

Phoenix

Industrial Market Report Third Quarter 2019

Quick Stats

8.1 M

Square feet of industrial space
set for delivery by year's end

\$7.47

Per square foot average asking
NNN rate for third quarter

7%

Warehouse vacancy rate rises
300 basis points over Q2 2019

2.6 M

Square feet overall net
absorption for Q3

\$736.9 M

Total industrial investment
sales in the third quarter

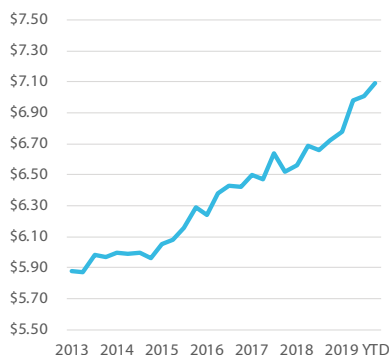
A Boom by Design

The Industrial property market is morphing farther from the single-tenant big box warehouse format becoming increasingly diverse to attract leading tenants and investors. Unlike other property types, however, the capital investment to build or upgrade industrial space is extremely high, especially considering the ability to adapt a property's use becomes more limited due to specialized construction & zoning requirements.

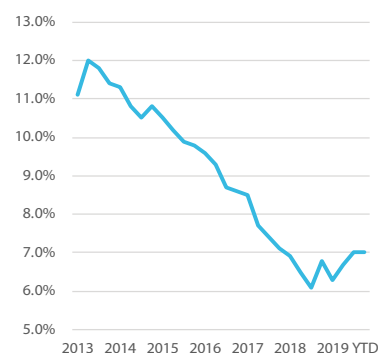
For instance, as online grocery shipping gains traction, large cold storage facilities in close proximity to urban consumers are needed to ensure fast delivery, but repurposing such properties should demand falter is difficult. E-commerce requires distribution facilities with plentiful shipping docks with easy access to crowded corridors. Flex space is becoming more popular and average ceiling heights have risen by four feet in the past 10 years. Manufacturers demand rail-connected

sites and driving docks with ceilings that can reach 60 and even 72 feet. Data center energy demands require not only reliable, high-voltage electrical systems but also gas connections for fire suppression and sensitive temperature controls. Biolabs have highly-specialized elements like clean rooms and waste containment as well as advanced security systems given the sensitive nature of their business. As developers race to build for the growing diversity of the industrial sector to attract national and international clients, the risk of an economic downturn pushes their return on investment further out toward a more distant horizon. Nationally, 60% of industrial space under construction is available for lease and Metro Phoenix in particular has experienced a speculative building boom with 8.1 million square feet of completions expected by the end of the year, the highest in a decade. Whether this building bet pays off is uncertain but has certainly raised the region's investment profile.

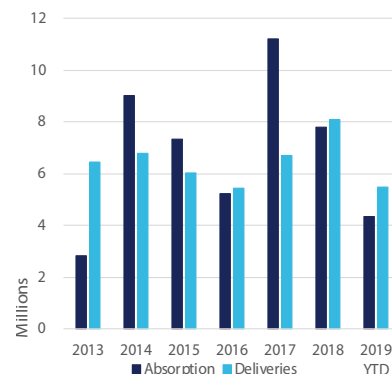
Rental Rates



Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	Square Feet	Type
Sendoso	100 N. 61st Avenue	SW N of Buckeye Road	181,325	Direct
Integrated CBD	317 S. 48th Street	Tempe Northwest	154,813	Direct
Fortune 1 Retailer	7775 W. Buckeye Road	Tolleson	107,922	Direct
Caverta	2401 W. Grandview Road	Deer Valley/ Pinnacle Peak	99,915	Direct
AZPACK	9230 S. Farmer Avenue	Tempe Southwest	99,017	Direct

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
CBRE Global Investors Ltd.	Enterprise Data Center	Chandler	191,000	\$72,750,000	\$381
NIKE	Lincoln Logistics Center	Goodyear	1,039,000	\$69,832,600	\$77
Broadstone Real Estate	Hensley Beverage Company	Grand Avenue	267,606	\$57,681,920	\$216
Vital Pharmaceuticals	43rd Avenue Logistics Center	SW S of Buckeye Road	394,775	\$47,373,000	\$120
Stockbridge Real Estate	7037 W. Van Buren Street	Tolleson	552,330	\$45,843,350	\$83

Top Projects Under Construction

Property	Submarket	Completion	Total SF	% Preleased/Owned
The HUB at Goodyear	Goodyear	Q1 2020	790,980	0.0%
Ferrero USA	Glendale	Q2 2020	643,798	100%
Andersen Corp	Goodyear	Q4 2019	500,000	100%
Microsoft	Glendale	Q2 2020	500,000	100%
The Landing 202	Chandler N/Gilbert	Q2 2020	486,000	0.0%

Trends to Watch

Industrial tenants responding to technological and economic trends demand spaces that require developers to reconsider traditional design and invest in significant upgrades.



