

Real Estate Market Review

Phoenix Industrial

The Phoenix Industrial real estate market started the year with strong leasing activity, increasing development and post-recession record high in rental rates and record low in vacancy. Net absorption posted at a solid 1.3 million square feet of positive absorption, and the development pipeline has hit a record high of approximately 6.3 million square feet currently under construction. This is another record high for the Phoenix Industrial market in this cycle, with 2007 being the last time the market has experienced such a high volume of expansion. We expect increased competition for space and higher rates to continue throughout 2018, in spite of all the new construction, as a result of the strong economy and business expansion. Although the Phoenix unemployment rate sits at 4.5% as of February 2018, unchanged from the same rate this time last year, the Industrial market is showing no signs of slowing down.

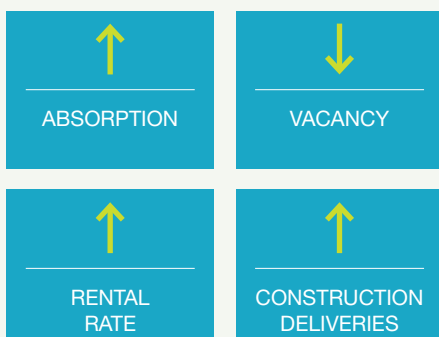
Vacancy rates posted a record low at 7.5%, down 20 basis points from last quarter and down over 1% from first quarter of last year. The submarkets with the highest direct vacancy rates include SC South of Salt River at 19.7%, Chandler Airport at 18.7%, and South Airport North of Roeser with 14.5%. Submarkets with the least vacant space include West Phoenix South of Thomas Road at 2.4%, West Phoenix North of Thomas Road at 2.9% and Pinal County at 3.8%. With a majority of the 6.3 million square feet of industrial space under construction due to deliver by year-end, it could temporarily ease the downward pressure of the tightening market.

Asking rental rates for all industrial properties ended at a record high for the first quarter at an average price of \$0.59 per square

foot on a triple-net basis, which represents a 5.36% year-over-year increase in rates. Asking rates are highest in the Northeast cluster submarket at an average of \$0.98 per square foot, which reflects the larger share of flex properties comprised in this cluster, as opposed to other industrial types. By contrast, the lowest rates are found in Pinal County, which reported an average asking rent of \$0.37 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 \$1.04 per square foot.

Flex properties had a slow but steady start to the year, posting 66,000 square feet of positive absorption and a decreased vacancy

