

# Phoenix Industrial

## Market Forecast

Trends

Absorption	↑
Vacancy	↔
Rental Rate	↔
New Construction	↑

## Notable Transactions

**Essendant Co.**  
1500 S 71st Ave, Tolleson  
262,000 s.f. Leased

**Danby Products**  
10397 W Van Buren St, Tolleson  
156,000 s.f. Leased

**Enclos**  
2225 S 43rd Ave, SW S of Buckeye Rd  
118,000 s.f. Leased

**Orbital ATK**  
220 N McQueen Rd, Chandler N/Gilbert  
60,000 s.f. Leased

**Starks Logistics**  
221 N 48th Ave, SW N of Buckeye Rd  
50,000 s.f. Leased

The Phoenix industrial real estate market started the year with strong leasing activity, increasing development and steady rental rates. Despite 1.6 million square feet of positive absorption, new deliveries of over two million square feet caused total vacancy to remain unchanged at 9.8%. We expect increased competition for space and higher rates to continue throughout 2017, in spite of new construction, as a result of the strong economy and business expansion. The Phoenix unemployment rate sits at 4.5%, only a 10 basis point decrease from the 4.6% recorded this time last year.

The submarkets with the highest direct vacancy rates include Chandler Airport at 25.0%, SC South of Salt River at 20.1% and South Airport North of Roeser with 18.5%. Submarkets with the least vacant space include West Phoenix South of Thomas Road at 2.0%, West Phoenix North of Thomas Road at 2.5% and Central Phoenix at 3.1%. With over 4.5 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, which represents a 5.6% year-over-year increase in rates. Asking rates are highest in the Northeast cluster submarket at an average of \$0.94 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 \$0.54 per square foot, while flex spaces are on the market for an average \$1.06 per square foot.

Flex properties continue to struggle as negative absorption of 125,000 square feet caused vacancy to increase to 14.3%. Meanwhile, the manufacturing and warehouse market was active this quarter, with over 713,000 square feet of positive net absorption lowering total vacancy to 8.1%.

→ Continued, page 2

# Area Review

Investment sales activity was slow to start the year with dollar volume in the first quarter only reaching \$78 million, a major decrease from the \$333 million worth of industrial real estate that transacted in the fourth quarter. The median sale price for

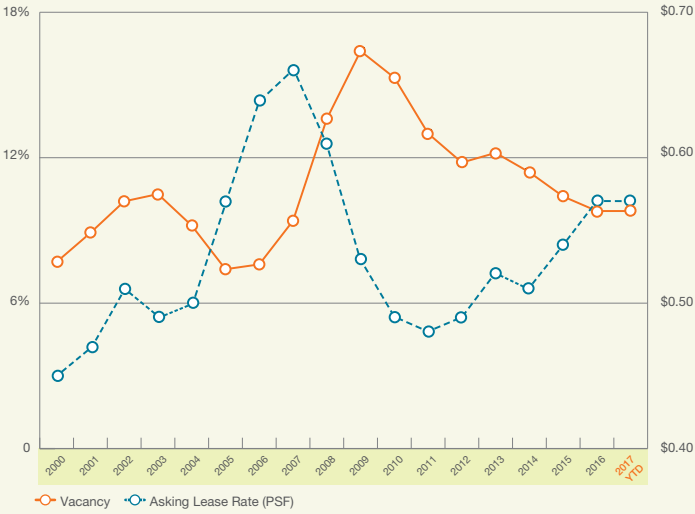
industrial investment assets was \$76 per square foot. Median cap rates decreased to 6.9% from 7.1% this time last year.

