

Real Estate Market Review

Phoenix Industrial

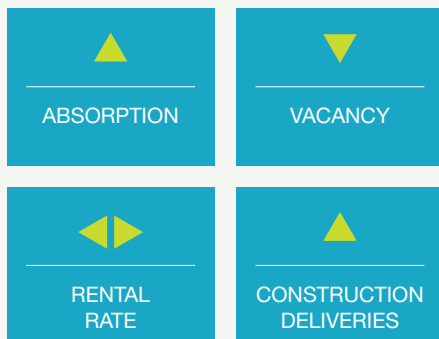
The Phoenix industrial real estate market remained steadfast and unwavering during the third quarter, producing strong activity yet again and reflecting the consistent demand this industrial market has shown cycle after cycle. Leasing activity continues to be strong and the volume of sales transactions more than doubled compared to this time last year. Furthermore, the development pipeline has hit a post-recession record high with approximately 6.9 million square feet currently under construction, which the market hasn't experienced since 2007. With relatively few barriers to development and positive economic and demographic trends, Phoenix has emerged as one of the fastest growing industrial markets in the nation and we expect the market to finish the year out strong.

Vacancy rates continued to hover at a record low 7.3%, a notable dip of almost 1% from third quarter of last year which posted at 8.2%. Vacancies have tightened substantially, fallen by a staggering 900 basis points since the Great Recession. The Southwest submarket cluster

posted the highest vacancy rate at 8.4%, while Pinal County reflected the submarket cluster with the least amount of vacant space at a tight 3.1%. With over half of the 6.9 million square feet of industrial space

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Market Forecast Trends



YEAR-TO-YEAR BASIS

Notable Lease Transactions

Albertsons
400 S 99th Ave, Tolleson
910,250 s.f.

Cascade Windows
2225 S 75th Ave, Tolleson
155,794 s.f.

Educational Furnishings of Arizona
6913 W Buckeye Rd, Tolleson
86,650 s.f.

Notable Sale Transactions

CrossHarbor Capital Partners
6835 W Buckeye Rd, Tolleson
1,009,351 s.f. | \$93.3M or \$97.41/s.f.

