



# Phoenix

## Q2 2017 / Quarterly Industrial Market Report

### Market Facts

**13.0%**  
Flex Vacancy

**8.7%**  
Industrial Vacancy

**\$13.25**  
Flex Average Asking Rate

**\$5.96**  
Industrial Average Asking Rate

### Market Overview

The Phoenix industrial market grew to 329 million square feet (msf) and the second quarter overall vacancy rate dropped to 9.1%, 130 basis points lower than second quarter 2016. Average rental rates increased steadily to \$6.88 per square foot (psf) in the second quarter, up from \$6.67 psf year-over-year. Year-to-date absorption continues to be strongly positive, with 4.2 msf absorbed, of which 1.1 msf was in the second quarter. Quarterly absorption has been positive since third quarter 2013. These strong market fundamentals are unsurprising given that since May 2016 Phoenix has gained 64,700 jobs and unemployment fell by 10 basis points. Manufacturing, trade, transportation and utilities' employment increased 1.0% in the past 12 months. Phoenix's location between southern California ports and eastern destinations, along with inexpensive commercial land, led to major speculative and build-to-suit logistic development on the west side of the metro, beginning in 2015. As high-tech companies increasingly flee the high cost 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 announced a \$7 billion capital investment plan that will add 3,000 additional jobs.

Goodyear was the most active submarket in the second quarter of the year, recording 290,000 sf of positive absorption, approximately 25% of

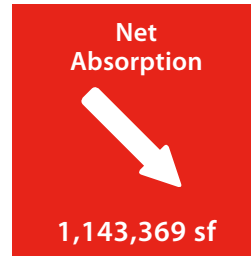
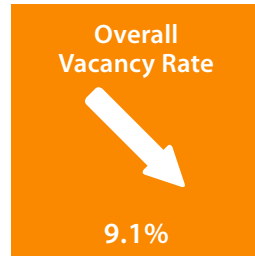
the market's positive absorption. The Scottsdale Airpark had the highest asking rent at \$11.98, while Falcon Field/Apache Junction and the West Phoenix North and South of Thomas Road submarkets reported the lowest vacancy rates, all at or below 3.5%. Of the 13 submarkets with over 10 msf, the Tempe Northwest submarket is the healthiest, with Industrial vacancy at 6.3%, Flex vacancy at 6.0%, and the highest average rental rate of \$9.68 psf.

3.1 msf of new product was delivered in the Phoenix industrial and flex market through mid-year 2017, with 54.5% leased. Over 4.3 msf of industrial/flex space is currently under construction in the region, with 47.3% preleased.

Strong sales activity continued into the second quarter. The largest sale was 402 S. 54th Place, a tenant lease-option purchase totaling 248,900 sf which sold for \$20.5 million or approximately \$82 psf. Although the number of deals fell 16.2%, square footage volume was up 8.4% and dollar volume increased 20.0%. The price per square foot peaked in fourth quarter 2015 at \$90 psf, declined to \$73 psf in first quarter 2017, and increased to \$77 psf in second quarter 2017. There were several other large sales in the second quarter: Colony Northstar Inc. purchased two properties: 420 S. 53rd Avenue was bought for \$10.3 million at \$81 psf, and 1800 S. 7th Avenue for \$9.2 million at \$92 psf.

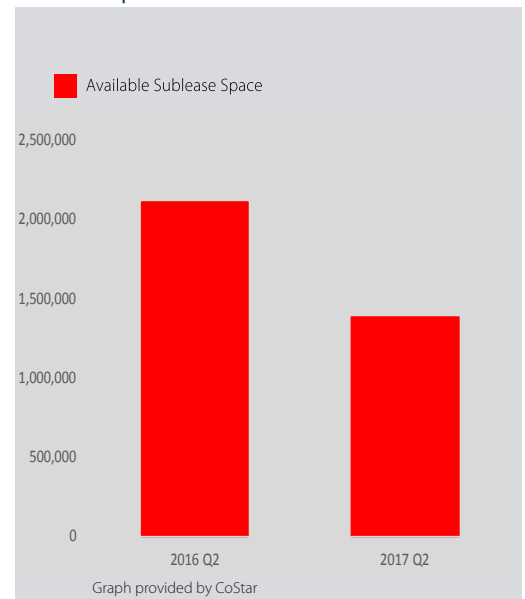
### Market Snapshot

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, and Phoenix is ranked as one of the top 10 markets to watch for industrial real estate, according to the *Phoenix Business Journal*.

