

# Phoenix Industrial

## Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



## Notable Transactions

**Nestle Water**  
1635 S 43rd Ave., SW S of Buckeye Road  
395,000 s.f. leased

**Express Messenger Services**  
7400 W Buckeye Rd., Tolleson  
236,000 s.f. leased

**Dexcom**  
232 N Dobson Rd., Mesa  
149,000 s.f. leased

**Valassis**  
1818 E Riverview Dr., S Airport N of Roeser  
136,000 s.f. leased

The Phoenix industrial market ended the second quarter with nearly four million square feet of leasing activity, decreasing vacancy and increasing rental rates. The market-wide vacancy rate decreased to 10.7%, a result of the considerable leasing activity this quarter balancing out over one million square feet of construction deliveries. With growing demand the market continues to tighten, and we expect increased competition for space and higher rates to continue in 2016. The Phoenix unemployment rate sits at 4.8%, a 40 basis point decrease from the 5.2% recorded this time last year.

The submarket with the highest vacancy rates include Chandler Airport at 29.8%, Chandler at 18.7%, and Southwest South of Buckeye Road with 15.0%. Submarkets with the least vacant space include SC South of Salt River at 2.9%, South Airport South of Roeser at 3.3% and Grand Avenue at 3.5%. With only 35 million square feet available market-wide, the market is tighter than it has been since fourth quarter 2007. However, with close to three million square feet of industrial space under construction, new deliveries in the rest of 2016 could temporarily ease the tightening market.

Asking rental rates for all industrial properties continued their slow upward crawl, reaching \$0.56 per square foot on a triple-net basis, a level not seen since the third quarter of 2009. This represents a 7.7% year-over-year increase in rates. Asking rates are highest in Northeast submarkets at an average of \$0.93 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 Pinal County, which reported an average asking rent of \$0.31 per square foot, on a triple-net basis. Across the Phoenix market, asking rental rates for warehouse and distribution space averaged \$0.52 per square foot, while flex spaces are on the market for an average \$1.05 per square foot.

Flex properties struggled this quarter with negative absorption of 113,000 square feet, dropping vacancy down to 14.3%. Meanwhile, the manufacturing and warehouse market was active this quarter, with 948,000 SF of positive net absorption lowering direct vacancy 30 basis points to 8.9% from 9.2% at the end of last quarter.

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# Area Review

Investment sales activity remained strong with dollar volume in the second quarter reaching \$290 million, more than double the \$123 million worth of industrial real estate that transacted in the first quarter. The median sale price for industrial investment

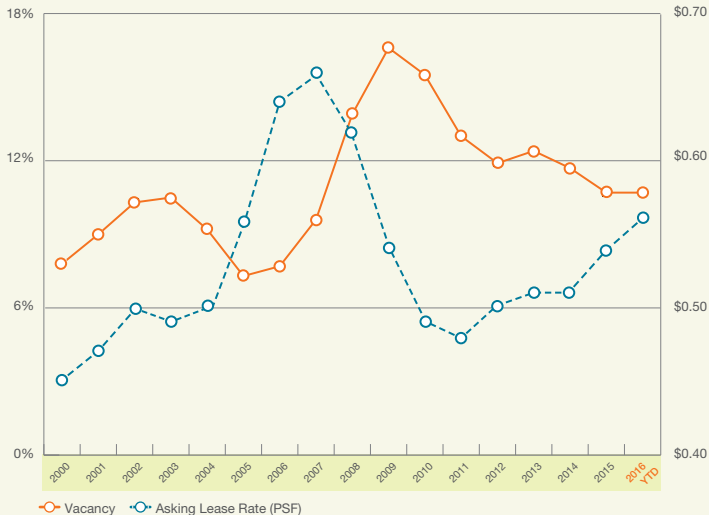
assets was \$80.12 per square foot. Median cap rates increased from 7.1% in the first quarter to 7.9%.

