

## Phoenix

## Industrial Market Report Fourth Quarter 2019

### Quick Stats

**12.3 M**

Square feet of industrial space  
set for delivery in 2020

**\$7.50**

Per square foot average asking  
NNN rate for 4Q 2019

**7.8%**

Flex vacancy rate down 230  
basis points over 4Q 2018

**2.1 M**

Square feet overall net  
absorption for 4Q 2019

**\$914.6 M**

Total industrial investment  
sales in the 4Q 2019

### Steady On

The Phoenix Industrial Market finished the year at the head of the property sector pack. Market rents are up, vacancy is tight, and while several spec projects are underway, a market that has historically overbuilt in boom times may be somewhat understocked going into the new decade as demand for turnkey spaces ramps up and inventory moderates.

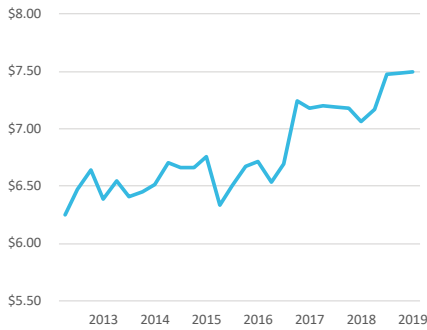
Major players like Nike, Intel, Amazon, and Microsoft made headlines this past year with industrial space acquisitions in Metro Phoenix. The largest move-in happened in the third quarter when Nike occupied a 910,700 sf spec site at Lincoln 40 Logistics in Goodyear.

The completion at the end of the quarter of South Mountain Freeway extending Loop 202 to connect Chandler in the Southeast Valley to I-10, about 7 miles west of downtown Phoenix, is set to alter commuting patterns and facilitates the movement of freight around the congested

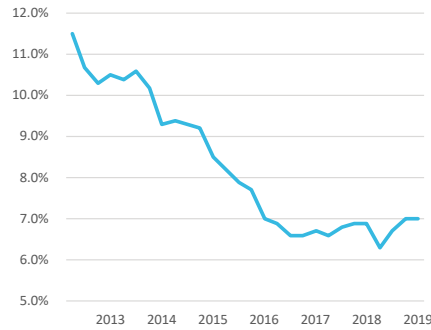
urban core, but its full impact will take time to sort out. It may be a boon to Southwestern and Southeastern industrial submarkets but could adversely effect older stock in more central locations. All of the top five lease deals in 4Q 2019 occurred in close proximity to the I-10/Loop 202 interchange as well as the quarter's top sales transaction, Nuveen Real Estate's purchase of 1.2 million square feet (msf) Amazon Distribution Center at Riverside Industrial Center for \$136 million

Headwinds in the coming year could shake the industrial market. Risk of supply line disruptions in the crossfire of trade disputes, international crises, or an economic speed bump effecting the whole economy. For the moment, though, the sector is enjoying a sweet spot and developers have acted more strategically this cycle to avoid the tendency to overbuild in a boom. The pipeline is robust but not out of line with steady demand and growth projections.

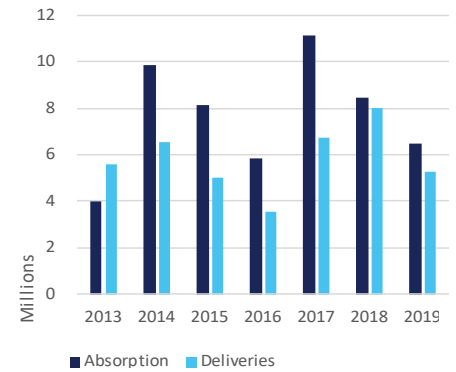
### Rental Rates



### Vacancy Rates



### Absorption & Deliveries



### Top Leases

Tenant	Building	Submarket	Square Feet	Type
Vital Pharmaceuticals	4747 W Buckeye Road	SW S of Buckeye Road	376,760	Direct
Hayward Pools	8175 W Buckeye Road	Tolleson Industrial	359,070	Direct
Delta Apparel	7775 W Buckeye Road	Tolleson Industrial	214,205	Direct
Summit Shipping	670 S 91st Avenue	Tolleson Industrial	185,047	Direct
Toyota	6200 W Van Buren Street	SW N of Buckeye Road	136,808	Direct

### Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
Nuveen Real Estate	Riverside Industrial Center	SW S of Buckeye Road	1,207,021	\$136,040,593	\$113
Lexington Realty Trust (Chewy)	Airport Gateway at Goodyear	Goodyear Industrial	800,000	\$67,002,500	\$84
CBRE Global Investors Ltd	Airport Logistics Center	SC S of Salt River Industrial	393,484	\$38,750,000	\$98
Kohlber Kravis Roberts & Co.	Eastbank Business Park	North Airport Industrial	174,801	\$28,400,000	\$162
JLL Income Property Trust	Chandler Distribution Center	Chandler Airport Industrial	122,247	\$19,022,578	\$156

### Top Projects Under Construction

Property	Submarket	Completion	Total SF	% Preleased/Owned
The HUB at Goodyear	Goodyear Industrial	1Q 2020	790,980	0%
Woolf Logistics Industrial Campus	Glendale Industrial	1Q 2021	700,000	100%
Ferrero USA	Glendale Industrial	2Q 2020	643,798	100%
Goodyear Crossing	Goodyear Industrial	1Q 2020	500,000	100%
SE Indian School Rd & Perryville Rd	Glendale Industrial	2Q 2020	500,000	100%

### Trends to Watch

The challenge to deliver perishable goods has driven innovation in industrial space since ice houses gave way to large-scale refrigeration facilities. Today's consumer wants it fresh and wants it now.



