



NAI Horizon

1st Quarter  
**2019**  
Industrial  
Market Report

# Q1 2019

## INDUSTRIAL MARKET METRO PHOENIX

### Phoenix Market Snapshot

#### ABSORPTION & DELIVERIES

For the fifth consecutive year the U.S. industrial real estate market has outperformed all other verticals and the Phoenix industrial market is very much aligned with national trends. Since January 2018 and through the first quarter this year, industrial occupiers completed 187 leases and have taken up more than 15 million square feet (gross) of space in the metro area.

The Southwest Valley led all submarkets during the first quarter with net absorption of 639,887 square feet. For all submarkets, net absorption in the quarter was 765,296 square feet. It was the 17th consecutive quarter for positive net absorption. That compares with a hefty 2,701,524 square feet of net absorption in the fourth quarter last year but is more comparable to the 858,197 square feet of net absorption in the third quarter of 2018. Since the first quarter 2015, the Phoenix metro market has positively absorbed more than 32 million square feet of industrial real estate.

In the first quarter 2019, 305,357 square feet of new industrial product was added to the inventory. That compares with 858,634 square feet of deliveries during the fourth quarter last year, and 7,278,541 square feet during all of 2018. Since the first quarter of 2010, more than 43 million square feet of new industrial buildings were built in the Phoenix market.

The largest lease in the quarter was 222,000 square feet in a Chandler lease executed by Z Modular, a company that factory-builds modular rooms that are assembled onsite for hotels, multifamily residential, commercial buildings, student housing and more.

As of the first quarter the region now has over 312 million square feet of distribution, manufacturing and warehouse space, making it one of the larger secondary markets in the U.S. for industrial space and a key target market for most of the major industrial operators in the U.S., such as East Group, Liberty Property Trust, Global Logistics, and many more. Cross Harbor, for example, is new to the market and recently acquired approximately 1 million square feet from Amazon at 6835 West Buckeye in Phoenix.

Speaking of Amazon, the Seattle-based behemoth (as of February 3 this year it was the largest company in the world and valued at \$795 billion by market capitalization, followed closely by Microsoft -- \$788B, Apple -- \$785B, and Alphabet -- \$722B) currently occupies approximately 5.16 million square feet of industrial product in Phoenix and already in the first quarter this year moved into two Tucson locations totaling 906,900 square feet. Amazon is scheduled to occupy a 583,340-square-foot building at 6000 W. Van Buren Street in Phoenix this May. That building was recently completed by Wentworth Property Group as the developer for the owner, New York Life.

#### SUPPLY & DEMAND

While there is substantial demand for smaller industrial buildings – those under 100,000 square feet, it's more profitable for developers to build larger projects. Further, projects for standalone buildings under this size are not financially feasible.

However, new supply is underway that should alleviate the situation.

Prologis purchased the former Ameron concrete plant located at 2111-2145 S. 7th Street in Phoenix where 20 functionally obsolete buildings were demolished last year and is building Prologis 1-17 Logistics Center, with the first delivery scheduled for this quarter. The project is comprised of four buildings totaling 558,000 square feet and divisible from 25,000 square feet to 211,000 square feet. Considering the demand for high-



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### SUPPLY & DEMAND CONTINUED

bay space, we think the San Francisco-based REIT will experience a strong response from the market.

In addition, Marwest Enterprises LLC is expected to deliver later this quarter phase I of a 20-acre project adjacent to the Loop 202 and Phoenix-Mesa Gateway (PMG) airport that will be six buildings totaling 281,000 square feet with bay space as small as 5,400 square feet. That space is demanding 10 cents per square foot more than all other Class A space in the market. The Landing at PMG, as it is called, is designed to provide tenants with a diverse range of options for leasing or purchasing and includes access to storage yards.

There is significantly more industrial product coming to the market, and more under construction at once, than we have seen in a long time, in all 4 corners of the Valley. Despite the commentary on demand for space under 100,000 square feet, demand remains strong for big box buildings in increments of 200,000 square feet or greater.

### VACANCY RATES & RENTAL RATES

The vacancy rate at the close of the first quarter was 7.2 percent, down 10 basis points from the end of the last year and about the same as it was a year ago, when it was 7.3 percent. By comparison, the national average vacancy rate is 4.3 percent – a figure that could make the local and regional vacancy rate seem high. That is not the case, however, as developers have just done a better job in the Phoenix market by keeping up with demand and getting more projects in the pipeline, and delivered, than many of the larger primary and secondary markets in the U.S.

