

Phoenix

Q2 2018 / Quarterly Industrial Market Report

Market Facts

➔ **11.5%**
Flex Vacancy

⬇️ **6.4%**
Industrial Vacancy

⬇️ **\$12.78**
Flex Average Asking Rate

⬆️ **\$6.31**
Industrial Average Asking Rate

⬇️ **\$96**
Average Sale Price/Square Foot

⬆️ **7.0%**
Industrial CAP Rate

Market Overview

The Phoenix industrial market grew to nearly 338 million square feet (msf) in the second quarter from 335 msf in the first quarter of 2018. The overall combined flex and industrial vacancy rate dropped to 6.9%, 30 basis points lower than first quarter 2018. Combined average asking rental rates increased to \$7.03 per square foot (psf) in the second quarter, up from \$6.98 psf first quarter 2017 and \$6.80 psf year-over-year. Quarterly absorption continues to be strong, with almost 2.6 msf absorbed. These strong market fundamentals are expected given that since May 2017 Phoenix has gained 57,000 jobs. Manufacturing employment increased 4.2% in the past 12 months, and trade, transportation and utilities increased 2.9%.

Top Leases

Tenant	Building	Submarket	Square Feet	Type
Blue Buffalo Pet Products, Inc.	16811 W Commerce Dr	Goodyear	540,349	New
PillPack	3809 E Watkins St	North Airport	174,801	New
Ball Manufacturing	PV 303	Glendale	160,000	New
Kitchell Kapture	421 W Alameda Dr	Tempe Southwest	110,088	New
Sky Chef	3555 S 28th St	South Airport North of Roeser	97,456	New

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
Lincoln Property Company	2500 W Frye Rd	Chandler	160,000	\$39,700,000	\$248
AXA Investment Managers - Real Assets	5670 S 32nd St	South Airport South of Roeser	155,114	\$16,837,000	\$109
Meritex Enterprises Inc.	2675 S 16th St	South Airport North of Roeser	130,551	\$15,565,946	\$119
Exeter Property Group	140 W Pinnacle Peak Rd	Deer Valley/ Pinnacle Park	155,025	\$15,063,762	\$97
Bond Filipenko Commercial Properties	11690 N 132nd Ave	Glendale	167,291	\$15,035,000	\$90



Market Snapshot

Phoenix's location between Southern California's ports and eastern destinations, along with reasonably priced commercial land, has led to major speculation and build-to-suit logistic development on the west side of Metro Phoenix. As high-tech companies increasingly flee the high cost of doing business on the West Coast, Phoenix's Flex/R&D Sector has experienced high rents and historic lows in vacancy. 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. Manufacturing is rebounding in Phoenix as companies are increasingly attracted to the favorable business climate and existing manufacturers are expanding. Ball Manufacturing is expanding operations by building a 160,000 sf facility in Glendale, that will deliver in June 2019. Mattress manufacturer King Koil finished its 90,000 sf factory in Avondale, commencing operations in April 2018. Nikola Motor Company selected Buckeye for its hydrogen-electric semi-truck manufacturing headquarters facility. The 500-acre, one msf development will be located on the west side of Phoenix, bringing more than \$1 billion in capital investment to the region by 2024.

The Chandler North/Gilbert Submarket was the most active submarket in the second of quarter 2018, recording 409,000 sf of positive absorption, approximately 16% of the market's positive absorption. The Scottsdale Airpark Submarket had the highest asking rent at \$12.57 psf, while the Chandler North/Gilbert, Grand Avenue, North Glendale/Sun City, Pinal County, Scottsdale North of

Salt River, Scottsdale/Salt River, West Phoenix North of Thomas Road and West Phoenix South of Thomas Road submarkets reported the lowest vacancy rates, all at or below 4.6%. Of the 13 submarkets with over 10 msf, Chandler Industrial Submarket had the healthiest combination of vacancy and rental rates, with industrial vacancy at 4.0%, flex vacancy at 12.0%, and average rental rate of \$9.11 psf.

2.9 msf of new product was delivered in the Phoenix industrial and flex submarkets in the first half of 2018, with 40.7% leased. Major second quarter deliveries include 16560 W. Sells Drive (644,000 sf, 0% preleased), 4455 N. Cotton Lane (490,000 sf, 100% preleased), and 2615 N. Arizona Avenue (254,914 sf, 100% preleased). Nearly 6.5 msf of industrial/flex space is currently under construction in the region, with 37.9% preleased.

