



NAI Horizon

3rd Quarter  
**2017**  
Industrial  
**Market Report**



# Q3 2017

## INDUSTRIAL MARKET METRO PHOENIX

### Local Tenant Energy & Sustained Optimism

The third quarter narrative for the industrial sector in Greater Phoenix offers two distinct vantage points: leasing and purchasing, encapsulated by one distinct theme...economic optimism. With business confidence climbing and executives and owners remaining upbeat about their economic future, demand continues to remain vibrant and is even accelerating above the stable 4-8% expansion trajectory of Quarter 2. Local tenants, who earlier in this growth cycle chose to keep their powder dry and extend their leases, despite continuing growth of their operations, are now deciding to take action and upsize their space and capabilities. In some cases this activity is focused on leases at new locales in the Valley, while in other scenarios principals are opting to purchase property in the metro, as their leases expire.

This demand side energy from local tenants, both leasing and purchase is a sizeable piece of a surge in commercial industrial absorption, which remains extremely healthy at 2.4 million square feet for the quarter. An equally compelling component of this dynamic; high profile companies including: UPS (618,350 SF), Amazon (473,209 SF), Essendent, Inc. (261,880 SF), The Vitamin Shoppe Inc. (186,000 SF), Danby Products (155,520 SF), Staples (150,000 SF), and Enclos (117,780 SF) are entering and/or expanding their presence in the Phoenix market and signing leases of significant sizes, which are contributing substantially to the absorption footprint. Important too, the large companies entering the marketplace took inventory off the market, leaving a reduced stock for local consumption.

From the lease perspective, this influx of best-of-breed corporate names signals that the economic foundation and

### INDUSTRIAL TRENDS



From the sale perspective however, the 9% vacancy rate skews the reality that for any given client, the available buildings that fit their specific needs pushes vacancy down to at best 4.50%.

With demand clearly in the marketplace, the question turns to supply. Inventory may be where the starkest line can be seen between leasing and sales. For properties under 100,000 square feet construction of spec-user buildings is almost non-existent. On the leasing front, developers are adding speculative for-lease properties to inventory in blocks from 100,000 square feet to 640,000 square feet.

Given this dynamic, the only obstacle to the continued extension of this growth cycle is a shortfall of supply in certain submarkets, size ranges and property types: Distribution, Warehousing, Manufacturing and Flex. That said, the industrial cycle still has at least a 24-month runway owed to nearly 4.3 million square feet of development under construction.

Overall, Quarter 3 continued the expansionary trend of the industrial sector. As the space concludes 2017 and moves into 2018, the Valley market is buoyed by strong economic fundamentals and positive business conviction.

energy of the Valley is outpacing peer markets, and providing significant value-add propositions for their businesses. The sheer total dollar volume of these transactions and the square footage they represent continued the strong momentum for the sector in Quarter 3.

The numbers underscore this growth-oriented environment. The average metro vacancy rates dropped noticeably from 9.4% to 9.0%, and average rental rates continue to strengthen Valley wide, approaching \$.59 per month per square foot.

### ECONOMIC TRENDS



# Q3 2017

## INDUSTRIAL MARKET METRO PHOENIX

### Phoenix Market Snapshot

#### Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
Distribution	70,015,106 SF	8,314,534 SF	11.9%	1,699,126 SF	1,480,944 SF	1,058,859 SF	\$0.42/SF
Manufacturing	58,434, SF	5,007,336 SF	8.6%	276,552 SF	246,951 SF	700,000 SF	\$0.57/SF
Warehouse	139,142,273 SF	9,579,181 SF	6.9%	332,076 SF	156,160 SF	2,477,436 SF	\$0.56/SF
Flex	33,677,653 SF	4,226,940 SF	12.6%	77,339 SF	-	48,000 SF	\$1.08/SF
<b>TOTAL</b>	<b>301,269,346 SF</b>	<b>27,127,991 SF</b>	<b>9.0%</b>	<b>2,385,093 SF</b>	<b>1,883,695 SF</b>	<b>4,284,295 SF</b>	<b>\$0.58/SF</b>

