



# Phoenix

## Q1 2018 / Quarterly Industrial Market Report

### Market Facts

**↓ 11.5%**  
Flex Vacancy

**↓ 6.7%**  
Industrial Vacancy

**↑ \$12.95**  
Flex Average Asking Rate

**↓ \$6.23**  
Industrial Average Asking Rate

**↑ \$100**  
Average Sale Price/Square Foot

**→ 6.7%**  
Industrial CAP Rate

### Market Overview

The Phoenix industrial market grew to 335 million square feet (msf) in the first quarter with the overall combined flex and industrial vacancy rate dropping to 7.2%, 50 basis points lower than fourth quarter 2017. Combined average asking rental rates increased to \$6.98 per square foot (psf) in the first quarter, up from \$6.91psf fourth quarter 2017 and \$6.77 psf year-over-year. Quarterly absorption continues to be strong, with 1.4 msf absorbed. These strong market fundamentals are expected given that since February 2017 Phoenix has gained 61,000 jobs. Manufacturing employment increased 2.6% in the past 12 months, and trade, transportation and utilities increased 2.5%.

### Top Leases

Tenant	Building	Submarket	Square Feet	Type
QEP	10397 W Van Buren St	Tolleson	122,622	Industrial
ThreadUP	7775 W Buckeye Rd	Tolleson	122,125	Industrial
Kovach Inc	9230 S Farmer Ave	Tempe Southwest	99,017	Industrial
Gwynnie Bee	1500 S 71st Ave	Tolleson	98,723	Industrial

### Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
IO Data Centers, LLC	615 N 48th St	Tempe Northwest	530,856	\$106,875,000	\$201
Cohen Asset Management, Inc.	6600 W Latham St	SW N of Buckeye Rd	437,234	\$36,327,000	\$83
i/o Data Centers, LLC	8521 E Princess Dr	Scottsdale/Salt River	122,000	\$35,625,000	\$292
Colony NorthStar, Inc.	5 S 84th Ave	Tolleson	217,422	\$13,400,000	\$62
TA Realty	125 N 67th Ave	SW N of Buckeye Rd	170,625	\$12,550,000	\$74





### Market Snapshot

Phoenix's location between Southern California's ports and eastern destinations, along with reasonably priced commercial land, has led to major speculation and build-to-suit logistic development on the west side of Metro Phoenix. As high-tech companies increasingly flee the high cost of doing business on the West Coast, Phoenix's Flex/R&D Sector has experienced high rents and historic lows in vacancy. Intel's Fab facility in Chandler is the company's second largest site in the U.S., with nearly 4 msf and more than 10,000 employees. Manufacturing is rebounding in Phoenix as companies are increasingly attracted to the favorable business climate and existing manufacturers are expanding. Western Window Systems has moved into a new office and manufacturing headquarters south of Phoenix Sky Harbor International Airport, double the size of its previous South Phoenix location. The 170,000 sf building south of the Airport at 2200 E. Riverview Drive totals approximately 300 employees, including production operations. Mattress manufacturer King Koil finished its 90,000 sf factory in Avondale, commencing operations in April 2018. Nikola Motor Company selected Buckeye for its hydrogen-electric semi-truck manufacturing headquarters facility. The 500-acre, one msf development will be located on the west side of Phoenix, bringing more than \$1 billion in capital investment to the region by 2024.

The Tolleson Submarket was the most active submarket in the first quarter 2018, recording 297,000 sf of positive absorption, approximately 22% of the market's positive

absorption. The Scottsdale Airpark Submarket had the highest asking rent at \$12.02 psf, while Falcon Field/Apache Junction, Grand Avenue, Pinal County, West Phoenix North of Thomas Road, and West Phoenix South of Thomas Road Submarkets reported the lowest vacancy rates, all at or below 4.2%. Of the 13 submarkets with over 10 msf, Scottsdale/Salt River Industrial Submarket had the healthiest combination of vacancy and rental rates, with industrial vacancy at 4.7%, flex vacancy at 9.2%, and average rental rate of \$10.42 psf.

986,000 sf of new product was delivered in the Phoenix industrial and flex submarkets first quarter 2018, with 44.0% leased. Major first quarter deliveries include 140 W. Pinnacle Peak Road (155,000 sf, 0% preleased), 3115 N. Higley Road (147,672 sf, 0% preleased), and 170 S. Kyrene Road (102,040 sf, 66% preleased). Nearly 5.4 msf of industrial/flex space is currently under construction in the region, with 43.3% preleased.

