

Real Estate Market Review

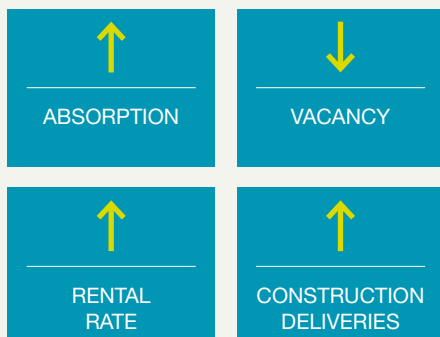
Phoenix Industrial

The Phoenix industrial real estate market continued to grow during the third quarter, as strong demand for space kept rental rates rising and vacancies trending downward. This quarter’s 2.4 million square feet of positive net absorption brought the year-to-date gain to more than 6.8 million square feet, and another 4.5 million square feet of industrial space is under construction. Total vacancy fell to 9.2%, down 140 basis points since the third quarter of last year. We expect increased competition for space and higher rates to persist during the fourth quarter and into 2018, as business expansion in a robust economy continues to outpace the rate of new construction. The Phoenix-area unemployment rate sits at 4.3%, a 50 basis point decrease from the 4.8% recorded at this time last year.

Vacancy rates were highest in the Southeast area, which came in at 10.5% overall during the third quarter. Chandler Airport led all Phoenix submarkets at 24.2% vacancy and Chandler was third at 17.1%. Northwest Phoenix was the tightest submarket cluster, at 6.9% vacancy, with West Phoenix North of Thomas Road showing the lowest vacancy rate of all submarkets at 3.0%, and West Phoenix South of Thomas Road close behind at 3.6%. Vacancies declined despite 1.7 million square feet of new deliveries during the third quarter, but the 4.5 million square feet of inventory currently under construction could temporarily ease the tightening market.

Asking rental rates for all industrial properties rose to \$0.59 per square foot on a triple-net basis, which represents a 7.3% year-over-year increase in rates. Asking rates are highest in the Northeast cluster submarket at an average of \$0.99 per square foot, because flex properties comprise a larger share of the industrial stock there. By contrast, the lowest rates are found in Pinal County, which reported an average asking rent of \$0.36 per square foot, on a triple-net basis. Across the Phoenix market, asking rental rates for warehouse and distribution space averaged \$0.57 per square foot, while flex spaces are on the market for an average \$1.11 per square foot.

Market Forecast Trends



Notable Lease Transactions

- Amazon**
5333 W Lower Buckeye Rd, SW S of Buckeye Rd
473,209 s.f. leased
- Aquafil Carpet Recycling**
3555 W Washington St, SW N of Buckeye Rd
116,890 s.f. leased
- Modern Industries Aerospace**
2925 S Roosevelt St, Tempe SW
101,601 s.f. leased

- Prime Time Commerce LLC**
4703 W Brill St, SW N of Buckeye Rd
72,158 s.f. leased
- Veracity**
4417 W Buckeye Rd, SW S of Buckeye Rd
60,000 s.f. leased