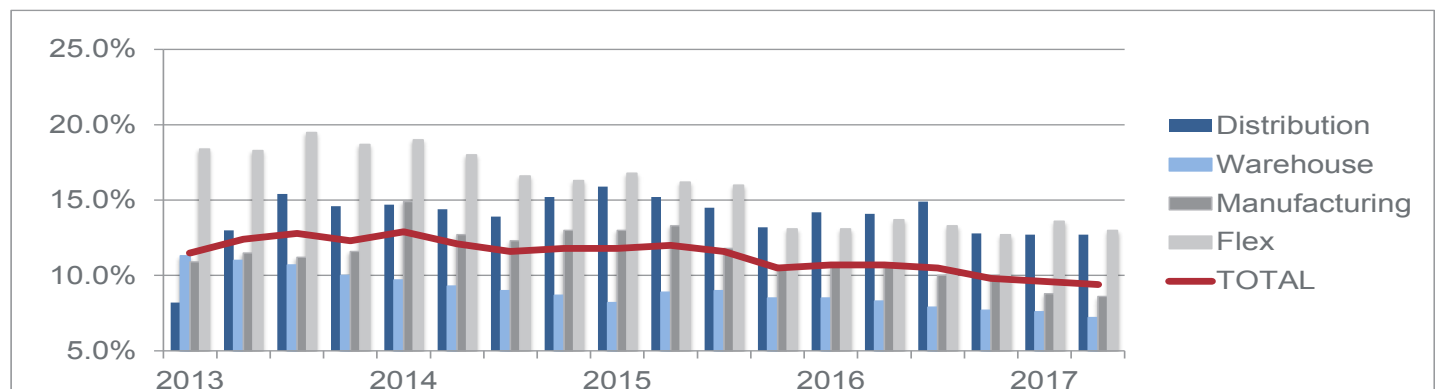
#### Significant Lease Transactions

	Address	Tenant	Size	Building Type	Type
5333 W Lower Buckeye	Phoenix	Amazon	473,209 SF	Distribution	Move In
8585 W Buckeye Rd	Phoenix	CVS	141,852 SF	Distribution	Move In
3555 W Washington St	Phoenix	Aquafil Carpet Recycling	116,890 SF	Warehouse	Move In

#### Significant Sale Transactions

	Address	Date	Size	Building Type	Price
700 S 94th Ave	Tolleson	10/12/2017	85,000 SF	Distribution	\$9.45M
7001 W Eries St	Chandler	06/20/2017	188,142 SF	Manufacturing	\$6.9M
7812 E Acoma Dr	Scottsdale	04/20/2017	73,324 SF	Warehouse	\$6.4M

#### 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.

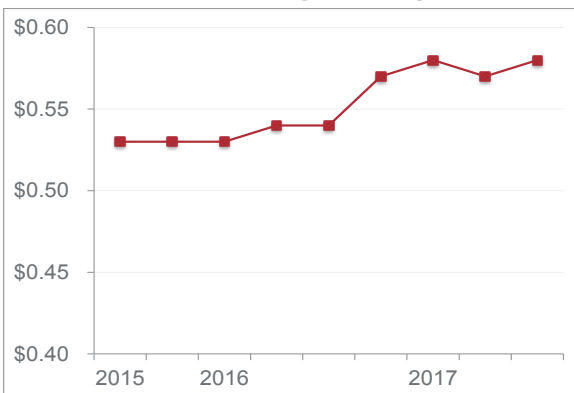
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## INDUSTRIAL MARKET METRO PHOENIX

