

Phoenix

Industrial Market Report Second Quarter 2019

Quick Stats

9.9 M

Square feet of industrial space
currently under construction

\$7.58

Per square foot average asking
NNN rate for second quarter

6.7%

Vacancy rate drops 200 basis
points lower than Q1 2019

1.48 M

Square feet overall net
absorption for Q2

\$368.80 M

Total industrial investment
sales in the second quarter

Valley's Industrial Market Continues on Hot Streak

Strong demand for warehouse, distribution and manufacturing space – along with favorable economic conditions – have kept Metro Phoenix on pace as one of the hottest industrial markets in the U.S. Vacancy rates in Q2 2019 remained well below the market's historical average. Tenant demand remained strong, duplicating the trend in Q1 2019 for space in the 50,000 sf to 200,000 sf range. The Southwest Valley's submarkets – including the municipalities of Glendale, Tolleson and Goodyear – continued to lead the way for industrial tenants, with its proximity and easy access to California and other Southwest markets. Vacancy rates remained near the record low while asking rental rates climbed to a record high.

Rental Rates

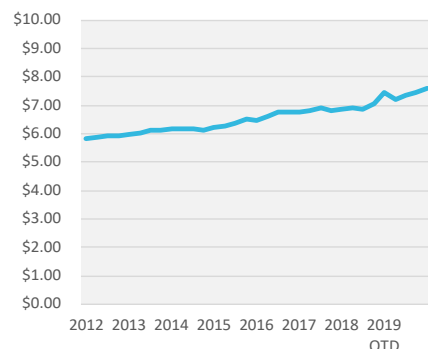
The average asking NNN rate for the quarter was \$7.58 per square foot (psf). Asking rental rates were highest in the Tempe East Industrial submarket (\$14.04 psf) and the

Scottsdale Airpark (\$12.39 psf) submarket. Rents were \$5.52/NNN; and \$4.96/NNN, respectively for three of the top leases in the quarter. The top two were in Glendale and the third was in Tolleson (see Leasing). The average asking warehouse NNN was \$7.14 psf.

Vacancy

Strong demand for industrial space continued in the Southwest and East valleys and helped keep the vacancy rate under 7% at 6.7%. That was 200 basis points lower than in Q1 2019. The East Valley was buoyed by the Tempe East Industrial submarket which tallied a warehouse vacancy rate of 3.7%. Bolstering the East Valley were Mesa Industrial, 4.0%, and Chandler Industrial, 4.2%. Scottsdale Airpark Industrial turned in an impressive vacancy rate of 4.1%. The Southwest and West valleys were paced by Surprise, 2.9%; Glendale Industrial, 5.8%; and SW North of Buckeye Road, 6.0%.

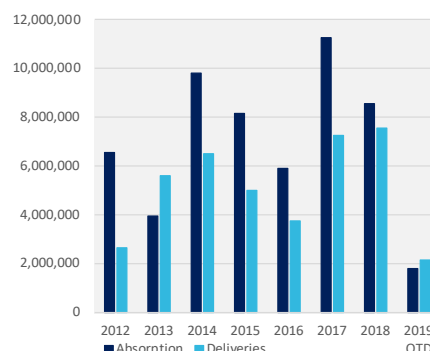
Rental Rates



Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	Square Feet	Type
Ferrero Rocher Chocolate	SWC Indian School & Cotton Lane	Glendale	643,798	Partial Ground Direct
National Indoor RV Center	13351 W. Rioglass Solar Road	Glendale	170,625	Direct
Walmart	901 S. 86th Avenue	Tolleson	121,895	Direct
Lotus Project	6565 W. Frye Road	Chandler	118,383	Direct
United Foods International	777 S. 67th Avenue	SW N. of Buckeye Road	109,620	Direct

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
Investcorp International, Inc.	8681 W. Washington Street	Tolleson	118,123	\$29,830,000	\$253
BH Properties, LLC	Honeywell	Surprise	252,300	\$26,500,000	\$105
Camden Property Trust	Curry Road Facility	Tempe Northwest	496,279	\$18,000,000	\$36
CBRE Global Investors, Ltd.	5445 W. Missouri Avenue	Grand Avenue	128,929	\$17,500,000	\$136
Allstate Investments, LLC	Southbank Business Park	North Airport	121,731	\$15,500,000	\$127

Top Projects Under Construction

Property	Submarket	Completion	Total SF	% Preleased/Owned
The Hub At Goodyear	Goodyear	Q3 2019	790,980	0.0%
Ferraro USA	Glendale	Q4 2019	643,798	100.0%
Orbital ATK Manufacturing	Chandler	Q3 2019	617,000	100.0%
Andersen Corp	Goodyear	Q4 2019	500,000	100.0%
Microsoft	Glendale	Q1 2020	500,000	100.0%

Trends to Watch

The Phoenix Market will see continued growth in population and inventory throughout 2019.