Strong sales activity continued into the second quarter, although volumes and pricing declined. The largest sale was Lincoln Property Company buying 2500 W. Frye Road totaling 160,000 sf, for \$39.7 million or approximately \$248 psf. Sales transactions increased 12.1% in the second quarter, with dollar volume down 31.9% and square footage volume down 4.2%. The median price psf reached \$93 in second quarter 2017 and remained in the \$92 to \$95 range through first quarter 2018, before declining to \$87 in second quarter 2018. There were several other large sales in the second quarter: AXA Investment Managers – Real Assets purchased 5670 S. 32nd Street for \$16.8 million (\$109 psf), Meritex Enterprises Inc. acquired 2675 S. 16th Street for \$15.6

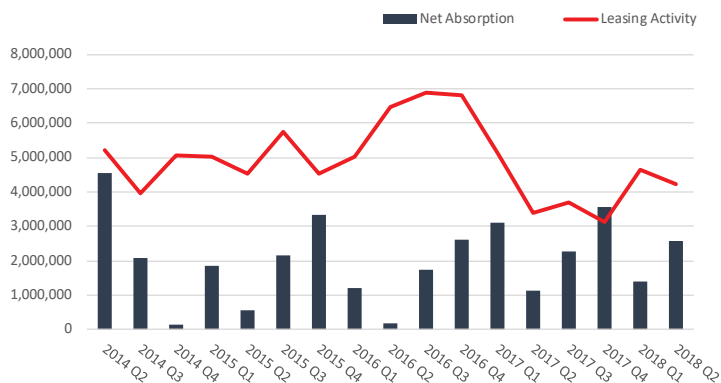
million (\$119 psf), and Exeter Property Group bought 100 W. Pinnacle Peak Road for \$15.1 million (\$97 psf).

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 in Maricopa County, it is the fastest growing county in the U.S. for annual population growth with an estimated population that now tops 4.2 million, as reported by the U.S. Census Bureau. Phoenix is now in the top 10 markets to watch for industrial real estate, according to National Real Estate Investor.

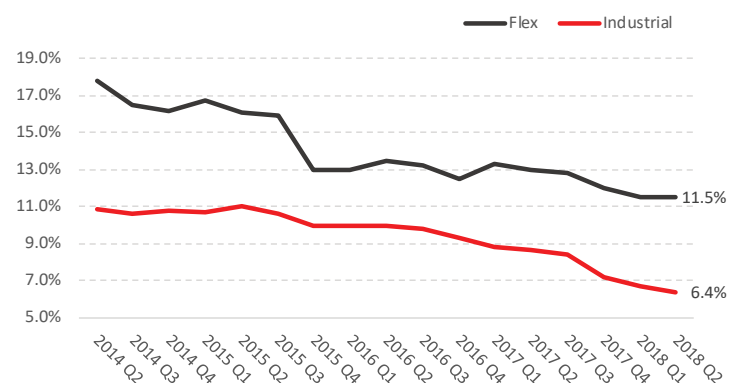


2500 W. Frye Road

Historical Net Absorption & Leasing Activity



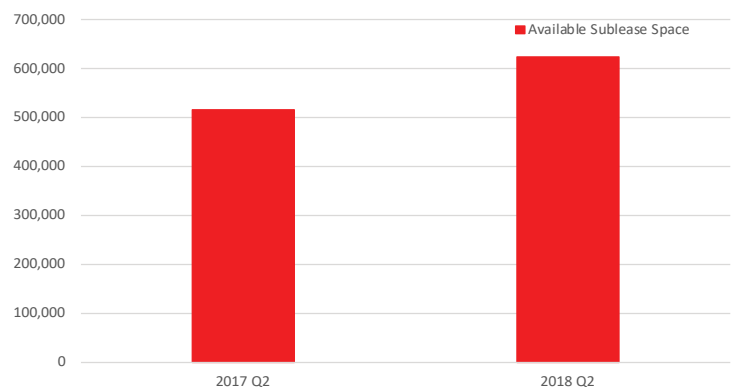
Historical Vacancy



Historical Asking Rental Rate (FSG)



