

# Phoenix Industrial

## Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



## Notable 2016 Transactions

**Safeway, Inc.**  
1115 W Alameda Dr., Tempe Southwest  
780,000 s.f. Leased

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

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

**Aviall Services, Inc.**  
605 N 75th Ave., Tolleson  
323,000 s.f.

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

The Phoenix industrial real estate market ended the year with over two million square feet of absorption, decreasing vacancy and steady rental rates. The market-wide total vacancy rate decreased to 10.0%, a result of the considerable leasing activity in the fourth quarter. The market will continue to tighten with growing demand and we expect increased competition for space and higher rates to continue into 2017. The Phoenix unemployment rate sits at 4.5%, a 60 basis point decrease from the 5.1% recorded this time last year.

The submarket clusters with the highest direct vacancy rates include Chandler Airport at 22.7%, SC South of Salt River at 19.6%, and Chandler with 18.4%. Clusters with the least vacant space include West Phoenix South of Thomas Road at 2.0%, Grand Avenue at 2.5% and Central Phoenix at 2.8%. With only 35 million square feet available market-wide, the market is tighter than it has been since fourth quarter of 2007. However, with over four million square feet of industrial space under construction, new deliveries in 2017 could temporarily ease the tightening market.

Asking rental rates for all industrial properties maintained the average price of \$0.57 per square foot on a triple-net basis. This represents a 3.6% year-over-year increase in rates. Asking rates are highest in Northeast cluster 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 \$0.33 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 began a slow rebound with absorption of 133,000 square feet, dropping direct vacancy down to 12.7%. Meanwhile, the manufacturing and warehouse market was active this quarter, with 758,000 square feet of positive net absorption lowering direct vacancy to 8.4%.

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# Area Review

Investment sales activity remained steady with dollar volume in the fourth quarter reaching \$308 million, a slight decrease from the \$343 million worth of industrial real estate that transacted in the third quarter. The median sale price for industrial investment

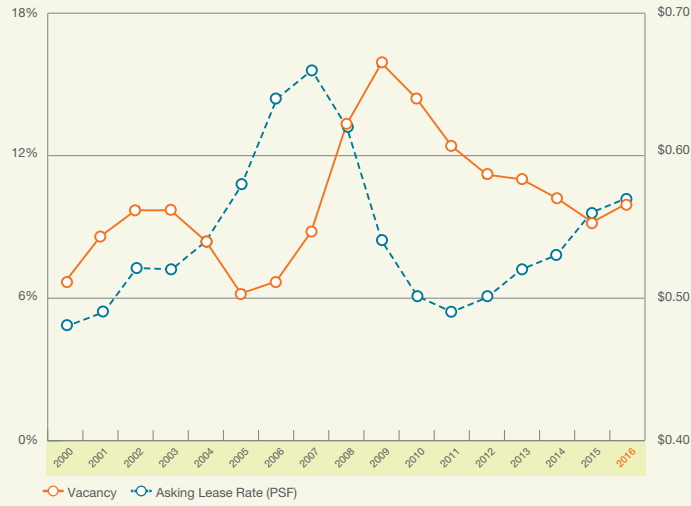
assets was \$76 per square foot. Median cap rates decreased to 7.1% from 7.5% this time last year.

