

# Phoenix

## Industrial Market Report 4th Quarter 2018

### Quick Stats

**103.6 K**

Net employment gain from  
November 2017 to November  
2018.

**2.8 M**

Square feet of positive  
industrial space absorption.

**7.2%**

Vacancy increased by 20 basis  
points from third quarter 2018.

**5.5 M**

Square feet of industrial space  
under construction.

**\$7.07 PSF**

Triple Net asking rents  
increased by 2.9%.

### Fourth Quarter Ends 2018 with Record Deliveries.

High tech industries and e-commerce distribution are placing ever greater demands on Phoenix's industrial spaces. The region has long been an essential national trade hub, linking southern California with the eastern US. The proliferation of manufacturing jobs accelerated in the fourth quarter, increasing 6.8% in the past 12 months. The lower business costs have attracted increased interest from advanced manufacturing. Data center operators are also drawn by the low potential for natural disasters and number development sites.

#### Rental Rates

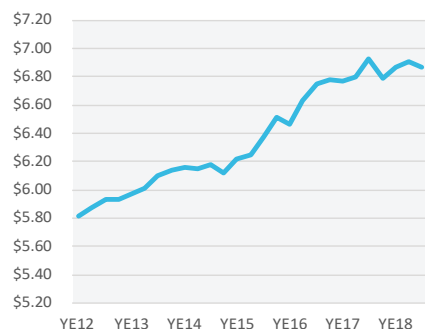
Year-over-year, the industrial market's asking rate increased 2.3%, to \$7.07 in the fourth quarter. Rents have achieved a ten-year high, increasing steadily since 2015. Southwest South of Buckeye Road, West Phoenix North of Thomas Road, Tolleson and Chandler Submarkets saw the largest increases since third quarter due to nearly record low vacancy and propagation of users willing to pay premium rents.

Southwest South of Buckeye Submarket landlords raised asking rents 64.2% in the past two years, a spike that could force many tenants to leave the submarket, rather than renew leases.

#### Vacancy

Fourth quarter vacancy slightly increased to 7.2%, still near the historic low of 6.8% recorded in 2006 and a nominal increase considering the number of deliveries. Vacancy rates dropped the most in South Airport South of Roeser with 160 bps, Scottsdale Airpark with 150 bps, North Glendale/Sun City with 150 bps and Central Phoenix with 130 bps. The small increase in market wide vacancy was confined to 11 of the 31 submarkets, mostly in the suburbs. Chandler Airport Submarket increased 320 bps and Tempe Southwest Submarket increased 310 bps, experiencing the greatest occupancy losses. The amount of available sublease space fell 1.0% in the fourth quarter as demand from companies relocating to Phoenix stabilized.

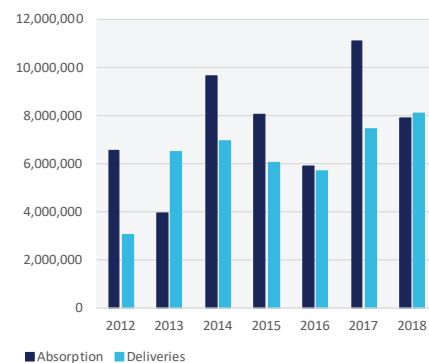
## Rental Rates



## Vacancy Rates



## Absorption & Deliveries



## Top Leases

Tenant	Building	Submarket	SF	Type
XPO Logistics	16560 W. Sells Drive	Glendale	643,798	Direct
Freeport Logistics	4450 N. 45th Avenue	Grand Avenue	117,048	Direct
Quality Leisure Products	121 S. 39th Avenue	SW N of Buckeye Road	75,712	Direct
Rexel USA	2601 S 37th Street	North Airport	51,348	Direct
Aerospace Contacts	1343 N Colorado Street	Chandler N/Gilbert	48,439	Direct

## Top Sales

Buyer	Building	Submarket	SF	Sale Price
Prologis Group	Westside Business Park Portfolio	Tolleson	1,106,167	\$92,552,000
Lexington Realty Trust	Opus Goodyear Crossing	Goodyear	540,349	\$42,700,000
Held Properties	145 S 79th Street	Chandler	129,187	\$22,750,000
Thomas M Foley	Scottsdale Design Group Portfolio	Central Phoenix	109,652	\$20,600,000
Exeter Property Group	4135 E. Cotton Center Boulevard	South Airport/North of Roeser	102,747	\$10,800,000

## Under Construction

Property	Submarket	Completion	SF	% Preleased/Owned
Orbital ATK Manufacturing	Chandler	1Q19	617,000	100.0%
202 West Logistics Center	SW S of Buckeye Road	2Q19	554,000	0.0%
West 80 Industrial	Tolleson	2Q19	379,828	0.0%
Prologis Loop 202 @ I-10	Southwest N. of Buckeye Road	2Q19	330,842	0.0%
Iron Mountain Data Center Phase 1	Tempe Northwest	2Q19	307,000	100.0%

## Trends to Watch

Manufacturing employment has increased, while the overall unemployment rate decreased.