Data Source: CoStar

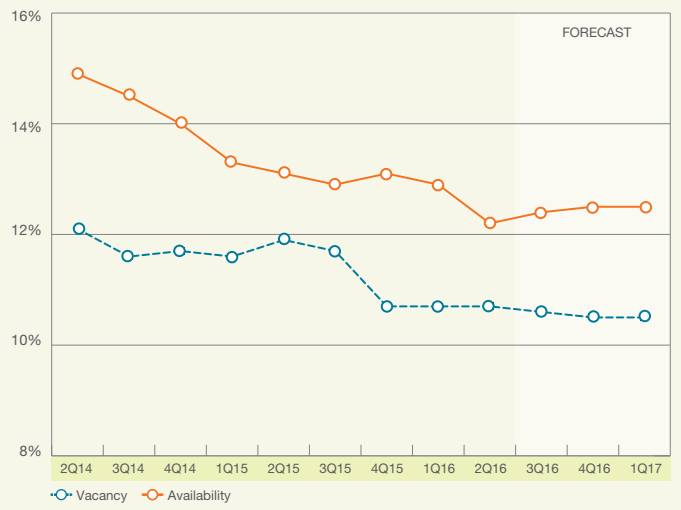
## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	2Q Direct Net Absorption	YTD Direct Net Absorption	2Q Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
North Airport	11,916,455	13.6%	13.6%	(99,175)	(45,338)	103,740	198,097	\$0.72
South Airport North of Roeser	14,392,545	13.6%	14.0%	(121,063)	59,184	188,204	412,328	\$0.65
South Airport South of Roeser	4,237,927	3.3%	3.3%	(24,178)	20,233	0	7,041	\$0.63
SC North of Salt River	14,173,038	8.4%	8.8%	(10,597)	(26,490)	89,504	188,563	\$0.68
SC South of Salt River	1,683,918	2.9%	2.9%	(24,806)	(24,806)	0	0	\$0.49
<b>Airport Area</b>	<b>46,403,883</b>	<b>10.7%</b>	<b>10.9%</b>	<b>(279,819)</b>	<b>(17,217)</b>	<b>381,448</b>	<b>806,029</b>	<b>\$0.67</b>
Central Phoenix	3,168,039	3.9%	3.9%	8,216	40,498	13,523	22,200	\$0.94
Scottsdale Airpark	6,660,491	9.7%	10.9%	(31,592)	(26,899)	125,923	202,709	\$0.95
Scottsdale/Salt River	5,076,857	4.7%	4.8%	36,844	85,284	30,879	67,290	\$0.85
<b>Northeast</b>	<b>14,905,387</b>	<b>6.8%</b>	<b>7.3%</b>	<b>13,468</b>	<b>98,883</b>	<b>170,325</b>	<b>292,199</b>	<b>\$0.93</b>
Deer Valley/Pinnacle Park	14,849,578	8.2%	8.3%	92,189	103,117	169,405	464,122	\$0.76
Glendale	6,998,265	10.5%	10.5%	368,475	758,887	8,305	23,790	\$0.44
Grand Avenue	11,831,589	3.5%	3.6%	59,049	151,889	33,576	52,831	\$0.46
North Glendale/Sun City	2,936,996	5.8%	5.8%	16,012	95,793	22,093	57,513	\$0.63
North Black Canyon	4,015,381	11.2%	11.2%	(7,489)	(53,975)	44,790	72,604	\$0.70
West Phoenix North of Thomas	7,047,686	4.9%	5.1%	13,505	(149,419)	52,088	100,226	\$0.29
West Phoenix South of Thomas	6,371,112	5.1%	5.1%	25,429	32,705	40,176	67,774	\$0.39
<b>Northwest</b>	<b>54,050,607</b>	<b>6.8%</b>	<b>6.8%</b>	<b>567,170</b>	<b>938,997</b>	<b>370,433</b>	<b>838,860</b>	<b>\$0.58</b>
