

Real Estate Market Review

Phoenix Industrial

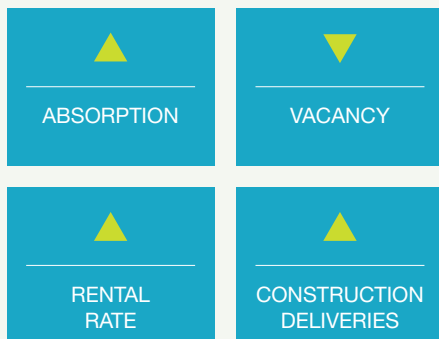
The Phoenix industrial real estate market showed no signs of slowing down in the second quarter, with robust leasing and sales activity, a record low in vacancy rate of 7.2%, and a post-recession record high in rental rates at \$0.58 per SF on a triple-net basis. Net absorption posted at a healthy 2.4M million square feet of positive absorption, and the development pipeline has hit a record high for this cycle with approximately 6.4 million square feet currently under construction, which the market hasn't experienced since 2007. The Phoenix unemployment rate dropped to 3.7% as of May 2018, down from 4.3% this time last year. We expect increased competition for space and higher rates to continue throughout the second half of 2018 as a result of the strong economy and business expansion.

Vacancy rates posted an all-time low of 7.2%, a notable dip of over 14% from second quarter of last year which posted at 8.4%. The Airport Area submarket cluster posted the highest vacancy rate at 8.4%, while Pinal County reflected the submarket cluster had the least amount of

vacant space at a tight 2.4%. With a majority of the 6.4 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.

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Market Forecast Trends



YEAR-TO-YEAR BASIS

Notable Lease Transactions

Blue Buffalo Pet Products, Inc.
16811 W Commerce Dr, Goodyear
540,349 s.f.

PillPack
3809 E Watkins St, North Airport
174,801 s.f.

Ball Manufacturing
PV 303, Glendale
160,000 s.f.

Notable Sale Transactions

Lincoln Property Company
2500 W Frye Rd, Chandler
160,000 s.f. | \$39.7M or \$248.13/s.f.