3.9%

The unemployment rate decreased 60 bps from January 2018.



10.3% to 7.2%

While vacancy increased a modest 20 bps this quarter, it has trended downward since third quarter 2015.

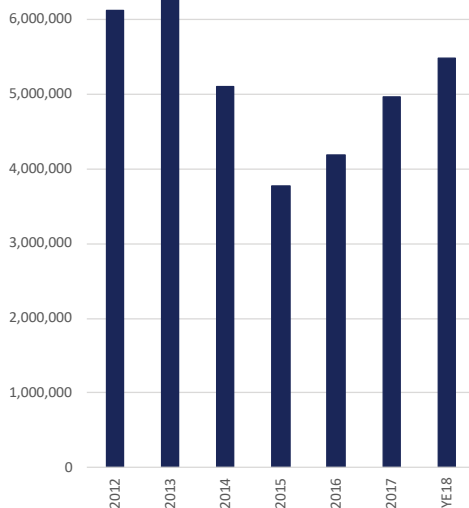


6.8%

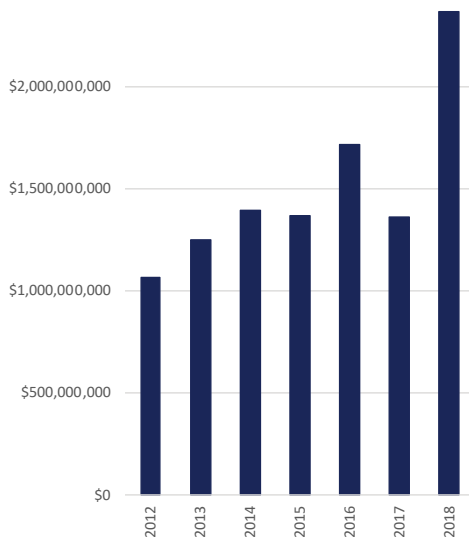
Manufacturing employment has increased year-over-year.

**Phoenix Industrial investment sales reached \$2.4 billion in 2018, exceeding 2017 volume by 73%.**

### Under Construction



### Investment Sales



### Leasing

Positive absorption increased in the fourth quarter, with a net gain of 2,824,051 sf, bringing the 2018 total to 7,915,837 sf. The Goodyear Submarket had the most positive absorption with 1,512,278 sf, trailed by the South Airport North of Roeser Submarket with 243,988 sf.



**16560 W. Sells Drive**

The largest lease of the quarter was for warehouse space at 16560 W. Sells Drive where XPO Logistics leased 643,798 sf for their shipping and storage operations. In the second and third largest leases, Freeport Logistics signed for 117,048 sf in the Grand Avenue Submarket at 4450 N. 45th Avenue and Quality Leisure Products leased 75,712 sf at 121 S. 39th Avenue.

### Construction

Square footage under construction fell in the fourth quarter to 5.4 msf, due to 3.6 msf of deliveries.



**Orbital ATK Manufacturing Building**

The largest property under construction for the quarter is the

Orbital ATK Manufacturing building with 617,000 sf in the Chandler Submarket.

***The Tolleson Submarket accounted for 21.2% of the square footage under construction, the largest submarket pipeline.***

The largest rental property under construction is the speculative 554,000 sf for the 202 West Logistics Center in the Southwest South of Buckeye Road Submarket.

### Investment Sales

Industrial sales increased 73% in 2018 from 2017, to \$2.4 billion for the year, reaching historical high volume. The Westside Business Park Portfolio was the largest sale of the quarter. Located in the Tolleson Submarket, it was purchased by Prologis Group for \$93 million (\$84 psf).



**Westside Business Park**

The second largest sale of the quarter was Lexington Realty Trust's purchase of Opus Goodyear Crossing for \$43 million (\$79 psf).



