

Mid-Year  
**2016**  
Industrial  
Market Report

# Metro Phoenix Q2 2016

## INDUSTRIAL MARKET

The Metro Phoenix industrial market showed a strong first half with vacancy declining and rental rates continuing their steady climb. In addition, leasing activity flexed its muscle with more than 7.8 million square feet leased so far in 2016.

Sales volume for the first half of 2016 also has been impressive. More than \$140 million in industrial properties were sold, nearly 20% more than the first half of 2015. This puts 2016 on pace to be one of the best years in recent memory in terms of industrial sales.


Net absorption fell slightly in 2Q 2016 from Q1, but remains steady at 766,808 SF absorbed. While 1Q 2015 alone has outpaced the first half of this year, Q2 marks 12 straight quarters of positive absorption numbers. The Northwest Valley witnessed the highest absorption at 612,399 SF, with the Southwest Valley second with 305,784 SF absorbed. The Sky Harbor submarket was lackluster with -401,254 SF. However, this is the first negative absorption for the sector in eight quarters and still leaves the submarket positive over the past year.


The average rental rate for the market continues to steadily rise as it has the past few years. In 1Q 2014, the average rate was \$0.52/SF, and has now increased to \$0.54/SF. While not staggering, this slow increase shows sustainability and an overall growth of the market that was affected during the Great Recession. The Northeast Valley showed the highest overall rental rate at \$0.91/SF, while the Southwest Valley came in with the lowest at \$0.37/SF.


Vacancy rates continue to fall, with Q2 2016 coming it at 10.6%. This is the lowest vacancy rate for the Metro Phoenix market since the end of 2007. Tenant demand remains healthy, balancing out the large amount of new space that continues to come to market. The Northeast and Northwest Valley submarkets came in with the lowest vacancy rates, both at 6.7%. The Southwest Valley had the highest vacancy rate at 12.8%.

Deliveries have remained strong this year with more than 3 million square feet of new product being brought to market. In addition, another 3 MSF is still under construction. The Southeast Valley continued its expansion with 612,399 SF delivered. The Northwest Valley saw a total of 384,377 SF delivered, all in one project at 13423 W Cactus Rd, the IRIS USA regional headquarters that is now 100% occupied.


### Economic Trends


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


 **30-Year Fixed Mortgage**  
Down from Jan-3.87%, now 3.44%

 **Phoenix Metro Unemployment**  
4.7% in Jan 2016 and now, dipped to 4.5% in Feb/March

### Industrial Market Trends

 **Vacancy Rate**  
Down from Q1 to 10.6%

 **Net Absorption**  
Down from 1.5M SF in 1Q16 to 755,606

 **Average Asking Rates**  
Up from Q1 to \$0.55/SF

## Metro Phoenix Snapshot

### Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
Distribution	64,458,132 SF	8,536,101 SF	13.2%	-336,945 SF	-	2,056,855 SF	\$0.44/SF
Manufacturing	139,202,351 SF	11,372,054 SF	8.2%	856,386 SF	397,860 SF	674,692 SF	\$0.53/SF
Warehouse	58,645,162 SF	7,027,688 SF	12%	274,356 SF	476,665 SF	41,252 SF	\$0.44 /SF
Flex	33,065,642 SF	4,609,855 SF	13.9%	-42,349 SF	167,506 SF	177,000 SF	\$1.04/SF
<b>TOTAL</b>	<b>296,482,663 SF</b>	<b>30,056,597 SF</b>	<b>10.8%</b>	<b>766,808 SF</b>	<b>1,042,031 SF</b>	<b>2,949,799 SF</b>	<b>\$0.55/SF</b>

