



NAI Horizon

Year End
2017
Industrial
Market Report

Pre-Recession Rental Rates & Robust Growth

Industrial is back...all the way back. Quarter 4 of 2017 completed a year of robust growth, which returned the sector to levels not seen since before the Great Recession. Greater Phoenix Industrial across the Valley continues its trajectory of positive expansion—moving at a steady pace that the market can support. The performance for the sector as a whole, as well as submarket clusters geographically, and by product type: Distribution, Manufacturing, Warehouse and Flex is based on solid economic fundamentals.

With commercial and consumer confidence at benchmark highs, landlords and business owners are expressing optimism in the future by putting their capital to work. Demand continues its healthy pace evidenced by a substantive drop in the overall vacancy rate to 7.9%, a 1.3% year-over-year reduction from Quarter 4 of 2016.

Accompanying this strong move in vacancy, net absorption continued to increase, measuring 3.25 million square feet in Quarter 4, dwarfing the 2.5 million square feet of absorption in Quarter 3 of 2017. Highlighting the return to pre-recession levels, 2017 total net absorption numbers closed at nearly 10 million square feet, an all-time high for the Greater Phoenix Metro area.

Pricing too is on the move, average rental rates checked off at \$.60 month per square foot, \$.04 more than the Quarter 4 2016 figure. All submarket rates are increasing but some submarkets, like the Northeast and Southeast Valley, are moving even faster. While the sector has not fully matured into a landlord's market, the movement in that direction is certainly noticeable with reductions for tenant improvement allowances, as well as rental concessions.

INDUSTRIAL TRENDS



The upshot of this inventory dynamic is that for the owner-user there is a noticeable lack of existing and future supply available in the freestanding building 10,000-60,000-square foot range.

On the leasing and sales side, Industrial demand is full of energy. Sales data in some submarkets continues to reflect pricing in the \$95-\$115 per square foot range, even for older buildings. And new owners are piling money into capital improvements, which ultimately is reflected in higher selling prices long-term.

The wildcard for the Industrial sector in 2018 and beyond are the effects of corporate tax reform. For C-Corporation entities the reduction in the top rate from 35% to 21%, could mean an immediate return of free cash flow of 14% for those companies with revenues generated solely in the U.S. This surge in cash flow could accelerate plans for expansion.

With business clarity for the future continuing to improve in the marketplace, Greater Phoenix Industrial is poised to extend its impressive growth cycle. The outlook for the next several years is positive with plenty of room to run.

The backdrop of strong demand comes at a time when supply is lagging, (note: in many size categories) continuing the trend in recent years where new product coming to market is outpaced by absorption levels. Quarter 4 saw 1.32 million square feet of delivery, and for the year 5.8 million square feet. Of the 4.3 million square feet currently under construction, nearly 85% of those assets are large-box buildings 150,000 square feet and above.

ECONOMIC TRENDS



Q4 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	70,287,991 SF	7,365,140 SF	10.5%	1,609,384 SF	11,482 SF	317,357 SF	\$0.44/SF
Manufacturing	56,734,004 SF	2,790,448 SF	4.9%	255,272 SF	250,000 SF	2,595,757 SF	\$0.66/SF
Warehouse	142,187,792 SF	10,212,516 SF	7.2%	1,197,097 SF	1,060,117 SF	1,431,410 SF	\$0.57/SF
Flex	33,432,374 SF	3,897,275 SF	11.7%	186,796 SF	-	-	\$1.05/SF
TOTAL	302,642,161 SF	24,265,379 SF	7.9%	3,248,549 SF	1,321,599 SF	4,344,524 SF	\$0.60/SF

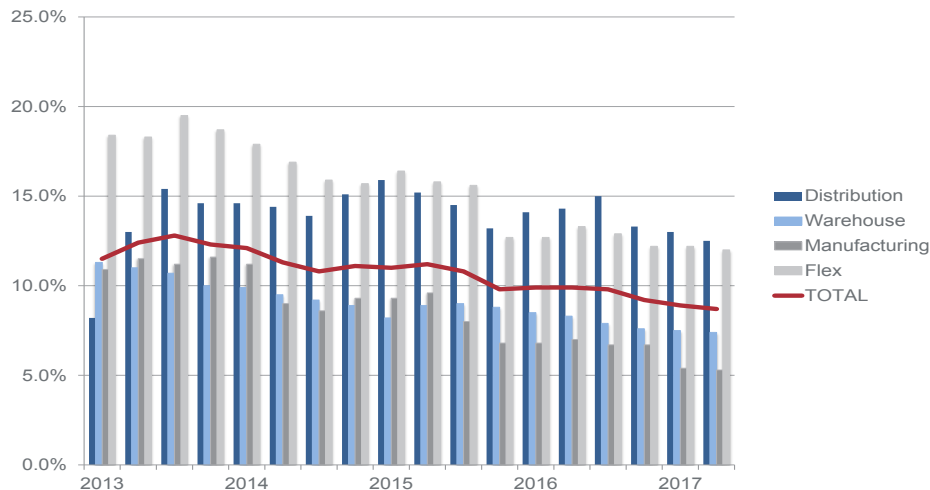
Significant Lease Transactions

	Address	Tenant	Size	Building Type	Type
250 E Germann Rd	Gilbert	Footprint Manufacturing	131,796 SF	Warehouse	Move In
6877 W Frye Rd	Chandler	Av-Air	92,247 SF	Warehouse	Move In
601 N 75th Ave	Phoenix	aspenhome	82,832 SF	Manufacturing	Move In