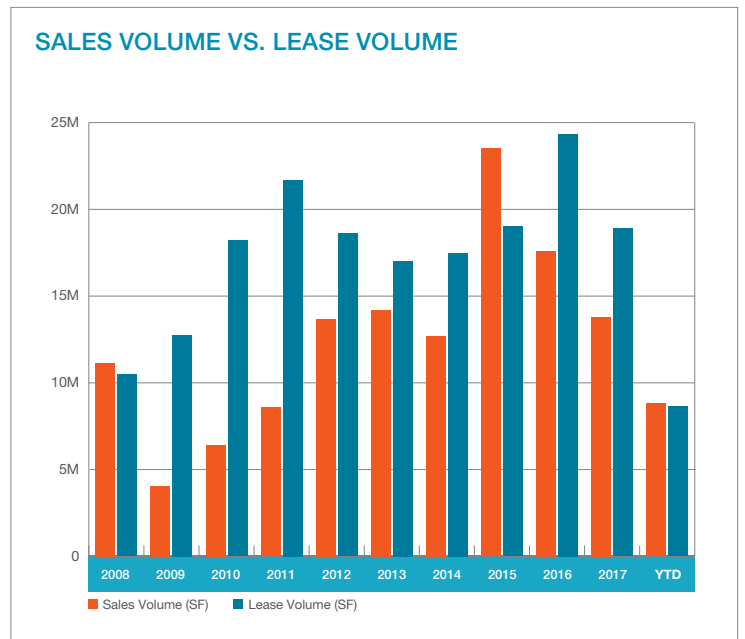
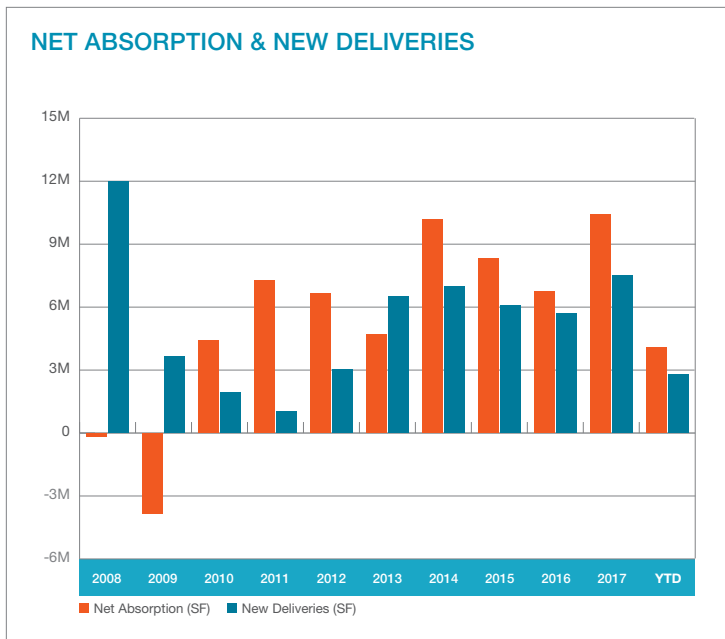
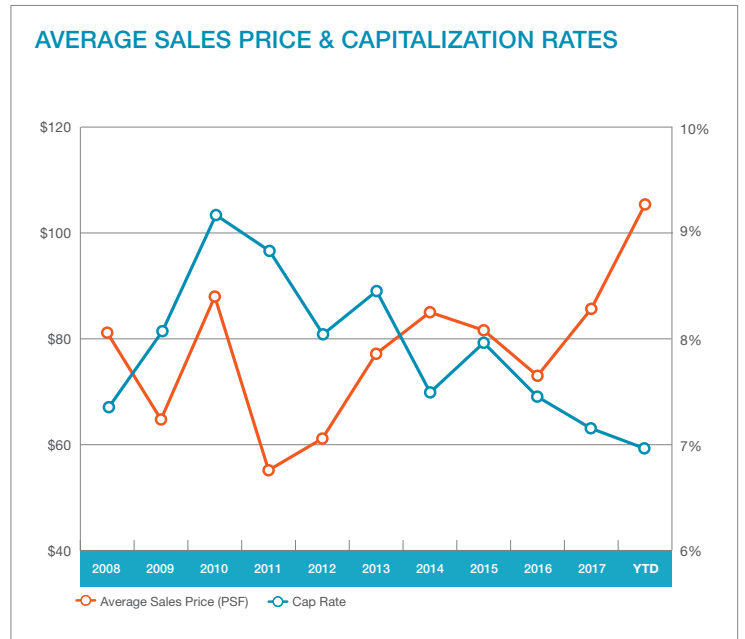
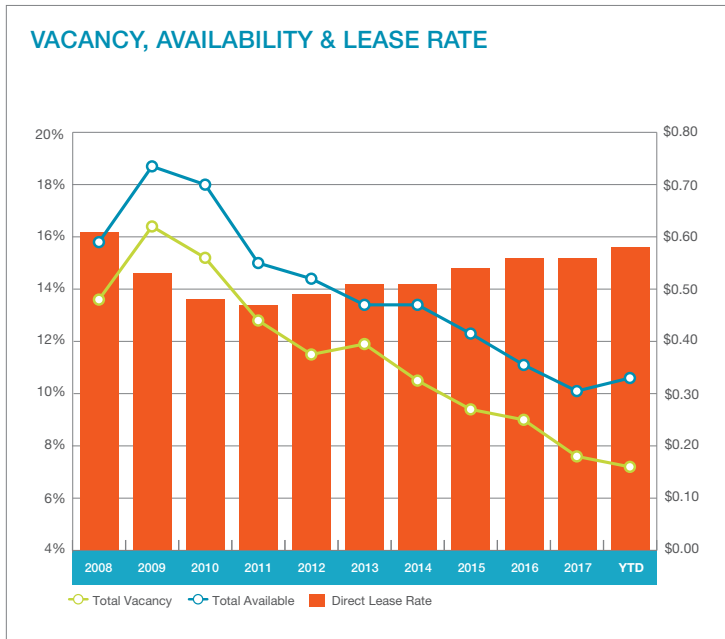
Meritex Enterprises, Inc.
2625 & 2675 S 16th St, S Airport N of Roeser
198,771 s.f. | \$23.7M or \$119.23/s.f.