Population Growth

Phoenix is reportedly the fourth largest growing state in 2019 YTD, with the state's population at 7.27 million, an increase of 1.7%.



9.9 MSF

The amount of industrial space under construction represents the largest amount the Valley has witnessed since 2007.

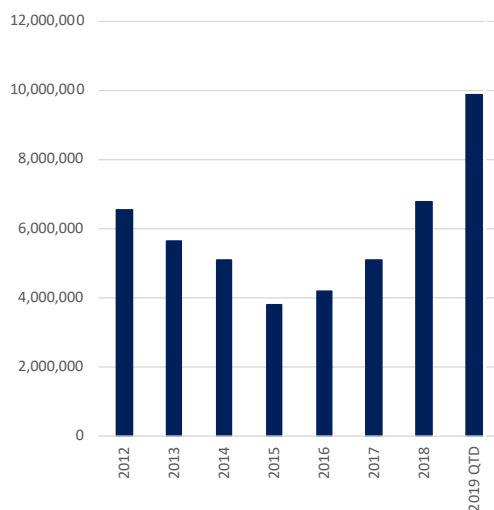


50K - 200K SF

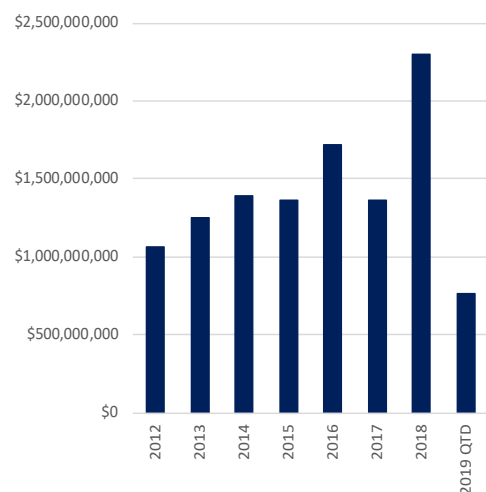
Strongest tenant demand for industrial space; Hot locations include the Southwest and East Valleys.

Metro Phoenix has 34 large industrial projects slated for 2019, with the West Valley being a driver in new development.

Under Construction



Investment Sales



Leasing

Second quarter absorption was strongest in three submarkets: SW North of Buckeye Road (595,591 sf), Chandler Airport (452,982) and Tolleson (372,851 sf). Overall net absorption for the quarter was 1.478 msf on 1.906 msf delivered. The largest lease was Ferrero Rocher Chocolate taking 643,798 sf at Indian School Road and Cotton Lane in the Glendale submarket. National Indoor RV Center nabbed 170,625 sf, also in the Glendale submarket; Walmart took 121,895 sf in the Tolleson submarket. In Q1 2019, Tolleson boasted three of the top four largest leases. In Q2 2018, absorption was 2.82 msf on 2.05 msf delivered.



National Indoor RV Center

Construction

Almost 10 msf (9.88 msf) of industrial space is under construction in Metro Phoenix. That figure represents the largest amount the Valley has witnessed since 2007. This includes more than 20 mid-bay projects of 50,000 sf to 200,000 sf. The 202 West Logistics Center (554,000 sf) in Phoenix delivered in Q2 2019. A



202 West Logistics Center

Microsoft facility in Glendale (500,000 sf) will deliver in Q1 2020. The Hub at Goodyear (790,980 sf) and Orbital ATK Manufacturing in Chandler (617,000 sf) are scheduled to come on line in the third quarter. Anderson Corp./Goodyear Crossing (500,000 sf) is expected to deliver in the fourth quarter as is Ferraro USA in Glendale (643,798 sf).

Investment Sales

Investment sales were slightly higher in Q1 2019 (\$380.1 million) with a brisk start to Q2 2019 (\$383.2 million). Total volume in 2018 reached \$2.3 billion, nearly doubling the \$1.3 billion in 2017. In Q2 2019, the top three sales were in the West Valley and in Tempe. Investcorp International, Inc. purchased 8681 W. Washington Street., in Tolleson for \$29.83 million (118,123 sf).



8681 W. Washington Street

BH Properties, LLC purchased the Honeywell building in Surprise for \$25.5 million (252,300 sf). In the Tempe Northwest submarket, Camden Property Trust purchased the Curry Road facility for \$18 million (496,279 sf). Investment sales in Q2 2019 almost topped \$500 million at \$447.9 million.