<b>Pinal County</b>	<b>8,164,887</b>	<b>6.3%</b>	<b>6.3%</b>	<b>4,892</b>	<b>53,664</b>	<b>0</b>	<b>5,400</b>	<b>\$0.31</b>
Chandler Airport	3,148,923	29.8%	30.2%	53,982	135,480	14,964	69,518	\$0.83
Chandler	20,097,053	18.7%	18.7%	(169,894)	(126,988)	175,820	227,872	\$0.73
Chandler North/Gilbert	17,652,952	9.9%	10.3%	(75,751)	145,686	132,117	276,263	\$0.67
Falcon Fld/Apache Junction	4,075,036	4.4%	4.4%	(24,157)	26,732	25,866	170,799	\$0.56
Mesa	6,282,223	8.3%	8.7%	(35,368)	4,563	208,852	483,603	\$0.62
Tempe East	5,787,742	7.3%	9.2%	11,831	42,955	49,156	286,276	\$0.96
Tempe Northwest	10,349,722	9.7%	9.9%	19,745	53,604	344,219	520,883	\$0.58
Tempe Southwest	21,368,234	6.8%	7.2%	113,813	133,959	251,698	584,054	\$0.71
<b>Southeast</b>	<b>88,761,885</b>	<b>11.3%</b>	<b>11.7%</b>	<b>(105,799)</b>	<b>415,991</b>	<b>1,202,692</b>	<b>2,619,268</b>	<b>\$0.70</b>
Goodyear	9,705,285	12.6%	17.3%	(411,837)	(379,387)	186,835	194,982	\$0.40
Southwest North of Buckeye Rd	32,026,562	9.9%	9.9%	501,696	394,574	322,196	685,450	\$0.38
Southwest South of Buckeye Rd	16,134,233	15.0%	15.6%	207,346	235,741	703,023	828,279	\$0.37
Tolleson	33,663,684	12.6%	12.7%	100,401	844,270	496,120	832,674	\$0.38
<b>Southwest</b>	<b>91,529,764</b>	<b>12.1%</b>	<b>12.7%</b>	<b>397,606</b>	<b>1,095,198</b>	<b>1,708,174</b>	<b>2,541,385</b>	<b>\$0.38</b>
Manufacturing & Warehouse	189,136,296	8.9%	9.4%	948,374	1,753,923	1,847,053	4,051,368	\$0.52
General Industrial	83,420,524	11.8%	11.9%	(237,453)	716,437	1,624,032	2,368,778	\$0.46
Flex	31,259,593	14.3%	15.1%	(113,403)	115,156	361,987	682,995	\$1.05
<b>Phoenix Total</b>	<b>189,136,296</b>	<b>10.3%</b>	<b>10.7%</b>	<b>597,518</b>	<b>2,585,516</b>	<b>3,833,072</b>	<b>7,103,141</b>	<b>\$0.56</b>

