

**Real Estate Market Review**

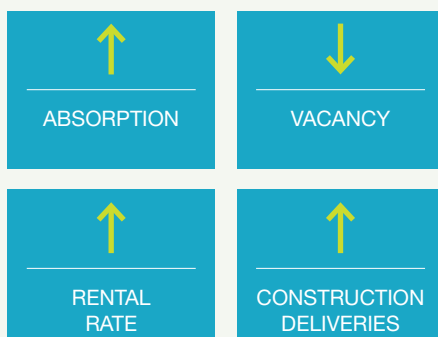
# Phoenix Industrial

The Phoenix industrial real estate market ended the year with a record breaking 10 million square feet of net absorption, a notable drop in vacancy and increasing rental rates. The market-wide total for new construction also jumped to a post-recession record high, totalling approximately 6.6 million square feet that came online in 2017. However, the new developments did little to relieve the pressure of the decreasing vacancy rate, as many projects were preleased before completing. We expect increased competition for space and higher rates to continue into the coming New Year, in spite of new construction, as a result of the strong economy and business expansion. The Phoenix unemployment rate sits at 3.9%, a 40 basis point decrease from the 4.3% recorded this time last year.

The submarkets with the highest direct vacancy rates include Chandler Airport at 23.5%, SC South of Salt River at 19.4%, and South Airport North of Roeser with 13.7%. Clusters with the least vacant space include West Phoenix North and South of Thomas Road at 1.8% and 2.6%, respectively, and South Airport South of Roeser at 3.4%. With only 30.4 million square feet available market-wide, the market is tighter than it has been since 2007. However, with over almost 6 million square feet of industrial space under construction, and a large majority of the projects due to complete in 2018, this could temporarily ease the tight market.

Asking rental rates for all industrial properties increased at an average of \$0.58 per square foot on a triple-net basis. This represents a \$0.03 increase when comparing year-over-year in rates. Asking rates are highest in Northeast cluster submarkets at an average of \$0.98 per square foot, because a larger share of the industrial product located here is comprised of flex properties. By contrast, the lowest rates are found in Pinal County, which reported an average asking rent of \$0.38 per square foot, on a triple-net basis. Across the Phoenix market, asking rental rates for warehouse and manufacturing space averaged

