



Phoenix

Q4 2017 / Quarterly Industrial Market Report

Market Facts

 **12.0%**
Flex Vacancy

 **7.2%**
Industrial Vacancy

 **\$12.47**
Flex Average Asking Rate

 **\$6.24**
Industrial Average Asking Rate

 **\$80**
Sale Price/Square Foot

 **6.7%**
Industrial CAP Rate

Market Overview

The Phoenix industrial market grew to 331 million square feet (msf) in the fourth quarter with the overall combined flex and industrial vacancy rate dropping to 7.7%, 120 basis points lower than fourth quarter 2016. Average asking rental rates decreased slightly to \$6.91 per square foot (psf) in the fourth quarter, still up from \$6.78 psf year-over-year. Annual absorption continues to be strong, with 10.1 msf absorbed, of which 3.6 msf was in the fourth quarter. These strong market fundamentals are not surprising given that since November 2016 Phoenix has gained 66,000 jobs and unemployment fell by 40 basis points. Manufacturing employment increased 3.1% in the past 12 months, while trade, transportation and utilities increased 0.6%.

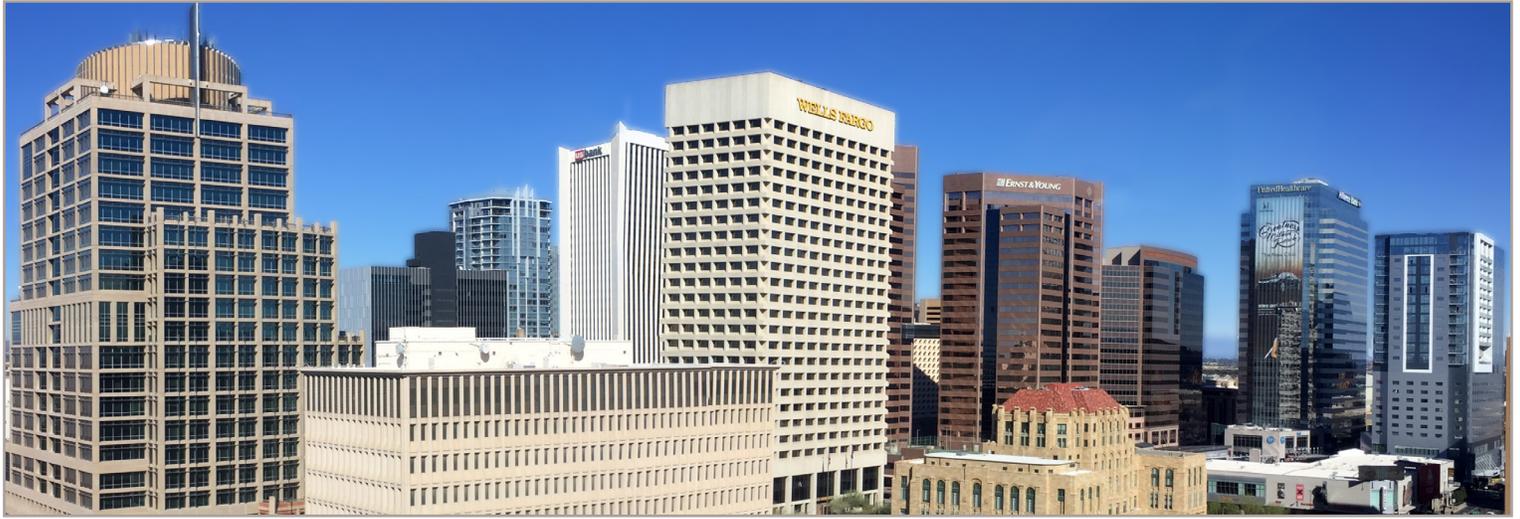
Top Leases

Tenant	Building	Submarket	Square Feet	Type
Footprint Manufacturing	250 E. Germann Road	Chandler Airport	131,796	Industrial
Aspenhome LLC	601 N. 75th Avenue	Tolleson	82,832	Industrial
Amware Fulfillment	1250 N. Fairway Drive	Goodyear	78,790	Industrial
Pacific Office Automation	4501 E. McDowell Road	North Airport	64,449	Flex
Elliott Electric	121 S. 39th Avenue	SW North of Buckeye Road	62,972	Industrial