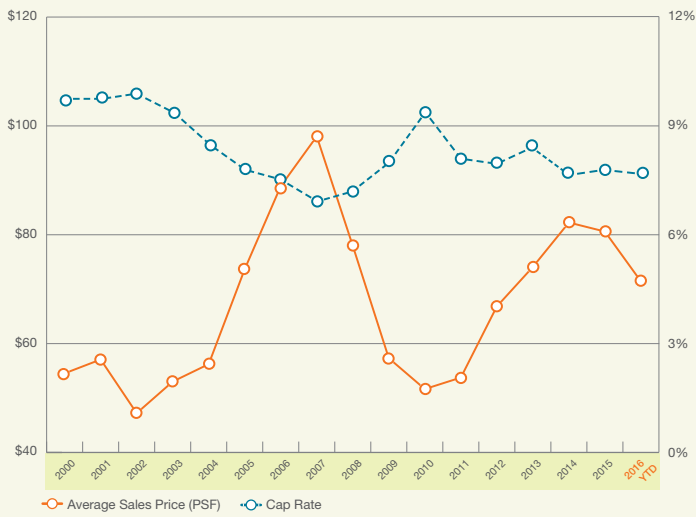
### VACANCY VS ASKING LEASE RATE



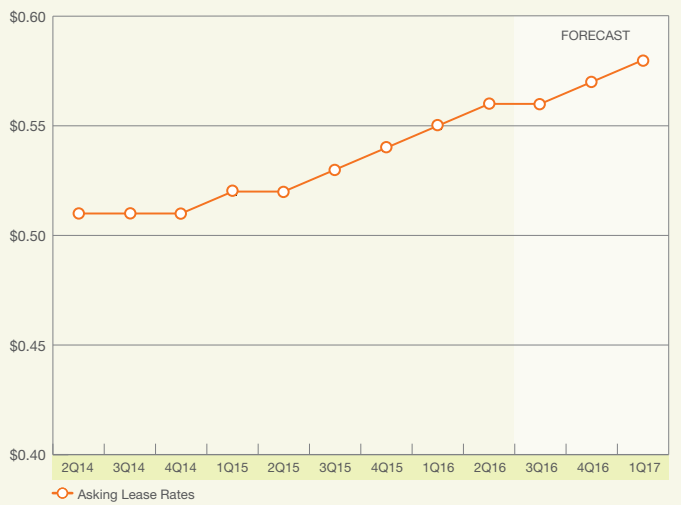
### VACANCY VS AVAILABILITY



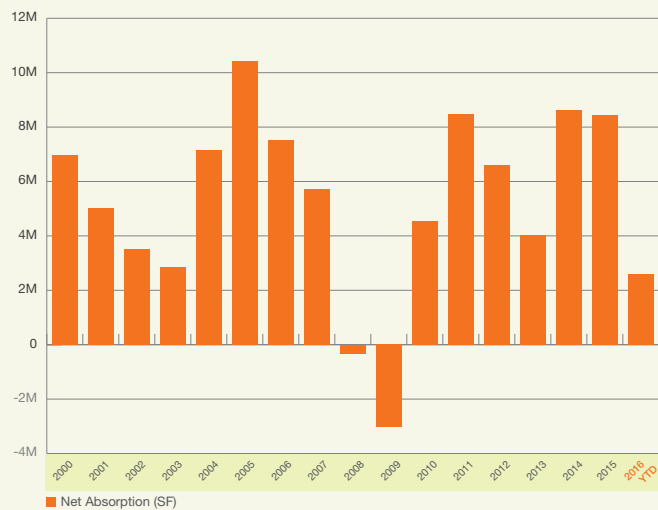
### AVERAGE SALES PRICE & CAPITALIZATION RATES



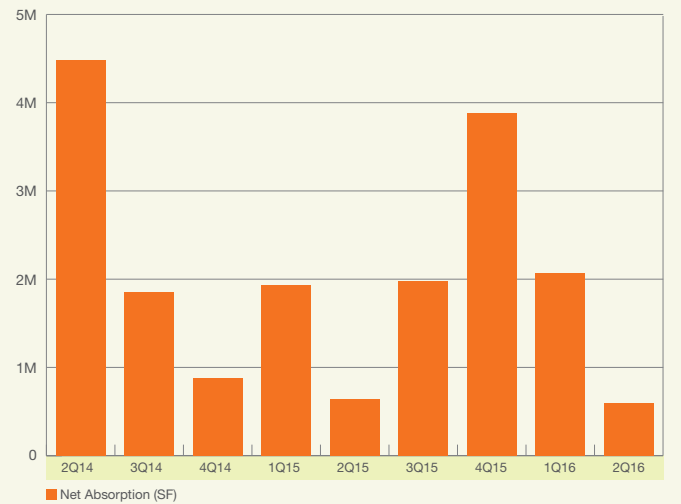
### ASKING LEASE RATE



### NET ABSORPTION - HISTORICAL



### NET ABSORPTION - QUARTERLY



**Offices**

- Seattle  
206.296.9600
- Bellevue  
425.454.7040
- South Seattle  
206.248.7300
- Tacoma  
253.722.1400
- Olympia  
360.705.2800
- Portland  
503.221.9900
- San Francisco  
415.229.8888
- Redwood Shores  
650.769.3600
- Silicon Valley  
408.970.9400
- Sacramento  
916.751.3600
- San Diego  
858.509.1200
- Orange County  
949.557.5000
- Phoenix  
602.513.5200
- Reno  
775.301.1300