Strong sales activity continued into the first quarter. The largest sale was IO Data Centers buying 615 N. 48th Street totaling 531,000 sf and selling for \$107 million or approximately \$201 psf. Sales transactions remained steady in the fourth quarter, with dollar volume unchanged and square footage volume increasing 14.0%. The median price psf increased from \$78 in first quarter 2017 to \$93 in second quarter 2017, and remained in the \$92 to \$95 range through first quarter 2018. There were several other large sales in the first quarter: Cohen Asset Management, Inc. purchased 6600 W. Latham Street for \$36.3 million (\$83 psf), IO Data Centers, LLC acquired

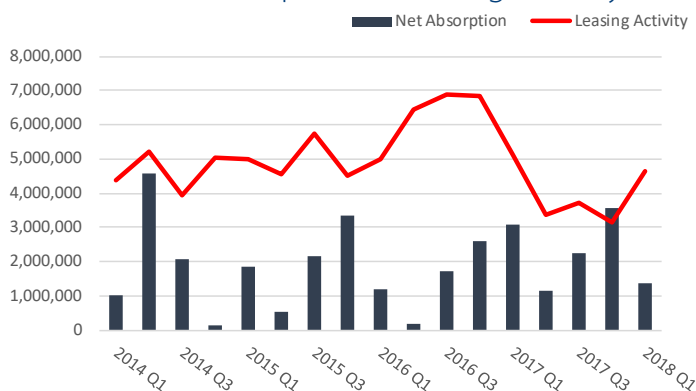
8521 E. Princess Drive for \$35.6 million (\$292 psf), and Living Spaces Furniture LLC bought 6600 W. Latham Street for \$35.0 million (\$80 psf).

The healthy national economy continues to support the strengthening fundamentals in the Phoenix industrial market, inspiring steady construction and growing investment. While there is still considerable space to absorb in Maricopa County, as reported by the U.S. Census Bureau, it is the fastest growing county in the U.S. for annual population growth with an estimated population that now tops 4.2 million. Phoenix is now ranked number six in the top 10 markets to watch for industrial real estate, according to Phoenix Business Journal.

