

Metro Phoenix Q1 2016

INDUSTRIAL SNAPSHOT

VACANCY

- The vacancy rate for the Phoenix industrial sector ended the first quarter of 2016 at 10.7%, down from 12.1% seen a year prior in the beginning of 2015.
- This quarter marks the lowest vacancy rate seen since 2008. The vacancy rate peaked in 2010 at 17.6% for the sector

ASKING RENTAL RATES

- The average rate remained at \$0.55 at the end of 2015 to Q1 2016, and has steadily increased since Q1 2015 when the average rate was \$0.53.
- Increased activity and rates in the office sector are contributing to a swell in rents for flex properties. Flex space increased to \$1.01/SF this quarter, up from \$0.97/SF at the beginning of 2015.
- Warehouse space saw the largest increase in rates over the last year, ending Q1 at \$0.54, up from \$0.50 at the beginning of 2015.
- The Northeast Valley submarket posted the highest average rates at \$0.96/SF.
- The Sky Harbor submarket saw a dramatic increase in rates over the last year, ending Q1 at \$0.63/SF up from \$0.57 at the beginning of 2015. Increased construction and deliveries in the submarket have driven rates up.

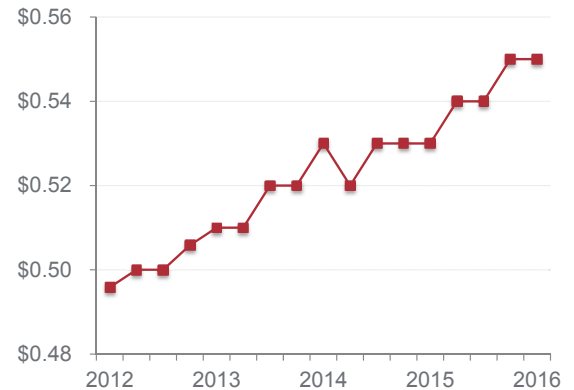
NET ABSORPTION

- The first quarter of 2016 had a strong showing of net absorption at 1.6M square feet.
- While Q1 was down from the final quarter of 2015 when 3.7M square feet was absorbed, the industrial market has seen 11 consecutive positive quarters.
- Distribution properties totaled 844,370 square feet absorbed, the largest absorption by property type, followed closely by warehouse space with 667,050 square feet absorbed.

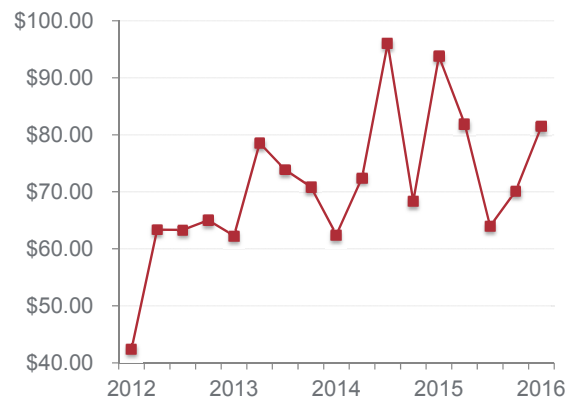
CONSTRUCTION

- Over 1.9M square feet of new product has been delivered to the market in the first quarter of 2016. Less than half, 657,384 SF, was delivered in the final quarter of 2015.
- At the end of the first quarter, 2.99 million square feet of new property was currently under construction.