Data Source: CoStar

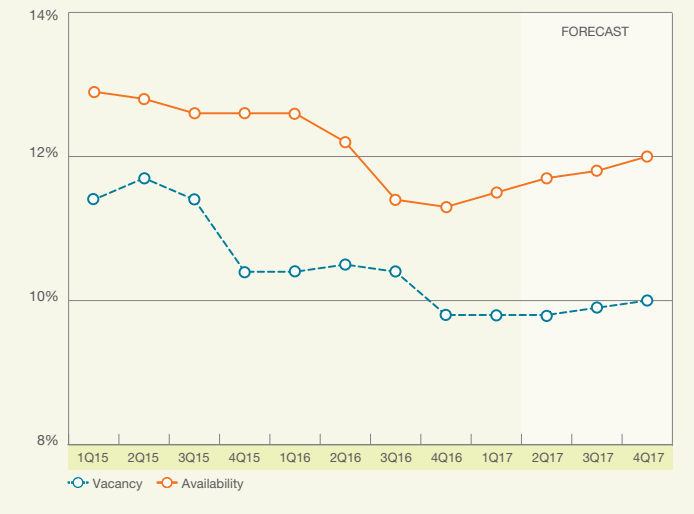
## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	1Q Direct Net Absorption	YTD Direct Net Absorption	1Q Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
North Airport	11,869,476	11.6%	11.7%	343,907	343,907	56,496	56,496	\$0.65
South Airport North of Roeser	14,860,196	18.3%	18.5%	291,400	291,400	243,069	243,069	\$0.72
South Airport South of Roeser	4,238,007	3.4%	5.8%	8,693	8,693	3,696	3,696	\$0.57
SC North of Salt River	14,193,320	8.8%	9.2%	4,917	4,917	40,937	40,937	\$0.61
SC South of Salt River	2,009,909	20.1%	20.1%	3,294	3,294	3,294	3,294	\$0.58
<b>Airport Area</b>	<b>47,170,908</b>	<b>12.5%</b>	<b>12.9%</b>	<b>652,211</b>	<b>652,211</b>	<b>347,492</b>	<b>347,492</b>	<b>\$0.67</b>
Central Phoenix	3,233,170	3.1%	3.3%	5,781	5,781	10,336	10,336	\$0.86
Scottsdale Airpark	6,446,569	10.4%	11.0%	(64,383)	(64,383)	89,764	89,764	\$0.96
Scottsdale/Salt River	5,239,418	6.7%	6.7%	(33,088)	(33,088)	36,366	36,366	\$0.90
<b>Northeast</b>	<b>14,919,157</b>	<b>7.5%</b>	<b>7.8%</b>	<b>(91,690)</b>	<b>(91,690)</b>	<b>136,466</b>	<b>136,466</b>	<b>\$0.94</b>
Deer Valley/Pinnacle Park	15,237,571	8.9%	9.0%	(139,540)	(139,540)	73,365	73,365	\$0.77
Glendale	7,784,227	17.7%	17.7%	(15,159)	(15,159)	28,363	28,363	\$0.40
Grand Avenue	11,827,811	4.1%	4.3%	(183,097)	(183,097)	26,465	26,465	\$0.48
North Glendale/Sun City	3,137,503	6.2%	6.2%	(24,293)	(24,293)	41,190	41,190	\$0.58
North Black Canyon	4,010,548	11.2%	11.2%	(21,608)	(21,608)	35,296	35,296	\$0.70
West Phoenix North of Thomas Rd	7,054,340	2.5%	2.5%	2,898	2,898	80,521	80,521	\$0.33
West Phoenix South of Thomas Rd	6,349,549	2.0%	2.0%	(4,528)	(4,528)	7,198	7,198	\$0.39
<b>Northwest</b>	<b>55,401,549</b>	<b>7.5%</b>	<b>7.6%</b>	<b>(385,327)</b>	<b>(385,327)</b>	<b>292,398</b>	<b>292,398</b>	<b>\$0.56</b>