## 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	4,456,185	172,021	0	2.5%	4.3%	10,153	91,409	\$10.88	\$14.70	\$9.71
Chandler Airport	3,651,211	748,882	1,304	42.8%	16.3%	69,240	126,435	\$10.63	\$16.99	\$8.06
Chandler	21,472,368	1,166,460	106,202	11.8%	4.6%	-88,667	-11,622	\$9.88	\$14.98	\$8.22
Chandler North/Gilbert	20,330,796	804,881	111,043	6.9%	4.3%	86,231	687,683	\$7.76	\$10.33	\$7.26
Deer Valley/Pinnacle Park	17,415,887	1,442,825	43,345	1.7%	10.2%	167,766	563,102	\$8.71	\$11.69	\$8.58
Falcon Field/Apache Junction	5,106,733	362,297	47,166	14.5%	7.5%	44,040	99,771	\$8.78	\$9.42	\$8.73
Glendale	10,331,485	1,244,713	0	11.3%	12.2%	748,598	1,496,020	\$5.21	\$7.20	\$5.21
Goodyear	13,221,538	1,855,968	0	15.8%	14.0%	1,512,278	1,538,686	\$4.62	-	\$4.62
Grand Avenue	13,398,497	442,713	25,000	11.5%	3.4%	145,504	232,746	\$4.88	\$16.50	\$4.69
Mesa	7,687,621	415,188	5,364	4.6%	5.5%	149,309	101,445	\$7.24	-	\$7.24
North Glendale/Sun City	3,614,134	65,316	2,442	1.9%	1.9%	53,676	160,104	\$7.60	\$4.52	\$8.44
North Airport	13,622,214	823,864	9,200	13.1%	5.0%	166,824	399,663	\$9.50	\$12.55	\$7.66
North Black Canyon	4,507,489	390,340	0	20.3%	4.9%	-21,391	-55,367	\$7.48	\$9.52	\$5.39
North Outlying	136,963	0	0	-	0.0%	0	0	-	-	-
Northwest Outlying	38,738	0	0	-	0.0%	0	0	-	-	-
Pinal County	9,699,596	300,143	33,000	4.4%	3.5%	123,292	188,328	\$7.81	-	\$7.81
South Airport North of Roeser	15,756,377	1,752,768	15,663	21.5%	9.0%	243,988	407,148	\$9.04	\$13.43	\$6.90
South Airport South of Roeser	4,560,317	129,035	81,351	13.8%	4.3%	66,065	129,260	\$6.71	\$10.20	\$6.37
Scottsdale North of Salt River	15,585,638	642,196	4,620	7.2%	4.0%	84,801	243,575	\$7.47	\$4.94	\$7.48
Scottsdale South of Salt River	2,533,861	410,592	0	0.0%	16.5%	0	82	\$5.48	-	\$5.48
Scottsdale Airpark	6,845,416	502,816	9,481	9.4%	6.4%	112,552	222,022	\$12.74	\$14.08	\$11.90
Scottsdale/Salt River	5,387,523	169,166	0	5.4%	2.0%	12,744	140,375	\$12.30	\$12.74	\$11.48
Southwest Outlying	98,833	33,000	0	-	33.1%	33,000	33,000	\$2.52	-	\$2.52
Southwest North/Buckeye Rd	33,489,466	2,000,557	22,595	0.0%	6.1%	-357,112	-26,560	\$4.92	-	\$4.92
Southwest South/Buckeye Rd	17,916,063	1,037,247	1,900	17.6%	5.6%	7,787	578,059	\$7.74	-	\$7.74
Tempe East	6,705,728	274,001	6,120	13.6%	1.9%	11,927	109,165	\$8.23	\$10.48	\$8.03
Tempe Northwest	10,961,041	720,943	11,817	10.8%	5.6%	65,088	142,556	\$8.56	\$11.86	\$7.70
Tempe Southwest	21,598,301	2,304,303	106,064	11.7%	11.0%	-485,172	-96,893	\$7.72	\$12.71	\$6.58
Tolleson	38,103,184	3,735,491	51,156	3.9%	10.5%	-234,065	452,490	\$4.81	\$11.24	\$4.79
West Phoenix North/Thomas Rd	8,298,623	241,350	4,500	4.0%	2.9%	8,055	-89,583	\$5.01	-	\$5.01
West Phoenix South/Thomas Rd	6,996,505	184,302	0	9.5%	2.5%	87,540	52,738	\$5.59	-	\$5.59
<b>Total</b>	<b>343,528,331</b>	<b>24,373,378</b>	<b>699,333</b>	<b>10.1%</b>	<b>6.8%</b>	<b>2,824,051</b>	<b>7,915,837</b>	<b>\$7.07</b>	<b>\$13.53</b>	<b>\$6.31</b>


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