By comparison, the vacancy rate for industrial product in Phoenix was 17.1 percent at the beginning of 2010 and has declined steadily since. The vacancy rate broke into single digits for the first time in this cycle during the fourth quarter 2015, when it closed at 9.6 percent.

With all the new supply coming, it would not be surprising to see the vacancy rate fluctuate between thru low-to-high 7's Percent, on a quarterly basis, throughout 2019. Then again, it all depends on velocity of development deliveries and transaction closings. The Industrial inventory will continue to populate and fluctuate as the economy flourishes.

Average asking rents are just now getting back to par from 2010. There has been a 14.02% growth in asking rents from 2015 to Q1 2019.

### OUTLOOK

We expect the industrial real estate market to continue to be characterized by substantial leasing activity and new development fueled by a strong local economy that is highly diversified and includes technology, manufacturing, travel and leisure, healthcare, construction, insurance and general office requirements, automotive, mining and farming, among other industries. Phoenix is now the 5th largest city in the United States and has the 20th busiest airport in the country. In combination with a business-friendly environment, strong labor pool and a right-to-work state, the industrial market in Arizona's largest metro area still has room for expansion.

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#### Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
Distribution	77,601,434 SF	5,926,788 SF	8.2%	973,208 SF	273,357 SF	1,396,553 SF	\$0.44/SF
Manufacturing	58,890,869 SF	2,004,639 SF	3.4%	(226,983) SF	-	1,159,468 SF	\$0.53/SF
Warehouse	147,074,285 SF	11,526,147 SF	7.8%	(230,878) SF	22,000 SF	712,757 SF	\$0.55/SF
Flex	33,973,851 SF	3,103,268 SF	9.1%	246,196 SF	10,000 SF	817,000 SF	\$1.14/SF
<b>TOTAL</b>	<b>312,540,439 SF</b>	<b>22,560,842 SF</b>	<b>7.2%</b>	<b>761,543 SF</b>	<b>305,357 SF</b>	<b>4,085,778 SF</b>	<b>\$0.58/SF</b>

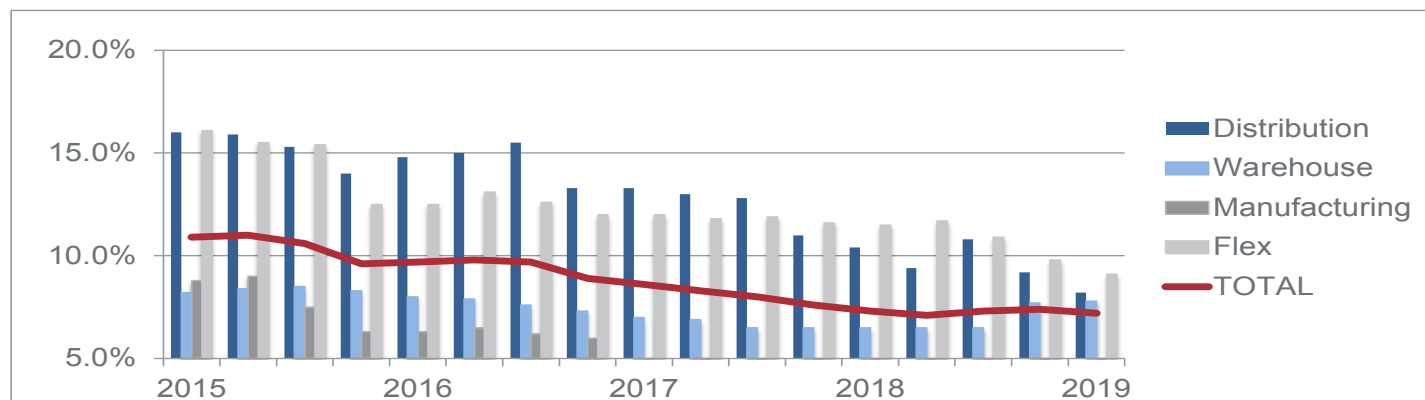
#### Significant Lease Transactions

	Address	Tenant	Size	Building Type	Type
6205 S Arizona Ave	Chandler	Z Modular	222,000 SF	Warehouse	New Lease
1755 S 75th Ave	Phoenix	States Logistics	211,185 SF	Distribution	New Lease
9494 W Buckeye Rd	Tolleson		186,336 SF	Warehouse	New Lease