### Significant Lease Transactions

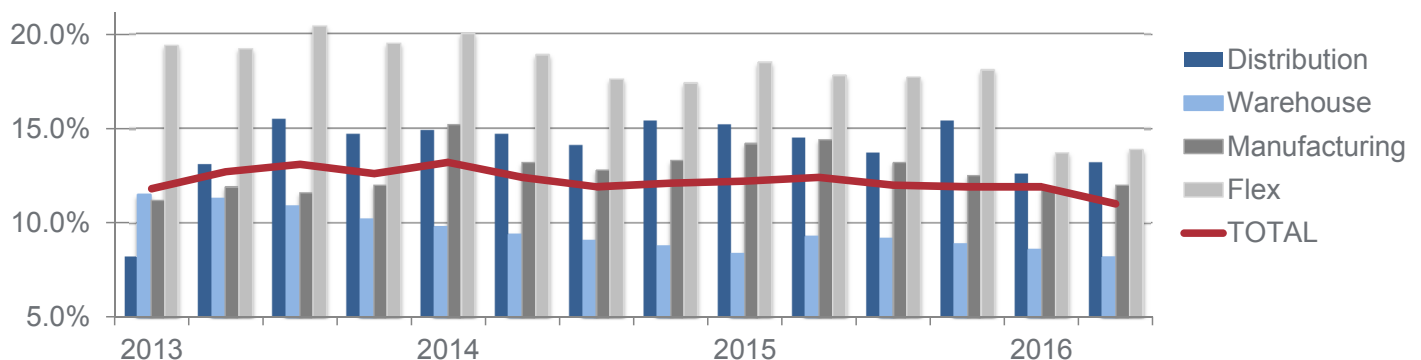
	Address	Tenant	Size	Building Type	Type
43rd Ave Logistics Center	1635 S 43rd Ave, Phoenix	Nestle Water	394,775 SF	Distribution	Move In
7400 W Buckeye Rd	Phoenix	Express Messenger Services	236,200 SF	Distribution	Move In
Broadway 101 Commerce Park III	232 N Dobson Rd, Mesa	Dexcom	148,797 SF	Distribution	Move In

### Significant Sale Transactions

	Address	Date	Size	Building Type	Price
10 West Logistics Center	6200 W Van Buren St, Phoenix	05/19/2016	659,618 SF	Warehouse	\$35M
Tempe Commerce Park	7343 S Hardy Dr, Tempe	06/16/2016	175,405 SF	Warehouse	\$15.7M*
2021 S 51st Ave	Phoenix	04/21/2016	69,842 SF	Distribution	\$10.1M*

\*Part of Portfolio Sales

### Industrial Vacancy Rates



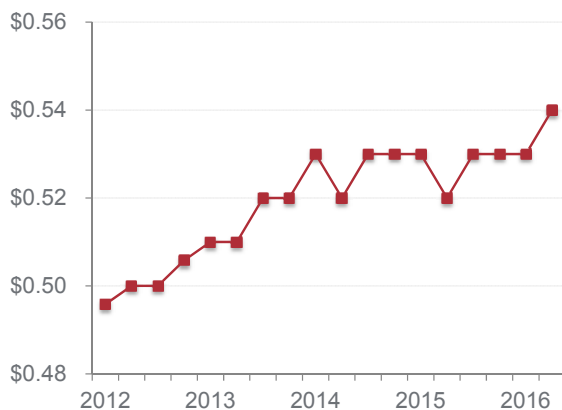
The Office Market is a compilation that includes Class A, Class B, and Class C buildings with at least 10,000 SF of space. Medical office buildings are included. Some information contained herein has been obtained from third party sources deemed reliable but has not been independently verified by NAI 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