Raise the Roof
Efficiency drives are forcing ceiling heights upward as users focus on cubic footage to accommodate additional pallets and taller forklifts and cranes.



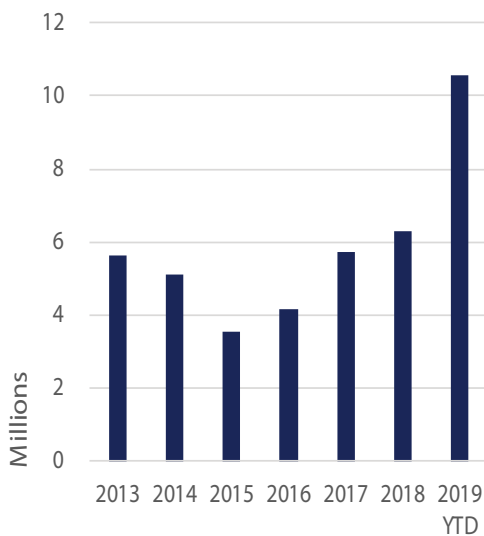
Multi Story Design
To keep pace with Asia, developers are introducing multiple stories for fulfillment centers in constrained cities requiring fast delivery. Seattle & New York have such sites with proposed construction in LA & San Francisco.



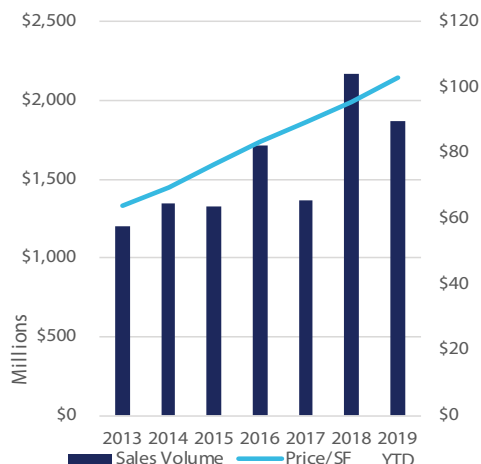
Power Up
The Internet economy requires data centers and that means industrial developers must provide increasing amperage to power massive servers.

Signals are strong that tenants will respond to availability, but vacancy rates in the short term will likely tick upward.

Under Construction



Investment Sales



Rental Rates

Rates locally have outpaced national averages in recent quarters, but is decelerating. Average NNN rents stand at \$7.47 psf. Flex space commands an average of \$9.97 psf. Typical warehouse is \$6.88 psf. Tempe East Industrial Submarket leads all submarkets at \$14.11 psf. Scottsdale's Airpark and Salt River submarkets follow, reporting \$12.15 psf and \$11.75 psf respectively.

Leasing

Scottsdale-based Sendoso – a "sending platform" that sources, stores, ships & tracks customer data for marketers – leased 181,325 sf in the SW North of Buckeye Road Submarket with easy access to I-10. Integrated CBD took 154,813 sf in Tempe Northwest Submarket, a sign that the emerging legal cannabis industry has potential to become a major industrial player and another indicator that the sector must accommodate yet another particular tenant type with specialized building requirements.



Integrated CBD in Tempe Northwest

Construction

Net completions are reaching a 10-year high with most new supply in the West Valley. Goodyear, Tolleson and Glendale account for two-thirds of inventory currently under construction. The region's largest project, The HUB at Goodyear (790,980 sf), is expected to deliver in January. Ferrero USA's build-to-suit facility in Glendale

(643,798 sf) is due in June, 2020. The same month Microsoft's plan for a 500,000 sf data center comes online. Window & door manufacturer, Andersen Corporation, is set to occupy its new 500,000 sf space in November. In Mesa–Gateway, Landing 202, a 605,000 sf campus, recently landed Marwest Enterprises as a major tenant.

Vacancy

Vacancy rates are at historic lows but remain higher than the national average. The next few quarters will experience significant space deliveries and may challenge the market to absorb space quickly. Signals are strong that tenants will respond to availability, but vacancy rates in the short term will likely tick upward.

The Goodyear Submarket took top spot with 952,080 sf absorbed and Chandler North/Gilbert Industrial Submarket absorbed 527,059.

Investment Sales

After a record high transaction volume of \$2.3 billion in 2018, bullish investors are on track to beat that figure this year, driven by increased foreign and out-of-state interest. 20% of year-to-date transactions are from California-based buyers.

The biggest sale of Q3 occurred in July: a 191,000 sf data center in Chandler transacting for \$72.8 million. Nike purchased a 901,000 sf manufacturing & logistics center within one of Goodyear's three Free Trade Zones, for \$69.8 million. The deal helped confirm Goodyear's rising reputation as an investor hot spot. Microsoft intends to build three data centers around Metro Phoenix. Two are in Goodyear.