Area Review

Submarket Statistics

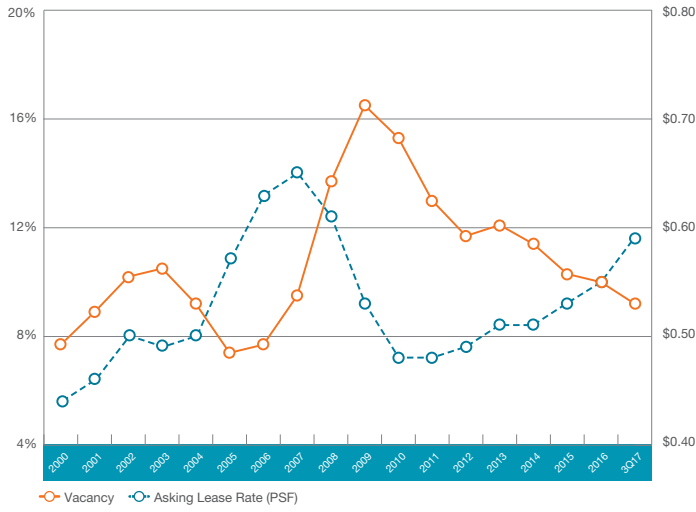
Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Q3 Net Absorption	YTD Net Absorption	Q3 Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
North Airport	11,870,451	10.8%	11.0%	74,989	390,812	38,106	243,345	\$0.71
South Airport North of Roeser	14,896,442	15.7%	15.8%	187,196	654,123	126,397	993,209	\$0.74
South Airport South of Roeser	4,235,129	4.0%	6.6%	(35,043)	(99,312)	640	53,781	\$0.50
SC North of Salt River	14,216,686	7.4%	7.6%	153,678	153,678	250,784	315,151	\$0.59
SC South of Salt River	2,058,173	19.4%	19.4%	6414	9,708	0	14,708	\$0.58
Airport Area	47,276,971	11.1%	11.4%	387,234	1,228,491	297,047	1,620,194	\$0.69
Central Phoenix	3,288,409	3.8%	3.9%	(1,320)	32,979	11,545	66,041	\$0.89
Scottsdale Airpark	6,407,644	10.3%	10.9%	(14,514)	(78,232)	98,448	334,464	\$1.02
Scottsdale/Salt River	5,279,776	4.9%	4.9%	109,144	64,722	16,748	215,108	\$0.97
Northeast	14,975,729	7.0%	7.2%	93,310	19,469	126,741	615,613	\$0.99
Deer Valley/Pinnacle Park	15,230,726	7.0%	7.3%	160,663	108,008	253,492	662,660	\$0.75
Glendale	8,869,943	13.6%	13.6%	1,207,143	1,230,543	5,575	696,529	\$0.45
Grand Avenue	11,665,831	4.8%	4.8%	(78,049)	144,315	37,219	110,699	\$0.42
North Glendale/Sun City	3,228,718	5.4%	5.6%	4,990	(9,955)	33,145	85,841	\$0.57
North Black Canyon	4,011,506	11.0%	11.0%	(23,751)	(12,259)	102,888	181,614	\$0.71
West Phoenix North of Thomas Road	7,117,234	3.0%	3.0%	41,316	7,803	90,736	262,234	\$0.39
West Phoenix South of Thomas Road	6,369,674	3.6%	3.6%	16,870	(74,816)	49,396	127,093	\$0.32
Northwest	56,493,632	6.9%	7.0%	1,329,182	1,393,639	572,451	2,126,670	\$0.58
Pinal County	8,347,247	7.6%	7.6%	35,826	19,885	6,575	57,368	\$0.36
Chandler Airport	3,314,944	24.2%	24.2%	29,057	255,106	31,565	156,803	\$0.87
Chandler	20,215,022	17.0%	17.1%	103,465	281,965	95,965	367,193	\$0.83
Chandler North/Gilbert	17,608,650	7.8%	8.3%	62,351	251,952	153,178	784,323	\$0.66
Falcon Fld/Apache Junction	4,136,165	4.0%	4.0%	(11,960)	40,454	27,646	57,637	\$0.75
Mesa	6,282,753	4.7%	4.7%	49,021	60,974	98,474	302,932	\$0.64
Tempe East	5,684,035	5.5%	10.5%	(4,338)	(50,943)	81,647	296,316	\$0.46
Tempe Northwest	10,596,040	6.3%	6.4%	(20,213)	79,866	109,028	333,431	\$0.76
Tempe Southwest	21,117,341	8.5%	9.0%	(300,995)	(398,750)	249,753	901,104	\$0.70
Southeast	88,954,950	10.0%	10.5%	(93,611)	622,510	847,256	3,199,739	\$0.74
Goodyear	10,431,860	8.4%	8.4%	(42,806)	847,661	19,997	168,346	\$0.40
Southwest North of Buckeye Road	31,942,072	7.2%	7.2%	269,785	218,159	299,551	1,067,592	\$0.39
Southwest South of Buckeye Road	16,737,201	10.7%	10.7%	329,851	679,790	133,094	1,104,234	\$0.54
Tolleson	34,949,835	8.8%	9.0%	149,873	1,826,367	263,279	1,473,685	\$0.37
Southwest	94,060,968	8.5%	8.6%	706,703	3,571,977	715,921	3,813,857	\$0.41
Manufacturing & Warehouse	189,013,227	7.4%	7.7%	587,607	2,507,912	1,469,986	6,159,521	\$0.57
General Industrial	88,186,939	10.6%	10.7%	1,696,631	4,022,368	597,336	3,536,784	\$0.45
Flex	4,142,348	12.8%	13.1%	88,520	175,982	468,731	1,659,115	\$1.11
Phoenix Total	310,234,355	9.0%	9.2%	2,425,644	6,822,971	2,565,991	11,433,441	\$0.59

Manufacturing and warehouse properties reported 1.47 million square feet of positive net absorption this quarter, ticking total vacancies down to 7.7%. Meanwhile, general industrial properties saw 597,336 square feet of positive net absorption, which brought vacancies down to 10.7%, and flex properties recorded 468,731 square feet of positive net absorption, which reduced vacancies to 13.1%.