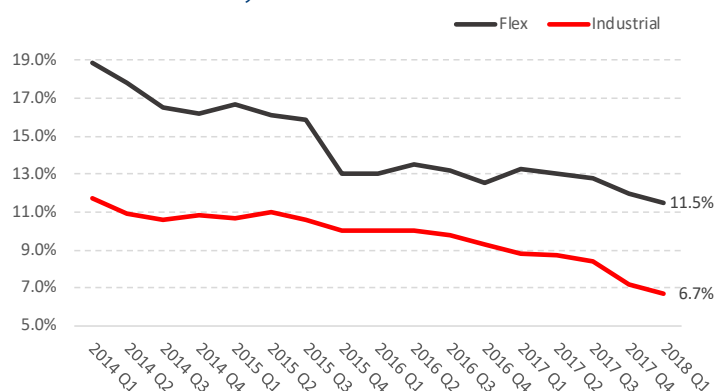


6600 W Latham Street

### Historical Net Absorption & Leasing Activity



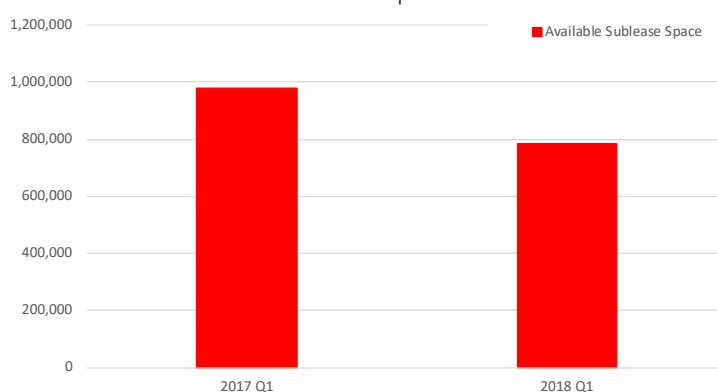
### Historical Vacancy



### Historical Asking Rental Rate (FSG)



### Total Available Sublease Space in the Market



## Market By The Numbers

Submarket	Total RBA	Vacancy Space Direct	Available Space Sublease	Vacancy Rate Flex	Vacancy Rate Industrial	Net Absorption (SF)	YTD Net Absorption	Avg. Ask Total (NNN)	Avg. Ask Flex (NNN)	Avg. Ask Industrial (NNN)
Central Phoenix	4,525,759	221,055	0	2.3%	5.7%	30,198	30,198	\$11.59	\$15.62	\$9.52
Chandler Airport	3,550,050	634,425	4,743	43.5%	13.0%	181,461	181,461	\$10.88	\$16.04	\$8.02
Chandler	21,227,051	1,162,221	80,795	13.4%	4.2%	27,827	27,827	\$9.34	\$14.74	\$7.80
Chandler North/Gilbert	19,353,385	1,020,534	103,608	10.4%	5.2%	97,455	97,455	\$7.87	\$11.01	\$7.36
Deer Valley/Pinnacle Park	17,038,748	1,504,164	33,422	2.1%	10.6%	101,320	101,320	\$8.65	\$12.00	\$8.42
Falcon Field/Apache Junction	4,798,100	140,121	37,612	11.4%	3.0%	58,364	58,364	\$8.91	\$9.27	\$8.85
Glendale	8,979,752	862,082	0	13.4%	9.5%	-52,985	-52,985	\$5.27	\$7.20	\$5.26
Goodyear	11,482,595	1,466,052	0	17.3%	12.7%	59,398	59,398	\$4.46	\$4.80	\$4.45
Grand Avenue	13,385,574	505,042	25,000	19.5%	3.8%	53,206	53,206	\$5.31	\$15.84	\$4.96
Mesa	7,684,361	457,583	5,364	0.6%	6.4%	-72,767	-72,767	\$7.38	-	\$7.38
North Glendale/Sun City	3,573,926	167,785	0	7.5%	4.2%	34,041	34,041	\$7.41	\$7.16	\$7.51
North Airport	13,487,863	896,169	9,200	11.6%	6.0%	173,374	173,374	\$8.65	\$11.24	\$7.59
North Black Canyon	4,619,211	429,664	0	17.5%	6.4%	-17,182	-17,182	\$8.35	\$9.65	\$7.38
North Outlying	132,746	0	0	-	0.0%	0	0	-	-	-
Northwest Outlying	38,738	0	0	-	0.0%	0	0	-	-	-
Pinal County	9,547,185	363,166	38,706	4.9%	4.2%	1,847	1,847	\$4.75	\$10.00	\$4.72
South Airport North of Roeser	15,679,102	2,161,837	23,763	23.6%	11.8%	-89,049	-89,049	\$8.47	\$13.11	\$6.64
South Airport South of Roeser	4,558,620	192,438	81,351	10.2%	6.1%	-5,168	-5,168	\$6.90	-	\$6.90
Scottsdale North of Salt River	15,602,982	758,745	6,620	9.2%	4.7%	125,418	125,418	\$10.45	\$12.92	\$10.42
Scottsdale South of Salt River	2,422,219	405,501	0	0.0%	17.0%	5,173	5,173	\$6.90	-	\$6.90
Scottsdale Airpark	6,892,885	532,238	45,777	11.1%	6.9%	76,435	76,435	\$12.02	\$13.25	\$10.75
Scottsdale/Salt River	5,474,294	250,383	0	5.2%	4.3%	53,577	53,577	\$11.48	\$12.53	\$10.96
Southwest Outlying	132,833	99,000	0	-	74.5%	0	0	\$2.40	-	\$2.40
Southwest North of Buckeye Rd	32,858,491	1,653,389	63,037	2.9%	5.2%	138,189	138,189	\$4.56	-	\$4.56
Southwest South of Buckeye Rd	17,917,547	1,595,100	0	17.6%	8.7%	94,839	94,839	\$6.10	-	\$6.10
Tempe East	6,666,295	318,086	8,131	13.2%	2.9%	52,357	52,357	\$7.54	\$7.80	\$7.53
Tempe Northwest	11,015,102	718,663	0	11.7%	5.1%	-20,077	-20,077	\$9.64	\$12.90	\$8.91
Tempe Southwest	21,626,294	1,988,313	111,631	12.1%	9.2%	25,097	25,097	\$8.34	\$13.45	\$6.59
Tolleson	35,556,274	2,497,884	102,577	3.5%	7.4%	296,763	296,763	\$4.60	\$11.76	\$4.57
W. Phoenix North of Thomas Rd	8,249,266	218,961	4,500	1.8%	2.8%	-72,862	-72,862	\$4.61	-	\$4.61
W. Phoenix South of Thomas Rd	6,991,667	149,096	0	10.6%	2.0%	21,114	21,114	\$4.46	-	\$4.46
<b>Total</b>	<b>335,068,915</b>	<b>23,369,697</b>	<b>785,837</b>	<b>11.5%</b>	<b>6.7%</b>	<b>1,377,363</b>	<b>1,377,363</b>	<b>\$6.98</b>	<b>\$12.95</b>	<b>\$6.23</b>



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