Significant Sale Transactions

	Address	Date	Size	Building Type	Price
7200 W Buckeye Rd	Phoenix	12/5/2017	400,000 SF	Distribution	\$31.2M
1524 W 14th St	Tempe	10/12/2017	175,314 SF	Warehouse	\$18.1M
844 N 47th Ave	Phoenix	12/26/2017	264,981 SF	Warehouse	\$16.9M

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.

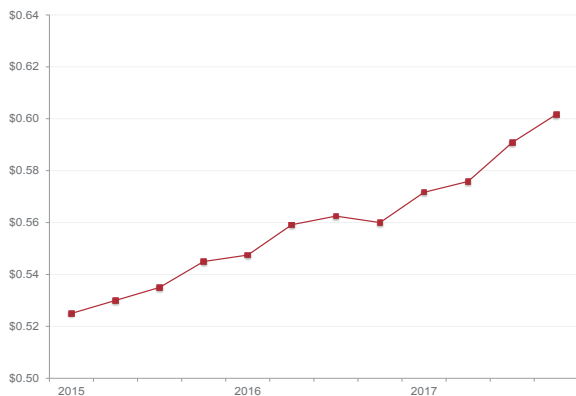
Q4 2017

INDUSTRIAL MARKET METRO PHOENIX

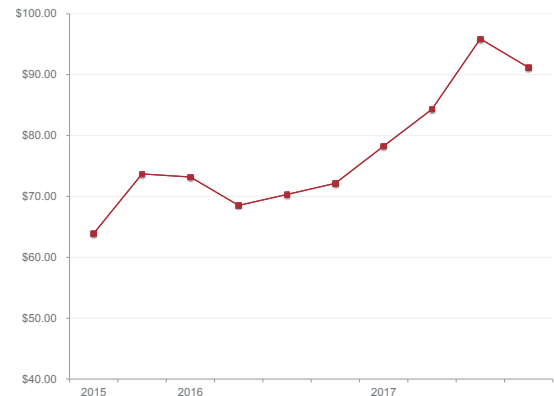
Submarket Snapshot

Submarket Clusters	Total RBA		Vacancy		Net Absorption	Deliveries		Under Construction	Avg Rental Rate
	SF	Total	Total %	Total	Q4	YTD	SF	Per SF	
Sky Harbor									
Distribution	6,082,029	1,168,663	19.2%	117,936	-	68,220	169,685	\$0.61	
Warehouse	28,547,735	2,270,944	8.0%	312,186	107,580	238,001	-	\$0.65	
Manufacturing	8,846,616	353,586	4.0%	84,481	-	23,008	-	\$0.53	
Flex	5,439,466	875,265	16.1%	169,412	-	-	-	\$1.03	
Total	48,915,846	4,668,458	9.5%	684,015	107,580	329,229	169,685	\$0.70	
Northeast Valley									
Distribution	642,770	59,039	9.2%	13,370	-	-	-	\$0.96	
Warehouse	6,309,042	560,215	8.9%	32,354	-	146,160	-	\$0.91	
Manufacturing	2,999,040	87,753	2.9%	(1,195)	-	-	-	\$0.88	
Flex	5,320,131	450,635	8.5%	(30,035)	-	-	-	\$1.11	
Total	15,270,983	1,157,642	7.6%	14,494	-	146,160	-	\$1.00	
Northwest Valley									
Distribution	8,512,714	586,606	6.9%	673,207	11,482	1,442,732	-	\$0.44	
Warehouse	32,272,203	2,045,779	6.3%	201,918	150,359	323,621	783,696	\$0.61	
Manufacturing	11,726,949	515,203	4.4%	(27,919)	-	66,612	-	\$0.61	
Flex	6,163,495	445,337	7.2%	27,401	-	-	-	\$0.95	
Total	58,675,361	3,592,925	6.1%	874,607	161,841	1,832,965	783,696	\$0.59	
Southeast Valley									
Distribution	9,488,062	980,289	10.3%	142,045	-	11,187	147,672	\$0.56	
Warehouse	40,814,016	3,007,550	7.4%	177,904	261,829	408,486	187,280	\$0.64	
Manufacturing	22,181,986	1,028,183	4.6%	19,698	-	179,979	2,595,757	\$0.69	
Flex	15,166,770	1,994,667	13.2%	20,793	-	101,470	-	\$1.09	
Total	87,650,834	7,010,689	8.0%	360,440	261,829	701,122	2,930,709	\$0.74	
Southwest Valley									
Distribution	45,562,416	4,570,543	10.0%	662,826	-	1,971,567	-	\$0.37	
Warehouse	34,244,796	2,328,028	6.8%	472,735	540,349	550,349	460,434	\$0.40	
Manufacturing	10,979,413	805,723	7.3%	180,207	250,000	300,000	-	\$0.70	
Flex	1,342,512	131,371	9.8%	(775)	-	-	-	\$0.71	
Total	92,129,137	7,835,665	8.5%	1,314,993	790,349	2,821,916	460,434	\$0.41	
Building Type									
Distribution	70,287,991	7,365,140	10.5%	1,609,384	11,482	3,493,706	317,357	\$0.44	
Warehouse	142,187,792	10,212,516	7.2%	1,197,097	1,060,117	1,666,617	1,431,410	\$0.57	
Manufacturing	56,734,004	2,790,448	4.9%	255,272	250,000	569,599	2,595,757	\$0.66	
Flex	33,432,374	3,897,275	11.7%	186,796	-	101,470	-	\$1.05	
Overall Total 4Q17	302,642,161	24,265,379	7.9%	3,248,549	1,321,599	5,831,392	4,344,524	\$0.60	
Overall Total 3Q17	300,488,547	25,360,314	8.4%	2,513,385	1,953,721	-	6,078,879	\$0.59	
Overall Total 2Q17	298,663,621	26,048,773	8.7%	1,357,283	935,212	-	6,487,613	\$0.58	
Overall Total 1Q17	297,761,270	26,508,061	8.9%	2,879,520	2,025,461	-	5,824,967	\$0.57	
Overall Total 4Q16	294,754,809	27,381,120	9.3%	2,459,698	1,010,577	-	6,048,601	\$0.56	