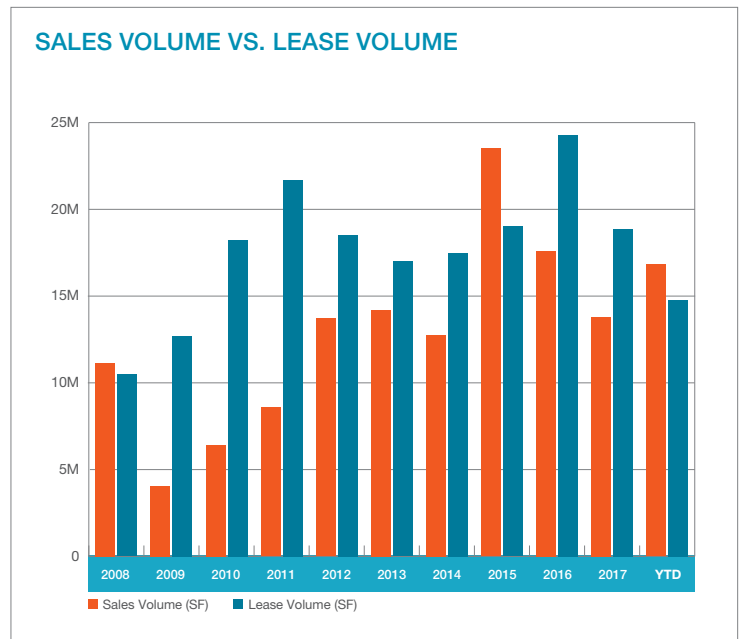
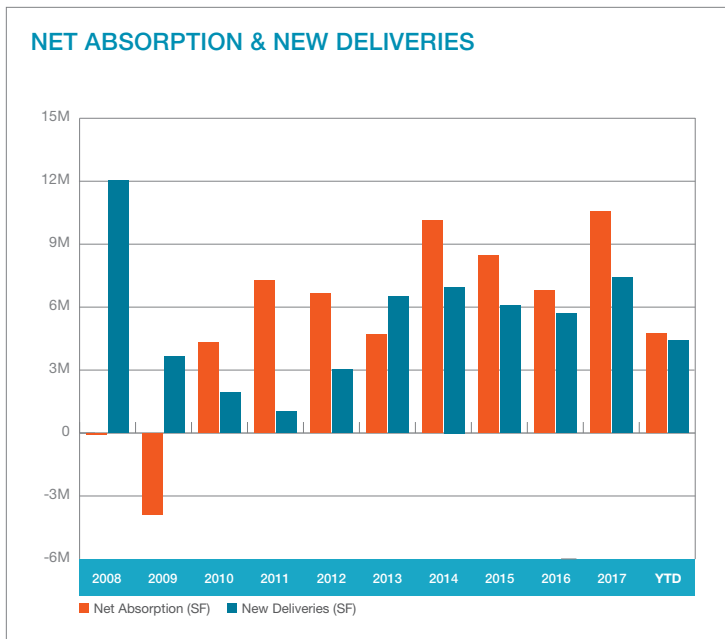
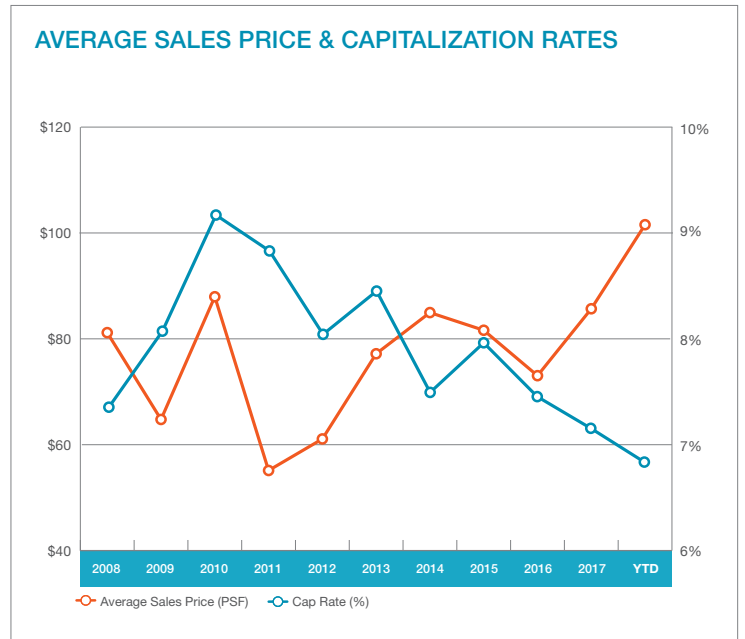
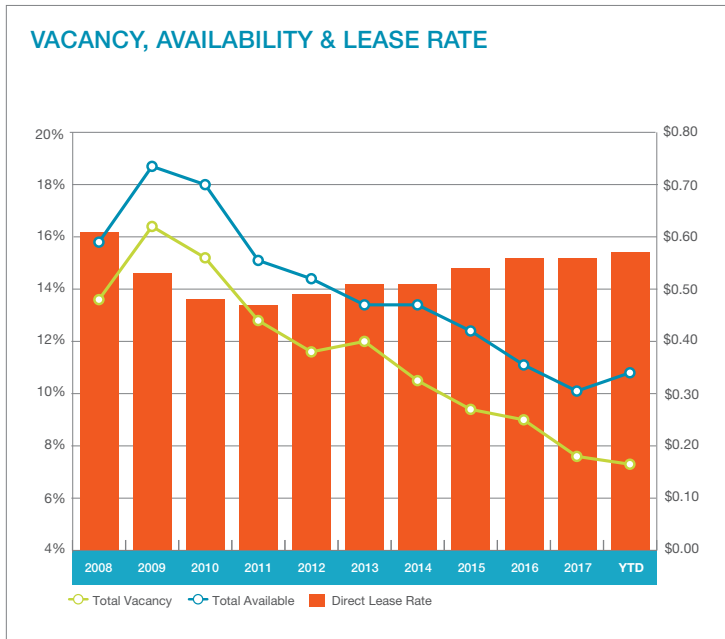
CBRE Global Investors Acquisitions
7775 W Buckeye Rd, Tolleson
684,420 s.f. | \$48.5M or \$70.86/s.f.

