

Phoenix Industrial

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Transactions

States Logistics
670 S 91st Ave, Tolleson
418,000 s.f. Leased

OHL
6200 W Van Buren St
SW N of Buckeye Rd
296,000 s.f. Leased

Race Pro Products
2929 NW Grand Ave
W Phoenix N of Thomas Road
141,000 s.f. Leased

Orbital ATK
N McQueen Rd @ Guadalupe Rd
Chandler N/Gilbert
60,000 s.f. Leased

The Phoenix industrial real estate market ended the third quarter with close to two million square feet of absorption, decreasing vacancy and steady rental rates. The market-wide total vacancy rate decreased to 10.3%, a result of the considerable leasing activity this quarter. The market will continue to tighten with growing demand and we expect increased competition for space and higher rates to continue in 2016. The Phoenix unemployment rate sits at 5.4%, a 20 basis point decrease from the 5.6% recorded this time last year.

The submarket clusters with the highest vacancy rates include Chandler Airport at 22.2%, Chandler at 19.1%, and South Airport North of Roeser with 15.7%. Clusters with the least vacant space include West Phoenix South of Thomas Road at 2.4%, and Grand Avenue and SC South of Salt River, both at 2.9%. With only 33 million square feet available market-wide, the market is tighter than it has been since first quarter 2008. However, with over two 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 maintained the average price of \$0.56 per square foot on a triple-net basis. This represents a 3.7% year-over-year increase in rates. Asking rates are highest in Northeast cluster submarkets at an average of \$0.92 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 \$0.51 per square foot, while flex spaces are on the market for an average \$1.03 per square foot.

Flex properties began a slow rebound with absorption of 46,917 square feet, dropping vacancy down to 13.1%. Meanwhile, the manufacturing and warehouse market was active this quarter, with 642,614 square feet of positive net absorption lowering direct vacancy to 8.6%.

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Area Review

Investment sales activity remained strong with dollar volume in the third quarter reaching \$292 million, an improvement over the \$253 million worth of industrial real estate that transacted this

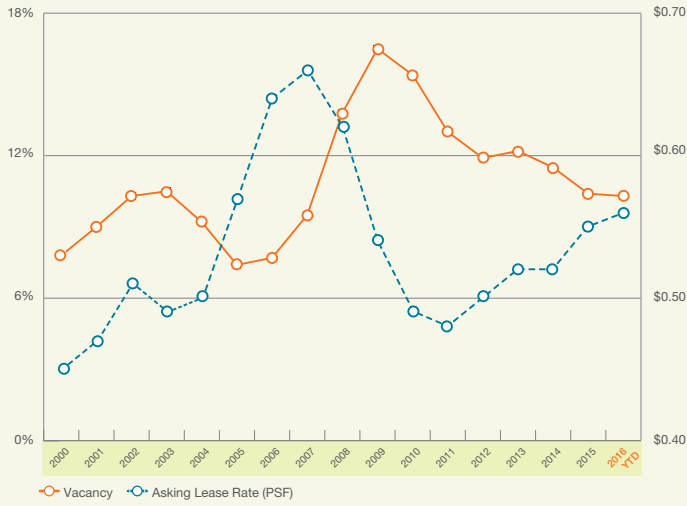
time last year. The median sale price for industrial investment assets was \$69 per square foot. Median cap rates decreased from 8.0% in the second quarter to 7.2%.