Rental Rates Average Asking/SF



Sale Prices Average/SF



Economic Trends

▲ Consumer Price Index
Up 1.0% over last 12 months, nat'l

▼ 30-Year Fixed Mortgage (Nat'l Avg)
Down from Jan-3.97%, now 3.59%

▼ Phoenix Metro Unemployment
Down from 4.7% end of 2015, now 4.6%

Industrial Market Trends

▬ Vacancy Rate
Flat from 4Q15 to 1Q16, at 10.7%

▼ Net Absorption
Down from 3.7M SF in 4Q15 to 1.7M SF

▬ Average Asking Rates
Flat from 4Q15 to 1Q16, at \$0.55/SF

Metro Phoenix Snapshot

Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
Distribution	54,587,096 SF	8,210,161 SF	12.6%	844,373 SF	1,068,294 SF	1,336,855 SF	\$0.42/SF
Manufacturing	58,347,591 SF	6,875,367 SF	11.8%	46,082 SF	57,000 SF	517,917 SF	\$0.46/SF
Warehouse	138,736,234 SF	11,960,266 SF	8.6%	667,046 SF	788,090 SF	545,340 SF	\$0.53 /SF
Flex	33,178,302 SF	4,559,659 SF	13.7%	143,548 SF	57,140 SF	589,506 SF	\$1.01/SF
TOTAL	294,849,223 SF	31,605,453 SF	10.7%	1,701,049 SF	1,970,524 SF	2,989,618 SF	\$0.55/SF

Significant Lease Transactions

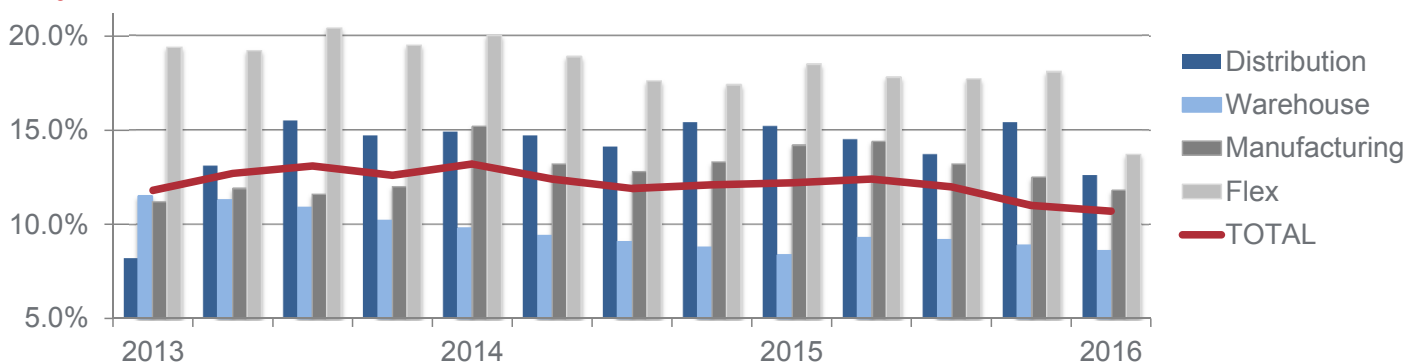
	Address	Tenant	Size	Building Type	Type
Buckeye & 94th Ave	9310 W Buckeye Rd, Tolleson	Sherwood Bedding	142,146 SF	Distribution	Move In
S Airport N of Roeser	1818 E Riverview Dr, Phoenix	Valassis Communications	135,968 SF	Distribution	Renewal
Elliot Business Park	7909 S Hardy Dr Bldg 2, Tempe	Express Scripts	125,675 SF	Distribution	Renewal

Significant Sale Transactions

	Address	Date	Size	Building Type	Price
Baseline Interstate	4707 E Baseline, Phoenix	03/01/2016	128,305 SF	Warehouse	\$14M
Prologis Distribution Center	1720 E Grant St, Phoenix	02/11/2016	176,640 SF	Warehouse	\$6.7M*
Prologis Sky Harbor Center	1710 E Grant St, Phoenix	02/11/2016	122,828 SF	Distribution	\$6.5M*