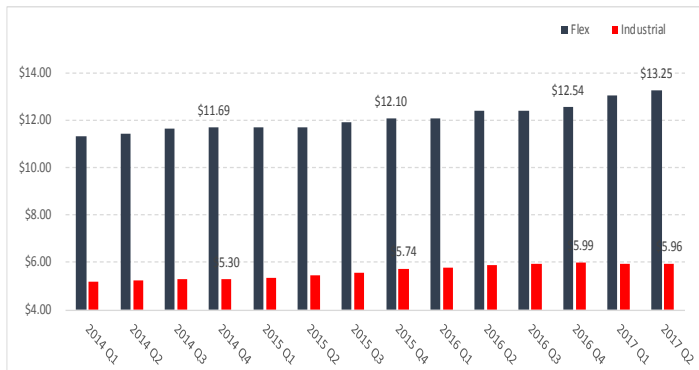


The most expensive sale per square foot of 2Q was 15500 N Greenway-Hayden Loop, a 43,550 sf flex building which sold for \$8.65 million, or approximately \$199 psf.

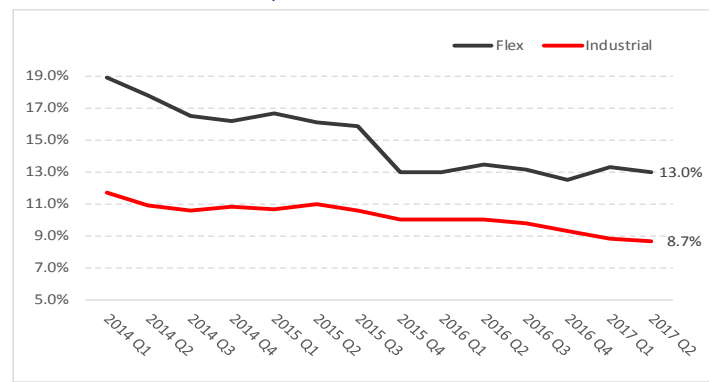
### Total Available Sublease Space in the Market