Market Forecast Trends



Notable Lease Transactions

Living Spaces
6600 W Latham St, North of Buckeye Rd
37,234 s.f. leased

QEP
10397 W Van Buren St, Tolleson
122,622 s.f. leased

ThreadUp
7775 W Buckeye Rd, Tolleson
122,125 s.f. leased

Kovach, Inc
9230 S Farmer Ave, Tempe Southwest
99,017 s.f. leased

Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Q1 Net Absorption	YTD Net Absorption	Q1 Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
North Airport	11,966,691	7.2%	7.3%	160,518	160,518	76,574	76,574	\$0.72
South Airport North of Roeser	14,770,105	14.4%	14.5%	(80,957)	(80,957)	234,362	234,362	\$0.70
South Airport South of Roeser	4,271,113	4.1%	6.2%	(28,514)	(28,514)	23,571	23,571	\$0.56
SC North of Salt River	14,095,908	5.1%	5.1%	111,655	111,655	19,432	19,432	\$0.87
SC South of Salt River	2,058,837	19.7%	19.7%	-7209	(7,209)	0	0	\$0.57
Airport Area	47,162,654	9.1%	9.3%	155,493	155,493	353,939	353,939	\$0.72
Central Phoenix	3,514,841	4.5%	4.5%	8,479	8,479	16,095	16,095	\$0.93
Scottsdale Airpark	6,445,226	8.2%	8.8%	66,873	66,873	108,385	108,385	\$1.00
Scottsdale/Salt River	5,282,982	4.7%	4.7%	47,844	47,844	26,585	26,585	\$0.96
Northeast	15,243,049	6.1%	6.4%	123,196	123,196	151,065	151,065	\$0.98
Deer Valley/Pinnacle Park	15,883,420	9.3%	9.5%	92,063	92,063	240,513	240,513	\$0.72
Glendale	8,805,046	9.8%	9.8%	(53,985)	(53,985)	30,476	30,476	\$0.47
Grand Avenue	11,744,741	3.9%	4.2%	68,128	68,128	48,999	48,999	\$0.41
North Glendale/Sun City	3,240,562	4.8%	4.8%	34,041	34,041	62,426	62,426	\$0.61
North Black Canyon	4,043,623	10.0%	10.0%	(29,498)	(29,498)	36,935	36,935	\$0.70
West Phoenix North of Thomas Road	7,144,486	2.9%	2.9%	(75,861)	(75,861)	61,257	61,257	\$0.38
West Phoenix South of Thomas Road	6,383,123	2.4%	2.4%	18,072	18,072	55,909	55,909	\$0.37
Northwest	57,245,001	6.5%	6.6%	52,960	52,960	536,515	536,515	\$0.58
Pinal County	8,484,909	3.4%	3.8%	56,968	56,968	20,000	20,000	\$0.37
Chandler Airport	3,395,592	18.6%	18.7%	180,961	180,961	33,740	33,740	\$0.91
Chandler	20,756,931	5.9%	6.3%	(69,850)	(69,850)	80,685	80,685	\$0.77
Chandler North/Gilbert	17,669,832	5.4%	6.0%	84,707	84,707	264,253	264,253	\$0.65
Falcon Fld/Apache Junction	4,117,421	3.1%	4.0%	41,821	41,821	33,681	33,681	\$0.79
Mesa	6,405,944	6.9%	6.9%	(65,457)	(65,457)	187,887	187,887	\$0.61
Tempe East	5,701,493	4.9%	5.0%	44,420	44,420	106,193	106,193	\$0.56
Tempe Northwest	10,381,036	5.4%	5.5%	(9,878)	(9,878)	99,052	99,052	\$0.84
Tempe Southwest	20,849,066	9.2%	9.8%	23,324	23,324	498,585	498,585	\$0.69
Southeast	89,277,315	6.9%	7.3%	230,048	230,048	1,304,076	1,304,076	\$0.69
Goodyear	11,141,335	13.1%	13.1%	65,418	65,418	35,285	35,285	\$0.37
Southwest North of Buckeye Road	32,023,092	5.1%	5.3%	195,005	195,005	593,163	593,163	\$0.38
Southwest South of Buckeye Road	17,375,941	9.2%	9.2%	96,539	96,539	5,647	5,647	\$0.51
Tolleson	35,387,050	7.1%	7.4%	296,763	296,763	426,624	426,624	\$0.38
Southwest	95,927,418	7.5%	7.7%	653,725	653,725	1,060,719	1,060,719	\$0.40
Manufacturing & Warehouse	190,982,546	5.7%	6.0%	688,823	688,823	1,942,826	1,942,826	\$0.57
General Industrial	90,446,988	8.7%	8.8%	486,371	486,371	1,175,693	1,175,693	\$0.44
Flex	91,910,812	11.3%	11.8%	65,697	65,697	303,795	303,795	\$1.04
Phoenix Total	313,340,346	7.2%	7.5%	1,272,390	1,272,390	3,426,314	3,426,314	\$0.59

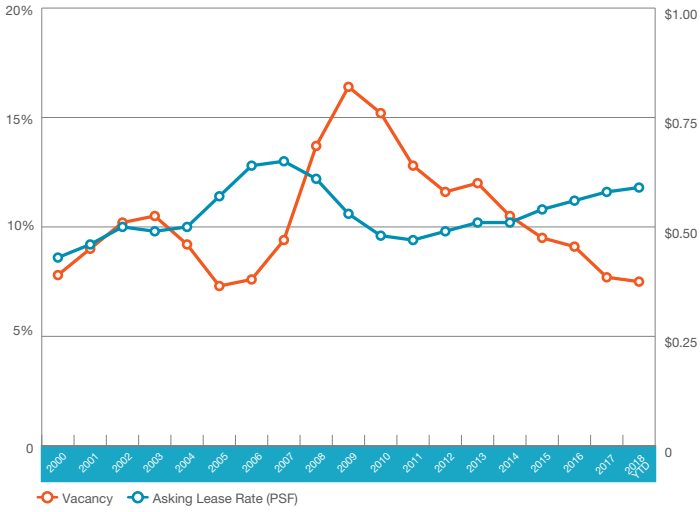
rate of 11.8%, compared to 12% from the previous quarter. Meanwhile, the manufacturing and warehouse market was active this quarter, with over 688,000 square feet of positive net absorption and almost 2 million square feet of total leasing activity.