<b>Pinal County</b>	<b>8,163,139</b>	<b>7.0%</b>	<b>7.0%</b>	<b>9,666</b>	<b>9,666</b>	<b>12,984</b>	<b>12,984</b>	<b>\$0.33</b>
Chandler Airport	3,071,155	25.0%	25.0%	33,020	33,020	21,064	21,064	\$0.89
Chandler	20,086,609	17.4%	17.4%	52,179	52,179	131,285	131,285	\$0.79
Chandler North/Gilbert	17,890,079	9.6%	10.1%	(8,149)	(8,149)	217,251	217,251	\$0.68
Falcon Fld/Apache Junction	4,104,000	3.9%	4.1%	3,354	3,354	16,079	16,079	\$0.73
Mesa	6,272,728	5.8%	6.3%	(15,981)	(15,981)	61,073	61,073	\$0.66
Tempe East	5,695,809	3.3%	5.9%	6,165	6,165	82,739	82,739	\$0.49
Tempe Northwest	10,583,259	7.0%	7.0%	(3,686)	(3,686)	88,469	88,469	\$0.76
Tempe Southwest	21,252,199	7.5%	7.6%	(97,286)	(97,286)	136,261	136,261	\$0.66
<b>Southeast</b>	<b>88,955,838</b>	<b>10.2%</b>	<b>10.5%</b>	<b>(30,384)</b>	<b>(30,384)</b>	<b>754,221</b>	<b>754,221</b>	<b>\$0.72</b>
Goodyear	10,001,345	7.3%	7.3%	134,100	134,100	61,898	61,898	\$0.40
Southwest North of Buckeye Rd	31,957,328	7.6%	7.6%	150,357	150,357	185,631	185,631	\$0.38
Southwest South of Buckeye Rd	16,176,886	10.1%	10.8%	220,180	220,180	159,315	159,315	\$0.38
Tolleson	34,949,890	10.8%	11.1%	948,420	948,420	223,710	223,710	\$0.37
<b>Southwest</b>	<b>93,085,449</b>	<b>9.2%</b>	<b>9.4%</b>	<b>1,453,057</b>	<b>1,453,057</b>	<b>630,554</b>	<b>630,554</b>	<b>\$0.38</b>
Manufacturing & Warehouse	189,168,976	7.8%	8.1%	713,111	713,111	1,431,146	1,431,146	\$0.54
General Industrial	87,036,578	11.5%	11.7%	1,019,017	1,019,017	385,378	385,378	\$0.44
Flex	31,490,486	13.7%	14.3%	(124,595)	(124,595)	357,591	357,591	\$1.06
<b>Phoenix Total</b>	<b>307,696,040</b>	<b>9.5%</b>	<b>9.8%</b>	<b>1,607,533</b>	<b>1,607,533</b>	<b>2,174,115</b>	<b>2,174,115</b>	<b>\$0.57</b>