## Market Forecast Trends



## Notable Lease Transactions

**Amazon**  
5333 W Lower Buckeye Rd, SW S of Buckeye Rd  
473,209 s.f. leased

**UPS**  
16601 W Sells St, Glendale  
618,350 s.f. leased

**Essident, Inc.**  
1500 S 71st Ave, Phoenix  
263,179 s.f. leased

**Updike Distribution Logistics**  
1010 N 47th Ave, SW N of Buckeye Rd  
226,736 s.f. leased

**Danby Products**  
10397 W Van Buren St, Tolleson  
155,520 s.f. leased

# Area Review

## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Q4 Net Absorption	YTD Net Absorption	Q4 Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
North Airport	11,894,154	9.5%	9.7%	148,537	539,349	169,965	424,560	\$0.72
South Airport North of Roeser	14,767,405	13.7%	13.9%	193,249	869,902	168,888	1,275,504	\$0.68
South Airport South of Roeser	4,258,137	3.4%	6.1%	23,526	(54,778)	41,196	102,377	\$0.53
SC North of Salt River	14,166,364	6.0%	6.1%	200,901	475,243	250,260	606,593	\$0.88
SC South of Salt River	2,058,173	19.4%	19.4%	0	9,708	0	14,708	\$0.57
<b>Airport Area</b>	<b>47,144,233</b>	<b>9.7%</b>	<b>10.0%</b>	<b>566,213</b>	<b>1,839,424</b>	<b>630,309</b>	<b>2,423,742</b>	<b>\$0.70</b>
Central Phoenix	3,393,045	5.1%	5.1%	16,505	49,484	49,428	115,469	\$0.90
Scottsdale Airpark	6,408,760	9.1%	9.8%	65,852	(5,468)	128,453	504,509	\$1.00
Scottsdale/Salt River	5,278,927	5.6%	5.7%	(39,533)	25,189	36,116	271,877	\$0.96
<b>Northeast</b>	<b>15,080,732</b>	<b>7.0%</b>	<b>7.3%</b>	<b>42,824</b>	<b>69,205</b>	<b>213,997</b>	<b>891,855</b>	<b>\$0.98</b>
Deer Valley/Pinnacle Park	15,704,143	8.8%	9.1%	161,583	243,280	72,981	785,115	\$0.74
Glendale	8,694,825	8.0%	8.0%	520,478	1,563,946	8,179	704,708	\$0.45
Grand Avenue	11,681,525	4.4%	4.6%	23,938	167,953	66,809	228,208	\$0.43
North Glendale/Sun City	3,228,718	5.8%	5.8%	(6,147)	(16,102)	28,545	114,386	\$0.60
North Black Canyon	4,043,623	9.3%	9.4%	59,981	47,722	52,925	234,539	\$0.71
West Phoenix North of Thomas Road	7,117,234	1.8%	1.9%	37,463	89,526	63,246	384,140	\$0.41
West Phoenix South of Thomas Road	6,383,123	2.6%	2.6%	59,167	(15,749)	115,988	243,081	\$0.37
<b>Northwest</b>	<b>56,853,191</b>	<b>6.1%</b>	<b>6.2%</b>	<b>856,463</b>	<b>2,080,576</b>	<b>408,673</b>	<b>2,694,177</b>	<b>\$0.59</b>
<b>Pinal County</b>	<b>8,408,711</b>	<b>4.1%</b>	<b>4.1%</b>	<b>300,479</b>	<b>318,864</b>	<b>8,832</b>	<b>66,200</b>	<b>\$0.38</b>
Chandler Airport	3,270,162	23.5%	23.6%	(7,683)	283,793	158,784	315,587	\$0.83
Chandler	18,097,176	5.6%	6.2%	203,516	485,481	13,242	573,952	\$0.78
Chandler North/Gilbert	17,603,175	6.1%	6.7%	107,845	359,097	226,249	1,010,572	\$0.65
Falcon Fld/Apache Junction	4,117,165	4.1%	5.0%	(47,309)	(6,855)	42,419	102,996	\$0.77
Mesa	6,307,302	5.9%	5.9%	(70,995)	(9,621)	134,241	468,144	\$0.64
Tempe East	5,674,531	5.1%	10.1%	15,125	72,321	50,774	350,450	\$0.52
Tempe Northwest	10,532,933	6.4%	6.5%	(1,407)	78,859	84,165	450,803	\$0.77
Tempe Southwest	21,280,926	9.2%	9.8%	(34,844)	(426,612)	100,112	1,059,689	\$0.67
<b>Southeast</b>	<b>86,883,370</b>	<b>7.3%</b>	<b>8.0%</b>	<b>164,248</b>	<b>836,463</b>	<b>809,986</b>	<b>4,332,193</b>	<b>\$0.71</b>
Goodyear	11,141,282	13.0%	13.0%	218,877	1,066,538	117,138	348,117	\$0.39
Southwest North of Buckeye Road	31,987,562	5.7%	5.8%	373,777	621,120	219,109	1,383,249	\$0.39
Southwest South of Buckeye Road	16,883,699	10.0%	10.0%	105,128	812,118	7,935	1,112,169	\$0.54
Tolleson	35,387,050	7.9%	8.2%	414,949	2,504,495	156,340	1,973,797	\$0.38
<b>Southwest</b>	<b>95,399,593</b>	<b>7.9%</b>	<b>8.2%</b>	<b>1,112,731</b>	<b>5,004,271</b>	<b>500,522</b>	<b>4,817,332</b>	<b>\$0.41</b>
Manufacturing & Warehouse	190,303,952	6.3%	6.7%	1,301,163	4,316,031	1,827,143	8,641,324	\$0.57
General Industrial	88,215,648	9.0%	9.2%	1,718,520	5,657,103	345,600	4,336,076	\$0.44
Flex	31,250,230	11.7%	12.3%	23,275	175,669	399,576	2,248,099	\$1.04
<b>Phoenix Total</b>	<b>309,769,830</b>	<b>7.6%</b>	<b>8.0%</b>	<b>3,042,958</b>	<b>10,148,803</b>	<b>2,572,319</b>	<b>15,225,499</b>	<b>\$0.58</b>