Sale transactions were strong to start off the year with dollar volume reaching a substantial \$416 million, a major increase from the \$180 million worth of industrial real estate transacted in the first quarter

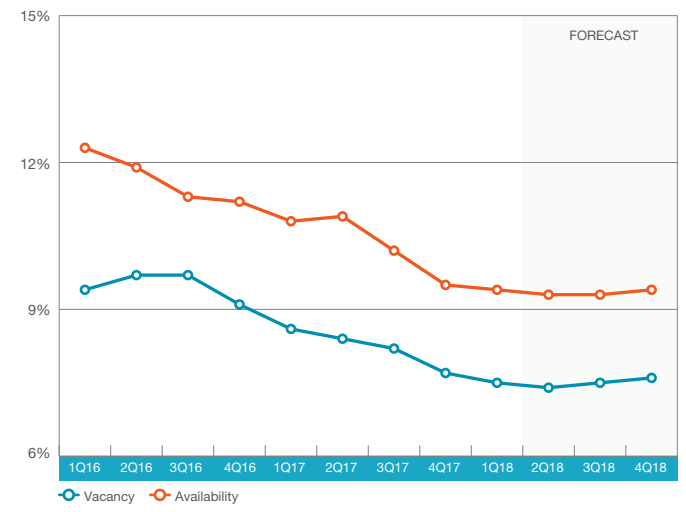
of last year. There was also a notable increase in year-over-year building volume at 4.6 million square feet compared to 2.6 million square feet. Investment activity was favorable in the first quarter, comprising approximately 66% of the total transactions. The median sale price for industrial investment assets was \$72 per square foot. Median cap rates decreased to 6.8% from 7.5% this time last year.