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
Cohen Asset Management	7200 W. Buckeye Road	Tolleson	400,000	\$31,200,000	\$78
RW Holdings NNN REIT	6877 W. Frye Road	Chandler	92,247	\$26,500,000	\$163
CBRE Global Investors	1524 W. 14th Street	Tempe Northwest	172,960	\$18,100,000	\$105
City Office REIT	1600 N. Desert Drive	Tempe	95,556	\$17,399,629	\$182
STAG Industrial	925 N. 127th Avenue	Goodyear	185,192	\$16,500,000	\$89

Market Snapshot



Phoenix's location between Southern California ports and eastern destinations, along with reasonably priced commercial land, has led to major speculative 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. In the first quarter of 2017, Intel also announced a \$7 billion capital investment plan that will add 3,000 additional jobs. Manufacturing is rebounding in Phoenix as companies are increasingly attracted by the business climate in Phoenix. Silent-Aire, an HVAC manufacturer, relocated its 146,000-sf headquarters to Gilbert in the third quarter, employing over 300 employees.

Southwest, South of Buckeye Road Industrial Submarket was the most active submarket in the fourth quarter of the year, recording 588,000 sf of positive absorption, approximately 16% of the market's positive absorption. The Scottsdale Airpark Submarket had the highest asking rent at \$12.00 psf, while Grand Avenue, West Phoenix North of Thomas Road, and West Phoenix South of Thomas Road Submarkets reported the lowest vacancy rates, all at or below 4.4%. Of the 13 submarkets with over 10 msf, the Scottsdale North of Salt River Industrial Submarket had the healthiest combination of vacancy and rental rates, with industrial vacancy at 5.9%, flex vacancy at 13.1%, and average rental rate of \$10.46 psf.

7.1 msf of new product was delivered in the Phoenix industrial and flex submarkets in 2017, with 69.8% leased.

Major fourth quarter deliveries include 6415 S. Apache Road (250,000 sf, 100% preleased), 16811 W. Commerce Drive (540,349 sf, 0% preleased), and 5333 W. Lower Buckeye Road (474,082 sf, 100% preleased). Nearly 6.0 msf of industrial/flex space is currently under construction in the region, with 55.7% preleased.



South of Buckeye Road Industrial Submarket

Strong sales activity continued into the third quarter. The largest sale was 7200 W. Buckeye Road, totaling 400,000 sf, selling for \$31.2 million or approximately \$78 psf. Sales transactions remained steady in the fourth quarter, with dollar volume unchanged and square footage volume increasing 14.0%. The price per square foot peaked in first quarter 2016 at \$90 psf, declined to \$73 psf in first quarter 2017, increased to \$77 psf in second quarter 2017, \$83 in third quarter 2017, and slightly decreased to \$80 in fourth

Phoenix

Q4 2017 / Quarterly Industrial Market Report

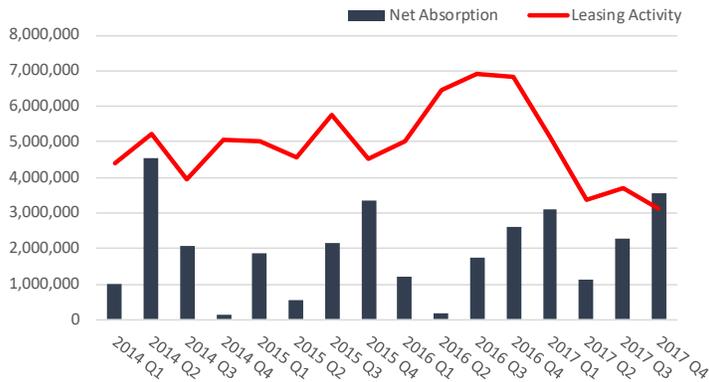
quarter 2017. There were several other large sales in the fourth quarter: RW Holdings NNN REIT purchased 6877 W. Frye Road for \$26.5 million (\$163 psf), CBRE Global Investors acquired 1524 W. 14th Street for \$18.1 million (\$105 psf), and City Office REIT bought 1600 N. Desert Drive for \$17.4 million (\$182 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.