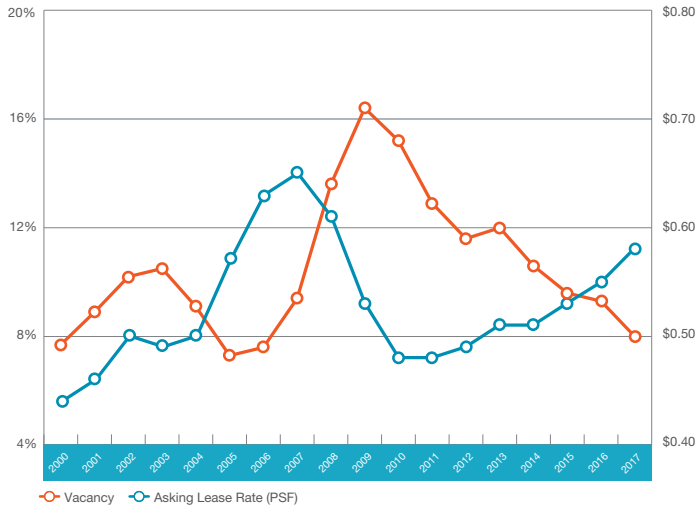
\$0.57 per square foot, while flex spaces are on the market for an average \$1.04 per square foot.

Flex properties recorded 255,000 square feet of positive net absorption at the end of 2017, dropping direct vacancy down to 11.7%. Meanwhile, the manufacturing and warehouse market was active this past year, with 4.3 million square feet of positive net absorption lowering direct vacancy to 6.3%.

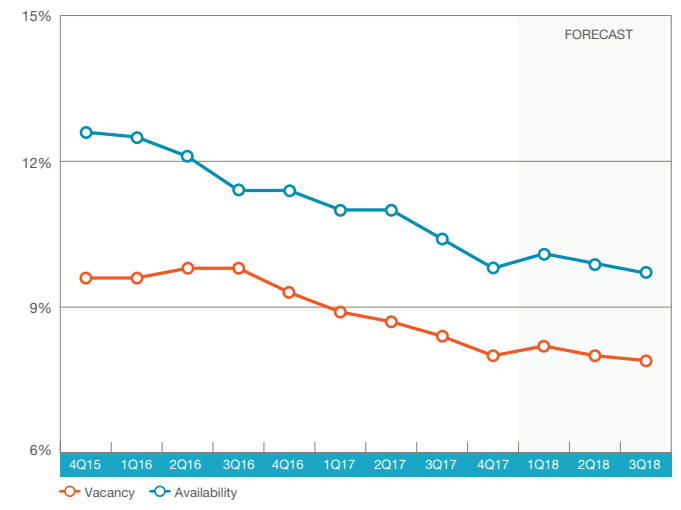
Total sales activity dropped slightly with dollar volume in 2017 reaching \$1.4 billion, a slight decrease from the \$1.7 billion worth of industrial real estate that transacted in 2016 last year. The median sale price for industrial assets was \$91 per square foot. Median cap rates decreased to 7% from 7.38% this time last year.