Bixby Land Co. & AXA Investment Managers
5670 S 32nd St, S Airport S of Roeser
155,114 s.f. | \$16.8M or \$108.55/s.f.

Market Breakdown

	2Q 2018	1Q 2018	2Q 2017	Annual % Change
Vacancy Rate	7.20%	7.30%	8.40%	-14.29%
Availability Rate	10.60%	10.40%	10.90%	-2.75%
Asking Lease Rate	\$0.58	\$0.57	\$0.56	3.57%
Leased SF	4,026,176	4,614,414	5,320,028	-24.32%
Sold SF	4,131,241	4,576,880	2,996,948	37.85%
Net Absorption	2,408,863	1,647,069	992,378	N/A

Phoenix Industrial Charts



Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	2Q Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	2Q Leasing Activity	YTD Leasing Activity	Avg NNN Rental Rate
North Airport	12,021,291	6.7%	6.8%	33,344	177,174	47,500	201,446	278,020	\$0.71
South Airport North of Roeser	14,867,500	12.6%	12.7%	133,450	77,666	0	372,240	643,773	\$0.73
South Airport South of Roeser	4,271,113	4.7%	6.6%	(28,045)	(55,663)	0	0	24,467	\$0.57
SC North of Salt River	14,110,084	4.0%	4.0%	97,415	237,602	0	187,561	206,993	\$0.57
SC South of Salt River	2,168,837	18.7%	18.7%	0	(7,209)	0	0	0	\$0.57
Airport Area	47,438,825	8.1%	8.4%	236,164	429,570	47,500	761,247	1,153,253	\$0.68
Central Phoenix	3,489,841	4.4%	4.4%	(6,259)	2,220	59,400	77,781	96,565	\$0.87
Scottsdale Airpark	6,439,586	8.4%	9.0%	(49,605)	19,742	0	182,673	297,374	\$1.06
Scottsdale/Salt River	5,268,301	3.5%	3.5%	58,522	108,590	0	31,954	65,517	\$1.03
Northeast	15,197,728	5.8%	6.1%	2,658	130,552	59,400	292,408	459,456	\$1.03
Deer Valley/Pinnacle Park	16,010,765	8.6%	8.9%	158,306	261,434	372,401	185,431	435,381	\$0.71
Glendale	9,995,019	12.6%	12.6%	737,729	732,484	205,700	236,103	266,579	\$0.43
Grand Avenue	11,745,011	4.2%	4.4%	(24,670)	43,458	0	73,084	134,266	\$0.39
North Glendale/Sun City	3,240,562	3.7%	3.7%	43,235	77,276	220,000	27,757	104,824	\$0.64
North Black Canyon	3,893,091	7.7%	7.7%	10,521	(8,482)	0	39,950	99,543	\$0.73
W Phoenix North of Thomas Rd	7,178,564	3.2%	3.3%	(26,221)	(102,782)	0	62,063	133,573	\$0.39
W Phoenix South of Thomas Rd	6,383,123	2.7%	2.7%	(60,021)	(40,307)	0	60,217	128,006	\$0.46
Northwest	58,446,135	6.8%	6.9%	838,879	963,081	798,101	684,605	1,302,172	\$0.56
Pinal County	8,507,409	2.1%	2.4%	112,795	165,463	108,535	6,536	29,684	\$0.62
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Chandler Airport	3,395,592	17.6%	17.8%	23,026	203,987	0	119,816	171,386	\$0.84
Chandler	20,857,676	5.6%	5.7%	62,461	(35,032)	625,018	208,700	293,412	\$0.77
Chandler North/Gilbert	18,375,135	4.1%	4.7%	369,331	498,030	313,905	199,309	481,407	\$0.65
Falcon Fld/Apache Junction	4,362,555	8.6%	9.6%	(3,624)	38,197	145,117	23,349	57,030	\$0.72
Mesa	6,441,124	6.6%	6.7%	4,912	(61,345)	0	46,354	235,491	\$0.60
Tempe East	5,737,604	4.8%	4.9%	14,912	61,814	0	53,853	164,746	\$0.60
Tempe Northwest	10,637,639	6.8%	6.9%	(96,713)	11,394	0	130,403	254,730	\$0.76
Tempe Southwest	20,816,351	7.6%	8.2%	314,985	354,389	0	328,454	844,439	\$0.63
Southeast	90,623,676	6.5%	6.9%	689,290	1,071,434	1,084,040	1,110,238	2,502,641	\$0.69
Goodyear	11,141,335	11.8%	11.8%	129,016	194,434	1,701,700	616,452	1,451,737	\$0.36
Southwest North of Buckeye Rd	32,024,439	5.0%	5.1%	(27,822)	280,213	568,340	219,920	877,564	\$0.41
Southwest South of Buckeye Rd	17,359,759	7.1%	7.1%	278,773	375,312	0	48,988	151,675	\$0.55
Tolleson	35,695,113	8.9%	9.2%	149,110	445,873	2,068,720	285,782	712,406	\$0.43
Southwest	96,220,646	7.6%	7.8%	529,077	1,295,832	4,338,760	1,171,142	3,193,382	\$0.44
Manufacturing & Warehouse	193,545,059	5.5%	5.7%	1,452,965	2,496,327	3,721,736	2,942,092	5,151,948	\$0.54
General Industrial	90,968,673	8.4%	8.6%	1,020,597	1,570,807	1,989,600	688,050	2,774,422	\$0.48
Flex	31,920,687	11.4%	11.8%	(64,699)	(11,202)	725,000	396,034	714,218	\$1.07
Phoenix Total	316,434,419	7.0%	7.2%	2,408,863	4,055,932	6,436,336	4,026,176	8,640,588	\$0.58