Data Source: CoStar

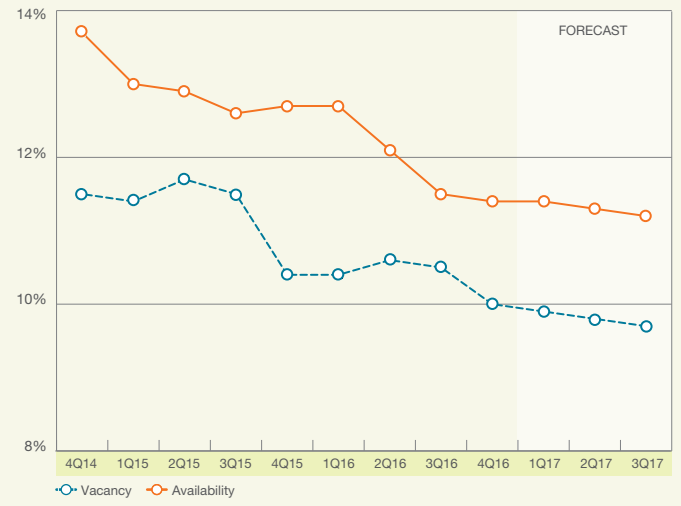
## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	4Q Direct Net Absorption	YTD Direct Net Absorption	4Q Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
North Airport	11,821,959	13.2%	13.3%	165,755	1,793	53,984	895,470	\$0.66
South Airport North of Roeser	14,235,241	17.1%	17.4%	(150,854)	(373,736)	68,361	1,023,555	\$0.66
South Airport South of Roeser	4,238,007	3.0%	3.6%	23,057	31,902	26,015	85,107	\$0.59
SC North of Salt River	14,272,347	9.0%	9.3%	(30,211)	38,489	38,759	458,868	\$0.57
SC South of Salt River	2,077,210	19.6%	19.6%	20,098	(4,708)	10,000	25,600	\$0.58
<b>Airport Area</b>	<b>46,644,764</b>	<b>12.5%</b>	<b>12.7%</b>	<b>27,845</b>	<b>(306,260)</b>	<b>197,119</b>	<b>2,488,600</b>	<b>\$0.64</b>
Central Phoenix	3,142,080	2.8%	2.8%	19,028	74,795	15,444	97,356	\$0.87
Scottsdale Airpark	6,521,813	9.5%	10.1%	(50,658)	(81,616)	45,033	345,323	\$0.96
Scottsdale/Salt River	5,077,323	3.7%	3.7%	(546)	139,203	4,066	153,800	\$0.85
<b>Northeast</b>	<b>14,741,216</b>	<b>6.1%</b>	<b>6.3%</b>	<b>(32,176)</b>	<b>132,382</b>	<b>64,543</b>	<b>596,479</b>	<b>\$0.93</b>
Deer Valley/Pinnacle Park	15,066,268	7.0%	7.1%	90,927	262,149	79,781	877,888	\$0.77
Glendale	7,162,586	10.4%	10.4%	(12,608)	755,320	0	82,269	\$0.44
Grand Avenue	11,813,911	2.5%	2.7%	53,735	165,071	112,996	375,459	\$0.47
North Glendale/Sun City	2,937,016	6.3%	6.3%	(44,505)	82,068	25,808	132,039	\$0.64
North Black Canyon	3,993,095	10.8%	10.8%	45,482	(35,757)	42,823	203,467	\$0.72
West Phoenix North of Thomas Rd	7,051,304	2.8%	2.8%	34,432	3,120	59,326	397,286	\$0.32
West Phoenix South of Thomas Rd	6,349,549	2.0%	2.0%	(2,166)	139,805	7,830	131,974	\$0.45
<b>Northwest</b>	<b>54,373,729</b>	<b>5.6%</b>	<b>5.7%</b>	<b>165,297</b>	<b>1,371,776</b>	<b>328,564</b>	<b>2,200,382</b>	<b>\$0.61</b>