### Historical Asking Rental Rate (FSG)



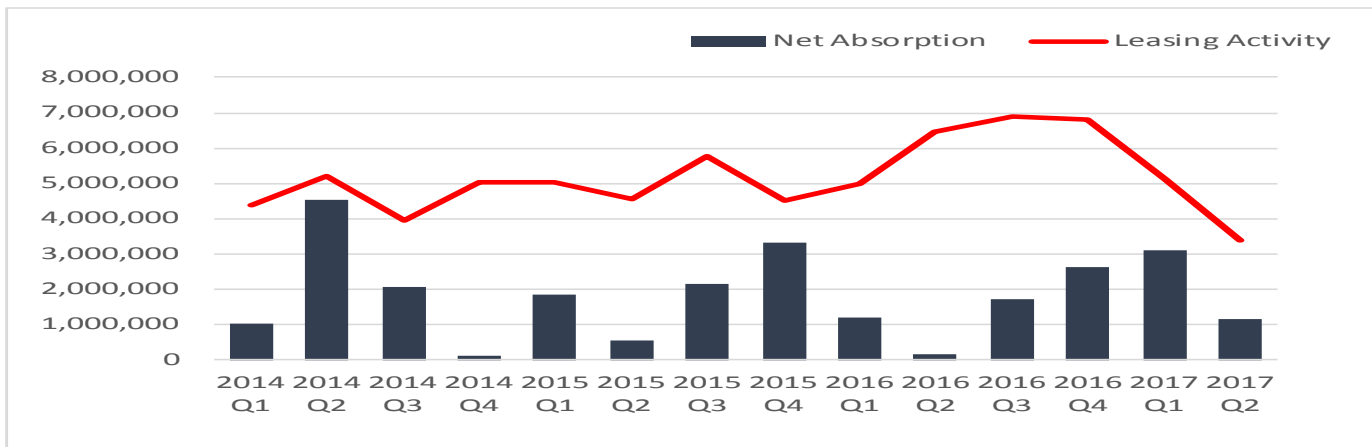
### Historical Vacancy



### 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                   | 4,156,704          | 203,462           | 6,303          | 5.6%         | 4.8%        | 195,241           | 6,303          | 19,280              | \$10.54              | \$14.20             | \$8.74                    |
| Chandler Airport                  | 3,464,835          | 830,717           | 0              | 40.7%        | 20.8%       | 804,398           | 0              | 209,165             | \$10.29              | \$15.51             | \$8.12                    |
| Chandler                          | 20,557,745         | 3,495,322         | 20,000         | 15.8%        | 17.4%       | 1,209,786         | 20,000         | -2,746              | \$9.61               | \$13.18             | \$7.33                    |
| Chandler North/Gilbert            | 19,557,461         | 1,566,063         | 84,134         | 10.8%        | 8.1%        | 1,347,725         | 79,976         | 197,655             | \$8.18               | \$11.95             | \$7.35                    |
| Deer Valley/Pinnacle Park         | 16,341,895         | 1,244,398         | 41,342         | 4.3%         | 8.7%        | 1,042,288         | 41,342         | 55,326              | \$8.99               | \$11.18             | \$8.76                    |
| Falcon Field/Apache Junction      | 4,816,797          | 171,341           | 3,560          | 14.2%        | 2.7%        | 160,978           | 3,560          | 25,923              | \$8.77               | \$9.50              | \$8.40                    |
| Glendale                          | 7,959,133          | 1,350,781         | 0              | 12.6%        | 17.2%       | 653,873           | 0              | 27,959              | \$6.37               | \$55.00             | \$5.60                    |
| Goodyear                          | 10,781,034         | 849,462           | 0              | 12.0%        | 7.8%        | 844,476           | 0              | 290,044             | \$4.65               | \$8.56              | \$4.54                    |
| Grand Avenue                      | 13,223,518         | 532,185           | 0              | 18.2%        | 3.8%        | 506,017           | 0              | 92,883              | \$5.40               | \$14.88             | \$5.21                    |
| Mesa                              | 7,546,789          | 349,987           | 26,299         | 4.2%         | 5.0%        | 318,094           | 26,299         | 43,027              | \$8.29               | -                   | \$8.29                    |
| North Glendale/Sun City           | 3,553,081          | 188,529           | 6,200          | 7.4%         | 5.2%        | 161,514           | 6,200          | 10,244              | \$7.67               | \$8.08              | \$7.60                    |
| North Airport                     | 13,361,471         | 1,381,336         | 33,421         | 21.0%        | 9.1%        | 1,263,282         | 33,421         | 9,899               | \$8.43               | \$11.57             | \$8.43                    |
| North Black Canyon                | 4,576,320          | 451,043           | 0              | 24.1%        | 4.3%        | 434,968           | 0              | -689                | \$8.09               | \$9.14              | \$6.95                    |
| North Outlying                    | 132,746            | 0                 | 0              | -            | 0.0%        | 0                 | 0              | 0                   | -                    | -                   | -                         |
| Northwest Outlying                | 38,738             | 0                 | 0              | -            | 0.0%        | 0                 | 0              | 0                   | -                    | -                   | -                         |
| Pinal County                      | 9,242,569          | 676,684           | 0              | 7.0%         | 7.3%        | 671,584           | 0              | -21,667             | \$4.45               | -                   | \$4.45                    |
| South Airport North of Roeser     | 15,728,734         | 2,556,924         | 5,000          | 26.6%        | 14.0%       | 2,446,514         | 5,000          | 249,725             | \$8.80               | \$14.91             | \$6.94                    |
| South Airport South of Roeser     | 4,522,634          | 170,189           | 100,201        | 19.9%        | 5.6%        | 158,944           | 100,201        | -6,990              | \$6.88               | -                   | \$6.88                    |
| Scottsdale North of Salt River    | 15,680,135         | 1,337,943         | 24,434         | 12.8%        | 8.5%        | 1,232,594         | 24,434         | -4,922              | \$8.00               | \$7.17              | \$7.19                    |
| Scottsdale South of Salt River    | 2,343,829          | 407,806           | 0              | 0.0%         | 17.6%       | 407,806           | 0              | 2,208               | \$6.97               | -                   | \$6.97                    |
| Scottsdale Airpark                | 6,852,483          | 686,233           | 0              | 11.7%        | 9.1%        | 591,000           | 0              | 25,292              | \$11.98              | \$13.05             | \$11.03                   |
| Scottsdale/Salt River             | 5,471,304          | 360,199           | 0              | 5.2%         | 7.3%        | 329,025           | 0              | -14,148             | \$11.64              | \$12.15             | \$10.90                   |
| Southwest Outlying                | 132,833            | 66,000            | 0              | -            | 49.7%       | 66,000            | 0              | 0                   | \$2.40               | -                   | \$2.40                    |
| Southwest North of Buckeye Road   | 32,712,465         | 2,656,563         | 6,193          | 2.9%         | 8.2%        | 2,174,401         | 6,193          | -187,143            | \$4.45               | -                   | \$4.45                    |
| Southwest South of Buckeye Road   | 16,755,079         | 1,630,574         | 7,800          | 43.9%        | 9.1%        | 1,615,574         | 7,800          | 16,915              | \$4.54               | -                   | \$4.54                    |
| Tempe East                        | 6,607,385          | 301,948           | 40,396         | 10.9%        | 3.8%        | 282,050           | 34,226         | 48,374              | \$6.53               | -                   | \$6.53                    |
| Tempe Northwest                   | 11,090,115         | 689,813           | 0              | 6.0%         | 6.3%        | 656,287           | 0              | 76,003              | \$9.68               | \$13.60             | \$8.65                    |
| Tempe Southwest                   | 21,850,943         | 1,551,831         | 34,703         | 12.1%        | 6.2%        | 1,477,231         | 34,703         | 54,459              | \$8.24               | \$13.25             | \$6.64                    |
| Tolleson                          | 35,119,059         | 3,268,495         | 111,044        | 3.4%         | 9.7%        | 2,880,143         | 111,044        | 16,961              | \$4.52               | \$11.76             | \$4.50                    |
| West Phoenix North of Thomas Road | 8,214,927          | 288,208           | 0              | 3.3%         | 3.5%        | 258,554           | 0              | -13,134             | \$3.43               | -                   | \$3.43                    |
| West Phoenix South of Thomas Road | 6,940,393          | 239,147           | 4,100          | 1.2%         | 3.5%        | 226,627           | 0              | -76,534             | \$3.89               | -                   | \$3.89                    |
| <b>Total</b>                      | <b>329,333,154</b> | <b>29,503,183</b> | <b>555,130</b> | <b>13.0%</b> | <b>8.7%</b> | <b>24,416,974</b> | <b>540,702</b> | <b>1,143,369</b>    | <b>\$6.88</b>        | <b>\$13.25</b>      | <b>\$5.96</b>             |