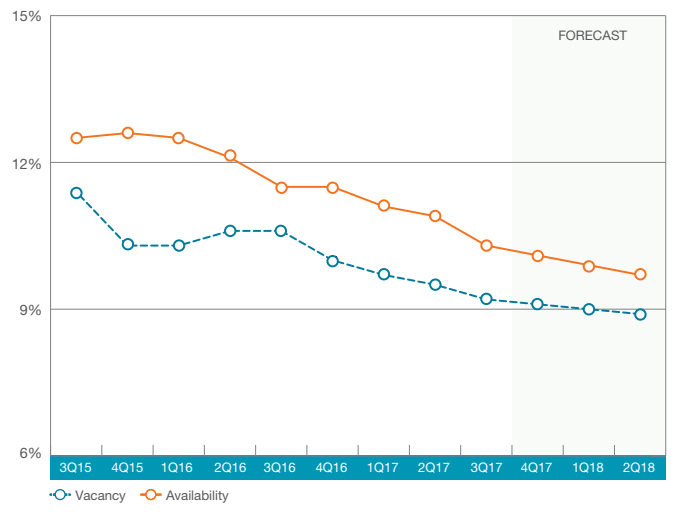
Total sales activity this quarter was consistent with the past few periods, amassing \$335 million in dollar volume, up from \$246 million during the second quarter. The median sale price for industrial assets stayed at \$93 per square foot. The median cap rate was 6.9%, down from 7.1% at this time last year.

Data Source: CoStar

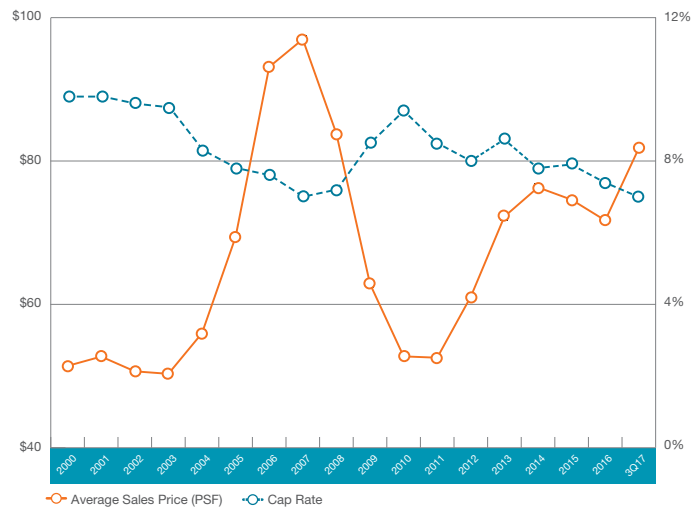
VACANCY VS ASKING LEASE RATE



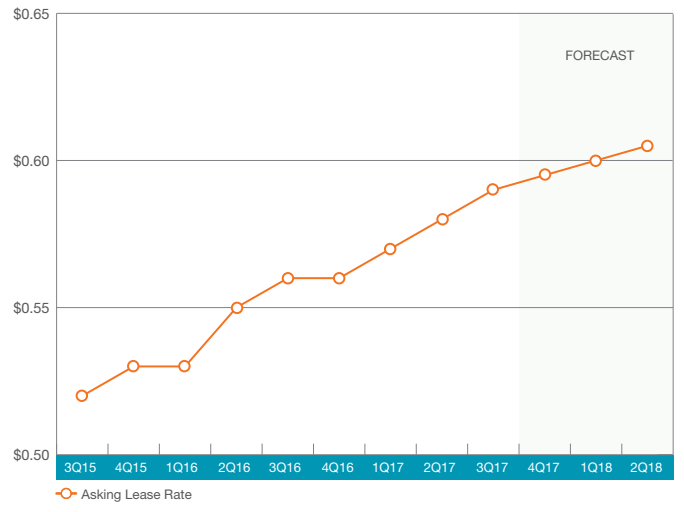
VACANCY VS AVAILABILITY



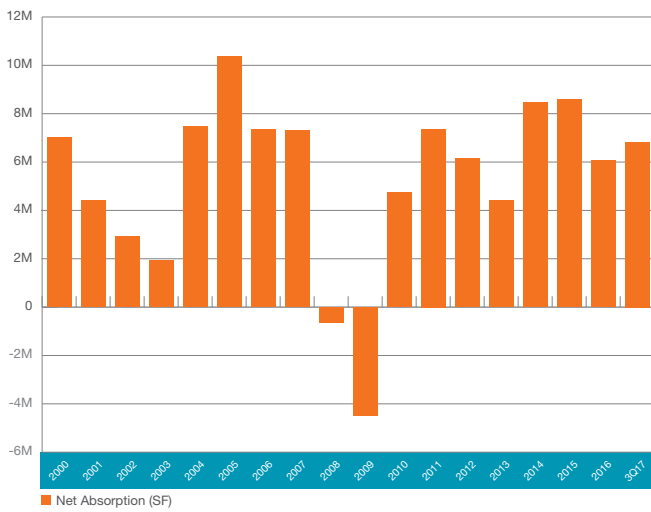
AVERAGE SALES PRICE & CAPITALIZATION RATES