<b>Pinal County</b>	<b>8,149,682</b>	<b>6.8%</b>	<b>6.8%</b>	<b>4,557</b>	<b>(5,708)</b>	<b>0</b>	<b>15,027</b>	<b>\$0.33</b>
Chandler Airport	2,958,381	22.7%	23.1%	64,965	213,253	51,232	234,498	\$0.88
Chandler	20,120,951	18.4%	18.4%	73,868	119,326	90,101	558,855	\$0.77
Chandler North/Gilbert	17,847,996	10.4%	10.9%	237,553	378,726	229,886	984,651	\$0.68
Falcon Fld/Apache Junction	4,076,699	4.0%	4.2%	(6,667)	44,537	16,567	292,558	\$0.71
Mesa	6,346,417	5.6%	6.0%	179,335	243,817	23,544	673,713	\$0.64
Tempe East	5,646,268	2.9%	5.4%	73,527	190,739	33,727	316,485	\$0.48
Tempe Northwest	10,700,026	6.7%	6.9%	116,949	319,580	140,619	811,264	\$0.70
Tempe Southwest	21,214,661	7.2%	7.5%	(39,469)	73,291	238,457	1,204,347	\$0.70
<b>Southeast</b>	<b>88,911,399</b>	<b>10.3%</b>	<b>10.7%</b>	<b>700,061</b>	<b>1,583,269</b>	<b>824,133</b>	<b>5,076,371</b>	<b>\$0.72</b>
Goodyear	10,073,788	8.5%	13.1%	155,382	293,267	128,809	234,692	\$0.41
Southwest North of Buckeye Rd	31,938,525	8.9%	8.9%	234,585	676,202	50,608	1,510,118	\$0.38
Southwest South of Buckeye Rd	16,125,646	11.5%	12.9%	384,618	809,601	24,200	1,029,461	\$0.38
Tolleson	34,322,854	11.9%	12.2%	633,218	1,471,911	332,940	1,852,641	\$0.38
<b>Southwest</b>	<b>92,460,813</b>	<b>10.4%</b>	<b>11.3%</b>	<b>1,407,803</b>	<b>3,250,981</b>	<b>536,557</b>	<b>4,626,912</b>	<b>\$0.38</b>
Manufacturing & Warehouse	189,502,226	8.4%	8.8%	758,428	3,006,750	1,192,302	9,404,084	\$0.52
General Industrial	84,856,336	11.0%	11.3%	1,382,228	2,793,527	487,265	4,110,744	\$0.46
Flex	30,923,041	12.7%	13.4%	132,731	226,163	271,349	1,488,943	\$1.05
<b>Phoenix Total</b>	<b>305,281,603</b>	<b>9.5%</b>	<b>10.0%</b>	<b>2,273,387</b>	<b>6,026,440</b>	<b>1,950,916</b>	<b>15,003,771</b>	<b>\$0.57</b>