Data Source: CoStar

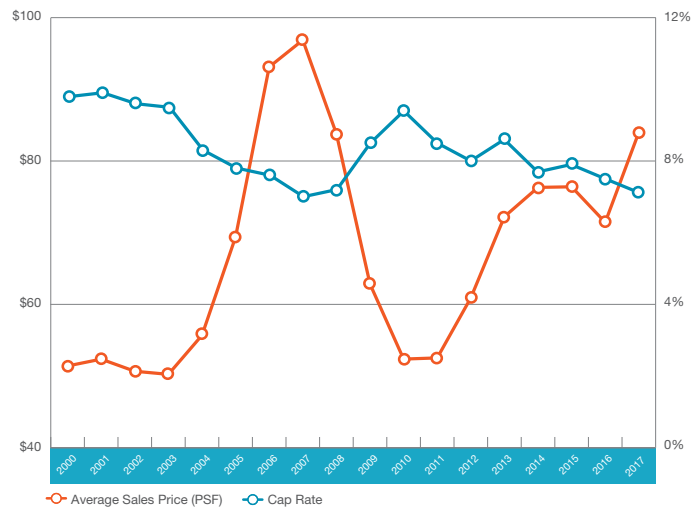
### VACANCY VS ASKING LEASE RATE



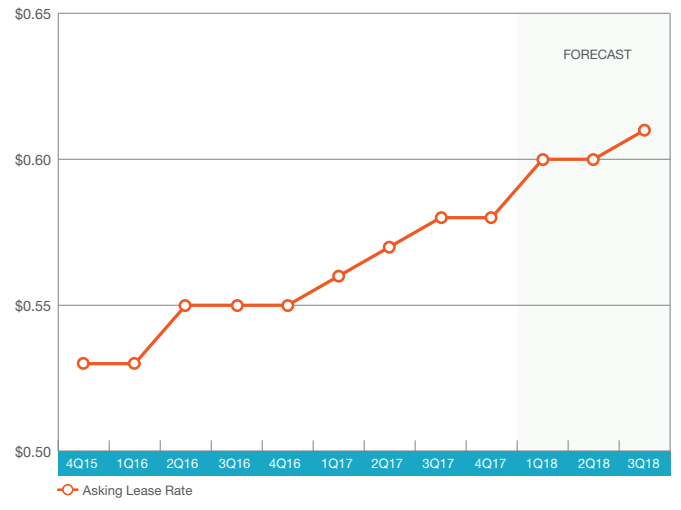
### VACANCY VS AVAILABILITY



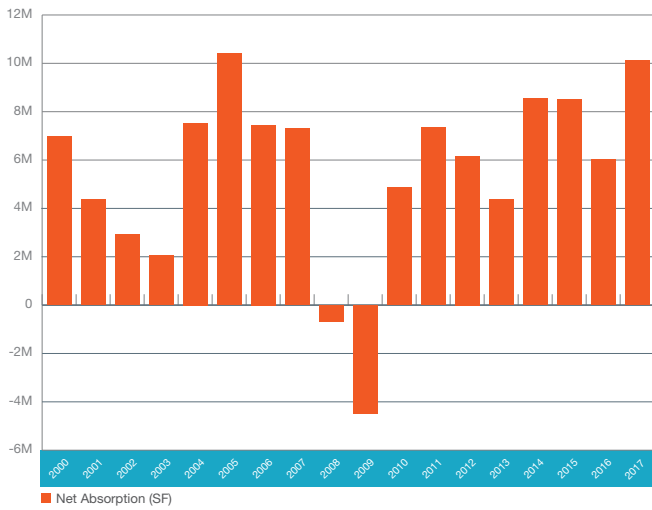
### AVERAGE SALES PRICE & CAPITALIZATION RATES