Honeywell Building

Market By The Numbers*

Submarket	Total RBA (SF)	Vacancy Space Sublease	Vacancy Total Space	Vacancy Rate Flex	Vacancy Rate Warehouse	Q2 Net Absorption	Overall Average Ask Total (NNN)	Avg. Ask Flex (NNN)	Avg. Ask Warehouse (NNN)
Central Phoenix Ind	4,553,596	550	196,588	1.2%	5.3%	13,488	\$11.36	\$19.09	\$9.33
Chandler Airport Ind	3,868,490	5,620	404,295	16.8%	9.3%	452,982	\$10.17	\$17.13	\$8.16
Chandler Ind	21,443,710	84,862	1,058,541	8.1%	4.2%	(25,894)	\$10.27	\$16.28	\$9.21
Chandler N/Gilbert I	20,665,929	299,563	1,297,051	6.7%	6.2%	(110,669)	\$7.83	\$11.60	\$7.61
Deer Vly/Pinnacle Pk	17,418,977	54,697	1,307,717	1.0%	8.9%	91,966	\$8.87	\$11.75	\$8.75
Falcon Fld/Apache Jc	5,416,995	45,612	474,842	9.0%	8.7%	23,421	\$8.92	\$10.61	\$8.81
Glendale Ind	10,513,044	0	618,644	9.7%	5.8%	(34,948)	\$5.52	-	\$5.52
Goodyear Ind	13,304,306	68,847	1,164,687	0.0%	8.9%	90,542	\$4.62	-	\$4.62
Grand Avenue Ind	13,464,896	0	406,187	13.7%	2.9%	162,981	\$4.55	\$16.50	\$4.13
Mesa Ind	7,727,306	24,400	314,195	4.9%	4.0%	47,522	\$7.55	\$14.00	\$7.41
North Airport Ind	13,412,514	23,934	758,704	10.2%	4.9%	26,332	\$8.02	\$11.04	\$7.11
North Black Canyon I	4,525,121	0	339,546	16.0%	4.6%	38,532	\$8.87	\$9.61	\$8.24
North Outlying Ind	140,222	0	5,000	0.0%	3.6%	0	-	-	-
Northwest Outlying I	38,738	0	0	0.0%	0.0%	0	-	-	-
Pinal County Ind	9,712,760	0	276,924	6.0%	2.8%	(18)	\$7.50	-	\$7.50
S Airport N of Roesse	15,660,434	18,813	1,383,666	14.9%	7.6%	6,793	\$9.68	\$14.13	\$7.13
S Airport S of Roesse	4,560,317	0	127,929	2.7%	2.8%	16,136	\$7.65	\$10.80	\$7.58
SC N of Salt River I	16,166,724	0	867,523	4.4%	5.4%	216,244	\$7.52	\$9.19	\$7.49
SC S of Salt River I	2,536,955	0	333,503	0.0%	13.4%	0	\$4.44	-	\$4.44
SW N of Buckeye Road	33,428,409	77,123	1,991,525	0.0%	6.0%	595,591	\$4.92	-	\$4.92
SW S of Buckeye Road	17,962,303	395,775	1,357,423	1.9%	7.7%	(795,722)	\$6.90	\$8.00	\$6.89
Scottsdale Airpark I	6,774,907	33,904	433,799	10.4%	4.1%	(20,044)	\$12.39	\$13.75	\$11.70
Scottsdale/Salt Rive	5,388,123	3,945	115,758	4.0%	1.3%	39,438	\$12.11	\$12.76	\$10.97
Southwest Outlying I	99,833	0	0	0.0%	0.0%	0	\$2.64	-	\$2.64
Surprise	4,109,169	0	125,077	4.1%	2.9%	158,861	\$8.13	\$5.18	\$8.51
Tempe East Ind	6,683,453	6,120	208,964	0.7%	3.7%	102,429	\$14.04	\$18.71	\$8.25
Tempe Northwest Ind	11,117,528	8,657	596,386	7.8%	4.7%	(15,966)	\$9.46	\$14.04	\$7.75
Tempe Southwest Ind	21,535,102	144,931	2,132,434	11.3%	9.6%	27,641	\$8.00	\$12.83	\$6.91
Tolleson Ind	38,110,496	73,162	4,378,576	4.0%	11.6%	372,851	\$4.99	\$12.83	\$4.96
W Phx N of Thomas Rd	8,305,078	1,289	232,591	0.3%	3.0%	7,350	\$4.85	-	\$4.85
W Phx S of Thomas Rd	7,038,566	0	194,745	6.8%	2.7%	(8,852)	\$5.58	-	\$5.58
Total	345,684,001	1,371,804	23,102,820	7.6%	6.6%	1,478,987	\$7.58	\$12.85	\$7.14

*The data contained in this market report is obtained from The CoStar Group, Inc., and is used under licensed permission. The report is based on all Metro-Phoenix markets for industrial and flex buildings. It includes sublease space only upon the date of availability. Both current and historical data has been adjusted with corrected or updated information, after it was obtained. This may prevent comparison to previously released reports.



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