AEW Capital Management
Corridors Industrial Park, Deer Vly/Pinnacle Pk
220,259 s.f. | \$29.6M or \$134.16/s.f.

Market Breakdown

	3Q 2018	2Q 2018	3Q 2017	Annual % Change
Vacancy Rate	7.30%	7.10%	8.20%	-12.20%
Availability Rate	10.80%	10.40%	10.30%	4.85%
Asking Lease Rate	\$0.57	\$0.58	\$0.57	0.00%
Leased SF	3,792,179	4,282,680	4,067,122	-6.76%
Sold SF	7,593,248	4,654,269	3,175,376	139.13%
Net Absorption	702,118	2,564,121	2,755,151	N/A

Phoenix Industrial Charts



Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	YTD Cons Completion	3Q Leasing Activity	YTD Leasing Activity	Avg NNN Rental Rate
North Airport	12,071,771	6.6%	6.7%	46,580	223,754	0	47,500	79,008	436,036	\$0.74
South Airport North of Roeser	14,930,722	11.7%	11.7%	74,369	144,218	115,350	0	218,886	1,123,136	\$0.75
South Airport South of Roeser	4,271,113	3.1%	5.0%	66,657	10,994	0	0	34,090	92,647	\$0.55
SC North of Salt River	14,114,672	4.4%	4.4%	(53,786)	194,816	558,712	0	69,149	353,417	\$0.62
SC South of Salt River	2,170,479	18.7%	18.7%	(1,291)	(8,500)	0	0	0	0	\$0.45
Airport Area	47,558,757	7.8%	8.0%	132,529	565,282	674,062	47,500	401,133	2,005,236	\$0.68
Central Phoenix	3,412,816	2.5%	2.5%	70,023	81,760	59,400	61,992	34,398	165,361	\$0.94
Scottsdale Airpark	6,402,421	7.9%	7.9%	72,567	93,931	0	0	112,376	498,723	\$1.06
Scottsdale/Salt River	5,268,303	3.2%	3.2%	15,532	124,122	0	0	26,450	122,024	\$1.01
Northeast	15,083,540	5.0%	5.0%	158,122	299,813	59,400	61,992	173,224	786,108	\$1.03
Deer Valley/Pinnacle Park	16,120,337	8.6%	8.8%	35,148	298,982	368,648	506,583	131,739	677,333	\$0.72
Glendale	10,036,921	12.4%	12.4%	57,100	789,584	194,170	1,285,921	43,541	347,173	\$0.44
Grand Avenue	11,703,159	3.6%	3.9%	60,610	104,068	0	0	31,379	208,131	\$0.38
North Glendale/Sun City	3,240,562	2.6%	2.7%	25,094	102,370	220,000	0	40,730	212,936	\$0.64
North Black Canyon	3,893,091	8.5%	8.5%	(31,402)	(39,884)	0	0	29,346	158,235	\$0.72
W Phoenix North of Thomas Rd	7,178,564	2.9%	2.9%	22,293	(80,489)	0	0	46,740	218,988	\$0.39
W Phoenix South of Thomas Rd	6,383,123	2.7%	2.7%	10,105	(30,202)	0	0	26,408	171,301	\$0.45
Northwest	58,555,757	6.6%	6.7%	178,948	1,144,429	782,818	1,792,504	349,883	1,994,097	\$0.57
Pinal County	8,520,358	2.7%	3.1%	(51,161)	114,702	108,535	0	5,200	40,084	\$0.63
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Chandler Airport	3,490,386	21.7%	21.7%	(53,428)	96,656	0	138,794	205,442	582,270	\$0.87
Chandler	20,881,189	5.5%	5.5%	1,246	(15,786)	717,018	64,240	69,341	448,872	\$0.79
Chandler North/Gilbert	18,399,722	4.1%	4.7%	63,933	562,263	722,524	266,314	148,175	820,617	\$0.65
Falcon Fld/Apache Junction	4,362,062	8.7%	9.6%	(6,569)	31,372	200,689	244,897	47,895	146,000	\$0.73
Mesa	6,464,081	6.8%	6.8%	13,274	(48,332)	0	0	105,695	487,753	\$0.60
Tempe East	5,737,604	4.7%	4.8%	1,676	63,490	0	0	58,644	282,034	\$0.61
Tempe Northwest	10,467,311	6.6%	6.7%	60,879	72,273	307,000	109,606	76,690	412,731	\$0.69
Tempe Southwest	20,833,019	7.7%	8.2%	2,938	344,971	0	0	273,541	1,427,136	\$0.64
Southeast	90,635,374	6.6%	6.9%	83,949	1,106,907	1,947,231	823,851	985,423	4,607,413	\$0.70
Goodyear	11,942,208	19.4%	19.4%	179,866	14,568	901,700	800,000	138,431	1,728,599	\$0.39
Southwest North of Buckeye Rd	32,603,599	6.0%	6.1%	58,337	338,550	330,842	568,340	132,303	1,142,170	\$0.43
Southwest South of Buckeye Rd	17,358,555	5.9%	5.9%	68,320	575,472	0	0	10,000	303,515	\$0.56
Tolleson	35,695,354	7.7%	8.0%	252,940	569,044	2,218,720	314,527	1,596,582	2,185,208	\$0.39
Southwest	97,599,716	8.3%	8.4%	199,731	1,497,634	3,451,262	1,682,867	1,877,316	5,359,492	\$0.42
Manufacturing & Warehouse	193,121,221	5.4%	5.6%	214,778	2,682,355	4,778,223	2,705,848	1,653,843	8,675,974	\$0.56
General Industrial	91,907,575	9.1%	9.2%	194,995	1,760,091	1,428,085	1,682,010	1,539,814	4,514,062	\$0.45
Flex	31,672,314	11.1%	11.4%	159,807	130,063	817,000	37,000	593,972	1,278,914	\$1.08
Phoenix Total	317,953,502	7.1%	7.3%	702,118	4,728,767	7,023,308	4,408,714	3,792,179	14,792,430	\$0.57