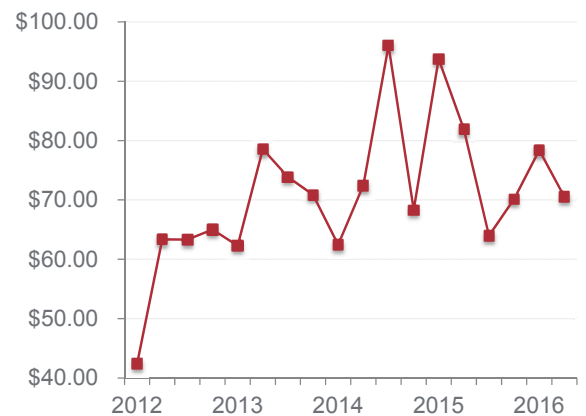
2Q16  
Industrial

Submarket Clusters	Total RBA	Direct Vacant SF	Sublet Vacant SF	Total Vacant SF	Direct Vacant %	Sublet Vacant %	Total Vacant %	Total Net Absorption	RBA Delivered	RBA Under Const.	Average Rental Rate
<b>Sky Harbor</b>											
Distribution	6,198,968	1,162,747	21,800	1,184,547	18.80%	0.40%	19.10%	-153,034	-	463,292	\$0.62
Warehouse	28,034,219	2,335,599	51,245	2,386,844	8.30%	0.20%	8.50%	-102,233	141,039	278,520	\$0.54
Manufacturing	8,760,280	839,536	0	839,536	9.60%	0.00%	9.60%	-63,109	-	41,252	\$0.51
Flex	5,169,725	900,576	57,149	957,725	17.40%	1.10%	18.50%	-82,878	-	-	\$1.07
<b>Total</b>	<b>48,163,192</b>	<b>5,238,458</b>	<b>130,194</b>	<b>5,368,652</b>	<b>10.90%</b>	<b>0.30%</b>	<b>11.10%</b>	<b>-401,254</b>	<b>141,039</b>	<b>783,064</b>	<b>\$0.66</b>
<b>Northeast Valley</b>											
Distribution	775,327	110,195	41,789	151,984	14.20%	5.40%	19.60%	4,761	-	-	\$0.83
Warehouse	6,044,087	299,602	12,865	312,467	5.00%	0.20%	5.20%	44,182	-	-	\$0.86
Manufacturing	3,003,687	58,941	0	58,941	2.00%	0.00%	2.00%	-2,460	-	-	\$0.86
Flex	5,220,771	466,755	24,758	491,513	8.90%	0.50%	9.40%	-5,202	-	-	\$0.97
<b>Total</b>	<b>15,043,872</b>	<b>935,493</b>	<b>79,412</b>	<b>1,014,905</b>	<b>6.20%</b>	<b>0.50%</b>	<b>6.70%</b>	<b>41,281</b>	<b>-</b>	<b>-</b>	<b>\$0.91</b>
<b>Northwest Valley</b>											
Distribution	6,335,895	771,759	3,065	774,824	12.20%	0.00%	12.20%	-36,619	-	367,963	\$0.42
Warehouse	31,853,448	1,755,977	6,335	1,762,312	5.50%	0.00%	5.50%	259,120	-	173,262	\$0.64
Manufacturing	11,278,931	475,152	20,000	495,152	4.20%	0.20%	4.40%	381,806	384,377	-	\$0.50
Flex	6,276,190	677,357	0	677,357	10.80%	0.00%	10.80%	8,092	-	-	\$0.83
<b>Total</b>	<b>55,744,464</b>	<b>3,680,245</b>	<b>29,400</b>	<b>3,709,645</b>	<b>6.60%</b>	<b>0.10%</b>	<b>6.70%</b>	<b>612,399</b>	<b>384,377</b>	<b>541,225</b>	<b>\$0.68</b>
<b>Southeast Valley</b>											
Distribution	9,547,301	1,030,869	0	1,030,869	10.80%	0.00%	10.80%	26,660	-	225,600	\$0.54
Warehouse	40,049,011	3,563,051	68,331	3,631,382	8.90%	0.20%	9.10%	203,499	256,821	-	\$0.58
Manufacturing	24,274,567	3,290,527	77,808	3,368,335	13.60%	0.30%	13.90%	-100,094	92,288	-	\$0.53
Flex	15,039,452	2,047,547	202,287	2,249,834	13.60%	1.30%	15.00%	23,469	167,506	177,000	\$1.11
<b>Total</b>	<b>88,910,331</b>	<b>9,950,612</b>	<b>348,426</b>	<b>10,299,038</b>	<b>11.20%</b>	<b>0.40%</b>	<b>11.60%</b>	<b>134,916</b>	<b>516,615</b>	<b>402,600</b>	<b>\$0.65</b>
<b>Southwest Valley</b>											
Distribution	41,600,641	5,304,277	89,600	5,393,877	12.80%	0.20%	13.00%	-178,713	-	1,000,000	\$0.36
Warehouse	33,221,586	3,115,212	163,837	3,279,049	9.40%	0.50%	9.90%	436,343	-	222,910	\$0.39
Manufacturing	11,327,697	1,831,114	458,839	2,289,953	16.20%	4.10%	20.20%	33,984	-	-	\$0.31
Flex	1,359,504	233,426	0	233,426	17.20%	0.00%	17.20%	14,170	-	-	\$0.55
<b>Total</b>	<b>87,509,428</b>	<b>10,484,029</b>	<b>712,276</b>	<b>11,196,305</b>	<b>12.00%</b>	<b>0.80%</b>	<b>12.80%</b>	<b>305,784</b>	<b>-</b>	<b>1,222,910</b>	<b>\$0.37</b>
<b>Clusters</b>											
Distribution	64,458,132	8,379,847	156,254	8,536,101	13.00%	0.20%	13.20%	-336,945	0	2,056,855	\$0.44
Warehouse	139,202,351	11,069,441	302,613	11,372,054	8.00%	0.20%	8.20%	856,386	397,860	674,692	\$0.53
Manufacturing	58,645,162	6,471,041	556,647	7,027,688	11.00%	0.90%	12.00%	274,356	476,665	41,252	\$0.44
Flex	33,065,642	4,325,661	284,194	4,609,855	13.10%	0.90%	13.90%	-42,349	167,506	177,000	\$1.04
<b>Overall Total 2Q16</b>	<b>295,482,663</b>	<b>30,056,597</b>	<b>1,318,288</b>	<b>31,356,305</b>	<b>10.2%</b>	<b>0.4%</b>	<b>10.6%</b>	<b>755,606</b>	<b>1,042,031</b>	<b>2,949,799</b>	<b>\$0.55</b>
Overall Total 1Q16	295,221,615	30,390,031	1,299,708	31,850,863	10.3%	0.5%	10.8%	934,606	1,994,541	2,744,618	\$0.54
Overall Total 4Q15	293,355,869	29,604,302	1,460,832	30,919,767	10.1%	0.4%	10.5%	3,783,196	670,127	3,666,510	\$0.54
Overall Total 3Q15	292,450,324	32,917,282	1,315,465	34,212,754	11.2%	0.4%	11.7%	1,535,409	971,977	2,789,479	\$0.53
Overall Total 2Q15	291,089,407	33,997,369	1,295,472	35,332,827	11.6%	0.5%	12.1%	852,763	1,609,719	2,099,137	\$0.52