Data Source: CoStar

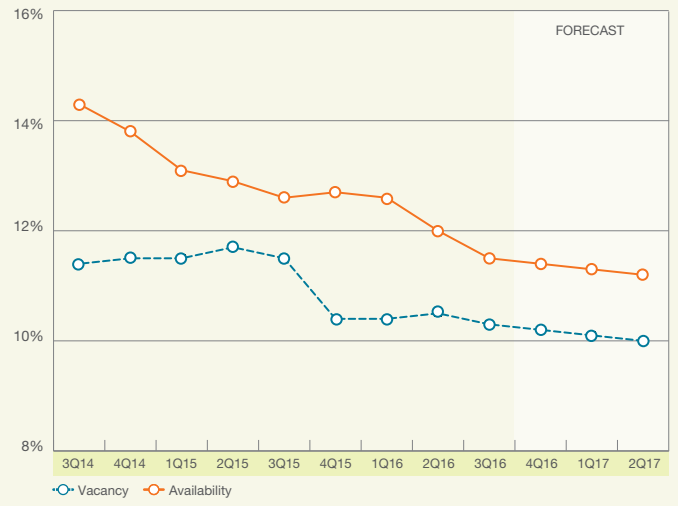
Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	3Q Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
North Airport	11,899,114	13.8%	13.8%	(70,520)	(71,330)	325,203	795,087	\$0.68
South Airport North of Roeser	14,455,904	15.7%	15.9%	(31,386)	(202,786)	216,859	696,429	\$0.65
South Airport South of Roeser	4,237,287	3.7%	4.3%	(17,064)	3,169	47,555	58,196	\$0.60
SC North of Salt River	14,224,679	7.8%	8.2%	159,502	145,012	12,400	355,081	\$0.58
SC South of Salt River	1,683,918	2.9%	2.9%	0	(24,806)	15,600	15,600	\$0.45
Airport Area	46,500,902	11.2%	11.5%	40,532	(150,741)	617,617	1,920,393	\$0.65
Central Phoenix	3,142,080	3.5%	3.5%	(9,732)	54,967	8,579	36,726	\$0.74
Scottsdale Airpark	6,536,098	8.9%	9.9%	17,062	(35,041)	35,061	279,119	\$0.95
Scottsdale/Salt River	5,077,683	4.3%	4.4%	7,873	105,681	35,440	105,779	\$0.84
Northeast	14,755,861	6.2%	6.7%	15,203	125,607	79,080	421,624	\$0.92
Deer Valley/Pinnacle Park	14,997,779	7.6%	7.7%	47,497	177,202	164,177	647,085	\$0.76
Glendale	7,156,090	10.1%	10.2%	19,660	777,947	33,406	79,164	\$0.43
Grand Avenue	11,817,190	2.9%	3.1%	20,724	118,809	30,820	192,483	\$0.46
North Glendale/Sun City	2,936,996	5.7%	5.7%	4,799	100,592	10,090	106,231	\$0.63
North Black Canyon	4,004,557	11.5%	11.5%	(12,151)	(66,273)	28,439	109,739	\$0.72
West Phoenix North of Thomas Rd	7,047,686	3.4%	3.5%	123,000	(39,059)	229,908	322,908	\$0.32
West Phoenix South of Thomas Rd	6,371,734	2.4%	2.4%	75,534	127,004	4,782	89,103	\$0.38
Northwest	54,332,032	5.9%	6.0%	279,063	1,196,222	501,622	1,546,713	\$0.59
Pinal County	8,151,289	6.1%	6.1%	16,980	65,735	15,027	15,027	\$0.31
Chandler Airport	2,858,138	22.2%	22.6%	12,808	148,288	78,356	150,482	\$0.85
Chandler	20,144,607	19.1%	19.2%	(38,923)	(170,411)	87,861	319,107	\$0.75
Chandler North/Gilbert	17,862,168	11.8%	12.3%	(62,408)	86,997	263,768	691,705	\$0.68
Falcon Fld/Apache Junction	4,075,036	3.8%	3.8%	35,739	54,754	25,037	216,156	\$0.66
Mesa	6,282,223	8.3%	8.8%	(466)	2,102	37,469	528,192	\$0.62
Tempe East	5,643,521	3.8%	6.3%	97,030	139,985	53,153	262,892	\$0.53
Tempe Northwest	10,707,319	8.0%	8.1%	187,064	208,298	42,099	592,648	\$0.71
Tempe Southwest	21,163,544	7.0%	7.4%	(5,346)	122,244	236,364	870,236	\$0.70
Southeast	88,736,556	11.1%	11.5%	225,498	592,257	824,107	3,631,418	\$0.71
Goodyear	9,978,065	10.1%	14.7%	341,832	137,885	20,752	74,116	\$0.40
Southwest North of Buckeye Rd	31,888,771	9.3%	9.3%	143,040	526,153	356,041	1,328,643	\$0.37
Southwest South of Buckeye Rd	16,114,378	14.4%	15.9%	121,535	341,536	0	868,774	\$0.38
Tolleson	34,322,854	11.9%	12.2%	722,469	1,546,387	468,751	1,519,701	\$0.38
Southwest	92,304,068	11.3%	12.1%	1,328,876	2,551,961	845,544	3,791,234	\$0.38
Manufacturing & Warehouse	189,198,926	8.6%	9.1%	642,614	2,113,370	1,802,370	7,143,681	\$0.51
General Industrial	84,223,142	11.5%	11.8%	1,216,621	2,148,993	798,287	3,171,650	\$0.45
Flex	31,358,640	13.1%	13.9%	46,917	118,678	282,340	1,011,078	\$1.03
Phoenix Total	304,780,708	9.9%	10.3%	1,906,152	4,381,041	2,882,997	11,326,409	\$0.56