Data Source: CoStar

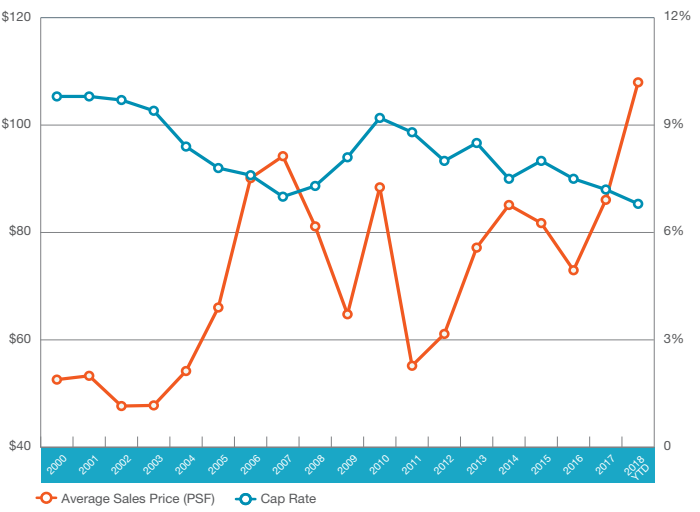
VACANCY VS ASKING LEASE RATE



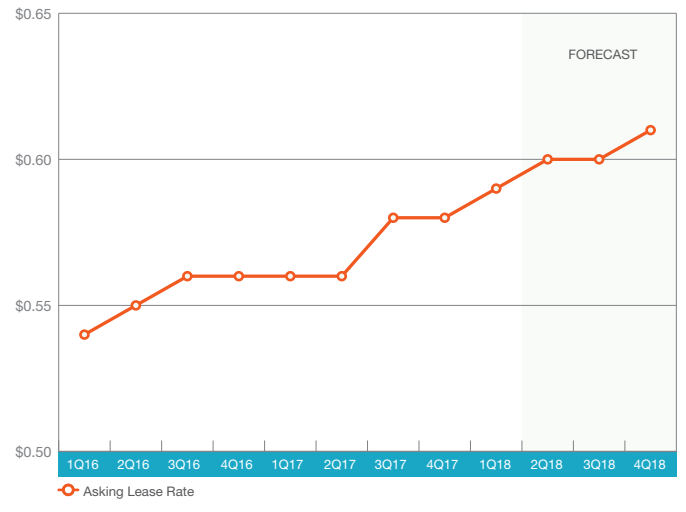
VACANCY VS AVAILABILITY



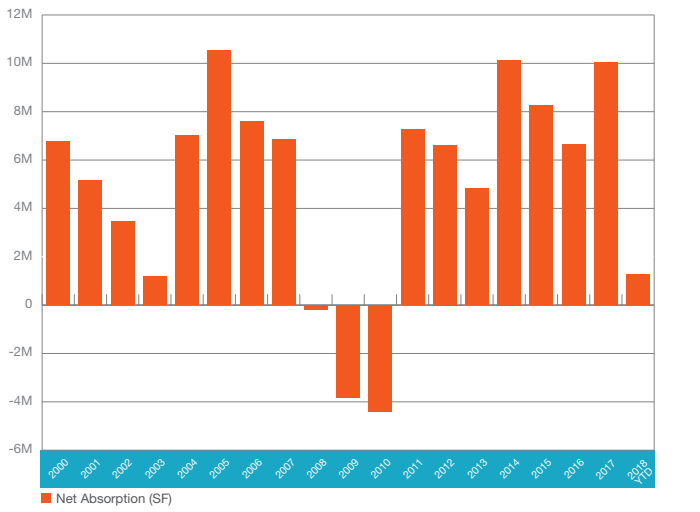
AVERAGE SALES PRICE & CAPITALIZATION RATES



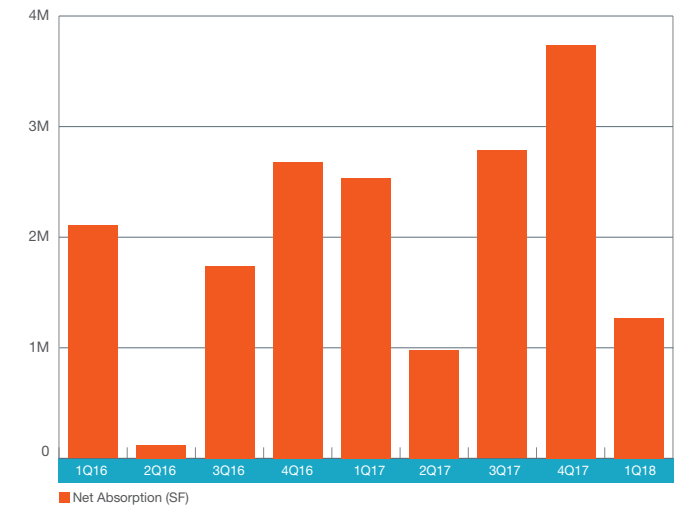
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