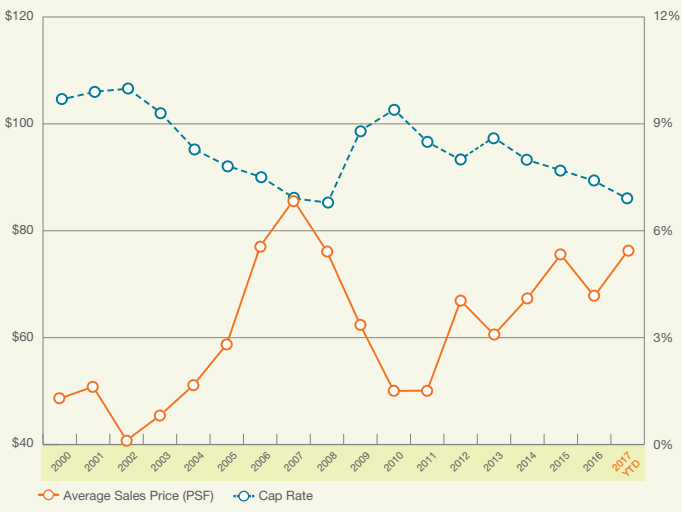
### VACANCY VS ASKING LEASE RATE



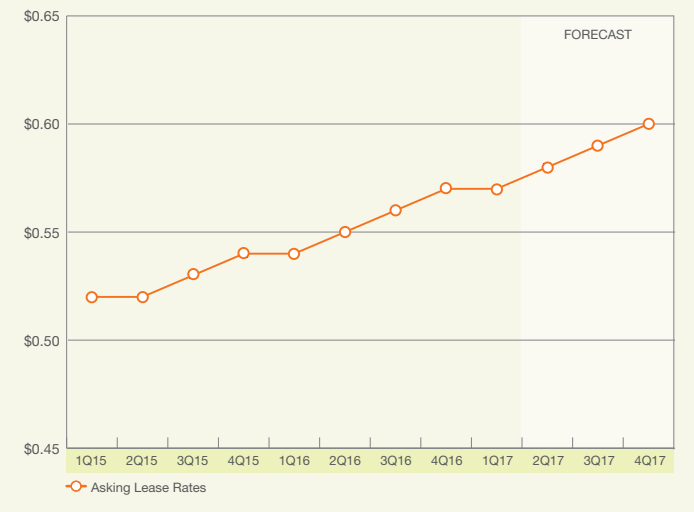
### VACANCY VS AVAILABILITY



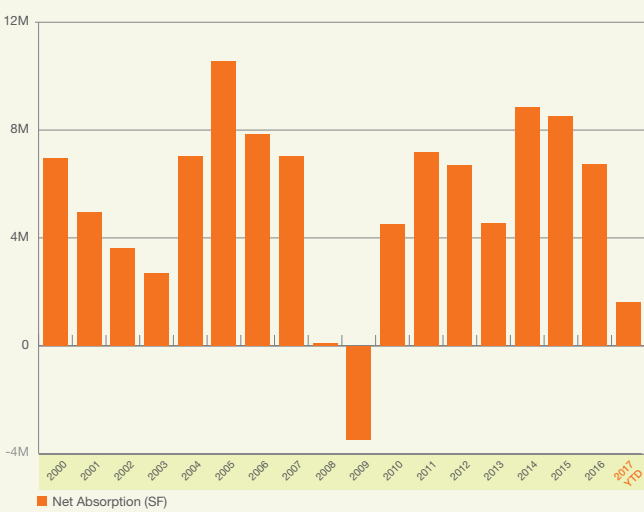
### AVERAGE SALES PRICE & CAPITALIZATION RATES