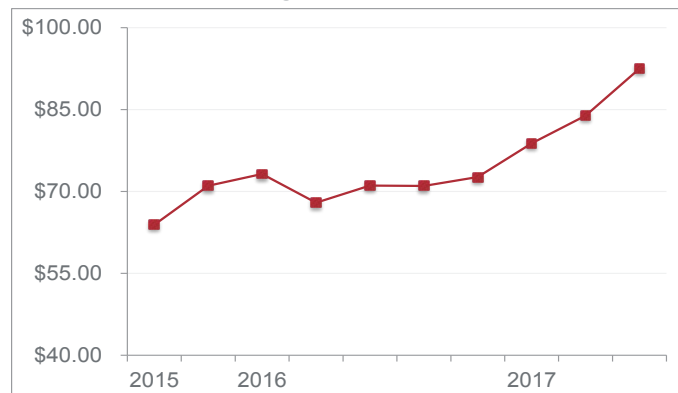
Submarket Snapshot

Submarket Clusters		Total RBA	Vacancy		Absorption		Deliveries		Under Construction	Avg Rental Rate	Year Total Rental Rate
		SF	SF	%	Q3	YTD	Q3	YTD	SF	Per SF	
Sky Harbor											
	Distribution	6,316,828	1,286,599	20.4%	51,558	364,770	-	68,220	0	\$0.60	\$7.19
	Warehouse	27,980,938	2,184,361	7.8%	180,343	247,700	-	130,421	107,580	\$0.58	\$6.97
	Manufacturing	8,812,705	363,034	4.1%	78,361	387,860	-	-	-	\$0.48	\$5.75
	Flex	5,517,172	1,236,529	22.4%	44,100	-47,210	-	-	-	\$1.12	\$13.38
	Total	48,627,643	5,070,523	10.4%	364,504	953,120	-	198,641	107,580	\$0.69	\$8.25
Northeast Valley											
	Distribution	639,510	71,909	11.2%	-19,995	-21,040	-	-	-	\$0.94	\$11.25
	Warehouse	6,141,951	450,056	7.3%	92,914	25,510	146,160	146,160	146,160	\$0.90	\$10.77
	Manufacturing	2,999,040	86,558	2.9%	18,929	-7,350	-	-	-	\$0.85	\$10.18
	Flex	5,292,165	420,925	8.0%	10,935	-63,950	-	-	-	\$1.11	\$13.26
	Total	15,072,666	1,029,448	6.8%	102,783	-66,830	-	146,160	146,160	\$0.95	\$11.45
Northwest Valley											
	Distribution	8,688,332	1,248,331	14.4%	1,170,659	1,282,090	1,000,000	1,618,350	0	\$0.43	\$5.19
	Warehouse	32,577,004	1,752,139	5.4%	41,653	124,120	-	173,262	975,415	\$0.66	\$7.93
	Manufacturing	11,651,877	388,901	3.3%	89,380	-19,780	66,612	66,612	-	\$0.58	\$6.98
	Flex	6,237,484	535,235	8.6%	14,663	34,880	-	-	48,000	\$0.84	\$10.09
	Total	59,154,697	3,924,606	6.6%	1,316,355	1,421,310	-	1,858,224	1,023,415	\$0.59	\$7.04
Southeast Valley											
	Distribution	9,650,562	1,122,334	11.6%	-58,450	-102,470	-	11,187	147,672	\$0.56	\$6.68
	Warehouse	40,181,971	2,965,697	7.4%	-31,042	329,050	-	146,657	432,592	\$0.61	\$7.37
	Manufacturing	24,261,079	3,333,841	13.7%	36,564	326,630	179,979	179,979	450,000	\$0.69	\$8.31
	Flex	15,288,320	1,903,655	12.5%	-66,662	-52,950	101,470	101,470	-	\$1.10	\$13.24
	Total	89,381,932	9,325,527	10.4%	-119,590	500,260	281,449	439,293	1,030,264	\$0.72	\$8.61
Southwest Valley											
	Distribution	44,719,874	4,585,361	10.3%	555,354	2,174,980	480,944	1,535,173	911,187	\$0.37	\$4.44
	Warehouse	33,413,541	2,226,928	6.7%	48,208	618,540	100,000	100,000	815,689	\$0.39	\$4.69
	Manufacturing	10,709,613	835,002	7.8%	53,318	513,950	-	50,000	250,000	\$0.70	\$8.35
	Flex	1,342,512	130,596	9.7%	74,303	85,300	-	-	-	\$0.78	\$9.30
	Total	90,185,540	7,777,887	8.6%	731,183	3,392,770	580,944	1,685,173	1,976,876	\$0.38	\$4.53
Building Type											
	Distribution	70,015,106	8,314,534	11.9%	1,699,126	3,698,330	1,480,944	3,232,930	1,058,859	\$0.42	\$5.08
	Warehouse	139,142,273	9,579,181	6.9%	332,076	1,344,920	-	696,500	2,477,436	\$0.56	\$6.70
	Manufacturing	58,434,314	5,007,336	8.6%	276,552	937,605	246,591	296,591	700,000	\$0.57	\$6.78
	Flex	33,677,653	4,226,940	12.6%	77,339	(43,930)	-	101,470	48,000	\$1.08	\$13.00
Overall Total 3Q17		301,269,346	27,127,991	9.0%	2,385,093	5,936,925	1,727,535	4,327,491	4,284,295	\$0.58	\$6.97
	Overall Total 2Q17	299,605,924	28,071,261	9.4%	1,114,079		608,264		4,187,241	\$0.58	\$6.97
	Overall Total 1Q17	299,030,521	28,614,293	9.6%	3,017,805		2,012,916		3,870,521	\$0.58	\$6.90
	Overall Total 4Q16	297,036,605	29,638,182	10.0%	2,550,609		1,010,577		3,611,020	\$0.57	\$6.80
	Overall Total 3Q16	296,167,661	31,319,847	10.6%	1,694,725		1,541,332		2,438,290	\$0.57	\$6.82

