

Year End  
**2016**  
Industrial  
Market Report

# Metro Phoenix Q4 2016

## INDUSTRIAL MARKET

The industrial market will outperform the office sector for the next six months, proclaims a survey conducted by NAI Global of commercial real estate executives on a national level. Additionally, more than two thirds of survey respondents (67%) say the industrial market they serve is hot or heating up.

This optimism is being felt in the Metro Phoenix industrial sector as well. Market indicators are pointing in a positive direction including rising rental rates, falling vacancies, increased sale price per square foot and steady net absorption.

Net absorption, while down from 2015 and 2014, remained steady despite large deliveries with considerable vacancies. More than 5 MSF was absorbed in 2016, down from 7.7 MSF in 2015. The final quarter of 2016 proved to be the most successful, absorbing 2.6 MSF. The Southeast Valley and Southwest Valley submarkets garnered the highest net absorption in the Valley, both more than 1.8 MSF. The Sky Harbor submarket struggled with -265,344 SF absorbed.

The Metro Phoenix industrial sector vacancy rate finished 2016 at 10%, down from 10.7% at the beginning of the year. The Northwest Valley submarkets held the lowest vacancy rate at 5.8%, while the Sky Harbor submarket experienced the highest vacancy rate at 12.2%.


The average rental rate for the industrial sector has slowly been climbing for several years, and finished 2016 at \$0.57/SF, up from \$0.53/SF at the beginning of the

year. The Northeast Valley submarkets brought in the highest average rate at \$0.94/SF; the Southwest Valley was the lowest at \$0.37/SF. With a tightening inventory and new properties coming on line, expect rental rates to continue this slow but steady climb into 2017.


New construction deliveries for 2016 topped 2015 with more than 5.5 MSF. In addition, more than 3.5 MSF remained under construction at the end of the year. Except for the Northeast Valley, new construction was spread evenly throughout the Valley with the Sky Harbor, Northwest Valley, Southeast Valley, and Southwest Valley each receiving more than 1.3 MSF in new inventory.

The largest sale in Q4 2016 was Cotton Lane Commerce Park at 4320 S Cotton Lane, Phoenix. The 752,808 SF building was sold to Huhtamaki Inc. for \$42.85M. The largest lease was in Tempe at 1115 W. Alameda Dr., to Safeway for 780,320 SF.


### Economic Trends


 **Consumer Price Index**  
Up 1.7% over last 12 months, nat'l


 **30-Year Fixed Mortgage**  
Up from Oct-3.5%, now 4% Nat'l Avg

 **Phoenix Metro Unemployment**  
4.8% in September, 4.1% in November

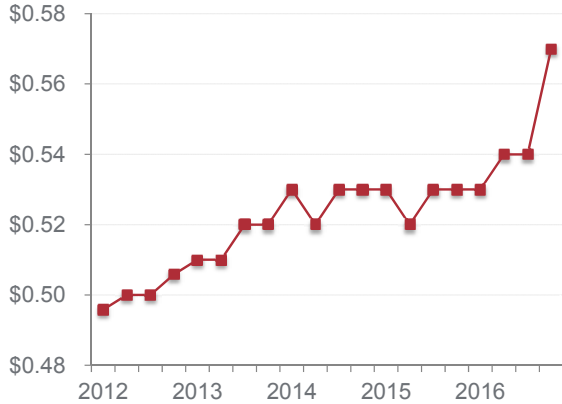
### Industrial Market Trends

 **Vacancy Rate**  
Down from Q3 to 10%

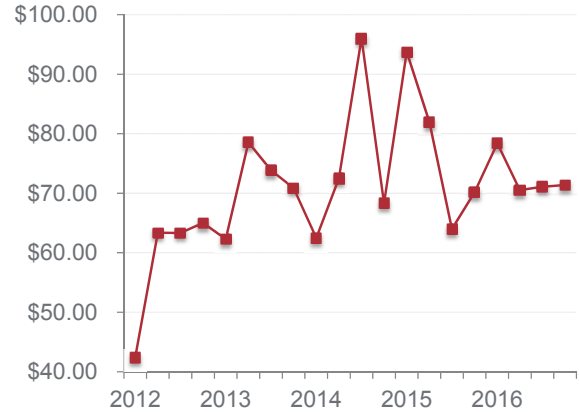
 **Net Absorption**  
Almost triple Q3 at 2.7 MSF