under construction due to deliver by year end, it could temporarily ease the compressing vacancies of the tightened market.

Asking rental rates for all industrial properties ended at a high for the third quarter at an average price of \$0.57 per square foot on a triple-net basis. The average annual rent growth has seen a bit of a slowdown the past couple years but is currently posting at a peak since the recession. 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 comprises the larger share of flex and R&D properties, as 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 \$0.42 per square foot on a triple-net basis. The average asking rental rates in all industrial products are at an all-time post-recession high across the Phoenix market, with asking rental rates for warehouse and manufacturing space

averaging \$0.56 per square foot, while flex spaces are on the market for an average \$1.08 per square foot.

After coming off a strong second quarter with net absorption of approximately 2.4 million SF, the market still showed positive trends, posting 700,000 SF of positive net absorption for the third quarter and a healthy 4.7 million SF year to date. Manufacturing and warehouse properties amount to over half of the positive net absorption for the market, posting 2.7 million SF. Sales transactions climbed to over 7.5 million SF in volume, an astounding increase from 3.2 million SF that transacted in the third quarter of last year. Additionally, the average sales price per SF grew to \$99/SF compared to \$97/SF same time last year, portraying an upward trend in sales price year-over-year.

Source: CoStar

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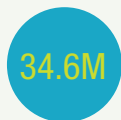


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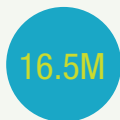
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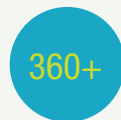
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