*Part of a 4 property portfolio sale totaling \$14.5M

Industrial Vacancy Rates

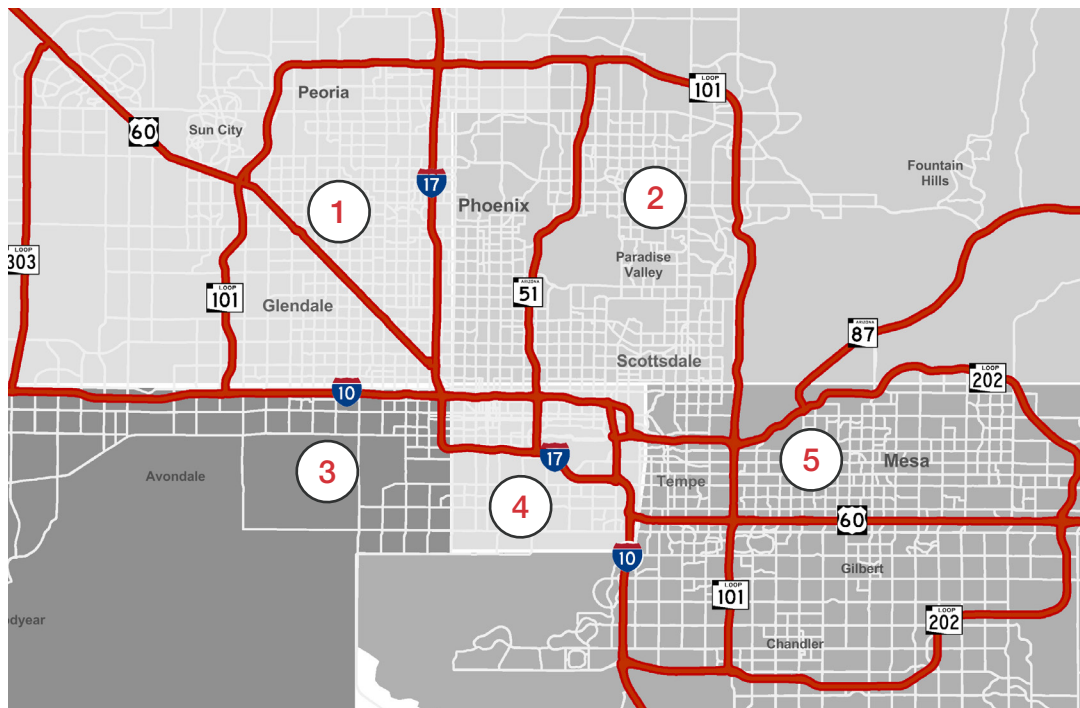


The Industrial Market is a compilation that includes distribution, warehouse, manufacturing and flex buildings. Some information contained herein has been obtained from third party sources deemed reliable but has not been independently verified by NAI Horizon. NAI Horizon makes no warranties or representations 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.

Submarket Snapshot

▼ Down from previous quarter
▲ Up from previous quarter
— No change from previous quarter

Submarket	RBA (SF)	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Avg. Rental Rate
Sky Harbor	48,037,623 ▲	4,881,968 ▲	9.9% ▲	307,966 ▲	420,955 ▲	968,063 ▼	\$0.63 ▲
Northeast Valley	15,146,887 ▼	1,175,149 ▼	7.8% ▼	267,479 ▼	— —	— —	\$0.96 ▲
Northwest Valley	55,346,147 ▼	3,937,321 ▲	7.1% ▲	363,025 ▼	620,279 ▲	752,340 ▼	\$0.57 ▼
Southeast Valley	88,645,495 ▲	10,046,522 ▲	11.3% —	496,547 ▼	523,066 ▲	919,215 ▼	\$0.66 ▲
Southwest Valley	87,673,071 ▲	11,564,493 ▼	13.2% ▼	499,719 ▼	406,224 ▲	350,000 ▼	\$0.36 —
Overall Total 1Q15	294,849,223 ▲	31,605,453 ▲	10.7% —	1,701,049 ▼	1,970,524 ▲	2,989,618 ▼	\$0.55 —
Overall Total 4Q15	293,007,494 ▲	31,464,773 ▼	10.7% ▼	3,782,002 ▲	657,834 ▼	3,887,493 ▲	\$0.55 ▲
Overall Total 3Q15	292,529,578 ▲	34,768,859 ▼	11.9% ▼	1,484,453 ▲	971,783 ▼	2,998,169 ▲	\$0.54 —
Overall Total 2Q14	292,098,915 ▲	35,822,649 ▲	12.3% ▲	697,901 ▼	1,609,719 ▼	2,307,791 ▼	\$0.54 ▲
Overall Total 1Q14	290,737,998 ▲	35,159,633 ▲	12.1% ▼	1,662,563 ▲	2,078,404 ▲	2,776,002 ▲	\$0.53 ▲



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