#### Proximity

The logistics of delivering online grocery orders in urban areas means that developers and landlords are carefully calculating how close-in a facility can be built at an affordable cost for fastest delivery.



#### We Are the Robots

To maximize throughput speeds, facilities are employing robotics including automated guide vehicles & storage/retrieval systems. This also means extra safety features must be considered in industrial design.

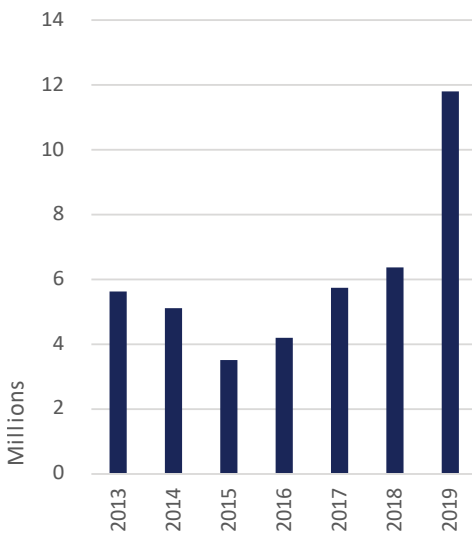


#### Cold Chain Integrity

Extremely high energy demands in cold storage means attention to reducing such costs is paramount. Loading dock seals using a vertical storing leveler prevent exposure to light & heat.

Recent speculative development will likely dampen rent growth in the near term, but demand continues to be strong.

### Under Construction



### Investment Sales



### Rental Rates

Rent growth rates in Metro Phoenix for Industrial space has surpassed the national average but has recently begun to decelerate. Recent speculative development will likely dampen rent growth in the near term, but demand continues to be strong. Average NNN rates across the Metro registered \$7.50 psf for all industrial product. Central Phoenix and Tempe East command the highest flex space rents, and new warehouse product around Chandler Airport, Goodyear, Tolleson, and Surprise pushed rates in these submarkets higher.

### Leasing & Vacancy

Absorption levels have moderated from 2017 peaks when over 11 million square feet (msf) was absorbed. An estimated 6 msf was absorbed in the past 12 months with 4Q absorption at 2.1 msf. Notable move-outs like that of Nestle exiting a 394,780 sf bottled water facility at 43rd Avenue Logistics Center were quickly offset by quick move-ins to vacated space. Vital Pharmaceuticals snapped up the Nestle space along with a 376,760 sf distribution center for its Bang energy drinks.



43rd Ave Logistics Center

Space is tight in the most sought-after markets, but with a number of speculative projects in the pipeline the market appears to be balancing supply and demand decently. The current

average vacancy rate for all industrial sub-sectors is 7%.

### Construction

With the local industrial space in such high demand, developers have ramped up construction. The pipeline of deliveries in this cycle has yet to peak with a number of speculative buildings set to come online in 2020. Activity has been concentrated in the West Valley submarkets with Glendale and Goodyear alone accounting for 45% of the 12.7 msf currently under construction, including the largest project underway in the valley, The Hub at Goodyear, a 790,980 sf speculative distribution center. Significant activity is also happening around Chandler Airport, and plans are moving forward at Phoenix-Mesa Gateway Airport where Skybridge, a cross-border collaboration with Mexico to expedite trade & customs inspections, has broken ground on a 360-acre inland air cargo hub.

### Investment Sales

Sales volume continues to push aside records as 3 msf transacted in the past 12 months, up 28% over last year's highs. Sales price per transaction averaged \$5 million and building size averaged 44,154 sf while sellers commanded an average of \$104 psf. Riverside Industrial Center in the SW S of Buckeye Road Industrial Submarket traded in October as part of a portfolio for \$136 million, or \$113 psf. In November, Chewy, a pet supplies and treat maker, acquired an 800,000 sf distribution facility on 49 acres for \$67 million at Airport Gateway in Goodyear. Deal volume is expected to slow somewhat in the new year, however price per square foot should continue to rise before slowing in 2021.