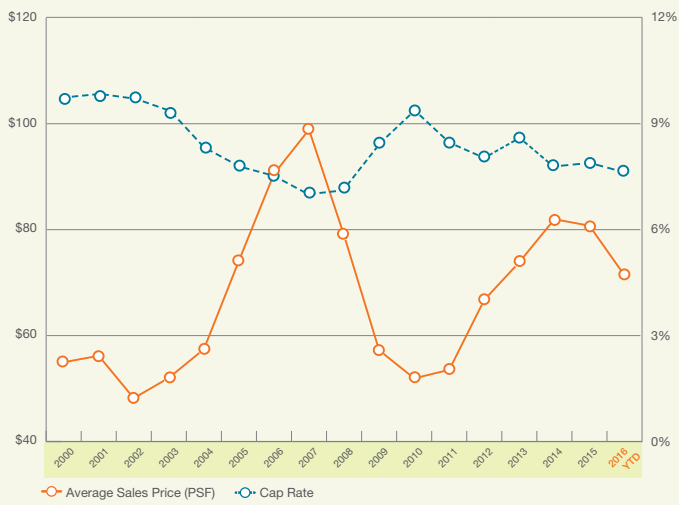
VACANCY VS ASKING LEASE RATE



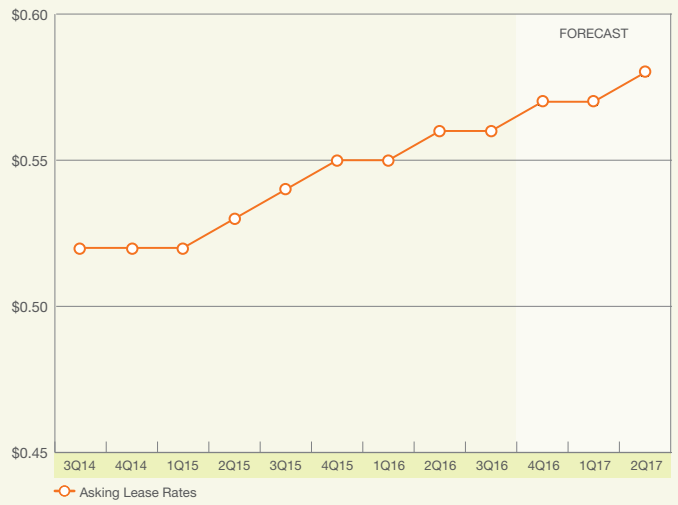
VACANCY VS AVAILABILITY



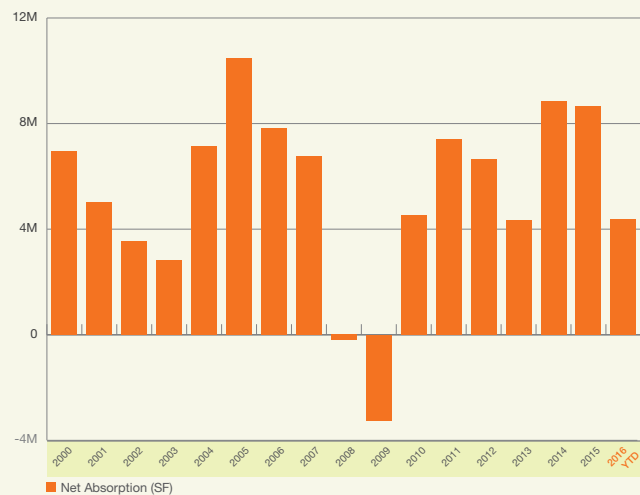
AVERAGE SALES PRICE & CAPITALIZATION RATES