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

El Segundo
310.807.0880

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

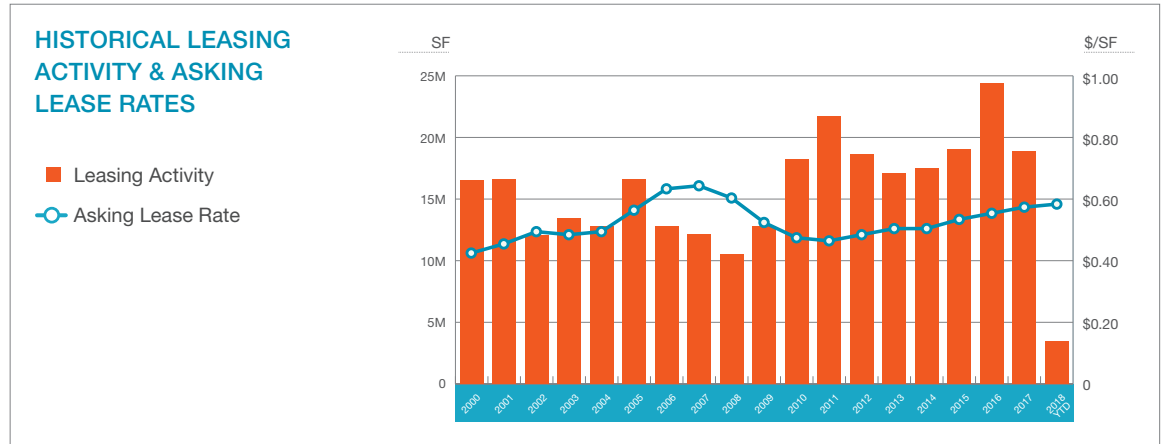
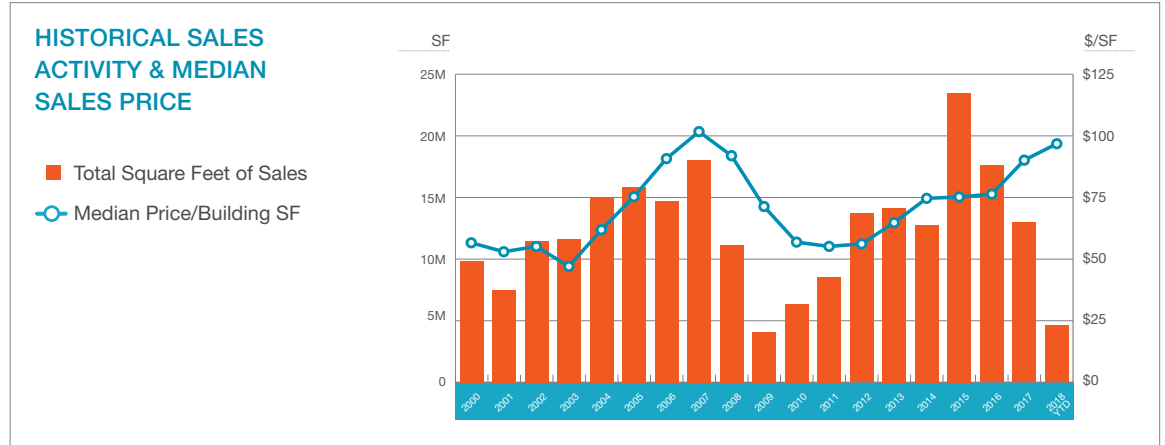
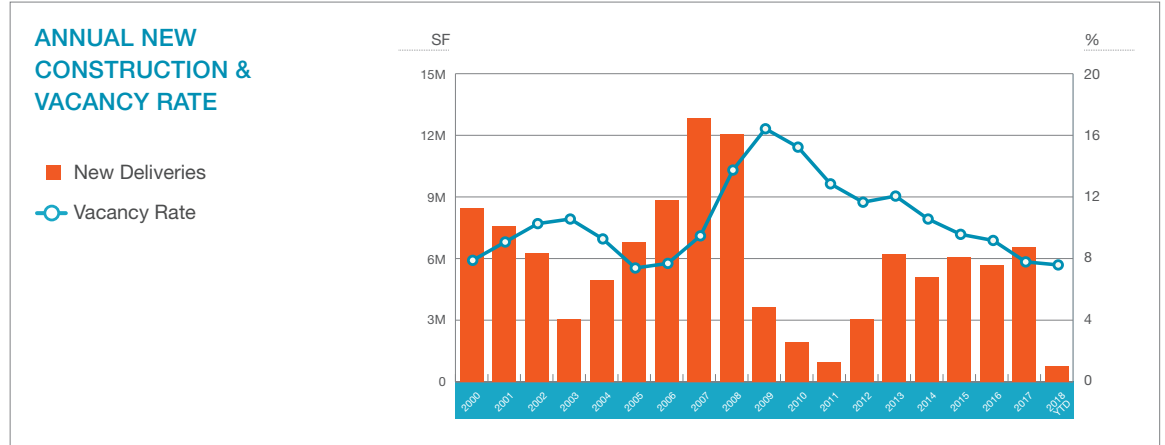
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Market Breakdown

	Q1 2018	Q4 2017	Q1 2017	Annual % Change
Vacancy Rate	7.50%	7.70%	8.60%	-12.79%
Availability Rate	9.40%	9.50%	10.80%	-12.96%
Asking Lease Rate	\$0.59	\$0.58	\$0.56	5.36%
Leased SF	3,426,314	3,563,765	5,899,899	-41.93%
Sold SF	4,615,926	4,578,383	2,584,329	78.61%
Net Absorption	1,272,390	3,740,448	2,536,586	N/A



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