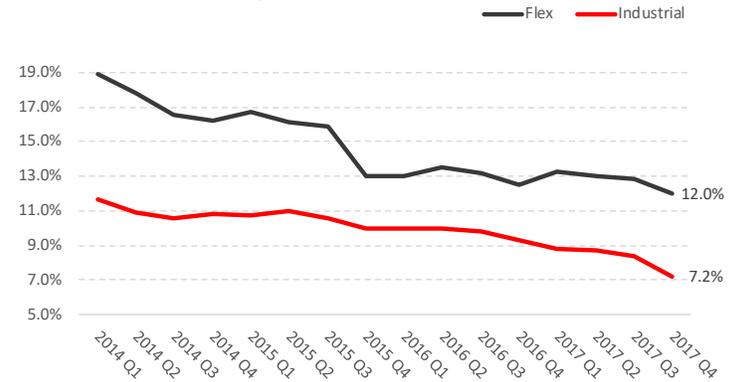


6877 W. Frye Road

Historical Net Absorption & Leasing Activity



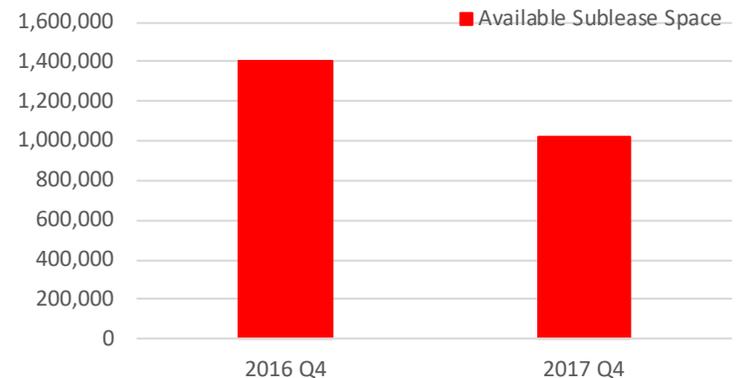
Historical Vacancy



Historical Asking Rental Rate (FSG)



