

# Phoenix Industrial

## Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



## Notable Lease Transactions

**Sherwood Bedding**  
9310 W Buckeye Road  
Tolleson  
142,146 s.f. leased

**Valassis Communications, Inc.**  
1818 E Riverview Drive  
S Airport N of Roeser  
135,968 s.f. leased

**Express Scripts, Inc.**  
7909 S Hardy Drive  
Tempe Southwest  
125,675 s.f. leased

**Hensley Beverage Company**  
4450 N 45th Avenue  
Grand Avenue  
112,669 s.f. leased

The Phoenix industrial real estate market started 2016 with nearly 1.9 million square feet of net absorption, despite vacancy and rental rates remaining steady. Market-wide direct vacancy rates retained the rate of 10.3%, a result of considerable leasing activity this quarter balancing out over two million square feet of construction deliveries. With growing demand, the market continues to tighten, and we expect increased competition for space and the resulting higher rates to continue in 2016. The Phoenix unemployment rate sits at 5.0%, a significant decrease from the 5.7% recorded in December. The strong local economy and job creation should drive real estate market growth for many quarters to come.

The submarket clusters with the highest direct vacancy rates include Southwest Outlying at 52.9%, Southwest at 12.5%, and Southeast with 10.6%. Clusters with the least vacant space include Northwest at 7.2%, and Pinal and Northeast, each at 7.4%. The 1.9 million square feet of direct net absorption was the highest number recorded in the first quarter since 2002. With over three million square feet of industrial space under construction, new deliveries in the rest of 2016 could temporarily ease the gradually tightening market.

Asking rental rates for all industrial properties continued their slow upward crawl, reaching \$0.54 per square foot on a triple-net basis, a level not seen since the fourth quarter of 2009. This represents a 4% year-over-year increase in rates. Asking rates are highest in Northeast-cluster submarkets, at an average of \$0.91 per square foot, because a larger share of the industrial stock there is comprised of flex properties. By contrast, the lowest rates are found in Southwest Outlying,

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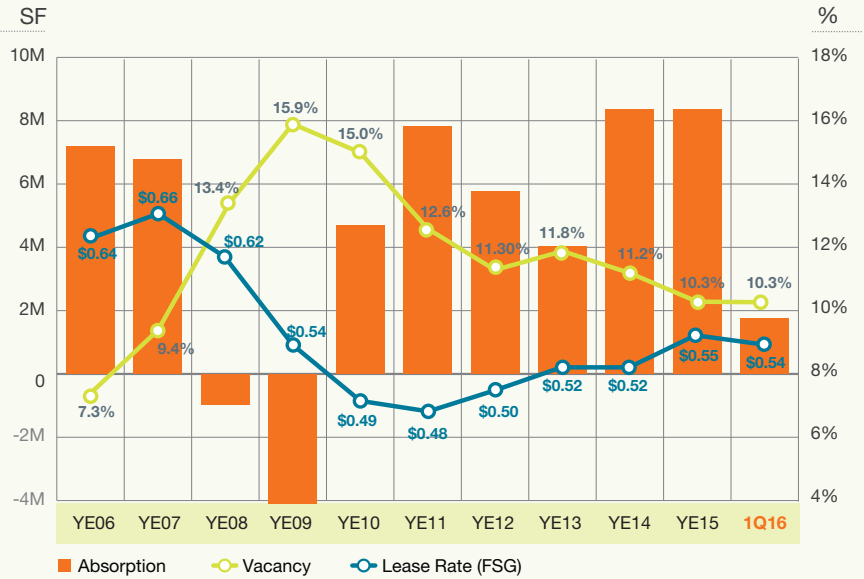
which reported an average asking rent of \$0.20 per square foot, on a triple-net basis. Across the Phoenix market, asking rental rates for warehouse and distribution space averaged \$0.50 per square foot, while flex spaces are on the market for an average \$1.01 per square foot.

Flex properties had a slow start to the year with only 212,000 s.f. absorbed, dropping vacancy down to 13.2% from 14.0% last quarter. Meanwhile, the manufacturing and warehouse market was active this quarter, with 700,000 s.f. of positive net absorption lowering direct vacancy 100 basis points to 9.2% from 10.2% at the end of 2015.