#### Significant Sale Transactions

	Address	Date	Size	Building Type	Price
1921 W Rio Salado Pkwy	Tempe	01/18/2019	48,066 SF	Flex R&D	\$19.3M
4525 W Watkins St	Phoenix	03/28/2019	45,036 SF	Warehouse	\$4.6M
146 E Coury Ave	Mesa	03/29/2019	28,644 SF	Warehouse	\$3.7M

#### Industrial Vacancy Rates



The Industrial Market is a compilation that includes distribution, warehouse, manufacturing and flex buildings. Some information contained herein has been obtained from third party sources deemed reliable but has not been independently verified by NAI Horizon. NAI Horizon makes no warranties or representations as to the completeness or accuracy thereof. NAI Horizon makes no guarantee about projections, opinions, assumptions or estimates. Occasionally corrected or updated information becomes available for both current and historical data thereby invalidating specific comparison to previously issued reports.

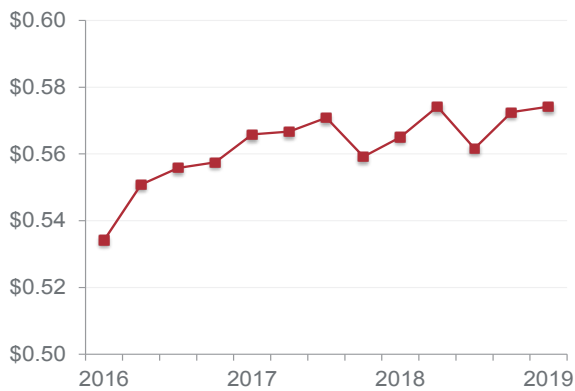
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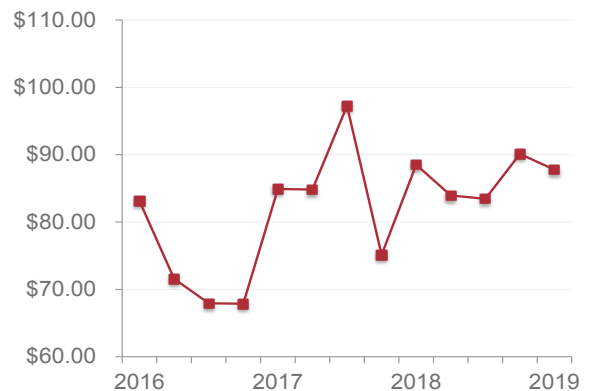
### Submarket Snapshot