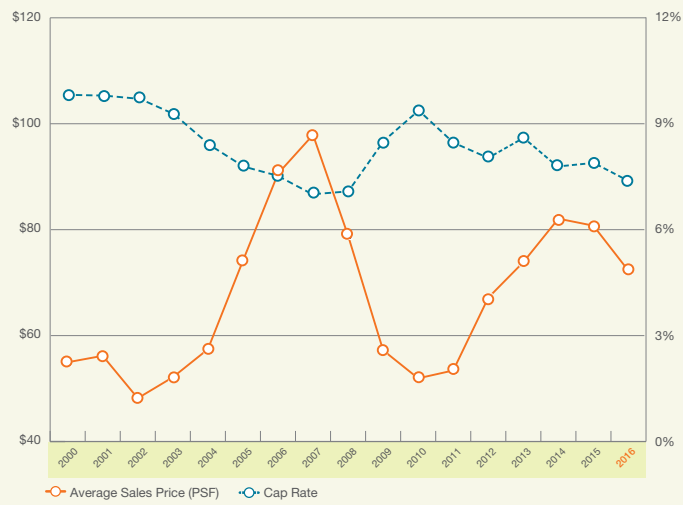
### VACANCY VS ASKING LEASE RATE



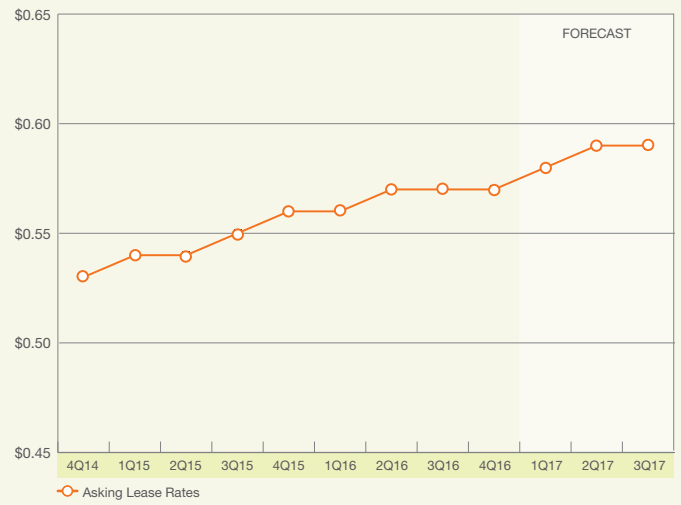
### VACANCY VS AVAILABILITY



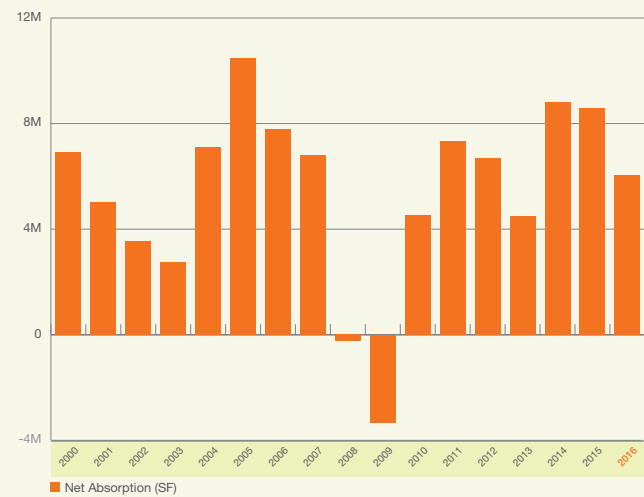
### AVERAGE SALES PRICE & CAPITALIZATION RATES