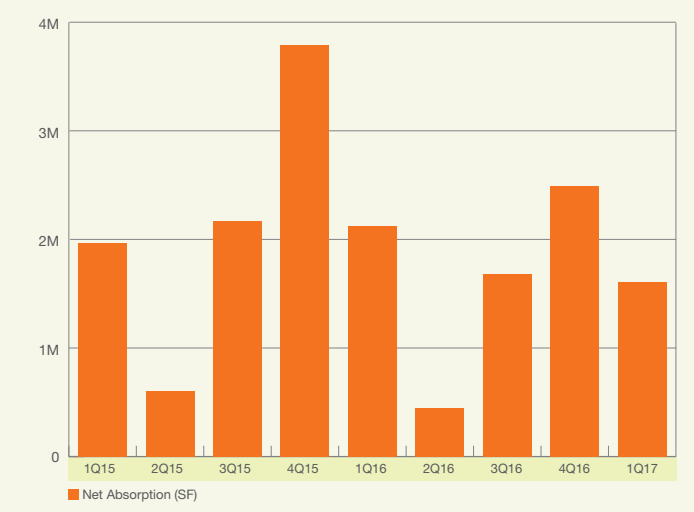
### ASKING LEASE RATE



### 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

Los Angeles  
213.880.5250

Long Beach  
562.472.0071

Commerce  
323.727.1144

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

**Contact**

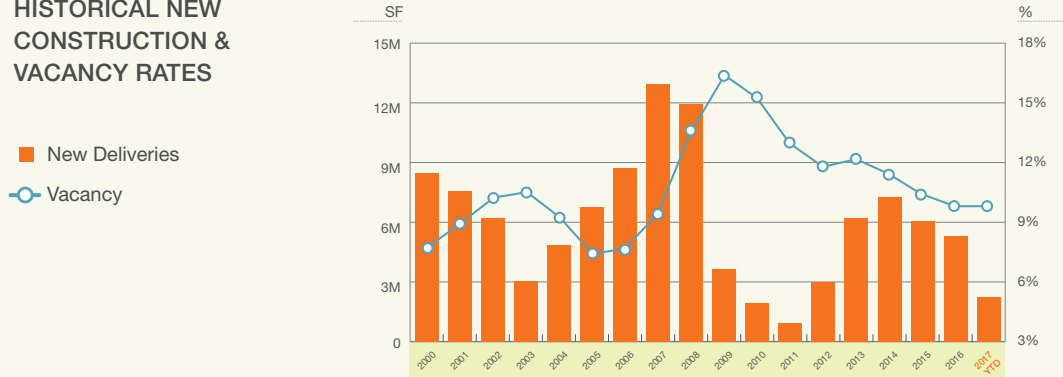
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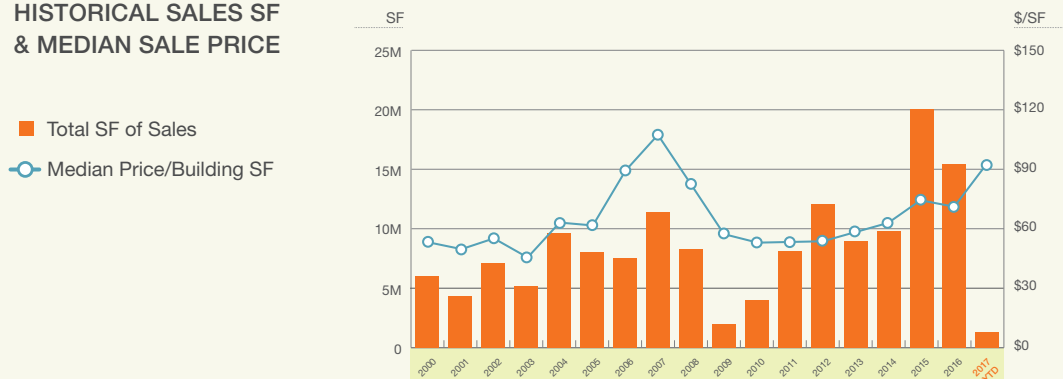
**Market Breakdown**

	1Q17	4Q16	1Q16	Annual % Change
Vacancy Rate	9.8%	9.8%	10.4%	-5.8%
Availability Rate	11.5%	11.3%	12.6%	-8.7%
Asking Lease Rate	\$0.57	\$0.57	\$0.54	5.6%
Leased SF	2,174,115	5,087,116	4,816,724	-54.9%
Sold SF	1,284,355	4,975,938	1,161,358	-24.0%
Net Absorption	1,607,533	2,487,174	2,119,300	N/A

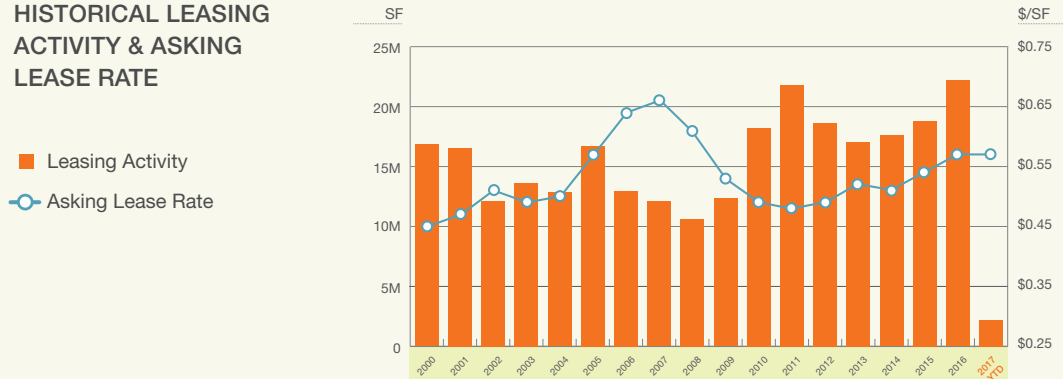
**HISTORICAL NEW CONSTRUCTION & VACANCY RATES**



**HISTORICAL SALES SF & MEDIAN SALE PRICE**



**HISTORICAL LEASING ACTIVITY & ASKING LEASE RATE**



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