Total Available Sublease Space in the Market



Market By The Numbers

Submarket	Total RBA	Vacancy Space Direct	Available Space Sublease	Vacancy Rate Flex	Vacancy Rate Industrial	Net Absorption (SF)	YTD Net Absorption	Avg. Ask Total (NNN)	Avg. Ask Flex (NNN)	Avg. Ask Industrial (NNN)
Central Phoenix	4,504,707	232,088	0	3.0%	5.8%	-11,033	19,165	\$10.89	\$15.62	\$9.49
Chandler Airport	3,550,050	611,399	4,743	45.9%	11.7%	23,026	204,487	\$11.00	\$16.06	\$8.01
Chandler	21,335,961	1,155,185	18,354	12.0%	4.0%	123,223	42,169	\$9.11	\$14.64	\$7.54
Chandler North/Gilbert	20,071,595	834,553	93,084	9.2%	4.0%	408,753	548,874	\$7.80	\$10.51	\$7.38
Deer Valley/Pinnacle Park	17,146,005	1,424,526	41,306	1.9%	10.1%	160,622	270,755	\$8.69	\$11.92	\$8.50
Falcon Field/Apache Junction	5,047,604	382,539	45,612	12.0%	8.2%	-4,784	53,580	\$8.68	\$9.36	\$8.60
Glendale	10,169,725	1,258,151	0	13.0%	12.4%	737,729	733,484	\$5.15	\$7.20	\$5.15
Goodyear	11,480,951	1,343,162	0	15.8%	11.6%	122,980	182,378	\$4.36	\$4.80	\$4.36
Grand Avenue	13,398,145	531,249	29,140	17.7%	4.0%	-29,647	23,459	\$5.28	\$15.84	\$4.95
Mesa	7,722,469	457,749	5,364	5.8%	6.0%	3,034	-70,533	\$7.28	-	\$7.28
North Glendale/Sun City	3,577,432	117,550	2,442	6.8%	2.8%	48,293	82,334	\$7.89	\$5.94	\$8.64
North Airport	13,559,090	826,605	9,200	13.7%	5.0%	42,552	199,338	\$8.53	\$11.30	\$7.15
North Black Canyon	4,507,689	370,055	2,285	17.7%	5.3%	-40,962	-47,649	\$8.53	\$9.63	\$7.59
North Outlying	136,963	0	0	-	0.0%	0	0	-	-	-
Northwest Outlying	38,738	0	0	-	0.0%	0	0	-	-	-
Pinal County	9,582,849	259,704	38,706	10.5%	3.0%	104,962	107,509	\$4.54	\$10.00	\$4.51
South Airport North of Roeser	15,685,211	1,900,268	29,243	22.9%	10.0%	130,916	67,040	\$8.58	\$13.08	\$6.70
South Airport South of Roeser	4,559,830	200,732	81,351	13.3%	5.9%	1,706	-3,462	\$6.99	\$10.20	\$6.72
Scottsdale North of Salt River	15,613,739	610,760	4,620	10.1%	3.6%	111,774	282,879	\$6.98	-	\$6.98
Scottsdale South of Salt River	2,532,219	405,501	0	0.0%	16.3%	0	5,173	\$6.90	-	\$6.90
Scottsdale Airpark	6,882,884	582,639	36,139	12.9%	6.7%	-40,163	36,372	\$12.57	\$13.47	\$11.59
Scottsdale/Salt River	5,459,613	187,761	0	4.7%	2.8%	58,522	112,099	\$11.77	\$12.42	\$11.35
Southwest Outlying	99,833	33,000	0	-	33.1%	0	0	\$2.40	-	\$2.40
Southwest North of Buckeye Rd	32,869,645	1,565,996	26,665	0.0%	4.9%	21,998	273,317	\$4.79	-	\$4.79
Southwest South of Buckeye Rd	17,905,401	1,235,777	0	17.6%	6.7%	277,173	372,012	\$6.21	-	\$6.21
Tempe East	6,691,784	297,638	6,120	13.3%	2.4%	28,177	83,016	\$7.35	\$10.48	\$7.12
Tempe Northwest	11,133,704	798,491	7,316	11.6%	6.0%	-84,316	13,592	\$9.60	\$12.90	\$8.89
Tempe Southwest	21,581,467	1,631,858	117,360	11.9%	7.3%	327,721	368,898	\$7.52	\$12.52	\$6.40
Tolleson	35,864,337	2,879,916	102,577	3.3%	8.4%	144,264	441,027	\$5.17	\$8.96	\$5.16
West Phoenix North/Thomas Rd	8,283,345	245,750	4,500	4.1%	2.9%	-25,189	-98,751	\$4.71	-	\$4.71
West Phoenix South/Thomas Rd	6,995,005	181,777	0	9.5%	2.5%	-60,021	-38,907	\$5.16	-	\$5.16
Total	337,987,990	22,562,379	706,127	11.5%	6.4%	2,581,310	4,263,655	\$7.03	\$12.78	\$6.31



Intelligent
Real Estate
Solutions

Avison Young

2777 East Camelback Road, Suite 230
Phoenix, AZ 85016
T 480.994.8155 F 480.994.8599
avisionyoung.com



Platinum member