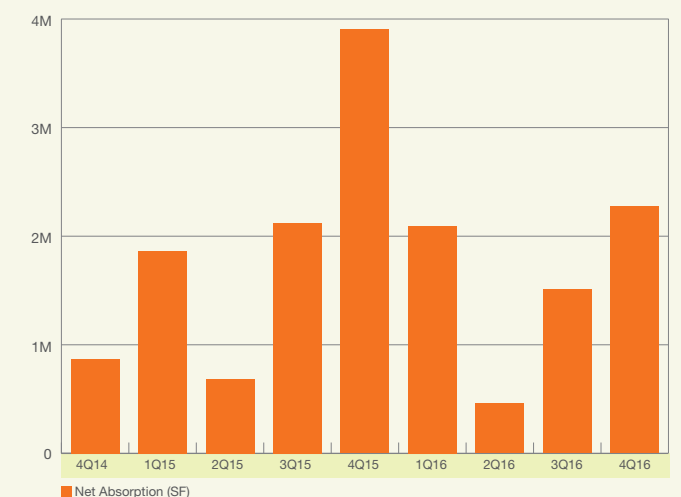
### ASKING LEASE RATE



### 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  
916.970.9700

Roseville  
916.751.3600

Orange County  
949.557.5000

Inland Empire  
909.764.6500

San Diego  
858.509.1200

Carlsbad  
760.430.1000

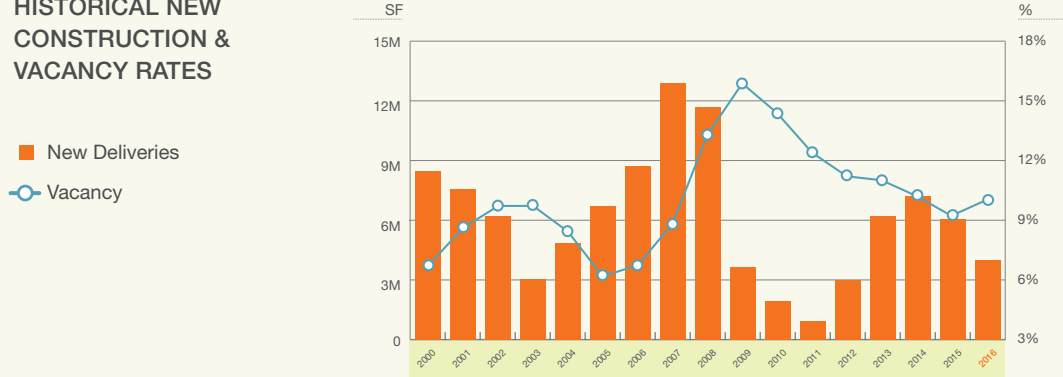
Reno  
775.301.1300

Phoenix  
602.513.5200

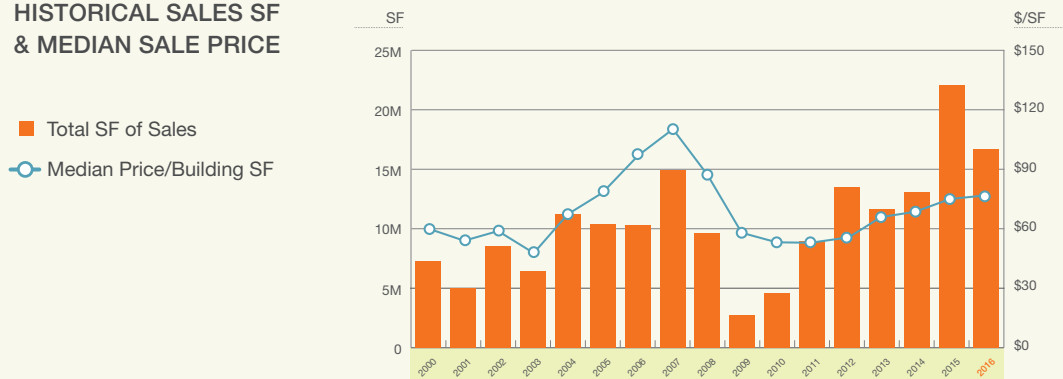
**Market Breakdown**

	2016	2015	2014	Annual % Change
Vacancy Rate	10.0%	10.4%	11.5%	-3.8%
Availability Rate	11.4%	12.7%	13.7%	-10.2%
Asking Lease Rate	\$0.57	\$0.55	\$0.52	3.6%
Leased SF	15,003,771	18,963,355	17,618,718	-20.9%
Sold SF	16,675,689	22,083,654	13,095,462	-24.5%
Net Absorption	6,026,440	8,573,444	8,790,160	N/A

**HISTORICAL NEW CONSTRUCTION & VACANCY RATES**



**HISTORICAL SALES SF & MEDIAN SALE PRICE**

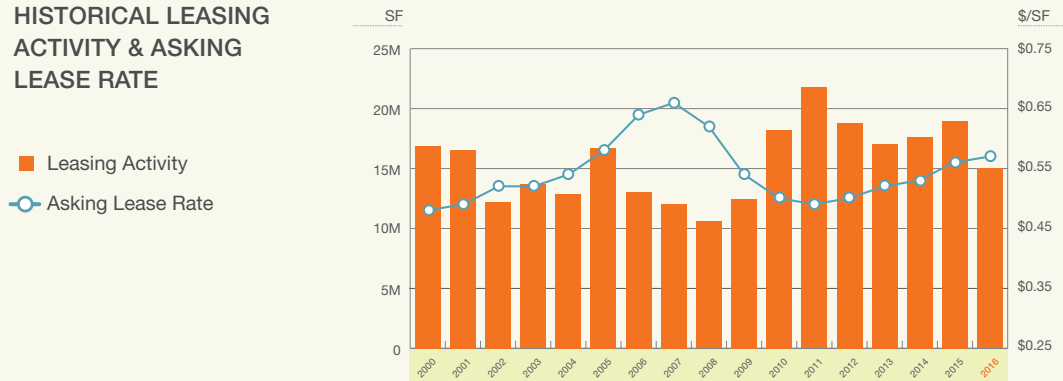


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**HISTORICAL LEASING ACTIVITY & ASKING LEASE RATE**



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