### Historical Net Absorption & Leasing Activity



### Top Leases

| Tenant  | Building              | Submarket                       | Square Feet | Type    |
|---|-----------------------|---------------------------------|-------------|---------|
| Udike Distribution Logistics                  | 1010 N 47th Ave       | Southwest North of Buckeye Road | 226,436     | New     |
| Pre-Leased at ProLogis Riverside Distribution | 4225 W Buckeye Rd     | Southwest South of Buckeye Road | 116,769     | New     |
| PureCare                                      | 1402 S 40th Ave       | Southwest South of Buckeye Road | 100,843     | Renewal |
| MXD Group                                     | 440-444 W Fairmont Dr | Tempe Southwest                 | 83,280      | Renewal |
| Ewing Irrigation                              | 860 S 83rd Ave        | Tolleson                        | 81,000      | New     |

### Top Sales

| Building                     | Buyer                  | Submarket                       | Square Feet | Sale Price   | Price/SF |
|------------------------------|------------------------|---------------------------------|-------------|--------------|----------|
| 402 S 54th Pl                | Youngs Market Company  | Tempe Northwest                 | 248,900     | \$20,500,000 | \$82     |
| 420 S 53rd Ave               | Colony Northstar, Inc. | Southwest North of Buckeye Road | 127,680     | \$10,300,000 | \$81     |
| 1800 S 7th Ave               | Colony Northstar, Inc. | Scottsdale North of Salt River  | 101,310     | \$9,175,288  | \$91     |
| 15500 N Greenway-Hayden Loop | MB Investments         | Scottsdale Airpark North        | 43,550      | \$8,650,000  | \$199    |
| 20601 N 19th Ave             | Kevin B Pshebniski     | Deer Valley/Pinnacle Park       | 57,731      | \$8,225,000  | \$142    |



#### Avison Young

2777 East Camelback Road, Suite 230  
 Phoenix, AZ 85016  
 T 480.994.8155 F 480.994.8599  
[avisionyoung.com](http://avisionyoung.com)