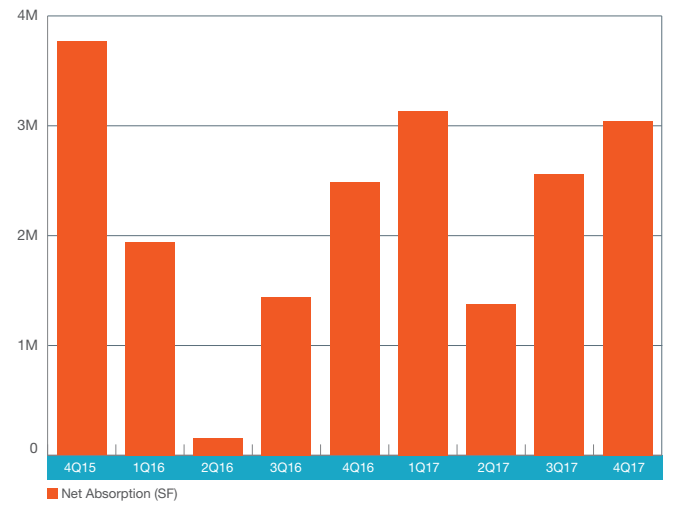
### ASKING LEASE RATE



### 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

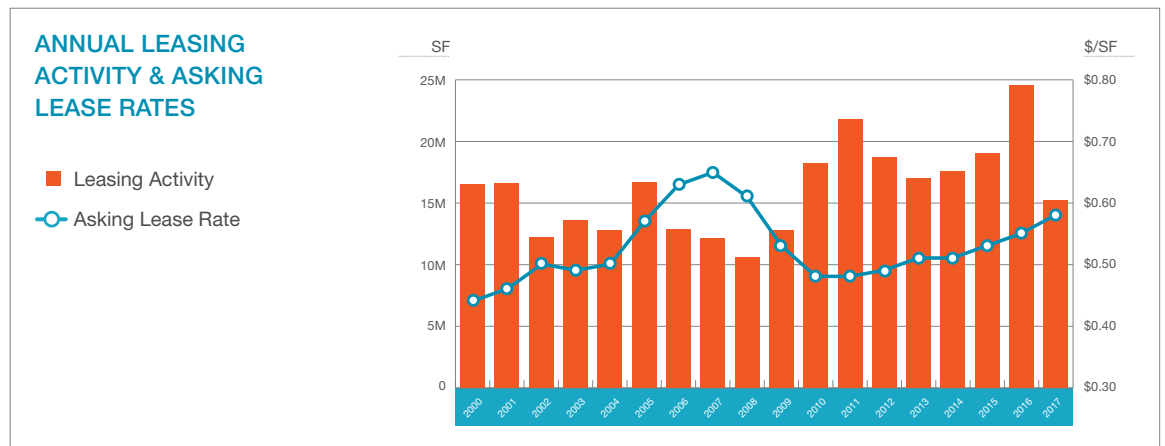
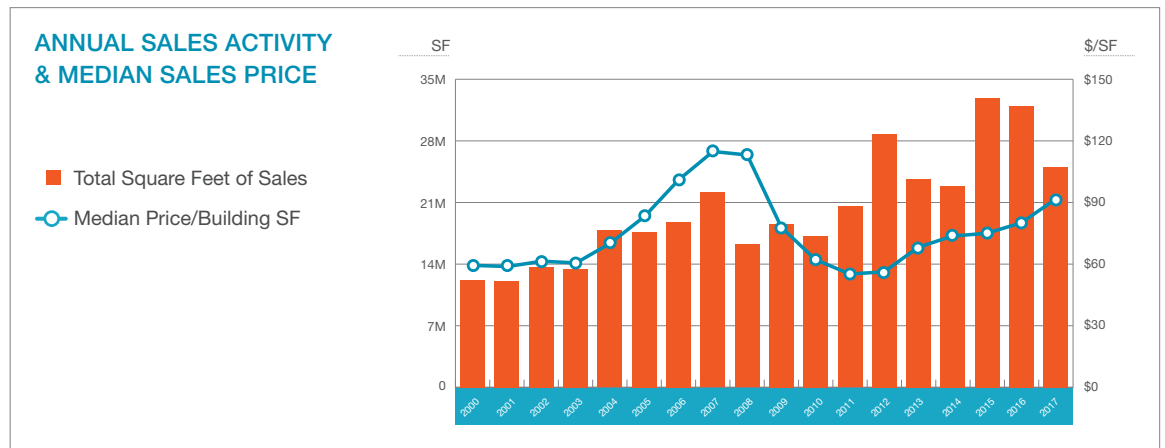
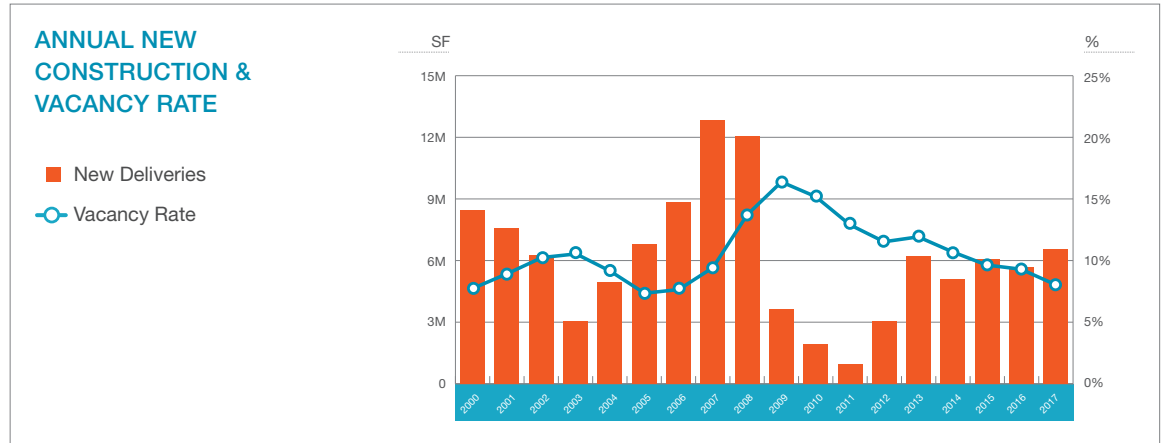
**Phoenix**  
602.513.5200

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	2017	2016	2015	Annual % Change
Vacancy Rate	8.0%	9.3%	9.6%	-16.7%
Availability Rate	9.8%	11.4%	12.6%	-22.2%
Asking Lease Rate	\$0.58	\$0.55	\$0.53	9.4%
Leased SF	15,225,499	24,581,360	19,011,977	-19.9%
Sold SF	25,039,540	31,978,284	32,849,878	-23.8%
Net Absorption	2,425,644	1,304,010	32,849,878	N/A



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