Market By The Numbers*

Submarket	Total RBA (SF)	Vacancy Space Sublease	Vacancy Total Space	Vacancy Rate Flex	Vacancy Rate Warehouse	Q3 Net Absorption	Overall Average Ask Total (NNN)	Avg. Ask Flex (NNN)	Avg. Ask Warehouse (NNN)
Central Phoenix Ind	4,578,105	0	172,559	2.4%	4.4%	5,971	\$10.53	\$30.00	\$9.34
Chandler Airport Ind	3,814,768	0	250,655	18.6%	5.7%	168,340	\$8.96	\$17.22	\$8.52
Chandler Ind	21,799,993	75,487	1,504,022	9.7%	7.7%	(79,846)	\$10.07	\$10.77	\$8.38
Chandler N/Gilbert	21,545,865	304,035	1,464,433	4.3%	9.4%	527,059	\$7.80	\$11.21	\$7.89
Deer Vly/Pinnacle Pk	17,632,518	33,016	1,129,177	1.3%	8.1%	383,454	\$8.96	\$11.66	\$8.77
Falcon Fld/Apache Jc	5,458,871	50,476	575,878	7.9%	11.8%	(43,164)	\$8.85	\$10.63	\$9.00
Glendale Ind	10,514,487	0	1,057,279	8.1%	3.5%	(426,445)	\$5.64	-	\$8.71
Goodyear Ind	13,287,644	68,847	213,807	0.0%	1.2%	952,080	\$4.63	\$0.00	\$4.98
Grand Avenue Ind	13,471,735	0	406,547	8.7%	3.1%	340	\$5.38	\$16.50	\$4.83
Mesa Ind	7,735,319	17,200	283,977	3.6%	4.2%	74,733	\$7.54	\$14.00	\$7.00
North Airport Ind	13,542,502	21,812	690,145	10.2%	5.7%	66,559	\$8.12	\$10.87	\$7.66
North Black Canyon	4,543,121	0	319,958	15.8%	3.8%	19,588	\$11.31	\$14.38	\$7.71
North Outlying Ind	148,744	0	0	0.0%	0.0%	5,000	\$0.00	\$0.00	\$0.00
Northwest Outlying	38,738	0	0	0.0%	0.0%	0	\$0.00	\$0.00	\$0.00
Pinal County Ind	9,746,324	0	264,112	0.0%	2.7%	4,137	\$7.52	-	\$7.52
S Airport N of Rouse	15,548,284	39,226	1,361,416	13.1%	4.4%	214,461	\$9.57	\$13.95	\$7.68
S Airport S of Rouse	4,560,317	12,164	204,289	2.7%	3.5%	(76,360)	\$7.56	\$10.80	\$8.39
SC N of Salt River	16,080,800	1,800	905,431	4.4%	2.3%	19,341	\$7.94	\$9.19	\$8.05
SC S of Salt River	2,562,621	0	191,000	0.0%	0.0%	142,503	\$5.40	-	\$2.40
SW N of Buckeye Road	33,676,869	54,528	1,843,800	0.0%	3.9%	220,816	\$4.95	\$0.00	\$4.98
SW S of Buckeye Road	18,725,196	394,775	2,358,054	0.0%	11.5%	12,707	\$6.28	\$6.95	\$8.92
Scottsdale Airpark	6,809,323	22,041	409,953	6.1%	2.6%	(4,384)	\$12.15	\$12.99	\$8.79
Scottsdale/Salt River	5,397,023	0	117,790	4.0%	1.3%	(2,032)	\$11.75	\$12.67	\$10.47
Southwest Outlying	99,833	0	0	0.0%	0.0%	0	\$2.64	\$0.00	\$2.64
Surprise	4,137,701	0	104,600	3.1%	1.6%	90,912	\$8.85	\$5.72	\$11.27
Tempe East Ind	6,677,162	0	249,358	0.7%	4.7%	(40,394)	\$14.11	\$18.71	\$8.87
Tempe Northwest Ind	11,338,034	11,039	535,999	5.6%	3.6%	362,537	\$10.37	\$13.98	\$8.35
Tempe Southwest Ind	21,474,128	116,497	2,197,885	10.1%	10.9%	(79,987)	\$8.06	\$12.95	\$6.84
Tolleson Ind	38,634,666	478,695	4,162,285	3.3%	17.4%	88,084	\$5.05	\$11.24	\$5.18
W Phx N of Thomas Rd	8,334,528	11,419	191,785	0.8%	2.4%	(14,544)	\$5.16	\$0.00	\$5.00
W Phx S of Thomas Rd	7,068,853	0	199,468	10.2%	2.0%	(4,723)	\$6.30	\$0.00	\$4.99
Total	348,984,072	1,713,057	23,365,662	6.3%	7.0%	2,586,743	\$7.47	\$9.87	\$6.88

*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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