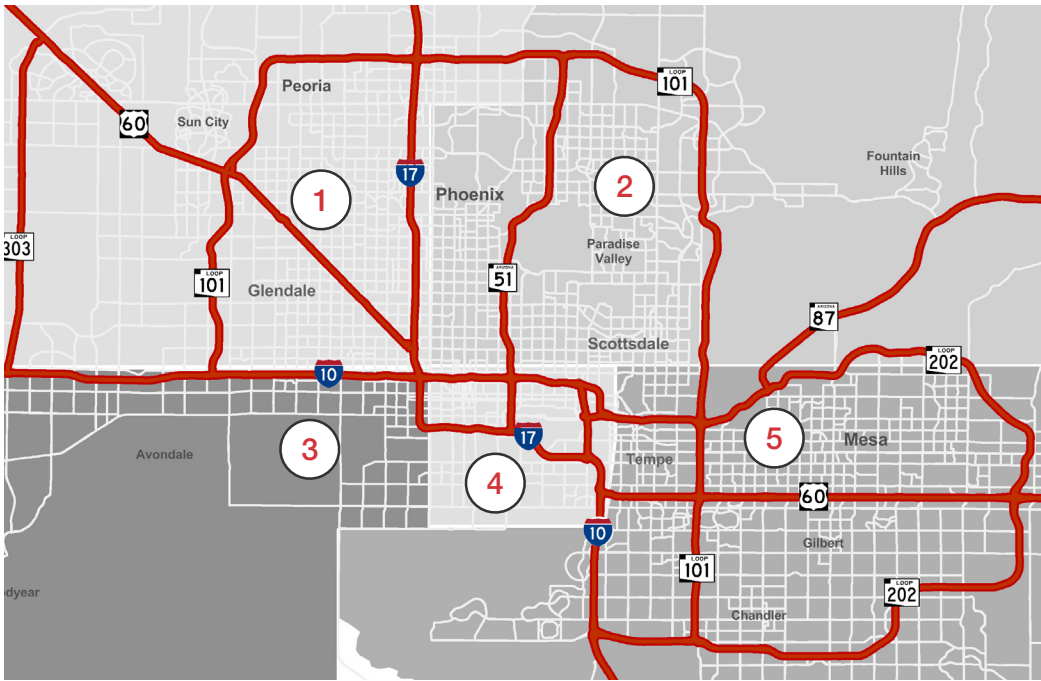
Rental Rates Average Asking/SF



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

-  @naihorizon
-  naihorizonblog.com
-  facebook.com/NAIHorizon

NAI Horizon knows commercial real estate. With over 25 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.

www.naihorizon.com
Industrial & Land Specialists



Jeff Adams
Senior Vice President
jeff.adams@naihorizon.com



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



Rick Foss
Senior Vice President
rick.foss@naihorizon.com



Michael Gaida
Associate
michael.gaida@naihorizon.com



Kim Kristoff
Vice President
kim.kristoff@naihorizon.com



Isy Sonabend
Senior Vice President
isy.sonabend@naihorizon.com



Mark Wilcke
Senior Vice President
mark.wilcke@naihorizon.com

Year End
2017
Industrial
Market Report

NAIHorizon

2944 N 44th Street, Suite 200
Phoenix, Arizona 85018
tel +1 602 955 4000
www.naihorizon.com