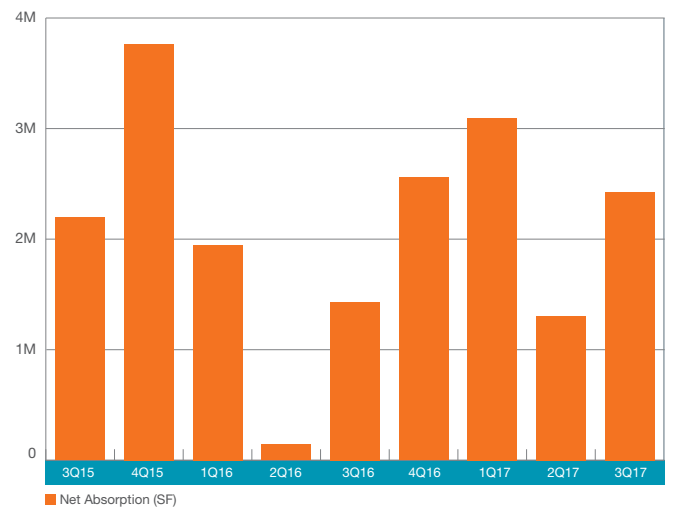
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Market Breakdown

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

Commerce
323.727.1144

Long Beach
562.472.0071

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

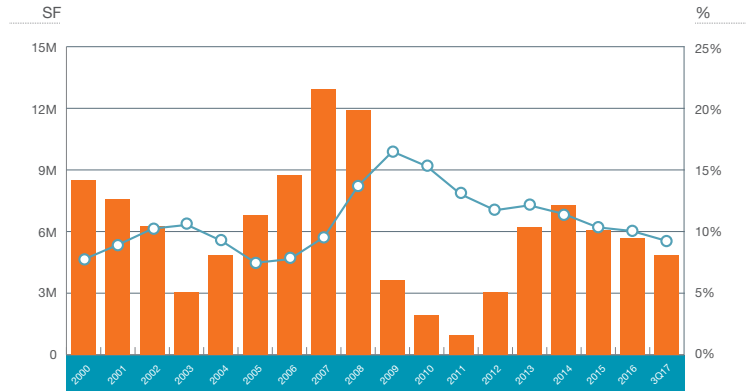
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	Q3 2017	Q2 2017	Q3 2016	Annual % Change
Vacancy Rate	9.2%	9.5%	10.6%	-13.2%
Availability Rate	10.3%	10.9%	11.5%	-10.4%
Asking Lease Rate	\$0.59	\$0.58	\$0.55	7.3%
Leased SF	2,565,991	3,980,825	6,694,596	-61.7%
Sold SF	6,645,611	5,084,093	8,419,066	-21.0%
Net Absorption	2,425,644	1,304,010	1,431,616	N/A

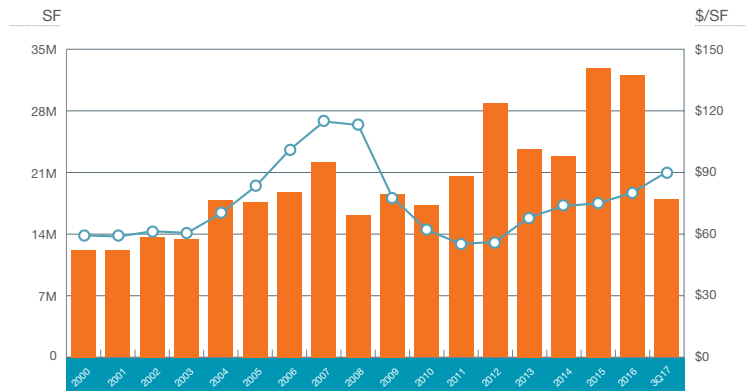
HISTORICAL NEW CONSTRUCTION & VACANCY RATE

■ New Deliveries
○ Vacancy Rate



HISTORICAL SALES ACTIVITY & MEDIAN SALES PRICE

■ Total Square Feet of Sales
○ Median Price/Building SF



HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES

■ Leasing Activity
○ Asking Lease Rate