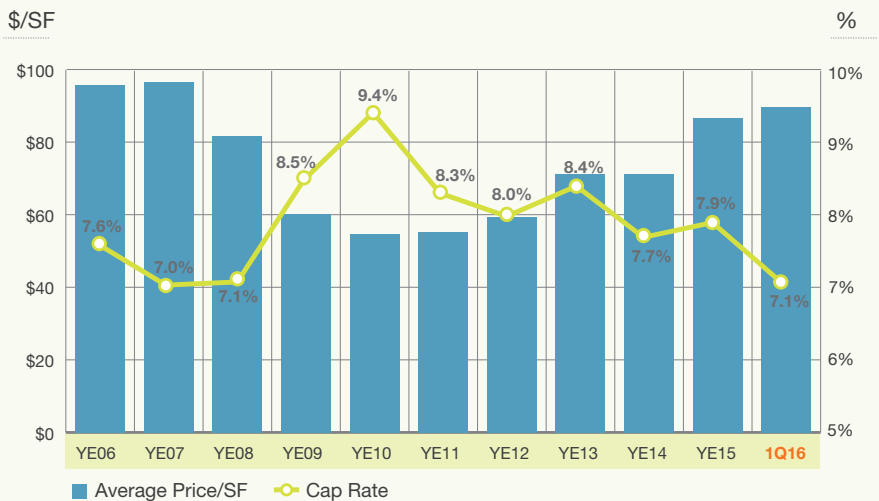
Investment sales activity remained strong with dollar volume in the first quarter reaching \$134 million, an improvement over the \$116 million worth of industrial real estate that transacted in first quarter 2015. The average sale price for industrial investment assets was \$85 per square foot. Average cap rates decreased from 7.2% in the fourth quarter to 7.1%