 **Average Asking Rates**  
Up from Q3 to \$0.57/SF

## Rental Rates Average Asking/SF



## Sale Prices Average/SF



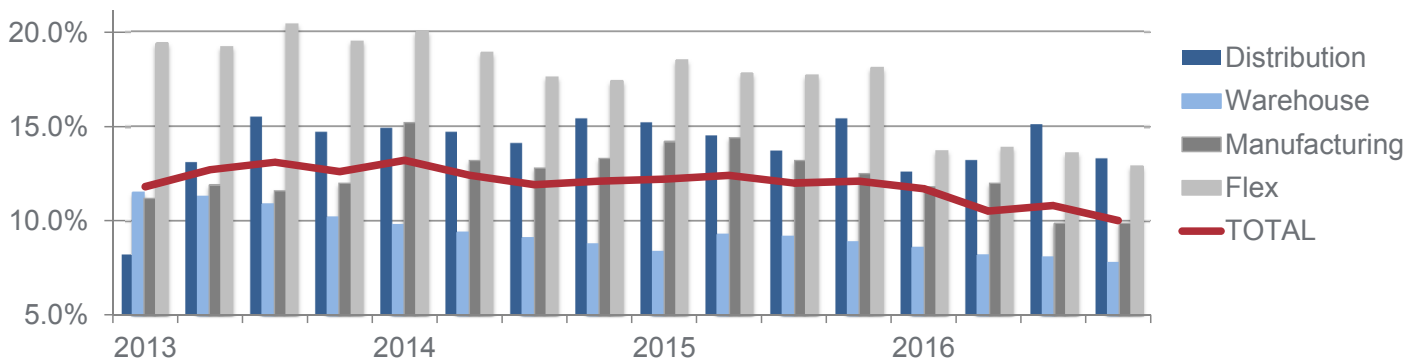
## Significant Lease Transactions

Address	Tenant	Size	Building Type	Type
1115 W Alameda Dr	Safeway	780,320 SF	Distribution	Move In
Valley West Distribution Center	Avall Services, Inc	323,345 SF	Distribution	Move In
Park Lucero Phase III	Silent Aire USA	146,832 SF	Manufacturing	Move In

## Significant Sale Transactions

Address	Date	Size	Building Type	Price
Cotton Lane Commerce Park	11/17/2016	752,808 SF	Manufacturing	\$42.85M
Southwest Industrial Center	12/14/2016	684,420 SF	Distribution	\$41.75M
Safeway	12/16/2016	780,320 SF	Distribution	\$40M