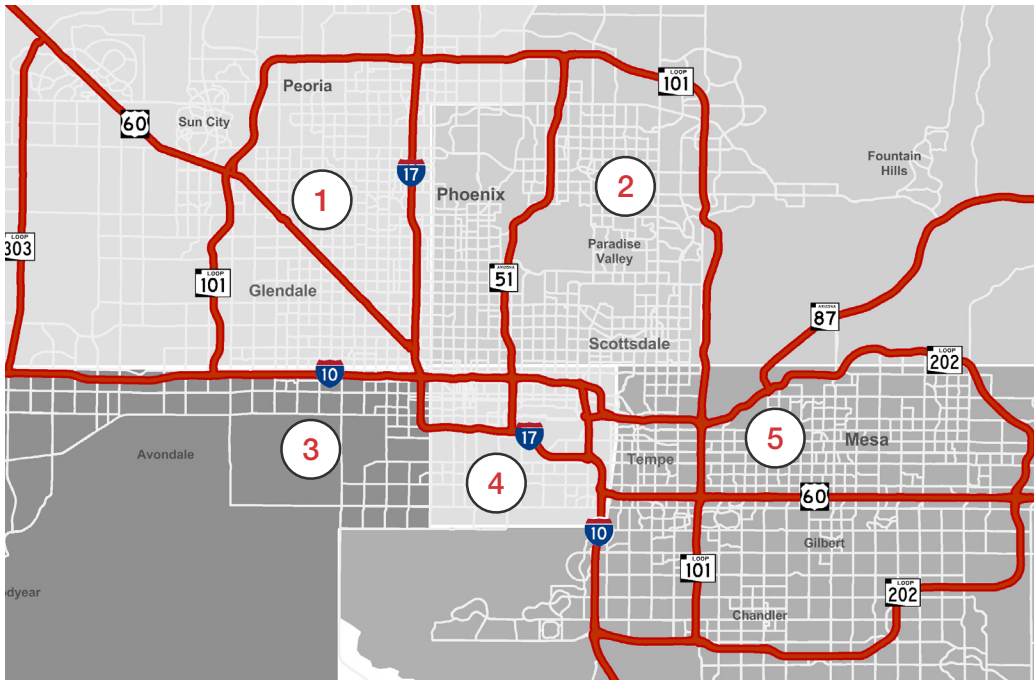
	RBA	Vacant SF	Vacant %	Net Absorption	Deliveries	Under Construction	Avg NNN Rate	Yearly NNN Rate
Sky Harbor	49,177,792 ▼	3,006,710 ▼	6.1% ▼	176,449 ▼	-	115,354	\$0.68 ▼	\$8.16 ▼
Northeast Valley	15,069,056	670,198 ▼	4.4% ▼	26,524 ▼	-	-	\$1.00 ▼	\$12.03 ▼
Northwest Valley	60,833,979 ▲	3,473,754 ▲	5.7% ▲	(155,949) ▼	273,357 ▲	484,765 ▼	\$0.59 ▲	\$7.08 ▲
Southeast Valley	90,912,195 ▲	6,622,478 ▼	7.3% ▼	78,385 ▲	32,000 ▼	997,838 ▲	\$0.73 ▲	\$8.80 ▲
Southwest Valley	96,439,891	8,779,215 ▼	9.1% ▼	639,887 ▼	-	2,487,821 ▼	\$0.40 ▼	\$4.85 ▼
All Submarkets	312,432,913 ▲	22,552,355 ▼	7.2% ▼	765,296 ▼	305,357 ▼	4,085,778 ▲	\$0.57 ▲	\$6.89 ▲
Overall Total 4Q18	312,185,668 ▲	23,070,406 ▲	7.4% ▲	2,701,524 ▲	3,413,951 ▲	3,494,587 ▼	\$0.57 ▲	\$6.87 ▲
Overall Total 3Q18	308,856,117 ▲	22,442,379 ▲	7.3% ▲	858,197 ▼	1,562,034 ▼	5,602,976 ▼	\$0.56 ▼	\$6.74 ▼
Overall Total 2Q18	307,305,021 ▲	21,749,480 ▼	7.1% ▼	2,555,913 ▲	1,997,199 ▲	6,203,696 ▼	\$0.57 ▲	\$6.89 ▲
Overall Total 1Q18	305,371,822 ▲	22,372,194 ▼	7.3% ▼	1,500,796 ▼	858,634 ▼	7,308,541 ▲	\$0.57 ▲	\$6.78 ▲
Overall Total 4Q17	304,515,968 ▲	23,017,136 ▼	7.6% ▼	3,710,265 ▲	2,480,034 ▲	4,691,293 ▼	\$0.56 ▲	\$6.71 ▲

Rental Rates Average Asking/SF



Sale Prices Average/SF





## Industrial Submarkets

- 1 Northwest Valley**  
 Deer Vly/Pinnacle Pk, Glendale, Grand Avenue, N Glendale/Sun City, North Black Canyon, W Phx N of Thomas Rd, W Phx S of Thomas Rd
- 2 Northeast Valley**  
 Central Phoenix, Scottsdale Airpark, Scottsdale/Salt River
- 3 Southwest Valley**  
 Goodyear, SW N of Buckeye Rd, SW S of Buckeye Rd, Tolleson
- 4 Sky Harbor**  
 North Airport, S Airport N of Roeser, S Airport S of Roeser, SC N of Salt River, SC S of Salt River
- 5 Southeast Valley**  
 Chandler Airport, Chandler, Chandler N/ Gilbert, Falcon Field/Apache Junction, Mesa, Tempe E, Tempe NW, Tempe SW

# We are here. Phoenix



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NAI Horizon knows commercial real estate. With over 26 years in the Valley, NAI Horizon's extensive market insight allows us to match client needs with the right solutions. NAI Global member firms span the U.S. and 55 other countries, with more than 400 offices and more than 7,000 local market experts on the ground. Supported by the central resources of the NAI Global organization, member firms deliver market-leading services locally, and combine their in-market strengths to form a powerful bond of insights and execution for clients with multi-market challenges.

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