Data Source: CoStar

### Net Absorption, Vacancy & Rental Rates



### Average Sales Price / Cap Rates



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# 1st Quarter 2016 Phoenix Industrial Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	QTR Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	YTD Construction Completions	QTR Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
North Airport	11,856,348	12.8%	0.7%	13.5%	50,687	50,687	64,014	0	79,169	79,169	\$0.71
South Airport North of Roeser	14,281,177	12.5%	0.4%	12.9%	164,605	164,605	117,336	420,955	41,188	41,188	\$0.70
South Airport South of Roeser	4,234,929	2.7%	0.7%	3.4%	44,411	44,411	0	0	0	0	\$0.62
SC North of Salt River	14,225,431	8.6%	0.2%	8.8%	(22,411)	(22,411)	392,480	0	68,628	68,628	\$0.70
SC South of Salt River	1,673,169	1.5%	0.0%	1.5%	0	0	393,292	0	0	0	\$0.45
<b>Airport Area</b>	<b>46,271,054</b>	<b>10.1%</b>	<b>0.4%</b>	<b>10.5%</b>	<b>237,292</b>	<b>237,292</b>	<b>967,122</b>	<b>420,955</b>	<b>188,985</b>	<b>188,985</b>	<b>\$0.70</b>
Central Phoenix	3,138,352	4.7%	0.0%	4.7%	14,837	14,837	0	0	3,695	3,695	\$0.83
Scottsdale Airpark	6,655,990	9.8%	1.1%	10.9%	(12,126)	(12,126)	0	0	65,503	65,503	\$0.94
Scottsdale/Salt River	5,183,667	6.0%	0.1%	6.0%	46,062	46,062	0	0	21,995	21,995	\$0.85
<b>Northeast</b>	<b>14,978,009</b>	<b>7.4%</b>	<b>0.5%</b>	<b>7.9%</b>	<b>48,773</b>	<b>48,773</b>	<b>0</b>	<b>0</b>	<b>91,193</b>	<b>91,193</b>	<b>\$0.91</b>
Deer Valley/Pinnacle Park	14,839,331	9.0%	0.1%	9.0%	(28,003)	(28,003)	0	220,279	168,875	168,875	\$0.74
Glendale	6,613,888	10.9%	0.0%	10.9%	387,307	387,307	384,377	400,000	3,065	3,065	\$0.43
Grand Avenue	11,841,249	4.0%	0.2%	4.1%	92,840	92,840	367,963	0	19,255	19,255	\$0.44
North Glendale/Sun City	2,936,996	6.4%	0.0%	6.4%	79,781	79,781	0	0	35,420	35,420	\$0.63
North Black Canyon	4,015,381	11.0%	0.0%	11.0%	(33,936)	(33,936)	0	0	17,122	17,122	\$0.72
West Phoenix North of Thomas Rd	7,034,717	5.2%	0.3%	5.5%	(164,124)	(164,124)	0	0	35,213	35,213	\$0.33
West Phoenix South of Thomas Rd	6,374,424	5.4%	0.0%	5.4%	8,706	8,706	0	0	7,158	7,158	\$0.42
<b>Northwest</b>	<b>53,655,986</b>	<b>7.2%</b>	<b>0.1%</b>	<b>7.3%</b>	<b>342,571</b>	<b>342,571</b>	<b>752,340</b>	<b>620,279</b>	<b>286,108</b>	<b>286,108</b>	<b>\$0.60</b>
<b>Pinal County</b>	<b>8,129,879</b>	<b>7.4%</b>	<b>0.1%</b>	<b>7.5%</b>	<b>48,772</b>	<b>48,772</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>\$0.31</b>
Chandler Airport	2,986,212	28.0%	0.4%	28.4%	81,476	81,476	138,852	210,926	41,073	41,073	\$0.69
Chandler	20,157,346	18.1%	1.0%	19.1%	(8,914)	(8,914)	190,794	0	56,972	56,972	\$0.68
Chandler North/Gilbert	17,305,456	7.5%	0.5%	8.1%	230,835	230,835	574,709	0	135,290	135,290	\$0.67
Falcon Fld/Apache Junction	4,075,286	6.1%	0.0%	6.1%	20,236	20,236	0	0	95,783	95,783	\$0.56
Mesa	6,282,223	8.1%	0.4%	8.5%	19,931	19,931	0	0	133,863	133,863	\$0.62
Tempe East	5,601,920	4.4%	2.4%	6.8%	31,124	31,124	72,000	0	121,134	121,134	\$0.53
Tempe Northwest	10,645,866	9.7%	0.1%	9.9%	25,288	25,288	0	255,000	66,167	66,167	\$0.63
Tempe Southwest	21,187,666	7.3%	0.2%	7.5%	54,781	54,781	0	0	265,380	265,380	\$0.71
<b>Southeast</b>	<b>88,241,975</b>	<b>10.6%</b>	<b>0.6%</b>	<b>11.2%</b>	<b>454,757</b>	<b>454,757</b>	<b>976,355</b>	<b>465,926</b>	<b>915,662</b>	<b>915,662</b>	<b>\$0.67</b>
Goodyear	9,659,376	8.3%	4.8%	13.0%	30,325	30,325	350,000	0	6,397	6,397	\$0.40
Southwest North of Buckeye Rd	32,052,924	11.3%	0.1%	11.4%	(75,893)	(75,893)	0	0	276,063	276,063	\$0.38
Southwest South of Buckeye Rd	16,069,713	16.4%	0.6%	17.0%	28,395	28,395	0	57,000	63,921	63,921	\$0.38
Tolleson	33,622,598	12.9%	0.2%	13.1%	743,869	743,869	0	447,669	275,451	275,451	\$0.38
<b>Southwest</b>	<b>91,404,611</b>	<b>12.5%</b>	<b>0.7%</b>	<b>13.2%</b>	<b>726,696</b>	<b>726,696</b>	<b>350,000</b>	<b>504,669</b>	<b>621,832</b>	<b>621,832</b>	<b>\$0.38</b>
<b>Southwest Outlying</b>	<b>124,857</b>	<b>52.9%</b>	<b>0.0%</b>	<b>52.9%</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>\$0.20</b>
<b>Phoenix Total</b>	<b>302,806,371</b>	<b>10.3%</b>	<b>0.5%</b>	<b>10.8%</b>	<b>1,858,861</b>	<b>1,858,861</b>	<b>3,045,817</b>	<b>2,011,829</b>	<b>2,103,780</b>	<b>2,103,780</b>	<b>\$0.54</b>