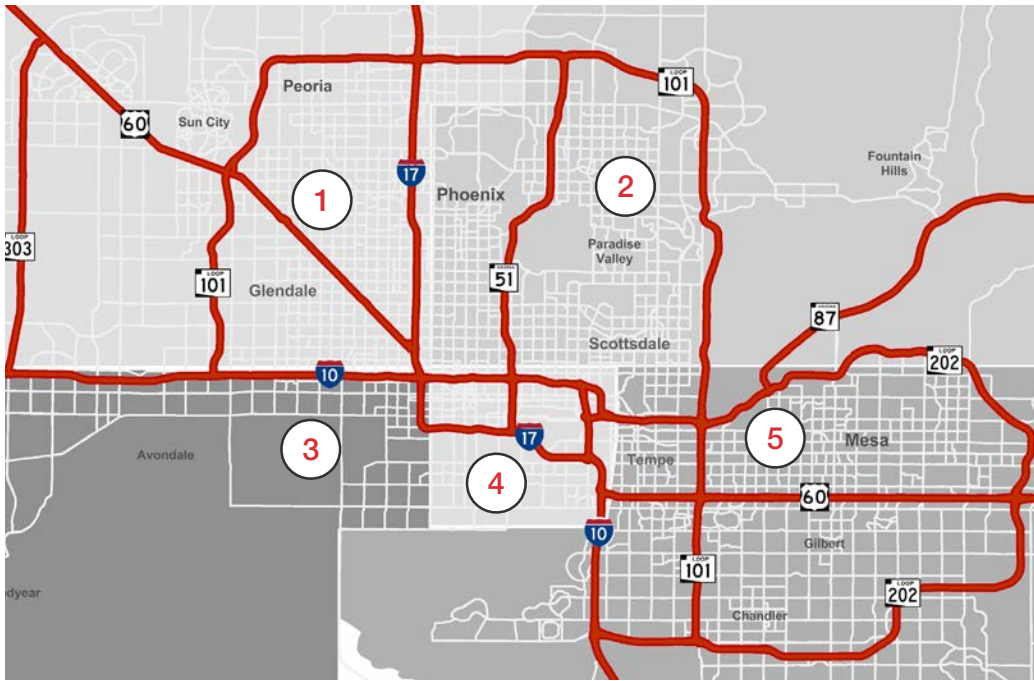
## Industrial Vacancy Rates



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

Submarket Clusters	Total RBA	Vacancy		Absorption		Deliveries		Under Construction	Avg Rental Rate
	SF	SF	%	Q4	YTD	Q4	YTD	SF	Per SF
<b>Sky Harbor</b>									
Distribution	6,577,510	1,696,108	25.80%	76,933	-229,919	393,292	712,362	70,603	\$0.59
Warehouse	28,027,942	2,398,597	8.60%	-9,770	84,812	106,480	496,884	132,070	\$0.55
Manufacturing	8,802,225	840,320	9.50%	42,836	-54,003	-	41,252	-	\$0.53
Flex	4,951,486	981,525	19.80%	-6,380	-66,234	-	-	215,634	\$1.13
<b>Total</b>	<b>48,359,163</b>	<b>5,916,550</b>	<b>12.20%</b>	<b>103,619</b>	<b>-265,344</b>	<b>499,772</b>	<b>1,250,498</b>	<b>418,307</b>	<b>\$0.65</b>
<b>Northeast Valley</b>									
Distribution	674,567	48,970	7.30%	-2,314	8,522	-	-	-	\$0.93
Warehouse	5,981,950	362,131	6.10%	-19,866	50,557	-	-	-	\$0.84
Manufacturing	2,999,748	94,218	3.10%	-	7,449	-	-	-	\$0.86
Flex	5,244,251	462,049	8.80%	-5,272	54,794	-	-	-	\$1.03
<b>Total</b>	<b>14,900,516</b>	<b>967,368</b>	<b>6.50%</b>	<b>-27,452</b>	<b>121,322</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$0.94</b>
<b>Northwest Valley</b>									
Distribution	6,838,471	653,554	9.60%	297,643	724,156	367,963	767,963	1,618,350	\$0.40
Warehouse	31,911,423	1,681,416	5.30%	136,319	374,535	-	220,279	188,132	\$0.62
Manufacturing	11,460,781	318,610	2.80%	13,472	501,112	-	384,377	-	\$0.53
Flex	6,277,482	650,951	10.40%	68,734	-17,799	-	-	50,937	\$0.89
<b>Total</b>	<b>56,488,157</b>	<b>3,304,531</b>	<b>5.80%</b>	<b>516,168</b>	<b>1,582,004</b>	<b>367,963</b>	<b>1,372,619</b>	<b>1,857,419</b>	<b>\$0.58</b>
<b>Southeast Valley</b>									
Distribution	9,640,075	1,071,466	11.10%	167,738	262,215	-	225,600	-	\$0.54
Warehouse	40,112,235	3,325,643	8.30%	427,682	1,111,809	110,743	925,778	131,796	\$0.60
Manufacturing	24,312,915	3,192,075	13.10%	-31,192	140,034	-	-	179,979	\$0.56
Flex	15,140,094	1,941,342	12.80%	198,695	288,868	32,034	457,539	60,000	\$1.08
<b>Total</b>	<b>89,205,319</b>	<b>9,530,526</b>	<b>10.70%</b>	<b>762,923</b>	<b>1,802,926</b>	<b>142,777</b>	<b>1,608,917</b>	<b>371,775</b>	<b>\$0.69</b>
<b>Southwest Valley</b>									
Distribution	43,172,339	5,440,225	12.60%	1,299,494	1,235,255	-	1,299,224	652,366	\$0.36
Warehouse	33,310,256	3,128,333	9.40%	80,655	463,470	-	-	222,910	\$0.40
Manufacturing	10,652,644	1,321,906	12.40%	-3,719	142,193	-	57,000	50,000	\$0.32
Flex	1,340,226	215,900	16.10%	800	20,066	-	-	-	\$0.75
<b>Total</b>	<b>88,475,465</b>	<b>10,106,364</b>	<b>11.40%</b>	<b>1,377,230</b>	<b>1,860,984</b>	<b>-</b>	<b>1,356,224</b>	<b>925,276</b>	<b>\$0.37</b>
<b>Building Type</b>									
Distribution	66,902,962	8,910,323	13.30%	1,839,494	2,000,229	761,255	3,005,149	2,341,319	\$0.43
Warehouse	139,343,806	10,896,120	7.80%	615,020	2,085,183	217,223	1,642,941	674,908	\$0.55
Manufacturing	58,228,313	5,767,129	9.90%	21,397	736,785	-	482,629	229,979	\$0.48
Flex	32,953,539	4,251,767	12.90%	256,577	279,695	32,034	457,539	326,571	\$1.06
<b>Overall Total 4Q16</b>	<b>297,428,620</b>	<b>29,825,339</b>	<b>10.0%</b>	<b>2,732,488</b>	<b>5,101,892</b>	<b>1,010,512</b>	<b>5,588,258</b>	<b>3,572,777</b>	<b>\$0.57</b>
Overall Total 3Q16	295,221,615	31,850,863	10.7%	934,606	-	1,994,541	-	2,744,618	\$0.54
Overall Total 2Q16	293,355,869	30,919,767	10.7%	3,783,196	-	670,127	-	3,666,510	\$0.54
Overall Total 1Q16	292,450,324	34,212,754	10.7%	1,535,409	-	971,977	-	2,789,479	\$0.53
Overall Total 4Q15	291,089,407	35,332,827	10.5%	852,763	-	1,609,719	-	2,099,137	\$0.52



## 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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