**Contact**

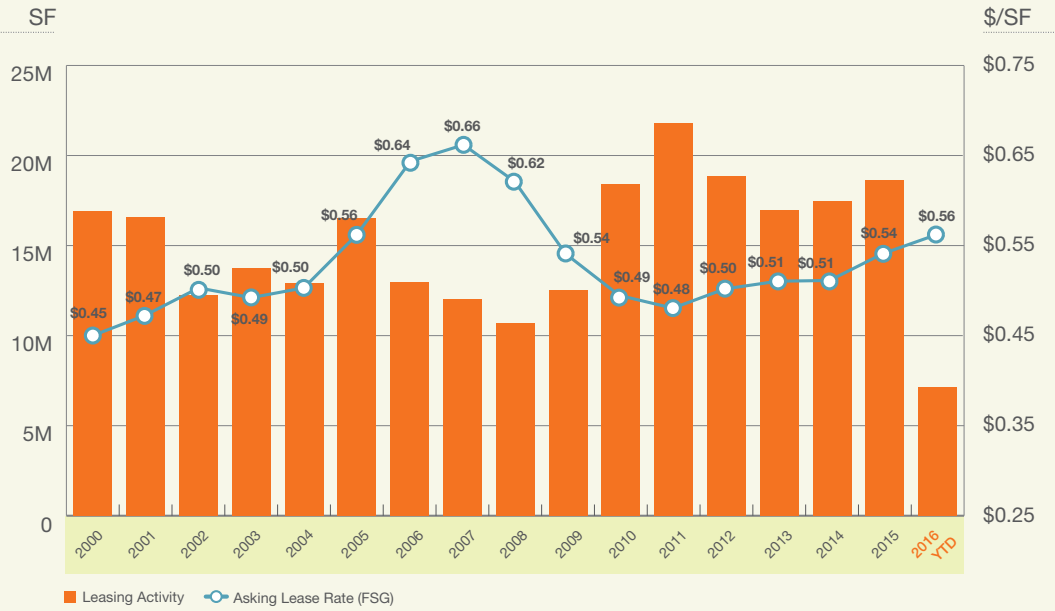
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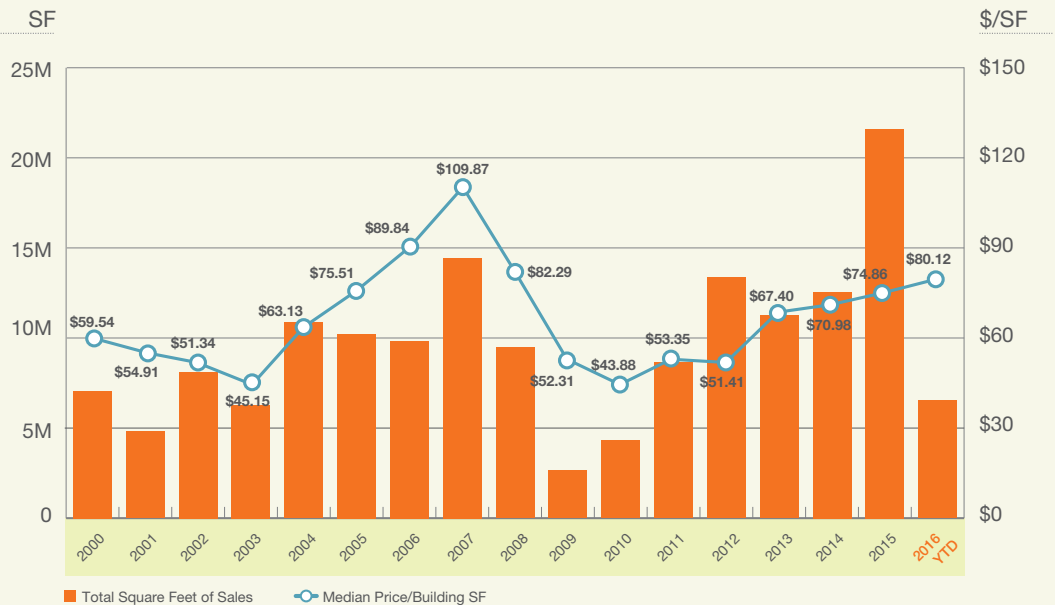
**Market Breakdown**

	2Q 2016	1Q 2016	2Q 2015	Annual % Change
Vacancy Rate	10.70%	10.20%	11.40%	-6.1%
Availability Rate	12.2%	12.9%	13.1%	-6.9%
Asking Lease Rate	\$0.56	0.55	0.52	7.7%
Leased SF	3,833,072	3,278,222	4,357,432	-12.0%
Sold SF	4,967,456	1,550,231	2,941,744	68.9%
Net Absorption	597,518	2,065,934	638,984	N/A

**HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES**



**HISTORICAL SALES SF & MEDIAN SALE PRICE**



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