## Market By The Numbers\*

Submarket	Total RBA (SF)	Vacancy Space Sublease	Vacancy Total Space	Vacancy Rate Flex	Vacancy Rate Warehouse	4Q Net Absorption	Overall Average Ask Total (NNN)	Avg. Ask Flex (NNN)	Avg. Ask Warehouse (NNN)
Central Phoenix Ind	4,573,715	0	121,939	0.9%	3.8%	52,586	\$10.02	\$30.00	\$9.40
Chandler Airport Ind	3,825,000	0	203,456	18.1%	5.0%	57,199	\$8.90	\$17.28	\$8.47
Chandler Ind	22,019,354	27,426	1,493,174	18.7%	4.9%	247,479	\$9.61	\$11.02	\$8.50
Chandler N/Gilbert	21,667,819	286,900	1,240,044	4.8%	8.1%	259,087	\$8.03	\$12.17	\$8.07
Deer Vly/Pinnacle Pk	17,640,342	44,366	848,861	2.8%	6.5%	62,731	\$9.05	\$10.76	\$8.84
Falcon Fld/Apache Jc	5,547,815	53,432	530,566	7.0%	11.5%	126,923	\$8.84	\$10.70	\$9.06
Glendale Ind	10,826,747	0	1,027,928	1.4%	2.7%	247,348	\$5.83	-	\$8.29
Goodyear Ind	13,332,977	68,847	404,188	0.0%	0.8%	303,626	\$4.75	-	\$4.91
Grand Avenue Ind	13,502,723	0	367,543	8.7%	2.7%	31,109	\$5.75	\$16.50	\$5.38
Mesa Ind	7,763,227	18,860	283,690	5.8%	3.5%	(36,447)	\$7.75	\$14.00	\$7.20
North Airport Ind	13,514,632	21,812	514,241	10.4%	3.8%	89,313	\$8.40	\$10.82	\$8.10
North Black Canyon	4,561,590	2,800	291,328	12.8%	4.3%	(229)	\$11.55	\$15.25	\$7.77
North Outlying Ind	148,744	0	0	0.0%	0.0%	0	-	\$0.00	-
Northwest Outlying	38,738	0	0	0.0%	0.0%	0	-	\$0.00	-
Pinal County Ind	9,768,616	0	408,712	0.0%	2.9%	(15,282)	\$7.52	-	\$7.52
S Airport N of Roesse	15,491,794	28,913	970,538	12.8%	3.9%	124,684	\$9.41	\$13.82	\$7.72
S Airport S of Roesse	4,561,774	22,164	179,830	2.7%	3.7%	23,563	\$7.52	\$10.80	\$8.64
SC N of Salt River	16,124,600	0	762,120	3.6%	1.6%	13,314	\$8.28	\$9.19	\$7.73
SC S of Salt River	2,565,500	0	197,242	0.0%	0.2%	(6,242)	\$7.24	-	-
SW N of Buckeye Road	33,739,203	54,528	1,479,641	0.0%	5.5%	79,812	\$5.16	-	\$5.51
SW S of Buckeye Road	18,806,728	0	1,925,492	1.9%	11.1%	62,437	\$6.61	\$7.56	\$8.82
Scottsdale Airpark	6,775,698	4,393	333,188	5.6%	2.8%	(13,524)	\$12.61	\$13.85	\$9.50
Scottsdale/Salt River	5,394,923	11,497	120,555	4.6%	1.7%	(10,152)	\$11.82	\$12.59	\$10.30
Southwest Outlying	99,833	0	0	0.0%	0.0%	0	-	-	-
Surprise	4,193,276	0	131,321	3.7%	1.9%	(19,701)	\$8.39	\$12.14	\$11.41
Tempe East Ind	6,733,133	1,558	228,670	2.1%	4.1%	25,231	\$8.85	\$18.71	\$9.87
Tempe Northwest Ind	11,181,690	14,319	317,175	6.4%	3.0%	109,827	\$9.74	\$13.33	\$8.41
Tempe Southwest Ind	21,466,190	84,497	1,908,622	9.3%	9.2%	83,408	\$8.21	\$11.63	\$6.84
Tolleson Ind	39,853,007	343,345	5,206,100	3.3%	18.3%	226,821	\$5.31	\$11.24	\$5.49
W Phx N of Thomas Rd	8,192,147	0	231,205	3.0%	1.7%	(31,194)	\$5.48	-	\$5.00
W Phx S of Thomas Rd	7,081,962	0	191,549	2.3%	2.5%	(7,940)	\$7.28	-	\$5.23
<b>Total</b>	<b>351,497,497</b>	<b>1,089,557</b>	<b>21,918,918</b>	<b>7.8%</b>	<b>5.8%</b>	<b>2,079,137</b>	<b>\$7.50</b>	<b>\$11.81</b>	<b>\$7.09</b>

\*The data contained in this market report is obtained from The CoStar Group, Inc., and is used under licensed permission. The report is based on all Metro-Phoenix markets for industrial and flex buildings. It includes sublease space only upon the date of availability. Both current and historical data has been adjusted with corrected or updated information, after it was obtained. This may prevent comparison to previously released reports.



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