Asking rental rates for all industrial properties ended at a record high for the second quarter at an average price of \$0.58 per square foot on a triple-net basis, which represents a 3.57% year-over-year increase in rates. Asking rates are highest in the Northeast submarket cluster at an average of \$1.03 per square foot, an all-time high for this location in the past 10 years. This submarket cluster reflects the larger share of flex properties comprised in this cluster opposed to other industrial types, influencing the higher rental rates. By contrast, the lowest rates are found in the Southwest cluster, which reported an average asking rent of \$0.44 per square foot on a triple-net basis. Across the Phoenix market, asking rental rates for warehouse and manufacturing space averaged \$0.54 per square foot, while flex spaces are on the market for an average \$1.07 per square foot.

Flex properties had a somewhat slow start in the first half of the year, posting 11,000 square feet of negative absorption and an unchanged vacancy rate of 11.8% from

the previous quarter. Meanwhile, the manufacturing and warehouse market reflected a dynamic quarter, with over 1.45M square feet of positive net absorption and almost 3M square feet of total leasing activity. Sale transactions stayed strong into the second quarter with over 4 million square feet in volume, an uptick from 3 million square feet that transacted in the second quarter of last year. The average sales price per SF climbed to \$101/SF compared to \$90/SF same time last year, portraying an upward trend in sales price year-over-year.

Source: CoStar

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COMMERCIAL BROKERAGE



ANNUAL
TRANSACTION
VOLUME



ANNUAL
LEASING SF



ANNUAL
SALES SF



BROKERS

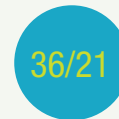
PROPERTY MANAGEMENT



MANAGEMENT
PORTFOLIO



ASSIGNMENTS
ANNUALLY



TOTAL #
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VALUATION ADVISORY

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