as companies are increasingly attracted by business climate in Phoenix. Silent-Aire, an HVAC manufacturer, relocated its 146,000-sf headquarters to Gilbert in the third quarter, which will employ several hundred.

Glendale was the most active submarket in the third quarter of the year, recording 1 msf of positive absorption, approximately 45% of the market's positive absorption. The Scottsdale Airpark had the highest asking rent at \$12.15, while Falcon Field/Apache Junction, West Phoenix North, and south of Thomas Road submarkets reported the lowest vacancy rates, all at or below 3.9%. Of the 13 submarkets with over 10 msf, the Tempe Northwest submarket is the healthiest, with industrial vacancy at 6.3%, flex vacancy at 6.7%, and the highest average rental rate of \$8.74 psf.

4.7 msf of new product was delivered in the Phoenix industrial and flex market through third quarter 2017, with 70.2% leased. Major third quarter deliveries include 2200 S. 43rd Ave. (250,000 sf, 100% leased), 4225 W. Buckeye Rd. (231,000 sf, 100% leased), and 7101 N. Glen Harbor Blvd. (813,000 sf, 100% leased). Over 4.6 msf of industrial/flex space is currently under construction in the region, with 37.9% preleased.

Strong sales activity continued into the third quarter. The largest sale was 1850 W. Elliot Road, a tenant purchase totaling 278,966 sf, which sold for \$43.5 million or approximately \$76 per square foot (psf). Sales transactions rebounded in the third quarter, with dollar volume up 9.6%, square footage volume increasing 10.7%, and a 31.3% increase in total transactions. The price per square foot peaked in fourth quarter 2015 at \$90 psf, declined

to \$73 psf in first quarter 2017, increased to \$77 psf in second quarter 2017, and \$83 in third quarter 2017. There were several other large sales in the third quarter: TA Realty purchased 9160 S. McKemy Street for \$16.7 million (\$85 psf), Watson Development Company acquired 14647 S. 50th Street for \$16.2 million (\$120 psf), and Bailard bought 7822 S. 46th Street for \$16.1 million (\$86 psf).

The healthy national economy continues to support the strengthening fundamentals in the Phoenix industrial market, inspiring steady construction and growing investment. While there is still considerable space to absorb Maricopa County, as reported by the U.S. Census Bureau, is the fastest-growing county in the U.S for annual population growth with an estimated population that now tops 4.2 million. Phoenix is now ranked number six in the top 10 markets to watch for industrial real estate, according to the Phoenix Business Journal.

Market By The Numbers

Market	Total RBA (SF)	Vacancy Space		Vacancy Rate		Available Space		Net Absorption (SF)	Avg. Ask Total (NNN)	Avg. Ask Flex (NNN)	Avg. Ask Industrial (NNN)
		Direct	Sublease	Flex	Industrial	Direct	Sublease				
Central Phoenix	4,160,176	185,935	1,477	4.8%	4.4%	176,783	1,477	18,553	\$10.96	\$15.40	\$8.81
Chandler Airport	3,467,994	802,760	0	40.9%	19.8%	795,498	0	28,957	\$10.17	\$15.49	\$7.97
Chandler	20,684,765	3,449,839	20,000	14.4%	17.3%	1,172,828	0	103,465	\$9.99	\$13.44	\$7.42
Chandler North/Gilbert	19,319,203	1,186,748	102,467	12.0%	5.9%	1,088,309	89,249	46,702	\$7.92	\$11.22	\$7.32
Deer Valley/Pinnacle Park	16,387,494	1,089,794	41,342	3.2%	7.8%	948,416	41,342	164,390	\$8.81	\$12.05	\$8.62
Falcon Field/Apache Junction	4,816,771	186,683	0	14.6%	2.9%	176,089	0	-11,782	\$8.54	\$8.34	\$9.50
Glendale	8,857,749	1,214,872	0	13.4%	13.7%	596,522	0	1,020,068	\$5.61	\$5.60	\$7.20
Goodyear	10,773,110	874,178	0	18.1%	7.9%	872,178	0	-37,181	\$4.67	\$8.59	\$4.56
Grand Avenue	13,239,606	608,521	0	21.2%	4.4%	576,773	0	-74,236	\$5.67	\$15.84	\$5.17
Mesa	7,572,316	325,331	0	2.9%	4.4%	291,005	0	53,755	\$7.92	-	\$7.92
North Glendale/Sun City	3,562,082	183,379	6,200	8.1%	4.9%	162,520	6,200	5,150	\$7.51	\$8.08	\$7.39
North Airport	13,365,124	1,332,026	23,274	23.5%	8.2%	1,218,056	23,274	94,092	\$8.54	\$11.52	\$7.49
North Black Canyon	4,579,765	477,160	0	23.0%	5.6%	467,648	0	-26,117	\$8.43	\$9.01	\$7.69
North Outlying	132,746	0	0	0.0%	0.0%	0	0	0	-	-	-
Northwest Outlying	38,738	0	0	0.0%	0.0%	0	0	0	-	-	-
Pinal County	9,390,885	690,192	9,506	1.5%	7.5%	690,192	9,506	34,186	\$4.62	\$10.00	\$4.59
South Airport North of Roeser	15,730,527	2,360,671	11,283	24.6%	12.9%	2,287,035	11,283	189,816	\$8.81	\$14.34	\$6.96
South Airport South of Roeser	4,545,644	199,986	110,201	30.2%	6.2%	190,646	84,201	-37,597	\$6.57	-	\$6.57
Scottsdale North of Salt River	15,772,655	1,177,437	26,434	11.9%	7.4%	1,053,663	26,434	126,618	\$7.23	\$8.00	\$7.22
Scottsdale South of Salt River	2,395,506	403,143	0	0.0%	17.0%	403,143	0	4,663	\$6.99	-	\$6.99
Scottsdale Airpark	6,856,198	677,148	33,999	12.4%	9.2%	597,527	33,999	-24,914	\$12.15	\$13.33	\$11.19
Scottsdale/Salt River	5,455,250	266,031	0	3.8%	5.4%	258,223	0	112,033	\$11.62	\$12.31	\$11.07
Southwest Outlying	132,833	99,000	0	-	74.5%	99,000	0	-33,000	\$2.40	\$2.40	-
Southwest North of Buckeye Road	32,693,846	2,321,910	6,269	2.9%	7.2%	1,901,285	6,269	263,940	\$4.66	-	\$4.66
Southwest South of Buckeye Road	17,377,551	1,785,667	7,800	17.6%	10.2%	1,494,905	7,800	358,051	\$6.04	-	\$6.04
Tempe East	6,622,957	352,685	282,802	9.5%	9.6%	313,836	282,802	-10,341	\$6.28	-	\$6.28
Tempe Northwest	11,094,173	700,233	10,107	6.7%	6.3%	630,887	10,107	-20,527	\$9.14	\$11.44	\$8.74
Tempe Southwest	21,851,590	1,827,919	95,538	14.5%	7.5%	1,764,945	95,538	-299,117	\$8.31	\$13.59	\$6.66
Tolleson	35,119,169	3,068,622	76,021	3.4%	9.0%	2,694,117	76,021	149,873	\$4.51	\$11.76	\$4.48
West Phoenix North of Thomas Road	8,230,693	245,550	0	2.8%	3.0%	211,025	0	42,658	\$4.72	-	\$4.72
West Phoenix South of Thomas Road	6,960,168	227,377	0	13.2%	3.1%	195,291	0	16,870	\$3.84	-	\$3.84
Total	331,187,284	28,320,797	864,720	12.8%	8.4%	23,328,345	805,502	2,259,028	\$7.05	\$12.89	\$6.23