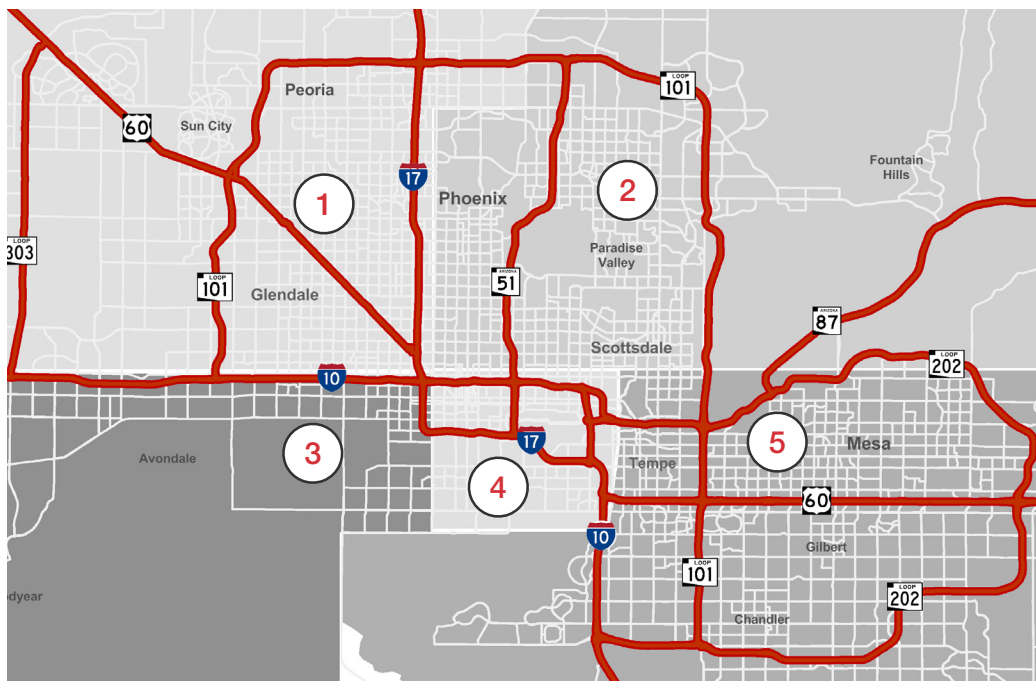
Rental Rates Average Asking/SF



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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