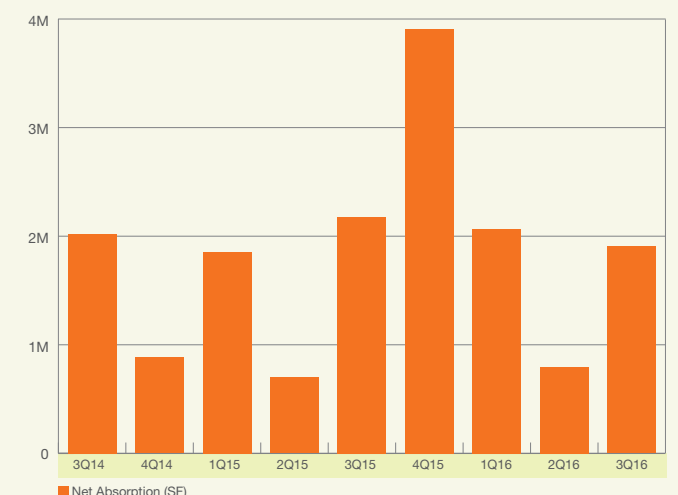
ASKING LEASE RATE



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
916.970.9700

Roseville
916.751.3600

Orange County
949.557.5000

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

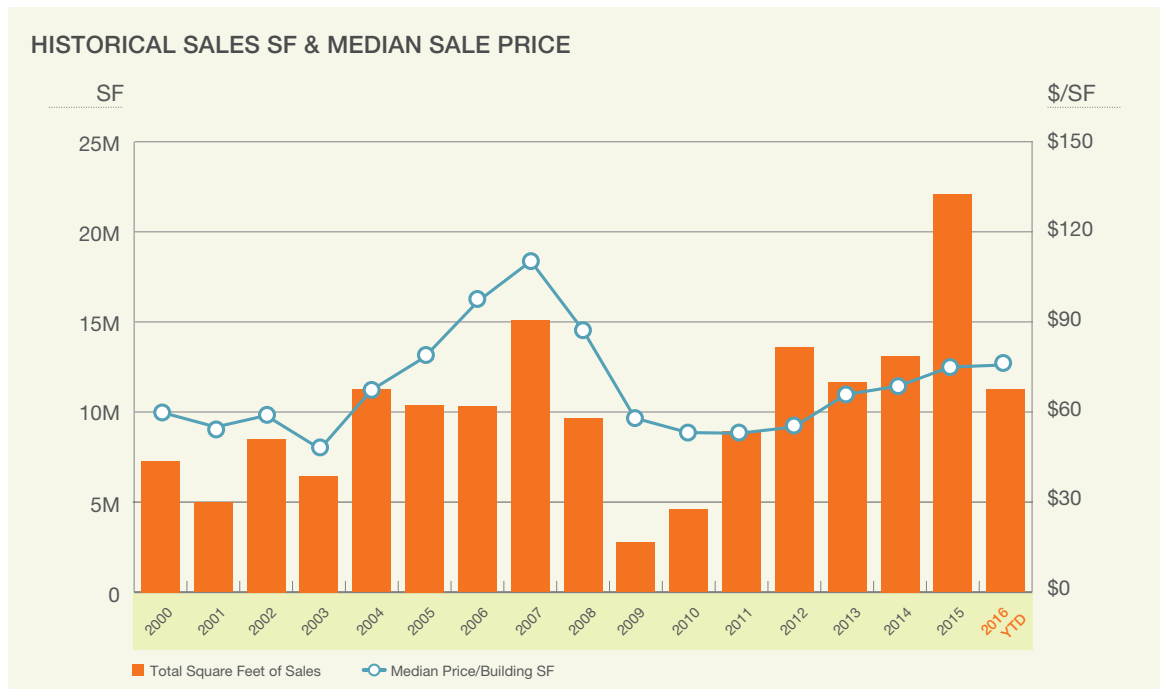
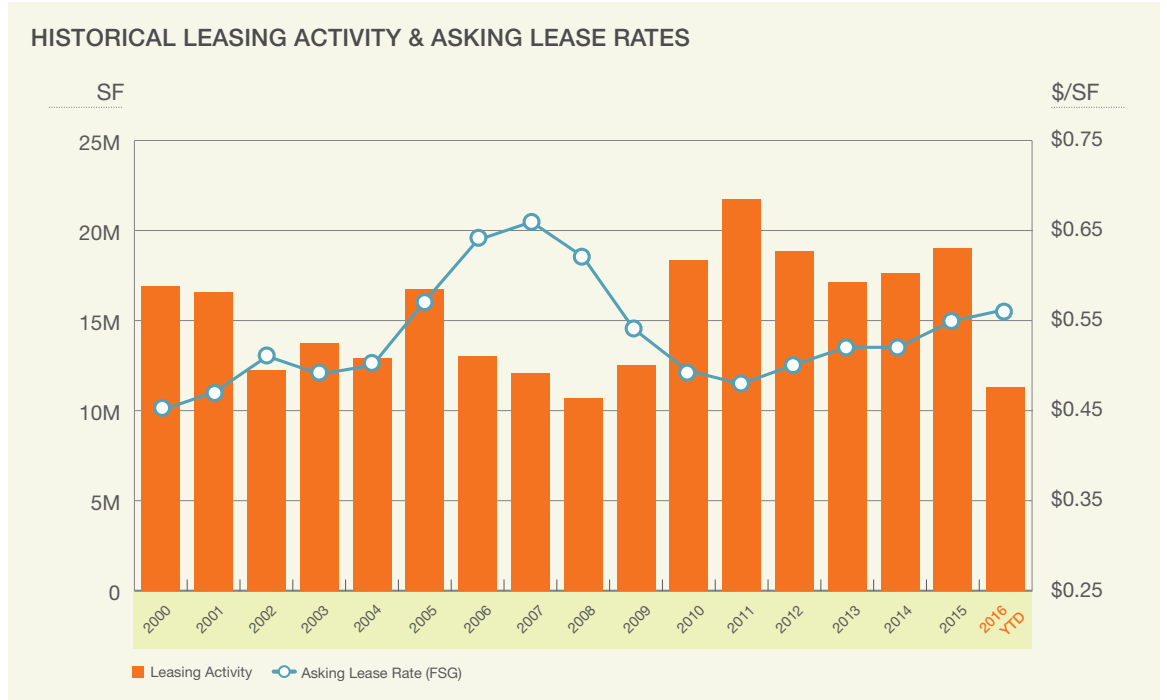
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Market Breakdown

	3Q 2016	2Q 2016	3Q 2015	Annual % Change
Vacancy Rate	10.3%	10.5%	11.5%	-10.4%
Availability Rate	11.5%	12.0%	12.6%	-8.7%
Asking Lease Rate	\$0.56	\$0.56	\$0.54	3.7%
Leased SF	2,882,997	5,087,028	5,569,155	-48.2%
Sold SF	4,009,513	5,693,981	3,854,288	4.0%
Net Absorption	1,906,152	794,512	2,174,145	N/A



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