Total Available Sublease Space in the Market



Market By The Numbers

Market	Total RBA (SF)	Vacancy Space		Vacancy Rate		Available Space		Net Absorption (SF)	Avg. Ask Total (NNN)	Avg. Ask Flex (NNN)	Avg. Ask Industrial (NNN)
		Direct	Sublease	Flex	Industrial	Direct	Sublease				
Central Phoenix	4,275,969	245,263	0	4.1%	6.3%	227,439	0	4,141	\$11.25	\$15.62	\$9.54
Chandler Airport	3,423,212	771,386	4,743	38.1%	20.0%	635,590	4,743	-9,742	\$9.95	\$15.67	\$7.94
Chandler	18,585,588	1,019,765	100,795	13.9%	4.0%	1,010,910	80,795	205,622	\$9.36	\$12.86	\$7.39
Chandler North/Gilbert	19,359,548	1,150,424	107,692	11.0%	5.9%	1,072,624	94,192	188,728	\$7.89	\$11.54	\$7.29
Deer Valley/Pinnacle Park	16,849,586	1,411,955	41,623	3.2%	9.9%	1,404,448	41,623	166,297	\$8.83	\$12.18	\$8.61
Falcon Field/Apache Junction	4,797,771	198,485	37,612	21.0%	3.5%	168,000	37,612	-56,169	\$8.40	\$9.37	\$8.26
Glendale	8,869,731	697,876	1,000	13.4%	7.7%	695,406	1,000	527,478	\$5.29	\$7.20	\$5.28
Goodyear	11,583,007	1,525,450	0	18.1%	13.1%	1,444,752	0	139,077	\$4.63	\$8.59	\$4.51
Grand Avenue	13,257,458	552,048	25,000	19.5%	4.2%	491,702	25,000	32,573	\$5.63	\$15.84	\$5.21
Mesa	7,570,614	384,380	0	0.3%	5.4%	375,782	0	-59,049	\$7.85	-	\$7.85
North Glendale/Sun City	3,562,082	200,826	0	7.5%	5.3%	198,330	0	-11,247	\$7.23	\$6.87	\$7.34
North Airport	13,397,267	1,177,211	21,330	20.6%	7.1%	1,044,428	21,330	157,659	\$8.69	\$11.23	\$7.60
North Black Canyon	4,605,192	407,326	4,656	16.6%	6.2%	407,326	4,656	58,288	\$8.49	\$9.48	\$7.74
North Outlying	132,746	0	0	-	0.0%	0	0	0	-	-	-
Northwest Outlying	38,738	0	0	-	0.0%	0	0	0	-	-	-
Pinal County	9,457,934	390,513	9,506	0.0%	4.3%	390,513	5,706	315,779	\$4.81	\$10.00	\$4.78
South Airport North of Roeser	15,430,185	2,060,788	23,763	18.5%	12.4%	1,989,262	23,763	179,349	\$8.16	\$13.04	\$6.79
South Airport South of Roeser	4,545,644	164,020	113,801	21.7%	5.7%	158,106	87,801	32,366	\$6.48	-	\$6.48
Scottsdale North of Salt River	15,634,288	967,723	6,620	13.1%	5.9%	803,680	6,620	175,570	\$10.46	\$9.45	\$10.48
Scottsdale South of Salt River	2,392,105	402,374	0	0.0%	17.0%	402,374	0	769	\$6.81	-	\$6.81
Scottsdale Airpark	6,837,995	592,949	47,761	11.4%	8.2%	537,545	47,761	59,937	\$12.00	\$12.84	\$11.16
Scottsdale/Salt River	5,456,497	303,155	1,909	7.1%	4.8%	295,247	1,909	-39,033	\$11.55	\$12.43	\$10.94
Southwest Outlying	132,833	99,000	0	-	74.5%	99,000	0	0	\$2.40	-	\$2.40
Southwest North of Buckeye Road	32,732,676	1,857,517	15,372	2.9%	5.7%	1,796,646	15,372	389,204	\$4.70	-	\$4.70
Southwest South of Buckeye Road	17,892,690	1,680,539	0	17.6%	9.2%	1,430,496	0	587,510	\$6.06	-	\$6.06
Tempe East	6,625,083	335,889	288,922	10.0%	9.3%	309,482	288,922	10,676	\$7.03	\$7.80	\$7.00
Tempe Northwest	11,032,806	700,593	9,500	11.2%	5.0%	692,893	9,500	1,247	\$9.26	\$11.44	\$8.86
Tempe Southwest	21,936,632	1,994,649	116,538	13.4%	8.8%	1,948,030	116,538	-26,530	\$8.15	\$13.34	\$6.61
Tolleson	35,556,274	2,794,647	103,352	3.5%	8.2%	2,664,405	103,352	420,570	\$4.59	\$11.76	\$4.56
West Phoenix North of Thomas Road	8,231,293	146,099	4,500	2.6%	1.8%	129,121	4,500	50,691	\$4.95	-	\$4.95
West Phoenix South of Thomas Road	6,973,617	168,810	0	12.1%	2.3%	158,556	0	59,167	\$4.46	-	\$4.46
Total	331,177,061	24,401,660	1,085,995	12.0%	7.2%	22,982,093	1,022,695	3,560,928	\$6.91	\$12.47	\$6.24



Avison Young
 2777 East Camelback Road, Suite 230
 Phoenix, AZ 85016
 T 480.994.8155 F 480.994.8599
 avisionyoung.com