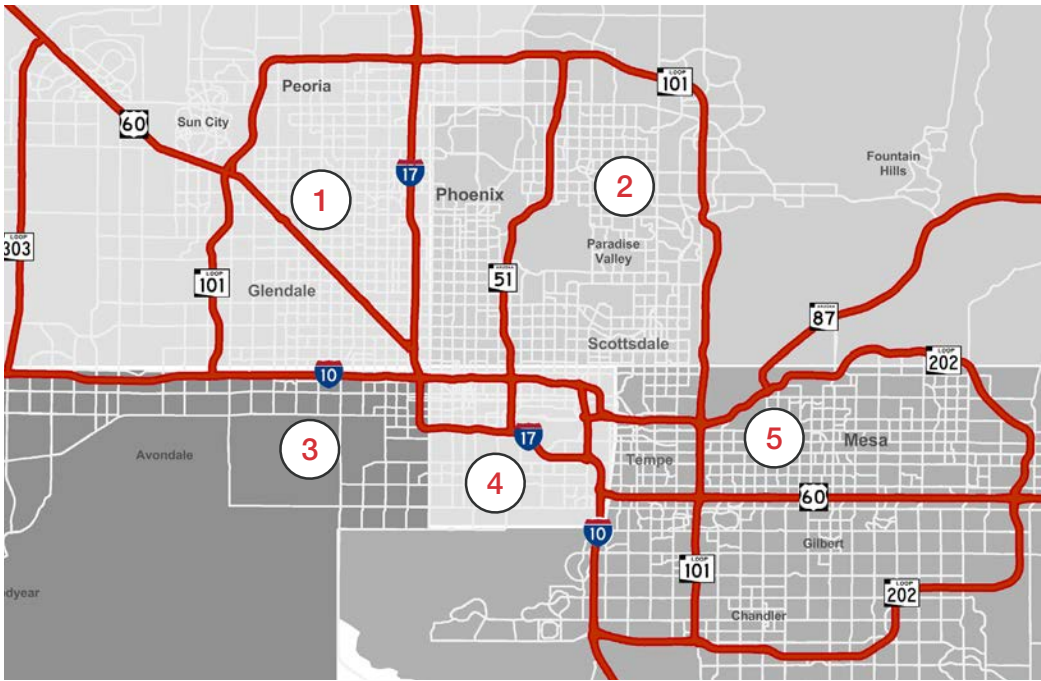
Rental Rates Average Asking/SF



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

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Industrial & Land Specialists



**Jeff Adams**  
Senior Vice President  
jeff.adams@naihonorizon.com



**John Filli, SIOR**  
Senior Vice President  
john.filli@naihonorizon.com



**Rick Foss**  
Vice President  
rick.foss@naihonorizon.com



**Kim Kristoff**  
Vice President  
kim.kristoff@naihonorizon.com



**Isy Sonabend**  
Senior Vice President  
isy.sonabend@naihonorizon.com



**Drew Stone**  
Industrial Specialist  
drew.stone@naihonorizon.com



**Mark Wilcke**  
Senior Vice President  
mark.wilcke@naihonorizon.com

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**NAI**Horizon

2944 N 44th Street, Suite 200  
Phoenix, Arizona 85018  
tel +1 602 955 4000  
[www.naihorizon.com](http://www.naihorizon.com)